OXFORD ECONOMICS

Small and Mid-Size Companies Can Boost Performance Through Finance

Companies with less than €1 billion in annual revenue have inherent advantages. Small and mid-size companies are often more innovative and agile than their larger competitors. They can leverage the talents of their smaller workforce more readily. They can seize new opportunities quickly, without having to dismantle large bureaucracies or legacy systems. This means the finance function at these companies has ample opportunities to increase efficiency, boost performance, and become a strategic partner.

These findings are among the results from a global survey of 1,500 finance executives across a broad range of industries, conducted by Oxford Economics and SAP in March and April 2017. This report focuses on the survey findings of small to mid-size companies—those with less than €1 billion in revenue. Survey respondents included 101 respondents with revenues of €100 million to €499 million, and 350 with revenues of €500 million to €999 million. In general, the smaller companies in this segment perform better than larger companies by a wide margin: 34% report revenue growth of more than 5% over the last fiscal year, vs. a scant 8% of larger companies.

However, executives at smaller companies may more easily become swamped with day-to-day tasks that a bigger organization has automated or outsourced. They may not be taking advantage of modern technology, tools, and techniques that can free their finance teams to become a more strategic driver of their company's growth.

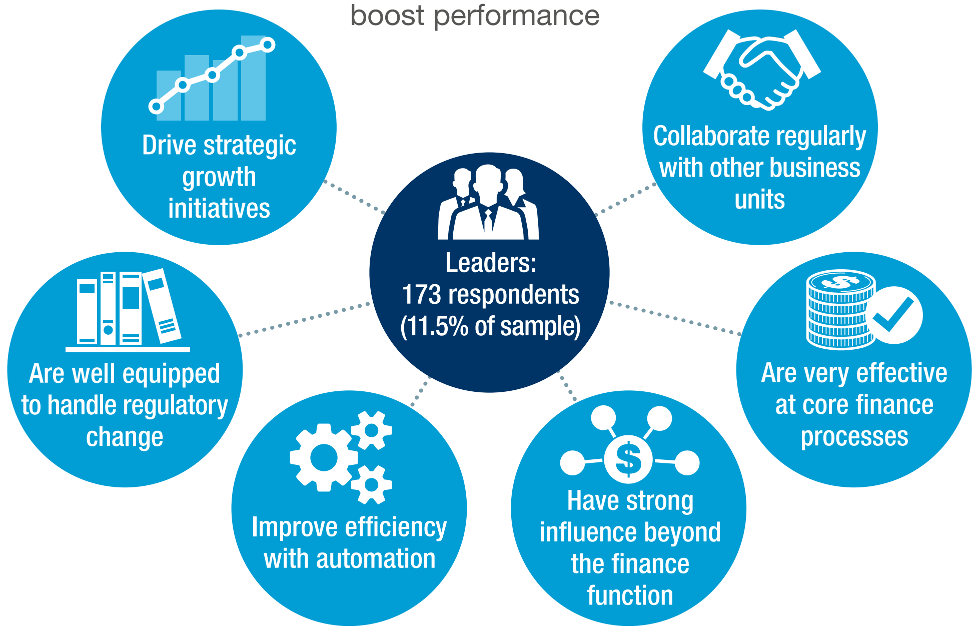
By emulating an elite group we call Finance Leaders, finance executives at smaller companies can leverage their size and position to boost performance. This becomes especially important as smaller companies directly compete with larger companies in today's flattened, global economy. And as they grow, their finance operation will need to run effectively and efficiently at scale.

How to Stay Ahead of the Pack

We identified six traits that make a Finance Leader (Fig. 1). These executives:

1. Have strong influence beyond the finance function
2. Drive strategic growth initiatives
3. Improve efficiency with automation
4. Are very effective at core finance processes
5. Collaborate regularly with business units across the entire company
6. Work closely with governance, risk, and compliance (GRC) and are well equipped to handle regulatory changes

Fig. 1: How Finance Leaders boost performance



The growth opportunity

Many small and mid-size companies demonstrate Finance Leadership traits. **For example, two-thirds of survey respondents with less than €1 billion in revenue say the finance function is becoming increasingly visible and influential across the company, and 82% say the CFO is increasingly involved in strategic decisions outside of finance.** The ability to exercise influence beyond the function is one of the criteria for Finance Leadership. Our data show a dramatic correlation between a highly visible, influential finance function and fast revenue and profit growth—metrics that small and mid-size companies already report.

As smaller companies grow, they may need to rethink their finance function's priorities so that they use their time efficiently. Our results show that when finance breaks out of its traditional silo, it has a powerful impact on performance. Efficiency frees finance executives to focus on more value-added tasks and to collaborate with and influence other parts of the company. To do that, they need to automate time-consuming, repetitive manual chores. However, just 56% of companies with €1 billion or less in revenue say their finance function is automating for efficiency, compared with nearly 80% of companies with greater than €1 billion in revenue.

In addition, compared with Finance Leaders, smaller companies are more likely to describe a traditional finance mandate that focuses on optimizing working capital and keeping the organization efficient (Fig. 2). Finance Leaders achieve these important business goals with the help of tools like cloud-based applications and Big Data. That allows them to concentrate on strategic growth initiatives, where input from finance can add measurable value. **Smaller organizations have an opportunity to boost enterprise performance by expanding their traditional finance scope to make sure their finance executives prioritize company-wide strategic goals and growth initiatives.**

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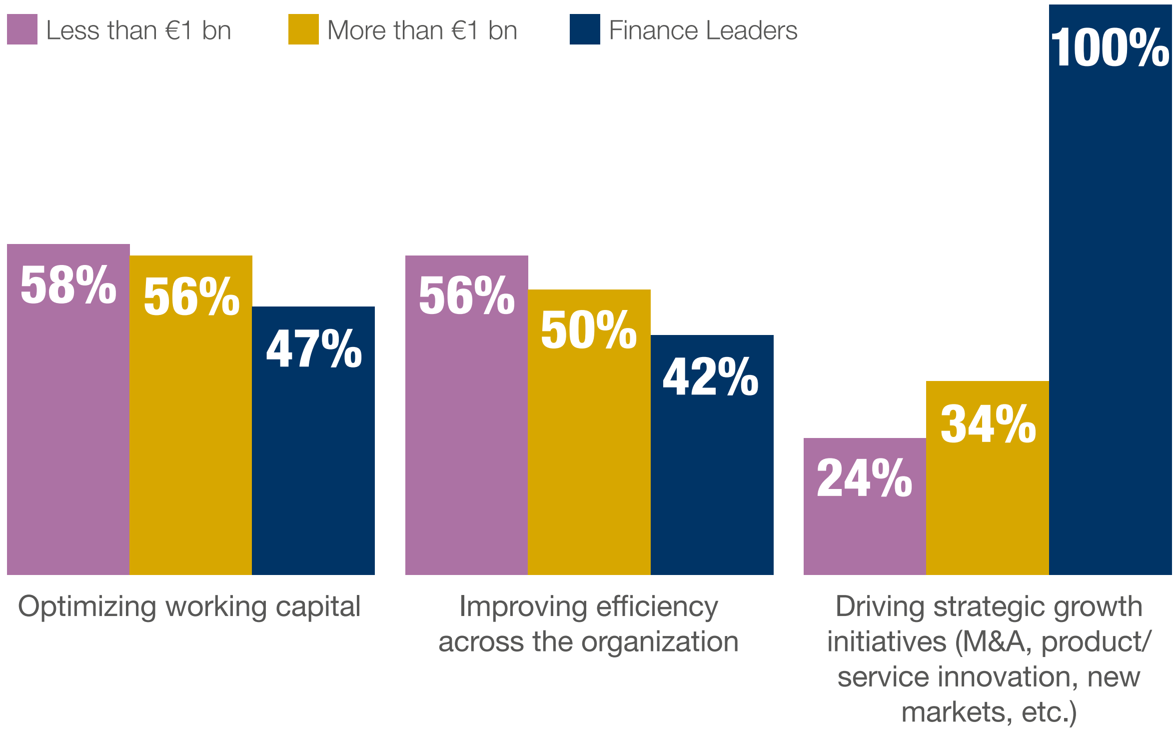
Fig. 2: At smaller companies, finance focuses on core goals

What are the finance function's most important business goals? *Top-three ranked responses*



The right tools for the job

While the finance function has the potential to be more agile at smaller companies, technology obstacles are among its biggest barriers to success. Smaller companies are more impeded by older technology: 37% of companies with revenue below €1 billion say that outdated technology keeps them from achieving their business goals, while just 22% of larger companies answered the question in this way.

In a related finding, finance executives at smaller companies may underestimate technology's potential to enhance the finance function's performance and efficiency. These companies are much more likely to say manual processes are an obstacle that prevents finance from meeting its business goals.

Furthermore, whereas Finance Leaders almost unanimously say modern digital tools like cloud-based applications, ERP platforms, and Big Data are very or critically important to the finance function today, less than two-thirds of small and mid-size companies do (Fig. 3). When it comes to emerging technologies like analytics, the Internet of Things, and artificial intelligence, smaller companies are even further behind the Leaders and large companies.

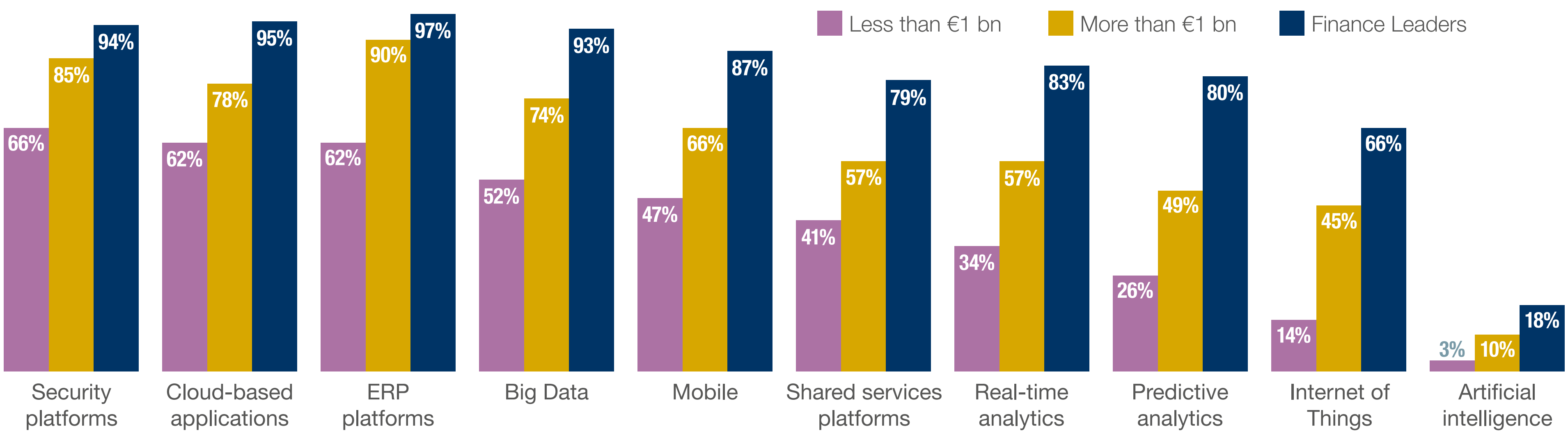
Looking ahead, small and mid-size respondents are also more likely to downplay emerging technology's importance in two years. For example, just 5% say artificial intelligence will be important to the finance function in two years, vs. 38% of companies with more than €10 billion in revenue.

This may be because smaller companies have not grasped the advantages of many emerging technologies, which, for the moment, may be better suited for the vast quantity of data at larger companies. Or they may feel overwhelmed by what they see as the complexity of technology: 74% of small and mid-size businesses say new or emerging technology is increasing the function's complexity (vs. 58% of larger companies). In addition, smaller companies may be challenged to find the resources to update their systems—61% said the difficulty of updating technology without disrupting daily activities was a top-ranked challenge to making their finance function more efficient. Still, **these businesses could risk future growth if they ignore the tools that are so important to top-performing businesses.**

74% of small and mid-size businesses say new or emerging technology is increasing the function's complexity (vs. **58%** of larger companies).

Fig. 3: Smaller companies undervalue technology's importance

Please rate the importance of the following technologies to your finance function's successful performance. *"Critically important" and "Very important" responses*



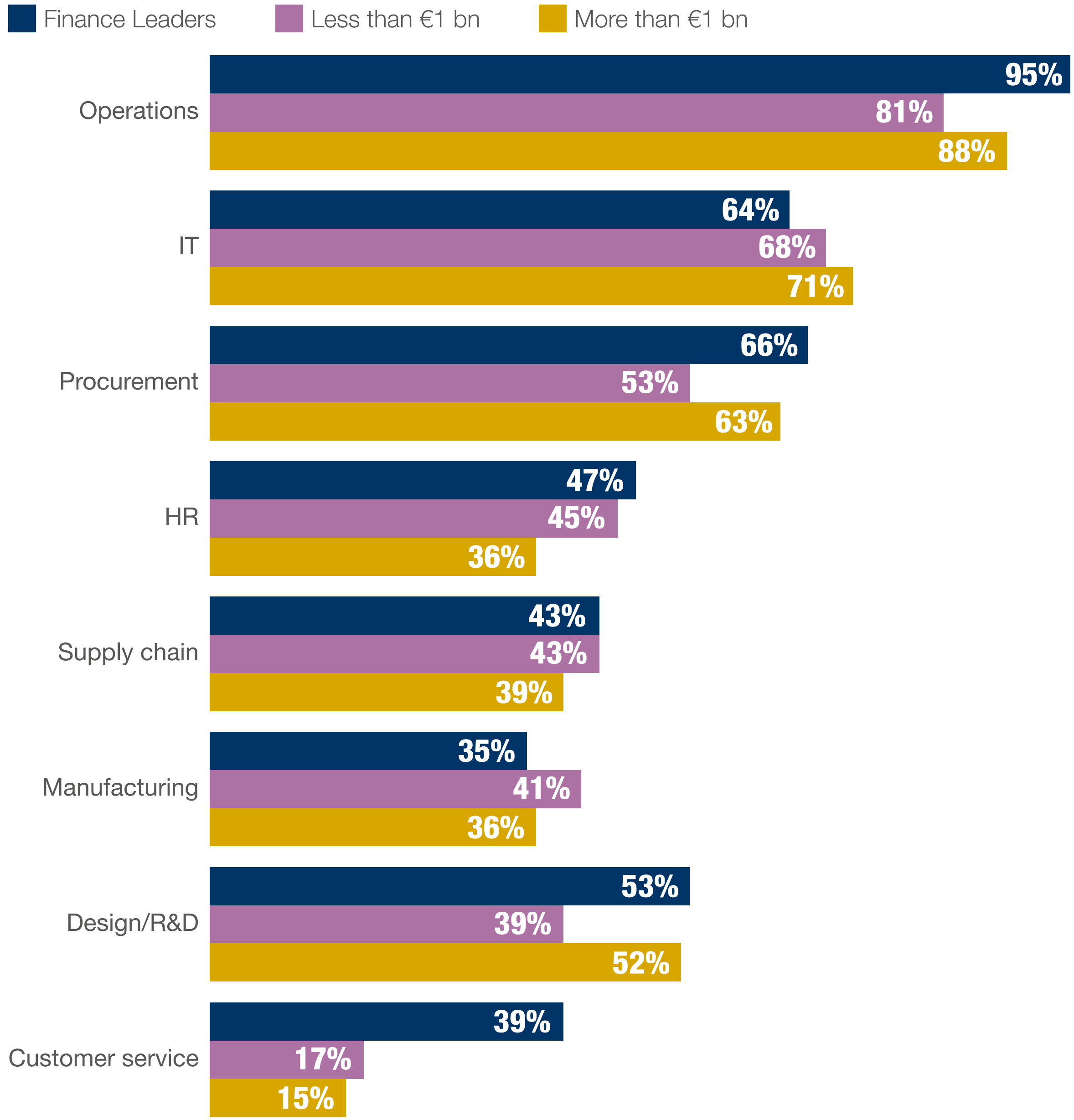
The collaboration advantage

Another criterion for Finance Leadership is collaboration with business areas across the organization. At small and mid-size companies, finance executives outperform their peers at larger companies and even Leaders in a number of areas (Fig 4). As we've seen, greater collaboration with finance boosts performance in Finance Leaders, and allows finance to be a strategic partner company-wide. This collaboration is important beyond traditional functions like risk and operations—finance can be a valuable partner in areas like R&D, manufacturing, and customer service.

Our survey results make intuitive sense, as smaller companies may offer their finance executives more opportunities to work outside the function. But smaller companies should do more than just rely on their inherent advantages when it comes to collaboration. Just about half (55%) of smaller companies say they are providing technology to promote collaboration between finance and other business units, significantly less than the 71% of larger companies that are doing so. And smaller companies are nearly half as likely to provide business analytics to encourage collaboration (28% vs. 50% of larger companies). **Leveraging technology further will allow finance executives to add more value in areas where they may traditionally not have influence or decision-making ability and help maintain the level of collaboration even as their company grows.**

Fig. 4: Finance professionals at smaller companies are better collaborators

Please indicate the level of collaboration, if any, your finance function has with the following other business functions. *"Collaborate regularly" and "Working with finance is a vital part of this function" responses*



Overcoming obstacles

Perhaps unsurprisingly, smaller companies are significantly more likely to say a lack of budget is one of the top challenges to making their finance function more efficient (66% vs. 43% of larger companies).

Another challenge, specifically called out by small and mid-size companies, is finance's increasing complexity. Smaller companies are also more likely to say that the CFO's increased visibility in the organization, changing skill requirements in the function, and organizational changes are making finance more complex. Mounting complexity in the finance function challenges organizations of all sizes. Yet CFOs at smaller companies must grapple with the trend while also overcoming perennial concerns like lack of budget and outdated technologies.

But by emulating Finance Leaders—and following the same practices and strategies—smaller businesses can shift their finance function into high gear. When finance uses the best tools to enhance collaboration and efficiency and becomes a strategic partner with all parts of the organization, our research shows its influence will pay off in better performance.

Calls to action:

- **Leverage inherent advantages.** Smaller companies often benefit from less bureaucracy and more opportunities for finance executives to lead. Their finance executives can use these advantages to collaborate more across the C-suite and influence decisions that can improve efficiency and boost performance.
- **Shift the finance function's strategic priorities.** By using technology to boost efficiency, and collaborating across the organization, finance professionals are well positioned to drive strategic growth initiatives. CFOs at small and mid-size companies should shift their priorities away from traditional finance roles (like working capital optimization) and toward these strategic roles, in order to get the most value out of their expertise.
- **Don't ignore the benefits of technology.** Although lack of budget is a major issue for small and mid-size companies, a larger stumbling block may be their outdated technology. The use of established (like cloud, Big Data, and ERP platforms, analytics) and emerging (like IoT and blockchain) technologies can provide a major efficiency breakthrough to the finance function at smaller companies. This, in turn, can boost performance across the company and inform better decision-making.

To read the full study, **How Finance Leadership Pays Off: Six Ways CFOs Stay Ahead of the Pack**, **click here.**

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