



CFO

DUKE CFO GLOBAL BUSINESS OUTLOOK



INTERNATIONAL ASSOCIATION OF
FINANCIAL EXECUTIVES INSTITUTES



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TECHNOLOGY & INNOVATION

OPTIMISM REMAINS STRONG BUT CFOs STRUGGLE WITH WORK/LIFE BALANCE

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 21ST AUGUST TO 8TH DECEMBER 2017.

BY JOHN GRAHAM AND PHILIPPE DUPUY

- CFOs spend two-thirds of their waking hours working and would prefer to be working only half the time, according to a new survey.
- The survey also finds that the difficulty companies are having hiring and retaining qualified employees is at a 20-year high.

Work-life balance

The survey suggests finance chiefs work nearly 70 hours per weekly. At the same time, the CFOs say the ideal work-life balance would involve working closer to 50 hours per week. The preference to work fewer hours is pervasive, regardless of the current number of hours worked. Most CFOs who currently work 80 hours per week would prefer to work between 50 and 60, while CFOs who currently work 50 hours would prefer to work 40 or fewer. The role of the CFO has widened over the last two decades. CFOs are accountable for the bottom line as well as helping shape corporate strategy. One hopes that finance chiefs are not overworking themselves to the point of jeopardizing their health, which in turn could put the financial health of the company at risk.

These trends hold across industries and around the world. The typical Asian CFO works 73 percent of his or her waking hours, slightly higher than CFOs in Europe (72), Africa (70), and Latin America (69). CFOs from all regions indicate that they would prefer to work about 20 percent fewer waking hours per week.

Current work-life balance in % per day

Country	CURRENT work-life balance
Germany	75.65
France	73.91
China	73.75
Netherland	73.75
Japan	72.86
Singapore	72.86
Italy	70.83
Brazil	70.76
South Africa	70.74
Mexico	70
Australia	70
Spain	68.75
Chile	68.06
Peru	67.22
US	66.89
Canada	66.06
Nigeria	65
UK	63.08

Continent	CURRENT work-life balance
Asia	72.63
Europe	71.55
Africa	69.81
Latam	69.48
US	66.89
Canada	66.06

US Industry	CURRENT work-life balance
Energy	76.25
Communications/Media Media	73.33
Manufacture	69.18
Banking	68.53
Transportation/Pub Util	67.78
Tech Soft Hardware/Bio Bio	67.14
Healthcare/Pharm	66.67
Mining/Construction	66.36
Admin	64
Retail/Wholesale	63.45
Service/Consulting	61.89

Rapid pace of innovation

Sixty-two percent of the US CFOs indicate that the pace of innovation at their firms has grown faster in the past three years. Among these companies, 63 percent indicate that the rapid pace of change has caused their firms to focus more on the near-term and 40 percent say that they now choose projects with shorter lives. Given the acceleration in innovation, firms don't want to be shackled by longer-term investments, especially in technology that can quickly become obsolete. You expect companies to pivot, and shorter-term projects allow for flexibility and speed.

Among these firms, 76 percent indicate that their capital spending has increased as a result of more rapid innovation. Forty-six percent say they have increased research and development in response, with 31 percent saying they will tackle ambitious "moon-shot" projects.

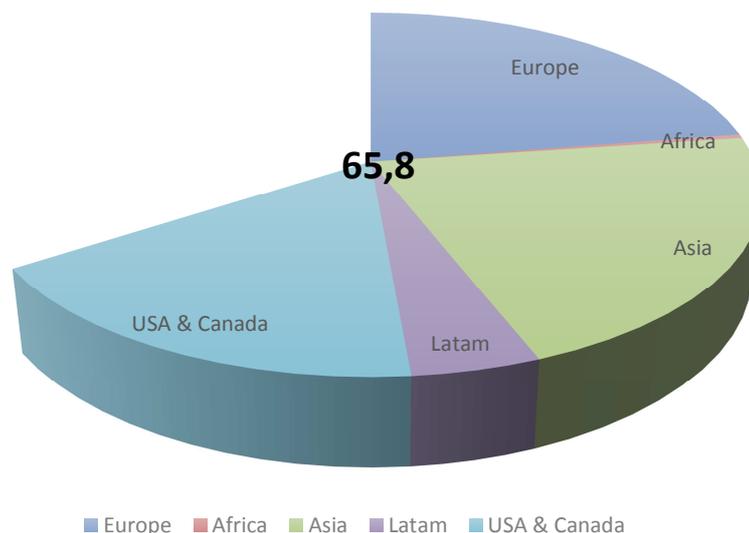
Tight labor market, Top Concerns

The proportion of firms indicating that they are having difficulty hiring and retaining qualified employees is at a two-decade high, with 43 percent of CFOs calling it a top concern. The median U.S. firm says that it plans to increase employment by about 2 percent in 2018. 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, energy, and retail/wholesale industries.

After the labor market, the next largest concern among US CFOs is the cost of benefits, with health care costs expected to rise by more than 8 percent next year. Nearly half of US companies indicate that the cost of employee health benefits crowds out their ability to spend on long-term corporate investment. Data security issues rose to 3rd on the list of top concerns, its highest ranking ever.

Optimism Remains Strong all over the world

Average Global Business Outlook



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

North America

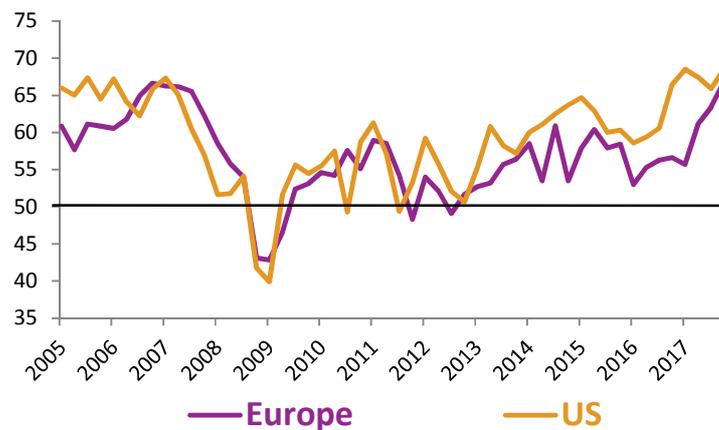
The Optimism Index in the **US** increased jumped to 69 on a 100-point scale this quarter. Among CFOs who responded to the survey after the Senate passed their version of the tax reform bill, optimism spiked to 73, which is the highest U.S. optimism ever recorded in the history of the survey. The extremely high level of business optimism is tied to the long-awaited corporate tax reform currently moving through Congress. More broadly, optimism is up around the world. 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 for the world economy. In **Canada**, optimism remains strong at 64. Capital spending should increase by about 4 percent and employment by about 2 percent in 2018.

Europe

Optimism in Europe jumped to 67 this quarter, the highest level in a dozen years. The **UK** has the lowest optimism among responding European countries, at 58. Capital spending is expected to grow 4.8 percent in 2018, and median employment should grow 1 percent. For the second consecutive quarter, and only the second time ever, the top concern among European CFOs is attracting and retaining qualified employees, followed by regulatory requirements, government policies, and data security. Nearly 60 percent of European companies say that the pace of change and innovation has quickened in the past three

years. Of these companies, three-fourths indicate that they have increased capital spending in response, and nearly two-thirds have increased R&D. Fifty-five percent of European CFOs say their firms focus more on the early years of the planning horizon due to the fast pace of innovation. Less than one-third indicate that they now require a shorter payback period or have shortened the horizon of their investments, the smallest percentage in the world.

CFO survey: Optimism index



Asia

Optimism is also strong in Asia, at 66. Difficulty attracting employees, economic uncertainty, and regulation and government policies are top concerns. Median 5 percent growth in capital spending and 2 percent employment growth are expected in 2018. Nearly three-fourths of Asian firms indicate that the pace of innovation has quickened over the past three years. Among these firms, 71 percent say they have increased capital spending in response, 65 percent have increased R&D spending, and 56 percent have increased moonshot projects. 86 percent of Asian firms indicate that the fast pace of change has led them to focus more on the early years in their planning horizons, and 55 percent have formally reduced the length of their long-range plan. Forty-three percent of companies indicate that spending on shorter-term projects has crowded out spending on long-term projects, and 43 percent say that regulations stifle long-range spending.

Latin America

Latin American optimism continues to rebound in most countries, up to 73 in **Mexico**, 71 in **Peru**, and 61 in **Brazil**. In stark contrast, optimism is only 28 in **Ecuador**. Economic uncertainty is the top concern among Latin American CFOs, with 62 percent of firms listing it as a top four concern. They are also concerned about governmental policies, weak demand, and productivity. Median capital spending growth will be 5 percent, while median employment will be flat in 2018. Sixty-three percent of Latin American CFOs indicate that the pace of innovation has increased in the past three years. Among these firms, two-thirds have increased capital spending and 52 percent have increased R&D in response, and 40

percent have increased spending on moonshot projects. Sixty-five percent of Latin firms indicate that the fast pace of change has led them to focus more on the early years of their planning horizons, and 55 percent have formally reduced the length of their long-range plan. Corporate taxes and regulations are the two factors that most hinder long-term spending in Latin America.

Africa

Business optimism in Africa increased 1 point to 53 this quarter, still the lowest in the world. Capital spending (employment) should increase by about 1 percent (3 percent) in 2018. The biggest concerns for African CFOs are economic uncertainty, governmental policies, and currency risk. Seventy-one percent of African CFOs say that the pace of innovation has quickened, and among these firms 85 percent say they have increased capital spending in response and 62 percent have increased R&D. Nearly two-thirds of African companies indicate that the rapid pace of change has led their firms to focus more on the short-term. Fifty-five percent say that adhering to regulations crowds out long-term corporate investment.

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	28.6	61.6	34.6	22.4
Currency risk	19.0	16.7	20.3	4.2
Weak demand	18.4	37.7	19.6	13.5
Government policies	29.3	52.9	29.9	29.3
Access to capital	12.9	18.1	18.2	17.0
Regulatory Requirements	30.6	23.9	26.6	28.6
Difficulty attracting/ retaining qualified employees	42.9	13.0	33.9	42.9
Employee productivity	17.7	25.4	23.0	25.9
Rising wages and salaries	10.2	4.3	11.6	19.7
Employee morale	13.6	8.7	15.7	17.0
Cost of borrowing	4.8	13.8	10.1	6.9
Data security	29.3	5.1	15.8	31.7
Geopolitical / health crises	13.6	5.1	6.9	5.4
Deflation	0.7	0.7	2.5	0.0
Rising input or commodity costs	12.2	14.5	17.0	10.0
Cost of benefits	10.9	15.9	10.6	33.6
Corporate tax code	7.5	21.7	8.4	20.5
Inflation	0.7	3.6	8.1	3.1
Other	9.5	6.5	12.1	6.2

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	Asia	U.S.A.
Revenue	5.6	7.0	6.6	5.9
Inflation (Change in prices of own-firm products)	1.1	3.1	3.1	2.7
Capital spending	4.8	4.5	8.0	3.2
Technology spending	3.0	4.3	6.3	4.8
R&D spending	6.3	3.2	3.6	3.3
Advertising and marketing spending	0.9	4.0	2.8	3.0
Employment – full-time	3.9	0.4	0.7	3.2
Wages and Salaries	2.6	3.5	1.1	4.4
Health Care Costs	1.3	5.0	2.2	8.3
Earnings growth	3.5	11.2	4.0	6.5

About the survey: The survey has been conducted for 87 consecutive quarters and spans the globe, making it the world's longest-running and most comprehensive research on senior finance executives. This quarter, more than 800 CFOs responded to the survey including nearly 300 from North America, nearly 100 from Asia, 148 from Europe, 215 from Latin America and 55 from Africa.