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The CFO Program

SEA CFO Agenda 2023

Decoding the CFO's trilemma: Volatility, value, and capabilities

March 2024

MAKING AN IMPACT THAT MATTERS since 1845

Contents

Methodology

Between June and September 2023, Deloitte Asia Pacific surveyed 276 CFOs in the region to better understand their challenges and priorities. The survey was conducted across five economies in Asia Pacific – namely, Australia, China, India, Japan, and Southeast Asia (SEA).

Within SEA, we received a total of 46 responses from CFOs based in Malaysia, Philippines, Singapore, Thailand, and Vietnam. A significant majority, or 70%, of this sample was composed of CFOs from companies with annual revenues of more than US$100 million, with wide sector coverage across the consumer; energy and resources; financial services; life sciences and health care; manufacturing; public sector; and technology, media and telecommunications industries, as well as diversified conglomerates.

To inform our analysis, Deloitte Southeast Asia also conducted a series of one-on-one interviews with 15 SEA CFOs within the same timeframe to obtain a more granular understanding of the unique nuances and perspectives of SEA CFOs. Their insights have contributed to the development of our point of view presented in this report.

Foreword

We live in volatile times. The ongoing geopolitical and economic instability that has characterised our recent years shows no signs of abating, and SEA CFOs have found themselves confronted by pressures coming from all directions – soaring interest rates and inflation, a slowdown in domestic consumption, and slower-than-expected post-COVID recovery, just to name a few. But as the saying goes: when the going gets tough, the tough get going.

Findings from our latest research – comprising a survey with 46 SEA CFOs based in Malaysia, Philippines, Singapore, Thailand, and Vietnam, and a series of one-on-one interviews with 15 SEA CFOs – revealed that SEA CFOs have become highly adept at leveraging the lessons of the pandemic to contend with volatility. Adopting a wide range of savvy approaches to managing their cost of capital, controlling costs, and diversifying their businesses, SEA CFOs have been able to not only put their organisations on more favourable financial footings, but also opportunistically capitalise on the upsides that volatility presents.

Beyond volatility, however, SEA CFOs are also facing growing expectations to better manage their talent, technology, as well as environmental, social, and governance (ESG) strategies. These are challenges that are not confined to finance, or any particular function for that matter; they are multi-disciplinary and multi-faceted in nature, and require the orchestration of organisation-wide, cross-functional collaboration. To support their broader C-suite teams in exercising their collective responsibility, SEA CFOs are increasingly assuming responsibilities outside their traditional domain of finance and bolstering their finance function's business partnering capabilities.

Amidst the hype around artificial intelligence (AI) technologies, the value of AI and what it means for talent are also top-of-mind considerations for SEA CFOs. Nevertheless, while their organisations possess varying levels of digital ambitions, what was clear across the board was that most SEA CFOs are only in the exploratory phases of AI and data. Apart from the lack of compelling AI use cases, key impediments to the uptake of advanced AI technologies also include the lack of clean, consistent, and consolidated data, as well as difficulties converging around a common definition of AI and developing a data-driven AI mindset.

Overall, we observed three broad, recurring themes – contending with volatility; creating long-term value; and transforming capabilities – that together comprise what we believe to be the SEA CFO's trilemma. In the sections ahead, we will decode each of these themes in turn, and discuss the differing strategies that SEA CFOs are deploying to tackle the challenges that they present.

We hope that you will find this report insightful, and look forward to more conversations with you on how you and your finance teams are navigating the future.

Ho Kok Yong
CFO Program Leader
Deloitte Southeast Asia

Contending with volatility

Survival of the fittest

Relative to their Asia Pacific counterparts, SEA CFOs appear to be more concerned about the economic outlook: 33% of SEA respondents expressed pessimistic sentiments, a significantly higher proportion than the overall Asia Pacific average of 23% (see Figure 1). Our observations suggest that this can be largely attributed to the fact that SEA CFOs tend to be markedly more externally oriented in their mindsets, given that many regional economies have less of a domestic hinterland and are much more export-driven in nature.

Top concerns cited by SEA CFOs in our conversations with them include geopolitical tensions and conflicts, interest rates and inflation, import sanctions, a slowdown in domestic consumption, and slower-than-expected post-COVID recovery in China – a finding that was also consistent with our survey results (see Figure 2). Indeed, for many SEA CFOs whose businesses entail some form of manufacturing or production, China is both an important export market and a critical source of raw materials – meaning that any supply chain disruptions or fluctuations in China's economy would have significant knock-on impacts on their operations.

But above all, the question of geopolitical stability looms large in the minds of SEA CFOs. As succinctly articulated by the CFO at a Malaysia-based property developer whose business is currently experiencing supply chain disruptions, volatility in raw material prices, and labour shortages, "Most risks can be mitigated by management – the only exception is political risk." It is perhaps for this reason that we noticed an overwhelming frequency with which SEA CFOs are preparing for – in the exact words of one CFO – worst-case 'Armageddon' scenarios (see 'Preparing for 'Armageddon' scenarios' in sidebar).

Figure 1: SEA CFOs' view on the economic outlook for the next 12 months

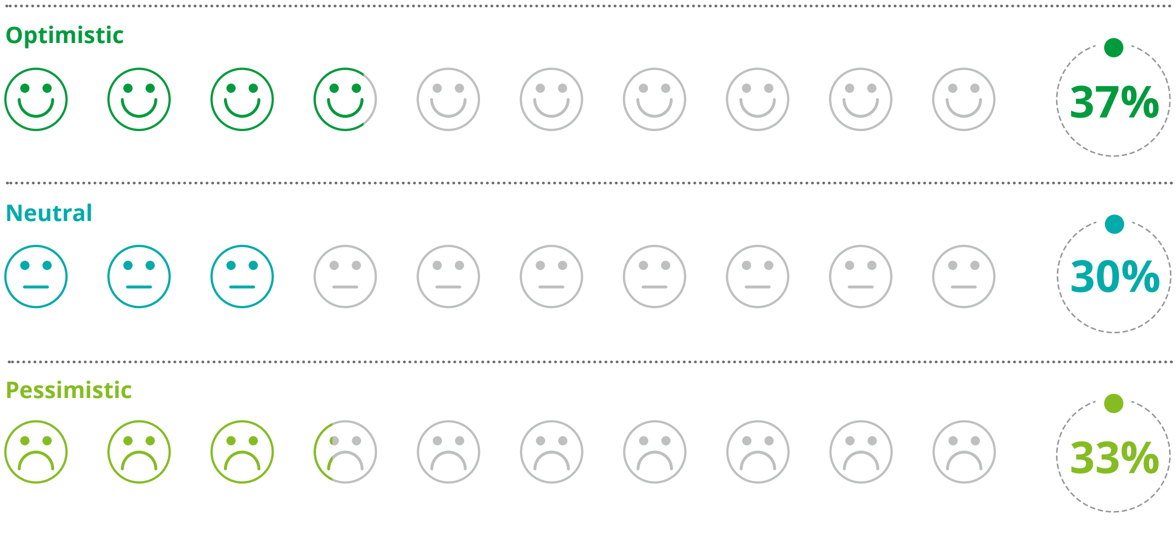
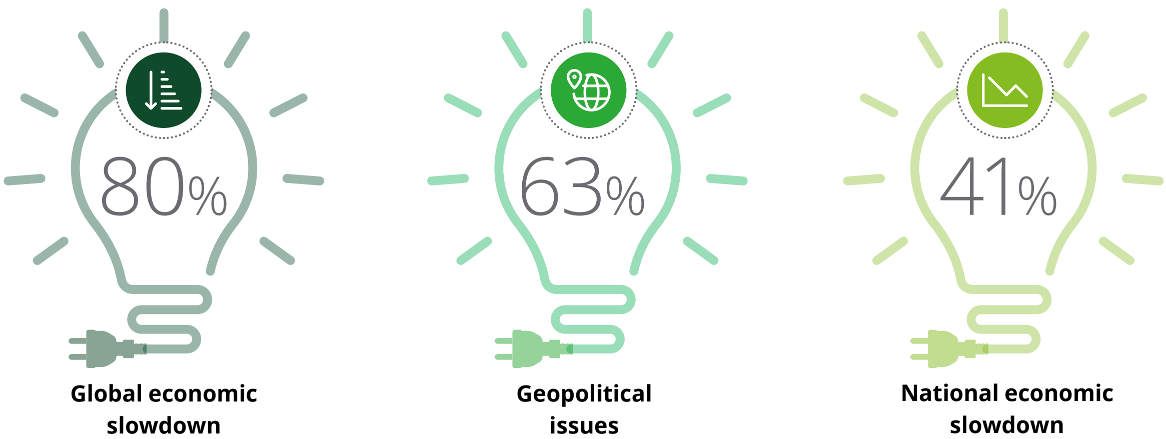


Figure 2: Top three external risks



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Suffice it to say, a significant number of SEA CFOs view the ongoing volatility as somewhat of a 'survival of the fittest' test. A CFO at a Thailand-based chemicals company, for example, explained that their current focus is on becoming as lean, adaptable, and flexible as possible, and that they intend to continue doubling down on every single line in their financial statements to not only optimise operating costs, capital expenditure, and foreign exchange and interest rate management, but also gain operational insight into how they can increase revenue and decrease costs, such as ideas for new asset management strategies.

"The world goes in cycles: there are good times and there are bad times. The ability to manage cycles is therefore key, and our conservative investment approach has served us well. When our industry hit rock bottom, we were the 'last one standing' because we had enough cash and were able to survive even a worst-case scenario."

CFO at a Thailand-based holding company

Preparing for 'Armageddon' scenarios

For the CFO at a Singapore-based technology company, the confluence of factors leading up to the current state of volatility is a long-term trend that cannot be ignored. While they acknowledge that there is no one right way to manage volatility, increasing the effectiveness with which they manage their finite resources – that is financials, cash flow, and capital – is one 'no regret' strategy. To avoid being caught off guard by unexpected events, the CFO and their finance team have therefore developed a proactive resource management strategy centred around financial planning and analysis (FP&A) and forecasting activities.

Briefly, their approach entails incorporating additional stress parameters into the FP&A process to provide leeway for uncertain and unpredictable scenarios, while closely scrutinising both revenue and cost drivers. In doing so, the CFO hopes to set aside an adequate cash flow buffer to see the company through even worst-case 'Armageddon' scenarios.

Critical areas that the CFO prioritises for the FP&A include procurement and resourcing, as they recognise the need to balance customer requests for price reductions in challenging times with conflicting expectations from suppliers in order to avoid damaging relationships on both sides. In addition, given that headcount freezes are a common practice when times get hard, essential HR data points are also included as inputs for the FP&A and forecast planning.

Assuming zero revenue and no changes to the current cost structure – including fixed and variable costs, as well as investments and sunk costs – the CFO estimates that the company would be able to sustain its operations and cash burn for a period of 12-18 months. This projection then guides them in determining both the amount of cash buffer that will need to be set aside and their next course of action.

It is worth noting that their 'Armageddon' scenarios do not take into account any potential capital fundraising activities, which could be considered as an additional option. In shaping their assumptions, the CFO prefers a highly conservative approach, particularly when it comes to cost management. This, in turn, requires a meticulous scrutiny of all expenditures, cost-cutting where necessary, and a fundamental re-evaluation of all key cost items and spending patterns.

A conservatively opportunistic mindset

Although SEA CFOs are slightly more pessimistic about the economic outlook, they are just as optimistic about their company's financial prospects as their Asia Pacific counterparts: 50% of SEA respondents expressed optimistic sentiments, a figure comparable to the overall Asia Pacific average of 49% (see Figure 3). This finding was not a surprise to us: over the last two editions of the study, we have noticed a palpable uptick in the confidence demonstrated by SEA CFOs in their ability to manage operational and cash flow disruptions amidst ongoing volatility, with many having undergone an intense period of accelerated learning on the back of the COVID-19 pandemic.

Indeed, while revenue growth and cost control continue to remain the top two priorities for many SEA CFOs (see Figure 4), our observations suggest that they have since shifted towards a much more proactive footing than before. One CFO at a Singapore-based conglomerate, for example, shared with us how their informed and forward-thinking approach to managing the impacts of volatility on their cost of capital has enabled them to raise capital at a favourable cost and put aside a financial buffer that would enable them to weather future unknowns – not least unforeseen events in the geopolitical realm.

To manage the ongoing volatility, many SEA CFOs are also actively considering various forms of diversification strategies. For instance, a CFO at a Malaysia-based manufacturer is looking at diversification in two areas: diversification of their manufacturing footprint to mitigate the rising cost of raw materials, and diversification of their revenue sources through the acquisition of new businesses.

Figure 3: SEA CFOs' view on their company's financial prospects for the next 12 months

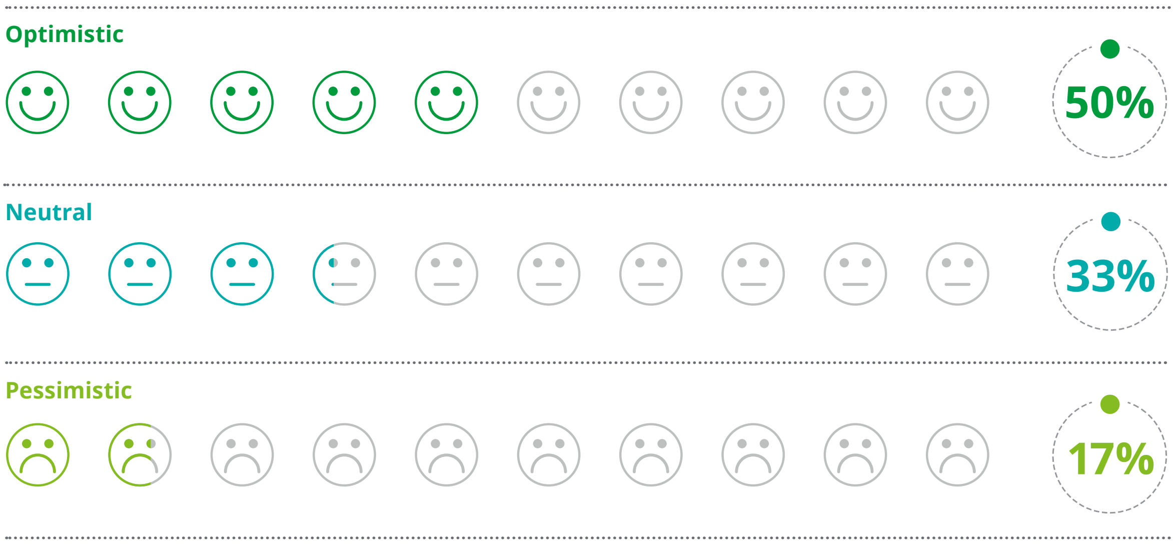
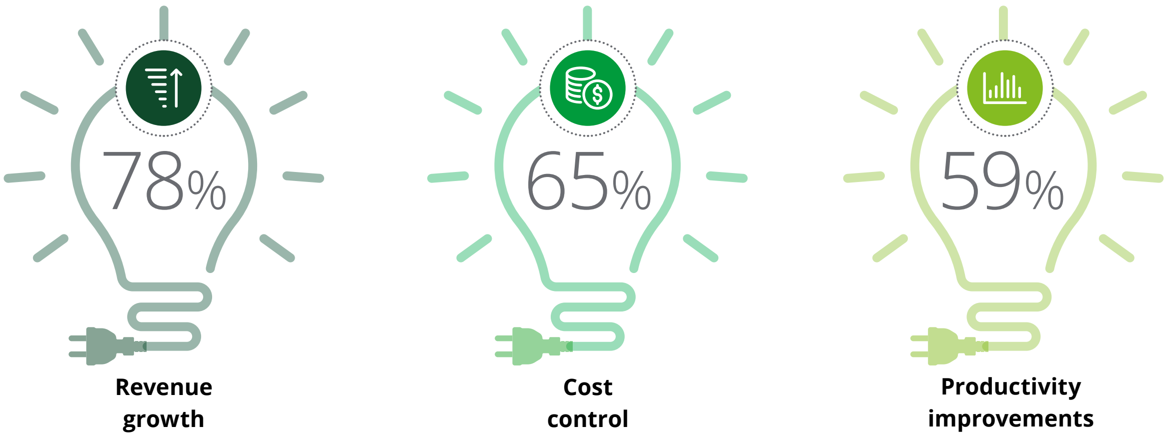


Figure 4: Top three priority areas



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Similarly, with many of their markets becoming increasingly saturated, the CFO at a Thailand-based beverage company is also considering strategies to diversify into new types of functional beverage products; in addition, they are looking to diversify their sources of funding to strike the right balance between short-term bonds that are cheaper in cost and long-term bonds that are more favourable for their current ratio.

While the specific strategies that SEA CFOs deploy may differ, what we observed across the board was a similar overarching philosophy in their approaches to managing volatility. Such an approach – one that is informed by a highly sophisticated and nuanced view of volatility, and which seeks to capitalise on the upsides of volatility with a conservatively opportunistic mindset – can be said to be characteristic of many SEA CFOs' strategies to contending with volatility (see 'Capitalising on the upsides of volatility' in sidebar).

"The rise in interest rates has resulted in higher financing costs and overall costs of doing business. However, we are in a good position because our operations are not geared, and we do not need to sell at low prices. We also have a pool of mature assets that can be monetised if needed."

CFO at a Malaysia-based property developer

Capitalising on the upsides of volatility

Our recent conversations with SEA CFOs revealed that the majority of them have since developed a sophisticated and nuanced view of volatility – often informed by a wide network of external and internal subject matter experts – with the result that they have been able to deploy opportunistic tactics to capitalise on micro-developments in the economic landscape as and when they arise.

One CFO at a Philippines-based food and beverage company shared with us how they have put in place both in-house and outsourced specialist teams – the latter of which includes partners in the banking community and economists – who are responsible for analysing a constant influx of news to identify impacts on the company's risk management, funding, and profitability. The analysis they generate is then used as inputs to develop tailored strategies to address specific regional risks in strategic markets or opportunistically bolster capital and accelerate market expansion.

Similarly, the CFO at a Thailand-based bank also shared with us how they are acting upon their in-house economists' predictions for an uneven or unsynchronised economic recovery by developing differing opportunistic growth strategies for their different customer groups and markets – differentiating in particular between those experiencing tailwinds and those experiencing headwinds – and continually conducting risk assessments on their net interest margins and non-interest income.

THE SEA CFO'S TO-DO LIST

Promoting a culture of cash could make sense

As SEA CFOs confront a volatile economic environment, they recognise that cash is once again king. However, given that this renewed emphasis on managing cash is not likely to go away anytime soon, SEA CFOs may find it imperative to reach across their entire organisation and turn the institutional focus to rigorous liquidity management. Indeed, while companies can deploy several strategies to insulate their businesses from volatility, improving cash flow forecasting can be particularly effective.

Modelling, along with working capital analytics, helps build resilience. It also addresses potential concerns about available cash and can raise management's overall understanding of liquidity. Such forecasting offers a more complete view of a company's cash situation by providing insights on how operational drivers influence cash flow; projecting the liquidity impact of various downside and upside scenarios; and calibrating capital allocations to drive near-term goals without compromising long-term growth.

However, it is important for SEA CFOs to note that cash flow forecasting tools should be predicated on a governance structure that promotes regular dialogue to drive insights from, and accountability within, business unit and finance leadership teams. It is therefore critical from a governance perspective to have a formalised approach in which cash and liquidity levels are discussed with key stakeholders. This would, in turn, allow decision-makers to analyse and understand the trends and drivers of cash – a critical prerequisite to forecasting and managing cash.

Overall, a successful cash culture should possess several key characteristics:

- **CFO's tone from the top:** While forecasting is an organisation-wide exercise, it requires leadership from the CFO to communicate purpose, vision, and accountability across functional silos. Forecasting should challenge business unit leaders to understand the impact of every operational decision on liquidity, and the CFO's messaging should include a clear articulation of why liquidity matters and the benefits that the exercise can provide.

- **Alignment with business unit leaders:** Aligning the forecasting process requires buy-in from business unit leadership across the board. Such alignment connects liquidity consequences with operational decision-making and helps to avoid the silos that can often show up throughout organisations.

- **An established cadence for dialogue:** Sustainable and active liquidity management relies on regular dialogue around a central forecasting tool. The cadence drives accountability and also creates a forum to understand end-to-end cash conversion issues. One primary benefit of forecasting tools is the ability to empower business unit leaders to understand how the forecasting model works, which data is being used, and what key assumptions drive cash conversion. The opportunity for input can create confidence that the forecasting tool accurately reflects business unit leaders' views on how their decisions affect liquidity.

- **Improved transparency and analysis:** A central part of the cash flow analysis is understanding the "what" and "why" behind actual and projected cash flow variances. The analysis helps organisations understand whether consistent misses are due to incorrect assumptions or underlying process issues.

Creating long-term value

If you want to go far, go together

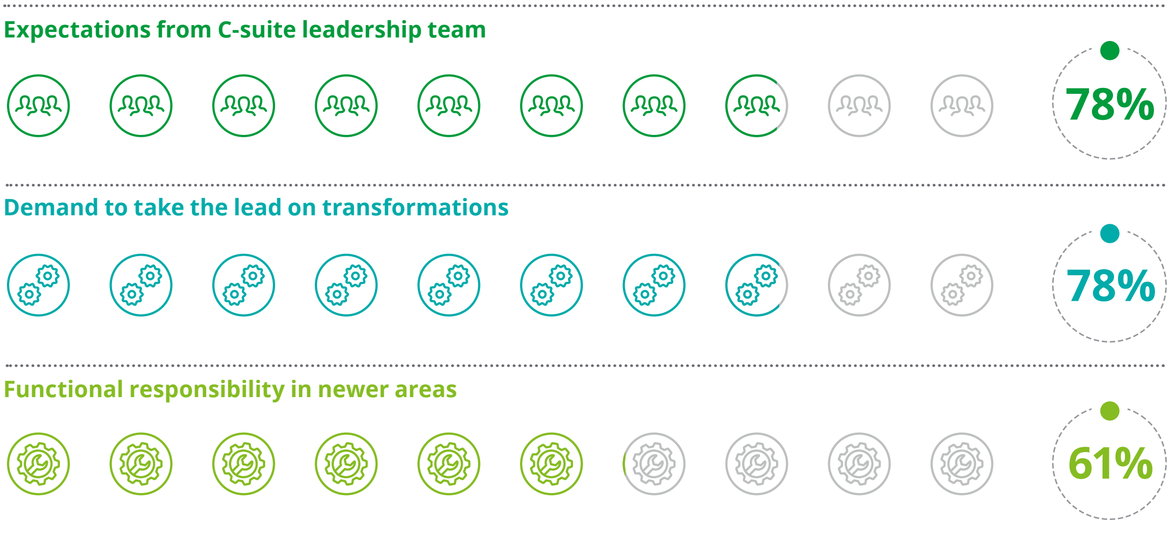
Not unlike their Asia Pacific counterparts, SEA CFOs are facing broadening expectations from their C-suite leadership team: 78% of SEA respondents indicated that these expectations have broadened over the last two years, comparable to the Asia Pacific average of 77%. Where they differ, however, is in the demand for CFOs to take the lead on transformations and assume functional responsibility in new areas. For both dimensions, SEA had the second-highest proportion of respondents indicating a broadening of their responsibilities across all Asia Pacific markets covered in this year's survey (see Figure 5).

Indeed, without exception, our conversations with SEA CFOs have revealed that these growing expectations weigh heavily on their minds. With the spotlight on digital transformation and ESG in recent months, key stakeholders cited by SEA CFOs included the Chief Procurement Officer (CPO), Chief Technology Officer (CTO), Chief Information Officer (CIO), and Chief Sustainability Officer (CSO).

This is a marked contrast from previous years, where the conversations had centred primarily around select individual stakeholders, such as the Board, CEO, and COO. Furthermore, there was also greater emphasis this year on the role that the CFO needs to play in supporting the broader C-suite as they exercise their collective responsibility – that is, the shared responsibility that the C-suite team holds to its Board, shareholders, and organisation beyond their individual areas of functional responsibility (see 'The role of the CFO in supporting the broader C-suite in exercising their collective responsibility' in sidebar).

Perhaps interestingly, one particular stakeholder – the CPO – also emerged as a highly recurring theme across all our interactions with SEA CFOs. For the CFO at a Malaysia-based property developer, the CPO was a key stakeholder because they were working together on the implementation of an e-procurement software and investing in a new platform for retail operations; on the other hand, the CFO at a Thailand-based beverage company was working with their CPO to secure more favourable long-term contracts with their suppliers to mitigate the impacts of rising raw material costs.

Figure 5: SEA CFOs face broadening stakeholder expectations as well as increased demand to lead transformation and assume new functional responsibilities



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

In the context of ESG, the importance of the CPO is also growing for the critical role they play in raising ESG standards along the entire supply chain. The CFO at one Malaysia-based manufacturer, for example, is working with their CPO to engage local suppliers – who account for the majority of their procurement spend – and support them in raising their ESG standards to align with global best practices.

Looking ahead, we believe that it will become increasingly critical for the CFO and their finance function to possess effective business partnering capabilities. Many of the biggest challenges that CFOs face today – such as talent, AI, and ESG – are not confined to any particular function; these are issues that are multi-disciplinary and multi-faceted in nature, and require the orchestration of organisation-wide, cross-functional collaboration.

The good news, however, is that many CFOs we spoke to are already keenly aware of this imperative. The CFO at a Malaysia-based property developer, for example, shared with us their experience obtaining buy-in from their C-suite counterparts to overcome the issue of data silos in the ongoing adoption of real-time predictive analytics. By aligning the way in which the various business units collect and utilise data with the accounts receivable team's requirements, the CFO was able to establish a more data-driven way of working as the new business-as-usual.

> "My focus as CFO is on conveying the right message, providing insights, and ensuring a balanced approach that combines sensibility and rationality. Ultimately, my goal is to foster a rigorous decision-making process, and I do this by ensuring that the numbers are defendable based on agreed-upon assumptions. Having this foundation, in turn, enables me to objectively engage in discussions with key stakeholders such as the CEO, COO, CTO, and CSO. My role is to facilitate healthy discussions, and I focus on presenting numbers, conveying messages, sharing insights, and guiding stakeholders toward conclusions that benefit the company."

CFO at a Singapore-based technology company

The role of the CFO in supporting the broader C-suite in exercising their collective responsibility

While every CXO has their individual domain of functional expertise, one Philippines-based CFO stressed the importance of the C-suite coming together to deliver on their collective responsibility. To illustrate this point, they shared with us several examples of how they are stepping up to support their C-suite counterparts in navigating the business' most critical issues:

- **Providing strategic counsel to the CSO**
  Following the recent appointment of a new CSO, the CFO initiated a series of extensive discussions with them to establish the direction of the organisation's ESG initiatives. Given that the CSO did not possess a prior background in ESG and sustainability – whereas the CFO had previously been at an organisation where ESG was a constant topic – the CFO was able to play a pivotal role in providing strategic counsel to the CSO. This collaborative effort eventually culminated in the documentation of the organisation-wide sustainability strategy and the publication of the organisation's inaugural sustainability report. As a member of the newly established ESG council, the CFO also continues to play an instrumental role in communicating the organisation's stance on ESG issues – such as those relating to food, people, and strategy – through analyst and investor relations communications, such as quarterly earning calls.

- **Exercising influence in support of the CPO**
  Recognising responsible sourcing as a critical linchpin of sustainable procurement strategies, the CPO had recently advocated for five additional headcounts in this domain; however, they encountered pushback due to budgetary concerns. Exercising their influence over the organisation's purse strings and numbers, the CFO supported the CPO by committing to the C-suite that they would formulate the necessary budget to support the five headcounts. To further underscore the urgency of the matter, the CFO also highlighted to their C-suite counterparts that their ESG credit rating was significantly behind many of their global counterparts – and that they must now play catch up, or risk getting left behind.

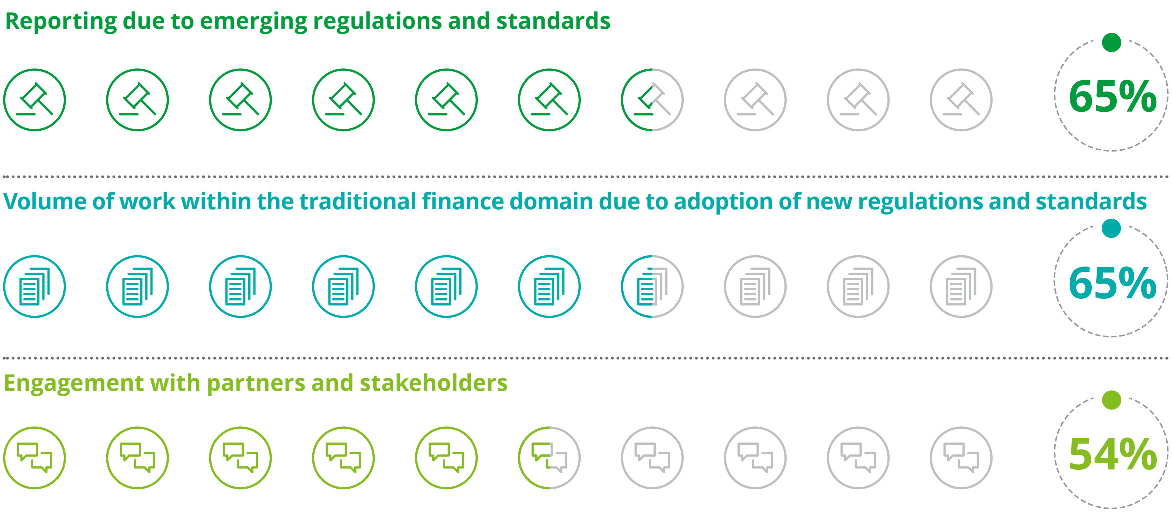
- **Acting as the backstop for the C-suite**
  Although not the favourite aspect of their role, the CFO also recognised the importance of acting as a backstop for the C-suite when challenges or risks emerge. Many of these risks – for example, those related to labour unions or wrongful dismissals – are non-financial in nature, but could have significant financial impacts when they materialise on the profit and loss (P&L) statement as legal or other expenses. In examining these issues, the CFO believes that the finance mindset centred around the concept of internal controls puts them in a natural position to assess the processes leading up to the issues at hand and establish the appropriate mechanisms to systematically rectify them.

Data as the language of the CFO

It is perhaps an immutable fact that data is the language of the CFO. Indeed, data is not only the most important thread connecting them to their traditional finance and reporting responsibilities, but also the primary basis of their engagement with external partners and internal stakeholders. Overall, our survey found that about two-thirds, or 65%, of SEA respondents have experienced a broadening of their reporting responsibilities; similarly, 65% of respondents also experienced an increase in the volume of work within their traditional finance domain due to the adoption of new regulations and standards, while 54% experienced a broadening of responsibilities in their engagement with partners and stakeholders (see Figure 6).

In terms of specific regulations and standards, our conversations with SEA CFOs revealed that the challenges tend to be more pronounced in a cross-border context. For example, the CFO at a Thailand-based non-bank financial institution shared with us that they have undertaken a significant effort to perform data cleansing activities to fulfil their regulatory reporting obligations as a listed company. With a global footprint across more than 40 jurisdictions, the central finance team recognises that it needs to be on top of its consolidated statements. While they have made much progress by moving to an on-premise cloud and establishing data security and access rights controls, they are still grappling with the need to harmonise the collection of data across their organisation.

Figure 6: SEA CFOs face broadening responsibilities in reporting, volume of work, and stakeholder engagement



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Other concerns cited by SEA CFOs also include international taxation matters. The CFO at a Philippines-based food and beverage company, for instance, considers tax compliance and penalties one of the most significant entries on their balance sheet and P&L. At the same time, with their business currently undergoing a global expansion phase, the CFO is most concerned about their internal controls, as well as cyber and data security compliance issues.

Ultimately, data is also the primary means by which CFOs orchestrate cross-functional collaboration – whether it is getting the C-suite aligned on a strategy, engaging with investors, or collaborating with supply chain partners on ESG initiatives. Recognising this, SEA CFOs are making conscious efforts to improve their data processes to better support the various business units in making more informed strategic decisions, not only by providing more accurate data but also improving the timeliness and relevance of the data that is being provided.

To achieve this, SEA CFOs are increasingly relying on technology and automation. In the area of procurement, for example, the CFO at a Singapore-based technology company explained that they have integrated their material resources planning (MRP) and manufacturing execution system (MES) across the different business units to achieve alignment on production schedules, stock levels, and future order pipelines, while factoring in planned purchases and safety stock considerations. These systems are also integrated with their vendors' systems, with the result that there are now more seamless and effective invoicing, payment based on agreed-upon terms, and customer billing recognition processes.

> "My C-suite peers often lack time to delve into the details, and they appreciate the role I play as CFO in sifting through data, identifying critical issues, and proposing solutions. Based on my personal experience, I have found it effective to surface to them issues that they have not considered before – thereby adding an element of surprise – and then swiftly following up with solutions to demonstrate proactive problem-solving. This approach has helped me to foster a sense of mutual respect and collaboration with them."

CFO at a Singapore-based conglomerate

Other CFOs are also leveraging robotic process automation (RPA) technologies to perform repetitive tasks. For example, the CFO at a Thailand-based chemicals company shared with us that they have embarked on an automation journey and have since deployed the use of RPA to support the finance team in closing their accounts. To manage the ongoing rollout of RPA technologies and encourage their widespread use, some existing team members have also taken on new 'bot controller' and 'change agent' roles in addition to their traditional finance roles.

Nevertheless, there is still a pronounced sense that more could be done. While they have implemented digital financial consolidation and reporting tools, the CFO at a Singapore-based conglomerate believes that the lack of a unified approach to how the various technologies and finance teams interact has resulted in them being unable to fully leverage the capabilities and functionalities of their existing systems.

Similarly, the CFO at a Thailand-based non-bank financial institution was also keen to reduce their team's manual workload through the greater adoption of RPA software, but they do not yet have the capabilities to do so; currently, they are focused on investing in a data program for management reporting and planning, as well as weighing the 'build versus buy' decision and considering the use of a third-party for its data quality review.

Finally, it must be said that even as they seek to accelerate the adoption of new digital data tools, CFOs should ensure that they do not neglect the human-related aspects of change. Several SEA CFOs we spoke to elaborated at length on the resistance to change as one of the greatest impediments they have been facing in this journey. Interestingly, this is a behaviour that may have inadvertently been exacerbated by the high levels of volatility in the current economic climate (see 'Looking after the people behind the data' in sidebar).

> "Data analysis is both an art and a science. First-time CFOs tend to delve too deeply into data; however, as one progresses there is a heightened understanding of which data to focus on, which reports to skim through, what to prioritise, file, and reference, and when to scrutinise each word."
>
> *CFO at a Philippines-based food and beverage company*

Looking after the people behind the data

For the CFO at a Singapore-based conglomerate, the human tendency to resist change may sometimes come across as "resistance for the sake of resistance". Their experience, however, has shown that resistance tends to stem from unspoken concerns – and the CFO recognises the need for them to exercise leadership in understanding and addressing these concerns.

Historically, in their organisation, different teams and entities have devised different methods of performance reporting – and typically, these methods were chosen because they portray certain projects or divisions favourably. However, as the organisation embarked on a large-scale effort to clean up its data and adopt standardised definitions, formulas, and reporting templates, significant discrepancies between the performance of the different business units became evident – and the misalignment between the metrics used to measure performance and the true performance of the various teams became apparent.

The CFO therefore believes that the resistance to change could at least in part be attributed to the fact that certain individuals and teams had been favoured due to their historically positive reporting. Exposing the fact that their performance may not have been as favourable makes it hard for them to embrace the change.

In the broader context, the current realm of volatility and job security also appears to have created greater resistance to change, as many individuals and teams become more focused on safeguarding their livelihoods and positions. They view change as a potential threat and are concerned that their job security may be at stake if they are unable to adapt to new technologies and methodologies.

Other people-related concerns cited by this CFO also included fragmented teams, as well as the lack of consistent internal communication and unified approaches to judgement-based decisions such as accruals and valuations. To address these issues, the CFO is currently focusing on the implementation of accounting software to standardise processes not only within the finance team, but also across other functions such as ESG and treasury – and having these common tools in place is expected to go some way in helping to align mindsets across the different teams.

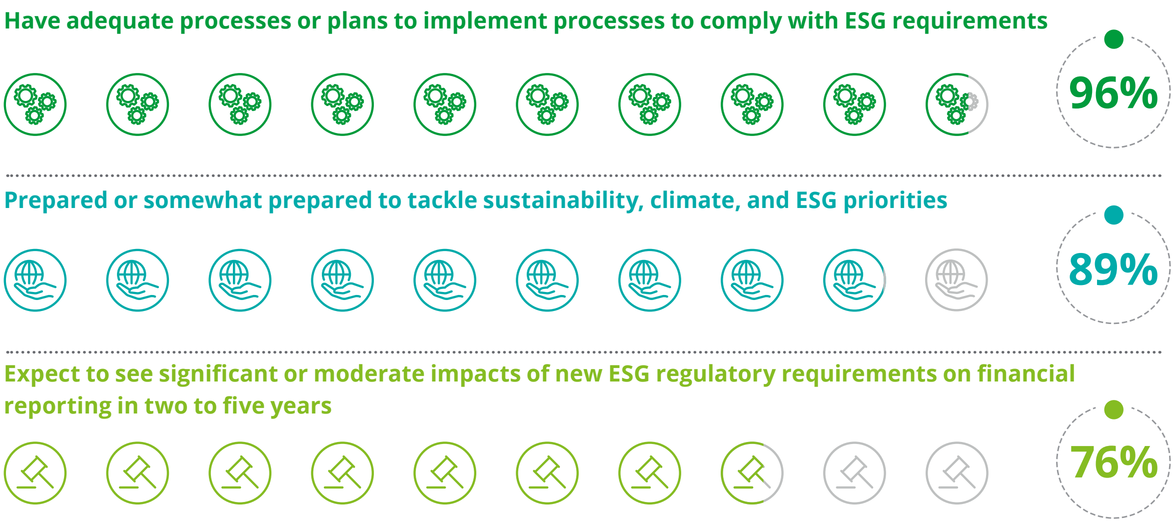
Doing well by doing good

Overall, SEA CFOs appear to be relatively prepared to fulfil their ESG mandates. Nearly all, or 96%, of SEA respondents indicated that they have adequate processes in place or plan to implement processes to comply with climate reporting requirements, and 89% of them feel prepared or somewhat prepared to tackle ESG priorities (see Figure 7). These numbers compare favourably against the Asia Pacific averages, which came in at 88% and 79% respectively.

With more than three-quarters, or 76%, of SEA respondents expecting to see significant or moderate impacts of new ESG regulatory requirements on their financial reporting, increasing transparency around data related to sustainable development was ranked the most important role for CFOs in responding to climate change (see Figure 8). This finding was also reflected in our conversations with SEA CFOs. Indeed, the majority of SEA CFOs that we spoke to have already established processes to monitor their ESG metrics and implemented initiatives to reduce their carbon footprints.

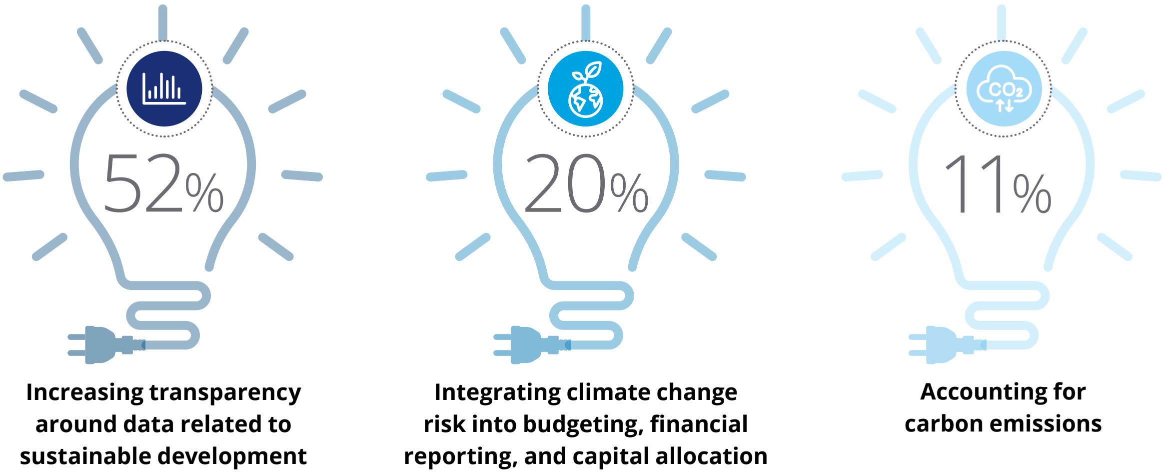
For example, the CFO at a Malaysia-based property developer, whose organisation was one of the early adopters of Task Force on Climate-Related Financial Disclosures (TCFD) reporting, shared with us that their Board recently approved the blueprint for its sustainability roadmap. In line with this, the CFO is currently preparing to embark on a first-of-its-kind study in Malaysia to quantify the amount of embodied carbon that is present in their developments at different stages of construction. They have also set aside a percentage of their costs to implement sustainability initiatives; however, the CFO is facing challenges in getting their suppliers to transform their operations.

Figure 7: SEA CFOs are relatively prepared to tackle ESG priorities



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Figure 8: Top three roles of the CFO in responding to climate change



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Other common challenges cited by SEA CFOs also included a lack of harmonisation across various global ESG standards and the uncertainty around sustainability-related financial instruments such as green bonds. Given this lack of standardisation, the CFO at a Thailand-based non-bank financial institution has decided to focus on benchmarking their measurements against a single ESG standard, while also working closely with the local stock exchange to develop pioneering ESG standards for the local market. While the CFO has ambitions to issue green bonds and sustainability-linked loans, the lack of standardisation continues to remain a key barrier.

Similarly, while several other SEA CFOs also expressed interest in leveraging ESG bonds as a relatively cheaper source of funding, the majority of them are not yet ready to commit to strategies where interest rates depend on the achievement of ESG metrics whose measurement is still uncertain.

"As a chemicals company, we must be ahead of the curve and cannot wait to be followers. Key focus areas for me include supporting the organisation's pivot to circular economy products, managing emissions taxes in our European markets, and positioning ourselves as the first choice for banks and financiers who are increasingly concerned about ESG. Our philosophy is that it is not enough to simply do things by the book – we want to take genuine accountability."

CFO at a Thailand-based chemicals company

Ultimately, the overarching belief is that ESG must be commercially justifiable – many SEA CFOs advocate for rigorous projections and modelling to evaluate ESG initiatives for their commercial viability, for example – and be accompanied by meaningful financial returns (see 'Conducting cost-benefit and risk-reward analyses of ESG investments' in sidebar).

The good news, however, is that SEA CFOs recognise that doing good can be good for business, and a number of them now consider ESG a capital expenditure item. Indeed, to be able to reap the business benefits of ESG, many SEA CFOs told us that they must focus on truly "doing" – for example, investing in energy-saving initiatives, or working with suppliers to reduce emissions – instead of merely purchasing carbon offset credits to fulfil their decarbonisation obligations.

> "Within the ESG framework, I believe that the social and governance aspects – the 'S' and 'G' factors – are within the control of the organisation. The hardest part is the environmental aspect – the 'E' factor – as it will require the cooperation and collaboration of many other players in the wider supply chain and ecosystem."
>
> *CFO at a Malaysia-based food processing company*

Conducting cost-benefit and risk-reward analyses of ESG investments

The CFO at a Singapore-based technology company believes that achieving cost competitiveness while offering environmentally friendly products is a challenging endeavour because it necessitates rigorous cost-benefit and risk-reward analyses, and the balancing of affordability with functionality.

To achieve this, the CFO adopts a highly analytical approach to the development of their product innovation strategy, focusing in particular on the high fixed costs of each investment decision – for example, capital expenditure on high-value proprietary technology equipment – in the formulation of their assumptions and analysis of returns on investment (ROI).

During the strategy execution phase, the CFO's focus shifts to ensuring that the right team is in place, as well as conducting scenario and contingency planning to prepare for any deviations from the plan. To this end, the CFO emphasised the importance of proactive decision-making – backed by timely and accurate data from the various financial controllers and business units – in ensuring a dynamic and adaptable execution.

THE SEA CFO'S TO-DO LIST

Rethinking the long-term value creation equation

If anything is certain, it is that SEA CFOs now face the challenge of driving long-term value creation within a multi-stakeholder context. Looking ahead, this means that they will need to not only understand the value equation for each stakeholder group, but also manage interdependencies and trade-offs in ways that result in adequate, equitable, and sustainable returns for all stakeholder groups.

What is needed, therefore, is a new approach to better identify, prioritise, and balance value-creating investments across stakeholder groups. To this end, SEA CFOs can take several steps to help their organisations move towards a new long-term sustainable value creation equation:

- **Capital budgeting process:** One of the most impactful ways to instil value-based thinking throughout the organisation is to build it into the capital budgeting process – specifically, through the evaluation criteria applied to business cases. In practical terms, this means that business cases should be expected to consider the viewpoints of a broader set of stakeholders and ecosystem partners in addition to typical shareholder value questions.

- **Performance measures and balanced scorecards:** Business leaders have long focused their organisations on value-creating activities by building key measures into their organisations' performance management systems. To move towards a multi-stakeholder view, CFOs should consider updating balanced scorecards to include new value metrics that define outcomes important to non-shareholder stakeholders; key resources and inputs to track the availability of key talent, societal, and natural resources; and key risk indicators to identify potential threats to value creation performance and key resource availability.

Ultimately, embedding sustainable value thinking in capital budgeting and performance management approaches could not only help to reshape organisations' conceptualisation of value creation, but also lead to the creation of new value that might not have occurred through a pure shareholder view.

Transforming capabilities

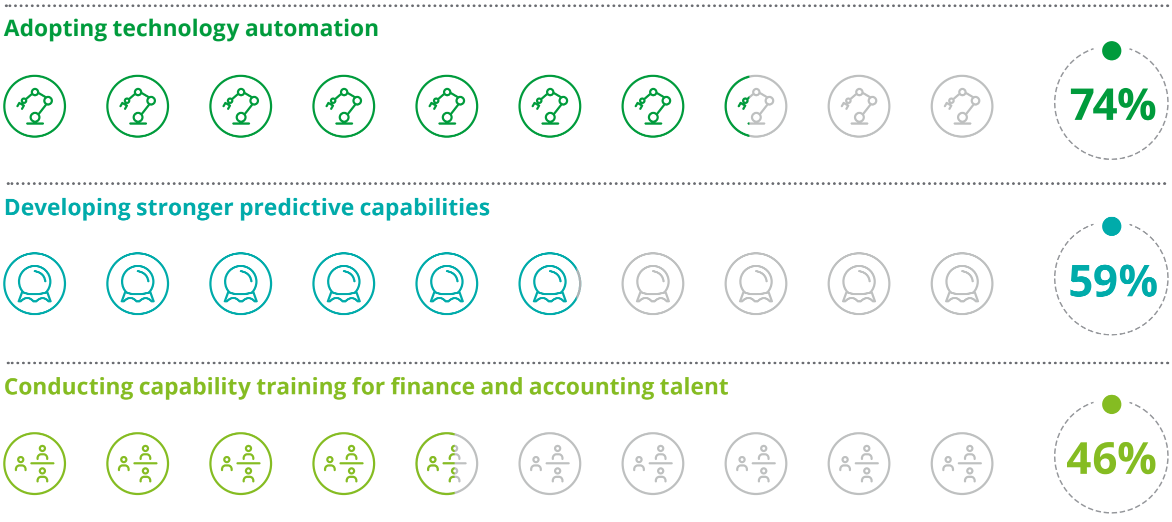
Making sense (and cents) of AI

When it comes to protecting or increasing their enterprise value, the adoption of technology automation and bolstering of predictive capabilities are the two top-of-mind priorities for CFOs across Asia Pacific. What is notable, however, is that relative to their regional counterparts, these inclinations are much more pronounced amongst SEA CFOs. Specifically, while 51% of Asia Pacific respondents said they were adopting technology automation, this figure was much higher at 74% in SEA; a similar trend can also be observed for predictive capabilities, with the figure coming in at 30% and 59% for Asia Pacific and SEA respectively (see Figure 9).

Our one-on-one interactions with SEA CFOs revealed a similar sentiment, with much of our conversations dedicated to exploring AI and automation in significant detail. Although it must be said that the SEA CFOs that we spoke to are leading organisations with varying levels of digital ambitions, it is clear that most of them are only in the exploratory phases of AI and data.

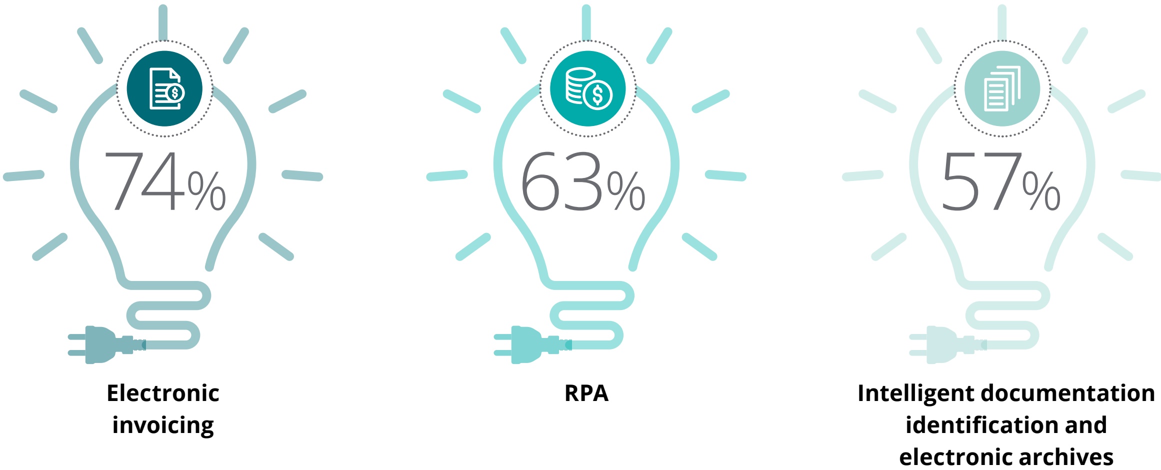
Consequently, despite the excitement around these emerging technologies, the top three most used technology enablers remain basic automation tools, such as electronic invoicing, RPA, and intelligent documentation (see Figure 10).

Figure 9: Top three actions SEA CFOs are taking to protect and/or increase enterprise value



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Figure 10: Top three technology enablers



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

The primary reason for this phenomenon was clear: SEA CFOs frequently lamented the lack of clean and consistent data as by far the largest impediment to their organisation's uptake of advanced AI technologies. A CFO at a Thailand-based bank, for example, is keen to leverage AI and machine learning for better customer analytics. However, they face challenges in consolidating the large amount of data that they are collecting across multiple IT systems, and have needed to appoint external consulting companies to support them on this journey.

Other CFOs are also deploying a variety of different methods to address the data challenge. For instance, the CFO at a Malaysia-based infrastructure conglomerate shared with us their efforts leading the development of a data lake that is expected to help resolve some challenges stemming from data silos and data inconsistencies, as well as reduce the amount of manual effort required to prepare data for analysis. Another CFO at a Thailand-based beverage company was able to successfully integrate their accounting system into the production line to enable real-time production data to be fed to the finance function; given the high volume of production that they are dealing with, the ability to identify even just a small cost reduction of one satang per unit could have significant impacts on their bottom line.

"We have in our possession a range of technologies, including data analytics, AI, and cloud. However, their optimal utilisation has been hindered by the amount of manual adjustments required to obtain clean data and the lack of data standardisation across multiple IT systems. While I would love to say that we are actively engaged in these technologies, the reality is that our current operational landscape requires foundational improvements before we can fully embrace and benefit from these advanced tools."

CFO at a Singapore-based diversified conglomerate

Ultimately, however, it is worthwhile emphasising that SEA CFOs are highly laser-focused on ensuring that all their investments in technology – particularly emerging technologies, such as AI and data – deliver tangible value to the organisation. The CFO at a Thailand-based chemicals company, for example, adopts a tiered approach to thinking about their technology investments: there is a 'no regrets' category for investments they should make right away, and a 'wait-and-see' category for investments with less clear returns or which require larger amounts of resources. Such a value-focused lens is by no means unique to this CFO.

Across all of our conversations with SEA CFOs on the topic of technology, we have noticed one stark, underlying similarity: SEA CFOs adopt highly astute approaches towards the formulation of their strategies (see 'Early adopter or fast follower? Let value be your guide' in sidebar).

> "We are currently in a learning phase when it comes to the adoption of AI. We have explored the use of generative AI to create new 'recipes' for the combination of different metals, and are also considering other ways in which we can incorporate generative AI into our product development process. However, rather than rushing into it, we prioritise understanding its capabilities and recognising the areas where we lack knowledge, particularly in terms of security. The ability to safeguard the information shared through generative AI is a critical consideration for me."

CFO at a Singapore-based technology company

Early adopter or fast follower? Let value be your guide

In the adoption of emerging technologies, SEA CFOs often find themselves confronted with the strategic question of whether to pursue early adopter or fast follower strategies. While there is no one right answer to this conundrum, our observations have revealed that SEA CFOs apply a highly astute, value-focused lens to the formulation of their perspectives, approaches, and strategies.

In this section, we will discuss three examples of the different strategies that SEA CFOs are adopting across the entire spectrum:

- **An early adopter with the ambition of becoming an AI-first organisation**
  The CFO at a Thailand-based financial technology group has an unambiguous and clearly articulated strategic ambition for AI: they must charge ahead of the pack to become an AI-first organisation. The CFO aims to have AI account for three-quarters of their revenue within the next five years, with both front-end and back-end teams equipped with the technology. Within the finance function, they intend to develop a data-obsessed culture, and embed AI into budgeting, monitoring, and decision-making processes to drive both revenue generation and greater cost efficiencies.

  Currently, the CFO is exploring several different AI-driven ways of working – such as the embedding of data scientists into teams and the setting up of a centralised team of data analysts – to see which model works best for their organisation. To encourage experimentation, each team also has an assigned AI champion who is responsible for the creation of use cases.

  One key roadblock that the CFO is facing on this journey, however, is the existence of differing interpretations of AI across teams and individuals – some view AI as merely an automation tool, while others see it as an enabler for data analytics – which makes it difficult for everyone to converge on a common AI mindset. Communication and collaboration are key to overcoming this challenge, and the CFO believes that it is necessary to generate momentum from an initial group of early adopters to encourage gradual uptake by the rest of the organisation.

- **A fast follower piloting AI use cases**
  While the CFO at a Singapore-based health care service provider recognises the transformative potential of AI technologies, they believe that they do not necessarily need to be early adopters – especially considering the associated costs, risks, and errors of such an approach. Instead, they prefer to adopt a fast-follower approach by gradually embracing and incorporating proven use cases into their operations and investing judiciously in pilot programs that provide clear benefits, cost savings, and ROI.

  Although the CFO acknowledges that they are not as digitally mature as some of the newer digital-first market entrants, they believe that they are not far behind and have been able to move down the health care delivery chain where margins are more favourable. In terms of AI use cases, the CFO is currently focused on the adoption of RPA tools to enable the automation of certain tasks, such as claims processing, particularly in functions confronted with manpower shortages. Other potential applications that they are considering also include the use of AI to perform preliminary analyses of X-rays; however, the CFO is mindful that such cognitive tasks still require the careful supervision of qualified medical professionals.

From a data perspective, the CFO is also grappling with the issue of data silos. While the organisation possesses a large amount of client and medical data, these often exist in isolation and do not get fully utilised. As their first step in the journey to enhance their data management practices, the CFO shared that they have engaged an external consultant to assess their data roadmap and provide recommendations for them to leverage their data more effectively.

Looking ahead, the CFO expects to utilise data more comprehensively throughout the health care lifecycle, particularly in the preventive care segment. However, given that this journey requires substantial time, investment, and commitment, they believe that the primary challenge for them as CFO lies in being able to effectively balance these long-term investments against more urgent and short-term priorities.

- **A late follower adopting a 'wait-and-see' approach**
  In the words of the CFO at a Thailand-based conglomerate, "There are so many options for technology, but it always seems like when the time comes to pick one, there aren't that many options. The same goes for AI: there are so many programs out there, but only a few that can truly inform business decisions." This CFO then went on to explain that while most AI applications currently in the market – such as those automating the creation of daily reports – are "good-to-have", the output they produce largely do not have game-changing implications.

  They also believe that there remains a lack of granular information required to make informed investment decisions on AI, and misconceptions abound on the true value of AI and its key success factors. For this CFO, it is not about going with the hype, but understanding the true value and benefit of the investments they are making and how that fits in with the business. The answer, according to them, is likely that some applications could be more meaningful in select parts of their conglomerate business – the use of AI and customer analytics in the food and beverage arm, for example – than in others.

Talent as the off-balance sheet asset

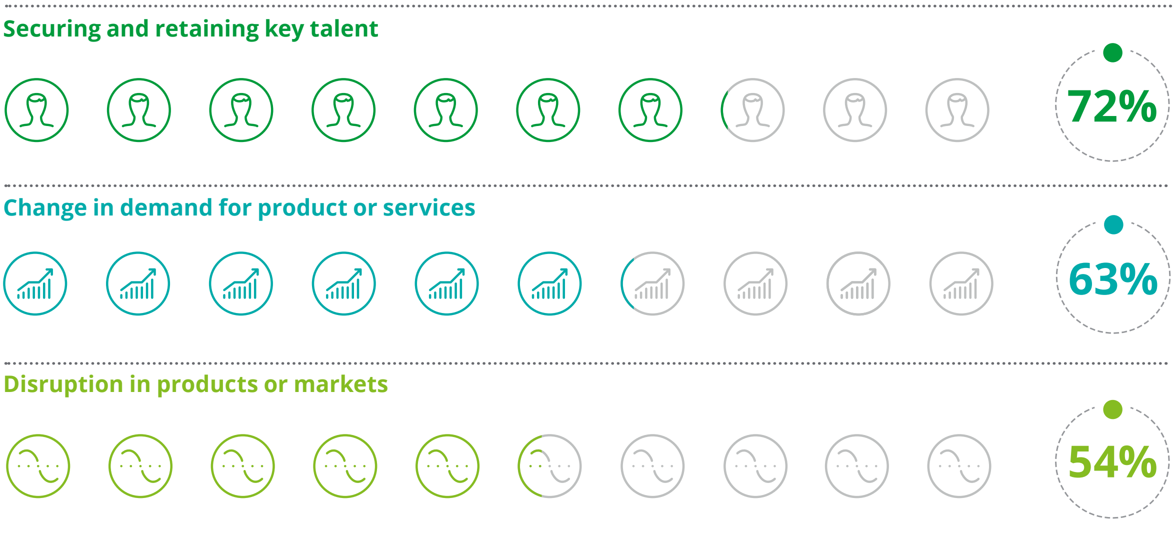
While SEA CFOs are no doubt highly concerned about potential disruptions in products, markets, and demand amidst the ongoing volatility, it appears that there is one concern that looms larger: their ability to secure and retain key talent (see Figure 11). Nearly three-quarters, or 72%, of SEA CFOs cited this as one of their top concerns – the highest amongst all Asia Pacific markets included in this year's survey, and significantly higher than the overall regional average of 59%. This is a noteworthy finding: although much has been said about how we are entering an age of AI and automation, this observation serves to underscore that the importance of talent has not only not been diminished, but has in fact increased.

Indeed, this was a point that had been repeatedly emphasised by SEA CFOs in our conversations with them; one CFO, in particular, had expressly referred to their talent as their "off-balance sheet asset". Another CFO also shared with us that they believe that talent accounts for 70-80% of their organisation's capabilities, because while technologies such as AI can enable their organisation to benefit from enhanced efficiencies, these technologies must be managed by competent individuals capable of meaningfully interpreting the associated data and outputs.

In terms of their strategies to skill, reskill, and upskill their workforce for the future of work, SEA CFOs place greater emphasis on more practical strategies, such as employee reward and recognition programs, on-the-job experiences, and mentoring buddy programs or other support initiatives (see Figure 12).

It is worth noting, however, that there is a slight nuance to this. The majority of SEA CFOs we spoke to this year emphasised that there is no one-size-fits-all strategy for talent development, even within an individual organisation; rather, they advocated for the need to put in place differentiated talent strategies to cater to the developmental needs of high-value and high-potential finance talent (see 'Differentiated developmental pathways for high-value and high-potential finance talent' in sidebar).

Figure 11: Top three internal risks



Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Figure 12: Top three strategies that SEA CFOs are taking to skill, reskill, and upskill their workforce

Note: Figures do not add up to 100% as respondents were allowed to select more than one option.

Other specific areas of concern also include entry-level finance talent. The CFO at a Philippines-based food and beverage company, for example, lamented the challenge of retaining talent in their shared services centre – which includes the finance, accounting, and HR functions – as larger competitors often dangle better remuneration terms. While the shared services centre does not report directly to the CFO, it is a significant feeder of talent for the core finance team, particularly in the areas of controllership and tax.

To complement the skillsets of their core finance team, SEA CFOs are leveraging a range of different strategies. For example, the CFO at a Thailand-based non-bank financial institution uses outsourcing to augment the skillsets of their team, particularly in more innovative areas outside traditional finance domains. On the other hand, the CFO at a Singapore-based technology company prefers to leverage the expertise of Big Four accounting firms for specialised functions such as transaction financing, treasury, and tax, while also employing rotational talent strategies to cross-train their finance team. The latter strategy, in particular, not only helps to ensure more sustainable resources within the finance team, but also provides the organisation with the opportunity to demonstrate their commitment to their employees' learning and development.

"If you examine our balance sheet, it may say one thing, but the true essence lies in our talent – our invaluable human capital. Retention is a constant uphill struggle in our close-knit industry, and securing the right talent for finance, which is critical for organisational growth, is especially challenging. Striking the right balance between retaining talent and offering meaningful career development is, indeed, one of our most pressing challenges today."

CFO at a Singapore-based health care service provider

Differentiated developmental pathways for high-value and high-potential finance talent

Across our conversations with SEA CFOs this year, we have noticed a palpable trend towards the development of differentiated developmental pathways for high-value and high-potential finance talent. In this section, we will explore these two categories of talent in greater detail:

- **High-value talent**
  Several SEA CFOs we spoke to had made a distinction between what they consider to be "critical roles" and "everyday roles" in the finance function. The CFO at a Singapore-based technology company, for example, explained that they consider individuals who can comprehend systems, perform programming, and automate processes to be critical talent – not only because they possess skillsets that differentiate them from traditional finance professionals, but also because the organisation's strategy emphasises the development of in-house digital capabilities and self-sufficiency rather than a reliance on external technology consultants.

  Echoing a similar opinion, the CFO at a Philippines-based food and beverage company also stressed that they must have clarity between these two types of finance talent to design differentiated salary structures. For example, while everyday roles may command market rates, critical roles may warrant market-plus rates.

- **High-potential talent**
  The majority of SEA CFOs recognise the need to cultivate a second-level leadership team to ensure the continued operational stability of the finance function, with the result that succession planning is becoming an increasingly important consideration – and in certain cases, even a key performance metric for the CFO. The CFO at a Singapore-based diversified conglomerate, for example, recently hired individuals with the expressed intention of preparing them to take on future leadership roles; this CFO also deliberately invests a substantial amount of their time in the grooming, exposure, and advancement of these individuals, personally mentoring and coaching them over an extended period.

  Recognising that talent with exceptional calibre tend to be able to secure job opportunities regardless of market fluctuations, SEA CFOs are also re-evaluating their developmental pathways for high-potential talent. The CFO at a Thailand-based chemicals company, for example, believes that high-potential talent should not have to adhere to standard promotion timelines, and should be encouraged to move up the career ladder if the opportunity presents itself.

  Examples of initiatives that SEA CFOs have undertaken to develop their high-potential talent also include rotating them through subsidiary companies, providing them with specialised training and certifications, as well as exposing them to different members of the C-suite leadership team to enable them to develop more strategic mindsets and better align with the organisation's values and purpose.

THE SEA CFO'S TO-DO LIST

Think of talent as fuel

Nearly any finance function can build or buy outstanding technology, but very few can build, recruit, retain, and inspire an outstanding finance team. It therefore follows that talent, not technology, is a CFO's secret weapon.

Fundamentally, SEA CFOs should think of talent not as a cost but as fuel for achieving strategic outcomes. While there are no one-size-fits-all strategies, there are several essential markers of an effective and sustainable approach:

- **Promote the meaning and purpose behind the work, not the work itself:** Top finance talent are seeking organisations with a palpable purpose. To embed purpose and mission, SEA CFOs should be clear with them about the problems that they are helping to solve.
- **Let talent chart individual career paths:** One of the digital era's hallmarks is the value of range – a skilled finance specialist should be able to go deep when necessary, while also adjusting course to develop new skills when the landscape shifts. SEA CFOs should look to give room to high-performers to adapt and learn, depending on where their curiosity and sense of purpose take them.
- **Be intentional about addressing skills gaps:** When it comes to developing the most critical skills for their teams, SEA CFOs often hire talent with specialised skills or introduce initiatives to upskill existing talent, but are less likely to 'hire to train' or leverage ecosystem partners – that is, people who work for suppliers, competitors, partners, and other contiguous organisations – to fill skills gaps. No single approach is right or wrong; SEA CFOs can incorporate ecosystem partners while taking care not to outsource entirely to ecosystem partners, no matter how capable.

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