CFO

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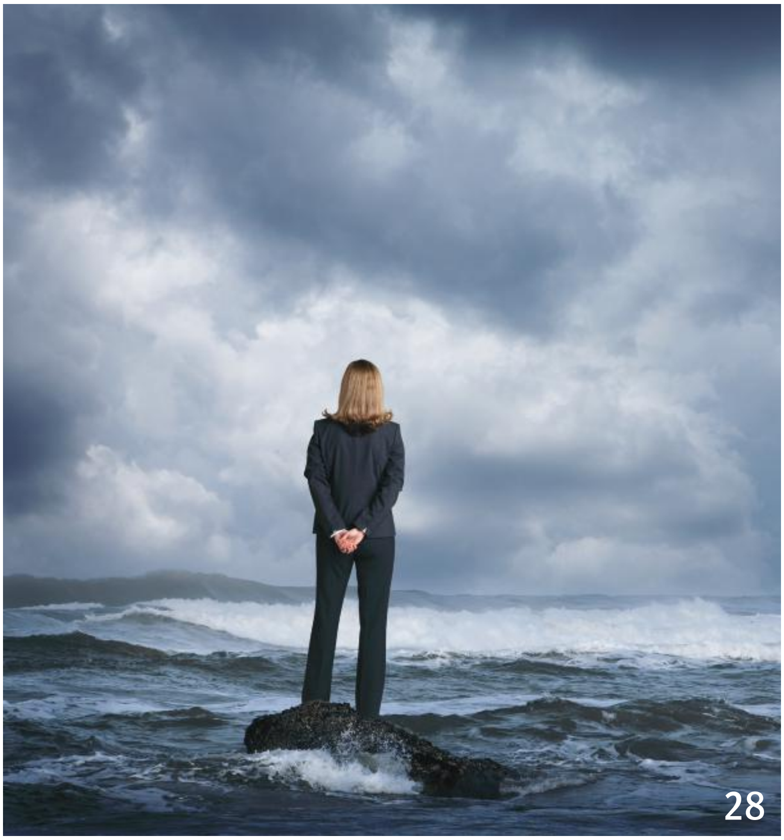
SECURING WORKERS' RETIREMENTS

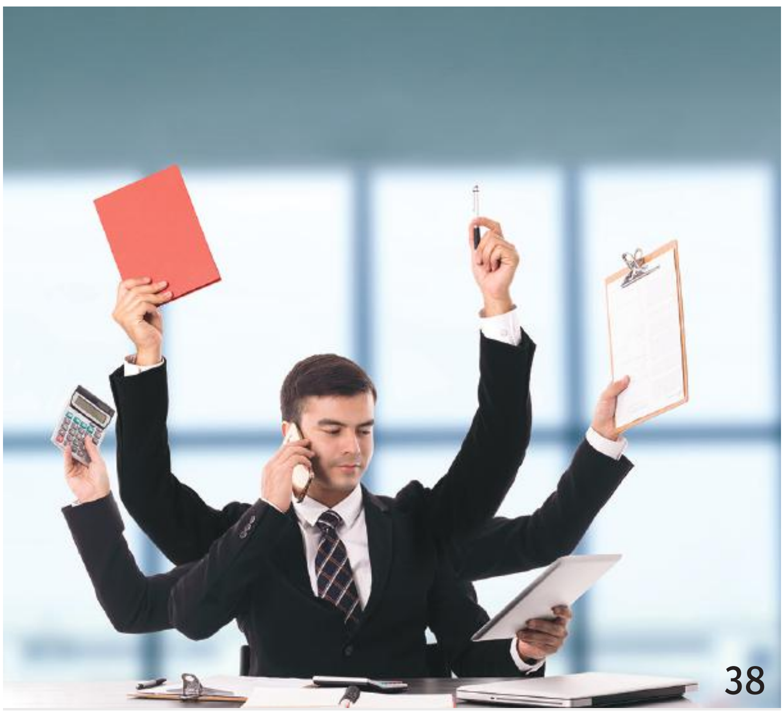
CFOS TO WATCH: SINK OR SWIM

You've Landed a New Job... Now What?

6 tips for the first 60 days

October 2019
Volume 35, No. 5





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Up Front

By the Numbers

Getty Images (4)

FROM THE EDITOR

The One Thing

When a CFO lasts less than a year or two at a company and voluntarily leaves, I often wonder whether, as the press release often says, it was just to "pursue another opportunity." It's easy to think the worst, of course—the company's business is deteriorating, the CEO is intolerable, the board is asleep at the wheel. As in most things, the simplest explanations approximate the truth: sometimes a new CFO is just not a good fit with the organization.

But some of the "fit" issues can also be the result of just getting off to a poor start in a high-pressure job. CFOs have many constituencies to connect with in the first few weeks—investors, the board of directors, business unit managers, information technology leaders, tax directors, and on and on. Forming ties with these groups is critical. (See, "You've Landed a New Job...Now What?" on page 38).

But, after that outreach is done, prioritizing one's time, in other words, sticking to activities that will generate the greatest business impact, is key. In addition, new CFOs have to "set firm guardrails around their responsibilities," as a recent Gartner study puts it.

We Americans are really not good at either of those things personally or professionally, which is why we spend hours sitting in unproductive meetings and worship gurus who help us declutter our lives. Startup adviser Sarah K. Peck writes in the Harvard Business Review: "Ruthless prioritization is not common enough .... Today, we act as though we can have dozens of priorities, instead of choosing one thing to be in focus."

Perhaps that's why some CFOs enjoy taking the helm at distressed companies: the problems are starker (preserving cash flow, perhaps, or renegotiating with creditors). Coming into a healthy company requires a new CFO to do some investigating to find the areas that need the finance chief's immediate scrutiny. But a CFO who figures that out is much more likely to put down some roots.

Vincent Ryan
Editor-in-Chief

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EDITOR'S PICKS

VENTURE CAPITAL
Early stage businesses tend to "puff up their business descriptions and inflate their potential markets, but the companies that have gone public this year seem to have taken it to an art form," writes Aswath Damodaran. Read his insights on how venture capitalists price "unicorn" companies at the **Musings on Markets** website.

STRATEGY
Harvard Business Review takes a different perspective on startups. If the CEOs of the Business Roundtable are serious about fixing shareholder capitalism, according to **"We Need More Startups That Don't Prioritize Growth Above All Else,"** they need to "take an honest look at who gets funding, how local communities are affected, and what voices are missing from the conversation." Read more on the HBR website.

THE ECONOMY
"Are Negative Interest Rates on the Way in the U.S.?" a Knowledge@Wharton podcast asks. Had the Fed cut nominal rates below zero during the Great Recession, it's possible that the recovery would have been much faster, says a Michigan State University professor. However, it's not even clear that the Fed has the legal right to move rates below zero; or how, then or now, businesses and consumers would react.

Mark Bennington


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"America's CEOs Pledge to Rethink Priorities" (CFO.com, Aug. 19) reported on **the call by 181 U.S. corporate chief executives to adopt a purpose beyond enriching shareholders**. All other stakeholders, including customers, employees, suppliers, and communities, should benefit from corporate works, the CEOs said.

The story drew some cynical responses from audience members. "Where have these people been for the past 70-90 years?" one wrote. "Our society, our markets, the structure of our lives, and our very thought world are driven by corporate priorities. It's past time to ignore the long, slow, inglorious sandbagging of the basic idea for what this nation was supposed to be."

In "Watchdog Slams PCAOB Oversight" (see page 9), the Project on Government Oversight railed against the Public Company Accounting Oversight Board for levying only $6.5 million in fines against the Big Four firms since the board was created by the Sarbanes-Oxley Act of 2002.

To one reader, who responded to the article after it was posted on CFO.com, fines are beside the point: "The **only answer to improving audit quality is for the U.S. SEC, and its worldwide equivalents, to mandate 'audit only' firms**, which rotate clients (and all related files) every three years, with confidential peer-review of the predecessor firm by the successor firm."

In the online version of "CFO Job Openings Are About to Spike" (see page 18), contributor John Touey, an executive recruiter, described what those with almost enough qualifications to land a finance chief role should do to improve their chances.

A reader offered the following addendum to Touey's discourse: "An often overlooked yet very important element in getting ready for a CFO job is to stop personal behaviors that get in the way. Technical competence is only one of the qualifiers for the post."

Correction: In "Easy Money" (CFO magazine, September 2019), we misidentified Auctus Capital Partners. It is a financial services and investment banking firm focused on the lower middle market.

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STATS OF THE MONTH

PAY CHECK

9%
Drop in business-to-business payments made by check*

54%
Companies using ACH debits to make payments

66%
Companies that accept B2B card payments online

15%
Companies using mobile tools to initiate payments

44%
Executives that think real-time payments will lead to more instances of fraud

Source: 2019 Association for Financial Professionals Electronic Payments Survey

* All numbers are as of May 2019

TOPLINE

HEALTH BENEFITS

The 2020 Formula for Paring Health Costs

Companies will employ virtual care, advanced primary care, and specialty drug cost-cutting measures. By David McCann

For a sixth consecutive year, large companies project that their health care costs will go up by exactly 6% in the coming year—unless they implement plan-design alterations and other remedies.

Also for a sixth year, companies forecast that such measures will hold the increase to exactly 5%. But even the lower figure is likely to be inflated, notes Brian Marcotte, CEO of the National Business Group on Health, a coalition of about 420 large employers.

Exemplifying a consistent pattern, in 2018 employers' actual health care costs rose by only 3.6%, according to NBGH's annual member survey, despite the 5% prediction. Preliminary data for this year suggests more of the same.

"Employers typically build in a percentage point to be a little more conservative on that trend line," says Marcotte. "No one wants to go to their CFO or CEO and be over the budgeted cost for the year. And people are always afraid this will be the year that actual costs go in the other direction."

The trend in recent years is a decided anomaly. Historically—throughout the 2000s, for example—health care costs were volatile, with the growth rate spiking for two or three years and then receding, Marcotte says.

The recent pattern isn't necessarily a good thing, he adds, since 4% to 5% inflation in medical costs has tended to be about twice the general inflation rate. But at least health care costs are more predictable now.

Including premiums and out-of-pocket costs for employees and dependents, the total per-employee cost of health care is estimated to be $14,642 this year and projected to be $15,375 in 2020, with employers footing about 70% of that tab and employees the rest.

How are companies planning to battle health care costs in 2020?

Topping the list is implementing more virtual care solutions, which 51% of the 147 NBGH survey respondents said they will be doing.

The proportion of employers that believe virtual care will play a significant role in how health care is delivered in the future continues to grow, from 52% for 2019 to 64% for 2020.

Another rising area of cost-management activity is advanced primary care. While primary care accounts for only 5% to 7% of total health care costs, it can influence up to 90% of the spend by steering consumers to the most efficient providers and keeping them out of emergency rooms and hospitals.

There are various approaches to advanced primary care. But "what they all have in common is that they're moving away from the fee-for-service model and encounter-based reimbursement to more comprehensive population health management, where they do whatever it takes to keep people healthy," says Marcotte.

Some advanced primary care provider networks back their promise to deliver healthier populations at attractive costs by taking on some degree of risk: if they don't deliver, they're paid less.

Almost half (49%) of survey respondents said they plan to pursue an advanced primary care strategy in 2020, and an additional 26% expected to consider doing so by 2022.

Meanwhile, Zolgensma, a drug that cures spinal muscular atrophy in young pediatric patients with a single injection, was introduced in May. The cost for the injection: $2.1 million.

It was the latest and probably most expensive addition to the list of new, extremely high-cost specialty drug treatments. The conditions that such drugs treat are generally rare, but because large companies self-fund their health care, they're extremely concerned about how to finance the costs, should they arise. "Some of these therapies cost more than what an employee will earn in a lifetime," Marcotte states.

Some companies are delaying coverage for such new drug treatments for a period of time, often six months. The goal is to ensure that the company's pharmacy benefits manager gets a handle on the drug's applications and efficacy.

"These treatments are a new frontier," notes Marcotte. "Employers are scratching their heads over what to do about them." CFO

AUDITING

Watchdog Slams PCAOB Oversight

The board allegedly has failed to hold the Big Four accountable.

The Public Company Accounting Oversight Board has been too lenient with the Big Four accounting firms over audit deficiencies, resulting in only $6.5 million in fines during its 16-year history, according to a new report.

The Project on Government Oversight (POGO), an independent watchdog, said its analysis of PCAOB annual inspection reports showed the board has in key respects been doing "a feeble job" policing the Big Four.

"It has taken disciplinary action over only a tiny fraction of the apparent violations its staff has identified," the report said. "Meanwhile, the financial penalties it has imposed pale into insignificance compared to the fines it apparently could have imposed."

In the 808 cases in which the Big Four performed audits that were so defective that the audit firms should not have vouched for a company's financial statements, internal controls, or both, only 18 resulted in PCAOB enforcement actions, POGO found.

The audit cop, moreover, could have fined the audit firms more than $1.6 billion but has actually fined them a total of just $6.5 million. Penalties against individuals at Big Four firms totaled only $410,000—"less money than one partner at a big accounting firm can make in one year."

According to Reuters, the report "could increase pressure on the [PCAOB], which in recent years has been criticized for being too close to the industry it oversees and slow to ensure the industry performed its job."

A long-anticipated shake-up at the regulator in January 2018 led to the replacement of James Doty as chairman and the appointment of four new board members.

"It's unacceptable that the agency is taking such a light-handed approach in holding these large audit firms accountable," POGO's executive director, Danielle Brian, said in a news release. She added, "By failing to hold the Big Four accountable, the board is putting all Americans' financial futures in jeopardy."

The report recommends reforms including requiring the PCAOB to clearly identify companies referenced in inspection reports and the individual auditors responsible for alleged audit deficiencies. | **MATTHEW HELLER**

Getty Images (2)

M&A

Divestitures Slash Stock Prices

While companies for years have generally underperformed stock markets after divesting significant assets, that tendency was severely pronounced in the first halves of both 2018 and 2019.

According to a study of 251 divestitures worth at least $50 million that closed in the first half of this year, 63% of divesting companies underperformed MSCI World Index industry benchmarks, by an average of 7 percentage points.

In last year's first half, the average market underperformance was 7.6 percentage points. The two figures were the largest for any half-year period since 2010, when Willis Towers Watson and Cass Business School began conducting a biannual study of divestitures.

The study measures the percentage of change in sellers' share prices from six months prior to deal announcements until the end of the half-year period in which deals are completed. Deals with private equity sellers are excluded.

There's an irony at work here: while investors in divesting companies often take a hit subsequent to these deals, they are the ones often advocating them.

"We've seen a rise in activist investors pushing companies to unlock value," says Duncan Smithson, senior director, mergers and acquisitions, for Willis Towers Watson. "Whether or not a company agrees, investors may see some assets as non-core."

Companies' responses to such pressures may be driving some of the underperformance, Smithson suggests. "They may arguably feel forced to move more quickly than they would need to in order to properly prepare," he tells *CFO*.

There was a relationship in this year's first half between the size of divestments and their impact on stock performance.

Companies divesting 5% or less of their total value underperformed their markets by an average of 0.8 percentage points. The underperformance widened to 6.9 percentage points for companies divesting 5% to 15% of their value. | D.M.

REGULATION

SEC: RSM Violated Independence Rules

Accounting firm RSM US probably thought it had good controls for detecting if it was unknowingly providing prohibited services to an audit client or an affiliate of an audit client.

After all, it had a domestic U.S. database ("Client Central") that auditors and consultants could search to find all work billed to clients. The firm also had a global relationship tracker database of work performed by member firms internationally.

Finally, audit engagement teams were required to complete a questionnaire called the McGladrey Risk Assessment Model to determine engagement risks related to auditor independence.

All that, however, didn't prevent RSM from violating the Securities and Exchange Commission's auditor independence rules, for which the firm was charged in late August. The SEC said RSM violated the rules in connection with more than 100 audit reports during 2014 and 2015.

According to the SEC's order, RSM US repeatedly represented that it was "independent" in audit reports on the clients' financial statements.

However, RSM US or associated entities provided non-audit services to, and had an employment relationship with, some affiliates of RSM US audit clients, the SEC said.

RSM US—which audited 62 of the Russell 3000 companies in fiscal 2018, according to a recent Audit Analytics report—consented to the SEC's order without admitting or denying the findings and agreed to pay a $950,000 penalty and be censured.

The SEC also said that RSM's procedures and training during the relevant period were insufficient to provide a reasonable assurance of independence and to adequately monitor for independence on an ongoing basis.

For example, when using the Client Central database, engagement teams did not always uniformly enter client names or properly complete entries such that affiliates were identified in the system, the SEC said. | VINCENT RYAN

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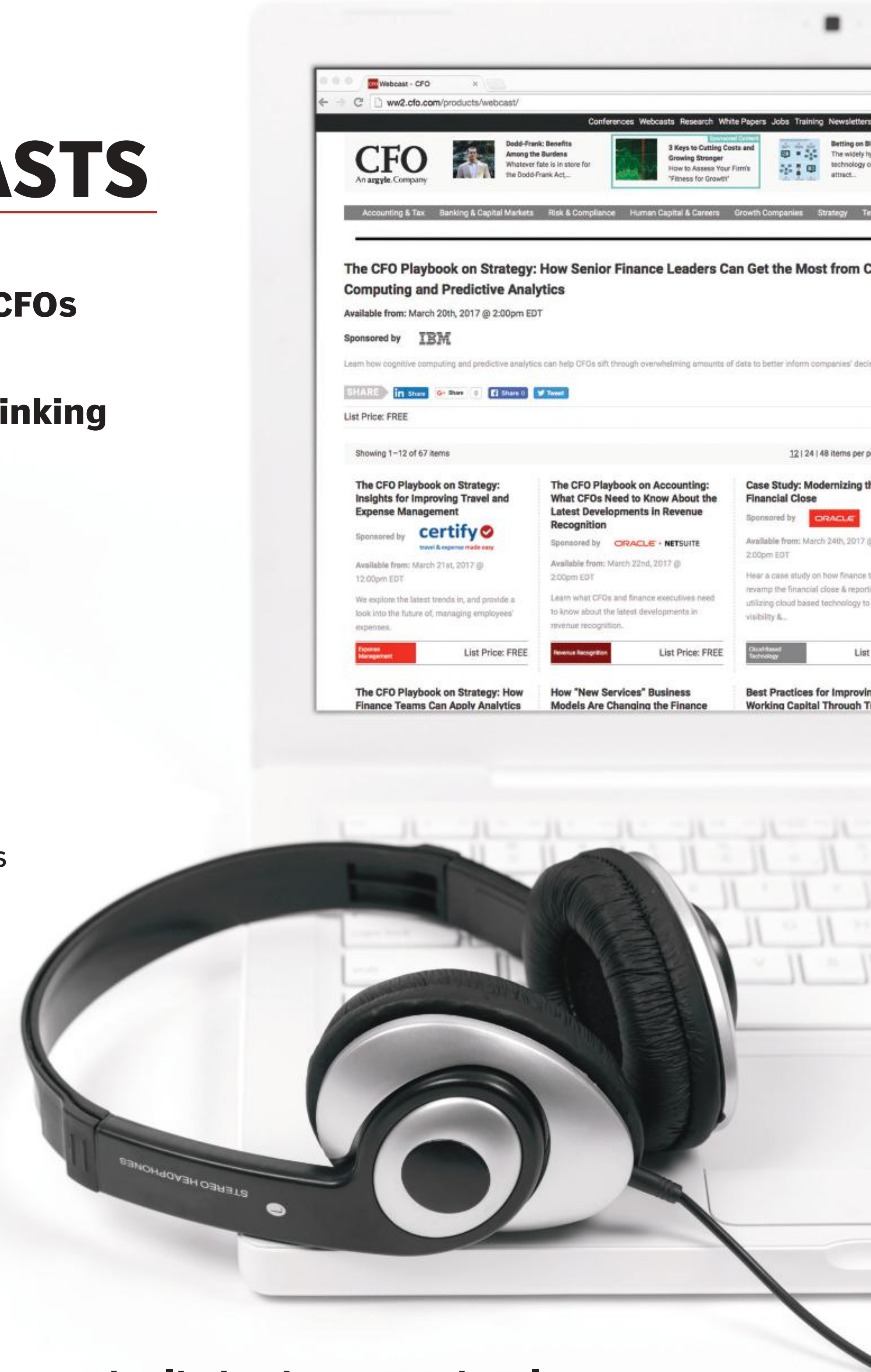

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RISK MANAGEMENT

Are CFOs Naive on Cyber Insurance?

Most senior finance executives at large companies believe that cyber insurance would cover most or all of the losses their company would incur in a cyberattack, a new study says. But they are wrong, according to commercial property insurer FM Global.

In a study of 105 CFOs and other senior finance executives at companies with revenue of at least $1 billion, commissioned by FM Global and performed by CFO Research, 45% said they expected their insurer would cover "most" related losses from a cybersecurity event, and 26% said they expected "all" related losses covered.

But most of the effects these finance executives expect to experience in a cybersecurity event aren't typically covered by insurance policies, says FM Global, which sells cyber insurance. (See chart.)

An exception is new costs to mitigate losses from such events, such as expenses related to restoring data or equipment. Those are covered by first-party cyber insurance or property insurance, says FM Global. Litigation and customer notification costs are typically covered by third-party insurance.

Unfortunately, more than half of the survey participants said financial recovery from a substantial cybersecurity event would take months or years.

"As essential as cyber insurance is, the findings indicate finance executives may be deriving a false sense of security from it," says Kevin Ingram, the insurer's CFO. | D.M.

What Cyber Insurance Doesn't Cover

Most policies don't cover the following events. Percentages show the proportion of surveyed finance executives who said the effect was a likely result of a cyber breach.

46% Degradation of company brand/reputation

40% Increased scrutiny from investors

38% Decline in revenue/earnings*

35% Regulatory compliance problems

24% Decline in market share

24% Decline in share price

* Although insurance normally covers lost revenue during the span of a disruption, lost revenue related to lost growth, market share, brand equity, etc., after the resumption of operations is not normally covered.

Source: FM Global, CFO Research

CAPITAL MARKETS

A Record Year For Buybacks

Stock buybacks by S&P 500 companies are headed for another record year, raising alarms about declining levels of corporate cash as economic growth slows.

Goldman Sachs is now projecting that the companies will spend $940 billion on share repurchases in 2019, easily beating last year's record of $806.4 billion.

However, for the first time since the financial crisis, companies are returning more cash to shareholders than they are generating in free cash flow. The ratio of buybacks to free cash flow hit an unsustainable 103.8% for the 12-month period through the first quarter of 2019.

"Payout ratios are elevated, cash balances have declined, and leverage has risen to a new all-time high," David Kostin, chief U.S. equity strategist at Goldman, wrote in a recent client note.

Gross debt outstanding at S&P 500 companies climbed 8% in the first half of this year, while total S&P 500 earnings declined in all three 2019 quarters, according to FactSet.

"Unless earnings growth accelerates materially, companies will likely continue to fund spending by drawing down cash balances and increasing leverage," Kostin predicted.

It had been hoped that the Trump administration's $1.7 trillion tax cut would lead companies away from buybacks, which have helped create and sustain the 10-year bull market run.

But Goldman's forecast of a 13% increase in buybacks for 2019 compares with projected gains of only 8% in capital expenditures and 9% in research and development. | M.H.

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BANKING

Fed Plans Real-Time Payments

In a long-awaited move to speed up the U.S. payments system, the Federal Reserve announced in August that it will develop a real-time service that will eventually link more than 10,000 banks and credit unions across the country.

Fed officials compared the plan to start a service called FedNow with the birth in the 1970s of the automated clearinghouse network, which now accounts for roughly 15% of all U.S. payments.

"This is a very, very momentous decision," said Fed Governor Lael Brainard.

The announcement ended years of uncertainty about whether the Fed would play a hands-on role in a new payments network or defer to the private sector.

The Clearing House, a payments company owned by the nation's largest banks, has been operating a real-time system since 2017. But many small banks and credit unions have declined to sign up for the system.

"Everyone deserves the same ability to make and receive payments immediately and securely, and every bank deserves the same opportunity to offer that service to its community," Brainard said. "FedNow will permit banks of every size in every community across the country to provide real-time payments to their customers."

However, FedNow won't be available until 2023 or 2024, at least three years later than the goal set by a Fed task force.

Sarah Grotta, an analyst at Mercator Advisory Group, warned there is a danger of "a two-tiered system, at least for a while, where large banks have their platform and smaller banks have theirs, until there is a competitive reason to offer both."

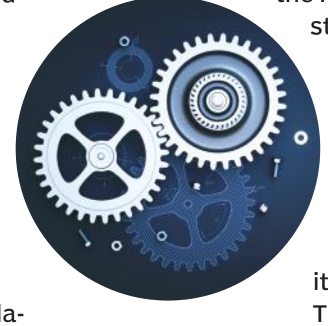
Whether, or when, FedNow would be interoperable with the Clearing House's system is as yet unclear. "The Federal Reserve intends to explore interoperability and other paths to achieving the ultimate goal of nationwide reach for faster payment," the central bank said. | M.H.

REGULATION

SOX Compliance Still a Grind

Seventeen years after the Sarbanes-Oxley Act passed, those not involved in SOX compliance might assume that by now it would be a rote activity requiring diminishing effort.

They would be wrong. Despite efforts and expectations to the contrary, the time and cost expended on SOX compliance have decreased little over the past decade, according to a report by Protiviti.



In fact, in the consulting firm's survey of finance professionals from 693 public companies, half (51%) said SOX compliance hours rose in 2018. And among those, 59% said the increase was more than 10%.

The trend "reflects the fact that the cumulative time internal teams and external auditors invest in compliance activities is determined by a range of 'beyond-SOX' factors, including PCAOB inspections, the adoption of new accounting standards, internal technology implementations, process changes, and more," Protiviti said.

As to cost, average internal SOX compliance costs were virtually unchanged from 2017 for both large accelerated filers (companies with a public float of $700 million or more) and accelerated filers ($75 million to $700 million). Also, 56% of large accelerated filers, and 49% of accelerated filers, said their external audit fees increased in 2018.

"External auditors' scrutiny of compliance capabilities continues to change and intensify, largely due to the PCAOB's ongoing refinement of auditing standards and related oversight activities," the report says.

Protiviti has been tracking SOX compliance trends for 10 years. That the level of cost and effort expended has not decreased in any meaningful way over that time "would certainly not be the expectation for those involved in this process, but it's the reality today," the firm wrote.

That suggests companies should assess where and how they can leverage analytics, robotic process automation, and other advanced technologies for SOX compliance, according to the report. | D.M.

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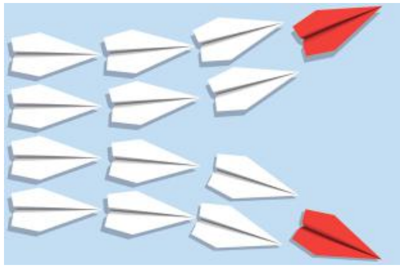
WORKPLACE ISSUES

CFOs, CIOs Out of Sync

Fewer CFOs are aligned with their companies' chief information officers than are any of the other key C-suite members, a study reveals.



Just 30% of respondents to a survey of 555 senior executives said their company's finance chief is "deeply aligned" with its CIO.

By comparison, 56% of CEOs were said to be deeply aligned with their CIOs. Among chief operating officers and chief marketing officers, the corresponding results were 48% and 38%, respectively.

The survey was conducted by Apptio, a maker of cloud business management software. Approximately half of the respondents occupied C-level roles; the rest were direct reports to those top executives. The participants were from 12 countries and nine industry sectors.

The lack of alignment is creating tension between finance and IT, according to Apptio. About half (47%) of those surveyed said digital transformation has worsened existing strategic differences between the two functions.

"Unsurprisingly," the survey report says, the strongest differences of opinion between CIOs and CFOs are related to new products and services, allocation of IT investment in new technologies, and accountability for technology investment decisions.

A third of surveyed finance leaders said there's a lack of consensus among C-suite members about how to measure the impact of new technologies. A similar proportion said it's becoming harder for the IT function to track the impact of new technologies across the business.

Frederik Lannerberth, CFO of the IT group at Denmark's Danske Bank, told Apptio that "many digital investments have such profound underlying or inherent uncertainties that trying to make detailed calculations of the ROI of individual cases would basically be futile." | D.M.

Why Finance Should Lead Sustainability Efforts

Companies that wait for government sustainability standards may see declining brand reputation and financial investment. By Vincent Manier

Once considered a bonus feature for companies, sustainability is now a business imperative for many and is altering the way they conduct business. ¶ From marketing campaigns that rely on the value proposition of sustainable products, to HR leveraging sustainability as the new employee engagement tool, to finance departments (yes, finance, you too) committing to sustainable financial practices, sustainable business operations may affect every aspect of a company.

Since the first green bond was issued in 2008, the World Bank has raised more than $13 billion through almost 150 green bonds in 20 currencies. In response to this growth, lenders, credit agencies, regulators, shareholders, and investors have also increased their participation in and reliance on green finance practices.

This shift presents a massive opportunity for corporate finance departments to trail-blaze new sustainable strategies and capitalize on the multilevel benefits that green finance practices offer.

A Team Effort

Let's break down how green finance and sustainability affects every position in corporate finance departments.

Chief Financial Officer: The Trendsetter. Although CFOs were traditionally siloed in stewardship roles, their input is necessary to the success of green finance initiatives. As the main financial adviser to the CEO, investors, and shareholders, CFOs can create and present strategies that will positively affect their companies' bottom lines, while also making a positive impact on the environment.

FP&A leader: The Guide. Because this role is in charge of forecasting profit, loss, and operating performance, it has a unique influence over the company's strategic plans and investments. The person in this role also constantly has to reconcile the strategic objectives with the planning and performance management processes.

Controller: The Discloser. Each year, the expectation for companies to disclose environmental, social, and governance (ESG) results grows. To prepare, controllers should integrate climate change risks into their financial reports, as it will help simplify the ESG reporting process.

Controllers also should ensure that they're already disclosing material risks in their financial reports, as the SEC is requiring corporations to include sustainability-related material risks in their financial filings.

Treasurer: The Pacesetter. Responsible for managing a company's cash flow and investments, the treasurer sets the expectations for leveraging green finance in its funding strategy. Integrating ESG criteria into investment portfolio strategies or employees' pension funds is becoming mainstream.

Risk Manager: The Researcher. Risk managers must understand the implications of sustainability across the organization, from reputational risks to physical risks posed by extreme weather, to strategic risks as companies evaluate their business models or product designs.

The person in this role can initiate an environmental scenario analysis to better understand how the business can be affected by emissions reductions, energy efficiency, and subsidies or other incentives implemented

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to facilitate a low-carbon economy. But such analyses also must evolve past environmental risks to highlight the implications of sustainability that extend far beyond the company's facilities.

Data's Key Role

Each department must take advantage of existing assets to turn the strategy into results. Data from accounts payable hold a wealth of information about energy and resource waste. If finance departments analyze the data properly, they can identify operational inefficiencies that can be adjusted to increase both savings and facility efficiency.

Caesars Entertainment, a gaming and hospitality company, has successfully capitalized on an environmental financial strategy. The company's CodeGreen program aggregates and analyzes utility data to identify areas of misuse in water, energy, and waste consumption. That helps company leadership develop a strategy to reduce operating expenses and increase facility sustainability.

As a result, Caesars reduced water consumption by 11% and energy usage by 15%. The CodeGreen program, in coordination with the company's participation in carbon disclosure, is a prime example of how financial and sustainability goals work in tandem.

To truly gain an understanding of facility resource usage, finance departments must have a set strategy for how to pull insight and act upon the information available from accounts payable. Whether this is an internal process or one done through a third party, departments must have the resources to identify wasteful and costly practices through data analysis.

The Future of Green Finance

As the financial ecosystem continues to evolve, it's inevitable: Investors and internal management will soon expect finance departments to integrate certain sustainable practices into their larger strategies. While the finance team's role may not be as public as that of other departments, it is crucial to the continued success and growth of the business.

Forward-thinking finance teams are thriving in this modern environment, and those that wait for government sustainability standards will potentially see a decline in brand reputation and financial investment.

By leading the charge and developing sustainable finance strategies, we will inspire our companies to prioritize operations that will minimize their environmental impact. CFO

Vincent Manier is the CFO of ENGIE Impact.

Levi Strauss Partners to Reduce Emissions

The agreement will help meet its greenhouse gas emissions and water use goals.

Levi Strauss has signed a $2.3 million cooperation agreement with the International Finance Corporation, a World Bank Group organization, to help it reduce greenhouse gas emissions by 90% in its owned-and-operated facilities.

The company said it is also looking to use 100% renewable energy in its facilities—including retail centers, distribution centers, and offices—and reduce greenhouse gas emissions by 40% across its entire global supply chain by 2025.

The agreement is part of the IFC's Partnership for Cleaner Textiles program. Levi Strauss said it would work with 42 designated suppliers and mills to reduce greenhouse gas emissions by helping suppliers identify and implement renewable energy and water-saving interventions.

The suppliers are located in Pakistan, Bangladesh, Sri Lanka, India, Mexico, Lesotho, Colombia, Turkey, Egypt, and Vietnam.

"Vendors in resource-stressed countries have shown the ability to innovate based on conditions on the ground, but in some cases, they need some assistance to make it work," said Michael Kobori, vice president of sustainability at the company. "This program provides that assistance."

In 2017, Levi Strauss and the IFC participated in a pilot version of the program that the company said helped six of its suppliers in four countries cut their emissions by 20% and decrease their operating costs by more than $1 million in total.

"We started a pilot with (the IFC) a couple of years ago where they identified consultants to come in, we and our vendors paid the consultants, and those consultants advised our vendors on energy efficiency, what kind of equipment to install, and where the opportunities were," Kobori said.

The company hopes to achieve 100% more sustainable fiber by 2020, particularly cotton. "The bulk of that is going to be through the Better Cotton Initiative and then smaller quantities of organic and recycled," Kobori said. The company has also pledged to achieve zero discharge of hazardous chemicals in its supply chain by 2020. | WILLIAM SPROUSE

HUMAN CAPITAL

CFO Job Openings Are About to Spike

High-potential finance executives can prepare themselves to qualify for one of the many finance chief seats that will shortly become available. By John Touey

Are you ready to take the next step? ¶ According to a 2016 study by Spencer Stuart, the average retirement age for a Fortune 500 CFO was a shade over 58 at that time. My much more informal study of the most recent Fortune list pegs the current average age of those companies' CFOs at approximately 56 (give or take a few months). ¶ You do the math. It's very likely that a lot of CFO posts at big companies will be opening up in the next two years.


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What can you be doing now to make sure you're ready for the job? Maybe more importantly, what are you doing to make sure you get the call?

As to the first question, in a developmental journey that at this point has likely spanned 20 to 30 years, there may not be too much more to do to prepare yourself for the CFO's office. However, if you have a long list of to-do items, you probably won't be ready in the next 24 months.

I hope that list is short for you. But if you're like many potential CFO candidates, however short it might be, it probably includes getting more significant board exposure. It's usually one of the last experiences a high-potential finance executive requires before being fully prepared to take on the CFO role.

If that experience is not yet in your portfolio, here are some thoughts on initiatives that often offer the opportunity to get it:

Capital projects. Large-scale capital projects require board oversight and offer a broad opportunity for a finance executive to showcase skills in, including strategy, financing, project management, operations, and more. Such projects are often mismanaged, so playing a lead role in ensuring that a project meets its objectives is a differentiator.

M&A. Like capital projects, deals offer the chance to gain and showcase a variety of skills to a board audience. Input on how an acquisition or divestiture impacts strategy, how a transaction should be priced and financed, integrating the target's leadership, achieving synergies, and driving post-deal operational efficiency are all strong developmental opportunities that can move an executive from potential CFO to CFO-ready.

Strategic planning. Maybe more so than the above activities, leading a company through the financial elements of a strategic plan, or participating in an overall strategic planning process, may provide the greatest opportunity to demonstrate CFO capabilities. Often requiring the executive to work cross-functionally and synthesize nonfinancial data in coming to key decisions, strategic planning can help define him or her as a company leader more than a functional leader.

Of course, some positions require board interaction as part of an executive's regular responsibilities. Public company controllers, for example, usually get some form of regular exposure to the audit committee. But even in that case, it's important to have the opportunity to play a prominent role to showcase presentation and leadership skills.

The emphasis with any of these

developmental experiences is to advance the narrative regarding your capabilities. You want to move the perception of you from doer to a leader, from tactician to strategist.

Access to these opportunities will depend on the perspective of the CFO that a high-potential financial executive reports to. The smart finance chief will see the benefit that providing development opportunities to senior team members will have for his or her own career progression. If not, then perhaps one of the last steps a "hi-po" needs to make is a lateral move to another company in order to get these opportunities.

Either way, if you feel you need to punch one more ticket before being marketable for a CFO role, do it now. After this current wave of job openings crests, it may be a while before we again see such extensive leadership transition. CFO

John Touey is a principal at executive search firm Salveson Stetson Group.

How Finance Leaders Can Hire and Keep Talent

Basing a culture on experiences instead of titles and promotions can lower the cost of new hires and help retain valued employees.

CFOs who offer their teams a career culture based on experiences (rather than titles and promotions) and the ability to move between departments can reduce the compensation premium they must offer to new hires by half, according to Gartner.

In the highly competitive labor market, finance executives are hardly exempt from the challenges all business leaders are facing in attracting new talent. Making the problem worse, from a CFO's perspective: 22% of current finance and accounting employees have a low degree of intent to stay in their current position, Gartner data shows.

As a result, it's important for finance leaders to understand how their current employee value proposition (EVP) is perceived by prospective and current employees and the criteria that are most meaningful to both.

"Our research shows that two key attributes that both attract finance talent and reduce attrition are career culture and how employees view their ability to progress and develop," says Hilary Richards, advisory vice president in Gartner's finance practice. "Finance departments that organize around hierarchical job titles and limit teams to a single department communicate to employees that their ability to progress and tackle new challenges will be limited."

Gartner surveyed more than 5,700 finance and accounting professionals and analyzed their responses against 13 attributes commonly associated with finance departments' EVPs. The research found that finance departments with strong EVPs can reduce the compensation premium offered to new hires—the premium above the canidate's existing compensation or market value that employers must pay to win them over—by 50%, compared with departments with weak value propositions.

An experience-based career culture emphasizes career experiences over promotions. New career opportunities are driven both by the needs of the business and the employee's aspirations, making lateral moves beneficial for both parties.

Experience-based cultures can be attractive to senior employees, who may expect fewer opportunities for traditional promotions, and also to millennial employees, who prize diverse career experiences. Gartner research shows that millennials will comprise half of the corporate finance workforce by 2020.

"Experience-based work cultures make it easier for managers to identify opportunities for employees to gain new experiences, and build skills, with each new assignment," says Richards. "For employees, this approach can help them rapidly upskill and provide opportunities for them to work on projects of interest, without having to wait for a vacancy to arise."

Finance departments offering employees an experienced-based culture should ensure that it's a highly visible part of their EVP, Gartner advises.

"Innovative finance departments have found multiple ways to highlight their EVP offerings to new recruits," Richards says. "One of the key practices we identified is using the current experiences of employees and making their stories a visible part of the recruitment process."

She adds, "This can be done through highlighting current employees' profiles and experiences on an external career website or encouraging blog posts from employees to talk about their roles and how their experience with the company has benefited their career aspirations." | DAVID McCANN

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RISK

How Quickly Businesses Adapt to New Risks

When a risk becomes a reality, top performers act quickly to change policies and strategies. By Perry D. Wiggins

Risks pose a financial and reputational threat to organizations that can be disastrous if left unchecked. The good news is that the warning signs of risks are often hiding in plain sight for those careful enough to look. ¶ For example, there were plenty of early warning signs ahead of the Great Recession of 2008, but far too many executives simply assumed that mortage loans would never default, that banks were immune to failure, and that businesses would continue to grow indefinitely. Even the demise of Bear Stearns early that year was considered an isolated incident that did not portend ongoing damage to the global economy.

Organizations can't predict the future, but what they can do is anticipate a wide range of possible risk scenarios and develop plans to quickly and effectively address each of them. When a risk becomes reality—whether in the form of a lawsuit, an impending market fluctuation, or a global chokepoint in the supply chain—best-practice organizations act quickly with a plan in place to keep the business moving forward.

The relevant metric is "cycle time in days from risk identification to changes in policy." Data from APQC's Open Standards Benchmarking database shows that top performers for this metric respond to a risk with changes in policy within 30 days. That's twice as fast as median performers and three times faster than bottom (the worst) performers. (See graph, page 21.) It is in the best interest of any organization, once a risk is identified, to address it as quickly and as completely as possible—especially if that risk is at the enterprise level and has the potential to damage the entire organization. Ninety days leaves plenty of time for a risk to wreak havoc on an organization that hasn't prepared in advance.

Not all risks are the same—some might threaten the stability of the entire organization, while others might cause a temporary delay or setback to one area of the business. While it is important to respond to a risk in a timely way, it is equally important to take a thoughtful approach based on the nature of the risk and the impact it might have. A rushed response could make things even worse if it is disorganized and haphazard. An organization's leadership and management should work to thoughtfully understand each risk and its potential impact before developing an effective action plan.

Risk Planning and Analysis

Best-practice organizations ensure that planning teams have the dedicated time and resources to think through risks and develop action plans that can quickly be implemented. For example, APQC's latest financial planning and analysis research found that top-

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performing organizations consistently free up time for scenario planning, risk prioritization, and other advanced risk mitigation strategies by eliminating or reducing non-value-added tasks. Whether through automation, eliminating budgets, or investment in new planning tools, these organizations create the needed time and space for planning teams to move beyond forecasting to spend time anticipating and planning for a wide range of scenarios.

Scenario planning for risk should, at minimum, include planning for extreme highs and extreme lows, however implausible they might seem. Planning for both is important: Phases of extreme and explosive growth might lead to missed opportunities if a plan isn't in place to take advantage of that growth. Planning for worst-case scenarios, meanwhile, ensures that an organization can act fast enough to mitigate the worst impacts of risk and recover more quickly. In this way, scenario planning both protects and helps grow the organization by considering a wide range of possibilities.

As organizations consider the high and low scenarios for each significant risk, they should develop an action plan for each. These plans can be collected into a series of playbooks that the organization can continue to review annually and update as new risks and opportunities present themselves. Even if an organization encounters a risk that it never could have anticipated, it can draw elements from other planned scenarios to formulate a response. As the playbook grows, so does the capacity to respond quickly and effectively to keep the business on track.

Perry D. Wiggins

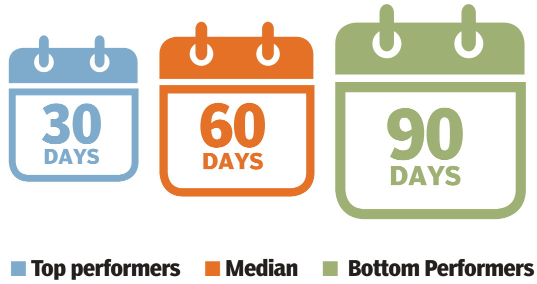
Organizations can't predict the future, but what they can do is anticipate a wide range of possible risk scenarios and develop plans to quickly and effectively address each of them.

Top-performing organizations can act to mitigate risk much more quickly than bottom performers because in many cases they have already considered the scenario at hand and have an effective action plan that can be set in motion quickly. An organization should consider a wide range of possible scenarios and continually build up its playbook so that the resources for responding to a wide range of risks are near at hand in the unfortunate event that they are needed.

Whether in supply chains, human capital management, or anywhere else in an organization, risks carry the potential to bring work to a standstill. When risk becomes reality, having a plan in place ensures that the organization can move to mitigate risks with confidence and in a way that aligns with the organization's broader strategy. No one can fully see the future, but planning for it is essential to withstand whatever might come. CFO

Perry D. Wiggins, CPA, is CFO, secretary, and treasurer of APQC.

Cycle Time in Days from Risk Identification to Changes in Policy



5 Key Principles of Business Ethics

Make it easy for employees to "do the next right thing, rather than the next thing right."

This may come as no surprise, but a new survey of corporate ethics and compliance managers indicates that companies are trying hard to get their employees to behave in an ethical manner.

Change is happening quickly, it seems. In the survey, which polled 480 such managers, 55% of them said their organizations factor ethical behavior into their workers' performance reviews. In a similar study a year ago, only 35% of respondents said so.

Also, 31% of those surveyed this year said ethical behavior is now factored into bonus allocations, a huge jump from 11% in 2018. The study was conducted by LRN, a 25-year-old company devoted to, as its tagline says, "inspiring principled performance" in its client organizations.

The 2019 survey measured the incidence of key workplace behaviors that strongly correlate to a healthy ethical culture. Survey participants rated their organizations against eight statements using a five-point scale, from "almost always true" to "almost never true." The statements were:

1. High performers who violate our code of conduct or values are tolerated.

Courtesy of the author

2. Managers in my organization sometimes act as if they are above the rules.
3. Our employees trust that their leaders consistently make values-based objectives.
4. Employees in my organization feel pressured to achieve immediate objectives, even if it means acting in ways that are inconsistent with our values.
5. Employees hesitate to speak up during team meetings because they worry about how their managers will react.
6. Employees question decisions when they conflict with our values.
7. Employees do the right thing, even if it's not in their personal best interest.
8. Employees are comfortable skipping levels or going to a level above their direct boss to raise ethical concerns.

Answers to the questions generated a "program effectiveness index" (PEI)score for each participant's ethics and compliance (E&C) programs. LRN then grouped such programs into quintiles in order to compare the impact of E&C programs across additional survey questions.

Programs in the top two quintiles of PEI scores were designated as having "high organizational impact." Those in the bottom two quintiles had "low organizational impact."

Through the research LRN found five key differences between high-impact and low-impact ethics and compliance programs.

1. High-impact programs go beyond meeting regulatory requirements to emphasize ethical behavior. These programs make it easy for employees to "do the next right thing, rather than the next thing right" and act ethically as well as legally.

"E&C programs driven principally by a desire to hew to regulatory requirements can have unintended negative consequences," LRN's survey report says. "In particular, elaborate rules necessary to maintain compliance often [send] employees hunting for exceptions or ways to bypass the very processes designed to uphold those rules."

Some of the recent scandals involving airline employees who followed their rule book to the detriment of passengers' well-being are good illustrations of the pitfalls of a rule-centric E&C model, according to LRN. "They show that real-life situations can evolve quickly, and because of that, employees need a moral compass, not a five-pound manual, as a guide."

2. High-impact programs directly affect business decisions. Such programs are embedded in business operations, not merely codified in rules.

For example, in the survey, high-impact programs reported by a margin of two to one, compared with low-impact programs, that ethical considerations led to the modification or abandonment of a business initiative in the last year.

3. High-impact programs permeate their organizations and stakeholder groups. Senior leaders, middle managers, and boards of directors are engaged in the prevention of misconduct. The function is not left primarily to lawyers or ethics and compliance staff.

"It's incumbent on boards as well as executives to deal effectively with ethical lapses, particularly those that occur at the C-suite level," LRN says.

4. High-impact programs hold senior leaders accountable. These programs outscore others by a wide margin in taking concrete steps to drive ethical behavior. They embrace accountability even when it means holding senior leaders or successful performers accountable for their actions.

"Recognizing that actions speak louder than words, high-impact programs do a better job of encouraging and rewarding good behavior, and also penalizing misconduct," according to the study report.

5. High-impact programs take a proactive and comprehensive approach to managing risk. Consistent with their emphasis on embedding E&C into workflows and employee decision-making, these programs do a better job of analyzing and mitigating risk to prevent misconduct.

"Static programs that rely on layers of inflexible rules may not be capable of meeting the needs of employees when they are faced with the new risks of an evolving business landscape [that] can disrupt or threaten an organization's success," LRN says. | DAVID McCANN

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Heads Up: Cybercriminals Are Businesspeople

Understanding the business model behind cybercrime can be a helpful thought experiment to help CFOs allocate appropriate resources to cyber defenses. By Jim Parise

When the hacker behind the Capital One data breach was presented in the media, she very much fit the eccentric cybercriminal stereotype. ¶ However, the truth is that she's quite an outlier. Most cybercriminals operate in highly organized groups based abroad. They approach their work like any business would except that their revenue streams are stolen data and extortion. ¶ Understanding the business model of hackers and the value that a company's data represents to them can be a useful thought experiment to help CFOs allocate appropriate resources to cyber defenses.

The Cornerstones of Any Cybercrime Enterprise

Modern cyberattacks—such as sophisticated phishing attempts utilizing phony emails that look quite real—can be profitable even with a success rate as low as 1%. The cost of launching these attacks is low, and a single successful cyberattack can yield thousands or even millions of dollars in revenue.

Having a proven, predictable business model has enabled cybercriminals to scale and attract partners. They share a portion of the data they obtain through hacking (or the profit from selling stolen data) with individuals or entities interested in getting a piece of the action while minimizing their exposure to prosecution.

A successful cyberattack is usually monetized either through stealing data and selling it on the black market, or holding data hostage and exacting ransoms. The second scenario is a great revenue stream for hackers because it doesn't require a buyer. Ransoms are typically paid in bitcoin, which most companies don't have on hand. To facilitate the process, many of these gangs now offer customer service to provide assistance in paying the ransom.

Most hackers are very clearheaded and rational. They are as organized as you and your competitors. Such predictability means the threat they pose can be coldly and rationally managed.

The Value of a Company's Data

Any item a company devotes resources to insuring or securing typically has a known value attached to it. In order to guide a sound cybersecurity strategy, it's important to take stock of how much the organization's data is worth, both to you and to others.

Certain kinds of data have a known value on the black market. For instance, Social Security numbers are worth a surprisingly low sum, around $1 each. When combined with full address, date of birth, and name, however, cyber criminals can sell the information for about $50 to $100.

Medical records can enable cybercriminals to commit fraud and are a particularly valuable type of data, selling for about $20 to $50 each depending on how many records are currently available on the market.

It's not uncommon for health care organizations to have the data of tens or hundreds of thousands of patients stolen in a breach. If 100,000 medical records are obtained in a breach and sold for $20 each, that nets the hackers

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$2 million. It's easy to see why health care organizations are a target for cybercrime.

In addition to the well-established marketplace for stolen personal information, consider the value of your company's data if it were obtained by competitors. Play out a hypothetical scenario in which your company's trade secrets, client list, or proprietary information is made public and how that would affect your business in the long term.

The best-case scenario is that the company has a robust backup system and is able to restore its data in less than a day. The worst-case scenario is that no backup is available, so a ransom is paid, but the hackers still do not unlock the data and it is lost permanently. Consider the cost to your business of each of these possibilities and everything in between.

Assessing Risk, Preventing Loss

A common rule of thumb is that at a minimum, businesses should invest at least 3% of their total IT capital expenditures in cybersecurity. Industries with particularly valuable data such as finance, health care, and manufacturing require a greater investment.

Jim Parise

This budget is usually applied to a combination of technology and training, because hackers achieve their success rate most often through user error—someone inadvertently letting them into the system—rather than technological failure alone.

Since the threat of cyberattacks is relatively new, it can be overwhelming to determine an appropriate course of action. A good starting point is the understanding that cyberattacks on businesses have been increasing year over year this entire decade not because of some spontaneous crime wave, but because cyber criminals are essentially the new mafia.

Looking at your company through their eyes and evaluating the overall situation with the same detachment they enjoy puts you on more even footing. CFO

Jim Parise is president of technology consulting firm Kelser.

Overcoming Cybersecurity Language Barriers

There remains a disconnect between the languages spoken by cybersecurity professionals and the senior executives and board. By Chris Harner and Chris Beck

For many senior executives, the jargon of cybersecurity may feel like hieroglyphics—a mysterious language that requires translation. There is a significant need in the market to transform cyber assessments, information technology metrics, and information security into the common language of risk management.

Furthermore, there is a lack of consensus on how to categorize cyber risk within a risk taxonomy. The insurance sector often views it as a financial risk, banks may consider it an operational risk, and other industries may see it as a strategic or standalone risk.

Assessing the effectiveness of a company's security protocols often falls short of assessing the more mature risks, such as credit and market. And no wonder: this very technical, high-velocity, and fast-evolving risk doesn't easily translate into any traditional metrics that company management and board members are used to.

This lack of a common vernacular creates a communication barrier between cybersecurity experts and management. In order to bridge the gap, a new approach is required that makes it possible for all of these stakeholders to speak the same language.

Look Who's Talking

To understand the cyber communication disconnect, it's necessary to first examine who's doing the talking.

In today's cybersecurity and risk discussions, senior executives and board members are often confronted with terms specific only to this risk, such as threat vectors, encryption protocols, phishing tests, password cadences, endpoint protections, and dozens of other inputs related to IT security.

Steeped in a vocabulary rooted in computer programming and IT systems, cybersecurity professionals often have backgrounds in coding and systems rather than finance. That can be a drawback in translating the details of a cyber vulnerability into the financial terms used to determine how to mitigate risk.

Further complicating the situation is a class of "nontechnical" chief information security officers (CISOs) who are responsible for cybersecurity and reporting to the board, but who possess neither deep IT expertise nor rich knowledge of risk management.

A Non-Strategic Approach

Of course, the reason we should care about translating this complex technical language into financial terms is that, depending on a company's size and other factors, tens or hundreds of millions of dollars could be at stake. Furthermore, executing a sound cyber defense may significantly impact IT headcount and budget needs.

Yet communications between cyber professionals and management remain fractured, because their meetings are rarely held within the context of strategic decision making. That is, the discussions don't feature consideration of risk appetite and tolerances, cost-benefit analyses, return on investment, operational outcomes, or other financial measures typically used to weigh alternatives and prioritize initiatives.

Think about what would happen if a fire started at work and there had been no fire drills. Without a holistic view and careful understanding of the actions that should be taken when someone yells fire, everybody would just run. However, running during a fire is not as important as knowing where to run—i.e., having planned the safest route in advance.

As critical as cybersecurity is, boardroom action on this issue is often reactionary or misallocated due to the difficulty of quantifying the risk, communicating the issues, and prioritizing action.

Risk Models Must Adapt to Change

Today, what passes for cyber risk assessment is really just another controls assessment. Controls exist to mitigate risk; in the cyber arena companies need to shift from mere qualitative assessment to quantitative loss distribution.

Finding a common language—a framework comparable to the one used for other risks—is further complicated by the unique nature of cyber risk. Unlike nearly every other risk, cyber's ever-changing nature stems from the fact that a human being is at the center of the attack, intentionally working to exploit a firm's vulnerabilities while outsmarting its defenses.

And thanks to increasingly sophisticated and well-funded perpetrators, this can affect not only the types of attacks companies may experience but also the potential impact of a breach. Not only is the threat of cyberattacks changing rapidly, it often morphs and adapts to cyber defenses faster than companies can keep up.

Moreover, as cyber threats have increased in sophistication, the attack surface is increasing the opportunity for exploitation. Today's wireless and interconnected ecosystems provide even more opportunities to gain unauthorized access to systems or data. Extended supply chains and growing vendor networks also expand the attack surface, complicating how to determine the actual threat and configure a comprehensive defense.

Meanwhile, the internet of things, the cloud, and other technologies continue to transform the processes and practices of businesses, making their functionality ever more interconnected and interdependent. The effects of one risk event (such as a partial system shutdown in operations) can weaken a management team's ability to respond to threats in other areas.

New cyber risk frameworks must be able to account for risks that influence one another, often in subtle but substantive ways that traditional, silo-based list management approaches are unable to identify and detect.

Translating Cyber into the Language of Risk

So how do you take the ever-changing nature of cyber risk and its technical components and translate it into traditional reporting metrics?

An effective cyber risk model must measure, aggregate, and convert cyber metrics into intelligible reporting linked to the balance sheet, in particular how much capital is at risk in the event of a breach.

This approach allows cyber risk to be reported in the same loss distribution framework as other risks. It also gives cyber professionals the metrics to convert a threat into an estimated loss and thus speak the board's language.

From this vantage point, a company's board can decide how much cyber risk it is willing to accept and prioritize the implementation of cyber controls.

With a holistic modeling capability for cyber risk, the CISO and chief risk officer can tell a coherent story to senior management, allowing it to understand budgetary requirements, how to allocate funding more effectively, and how much capital is at risk due to a cyber threat.

An effective cyber risk model will translate the complexities of cyber defenses into actionable metrics, whether they're visuals, dashboards, or other financial reporting tools. It's this shared language that can give board members, the management team, and cyber professionals a jumping-off point to determine an acceptable level of risk, prioritize controls, and create actionable goals.

Chris Harner is managing director of cyber risk solutions for Milliman. Chris Beck is an executive risk consultant with the firm's cyber risk solutions practice.

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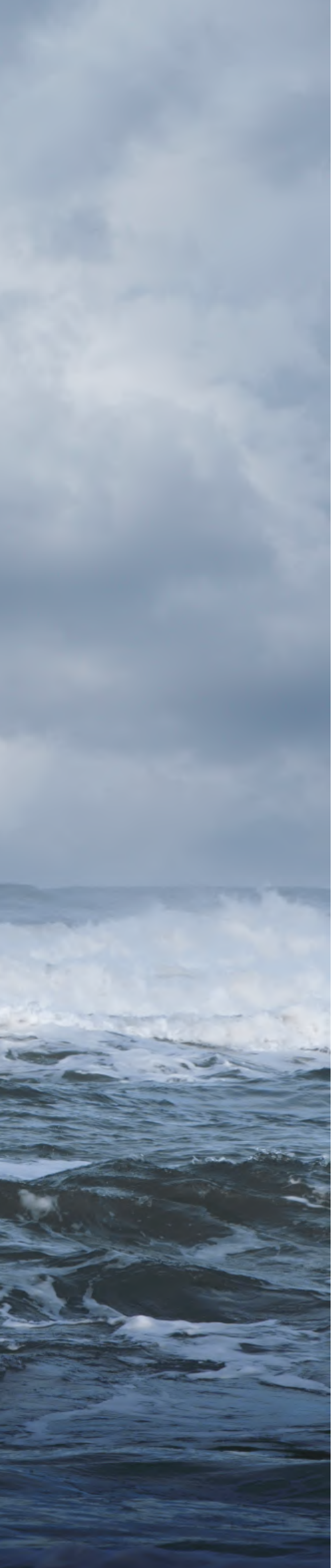

CFOs TO WATCH 2019

SINK OR SWIM

The success or failure of these 20 CFOs will decide their companies' futures in a time of economic uncertainty and technological disruption.

Several themes pop out in our fifth annual lineup of CFOs who we'll be observing closely in the next year.

First, all of the finance chiefs hail from companies that face powerful competitors and tumultuous industry changes: Walgreens Boots Alliance, Macy's, Ford, to name three. Second, all of their organizations are either technology disruptors or being disrupted by technology: Tesla, Slack, JPMorgan Chase, for starters. Third, many of these CFOs are relatively new to their jobs, though maybe not new to the CFO chair.

Why spotlight these particular finance executives? Their companies face numerous challenges, yes, and they are highly visible, but their circumstances are not unusual. The real reason, in fact, is because the problems they face are hitting the desks of scores of other finance chiefs. Slowing sales. Dwindling profitability (or strings of losses). Ambitious cost-cutting goals. Capital raising needs. Murky forecasts of how their companies will fare in the current

The profiles on the following pages were written by David McCann, deputy editor of CFO; managing editor Lauren Muskett; contributors Bob Violino and Michelle V. Rafter; and Vincent Ryan, editor in chief.

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economic cycle.

What we particularly like about this year's profiles are some of the details we unearthed about these CFOs' operating styles. One was called "smart and fearless," for example, another "cool, methodical, and scientific." Whether those traits will translate into success for their companies is a question yet to be answered.

Without further ado, in no particular order, here are the 20 CFOs we'll be keeping close tabs on in the next 12 months.

Cool Operator

When working for a business like automotive and energy company Tesla and a CEO like Elon Musk, there aren't many dull moments.

Fortunately, overseeing finance for the company is Zack Kirkhorn, 34, who was appointed in March 2019 after a period of turmoil in the position. Since joining Tesla in 2010, Kirkhorn has served as senior analyst, senior manager, director, and vice president of finance. Prior to working at Tesla, he was groomed as a business analyst at McKinsey & Co.

"The single most important quality that distinguishes Zach is his clarity of thought in dynamic or stressful situations," says Justin McAnear, CFO at biotechnology company 10x Genomics, who previously served as vice president of worldwide finance and operations at Tesla.

Zack Kirkhorn
CFO, Tesla

Kirkhorn is able to quickly get to the root of an issue, develop a framework for resolving it, then start working on solutions, says McAnear, who worked with Kirkhorn for three years. "He does this in a cool, methodical, and scientific way," McAnear says. "He's great at leading discussions among [executives] and driving a group toward a decision, using his analysis as a guide."

"He knows how manufacturing works, and knows how it works best at Tesla.
–Justin McAnear, 10x Genomics

Tesla specializes in electric car manufacturing and, via its SolarCity subsidiary, the production of solar panels. The company's strategy has been to begin with low-volume, high-priced vehicles and evolve to higher-volume, lower-priced cars and sell the vehicles online and in company-owned showrooms.

An educational background in engineering gives Kirkhorn the skills needed to understand the workings of such a business. Kirkhorn "has been deeply involved in the operational

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planning and execution at Tesla," going back several years, McAnear says.

He adds, "He knows how manufacturing works, and knows how it works best at Tesla. In fact, at times Zach has helped run the factory when there were leadership gaps. I witnessed this during the challenging Model X ramp, and Zach was in the middle of it all, [helping] lead the team while preparing for Model 3 at the same time."

The financial imperatives at Tesla are no less important. As it grows and builds more factories worldwide, it will need to do so in a capital-efficient way, McAnear says. That means efficient management of working capital within its supply chain (as well as the need for capital raises in the future).

McAnear says that on recent earnings calls Kirkhorn has been a clear communicator on Tesla's financial drivers, something Wall Street at times has had trouble grasping: "What you hear on there is just how he talks and thinks: Clear, concise, direct," says McAnear.

That's vital for a company that wants to get from here to there in a hurry. | **BOB VIOLINO**

Retailing Comeback

Bricks-and-mortar retail has an uncertain future, and like other retailers, Macy's has struggled with falling sales as shoppers make fewer trips to physical stores and do more shopping online.

For the majority of fiscal 2018, Macy's was flying high. The retailer's comparable-store sales rose almost 3% year over year through the first three quarters. Then sales trends slowed dramatically after a strong Black Friday. Macy's has continued to narrowly post positive comparable sales, and digital sales are up more than 10% for the 40th quarter in a row, but the retailer is under intense pressure from online brands.

To help compete, Macy's has been remodeling stores, growing its off-price and online businesses, and trying to build its customer base with its updated mobile app. The company also just revealed a cost-cutting program to save $400 million to $550 million annually. At a Goldman

Paula Price
CFO & Executive VP, Macy's

"I told her that the market is not going to resist the temptation of making overtures to you."
–Peter Crist, Crist Associatess

Photos courtesy of the companies

Sachs conference in September, CFO Paula Price explained that Macy's is heading toward targeted promotions instead of heavy discounts, which have been taking a toll on its bottom line.

Price joined Macy's in July 2018, taking over from Karen Hoguet, who retired after 21 years as the retailer's finance chief. Price worked mainly in the retail and consumer products industries for 30 years before becoming a full-time senior lecturer at Harvard Business School in 2014. In her most recent corporate role, she was chief financial officer of grocery company Ahold USA.

"When she left Ahold to go to Harvard she was so young," says Peter Crist, chairman of executive recruiting firm Crist|Kolder Associates. "I told her that the market is not going to resist the temptation of making overtures to you, and at some point, someone will convince you to come back. The market ultimately was able to convince her that she's highly valued."

Crist points out that this is not Price's first time working with a retail enterprise going through a dramatic change. At Ahold USA, she successfully developed and executed a $1 billion program to fund the company's strategic growth initiatives, which included sales efforts, customer loyalty programs, and e-commerce initiatives.

As Macy's tries to adapt to changing consumer habits, it is also facing tariff headwinds and a possible recession. Will Price be able to lead Macy's to its long-awaited comeback? "Macy's is in a total change mode and she needs to lead the transformation that has to go on," Crist says. "She out of anybody will be able to effect that change. She's smart and she's fearless." | **LAUREN MUSKETT**

Switching Lanes

During 20 years with Amazon, Tim Stone served as finance chief for multiple divisions. After he finally got his shot at running finance for a whole company, at Snap, he stayed in the job for only eight months—and in the process left $20 million worth of restricted stock on the table.

Even while still fairly new at Snap, Stone reportedly went around CEO Evan Spiegel and asked the board of directors for a substantial increase to his $500,000 salary. The request was denied, and Stone left Snap in February.

Only a month later, Ford announced its hiring of Stone. He replaced the retiring Bob Shanks, who had been with the automaker for 42 years and its CFO since 2012, in June.

Has Stone—whose compensation package at Ford has not been made public—landed on his feet? It will be interesting to see. First, having spent his career with technology companies, he's hardly a traditional hire for an automaker. In fact, he was the first outsider that famously insular Ford has appointed to the finance chief role since 1949.

Also, Ford, like Snap, is struggling, although on a much larger scale. Even as most of the auto industry has been fairly healthy, in September Moody's Investors Service downgraded the company's debt to junk status. The credit ratings agency projected that Ford's EBITDA margin would fall this year to 1.2%. That would be a fourth consecutive down year since 2015, when the margin was 4.7%.

Additionally, Ford's free cash flow sank into negative territory in 2018, and Moody's expects that key metric to remain under water at least through 2020. Moody's blamed the downgrade partly on Ford's "lengthy and costly" restructuring program. It's expected to continue for several more years and to result in $11 billion in charges plus a cash cost of approximately $7 billion.

Tim Stone
CFO, Ford Motor

Having spent his career with technology companies, Stone is hardly a traditional hire for an automaker.

"Ford is undertaking this restructuring from a weak position, as measures of cash flow and profit margins are below our expectations, and below the performance of investment-grade-rated auto peers," Moody's said.

The agency's report did allow that despites its costs, Ford's so-called "global redesign" will "contribute to gradual improvements in the company's earnings, margins, and cash generation, albeit over a number of years." The highlight of the initiative is a focus on high-growth product segments, especially electric and autonomous vehicles.

The technology-laden strategy points to the reason Stone was brought to Ford. The company's aim, as new CEO Jim Hackett puts it, is "designing smart vehicles for a smart world." It'll be Stone's job to make sure new-age cars drive the envisioned financial future. | **DAVID McCANN**

Pioneer CFO

Being first at something is not easy—no one has paved the road ahead or set guidelines for how things should be done.

Allen Shim can relate. In February 2018 he was named the first ever finance chief of Slack, a provider of team collaboration software tools and online services. Not that Shim wasn't prepared. He had been informally heading up finance at the fast-growing company for some time.

Slack was founded in 2014 and grew from a small business serving a few thousand beta testers to a global team of more than 1,000 employees. Shim says Slack has benefited from the seemingly insatiable demand for new business

Photo courtesy of the company

technologies. Research shows that a typical enterprise uses more than 1,000 cloud services, and many of the largest IT departments maintain thousands of enterprise applications.

"Software is very valuable, and it provides a huge increase in towline productivity, but there is an unwelcome side effect: attention becomes fragmented into different specialist tools," Shim says.

That's where Slack comes in. The company provides "a new layer of the business technology stack that brings together applications, information, and people."

The $401 million company, which just went public in June, has to be intentional about where it invests its resources, Shim explains, "particularly in technology, given its powerful role in augmenting our ability to communicate, coordinate, and drive efficiency." He adds: "Slack's rapid global growth means I have to build for scale, ensuring that we are investing in the right people, the right systems, and the right processes now and for the future."

Allen Shim
CFO, Slack Technologies

While Shim has a great message of why Slack should be a hit, and the company's sales continue to grow (as do the number of companies it gets more than $100,000 in annual recurring revenue from), most of Wall Street is lukewarm about its stock. Slack stock traded close to $42 per share on the day of its direct listing but has not seen that level since.

"Slack's rapid global growth means I have to build for scale," says Shim.

Investors may have good reason to stay away. Slack has never made a profit, and while it has $785 million in cash on its balance sheet, that doesn't seem like much compared with its chief competitor, Microsoft.

Slack co-founder and CEO Stewart Butterfield says Shim "has been my right hand from the earliest days" of the company, and that he is a trusted adviser to the executive leadership team and the board of directors. In a critical time for the young company, Shim is playing a crucial part. | B.V.

Turnaround Task

Joanne Crevoiserat, who took up her post at Tapestry on Aug. 1, was an interesting choice. The company's three brands are all in the luxury accessories market, which is far different from the mass-market retailers (Kohl's, Walmart) where she's spent a good portion of her career.

Crevoiserat most recently logged five years as CFO and then chief operating officer at Abercrombie & Fitch, which is somewhat upscale but still barely resembles Tapestry's

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Coach, Kate Spade New York, and Michael Kors labels.

Whatever challenges that presents, Crevoiserat will face no shortage of other ones. In 2017 the company, then named Coach, bought Kate Spade, already a declining brand, for the hefty sum of $2.4 billion. The plan was to apply Coach's expertise to effect a turnaround for Kate Spade driven by international expansion, much as Coach had accomplished with its own brand.

In short, the plan isn't working. Tapestry's share price, which was over $50 in August 2018, had sunk to $26 a share in early September, largely because of disappointing financial performance by Kate Spade. The company recently shelved plans for new Kate Spade stores and products, and the brand's financial forecast for fiscal 2020, which began in July, was fairly grim.

It was no surprise, then, that Tapestry's board ousted CEO Victor Luis in early September, with the chairman saying "there has been a gap between strategy and delivery."

"Tapestry probably overpaid for Kate Spade," says Morningstar analyst David Swartz. Morningstar rates the stewardship of a company's management as excellent, standard, or poor, and it has Tapestry rated as poor "primarily because of those acquisitions."

A key issue is that Coach is a very international brand, while Kate Spade is primarily in North America. It has a moderate-sized business in Japan but only a small one in China, a prime market for luxury goods. Pricing is another issue. Kate Spade inhabits the $100 to $250 price range for its handbags, which is "an extremely crowded space," notes Swartz.

Joanne Crevoiserat
CFO, Tapestry

Tapestry apparently tapped Crevoiserat because it was looking for a CFO with extensive operational experience. According to Management CV, an independent research firm that analyzes executive teams, at Abercrombie & Fitch she "delivered strong results as COO" and "will have multiple opportunities to deliver operating leverage" at Tapestry.

Crevoiserat "will have multiple opportunities to deliver operating leverage at Tapestry." –Management CV

As finance chief at A&F, Crevoiserat "faced a substantial restructuring and turnaround challenge" and "did a good job," Management CV wrote.

Will she be able to pull it off again at a larger company with some difficult problems to solve? | D.M.

Photos courtesy of the companies

An IPO Ahead

Airbnb announced in September that its long-awaited IPO will occur in 2020. Eyes will be trained on CFO Dave Stephenson, whose role has been tightly focused on that goal.

Airbnb hired Stephenson, a longtime Amazon finance executive, in November 2018 to help orchestrate the IPO after a decade that saw the company grow from room-sharing app to travel industry behemoth. Today, Airbnb offers 7 million places to stay in 191 countries, hosting more than 2 million people a night.

Dave Stephenson
CFO, Airbnb

Since Stephenson's arrival, the company has made a series of acquisitions, among them Urbandoor, which offers short-term corporate rentals, and HotelTonight, a service for last-minute hotel bookings. The company has also branched out to offer tours and adventure activities.

> **"People always ask what the impact of Airbnb has been, and I say [hotels] have sold more rooms than ever."**
> –Jan Freitag, STR

Unlike other unicorns with recent IPOs or ones in the works, Airbnb appears to be on solid financial footing. The company reported more than $1 billion in revenue in this year's second quarter, and has had positive earnings before interest, taxes, depreciation, and amortization for the past two years.

A 17-year veteran of Amazon and former finance chief of its worldwide consumer organization, Stephenson replaced Laurence Tosi, a former Blackstone Group executive who reportedly prioritized financial stability over preparing for an IPO, to the dissatisfaction of CEO Brian Chesky.

When Stephenson was hired, Chesky called him "one of the best financial operators in the world."

Stephenson will need to optimize Airbnb's performance at a time when hotels are going gangbusters, with U.S. properties smashing records for rooms sold, revenue per room, and other metrics. But that trend, which is ongoing despite the millions of potential hotel stays Airbnb is siphoning off, is a solid indication that the timing is right for a travel industry IPO.

"The industry is firing on all cylinders," says Jan Freitag, senior vice president for lodging insights at STR, a hospitality industry consulting firm. "People always ask what the impact of Airbnb has been, and I say [hotels] have sold more rooms than ever."

Still, it's not all wine and roses for Airbnb. It faces increased competition in the short-term rental business, including from Marriott, which launched a home-sharing division this year. And it continues to be hounded by local governments at home and abroad that want to regulate it and other short-term housing providers.

The IPO should provide a clearer picture of Airbnb's financial standing and the mechanisms Stephenson has helped implement to deal with the competition and regulatory constraints. | **MICHELLE V. RAFTER**

Seeking a Cure

In several respects the challenges facing Walgreens Boots Alliance are no different from those gripping other retail pharmacies. Competition, pricing, and insurer reimbursement issues that are largely out of pharmacy companies' control are dragging down their financial performance and stock prices.

There just seems to be a little extra noise around Walgreens.

Front and center is the company's aggressive, $1.5 billion cost-cutting agenda. One-third of the amount is expected to come from reduced information technology spend. Hundreds of stores have been marked for closing, and store managers' annual bonuses have been halved.

But is the cost push the most fruitful path for Walgreens, considering its predicament?

CFO James Kehoe and CEO Stefano Pessina "have been so focused on their cost restructuring efforts that they have put themselves at a serious disadvantage in the marketplace and now need to rethink their market strategy," wrote Management CV, an independent research firm, in a June research note.

James Kehoe
Executive VP & Global CFO, Walgreens Boots Alliance

The company would be better off if it were more focused on growth and refurbishing its Rite Aid stores, claims Management CV.

> **CFO Kehoe has acknowledged that the company was "quite damaged" by archrival CVS Health's late-2018 acquisition of Aetna.**

Kehoe has acknowledged that the company was "quite damaged" by archrival CVS Health's late-2018 acquisition of Aetna. Management CV suggested that "the CFO and executive team are now reacting adaptively to CVS."

Walgreens' C-suite is largely filled with new kids on the block that came on board after Kehoe did in June 2018. Based on his history, one may wonder how long Kehoe, a native of Ireland, will stick around. After 25 years at Kraft Heinz, he left the company with spun-off Mondelez in 2013, then moved on a year later to become CFO at Gildan Activewear. He stayed

Photos courtesy of the companies

there less than two months before coming back to take the top finance seat at Kraft, only to leave six months later to run finance at Japan's Takeda Pharmaceutical.

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If Kehoe does stay awhile, other challenges require solving: a squeeze on front-of-the-store performance stemming from pricing advantages enjoyed by Amazon, Walmart, Costco, and dollar store chains, for one. The Boots UK stores, which are affected by Brexit uncertainty, are also delivering sluggish results. And the U.S. Food and Drug Administration is investigating Walgreens over its allegedly large volume of tobacco and e-cigarette sales to teens.

Fortunately, Walgreens is a huge company with significant attendant economic advantages, and it's working on numerous fronts to rejuvenate sales. Those include bringing health diagnostics firm LabCorp, low-priced Kroger groceries, and Boots cosmetics into hundreds or thousands of stores.

The company needs to precisely execute such plans, and Kehoe will be at the forefront of ensuring that happens. | D.M.

Admirable Position

Many finance chiefs might envy Amy Shapero. She is head of finance at a company, Shopify, that has had few competitors and whose sales have grown 70% since she joined. What's more, Shopify's e-commerce infrastructure platform, used by 820,000 small and midmarket merchants, isn't easily ripped out and replaced. And the Ottawa-based company's stock? Shopify shares trade at more than 20 times forward sales, compared with 2 times for the S&P 500.

Fortunately, for Shopify, Shapero is used to sizzling growth. Formerly CFO of online investment company Betterment, Shapero arrived at Shopify in March 2018 as only its second CFO ever. Her fintech experience, as well as a string of finance leadership roles at software-as-a-service companies, made her a great fit, say analysts.

"Those key elements of her background gave her added credibility with Wall Street and investors," says Colin Sebastian, a managing director at Robert W. Baird & Co. who has sat in meetings with Shapero and key investors. Sebastian calls Shapero "incredibly professional and very articulate in terms of her ability to explain the complexities" of the organization and its markets.

"Shopify's biggest challenge, quite honestly, is the ability to manage growth," Sebastian says. "It's an innovator, a disruptor, and doesn't face a lot of direct competition. If you imagine that scenario, there are almost countless ways Shopify could invest to expand the scope of its software offerings."

Shapero and her team have shown an ability to nourish Shopify's expansion with investment while also routinely beating quarterly earnings estimates. And so far they continue to provide the financial flexibility for Shopify to bulk up.

Shopify now offers point-of-sale software for the bricks-and-mortar side of customers' retail operations, for example, as well as merchant cash advances and loans for customers' online channel expansions. Most notably, in June 2019, it launched a fulfillment network, services that give merchants cheap shipping, warehousing, and picking/packaging.

Amy Shapero
CFO, Shopify

Shopify doubled down on the fulfillment network in early September, acquiring warehouse robot startup 6 River Systems for $450 million, a "critical" part of the fulfillment network's ramp-up and "a new multi billion-dollar market opportunity for Shopify in third-party warehouse technology," according to one analyst.

> **"There are almost countless ways Shopify could invest to expand the scope of its software offerings."**
> —Colin Sebastian, Robert W. Baird & Co.

Fulfillment network services may enable some small retail ecommerce firms to eventually ditch Amazon as a selling platform. Going up against such a Goliath, Shapero and her fellow C-suiters will be in the spotlight constantly. | VINCENT RYAN

Replacing a Bestseller

What do you do when your company's star product is about to collapse into a black hole?

That's the dilemma facing AbbVie and CFO Robert Michael as the drug maker prepares for a future with diminishing revenue from, and the eventual extinction of, Humira.

The auto-immune disease medicine is the pharmaceutical industry's biggest money maker. It's been the key to AbbVie's financial success over the six years since the company was spun off from Abbott Labs. In 2018, even with Humira sales starting to sink, it accounted for nearly 64% of AbbVie's "adjusted net revenue."

U.S. patents for the drug will expire in 2023. Its European patents ran out in late 2018, and revenue has already taken a big hit from biosimilar drugs there.

After spending close to 20 years coming up through the finance ranks at Abbott, Michael took over as AbbVie's CFO a

Photos courtesy of the companies

Ten More To Keep an Eye On

Nelson Chai, *Uber*


CHAI

Nelson Chai, former finance chief of Merrill Lynch, joined the ride-hailing company in August 2018 to help prepare Uber for its IPO. The highly anticipated listing disappointed, and the shares are down 17% from opening day. Uber is battling regulators and slimming down operations with layoffs, but it will be up to Chai to stop its billion-dollar quarterly losses.

Spencer Neumann, *Netflix*


NEUMANN

As heavy hitters Disney and Apple enter streaming, Netflix is scrambling to hold onto its 151 million subscribers. Netflix brought in Neuman in January to focus on production finance as it continues to invest heavily in its own content. It's hoping Neuman's experiences with Activision Blizzard and Disney will keep the streaming giant on top as the field crowds with competition.

Jason Warnick, *Robinhood*


WARNICK

IPO talk surrounding commission-free stock trading startup Robinhood began when it announced last November that 20-year Amazon veteran Warnick was named finance chief. Robinhood has also discussed another round of private funding that could value the company at more than $10 billion. Warnick's wide range of financial experience will certainly be crucial if Robinhood's banking charter gets approved, inviting stricter regulation.

Pat Grismer, *Starbucks*


GRISMER

Starbucks reported its best quarterly sales growth in three years recently, but Grismer, in the job less than a year, warned its profits won't be as big in 2020. The coffee chain has found success in the U.S. with digital ordering and loyalty programs, but its growth markets are global. Fortunately, Grismer has served in a number of international finance positions.

Fareed Kahn, *Surterra Wellness*


KAHN

Surterra Wellness brought in former Kellogg finance chief Kahn in July to help the cannabis startup capitalize on the sale of legalized marijuana. The company has been in a period of rapid expansion since former chewing gum executive William Wrigley Jr. became CEO. The real reason to watch Kahn? He is one of the first CFOs of a consumer giant to join a cannabis company.

Todd Morgenfeld, *Pinterest*


MORGENFELD

After a short stint at Twitter, Morgenfeld joined Pinterest as the company's first CFO in 2016. Since its IPO in April, Pinterest shares are up more than 59%, and the social media company expects to be profitable by 2021. Morgenfeld will have to balance that earnings target with the investments needed to take advantage of Pinterest's pivot into an e-commerce platform.

Ewen Stevenson, *HSBC*


STEVENSON

In August, HSBC announced 4,000 job cuts, with a focus on senior roles. With CEO John Flint ousted, Stevenson, who joined the bank in January, has become such a dominant force that he is rumored to be a top candidate for CEO. Can his "tough love" approach revive HSBC's performance as it cuts costs and shrinks its global footprint?

John Murphy, *Adobe*


MURPHY

Adobe's revenue has grown by 20% or more for several years, and the company's recurring cloud-based subscriptions make up more of that revenue each quarter. Murphy, who became CFO in April 2018, helped the company further exceed its own growth and earnings guidance and analysts' estimates. With Adobe's strong financial profile, Murphy will have plenty of choices of where to invest in artificial intelligence and other developing technologies.

Brian Newman, *UPS*


NEWMAN

UPS brought in Newman from PepsiCo in August at a crucial time. UPS is looking to benefit from rival FedEx's decision to end its contracts with Amazon. Taking on part of FedEx's Amazon business could bring in more revenue, but it will also create more logistical challenges for UPS, especially during peak buying seasons. Will Newman be able to capitalize on greater e-commerce volumes without driving up costs?

Mark Mason, *Citigroup*


MASON

The flattening of the yield curve and expectations that the Federal Reserve will continue cutting rates have made Citigroup more cautious about its lending outlook. But Mason, appointed CFO in March 2018, has said the bank is not planning for a recession. Instead, it's optimistically allocating capital to its highest-return units: U.S. consumer and corporate treasury and trade solutions.

Photos courtesy of the companies

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year ago as part of a management restructuring tied to the company's long-term growth strategy.

So far, Michael's and AbbVie's answer to the Humira problem has been to hunt for new hits through a string of acquisitions. One, announced in June, is a whopper: a deal to buy Botox maker Allergan for $63 billion.

AbbVie CEO Richard Gonzalez said on an earnings call that he sees no downside to the transaction. That may be. But some analysts greeted it with skepticism. "Two businesses with separate and unique challenges of their own do not easily combine to make a single great business," wrote Piper Jaffray analyst Chris Raymond.

Robert Michael
Executive VP & CFO, AbbVie

Indeed, AbbVie's stock price fell close to 17% on news of the deal, and as of early September it hadn't recovered. The acquisition is expected to close in early 2020.

While it can, AbbVie is squeezing revenue out of Humira by

Michael's and AbbVie's answer to the Humira problem has been to hunt for new hits through a string of acquisitions.

aggressively going after licensing deals. The deals stem from patent lawsuits AbbVie has settled with at least eight drug makers, which will allow them to sell generic versions of Humira beginning in 2023.

Forays into other products haven't all worked out. In late August, AbbVie halted work on an experimental lung cancer treatment, Rova-T, after disappointing clinical trials. Gonzalez had cited Rova-T, which it acquired when it bought Stemcentrx for $5.8 billion three years ago, as among several drugs the company expected to generate $35 billion in non-Humira revenue by 2025.

But the Food and Drug Administration recently approved a new rheumatoid arthritis treatment, Rinvoq, which is being touted as AbbVie's biggest immunology win since Humira. The company also has won approvals for some other drugs. Maybe one day Michael will be able to make hay with one of them as the company's next golden goose. | M.R.

Leading Goliath

JPMorgan Chase announced in April 2019 that Jennifer Piepszak, former CEO of the bank's card services unit, was being named CFO of the company and a member of its operating committee.

The good news for Piepszak: this is a great time to take over as CFO of JPMorgan Chase. The bad news: this is a terrible time to take over as CFO of JPMorgan Chase. That's the assessment of Mike Mayo, head of U.S. large-cap bank research at Wells Fargo.

"The tough part is that the new CFO must contend with the trickiest interest rate environment in 25 years, a range of macro issues from Brexit to Europe to China, and the latter stages of a recovery, when mistakes are [usually] made," Mayo says.

"Piepszak also has tough shoes to fill because JPMorgan has performed so well this decade," Mayo says, and her predecessor Marianne Lake, who was named CEO of the bank's consumer lending business, was well respected on Wall Street.

"Yet, she takes over at a time when Goliath is winning more than ever before, and JPMorgan is the strongest Goliath," Mayo says.

Low interest rates are a problem because they diminish the value of JPMorgan's greatest attribute—cheap deposits, Mayo says. Medium term, the threat of a recession needs to be monitored, given the length of the recovery. And long-term, technology is transforming banking as never before. JPMorgan, as a technology leader, needs to ensure that it gets a proper return on its tech investments, he says.

Jennifer Piepszak
CFO, JPMorgan Chase

"The one word that sums up the task for [Piepszak] is 'ruthless,'" Mayo says. "First, she needs to be ruthless with the protection of the risk culture. This means avoiding revenues with risks that are outsized for the environment or the company's

"Piepszak has tough shoes to fill because JPMorgan has performed so well this decade."
—Mike Mayo, Wells Fargo

controls. Second, she needs to be ruthless with costs and provide confidence that the company is spending money like it is [management's] own."

He adds, "The greatest opportunity is to better capitalize on JPM's strength and scale. In retail, this means continued expansion in digital banking and a level of service that creates greater lifetime value. In wholesale, JPMorgan, like other large U.S. global banks, has the potential to continue the trend of improving market share at a time of weakened non-U.S. competitors."

CEO Jamie Dimon has called Piepszak an "enormously talented executive." It sounds like she'll need every bit of it in her new post. | B.V. CFO

Photos courtesy of the companies

You've Landed a New Job... Now What?

The first 60 days at a new company can make or break the tenure of an incoming CFO. Here are some tips for tackling the priorities.

By Ramona Dzinkowski

When stepping into the CFO chair at a new organization, some say that within the first few weeks you should:

1) Gain a clear picture of the business's operations first, then meet with other senior executives.
2) Aggressively delegate lower-value-added activities immediately.
3) Spend more time interviewing customers than meeting with the CEO.
4) Stick to meeting with department heads and avoiding gathering intelligence from their subordinates.
5) Immediately ask to take over functions more operational in nature, like corporate development, if the CEO is looking to delegate.

Does all of the above sound wise? Actually, tips 1), 3), and 4) are highly questionable, according to consultants and sitting CFOs. But they do suggest that there's a lot to think about when planning how to attack the first couple of months at a new company. To be sufficiently prepared, the best CFOs develop a game plan before their first day.

Why should CFOs be thinking about this now? Many CFO posts at all kinds of companies will be opening up in the next few years. (See "CFO Job Openings Are About to Spike," page 18.) The reason is generational mathematics. A 2016 study by Spencer Stuart found that the average retirement age for a Fortune 500 CFO was a shade over 58. An informal study of the most recent Fortune list by *CFO* columnist John Touey pegged the current average age of those companies' CFOs at about 56 (give or take a few months). The population of baby boomer CFOs is rapidly shrinking. And though many baby boomer CFOs will stay in the workforce, few will do so at the CFO level past retirement age.

To fill those vacancies, U.S. companies are increasingly turning to outsiders. An August 2019 study by Crist|Kolder Associates found that 43% of CFO positions at Fortune 500 and S&P 500 companies are occupied by candidates hired from outside the company. That's 10 percentage points higher than the average the previous 10 years, the recruiting firm says.

Given these dovetailing trends, many finance departments are going to be handed to CFOs coming into an organization cold: they may know the industry, but they won't have the organizational knowledge accumulated from climbing the ranks. And, unfortunately, a new CFO can't expect much help during onboarding. According to a 2018 Gartner study, only 9% of companies have formal CFO orientation programs.

Since most finance chiefs will have to go it alone, we've compiled six tips that will help a new CFO get off on the right foot.

What do I want from senior executive peers?

More than one-third of CFOs (37%) in Gartner's 2018 study, "Succeeding As A New CFO," said building working relationships with the leadership team was one of their most significant challenges as a new CFO. But it is also one of the most crucial first activities.

Building rapport with senior management colleagues is all about establishing credibility by

Getty Images

asking the right questions and listening carefully, says Judy Munro, senior managing director at Robert Half Executive Search and an experienced CFO and board member.

"Start off by building your internal capital," she says. That means asking two key questions to open the lines of communication and earn trust: First, "How can I help you and support your role?" Second, "Is there anything that I need to know about past experiences that we can do differently?" The answers will help a new CFO understand internal customers' priorities, among other things.

Above all, get to know your colleagues as people, Munro says. "Get them out of the office. If you can take them out to lunch, fantastic, and just let them talk."

Who are the "doers?"

In a start-up, relationship building can be more difficult, says Marie Myers, CFO of UiPath, a robotic process automation company. "It's tricky when the org chart is a rapidly moving target, but connecting with the right people quickly is essential," says Myers. Instead of merely going through a checklist of department heads, "what you might find is that you have to reach out to people who traditionally may not have been considered part of your circle of influence."

According to John Reidy, CFO of Diabetes Canada and a former senior finance executive at large multinationals GE Healthcare and NCR, the importance of forging ties within the organization's informal power structure in the first 60 days can't be underestimated.

"There are employees that don't necessarily have grand titles like vice president, but they're absolutely the people that get things done," says Reidy. "They're also the ones who know where the bodies are buried."

However, says Reidy, proceed with caution: "People often have a reason for telling you things and their motives aren't always as pure as the driven snow. But at least it gives you one more piece of the puzzle."

Opening Moves

What critical tasks do incoming CFOs struggle with the most?

Building a working relationship with the leadership team	37%
Getting up to speed on business operations	26%
Communicating with external stakeholders	26%
Managing the finance function	16%
Managing difficult financial or governance situations	5%

Source: "Succeeding as a New CFO: Keys to the First 100 Days," by Gartner

What is the CEO good at?

Expectation setting with the new CEO is, obviously, critical. How it pans out depends on what kind of CEO you are dealing with and why you were hired in the first place. For example, while the CEO often contributes to the CFO hiring process, he or she may not have been the final arbiter, and may have to defer to the board of directors in setting expectations and an agenda for the new finance chief. This can add tension to the CEO-CFO relationship.

"If the CEO went out looking for a new CFO then it's a Batman/Robin situation, which can be rewarding," Reidy explains. But if the CEO was told by the board to hire a new CFO, setting expectations and developing a rapport could be a lot more difficult.

"Either way, you need to live in the CEO's pocket for the first two or three months," Reidy says. "Find out what their operational style is, what they like to do, what they don't like to do, what their strengths and weaknesses are, where their risk biases are, and what their level of numeracy is. That's how you begin to set expectations."

"Everybody's getting ready for your arrival—you get the 'dog and pony show.'"

—John Reidy, CFO, Diabetes Canada

And what happens if the CEO is not the person you expected when you accepted the position? "If it's really impossible to see eye to eye, you may have to start looking for a job almost immediately," Reidy says.

Am I getting the true picture?

CFO candidates will inevitably have researched their new employer, but companies can look startlingly different once on the inside. Getting the scoop on how the business is actually performing occupies the new CFO's time almost immediately.

Obtaining a sense of which key performance indicators are driving the business—"getting under the covers," as Myers puts it—is essential. "This is the time when you should be taking in as much data, facts, figures, and anecdotal information as you can to help you form an opinion."

For Myers, data is king. "Quality data is key, so my first point of call is the company's [enterprise resource planning systems]." However, that information should also be checked against other data sources.

In larger organizations, making a realistic assessment of conditions can require digging. "Everybody's getting ready

Drawing the Line

Once they're settled into a job, "finance executives must make principled choices about where to invest their time and energy," according to Gartner. How does a CFO do that?

1. Focus time on high-variability, high-impact decisions. For example, spending time on administrative process improvements may bear fruit, but operational execution is more worthy of a CFO's attention. "The cost of failure for bad operational decisions is high," says Gartner.

2. Execute the change, then hand it over. A CFO may need to step in to lead a nonfinance department, especially during times of streamlining, but the takeover should be temporary.

3. Task specialization matters. If an organization doesn't have a chief accounting officer, it should consider hiring one to take some of the burden off of the CFO. The case for the position can be demonstrated by measuring the opportunity cost of the CFO's time spent on administrative activities.

Source: "Succeeding as a New CFO: Keys to the First 100 Days," by Gartner

for your arrival—you get the 'dog and pony show,'" says Reidy. "When that's done, go find the person who put the show together and get them to give you a more open, less nuanced view."

Will the finance team be my ally?

For a CFO, relationships with key business unit and operational executives are table stakes. Scheduling one-on-ones with them is a must. However, don't neglect the finance team.

"Talking to your team, in my view, is job one, day one," Munro says. The finance team is a great source of information, and don't ever underestimate what they know, she says. Make them your allies very quickly and create an atmosphere of open dialogue. "Everything is important, especially in the first days, so leave your door open," she counsels.

Most experts recommend assessing the finance team as early as possible, or at least within 30 days, and finding supplemental resources quickly if needed. Several years ago, Munro joined an entrepreneurial manufacturing company that had just gone public: "On day one, I found out that there was that only one other person on my team that had any accounting training for public companies. Our first year-end as a public issuer was 30 days away. How was I going to get my first report out? How could I find someone who knew something about the business or something about the accounting system? There was a very capable audit manager we worked with. I took her off the audit and hired her within the first week."

Eventually, a new CFO will have to more fully gauge the "bench strength" in finance. Does the team have the skills to execute the mission that the new CFO envisions? "Make your own judgments despite anything you've been told about someone," Munro advises.

What's the outside-in view?

Spending time with outside stakeholders pays off. "In my first 30 days on the job, I met with many customers and investors," says UiPath's Myers. "That was absolutely critical because of the business UiPath is in: It's very fast-growing, and some of the aspects of the business are changing quarter by quarter."

From customers Myers was able to glean a very clear perspective, not only on their own businesses, but the RPA segment as a whole. "Then I was able to test some of those assumptions with investors, which was very helpful, and that was important, because we were doing a Series D [funding round] within the first 60 days. I really had to grasp the business quickly."

In particular, Gartner advises maintaining proximity to investors that are strategic. Being close to them gives a new CFO insight into how investors will value management's choices and what risk-vs.-return trade-offs will be received favorably.

Finally, in addition to investors and customers, experts recommend networking with other industry executives and other CFOs. "When becoming a new CFO in a ladies' high-end garment manufacturing business, which I knew next to nothing about, I joined Financial Executives International," says Munro. "I had an instant network of people that could introduce me to the resources I needed, including third-party consultants."

"Talking to your team, in my view, is job one, day one."

—Judy Munro, managing director, Robert Half Executive Search

Says Myers: "As the CFO you need to understand how the company is knitted together and carefully navigate relationships at the same time. That makes the first 60 days pretty intense."

The good news? Finance chiefs don't need to transform the organization on day one, or day 60. They do need to get up to speed quickly. But CFOs shouldn't be afraid to slow down and carefully assess the company, Munro advises. "No one is expecting you to make decisions on anything immediately, no matter what the circumstances, even if the house is burning." CFO

Ramona Dzinkowski is is a journalist and president of RND Research Group.

Photos courtesy of the companies

Governmental Gift

Congress is poised to help companies send their older workers off to a secure retirement. **By Russ Banham**

Companies want their older employees to afford a timely, secure retirement. That's not simply altruism: such workers tend to be highly paid, consume more health care, and miss work more often than others, and block the upward mobility of younger high achievers who may become frustrated and leave the company.

While effective solutions to that cause may elude retirement plan-sponsoring companies, Congress is now positioned as their ally, with pending legislation that would do much to make it easier for people to retire on time.

The legislative aid is sorely needed. The median household retirement savings in the United States is just $50,000, 21% of Americans have no such savings at all, and 46% of retirement plan participants have taken early withdrawals from their accounts, according to Transamerica, a major retirement plan provider.

The risk of outliving one's savings is all too real. According to the Social Security Administration, men and women that reach age 65 can expect to live an average of 19 and 21.5 more years, respectively. Inevitably, millions of retiring baby boomers will need to stretch their retirement dollars over several decades.

Moving the Needle

It's this bleak state of affairs, rather than any special concern for the welfare of corporations, that seized Congress' attention. Chief among the legislative efforts is the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Underscoring the weight of the issue, the House passed the bill in May 2019 by a vote of 417 to 3—a rare recent example of congressional nonpartisanship.

Although the bill was still stalled in the Senate in early September, the higher chamber this year reintroduced its own, very similar legislation, the Retirement Enhancement and Savings Act (RESA), which was first introduced on the floor in 2016. Presumably, the two chambers will eventually wind up in conference in a bid to hammer out disparities between the bills.

It's generally considered somewhat likely that some form of retirement legislation will land on President Trump's desk by the end of his first term. If he signs it, it would mark the first major changes to retirement rules since the Pension Protection Act of 2006.

"While no single provision [of the legislation] is revolutionary, it would move the needle and help secure retirement for millions of Americans."

—Alan Glickstein, managing director of retirement, Willis Towers Watson

Among the highlights of SECURE's 29 proposed rule changes, the bill is designed to encourage employers to include lifetime income investment options (i.e., annuities) within defined contribution (DC) plans such as 401(k) plans. Few companies do so—a key criticism of DC plans as compared with defined benefit (DB) pension plans—because of attendant legal risk.

So, SECURE would lessen companies' legal liability with respect to annuities. The bill also would allow plan participants to retain such investments upon leaving their employment.

Additionally, the bill would:

• Provide sponsors of closed DB plans with relief from the tax code's nondiscrimination testing requirements, which are designed to ensure that high-income employees don't receive a disproportionate share of plan benefits. Under current rules, most closed plans eventually fail the tests and as a result, grandfathered plan participants stop accruing benefits.

• For the first time permit multiple companies with no common organizational traits to jointly sponsor a single, more cost-effective 401(k) plan. This is among several incentives for small businesses to start up a retirement plan.

• Give long-term, part-time workers access to retirement plans.

"The legislation is a package of many provisions, each generally noncontroversial, bipartisan, and helpful," says Alan Glickstein, managing director of retirement at Willis Towers Watson. "While no single provision is

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revolutionary, it would move the needle and help secure retirement for millions of Americans."

Checks Forever

For large employers, SECURE's most important provision is the relief from fiduciary liability when offering annuities as 401(k) investment options.

The act of choosing an annuity provider is hardly risk free. In fact, lawsuits against retirement plan sponsors have spiked over the past few years, often on grounds that the sponsor selected a plan with unreasonably high fees—and fees are generally high for annuities. Even employees who merely locked into an annuity and later regretted it may seek litigation.

For those reasons, only 9% of 401(k) plan sponsors offer annuities, according to the Plan Sponsor Council of America.

SECURE would ease fiduciary risk in two ways. First, it requires that 401(k) statements illustrate how much income a participant would receive if the total account balance were used to provide lifetime income streams. Plan sponsors and fiduciaries would have no liability under ERISA solely by reason of offering such income streams, provided that their disclosure included explanations contained in a model disclosure to be developed by the Labor Department.

Second, the legislation would protect employers from liability if they select an annuity provider that, among other requirements, for the past seven years has:

- Been licensed by the state insurance commissioner to offer guaranteed retirement income contracts
- Filed audited financial statements in accordance with state laws
- Maintained reserves that satisfied all the statutory requirements of all states where the annuity provider does business

"Employers would be able to rely on representations that insurers have met certain requirements state insurance regulators have in place to ensure that insurers are in good financial standing," says Tim Walsh, senior managing director of institutional investment products for TIAA.

Annuities aren't for everyone, of course. Specifically, some say, they're less helpful to younger workers.

"With the fees dragging down the returns, I don't like the [long-term] accumulation side of annuities," says Eric Droblyen, CEO of Employee Fiduciary, a fast-growing provider of low-cost 401(k) plans. "However, when someone who has worked for many years is worried about the market turning south just as they're retiring, it's a good time to think about an annuity."

Closure Exposure

Because of the relief from discrimination testing, SECURE would also reduce fiduciary liability for sponsors of closed DB plans, where new employees are ineligible to participate but existing participants at the time of closure continue to accumulate benefits.

The way it stands now with closed plans, over time the population that keeps accruing benefits naturally tilts toward longer-tenured and thus higher-earning employees, in most cases. That increasingly heightens the risk that a company will fail nondiscrimination tests.

"At some point, the only solution under the current rules is to freeze the plan," says Glickstein of Willis Towers Watson. "It solves the problem, but does so by eliminating benefits for everyone. It's an outcome no one wants to see."

He adds: "If you had a nondiscriminatory group at the time the plan was closed, participants should be able to continue accruing benefits after the closure as long as the employer wants. It's not more complicated than that."

Without a legislative solution, more than 450,000 current pension plan participants could see their benefits frozen by 2020, according to Lynn Dudley, senior vice president of global retirement and compensation policy at the American Benefits Council.

SECURE would alleviate the problem by expanding the currently very limited conditions under which plan sponsors can group closed DB plans with DC plans or employee stock ownership plans for purposes of discrimination testing. "It would just be more

"You would essentially be able to take advantage of large-plan institutional pricing, providing an important ingredient to compete for talent."

— Bob Melia, executive director, Institutional Retirement Income Council, on MEPs

A Less Dire Viewpoint

Amid all the gloomy data about Americans' lack of retirement savings, the Employee Benefits Research Institute offers a somewhat more positive outlook.

A recent EBRI study found that the retirement deficit for U.S. households with heads aged 35 to 64 decreased by 13.7% from 2014 ($4.44 trillion) to 2019 ($3.83 trillion).

The study also found that the percentage of such households projected to have a "successful" retirement (defined as not running short of money in retirement) increased from 57.7% five years ago to 59.4% this year. | DAVID McCANN

Courtesy the companies

practical when all that happened is that people got older, people left the company, and people got hired," Dudley notes.

All Together Now

Many provisions of SECURE are aimed at providing a steadier path to retirement for employees of small businesses.

The one with the biggest potential impact, by far, is the allowance of "open" multiple employer plans (MEPs). Under current rules, only "closed" MEPs—where the participating employers share one or more common traits such as industry, geographical proximity, or trade association membership—are permitted.

Combining the investment assets of multiple small companies would likely result in lower administrative and management fees and costs for a higher-quality retirement plan.

The legislation also would eliminate the 401(k) provider's fiduciary liability in situations where an MEP member company violates fiduciary rules, which has been an impediment to MEP creation.

If SECURE were to pass with the open MEP provision intact, it could result in a boom of small businesses opening 401(k) plans. "This might be a mechanism that gives nearly half of [employed people in] the country access to some sort of retirement program," says Glickstein.

Even in cases where members of new MEPs already had been offering retirement plans, it would be a big win for their employees, notes Bob Melia, executive director of the Institutional Retirement Income Council.

Melia cites the example of a 25-year-old employee with $25,000 in a retirement account, who adds $10,000 to the account every year, earning a 7% average annual return. Paying just 1% more in fees may cost that millennial close to $600,000 in sacrificed returns over 40 years of savings, he explains.

Another plus for MEP members could be enhanced recruitment and retention of sought-after skill sets. "You would essentially be able to take advantage of large-plan institutional pricing, providing an important ingredient to compete for talent," Melia says.

On the other hand, Droblyen contends that bulk buying isn't necessarily a major factor in all retirement plans. "With today's passively managed funds, a startup with zero assets can get the best funds from Vanguard, BlackRock, or Fidelity, with fees of about $1,500 for a company with 30 eligible employees," he says.

Among other SECURE provisions aimed at small companies, the employer tax credit for setting up a 401(k) plan, currently capped at $500, would be boosted to as much as $5,000 in each of the plan's first three years.

Also under SECURE, part-time employees that work at least 500 hours per year for three years straight would be eligible for 401(k) plans. Current rules require a minimum of 1,000 hours per year to receive a retirement package.

The inclusion of part-timers "reflects how the workforce is changing," says Glickstein. "There's also a gender aspect to it, because so many women work part-time. The opportunity to improve the financial situation for workers in this category is significant, although it does require some effort and cost for sponsors."

Long-awaited, substantially improved retirement readiness? With reluctant-to-retire baby boomers clogging up the work force, it would be sure to lighten the hearts of aging workers and their employers alike. CFO

Russ Banham is a Pulitzer-nominated journalist and best-selling author.

RETIREMENT BY THE NUMBERS

56% of American workers don't know how much they'll need to save for retirement

25% of the U.S. workforce will be over 55 years old in 2022

7% of current retirees were able to retire early because of good planning

17% of U.S. companies offer pension plans

47% of retirees were forced into retirement because of health problems or the need to take care of a spouse or family member

12 million older Americans will need long-term health care by 2020

Source: thebalance.com

Detailed Differences

The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed the House of Representatives in May and is in the Senate's hands. The Senate also this year re-introduced its own bill, the Retirement Enhancement and Savings Act (RESA).

Most provisions are present and identical in both bills, but there are some differences between them.

Most notably, SECURE allows participation in 401(k) plans by part-time workers, and increases to 72 from 70 1/2 the age at which required minimum distributions kick in. RESA includes neither of those provisions.

Under both bills, loans from a retirement plan can no longer be transacted using credit cards. Under RESA only, existing loan arrangements using credit cards must prohibit transactions of $1,000 or less. | **D.M.**

Evolving to Support Innovation

Many finance organizations have made big strides in supporting enterprise innovation, but others are still in the nascent stages of embracing the change. By Lauren Muskett

CFOs and finance teams play an increasing role in enterprise innovation, but the truth is that not all are set to take on the job. Why is innovation such a critical area for finance folks to be thinking about?

Most companies view innovation as essential to survival. But without the right leadership and direction from finance, enterprise innovation plans inevitably fall flat or divert precious resources away from worthy projects. Supporting innovation is one of the new challenges for finance, but one that is important for CFOs and their finance teams to get right.

A new survey of 236 U.S. senior finance executives conducted by CFO Research, in collaboration with HSBC, assessed how much progress enterprises have made in this area and where they still needed to improve.

The survey showed that many organizations have made significant strides in supporting innovation, while others are still in the nascent stages. This latter group will have to evolve finance's skills for their organizations to get full value from finance's participation in this mission. For example, without the function's help, decision-makers outside finance won't have the data they need to drive innovation that is profitable.

FIGURE 1

To what extent do these functional areas within finance regularly inform the CFO's point of view on innovation and growth decisions?

Financial planning and analysis	3.83
Budgeting and forecasting	3.77
Financial reporting and control	3.74
Corporate development/strategic planning	3.65
Risk management	3.41
Treasury/working capital management	3.37
Tax and compliance	3.24
Accounts payable/receivable	2.90

(on a scale from 1-5, where 1=no contribution and 5=strong contribution)

Progress has been made, though. For example, slightly more than half (55%) of the finance executives surveyed said their organization applied advanced analytics to enterprise innovation decisions. About the same proportion (57%) had a strategy for defining and creating a high-value finance team that could support innovation initiatives. On the other hand, though, 42% of finance executives said they either had no plan to formulate such a strategy or had plans to do so but had yet to execute them.

Fortunately, the survey found, finance executives have a solid platform from which to attack this problem: for one, they are confident that they possess the relationship and leadership skills to accomplish innovation-related objectives; second, they recognize finance's shortcomings—that they must adjust their teams' skill sets as well as their own to be supportive of innovation.

Skills Upgrade

The survey revealed strong backing for these necessary changes in the finance function. Nearly nine out of 10 finance executives "agreed" or "strongly agreed" that their teams' skill sets must evolve to drive an innovation agenda and support the related decision-making. More than three-quarters (78%), meanwhile, said they must update their own skill set over the next year to become a key player in innovation strategies.

What does evolving the finance department's skillset require? Two-thirds (67%) of finance executives felt they needed to adapt hiring and training processes over the next year. Part of innovation, of course, is establishing a strong innovation-friendly culture. To create the right culture on the finance team, finance executives are seeking candidates with diverse backgrounds, intellectual curiosity, and the ability to work in a team environment. But they also want people who have data management and predictive modeling skills, performance management experience, and soft skills in business partnering and leadership.

Key Roles

Fortunately, many finance chiefs won't have to fight for a say in their company's innovation agenda, because they are increasingly becoming key stakeholders in the determination and development of enterprise innovation and growth strategies.

More than nine out of 10 (93%) senior finance executives surveyed said they had a seat at the table where growth and innovation strategies were discussed. And more than eight in 10 (83%) said they were prepared to play key roles in both determining and executing enterprise initiatives.

What kinds of roles are CFOs currently playing in innovation strategies? A large number (86%) said they played a strong role in managing the enterprise risk that accompanies growth and innovation. In addition, 80% said that a critical responsibility was choosing and managing funding mechanisms. Finance executives also indicated they were making progress supporting innovation by working directly with research and development departments and information technology functions.

67%

Finance executives who felt that they needed to adapt hiring and training processes over the next year to meet the challenge of supporting innovation

Comfort Zones

Is there anything holding CFOs back from providing direction to innovation?

CFOs are generally comfortable with analyzing information about innovation and growth, as well as taking on many of the tasks that support the enterprise's objectives in those areas.

The functions within finance that inform a CFO's point of view on innovation and growth decisions are relatively traditional. Within finance, information and data on innovation efforts mostly come from the financial planning and analysis (FP&A) and budgeting and forecasting functions. (See Figure 1.) Outside of the finance team, CFOs rely most on the strategic planning function and members of the C-suite. (See Figure 2.)

Importantly, the survey confirmed that while more than three-quarters of CFOs were at least somewhat comfortable with a long list of innovation-related tasks and roles, they weren't comfortable with all of them.

Not surprisingly, CFOs are most at ease basing innovation recommendations on advanced data analysis, and sharing data and analysis on innovation with business leaders enterprise-wide. They are also largely comfortable connecting with customers to inform strategic decisions.

They are least comfortable engaging C-suite peers on critical strategic and innovation decisions, taking an outside-in view of the enterprise, and questioning enterprise decisions that are made without an analytical assessment.

In general, though, CFOs and other senior finance executives seem sure in their abilities to overcome that first hurdle of engaging peers: 85% said they had the change management and communication skills needed to do the job. A similar proportion indicated they had expanded and strengthened relationships with business leaders across the enterprise over the last two years—a definite plus in the aim to be influencers in enterprise innovation initiatives.

With data analytics, finance's contribution to innovation strategies and decisions is unique: it can ask what problems operations needs to solve. If the data is available, finance can take an analytical approach, without preconceived notions, and test 20 or 50 variables to find out what truly drives the problem before figuring out the solution.

Still, there is much work to be done. CFOs who have focused on enterprise innovation and been successful at it recommend that their peers take a hard look at their finance teams' skills and experience, along with how team members are deployed. That will be essential as finance strives to support innovation initiatives with the resources and data-driven decision-making critical to any effort's success. CFO

FIGURE 2

To what extent do functional areas outside of finance regularly inform the CFO's point of view on innovation and growth decisions?

Strategic planning	3.63
Senior executives/C-suite	3.62
Risk management	3.45
Operations management	3.39
IT/technology management	3.34
Data/information management	3.33
Sales management	3.09
HR management	3.07
Marketing management	3.07
Change management	3.02
Communications management	2.99
Logistics management	2.98

(on a scale from 1-5, where 1=no contribution and 5=strong contribution)

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Fed 101

"I'm the fellow who takes away the punch bowl just when the party is getting good," one Federal Reserve Board chair famously quipped. In truth, the Fed's mandate is to both supply monetary stimulus and withdraw it. The timing of the U.S. central bank's moves often irritates Wall Street and politicians, but the Fed has survived criticisms and assaults on its integrity for more than 100 years. See how much you know about the history of the Fed by taking our quiz below.

1 Who has been the longest-tenured chair of the Fed Board of Governors, serving under five different U.S. presidents?

A. Alan Greenspan
B. Marriner S. Eccles
C. Paul Volcker
D. William McChesney Martin, Jr.

2 In which year did the effective Federal Funds rate reach its zenith?

A. 1965
B. 1981
C. 1979
D. 1986

3 Which Fed chair said: "Since becoming a central banker, I have learned to mumble with great incoherence. If I seem unduly clear to you, you must have misunderstood what I said."

A. Paul Volcker
B. Ben Bernanke
C. Alan Greenspan
D. Eugene R. Black

4 Which piece of legislation required the Fed chair to report to Congress twice annually on monetary policy and objectives?

A. The Bank Holding Company Act of 1956
B. The Glass-Steagall Act (1933)
C. The Monetary Control Act of 1980
D. The Humphrey Hawkins Act (1978)

5 The Fed created the Temporary Liquidity Guarantee Program in October 2008. Among other things, it:

A. Provided low-cost funding for primary broker dealers
B. Injected liquidity into the commercial paper market
C. Guaranteed newly issued senior unsecured debt of banks and thrifts
D. Authorized the purchase of preferred shares issued by nine U.S. banks

6 Which one of these cities is not the site of a regional Federal Reserve bank?

A. Boston
B. St. Louis
C. Richmond, Va.
D. Denver

7 In which year did the Federal Reserve Act become law, creating the Federal Reserve System?

A. 1913
B. 1907
C. 1933
D. 1911

8 When conferring with colleagues over email during the 2008 financial crisis, Fed Chair Ben Bernanke used which pseudonym?

A. Clive Hamilton
B. Edward Quince
C. Robert Galbraith
D. James Kenneth McManus

Answers: 1-D; 2-B; 3-C; 4-D; 5-C; 6-D; 7-A; 8-B