

“Humbled by the Inability to Forecast”

Global CFOs on What Comes Next

On April 23 and April 28, 2020, Egon Zehnder brought together 30 CFOs from large global companies in two different virtual meetings. The conversations moved beyond the immediate impact of the COVID-19 crisis to more forward-looking topics, such as how to predict whether changing consumer and workplace behaviors are temporary or permanent, the increased pressure on businesses to act for the benefit of their employees and society more broadly, and the inability to forecast financials and provide guidance with a high degree of confidence. Arun Dhingra and Christian Schmidt of Egon Zehnder moderated the discussions. Some key learnings were as follows:

The Compensation Challenge

How does one pay employees—particularly those who may not be working at all, or who are unable to do their normal jobs? And what about those with variable compensation, at a time when they are virtually certain not to meet any of their performance targets through no fault of their own? “We want to be sure we are being fair,” said the CFO of a Fortune 100 global retailer. “But defining fair is tough right now. How can we be accurate not knowing what tomorrow looks like? Should we make decisions now or wait for three more months?”

One executive said his company has decided to keep salaries unchanged, but have paused a planned pay raise. “Our sense is that we will honor the long term because that is what will motivate people,” he said. A U.S. accessories CFO, who has had to close most of the company’s stores, has less flexibility. “We’ve asked some associates to take a pay reduction for up to 12 months as a bridge to what we expect to be a significant rightsizing,” the CFO said .

Yet another executive of a Fortune 100 consumer goods company is trying to wait as long as possible. “Nothing’s been decided,” he says. “If we are too quantitative we are just going to end up punishing people. I believe much more subjectivity [on performance] is going to be required this year.” Still another has guaranteed all jobs until June -- but after that, she says, all bets are off. In the UK, where government aid is tied to restrictions on furloughing people, some have opted against taking it because they believe they need the flexibility to do what is needed.

A New Role for Business

Virtually everyone on the call agreed that businesses will be judged by how they acted during this crisis toward employees and stakeholders, not simply shareholders. This trend had already been underway, but they believe that it is now here to stay—which may well mean pressure on financials as the societal impact of business becomes as important as profits. “There’s going to be a pretty harsh lookback on companies that didn’t behave appropriately during this time,” said one CFO. “Consumers are expecting companies to play a positive role here.” Another, the CFO of a global bank, said “We are under a lot of pressure from the government to be seen as supportive of customers,” but also added that the business must stay healthy in order to serve those customers at all. Walking that tightrope is very complicated, they agreed.

One example concerns the payout of a dividend, which is now being looked at by some as an almost superfluous bonus for shareholders when people are losing their jobs. Said one CFO of a natural resources company: “I thought a dividend was a good thing but suddenly, the mood starts changing and it’s seen as a bad thing. That’s one of the things that we really need to sound out society on.” Another executive said that his company has put out an in-house video to remind people the purpose of the dividend, which he said is “to repay shareholders for the capital they put up in the business.”

Forecasting and Planning: Who Knows?

One of the most disconcerting aspects of the crisis for CFOs—who, by definition, must be focused on precise details—has been the inability to make forecasts and predictions with any level of certainty, given the totally unprecedented nature of a massive global economic halt. Said one CFO of a global retailer: “It’s hard to see

six days in advance, let alone six months.” Said another: “We are humbled by our inability to forecast.”

After trying to ramp up the pace of scenario planning in the early days of the crisis, many CFOs have decided to stop until there is enough concrete data that the inputs themselves have any likelihood of being able to be trusted. Some are preferring to focus on trends and emerging patterns, seeking new learnings in the process. Says the CFO of a U.S.-based consumer tech company: “Supply chains are struggling. But then all of a sudden. . . sales [of one product used for working at home] went through the roof. It was the second strongest quarter in the history of the company.” This inability to forecast makes it very difficult to brief investors. “We kept our range wide, and we’ve told the Street we’re not trying to predict this thing,” said one technology executive. For now, that is being accepted, but for how long, no one knows.

Changing Consumer Behaviors

One attendee, the CFO at a global beverage company, shared some of the company’s early beliefs about shifting consumer behaviors. Drinking at home is up dramatically—one online delivery service in the US reported a 500+% increase – but that is tempered by the lack of open restaurants and pubs. People are ordering larger sizes, which makes sense given the need to shop less, and also ordering better quality beverages, even as there is a trend toward value. Online ordering is here to stay. Says the CFO of a European food retailer, who has doubled his home delivery capacity in five weeks: “It’s incredible what you can do when you have to.” The beverage CFO said there may also be a new, increased value placed on in-person experiences—probably in smaller groups-- when the crisis ends. She also remarked on the flight to established brands rather than craft or smaller names, perhaps because of a perception of safe manufacturing.

For CFOs in particular, who are, by definition, expected to provide clear and exact answers, the current ambiguity is a considerable challenge. What stood out in this conversation however, was their clear desire to follow a “true north”: a deep sense of obligation to balance what is right for the financial health of their companies while at the same time being fair to employees and the wider stakeholder community.

For more information, contact:



Arun Dhingra

Dallas

arun.dhingra@egonzehnder.com



Christian Schmidt

London

christian.schmidt@egonzehnder.com

Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

About Egon Zehnder

Egon Zehnder is the world's preeminent leadership consulting firm, sharing one goal: to help people and organizations transform. We know what great leaders can do and are passionate about delivering the best solutions for our clients.

Our more than 500 Consultants in 68 offices and 40 countries form one powerful, collaborative team. Our services include: leadership development, individual, team and organizational effectiveness, CEO search and succession, executive search and assessment, Board advisory, and cultural transformation.

For more information visit www.egonzehnder.com and follow us on [LinkedIn](#), [Twitter](#), and [Instagram](#).