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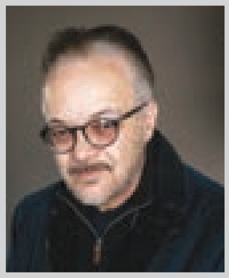

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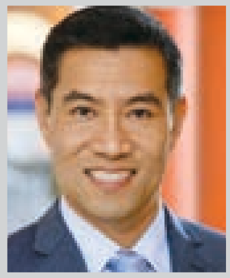

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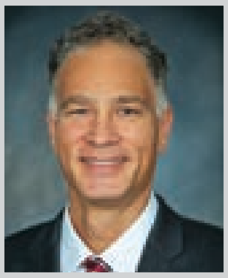

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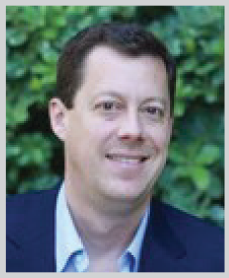

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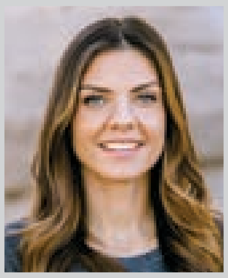

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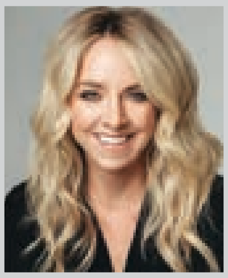

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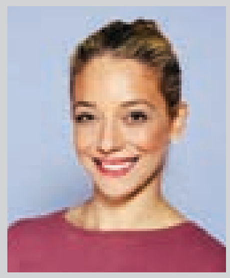

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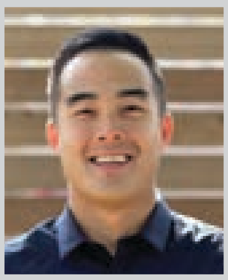

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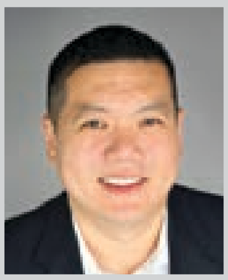

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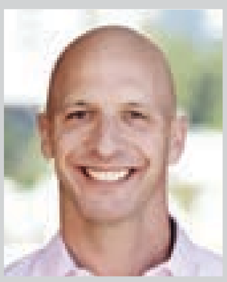

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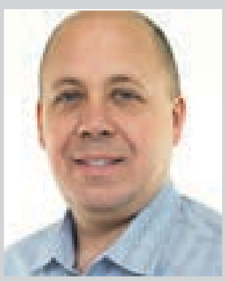

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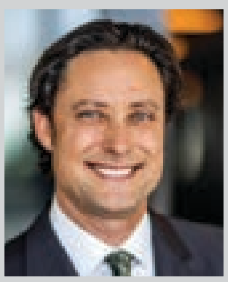

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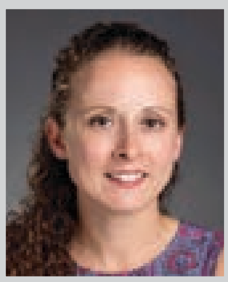

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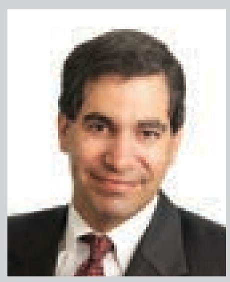

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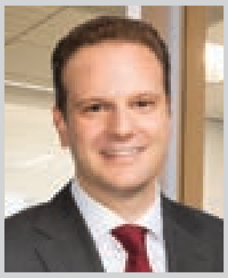

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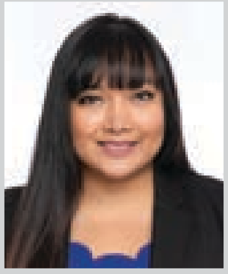

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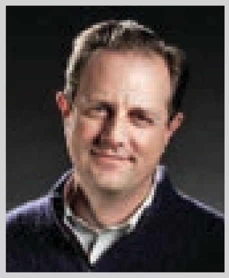

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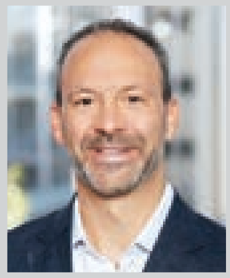

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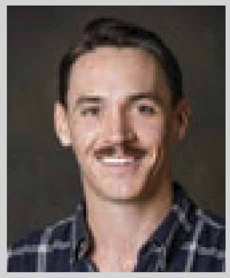

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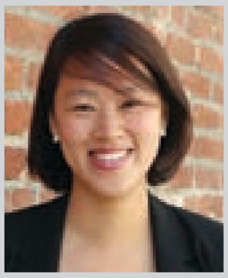

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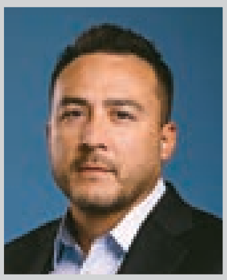

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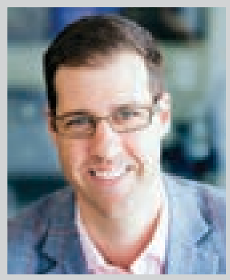

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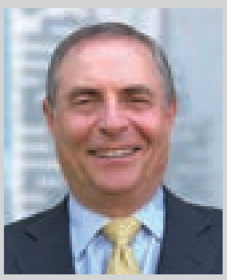

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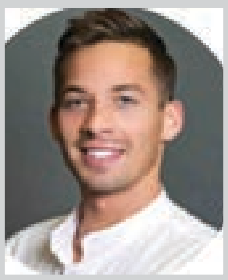

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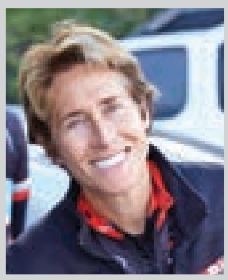

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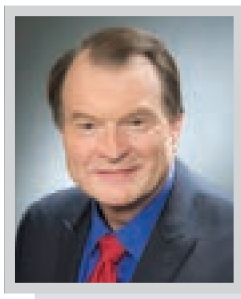

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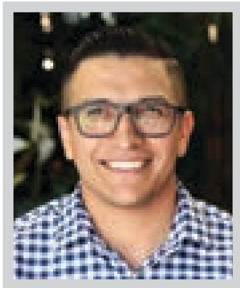

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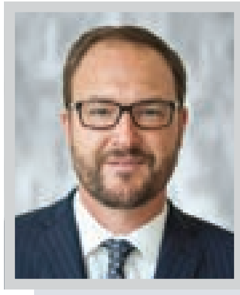

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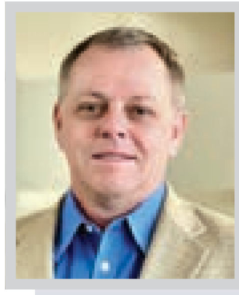

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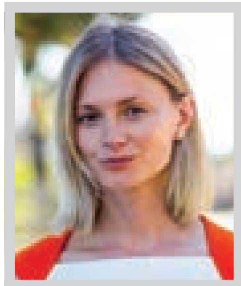

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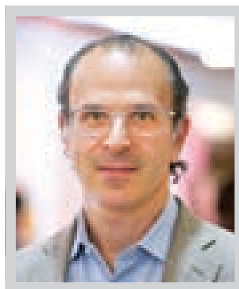

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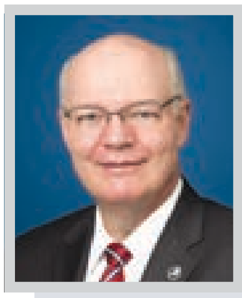

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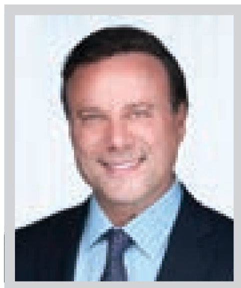

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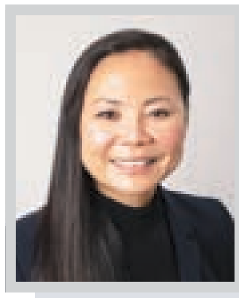

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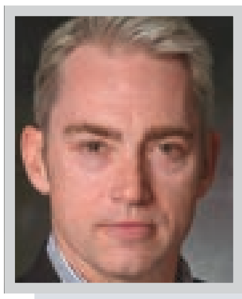

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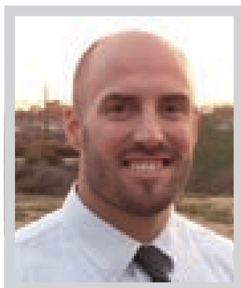

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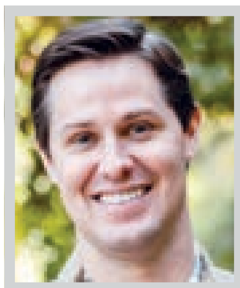

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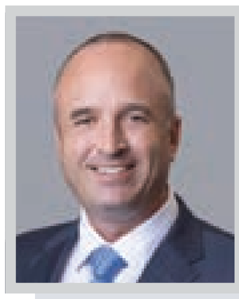

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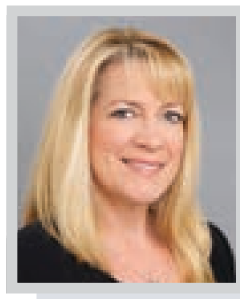

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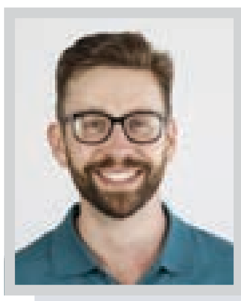

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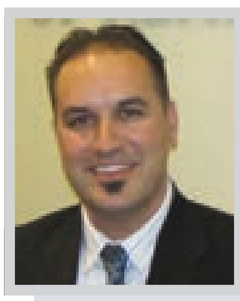

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The Benefits of Asset Based Lending

The challenges facing small- and medium-sized companies because of current economic volatility can be difficult to navigate. While some companies lack working capital to build inventories, others are growing and need financing to help spur further growth. For many firms, a solution to these challenges is asset based lending (ABL).

A PROVEN LENDING STRATEGY

ABL has long thrived in both good times and bad as a financing solution for companies with large inventories and working capital needs. Asset based financing is directly correlated to the value of a company's assets, which serves as the lender's collateral for the loan. Once regarded as creative financing for troubled companies, private equity and investment banks began using ABL to finance larger leveraged deals.

Asset based loans are well-collateralized, competitively priced vehicles that are effectively used by companies of all sizes for acquisitions, growth, turnarounds or to simply support working capital needs. "Asset based lending has developed into a well-established financing option for companies with varying needs and is particularly useful for manufacturing, retail and distribution businesses that make good use of their assets to structure a flexible credit facility," noted Greg Eck, managing director, Asset Based Lending Group Head for Fifth Third Bank.

A key difference between ABL and cash-flow financing is covenant structures that are typically less restrictive and easier to manage. ABL lenders lean on collateral to support their financing exposure, which allows them to be more flexible and patient in most situations.

A key metric for cash-flow financing, Total Debt to EBITDA, can change rapidly when performance declines, making it a significant issue when the lender has tied much of underwriting to that measure. ABL lenders, on the other hand, design a lending package by first analyzing the liquid aspects of a company's asset pool, then formulating a credit facility around advances against collateral.

Many cash-flow lenders provide most of their financing in the form of term loans as opposed to revolving lines of credit, often seeking to minimize revolver sizes. While ABL lenders provide term loans, most specialize in providing and administering revolving lines of credit. Some lenders will provide revolvers in conjunction with a treasury management relationship which makes it efficient for companies to manage various aspects of working capital and cash cycles.

Most loans provided by ABL lenders are collateralized and covered by assets with a perceived lower risk profile, they offer a cheaper alternative to higher-leverage debt packages based purely on cash flow—typically 150 to 200 basis points lower—and come with lower closing fees.

BETTER PREPARED WHEN CHALLENGES ARISE

Many cash flow lenders tend to be more proactive in protecting themselves with a covenant default. ABL lenders are set up to monitor loan exposure on a continuous basis. This allows them to become intimately familiar with working capital cycles of borrowers and are better prepared to react quickly and work with clients when unique challenges arise.

While this may create extra work for a company as they adhere to reporting requirements, stockholders and management see this heightened level of oversight as a valuable supplement to their own financial tracking.

A TEAM APPROACH

ABL, coupled with a tranche of "last out" or subordinated debt, may be a safer approach for many middle-market businesses as opposed to large, cash-flow term loans with one lender. It may offer a lower overall risk profile and support for capital preservation. Being able to turn to a team of lenders with deeper resources also may mitigate risk in executing strategies in a company's future.

The proof of this strategy can be seen in the strong relationships built over the years between ABL lenders and junior debt partners. These relationships offer benefits for all participants:

- Lenders with a history of completing financings together often have legal document templates in place and know each other's processes and work styles. This lowers the risk of lengthy or failed loan execution.
- Junior debt providers gain comfort in knowing an ABL lender is closely monitoring a borrower's business trends and is more likely to act pragmatically in a crisis.
- Senior lenders appreciate that the junior lender is often proactive with management and ownership and may even hold a board seat or observation rights.
- Lenders with existing relationships provide effective lines of communication, a lack of confusion and rapport with the management team that benefits all.

M&A CONSIDERATIONS

Middle-market companies across most industries are solely focused on managing through a possible downturn, as are their advisors and lenders, with most growth strategies being reassessed given the uncertain environment. In fact, global M&A was 30% lower in 2022 compared with 2021, according to Bloomberg.

> A key difference between ABL and cash-flow financing is covenant structures that are typically less restrictive and easier to manage.

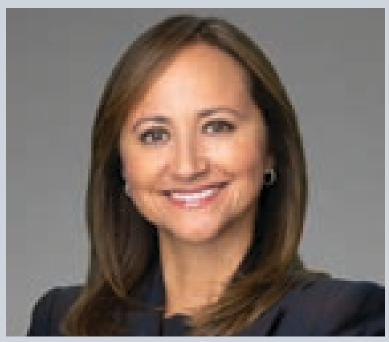
While there are many hard-to-estimate factors that could affect the timing of the economic recovery, the Conference Board said in its March 2023 Global Economic Outlook that it expects growth to slow to 2.3% in 2023.

In an environment roiled by uncertainty, ABL structures may be a more prudent way to finance acquisitions. The equity gap to be filled may not be materially different than a cash flow structure as purchase price and leverage lending multiples pull back in response to volatility created by inflation and the Fed's interest rate hikes.

The distressed buyout market will eventually heat up. Here, there is a role for ABL structures, which always lead with a revolving line of credit. Draws against revolving lines of credit have several under-appreciated features in the absence of scheduled principal amortization and the borrowing base expansion that accompanies growth in sales, which provides added liquidity without a term loan. These features can lower fixed charges, making it easier to meet covenants and free up cash flow to reinvest in a recovering or growing business.

As businesses and their advisors look to the future, ABL may be the answer to solid execution for sound and strategic planning. ABL can be a powerful tool, particularly in capital-intensive industries. The capital structure can be diversified, borrowing capacity can be freed up for other purposes and businesses gain a source of working capital.

To find out more about asset based loans, contact Elsa R. Burton, Los Angeles Regional Manager for Fifth Third Bank at Elsa.Burton@53.com, (818) 259-3108 or learn more at 53.com/Commercial.

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Asset Managers Can Streamline Operations and Unleash Productivity with AI

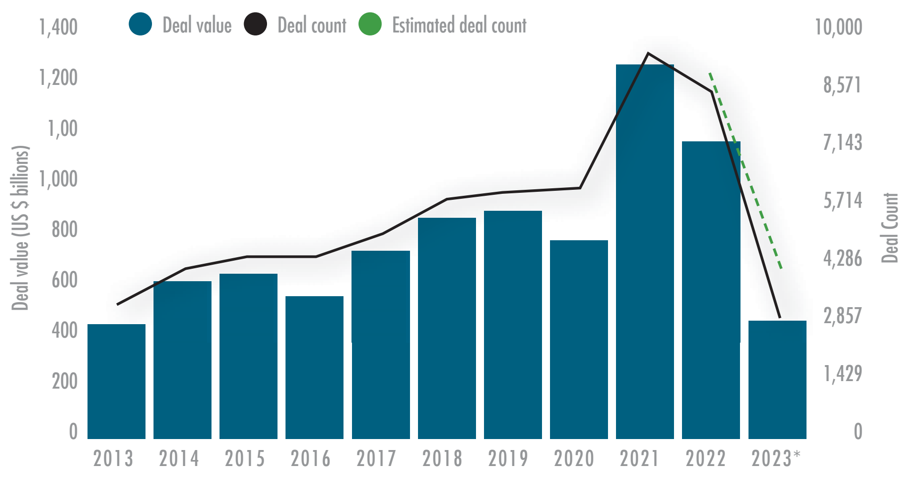
By DANIELA COHEN and
NELLY MONTOYA

Asset managers continue to face an unfavorable macroeconomic environment due to market volatility persisting through the first half of 2023. This has created limited exit opportunities in the public markets as well as difficulty in fundraising. Due to these challenges, asset managers are likely to remain focused on improving operational efficiency and their existing investment portfolios to increase returns for investors. Leveraging artificial intelligence, and specifically generative AI, to streamline operations could be the key to not only surviving but thriving in this landscape.

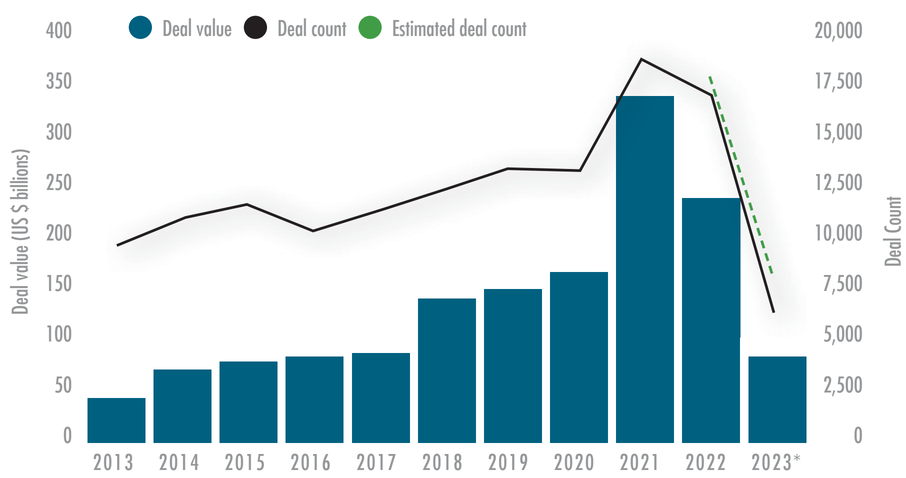
2023 DEAL LANDSCAPE

Compared to periods of low interest rates, the current environment has created a larger disconnect between sellers and buyers on the ever-present question of value. This has significantly slowed deal pace as compared to the peak in 2021.

US PRIVATE EQUITY DEAL VALUE AND COUNT



US VENTURE CAPITAL DEAL VALUE AND COUNT



Source: PitchBook, RSM US LLP *as of June 30,2023

HOW CAN AI HELP?

Generative AI can optimize various functions of an asset manager's business. Through its ability to swiftly process, summarize and analyze vast swaths of data, this powerful technology can help optimize investment portfolios by identifying patterns in that data while considering risk tolerance, historical performance, market trends, and portfolio screening and scoring. Large hedge funds already use AI for financial and sentiment analysis, and large private equity shops are tapping it to supplement research, deal sourcing and vetting.

Additional uses for AI and generative AI include:

• Document management and contracting: AI can help automate the extraction and analysis of key information from lengthy contracts, translate contracts from different languages, and help catch errors or inconsistencies.

• Risk management: AI algorithms can assess market conditions, news sentiment and macroeconomic factors, which can greatly improve an asset manager's risk management function.

• Compliance monitoring: AI-powered systems can monitor, analyze and interpret regulations. In addition to flagging potential violations, the technology can be used defensively to flag anomalies.

• Performance reporting: AI can automate the generation of investor relations documents, such as monthly or quarterly investor performance reports, and handle additional functions such as responding to basic inquiries and conducting research on potential investors.

• Back-office operations: By leveraging robotic process automation, asset managers can reduce manual efforts, minimize errors and streamline operational workflows.

By cutting the time spent on these more routine tasks, AI can help organizations focus on growing investor relationships in a more meaningful and valuable way. In a 2023 Microsoft survey of 31,000 people across 31 countries in various industries, 64% of respondents said they don't have the time or energy to complete their jobs. This may be due in part to the fact that 60% of the average worker's day is spent communicating and coordinating while only 40% is spent on their "day jobs," according to the survey.

TAX TREND: GENERATIVE AI

For asset managers considering whether to develop generative AI software themselves or license it from a third party, understanding the tax and accounting implications of each approach will help their overall cost-benefit analyses. A business that licenses software usually deducts each year's license expense from its taxable income in that taxable year. Conversely, the tax treatment of software development expenses became less favorable in 2022 when a law change took effect. With great potential comes increased risks

WITH GREAT POTENTIAL COMES INCREASED RISKS

While generative AI can streamline operations, it also brings risks. Organizations need to ensure the data they use to inform their AI algorithms is unbiased, as poor data quality will lead to flawed insights. Additionally, the output from deep learning models can be difficult to interpret. This could be problematic for asset managers who prize transparency and accountability in the investment selection process.

Because AI implementation requires vast amounts of data, including sensitive information, asset managers also need to bolster their cybersecurity and data privacy protocols to mitigate the risk of data breaches and cyberattacks.

Finally, given that AI is a relatively nascent space, regulation will likely be forthcoming and asset managers will need to ensure compliance as laws go into effect.

Large asset managers have already begun exploring AI for operations. To remain relevant, middle market asset managers should look for ways to leverage the technology, including:

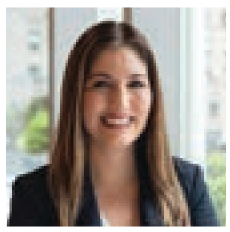
• **Develop AI expertise:** Reskill and upskill the workforce, promote a culture of innovation and collaboration, and partner with external parties to address any skills gaps.

• **Establish or refine data strategy:** Tailor data requirements, sources, quality standards and governance models to business needs, and ensure the organization's risk management framework addresses the specific risks related to AI use.

• **Invest in scalable tech infrastructure:** Evaluate AI options and adopt the tools that best fit organizational needs, ensure a seamless integration of AI tech with existing systems and processes, and above all, strive for the adoption of ethical and explainable AI.

TAX TREND: GENERATIVE AI

Generative AI is revolutionizing the development and delivery of products and services, and many organizations are working to understand how to use this technology. Learn how you can capitalize on the generative AI trend, increase value and mitigate risk at rsmus.com



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To Build or Not to Build?

By JACKSON BOWLING

For the majority of companies, physical real estate is a major equation in their business plan, operations, and growth trajectory. Often, the specter of building can be daunting and unclear. The steps from point A to point B are unknown and many CFOs and operators do not have the knowledge, experience, or capacity to understand the process to get from ideation and planning to construction and occupancy. The goal of most companies is to have a turnkey process that transitions from establishing objectives to moving into their finished space with little friction, the typical experience is far from this desire. Experienced general contractors can often be the liaison and solution to this problem. The tricky part is knowing who and when to engage a construction professional.

WHAT DOES IT MEAN TO BE INFORMED?

Being informed when making decisions about the new construction of an office space is a multifaceted process. It involves understanding an organization's purpose, and how to tailor the needs of their office to the processes of the company coupled with headcount and attendance. This has become particularly challenging in the post-covid era. General Contractors (GCs) have historically been engaged after a series of program and design decisions have been presented to the client and that often leads to disappointment when the first iteration of a comprehensive budget is created. A reputable GC can play a pivotal role in consulting at an early stage in a real estate decision. Removing the siloed approach and getting all of the stakeholders together can rarely occur too soon. Early engagement can be beneficial in helping to align construction logistics with the company's objectives. This happens through thorough assessments to determine the needs of the client, considering factors such as office layout, workspace flexibility, materials, finishes, and furnishing.

Secondly, being informed means staying current with industry trends and best practices. Distinguished GCs are well-versed in the latest advancements in construction materials, sustainable design, and technology-driven solutions to ensure that the desired outcome is not only functional but also cutting-edge and environmentally responsible. Additionally, they have the expertise to comprehend construction economics while balancing the client's objectives to effectively meet the project deadline and budget. Budgeting and cost analysis are vital components of informed decision-making. It is imperative that your GC provide accurate cost estimates, and have the creativity to find effective cost-reducing solutions without compromising the quality of the project. The value engineering process can be challenging to navigate, but with the right project team, solutions can always be developed.

General Contractors should be current with local building codes, zoning regulations, and permit requirements to ensure that the construction process remains compliant and avoids potential setbacks or legal issues. With schedules often being the driving force in a construction project, understanding the permit and inspection process can help mitigate costly delays.

Finally, effective communication between the project team and the client is essential to project success. The goal is through collaboration, a partnership is formed. This happens through open dialogue between brokers, architects, engineers, and subcontractors to ensure all stakeholders are informed and aligned throughout the project's lifecycle. As previously mentioned, eliminating silos and getting all of the players in one room and on the same page is paramount to a project's success. Early general contractor engagement is vital to maximizing the project efficiency and ensuring a successful delivery.

WHY TO BUILD

Once a decision has been reached to build, there are several factors to be considered. The office environment directly contributes to employee satisfaction and performance. Creating an inviting, comfortable, and aesthetically pleasing office environment boosts employee morale, which results in employees feeling enticed to be at their office. Current office trends have phased into companies investing in the physical space and design aesthetic to give their employees a sense of comfort while at the office. Historically, spaces would have been filled with conference rooms, cubicles, and a farm of desks. This has shifted to catering the office setting to utilize lounges and creative spaces over the traditional sought-after components. An example of this being implemented is making work feel more homelike, utilizing design features such as rugs, couches, and coffee tables while incorporating biophilic matter such as natural materials, lights, and patterns. Your general contractor will have relevant examples and experience of what has been successfully accomplished in their recent projects.

Furthermore, well-designed offices can promote increased collaboration between co-workers. An open and collaborative workspace promotes interaction and idea-sharing among employees, leading to increased innovation and problem-solving. Spaces that allow employees to creatively think away from their desks enhance the company's productivity and provide an opportunity for team members to connect in a more casual environment. On the other hand, well-designed private workspaces can provide employees with the concentration they need for complex tasks, thereby improving efficiency.

Early engagement can be beneficial in helping to align construction logistics with the company's objectives.

Real estate is necessary for company growth and culture, the apprenticeship model is the best illustration that can be given to describe the importance of having in-office interactions. The conversations between co-workers are invaluable, whether it's building a new relationship, or sparking a chain of thoughts that can further enhance the company's growth trajectory. Remote work does not allow for these opportunities, thus, why being in-person is paramount to learning and advancement. Sure, the established firm leaders might be more productive while working alone with no distractions, but less experienced team members would suffer from not being surrounded by the skills and abilities their leaders possess. Daily interactions and inclusivity in the workplace separate top-performing teams from the rest, which can be addressed by building an environment that caters to the needs of the company.

To learn more, visit gcxworx.com or contact Greg O'Connor at (213) 291-5882.

LOS ANGELES BUSINESS JOURNAL
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Generative Artificial Intelligence – Opportunities and Challenges

By DEONE M. ZELL, PH.D., and
ROBERT J. SHERIDAN

Last April, Google executive James Manyika patiently explained to 60 Minutes host Scott Pelly that the company's "Bard" generative AI platform had recently read "most everything on the Internet" and self-created a language model with almost magical predictive capabilities that appears to possess the sum of human knowledge.

Bard, and other Large Language Models (LLMs) such as ChatGPT, respond to plain language questions or prompts to generate "the next most probable word" over and over, one word at a time, producing complex, grammatically correct text in multiple languages at warp speed.

While the LLM was not expressly trained to write computer code, enough code exists on the internet that the model trained itself. Now a proficient individual can input a set of business requirements, request a desired computing language, and sit back and watch as highly serviceable computer code emerges in a matter of seconds.

These LLMs are just one form of generative AI (GAI) platform, with others that have been trained on sensory data, producing astonishing new capabilities to create realistic images, videos, pattern-mapped voice translations, and much, much more.

During the past 10 months, we have watched commercial and industrial applications of GAI emerge with an eye toward understanding the skills necessary for success in the workforce of the future – where up to 70% of all jobs, in every industry, are expected to depend on it. It has been an exhilarating, humbling and profound experience characterized by two conflicting and simultaneous reactions to just about every use case we encountered: "This is utterly unfathomable, and entirely inevitable."

The commercial and societal upside is simply too high, too ubiquitous, and too certain to put the genie back in the bottle. Instead, we must understand the risks and mitigate them as best we can through a combination of industrial restraint, internationally consistent and effective regulation, and political will.

Those of us at the CSUN David Nazarian College of Business and Economics must also meet our responsibility head-on to prepare our students for the workforce of the future, a future certain to be dominated by GAI.

DIGGING A LITTLE DEEPER

GAI can be thought of as a large brain trained on massive amounts of data, including books, articles, and websites. During training, it learned the structure of language, nuances, grammar, facts, and reasoning patterns. When presented with a question, it infers, generating content – whether text, images or video – by leveraging patterns it has learned. GAI also remembers what was said earlier, and when responding can incorporate previous comments or contexts. This "multi-step" thinking allows GAI to solve complex problems and achieve remarkable feats. It represents a dramatic advance over previous forms of AI, which relied on smaller datasets, used rule-based programming, had shallow memories, and focused on classifying existing content rather than engaging in the creative process.

The implications for industry and society could be dramatic. GAI-powered doctors could diagnose diseases, recommend treatments with incredible accuracy, and operate remotely, giving everyone access to high-quality healthcare. Instructors armed with GAI-powered tools and 24/7 GAI tutors could deliver personalized learning to every student at scale, helping each realize his or her full and individualized potential. Fully autonomous planes, ships and spacecraft could carry people safely and efficiently. GAI could manage decentralized financial systems holistically, ensuring economic stability and growth. GAI-driven smart grids could optimize energy usage among interconnected sectors, integrate renewable resources, and ensure constant power. GAI-powered robots could clean up oceans, forests, and cities, targeting and removing waste efficiently.

SOCIETAL IMPLICATIONS

The potential impact on society could be enormous, but risks abound:

• ***Misinformation and disinformation*** through highly polished, believable deepfakes, counterfeit documents, and even "hallucinations" which confidently produce facts and sources that never existed.

• ***Privacy, identity theft and impersonation*** are all threats that we have faced before, but never with the capacity to project images, voice, and body language so realistically as to be able to trick even close family members.

• ***Threats to domestic safety and national security*** in the form of machines who can train themselves to learn and execute autonomous action within complex systems such as utilities, transportation infrastructure, and defense.

• ***Ethical concerns*** in various and sundry forms, including data biases, systemic discrimination, abuses in fields, such as criminal justice or healthcare delivery, or other prejudicial threats across wide swaths of society and life.

REGULATION – NECESSARY BUT CHALLENGING: HOW HARD WILL IT BE?

The good news is that top industry players are themselves very worried about all of these risks. Their individual and collective pleas to be regulated are loud, persistent, and unprecedented at this early stage of an industrial transformation.

The bad news is that regulation always lags technology, and GAI's astonishing adoption curve has given it a huge head start. Moreover, with a technology that is itself "intelligently adaptable," it may prove easier to regulate forensically, than preemptively. That is a bad prescription for a technology where Elon Musk has projected the probability of a doomsday event as "not zero."

There is an enormous amount of work to do:

• Define risks, mitigations and standards in both international organizations and sovereign state jurisdictions, with varying and often conflicting political, economic, and values-based motivations.

• Balance innovation and safety, with processes and testing protocols in an industry where the underlying technology is prone and capable of creating its own "emergent behaviors."

• Establish a regulatory infrastructure with transparency, interpretability, judgements, and the adjudicatory and enforcement process all stressed by the inherent intellectual inaccessibility of neural networks, machine learning, and extreme mathematics.

• Begin the long and messy process of encoding these newly considered ethical concerns into statutes while navigating a litigation environment short on case law for GAI disruptions in numerous areas.

THE DAVID NAZARIAN COLLEGE OF BUSINESS AND ECONOMICS AT CSUN

Five years ago, the Nazarian College settled on an approach to address the constant, rapid-cycle prominence of technologies with disruptive potential – "Data First." This decision reflected a belief that we would never be able to predict the technological winners and losers, but we could build curriculum and co-curricular programming around the source code for all these cognitive technologies - Data.

Since then, the national rise of legitimate employer concerns regarding skill-gaps among fresh college graduates prompted us to articulate a new approach: "Professional Education Beyond a Degree." Within it, our students earned more than 1,800 skills-based certifications during the 2022-23 academic year, as either academic syllabi assignments, or in conjunction with varied and robust professional development programing.

Next month we will launch a series of nine, skills-based bootcamps in an initiative funded by the JPMorgan Chase Foundation and centered around industry-created, micro-credentialing certificates distributed on the Coursera Academy platform.

Our signal to our students and employers alike: Our graduates will be ready and valuable, with current skills, on Day-1 for that first job, but we will not compromise on our commitment and responsibility to prepare them for a long-term career, indeed for life. Beyond the skills, our graduates will possess a solid grounding in a traditional discipline, within a broad curriculum centered on learning outcomes that include critical thinking, effective communication, accomplished teamwork, substantive experiential learning, and diversity and inclusion excellence.

In so doing, we intend to impart the three most important skills students will need in the workforce of the future: 1.) Confidence, competence and intentionality in their own use of generative AI – and of all cognitive technologies; 2.) A refined capacity and deep commitment to life-long learning; and, 3.) The ability to discern the truth in the brave new world in which they will thrive.

Deone Zell, Ph.D., is a professor of management at the CSUN David Nazarian College of Business and Economics. Bob Sheridan serves as the executive director of its Center for Career Education and Professional Development.

Los Angeles Business Journal CFO 2023 AWARDS

Three Questions CFOs Should be Asking their Boards

By KAITLIN SKOPEC

Generally speaking, a private company's board is responsible for setting the firm's strategic direction and acting as a fiduciary for shareholders. Recognizing that the responsibilities of a board may vary, there are still some best practices that a chief financial officer can follow when engaging with the board to ensure the company is well-positioned for growth and success.

Assuming the CFO is supplying the information the board needs to make its decisions, here are a few topics that CFOs can address regularly.

RISK: ARE WE EFFECTIVELY MANAGING IT?

A CFO is often responsible for identifying and minimizing the company's risks. Asking the board about their view on the company's key risks and ways to mitigate those risks can help ensure that both parties are addressing these important topics and maintaining the board's fiduciary responsibility. These could include discussions on the following:

- Financial risks, including credit, liquidity, interest rate or currency risks
- Operational risks to your supply chain, product quality, employee safety and other identified business risks for your industry
- Reputation risks, including publicity, brand, customer satisfaction and anything else that affects customer loyalty
- Regulatory risks. Specifically, compliance with laws and regulations
- Security risks, such as cybersecurity, data breaches, cloud/local storage and natural disaster plans
- Strategic risks, including market conditions, competitive positions or disruptive technologies

RETURNS: ARE WE MEETING RETURN GOALS AND FOLLOWING OUR STRATEGIC PLAN?

It's important to regularly check in with the board to assess whether the company is on track to achieve its strategic objectives. CFOs can ask the board for its views on the company's performance against its strategic goals and for advice on how to improve. A few questions to consider include:

- Are there key metrics related to returns on the business, divisions or projects/initiatives that the board looks at when making decisions?
- How do our returns compare to our peers?
- Are there target returns for the company or its divisions?

Companies with an active dialogue between the board and CFO typically manage their risks better, drive the best shareholder returns and are more aligned with their strategic plans.

CAPITAL PLAN: WHAT IS OUR OPTIMAL CAPITAL ALLOCATION?

Asking the board about its views on the company's capital structure and growth prospects, and seeking its advice around objectives, can help make sure the business' goals are aligned with its financial position. A few questions could include:

- What is our cost of capital?
- What is our optimal capital structure?
- What is our access to that capital?
- Where should we be investing that capital?
- When and at what level should we be returning capital?

Companies with an active dialogue between the board and CFO typically manage their risks better, drive the best shareholder returns and are more aligned with their strategic plans. The questions above are a great starting point to open that dialogue. Maintaining a relationship with an established frequency and agenda for these discussions can also help produce better outcomes.

Kaitlin Skopec is director of BMO Corporate Advisory for BMO Commercial Bank. Learn more at commercial.bmo.com.

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Maximize the ROI From Your Recruitment Strategy

By RON PROUL, CEO,
CENTURY GROUP

This hot, candidate-driven market reminds me of the bubbles of 1989, 2001 and 2007. And just like with those markets, many companies are understandably employing strategies that reduce outside fees. However, many of these strategies end up backfiring, rather than accomplishing the goal of attracting the very best talent.

Recently, I've noticed some problematic reoccurring trends in the tactics companies are resorting to in order to save on recruitment costs. These tactics play out like the classic scenario of saving on costs, simply to pay more later. One such method: investing solely in internal talent acquisition. Unfortunately for these companies, this often does not yield the returns they had hoped for.

THE LIMITATIONS OF INTERNAL TALENT ACQUISITION

In contrast to utilizing a recruitment firm, developing an internal talent acquisition team takes time, is costly and requires talent itself — a Catch 22. Still, many companies choose to make this investment. But the volume of placements an individual or even a few individuals can handle has its limits, and it can become difficult for one person to specialize or develop a truly robust list of candidates. In contrast to internal talent acquisition teams who work with a limited pool of candidates, recruitment firms develop lengthy, up-to-the-minute lists of top-tier talent.

> In contrast to internal talent acquisition teams who work with a limited pool of candidates, recruitment firms develop lengthy, up-to-the-minute lists of top-tier talent.

RECRUITERS CAN ACCESS TOP-TIER TALENT, FAST

Recruitment and staffing firms have their finger on the pulse of the regional talent pool and know precisely which professionals are ready to make a career move. At Century Group, we even pioneered a practice called The Group Concept, where recruiters are encouraged and incentivized to work on searches together. This philosophy ultimately magnifies search capacity as well as results for the client. Recruitment firms will save you cost, time and uncertainty while optimizing your search's reach.

REACTIVE VS. PROACTIVE

Most internal recruiting strategies are reactive — the talent acquisition team can only produce candidates interested in engaging when an opening occurs. Specialist recruiting firms, however, are proactive. Recruiters are constantly developing and refining a target list of talent — talent that represents the best of the market — to be tapped when the appropriate search arises.

When a client's talent acquisition department says, "We have been looking for this position for months and you produced the candidate within weeks," it's indicative of how good recruiting professionals develop a deep talent pool and nurture relationships over a long period of time — maybe even years — so that they are able to immediately contact the right candidate for the right opportunity.

THE VALUE PROPOSITION OF RECRUITMENT FIRMS

Many companies think recruiters just sit passively waiting for the opportunity to send a bill for anyone they can pull from a job board. This common myth is due to the fact that the majority of recruiting professionals don't adequately explain their value proposition.

At well-established recruitment firms like Century Group, recruiters nurture long-term relationships with top-tier candidates and track these candidates throughout their career. Recruiters also have the advantage of being seen by candidates as an objective third party who can bring candidates multiple opportunities, which encourages candidates to engage more actively with our clients.

Consider how a recruiter presents their value proposition when selecting a recruitment firm to work with — it will speak to how well they can negotiate on your behalf. In this market, a recruiter knowing and stating their value is not only paramount to their success in negotiations, it is also crucial to your success in this competitive marketplace. As Malcolm Forbes said, "Too many people overvalue what they are not, and undervalue what they are."

When companies try to save on recruitment costs by investing solely in internal talent acquisition, the return on their investment suffers when it comes to talent, time and the reach of their job search.

One of Southern California's foremost executive recruiters and a noted expert on executive search, Ron Proul is CEO of Century Group, an award-winning recruiting firm that provides top-tier accounting and finance talent. During his 33 years with the firm, he has completed over 1,000 CFO, executive and management searches and conducted thousands of interviews for clients in a myriad of industries. Proul has contributed to leading business publications, served on numerous committees and boards and has served as a judge for the LA CFO of the Year Awards.


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Five Actions Your Private Company Can Take to Manage Short-Term Challenges

In today's rapidly changing environment, private companies face numerous challenges for both organic and inorganic growth. Rising costs and interest rates, the tight labor market, longer lead times for inventory and supplies — these are just some of the factors pressuring cash flows and margins. Private company leaders need to carefully balance their responses to short-term issues while maintaining a long-term vision for growth.

In the PwC Pulse Survey: Executive Views on Business in 2022, 57% of the private company leaders planning to capitalize on digital transformation initiatives this year said technology is one of the biggest limiting factors to growth. For many private companies, capacity and efficiency are hindered by antiquated digital platforms, one-off processes and disparate systems. In addition, a future-ready workforce wants the latest and greatest tech solutions. It's never been a better time to invest in technology to streamline business processes, drive efficiencies and improve decision-making. The benefits of these investments, combined with having stable and scalable technology platforms, are critically important — particularly when exploring inorganic growth.

Given these challenges, private companies need to be agile to meet evolving business needs. Put simply, you need to examine all areas of your business to preserve cash flow and drive growth.

1. TRANSFORM THE ROLE OF YOUR FINANCE LEADER AND SUPPORTING FINANCE FUNCTION

Most private company leaders have never seen a business environment like this before. In uncertain times, the role of finance needs to change and develop a skill set that goes beyond historical financial scorekeeping. The key to financial resilience will be the ability to see around corners, understand short-term risks and balance those risks with long-term priorities.

2. OPTIMIZE YOUR SUPPLY CHAIN AND CONSIDER OTHER OPERATIONAL IMPROVEMENTS

While some aspects of global and domestic supply chains are gradually returning to something looking like the pre-pandemic "normal," other areas remain highly challenging. Many companies still struggle with low fill rates, declining inventory turns and accurate demand forecasting. With interest rates on the rise, the negative effects of suboptimal inventory management are felt even harder. Adjusting supply chains to meet new business needs is a critical step to safeguard and grow your business.

Top concerns in the current environment include excess inventory, demand forecasting, lost sales, cost management, order inefficiencies, talent and space crunch. Help improve your supply chain by focusing on these areas.

3. PREPARE FOR INCREASING CYBER THREATS AND RANSOMWARE ATTACKS

All companies face cyber threats, but oftentimes smaller businesses can be more at risk. Private companies need to invest in the right technology and resources now to maintain the cyber integrity of their organizations and to ward off and recover from future, more advanced threats. Investing in cybersecurity and integrating capabilities to better manage risk has the added benefit of lowering costs through automation in a tech-enabled manner. You can take a number of steps now.

4. ADDRESS TALENT ACQUISITION AND RETENTION

With just over three-quarters of private company leaders telling us that talent acquisition and retention challenges are their top risks to achieving their goals in 2023, these executives are taking action. They realize they have to make a stronger case to their workforce to stay, and they're implementing strategies to appeal to employees where it makes sense. Their initiatives include enabling more flexible work options (84%), increasing compensation (70%) and improving benefits (43%), according to the PwC Pulse Survey "Executive Views on Business in 2022."

5. CONSIDER WHETHER INORGANIC GROWTH IS RIGHT FOR YOUR BUSINESS

For companies who are looking to grow through mergers & acquisitions, economic and geopolitical uncertainty have created challenges but also opportunities. The current market conditions bring a reset in valuations, a drop in private equity competition, and an increase in the amount of dry powder in the system – moving us from a selling market to a buying market. Private companies who have strong historical performance and access to capital may be able to seize on growth opportunities by making an accretive acquisition that aligns with their existing capabilities.

Download the full piece and other insights exclusively for private companies and entrepreneurial businesses by visiting PwC's Private Company Perspective website at pwc.com/us/en/services/trust-solutions/private-company-services/library.html.

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Los Angeles Business Journal CFO 2023 AWARDS

Technology Lessons for the Modern CFO

By CHRIS PASSMORE

Technology is advancing at a quicker rate than at any other time in history. Since the Industrial Revolution, innovation has sparked a rapid pattern of inventions and updates, leaving the rest of the population scrambling to catch up. In the past five years, we've seen our economy hinge on cryptocurrencies, virtual work environments, cybersecurity and the rise of AI.

What can a CFO learn from the last five years of tech advancements? How can CFOs use this knowledge to protect their organizations by staying on-trend with the latest technology and using it to their advantage?

DIGITAL CURRENCIES AND ASSETS – KNOW A BIT ABOUT BITCOIN

Today, everyone wishes they could time-travel to 2010 to invest in Bitcoin, but only a few saw its potential back then. Bitcoin and other digital currencies have trended up and down through the pandemic and made a name for the blockchain, sparking infamous 'meme' coins and the NFT movement.

The digital asset ecosystem offers businesses, asset managers and investors a new realm of opportunity. CFOs need to understand how digital currency utilization may benefit the business while accounting for its impact on company financials, tax structuring and overall business strategy. While knowing a bit about Bitcoin is helpful, CFOs should also rely on a reputable business advisor and accountant to ensure they're managing risk appropriately, maximizing their company's tax benefits and delivering accurate financial reporting as it relates to their company's digital asset strategy.

REMOTE AND HYBRID WORKPLACES – THE NEW VIRTUAL REALITY

If you weren't remote before 2020, you certainly are now, or at least functioning in some sort of hybrid work model. As businesses and their employees experienced the benefits of working from home, the hybrid work environment has become a standard model for many companies. So, how can your organization scale the virtual wall when daily face-to-face interaction isn't the current reality? And, how can a CFO ensure that employee tech remains secure and reliable?

Many think that one heavy initial investment in technology for employees is all that it takes to implement a hybrid or remote workplace. But making that mistake could result in major business disruption when hardware outlasts software, hardware doesn't last at all, or systems become compromised by cyberattacks.

CFOs require accurate and up-to-date financial information to carry out daily tasks and make business decisions. Without the right technology and security, generating financial insights and feedback from your team becomes nonexistent. Ensuring that your business has the proper resources for hybrid work – people and technology – might seem like a big expense. However, it is the modern infrastructure that your organization can't function without and is the key to keeping everyone productive and connected.

CYBER AND INFORMATION SECURITY – AN EVOLVING BUSINESS IMPERATIVE

Cybersecurity is at the backbone of any digital transformation and technology infrastructure. While cybersecurity took off in the 1970s, and security hacks are by no means a new fad, cyberattacks continue to increase in size and scale across all industries.

CFOs need to be aware of the risks presented with a hybrid work environment, and how to fortify their organization as the average cost of a data breach in the U.S. is $9.48 million dollars. This type of financial fallout can be devastating to an organization and wreak havoc on a company's reputation. Companies need to ensure they're equipped with proper information technology and security solutions, documented cyber risk assessments and cyber insurance to help mitigate the effects of a cyberattack.

The CFO should be responsible for checking on cybersecurity protocols with their CIO, CISO or vCISO on a regular cadence. Weekly meetings afford leadership the best insight on up-to-date threats, vulnerabilities, safeguards, and the overall posture of the organization's data security health. Especially in a hybrid, digital world, it is vital to be aware of all possible points of vulnerability. Believe it or not, people remain the number one vulnerability in all companies, not technology. To maintain the overall financial health of the business, it's imperative that every employee receives education on phishing and other forms of cyberattacks on an ongoing basis to help secure the integrity and longevity of the company.

ARTIFICIAL INTELLIGENCE – THE RISE OF AI

Artificial Intelligence – it's the world's hottest tech trend. AI has everything: the ability to write content, answer customer queries, perform research and serve as a personalized problem-solver. While some AI tools have been around for a decade or more, the launch of ChatGPT less than a year ago brought greater attention to the advancement and far-reaching capabilities of AI. AI tools will enhance the capabilities of professionals across the business, making them more valuable to organizations.

AI can be just as valuable for CFOs. Robotic Process Automation (RPA) and Intelligent Process Automation (IPA) can learn and improve processes over time to drastically cut down on manual processes and create more efficiencies for finance and accounting teams. Imagine taking a manual task, implementing an automated action behind it and seeing improved accuracy in your company's financial analysis or budget forecasts. By modernizing the company's work environment and implementing the right AI tools, CFOs will benefit by increasing operational efficiency, strengthening compliance, growing company margins and effectively utilizing their team members.

CONCLUSION

When looking at how technology can benefit your business, the CFO should be a key player in the discussions and execution. Yesterday's technology innovations are driving the most successful businesses. Why? Because companies were intentional about how to implement new technology into the business and involved the CFO.

With advances on the horizon like self-driving cars and the evolution of AI, plus a volatile economy, there's no doubt we'll see more disruptive innovations and scalable change along the way. We'll also see the role of the CFO become more valuable as companies continue to adopt new technology. However, it's important that businesses surround themselves with trusted advisors to support CFOs in their journey to set their companies up for success.

If you're looking to add more value to your business, Withum can help. We are successful at finding the perfect balance of people and technology to help businesses thrive.

Chris Passmore is partner-in-charge at Withum's Encino office. He can be reached via cpassmore@withum.com.

Learn more at Withum.com.

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Onsite, Remote or Hybrid? A Culture Riddle for the Ages

By SEAN GILL, MIKE KELLY and MATT PRIMEAU

Across our recruiting business lines of Finance & Accounting, Technology, and Human Resources, Conexus made 412 placements in 2022 and 319 Year to Date as of September 2023. This volume of activity provides us with a front row seat to the rapidly evolving trends in the Southern California labor market.

While trying to maximize productivity and create a culture that attracts and retains valuable employees, the number one hiring dilemma our clients continue to grapple with is their work model as it pertains to where their employees will perform their work. Everyone continues to ask (debate), "Should we be fully onsite, remote, or institute a hybrid model?" The answer to that question can cause one of two things: harmony or attrition. There is very little in between.

The Zoom and Teams technology that emerged as a lifeline to businesses during the Pandemic have become a mainstay, driving a major wedge between the office culture of old and the office culture of the present. The genie was let out of the bottle, and it doesn't seem we'll be able to put her back in anytime soon, if ever.

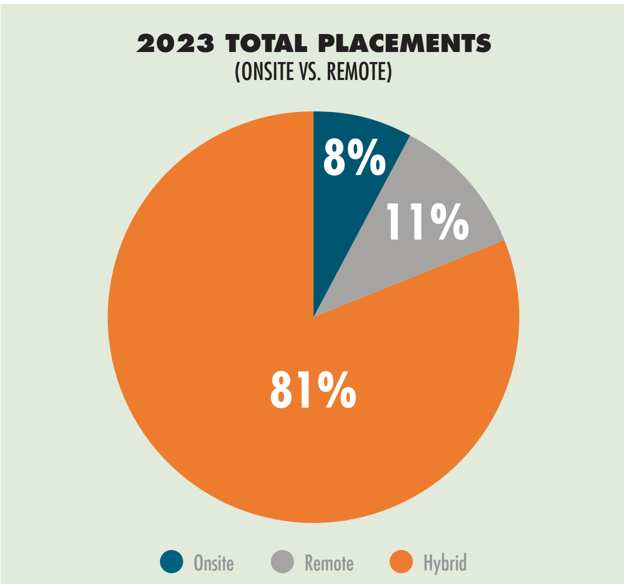
Trends are changing rapidly and we're seeing signs of what the future likely holds for employers most successful in attracting and retaining employees. In 2022, 58% of our interim placements and 36% of our direct hire placements were fully remote. In 2023, those numbers have shrunk to 12% for interim placements and 7% for direct hire. The hybrid format (fewer than five days required in office) rose rapidly from 51% of our placements in 2022 to 81% year to date in 2023. This year, only 7% of our interim placements and 11% of our direct hire placements have required people to be onsite, in the office, every day to perform their work.

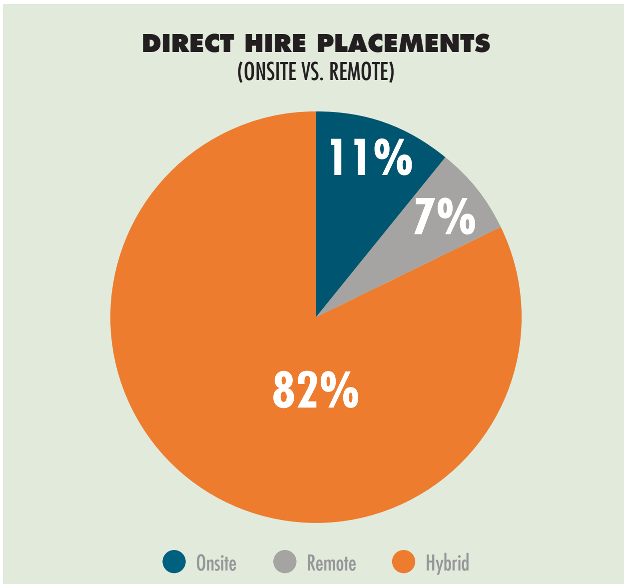
The idea of bringing people into the office every day is understandable. Many executives and business owners remain convinced that having employees in the office as often as possible maximizes productivity, but this concept is outdated. At the same time, companies are finding that recent hires and employees early in their careers are the ones who struggle the most with fully remote work. As a result, it's no surprise that the vast majority of companies are experimenting with the hybrid model and are figuring out what format results in the strongest blend of productivity, a strong culture, and employee retention.

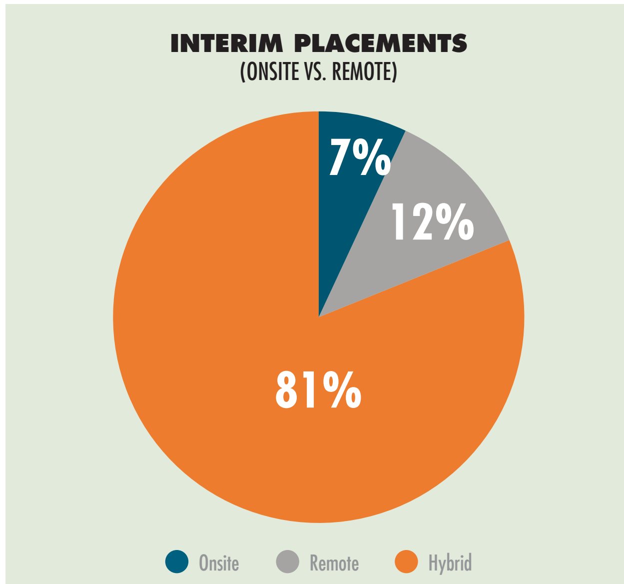
For every role we fill, interim or direct hire, we speak to anywhere from 20 to 100 prospective candidates about the opportunity, amounting to many thousands of conversations over the course of a year. In 2023, more than 90% of the time, prospective candidates and consultants state that they will not entertain any opportunity that requires being in the office five days per week.

Make no mistake, if you require your people to be onsite every day, you are severely limiting your pool of prospective hires that are interested in working for your company. More importantly, your current employees have a high risk of being poached by someone offering them a more flexible work schedule.

Many CEOs, CFOs, and HR Executives continue to grapple with this topic. This riddle will continue to be an issue as long as the hiring market remains strong. For Accounting/Finance, IT and HR Professionals, unemployment remains extremely low and there are no signs of widespread, significant reductions in workforce, so solving this riddle will continue to be of the utmost importance for companies to thrive.







Conexus is Latin for Connection, Joining Together and Combination

Making quality connections and joining people together are what we do, but we focus on consistently doing it better than our competition.

We are experienced search experts who believe that clients benefit by partnering with an innovative, ethical, dedicated, and collaborative firm. Conexus was founded by former Big 4 CPAs and Recruiting Industry veterans. The Conexus team brings decades of experience conducting challenging searches, identifying, recruiting, qualifying, and delivering the best and most appropriate candidates for positions from the Manager through C-levels. Our clients call on us to deliver candidates for their Permanent, Temporary, and Special Project recruiting needs.

While many search firms manage their employees via quotas solely tied to volume, Conexus manages its professionals' using metrics that measure quality and hold its team to a higher standard. They are designed around a pursuit for clients' success and satisfaction in the Talent Acquisition process.

CONEXUS' CLIENT FOCUSED METRICS INCLUDE:

- Percentage of searches successfully completed: more than 90%.
- Percentage of clients that engage us for more than one search: nearly 100%.
- Average time to successfully complete searches:
  - Vice President and above: less than 90 days.
  - Experienced hire and middle management: less than 30 days.

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- Functional and regional focus.
- A heavy investment in technology to minimize time wasted on administrative tasks.
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Most CFOs Rate Inflation as a Concern, But Are Not Likely to Favor Raising Prices

Growth remains the top strategic business priority for both CFOs and CEOs, according to a survey by Gartner, Inc. Forty-five percent of CEOs surveyed ranked growth in their top three strategic priorities, down from 53% in 2022, while 62% of CFOs put it in their top three, up from 59% in 2022.

While CFOs and CEOs agree on growth as their top priority, their emphasis on this and other priorities differ, according to the Gartner survey of 422 actively employed CEOs, CFOs, and other senior executive business leaders conducted through December 2022. For instance, CFOs' second top priority is corporate action such as M&A and restructuring (41%), which ranks fourth for CEOs (27%).

"Balancing future growth investments and CEO expectations, while still tightly managing cost and cashflow, is the tightrope CFOs must walk in the back half of 2023," said Alexander Bant, chief of research with the Gartner Finance practice.

"The top questions CFO should be educating the CEOs and the board of directors on as the business cycle begin to turn more positive include: How should we sequence funding for organic and inorganic growth bets? How best do we secure capital? What does it look like when we model out the impact on margin and ROIC?"

CEO AND CFO INTEREST IN AI INCREASING

When asked which new technology will most significantly impact their industry over the next three years, both CFOs and CEOs named AI as their top pick. For CFOs, this is especially notable because they likely do not have much direct experience with AI yet, given that 80% of finance functions using AI just started in the past two years.

"Five forces are driving CFOs and CEOs to prioritize conversations about AI in the third quarter. First, boards and CEOs expect C-suite leaders to protect the organization while driving broad use case adoption. Second, customers continue to leverage generative AI in their daily life, moving their expectations for user experience. Third, employees are concerned about job loss yet may eventually leave organizations where they can't fully leverage generative AI. Fourth, regulators expect all organizations and their leaders to comply with responsible generative AI regulations. Lastly, investors expect new sources of growth and much better margins, placing pressure on leaders to deliver results," said Bant.

> 'Balancing future growth investments and CEO expectations, while still tightly managing cost and cashflow, is the tightrope CFOs must walk in the back half of 2023.'

CFOS EXPLORE ALTERNATIVE INFLATION RESPONSES, BRINGING THEM IN LINE WITH CEO THINKING

As CFOs and CEOs face concerns about the effects of inflation and a potential recession, they're pursuing options beyond the typical approach of raising prices, with CFOs joining CEOs in demonstrating a new open-mindedness towards other tactics.

A large proportion of both CFOs (84%) and CEOs (68%) rank inflation as one of their top three most damaging factors impacting the outlook of their business. Raising prices has been a go-to tactic, but many CFOs are realizing they need to expand that playbook. There was an 11-percentage point drop relative to last year in the share of CFOs who cited that increasing prices was one of their top two actions to respond to inflation, driven at least in part by signs that customers are tiring from consistent price rises.

"Rising rates are forcing more customer price sensitivity, and CFOs are less able to pass pricing on to their customers," said Bant. "We see CFOs asking teams the tough questions about how they will use resources and headcount even more efficiently in the remainder of 2023 and into 2024. With budgeting right around the corner, CFOs will attempt to force higher levels of productivity by clawing back resources while asking their teams to achieve more."

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ChatGPT Has Prompted an Increase in AI Investment

70% of organizations currently in exploration mode with Generative AI

In a recent Gartner, Inc. poll of more than 2,500 executive leaders, 45% reported that the publicity of ChatGPT has prompted them to increase artificial intelligence (AI) investments.

Seventy percent of executives said that their organization is in investigation and exploration mode with generative AI, while 19% are in pilot or production mode.

"The generative AI frenzy shows no signs of abating," said Frances Karamouzis, distinguished VP analyst at Gartner. "Organizations are scrambling to determine how much cash to pour into generative AI solutions, which products are worth the investment, when to get started and how to mitigate the risks that come with this emerging technology."

The poll was conducted among 2,544 respondents as part of a Gartner webinar series in March and April 2023 discussing the enterprise impact of ChatGPT and generative AI.

Results of this poll do not represent global findings or the market as a whole.

EXECUTIVES SAY BENEFITS OF GENERATIVE AI OUTWEIGH THE RISKS

The poll found that 68% of executives believe that the benefits of generative AI outweigh the risks, compared with just 5% that feel the risks outweigh the benefits. However, executives may begin to shift their perspective as investments deepen.

"Initial enthusiasm for a new technology can give way to more rigorous analysis of risks and implementation challenges," said Karamouzis. "Organizations will likely encounter a host of trust, risk, security, privacy and ethical questions as they start to develop and deploy generative AI."

CUSTOMER EXPERIENCE IS THE PRIMARY FOCUS OF GENERATIVE AI INVESTMENTS

Despite ongoing economic headwinds, only 17% of executives indicated cost optimization as the primary purpose of generative AI investments. Customer experience was the most common primary focus of investments, cited by 38% of respondents.

As organizations begin experimenting with generative AI, many are starting with use cases such as media content improvement or code generation. While these efforts can be a strong initial value-add, generative AI has vast potential to support solutions that augment humans or machines and autonomously execute business and IT processes.

"Autonomous business, the next macrophase of technological change, can mitigate the impact of inflation, talent shortages and even economic downturns," said Karamouzis. "CEOs and CIOs that leverage generative AI to drive transformation through new products and business models will find massive opportunities for revenue growth."

Additional insights are available in the complimentary Gartner webinar "Beyond the Hype: Enterprise Impact of ChatGPT and Generative AI." Gartner clients can learn more in "Executive Pulse: AI Investment Gets a Boost From ChatGPT Hype."

ABOUT GARTNER FOR DATA & ANALYTICS LEADERS

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PRIMARY FOCUS OF GENERATIVE AI INVESTMENTS
(Percentage of Respondents)

CUSTOMER EXPERIENCE RETENTION	38%
REVENUE GROWTH	26%
COST OPTIMIZATION	17%
BUSINESS CONTINUITY	7%
NOT APPLICABLE	12%

Source: Gartner (May 2023)

'Organizations are scrambling to determine how much cash to pour into generative AI solutions.'

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Layoffs May Ultimately Harm Shareholder Returns

Changing demographics and declining labor force participation mean rebuilding a workforce is slower and more costly than in the past

CFOs tend to underestimate the organizational drag created by large-scale workforce reductions, and therefore can inadvertently reduce shareholder returns when taking actions to protect them, according to Garner, Inc.

"Given a higher cost of capital, renewed investor focus on profitable growth and widespread forecasts of a global recession, CEOs are asking their CFOs to reduce costs," said Vaughan Archer, senior director, research and advisory in the Gartner Finance practice. "In many notable bellwether companies, particularly in the technology, retail and financial services industries, this is taking the form of layoffs."

"The first thing to recognize is that there is an immediate upfront cost to layoffs as a business will need to reorganize itself around a smaller group of employees and typically incur costly upfront severance payments. Thereafter, a business is likely to see an increase in both costly contractor hiring and demands for increased compensation from remaining employees who are now under a greater burden."

Given that personnel are a key cost driver for most organizations, it's not surprising that business leaders look for cuts here when trying to contain costs in an uncertain business environment. However, a recent Gartner analysis suggests that forecasted savings tend to become offset by the unforeseen consequences of layoffs within three years and in many cases can be detrimental to shareholder returns in the long term.

Many businesses will see any cost savings from layoffs eroded, and that's even if a business manages to avoid a vicious cycle of employee turnover driven by overstretched staff and lower morale. Moreover, at some point the business cycle will turn, and businesses will need to rehire the headcount anyway, likely at higher rates than the employees who were laid off.

"In the more negative scenarios, the factors detailed here are also going to harm growth in existing and new business, and ultimately a firm will start losing its customers," said Archer. "None of this is conducive to long-term shareholder gains. CFOs need to work cross functionally with peers in HR, recruitment, sales and service to ensure they are properly accounting for the potential cost of layoffs."

> 'The first thing to recognize is that there is an immediate upfront cost to layoffs as a business will need to reorganize itself around a smaller group of employees and typically incur costly upfront severance payments.'

To help its clients find alternatives to layoffs, Gartner experts have identified ten alternative ways to reduce personnel costs.

1. **Voluntary Reduction in Hours** – Many employees may willingly take a reduction in hours and commensurately lower pay.
2. **Internal Redeployment** – It is likely that even where headcount reduction is necessary, there will be transferable skills in demand elsewhere in the business.
3. **Reduce Executive Compensation** – Laying off staff while failing to contain executive pay is likely to damage staff morale and the wider reputation of a business.
4. **Four-Day Workweek** – This is not about cutting pay, but may control pay growth and staff turnover as employees find better work-life balance and increased productivity as burnout is reduced.
5. **Remote Work** – Similar to a four-day week, this promotes a better work-life balance, and also could reduce real estate costs over time.
6. **Voluntary Leave of Absence** – Extensive unpaid leave (typically three to 18 months) with an understanding staff will return when conditions improve.
7. **Organization wide pay cuts** – All staff salaries are reduced by an equal percentage.
8. **Hiring Freeze** – New hires approved by finance on a case-by-case basis.
9. **Sabbatical** – Opportunity for employees to pursue a professional interest that still contributes back to the company. Employees are not required to be paid, but partial pay could be an option, depending on the sabbatical contribution to organization.
10. **Benefit Cuts** – Fringe benefits cut based upon cost and impact assessment.

Learn more at gartner.com.

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CFOs are Most Concerned with Profitable Growth, Inflation and Balance Sheet Health in 2023

Rising prices and interest rates along with other economic factors beyond a company's control are leading CFOs to show the most concern about profitable growth, inflation, and balance sheet health in 2023, according to a survey by Gartner, Inc. Yet nine out of 10 CFOs plan to fund organic growth in 2023 at the same level or greater levels than 2022.

"Macroeconomic factors that companies can do little to nothing about have created an uncertain setting in 2023, and have also led to many sleepless nights among CFOs," said Shannon Cole, senior director analyst in the Gartner Finance practice. "Borrowing has become more expensive, and inventory and fixed-asset values remain volatile, which inevitably leads to downstream income statement risk."

According to a Gartner survey of 110 CFOs conducted late last year, 82% of respondents cited profitable growth among the top five issues that keep them up at night. Seventy-three percent of CFOs picked inflation in their top five, and 68% noted balance sheet health.

"In the current environment, CFOs should look to aspects of the business that can be managed in a more cost-effective manner," said Cole. "This can include achieving structural cost optimization by renegotiating with vendors and landlords, collaborating with the CIO to streamline IT spending, and partnering with the CHRO on an office location portfolio strategy."

AREAS WHERE CFOS ARE INVESTING MORE IN 2023

According to the Gartner survey, 57% of CFOs are more likely to use capital to fund organic growth compared to 2022. In addition, 80% of CFOs will hold at least the same amount of or more excess cash in 2023, which, for many, is a precursor to enabling organic growth investments. CFOs are also focusing on debt paydown in 2023, with 41% indicating they would pay down more than they did in 2022.

In the current environment, Gartner experts state that reinvestment of operating profit is a less risky and less expensive source of funding.

"CFOs often find themselves in a balancing act between satisfying shareholder returns in the short term and building the company's long-term resilience," said Cole. "We're finding that CFOs are prioritizing incremental investments in organic growth and debt paydown, and they are more likely to allow cash to accumulate before deciding where best to deploy it."

> 'In the current environment, CFOs should look to aspects of the business that can be managed in a more cost-effective manner.'

AREAS WHERE CFOS ARE SCALING BACK IN 2023

Fifty-five percent of CFOs are less likely to take on new debt, which not surprisingly is due to the rising cost of debt. Only 18% of CFOs expect to take on additional debt to a greater extent than in 2022. While 42% of CFOs will maintain their share repurchase strategy this year, 44% are less likely to use share repurchases to the same extent as in 2022.

"The rising cost of debt is forcing many CFOs to scale back taking on new debt. However, CFOs can maximize flexibility for growth investments by fine-tuning their capital allocation strategy to address changing conditions in cost of capital and asset valuations," said Cole.

CFOS EXPRESS CONCERN ABOUT RISING COSTS

CFOs surveyed by Gartner expressed general cost nervousness and are most concerned about rising labor costs. Seventy-six percent of CFOs across 25 surveyed industries expressed the highest levels of concern over labor costs compared with nonlabor input costs and G&A costs.

"The scarcity of general labor availability driven by lower workforce participation rates, human-centric work policy expectations, and the high demand for digitally skilled workers have led to a job market where companies are competing aggressively on their open roles, and this naturally drives increases in labor rates," said Cole.

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Risk Orientation is Critical to Audit Effectiveness

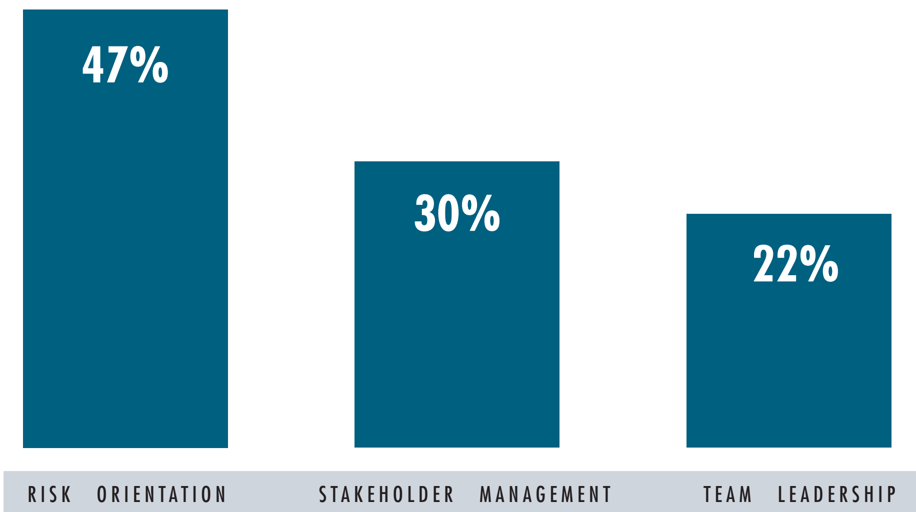
Financial stewards and chief audit executives (CAEs) have identified risk orientation, stakeholder management, and team leadership as the top three characteristics of the most effective individuals, according to a survey by Gartner, Inc.

In April 2023, Gartner surveyed 114 CAEs across 180 areas to identify the most important measures of an effective CAE, and the six that were the most significant included: management satisfaction; CAE and audit department performance; perception of the CAE; audit engagement quality; CAE impact; and team engagement.

"In terms of CAEs being 'effective,' it can ultimately be measured by important organizational risk outcomes, such as risk-informed decision making, the number of surprise risk events, recovery times after risk events, and delivering a coordinated risk response," said Tim Berichon senior director analyst in the Gartner Risk & Audit Practice. "The more personally effective a CAE is, the better those outcomes will likely look in an enterprise."

Three main drivers were correlated with higher levels of effectiveness include:

% OF MAXIMUM CHANGE AS A RESULT OF MOVING FROM 10TH TO 90TH PERCENTILE IN DRIVERS



RISK ORIENTATION

"Risk orientation was the single biggest factor driving high CAE personal effectiveness scores in our study," said Berichon. "CAEs with high-risk orientation improved their personal effectiveness by up to 47%."

Risk orientation results in the CAE's audit plan aligning with top enterprise risks, and audit's risk assessment aligning with other functions. Further, audit recommendations are well-aligned to enterprise risk appetite.

"Everything internal audit does should be oriented to risk," said Berichon. "Given the importance of risk orientation, it's also interesting to note that effective CAEs are more likely to actively participate in enterprise risk management (ERM)."

STAKEHOLDER MANAGEMENT

Stakeholder management drove an up to 30% improvement in CAE personal effectiveness. This involves regular informal discussion with key stakeholders, and an empathetic understanding of their motivations and priorities. The CAE monitors the concerns of key stakeholders, and CAEs understand how they are perceived by others.

"The most effective CAEs view themselves more as a strategic executive and are aspirational in the role," said Berichon. "A vital characteristic of a high-performing executives is a strong rapport with stakeholders throughout the enterprise, and this is another main attribute found in the more effective CAEs."

TEAM LEADERSHIP

Effective team leadership underpins effective CAEs. Coaching team members towards their goals and helping them to develop in their role is important, as well as encouraging direct reports to meet their counterparts across the business to discuss ongoing projects.

"This is not just about goals and priorities but about listening to, and understanding, the needs of a team," said Berichon. "An effective team leader fosters an open culture where team members share thoughts and ideas, and helps people make connections that will aid their development."

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Three Compliance Function Trends in 2023

Economic volatility, political tensions, tight budgets and a competitive labor market mean compliance leaders must do more with less

Compliance leaders are facing pressure to make the most of existing resources despite economic challenges and increased workload volume and complexity, according to Gartner, Inc. To face these challenges, leaders must address three crucial compliance function trends this year: tighter budgets, changing labor and organizational dynamics, and increased investments in technology.

"Confronted with economic volatility, a tight labor market, and rising geopolitical tensions, compliance departments are adapting their workflows to an increasingly complex landscape," said Chris Audet, chief of research with the Gartner for Legal, Risk & Compliance Leaders practice. "To successfully manage these challenges, compliance leaders should focus on optimizing their spending and staffing decisions, adjusting existing budgets, optimizing department productivity, and making technology investments where necessary."

TIGHTER BUDGETS

High inflation rates and ongoing fears of an impending recession place organizations under resource strain — with compliance leaders now tasked to operate in a more cost-conscious environment. At the same time, workloads have increased due to the effects of the pandemic and there is greater regulatory scrutiny and complexity.

"The majority of a typical compliance budget is spent on personnel," said Audet. "Given that budgets are flat and wage demands are increasing with inflation, retention becomes doubly important."

Recent years have also driven an accelerating interest in technology solutions that is now getting tailwinds from organization wide pushes towards automation to boost business productivity during an economic downturn.

CHANGING LABOR AND ORGANIZATIONAL DYNAMICS

Compliance departments have seen a decrease in full-time employee (FTE) headcounts since 2020, and for 2023 most compliance departments did not forecast a change to the FTE headcounts.

"Increased regulatory scrutiny and rising geopolitical tensions have burdened compliance staff in recent years. Coupled with a more competitive talent market, it has been difficult for many compliance leaders to hold on to their existing staff, let alone increase the size of their departments," added Audet.

COMPLIANCE LEADERS PLAN FOR INCREASED INVESTMENTS IN TECHNOLOGY IN 2023

Compliance leaders anticipate technology will be one of the areas of highest spend increases this year with systems to manage hotlines, compliance and ethics training, and risk management systems high on the list.

"This projected increase is likely a response to growing inflation rates and a highly competitive labor market," said Audet. "Rather than rely solely on capital to execute on these increased workloads, many compliance leaders are turning to technology tools to support their work."

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Worldwide Banking and Investment Services IT Spending to Reach $652 Billion in 2023

Current economic uncertainty driving organizations to invest in agile it infrastructure

Worldwide banking and investment services IT spending is forecast to total $652.1 billion in 2023, an increase of 8.1% from 2022, according to Gartner, Inc. Spending on software will see the largest growth with an increase of 13.5% in 2023.

> 'CIOs are now prioritizing more conservative objectives that support resilient and sustainable growth, such as a better customer experience and more efficient operations.'

"Current economic headwinds have changed the context for technology investments in banking and investment services this year," said Debbie Buckland, Director Analyst at Gartner. "Rather than cutting IT budgets, organizations are spending more on the types of technologies that generate significantly higher business outcomes. Spending on software, for example, is shifting away from building it in-house, in favor of buying solutions that generate value from investments more rapidly."

INVESTMENT IN CLOUD CONTINUES UNABATED

According to the Gartner 2023 CIO and Technology Executive Survey, banking and investment services CIOs will spend the largest amount of new or additional funding in 2023 on cybersecurity, data and analytics, integration technologies and cloud.

More than half plan to increase investments in cloud, while reducing IT spending in their own data centers. This is reflected by slower growth in data center systems spending from 13.2% in 2022 to 5.7% in 2023. Banks are disengaging from tangible assets and capital expenditure (capex) in favor of adopting services and operating expenditure (opex), to meet evolving customer and market expectations.

"To deal with the current economic climate, banking and investment services CIOs are now prioritizing more conservative objectives that support resilient and sustainable growth, such as a better customer experience (CX) and more efficient operations," said Pete Redshaw, VP analyst at Gartner. "This is a change from previous years when outright growth – new territories, new customers, new lines of business – was the primary objective of banking CEOs."

IT SERVICES REMAIN LARGEST SPENDING SEGMENT

Driven by the increased use of consulting services and infrastructure as a service (IaaS), IT services will be the largest spending category, forecast to reach almost $270 billion in 2023. This is an increase of 9.3% over 2022, reflecting the increasingly important role IT service providers play in helping banking and investment services organizations navigate emerging opportunities and challenges.

"Economic uncertainty is leading organizations to break down long-term contracts into multiple shorter projects," said Buckland. "They're also reluctant to sign new contracts, commit to long-term initiatives or take on new technology partners, which is driving an increase in the use of IT consulting services."

TALENT SHORTAGE DRIVING SPEND IN INTERNAL SERVICES

With the global talent shortage impacting banking and investment services organizations, spending on internal services will increase by 4.2% in 2023 to support the increased costs of hiring and retaining talent.

"Even after the recent widespread redundancies at many of the technology giants, banks are no longer seen automatically by top talent as the most desirable, rewarding or stimulating destinations," said Redshaw. "More innovative solutions are needed, such as dropping the requirement for university education and adding benefits such as lifetime retraining, hybrid teams, agile methods and fintech partnerships."

Los Angeles Business Journal CFO 2023 AWARDS

CFOs See Expanding Roles as Digital Transformation Urgency Increases

Research finds strategic focus on order-to-cash process can boost cash flow

The role of today's Chief Financial Officer (CFO) is undergoing significant changes and expansions, according to a new study, "The Evolution of Order-to-Cash," conducted by global market analysis and advisory firm IDC on behalf of the B2B order-to-cash software and digital payments market leader, Billtrust. The study, administered to 622 business executives, highlights the growing importance of CFOs in managing cash, supply chain finance, insurance and commodities while working with limited resources.

Amid ongoing economic uncertainty, 90% of the respondents agreed that the CFO's importance has "significantly" elevated within their organizations. This trend holds in the United States and Europe, where nearly 90% of respondents acknowledged the increased significance of the CFO.

The survey results also highlight the need for CFOs and financial leaders to prioritize digital transformation in the order-to-cash (OTC) process to improve efficiency, optimize cash flow and ensure long-term organizational survival. 77% of those surveyed went as far as to say that digital transformation across the OTC process is critical for their survival. Additionally, the study revealed that 44% of respondents have made significant changes to their OTC processes in the past 24 months, including payment management, invoicing and billing, and order management. Notably, 37% of U.S. respondents and just over 50% of EMEA respondents have implemented significant OTC process changes during this period.

"As we navigate an ever-changing business climate, the role of CFOs is becoming increasingly multifaceted and crucial," stated Sunil Rajasekar, CEO at Billtrust. "This study emphasizes the expanding expectations of CFOs, not only to manage the company's finances but also to contribute to key business decisions, steer the company through uncertain credit and financial markets, and oversee cost control across all departments. In this era, digital transformation, particularly within the order-to-cash process, is not merely an option but a necessity. By leveraging technology and automation, CFOs can unearth novel efficiencies, optimize cash flow management, and sustainably drive business growth."

> 'In this era, digital transformation, particularly within the order-to-cash process, is not merely an option but a necessity.'

"These findings illustrate how cash flow has reemerged as a top concern for businesses, particularly in the mid-market sector, where organizations often face challenges accessing capital markets and securing financing," said Kevin Permenter, research director, financial applications at IDC. "Consequently, the order-to-cash process has gained heightened importance to ensure efficient cash management. The good news is that many CFOs and financial leaders seem to be taking the necessary steps to do so."

Additional highlights from the report include:

- **Digitization fuels bottom-line results:** An overwhelming 94% of respondents stated that manual OTC processes would adversely affect their company›s financial performance.
- **Yet, executives struggle to reach digital maturity:** Only 15% of respondents have achieved a connected OTC process based on real-time data.
- **Late payments highlight the urgency of OTC:** As business executives consider the importance of cash/liquidity today, 17% of their invoices go unpaid by their due date.
- **Outdated OTC process impacting employee experience:** 54% agree that "the lack of OTC modernization has had a negative impact on our ability to attract and retain financial employees." Meanwhile, 30% of respondents characterize OTC employee turnover rate as "high" or "extremely high."

To learn more about the study and its findings, visit billtrust.com.

Los Angeles Business Journal CFO 2023 AWARDS

CFOs Explore Solutions to Workforce Challenges

Earlier this year, a survey of 500 CFOs, C-suite executives, and managers from a variety of industries demonstrated that almost all business leaders still face hiring challenges, although most hope investments in technology will mitigate workforce needs. Still, most executives predict their organizations will meet or exceed their goals, with 84% of CFOs expecting revenue to grow this year.

Other key findings:

• Cost cutting is still a core theme in 2023, as companies prioritize efficiency. However, spending is expected to increase in all areas of business, including: production, sales, marketing and technology.

• Although most executives look to invest in technology, and artificial intelligence (AI) usage is expected to expand, opinions diverge with respect to evaluating such investments. There is wider agreement on the importance of factors such as compatibility with existing systems and ease of implementation.

• Business leaders feel pressure from investors and the wider community to prioritize best environmental, social, and governance (ESG) practices.

According to survey respondents, most CFOs, C-suite executives and managers appeared confident heading into the second half of 2023, despite signals at the time pointing to a potential recession later this year. Fifty-three percent of executives still anticipate that the economy will ultimately expand this year, and only a small 8% minority anticipate the recession will be significant.

The survey set out to gauge respondents' reaction to critical hiring needs. Many anticipate that investments in technology may be part of the solution. More than four in five respondents say reducing human resources needs is an intention of such efforts. Only a smattering of executives strongly disagree that technology investments are meant to gradually reduce headcount.

"CFOs continue to push their companies forward, even amid economic headwinds," said Andy Burt, managing director of CFO.com. "While the economy works to stabilize and recover, finance leaders are using this opportunity to balance workforce needs with the commensurate amount of technology, as well as get their arms around the next wave of AI."

Artificial intelligence (AI) and the rise of ChatGPT made headlines in the first half of 2023, which mirrors many respondents' keen interest in AI application. More than two-thirds of executives believe their companies' AI usage will increase this year. Other data points agree that executives expect generative AI to have a substantial impact on business.

However, CFOs must continue to be aligned with their teams to not stifle innovation. The survey found that a solid majority of managers — more than three in five — believe executive leadership is hindering their innovative instincts. A third of managers strongly agree with this sentiment. This ultimately may have an impact on management retention. According to the survey, 50% of managers, despite being motivated in their roles, are looking to change jobs in 2023.

"CFOs know that the next big idea in growth and operational efficiency can come from anywhere," said Burt. "But it is still incumbent on finance chiefs to actively support and be open to innovation within their ranks, lest they miss the opportunity, and then lose their best talent."