

CFO Insights

What is keeping CFOs up at night?

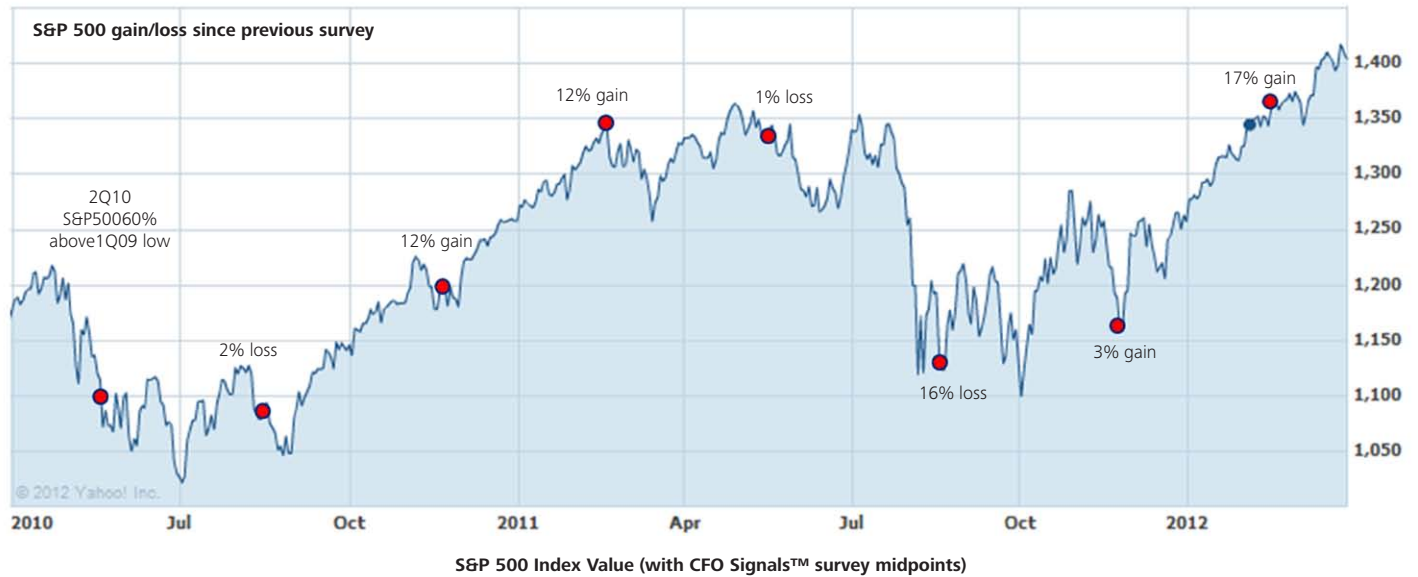


The pressures on CFOs are enormous — and mounting. Some, such as ongoing external volatility, are obvious, while others, such as time creep, threaten the overall performance of finance itself. In the Deloitte¹ U.S. CFO program, we have a good handle on which pressures are bubbling to the top and which may bubble over. And in this issue of *CFO Insights*, we share a list of CFO core concerns gleaned over the past two years from conversations in our regional CFO Forums, which currently number 77, our 100+ CFO Transitions Labs, and our quarterly *CFO Signals* survey, which captures the thinking of CFOs representing North America's largest companies.² Individually, each concern signifies an area of subject matter expertise that finance must deliver; taken together they illustrate just how crucial finance leadership is to the day-to-day operation of any organization.

- 1. Global volatility.** Over the past few quarters in the CFO Signals surveys,³ there has been a strong shift away from U.S.-centered ways of thinking about finance's most worrisome risks to a wider global aperture. The multiple twists and turns of the European sovereign debt crisis and the overall global economic malaise are the main drivers behind this shift. For CFOs, there are significant risks involved with the possible unwinding of the euro and the amount of exposure to U.S. banks, which may lead to another credit crisis. In addition, the current cooling of emerging markets, such as China, and how that may affect consumer demand also weighs heavily on finance executives, as do the continuing conflicts in the Middle East, which could affect input prices and the larger global economy.
- 2. Fragility of the U.S. recovery.** Still, for North American CFOs, the U.S. economy remains a concern because of the effects of slow growth and high unemployment on consumer demand. In particular, the prolonged downturn in the housing market has tempered finance executives' optimism and enthusiasm over the economy and consumer sentiment. That concern is manifesting in CFOs' projections for sales, which have lagged earnings projections in the CFO Signals survey now for the last eight quarters.
- 3. Identifying the right growth strategies.** While CFOs still seem to think they can wring more savings out of cost-cutting initiatives, they are seeing diminishing returns from those efforts. That is shining a brighter spotlight on finding growth. One in five, in fact, say they are actively pursuing major transformational deals, according to the Q1 2012 CFO Signals survey, and more than half are looking to make smaller deals. At the same time, organic growth remains in favor, with the focus overwhelmingly on generating synergies and scale efficiencies. When they do look at emerging markets, China remains a prime target. And one of the interesting takeaways from a recent series of CFO Forums (organized by Deloitte) focused on doing business in China, in fact, was that regardless of what industry you are in, China will have an impact on your business. That impact may extend to incremental markets for products, additional customer base, alternative financing sources, and even pricing of raw materials.
- 4. Execution missteps.** Given external uncertainty, CFOs are focused on helping their organizations assess the broader environment, determining which decisions should be made now, and getting their organizations focused on the necessary strategies. But CFOs tell us they are worried about their organizations' ability to implement those strategies. In the Q3 2011 *CFO Signals* survey, when we asked about what strategic risks CFOs are most worried about, almost 70% indicated that their strategies were not well-enough (re) defined, and 28% indicated strong concerns. Moreover, 60% worried about the adaptability of their strategy as conditions change, and when it comes to implementing new strategies, 85% said they were concerned about their organizations' abilities to execute them.

Figure 1. What is driving some of CFOs' core concerns?: 2+years of macroeconomic ups/downs

Recovery (all boats rising)	Stalling recovery	Shift to growth	Growth focus	Growth challenges	Fears from Europe/debt	Global fallout	Relative stability
Economic stimulus	Economy/employment flattening Greek debt issue appears	Macro indicators trending mildly upward	"All boats rising" recovery losing steam	Greece/Europe becoming bigger problem Japanese tsunami and Middle East unrest Economy slowing	Escalation of Europe and sovereign debt U.S. debt deal and S&P downgrade Economy/employment stagnating	Rising Europe/debt issues; emerging markets cooling U.S. economy/employment stagnating Social unrest rising	U.S. economy stabilizing (?) Europe economy/debt stabilizing (?)



5. Hiring stalemate. Employment or lack thereof is proving to be a double-edged sword for CFOs. While they are worried about the major consequences unemployment has on consumer spending, CFOs are not planning to increase hiring any time soon. In fact, the hiring projections have hovered around 1% and 2% since the launch of the *CFO Signals* survey. Instead of adding full-time hires, CFOs are continuing to clean up their balance sheets and execute capital projects often through outsourcing techniques. Many indications are that they are waiting for a more positive direction from the economy before adding full-time employees. And that shift has to be pronounced: it would take a 20% sale gains year over year for 50% of CFOs to hire substantially.⁴

6. Cash deployment/liquidity management. Many large companies ran into this recessionary period with more cash on hand than ever before and then responded rapidly to control costs and restore earnings. As a consequence, many companies have been able to grow their cash positions and lower their debt numbers. In addition, many large companies have recapitalized at very low interest rates and that also lowered their cost of capital. It also allowed them to outrun their competitors thanks to a market bifurcation that forces companies with poor balance sheets to raise new capital at higher rates. As for their growing cash coffers, CFOs may feel pressured to return cash to shareholders in the forms of dividends and buybacks, but when asked about their cash deployment plans, they remain committed to allocating almost a quarter to liquidity.⁵

7. Wildcard risks. The impact of a black or grey swan event is something CFOs continue to worry about — and should prepare for. Companies with operations in Europe, for example, should plan for additional surprises and residual effects stemming from the euro situation. In addition, a conflagration in the Middle East could affect oil supplies and create global instability and demand reductions for an extended period. CFOs may want to consider hedges against increases in oil prices and contingency plans for reducing output efficiently in the event worldwide demand falls.

8. Government policy/regulation handicaps. There are two policy areas that make it to the top of many CFOs' lists of core concerns: corporate taxes and health care. In fact, CFOs named tax complexity as their number one burdensome government regulation,⁶ and 60% expect a major tax overhaul in the next few years.⁷ Health care reform is giving them additional angst. Some 90% expect a higher cost per employee.⁸ Yet, surprising, when asked how a repeal would affect hiring and capital investment, the answer seems to be not that much.⁹

9. Identifying/developing talent. Finding and developing the right talent is consistently number one or two on many transitioning CFOs' agendas. Given the increased demands on finance and correspondingly on the skill sets that are valued, many CFOs are finding their current staffs lacking. In fact, in the Q42011 survey, 75% of CFOs said their staffs needed stronger analytical skills, 60% needed better political acumen, and almost half required facilitation skills and macro-economic knowledge. Moreover, having the right talent in place is necessary for CFOs to do their jobs. Both from a time perspective and to meet their increased strategic demands, CFOs need to have the right talent to be good ambassadors to the organization and to cover their backs.

10. Time management. To meet the demands of their role, many CFOs say they are putting in 12- to 15-hour days at work. That is not effective over the long run, nor does it help in other aspects of their lives. A major contributor to this time creep is the massive amount of emails CFOs receive, and they need to put better processes in place, including better delegation, to deal with the decision making inherent in that communication. Responding to 250 to 300 messages a day is simply not effective. Instead, CFOs need to focus on what is most important to their companies at the time — and that means picking your battles and being extremely frugal with your time.



End notes

¹ As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

² Material for this edition of *CFO Insights* was taken from a Deloitte DBriefs webcast entitled "What is keeping CFOs up at night?" April 18, 2012. http://www.deloitte.com/view/en_US/us/Insights/Browse-by-Content-Type/dbriefs-webcasts/07ade2ffc3616310VgnVCM2000001b56f00aRCRD.htm

³ *CFO Signals* survey, U.S. CFO Program, see 3Q2011, 4Q2011, 1Q2012, Deloitte LLP. http://www.deloitte.com/view/en_US/us/Insights/browse-by-role/Chief-Financial-Officer-CFO/CFO-Signals/index.htm

⁴ *CFO Signals* survey, U.S. CFO Program, 1Q2011, Deloitte LLP.

⁵ *CFO Signals* survey, U.S. CFO Program, 1Q2012, Deloitte LLP.

⁶ *CFO Signals* survey, U.S. CFO Program, 1Q2011, Deloitte LLP.

⁷ *CFO Signals* survey, U.S. CFO Program, 3Q2011, Deloitte LLP.

⁸ *CFO Signals* survey, U.S. CFO Program, 4Q2010, Deloitte LLP.

⁹ *CFO Signals* survey, U.S. CFO Program, 1Q2011, Deloitte LLP.

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