



## What's keeping CFOs up at night in 2018?

There are plenty of reasons why CFOs might be suffering from insomnia—not all of them negative. Far from it, in fact.

Growth, it turns out, brings its own stressors. While in [Deloitte's Q3 2018 CFO Signals™ survey](#) CFOs' expectations for year-over-year revenue growth remained at one of its highest levels in the past four years, respondents expressed concern about their organizations' abilities to stay focused and execute on growth and change initiatives. They also continued to rank securing and retaining talent as among their top internal risks.<sup>1</sup>

But, as bright as the economic foreground may appear, a less vibrant horizon looms—one that forward-looking finance chiefs can't help but glimpse. In fact, the survey found that the proportion of CFOs who expect better conditions in North America in a year dropped from 52% in the second quarter, to 45% in Q3—the lowest percentage in two years. Moreover, 71% of CFOs said equity markets were overvalued, up from 63% in the previous quarter.<sup>2</sup>

What's driving those numbers is likely also what's keeping CFOs up in 2018: uncertainty about a range of fast-moving issues (trade policy), persistent challenges

(finding and keeping talent) and familiar-but-evolving qualms (global volatility). And in this issue of *CFO Insights*, we detail those concerns, along with seven others, drawn from the various activities and resources of Deloitte's CFO Program, which include our Next Generation CFO Academies, CFO Transition Lab™ sessions, CFO Forums, CFO Vision™ conferences, and *CFO Signals* surveys. ➔



## What's keeping CFOs up at night in 2018?

While this list of issues that give finance chiefs restless nights is far from exhaustive—and may test their strategic reflexes—awareness will hopefully help secure their vigilance.

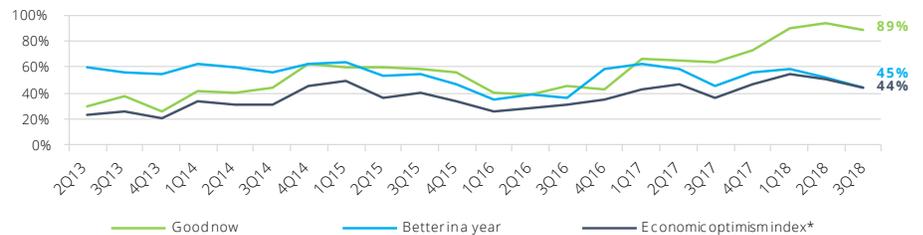
**1. Trade wars.** The current administration has embarked on what might be termed a “new world *re-order*,” re-evaluating longstanding trade relationships and withdrawing from and remaking multilateral pacts, such as NAFTA (the North American Free Trade Agreement) into the pending United States–Mexico–Canada Agreement (USMCA) free trade agreement.<sup>3</sup> That shakeup may be why finance executives rated trade policy and tariffs as one of their most worrisome external risks in the Q3 2018 *CFO Signals* survey. The administration has imposed tariffs on materials such as steel and aluminum and on a range of Chinese goods, drawing retaliatory actions from, among others, the European Union and China (whose exports to the US totaled more than \$500 billion in 2017<sup>4</sup>). For finance executives charged with managing global supply chains, maintaining margins, and calculating pricing in the face of rising input costs, the ongoing sparring may amount to a waking nightmare.

**2. Global economic jitters.** As previously mentioned, CFOs are still bullish (although less so) on the North American economy, but the same cannot be said about other economies. Among survey respondents, both perceptions and expectations regarding China, the world's second-largest economy, declined in Q3—with those who viewed current conditions as good plummeting to 37% from 55% in the preceding quarter.<sup>5</sup> Europe, too, has lost appeal in respondents' eyes, despite having hit a survey high point at the year's start. Meanwhile, rising interest rates worldwide are stoking CFOs' worries about future global economic growth and recent market volatility is adding to the concern. And then there is the fact that by historical measures, the current economic expansion, at least in the US, is already

## Bullish now on the North American economy; less so in a year

Percent of CFOs saying current conditions are good or very good, percent saying conditions next year will be better or much better, and percent saying both.

### North America



\*Indexes reflect the percentage of respondents who rate current economic conditions as “good” or “very good” and who also expect “better” or “much better” conditions in a year. Please note that the calculation of this index changed in 1Q18 and all values from prior quarters have been recalculated based on the new methodology.

Source: North American *CFO Signals*, Q3 2018, CFO Program, Deloitte LLP.

deep into its dotage and may reverse course at some point.<sup>6</sup> Still, it's nothing for CFOs to lose sleep over. Yet.

**3. Capital allocation.** Making sound investment decisions is a perennial top-of-mind issue for CFOs. And, owing to the pressure to make the right investments, it is not surprising that capital allocation processes are being closely scrutinized. Consider, for example, that in Q1 2018, finance executives who participated in *CFO Signals* expressed a strong bias toward investing cash over returning it (57% vs. 14%). And when asked about the implications of tax reform, 46% expected higher investment in US operations, 38% expected to front-load capital investment, and just 31% projected higher dividends.<sup>7</sup> But executing on big investments isn't just about the money; it also requires clarity when it comes to identifying profitable growth opportunities, rationalizing priorities, and measuring impact. Going the simpler route may then explain the burst of enthusiasm for dividends that showed up in Q3's survey results, when expectations for dividend growth skyrocketed from 4.8% in the previous quarter to 7.4%, the highest level in eight years.<sup>8</sup>

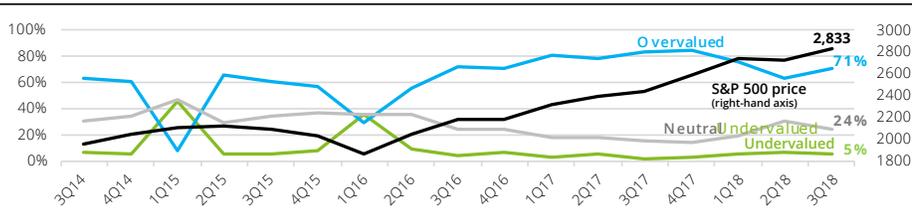
**4. Execution risk.** Execution risk comes in many guises, so perhaps it's not surprising that CFOs routinely cite it as a worrisome internal risk in the quarterly

*CFO Signals* survey. In our Transition Lab sessions, we have found that CFOs encounter execution risk in [as many as 12 different forms originating with three drivers](#): resources, alignment, and behavioral risks—the latter of which includes cognitive and social setbacks.<sup>9</sup> Finance leaders who set out on transformational projects can ease their paths by clearing out such risk-raising obstacles as insufficient budgets, demoralizing workloads, and a deficient inventory of skills. Other constraints include spotty stakeholder support, ineffective governance, and an embedded culture of resistance. For CFOs who are gathering the resources needed to successfully implement change initiatives, the odds of success can be improved by ensuring enough resources, aligning governance to execution, and helping individuals overcome resistance to change.

**5. Talent squeeze.** Executing *any* growth plan demands nurturing or recruiting the requisite talent, a top CFO concern that has only intensified as companies strive to keep up with the rapid evolution of technology. In the Q3 2018 *CFO Signals* survey, CFOs ranked finance talent as a top internal constraint. And going forward, the majority of surveyed CFOs say they foresee a shift beyond accounting, reporting, and compliance to a finance staff that is more adept in analysis, prediction, and decision support. As for how they planned

### Equities still seen as overvalued

Percent of CFOs saying markets are overvalued, undervalued, or neither (compared to S&P 500 price at survey midpoint)



Source: North American CFO Signals, Q3 2018, CFO Program, Deloitte LLP.

to address any gaps, respondents expected the composition of their workforces to undergo dramatic changes in the next three years. In fact, CFOs reported that already 8.3% of their finance function workers consisted of “gig” workers, meaning under contract, contingent, or outsourced. And in the next three years, CFOs expect that proportion to nearly double, soaring to 15.6%.<sup>10</sup> For CFOs desperate to sleep, counting contingent workers may soon do the trick.

**6. Digital transformation.** From data to governance to investment decisions, implementing a digital future is not easy. To realize it, finance needs to work with IT to set priorities around digital strategies and execute collaboratively. But in separate Deloitte surveys, only 55% of CFOs reported having a well-defined business case template for IT investments,<sup>11</sup> and only a quarter of CIOs had an enterprise-wide digital strategy.<sup>12</sup> Still, they are moving full-steam ahead: more than half of CFOs in the Q1 2018 *CFO Signals* survey said their 2018 business models would have a substantial digital component. Moreover, nearly 60% said new technologies would substantially affect their products and services this year, and nearly the same proportion said new technologies will substantially affect their operations. The keys to creating a comprehensive roadmap for transformation? Envision, invest, govern, and then transform.

**7. Cyber-insecurity.** For years, companies have faced little choice but to keep trying to one-up the hackers, striving to at least stay apace with

their growing sophistication. Given that no industry is immune to cyber risk, CFOs need to make sure their companies continue to step-up the quality and speed of their efforts. It also seems they may need to convince their CEOs and board of the importance of some of the most beneficial tactics. While those stakeholders rate cyber security as their greatest risk in a recent Deloitte survey of 400 CEOs and board members, only 30% describe themselves as highly engaged in developing their organization’s cyber response strategy and only 25% are fully embracing war gaming or scenario planning<sup>13</sup>—two leading methods to assess vulnerabilities and create a crisis response strategy. Engaging in these exercises is key to moving from simply identifying security threats and fixes to also defining business impacts, governance methods, risk escalation steps, and organizational responses.

**8. Targeted communications.** As much as CFOs need to have a well-defined capital allocation strategy, it’s equally important that they know how to convey it clearly and customized for different stakeholders. Those stakeholders include both internal audiences—the finance function, the executive committee—as well as external audiences, such as the perennial activist shareholders. Those activists are a case in point having come back in force in the wake of last year’s tax reform bill, looking at what businesses plan to do with any resultant windfalls. And in the absence of a sound financial argument from a confident CFO, they might ratchet up the pressure for companies to return excess cash to shareholders. A good

communications program, however, will help CFOs clarify messages and ways of engaging critical stakeholders. Moreover, a credible communications program can help persuade and inform key stakeholders on a CFO’s intentions and successes—and this, in turn, can accelerate his or her impact on the organization.<sup>14</sup>

### 9. Evolving with the CFO role.

As a range of technologies, such as cognitive computing and robotic process automation, lightens finance’s transactional burdens, a CFO’s role in shaping corporate strategy is taking on new dimensions. In fact, the role of the [finance function is taking on a new shape](#) as the partnership between automation and finance professionals combines to change how the function is organized and which processes no longer require human involvement.<sup>15</sup> As skills like data scientist and business analyst predominate, CFOs will face growing expectations of responsiveness within their function while assuming greater responsibility for identifying and closing gaps within an organization that is increasingly data-and-insights driven.

**10. Leaving a legacy.** One of the hallmarks of the CFO Transition Lab is asking CFOs about their legacies. Recently, we also asked CFOs to ruminate on their desired legacies in the Q2 2018 *CFO Signals* survey. Overall, CFOs said they want to leave their companies in a better position than when they first took on the role, and to position them to perform even better after they are gone. For their own teams, many said they want to leave behind a finance organization that is regarded as best-in-class— one known for very strong talent, and regarded as a very strong partner to the business. Finally, on a personal level, CFOs want to be remembered as role models when it comes to being effective business partners, ethical leaders, and talent developers. As one CFO told us, “I want to know I made a lasting, positive difference.”<sup>16</sup> Clearly, that’s yet another goal they aren’t about to leave undone, even if it means sleepless nights. ◀

## Endnotes

1. North American *CFO Signals* survey, see Q3 2018, US CFO Program, Deloitte LLP.
2. Ibid.
3. "U.S., Canada and Mexico just reached a sweeping new NAFTA deal. Here's what's in it," *Washington Post*, October 1, 2018.
4. Office of the United States Trade Representative.
5. North American *CFO Signals* survey, US CFO Program, see Q3 2018, Deloitte LLP.
6. "Length of economic expansions," *Seeking Alpha*, July 6, 2018.
7. North American *CFO Signals* survey, see Q1 2018, US CFO Program, Deloitte LLP.
8. North American *CFO Signals* survey, see Q3 2018, US CFO Program, Deloitte LLP.
9. "[Execution risks: Stepping over 12 common hurdles](#)," *CFO Insights*, US CFO Program, Deloitte LLP.
10. North American *CFO Signals* survey, see Q3 2018, US CFO Program, Deloitte LLP.
11. North American *CFO Signals* survey, see Q1 2018, US CFO Program, Deloitte LLP.
12. "[The 2018 global CIO survey: Manifesting legacy—Looking beyond the digital era](#)," US CIO Program, Deloitte LLP.
13. "[CEO and board risk management survey: Illuminating a path forward on strategic risk](#)," October 2018, Deloitte Risk and Financial Advisory.
14. "[Creating an effective communications program](#)," *CFO Insights*, US CFO Program, Deloitte LLP.
15. [Crunch Time V: Finance 2025](#), September 2018, Deloitte Consulting LLP.
16. North American *CFO Signals* survey, see Q2 2018, US CFO Program, Deloitte LLP.

## Contacts

### Sandy Cockrell

Global Leader and US National  
Managing Partner  
CFO Program  
Deloitte LLP  
[scockrell@deloitte.com](mailto:scockrell@deloitte.com)

### Greg Dickinson

Managing Director  
North American CFO Survey  
CFO Program  
Deloitte LLP  
[gdickinson@deloitte.com](mailto:gdickinson@deloitte.com)

### Ajit Kambil

Global Research Director  
CFO Program  
Deloitte LLP  
[akambil@deloitte.com](mailto:akambil@deloitte.com)

For more information about Deloitte's CFO Program, visit our website at:  
[www.deloitte.com/us/thecfoprogram](http://www.deloitte.com/us/thecfoprogram).



Follow us @deloittecfo

*Deloitte CFO Insights are developed with the guidance of Dr. Ajit Kambil, Global Research Director, CFO Program, Deloitte LLP; and Lori Calabro, Senior Manager, CFO Education & Events, Deloitte LLP. Special thanks to Josh Hyatt, Manager, CFO Program, Deloitte LLP, for his contributions to this edition.*

#### About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career—helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

#### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (DTTL), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.