What's keeping CFOs awake in 2016?

If it’s true, as F. Scott Fitzgerald once said, that, “The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function,” then CFOs are being tested as never before. On the one hand, they are devoting serious attention to matters of growth, both in terms of corporate performance and their own role in their companies. On the other, they are being forced to think more tactically and defensively, as global volatility and a long list of mixed signals confront them with plenty of uncertainty. In this edition of CFO Insights, we share 10 current concerns that illustrate the breadth of their challenges, gleaned from Deloitte’s regional CFO Forums, our 1,000+ CFO Transition Lab™ sessions globally, and our quarterly CFO Signals™ survey. One takeaway: While the current situation is demanding, it presents CFOs with an ideal opportunity to apply their broad perspective and specialized financial knowledge to help propel their organizations forward.
The US election
Every Presidential election year seems to usher in a certain level of uncertainty as to which party will emerge with how much influence—and how that will translate into policy decisions—and this one is no different. In fact, in the Q2 2016 CFO Signals survey, election worries skyrocketed among North America’s CFOs, with many citing growing uncertainty surrounding international trade, government spending, and tax policies.³ They have every right to be concerned. Those policies, as well as foreign policy, are just some of the major issues that may be impacted, one way or another, by what happens in November. Moreover, regardless of the outcome, it seems increasingly important for CFOs to have a stronger collective voice in how policies are crafted and implemented. After all, CFOs’ real-world experiences and observations can be a useful tool in the efforts to shape policy decisions.

Global economic uncertainty
If the impending election and its impact on policies and regulations are major sources of uncertainty, they are far from the only ones. Widening the lens, it’s clear that a long list of global worries, from commodity prices (particularly oil) to the UK’s Brexit vote to the Chinese economy are keeping CFOs up at night—and these concerns seem unlikely to abate any time soon. The Q2 2016 CFO Signals survey, in fact, found that 39% of North America’s CFOs are mostly optimistic about their own region’s prospects a year from now, but that is down from 47% in the Q4 2015 survey. Only 15% feel similarly confident regarding the European economy—and that was before the Brexit vote.⁴ Meanwhile, only 10% feel positive about China’s economy in a year, a figure just down from 11% the previous quarter (see Figure 1, page 3).⁵ Couple that with their increasing concern that capital markets are overvalued and it is not surprising that many CFOs likely feel they are driving with one foot on the accelerator and the other on the brake. While finance chiefs are optimistic that their companies can deal with a number of challenging situations, they also worry that if enough negative conditions materialize, things could get tough in a hurry.

Capital allocation
Amid this uncertainty, it’s important that CFOs consider making the capital allocation process a priority, ensuring that it is clearly established and well communicated, both within the company and to The Street. This is particularly important given the current healthy state of many corporate balance sheets and the need to decide how much cash to dedicate to growth versus uses such as buybacks, dividends, and paying down debt. Many companies don’t routinely change annual budget allocations across different initiatives, but they should consider doing so, because opportunities will likely change over time.⁶ Having a clear bottoms-up and top-down capital allocation process that can efficiently value and seize opportunities is critical. Moreover, when a company’s capital allocation process and equity story are robust, they provide a strong response to activist investors.⁷
Executing on growth plans
Despite concerns that the global economy is not nearly as robust as they’d like it to be, many CFOs are nonetheless pushing forward on growth plans. That focus entails its own set of concerns, however, including the ability to identify acquisition targets and, conversely, divest themselves of certain assets. When finance executives are asked to identify the “dominant constraints” to growth, they are often likely, in our CFO Transition Lab sessions, to identify internal rather than external factors.⁷ So they are looking at ways to improve siloed behaviors and cultural issues, and also to address operational efficiency and the capital allocation process. Still, their collective attitude remains less defensive and more forward-looking, albeit with a focus on current offerings and markets rather than new. In addition, they are clearly biased toward organic growth (63%) over inorganic growth (19%), according to the Q2 2016 CFO Signals survey.⁸

Improve the talent pipeline
To execute that vision, CFOs know they need to build strong finance departments underneath them, both to demonstrate the total contribution that finance can make to the company and to free them up to devote more time to strategic concerns. It’s not easy: many CFOs say they are having a hard time finding or developing the kinds of employees who can help shift the finance department away from a collection of technical specialists and toward a team of businesspeople who can work with business-unit leaders to add value to decision-making. But having the right people in the right seats is fundamental to executing a CFO’s vision, and finance chiefs tell us that it is one of their top priorities in 2016.¹¹ Some of their tactics include better performance management processes, an increased focus on talent development and continuous learning, and clear succession planning.¹² In addition, to attract critical talent (think tax director or cyber-security specialist), they know that compensation models may need to be adjusted as well.

Harness technology—and its potential
New technologies—everything from blockchain to mobility to robotics—have the potential to disrupt finance in areas such as payments and messaging. They also have the potential to enhance the role of the CFO in everything from data management to decision-making. Case in point: unlocking the full potential of analytics. Finance is ideally positioned

Figure 1. How do you regard the current and future status of the North American, Chinese, and European economies?
CFOs’ assessment based on five-point Likert scales: “very bad” to “very good” and “much worse” to “much better” (n=139-140)

<table>
<thead>
<tr>
<th>How is the economy now?</th>
<th>How will the economy be in a year?</th>
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<tr>
<td>Good now and better next year</td>
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<td>Bad now but better next year</td>
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<td>Much worse</td>
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to not only capture and manage all the data that can drive better decisions, but also to demonstrate its true value to the business by providing relevant context around it. Financial planning and analysis has long been a core finance function, but, approached more strategically, it can open the door to the kinds of conversations that enable CFOs and their teams to contribute to growth.

**Batten down the cyber hatches**

Risk is inevitably a part of every CFO’s portfolio, and, these days, cyber risk is one form that has moved from a technology concern to a finance concern, for several reasons. For one, the obvious impacts of a cyberattack on things such as compliance requirements, legal fees, and public relations are actually dwarfed by the often hidden impacts, such as the loss of intellectual property, increased costs of raising debt, and higher insurance premiums (see “Seven hidden costs of a cyberattack”). So putting the right risk measures in place around cyber security is increasingly becoming a matter of deciding how much to invest in which forms of risk mitigation, and CFOs should be part of those discussions. In fact, understanding the impacts of a cyberattack requires a multidisciplinary approach that integrates deep knowledge of cyber incidents with business context, valuation techniques, and financial quantification. Armed with that knowledge, leaders can transform the way they manage cyber risk and help improve their organization’s ability to recover when an attack occurs.

**Activist investors**

Not all attacks are technological in nature, of course. Today, activist investors have become legion: in fact, in the Q1 2015 CFO Signals survey, nearly 75% of respondents said they had received an activist letter. To mitigate this worry, CFOs need to be prepared to communicate a solid story regarding their capital allocation strategy, in order to demonstrate that it has been optimized to seize the best opportunities (see “Activist shareholders: How will you respond?”). Increasing activism also underscores the need to make sure that strategic planning is closely aligned with financial planning, so that the story that CFOs respond with is robust and complete. Two questions likely to be asked by activists: (1) If there is cash on the balance sheet, what do you propose to do with it? and (2) Given that growth in many parts of the world is slowing, what is the company doing to ensure that it wins a disproportionately higher share in the markets in which it competes?

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**Endnotes**


2. Material for this edition of CFO Insights was taken from a Deloitte Dbriefs webcast entitled “What financial, economic, and political issues are keeping CFOs up at night?” July 2016.


6. CFO Transition Lab, Facilitator observations, US CFO Program.

7. CFO Transition Lab, Facilitator observations, US CFO Program.


11. CFO Signals survey, US CFO Program, “As CFO, what is the most important thing you will have accomplished for your finance function by the end of 2016?” Q1 2016, Deloitte LLP.

12. CFO Signals survey, US CFO Program, “As CFO, what is the most important thing you will have accomplished for your finance function by the end of 2016?” Q1 2016, Deloitte LLP.


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