Deloitte. CFO Signals™

2Q16: Less concern about capital markets; more concern about oil and politics

Executive summary

- **Sharp rebound in CFOs' optimism regarding companies' prospects:** This quarter's net optimism of +30.0 marks a sharp reversal from declining sentiment that left last quarter's measure at +1.7—the lowest level in more than three years. Forty-nine percent of CFOs express rising optimism (up from 33%), and the proportion citing declining optimism fell from 31% to 19%. Sentiment in Manufacturing and Energy/Resources improved.
- **Sales, earnings, capital spending, and domestic hiring growth expectations better, but still low*:** Revenue growth expectations rose from 3.3% to 4.0%, but are still among their survey lows. Earnings growth expectations rose to 7.7% from last quarter's survey-low 6.0%. Capital spending expectations rebounded from last quarter's survey-low 1.7% to 5.4%. Domestic hiring growth expectations rose to 1.1% from last quarter's survey-low 0.6%.
- **Perceptions rebounded for North America (slightly) and China (significantly); the outlook for Europe remains muted:** Forty percent of CFOs describe the North American economy as good or very good (down slightly from 41% last quarter), and 39% expect better conditions in a year (up from 35% last quarter). Just nine percent regard China's economy as good (same as last quarter), but the percentage of CFOs expecting worse conditions next year fell from 51% to 37%. Six percent describe Europe's economy as good (up from 5%), and only 15% see it improving in a year (down from 17%).
- **Equity markets again regarded as overvalued; debt and equity more attractive:** Fifty-six percent of CFOs say US equity markets are overvalued (up dramatically from 30% last quarter). Eighty percent say debt is currently an attractive financing option (up from 68%), and 30% of public company CFOs view equity financing favorably (up from 22%).
- **Finance support services mostly centralized, but some decentralization:** Nearly 70% of CFOs say they have more centralized support functions than decentralized. On average, CFOs reported about eight centralized support functions, three "decentralized by business" support functions, and one-to-two "decentralized by region" support functions. Only 31% of CFOs reported no decentralization of any support functions.
- **Finance operating models mostly delivering positive outcomes:** While most CFOs reported positive outcomes in terms of service quality and cost, finance talent retention, and process standardization, their assessments may not have been as positive as expected—and there appear to be significant differences across industries and between centralized and decentralized models.
- **Broad direct and indirect functional responsibility:** On average, CFOs say nine functions report to them on a solid-line basis (six reporting directly and three through a direct report). Corporate finance, treasury, accounting, FP&A, and tax are the most common solid-line reports; investor relations, internal audit, strategic planning, risk/compliance, and corporate development/M&A occupy the next tier.
- **CFOs asked to be "fact providers" and "challengers:"** CFOs say their CEOs are looking to them to be "fact providers," "challengers," "stakeholder managers," and "capital managers" (with the first two roles particularly dominant). But many report roles other than these, and there appear to be substantial industry differences.
- **When it comes to working styles, more "integrators" and fewer "guardians:"** About 60% of CFOs consider themselves "drivers" (up from 50% in 4Q10), and 35% say their CEOs are "pioneers" (up from 33%). The proportion of "integrators" rose for both CFOs and CEOs, and the proportion of "guardians" fell. Some CEO/CFO pairings are the most common than random pairing would suggest.
- **CFOs adapt to their CEO's style in different ways:** For some CEO/CFO pairings, CFOs appear to double down on their own type's traits; for others, they adopt more of the CEO's traits. The biggest mismatch between CFOs' actual and preferred CEO pairing occurs in the "pioneer/integrator" (CEO/CFO) pairing, where many "integrator" CFOs who are paired with a "pioneer" CEO would prefer to be paired with an "integrator" CEO.

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*Averages have been adjusted to eliminate the effects of stark outliers.