

The DNA of the CFO
Life sciences



Do you define your CFO role? Or does it define you?

The disruption of the CFO's DNA
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Introduction

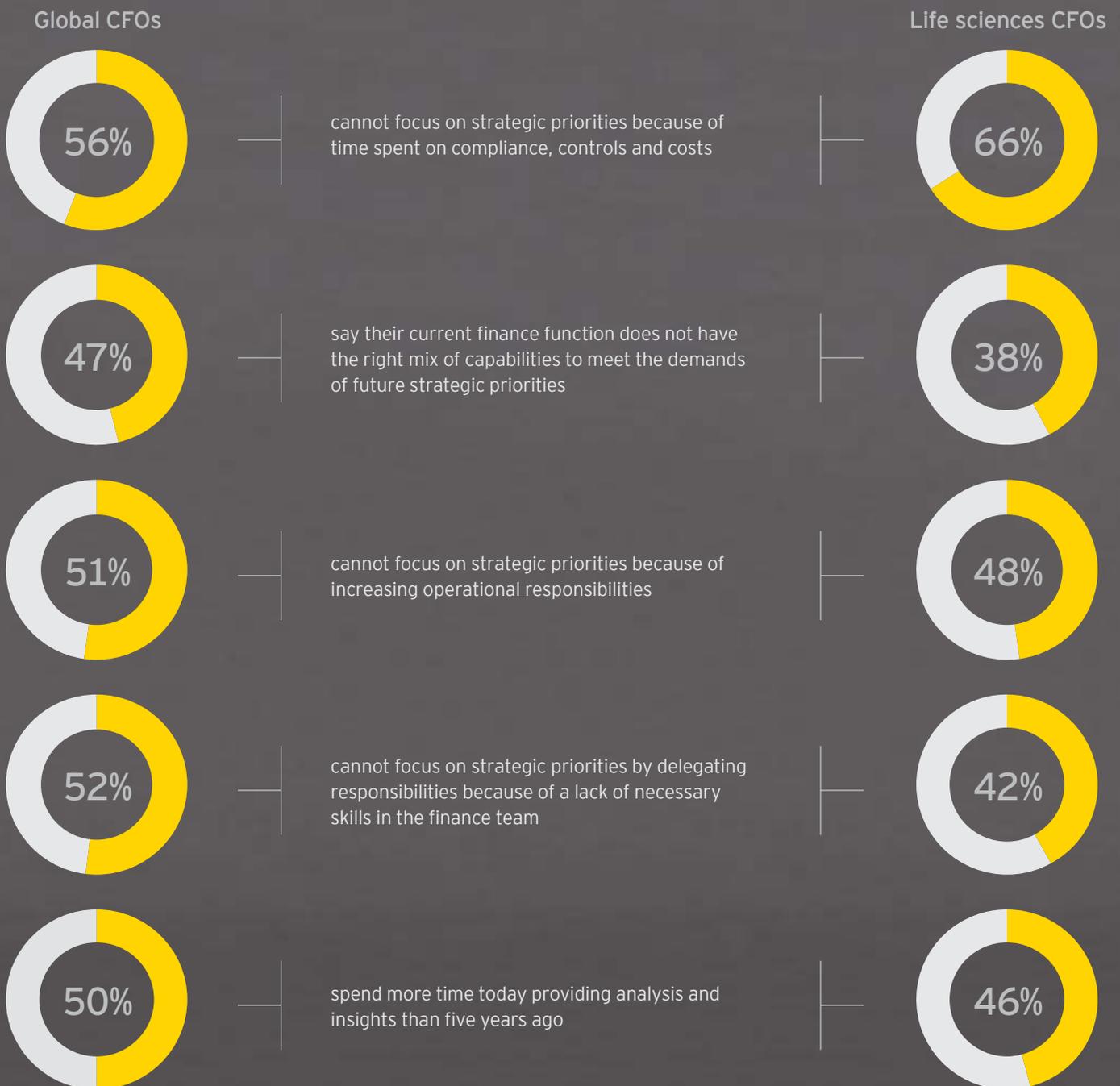
In EY's first *DNA of the CFO* study, conducted in 2010, the role of the CFO had broadened to encompass not only traditional financial skills, but also more strategic and market-facing responsibilities. This latest research shows that in the intervening six years, four forces have continued to transform the face of finance leadership: digital; data; risk and uncertainty; and stakeholder scrutiny and regulation. CFOs are responding to these forces in different ways, and we are seeing quite different profiles and responsibilities emerge. While this presents an opportunity for CFOs to really shape the contribution they make, it also means that those who don't proactively define their role may be at risk of having it defined for them.

In EY's latest global study, conducted from December 2015 to February 2016, 769 finance leaders from around the world were surveyed, including 61 life sciences respondents. This document provides a snapshot of how the findings from the life sciences respondents compare to the global results, and discusses the implications for life sciences CFOs in shaping their professional development.

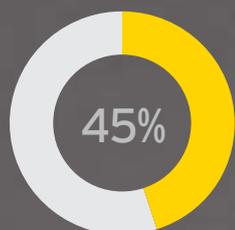
Key findings

In our latest *DNA of the CFO* study, CFOs at both the global and sector levels indicate they are challenged to focus on strategic priorities because of increasing operational responsibilities (51% and 48%, respectively). They need to build their understanding of digital, smart technologies and sophisticated data analytics (58% and 59%). And they believe that risk management will be a critical finance capability in the future (57% and 61%).

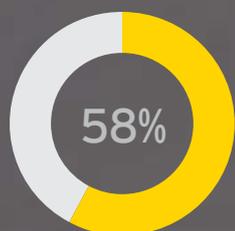
Yet, despite these similarities, there are notable differences. While 52% of global respondents indicate they are unable to focus on strategic priorities by delegating responsibilities because of a lack of necessary skills in the finance team, only 42% of life sciences respondents say this is the case. Similarly, there is a 10 percentage point difference between global and life sciences respondents (64% vs. 74%) in the number of CFOs who are being increasingly asked to take on wider operational leadership roles beyond finance. Finally, while a strong majority of both sets of respondents anticipate increasing responsibility for the ethics of decision-making, the percentage is significantly higher for life sciences respondents (77% vs. 71% globally).



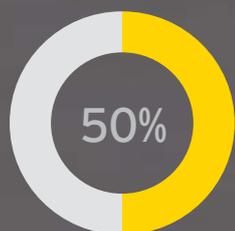
Global CFOs



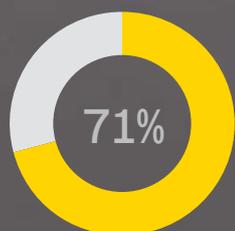
spend more time developing and defining company strategy than five years ago



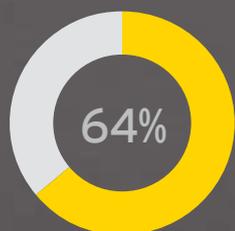
need to build their understanding of digital, smart technologies and sophisticated data analytics



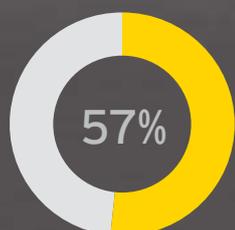
say they will need to improve their stakeholder management skills to deliver against future priorities



will increasingly be responsible for the ethics of decision-making in support of their organization's purpose

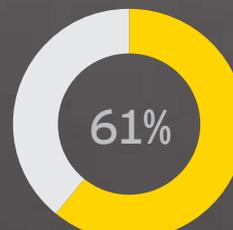
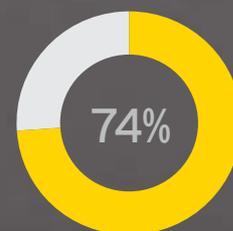
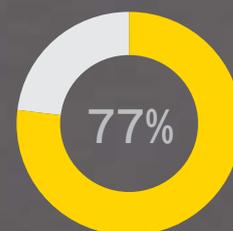
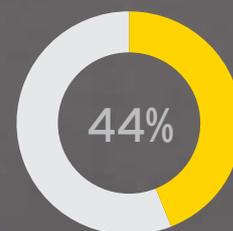
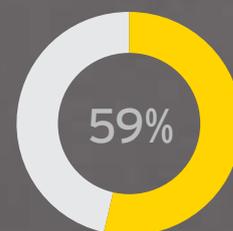
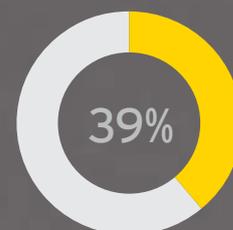


will increasingly be asked to take on wider operational leadership roles beyond finance



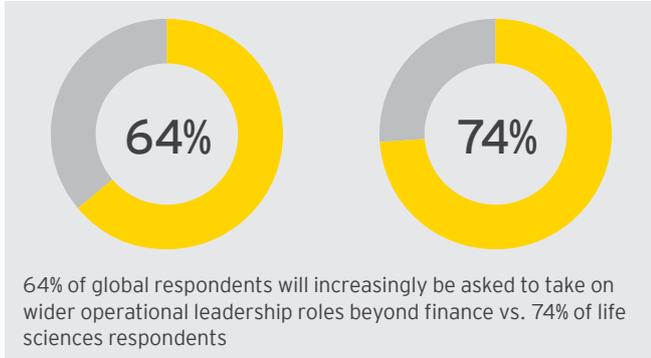
believe that risk management will be a critical finance capability in the future

Life sciences CFOs



CFO as operations leader

Life sciences organizations, more than their global counterparts, are placing increasing demands on their CFOs to take on operational responsibilities outside of their core finance mandate.



There are a number of good reasons why CEOs and boards are asking life sciences CFOs to take on these additional challenges. Overall, CFOs are well suited to challenge long-held assumptions that encourage bureaucratic practices. They can provide the bottom line perspective that ensures resources are deployed to areas where they can generate the most value. They also have proven experience in delivering against cost and operational efficiency targets. These qualities are of particular importance in life sciences – a sector very much in transition as increasing pressure from payers to reduce the cost of drugs, breakthroughs in drug

development, regulatory reform, cross-sector convergence, advanced technologies and other disruptive trends fundamentally transform the industry's business model.

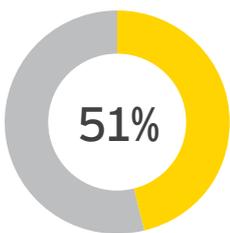
Amid this disruption, many life sciences CFOs welcome the broader range of responsibilities. It gives them an opportunity to get more involved in driving innovation and how the company is managed. They get to expand their own management and leadership skills across disciplines. Key members of the finance team have greater development opportunities through operational responsibilities and secondments. And it helps to better align finance with the business, creating new relationships and strengthening the finance team's credibility.

However, there are downsides. One important element of the CFO's role has always been impartiality. This enables CFOs to ask difficult questions and maintain a high level of integrity, which is then reflected in their reporting to the market. As CFOs get more heavily involved in operations, they risk compromising this detachment.

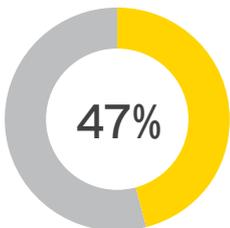
Another pressing concern that emerged from our research was about time, or the lack of it. Among life sciences respondents, almost half (48% vs. 51% globally) say that increasing operational responsibilities are interfering with their ability to focus on strategic priorities.

Fortunately, unlike global respondents, life sciences CFOs seem, for the most part, to believe they have the capabilities within their finance function to meet future priorities.

Global CFOs

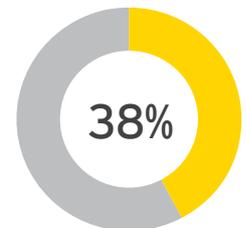
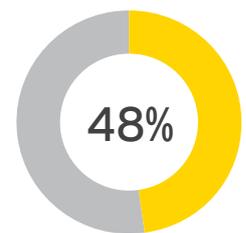


cannot focus on strategic priorities because of increasing operational responsibilities

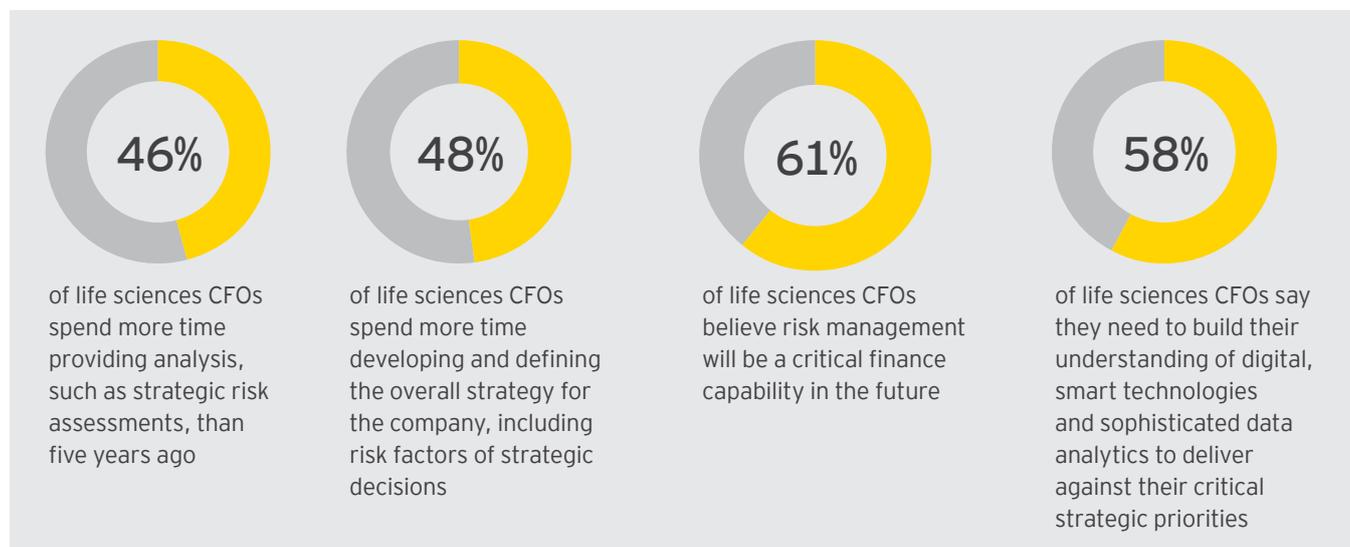


say their current finance function does not have the right mix of capabilities to meet the demands of future strategic priorities

Region/sector CFOs



Risk management as a critical finance capability



Global organizations, but particularly those in life sciences, are challenged by a rapidly changing risk landscape. Market volatility, hyper-connectivity, advanced digital technologies, regulatory reforms and cyber threats are only a few of the disruptions life sciences CFOs must juggle on a regular basis.

Today, almost half of life sciences CFOs (46%) spend more time providing analysis, such as strategic risk assessments, than they did five years ago. A similar percentage (48%) spend more time developing and defining the overall strategy for the company, including risk factors of strategic decisions. As they continue to navigate a volatile risk landscape, 61% of life sciences CFOs believe that risk management will be a critical finance capability in the future.

Life sciences CFOs see cyber risk capabilities as a critical need for finance

Cyber risk is of particular importance to life sciences CFOs, especially since 61% of life sciences organizations still do not have a cybersecurity role or department that focuses on emerging technology.¹ New digital technologies – mobile, social media, the cloud and the Internet of Things – have enabled life sciences organizations to connect more often and more effectively with patients/consumers, payers, providers, suppliers and employees. With a treasure trove of highly sensitive and valuable intellectual property and an increased reliance on digital data for business, cybercrime events can be ever more damaging to life sciences companies and their brands if this data and, just as important, access to this data are not managed proactively and appropriately.

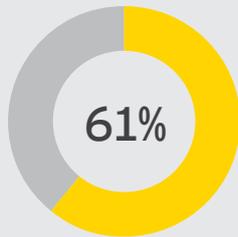
Given that 58% of finance leaders believe they need to build their understanding of digital, smart technologies and sophisticated data analytics to deliver against their critical strategic priorities, it is equally critical that CFOs understand the cybersecurity that protects their organizations' most valuable data assets and systems.

As part of their risk agenda, life sciences CFOs must work closely with the CIO to establish a governance framework for quantifying digital risks, prioritizing and protecting digital assets, and mediating across functional technology silos to create an integrated approach that drives value creation.

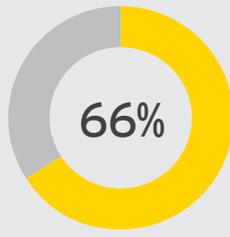
Highly sensitive and valuable intellectual property, combined with an increased reliance on digital data for business, make cybercrime events ever more damaging to life sciences companies.

¹ Global Information Security Survey: a life sciences perspective, EY, 2015.

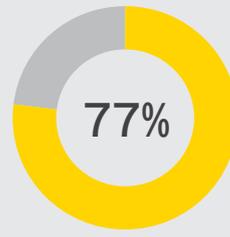
The need to shine under stakeholder scrutiny



61% of life sciences CFOs believe the future finance function needs to improve its regulatory knowledge to keep abreast of a changing and uncertain regulatory playing field



66% of life sciences CFOs cannot focus on strategic priorities because of time spent on compliance, controls and costs



77% of life sciences CFOs will increasingly be responsible for the ethics of decision-making in support of their organization's purpose

For life sciences CFOs, managing stakeholder relationships has become increasingly challenging as they seek to juggle the requirements of regulators with the demands of investors and other stakeholders. In fact, two-thirds of life sciences CFOs (66% vs. 56% globally) admit they cannot focus on strategic priorities because of time spent on compliance and controls.

Because of intense regulatory scrutiny, policymakers are an increasingly important relationship for finance leaders. By effectively managing these relationships, organizations can collaborate with regulators and help shape policy. However, managing the increasing scrutiny and complexity of the regulatory environment will be as much about relationship management as it will regulatory knowledge. Looking ahead, 61% of life sciences CFOs believe the future finance function needs to improve its regulatory knowledge to keep abreast of a changing and uncertain regulatory playing field.

The ethics of decision-making

For many organizations, regulatory responsibilities and ethics go hand-in-hand. Over the last several years, increasing media scrutiny of the ethics of organizations' behavior has changed customer, investor and regulator expectations.

Within life sciences, there are a number of pressure points that could expose companies to ethical lapses. The loss of patent protection, for example, increases the pressure to maintain market share and may cause employees to engage

in more aggressive tactics to hold their company's market position. The proliferation of digital data in all areas of the business – from finance to R&D to sales – is another risk area, so that managing an effective anti-corruption program can become highly complex when dealing with the volume and variety of data life sciences companies need to run their organizations.

Having a clearly defined "purpose" for the organization – an ultimate objective that goes beyond financial goals – helps provide a framework for ethical decision-making. In this survey, 77% of life sciences finance leaders agree that they will increasingly be responsible for the ethics of decision-making in support of the organization's purpose.

Responding to regulatory scrutiny is a core pressure for finance leaders that is compounded by ever-increasing responsibilities.

Conclusion: mastering the future

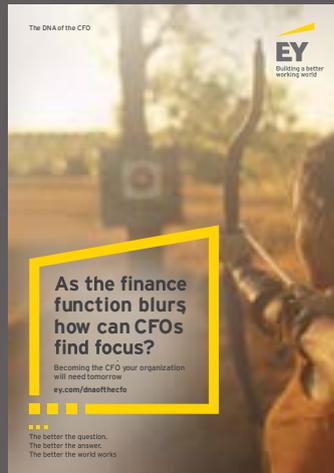
The business environment for CFOs is more complex, interconnected and unpredictable than ever. Digitization, data, stakeholder scrutiny and risk volatility are changing the rules of the game for finance leaders. The impact of these disruptions is seen in the increasingly diverse DNA of finance leaders worldwide, with an accepted definition of the CFO role increasingly difficult to pin down.

CFOs, like all leaders, need to adapt to this increasing complexity, focusing on the attributes and skills that their companies will need to succeed in the future. CFOs need to have a clear view of their own competencies, the role they want to play in strategy and the major disruptions that offer threat and opportunity. If they fail to adapt, they run the risk of being marginalized from the senior decision-making circle.

Of course, the business environment will continue to evolve and change in expected and unexpected ways. But finance leaders can build defenses and take pre-emptive steps to future-proof their role and build finance function capabilities to exploit opportunities and manage risks.

Successful CFOs will be those who proactively shape their role in response to the major forces transforming the business environment, and thus secure their place in the inner circle directing the organization forward.

Coming soon



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How EY's Global Life Sciences Sector can help your business

Life sciences companies – from emerging start-ups to multinational enterprises – face new challenges in a rapidly changing health care ecosystem. Payers and regulators are increasing scrutiny and accelerating the transition to value and outcomes. Big data and patient-empowering technologies are driving new approaches and enabling transparency and consumerism. Players from other sectors are entering health care, making collaborations increasingly complex. These trends challenge every aspect of the life sciences business model, from R&D to marketing. Our Global Life Sciences Center brings together a worldwide network – more than 7,000 sector-focused assurance, tax, transaction and advisory professionals – to anticipate trends, identify implications and develop points of view on responding to critical issues. We can help you navigate your way forward and achieve success in the new ecosystem.

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