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Changes in the Financial Function of Companies

V.D. Smirnov

Financial University, Moscow, Russia
<https://orcid.org/0000-0002-1243-5349>

ABSTRACT

The author examines the peculiarities of the functioning of corporate financial services, in the work of which much has changed over the past twenty years. The study aims to find the optimal balance of traditional, routine operations and analytical work of the company's financial service in a significantly complicated and unstable macroeconomic environment. The theoretical and methodological basis of the study was the scientific works of foreign scientists and experts on improving the efficiency of the financial service of corporations. The author used methods of qualitative and quantitative analysis of scientific publications, analytical materials of well-known consulting organizations, statistical data. As a result of the study, the author concludes that in order to increase the return on its work, the financial service should focus on an in-depth analysis of the corporation's activities and prepare proposals for improving its economic efficiency within the framework of the concept of stakeholder capitalism. At the same time, it is rational to transfer part of the work related to current settlement operations and credit support to the company's activities and related risks to organizations specializing in such activities.

Keywords: financial service; efficiency; analytical work; creating additional value

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INTRODUCTION

The macroeconomic environment in which companies have to operate has changed significantly in the XXI century. New technologies are rapidly being introduced into people's daily lives and are affecting business processes and models. Climate change has an impact on consumer behavior, on actions of governments in terms of modifying the regulatory environment and forcing companies to save energy and reduce the negative impact on nature. Companies' development priorities are shifting from short-term to longer-term and sustainable development objectives. In these contexts, companies' financial services cannot spend time compiling reports on events that have already occurred, a should, together with other departments, devote it to a deep analysis of the company's activities and preparation of

proposals to increase its efficiency, add value and improve returns on equity.

CHANGES IN THE ECONOMIC ACTIVITY OF COMPANIES

The actions of any company are determined by the state of the environment in which it operates. In the XXI century this environment has undergone significant changes that have led, as noted by Klaus Schwab, founder of the World Economic Forum, to the Fourth Industrial Revolution, characterized by a combination of technologies that blur the boundaries between the physical, digital and biological realms. The features of the revolution are the speed with which technological innovations penetrate into our lives (rather, exponentially than linearly), as well as the destructive impact on traditional industries and the transformation of business models [1].

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Another fundamental change in companies' operating environment, compared to 20th century, is the different public perception of market objectives. If the shareholder capitalism's goal is to provide a highest return on the capital invested by company's owners, then stakeholder capitalism, the concept of which is being actively promoted nowadays, requires the company to take into account interests and other parties, in addition to owners, which affected by its actions: employees, suppliers, consumers, local communities. Companies are forced to take into account this new approach to market relations in elaborating development strategies and individual operational actions, although this is not easy, since some interpret it as a refusal to make profit, which is the "cornerstone" of the market economy. However, there is evidence that this may be beneficial not only for the reputation of companies, but also in terms of financial performance. McKinsey Global Institute, looking at US public companies with large and medium capitalization in 2001–2020, concluded that those with long-term views (what is important for stakeholder capitalism) outperformed others in terms of profit, revenues, investment, and jobs growth. [2]

Closely related to the concept of stakeholder capitalism is the concept of sustainable development, in which the key issues are the responsible attitude of companies towards nature and coexistence with the society in which they operate, as well as ethical issues of corporate governance (principles ESG: Environment, Social and Governance). Wherein attention is mainly paid to on combating climate change, which has an impact on the quality of life, human work capacity, food systems, physical assets, infrastructure services and environment.[3] The greatest impact on companies in this context is possessed by consumers who do not want negative changes in their environment and therefore prefer the products of those companies, that adopt in

their activities measures for preservation and prudent use of mineral resources, transition to renewable energy sources, lean land use, etc. For example, 80% of Russian consumers as respondents in the global consumer behavior survey for 2020 expressed environmental concerns and 47% are willing to pay more for goods and services that do not have a negative impact on the environment.[4] States actively support their electorates by adopting laws aimed at achieving carbon neutrality in the foreseeable future. Although initial sustainable development interventions often do not yield immediate benefits, they have a positive impact on the main economic indicators of the organizations implementing them in the medium and long term. For example, companies with consistently high environmental and social performances achieved 3.7 times greater operational profitability during 2013–2020, than companies with lower ESG indices, and produced a 2.6 times higher average annual shareholder return.[5]

In this context, it is important to resolve the conflict between short-term quarterly companies' performance indicators (including ones through accounting or financial tricks to increase short-term returns on reports), trend towards prioritization of which to value companies, according to McKinsey Corporate Horizon Index,¹ has developed in 1999–2017, and long-term building up of equity value by stakeholders. Banks mixing the two in the first decade of the 21st century triggered a financial crisis that eventually destroyed billions of dollars of equity value.[6]

The increased propagation speed and scale of new technologies, that are changing the business practices that have developed over decades, have a huge impact on the activities of companies.

¹ The Index is the world's first statistical evidence showing the positive impact of a company's long-term vision on its performance.



Modern communications have created conditions in which entire sectors of the economy are on the verge of collapse as new business models emerge: travel agencies are no longer needed by most of people because of introduction of such aggregators like Booking.com and Airbnb, while many retail trade chains have been damaged or ceased to exist as a result of development of electronic commerce by such companies like Alibaba and Wildberries. The many times used first stage of SpaceX rocket and electric motors in automobiles (like Tesla) show, how the new technologies can damage traditional approaches to launchings on the Earth orbit or destroy the internal combustion engine industry; and connecting consumers to its equipment (like coffee capsules for Nespresso coffee machine or blades for a single Gillette razor) can win competition in the segment of mass consumption.

The innovation of the last century in the form of shift from hand assembly to conveyor, that is human labor application in a different form, has been in use for more than a hundred years. Nowadays, modern technologies make it possible to get rid of routine processes performed by a person, as well as to take his/her analytical work to a new level. As shown by the special study of activities of 3000 largest companies in the world, conducted by McKinsey, 90% of the average annual economic profit² generated in 2010–2014 accounted for less than 1% of their number, that managed to digitize its internal processes as much as possible. No less important than digitization is to build a company's internal operating model in such a way that it helps to best interact with the product buyer. [7].

Greater specialization in goods production and the international division of labor have created global flows of goods and expanded

the geographical distribution of supply chains of commodities and materials. At the same time, this has increased the dependence of companies on the economic and political situation of the locations where their producers are located and on the entire route of its delivery. For these reasons, failures of a month or more now occur on average every 3.7 years, resulting in significant financial losses. Adjusted for likelihood and frequency of disruptions, companies can expect to lose more than 40% of their annual profits on average every 10 years (approximately 7 pp of its decline). But one major event that interrupts production by 100 days (which happens on average every 5–7 years) in some industries can destroy almost annual earnings. McKinsey estimated that between 16 and 26% of world merchandise exports, amounting to between 2.9 and 4.6 trillion USD, could move to new countries within the next five years, if companies restructure their supply chains. This will enable companies with a flexible supply chain of raw materials to reduce the negative impact of these circumstances on EBITDA,³ calculated on the basis of reporting data for 2018, by 23 p.p. — from 39% to 16% [8].

Tax laws are constantly changing. For example, in the first half of 2021, 7G Group of countries took the initiative to establish a global minimum corporate tax of 15% to combat offshore activities and to replenish government budgets. The USA is considering raising the tax from 21% to 28%, and for foreign earnings from 10.5% to 21%. However, in the context of competition among tax jurisdictions and given the many possibilities to reduce the amount of taxes payable provided for the Tax Code in the USA, real tax payments by the 52 largest multinational companies headquartered in the USA amounted to 16% in 2020 while 200 foreign companies, that these United States

² Economic profit equals total income minus the explicit (accounting) costs and costs implicit in the alternative distribution of capital, i.e., opportunities rejected by the company.

³ Earnings before interest, tax and amortization gains.



companies consider to be their competitors, paid an average of 24%.⁴

TRANSFORMATION OF THE FINANCIAL FUNCTION OF COMPANIES

Historically, the work of companies' financial departments involved accounting processing of transactions only, then, as the business environment became more complex, there was a need for management reporting, financial planning and control. At the same time, the reported economic indicators themselves, presented by the financial service, reflect only "the part of the value creation history that is largely created and destroyed outside the balance sheet",⁵ while the increase of this value is the main goal of any company. Therefore, the major efforts of both the CEO (who determines the strategic direction of the company), and the CFO (whose functions now include researching every area of company's activity from the point of view achieving the main goal and making proposals for its improvement) are directed to solving this problem. Strategic (what product to offer to the market and what advantages the consumer to have compared to available competitive offers) and operational (how and where to effectively manufacture a product) factors are often intangible. The willingness of society to accept the company's products and its innovations, intellectual property, human capital, excellence in business processes, relationships with suppliers and customers is also difficult to determine in monetary terms, but represent a significant part of the total market value of the company.

Future uncertainty regarding society, climate, macroeconomics, supply chains

and related risks is likely to be a new norm for existence of companies from financial departments of which are now required to perform mainly analytical work (aimed at developing activities to manage the above external challenges and risks in order to achieve the strategic goals of the company), as well as greater involvement in the work of other departments of the company. Accordingly, the content of the financial function changes from passive collection of company statistics to active involvement in increasing their value through creation of mechanisms and incentives not only to improve the efficiency with which tangible assets are used, but also to increase intangible capital. Given the cross-cutting nature of impact of the financial service on the performance of all units in achieving value and profit objectives, its role becomes strategically important (especially because it is the best way to help to monetize business processes and to give a company a competitive edge).

The work of the financial service, which itself does not generate material capital, is largely reflected in the impact on intangible assets, such as organization of work, research, technology, software, and personnel. Under modern conditions, the share of tangible assets, including fixed assets, working capital and financial capital employed, is gradually reducing when the value of the company is determined. The above intangible assets are typically reflected in market premiums, which represent the difference between the market and book values of the enterprise, and thus this "intangibility" turns into something very material in the form of growth of capitalization of a company (since development of economy is increasingly based on skills, knowledge, digital and other technologies, rather than on physical or tangible assets). In the USA and the top 10 economies in Western Europe, investments in intangibles in 1995 accounted for approximately 30% in the total volume of capital investments, and in 2019 it was already 40%. McKinsey's March 2021

⁴ Even after Biden tax hike, U.S. firms would pay less than foreign rivals. Reuters June 22, 2021 <https://www.reuters.com/world/us/even-after-biden-tax-hike-us-firms-would-pay-less-than-foreign-rivals-2021-06-22/>

⁵ A vision for the CFO & finance function. International Federation of Accountants. 2019:23 URL: <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/vision-cfo-finance-function>



global survey of the current state of the global economy across 21 industries showed that the fastest-growing large companies with an average growth rate of about 20%, (top quartile of gross value-added growth) invested 2.6 times more in intangible assets in 2018–2019 than companies with 3% average growth (they turned out to be about half of the 861 surveyed organizations). That is, the increase of investments in intangible capital is well correlated with a higher growth rate of the value of companies. [9]

The activities of the financial service concentrate on solving the internal problems of the company taking into account the external factors. This centrality on improving efficiency determines its focus on production, supply chain and sale of the company's goods / services and the use of information in the following areas:

1. Accounting: accounting for transactions, drawing up financial statements, financial controls.

2. Compliance: conformity with government and other regulatory entities' requirements.

3. Management and control: creating and using financial and related information to report, monitor and initiate operational actions to achieve organization's goals.

4. Strategy and risk: providing relevant information and influencing the development and implementation of the strategy, as well as risk management in terms of the balance of financial and non-financial outcome, short-term and long-term objectives, following trends or maintaining an objective assessment of the situation; availability of financing to the requirements of production plans implementation.

5. Funding: informing and interactions with investors and creditors, both current and potential, to obtain and maintain the level of financial resources needed to achieve the organization's goals.

While this work is important, shareholders and boards of directors often require that

the cost of financial function be reduced and that the cost-effectiveness of the function be improved. The best companies in the business, which have simplified, standardized and automated their basic processes, achieved the cost of operating a financial service in the range of 0.55–0.61% of the company's total revenue (during 2009–2016 based on global research by PwC), while the average varies between 0.8–1.0%. At the same time, the larger the company the lower these costs: with companies' revenues above 6.7 billion pounds, such expenses reach 0.4% for the most advanced financial services and 0.87% with companies revenues of which below 0.7 billion pounds, while as on average for other companies these indicators are two times worse. The same difference can be observed for companies operating in several countries, where the higher the international involvement of the company the higher the cost of maintaining the financial services: even the best companies require 1.02% of their revenues for financial operations in more than 25 countries.⁶

With current budget kept and modern technologies introduced by them to automate routine transactions, the financial service has time to focus on creating additional value for the company, and thus move from a cost center to a profit center. Traditionally, financial services of companies spend 50% of their time on accounting, 30% on reporting and compliance monitoring, and only 20% on business process analysis and risk management. [10] Today the best financial teams try to change this situation, spending 28.8% of their time on business intelligence and 22.5% on monitoring and defining new rules for the company's activities.[11]

To overcome the skeptical approach to the financing its work, it is advisable for the finance department to devote their main attention

⁶ Finance Effectiveness Benchmark Report. Pw C. 2017:68 URL: <https://www.pwc.ch/en/publications/2017/stepping-up-ch.pdf>.



and energy to those areas of analytics, the results of which the company's CEOs remain disgruntled. A global study by PwC found that in the last 10 years (2009–2019) there was a gap between the importance and the completeness of information, received by leaders of major companies, that almost unchanged and was about 75 p.p. in data on customer preferences and needs (where 100 p.p. means information availability on all aspects of the subject), 50 p.p. — on financial forecasts, 60 p.p. — on brand and reputation, 60 p.p. — on business risks, 50 p.p. — on research and development effectiveness. At the same time, the main driver of revenue growth, according to the leaders, is operational efficiency.⁷ But these are the areas in which the financial service can and should demonstrate its knowledge and skills, collect and analyze information within the company and on the market, that will make it possible to work out proposals in cooperation with other parts of the company allowing to adequately assess the needs of the market and the potential for changes in a company's internal processes to increase the competitiveness of its products and capitalization. Use of modern technology to automate and increase the speed of operations and reporting, as well as consolidation of fragmented data certainly helps financial services focus on more complex tasks that contribute to the company's development. Large multinational companies actively engaged in this work have already achieved 60% automation level of traditional financial services operations by 2021, according to a study by Accenture [12].

Another area of improving the work of financial departments to increase the concentration on solving strategic problems is the use of organizations specializing in some specific activity, such as shared service centers. They are typically set up in large companies to

provide services such as accounting and legal services, payment and credit transactions, management of accounts receivable, accounts payable, compliance, etc., in order to eliminate and thus reduce the cost of such services in its daughter companies and to consolidate and improve existing practices on related issues. However, the lack of competition in these activities does not motivate such essentially captive centers to improve its performance in terms of the quality of the service or its cost. An alternative to shared service centers is outsourcing part of the work of financial services, especially that related to current account transactions, their reconciliations, liquidity, accounting, foreign currency, interest and other risks. Wherein, according to KPMG,⁸ there is a growing interest to outsourcing in areas such as taxes and treasury, which require teams with highly specialized knowledge and experience (which even not all global companies need or able to maintain). By outsourcing such operations, as well as customs and tax disputes, companies can draw on the skills and experience of experts from the world's best organizations in these areas.⁹

Shared service centers and outsourcing are important tools to reduce costs and improve the quality of related activities transmitted to a specialized organization within or outside the corporation. This gives the finance team more time to participate in solving company's strategic tasks through a deeper analysis of various areas of its activities and providing optimal solutions aimed at creating additional value. PwC experts consider this not only an opportunity, but also a necessity, a peculiar "addition by subtraction". "If the finance service wants to be engaged in strategic discussions at the highest level, it needs to sharply reduce the transaction burden and release its best

⁷ 22nd Annual Global CEO Survey. CEOs' curbed confidence spells caution. Pw C. 2019:46 URL: <https://www.pwc.com/gx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf>

⁸ One of the world's largest professional service networks.

⁹ Being the best: Inside the intelligent financial function. KPMG. 2013:45 URL: <https://assets.kpmg/content/dam/kpmg/pdf/2013/12/being-the-best-v2.pdf>



staff so that they can focus on creating value for the organization.”¹⁰ Moreover, transfer of various arrays of internal and external data to shared service centers or outsourcing entities leaves the financial service time to interpret the results of its processing. It is an intellectual work that identifies the likelihood of problems arising and proposes solutions, helping businesses to be more cost effective, more focused and better prepared for what lies ahead.

Elaboration of proposals for creation of additional value presupposes a joint work of the financial service with other divisions of the company. Accordingly, an important result of such cooperation is not the level of impact of the financial service on business results, but progress in implementation of jointly created or modified internal processes and systems, and creation of new value in the end. For example, improving productivity and quality in a particular production area is an operational problem, but besides production process management issues, it also affects a possibility of generating additional profits, working capital issues and other factors that are already in competence of the financial service. In view of these points, the CFO can offer cash bonuses to encourage production volume increase and reduction of scrap. Additionally, it is possible to reduce the number of workers servicing specific equipment, with increase remuneration of the remaining specialists at the expense of a part of the salary fund of those who left, while maintaining productivity by improving the organization of the production process. For such a work, the service needs to completely immerse itself in the specifics of the unit's activities and try to work out a comprehensive solution to the problem together with its leaders. This approach does not mean interfering with the job responsibilities of the head of the unit, nor does it violate the vertical of power necessary for the production

management, but creates new opportunities for the company through a vision of a more complete value chain, the implementation of which creates a holistic view of the problem solution, additional value and benefits for the unit and financial service.

An integrated approach can be very effective, so 72% of CFOs (in a global survey conducted by Accenture in 2021) consider that their companies need to completely rethink internal processes and operating models. Providing expertise and timely long term oriented ideas, financial directors will exponentially improve their company's ability to identify new markets and customers, products and services as well as channels for its promoting to the market.[12]

An essential part of financial department work is assessment of all kinds of risks that related to the company's activities and coming up with suggestions to manage its. Wherein cash management risks (liquidity, foreign currency, debt, interest) are not major ones. Much more significant, from a company's existence point of view, are the risks associated with the entire supply chain of raw materials and components, production risks (related to equipment workability, the balance of different technological stages to meet market demands, the productivity of individual production sites and the enterprise as a whole, competitiveness of the company in terms of quality, price, storage capacity of the finished product, corresponding payables and receivables), as well as commodity and country risks. These risks are not covered by insurance company's policy and require specific management actions. Since the implementation of such risks leads to financial consequences, financial services are directly interested in contribution to mitigate or eliminate them.

With regard to cash management specifically a global review by Deloitte in 2019 revealed that the main concern of financial services (especially large transnational companies) is the inability to see a current liquidity position

¹⁰ Finance Effectiveness Benchmark Report. Pw C. 2017:68 URL: <https://www.pwc.ch/en/publications/2017/stepping-up-ch.pdf>.



in real time, status of open financial positions (primarily foreign currency) and interest rate risks,¹¹ *that is mainly related to the multitude of accounts and banks through which transactions are conducted. Companies try to solve this kind of problem by creating captive in-house banks or by pooling cash positions of various divisions. However, 51% of HSBC's large corporate clients reported in 2018 that it was more difficult for them to manage foreign currency risks, and 75% of them said that they have to outsource some current operations in order to be able to deal with issues that will add value to its company.*¹²

Dividing production and monetary risks is important because no one but the company is able to manage the first ones, the solution of which determines the company's competitiveness, while the management of the latter is a specialization of commercial banks.

The above leads to the conclusion that the financial function of an enterprise requires a three-dimensional transformation:

- Changing the focus of the financial service from reporting, performing accounting processing of current transactions and other routine operations to analysis and interpretation of the company's operating activities (taking into account external factors with a corresponding reorientation of employees and more efficient use of the budget allocated to the service's operation). Successful work in this direction requires additional efforts to improve the performance of the company, that reported in 2018 85% of 1,037 CFOs of large companies around the world in the dedicated global survey;¹³

- Cooperation with other units of the company to develop comprehensive

solutions to existing operational problems (which, perhaps, these divisions do not see, since the problems are outside their direct responsibility and competence), as well as subsequent control over its implementation;

- Develop proposals for managing strategic internal and external risks.

As a result of these measures, financial service efficiency will be increased in terms of return on the funds spent on its functioning, of participation in reducing costs and increasing revenue by improving efficiency of internal operational processes, as well as of assistance at company's board level in solving strategic tasks that contribute to increasing the value of the company. These results of financial service work to promote the company's well-being can be summarized in the short formula "quantity + quality + value", where "quantity" refers to the performance of this service within the budget, increased production and reduced costs, "quality" refers to speed and error-free routine operations execution, appearance of new products, increasing customer satisfaction and reputation with suppliers, strengthening the company's brand, reducing the level of fraud, setting strategic goals for products and markets, managing production risks, and "value" is expressed in increasing the company's capitalization.

Leading financial services focus their efforts on such areas that best contribute to the growth of the company's value (analysis of individual situations in production, supply, sales and reliable forecasting of financial results through advanced analytics and artificial intelligence). While issues of company's financing (working capital, treasury operations, foreign exchange risks) are seen as derivatives of these key tasks for the company's success.[13]

In this context, the role of the finance department may be particularly striking, because the exploration of the future may not necessarily be based on extrapolation of the dynamics of the past. If everyone sees a trend,

¹¹ 2019 Global Treasury Survey. A journey toward adoption of new technology. Deloitte. 2019:18 URL: [https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/risk/us-2019-global-treasury-report%20\(1\).pdf](https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/risk/us-2019-global-treasury-report%20(1).pdf).

¹² Rethinking treasury. CFO Treasury survey. Executive summary. HSBC. 2018:7

¹³ Innovation in the Finance Function. Global Survey 2018. FSN Publishing Limited; 2018



it is likely that the opportunities it represents will be (or have already) been exploited by competitors. BCG experts in a joint study with NetBase Quid noted that “in order to take advantage of emerging trends, companies must identify them when they are embryonic — not in theory, but not yet widely known. At this stage, the signs will be simply anomalies: weak signals that are somewhat surprising but not entirely clear in scale or importance. Of course, most anomalies don’t become significant trends. But some companies that identify and interpret them early on overtake competitors”. [14]

Financial services research in now priority areas is the most important in their work currently, since it allows them to find unexpected, bold decisions, in both internal operating processes and strategic company development directions that help the company to develop faster than competitors do, especially in the aftermath of crises. This is because new technological opportunities and changing consumer preferences will make the growth of companies different from those that existed before the crisis. Indeed, according to BCG, during the previous recession, there was very little correlation between business segments that grew above average before, on time and after the crisis. In the five years after the last two economic crises (before the COVID-19 recession) revenue growth has provided 42% of total shareholder returns of the companies, which surpassed competitors in their industry in this indicator, a further 39% increase in this income resulted in an increase in multiplier price/earnings (company’s market capitalization / total net earnings), that reflect investors’ expectations for future growth potential. A significant contribution to this development was made by the persistent desire of such companies to find growth points in their industry without trying to go beyond it. BCG researchers found that 80% of the post-crisis growth of companies comes from

business segments, which account for only 40% of their pre-crisis revenues, that indicate that differentiated growth opportunities within industries are driving its forward. Wherein, market leaders implement the growth in the peripheral business segments of their activity in which they have found new opportunities: non-core segments accounted for 25% of the growth of leading companies, compared with 9% of the laggards [15].

NEW EXPECTATIONS OF COMPANIES FROM COOPERATION WITH BANKS

Having decided on the above-mentioned main tasks of the modern financial function, aimed at increasing the value of the company through a deeper penetration into the business, and realizing that no one from the outside can do the job, and taking into consideration the need for research and the realization of new opportunities to develop a company within its competencies and industry, the financial service must establish:

- what areas of work it can and should carry out independently and in cooperation with other departments with maximum use of possibilities of new technologies to solve existing problems;
- what types of work (which, although important, do not allow the company to stand out from its competitors) are, in a sense, a side effect of its main activity, in which the financial service does not have sufficient competencies (or they are not developed at the level of world leaders) and there is not enough time and money to reach this level. These functions should be identified and delegated to organizations that specialize in such work.

The very fact of transfer some important functions to third-party organizations is a difficult choice for any financial service that is inherently conservative, especially when it comes to outsourcing to specialized agencies. But in the circumstances described above, this is



the choice. While the most appropriate for such transfer are voluminous current operations of companies' treasury (i.e. the cash management and related risks) and the issues of strategic funding of companies' activities, requiring high qualifications, outsourcing of these functions is not a priority yet, it is considered by about 20% of large non-financial organizations (for small and medium-sized businesses, this figure is higher). Meanwhile, fintech companies have come to play a significant role in trade finance, treasury and foreign exchange management.¹⁴ However, not many financial services believe that digital organizations (each of which still does not develop all the areas of financial support that companies need to finance their activities) can meet their needs. Many financiers still view fintechs as service providers for retailers and niche innovators. They don't see them mature enough to deliver critical services required.

At the same time, financial services view banks as safe havens because they are tightly regulated and have considerable institutional strength and monetary resources. Companies' long-standing relationship with their traditional banks build this confidence, which makes it difficult for other banking service providers to enter the market even if they are licensed. A key requirement of companies is to work with partner banks that understand and comply with local and international rules. The fact that banks use their balance sheet to finance a company makes them a privileged partner, also interested in the success of the company. Moreover, since bank financing is often long-term in nature, the standing creditor-borrower relationship can be further strengthened. Fintech companies and suppliers of enterprise resource planning programmers cannot establish the same connection. It is uncomfortable for most CFOs to share its data

with fintech partners because they feel that "if they provide data to the fintech they will be available to all".[16]

It is no longer enough for companies to have digital channels of communication with banks, they want to move away from purchase of individual products provided by the bank to a banking service that will automatically meet the company's specified range of payment and credit requirements, and manage related risks. Due to the deep immersion of financial services of companies in analytical work, they need banking specialists' independent assessment of the industry in which the company operates. Assistance of banks in optimizing supply chains of raw materials is also actual for companies nowadays.

As can be seen from the above the financial services of companies have already changed or are in the process of changing their perception of the nature and purpose of their work. Certainly, they would like to transform their interactions with banks to make their work more effective, that obviously would benefit the banks if their corporate clients became more competitive as a result. Change the model of interaction from company/bank purchase/sale of individual products to multilateral service, in which a number of functions of the company's financial service for organizing settlements for current operations, credit support of the company's activities and management of the corresponding risks are transferred to the bank in framework of outsourcing, radically changes the approaches of banks to corporations' servicing and can be beneficial not only for companies, but also for banks.

At present, perhaps only the world's largest banks are able to invest in creation of services that can fully serve the needs of large companies, but even they do not succeed in everything: Western Europe's largest banks in 2010–2016 served about 34% of large companies, Japan — 25% and only the largest US banks — 75% of

¹⁴ Being the best: Inside the intelligent financial function. KPMG. 2013:45 URL: <https://assets.kpmg/content/dam/kpmg/pdf/2013/12/being-the-best-v2.pdf>



such clients.¹⁵ According to the BCG, if banks do not make a fundamental and long-term commitment to revising their operating models applying technology companies' best practices and becoming more agile, they risk losing a large share of business to fintech suppliers of enterprise resource planning programs and treasury management systems. [16]

In order to get the service they need, companies are forced to re-evaluate their relationships with banks. Wherein, many large corporations indicate the need for better integration of banking services into their existing systems as a major problem. One driver of such requirements is the ongoing centralization of the treasury's cash and risk management function, including foreign currency operations, that in turn encourages companies to concentrate their operations in as few banks as possible. For example, 29% of large companies and 38.7% of smaller companies are interested in a single portal through which a company can access all banking services.¹⁶ Another sign indicating the requirement for closer cooperation between companies and banks is a need for companies' financial services to adapt banking instruments and solutions for cash flow forecasting, in-depth understanding of the capital market, working capital efficiency analysis and payment analytics to corporate systems. [17].

The outsourcing of certain functions allows the use of subject matter and functional expertise, market knowledge, process discipline, and updated third-party provider technologies that finance service is lacking. Thus, by becoming not a performer of such functions, but a customer who determines parameters of its implementation and conditions motivating

outsourcer to increase its efficiency, the company can create additional value that did not exist before. Financial services of large companies see a possibility of generating additional value for corporations in improvement working capital management service by banks and maximum use of opportunities of new technologies (especially regarding compliance, fraud prevention and management of regulatory requirements) that not associated with reduction of direct funding of the services (such as in the case of doing its by financial services itself), which can reduce costs almost immediately by 4–6% in the first two years [18].

Of course, there is a risk of more competitive offers of outsourced services from other banks, but this problem is easy to resolve, given how hard banks fight for their corporate clients' operations. Therefore, by seeing a competitive offer, the current banking service provider is likely to find a compromise with the company.

As can be seen from the above, companies' need for closer cooperation with banks is increasing, and banks as reliable, trusted and professional providers of specific services are increasingly important, even despite fintech companies' fierce competition. Many companies are trying to use the banks' competences in managing money and related risks, but the transfer of these functions to banks is still at an early stage. The benefits of outsourcing many of the non-financial functions of companies by third-party providers are evident and proven through long-standing practice; however, the transfer of some functions from the financial service is still a very "sensitive" issue, although, as shown above, absolutely necessary. In this context, it is useful for companies to consider outsourcing solutions of certain financial tasks not as an anomaly, but rather as the beginning of a new trend, participation in the development of which will enable them to become more competitive by concentrating their efforts and resources on adding value to their shareholders,

¹⁵ Large Corporate Banking Relationships Evolving. Greenwich Associates. 2016:6 URL: <https://www.greenwich.com/account/large-corporate-banking-relationships-evolving>.

¹⁶ CGI Transaction Banking Survey 2019. The Global Treasurer. 2019:50 URL: <https://www.theglobaltreasurer.com/resources/transaction-banking-survey-2019/>.



employees and consumers in full accordance with the interests of the parties. While companies underestimate yet the prospects for such outsourcing, it is correct to note that many banks are not prepared to change the pattern of bank-corporate relationship.

CONCLUSION

New macroeconomic conditions are forcing financial services to automate routine operations as much as possible in order to study in-depth all aspects of their companies' activities to find reserves to increase their efficiency and develop proposals together with other divisions to

create additional value. That is to do a complex and comprehensive job that no one outside the company will do. These circumstances do not leave financial services, in terms of a limited budget for their operations, a capacity to maintain the status quo ante, in which they focused on ongoing operations, verifying its correctness and reporting. Thus, financial services are forced to transfer some of their specified functions, primarily those related to settlement and credit support of their companies and the management of related risks to specialized organizations for which such activities are the main ones.

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ABOUT THE AUTHOR



Vladimir D. Smirnov — Cand. Sci (Econ.), Associate Professor, Department of World Finance, Financial University, Moscow, Russia
vdsmirnov@fa.ru

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