Growth in an age of uncertainty
2016 CFO Pulse Survey
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Foreword
I am delighted to introduce our 2016 Chief Financial Officers Pulse Survey which reflects the views of Ireland’s finance leaders on a range of business topics central both to the development of their organisations, as well as the role of the finance function.

Poised for growth: The survey reveals that Ireland’s finance leaders remain very confident about the prospects for the Irish economy, and indeed their own businesses, over the next twelve months, and that they are actively repositioning their organisations for growth. The majority expect to achieve this growth through developing new products and services and/or adapting existing ones. However one third are also looking to grow by expanding into new markets and territories.

Providing a strategic edge to the business: Six out of ten finance leaders believe that finance is now acting as a strategic function, with much of its time being spent partnering with the business, bringing insights and analysing and interpreting data. However, CFOs realise there is more to do and that they face a number of challenges including; issues around increased regulatory reporting, supporting organisational restructuring, accurate budgeting and forecasting etc. - all activities impacting on Finance’s ability to partner with the business.

Fraud & Cybercrime: One of the top risks that CFOs believe they need to actively work to mitigate over the next twelve months is fraud and cybercrime. With the incidence of cyber attacks having doubled in Ireland since 2012, and the average cost of an economic crime having increased to €1.6m (as referenced in PwC’s 2016 economic crime survey) it is not surprising to see that this has become a key area of concern.

Investment in digital and analytics: Over half of Ireland’s finance leaders also revealed that technology advances are by far the most important global trend impacting their business. Nearly half plan to invest in technology and digital to capitalise on this, whilst four out of ten plan to increase their R&D and innovation capacity. However, whilst the survey response indicates that CFOs do not believe they have a very important role to play in championing the use of digital technologies, this couldn’t be further from the truth. CFOs have a significant role to play in ensuring their organisations are investing in the right technologies and both measuring and tracking the resulting benefits. There is clearly an opportunity for a number of Ireland’s finance leaders to take a more upfront role in this area and become the Chief Performance Officers for their organisations over the next number of years.

Garrett Cronin
Consulting Partner, PwC
81% believe the prospects for the Irish economy are favourable

65% are planning to grow revenues by launching new products or services within the next twelve months

92% expect basic pay increases and 48% believe their employee numbers will increase this year

35% of respondents are not planning any restructuring activities this year, with the focus instead being on customer retention and expansion

66% believe that the quality of people will be the single most important factor contributing to their success

59% believe their finance function is currently acting as a strategic partner to the business

60% believe that their organisations need to have a clear vision for digital technologies and how it can help them achieve a competitive advantage
Confidence and business performance
How do CFOs perceive our prospects for the next 12 months?

This survey was completed in mid 2016 and highlights that Ireland’s CFOs continue to have a very positive view of Ireland’s economic prospects for the next twelve months. This positivity has significantly rebounded from the figures we saw back in 2012 when only one in ten CFOs had a favourable outlook. It is however evident from the results that despite the overall general positivity, a small element of caution has also arisen since this survey was conducted in 2014, as we now see that this favourability measure has dropped from 89% to 81% in 2016.

The focus on, and importance of, people is also a key theme which we see throughout this year’s survey as businesses look to grow and expand. Nine out of ten respondents indicated that they expect to see basic pay increases this year, and almost half expect to see employee numbers rising.

However amidst this focus on growth and expansion, CFOs are also expressing some concern around increased costs, with 65% forecasting cost growth, and 69% seeing maintaining margins and profitability as being a key challenge for them in this environment. CFOs are also concerned about the difficulties associated with market entry and gaining access to local knowledge as their businesses look to expand into new areas.
CFOs expect to see growth in both revenues and costs

Chart 3: Expectations regarding your company over the next 12 months:

**Annual Revenue**
- Growth: 76%, 67%, 59%, 21%
- No Change: 20%, 19%, 18%, 11%
- Decline: 5%, 11%, 14%, 21%

**Annual Costs**
- Growth: 36%, 42%, 48%, 56%
- No Change: 31%, 30%, 25%, 20%
- Decline: 15%, 19%, 21%, 35%

**Net Profit**
- Growth: 65%, 74%, 77%, 76%
- No Change: 67%, 65%, 59%, 72%
- Decline: 21%, 14%, 13%, 11%

**Capital Investment**
- Growth: 42%, 47%, 48%, 45%
- No Change: 45%, 45%, 48%, 41%
- Decline: 16%, 16%, 13%, 11%

Growth in an age of uncertainty
Nearly half of CFOs expect increases in staff numbers

Employee Numbers

- Decline: 6% (2016), 20% (2014), 18% (2013), 27% (2012)
Maintaining margins and controlling costs represent the greatest challenges

Given that 65% of CFOs expect costs to increase this year, it is perhaps unsurprising that the top two challenges they have identified are maintaining margins and controlling costs. Indeed these have even increased in importance this year as against the 2014 survey results.

Another significant challenge identified by CFOs is people related, namely the requirement to both retain key talent and find new skilled employees. Given that nearly half of CFOs expect their employee numbers to increase to facilitate their growth, finding and retaining the right people will clearly be a key issue.

Thereafter, the top challenges identified by finance leaders include geopolitical uncertainties and exchange rate volatility. These challenges very much tie to the concerns over BREXIT, the revenue growth ambitions of these CFOs, and the need for their businesses to identify the right markets to enter at a time when terror attacks are touching every part of the world and economies such as China are going through a period of economic rebalancing.
The number of CFOs with no plans to restructure their business in the forthcoming year has increased from a quarter (26%) in 2014, to just over a third (35%) in 2016. This is perhaps surprising given the need for businesses to continue adapting to meet new demands and leverage new technological changes, but it may also be reflective of the level of change which these organisations have gone through over the last number of years, and that now they see the need to regroup and maintain a short period of stability.

However for those planning on restructuring this year, the top two initiatives remain the same as in 2014, with a focus on both simplification and standardisation of processes, and reviewing third party contracts.

Reducing headcount and investing in IT has moved further down the list of CFO priorities. This reprioritisation is perhaps linked to the fact that only 6% of CFOs see their employee numbers falling this year and only 12% see the quality of IT systems as being the most important factor contributing to the success of their finance function.

The number of CFOs planning on outsourcing has also reduced significantly this year, from 28% of respondents in 2012 to 9% in 2016. This may perhaps indicate that outsourcing is now seen as less of an imperative for these companies now that the sentiment has moved away from headcount reduction and onto growth and expansion.
The greatest barriers to business expansion, according to the survey, are all market entry related. Four out of ten CFOs have indicated that identifying the right markets is their key challenge; whilst 17% also referenced understanding local cultures and 14% referenced sourcing experts on the ground.

It is unclear from these results and the timing of this survey the extent to which the implications of BREXIT, and what it will mean for companies thinking about expanding into or away from the UK, may have played into these results. However, given CFOs have previously indicated that geopolitical uncertainties and exchange rate volatilities are some of the key challenges they face, it may have been a consideration.

What is clear however, is that entering into new markets needs careful consideration and advanced planning. It involves aligning both existing and planned new products and services with potential new customers, as well as establishing the optimal business and tax structures. Opportunities do not come without risk, but getting the right team on side, and targeting the right markets with the right products and services will certainly help mitigate the risk.

Chart 6: If planning to expand your business, what is your greatest barrier?

- Identifying the right markets
- Understanding local culture
- Sourcing experts on the ground
- Regulation
- People mobility
- Tax
- Exchange rate
- An effective supply chain
The Finance Function
Leading Irish CFOs are continuing the trend which has seen finance functions moving away from the traditional pure accounting role to being a function with leaders who can influence strategic decisions being taken within their business. This is being achieved by understanding market trends, analysing the impact of technology and new business models and ultimately by providing insightful analysis.

In this year’s survey we have seen a marked increase (51% to 59%) in the number of CFOs who now see their finance function as operating in the strategic space. Nearly half of the CFOs have also indicated that 30% or more of finance’s time within their organisation is spent partnering with the business and fulfilling this strategic role. However, as we can see from chart 9 overleaf, these CFOs also believe that there has been a marginal reduction in the perceived quality of the management information being produced. If not addressed this could potentially become an inhibitor to finance providing value add insights to the business.
Less CFOs believe their management information is now either “Very Good” or “Excellent” (37% vs 41%), and instead this has been replaced by an uplift in “Good” management information (53% vs. 46%). If finance are to engage effectively with the business, they will need access to reliable information generated through efficient systems and reporting tools.

However, as other charts have indicated, the focus of CFOs for the forthcoming year appears to be on getting the right people in place, more so than improving technology. Consequently the initiatives to improve management information quality again appear to be people-based with staff training/development now being ranked top of the list of CFO initiatives; whilst the focus on introducing BI tools has declined slightly.

**Chart 9: How would you rate the quality of management information in your organisation?**

**Chart 10: Initiatives in place to improve the quality of management information, budgeting & forecasting**

- **Training/development of staff**
  - 2016: 63%
  - 2014: 64%
  - 2013: 70%
  - 2012: 63%

- **Streamlining and standardisation of information requirements**
  - 2016: 63%
  - 2014: 67%
  - 2013: 76%
  - 2012: 63%

- **Introduction of Business Intelligence tools**
  - 2016: 55%
  - 2014: 60%
  - 2013: 69%
  - 2012: 55%

- **Advanced excel modelling**
  - 2016: 24%
  - 2014: 25%
  - 2013: 33%
  - 2012: 25%

- **Introduction of new Enterprise Resource Planning systems**
  - 2016: 18%
  - 2014: 26%
  - 2013: 21%
  - 2012: 26%
How well is technology supporting finance’s business insight needs?

CFOs and finance functions need to adapt. Organisations are increasingly focusing on connectivity, interacting across all business units and driving transactional synergies to derive value from all parts of the business. As businesses increasingly look for analysis and data to support strategic decisions, the CFO’s role is likely to embrace better business alignment, including the principles of performance and risk management.

Reporting activities, and providing insights, will consequently remain key to finance being able to inform strategic decisions; however, to do this effectively these finance leaders will be reliant on having systems and data flows in place which can provide them with the information they need and can trust.

In this regard, there are some positive messages coming from this year’s survey in that nearly seven out of ten CFOs believe their organisation’s technology is either very good or excellent in terms of giving them accurate data; however, on the negative side only a quarter believe that their technology tools are really simple to use and one in four rate system integration as poor.

Consequently, it would appear that while good progress has been made in terms of having the right technologies in place to support finance’s business insight needs, there is still room for improvement.
Drivers of success

The key driver of success which CFOs have identified is again people related; with two thirds rating the quality of people as the single most important factor contributing to the success of their finance function, up from 53%/54% where it has stood for the previous 3 surveys.

Having the key skills to drive business growth and retain that talent is critical, however as these have previously been identified as being amongst the top challenges facing CFOs today, there remains a need to focus on retraining existing staff so that they can develop new key skills and remain enthused about their job and future prospects. CFOs and CEOs need to be innovative in how they identify and attract talent as well as having talent management strategies in place for all employees.

From an Irish economic standpoint, given the stiff competition for key talent, as well as high rents and personal taxes, it will be important that Ireland does not begin to price itself out of the market, but instead keeps its cost competitiveness in check. Only then may we be in a position to see the benefits of further inward investment and future opportunities arising from BREXIT.

Chart 12: What is the single most important factor contributing to the success of the finance function?

- Quality of the people: 53% (2016), 54% (2014), 54% (2013), 66% (2012)
- Having an excellent understanding of the business so as to intelligently analyse and interpret data: 20% (2016), 22% (2014), 21% (2013), 25% (2012)
- Quality of information / strength of systems: 12% (2016), 11% (2014), 13% (2013), 9% (2012)
- Ability to deliver business recommendations based on analytics: 2% (2016), 8% (2014), 7% (2013), 6% (2012)
**Top challenges facing the finance function**

Accuracy in budgeting and forecasting has been identified as the top challenge facing finance functions in each of the last three CFO surveys, however, this year it has been replaced by increases in regulatory reporting and the development of business strategy (which has risen from 25% to 42% in the intervening year). Interestingly, whilst under resourcing has also dropped down the list of challenges (with only one third of CFOs now seeing this as a top challenge), chart 14 overleaf indicates that half of the CFOs are planning on recruiting new staff into the team. This may indicate that CFOs do not see a requirement for wide scale recruitment; but rather a need to fill very specific roles and skill gaps.

The increase in regulatory reporting is, however, quite stark and does not appear from the survey results to be predominantly related to any one sector. This increased compliance and reporting burden drives up cost and complexity, with a number of new regulatory changes introduced recently:

- New Irish/UK GAAP (FRS 101/102) adoption
- New Irish Companies Act 2014 - including Directors’ compliance statements
- Prospective standards - IFRS 9, IFRS 15 and IFRS 16 – on the horizon
- IFRS becoming more complex and, in terms of disclosure, more onerous

Developing the business strategy also now ranks as the second highest challenge facing finance functions this year. This ties to both the growth ambitions of the business (“...how do we get there?”) but may also reflect that finance want to be more strategically focused and consequently see themselves as having a greater role to play in inputting into the development of that business strategy. It also links to the need for the business to react to market changes (e.g. digital) when they may not necessarily have a clear strategy already in place on how to respond.
Half of the CFOs surveyed are planning to recruit new staff, with another third planning initiatives to retrain their existing staff to address skills gaps. The use of contract staff and consultants does not however feature in this year’s responses, indicating that the focus is on building up the internal resource capability.

These results again tie to the broad theme we are seeing in this year’s survey results that the quality of people is the single most important factor for CFOs. However as nearly eight out of ten CFOs believe their teams already have an appropriate skills mix to support business demands, this recruitment/retraining within finance is likely to be focused on key specific areas.

**Focus on staffing**

![Chart 14: Initiatives used to deal with skill gaps, where they exist](image)

![Chart 15: In light of the changing market environment and demands on your business, does your finance function have the appropriate skills to support business demands?](image)
The results of the 2016 CFO Survey indicate that having a clear vision for digital technologies is the most important factor identified when considering digital investments, with half of the CFOs also calling out the key requirement to then execute those plans to fully leverage what digital technologies can bring.

When asked about the role which CFOs see themselves having in championing the use of digital technologies, only four our of ten saw themselves as having a very important role. There is a much greater opportunity for Finance to contribute here given the accelerating transformation in economies worldwide, the digital revolution taking place, increasing market interdependence, shifting of customer expectations, and the increased volatility of the global market place. The challenge for Finance leaders however will be to find new ways of orchestrating better performance, supporting more diverse and rewarding communication, driving more business resilience and providing a more connected and cohesive finance offering in this environment. To this end they need to embrace digital technologies.

Over the next number of years it is likely that the remit of the CFO will extend from that of Finance Leader to one of ‘Chief Performance Officer’. This would involve not only advising CEOs on financial aspects of where the business is heading, but also formulating courses of action the business may not have been able to determine alone. Achieving this will require more dynamic processes being in place, supported by a flexible Finance team with the skills and capabilities that help and support growth and innovation.
The proliferation of data as a result of the growth of digital technologies demands that organisations harness this data to create deeper, more dynamic insight into customer and business performance. While data & analytics has been traditionally applied to activities such as data validation, the survey results indicate that the digital investments being made by companies need to be further developed. This presents CFOs with an opportunity to support the broader organisation agenda of transforming customer value creation, generating revenue growth and increasing profitability.

As the finance function takes increasing responsibility and oversight for overall business performance, there comes a need for enhanced insight to inform decision making. The increasing adoption of digital technologies augments the volume and breadth of data available, ultimately enabling faster, more informed decision-making. Specific functional opportunities and challenges that can be informed through digital analytics include:

- **Analytical Insight**: Getting close to customers by transforming data from every channel into actionable market insight
- **Experience Design**: Integrating products, services and the places and spaces they are delivered to delight and surprise customers
- **Customer-Centred Strategy**: Building customer and channel strategies that engage the marketplace and take the business to the next level
- **Profitable Pricing**: Creating pricing and profitability solutions that respond to the marketplace while growing bottom line
- **Next Generation Sales**: Aligning sales models with customer needs for greater productivity and efficiency

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**Chart 19: To what extent are you using the following tools to best leverage Data & Analytics?**

<table>
<thead>
<tr>
<th>Tool</th>
<th>Usage Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Validation</td>
<td>68%</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>46%</td>
</tr>
<tr>
<td>Statistical Analysis</td>
<td>46%</td>
</tr>
<tr>
<td>Data Mining / Segmentation</td>
<td>46%</td>
</tr>
<tr>
<td>Predictive Modelling</td>
<td>34%</td>
</tr>
<tr>
<td>Simulation</td>
<td>16%</td>
</tr>
<tr>
<td>Data Visualisation</td>
<td>12%</td>
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</tbody>
</table>
The CFO response
In line with last year’s results, Irish CFOs are continuing to focus on growth enablers to ensure their finance functions can support the business strategy.

For businesses planning revenue growth over the next 12 months, the most prevalent strategies remain expansive ones; launching new products or services is again by far the most popular (65%), followed by entering new geographic markets (38%). As previously noted, businesses perceive market entry barriers to be the greatest obstacle to expansion (chart 6, page 12). These barriers, together with concerns over geopolitical instability and exchange rate fluctuations, may prove to inhibit growth plans over the next 12 months.

The survey suggests a reduced focus on introducing new promotional campaigns / incentives or price reductions to stimulate revenue growth, whilst the popularity of price and capacity increases as growth strategies has increased steadily since 2012.
Adapting to global trends

Technology advances continue to be the most important global trend impacting Irish businesses today, be that cloud computing, a greater focus on CRM tools and even the emerging trend of leveraging robotics to automate processes in areas such as finance. The winners in this area will be those who put technology front and centre in all aspects of business including leveraging social media.

To address these global trends, our survey indicates that businesses are looking at their customer growth and retention strategies and considering which technology and digital investments will deliver the most for them. However, while our 2014 survey results indicated that nearly half of the organisations would look to redesign their organisational structure to capitalise on these new opportunities; only 35% now believe this is required.
The key risk which CFOs believe they need to manage and mitigate over the next twelve months remains the uncertainty and volatility around economic growth, though these concerns have eased significantly since 2013.

One area which has however seen the most significant upward shift this year is the risk associated with fraud and cyber crime. Whilst in 2013 only a quarter of CFOs rated this as a top risk; this year’s survey indicates that nearly six out of ten CFOs believe this is a key area of concern. Technology today is so deeply woven into virtually every facet of business that crimes committed through digital channels are a fundamental problem. The distribution of viruses, illegal downloads of media, phishing and pharming and theft of personal information, in addition to economic loss, are examples of the wide range of cybercrimes that are becoming increasingly common.

In PwC’s 2016 Economic Crime Survey one third (34%) of Irish respondents reported that an economic crime had taken place in their organisation within the last two years, with cyber crime being the second most frequently reported type of crime (after asset misappropriation). The cost of economic crime, of fraud and of cyber crime is also significant and increasing. In our economic crime survey PwC estimate that the average cost of fraud on an organisation, as a result of economic crime, has increased from €498k in 2014 to €1.7m in 2016. Consequently it is clear that fraud and cyber are a key risk and an area demanding increased C-suite focus.
CFOs understand that despite the significant challenges which they and their business face, they must look ahead and build a business that’s ready for today’s more complex marketplace. To do this we see the CFO focusing on:

**Select initiatives**

Rather than spending time managing and monitoring a large number of small initiatives CFOs need to instead focus their efforts on bringing a small number of strategic initiatives to fruition.

**Harnessing technology, innovation and talent**

Businesses are using technology to get closer to consumers, but are being challenged to align all parts of their operating model behind customer strategies. Some companies are bridging this gap by looking to build better innovation and people capabilities to leverage technology and address changing customer expectations.

**Investment decisions**

The manner in which investment decisions are made still require restructuring, with a shift towards a more inclusive and robust approach to decision making expected. This is particularly important at a time when key investment decisions will drive competitive differentiation in a fast changing market place (e.g. digital platforms).
**Top challenge for supply chain operations**

CFOs were asked about the top challenges they face from a supply chain perspective. Their responses show that, while cost and managing risks are still seen as critical challenges, over the three year cycle their relative level of focus has declined.

Interestingly, there has also been an increased focus on managing delivery performance and complexity. Taken together, these two insights might suggest that as the economy has improved over the three year cycle, companies are more focused on driving a growth agenda.

The increase in supply chain complexity, might suggest that in the context of a growth agenda, companies are increasingly operating in a global supply chain environment – both in terms of sourcing raw materials and selling-on finished goods.

In responding to this complex environment, we have noted that companies are typically investing more in developing and enhancing their supply chain skills base i.e. through recruitment, training, join ventures/alliances etc.

Further, we have noted that companies are increasingly investing in supply chain technology and systems to support them in driving growth in a more global supply environment.

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**Chart 23: Please indicate the top challenges you face in your supply chain**

- **Minimising cost**: 63% (2016), 70% (2014), 71% (2013)
- **Maximising delivery performance**: 47% (2016), 53% (2014), 52% (2013)
- **Managing complexity**: 39% (2016), 40% (2014), 42% (2013)
- **Quality control**: n/a (2016), n/a (2014), n/a (2013)
- **Maximising volume flexibility and responsiveness**: 35% (2016), 33% (2014), 29% (2013)
- **Minimising risk**: 29% (2016), 42% (2014), 41% (2013)
- **Sustainability**: 13% (2016), 23% (2014), 29% (2013)
- **Tax optimisation / efficiency**: 6% (2016), 13% (2014), 16% (2013)
The survey was carried out in mid 2016 amongst Ireland’s top Chief Finance Officers (CFOs) and Finance Leaders, covering a range of sectors and ownership types.
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