



## Managing execution risks in transformations: What could possibly go wrong?

CFOs are rarely hired to maintain the status quo. They are usually hired to help grow the company's value, often requiring transformational efforts at value creation. But the path to value creation is typically littered with risks. CFOs who spearhead transformations should plan a route that steers around potential major obstacles to create and sustain value growth.

This article focuses on how CFOs can better manage execution risks in their value-creation efforts. As recent events have shown, unforeseen—and perhaps unforeseeable—changes in macroeconomic conditions, from a pandemic to rising inflation to geopolitical instability, can also derail value. While

financial and operational hedging and diversification can help mitigate some of these broader risks, this article focuses on how CFOs can mitigate transformation risks in their companies.

To try to minimize and mitigate common execution risks, finance leaders should first identify those risks. Then they should attend to the most salient risks at different stages of the transformation life cycle. What proportion of execution risks can be pinpointed in advance? Answer: More than you might think. Based on our numerous [CFO Transition Labs™](#), we have identified several common execution risk factors. By thoughtfully considering these issues,

finance executives can better navigate snares and execute transformations.

This is particularly true for incoming CFOs, who may quickly be called upon to identify and start change initiatives. Sometimes, they are faced with righting an ongoing project that has gone wrong. In any case, driving change efforts and transformation can be inherently risky. My new book, *The Leadership Accelerator: The Playbook for Transitioning into Your New Executive Role* (McGraw Hill, 2023), offers insights into how finance leaders can drive transformation—acquiring the needed technology, the specialized talent, and the desired urgency—without losing operational momentum.

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In this edition of *CFO Insights*, adapted from the book, we'll explore how new CFOs can resist the imperative to rush into a transformation, instead taking the time upfront to assess the likely execution risks that could bedevil a change initiative before it can gain traction.

### Four types of execution risk

Based on our discussions in transition labs and a review of prior research on execution risks, we have identified four categories of such risks:

#### 1. Resource risks: Insufficient budget, time, talent, and data systems

- **Budgets** — An inadequate budget can undercut change initiatives. A lack of funds can place serious stress on those overseeing a project. Worse, it can lead to a reduction in change elements delivered, with the project ultimately falling short of stakeholders' expectations. Budgets and goals need to be aligned from the outset to avoid jeopardizing projects' success due to lack of money.
- **Workloads** — Change requires extra work and effort. Those driving change, however, often have little or no excess capacity to execute the plan. Things get even tougher when a company goes through a difficult period, or staff cuts have already hiked workloads. Therefore, asking what tasks can be curtailed is critical to free up time for the change initiative. Failure to do so can trigger worker resistance, particularly if no obvious reward exists. Simply put, if there's extra work for stakeholders, there should be a payoff.

To succeed at a change effort, CFOs may also need strong sponsorship from their peers—because only those executives can grant permission to reprioritize work in a way that will move a change effort forward. (How can CFOs track their own efforts and risks? See Figure 1, "Evaluating and mitigating execution risks.")

- **Talent** — A critical resource for successful change is having employees with the needed skills and experience to drive a change initiative. Imagine that you want to implement a data-mining and analytics capability, but your existing staff has limited skills in those areas. Hiring candidates with the proper training can remedy this situation, but bringing new staff on board can take time and require a budget—and may require letting people go.

Effective leadership also plays an integral part in successfully executing a change initiative. Can the people you employ as project leaders energize the initiative and garner buy-in from critical stakeholders? Can they break the project down into parts and reassemble it? Can they bring the necessary urgency to keep the plan rolling forward without making errors? Complex change initiatives can be especially

challenging and some leaders may be incapable of getting the job done.

- **Data and systems** — These days, many change initiatives require supporting information and data (see "[Mastering data for better insights—and competitive advantage](#)," *CFO Insights*, January 2021). Yet, in our transition labs, we find this resource to be a recurring constraint for many organizations. Core legacy systems may be unable to provide timely and accurate information and analysis for business decision-making. In cases where organizations have grown through acquisitions, systems and data sets may not be seamlessly integrated to provide real-time insights on critical business issues. Thus, core data and IT infrastructure may require upgrading before undertaking broader change efforts, adding to project delays and costs.



2. **Alignment and process risks:**

**Committing to shared outcomes**

Change typically necessitates alignment on the process and outcomes. Getting there generally requires stakeholder backing, governance processes to resolve policy challenges to the change, and planning and execution procedures to build a shared road map.

- **Stakeholder commitment** — Change efforts require commitment, alignment, and sponsorship from vital stakeholders. Without the necessary level of commitment, such initiatives become harder to execute. Misalignments do not always stem from rifts or conflicts among stakeholders. Instead, they may occur simply because different stakeholders prioritize their work differently.

For instance, a CFO may be tasked with a critical change project, which becomes a primary piece of their annual performance review. Other stakeholders may have different primary goals driving their performance reviews, however. That, in turn, pushes that change project to a lower spot among their priorities.

Avoiding this problem sometimes requires bringing on a senior project sponsor with authority to coordinate stakeholders' incentives. This step can align commitment of the right resources to the change initiative. For each CFO-led transformation project, it is helpful to have the CEO as the sponsor with authority to sync up incentives across critical stakeholders.

- **Governance** — One way to try to sustain stakeholder commitment and continuously realign it to a change initiative is to implement a governance mechanism. A governance structure and process can bring together all critical stakeholders regularly during the project. The meetings help keep key players informed and committed—and solicit input from those stakeholders.

Governance may be multilayered. In the case of large-scale IT projects, a business technology governance group of senior sponsors may be created to set the business direction, decide on IT investments, and allocate funds. For specific projects, there may be operational governance in which stakeholders work together to deliver projects.

Similarly, technology governance groups are sometimes set up to ensure the consistency of technology choices with the company's technology road map and architecture. A separate group may even be dedicated to data governance.

- **Planning to build structure and help resolve ambiguities and uncertainties** — Sometimes, change efforts can fail due to a lack of clarity about the purpose of the change, system and process specifications, and what success looks like. When companies are unclear about their strategic choices, their goals may not effectively translate into value-creating execution.

Ambiguity can be especially costly in change projects that rely on information systems. When the project's purpose is unclear, the technical requirements may also lack clarity. This can lead to developing systems that don't meet user needs. Spelling out all needs before a project commences is complex—a goal that, unsurprisingly, is often impossible to meet. Agile and iterative development processes may be better at creating solutions that solve user needs. But this requires clearly spelling out why an agile approach is the best tack for executing the change and adjusting change processes (see [“The art of agile: Success factors in building an adaptive business,” CFO Insights, February 2022](#)).

Change leaders should put in place governance systems and agreements on how to specify requirements and resolve ambiguities in objectives, requirements, and approaches to

execution. An effective governance process can help the change initiative to adapt to unfolding events and new information.

3. **Emotional and social resistance risks: Behavior modification**

- **Habits** — Habits can be tough to break and may impede specific execution initiatives. One example: Let's suppose you need to calculate a formula. Your company provides new cloud-based software to help make the calculation. However, you have a personal spreadsheet you have relied on for years. It's familiar, works well, and you, therefore, resist learning the new system; sticking with what you know seems inconsequential. It's not. The problem? Management no longer knows if you have used an accurate formula or if errors have been introduced in your spreadsheet.
- **Fear** — Fear of the unknown is a powerful emotion that can inhibit change. Consider cloud computing. Management teams may be reluctant to adopt the cloud, due to concerns about cybersecurity risks, but gained more confidence over time. Other fears might include future job loss, particularly with certain initiatives. Fear can be paralyzing or lead to active resistance when a company introduces a new way of doing something.
- **Diminished autonomy and power** — Some change efforts may affect power relationships and the autonomy of individuals in an organization. For instance, when the group-level CFO seeks greater transparency into the business units and their work-in-process inventories, the CFO may uncover information that dramatically alters the power dynamic between the center and business units. The new details may show the shortcomings of the business unit CEO and undermine that person's power and influence over the entire group. To overcome resistance to changes in information flow, the group CFO may have to accumulate power or secure the backing of the business unit CEO.

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- **Social dissatisfaction** — Resistance can also be triggered when work roles are transformed, leading to reduced work satisfaction or a change in worker status. Executives, for example, may try to boost efficiency and save money by implementing shared services centers. But moving key staff from various locations to a centralized center may cause the opposite. Sometimes, when jobs and the workplace are shifted to a shared services operation, the satisfaction of existing employees takes a hit. Employees may have less connection with their local clients and less of a sense of being appreciated by these clients. That, in turn, can reduce productivity, undermining change efforts.

The risk of adverse impacts can potentially be mitigated by carefully considering the “socio-technical systems” prevalent in a company. To effectively manage initiatives, change leaders may need to assess if work redefinition will dampen employee enthusiasm.

- **Culture** — A fifth category of emotional and social risks arises from the organization’s prevailing culture. In our transition labs, we often hear that a specific segment of workers is unwilling to change due to the belief that they “are special and different from other groups in the company.” In these cases, the existing beliefs may have to be countered before the current culture can be modified—and the group ultimately accepts the change.

In short, addressing emotional and social risks requires CFOs to get a fix on the likely habits, emotions, potential shifts in power, social dissatisfaction, and cultural beliefs that fuel resistance to change. Once these risks have been scoped out, they can be addressed through thoughtful communications, redesign of work, and actions to assuage fears.

**4. Opportunism risk: Undercut by the self-interest of others**

Opportunism risk generally arises when another party behaves in a manner that conceals or uses information to their advantage—at your expense. Or other parties might attempt to leverage your prior investments and commitments to renegotiate more favorable terms for themselves. In agency or transaction-cost economics, these are known as “adverse selection,” “moral hazard,” and “hold-up risks.”

Adverse selection occurs when the seller of a product or service knows that it will not likely perform to your needs and expectations. If you are buying a critical piece of second-hand equipment, for example, you may not be able to determine all the defects in the equipment ahead of time without incurring considerable costs. The seller could effectively sell you a product that could create execution risk.

In a moral hazard situation, a seller of a service may commit to delivering certain outcomes but may not deliver the expected level of quality or output. This can drive up costs of execution and compliance with agreements.

Hold-up risk happens when you make specific commitments that cannot easily be reversed. You might build a plant in a location close to the source of a specific input. Once the plant is built, the input provider renegotiates the prices of the inputs to extract more for themselves. Such opportunism risks only add to the difficulties facing most transformations.

**Conclusion: Risk awareness to help improve the odds**

For incoming finance executives, improving company performance may require major change initiatives. Yet, some change initiatives could run into substantial resistance, and may ultimately be crushed by various execution risks. A starting point to improve the odds of success is to systematically anticipate and prioritize the risks discussed above that are most likely to impede the realization of the project.

No matter how carefully conducted, such an analysis can’t possibly anticipate every potential high-impact, low-probability risk. But it will likely help reduce the possibility of what may be the most dangerous risk of all: overconfidence.

**Figure 1. Evaluating and mitigating execution risks**

*In the table below, identify your top five priorities. Next, select the top three execution risks for each priority. Then, identify what you must do to mitigate those risks.*

	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
<b>Execution Risk 1</b>					
<b>Execution Risk 2</b>					
<b>Execution Risk 3</b>					
<b>Risk Mitigation Actions</b>					

Source: *The Leadership Accelerator: The Playbook for Transitioning into Your New Executive Role* (McGraw Hill, 2023), chapter 24.

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