Maintaining Margins While Staying Vigilant

Assessing the Results of the Financial Executives Research Foundation/Protiviti 2016 Finance Priorities Survey

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EXECUTIVE SUMMARY

"Beware of rashness, but with energy, and sleepless vigilance, go forward, and give us victories."

Abraham Lincoln

Finance functions were historically busy last year. Whether or not these workloads are leveling off, finance functions cannot afford to back off. In the coming year, between maintaining margins, forecasting cash flow, complying with new regulations and combatting cyberthreats, finance functions will have much to monitor on their radars and need to be incredibly vigilant. If the 16th President of the United States were to return as a 21st century CFO, his mandate to his financial troops would echo the guidance he dispensed to a top general 150 years ago.

The results of the **2016 Finance Priorities Survey** from the Financial Executives Research Foundation and Protiviti indicate that CFOs and finance professionals remain alert to intensifying volatility on the radar while continuing to address a large and growing set of priorities. As we examine in our report, our findings suggest CFOs and their teams are also focusing efforts on many different priorities, including but not limited to earnings performance, cybersecurity risks, strategic planning, financial and profitability analysis, enterprise performance management, forecasting, and organizational leadership.

Our five key findings

1. **"Margins, not market share" –** That's what General Motors Company CEO Mary Barra communicated to her senior leadership about how they should govern their strategic goal-setting activities.[1] On this count, GM is hardly alone. Margin and earnings performance ranks as the top priority across all groups of respondents in our survey. With a modest recovery over the past few years, finance functions are preparing the enterprise for challenges that could materialize at any time by working to preserve margins and also by sustaining a strong focus on working capital management.
2. **CFOs see more significant priorities on the horizon –** Whereas the overall survey response shows some priority index levels are trending down, suggesting perceptions of a less-intensive year ahead, CFOs have a different view – in many cases, their priority levels have increased compared to last year.

[1] "GM's Barra Says Focus Is Unwavering," by Gautham Nagesh and John D. Stoll, *The Wall Street Journal*, Sept. 24, 2015: www.wsj.com/articles/gms-barra-says-focus-is-unwavering-1443138775.

Our five key findings (continued)

3. **Cybersecurity concerns permeate the finance function –** There is little doubt that IT security and privacy is far more than just an IT issue today – it represents a strategic organizational risk, and not surprisingly, one that ranks near the very top of finance functions' priority lists. From a finance perspective, there are significant concerns regarding the security of financial information as well as the financial impacts of the security of all data. While IT often takes the lead in addressing this risk, cybersecurity is now a top boardroom issue as well as an area drawing substantial time and attention within the finance function. Effective cybersecurity requires strong board engagement, the right policies, and an understanding of the enterprise's most valuable and sensitive data.[2]
4. **Wanted: a single, real-time version of the truth –** To help strengthen overall business performance and strategic planning, and to drive value from the financial data within an organization, finance functions want to develop better, more accurate and timelier data collection, data analysis, reporting, budgeting and forecasting capabilities. These corporate performance management processes are used to perform profitability analyses tied to customers, products, operating units and geographies.
5. **Becoming leaders –** The capabilities of the finance function to lead strategic planning and performance management for the organization are driving CFOs and finance teams to prioritize their internal leadership responsibilities.

METHODOLOGY

The Financial Executives Research Foundation and Protiviti conducted the 2016 Finance Priorities Survey in the third quarter of 2015. More than 600 finance executives and professionals, including CFOs, vice presidents and directors of finance, and controllers, participated in our study. We are very appreciative and grateful for the time invested in our study by these individuals. Respondent demographics can be found on pages 24-25. Please note that, upon request, we are typically able to provide customized reports based on the results of respondents from specific groups – industry, company size, etc.

Since completion of the survey was voluntary, there is some potential for bias if those choosing to respond have significantly different views on matters covered by the survey from those who did not respond. Also, respondents to last year's Finance Priorities Survey may not necessarily have participated in this year's study, and some respondents answered certain questions while not answering others. Therefore, our results may be limited to the extent that such possibilities exist. Despite these limitations, we believe the results herein provide valuable insights regarding the priorities finance functions will be addressing in the coming year.

[2] *The Battle Continues – Working to Bridge the Data Security Chasm: Assessing the Results of Protiviti's 2015 IT Security and Privacy Survey*, Protiviti, www.protiviti.com/ITsecuritysurvey.

RESULTS AND ANALYSIS

The five categories in our survey are:

- Process Capabilities (Financial Transactions)
- Process Capabilities (Financial Analysis)
- Emerging Issues
- Technical Capabilities
- Organizational Capabilities

Under each of these five categories, respondents were asked to rate, on a scale of one to 10, the level of priority for them and their organizations to improve in different areas and capabilities. A "10" rating indicates the issue is a high priority while a "1" indicates the issue is a low priority.

We have classified each of these issues with an index of 6.0 or higher as a "significant priority" for finance functions. Each with an index of 4.5 through 5.9 is classified as a "moderate priority." We also note year-over-year (YOY) comparisons and comment on key trends throughout our report.

Top 5 Risks (by "Impact" percentage)

All Respondents

	Significant Impact (6-10 rating)
Margin/earnings performance	73%
Strategic planning	69%
Tax planning/forecasting	69%
Periodic forecasting	68%
Budgeting	68%

CFOs/Finance Executives

	Significant Impact (6-10 rating)
Margin/earnings performance	82%
Cybersecurity risks	81%
Strategic planning	79%
Periodic forecasting	75%
Budgeting	75%

Large Company Respondents

	Significant Impact (6-10 rating)
Strategic planning	87%
Margin/earnings performance	86%
Cybersecurity risks	83%
Cash forecasting	83%
Periodic forecasting	82%

PROCESS CAPABILITIES (FINANCIAL TRANSACTIONS)

Key Findings

- Finance functions continue to seek more precision and efficiency in their cash forecasting, period-end close, and related reconciliation and consolidation activities. For CFOs and finance executives, cash forecasting represents one of the highest-ranked priorities in our study, which may be indicative of tepid economic recovery in many industries.
- Working capital management also remains a top priority, as finance functions continue to mature this capability in a highly coordinated manner. These areas will become even more important if the global market volatility that materialized in 2015 intensifies in the coming year.
- It's interesting to see that, while the overall results show general year-over-year declines in the priority level of various financial transaction capabilities, we see an opposite trend among the responses of CFOs and finance executives, with many areas trending as more significant than last year.
- CFOs and finance executives also place significant emphasis on pricing and banking relationships, indicating they want to harness favorable market conditions while retaining as much flexibility as possible when less-than-favorable market conditions suddenly materialize.

"Cash management is critical to any business and the ability to forecast with accuracy provides a competitive advantage."

Finance process manager, midsize distribution company

Overall Results, Process Capabilities (Financial Transactions)

Process Capabilities – Financial Transactions	2016 Priority Index	2015 Priority Index	YOY Trend
Cash forecasting	6.6	6.8	↓
Period-end close	6.4	6.9	↓
Variance analysis	6.2	6.2	↔
Account reconciliations	6.2	6.6	↓
Accounts receivable	6.2	6.3	↓
Working capital management	6.1	6.5	↓
Pricing	6.1	6.3	↓
Invoicing/billing	6.1	6.3	↓
Banking relationships	6.0	6.2	↓
Cost allocation	6.0	6.1	↓
Investment relationships*	5.9	NA	NA
Consolidation	5.9	6.2	↓
Financial risk management (hedging, credit risk, FX risk, interest rate risk, etc.)	5.9	5.7	↑
Debt and other investments	5.9	6.0	↓
Payroll processing	5.7	6.0	↓
Mergers and divestitures	5.6	5.2	↑
Time capture and reporting	5.6	5.6	↔
Payroll tax processing	5.6	5.8	↓
Accounts payable	5.6	6.0	↓
Activity-based costing	5.5	5.2	↑
Tax processing (sales and use tax, 1099, T&E tax coding, etc.)	5.5	5.9	↓
Project accounting	5.4	5.6	↓
Standard costing	5.4	5.4	↔
Supplier spend analysis*	5.4	NA	NA
Travel and entertainment reimbursement	5.2	5.3	↓
Fixed asset accounting	5.1	5.5	↓

* Represents a new area added to this year's survey.

Commentary

- Similar to previous years' surveys, period-end close processes and working capital management activities continue to represent top priorities for finance professionals as organizations drive for greater efficiencies in closing and cash management capabilities.
- The flexibility and business agility that leading working capital management capabilities deliver are in high demand among executive teams across all companies, putting further pressure on CFOs and finance functions to meet this strategic need.
- Other critical priorities include cash forecasting, variance analysis, accounts reconciliation and accounts receivable. All of these areas represent continued interest among finance leaders in maintaining levels of sales and collections, even as the market is improving in many industry segments. In some respects, this could be a continued "hangover" from the global financial crisis.
- Last year's survey respondents identified a record number of "significant" priorities related to financial transactions. Although this year's respondents identified fewer "significant" priorities, their emphasis on improving activities that generate greater business agility shows continued vigilance. This is particularly the case among CFOs and finance leaders, who view many areas to be of higher priority compared to the prior year.

"Margin management versus peers and prior periods is an increasing area of focus – additional effort is being placed on forecasting, cash management and banking relationships."

SEC reporting manager, large hospitality company

Focus on CFOs/Finance Executives and Large Companies

Process Capabilities – Financial Transactions	CFOs/Finance Executives[1]		Large Company Respondents[2]	
	2016	YOY Trend	2016	YOY Trend
Cash forecasting	🔴	↑	🔴	↓
Period-end close	🔴	↑	🔴	↓
Variance analysis	🔴	↑	🔴	↓
Account reconciliations	🔴	↑	🔴	↓
Accounts receivable	🔴	↑	🟡	↓
Working capital management	🔴	↑	🔴	↓
Pricing	🔴	↑	🔴	↓
Invoicing/billing	🔴	↑	🟡	↓
Banking relationships	🔴	↑	🔴	↔
Cost allocation	🔴	↓	🟡	↓
Investment relationships*	🔴	NA	🔴	NA
Consolidation	🔴	↑	🔴	↓
Financial risk management (hedging, credit risk, FX risk, interest rate risk, etc.)	🟡	↑	🔴	↓
Debt and other investments	🔴	↑	🔴	↑
Payroll processing	🟡	↑	🟡	↓
Mergers and divestitures	🟡	↑	🔴	↑
Time capture and reporting	🟡	↑	🟡	↑
Payroll tax processing	🟡	↑	🟡	↓
Accounts payable	🟡	↑	🟡	↓
Activity-based costing	🟡	↑	🟡	↔
Tax processing (sales and use tax, 1099, T&E tax coding, etc.)	🟡	↑	🟡	↓
Project accounting	🟡	↑	🟡	↔
Standard costing	🟡	↓	🟡	↑
Supplier spend analysis*	🟡	NA	🟡	NA
Travel and entertainment reimbursement	🟡	↑	🟡	↑
Fixed asset accounting	🟡	↓	🟡	↓

🔴 Significant Priority Index of 6.0 or higher

🟡 Moderate Priority Index of 4.5 to 5.9

* Represents a new area added to this year's survey.

[1] Includes responses from CFOs and Vice President-level executives.

[2] Companies with revenues of US$1 billion or more.

Commentary

- While the top priorities for CFOs, finance executives and large company respondents reflect points of emphasis similar to those identified in the overall responses, we see two noteworthy trends. First, average priority index numbers for each group are generally higher than for overall respondents. Second, whereas year-over-year trends in the overall response group appear to be trending down this year, just the opposite is evident among CFOs and finance executives. In these results, we see most financial transaction capabilities to have a higher priority ranking compared to last year.
- CFOs ranked cash forecasting at one of the highest priority levels since this survey's inception. This likely reflects continued concerns over the market's meager recovery, as well as an acknowledgement that the process of forecasting cash is more complex than ever. Either way, the old adage is still relevant: "Cash is king."
- Among other specific differences, period-end close, working capital management and pricing (another potentially valuable cash management lever) stand out as significant priorities.
- Executive-level respondents also place a notably higher emphasis on banking relationships, reflecting a desire to have these relationships established and in good standing before unfavorable market conditions arise.

Looking Ahead: Trends to Watch

- The demand for speed and accuracy in financial consolidation and working capital management activities almost assuredly will intensify. As these expectations grow without comparable increases in staffing, finance functions should consider acquiring and implementing finance governance technology that can reduce errors, accelerate consolidation and closing activities, and improve access to documentation amid growing regulatory and competitive pressures.
- Finance functions can no longer afford to sharpen their focus on working capital management only during down markets and then allow this focus to flag under favorable conditions. Leading finance functions will increasingly be defined by working capital management capabilities that demonstrate continuous improvement through every economic cycle.

Action Items for Finance Leaders

- Position working capital management as a comprehensive and integrated business process that requires the enterprise's sustained attention.
- Look for improvements and investments in people, process and technology that can result in greater speed, accuracy and efficiency within financial consolidation and close activities.

PROCESS CAPABILITIES (FINANCIAL ANALYSIS)

Key Findings

- Financial analysis activities – in particular, strategic planning, budgeting, performance management/executive dashboards/balanced scorecards – are among the highest-ranked priorities for CFOs and finance executives.
- Finance functions are working diligently to equip business partners throughout the organization with more precise and real-time information on performance, cash positions and profitability drivers to strengthen strategic decision-making.
- Here again, while year-over-year results in the overall response trend down, the opposite occurs for our CFO/finance executive results, where these leaders view priority levels to be higher relative to 2015.
- The importance placed on risk management, profitability analysis and reporting, and business intelligence indicates that finance functions continue to want to leverage big data and analytics to broaden how they conceive, organize and perform traditional corporate performance management capabilities.

"Due to the complexity of our business, planning, performance reporting and what is happening in our business through reporting is critical to operating and sustaining our business model."

Chief financial officer, large distribution company

Overall Results, Process Capabilities (Financial Analysis)

Process Capabilities – Financial Analysis	2016 Priority Index	2015 Priority Index	YOY Trend
Periodic forecasting	6.7	7.0	↓
Strategic planning	6.6	7.2	↓
Budgeting	6.6	7.1	↓
Risk management (assessing risks tied to strategy, forecasting, etc.)	6.5	6.7	↓
Profitability reporting – segment	6.2	6.3	↓
Profitability analysis (product, customer, channel, etc.)	6.2	6.8	↓
Margin management	6.2	6.3	↓
Business intelligence (operations reporting)	6.1	6.6	↓
Profitability reporting – product	6.0	6.0	↔
Board of directors financial reporting	6.0	6.4	↓
Performance management/executive dashboards/balanced scorecards	6.0	6.6	↓
Profitability reporting – channel	5.9	5.6	↑
Competitive intelligence (competitor, customer, geopolitical, etc.)	5.9	6.2	↓
Management reporting – ad hoc or self-reporting	5.9	5.6	↑
Profitability reporting – customer	5.9	5.9	↔
External reporting (10-Q, 10-K, 8-K, proxy and other shareholder)	5.8	5.8	↔
Nonfinancial reporting – ad hoc reporting	5.7	5.6	↑
Analysis of big data	5.7	5.6	↑
Project management	5.6	5.8	↓
Enterprise risk reporting	5.6	5.4	↑
MD&A	5.5	5.1	↑
Other statistical reporting	5.4	5.2	↑

Commentary

- As was the case last year, periodic forecasting and strategic planning are among the highest overall priorities in our survey.
- By focusing on risk management (assessing risks tied to strategy, forecasting, etc.), profitability reporting, profitability analysis (product, customer, channel, etc.) and business intelligence, finance functions are making traditional performance management capabilities more precise (e.g., providing clarity on which customers are most profitable) as well as more integrated and comprehensive.
- Margin management, which relates to our survey's overall top priority – margin/earnings performance – also figures as a top financial analysis priority among all respondents.

Focus on CFOs/Finance Executives and Large Companies

Process Capabilities – Financial Analysis	CFOs/Finance Executives 2016	CFOs/Finance Executives YOY Trend	Large Company Respondents 2016	Large Company Respondents YOY Trend
Periodic forecasting	Significant	↑	Significant	↓
Strategic planning	Significant	↑	Significant	↓
Budgeting	Significant	↑	Significant	↓
Risk management (assessing risks tied to strategy, forecasting, etc.)	Significant	↑	Significant	↓
Profitability reporting – segment	Significant	↑	Significant	↑
Profitability analysis (product, customer, channel, etc.)	Significant	↑	Significant	↓
Margin management	Significant	↑	Significant	↑
Business intelligence (operations reporting)	Significant	↑	Significant	↓
Profitability reporting – product	Significant	↑	Significant	↓
Board of directors financial reporting	Significant	↑	Significant	↓
Performance management/ executive dashboards/balanced scorecards	Significant	↑	Significant	↓
Profitability reporting – channel	Moderate	↑	Significant	↑
Competitive intelligence (competitor, customer, geopolitical, etc.)	Significant	↑	Significant	↓
Management reporting – ad hoc or self-reporting	Significant	↑	Moderate	↓
Profitability reporting – customer	Significant	↑	Moderate	↓
External reporting (10-Q, 10-K, 8-K, proxy and other shareholder)	Moderate	↑	Significant	↔
Nonfinancial reporting – ad hoc reporting	Significant	↑	Significant	↓
Analysis of big data	Significant	↑	Significant	↓
Project management	Moderate	↓	Significant	↓
Enterprise risk reporting	Moderate	↑	Significant	↑
MD&A	Moderate	↑	Moderate	↔
Other statistical reporting	Moderate	↑	Moderate	↔

Significant Priority
Index of 6.0 or higher

Moderate Priority
Index of 4.5 to 5.9

Commentary

- CFOs and finance executives and, to a lesser extent, finance professionals in large companies rank most financial analysis capabilities as higher priorities compared with the overall response group.
- Among CFO and finance executive respondents, numerous areas of financial analysis appear to be more important than ever. In last year's results, three areas of financial analysis (strategic planning, budgeting and profitability analysis) were ranked 7.0 or higher as a priority by finance executives; this year, there are seven such areas (see below), suggesting that CFOs continue to focus on the strategic value of the finance function, rather than accounting operations.
  - Strategic planning (7.5)
  - Budgeting (7.3)
  - Performance management (7.2)
  - Business intelligence (7.1)
  - Periodic forecasting (7.1)
  - Profitability analysis (7.1)
  - Risk management (7.0)
- CFOs, finance executives and large company respondents continue to place significant importance on profitability analysis (by product, customer, channel, etc.), which points to a drive to strengthen strategic planning and decision-making around pricing, new markets, acquisitions and related matters.
- As performance management activities become more comprehensive and precise, there also is a desire to improve how this information is shared with the board of directors.

Looking Ahead: Trends to Watch

- As traditional performance management expands via the integration of more risk management, profitability analysis and reporting processes, finance functions will have a greater need to improve their ability to analyze big data to ensure their financial and risk analyses are as precise and current as possible.
- Boards will need to be kept in the loop as the finance function continues to improve its approach to corporate performance management – from finance governance to consolidation and periodic forecasting.

Action Items for Finance Leaders

- Evaluate opportunities for integrating more risk and profitability data and information into the forecasting, budgeting and reporting processes that comprise performance management.
- Seek out opportunities in which big data and related analytics can add value to the finance function's performance management activities.
- Monitor advancements in data analysis capabilities in other areas of your enterprise (e.g., sales and marketing technology) to identify new opportunities to integrate valuable information into performance management processes.
- Consider opportunities to acquire and implement a corporate performance management solution to enable better capabilities with financial reporting and analysis.
- Ensure that the financial reports shared with the board are keeping pace with the ongoing evolution of performance management within the finance function – without overwhelming board members with too much technical data and information.

EMERGING ISSUES

Key Findings

- Margin and earnings performance along with cybersecurity risks are two of the top priorities in the entire survey – both rank as critical areas of focus among all sizes of companies and throughout all levels of the finance function.
- Despite a lengthy stretch of moderately positive marketplace conditions for most U.S.-based companies, the emphasis on healthy margins and earnings performance shows that finance functions remain highly vigilant (i.e., keeping a close watch on costs and profitability) in the face of ongoing volatility in global markets and initial signs of slowing economic growth.
- Given the proliferation and magnitude of cyberattacks in recent years, cybersecurity risks qualify as a strategic business risk (not just an IT issue) – and one that resides near the top of the CFO's agenda.
- Supplier and alliance partner relationships and sustainability are significant priorities for all respondents, including those from large companies and CFOs/finance executives.

Overall Results, Emerging Issues

Emerging Issues	2016 Priority Index	2015 Priority Index	YOY Trend
Margin/earnings performance*	7.3	NA	NA
Cybersecurity risks*	6.8	NA	NA
Supplier/alliance partnership relationships*	6.2	NA	NA
Sustainability	6.0	6.4	↓
Revenue recognition (new FASB/IASB standard)	5.9	5.8	↑
Changes to U.S. healthcare regulations	5.8	6.3	↓
Consolidation of shared service centers*	5.4	NA	NA
Globalization	5.3	5.6	↓
Generational workforce diversity	5.1	5.1	↔
Effects of PCAOB inspection reports on external audit firms*	5.0	NA	NA
Aging workforce	5.0	5.2	↓
Outcome-based outsourcing arrangements*	5.0	NA	NA
Renegotiating offshoring agreements*	4.8	NA	NA

* Represents a new area added to this year's survey.

"We are focused on understanding the drivers of the business and their impact on present and future profitability."

Chief financial officer, large manufacturing company

Commentary

- Overall, margin and earnings performance is the highest-ranked priority in the entire survey. These areas reflect the increasing vigilance finance functions are applying to managing profitability and protecting organizational value.
- Cybersecurity represents a significant priority, as well, as companies face escalating cyberattacks on multiple fronts and finance leaders consider the financial impact of a breach, along with the security of the organization's financial data.
- Although last summer the FASB deferred the effective date of its new revenue recognition standard (developed in collaboration with the IASB), finance functions that eventually must adhere to the standard should not delay their work in preparing and positioning the organization in a prudent state of readiness.[3]
- Sustainability remains a significant priority as organizations continue working to understand the different metrics they should report to their stakeholders.

Focus on CFOs/Finance Executives and Large Companies

	CFOs/Finance Executives		Large Company Respondents	
Emerging Issues	2016	YOY Trend	2016	YOY Trend
Margin/earnings performance*	🔴	NA	🔴	NA
Cybersecurity risks*	🔴	NA	🔴	NA
Supplier/alliance partnership relationships*	🔴	NA	🔴	NA
Sustainability	🔴	⬆	🔴	⬇
Revenue recognition (new FASB/IASB standard)	🟡	⬆	🔴	⬆
Changes to U.S. healthcare regulations	🔴	⬇	🟡	⬇
Consolidation of shared service centers*	🟡	NA	🟡	NA
Globalization	🟡	⬇	🟡	⬇
Generational workforce diversity	🟡	↔	🟡	⬆
Effects of PCAOB inspection reports on external audit firms*	🟡	NA	🟡	NA
Aging workforce	🟡	⬇	🟡	⬆
Outcome-based outsourcing arrangements*	🟡	NA	🟡	NA
Renegotiating offshoring agreements*	🟡	NA	🟡	NA

🔴 Significant Priority
Index of 6.0 or higher

🟡 Moderate Priority
Index of 4.5 to 5.9

* Represents a new area added to this year's survey.

[3] "FASB Officially Defers Effective Date of New Revenue Recognition Standard," Protiviti, July 10, 2015: http://blog.protiviti.com/2015/07/10/fasb-officially-defers-effective-date-of-new-revenue-recognition-standard/.

Commentary

- Among CFOs, finance executives and large company respondents, margin and earnings performance received the highest priority index scores in the history of this survey.
- Other notable priorities for these groups include supplier and alliance partnership relationships, which reflects a growing emphasis on supply chain risk management and, more specifically, procurement efficiency, effectiveness and stability.
- Sustainability and adherence to the new FASB/IASB revenue recognition standard represent significant priorities among large company respondents, while CFOs and finance executives view sustainability and changes to U.S. healthcare regulations to be among their top priorities for 2016.

Looking Ahead: Trends to Watch

- Finance continues to make margin and earnings performance a top priority, and rightly so. Macroeconomic factors seem to be driving finance professionals, and particularly CFOs, to be cautiously optimistic.
- As cybersecurity incidents intensify in frequency and magnitude, the finance function will play an increasingly significant role in assessing the nature of this risk and, in partnership with IT and other areas of the organization, developing rigorous measures to prevent breaches and secure confidential and sensitive data.
- Regulations and regulatory oversight concerning cybersecurity and information privacy undoubtedly will increase worldwide, which will place further burdens on finance functions to ensure they are in compliance with new requirements for information security and data management.
- Ongoing economic volatility will place greater emphasis on organizational margin and earnings performance activities, as well as on overall profitability management and working capital management.
- As supply chains become more global and more complex, companies will derive greater value – and be exposed to greater risks – from their relationships with suppliers; this shift elevates the importance of building leading sourcing and procurement capabilities.
- Regulatory demands will likely increase due to globalization and growing collaboration between regulatory bodies and global tax jurisdictions.

Action Items for Finance Leaders

- Review how the company currently manages and monitors margin and earnings performance, assess how this approach compares to best practices, and determine how to address any gaps.
- Identify the role finance currently plays in managing cybersecurity risks in partnership with executive management and IT, and assess how the finance function can help enhance the company's cybersecurity risk management capabilities.
- Within companies for which adherence to the new revenue recognition standard will result in substantial changes to policies, processes and controls, determine the current state of readiness and make necessary adjustments. And don't procrastinate – though now delayed, the deadline is coming soon and companies should be prepared, starting with conducting a readiness assessment.

TECHNICAL CAPABILITIES

Key Findings

- The number and complexity of business regulations, accounting standards and tax rules are increasing, both domestically and internationally, challenging finance executives and professionals to keep technical proficiency in these areas current and sufficient.
- Domestic debates regarding a major overhaul of the U.S. tax code, together with sweeping international tax changes like the recent Base Erosion and Profit Shifting (BEPS) plan from the Organization for Economic Cooperation and Development (OECD), confirm that these challenges are likely to intensify, perhaps substantially.
- Finance functions are concerned about their state of readiness when it comes to adopting new and impending accounting standards.
- There is growing pressure to recruit and hire the right technical skills for the right positions, and then ensure that these experts keep their skills and expertise current.

"Changes in revenue recognition expense deferral will be a major transition."

Financial reporting director, small technology company

Overall Results, Technical Capabilities

Technical Capabilities	2016 Priority Index	2015 Priority Index	YOY Trend
Tax planning/forecasting	6.2	6.3	↓
U.S. tax laws	6.1	6.4	↓
Readiness for adopting new and impending accounting pronouncements (such as impending revenue recognition, lease accounting changes)	6.1	5.8	↑
Domestic regulations	6.1	6.6	↓
In-country taxes	6.0	6.0	↔
Sarbanes-Oxley reporting and disclosures	5.9	5.2	↑
State or jurisdiction taxes	5.8	6.0	↓
New FASB Standard – Revenue from Contracts with Customers	5.8	5.5	↑
International cash/earnings repatriation – compliance and accounting implications	5.7	5.4	↑
Revenue accounting – general: revenue recognition (under current rules) – multiple element deliverables	5.7	5.9	↓
International/transfer pricing regulations	5.6	5.8	↓
Fair value accounting (ASC 825 – formerly FAS 159, Fair Value Option for Financial Assets and Liabilities)	5.6	5.3	↑
Business combinations	5.6	5.2	↑
Foreign taxes	5.6	5.3	↑
Stock-based compensation (ASC 718 or ASC 505-50 – formerly FAS 123R Share-Based Payments)	5.6	4.3	↑
Transfer taxes*	5.5	NA	NA
Segment reporting	5.5	5.2	↑
Reporting uncertainties – external reporting	5.5	5.3	↑
Reporting uncertainties to the IRS (new regulations)	5.5	5.4	↑
FASB Accounting Standards Codification – impact on both research capabilities and disclosures	5.4	5.1	↑
Proxy rules, including risk and compensation disclosures	5.3	4.6	↑
Regulation S-K and S-X requirements	5.1	4.4	↑
Extensible business reporting language (XBRL)	4.9	4.4	↑

* Represents a new area added to this year's survey.

Commentary

- The top priorities in this category – including tax planning/forecasting, U.S. tax laws, domestic regulations and in-country taxes – are similar to last year's findings.
- All respondents, regardless of title or their company's size, identify readiness for adopting new and impending accounting pronouncements as a significant priority; the volume of changes and fierce competition for technical expertise make achieving readiness more difficult.
- Sarbanes-Oxley reporting and disclosures remain a priority among all respondents, with a substantial year-over-year increase as a key area of focus for 2016.

Focus on CFOs/Finance Executives and Large Companies

	CFOs/Finance Executives		Large Company Respondents	
Technical Capabilities	**2016**	**YOY Trend**	**2016**	**YOY Trend**
Tax planning/forecasting	🔴	⬇	🔴	⬇
U.S. tax laws	🔴	⬆	🔴	⬇
Readiness for adopting new and impending accounting pronouncements (such as impending revenue recognition, lease accounting changes)	🔴	⬆	🔴	⬆
Domestic regulations	🔴	⬇	🔴	⬇
In-country taxes	🟡	⬇	🟡	⬇
Sarbanes-Oxley reporting and disclosures	🟡	⬆	🔴	⬆
State or jurisdiction taxes	🟡	⬇	🟡	⬇
New FASB Standard – Revenue from Contracts with Customers	🟡	⬆	🟡	⬌
International cash/earnings repatriation – compliance and accounting implications	🟡	⬇	🟡	⬇
Revenue accounting – general: revenue recognition (under current rules) – multiple element deliverables	🟡	⬆	🔴	⬌
International/transfer pricing regulations	🟡	⬆	🔴	⬇
Fair value accounting (ASC 825 – formerly FAS 159, Fair Value Option for Financial Assets and Liabilities)	🟡	⬆	🟡	⬆
Business combinations	🟡	⬆	🟡	⬆
Foreign taxes	🟡	⬇	🟡	⬇
Stock-based compensation (ASC 718 or ASC 505-50 – formerly FAS 123R Share-Based Payments)	🟡	⬆	🟡	⬆
Transfer taxes*	🟡	NA	🟡	NA
Segment reporting	🟡	⬆	🔴	⬆
Reporting uncertainties – external reporting	🟡	⬆	🟡	⬇
Reporting uncertainties to the IRS (new regulations)	🟡	⬇	🟡	⬇
FASB Accounting Standards Codification – impact on both research capabilities and disclosures	🟡	⬆	🟡	⬇
Proxy rules, including risk and compensation disclosures	🟡	⬆	🟡	⬆
Regulation S-K and S-X requirements	🟡	⬆	🟡	⬆
Extensible business reporting language (XBRL)	🟡	⬆	🟡	⬆

🔴 Significant Priority
Index of 6.0 or higher

🟡 Moderate Priority
Index of 4.5 to 5.9

* Represents a new area added to this year's survey.

Commentary

- CFOs, finance executives and respondents from large companies identify technical priorities similar to the overall response group, with similar rankings for these areas in terms of significance.
- CFOs and finance executives place greater importance on U.S. tax laws and domestic regulations.

Looking Ahead: Trends to Watch

- Domestic regulations and U.S. tax laws will likely generate contentious debates and widespread attention during the U.S. presidential campaign throughout 2016 – a change in administration could bring about significant long-term changes to business regulations and tax laws.
- The OECD's BEPS plan signifies a new level of cooperation among different countries and their tax jurisdictions. The implementation of BEPS and its subsequent enforcement could stimulate similarly dramatic changes in global business regulations.
- Competition for an already limited supply of technical accounting and tax expertise likely will further intensify, placing greater pressures on accounting and tax functions to recruit and retain highly skilled people.

Action Items for Finance Leaders

- Assess the finance function's ability to track potential and developing changes to tax laws and relevant business regulations, and its readiness for adopting and implementing new and impending accounting pronouncements.
- Evaluate the finance function's current technical talent, along with skills and expertise it likely will need in the future, and develop plans (e.g., recruiting, training and development, co-sourcing, etc.) to address talent and skills gaps.

ORGANIZATIONAL CAPABILITIES

Key Findings

- Leadership within the organization and change management stand out as the most significant priorities across all respondent categories, including CFOs and large companies.
- Notably, CFOs identify a substantial number of competency and skills-related issues as significant priorities.
- Several areas show significant year-over-year increases in priority, including written communication, networking with peers, presenting to large groups, and Six Sigma and continuous improvement.

"Being flexible and being able to work at all levels within and outside the organization is key to development and growth opportunities."

Divisional controller, large financial services company

Overall Results, Organizational Capabilities

Organizational Capabilities	2016 Priority Index	2015 Priority Index	YOY Trend
Leadership (within your organization)	6.2	6.4	↓
Change management	5.9	6.2	↓
Written communication	5.9	5.6	↑
Personnel performance evaluation	5.9	6.0	↓
Working effectively with regulators	5.9	5.8	↑
Developing rapport with senior executives	5.8	5.8	↔
Networking with peers	5.8	5.3	↑
Developing rapport with business-unit executives	5.7	5.8	↓
Coaching/mentoring	5.7	5.9	↓
Working effectively with external auditors	5.7	5.7	↔
Negotiation	5.7	5.5	↑
Working effectively with outside parties	5.7	5.6	↑
Time management	5.6	5.4	↑
Management of shared services	5.5	5.2	↑
Leadership (in outside organizations, groups, etc.)	5.5	5.4	↑
Leveraging outside expertise	5.4	5.6	↓
Developing outside contacts/networking	5.4	5.6	↓
Presenting (large groups)	5.4	4.9	↑
Presenting (small groups)	5.4	5.1	↑
Six Sigma/continuous improvement	5.4	4.8	↑
Management of outsourcing arrangements	5.2	5.3	↓
Dealing with confrontation	5.1	5.2	↓
High-pressure meetings	5.0	4.9	↑

Commentary

- Finance functions continue to emphasize their leadership role in the organization as well as the role finance plays in managing change throughout the enterprise.

Focus on CFOs/Finance Executives and Large Companies

	CFOs/Finance Executives		Large Company Respondents	
Organizational Capabilities	2016	YOY Trend	2016	YOY Trend
Leadership (within your organization)	Significant	↑	Significant	↓
Change management	Significant	↑	Significant	↓
Written communication	Significant	↑	Moderate	↑
Personnel performance evaluation	Significant	↑	Moderate	↓
Working effectively with regulators	Moderate	↓	Moderate	↓
Developing rapport with senior executives	Significant	↑	Moderate	↓
Networking with peers	Moderate	↑	Moderate	↑
Developing rapport with business-unit executives	Significant	↑	Moderate	↓
Coaching/mentoring	Significant	↑	Moderate	↓
Working effectively with external auditors	Moderate	↑	Moderate	↑
Negotiation	Significant	↑	Moderate	↓
Working effectively with outside parties	Moderate	↑	Moderate	↔
Time management	Significant	↑	Moderate	↑
Management of shared services	Moderate	↑	Moderate	↓
Leadership (in outside organizations, groups, etc.)	Moderate	↑	Moderate	↓
Leveraging outside expertise	Significant	↑	Moderate	↓
Developing outside contacts/networking	Significant	↑	Moderate	↓
Presenting (large groups)	Moderate	↑	Moderate	↑
Presenting (small groups)	Moderate	↑	Moderate	↑
Six Sigma/continuous improvement	Moderate	↑	Moderate	↔
Management of outsourcing arrangements	Moderate	↑	Moderate	↓
Dealing with confrontation	Moderate	↑	Moderate	↓
High-pressure meetings	Moderate	↔	Moderate	↓

Significant Priority
Index of 6.0 or higher

Moderate Priority
Index of 4.5 to 5.9

Commentary

- Interestingly, CFOs and finance executives view many more of these capabilities (11) to be significant priorities compared with the overall response group and large company survey participants. Most of the capabilities ranked by CFOs and finance executives show a year-over-year increase in priority, suggesting that finance leaders are emphasizing these skills more in order to build stronger teams and more effective collaboration with other functions in the organization.
- CFOs and finance executives recognize that the execution of their priorities increasingly depends on their ability to lead outside the function; this is certainly the case when it comes to managing margins, conducting strategic planning and addressing cybersecurity risks.

Looking Ahead: Trends to Watch

- As the nature of business challenges becomes more complex, organizational responses to address them need to cut across traditional silos and involve more participants. CFOs and finance executives should expect the need to display leadership beyond the finance function to increase.

Action Items for Finance Leaders

- Evaluate the extent to which leadership, change management, relationship-building and other related personal competencies are present in the finance function's current recruiting, selection and development practices.
- Collaborate with human resources to identify and/or create more opportunities to expose rising finance professionals in your organization to a range of training, leadership development exercises and experiences.
- Consider what types of "soft skills" training the finance team receives – communication, teamwork, presenting, etc. – and where enhancements might benefit them and the finance department.

"Being able to effectively communicate results and opportunities for improvements to senior and business leaders is critical for one's professional success."

Financial reporting director, large consumer products company

DEMOGRAPHICS

More than 660 CFOs and finance executives and professionals (n = 663) participated in the study. Following are details regarding the respondents and the size of companies represented in the study.[4]

Position

Chief Financial Officer	8%
Vice President, Finance	8%
Audit Committee Member	1%
Corporate Controller	7%
Assistant/Divisional Controller	7%
Financial Reporting Director/Manager	27%
Budgeting/Planning Director/Manager	6%
SEC Reporting Manager	2%
Finance Process Manager	8%
Finance Staff	15%
External Public Accountant	1%
Corporate Management	4%
Management Consultant	3%
Other	3%

Industry

Energy	17%
Manufacturing	14%
Financial Services	13%
Technology	8%
Professional Services	6%
Government/Education/Not-for-profit	5%
Healthcare Provider	5%
Consumer Products	4%
Life Sciences/Biotechnology	4%
Real Estate	4%
Distribution	3%
Insurance	3%

[4] All demographic information was provided voluntarily by respondents. Percentages in the tables correspond to those providing this information rather than the total sample of respondents.

Industry (continued)

Media	3%
Retail	3%
Services	2%
Healthcare Payer	1%
Hospitality	1%
Telecommunications	1%
Utilities	1%
Other	2%

Certifications

Certified Public Accountant (CPA)/Chartered Accountant (CA)	40%
Chartered Financial Analyst (CFA)	16%
Certified Information Systems Auditor (CISA)	14%
Certified Management Accountant (CMA)	11%
Certified Internal Auditor (CIA)	3%

Size of Organization (by gross annual revenue in U.S. dollars)

$20 billion or greater	6%
$10 billion - $19.99 billion	3%
$5 billion - $9.99 billion	5%
$1 billion - $4.99 billion	15%
$500 million - $999.99 million	33%
$100 million - $499.99 million	15%
Less than $100 million	23%

Organization Headquarters

United States	95%
United Kingdom	3%
Canada	1%
Other	1%

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