



INSTITUTE FOR BUSINESS IN SOCIETY



Views from the C-Suite:

*Washington-area CFOs Discuss
Role of Business in Society*

BY

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The Darden Institute for Business in Society (IBiS) held its Strategic CFO Roundtable on 26 June 2014 in Arlington, Virginia. This quarter's Roundtable featured several new members, which prompted us to use the first half of the session discussing members views of the economy based on their own businesses. The second half of the Roundtable is reserved for a Top of Mind Topic that serves as an in-depth discussion for the CFOs. For the June 2014 Roundtable, we asked the CFOs to discuss how they balance the demands of various stakeholder groups when they make resource allocation decisions.

As the CFOs gathered for the summer, there was mixed news about the U.S. economy. On the positive side was the Consumer Confidence Index, which reached its highest level since the recession. The negative news was that the GDP reported for Q1 had been revised to an even lower number than originally reported. The Roundtable CFOs, however, reported continued solid performance along with an optimistic outlook for their businesses.

THE SURVEY

Prior to each Roundtable session, we conduct a survey to provide insights into the business views of the Roundtable Members in the Washington D.C. Metropolitan Area relative to their counterparts nationwide. For the national survey, we use the Duke University/CFO Magazine's Global Business Outlook Survey, which has polled senior finance executives over the past 73 quarters. The survey responses prompted conversation among the Roundtable Members regarding their expectations of domestic and global economic recovery, the financial condition of their own firms and evidence of recent actions for growth of their companies.

Economic Outlook

The June 2014 Darden IBiS Strategic CFO Roundtable Survey showed a continued level of strong optimism about the economy that exceeded the levels reported in the national survey. The graph below depicts how CFOs rated their optimism about the U.S. economy on a scale of 0 – 100%. (See Figure 1) Both the national Global Business Outlook and the Darden IBiS Strategic CFO Roundtable Survey reported optimism levels over 60%.

The national survey (solid line) rose slightly from 60% for Q1 2014 to 61% for Q2 2014 while the Roundtable Member CFOs (dashed line) exhibited a stronger rebound from 60% for the Q4 2013 survey to 64% for the June 2014 survey. A closer look at the data reveals that only one of the seven CFOs responded below 50%; i.e., to suggest a lack of optimism about the U.S. economy. The rest of the responses signaled various levels of optimism with the highest response being 79%.

Figure 1: Optimism for the U.S. Economy
 (Scale of 0 – 100%)

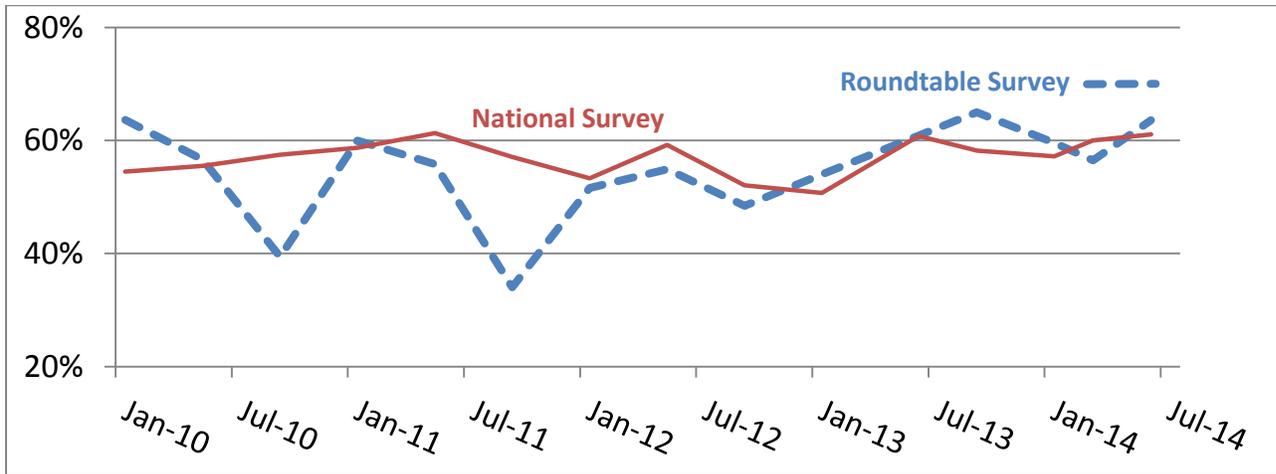
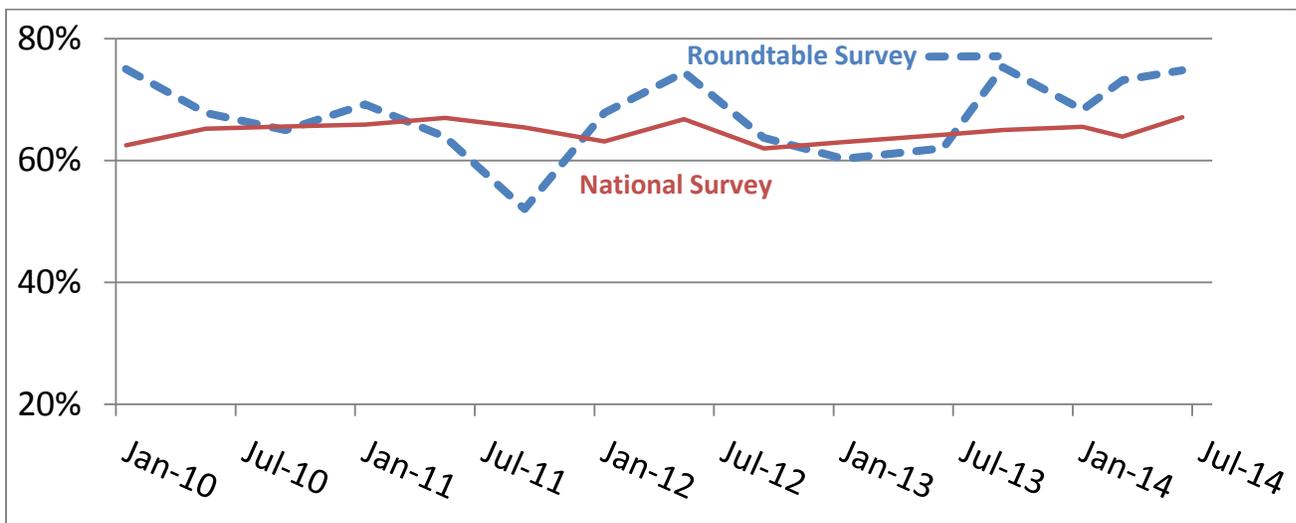


Figure 2 compares the CFO Roundtable group with the national survey regarding their optimism toward their own companies. Both surveys have consistently reported higher levels of optimism for their own companies relative to the U.S. economy.

Figure 2: Optimism for their Own Company
 (Scale of 0 – 100%)

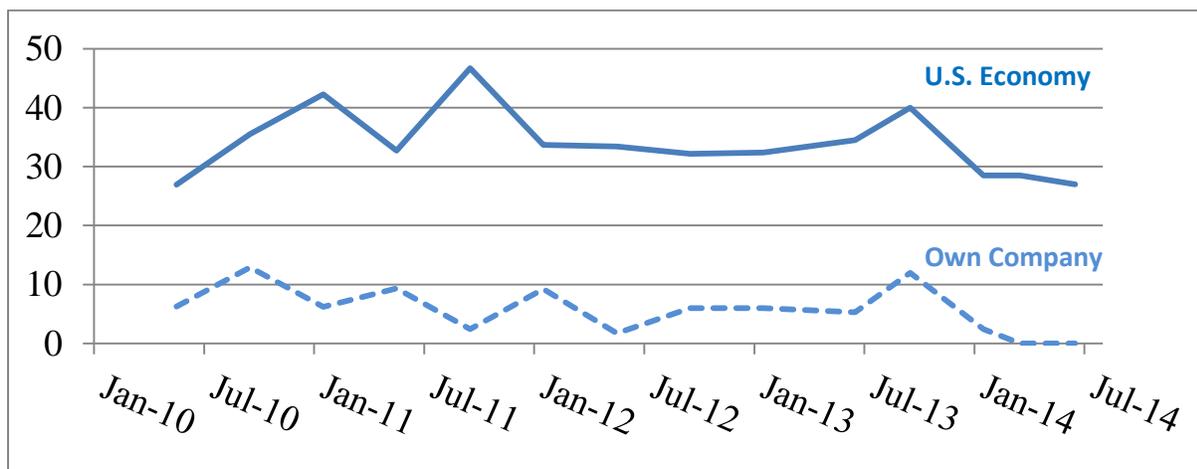


For the current survey we see slightly higher optimism levels (dashed line) for the Roundtable CFOs relative to the national survey (solid line). As in the past, most of the CFOs, however, expressed higher optimism about their own companies with the average of 75% exceeding by 11% (64%) the optimism reported by the CFOs for the U.S. economy. The CFOs for the national survey report a premium of only 6% for their own firms (67%) vis-à-vis the U.S. economy (61%). On average, our Roundtable Members have reported a premium level of optimism for their own company of about 13% since 2010, compared to an 8% premium reported by the national survey.

Employment

Since its inception, the Roundtable Survey has asked participants to estimate the number of months that will pass before domestic employment will return “to pre-crisis (year end 2007) levels for the U.S. economy.” (See Figure 3) The solid line in the graph reveals that Roundtable Members’ expectations have consistently been between 30 and 40 months for the past couple of years, but the level dropped to 27 months for the June survey. Several of the CFO’s responded “never” for this question and those responses could not be meaningfully quantified to include in the average. Therefore, a fair interpretation of the data would best be stated as “For those CFOs who believe the U.S. unemployment will eventually return to pre-crisis levels, they expect it to take two to three years.”

**Figure 3: When Will the U.S. Return to Pre-crisis Employment?
 (Months)**



The dashed line in Figure 3 reflects the Roundtable Members’ optimism about the employment levels of their own companies. The CFOs have consistently viewed their own company employment levels as much better than the overall economy. For the June survey, most of the CFOs reported zero months for their companies to return to pre-crisis employment levels, but a couple reported “never” to return to the pre-crisis employment level. It is fair to say that most of the Roundtable CFOs see their own company employment as having fully recovered since the onset of the recession in 2008, with a minority reporting the scale of their company will remain smaller than before the crisis.

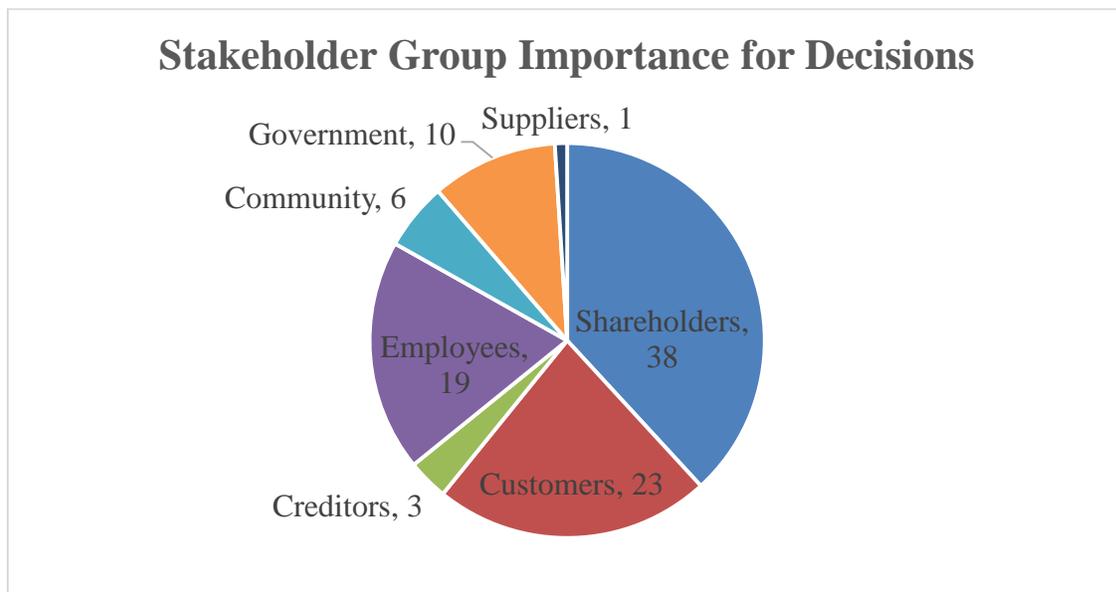
As the conversation circulated around the table, each CFO brought the members up to date about their business models and the status of their company’s performance. Their stories were reflective of the optimistic responses given in the survey. For example, a couple of CFOs gave a sense of the growth prospects of their firms:

I think there’s a lot of upside there to just fill in the existing footprint. And then we’ve got half the country to go to as well. So our focus really is really on the big macro picture. We’re focused on how to roll out a concept to the rest of the United States to start taking more market share in the existing markets.

Business continues to go well. We grew about ten percent year-over-year in the first quarter. We've been pretty consistently over the past several years. Once we got out of the '08-'09 time frame, we've been growing in that low double digit rate...

TOP of MIND TOPIC

The Top of Mind Topic was about how CFOs make decisions and specifically, how CFOs balance the demands of various stakeholder groups when making resource allocation decisions. The stakeholder groups included: shareholders, customers, creditors, employees, community, government and suppliers. The survey asked the following question: "As CFO, when determining allocation of resources, how important is each of the stakeholder groups in your decision on average?" The graph below summarizes their responses:



The top three groups are shareholders, customers and employees, which together account for 80% and shareholders being the most important 38% of the time. The ensuing discussion revealed insights into the types of decisions frequently made by CFOs. One CFO commented that most decisions are not characterized by a tradeoff between one group for another:

I think in general ..., you have a lot of alignment so if you are doing things that are right for your employees [by] acquiring good talent, that's going to make good products and deliver value to customers which is going to create shareholder value. The question for me is really the timeframe. So I think we're trying to do things that benefit all three over the long period of time but some things have short-term shareholder consequences, which I think is the hard part to manage. But I think in general you wouldn't do any of these things if it wasn't to create long-term shareholder value.

Another CFO commented on the importance of being able to read the customer when trying to decide how best to meet their demands:

I think the only thing is, that you can't do absolutely everything that your customer might ask for. And a lot of times, customers may not really want what they're asking for: it may just sort of be top of mind. So there's a discipline, there's a filtering mechanism, there's a rigor of really understanding, what are the services that need to be provided. And what's it going to take from a resource perspective, whether it's employees or other types of resources, to actually deliver it. And I think that's certainly where as finance people, we end up having to really come in and apply that expertise...Ultimately, the employees want to do the right thing for the customers and that's going to flow through to shareholder value.

Overall, the CFOs spoke more about alignment among the stakeholders, rather than having to balance the demands of one group with the others. A frequent concern voiced, however, was about the short-term incentives of institutional investors. According to one member:

I think hedge funds don't care about long-term. They want short-term volatility, [it's] their sweet spot. And the amount of money that keeps flowing into those hedge funds, [is] so significant. And even ones that I listen to, say ...“We can be short-term or we can be long-term”, ... but I really think that [long-term] is an anachronism of the past. I think this is the world we're living in, if you're a public company.

We left the Top of Mind discussion with learnings about how CFOs make decisions along with questions for the future. First, the CFOs are strongly attuned to delivering shareholder value and feel they can do so while serving their customers at a high level. Second, the Roundtable Members frequently referenced their efforts to support their employees. Questions for future roundtables include, “How big of a role does the “intuitive ROI” versus “measurable ROI” play in corporate resource decisions?” and “What is the connection between CFO strategic decisions and the role of their businesses in society?”

The Darden IBiS Strategic CFO Roundtable will re-convene Thursday, 25 September, 2014.

About the Author

Kenneth M. Eades, Professor of Business Administration, is the Chairman of Darden Finance Department and serves as Interim Academic Director for Darden's Richard A. Mayo Center for Asset Management, as well as Associated Faculty with the Darden Institute for Business in Society. The author of numerous academic articles, more than 50 Darden cases and three books, Eades has received both research and teaching awards.

About the Darden IBiS Strategic CFO Roundtable

The Strategic CFO Roundtable is a quarterly, invitation only convening of leading chief financial officers in the Washington D.C. Metropolitan Area to discuss, debate and share best practices on enhancing the strategic role of the CFO. With over 300 years of strategic financial and leadership experience, the Roundtable participants share their views on the challenges and opportunities facing their companies. They discuss the lessons learned from triumphs and trials that led to their becoming recognized as strategic CFOs. The Strategic CFO Roundtable is organized by the Institute for Business in Society at the Darden School of Business of the University of Virginia.

About Darden Institute for Business in Society

<http://www.darden.virginia.edu/web/Institute-for-Business-in-Society/>

The Institute for Business in Society (IBiS) is a Center of Excellence at the Darden School of Business at the University of Virginia. Its mission is to be a leading global catalyst and convener of thought, information and action at the interface of business and society. To achieve that mission, IBiS brings together the top thinking in business education with industry leaders, regulators and other thought leaders to understand and advance the role of business in providing lasting value and positive impact in an increasingly complex global society.

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Darden IBiS Strategic CFO Roundtable Survey Results

June 2014

	N = 6		N = 6		N = 7		N= 400		N= 375		N= 397	
	Public RT June 2014		Public RT Mar 2014		Public RT Jan 2014		Duke Q2_14		Duke Q1_14		Duke Q4_13	
	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median
1. Compared to last quarter, are you more or less optimistic regarding:- U.S. economy (Less =1, More = 3)	1.8	2.0	2.0	2.0	2.4	2.0	2.2	2.0	2.2	2.0	2.1	2.0
1. Compared to last quarter, are you more or less optimistic regarding:-Financial prospects for your own company (Less =1, More = 3)	2.2	2.0	2.5	2.5	2.4	2.0	2.3	2.0	2.2	2.0	2.1	2.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)- U.S. economy	63.6	66.0	56.5	60.0	59.6	62.0	61.1	60.0	60.0	60.0	57.2	60.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)-Financial prospects for your own company	74.8	75.5	73.2	70.0	68.3	70.0	67.1	65.0	63.9	70.0	65.5	65.0
4. Regarding domestic employment, when do you anticipate a return to pre-crisis (year end 2007) levels for the U.S. economy -Months	27.0	24.0	28.5	33.0	28.5	27.0						
4. Regarding domestic employment, when do you anticipate a return to pre-crisis (year end 2007) levels for your firm -Months	0.0	0.0	0.0	0.0	2.4	0.0						
5. How would you rate...-Your employees' morale level ? (Poor =1, Satisfactory =3, Excellent = 5)	3.8	4.0	4.2	4.0	4.0	4.0						

Darden IBiS Strategic CFO Roundtable Survey Results

June 2014 (Continued)

	N = 6		N = 6		N = 7	
	Public RT June 2014		Public RT Mar 2014		Public RT Jan 2014	
(Weaker =1, No change = 2 Stronger = 3)	Average	Median	Average	Median	Average	Median
6. Recent quarter's financial results vs. previous quarter: - Income Statement	2.3	2.5	2.5	2.5	2.6	3.0
6. Recent quarter's financial results vs. previous quarter: - Balance Sheet	2.2	2.0	2.7	3.0	2.4	2.0
6. Recent quarter's financial results vs. previous quarter: - Cash Balance	2.2	2.0	2.4	3.0	2.4	3.0
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8. Expected change over the next 4 quarters vs. last 4 quarters: - Income Statement	2.3	2.5	2.7	3.0	2.8	3.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - Balance Sheet	2.3	2.5	2.7	3.0	2.5	2.5
8. Expected change over the next 4 quarters vs. last 4 quarters: - Cash	1.7	1.5	2.4	3.0	3.0	3.0
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(Reduced =1, No change = 2, Higher = 3)						
9. Expected change over the next 4 quarters vs. last 4 quarters: - Headcount	2.2	2.5	2.3	2.5	2.7	3.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Capital Spending	1.7	2.0	2.2	2.5	2.4	3.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Compensation	2.2	2.0	2.2	2.0	2.7	3.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Pro develop/training	2.0	2.0	2.2	2.0	2.3	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Prob (new mkt/product)	2.3	2.0	2.2	2.0	2.4	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Prob (Acquisition)	2.2	2.0	2.0	2.0	2.0	2.0