CFO Insights on Inflation, Workforce Challenges, and Future Plans

180 CFO.com Executive Readers Provide a High-Level View of Finance Team Projections and Strategies

CFO | ORACLE NETSUITE

Executive Summary

Respondents

180 respondents – 115 CFOs; 15 EVP, SVP or VPs of finance; 42 senior directors or directors of finance; and 8 other senior finance titles – completed the full CFO.com reader's survey in Summer 2022. Fifty-three percent hail from companies with $49.9 million or less in annual revenue; 17% posted between $50 million and $99.9 million, with 29% earning between $100 million and $500 million. The survey was in the field between July 8 and July 14, 2022.

Survey Goals

- Gauge respondents' reactions to inflation in the second half of 2022 through 2024.
- Determine growth strategies and company reorientation in the current environment.
- Explore the differences in viewpoints about talent acquisition and retention, and strategies respondents are using to cope with the tight labor market.
- Discover the priorities of finance executives and their planned investments for digital acceleration for 2022-24.

Summary of Findings

CFOs are garnering benefits from lessons learned over the last few years: They are more cognizant of cash flow management and creative with workforce attraction and retention. They are planning to curb spending, looking for new cost cuts, and raise prices while exploring or building technological efficiency. Although they remain cautious about inflation and a potential global recession, they are adopting new hiring and pricing policies, and working more collaboratively while pushing forward with growth initiatives.

Other Key Findings

- **The outlook is generally confident:** Most finance executives say their businesses are experiencing growth or are building business resiliency.
- **Plans are coming to fruition:** Most CFOs expect their internal structural goals and expectations to come to fruition.
- **Talent remains a concern:** Talent acquisition and retention, both in the finance function and the organization. CFOs are concerned about rising salaries, and workers' demands and commitment.
- **Inflation remains top of mind:** CFOs continue to explore ways to deal with increased costs by reducing expenses and developing strategies to pass along cost increases to customers.
- **Technology spending will continue:** CFOs look to enhance worker productivity and reduce time and errors by automating back office tasks and operational activities.

Introduction

CFO conducted its first annual survey of finance leaders at small to mid-market companies to understand how they are managing the most significant trends in the greater economy. The survey examined the decisions CFOs are planning for their businesses during economic instability, how they feel about what's ahead, the financial strategies they plan to pursue in the short to medium term, and how they expect to invest their resources.

CFOs are now concentrating on abating labor shortages by advancing hiring and retention policies. Despite these challenges, most finance executives say their businesses are now experiencing growth or are building business resiliency. Additionally, most expect their internal structural goals and expectations to come to fruition.

As the importance of employee productivity has risen, so has the need for technological solutions. However, many CFOs report that their technology initiatives are lagging and that it is their responsibility to collaborate with IT leaders to improve operational efficiencies.

Timing and demographic overview

The survey was in the field between July 8 and July 14, 2022. Inflation was still hitting record highs and various economic indicators spurred murmurs of a recession. As such, responses reflect the different ways that leaders were shaping their financial strategies for business success in that environment.

Respondents are segmented into six categories: CFOs; EVP or SVP of finance; VP of finance; senior director or director of finance; controller; and other senior finance titles. The survey asked about the impact of inflation and how companies will reorient to sustain growth. And, how the tight labor market is forcing CFOs to make hard decisions about how to acquire, retain, and equip talent to maintain growth. Finally, the survey asked how staffing difficulties might impact CFOs' investments in digital acceleration.

QUESTION | **What is your current job title?**

		Count
Chief Financial Officer	64%	115
EVP or SVP of Finance	3%	6
VP of Finance	5%	9
Sr. Director of Director of Finance	11%	20
Controller	12%	22
Other senior finance title	4%	8

QUESTION | **What is your organization's revenue forecast for 2022?**

		Count
$2M - $9.9M	17%	31
$10M - $49.9M	36%	65
$50M - $99.9M	17%	31
$100M - $249.9M	18%	33
$250M - $500M	11%	20

QUESTION | **What is the current size of your company's workforce?**

		Count
Fewer than 49	18%	33
50 - 99	19%	35
100 - 299	26%	46
300 - 499	14%	26
500 - 999	12%	21
1000 - 4999	9%	17
5000 or more	1%	2

QUESTION | **What is your organization's primary industry?**

		Count
Aerospace/Defense	2%	3
Auto/Industrial/Manufacturing	17%	31
Business/Professional services	6%	10
Chemicals	1%	2
Construction	4%	8
Education	5%	9
Energy/Utilities	2%	3
Financial services/Real estate	8%	14
Food/Beverages/ Consumer packaged goods	4%	8
Hardware/Software/Networking	7%	12
Healthcare	5%	9
Insurance	1%	2
Media/Entertainment/ Travel/Leisure	3%	5
Nonprofit	7%	13
Pharmaceuticals/Biotechnology/ Life sciences	2%	4
Telecommunications	3%	5
Transportation/Warehousing	4%	7
Wholesale/Retail trade	8%	15
Other	11%	20

Business leaders see fruition

Despite inflation rates not seen in 40 years, a tight labor market, and a possible looming recession, the survey finds that 37% of finance executives currently see accelerated growth and 29% are building business resiliency. Only 2.8% answered that their business was in decline.

Additionally, an overwhelming 86% of respondents expect to meet or exceed plans that were established at the beginning of the year. However, it might be early to declare victory given the likely economic turmoil ahead.

QUESTION **Which of the following describes the current state of your business?**

		Count
Experiencing accelerated growth	37%	66
Building business resiliency	29%	53
Focused on business continuity	21%	37
Still stabilizing - in recovery	11%	19
In decline	3%	5

QUESTION **How do you expect your organization to perform in terms of internal structural goals and expectations in the second half of 2022?**

		Count
We expect to exceed enterprise value goals and expectations	15%	27
We expect to meet enterprise value goals and expectations	72%	129
We expect to perform below enterprise value goals and expectations	13%	24

Inflation remains a concern

Inflation is perhaps the largest and most discussed threat to businesses in 2022. The survey asked about the expected impact of inflation. The questions also touched on how finance managers will react by making changes to business operations in the coming years. The responses reflect that inflation, and what central banks do about it, remains a concern in the finance department.

CFOs say it will have a moderately negative impact on their businesses' outlooks, with 43% anticipating inflation will negatively affect their businesses for two years, 23% responding it will be a year, and roughly 7% less than a year. Another 7% felt that inflation wouldn't affect their business at all, which leaves about 13% saying they expect longer-term effects.

However, 72% of respondents predict that inflation will have a somewhat negative effect on growth. One respondent said: "We recovered from the effects of COVID so quickly that our revenues were extremely high in 2021. Now in 2022, we are still ahead, but I see growth is slowing as inflation cuts into [our industry]. Our board needs to realize that growth doesn't last forever, and that growth has hills and valleys."

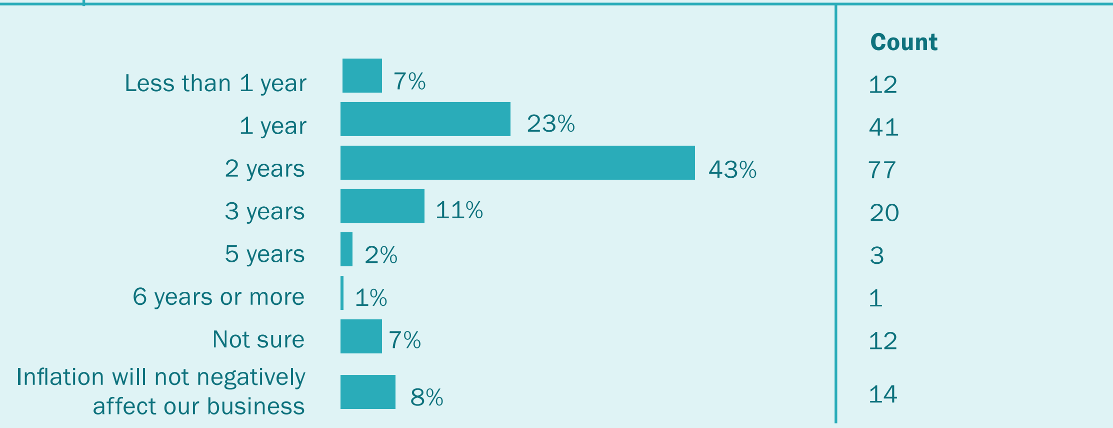
To combat inflation, finance executives' top two tools are to reduce costs (60%) and increase the end prices on goods and services (56%). Companies face a balancing act to navigate raising prices and padding profit margins to support executives' growth goals, but any weakness in consumer sentiment could have dramatic effects on price-sensitive industries. Comments from survey respondents shed light on some of the difficult strategic decisions that CFOs are facing: "We need to raise our prices to our customer base, but we are locked into long-term contracts. We will be forced to break the contracts in order to raise our prices, which could cause us to lose a portion of our existing customer base."

Another finance executive noted the challenge of "balancing price increases to maintain the customer base to at least cover cost increases from suppliers and wages. Customers are expecting price increases, but we are having difficulty making the moves required quickly enough to mitigate the rising costs."

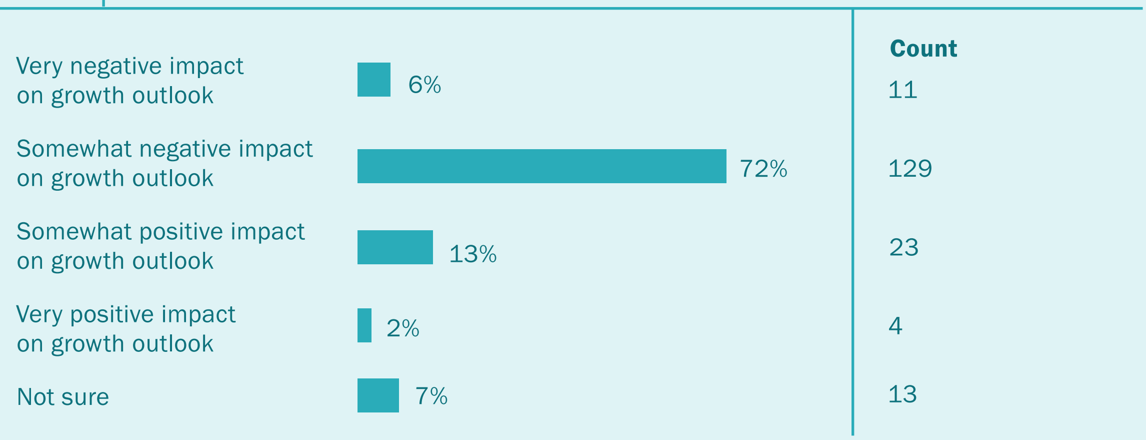
There is little consensus or certainty on activities to reduce or eliminate inflation. Respondents were only allowed to choose one answer, and the dominant response (17%) of CFOs indicated they would reduce or eliminate hiring to address rising inflationary pressures.

However, finance executives most frequently mentioned that they will reduce hiring and may hold off on expanding their products and services. Large organizations across the board are already curtailing hiring.

QUESTION **How long do you think that inflation will negatively impact your business?**



QUESTION **What impact does rising inflation have on the growth outlook of your business?**



QUESTION

Which of the following do you consider to be your most effective tools against inflation?

		Count
Increase prices on products/services	57%	102
Consolidate product offerings	11%	20
Cut costs	61%	109
Adjust pace of capital spending	26%	46
Renegotiate contractual terms	34%	61
Shift to managing on a cash basis	9%	16
Not sure	1%	2

QUESTION

Which of the following is your organization most likely to curtail or eliminate due to rising inflationary pressures?

		Count
Hiring talent	17%	31
Retaining talent	8%	14
M&A activity	12%	21
Expanding of products/services	14%	25
Adding production capabilities	7%	13
Marketing/advertising	9%	16
Digital acceleration initiatives	11%	20
Other	4%	8
Not sure	18%	32

The finance function

CFOs mostly agree that they are handling their day-to-day finance jobs well. When it comes to the finance function, CFOs agree – but not strongly – that their organizations perform accurate, real-time planning, reporting, and data analysis to consider and prepare for an inflationary environment.

About as many CFOs (41%) say they wish they had evaluated areas of potential inflation mitigation prior to 2022 as those that say they do not wish they had done so (39%). Finance executives are nearly split on whether they wish they had better evaluated areas of potential inflation mitigation prior to 2022.

QUESTION

Please indicate the extent to which you agree or disagree with this statement: The finance function at my organization performs accurate, real-time planning, reporting, and data analysis to consider and prepare for a rising inflationary environment.

		Count
Strongly agree	19%	34
Somewhat agree	57%	102
Somewhat disagree	17%	31
Strongly disagree	7%	13

QUESTION

Knowing what you know today, do you wish you had evaluated areas of potential inflation mitigation prior to 2022?

		Count
Yes	42%	72
No	39%	70
Not sure	19%	35

The critical workforce

Managing human capital continue to hover at the top of corporate finance agendas. Talent shortages are persistent, with 72% of respondents strongly agreeing or somewhat agreeing that their organizations face critical hiring needs in the second half of 2022.

Respondents commented on myriad workforce challenges, with some noting trouble with “obtaining motivated, committed staffing from mid-level down to entry level positions.” Said one CFO: “The areas we serve are experiencing growth in spite of the inflationary pressures. Our biggest challenge is finding talent to meet our growth needs.” While another noted challenges stemming from “significant” changes to the hiring and working landscape:

“After working virtually during the COVID pandemic and afterwards, there is an unrealistic expectation from current employees and candidates that employers should give in to every request for flexibility and pay top dollar for talent. That model is not sustainable.”

However, 27% of finance executives disagreed or strongly disagreed that they faced critical hiring needs. This may indicate the beginning of a cooling in private-sector hiring in the next 12 months.

When recruiting for critical roles within the finance function, the most important skills being sought are data analysis and accounting. And, a large majority of CFOs agree that they currently play substantial roles in supporting talent strategy development across the enterprise.

QUESTION

Please indicate the extent to which you agree or disagree with this statement: My company faces critical hiring needs in the 2nd half of 2022.

		Count
Strongly agree	37%	66
Somewhat agree	36%	64
Somewhat disagree	17%	31
Strongly disagree	10%	18
Not sure	1%	1

QUESTION

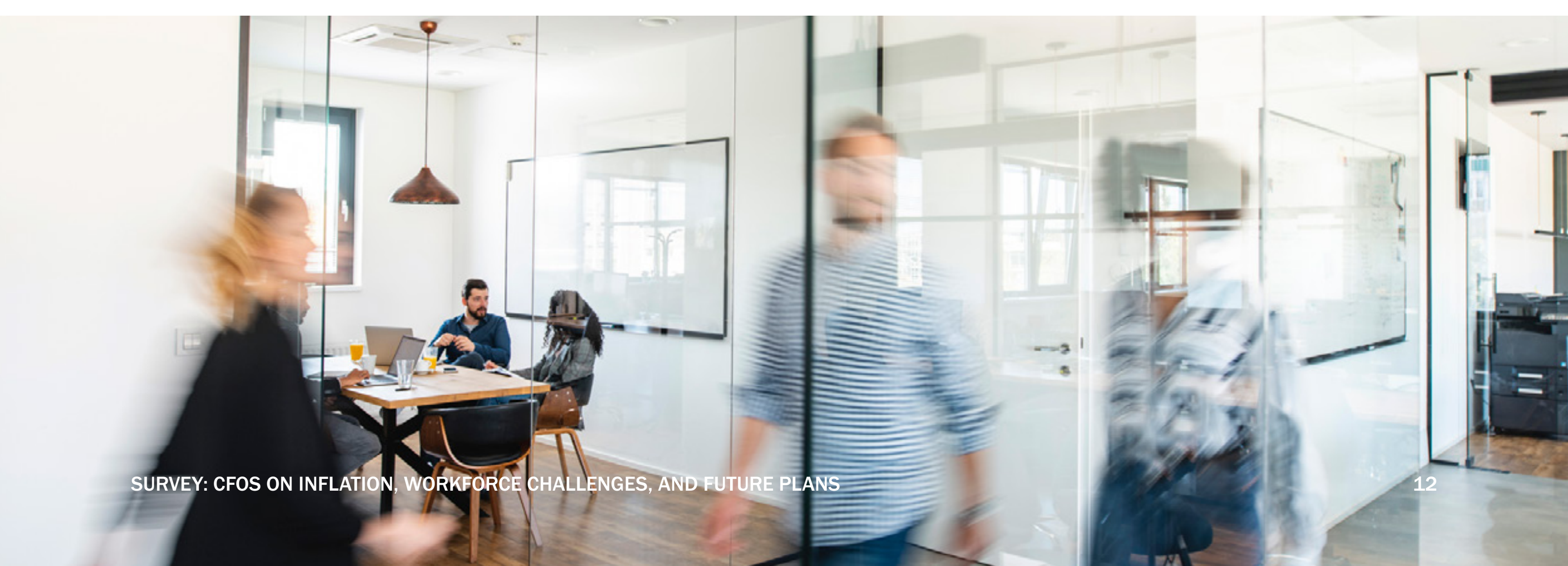
Please indicate the extent to which you agree or disagree with this statement: The CFO in our organization currently plays a substantial role in supporting the talent strategy development across the enterprise.

	%	Count
Strongly agree	41%	73
Somewhat agree	36%	64
Somewhat disagree	17%	30
Strongly disagree	7%	12
Not sure	1%	1

QUESTION

When recruiting for critical roles within the finance team, what skills are most important to look for over the next 12 months?

	%	Count
Accounting	42%	76
Data analysis	50%	90
Leadership	13%	24
Project management	16%	28
Industry knowledge	11%	20
Other (please specify):	3%	6
Not looking to hire within the finance team in the next 12 months	18%	32



The technology solutions continuum

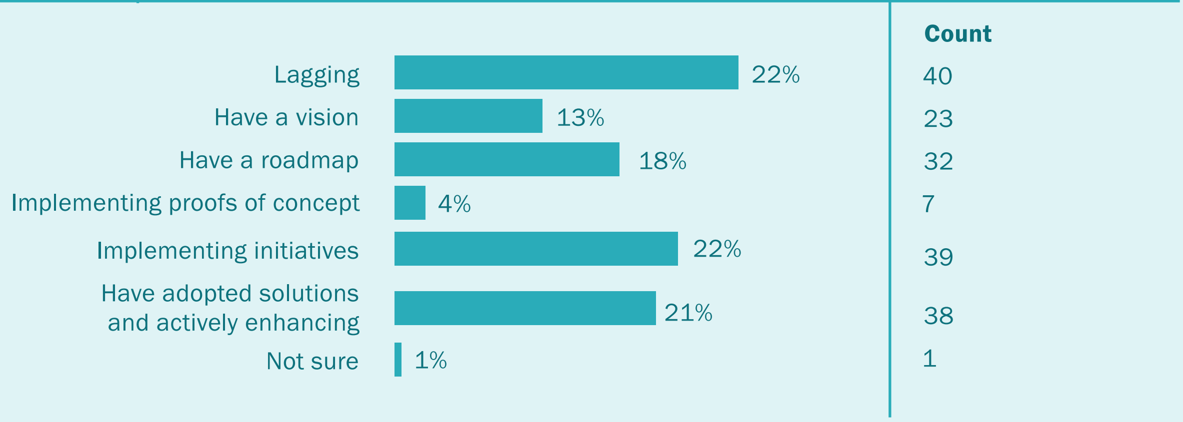
With labor markets historically tight, companies need to be laser-focused on increasing productivity through better use of technology. But according to all respondents, not all organizations have made significant progress in their digital initiatives. Companies are at different stages along the technology adoption continuum. Respondents lay in generally balanced proportions along the continuum, with a combined 31% having a roadmap or vision and 22% lagging in technology adoption. At the opposite end, a combined 26% are implementing proofs of concept. One-fifth are actively enhancing technology solutions they already have in place. Although the survey did not specify, it's worth noting that CFOs and mid-level managers may differ in their assessment of technology initiatives, with managers often finding the organization's technology less capable than executives.

Accounts payable and receivable are most likely to be digitalized (or automated) in the next 12 months. CFOs agree that leveraging the latest technologies to gain real-time accurate insight into working capital and cash flow would drive value across their organizations and would improve manual, error-prone processes.

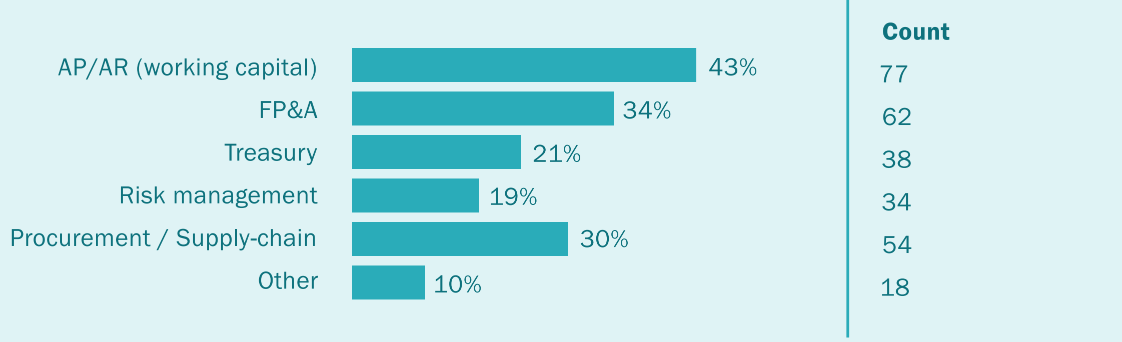
Additionally, CFOs agreed that they need to actively collaborate with IT leaders to leverage cloud, advanced analytics, automation, and other technologies to increase the performance of finance and accounting.

QUESTION

Which of the following describes your organization's approach to the adoption of technology solutions?



QUESTION | **Which of the following areas of the finance function do you plan on adopting technology solutions for within the next 6-12 months?**



CFOs evaluating technology investments beyond the finance function will be prioritizing operations — most respondents(46%) said operations will receive the largest investments within the next year. IT spend comes in second place at 21%. With 17% of the survey's respondents coming from the auto/industrial/manufacturing industry, some of the concerns over operations could be supply chain related. Some respondents described ongoing challenges with their supply chains:

> "Supply chain issues and inflation are causing two major issues: We can't promise a delivery date for our products, and we can't commit to a price, since our suppliers can't commit to either of those. Add to that the challenges of hiring and retaining staff, especially in the skilled trades, and we are struggling to provide the excellent customer service for which we are known."

> "The biggest challenges I expect to face are: Having reliable access to growth capital in an environment in which valuations are far from certain. And, shifting supplier/manufacturer/retailer power dynamics. When all parties are operating under increased business model pressure, historical norms will quickly go by the wayside. If we are not careful in how we manage relationships, the tendency could quickly devolve from a solid business partnership framework (e.g., shared success) into an every person for themselves mindset."

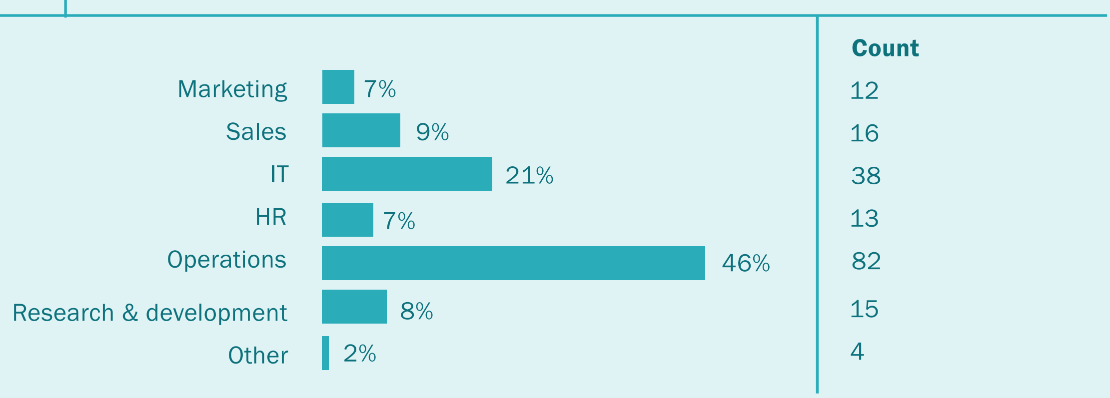
> “There continue to be supply chain disruptions, especially in the area of semiconductors and microprocessors. There are some other essential parts that we continue to have trouble getting, which limits the degree to which we can take advantage of all our growth opportunities.”

> “[We face challenges] handling cash flow in response to supply chain issues and reducing turnaround time for delivery of products to ensure sufficient and ongoing cash flow.”

> “We have been unable to ship products due to gaps in our supply chain. This has led to us having to manage cash much more stringently.”

While CFOs will be mapping how technology can help with their supply chain issues, increased investment is unlikely to have an immediate impact on mitigating pain points.

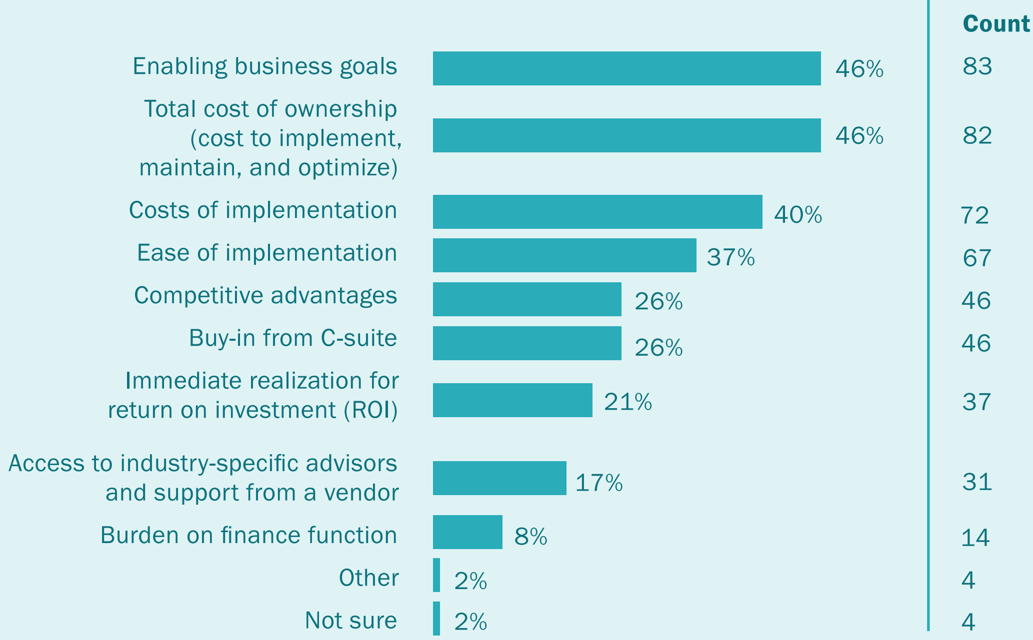
QUESTION | **Which of the following areas, outside of the finance function, will receive the largest IT investments?**



The technology benefits versus costs narrative show up in the questions about evaluating digital initiatives. Ultimately, CFOs respond that their most important evaluative criteria for digital initiatives are enabling business goals, total cost of ownership, and costs of implementation. Few note that they feel like technology is a burden to the finance function.

QUESTION

What are the three most important factors when evaluating initiatives at your organization?

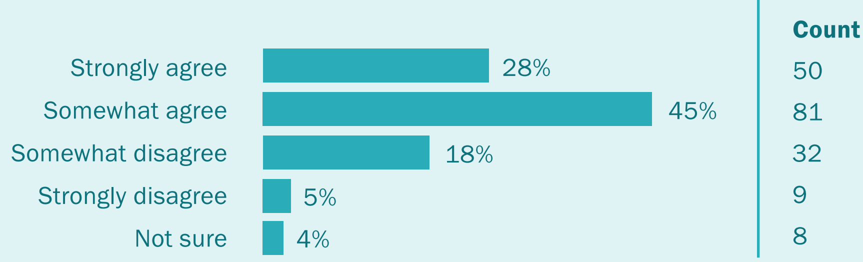


Finally, 45% of CFOs surveyed strongly agreed that leveraging the latest technologies would drive value across the organization. Another 28% somewhat agreed. On the other end, 18% responded that they somewhat disagree that technology will drive value by reducing errors and hours of manual labor with 5% strongly disagreeing.

The accelerated move to automate may point to the lack of available employees or the higher costs of retaining skilled workers; technology can be used to increase employee productivity, fill gaps in staffing, and allow existing employees to spend more time on the strategic aspects of their jobs. Additionally, pandemic-related changes in the workplace, supply chain tangles, and the need for fast and accurate forecasting are better met with automation in place.

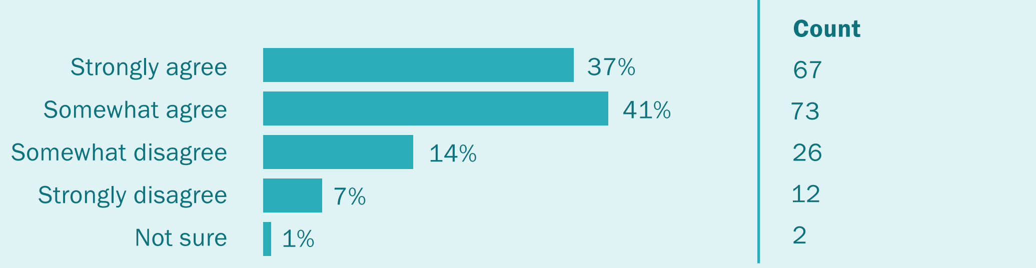
QUESTION

Please indicate the extent to which you agree or disagree with this statement: Leveraging the latest technologies (e.g., artificial intelligence, machine learning, robotics process automation, predictive analytics) to gain real-time accurate insight on our working capital and cash flow would drive value across my organization and reduce manual, error-prone processes for the finance function.



QUESTION

Please indicate the extent to which you agree or disagree with this statement: Our organization's CFO actively collaborates with IT to leverage cloud, advanced analytics, automation, and other technologies to increase the performance of finance/accounting.



The bottom line

As CFOs plan for countering the continued negative impacts of inflation and the lurking possibility of a recession, many are simultaneously pushing their growth initiatives forward. The survey suggests that in the short term, the majority of CFOs are not planning to sacrifice hiring and retention efforts despite admitting that inflation is reducing their expectations of growth. If inflation continues apace, there may be a change in hiring. One respondent concisely summarized what most CFOs are feeling:

"The biggest challenge will be managing really unknown economic headwinds. [There] seem to be mixed signals like never before. Pressure to increase wages to match the inflationary environment while dealing with a slowing of the economy. Uncertainty is higher now than anytime I remember in the last 20 years."

However, this survey more dominantly reflects that the general outlook for business in the coming year is positive and collaborative with a focus on improving business operations via technology adoption even if some organizations are still lagging in their implementation.

"The biggest challenge will be managing really unknown economic headwinds. [There] seem to be mixed signals like never before. Pressure to increase wages to match the inflationary environment while dealing with a slowing of the economy. Uncertainty is higher now than anytime I remember in the last 20 years."

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