

Analyzing CFO Leadership: Addressing Economic Challenges and Strategic Priorities

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Introduction

The Deloitte 2Q23 CFO Signals Report offers an in-depth examination of the priorities, challenges, and strategic approaches undertaken by Chief Financial Officers (CFOs) across North America. In this illuminating report, CFOs share insights on how they are maneuvering through an increasingly intricate economic landscape, characterized by factors such as rising inflation, geopolitical tensions, regulatory shifts, and changing expectations from stakeholders. This commentary delves into several critical themes emerging from the report, including the specific economic challenges faced by CFOs and their innovative responses, the strategies they employ for effective risk management and regulatory compliance, trends unique to various industries, and their forecasts for future growth. Through these discussions, the report paints a comprehensive picture of the CFO landscape in today's dynamic business environment.

Economic Challenges and CFO Responses

Chief Financial Officers (CFOs) are currently navigating a challenging economic landscape marked by significant headwinds. These challenges include soaring inflation rates, unpredictable fluctuations in interest rates, and a geopolitical environment fraught with uncertainty. A recent report highlights that a staggering 81% of surveyed CFOs regard economic and financial market risks as their primary external concern, with geopolitical risks closely trailing at 57%. This data points to the ongoing volatility in global markets and its detrimental effects on regional economies.

Despite these formidable obstacles, CFOs maintain a sense of cautious optimism about their capacity to guide their organizations through these unpredictable times. Although only 34% of

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CFOs perceive North American economic conditions as favorable—a sentiment that reflects a marginal improvement when compared to other regions—there's a palpable decline in forward-looking optimism. Only 34% of them believe that economic conditions will improve within the next year, marking a notable drop from previous quarters.

In response to these economic challenges, CFOs are placing a strong emphasis on cost reduction and operational efficiency. More than half of the respondents indicated that their CEOs are urging them to concentrate on cost-saving initiatives, suggesting a shift in corporate priorities. This growing emphasis on operational discipline is indicative of a broader trend towards defensive strategies. CFOs are increasingly focused on the philosophy of "doing more with less," as they work to safeguard their organizations against the ever-present threat of economic downturns.

Risk Management and Regulatory Compliance

In today's complex business landscape, effective risk management has emerged as a vital pillar of leadership for CFOs. The latest report outlines the array of internal and external risks that CFOs are grappling with, including challenges in execution, shortages of qualified talent, and the intricacies of regulatory compliance. Notably, execution risks—those linked to strategic initiatives and transformational changes—have surfaced as the most urgent internal concern, affecting a significant 81% of CFOs. This is closely rivaled by talent-related risks, which impact 80% of these finance leaders.

The regulatory environment adds yet another layer of complexity to the CFO's role. Participants in the survey highlighted the challenge of navigating a landscape marked by rapidly evolving regulations. A particular focus has emerged regarding environmental, social, and governance (ESG) criteria, data privacy mandates, and requirements for cyber risk disclosures. In fact, nearly two-thirds of CFOs have indicated heightened interest in ESG regulations, recognizing their profound implications for compliance capabilities and the formulation of operational strategies within their organizations.

To effectively manage these multifaceted risks, CFOs are increasingly turning to advanced enterprise risk management (ERM) systems and harnessing the power of technology to enhance their oversight functions. The report reveals a growing reliance on ERM platforms, governance software, and sophisticated data analytics as essential tools for identifying and mitigating risks. Nevertheless, significant gaps still exist; only a mere 7% of CFOs reported feeling strongly satisfied with their organizations' capacity to identify external risks in a timely manner, underscoring the ongoing challenges in risk management today.

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Industry-Specific Trends and Insights

The report provides in-depth insights into the distinct priorities that Chief Financial Officers (CFOs) navigate across different industries. Here's a closer look at each sector:

Energy and Resources: Within this dynamic sector, CFOs are concentrating on making strategic capital investments while ensuring that operational efficiency remains high, especially in the face of volatile commodity prices. Sustainability initiatives are taking center stage, with a strong emphasis on Environmental, Social, and Governance (ESG) compliance, reflecting the growing importance of sustainable practices in their long-term financial planning.

Healthcare and Pharmaceuticals: CFOs in this industry are increasingly focused on two pressing areas: talent acquisition and regulatory compliance. As they navigate a maze of complex healthcare regulations, these executives are committed to enhancing patient-centered care, ensuring that their organizations operate efficiently while meeting stringent compliance standards.

Technology: CFOs in the technology sector exhibit a notable degree of optimism compared to their peers in other industries. Their primary priorities revolve around fostering innovation and driving digital transformation. These leaders are keen to seize market opportunities, even as they contend with increasing regulatory scrutiny surrounding data privacy and the ethical implications of artificial intelligence.

Retail and Wholesale: In the retail space, CFOs face mounting challenges, particularly those stemming from supply chain disruptions and the unpredictable nature of consumer spending. To thrive in this environment, operational agility is essential, as is fostering strong customer engagement. These areas are paramount as retail executives work to adapt to shifting market demands and enhance their competitive edge.

Overall, the report underscores how CFOs tailor their strategies to address the unique challenges and opportunities present within their respective industries.

Growth Expectations and Financial Strategies

In the face of persistent macroeconomic challenges, Chief Financial Officers (CFOs) are demonstrating a cautiously optimistic outlook regarding business growth. Recent findings indicate a notable increase in year-over-year revenue growth projections, which have risen from 4.4% in the first quarter to 4.9% in the second quarter. This positive trend, however,

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comes with tempered expectations for earnings growth as executives grapple with the realities of escalating operating costs and increasingly tight profit margins.

A particularly encouraging aspect of the current economic landscape is the significant rise in capital investment projections, jumping from 5.7% in the previous quarter to an impressive 6.6% now. This surge highlights a strategic shift among CFOs towards prioritizing long-term value creation, despite existing uncertainties. They are focusing their resources on investments that promise to bolster efficiency and enhance competitive positioning, with particular emphasis on implementing advanced automation technologies and digital tools.

On the human resources front, however, CFOs are taking a more conservative approach. Compared to previous years, there has been a decline in year-over-year growth expectations for domestic hiring and wage increases, reflecting a more cautious stance regarding workforce expansion. Instead of broadening their teams, CFOs are choosing to reallocate resources towards initiatives that promise better returns, such as reskilling programs aimed at enhancing employee capabilities and initiatives designed to improve overall productivity within the workforce. This strategic pivot suggests a shift in focus from mere growth to sustainable improvement in operational efficiency.

Conclusion

The Deloitte CFO Signals Report highlights the diverse and intricate challenges, as well as the promising opportunities, that Chief Financial Officers (CFOs) encounter in today's fast-paced business world. In an era marked by economic uncertainty and rapid changes, CFOs are at the forefront of steering their organizations through turbulent waters. They are adeptly navigating issues such as fluctuating markets, complex risk management, and the alignment of their companies' unique industry priorities. This proactive involvement not only enhances operational resilience but also fosters sustainable growth.

The case study emphasizes the vital role of clear, data-driven strategies in effective CFO leadership. As businesses face mounting external pressures—ranging from regulatory changes to evolving consumer demands—the ability of CFOs to harmonize immediate challenges with overarching long-term goals is crucial. This balanced approach is essential for ensuring the ongoing success and adaptability of their organizations in a continuously shifting economic landscape. By prioritizing cost efficiency, harnessing advanced technology for comprehensive risk assessment, and making well-considered strategic investments, CFOs illustrate their capacity to lead with foresight and innovation.

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