

# *Challenges for financial leaders*

## PwC CFO Pulse Survey

*What CFOs in Ireland  
are saying...*

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# 1. Foreword



I am delighted to introduce our CFO Pulse Survey which provides a snapshot of the views of over 200 finance leaders on the challenges and opportunities in their businesses right now. It also seeks views on the changing role of the finance function as we move forward.

The survey, which was conducted at the end of 2011, shows that, despite widespread European economic uncertainty, Irish finance leaders are relatively upbeat about their own businesses and there is a sense of stability beginning to emerge. There is no doubt that Ireland's positive exporting economy has a large part to play. Irish businesses are also capitalising on much pain already taken through cost control and restructuring adjustments introduced over the last number of years.

Key findings in the survey include:

- The single biggest risk for business today is economic volatility (90%);
- Nearly half (46%) of Irish businesses have already returned to growth with another quarter expecting to return to growth by the end of 2012;
- Launching new products, entering new markets and introducing new marketing incentives are the key growth strategies, according to the survey.
- Over half of organisations are anticipating growth in revenues and profits. A third are expecting growth in employment and capital investment in the coming 12 months;
- Available finance remains a key constraint for the finance leaders with a large majority saying that finance is no more easily available now compared to six months ago. Other key business challenges are maintaining margins, controlling the cost base and lack of demand;
- The finance function is seen as a strategic business partner and is contributing positively to cost control and revenue generation initiatives;
- The single key factor contributing to the success of the finance function is cited as the quality of the people. Specific challenges for the finance department, according to the finance leaders, are accurate budgeting, organisational restructuring and management information;

A handwritten signature in blue ink that reads "Garrett Cronin".

**Garrett Cronin**  
Consulting Partner, PwC

## 2. CFO Confidence

### *A sense of stability is beginning to emerge*

PwC's CFO Pulse Survey reveals that a sense of stability is beginning to return to Irish Business. Nearly half (46%) of Ireland's finance leaders reveal that their organisations have already returned to growth with a further 24% expecting a return to growth in 2012.

Half (51%) of Ireland's CFOs feel that the outlook for Ireland's economy will be no better or worse in the year ahead. This is not surprising given the continued uncertainty concerning the Euro and global markets at the time of carrying out this survey. With Ireland being a small open economy, heavily dependent on export markets, such uncertainty will impact consumer confidence. A further one in ten (11%) feel positive about the outlook.

According to the survey, an overwhelming majority (85%) feel that there is no change in the availability of finance now compared to six months ago. This would seem to indicate that any planned growth is financed mainly from internal resources. Companies who took action to control their costs early in the recession are now beginning to translate these first mover advantages into growth opportunities.

Fig 1. When will your organisation return to growth?

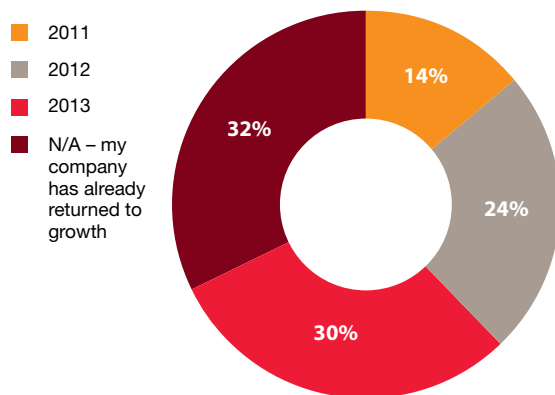


Fig 2. Outlook for Irish economy for the next 12 months

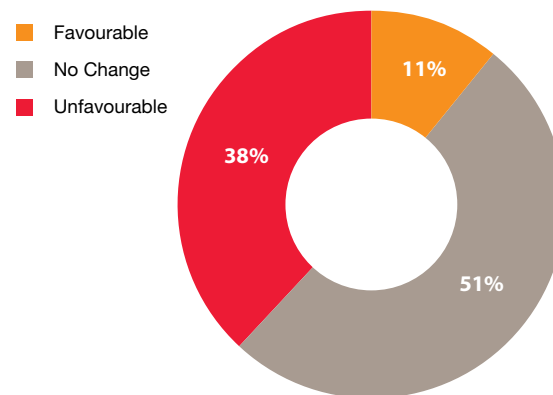
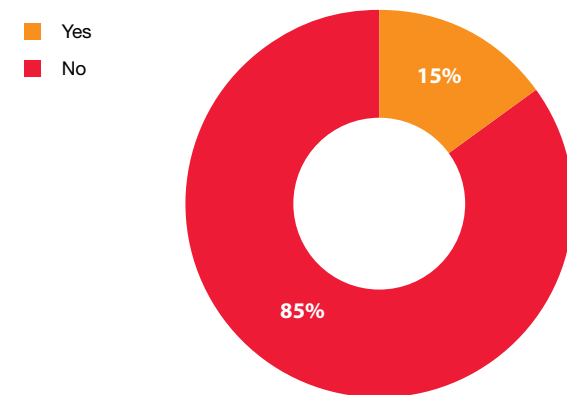


Fig 3. Is finance more easily available now compared to 6 months ago?

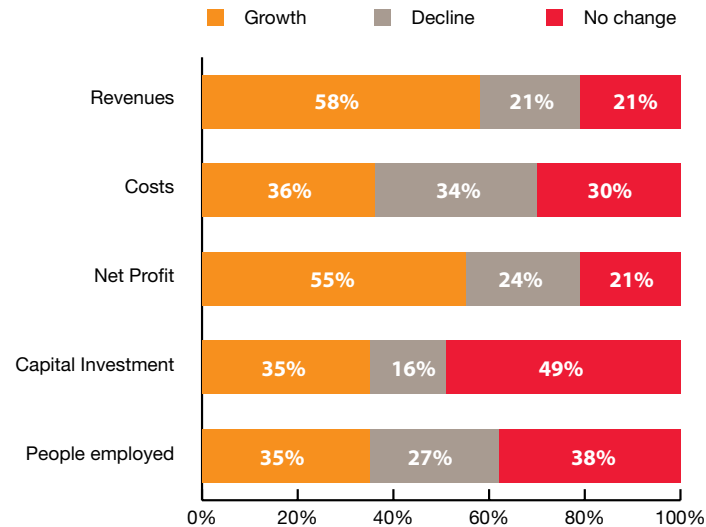


## 3. Business Performance

### ***CFOs are upbeat on their own businesses***

The majority of Ireland's finance leaders are positive when it comes to revenue and profit growth in the next 12 months. For example, over half expect growth in revenue (58%) and profits (55%). A third (35%) expect employee numbers to grow. There is a sense that while they are less positive about the economy, when it comes to their own businesses they are relatively upbeat. Cost control continues to be high on the agenda with over a third indicating that they expect costs to decline over the next year. Only 16% of survey respondents expect a decline in capital investment with 49% expecting no change in this area.

Fig 4. Anticipated performance of operations over the next 12 months (% of respondents)



### 3. Business Performance ...cont'd

The top business challenges facing their organisations, according to Ireland's finance leaders, are maintaining margins, controlling the cost base and lack of demand. Businesses continue to tackle these challenges as evidenced by ongoing restructuring activities. According to the survey, reviewing key contracts; simplifying processes and reviewing the supply chain for efficiencies are the top restructuring initiatives.

information. Investment can then be focused on attracting and retaining top quality staff and developing business partnering skills to enable finance to build on the improved management information and to provide better decision support

Features from top performing companies indicate key contracts are being reviewed based on price and value, whilst the level of consumption is being reduced through innovative alternatives. Process standardisation and automation in turn support a lower cost of compliance and control environment by reducing the number of controls required and facilitating control automation. These approaches, combined with strong data governance, data management and reporting tools provide a platform for valuable and reliable management

Fig 5. Top business challenges

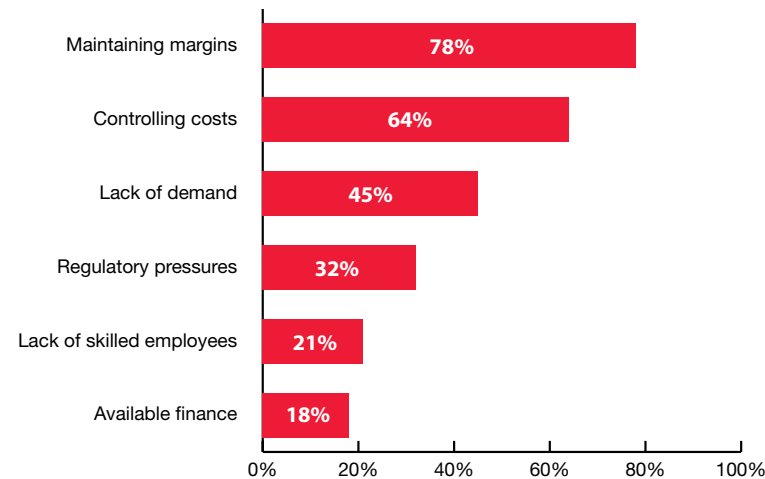
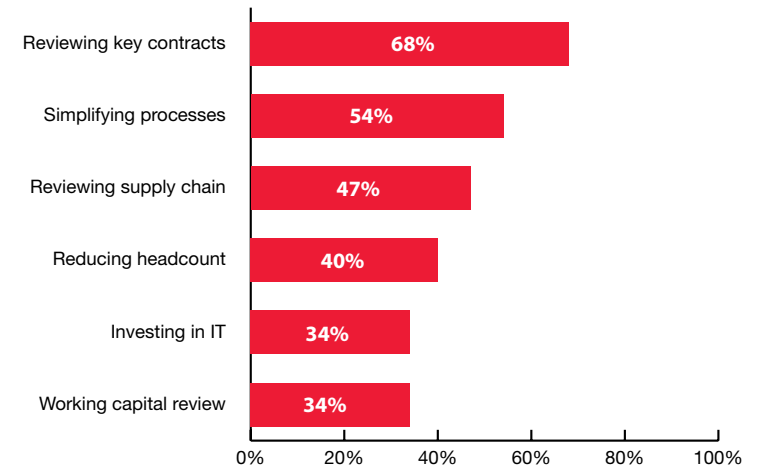


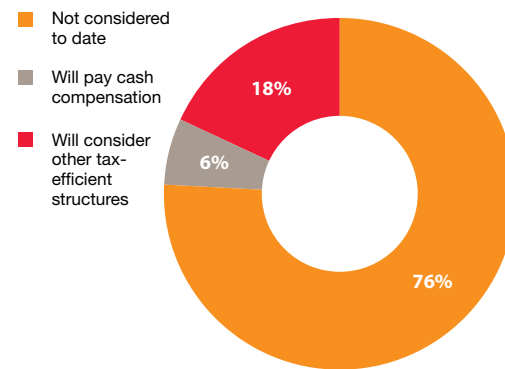
Fig 6. Cost reduction/restructuring initiatives



### 3. Business Performance ... cont'd

Three-quarters of CFOs have not yet considered what actions, if any, they might take in response to the recent reduction in the pension cap. Whereas a small minority will compensate staff with a change in their salaries, 18% of companies are considering other tax efficient structures. No doubt, the pension challenge will remain a significant issue for Irish businesses as they look to optimise the benefits package to retain existing and attract new employees.

Fig 7. Response to possible reduction in pension benefits



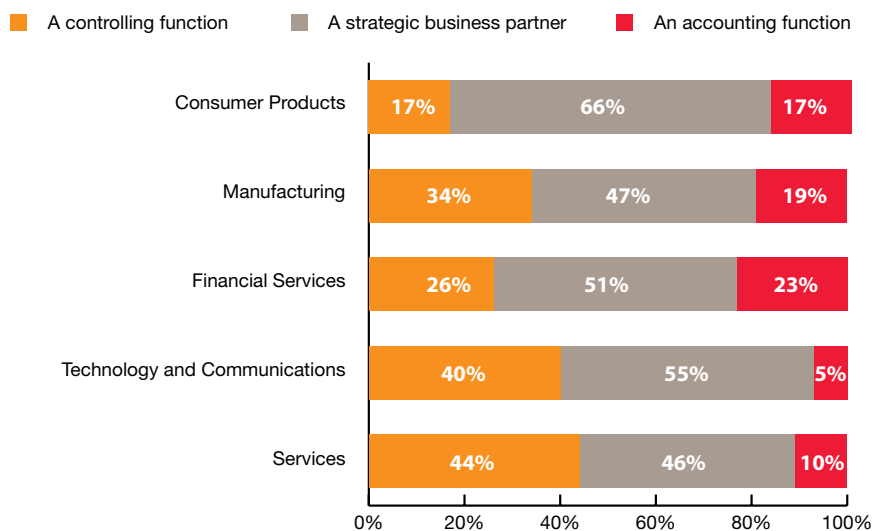
*Irish business will look to optimise the benefits package to retain existing and attract new employees*

## 4. The Finance Function

### The finance function is seen as a strategic business partner

Overall, 51% of respondents described the role of their finance function as a strategic business partner, with this area being considerably stronger in Consumer Products, Financial Services and Technology & Communications sectors.

Fig 8. Describe the role of Finance in your organisation at the moment;



This validates the perception of finance filling a more central role during difficult times, this ratio having increased from 27% in 2009. This strategic role is also evidenced by the fact that 84% of CFOs report that their the finance team “contributed significantly” to cutting costs in the past 12 months, while 39% indicated they have supported revenue growth.

Despite these positive trends, there is still room for improvement. Half of respondents reported spending over 50% of their time on data gathering and reconciliations rather than reporting, forecasting and analysis. Only 23% reported spending more than half of their time on providing support and business insight – a key indicator.

Our 2011 Finance Effectiveness Benchmarking survey<sup>1</sup> revealed that some of the key characteristics of the “strategic finance function” are:

- Half of time spent on analysis and reporting;
- One fifth of staff dedicated to a business partnering role, and;
- A high level of automation exists with shared services and outsourcing widely used to drive a standardised and flexible model.

The single key factor contributing to the success of the finance function, according to the survey, is the quality of the people. An overwhelming majority (81%) said that they have the appropriate skills in their teams to support business demands. Where skills are an issue, nearly half (45%) indicate that they plan to take action and recruit new staff to meet these needs while a quarter (26%) said that they plan to retrain existing staff.

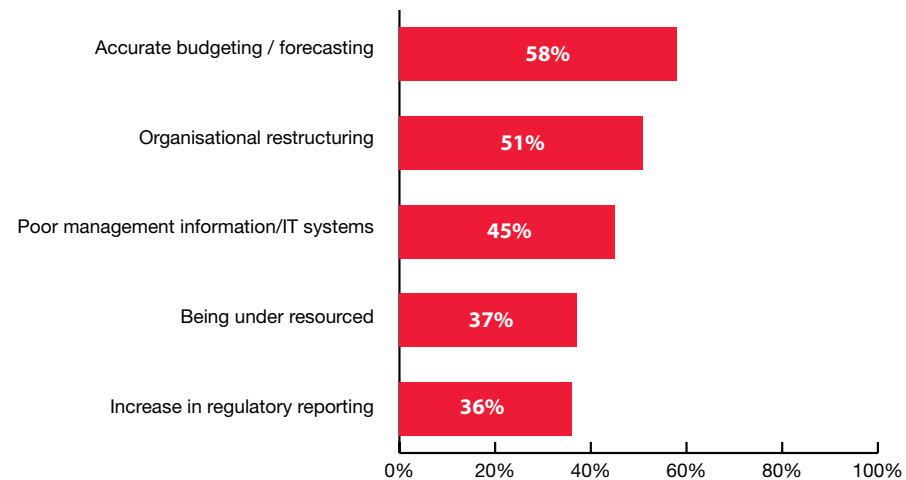
<sup>1</sup> Drifting or Driving? PwC’s finance effectiveness benchmark study 2011

## 4. The Finance Function ... cont'd

### **Accurate budgeting and forecasting is a key challenge**

Robust budgeting and forecasting as well as organisational restructuring are the key challenges according to the majority of our respondents. These two priorities are against a background of being under-resourced and operating with poor management information and IT systems.

Fig 9. Top 3 challenges facing the finance function



Investing in key talent and technology allows companies develop fit-for-purpose organisation structures, enabled by highly automated and integrated management information systems. This combined with highly insightful information can support sustainable profitable growth. This is clearly a challenge for most companies with less than 40% of companies indicating the quality of their information is either 'very good' or 'excellent'.

*Less than 40% of companies indicated the quality of their information is either 'very good' or 'excellent'*

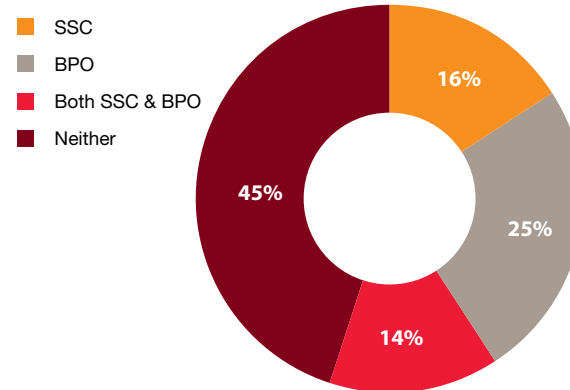
## 4. The Finance Function ...cont'd

### Shared Services Centres are becoming popular

Over half (55%) of the firms surveyed are using a Shared Service Centre (SSC), a Business Process Outsourcer (“BPO”), or a combination of both.

Disaggregated results show a correlation between the use of these models and respondents spending less time on data gathering compared to their peers. Interestingly, they do not cite accurate budgeting and forecasting as their primary concern.

Fig 10. Do you use Shared Services and Outsourcing?



Where respondents have stated they use a BPO, over three-quarters (77%) have outsourced payroll with the next largest category being tax at 34%. Where SSCs have been implemented, our latest survey<sup>2</sup> indicates that the key processes provided include: accounts payable (88%); general ledger accounting (84%); fixed asset

accounting (82%); accounts receivable (67%); internal reporting (63%) and travel expenses (63%). There are significant opportunities to be derived from more extensive centralisation and outsourcing of back-office functions including cost savings, reduced business risk and greater operational flexibility.

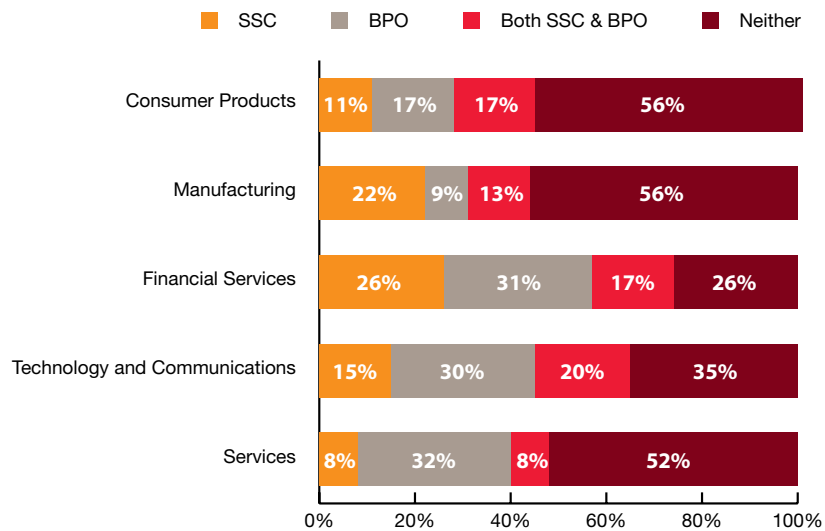
Our survey indicated that more mature models of outsourcing were in use in the financial services and technology sectors where HR, Learning & Development, procurement, supply chain and middle-office processes (e.g. order processing, loan applications) are regularly outsourced.

There are challenges associated with these solutions and companies often fail to realise all the potential benefits. The level of effort required to successfully implement, sustain and improve SSC and BPO operations is often underestimated. Successful SSC or BPO models depend on strong leadership, planning and developing as well as hiring staff with effective project and change management skills and the ability to adapt and focus on the benefits of change.

<sup>2</sup> PwC Global SSC Survey 2011: “Shared Service Centres - The 2<sup>nd</sup> Generation”

## 4. The Finance Function ...cont'd

Fig 11: SSC and Outsourcing use by industry;



Of the 46 responding companies who operate SSCs, 17 are located in Ireland with a further 18 in Europe. Somewhat surprisingly, 13 of the 18 European SSCs are located in Western Europe which might indicate either that a low cost location is not the primary driver or that a further migration eastward can be expected.

When project and operational risk issues are considered, many companies still prefer to locate their SSC close to home especially for sensitive and/or client facing processes. Transaction based processes are more likely to be located off-shore or outsourced.

*Of the 46 companies who operate SSCs, 17 are located in Ireland with a further 18 in Europe*

## 5. The CFO Response

### A key risk is the volatile economic environment

According to the survey, Ireland's finance leaders are taking decisive action to grow their businesses, manage their risks and adapt their business models for the challenges of today's volatile environment. Launching new products/services (64%), entering new markets (41%) and

introducing new marketing incentives (38%) were cited as the top growth strategies. These initiatives, to be successful, often involve detailed analysis of market entry requirements, transformation of the supply chain and organisational and tax structuring.

Fig 12. Key initiatives for revenue growth

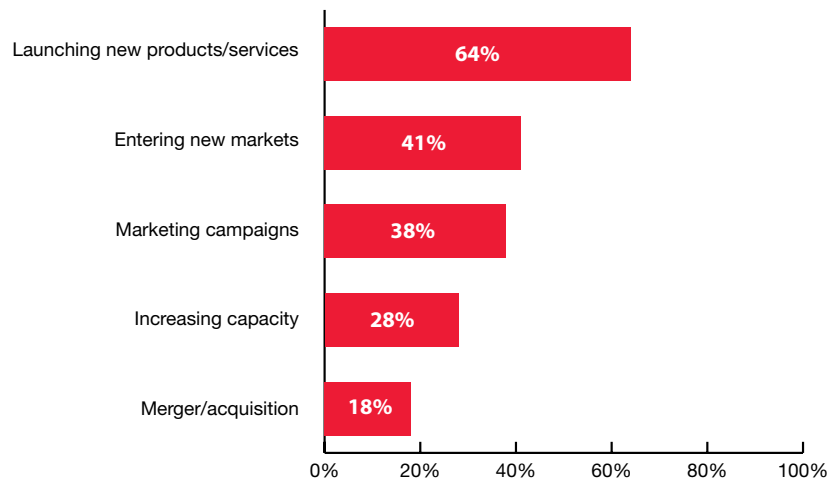
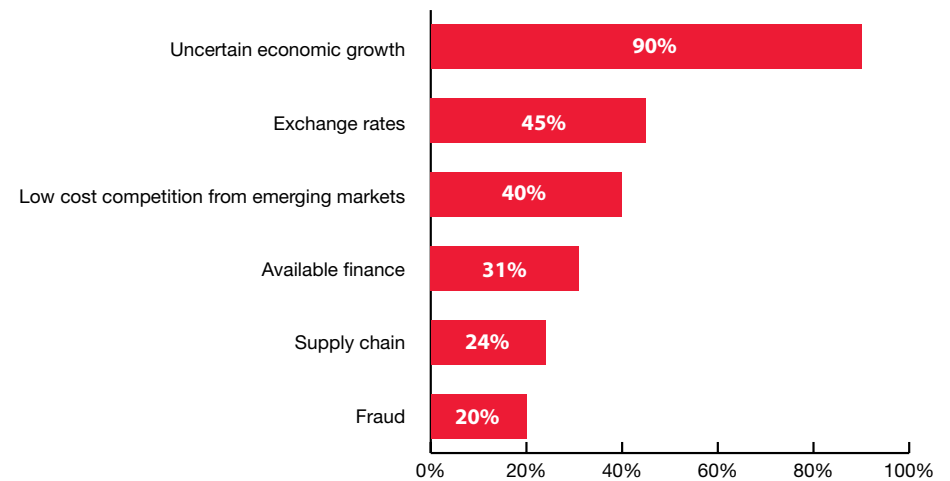


Fig 13. Key risks being tackled



The single biggest risk being tackled by organisations today is volatile economic growth (90%). Whereas Ireland has endured a recessionary environment since 2008, it has benefited as an export driven economy from the recovery in international markets. The uncertainty that now exists

for the future of the Euro has Europe close to another recession which may impact the recovery being enjoyed by many Irish companies. Other risks on the agenda are exchange rate volatility, competition from emerging markets and lack of available finance.

## 5. The CFO Response ...cont'd

Recognising the importance of retaining key talent, one third (34%) of respondents are planning to increase basic pay over the coming 12 months. Having the right talent in the right place is key for growth. Therefore, having the right reward strategy in place to retain and motivate this talent is important for long term success.

Reflecting the limitations of existing operating models for today's rapidly changing environment, companies are re-evaluating the manner in which they are structured and how they operate to ensure they have fit-for-purpose business models. Over half (56%) of the finance leaders said that they are planning changes in the way

they make investment decisions; a similar proportion (55%) are planning to review talent management strategies and just over half (51%) are planning to change their organisational structure.

Fig 14. Did you effect a reduction in basic pay in the last 12 months:

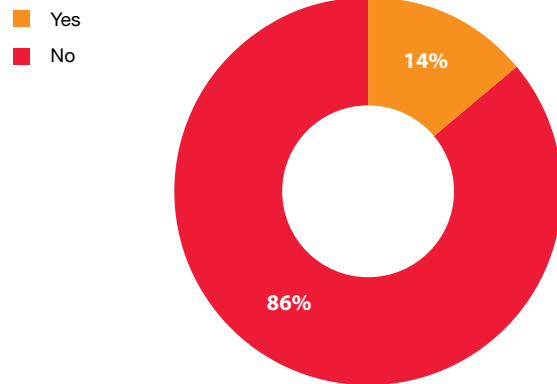


Fig 15. In the next 12 months, do you expect basic pay to:

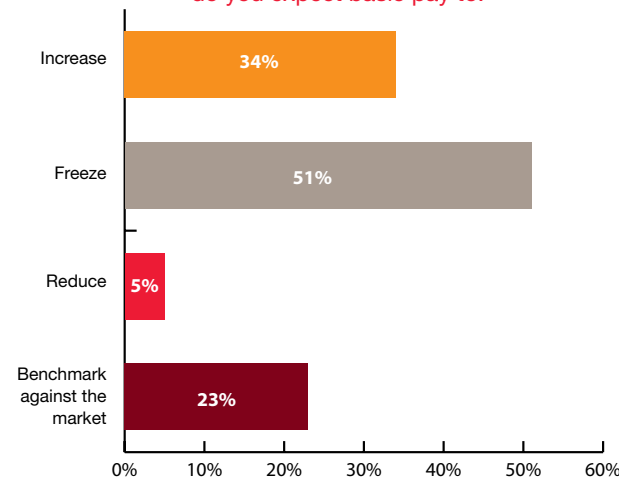
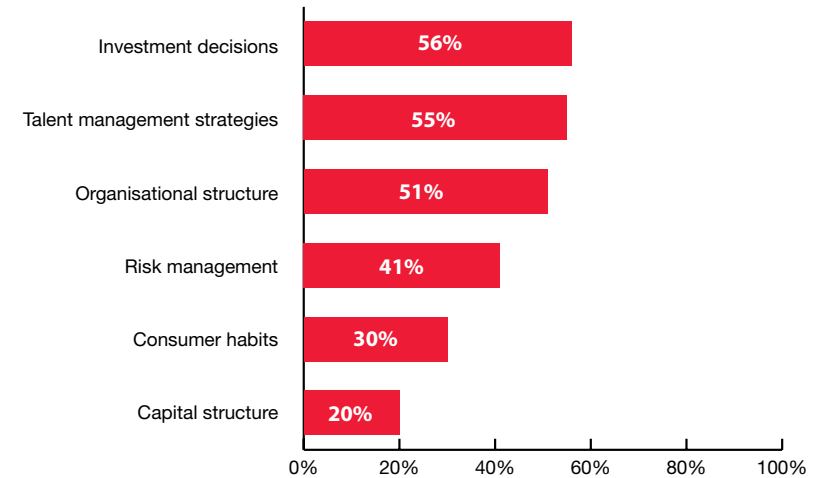


Fig 16. Key changes in operating model over the next 12 months?



## 6. Survey Methodology

The survey was conducted in the fourth quarter of 2011 amongst Ireland's leading CFOs having 207 participants covering a range of sectors and ownership types.

Fig 17: Respondents by Sector (%)

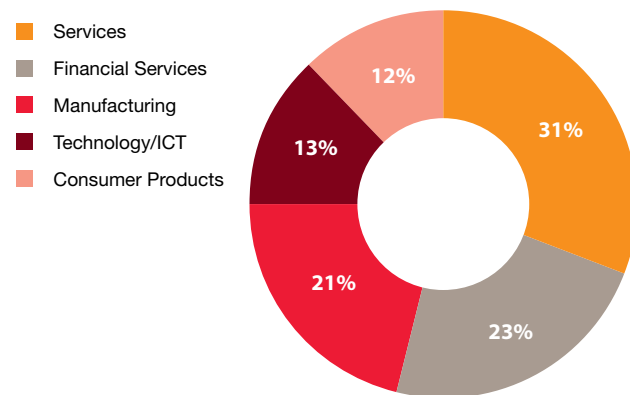
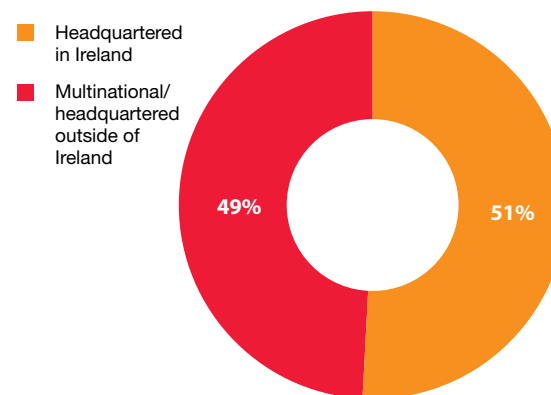


Fig 18: Ownership of company (%)



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