



# Partnering for performance

Part 5: the CFO and the chief executive officer



Building a better  
working world

## The CFO's role

The CFO's role has undergone a transformation. We believe that the six segments on the right represent the breadth of the CFO's remit today. The leading CFOs we work with typically have some involvement in each of these segments – either directly or through their team. While the weighting of that involvement will depend on the maturity and ambition of the individual, on the sector and scale of the finance function, and on economic conditions, each segment is critical to effective leadership.

We are grateful to all the participants in this study. In particular, we would like to thank the following finance leaders and chief executive officers who readily shared their insights in a series of interviews:

### Harry Bains

CFO, CNBC International at NBCUniversal, Inc.

### Christophe Le Callec

Senior Vice President and CFO, Global Network & International Consumer Services, American Express

### Costas Charitou

CEO, Lanitis Group of Companies

### Jack de Krelj

Vice Chairman of the Executive Board and Chief Financial Officer, Royal Vopak

### Jose Ma. K. Lim

President and CEO, Metro Pacific Investments Corporation (MPIC)

### David Nicol

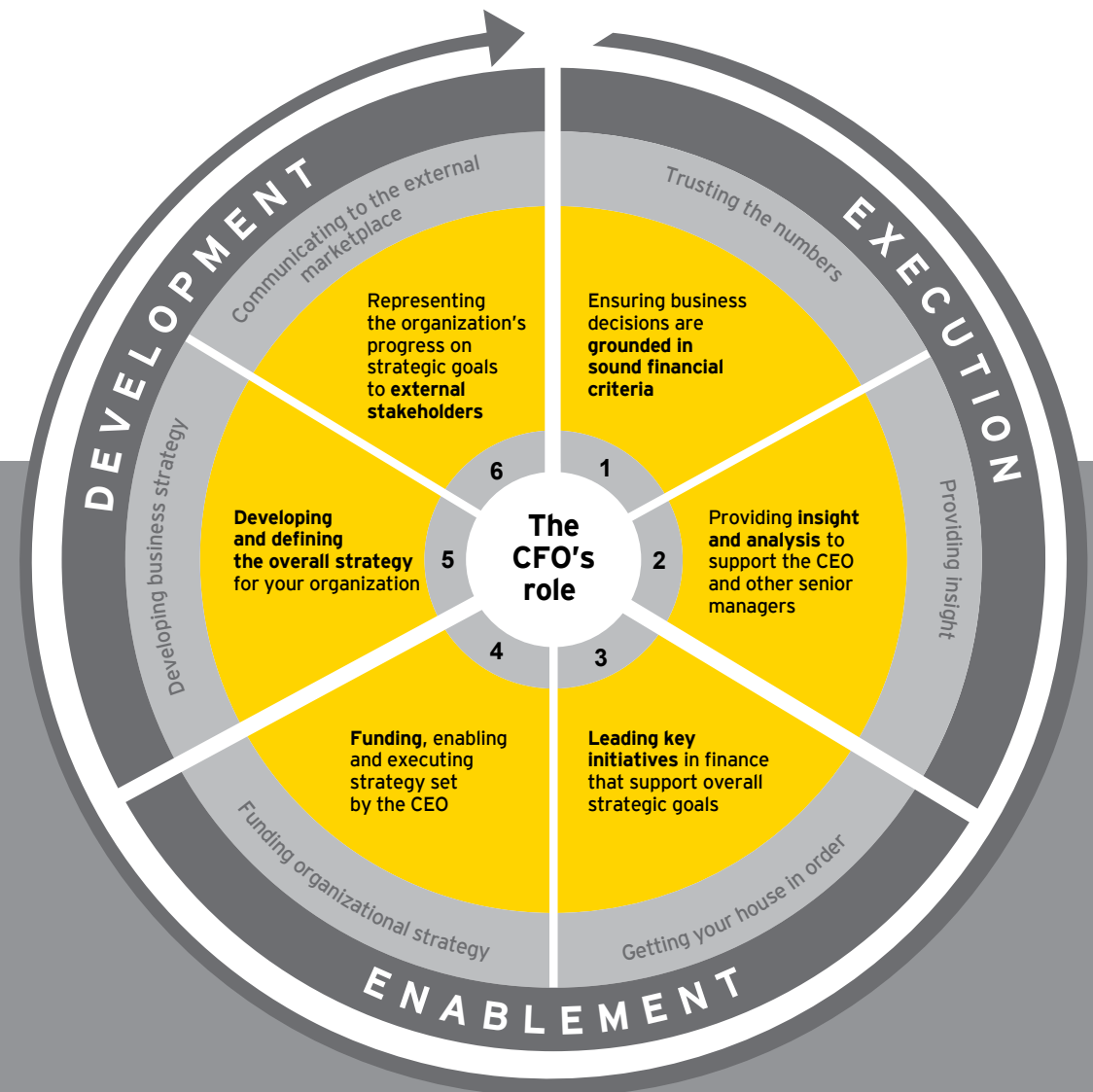
CFO, MPIC

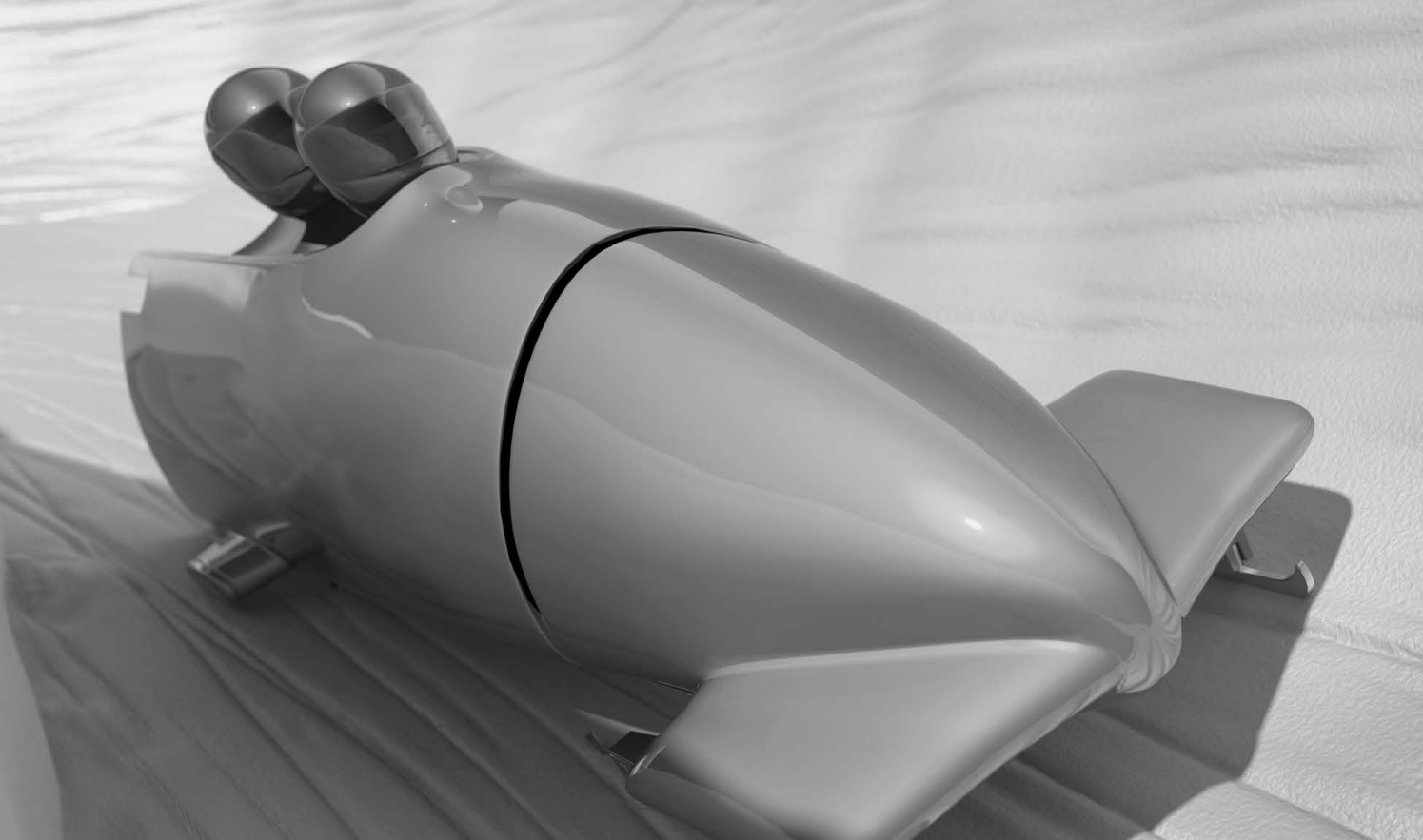
### Roland Sackers

CFO and Managing Director, QIAGEN

### Kathy Waller

Executive Vice President and CFO, The Coca-Cola Company





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### Partnering for performance

The *Partnering for performance* series explores ways in which CFOs can grow, protect and transform their organization by partnering with the leaders of different functions.

In this – the fifth part of the series – we explore the relationship between the CFO and the chief executive officer (CEO). In particular, we focus on the contribution that CFOs are making to four vital strategic priorities:

1. Driving and enabling the shift to digital
2. Measuring performance against strategy
3. Redesigning the operating model
4. Developing M&A strategy

Our findings are based on a global survey of 652 CFOs, conducted by Longitude Research on behalf of EY, and a series of in-depth interviews with CFOs, CEOs and EY professionals.

For more insights for CFOs and future finance leaders, visit [ey.com/cfo](http://ey.com/cfo).

# Executive summary

An effective CFO-CEO partnership is one of the defining characteristics of a well-run, market-leading organization. Over the last decade, we have seen this relationship evolve and shift.

CFOs have broadened their focus beyond their traditional scorekeeper role, and CEOs have relied more and more on their CFO's insights to drive business decisions, to represent the organization's goals to external stakeholders and to help develop overall strategy. During the global financial crisis, the CFO was thrust into the limelight, as their skills and experience in financing and cost management provided a lifeline for many organizations.

In the many conversations we have had with CFOs and CEOs over recent years from all corners of the globe, they unanimously believe that CFOs now need to fulfill the role of strategic advisor to the CEO, with a focus on value creation as well as more traditional finance responsibilities.

However, when asked specifically about some of the major value creation activities on business agendas today – M&A decisions, performance measurement, operating model redesign and the shift to digital – our survey of 652 CFOs reveals a persistent focus on cost management as CFOs' main contribution. This is despite the fact that CFOs consider that their relationship with the CEO has strengthened over the last three years, driven by new growth opportunities, changes in strategy and new products and services.

The question arises: As the global economy makes its faltering return to a more stable footing, will CFOs' continued focus on cost management enable them to act as a strategic business partner, focused on value creation? What do they need to do differently to be able to focus more time on strategic activities?

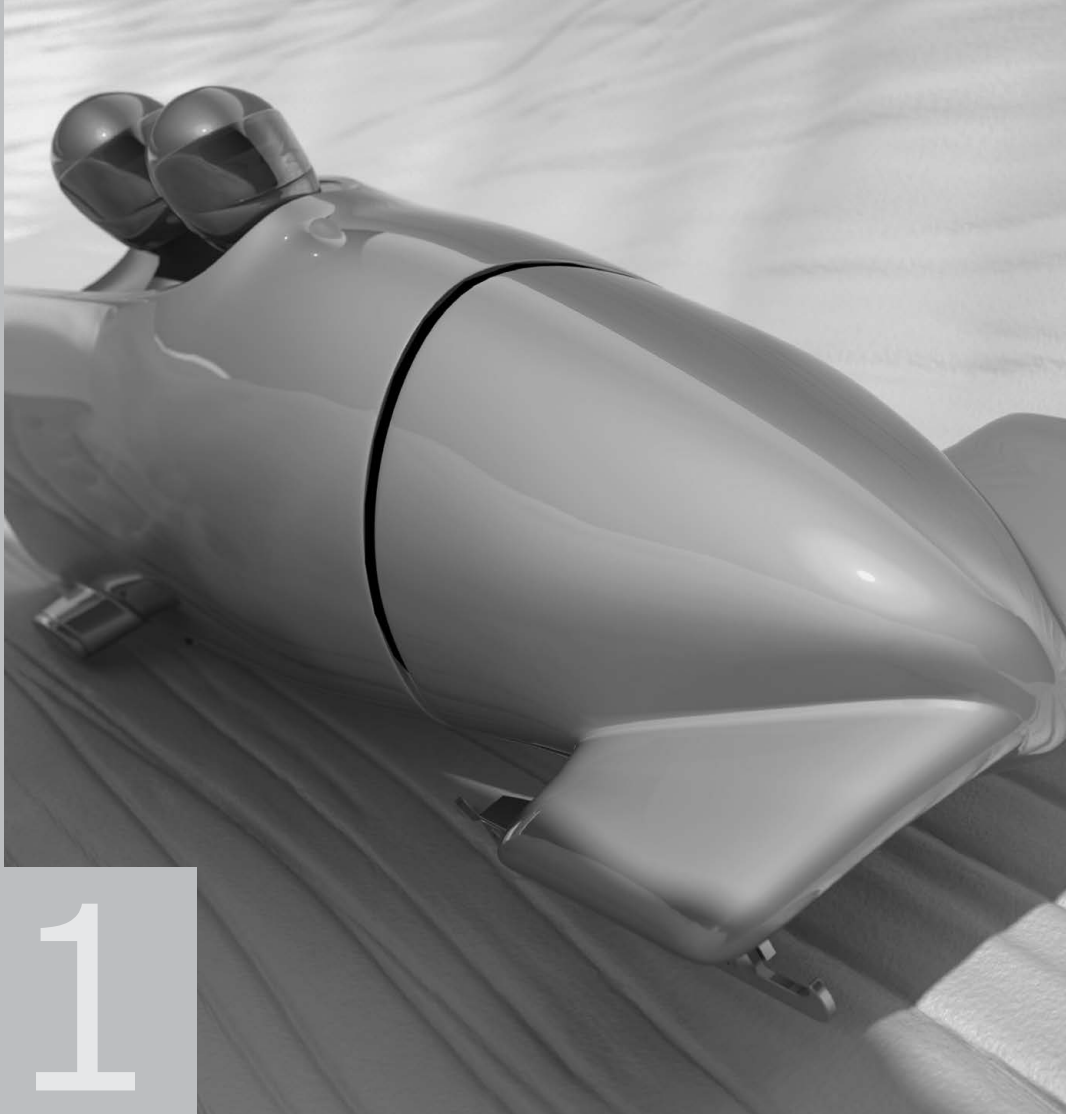
Our study unveils a second major issue. Of the four activities requiring CFO-CEO collaboration we focus on for this study, CFOs see themselves making the least contribution to the "shift to digital." Only 50% consider it a high or very high priority in the next three years, and only 49% responded that they will make a high or very high contribution.

This is surprising, as digital is arguably the most disruptive force organizations are facing today. It has the power to both revolutionize entire business models and sectors, and transform some organizations from market leaders to irrelevance in a frighteningly short time frame. And yet our survey suggests that CFOs have not figured out what role they should play in driving and enabling the shift to digital, and managing the legal, tax and regulatory risks that it creates.

We invite you to read our study to discover how the CFO-CEO partnership is evolving, how the two are collaborating on major business challenges and the obstacles they are facing. We also share suggestions and insights on how they can work together to improve their partnership. We hope you will find our report useful as you adapt to the continually changing business landscape, and develop in your role.



# The CFO and CEO: key allies in value creation



## Key findings about the CFO-CEO relationship:

- ✓ Sixty-four percent of the 652 CFOs we surveyed say that collaboration with the CEO has increased and a significant 76% report greater involvement in corporate strategy, driven by a focus on growth.
- ✓ Despite this focus on strategy, CFOs are still cost-discipline champions: managing costs and budgets emerged as the number one contribution they feel they make.
- ✓ For the CFO to fulfill the remit of strategic partner to the CEO, they need to rethink the principles of the finance function and allow themselves the personal and organizational flexibility to act as a growth-focused strategist.

“You cannot afford to just have a numbers guy next to you. You need someone who has the awareness of where the market and competition is heading.”

**Costas Charitou, CEO, Lanitis Group of Companies**

## The CFO and CEO: key allies in value creation

Many CFOs emerged from the chaos of the global financial crisis with reputations enhanced. They had found themselves at center stage, as their CEOs turned to them to find cost reduction and financial management strategies to help them shield against the economy's downward momentum. As they stepped up to the challenge, finance leaders emerged as the key ally of the CEO.

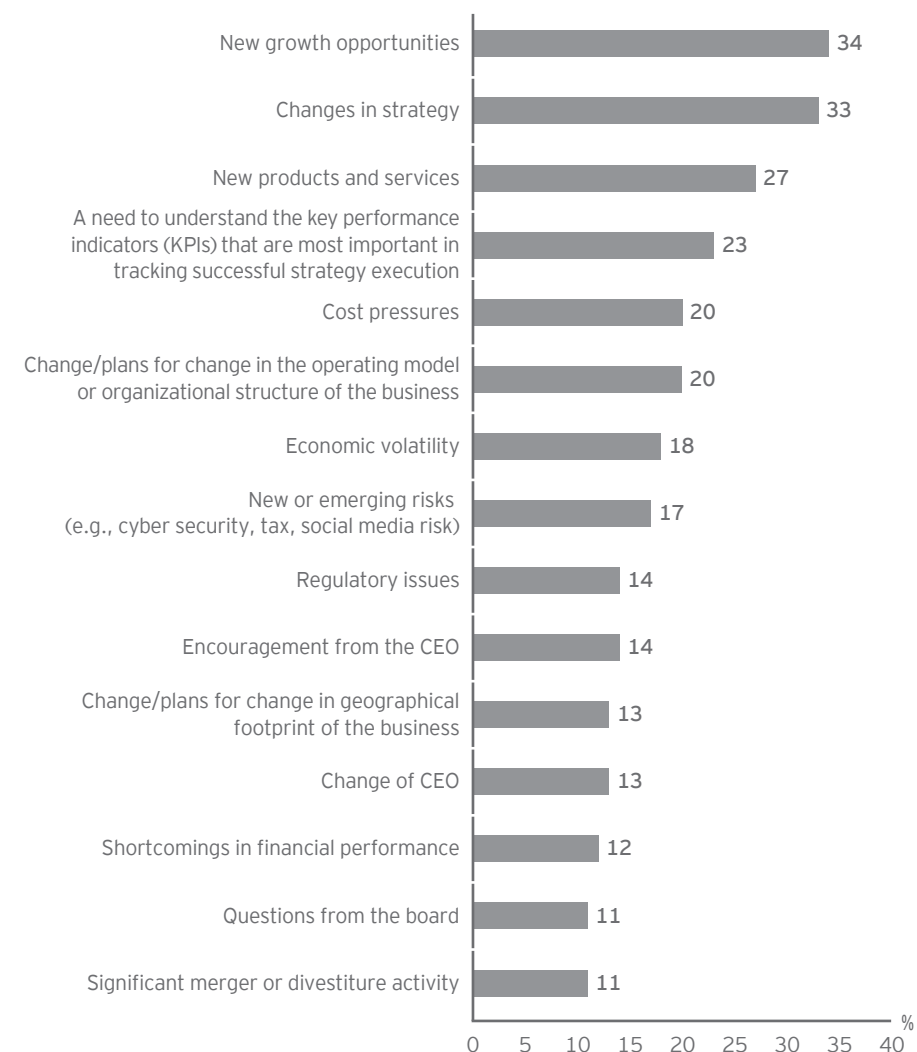
Today, the global economy has found a more stable footing, and CEOs are facing a new set of challenges. As many organizations refocus on growth, they are receiving increasing pressure from impatient investors criticizing the pace of change. Personal scrutiny has also increased, both of their performance and remuneration packages.

Meanwhile, new opportunities and threats, such as digital, are transforming whole sectors, and causing CEOs to call into question their strategy, operating model and team. More than ever, CEOs need a firm ally and business partner by their side. But, can CFOs play their part? Can they be growth advocates, as well as cost champions?

### CFOs aiming for strategic partnership, but cost mindset prevails

Our survey of 652 CFOs around the world suggests that their relationship with the CEO has continued to strengthen since the financial crisis. A majority (64%) of those surveyed say that their collaboration with the CEO has increased, driven primarily by new growth opportunities and changes in strategy (see Chart 1).

**Chart 1: What are the main reasons you are collaborating more closely with the CEO? (Please select up to three)**



## Today's large corporates face daunting change

The impact of issues such as globalization, market consolidation and disruptive technologies have had a significant impact on large corporates. According to Constellation Research, since 2000, 52% of the companies listed in the Fortune 500 have either gone bankrupt, been acquired, ceased to exist or dropped out of the Fortune 500.<sup>1</sup> In an environment that is increasingly characterized by ongoing disruption, CFOs need to respond with agility and innovation, acting as challengers to the status quo, in order to sustain the value of the enterprise in the long term.

1. "Dominate Digital Disruption Before It Dominates You," *Constellation Research*, [constellationr.com](http://constellationr.com), accessed 12 August 2015.

A significant majority (76%) also say that they have increased their involvement in corporate strategy. However, paradoxically, CFOs also say that the main contributions they make in working with the CEO on M&A decisions, operating model redesign, measuring organizational performance and the shift to digital are cost management and setting budgets (see Chart 2).

More strategic contributions – such as “setting the agenda for change” – are given much less emphasis.

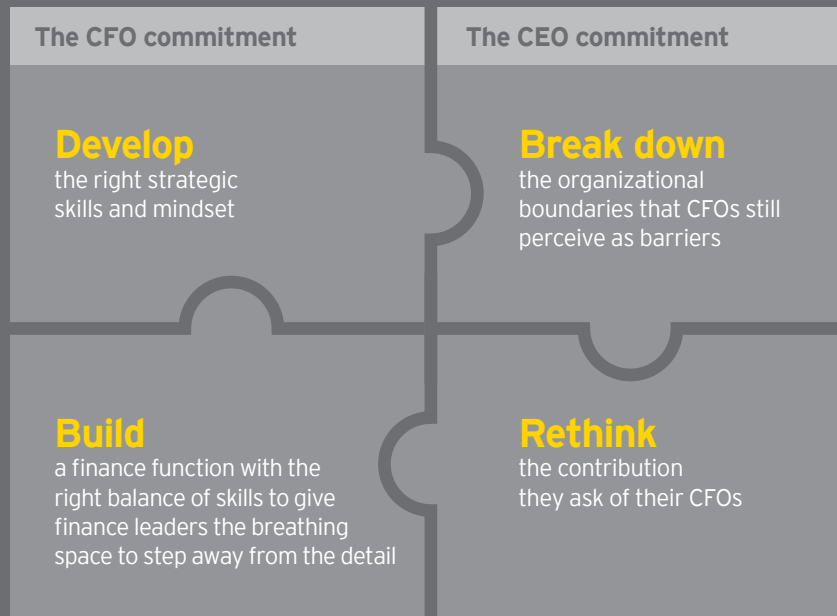
**Chart 2:** In which of the following areas do you consider your contribution to strategic priorities to be most valuable? (Select up to three)



Cost management is a core finance discipline that is necessary in good times and bad times. It is critical to driving efficiency and, when access to external capital is limited, releasing funding to growth areas. However, organizations in many parts of the world today are focused on top-line growth and business model innovation. To support this strategy, CFOs need to be able to balance strict financial discipline with higher risk initiatives that will drive bold innovation and growth.

## Trusted allies:

652 CFOs tell us how to strengthen the CFO-CEO alliance



The view from the **CFO's** office:

"The relationship must be one of mutual respect and trust."

**Kathy Waller**

Executive Vice President and CFO,  
The Coca-Cola Company

The view from the **CEO's** office:

"You cannot afford to just have a numbers guy next to you. You need someone who has the awareness of where the market and competition is heading."

**Costas Charitou**

CEO, Lanitis Group of Companies

As Costas Charitou, CEO, Lanitis Group of Companies, says, "A CFO that only thinks of the numbers would miss out on the business opportunities and the decisions we need to take. You need someone with the awareness of the market, competition and future growth opportunities."

CFOs need to strike a balance between control and growth. They need to be able to display agility and flexibility – both personally and organizationally – as the organization's strategy and the economic situation evolve.

Tony Klimas, Global Finance Performance Improvement Advisory Leader, EY, has seen this tension at play in many organizations. In his experience, the CFOs that have successfully made the transition to business partner are those that have taken a step back from finance operations, and are focused on taking a strategic view on how they build and structure the finance function.

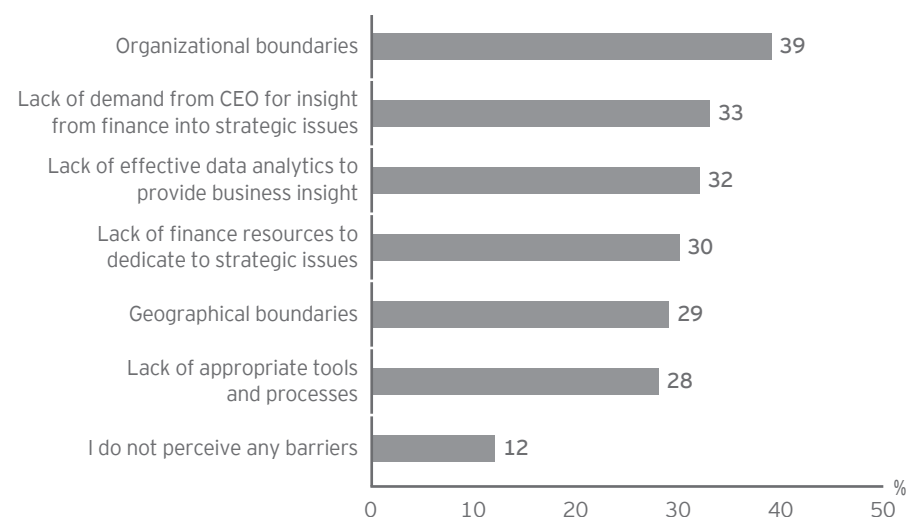
"To partner in a strategic way with the CEO, CFOs need to redefine the principles of the finance function," he says. "Many CFOs have the will and the drive to be a business partner to the CEO, but the change can't just come from them. They need to ensure the larger finance function has a balanced skill set that covers cost control, treasury, analytics and strategic forecasting. The CFO should be able to trust their finance leadership team and keep some distance from each of these activities to dedicate more time to collaborating with the CEO on strategic matters."



## The CFO and CEO: key allies in value creation

This will be critical if CFOs are to maintain their role as key ally to the CEO. There are warning signs that CFOs are not always at the table during key discussions or asked for their input into strategic decisions. According to respondents, the top two barriers preventing a closer relationship with the CEO were organizational boundaries and lack of demand from CEO for insight from finance into strategic issues (see Chart 3).

**Chart 3: What do you consider to be the main barriers preventing a closer relationship with the CEO? (Select up to three)**

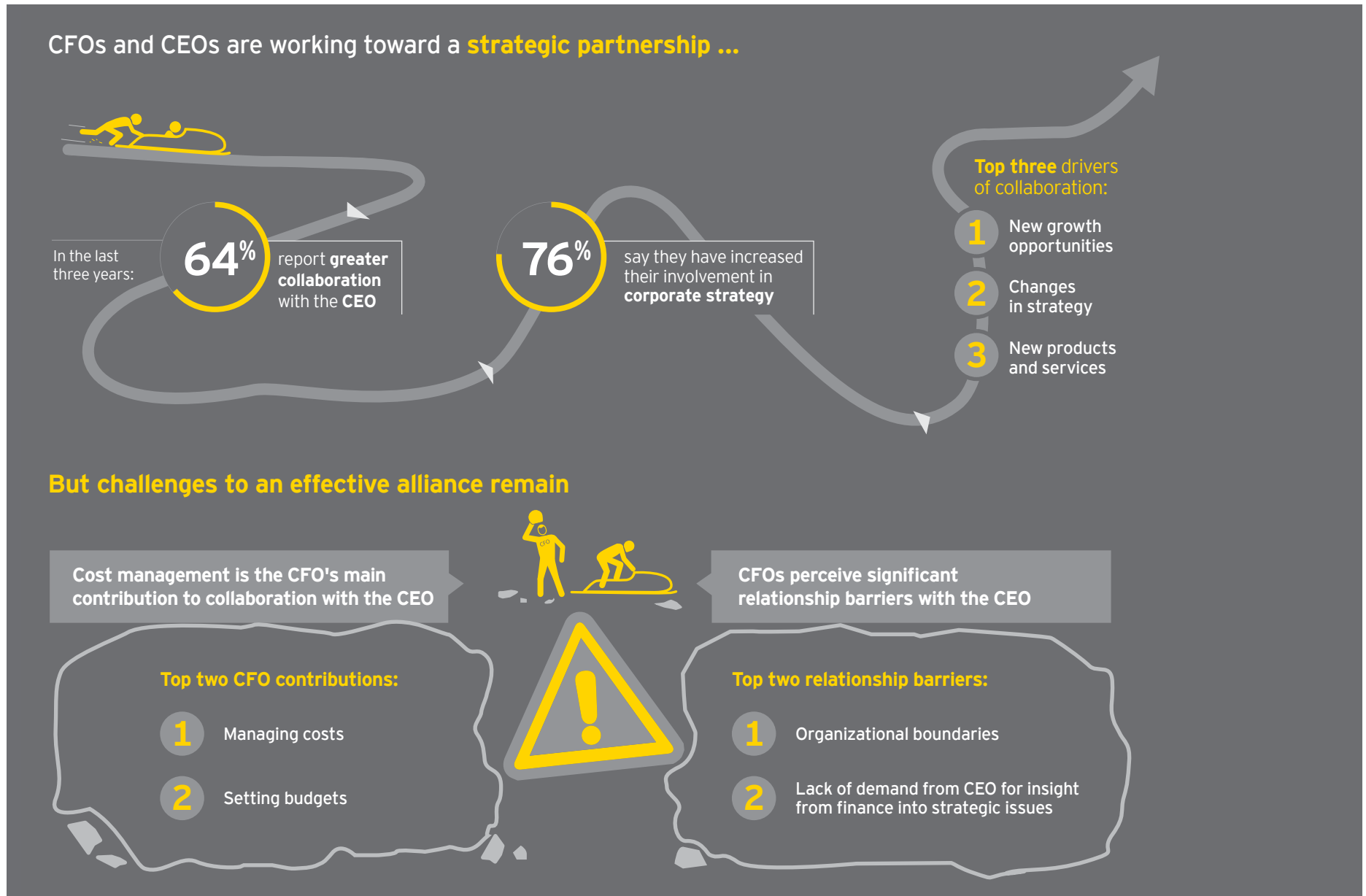


### American Express: balancing control with growth opportunities

At American Express, Global Network & International Consumer Services, Senior Vice President and CFO Christophe Le Caillec believes it is critical to distinguish between the two disciplines of control and targeting future opportunities.

“What has worked well at American Express is distinguishing between two areas,” he says. “First, you have what we call ‘controllership,’ which is about producing the financials with the highest possible level of integrity. The second is a separate group of people who are thinking about business decisions – how to target the best opportunities and questioning whether what we’re doing now is still the right thing to do for the future.”

The onus for the CFO becoming a value creation-focused business partner to the CEO falls upon them both. The CFO needs to develop the right strategic skills and mindset, and build a finance function with the right balance of skills to enable him or her the breathing space to step away from the detail. Meanwhile, the CEO can help break down the organizational boundaries that our survey suggests CFOs still perceive, and rethink the contribution they ask of their CFOs.



“In the relationship between CFO and CEO, there’ll always be situations where individuals might have different preferences or might see things differently from a risk-return perspective. This provides good input to an inspiring dialogue focused on long-term value creation. There is however one fundamental thing that’s critical: there must be a corporate culture where you share the same values. You might have a difference of opinion on less important topics, but there should be full alignment between the CFO and CEO on the values of the company and the implications from realizing business success. If there’s a difference in values, it’s impossible to act effectively as a board.”

**Jack de Kreij**, Vice Chairman of the Executive Board and Chief Financial Officer, Royal Vopak

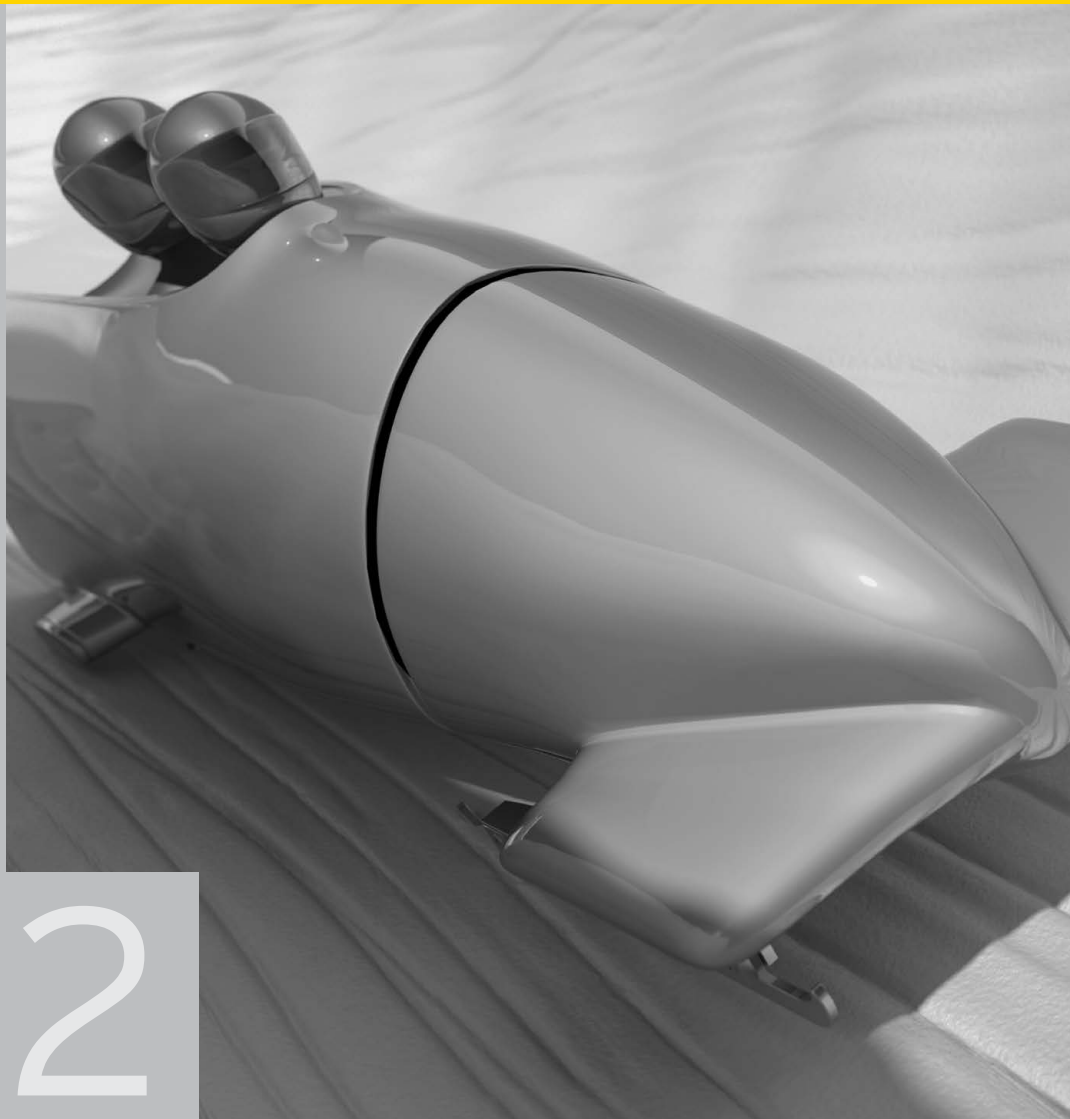
Through this joint commitment, CEOs and CFOs can develop a partnership to respond to the technological, economic and competitive forces that continually threaten to disrupt organizations today.

### **The Coca-Cola Company: trust underpins a successful collaboration**

Kathy Waller, EVP and CFO at The Coca-Cola Company, believes that total trust between the CFO and CEO is essential, not just for a productive partnership, but because it sends the right message to the market.

“The relationship must be one of mutual respect and trust,” she explains. “Six months into this role, the CEO and I went on a road show, across five cities in five days seeing over a hundred people. It was grueling, but it shows the kind of trust you need in each other because my job was to talk about the financials but to also pick up the baton when he needed me to. The investors are watching you for differences, whether in body language or any signal of any kind. He and I had to be in sync, otherwise we could have been signaling some level of discord, which absolutely wasn’t the case. We support and trust each other and when it comes to the business, we are and should be able to finish each other’s sentences.”

## Driving and enabling the shift to digital



2

### Key findings about the CFO role in the shift to digital:

- ✓ Overall, only 50% of the 652 CFOs we surveyed make the shift to a digital business model a high priority.
- ✓ Less than half of the CFOs we surveyed (49%) feel they make a major contribution to this activity.

### Four digital priorities for the CFO and CEO:

- 1 Develop a business strategy that is fit for a digital world, and make the disruptive investment calls required.
- 2 Use data analytics to anticipate digital disruption, measure performance and respond quickly.
- 3 Create a governance and risk oversight framework that puts digital at the heart of the business.
- 4 Manage the tax, legal and regulatory risks of digital and support digital growth plans.

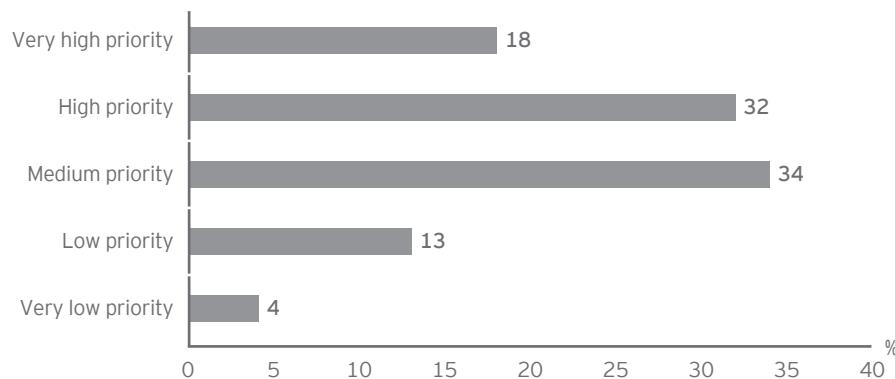
Digital technologies do not respect tradition. They up-end hierarchies, trample over sector boundaries, democratize information and ask hard questions of large, traditional businesses. Few business leaders will have witnessed a more dramatic change to their industries than those being driven by digital technology.

And it's only just getting started. According to Cisco's Chief Technology Officer, "Only 1% of what could be connected in the world is actually connected."<sup>2</sup> The speed of change is extraordinary. For example, the most disruptive, viral technologies can now reach 50 million users in less than 35 days.<sup>3</sup>

CFOs and CEOs must plot a response that reacts to external risks and opportunities, and disrupts their own organization's business and operating models. They need to understand how digital can create new sources of value.

Surprisingly, only 50% of the 652 CFOs we surveyed consider the shift to a digital business model to be a high or very high priority for their organization in the next three years (see Chart 4).

**Chart 4:** Over the next three years, how much of a priority will the shift to a digital business model be for your organization?

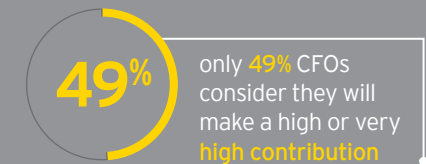
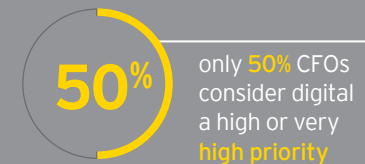


2. Murray Jennex, "Knowledge Discovery, Transfer, and Management in the Information Age," Murray Jennex, IGI Global, 2014.

3. "Reaching 50 million users," Visually website, accessed 16 February 2015.

## Digital technology is only just getting started: CFOs and CEOs need to develop a strategic response and consider pre-emptive changes

In the next three years:



**1%**



"Only 1% of what could be connected in the world is actually connected."

Cisco's Chief Technology Officer

Why digital needs to be a high CFO priority

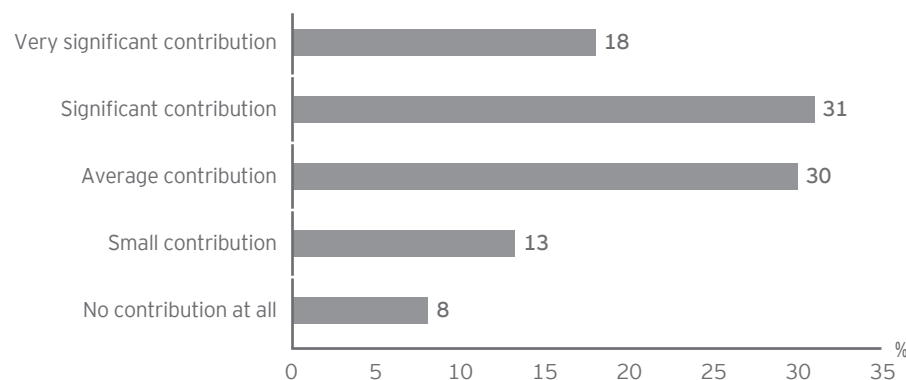
- ▶ Creates new business models
- ▶ Transforms startups into market leaders, and market leaders into irrelevance
- ▶ Accelerates pace of change
- ▶ Rewrites the rules of competition
- ▶ Blurs boundaries between sectors





Less than half (49%) feel they make a significant or very significant contribution to the shift to a digital business model (see Chart 5).

**Chart 5:** How much of a contribution do you make to the shift to a digital business model?



This suggests that CFOs have not yet come to grips with the impact digital is likely to have on their organization, nor what their remit should be in positioning the organization to adapt and secure its relevance.

“Many large, traditional companies are caught between David and Goliath,” says Laurence Buchanan, Digital Leader for EMEIA, EY. “On the one hand, you’ve got the technology mega-vendors disrupting every sector, be it insurance, health care or automotive. On the other hand, you’ve got disruptive startups who have no legacy and can completely turn a business model on its head. Most people are caught in the middle, with yesterday’s business model and yesterday’s technology.”

### Digital business model innovators

- ▶ GE Aviation shifts to an outcome-based business model, selling “power by the hour” rather than selling an engine plus a service package.<sup>4</sup>
- ▶ Red Bull, the energy drink maker, expands into media, creating content from TV shows to magazines and distributing that content across multiple channels, from TV to the web.<sup>5</sup>
- ▶ Nike uses advances in wearables and sensors to create a fitness tracking community and build direct relationships with customers.<sup>6</sup>

4. “Commerce trends: Moving from goods to services,” *The Future of Commerce*, 10 April 2015.

5. “When a Brand Becomes a Publisher: Inside Red Bull’s Media House,” *mediashift.org*, 10 November 2014.

6. “Tomorrow’s business will harness a new digital reality,” *Financial Times*, 13 March 2014.

### The CFO’s role in digital

While many CFOs surveyed clearly feel that digital sits outside their remit, they have an important role to play in both championing and embedding digital within their organization. For example:

- ▶ CFOs need to understand new digital business models, how they can be applied to their sector and organization, and new ways of raising capital and financing such models.
- ▶ CFOs can leverage digital technologies within the finance function to improve data processing and reporting. In-memory computing has the potential to revolutionize data analysis speeds, dramatically reducing the burden on the finance function.

- ▶ CFOs in low-tech industries should reevaluate the organization's corporate portfolio, and consider acquiring startups or high-tech organizations to fill gaps in the organization's capabilities.
- ▶ CFOs should ensure that their finance team includes "digital natives," who have a detailed understanding of digital's potential.
- ▶ CFOs can use divergent sets of internal and external historic data to inform business strategy decisions, allocate capital for investments and improve accuracy of financial forecasts.
- ▶ CFOs should work closely with other leaders across the business to ensure that digital investments are coordinated to support the organization's strategy, and do not expose the organization to unmanaged risk.
- ▶ CFOs need to keep a close eye on the changing tax, legal and regulatory landscapes as they evolve to catch up with the digital world.
- ▶ CFOs need to identify and consolidate siloed and fragmented digital spend across the organization along with digital agency and cloud computing contracts and compliance.
- ▶ CFOs need to work with their board to develop a cybersecurity strategy, which is consistent with the organization's overall risk tolerance and protects the most valuable assets.

### Digital is headline news for CNBC's CFO

For Harry Bains, CFO at CNBC, the business news and information provider, there is no question about the priority attached to digital. "For us, digital really means our revenue," he explains. "What gets tricky in the digital space is monetization. You're competing with the scale of the Yahoos, Googles and Facebooks of the world, which get massive page views. That's really put the content providers under pressure. We know that's both a threat but also an opportunity, so it's an area where we're spending a lot of time ramping up our digital capabilities. I get involved with our strategic plan and with ensuring we have the right approach to get better data. The accessibility and speed of getting data offers a lot of opportunity to identify cost efficiencies."

### Digital nation: a country perspective on the importance of digital

Finance leaders in Brazil and the US put the highest priority on digital. Thirty-three percent of finance leaders in Brazil make it a "very high priority" and 29% in the US. This reflects both countries' high number of internet users – Brazil and the US both sit in the top four countries worldwide in terms of internet users.<sup>7</sup>

It also reflects the strong part played by digital transformation in the US business environment and surrounding markets. Many of the leading companies that have driven digital technology forward, including new consumer applications, are US giants, such as Google, Amazon and Facebook.

7. "Internet to Hit 3 Billion Users in 2015," *eMarketer.com*, 20 November 2014.

### **QIAGEN: data bytes are transforming health care**

Roland Sackers, CFO and Managing Director, QIAGEN, a leading global biotechnology player, says that interpretation of data is critical in health care today.

“The challenge of the past 20 years was generating data; the challenge of tomorrow is interpreting the data,” he explains. “This is changing the treatment of patients. If you’re a cancer patient today, doctors are focused on interpreting your tumor data to help decide which kind of treatment you should receive.”

## Digital priorities for the CFO and CEO

### **1. Develop a business strategy that is fit for a digital world, and make the disruptive investment calls required**

Digital is rewriting the rules of competition and blurring traditional sector boundaries. It is therefore critical that organizations have a strategy that is fit for a digital world, and responds to the new competitive realities. This will include developing and managing a portfolio of digital investments with a variety of profiles, from quick wins to strategic bets.

“Every company in the world is going to use digital to support their strategy in some way,” explains Channing Flynn, Global Technology Industry Tax Leader, EY. “Companies are becoming increasingly reliant on knowledge to drive their business and technologies to improve their bottom line. Everybody is going to have to adopt digital within their core economic business model.”

In developing a strategy that is fit for a digital world, the CEO and CFO will need to evaluate a range of new risks and opportunities for the organization. As a result, they are likely to be faced with decisions about whether to direct resources away from viable business offerings or units, because the opportunity cost of not doing so is too great.

For example, it could involve shifting resources from a business unit that is profitable but under long-term threat from digital disruption, allowing the organization to channel investment to a business line that has more sustainable long-term prospects. CFOs play a critical role in deciding which activities will best support the organization’s strategy, and how resources can be diverted and allocated to deliver it.

### **2. Use data analytics to anticipate digital disruption, measure performance and respond quickly**

For Buchanan, the pace of digital disruption can leave organizations struggling to react.

“The challenge is the speed at which change can happen,” he explains. “Take Airbnb and Hilton. It only took Airbnb four years to build up a larger inventory of hotel rooms than Hilton Hotels built up in almost a century.”

The CFO plays an important role in gathering and analyzing the data – including from marketing and sales – that will provide an early-warning indicator of any disruptive threats and opportunities that lie around the corner. This will allow the organization and its CEO to develop a strategic response and consider pre-emptive changes to its business model before the challenger achieves scale.

### 3. Create a governance framework that puts digital at the heart of the business

Digital needs to be at the heart of the organization's strategy and approach, including management decision-making. Many organizations' governance arrangements are out of step with the changes that have swept through the digital economy. CFOs and CEOs can, for example, work with the board in assessing the readiness of the board as well as the overall digital talent pipeline and bench strength within the organization to help catalyze digital business model innovation. The skills and makeup of many boards are designed around oversight of traditional issues, such as compliance, financial reporting or risk, with fewer boards that exhibit digital leadership. There is a growing need for organizations to have a digital-savvy voice in the boardroom. This is being reflected in an increase in the appointment of digital directors.

#### The digital-savvy board

The following board directors bring a digital mindset and skills to their board responsibilities:

- ▶ **The Walt Disney Company** – Sheryl Sandberg, Facebook<sup>8</sup>
- ▶ **American Express** – Ted Leonsis, Groupon<sup>9</sup>
- ▶ **Sainsbury's** – Matt Brittin, Google<sup>10</sup>

8. [thewaltdisneycompany.com/about-disney/leadership/board-directors/sheryl-sandberg](http://thewaltdisneycompany.com/about-disney/leadership/board-directors/sheryl-sandberg).

9. [ir.americanexpress.com/Officers-and-Directors](http://ir.americanexpress.com/Officers-and-Directors).

10. [www.j-sainsbury.co.uk/about-us/management-and-board/board-of-directors/](http://www.j-sainsbury.co.uk/about-us/management-and-board/board-of-directors/).

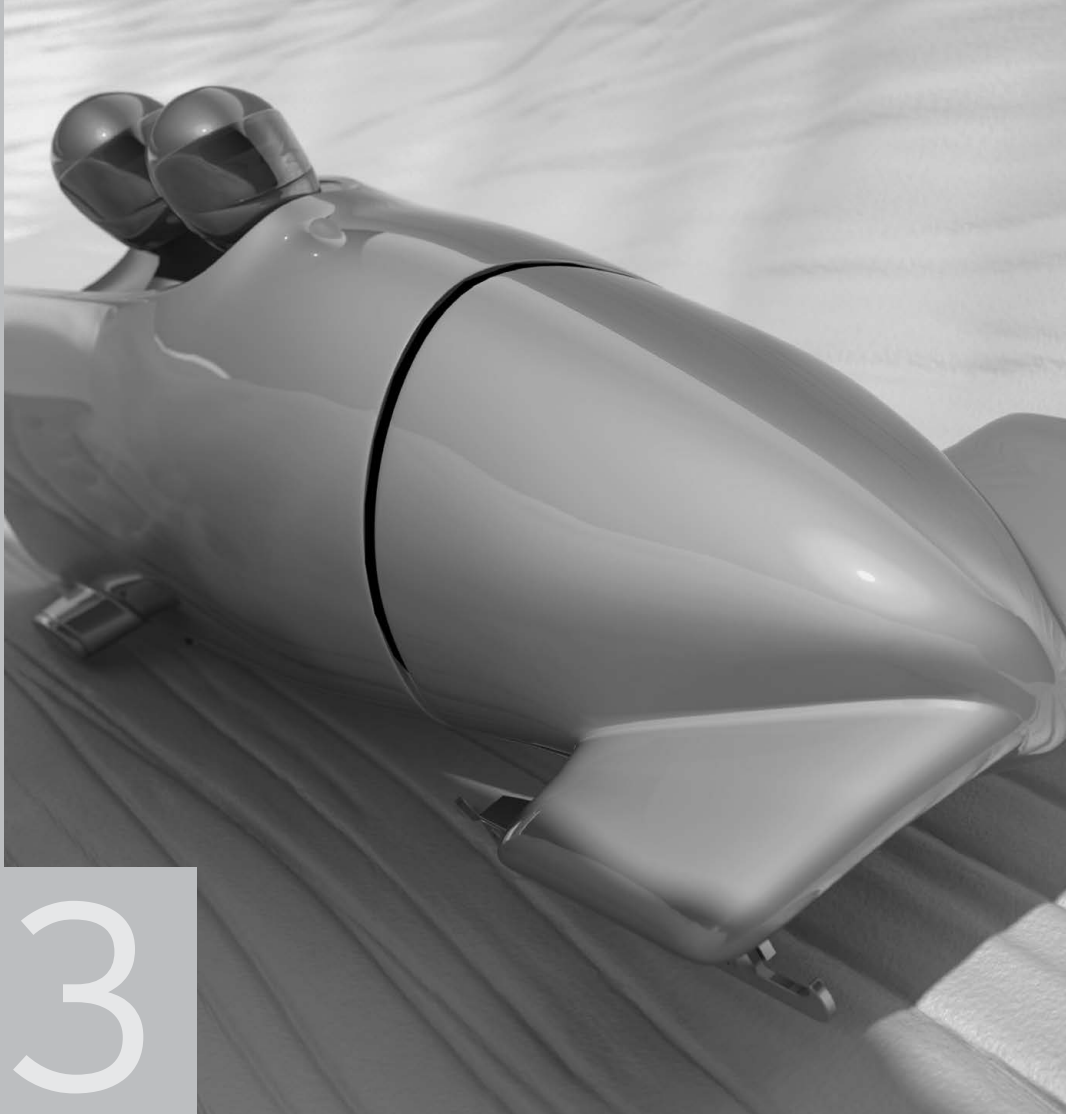
Ruby Sharma, Principal, EY Center for Board Matters, Ernst & Young LLP, says digital experience on the board can help guide management through changes in business models and disruptive forces. "It is important to consider having directors with digital experience in place to ask the right questions and challenge management to help organizations prepare for inevitable technological disruption," she says. "By asking the appropriate questions of management, directors can help make better and faster decisions that improve business performance, manage risks and protect the company's reputation and brand."

### 4. Manage the tax, legal and regulatory risks of digital and support digital growth plans

Tax laws have struggled to keep pace with the digital economy. The gap between the evolution of the digital economy and the legislative ability to keep up creates uncertainty and risk.

"It is an absolute requirement that CFOs, with their tax directors, sit down with the CEO and say, 'Given how our business model is going to change, here's the way the tax model is changing,'" says Flynn. "Companies that do this will help ensure that they anticipate risks and support their digital growth ambitions. Companies that don't plan on that are going to face much greater controversy, including intense media and regulatory scrutiny and the risk of reputational damage."

# Measuring performance against strategy



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## Key findings about the CFO role in measuring performance against strategy:

- Sixty-one percent of the 652 CFOs we surveyed consider measuring performance against strategy – including financial and non-financial measures – to be an important priority for their business, making it the activity that CFOs prioritize most highly out of those examined in this study.
- A significant majority of the respondents – 62% – feel they make a significant or very significant contribution to performance measurement.
- However, performance measurement is also cited as the number one area where CFOs feel they need to make a bigger contribution.

## Four performance measurement priorities for the CFO and CEO:

- 1 Balance hindsight with foresight.
- 2 Turn data into performance insight through new technologies and skills.
- 3 Measure and manage non-financial metrics that matter such as “performance against purpose.”
- 4 Measure customer experience to build trust and bottom-line value.



## Measuring performance against strategy

For CEOs and CFOs, growth has its flipside: complexity. As large corporates grow and expand, business complexity – and therefore the complexity of measurement – continues to rise.

Organizations have more intertwined operations spanning many jurisdictions. The pace of regulatory change is also increasing, and a range of stakeholders – from investors to supervisory boards – are requesting deeper and more nuanced information about the organization's performance against its strategy, as well as non-financial measures, such as performance on sustainability.

“Long-range planning and forecasting is of particular interest to CEOs instead of just looking backwards at actual results and performance; they require information that enables strategic thinking about the future.”

**Tony Klimas**, Global Finance Performance Improvement Advisory Leader, EY

In parallel, an increasing number of organizations have begun to consider their performance against their overall purpose: the meaning that sits behind their activities, and inspires internal and external stakeholders.

Defining this purpose, and measuring performance against it, can help to unite the organization; differentiate from competitors; increase internal commitment, engender loyalty with customers and employees and build reputation with investors.

Additionally, internal and external stakeholders are looking for more frequent, accurate information. CFOs must consider the needs of different audiences, from supervisory boards to the media, and tailor the information they present accordingly.

Performance data also needs to be mined for forward-looking information, so that the CEOs do not miss strategic opportunities because they are only given a “rear-view-mirror” approach that focuses on past performance. Measuring performance in this context has become extremely challenging for CFOs.

“Sustainability reporting is rapidly evolving from a voluntary, nice-to-have effort to a de-facto compulsory and increasingly audited non-financial report. These non-financial measures include how organizations are respecting human rights throughout their value chains, their impacts and dependencies on natural capital and how their strategies align to the UN Sustainable Development Goals.”

**Brendan LeBlanc**, Sustainable Business Solutions Leader, Ernst & Young LLP

## Lanitis Group: measuring and rewarding performance across a diverse portfolio

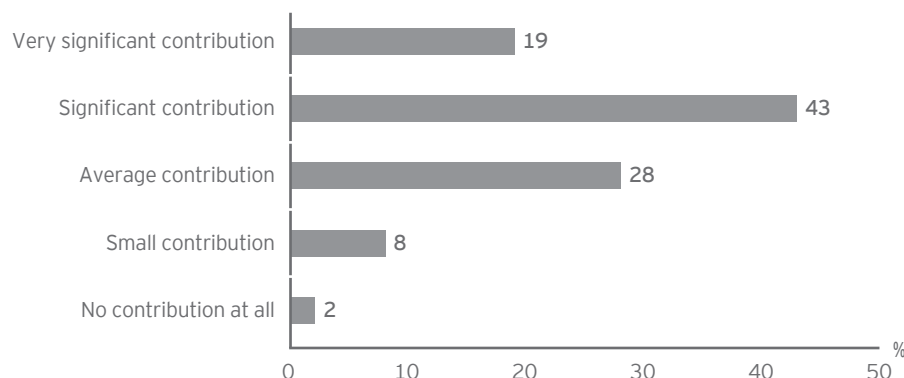
The Lanitis Group, one of the largest business groups in Cyprus, has a portfolio that runs from property development to travel and tourism. For Lanitis Group CEO Costas Charitou, establishing a consistent performance measurement philosophy is key to building the right organizational culture.

“Whether it’s a hotel, construction company or restaurant business, you need to have a framework in place that will bind the group together,” he explains. “We reward performance on elements that are the same for everybody but have the flexibility to incorporate sector-specific performance standards for hotels, construction companies, real estate, property development and restaurants.”

## Key findings about the CFO’s role in performance measurement

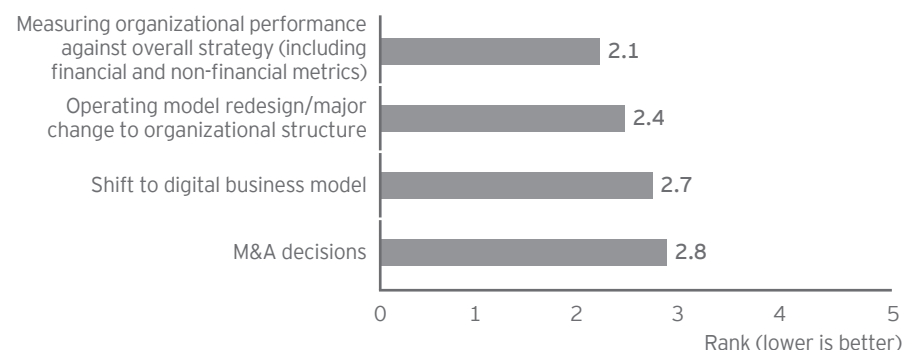
A significant majority of CFOs we surveyed (62%) feel they make a significant or very significant contribution to measuring performance against strategy (see Chart 6).

**Chart 6:** How much of a contribution do you make to measuring performance against strategy?



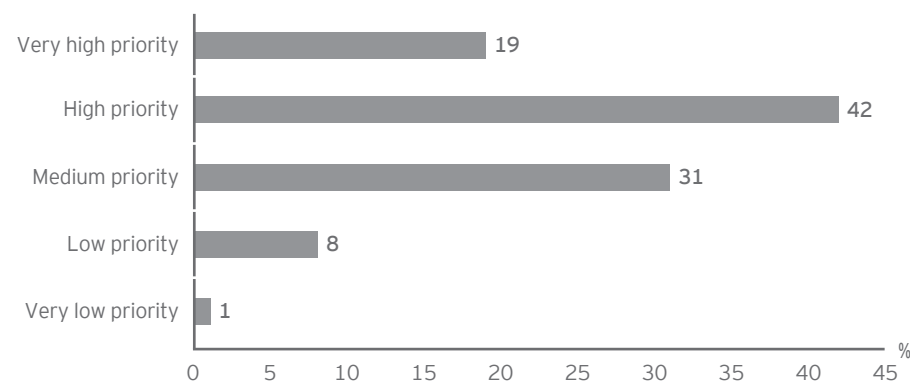
However, they also feel there is more to do. Performance measurement against strategy is cited as the number one area where they feel they need to make a bigger contribution in their collaboration with the CEO (see Chart 7).

**Chart 7:** In which of the following areas do you think you need to make a bigger contribution? (chart shows average ranking – a lower number means it was ranked more highly)



A significant majority of CFOs (61%) make performance measurement an important priority for their organization in the next three years (see Chart 8).

**Chart 8:** Over the next three years, how much of a priority will measuring organizational performance be for your organization?



### Four performance measurement priorities for the CFO and CEO

#### 1. Balance hindsight with foresight

While CEOs and their CFOs must track and measure the organization's current performance, they must also manage for the future. This allows an organization to move beyond reactive self-preservation to decisive action about emerging opportunities and risks.

On one side of the measurement coin there are the actuals – a core measurement responsibility of the CFO. These results, financial statements and external reports have a significant influence on stock price and controls, and are seen as evidence of the success (or otherwise) of the CEO's current strategy.

The other side of the coin is the forecasting or "sensing" capability. "This long-range planning and forecasting is of particular interest to CEOs since it generates insights into what they could be doing differently to manage performance in the future," says Klimas. "Instead of just looking backwards at actual results and performance, they require information that enables strategic thinking about the future."

This is the CFO attribute that Andy Campion, Nike CFO, referred to as "intuition" in an earlier report from EY on the role of the CFO. "As a finance executive, you have to be able to incorporate the collective intuition of general management, as well as your own intuition, as to which business strategies are more likely than not to cut through from a consumer perspective ... you must be able to couple intuition and analytics " he said.<sup>11</sup>

#### 2. Turn data into performance insight through new technologies and skills

New technology advances, including cloud-based in-memory computing, are transforming the ability of organizations to analyze their performance data.

"A lot of the relational database systems that used to be the norm were constrained by the number of dimensions you could include," says Klimas. "The technology would only allow you to do so much. Now, with in-memory computing, you have essentially unlimited dimensions. Organizations need to understand how they can use these massive capabilities and take advantage of them."

In addition, while big data technology capabilities have accelerated, the profiles and skills of the finance function have not always kept pace. "There is a disconnect between the critical accounting skills that the function will always need and the technology skills that are now critical," says Klimas. "There are not enough people with the right skills and people do not yet grasp the full capability of these new technologies. There's a war for talent and CFOs need to establish how to build those skills within the organization."

#### 3. Measure and manage non-financial metrics that matter such as "performance against purpose"

Growth in shareholder value used to be the primary – and often unique – objective against which organizations measured their performance. Increasingly, however, market-leading organizations are those that have a clear purpose, which employees, customers and investors both recognize and believe in.

Often, these purposes encompass a contribution to societal well-being. The CEO is the primary individual that can define their organization's core purpose, and use it to transform the strategy and structure, culture and leadership, tools and technologies.

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11. Views. Vision. Insights. The evolving role of today's CFO, EY, 2013.

### Building and measuring value with purpose

Initial analysis from the EY Beacon Institute and the University of Oxford Saïd Business School highlights the changing expectations of corporations. Leading corporations go beyond harm reduction – or taking responsibility for externalities – to having an active role in creating well-being.

This signals an evolution from “value creation for its own sake” to “value creation without harm” to “building value for – and with – a wider set of stakeholders.”<sup>12</sup>

12. “Transformation trends: Phase 1 joint research study findings,” EY/University of Oxford Saïd Business School, 2014.

For CFOs, this means changing the way in which performance is measured. Scorecards need to include metrics relating to performance against purpose, as well as traditional financial measures.

Cheryl Grise, Global Advisory Strategy Leader, EY says, “You have to extend your view of value past the shareholder. The difference in the future is going to be how you’re delivering a trusted experience across a wide stakeholder group. Therefore, you need to define a new value scorecard. If you just focus on the shareholder, you most likely are not growing or innovating at the level you could be.”

LeBlanc agrees. “Understanding and measuring the stakeholder experiences that matter helps move purpose, vision, mission and values from words on posters in team rooms to something real. Including these non-financial measures in scorecards and external reporting signals the authentic expression of developing long term trusted relationships with your stakeholder,” he says.

### 4. Measure customer experience to build trust and bottom-line value

The ability of organizations to listen to the voice of the customer – and assess the performance of their customer experience – has extended with the emergence of new technologies. Where companies once focused on a net promoter score or customer satisfaction surveys, they can now measure the overall customer experience through a coordinated, multichannel methodology.

“There are so many more technologies and techniques available to organizations today,” explains Woody Driggs, Global Customer Advisory, EY. “For example, today there is social media sentiment analysis, translating the unstructured data from a phone call or tracking website behavior. Organizations need to be measuring that to understand the value of each interaction. It’s the sum of these interactions that define the consistent customer experience and determine whether you build trust with a customer.”

In a recent EY study – *Building trusted relationships through analytics and experience* – less than one-third of the more than 300 surveyed organizations said they had complete confidence that their company has a full grasp of where in the customer life cycle that trust is breaking down.<sup>13</sup>

13. *Building trusted relationships through analytics and experience*, EY and Forbes Insights, 2015.

For Harry Bains, CFO at CNBC, finance functions need to be thinking about customer data in an environment defined by digital.

“In a world that’s becoming increasingly digital, you want more information on the customer,” he says. “There’s always room for rolling up your sleeves and thinking about what the right metrics are. As well as your standard finance metrics, page clicks and video views become your bread-and-butter media metrics. We try to launch the right platforms that give us visibility of customer data and customer intelligence. It’s about smarter and bigger data.”



## Redesigning the operating model

4

### Key findings about the CFO role in operating model redesign:

- ✓ Eighty-five percent of CFOs who make operating model redesign a "very high" priority tend to report closer collaboration with the CEO.
- ✓ Overall, more than half of the 652 CFOs we surveyed (57%) feel they make a significant or very significant contribution to operating model redesign.

### Four operating model redesign priorities for the CFO and CEO:

- 1 Determine what activities will gain most benefit from global or regional scale, and which should be retained locally.
- 2 Evaluate the impetus for a change to the operating model, including building the business case and tracking the benefits.
- 3 Build trust in restructuring decisions, inside and out.
- 4 Derisk major redesign and restructuring initiatives to manage tax issues.



## Redesigning the operating model

For CEOs, the operating model is ultimately the vehicle for the organization's strategy. As that strategy changes to meet new customer and market challenges, companies are also making bold changes to their operating model design. Major disruptive forces, such as digital, are in some cases causing companies to rethink their operating model as a whole.

But some major change initiatives fail, and many fail to realize the envisaged benefits. Successful transformations rely on committed sponsorship from the CEO, and hands-on involvement from the CFO to lead the business case, bring the work streams together and make sure the redesign delivers its objectives. Any overhaul of the operating model will impact organizational design, governance, people, processes and technology, all of which need to be working in harmony.

Developing an effective operating model has become an increasingly complex challenge, driven by a number of factors:

- ▶ **Globalization.** To compete on an international scale, organizations need to capture emerging market growth, profitably.
- ▶ **The changing customer experience.** Meeting the demands of the radically changing consumer landscape, including empowered digital consumers and a multi- or omni-channel environment is an increasingly complex challenge that organizations need to address today to maintain and grow market share (see "Transforming the supply chain operating model to meet complex customer needs" – page 25).
- ▶ **Continued cost pressure.** To achieve bottom-line growth, organizations need to maintain focus on working capital, efficiencies and securing synergies across operating companies, divisions and business units. They also need to determine the right mix of in-house service delivery, shared services centers and outsourcing to optimize cost efficiency and service quality.
- ▶ **Regulatory scrutiny.** A fluid and complex regulatory and tax environment may require operating model changes in particular markets to remain compliant and stay abreast and ahead of evolving issues.



The CFO has several clear roles in operating model redesign:

- ▶ They can measure and balance the risk and return of any changes, to help inform the right approach.
- ▶ They are well-placed to identify any areas of the operating model – technology, process or otherwise – that are out of sync with the CEO's strategic ambition.
- ▶ The CFO's vantage point across the entire enterprise means that they can identify the implications of change in one aspect of the operating model on another, and help ensure there is harmony across the entire organization.

**“CFOs play a critical role in operational transformation projects, joining the steering committee and taking ownership of the overall business case, including the financial and business case for change. CEOs often sit on the steering committee as well, taking a lead role on the overall design principles and the structural choices of the initial phases. But it is the CFO who plays the pivotal role of bringing all the work streams together and confirming that the design actually ‘works.’”**

**Joost Vreeswijk**, EY Operating Model Effectiveness Leader, Europe, Middle East, India and Africa

### **Shared services and outsourcing: CFOs in the vanguard of global operational transformation**

For the past two decades, companies have used shared services and outsourcing to transform their operating model and deliver increased efficiencies.

Many organizations, however, have reached a level of maturity in their shared services models that is enabling them to move toward a more sophisticated and ambitious model. In the past, companies tended to set up shared service centers with a focus on a few specific functional areas, with finance often in the vanguard. But, by bringing previously separate shared services together under one “global business services” roof, know-how in each functional area can be leveraged and shared and the repetition of tasks and processes can be eliminated.

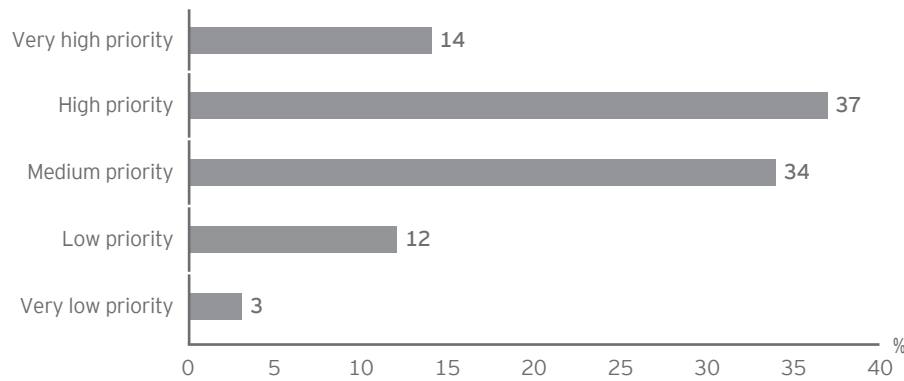
With the right structure in place, this kind of global service model can deliver much greater economies of scale and cost savings than can be achieved by having three or four separate functions doing their own thing. By leading the way in this evolution, finance can deliver a model that is genuinely transformational for the business.

Many CFOs have experience in overseeing a shared service for their particular finance domain. But, as leading companies embrace multifunctional shared services, the trend is often for the head of global services to report either to the CFO or the COO. The CFO is increasingly at the helm of this major transformation in the way organizations structure their businesses.

### Key findings about the CFO's role in operating model redesign

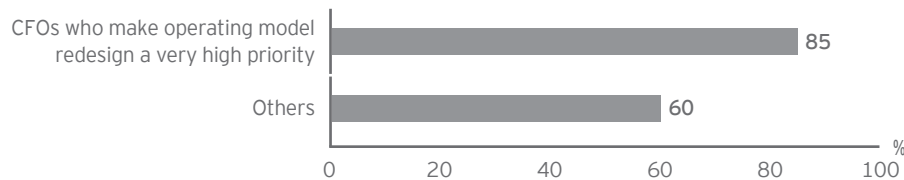
More than half (51%) of the 652 CFOs we surveyed make operating model redesign a high priority (see Chart 9).

**Chart 9:** Over the next three years, how much of a priority will operating model redesign be for your organization?



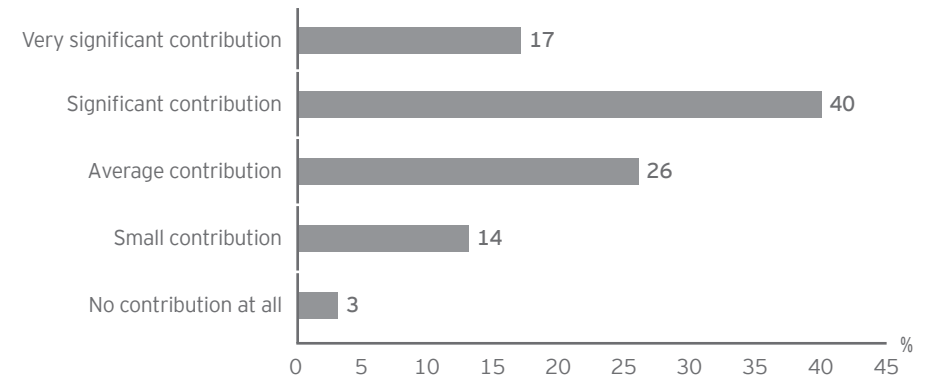
Eighty-five percent of CFOs who make operating model redesign a very high priority tend to report closer collaboration with the CEO. This falls to 60% for the rest of the sample (see Chart 10).

**Chart 10:** Percentage of CFOs whose collaboration with the CEO has increased in the last three years



Overall, more than half (57%) of the CFOs we surveyed feel they make a significant or very significant contribution to operating model redesign (see Chart 11).

**Chart 11:** How much of a contribution do you make to operating model redesign?



### Four operating model redesign priorities for the CFO and CEO

#### 1. Determine which activities will gain the most benefit from a global or regional scale, and which should be retained locally

There is always a tension between the need to realize the benefits of scale with the ability to capture growth opportunities, achieve speed to market and respond at the local level. At the heart of this tension, companies need to make decisions about centralizing or decentralizing high-value activities and locating management functions operationally where it makes the most sense.

According to Vreeswijk, CFOs play a critical role in moderating this tension. "We all accept that there are benefits from centralization, but the question is, how far do you take it?" he says. "The CFO is in an ideal position to be a natural integrator who can moderate this conversation in a neutral way."

### 2. Evaluate the impetus for a change to the operating model, including building the business case and tracking the benefits

Reconfiguring the operating model cannot be taken lightly. It is often a significant transformation program in its own right, requiring changes in areas that range from instilling the right behaviors to overhauling IT. Key employees may need to be relocated and their roles redesigned. Existing infrastructure investments, such as manufacturing plants or office locations, may need to be closed, and new ones opened elsewhere. Complex regulatory and tax hurdles will need to be overcome.

CFOs and CEOs must work together to first evaluate the risks and returns of an operating model redesign, and second to create the impetus for change. Success depends on a compelling business case and a robust mechanism for tracking the benefits delivered and communicating those across the organization.

### 3. Build trust in restructuring decisions, inside and out

In major transformational change programs, the CEO and CFO have an important role in establishing the right “tone from the top.” Operating model redesign, which can involve significant restructuring decisions and profound implications for the workforce, means that people’s emotions – and resistance – need to be carefully managed. If they don’t understand the vision and commit to it, the change will fail.

For Roland Sackers, CFO and Managing Director, QIAGEN, this means creating transparency about the decisions that have been made.

“Any kind of restructuring is also based on the transparency you have to create because if you want to have buy-in, everybody inside and outside of the company has to know exactly where you are,” he says. “Finance has a neutral position in a company in terms of making fair and transparent decisions about where you put money and allocate investment. People have to trust the finance organization – that you are taking a very neutral position, based on the facts.”

### 4. Derisk major redesign and restructuring initiatives to manage tax issues

Global operating model redesign initiatives come up against a dauntingly complex tax and regulatory landscape.

“CFOs need to understand how to reduce tax risk and, where possible, maximize the tax advantages of a restructuring that’s driven by business change,” explains John Hobster, Global Transfer Pricing Leader, EY. “They need to understand whether a decision will cause unexpected tax shocks in the future. If you do end up with an unexpected tax bill, you face significant business disruption in defending your position. You can get management intrusion, a nasty tax shock and a spike in your effective tax rates; nobody wants that.”

#### Transforming the supply chain operating model to meet complex customer needs

In the consumer goods and retail sector, redesigning the supply chain operating model is key to meeting fast-changing and complex customer needs. Today’s customers expect a seamless and consistent shopping experience across different channels and devices – from in-store to mobile.

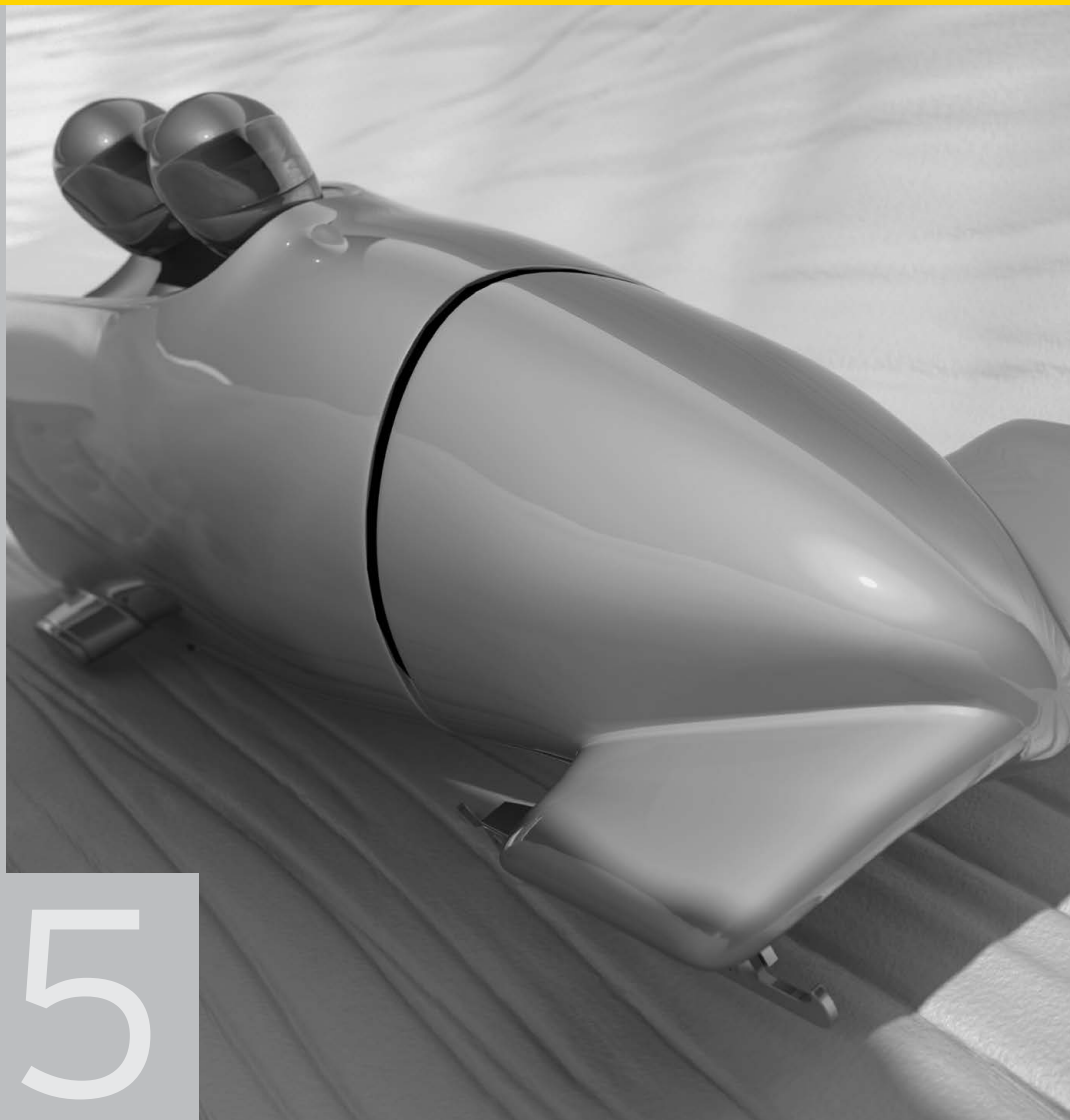
To deliver an omni-channel strategy to meet these needs has significant implications for the supply chain. Complete visibility across channels, along with a holistic, unified view of the path to purchase is necessary.

But a recent survey from EY and the Consumer Goods Forum – *Re-engineering the supply chain for the omni-channel of tomorrow* – found that 81% of respondents believe the supply chain is no longer fit for purpose as new channels emerge. In addition, only 38% say omni-channel initiatives have a positive impact on profit margins.

There is a clear need for companies to transform the supply chain operating model: building a more responsive, integrated supply chain and improving consumer visibility.”<sup>14</sup>

14. *Re-engineering the supply chain for the omni-channel of tomorrow*, EY/The Consumer Goods Forum, Feb. 2015.

# Developing M&A strategy



5

## Key findings about the CFO role in M&A decisions:

- ✓ Eighty-five percent of CFOs who make M&A decisions a very high priority tend to report closer collaboration with the CEO in the last three years.
- ✓ Half of the 652 CFOs we surveyed feel that they make a significant or very significant contribution to M&A decisions.
- ✓ The priority CFOs give to M&A varies by seniority. Forty-two percent of Group CFOs make M&A a high or very high priority, compared with 33% for Regional CFOs.

## Four M&A priorities for the CFO and CEO:

- 1 Revisit M&A opportunity evaluation, as digital drives more non-traditional targets in portfolios.
- 2 Co-develop a compelling rationale for deals.
- 3 Make M&A a core finance competence.
- 4 Ensure that tax strategy drives M&A value.

M&A is back on the menu. EY's May 2015 *CFO Capital Confidence Barometer*<sup>15</sup> revealed that finance leaders see a strengthening pipeline and are planning for meaningful revenue growth from M&A.

"M&A as a route to growth is firmly back on the boardroom agenda," says Pip McCrostie, Global Vice Chair of Transaction Advisory Services (TAS), EY. "There are two clear drivers of activity after half a decade of deal stagnation. Disruptive forces are driving deal making at every level. The disruption is triggered by sector convergence, technology and changing consumer preferences. In addition, divergent economic conditions are accelerating cross-border M&A."

But this renewed taste for deals can still be soured by the perennial issue facing this critical activity: the tendency of acquisition benefits to disappoint. Companies need to focus their energies on a targeted M&A strategy, concentrating on a carefully screened portfolio of assets. In addition, companies are changing their M&A strategies to adapt to the need to digitize, incorporating non-traditional targets into their portfolios to enhance capability, which increases the complexity of ensuring value realization.

Getting this approach right requires a strong CFO-CEO partnership. M&A decisions need to reflect the CEO's strategic intent, while drawing on the CFO's ability to analyze exactly where value will be created in a transaction and how deals will link to other growth drivers in the business.

**"You have to act as an entrepreneur who takes accountability for the business success."**

**Roland Sackers, CFO and Managing Director at QIAGEN**

### **Metro Pacific Investments Corporation (MPIC): M&A key to strategy**

Jose Ma. K. Lim, President and CEO of MPIC – a Philippine-based, publicly listed investment and management company – relies on his CFO to provide insight on how to manage the M&A portfolio to support the organization's strategy.

"I view the relationship as a partnership and rely on my CFO to give guidance on the financial cost and the risks in the portfolio as a whole," he explains. "We have a portfolio of companies and we operate by acquiring brownfield projects and investing in the necessary change – from technology to human resources – to turn the operations around as quickly as possible to create value."

MPIC's CFO, David Nicol, says, "The CEO and CFO have to be incredibly close to each other in terms of what they're doing, and I think that's inevitable in every sort of investment and management conglomerate like this. There isn't even a cigarette-paper-sized difference between us in terms of what's happening in the business."

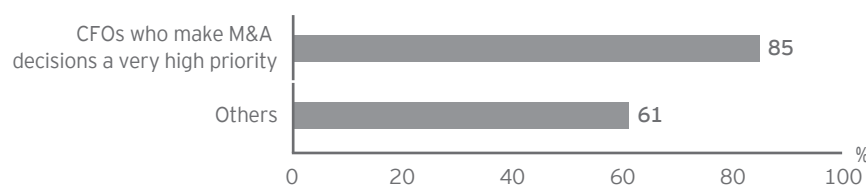
15. *CFO Capital Confidence Barometer*, EY, May 2014.



## Key findings about the CFO's role in developing M&A strategy

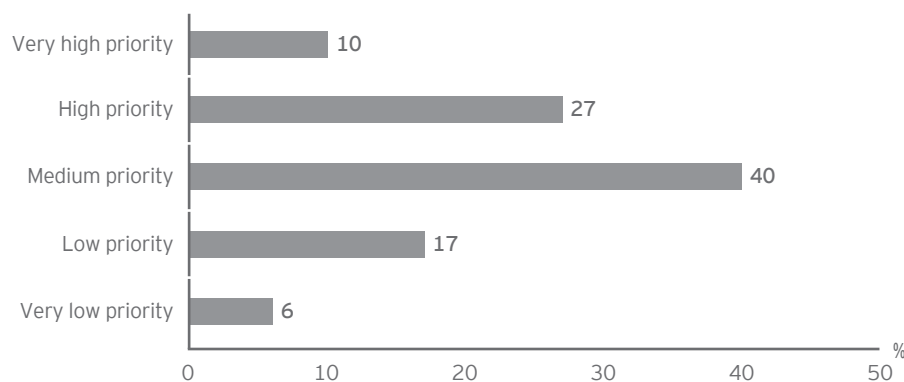
Eighty-five percent of CFOs who make M&A decisions a very high priority tend to report increased collaboration with the CEO in the last three years. This falls to 61% for the rest of the sample (see Chart 12).

**Chart 12:** Percentage of CFOs whose collaboration with the CEO has increased in the last three years



Overall, 37% of CFOs make M&A decisions a high priority (see Chart 13). The priority CFOs give to M&A varies by seniority, however. Forty-two percent of Group CFOs make M&A a high or very high priority, compared with 33% for Regional CFOs.

**Chart 13:** Over the next three years, how much of a priority will M&A decisions be for your organization?



## M&A: the lifeblood of life sciences

Forty-eight percent of CFOs in the life sciences industry make M&A decisions a high or very high priority. In this industry, M&A is an essential part of the strategic agenda.

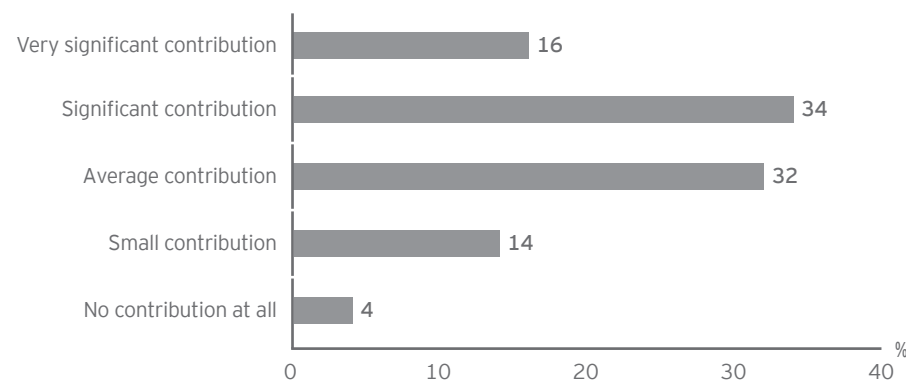
As Andrew Forman, EY's Global Life Sciences Sector Resident, Transaction Advisory Services, observes, "We have seen that M&A in life sciences has continued to be strong throughout the first half of 2015, with more than US\$160b worth of deals announced and the pipeline including several proposed deals that may mean 2015 nears 2014's record levels. In life sciences, it's important to not get left behind in this rich deal environment."

There are a number of reasons why M&A is a critical activity for this sector:

- ▶ Companies have the firepower: life sciences outperformed all other sectors on the stock markets in the first half of 2015.
- ▶ Big pharmaceutical companies are undertaking portfolio rationalization to focus on core businesses, leading to multiple divestitures.
- ▶ Large global pharmaceutical companies have had very little growth in the last four years: M&A can help close the US\$100b growth gap.
- ▶ Companies are seeking to expand scale and share as unit volume growth may be needed to offset weaker pricing.
- ▶ In the US, as the implementation of the ACA (Affordable Care Act) moves forward there has been consolidations among payers who are pressuring prices on drugs and medical devices.

Half of the CFOs we surveyed feel that they make a significant or very significant contribution to M&A decisions (see Chart 14).

**Chart 14:** How much of a contribution do you make to M&A decisions?



### Four M&A strategy priorities for the CFO and CEO

#### 1. Revisit M&A opportunity evaluation, as digital drives more non-traditional targets in portfolios

The disruptive impact of new digital technologies means that companies are now using acquisition to create new business models and a technology-driven competitive advantage. For example, Monsanto (agricultural products) acquired Climate Corporation<sup>16</sup> (a data science company) with a view to accessing and analyzing information to assist farmers.

For Paul Macaluso, Global Innovation Leader, Transaction Advisory Services, EY, evaluating these non-traditional transactions means CFOs will need to engage a wider set of stakeholders.

“For many organizations, this type of M&A sits beyond their comfort zone,” he explains. “It’s going to require a fundamentally different approach and it’s no longer just going to be principally about the numbers. Other factors

like the compatibility of the technology you are acquiring and the customer experience you are creating, will be just as important. To do the right deal, you will need to engage a broader sphere of specialists.”

#### 2. Co-develop a compelling narrative for your deals

With many M&As failing to deliver value, CFOs and CEOs need to set the right expectations. There needs to be a clear and realistic message about the value of anticipated synergies and a compelling narrative about the rationale for the deal. This sets the tone and keeps key stakeholders – from the media to shareholders – onside.

The CFO has an important role to play in creating that narrative. Paul Hammes, Global Divestiture Advisory Services Leader, EY says, “In an acquisition, the CFO needs to get into the brass tacks of the synergies with all the functional areas, from IT to finance, and tax to procurement. They need to make sure they’re realistic and achievable in the timeframe before they’re communicated to the street. CFOs need to help CEOs understand those figures for their critical communications.”

#### 3. Make M&A a core finance competence

To help ensure consistent success from their M&A deals, the finance function should have the skills to execute M&A as a repeatable capability. A repeatable, disciplined capability increases the chances of M&A success, from identifying the right targets to eventual integration.

For Kathy Waller, EVP and CFO at The Coca-Cola Company, M&A is one of the main pillars of the finance function.

“My time is largely spent in three places: reviewing and discussing the financials, investor relations and M&A. In our business planning meetings, each of our business units will present their three-year plan, including their M&A plans. My M&A team is organized geographically and works closely with the business units on the M&A proposals that are included in their three-year plans. My head of M&A will allocate resources to deals based on the strategic needs of the company.”

16. “Monsanto buys Climate Corporation for \$930m,” *Financial Times*, 2 October 2013.

### 4. Ensure that tax strategy drives M&A value

Tax is a critical component for M&A. EY's global study, *Global M&A tax survey and trends*, found that 84% of global tax directors said they had an increased focus on finding tax efficiencies to reduce the costs of deals or improve returns on them.<sup>17</sup> The increasing scrutiny of deals by tax authorities is also a critical factor: the survey found that scrutiny of the tax planning aspects of deals has increased.

"The intersection between tax and corporate M&A strategy is as significant and meaningful today as it has ever been," says Torsdon Poon, Americas Transaction Tax Markets Leader, Ernst & Young LLP. "As a governance matter, companies are paying more attention to the reputational elements of tax strategy, making sure the tax strategy for acquisitions aligns with their appetite for risk, and manages their profile. We're also seeing tax play a more prominent role in increasing or destroying value and deals. Finding an optimal, efficient tax structure that aligns to the corporate strategy for the deal is increasingly viewed as a value enhancer or destroyer, depending on how effectively you manage that."

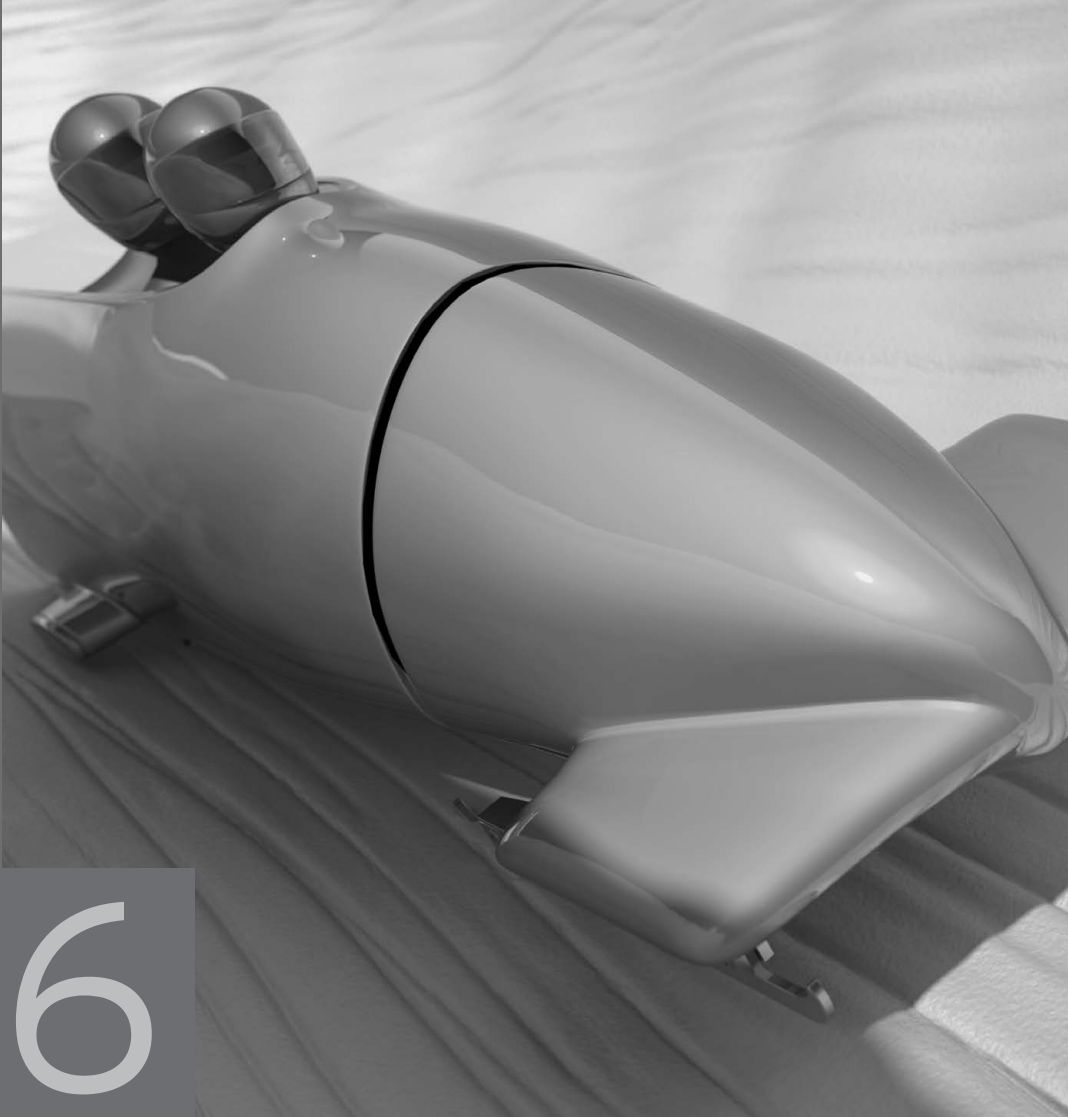
### Five M&A tax considerations

1. Create robust processes that manage tax risk, such as tax authority scrutiny, including developing predetermined practices and procedures.
2. Improve the connection between the tax function and M&A business/corporate development teams.
3. Find new sources of tax value to factor into the valuation model and negotiations.
4. Ask your tax director to identify any post-deal synergies that could create further value.
5. Carefully assess the tax risks of transactions in emerging markets.

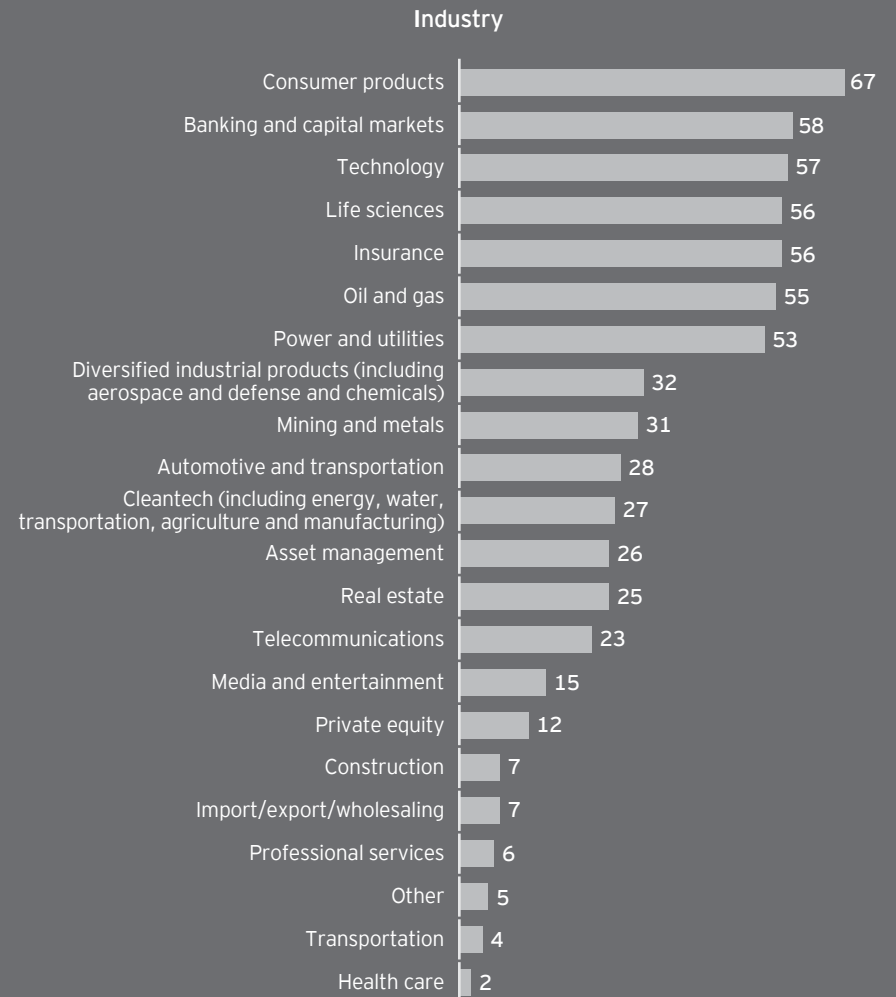
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17. *Global M&A tax survey and trends*, EY, 2012.

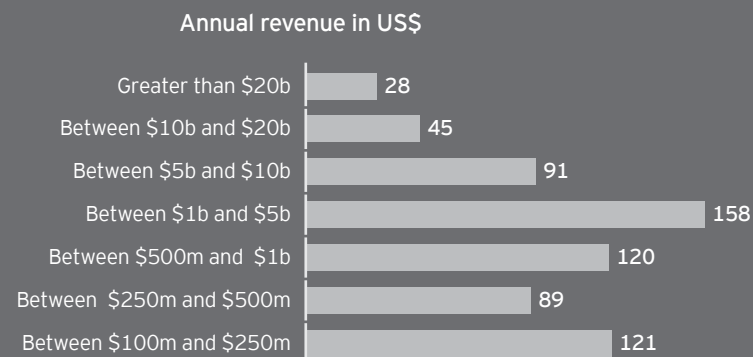
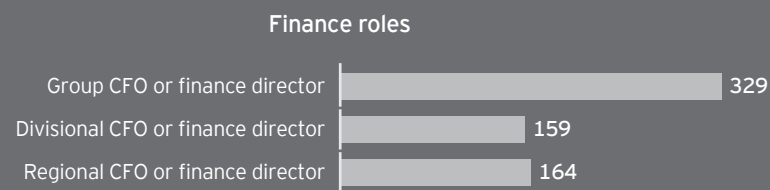
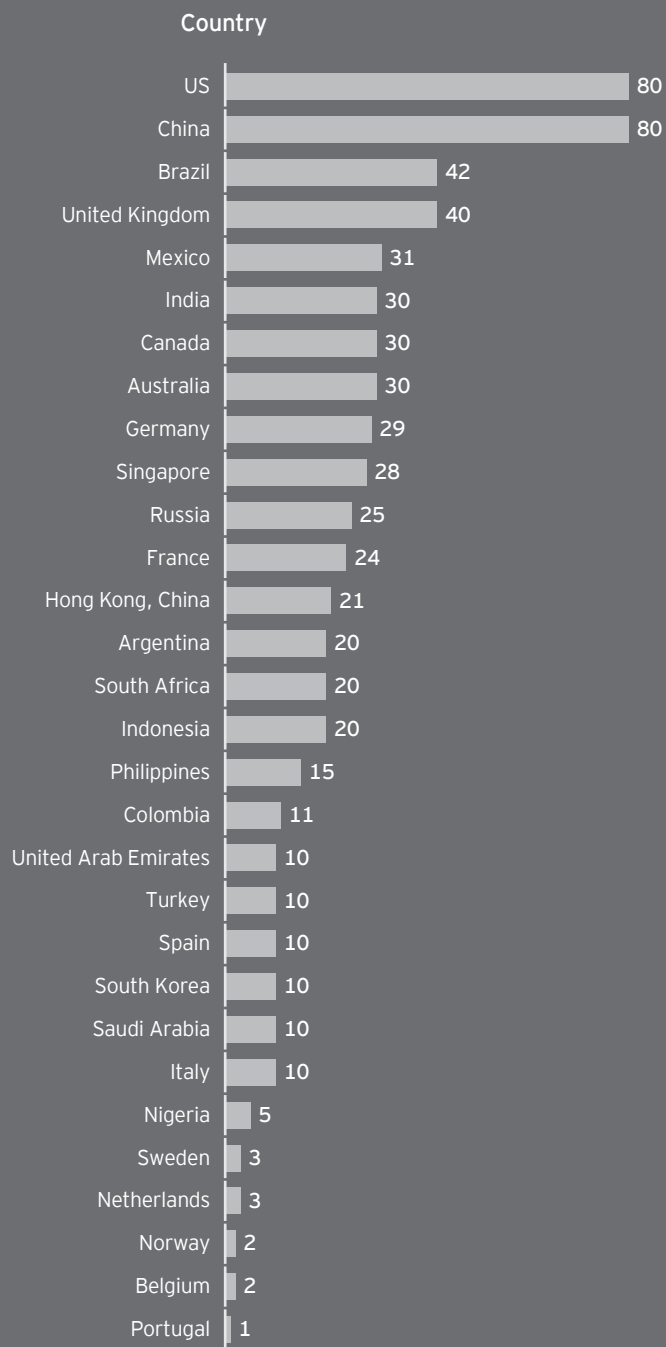
# Survey respondent demographics



6



# Survey respondent demographics



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## CFO agenda

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