

VALUE ARCHITECTS



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WRITES ABOUT TOP CHALLENGES FOR FINANCE LEADERS IN THE CURRENT UNPREDICTABLE BUSINESS ENVIRONMENT.

The business environment remains extremely volatile due to a combination of headwinds including the war in Ukraine, persistently high levels of inflation and the so-called Great Resignation. Here are some of the most pressing challenges facing business leaders and finance teams who support them together with useful resources to arm them, help guide their organizations to sustainable success and drive value creation.

BUSINESS CONTINUITY

The outbreak of war in Ukraine has shocked the world, and some of its short-term repercussions—such as rising oil prices—are already clear. Businesses are now focused on the potential longer-term implications of the war. They are conducting worst-case scenario planning that considers events such as electricity outages, a recession sparked by the war, and the unavailability of work-

than in the past. Rising prices also mean that some suppliers are refusing to quote for certain products. Businesses are trying to better understand their supply chains—including the nature of their suppliers' suppliers—so they understand where their risks lie. They are also working with some suppliers to develop hedging strategies that help to minimize the impact of uncertainty. To help manufacturers, producers, distribution companies and their customers and business partners identify, assess and address supply chain risks, the AICPA launched *System and Organization Controls (SOC) for Supply Chain*, a market-driven, voluntary and flexible risk reporting framework.

INFLATION

Inflation is a major issue for businesses right now. In Poland, consumer prices rose 15.6 percent in June from a year earlier, the highest

The questions you should be asking yourself now are:

- Have I modeled different geopolitical risk scenarios for my business?
- Have I modeled a range of inflation scenarios?
- Have I developed mitigations to enable my business to continue to generate a healthy free cash flow?

It is also worth remembering that it is not just goods and services that have gone up in price. Workers are also demanding pay rises. It can be problematic for businesses to accommodate these demands since salary increases cannot necessarily be passed on to customers.

TALENT RETENTION

With living costs rising, people are being tempted to move jobs for even relatively small salary increases. This raises the risk of

RIGHT-SKILLED WORKFORCE

Businesses are increasingly looking at soft skills and technological skills when thinking about how to grow their organizations for the future. What is emerging is the need for a finance professional with a wide grasp of Business Management, Risk Management, People Management and Change Management with an understanding of the Technology landscape combined with business finance skills. When Sage asked 3,298 accounting and finance professionals from the US, UK, Canada, Spain, France, Australia, and South Africa in its *The Practice of Now* survey, they said that they see technology, strategic thinking and communication being the key skills needed in the next 5 to 10 years. To have the right skills for a rapidly changing world, the profession will need

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ers due to people being called up. Businesses are also building up their resilience to withstand other potential shocks, such as large-scale cyber-attacks.

SUPPLY CHAIN DISRUPTION

Disruption to supply chains is a major problem for businesses that source products and materials from overseas. An issue since Covid struck, disruption has been further exacerbated by the war in Ukraine. The difficulties involved with sourcing stock have led some businesses to carry higher levels of inventory

figure in over 25 years, according to the initial estimates from the statistics office (GUS). Poland has since last year been experiencing one of the European Union's highest rates of inflation. The rises have been driven in particular by the prices of fuel (which in June rose 9.4 percent month-on-month and 46.7 percent year-on-year) and energy (up 3 percent m-o-m and 35.3 percent y-o-y). I have mentioned it in my previous column but let me stress once again that to help counter the higher inflationary climate, assiduous financial and strategic planning is needed.

businesses losing valued knowledge and skills. Finance leaders are therefore compelled to devote substantial amounts of time to talent retention. They are engaging with staff, particularly more junior staff members, to ensure they feel happy in the organization and benefit from a collaborative work environment and career advancement opportunities. Meanwhile, the very skills accountants and finance professionals need are broadening beyond technical and analytical skills.

to embrace lifelong learning – a cycle of “learn, unlearn, relearn.” Adapting and growing a resilient mindset is at an all-time high.

ACHIEVING FRICTIONLESS FINANCE

At the end of May, I delivered a presentation on turning disruption into opportunity at an event for an internationally renowned German business school. It made me reflect on how much the world has changed since 2020, pushing organizations across the world to reinvent

EXPERT FINANCIAL MANAGEMENT

By planning, managing their risks and drawing on the skills and expertise of their finance professionals, businesses worldwide will set themselves up to navigate these difficult times and emerge on the other side even more resilient than before.

their business models and ways of working. We are now witnessing an unprecedented pace of change and continued evolution in the role of the finance function propelled by technology. Although this has been trending for several years, the pandemic has catapulted the CFO into the role of the value architect. It is now imperative that the CFO and the finance function deploy 21st-century technology and leverage hyper-automation tools along with the relevant 21st-century CGMA finance competencies. We have partnered with Workday and Deloitte on the white paper *Fictionless Finance: Driving Data to Value* and two-part global web-cast series to provide CFOs and their finance teams with a roadmap and practical use cases on where to invest in the future of finance, how to lead technological innovation.

RISK OF RECESSION

The outlook for the US economy has tumbled to an 11-year low, according to the second-quarter *AICPA Economic Outlook Survey*. The survey, which polls chief executive officers, chief financial officers, controllers, and other certified public accountants in the US, found inflation worries, a tight labor market and global fallout from the Russian invasion of Ukraine have all contributed to the economic outlook falling to its lowest level since 2011. Only 18 percent of business executives expressed optimism about the US economy's outlook over the next 12 months, down from 36 percent last quarter. That is less than during the initial shock of the Covid-19 pandemic two years ago (20 percent optimism) and the lowest it has been since the third quarter of 2011 when it stood at nine percent. A vast majority (97 percent) of respondents said there was at least some risk of a recession within the next 12 months, with one-in-four calling it a significant possibility.

MORE UNCERTAINTY AHEAD

Europe is also at risk of recession amid concerns that Russia could turn off supplies completely, economists say. Europe's economy will be hit by a variety of factors including falling demand in the US—which is its biggest export market—the continued fallout from Russia's invasion of Ukraine and related increases in food and energy prices, according to Nomura, a Japanese investment bank. It expects the European economy to start contracting throughout the second half of 2022 and for the recession to continue until the summer of 2023. This will put additional pressure to address business performance, scrutinize investment decisions and manage costs.

RISK MANAGEMENT

Businesses worldwide look set to face continued uncertainty throughout 2022 and beyond. But by planning, managing their risks and drawing on the skills and expertise of their finance professionals, they will set themselves up to navigate these difficult times and

emerge on the other side even more resilient than before. Management accountants can use risk reporting frameworks to assess and manage risks within their organization's systems and controls and help prepare for an attestation engagement. Our most recent report *The 2022 State of Risk Oversight: An Overview of Enterprise Risk Management Practices* provides extensive data points that organizations can use to benchmark their efforts and offers a list of questions that executives and boards can use to assess their organization's risk readiness and to help pinpoint tactical next steps for strengthening risk management processes.

PLANNING AND FORECASTING

Another two things that management accountants deployed to see business through the pandemic, key in any crisis, are:

- Scenario planning—like in the early part of the pandemic, the current uncertainties call for good lines of sight making scenario planning critical. While there are

plenty of tools and methods available, every scenario must use simple lenses to build out strategies for viability, survival and growth. Organizations need to know where they are and where they could be. With the CGMA Horizon Scanner, they can plan outwards over the next six to twelve months.

- Regular reforecasts—finance has to resource the business and regular reforecasting helps to ensure that cash is available in the right place at the right time. In this turbulent world, the finance function has a vital role to play in enabling agility, efficiency and well-informed, timely decision-making. This best employs CGMA designation holders' core skills of data gathering, analysis and scenario planning, to manage risk, and uncover value-adding opportunities for the business. It is management accountants who can get business through the crisis and set it up for success.



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