
Preparing for an Economic Downturn: Are Chief Financial Officers and Their Teams Ready?

The timing of the next global economic downturn is up for debate, but most everyone can agree it's a matter of when, not if.

CFOs are no exception. Even if they can't agree on when the next recession will happen, they are united about one thing: the importance of preparing for it now.

Russell Reynolds Associates surveyed 534 senior executives—including 179 CFOs—at companies across the globe—to find out how worried they are about a recession and whether that worry is translating into action.

While there's little consensus among CFOs about when the next recession will happen, only 10 percent believe an economic downturn is highly unlikely in the next 18 months.

Even if an economic crisis fails to materialize in the near term, leading CFOs see the value in using calmer times to prepare for stormy weather ahead.

"While things are going well, prepare for the downside," the CFO of large-cap technology company told Russell Reynolds Associates. "Boards should be providing the checks and balances needed to keep the CEO and CFO asking, 'What happens if market conditions change?'"

Preparedness varies

But, of course, being prepared for a downturn is easier said than done.

In fact, only 6 percent of CFOs say they are well prepared to manage through an economic downturn. And while 74 percent of CFOs are somewhat or very confident they have the right team in place to weather an economic crisis, a paltry 3 percent say that their current teams are well prepared for such an event.

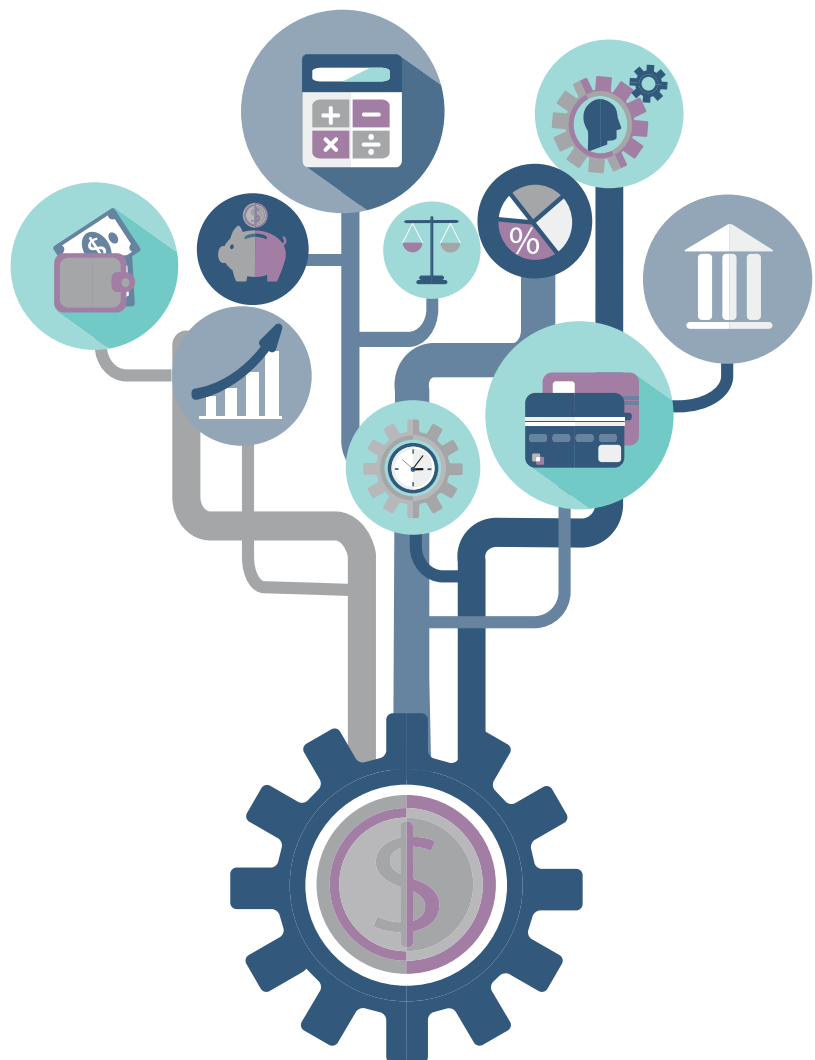
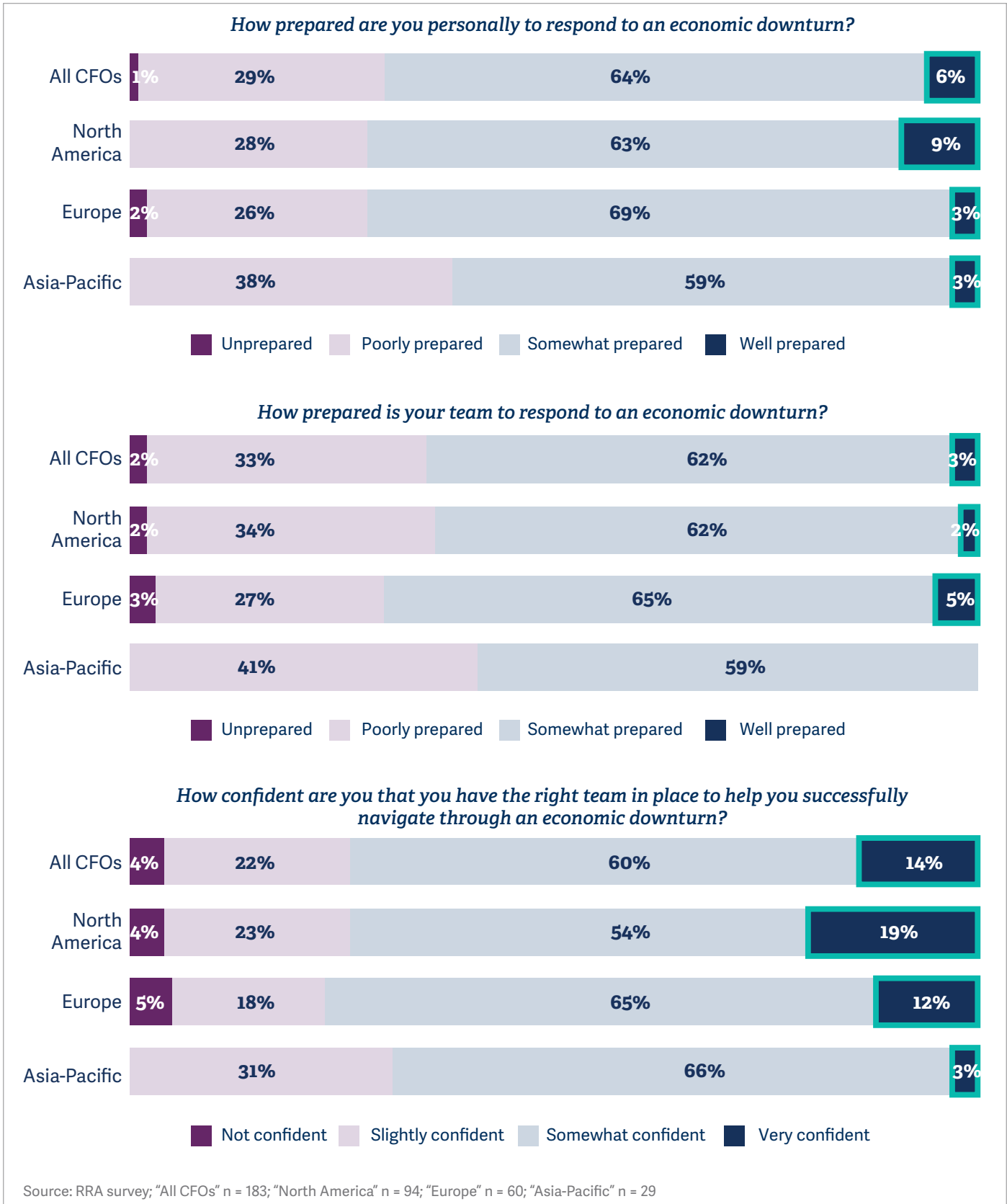


Exhibit 1. In general, CFOs say neither they nor their teams are well prepared for an economic downturn.



CFOs gave several reasons for this lack of confidence, but the three most common were a lack of experience, agility and ability to influence other parts of the business.

The CFO of a large, publicly listed healthcare company based in the United States told us that he thinks his “team will not have the leadership strength to push the business to execute on required actions.”

“My biggest fear is that we see [a downturn] too late, and measures then need to be taken at speed and with less time for thought and consideration,” a CFO of a publicly listed UK-based industrials company said.

Meanwhile, the CFO of a large, publicly listed industrials company headquartered in China told us that he worries his team just “doesn’t have the experience to handle tough situations.”

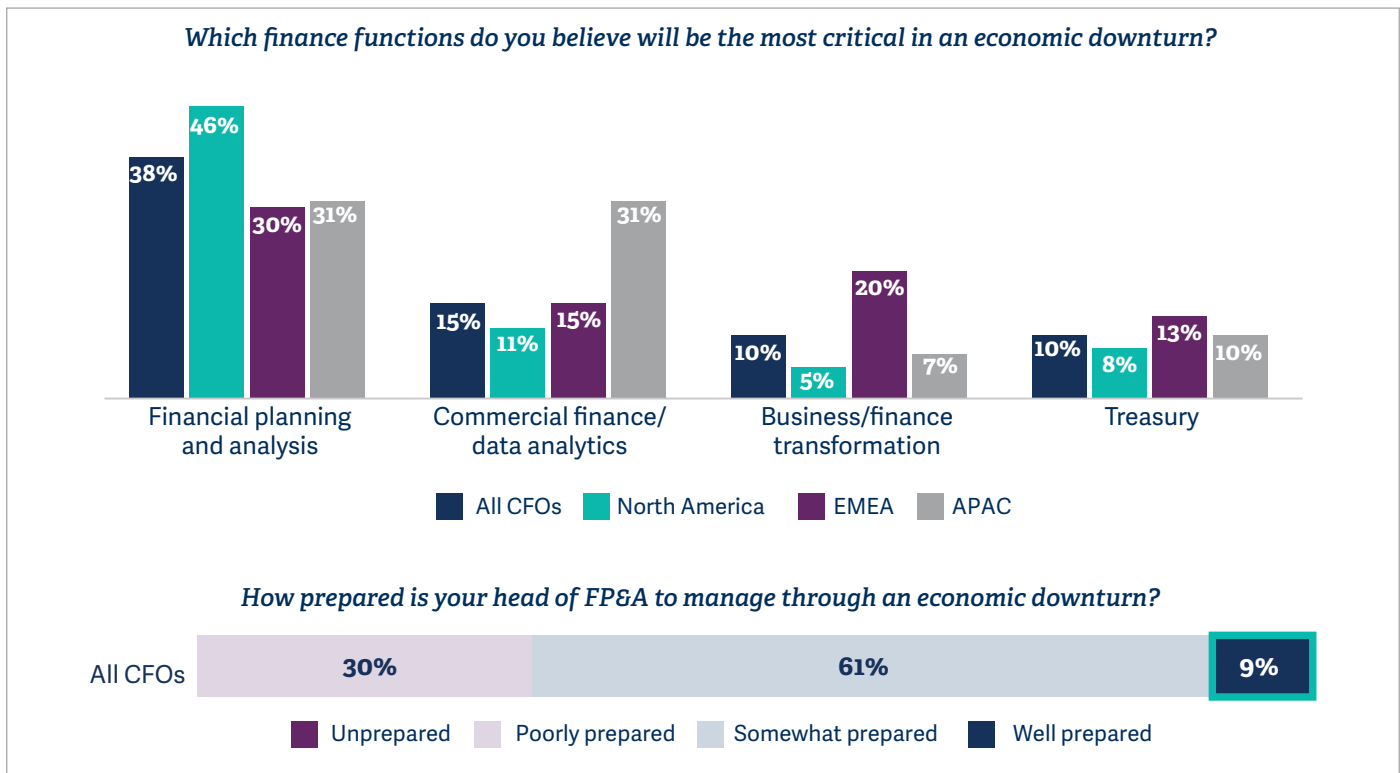
Leading the charge

Preparedness is even more essential because organizations will look to finance to manage and recover from an economic crisis.

CFOs and their C-suite peers believe finance is one of the three most critical functions that will help a company navigate a downturn, with the other two being CEOs and divisional business unit leaders.

Within finance, 38 percent of CFOs said financial planning and analysis (FP&A) roles would be most important in the response. But these leaders have a long way to go: only 9 percent of CFOs said that they were confident their heads of FP&A were well prepared to lead the function.

Exhibit 2. CFOs say FP&A will be the most critical finance function in a downturn, but fewer than 10 percent believe their heads of FP&A are well prepared for the challenge.



And when it comes to specific skills that are essential to navigating a downturn, 53 percent of CFOs assigned the most value to data and analytics skills related to commercial financial and financial planning and analysis, nearly four times the number of CFOs who prized traditional skills like treasury and divisional finance.

Despite the uneven levels of preparation across the finance function, we see cause for optimism in the widespread awareness among CFOs of the importance of preparing now. The debate over whether or not an economic downturn is imminent likely won't abate until a slowdown is evident. But the discussion could serve to keep this critical issue top of mind for financial leaders so they can be sure to have the right team and right plan in place well before they're needed.



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