CAO pivot: Time to step up

As chief accounting officers continue to pursue a more strategic role in their organizations, economic pressures and delayed transformation pose challenges.

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Introduction

Less than three years after the COVID-19 pandemic, a treacherous economic landscape once again confronts the chief accounting officer (CAO) and their organizations. With inflation running at 40-year highs[1] and the Federal Reserve repeatedly raising interest rates in an attempt to tame it, the economy is losing momentum. KPMG Chief Economist Diane Swonk believes the Fed rate hikes and weaker growth abroad will trigger "a shallow recession in 2023."[2] CAOs are acutely aware of the deteriorating macroeconomic environment and know that they will need to do everything they can to help their companies navigate successfully through a downturn.

Our fourth annual CAO survey of 150 CAOs and 210 C-level executives, functional peers, and direct reports revealed this sense of urgency (see "Survey methodology"). For example, more than two-thirds of CAOs said they are focusing on cost management and cash flow optimization in response to current market conditions. They are also spending more time on nuts-and-bolts governance and compliance duties this year than they did in 2021, while allocating less time on partnership efforts with business-unit leaders.

However, CAOs remain keen to continue their journey to become more strategic players in the C-suite. They see opportunities to contribute more in the coming years in areas such as the organization-wide push to improve environmental, social, and governance (ESG) controls and reporting. Meanwhile, executives increasingly expect CAOs to support strategic decision-making with impactful, data-driven insights.

In this paper, we assess how much progress CAOs have made since our first CAO survey[3] in 2019, discuss how they are rapidly pivoting to tackle the challenges of today's faltering economy, and explore how they can seize the moment to propel themselves forward in their pursuit to raise their leadership profile. The job of the CAO isn't getting any easier. But during times of heightened stress for their companies, CAOs can demonstrate their value for all to see by going beyond the status quo and delivering strategic insights to the business.

[1] German Lopez, "Inflation's 40-Year High," New York Times, April 13, 2022
[2] Diane Swonk, "A Wonderful World? 2023 Outlook," KPMG LLP (U.S.), December 2022
[3] See "CAO rising: How the chief accounting officer role is evolving," KPMG LLP (U.S.), 2020

Survey methodology

KPMG conducted our fourth annual CAO survey in August–September 2022 to collect insights on the evolving CAO role and to examine the value CAOs bring to their organizations, as well as to explore opportunities to broaden their responsibilities. In addition, we asked questions on current market trends and ongoing geopolitical turmoil. The survey included CAOs and other accounting leaders from public and private companies across a wide range of industries.

Respondent role

Total N=360

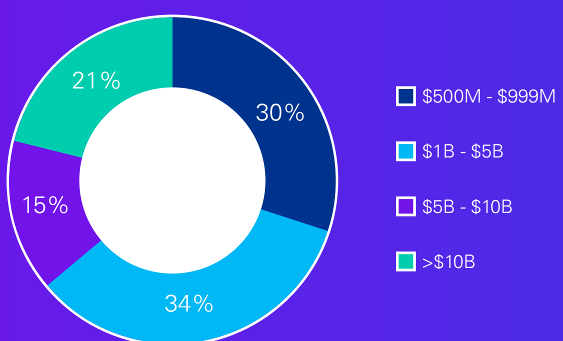
42%
Chief accounting officer/ Head of accounting[1]
N=150

22%
C-level executives (Leadership)[2]
N=80

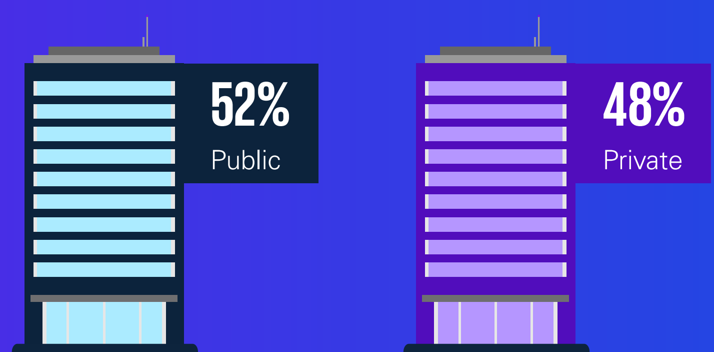
22%
C-level peers to CAO[3]
N=80

14%
Direct/Indirect reports to CAO[4]
N=50

Company revenue



Company type



25% Financial services

16% Consumer goods/Retail

13% Manufacturing

12% Healthcare/Life sciences

11% Technology, media & telecom

6% Energy/ Chemicals

5% Commercial services

4% Aerospace and defense

4% Natural resources

4% Other

[1] Respondents surveyed included chief accounting officer, corporate controller, and head/director of accounting.

[2] Respondents surveyed included chief financial officer, chief executive officer, chief operating officer, and board member.

[3] Respondents surveyed included chief technology officer, head of financial planning & analysis, chief legal officer, chief audit executive, chief information officer, chief strategy officer, chief HR officer, chief marketing officer, and chief information security officer.

[4] Respondents surveyed included assistant controller, general manager of finance, financial analyst, general manager of accounting, and senior accountant.

An unfinished agenda

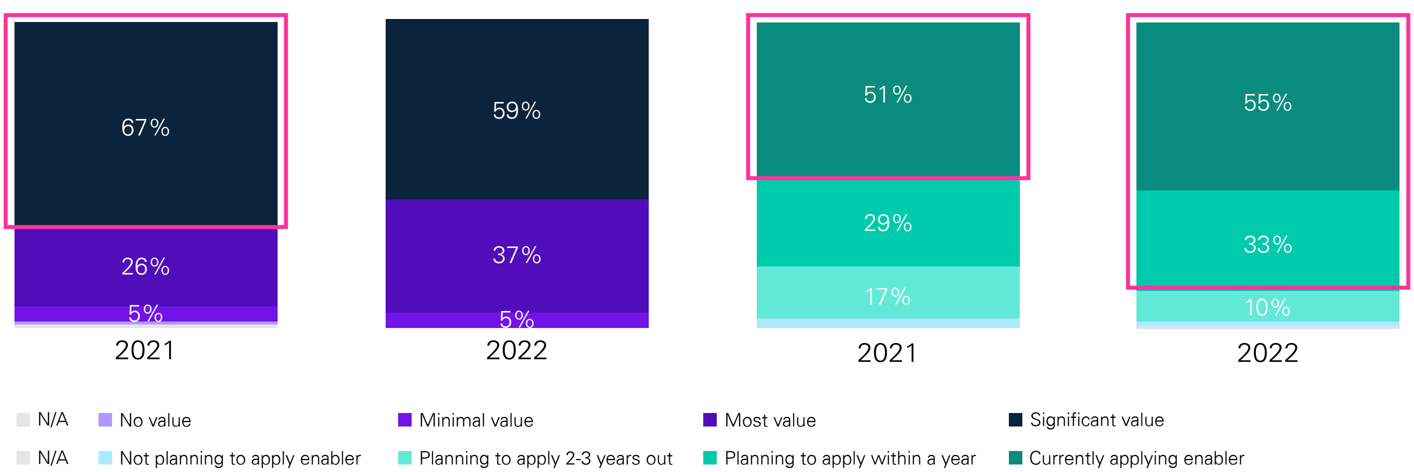
In our 2021 report, [*CAO spotlight: Illuminating the value of the strategic chief accounting officer*](), we discussed how CAOs realized the need to keep using new technologies in innovative ways. For their transformation responsibilities, 93 percent of CAOs found significant or most value in process-improvement and automation-enablement tools—that is, using technology to automate processes and controls, integrate solutions for risk and compliance, and enhance the integrity of financial statements (Exhibit 1).

But at the time, only 51 percent of CAOs were applying process-improvement and automation-enablement tools, with 29 percent of CAOs planning to do so within a year. In this year's survey, even more CAOs (96 percent) saw great value in process-improvement and automation-enablement tools; yet only 55 percent said they are currently using them—which means very few of the 29 percent who last year said they planned to deploy these tools within a year actually did.

Exhibit 1. CAOs realize the importance of process improvement and automation tools but lag in their utilization

Q. How do you see the importance of process improvement and automation tools to enhance your transformational responsibilities (left bars)?

Q. To what extent have you utilized process improvement and automation tools to enhance your transformational responsibilities (right bars)?



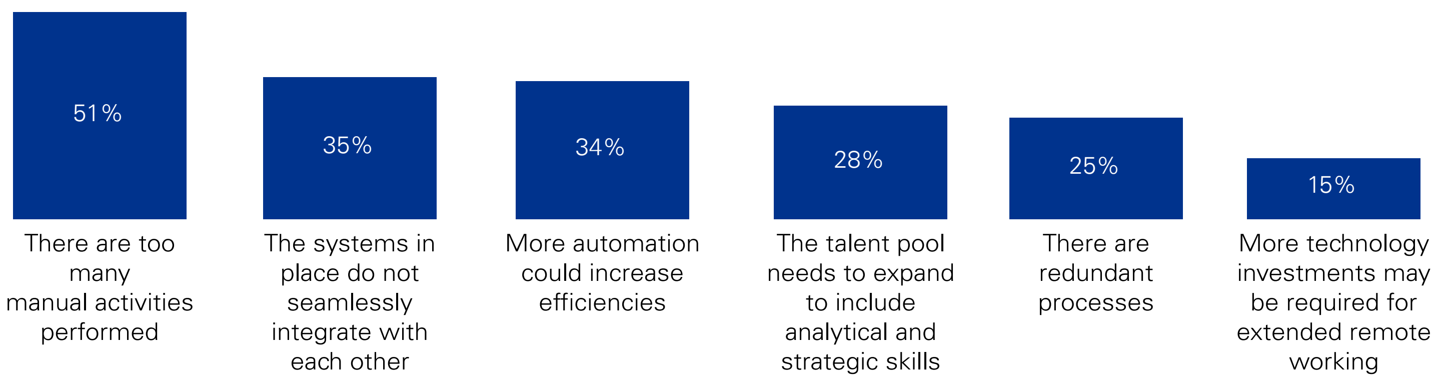
CAOs (N=150)

In the past few years, many CAOs may have lacked the time and budgets to apply new technologies while juggling regulatory changes, the COVID-19 crisis, and the subsequent boom in deal making. However, with the economic downturn, now may be an opportune time for CAOs to execute process improvement and automation. They should consider whether slowing market activity allows them more time to focus their efforts on transforming the finance and accounting function. If so, CAOs will be in a much better position when the market rebounds to provide more value-added insights and become a strategic partner to the C-suite.

C-level executives agree on the importance of process improvement and automation. Over half (51 percent) of them cited too many manual activities as the greatest challenge in the finance and accounting function, and more than one-third (34 percent) said more automation could increase efficiencies (Exhibit 2). That means companies may have to spend more now to give CAOs the technologies they need to reap savings later.

Exhibit 2. Many executives want CAOs to reduce manual activities and ramp up automation

Q. What are the challenges in the finance/accounting function that are foremost on your thoughts?



Executives (N=80)

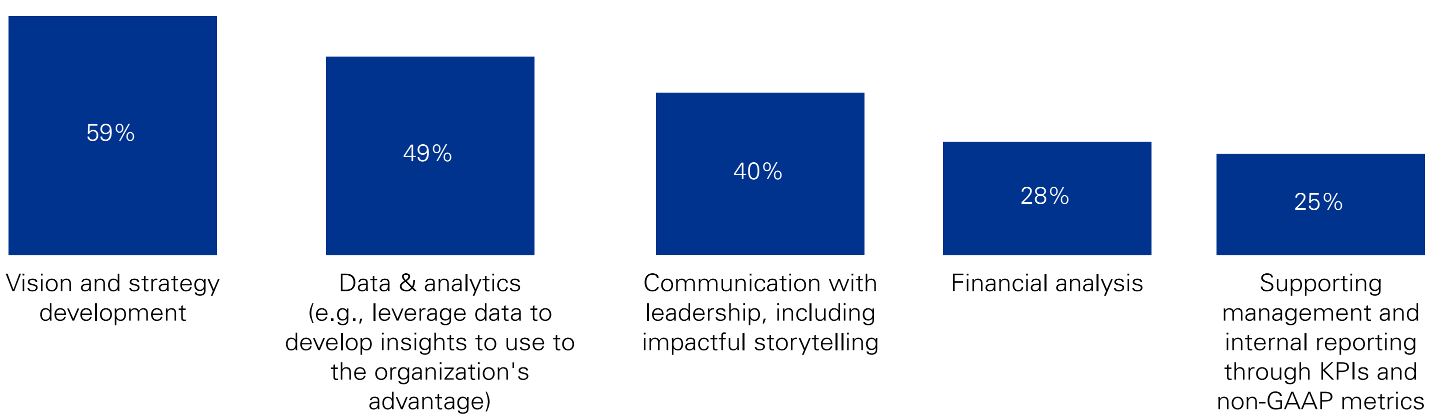
In our report, *CAO journey: 2020 was a bump in the road*, we also discussed the importance of modernizing the workforce and how CAOs can improve the performance of their team by using data and enabling technologies to drive better insights. Among those reporting to the CAO, 60 percent and 46 percent, respectively, said data analytics and technology fluency were top areas they needed to develop. But in the 2022 survey, 48 percent of the CAO's direct reports still said data analytics is the most important skill they need to improve, while another 28 percent said it is technology fluency.

This skills gap could be hampering CAOs' hopes of playing a larger role in the C-suite. CAOs know that one of the most effective ways to make a bigger impact on strategic discussions is to bring insights distilled from strong financial data and deep analysis. For example, they can use data analytics to guide profitability improvement and cost-reduction efforts for their business partners. In the current survey, more than three-fourths (76 percent) of executives said they expect CAOs to provide such analytical insights from financial and accounting data. However, nearly half (49 percent) of them also said this is an area where CAOs still fall short—if they want to be recognized as indispensable business partners (Exhibit 3).

To fulfill their aspirations of becoming trusted, strategic-minded C-suite participants, CAOs need to accelerate their efforts in process improvement and workforce modernization. As CAOs respond to a continuously shifting industry and economic landscape, they need to attract and retain accounting talent with a broad range of skills (e.g., technology fluency) that they themselves may lack. Without the ability to perform their duties more efficiently, it will be difficult for CAOs and their team to find the time and energy to generate data-driven, value-added insights that will be useful to the organization.

Exhibit 3. Almost half of executives say CAOs still need to work on data analytics skills

Q. In your opinion, what skills does a CAO need to further develop to be a successful business partner?



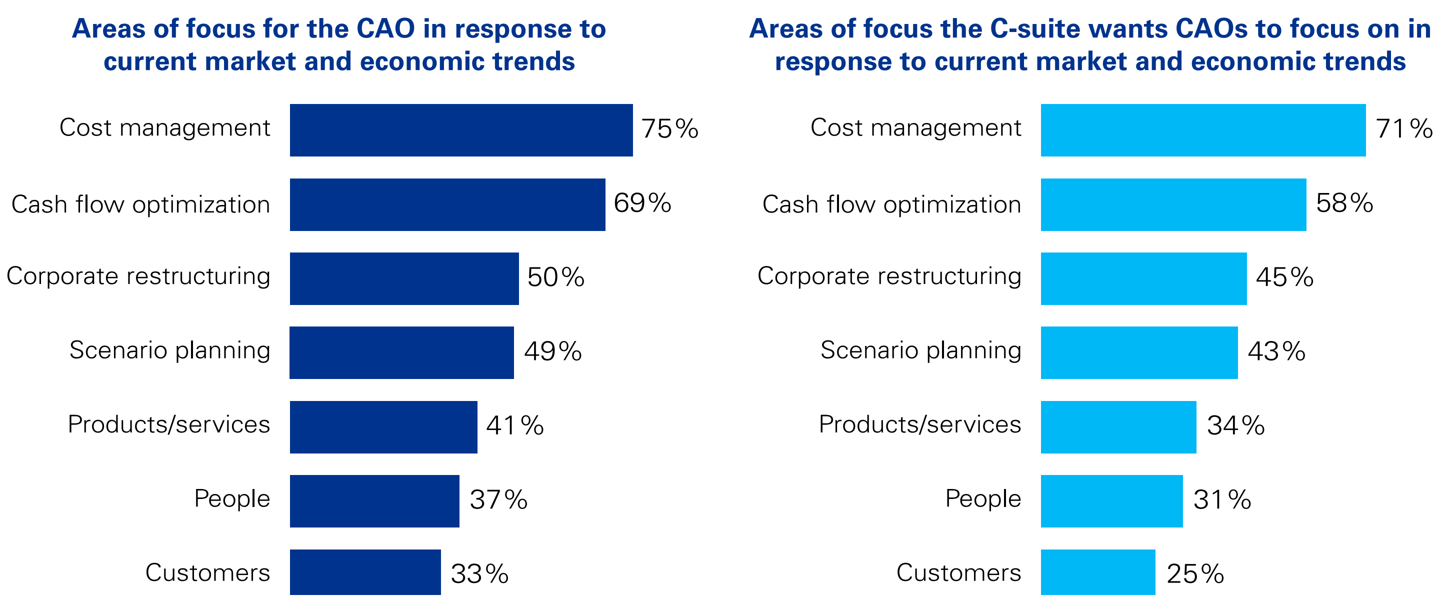
Executives (N=80)

It’s the economy, again

Even though CAOs haven’t checked all items on their previous to-do list, they find themselves juggling additional challenges posed by the flagging economy and volatile markets. As they did during the darkest days of the COVID-19 outbreak, CAOs today are springing into action to mitigate disruptions to financial and accounting operations and help their organizations maintain a sound financial footing.

In supporting their company’s response to the economic challenges, CAOs’ top focus areas are cost management (75 percent) and cash flow optimization (69 percent), both of which are broadly aligned with C-level executives’ priorities (Exhibit 4). Among other things, CAOs are attacking fixed and variable costs at a granular level to aggressively eliminate unnecessary expenditures, while assessing accounts receivable for credit risks and accounts payable to minimize discretionary spending.[4]

Exhibit 4. CAOs and executives are aligned on the responses to a weakening economy



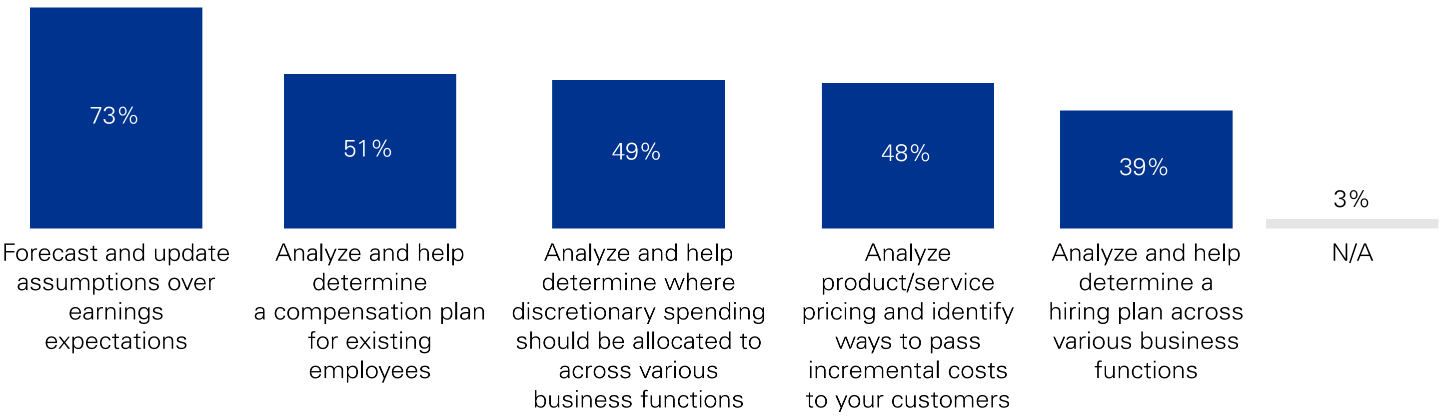
CAOs (N=150); Executives (N=80)

[4] For more on tactical moves companies can make to blunt the impact of the slowing economy, see “Making the most of the downturn,” KPMG LLP (U.S.), 2022

Another crucial task CAOs perform, given the volatile economic trends, is deploying technology to revisit forecasts and assist in decision-making and risk mitigation. In light of the persistently high inflation, 73 percent of CAOs are assisting in updating earnings expectations (Exhibit 5), and 65 percent of them are also assessing the business impact of higher borrowing costs.

Exhibit 5. High inflation has prompted CAOs to reassess earnings expectations

Q. As a CAO, have you been involved in any of the following areas to identify ways to mitigate business impacts due to inflation?



CAOs (N=150)

Meanwhile, supply-chain disruptions remain widespread, and CAOs are being asked to help identify solutions to mitigate the financial impact for the organization. For example, 66 percent of CAOs said they are performing contract analysis and assessing the accounting impact of modifying terms of existing vendors, 55 percent are analyzing the effects of altering the sales price of products, and 48 percent are evaluating the consequences of providing suppliers with increased credit to continue operations.

Such tasks go well beyond the traditional remit of CAOs, but it's all hands on deck for organizations as they try to weather the current economic tempest. And CAOs, too, will be expected to demonstrate their versatility and resourcefulness more than ever.

Readying for future challenges

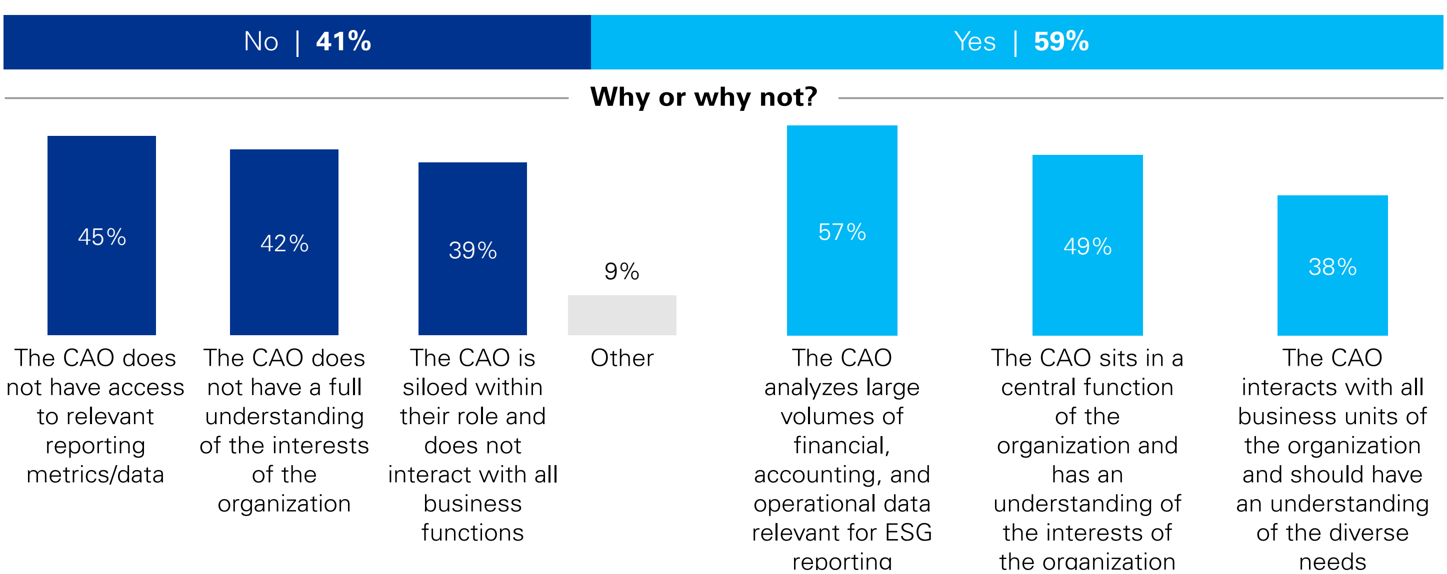
Despite their workload, ongoing resource constraints, and a tightened budget, the current business environment could present an opportunity for CAOs to rise to the challenge to be more effective strategic partners to the business. For one, CAOs can make the most of their presence in the C-suite by highlighting to corporate leaders their readiness to execute certain emerging priorities such as ESG for the organization. Earlier this year, U.S. regulators proposed to mandate standardized climate-related disclosures,[5] underscoring the importance of ESG data collection. In response to the increasingly high expectations from regulators and investors, companies are becoming more proactive with ESG initiatives, irrespective of the compliance timeframe.

In our survey, most CAOs said their teams have already assessed (45 percent) or are currently assessing (40 percent) how the emerging ESG regulatory landscape will affect their company's financial reporting. And 60 percent of CAOs said they are comfortable in their ability to accurately collect data and report on ESG and sustainability.

These responses align with the views of C-level executives. Almost 60 percent of executives believe that CAOs are best positioned to drive ESG data collection and reporting because they sit in a central function and analyze large volumes of ESG-relevant data (Exhibit 6). Such expectations are an invitation for CAOs to prove their versatility. By collaborating more closely with other business functions, they can break down silos, gain access to relevant ESG metrics, and drive organizational compliance with the complex framework—just as they did during the adoption of ASC 606 revenue recognition and ASC 842 lease accounting standards. Likewise, CAOs will have to work closely with the board, C-suite, and other business functions to build and formalize ESG into the organization's enterprise risk management framework to support the identification, assessment, monitoring, and mitigation of ESG-related risks.

Exhibit 6. A majority of executives believe CAOs should lead on ESG reporting

Q. Is the CAO best positioned to drive the data collection and reporting of ESG or sustainability information?



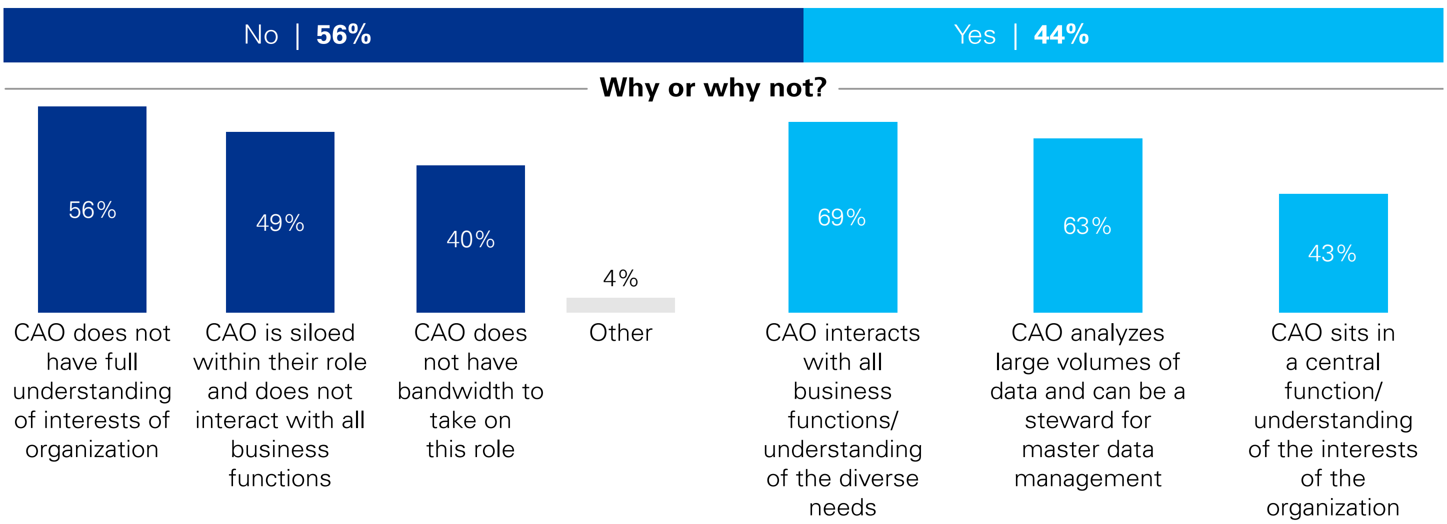
Executives (N=80)

[5] "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors," Securities and Exchange Commission, March 21, 2022

On the flip side, CAOs have some more work to do to win C-level executives' trust on data analytics capabilities. In fact, this may be the biggest burden weighing on CAOs to fulfil their leadership agenda. Even though most executives would like CAOs to provide data-based financial and accounting analysis for strategic decision-making, 56 percent believe they don't have the vision to drive data analytics initiatives (Exhibit 7). The top two reasons executives cited: CAOs do not have a complete understanding of the interests of the organization; and they are too siloed to sufficiently interact with other business functions. Indeed, this year's survey suggests a strong consensus among CAOs that the most productive work place environment for the accounting and finance function is not a work-from-home model. To facilitate the professional development of their team, CAOs must find the right working arrangement (e.g., in-person or hybrid).

Exhibit 7. A majority of executives still lack confidence in CAOs' data analytics vision

Q. Is the CAO best positioned to drive the data analytics vision for the company?



Executives (N=80)

To switch the current narrative, CAOs can't afford to pause the modernization of the finance and accounting function—even as they prioritize responses to a deteriorating business environment. As stewards of financial data, CAOs should take this time to assess new technologies, drive ESG compliance, and play a key role in supporting others in the organization who are driving the data analytics vision. If they can steadily carry out their previous agenda while stepping up big when their organization needs them to, CAOs can go a long way toward ensuring a successful transformation of their role.

Conclusion

The looming recession is the latest external event that illustrates the need for companies to be agile and forward-thinking. This is when organizations and CAOs should consider adopting an attitude of continuous improvement and look toward the next stage of growth.

At the same time, the downturn may present an opportunity for CAOs to work closely with the C-suite to craft an array of responses, including scenario planning, a portfolio review of underperforming assets for divestitures, and financial assessments of potential acquisitions as new sources of growth. With their financial and accounting lens, CAOs can enhance corporate leaders' understanding of the business, accounting, and finance implications of planned responses and help refine them.

To forge ahead in these challenging times, CAOs will need to understand the key interests of the organization and provide relevant, actionable insights while fulfilling their normal accounting and reporting duties. CAOs may have to act even more efficiently given the lack of available resources, tightened budgets, and increased workload. By adapting quickly to a tough new reality, CAOs can not only help their company to continue to thrive when the economy stabilizes but also expedite their own goal of becoming more strategic partners in the C-suite.

How KPMG can help

This year's survey also includes findings on issues related to capital markets readiness that CAOs and other C-level executives are grappling with:

74%	51%	60%
… of executives, compared to less than half of CAOs, believe their company would need adviser support to transform back-office processes and procedures	… of executives suggest that they would need third-party support with due diligence activities in a SPAC* and/or traditional initial public offering	… of executives believe their company would require specialized assistance from advisers to address the talent requirements for public company reporting

*Special-purpose acquisition company

Note: Private company respondents only; CAOs (N=76); Executives (N=53)

KPMG helps CAOs with these concerns on capital markets readiness, and to identify opportunities and recommendations for their most critical organizational challenges. We can help CAOs seize these opportunities to expand their impact as business partners. KPMG has an experienced team of specialists who can help execute the CAO agenda to take the finance function to the next level, with wide-ranging solutions for CAOs and their teams:

Technical accounting and financial reporting specialists

Enterprise-wide transformation and strategy specialists

Broad perspective on organizational design, talent management, and workforce shaping

Internal controls transformation and digitization capabilities

Deal execution and value creation in successful M&A transactions

ESG navigation, including adoption and implementation of internal and external reporting framework and solutions

Authors

Dean Bell

Advisory Partner

Market Activation Leader

Dean has more than 20 years of experience with the complex accounting issues and transaction requirements involved with mergers and acquisitions, including capital markets readiness and compliance. In addition to serving as a member of the Board of Directors of KPMG U.S., he provides strategic leadership and oversight to the Accounting Advisory Services and Financial Due Diligence service networks within the KPMG Deal Advisory and Strategy practice.

Marybeth Shamrock

Advisory Partner

Accounting Advisory Services

Marybeth is a partner in the KPMG Accounting Advisory Services practice and leads our Accounting Change Services practice. Marybeth's experience consists of both technical accounting and project management on GAAP conversions, implementation of technical accounting standards, and both buy-side and sell-side transactions.

Joe Dineen

Advisory Principal

Accounting Advisory Services

Joe is a principal in the KPMG Accounting Advisory Services practice and is the campaign lead for the Strategic CAO campaign. He has over 23 years of experience supporting clients in transformative mergers and acquisitions through complex technical accounting, financial reporting, and finance integration and separation matters.

Tim Lashua

Advisory Partner

Accounting Advisory Services

Tim is a partner in the KPMG Accounting Advisory Services practice, where he is the technology industry leader as well as head of innovation and knowledge management. Tim specializes in the delivery of capital markets advisory and buy-side accounting diligence and finance integration services.

James Murphy

Advisory Principal
Finance Transformation

Jim is a leader in the KPMG Finance Transformation practice in Silicon Valley, specializing in digital finance transformation, cloud/SaaS business implications, and finance business processes and delivery models. He has substantial experience leading and delivering solutions centered on finance business strategy and operational efficiency.

Titus Ball

Managing Director
Accounting Advisory Services

Titus is a managing director in the Deal Advisory practice, principally advising clients across a wide range of transactions, including acquisitions, mergers, divestitures, bankruptcy, restructuring, public company spin-offs, and capital markets readiness. Titus has more than 25 years of experience serving public, private, and multinational clients across a variety of industries, including over 10 years in finance leadership roles as a segment CFO, CAO, and lead audit executive.

We would like to thank our contributors:

Shari Mager, Tim Pieper, Theshan Goonewardene, Stefanie Williams Viereck, Annie Palmer, and Justin Bridgman.

For more information, contact us:

Joe Dineen
Advisory Principal
Accounting Advisory Services
248-346-2919
josephdineen@kpmg.com

Tim Lashua
Advisory Partner
Accounting Advisory Services
415-707-9816
tlashua@kpmg.com

James Murphy
Advisory Principal
Finance Transformation
650-796-4163
jmurphy@kpmg.com

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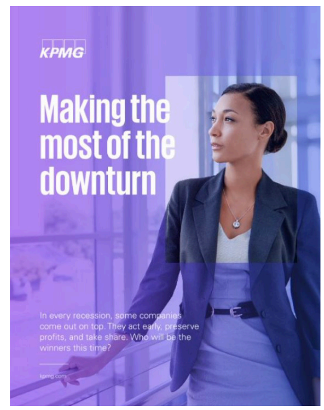

Making the most of the downturn

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