

CFO Imperative

An EY Romania study on how
can CFOs evolve today, to
reframe finance function for
tomorrow

March 2022



The better the question. The better the answer.
The better the world works.



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From
Chief Financial
Officer ...

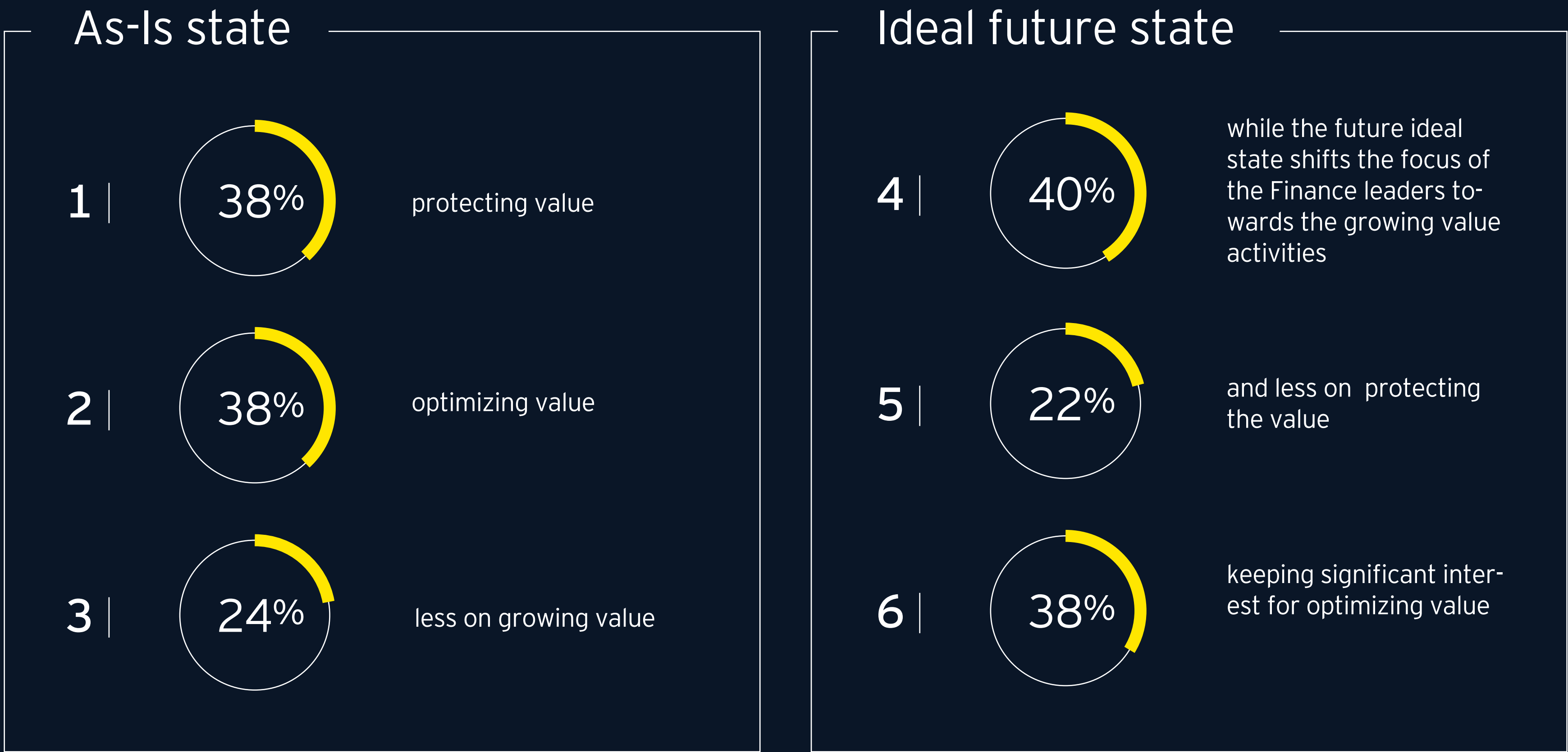
... to
Chief Value
Officer



CFOs are the value creators of the future

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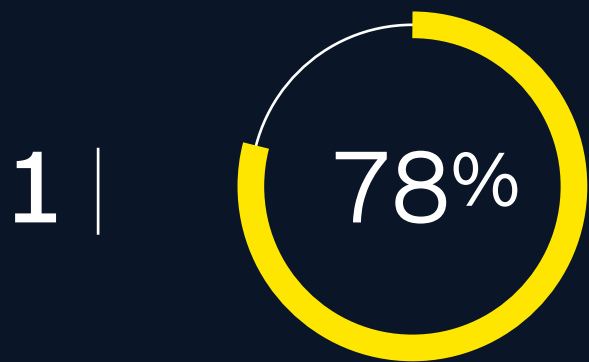
NOW: The current role of Romanian CFOs today is more oriented on:



2

NEXT: While CFOs responsibilities will still be “Protect, Optimize and Grow”, the way these responsibilities will be delivered will also change.

Over the next three years, Romanian Finance leaders expect to become more of a business partner to their organization, with:



significantly involved in strategy development and executions.



involved in business model innovation and new revenue opportunities.

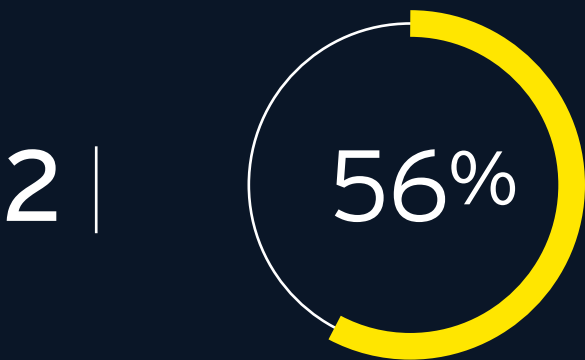
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BEYOND: In the Finance of the future

CFOs' purpose will be to create value to the business by serving with a strong focus on trends and scenarios



acting as one agile, proactive and customer driven service



identifying opportunities to use new technologies (AI, data & analytics, etc.) at significant lower costs.

| To realize this shift, **Romanian Finance leaders** will have to leverage

- ▶ upgrading the Finance operating model and
- ▶ optimizing organizational structures,
- ▶ adopting new technologies, enterprise Performance Management and predictive analytics, real-time information and
- ▶ reporting to enable business steering / adequate decision making.

| By only investing in talent who can manage this transformation process, they are one step closer to the future.

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About the study

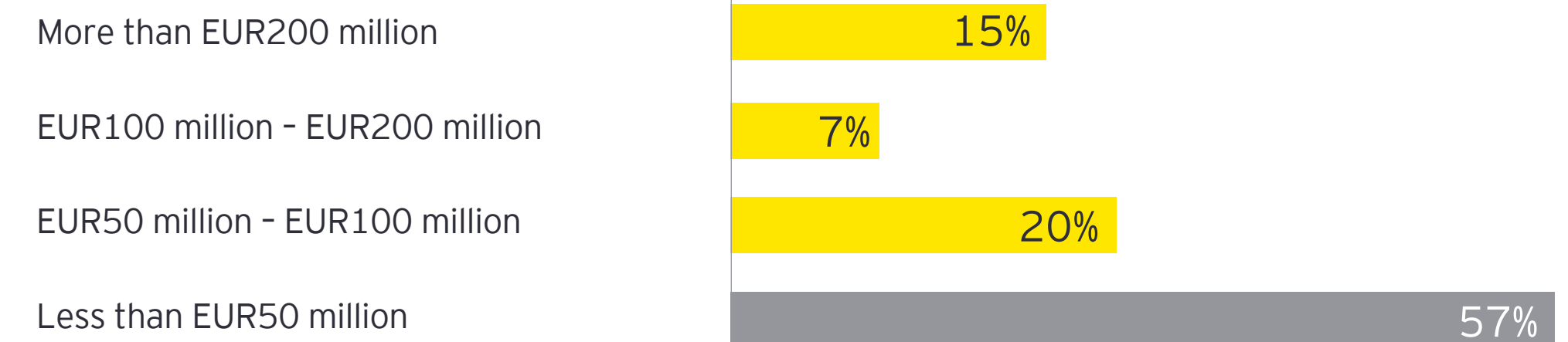
EY Romania CFO Imperative study is a benchmark on the Finance roles in Romania from the leader's perspective:

- ▶ digital transformation
- ▶ the future of Finance and the priorities in terms of long-term value creation and
- ▶ how CFOs influence enterprise strategy and help reframe their future

The survey was conducted end of 2021, after more than one year experience working in COVID-19 pandemic conditions, and provides a deeper understanding of unique experience CFOs have faced, dealing with new pressures and overcoming new responsibilities in their critical role they have played.

Around 100 CFOs, Financial Directors and Senior Finance Executives were surveyed to understand the challenging balancing act that CFOs must negotiate every day - helping stabilize the company in the near term, creating the right conditions for growth as we emerge from the crisis, and building the resilience the company will need to get through the next several cycles.

Fig.1 Annual local revenue distribution



Respondents were split across Romania's major big cities (e.g. Bucharest, Cluj, Brasov, etc.)

Breakdown of annual revenues of surveyed companies is showed in Fig 1.

Ten main sectors were represented, with majority being from Advanced Manufacturing & Industrial products, Consumer Products, Automotive, and Financial Services (e.g. Banks, AM, Insurance, PE).

The insights in this report are part of EY CFO Imperative series, which addresses critical issues and actions to help finance leaders reframe the future of their organizations. To explore future insight, visit ey.com/CFO.

About the study

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COVID-19 as an accelerator for Finance transformation?

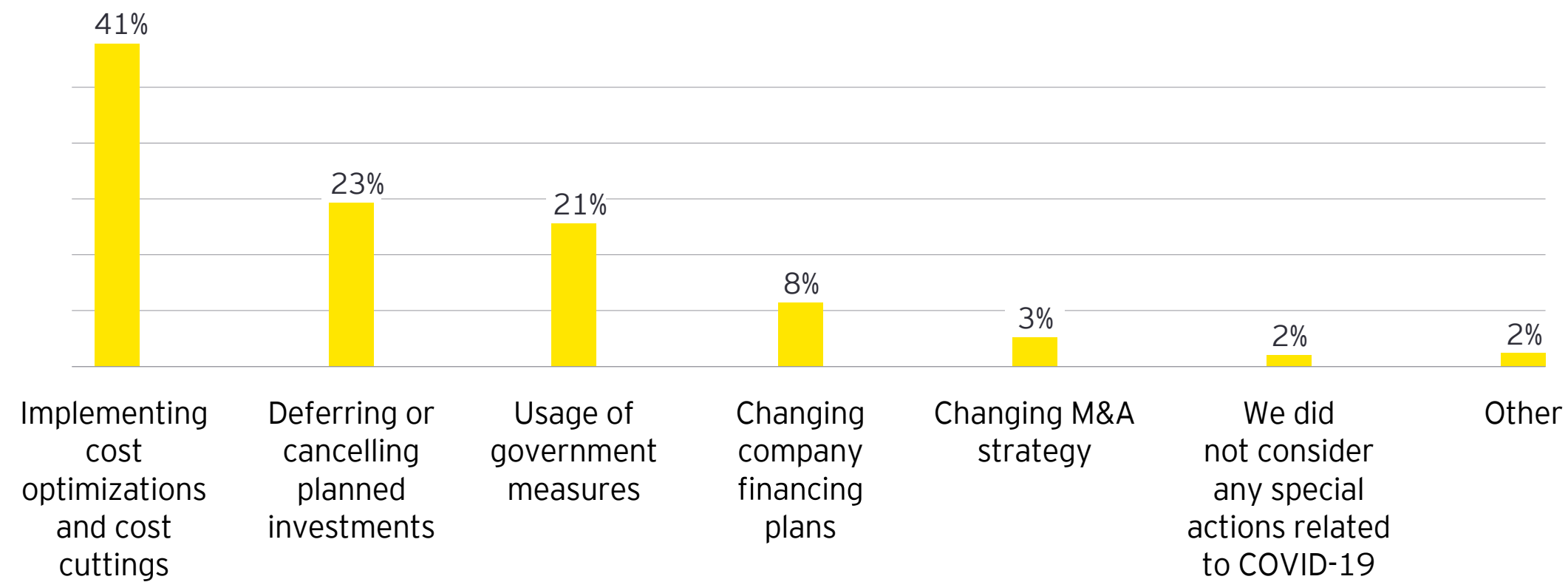
The onset of COVID-19 two years ago brought a new normal and a new way of doing business for all organizations and functions within, bringing challenges and opportunities for Romanian Finance leaders, pushing them to transform Finance and to accelerate the pace of transformation of their role and of the role of Finance in their organization.



COVID-19 has created unprecedented challenges for Chief Financial Officers. To manage through these challenges and position their organizations for recovery, CFOs considered various measures in the last two years, mostly centered on cost optimization and cost cutting initiatives (41%), followed by deferring or cancelling some projects (23%), while use of Governmental measures represents only 21% of respondents.

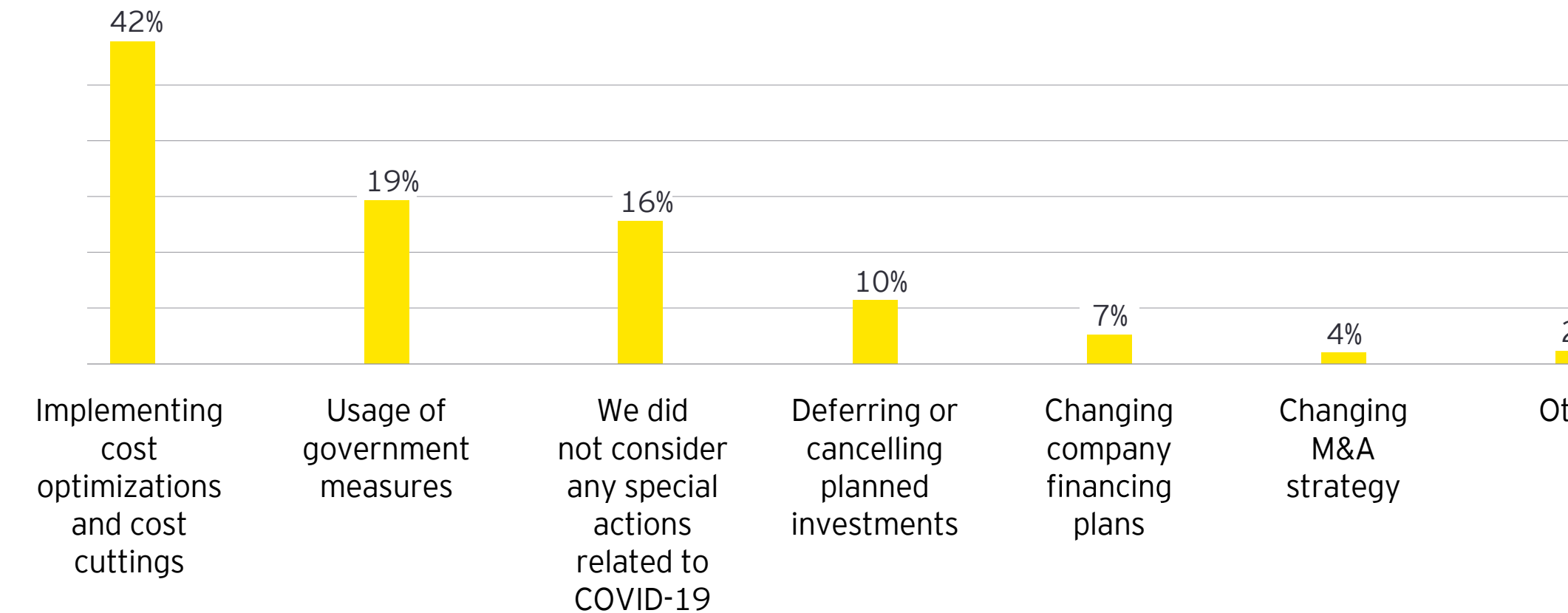
Worth noting that only 2% of responding organizations declared they did not consider any special actions to mitigate impacts of COVID-19 (Fig. 2)

Fig. 2 Measures CFOs took in 2020 and 2021 to limit the impacts of the crisis



When asked if these measures will be pursued in 2022, the primary goal of the respondents remained costs optimization (42%), followed by restarting some of their deferred investment projects (13%), while still benefiting from usage of Governmental measures (19%). Yet, 16% of the respondents are not considering any special additional measures related to COVID-19 (Fig. 3).

Fig. 3 Measures CFOs will pursue in 2022 to limit the impacts of the crisis



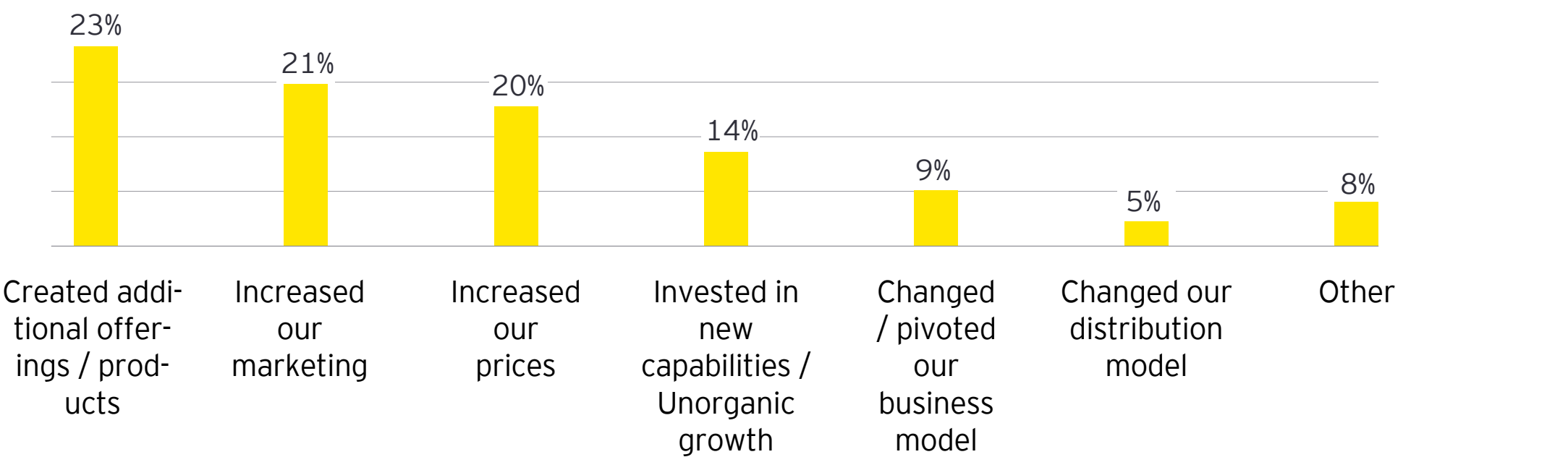
COVID-19 as an accelerator for Finance transformation?

Romanian businesses had to accommodate to the transformation chain that have occurred in the last two years: new way of working, safety of the people, ensure compliance with regulators, while trying to be competitive and achieve their positions.



The survey results confirmed that during the pandemic, **organizations and industries within Romania have chosen a balanced focus when it comes to stabilize or increase revenues**, either by new offerings or diversified product portfolio (23%), increased promotions marketing and communication efforts (21%) or by prices increases (20%); only 14% of the responding organizations invested in external growth (Fig. 4)

Fig.4 Measures CFOs took in 2020 and 2021 to protect / increase revenues in the context of COVID-19 crisis



On an opportunistic approach, COVID-19 crisis accelerated organizations need for a new kind of growth. There was a remarkable speed with which respondents said their companies have identified **a range of COVID-19 related improvements for their business (69%)**.

Many companies redesigned their business models and adapted new processes to match those new changes. As part of their heroic efforts to thrive during the pandemics, most of them have implemented technologies and solutions to facilitate enhanced communication among teams, a positive work culture and optimized processes that drive better business outcomes, including a better customer experience during these challenging times.

This crisis provided an unparalleled catalyst also for Romanian Finance leaders to take on the digitization of the function. **Digital adoption and cost savings from working form home have taken a quantum leap for most organization respondents (55%)**.

COVID-19 as an accelerator for Finance transformation?

Despite engaging in cost optimization initiatives, 84% of Romanian CFOs declared they will not or probably not reduce the number of employees in Finance functions. In the meantime, 80% of them declared they won't create new positions either. Nevertheless there are some new post-pandemic positions in Finance function that are likely to increase in popularity: chief digital officer, crisis manager, data analytics officer and risk manager, as mentioned by some of the respondents.

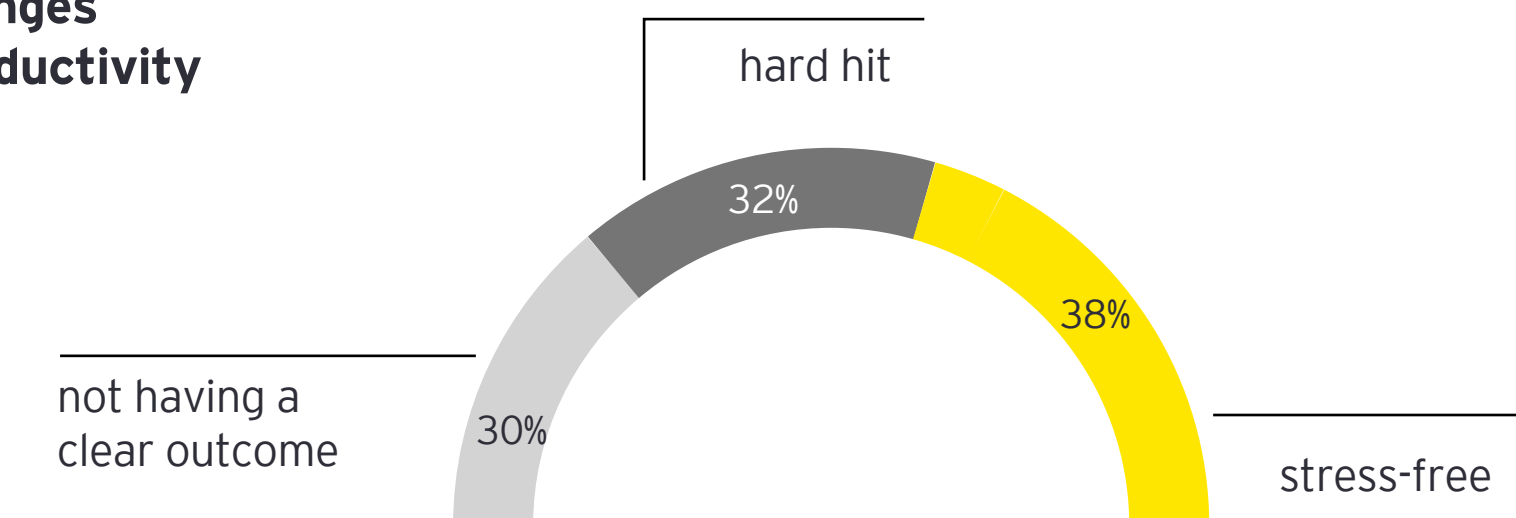
COVID-19 has demonstrated the importance of digital readiness, which allowed businesses to continue as usual - as much as possible - during pandemics. Building the necessary infrastructure to support a digitized world and stay current in the latest technology was essential for 62% of the respondent CFOs. The benefits from these heavy investments in IT technologies will have a long lasting impact on the new way of doing business, if companies want to remain competitive in a post-COVID-19 world.



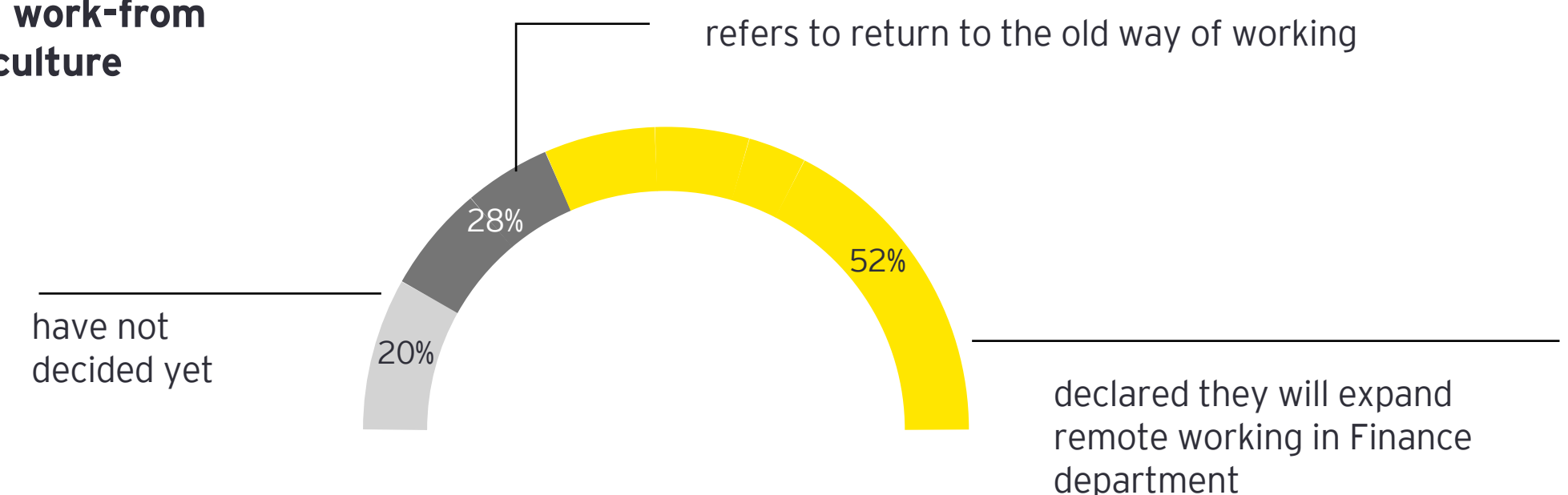
The pandemic has upended established routines and enrolled us in a global experiment of remote working, which has become an immediate, unplanned necessity that Finance department leads had on top of the priority list. There have been significant variations in how CFOs were able to respond to the unexpected challenges on productivity of their teams in a fully work-from-home environment, some of them being relatively stress-free (38%), some being particularly hard hit (32%) or not having a clear outcome (30%).

However, as lockdowns lift, the hybrid work-from-home culture, with certain days in the office and others remote, is becoming more and more appealing for most of Finance leaders. More than half respondents (52%) declared they will expand remote working in Finance department, while the other half prefers to return to the old way of working (28%) or have not decided yet (20%).

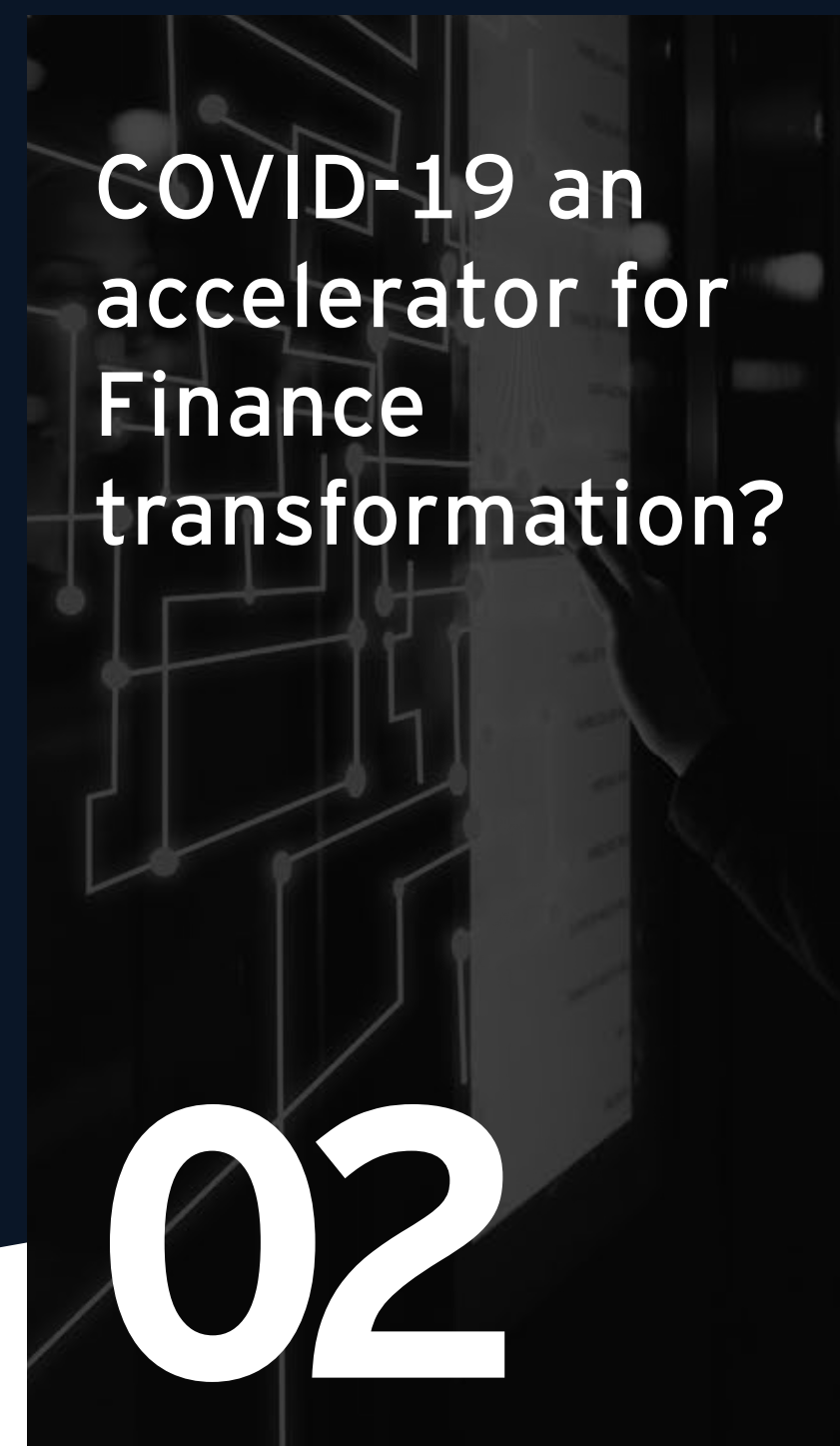
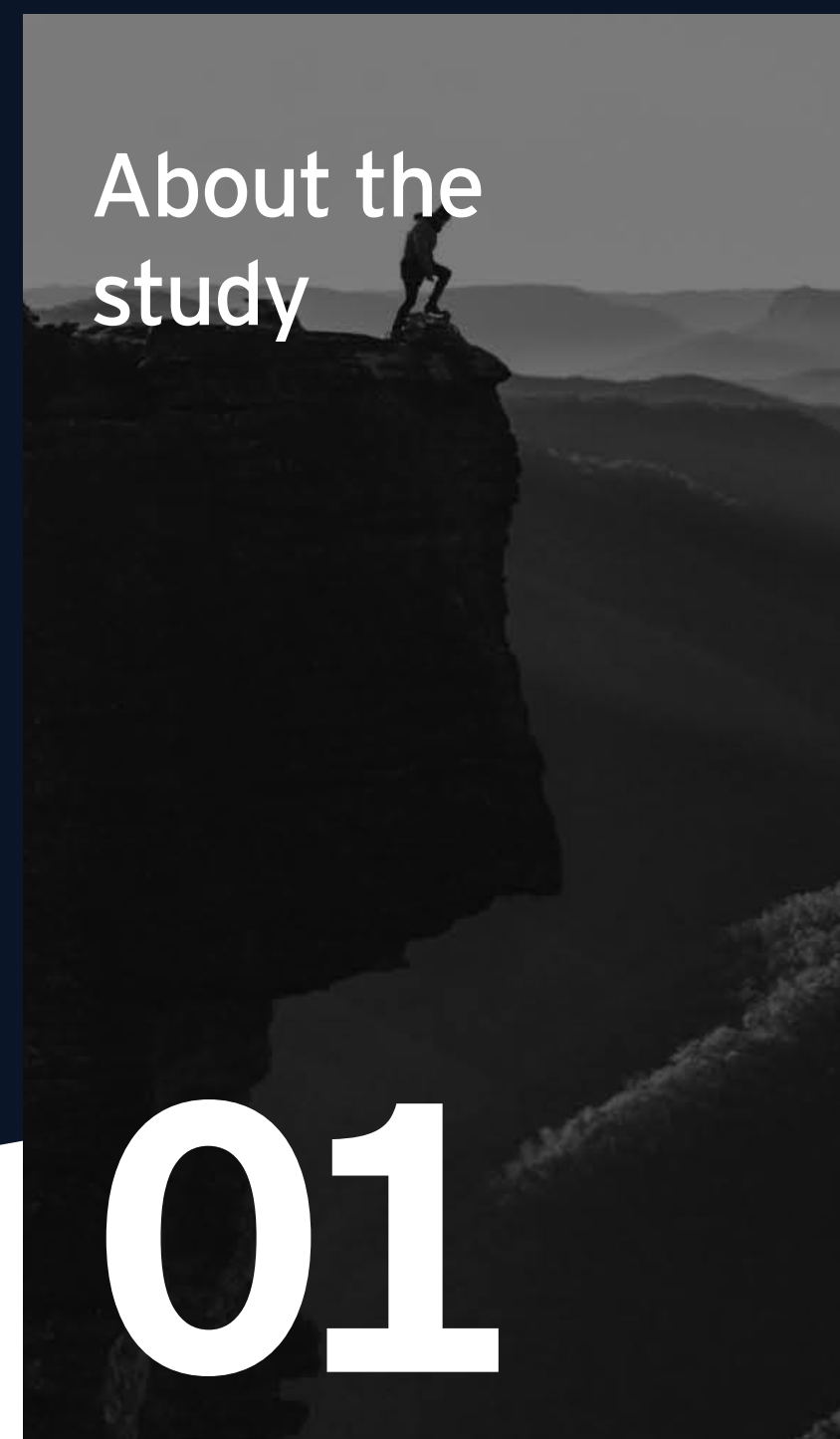
Challenges on productivity



Hybrid work-from home culture



At the date of this survey, the balance between flexibility and the working from the office remains an ongoing conversation. Hybrid work models enjoy accessing affordable and/or experienced talent pools that transcend geographical barriers, lead to lower office expenses and sustain employee retention. It remains to be seen how Romanian CFOs will be able to capitalize on opportunities arising out of this unprecedented situation, while also syncing it into creating a "better normal" for its employees.



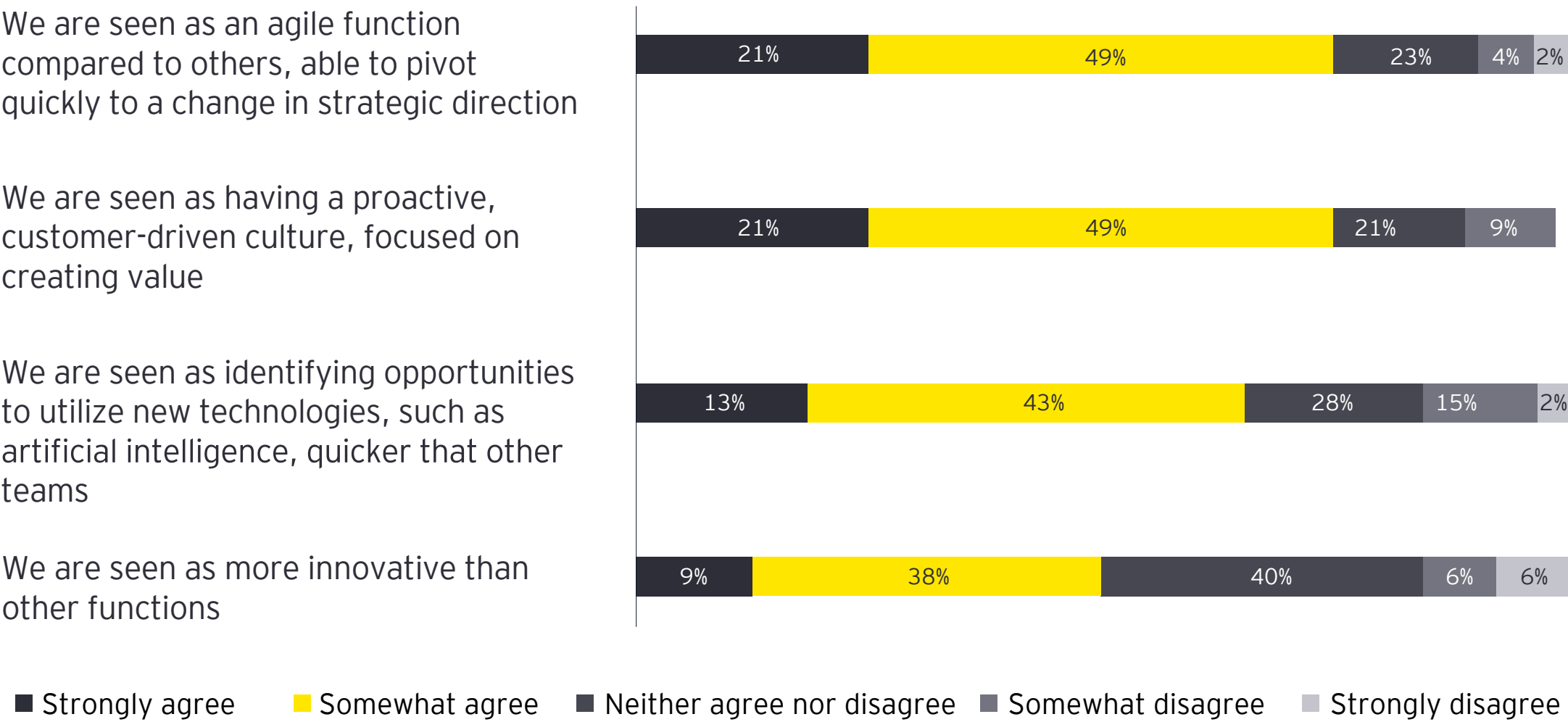
CFO's perspective on the Finance of the Future

Historically, Finance functions have focused on cost control, operating budgets, and traditional financial statements. But as companies overcame COVID-19 pandemic crisis, a new world of Finance opens up, bringing new opportunities and challenges for Finance leaders to take the lead, and be the provider of information and insights about the underlying business, to support value creating decisions and major strategic shifts in strategy.



70% of Romanian CFOs (vs 79% at global level) interviewed declared they their Finance functions are seen as an agile, proactive and customer driven function within the organization, focused on creating value, 56% (vs 79% at global level) are perceived as identifying opportunities to use new technologies (AI, data & analytics, etc.) quicker than other teams, and less than half CFOs (47%) are representing functions perceived as more innovative than others in the organization when this figure is at 77% at global level (Fig. 5).

Fig. 5 How Finance function is perceived by CFOs compared to other functional teams in the organization

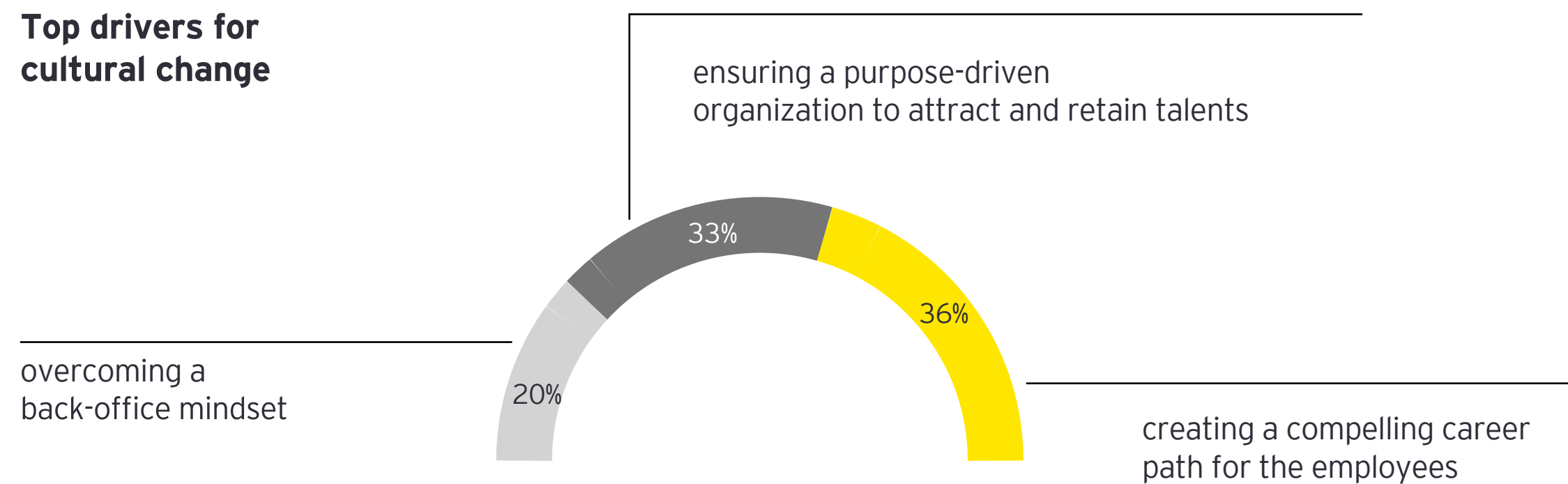


Despite trends aligned with global ones, Romanian CFOs perception of their role is still under estimating their role in company's transformation. Overall compliance field is still very strong.

Factors that induce changes require immediate attention from Finance leads, as well as their reaction on internal and external drivers. If COVID-19 among other external influencers (like emerging technology, business intelligence and intelligent solutions) played accelerator role for Finance transformation, the internal cultural field had to be groomed for these future changes. Finance leadership and their teams have to move away from the old behaviors that label them as traditional finance specialists and reinvent finance structures, processes, way of working and cross-collaboration in the organization.

CFO's perspective on the Finance of the Future

The culture and deeply rooted behaviors of the Romanian Finance function are also changing. Or at least they ought to if leaders want to realize the full potential of the Finance transformation. Romanian CFOs ranked top drivers for cultural change in the Finance function related to **creating a compelling career path for the employees (36%), ensuring a purpose-driven organization to attract and retain talents (33%) and overcoming a back-office mindset (20%).**

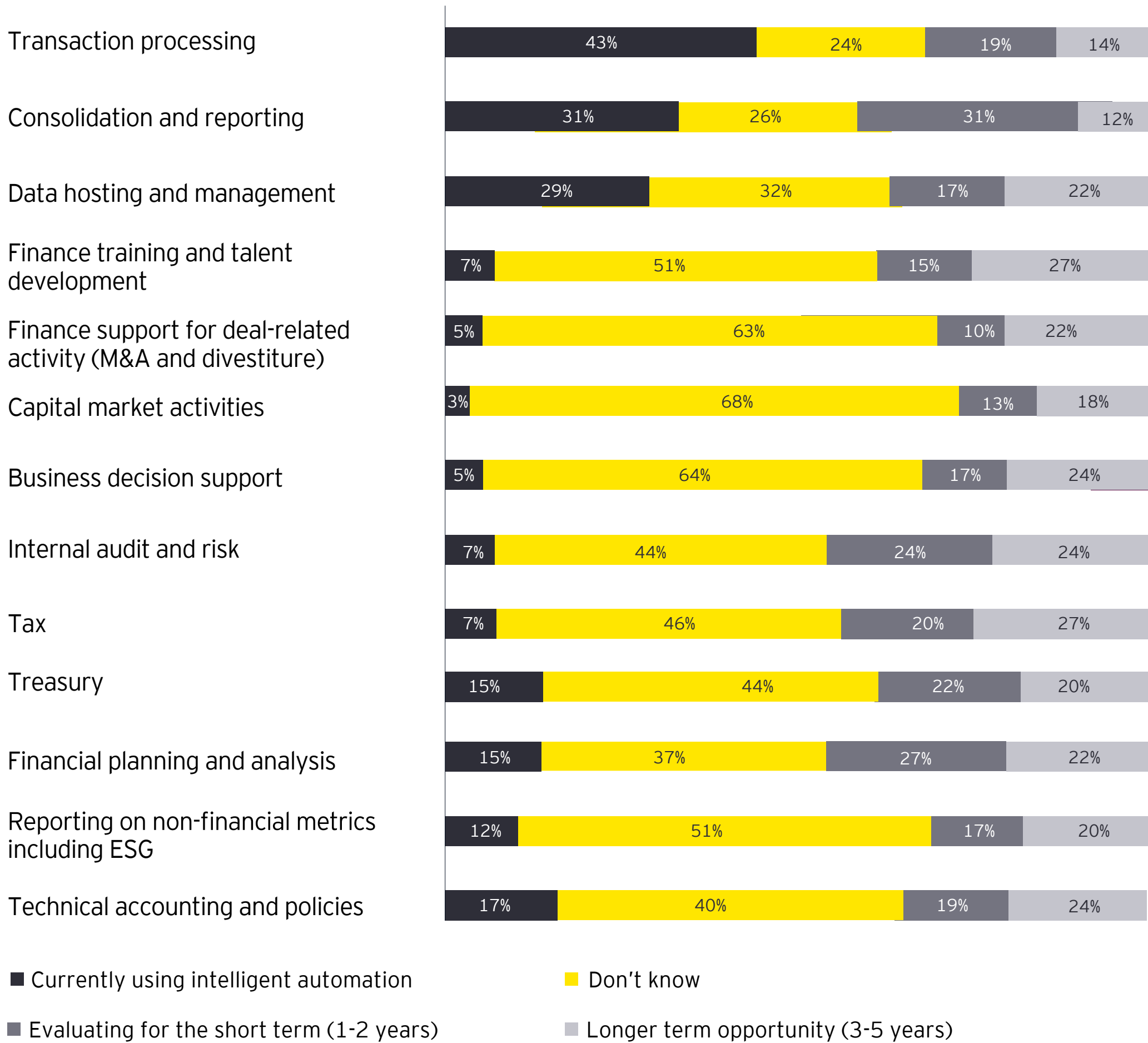


Leaders in the market have a clear and targeted technology strategy and roadmap that is joined up across the enterprise. Typically, CFOs work with the CIOs on a unified cloud strategy and architecture to boost digital capabilities, drive data integration and foster innovation. Often a **clear strategy for deploying technology to the greatest effect is missing**. This leads often to **suboptimal design decisions, integration issues, a lack of proper prioritization, unrealistic implementation timelines and payback cycles**.

Technologies - such as artificial intelligence (AI), the Internet of Things (IoT), 5G - are beginning to form powerful clusters that are collectively reshaping Finance functions, bringing new horizons to the enterprises. Most Finance teams are using already RPA to drive efficiencies, but this intelligent solution can only automate simple, repeatable tasks, it can not automate the complex processes and workflows needed to improve business agility and efficacy. Adding AI-powered technologies offers the next level of automation for Finance, but CFOs must identify the most appropriate use cases.

Main areas where technologies related to **Intelligent automation** are used in Romanian Finance functions are **transaction processing (43%), consolidation and reporting (31%) and data hosting and data management (29%)**. Surprisingly, those technologies are not yet widely use in **business decision support (5%), FP&A and treasury (15%), internal audit and risk (7%) and tax (7%)** for which the roadmaps for implementation in the mid-long term are planned respectively at **41%, 49%, 48% and 47% (Fig. 6)**.

Fig. 6 Distribution of intelligent solutions on Finance areas



CFO's perspective on the Finance of the Future

CFOs of Romanian companies are in line with **emerging trends in global Finance functions***, prioritising a shift in capability across all operating model dimensions.

Top priorities for the future Finance function:

1

Increase how finance works **cross functionally** as part of an **extended ecosystem** to enable **new business models** and value creation.

2

Improve **data and analytics** capabilities to transform forecasting, risk management and understanding of value drivers.

3

Strategic decision on what will be sourced, recruited, retained and/or developed to transform **finance talent into a sustainable workforce**.

4

Make significant changes to the **finance function operating model and skill set** utilizing a best-in-class **model of internal and partner resources/assets**.

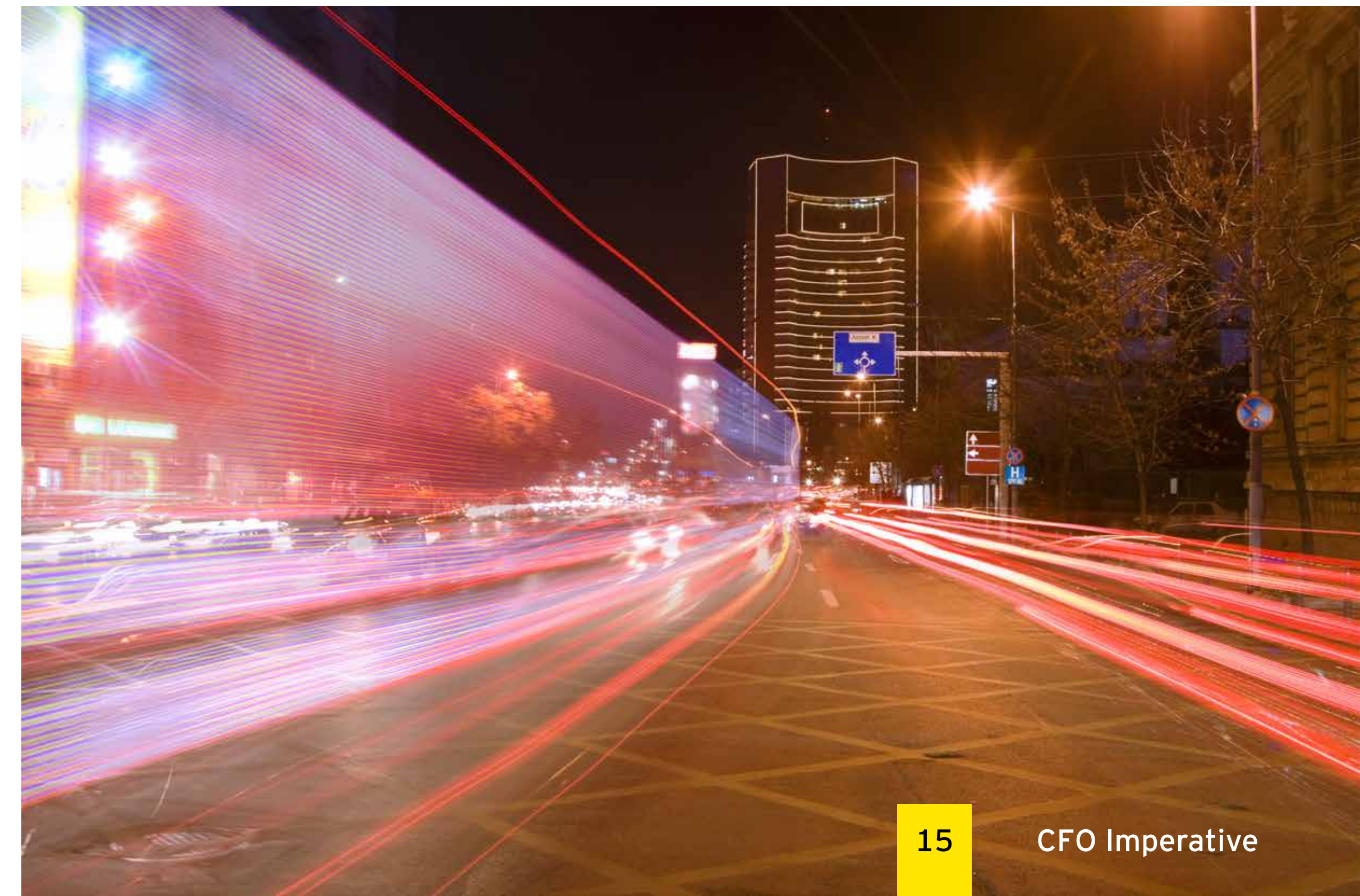
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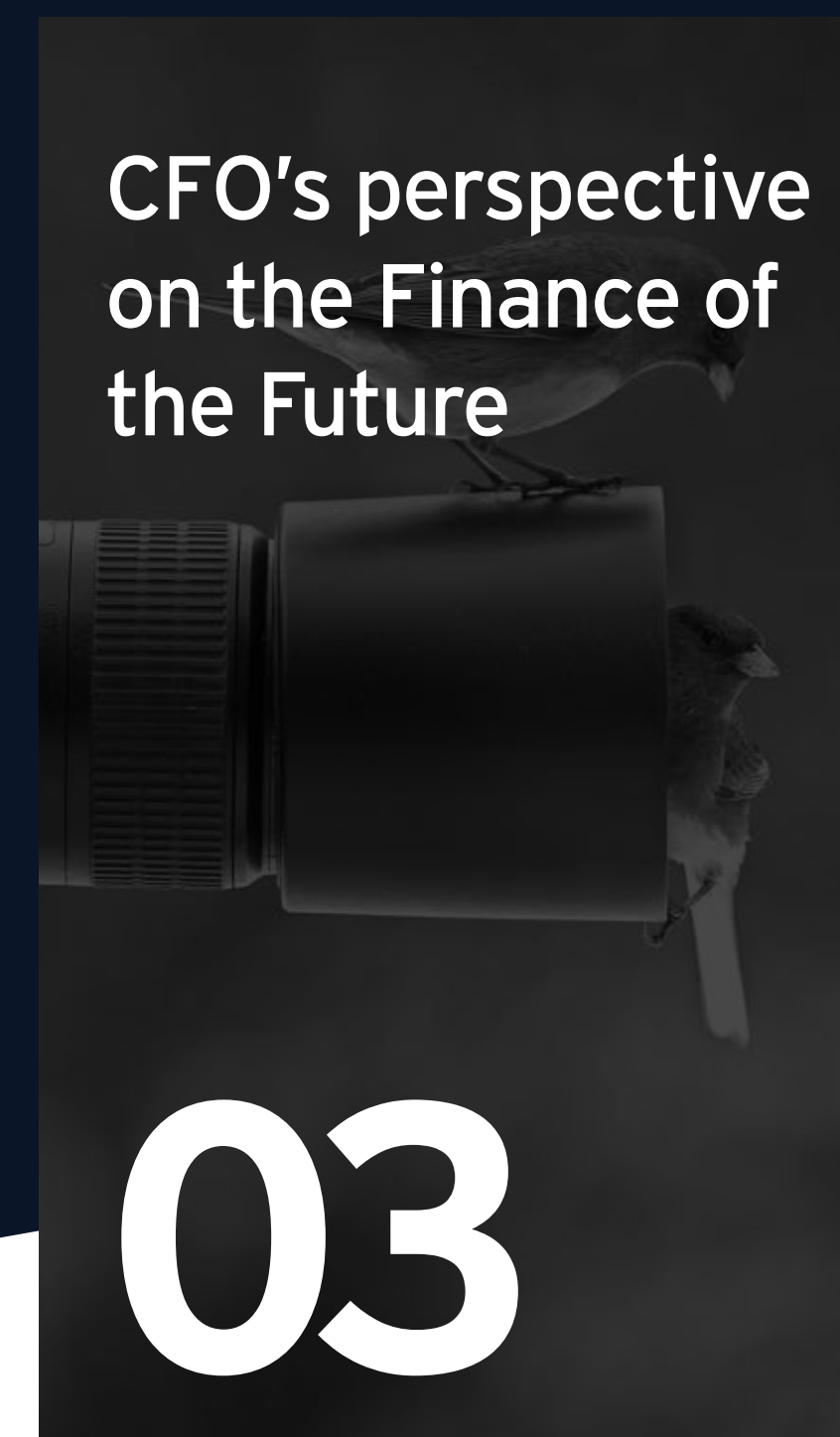
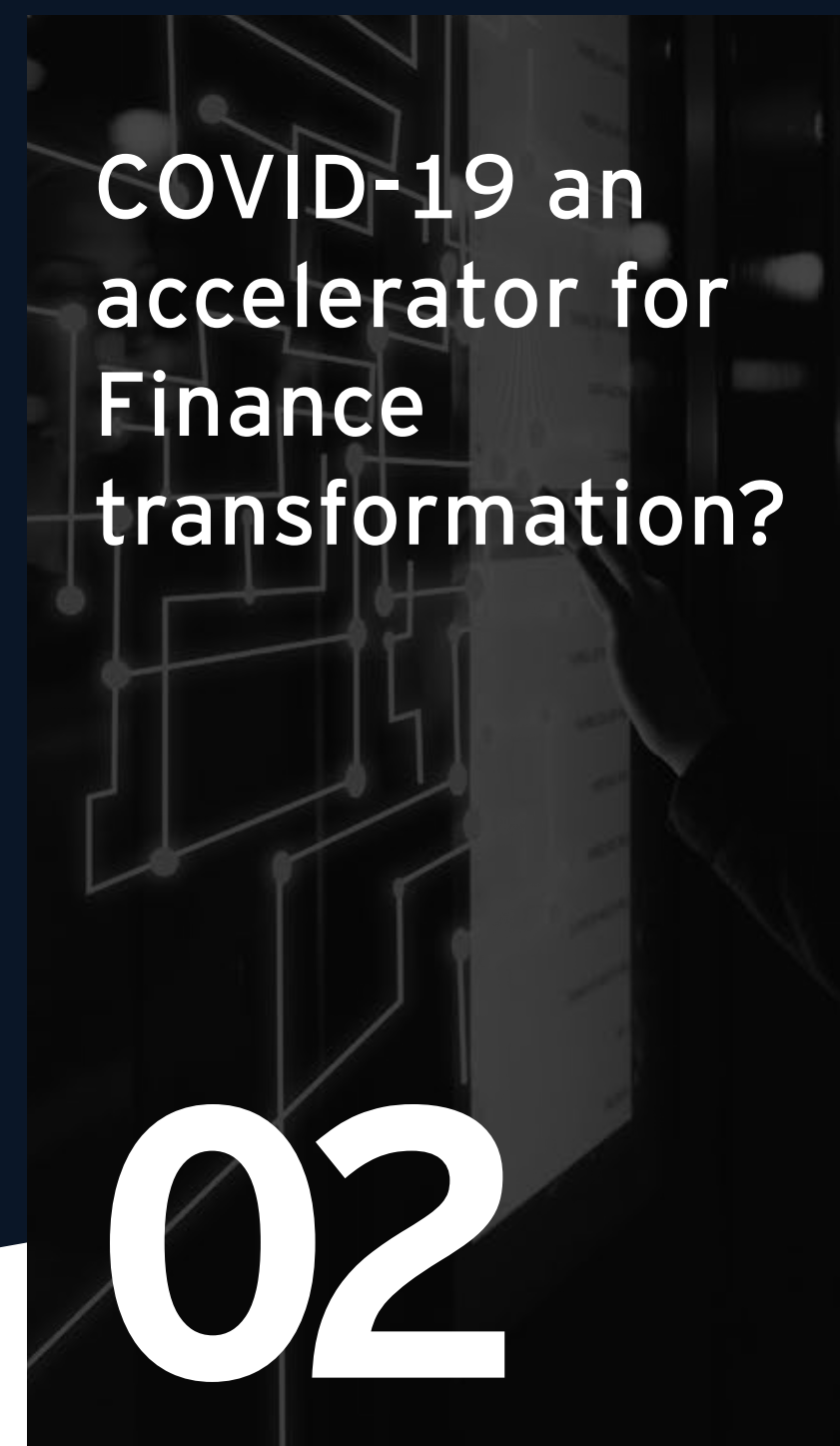
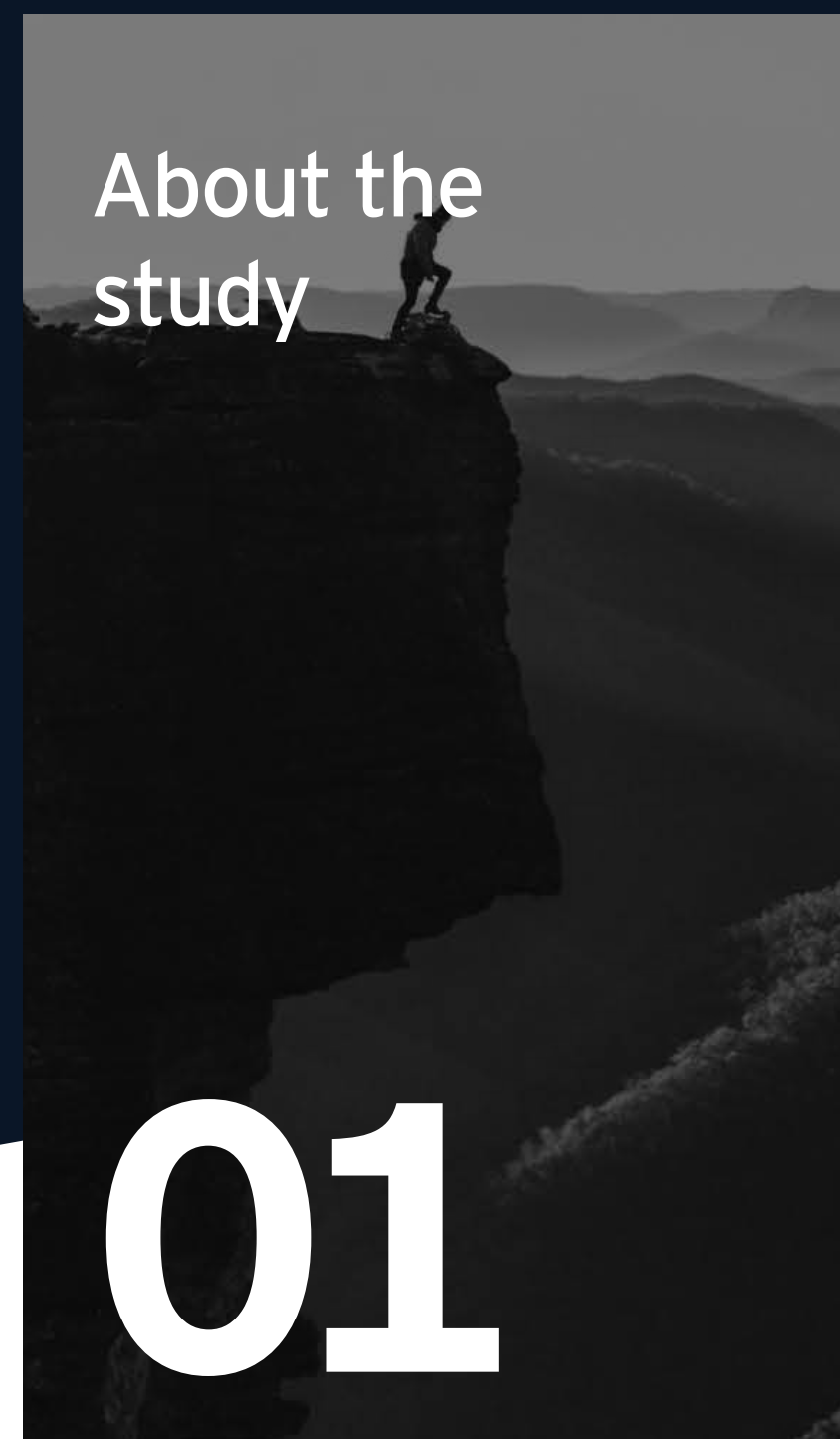
Reduce finance function costs through new technologies, automation and acting as overall **custodian of cash and profit**.

The value of Finance needs to be measured against a holistic vision, strategy & investor story, from **Finance Department to Strategic Insights Department**

- ▶ CFOs and Finance functions actively wanting to move away from the image of being the **machinery to produce regulatory and required accounting reports** after having been dominated by regulatory topics during the last decade
- ▶ Consolidation and interpretation happens mostly within Finance and start to trigger discussions to broaden the traditional scope of **Finance's services portfolio**
- ▶ High-performing finance functions have defined clear visions to guide everything they do. That **vision** is reflected in the way they design processes, evaluate and select technology, and structure their organizations. As a first step, it's crucially important **to re-assess the core services** finance provides
- ▶ Orienting around **value-adding services** will address the needs of the business more effectively than organizing around constrained, transactional processes, as was common in the past.

*EY Global DNA of the CFO Survey, 2020, 750 respondents





Transforming role of Finance leadership: from CFO to CVO

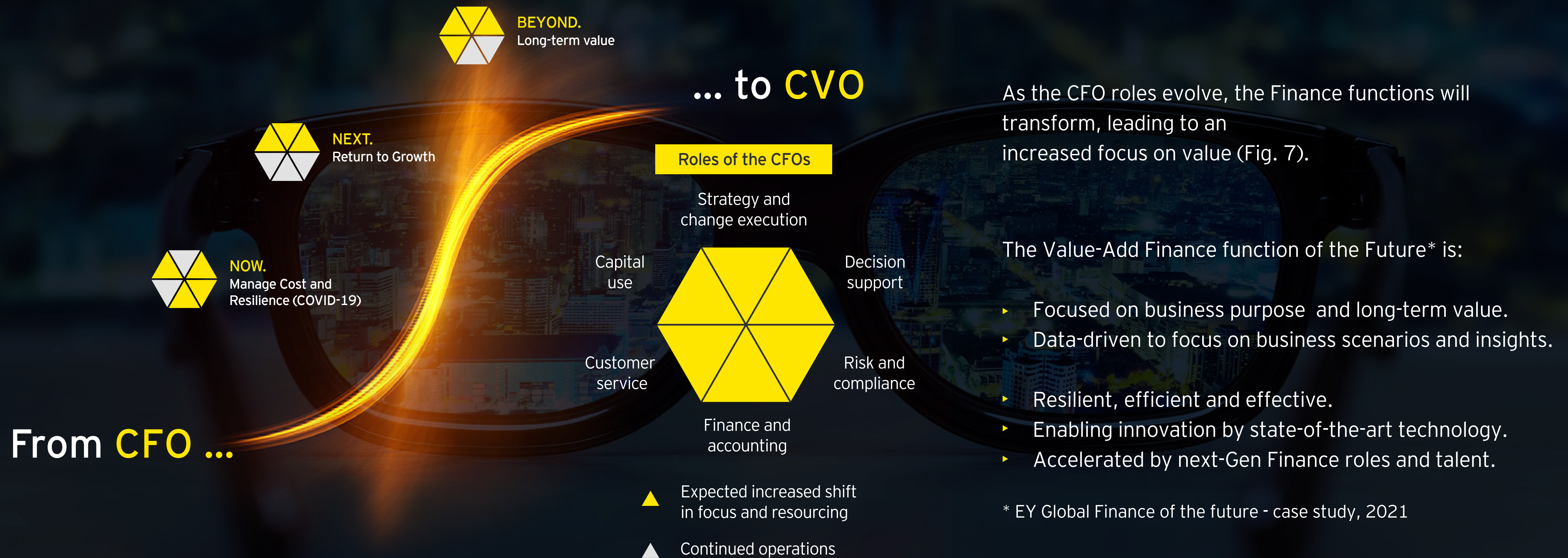


Fig. 7 EY Finance Maturity Assessment Model

Transforming role of Finance leadership: from CFO to CVO

The current role of Romanian CFOs today is more oriented on **protecting value and optimizing value** (38%) and **less on growing value** (24%), while the future ideal state shifts the focus of the Finance leaders towards the **growing value activities** (40%) and **less on protecting the value** (22%), keeping significant interest for optimizing value (38%). On a deep-dive approach, majority of Chief Financial Officers are involved in Accounting & Control, Audit & Regulatory matters, Corporate Reporting and Tax strategy (38%), and less on FP&A insights, Investor relationships, M&A, Talent strategy & HR decisions (24%) (Fig. 8).

1 Protecting Value 38%

2 Optimizing Value 38%

3 Growing Value 24%

1 Growing Value 40%

2 Optimizing Value 38%

3 Protecting Value 22%

To bridge this gap, this view requires a call on **CFOs to include a broader set of stakeholders** (e.g. employees, customers, communities, etc.) **in their decision making, beyond just their shareholders** (83%). Romanian Finance respondents unveiled that this is also related to **investors scrutiny had increased, requiring more information on stakeholders' value created** (71%). Long-term-oriented companies must be attuned to long-term changes and a first step towards this is **CFOs new role becoming perceived as delivering long-term value oriented** (69%). Nevertheless, pressure from activist investors requiring short term value is still a reality for 58% of CFOs in Romania.

Moreover, the concept of long-term value creation has to become tangible, this representing the critical priority of 87% of Romanian Finance leads, who plan to identify **key performance metrics for long-term value**. 69% of them (vs 80% globally) are willing to give the Board greater assurance of **non-financial reporting**, 67% are specifically considering measuring and reporting societal impact and climate change impact, and only 37% of CFOs plan for reporting on non financial performance related to talent and culture when this represents 72% at global level of this EY study (Fig 8).

Fig 8 Current state vs Ideal Future State focus of CFOs

Transforming role of Finance leadership: from CFO to CVO

Moreover, the concept of long-term value creation has to become tangible, this representing the critical priority of 87% of Romanian Finance leads, who plan to identify **key performance metrics for long-term value**. 69% of them (vs 80% globally) are willing to give the Board greater assurance of **non-financial reporting**, 67% are specifically considering measuring and reporting societal impact and climate change impact, and only 37% of CFOs plan for reporting on non financial performance related to talent and culture when this represents 72% at global level of this EY study (Fig 8).

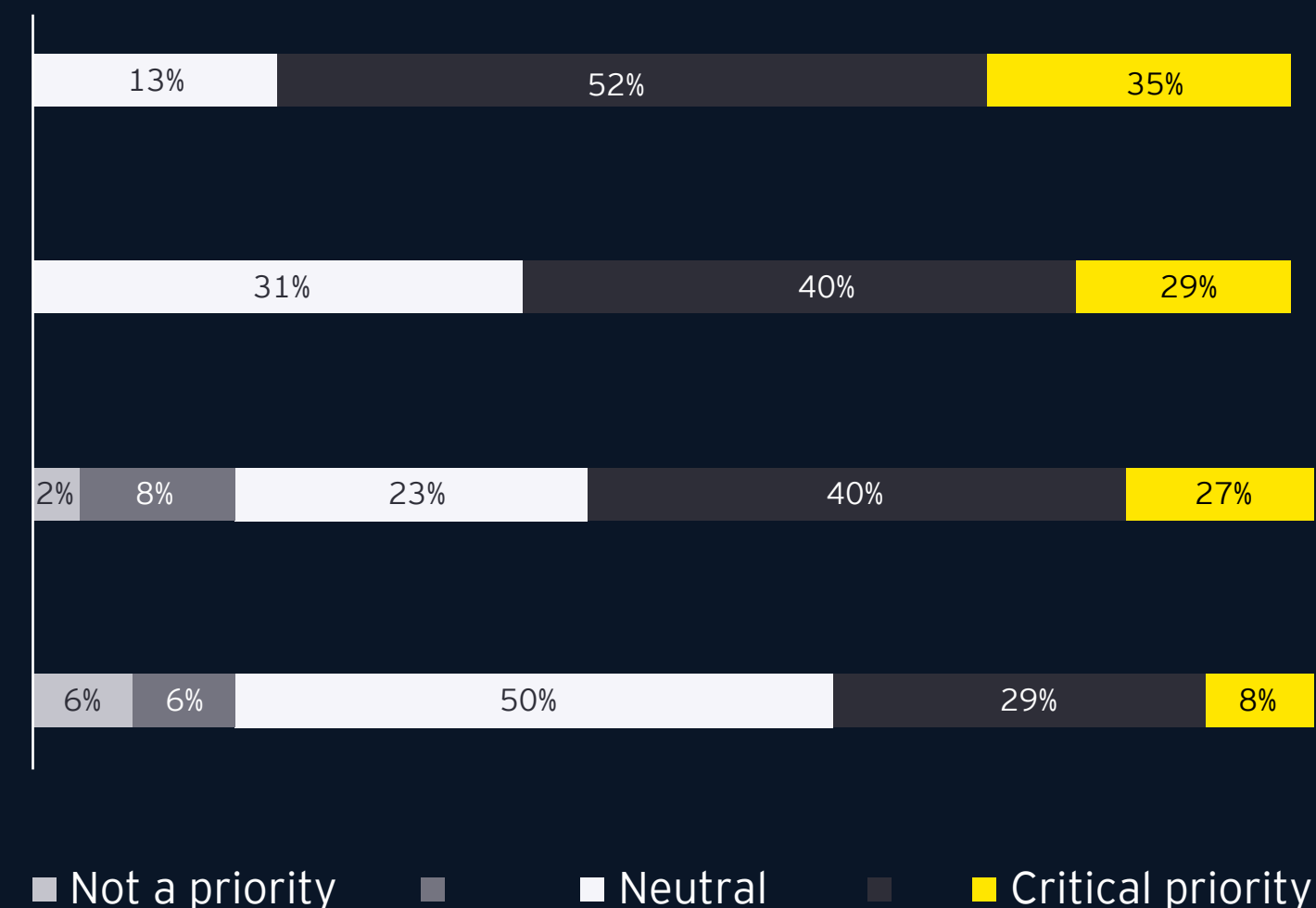
Fig. 9 Distribution of CFOs priorities for next three years

Identifying the Key Performance Indicators/metrics that we believe are the greatest contributors to our long-term value and putting in place robust processes for reporting them

Giving board and investors greater assurance from the CFO about the accuracy of the non-financial metrics that we disclose to stakeholders

Measuring and reporting the organization's societal impact and contribution to preventing climate change

Publishing comprehensive reporting on non-financial drivers of value, such as talent and culture, in addition to our financial performance



Another key difference again with the global CFO community since Romanian Finance functions did not get a mandate to act on specific ESG topics for instance.

To succeed in the evolving role, Romanian Finance leads acknowledged they must find a way to balance **traditional responsibilities with new mandates (96%)**, **the need for short-term results with a focus on long-term value (94%)** and to **protect enterprise value today while enabling future growth (94%)**.

Measuring long-term value is therefore fundamental for CFOs to achieve a better balance between the short-term and long-term. Identifying and monitoring financial and non-financial indicators will help Finance leaders to explain how investments in talent, innovation, social objectives and corporate governance create value for both, investors and other stakeholders.



Transforming role of Finance leadership: from CFO to CVO

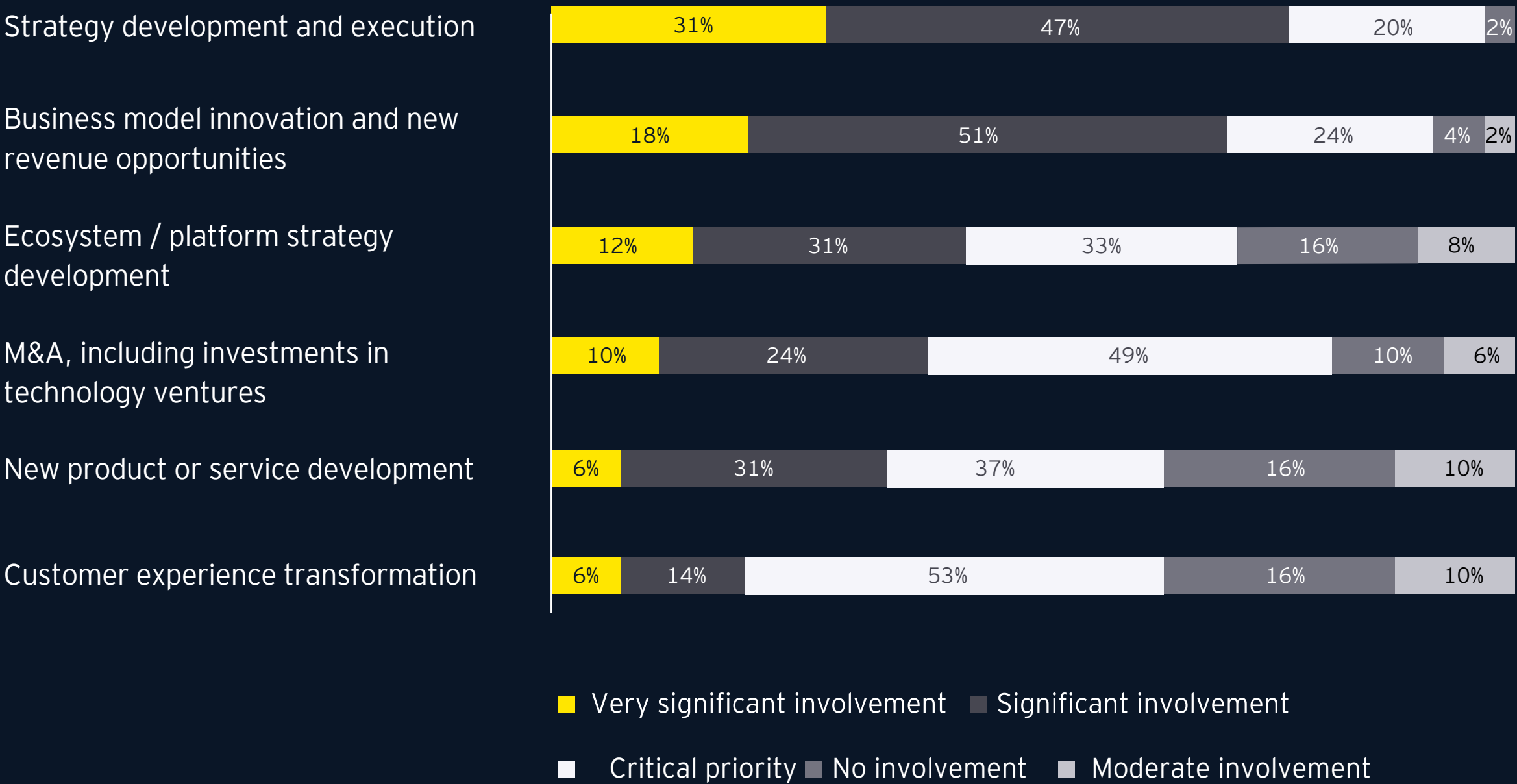
Beyond compliance to Value creation, while CFOs responsibilities will still be “Protect, Optimize and Grow” (Fig. 8), the way these responsibilities will be delivered will also change. Over the next three years, Romanian Finance leads think about becoming more of a **business partner to their organization**, with 78% who think they will be **significantly involved in strategy development and executions**, followed by 69% involved in **business model innovation and new revenue opportunities**, these figures being overall aligned with global trends, respectively 80% and 80%.



However, there are some Romanian CFOs who are seeing themselves **taking a moderate to no lead on M&A and technology investments** (65% vs 25% globally), **development of new products or services** (63% vs 31% globally) or **supporting customer experience transformation** (79% vs 32% globally) (Fig. 10).

The largest barriers to driving customer-centricity within organizations include incumbent legacy software and silos among C-suite counterparts, this preventing Finance leadership from exploiting the full potential of the data. Information can be utilized more efficiently by deploying new technology in Finance functions and by strong cross-collaboration between CFOs and other C-suite delegates with the organization.

Fig. 10 CFOs involvement areas in the next three years

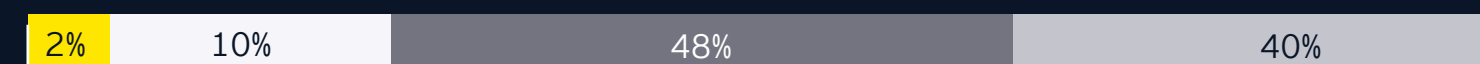


Transforming role of Finance leadership: from CFO to CVO

Besides this strategic role, Romanian CFO will remain the main stakeholder to **drive cost efficiency in the organization** with 88% of them **declaring they will need to advise business leaders** on this topic, 81% by **providing data-driven decision support** and 73% by **setting targets and measuring the outcome of enterprise-wide business transformation** (Fig. 11). On the contrary of their peers globally, only 54% (vs 74% globally) of CFOs see cost benefits of adopting new technologies

Fig. 11 CFOs involvement in driving cost efficiencies and continuous optimization

Offering counsel and advice to business leaders looking to drive cost efficiency and operating model



Providing data analytics-driven insight into cost and effectiveness improvement opportunities



Setting targets for, and measuring the effectiveness of, enterprise-wide business transformation programs



Overseeing efforts to adopt new technologies - such as AI and blockchain - to transform enterprise-wide cost efficiency and effectiveness



■ No involvement ■ Low involvement ■ Medium involvement ■ Significant involvement ■ Very significant involvement

In the Finance of the future, CFOs purpose will be to add value to the business by serving with a strong focus on trends and scenarios, acting as one agile service, providing insights and analytics in almost real-time at significant lower cost.

To realize this shift, Finance leaders will have to leverage **upgrading the Finance operating model and optimizing organizational structures, adopting new technologies, enterprise Performance Management and predictive analytics, real-time information and reporting to enable business steering / adequate decision making**. By only investing in talent who can manage this transformation process, they are one step closer to the future.



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