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## CFO Survey Europe

# Q2 2015

- 
- *Number of optimists among European CFOs reaches record high*
  - *CFOs: more opportunities for growth in 2015 (compared to 2013 and 2014)*
  - *9 out of 10 companies attacked by hackers or suffered from data security breaches*
- 

As part of the quarterly CFO Global Business Outlook survey, TIAS conducts CFO Survey Europe in collaboration with Duke's Fuqua School of Business, ACCA and CFO Publishing.

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# *Contents*

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<i>Introduction</i>	<i>4</i>
<i>CFO optimism &amp; sentiment</i>	<i>5</i>
<i>Finance &amp; capital</i>	<i>12</i>
<i>Employment</i>	<i>14</i>
<i>Key results CFO Survey – Europe, US, Latin America, Africa and Asia</i>	<i>17</i>
<i>CFO Survey Europe team</i>	<i>18</i>

# Introduction

*Number of optimists in Europe reaches all-time high*

*European CFOs see room for further growth in 2015*

*Optimism in other regions slightly down from last quarter*

*Data security poses challenge for 8 out of 10 companies around the globe*

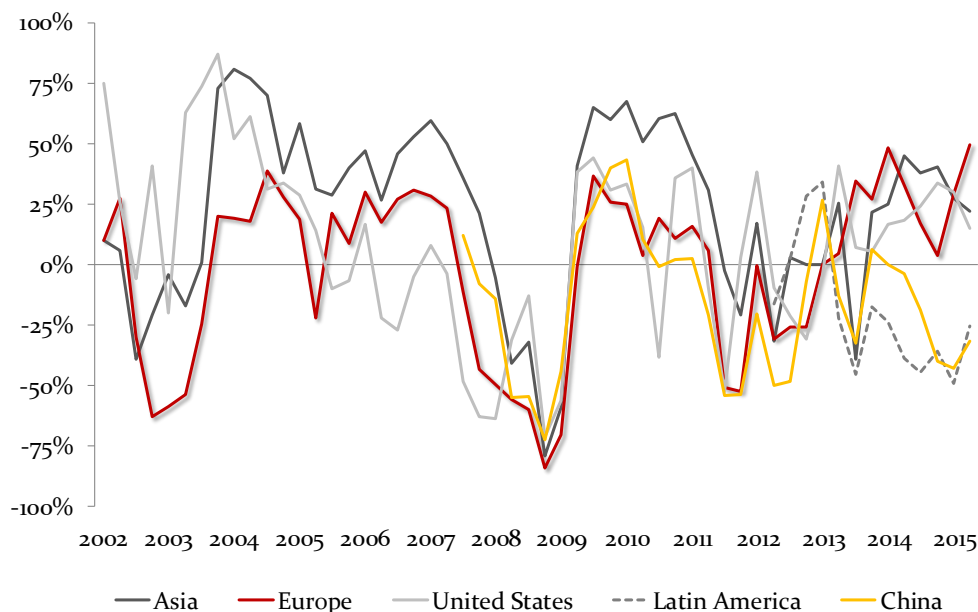
The second quarter of 2015 demonstrates a substantial improvement in the number of optimists vs pessimists. With more than 60% of European CFOs more optimistic, and less than 12% pessimistic, the optimism (diffusion) index for CFOs in Europe has reached an all-time high (figure 1). Capital spending growth will be modest (1.8%) but employment is expected to increase more than 2% for the first time since 2011. Wages should rise by about 2%.

More than half of the European financial directors feel that more growth opportunities exist in 2015 compared to 2013 and 2014. Almost 60% of the European companies pursues growth by focusing on increased market share for existing products and service lines.

U.S. CFOs remain optimistic about the outlook for the U.S. economy. On a scale from 0 to 100, they rate the outlook at 63, down from 65 last quarter but still the third highest since 2007. U.S. companies plan to increase capital spending by 6% over the next year. Asian CFOs are equally as optimistic (63 on a scale from 0 to 100) but this is a reduction from the outlook of 3 years ago. Capital spending should average nearly 10% whereas wages are expected to rise by more than 6%.

More than 80% of firms around the globe indicate to have been hacked. In Europe this is even as high as 92%. In an attempt to prevent future attacks and data security breaches, most firms around the globe resort to purchasing and installing new hard and software. More rigorous measures, such as hiring consultants or employees with expertise in data security, are less frequently put into use.

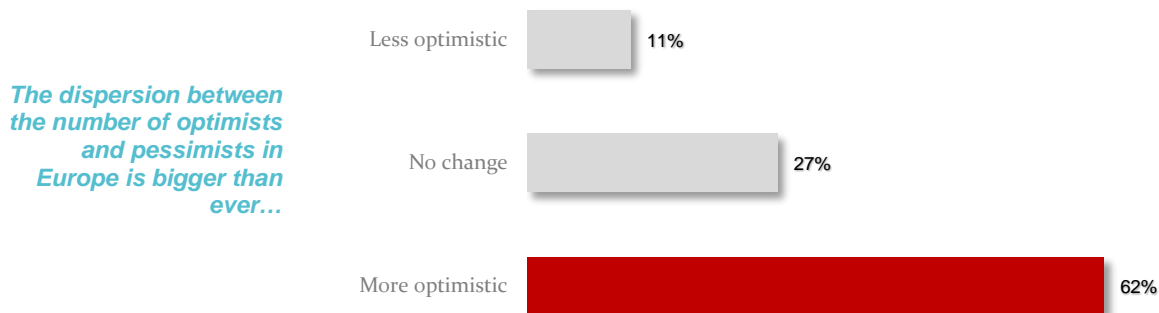
**Figure 1. Optimism index for CFOs in Asia, Europe, US, Latin America and China (percentage of optimists -/- percentage of pessimists)**



## CFO optimism & sentiment

**M**ore than 60% of the European CFOs are more optimistic about the economic outlook for the next twelve months (up from 48% during Q1), while only 11% of the financial directors remain less positive (down from 18% in the previous quarter). Consequently, the number of optimists has reached an all-time high record in the long history of CFO Survey. Together with the substantial increase in number of optimists, we also observe that their average level of optimism has increased during this second quarter to 60.4, up from 57.9 on a scale of 0 - 100.

Figure 2. European CFO sentiment regarding economy of own country



These positive developments have also brought Europe's economic sentiment back on track with that of other major regions such as the US, China and Asia (figure 3).

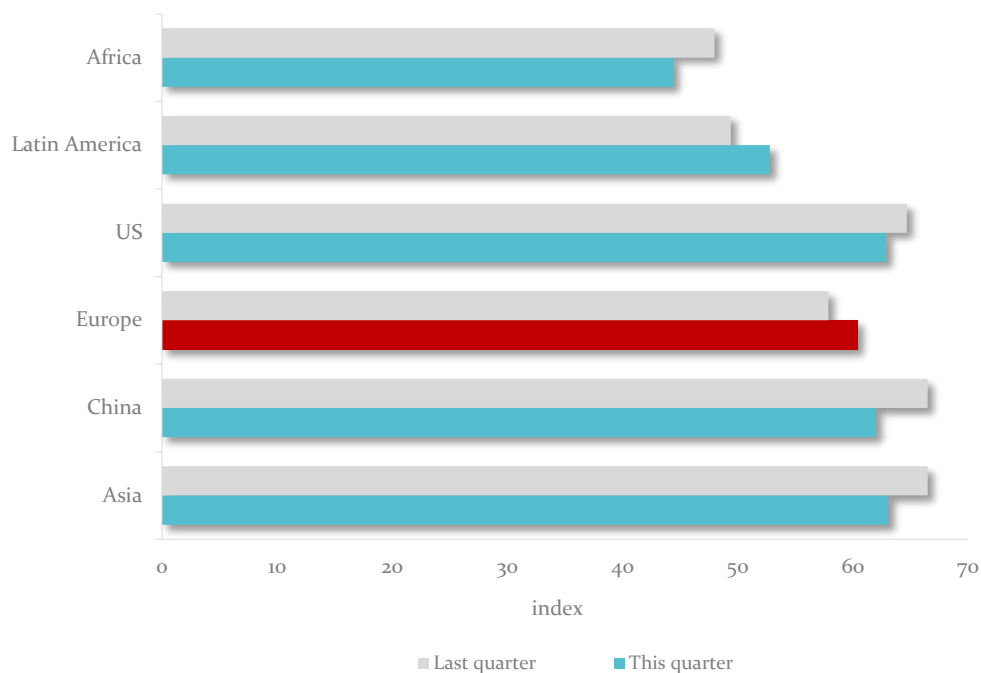
*...outpacing the number of optimists in the rest of world*

- CFOs on the African continent remain pessimistic about the economy; the optimism index has decreased from 48 to 44 on a scale of 100. While the number of optimists inched just above 14%, the number of pessimists reached yet again a new record high of 74% ((up from 70% in Q1).
- Economic sentiment among Latin American CFOs has improved slightly, compared to previous quarter. The level of optimism has reached 52 on a scale of 100 with 23% of the CFOs more optimistic (up from 18% during Q1) and 50% more pessimistic (down from 68% in Q1).
- While the average level of optimism (at 63) in the US remains one of the strongest compared to other major regions, the number of optimists has decreased for the second consecutive quarter to 37% in Q2 (down from 46% in Q1). We also observe a strong uptick in the number of pessimists, from 16% in the previous quarter to 22% during this quarter.

- Optimism among Asian CFOs remains strong at 63 on a scale of 100. The number of optimists has increased slightly from 42% during Q1 to 46% in this second quarter.
- Financial executives in China have lowered their average optimism level to 62 on a scale of 100, down from 66 during Q1. The share of optimists among Chinese CFOs has slightly improved to 18%, up from 14% during Q1 2015.

Figure 3. Optimism level about own country's economy

The average level of optimism in Europe is getting back on track and more in line with the US and Asia



Developments in interest rates, currencies and oil markets have had an impact on more than half of the European companies

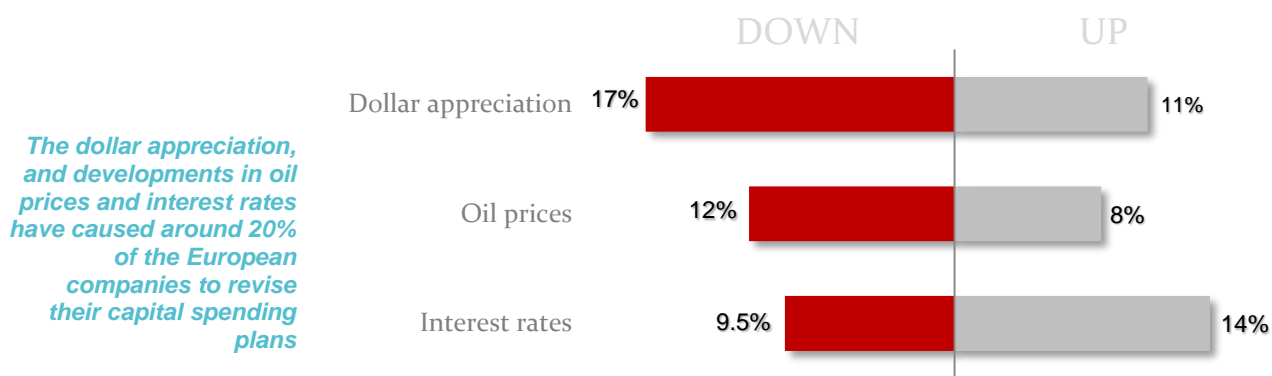
Recent developments on the interest, currency and oil markets have, either directly or indirectly, affected more than half of European businesses. Low interest rates have had a positive effect on almost 60% of the companies while lower oil prices have had a positive impact in almost half of the cases. Exchange rate developments on the other hand have had a negative impact for more than half of European businesses. (table 1).

Table 1. Effects of major economic factors on European businesses

	Interest rates	Changes in... Oil prices	Currency values
The change has had...			
<i>a direct effect</i>	34%	20%	42%
<i>an indirect effect</i>	20%	35%	20%
<i>both a direct and indirect effect</i>	9%	7%	15%
<i>no effect</i>	37%	38%	23%
The effect has been...			
<i>positive to very positive</i>	59%	48%	37%
<i>negative to very negative</i>	32%	37%	54%

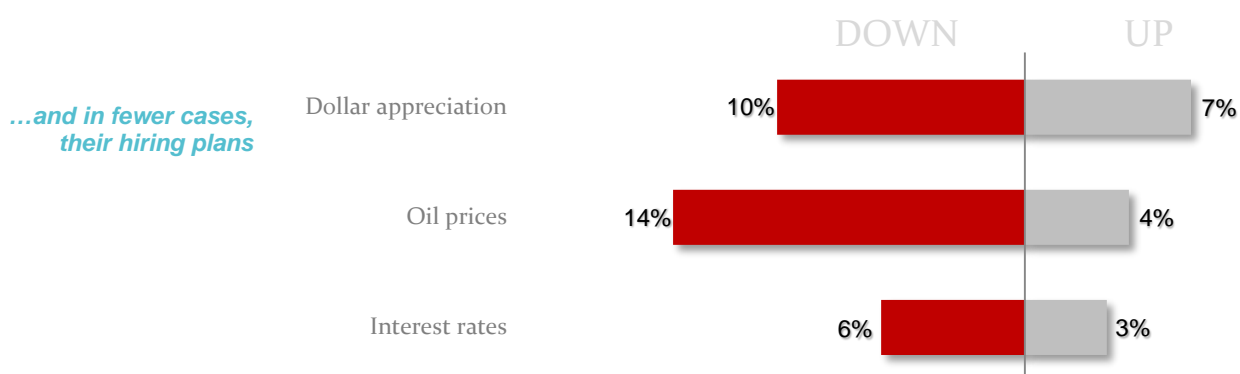
Despite the impact that developments in interest rates, currencies and oil prices have on day-to-day business, the majority of European CFOs claim that plans for investment and employment for the coming 12 months, remain unaffected. Nevertheless, some companies actually have adjusted their plans for capital spending and hiring as a direct result of these macroeconomic dynamics (figure 4 and 5).

Figure 4. How are capital spending plans of your company affected by...



- Strengthening of the Dollar has pushed back capital spending in 17% of the companies in Europe, while it has had a negative effect on hiring plans in about 10% of the cases.
- 12% of European businesses have adjusted their capital spending plans due to developments in oil prices while 14% have adjusted their hiring plans.
- 14% of the financial directors say that their company has beefed up capital spending plans as a direct result from the (favorable) interest rate dynamics.

Figure 5. How are hiring plans of your company affected by...



Continuing the trend of the previous quarter, European CFOs indicate that economic uncertainty, currency risk, weak demand, and government policy remain the most pressing issues for the next twelve months (table 2).

Table 2. Top 10 concerns on the agenda of European CFOs

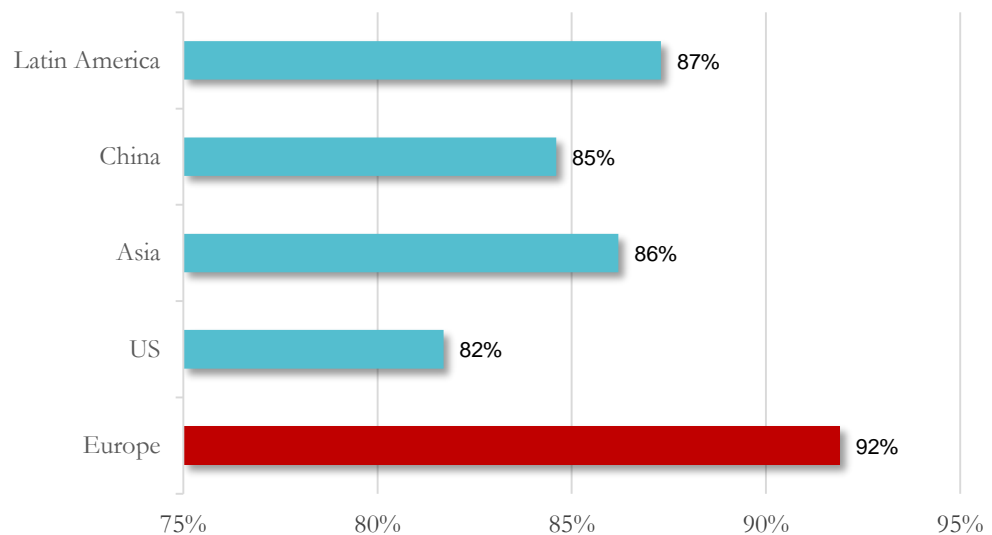
	This quarter	Previous quarter
1	Economic Uncertainty	Economic Uncertainty
2	Currency risk	Regulatory requirements
3	Weak demand for your product/services	Weak demand for your product/services
4	Government policy	Government policy
5	Access to capital	Currency risk
6	Regulatory requirements	Attracting and retaining qualified employees
7	Attracting and retaining qualified employees	Geopolitical/Health Crises
8	Employee productivity	Employee productivity
9	Raising wages and salaries	Access to capital
10	Employee morale	Employee morale

*With few shifts in the top 10 list of management issues...*

*...data security is not considered a priority...*

Only 8.4% of the European CFOs indicate that data security is a top concern for management. This is quite remarkable considering the fact that more than 90% of the European companies indicate to have been attacked by hackers and hence have suffered from (potential) data breaches (figure 6).

Figure 6. Share of companies indicating that hackers have at least once successfully penetrated their systems in an attempt to steal, change, or make public important data.



*...even though 92% of the companies have been attacked by hackers*

Almost a quarter of the European business have not taken any significant steps in the past year to address data security. The most popular measures taken by European companies to counter hacking and data breaches include new software and changes in procedures, employee training on best practices, and purchase of new hardware (table 3).



Table 3. During the past year, which of the following (if any) steps has your firm taken to prevent hacking and data breaches?

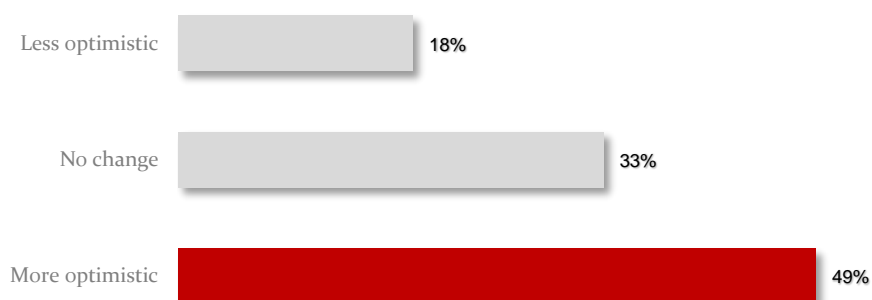
*Almost a quarter of the companies in Europe have not taken any substantial measures to address data security*

	Europe	US	Asia	China	Latin America
Installed new software or changed procedures	44%	64%	38%	35%	22%
Instituted required employee training on best practices	21%	33%	21%	9%	14%
Purchased new hardware	20%	31%	24%	26%	11%
Hired a data security firm to review protocol and the safety of systems	18%	28%	13%	13%	8%
Hired at least one staff member specializing in data security	17%	16%	16%	13%	11%
Moved to cloud servers	16%	21%	17%	17%	8%
Currently considering how to better ensure the safety of the network	15%	32%	14%	22%	10%
Hired a consultant to try to hack into the system	12%	19%	8%	9%	6%
Had staff try to hack into the system	8%	13%	4%	4%	3%
Other data security steps taken in past year	3%	4%	6%	9%	5%
In the past year, no significant steps taken to address data security	23%	11%	21%	22%	13%

European financial directors remain positive about their own company's financial prospect. Both the number of optimists (49%, equaling the previous quarter), as well as the average level of optimism (63, slightly down from 65 in Q1) remain strong during the second quarter of 2015 (figure 7).

Figure 7. European CFO sentiment regarding financial prospects of own company

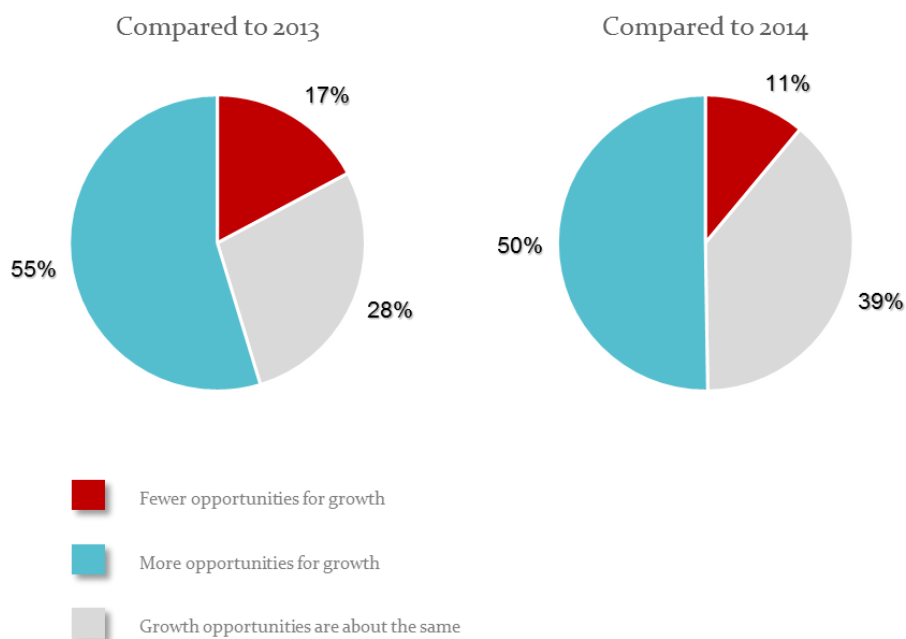
*Optimism level about own company remains robust...*



*...as CFOs see more opportunities for growth in 2015*

To put the CFOs' sentiment in perspective: more than half of the financial directors says that they see more growth opportunities in 2015 compared to 2013 and 2014. Only 17% feels that growth opportunities are fewer now compared to 2013, while another 11% believes that conditions have deteriorated in 2015 compared to 2014 (figure 8).

Figure 8. How do growth opportunities for your company in 2015 compare to previous years?



*Growth strategies are predominantly focused on gaining market share in existing products and services...*

Clearly, 2015 is considered to be a year of potential growth. When asked about their main strategies to realize growth in the next three years, almost 60% of the European companies prefers to focus on increasing market share for existing products and service lines. The second most favored strategy (in 48% of the cases) is to introduce new products and services, while developing new strategic partnerships (60% of all companies) comes in as third most preferred strategy for growth.

Table 4. What are your company's main growth strategies for the next 3 years? (rank top 3)

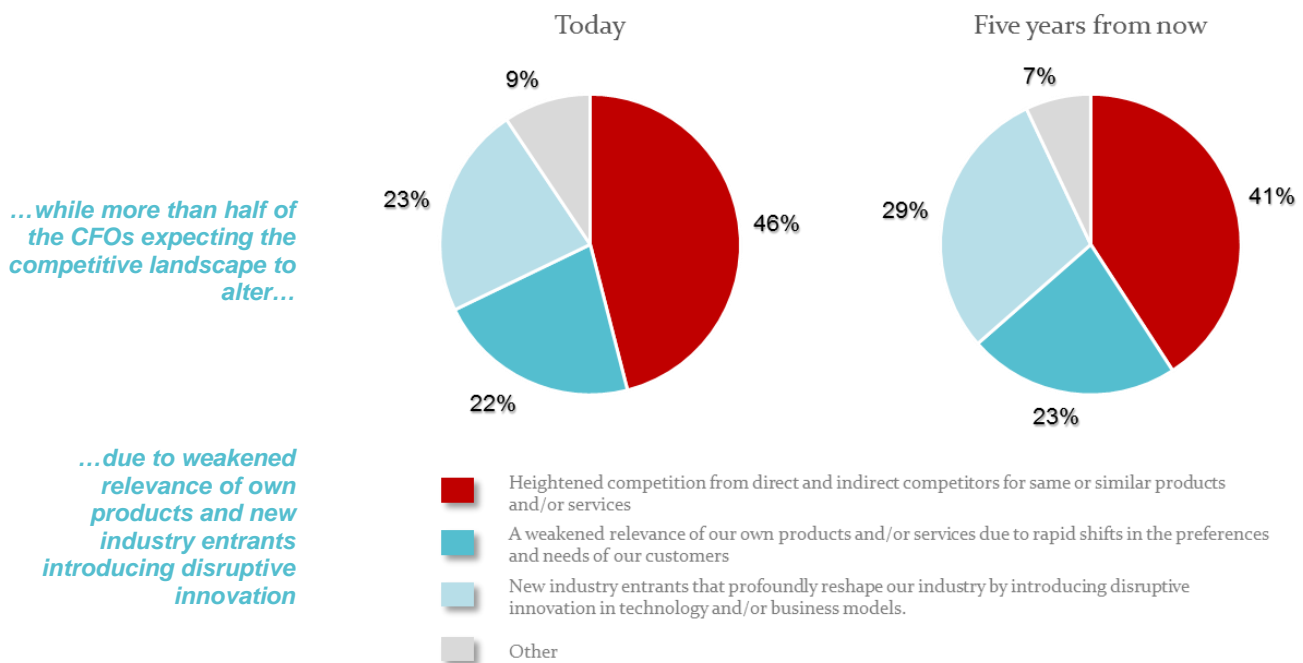
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
1 Gain share in existing product or service lines	59%	24%	17%
2 Expand internationally	42%	33%	25%
3 Acquire additional companies or merge with another business	39%	21%	39%
4 Expand into new or adjacent business lines	29%	40%	31%
5 Introduce new products or services	25%	48%	28%
6 Increase production in existing business lines	28%	36%	36%
7 Expand into new locations or facilities	27%	27%	47%
8 Develop new strategic partnerships	7%	33%	60%

The fact that expansion of market share in existing product and service lines is thought of as the most preferred strategy for growth is somewhat surprising: almost half of the European CFOs actually expects that,

within the next five years, about 30% of competitive pressure will come from new market entrants who introduce disruptive innovation in technology and business models. Another 23% indicate that their (current) product and service offering could suffer from weakened relevance due to possible shifts in preferences and needs of consumers (figure 9).

Taking these factors into account, it would be more logical for incumbent companies to opt for a strategy that puts much more focus on product and service innovation, rather than focusing primarily on existing products and services.

Figure 9. In your opinion which factor(s) constitute(s) the biggest cause of uncertainty in the competitive landscape of your industry?

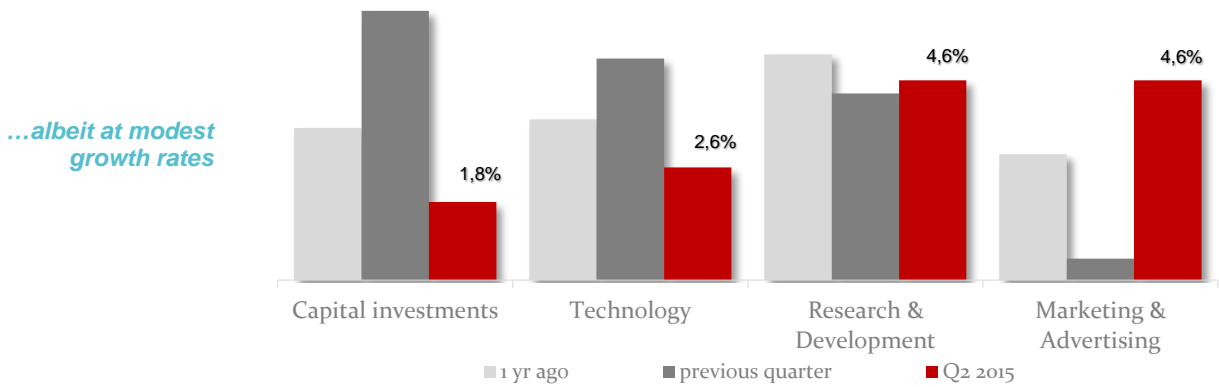


# Finance & capital

Majority of CFOs expects to increase business spending in the next twelve months...

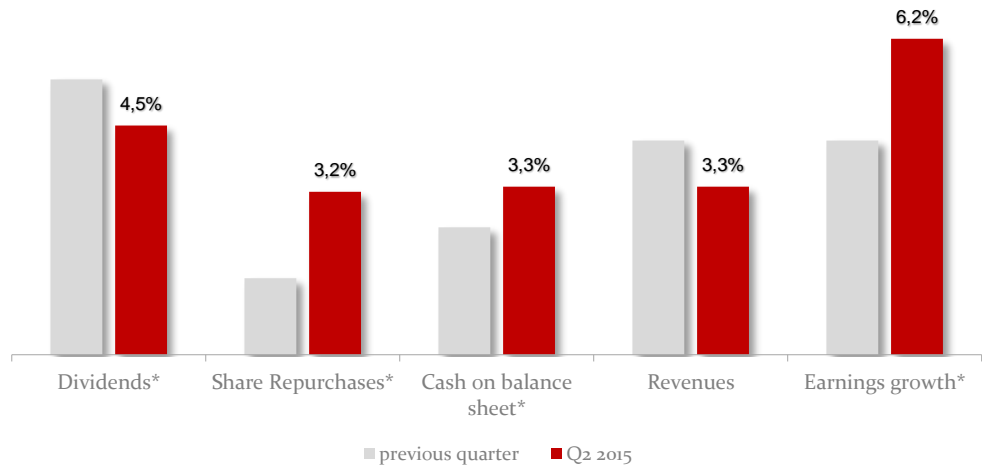
For the next twelve months, the majority of European CFOs (73%) expects to increase capital investments, albeit at an (average) incremental rate of 1.8%. More than half of the CFOs expect that spending on technology, R&D, and marketing and advertising will be increased during the next twelve months. Technology spending is expected to increase at a modest (average) rate of 2.6%, while R&D and Marketing and Advertising are both expected to increase at an average rate of 4.6% (figure 10).

Figure 10. CFOs' expected growth in business spending for next 12 months



78% of the financial directors anticipate growth in revenues during the next twelve months, while 71% expects to realize growth in earnings. Growth in revenues at publicly listed companies is expected to average around 3.3%, whereas the average growth rate in earnings is forecasted at 6.2% (figure 11).

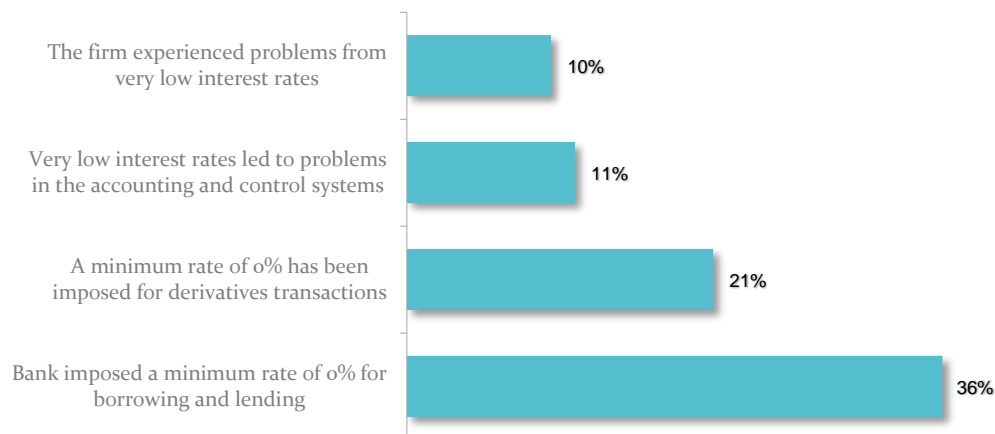
Figure 11. Anticipated balance sheet and P&L developments (public firms)



In a bid to stimulate the economy, several central banks across Europe have cut key interest rates near to (or even below) zero. Some firms (10%) indicate that they actually have experienced general problems from the very low interest rate environment. 11% claim that it has led to problems in their accounting and control systems (figure 12).

Figure 12. What is the impact of near-zero or negative interest rates on your financial policies?

*The low interest rate environment has had an impact on companies' financial policies...*

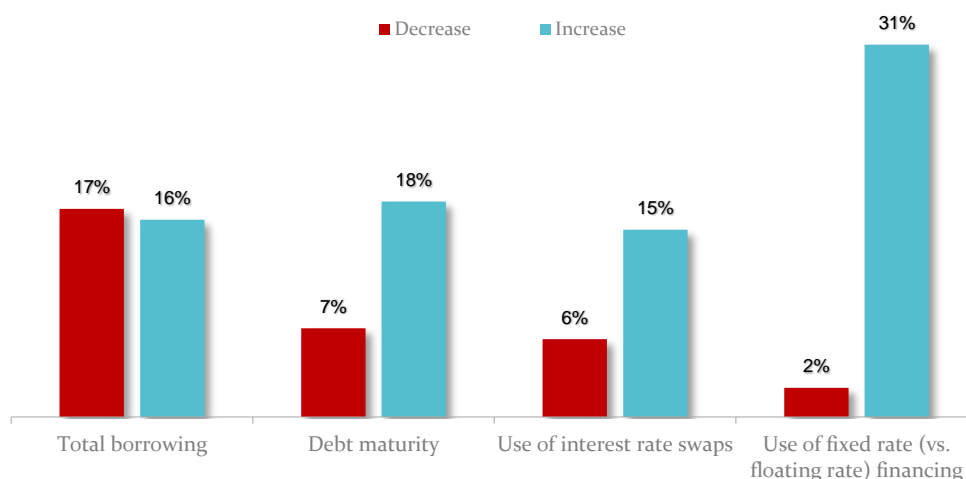


Moreover, 21% of the CFOs indicate that a minimum rate of 0% has been imposed on derivatives transactions, while in 36% of the cases, the bank has imposed a minimum rate of 0% for borrowing and lending. Although most of the European companies have not adjusted their financial policies in response to this move, near-zero or negative interest rates have indeed had an effect on the borrowing routine of some.

16% of the companies have increased total borrowing, while 18% of the companies have extended their debt maturities and another 15% has increased their use of interest rate swaps. Almost a third of the European CFOs indicate that their company has increased their use of fixed rate financing (figure 13).

Figure 13. What is the impact of near-zero or negative interest rates on your financial policies?

*...leading to reconsideration of their existing debt structures*

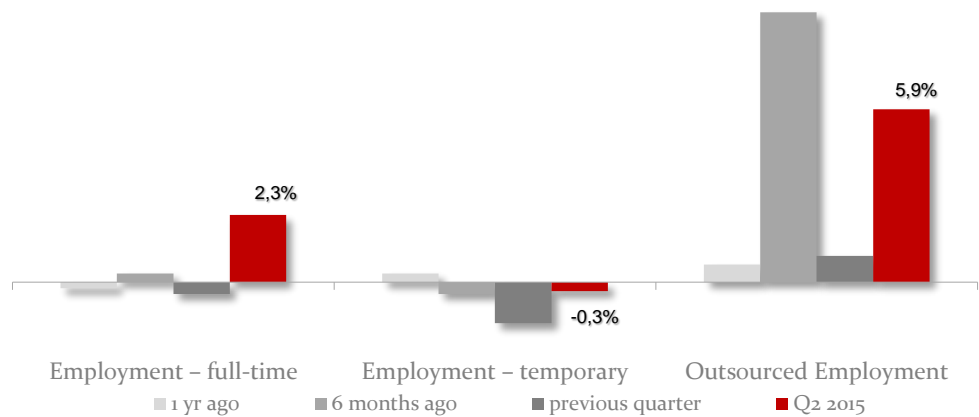


# Employment

**E**mployment (fulltime contracts) is expected to increase more than 2% on average for the first time since 2011 (figure 14). Approximately two thirds of the European CFOs expect to see increases in hiring of fulltime employees at their company, while another 41% of the financial executives believes that temporary employment and outsourcing will increase in the next twelve months (figure 15).

Figure 14. European CFOs expected growth for next 12 months in employee mix

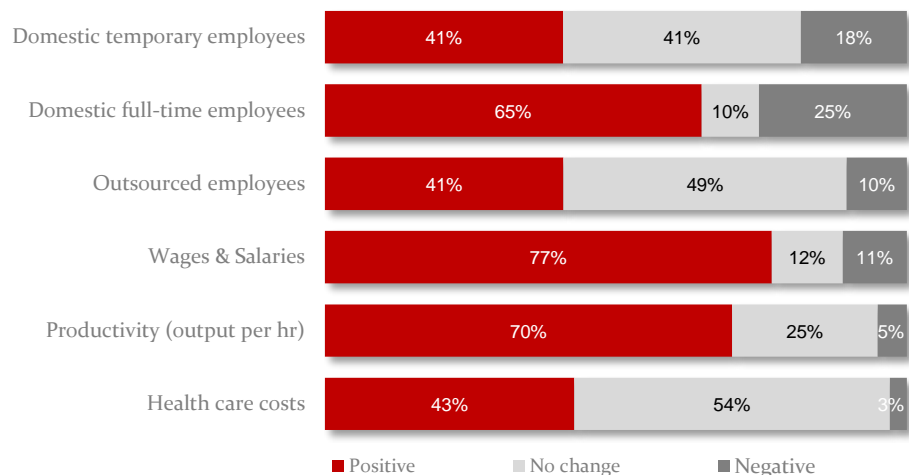
*Employment (full time contracts) is expected to pick up again during the next twelve months...*



Along with the anticipated increases in employment, CFOs also expect that wages and salaries, coupled with an increase of productivity, will increase during the next twelve months (figure 15). The average growth rate in wages and salaries is 4.2%, whereas productivity is expected to grow at 3.6% over the next twelve months.

Figure 15. Relative to the previous twelve months, do you expect a positive (increase) or negative (decrease) change in the next twelve months for...?

*...and is coupled with increases in wages & salaries*

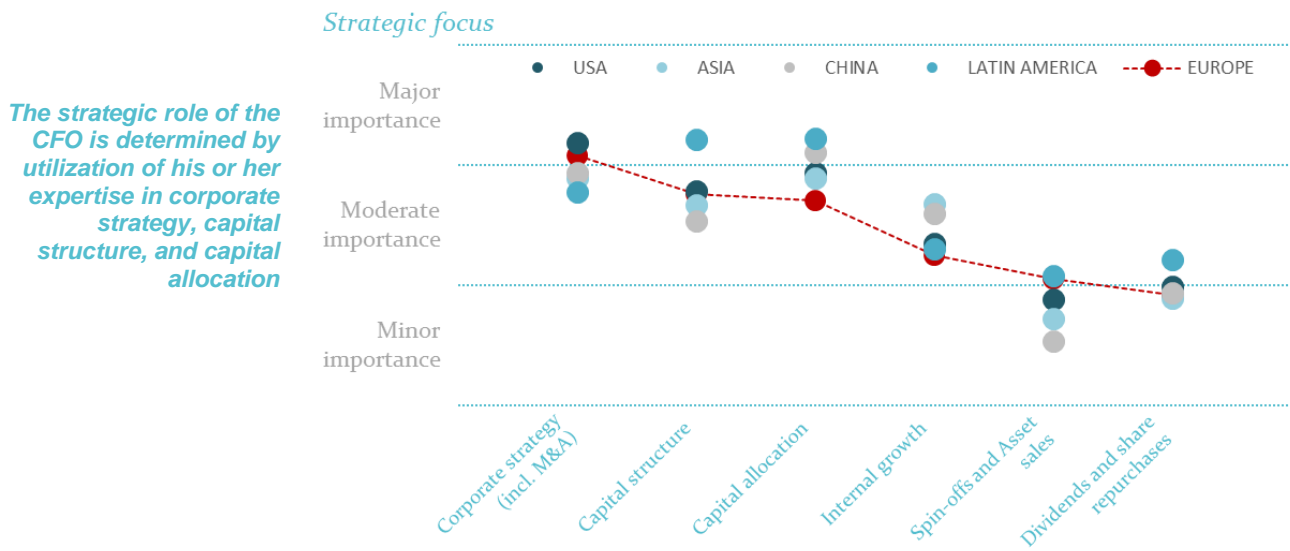


In terms of job responsibility and authority, the CFO has a diverse range of tasks and duties. In terms of activities that have strategic focus, the European CFO attaches relatively great importance to be involved with overall corporate strategy (including M&A). Capital structure and capital allocation decisions are also aspects of which the European CFO believes that he or she should be involved in (figure 16a).

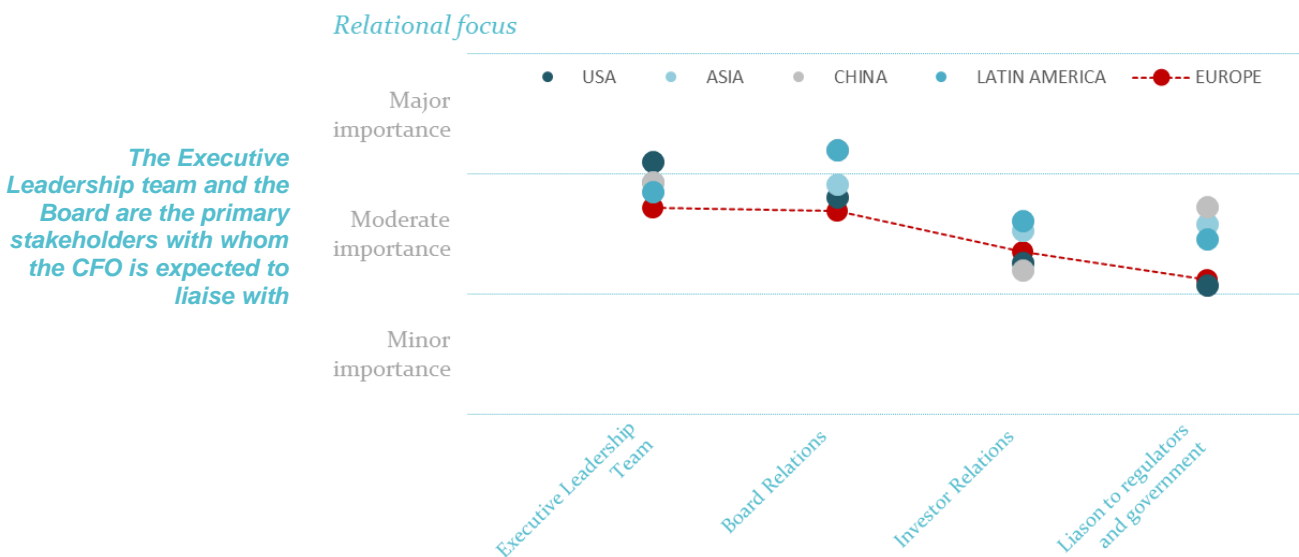
From a “relational” perspective, the CFO considers it as moderately important to be part of the Executive Leadership team nor does he or she consider it his or her primary task to maintain board relations (figure 16b). On a more operational level, budgeting and forecasting, as well as risk management and financial reporting and compliance are regarded as the primary responsibilities through which the CFO can best serve all stakeholders (figure 16c).

Figure 16. What should be the focus of the CFO to best serve all stakeholders? Comparison between tasks and responsibilities across major regions

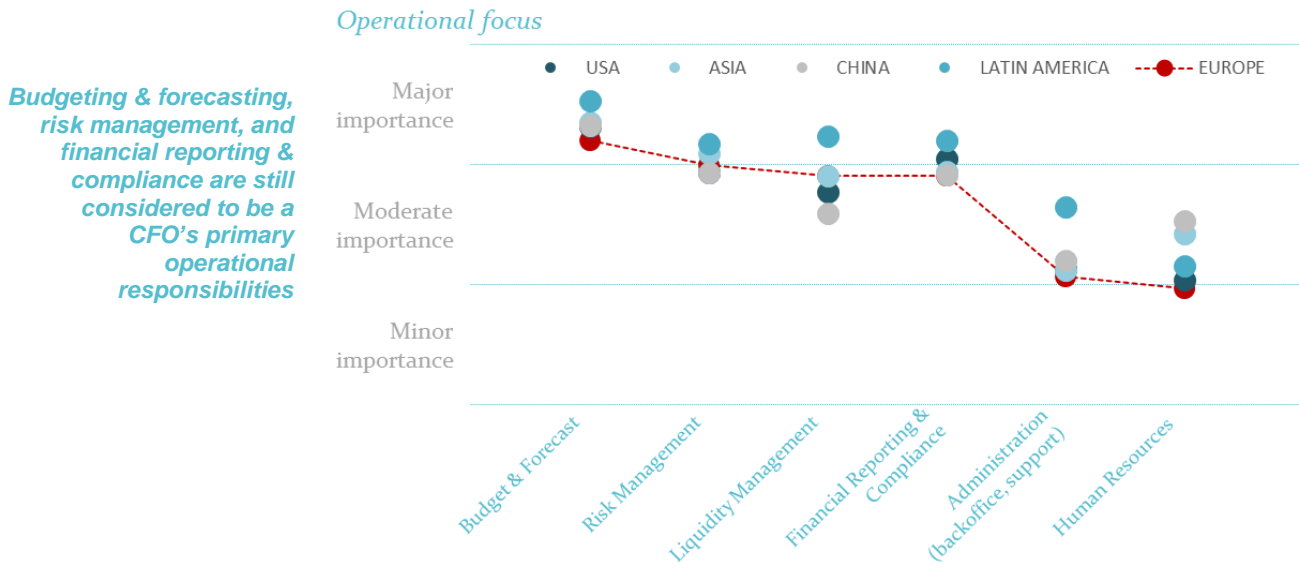
A. CFO’s strategic focus



B. CFO’s relational focus



C. CFO's operational focus





## Key results CFO Survey – Europe, US, Latin America, Africa and Asia

Key Indicator	Europe	US	Latin America	Africa	Asia
<b>Economic sentiment</b>					
<i>About economy of own country</i>					
More optimistic	61.5%	37.0%	23.7%	14.3%	45.7%
Less optimistic	11.9%	22.1%	49.3%	74.3%	36.2%
No change	26.7%	40.9%	27.0%	11.4%	18.1%
Own country optimism level	<b>60.4</b>	<b>62.9</b>	<b>52.8</b>	<b>44.4</b>	<b>63.1</b>
<i>About own company</i>					
More optimistic	48.9%	46.3%	41.4%	48.6%	47.9%
Less optimistic	18.5%	25.0%	27.0%	34.3%	22.3%
No change	32.6%	28.7%	31.6%	17.1%	29.8%
Own company optimism level	<b>63.0</b>	<b>67.5</b>	<b>63.6</b>	<b>60.5</b>	<b>62.5</b>
<b>Business spending</b>					
Capital spending	1.8%	5.8%	-0.1%	5%	4.5%
Technology spending	2.6%	3.5%	0.2%	3.7%	6.1%
R&D spending	4.6%	2.7%	-1.8%	-3.6%	7.0%
Advertising and marketing spending	4.6%	4.3%	-3.8%	-0.8%	7.6%
<b>Employment</b>					
Employment – full-time	2.3%	2.4%	0.5%	2.2%	3.9%
Employment – temporary	-0.3%	0.5%	-1.6%	-2.4%	6.2%
Outsourced Employment	5.9%	1.1%	-0.3%	0.6%	1.6%
Wages and Salaries	2.2%	3.3%	4.2%	6.2%	6.2%
Health Care Costs	1.6%	7.7%	5.2%	7.8%	1.6%
<b>Balance Sheet &amp; P&amp;L</b>					
Productivity	4.7%	2.3%	3.6%	0.1%	3.8%
Inflation (own-firm products)	0.5%	1.3%	3.2%	3.5%	-3.8%
Revenue growth	3.3%	4.2%	3.9%	0.0%	11.2%
Earnings growth*	6.2%	7.6%	-0.8%	-5%	8.1%
Dividends*	4.5%	3.9%	-4.2%	-4.6%	7.1%
Share Repurchases*	3.2%	1.5%	0.0%	0%	1.6%
Cash on balance sheet*	3.3%	-6.3%	-6.0%	0%	13.0%
Mergers and Acquisitions	Not asked.	Not asked.	Not asked.	Not asked.	Not asked.

Percentages indicate this quarter's expected growth rates for the next twelve months

\* Indicates public firms only

*About CFO Survey*

**T**he figures quoted above are taken from the Global CFO Survey for the first quarter of 2015. The survey concluded June 5, 2015. Every quarter, CFOs in Europe, the US, Latin America, Asia (and China), and Africa are questioned about their economic expectations. Current records go back 77 quarters. The CFO Survey is conducted jointly by TIAS School for Business and Society (Tilburg, Netherlands), Duke University (Durham, North Carolina), ACCA Global and CFO Magazine.

*Note for the press*

Previous editions of the CFO Survey can be found at [FinanceLab](#) under the CFO Survey tab. For further information, please contact Mrs. Rian van Heur, TIAS School for Business and Society, tel. +31-(0)-134668637 or e-mail [m.j.vanheur@tias.edu](mailto:m.j.vanheur@tias.edu)

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