Grant Thornton

CFOs make a push for growth

Workforce and technology fuel the drive

CFOs are pushing hard for revenue growth in an environment where discretionary spending is tight.

After several quarters of sluggish economic activity and unceasing warnings of impending recession, finance executives responding to Grant Thornton LLP's CFO survey for the second quarter of 2023 remained more optimistic than pessimistic about the U.S. economy by more than a 2-to-1 margin.

The survey results show that finance leaders are heavily focused on two areas that could lead to revenue gains:

- They are determined to build and preserve the workforce that can help drive them forward when the next growth curve occurs.
- They plan investments in technology that have the potential to deliver efficiency and revenue gains as well.

"A lot of companies are laser focused on topline sales growth right now," said Sean Denham, Grant Thornton's Regional Managing Partner — Atlantic Coast. "Companies are investing in these areas because after the Great Resignation, the extreme supply chain difficulties, and an intensity around cost optimization, there is a focus on driving the business again."

The timing of responses to this survey is an important piece of context, as the vast majority of responses were collected in late May before federal policymakers reached an agreement to raise the debt ceiling and eliminated fears of a government shutdown. The survey also closed before the ensuing Wall Street surge that led to the S&P 500 reaching bull market territory.

Nonetheless, CFOs who were optimistic about the U.S. economy (48%) heavily outnumbered pessimists (21%). The optimism number dropped five percentage points from the previous quarter, but the pessimism number also fell by a percentage point, leading to a gain in the neutral category.

At the same time, cost optimization remains the top area of focus for the next six months for CFOs, cited by 44% of respondents as one of their top two priorities. Vendor or supplier costs is the top area for projected cost savings as supply chain pressures ease just a bit, and 41% of respondents said they expect travel expenses to decrease over the next year. That's a jump of 17 percentage points over the previous quarter, and the highest decrease in travel spending reported since the first quarter of 2021.

Denham has observed that companies are trying to reduce discretionary spending by delaying long-term projects, revising managed service agreements, and even reducing compliance costs.

But when it comes to workforce and technology spending, CFOs are largely staying on course, and there are revenue and profit motives behind that spending.

High expectations for revenue

Employees flex their muscles

The motivation behind this prioritization of workforce and technology can easily be seen in fifinanc executives' plans for revenue and profits. More than two-thirds (68%) of respondents said they expect revenue growth at their organizations over the next 12 months.

Meanwhile, 67% expect net profit growth, a dip of just one percentage point from the previous quarter. It would be difficult to increase revenue while also making workforce cuts, and the survey data reflects this. Just 27% of CFOs forecasted potential layoffs, down from 40% the previous quarter.

Margaret Belden, a Director, People and Organization for Grant Thornton, said the firm has been cautioning clients about the repercussions of reducing headcount for short-term savings as it will be difficult to return to needed staffing levels when the economy turns positive.

"It's a different environment than it was in the past," Belden said. "It's hard enough to acquire and retain talent right now. If you have to reduce expenses, look at other areas such as projects that can wait, streamlining operations and leveraging technology."

Overlaying the results of the CFO survey with Grant Thornton's recent State of Work in America survey shows the danger of unwanted turnover for finance executives who hope to use a strong workforce to fuel an upcoming growth surge. Almost six in 10 CFOs (58%) said attracting and retaining talent is a priority for the next 12 months.

Meanwhile, 24% of employees in the State of Work in America survey said they are looking for a new job with a new organization, and an additional 51% said they would consider leaving their jobs if a new opportunity comes along. Many employers would be disappointed to see these workers leave, and it's reasonable to assume that some of the 51% who aren't actively looking elsewhere could be persuaded to stay.

Effective communication could help keep those employees on board and engaged.

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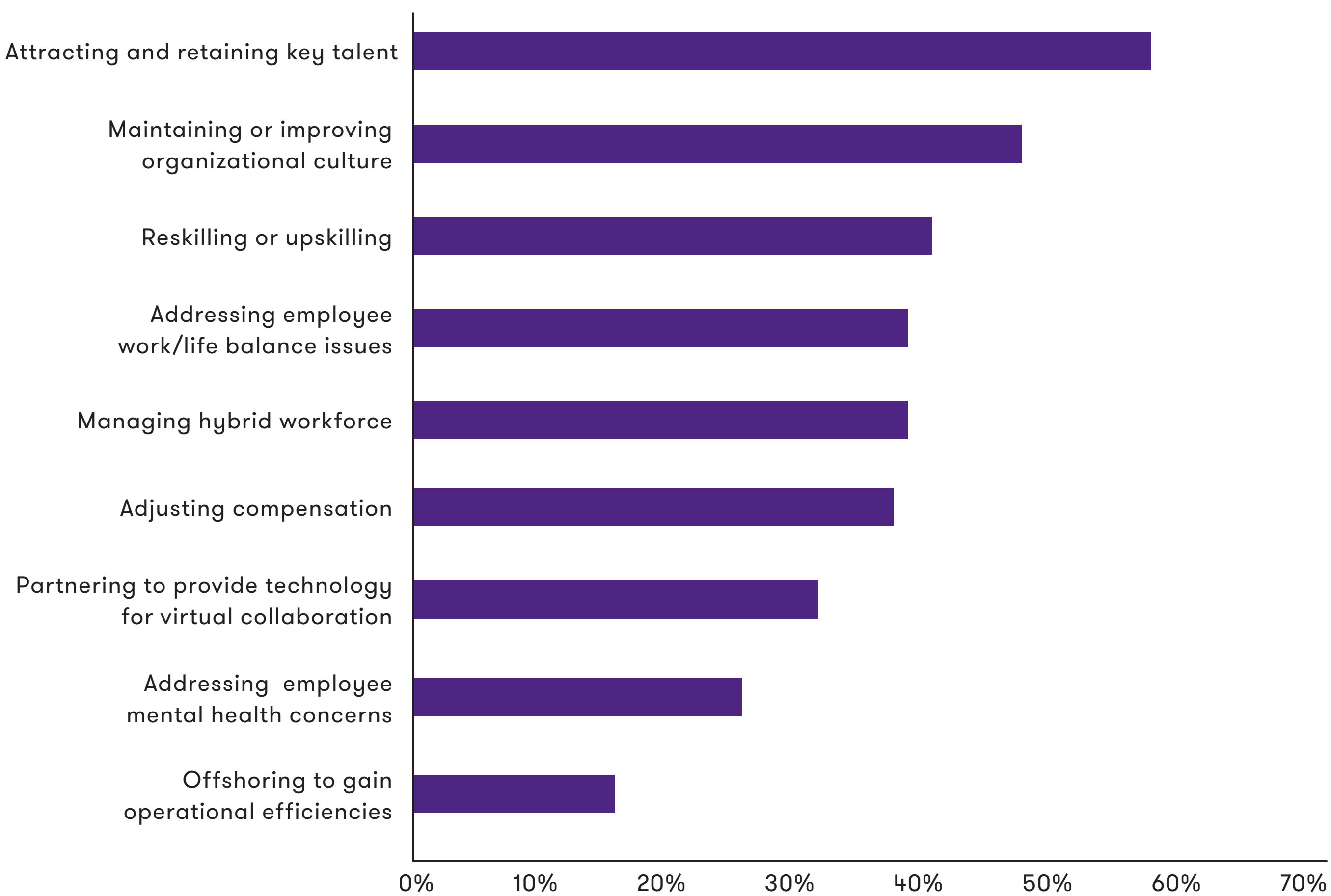
>
> **Margaret Belden, Grant Thornton Director, People and Organization**

"CFOs need to be very clear and articulate their employee value proposition," said Kim Jacoby, a Director, People and Organization for Grant Thornton. "What is their organization offering in terms of benefits, rewards and overall experience that is unique and different from what someone can get elsewhere?"

Belden and Jacoby suggest the following strategies for CFOs to consider if they want to keep their people.

- Where possible, offer people flexibility in terms of how, when and where they are going to work.
- Provide transparency into a career development plan, as employees often leave to pursue advancement opportunities.
- Listen to employees, understand their needs and concerns, and use this information to differentiate your value proposition.
- Quite simply, tell them that you care about them and that they are valued.

CFOs' workforce priorities



Source: Grant Thornton CFO survey, 2023 Q2

Technology is transformative

CFOs prioritize digital spending

Technology can provide an impetus for growth and help solve workforce shortages and other issues.

For the first time since the fourth quarter of 2021, more than half of CFOs (53%) expect their spending on IT and digital transformation to increase in the next 12 months. That makes IT/digital the second-most popular area for spending increases.

The most popular area — cybersecurity — also is related to technology. Chris Lilley, Principal, Technology Transformation for Grant Thornton, said spending in this area is strong because integrated technology has become a cornerstone of every aspect of an organization, including finance, supply chain, operations, human capital, payroll and workforce management.

Technology is a spending priority because:

- Employees expect to use leading-edge technology on the job and are afraid they will fall behind in their careers if they're using outdated tools.
- Customers and vendors want to do business digitally rather than on paper.
- The underlying data model of an organization is so integrated that everything has to be digital or processes won't be compatible.
- Advances in mobility and analytics have made it possible to connect any device to your network and improve your operations.

"Look at the healthcare industry," Lilley said. "Every single device in a patient's room is connected into their systems. So you have to be spending on technology to stay competitive with everybody else in the world. And the flip side is, you're getting a tremendous return."

Chris Schenkenberg, Grant Thornton's National Managing Partner, Corporate Tax, said technology also is one component of the answer for what he sees as the "new normal" in workforce development, engagement and productivity.

The pendulum shift toward employee empowerment that started with the entrance of the Millennials into the workforce intensified during the Great Resignation, and it hasn't abated.

"Now you've got to leverage technology to keep your workforce productivity at a high level," Schenkenberg said. "Workforce productivity is something that companies are going to have to wrestle with now and in the future."

CFOs need to reckon with a disconnect between their own impressions of their technology and their employees' perceptions. More than three-fourths (78%) of CFOs agree or strongly agree that their technology allows their people to maximize their output and efficiency. That compares with 55% of employees who agreed or completely agreed with the same statement.

Lilley said CFOs may already have spent heavily on technology, but they might not see some of the gaps that employees see where systems intersect. For example, an airline has:

- A customer-facing system that sells tickets and reserves seats.
- An operational system that keeps the fleet in the air and prioritizes safety above everything else.
- A back-office system that handles financial transactions and monitors inventory.

"Those are typically three discrete systems, and where those systems interact with each other is where the frustration is," Lilley said. "That's because the data models aren't mapped to each other."

Many companies will need to spend more on transformation to align those systems so they work together smoothly.

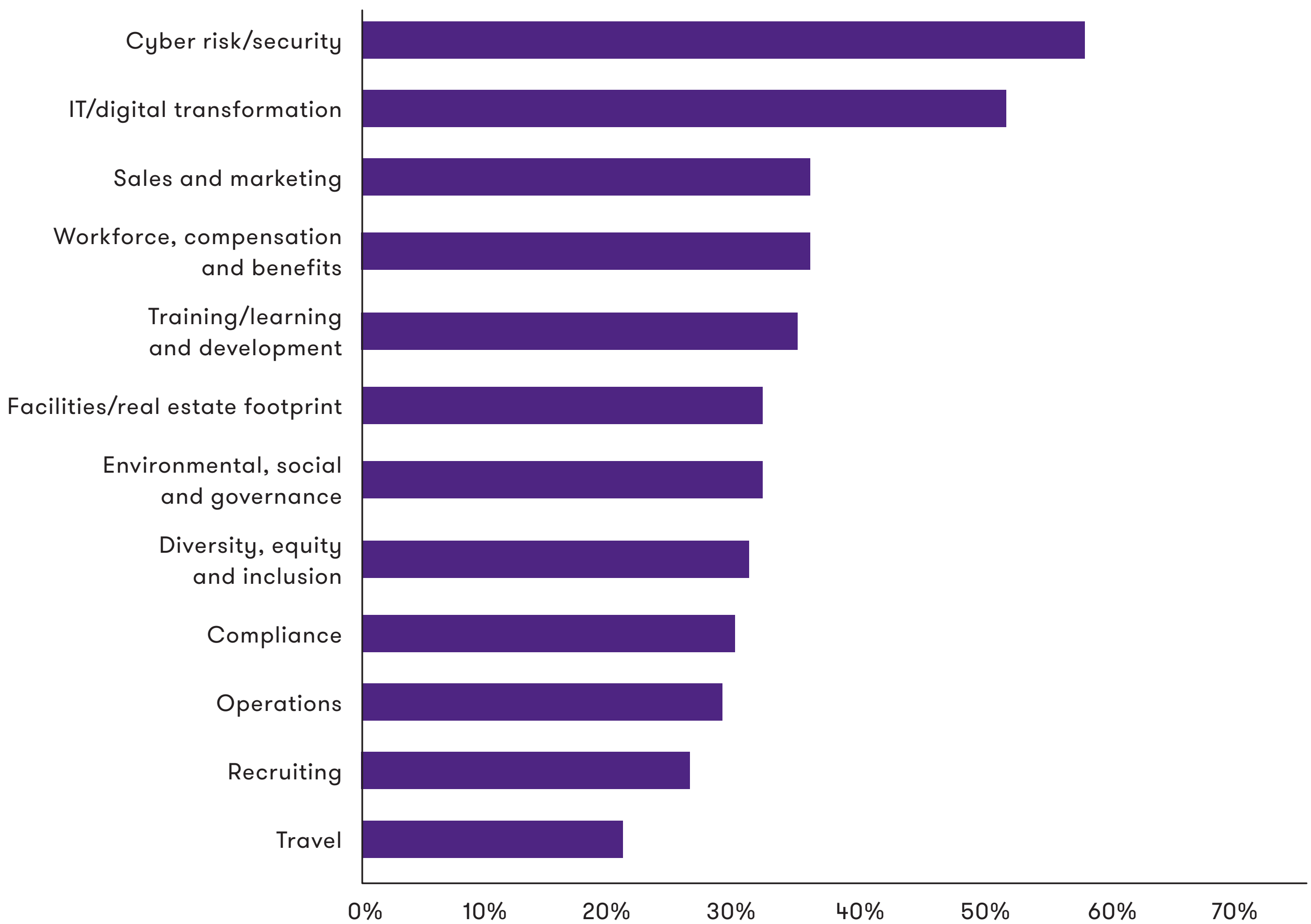
Case study: A healthcare tech upgrade

Grant Thornton recently helped a healthcare client finance department install some artificial intelligence (AI) technology on top of their email servers along with some optical character recognition technology.

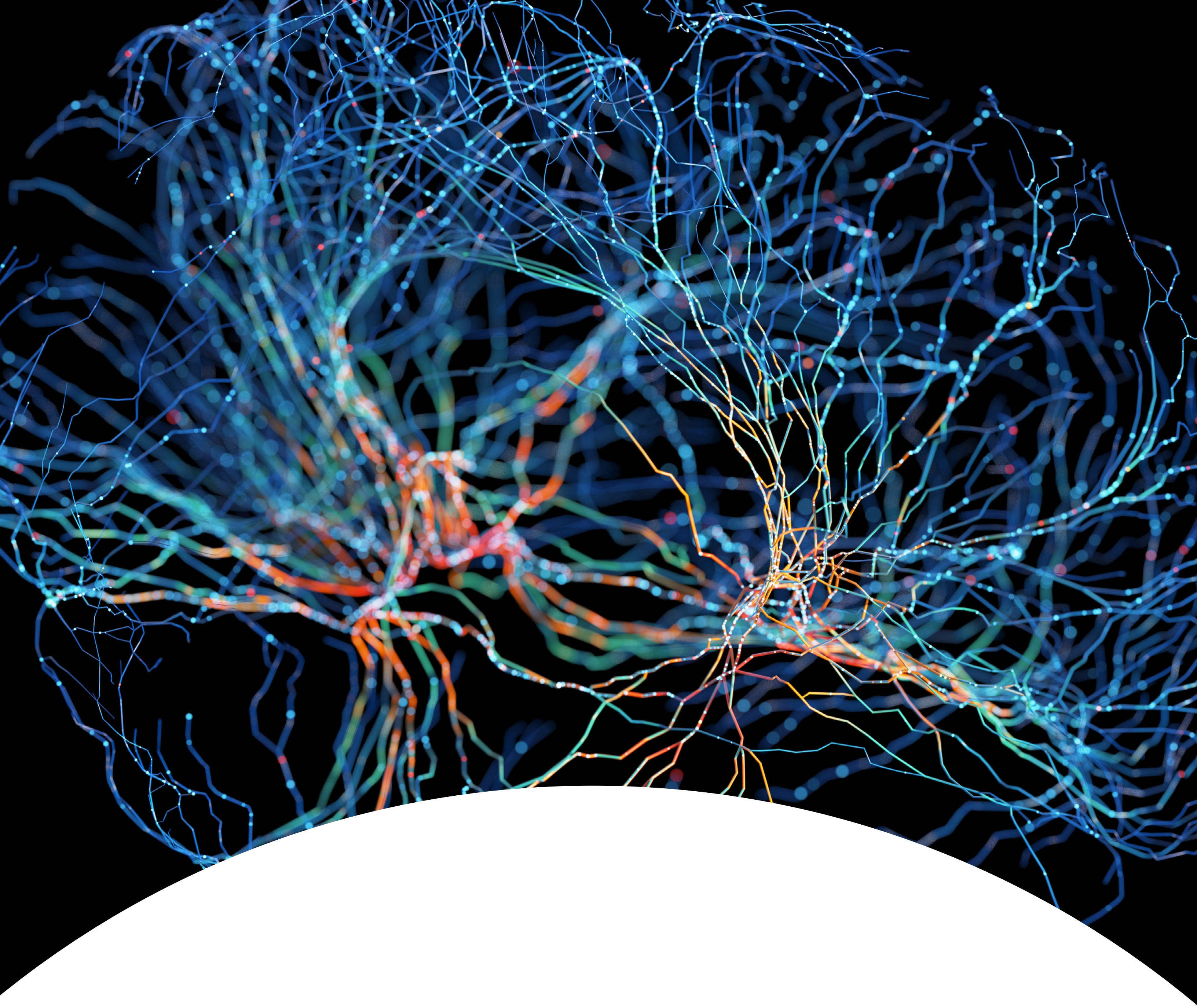
As a result, vendors got paid in a more timely fashion, and employees could spend more time on value-added work and dramatically improving customer service.

“We were basically able to reduce the workload in that department by about 60% to 80%,” said Chris Lilley, Principal, Technology Transformation for Grant Thornton. “This was all done by enabling new technology on top of some older systems.”

Areas of expected expense increase: Next 12 months



Source: Grant Thornton CFO survey, 2023 Q2



AI on the radar

Benefits and risks must be weighed carefully

CFOs responding to the survey did show a substantial openness to another form of technology that's gaining popularity and causing concern throughout the business environment.

Artificial intelligence (AI) has caught CFOs' eyes as a potential game-changer in a number of areas as organizations can use it for tasks such as:

- Content creation and summarization
- Responding to queries
- Writing software code

It's increasingly a technology of the present in addition to the future. Nearly one-third (30%) of CFOs said their organizations are using generative AI. An additional 55% said they are exploring potential uses for generative AI. Lilley is concerned, though, that AI is being used in a variety of ways without an integrated solution or coordinated strategy.

"First and foremost, you need to have somebody focused on where and how you're applying AI and advanced analytics so it's consistent with your strategy and adding value," Lilley said.

In addition to its potential to help an organization grow and innovate, AI poses risks. There's a danger that what AI "learns" will result in outputs that are undesirable or even harmful.

Because it is incapable of original thought, AI also poses a risk of plagiarizing work produced elsewhere and violating copyrights.

And while some of the CFO survey respondents who are using AI are addressing those risks, some apparently are not. Just 52% of those using generative AI have clearly defined acceptable use policies, and 44% say their board of directors has taken an active role in understanding governance over AI. But that may soon change.

"Every board is asking about it," Lilley said. "They want to know what's going on with it and how it's being applied. We have to step back and say, 'We're going to use it, but let's make sure we have a policy in place with informed, educated individuals applying that policy and using that technology.' "

As leaders who adopt AI face the risks associated with it, they will want to make sure that guardrails are set up to prevent serious damage to their organizations, customers and investors — and their reputation.

Supply chain woes ease just a bit

After rating as CFOs' top challenge in the final two quarters of 2022, supply chain concerns have eased a bit in 2023. In the latest survey, supply chain ranked behind future of workforce, technology upgrades and cybersecurity among CFOs' top challenges.

While welcoming lower freight rates and the easing of shipping backlogs, CFOs should be mindful of the supply chain lessons they learned during the early stages of the pandemic and continue monitoring for constraints and disruptions.

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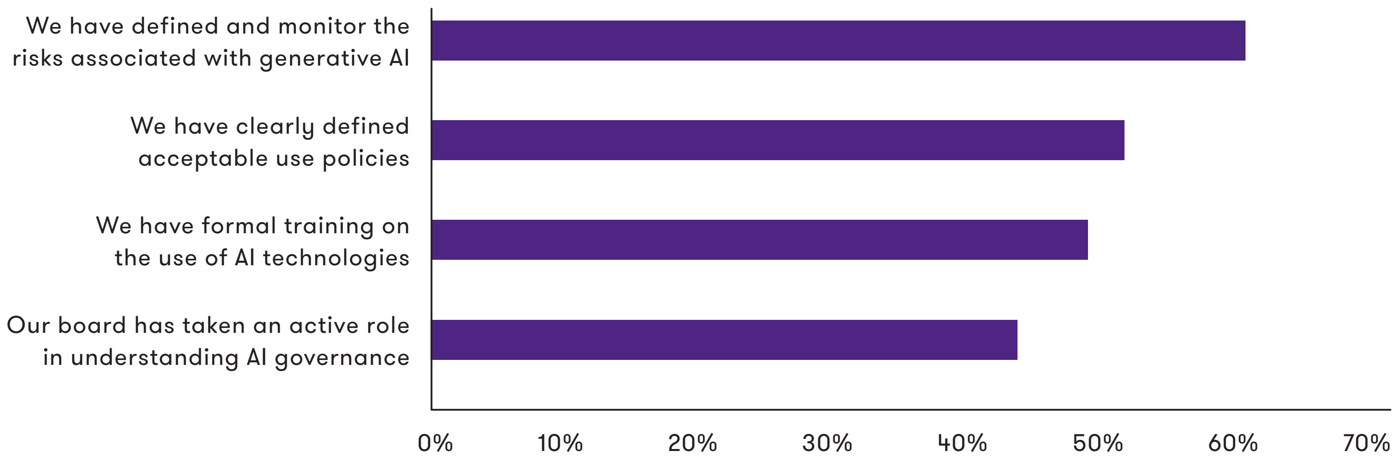
Safeguards in place for organizations using generative AI



Source: Grant Thornton CFO survey, 2023 Q2

A turn for the better?

CFOs drive forward amid hopeful developments

The business environment has brightened in some areas since CFOs responded to this survey. The potential debt ceiling crisis was averted; the S&P 500 hit a 13-month high; inflation dipped in May to its lowest rate in two years; and the Federal Reserve left its benchmark interest rate unchanged in June.

It's possible that those developments were just a temporary reprieve from the economic pain of the past 18 months, as many economists still believe a recession is coming and more interest rate hikes may be coming as well. But even if that's the case, the survey makes clear that CFOs are doggedly pursuing growth. They see their workforces and technology as means to meet their goals, and as a result they're committed to driving forward in those areas.

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