
THE STRATEGIC CFO: THRIVING WITH RISK

CFOs say they are now being asked, more than ever before, to be deeply involved in forward-looking responsibilities, such as mitigating risks of economic downturns or sudden changes in trade policy, in order to maximize shareholder value.

Yet, tending to their backward-looking responsibilities at the same time, including audit and compliance, means that they're challenged to find the right balance between reporting on the past and advising on the future, especially in light of growing risks.

A new survey of 500 global CFOs and senior finance executives reveals the challenges they're facing and uncovers how those who are leading are not only surviving, but also thriving with risk.

Prepared by

WSJ CUSTOM
CONTENT

Powered by

**DOW JONES
INTELLIGENCE**

In Association with



Wall Street Journal Custom Content is a unit of The Wall Street Journal advertising department. The Wall Street Journal news organization was not involved in the creation of this content.



VOLATILITY — THE CFO'S NEW NORMAL

The business landscape has shifted from its traditional footing. Macroeconomic conditions, steep tariffs, an uncertain political climate and volatile markets, as well as innovative technologies and analytics, have changed the terrain and made managing escalating risk concerns a more urgent need.

These shifts demand that CFOs expand their purview beyond backward-looking functional finance. Gone are the days when an acute focus on compliance, audit and budget control assured success in managing risk. Today, CFOs are being asked to extend their reach, balancing backward- and forward-looking strategic responsibilities.

In light of this shift, Coupa partnered with Wall Street Journal Custom Content and Dow Jones Intelligence to survey 500 CFOs and senior finance executives. The goal was to determine their readiness to thrive with risk in today's rapidly changing business landscape. The research was completed by speaking with the CFOs of leading worldwide companies to get their viewpoints on the changing nature of their roles.

A ROLE IN TRANSITION

Not too long ago, the primary role of the CFO was clear and defined; they were the stewards of company budgets, keepers of the books and overseers of compliance. Their principal job was to look backward and report on what had happened. It was a big job — and not an easy one. While some CFOs sought to become more strategic advisors to their business, adding forward-looking analysis, predictive risk management and strategy development, many were stymied in making the shift, while others were simply content to focus on backward-looking responsibilities.

Today, in the face of new risks and challenges, becoming a strategic CFO is no longer an option. To protect shareholder value, it's a must.

While the CFO's role has been in transition for a number of years, the pace of the transition has picked up dramatically due to increased concerns about risks from changes in public policy, the economic environment, competitive pressure, and the growing sophistication and frequency of cyber crime and fraud.

Politically, steep tariffs and Brexit have shaken up global economic stability, to name just two examples. Additionally, many see weakness after a decade of U.S. expansion. And from a competitive standpoint, industry incumbents are facing new, agile disruptors.

At the same time, the technology that has spurred companies forward has also raised concerns about risks from fraud to cybersecurity. In addition to the direct impacts of these risks, increased outsourcing of IT and other functions that may allow suppliers access to sensitive information dramatically increases the potential for data to be compromised by a company's supplier network.

Even with operations running smoothly, businesses face increased threats to their brand. CFOs know that consumers and global media are increasingly attuned to issues of data privacy, hacking, bribery and corruption, unsafe working conditions, child labor and other unethical behavior across the supply chain. Companies that run afoul of these issues — either through their own actions or by suppliers working on their behalf — can find themselves in the news and subsequently suffer damage to their brands and to shareholder value.

CFOs EXPAND THEIR RISK MANAGEMENT PURVIEW

Leading CFOs are responding to the changing business landscape and escalated concerns by expanding their responsibilities in risk management. Leaders are adding strategic risk to their overall risk management scope, such as macroeconomic, reputation, capital and industry risks, as well as the operational and functional risks they've long focused on. (See Risk Framework on page 12 for a full breakout

Which of the following statements best describes how your role within the organization has changed in the last two years? "My role has expanded to include..."

% of respondents

More Focus on Technology



More Extensive Participation in Strategic Business Decisions



More Diverse Types of Business and Operations Risk Management



More Intensive Use of Data Analytics



None of the Above



of risks managed by CFOs today across strategic, operational and functional domains.)

The survey finds that the growing range and nature of risk concerns have propelled finance executives to make the shift that many had foreseen. A significant majority of those questioned indicated that over the last two years, their role within the organization has changed to include more focus on technology (66%), more extensive participation in strategic business decisions (60%), more diverse types of risk management (59%) and more intensive use of data analytics (57%). This is a nearly universal phenomenon: **Only 1% of respondents say their role has not expanded in any of these areas in the last two years.** (See chart on page 3.)

Harmit Singh, executive vice president and CFO of Levi Strauss & Co., concurs that his role has changed to encompass more strategy.

“We’re always preparing for customer risk. We’ve seen financial issues with some of the major

retailers we deal with, largely in the U.S., where stores have been shutting down at a rapid pace. We’re also experiencing currency risk. That’s a little out of our control, but we have to find ways to get ahead of it,” he says. “My team and I are also now trying to address cybersecurity risk on a proactive basis, in part due to the introduction of privacy laws around the world, such as GDPR.”

It’s clear that CFOs and their groups recognize they can no longer afford to stay above the fray, given evolving expectations of their roles in driving overall company performance. Increasingly, leadership is seeking their expertise, calling on them to bring data and analysis to the company’s strategic decision-making. While many CFOs welcome the opportunity to contribute at a deeper level, they recognize they must balance that with maintaining the traditional backward-looking responsibilities that have been at the heart of the roles.

Which of the following priorities, if any, do you spend the most time on?

% of respondents



While many CFOs welcome the opportunity to contribute at a deeper level, they recognize they must balance that with maintaining backward-looking responsibilities that have been at the heart of the roles.

GROWING RISKS, TOO LITTLE TIME

The balancing act between backward- and forward-looking responsibilities is proving to be a challenge. The research finds that risks of every kind are demanding more and more attention from CFOs and their teams. **Yet few respondents say they are managing all categories of risks appropriately, and only half say they spend the right amount of time managing any given area of risk.** Finance executives point to their tactical risk management responsibilities as a major threat to their overall risk management efforts. Those surveyed say that they and their teams are spending too much time on activities such as transaction processing, accounting, audit and compliance.

Only 4% of CFOs say they spend an appropriate amount of time managing all of the risks included in the survey. Meanwhile, only half say they run teams that spend the right amount of time managing operational risk and supplier risk.

Most finance executives say they spend the bulk of their time on functional finance — budgeting, reporting and compliance — leaving relatively little time for more strategic priorities. (See chart on page 4.) Additionally, 41% say that an increasing complexity and scope of regulations are the biggest threats to the effectiveness of their risk management processes. This will only make the problem of too much time spent on functional finance worse.

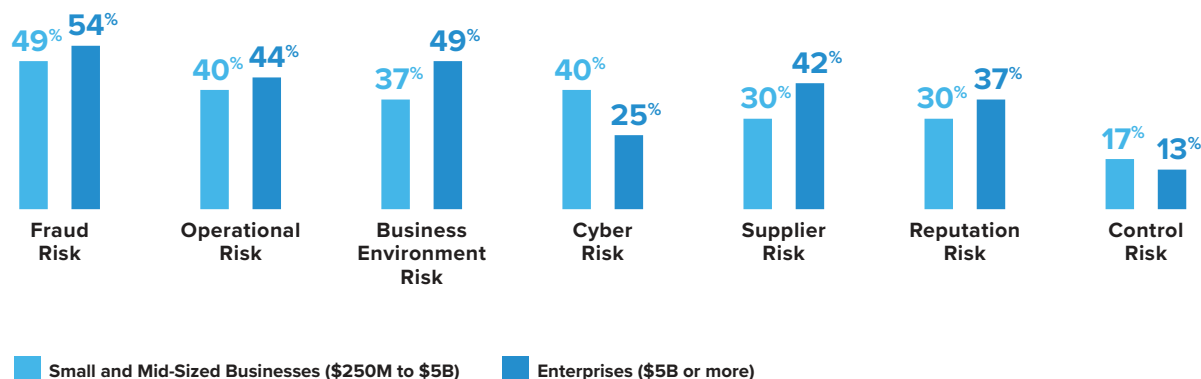
The majority of CFOs believe they have functional risks in hand. But attending to these responsibilities leaves executives and their teams little time to analyze how to manage strategic risks. And not having enough time is cause for concern.

CFOs EXPECT RISKS TO INCREASE

Executives are already worried about their ability to oversee fraud, cyber and supplier risks, which they anticipate will get worse within the next two years. **Overall, 51% predict fraud risks will become more severe in that period, while 35% expect to see cyber risks increase and 34% anticipate greater supplier risks.**

Which of the following types of risk do you expect to increase most in severity in the next two years?

% of respondents



“Business risk expands each year, especially as you enter new businesses and countries. And these risks can threaten the trust earned from customers, employees, regulators and investors.”

— Brian Olsavsky, CFO, Amazon

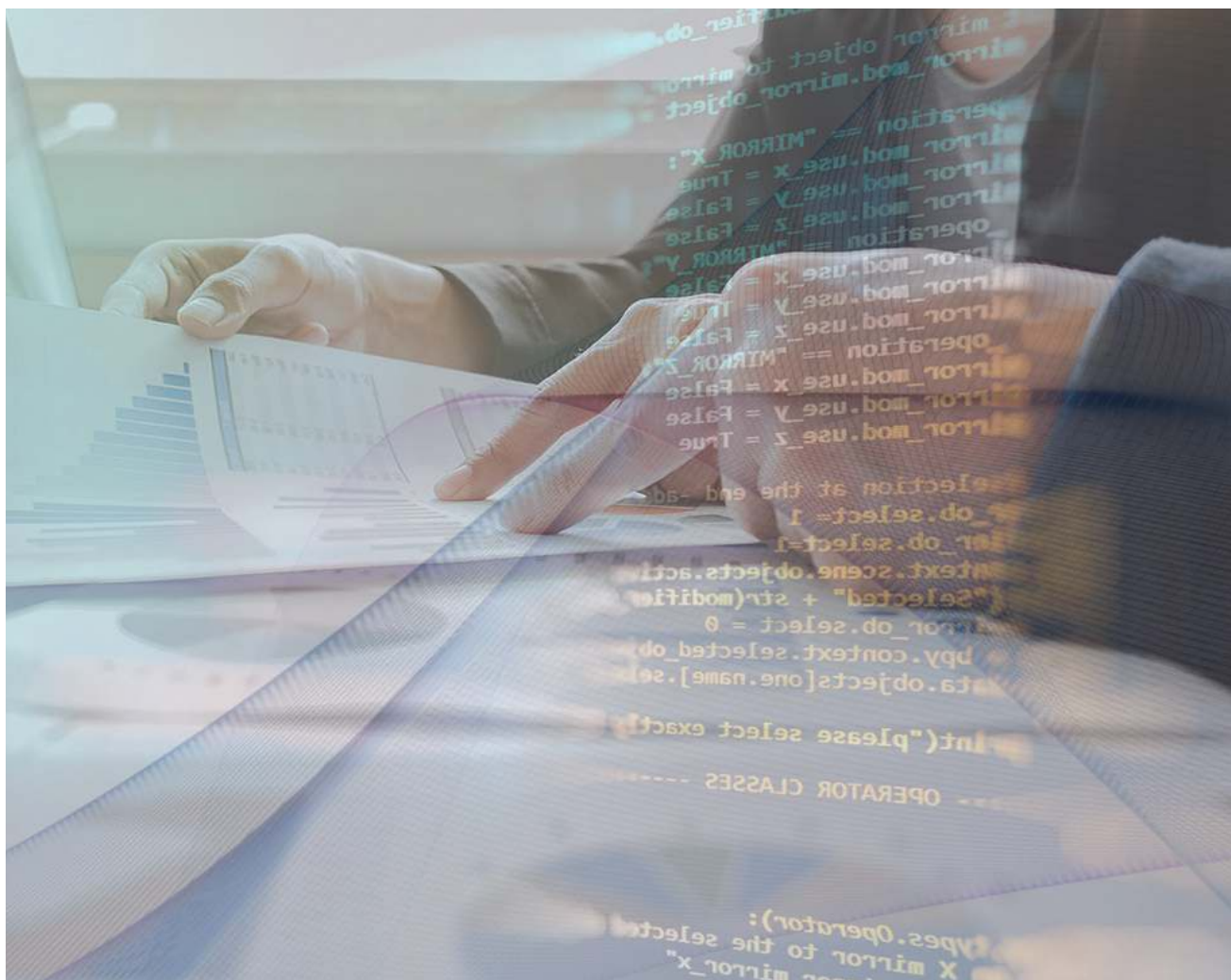
In many cases, one risk category can impact another. For instance, poor vetting of suppliers can result in not knowing which supplier has your important information, making it much harder to protect that information against cyber risk and

other risks and to remain compliant with privacy regulations, including GDPR.

As the global economy and regulatory policy rapidly changes, CFOs look to identify and manage the new and growing risks they face as part of their evolving role.

It's imperative that firms find time to manage every manner of risk, says Amazon CFO Brian Olsavsky, who maintains that companies can't afford *not* to.

“No one likes that we have to manage risks in our businesses,” he says. “Managing risk is by definition an impediment to the ultimate goal of serving customers and generating long-term financial returns for investors. Business risk expands each year, especially as you enter new businesses and countries. And these risks can threaten the trust earned from customers, employees, regulators and investors.”



THE LARGEST ENTERPRISES FACE UNIQUE CHALLENGES

Organizations with annual revenue exceeding \$5B are much more likely to be “very concerned” about the threat many risks pose to their organizations. In particular, 62% of companies in this category worry about the business environment, compared to 37% of those with annual revenue under \$1B. The finding is similar regarding supplier risk (55% vs. 26%). Additionally, organizations with \$5B and above are much more concerned about reputation than those \$1B and below, though both express concern about this type of risk (53% vs 32%).

The size of these firms also appears to correlate with their level of visibility. Executives from the largest enterprises are by far the least likely to report they have complete visibility over the

transactions taking place within the organization. While they are more likely to have achieved full digital maturity (37% vs. 23% among smaller firms), they are most likely to report they have “very little” visibility into transactions. This makes them outliers, because in smaller enterprises, digital maturity generally produces high visibility.

The good news is the survey finds large enterprises are likely to have the attention of leadership when it comes to risk management: Only 21% report senior management doesn’t share their priorities. And perhaps most important, they have strong confidence in both the people and the strategies they have in place to support risk-mitigating initiatives.

Enterprises may not even know what they don’t know. Olsavsky believes identifying new risks and developing robust processes to contain them is time well spent.

“We’re continually auditing our operations to find more risks — a job that’s never ‘done,’” he stresses. “That can frustrate us as business leaders, and we will therefore say it all takes too much time. It’s not discretionary work, however.”

Olsavsky alleviates the pressure of increased responsibilities by staffing appropriately to address both tactical and strategic concerns.

“We organize our teams around experts in key areas such as tax, accounting, treasury, investor relations, internal audit, bill payment and real estate, as well as generalists who back the business teams directly with decision support, analytics, financial modeling, business metrics and auditing key data streams,” he says. “This structure allows us to both stay ahead of external issues as well as support new business expansion. There’s never a dull day here.”

He adds that technology can mitigate time constraints by ensuring consistency throughout a company’s systems. A consistent system means any adverse exposure can be fixed once, eliminating the need to solve a problem across multiple systems. Levi Strauss pursues a similar strategy, addressing supplier risk with a global sourcing platform that covers 23 countries.

VISIBILITY IS KEY TO SUCCESSFULLY MANAGING RISK

Visibility into transactions can help finance teams tackle risks produced by today’s shifting business circumstances, the survey indicates. **In fact, executives who rate their firms as having complete visibility also rate their organizations as more effective in risk management, as well as rating themselves higher than others on every business performance KPI included in the survey.** They also report greater confidence in both their people and their processes for managing overall and specific risks.

For her part, Chantal Wessels, VP of Finance and Operations at Nasdaq, says visibility is key if CFOs and their teams expect to be forward-looking.

“In the past, finance teams have been very focused on historical results,” she says. “In order to add additional value to organizations, there has been a shift in the way we look at our business. Focus is leaning towards identifying areas of risk and opportunity to address scenarios before they happen. That is definitely a focus area in my organization.

“The concept of forward looking requires a solid baseline and visibility. Data produced by various digital tools enables us to analyze current trends and put measures in place to address future risks.”

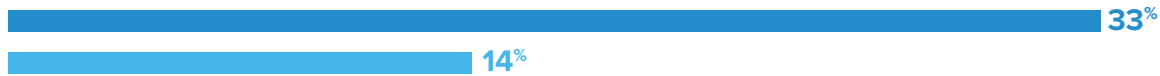
How effective is your organization in each of the following performance areas compared with its peers?

% of organizations rated as “industry leaders” in this area

■ Complete visibility over transactions

■ Less than moderate visibility

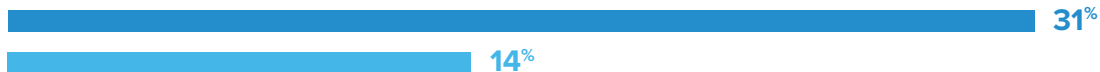
Operational Efficiency



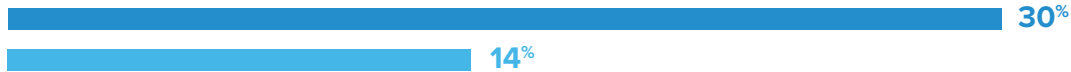
Revenue Growth



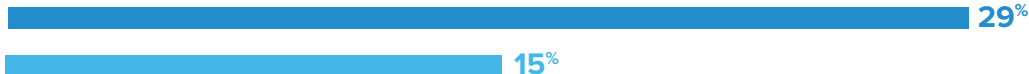
Risk Management



Agility



Innovation



Attracting and Retaining Top Talent



Profitability



It follows that digitally mature enterprises are much more likely to say the technology they have in place mitigates every risk included in the survey. For example, 62% of respondents from digitally mature firms report they have excellent technology for managing business environment risk, compared to 36% for less mature firms.

That doesn't surprise David Wells, CFO of Netflix from 2010 to 2019.

“Digitization and technology have increased the availability of information in the real-time nature of financial results updating,” he says. “People have access to how the company is doing on a regular, rolling basis. If you're going to be competitive in today's business environment, you have to be cross-functional, connected and aligned — and you must have the availability of those resources.”

“Data produced by various digital tools enables us to analyze current trends and put measures in place to address future risks.”

— Chantal Wessels, VP of Finance and Operations, Nasdaq

Conversely, however, less than half of survey respondents (49%) say they have full visibility into their company's transactions, which makes their enterprises more vulnerable to all types of risks. Paradoxically, firms with annual revenue exceeding \$5B are less likely to report they have complete



visibility over transactions compared to smaller firms, despite the fact they are likely to have achieved full digital maturity (37% vs. 23% among smaller firms).

“If you’re going to be competitive in today’s business environment, you have to be cross-functional, connected and aligned.”

— David Wells, former CFO of Netflix

The good news is that firms are recognizing the importance of having the people and mechanisms in place to ensure the visibility they need to keep their competitive edge. Singh of Levi Strauss says the firm is rebuilding its data infrastructure with the goal of achieving complete visibility into transactions, both to better protect against risks and to better understand the market.

“We just hired a Chief Strategy and Artificial Intelligence Officer,” Singh says. “As a company that has been around for more than 160 years, we have a lot of data. We can do a better job of using the data to understand consumers and then leverage the data to solve problems.

“For example, one of the common problems in the apparel industry is that we either have a lot of stock,

or we don’t have any at all,” he says. “So the question is: How can we use data and data insights and AI technology to be proactive so we don’t miss a sale?”

LEARNING FROM THE LEADERS: PEOPLE, PROCESS & TECHNOLOGY

CFOs in the vanguard say they are staying proactive by fostering the right combination of technology, talent and processes. Leaders, defined here as companies that respondents rated as an “industry leader” for both risk management and operational efficiency, stand out for the balance they have achieved. They are much more likely than other respondents to “strongly agree” they have the appropriate strategy in place to manage risk (68% vs. 47%), the appropriate technology (52% vs. 36%) and the appropriate skill sets (68% vs. 52%). This confidence extends to every risk category.

Peggy Smyth, CFO of National Grid US, says the appropriate mixture of these three elements is helping her company mitigate existing risks — and stay ahead of new ones.

Leaders strongly agree they have the right strategies, technologies and skill sets in place to manage risk overall.

To what extent do you agree or disagree with each of the following statements relating to your organization’s ability to manage risk overall?

% of respondents who “strongly agree”

■ Leaders ■ Others

My organization has the appropriate strategy in place to manage risk



My organization has people with the appropriate skills in place to manage risk



My organization has the appropriate technology in place to manage risk



“National Grid regularly invests in new capabilities — including people, processes and technology — to improve our ability to predict, protect, detect and respond to cyber threats, as well as ensure the resiliency and availability of critical systems,” she explains. “We also work continuously to maintain and increase the awareness and engagement of our employees around cybersecurity, ensuring a culture that protects National Grid’s services to our customers. We’re always refining our cyber strategy to guide our investment and reflect the cyber threats we face.”

These three factors — technology, talent and processes — are interdependent. With companies competing for high-level finance talent, not having the right people in place means their risk management can suffer.

Amazon’s Olsavsky notes that automation can serve as a recruiting card because it frees people up to identify and manage risks head-on — and to take on other challenges that test their abilities.

“We’re extremely lucky that finance talent comes to Amazon — and stays at Amazon — because they love the opportunity to work on real, important things that are scaling quickly,” he elaborates. “We attract people who are comfortable and even excited by hard problems and rapid change, all in the name of customer obsession.”

He adds that new technologies can take a lot of the human effort out of identifying and addressing fraud or other operational risks.

“The nature of our work is shifting from gathering and consolidating data to better forms of analysis,

the generation of key insights and, ultimately, taking action on behalf of our customers, Olsavsky says. “This makes everyone’s job better and more interesting as well as more challenging, because we are called to a higher level of work.”

Amazon’s Olsavsky notes that automation can serve as a recruiting card because it frees people up to identify and manage risks head-on — and to take on other challenges that test their abilities.

On the technology front, Levi Strauss’s Singh says that driving enterprise automation is critical and is also a means of finding and keeping high-level employees.

“Digital tools not only help me and my team,” he says, “they also help the organization, because we can truly unlock data and data insights. **We can spend more time proactively on the future, ensuring we can turn data into information, ensuring our analysis is leading versus lagging.**

“The right technology not only attracts talent, but also allows us to grow talent from within, because having that combination is the true test of an organization,” Singh adds. “If you can promote

from within, develop from within, as well as get folks from the outside who bring in different skills, that's critical for growing the organization.”

The survey finds, however, that only 38% across all industries strongly agree they have appropriate technology in place to manage risk. This lack of confidence — almost two-thirds of executives are to some degree uncertain about their existing technology solutions — is a strong indicator that when an organization's risk management falls short of the mark, inadequate technology is the likely culprit.

CONCLUSION: GETTING AHEAD OF RISK

CFOs are welcoming the chance to become true strategic partners in the business. But that means the job of monitoring and mitigating all levels of risk in their purview — from backward- to forward-looking — now falls to them. The best prepared have plans in place that ensure their enterprises are resilient when shocks occur. They recognize that risks are a reality of business and can never be fully eliminated. Strategic CFOs undertake a clear assessment of the necessary digital solutions and processes that can help them manage risk. They keep a well-trained eye on small, recurring risks to prevent these from getting out of hand, while also scanning for patterns that could signal larger troubles.

The survey delivered four key findings:

- The role of the CFO has evolved to have greater balance between backward- and forward-looking responsibilities, yet many CFOs and their teams are

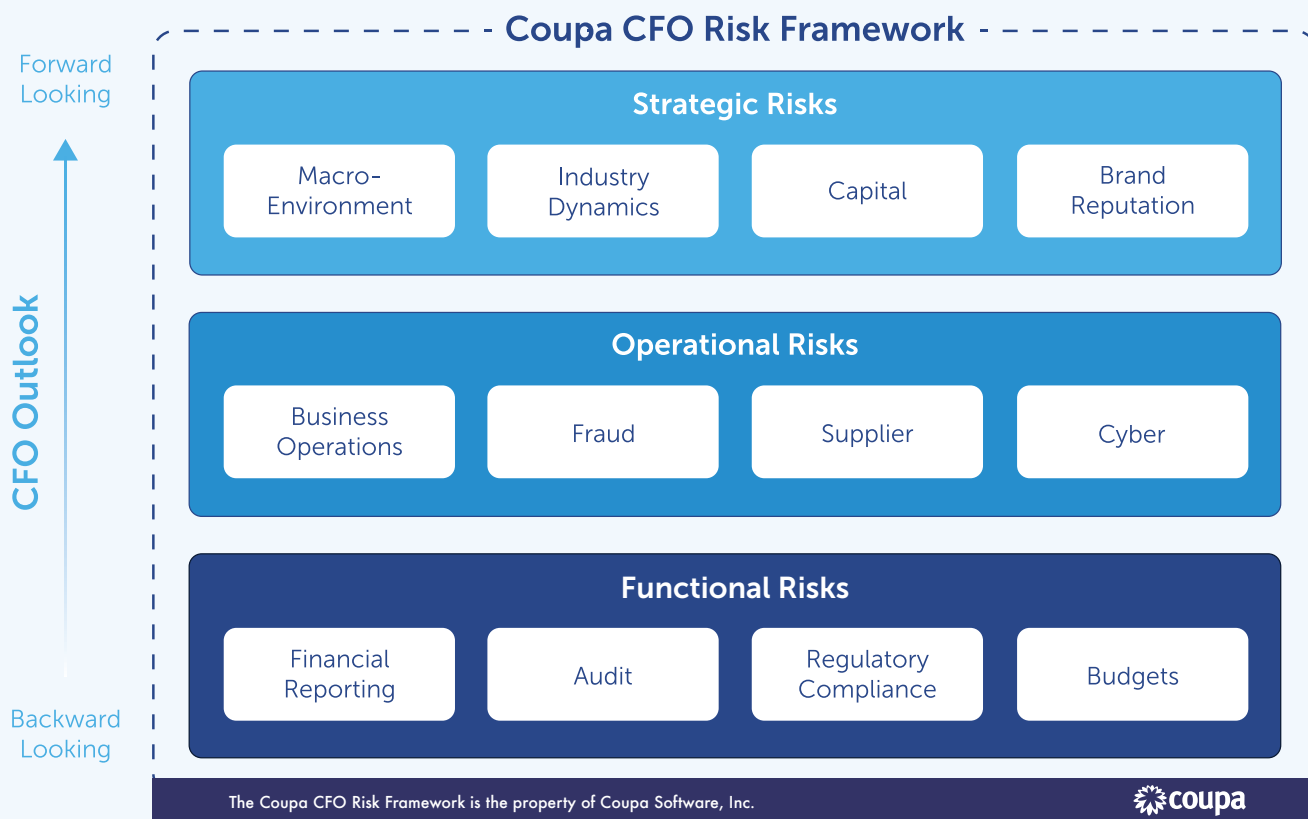
too bogged down to provide significantly more strategic analysis and support to the business.

- While CFOs may want to invest on the strategic side, they may have overlooked the need to invest in making tactical responsibilities more efficient to free up time for their teams.
- Risks are increasing across the board, with elevated concerns on fraud and cybersecurity as well as the macroeconomic and competitive business environment risks.
- Leading firms are digitally mature, have complete visibility into transactions, show less concern with the resource allocation so critical to meeting the balance between backward- and forward-looking responsibilities, and enjoy better risk management and business performance outcomes.

The research suggests that CFOs are poised to fully embrace their new position as thought leaders in their firms. To succeed, however, they must deploy a combination of technology, people and processes to address the expanding range of strategic and operational risks in their purview. Moreover, the ideal balance will prepare them for risks that have not fully emerged.

And more than ever, the financial professionals we interviewed say CFOs and their teams must stay alert to expanding strategic and operational risks as well as those risks that might be on the horizon. With today's rapidly changing business landscape and increased risks, the CFOs who are the most successful are the ones who are not only managing risk, but also thriving with risk.





THE COUPA CFO RISK FRAMEWORK

The evolving role of the CFO is leading many CFOs to take a hard look at the range of risks they face in order to identify and correct imbalances in people, investment dollars, technology and other resources deployed to address those risks.

Before deciding how to realign resources, it's helpful for finance leaders to take a broad look at the risks that they face and how their resources are currently allocated.

Risks can be grouped into three categories:

1. Strategic: Strategic risks concern threats to the company's standing in the market and its longer-term competitive and overall strategy. These risks may result from external changes or from significant breakdowns at the operational and functional levels. These include:

- a. Macro-Environment Risk: changes in macroeconomic conditions, public policy, etc, that may cause the company to miss its goals.
- b. Industry Dynamics: threats due to industry dynamics.
- c. Capital Risk: disruptions to the company's ability to access capital.
- d. Brand Reputation Risk: harm due to unethical or illegal actions by employees or suppliers.

2. Operational: Operational risks concern threats to the company's resources and ability to operate effectively on a daily and quarterly basis. These include:

- a. Business Operations: gaps in tools, processes and data needed to make wise, forward-looking

decisions and exercise good stewardship over company resources.

- b. Fraud Risk: losses due to employee and supplier fraud.
- c. Supplier Risk: supply-chain disruption or regulatory fines for supplier actions.
- d. Cyber Risk: cybersecurity lapses, data privacy/GDPR, systems outages.

3. Functional: Functional risks concern threats to the effectiveness of the company's operating controls and governance. These include:

- a. Financial Reporting Risk: gaps in processes and controls to ensure accuracy of financial reports.
- b. Audit Risk: gaps in controls ensuring compliance with financial regulations, i.e., SOX.
- c. Regulatory Compliance: gaps in corporate governance ensuring compliance with various non-financial regulation, i.e., GDPR in Europe, OCC in U.S Financial Services.
- d. Budgets Risk: the inability to manage budgets effectively to hit financial targets.

About the Survey

This report is based on a survey of 500 senior finance executives conducted in April and May 2019. The sample consists of CFOs and Heads of Finance (54%), CROs and Risk Directors (10%), and direct reports to each (36%). Sixty percent of respondents are in the United States, 25% in Europe and 15% in the rest of the world. Forty percent work in organizations with annual incomes between \$250M to \$1B, 28% with \$1B to \$5B, and 32% exceeding \$5B.

Prepared by



Powered by

**DOW JONES
INTELLIGENCE**

In Association with

