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CAO rising: How the chief accounting officer role is evolving

The role of the chief accounting officer is expanding beyond the bounds of accounting operations. CAOs are being entrusted with critical projects and working as strategic partners with the business. It's a golden opportunity to take CAO careers to new heights and help the company operate more efficiently. But it will require new management skills and capabilities, particularly in digital systems.

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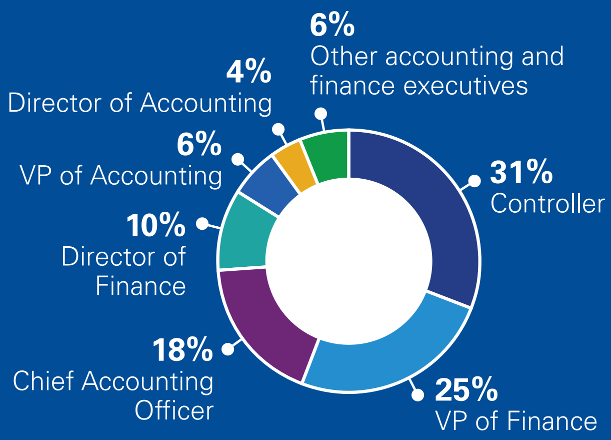
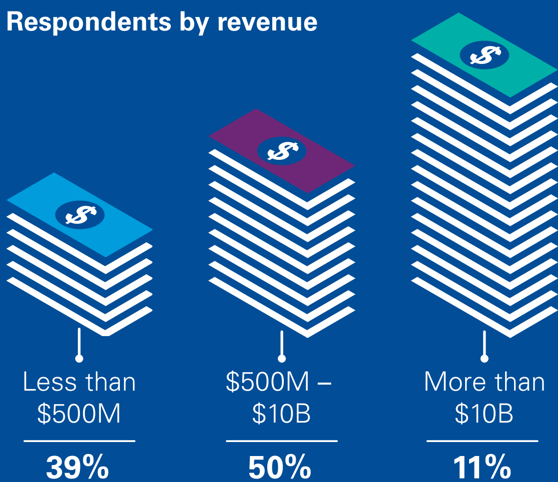
Survey methodology

Recently, KPMG surveyed 229 public and private companies (48 percent and 52 percent, respectively) across a wide range of industries. Three-quarters (76 percent) of respondents described their role as head of the accounting function, responsible for overseeing all accounting functions at their organization.

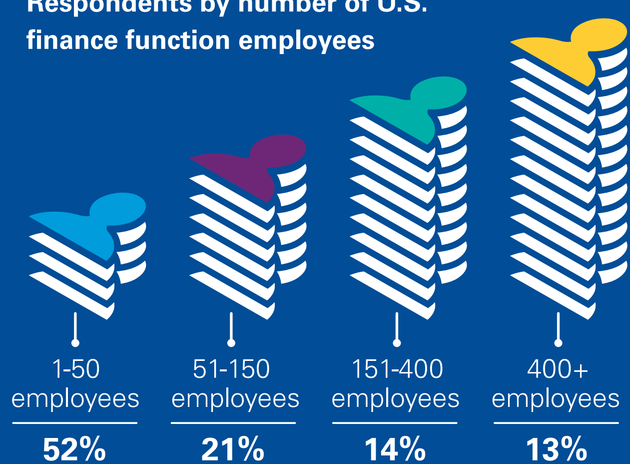
Respondents by title



Respondents by revenue



Respondents by number of U.S. finance function employees



Introduction

Jumping into the fray to help their companies through the COVID-19 lockdown is just the latest example of the expanding role of the chief accounting officer (CAO). With the CEO focused on business continuity and strategies for a post-lockdown "new reality" and the CFO occupied with securing incremental liquidity to weather an indefinite storm, it has become the responsibility of the CAO to maintain finance and accounting operations, including managing a "virtual" quarterly close with remote staff. The economic disruption has also created new financial and control risks for the CAO to manage.

These new duties are only the latest challenge for CAOs, who have been taking on greater responsibility at many companies for several years. After managing the implementation of recent accounting rule changes—a complex transition that took many years[1]—CAOs at many organizations are being handed responsibility for managing digital transformations. More broadly, they are being asked to work as partners with business-unit leaders and help them use accounting strategically in their operations.

This all spells opportunity for CAOs, but it comes with a catch. CAOs have to perform these new tasks without letting up on their "day job." They have to do it knowing that they are being thrust into these new responsibilities despite potential capability gaps, particularly in the critical areas of managing technology and using data and analytics.

In this paper, we look at the evolving role of the CAO, based on our work with CAO clients as well as insights from a survey of 229 CAOs and their functional equivalents, who shared observations about their expanding roles—both their aspirations and apprehension about barriers to their success.

[1] These new accounting rules are ASC 606, Revenue from Contracts with Customers; and ASC 842, Leases.

Redefining the CAO role

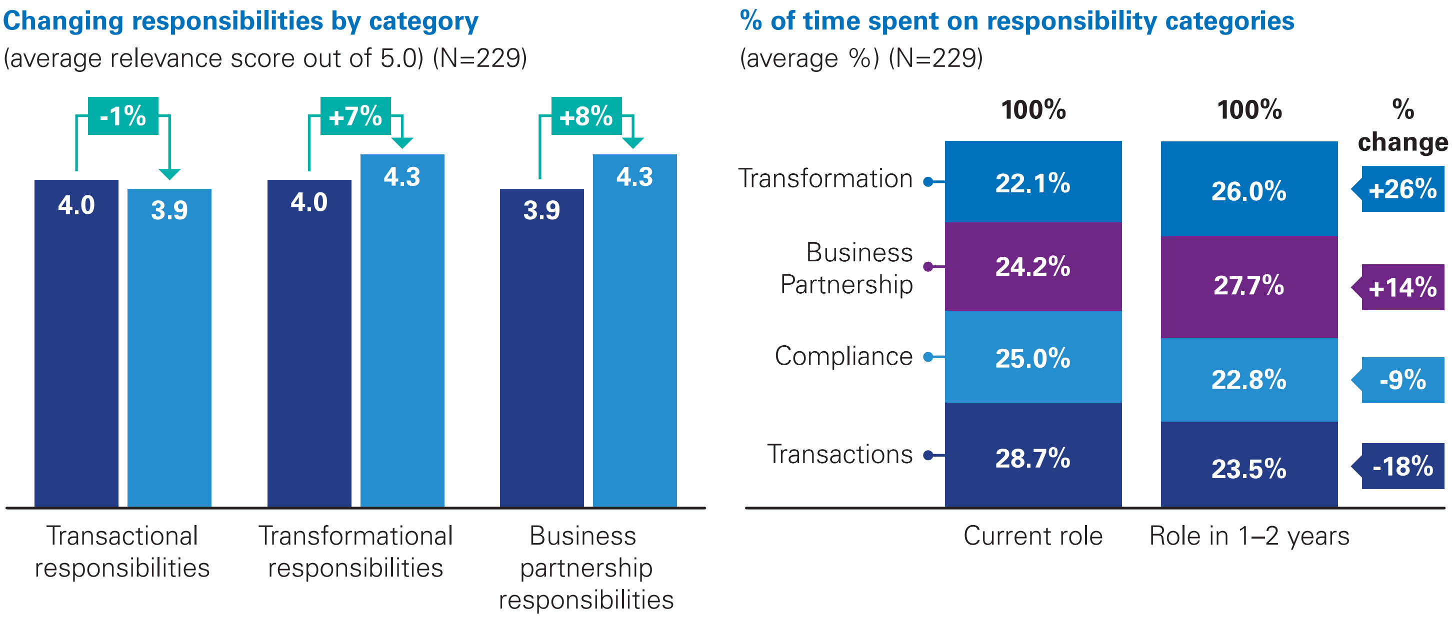
The expansion of the CAO function really began with the need to implement new accounting standards. The task fell to CAOs, since accounting change is a financial reporting exercise. However, CAOs were forced to go beyond their traditional roles within the finance organization to work directly with other functions and business units affected by the new rules. The hard work of implementing new accounting standards is not finished; in particular, CAOs have ongoing responsibility for compliance. But now, CAOs are being asked to participate in business transformations—projects such as large IT system implementations and business-process improvement programs—and continue to partner with business unit leaders. They increasingly play an integral role in M&A transactions, too.

Becoming a strategic partner with the business

Having worked with various business units to implement accounting change, CAOs are now expected to have an understanding of functions such as sales, operations, treasury, and even investor relations. They are expected to partner with other C-level executives and assume responsibilities for business strategy. They have been given responsibility for enterprise risk management and, increasingly, are being entrusted to help manage business transformation projects—identifying opportunities for automation and other innovations, for example.

Exhibit 1 shows how CAOs expect their roles to morph in the next year or two: the trend is away from routine, "day-to-day" governance and compliance activities, and toward overseeing operations transformations and collaborating with other business leaders on accounting and finance matters. Survey respondents expect that time spent on transformation work will increase by 18 percent and time spent partnering with business leaders will rise by 14 percent. CAOs currently spend about 25 percent of their time on compliance matters, but expect that to decline by nearly 10 percent in the next couple of years. While they expect the time spent on transactions to decline by 18 percent, CAOs are still expected to be in high demand by deal teams due to the need for additional accounting oversight in complex transactions.

Exhibit 1. How CAOs see their evolving responsibilities



Current role Role in 1–2 years Note: Figures my not reflect exact % due to rounding

Exhibit 2 shows the top reasons CAOs cited for increased participation in transformational activities and working as partners with the business. In general, CAOs are being drafted for transformations and partnering with the business because finance and accounting input is needed. That expertise is seen as critical for increasingly complex transformations and ongoing changes in business strategy.

Exhibit 2. Why CAOs are taking on transformational work and partnering with the business

Top reasons for transformational work

Rank	Reason	% of responses
1	Transformational complexity requires additional finance and accounting input	62%
2	Transformational activity directly relates to the finance and accounting function	57%
3	Transformation driven by a large system implementation requires additional accounting support	53%
4	Higher volume of transformational activity	31%

Top reasons for business partnerships

Rank	Reason	% of responses
1	Ongoing business change that requires active accounting input	69%
2	Reporting and measurement expertise required to support ongoing business change	55%
3	Proactive implementation of internal control and process change across business units	52%
4	Higher volume of business partnership activity (e.g. greater number of special projects)	36%

An opportunity to step up—making time for new responsibilities

The evolution of the CAO roughly parallels what happened to CFOs more than a decade ago. That's when the CFO function expanded from financial gatekeeper—the owner of day-to-day accounting and financial reporting—to a more strategic role, often working hand-in-hand with the CEO on matters such as acquisitions. CAOs have a lot to learn from the experience of the CFO, including that when new responsibilities are added, old ones are rarely subtracted. Still, CAOs are eager for the opportunity to step up: in our survey nearly two-thirds of respondents indicated that they hope to become CFO within 3 to 5 years.

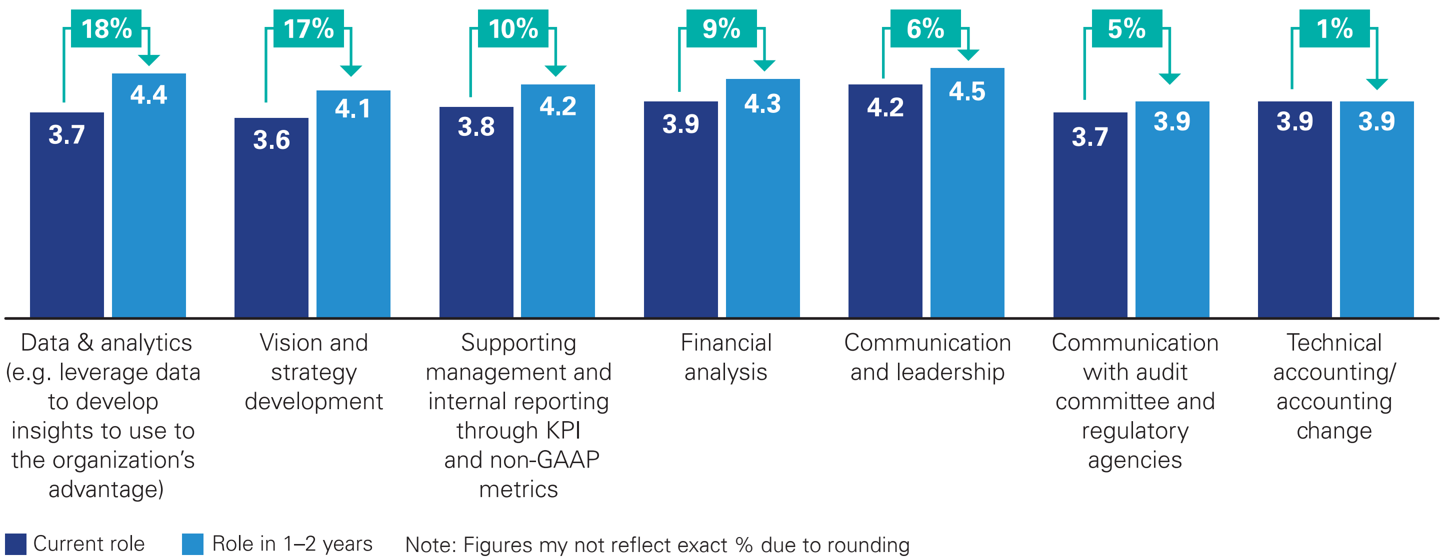
To take on new responsibilities and act as executive partners to the business, CAOs know that they must make their day jobs run more efficiently, raise the capabilities of their teams and address gaps in their own skill sets. To give them the bandwidth to take on new work, CAOs need to streamline the finance function through business process automation and other techniques. They need to utilize data insights to inform strategic decision making, understand the operations of other business functions, and show that finance can be seamlessly embedded within the organization to boost performance. As routine work is automated, the CAO should help team members develop new skills and take on more responsibility.

CAOs realize that the role of technology in their work will only increase. In our survey, when we asked which skills will grow to become more relevant in a year or two, survey participants indicated the biggest change will be the demand for CAOs to acquire data and analytics skills and boost their knowledge of technology (Exhibit 3). The most relevant skills overall—now and in the future—are communications and leadership.

Exhibit 3. CAOs expect data and analytics skills will grow most in importance, while the need for technical accounting skills will grow the least

Relevance of skills

(average relevance score out of 5.0) (N=229)

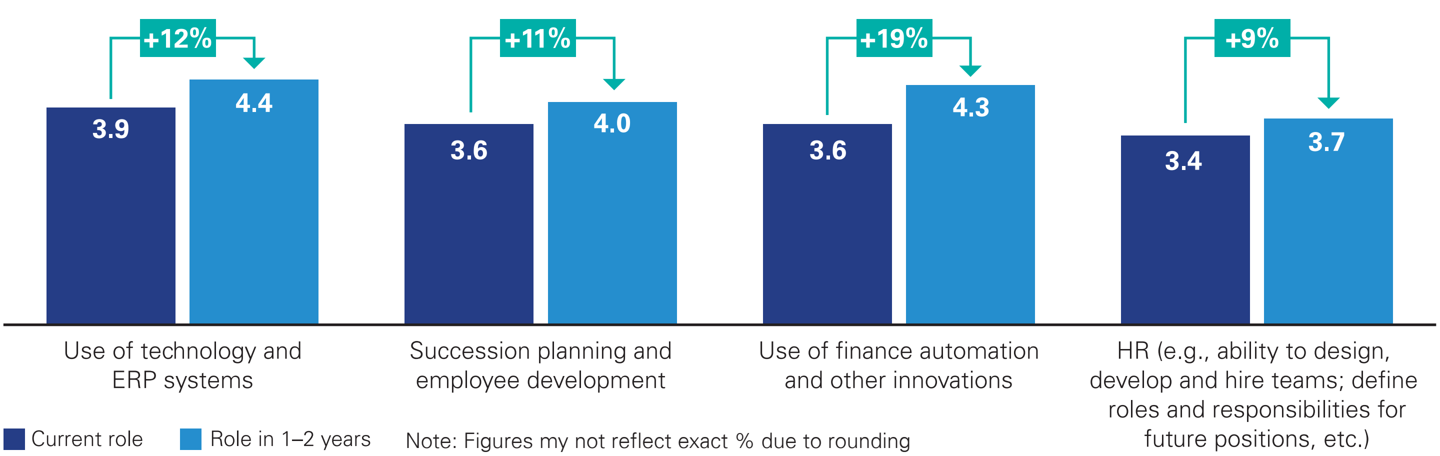


Note: Figures my not reflect exact % due to rounding

CAOs recognize a growing need for functional knowledge in technology

Relevance of functional knowledge for current/future role

(average relevance score out of 5.0) (N=229)



Note: Figures my not reflect exact % due to rounding

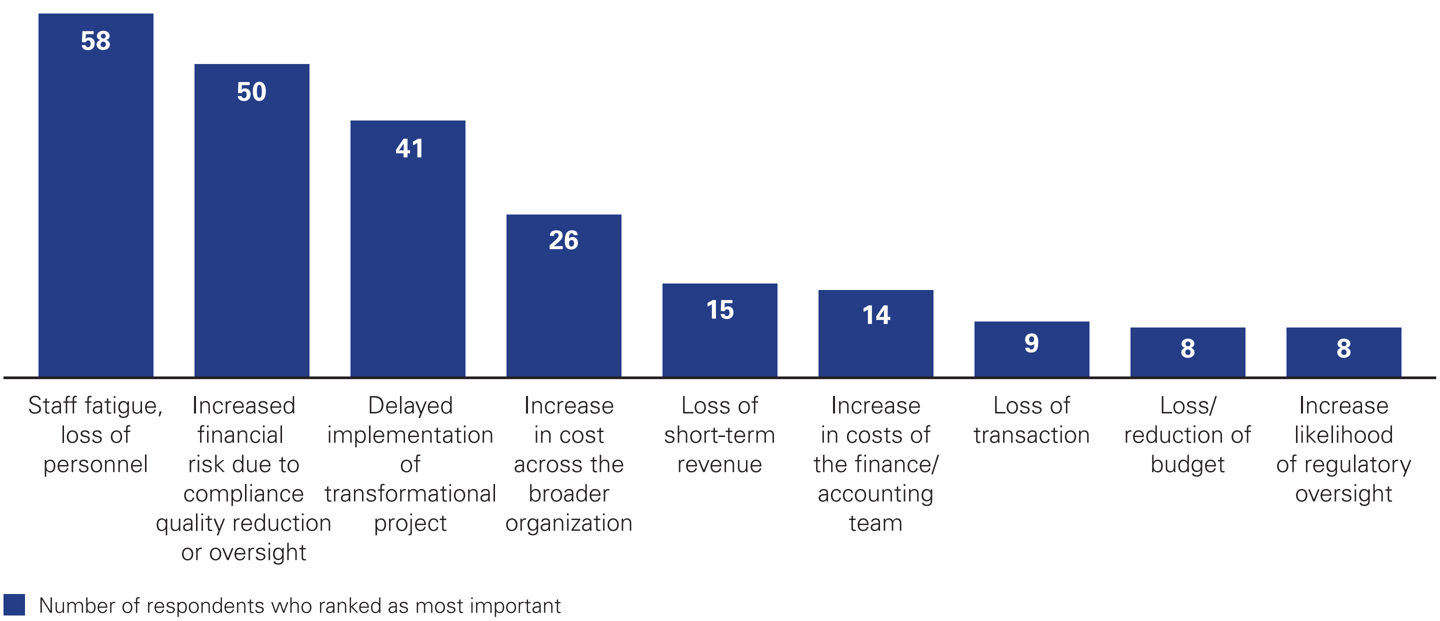
In addition to the skills gap, CAOs are concerned about the ability to get more resources to tackle additional responsibilities; 68 percent of respondents expect that they will need to work within existing budgets. Economic disruption makes it unlikely that any budgets will increase and many may be cut deeply. Survey respondents recognize that a mismatch between growing responsibilities and static/declining resources can lead to staff fatigue and affect compliance quality, creating potential financial risk (Exhibit 4). Another risk from strained resources cited by CAOs: delayed implementation of transformational projects.

To meet the resource challenges, CAOs will need to lead a successful digital transformation of the finance function itself, which we discuss in the following section. This can free up resources for higher-value tasks. With potential budget restrictions, CAOs may need to be creative and use a phased approach for digital projects. In addition, CAOs can flex capacity as needed or access specialized talent by engaging outside consultants and contingent workers.

Exhibit 4. What makes CAOs worry

Impacts on organization related to unsuccessfully addressing key challenges

(number of respondents) (N=229)



A necessary first step: make the existing function more efficient

In order to find time to focus on more strategic activities and work as a true partner to the business, CAOs need to make their department more efficient and effective. This is about reallocating resources and automating activities, such as transaction processing and manual reconciliations, to free up personnel for more value-added work. The bottom line: CAOs must be prepared to run their function using artificial intelligence, robotic process automation, and other emerging technologies.

To understand the potential for improvement, CAOs should start by benchmarking against finance operations of similar organizations. Traditional activities, such as performing certain account reconciliations and identifying and cleansing data for manual input into financial reports, can be repetitive in nature and may add little value to the business beyond compliance.

CAOs can take the opportunity to empower their teams with tools, technology, and training to streamline these activities. Then, accounting department personnel can contribute their insights into how to improve the organization.

While CAOs plan the future state of the function, they are also confronted with an immediate need to accommodate the new reality imposed by the COVID-19 lockdown. Many CAOs have already led their first virtual closes and will need to reflect on lessons learned from that process. But it is likely that they will continue to operate with a remote workforce for many more months. They will also need to deal with the ongoing challenges created by the economic disruption—helping maintain the company's financial stability and managing multiplying compliance challenges.

The right moves for CAOs now

CAOs will be able to help lift the entire organization only if they can work effectively alongside other C-level executives. They will need to seamlessly integrate the finance function with other business units and show these business partners how they can use accounting and finance to increase value.

It's instructive for CAOs to reflect on the experience of CFOs as their roles evolved. Despite their expectations of becoming trusted strategic partners, CFOs found that they were not always in the room when big decisions were being considered. In one survey, CFOs reported that they were engaged too late in key strategic developments due to a lack of trust.

CAOs can earn trust and be in the room where it happens by thoroughly understanding the operations of other business functions and providing valuable insights--backed up with facts. This way, CAOs are effectively branding themselves as a business partner. In particular, the CAO has an opportunity to support the CFO, providing rapid, data-based insights and acting as a sounding board.

For starters, CAOs can use accounting data from compliance activities to shape business decisions. With the adoption of the new accounting standards, they have had to request, understand, and attest to data that previously had not been considered to be related to the accounting function. For example, CAOs now have a bottom-up perspective on best practices in customer contracting and can apply the same treatment to all contracts across the business. Furthermore, since all leases need to be on the balance sheet, the CAO has the knowledge that business units need for make, buy, or sale-leaseback decisions.

To execute their business partnering activities, CAOs may need to accelerate the transformation of their departments. This may require reallocating resources and realigning processes as well as automation projects. Such investments can create efficiencies, which will allow the CAO to be a value-added business partner.

Exhibit 5 – The way forward

Evolution of CAO

Governance and Compliance

- Assess current processes and benchmark against industry peers
- Identify gaps with industry best practice
- Identify processes that can be automated
- Develop a business case for transformation
- Build a transformation blueprint with a realistic time line
- Deliver early wins while ensuring proper controls are in place

M&A Transactions

- Start to collaborate with the deal team during pre-diligence
- Offer insights on finance and accounting impacts
- Identify finance and accounting synergies
- Support diligence with advanced analytics to identify value and risk
- Manage day 1 risk

Transformation

- Determine the questions the business struggles with most
- Establish the vision and goals for transformation; be bold, but realistic
- Prioritize areas of focus —articulate value and business case for change
- Align with leadership team—break down silos, in and out of finance
- Create an agile mechanism for program funding and resource allocation
- Define the strategic roadmap and an executable plan

Business Partner

- Define CAO role in enterprise strategy
- Solicit "voice of the customer" input
- Identify technology and data solutions to increase speed and effectiveness of insights
- Articulate expectations for effective partnering; make it real for every partner
- Manage talent to close gaps in skills, competencies and behaviors
- Establish mechanism to measure influence, impact, and performance

Conclusion

CAOs can increase their impact among fellow C-level executives if they can continue to demonstrate their value. As they assist in the COVID-19 response, they are showing that they can be the go-to experts for evaluating accounting and financial reporting implications of any initiative or transaction; assessing business continuity plans (including managing liquidity and preserving cash); ensuring clear investor and stakeholder communications; and pursuing opportunities such as obtaining government economic stimulus or jumping when the company sees M&A options.

By taking on new responsibility through these extraordinary times and adapting quickly to the new reality, CAOs are helping position their companies to survive and grow when the economy recovers. If CAOs can do it in an emergency, they can do it when the world returns to normal—and drive their own success, as well as that of the company.

How KPMG can help

We will meet CAOs at every key juncture on their journey of growth and work together to build knowledge, align skills, and develop tools to take the finance function to the next level. KPMG LLP's team of specialists in technical accounting and financial reporting, risk management, process transformation, data and analytics, and executing deals can help you end-to-end. We can provide market-leading insights through multiple channels (events, focus groups, webcasts, etc.), deliver recommendations across the full spectrum of CAO needs, and enhance decision making by unlocking untapped value in data insights.

KPMG's "one-stop shop" solution:

We bring an experienced point of view to help execute the CAO agenda providing relevant benchmarks enabled by differentiated technology.

Experienced multi-disciplinary team

- Technical accounting and financial reporting functional specialists
- Enterprise-wide transformation and strategy specialists
- Broad perspective on organization design, talent management and workforce shaping
- Internal controls transformation and digitization capabilities
- Deal identification through value execution for successful M&A transactions

Enabling technologies and tools

- Data analytics platforms and strategic insights
- Dedicated benchmarking and research teams
- Automation and transformation capabilities (i.e., robotics, data visualization, etc.)
- Executive education programs and thought leadership (for industries and functions)

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