CFO Insights
What's keeping CFOs up in 2014?

The pressures on CFOs and their companies to perform are enormous — and mounting. While the economic landscape is tamer than it has been in recent years, there are a variety of concerns, both internal and external, that CFOs and their teams need to address to ensure the finance function is effective in supporting the business. In the Deloitte Ireland CFO Programme, we have a deep understanding of which pressures, such as talent cost and availability, are ongoing and which, such as data security, are coming to the fore. In this issue of CFO Insights, we share a list of CFO core concerns developed over the past year from our conversations with CFOs, our annual CFO Forum, CFO Transition Labs and our quarterly CFO Survey which captures the thinking of CFOs representing Ireland's largest companies.[1] Individually, each concern signifies an area of subject matter expertise that finance must deliver; taken together they illustrate just how crucial finance is to the day-to-day operation of any organisation.

1. **Worldwide economic health.** As an open economy, global economic health has long been a top concern for finance chiefs. Market risk was consistently identified in previous CFO Surveys as the category of risk posing the largest threat to respondents' companies. However the tide has turned with concerns over the global economy easing according to our most recent CFO Survey. Economic growth, at home and abroad, has been identified as key drivers of companies' performance over the next year. This highlights the dependency of many Irish businesses on the global economy to support growth in their companies. This is further evidenced by the fact that a significant number of CFOs cite actual or expected growth in the Eurozone, US, emerging markets and Asia as contributing positively to their companies' investment plans[2]. This level of dependency on worldwide economic health by companies has gnawed at CFOs' confidence as, although most economies are growing rather than contracting, it remains to be seen if this global recovery is resilient enough to support growth into 2015 and beyond.

2. **Policy/regulation uncertainty.** There is now a greater demand for further regulation and transparency across all areas of the business which in turn creates many pressures for CFOs and their organisations. The Quarter 3 2013 CFO Survey found that almost one in four (22%) CFOs surveyed believe industry regulation/legislation to be one of the main challenges facing businesses today[3]. More recently, half of the respondents to the CFO Survey believe that industry specific regulation would impede their company's performance over the next year while one in three (32%) believe environment regulation/policy would also impact negatively on performance[4]. While Ireland ranks 15th out of 289 countries on the 'Ease of Doing Business', our survey results suggest that CFOs are concerned about the increased obligations and related costs placed on their organisation's bottom line.

3. **Security. Security. Security.** Given that security breaches have become almost commonplace in the corporate environment, cyber-security has ascended rapidly on CFOs' priority lists. They have good reason to be concerned. A recent survey by Deloitte Ireland in association with EMC showed that cybercrime costs Irish organisations, on average, 2.7% of annual turnover, with the average cost of a cybercrime incident costing Irish organisations €135,000 over the past year[5]. Moreover, attacks are becoming more frequent, opportunistic, and sophisticated. And given the proliferation of mobile devices, the concern is not only to keep hackers out, but to wall them off from proprietary and private data once they get in. The threat is not lost on CFOs, who will play a key role in stepping up defences, such as driving improvements to their risk management approaches.

4. **Talent availability—and costs.** Talent availability continues to be a key consideration for companies and top of the mind for CFOs, with a large proportion of CFOs citing difficulty in finding the required skills and knowledge for available roles. As Ireland's reputation as a European hub for many multinationals remains strong, it is expected that the requirement for talent and skills in certain areas will be an increasing issue for companies. In fact, 57% of respondents to the Quarter 2 2014 CFO Survey expect talent availability to impede their company's performance in the next 12 months. This is against a backdrop of two out of every three CFOs surveyed expecting an increase in employee numbers in their organisation in the next 12 months[6].

   Furthermore the cost of talent is considered to be a factor impeding business growth: 70% of respondents in Quarter 2 2014 believed that the cost of talent will negatively impact their company's performance over the next 12 months[7]. The commitment by government recently however to reduce the top 52% marginal income tax rate in Budget 2015 is a step in the right direction to address this.

5. **Sustainability.** Organisations are beginning to acknowledge the importance of finding the right balance between financial, social and environmental priorities in today's economy, the so-called 'triple bottom line'. It is imperative that senior management engage with, drive and promote sustainability in their businesses. In fact, 91% of CFOs believe there is a direct link between sustainability programmes and business performance. Increasingly, organisations are viewing sustainability as a more integral component of their business strategy, linking them with opportunities to enhance revenue, reduce costs and improve margins and strengthen brand value. It is unsurprising therefore that CFOs are progressively engaging with sustainability and see it as an integral part of their role, a key finding from a recent Deloitte article – Driving Sustainability, the CFO's Role. CFOs are more and more involved in driving the execution of sustainability strategy in their organisations. They have a key role to play in measuring the impact on enterprise value of sustainability efforts, helping to prioritise how and when to invest in sustainability programmes and initiatives[8]. 81% of CFOs surveyed in last year see sustainability programmes as either an important or extremely important part of the CFO's role. This is a jump of 23% on the same metric the previous year, indicating that CFOs are progressively viewing sustainability as an integral part of their role[9].

6. **Effective business partnering.** The expectation for finance to add greater value to the business via a business partnering role is growing. More and more, businesses are looking to CFOs and their teams to leverage the huge volumes of data available in organisations to better support strategic decision making, drive business performance and act as a catalyst for change. In fact, analysis quality/decision support was found to be the second most popular measure (by 68% of respondents) to monitor the performance of organisations[10]. In the 2013 CFO Forum, we heard how CFOs are faced with the challenge of ensuring the pace of information supports effective and timely decision making as the 'speed of information determines the speed of the organisation'[11]. Pivotal to this is a single source of truth and a consistent data set with one point of data entry. However research conducted by Deloitte in early 2013 on finance business partnering showed that spreadsheets are the principal finance business partnering reporting tool, as reported by 42% of respondents. It is unsurprising therefore that 30% of CFOs surveyed cited that inadequate finance systems was the number one barrier to effective business partnering[12].

7. **Data challenges.** Much has been written about the unprecedented quantities of data companies collect, from their own operations, supply chains, production processes, and customer interactions. Even more has been made of the promise of analytics for competitive advantage. While there's really no limit to the amount of data gathered, the question is how that data, particularly about customers, is used in a logical, meaningful fashion. One possible solution: assign ownership of analytics to finance, which innately knows how to balance the risk/reward equation. Findings from The Analytics Advantage, a recent Deloitte Touche Tohmatsu Limited survey, found that finance is the area most likely to invest in analytics (79%) anyway[13]. Given that many finance organisations traditionally have used data-driven analytics for strategic purposes, it could make sense to assign ownership to the CFO—a move that can also strengthen ties throughout the business.

Figure 1: What is your company's business focus for the next year?

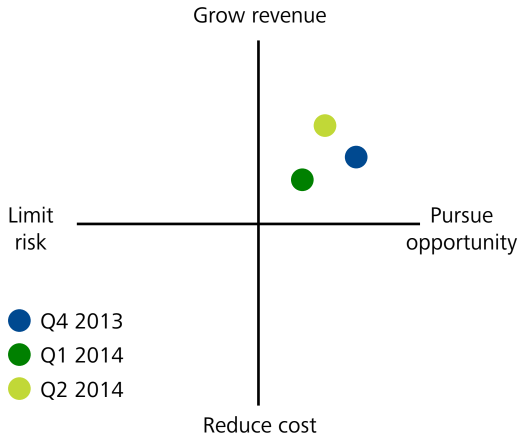
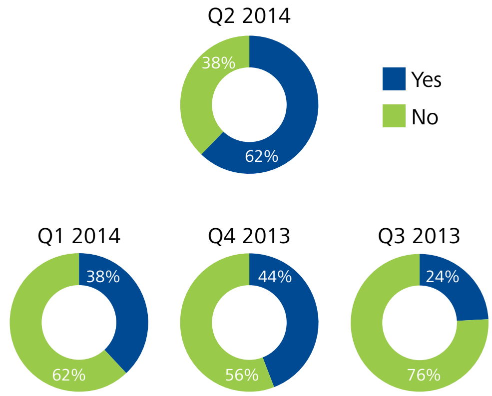


Figure 2: Do you think it is a good time to take greater risk onto your company's balance sheet?



8. **Cost versus growth decisions.** As outlined above, over the past year, CFOs have indicated a bias toward pursuing opportunities over limiting risks and on growing/scaling their businesses over contracting/rationalising. While CFOs are firmly prioritising revenue growth over cost reduction[14], cost control remains a concern for CFOs. A host of cost containment measures have been completed at some point over the past number of years by CFOs and their organisations; it is imperative that these measures generate a sustainable cost base for firms. The latest CFO Survey found that 69% of respondents expect operating costs to increase over the coming 12 months.[15] For CFOs, this sets up a delicate balancing act between investing for growth and maintaining aggressive cost agendas. How CFOs manage them in concert, however, may spell the difference between who is more successful in the ongoing recovery and who is not.

9. **Credit availability and cost.** CFOs remain concerned about the availability and cost of credit however it is becoming less and less a contributory factor in the decision to invest. For the first time ever in the five year history of the CFO Survey, a majority of CFOs in the Quarter 2 2014 survey believed it is a good time to take greater risk onto their companies' balance sheets, as CFOs' appetite for reward trumps the risk trade-off. This is further highlighted by the fact that respondents cited a priority in their companies for pursuing opportunities as opposed to limiting risk[16].

Bank borrowings are expected to decrease over the next 12 months for 37% of respondents to the Quarter 2 2014 CFO Survey, with no major equity issuances being expected by respondent companies. Despite this, there is an increasing emphasis on capital expenditure in companies in recent times, together with a trend for companies to prioritise achieving growth and scale as opposed to contracting[17]. The results of our CFO Survey indicate that companies are less reliant on debt to fund growth, with cash injections likely to be a driver of growth in its place. This is supported by the fact that companies are prioritising investing cash as opposed to holding cash.

10. **Time constraints.** Our CFO transition lab sessions are focused on three distinct modules: time, talent, and relationships. While all three are important, the first is irrecoverable and in many CFOs' experience – exhaustive. Finance chiefs continue to tell us that they are putting in 12 to 15 hour days—a pace that is simply not sustainable, personally or professionally. To remedy the situation takes planning, delegation, the ability to let go of the little things, and focus on the key drivers of business performance. That means devising a system for the avalanche of emails a CFO typically receives, limiting the number of your direct reports, and picking your battles. Moreover, it requires scheduling both personal time off and time to think—two activities that, in the long run, are time well spent.

End notes

[1] Deloitte CFO Programme http://www2.deloitte.com/ie/en/pages/finance/articles/cfo-programme.html

[2] Q2 2014 CFO Survey

[3] Q3 2013 CFO Survey

[4] Ease of Doing Business Ranking http://www.doingbusiness.org/rankings

[5] Information Security and Cybercrime Survey http://www2.deloitte.com/ie/en/pages/risk/articles/cybercrime-survey-2013.html

[6] Q2 2014 CFO Survey

[7] Q2 2014 CFO Survey

[8] "Driving Sustainability - The CFO's Role" Deloitte Touche Tohmatsu Limited, 2013 http://www2.deloitte.com/ie/en/pages/finance/articles/the-role-of-the-cfo.html

[9] Q3 2013 CFO Survey

[10] Q2 2014 CFO Survey

[11] CFO Forum 2013 Retrospective http://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Finance/CFO/2013_retrospective.pdf

[12] "Finance Business Partnering Survey" http://www2.deloitte.com/ie/en/pages/finance/articles/finance-business-partnering-survey.html

[13] "The Analytics Advantage: We're just getting started," Deloitte Touche Tohmatsu Limited, 2013.

[14] Q2 2014 CFO Survey

[15] Q2 2014 CFO Survey

[16] Q2 2014 CFO Survey

[17] Q2 2014 CFO Survey

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The CFO Programme 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. The programme harnesses our organisation'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.

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