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CFO Survey: Firms Slow to Adopt Fintech; Tax Reform Boosts CFO Optimism

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Despite expected growth in the use of financial technologies such as blockchain, many American firms say they don't expect it to disrupt their business models, while those who do are slow to respond.

Also, more than 40 percent of U.S. companies say they plan to boost wages and 38 percent will increase hiring in 2018 because of recent tax reform, according to results of the Duke University/CFO Global Business Outlook.

The survey's CFO Optimism Index – now at an all-time high -- is an accurate predictor of hiring plans and overall GDP growth.

The survey has been conducted for 88 consecutive quarters and spans the globe, making it the world's longest-running and most comprehensive research on senior finance executives. The survey ended March 2. Results are for the U.S. unless stated otherwise.

Corporate America Slow to Respond to Fintech

Many CFOs say innovations such as cryptocurrencies and the blockchain technology that underpins them will not affect their businesses. Among those who do see disruption ahead, few are responding quickly.

Blockchain is widely expected to modify many business models over the next decade as a means of verifying ownership and allowing secure and nearly instant transactions with low fees. But 78 percent of U.S. CFOs say they don't expect to be affected -- or aren't sure how they'll be affected -- by blockchain. Seventeen percent say their firms will be affected but haven't yet adapted their business model in response. Another 4 percent say they are working to adopt blockchain, and just 1 percent say they have already adopted the technology.

Only 3 percent of CFOs say they understand blockchain.

"The U.S. needs to wake up in the fintech space," said Cam Harvey, a founding director of the survey, who teaches a blockchain innovation course at Duke's Fuqua School of Business. "China is doing nearly $10 trillion in mobile payments, while the U.S. is barely over $100 billion. Most of the big innovations over the past 25 years have originated in the U.S., but this time is different. There is a lot at stake and, right now, it looks like China will be eating our lunch."

More CFOs say they have at least a good understanding of big data (53 percent), advanced analytics (52 percent) and artificial intelligence (48 percent). Twenty-seven percent of firms say they have already reduced their finance workforce or will within five years because of fintech advances. However, more than 70 percent of firms say they do not expect to cut finance employees because of finance technology, or "fintech."

"Finance back-office jobs are low-hanging fruit for the fintech disruption," Harvey said. "It's logical to expect that 70 percent of firms will cut finance employees, not the other way around." Nearly 20 percent European CFOs say they understand blockchain technology well, up from only 8 percent who said they did two years ago. Thirty-seven percent say they are working on or already conducting big data analysis, about the same as two years ago.

Large Effects from Tax Reform

Sixty-six percent of U.S. CFOs say corporate tax reform is helping their companies, with 36 percent saying the overall benefit is medium or large.

"Some benefits of tax reform are already being felt, while others will unfold over the next several years," said John Graham, a finance professor at Fuqua and director of the survey. "Among other things, U.S. companies say tax reform will lead to greater profitability, investment, hiring and wages."

Forty-four percent of U.S. companies plan to increase wages more than they would have without tax reform. Thirty-eight percent plan to increase employment and 36 percent will increase domestic investment. Thirty-one percent will increase cash holdings. Among companies with defined benefit pensions, 29 percent will increase pension contributions.

Among companies that plan to increase investment, 53 percent say the reduced corporate income tax rate is the reason why. Another 44 percent indicate immediate expensing of investment will fuel investment. The immediate expensing of investment only lasts for five years, however, and 37 percent of companies indicate they will shift investment so it will occur within the next five years, hence a portion of the increased investment is "borrowing from the future."

Due to tax reform, the effective (or average) tax rate for U.S. companies is expected to fall by about 5 percent, from 24 percent to 18.8 percent.

The lower U.S. tax rate increases the after-tax return to investment, making the U.S. a more attractive place for foreign companies to invest. About half of Canadian, Latin American and Asian CFOs say that the reduced U.S. corporate income tax rate makes the U.S. a more attractive place to do business.

Optimism Remains at Record Levels

The Optimism Index in the U.S. increased to 71 on a 100-point scale this quarter, an all-time high.

"The extremely high level of business optimism is tied to the recently passed corporate tax reform," Graham said. "Our analysis of past results shows the CFO Optimism Index is an accurate predictor of future economic growth and hiring, therefore 2018 looks to be a very promising year."

Optimism is up around the world, anticipating strong global economic conditions.

Tight Labor Market, Top Concerns

The proportion of firms indicating they are having difficulty hiring and retaining qualified employees remains at a two-decade high, with 45 percent of CFOs calling it a top concern, up from 43 percent last quarter. The median U.S. firm says it plans to increase employment by a median 3 percent in 2018.

"The tight labor market continues to put upward pressure on wages," said Chris Schmidt, senior editor at CFO Research. "Wage inflation is now listed near the top half dozen concerns of U.S. CFOs."

U.S. companies expect to pay higher wages, with median wage growth of about 3 percent over the next 12 months. Wage growth should be strongest in the tech, energy and service/consulting industries.

After difficulty finding the right employees, the next largest concern among U.S. CFOs is the cost of benefits, with health care costs expected to rise by more than 7 percent next year. Concern about government policies, regulations and data security are the next biggest concerns.

Business Corruption

Corruption continues to dampen economic growth in emerging economics. Eighty-two percent of Latin American CFOs say that business corruption is a significant or very significant problem, as do 75 percent of CFOs in Africa and 49 percent in Asia. CFOs believe that business corruption limits competition, hinders expansion, increases prices and reduces quality.

Full global results are available at cfosurvey.org.

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