

## Views from the C-Suite

by

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The Darden Institute for Business in Society (IBiS) held its Strategic CFO Roundtable on 26 September 2013 in Arlington, Virginia. For September, IBiS conducted two Roundtables: a breakfast event for public company CFOs and a lunch event for private company CFOs. The Roundtables occurred the week after Ben Bernanke, Federal Reserve Chairman, announced the continuation of the quantitative easing program. Ironically, the day before the June Strategic CFO Roundtable the Fed announced a targeted reduction or “tapering” of the QE program, which caused the financial markets to react negatively. Correspondingly, the announcement by the Fed of returning to its QE program prompted a positive reaction by the market as the Dow rose to a record high of 15,676.

The influence of the Fed upon the economy was frequently touched upon during the Roundtable discussions. One CFO pointed to financing as a key driver of consumer demand: “... consumer demand right now is focused on three areas. One is housing, two is automobiles, and three is actually appliances... But it's all because of financing, because basically, the consumer [has been] de-levering for a long time, and now the consumer is leveraging back up again. But they're leveraging back up again on big things where they can get financing. I can get this new appliance... I can buy the house... I can buy the automobile and get 1.5 percent. But otherwise, the rest of the consumer spending has been weak at best.”

### THE SURVEY

Prior to each quarterly 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. Some of the survey questions are constructed to parallel those of the Duke University/CFO Magazine's Global Business Outlook Survey, which has polled senior finance executives over the past 70 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 September 2013 Darden IBiS Strategic CFO Roundtable Survey showed a continued level of optimism about the economy that was similar in magnitude with that reported in June and higher than 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 Global Business Outlook Survey and the Darden IBiS Strategic CFO Roundtable Survey showed strong optimism with levels near the maximum reported since the beginning of the Roundtable survey in January 2010.

The national survey (solid line) dropped slightly from 61% for Q2 2013 to 58% for Q3 2013, while the public CFOs (dashed line) rose to a record high of 65% and the private CFOs (dotted line) reported an optimism level of 57%, very similar to the 58% national average. A closer look at the

data reveals that the apparent differences in optimism between the public and private CFOs is due to a couple of low responses from the private companies and a couple of high responses from the public companies. The bulk of the responses fall in the range of 60 – 70%. Nevertheless, the averages reveal that individual CFOs see the economy very differently and CFOs at private companies in particular tend to display a high range of different views on the strength of the economy.

One public company CFO pointed to innovation as a source for optimism: “... my optimism comes from the innovations, even in legacy companies like my own, other legacy companies that are laying off people and reinvesting, and remaining competitive and innovative. I'm seeing...less layoffs just to cut costs and...more to reinvest in areas of bringing in new kinds of talent.”

According to a private company CFO: “Now...we're starting to see people open up their pocketbooks, starting to have conversations [that] they wouldn't have had 24 months ago because no one was really certain of what was going on in their markets.”

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

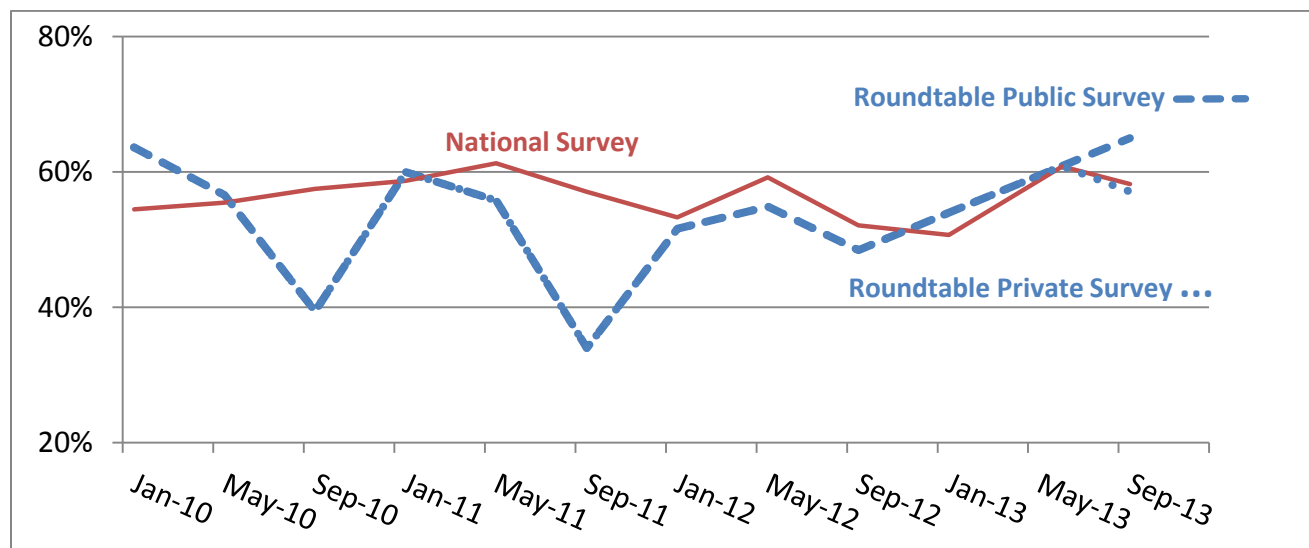
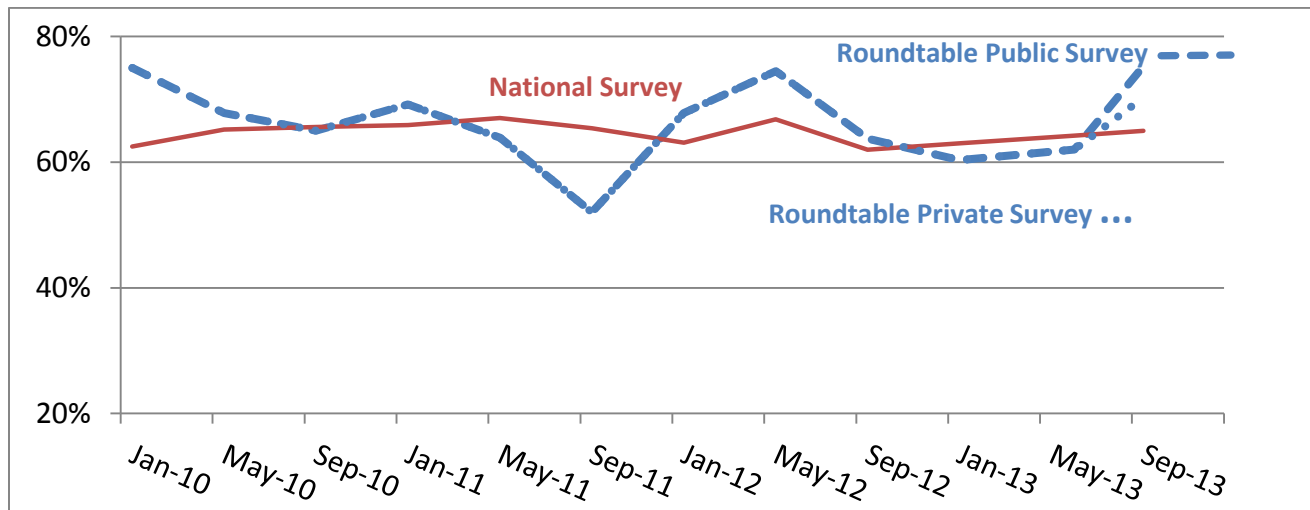


Figure 2 compares the CFO Roundtable groups with the national survey regarding their optimism toward their own companies. Both surveys have consistently reported higher levels of optimism for their own companies relative to the U.S. economy. For example, on average, our Roundtable Members have reported a premium optimism for their own company of about 13% since 2010, compared to an 8% premium reported by the national survey.

Both the public and private company CFOs reported higher optimism levels than the national survey (solid line) of CFOs. The public company CFOs reported a higher level of optimism (75% - dashed line) than their private company counterparts (70% - dotted line). For all but one of the Roundtable companies, these optimism levels exceeded those reported for the overall economy. Moreover, the 75% level matches the higher level reported since the inception of the Strategic Roundtable Survey in January 2010.

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



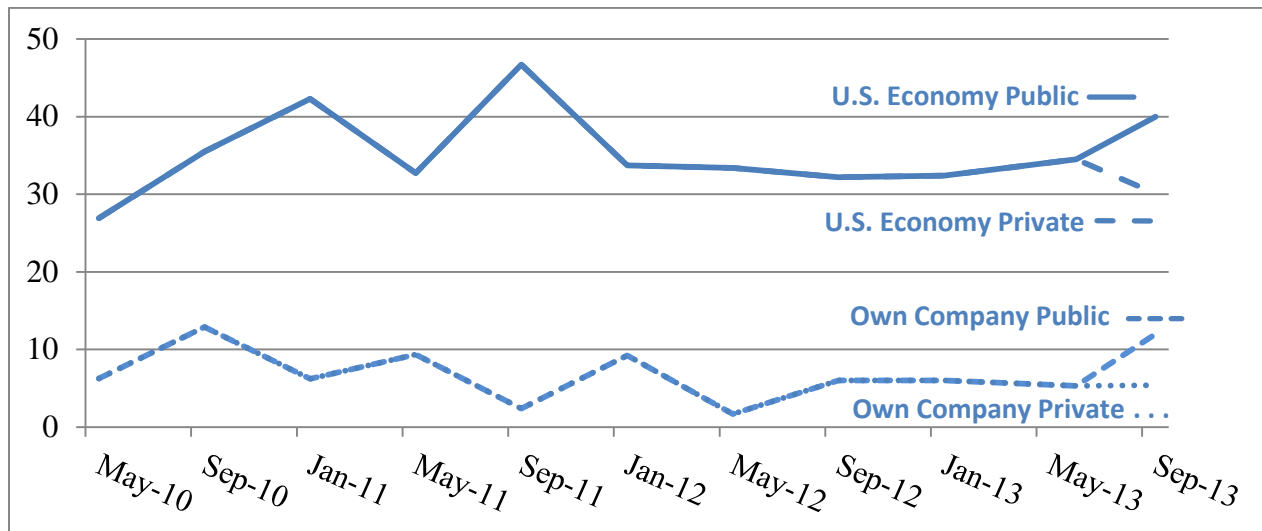
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## Employment

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. Clearly the CFOs are seeing the recovery as a slow process for which employment will take about three years to regain the ground lost in 2008. For the September Survey, we see the public company CFOs as forecasting a longer time for employment recovery than the private company CFOs. However, although not reported in Figure 3, the medians for the two groups are identical at 36 months, which has been a consistent estimate since January 2012.

As summarized by one public company Roundtable Member: “So I think there is sort of a new norm, which is we don’t expect to get back to where we were in 2007 for a very long time. And so 36 months is as good as I guess saying ‘a very long time.’ I think that there is sort of a new norm and that we are in an readjustment in terms of, overall, the economy experiencing a higher than previously acceptable rate of unemployment that is sort of going to be built into the system.”

**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 September Survey, the public company CFOs reported an average of 13 months and the private company CFOs reported an expectation of five months for their companies to return to pre-crisis employment levels. As for all the prior surveys, these expectations are much lower than the expectation for the overall economy and in fact, the median response for both the public and private companies was zero months; i.e., they have already returned to the pre-crisis employment level.

**TOP OF MIND – Public Company CFOs: Attracting, Engaging and Retaining Talent**

The issue of talent management has surfaced a number of times during roundtable discussions as the CFOs have struggled to keep their best performers and to recruit new talent to their organizations. According to the Survey, the preponderance of CFOs (81%) were expecting an increase of headcount during the next year, which only serves to make the topic of talent management all the more critical for the Roundtable companies.

The dialogue began with compensation, which prompted one CFO to remark: “Compensation is part of it. So obviously we're growing and we're hiring a lot. We tend to do modest compensation increases in proportion to the regular job, like inflationary, five percent or so...but generally modest increases. Most of our comp growth comes from fairly aggressive promotion.”

The same CFO went to comment about the retention strategy of the company: “...when we think about retaining and attracting talent, it's the entire proposition. It's the type of work they're doing, the opportunity for career growth. It's the benefit package. It's location, real estate, technology, what the office looks like, how people use space, collaboration space. All that stuff goes into the package of compensation, and the salary is part of it.”

Another CFO commented on the importance of innovation in the organization: “In our business, we've found it very hard to attract the talent in the new innovative/new product areas. So we've made some acquisitions...and a lot of companies that I'd spoken to, acquisition of talent has been a way to kind of fast forward.”

The role of acquisitions as a way to add talent as well as physical assets and customers spurred a number of stories around the table regarding good and bad experiences with the management of acquired companies. Several CFOs related how they had been able to retain outstanding managers from acquired firms and that those managers had flourished within their organizations. Other deals, however, had resulted in the discovery that most of the management team was not competent and were likely responsible for the poor growth and performance that led to the acquisition and therefore had to be replaced as part of the integration process. The value of sharing these experiences was readily apparent and highlights the advantage of a roundtable format where professionals can engage with each other in face-to-face conversations about important topics.

Several of the Roundtable Members pointed to technology developers as the most difficult positions to fill. There continues to be a high degree of competition for hiring these highly skilled individuals. According to one CFO: “I...think those are some of the hardest skills to actually interview for, who's actually good and who's not, [and also] finding somebody we can get with the salaries you want, who fits your culture.” Several CFO's agreed as to the difficulty of attracting highly qualified tech people. One CFO remarked that his company had stopped looking in D.C. and was having much better luck hiring people closer to universities who have excellent skills and “are extremely happy to be working within the organization.”

### **TOP OF MIND – Private Company CFOs: Investor's Expectations: Performance, Returns and Exits**

There was a rich and informative discussion among the private company CFOs that centered mostly on the expectations of their investors. When the CFO's were asked in the Roundtable Survey about investors' expectations of an “exit strategy over the next two to three years,” there was substantial variation in their responses:

- Desire to find a strategic buyer.
- No exit: the company will remain private with the current owners.
- Desire to find a financial buyer.
- Conduct an initial public offering.
- “Difficult to say, many potential options”

The CFOs were somewhat surprised that only one of them had indicated IPO as the exit strategy. Many of them commented about the costs involved in a public offering and one CFO stated: “I agree, there's a lot of discussion about IPO markets right now. But the question will be how many of those guys get out. I think it will be far fewer than the people gambling with it.”

Another CFO explained how his private equity owner had decided that the market did not justify a sale of the company, so the PE firm chose to keep the company for another five years. The CFO went on to comment about the advantage to his company of having the extended time: "...that's why now we can say, okay, we can aggressively go out and acquire. We can afford profits to be down for a couple of years, as long as the two to three years leading up to the exit, they're good. So we're basically [going after] market share and acquisitions, because we got that reprieve from our investors."

Another CFO agreed with the private equity market's influence: "I've heard this a couple of times [from a PE firm] -- we would definitely take money off the table and sell you guys, except we wouldn't know what to do with the money the day after because...there isn't enough right now to... redeploy the capital. So if you've got a good company and good management team, why not ride it for another five years and see what happens."

One of the CFOs whose company was in acquisition mode commented about the challenges of being a small target company: "It has to be a clean company because buying a \$7 million company is just as hard as buying a \$20 million, \$30 or \$40 million company. And sometimes even harder. And for such a low revenue number, it better be worth it. So the company has to be clean. The processes have to be in place. The integration can't take too long, otherwise you've lost all the value the day you bought it."

**The Darden IBiS Strategic CFO Roundtable will re-convene in January 2014.**

**The Darden IBiS Private Company Strategic CFO Roundtable will re-convene in March 2014.**

### ***About the Author***

Kenneth M. Eades, Paul Tudor Jones Research Professor of Business Administration, is the Chairman of Darden Finance Department and serves as Interim Faculty Director for the Darden Center for Asset Management, as well as Associated Faculty with the Darden Institute for Business in Society. The author of more than 50 Darden cases, 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 Institute for Business in Society Private Company Strategic CFO Roundtable sponsored by



Darden IBiS Strategic CFO Roundtable Survey Results

September 2013

	N = 7		N = 9		N = 9		N = 8		N= 438		N= 453		N= 410	
	Public RT Sept 2013		Private RT Sept 2013		RT June 2013		RT Jan 2013		Duke Q3_13		Duke Q2_13		Duke Q4_12	
	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median
1. Compared to last quarter, are you more or less optimistic regarding: <b>U.S. economy</b> (Less =1, More = 3)	2.3	2.0	2.4	3.0	2.3	2.0	2.4	2.0	2.1	2.0	2.4	3.0	1.7	1.0
1. Compared to last quarter, are you more or less optimistic regarding: Financial prospects for <b>your own company</b> (Less =1, More = 3)	2.3	2.0	2.3	3.0	2.3	2.0	2.3	2.0	2.2	2.0	2.2	2.0	1.9	1.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)- <b>U.S. economy</b>	65.0	61.0	57.1	60.0	60.9	62.0	54.0	60.0	58.2	60.0	60.8	60.0	50.7	50.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)- Financial prospects for <b>your own company</b>	75.3	75.0	70.3	72.0	72.9	80.0	60.3	60.0	65.0	70.0	64.2	65.0	63.0	60.0
4. Regarding domestic employment, when do you anticipate a return to pre-crisis (year end 2007) levels for the <b>U.S. economy</b> -Months	40.0	36.0	30.1	36.0	34.5	30.0	32.4	30.0						
4. Regarding domestic employment, when do you anticipate a return to pre-crisis (year end 2007) levels <b>for your firm</b> -Months	12.0	0.0	5.4	0.5	5.3	0.0	6.0	0.0						
5. How would you rate...-Your <b>employees' morale level</b> ? (Poor =1, Satisfactory =3, Excellent = 5)	3.9	4.0	3.7	4.0	4.0	4.0	3.6	4.0						



**Darden IBiS Strategic CFO Roundtable Survey Results**

**September 2013 (Continued)**

	N = 7		N = 9		N = 9		N = 8	
	Public RT Sept 2013		Private RT Sept 2013		RT June 2013		RT Jan 2013	
	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>
<b>(Weaker =1, No change = 2 Stronger = 3)</b>								
6. Recent quarter's financial results vs. <b>previous quarter: - Income Statement</b>	2.3	2.0	2.4	3.0	2.4	3.0	2.4	2.0
6. Recent quarter's financial results vs. previous quarter: - <b>Balance Sheet</b>	2.7	3.0	2.6	3.0	2.8	3.0	2.6	3.0
6. Recent quarter's financial results vs. previous quarter: - <b>Cash Balance</b>	2.6	3.0	2.6	3.0	2.6	3.0	2.6	3.0
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8. <b>Expected change</b> over the next 4 quarters vs. last 4 quarters: - <b>Income Statement</b>	2.7	3.0	2.4	3.0	2.4	3.0	2.7	3.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Balance Sheet</b>	2.7	3.0	2.6	3.0	2.3	2.0	2.3	2.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Cash</b>	2.4	3.0	2.6	3.0	2.6	3.0	2.6	3.0
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<b>(Reduced =1, No change = 2, Higher = 3)</b>								
9. <b>Expected change</b> over the next 4 quarters vs. last 4 quarters: - <b>Headcount</b>	2.6	3.0	2.9	3.0	2.4	3.0	2.4	3.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Capital Spending</b>	2.4	2.0	2.1	2.0	2.3	2.0	1.9	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Compensation</b>	2.9	3.0	2.8	3.0	2.6	3.0	2.0	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Pro develop/training</b>	2.3	2.0	2.4	2.0	2.1	2.0	2.2	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Prob (new mkt/product)</b>	2.7	3.0	2.9	3.0	2.6	3.0	2.9	3.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Prob (Acquisition)</b>	2.4	2.0	2.2	2.0	2.2	2.0	2.3	3.0