The Hackett Group
World Class Defined and Enabled

THE CFO AGENDA
Complimentary research
January 2023

2023 Key Issues

By Shawn Fitzgerald, Tom Willman
and Jim O'Connor

To thrive amid uncertainty, technology and digital transformation will be key

Executives expect 2023 to be another difficult year as they confront an unprecedented confluence of factors – a progression of the global economic downturn due to recession, high inflation, continued geopolitical turmoil and talent shortages driven by long-term demographic shifts. Their concern about these risks is evident in The Hackett Group's 2023 Key Issues Study. Approximately two-thirds of respondents across all business functions cited the potential for economic downturn and/or recession to be the top risk during the coming year, while over one-half expressed concern about the risks of talent shortages and inflation. Notably, more than one-quarter of study participants said the inability to successfully transform the business and related functions is of key concern.

To prepare for economic downturn or potential recession, organizations are changing their spending patterns to improve margins and find cash flow to fund potential recessionary challenges. It is clear that executives are looking to technology as they consider how to address these pressing enterprise risks: 45% of executives said they are accelerating digital transformation (automation, advanced analytics and modeling) in preparation for a downturn – more than any other response measured, including capital spending and cost reduction programs. The cloud has moved to the forefront as the platform organizations must leverage for agility, growth and transformation. In the study, 42% of enterprises reported having legacy solutions that must be replaced. For many of these applications, cloud solutions are now the only game in town. But organizational disconnects hold back many companies from achieving the transformation they are targeting.

2023 finance priorities

With this unprecedented environment as a backdrop, finance executives shared their priorities and planned improvement initiatives for 2023 (**Fig. 1**).

FIG. 1 2023 priorities and planned improvement initiatives

Ranking*	Priority	Percentage of companies with a related major initiative
1	ACCELERATE FINANCE DIGITAL TRANSFORMATION	73%
2	SUPPORT GROWTH STRATEGIES	24%
3	REFOCUS FINANCE AS A STRATEGIC BUSINESS PARTNER ACROSS THE VALUE CHAIN	24%
4	ACCELERATE PREPAREDNESS FOR UNCONTROLLABLE ISSUES	19%
5	IMPROVE FINANCE AGILITY	22%
6	TURN DATA INTO ACTIONABLE INSIGHTS	22%
7	OPTIMIZE WORKING CAPITAL	32%
8	RETAIN THE RIGHT SKILLS AND TALENT	8%
9	SUPPORT PROCESS EFFICIENCY IMPROVEMENTS	24%
10	DRIVE COST REDUCTION	24%

* By weighted average level of importance (i.e., low/moderate/high/critical) for the top 10 finance priorities selected by respondents

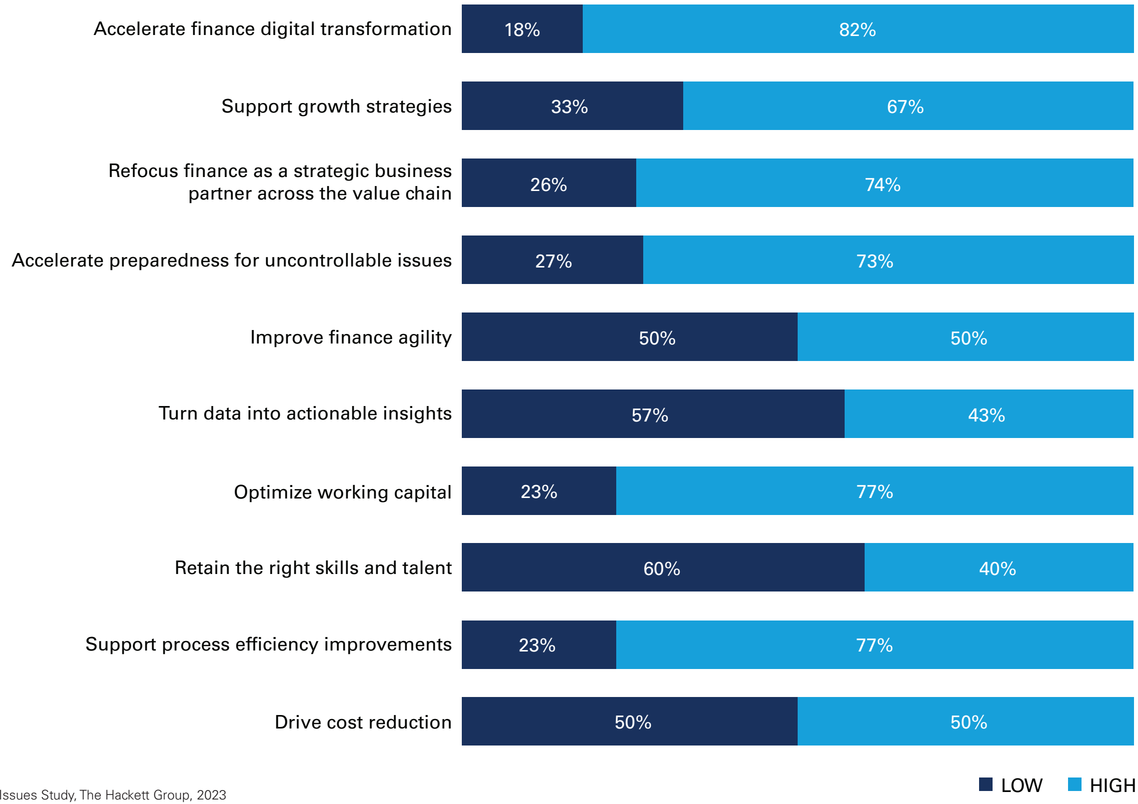
Source: Key Issues Study, The Hackett Group, 2023

2023 finance priorities (con't)

Accelerating digital transformation remains the top finance priority for 2023, and 73% of organizations have a major enterprise initiative to support this. Business partnering, finance agility and turning data into insight remain among the top six priorities for 2023, but external business disruptions are forcing finance to reprioritize in other areas to support growth strategies and accelerate preparedness for uncertainties.

Beyond digital transformation, there are significant disconnects between top priorities, planned initiatives and executives' confidence in the ability to deliver on the top 2023 objectives. Fewer than one-third of organizations have a major enterprise initiative aligned with any of the other nine top priorities. Furthermore, executives expressed a low degree of confidence in their current ability to meet certain key business objectives (**Fig. 2** on page 5). For example, while retaining the right skills and talent is a top 10 objective, only 8% of companies have a major 2023 initiative planned to address this, and only 40% of executives are highly confident in the ability to achieve it. Significant and meaningful progress won't happen without action; thus, finance executives need to consider the proper alignment of resources with priorities and critical development areas.

FIG. 2 Finance executives' degree of confidence in the ability to meet business objectives



Source: Key Issues Study, The Hackett Group, 2023

priority

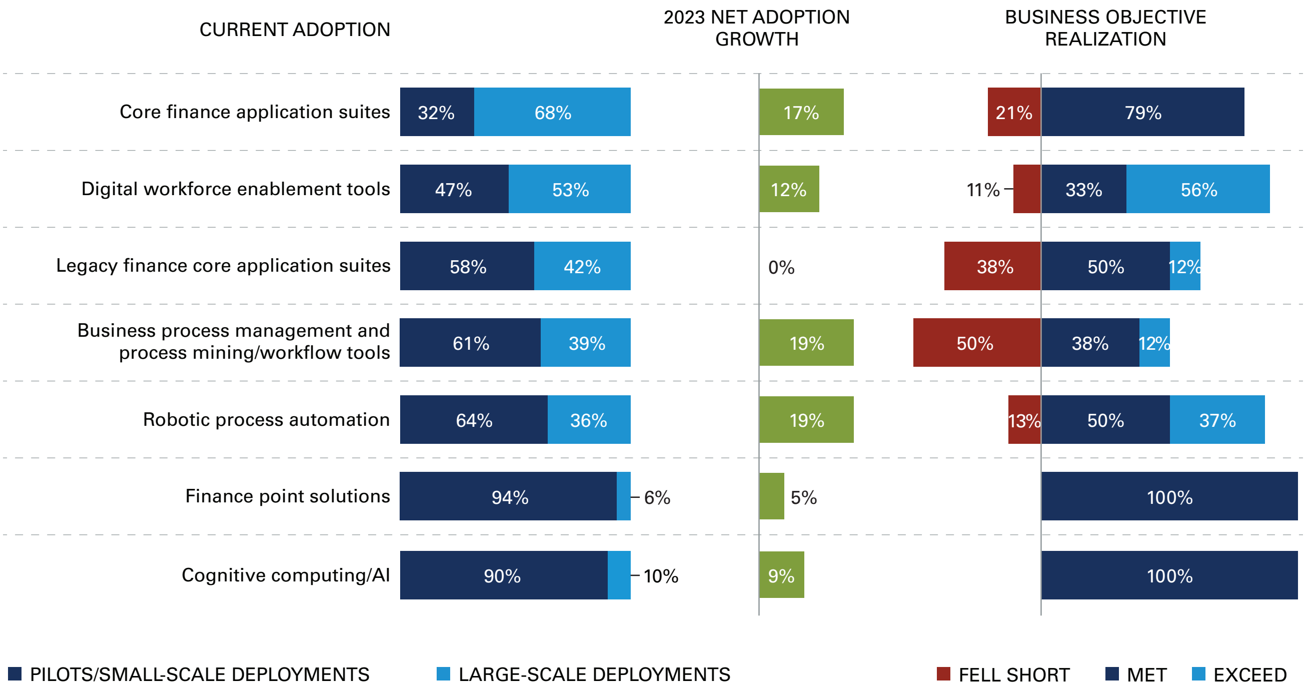
1

Invest in and accelerate finance digital transformation

Starting its ascendancy before the pandemic, digital transformation has now become finance's top priority. Function leaders must be prepared to invest in technology to reduce cost and create new capabilities through aggressive adoption of cloud, robotic process automation (RPA), analytics, and other tools.

For finance to succeed, digital technologies need to achieve enterprise scale. Currently, they are not. Cognitive computing/artificial intelligence (AI), RPA, digital workforce enablement tools and digital finance point solutions are all meeting or exceeding business goals most of the time (**Fig. 3** on page 7). However, finance organizations have significant opportunities to expand these beyond pilot projects or small-scale deployments.

FIG. 3 Digital technology adoption, growth and performance



Source: Key Issues Study, The Hackett Group, 2023

priority

2

Support growth strategies

The fact that this objective is in the top 10 for the first time in at least three years – and high on the list above cost reduction – reflects at least a degree of optimism about the period ahead. Two-thirds of executives are confident in their ability to deliver on it is also positive. Aligning major initiatives around business partnering, organizational preparedness, data/insight and talent will only further success in achieving this objective.

As challenging as the coming year may be, managing through a slowdown is a situation that most companies and leaders have experienced. The best companies look proactively for ways to thrive amid uncertainty and to position strategically for capitalizing on growth opportunities, regardless of the volatility they may encounter. Finance can be a catalyst for growth by modeling and evaluating portfolio choices, investment opportunities or impacts of pricing strategy; maintaining ongoing financial operating discipline; and ensuring there is financial capacity to fund growth.

priority

3

Refocus finance as a strategic business partner across the value chain

Finance leaders are emphasizing cross-functional business partnering, business aptitudes and prioritizing work as the top ways to become a strategic business partner (**Fig. 4** on page 10). Of concern, though, nearly one-quarter (21%) of organizations are not actively planning or executing on business partnering initiatives.

FIG. 4 Actions finance organizations are taking to improve business partnering capabilities

Source: Key Issues Study, The Hackett Group, 2023

4

Accelerate preparedness for uncontrollable issues

Finance must identify risks the business may face in order to properly categorize, evaluate, communicate and address them – creating an effective risk management system to understand the qualitative distinctions among the types of risks that organizations face as preventable, strategic or external.

Given the experience of the past several years, it is surprising that only 19% of finance executives in the Key Issues Study said they have a major 2023 initiative planned to address this business objective – second lowest among the top 10 objectives.

Scenario planning is key, and finance plays a leading role in this – developing scenarios relevant to planning for inflation or other business challenges and modeling of the impact of factors such as the impact of inflation on input prices, price increases on sales, and profitability. To elevate planning, some companies are establishing multiple scenarios – for example, "likely," "best case" and "worst case" – and creating playbooks so they are ready to act as conditions materialize.

priority

5

Improve finance agility

Facing extreme uncertainty and fast-paced change, finance must enhance its ability to sense changes in business conditions, plan adaptive responses and swiftly execute these plans.

In simple terms, agility is the ability to synchronize internal and external rates of change. Addressing other objectives highlighted in this paper – in particular, the ability to produce timely insight, elevate talent and skills, and increase process efficiency through automation and digital transformation – will help increase agility. Additionally, agility is a factor of the operating model. Traditionally, finance resources have been aligned to or owned by the function. Greater agility will come from continuing to move toward a model with a more even distribution of resources between roles owned by the function, roles managed by the function and shared roles managed by the overall enterprise. This model – which is more capability-focused, digital and modular – establishes the flexibility needed to keep pace with change.

priority

6

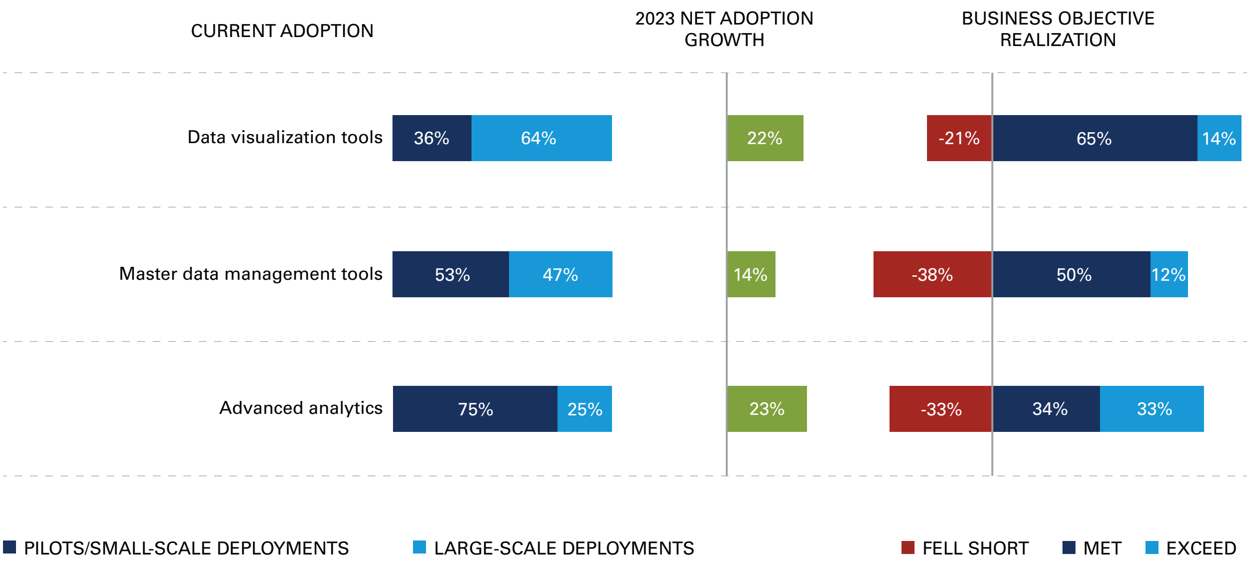
Turn data into actionable insights

Finance must secure data and harness that data into meaningful and actionable insight for the business that is complete and timely, using the strategic factors most relevant to key stakeholders to best position the business, creating differentiated insights.

Here again, organizations should focus on elevating these initiatives past the pilot stage or small deployments, particularly given that data-related technologies meet or exceed business objectives most of the time (**Fig. 5** on page 14). This is particularly true for advanced analytics. Master data management initiatives have a higher tendency to miss their objectives, likely due to the complexities of mastering data quality.

Among the actions that finance organizations are taking to inform the business include greater access to self-service and data-discovery tools (74%), upskilling and training for staff (67%), and democratization of data and analytics within and beyond finance (59%). Nearly one-half of organizations (48%) have established an analytics/reporting center of excellence.

FIG. 5 Adoption, growth, and performance of finance data and analytics tools



Source: Key Issues Study, The Hackett Group, 2023

priority

7

Optimize working capital

The cost of working capital seems poised to rise as liquidity comes at a premium. The Hackett Group's 2022 Working Capital Survey, which analyzed the performance of the 1,000 largest listed nonfinancial companies with headquarters in the United States, found that excess working capital grew substantially in 2021 – far outpacing revenue growth. Those companies had nearly $1.7 trillion tied up in working capital – up 28% from $1.3 trillion in 2020. The study found opportunities for improvement across all three components of working capital: inventory ($627 billion), accounts payable ($498 billion) and accounts receivable ($533 billion).

While the three primary working capital metrics – days inventory outstanding, days sales outstanding and days payables outstanding – improved in 2022, our subsequent midyear analysis shows that progress is slowing. In particular, payables performance degraded by 5.5% in the first half of 2022.

In response, finance must be focused on optimizing working capital by improving inventory management, targeting collections, enabling faster and/or easier payments, and monitoring the accounts receivable portfolio more frequently. In addition to executing specific strategies that drive working capital improvement, optimizing working capital also requires strengthening capabilities for managing it – including elevating awareness and skills, increasing visibility into key indicators, and sharing information better across functions.

priority

8

Retain the right skills and talent

Finance organizations recognize the importance of people to their success. They must lead talent programs in partnership with human resources to build employer brand, enhance digital skills and foster retention against the backdrop of digital transformation talent needs.

Notably, only 40% of finance executives expressed high confidence in the function's ability to meet objectives in 2023 – lowest among the 2023 top 10 objectives. Additionally, talent issues are among the top hurdles to implementing finance transformation in 2023. Specifically, executives cited inadequate funding and resource allocation as the top hurdle. Lack or deficiency of critical skills (e.g., analytics, emerging technologies, process redesign, design thinking and change management) also ranks among key hurdles, at No. 8.

Perhaps most surprising, only 8% of finance executives said their organizations have a major 2023 initiative planned to address this objective. Again, that is the lower than for any of the other 10 key finance issues. This suggests a major misalignment of resources with priorities because failing to address skills and talent now can have significant long-term implications.

priority

9

Support process efficiency improvements

Finance plays a key role in enabling process efficiency by ensuring there are optimized processes along with clear responsibilities and role division, while leveraging technologies to automate data and information management at scale and ensuring proper controls, approvals, and reviews are in place.

The goal should be to automate every transaction. From our benchmarking analysis, we have found that Digital World Class™ organizations (those in the top quartile in both business value and operational excellence) automate far more core transactions than peers. Among finance organizations, the automation gap is particularly notable: Digital World Class finance organizations automate 92% of core transactions, compared to just 58% for peers. Accelerating automation not only helps organizations run more efficiently; it is key to counteracting the impact of current and future labor trends.

priority

10

Support process efficiency improvements

Cost reduction focus moved down the priority list by four spots from No. 6 in 2022, as companies have navigated the pandemic and extracted savings. But make no mistake: Organizations will continue to focus on efficiency. We know the opportunity is there through our analysis of the characteristics of Digital World Class™ organizations. These performance leaders run at a 29% lower general and administrative cost than peers. For a typical $10 billion organization, this represents a $101 million advantage, including $39 million in finance operations.

The Hackett Group's recent sales, general and administrative (SG&A) cost research found that North American companies are now leaner than they were before 2021 – SG&A costs of the top 1,000 public companies fell 7.9% as a percentage of revenue in 2021, after rising by 4.7% between 2012 and 2020. Moreover, this drop occurred across the board in all 11 sectors studied. While continued cost optimization is warranted in today's environment, it can backfire if not approached strategically – especially when organizations are already running leaner than they have in recent years – undermining the ability to grow and thrive in the long term. This research found that one of the characteristics of lean leaders is that they cut costs only where work can be replaced by more efficient technology. This involves detailed analysis and benchmarking to surgically prune costs, while at the same time continuing to invest in digital service transformation.

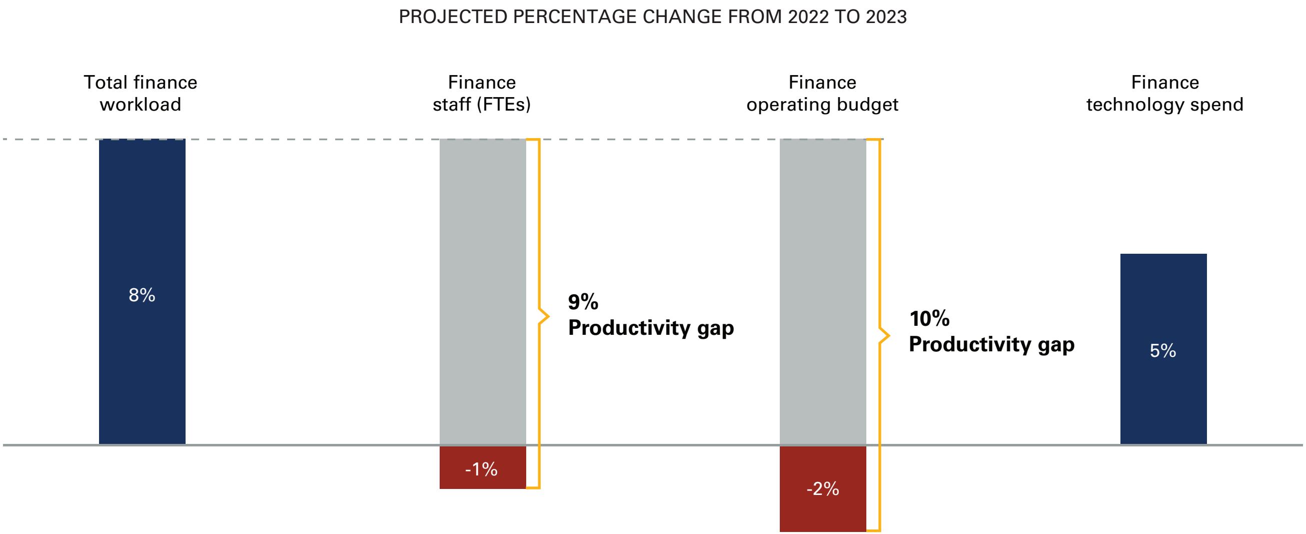
Finance's increased workload will continue to create productivity and efficiency gaps

Addressing these diverse priorities will require resources and transformational expertise. The Key Issues Study confirms and quantifies what finance executives already know: They must find a way to do more with less. In 2023, the finance workload is predicted to increase by 8%, reflecting the broadening of priorities, but with reductions in head count and operating budget (**Fig. 6** on page 20). This creates a productivity gap of 9.0% and an efficiency gap of 10.0%, representing increases of 70% and 85%, respectively, compared to the 2022 productivity gap of 5.3% and efficiency gap of 5.4%.

Overall, finance leaders expect a 5% increase in technology spending, indicating a growing reliance on technology to increase productivity, efficiency and effectiveness. While positive, this is actually a reverse of last year's study findings, where the projected increase in finance technology spending (7%) exceeded the projected increase in finance workload (4%). The fact that projected workload will grow faster than technology spending in 2023 implies that companies will need to consider means other than just technology to increase productivity.

Staffing shortages and the challenges associated with retaining the right skills and talent are forcing finance organizations to look beyond direct staffing. As a result, they are evaluating various geographies and centers of excellence, and increasing reliance on external resources to ensure work gets done. Executives in the study projected a 53% net increase of work volume moving to low-cost locations and/or outsourcing arrangements.

FIG. 6 Change in projected finance workload, staffing, budget and technology spend



Source: Key Issues Study, The Hackett Group, 2023

Internal challenges that hinder growth

Organizations encounter many internal challenges to transformation and growth. While these challenges vary across and within organizations, it is important for finance leaders to understand enterprise concerns and align their own strategies for success. While finance executives' perceptions of top internal challenges are fairly consistent with the concerns of executives across all business functions, there are some differences.

Given that these internal challenges are common across all business functions, it makes sense that they are best addressed through an enterprise-led approach that harnesses the collective input, expertise and action of multiple organizational disciplines – rather than managing them ad hoc or at the functional level, as is often the case.

Overall Rank	Metrics	Finance Rank
1	Insufficient budgets and/or unrealistic project time frames for transformation	3
2	Competing and/or conflicting functional priorities	2
3	Inconsistent data management across operational and financial reporting	5
4	Lack of time to partner with the business due to daily transactional work volumes and/or responsibilities	1
5	Lack of the right talent to leverage technology and solve business problems	4
6	Lack of interdepartmental process coordination	6
7	Status quo ways of working and/or internal resistance to change	14
8	No clear road map or plan	7
9	Lack of change management maturity	8
10	Lack of collaborative planning and performance management	10

Source: Key Issues Study, The Hackett Group, 2023

Where to focus in 2023

Economic and geopolitical disruption, along with other factors such as an unprecedented talent shortage, remain prominent features in the outlook for 2023. The typical reaction to a recession is to cut staff and cancel investments. However, in an economy that already has more open jobs than people looking for work and a shrinking future workforce, finance organizations that shed employees risk the possibility of never getting them back. And those that halt or cut funding for business process automation will only put them further behind Digital World Class™ finance organizations.

Given today's unprecedented combination of threats, we believe finance executives must take progressive countermeasures rather than following the typical recession playbook. Here are a few areas of focus that are relevant to most organizations:

Realign investments to reflect current top priorities. As illustrated earlier in this paper, aside from digital transformation, there is a low degree of alignment between top priorities and major improvement initiatives. This will inhibit progress.

Transform digitally – at scale. Organizations must meet their challenges head-on to modernize, scale and accelerate transformation efforts – all while improving cybersecurity in a world where state-sponsored attacks are on the rise. Don't delay technology investments. Rather, as necessary, divert the operating budget to accelerate process automation, advanced analytics and cloud migration.

Where to focus in 2023 (con't)

Retain the right skills and talent. Leaders are creating leading talent programs in partnership with human resources to upskill and reskill their people with high-demand digital capabilities. This, in turn, creates a positive employer brand that aids in both attracting talent and retaining existing workers – key as labor shortages continue to grow.

Create actionable insights. Finance executives must accelerate application, data and platform migrations that enable use of analytics at scale, while also increasing the ability to deliver insights to the business through self-service and other mechanisms.

Improve finance agility. Finally, finance leaders must continue to push toward a future operating model that leverages centers of excellence, customer-facing business units, global business services and strategic partnerships in new ways to enhance agility. Furthermore, increasing virtual work capabilities will widen the talent pool and enable a more agile, globally dispersed workforce.

Shawn Fitzgerald
Senior Research Director

Tom Willman
Principal, Finance Advisory Practice Leader

Jim O'Connor
Principal, North American Advisory Practice Leader

The Hackett Group
1000 Abernathy Road NE
Suite 1400
Atlanta, GA 30328

T. +1 770 225 3600
T. 1 888 842 2538 (toll-free)
W. www.thehackettgroup.com

London
20 St Dunstan's Hill
London, EC3R 8HL
United Kingdom

T. +44 20 7398 9100

thehackettgroup.com/facebook
thehackettgroup.com/twitter
thehackettgroup.com/linkedin

Are you ready to transform your finance capabilities?

Backed by our unparalleled benchmarking data and best practices repository, as well as experience across the full transformation life cycle, The Hackett Group is ready to support:

- Performance benchmarking and best practices
- Digital transformation strategy, smart automation and analytics
- Finance and global business services delivery model design, implementation, and optimization
- Talent management, skills and competencies, role definition, and career pathing
- Enterprise performance management and analytics
- Technology road map, cloud migration and modern architecture
- Master data management and architecture
- Transformation management office, change management and communications implementation
- Sales, general and administrative cost optimization
- Working capital and cash acceleration

To learn more, please contact us at 1 888 842 2538 (US) or +44 20 7398 9100 (UK), or visit us online at **www.thehackettgroup.com**.

The Hackett Group®
World Class Defined and Enabled