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Agile is strategic: It's time for finance to scale up its flexible labor model

Balance reporting and real-time forecasting needs and respond to unexpected threats and opportunities

Internal Audit, Risk, Business & Technology Consulting

Introduction

Since it first emerged a few years ago within the finance and accounting groups of fast-growing technology organizations, the adoption of the flexible labor model has swiftly advanced across numerous industries and companies of all sizes.

The finance and accounting group has always needed a flexible approach to its labor model due to unexpected changes in business units, automation platforms or regulatory requirements. Prior to 2002, accounting shops primarily leaned on two sources: their external auditor and independent contractors. However, with the subsequent passage of numerous new accounting and financial reporting regulations, one of those two sources for external help — namely, their external auditor — is no longer available for most organizations, whether public or private. Today's accounting leaders have had to become more creative in how to access the skills they need at the quantity necessary to get the job done.

Recently, the movement in the market to a managed services model has become a new, highly flexible approach where institutional knowledge can be retained while very specific skills can be applied at the needed scale. The greater organizational agility, workforce management advantages, innovation generation and other essential benefits this approach delivers — most recently during the COVID-19 global pandemic's raging uncertainties — have proven so valuable that the managed services model now qualifies as a strategic advantage, if not a requirement, for CFOs and finance organizations.

The managed services model equips CFOs with the specialized expertise, resilience and scalability needed to make good on their mandate to forecast and report on the business amid rampant volatility, quickly materializing opportunities and changing customer expectations. This model is also straightforward — a managed services approach that lets finance leaders deploy, in an on-demand manner, an increasingly diverse labor portfolio of full-time employees (FTEs), contract and temporary workers, expert external consultants, managed services providers, and outsourcing partners — and is rooted in traditional organizational behavior principles.

Prior to COVID-19, a growing number of finance and accounting functions already were applying a managed services approach to staffing their tax, accounting, risk management, strategic finance (M&A) and treasury functions. When the pandemic prompted office closures and business shutdowns around the world, CFOs who had a flexible labor model in place quickly realized substantial benefits. They were able to keep accounting and finance activities moving forward even when shutdowns hindered key operations and trading partners. This model also helped finance teams conduct time-sensitive stabilization and recovery needs, sustain ongoing transformation initiatives, and free up internal resources to support and manage the organization's crisis response.

The results of Protiviti's annual global survey of 1,000-plus finance leaders consistently show that finance groups with a flexible labor model in place experience fewer compromises to core finance processes during unexpected events — for example, COVID-19. The survey results also reveal that the use of managed services providers to perform higher-value finance activities is increasing. Nearly one in five finance organizations rely on these providers for financial planning and analysis (FP&A), and close to one in three leverage staff augmentation to support accounting operations activities. In addition, between 2019 and 2020, finance leaders substantially increased their use of managed services providers to perform financial reporting, strategic finance (M&A) and finance PMO activities, among other areas. Today, finance groups are even more likely to deploy a blend of full-time staff, contract professionals and third party experts to tax, general accounting, accounts receivable and FP&A activities.[1]

Finance groups in high-tech companies continue to demonstrate the highest rates of flexible labor model adoption. That makes sense for a number of reasons. Organizations in the technology industry continue to undertake high levels of mergers, acquisitions and integrations, driving the need for increased workforce flexibility. It's also important for these organizations to operate lean finance teams, drive organizational agility, embrace innovation, leverage suddenly arising opportunities, and demonstrate resilience in the face of fierce competition and unexpected conditions. However, those priorities now prevail across most, if not all, industries. Everybody is lean. Every company must become data-driven. Digital transformation and the blurring of traditional industry boundaries mean that all organizations confront brutal competition and marketplace volatility.

Forecasting (in) The Age of Unreason

Organizational behavior expert Charles Handy chose a title for his pioneering 1989 book on workforce structure that aptly describes the current business environment: *The Age of Unreason*, by Charles Handy, published by the Harvard Business School Press.

Handy's premise — that companies needed to organize their workforce in a way that helps them respond faster and better to uncertainties and volatility — also remains extremely relevant in the 21st century. His framework identifies three categories of labor the modern organization should manage and mobilize:

1. Full-time employees who form the company's "professional core";
2. A "flexible labor force" consisting of resources deployed to temporarily address peaks in staffing needs; and
3. A "contractual fringe" consisting of resources the enterprise leverages by contracting with other organizations to provide additional capabilities and are compensated on results rather than hours.

While variants of this model were not widely embraced until the 2010s, Handy's framework anticipated the emergence of traditional outsourcing, the gig economy and the widespread use of virtual collaborations.

For further information on this model, read Protiviti's white papers:

- *Skills and Scale: Why Emerging Companies Must Innovate How They Resource Back-Office Functions*
- *The Labor Model for Finance in the Digital Age*
- *Skills and Scale: The New Finance Labor Model Proves Its Real-World Value*
- *Gaining Shelter from the Storm — A Finance Labor Model Tailor-Made to Manage Crises*

[1] *Finance Priorities in the COVID Era: Digital Dominance and Flexible Labor Models*, Protiviti, 2020: www.protiviti.com/financesurvey.

Four factors driving adoption of the new labor model

As larger, well-known companies adopt the flexible labor model in response to a compelling set of drivers, we expect it to become standard operating procedure in most organizations. Our recent work with CFOs suggests that over the next 12 to 24 months, the following forces will stimulate the adoption of the flexible labor model within more finance groups, companies and industries:

01 Finance's changing role

Since their inception, finance and accounting teams have been responsible for recording and reporting on the company's performance. While that fundamental requirement remains intact, more finance groups are taking on growing responsibility for delivering forecasts and strategic insights about where the business is headed. In other words, there are more and more expectations on the windshield rather than in the rear-view mirror. This shift predated COVID-19, but the pandemic's impacts and uncertainties greatly accelerated finance's evolution toward a data-driven dispenser of forward-looking insights.

As the economic damage of the pandemic materialized during the second quarter of 2020, finance groups were forced to perform aggressive cash and working capital management activities, increase the frequency and precision of liquidity forecasts, and respond to requests from partners throughout the organization for real-time financial insights. Sophisticated finance teams, many employing a flexible labor model, churned out advanced supply chain analytics that helped colleagues identify and leverage alternative markets and suppliers in response to sudden business and market closures. These future-ready finance groups in hard-hit sectors kept their human resources colleagues updated on cashflow and payroll projections. Sales teams knocked on finance's door for more granular data analytics to sharpen their own forecasts.

By meeting and/or exceeding requests for financial insights from an expanding group of internal customers, finance organizations are generating a rapidly rising appetite for their data analyses. Meeting these demands requires access to more digital-oriented finance professionals through multiple sources — internal FTEs, independent contractors, managed services providers and external experts, among others — wherever they may be located. This demand is driving more finance leaders to rethink how and where they source the specialized skill sets they need to satisfy growing demand from internal leaders and colleagues for financial insights — in other words, advantages a flexible labor model will deliver.

02 The long-term finance and accounting labor crunch

Several years ago, in one of our first papers examining the flexible labor model, we prognosticated that recruiting and hiring highly skilled digital finance and accounting talent would "get more difficult before it gets easier."[2] If anything, this prediction turned out to be an understatement, even after the world experienced a global pandemic and the bruising, irregular recession it triggered.

Today, "an economic puzzle is emerging," according to *The Economist*. "Businesses are voicing ever-louder concerns about labor shortages, even as millions of people remain out of work. In America, a surge of spending is creating job openings, but few people seem willing to fill them. The number of vacancies, at over 8m [million], has never been so high."[3]

[2] *The Labor Model for Finance in the Digital Age: Leading CFOs are expanding their approaches to sourcing talent*, Protiviti and Robert Half, 2018: www.protiviti.com/US-en/insights/labor-model-finance-digital-age.

[3] "The curious case of the disappearing worker: What to do about a labour crunch," *The Economist*, May 22, 2021: www.economist.com/leaders/2021/05/22/what-to-do-about-a-labour-crunch.

Given the rapid pace of digital transformation that companies, finance departments and most finance roles are undergoing, fewer would-be employees are able and available to step into these roles, especially on a full-time basis. The scarcity of technological and digital finance expertise carries ripple effects throughout the ranks. We've seen finance leaders grow more reluctant to let go of lower performers at all levels of the function because they understand how difficult and expensive it will be to replace those employees. Traditionally, finance and accounting unemployment has tracked lower than the U.S. unemployment rate and that has only widened over the past year.

Although many finance organizations were forced to reduce overall staff sizes in response to the historic uncertainties and disruptions the COVID-19 global pandemic created, just as many, if not more, increased resources in specific areas, especially finance roles related to data analytics and cloud-based finance applications.

The remote-work mobilization ignited by COVID-19 continues to pose talent management challenges even in areas where work and life are returning to a new normal: "Many managers now worry about a brain drain from their ranks," reports Chip Cutter of *The Wall Street Journal*. "Some companies that are hiring say they can't find knowledge workers willing to come into an office five days a week, according to chief executives, human-resource chiefs and recruiters."[4] As noted in an article from *The Guardian,* "workers are beginning to quit jobs in the highest rates seen since the Bureau of Labor Statistics began to collect this data in 2000."[5] In addition, a report from Microsoft notes that over 40 percent of the global workforce is considering leaving their employer.[6]

By expanding the sources of labor available to finance groups, the flexible labor model helps reduce the negative impacts of a tight labor market for finance and accounting expertise.

03 Cloud, collaboration and workflow improvements

As leading finance teams responded to pandemic disruptions with real-time insights and forward-looking analyses across a range of business activities, they increased their use of cloud technologies, devised innovative ways to strengthen predominantly virtual collaborations (with each other and with business partners), and intensified their focus on human and system workflows. Addressing these areas helped finance groups ensure that vital processes and activities continued to operate in the face of widespread office closures.

4 "If You Thought Working From Home Was Messy, Here Comes Hybrid Work," Chip Cutter, *The Wall Street Journal*, May 25, 2021: www.wsj.com/articles/if-you-thought-working-from-home-was-messy-here-comes-hybrid-work-11621935000.

5 "'The Great Resignation': June's US jobs report hides unusual trend," Rashida Kamal, *The Guardian*, July 3, 2021: www.theguardian.com/business/2021/jul/03/us-jobs-report-june-trend.

6 The Next Great Disruption Is Hybrid Work — Are We Ready?, 2021 Work Trend Index: Annual Report, Microsoft, 2021: www.microsoft.com/en-us/worklab/work-trend-index/hybrid-work?OCID=AID2101651_SEM_ConnexityCSE&szredirectid=16250758885630100478810070302008005.

As the pandemic took hold, more finance leaders in functions with cloud-based systems and applications also used smartphone apps to monitor invoices, A/R, working capital and other traditional metrics along with an expanding portfolio of enhanced analytics on products, services, marketplace trends and conditions, and other forward-looking value-drivers. Finance groups with an advanced cloud, collaboration and workflow capability:

- Responded faster and more effectively to government-mandated lockdowns that closed offices and prevented employees from working on-premises;
- Managed the transition to a remote working model smoother and more securely than other organizations; and
- Sustained progress on major projects and initiatives during crisis mode.

These technology and process advancements are poised to deliver longer-term benefits as well, given that cloud technologies, collaboration and workflow represent fundamental enablers of the flexible labor model.

04 The evolution of cities — and work environments

In addition to transforming businesses, COVID-19's massive remote-work mobilization is reconfiguring the location of skilled labor pools and the economic dynamics within metropolitan areas. As cities respond to post-pandemic remote working models, widespread competition to attract highly skilled knowledge workers is further disrupting where those professionals are located.

Prior to COVID-19, approximately one-tenth of the U.S. labor force telecommuted full-time. Polls by Gallup and other research firms indicated that roughly half of all U.S. employees worked remotely on a full-time basis within one month of COVID's designation as a global pandemic. Workplace experts expect this trend to become permanent for a substantial portion of newly full-time telecommuters: "As much as a quarter of the 160-million-strong U.S. labor force is expected to stay fully remote in the long term, and many more are likely to work remotely a significant part of the time," according to a report in *The Wall Street Journal*, which indicates that smaller cities are leveraging incentives — ranging from lower living costs, to attractive services, to high-quality schools, to cash — to become "Zoom towns" that compete against traditional large-city talent hubs for digitally savvy knowledge workers. Tulsa, Okla., and Bentonville, Ark., are among many locations offering payouts of up to $10,000 and perks such as access to affordable housing, financial assistance with student loan payments and free museum memberships to lure remote workers.[7]

The changing location and preferences of highly skilled talent mean that CFOs and finance leaders will need new mechanisms to access these professionals and in-demand skills and expertise to address their finance organization needs — again, these are key components of the flexible labor model.

[7] "How Remote Work Is Reshaping America's Urban Geography," Richard Florida and Adam Ozimek, *The Wall Street Journal*, March 5, 2021: www.wsj.com/articles/how-remote-work-is-reshaping-americas-urban-geography-11614960100.

Performance over locale

As the COVID-19 pandemic — hopefully — begins to fade to the background, an organization's leadership team will tackle long-term questions concerning remote work: *Should our people stay remote? If so, for how long? Should we require a return to our physical offices or create a hybrid work model?* These questions are necessary following the historic shift to remote work models, and they can and should spark just as many, if not more, fundamental questions concerning real estate assets, organizational culture, productivity and collaboration tools, office reconfigurations, and more.

CFOs can add valuable insights to these evaluations. Their expertise can help clarify and quantify the high costs that offices represent in operating budgets as well as the complex and varying tax exposures that arise when remote employees work from homes in different cities and states than the locations of their physical offices. (Finance leaders are also well-aware that managed services providers handle this payroll tax complexity for the employee labor pool under their management.)

Discussions on remote/in-person/hybrid working options present finance leaders with a timely opportunity to transform isolated decisions about place (where employees perform their work) into more comprehensive and strategic decision-making about performance (how to optimize employee performance via culture and engagement, productivity and collaboration strategies and tools, office design, and labor model). Whether a company elects to keep teams remote or implement a hybrid model is important, but that approach should be evaluated in the larger context of strategic workforce management and the potential to implement a more flexible labor model. One thing is a virtual certainty: If your strategy continues to be oriented to the best talent, your labor model must become more flexible.

As finance leaders broach the idea of refining or even transforming their existing labor model, considering the following questions can generate practicable insights and ideas for implementing change:

- Are we experiencing difficulty in hiring, onboarding or retaining finance and accounting professionals?
- Are we reacting to staffing challenges with quick fixes and tactical workarounds?
- How quickly and cost effectively did we stand up new or backup finance operations in response to COVID-19-driven closures and challenges?
- To what extent did we resort to ad hoc, do-it-yourself workarounds in response to COVID-related obstacles?
- How seasonal is the work in the finance organization? Are there peaks and valleys in the workload that we should manage against? Do we tend to hire and pay at peak levels versus the average?
- What finance talent and skills investments will enable our organization to operate at the right size, and in the right manner, to best address current and future operations and potential disruptions?
- To what extent are our current remote working models, within the finance organization as well as throughout the enterprise, supported by optimal investments in cloud-based collaboration and workflow technologies?
- Are there opportunities to recalibrate our use of a highly skilled core of full-time staff, temporary staff, contractors, external consultants, managed services providers and outsourcers to maximize productivity and profitability?
- Do our managed services partners possess the operational expertise and specialized finance skills required to enhance our organization's professional core?
- How effectively does our managed services provider oversee activities remotely while ensuring the productivity and quality of their teams?

In closing

While the flexible labor model took its time leaping from an academic concept to real-world use inside finance functions, the efficacy of this approach under the arduous conditions imposed by COVID-19 all but guarantees that its adoption will accelerate in the coming years. We expect more and more organizations to deploy this model to achieve skills and scale, at speed.

Many finance organizations are developing the talent and resourcing model needed to "skill and scale" at speed to address demands beyond their lean teams. That's important because remote working is likely to remain in place, certainly in the near term, and is becoming permanent policy in many organizations. There is a very real possibility of future work disruptions that could bring about shelter-in-place orders, either through additional COVID-19 surges, new viruses or other events, further increasing the need for a highly flexible talent and sourcing strategy to augment these lean accounting teams.

– Jay Thompson, Managing Director, Global Managed Business Solutions Leader, Protiviti

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