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A report prepared by
CFO Research, in
collaboration with UPS



The Front-Line Finance Officer

A NEW ROLE FOR NEW TIMES



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About this Report

In the second half of 2014, CFO Research, in collaboration with UPS, fielded an online survey of senior finance executives at U.S. companies in professional services industries.

This research explores the way that finance roles are changing at professional services firms, and in particular what kind of leadership these companies seek from their senior finance officers.

We received 161 complete responses to our survey. Survey respondents represent a range of titles and companies, as follows:

Title

Chief financial officer	37%
Controller	16%
Director of finance	12%
Executive vice president or senior vice president of finance	8%
Vice president of finance	8%
Senior finance manager	6%
Owner, partner, or principal	3%
Chief executive officer, president, or managing director	3%
Treasurer	1%
Director of financial planning and analysis	1%
Other senior executive with finance responsibilities	4%
Other	1%

Revenue

\$10 million-\$50 million	32%
\$50 million-\$100 million	14%
\$100 million-\$250 million	10%
\$250 million-\$500 million	12%
\$500 million-\$1 billion	6%
\$1 billion-\$5 billion	8%
\$5 billion-\$10 billion	3%
More than \$10 billion	16%

Employees

Fewer than 100	20%
100-500	37%
500-1,000	8%
1,000-5,000	12%
5,000-10,000	4%
More than 10,000	18%

Industry

Accounting/Auditing/Tax	5%
Advertising/Public relations	6%
Architecture	1%
Banking/Financial services	31%
Consulting	10%
Engineering	4%
Insurance	13%
Legal services	3%
Real estate	7%
Research	3%
Other professional, financial, or business services	14%
Other	3%

Note: Percentages may not total 100% due to rounding.



Executive Summary

Yesterday's small professional services firms are quickly becoming the growth companies of today, and their challenge is to make sure that growth is as profitable as it is sustained. Finance leaders at these professional services firms are changing as their companies change, often becoming key members of company leadership teams. In the professional services firm of tomorrow, the full finance function, too, will be asked to evolve and change—facing the challenge and the opportunity of adapting its skills and experience to help guide the firm's strategy and vision. The functionality of finance is evolving from a single-purpose tool to a Swiss Army knife of business-critical, growth-supporting activities.

In a recent survey of finance executives at mid-sized professional services firms, conducted by CFO Research in collaboration with UPS, we found that many of the 161 firms responding were growth-oriented, with three-quarters (77%) having seen their revenue surge over the past five years, and even more (83%) having seen their number of client engagements grow. The numbers of revenue-generating staff at professional services firms have also grown. However, some 43% of companies said their ratio of administrative and support staff to professional staff has declined during this same time period.

A finance director in banking notes that this trend reflects the new mandate for his company and his finance function: "To become a leaner organization, with less overhead and more dollars allocated to front-line activities."

Finance as a Growth Partner

In order to keep revenue-generating staff focused on serving clients, finance team members at many firms have been asked to step closer to the front lines of the business. They are being asked to provide more analytical and process support that can directly help the business grow.

The survey confirms that finance leaders recognize the opportunity they have to draw on the skills, knowledge, and data resident in the finance organization. Respondents believe their companies' finance teams need to spend more time on financial analysis—36% of their time versus the

current 26%—and less time on routine transactional and administrative tasks—17% versus the current 27%.

Of course, changing behaviors to deliver that additional value is a challenge in its own right, but eight out of ten survey respondents agreed that, if their firms improved the use of technology and automation, they would be able to spend less time on administrative tasks (freeing up time for more value-adding tasks).

A finance officer who wants to be forward-thinking should be searching for ways in which the finance team can be part of the solution. One executive writes in the survey: "[The CFO] needs to be a strong advocate for growth strategies and a change agent."

Survey respondents also said that they need their finance leaders to take on more strategic roles, and to serve as catalysts for change, working across their firms to expand finance's sphere of influence. Only a handful of respondents still believe that the finance officer's highest value comes from traditional responsibilities such as billing, cost control, or compliance.

Of course, new roles for finance staff and finance officers require new skill sets. The CFO of an engineering firm writes: "The finance officer must be flexible. There are not a lot of black-and-white rules anymore. Get out of the office and meet clients to understand their needs. Do the same with staff. And teach, teach, teach."

The controller of a real estate firm writes that, in pursuit of investment opportunities, his company will be "trying new avenues." A finance team that wants to successfully partner across the firm will find itself going down these "new avenues" side by side with the commercial drivers of the business, led by an increasingly strategic CFO.

In sum, it is time for finance leaders, and the finance team, to look up from their spreadsheets and become actively engaged with client-serving professionals, sharing the imperative of adding value to clients and supporting firm growth.



A Time of Change and Growth for Professional Services

In the field of professional services, yesterday's small firms are quickly becoming the growth companies of today. Whether it's an accounting firm, a law office, an architecture and engineering design partnership, or a consultancy, these companies are turning their backs on the economic downturn and ambitiously seeking new pathways to growth.

Finance officers are making themselves into key members of leadership teams.

As professional services firms adapt their old commercial models to the new times, the demands on their professional staff increase. Traditional models that required an individual to make all decisions on his or her own are giving way to a more collaborative culture. Now, a firm is more likely to expect to draw on the strengths of different team members, working together in a networked environment.

More and more, the finance officers at these kinds of firms are making themselves into key members of the leadership teams. With growth comes change, and in tomorrow's services firm, the finance function will be faced with the challenge—and the opportunity—of adapting their unique skills and experience more to making a positive contribution to commercial growth and less to simply tracking and reporting the numbers.

This shift is revealed in a recent survey of finance executives at mid-sized professional services firms in the United States, conducted by CFO Research and sponsored by UPS. The research, which drew responses from 161 finance executives, underscores the necessity of stay-

ing agile in the pursuit of new clients. For example, one director of finance from the insurance industry makes the case forcefully, writing that, for his company, the most important thing is to “move with the times. Don't stay put in one place. We need to always be changing.”

Certainly, few of the companies in our survey can be said to be standing still. Over the past five years, nearly all the companies (83%) have seen their client engagements surge, and nearly three out of ten finance executives (28%) say that the number of client engagements is much higher for their firms now than five years ago. Nearly as many (77%) have seen their revenues grow, with 31% reporting much higher growth. (See Figure 1.)

For a substantial number of respondents, this growth is a direct result of mergers and acquisitions the professional services sector has undergone in recent years. Thirty-seven percent (37%) of the finance executives in the survey say that their companies are larger today than five years ago due to merger activity.

And it's not simply a case of the big fish gobbling up all the little fish. The survey focused primarily on mid-market professional services firms, and nearly three out of four companies report less than a billion dollars in revenue; 56% are under \$250 million. Consequently, the merger activity we found suggests that these small and mid-sized companies are combining with each other, creating a greater whole out of relatively equal parts.

This, in itself, can make dealing with their corporate growing pains even more difficult. Two firms with equal but different cultures will have to negotiate how they present themselves to their clients, how they conduct their business, and how they work together in a collaborative way. Negotiations like these may be less likely when a larger, dominant player enters the picture.



FIGURE 1. Following the economic downturn, mid-sized professional services firms are on new paths to growth, as the number of client engagements and revenues both climb.

Compared to 5 years ago...



77%
report higher
revenue



83%
report more client
engagements

One of the main points of discussion during a merger or acquisition is who stays and who goes. To fuel its growth ambitions, a services company will likely beef up its professional staff—that is, increase the number of employees who drive revenue. In fact, 83% of the firms in the survey have more professionals today than they did five years ago, and one in five (20%) have increased professional staff at a faster rate than they have increased revenues.

Front-line professionals are the drivers of growth, and finance leaders recognize that talent management is closely tied to financial performance. It's for this reason that the CFO of a full-design A&E (architecture and

engineering) firm notes that it will be most important for his company to initiate “several focused tactical objectives/projects related to retention, sourcing, talent management and compensation.”

Finance leaders recognize that talent management is closely tied to financial performance.



The Finance Officer as a Partner in Growth

What will it take to succeed in these times? A great many things, according to the CFO of a healthcare software company:

“Develop new products / services. Use speed and agility to our advantage. Anticipate changes and adapt service offerings. Evaluate training and development, culture, compensation and benefits programs.”

This CFO, in fact, is emblematic of the change in the finance culture and the scope of the finance leader’s responsibilities that our survey points toward, whether that’s the CFO or somebody with a different title. The forward-thinking finance officer’s interests and responsibilities are extending across strategy, operations, sales, talent acquisition and retention, professional development, and even such “soft skills” areas as corporate culture and change management.

The ability to work collaboratively, drawing on the varied strengths of different team members, has never been more highly valued.

These changes for the finance officer are in line with the kinds of changes being seen throughout the professional services sector. Only one in five companies in the survey (19%) still rely exclusively on individual principals, partners, or practice leaders to make the

commercial decisions at their companies. Almost six in ten operate using a “corporate” model, with executive or senior management teams taking responsibility for financial performance. The remainder (23%) combine the two management practices and strike a balance between individual partners and corporate executives. The ability to work collaboratively on engagements and on strategy, drawing on the varied strengths of different team members, has never been more highly valued.

To become an integral part of the decision-making team, many finance officers have been actively transforming both their job descriptions and their colleagues’ perceptions of the value they deliver. In fact, eight out of every ten respondents (79%) report that their senior finance officers already have a strong voice in setting company strategy. A CFO in financial services says that the senior finance officer must “know the business from the ground up,” while a CFO from a legal services firm insists that value comes from maintaining “business focus, business focus, business focus.”

At the same time, fewer than half of the respondents in the survey (39%) view the senior finance officer at their company primarily as a strategist—someone who analyzes and interprets financial data to guide decision making. Almost as many respondents (31%) report that their finance leader still functions primarily in a more traditional role as the steward of the company’s finances—overseeing assets, directing risk-management efforts, and making sure the company meets its compliance obligations. (See Figure 2.)

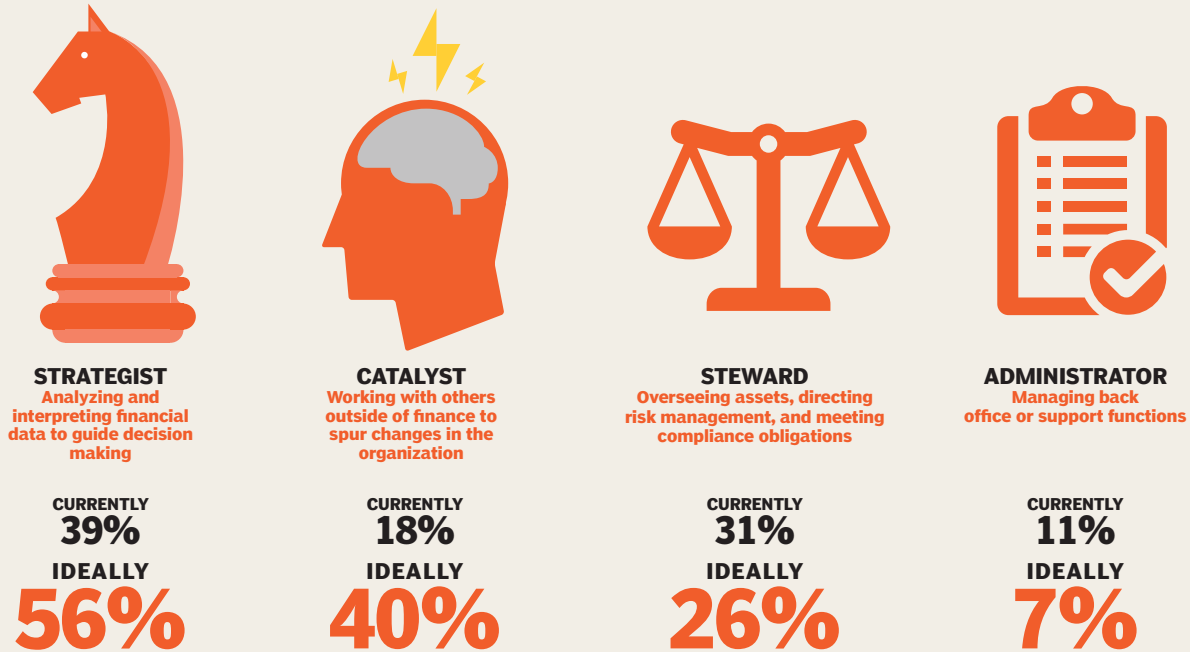
In many firms today, finance teams want their leaders to be more actively engaged in company strategy and in working outside of their functional silos. Regardless of the finance officer’s current role, a majority of



FIGURE 2. Finance teams are eager for their leadership to take on higher-value roles within the larger enterprise.

How would you describe your senior finance officer?

What do you believe your finance officer ideally should become more of?



Note: In the chart, “Ideally” responses do not total 100%, as respondents were allowed multiple selections.

respondents (56%) believe their finance leader needs to become even more of a strategist.

The largest differences between the current state and the ideal is seen in the role of catalyst—the CFO who can work with others outside of finance to spur change throughout the enterprise. Although only 18% of respondents currently see their senior finance officer as a catalyst, 40% believe their finance officer should be working on expanding finance’s sphere of influence by acting more as a catalyst for change.

Among the firms led at least partially by partners or principals, the senior finance officer is nearly as likely to be a partner/principal as not. But at firms where the senior finance officer is not a partner, respondents are much more likely to indicate that the finance officer is primarily

a “steward of the company’s finances” (40%) than they are to say the finance officer is either a strategist (25%) or a catalyst (17%). The walls of the finance silo are likely still intact at these companies.

In many firms today, finance teams want their leaders to be more actively engaged in company strategy and in working outside of their functional silos.



Only a handful of respondents believe that the senior finance officer's value still comes from what may be seen as traditional finance responsibilities, such as billing, cost control, or compliance, or from improving financial metrics alone. When asked about the most important things their company's senior finance officer can do to optimize his or her value to the company, many respondents cite various ways the finance officer can support operations and promote business growth, including working closely with other executives to provide guidance and analyses supporting management decision making:

▶ “The CFO at our company needs to be a strong advocate for growth strategies and a change agent to implement and optimize technology to make finance and operational processes more efficient. The CFO also needs to be able to evaluate acquisitions and perform financial analysis to enlighten and guide intelligent business decisions.”

—CFO, consulting firm

▶ “[The finance officer needs] effective strategic planning, a strong management process that is transparent and drives accountability, [and] works effectively with other senior management and others inside and outside the company.”

—CFO, insurance firm

▶ “Continue to analyze and effectively make decisions that will move the company in a direction that will generate profitable growth efficiently.”

—CFO, electronic security services firm

▶ “Detect trends within the company to avoid train wrecks. Improve processes, policies, etc. to ensure that growth (whether organic or via acquisition) is not hindered.”

— Controller, professional services firm

“There are not a lot of black-and-white rules anymore.”

Ultimately, writes the CFO of an engineering firm:

▶ “The finance officer must be flexible. There are not a lot of black-and-white rules anymore. He or she must also understand the operations side of the company. Get out of the office and meet clients to understand their needs. Do the same with staff. And, teach, teach, teach. Make sure that your associates understand why you need to hit certain metrics; don't just tell them that they have to do it.”





Seeking Profitable Growth and Higher Value from Finance Teams

Having survived the recent recession, the companies still standing are understandably reluctant to start throwing cash around again—on salaries or anything else—even as they pursue their newly developing opportunities. Business leaders are laying plans to grow again, but the focus is more intense than ever on profitable growth.

These days, the focus is more intense than ever on profitable growth.

To meet the challenges of increasing competition and uncertain markets, many finance executives in the survey point to the “need to become a leaner organization, with less overhead and more dollars allocated to front-line activities,” as a director of finance from the banking/

financial services industry writes. Simply put, the task for a mid-sized professional services firm now is “maximizing volume on thinner profit margins,” according to a CFO from the financial services sector.

For these companies, adding administrative and support staff to keep pace with growth is not going to be high on the agenda. In fact, the professional services firms in our survey are more likely to downsize their back offices than to expand them. Professional staffs are growing faster than support staffs; 40% of firms have seen declines in the ratio of administrative and support staff per professional, at a time when, for the most part, they have been adding professional staff. (See Figure 3.)

This leaves many firms juggling revenue generation with the need simply to get things done. A quarter of respondents (26%) say that their companies would benefit greatly by reducing the amount of time professionals spend on

FIGURE 3. The mandate for profitable growth is leading to a decreasing number of support staff.



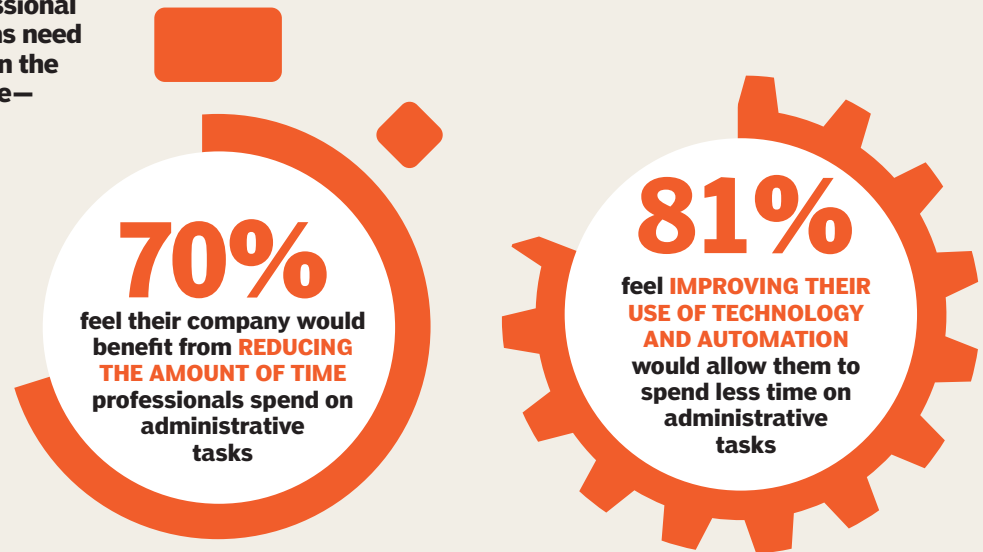
Over the past 5 years...

40%

say the ratio of support staff to professional staff has **DECREASED**



FIGURE 4. The professional staff at services firms need to be able to focus on the reason they are there—generating revenue.



administrative tasks, and another 44% say their companies would benefit at least somewhat. (See Figure 4.) Keeping professional staff focused on actually generating revenue is becoming increasingly difficult in a do-it-yourself world.

Finance teams are also facing increasing demands to focus their expertise on higher-value activities. Survey respondents report that finance function time now is split evenly between financial analysis to support business development and growth (26% of the finance function's time) and transactional and administrative tasks (27% of its time). On average, however, finance executives believe their teams need to be spending more time on financial analysis (36% of their time) and less on routine transactional and administrative tasks (17% of their time). (See Figure 5.)

Eight of every ten respondents agree that, if their firms improved the use of technology and automation, they would be able to spend less time on administrative tasks. (See Figure 4.) Certainly, in a firm where professionals are expected to drive more growth with fewer support staff, the finance function can play an important role in employing technology and automation to ensure that the business and transactional processes critical to a company's execution of its business are well-oiled and running smoothly. (See sidebar, "Keeping Documents on Track.")

If that goal can be achieved, then finance employees will find that more of their own time can be freed up to work with the commercial side of the business. In particular, they can do more to contribute to the firm's strategic goals, providing financial analysis and insight in evaluating new opportunities, gauging the firm's progress, and helping redirect resources to where they will do the most good.

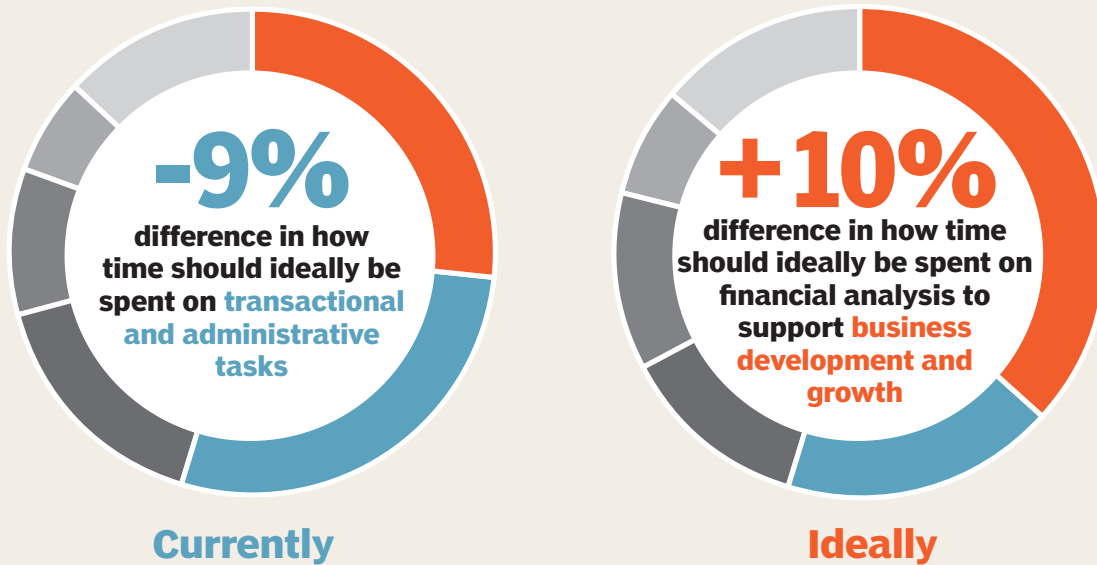
Finance teams are facing increasing demands to focus their expertise on higher-value activities.

When the controller of a real estate firm writes that one of the main challenges for his company over the next two years will be "finding new investment opportunities," he also acknowledges that, to do so, the company must necessarily be "trying new avenues." Any finance team that wants to be a full partner in the solution will also find itself going down these "new avenues," side by side with the commercial drivers of their business and led by their newly minted strategic CFO.



FIGURE 5. Finance teams are looking to spend more time adding value to the business, and less time on purely administrative tasks.

How should your company's finance function spend its time?



- Financial analysis to support business development and growth
- Transactional and administrative tasks (e.g., expense tracking, billing, payables)
- Compliance and reporting
- Risk analysis and management
- Mergers and acquisitions (M&A) activities
- Cost control for the company



Keeping Documents on Track

In another sign of the changing times, professional services firms have been steadily reducing the stacks of paper that historically drive their businesses, turning increasingly to electronic communications with clients. Nearly two-thirds of respondents (64%) note that more of their client-related documentation these days is electronic than paper.

Despite this trend, most respondents (82%) still use overnight shipping services at least once a week, and more than half (53%) make one or more shipments each business day. Reliability is by far the most important consideration when using an overnight or express shipping service. Reliability receives an average of 51 points out of 100, when finance executives rate the features they value in an overnight shipping service. The next most important consideration, price, receives an average of 17.5 points out of 100.

With overnight shipping remaining as frequent a necessity as it is for the professional services firm, the consci-

entious CFO needs to keep a close eye on who is using these services, how often, and who is paying for them. Whether project expenses are being billed back to the client, or project leaders need to manage their individual P&L's, the ability to track and allocate expenses remains an important part of the finance function's duties.

Most of the companies in our survey acknowledge this reality, and only 15% of them don't track shipping expenses separately. For the 85% that do, the volume of small, individual daily and weekly transactions can tax the limited time and resources of a mid-sized company's finance team.

In our survey, approximately the same number of respondents rely on manual or spreadsheet-based processes to track shipping expenses (27%) as have fully automated systems (24%). All too often, the finance team must commit time and resources to collecting, sorting, and reporting data and manually reconciling invoices, when their data management and analytical skills could be better applied to adding value to client engagements.

Use of Express Shipping Services at Professional Services Firms

53%

ONE OR MORE SHIPMENTS DAILY

29%

ONE OR MORE SHIPMENTS WEEKLY

9%

A FEW TIMES A MONTH

9%

OTHER



Sponsor's Perspective



Finance leaders who took part in the 2014 CFO Survey – “The Front-Line Finance Officer: A New Role for New Times” – confirmed that their roles are changing quickly. Several areas of opportunity emerged as ways to lead their firms toward a more profitable future. Now the question becomes, how can the CFO make it happen?

One way is to partner with experts who not only share your business vision and aspirations, but who've been planning and strategizing to help you realize them. You may know UPS as the express delivery company that delivers to more U.S. businesses and ZIP Codes by 8:00 a.m. and 10:30 a.m. than FedEx. However, you might be surprised by the range of benefits we offer beyond fast and reliable transportation. For example:

Reinforcing your brand: In a world dominated by electronic communications, you should not underestimate “old school” marketing. Consider the favorable impact of your brand and logo prominently displayed on the express envelopes that carry your proposals, contracts, client pitches, or work products. UPS can customize your overnight delivery envelopes to do just that. It's a smart, simple and repeatable way to make the most of an express envelope to keep your brand top of mind with clients and to help gain new ones as well.

Boosting productivity of your professionals: Eight of ten participants in the CFO Survey cited the importance of adopting technology to help front-line professionals focus more time on driving revenue. While you once had one administrative staffer for every two professionals, you may now have only two for the entire firm. With fewer support staff members, your professionals are picking up administrative responsibilities. What if they could easily take care of tasks like storing address books, creating shipping labels, and efficiently allocating shipping costs to your clients? UPS can help with easy-to-use shipping technology enabling you to access your MS Outlook contacts to make label creation simple, and helping ensure that shipments are billed to the correct client / matter codes.

Digging new value out of familiar places: Is adding staff costs in the mailroom a necessary burden to handle increased volume? A better option to spur profitable growth might be to increase mailroom efficiency by empowering the people you have with a special-purpose, electronic hand-held device to scan incoming packages (from any carrier), create an internal routing label, deliver the package, and capture signatures. Plus, you can use this device to maintain an inventory of all equipment, from tables and chairs to computer equipment, a feature that comes in handy in a merger-and-acquisition environment.

Building your vital relationships: Who hasn't sweated over important contracts crossing the country or crossing borders? What if your transportation partner offered you a team to monitor such critical shipments and – if a problem occurred – pulled out all the stops to find a solution? That's exactly what UPS Proactive Response® Secure can do for you. While you sleep, UPS works to monitor and intervene whenever a critical shipment is at risk – whether the cause is foul weather or a mechanical emergency on a flight. If an unavoidable delay is identified, automatic insurance coverage, offered through UPS Capital® Insurance Agency, Inc., kicks in to protect you against the unforeseen costs of expedited delivery and recovery procedures as well as consequential damages should that contract not arrive on time.

These are just a few of many ways we can support and fuel the aspirations of finance leaders expressed in this CFO Survey. Sure, you knew UPS delivers more guaranteed packages on time and around the world than any other carrier, and now you know we deliver so much more! Are you ready to get started? Let's talk about how you see your finance role evolving and fresh ideas to help get you there.

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