

# *CFO Survey Europe – Quarterly Report*



*Q1 2012*

- *2012 Regarded by CFOs as the Year of Opportunities*
- *Global Optimism Sufficient to Fuel European Recovery?*



# *Contents*

---

<i>Introduction</i>	3
<i>CFO optimism &amp; sentiment</i>	4
<i>Finance &amp; capital</i>	7
<i>Employment</i>	9
<i>Key results CFO Survey – Europe, US and Asia</i>	12

## Introduction

*Turnaround in CFO sentiment breaking with 2011 trend*

2012 has started off promising. The first quarter shows a sign of improving optimism among CFO's worldwide. This turnaround in sentiment among financial executives is encouraging as it breaks with the trend of 2011 where sentiment among executives has kept falling to dramatically low levels.

During the fourth quarter of 2011, sentiment among the American CFO's witnessed light recovery that continues this first quarter of 2012. Optimism has also improved significantly among the Asian financial executives. For both regions the positive economic sentiment is backed by robust expectations concerning major business expenditures in technology, R&D, and capital investments, and moderate improvements in employment.

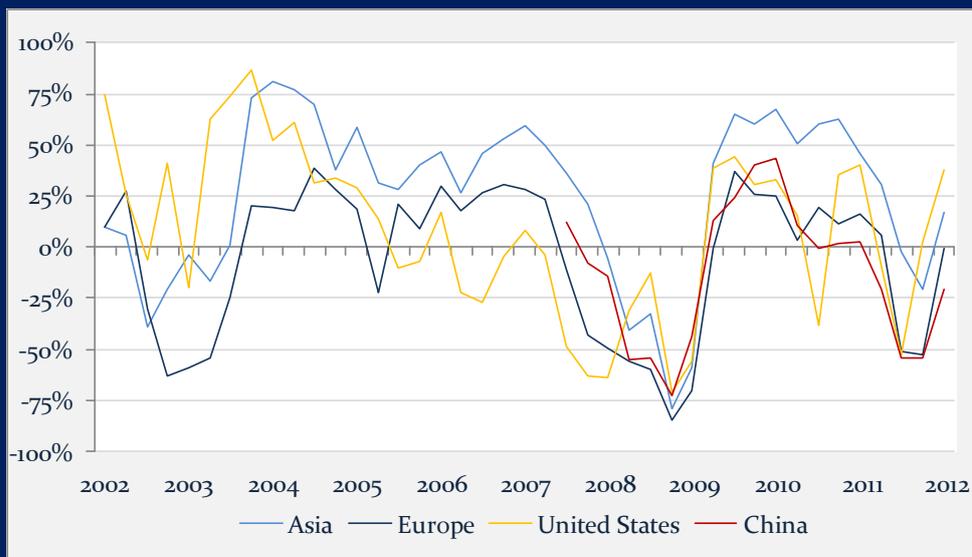
*But... in hindsight 2011 not as bad as expected*

This positive outlook is also shared by their European counterparts. When looking back at 2011 almost 40% of the European CFO's state that their company was able to achieve the objectives and targets. Some companies even performed better than expected during the course of 2011.

*Has 2012 all the right ingredients for global economic recovery?*

Therefore, it should come as no surprise that almost 50% of the European CFO's believe that 2012 will be a better year than 2011. However, the optimistic outlook on recovery still has to translate into more robust figures for employment and business expenditure. The American and Asian markets could play a decisive factor in the European recovery as they may fuel growth of the global economy.

Figure 1. Optimism index for CFOs in Asia, Europe, US and China

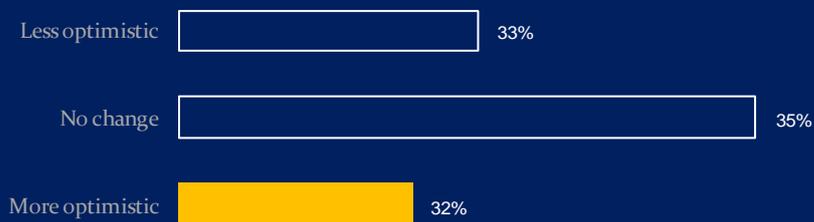


## CFO optimism & sentiment

Optimism has significantly improved during the first quarter of 2012. Whereas two thirds of the European CFOs were less optimistic about the economic outlook of their own country during the last quarter of 2011, now only one third remains less confident about the economy. The number of optimists has more than doubled to 32% during the start of the year 2012. The average optimism index has rebounded from the low level of 48 (on a scale of 100) during Q4 2011 to 54.

*Sentiment in Europe indicating improvement for 2012?*

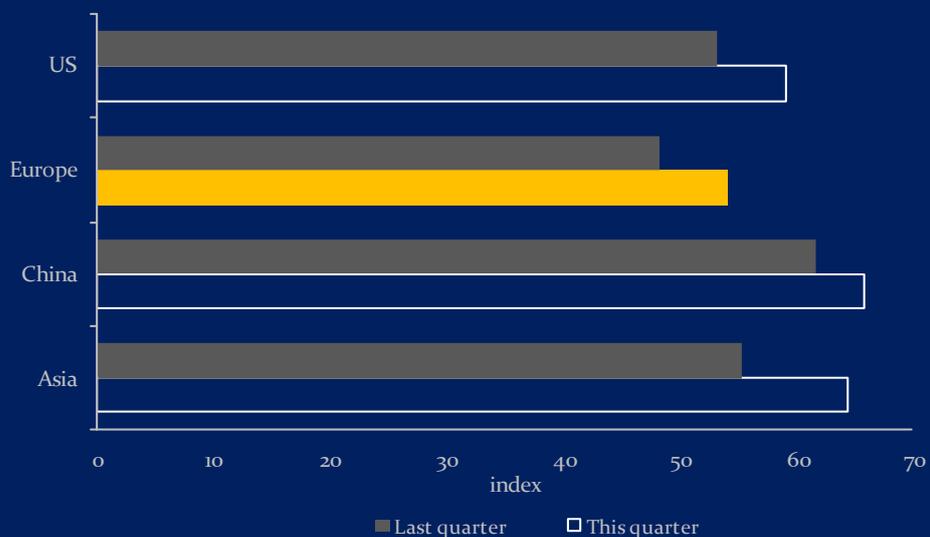
Figure 2. European CFO sentiment regarding economy of own country



For the other major regions economic sentiment has also witnessed improvement. For all regions the number of optimists exceeds the number of pessimists. Asian optimism level has improved significantly compared to last quarter and is with a rating of 64.5 on a scale of 100 back to the level of mid 2011. The sentiment among the US CFO's has witnessed an upturn since the end of last year and continues the positive trend in the first quarter of 2012.

Figure 3. Optimism level about own country's economy

*Optimism improved across all major economic regions*



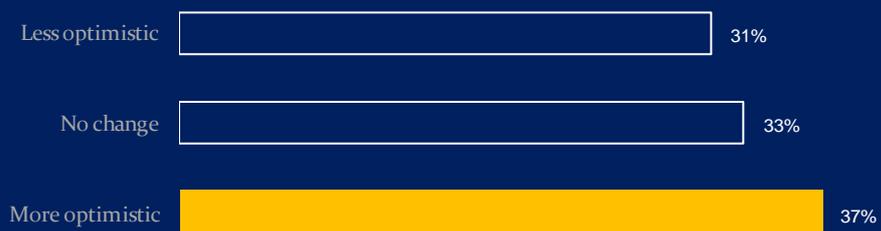
Macro economic concerns remain unchanged and include consumer demand, price pressure from competitors, the global financial instability, and credit markets.

*CFO's concerns have not changed over the past quarters*

European CFO's indicate that top concerns internal to the own firm include the ability to maintain margins and forecast results. Next to working capital management, financial executives also mention the ability to attract and retain qualified personnel as one of their top concerns.

The overall sentiment among European CFO's regarding the prospects of their company however has seen slight improvement during the first quarter of 2012.

Figure 4. European CFO sentiment regarding financial prospects of own company



*Financial prospects for 2012 remain optimistic*

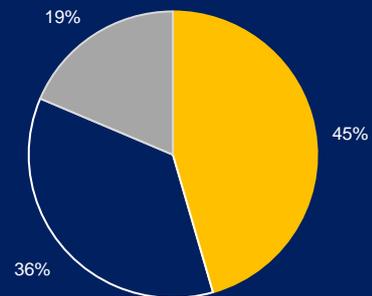
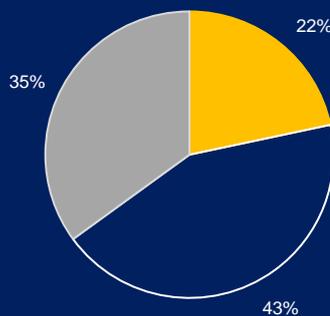
When asked about the overall company performance over the year 2011, 4 out of 10 executives indicate to have performed on target. Around 20% of the companies have even outperformed their expectations for 2011. In retrospect, the average overall company performance may have been better than expected possibly contributing to the pick up in the optimism level.

Figure 5. European CFO 's rating of the overall performance of the company

Overall performance over 2011

Expected performance for 2012 compared to 2011

*Perhaps due to the fact that 2011 performance was not as bad as expected after all...*



*...with expectations for 2012 even more positive*

- Better than expected
- On target
- Worse than expected

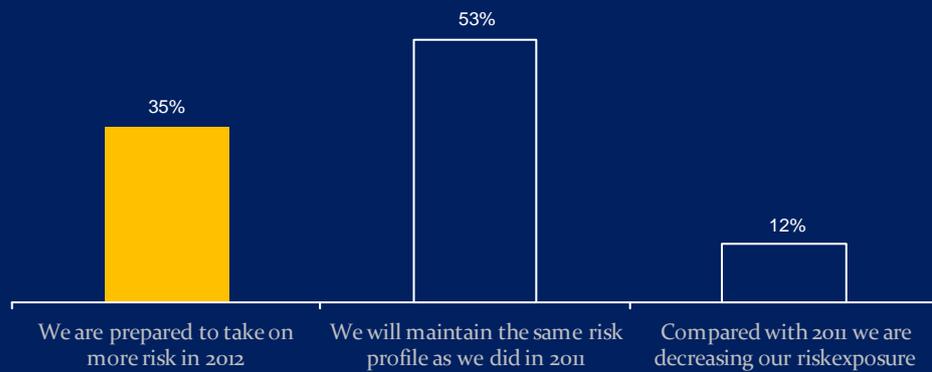
- Better than 2011
- About the same as 2011
- Worse than 2011

Although another 35% of the CFO's state that the company has performed worse than expected, only 2 out of 10 expect the performance during 2012 to be worse than last year's. With 45% of the financial executives convinced that their company performance for this year will be better than last year, 2012 is off to a good start.

*The optimistic sentiment for 2012 may have sparked willingness to take on more risk during 2012*

The positive expectations for the year 2012 may also have sparked the CFO's willingness to take on more risk. Although more than half of the executives have indicated to maintain the same risk exposure as they did in 2011, another 35% indicate that they are prepared to increase the risk exposure in order to execute the corporate strategy.

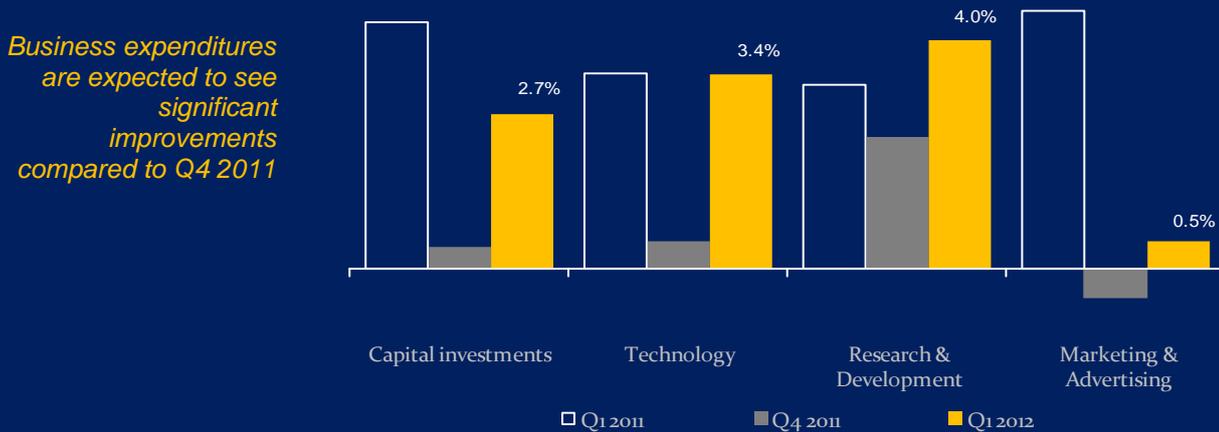
Figure 6. European CFO 's risk appetite for 2012 with respect to execution of corporate strategy and achieving targets



## Finance & capital

Major business expenditures are expected to experience a pick up during 2012. Compared to the previous quarter where the expectations on expenditures were dramatically low, the current outlook for spending on technology, R&D, marketing, and capital investments is promising and may signal significant improvements ahead.

Figure 7. CFOs' quarterly expected growth in spending for next 12 months



- Capital spending and investments are expected to increase at an average rate of around 2.7% (0.4% in previous quarter)
- R&D expenditure is expected to grow around 4%
- Compared to last quarter the growth in technology expenditures is expected to improve. The estimated growth rate is 3.4%
- Corporate spending on advertising and marketing is expected to see only a small improvement at a rate of 0.5%

*Fuelling growth opportunities for European companies...*

Figure 8. Average proportion of growth for 2012 (market vs product development)



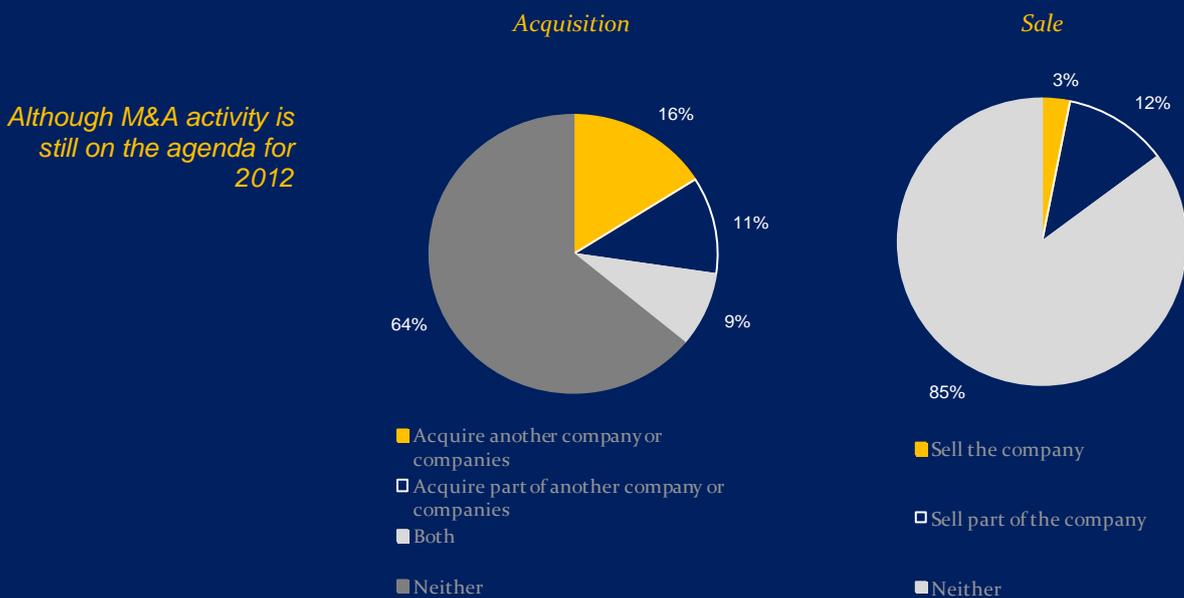
Growth at European companies is expected to originate from an evenly balanced mix of product and market development. At an average of 55% of company growth stemming from market development, CFO's clearly have confidence in a market upturn and the opportunities that it brings.

*Growth will come predominantly from organic growth activity*

Growth is predominantly achieved through organic growth rather than acquisitions. On average, European companies allocate about 85% of their (financial) resources to organic growth compared with only 15% of the resources for M&A activity.

The reason for this may very well be the weakening cash position at European companies. The expected growth for the next twelve months is set around -3.1%, indicating that CFO's will have to prioritize their expenditures. Notwithstanding the anticipated weakening of the capital base of many companies there are still 1 out of three CFO's who indicate to have acquisition plans for 2012. M&A activity seems to be limited to acquisition only; 85% of the financial executives say they have no intention to sell (part of) the company.

Figure 9. Planned merger and acquisition activity during 2012

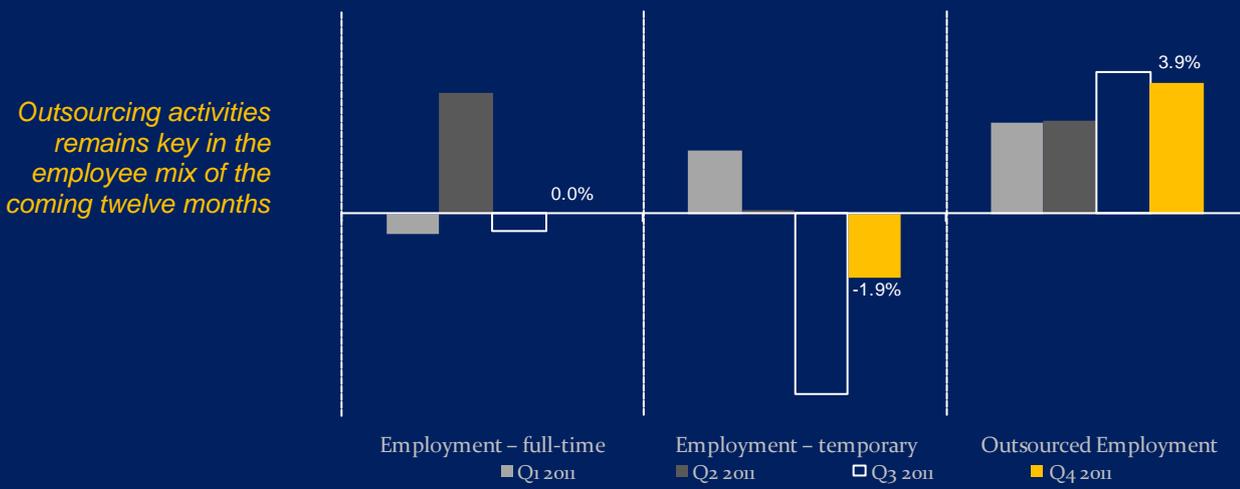


## Employment

The optimistic sentiment of this first quarter of 2012 has not yet translated into significant improvements for employment. The trend of Q4 2011 is likely to continue for the coming months: almost no improvement across all contract types (temporary, full time contracts and outsourcing).

*2012 employment is expected to continue the trend of Q4 2011*

Figure 10. European CFOs expected growth for next 12 months in employee mix



Roughly three out of four financial executives expect to see wages and salaries to rise. Productivity is also expected to increase, indicating a possible sign for moderate recovery during 2012.

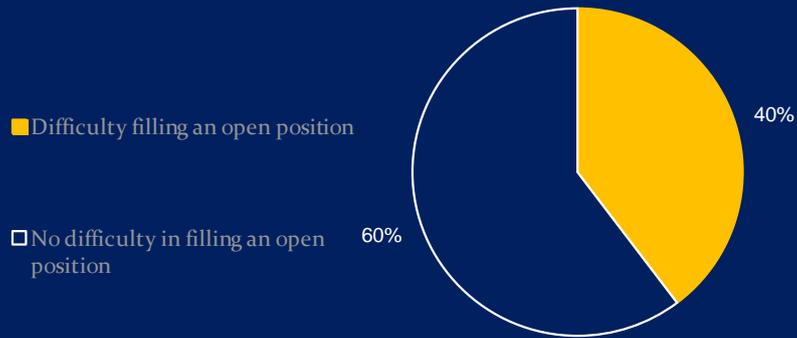
Figure 11. Relative to the previous 12 months, do you expect a positive or a negative change for your company in the following items?



The anticipated rise in wages and salaries may also be explained by the fact that companies are experiencing difficulties in finding adequate and qualified personnel. 40% of the financial executives state that their company was having difficulties in filling an open position during 2011.

Figure 12. Share of companies having difficulties in finding personnel during 2011

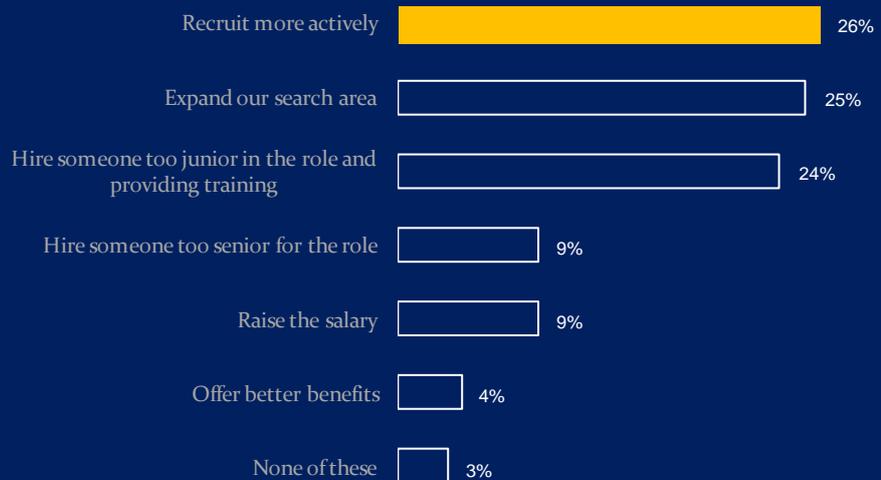
*2011 was a difficult year to find qualified personnel to fill vacant positions...*



To attract qualified personnel during this period, companies were compelled to look at alternative actions that would enable them to fill the open positions. 26% of the companies have intensified their recruitment activities while another 25% have broadened their search area. What is interesting to notice is that one out of four companies hired someone too junior for the position. By providing training, the companies hope to have found a good alternative for the tight labor market.

Figure 13. Actions taken by European companies to attract qualified personnel for open positions that are difficult to fill

*...forcing companies to look at creative and alternative solutions*

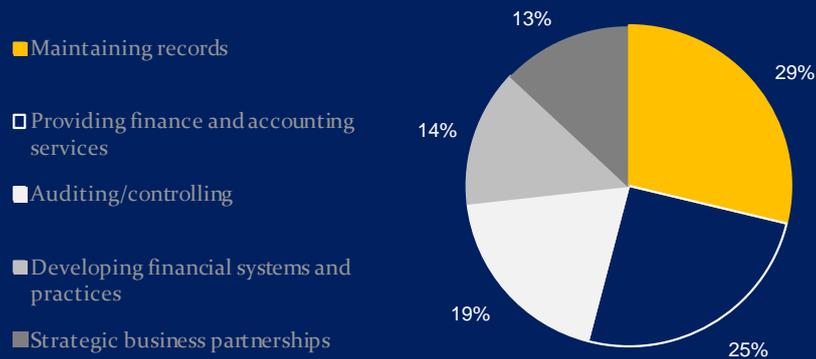


*Companies also require more competencies from employees and demand a broader skill set*

The difficulty of finding adequate personnel is not just a matter of supply side dynamics. Companies are demanding more from their employees in terms of skills and competencies. For instance, if we look at the average time allocation for personnel at financial departments across European companies we can see that a diverse set of tasks are being executed.

There is a clear shift away from traditional bookkeeping and activities such as maintaining records towards a more integral role within the company. Developments such as these of course require more skills and competencies from the applicants.

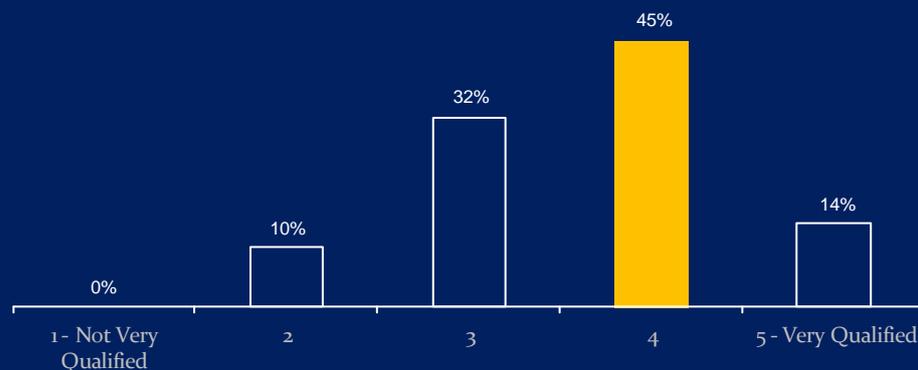
Figure 14. Average time allocation for financial departments at European companies



*But for 2012 the overall quality rating of applicants is good*

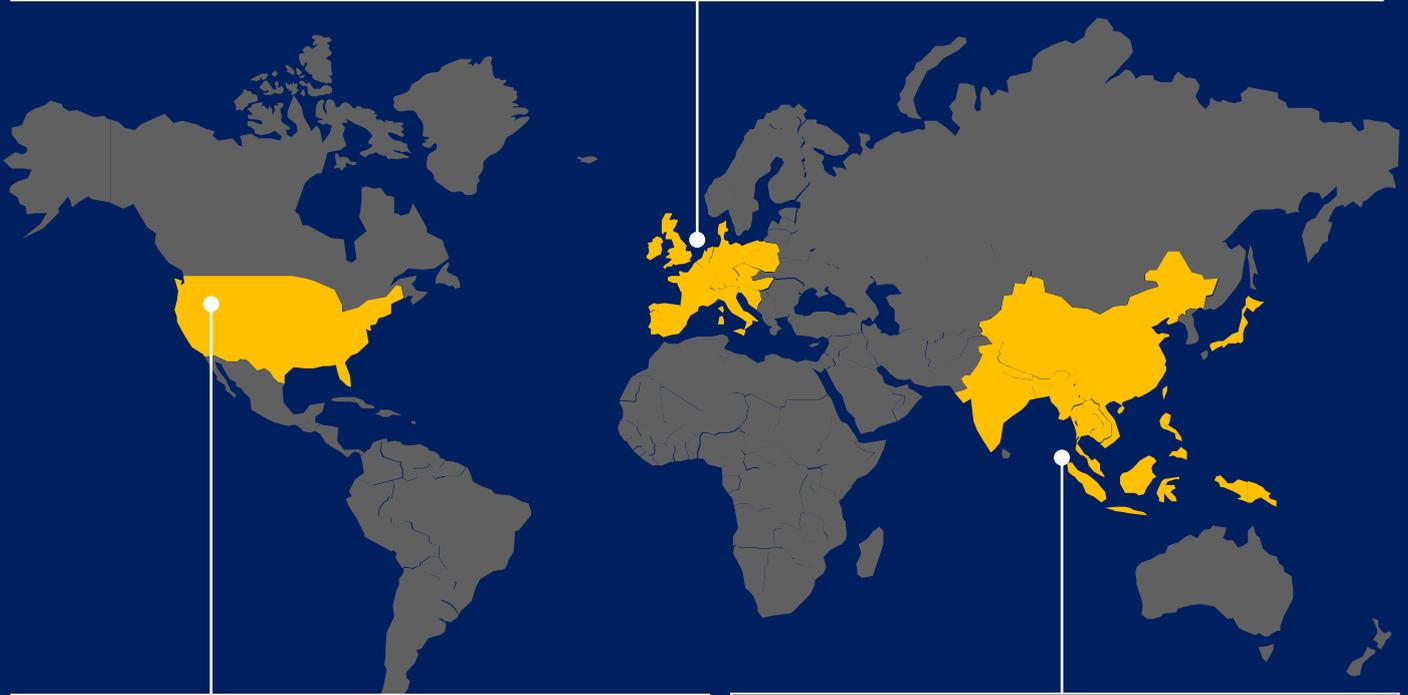
Today, almost half of the European companies are looking to fill one or more vacant positions. Overall, the quality of applicants is good. This may be a sign that the extra effort of companies in their search for qualified personnel is paying off.

Figure 15. Quality of applicants



## Key results CFO Survey – Europe, US and Asia

Optimism about the country's economy	More opt: 32.1%	Employment – full-time	-1.5%	
	Less opt: 32.7%	Employment – temporary	-4.8%	
	No chg: 35.2%	Outsourced Employment	4.0%	
Country optimism level	54.0	Wages and Salaries	2.6%	
	More opt: 36.9%	Productivity	3.1%	
Optimism about own company	Less opt: 30.6%	Inflation (own-firm products)	1.0%	
	No chg: 32.5%	Earnings growth*	4.3%	
Own company optimism level	59.2	Dividends*	2.9%	
	Capital spending	2.7%	Share Repurchases*	0.0%
	Technology spending	3.4%	Cash on balance sheet*	-3.2%
	R&D spending	4.0%	Mergers and Acquisitions	36% plan to acquire. 14.8% plan to sell
	Advertising and marketing spending	0.5%		



Optimism about the U.S. economy	More opt: 53.5%	
	Less opt: 15.3%	
	No chg: 31.2%	
U. S. optimism level (0 to 100)	59.2	
	More opt: 48.2%	
Optimism about own company	Less opt: 18.0%	
	No chg: 33.8%	
Own company optimism level	66.8	
	Capital spending	7.3%
	Technology spending	6.0%
	R&D spending	3.4%
	Advertising and marketing spending	3.3%
	Employment – full-time	2.1%
	Employment – temporary	1.0%
	Outsourced Employment	3.0%
	Wages and Salaries	2.9%
	Productivity	3.4%
	Inflation (own-firm products)	2.5%
	Earnings growth*	7.5%
	Dividends*	3.2%
	Share Repurchases*	0.8%
	Cash on balance sheet*	2.2%
	Mergers and Acquisitions	38.9% plan to acquire. 13.6% plan to sell part or all of firm.

Optimism about the country's economy	More opt: 48.8%	
	Less opt: 31.7%	
	No chg: 19.5%	
Country optimism level	64.5	
	More opt: 56.1%	
Optimism about own company	Less opt: 25.6%	
	No chg: 18.3%	
Own company optimism level	65.1	
	Capital spending	16.7%
	Technology spending	5.7%
	R&D spending	22.3%
	Advertising and marketing spending	1.5%
	Employment – full-time	4.2%
	Employment – temporary	2.6%
	Outsourced Employment	-0.1%
	Wages and Salaries	7.5%
	Productivity	4.8%
	Inflation (own-firm products)	0.3%
	Earnings growth*	6.7%
	Dividends*	-0.1%
	Share Repurchases*	0.1%
	Cash on balance sheet*	-1.9%
	Mergers and Acquisitions	34.2% plan to acquire. 16.5% plan to sell part or all of firm.

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

\* Indicates public firms only

*About CFO Survey*

All the figures quoted above are taken from the Global CFO Survey for the first quarter of 2012. The survey concluded March 1, 2011. Every quarter, CFOs in Europe, the US, Asia and China are questioned about their economic expectations. Current records go back 64 quarters. The CFO Survey is conducted jointly by Tilburg University, Duke University (Durham, North Carolina) and CFO Magazine.

*Note for the Press*

Previous editions of the CFO Survey can be found at [www.cfosurveyeurope.org](http://www.cfosurveyeurope.org). For further information, please contact Reggy van den Bosch, Tilburg School of Economics and Management, tel.+31-(0)-134668923 or e-mail [r.vandenbosch@tilburguniversity.edu](mailto:r.vandenbosch@tilburguniversity.edu)

*CFO Survey Europe team*



Kees Koedijk  
Professor Financial Management  
Dean Tilburg School of Economics & Management



Reggy van den Bosch (contactperson)  
Science Communications Officer  
[r.vandenbosch@tilburguniversity.edu](mailto:r.vandenbosch@tilburguniversity.edu)  
+31-(0)-13 466 8923



Christian Staupe  
Research and Policy Officer  
[c.p.staupe@uvt.nl](mailto:c.p.staupe@uvt.nl)