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Deloitte CFO survey
The CFO's guide in an uncertain landscape

Spring 2023 | Dutch Perspective
from the European CFO Survey

Introduction

A peak into the CFO's perspective on the economic future

Willem Blom | CFO Program Leader

The Dutch CFO Program helps CFOs stay ahead in an increasingly complex business environment. Among other initiatives, we aim to achieve this by analysing the sentiment of Netherlands-based Chief Financial Officers. We are pleased to present you the spring 2023 edition of the Deloitte CFO Survey.

Our bi-annual CFO survey collects input from over 1,100 Chief Financial Officers across Europe. This report provides an overview of the Netherlands-based CFOs' financial outlook, as well as their views on critical business risks, inflation, strategic priorities, funding and other factors they currently consider to be vital to success. Many CFOs—from private and public organisations—contributed to this Netherlands-specific report, sharing insights about a diverse number of Industries. To get an in-depth understanding of CFOs' current priorities and concerns, we divided our report into three sections: economy, sustainability and digitalisation.

To add to the discussion around whether economies will enter a recession or not and how organisations should deal with this, the first section, economy, explores how CFOs perceive their environment and the positioning of their organisation herein. On the macroeconomic aspect we have focused our attention on CFOs' sentiment, their view on the development of inflation rates and CFOs confidence of manoeuvring in a tough economic landscape. Subsequently we zoomed in on the specific strategies CFOs will employ going forward. The degree to which CFOs will seek risk and how they will go about managing their supply chains are important topics in this regard.

The second section is focused on sustainability. In specific, we asked CFOs to what extent they prioritise sustainability on the CFO agenda, whether they do so from a value or compliance perspective, and what role finance is expected to have in the sustainability transition. Additionally, we asked specific questions about whether CFOs track capital expenditures that are emission-free and whether they think they are ready for the impact of sustainability regulations, such as CSRD.

Our third and final section relates to digitalisation. Technologies develop extremely fast, and CFOs need to incorporate this development in the finance function. To gain more insight, CFOs were asked to reflect on the level of digital maturity of their organisation, the role of artificial intelligence in their decision-making and how they expect that this role will develop over the coming five years.

This year's edition is unique in that we dedicated special attention to the banking crisis that surfaced through the collapse of banks, such as Silicon Valley Bank and Credit Suisse, around the world. We compared CFOs' responses before and during the banking crisis on a wide range of questions and added these important findings throughout the report.

We hope that the findings, which you can find in more detail in the report, bring an interesting dynamic to your internal conversations. If you wish to discuss any specific aspects of the report, please feel free to contact me or one of our other Deloitte leaders. Their contacts are provided at the end of this document.

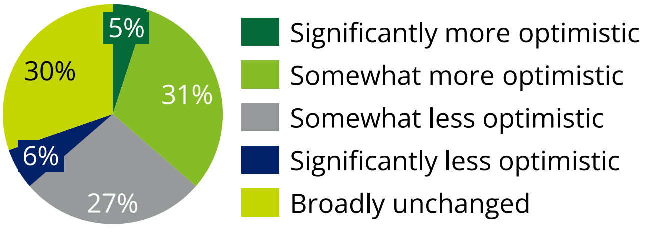
Results: Economy
Uncertain climate, optimistic CFOs and conservative strategies

1. CFO sentiment and inflation

CFOs are wary of the economic risks but remain optimistic about inflation and their ability to successfully manoeuvre a climate of high interest rates

Amid the slowing economic growth that was caused by the central banks' interest rate hikes, there has been heavy speculation as to whether the Netherlands will enter a recession or not. CFOs seem to share this uncertainty as they identify geopolitics, the economic outlook, and growth as some of the biggest business risks. This image gets further support as we see that CFOs are almost evenly divided across being more, equal and less optimistic than last year about their firm's financial prospects.

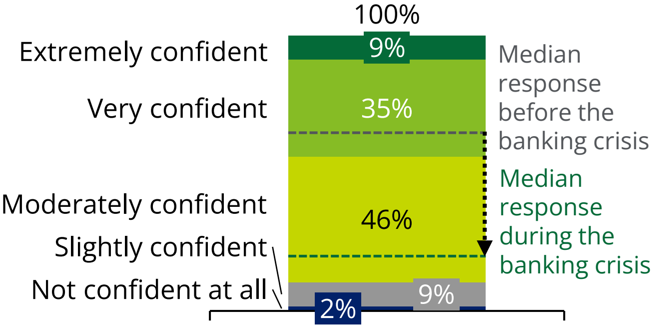
Chart 1. CFOs' sentiment on firm's financial prospects compared to last semester



Two industries stand out in terms of their optimism. First there is Oil & Gas, which relates to elevated energy prices that are expected to remain high amid geopolitical unrest. Second is the Banking services industry, reflecting a return to a climate of higher interest rates, positively impacting banking profits. On the flipside, both the Tourism & Travel industry together with the Professional Services industry are less optimistic. This can be explained by the fact that these are considered "luxury" services that can be easily economised on by their respective consumers and organisations in times of uncertainty.

While CFOs are wary of economic and geopolitical risk, they are confident about their ability to manoeuvre a climate of high interest rates.

Chart 2. CFOs' confidence in ability to operate successfully in a high interest rate climate



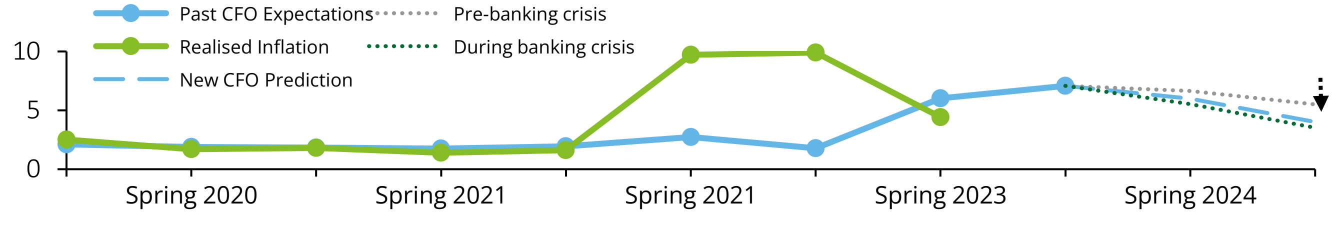
Although at a lower level, CFO confidence persisted throughout the banking crisis.

Turning our attention to inflation (Chart 3), CFOs' expectations up until 2021 were a good proxy to the realised inflation rate. During the following two semesters, realised inflation picked up much faster than CFOs expected. For Spring 2023 expected and realised inflation are in sync again, which indicates that the level of uncertainty with respect to inflation has gone down.

A year from now, on average, CFOs estimate that inflation will go down to 5.97%. This is slightly lower than their predictions during the fall edition of this report. CFOs had more optimistic inflation expectations during the banking crisis (5.53%), as they expect that the crisis will cause more conservatism in lending and spending.

Altogether, CFOs are conscious about the risks that accompany the current economic situation, they are confident about their ability to steer their organisation through the rough waters.

Chart 3. Forward looking inflation expectations vs past expectations and realised inflation (in %)



2. Different priorities for organisations

Amid economic and geopolitical uncertainty, the biggest priority going forward is internal growth, through organic growth and decreasing OPEX, while the appetite for external growth, through for example acquisitions, has taken a big hit

The high level of uncertainty that CFOs experience regarding the current economic and geopolitical situation directly reflects on how they intend to prioritise activities. While more CFOs expect to increase their workforce rather than decrease it, most CFOs actually expect to keep the number of employees in their organisation steady (Chart 4). The priority of most CFOs is clearly not on increasing employee numbers.

Indeed, Chart 5 shows that that the 2 main priorities for CFOs revolve around reducing costs. According to 60% of CFOs, reducing costs is more important now than it was last year, while 46% of CFOs focus on decreasing their operational expenditure.

A focus on cost reductions does not mean that CFOs do not seek growth. In fact, 43% of CFOs consider that introducing new products and services must remain a priority. However, CFOs indicate that they seek to do so organically rather than through acquisitions, and in markets in which they are already operating.

In funding their activities, CFOs indicate that they are comparably attracted to bank borrowing, equity financing and internal financing, as illustrated on Chart 6. Yet, CFOs state that they are significantly more dependent on bank borrowing than they are attracted to it. The opposite is true for internal financing. This implies that organisations will aim to substitute bank borrowing with internal financing.

Chart 4. CFOs’ expectation on change of number of employees in their organisation

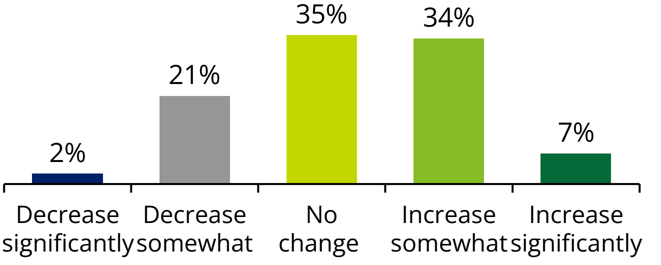


Chart 5. Insight on % of CFOs that consider these topics as more important than last year

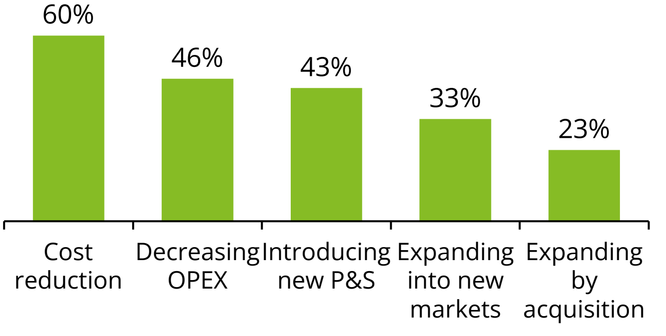
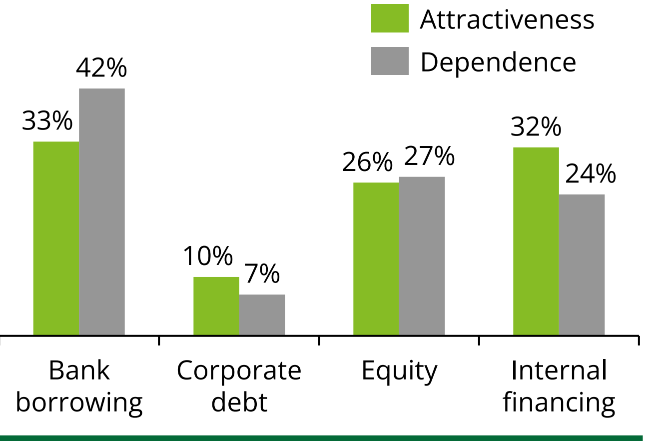


Chart 6. Preferred financing source vs dependence



Marjo Lamers | Director Resources and Control/Concern Controller Rotterdam Municipality

The increase in inflation and interest rates has caused quite some turbulence. It has also led to caution and a focus on risk mitigation among CFOs. After all, for many organisations it has become more difficult to comply with agreements. Also, there is a larger appeal to social support facilities, such as debt counselling. The expectation is that the economic turbulence will continue for the coming years. As we try to aid the people and organisations to the best of our ability, current development could also hit municipalities.

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3. Uncertainty, geopolitical tensions and risk mitigation

CFOs confirm signals around the global restructuring of economic activity amid geopolitical tensions, as they prioritise strategies that mitigate supply chain risk

As a substantial part of today's economic activity occurs through complex supply chains that are vulnerable for geopolitical developments, managing supply chain risk tops the CFO agenda.

Within this topic, the highest priority identified is about increasing the use of digital (planning) tools for supply chain management. These tools have become imperative for managing dispersed and complex supply chains through real-time and accurate flows of information.

CFOs have a special focus on strengthening the quality of their supply chains. As they seek to increase the collaboration with their suppliers and focus more on stress and scenario testing, CFOs prioritise both the relational and quantitative angle of supply chain resilience.

Our results show that CFOs also aim to bring down the level of complexity of supply chains as they focus more on nearshoring than offshoring and as they prioritise increasing purchases from domestic suppliers.

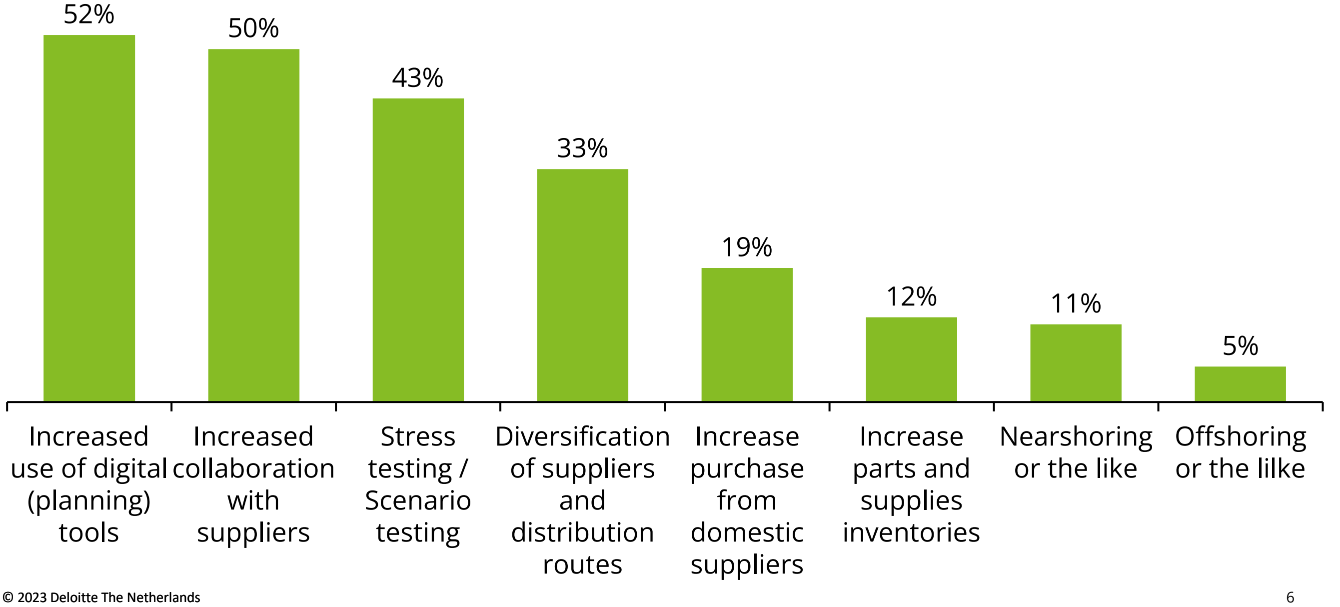
The goal is to have a resilient supply chain that can absorb unexpected events, which is reflected in the responses as well, as 33% of CFOs consider diversification of suppliers as a priority which further reflects this defensive strategy.

Hassan Bettani | Deloitte Partner - Financial Services

Financial markets today are even more closely interlinked and driven by trust than during the financial crisis of 2008. Whether and when there will be a domino effect is difficult to predict, but the decreased confidence in the financial sector increased the potential risk that investors withdraw their funds from financial institutions with a broader impact on the economy.

There are also other matters that should have the attention of CFO's. In economic terms, think of the rising oil prices, the pressure on consumer confidence and the higher interest rates on the mortgage market that can put pressure on housing. In terms of geopolitics, think of the war in Ukraine and tensions around Taiwan. Geopolitics divides the world more and more into power blocks. You see that as an organization you have to make choices. Where you decide to settle may result in supply chain, reputation and sanction risk.

Chart 7. Topics considered a "high priority" regarding the supply chain



Expert views on the economy

Uncertainty with respect to the economic and geopolitical climate necessitates caution

Sandra Phlippen

Chief Economist
ABN AMRO N.V.

Overall, corporates have been able to charge inflation, and more, to the consumer. You can see that profit margins have risen over 2022, also because of the limited increase of salaries until now. It could be that CFOs are trying to build financial buffers in anticipation of geopolitical tensions, uncertainties and the development of the economic situation. Especially for corporates with long and thin global supply chains this isn't unwise. Otherwise, you would be vulnerable for geopolitical developments. On the other hand, as organisations have successfully passed down the bill of imported inflation to the people, employees now demand higher wages. I think that shortages in personnel are structural. To some extent we can do something about it by increasing our investments in labour-replacing machines. We do see some signs that organisations want to invest in this. It remains to be seen what is going to happen when the support measures as a consequence of COVID-19 and the energy crisis are going to be stopped. It is important that the government is going to take a step back. An economy needs to renew to stay productive. With the increase in interest rates and a stop in support measures, I expect that the dynamics of our economy will come back. Bankruptcies help us get rid of the zombie organisations that have artificially remained operational without being of added value. It will be an extra help if we can solve shortages on the labour market and bring down inflation.

Soumen Mukerji

Partner Consulting -
Digital Finance
Transformation

Especially if you compare where we are now compared to a year ago, then there are signs of cautious optimism. The pandemic has receded and life has now more or less come back to normal. Europe has dealt well with the energy crisis and the dependence on Russia in gas supply has been neutralised significantly. In addition, China has opened its borders and the global supply chain is running again without the earlier interruptions. This has clearly benefited global trade.

Still, the war in Ukraine is not over and there are no signs as to when it will end. Take also the labour market situation. There is a dire shortage of personnel in the post pandemic world. I am certainly hopeful and optimistic about the future, but I think we need to wait a few more quarters before we can really draw any conclusions on what would be the new-normal levels of inflation.

Then there is the "post-COVID syndrome". As a result of the COVID crisis, the focus was on survival. With the Central banks hiking interest rates to tame the post-COVID inflation, borrowing is too expensive now. As a result, CFOs are now more cautious about making acquisitions. In addition, I see that organisations are now ensuring good internal housekeeping and preparing for when inflation goes down and interest rates fall. When that becomes a reality, CFOs will also likely go back on the acquisition trail.

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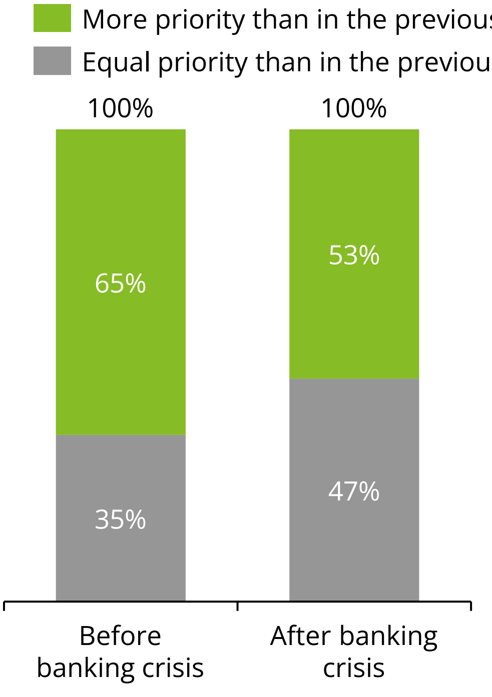
Results: Sustainability
A challenging top priority

1. Sustainability: Its place on the CFO agenda

Contrary to concerns about whether sustainability is really being picked-up by organisations, compared to last year, sustainability has become an even bigger priority while climate change has become one of the strongest concerns

In recent years, sustainability has taken a central stage on the agendas of CFOs across industries. Most of the respondents now consider sustainability a higher priority compared to previous years (Chart 8). Additionally, climate change has become a significant concern for CFOs, as the long-term impact of it on organisations can be devastating.

Chart 8: Improving sustainability as a priority for CFOs compared to the previous year



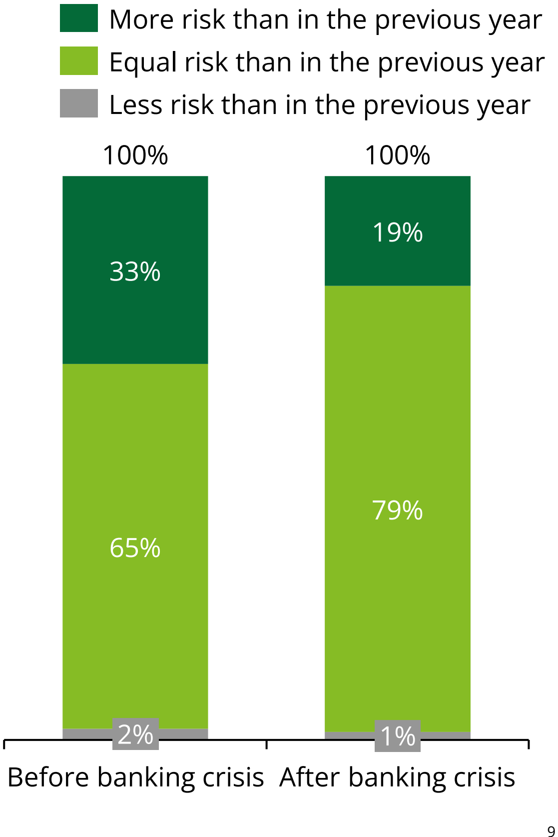
However, sustainability becomes less prioritised during times of uncertainty, such as the banking crisis, in which CFOs seem to shift back its priority in favour of mitigating business risks. Despite this complex dilemma, organisations must continue to prioritise sustainability, as it is vital for their long-term success amid an increasingly more sustainability-demanding legislative and financial environment. Investing in sustainable practices and technologies has become increasingly crucial for organisations to ensure their success in the future.

Therefore, organisations should view sustainability as an integral part of their long-term strategy, and stay committed to their sustainability goals, even during uncertain times.

Andrea Vogel | Partner
Consulting - Sustainability

Climate change will cause business models to change and the old models fail to contribute to sustainability targets. So, CFOs must look for new business models that contribute to issues such as reducing emissions. In fact, every invested euro should have a sustainable footprint. Considering this, how will you be setting up your strategy? I'm not advocating for a separate sustainability strategy like many companies have, but a single, integral whole: the organisational strategy.

Chart 9: CFOs' perspective on climate change as a risk over the next year



2. Sustainability: Motivation and regulatory readiness

Most organisations are more value-driven than compliance-driven in improving sustainability, despite low regulatory preparedness

Many organisations are placing a greater emphasis on improving their sustainability performance based on driving value, although the extent to which this is the case varies by industry. Technology & Equipment and Transport & Logistics organisations are more value-driven, while Business & Professional Services and Communication Services are more nuanced between value-driven and compliance-driven approaches. CFOs seemed to become more compliance-driven amid the banking crisis, showing that CFOs economise on sustainability efforts amid uncertainty.

As most organisations are not adequately prepared for the impact of sustainability regulations, CFOs do not have the luxury of economising on their sustainability initiatives. Only 15% of organisations consider themselves to be very to extremely ready, while the majority are only moderately to slightly ready. Furthermore, a significant proportion of organisations do not track the extent to which their capital expenditures (CapEx) is emission-free, and those that do often only track certain aspects of it. On average, only 24.1% of CFOs' CapEx is estimated to be emission-free.

To ensure a more sustainable future, organisations need to take a more comprehensive approach to sustainability, including value-driven efforts and regulatory compliance. This involves investing in the necessary resources and tools to track and reduce emissions, as well as staying up-to-date with the latest sustainability regulations.

Chart 10. Industries' approach on sustainability: top 2 most compliance and top 2 most value driven

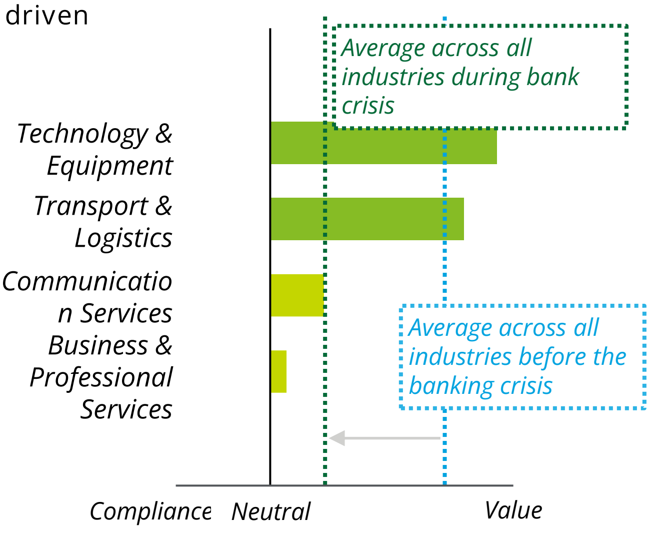
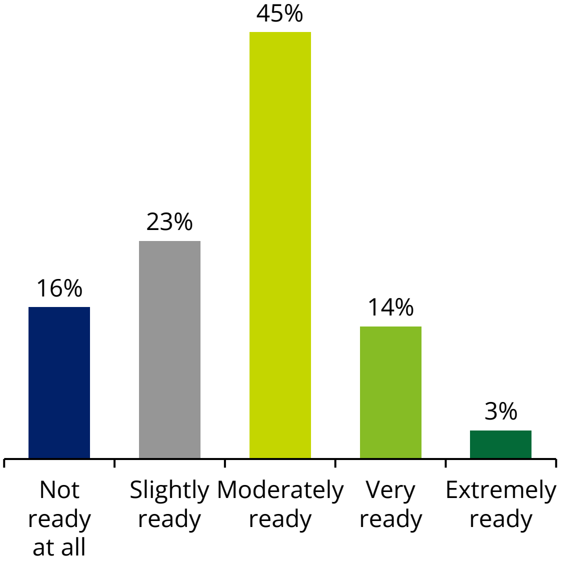


Chart 11: CFOs' perspective on their readiness for sustainability regulations



Sandra Phlippen | Chief Economist ABN AMRO N.V.

It does not surprise me that organisations do not track their emission-free CapEx. Organisations' view on sustainability is too broad. If you do this, or if you use sustainability only for PR purposes, there won't be any impact globally. Green CapEx would facilitate having focus. It is not about how green your balance sheet is, but about the pace of transitioning. Green CapEx is very concrete. A good proxy that you cannot cheat with.

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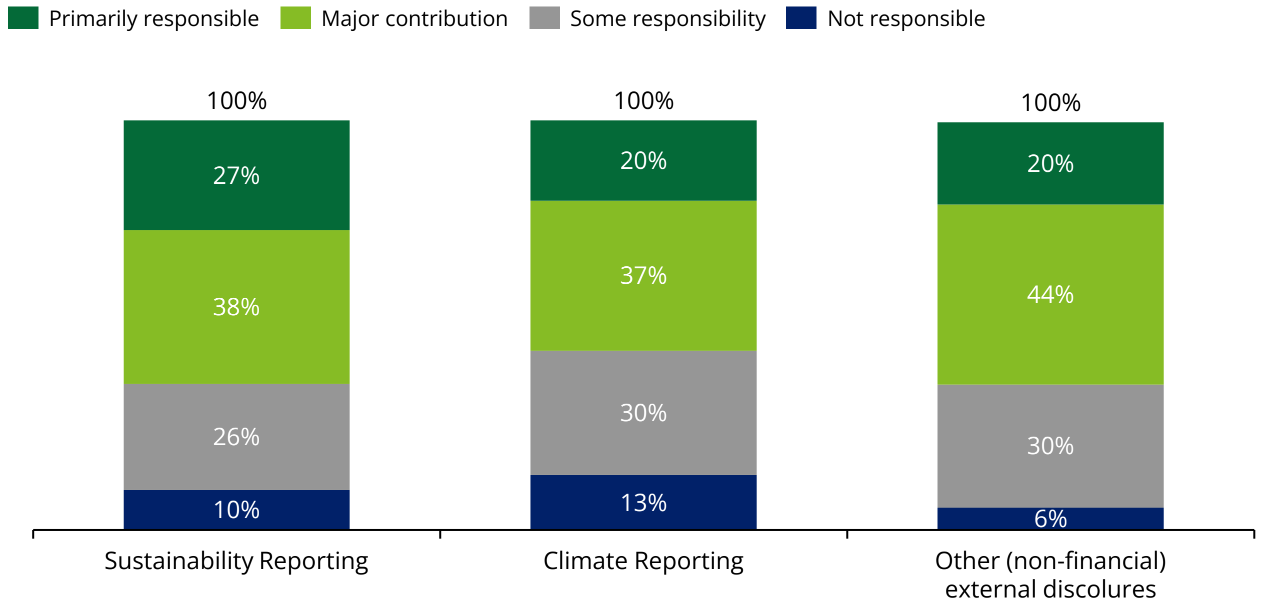
3. Sustainability: The role of the finance function

Our results indicate that the finance function is increasingly more expected to take ownership of climate & sustainability reporting within organisations

Chart 12: the role of the finance function in sustainability reporting



The expectation for the finance function to take a more prominent role in sustainability reporting is a growing trend within organisations. As stakeholders have become more interested in the organisation's environmental and social impact, the pressure to become more transparent and accountable when reporting has also increased. This has led to a greater emphasis on sustainability reporting, and the finance function is often seen as the natural fit for this responsibility due to their expertise in data analysis and financial reporting. As such, the expectation for the finance function to take a leadership role in sustainability reporting is only likely to continue to grow in the coming years.

Frank Verbeeten | Professor University of Amsterdam

The finance function is going to get a new role in setting and monitoring sustainability goals due to its affinity for analysing and steering upon information. Companies have already begun assessing an investment proposal's sustainability aspects before turning to the financial point of view. This creates a whole new dynamic compared to only considering sustainability afterwards. The costs of CO_2 are often included in companies' current calculations, but if they want to paint a proper picture, they cannot only take into account one single sustainability aspect. Doing so would lead to lopsided decision making.

Andrea Vogel | Partner Consulting - Sustainability

What should you (not) invest in? This is the question CFOs face when they want to make a sound sustainable business case. As a CFO, apart from financial aspects, you will have to factor in sustainability aspects into your decision-making too. If we want to stay within the limits of our earth, we must abandon profitable business models conducted at the expense of ESG. A failure to put sustainability centre stage means you may end up with stranded assets and an outdated business model for which funding is impossible to find. You will thus squander your reason to exist and it will become hard to attract staff.

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Expert views on sustainability

Organisations needs to have a green strategy, steered through KPIs and fuelled by data

Sandra Phlippen

Chief Economist
ABN AMRO N.V.

We as ABN are also not there yet. Taking the responsibility for your organisation's operations with respect to Scope 1 and ensuring that suppliers embrace sustainability, is relatively doable. But Scope 3, getting your customers to embrace it, is not so easy. But even then: if every organisation and consumer takes their responsibility on Scope 1 and Scope 2, then Scope 3 becomes green by itself. A major dilemma for every Board, and thus also the CFO, is how to deploy a green strategy and translate it to key performance indicators (KPIs). This should go together with thinking about which commitment you want to signal.

Frank Verbeeten

Professor
University of Amsterdam

Sustainability has unmistakably landed with CFOs. Organisations look at their finance departments to streamline the information about this issue and to lift it to the level of maturity of their financial administration. That last bit is not that easy. Sustainability and digitalisation come hand in hand. In order to report about how sustainable you are, you need data from your suppliers in the chain. I am therefore also surprised that SMEs seem to not be overly worried about sustainability reporting, even though corporates are certainly going to knock on their door to get information about how sustainable they are.

Hassan Bettani

Deloitte Partner
Financial services

I do see the ESG concept reflected functionally at banks and insurers. In capital provision to companies, in mortgages and in asset management. The fact is that ESG is here to stay for companies and this implies that ESG needs to be integrated in all kinds of processes, from risk management to resource allocation. Materiality matters, so organisations should pick one or two areas where the organisation will have disproportionate impact. Finally, there is a need to upgrade processes to measure the carbon footprint or societal impact of products and services, and rethink the performance management dashboard to integrate ESG.

The digital finance organization remains an emerging concept at many financial institutions, and CFOs are still at one remove from the centre of digital transformation efforts, even though they own and manage much of the relevant business information that feeds such initiatives. For organisations, advancement in terms of ESG necessitates a digital transformation, as this will help the finance function to provide real-time, data-enabled decision support. We see that CFOs and their teams are the gatekeepers for the critical data required to generate forecasts and support senior leaders' strategic plans and decisions, particularly around ESG. There is still much to win.

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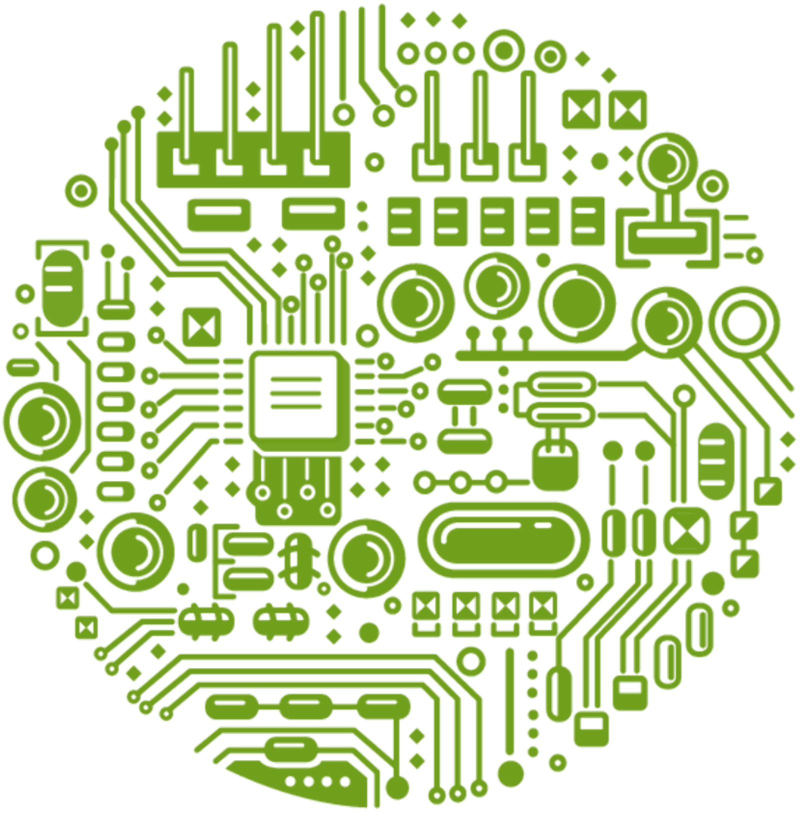

Results: Digitalisation
Moderately mature, but developing fast

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1. Digitalisation: despite AI attention, moderate maturity

While nowadays ground-breaking AI developments are often spoken about in the news, most CFOs currently view their organisation as only moderately digitally mature

As technology advances, organisations start to recognise the benefits of AI and digital tools to streamline processes, increase productivity, and gain insights. With access to vast amounts of data, these technologies provide cost savings by automating routine tasks and help organisations stay competitive by adapting to changing markets. As a result, more organisations are considering the adoption of AI and digital tools to drive growth and innovation.

Despite this growing interest, many organisations are still far from being digitally mature. According to the CFO Survey results, most organisations have still a long way to go in exploring the potential of these technologies. Over two-thirds of CFOs perceive their organisation as only moderately to slightly mature (Chart 13).

Chart 13: CFOs perspectives on their organisation's digital maturity

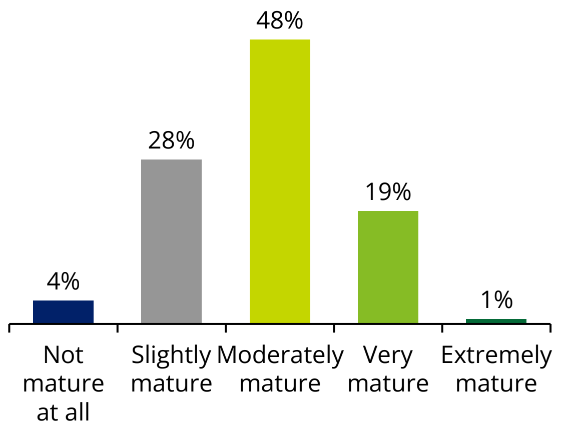
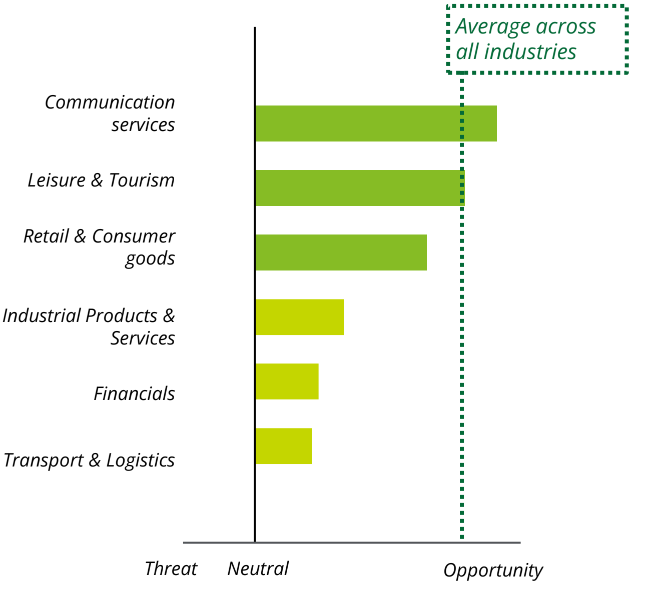


Chart 14. Industries perception of AI as an opportunity – top 3 with the highest and bottom 3 with the lowest rankings



That being said, AI is increasingly seen as an opportunity (Chart 14). Industries such as Communication Services and Retail & Consumer Goods are recognising its potential to enhance customer experiences and optimise operations. However, some industries, such as financial institutions, have more nuanced views.

Organisations might remain hesitant in adopting AI due to concerns around job impacts and ethical considerations.

Soumen Mukerji | Partner Consulting – Digital Finance Transformation

It will be interesting to see how organisations are going to incorporate digitalisation in a meaningful way. Above all, CFOs should not see it as a one-off thing. It's not just automating a process and digitising it. Take artificial intelligence. If that is used in the right way, it will be more "alternative" intelligence and supplement decision making in unprecedented ways. CFOs cannot ignore these developments and have to work with them. Decisions are made based on algorithms more than ever. Fortunately, the human touch is never going to disappear. That's my belief. We will continue to play a big role in judging and deciding. No matter how good the technology is.

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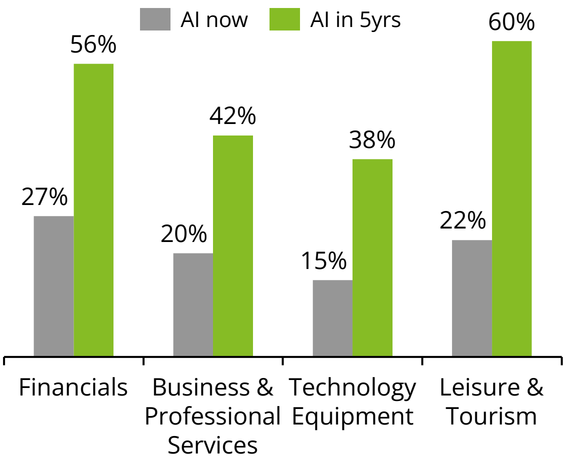
2. Digitalisation: the future of AI tools in decision-making

In line with the current AI race among tech giants, CFOs state that leveraging AI and digital tools to support decision making is expected to triple in the next 5 years

Survey results show that the use of AI and digital tools for decision-making is on the rise, with an expected tripling of the percentage of decisions based on these technologies from, on average, 13% now to 39% over the next five years. This trend is driven by the increasing availability of data and the development of more sophisticated AI algorithms that can analyse and interpret that data (Chart 15).

Chart 15. Industries with top increase in AI use (in %) for decision making in the next 5 years



While the use of AI and digital tools for decision-making is expected to increase across all industries, this increase is specifically high for sectors such as Financials, Business & Professional Services, Technology Equipment and Leisure & Tourism. In these industries, organisations are using AI and digital tools to gain deeper insights into customer behaviour and preferences, optimise supply chain management, improve marketing effectiveness, manage risk, and enhance customer service. For example, in the retail industry, data can be collected and analysed to improve customer experiences and operational efficiencies. AI can be used to personalise recommendations, optimise pricing and inventory, predict demand, adjust staffing levels, and improve safety and security measures.

Moreover, in financial institutions, AI is being used throughout all activities, from fraud detection and risk management to personalised client services and investment recommendations.

As the capabilities of AI and digital tools continue to evolve, it is likely that we will see even more widespread adoption in a variety of industries, with organisations relying on these technologies to help them make faster, more informed decisions and stay ahead of the competition. Important is that there are also concerns around ethics and security in using AI for decision-making in these industries, particularly around issues such as bias, cybersecurity, privacy, and accountability. As organisations grow fast, they should not lose sight of these aspects of AI.

Sandra Phlippen | Chief Economist ABN AMRO N.V

I expect that with the arrival of artificial intelligence, the real specialists will distinguish themselves from those who pretend to be specialists. The latter group has more to fear from artificial intelligence, I suspect.

Marjo Lamers | Director Resources and Control/Concern Controller Rotterdam Municipality

Everything we do, also with respect to digitalisation, has to be done for the people and has to land well in the city. Whether we have to be more present in certain neighbourhoods, have to consult the people more visibly or have to act on the spot, data is going to help with all of this. We are looking a lot into how digitalisation can be a prerequisite and how we can facilitate this movement.

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Expert views on digitalisation

Growing fast, but not there yet

Frank Verbeeten

Professor

University of Amsterdam

CFOs do not keep track of the newest technologies as much as a fintech start-up or scaleup would do. Yet, CFOs do often know what is necessary for the finance function without having to know every aspect of an application. I don't think CFOs need to oversee the whole ICT-landscape in detail, even though ICT is part of the CFO portfolio.

Something important is also the investment in the technological competences of employees, because these are essential for the digital transformation of processes within the organisation. They are also extremely important for discovering new technologies that can be of added value to the organisation. Think of artificial intelligence, new ERP-systems, robotic process automation and machine learning. You would want to see that more experienced employees are also trained along these lines, but I see that we invest insufficiently in this group. Especially in a tight labour market this is of utmost importance.

To foster the use of management information, something to keep in mind is the splitting of functions, like they do in the United States. You would then have a Chief Accounting Officer that pulls up the data, analyses it and reports about it. The CFO on the other hand would then look forward, make strategic plans and be concerned with acquisitions. The Chief Accounting Officer would also be in the Board to safeguard reliability of information provision.

Andrea Vogel

Partner Consulting - Sustainability

I do think it's important for CFOs and their organisation to be able to respond to changes with agility. Finance can help with this through forecasts, key metrics and scenario planning with '*What if*?' then being the main question. Finance can increasingly rely on modelling built on historical and predictive data to do this. To this end, finance departments will often have to adopt a different kind of skillset than they are traditionally used to having. I also see CFOs and finance functions investing in data specialists and data analysts. In fact, further digital transformation requires finance colleagues who have knowledge of the technological possibilities and have high-quality knowledge to model and interpret data. At the very least, embed that knowledge of technology and data in your finance organisation.

Many of the tasks that Finance still mostly performs in spreadsheets could be fully automated. This is commonly explained as '*the process is running, so why interfere with it?*' But in the long run that's unsustainable, most certainly if you want to combine non-financial and financial data to draw conclusions for the organisation. In fact, transactional finance—from invoice processing to reporting with a business intelligence tool—could be completely touchless. This is no futuristic notion; it can be done today. But it requires finance functions to have the nerve to take that step.

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Outside Experts: Interviews

A changing role of finance and the need for more flexible organisations

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Expert Interview Ralph Wetzels

Executive Vice President Finance Upstream (CFO) - Shell Upstream

“As a company, we obviously face huge challenges and we will need to invest heavily over the next 10, 20 and 30 years, which likewise means finance’s role will change.”

Ralph Wetzels, Executive Vice President Finance Upstream at Shell, understands that CFOs are still optimistic about the future, but at the same time he knows that Shell and himself have plenty of challenges ahead, in the energy transition and in offering reliable, affordable and cleaner energy. But in resourcing too, in attracting expertise in a tight labour market and in keeping the supply chain up and running in the midst of all the geopolitical turmoil.

CFOs continue to be optimistic about the future and their long-term inflation expectations are low. Wetzels understands where this sentiment is rooted in. ‘Central banks worldwide, including the Federal Reserve and the European Central Bank, have responded to inflation and a distinctly overheated market quickly, decisively and with coordination. Central banks have clearly learned from previous crises. Higher interest rates will tone down economic activity and with it, inflation will also visibly fall, although this may take some time. Obviously, there was also the question as to how long interest rates could remain at such low levels, especially in combination with major government support measures during COVID-19. Being in the Upstream business unit of Shell, we focus on finding and extracting oil and natural gas and building and operating the required infrastructure. While oil and gas demand is back around pre-COVID levels, we do see regional differences. Asia and China in particular are still lagging behind. The measures against Russia did result in big changes on the supply side.’

Geopolitical tensions

Wetzels has more concerns about the geopolitical tensions. ‘Especially in our trading activities, where prices are highly volatile, they trigger many uncertainties - most notably on the LNG side. It calls for a robust risk management system, which includes a model for the possible scenarios for those global tensions. For instance, we can ill afford to misjudge our outstanding positions. Fortunately, our experts, using their knowledge and their systems, are on top of this. Day-in, day-out. This also creates opportunities for an international group like Shell. As Finance, we obviously look continuously and critically at our traders’ mandates, manage our value-at-risk and discuss any possible scenarios, including the more extreme occurrences, the so-called black swan events.’

Impossible to replenish

While CFOs in the survey expect to have to cut staff in the short term, Wetzels says Shell Finance still has plenty of opportunities to offer. ‘The challenges in the supply of oil and gas, but especially our energy transition to cleaner energy under the name Powering Progress, means we are always looking for new expertise. We do this all across the world.

We compete with accounting firms, strategy consultants, start-ups and investment banks alike. Shell Finance is already a very diverse team and we have a strong ambition to be an attractive employer, as diverse and inclusive as possible.

Expert Interview Ralph Wetzels (continued)

Executive Vice President Finance Upstream (CFO) - Shell Upstream

Our recruitment is managed centrally from The Hague and London, but locally too, think India, Poland, Malaysia, and so on. Fortunately enough, there is still plenty of interest and talent around. New employees tell me they are eager to be part of Shell's transition. As a company, we obviously face huge challenges and we will need to invest heavily over the next 10, 20 and 30 years, which likewise means Finance's role will change. This makes working for us attractive. Shaping the major transition is interesting, but ensuring a reliable supply of affordable energy in the most sustainable way possible is even more so. Cooperation with governments, communities and financiers is an incredibly important aspect of this.'

Long-term partnerships

The scarcity of expertise and particularly the pressures challenging the supply chain internationally, means it is sensible to continue the close cooperation with suppliers, Wetzels considers. 'We strive for long-term partnerships anyway, since we have long term targets. The construction time of our Upstream projects often extends beyond five years while their operational life is twenty-five to thirty years. In such a situation an overly tight, short-term pricing policy is unhelpful. This has precisely been our starting point when we entered into discussions with our suppliers following the outbreak of COVID-19. We joined efforts to see how we could get through this difficult period. This was highly appreciated and led to strong, trust-based partnerships. What's more, in thinking about the long-term we make sure that we both look for efficiency in the chain together and invest in long-term sustainability together. Sometimes we even carry out our R&D together, making the supply chain more reliable, efficient and truly sustainable as well.'

'Often all of this is based on a global framework agreement, which we enter into with those parties for a long time,' Wetzels continues. 'A type of call-off agreement that our operating companies can also use. They thus benefit from Shell's scale. Sharing a great deal of operational data is another new component, allowing us to improve the reliability of products and materials together. That's pure profit too. Both financially and for the environment.'

"Shaping the major transition is interesting, but ensuring a reliable supply of affordable energy in the most sustainable way possible is even more so. Cooperation with governments, communities and financiers is an incredibly important aspect of this."

High on the agenda

More than ever, sustainability ranks high on the CFOs' agendas. To Wetzels this is definitely not surprising as it most certainly applies to him as well. 'Being an energy company means you are under the watchful eye of various stakeholders, so at Shell we have a long-standing tradition of broad and integrated reporting. Not just about financial data but also on key non-financial data, such as emissions and energy use. Likewise, worldwide we report what amounts we pay in taxes and other levies per country, on top of which we obviously issue many stock exchange related reports, such as our reports to the US SEC on oil and gas reserves.'

Expert Interview Ralph Wetzels (continued)

Executive Vice President Finance Upstream (CFO) - Shell Upstream

'The amount of CO_2 we emit is also taken into account in the future investments we make. I review every investment proposal from the point of view of safety and emissions impact. Only then do I move on to the financials, economics and exposures. I fully support this way of working and society expects us, as Shell, to continue to take sustainable steps.'

"I review every investment proposal from the point of view of safety and emissions impact. Only then do I move on to the financials, economics and exposures."

Digitally mature?

CFOs indicate they only have moderate digital maturity. Wetzels: 'I feel CFOs as a professional group still have a step to take. Of course, in financial, economic, accounting and analytical terms we are strong, but now we really need to enhance our digital savviness. And that's quite hard to do. New technology is coming at us fast - look at ChatGPT. As a financial manager, you have to learn something new every week. I recognise this with myself. The latest thing I have learned? That artificial intelligence can also play a role in decision-making, either in a support role or otherwise. What I know about the possibilities of AI based planning and forecasting increases by the month. We have currently started replacing our Upstream SAP system because we want to have a more professional system. In this respect my question is, how do you set up your framework such that it is future-proof. We are contemplating on how to better design our processes and our control framework.

This project will have repercussions for the entire company, from planning and the supply chain to operations and finance. So, digitalisation makes the finance profession even more interesting. In short, we have no time to sit idle, not even for a moment.'

Expert Interview Javier van Engelen

Group CFO - Signify

"Only the flexibility of your organisation gives more security about how you can deal with the fast-paced developments in the world."

Javier van Engelen is Group CFO of Signify since June 2020. He doesn't believe much in three- or five-year plans, but rather in a long term strategy coupled to a flexible organisation. "Only those elements provide sufficient security in the volatile world of today."

Van Engelen is surprised about the optimism of CFOs. "By nature I am an optimistic person, but with a potential crisis in the United States, a war in Europe, pressure on the banking sector and elevated levels of inflation and interest rates, the economic prospects are somewhat less positive. The only positive signal is that China has opened again. From all of these developments we can infer that the world has become more volatile and that there is no point in approaching the future with two-, three- or five-year plans. Because those plans will never materialise. Only the flexibility of your organisation gives more security about how you can deal with the fast-paced developments in the world. Rolling forecasts, rolling budgets, and scenario planning coupled to supply chain planning are aspects of the finance department that belong herein."

Strategy as a handhold

That does not mean that the concerns about strategy can be tossed in the bin, van Engelen explains. "On the contrary, you need that as a guideline for the long term to make it clear to stakeholders where you want to go to. This indicates the path that you want to take, despite all volatility. At Signify, this is provided in the form of *sustainable, connected lightning*. This all makes the strategy a handhold, aside from the flexibility of the organisation itself. That flexibility we, also within finance and our management team, translate in making a Plan A, B and C, among others." The past two to three years have shown that scenario planning is anything but a redundant luxury. Van Engelen: "COVID-19 stopped the global supply chain, with shortages of containers and raw materials. Now there are geopolitical tensions that again have a major influence. That makes that the world de-globalises into regional markets. Asia produces more for Asia, Europe more for Europe and North-America for North-America. We too look at how we can reduce our dependencies on a global supply chain."

Sustainable key performance indicators

Signify formulated sustainable key performance indicators ten years ago already. "To put it like this, we are sustainable by heart. With this, we have taken the six sustainable development goals that are closes to our heart as an organisation. Those we have worked out in reports and we have been steering on by means of key performance indicators. We even get—and that is rather unique—reasonable assurance on our sustainability reports by our accountant. It is however the question whether our standards fit with what the European Union asks from us, in the form of the EU Taxonomy and legislation. We will have to adapt our set of reporting and steering, I expect. Aside from that, I believe that as a CFO you simply have to take this topic on. Management reports and control around

Expert Interview Javier van Engelen (continued)

Group CFO - Signify

sustainability do not have to be perfect at the first go. You learn along the way.

Digitally mature?

In the CFO Survey, CFOs state that they do not think that they do not think their organisations are not sufficiently digitally mature. Van Engelen reacts almost philosophically. “Who is to say that, amid emerging technologies such as ChatGPT, their organisation is digitally mature? The technological developments go faster than you as a human being can follow. As a CFO, my portfolio contains digital and ICT. What we as Signify can improve on is the provision of a seamless digital experience to our customers. We can also set more steps in paperless working and process standardisation. For this we need a younger generation for whom a digital way of working is as logical as can be. Whether finance can also apply end-to-end automatisation? From invoice to business intelligence reports? I think that does not depend so much on finance, but rather the operational processes that finance supports. If those are digital, then finance can implement end-to-end automatisation based on this. One goes hand in hand with the other.”

> “Who is to say that, amid emerging technologies such as ChatGPT, their organisation is digitally mature? The technological developments go faster than you as a human being can follow.”

Finally, our conversation moves towards giving an outlook to share- and stakeholders.

Van Engelen: “With the current, volatile developments, you almost cannot do that anymore. We also see this realism with the shareholders whom we updating on our developments. This is also why we, in our latest press conference, announced a bottom line but not a topline growth. I see more and more CFOs and their organisations communicate to the market in this way, which is wise.

Closing

A call for a relentless and integrated approach to key topics

Mohamed Bouker | Partner Consulting

Finance and Performance Leader

As we are facing the realities of a different economic context, we see new priorities arising with respect to the economy, sustainability, and digitalisation. The CFO Survey explored the current state of precisely these three areas and their impact on organisations.

Amid speculation about whether economies will enter a recession or not, CFOs indicate that the economic climate is one of the biggest business risks and, as elaborated on by Sandra Phlippen, they are likely to cut down on employment. While CFOs remain optimistic about inflation and their ability to manoeuvre in the current economic situation, they act in line with Hassan Bettani's call for caution and conservatism. In these tough times, the focus of CFOs is on organic growth, reducing costs, and avoiding external growth strategies, such as acquisitions.

Digitalisation has become critical for organisations to stay relevant in today's fast-paced business environment. Still, most organisations view themselves as only moderately digitally mature, even though they recognise AI and digital tools as significant opportunities. Nevertheless, important progress is expected to be made as CFOs anticipate that leveraging AI and digital tools to support decision-making will triple in the next five years. As emphasised by Soumen Mukerji, organisations must focus on investing in their digitalisation initiatives to stay competitive.

Finally, sustainability has gained even more traction among organisations across all industries this year, with climate change being one of the biggest concerns of CFOs and sustainability being one of the top priorities on the CFO agenda. Many CFOs have indicated that they approach sustainability from a value point of view, rather than solely compliance.

Despite the increased focus of CFOs on sustainability, results show that organisations deprioritise sustainability and climate change in the face of uncertainty, such as during the banking crisis. CFOs also become more compliance-driven than value-driven in this period. We believe CFOs should do the contrary. As voiced by Andrea Vogel, it is crucial for organisations to recognise sustainability and climate change as essential parts of their long-term strategy and remain dedicated to their sustainability objectives, even in uncertain times. As CFOs indicate that they are not fully prepared for upcoming regulations and are insufficiently tracking emission-free capital expenditure, keeping on track with respect to the role of sustainability and climate change on the CFO agenda is even more important.

CFOs expect that the finance function will drive climate and sustainability reporting within the organisation and indeed, as stated by Frank Verbeeten, the finance function's role at the intersect of data, reporting and decision-making enables the CFO to effectively report on sustainability initiatives and ensure compliance with upcoming regulations.

As we navigate an uncertain economic climate, it is important that organisations that want to be distinctive must relentlessly approach the topics of economy, sustainability and digitalisation in an integrated manner, to ensure they remain competitive, adaptable, and sustainable for the future.

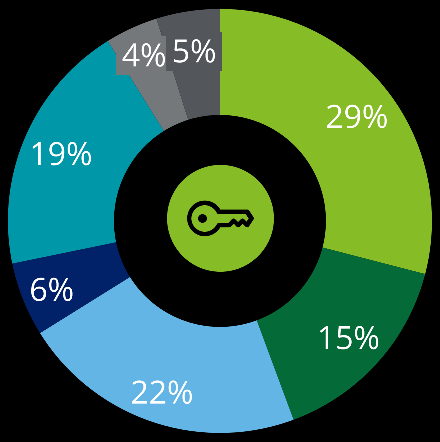
CFO Survey SampleBackground

An overview of the survey's sample composition by industry, ownership type, and annual revenue size

1. Composition by industry

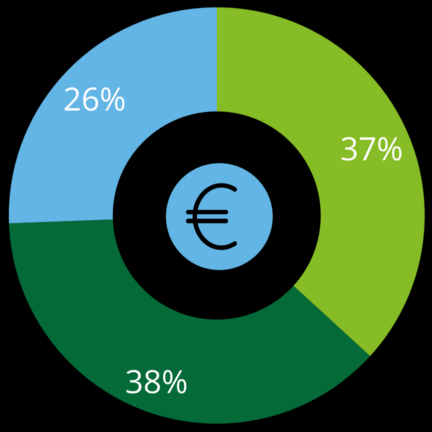
Aerospace & Defence	1,6%
Automotive	1,6%
Business & Professional Services	8,2%
Communication Services	5,7%
Construction	2,5%
Energy (Non-renewable)	5,7%
Finance	6,6%
Healthcare	1,6%
Industrial Products & Services	9,8%
Materials	3,3%
Public Sector	2,5%
Real Estate	1,6%
Renewable Energy	1,6%
Retail & Consumer Goods	13,1%
Technology Equipment	7,4%
Travel & Leisure	4,9%
Transport & Logistics	5,7%
Utilities	0,8%
Other	15,6%

2. Composition by ownership structure



Family Owned
Closely Held
Private Equity Owned
Venture Capital Backed
Publicly Traded
State Owned
Other

3. Composition by revenue size



Less than 100 million Euro
>100 and <999 million Euro
1 billion Euro or more

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Outside Experts

The team would like to give special thank you to all the outside experts whose views were incorporated in this edition.

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