



CFO

DUKE CFO GLOBAL BUSINESS OUTLOOK



INTERNATIONAL ASSOCIATION OF
FINANCIAL EXECUTIVES INSTITUTES



**GRENOBLE
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MANAGEMENT**
TECHNOLOGY & INNOVATION

FIRMS BEING HACKED, TAKING ACTION TO PROTECT DATA

IAFEI AND A GROUP OF PARTNERS AMONG WHICH DUKE UNIVERSITY AND GRENOBLE EM SURVEY CFOs ACROSS THE WORLD. FOR THE SECOND QUARTER 2018, THE SURVEY WAS RUNNING FROM 13TH MAY TO 7TH JUNE 2018.

BY JOHN GRAHAM AND PHILIPPE DUPUY

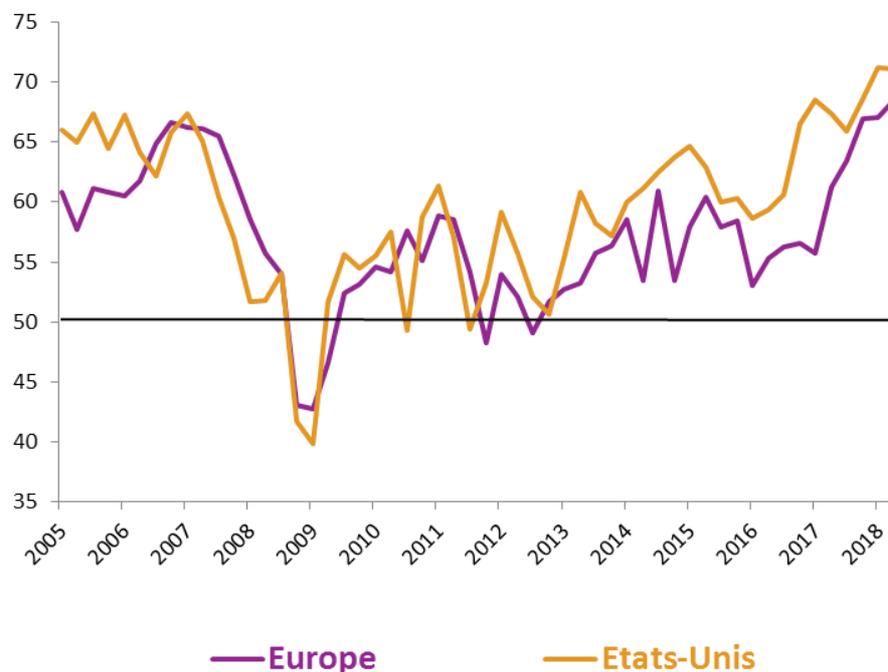
- U.S. companies lead the world in preventive cybersecurity policies, followed in order of preventive activity by companies in Europe, Africa, Asia, and Latin America.
- The proportion of firms indicating they are having difficulty hiring and retaining qualified employees remains near a two-decade high in several regions of the world.

OPTIMISM REMAINS AT RECORD LEVELS.

The Optimism Index in the **U.S.** remained at an all-time high of 71 on a 100-point scale this quarter. This increased U.S. optimism appears to have increased expectations for M&A activity. More than 70 percent of CFOs expect more mergers and acquisitions to occur over the next year.

Optimism in **Europe** inched up to 68 this quarter, from 67 last quarter. Optimism in the **U.K.** fell to 57, while optimism remains strong in **France** and **Germany**, and has picked up in **Spain** and the **Netherlands**. Capital spending is expected to grow 6 percent, and employment growth should be nearly 3 percent. For the second month in a row, the top concern among European CFOs is attracting and retaining qualified employees, followed by economic uncertainty, regulatory and government policies, and data security. One-in-five European firms say their systems have been penetrated by hackers. Two-thirds have installed new software and 62 percent have taken steps like two-factor authentication to make it more difficult for hackers. Generally speaking, European companies are somewhat less active in taking anti-hacking steps than are firms in the U.S.

CFO survey: Optimism index



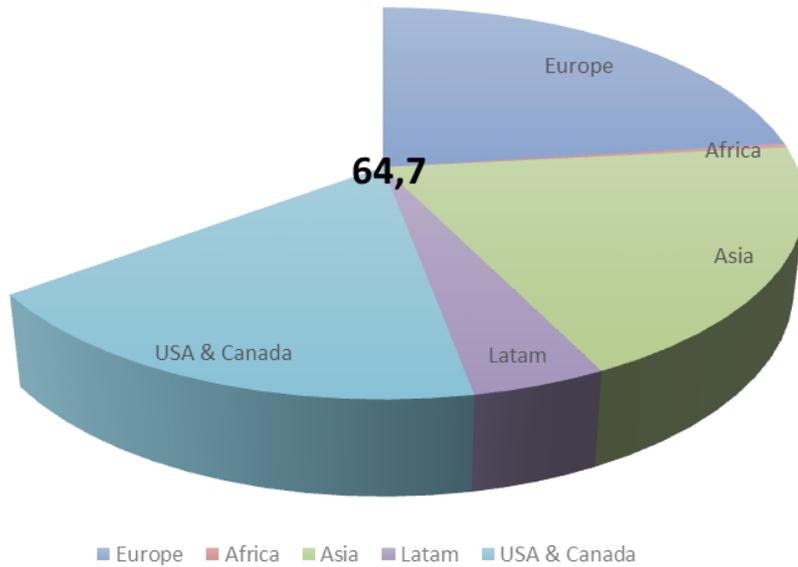
Optimism in **Asia** inched down from 61 last quarter to 60 this quarter. Difficulty attracting qualified employees, economic uncertainty, government policies, weak demand, and currency risk are top concerns in the region. Capital spending is expected to grow about 7 percent, and employment 3.6 percent, over the next 12 months. One-in-five Asian firms say their systems have been penetrated by hackers. Fifty-six percent have taken steps like two-factor authentication to make it more difficult for hackers, and 48 percent have installed new software. Overall preventive cybersecurity is lower in Asia relative to the U.S. and Europe.

Latin American optimism slipped this quarter, down to 64 in **Mexico**, 69 in **Chile**, 54 in **Brazil**, and only 36 in **Ecuador**. Optimism increased to 61 in **Peru**. Nearly half of firms in **Peru** say that economic prospects have improved since President Kuczynski resigned, compared to only 16 percent who say prospects worsened. Sixty-one percent say that the political and economic environment has stabilized.

Economic uncertainty is the top concern among Latin American CFOs, with 69 percent of firms listing it as a top-four concern. Other concerns include government policies, worker productivity, and currency risk. Capital spending is expected to grow 2.5 percent and employment 2.2 percent over the next year. Eighteen percent of Latin American firms say their systems have been penetrated by hackers. Nearly 55 percent have taken steps like two-factor authentication to make it more difficult for hackers, 38 percent have installed new software or changed procedures, and 32 percent have increased employee training on best practices. Generally speaking, Latin American firms have taken fewer anti-hacking steps than companies in other parts of the globe.

Business optimism in **South Africa** fell to 51 this quarter, down from 59 last quarter. **Nigerian** optimism fell to 54 from 62. Median employment should increase by 3.6 percent over the next 12 months, while capital spending will fall. Interest rates are expected to fall over the next year, leading to increased business spending next year. The biggest concerns for African CFOs are governmental policies, economic uncertainty, corruption, access to capital, and employee morale. Twenty-seven percent of African firms say their systems have been penetrated by hackers. Sixty-one percent have taken steps like two-factor authentication to make it more difficult for hackers and 52 percent have installed new software or changed procedures. The amount of preventive corporate cybersecurity policies is less in Africa than in the U.S. and Europe but is greater than in Asia and Latin America.

Average Global Business Outlook



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

TIGHT LABOR MARKET IS TOP CONCERN

The proportion of firms indicating they are having difficulty hiring and retaining qualified employees remains near a two-decade high, with 41 percent of CFOs calling it a top concern. The typical U.S. firm says it plans to increase employment by a median 3 percent in 2018 and expects wages to increase 4 percent on average. The tight labor market continues to put upward pressure on wages and wage inflation is now a top five concern of U.S. CFOs.

Wage growth should be strongest in the tech, transportation, and service/consulting industries. U.S. companies expect the prices of their products to increase by more than 3 percent over the next year.

DATA SECURITY THREATS

Concern about data security is at an all-time high among U.S. CFOs. Nearly one out of every five companies say that their computer systems have been breached by hackers. Twenty

percent of CFOs know they have been hacked. There is probably another 20 percent that don't even know their company's systems have been breached. Ten years ago, cybersecurity was not a C-suite responsibility. Now it is. Companies are defending themselves from near-continuous denial of service attacks and critical data breaches. To fight this battle costs money, which falls right off the bottom line. The cost is not just equipment, software and consultants, it is also reputation if you are breached.

Most U.S. companies are actively taking steps to reduce data security risks. Seventy-one percent have installed new software or introduced new procedures, 71 percent have introduced anti-penetration features like two-factor authentication or more stringent password protection, 54 percent have upgraded employee training, and nearly half have hired outside cybersecurity experts, among other measures.

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RISING INTEREST RATES

U.S. companies expect their cost of borrowing to increase over the next year. The typical firm expects their long-term borrowing rate to increase from 5.2 percent currently to 5.8 percent in one year. Increased interest rates would lead the typical firm to reduce capital spending growth from about 8.3 percent this year to about 7.1 percent next year. Rising interest rates dampen the incentive of companies to borrow and spend, slowing economic growth. We also asked CFOs about their spending plans in a high interest rate environment. In their high interest rate planning scenario, long-term borrowing costs would average 7.5 percent and capital spending growth would increase by only about 5 percent.

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	Etats-Unis
Economic uncertainty	35.4	68.8	30.9	15.8
Currency risk	25.3	26.0	27.8	5.7
Weak demand	19.2	22.1	30.3	12.7
Government policies	30.3	45.5	30.7	30.7
Access to capital	13.1	19.5	15.5	13.2
Regulatory Requirements	33.3	18.2	22.3	28.9
Difficulty attracting / retaining qualified employees	36.4	11.7	32.9	41.2
Employee productivity	16.2	29.9	15.1	22.4
Rising wages and salaries	10.1	2.6	24.8	28.5
Employee morale	24.2	2.6	10.8	16.7
Cost of borrowing	7.1	11.7	2.5	9.6
Data security	28.3	14.3	19.5	30.3
Geopolitical / health crises	8.1	5.2	17.9	2.6
Deflation	0.0	1.3	1.4	0.9
Rising input or commodity costs	15.2	10.4	10.7	22.4
Cost of benefits	4.0	15.6	9.4	27.2
Corporate tax code	5.1	13.0	10.8	9.2
Inflation	2.0	6.5	7.4	6.1
Other	7.1	6.5	9.4	7.5

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	Etats-Unis
Revenue	8.3	5.0	4.8	6.9
Inflation (Change in prices of own-firm products)	1.1	4.1	4.3	3.8
Capital spending	6.2	2.5	7.0	8.3
Technology spending	6.6	3.2	6.0	7.2
R&D spending	1.4	2.1	4.7	3.1
Advertising and marketing spending	4.5	4.2	3.9	1.9
Employment – full-time	2.9	2.2	3.6	4.5
Wages and Salaries	3.1	4.0	4.1	4.1
Health Care Costs	2.1	4.3	2.0	7.6
Earnings growth	7.5	9.1	5.8	8.1

About the survey: This is the 89th consecutive quarter the Duke University/CFO Global Business Outlook survey has been conducted. The survey concluded June 7, and generated responses from nearly 600 CFOs, including nearly 250 from North America, 62 from Asia, 99 from Europe, 151 from Latin America and 32 from Africa.