COVID-19 and the CFO

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Steering finance—and the enterprise—through the coronavirus fallout

The furious speed with which the COVID-19 outbreak morphed from a health care issue to an economic issue has created unprecedented challenges for chief financial officers. To manage through these challenges and position their organisations for recovery, CFOs need to take decisive action now.

Employees are the first priority, of course: doing everything possible to safeguard their health and financial security is an imperative. It is not only the right thing to do, but will be critical to rebounding when COVID-19 abates. Ongoing communication will be important, too, both to minimise employees' stress and to keep them engaged.

Many companies have already instructed corporate staff to begin working remotely, safeguarding both their physical and financial health. However, most organisations have little experience managing a work-from- home workforce, and their employees little experience working in one.
CFOs must prioritise making sure workers get the tools and technologies they need to communicate and collaborate, along with ready access to the corporate data pertinent to their jobs—all while maintaining security standards.

CFOs also need to prepare for workload shifting. This may require quick cross-training for mission-critical activities and documenting how to use the finance function's least widely employed tools and resources.

In addition to ensuring that employee needs are met, CFOs must further focus on four key areas of the business: developing a "virtual" close process that can be handled by a remote workforce, addressing cash flow/cash management, cost management/cost takeout, and business planning and forecasting.

Enabling a virtual (remote) close

To complete tasks with a remote workforce, CFOs must work with other finance and accounting leaders to quickly identify and triage any gaps that could impact the close process, paying special attention to the skill sets available to the finance function under a work-from-home model. If additional bench strength is warranted, the CFO must supplement the team immediately. Beyond possessing the necessary technical skills to begin producing the moment they're brought aboard, these new resources should be pre-equipped for remote work.

Concurrently, the finance team needs to confirm the scope of close activities, establish governance protocols, and develop a close timeline. To support process efficiency, the team should align with the organisation's auditors on key materiality and journal entry thresholds.

To build a sustainable virtual close process that may be needed or simply desired, CFOs should spend the weeks following this month's close to build ongoing support for their process. This can be facilitated by embedding resources into teams to provide hands-on assistance. At the same time, CFOs can oversee development of a remote process scorecard focused on monitoring key metrics around liquidity, efficiency, cycle times, the quality and accuracy of data, coordination and timing issues, business and IT controls, and the removal of complexity from the accounting process. Once this month's end process is done, CFOs will want to monitor their existing remote processes on an ongoing basis to confirm that services and quality have stabilised.

Cash flow/cash management

For organisations whose revenue cycle has been impacted by the abrupt halt to economic activity, cash management will be critical. Triage must begin with assessing—and where necessary improving—cash visibility, not just at the enterprise level but deep into the organisation where front-line managers need to understand how their decisions will impact cash levels. Where resources are available, increased needs for cash visibility and management can be satisfied by new technologies that enable analysis at greater levels of detail and support intelligent process automation.

At the same time, CFOs should be working to free cash from working capital by reviewing opportunities to extend payables, paring inventories where possible, and working closely with customers to understand how their payment plans are being impacted. As part of these efforts, CFOs should order a review of financial covenants and potential penalties for late or missed payments, analyse supplier contract terms for opportunities to conserve cash, and maintain contact with lenders to keep them current on how the business is being impacted by the economic slowdown. Other potential considerations for receivables include factoring and asset-backed securitisation.

Cost management/cost takeout

In the push for liquidity, finding opportunities to reduce costs will go hand-in-hand with looking for new ways to bring in cash. Options include hiring freezes and full or partial furloughs to reduce labor costs, reevaluating inventory strategies, standardising and automating processes to improve productivity, and trimming or halting non-essential expenditures.

One way to get started is by executing a rapid cost diagnostic with a hypothesis-led approach using pre-built analytics and cost benchmarks. This can help leadership teams set the right targets, quickly, rather than mandating blunt cuts that will inhibit operations once the economy begins to improve. As part of this process, CFOs can appoint "cash champions" to ensure that cash is kept at the heart of decision-making across the organisation.

While workforce reductions have already been shown to be inevitable in many industries, they are difficult under the best of circumstances and can make recovery efforts challenging when economic conditions improve. Companies that have a strong balance sheet or that anticipate a rapid rebound when COVID-19 has been contained, may want to use furloughs as a last-resort.

Looking further ahead, organisations that use this moment to trim costs within their own operations can then begin to position themselves for greater efficiency in the future through smart use of technology, automation, analytics, spend controls and optimised delivery of support services.

Business planning and forecasting

Many organisations have found that business plans and forecasts developed as recently as a few weeks ago are no longer viable. Given the economic ambiguity, many are struggling to realign their financial outlook in order to provide appropriate guidance to shareholders and other stakeholders.

Along with updating revenue forecasts, companies need to plan for optimising outcomes in this new environment. As they pivot to address near-term challenges, they will need to assess the impact of COVID-19 and other external datasets on their financials and cash forecasts. Among other things, CFOs are seeing heavy strain on the supply chain, and it will be critical to evaluate the impact on their geographic manufacturing and distribution footprint. All of this will be important groundwork for providing the right decision support as we exit this global challenge. Now is the time to address the immediate need, but also to lay the foundation for creating future value from the business planning and forecasting process.

Conclusion

The speed and depth of the economic repercussions from COVID-19 are unparalleled in modern history, simultaneously testing the financial resources and human resiliency of all industries. Given the enormity of the challenges they face, CFOs must act swiftly and decisively to protect their people, meet ongoing financial close and reporting commitments, maintain cash flow, sustain their businesses, and be ready to rebound when COVID-19 abates. KPMG Ghana has the experience, skills, and resources to assist in these efforts now.

Contact us

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