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THE FINANCE AGENDA

Complimentary research

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2022 Key Issues

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While business leaders expect a return to growth and expansion, disruption continues to come at them from multiple directions – including supply chain, talent, inflation and other risks, not to mention the uncertainty surrounding the trajectory of the pandemic. These factors will impact what was already an ambitious finance agenda in 2022.

In late 2021, The Hackett Group conducted its annual Key Issues Study, revealing finance executives' priorities as they look ahead to 2022. Four key themes emerged from this research:

1. Digital transformation remains front and center, with many of the function's top priorities dependent on the ability to accelerate it. Finance executives are placing particular emphasis on improving analytical, modeling and reporting capabilities.

2. Finance organizations are thinking critically about building the next-generation workforce. Among all workforce initiatives, acquiring or developing new skills stands out as a key goal as organizations strive to fill gaps in the talent they will need for the future.

3. Finance organizations plan a number of initiatives centered around strengthening business partnering to increase enterprise value contribution.

4. Finance continues to emphasize greater cost-efficiency. With the finance workload expected to grow in 2022 but budgets and resources remaining at or below current levels, executives are counting on technology to help fill the productivity gap.

Continued uncertainty, new risks and digital disruption are shaping the 2022 finance agenda

The crisis of 2020 and 2021 has cast a long shadow over business conditions and continues to cloud the 2022 planning cycle. According to The Hackett Group's 2022 Key Issues Study, finance executives expect more fallout. While cyber/information security remains the highest business risk by a wide margin, concerns increased dramatically around the risk posed by supply chain disruption, commodity price shock, and structural shortages of labor capacity and skills. Furthermore, the phenomenon that began in 2021 – now generally referred to as the Great Resignation[1] – will continue to compound these structural talent challenges in 2022. This perfect storm of supply-side factors, pent-up demand and massive injections of cash into the economy has triggered an inflationary wage/price spiral, causing finance organizations further headaches.

Yet, at the time of the study – during the fourth quarter of 2021 but before news of a new COVID-19 Omicron variant – about one-third of companies reported stabilized business conditions. Over one-half predict stabilization in 2022, and only 11% expect instability to continue into 2023 or beyond. Study respondents across all general and administrative functions project average revenue growth of 9% in 2022 and staffing increases of 4%, implying a need to improve productivity by 5%. They also expect an 8% increase in capital investment and technology cost, signaling a reliance on digital transformation to transition to less labor-intensive growth models. It is not surprising then that digital transformation is the No. 1 enterprise initiative for the second consecutive year. In the study, 61% of companies expect accelerated technology innovation to be an enduring characteristic of the post-pandemic business environment, and 58% anticipate a permanent shift to digital channels.

These factors have influenced finance executives' priorities for 2022 – illustrated on the following page as ranked in the most recent Key Issues Study.

[1] The abrupt, very significant increase in voluntary employee turnover experienced since early 2021 – generally considered to be a response to the COVID-19 pandemic.

2022 finance priorities

1

INVEST IN AND ACCELERATE FINANCE DIGITAL TRANSFORMATION

Starting its ascendency before the pandemic, digital transformation has now become finance's top priority. Finance 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.

2

SERVE AS STRATEGIC ADVISOR TO THE BUSINESS

The enterprise is increasingly reliant on finance for informed advice to drive strategic decisions, particularly as we navigate digital, inflation and the pandemic. Top organizations leverage advanced analytics solutions to provide insight into setting targets and deploying resources.

3

SECURE FINANCE DATA AND TURN INFORMATION INTO INSIGHT

Companies cited cyber-risk and inflation as key risks in 2022. Finance must secure data while also shutting down new entry ports to its sensitive data and tighten controls to prevent fraud. Moreover, it must harness that data into meaningful insight for the business.

4

SKILL UP AND RETAIN FINANCE TALENT AMID THE GREAT RESIGNATION

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

5

FOSTER A NIMBLE MINDSET AND ENABLE 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.

6

DRIVE COST REDUCTION WITH AN EYE ON VALUE

Cost reduction focus moved down the priority list by four spots to No. 6 in 2022, as companies have navigated the pandemic and extracted savings. But make no mistake: Organizations will continue to focus on efficiency through digitization, along with proven and emerging best practices.

7

MEASURE AND OPTIMIZE WORKING CAPITAL

The cost of working capital seems poised to rise – liquidity will come at a premium. In response, finance is focused on optimizing working capital through inventory management, targeted collections, enabling faster/easier payments and more frequently monitoring the accounts receivable portfolio.

8

IMPROVE DIVERSITY AND INCLUSION IN THE FINANCE FUNCTION

Finance will further align with corporate diversity and inclusion imperatives in the coming year. This includes improving acquisition and retention processes to yield competitive teams that can bring improved ideation and solutions to today's business priorities.

9

INCORPORATE REMOTE WORK INTO FINANCE PROCESSES

All indications are that a new, hybrid work format has emerged, meaning more work will be done from remote locations. Finance organizations must incorporate this strategy into their talent and delivery model designs to maximize agility and effectiveness.

10

ENHANCE CONTROL AND COMPLIANCE CAPABILITIES

Finance is an enabler of the enterprise, but it must never lose sight of its fiduciary role, especially given cyber-risk and rising enterprise risks. The function must adapt to the new digital environment and drive data integrity through improved controls and compliance.

☐ Critical development focus; largest gap between importance and ability to meet business expectations

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Critical areas for development

The analysis looked at the 10 top finance goals from the perspective of both relative importance and executives' confidence in the ability to meet business needs. Three areas with the largest gaps between importance and ability to meet expectations are designated as critical development areas.

Accelerating digital transformation has moved up to the top goal for finance organizations, reflecting the importance of digital enablement and alignment with overall enterprise priorities. Executives' confidence in the ability to meet business expectations is low, however, making the emphasis all the more critical. Digital initiatives factor prominently in the list of top finance initiatives planned for 2022 – with an initiative to improve analytics capabilities chief among them. The two other critical areas for development include aligning skills and talent with changing business needs and improving finance agility.

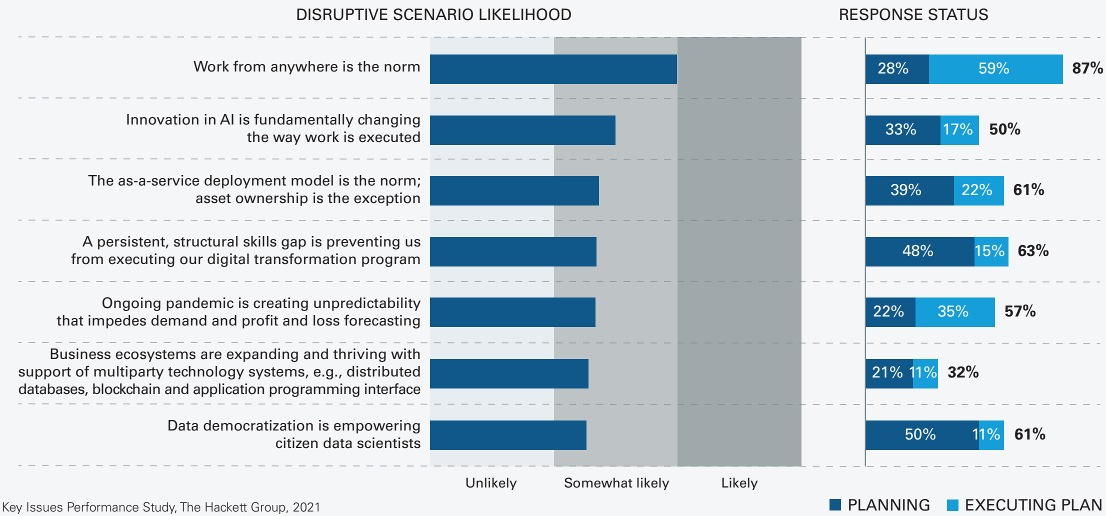
In the study, finance executives cited technology and process complexity, skills deficiencies, and organizational resistance to change as the most significant challenges to advancing finance transformation goals. These factors, along with hurdles – including inadequate funding and resource allocation, overcommitment, data-related issues, organizational complexity, and lack of commitment from enterprise executives – point to the need to employ proven project and change management best practices to succeed. Digital is all too often assumed to be an immediate fix, but it takes significant effort.

The Hackett Group has synthesized these findings into four key themes discussed beginning on page 7.

Potential disruptors to finance operations

Several disruptive scenarios will change the way finance organizations work. In the Key Issues Study, finance executives cited the transition to working from anywhere, artificial intelligence (AI), and the as-a-service deployment model as the mostly likely disruptors to their operations (**Fig. 1**). Many finance organizations are actively planning for most of these scenarios and/or already executing response plans. More than one-half are currently executing work-from-anywhere plans – consistent with other functions – while over 60% are planning or executing their responses to skills gaps and data democratization that will empower citizen data scientists. However, while finance executives consider it somewhat likely that innovation in AI will fundamentally change the way the function works, relatively few are acting on that now.

FIG. 1 Likelihood of finance disruptive scenarios materializing in three to five years of time



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Theme

1

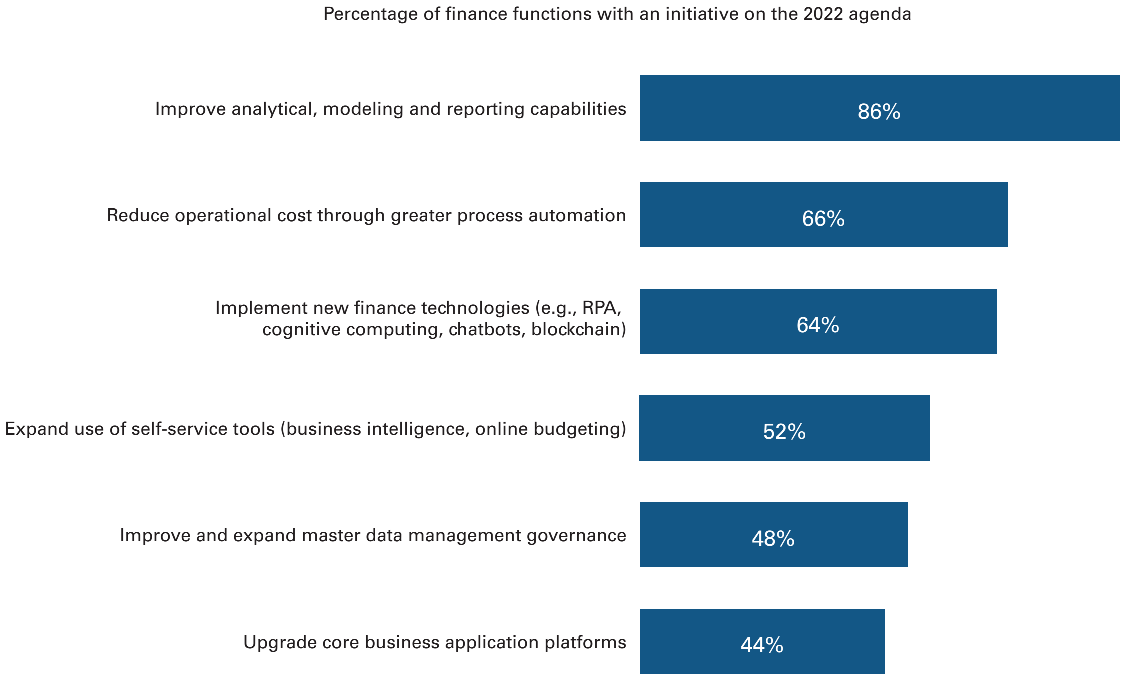
Accelerate digital transformation

Digital transformation claimed the top spot on the 2022 finance agenda. Finance executives recognize that accelerating digital transformation is a key not only to efficiency but also to achieving many of their other top priorities – from acting as a strategic advisor to the business, to increasing agility, to enhancing controls.

Looking across all planned finance initiatives, digital transformation initiatives are among the most prevalent on the 2022 agenda (**Fig. 2** on page 8) – as finance organizations set their sights on increasing their value through enhanced insight, efficiency, and capabilities. A large majority of organizations have 2022 initiatives aimed at improving analytical, modeling and reporting capabilities. About two-thirds of finance organizations are expanding process automation to reduce operational costs and implementing new finance technologies, while just over one-half (52%) have an initiative to expand the use of self-service tools.

The study results reflect an intent not just to improve analytics, but also to empower both finance and nonfinance workers. Providing greater access to self-service data discovery tools (e.g., data visualization) and delivering analytics beyond the function and through centers of excellence (COEs) rank as the top actions that companies are taking in 2022 to improve their analytics capabilities. To maximize the return, however, finance must also be ready to develop talent and new competencies.

FIG. 2 Finance 2022 digital transformation initiatives



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

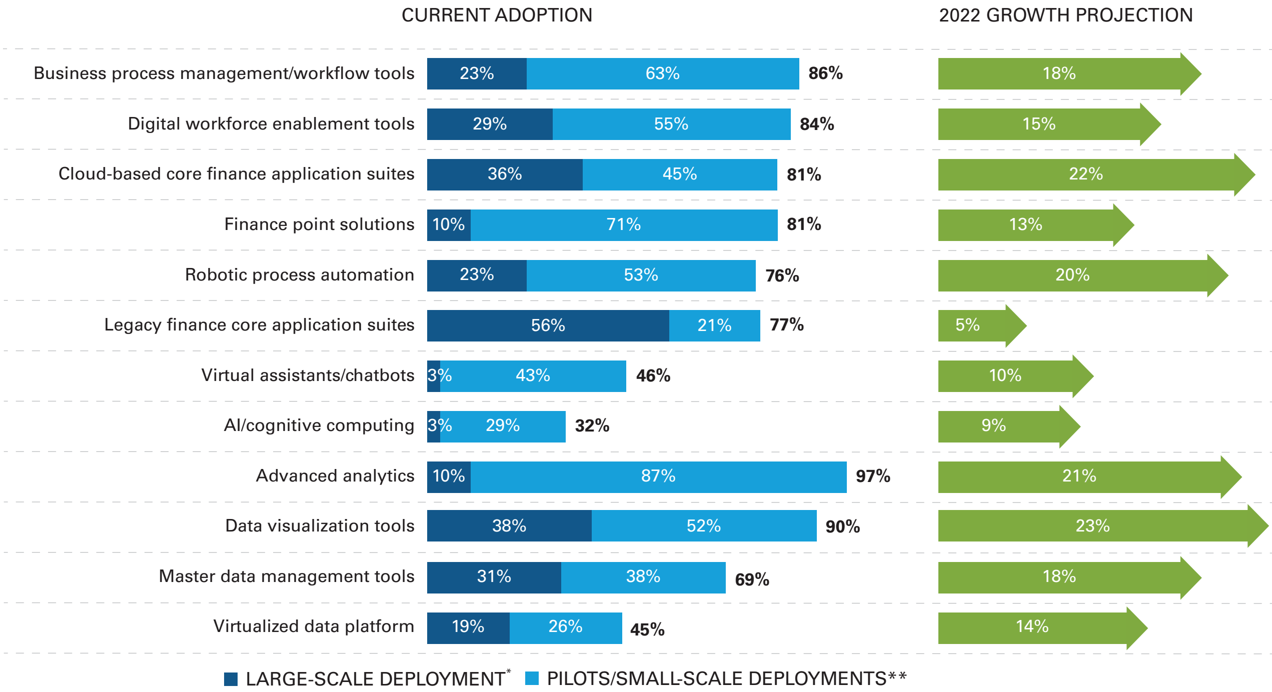
Given this focus, it is not a surprise that advanced analytics and data visualization tools are among the technologies with the highest current adoption levels – and the highest projected growth rates for 2022 (**Fig. 3** on page 10). But while adoption is nearly universal, few companies have deployed these technologies on a large scale. Current adoption levels are also over 75% for business process management/workflow tools, digital workforce enablement tools, cloud-based core finance application suites, finance point solutions and RPA. Again, adoption of many of these technologies is on a pilot or small-scale basis and has yet to reach the mainstream.

Digital operating models require a modern digital architecture, and the research shows that cloud-based service management applications are replacing on-premise legacy service management applications at a rapid pace. These will be among the fastest-growing technologies in 2022, with cloud-based core application suites expected to grow by 22% in 2022.

AI/cognitive computing and virtual assistants/chatbots remain emerging technologies in the finance environment. Broad adoption is very low, pilot/small-scale deployment rates lag most other technologies and projected growth rates in 2022 will also be on the low end of the range among all finance technologies measured.

Collectively, these findings point to a continuing high degree of change. As finance organizations accelerate technology adoption, they must be very clear about the alignment between the future technical landscape and finance's transformation vision. In other words, the vision should drive decisions around investments in specific tools and capabilities – whether best-of-breed platforms, planning capabilities or emerging technologies. Function leaders should commit to remaining well-informed about the evolving finance digital ecosystem and understand their options in the context of the finance transformation strategy in order to maximize the potential benefits.

FIG. 3 Finance technology adoption and growth



* The technology is used at scale in applicable use cases. ** The technology is used on a limited scale in isolated use cases.

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Theme

2 Build the next-generation workforce

If the finance function is to achieve its goal of becoming a strategic advisor to the business, professionals must have excellent teamwork and collaboration skills, and evolve their business and industry acumen. This will require new roles such as dedicated business partner and digital transformation leader. Finance's biggest talent challenge will be understanding the skill requirements of emergent new roles in order to develop them effectively. In The Hackett Group's 2021 research – Developing Future-Ready Finance Skills – finance executives rated agility and change orientation as the most important future finance skill. That research also found wide gaps between some current and desired competencies – specifically in some digital skills such as proficiency and the use of business intelligence (BI)/visualization and advanced analytical tools.

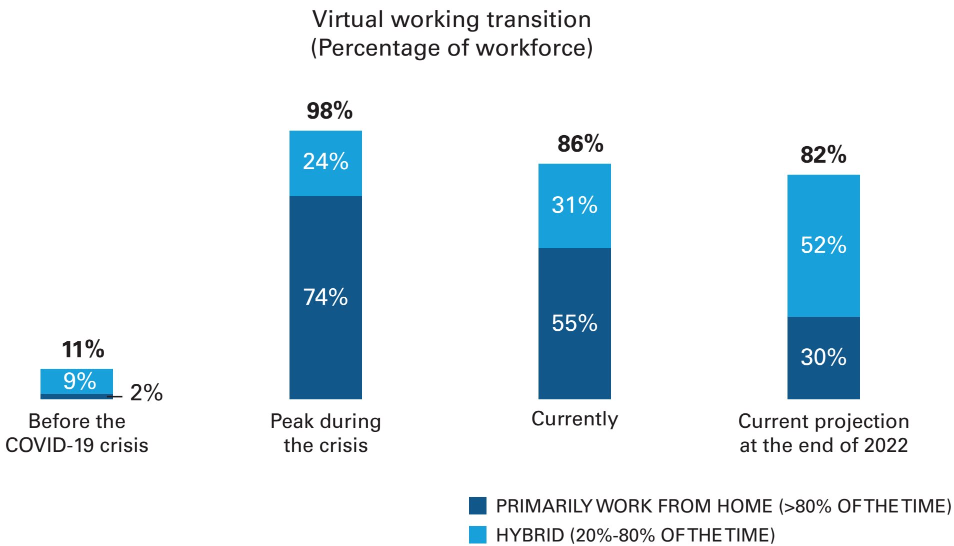
Not surprisingly, aligning skills and talent with evolving business needs moved up several spots in the 2022 Key Issues Study. Nearly one-half of companies have plans to acquire or develop new skills and talent – significantly more than other planned workforce initiatives measured (**Fig. 4** on page 12). Relatively few companies plan to launch a finance-specific diversity and inclusion program, even though improving diversity and inclusion is one of the function's top 10 priorities in 2022 and one of the top five enterprise priorities overall.

FIG. 4 Next-generation finance workforce initiatives

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Pandemic-triggered disruption and accelerated digital transformation are sparking a reevaluation of the finance operating model. To understand the evolution of the transition to remote work, the Key Issues Study measured the percentage of the finance workforce working from home and in hybrid arrangements today compared with past milestones, as well as finance executives' projections for the end of 2022. Remote working appears to be stabilizing and is expected to be just over 80% at the end of 2022 (**Fig. 5** on page 13). During 2022, however, the balance of work will shift away from today's predominantly work-from-home arrangements to a hybrid model.

FIG. 5 The emerging remote finance workforce



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

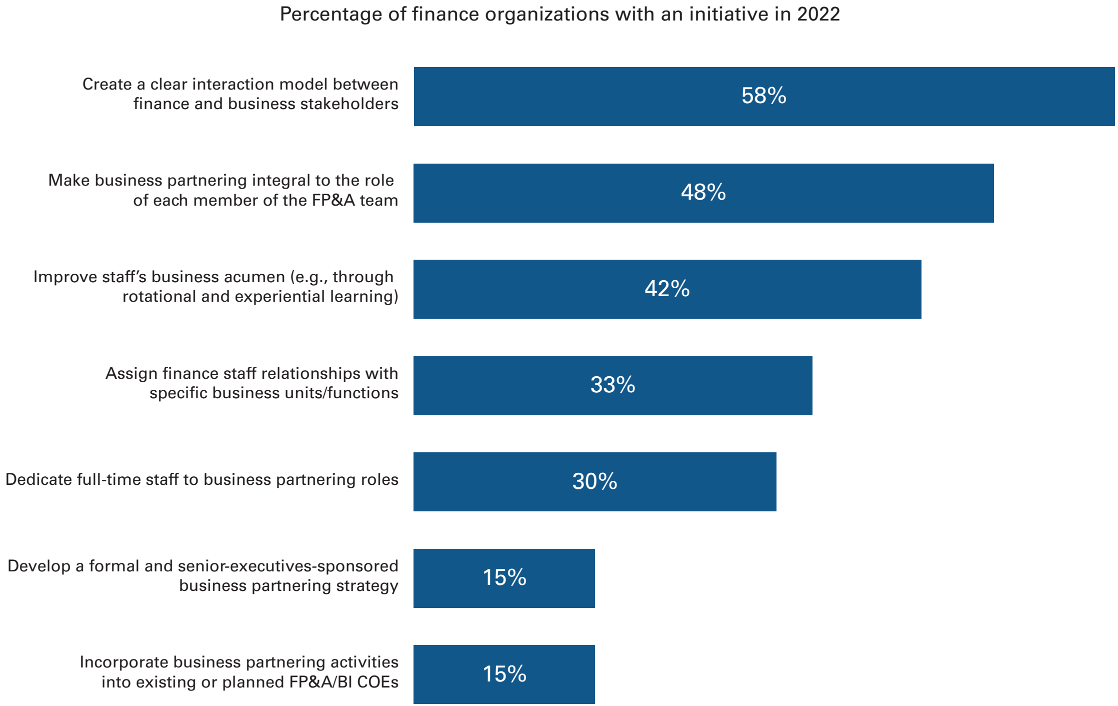
The third major finance talent challenge in 2022 is managing an unprecedented increase in voluntary turnover in response to the COVID-19 pandemic, generally referred to as the Great Resignation. It is impossible to know how persistent this trend will be and how profoundly it will impact business. But in 2022, there is no escaping it, and finance organizations must develop specific talent retention strategies to mitigate its impact.

Theme 3

Improve finance enterprise value contribution

Acting as a strategic advisor to the business remains in the function's top two priorities for 2022. This requires increased emphasis on business partnering. Not surprisingly, more than one-half of finance organizations (58%) have a 2022 initiative designed to create a clear interaction model between finance and business stakeholders (**Fig. 6** on page 15). This is one of the most prevalent finance initiatives of any type, behind only several that support the acceleration of digital transformation. Between one-third and one-half of finance organizations also have initiatives aimed at bolstering individual business partnering capabilities – whether through defined role requirements, experiential learning or assignments within specific business functions. Nearly one-third plan to dedicate full-time staff to business partnering.

FIG. 6 Actions to improve business partnering



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Theme

3

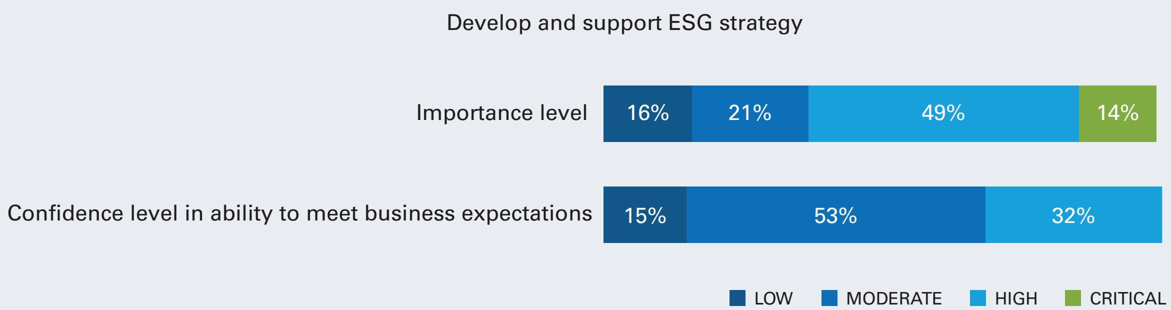
The focus on business partnering and acting as a strategic advisor will be critical for achieving other priorities among this year's top 10 priorities, including optimizing working capital and enhancing control and compliance capabilities.

Finance business partners play an important role in managing the inflation risk that emerged in 2021 and will continue to be a concern in 2022. An inflationary environment poses strategic and operational business challenges that require financial analytical support. For example, companies need to model the impact of increase in nominal interest rates, wage rates, and cost of raw materials and other supplies; develop pricing strategies; and conduct profitability and growth analyses. Given the prospect of continued instability in demand patterns and the supply chain, companies will need to maintain strong discipline around working capital health and liquidity – developing both the insight necessary to manage them proactively and the agility to respond to unexpected changes.

The emerging environmental, social and governance agenda

The environmental, social and governance (ESG) agenda is rapidly becoming a strategic priority for many companies. Diversity and inclusion rose to the second most prevalent enterprise initiative last year and held on to this spot in 2022 – 59% of companies now have a major diversity and inclusion initiative in place. The corresponding number for environment and sustainability is 39%. This has far-reaching implications for finance organizations: 63% (**Fig. 7**) rank the need to develop and support ESG strategy as highly or critically important; however, only 32% rate their ability to meet business needs as high. The most immediate impact on finance is the need to support ESG reporting and analytics and to implement diversity and inclusion programs within the finance organization itself. Finance organizations must make their expertise in financial planning and analysis (FP&A), forecasting, compliance, and statutory and management reporting available to the organization in order to support the ESG strategy and execution of operational plans.

FIG. 7 Importance and ability to support business needs



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

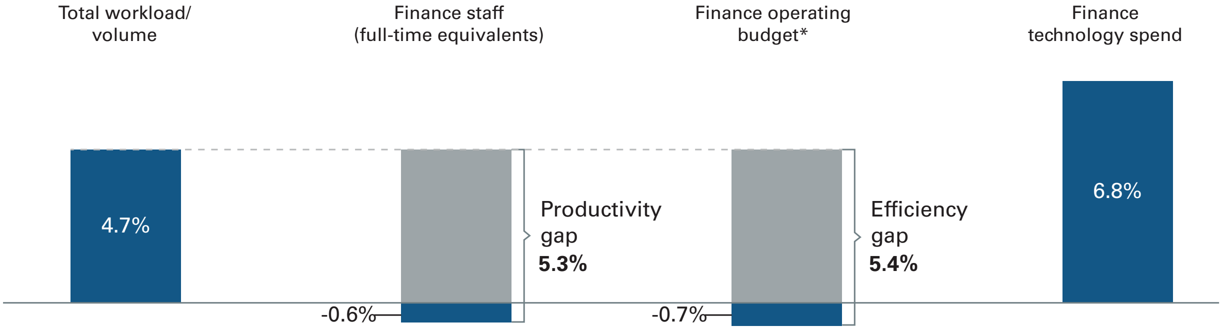
Theme

4 Improve finance cost-efficiency

Already facing significant challenges and disruption due to the shift to remote and hybrid working, finance executives are preparing for another demanding year of having to do more without comparable increases in staffing or budget. The fact that cost-efficiency – which traditionally is among the top one or two finance priorities – ranks only sixth this year does not mean that it has lost its importance. Rather, it reflects the accelerating transformation imperatives that are competing with it for time and attention. Accordingly, it will be critical to solidify and increase the resiliency of the finance service delivery model. This will require innovations in service delivery and business partnering, as well as new workforce policies that can balance business needs with evolving employee expectations.

Overall, finance executives expect their budget to decline by 0.7% and head count to contract by 0.6% (**Fig. 8** on page 19). With workloads projected to jump by nearly 5%, finance will need to make up a 5.3% productivity gap during the year, reflective of a shift in focus from pure cost takeout to a balance with capacity creation and redeployment of resources to new capabilities. A substantial increase in technology spending demonstrates a growing reliance on technology to increase finance productivity, efficiency and effectiveness. With technology spend expected to grow by nearly 7%, its share of total finance budget continues to increase.

FIG. 8 2022 finance workload, staffing, budget and technology spend projection



* The '21-'22 budget growth projection was made in September to October 2021, at which point study participants did not yet fully appreciate the impact of accelerated inflation on the 2022 budget. As a result, The Hackett Group estimates the projection to underestimate '21-'22 budget growth by 2%-4%.

Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

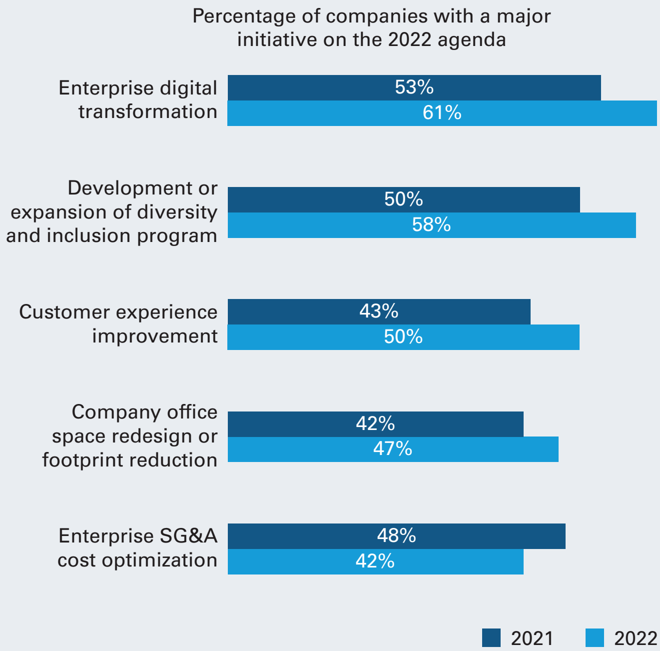
Finance executives are refining their service delivery model, looking to COEs and global business services (GBS) organizations to absorb the bulk of the increased workload – with 70% and 58% projecting increases in these entities, respectively. Additionally, 63% expect an increase in self-service. At the other end of the spectrum, the smallest increases in projected workload will occur in outsourced and insourced (previously outsourced work moved back in-house) units.

Finance alignment with enterprise priorities

A shift in enterprise priorities that began in 2021 will continue into 2022. Enterprise digital transformation retains the No. 1 spot, with 61% of companies – up from 53% – having a major initiative on the 2022 agenda (**Fig. 9**). In the face of talent challenges, companies have also stepped up their focus on diversity and inclusion initiatives – 58% now have such initiatives, compared to just 35% two years ago. On the other hand, sales, general and administrative (SG&A) cost optimization dropped further down the ranking – from third place in 2021 to fifth place for 2022. This is consistent with an observed shift in focus from margin preservation to growth.

Finance is in alignment with the enterprise digital focus on digital transformation. This is reflected in the projected rapid growth of technology adoption and a plethora of digital and data-related initiatives. On the other hand, while improving diversity and inclusion in the finance function is one of the 10 top priorities, only 14% of finance organizations have a related initiative for 2022. This is well below the emphasis that inclusion and diversity commands on the enterprise agenda.

FIG. 9 Top five major initiatives on the enterprise calendar



Source: 2022 Key Issues Performance Study, The Hackett Group, 2021

Where to focus in 2022

Looking beyond the unprecedented instability of 2020 and 2021, finance organizations will need a transformation agenda for 2022 that reflects the lessons learned and strategic reorientation following the crisis, as well as emerging new disruptors and opportunities. Through all the turmoil, finance leaders must remain laser-focused on delivering real performance improvements and adding value to the enterprise. Based on the latest research and our collective client experiences, we believe these should be among the most critical areas of focus in 2022.

Accelerate digital transformation. The crisis kicked finance digital transformation into a higher gear. Now, with a return to growth mode and more funding available for technology, organizations must sustain the momentum and invest wisely based on rigorous analysis of value, considering the potential opportunities, as well as limitations and risks of technologies at different stages of maturity. Don’t let the momentum developed over the past two years go to waste.

Reduce complexity. Process, technology and organizational complexity are among the top hurdles to successful transformation. Finance organizations have been battling complexity for years. Now, making progress has become an imperative. Cloud-based modern architecture, combined with efforts to standardize global operations to the greatest extent possible, will expedite the path to leaner, simpler operations that can focus fully on value creation.

Strengthen business partnering. To maximize its value to the organization, finance must make sure business partnering is an integral part of both functional operations and individual roles. With all the current change, finance has a tremendous opportunity to reinvent its model for collaborating with the business. Some finance organizations are moving quickly to establish new dedicated business partner roles embedded within the business or COEs. But business partnering should be a part of every functional role. Accordingly, finance organizations should strive to increase business acumen across their workforces through development strategies such as rotational assignments.

Where to focus in 2022 (continued)

Enable better insight for finance and the business. Agility is a critical development area. Improving it depends on the ability to sense market change so that the organizational response is both timely and effective. Finance must continue to improve analytical, modeling and reporting capabilities – in large part by moving beyond the multitude of pilot and small-scale applications of data and analytic technologies to more mainstream applications. Of course, better insight doesn't happen through technology alone. It also requires effort to increase data and analytics acumen among finance staff.

Define and develop future-ready finance skills. The global phenomenon of higher turnover, upward pressure on wages and an intensifying war for talent is only exacerbating current talent constraints. At the same time, finance leaders are trying to pin down the skills they need for future roles that will look very different than those of today. Given the flux in the talent market, it is all the more critical to conduct planning exercises that assess current skills, compare them to desired skill levels, and accelerate talent development efforts based on the largest competency gaps. Finance will need to strengthen its partnership with HR and the business to make sure it can deliver on evolving expectations.

Establish a dedicated transformation capability. Orchestrating finance transformation – digital or other transformational components – cannot be a part-time assignment. It requires specific skills, formal project management and dedicated resources – often in a COE. Such a permanent digital transformation capability allows finance to coordinate different aspects of the process such as generating and capturing innovation ideas through agile implementation and value realization. A skilled transformation team is also prepared to drive the right level of executive support and overcome organizational resistance to change.

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