

Game Plan for Growth

CFOs' imperative to take risk during uncertainty

2016 American Express CFO Future-Proofing Survey

INTRODUCTION



Global economic uncertainty remains front of mind and one thing seems certain: change is the new constant and an appetite for risk is essential. Chief Financial Officers (CFOs) from mid-sized organisations have never had a more important role to ensure the growth and security of their companies. As business leaders, CFOs need to become comfortable navigating change to ensure they respond appropriately to the barrage of economic tremors that will inevitably come their way.

In this second report of the [2016 CFO Future-Proofing series](#), which captures the views of 252 Australian CFOs from mid-sized businesses, we look specifically at how CFOs are responding to change. The news is both encouraging and unnerving. What's clear is that having a strong Game Plan to navigate a changeable financial climate is no longer an option, it is a necessity. In this report, a Game Plan signifies a three to five year proactive business strategy.

We found that CFOs in Australia are less concerned

about local threats such as the fluctuating Australian dollar or government regulation. However concerns about global economic uncertainty have increased. Despite these concerns, mid-sized businesses are focused on growth, and 83% of those with a long-term Game Plan are predicting growth in the coming year – highlighting the importance of strategic planning.

These turbulent times have created opportunities for forward-thinking CFOs and the liberty for them to unshackle stereotypes of being conservative and risk averse to being bolder in their approach. Many CFOs shared that having a long-term Game Plan has equipped them to feel well prepared for any economic climate and their strategy remains steady.

As we navigate the remainder of 2016, CFOs should ask themselves these questions: 'Am I equipped with a strong Game Plan that will allow my company to weather any potential storm? And equally important, does this Game Plan have internal support among staff?'

A team working together towards a common vision can be unstoppable. One that's going in different directions can quickly come unstuck.

We hope this report helps you assess the risks and opportunities presented in your business strategy.

We welcome your views and look forward to continuing the conversation at chieffutureofficer.com.

Martin Seward
Vice President & General Manager,
Small and Medium Enterprises
Global Commercial Payments
American Express Australia and New Zealand

KEY FINDINGS SUMMARY

This document contains interactive elements. Click on the  symbol for more detail.

MID-SIZED COMPANIES WITH A GAME PLAN



Have less fear of failure



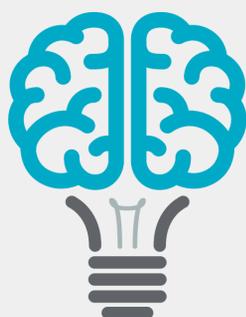
Have a higher appetite for risk



Are concerned about economic uncertainty but are less likely to adapt their business strategy to accommodate it



Adopt forward looking leadership that prioritises strategic growth initiatives



See technology as an enabler rather than fear it



Are better communicators and gain employee buy-in to business plans

GLOBAL FEARS

CFOs are on high alert and who can blame them? The global economy is increasingly unpredictable.

Research indicates that 55% of Australian mid-sized businesses are concerned about the weakening global economy. Excessive debt levels; Britain's decision to leave the EU; fluctuating sentiment in China and polarising elections are all causes for concern.

This fear is heightened in Australian organisations that also conduct business overseas. Economic volatility in China and North America, and questions around the strength of economic data from these countries, were the most significant concerns raised by CFOs in our research.

This fear is likely exacerbated by the fact that almost a quarter of mid-sized businesses fail to scan the

competitive environment to anticipate market changes - leaving many reacting to change, rather than prepared for it.

What impact are global concerns having on the business strategies of mid-sized businesses?

CFOs shared that 77% had some form of Game Plan, but only 40% of this group have taken a three to five year perspective. The majority (60%) of CFOs have adjusted their business strategy as a result of current global instability. Specifically, they have reduced revenue projections, put off hiring staff and are becoming more risk adverse.

Interestingly, organisations with a long-term Game Plan, spanning three to five years, are less likely to have adjusted their business strategy, as they had already factored overseas volatility into their plans.

CONCERNS AND ACTIONS OF THE AUSTRALIAN MID-MARKET



55%

are concerned about global economic uncertainty



60%

have adjusted their business strategy



30%

have reduced revenue projections



24%

have put off hiring new staff



18%

have become more risk adverse

CFOS' REACTIONS TO THREATS

While CFOs have heightened concerns about global economic instability, when it comes to domestic threats that are shaking the day-to-day stability of their Game Plans, CFOs cite local market conditions; cautious customer spending; a fluctuating Australian dollar and disruption from existing and new market entrants as the top causes of concern.

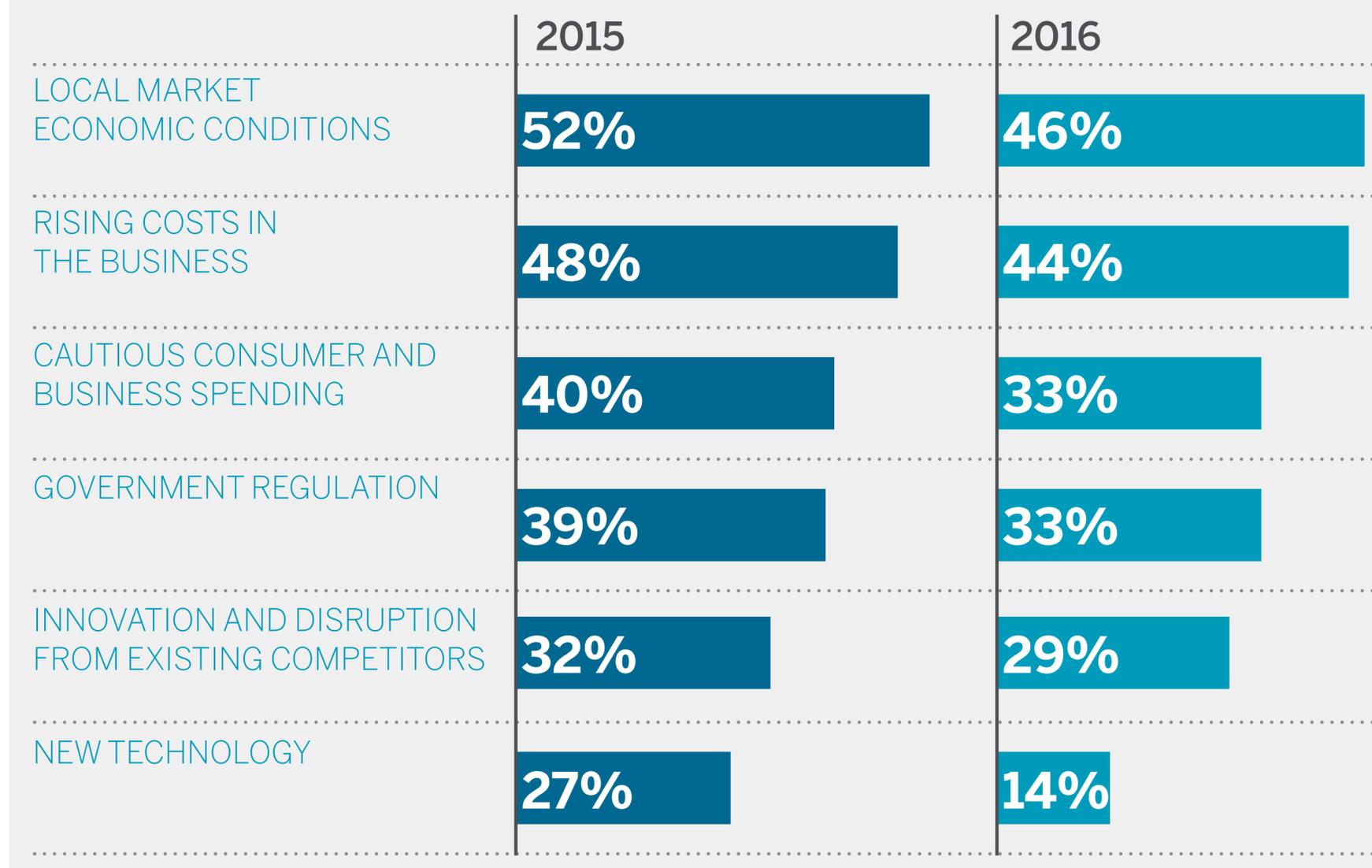
And yet this concern is less pronounced than it was a year ago. Why? The data sheds some light, suggesting that CFOs' shifting view of new technology plays a major factor. In 2015, 27% of CFOs viewed new technology as a threat to their business operations. This year, this number has fallen to 14%. Not only that, new advancements in technology have rightly taken their place as a key long-term business priority.

From our observations, we are seeing CFOs as figureheads in driving this change and encouraging their company to innovate, not stagnate.

“After many years of steady growth, we realised we needed to ramp things up to remain competitive, so we’ve set out a five year plan to triple our revenue.”

**NSW, Property Company,
\$10M- \$50M**

BIGGEST DOMESTIC THREATS TO MID-SIZED BUSINESSES IDENTIFIED BY CFOS



CFOS' CONFIDENCE AND ATTITUDE TO RISK

In 2014, a staggering 45% of CFOs believed their business could fail in the next three to five years. While this year's numbers remain concerning, they have dropped. While this year's number has reduced to 33% - which is still high – the decline does indicate heightened confidence exists in long-term business strategies.

And yet we are seeing that CFOs are taking fewer risks compared to a year ago (down 20% on 2015 figures). This is despite the majority (75%) saying their organisational culture supports new ideas and has a tolerance for those willing to take risks.

So what's driving this shift? 45% of CFOs admitted they were more wary as a result of poor decisions made in the past and were nervous to venture into uncharted waters.

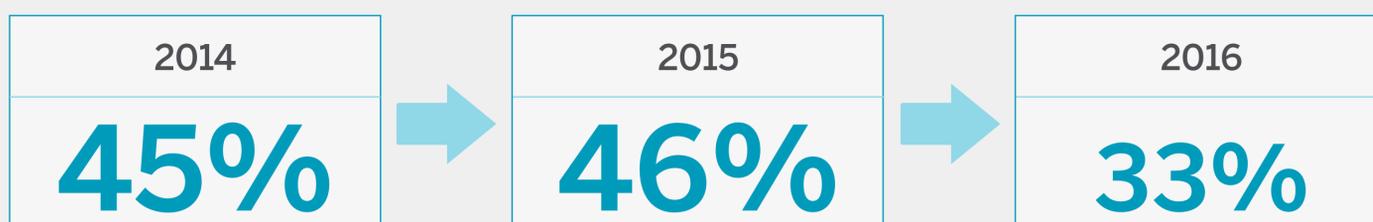
It is understandable for risk appetite to alter, but CFOs must not let the fear of calculated risk-taking cost them the opportunity to act upon strategic decisions such as new markets, products, services and technologies. Sitting still is fraught with risk and certainly competitors are looking for ways to gain an upper hand.

“Crisis mode drove us to restructure and put in specific goals and objectives for the next 2 years.”

**VIC, IT Company,
\$50M-\$100M Turnover**

FEAR OF FAILURE

The perceived risk of business failure continues to decline this year (down 13% on 2015)



BRAVE, COLLABORATIVE CFOS PROSPER

Forward-looking leadership as an enabler of strong growth was a strong theme that resonated with CFOs who had a long-term Game Plan.

CFOs from these businesses are not only more confident, they are more strategic in their decision making and are less likely to make 'knee jerk' reactions to short-term market challenges.

This is good news in unpredictable economic times when the window for effective decision-making is narrow: act too soon and you risk reacting to a blip, wait too long and you run the risk that more nimble competitors gain a foothold.

In a recent report by Harvard Business Review¹ five principles were identified to enable CFOs to become champions of long-term growth. Namely:

1. Identify the emerging threats to your business
2. Communicate how your organisation is adapting to the changing economic, business and consumer environment
3. Embrace a bold new vision of where your organisation is going
4. Set a five year target and clearly communicate your outcomes to stakeholders
5. Manage expectations about the path you will walk to achieve it – allow flexibility in your journey

As businesses prepare for the next five years, we need strong leaders who are ready to turn business challenges into opportunities. Fortune favours the brave, as long as they have a strong Game Plan behind their thinking.

However, mid-market organisations still have a way to go to navigate the Harvard Business Review principles. Our research shows that almost two-thirds (64%) of mid-sized organisations have not fully integrated their vision into the company culture and do not believe employees understand the business strategy.

This suggests CFOs and business leaders in mid-sized businesses need to consider a more frequent and structured employee communications plan to help drive leadership vision and employee engagement.

Arguably, this cultural shift provides one of the biggest opportunities for growth among mid-sized organisations. Employee engagement and business success should go hand-in-hand.

COMMUNICATION IMPROVEMENTS ESSENTIAL



64%

fail to effectively communicate their business strategy to employees, (includes 15% do not communicate their business strategy to employees at all).



36%

do regularly communicate their business strategy to employees and feel they understand and buy into it.

¹ Sinfield, J and Trotter, A, *The Harvard Business Review*.

Available from <https://hbr.org/2016/03/how-cfos-can-take-the-long-term-view-in-a-short-term-economy> [10 July 2016]

GAME PLANS DELIVER GROWTH



“We’re not scared to take risks and realise that in order to be the ‘disrupted’ we need to be the disruptors.”

**Michael Lavelles,
CEO and CFO,
Beyond Travel**

LONG-TERM BUSINESS GAME PLANS ENABLE **MORE CONFIDENT CFOS**

CFOs armed with longer-term Game Plans are significantly more confident (42%) that their organisation will achieve its goals than CFOs with no Game Plan at all (10%). They recognise the importance of remaining committed to strategic initiatives rather than altering their position based on the latest trend or disruption. This is underpinned by three main factors:

“Prior to this [new plan] it was all short-term considerations and short-term decisions.”

**VIC, IT Company,
\$50M-\$100M Turnover**



| |  Very confident of achieving business goals |  Quite confident of achieving business goals |  Not confident of achieving business goals |
|--------------------------|---|--|--|
| LONG-TERM GAME PLANNERS | 42% | 56% | 2% |
| SHORT-TERM GAME PLANNERS | 16% | 75% | 9% |
| CFOS WITH NO GAME PLAN | 10% | 53% | 37% |

“The role of a leader is to define reality and give hope... Then you’ve got to put together a strategy that galvanises people, that gives them hope that they can overcome the obstacles or achieve something that they didn’t think was possible.”

Ken Chenault,
American Express Chairman and CEO

CONCLUSION

CFOs are navigating in unpredictable conditions. Global economic uncertainty can hamper confidence, cause costs to blow out, dampen demand and increase competition from overseas market entrants.

In an environment of subdued domestic growth and a volatile economy, Australian mid-sized businesses must evolve or face the prospect of continued struggle.

CFOs must be encouraged to lead from the front with confidence and help drive change within their companies. Those who are successful are intimately involved in setting the strategic direction, are bold in their vision and recognise the opportunity for innovation and technology to help their organisations evolve.

There is a need to engage the whole company in discussions about what their Game Plan entails and to engage employees in a shared vision for the future. By having full scale support, a CFO is best placed to make informed and confident decisions in the face of economic uncertainty.

Understandably CFOs and other business leaders are more risk averse in unpredictable times, yet it's encouraging to see that the mid-market is more confident of survival than in previous years. We know calculated risk-taking is the key to fuelling innovation, fending off competitors and generating long-term growth.

How can CFOs find the balance between investing in strategic innovations rather than reacting to short-term market fluctuations? The answer lies in a clear vision and long-term Game Plan with the flexibility to design how you get there.

Ideas and overarching objectives are no-longer a viable option for CFOs. Organisations with long-term Game Plans of three to five years perform better across numerous indicators as shown in the [Chief Future Officer](#) series.

The question is – Are you willing to become a more effective Game Planner?



HAVE A CLEAR VISION



SET A LONG
TERM GAME PLAN



LEAD FROM
THE FRONT



TAKE CALCULATED
RISKS



ENGAGE THE
WHOLE COMPANY

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