

## CFO Insights

### What's keeping CFOs up in 2014?



In 2012, when we published the first *What is keeping CFOs up at night?*, the main takeaway was that we were living in interesting and volatile times. Fast-forward to 2014 and the same can be said for today, although some of the drivers certainly differ. While the economic landscape may be (thankfully) tamer, the pressures on finance chiefs and their companies to perform continue to mount. Some, such as regulatory uncertainty, are ongoing, while others, such as data security, have quickly come to the fore. In the Deloitte<sup>1</sup> U.S. CFO Program, we have a good handle on the scope of pressures facing finance chiefs. And in this *CFO Insights*, we share a list of current concerns gleaned from our regional CFO Forums, which number more than 100, our 450+ CFO Transition Lab™ sessions, and our *CFO Signals*™ survey, which quarterly takes the pulse of large company North American CFOs.<sup>2</sup> Individually, each concern signifies an area that demands finance leadership; taken together they illustrate just how integral finance is to the day-to-day operation of any organization.

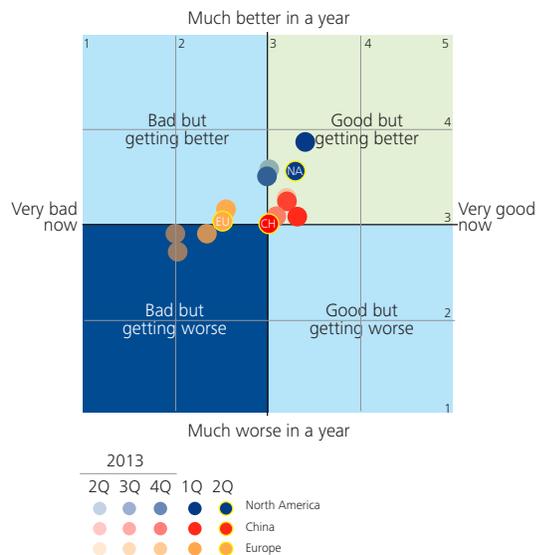
**1. Worldwide economic health.** For the better part of four years, global economic health has been a top concern for finance chiefs in our *CFO Signals* survey. In particular, concerns about Europe and, more sporadically, China have gnawed at confidence. Still, it is a matter of degree. The Q1 2014 survey, for example, marked a major change in sentiment toward Europe, with just 47% describing it as bad, a big improvement from 63%, 80%, and 90% in 4Q13, 3Q13, and 2Q13, respectively.<sup>3</sup> In the same survey, the percent who viewed the trajectory of the Chinese economy positively dropped from 38% (in 4Q13) to 33%.<sup>4</sup> (Figure 1.) Overall, the global economic malaise, uncertainty about Central Bank moves, and concerns about a slowdown in China are fanning CFOs' fears. But those concerns have been countered by the confidence in the North American economy. In fact, finance chiefs in the same survey named North American economies as their top growth aid, cited by 86% of CFOs (up from 72% in the previous survey)—well ahead of China (37%) and Europe (29%).<sup>5</sup>

**2. Policy/regulation uncertainty.** Two years ago, the two policy areas that made it to the top of many CFOs' lists of core concerns were corporate taxes and health care. Much of the problem related to the lack of clarity on both fronts. And while many CFOs would argue that little has been resolved on those specific issues, they also tell us that uncertainty on state and federal regulations overall is one of their most troubling issues. And for some companies it's almost an existential choice: if the regulations go one way, costs may go up,

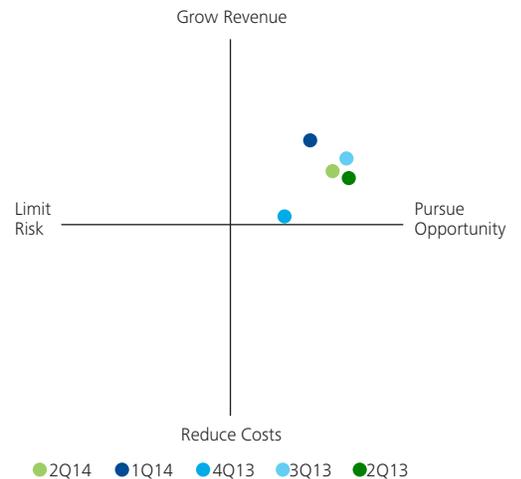
but if they go another way, the whole business model may have to change. This is especially true among financial-services and health-care CFOs, who are facing a lot of regulatory ambiguity as well as competing regulators. The result is that CFOs are spending more time on regulatory affairs. In fact, in the Q1 2013 *CFO Signals* survey, some 40% of CFOs said they were responding to the regulatory environment by initiating or upping their public-policy advocacy efforts.<sup>6</sup>

**3. Security. Security. Security.** Given that security breaches have become almost commonplace in Corporate America, cyber-security has ascended rapidly on CFOs' priority lists. They have good reason to be concerned. According to the Ponemon Institute's 2012 study, incidents of data breaches cost U.S. companies an average of \$194 per compromised customer record, and the per-incident costs averaged \$5.5 million.<sup>7</sup> Moreover, attacks are becoming more frequent, opportunistic, and sophisticated. And given the proliferation of mobile devices, the concern is not only to keep hackers out, but to wall them off from proprietary and private data once they get in. The threat is not lost on CFOs, who seem to be stepping up defenses: one-third of finance chiefs in the Q1 2014 *CFO Signals* survey say they will make significant improvements to their risk management approaches (54% for CFOs in the technology sector) in 2014.<sup>8</sup>

**Figure 1. How do you regard the current and future status of the North American, Chinese, and European economies?** CFOs' assessment based on 5-point Likert scales: "very bad" to "very good" and "much worse" to "much better" (n=109)



**Figure 2. What is your company's business focus for the next year?** CFOs' assessments based on 5-point semantic differential scale with opposing choices as noted (n=13)



Source: CFO Signals survey

**4. Talent availability—and costs.** Finding and developing the right talent is invariably a top agenda item for transitioning CFOs. In fact, when we ask CFOs what they would like their legacy to be, a large number actually talk about leaving a sustainable organization that can foster finance talent. To get there means identifying people not only with the necessary skill sets, but also intangibles—such as curiosity and the ability to team—that will help finance become a better business partner. It comes at a cost, though, in terms of developing effective performance management systems, compensation systems, training programs, and coaching. And while human resources should be the natural support organization in all these areas, CFOs often find they have to rely on their own teams to do the work. Still, without the right people in place, there are bigger costs: the inability to execute on a CFO's critical initiatives and a lack of good finance ambassadors throughout the organization.

**5. Competitive unknowns.** While finance chiefs are plowing ahead with their growth plans, one area that is proving troublesome is predicting their competitors' next steps. Rising competition has been on the list of CFOs' most worrisome risks for the better part of two years. What exactly that competition is going to do next is often a black box, and specific worries include "competition in industry due to prolonged low-interest-

rate cycle," "changing industry dynamics," "competition/pricing/overcapacity," and "irrational competition."<sup>9</sup> Still, the changing competitive landscape also presents an opportunity for CFOs to fulfill the strategic role they desire. In fact, finance chiefs indicate having an increasing voice in strategic decisions, especially corporate or cross-unit decisions, such as deciding which industries to enter/exit and which businesses to grow/shrink.<sup>10</sup> And when it comes to competitive forces, CFOs can help leaders determine which of the volleys to fight and which to ignore.

**6. Execution missteps.** Externally, CFOs may worry about competitors and the economic environment, but internally, they have another fear: their organizations' ability to execute. In particular, they are concerned about executing against current and new strategies, business plans, and priorities. The fear is magnified as companies expand globally and must juggle a multitude of foreign accounting, tax, legal, compliance, and fraud risks. In response, though, CFOs say they and their teams are doing much more than "providing information, analysis, and metrics," which has basically become table stakes. In the Q4 2013 *CFO Signals* survey, 85% of respondents said their finance organizations contribute substantially to business strategy support, and 66% contribute to competitive strategy.<sup>11</sup>

**7. Data challenges.** Much has been written about the unprecedented quantities of data companies collect, from their own operations, supply chains, production processes, and customer interactions. Even more has been made of the promise of analytics for competitive advantage. But in our CFO Forums, we're also hearing about the tension between a company's ability to secure information and what it does with it. While there's really no limit to the amount of data gathered, the question is how that data, particularly about customers, is used in a logical, meaningful fashion. One possible solution: assign ownership of analytics to finance, which innately knows how to balance the risk/reward equation. Findings from *The Analytics Advantage*, a recent Deloitte Touche Tohmatsu Limited survey, found that finance is the area most likely to invest in analytics (79%) anyway.<sup>12</sup> Given that many finance organizations traditionally have used data-driven analytics for strategic purposes, it could make sense to assign ownership to the CFO—a move that can also strengthen ties throughout the business.

**8. Cost vs. growth decisions.** Over the past two years, CFOs have indicated a bias toward pursuing opportunities over limiting risks and on growing/scaling over contracting/rationalizing, according to our *CFO Signals* surveys. (Figure 2.) Yet, in our upcoming Q2 2014 edition, finance chiefs tell us that their CEOs are asking them to focus most on cost control (although revenue growth is also high on the list).<sup>13</sup> A major problem is that the easiest cost-containment measures have been completed at some point over the last four years, and the cost side is getting tougher and tougher to trim. For CFOs, this sets up a delicate balancing act between investing for growth and maintaining aggressive cost agendas. How CFOs manage them in concert, however, may spell the difference between who is more successful in the ongoing recovery and who is not.

**9. Black/grey swans.** In our *CFO Signals* survey, one of the perennial questions is, "Which internal and external risks do CFOs regard as most worrisome?"; over the past year, finance chiefs have named everything from "discretionary spending of lower-income households" to "the impact of quantitative easing and unwinding" to "overinvestment in China."<sup>14</sup> Of course, since they named them, many of those risks are probably already on CFOs' radar. At the same time, though, they have to worry about black and grey swan events, geopolitical



and otherwise, that might take them by surprise. In the recent Deloitte research paper *The Value Killers Revisited*, high-impact, low-frequency risks were one of the main categories identified that could drive 20% or greater value losses in a company within a one-month period relative to a broad market index (timeline: 2003–2012).<sup>15</sup> More troubling, 90% of the companies observed were affected by more than one risk factor.<sup>16</sup> In other words, when bad things happen, they can occur as an unexpected bundle of correlated or uncorrelated events that could add up to a significant value-killer loss.

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

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## End notes

<sup>1</sup> As used in this document, “Deloitte” means Deloitte LLP and its subsidiaries. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

<sup>2</sup> Material for this edition of *CFO Insights* was taken from a Deloitte Dbriefs webcast entitled “[The CFO Agenda: What is Top of Mind for CFOs in 2014?](#)” April 2014.

<sup>3</sup> *CFO Signals* survey, U.S. CFO Program, see 2Q2013, 3Q2013, 4Q2013, 1Q2014, Deloitte LLP.

<sup>4</sup> *CFO Signals* survey, U.S. CFO Program, 1Q2014, Deloitte LLP.

<sup>5</sup> *CFO Signals* survey, U.S. CFO Program, 1Q2014, Deloitte LLP.

<sup>6</sup> *CFO Signals* survey, U.S. CFO Program, 1Q2013, Deloitte LLP.

<sup>7</sup> “*2012 Cost of Cyber Crime Study*,” Ponemon Institute, 2012.

<sup>8</sup> *CFO Signals* survey, U.S. CFO Program, 1Q2014, Deloitte LLP.

<sup>9</sup> *CFO Signals* survey, U.S. CFO Program, 4Q2013, 1Q2014 Deloitte LLP.

<sup>10</sup> *CFO Signals* survey, U.S. CFO Program, 3Q2013, Deloitte LLP.

<sup>11</sup> *CFO Signals* survey, U.S. CFO Program, 4Q2013, Deloitte LLP.

<sup>12</sup> “[The Analytics Advantage: We’re just getting started](#),” Deloitte Touche Tohmatsu Limited, 2013.

<sup>13</sup> *CFO Signals* survey, U.S. CFO Program, 2Q2014, Deloitte LLP.

<sup>14</sup> *CFO Signals* survey, U.S. CFO Program, 3Q2013, 4Q2013, 2Q2014, Deloitte LLP.

<sup>15</sup> “The Value Killers revisited: A risk management study,” Deloitte Development LLP, 2014.

<sup>16</sup> “The Value Killers revisited: A risk management study,” Deloitte Development LLP, 2014.

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