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DARDEN SCHOOL  
of BUSINESS

Institute for Business in Society

# INSTITUTE FOR BUSINESS IN SOCIETY

## Views from the C-Suite: *Trends and Ramifications from the First 100 Days of the Trump Administration*

BY

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## Views from the C-Suite

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The [University of Virginia Darden School of Business Institute for Business in Society](#) held its [Strategic CFO Roundtable](#) on 11 May 2017 in Arlington, Virginia.

Since 2008, these roundtables have provided a confidential forum for corporate financial leaders representing the varied industries of the Washington D.C. region to discuss global and U.S. economies as well as corporate financial strategies and performance. In addition, each roundtable focuses on a Top of Mind (ToM) Topic, a specific issue of immediate interest to the members.

For the May 2017 roundtable, the ToM Topic was *Trends and Ramifications from the First 100 Days of the Trump Administration*.

### THE ECONOMIC DISCUSSION

As of the morning of the May roundtable, the Dow stood at 20,943, a 6% rise since President Trump's inauguration on January 20 and near its all-time high of 21,116 reached on March 1. Recent press coverage had focused on the president's policies and progress toward getting those policies turned into laws. The press was also alive with speculation about contradictory statements emanating from the White House and the president's use of Twitter to communicate directly with the public. Despite the turbulence of the news surrounding the new president, the stock market had displayed consistent buoyancy starting with the election results and continuing on the expectations of pro-business policy changes including tax cuts and relaxation of regulations. On the other hand, the roundtable meeting was held just two days after the president fired FBI Director, Jim Comey, who had been presiding over the investigation of election tampering by Russia and alleged Trump campaign connections with that country.

Within this environment, the roundtable members reported levels of optimism for the U.S. economy and for their own companies of approximately 60%, well above the neutral point of 50%.

### Darden Regional Business Outlook Survey

Before each roundtable, the members participate in a survey designed to elicit insights into their business views relative to national counterparts. We compare members' responses with those of the Duke University/CFO Magazine Global Business Outlook Survey (the "national survey") which has polled senior finance executives nationwide over the past 84 quarters. The comparison of results serves to generate conversation regarding member expectations of the financial condition and outlook for the U.S. and global economies and their own companies.

## Economic Outlook

Figure 1 depicts how the respective CFO groups have rated their optimism regarding the U.S. economy on a scale of 0 – 100%, where 0% indicates “Not Optimistic” and 100% indicates “Extremely Optimistic.” The May 2017 Darden Strategic CFO Roundtable Survey revealed a small increase of 2.2% in optimism regarding the U.S. economy relative to the January 2017 Survey: 61.2% and 59.0% respectively. The national survey reported an optimism level of 68.5%, which represented an increase of 2.0 percent: 68.5% for Q1 2017 over 66.5% for Q4 2016. The Darden Strategic CFO Roundtable Survey (dashed line) displays a level similar to the past couple of years of approximately 60%, whereas the national survey (solid line) optimism level is higher and rising over the past few quarters. The level of 68.5% reported by the national survey for Q1 2017 represents the highest level reported for the last “dozen years.”

**Figure 1: Optimism for the U.S. Economy  
(Scale of 0 – 100%)**

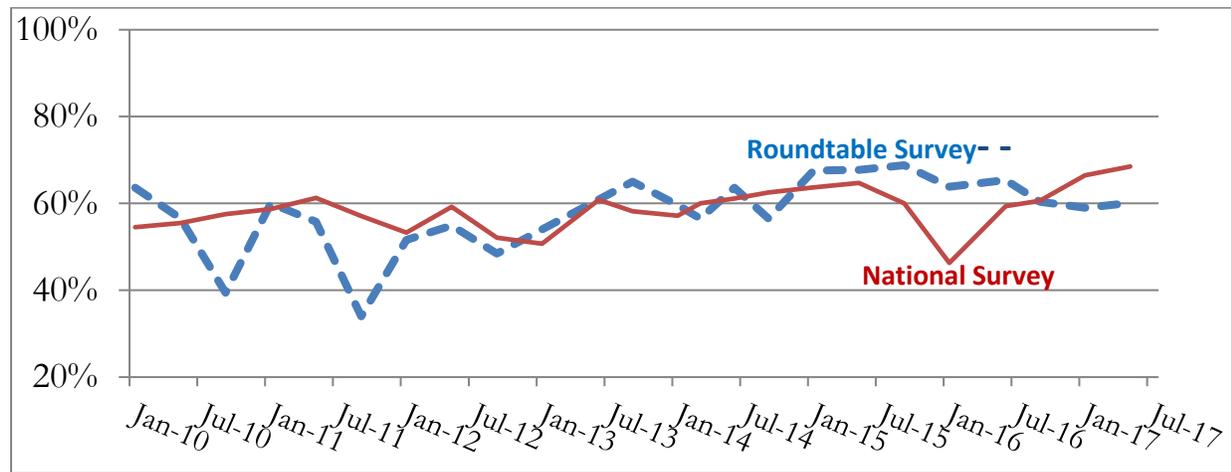
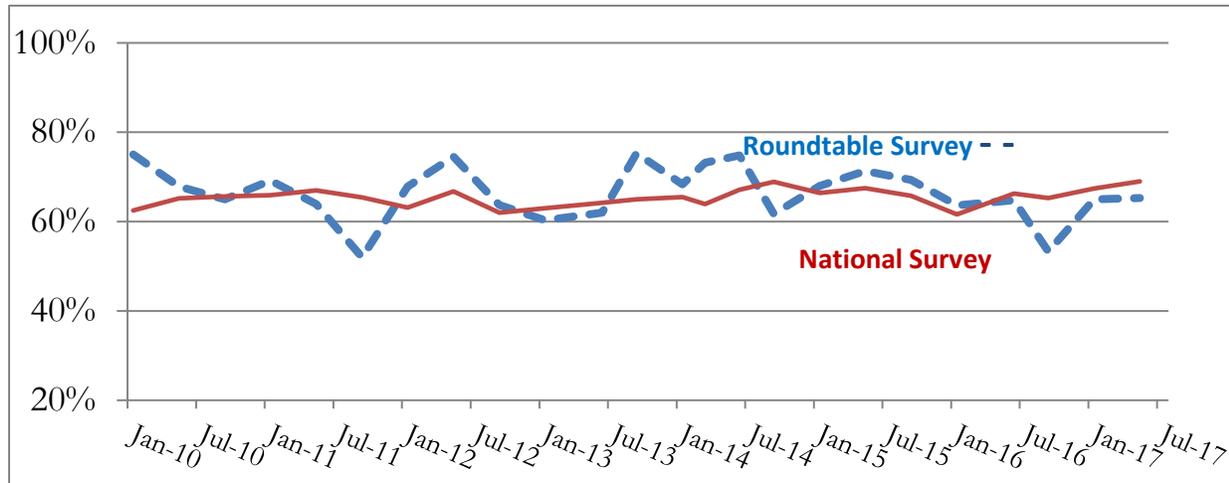


Figure 2 compares the Darden Strategic CFO Roundtable Survey with the national survey regarding optimism for their own companies. These optimism levels displayed very little change from the previous survey levels. The Q1 2017 results for the national survey (solid line) show a small increase to 69.0% from the Q4 2016 level of 67.4%. The roundtable survey (dashed line) reported an optimism level of 64.7%, which was a very small decline from the optimism level of 65.0% reported in January.

Historically, both surveys have reported higher levels of optimism for members’ own companies relative to the U.S. economy. Since the beginning of the roundtable survey in 2010, the own-company optimism level has averaged higher than U.S. economy optimism: 6.6% higher for the national survey and 8.8% higher for the roundtable survey. For the past four surveys, however, this difference has been lower as the roundtable members reported a higher optimism of 3.5% for their own companies in May, only 0.5% higher for the Q1 2017 national survey. Thus, while optimism levels are strong, there may be a small decline of the extra optimism that most managers feel about their own companies.

**Figure 2: Optimism for their Own Company  
(Scale of 0 – 100%)**



When asked for their reasons behind their optimism, one roundtable member noted:

“ . . . I think there’s less concern about Europe and the Asian economies than there was. I heard Larry Fink speak at the Washington Economic Club a little while ago and he pointed out that both of those economies are growing faster than the U.S. economy.”

A second member related the optimism to expectations surrounding the election:

“My view is that everything seems much better than maybe people were expecting once the election was over. There was a lot of uncertainty and there were a lot of things that haven’t been done and there’s still some building optimism for tax reform. I think people are breathing from a regulatory standpoint that there’s not going to be a lot of new stuff and there may be some things that are relaxed, so I think that’s positive. The stock market’s strong. The job market’s strong. Inflation rates are low. Things are just pretty stable.”

Another member cited risks about the U.S. economy:

“We see risks, but only in very specific sectors. The retail department sector in our business is a disaster because we see Macy’s, J.C. Penny, Kohl’s, K-Mart, Sears, they just can’t all survive in this new digital age, but in other sectors, we see a lot of positivity so I don’t think it’s an all-over macroeconomic issue. I think it’s a sector issue. I agree that international things have calmed down. Seeing some stability in France and not watching the whole European Union fall apart is a positive.”

As the discussion about the U.S. economy was closing, the roundtable members considered the survey results regarding expectations of changes in their income statement, balance sheet and cash

balance. On average, as they have been reporting for the last few years, the May survey showed the members were expecting all of these financial measures to improve over the next four quarters. When asked specifically about their cash balances, many members replied that deciding how much cash to carry and how much to distribute to shareholders continues to be a challenge, albeit a welcome one.

## TOP OF MIND TOPIC

The May Roundtable Top of Mind (ToM) Topic was *Trends and Ramifications from the First 100 Days of the Trump Administration*. As is the practice, several questions related to the ToM Topic were included in the Regional Business Outlook Survey.

Members shared their views on the potential positive/negative impact that certain Trump administration policies could have on the domestic economy and business, if these policy approaches were to be adopted. Table 1 shows the mean response on these policy issues, ranked from strongest positive impact to strongest negative.

**Table 1**

**Question: For the following policy issues, if enacted as proposed by the Trump administration, what would be the likely impact on the US economy and business?  
(5 = Strong Positive, 3 = Neutral, 1 = Strong Negative)**

Policy Issue	Mean
<b>Corporate Tax Reform</b>	4.6
<b>Individual Tax Reform</b>	4.1
<b>Wall Street Reform (i.e., Dodd Frank, Consumer Protection Agency)</b>	3.9
<b>Energy/Environment Policy</b>	3.6
<b>Pro-Manufacturing Policy (i.e., Build American, Buy American)</b>	2.9
<b>Technology Policy</b>	2.9
<b>Federal Budget</b>	2.8
<b>Healthcare Reform</b>	2.8
<b>Immigration</b>	2.8
<b>Trade (NAFTA, tariffs, etc.)</b>	2.4

The second question confirmed the members' view of the importance of Trump's tax reform. As shown in Table 2, which depicts the responses given, all but one respondent listed tax reform as the policy they wanted to see resolved before the mid-year elections.

**Table 2**

**Question: Enter the top two policy issues from those listed above that you would most like to see get passed by the mid-year elections?**

<b>Policy Priorities by Mid-Year Elections</b>
<b>Corporate tax and health care</b>
<b>Corporate tax reform / Wall Street reform</b>
<b>Corporate tax reform, individual tax reform</b>
<b>Individual and corporate tax reform</b>
<b>Tax reform only, they should leave everything else alone they don't know what they are doing</b>
<b>Tech policy, Federal budget</b>
<b>Would like to see health care and taxes finalized (not necessarily "passed")</b>

### **General Tax Reform**

At the time of this roundtable, specifics on the Trump administration's tax reform plan were limited to Trump campaign and post-campaign websites and a one-page tax proposal, "2017 Tax Reform for Economic Growth and American Jobs," listing the administration's Goals for Tax Reform, Individual Reform, Business Reform and Process provided to the White House press corps on 26 April 2017 (see Appendix) along with the opinions of media and experts.

According to the one-page tax proposal, key elements of the Trump administration's Tax Proposal for Business Reform included:

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars overseas
- Eliminate tax breaks for special interests.

The Trump administration's Tax Proposal for Individual Reform included "relief" and "simplification" elements:

- Reducing the number of tax brackets from seven (7) to three (3): 10%, 25% and 35%
- Doubling the standard deduction
- Providing tax relief for families with children and dependent care expenses
- Simplifying by repealing the AMT and death tax and eliminating certain "tax breaks" that mainly benefit the wealthy, and protecting home ownership and charitable gift tax deductions.

### **Corporate Tax Reform**

The Trump administration tax proposal calls for a 15% corporate tax rate. No member found 15% to be a realistic rate, but understood the impetus behind setting that bar. Any rate lower than the

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current one of 35% was viewed positively and they agreed that “there will be somewhat of a [tax] reform, that the corporate rate will be lowered.”

With these expectations in mind, the members are continuing to optimize their capital structures but delaying, where possible, certain strategic or operational decisions until the corporate tax reform is determined. The members did concede that the corporate tax reform did not significantly affect how they conduct their business.

“Most of the decision making we make around tax rate are things on the edges.”

“We have a lot of low basis assets that we would love to sell . . . we’re not in a hurry, to wait and see what happens this year.”

“There’s no ‘I’m going to invest in another service line,’ ‘I’m going to hire more people. . . Tax rates don’t affect that part of my business.’”

The members next challenged themselves to think through how benefits from lower corporate tax rates would flow “all the way through the economy.”

“You can see if [lowering corporate tax rates] can be moderately additive to the economy, with the whole trickle down approach . . . small countries can get these big swings, but we have such a large economy . . . it may move 30 or 40 basis points on GDP at the most over time if you get a mid-level tax reform, but it’s not going to be the solution [to growing the economy].”

Despite a consensus that a lower corporate tax rate would not have a direct significant impact on the economy, the members continued to maintain a desire for corporate tax reform. They recognized that the lower corporate tax rate would “create stock market value.”

### **Individual Tax Reform, Including Estate Tax**

As the conversation moved toward individual tax reform, the members were less optimistic that the Trump administration tax proposal would result in the desired or stated goals.

“I don’t think you’re going to incent anyone who’s making \$50,000 a year with these kinds of tax changes.”

“If you’re trying to incent some productivity — because I think that’s where most of this is going to have its impact — is at those middle and upper [professional] levels. Then you have the ability to maybe get some more productivity out of it.”

One member supported the flat tax system because “intellectually, people can get behind the fact that ‘this is what I’m going to pay and I pay whatever that rate is—20%, 25%, whatever the number is. . . and I don’t get to deduct all of these things.’”

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Yet that member recognized that “the charitable people will scream, the state and local government will scream . . . if you get rid of the tax deductions there.” Most members concurred, however, that tax policy should not be used to force social policy:

“. . . if you want to be charitable, you’re charitable because you want to be charitable. If you want to buy a house versus rent, why are we incentivizing people to buy homes versus rent?”

They also recognized that removing the deductions would be near impossible, as they are “all sacred cows.”

There was universal support for eliminating the so-called “death tax”:

“I’ve always felt like that making death a taxable event is just wrong.”

“It’s morally wrong.”

“It is double taxation. And in some cases, triple taxation.”

“It’s only a small percentage of people that pay estate taxes now, but those that do, the rate’s so high.”

### **Paying for Tax Reform**

The members did not discuss the fact that the Trump administration has asserted that parts of the tax reform plan is “revenue neutral.” The members started with the premise that lower taxes means a lower federal budget.

“I’m really glad you mentioned the budget in particular because when we talk about tax reform . . . how do you deal with the pay-the-piper aspect of that?”

They expressed concern that reducing the federal budget was not being reasonably addressed or rationally discussed at the legislative level, let alone between the administration and Congress. The members did not feel that these tax reform policies could or should be addressed without consideration of their interconnectivity with and impact on other policy issues, especially the federal budget and healthcare.

“We can’t just . . . continue to cut taxes and not find other ways to balance the budget or reduce spending and that can’t come, in my opinion, at the expense of people in our society who need help.”

“If it’s a material change [to the corporate tax rate], then you’re making a big change to the economy, you’re doing something that has a big impact on federal revenues [that must be balanced with the] level of reaction, or impact on opportunities.”

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“ . . . society has to come to grips with whether we want government to do it, or the private sector to do it with government oversight . . . We don’t come up with long-term viable institutions that will accomplish these things, and that’s the biggest problem. It’s true in healthcare and it’s true in government.”

## Healthcare

“ . . . If you think about healthcare... for most businesses, that almost is a tax because you need to buy it. No one has managed to control health care costs at a rate that is even close to inflation.”

“We spend nearly half of our federal budget in HHS (Health and Human Services), about 47% . . . We don’t want to face the fact that you have to ration and there’s a rationing of health care in all of these other systems [to which the U.S. has been compared, such as Canada] . . . we spend . . . 80% of our health care dollars in the last 18 months of someone’s life.”

Several members suggested that the Affordable Healthcare Act had not achieved its objective of moving from a volume-based to a value-based system and there were significant inefficiencies in the healthcare industry that could be addressed to reduce costs before healthcare rationing.

“Obviously, you’ve got all the preventative stuff where basically it’s what the Affordable Care Act initially was intended to do which was . . . lower the cost of things that are free for prevention [i.e., go to the physician, take your monthly medication] . . . because right now, people are saving money by not going to the doctor and then just showing up to the emergency room where they cost \$50,000 versus . . . a couple of hundred bucks.”

“You’ve got a lot of unnecessary utilization that drives up cost and oftentimes is inversely related to quality.”

“ . . . There are a lot of payment innovations possible to incentivize away from the old fee-for-service model where everything you do generates a bill, but more towards a population health or capitated model where you’re paid for a population of patients and if you deliver higher quality and lower costs and there’s an additional payment.”

## Small Business Reform

The Trump administration asserts that “millions of jobs” would be created with its tax proposal and other policies. The roundtable members did not see tax reform as the right vehicle to achieving that goal. Many members agreed with one CFO that “entrepreneurship and small business creation is where you create the jobs; it’s where you create the innovation.”

A key element to effective small business reform is getting capital into more and diverse local economies. As it is, “75% of all venture and private equity gets invested in three states: California, Massachusetts and New York.” Fundamental to encouraging the dispersion of small business growth is having “infrastructure and the support systems in a lot of these others areas to make it happen.” The members were skeptical about the administration’s ability to develop effective small business reform, just as the Jobs Creation Act under the Obama administration fell short of expectations.

We will see whether their optimism is sustained and their views around these policies and other issues when the roundtable convenes again after the summer.

### **The Darden Strategic CFO Roundtable meets next in September 2017.**

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#### *About the Authors*

[Kenneth M. Eades](#), Professor of Business Administration, is the Chairman of the Darden Finance Department and Associated Faculty with the Darden Institute for Business in Society. The author of numerous academic articles, more than 70 Darden cases and three books, Ken has received both research and teaching awards.

[Jane-Scott Cantus](#), Managing Principal and General Counsel of The ILEX Group, has worked with and advised Board and C-Suite members on strategy, culture, organizational design, leadership and talent for over 25 years. She co-founded the Strategic CFO Roundtable with Professor Eades and is a Fellow with the Institute for Business in Society.

#### *About the [Darden Strategic CFO Roundtable](#)*

The Darden Strategic CFO Roundtable is an invitation-only peer-to-peer forum for leading chief financial officers in the Washington D.C. metropolitan area. The roundtable members discuss, debate and share best practices surrounding the strategic role of the CFO. Representing a collective 300+ years of strategic, financial and leadership experience, the roundtable members share their views on the challenges and opportunities facing their companies and themselves. They discuss the lessons learned from triumphs and trials that led to their becoming recognized as strategic CFOs. Founded in 2008 by Darden Professor Kenneth M. Eades and Jane-Scott Cantus of The ILEX Group, the Strategic CFO Roundtable became a branded initiative of the Institute for Business in Society at the Darden School of Business of the University of Virginia in 2013.

#### *About the [Institute for Business in Society at the UVA Darden School](#)*

The Institute for Business in Society is a Center of Excellence at the Darden School of Business at the University of Virginia. Its mission is to be a leading global catalyst and convener of thought, information and action at the convergence of business and society. To achieve that mission, the institute unites leaders in business education with top industry executives, regulators and other thought leaders in discourse on the role and responsibility of business to make lasting positive impact to better an increasingly complex global society.

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**APPENDIX**

## 2017 Tax Reform for Economic Growth and American Jobs

*The Biggest Individual And Business Tax Cut In American History*

### *Goals For Tax Reform*

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

### *Individual Reform*

- Tax relief for American families, especially middle-income families:
  - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25% and 35%
  - Doubling the standard deduction
  - Providing tax relief for families with child and dependent care expenses
- Simplification:
  - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
  - Protect the home ownership and charitable gift tax deductions
  - Repeal the Alternative Minimum Tax
  - Repeal the death tax
- Repeal the 3.8% Obamacare tax that hits small businesses and investment income

### *Business Reform*

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars held overseas
- Eliminate tax breaks for special interests

### *Process*

- Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers.

[http://www.nmhc.org/uploadedFiles/News/NMHC\\_News/Tax%20Reform%20Core%20Principles%20-%201%20page.pdf](http://www.nmhc.org/uploadedFiles/News/NMHC_News/Tax%20Reform%20Core%20Principles%20-%201%20page.pdf)

**Darden Strategic CFO Roundtable Survey Results**

**May 2017**

	N = 9 CFO RT May 2017		N = 6 CFO RT Jan 2017		N = 6 CFO RT Sept 2016		N = 6 CFO RT June 2016		N=361 Duke Q1 17		N=337 Duke Q4 16		N=483 Duke Q3 16	
	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median
1. Compared to last quarter, are you more or less optimistic regarding:- <b>U.S. economy</b> (Less =1, More = 3)	2.3	2.0	2.7	3.0	1.7	2.0	2.2	2.0	2.5	3.0	2.5	3.0	1.9	2.0
1. Compared to last quarter, are you more or less optimistic regarding:-Financial prospects for <b>your own company</b> (Less =1, More = 3)	2.4	2.0	2.3	2.5	1.7	3.0	2.2	2.0	2.4	3.0	2.3	3.0	2.1	2.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)- <b>U.S. economy</b>	61.2	60.0	59.0	63.0	60.4	60.0	65.4	65.0	68.5	70.0	66.5	70.0	60.6	60.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)-Financial prospects for <b>your own company</b>	64.7	60.0	65.0	60.0	53.3	55.0	64.8	62.5	69.0	75.0	67.4	70.0	65.3	70.0
5. How would you rate...-Your <b>employees' morale level?</b> (Poor =1, Satisfactory =3, Excellent = 5)	3.0	3.0	3.7	4.0	3.3	3.0	3.7	4.0						

Darden Strategic CFO Roundtable Survey Results

May 2017 (Continued)

	N = 9		N = 6		N = 6		N = 6	
	CFO RT May 2017		CFO RT Jan 2017		CFO RT Sept 2016		CFO RT June 2016	
(Weaker =1, No change = 2 Stronger = 3)	Average	Median	Average	Median	Average	Median	Average	Median
6. Recent quarter's financial results vs. previous quarter: - <b>Income Statement</b>	2.1	2.0	1.8	1.5	2.2	2.0	2.2	2.5
6. Recent quarter's financial results vs. previous quarter: - <b>Balance Sheet</b>	2.3	2.0	2.2	2.0	2.2	2.0	2.2	2.0
6. Recent quarter's financial results vs. previous quarter: - <b>Cash Balance</b>	2.2	2.0	2.2	2.0	2.0	2.0	2.0	2.0
8. <b>Expected change</b> over the next 4 quarters vs. last 4 quarters: - <b>Income Statement</b>	2.6	3.0	2.5	3.0	2.2	2.0	2.4	3.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Balance Sheet</b>	2.3	3.0	2.3	2.5	2.0	2.0	2.3	2.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Cash</b>	2.3	3.0	2.2	2.0	2.2	2.0	2.2	2.0
(Reduced =1, No change = 2, Higher = 3)								
9. <b>Expected change</b> over the next 4 quarters vs. last 4 quarters: - <b>Headcount</b>	2.1	2.0	2.3	2.0	1.8	2.0	2.5	2.5
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Capital Spending</b>	2.1	2.0	1.8	2.0	1.8	2.0	2.0	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Compensation</b>	2.0	2.0	1.8	2.0	1.8	2.0	2.0	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Pro develop/training</b>	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Prob (new mkt/product)</b>	2.4	3.0	2.3	2.5	2.2	2.0	2.3	2.5
9. Expected change over the next 4 quarters vs. last 4 quarters: - <b>Prob (Acquisition)</b>	2.2	2.0	2.2	2.5	2.3	2.5	2.2	2.5