



CFO

# DUKE CFO GLOBAL BUSINESS OUTLOOK



INTERNATIONAL ASSOCIATION OF  
FINANCIAL EXECUTIVES INSTITUTES



GRENOBLE  
ECOLE DE  
MANAGEMENT  
TECHNOLOGY & INNOVATION

## STRONG OPTIMISM IN THE WORLD TIGHTENS THE LABOR MARKET

IAFEI AND A GROUP OF PARTNERS AMONG WHICH DUKE UNIVERSITY AND GRENOBLE EM SURVEY CFOs ACROSS THE WORLD. FOR THE THIRD QUARTER 2017, THE SURVEY WAS RUNNING FROM 22<sup>ND</sup> AUGUST TO 7<sup>TH</sup> SEPTEMBER 2017.

BY JOHN GRAHAM AND PHILIPPE DUPUY

For **only the second time in the history** of the survey, difficulty attracting and retaining qualified employees is the top concern of U.S. CFOs. This same concern ranks highly in many places around the world.

Firms are having a much harder time finding the right managerial talent, and a somewhat harder time hiring rank-and-file workers. In addition, many U.S. companies indicate that their currently employed managers do not have enough bandwidth to oversee an expanded organization.

**Firms pull back on expansion:** 89 percent of companies surveyed do not intend to pursue all planned projects that would increase the value of their firm, with the inability to hire the right employees a binding constraint at about half of these companies.

The survey asked why firms don't hire or train more managers. CFOs indicate that the pool of potential managers lacks enough candidates with industry-specific experience and technical knowledge, critical thinking skills for complex problems, leadership and people skills and judgment. Firms that say they struggle to hire enough rank-and-file employees indicate that many job candidates lack basic writing and math skills, job-specific technical skills, perseverance and work ethic.

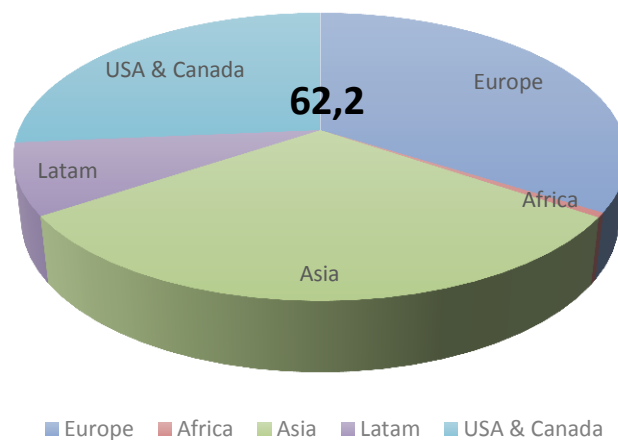
Due in part to the tight labor market, U.S. companies expect to pay higher wages, with median wage growth of about 3 percent over the next 12 months. Wage growth should be strongest in the tech, health care, and construction industries.

## IT employment

Forty percent of U.S. companies said difficulty hiring and retaining technology workers is causing a moderate to substantial negative impact to their organizations. The technology shortage is most evident in operations support, innovation and product development support, IT core functions and analysis of big data.

## Optimism Remains Strong all over the world

Average Global Business Outlook and regional contributions



GDP weighted Average Global Business Outlook  
(World Bank GDP constant prices in USD)

## North America

In the **US**, the Optimism Index fell slightly this quarter to 66 on a 100-point scale. That's one point lower than last quarter but still far above the long-run average of 60. CFOs remain optimistic not only about the overall economy but about their own firms, too. Our analysis of past results shows the CFO Optimism Index is an accurate predictor of hiring plans and overall GDP growth.

Fifty-six percent of **Canadian** firms say a managerial labor shortage prevents them from pursuing all value-enhancing projects. Compared to other countries, a relatively large 42 percent of Canadian firms indicate that non-managerial labor is also constraining their ability to pursue desirable projects.

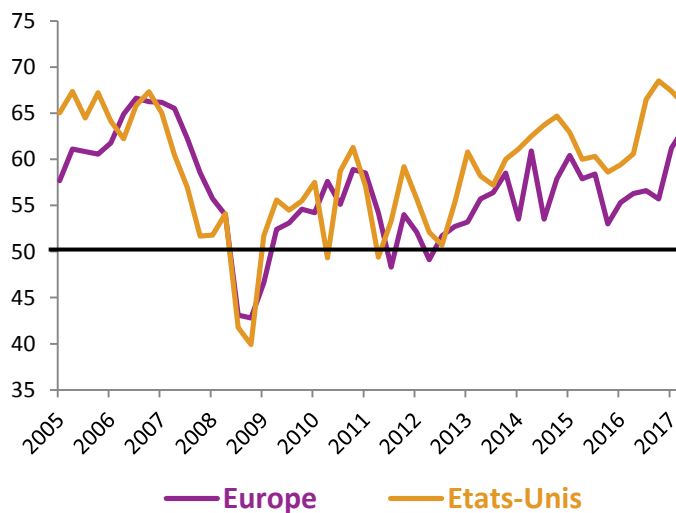
## Europe

Optimism is up at 63. Capital spending will strengthen to 6 percent (median 2.4 percent) growth, with flat employment growth expected. For the first time, the top concern among European CFOs is attracting and retaining qualified employees, followed by economic uncertainty, governmental regulations and productivity. Thirty-six percent of European firms say that managerial labor shortages cause them to pass up value-increasing projects.

European firms are slow to increase the managerial workforce or hours worked because it is hard to get new managers up to speed, top management does not have the bandwidth to oversee additional projects, hiring more managers would reduce organizational focus and because of financial constraints.

European firms find it difficult to hire non-managerial workers possessing the required skills, and firms say they are hesitant to hire more workers now due to the difficulty in laying off workers later if circumstances change. **Optimism is particularly high in France (61.9) and Germany (75.9) but weak in the UK (52).**

**CFO survey: Optimism index**



## Asia

Optimism is somewhat lower at 60. Economic uncertainty, difficulty attracting employees, government policies, and weak demand for products are top concerns. Median 3 percent capital spending and flat employment growth are expected. Half of Asian companies indicate that a shortage of managerial talent is preventing them from pursuing value-enhancing projects, greater than the one-third say that a shortage of non-managerial labor does the same.

The top factors driving the shortage of managerial workers are financial constraints, ability to get new managers up to speed quickly and lack of bandwidth for current employees. IT shortages in Asia consist primarily of lack of innovation/product development support, sales and marketing support and operations support. As one sign that Asian economies have cooled, most companies indicate that they have fewer back-logged value-enhancing projects now relative to three years ago.

### Latin America

While the level of optimism is still relatively low compared to most other regions (57), Latin American CFOs are much more optimistic than they were one year ago. Optimism has improved the most in **Brazil** relative to one year ago, up to 57. Economic uncertainty is far and away the top concern among Latin American CFOs, with 70 percent of firms listing it as a top four concern. They are also concerned about governmental policies, weak demand, and access to capital. Capital spending and employment are expected to increase modestly (1 to 2 percent), which again is a year-over-year improvement.

Latin American firms are less likely than firms in the U.S., Europe and Asia to say that they bypass value-enhancing projects or have a managerial labor shortage. Among those firms that are struggling to hire the right management team, half say that financial constraints prevent them from hiring adequately and 38 percent say it is difficult to get newly hired managers up to speed quickly. About one-third of companies indicate that a shortage of IT workers is moderately or severely affecting them; among these companies, the greatest shortages are a lack of innovation support, operations support, analysis of big data and competitive intelligence.

### Africa

Business optimism in Africa is up from last quarter to 52, though still the lowest in the world. Capital spending should increase by about 3 percent, while employment will be flat. Though weak, both of these numbers are improvements from last quarter. The biggest concerns for African CFOs are economic uncertainty, governmental policies, volatility of the political situation, and corruption. Only about one-third of African companies indicate that shortages of managers or non-managers restricts their abilities to expand. To the extent there is a shortage of desirable managerial candidates, companies indicate that the candidate pool is weak on both the desired hard and intangible skill sets.

**Table 1: During the past quarter, which items have been the most pressing concerns for your company's top management team?**

	Europe	Latin America	Asia	U.S.A.
Economic uncertainty	30.2	69.9	33.9	29.7
Currency risk	21.6	15.5	26.4	4.1
Weak demand	19.8	40.8	23.6	21.6

Government policies	27.2	45.6	30.0	31.6
Access to capital	15.4	23.3	18.7	14.1
Regulatory Requirements	25.9	21.4	14.3	30.0
<b>Difficulty attracting / retaining qualified employees</b>	<b>40.7</b>	<b>14.6</b>	<b>30.5</b>	<b>41.4</b>
Employee productivity	23.5	20.4	16.7	23.5
Rising wages and salaries	9.9	1.0	14.8	17.6
Employee morale	16.7	5.8	8.5	13.0
Cost of borrowing	8.0	21.4	8.6	7.6
Data security	18.5	10.7	17.2	27.0
Geopolitical / health crises	13.0	4.9	15.7	9.5
Deflation	3.1	1.9	2.8	1.1
Rising input or commodity costs	15.4	8.7	7.0	7.6
Cost of benefits	5.6	10.7	14.6	34.6
Corporate tax code	8.6	21.4	12.1	13.2
Inflation	1.2	1.9	6.7	0.5
Other	9.3	6.8	7.2	8.1

**Table 2: Relative to the previous 12 months, what will be your company's PERCENTAGE CHANGE during the next 12 months? (mean by region)**

	Europe	Latin America	Asie	Etats-Unis
<b>Revenue</b>	<b>7.0</b>	<b>8.24</b>	<b>2.9</b>	<b>4.3</b>
Inflation (Change in prices of own-firm products)	1.5	2.43	0.8	1.2
<b>Capital spending</b>	<b>6.6</b>	<b>2.74</b>	<b>8.1</b>	<b>4.2</b>
<b>Technology spending</b>	<b>5.2</b>	<b>5.26</b>	<b>8.9</b>	<b>5.2</b>
R&D spending	3.2	1.62	3.4	1.3
Advertising and marketing spending	4.9	2.68	2.5	1.7
Employment – full-time	0.4	1.17	-0.49	3.4
Wages and Salaries	2.7	3.79	1.65	3.9
Health Care Costs	1.2	4.33	1.82	8.6
Earnings growth	5.8	7.93	4.3	4.7

The survey has been conducted for 86 consecutive quarters and spans the globe, making it the world's longest-running and most comprehensive research on senior finance executives. This quarter, nearly 850 CFOs responded to the survey, which ended Sept. 8. Results are for the U.S. unless stated otherwise.