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India CFO Survey 2014
Hope prevails

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Contents

Executive summary

Macro-economic perspective: From uncertainty to future optimism

The Indian economy has witnessed some truly unexpected times in the recent past. While inflation and rupee depreciation continue to be key causes of concern, CFOs perceive the government's inability to bring about economic reforms at desired levels, and the increased scrutiny by the government for regulatory compliance as some of the other critical challenges to be dealt with by the Indian organizations. Despite a neutral stand taken by 52% of CFOs towards the current situation, around 68% believe that the economy is likely to take a positive turn over the next few months, thus reflecting an optimistic outlook regarding the future state of economy, beyond the one year horizon. The neutrality in the current times can be attributed to the pre-election phase, leading to policy paralysis, which in-turn is hampering the decision-making process.

Key survey highlights

- The medium to longer term optimistic sentiments recorded in the 2013 Deloitte India CFO Survey continue to prevail, as more than two-thirds (68%) CFOs continue to be positive and hopeful about the future state of the Indian economy, beyond the one year horizon.
- Almost 60% of CFOs consider slowdown in the domestic economy as one of the key economic concerns, followed by rupee depreciation and volatility, inflation and lack of political direction.
- From an industry perspective, over 50% CFOs are finding it difficult to achieve and sustain market growth. Another aspect dampening their sentiments is the increase in cost structures, as a result of inflation and other factors, together with the paucity of the desired talent pool.
- Given the prevailing uncertainty in the markets, almost 45% CFOs do not anticipate any notable change in their current organizational strategies in the immediate future.
- Close to 50% believe managing costs, followed by increasing enterprise risk, and changing regulatory requirements, to be the most critical organization-specific challenges.

Industrial overview: Ambiguity looms large

At an industry level, the pricing pressures, in the context of increasing and changing cost structures, are considered as the main growth inhibitors by over 48% of the CFOs. Furthermore, most industry segments are finding it challenging to achieve and sustain top line growth in the marketplace and remain competitive, amidst new and innovative offerings being made available by other players in the marketplace. Shortage of trained manpower with the desired skill sets is considered as another key challenge by almost 40% of the respondents. Industry regulations and legislation are the two other areas, resulting in a weaker sentiment. Interestingly, in addition to policy, CFOs consider the country's bureaucratic structure to be a major roadblock. They believe that there is a need for the government to improve their attitude and action towards economic reforms, and continue to bring in some pragmatic changes in the industry regulations.

Organizational outlook: Neutrality reins

The organizational overview of the CFOs presents an interesting mix. While 40% CFOs are optimistic, almost 45% are holding back hopes and maintaining a cautiously neutral stand in the next 3-6 month horizon, in view of the forthcoming national elections. The number of respondents expecting a further decline in the situation in the next one year is only 9%, reflecting a reduction from 12%, compared to the findings of the 2013 Deloitte India CFO Survey. Almost 60% CFOs consider revenue growth/preservation in existing and new markets as a critical factor hampering organizational growth. Despite concentrating on ways to manage costs, 47% of the respondents feel that cost reduction is a key area of concern followed by availability of talent. Hence, in these volatile times, CFOs need to concentrate on designing innovative cost-cutting models to ensure sustenance and profitability without eroding the organizational values. While markets are yet to shape-up in a positive manner, CFOs are playing a more strategic role and working closely with their HR departments to strengthen the productivity of their existing resources. There is a dire need to revisit the business models as a whole at the organizational level.

CFO role: Widening horizons

As organizations in India continue to face challenges from a macro-economic as well as an industry perspective, amidst stakeholder expectations of growth and profitability, the role of Indian CFO continues to expand beyond the traditional financial domain of being an operator or steward to more strategic and catalyst aspects. The proportion of time spent by CFOs on strategist and business catalyst roles continues to increase

progressively and the current survey revealed that they are currently dedicating almost 52% of their time towards these roles. This depicts how Indian CFOs are working alongside CEOs/top management to advise on strategic initiatives pertaining to growth, cost containment, funding options, pricing and market-related decisions, financial feasibility of projects etc.

Given the unsupportive political attitude towards economic reforms, changes in the regulatory regime and increased scrutiny by the government for compliance (including the introduction of the new Companies Act), CFOs continue to face challenges in managing stakeholder perceptions and sustaining growth.

Despite the many risks and challenges, CFOs continue to steer through the volatile times by focusing on revenue growth, value preservation, and cost containment while taking steps to enhance operational performance.

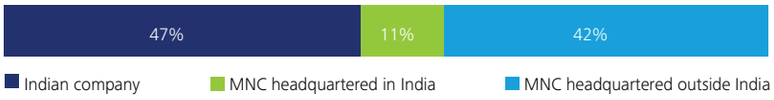
Survey demographics

The Deloitte India CFO Survey 2014 provides a perspective on how CFO opinions are evolving with respect to the changing economic and global scenarios, slowing consumer demand and increasing organizational pressures to maintain margins and profitability. This report provides CFOs with analysis and information on their peers' thinking on a cross section of topics including economic outlook, financial market dynamics, business trends, as well as their organizations and functional roles.

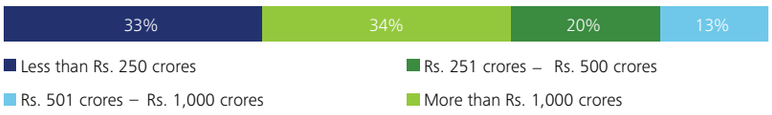
This report is based on responses from over 100 CFOs, spanning listed and unlisted companies, across sectors, with revenues of less than INR 500 crores to larger companies with revenues greater than INR 1,000 crores.

Industry type

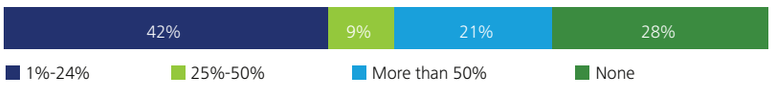
Organization type



Turnover



Income from overseas



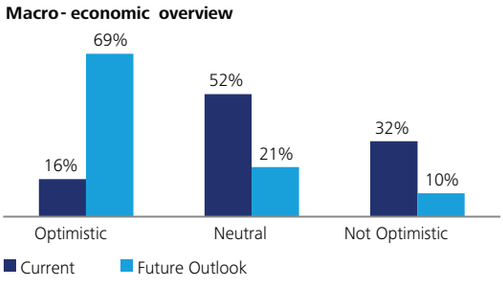
Economic landscape

CFOs believe that the political instability and political agenda has overshadowed the economic agenda. Despite the longer term optimistic outlook, almost 52% of the CFOs maintain a neutral stand about the near-term economic performance.

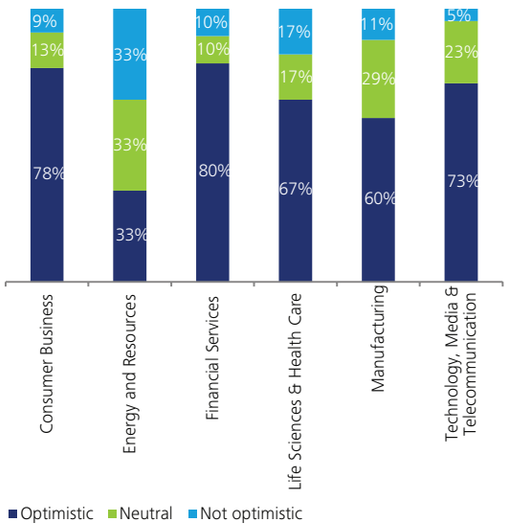
The 2013 Deloitte India CFO Survey had revealed a sense of cautious optimism. Factors like high inflation, a staggering GDP growth, political instability, and slow pace of implementation reforms were some of the key aspects contributing to the guarded sentiments of the CFOs. Despite raising almost similar concerns in 2014, the community seems to be gearing-up for better times ahead, with almost 69% CFOs expressing optimism about the economy's future outlook over a longer term, as compared to 44% recorded in 2013.

Even from an industry perspective the current neutrality can be seen transitioning into a more optimistic future outlook.

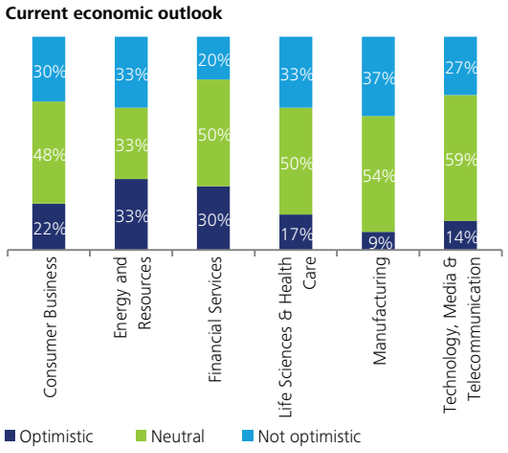
Macro- economic overview



Future economic outlook



Current economic outlook



Reforms reinforcing optimism

Almost 32% CFOs are optimistic about the pace and execution of economic reforms. Some of the biggest breakthroughs restoring positive investor sentiments are the constitution of the Cabinet Committee on Investments (CCI) and setting up of the Project Monitoring Group (PMG) to anchor CCI. It has led to resolution of over 120 projects worth over INR 400,000 crore (around $67 billion), thus boosting the country's investment and growth cycle. Other factors infusing hope are reduction in the Current Account Deficit (CAD), moderation of imports, and the recovery in value of Indian currency. Robust measures taken to control fuel demand chain by encouraging use of alternate fuels and removal of subsidies on fuel products is yet another contributor to the healing sentiments.

Near-term neutrality

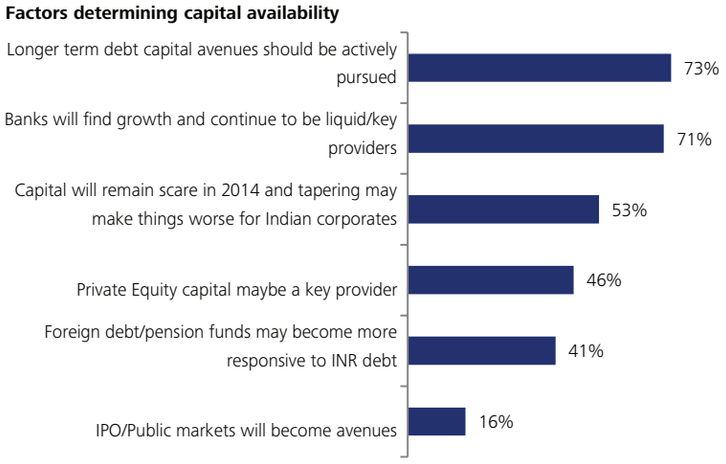
Despite the longer term optimistic outlook, it is critical to note that almost 52% of the CFOs maintain a neutral stand about the near-term economic performance. Much of it can be attributed to the evolving political scenario, which has a huge room for speculation about concrete outcomes. Though the present government has been able to address some immediate macro-economic concerns, a long agenda awaits the forthcoming government. First and foremost, stringent structural measures coherent with the steps being taken by the RBI need to be enforced to control inflation, which has been a great cause of concern for the common man. The marketing and distribution channels of the food sector need more investment and reforms. The National Manufacturing Policy framed in 2013 also calls for an aggressive implementation strategy.

CFOs believe that the evolving political scenario and agenda has overshadowed the economic agenda. Given the perception, the new government will have to curb its ever-increasing unproductive expenditure and demonstrate a sense of commitment towards stabilizing the fiscal environment of the country. Last but not the least; they will also need to identify new means of revenue generation apart from options like disinvestment of public sector companies and telecom auctions.

Capital concerns

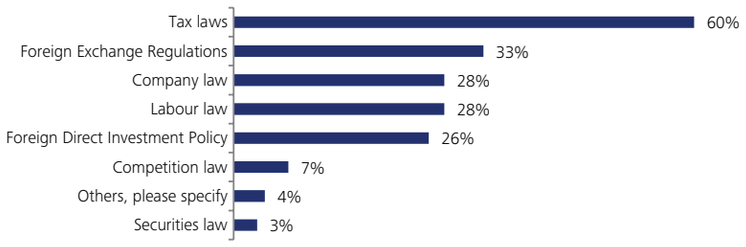
Availability of capital is another key economic concern. Almost 53% CFOs were of the view that capital will remain scarce in 2014 and tapering may make things worse for Indian corporates. In terms of the way forward, 73% CFOs were of the view that the longer term debt capital avenues will be fruitful and should be actively pursued. However, Deloitte experts suggested that businesses across sectors will need to focus on optimal utilization of their existing credit availability. Over-reliance on the market to raise working capital does not appear to be a dependable proposition. Organizations will need to revisit their credit strategies to ensure a sustainable flow of capital.

Factors determining capital availability



Regulatory and tax matters

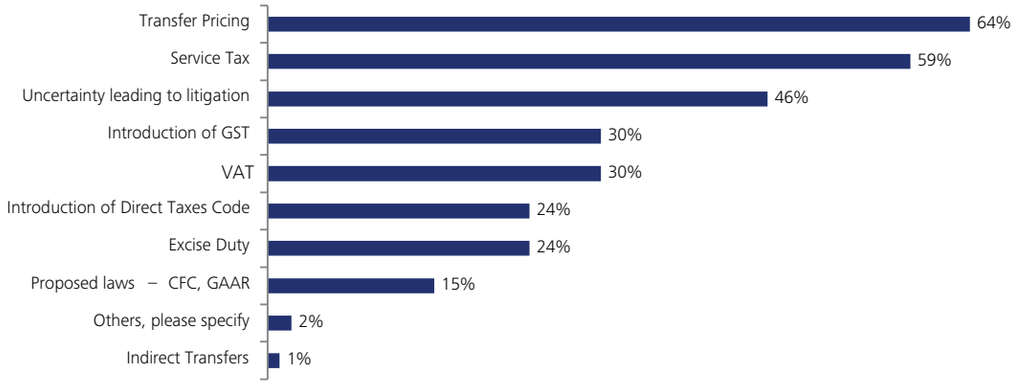
Tax and regulatory challenges



On the regulatory and tax front, more than 60% of the CFOs expressed that unfriendly and unpredictable tax laws were one of the biggest deterrents to their growth plans. This was followed by foreign exchange regulations, with almost 33% CFOs terming it as another significant regulatory challenge. Company law and Labour law were rated as equally significant concerns by 28% respondents, which were closely followed by FDI (26%).

Some of the key tax concerns voiced by the respondents are Transfer Pricing (TP), Service Tax and uncertainty leading to litigation. Almost 64% CFOs are facing challenges due to the aggressive approach taken by

Significant tax concerns



the Indian TP authorities, without giving due consideration to its impact on their business transactions. Other aspects adding to the concerns of the CFOs vis-à-vis the TP scenario are its arbitrary computation by the tax department; inconsistent view towards the Advertising, Marketing and Promotion (AMP) expenses incurred by the taxpayers; inter-division transfer of goods and services to ascertain tax incentives and lack of clarity about the assessment process.

Another taxation aspect raising concerns is the Service Tax (ST). Almost 59% CFO respondents are facing issues related to the working capital due to advance Service Tax provisions. Arbitrary interpretation on the applicability of ST, excessive documentation, delayed refunds, difficulty in using the accumulated credit, and frequent changes of rules, are other factors leading to not-so optimistic sentiments.

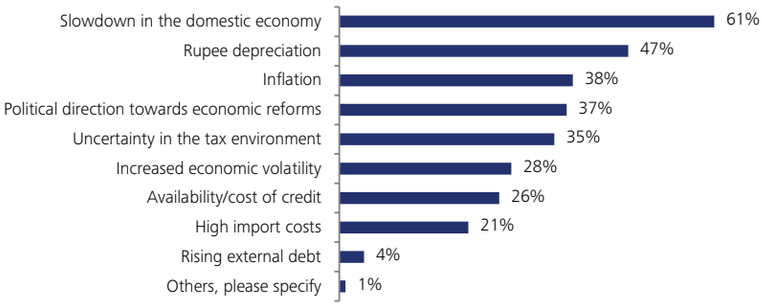
Uncertainty of the tax regime leading to litigation has been listed as another key concern by almost 46% CFOs. Ambiguous circulars issued by the Central Board of Direct Taxes (CBDT), lack of clarity around the import of embedded software and other customs-related aspects coupled with frequent changes in the tax laws has made it difficult to calculate the future costs and the chances of litigation due to non-compliance.

Amidst an extremely dynamic and challenging scenario, the delay in introduction of Goods and Services Tax (GST) for the second consecutive year has left CFOs with very little hope for a positive outcome out of this much-awaited tax reform.

Key economic challenges

61% CFOs view slowdown in the domestic economy as the most challenging economic factor followed by rupee depreciation (47%) and inflation (38%). For the third consecutive year, inflation continued to be the one of the key economy-related challenges. Other factors hampering growth are rising external debt, high import costs, availability/cost of credit, increased economic volatility, uncertainty in the tax environment, and political direction towards economic reforms.

Key economic challenges



Drilling down to industry-specific challenges, slowdown in the domestic economy, and high inflation are termed as the top most macro-economic challenges across all industry verticals. Rupee depreciation surfaced as the next reigning challenge with CFOs from Energy and Resources (E&R) industry expressing it as their biggest macro-economic challenge (22%), closely followed by Technology, Media & Telecommunications (TMT) (20%). Respondents representing Manufacturing and Consumer Business (CB) sectors expressed almost a similar extent of concern (16%-17%) towards the falling rupee. CFOs

also suggested inflation to be a growth deterrent across industry verticals.

Top three macro-economic challenges for the specific industries are:

- **Consumer Business:** Slowdown in the economy, rupee depreciation and inflation
- **Energy & Resources:** Slowdown in the economy, rupee depreciation and political direction towards economic reforms
- **Financial Services:** Slowdown in the economy, political direction towards economic reforms and availability of credit
- **Life Sciences and Healthcare:** Slowdown in the economy , uncertainty in tax environment and increased economic volatility
- **Manufacturing:** Slowdown in the economy, rupee depreciation and inflation
- **Technology, Media & Telecommunication:** Rupee depreciation, uncertainty in tax

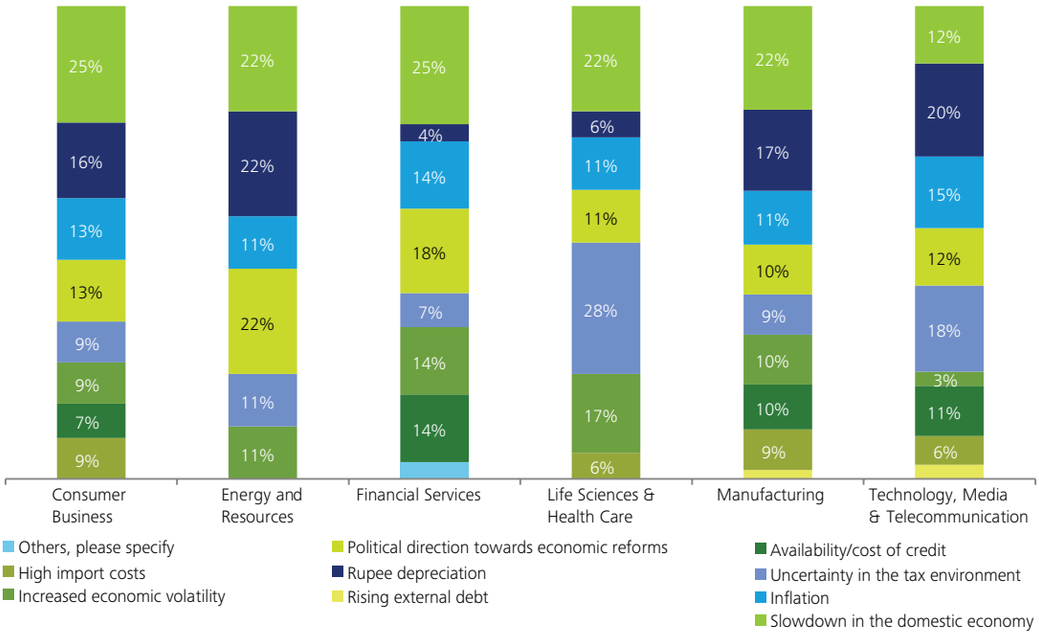
Deloitte experts from TMT and CB sectors also regarded fluctuation in exchange rates, high inflation, and slowdown in the economy as key aspects defining the future growth of Indian companies. Due to higher inflation Indian companies are losing their price advantage. Deloitte experts attribute this trend to the increasing cost of wages and stagnant or even declining inflation-adjusted incomes. As a result, a growing number of consumers have started to trade-down and look for cheaper options, thus exerting pressure on the margins.

Both CFO respondents (28%) and Deloitte experts are of the view that uncertainity in the tax environment is one of the biggest challenges for the Life Sciences and Health Care (LSHC) sector. Aspects like rupee depriciation, slowdown in the economy, and political direction towards reforms have been given equal amount of weightage (22%) by those operating in the E&R sector.

The challenge to meet the needs of the large unbanked population, despite the slowing down of the economy, is a leading concern for the Financial Services (FS) industry. Political direction towards economic reforms, leading to policy paralysis is another key concern for this sector.

Other key macro-economic challenges are slow pace of reforms, rising external debt, high import costs, availability/cost of credit, increased economic volatility, and uncertainty in the tax environment.

Key economic challenges



Deloitte perspectives:

- Deloitte Technology, Media and Telecommunication (TMT) experts believe that the fluctuation in exchange rates (of INR with USD and with other emerging market currencies) and high inflation has been impacting business planning for IT companies in India.
- Managing inflation is once again a huge challenge for players in the CB sector. Deloitte CB experts hold the sustained double-digit consumer price inflation across India, as one of the key causes of concern. With the economy slipping to a very low growth, most Indian consumers have seen nearly stagnant or even declining inflation-adjusted incomes. As a result, a growing number of consumers have started to trade-down and look for cheaper options, thus exerting pressure on the margins. Other risks in the fold are cut into profits, impact on the price strategy, and emergence of serious supply chain management issues.
- The current model of the Healthcare sector in India, where 70% of expenditure is out-of-pocket, has prompted the government to exercise control over the prices of the life-saving drugs. This poses a question on commercial viability of the domestic market, thus forcing the multinational players to revisit their India strategy, opine Deloitte Life Sciences and Healthcare (LSHC) experts.
- According to the Deloitte Manufacturing experts, one of the key aspects impacting the growth in the Manufacturing sector is the lack of infrastructural development due to slowdown of the economy to boost growth. Perhaps government's recent focus on controlling the Current Account Deficit (CAD) has led to slow progress on the infrastructure development, which in-turn has resulted into a worrisome demand situation.
- The E&R sector, on the other hand is plagued on the distribution side. The financial losses have ballooned over time, suggest Deloitte E&R experts. The estimated deficit being borne by the distribution companies is over INR 1 lakh crore. This has forced the states to shoulder the liabilities, thus impacting the entire value chain.
- Deloitte FS experts are of the view that, given the current scenario of relative political uncertainty and slow economic growth, the players in this sector could focus on improving operational efficiency and strengthening risk management and credit processes. They could also look at undertaking innovative initiatives for tapping new segments, improving technology effectiveness and enhancing customer loyalty.

Industry insights

The biggest near-term worry across industries is growth. Significant investments have been made expecting the markets to look up but the regulatory headwinds and unstable political environment is exerting pressure on the margins, thus dampening investor sentiments.

Key industrial challenges

The Indian economy is at a very crucial standpoint today. Investors are much relieved as one of the toughest fiscal phases, 2009 to 2013, has drawn to a close. They are now looking forward to implementation of the proposed reforms, which could help them sustain the temporary momentum gained by the markets. However, with factors like pricing trends, temporary control over Current Account Deficit (CAD), low rate of growth, political instability, inflationary pressure, and the tapering in the U.S. monetary policy, the industry players are not-so-certain about the future growth. In addition, it is becoming increasingly difficult to sustain profits under the dual pressure of slowing revenue and increasing cost structures in wake of the low consumer demand.

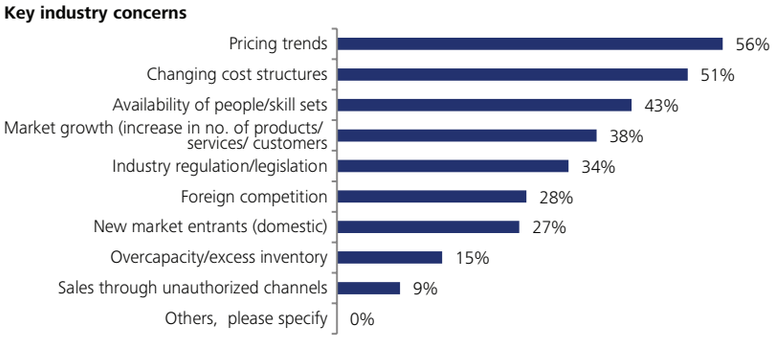
Overall industrial growth is one of the key aspects leading to a not-so-positive industry outlook. A number of macro-economic and industry-specific factors put together are responsible for the weakening sentiments. Almost 56% of respondents indicate inflationary pricing trends as their top industry concern followed by changing cost structure (51%), unavailability of people/ skill sets (43%) and market growth (38%).

A similar trend was recorded in 2013 Deloitte India CFO Survey, with over 50% CFOs considering these four factors as a key cause of concern. Other challenges being faced by the industries across board, are sales through unauthorized channels, overcapacity/excess inventory, new market entrants (domestic), foreign competition, and industry regulation/legislation.

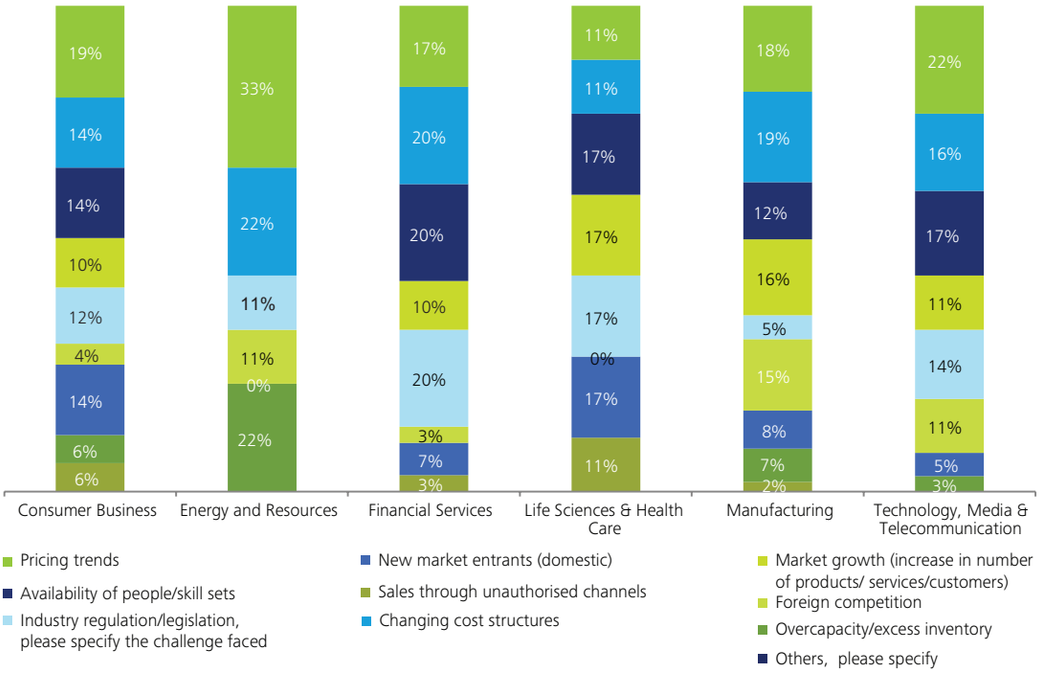
Concerns vary as per industry dynamics

- Approximately 63% of the CFOs expressed concern over inflationary pricing trends, changing cost structures, people/skill sets, and market growth. The overall percentage as compared to last year's survey remained the same but the degree of impact shifted from one cause to the other.

Key industry concerns



- Pricing pressures are unlikely to diminish across industry segments. Inflation and recession have made a lot of consumers 'down trade' to more 'affordable' products. In addition, the competition for same set of consumers has intensified. Companies are facing a range of strategic changes risks, such as market positioning, increased regulation, resource scarcity, strategic investments (e.g., renewable energy), changes in FDI policies, customs and transfer pricing norms, and communications with stakeholders and investors. Almost 56% of respondents indicated inflationary pricing trends as their top industry concern.
- In addition, organizations are struggling to achieve scale benefits under dual pressure of slowing revenue and changing cost structures, opined 51% respondents. FS and E&R are the most impacted industries (22%) hit by the changing cost structures. A high capital requirement for banks, Non-Banking Finance Companies (NBFC), and Housing Finance Companies (HFC), is one of the key challenges for the FS. The frequently changing regulatory policy is also adding to the heightened uncertainty. Other industries impacted



by the changing cost structure are Manufacturing (19%), and TMT (16%).

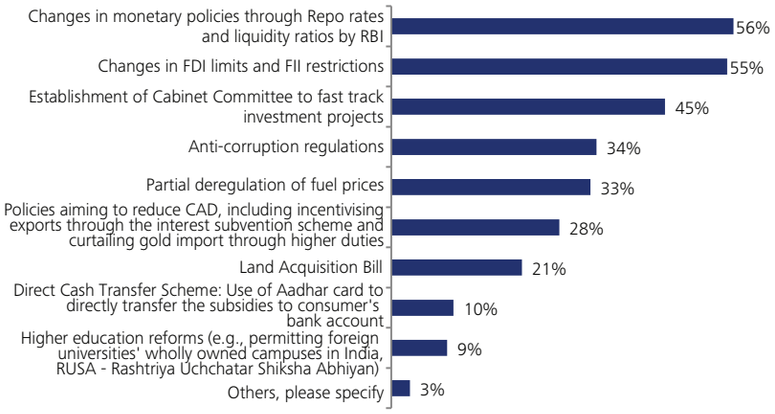
- There is a cascading trained-labor scarcity being felt across the value chain. It starts at the agriculture farm level with limited availability field workers. Unavailability of resources and associated difficulties of inducting, training, and maintaining a competent workforce continue to be some of the key challenges for industries like FS (20%), CB (14%), LSHC (17%), Manufacturing (12%), and TMT (17%).
- Other industry-specific challenges noted across sectors are sales through unauthorized channels, overcapacity/excess inventory, new market entrants (domestic), foreign competition, industry regulation/legislation, and market growth (increase in number of products/services/customers).

The top challenges for the specific industries are:

- **Consumer Business:** Pricing trends
- **Energy & Resources:** Overcapacity and pricing trends
- **Financial Services:** Changing cost structures
- **Life Sciences and Healthcare:** Availability of people/skill sets
- **Manufacturing:** Changing cost structures
- **Technology, Media & Telecommunication:** Pricing trends

Expected reforms

Different industries may be expecting a different set of reforms to suit their respective growth plans, but from a macro-economic perspective, the respondents voiced the need for some critical reforms, which were common to all industries. Approximately 64% of the CFOS rated changes in monetary policies, FDI limits and FII restrictions, establishment of cabinet committee and anti-corruption regulations as the most impactful of all the economic reforms.



Changes in Monetary Policies, FDI Limits and formation of the Cabinet Committee are some of the key economic reforms affecting the industries. Almost 56% of respondents indicate 'changes in monetary policies through Repo rates and Liquidity ratios by RBI' as the most impactful reform followed by changes in the FDI limits and FII restrictions (55%).

However, there are some critical areas to be addressed by the government to strengthen the weakening sentiments. Some of the key suggestions that surfaced across industries are:

- **Tax and regulatory:** Formalisation of Goods and Services Tax (GST) is viewed as the single biggest milestone for the Indian industry, especially for those serving the domestic market. To ensure smooth implementation and transition to the new policy regime, CFOs propose integration of direct and indirect policies at the Centre and State level. Standardisation of the TP regulation is a key expectation on the tax front.
- **Foreign Direct Investment:** CFOs are of the view that there is a need to liberalize the FDI policies across sectors to make it more transparent and encourage increased investment.
- **Capital availability:** CFOs are look forward to capital market reforms like reduction in debt costs and a fiscal stimulus to improve profitability.
- **Infrastructure development:** Government's spending on infrastructure to push distribution and drive consumption, political stability, a stable currency, and change in the investment policies are considered to be the other key growth drivers.

However, when we drilled down to the industry level, the CFOs shared an added reformatory wishlist. Those operating in the CB segment for instance, wanted an increased focus on domestic production and avenues to source locally, single window approval for large projects, and control in food inflation and liberalization of laws on processed foods, which will unlock the agricultural sector.

The E&R sector could benefit by boosting exports and imports. Introduction of polices like 'price pooling' and 'competitive bidding' could help break the monopoly of dominant public sector players and bring momentum in the Power sector. Mining reforms and better distribution of electricity, at low transmission loss were other reforms suggested for the sector.

The CFOs from the FS industry suggested the abolition of the Securities Transaction Tax (STT) to support the capital market. They believed that the Insurance Regulatory and Development Authority (IRDA) regulations need to be revisited to boost the insurance sector. Also promotion of credit risk mitigation products like mortgage guarantee to manage credit risk resulting in reduced capital requirements for banks, NBFCs and HFCs can help improve the scenario in this sector.

One of the most exhaustive lists of reforms was shared by the CFOs from the Manufacturing sector. The players operating in this segment suggested simplification of the lengthy Technology Up-gradation Fund (TUF) scheme and timely release of committed subsidies both by Center and State Government as a critical area of action. They further want removal of Agricultural Produce Market Committees (APMC) Act and liberalization of the Agriculture sector.

CFOs believed that revival of Software Technology Parks of India (STPI) and Special Economic Zones (SEZ) schemes could help boost the TMT sector. Simplifying multiplicity of bodies governing Internet and Cable industry is an important step. They also suggested more clarity in Transfer Pricing-related regulations and General Anti Avoidance Rules (GAAR).

The LSHC industry could benefit from opening up of retail sector for multi-brand retailing and liberalization of FDI rules in the Pharma and Health care sectors. They also suggested regulatory measures to minimize the impact of distribution channel like AIOCD (All India Organisation of Chemist & Druggist).

Setting-up of a regulator for railways, relaxation in current regulations levied in the shipping industry to align them with global practices and single window clearances along with timely provision of committed infrastructure were some of the reforms suggested by the CFOs vis-à-vis public sector.

Organizational overview

Preserving and sustaining revenue growth emerged as the top most challenge on the organizational front, with almost 63% CFOs expressing concern.

Increased optimism

Given the recent initiation of some industrial and macro-economic reforms, almost 45% CFOs have expressed optimism towards their firm's future performance, as compared to the 34% recorded in 2013 Deloitte India CFO Survey. The percentage of CFOs not hoping for any notable change has also gone down by almost 10% as compared to last year. Almost 45% CFOs see no notable change, as compared to 2013, where 54% CFOs anticipated that their organizations would continue to move at the same pace. This is largely due to the impending reforms, which are yet to see the light of the day.

Key challenges

Preserving and sustaining revenue growth in wake of the pressure exerted on the revenues due to low consumer demand and high borrowing costs, topped the chart of CFO concerns, as suggested by over 63% CFOs. This is followed by cost management and talent retention, thus making them top three challenges hampering organizational growth. Almost 52% CFOs are concerned about cost reduction to retain customers and 42% are struggling with talent management as they are finding it difficult to induct skilled manpower.

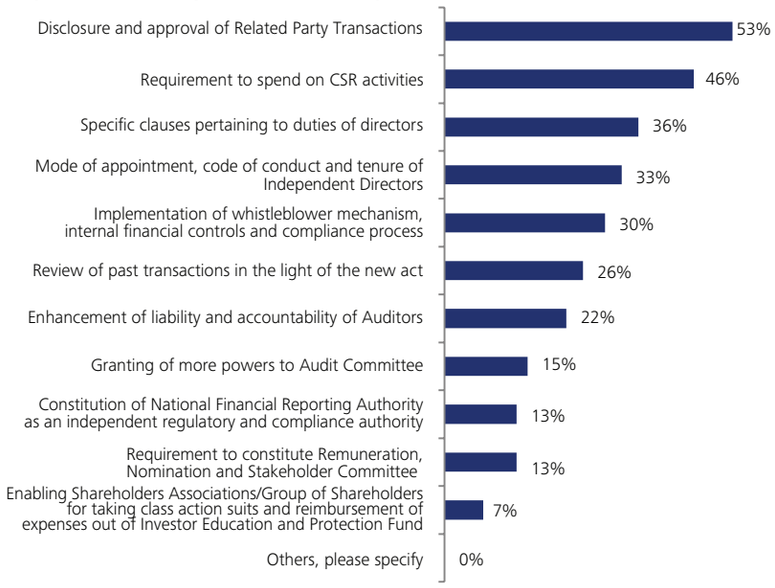
Revenue, talent management, and cost reduction are CFOs' primary concerns. Managing assets, ensuring compliance, gearing-up for the new tax reforms and financial liquidity are other notable challenges that have led to neutrality regarding the future outlook.

Implications of the new Companies Act

Almost 98% of CFOs are of the view that the new Companies Act would affect their roles in different ways. Disclosure and approval of Related Party transactions has been considered as the most impactful provision by 53% CFO respondents. This is followed by the requirements around Corporate Social Responsibility (CSR) activities (46%), and specific clauses pertaining to duties of directors (36%).

Key challenges

Response to various aspects of the new Companies Act



In addition, other provisions such as the mode of appointment, conduct and tenure of directors, raising the bar on governance, implementation of whistle blowers, and review of past transactions in the light of new Companies Act are also notable concerns that are playing high on the minds of the CFOs.

Impact of global events

Approximately, 70% of the respondents rated recovery in growth rates of the USA and some European economies, tapering of quantitative ease by U.S. Federal Reserve, slowdown in China, and diversification of FDI inflow in several sectors as some of the most impactful global events posing a challenge for CFOs on the growth management front.

Recovery in growth rates of the USA and key European economies topped the chart as the most impactful event with 55% CFOs supporting this view. It was followed by tapering of U.S. Federal Reserve, as opined by 45% respondents. While other developments meant pressure on the existing margins, slowdown in China translated into increased opportunities for India, suggested almost 40% CFOs.

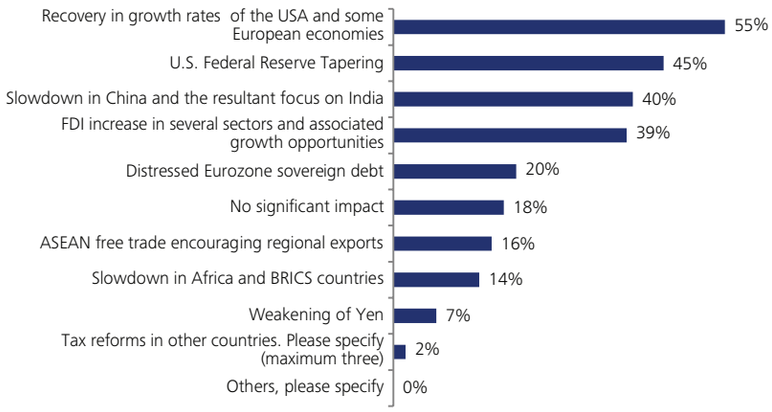
Few other events such as FDI increase, distressed Eurozone, ASEAN free trade encouraging regional export, and slowdown in Africa were also captured as notable topics on the minds of around 18% of respondent. When asked about the impact of these global events on their respective organizational performance, about 82% CFOs suggested that these would cast a definite impact, while only 18% saw no significant impact.

Fraud risk management

Almost 79% CFOs believed that there was an urgent need to establish an effective internal control or compliance program to check corporate frauds. 34% respondents believed that technology will play a key role in identifying the system loopholes followed by 32% CFOs, who suggested the need for a proper framework for monitor and enforce compliance of the company's code of conduct.

Key areas of concerns highlighted by the CFOs include compliance program, effective technology utilization, proper framework, quality of background check of employees, and independent oversight by the Board/ Audit committee.

Key global events having an impact



Key focus areas to mitigate frauds

The respondents also laid emphasis on establishing fraud mitigation mechanisms. Approximately 75% of the CFOs said that they would be focusing on the three key parameters for enhanced fraud mitigation in their companies. Extensive training on fraud risk emerged as the top most parameter with 60% of the CFO's favoring it. It was followed by an increased focus on investments made in implementation of fraud data mining (54%) and the prioritization of fraud as a strategic risk rather than an operational one (44%).

Besides these top three parameters, stress was also laid on the need to appoint industry-focused/forensic specialist resources to mitigate fraud.

M&A matters

2013 witnessed a lot of activity on the Mergers & Acquisition (M&A) front, which is also likely to flow well into 2014. Almost 67% CFO's view difference in valuation expectations as the most significant challenge in doing either domestic or cross-border M&A.

Governance structures/issues is seen as a challenge by over 43% respondents, while 34% were vary of the diligence aspects including forensics. Besides these top three challenges, issues pertaining to depreciation in the currency, changing government policies and promoter mindsets, and threat of poor post-merger integration were viewed as some of the key challenges in an M&A exercise.

Regulatory perils

More than 50% of the CFOs considered tax laws, foreign exchange regulations, company law and labour law to be the most critical regulatory aspects having a direct impact on their company's growth and operations. As per 60% CFOs the regulations around tax laws impacted their firms the most, followed by the foreign exchange regulation with 33% CFOs seconding this view. Though tax laws and foreign exchange regulations have been rated by the CFOs as the two of the key concerns, company law (28%), labour law (28%), and FDI policy (26%) are also noticed as notable challenges to be dealt with.

Way forward

It is interesting to note that, amidst extremely dynamic markets, CFOs have started supplementing the organizational growth by revisiting the strategies within. They have started designing customized approaches to deal with the volatile market situations peculiar to their sectors. Key players operating in the E&R sector for instance, have started focusing on optimizing the value chain, checking revenue leakage, managing foreign currency volatility, and protecting impact on the balance sheet; while those in the service industries are working closely with their HR departments to strengthen the output of the existing resources.

Approximately 69% of the CFOs are of the view that changes in processes and supply chain, rising prices, and reduced focus on lower margin business and customers are few of the key steps that can help in strengthening growth of their respective businesses.

Almost 71% CFOs rated reduction in direct costs through process efficiency as the most significant step to strengthen margins, followed by lesser focus on low-margin businesses with 48% CFOs adhering to this perspective. Curtailing direct cost through supply chain changes was rated as the third most significant step by almost 41% respondents.

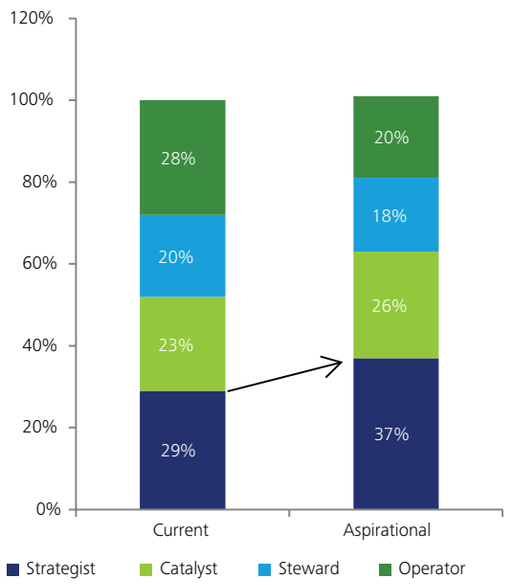
CFO role

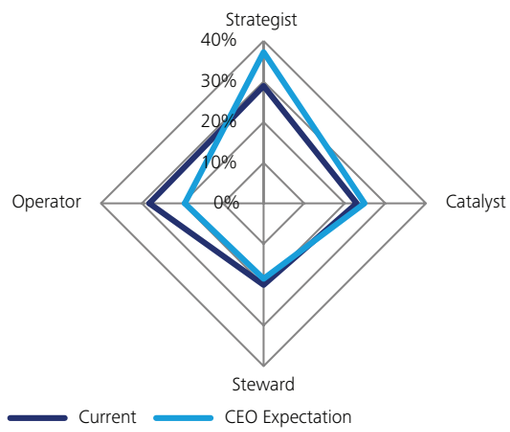
The transition of the CFO role from being a mere operator and steward to that of a proactive strategist and catalyst represents a progressive shift in their outlook and aspirations.

Given the political instability, changes in the regulatory regime, and increased scrutiny by the government for compliance with the introduction of the Companies Act, CFOs are facing many challenges in managing stakeholder perceptions and sustaining growth. However, despite the many risks and challenges, CFOs are designing strategies to steer through the turbulent times by focusing on revenue growth, value preservation, and cost containment while taking steps to enhance operational scalability.

The CFO community has steadily progressed on their aspirational quotient of playing a greater role as a strategist and business catalyst. The current survey revealed that they are currently dedicating almost 52% of their time towards these roles.

Today, CFOs have emerged as a part of the organization's critical think tank and work alongside CEOs/top management to advise on strategic initiatives pertaining to growth, cost containment, funding options, financial feasibility of projects, etc. Apart from playing the traditional roles of being an operator of the finance function and custodian of the firm's financial information and assets, they are playing a more proactive role of a catalyst and a strategist. It is interesting to note that they have been balancing their role as a strategist (29%), while being an equally proficient operator (28%). The manner in which the present day CFOs have scaled-up their performance to meet the CEO expectations is truly commendable.





CFO concerns

The challenges faced by the CFOs as per the current survey present an interesting mix. Cost management, in wake of the inflationary pressure and high interest rates, has emerged as the top most concern, as voiced by almost 47% CFOs.

Managing costs has always been a key concern for the CFOs, however volatile markets leading to crunch in liquidity and credit availability has made it more critical then ever before. Apart from cost, CFOs termed expansion of job role (42%) as the second biggest challenge. In a bid to play a more diverse role beyond finance, CFOs are surely finding it tough to manage all hats with equal amount of proficiency. In order to take strategic decisions and complement the CEO targets, they need to gain an in-depth understanding of operations encompassing the entire organization, which makes their task even widespread.

Apart from playing a more dynamic role, the CFOs are faced with a constant challenge to deal with the ongoing global and domestic regulatory changes. Especially in wake of India's dynamic regulatory environment, including the new Companies Act and the proposed amendments to the Prevention of Corruption Act, the spotlight has shifted to the CFOs, thus making them the first line of defense and resposible for compliance. The changing regulatory environment was thus listed as another key challenge by almost 35% CFOs.

Other notable concrens on their mind are low or lack of quantity/quality/reliability of information, need to spearhead major change initiatives such as M&A, IT systems change and IPOs, establishing internal control and streamlining risks involved in business partnering and enterprise risk.

Promising outlook

The present day CFO community has truly evolved to be able to take on new challenges and continue to emerge as the strategic think-tank of organizations. Some of the proactive initiatives being taken by them include:

Focus on value: The focus on creating organization value continues to drive strategic CFO behavior, for instance by catalyzing the development of customized products/services and implementation of innovative cost-cutting models that do not erode organizational value.

Developing existing strengths: Instead of waiting for the markets to stabilize, they are focusing on leveraging internal strengths, for instance, working closely with their HR departments to increase the output of the existing resources.

Strengthening stakeholder relationships: CFOs are revisiting their current relationships with internal and external stakeholders and identifying ways to set and manage expectations to realistic levels in challenging times.

Aligning strategy to overall organizational goals: CFOs have started working along with the CEOs to focus on long-term growth strategies, making extensive use of technology and data analytics tools to provide real time decision-making support to the management.

Increased participation in policy formulation: Government bodies/committees have started displaying some openness by seeking inputs from the corporate sector in course of the policy formulation. CFOs can turn the opportunity in their stride by playing a larger role in helping the government resolve its issues around execution and support pragmatic policy formulation.

Abbreviations

Term	Definition
FS	Financial Services
CB	Consumer Business
CCI	Competition Commission of India
CFO	Chief Financial Officer
DTC	Direct Tax Code
E&R	Energy & Resources
ECB	External Commercial Borrowing
EU	European Union
FMCG	Fast Moving Consumer Goods
GAAR	General Anti Avoidance Rule
GST	Goods and Services Tax
IFRS	International Financial Reporting Standards
IRDA	Insurance Regulatory and Development Authority
LSHC	Life-Sciences & Health Care
M&A	Mergers and Acquisitions
PSU	Public Sector Unit
RBI	Reserve Bank of India
STT	Securities Transaction Tax
TMT	Technology, Media and Telecommunication
WPI	Wholesale Price Index

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