

TCS 2021 Global Financial Leadership Study: The Next Era in FP&A

Why finance must strengthen planning and analysis to support strategic leadership



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Foreword

Finance leaders are entering the post-pandemic era with momentum and justifiable pride. During a time of dynamic change, they adapted quickly and decisively, providing the headlights to steer their organizations. Now, with further proof of its criticality, there is renewed emphasis on FP&A functions. Many teams are revisiting their current operations as they look toward future growth.

To help guide these conversations, we surveyed global finance leaders to explore the key issues they are facing today: Which skills need strengthening? What are Trendsetters doing differently to secure an advantage?

We uncovered practical insights and discovered new approaches for leaders to explore. We learned where the gaps were, what organizations are doing to close them, and what technologies they're investing in to transform aspirations into reality.

We hope you'll find these insights valuable as you chart your own course.



Krishnan Ramanujam
President, Business and Technology Services
Tata Consultancy Services

Executive Summary

In recent years, the role of finance leaders has evolved in a more strategic direction. CFOs and other finance leaders are now seen as value creators, futurists and even change agents as digital transformation reshapes finance functions.

A more recent—and less welcome—role is that of crisis manager. Virtually overnight, finance leaders found themselves simultaneously navigating a global pandemic, widespread economic disruption and social unrest.

Much of the responsibility fell on financial planning and analysis (FP&A) teams. During the COVID-19 pandemic, these teams had to attempt to steer their organizations through unprecedented short-term uncertainty without compromising on their mid- and long-term strategic ambitions.

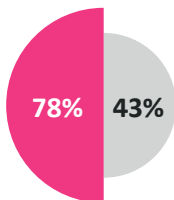
Many rose to the challenge. They provided accurate outlooks for top- and bottom-line views, from sales to cash in hand. And they made sure that their organizations were able to adapt to the turbulence and survive the crisis.

Having achieved so much, FP&A teams can now play a key role in driving recovery and supporting sustainable growth. Are they ready for it?

In this year's survey, TCS asked 750 global finance leaders to share their views on FP&A's current strengths and weaknesses, their priorities for investment and improvement, and the attributes of top-performing FP&A teams.

What the research found

Organizations with advanced FP&A capabilities are seeing the benefits



78% of Trendsetters can consistently arrive at aligned and robust budgets with no major errors. This is compared with just **43% of followers**.

But current FP&A forecasting falls short



Half of the respondents say they are unable to deliver short-term forecasts without making significant errors—if they can do it at all.

The majority of organizations are increasing their technology investments to close FP&A gaps



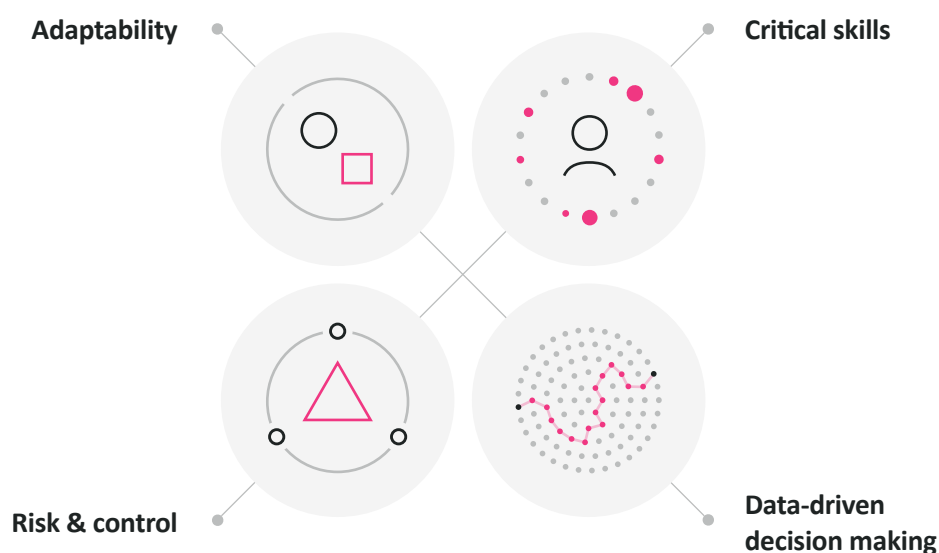
More than two thirds plan to invest in cloud-based systems, and will invest in data and analytics technologies for their FP&A teams in the next year.

Section 1: Establishing FP&A priorities

What are the priorities?

This research identifies the areas where finance functions need to take action to establish the kind of enviable FP&A enjoyed by our “Trendsetters” (see Section 2).

Our research finds that there are four main areas why finance teams are making significant planning and forecasting errors:



The pandemic exposed these failings, says Katherine Motlagh, EVP and CFO of CyrusOne, the US-headquartered global data-center provider.

“The pandemic didn’t make the change, but it highlighted the vulnerabilities, It created an opportunity for us to think in a broader sense about finance transformation and to rethink how we run our FP&A long-term—we are now looking to improve both our processes and our tools.”



Planning needs to be flexible

One clear problem is adaptability. More than half of all finance teams are struggling to perform essential forecasting and budgeting functions consistently and accurately. This shortcoming means the organization lacks the information needed to respond to market developments.

This is a clear vulnerability. The COVID-19 pandemic was an extreme example of rapid change, but many organizations were facing constant and fast-paced disruption anyway—and that calls for greater agility. Yet, in this research, **52%** of organizations struggle with scenario planning and **49%** consistently fail to reallocate resources as business demands change (Figure 1).

A large proportion say they consistently fail to perform this task or that they perform this task but make significant errors

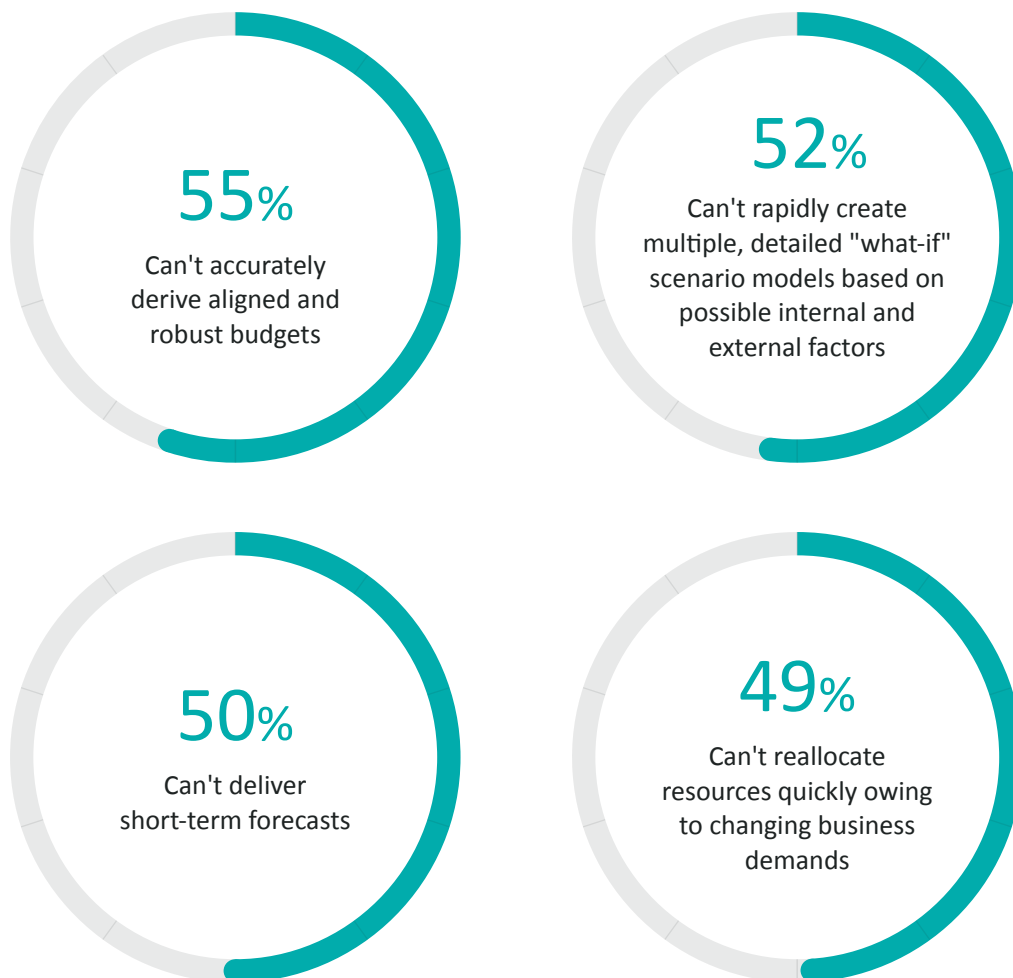


Figure 1. Finance teams struggle to adapt their planning at speed



Finance has a skills gap

Many of the organizations in our survey say they lack the FP&A skills they need to become insight-driven enterprises. Problem areas include risk; control and compliance; advanced data analytics; advanced FP&A technologies; and scenario modeling.

“You have to be able to use your technologies to be faster and more agile with your data. But that all starts with your capabilities and your talent management and competence development.”

Katherine Motlagh, EVP and CFO of CyrusOne

Proportion possessing the following skills in their finance team to a significant or full extent

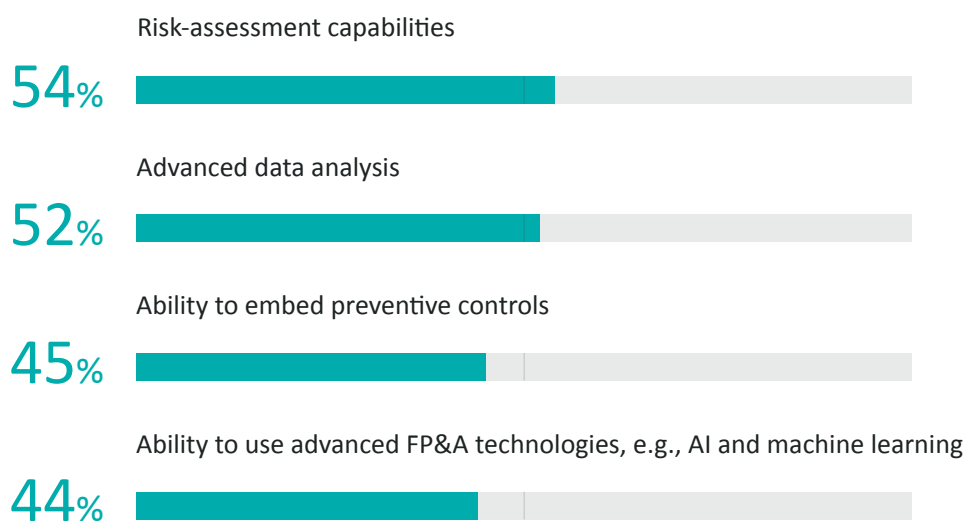


Figure 2. Skills challenges



Finance is not putting its data to work

Many organizations are performing strongly in acquiring and processing data—**79%** of finance functions say they possess robust data. Now, however, the challenge is to secure more value from this data, particularly to support strategic decision-making.

43%

of forecasting activities are informed by intuition rather than data.

There is a clear appetite to exploit advanced technologies to secure that value: **61%** of CFOs say they regularly use AI tools to develop enterprise-wide plans and forecasts. But finance often seems to be reluctant to commit to more scientific decision-making processes. In this survey, respondents estimate that, on average, **43%** of planning, business and forecasting activities are informed by intuition rather than by data and analytics.

Manual, intuition-based decision-making is affecting the reputation of the finance function. It needs to develop accurate, adaptive forecasting and planning that builds on a foundation of high-quality data and advanced automation and analytics.



Risk assessment is too rigid

One of the areas where respondents see a particularly wide FP&A capability gap is in risk-evaluation practices, which they say are too rigid: **39%** have this concern. In a market that is likely to remain fluid and dynamic, that rigidity will leave organizations vulnerable.

Risk assessment has to be a priority area for finance leaders.

Only 54%

believe they possess risk-assessment capabilities to a full or significant extent.

Rigidity may even hamper organizations' ability to stay on top of the rapidly evolving regulatory environment, as well as to manage evolving demands such as the need to work within fast-changing guidelines on environmental, social and governance (ESG) issues.

"We need to stay compliant. So, we need to continuously transform our processes and systems to meet those local laws and regulations."

Rajesh Shahi, Head of Finance Transformation at Cisco

Section 2: Meet the Trendsetters

Who are the FP&A Trendsetters?

Our research identifies some finance teams whose use of data and analytics is significantly more mature than that of their peers. This elite group – the “Trendsetters” – accounts for just 6% of the organizations we surveyed.

How we identified the Trendsetters

We asked the senior finance leaders in our research to rate on a five-point scale their data capabilities in five key areas – cash/liquidity, revenue, operating costs, discretionary spend and risk.

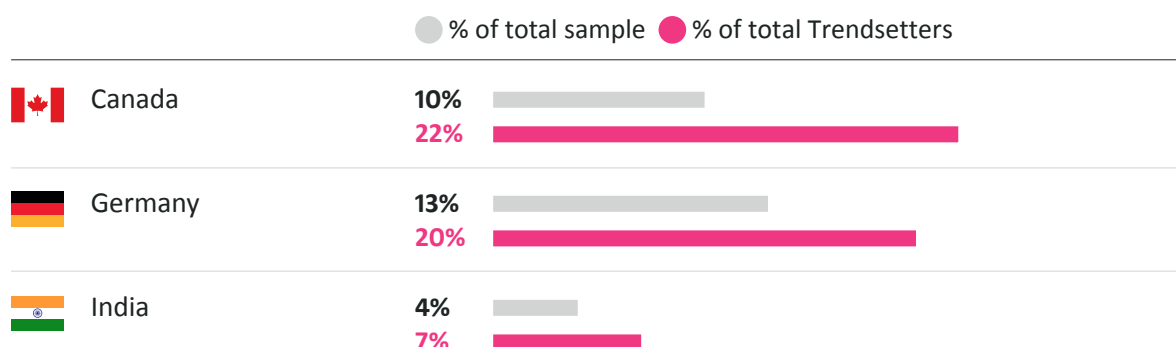
A rating of 5 equals “widespread automation and advanced analytics” (for example, using AI, machine learning and predictive modeling), while a rating of 1 equals “early-stage automation of core and transactional tasks (using robotic process automation (RPA)).”

The Trendsetters are the ones that rate their data capabilities as a 4 or a 5 across all five areas. We consider this a high level of FP&A maturity.

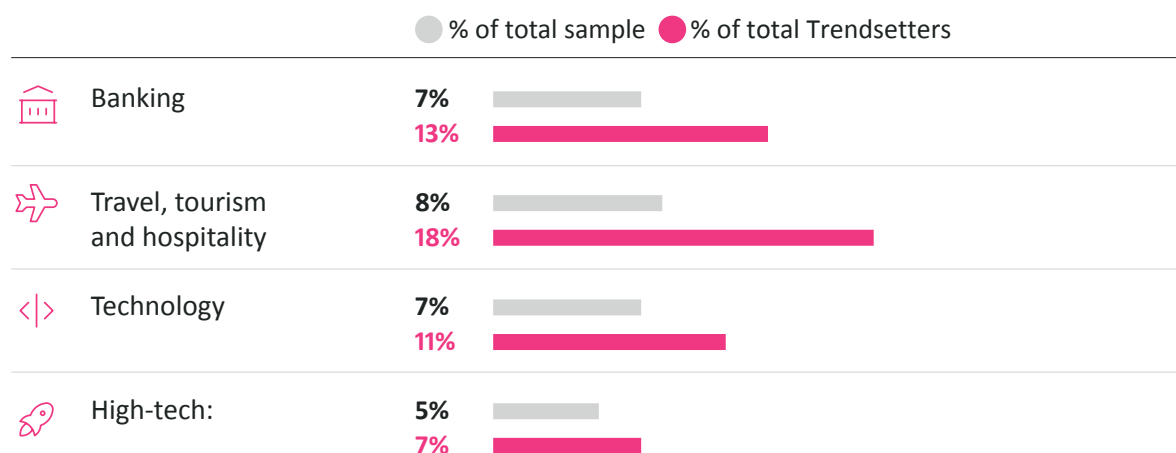
These Trendsetters are providing their organizations with more accurate and insightful forecasting and analysis, which typically translates into improved business performance and better growth prospects.

Where to find the Trendsetters

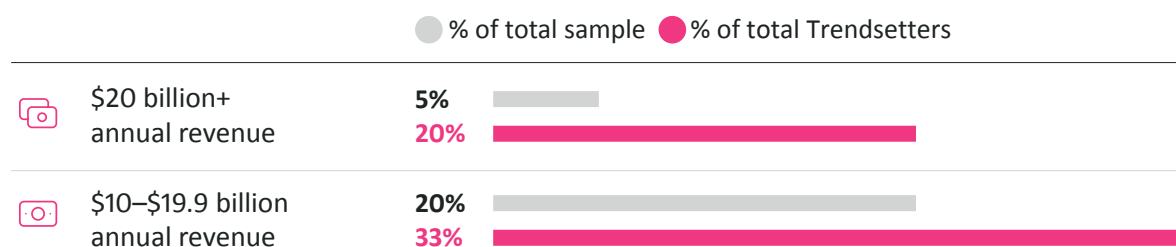
Country: Trendsetters are most prevalent in Canada, Germany and India



Industry: Trendsetters are more prevalent in banking, travel, tourism and hospitality, technology, and high-tech



Company size: The majority of Trendsetters are larger



How are the Trendsetters different?

The FP&A Trendsetters are:



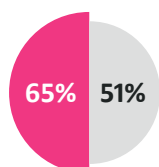
Accelerated

They have higher FP&A maturity levels and rely more on data and analytics, and less on intuition, when planning and forecasting.



Agile

They can more easily adjust to swiftly changing circumstances and execute FP&A functions at speed.



For example, **65% of Trendsetters** say they include rolling, ROI-based decisions in addition to the annual budget for investment planning, compared with just **51% of followers**.



Aspirational

They have moved beyond existing processes and are investing more in transformational FP&A capabilities to bolster next-generation finance functions.

Why are the Trendsetters different?

This elite group has pursued a number of strategies to secure an advantage, but those strategies reflect a shared imperative: that finance needs to raise its game as a growth enabler in the organization.

“A smart finance leader used to be someone who could explain why the number is what it is; these days, a smart finance leader is someone who can drive the number to what it should be,” says Gaurav Malik, Regional CFO at the US healthcare business Quest Diagnostics. *“A smart finance leader is someone who knows what lever to pull at what time operationally, so that the number in the ledger is an output.”*

At the Spanish telecoms giant Telefónica, CFCO Laura Abasolo takes a similar view. *“Finance has to be at the heart of transformation, facilitating the value creation within the business units,”* she says. *“We want finance to become a business partner in the decision-making process, with fruitful and timely information.”*

1. They are investing in skills

This research shows that Trendsetters are more likely than their peers to possess a broad range of skills. This is how they are able to move beyond intuition-led decisions: they ensure that they have the skills they need to use their data and analytics capabilities to drive fact-based decision-making.

As Michael Kreeft, CFO of BMW Japan, explains, organizations lacking these skills will find themselves outpaced. *“We are in a world that is going through massive, accelerated digital change,”* he argues. *“If you want to stay competitive, you need to move quickly. You cannot stay with old processes or with arguments of, ‘That is how we always did it, and it worked, so why should we change?’ Only the ones that move fast will survive.”*

Proportion of respondents who possess the following skills

● Trendsetters ● Followers

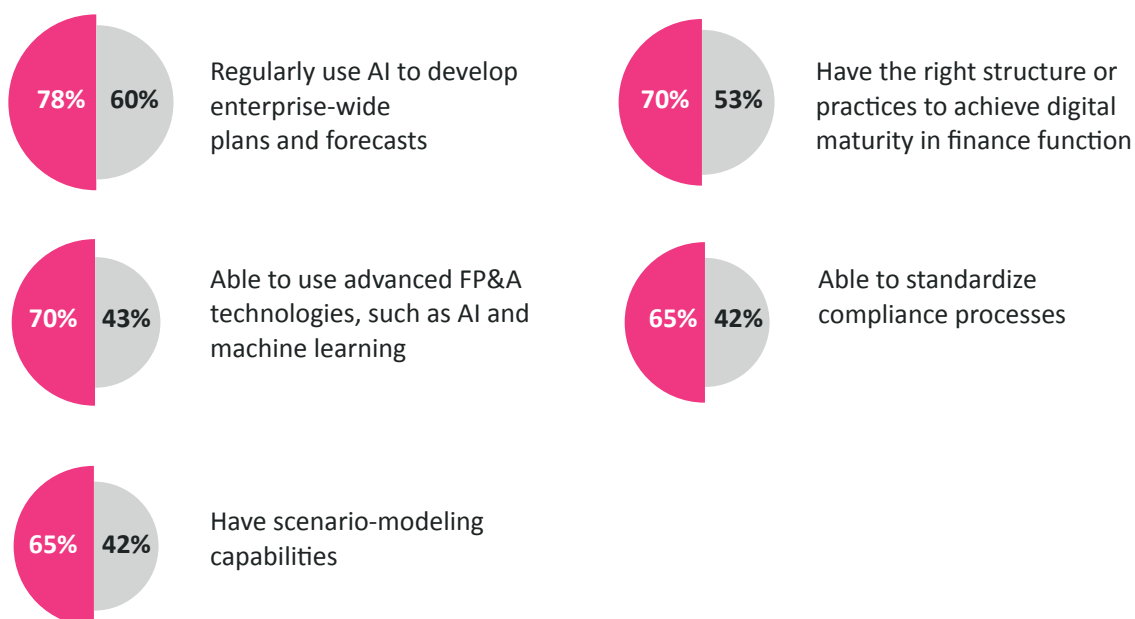


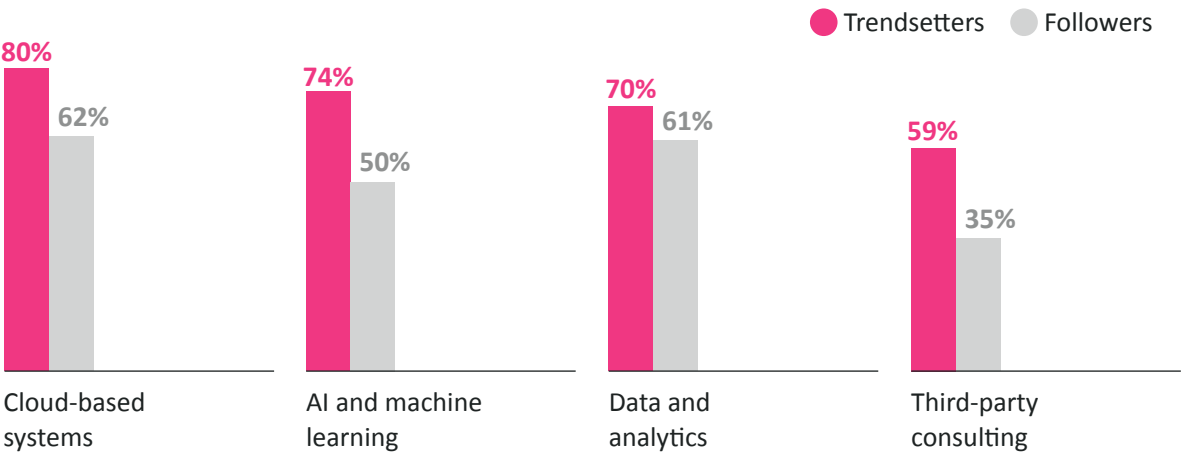
Figure 3. The Trendsetters are ahead in skills and technology

2. They prioritize technology and innovation

The Trendsetters are more likely to be investing in acquiring transformational capabilities than their peers, which tend to be focusing on making existing processes faster and more efficient.

And now, having acquired comprehensive data and analytics skills, the Trendsetters are pursuing advanced technologies more aggressively.

Percentage of Trendsetters that increased investments in FP&A capabilities in the past 12 months compared with the rest of the sample



Percentage of Trendsetters that plan to increase investments in FP&A capabilities in the next 12 months compared with the rest of the sample

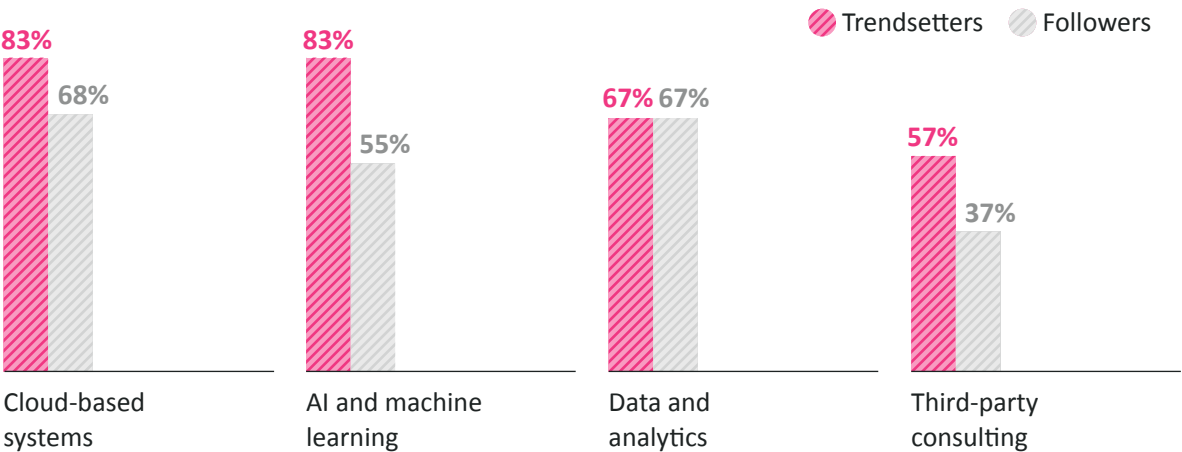


Figure 4. The Trendsetters are investing in key FP&A capabilities

3. They are committed to speed

The Trendsetters are committed to responding swiftly to changing circumstances. This ability has been especially valuable in the extreme turbulence of the past 18 months, but it will continue to be a key driver of FP&A success.

“The entire paradigm shifted with COVID. Things we were doing every quarter, we started doing almost every week. Things we were doing every month, we started doing daily. Things we were doing daily, we were looking at hourly. Finance was no longer responsible for reporting what happened, because whatever happened yesterday was old news. What is going to happen today is now relevant – and, more importantly, we provide the insight the organization needs.”

Gaurav Malik, Quest Diagnostics

Percentage of respondents who can perform the following tasks

● Trendsetters ● Followers

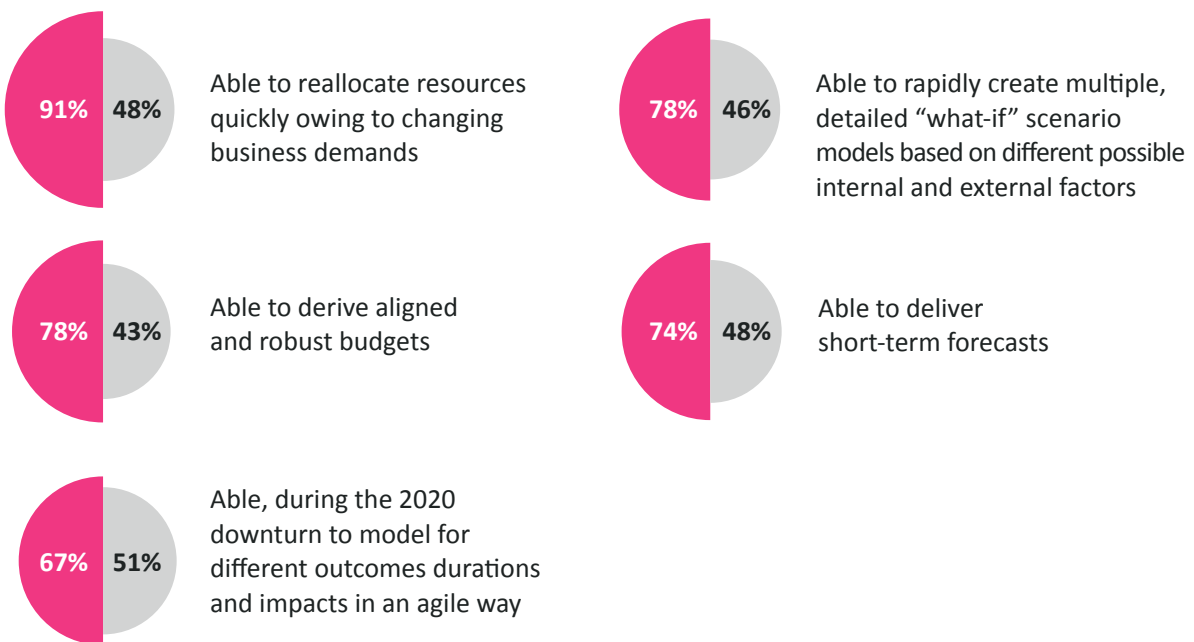


Figure 5. The Trendsetters are ready to respond

Section 3: Closing the gaps

How to match the Trendsetters

With 94% of finance functions falling outside the trendsetter group, this research shows that large numbers of organizations worldwide will want to address their FP&A capabilities and competencies. They must acquire the ability to make decisions and set plans that are driven by data and insight, rather than by intuition or gut instinct.

Their priorities will include:

- Addressing the rigidity of risk-evaluation practices
- Resolving scalability issues that make it difficult to address new business demands
- Driving more sophisticated insight and analysis of business patterns

However, the work will not stop there. As Figure 6 shows, finance leaders are concerned about a broad range of capability gaps, with the priority areas only just edging out the other gaps cited by respondents. Closing these competency shortfalls will be a multi-faceted exercise.

Proportion of all respondents saying that the following are the biggest gaps in their current FP&A capabilities

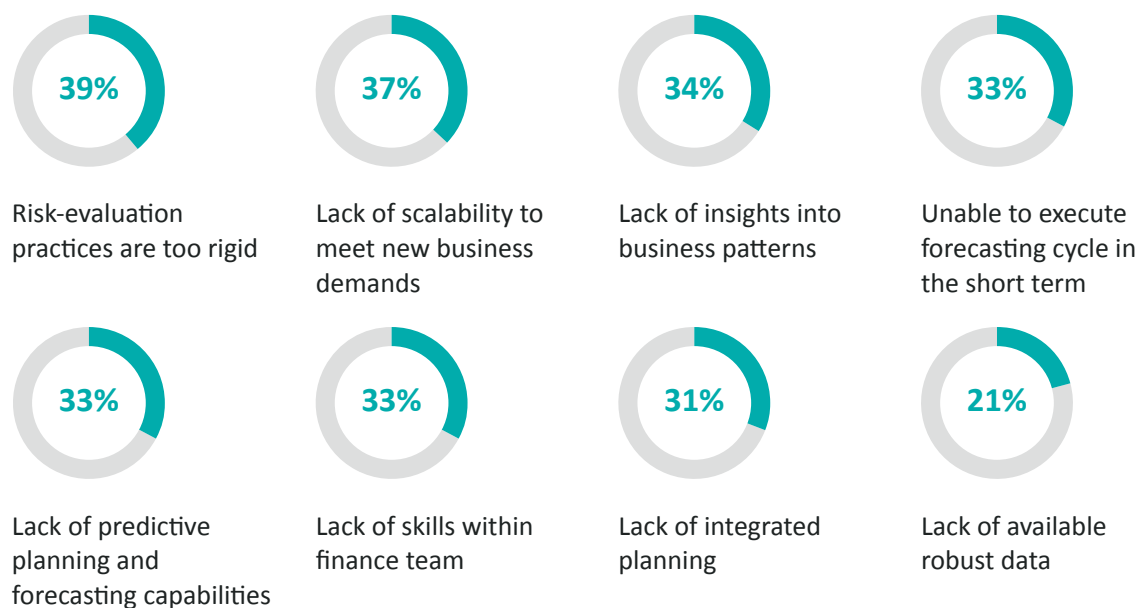


Figure 6. Finance leaders' three biggest FP&A capability gaps are risk assessment, scalability and data analysis

More than half of the finance leaders we surveyed have already increased investment in data and analytics, AI/machine learning and cloud-based systems. And this investment cycle will continue to accelerate: for each technology, more organizations plan to increase investment over the next 12 months than in the previous period.

These plans are timely. As Figure 6 shows, many organizations acknowledge the gaps in their FP&A capabilities. Now they need to take action – or the Trendsetters will become unbeatable.

Learn from the Trendsetters

As we saw in Section 2, the Trendsetters already have a strong skillset, and are setting the pace of technological and cultural change. They are prepared to be imaginative in their search for transformation – considering, for example, what shared services units might offer, as well as internal capabilities.

“It is an absolute necessity that we invest in new systems and have technology on board that will help us make changes, but it is not just about gathering data, and dashboards often have information overload. You need someone who can tell you what the key factors are and where do we go.”

Michael Kreeft, BMW Japan

Proportion of respondents saying where they intend to focus investment to develop FP&A capabilities

● Trendsetters ● Followers

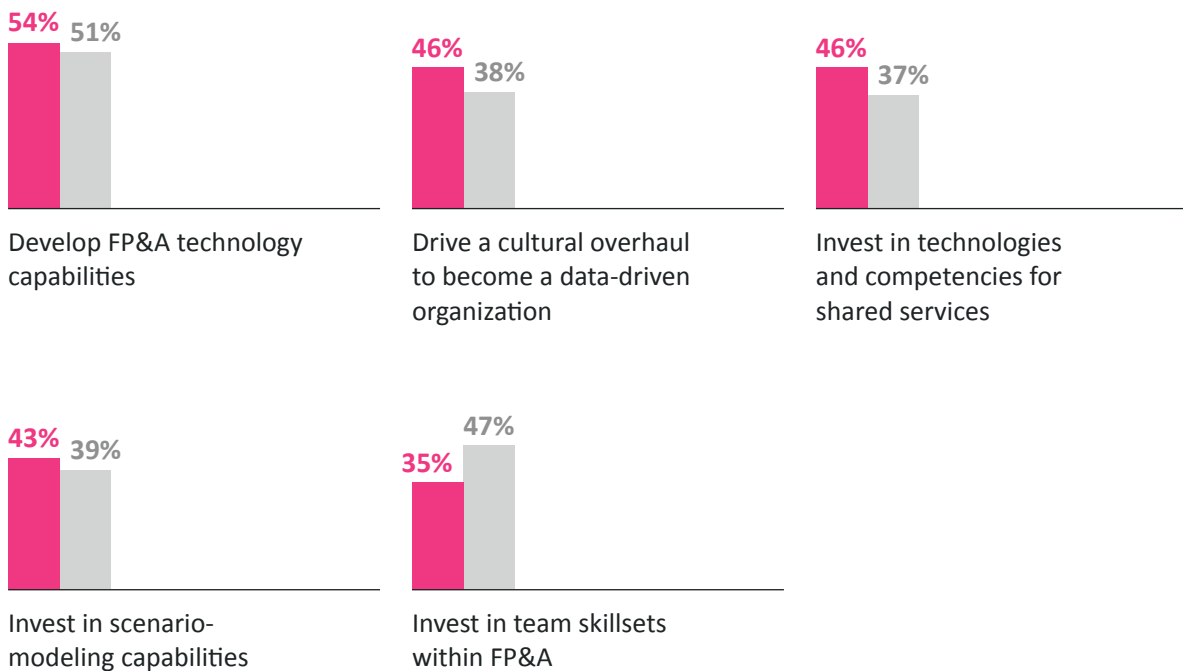


Figure 7. To develop their FP&A capabilities, Trendsetters are prioritizing different investments

A new role for shared services?

Many organizations see an expanded role for shared services functions—whether internal or outsourced—alongside their investment in technology.

In particular, finance leaders are focusing on the potential for shared services to enhance their FP&A risk-assessment capabilities and to support more complex functions.

“Shared services are bringing a lot of value, but we have to build this journey together,” says Telefónica’s Laura Abasolo. “They help us in the identification of improvement and simplification opportunities on the execution of processes, analyzing the potential bottlenecks in transactions and proposing solutions.”

In fact, **44%** of organizations are already outsourcing budgeting and forecasting work to shared services, and **39%** say the same of advanced analytics and statutory, regulatory and tax reporting.

There will be further moves in this direction. “The biggest opportunity is to not just leverage shared services for finance, but also for other operational tasks—around the supply chain, for example,” says Quest Diagnostics’ Gaurav Malik. “Then you become a little more nimble and a little smarter.”

Next steps

From awareness to action

Even before the pandemic, many FP&A teams were struggling to provide what their organizations needed: agile forecasting and analysis to enable smarter decision making in the finance function and throughout the business. COVID exposed those weaknesses, and now they must be fixed.

To do this, finance leaders will need to commit to renewal. New technologies, particularly in the data and analytics field, will help their FP&A function to evolve. But they also need to invest in the skills base, whether internally or via arrangements such as shared services.

The opportunity

For the finance function, the opportunity is to enhance its position as a growth enabler and strategic partner to the rest of the organization. And improving risk-assessment capabilities will ensure that the function is better placed to protect the business.

A few organizations have already made significant progress. The Trendsetters identified in this report have strong expertise and experience of using data and analytics to make smarter decisions. Their advanced use of technology and investment in key skills have accelerated their planning and forecasting abilities and made them more flexible in the face of a dynamic market environment.





Act, or lose out

And the Trendsetters are not standing still. They have ambitious plans for further investment in transformational FP&A capabilities, which will further extend their competitive advantage.

They are setting the standard. Other organizations must now rise to meet it, with the agility to work at the pace of business, deliver real-time insights, and drive elevated performance.

Summary: Recommendations

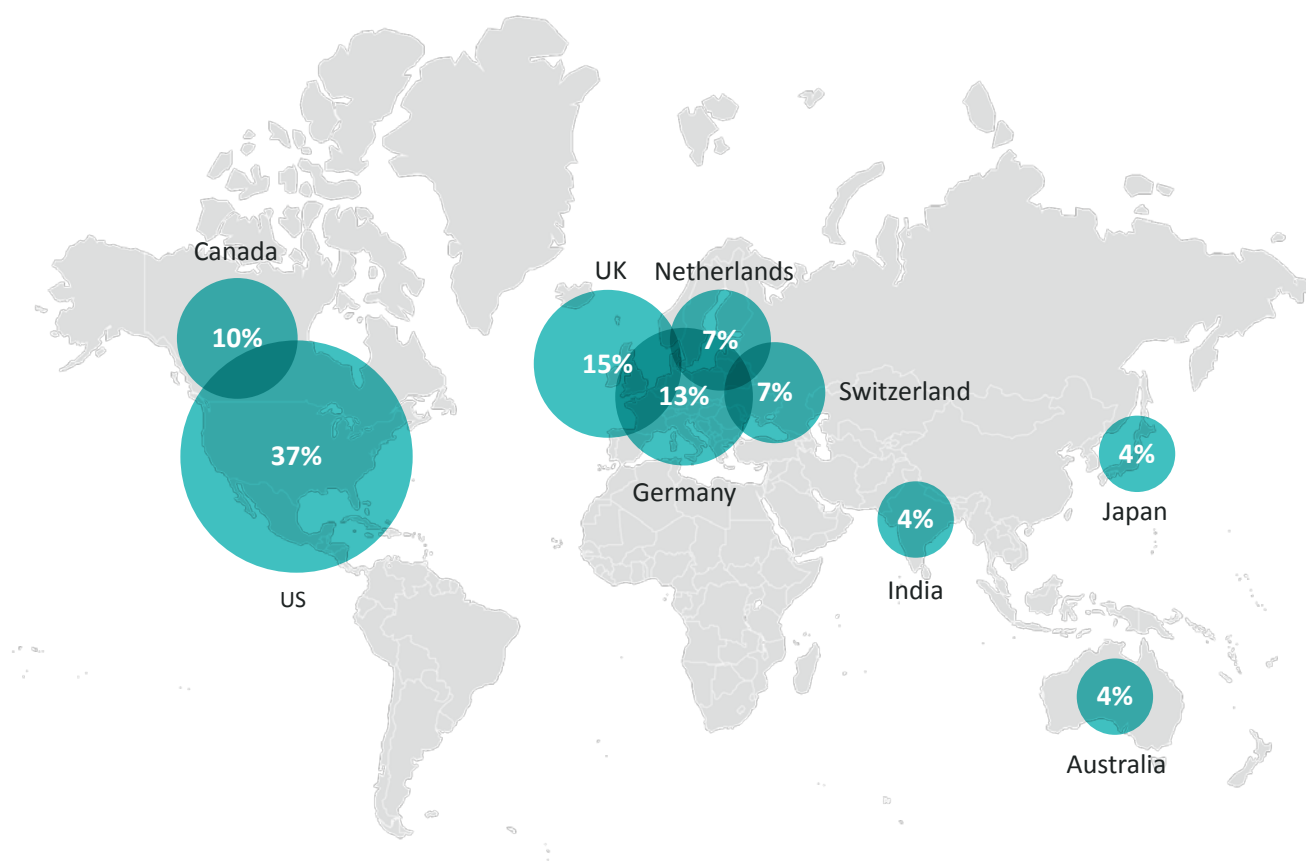
To achieve the capabilities and competencies they will need to deliver greater strategic value to their firms, the finance function's leadership must focus on:

-
- | | | | |
|-------|---|---------------------|---|
| 1. |  | Integration | Ensure all initiatives are connected to enterprise strategies with clear expectations of the financial impact and tightly linked sales, marketing, operations, financial plans and forecasts. |
| <hr/> | | | |
| 2. |  | Automation | Utilize the latest technologies to build forecasts with robust statistical models that harness machine learning and artificial intelligence capabilities. |
| <hr/> | | | |
| 3. |  | Adaptability | Develop the agility to sense and manage changing market dynamics, ensuring the enterprise can swiftly recalibrate resources as needed. |
| <hr/> | | | |
| 4. |  | Proactivity | Consider multiple scenarios and clearly articulate financial implications of business decisions with agreed-upon countermeasures for each response. |

About the research

TCS conducted a survey of 750 senior finance leaders across nine countries. All respondents said that their company had a total revenue of \$5 billion or more in 2019.

By country



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Email: analytics.insights@tcs.com

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