EY Center for Executive Leadership CFO Roundtable

April 2022

Corporate boards and executive management teams increasingly realize that achieving returns from digital investments requires full ownership from the C-suite. In particular, CFOs can play a vital role by creating oxygen for digital investments, helping the CEO and board understand the longer investment horizon, and being curious enough about digital to ask the right questions.

Those were some of the key messages delivered by two leading chief digital officers who engaged in a spirited dialogue with the Fortune 500 corporate CFOs who attended an EY CFO roundtable on April 6 chaired by Julie Boland, EY US Chair and Managing Partner, Americas Managing Partner–elect and CFO Network Sponsor, and led by Juan Uro, EY CFO Program Leader.

Held against the backdrop of the ongoing war in Ukraine, the roundtable also touched on the implications the war will have on global supply chains as well as rising inflation and economic uncertainty. Some CFOs said they expect inflation to worsen over the second half of the year and some also believed that a recession might be on the horizon.

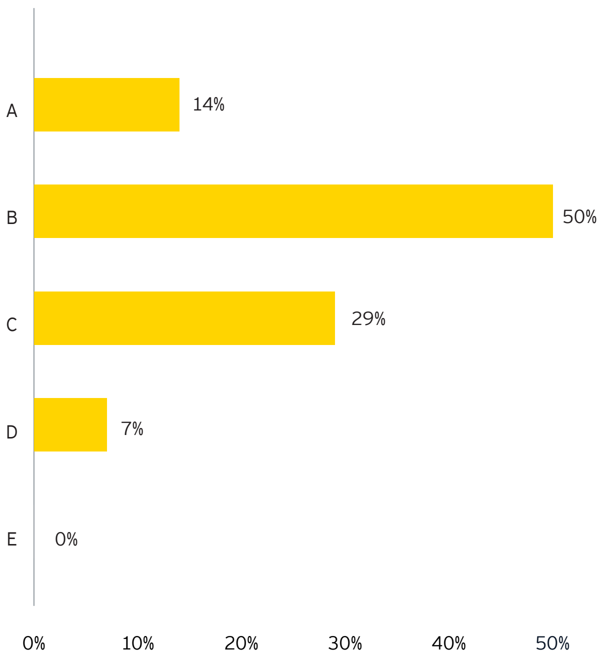
Offering their views at the roundtable were two leading chief digital officers: Bobby George, Senior Vice President, Carrier, and Hernan Tabah, Senior Vice President and Chief Digital Officer, Altria. Pat Grismer, EY Center for Executive Leadership, CFO in Residence, and Gregory Daco, EY Chief Economist, also joined the roundtable.

Nature of digital investments has changed and requires full C-suite ownership

Both chief digital officers said that the key to driving a lasting digital transformation is to secure the full support of the C-suite and advocated that companies form a transformation committee to deliver against the changes that digital can enable across the enterprise. Given how the nature of digital investments has changed, they added that CFOs should act as venture capitalists, provide seed capital and help to prioritize digital investments.

They also stressed that investments in a digital transformation should be viewed differently than IT projects. For example, at Carrier, George said digital investments were leading the company's expansion into new services and products and that strategic programs accounted for about 30% of Carrier's total digital spend.

Q Please select the option that best describes your current approach in measuring your return on digital investments (RODI)?



A. We evaluate and quantify the benefits of digital investments by measuring the RODI with the same rigor and analysis as other investments (e.g., return on investment and return on invested capital for capex, M&A).

B. We evaluate and quantify the benefits of digital investments through KPIs and with rigor, but we do not formally measure the RODI

C. We evaluate the directional benefits of digital investments through their impact on KPIs, but we do not quantify them with rigor.

D. We evaluate the directional benefits of digital investments in a "qualitative manner."

E. We do not currently evaluate the benefits of digital investments.

Driving returns on digital investment

To that end, CFOs continue to play an important role in driving the return on digital investments. Both digital leaders said a key to success is partnering with the CFO to explain the returns on investment to the CEO, rest of the leadership team, and the Board so that the power of technology isn't limited to an IT conversation. In addition, digital investments are moving from capital expenditures to operational expenses, and CFOs can provide greater cost visibility on this transition to the C-suite and impact on key metrics, such as earnings per share.

CFOs also need to help others on the C-suite understand that digital investments have a different investment horizon. George said that some leadership teams still have the mindset that they want to "see a fixed result, at a fixed date and at a fixed cost. That's very hard when you are trying to mix certainty with going fast. What's important is to establish a trade-off. Do I need to be more agile and quick vs. spend a certain amount?"

Added Pat Grismer, EY CFO in Residence, "Investments in technology sometimes require a leap of faith. Management teams and board members view rich digital platforms as table stakes and there is less of a need to build an explicit business case." To that end, companies need to consider the long-term view that, if done properly, a digital investment will result in increased revenue and reduced cost.

CFOs should be curious about digital

Tabah said CFOs need to be curious about digital projects. "I want curiosity from my CFO on what transformation means and on what digital means," he said. "They don't have to be an expert, but I want them to be dangerous enough to ask the right questions to understand what the transformation will mean for the organization." In fact, Tabah said CFOs may want to consider adding the title "chief future officer" as well.

George added that CFOs need to work with the digital team to establish a strong data foundation that will provide executives with accurate information that reflects "the ground truth," not something that's been massaged for a PowerPoint presentation.

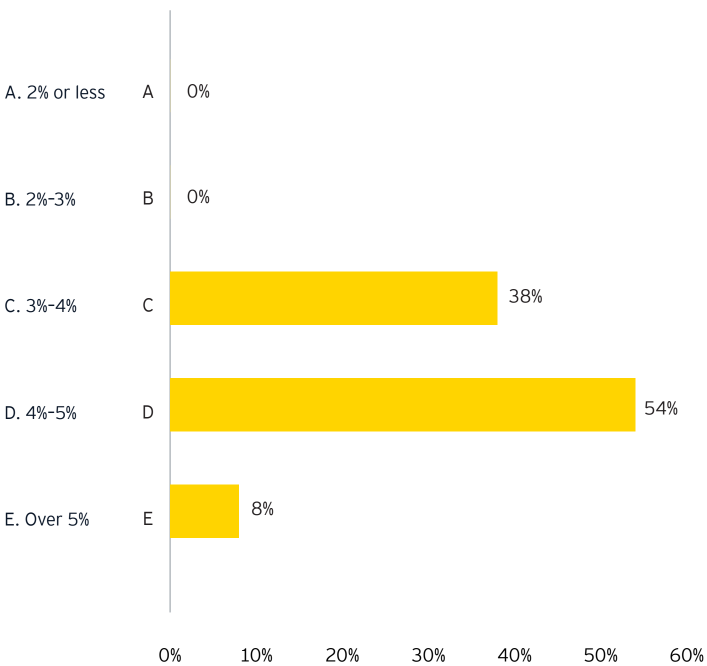
More than 50% of the CFOS said they evaluate and quantify the benefits of digital investments through KPIs and with rigor, but only a few formally measure a return on digital investment.

Geopolitical uncertainty

After the discussion on digital investments, EY Chief Economist Greg Daco talked about the implications the war in Ukraine will have on the global economy. The executives were split on which scenario they believe to be more likely: either
a negotiated stand-down or Cold War II. Either scenario, however, would result in a stalemate that would lead to continued economic uncertainty and put further strain on global supply chains that have just begun to emerge from the disruption of the COVID-19 pandemic.

In lationary and macroeconomic outlook

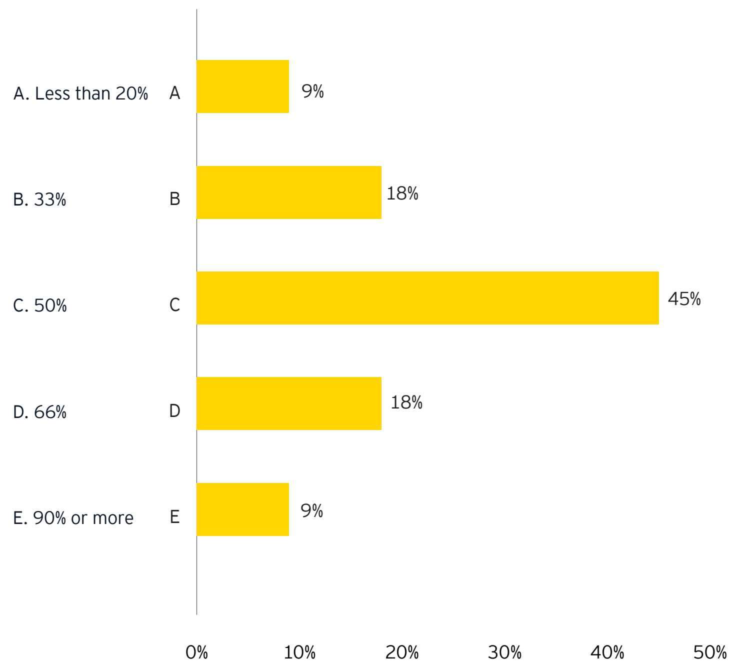
Q What are the inflation expectations built into your budget planning for 2023?



Combined with the disruptive forces already in motion, the executives said they expect inflation to continue through the year. CFOs discussed how some sectors may see continued inflationary pressures in the second half of the year, driven by continued economic momentum. While some believed that higher inflation would continue, others noted that they thought the worst was over. Unlike in past years, Daco said that the central banks in the US and Europe would act in concert to fight against inflation this year. This would likely result in higher interest rates, though it was still too early to determine the long-term impact on inflation. When planning budgets for 2023, more than 50% said they expected inflation to run between 4% and 5%.

CFO views on recession

Q What odds do you place on a recession in the next 12 months?



The CFOs also briefly touched on the likelihood of recession. Seventy percent of them believe the probability of a recession in the next 12 months is 50% or more, while less than 10% said they considered the risk of a recession to be less than 20%.

A new era of globalization

Some of the executives also wondered about the future of globalization, specifically the role global supply chains play in many existing corporate operating models. Daco noted that the trend toward rethinking existing supply chains started during the pandemic and is now being exacerbated by the events in Europe.

To that end, the financial executives believe more companies will try to build in greater resilience in supply chains, balancing out cost by moving production to the original country or moving the supply chain closer to the final consumer. "We're moving from just-in-time to just-in-case," Daco said. This new era of supply chain resilience will likely emphasize creating closer ties with stronger, more trusted partners.

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