MODERN FINANCE
Stepping into the Unknown

Economic uncertainty puts CFO decision-making on a knife edge
Turbulent times pose a unique challenge for the modern CFO

There will be many CFOs serving today who weathered the storms of the 2007-2008 financial crisis, and some who also tackled the dot-com boom and bust of the late 1990s.

Businesses now face a new period of economic uncertainty. Between the EU referendum, volatile currency exchange rates, and unprecedented socio-political conditions, planning for the future has become a significant challenge and all those CFOs who carry grey hairs from their previous trials are bracing themselves for a new test.

In this report we explore how CFOs and finance leaders are preparing for the uncertainty ahead and how they plan to deliver more strategic value to the business. Based on Oracle-commissioned research, we also uncover what finance leaders need to fulfil the great expectations being placed on them so they can help their company thrive.

For the survey, Oracle partnered with Coleman Parkes Research to poll a total of 800 finance decision-makers in the UK, France, Germany, Italy, Netherlands, Spain, Sweden, and the UAE/Saudi Arabia. The research was conducted in August 2016.

Catching up after being caught off guard

Economic uncertainty and the Brexit vote have caught many businesses on the back foot, and they expect further challenges ahead.

For instance, 50% of finance leaders expect to see more businesses struggling and going bust in the next year, which also increases the likelihood of companies actively seeking a sale or becoming targets for a takeover. That is borne out by the 59% of respondents who expect to see more mergers and acquisitions and more consolidation in their industry due to economic uncertainty.
The Brexit effect

Respondents to Oracle’s survey made it clear the 2016 EU referendum has been a major contributor to market uncertainty. Their position on the issue aside, finance leaders have seen their role become more complex following the UK’s decision to leave the EU.

A factor which has amplified the impact of Brexit is the fact that it came as a surprise to many companies. 41% of finance leaders admit they did not expect the result of the EU referendum and did not plan for it. They are now playing catch-up and working out what the implications are for their organization.

Once again all signs point to an unclear future. Nearly half (46%) of finance leaders said their forward planning has now become more complex and uncertain. As part of this, 44% have taken to developing multiple contingency plans which need to be updated regularly to ensure the business stays on top of change and has sight of any potential outcome.

There is reason for encouragement. 47% of finance leaders are factoring more data sources into their analyzes to better understand Brexit and a similar percentage are planning for more scenarios simultaneously. This shows how CFOs are stepping up and helping the organization tackle uncertainty through more strategic planning and forecasting.

Planning for a change of plans

Plans cannot just be linear in the modern market. They need to fork into multiple branches so any eventuality can be taken in stride.

This requires a finance system that allows users to model and test many scenarios quickly and with a high degree of integrity so they can develop a robust plan for each possible outcome.

Many companies rightly view driver-based modelling as the best approach, but it is equally important that models are based on input from as many people as possible. When insight from sales, marketing, HR and the rest of the business is combined with financial information, CFOs get a much more complete and accurate indication of how the company will react to different market conditions.

This is where cloud-based finance technologies come into their own. An integrated system makes it possible for real-time data to flow seamlessly between lines of business and finance, resulting in more complete and accurate modelling.
Waiting is not an option

While finance leaders accept that the future is uncertain, they also understand they cannot wait things out until the haze lifts.

The result of any major business decision will be exaggerated by swinging economic conditions – for better or worse – and this includes the choice to stand still. Risk and reward have never been starker, and doing nothing is equivalent to moving backwards.

Encouragingly, nearly half (46%) of finance leaders report that while they are being more cautious they do plan to invest in opportunity where they see a strong business case.

A smaller but still significant proportion (32%) of respondents are restricting spending to the bare essentials and trying to keep their heads down until the future becomes more concrete. This may seem prudent in the short term and is by all means a normal reaction to a sudden shift in the company’s future outlook, but with major change comes significant opportunity. It will be near-impossible for the overly cautious to keep pace with more steadfast competitors if they wait for the dust to settle on current events.

Even some of the 32% of businesses currently holding back on spending are bound to realize this, and will simply be taking more time to assess the implications of new market conditions before moving ahead with a refreshed growth strategy.

Becoming self-aware about profit and cost

*Nigel Youell, EPM Specialist at Oracle*

*Businesses need more efficient internal processes if they want to be nimble enough to navigate a changing market. This takes a certain level of self-awareness – improvements to the way companies manage their resources and cash hold the key to cost savings and efficiencies.*

*In many companies, however, finance systems are fragmented and provide poor visibility into Line of Business (LOB) performance. This makes it hard to understand where improvements can be made.*

*Finance systems have evolved to suit the needs of modern finance, and the fact these are now available in a cloud-based format has made this functionality more accessible than ever.*

*Purpose-built profit and cost management solutions enable organizations to build, maintain, and analyze cost allocations, in addition to automatically calculating cost, profit, and other core KPIs so they can gauge performance and modify their processes accordingly. Value-scoring and ranking features also give finance leaders insight into profit and loss across each LOB.*

*Crucially, embedded analytics and one-click reports allow CFOs to share these insights with other boardroom decision-makers at a moment’s notice. This puts the organization in a position to develop well-informed strategies as quickly as new challenges present themselves.*

[Click here for more information on Oracle Profitability and Cost Management Cloud](#)
A more strategic mind-set for finance

CFOs may traditionally have been viewed as the person tasked with reining in cost at every opportunity, but in an uncertain economy their role is more nuanced. They must remain mindful of spending but at the same time discourage relentless cut backs and keep the company from adopting too severe an austerity footing.

Oracle’s research found that 15% of finance leaders are committed to making major investments in the business in spite of a challenging future. That doesn’t mean this sizeable minority of companies plan to spend recklessly, but does suggest they understand the value of making strategic investments based on the best possible information and judgment.

Uncertainty does not stop market disruption. If anything it opens up new opportunities for strategic movers. Some of today’s most successful companies launched in the wake of the 2008 financial crisis, jumping on changes in consumer habits and implementing processes that were agile enough to adapt as they grew.

Orange goes digital with ERP Cloud

Global telecoms operator Orange has nearly 160 thousand employees serving 250 million customers in 220 countries. The company previously ran multiple ERP systems in each market and wanted to consolidate onto one central system to cut costs and become more efficient.

Orange achieved this with Oracle ERP Cloud, and with all its processes centralized now finds itself working more quickly and more flexibly. As a secondary effect, the operator is beginning to recruit more skilled digital natives who are keen to work in a modern finance environment.

With these changes, a leading organization has become even better prepared to succeed in a highly competitive telecoms market. Click here for more on how Orange is using Oracle ERP Cloud to digitize its business.
The CFO must lead the way

Decisions made in the coming year may have make-or-break implications, and companies are relying more heavily on the steady hand of the CFO to guide them. Oracle’s findings reveal finance leaders are feeling the pressure, but are also taking ownership of their more strategic role at the helm of the organization.

Already, more than half (52%) say their role now predominantly involves advising the business on how it can achieve growth goals. A similar percentage (53%) say their insights and experience are proving more valuable to the business and that their role is more focused on forward planning.

Lines of business are also viewing finance leaders as a strategic resource. 56% of respondents to Oracle’s survey said they are working more closely with LOBs than ever. This does place a heavier burden on the CFO’s shoulders, but finance teams are meeting new challenges and opportunities head-on. 46% admit their job is tougher, but 46% also say they are enjoying greater recognition within the business and finding their job more rewarding.

55% of finance leaders say their role largely involves advising the business on achieving growth goals

53% say the business is asking more of finance than in the past

53% say their role is more focused on forward planning than ever

56% of finance leaders feel the finance team is working more closely with LOBs

The finance team has always been essential to the organization, but its role has traditionally been limited to reporting and compliance. Tougher times have put more pressure on investment and decision-making, elevating the role of finance and placing CFOs at the center of business strategy.
CFOs must drive better collaboration between lines of business

Rupert Haines, VP Finance, Oracle UK and Ireland

Versatility is the hallmark of the modern CFO. As part of their wider remit, it is more important than ever that finance leaders build and maintain close strategic alliances with other line of business leaders. As the right hand person, or ‘co-pilot’, of the chief executive, CFOs must do their part to align every LOB towards a profitable future.

CFOs have traditionally been the monopoly supplier of management information. However, with the proliferation of more sources of data in today’s organizations, the finance team must work more closely with other LOBs. They also need the digital knowledge required to understand this information and what analyses are available, as well as the ability to collate and clearly present their insights to business decision-makers.

CFOs will still be a resource for finance-related information, but will now play a key role as the broker and validator of any data being used to inform business decisions and manage performance.

The ability to do this is supported by cloud-based finance systems that allow the finance department to share relevant information with key decision-makers across the organization more quickly, and which promote a constant flow of data between the finance department and the rest of the business.

More than half of major organizations do run some cloud applications in their back office, but there needs to be more collaboration between finance and IT leaders if the entire company is to modernize its way of working and address the challenges ahead. Those CFOs that are driving closer relationships between lines of business and taking a more open and strategic approach to data are in an ideal position to secure their position as leaders in the business.
Gaining an edge with data

In order to steer their business along this knife edge of decision-making, CFOs must take every advantage they can, and that begins with access to as much relevant and current data as possible.

They must be able to see, through careful analysis of that data, how the decisions they make will play out and how they will need to be adapted when conditions fluctuate. They must also be able to predict the effects – good and bad – that any change in strategy might have on each part of the businesses so they can effectively weigh reward against risk.

According to Oracle’s research, nearly half (47%) of finance leaders have increased the number of data sources they analyze in an effort to better understand the impact of Brexit and growing market uncertainty. However, the research also revealed that many finance teams are not ideally equipped to handle the heightened pressures they face.

42% of respondents admitted their current finance technology is not up to the demands being placed upon it. And while 45% said they are planning upgrades so they can perform more powerful analytics, 41% worryingly said they are holding off on these necessary investments in technology.

It is these businesses that risk freezing in the headlights, aware there is a problem but rooted to the spot by the prospect of an unclear path. In these companies, the CFO must make the case for investment clear, pointing out the drivers for forging ahead and the likely pitfalls of standing still.

There is a strong thirst for answers in the boardroom. 42% of finance leaders report the onset of greater uncertainty in the economy has in fact made it easier to get sign off for technology purchases.

42% of finance leaders say their systems are no longer up to the demands put upon them. 42% say it takes too long to get the information they need from their current systems. 45% will be updating their technology in favour of more powerful systems.
Risk management is crucial to conquering change

Dee Houchen, Senior Director of ERP Product Marketing at Oracle

Effective risk management helps businesses avoid – or at least mitigate – unexpected developments or the effects of a potential downturn. It’s no surprise EY found companies that manage risk well perform three times better on EBITDA than those that don’t.

An integrated view of key risks and opportunities is vital, and it falls to finance leaders to deliver this. With a standardized process for identifying, monitoring and responding to threats the business can take action earlier, resulting in loss prevention and cost savings.

It’s also important that potential risks are made transparent and available to business leaders, who may not have the analytics expertise required to dive into the relevant data themselves. Being able to track and summarize risk audits in easy-to-read dashboards allows decision-makers to take swift, well-informed action for the good of the organization.

Risk management has a reputation for being a complex task, and occasionally a thankless one, but it will be a cornerstone of success for companies dealing with the shape-shifting threats of today’s market.
Building a culture of change

Many businesses must adapt to a different outlook than they began 2016 with, but the difficulty is that this outlook remains unclear. Equally, we have moved into a time where change has become the new norm, and whether companies come up against a major political event, sudden economic downturn, or demographic shift they must be quick to adapt.

Achieving this level of flexibility requires a cultural shift that begins at the top with strong leadership and trickles down to every employee. Finance professionals who bring their experience to bear on smarter planning and more agile risk assessment will be primed to help the business capitalize on opportunities and cement their role as a true business leader.

As Oracle’s Safra Catz points out, staying ahead of a shifting market takes more than a transformation of processes and systems. It takes buy-in from everyone.

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“The hard thing about these transformations isn’t the technology. It’s the sociology. People say they love change. Actually, they love it when you change. Even if they hate a process, hate a system, when you try to change something, you have to peel their hands away from it.”

Oracle CEO Safra Catz

Employees need to see first-hand how benefits in terms of improved productivity, cost savings, and efficiency go hand-in-hand with transformation projects. Once they do, they will begin taking advantage of more advanced systems themselves to achieve better results.

Everything moves more quickly now – competitors, consumer behavior, and certainly technology – which means success is subject to greater fluctuation.

The years since the 2008 financial crisis have been a proving ground for CFOs, who have since established themselves a primary resource for key strategic insight. The next test is now upon us, and as the organization becomes more reliant upon data-driven decision-making and sound fiscal judgment nobody is better placed to manage change than a modern finance leader.
If you’re ready to see how Oracle’s Modern Finance solutions can help your business, take a *Quick Tour.*