

Deloitte.



Public Sector CFO Insights: Leading People, Prioritizing Investments, Managing Risk in a Rapidly-Shifting Environment”

October 2016

Part I:
What's
keeping
CFOs awake
in 2016?

Deloitte *CFO Insights*™ September 2016

1,000+
CFO Transition Lab™
Sessions

Quarterly
CFO Signals™
Survey

Regional
CFO Forums

In this edition, we share **10 current concerns** that illustrate the breadth of CFO challenges, gleaned from Deloitte's regional CFO Forums, our 1,000+ 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



“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”

“It seems increasingly important for CFOs to have a stronger collective voice in how policies are crafted and implemented”

Global economic uncertainty



“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”

Capital allocation



“Amid uncertainty, it’s important that CFOs consider making the capital allocation process a priority, ensuring that it is clearly established and well communicated”

“Having a clear bottoms-up and top-down capital allocation process that can efficiently value and seize opportunities is critical”

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”

“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”

Elevating their roles



“At a higher level, many CFOs are thinking not only about the strategic opportunities their organizations can seize, but also about those that they can leverage in order to elevate their profiles”

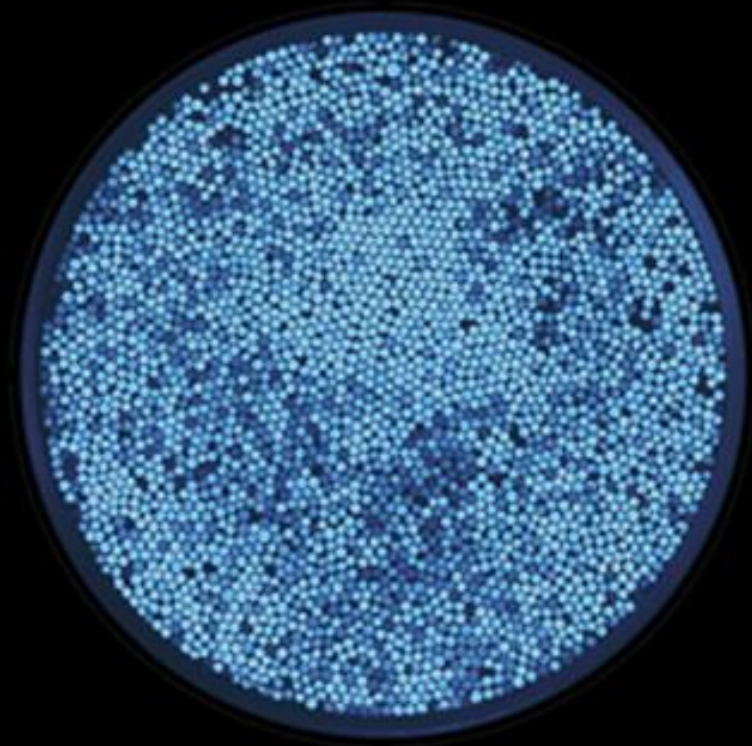
Improve the talent pipeline



“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”

Harness technology – and its potential

Unlocking the full potential of analytics



“Finance is ideally positioned 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 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



“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”

Activist Investors



“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”

“Increasing activism also underscores the need to make sure that strategic planning is closely aligned with financial planning, so that the story CFOs respond with is robust and complete”

Patience



“A CFO would do well to count the many ways that he or she is working to control what can be controlled, improve what can be improved, and continue to elevate the role of finance. There is enormous opportunity embedded within each of the concerns described above, so think of it less as a worry list and more as a to-do list”

Thank You!

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*Part II:
Finding &
Growing
Future CFO
Talent*

89%

view leadership as
a high priority and
pervasive issue
(vs. 87% in 2015)

And yet...

28%

report weak or
very weak
leadership
pipelines

14%

rank themselves
as "strong" at
succession
planning
processes

13%

are "excellent"
at building global
leaders



Strengthening capabilities and readiness
of next generation CFOs



13%

Source: CFO Insider, 2015

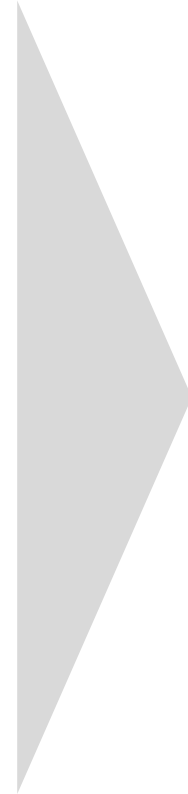
The changing role of the CFO

Finance industry trends

Fiscal austerity and constrained budgets

Emphasis on transparency and being nimble

Finance leaders as business advisors and not simply finance experts



What this means for role of CFO

Business Judgment

- Understand the functions and business outside of finance
- Advise business leaders on critical decisions
- Synthesize 'big data; into meaningful insights
- Make decisions quickly

Breadth of Perspective

- Understand the links between finance and broader organization
- Is not just a technical finance expert but has broad experience across the finance areas and even organization as a whole

Influence

- Able to leverage their influence and build alliances

What do current and future CFOs need?

Design experiences that give leaders the diversity they need to lead your organization



Drive measurable capability uplift by teaching leaders how to think like experts

Create immersive exposure for leaders to gain insights and learnings from areas outside the organization (e.g., technology, innovation, digital)

Exposure is Critical

Organizations providing exposure tend to be:

2x more likely to meet or exceed financial targets

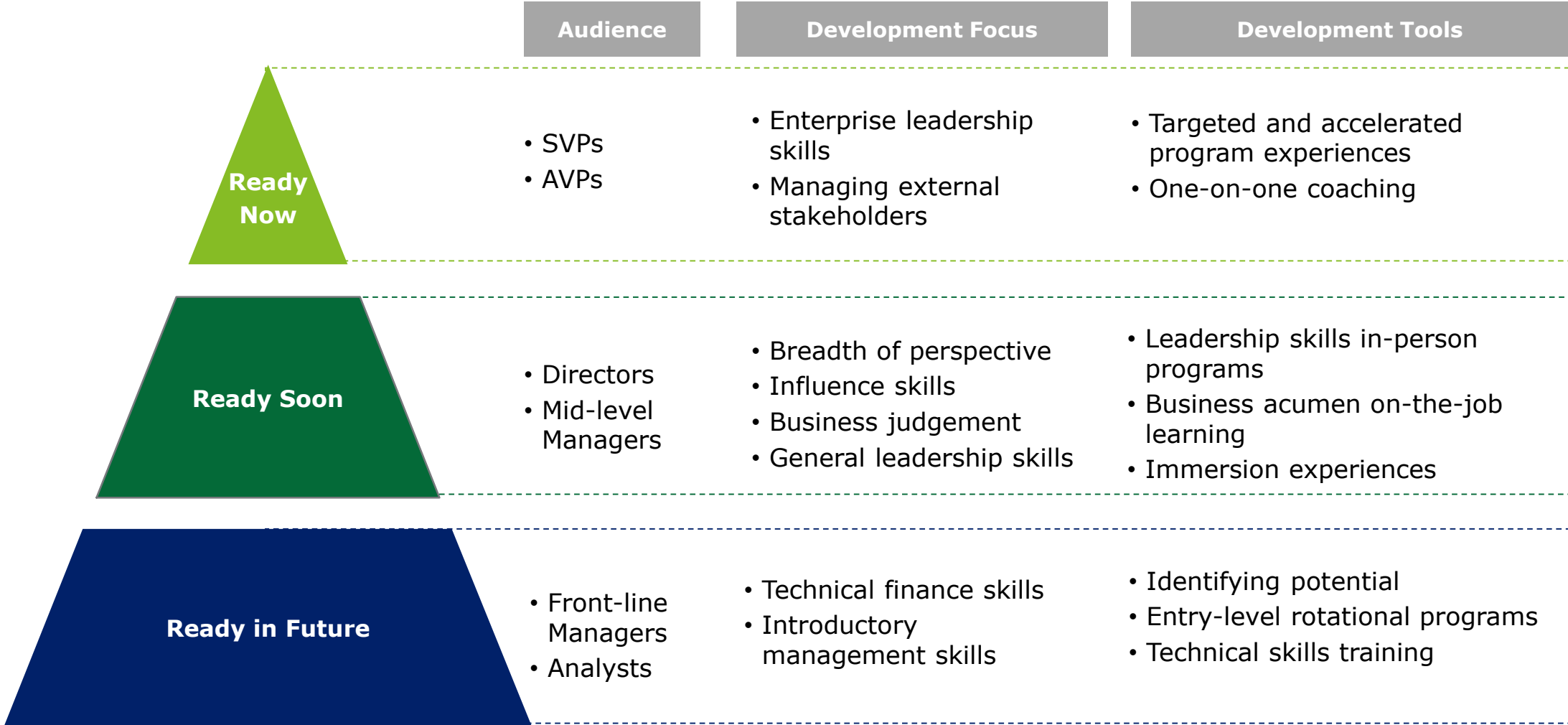
3x more likely to innovate

3.5x more likely to maximize efficiency

4x more likely to anticipate change

Best practices: develop throughout the succession journey

CFO Leadership Development Journey



CFO Succession planning

Capability vs. Potential

People often debate whether leaders are born or made. Both matter but have different implications for your succession planning.



Has to do with “what you can do”

Capability is also described as:

- Competencies
- Skills
- Knowledge

...Easier to develop



Has to do with “how fast you can go”

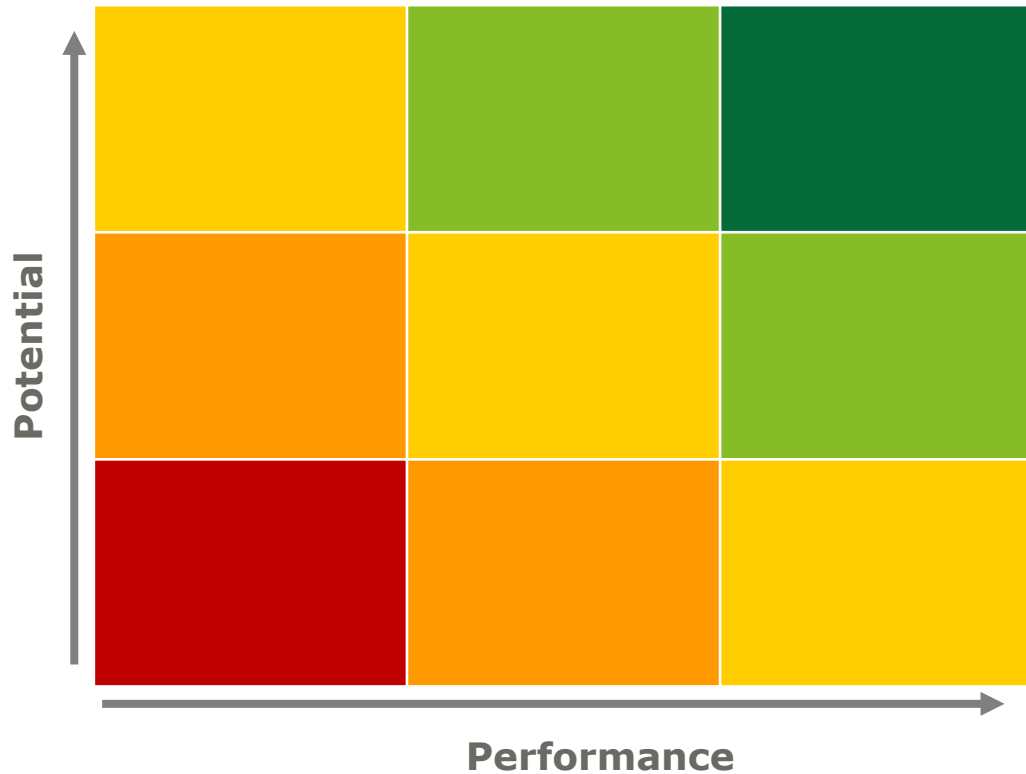
Potential is also described as:

- Personal Qualities
- Attributes
- Traits and agilities

... More innate, harder to develop

The problem with today's succession planning methods

Typical approach



Why aren't today's measures of potential working?



Typical measures confuse performance with potential



Managers' ratings are biased and evaluate potential against their own image



Managers assume ratings are objective if they are numerical

Our research shows four potential dimensions underpin how quickly a leader can develop.

Intellectual Potential

Thinking quickly and flexibly

People Potential

Adapting to complex and changing interpersonal demands

Change Potential

Driving and responding to change; seeing opportunity in uncertainty

Motivational Potential

Displaying resilience through volatile and complex times.

Recruiting and engaging millennials

The Millennial majority

Millennials are choosing organizations based on purpose and want to experience that at their organization, their work, and their impact

2 out of 3 millennials state their organization's purpose is a reason *why they chose* to work there

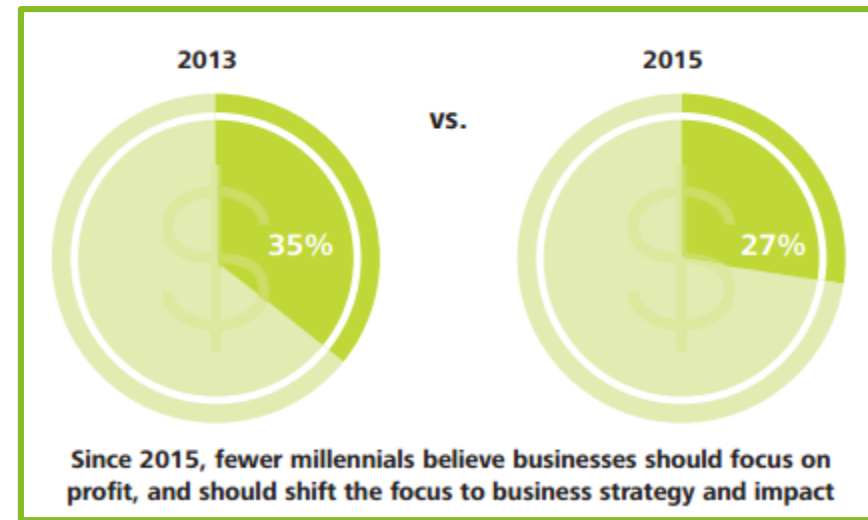
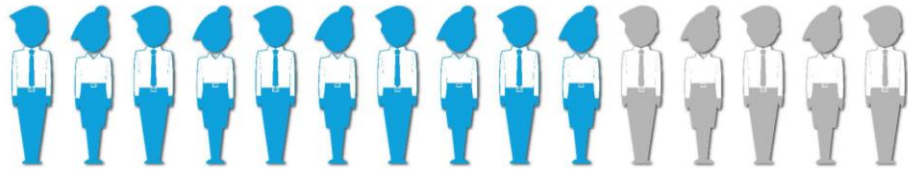


Figure 7: Millennials would prioritize the sense of purpose around people rather than growth or profit maximization



So, how do you recruit and retain Millennials?

Tie the work that you do to a **GREATER PURPOSE**

Emphasize the challenges your organization is trying to solve through **innovative solutions**

Utilize **technology in your learning** and development programs

Provide **variety** and **exposure** to build breadth of perspective and satisfy their drive to learn

Provide **regular** and **ongoing feedback.**

Emphasize fairness and **merit over tenure**

Find opportunities for talent to **work in teams**

Let's recap

1

The demands on CFOs are evolving and are creating the need for CFO's to be more broad in their knowledge and more adept at building strategic partnerships

2

Developing future CFO's will require providing them more direct exposure to a broader spectrum of business issues outside of their traditional finance world.

3

Best in class organizations are utilizing a more science-based, non-biased approach to identify future CFO successors.

4

As the Millennial workforce continues to grow, organizations are being challenged to shift their focus from profit to purpose.

Thank You!

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