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CFOs focus on retaining staff and technology to stay competitive

Recruiting the right people and digitising their operations will provide CFOs with a blueprint to build a better operating model in the future, according to EY's 2017 global private equity CFO survey, *Have yesterday's challenges provided a foundation for tomorrow's success?*

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The fourth annual survey of 103 private equity funds, conducted in collaboration with Private Equity International (PEI), finds that private equity firms' top operating objectives over the next two years are automating processes (45%), developing personnel (53%) and improving management reporting (55%). Similarly, 51% of private equity (PE) firms believe retaining talent is the top issue required to remain competitive in the future.

Priorities to deal with operational complexity

Forward-looking CFOs realise that a strategic operational focus is required to remain competitive. They contend that regulation (64%), data management (50%) and investor information requests (49%) add to operational complexity. As a result, they are focusing their objectives on strategic functions that can help implement new processes, increase returns, reduce expenses and produce information more accurately.

Meeting these objectives requires a focus on more strategic initiatives. CFOs clearly want their teams to focus less on tactical functions such as fund accounting and regulatory issues, and more on value-adding activities such as portfolio analysis, tax and investor relations.

Outsourcing continues to be an option to alleviate internal pressures and concentrate more on creating better returns for investors. While CFOs understand the benefits of outsourcing tactical functions, they are also concerned about some of the perceived challenges of outsourcing to third-party service providers, such as substandard service level and quality (79%) and inability to manage complexity (68%).

Investing in data technology

The CFOs surveyed are aware of the benefits that technology allows when faced with more complex structures and products, cybersecurity issues and investor demand for lower fees. Indeed, 90% of CFOs said that operational efficiency drives their need to invest in technology.

However, although 81% of CFOs feel that investing in data can help them replace spreadsheets, many believe the cost and complexity required for customisation is too high, and they opt instead to continue using spreadsheets rather than invest in new systems.

In fact, 79% of CFOs have not yet replaced spreadsheets because they are less costly and complex, and 58% have not done so because they feel that spreadsheets offer better flexibility.

Overall, CFOs still believe technology is the best way to mature operations. They are focusing their future technology investments on management reporting (42%) and portfolio analytics (41%) solutions in order to gain a competitive advantage around building a better portfolio and increasing returns.

Engaging more to retain talent

It's important for PE firm CFOs to engage more effectively with their talent so they choose to stay for an extended period of time. However, CFOs are keenly aware of the unique needs of the Millennial generation – more than 90% do not expect them to stay beyond five years.

As a result, CFOs have switched their focus to retaining talent, bringing more professional growth opportunities (99%), technical skill development (83%) and transparent communication (61%).

Firms are also cognisant that the current employee base is looking for more than just traditional benefits and compensation. CFOs are responding in kind with initiatives such as paid parental leave (68%), working remotely (63%) and flexible work hours (48%).

Cybersecurity is king

Cybersecurity (72%) has overtaken fees and expense allocation (66%) as the top priority of PE firms' compliance agendas today.

CFOs know that the current environment poses several digital risks, both to investment managers and portfolio companies. They noted that the most prevalent risk to investment managers is leaking confidential information (78%), while the biggest risk to portfolio companies is compromised cash payments (64%).

Some steps they will take to fight these threats are: adding a formal vendor management program (57%) sharing cyber assessments across their portfolio companies (39%) and sharing the purchasing or procurement of cybersecurity products or services across their portfolio companies (28%).

However, firms are attempting to address cybersecurity in a cost-efficient way across their portfolio companies to reduce unnecessary overheads.