The CFO Journey
Opportunities and uncertainties facing the finance leader
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Deloitte is pleased to share with finance leaders insights that may help tackle the major challenges now featuring in their agenda. In this transition towards an increasingly strategic role, one basic tenet is that CFOs should pay focused attention to making sound decisions that may lead them to a world of new opportunities and help navigate more confidently through the changing uncertainties of the finance environment.
# Table of Contents

New perspectives for the CFO ................................................................. 6

**Opportunities and uncertainties**  
CFO and the evolution of the finance culture ............................................ 8

**Career**  
Are you a strategic CFO? ......................................................................... 16

**People**  
Do you have the finance talent you need? .............................................. 24

**Compliance**  
Anti-corruption programs ....................................................................... 34

**Finance**  
Making working capital work ................................................................ 46

**Relationships**  
The power of business chemistry ........................................................... 52

**Assertiveness**  
Making decisions that matter ................................................................... 62

**Technology**  
IT through CFO’s lens ............................................................................. 74

**Growth**  
The sustainability imperative ................................................................. 84

About the CFO Program ......................................................................... 94
In preparing this publication, we, from Deloitte, wondered how we could contribute to the “evolution of the finance culture in organizations”. It is known that any and all events trigger, to a greater or lesser extent, one or more of the financial data or information that is necessary to value creation. This consideration has proven to be increasingly critical, in terms of its impacts, especially with the ever-changing advances in technology, which implies dealing with unprecedented high data and information volume, speed and availability that, ultimately, has taken the finance function to the next level within organizations, demonstrating that the light at the end of the tunnel of the daily challenges is actually a set of new opportunities for CFOs.

In our view, it is crystal clear that the scope of the finance function has grown far beyond the traditional finance boundaries to address a much wider spectrum of issues and concerns. This means...
that, from processes involving compliance, regulatory issues and risk management, including people management and strategic management, the involvement of the Chief Financial Officer (CFO) has been required in the boardroom decision-making. Today’s business environment also requires the CFO to be the strategic partner of the Chief Executive Officer (CEO) and to the other C-level executives of the organization.

Considering the “evolution of the finance culture in organizations”, we can go further and say that the finance function will be compelled to take its culture – which encompasses information generation, control and quality – to all layers of the corporation. Some key issues we have brought up for discussion, and which include the three pillars we consider to be the foundation of the finance function-governance, talent and technology-will increasingly become vital pieces in the companies’ entrails, no matter their industry, size and complexity.

To support finance leaders through their journey, Deloitte is launching this book. “The CFO Journey – Opportunities and uncertainties facing the finance leader” provides you with insights that can support you in bringing the finance point of view and perspectives to other C-level executives, helping to improve the overall decision-making process and allowing them to use these discussions to contribute to the “evolution of the finance culture in the organization”.

Considering the “evolution of the finance culture in organizations”, we can go further and say that the finance area will be compelled to take its culture – which encompasses information generation, control and quality – to all levels of the corporation.
Opportunities and uncertainties

CFO and the evolution of the finance culture
For CFOs, playing a leading role in building a holistic view of the finance function is a huge opportunity to take on an increasingly strategic role in companies. Achieving this objective, while dealing with the constant uncertainties and market pressures, is fundamental to the CFO journey.
The corporate agenda of CFOs is without a doubt evolving. While it entails a multitude of uncertainties and challenges, it also brings a vast array of new, rapidly emerging opportunities. There should hardly be a Chief Executive Officer (CEO) who does not have a clear view of the finance aspects of the organization he/she runs. It will become more common for executives who majored areas outside finance, to be at the head of businesses assuming financial responsibilities as part of their role. We do not mean that the future CEO of an organization will necessarily be the CFO. However, those executives who do not have a finance mindset will certainly face a more difficult path to the top.

Until some time ago, the finance departments were structured almost exclusively to generate accounting information that would be used to correct a behavior, corroborate a decision, justify a company’s decision to do or not do business. Accounting information was not intended to be used for decision-making but more as a way to meet the tax authorities’ requirements.

It is important to understand how the finance function’s current evolution ties in with the four faces of a modern CFO. The content generated and disseminated through Deloitte Brazil’s CFO Program, which focuses on the role of the finance leader, has confirmed that he/she is expected to perform four main roles (see more information on pages 14 and 15): Operator, Steward, Catalyst and Strategist. In the past, the CFO’s primary focus was on the stewardship role, and where they spent the majority of their time; only a small portion of time was dedicated to the operator and catalyst roles, and virtually nothing to the strategist role.
Globalization and several other relevant factors, such as the strengthening of emerging economies and the enhanced complexity of the tax environment all over the world, contributed to increase companies’ need to produce information in order to support business decisions that, often, exceed million or even billion dollars. It is impossible not to appreciate the increased complexity that this rapidly changing world brought to finance executives’ boardroom. Never like today has there been a need to better balance the allocation of time and effort of finance executives across the four faces of the CFO. Of course, the migration of a percentage of his/her activities to a more catalyst and strategist role depends on the CFO’s own maturity level, as well as the company he/she works for.

As pressures have intensified for CFOs, companies need more structured information that can effectively support the business decision-making process. More than providing support, a finance leader is also expected to provide alternatives and scenarios that can help have a better view of the business. While many companies still have finance departments encountering difficulty in closing their accounting books in a timely manner, others can already count on a CFO playing a leadership role in their business strategy and execution. Most of the largest organizations are now in between of these two ends.
When we look at the current scenario, the transformation of the finance function has been significant. From now on, besides dealing with the market risks and uncertainties, the CFO needs to positively influence the companies’ Board and senior management regarding matters as important as governance, technology and people – which are all fundamental pillars for organizations. The market is increasingly demanding for accurate and timely information. The capital flow rapidly migrates from environments in which governance is not a well-established principle. People have a growing influence on business outcomes, since productivity is a major factor considered by investors when assessing the main countries in which to invest capital. Technology as an analysis tool speeds up the close processes and provides greater confidence level in the information made available to investors.
Although the finance function led by the CFO is usually called to provide financial data and give a final approval over the figures, it is very important to remember that everyone within an organization is responsible, directly or indirectly, for the generation of data and information which will influence final decisions, internally or in the marketplace. This new culture of broad finance literacy is the next step that the CFO will lead in the organization and include such wide roles as:

- identifying people with the appropriate financial profile to act in their primary function, but also with a “finance eye”,
- providing an enterprise-wide training program,
- conducting and ensuring the implementation of compliance practices and activities that support governance,
- partnering strongly in the technology function to have the best results with the lesser effort and, thus, increasing the technological productivity, since the enterprise resources planning are programmed and not autonomous.

This finance transformation, which we call “evolution of the finance culture”, will certainly positively impact the companies, the market and, consequently, society. The concept underlying this next step has mostly to do with the improvement or implementation of a large set of policies, controls, technologies, business processes, management systems and people. Because these topics are so broad, Deloitte’s CFO Program outlines in “The CFO Journey – Opportunities and uncertainties facing the finance leader” issues related to the past, to the present and, certainly, to the future of finance leaders’ agenda.
Four Faces of the CFO

Today’s CFOs are expected to play four diverse and challenging roles. The two traditional roles are steward, preserving the assets of the organization by minimizing risk and getting the books right, and operator, running a tight finance operation that is efficient and effective. It is increasingly important for CFOs to be strategists, helping to shape overall strategy and direction, and catalysts, instilling a financial approach and mind set throughout the organization to help other parts of the business perform better. These varied roles make a CFO’s job more complex than ever (see the sidebar).

**Steward.** CFOs work to protect the vital assets of the company, ensure compliance with financial regulations, close the books correctly and communicate value and risk issues to investors and boards.

**Operator.** CFOs have to operate an efficient and effective finance organization providing a variety of services to the business such as financial planning and analysis, treasury, tax and other finance operations.

**Strategist.** CFOs take a seat at the strategic planning table and help influence the future direction of the company. They are vital in providing financial leadership and aligning business and finance strategy to expand the business. In addition to M&A and capital market financing strategies, they can play an integral role in supporting other long-term investments of the company.

**Catalyst.** CFOs can stimulate and drive the timely execution of change in the finance function or the enterprise. Using the power of their purse strings, they can selectively drive business improvement initiatives such as improved enterprise cost reduction, procurement, pricing execution and other process improvements and innovations that add value to the company. ●
The Four Critical Roles CFOs Play

**Catalyst**
Catalyze behaviors across the organization to execute strategic and financial objectives creating a risk management culture.

**Steward**
Protect and preserve the critical assets of the organization and accurately report on financial position and operations to internal and external stakeholders.

**Strategist**
Provide financial leadership in determining strategic business direction, M&A, financing, capital market and longer term strategies vital to the future performance of the company.

**Operator**
Balance capabilities, talent, cost and service levels to fulfill the finance organization’s core responsibilities efficiently.
1. Career

Are you a strategic CFO?
Today’s business environment requires the CFO to be not just a strategist but a “pragmatic strategist”. To make this happen, it is necessary to reflect on seven essential questions regarding his/her company and define how to effectively contribute to the growth of the business through tangible and realistic actions.
As the CFO role continues to evolve, it is imperative that finance executives up their game strategically. That does not mean simply knowing the latest strategy theory or fad. It means being able to advance your organization’s growth or improve its competitive position by identifying the key constraints holding it back, and then using finance to free it from those constraints. In other words, today’s environment requires a CFO to be not just a strategist, but a pragmatic strategist.

To get there means cultivating a mind-set where you ask the right questions about where your company is currently positioned, what is holding it back from achieving its potential or what could hold it back, and then framing what you might do to move the company forward.

The critical questions

Some CFOs may have a strategic mind-set naturally. However, such a mind-set may also be cultivated by asking the following seven questions:

1. How does your company plan to grow?
   Through M&A; organically (i.e. by driving new or existing products to new or existing markets), or both? The first and most straightforward question involves knowing the current strategy: What combination of these growth choices is your company currently committed to? The CFO’s role then is to make sure that capital is available at the right cost for these choices to be profitable, and that the company has processes and decision-making rules for capital allocation to support that growth.
2. What are the dominant constraints that hold back your company’s growth, and how might you overcome them?

The dominant constraints are the issues that prevent a company from reaching its potential. Consider a company with a heavy debt burden that was paying an interest rate more than twice the rates available to its competitors. Here the cost of debt capital was a critical constraint, given that competitors could finance growth through M&A and other strategies much more cheaply. In response, the CFO enabled a sale of a large stake in the company to a strategic investor, raising capital and relaxing the “finance constraint.” Other types of constraints include the lack of a needed or key product in the pipeline or simply the mind-set and culture of the company.

To get there means cultivating a mind-set where you ask the right questions about where your company is currently positioned, what is holding it back from achieving its potential or what could hold it back, and then framing what you might do to move the company forward.
company. Of course, some constraints are virtually impossible to overcome. For example, regulations in financial services impose new constraints on banks. Other than finding efficient ways to comply, CFOs can do virtually nothing to change the regulatory constraints. Still, determining the dominant constraints is the first step for a CFO to take in order to relax or overcome them.

3. What is the greatest uncertainty facing your company and what can you do to resolve or navigate it? Say the company has potential asbestos liability because the chemical was formerly used in some products, and the uncertainty around that liability is constraining the company’s share price and keeping it from making aggressive growth plays. That does not sound like something a CFO can fix. But what if you were to go to the legal counsel and say, “Let’s figure out what it would cost to settle this potential litigation, and see, given our current cash flows and the low-rate environment, whether it’s worth that price to get rid of that uncertainty.” Alternatively, CFOs can ask their finance, planning, and analysis (FP&A) organizations to model the consequences of different outcomes, and then decide if they want to insure against risks arising from the uncertainty. Uncertainty can “freeze” decision-making; CFOs can “unfreeze” those decisions by gathering information to resolve the uncertainty, instituting a structure to navigate the uncertainty while managing risk through insurance or developing a step-by-step approach to real-option investment as uncertainty is resolved.

4. What is your greatest area of spending where there is a lot of uncertainty about return? For example, a CFO of a consumer packaged goods company with a big chunk of spending going to advertising and promotion should ask, “How can I get greater bang for my buck in my advertising and promotion spending, and how do I make headway on measuring returns from promotions to guide future spending?” Creating clarity and better disciplines on spending are often a source of quick strategic wins.
5. Are your company’s financial and growth goals ambitious enough? What would we do differently if the company were an order of magnitude bigger? Say your company’s goal is to double its revenues, from $2 billion to $4 billion, and you are looking at a variety of projects to achieve that growth, but some entail a lot of risk because of the dollars involved. The CFO might look at this challenge and say, “A $400 million project blowing up is going to do some serious damage to a $2 billion company, but not so much to a $20 billion company. So maybe our ability to invest in future growth is enhanced by increasing our scale not by two times but by 10 times through a series of rollups or acquisitions.” If you bring that option to your CEO and board, you have started a conversation that could be truly game-changing for the company. It is easy to get trapped in the present. But thinking substantively beyond existing constraints and limits can sometimes help identify plays that create dramatically new strategic options.

6. What could disrupt your company, and what can finance do about it? This is about envisioning a competitor’s move such as a merger or a new industry entrant that changes the nature of competition or a new technology that dramatically changes product offerings. Again, CFOs can ask if they themselves could use the likely playbook of a competitor to disrupt the industry and also leverage FP&A (Finance Planning) capabilities to model out disruptive scenarios and help frame responses.

7. What would you like your company to stop doing? Finally, are there underperforming business units or a part of the company that does not generate required returns, or customers who are not profitable? If there isn’t a way to scale the business to increase returns, it may be best to dispose of it and free capital and management resources to grow more high-potential businesses. Similarly, choosing not to serve unprofitable customers or to increase prices to them may increase long-run returns.
These questions empower CFOs as strategic thinkers because the answers can generate pragmatic starting points for a conversation with the CEO and other leaders on ways to improve company performance through finance-driven and other solutions.
A matter of pragmatism
All of these critical questions help CFOs identify strategic opportunities and cultivate a strategic mind-set. But even the most strategically oriented CFOs cannot succeed as an island. They cannot bring a new product into the fold unless they partner with product development, and they cannot change the promotional spending model unless they are able to work closely with marketing and sales leaders. The above questions empower CFOs as strategic thinkers because the answers can generate pragmatic starting points for a conversation with the CEO and other leaders on ways to improve company performance through finance-driven and other solutions.

By asking these questions and formulating solutions around them, the CFO can be the pragmatic strategist by addressing critical constraints, uncertainties, and performance issues through tangible and realistic actions to move the company forward. Others on the team can push forward new product, product differentiation, or market strategies, but the CFO can keep them honest about the economic returns and viability of different positioning strategies, while creating value in the immediate context. While there are many theories, models, and fads in strategy, addressing the above questions can focus the leadership team on pragmatic and tangible ways to grow forward.
2. People

Do you have the finance talent you need?
A CFO needs a qualified team and in a size that is sufficient to respond to their responsibilities, concentrating on the development and on the execution of the strategy. But how can CFOs identify and retain the best talents in today’s scenario?
Economic volatility. Tax reform. IFRS and convergence. Hedging strategies. The scope of a chief financial officer’s (CFO) responsibilities is constantly evolving and expanding and calls for a team of highly skilled leaders as well as deep bench strength. Identifying and keeping that talent is far from easy.

In fact, it is the talent paradox. Despite continued high unemployment rates in many countries, CFOs tell us that they cannot find the talent they need. In a Deloitte survey with CFOs, one out of three executives surveyed said they were having trouble filling open positions, and nearly 60% were taking steps to engage and “lock in” top performers. At the same time, critical talent is on the move. Since the end of the recession, for example, voluntary quit rates have nudged higher, and employees leave for a variety of reasons (see Figure 1). In addition, finance employees are at greater risk of being poached as companies compete for the same highly skilled talent pool.

None of that bodes well for CFOs who want to move beyond their operator and steward roles and focus long term on the development and execution of strategy. It is hard to move forward when you do not have the team you need to make such an advance. When CFOs honestly assess their teams, they often do not see the talent necessary to free them up to spend more time on broader business. So when critical talent can be identified, it is even more imperative that CFOs work to retain that talent and neutralize the numerous triggers that can lead to a separation.

In this chapter, we take a deeper dive into ways to identify critical performers and develop strategies to keep them loyal and productive. In addition, we will discuss how to align those best-in-class finance executives with all-important value creation.
Differentiating good employees from critical players

In view of the difficulty of finding talent in the financial area, it might be easy to view everyone on your team as essential. After all, it takes time and money to identify and develop critical skills – a real deterrent to changing up talent even when the situation warrants it. In addition, it is often easy to get caught up in the “rescue fantasy” associated with trying to mold certain subpar performers into the talent that is necessary.

But identifying your truly critical players is the first step in developing a world-class team, and the process entails more than just measuring productivity. Instead, it requires a careful evaluation of:

- who has the skills necessary to execute on your current set of priorities
- who can be trusted to effectively execute those priorities, and
- who can raise the bar on performance and reshape expectations.

Figure 1 – Top six departure triggers which support the development of appropriate retention strategies

As one CFO recently told us, his yardstick was to imagine exiling all of his employees out to the parking lot and then inviting back only those he could not do without. Our alternative is to simply ask the following questions:

1. What knowledge, skills, abilities, and experiences do you need now? What about going forward? Who on your team best embodies those skills?

2. If someone you consider critical resigned tomorrow, do you have the bench strength to backfill the position? Is the current talent capable of developing a successor?

3. Given your priorities in finance over the next 12 months, who are the wingmen you can count on to execute those priorities?

4. Despite how talented this individual is, does he or she contribute in any negative way to the organization? In other words, does this person pull energy out of the team or of you personally?

Since the end of the recession, for example, voluntary quit rates have nudged higher, and employees leave for a variety of reasons. In addition, finance employees are at greater risk of being poached as companies compete for the same highly skilled talent pool.
5. Finally, when you evaluate your key players, do you only consider their value as individuals or as part of a larger whole? In other words, do they team and do they team well?

**Departure triggers; retention levers**

Once the key players are identified, the challenge then becomes how to motivate and retain them. That is not so easy when many are eyeing the door. In fact, among the employees globally surveyed for Deloitte’s Talent Edge 2020 study, only 35% expect to stay with their current employers, down from 45% in the prior year. Moreover, 65% of global employees report they are either passively or actively testing the job market.

In finance, such turnover could be devastating given the leanness of most operations and the current focus on growth. But the solution is not simply a matter of increased compensation or benefits. Rather in the same research study, we found that retaining top talent, in the changed environment, mandates an understanding of employee expectations. And in finance, we would argue, it is up to the CFO to develop the finance talent strategy to meet those expectations and tailor it for critical performers.

Specifically, the research identified the following departure triggers, and here we offer some suggestions for muting them for top performers:

1. **Lack of career progress.**
   Topping the list (28%) was the opportunity to grow and advance – and nowhere is that more important than in finance. As we discussed previously, the hallmarks of a world-class finance-talent organization are developed competency models, articulated views of career advancement, and positive talent experiences. With “must-have” employees, however, CFOs should also avoid handcuffing them to certain roles because of their critical skills. Instead, you should consider stretch and developmental assignments, such as moves inside and outside of finance, particular roles in key geographies and/or business units as well as board and enterprise projects and special initiatives.
2. Lack of compensation increase. In this era of cost cutting and wage stagnation, it is not surprising that inadequate compensation is often a departure trigger (24%). In finance though, with so much compensation data publicly available or shared over social media sites, the issue is not often the pay itself, but the perception of the fairness of pay. In our experience, there will always be a small number that will leave for the money, but most high performers are looking for balance. Consequently, it is up to the CFO to find out what top performers actually value – whether it is off-cycle bonuses, virtual work arrangements, etc. – and tailor those factors to ensure motivation and loyalty. At the same time, when corporate uncertainty mandates certain skills, CFOs still should consider “ringfencing” their top performers with pay packages or incentives that prevent exits at inopportune times.

3. Lack of trust in leadership. Quite simply, employees want leadership that inspires trust. For high performers in finance that trust is embodied in the CFO, who earns it by being straightforward, honest, and complete. For some highly talented employees, gaining trust is sometimes a matter of straight talk from the CFO. Finance professionals often are in the know regarding many challenges facing the company; it helps to hear the CFO address these concerns directly. This trust can further be developed through clearly communicating individual career expectations or commitment to a given employee.
4. **Lack of job security.** Given the volatile economic conditions, job security is obviously a departure trigger, cited by 24% of respondents. For top performers, however, the skills that make them critical, such as tax or treasury expertise, often provide job security. At the same time, that expertise also makes them prime poaching targets. In such cases, offering selective contracts or other incentives may be something CFOs want to consider.

Simply knowing the triggers, of course, does not guarantee retention, particularly with high-demand talent. That is why sometimes it pays to incorporate creative incentives that leverage critical players into a finance talent strategy.
5. New opportunities in the market. Finally, there is always the risk of a competitor offering your top performer a better pay package or an opportunity he will find hard to refuse, such as a position that expands his skills using analytics. To keep critical performers from straying requires communication as well as action. Simply having regular check points with your talent not just about their work, but their attitudes toward their work and their workplace, is crucial. In addition, as CFO you should keep an ear to the ground for potential competitor moves that might lead to the poaching of your staff. And if all that seems too time consuming, keep in mind that much of an executive’s value comes from effectively navigating the firm – something your top performers already know how to do.

The talent/value equation
Simply knowing the triggers, of course, does not guarantee retention, particularly with high-demand talent. That is why sometimes it pays to incorporate creative incentives that leverage critical players into a finance talent strategy.

Take the case of the telecom CFO who recently challenged his team to elevate the process of finance hiring and leveraged 25 key performers as mentors to summer interns. Those key performers not only helped identify future finance leaders, but also helped reinvigorate the finance career track at the company.
Another CFO we recently worked with sought to transform his department into a “net exporter of talent.” Concerned that other parts of the business did not truly value finance, he developed a competency model and finance talent strategy that determined which high performers were prime candidates to move out into the business units. Those critical staffers not only gained valuable strategic skills, but helped raise the profile of finance throughout the company – so much so that the program is now being adapted in other parts of the business.

Sometimes retention is tied to other more basic factors. Another CFO recognized a critical member of the team was working long hours on a deal in addition to a long commute. He proactively encouraged more flexible work arrangements from home so the employee felt valued, reduced travel times and avoided burn out.

In each case, the CFO was thinking strategically, as well as tactically, about how to retain his top performers and keep them performing to create value. Such creative thinking is a competitive weapon at a time when recession as a retention strategy no longer holds merit. And by developing finance talent programs that keep top talent committed and challenged in their jobs, excited about their prospects, and confident in their leadership, you may not only thwart the triggers that lead to separation, but also set your organization apart as a world-class employer.
3. Compliance

Anti-corruption programs
In light of the new anti-corruption regulations, both abroad and in Brazil – such as the “Brazilian Clean Company Act”, CFOs need to focus on structuring robust compliance programs and ensure that they are really effective.
When two top executives – including the chief financial officer (CFO) – of a U.S. company were found guilty of bribery charges in May 2011, it marked the first time that both a company and its employees had been convicted under the U.S. Foreign Corrupt Practices Act (FCPA). And while the high-profile case was dismissed in early December 2011 due to prosecutorial misconduct, the fact that the case went to trial at all should give CFOs pause.

Although this may be the first time top executives came close to jail time for FCPA violations, it may not be the last as several other executives face upcoming bribery trials. In fact, given the increased scrutiny of alleged corruption, the government’s emphasis on holding individual executives accountable, and the effects of the whistleblower rewards created by the Dodd-Frank Wall Street Reform and Consumer Protection Act, it would not be surprising if the number of executives prosecuted for bribery rises over the next year. In addition, if more executives take their chances in court, instead of settling cases as companies have historically done, the likelihood of future convictions and jail sentences may also increase.

For CFOs, that makes it all the more important to have robust anti-corruption programs in place – and have evidence that the programs are operating effectively. Unfortunately, a research conducted by the Deloitte Forensic Center suggests that is not necessarily the case. In fact, only 29% of the 276 executives surveyed were very confident their company’s anti-corruption program would prevent or detect corrupt activities. And given the high potential impact of an adverse event of this sort – criminal exposure for the company and its executives and fines that in the past have climbed as high as USD 1.6 billion – it suggests that now is an appropriate time to evaluate and consider upgrading anti-corruption programs.

In this chapter, we examine how the enforcement landscape for corruption activities has changed, consider why there may be such a low level of comfort in existing programs, and suggest how CFOs may improve their prevention efforts.
All eyes on corrupt activities
To say that the enforcement landscape has been stepped up would be an understatement. Prosecutions and fines under the FCPA – which makes it illegal for U.S. citizens or companies to attempt to bribe foreign officials in order to gain a business advantage – have increased dramatically in recent years. While in 2004 the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) had only five enforcement actions, that number rose to 40 actions in 2009 and 74 in 2010. The size of penalties has also increased. Based on data through December 31, 2010, eight of the 10 largest FCPA-related settlements occurred in 2010 with penalties ranging from USD 56 million to USD 800 million.

The increased focus on preventing corrupt activities is not confined to the United States. The UK Bribery Act of 2010, which became enforceable on July 1, 2011, expands the criminality of bribery beyond acts involving government officials to include bribery between private entities and domestic as well as international bribery. Moreover, the UK Bribery Act applies to all companies, including U.S. companies that do business in the United Kingdom.

Meanwhile, there are also other global activities in this area. In May 2011, for example, China expanded its anti-corruption law to cover bribery of foreign officials. That same month, the Russian legislature expanded that country’s existing anti-bribery law to include bribery of foreign government officials by Russian nationals, and imposed fines up to 100 times the value of the bribe. And while the effectiveness of these new laws remains to be seen, the idea that efforts to crack down on corruption are tightening worldwide increases the possibility of foreign governments being able to prosecute U.S. firms for corrupt activities that take place globally – and heightens the need for robust anti-corruption programs.
The Brazilian Clean Company Act
In Brazil, the Brazilian Clean Company Act, the so-called “Anti-Corruption Law”, or “Law 12846/13”, was promulgated in August 2013 and became effective in January 2014. The Law provides for punishment and the application of penalties to legal companies that take advantages from corruption acts perpetrated against local or foreign government servants or agencies. Although the Law has not yet been regulated at the federal level, it is aligned with the most severe and advanced anti-corruption laws in the world. It is in this scenario that the Brazilian companies have sought to enhance their compliance programs, so as to include methods to detect and treat cases of fraud, corruption, etc. or cases that violate the organization’s ethical conduct in a preventive manner.

The result of this action will reflect more intensively in the treatment of non-compliant situations and, consequently, in the reduction of internal costs, since such practices will be detected and treated on a timely basis. This scenario poses a challenge for the CFOs of organizations playing in Brazil, in terms of creation of a structure of corporate governance, risk management, compliance and internal controls. These changes are deep and involve directly the organizational culture.
The way we do business reflects our culture and view of the world. In this aspect, it is undeniable that Brazil goes through a significant evolution, with the adoption of clearer and more transparent rules for the companies. Doing business with ethics and transparency is no longer a business philosophy to become an enterprise citizenship and an indication of commitment and respect with the social context. From Deloitte Brazil’s recent experiences, organizations have invested time and resources to get to know their suppliers, third parties and intermediaries so as to reduce their risks relating to corruption crimes. The risk of inappropriate association is what has concerned Brazil’s companies’ CFOs the most. Business partners are a relevant risk factor. Aligning anti-corruption conduct practices and policies is fundamental to promote a more transparent chain of value. Below are some important points in this regard:

**Share the code of conduct assumptions.** If the business partner has a code of conduct in place, it is necessary to verify if it is aligned with code of the contracting party.

**Document the awareness of anti-corruption practices.** The third party should be required to mention in the related agreement that he/she is aware of and agrees with the compliance policies.

**Include clauses that allow a diligence to be conducted.** It is necessary to verify the processes of the contracted party.

**Identify potential conflicts of interest.** Check if the business partner counts on, for example, with any former government employee that may have some privilege in the interface with government.
Where deficiencies may lie

In this environment, just having an anti-corruption program is almost table stakes. According to the Deloitte survey, almost 90% of respondents said their company had an anti-corruption policy, or part of an anti-corruption program, in place. The policies covered a wide range of potentially corrupt activities including bribes (91%), gifts to foreign government officials (85%), expenses related to government business/government relations (75%), facilitating payments (74%), and political contributions (73%), among others. (See Figure 1)

Having policies in place, however, does not guarantee their effectiveness in practice. And while there is no single reason for the current lack of confidence, the study identified several potential contributing factors, including:

Figure 1 – Activities addressed in company’s anti-corruption policy

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bribes</td>
<td>91%</td>
</tr>
<tr>
<td>Gifts to foreign government officials</td>
<td>85%</td>
</tr>
<tr>
<td>Expenses for government business/relations</td>
<td>75%</td>
</tr>
<tr>
<td>Facilitating payments</td>
<td>74%</td>
</tr>
<tr>
<td>Political contributions</td>
<td>73%</td>
</tr>
<tr>
<td>Travel/lodging expenses for foreign government officials</td>
<td>65%</td>
</tr>
<tr>
<td>Due diligence on third parties</td>
<td>65%</td>
</tr>
<tr>
<td>Charitable contribution/donations</td>
<td>63%</td>
</tr>
<tr>
<td>Employment of government officials or their relatives</td>
<td>50%</td>
</tr>
<tr>
<td>Due diligence with acquisitions or joint ventures</td>
<td>42%</td>
</tr>
<tr>
<td>Others</td>
<td>7%</td>
</tr>
</tbody>
</table>

Base = executives at companies with anti-corruption policies
Lack of stand-alone anti-corruption policies: Only 45% of the companies surveyed had a stand-alone anti-corruption policy while the rest had a policy that was part of a broader code of conduct. In Deloitte’s experience, anti-corruption issues may not receive adequate attention unless they are addressed by a policy specifically focused on corruption.

Infrequent anti-corruption audits: Although roughly 80% of executives said their company conducted internal audits of its foreign operations to identify corrupt activity, only 32% said these audits were conducted annually or more often. Also, Deloitte has found some companies rely on their standard internal audits, which these days may not be sufficient if not, at least in part, planned and executed with procedures that are designed specifically to detect corrupt activities.

For CFOs, the most important thing is to implement efficient anti-corruption programs (compliance programs) – and count on evidence that the programs are operating effectively.
Lack of consistent due diligence and monitoring of third parties:
The use of third parties was considered to be a significant risk by 52% of executives. Similarly, 43% of executives considered identifying and managing third-party relationships to be a significant challenge, more than for any other issue. Despite these concerns, only 41% of executives said their company regularly conducted due diligence on third parties in foreign countries that interact with foreign government officials and just 9% said they conducted very detailed monitoring of third parties to ensure they complied with the company’s anti-corruption requirements.

Increased corruption risk in emerging markets: As we have documented in several recent CFO Signals surveys, many CFOs with growth agendas are looking to emerging markets. But companies face a greater potential for corrupt activities as they expand into places such as Brazil, Russia, India, and China (BRIC countries). In fact, some 55% of executives said their company was extremely concerned about corruption in China, while 43% said the same about Russia, 39% about India, and 26% about Brazil. The variations here, however, may reflect companies’ different expansion targets as well as differences in perceived levels of risk.

The rewards of robust procedures
There are good reasons for CFOs to want effective anti-corruption policies. For one, they save on costs. According to the U.S. Department of Justice, companies implementing effective anti-corruption programs are much less likely to incur substantial penalties levied for FCPA violations. In addition, the costs to companies of investigating and defending FCPA allegations can often run into the tens of millions of dollars based on the size of the matter. Moreover, when a corruption case is settled, regulators may appoint a monitor to oversee the company’s compliance activities – at the company’s cost, which, in Deloitte’s experience, can easily total millions of dollars or more.
If a company can demonstrate to the SEC and the DOJ that it has a robust compliance program and responded appropriately once it discovered the corrupt activity, the government has stated that appropriate credit will be given for effective compliance programs and cooperation in assessing fines and penalties. But what constitutes a strong program and what can CFOs do to up their confidence in them?

There are many key elements in an effective FCPA Compliance program (see the box on page 45). Two that CFOs should consider particularly carefully are:

**Transaction monitoring**
In the past, you instituted anti-corruption policies, trained your people, told them not to pay bribes, and crossed your fingers. Now with FCPA analytics software monitoring your company’s financial systems, you can have a sentry mechanism that can help to raise an alert to transactions that look suspicious (red flags). Roughly one-quarter of executives said their company used software applications to identify suspicious or anomalous payments or transactions that may indicate corrupt activity. And almost 80% of the executives at companies that used such software said it had identified suspicious transactions that required further investigation.

**M&A risk assessment**
Ordinary due diligence is not enough when it comes to foreign operations – and especially when expanding there through merger or acquisition. One reason is that a company can easily inherit criminal liability for any FCPA violations committed by the acquired business. Consequently, during the due diligence process, CFOs should work with legal counsel to perform focused anti-corruption due diligence on acquisition targets. This might include transaction testing on sensitive areas of operations and background checks on the managers at the acquired firm as well as the vendors and agents they use and the laws and regulations they operate under. Such scrutiny can help prevent CFOs from entering into an expansive network of local relationships fraught with conflicts of interest.
For the CFO who oversees risk, the cost of not having adequate controls in place can be much greater in terms of the monetary and reputational damage if a violation is found.

**How sophisticated is sophisticated?**

Figuring out if your anti-corruption program is sophisticated enough to achieve your company’s risk mitigation goals is a difficult process. That’s partly because the determination typically requires analysis by FCPA or anti-corruption specialists. But any company can make conscious choices about the degree of sophistication that they invest in for their anti-corruption program. Do you want the lowest level required to comply with legal requirements, or do your reputational and financial risk management goals call for something more robust? While cost is a consideration, some program elements can be performed well or poorly for similar costs, so why not choose the higher quality option?
For the CFO who oversees risk, the cost of not having adequate controls in place can be much greater in terms of the monetary and reputational damage if a violation is found. Moreover, having a low level of confidence is obviously out of line with the fact that companies have created their anti-corruption programs and their disclosures may be telling shareholders, regulatory authorities that these programs are sufficient. In this elevated enforcement environment with competition heating up for opportunities in the few growing markets, it behooves CFOs to revisit their anti-corruption programs. Enhancing anti-corruption programs may help a company avoid becoming the subject of a prosecution, but equally important, it may also help to safeguard its hard-earned reputation.

Elements of an anti-corruption program

Key elements of an effective anti-corruption compliance and risk management program include:

• Risk Assessment
• Risk Management
• Gap Analysis
• Monitoring: Transaction Testing and M&A Due Diligence
• Training
• Whistle-blower System
• Tone at the Top
Making working capital work
The challenges to optimize the working capital are huge, but there are ways to address them. For CFOs charged with growth and determined to steer strategy, there may be no better place to look for that cash than in working capital improvements.
Many companies have the opportunity to increase shareholder value by managing working capital in a more efficient manner, but are often held back by a number of internal challenges. Still, with working capital optimization increasingly on boards’ radar as they look for opportunities to enhance shareholder value, CFOs may want to address those internal challenges – to free cash that can be used to fuel growth. In this chapter, we will examine the challenges to optimizing working capital and offer some steps on how to unlock the rewards.

**Challenges to working capital optimization**

As CFOs well know, there are multiple challenges to optimizing working capital, including:

- **Limited access to needed information.** Many companies lack the real-time data and metrics needed to evaluate the effectiveness of working capital and improvements.

- **Lack of a formal structure for working capital improvement efforts.** Whether improving working capital is a cross-functional effort or driven by finance, it can be difficult to sustain the effort without a formal structure. Few companies have a formal optimization program with clear ownership across the organization or the organizational tools and the capabilities to implement a program.

- **The number of working capital stakeholders and their differing perspectives.** The distributed nature of working capital, in which one stakeholder within finance may own accounts payable and another accounts receivable, can make it difficult to implement a working capital improvement program. Each stakeholder is likely to have a different perspective on how to enhance working capital, and their views could also differ from those who are running operations.
• **Time constraints.** Organizations often struggle to focus on optimizing working capital because of other priorities competing for attention.

**Developing a working capital optimization plan**

How to address these challenges? As guardians for working capital, CFOs are often positioned to do the strategic visioning and lead a working capital optimization effort. Moreover, establishing the infrastructure to support working capital improvement is in the tool belt of finance.

Some steps companies can take to implement and support a sustainable working capital optimization program include:

1. **Mandate and communicate.**
   An effective working capital optimization program should start with a tone-at-the-top mandate from the board, CEO, and CFO. Senior management should make clear that improving working capital is an organization wide priority, and that working capital improvement is linked to both business and individual performance.

With working capital optimization increasingly on boards’ radar as they look for opportunities to enhance shareholder value, CFOs may want to address those internal challenges to free cash that can be used to fuel growth.
2. Collaborate and coordinate across the organization. Because working capital touches so many different parts of an organization, CFOs should collaborate with other leaders within the business to embed the goal of improving working capital into their organizations’ systems, analytics, and performance metrics.

3. Identify optimization levers and use them consistently. There are levers throughout an organization that can help drive working capital improvements, such as more efficient inventory management, embedding specific working capital metrics in forecasting, and improved management of working capital items. Companies have to understand, however, which levers may be more effective and use them consistently.

Boards understand that efficient management of working capital can potentially free up cash for other uses that can build shareholder value, such as mergers and acquisitions.
4. Measure effectiveness with metrics. Metrics should be built into the optimization program’s goals and used as a constant feedback mechanism so that Financial Planning & Analysis and Treasury can monitor the program’s effectiveness and impact on, for example, the cost of capital. Analytics also can play a role in improving working capital. For example, they can be used to determine the capital required to fund manufacturing processes or to create dashboards that provide daily views on metrics that affect cash flow and working capital over time.

5. Align incentives with improvement. To sustain working capital improvements, there should be incentives that foster management focus and change. Incentives should be made available throughout the company, and there should be tangible linkage to business performance and overall compensation, as well as flexibility to adjust for external factors that may adversely affect working capital.

The reward: freeing up cash. The reasons to consider working capital improvements are compelling. Many companies, after all, remain capital-intensive. Some still see low levels of turnover for accounts receivable and higher turnover on the accounts payable side, conditions that can point to a need to improve working capital management. Moreover, boards understand that efficient management of working capital can potentially free up cash for other uses that can build shareholder value, such as mergers and acquisitions. For CFOs charged with growth and determined to steer strategy, there may be no better place to look for that cash than in working capital improvements.
5. Relationships

The power of business chemistry
Having interpersonal skills is a key factor for a CFO to be successful in his/her career. The so-called “business chemistry” – a technique which uses a set of behavioral questions to identify dominant personality patterns, can help you in this task, by understanding how business people can be sorted into Drivers, Pioneers, Integrators and Guardians.
It happens all the time. You walk into a meeting anticipating a clear resolution only to encounter someone who asks to bring others into the equation; or someone who insists on crunching more data; or someone who simply has a better idea.

Sound familiar? As CFO, juggling such diverse stakeholder personalities comes with the territory. But how you interact with these individuals often means the difference between getting nowhere and getting that resolution you want.

Luckily, there are clues to deciphering personalities in business that can help CFOs better relate to others. Termed “Business Chemistry,” the framework identifies distinct patterns of behavior that can be harnessed to not only improve individual interactions, but also to influence strategy.

In this chapter, we will outline the different Business Chemistry personality types and discuss how CFOs can leverage them to their advantage.

**Not just another personality test**

The claim that personality is important in business is by no means new. Many executives have been exposed to a breadth of personality tests over the course of their careers. And yet, there are several flaws with existing tests that make them ill-suited to today’s business world. For example, many are:

1. **Hard to remember.** They either have too many types, too many acronyms, or names that have little to do with the business environment (“…was I a blue macaw or a peacock?”).

2. **Too focused on introspection.** They may help you understand yourself, but offer little insight into others (“So that’s why I’m terrible at trivia night…”).

3. **Not designed for business.** While our core personalities may not change dramatically between a business and non-business environment, the way we behave in each setting can be significantly different (“Honey, if you flip to slide 20, I’ll show you our upcoming family vacation plan…”).
To counter these gaps, Deloitte teamed with scientists from the fields of neuro-anthropology and genetics to develop Business Chemistry, a personality system that leverages modern computational techniques to bring a data-driven approach to understanding personalities. The resulting system is easy to remember, but with a sophisticated underpinning that highlights statistically relevant behavioral cues in a business environment.

Simply put, knowing Business Chemistry may help you make a transition from the Golden Rule (treat others as you wish to be treated) to the Platinum Rule (treat others as they wish to be treated).

Specifically, Business Chemistry uses a series of 70 behavioral questions to reveal four dominant personality patterns: the Driver, the Pioneer, the Integrator, and the Guardian. (See Figure 1 “The four patterns of Business Chemistry.”) While each pattern is unique, each has shared traits with its “neighbors” (Driver with Pioneer and Guardian, Pioneer with Driver and Integrator, Guardian with Driver and Integrator, and Integrator with Guardian and Pioneer). And for CFOs, one benefit of knowing Business Chemistry is an awareness of your own predilections and tendencies. For example, in a survey conducted by Deloitte, we asked large company CFOs what type they considered themselves, and more than half pointed to Driver, and 30% pointed to Guardian.¹

¹ Q42010 CFO Signals Survey, CFO Program, Deloitte USA
Perhaps more important, however, Business Chemistry helps you recognize personality patterns in your colleagues. For example, does your CEO make snap decisions as he/she jaunts down the hall? Does your controller insist on voluminous detail to support decisions? Do certain members of your board have the propensity to debate more than decide? Such clues allow CFOs to recognize the dominant patterns of colleagues and gain insight into how to connect on a personal level and build effective teams.

After all, we may assume that our colleagues are just like us, and therefore interact with them in the way that we prefer. The problem with this approach is that most people are actually not like us. Simply put, knowing Business Chemistry may help you make a transition from the Golden Rule (treat others as you wish to be treated) to the Platinum Rule (treat others as they wish to be treated).
While everyone displays a combination of traits from the four Business Chemistry patterns, most people align closely with one – and sometimes two – of the following types:

**Driver**: Drivers are analytical thinkers who are intellectually creative and prefer experimentation over theorization. To them, business is just that: business. As such, they have limited tolerance for small talk and aren’t afraid to ruffle feathers to get their point across.

**Pioneer**: Pioneers are blue-sky ideas people, whose adaptability allows them to thrive in multiple environments. To them, business is exciting when they are exploring possibilities and redefining the status quo. As such, they sometimes feel weighed down by structure and details.

**Integrator**: Integrators are masters of empathy and nuance, and are particularly skilled at understanding the broader context of an issue. As such, they often take time to consider everyone’s opinions and socialize an approach before moving forward.

**Guardian**: Guardians prefer concrete reality and are particularly skilled at providing structure and minimizing risk. As such, they can be reluctant to pursue unproven ideas and often deliberate thoroughly before making decisions.
**Real-world applications**

A CFO who understands his or her own Business Chemistry, as well as the team’s, is better suited to:

1. **Engage and influence stakeholders**

   CFOs engage with such a broad range of stakeholders that an understanding of where and how people’s tendencies and preferences vary is essential. For example, a CFO might present the same business case differently depending on the primary pattern of the audience. In presenting to a Driver, he/she might come equipped with a one-page summary and start the conversation with the overall impact of the initiative. In presenting to an Integrator, he/she might start with the broader context of the business case (for example, how it came about, the long-term goal) and include details about which stakeholder groups are on board.

   This ability to adjust one’s own style to suit different stakeholder preferences is one of the leading ways to build effective relationships. Another way is to intentionally leverage one’s own differences in a way that is complementary to someone else’s tendencies. So, for instance, a Driver CFO working with a Pioneer CEO can participate in the brainstorming that a Pioneer loves, but also bring a helpful data lens to complement the Pioneer’s more intuitive natural position.

2. **Manage team strengths and weaknesses**

   The complementary potential of different personality patterns should come as no great surprise. In fact, effective teams have both diversity – a mix of the four types – and an awareness and ability to leverage that diversity.

   That doesn’t happen automatically, of course. In some instances, individuals are drawn to – and therefore hire – others of their own personality type. Other times, teams have diversity, but are unaware of its value, leading to misunderstandings and conflict. For CFOs, this suggests two related questions. First, what is the personality composition of my team? And second, how can I use that composition to promote effective team coordination and broader organizational engagement?
To address these questions, consider the following steps:

a. **Observe and hypothesize.** Based on observable behaviors, what personality patterns are represented on my team? (See Figure 2 “Engaging with others.”)

b. **Identify gaps.** Are there gaps that will pose risks to achieving our goals? Do we have strategies to mitigate potential blind spots?

c. **Leverage strengths.** What strengths exist relative to achieving our goals, and how can we get the most out of those traits?

d. **Celebrate diversity.** How can we recognize personality differences and leverage complementary traits where they exist?

Once a team is profiled, CFOs can build on existing strengths and introduce processes to combat potential pitfalls – and in the process possibly shift the perception of finance for the better within their organization.

In a way, you can think of personality as you would language. Not everyone “speaks” the language you are fluent in, but many of us are capable of learning other languages (or personalities in this case). By training yourself to look for a few important behaviors, you can quickly hypothesize what personality/language someone else is speaking.
3. Flex to multiple roles
At first glance, many of the traditional CFO responsibilities seem to map neatly to the Guardian pattern: preserving the organization’s assets, getting the books right, minimizing risk, and so on. And indeed, many CFOs say that their stakeholders often assume they’re Guardians, simply because of their role. But this is problematic for two reasons.

First, not all CFOs are Guardians. Those aligned more closely with other patterns often struggle with a misperception about how they ought to engage or feel the need to play to the stereotype. Second, although the stereotype around what a CFO “should be” persists, the reality is that today’s CFOs are expected to play roles that go beyond the traditional “Operator” and “Steward” categories and require skills other than those associated with Guardians.

Still, since everyone is a mix of patterns, even if a CFO is dominant in the Guardian pattern, he/she can dial up secondary traits as needed. And where there is truly a gap, extra effort may be needed to occasionally do something that doesn’t come naturally to meet

Figure 2 – Engaging with others
Below are a few tips for dealing with each Business Chemistry personality type:

<table>
<thead>
<tr>
<th>Driver</th>
<th>Pioneer</th>
<th>Integrator</th>
<th>Guardian</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Be confident and sit back casually.</td>
<td>• Be lively; mimic their energy and optimism.</td>
<td>• Listen actively, lean forward, make eye contact.</td>
<td>• Present concrete facts, demonstrated principles, established practices.</td>
</tr>
<tr>
<td>• Be brief; get to the point, and head straight for the goal.</td>
<td>• Explore their ideas.</td>
<td>• Be friendly, authentic, personal.</td>
<td>• Be orderly, calm, unemotional.</td>
</tr>
<tr>
<td>• Recognize their achievements and leadership abilities.</td>
<td>• Emphasize freedom and adventure.</td>
<td>• Think contextually, long term.</td>
<td>• Make and stick to plans.</td>
</tr>
<tr>
<td>• Don’t criticize yourself.</td>
<td>• Let them shine.</td>
<td>• Balance facts with ideas and emotions.</td>
<td>• Appreciate their need for details.</td>
</tr>
<tr>
<td>• They like to spar; don’t be afraid to fight back.</td>
<td>• Be daring.</td>
<td>• Offer support.</td>
<td>• Be patient with their many questions.</td>
</tr>
<tr>
<td>• They enjoy puns and paradoxes.</td>
<td>• Present imaginative materials – more theory, less detail.</td>
<td>• Reveal yourself (to bond with them).</td>
<td>• Minimize risks and uncertainties.</td>
</tr>
</tbody>
</table>
a particular need. After all, no capability is limited to a single type, meaning everyone is capable of being detail oriented or logical or collaborative.

**Small steps, big results**
In a way, you can think of personality as you would language. Not everyone “speaks” the language you’re fluent in, but many of us are capable of learning other languages (or personalities in this case). By training yourself to look for a few important behaviors, you can quickly hypothesize what personality/language someone else is speaking.

For example, to develop a hypothesis of someone’s personality type, look for shared traits. Drivers and Pioneers, for example, are tolerant of both risk and conflict and are generally quick decision makers; Integrators and Guardians, on the other hand, are risk- and conflict-averse and make more deliberate decisions. Specific words also offer clues to personality preferences. For example, if someone says, “trust and integrity” or makes continued mention of “risks,” you can hypothesize that they may be high on Guardian; common use of the term “cooperate” is a natural word choice for an Integrator.

Implementing just a few basic principles of Business Chemistry can create better alignment within your teams, better engagement and relationships with your stakeholders, and a better understanding of how to change perceptions and build credibility within your role. Doing this well is not only about creating a personal advantage, but creating a competitive advantage as well. ●
6. Assertiveness

Making decisions that matter
Considering the high likelihood that bad decisions are often made in the organizations, CFOs and CIOs should seek to become familiar with the nuances of the behavioral economy, which studies the human fragility mechanisms that cause people to make wrong choices.
Bad decisions are made in organizations every day. Whether it’s squishy goals, competing interests, bad assumptions, not enough time, insufficient information, or simply not enough talent, there are countless ways to miss the mark.

On some level, making bad decisions is unavoidable. No one can always be right. But leading companies tend to make fewer bad decisions, especially when it comes to those that can drive or destroy significant value – decisions that matter.

How do they do that? Those organizations understand that decision making is a distributed function involving lots of different people throughout the organizational hierarchy. But they also recognize that there are two executives with the knowledge to help their organizations improve decision making: chief financial officers (CFOs) and chief information officers (CIOs). In this chapter, we will look at opportunities for these two leaders to collaborate and drive more effective decision-making throughout their organizations, as well as the barriers they face in making good decisions in the first place.

The dynamics of decision-making
Over the past few decades, the science of decision making – behavioral economics – has uncovered many mechanisms of human frailties that can contribute to bad decision making. Drawing on insights from neurology, psychology, economics, and beyond, behavioral economists paint a humbling picture: We are all just people, and people do not always act rationally (see Figure 1). And when you add in the complexity of post-digital disruption – the deluge of data enabled by social, mobile, and cloud technologies – the decisions that matter may become more complicated than ever.

Improving the quality of decisions, therefore, should begin with an understanding of the biases inherent in decision-making. These biases occur at the individual, group, and organizational levels.
Individual level. These behavioral biases are the result of deep psychological dimensions that can lead to predictable patterns of poor judgment. They include such blind spots as framing biases and overconfidence.

Group level. Pitfalls at the group level usually involve a lack of clarity around decision rights. Specifically, teams often move forward on important decisions without explicit agreement on the who, what, and how of decision-making.

Organization level. At this level, decision effectiveness becomes a matter of execution. A transparent approach to communicating and implementing decisions is important. Within and across each of these levels, all sorts of biases and blind spots have the potential to disrupt effective decisions. They are often revealed when people are asked to assess information, develop estimates, or make assumptions.
Decision quality: Point of impact for CFOs and CIOs

Of course, many decisions that matter involve all three. To implement an effective pricing strategy, for example, requires assessing information from a multitude of competitors. To set appropriate targets for future hiring requires developing adequate estimates for growth. And making new capital investments depends on making assumptions about timing, markets, and the cost of capital. Yet, while every organization is different, it is possible to construct a working list of typical decisions that matter across organizations and see where input from both CFOs and CIOs could thwart potential biases and blind spots.

The following list of decisions that matter is only a partial one, but includes decisions a) where people can act more wisely with an effective decision-making infrastructure in place, and b) are important enough to seriously impact value creation (see Figure 2). And while CFOs and CIOs are not personally responsible in every area, their roles can significantly influence those who are.

Organizations understand that decision-making is a distributed function involving lots of different people throughout the organizational hierarchy. But they also recognize that there are two executives with the knowledge to help their organizations improve decision making: chief financial officers (CFOs) and chief information officers (CIOs).
## Figure 2 – A sampling of decisions that matter

<table>
<thead>
<tr>
<th>Decision category</th>
<th>Decision that matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital projects</td>
<td>Which investments should we make in new capital projects? What should capital be allocated across asset classes or capital outlays? Which projects should we retire from our portfolio?</td>
</tr>
<tr>
<td>Technology strategy and investments</td>
<td>Which investments should we make in new IT projects? What technology investments should be made across the organization?</td>
</tr>
<tr>
<td>Enterprise planning</td>
<td>What is the appropriate budget for an enterprise over a given time horizon? Which strategic plans do we need to have in place to achieve our goals?</td>
</tr>
<tr>
<td>Pricing</td>
<td>What is the most effective pricing strategy relative to our competitors? When should we modify our pricing strategy to respond to changes in our competitive environment?</td>
</tr>
<tr>
<td>Supply chain</td>
<td>Which strategies and practices should be in place for moving the right product to the right place at the right time? What are the most effective direct and indirect sourcing and procurement strategies for reaching our goals and satisfying customers? How can we improve sales and operations planning while achieving supply chain flexibility?</td>
</tr>
<tr>
<td>Organizational strategies</td>
<td>What are the vision, mission, and values of our organization? Which operating model is preferred for our organization? What is our talent management strategy?</td>
</tr>
</tbody>
</table>
The CFO as catalyst

To positively influence decision making, however, CFOs and CIOs should be well versed in the nuances of behavioral economics. Having structured processes in place is not enough to determine good decisions. Even with your most knowledgeable people and leading processes, blind spots and biases can still negatively affect decisions that matter. Part of the problem is that in business seeking insights from others on big decisions is often viewed as a sign of weakness. Bold confidence tends to be rewarded more than careful deliberation, even when the confidence proves to have been misplaced. Look into the fast-paced frenzy of mergers and acquisitions, where half of all transactions fail to produce the expected value.¹ The truth is, though, that almost any decision that matters can be undermined by common human biases, group dynamics, and organizational blind spots. A CFO’s perspective and insight, in particular, can help mitigate those risks. In fact, in their roles as catalysts.² CFOs have the opportunity to lift overall performance and create value through better decisions. The role can be bolstered by the following attributes:

Instinctive objectivity. Like anyone, CFOs have biases. Yet, because of their roles and formal responsibilities, they bring an inherent objectivity to business. They are independent from many strategic business decisions, even as they support those decisions with analytics, insights, and data.
Central to performance management. CFOs are responsible for understanding past, present, and future performance. Moreover, they are tasked with driving an organization-wide understanding of performance drivers. And since finance organizations are capable of drawing connections between business decisions and results, CFOs are well positioned to distinguish which decisions produce results.

Masters of tradeoffs.
Understanding and evaluating tradeoffs is an important part of making effective decisions. It is also an activity in which CFOs often excel, because weighing costs and benefits is routine in the finance organization, as is the job of increasing returns while reducing risks. If you really want to understand how tradeoffs work, ask a CFO.

The illusion of validity
Acting as a catalyst for smarter decision-making throughout the business, however, starts with a CFO understanding his or her own biases. As CFO, though, there is a good chance those personal blind spots and biases have already kicked in. Confident in their own objectivity and analytical abilities, some CFOs may have already decided that improving how their organization makes decisions is not an immediate priority. They may even believe that their organization is significantly better than average, and that they can live with the cost of a few bad decisions. Such is the bias of overconfidence, one of the darkest of blind spots covered by behavioral economists, such as Daniel Kahneman, who noted: “The confidence we experience as we make a judgment is not a reasoned evaluation of the probability that it is right. Confidence is a feeling, one determined mostly by the coherence of the story and by the ease with which it comes to mind, even when the evidence for the story is sparse and unreliable. The bias toward coherence favors overconfidence. An individual who expresses high confidence probably has a good story, which may or may not be true.”3
Still, even CFOs confident enough to improve decision-making will bring their own biases to every decision. Moreover, their biases are backed by the considerable weight of the CFO title, which can be an intimidating presence to colleagues at every level of the organization. But by focusing on the following three areas, CFOs can start to weed out biases that undermine value:

1. **Sharpen.** Get smart about the most common mistakes organizations make regarding decision making – with a specific focus on your own organization’s performance, biases, and culture. For a CFO, that means listening to those involved in the process and actually understanding how they think and execute. Then, armed with their insights, CFOs can pinpoint areas of potential weakness and create targeted contingency plans to keep decisions on track.

2. **Shape.** Revisit your organization’s framework for making decisions with an eye toward applying it broadly and deeply across the enterprise. Decisions should not be confined to business units, for example, when the issues they address extend cross functionally. This may eventually require instituting a shared language that addresses the most common biases and blind spots in your organization. In addition, be sure to shape the framework so that it is relevant for decisions made by individuals (reflecting personal biases), groups (reflecting the need for decision rights), and the broader organization (where analytics and execution come into play).
3. **Show.** Lead by example using the framework and language in everyday decisions. This will include enlisting your own personal decision advisor – a partner you can count on to shine a bright light on your own individual biases and blind spots. As your advisor, this wingman can remind you not to be completely wedded to the numbers in the decision making process. You may want to be precise in making a decision, but relying on only the numbers can turn out to be the precisely wrong approach.

For CFOs looking to improve the quality of decision making in their organizations, there are plenty of peers who can help. But there may be no better door to knock on first than the one that says “CIO.”
The CIO connection
Many CFOs have found a willing partner in the CIO – a person who can bring several specific, powerful capabilities to the table. Central to those capabilities is the ability to identify and deliver the right data at the right time to run the business. Not only do CIOs traffic in the currency of data every day, they typically bring a completely different way of thinking about that information. For CFOs itching to eliminate their blind spots, CIOs can be instrumental, particularly in the following areas:

Big data. As business leaders try to crack the code on big data, the tools and skills at the CIO’s disposal have begun to take on new relevance. Whether the challenge is to simply capture these immense and complex data sets, or to analyze and visualize the underlying data in new ways, CIOs can be instrumental. When it comes to making smarter, more informed decisions, big data represents a potential windfall – but only if you know what to do with it.

Information visualization.
Information visualization is another area where CIOs can bring a lot of value. As organizations push decision-making information out to the broader workforce, they should improve how that information is presented. CIOs are at the forefront of visualization and user experience. To get an idea of the impact that better visualization could have on CFO-supported decision-making, consider the example of heat maps – a “Doppler radar” view of business issues that allow decision makers to make complex associations using a series of simple, intuitive maps.
Predictive analytics. The practice of business analytics is moving quickly from hindsight to insight to foresight – particularly the ability to predict what will likely happen, using a mix of current and historical data, as well as information from external sources. While this is certainly not only a technological challenge, technology has a big role to play, and CIOs are important partners to the CFO in effectively leveraging data management and business-intelligence techniques for fact-based and predictive decision-making.

A call to excellence
The cost of poor business decision-making affects companies every day. Even organizations with leaders who know better often fail to avoid some of the most basic errors. Moreover, individuals and groups tasked with making decisions are sometimes simply not able to self-correct for their biases. For CFOs looking to improve the quality of decision-making in their organizations, there are plenty of peers who can help. But there may be no better door to knock on first than the one that says “CIO.”

Notes
1 Bloor Research, November 2007; Deloitte 2000: (Solving the mystery, Maximizing the payoff of M&As)
2 Four Faces of the CFO; Deloitte CFO Program
3 Don’t Blink: The hazards of confidence; Daniel Kahneman, New York Times, October 2011
7. Technology

IT through CFO’s lens
Evaluating IT is no simple matter. It requires focus on three specific areas – communication, governance and assessment – to create an overall framework for analyzing current and future IT capabilities.
Ask finance chiefs about their frustrations with information technology (IT), and you are bound to get an earful. Excessive investments made. Multiple deadlines missed. Little return on investment (ROI) achieved. The list goes on.

To complicate matters, many CFOs simply do not know if chief information officers (CIOs) are doing a good job. What exactly does a good IT organization look like anyway? How should IT be evaluated? And what are the trouble signs that the enterprise is not prepared for the future from a technology standpoint?

The answers to these questions take on greater importance given that IT is typically the largest line item in selling, general, and administrative expense (SG&A). Moreover, with CIOs reporting to CFOs in greater numbers – a full 45% at large companies, according to our CFO Signals™ – there is a growing need to effectively manage the CFO-CIO relationship.

Evaluating IT is no simple matter. It requires focus on three specific areas – communication, governance and assessment – to create an overall framework for analyzing current and future IT capabilities. In this chapter, we’ll discuss how steps taken in these areas can help enhance collaboration between CFOs and CIOs and identify the gaps in IT’s business support capabilities, focus IT investments, and strengthen the future vision of IT value.

Target communication – and miscommunication

One of the main challenges between finance and IT is communication. CFOs often focus on business financials; CIOs often focus on business capabilities and enabling technology. CFOs often fault their CIOs for not fully aligning IT projects and spend with company strategy and value creation – a dynamic that makes getting a handle on IT priorities and technology spending particularly important for CFOs. CIOs can likewise be challenged by cost-cutting CFOs who may not realize how deferring spending today
delays time-to-value and may limit future options. Simply put, this lack of a common point of view and means of communication between CFOs and CIOs can lead to a fundamental disconnect that hinders effectively investing in, and realizing value from IT.

To address this disconnect, CFOs and CIOs should establish a common language for assessing and communicating how IT creates business value. Specifically, the conversation should focus on how IT improves business processes, such as product development and pricing, rather than just talking about a specific technology or system. And for each critical process, CFOs and CIOs should agree on the value of both the “I” and the “T.” To wit:

**Target relevant information.** On the “I” side, how does information enable better process outcomes or decisions in the process? Is the information generated by specific systems to support the process timely, accurate, insightful, and relevant to enable value creation?

Many CFOs simply do not know if chief information officers (CIOs) are doing a good job. What exactly does a good IT organization look like anyway? How should IT be evaluated? And what are the trouble signs that the enterprise is not prepared for the future from a technology standpoint?
Agree on the appropriate technology. On the “T” side, how does the technology enable automation and reduction in manual effort to save costs? Is there sufficient transparency for the cost of providing IT services? Does it enable business areas to make important trade-off decisions? Will the technology choices enable scalability of process outputs dialing up or down to meet businesses demand efficiently? Will the technology be interoperable with other technologies at low costs? Is the technology reliable, leading to high availability of the process with low maintenance? How soon will technology obsolescence have to be addressed?

By focusing on how improvements in “I” and the “T” enable value and mitigate risks in tangible business processes, CFOs and CIOs can establish a shared language for evaluating IT. As many CFOs typically assign performance metrics to specific business processes, those measures can become another component of the language needed to assess IT.

Is IT working well?
There can be several warning signs that IT is not functioning as well as it should. Some useful questions of IT include:

1. Have you tested your disaster plan? Many IT departments may say that they have a disaster plan, and as CFO you may very well have been involved in finalizing it. But you might be surprised if you asked a very simple question: Have we tested the backup facility? While the nuts and bolts of a disaster plan may look good on paper, some IT departments are not regularly testing backups.
2. Who own the IT budgets?
A traditional view would be that it makes sense for the IT budget to be controlled by IT. But while the technology pertinent to core infrastructure should be IT driven, the application side may be better controlled by business units. Such a structure also allows for decisions to be processed through the IT governance committee, which can referee disagreements among business units over IT priorities. At the same time CFOs should work with CIOs to balance the risk of proliferating non-standard applications across business units.

3. Is the release schedule of your systems readily available?
As CFO, do you or specific members of your staff know the release schedule of your systems? Is it handily available on your or their computers? Since such releases can impact everything from on-boarding new employees to remaining in regulatory compliance, you need to know what is coming down the pike and when.

4. Does your vendor-management strategy guard against critical knowledge being lost?
Vendors may be integral to your IT strategy, but you need to take steps to prevent them from minimizing future flexibility. Outsourcing of critical systems can especially lead to losses of critical workers and know-how from the company. Outsourcing technology demands an effective vendor and project management organization in IT, supported with the applicable funding and oversight. A strong vendor management capability is essential to effective delivery of services. It can also be an area of opportunity for CIOs to generate future savings and partner with CFOs.
Establish effective IT governance

CFOs and CIOs can help to improve the evaluation of IT by establishing broad, organization-wide governance models for major IT spending decisions. Such a model – with the appropriate stakeholders – can lead to joint ownership and better resource allocation, commitment to, and execution of, IT projects.

Effective governance models are likely to have two levels: one for strategic IT governance around long-term strategic initiatives and the other for individual projects. The first level should address how IT will support the business in the future and enforce discipline around large-scale IT investments that position the company for competitive advantage. Responsibility for this level of IT portfolio governance should be shared between the businesses and the CIO. CFOs can help CIOs to establish effective governance systems that serve their mutual interests for effective and efficient delivery of IT capabilities to the enterprise. To judge the effectiveness of the governance system, CFOs should be guided by the following questions:

The CIO’s choices can frame what they are optimizing to – a completely rational architecture or one that can drive increasing stability in the organization. It may not be radical. It may not be world-class. But, in some cases “really good” may be the “good enough”.
• Are you as CFO and other members of the C-suite involved in determining IT spending and development priorities?
• Do major IT projects have a clear ROI that is documented, measurable, actively managed, and do they improve delivery of specific processes?
• Do approved IT projects help with both our long-term business – and long-term IT – objectives?
• Are our IT initiatives creating (or at least sustaining) competitive advantage?

A second level of governance needed is for individual projects. Such tactical IT governance allows CIOs to get the relevant users onboard for specific projects and keep them on track. Moreover, such oversight at the project level allows problems to be identified – and fixed – in a timely fashion. Finance can be a partner with IT on this level of governance.

**Stabilizing value creation**

Having a common process language and robust governance in place can lay the groundwork for assessing current and future IT architectures – from a business process standpoint. To make that assessment for your current environment, start by benchmarking five or ten important processes. From there, develop a heat map to frame how well IT supports each of those projects, using questions that focus on the “I” and the “T.”

As mentioned earlier, the first set of those questions addresses the quality of information supporting each business process. For example, is the information timely? Is it relevant? The second set targets applications and technical infrastructure that run the organization’s business processes. For example: How well do current applications support the business processes? How standardized is the application portfolio and associated processes? The third set targets technology risks. For example: What risks do we have from potential technology obsolescence? How prepared are we to recover from outages and disasters? *(See the box “How to frame your IT and process heat map” on page 83)*
Equipped with a heat map of IT capabilities and vulnerabilities at the process level, CFOs and CIOs can develop a shared view of critical gaps they need to consider fixing as well as how IT can drive the business impact through improving processes. Before spending money to address the gaps, finance should sit down with the process owners and the CIO to determine the business value and the cost-benefit of improving specific gaps in a business process. CFOs should ask their CIOs and process owners what it will cost to fix specific gaps, as well as what it will cost if the gaps are not addressed. Opportunity cost is a critical piece of IT spending governance.

The last critical area that needs to be governed is what the future architecture should actually be. In IT, knowing what the end will look like can fend off cost overruns and major disappointments. But that future architecture often looks different to different people. Your vendors, for example, might offer the rallying cry of “one ERP system.” On the other hand, your CIO may believe that it is too early to tell. After all, the technology required to execute your specific strategy may not be invented yet.

As CFO, you may need to determine if funding the unknown or a big-bang solution is actually prudent. That is even more critical considering that the benefits of evolving your current architecture may be more than enough already. Often, the systems you choose to fix typically offer an added benefit: stability.

If you accept the reality that there will probably be cuts and bleeds involved in IT, then an iterative improvement solution is maybe the best a company can hope for. The CIO’s choices can frame what they are optimizing to – a completely rational architecture or one that can drive increasing stability in the organization. It may not be radical. It may not be world-class. But, in some cases “really good” may be the be the “good enough”. The funding challenge for CFOs is to determine when good enough works versus the need for radical overhaul or replacement of existing systems. 


Building a heat map of IT capabilities and vulnerabilities involves asking a series of questions of IT and business-process owners focused on the “I” and the “T.” Answering these questions creates opportunities to use IT to create value in critical processes.

The first group of questions should address the quality of information supporting each business process. For example:

- Is the information timely? Relevant? Accurate? Insightful?
- Are we leveraging external data to our advantage?
- Do we have a common data model with consistent definitions so that one version of the truth exists throughout the organization?

The second group of questions targets the applications and technical infrastructure that run the organization’s business processes. For example:

- How well do current applications support the business processes? What is the range of coverage? What level of process automation have we achieved?
- How standardized is the application portfolio and associated processes? What opportunities exist to drive operational efficiencies from greater standardization?
- How efficiently are we using IT assets?

The third group of questions targets technology risks to the organization. For example:

- What risks do we have from potential technology obsolescence?
- In the event of a merger, are there any significant barriers to integrating other IT systems?
- How prepared are we to recover from outages and disasters? Do we have recovery plans defined? Are they tested regularly?
- What are the biggest business exposures if IT systems experience unplanned outages?
- What risks exist with major IT suppliers?
8. Growth

The sustainability imperative
CFOs tend to increasingly recognize the importance of initiatives in benefit of sustainability, both for the organization and within his/her own portfolio of responsibilities. For this very reason, CFOs should assume a key role in implementing the sustainability agenda in their organizations.
Who could blame some chief financial officers (“CFOs”) for letting sustainability slip as a strategic priority? Given the recent financial crisis, many CFOs have had other priorities – or more accurately, imperatives – in the last few years, such as liquidity and sometimes even survival.

That is not to say CFOs are not keenly aware of the tactical implications of sustainability. According to a released Deloitte study of over 200 global CFOs, finance chiefs know well what sustainability means for their “mainstream” duties. In fact, more than 70% of those surveyed expect sustainability to have an impact on compliance and risk management, and more than 60% foresee changes to functions such as financial reporting.

Still, the study – Sustainable Finance: The risks and opportunities that (some) CFOs are overlooking – also found that almost one-third of CFOs (31%) indicated they are either rarely involved or not involved in sustainability strategy and governance. In addition, 43% of the respondents indicated that they either do not expect their involvement to change or expect it to be reduced over the next two years (see Figures 1 and 2).

Given the opportunities for increased revenue and reduced costs associated with sustainability efforts, however, it would appear to make sense for finance to steer the strategic course of their companies’ efforts. Moreover, given the risk issues involved in sustainability, CFOs are the logical point persons on these issues, particularly vis-à-vis the board.

In this chapter, we discuss how finance executives can embrace the strategic imperatives of sustainability.
A challenge to be led by CFOs

The Deloitte study points to a need for CFO involvement in setting sustainability strategy. Take the outlook for capital investment in sustainability. Nearly half of those surveyed are planning investments in equipment for increasing energy efficiency, generating on-site renewable energy, or reducing industrial emissions. And when you consider the total spending on sustainable business programs by large companies globally, the case for CFO oversight is clear.

The increasing importance of this issue to stakeholders is also not lost on CFOs. In fact, more than three-quarters of survey respondents indicated that it is important or very important to communicate about sustainability to shareholders and institutional investors. And more than half said that sustainability is an important or very important topic of communication with all the stakeholder groups named in the survey, including suppliers, policymakers, and customers.
Moreover, CFOs are embracing their roles as de facto risk officers in the area of sustainability. Nearly three-quarters of those surveyed reported plans to assess compliance and enterprise risks related to sustainability issues, and almost two-thirds plan to assess sustainability risks to physical assets. These findings are encouraging. If CFOs can frame sustainability risks in strategic terms, they can better help management teams mitigate risks and take advantage of the openings that risks can create.

A world of difference
The importance of sustainability to the CFO is not viewed uniformly around the globe. The Deloitte study above mentioned interviewed finance chiefs in 10 countries, and the results highlight both industry differences and the impact of country regulations. Some of the specific variances include:
1. **China.** Recently, there has been a striking turnaround in official Chinese attitudes toward – and investment in – sustainability. For example, the current five-year plan focuses on energy and climate and calls for dramatic moves to reduce fossil energy consumption, promote low-carbon energy sources, and restructure China’s economy. It may seem possible that these official attitudes will eventually affect Chinese-company CFOs, but it will take a while. According to the survey, Chinese respondents were least likely to name the CFO as responsible for sustainability strategy (overwhelmingly naming PR/investor relations). None saw themselves as “fully involved” in sustainability strategy and governance, and almost half expected this not to change in the next two years.

2. **South Africa.** Perhaps because of South Africa’s King III Code on corporate governance, which recommends that companies create sustainability reports, and new rules for listed companies on the Johannesburg Stock Exchange that require integrated financial reports that detail environment impact, CFOs surveyed there were most likely to identify themselves as responsible for sustainability strategy and to anticipate seeking external support for integrated reporting (70%) and assurance (60%). Within the countries surveyed, South African CFOs were the most likely to be fully involved in sustainability strategy (50%), to expect to become significantly more involved (35%), and to perceive a strong link between sustainability strategy and firm performance (70%).
3. **Europe.** In Europe, CFOs from France, Germany, and the U.K. were surveyed and their responses varied despite their geographical proximity. For example, in Germany, only 24% of CFOs report being fully involved in sustainability strategy, but 32% of CFOs in France do, and in the U.K., the number rises to 44%. Among those countries, CFOs in the U.K. also perceive the strongest link between sustainability strategy and firm performance (40%) compared to Germany (36%) and France (24%).

5. **U.S.** In the U.S., only 19% of CFOs in the survey report that they are accountable to the Board for sustainability strategy. But, almost 60% expect to become either slightly or significantly more involved in sustainability strategy and governance in the next two years. In the meantime, U.S. CFOs are taking action on multiple fronts to manage the sustainability and climate change risks facing their businesses: In 2011, those intended actions included enterprise risk assessments (84%); physical asset risk assessments (77%); compliance risk assessments (74%); and supply-chain risk assessments (71%).

6. **Brazil.** Sustainability in Brazil has become increasingly frequent in CFOs’ agenda. This is due to a set of initiatives, local and international, that have been disseminated in the market. These initiatives include the international framework proposed by the International Integrated Reporting Council (IIRC), whose main objectives are bringing to discussion the creation of finance value for the organizations, which is only possible and feasible if the initiative is disseminated by all senior management members of the companies.
At the local level, Brazil, through its Central Bank, was the first country to require the preparation and implementation of an Environmental Liability Policy (“PRSA”), whereby financial institutions should manage, together with the other risks (credit, operating and market), environmental risks that may impact directly or indirectly its reputation and image. According to PRSA guidelines, the direct involvement of the senior management is a key and decisive factor for the strengthening of the finance industry and, consequently, of the other industries which can ultimately be leveraged by these new requirements.

The due date for PRSA adoption by the financial institutions ends in June 2015. The expectation is that, once the requirement to prepare and implement sustainable practices is adopted by the finance industry, it will be expanded to other industries, reinforcing the importance of preserving the natural resources and respecting society.

CFOs will increasingly recognize the importance of sustainability initiatives for its portfolio of responsibilities and will play a greater role in conducting these initiatives.
Embracing sustainability strategically
There are recommended actions that CFOs can take to leverage sustainability as a strategic priority, regardless of country or industry. Consider your responses to the following questions:

1. Have you fully worked through the basics of sustainability management for your finance function? For CFOs, this means incorporating a sustainability dimension in day-to-day functions such as internal controls (over sustainability information), compliance with tax regulations, and pursuit of tax incentives (such as those for green initiatives), and performance measurement and reporting (of financial and nonfinancial indicators).

2. Do your processes for capital investment and M&A/divestitures anticipate shifts to a sustainable economy? Only 29% of respondents in the Deloitte survey indicated a belief that M&A activities would be affected by sustainability — indicating a possible blind spot. Deal analysis should incorporate scenarios where energy and commodity availability and pricing vary greatly. In addition, on capital projects, CFOs can expect tougher questions from lenders, many of whom are signing pledges such as the Equator Principles, which oppose the financing of projects that are seen as likely to cause environmental harm.
3. Do you understand your company’s positions in markets linked to the environment? The prices of energy and materials are experiencing unprecedented volatility. Many companies also have exposures in new classes of environmental commodities: carbon emissions, water, forests, and ecosystems. As markets for these commodities take shape and set prices, the impact to your company’s income statement and balance sheet could be enormous.

4. Do you know what sustainability questions your company’s stakeholders are asking – and do you have answers? More and more stakeholders are making decisions based on companies’ sustainability performance, as reflected by the growing market share of sustainability-sensitive investors, the proliferation of codes of sustainable business conduct, and the widening acceptance of voluntary standards for reporting sustainability performance.

5. Do you have the right team to address this set of crucial emerging issues? Many sustainability-related duties require specialized knowledge and training. As the heads of sizable teams, CFOs must consider preparations to recruit, develop, and deploy staff members who can carry out both traditional finance tasks and tasks that support corporate sustainability programs. The vantage point that CFOs enjoy within organizations, with visibility onto balance sheets, corporate transactions, and the entire business, means that they are positioned to shape strategy as well as carry out core finance functions. In our view, CFOs will increasingly recognize the relevance of sustainability initiatives to their portfolio of responsibilities and seek a greater role in driving those initiatives.
About the CFO Program
Bold initiatives and insights for one of the toughest jobs in the world

Deloitte holds globally the CFO Program, a relationship and eminence initiative for finance executives that focus on developing relevant thoughtware and offering of a complete breath of services for CFOs.

The Program harnesses our organization’s broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO’s career – helping CFOs manage the complexities of their roles, tackle their company’s most compelling challenges, and adapt to strategic shifts in the market.

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands.

For more information about the program, mail to cfoprogrambrasil@deloitte.com or go to our website at www2.deloitte.com/cfoprogrambr.
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