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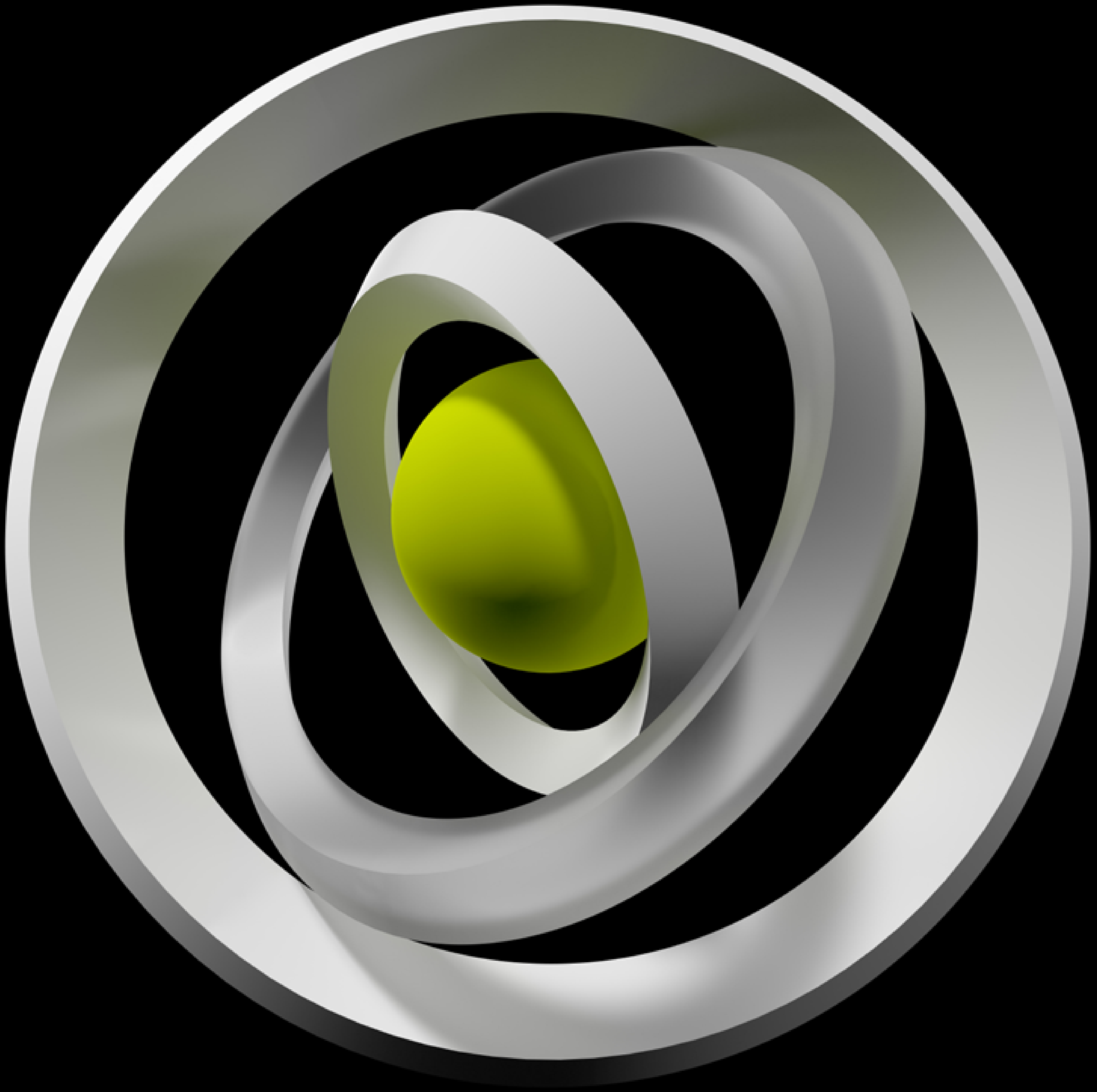

The CFO Programme
2024 Central Europe
FINANCE OPERATIONS

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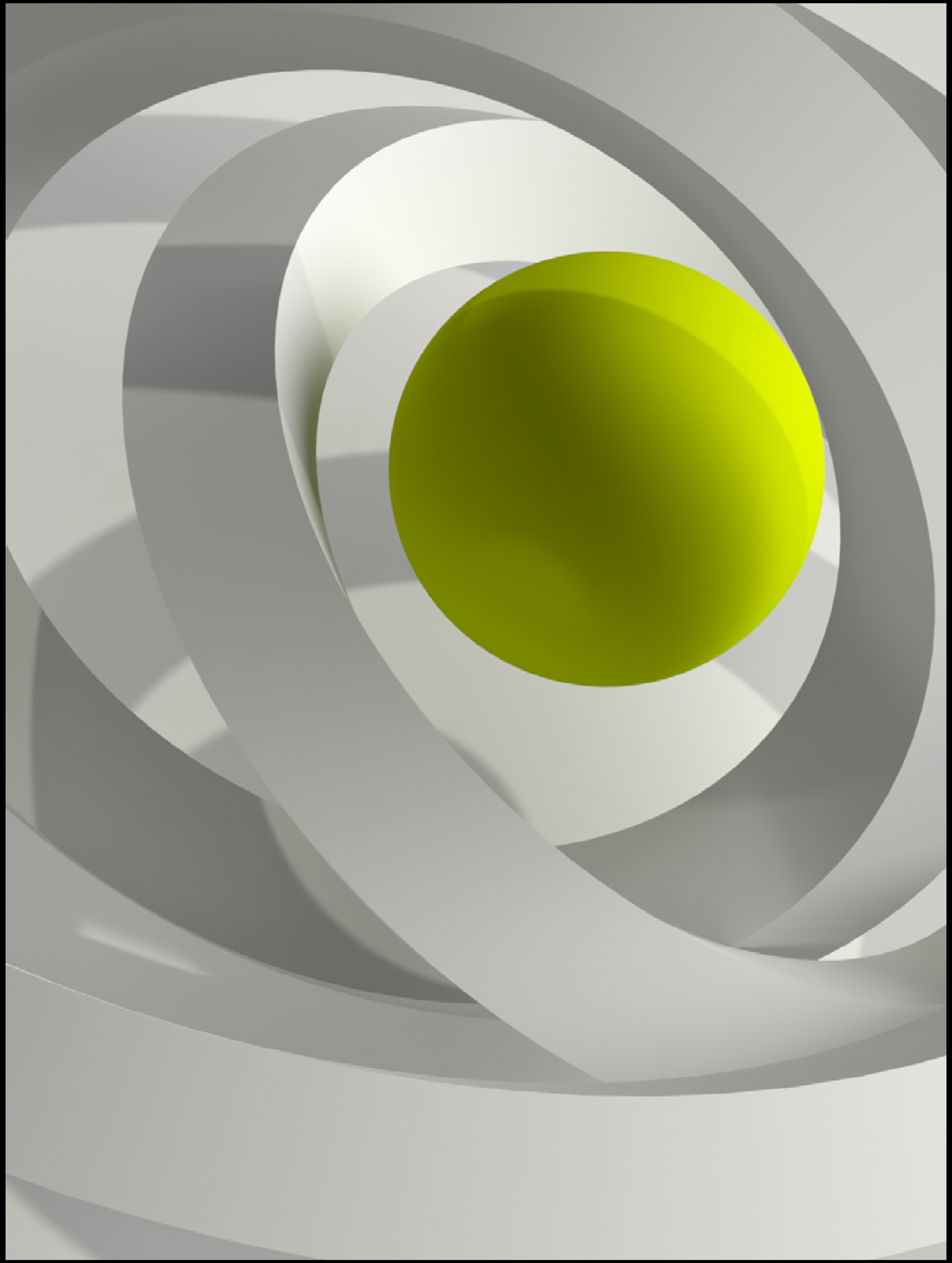
Contents



Introduction

In this special supplement to our 2024 CFO survey for Central Europe, we delve deeper into the inner workings of finance departments and their evolving roles.

This supplement therefore provides insights into the current operations of finance departments and offers a glimpse of how they are expected to evolve in the years ahead. By harnessing the predictive perspectives of CFOs, who are at the forefront of financial decision-making, we investigate the trajectory that finance departments are expected to follow.

Recognising that operations within the finance department remain at the heart of business functions, we can see that the viewpoints of CFOs carry exceptional significance.

Their predictions not only offer valuable insights into the internal dynamics of organisations; they also serve as a barometer for broader business development trends, with particular attention on areas such as outsourcing or the use of company-owned 'captive' service-delivery centres.

By bringing together the collective perspective of CFOs from across Central Europe, this supplement aims to unravel the key trends, challenges and opportunities that will shape the landscape of the region's finance departments. We aim in this way to gain a deeper understanding of the strategic direction finance departments are taking, and of how they plan to strengthen the key roles that finance plays in guiding overall business development.

Summary

This report constitutes a supplement to the main 2024 CFO report, based on a survey carried out between October and December 2023.

70% of CFOs do not intend to reorganise their finance departments in the next two years.

CFOs in the V4[1] countries are more likely than those in other countries to anticipate changes to the ways in which finance departments are structured.

*The Czech Republic, Hungary, Poland and Slovakia.

Main challenges CFOs in the CE region are facing are the technology revolution (automation, AI, machine learning) and the availability of labour.

Half of the respondents said **transfer pricing documentation is the only area of responsibility** that managers are willing to outsource to independent providers.

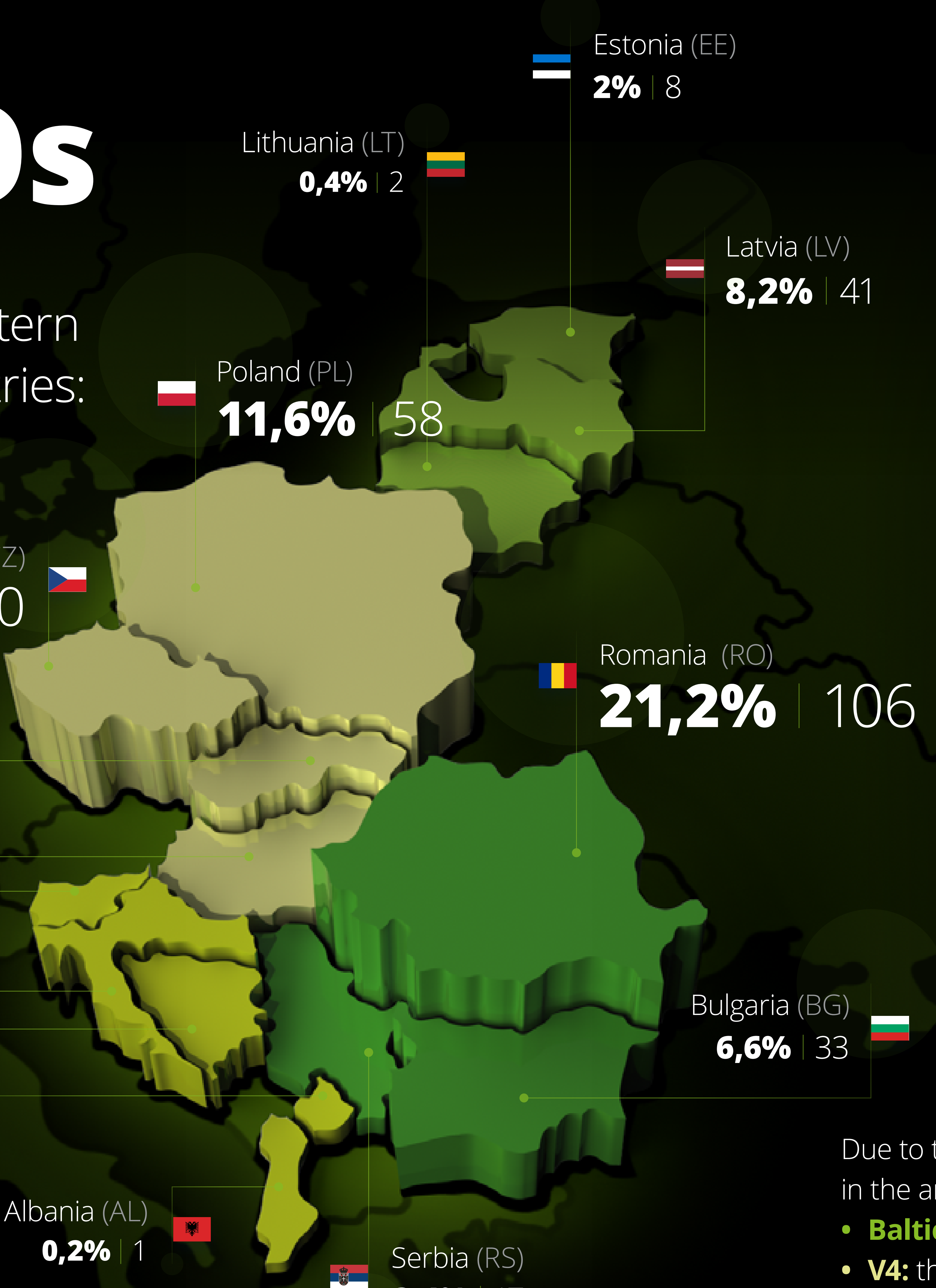
The most effective cost-reduction measures, according to four out of five CFOs, involve increasing the automation of lower-value and repetitive activities.

The survey covered

475 CFOs

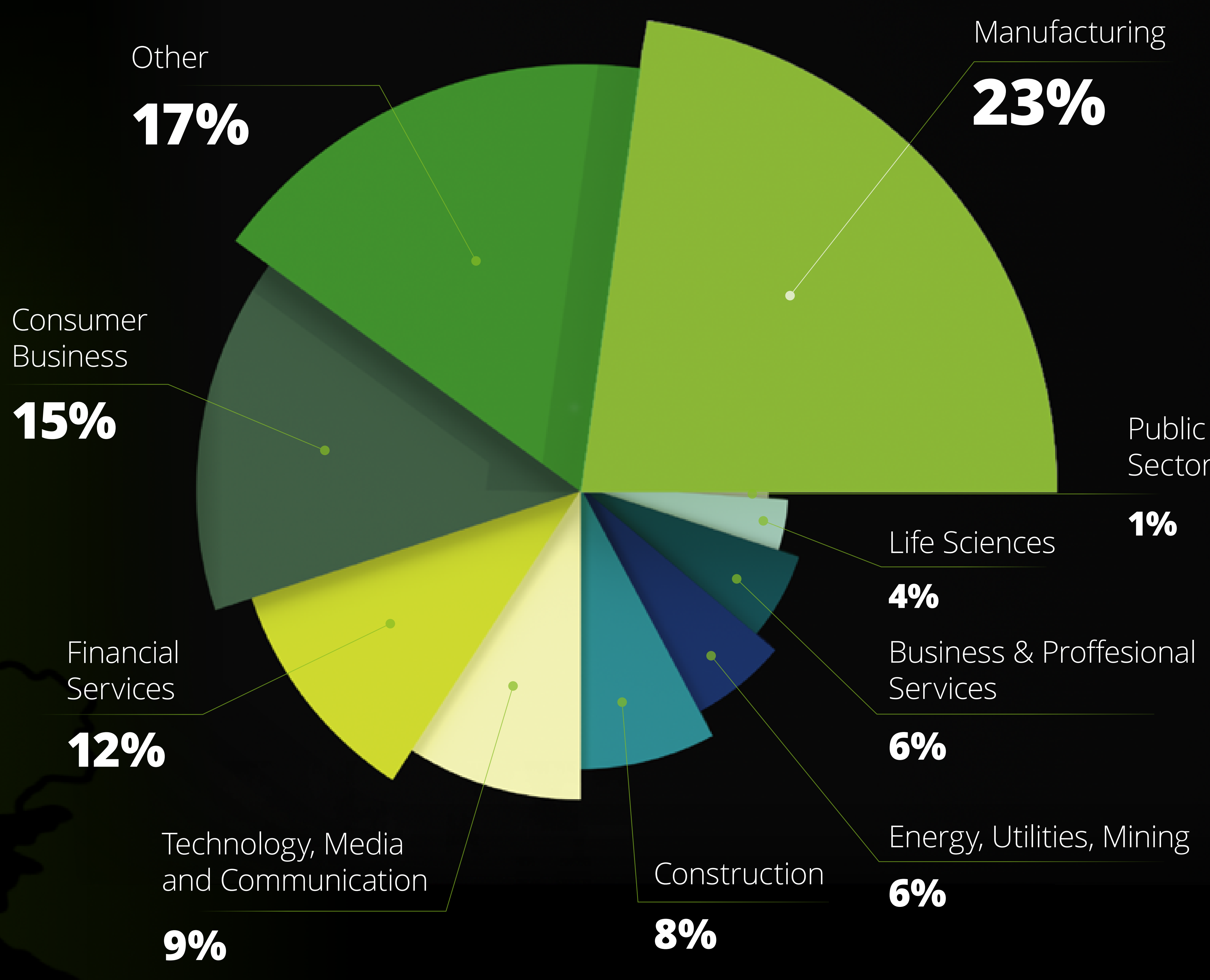
from

15 Central and Eastern European countries:



Please note that due to the limited number of responses from the Public Sector we have excluded these countries from the cross-sector analyses.

Survey involved **10** economic sectors:



Due to the low representation of some countries, a decision was made to present country grouping in the analysis:

- **Baltics:** Latvia (41), Lithuania (2) and Estonia (10);
- **V4:** the Czech Republic (80), Slovakia (32), Poland (58) and Hungary (9);
- **Western Balkans:** Albania (1), Bosnia and Herzegovina (30), Croatia (47), Kosovo (6) and Slovenia (29)
- **Eastern Balkans:** Bulgaria (33), Romania (106) and Serbia (17);

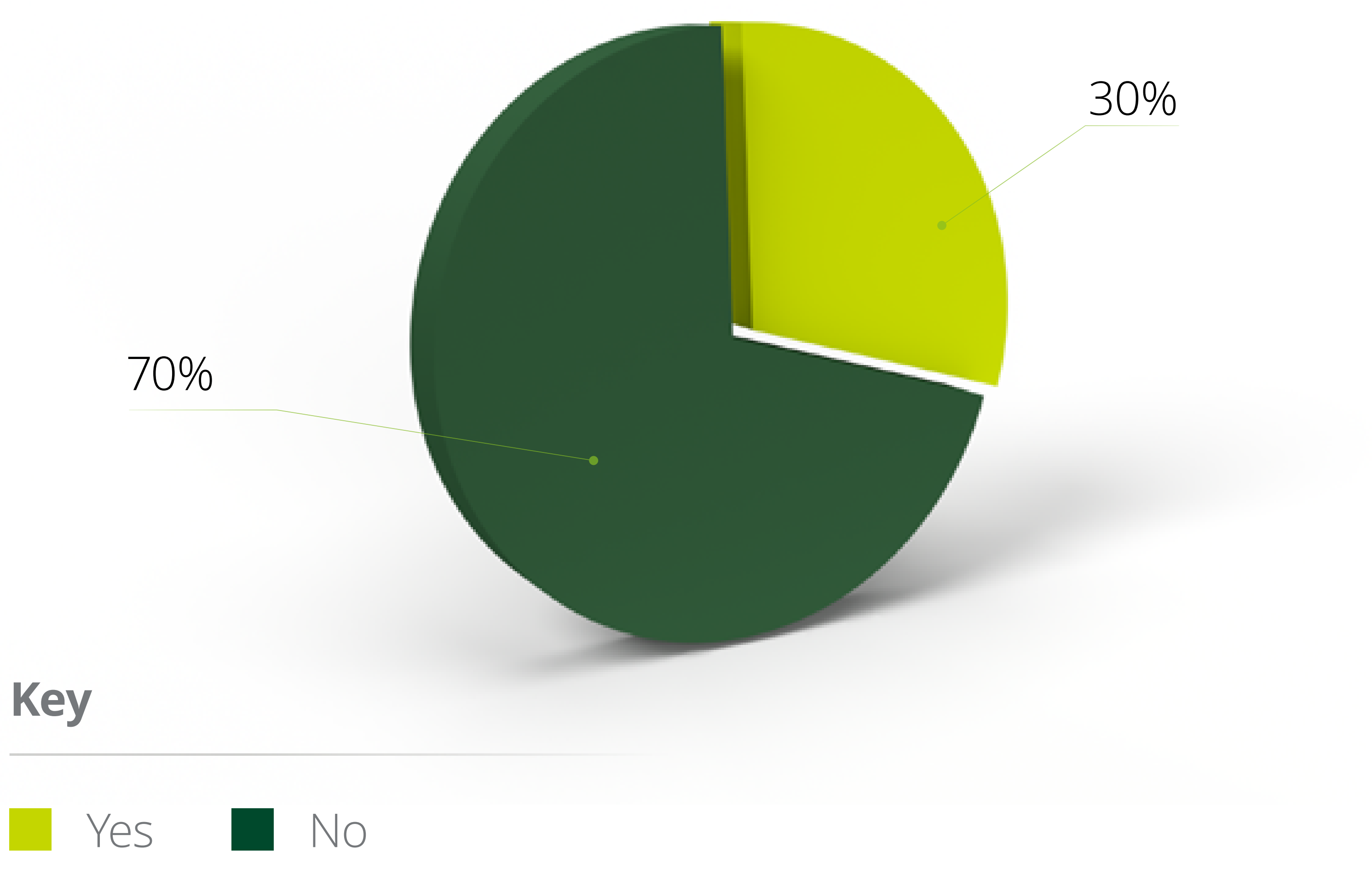
Results

QUESTION 1:

CFOs are reluctant to undertake substantial reorganisation in times of uncertainty and turbulence.

In recent years, businesses had already been struggling with challenging external conditions before entering a period of crisis characterised by persistent geopolitical tensions, fragmentation of the global economy and the AI revolution. In these uncertain times, managers are not willing to make substantial changes in their firms. Our survey confirms that as many as 70% of CFOs have no plans to conduct any re-organisation of the finance department over the next two years. The fact that just 30% suggest that doing so is on their minds means this area of the market is becoming increasing stable.

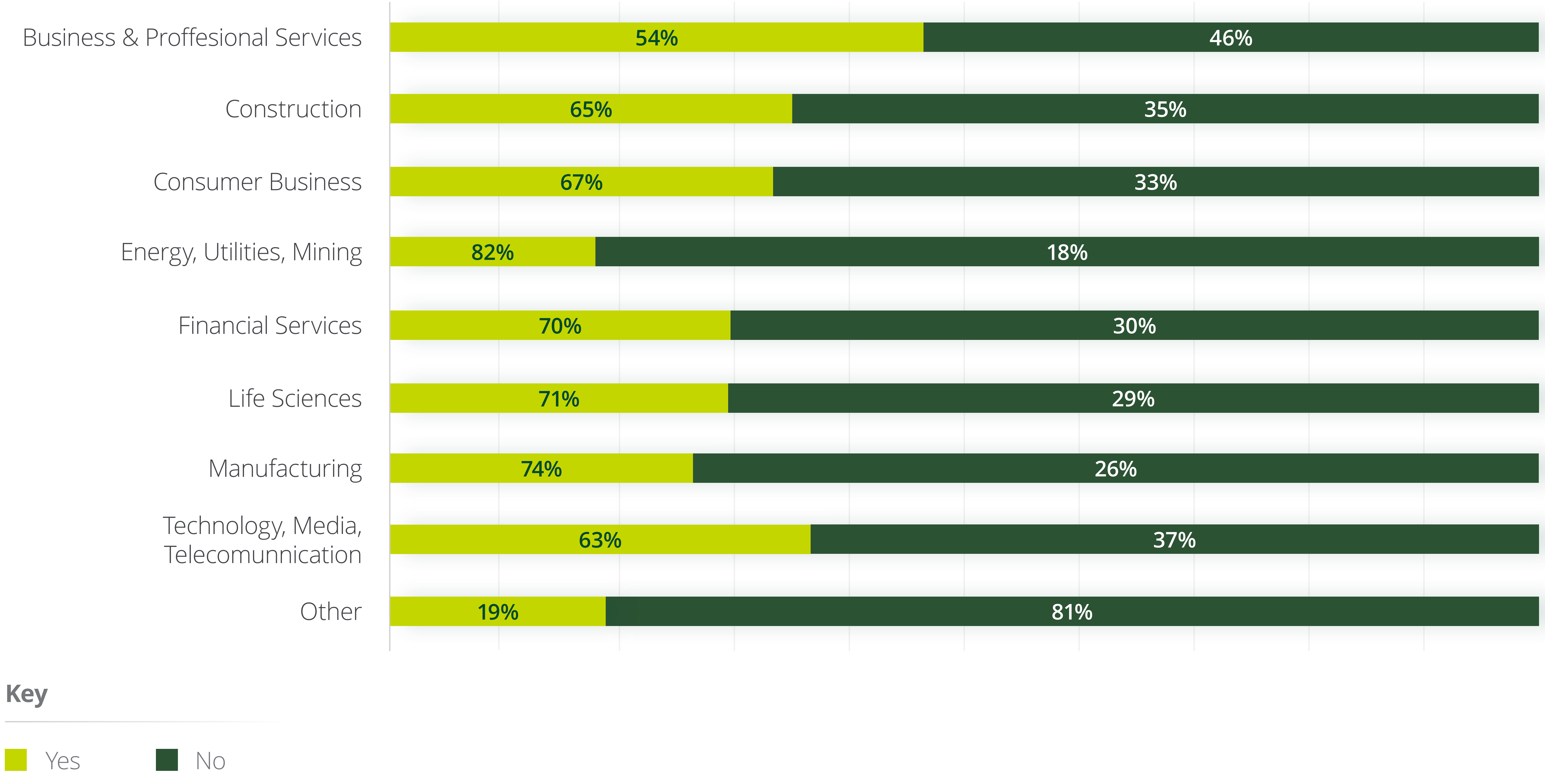
Do you expect major changes in the way your Finance Department is structured within the next one to two years? (%)



When it comes to readiness for change, the Business & Professional Services sector stands out from all the others. However, even here more than half of managers still stated that they did not anticipate making significant change to the structure of their finance departments, with nearly 46% telling us they did expect to do so. At the same time, this is a sector where several projects are often undertaken to outsource processes to independent contractors, or to build structures within international corporate networks with the use of shared service centres (SSCs).

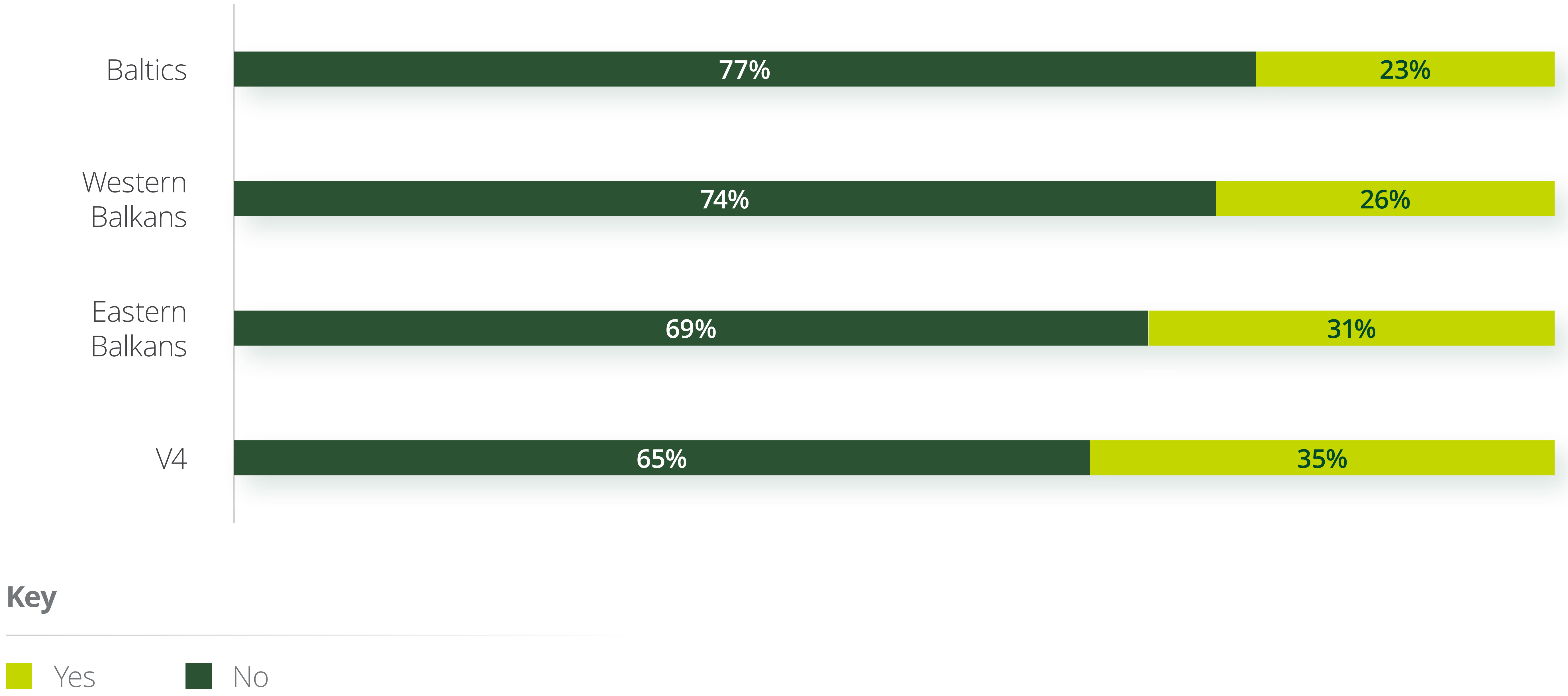
On the one hand, this industry is distinguished by a considerable proportion of standard and widely used outsourcing procedures, which are evident targets for reorganisation due to pressure to reduce costs and increase efficiency. Second, many businesses now have the opportunity to acquire information and expertise thanks to the growing trend of outsourcing cognitive and knowledge-based operations. This is a result of the belief that most markets lack highly skilled personnel. Offshoring is therefore an outcome of two different tactical approaches: one seeking efficiency, the other seeking knowledge.

Do you expect major changes in the way your Finance Department is structured within the next one to two years? (%)



Although only slightly more than a third of them did so, CFOs from the V4 nations are more likely than those in other countries to predict changes in the structure of their finance departments. Those in the Baltic states, on the other hand, anticipate the least amount of change.

Do you expect major changes in the way your Finance Department is structured within the next one to two years? (%)



While this year's responses to our survey may suggest that external macro-economic and geopolitical factors are preventing CE CFOs from reorganising their finance departments in the near future, I think that the reduced appetite for organisational change may also stem from the longer period of modernisation those departments have already been through over the last decade. During that time, we saw a steadily growing number of Shared Service Centre (SSC)-based regional or global structures being deployed or extended.

At the same time, I would not underestimate the intrinsic need for some reorganisation of finance departments. This will be a natural consequence of changes CFOs can already see on the horizon, like the increasing importance of automation and AI technology, as well as the ever-present ambition to actively manage and reduce administrative costs.

TOMASZ WALCZAK
Partner, Central Europe
Business Process Solutions
Service Line Leader

QUESTION 2:

Automation, AI and machine learning determine the new normal for finance operations.

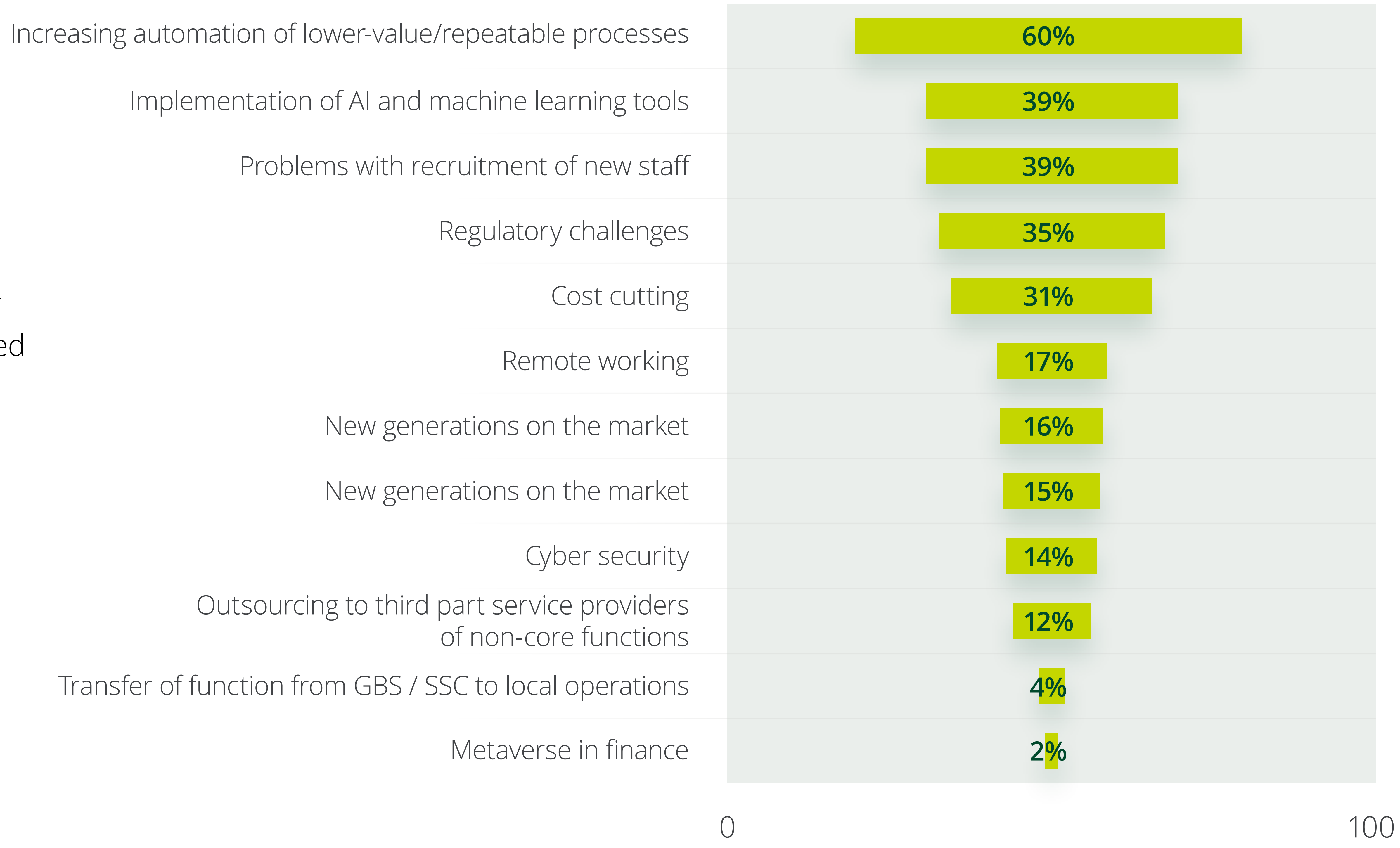
While CFOs anticipate modest reorganisation initiatives in their finance departments, our respondents also identify a wide range of variables that are already influencing their departments' operational procedures. First, there are technological factors, which include, but are not limited to, the automation of repetitive and routine processes. They are also likely to be related to the second most mentioned factor of change: artificial intelligence (together with machine learning) and its implementation in financial activities.

We will present an extensive study of the impact of Gen AI on financial processes **in a special supplement on this issue, published in March 2024.**

CFOs are considering the prospects that advancements in automation and artificial intelligence might offer finance departments a viable option in certain roles. Long-term, this might also be a means of lowering the costs involved in running a financial department. Of the CFOs surveyed, 39% cited the difficulty of hiring new staff as a factor influencing change in the finance department. As a result, for 31% of CFOs, the need for cost reduction will be a major focus. Additionally, 35% of respondents mentioned regulatory challenges as one of the key issues they had encountered.

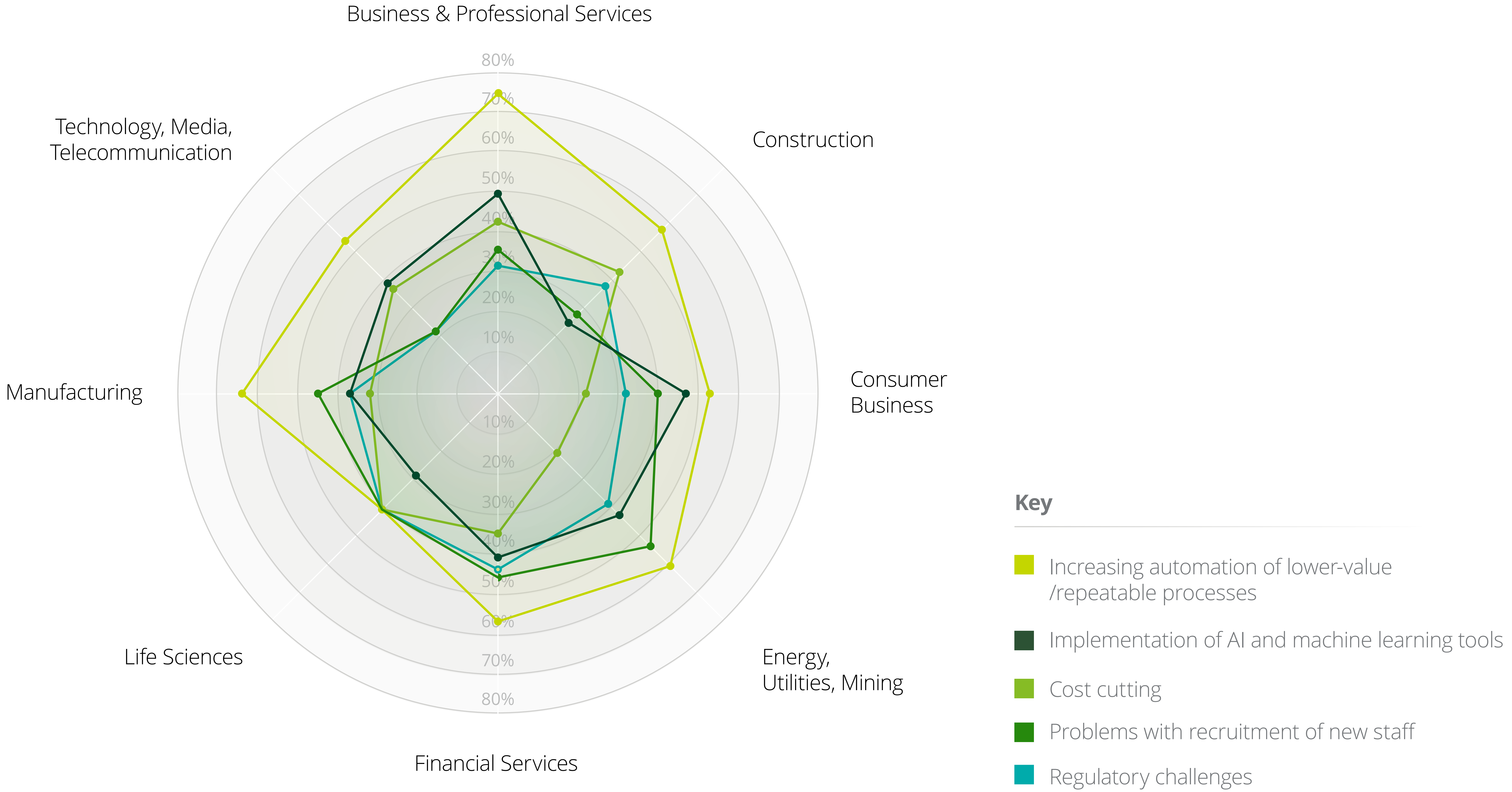
More than one-fifth of respondents did not specify any other trends influencing the operation of finance departments.

What trends are set to change the way Finance Departments currently operate? (%)



When we take a closer look at the individual factors driving organisational change in finance departments (we chose five of the key factors - those chosen by more than 20% of respondents), we found that the automation of lower-values processes was selected by three-quarters of the CFOs from the Business & Professional Services sector. Half of this industry's representatives said that artificial intelligence and machine learning tools will soon strongly affect their departments' daily operations. Hiring problems were most often selected by CFOs from the Energy, Utility, Mining and Financial Services sectors, as well as Manufacturing. These results indicate that many processes in finance departments need reductions in labour-intensity and increases in efficiency. Respondents therefore see multiple opportunities for transforming finance departments in the development and implementation of technological tools.

What trends are set to change the way Finance Departments currently operate? (%)

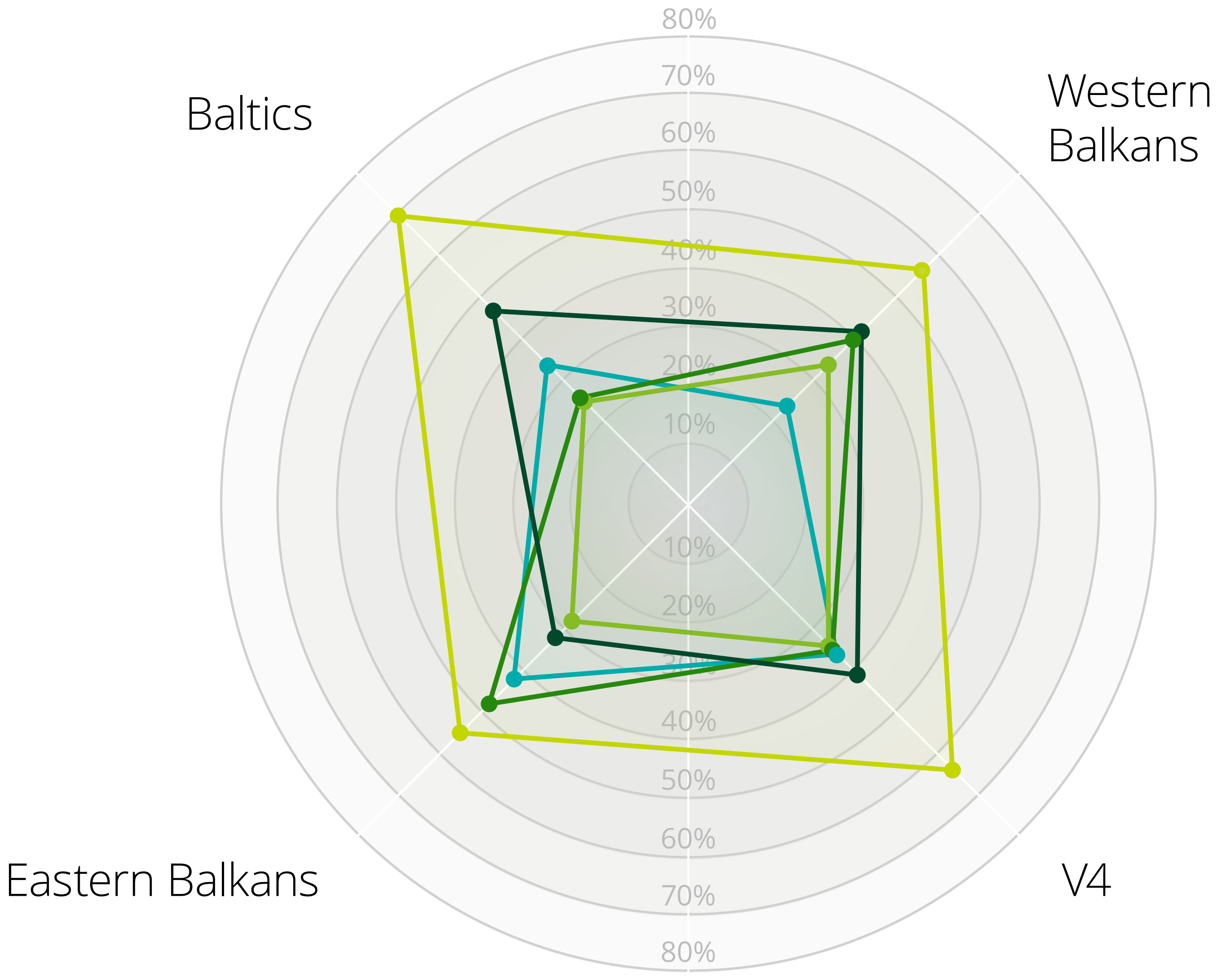


We have noticed some interesting trends of change affecting individual regions of Central Europe in different ways. Respondents from companies in the Baltics and the V4 group tell us that the use of high-tech tools (automation, AI, machine learning) is the trend with the greatest impact on their businesses. This suggests that the technological literacy and digital capabilities of companies in these geographies are higher than in other parts of the CE region. The areas of regulation and human resources are those in which opinions across CE diverge the most. Only around a quarter of respondents from the Baltic region, and nearly half of those from the Eastern Balkan countries, said recruitment issues were a concern. It is important to note the varying regulatory burdens experienced across the Balkan nations – while more than 40% of respondents from the Eastern Balkans select regulations as a barrier, only 24% of those from the Western Balkans do so.

CFOs from the V4 countries are aware of the necessity to reduce costs. The same group also mentioned significant obstacles to making adjustments in their departments (see question 1). The respondents from Slovakia and the Czech Republic have a significant impact on the overall group outcome.

Such an opinion strongly corresponds to the results of the CFO Survey – General Report, where Czech and Slovak managers expressed their conservative expectations regarding the general financial prospects for 2024.

What trends are set to change the way Finance Departments currently operate? (%)



Key

- Increasing automation of lower-value/repeatable processes
- Implementation of AI and machine learning tools
- Cost cutting
- Problems with recruitment of new staff
- Regulatory challenges

In addition to AI and automation, key trends impacting finance departments include recruitment challenges and the need to navigate regulatory changes. These areas are intricately connected. Currently, the primary focus is on attracting highly skilled personnel capable of implementing new automation tools and adapting to the AI revolution. Regarding regulatory changes, it is crucial to align the IT infrastructure with the rapidly evolving regulatory landscape (e.g. e-invoicing, Pillar 2 reporting requirements, the digitalisation of interactions with authorities during tax and statutory audits). Properly addressing these two areas will allow CFOs to focus on the company's strategic challenges.

JOANNA STAWOWSKA
Partner, Central Europe Tax & Legal Business Leader

Businesses are being transformed by the impact of big data and data analytics, making it essential for finance leaders to understand the data requirements and challenges relating to the quality of existing data and to invest in the right tools for their organisation. Such an approach has the potential to enable artificial intelligence and machine learning use cases for reduced costs, more accurate reporting, better customer engagement and increased business value.

VLAD BOERIU
Romania Tax & Legal Partner-in-Charge

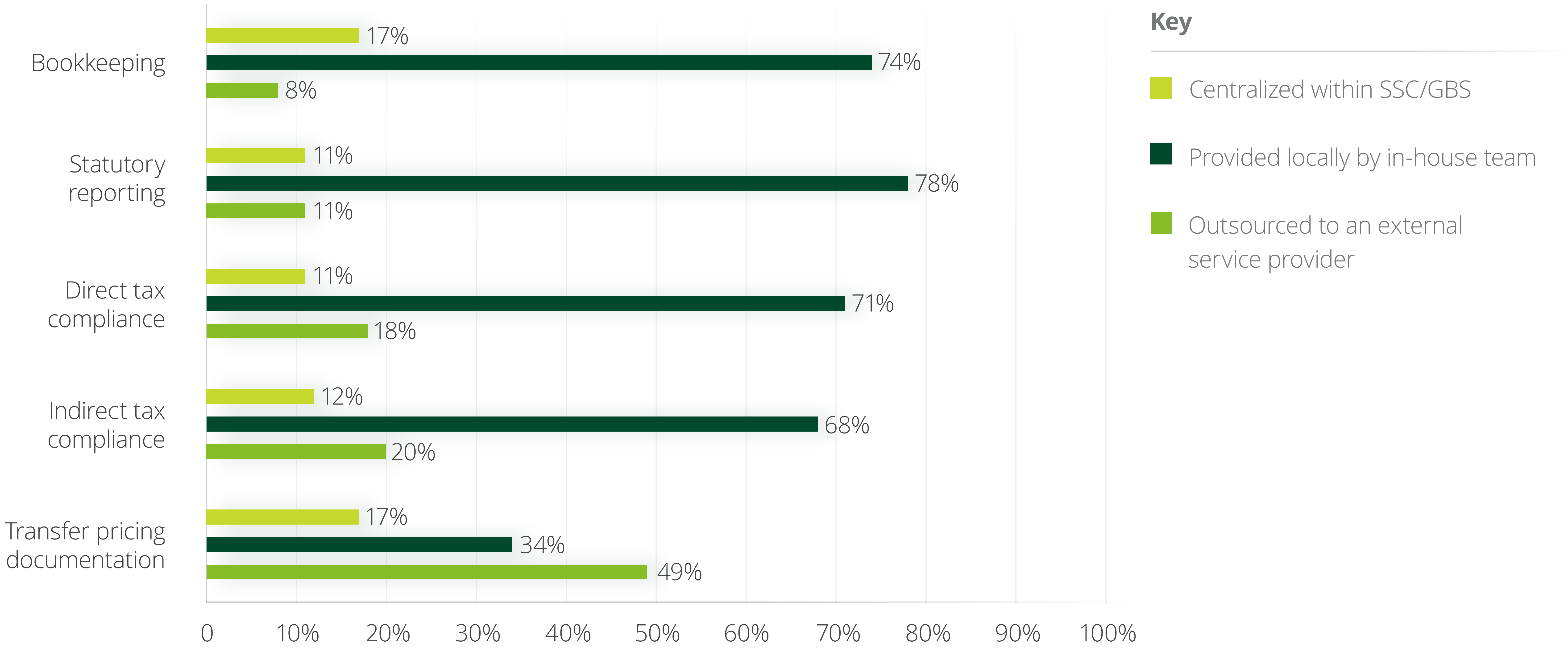
QUESTION 3:

Transfer pricing documentation is the only function that the majority outsources to an external provider.

Recognising the willingness and readiness of managers responsible for finance functions to carry out the most important processes within or outside the company, half of respondents selected transfer pricing documentation as the only one that managers are willing to outsource to independent providers. Most other tasks are completed in-house.

Notably, when it comes to accounting functions, we found that the CFO prefers to keep these jobs in-house, or at least in SSC/GBS centers, as opposed to outsourcing them to other businesses. Instead of moving their direct and indirect tax compliance procedures to an SSC or global business-service (GBS) providers businesses are more likely to outsource these tasks to a third-party contractor.

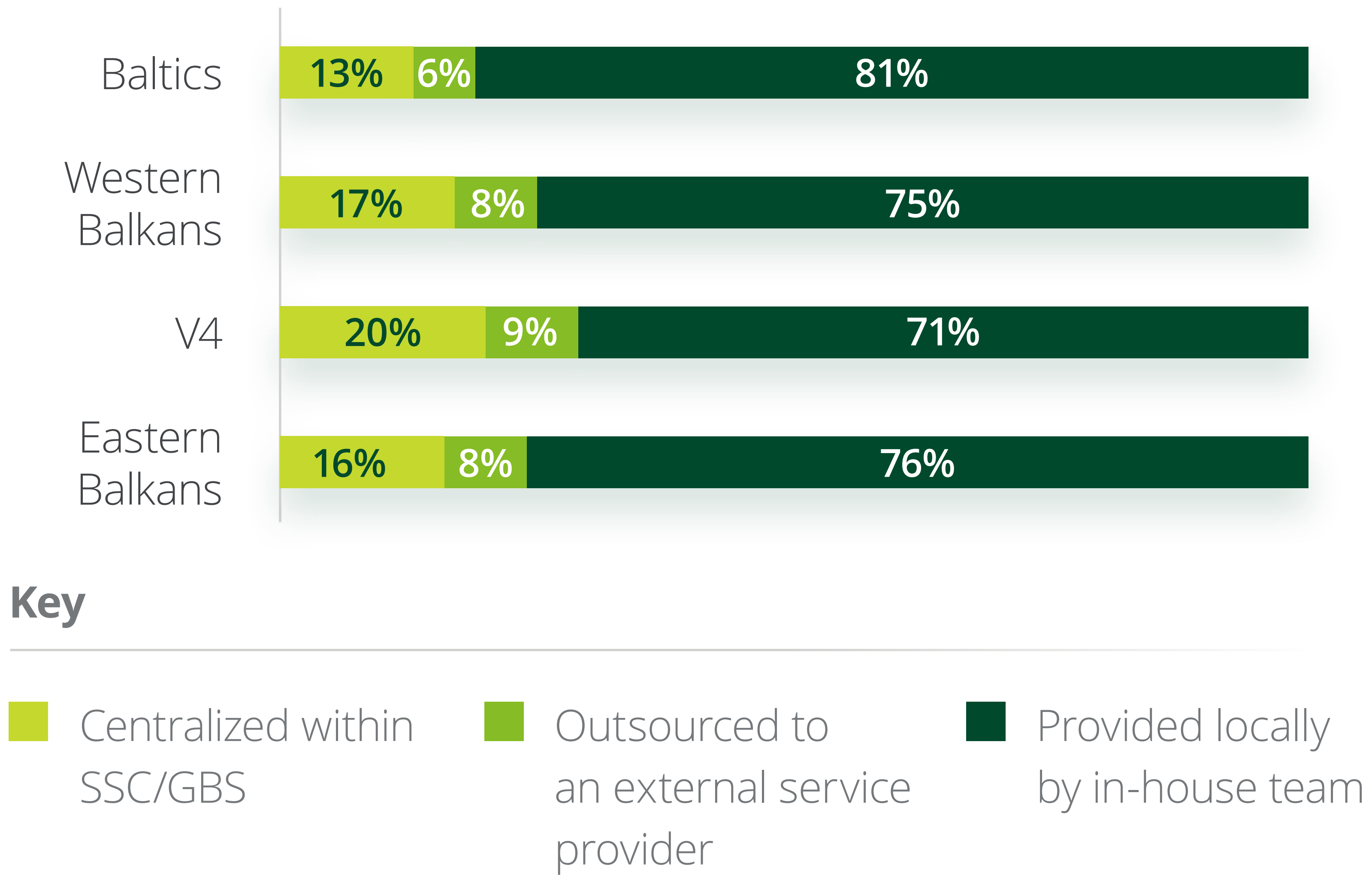
How does your finance function mainly manage the processes and activities listed below? (%)



In terms of collaboration (such as with SSC/GBS functions or outsourcing), managers from the V4 countries emphasise the great importance of operations in 'captive centres' – wholly owned shared-service or R&D centres within their own value chain. One in five indicate that financial operations can be outsourced to SSC/GBS centres, and just 9% are happy to outsource their processes to an external service provider.

Nowadays, there are many such centres in the Czech Republic, Hungary, Poland and Slovakia, and collaboration between them and other entities within the same group structure have become popular in recent years. This has been due to the availability of qualified employees and the attractive operating costs of SSC/GBS, resulting from lower wages than in Western Europe.

How does your finance function mainly manage the processes and activities listed below? (%)



In the evolving landscape of business finance, CFOs are increasingly considering exporting their financial processes to Shared Services Centers (SSCs). This strategic move is often motivated by factors such as cost efficiency, the availability of skilled labour, the potential for process automation, enhancement of customer experience, and a propensity for innovation. Financial processes, due to their standardised and repetitive nature, are prime candidates for this transition. However, despite their suitability for SSC operations, a majority of CFOs still opt to handle these processes through a local team or an in-house SSC. The predominant reason behind this preference is the perceived need for control. Financial processes are critical for the accurate and timely reporting of a company's financial health, and maintaining control over these processes is seen as essential. This leads to a reluctance to outsource these functions to external providers. Furthermore, even when financial processes are managed through a Global Business Services (GBS) model, it is not uncommon to find that certain control activities are duplicated internally. This redundancy, often stemming from a lack of complete trust in external execution, indicates a cautious approach towards fully embracing the potential of SSCs or outsourcing for financial processes.

MONIKA WARMBIER
Partner, Finance & Performance

The CFO Survey results mirror global trends, indicating a growing move towards outsourcing transfer-pricing documentation. Documentation is the gateway to protection for transfer pricing. Navigating the complexities of transfer pricing requires knowledge of regulations in multiple countries, understanding the impact of supply chains, AI, ESG and various other forces on how companies carry out transactions with one another. An outsider's experienced perspective becomes indispensable, especially given current regulatory challenges such as the need to implement global minimum tax rules (Pillar 2) and the increasing demand for tax-related transparency.

IVA GEORGIJEW
Partner, Central Europe Transfer Pricing Service Line Leader

QUESTION 4:

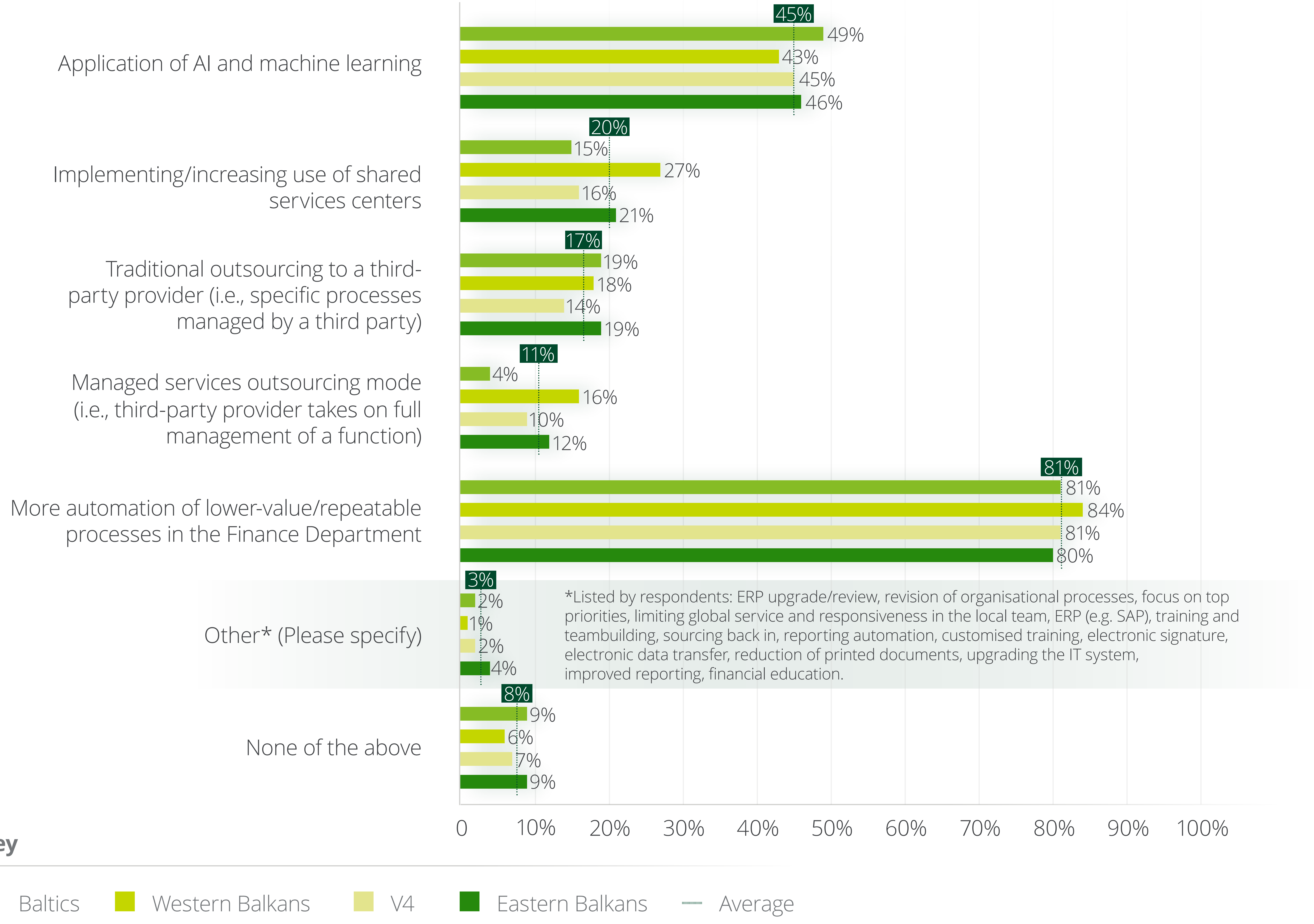
Technology will drive costs down.

Managers are searching for methods to reduce expenditures related to multiple duties in different facets of operations while companies are subject to an extremely strict cost-reduction environment. All the trends that we once recognized as altering the routine activities of finance departments are now thought to be appealing in terms of cutting costs.

Four out of the five CFOs questioned highlighted the technologies they use to increase automation of repetitive and routine procedures. Additionally, as noted by half of the respondents, AI and machine learning could have a substantial influence on operating expenses.

It is important to note that, despite the previous section's discussion of the SSC's relative value in terms of process organization within a company, one in five respondents mentioned using that sourcing channel to reduce expenses in finance departments. Specifically, 27% of enterprises located in the Western Balkans believe that SCC/GBS can save costs.

Which of the following strategies would be most important in helping your company's Finance Department to achieve a lower-cost resourcing model? (%)



Confidence in technology as a driving force behind the pursuit of enhanced efficiency and cost optimisation remains steadfast. Currently, there is a discernible shift towards prioritising minor automations within and beyond traditional ERP systems, characterised by the search for ease of maintenance and upgradability. While the widespread utilisation of AI is not yet prevalent, its burgeoning relevance, particularly in the areas of finance and tax, is attracting increased attention. It would not be surprising to witness a broader adoption of AI in processes governed by stringent data-security measures in the near future.

The prevailing trend in Europe over the past decade, where classic outsourcing has dominated, is undergoing transformation, giving way to SSC and GBS setups. As a result, this shift is fostering partnerships centered more on consultancy and advisory services.

Unavoidably, these developments reflect changing labour force requirements, propelling a younger demographic toward automation, AI and cloud-based solutions, which are recognised for their flexibility and cost-effectiveness. This paradigm shift extends to Enterprise Resource Planning (ERP) tools and applications, with an emphasis on seamless integration capabilities.

LYUBKA DIMITROVA
Director,
Business Process Solutions

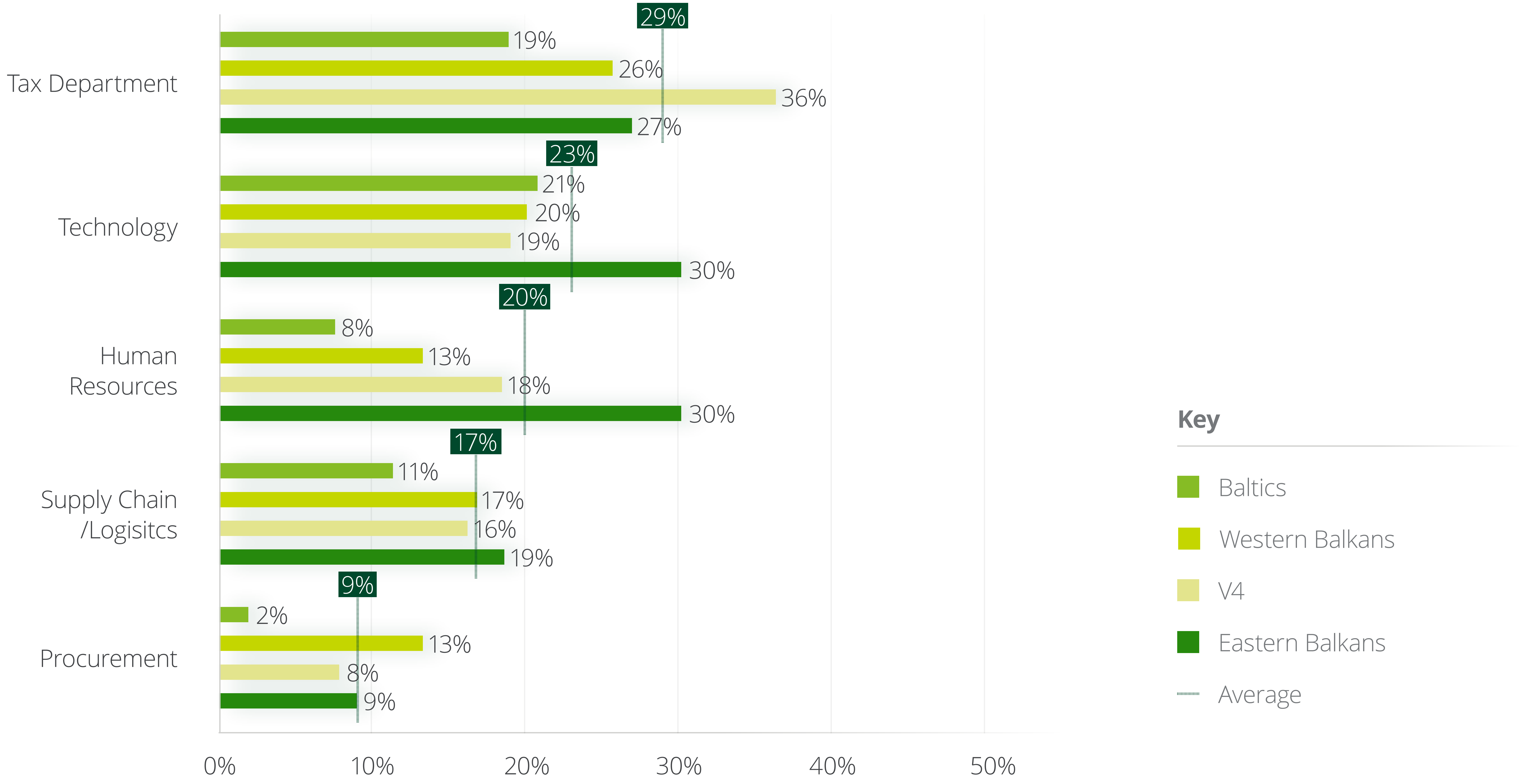
QUESTION 5:

One in three companies from the V4 countries might outsource their tax departments to third-party providers.

Many companies continue to perform key processes in-house in spite of price pressures and identified opportunities to reduce costs or access qualified employees through collaboration with a third-party provider. Only a few opt for the managed services outsourcing model, which allows a particular function to be completely outsourced to an outside contractor. The highest percentage of companies outsourcing in this way is from the V4 group (36%), involving the tax department. This is particularly the case in Slovakia, where 41% of companies operate their tax departments under the managed-services outsourcing model. The average in this category is 29%, with companies from the Baltics, with an uptake of 19%, being the least active adopters.

In addition, nearly one in three companies (30%) from the Eastern Balkans applies a managed services outsourcing model for their technology and their HR departments.

Do the departments in your company listed below use a managed services outsourcing model, where it fully outsources an entire activity or function to a third-party provider? (%)

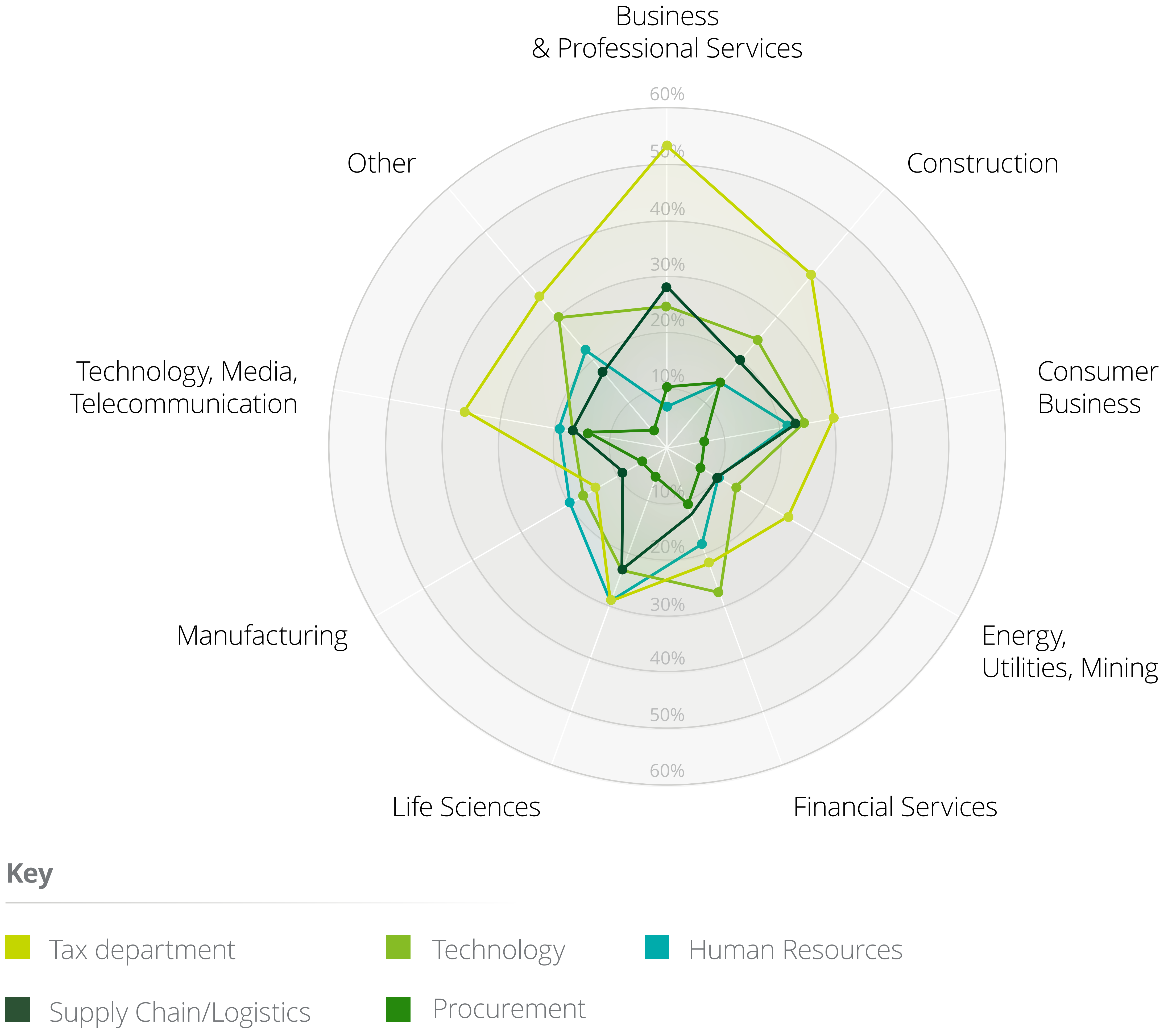


Our survey results show that outsourcing an entire activity or function is most common in the Business & Professional Services, Construction, and Technology, Media, Telecommunication sectors. In all these industries, the outsourcing often relates to processes from the Tax department.

CFOs from Financial Services and Manufacturing sectors have also drawn our attention to the fact that their companies more often than others carry out their tax department processes in-house. By way of contrast, technology-driven processes are mentioned most often as suitable for outsourcing. Such opinions reveal an intense pressure to introduce innovative solutions, such as fin-tech in the finance industry or product innovation in industry. In such cases, companies are seeking market advantage by acquiring innovative solutions from external suppliers.

Companies are simply unable to create innovations based on internal competence because of a lack of available expertise. This again highlights the problem with recruiting expertise and building in-house resources based on skilled employees.

Do the departments in your company listed below use a managed services outsourcing model, where it fully outsources an entire activity or function to a third-party provider? (%)



The outsourcing industry is more developed in the V4 countries than in those others that took part in the study. The most common area to outsource in almost all the countries is the tax department, which requires considerable expertise, similarly to finance. Depending on the country and the type of business involved, technology and/or HR outsourcing is the second most common area. The area with the lowest outsourcing rate is procurement, although it offers much potential for increasing efficiencies through the use of market best practices.

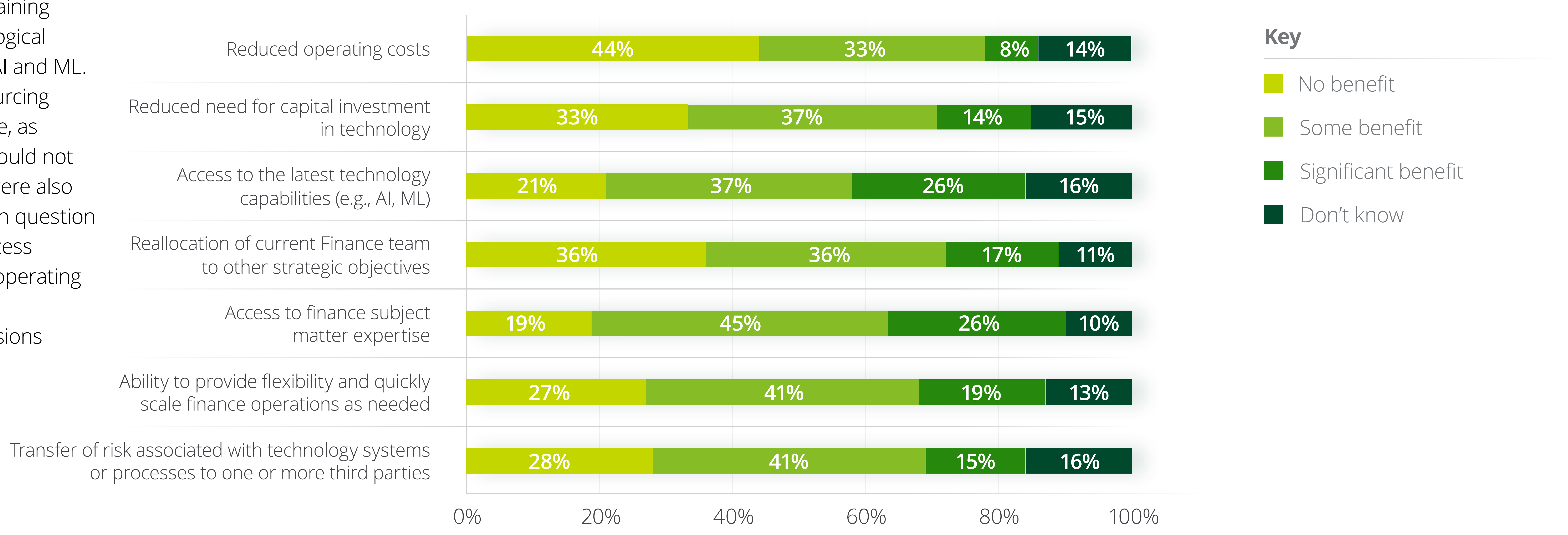
VLAD YUMASHEV
Partner, Business Process Solutions

QUESTION 6:

Access to external expertise and advanced technology drives business success.

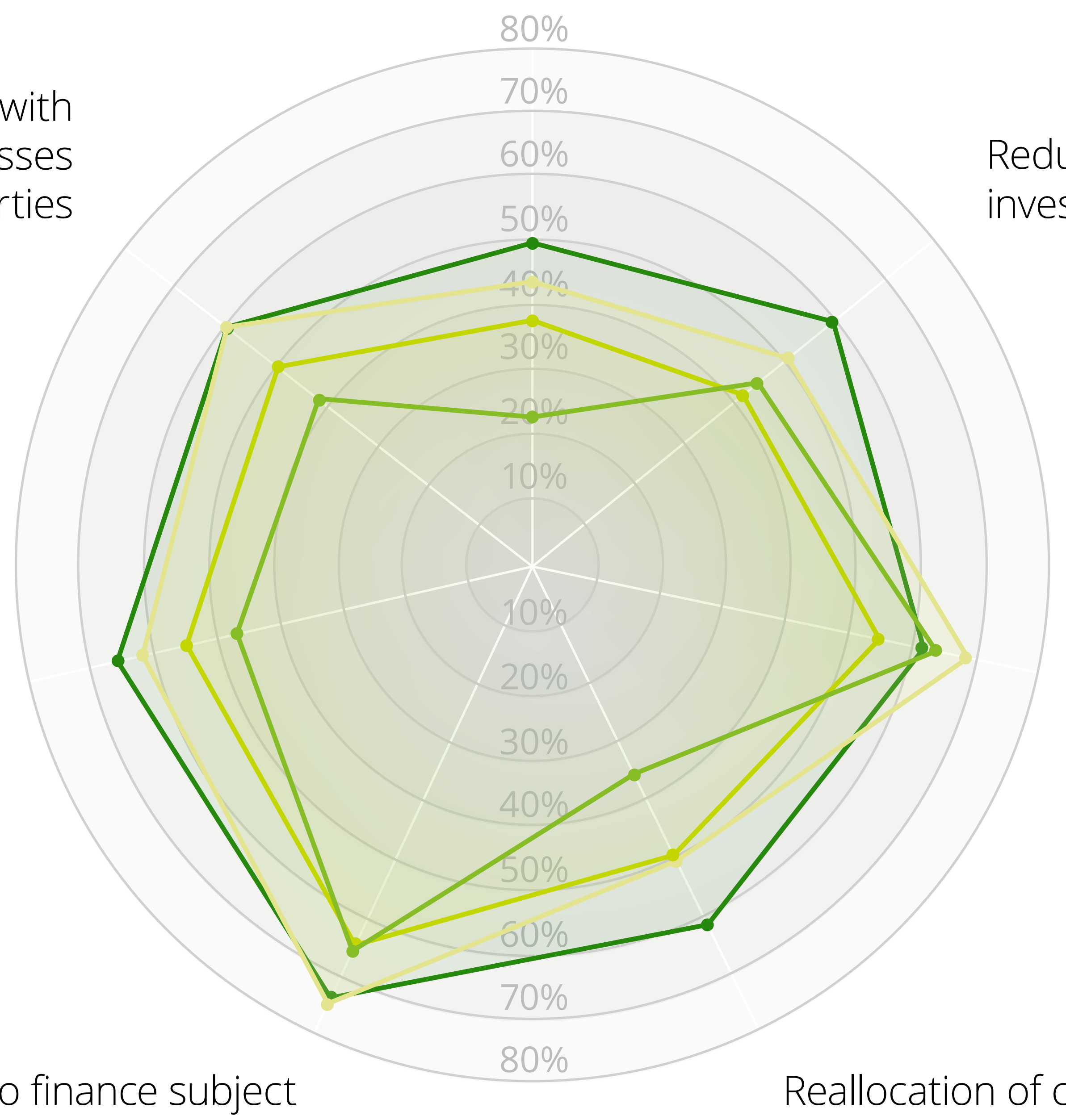
CFOs recognise the benefits (whether significant or relatively modest) of outsourcing in gaining access to finance expertise and technological capabilities and processes in areas like AI and ML. Again, the primary advantages of outsourcing arise from access to skills and knowledge, as well as technologies that the company could not develop on its own. Surprisingly, there were also responses indicating that the company in question has not benefited significantly from process outsourcing due to the need to reduce operating costs, even though cost pressures are strongly affecting management decisions in the current environment.

Benefits of outsourcing an entire activity of function in the Finance Department (%)



The survey indicates varying perceptions of the benefits of outsourcing across different regions in CE, with CFOs from the Eastern Balkans and V4 showing a greater inclination towards outsourcing some of their Finance department functions. By way of contrast, the Baltics appears to be the region that is least likely to see benefits from outsourcing. Across all regions, access to the latest technology capabilities and to finance expertise are the most significant advantages that respondents recognise in outsourcing.

Benefits of outsourcing an entire activity of function in the Finance Department (%)



Key

Eastern Balkans | V4 | Western Balkans | Baltics

Outsourcing offers finance departments significant benefits, including cost savings through leveraging lower labour costs for routine tasks. Companies can enhance their focus on core competencies and strategic activities by outsourcing non-core functions, while gaining access to specialised expertise in specific financial areas without in-house development.

The flexibility of outsourcing enables efficient resource-scaling based on business needs, which is particularly advantageous during times of seasonal fluctuations or increased workloads. Additionally, outsourcing fosters technology adoption and innovation, as third-party providers introduce new solutions, ultimately leading to process improvements and increased efficiency.

It also contributes to effective risk management by sharing compliance and regulatory responsibilities with a third-party provider.

GREGORY ADAMIEC
Partner, Central Europe Tax & Legal Delivery Leader

The responses we received validate our practical experience, which shows how the outsourcing of certain finance-related functions does not automatically lead to substantial cost reductions. Careful planning is needed to achieve cost-saving objectives and technology such as AI or ML needs to be substantially involved. The geographical difference in attitude towards outsourcing is very interesting, possibly related to the presence of multinational companies in particular countries.

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