Strategic uncertainty
Finance’s voice in steering the conversation

Companies across the globe often struggle to define, execute, and communicate their business strategies to key stakeholders. Still-slow economic growth, ongoing questions about government fiscal direction, and a host of other challenges create “strategic uncertainty” for many corporate leaders, making them exceptionally cautious about investments and content to hold onto cash.

In most businesses, CFOs are among the most important players in designing and executing business strategies. Indeed, senior finance executives and their finance organizations have an increasing voice in strategic decisions, especially corporate-wide and cross-unit decisions. For some, this may be a departure from traditional duties, but by harnessing a strategist mindset, senior finance executives and their finance organizations will take on a new station.

There are six areas in particular where senior finance executives can assert their voice in strategic matters: M&A transactions, new product launch, pricing, new market entry, risk-adjusted forecasting, and capital investments. Applying a strategic execution framework to define, communicate, implement, and adapt approaches to these priorities, finance executives can provide a unique perspective and specific actions that contribute to better decisions and greater value creation.

In the sections that follow, we describe opportunities for finance executives to use this framework to help inform strategic decisions and guide business partners across the enterprise as critical activities are executed in alignment with overarching business and financial strategies.

**M&A transactions**
Senior finance executives play a pivotal role in M&A activities, including M&A strategy, by aligning M&A activities with the business and financial strategies, supporting the definition of growth targets, comparing growth vehicles, and agreeing on objectives and processes. They facilitate multiple aspects of transactions across the deal lifecycle and determine if transaction assumptions are realized, associated risks are monitored, and integration costs are controlled.

Another major contribution to the M&A planning process is participation in the development of a screening model that narrows the list of deal targets based on factors driving the transaction rationale. The model should look beyond the financials, be industry specific, and address the capabilities the company is looking to acquire. Integration challenges, in particular, warrant examination. What will be the costs associated with the new revenue generated by the deal? What are the costs of attrition anticipated in the integration of different corporate cultures?

At the negotiations table, senior finance executives can be facilitators who identify integration risks, stress-test the deal model based on those risks, and build contingencies on purchase price.

1 “CFO Signals, Adjusting to a ‘fits and starts’ economic recovery,” 3rd Quarter 2013, Deloitte Development LLC.
3 For more information on the strategic execution framework, please see the Deloitte white paper, “Turning Strategic Ambiguity into Strategic Clarity.”
Finally, to avoid reinventing the wheel or, worse, making the same mistakes again, organizations benefit when senior finance executives lead a review of past deals to assess the validity of the underlying models, which are often revealed to have been overly optimistic, and determine why deals succeeded or failed. A deal playbook that compiles these lessons learned can be a valuable tool for future M&A transaction planning and execution.

New product launch
A company’s capital allocation decisions, including those that determine which new product concepts will be pursued, is another pivotal area in which senior finance executives can have strong impact. They can bring a steady guiding hand to the new product development process in several ways.

First, they can assign a pool of growth funds to be available consistently for initiatives, especially if the development process extends over a long period of time. This consistency can help instill confidence that a new product won’t be sacrificed just to meet short-term financial results.

Next, establishing financial criteria for evaluation of new product ideas is also the realm of senior finance executives. This criteria should be consistent and even rigorous without being overly strict. It can include business requirements for consideration and outline the type of growth potential that might encourage selection of the idea.

Also, when it comes to stage-gate control over new product project funding, finance executives can provide valuable leadership. Objectives of this process would be to ensure that allocated funds are spent effectively, results meet expectations, and that the product is ready to go to the next level with additional investment.

Pricing
Pricing decisions can spur demand and provide new ways to capture value from customer interactions. However, an ambiguous pricing strategy or one that is not interpreted accurately and consistently across the company can create uncertainty among sales teams and customers.

Senior finance executives should actively participate in discussions and perform analytics that support effective pricing structure. They can also provide input that can help the company capture appropriate levels of quality data about pricing and sales, and they can guide the company to make sure appropriate tools, methodologies, and talent are in place to perform pricing analytics and generate valuable insights.

Defining and communicating sales force and channel partner compensation models is another opportunity for senior finance executives to be partners. These actions will reward value creation for the company rather than sales growth at the expense of margin erosion.

Finance executives can also play a leading role the development of customer demand models that predict buying behaviors and facilitate the fine-tuning of pricing models to drive target sales results.

New market entry
As companies anticipate new markets, whether in search of greater sales and revenue, to lower costs, or to acquire additional talent, finance should be at the table from the outset to protect investments and help guide the creation of an optimal operating model.

Senior finance executives can help drive market-entry strategies, by employing strong analytics capabilities and a keen understanding of regulatory, environmental, and operational impacts on financial performance. Other value-added areas include identifying a “best fit” operating model comprising a legal entity structure that takes advantage of the tax and treasury benefits, the right support delivery model, and the necessary systems and infrastructure.

Development of country risk profiles can help other decision makers in the organization to assess risk exposure to a range of finance-related issues, such as local-country regulatory, accounting, and reporting requirements; possible global tax implications of market entry; and other local infrastructure requirements. Similarly, creation of detailed geographic entry road maps and supporting implementation tools, such as readiness assessments and checklists, can encourage a measured approach to decision making and help identify potential missteps that could delay or halt market entry.

Finance executives can lead the evaluation of the existing finance landscape in a specific market and identification of changes required for the future state. This might include pairing up in-country teams with experienced advisors or establishing localized billing and collecting mechanisms.

Risk adjusted forecasting and planning
Today’s business and economic uncertainties make accurate forecasting both difficult and critical for companies as they allocate capital and set budgets. Because the ability to interpret, quantify, and manage risk is increasingly important, it’s important that senior finance executives use a risk-adjusted lens to shine a new light on forecasting and planning activities. Working with business units, they can help shape and define the risk appetite and
tolerance of the organization, as well as provide the c-suite with insights into different performance scenarios through analysis of drivers, both upside (market opportunities) and downside (shock and tail risk events).

It’s also important to focus stakeholders on creating a robust balance of upsides and downsides through incorporation of a risk-adjusted forecasting model in the planning process. Senior finance executives can draw from conversations with different business units and use models that provide probability distributions for cash flow and earnings to help stakeholders understand whether a specific budget or plan is likely to deliver according to expectations. That ongoing dialog is a great opportunity for senior finance executives to prepare stakeholders for risks and opportunities that lie ahead for the organization and their specific areas.

Capital investment projects
Poorly defined requirements and misaligned resources are among factors that can derail capital investment projects and lead to issues including excessive costs, operational failures, regulatory noncompliance, and customer dissatisfaction. Applying an analytical approach to reducing investment uncertainty, senior finance executives bring a high degree of accountability and objectivity to such projects. They have vital data and analytical tools at hand, and they are responsible for reporting on key metrics and processes.

Using a defined approach based on successful (and unsuccessful) project data, senior finance executives can help create the organization’s project portfolio risk profile upfront. The process provides an objective assessment of project complexities, predicts a project’s potential pitfalls, and identifies ways to manage project risk and cost. Periodic health checks can be performed by finance on strategic projects using analytical tools and checklists. Central to these checks is assessment of whether sufficient management practices and controls are in place.

A very special time and place for CFOs
For many stakeholders within and associated with businesses today, uncertainty has become the norm. At virtually every step, decision makers encounter shifting sands, whether they involve legal and regulatory changes, markets and competitors, customers and employees, or disruptive technologies.

CFOs and their organizations have a special opportunity to influence the business around them. Through their use of data, analytics, and related methodologies and tools, they have the ability to be a driver of corporate strategy and decision making in areas that may have traditionally been outside of their domain yet have a significant impact on the company’s bottom line.

By forming partnerships between finance and the business units, CFOs should lead the conversation by championing an integrated approach that balances strategy, risk, and finance in critical decisions. CFO involvement in those decisions, as well as alignment between those decisions and the CFO’s priorities, are increasingly important if companies want to navigate uncertainty-related challenges ahead.

A strategic execution framework for navigating uncertainty
According to Deloitte’s quarterly CFO Signals surveys, finance chiefs are spending the most time in their “strategist” role. As such, the clarity, quality, and adaptability of their insights can impact decisive direction-setting and decision-making and the broader organization’s strategy execution ability. A four-step framework for addressing this challenge includes:

Define strategic objectives and the right metrics for the business, such as rate of return, growth targets, or performance goals, to provide a framework for evaluating and selecting investment opportunities.

Frequently communicate with internal stakeholders to ensure internal adoption and effective activation, and to external stakeholders to align strategic objectives with market expectations, particularly to gain the confidence of investors.

Galvanize the organization to drive implementation of strategic objectives and ensure alignment of organizational practices, investments, and incentives.

Build adaptability into the strategy and implementation so the business can quickly and nimbly react to changes in the business environment.
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