

The CFO Lens  
H1 2009 – Rays of hope

# Foreword

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South Africa has a greater depth of high-calibre senior finance executives<sup>1</sup> than any economy comparable in size. Their influence flows from diverse experience, world-class skills and innovation. Finance executives' oversight of the transformation and globalisation of the post-apartheid economy has sharpened their edge. Yet never in their careers have they experienced the challenges of a global economic downturn such as the one they now face.

Deloitte South Africa commissioned a benchmarking study in April 2009 to examine the economic outlook and corporate responses as seen through a CFO-focused lens. This survey captures a snapshot, spanning the national government elections, the declaration of the first official recession in 17 years and a mixed bag of local and global economic news. Nevertheless, the results of this first such study typically capture CFO reactions to the economic downturn and serve as a reference point for subsequent shifts in perception and behaviour.

An independent research house, Kaufman Levin Associates, conducted the survey for Deloitte on an anonymous, confidential basis. CFOs, or their equivalents from 120 of South Africa's top organisations nationally, were included in the sample. Their organisations characterise a broad and representative cross-section of South African industry, covering listed and unlisted entities in the private sector as well as major public sector utilities.

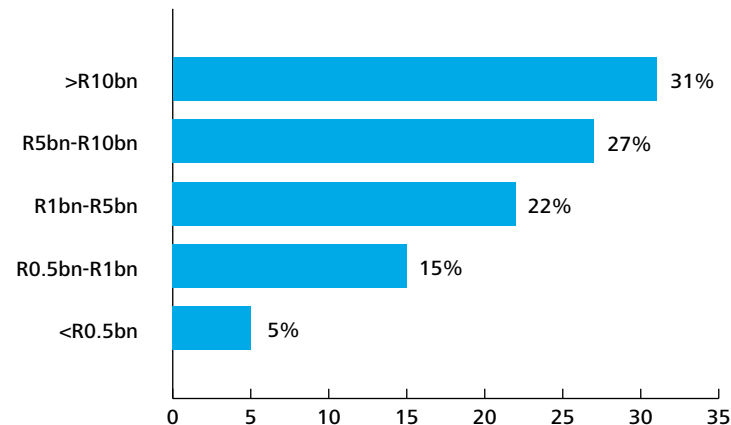
<sup>1</sup> Collectively referred to in this survey as CFOs. Usage of the term CFOs in the text of this publication should be seen as referring to South African Chief Financial Officers, Financial Directors and senior Finance Executives unless specified otherwise.

## As a forward-looking evaluation of the overall sentiment and perspective of CFOs, we are confident that this study will serve as a relevant yardstick for future debate and analysis.

The exceptional response rate of 46% allows us to draw statistically sound and meaningful conclusions for the economy as a whole and for CFOs in their executive roles. As seen from the following graph, 58% of respondents represented organisations with a turnover in excess of R5 billion.

### Turnover spread

% of respondents representing company turnover of



We have taken the opportunity to compare and correlate the South African survey results against those of similar Deloitte surveys conducted in the USA, Europe and the Far East. References to these international studies have been included where relevant.

The survey results contained in this publication speak clearly of the changing roles and unprecedented influence of CFOs in their organisations and the economy at large. Not only do they control the levers of their organisations' balance sheets, but they are an integral part of driving strategic change. As a forward-looking evaluation of the overall sentiment and perspective of CFOs, we are confident that this study will serve as a relevant yardstick for future debate and analysis.

Few incumbent CFOs have the luxury of nonchalantly sitting the recession out, watching from the sidelines. Instead, their strategic responses inform us of their mindsets, their agility and opportunism, their risk aversion and levels of preparedness for the unforeseen challenges that lie ahead and the inevitable upswing. It is for precisely this reason that the timing and sustainability of the economic recovery lies in their hands.

We would like to sincerely thank all respondents who participated in this survey.

**Trevor Brown**  
Clients and Markets Leader

**Hugh Harrison**  
CFO Programme Leader

# Executive Summary

## Highlights from the 2009 H1 Survey

South African CFOs portray higher levels of optimism compared to their global peers in both the severity of the downturn and timing of recovery.

Mixed earnings outlook for 2009 portrays the true level of uncertainty, yet 71% expect recovery to have taken root by June 2010.

The post-recession economy will not resemble its former self, leaving many companies more exposed than before.

Preserving and stockpiling liquidity is the main priority for cash flow, followed by deleveraging debt as the majority of large companies seek to sit out the recession.

Although CFOs feel well prepared to cope with current events, few have fully incorporated the downturn into their financial plans and strategies.

CFOs are most concerned about those risks that are beyond their sphere of influence, yet their strategic effort is preoccupied with internal focus.

The financial and reputational risks associated with BEE deals are not receiving the attention they deserve, with limited appetite for restructuring out-of-the-money deals.

CFOs are struggling with the decisions on whether or not to cut dividends and maintaining investor confidence.

The majority of CFOs are adopting a wait-and-see approach whilst the hungry few are actively capitalising on the potential opportunities to grow market share.

CFOs have never before occupied such a central and influential position that is capable of leading their organisations and the South African economy out of the recession.



# The downturn landscape

The first half of 2009 ushered in a global recession of unforeseen immediacy and magnitude. The credit crunch saw the unmasking of historically unprecedented leverage and misplaced trust in the worldwide financial system. Consequential government-sponsored bailouts attempted to restore confidence and counteract significantly eroded asset prices.

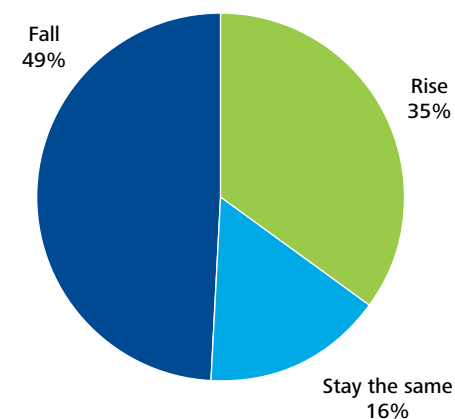
As the economic crisis spreads, policymakers and executives find themselves increasingly conflicted. How does one balance the competing demands of demonstrating short-term results whilst still pursuing measured strategies to cope with the downturn?

In South Africa, regulation and a conservative mindset have helped insulate the banking system and delay the onset of recession. The downturn first surfaced in the real economy through dramatic declines in commodity prices and export-driven demand. GDP statistics released in May 2009 exposed a much deeper than anticipated contagion of the South African economy by global events.

This negative expectation was clearly evident in the earnings outlook for South African companies. Of those who expect earnings to fall, 70% foresee a decrease of more than 10%. Although this view is not universally held, the extent of positive earnings outlook highlights the true uncertainty about what 2009 may bring.

## Earnings outlook

% of respondents earnings expectations for the next 12 months

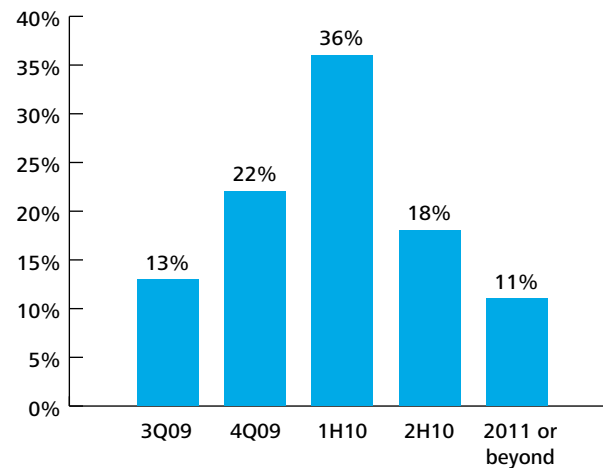


Changes to the business environment over the next year reflect a similar picture with an equal proportion of CFOs expecting improvement and worsening of conditions. An insignificant minority of CFOs expressed a concern that the economic crisis would evolve into a second great depression or protracted bear market. Others were cautious not to overreact.

71% of CFOs anticipate that the recovery will have taken root by June 2010.

**When will the business environment improve?**

% of respondents who expect to see an improvement in the business environment by



Similar studies conducted by Deloitte in the USA, Europe and the Far East present a stark contrast to South African CFOs’ optimism by envisaging meaningful improvement to be delayed until early 2011.

Anecdotal evidence from this survey implies that South African corporates are more accustomed to dealing with significant economic challenges and therefore feel less threatened by current conditions. Government’s investment in infrastructure, the upcoming 2010 FIFA World Cup™ and recent interest rate cuts are all believed to contribute to this sense of hope.

# The CFO view

## Perhaps the only certainty is that the post-recession economy will look very different from the economy that preceded it...

One of the dangers CFOs face in these turbulent times is feeling paralysed by the uncertainty of what they should be preparing their organisations for and deciding how they should be responding to the potential outcomes. Perhaps the only certainty is that the post-recession economy will look very different from the economy that preceded it, both locally and globally. In all likelihood, the ultimate economic recovery will start off a new base, with little resemblance to previous recoveries.

The Deloitte CFO Survey provides a significant degree of comfort in identifying commonly held perceptions and confirms that CFOs share many clear and consistent downturn views.

### The market image

The end of 2008 saw a significant decline in global markets and dramatic increase in volatility. In many cases, the stock market declines erased the past decade's growth. The decline was less pronounced in South Africa despite the JSE All-Share Index falling 45% from its height of 32,760 in May 2008 to a low of 17,814, a level last seen in December 2005. The market soon rebounded with optimism and talk of 'green shoots of recovery', clawing back one third of its loss; yet the volatility remains. So how do CFOs perceive the outlook for key market variables?

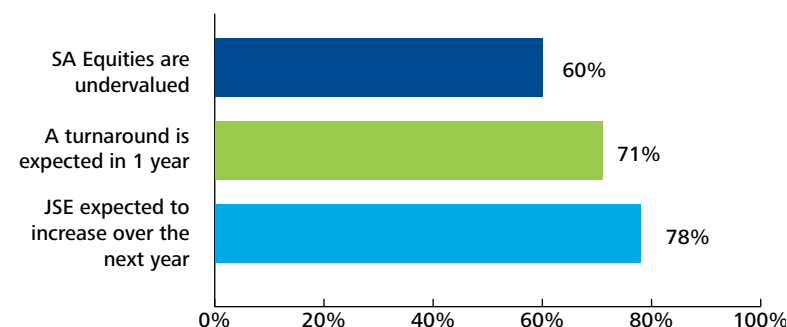
Recent gains aside, general South African equity valuations are still considered to be somewhat undervalued by 60% of respondents, particularly by larger companies. This would imply that investors are sceptical of whether the recession-induced impact on earnings has fully revealed itself in company results.

In contrast, 91% believe that their own organisation's equity is currently undervalued, potentially indicating that organisations feel that the market has significantly mis-priced their companies' specific earnings prospects.

78% of respondents believe that the JSE All Share Index will continue to rise over the next year. This confidence supports CFOs' optimistic belief in a quick turnaround. The market is, however, more pessimistic than CFOs themselves. What do these CFOs know that the market and investors don't?

### CFO expectations under the microscope

% of respondents' believing that



CFOs expect the recession to have a negative and inflationary impact on commodity prices together with the basket of ZAR trade-weighted exchange rates. In the case of hard commodity prices, this benefits mining and resource company earnings, although cost pressures are expected to outweigh the positive impact.

A further significant inflationary impetus comes from the impact of global fiscal and economic stimuli packages and relaxations in monetary policy. In the UK and USA, authorities reacted promptly to the downturn with significant interest rate reductions. South Africa also initiated rate cuts, albeit at a lagged pace.

The extent of first-world interest rate cuts significantly exceeded those in South Africa, yet perceptions of the cost of credit differ markedly. With negligible short- and medium-term interest rates in the west, more than 80% of US and European CFOs perceive the cost of credit to be very expensive. This perception can be primarily attributed to the drastic contraction in credit supply and banks' risk appetites.

The effect in South Africa has been more muted, primarily impacting only individuals directly as a result of the National Credit Act. Only 27% of CFOs believe credit to be very expensive, with corporate gearing and funding models more accustomed to integrating the relatively higher cost of credit.

### Red lights – risks CFOs see

The three most significant risks faced by CFOs are:

- continued depressed economic conditions;
- managing cash flow and liquidity; and
- capital funding.

Each of these risks is discussed separately below.

#### Red lights

- Continued depressed economic conditions
- Managing cash flow & liquidity
- Capital funding



#### Amber lights

- Rising wage & input costs
- Cost of capital
- Shortage of key skills
- Political uncertainty
- Black Economic Empowerment deals

Systemic, rather than organisation-level risks remain of significant concern. Those factors that CFOs regard as more controllable are viewed as less of a risk. CFOs' ranking of risk factors reflects the reality that limited opportunities exist to counter or influence the global drivers and direction of the economic crisis on South African corporates (including at national policy level).

## Are South African corporates' pockets deep enough to ride out the storm should it persist longer than expected?

Despite the national elections, CFOs did not appear particularly concerned with political risk, confident of the outcome being certain and expecting policy stability at least in the short to medium term. This marked a significant change in areas of concern based on studies conducted in August 2008<sup>2</sup> when South African executives considered political risk to be the single most important risk factor.

Similarly, the risks associated with adequate staffing and retention of talent were relegated to the lower end of CFOs' lists of concerns. Other than the mining, manufacturing and retail industries in which large-scale retrenchment programmes are seen as critical for survival, South African CFOs in other industries appear reluctant to take drastic action or risk losing experienced staff.

### Continued depressed economic conditions

More than half of South African CFOs see continued depressed economic conditions to be the single largest risk factor facing their organisations. Arguably a sentiment concern, this risk factor manifests itself in three primary areas, namely prolonged stress in the financial system, weaker demand and volatility in key external variables. Existing market confidence and optimism are considered fragile. CFOs see themselves at the mercy of fate with the South African economy inextricably interlinked to the global economy.

Continued uncertainty associated with repeated downward reassessments of global growth forecasts by the IMF and World Bank paint a nervous backdrop to CFO hopes for their own organisations. The prevailing sense is that no-one knows how long this will last or how deep it will be. Yet the risk remains that inaction or excessively delayed strategic responses by companies could put them at a significant competitive disadvantage.

Are South African corporates' pockets deep enough to ride out the storm should it persist longer than expected? Despite the significant increase in South African company liquidations in 2009, a number of CFOs expressed the concern that they had yet to see a large corporate default. These CFOs were unsure of what the impact of such a default on the interlinked South African financial system would be.

A further criticism raised was in respect of the lack of visibility of market conditions, as well as inadequate transparency in earnings and valuations. Although keen to reassure investors, certain CFOs appear hesitant and unsure of themselves. In keeping their options open, they risk failing to present investors (and, critically, employees) with a credible, balanced picture of company prospects on a sufficiently timely basis.

Ironically, South African CFOs have had more experience in dealing with the volatility of external variables than their US and European counterparts. American industry has never had to deal with the pricing risk of their products arising from high currency volatility whereas South African companies by and large have adopted comprehensive currency-hedging strategies.

<sup>2</sup> Deloitte FutureWorld Study - What's Keeping Executives Awake at Night? July 2008

Because of its structural make-up, the impact of weaker demand is better balanced between the consumer and producer sectors of the South African economy than in the USA and Europe.

CFOs commented on both the demand-side and supply-side impacts, and, in particular, the debilitating effects of inventory destocking. These effects are especially negative for export-oriented organisations (predominantly the manufacturing and mining industries) where the drop in demand from major customers has been severe. Dramatic declines in commodity prices and related production by major South African mineral and resources companies have contributed to this significant knock-on impact on second-order industries.

Nevertheless, certain CFOs expressed an optimistic outlook, commenting that although the market has shrunk significantly, opportunities do exist and organisations simply need to work harder to enhance market share.

### Managing cash flow and liquidity

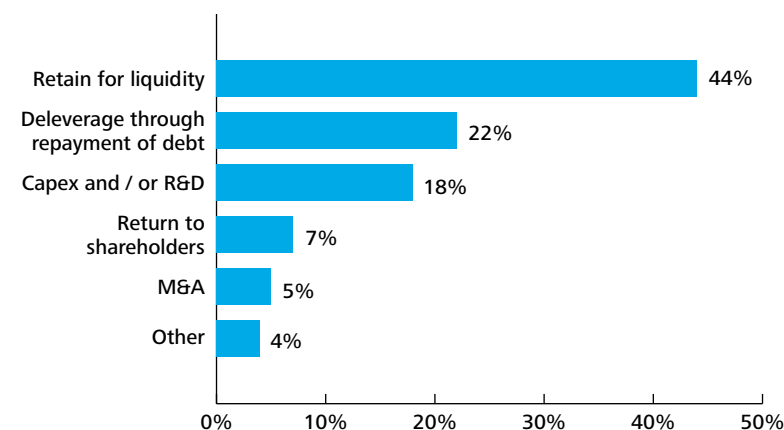
Cash flow risk was pervasive to CFO concerns. A significant degree of focus and prioritisation was given to managing and monitoring organisational cash flows yet clear differences existed in the techniques and strategies for doing so. CFOs also differ in their expectations regarding the overall impact of the downturn on cash flows, with 47% of respondents expecting their operating or free cash flows to increase and 40% expecting a decrease over the next twelve months. Of those expecting an increase, only one third expect an increase in real terms. Manufacturing represented the most optimistic, and financial services the least optimistic sector.

Tactically most companies are responding to the downturn by focusing on retaining cash primarily for liquidity purposes. This is not surprising considering the uncertainties with respect to weaker demand, rising defaults and organisations' reduced

ability to access cost-effective alternative funding sources should the need arise. Most evident in larger companies and the retail industry (67%), CFOs display a strong preference for pursuing a strategy of stockpiling cash to sit out the recession and prepare for the inevitable upswing.

### Main priorities for cash flow

% of respondents who identify the following priorities for cash flow



The repayment of debt represents the second highest priority for cash flows. This is most evident in the manufacturing industry (47%) and in companies with turnovers below R1bn and those greater than R10bn. One of the concerns in reducing debt is to avoid potential breaches of debt covenants. This is of particular interest for companies whose debt covenants impact their Black Economic Empowerment transaction funding.

Cash flow priorities for capital expenditure and research and development remain a priority for the mining industry (40%) and medium-sized companies (26%).

## The refinancing of short-term borrowings and the renewal of credit facilities have become particularly difficult and risky for corporates.

### Capital funding

The global capital shortage has had a direct impact on South African corporates, particularly given the economy's structural heavy reliance on short-term funding. 78% of respondents regarded the availability of new credit as hard to secure, most significantly for the mining and manufacturing industries. Together with equity, funding is seen as a barrier rather than an enabler in dealing with the downturn in South Africa, particularly when it comes to restructuring and acquisitions.

The refinancing of short-term borrowings and the renewal of credit facilities have become particularly difficult and risky for corporates. Many organisations, in support of their continued ability to operate as a going concern, are battling to secure the necessary alternative funding sources at reasonable cost.

Where credit is readily available, borrowing credit spreads have, in certain cases, more than offset the benefits of reduced prime rates, particularly for corporate and sovereign lending. CFOs agree with their global counterparts, albeit to a lesser extent, that credit has become significantly more difficult to access. This is due in part to the National Credit Act, coupled with more conservative lending policies by banks. A further consequence has been the trend away from more sophisticated structured lending (such as securitisations and direct corporate bond issuances) towards bank funding.

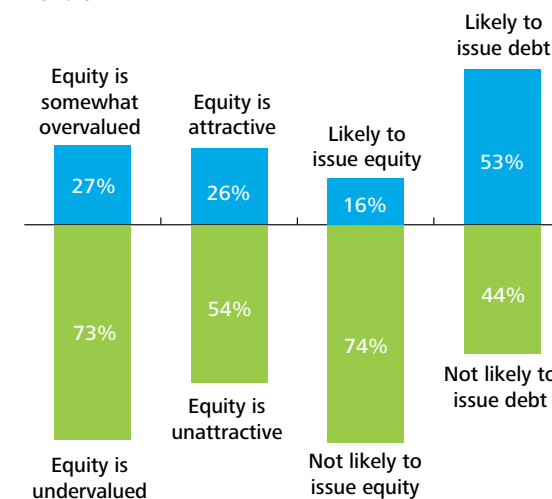
Respondents are concerned that funding for capital expenditure, research and development and growth opportunities will be difficult to obtain. Few South African organisations have access to the long-term funding needed to support such projects and investments at competitive levels.

SA corporates demonstrate a greater preference for debt financing over equity financing in current market conditions when compared to the UK and USA. Only 26% of South African CFOs see equity funding as attractive and only 16% anticipate issuing equity in the next twelve months. There is a direct correlation between those CFOs who believe their own equity is fairly valued by the market and those who are considering issuing equity. Thus small companies, who believe their equity is most undervalued, are least likely to issue equity.

In contrast, 53% of CFOs are planning to raise debt or new credit facilities over the next 12 months. This is markedly higher for large companies (70%) compared to small companies (27%) and is highest for the retail industry.

### Perception of South African Equity

% of respondents' attitudes towards debt and equity issuance over the next 12 months

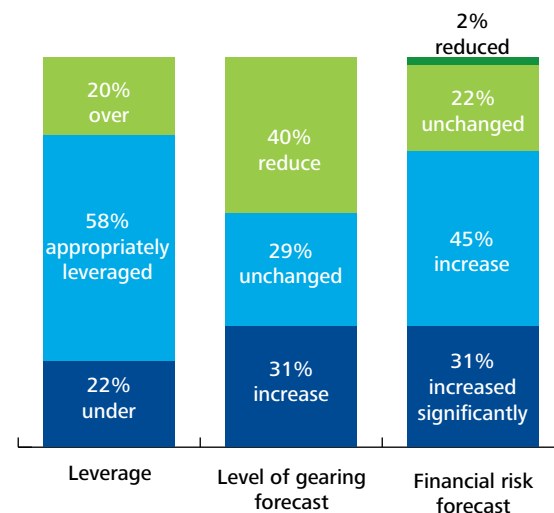


Whilst 76% of CFOs acknowledge that the level of financial risk has increased over the past 12 months, 80% of respondents expressed a belief that SA companies are either appropriately or under-leveraged. This compares very favourably to the UK, where only 34% of balance sheets were considered appropriately leveraged. Some CFOs raised the concern that too much lazy capital was sitting on company balance sheets, creating opportunities for more effective structuring and performance management.

Whereas only 20% of CFOs believe their balance sheets are overleveraged when it comes to coping with the recession, 40% are planning to reduce their gearing over the next 12 months. A further 50% have adopted explicit debt-reduction strategies.

**Financial risk and balance sheet leverage**

% of respondents' attitudes towards current balance sheet leverage compared to gearing level and financial risk expectations for the next 12 months



**Magnifying Black Economic Empowerment**

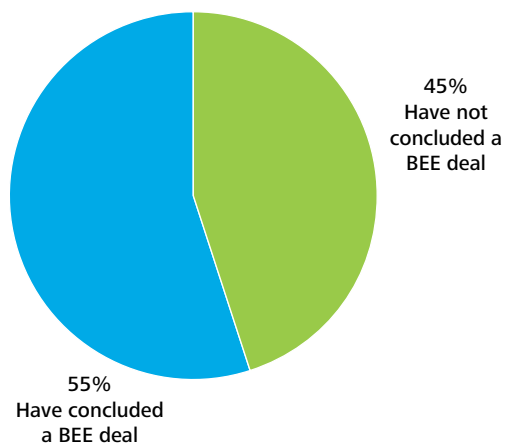
CFOs were asked to share their opinions on the impact of the downturn on the funding and structuring of BEE deals. The Survey indicates a level of unease that this significant risk area for organisations is not receiving the attention it deserves. The leverage inherent in many of these deals has simply become unsustainable in the current crisis. CFOs have mostly taken the approach to wait and see whether the impact of the economic downturn is prolonged and to defer deals under consideration.

Historic BEE deals have traditionally relied on bank funding to secure the purchase of an equity stake at a discounted or current market valuation. Sometimes co-funded by the BEE party, these deals rely on continued future earnings growth, growing dividend flow and future equity capital appreciation to secure the repayment of the funding.

In an environment in which revenue growth is directly impacted by BEE status, it is surprising to learn that as few as 55% of respondents have completed a BEE ownership deal. Larger companies as well as industries regulated by charters such as the mining and financial services sector reflect a higher conclusion rate. The manufacturing industry, at 40%, represents the lowest conclusion rate of companies surveyed.

### BEE Ownership deals

% of respondents reporting they have concluded BEE ownership deals



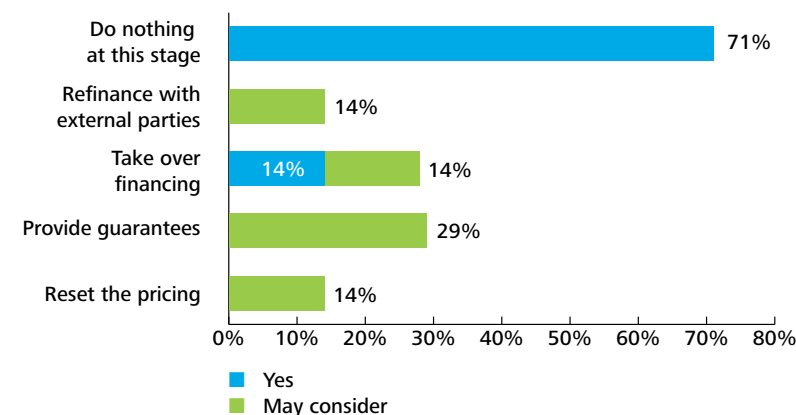
All respondents believe that BEE deals have become more difficult to implement, with the greatest stress shown by the mining sector which is entering its second phase of empowerment deals. The economic crisis has contributed directly to a scarcity of bank funding, particularly for large deals. This has had a knock-on effect by effectively forcing companies to go the route of vendor financing, taking additional funding risk on their own balance sheets at a time they can least afford to.

The sharp decline in equity valuations has resulted in 43% of respondents' BEE deals being currently out of the money, 23% significantly so. Since market prices ideally factor in a share's expected future earnings and dividend growth, a significant financial threat is posed to these deals.

Respondents were asked to comment on what action they would take in respect of deals that were out-of-the-money. 71% said that they were likely to do nothing at this stage, with the remainder considering taking over the financing. Limited support was identified for resetting the deal prices at current market levels, in line with the sensitivity of many boards of directors to restrike underwater executive share option plans.

### Out-of-the-money BEE ownership deals

% of respondents reporting their intentions with out-of-the-money deals



Companies could be seen as myopic in not assessing the reputational risk should the BEE financing not be repaid at maturity, thereby failing to transfer the initially anticipated equity stake.

Considering the risks and challenges CFOs are likely to face over the next 12 months, 87% feel well prepared in terms of their experience and skill sets. What in their game plan makes them so confident in tackling the downturn?

## What in their game plan makes them so confident in tackling the downturn?

# CFO actions

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...CFOs would be wise to factor in the reality that any economic recovery will likely take some time to reflect fully in organisational performance.

We asked CFOs to indicate the extent to which their organisations had incorporated the current downturn as well as potential economic and organisational scenarios into their financial plans.

Of the 82% of South African corporations who had adapted or formulated downturn-specific plans, only 20% had done so fully. The remainder felt that the downturn was poorly incorporated as opposed to not being incorporated at all. The level of incorporation was highest for large companies and for the mining industry where project and capital expenditure time-frames are longest and sensitivity to financial variables greatest. Paradoxically, large companies also comprised the highest constituent of poorly incorporated plans.

A strong, inverse relationship exists between the level of CFO optimism about economic prospects and the extent to which the downturn is being taken seriously. The Survey revealed a further correlation between the degree of optimism and the nature of the strategies adopted to cope with the downturn. Those CFOs who are most optimistic have incorporated the downturn least fully into their plans, whilst focusing on aggressive, opportunistic growth-driven strategies rather than conservative defensive strategies.

Whatever scenarios are considered and strategies pursued, CFOs would be wise to factor in the reality that any economic recovery will likely take some time to reflect fully in organisational performance.

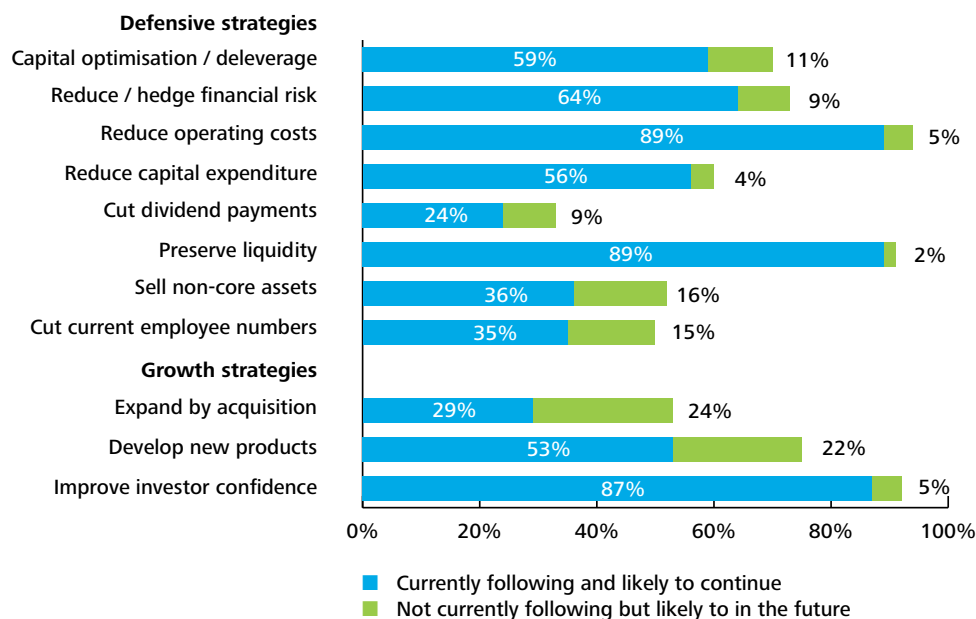
We have judgementally grouped these strategies into defensive and growth categories. Defensive strategies have been classified according to those measures designed to aggressively preserve earnings and liquidity. Growth strategies are characterised for the purpose of this survey as those focusing on growing market share, earnings and enhancing company footprint.

### CFO strategies in the downturn

The balance between growth and defensive strategies in CFO responses is consistent with a more cautious and somewhat pessimistic outlook. This conservative mindset is more prevalent with larger companies, reflecting a general bias towards bracing for the downturn rather than preparing for the upswing or capitalising on current opportunities. Mining and manufacturing are following the most defensive strategies, especially regarding employment.

#### Strategic pursuits

% of respondents pursuing/considering the following strategies to deal with the downturn in 2009



Smaller companies, although clearly also focused on survival, are more open to aggressive and opportunistic growth strategies as they see their way through the recession. In many cases, this is because larger companies have greater scope to sit out the recession, with access to debt facilities.

Globally, and particularly in the USA, there is a slight imbalance in favour of growth strategies against defensive strategies. In South Africa, the opposite applies.

#### Internal focus

The more commonly followed strategies depict a very strong internal focus with emphasis on asset quality and operational performance. CFOs see cost cutting and margin protection as central to such strategies, but also see opportunities to build long-term presence and capacity ahead of their competition.

CFOs appear also to be taking the opportunity to address historic blind spots, with 55% of respondents planning to execute significant changes that were required before the downturn. This is particularly the case in the mining and financial services sectors. With 52% of all respondents looking to sell off non-core assets and 94% reducing operating costs, one has to question the effectiveness of asset performance evaluations and cost efficiency during the good times.

Consistent with what CFOs see as the most significant risk, strategies to reduce or hedge balance sheet risk are a direct response to counter or control the impact of volatility in key external variables.

#### Investor confidence

Investor confidence has taken a significant knock during the economic crisis. Respondents indicated a significant desire to actively improve investor confidence during the downturn, particularly for those industries under the greatest pressure (mining and manufacturing). This is understandable, especially considering the higher than normal volatility in JSE share prices and the heightened need for transparency in financial reporting.

## Presenting any dividend-cut decision in the context of future funding plans can go a long way to managing investor concerns.

Several CFOs exhibited a reticence to engage external stakeholders fully regarding their reactions to and outlook for the downturn. This appears to be driven partly by fear of conveying uncertainty and potential confusion. Concerns regarding the impact on employee morale have further contributed to this reticence.

Much communication has been limited to the obligatory profit warnings as required by listing requirements. Market messages appear to have been framed very carefully with the aim of instilling optimism rather than a sense of desperation. This appears inconsistent with the pervasiveness of defensive strategies observed. The impact of this careful framing is particularly evident in the case of dividend policy.

### Dividend policy

With many companies reducing dividends and ending share buy-back programmes, the majority of CFOs view the current levels of cash returned to shareholders as low relative to historic norms. In addition, companies have gone the capitalisation issue route in lieu of cash dividends. This situation is unlikely to improve in 2009 with only 7% of respondents seeing returns to shareholders as a priority for cash flows.

When one considers the informational value about company prospects contained in dividend announcements, this is not an easy decision for CFOs to recommend to their boards of directors.

Potential consequences, such as impact on market capitalisation and negative investor perceptions should be carefully considered.

Market reactions highlight the important link between the dividend decision itself and company cash flow requirements, opportunities as well as future prospects. One significant company that cut its dividend justified its decision on the basis of enabling it to continue investing through the capex cycle, providing the flexibility to avoid any financial stress points. Because the market could connect the dividend cash conserved to specific prospects, investors' confidence was not undermined. Effective communication as part of a coherent strategy is key to maintaining investor confidence.

Dividend cuts can seem a relatively easy and cheap way to retain cash for liquidity purposes and to preserve balance sheet strength, particularly for companies needing to access credit to fund historic dividend payment levels. Companies should be aware of the trade-off between the annual cash savings, consequential drops in market capitalisation, costs of future capital raising and alternative mechanisms to preserve cash. Equity price behaviour does not always support the argument that a dividend cut is a cheaper form of funding when compared to new debt or equity issuances at discounted valuations.

Market scepticism of company strategies for dealing with the downturn is heightened where it is believed that a company will need to re-access the market for additional financing in the short term. Presenting any dividend-cut decision in the context of future funding plans can go a long way to managing investor concerns.

### Mergers & acquisitions ('M&A')

Although 51% of respondents saw the downturn as an opportunity to acquire companies or assets at discounted values, 59% expected M&A and private equity activity to decrease over the next twelve months in South Africa. A larger decrease is expected by companies with turnovers greater than R10bn. The manufacturing and financial services sectors are more optimistic due to consolidation and deal-flow effects.

In general, South African CFOs are more conservative than their European and US counterparts, where an equal percentage expects an increase in M&A activity. The reluctance to explore such opportunities is surprising in an environment where analysts still predict that private equity funds will outperform relative to the JSE index.<sup>3</sup>



<sup>3</sup> Deloitte Private Equity Confidence Survey, 1st Quarter 2009

# Not seeing eye to eye – the three outlooks

CFOs recognise the challenges and problems facing them as a result of the global downturn and local recession. In general, South African CFOs are more optimistic than their US and European counterparts who continue to expect a marked worsening of conditions and prolonging of the recession.

CFOs' outlooks are balanced by a meaningful level of both realism and pragmatism. There is neither the sense nor certainty that this recession will evolve into a second Great Depression of the ilk of the 1930s. Similarly it is too soon to tell whether the nascent green shoots of recovery will take root firmly. Yet CFOs clearly display those quintessential pioneering South African qualities of resilience and can-do opportunism added to a sense that things will get better.

The Survey provides an informal basis to classify CFOs according to three distinct groups according to whether their mindsets are optimistic, pessimistic or neutral. Their outlooks and favoured strategies follow these mindsets closely.

The defensive CFOs are comfortable following their risk-averse, conservative approaches to the downturn. Their mentality is one of weathering the storm, their focus one of "saving ourselves safe" through preserving liquidity and debt consolidation.



The more neutral CFOs can almost be regarded as fence sitters, reflecting their inherent uncertainty. Not wanting to be seen to overreact, this group follows a "wait-and-see" strategy, balancing between attacking and defending. In the process these organisations run the risk of missing the opportunities to make the best of the recession, whether through internal focus on efficiency, or on future growth prospects. As a result, it is likely to put off the need to conduct detailed scenario planning for the downturn and alternative strategies that could accelerate the rate of organisational performance recovery.

The hungry or aggressive CFOs are more agile and opportunistic, focusing primarily on growth strategies and building market share during these turbulent times. Looking to exploit opportunities from M&A to new product development, these CFOs seek to perform and sell their way out of the recession. If needed, they are not afraid to raise gearing levels or to issue equity to do so.

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## CFOs have never before occupied so central and important a position in their organisations in terms of influence, credibility, insight and communication with the outside world.

Although it was not possible to determine the precise composition of each of these groups, we believe that the bulk (50 – 60%) of CFOs fall in the neutral camp. A relatively small (10%) proportion adopts the more aggressive/ opportunistic stance, and the balance of 30 – 40% are following predominantly defensive strategies.

### Where will you be seen?

The predominance of defensive strategies amongst CFOs aligns closely with their traditional roles and speaks equally to their skill-sets and historic spheres of influence. These roles of the steward and operator centre on protecting and preserving organisational assets; balancing costs and fulfilling finance function responsibilities.

Boards and other Executives are increasingly looking to CFOs to operate in strategic and catalytic roles. Their key differentiator is to stimulate behaviours across their organisations to achieve these strategic and financial objectives. As they provide financial leadership in determining strategic business direction and aligning strategies, they are uniquely placed to lead their companies out of the recession.

Those favouring growth strategies have likely already made the transition into this position of influence. Their focus will be on implementing, adapting and integrating performance-management frameworks and decision-support into their roles in response to the demands of the downturn.

CFOs have never before occupied so central and important a position in their organisations in terms of influence, credibility, insight and communication with the outside world.

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