Embracing Growth, Facing Risk Head-On

Global finance executives' views on the economic outlook, spending plans, and the future of technology

Thought Leadership Studio

Contents

About This Report

American Express collaborated with Institutional Investor's Custom Research Lab on a survey of senior executives at large enterprises worldwide, with particular focus on chief financial officers (CFOs) and other senior finance executives, including VPs of finance, treasurers, finance directors, controllers, managing directors, and others. For more than a decade, this annual study has examined how executives around the world assess their countries' prospects for economic growth and their companies' plans for spending and investment in the year to come. The 2018 study also examines finance executives' views on the next generation of technology — from artificial intelligence and robotics to alternative energy and autonomous vehicles.

This year's study is based on a survey of 870 senior executives from more than 21 countries around the world.[1] For the first time in its 11-year history, the Global Spending & Business Outlook includes respondents from the Middle East. Survey responses were gathered in November and December of 2017. The estimated margin of error for this population is approximately +/- 3% at a 95% level of confidence.[2]

The demographic profile of this year's survey respondents is as follows:

Location

North America	**18.3%**
United States	14.9%
Canada	3.4%
Latin America	**11.4%**
Mexico	4.0%
Argentina	4.0%
Brazil	3.4%
Europe	**31.9%**
United Kingdom	11.5%
Germany	3.4%
France	3.4%
Russia	3.4%
Italy	3.4%
Spain	3.4%
Elsewhere in Europe	3.4%
Asia-Pacific	**20.4%**
Australia	3.4%
Hong Kong	3.4%
India	3.4%
Japan	3.4%
Singapore	3.4%
China	3.4%
Middle East	**17.1%**
Egypt	3.4%
Saudi Arabia	4.0%
United Arab Emirates	5.7%
Qatar	4.0%

Title

Head of finance (chief financial officer, finance director, or equivalent title)	25.5%
Controller	19.1%
Chief executive officer, president, managing director, or equivalent title	18.7%
Treasurer	18.2%
Other executive with finance responsibilities	18.5%

Industry

Aerospace/Defense	5.7%
Auto/Industrial/Manufacturing	7.6%
Business/Professional services	5.7%
Chemicals/Energy/Utilities	5.2%
Construction	5.7%
Education	3.4%
Financial services/Real estate/Insurance	11.5%
Food/Beverages/Consumer packaged goods	6.9%
Government/Public sector/Nonprofit	2.5%
Hardware/Software/Networking	5.7%
Health care	5.4%
Media/Entertainment/Travel/Leisure	5.7%
Natural resources/Mining	5.7%
Pharmaceuticals/Biotechnology/Life sciences	5.7%
Telecommunications	5.7%
Transportation/Warehousing	5.7%
Wholesale/Retail trade	5.7%

Annual revenues

More than US$20 billion	18.4%
US$10 billion–US$20 billion	16.1%
US$5 billion–US$10 billion	19.5%
US$1 billion–US$5 billion	23.0%
US$500 million–US$1 billion	23.0%

[1] From 2008 to 2016, CFO Research, a unit of CFO Publishing LLC, conducted an annual study in collaboration with American Express. All survey data prior to 2017 cited in this report was gathered and verified by CFO Research.

[2] Percentage values in this report may not total 100% due to rounding.

Sponsor's Statement

Countries and businesses globally expect continued growth through 2018, with newfound confidence in Europe adding to carryover optimism from 2017 in Asia-Pacific and North America. This momentum is reflected in the *2018 American Express Global Business & Spending Outlook*, which annually reports on the perspectives of senior finance executives at large companies around the world. Executives in the Middle East are included in the survey for the first time in its 11-year history, adding to its holistic view of a dynamic global economy.

Last year's survey signaled a readiness to shift into growth mode, and this year's findings demonstrate the fruition of that movement, with a majority of companies reporting higher or much higher revenues compared to a year ago. Respondents to this year's survey expect sustained economic growth over the next 12 months, but at a slower rate and with fewer predicting substantial economic expansion.

Political change and global trade policy are especially likely to strengthen expansion prospects for companies this year, with most global finance leaders expecting exports to become more important for their company's growth, while the role of imports will vary from region to region.

This year's study finds senior finance executives less anxious about economic and political surprises — far fewer will consider outright exiting high-risk regions — but still considering better ways to manage risks that threaten business performance. This accounts for growing interest in expanding enterprise-level risk management systems and process improvements.

As they pursue sustained gradual growth, companies worldwide are prepared to increase spending and investment. Senior finance executives will take a back-to-basics approach and focus on core growth rather than secondary contributors to business performance. Globally, efforts to better meet customer needs and protect market share will spur companies to invest more in developing new product offerings, adding capacity for production or service delivery, and improving their production processes.

Most finance executives at large companies expect to increase headcount over the next year, though at a slower rate than previously. As they look to increase their workforce, companies have the most difficulty hiring and retaining general management staff and administration and support staff. To meet staffing needs, companies worldwide are likely to expand their use of temporary

In an effort to better meet customer needs, companies will invest more in developing new product offerings, adding capacity for production or service delivery, and improving their production processes.

and part-time workers, and to move positions from overseas to domestic locations, rather than outsource or offshore business activities.

In an effort to attract and retain employees, companies plan to make employees' work experience more fulfilling and comfortable by reconfiguring office space and providing more amenities, offering more flexible schedules and remote-work opportunities, and expanding career development through relocation and geographic rotation programs.

Strategy for near-term technology spending is focused on cybersecurity and the protection of sensitive data related to customers, suppliers, and employees. Over the longer term, finance executives are most likely to see artificial intelligence, robotics, and automation as sources of change in their industries. Many are already taking steps to incorporate these and other potentially disruptive technologies into their businesses. Some companies surveyed even view these next-generation innovations as opportunities.

As a global leader in payments, American Express works with businesses of all sizes to provide insights into these complex issues and helps them find the solutions to create opportunities for business growth.

For more information about American Express Global Commercial Services, please visit business.americanexpress.com/us

Brendan Walsh
Executive Vice President
Global Commercial Services
American Express Company

Overview

Nearly 10 years after the Great Recession, the world's economies are enjoying the benefits of economic recovery. Senior finance executives at large companies around the world expect sustained economic growth to continue through 2018, albeit at a slower rate than in 2017, according to this year's *Global Business & Spending Outlook*. The vast majority — more than 90% — of study participants from North America, Asia-Pacific, and the Middle East expect modest or substantial economic expansion this year. After several years of slow growth, Europe is poised for recovery amid a two-fold increase in the proportion of executives from the region anticipating growth in their home country. The outlook in Latin America is notably less optimistic, as only half of study participants from the region expect economic expansion. As companies execute their strategies, they'll often do so with less anxiety than last year regarding economic and political surprises, while maintaining a watchful eye on how to navigate financial and operating risks.

Pro-business policies in major markets and continued low interest rates have led to a prevailing optimism that is expected to support sustained corporate spending, investment, and hiring. Senior finance executives indicate willingness to increase spending and investment this year, but they are most likely to focus their budgets on specific growth initiatives that directly target customer needs and develop new products and services. In aggregate, companies expect to increase hiring this year, although at a slower pace than last year. In an effort to attract and retain top talent, companies are most likely to improve the day-to-day working environment of their employees, offer more flexible work schedules and locations, and expand career development programs.

As they enter this period of anticipated widespread, gradual growth, senior finance executives are especially eager to improve their ability to negotiate effectively with suppliers and customers, and to cultivate a more collaborative culture among finance, procurement, and treasury functions.

This year's study also examines the outlook for near-term spending on technology. Companies are most likely to focus on cybersecurity and the protection of customer, supplier, and employee data in the next two years. Over the longer term, finance executives are most likely to see artificial intelligence, robotics, and automation as sources of change in their industries. These and other next-generation technologies represent opportunity as well as disruption across industries, and many companies have begun taking steps to embrace them. ●

Economic and Business Performance Expectations

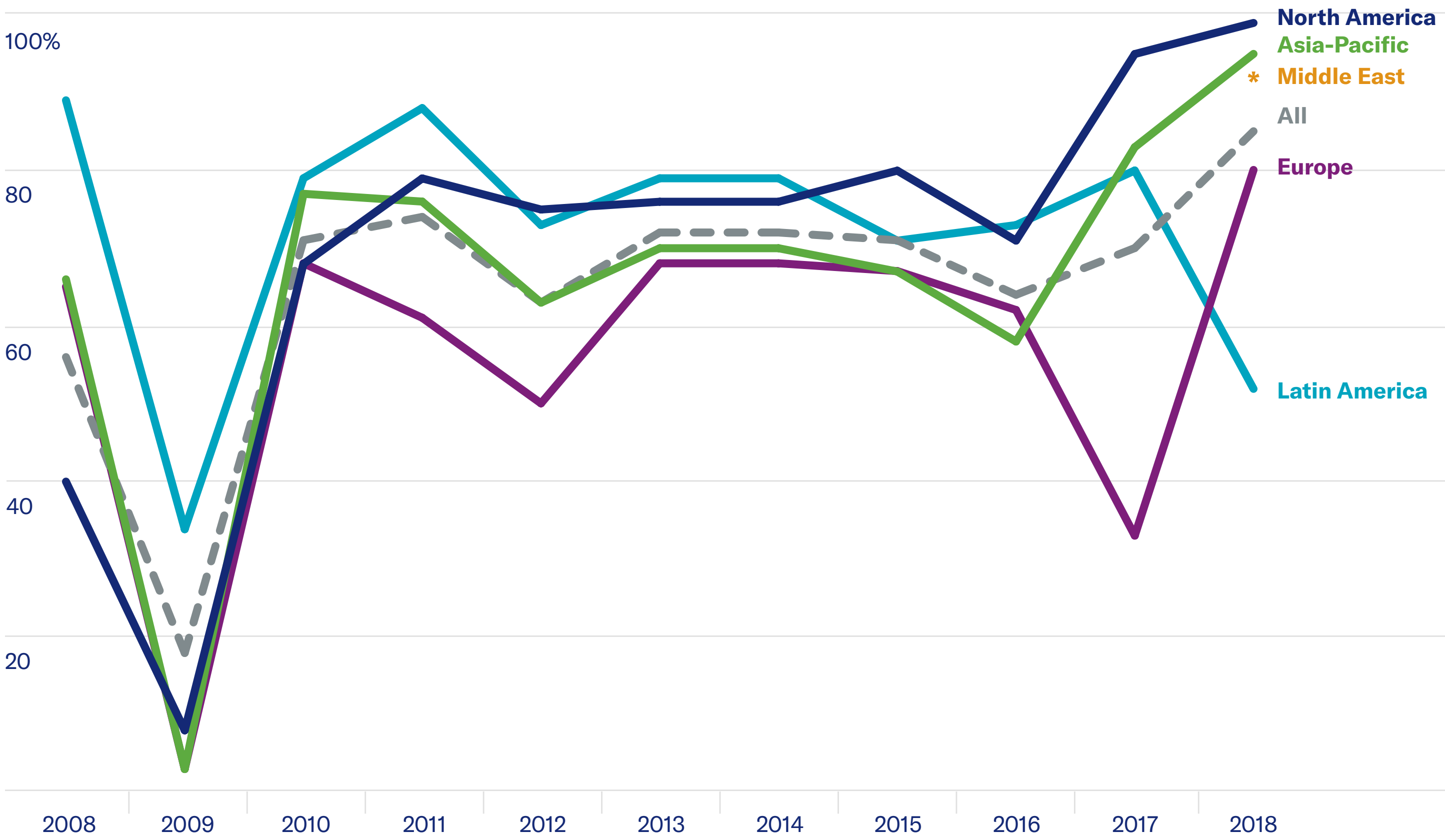
Continued optimism for growth worldwide, although the pace may slow

After a strong 2017, economies in all parts of the world are experiencing growth, especially North America, Asia-Pacific, and Europe. Senior finance executives at large companies worldwide expect continued economic expansion over the next year, albeit at a slower rate than last year. Recovery in investment, manufacturing, and trade activity continues in major markets, and interest rates remain low, leading to a prevailing optimism that is expected to support sustained corporate spending and investment. And while executives in this year's survey are less anxious about economic and political surprises than in 2017, they will keep a watchful eye on how to manage risks that threaten business performance.

In aggregate, 85% of senior finance executives worldwide anticipate "substantial" or "modest" economic expansion in 2018, up from 70% in last year's study. (See figure 1.) Furthermore, in a response to a separate query, more than half (54%) of global respondents report revenue

Figure 1. Expectations for modest or substantial economic expansion by region, 2008–2018

Percentage of respondents by year predicting "substantial" or "modest" economic expansion in each region



*The survey did not include respondents from the Middle East prior to 2018.

Sources: Institutional Investor Custom Research Lab (2017–2018 data); CFO Research (pre-2017 data) growth in the past 12 months, a notable rise over 44% in last year's survey. Topline performance was most robust in Europe, where 69% of respondents report year-over-year revenue growth, and in Asia-Pacific, where 66% report higher revenues compared to a year ago.

However, the senior executives surveyed believe the pace of expansion — as measured by respondents who anticipate substantial, rather than modest, expansion — is expected to slow in 2018. Those who expect substantial expansion fell to 21% worldwide this year from 38% in 2017. Expectations for substantial expansion fell in all regions, except in Europe, where 26% anticipate substantial growth, up from 11% in 2017. Optimism is tempered in the U.S., with 98% of respondents expecting modest growth, and only 1% anticipating substantial economic expansion (versus 67% in 2017).

With solid economic recovery finally under way in Europe, respondents in the region are decidedly more optimistic. Their expectations for modest or substantial expansion in 2018 (79%) more than doubled from 2017 (33%). Respondents are especially optimistic in Germany, where 40% expect substantial expansion, and in the U.K. and Italy, where 38% and 37%, respectively, have expectations for substantial expansion. Similar expectations are held by 13% or fewer respondents in Spain, France, and Russia.

The softest region is Latin America, where respondents are notably less optimistic than their peers in other markets. Expectations for expansion fell — to 52% this year from 80% in 2017 — most likely driven by political uncertainty and unfavorable foreign exchange rates in Brazil and Argentina, where growth prospects are the lowest: only 29% of respondents from Argentina and 30% of those from Brazil anticipate modest or substantial economic expansion in 2018, down from 94% and 73%, respectively, last year.

Worldwide, near-term prospects look promising, with sustained growth expected. International trade plays an important role (see below), and as executives seek growth in an encouraging economic climate, they remain watchful of the risks to business performance and seek to deploy tools to manage them. ●

Foreign trade

Political change and global trade policy are especially likely to strengthen growth prospects for companies in 2018, according to 52% of respondents. Executives from Asia Pacific (59%) and Europe (57%), whose economies are often net exporters, are especially likely to see trade policy and political change as contributors to growth in 2018.

More than two-thirds of respondents — 68% worldwide — anticipate that exports will become "much more" or "somewhat more" important to their own companies' growth in the year ahead, up slightly from 63% in 2017. Respondents from all regions foresee exports playing a greater role in growth, except those in Latin America, where the proportion of respondents expecting exports to be a more important driver of growth falls to 60% in this year's survey from 67% in 2017. While exports remain important sources of growth, the degree of their importance has dropped. Respondents worldwide who anticipate a "much more important" role for exports in their companies' growth fell by half, in percentage terms, to 16% this year from 34% in 2017, reflected across all regions.

Nearly half (47%) of respondents worldwide foresee imports playing a greater role in their companies' growth, but regional distinctions in the data reveal how foreign trade may contribute to company performance around the world. Respondents from North America (34%), the Middle East (34%), and Latin America (32%) are less likely overall to see imports as an important dimension of growth than those in Asia-Pacific (60%) and Europe (57%). These findings suggest that North American firms are likely to focus more on domestic suppliers. The Middle East, with an economy focused on petroleum exporting, has less need for imports of raw materials and intermediate goods. Foreign exchange rates are likely to limit Latin American companies' ability to purchase from foreign suppliers. Respondents from Europe anticipate imports will be more important in the year ahead, which suggests that companies in the region will use foreign trade to fuel their continued recovery.

As foreign trade contributes to growth in the year ahead, respondents are more likely to see currency market volatility as a catalyst for managing foreign exchange more closely (73%) rather than changes in their individual companies' exporting (58%) and importing (41%) activities. ●

Uncertainty, Disruption, and Risk

Concern falls for economic and political surprises

As companies pursue growth, albeit in a somewhat slower environment, they anticipate shifting priorities regarding specific types of risk and risk management. Where they once were more focused on economic and political risks at home and abroad, they are now turning an eye toward better managing risks associated with protection of personnel and physical assets. Respondents in this year's study indicate a growing interest in expanding enterprise risk management programs (68% this year versus 43% in 2017), and, when asked what actions their companies would take as a direct response to economic or political uncertainty, they appear less likely to withdraw business activities from high-risk geographic areas in favor of low-risk areas (59% this year versus 87% in 2017).

Among senior finance executives worldwide, fewer rate negative surprise events — including economic, political, social, and environmental surprises — as a rapidly growing concern. In 2017, the headlines were dominated by a new administration in the U.S., preparation for the U.K.'s exit from the European Union, tension on the Korean peninsula, protracted volatility in the Middle East, and potential trade disputes. Yet globally, the proportion of respondents who agree that negative surprise events are a rapidly growing concern at their companies fell to 64% this year from 91% last year (see figure 2).

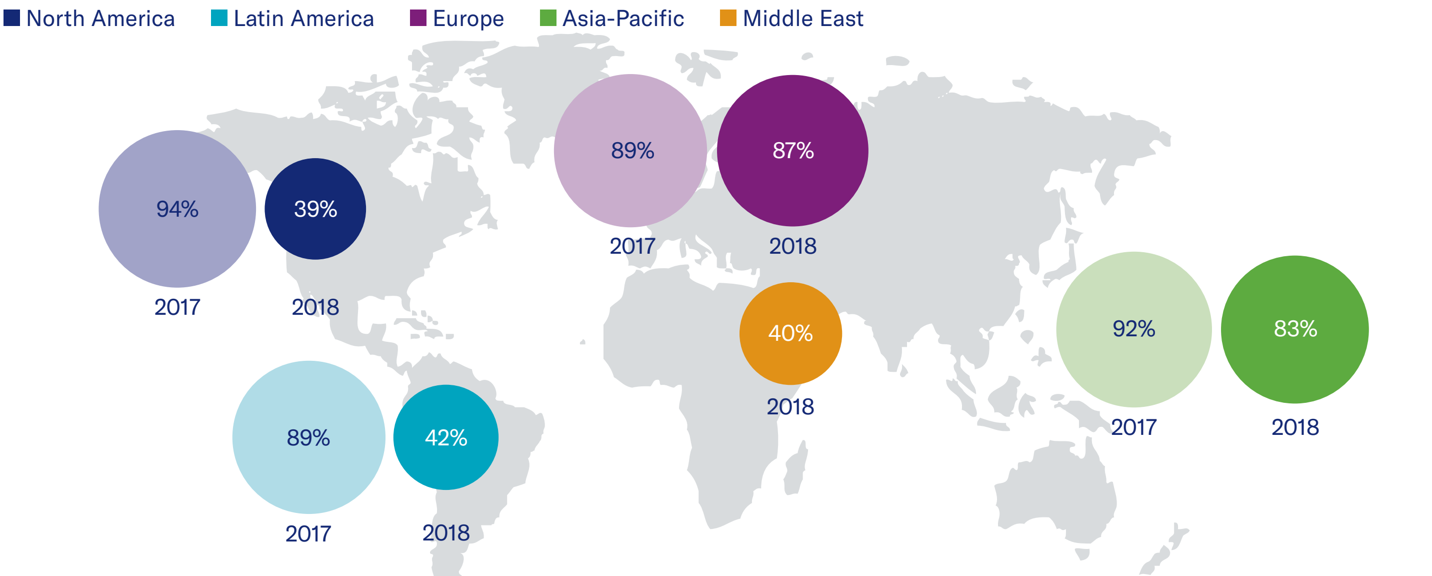
Respondents from North America and Latin America are less concerned about the risk of surprise disruption, while their peers in Europe and Asia-Pacific remain especially vigilant. The uncertain outlook for a cohesive EU may contribute to Europeans' anxieties. In Asia-Pacific, geopolitical tension, trade restrictions, interest rate risk, and the prospect of an eventual economic slowdown in major economies could contribute to respondents' sustained concerns about negative surprises.

64%

Respondents who agree that negative economic, political, social, and environment surprises are a growing concern.

Figure 2. Anxiety about surprise events falls in 2018

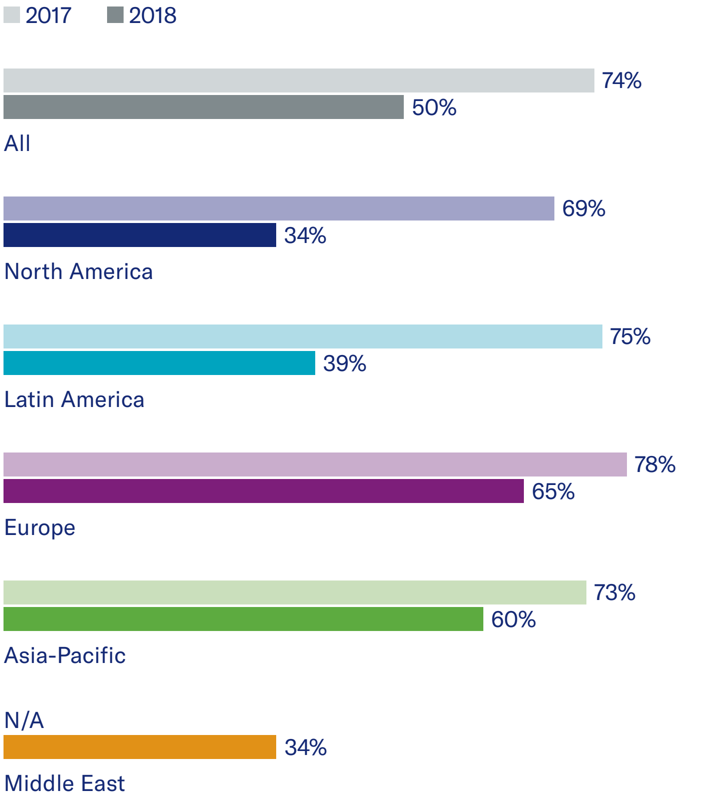
Percentage of respondents who agree that surprise events that could negatively affect their business are a rapidly growing concern, by region



The survey did not include respondents from the Middle East prior to 2018.

Source: Institutional Investor Custom Research Lab

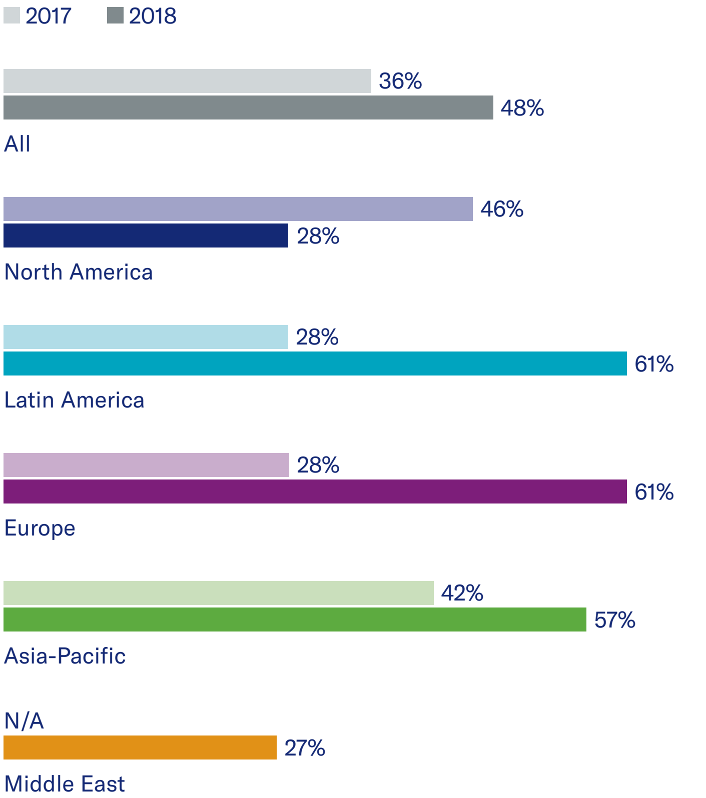
Figure 3. Concern about foreign risk falls steeply…
Percentage of respondents in each region saying recent economic or political uncertainty outside their own country has caused more caution about increasing spending and investment



The survey did not include respondents from the Middle East prior to 2018.

Source: Institutional Investor Custom Research Lab

Figure 4. …As domestic risk brings caution to spending and investment decisions
Percentage of respondents in each region saying recent economic or political uncertainty in their own country has caused more caution about increasing spending and investment



The survey did not include respondents from the Middle East prior to 2018.

Source: Institutional Investor Custom Research Lab

While unease over economic, political, social, and environmental disruption has waned somewhat, this year's survey reveals that uncertainty about economic and political matters — from outside respondents' countries (50%) as well as inside (48%) — is affecting spending and investment (see figure 3). Last year, economic and political uncertainty outside respondents' own countries was twice as likely (74%) as domestic uncertainty (36%) to cause respondents to be more cautious about spending and investment.

Respondents in Europe and Latin America are notably more cautious about increasing spending and investment because of domestic economic and political uncertainty. The proportion of respondents, identical in both regions, who indicate that domestic risk has made them more careful about spending, increased dramatically to 61% this year from 28% in 2017 — more than 30 percentage points (see figure 4).

Respondents in Asia-Pacific are more cautious about increasing spending and investment because of foreign economic and political uncertainty, perhaps over concerns about tension between the U.S. and North Korea. Respondents from North America and the Middle East are less likely to be cautious about spending and investment due to foreign or domestic uncertainty.

This year's study suggests that fewer companies are likely to take drastic action in response to operating risk. Last year, companies were likely to withdraw directly from high-risk geographies. This year, executives indicate growing interest in expanding enterprise risk management, improving processes, and expanding asset protection initiatives in response to economic and political uncertainty.

Few are complacent, to be sure, but this year's study suggests that fewer companies are likely to take drastic action in response to operating risk. Faced with potential economic and political uncertainty, respondents this year indicate growing interest in expanding enterprise risk management (ERM), process improvements, and asset protection initiatives (68% this year versus 43% in 2017). Last year, companies were much more likely to withdraw directly from high-risk geographies (59% this year versus 87% in 2017).

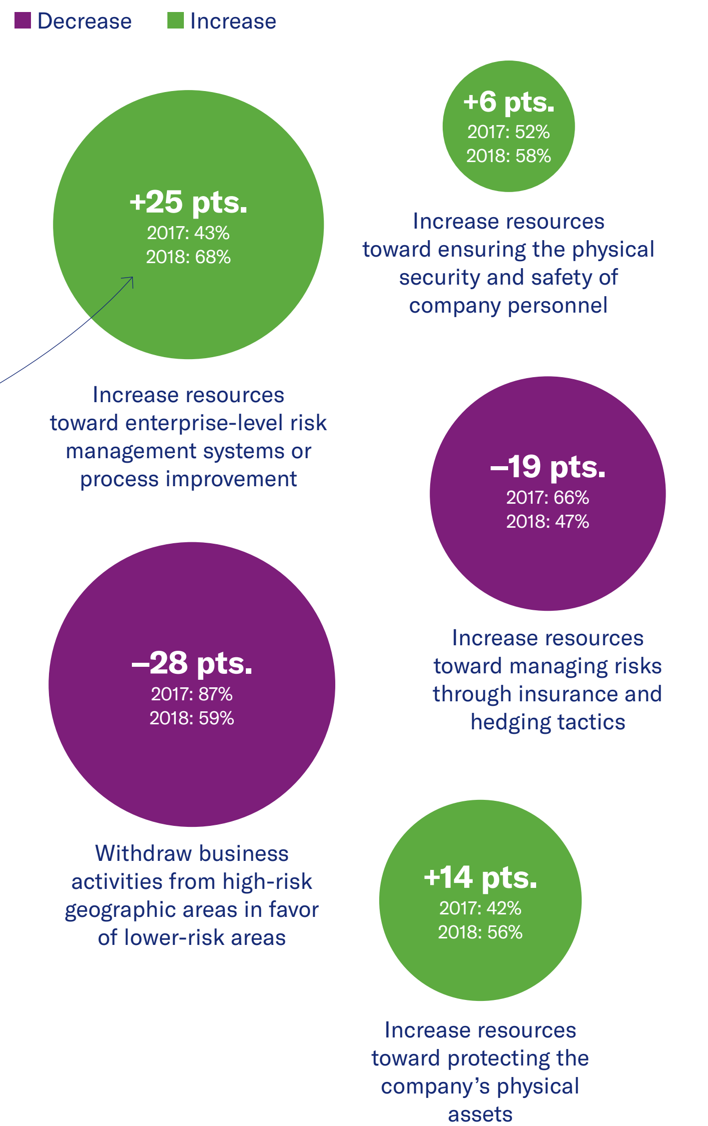
Respondents from Asia-Pacific (65%) and Europe (62%) are especially likely (versus 47% of global respondents) to embrace insurance and hedging solutions as insurers and risk management consultants develop new products and techniques to address cyber-security and other electronic risks.

68%

Respondents saying they are likely to expand enterprise risk management systems and processes in the next year.

Figure 5. From risk flight to risk management

Percentage of respondents likely to take the following actions as a direct response to economic or political uncertainty in the next year

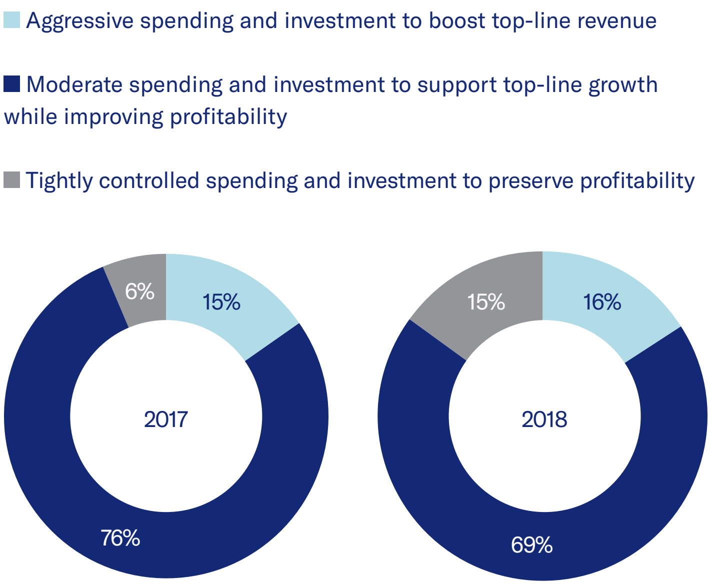


Source: Institutional Investor Custom Research Lab

Spending and Investment

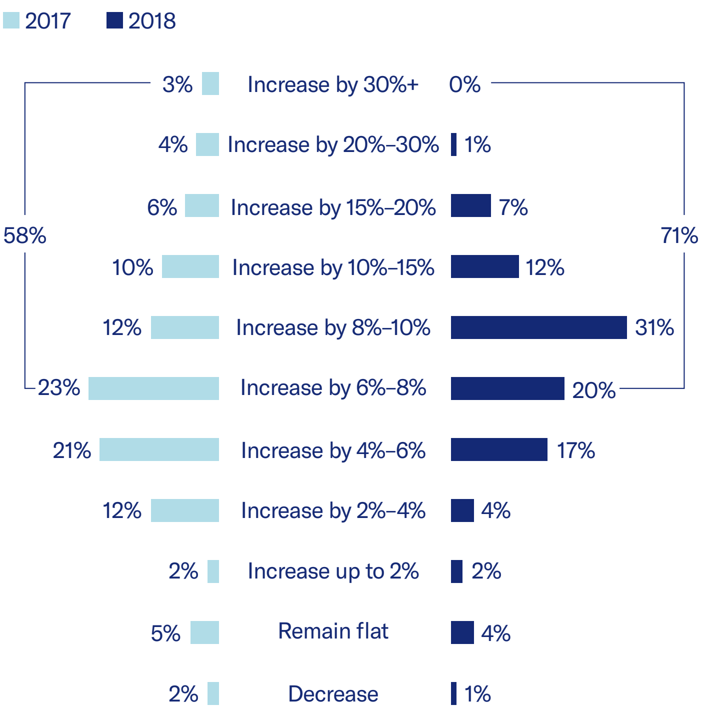
Companies seek profitable growth by focusing on serving customers, developing new offerings, and transforming inefficient processes

Figure 6. Spending plans remain stable for 2018
Anticipated approach to spending and investment in the next 12 months



Source: Institutional Investor Custom Research Lab

Figure 7. More than 70% of respondents will boost spending by 6% or more in 2018
Anticipated change in spending and investment in next 12 months



Source: Institutional Investor Custom Research Lab

In this climate of incremental economic expansion and evolving risk management priorities, companies' spending strategies in aggregate remain in line with those of prior years. Worldwide, 16% of companies anticipate spending aggressively in search of top-line revenue, and a similar proportion will control spending tightly to preserve profitability. (See figure 6.)

Worldwide, 72% of companies expect spending and investment to increase by 6% or more. (See figure 7.) While 21% worldwide anticipate aggressive spending increases of 10% or more, the higher spenders are more likely to be in Asia-Pacific (38%) — and in Japan in particular (47%) — and in Europe (30%), led by Italy, where 40% of respondents expect to boost spending by 10% or more.

While many expect to spend aggressively, a large proportion of European respondents are more likely this year to control spending tightly (25% this year versus 6% in 2017) to boost profits. European respondents seem more willing to spend to meet objectives than they did last year, but at the same time, direct spending carefully into specific initiatives to ensure profitability.

Growth by focusing on fundamentals

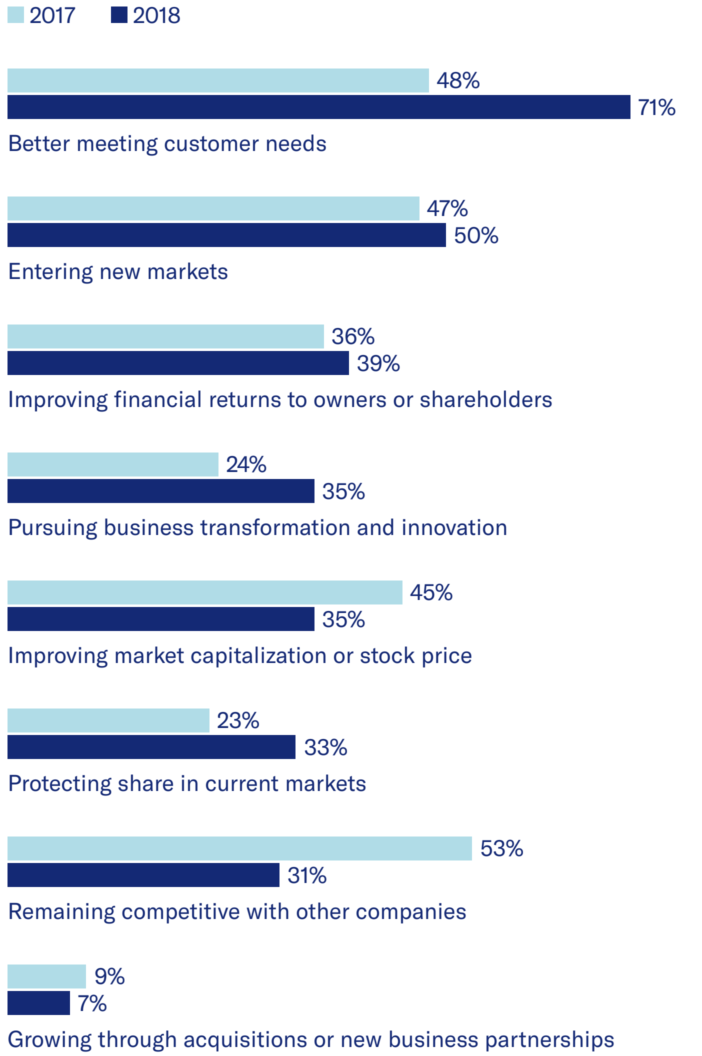
How will companies direct their spending strategies? By a healthy margin, respondents worldwide will pursue objectives tied directly to the core organic growth of their businesses, rather than strategic maneuvers that may seem secondary to performance. A top priority of senior finance executives worldwide this year is better meeting customer needs (71%), up substantially from 48% in 2017. Other priorities cited frequently include entering new markets (50%) and improving financial returns to owners or shareholders (39%). Intra-industry competition and battles for market share remain important, but trail behind the fundamentals of making and selling in this year's study. (See figure 8.)

As companies focus their core businesses, they're investing in technology, talent, and production capabilities with a view toward long-term success. In North America, respondents will focus on entering new markets (68% in 2018, up from 47% in 2017), and business transformation and innovation (53% in 2018 versus 24% last year). European respondents also see protecting current market share (45% this year, up from 18% in 2017) as a priority, led by France (53%) and Germany (50%). Similarly, 41% of respondents in Asia-Pacific and 57% of those from India see market-share protection as one of their top-three business goals for 2018. As economic liberalization gradually emerges in the Middle East, respondents are also focused on entering new markets (66%).

In Latin America, respondents have changed their focus to business transformation and innovation (44% this year versus 25% last year) as well as to protecting share in current markets (32% this year versus 19% in 2017). This shift may represent defensive measures taken by companies facing the need to innovate on the global stage while navigating economic and political uncertainty in the region. Last year, remaining competitive with other companies was Latin American respondents' priority (22% this year versus 58% in 2017). At the country level, this year's data reveals executives' response to the economic reality of the region. In Mexico, 74% of respondents see entering new markets as a top priority, perhaps in an effort to diversify its base of trading partners, compared with 49% of respondents from Argentina and 27% from Brazil.

Figure 8. Companies seek to better meet customer needs and enter new markets

Highest priority business goals in the coming year (respondents selected up to three choices)



Source: Institutional Investor Custom Research Lab

Respondents worldwide are most likely to pursue organic growth and market expansion initiatives in the next year.

In 2018, companies will pursue organic growth by increasing investment in the pipeline of new products and services and in greater capacity to produce and deliver their offerings efficiently. Companies in this year's study show less enthusiasm for investing to improve administrative process efficiency than last year.

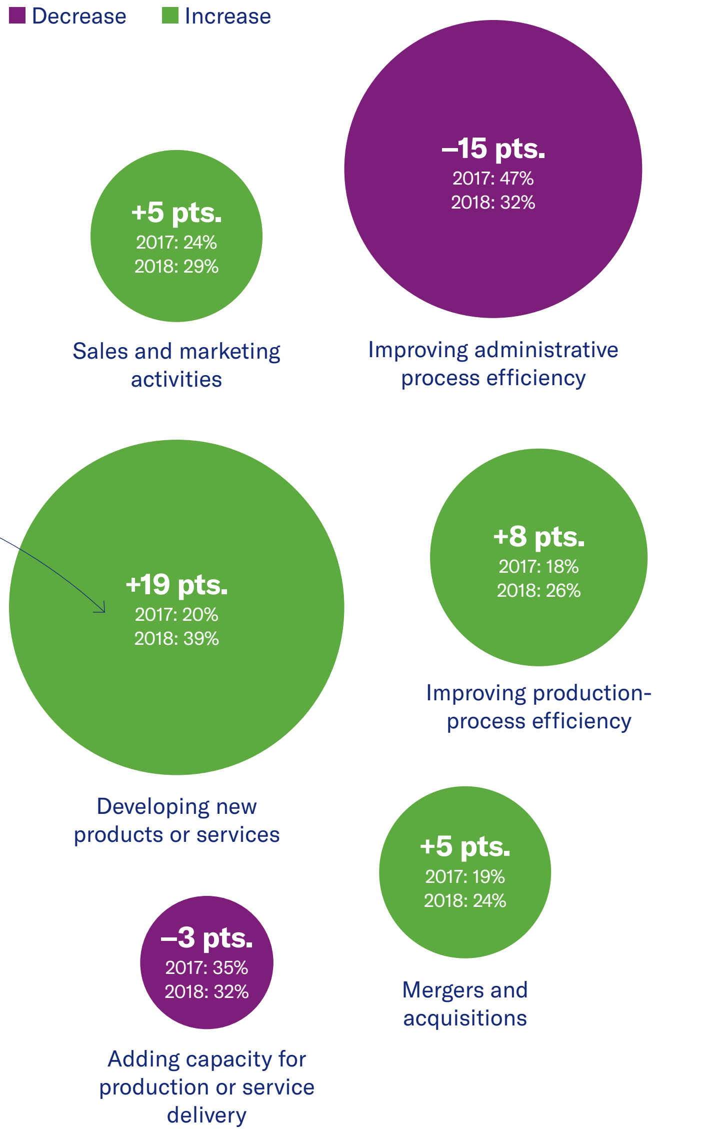
Companies anticipate increasing investment in capabilities tied to organic growth in 2018, according to survey data. (See figure 9.) Queried on their investment expectations for the year ahead, respondents are most likely to expand their product development, production, and sales and marketing capabilities. Nearly 40% of all respondents plan to deepen their investment in developing new products and services (39% this year versus 20% in 2017); respondents from Latin America (60%), North America (53%), and the Middle East (53%) are especially likely to do so. Last year, companies were most inclined to boost spending on administrative process improvement (47% in 2017), while only 32% of respondents anticipate expanding spending on such improvements this year. In Asia-Pacific, respondents expect to invest more in production capacity and service delivery (48% this year versus 23% in 2017).

39%

Respondents this year who say they'll increase spending on developing new products and services, up from 20% last year.

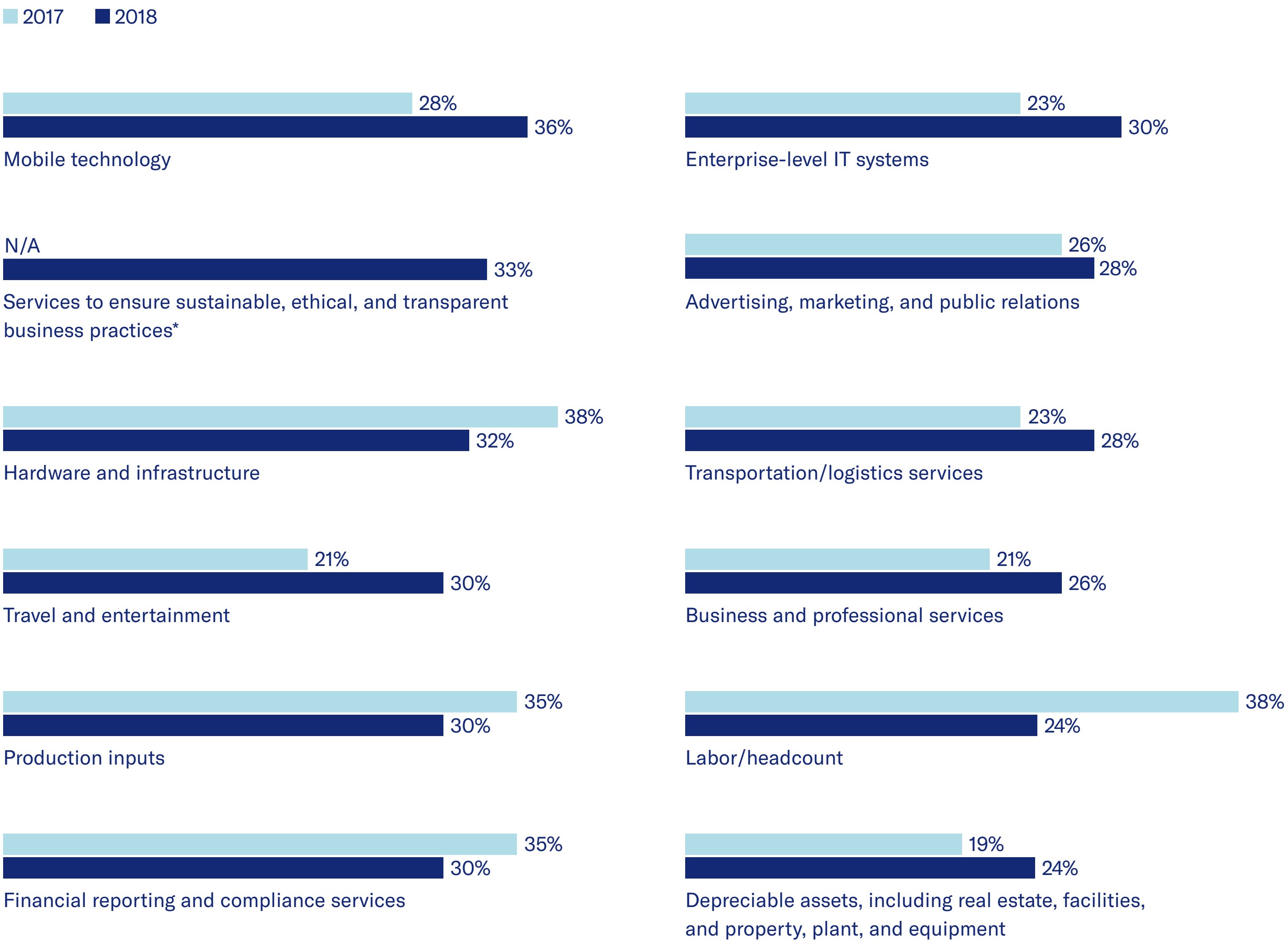
Figure 9. Spending will focus on the new product and service pipeline

Percentage of respondents anticipating increasing spending in each business activity



Source: Institutional Investor Custom Research Lab

Figure 10. Finance executives expect to increase spending on mobile technology as well as travel and entertainment
Percentage of respondents anticipating increased spending in each category



*Not included in 2017 survey

Source: Institutional Investor Custom Research Lab

Worldwide, category-level spending plans reveal year-over-year changes in the single-digits in most categories. (See figure 10.) Notable changes occur in North America, where 34% of companies surveyed from the U.S. and 43% from Canada expect to increase spending on travel and entertainment (up from 16% and 13% respectively in 2017). In Latin America, 43% of respondents from Mexico and 37% from Argentina will boost spending on transportation and logistics services (up from less than 10% in each country last year). Similarly, spending on advertising, marketing, and public relations services will rise in Mexico (49%, up from 21% last year) and in Argentina (37%, up from 12% in 2017). In Europe, the proportion of respondents who expect to increase spending on labor and headcount falls to 18% this year from 41% in 2017.

The ubiquity of IT systems in critical business functions exposes nearly every business to significant risks throughout their network of employees, suppliers, and customers — which may be why, when queried on the single highest priority for IT in the year ahead, respondents indicate they are most likely to boost spending on information security to protect against data breaches. Worldwide, 23% of respondents identify IT security as their top spending priority, up dramatically from only 9% in 2017. Respondents from Mexico (40%), Argentina (34%), China (33%), and Egypt (40%) are especially likely to see data protection as their highest IT spending priority. More than 90% of respondents worldwide anticipate allocating more resources to protection of data over the next two years. ●

The Role of the Senior Finance Team

Improving negotiations with suppliers and customers, and developing closer working relationships with operating units

When it comes to managing their companies' cash and working capital, senior finance executives worldwide are changing their focus. This year, they believe they are most likely to see substantial financial benefits from greater end-to-end visibility into transaction processes (70%), improvements in their ability to negotiate with suppliers and customers (63%), and in closer, more collaborative relationships among finance, procurement, and treasury functions (54%). In 2017, they were focused overwhelmingly on end-to-end visibility into transaction processes (97%). (See figure 11).

However, there are notable regional distinctions. Executives in North America, Latin America, and the Middle East maintain they see the most financial benefits deriving from greater visibility into transaction processing. Respondents from North America and Latin America see more value in greater collaboration among finance, procurement, and treasury functions. In an effort to understand the data more fully, several senior finance executives were interviewed. The CFO of a U.K.-based specialized publisher and event producer with $2 billion in annual revenue, notes, "Our company has five divisions, and we reorganized the support functions so that finance is more involved in planning and forecasting. The divisions are working together more efficiently now, and there's a better cross-sell."

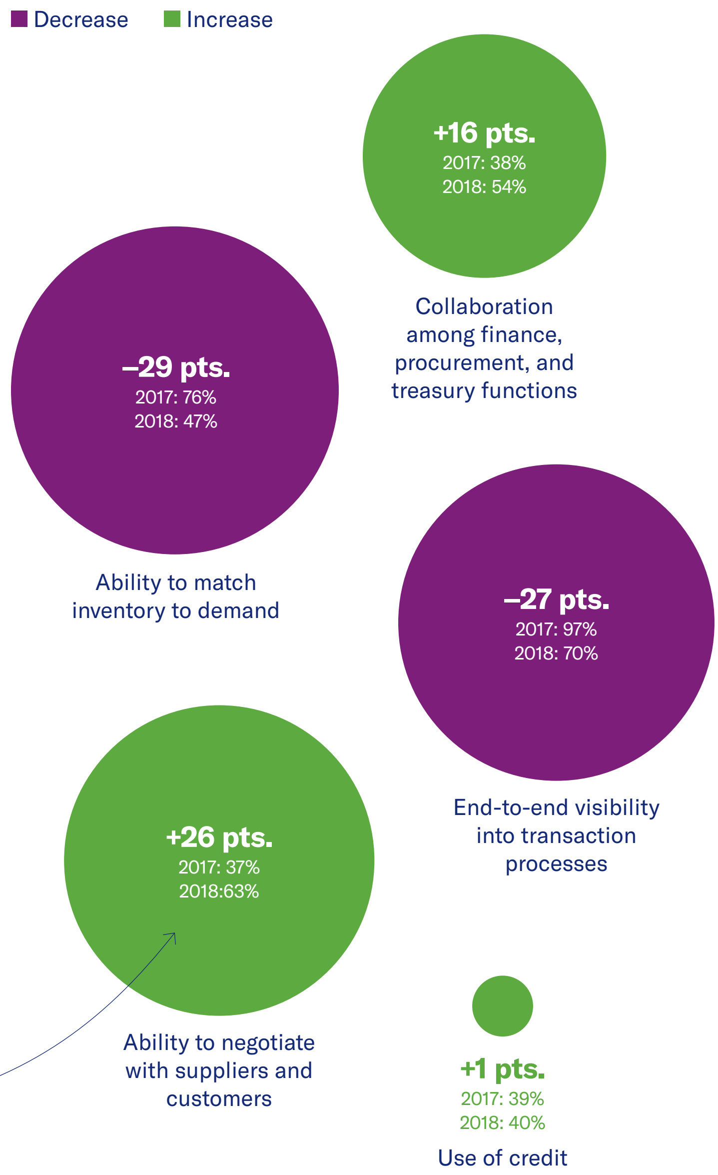
More respondents also see substantial potential financial benefit from an improved ability to negotiate with suppliers and partners (in North America, 70% this year versus 38% in 2017; in Latin America, 72% this year versus 40% in 2017).

Respondents from Europe and Asia-Pacific are more than twice as likely to expand their planning teams to include more people from more groups, and to increase use of third-party data in planning activities compared with their peers elsewhere. "We have a rolling three-year planning cycle, and we're able to draw on each division and function in the company to put whole numbers around our forecasts. Planning is improved and it's easier to be more robust," says the same CFO in the U.K.

63% say improved ability to negotiate would yield substantial financial benefit.

Figure 11. Finance sees great benefit from improving negotiation and collaboration capabilities

Percentage of respondents saying that improvement in the following attributes of their company's cash and working-capital management would yield substantial financial benefit



Source: Institutional Investor Custom Research Lab

Shorter planning horizons

Technology has allowed companies to shorten their planning, budgeting, and forecasting processes, resulting in more flexible planning. Worldwide, 78% of respondents say that planning horizons are shorter, 66% have implemented new technology for planning, budgeting, and forecasting, and 65% have made plans more detailed and granular. “In finance and administration, we are investing in systems to be more streamlined and faster. Now we can release figures one month after the year-end close, and also quarterly for a closer view,” says the CFO of a French concession and construction company with $45 billion in annual revenue. “We are a large company that employs 200,000 people, but now we can be more reactive, thanks to shorter reporting times.” Companies in North America, Latin America, and the Middle East are especially likely to have shortened planning horizons.

More time spent on strategic planning

Finance executives worldwide currently spend less than half their time on high-value strategic planning activities, and they aspire to spend, on average, slightly more. “I spend a lot more time on investor relations than I used to — up to 40 percent. There is a greater need to know [on the part of investors] more about the company’s operations. I spend more time on strategic planning too, and the whole finance group expects to spend more on this in the future,” says the controller of a Chinese technology equipment maker with $2.2 billion in annual revenue.

Strategic advisors

Most finance executives see their function as that of a strategic advisor — not as a leader of strategy, nor as a mere supporter of it. “In business development, finance is highly involved, working closely with marketing and sales, especially to support the pricing function, which, in our business, is complex,” says the director of operations planning for a U.S.-based financial services firm with $12 billion in annual revenue.

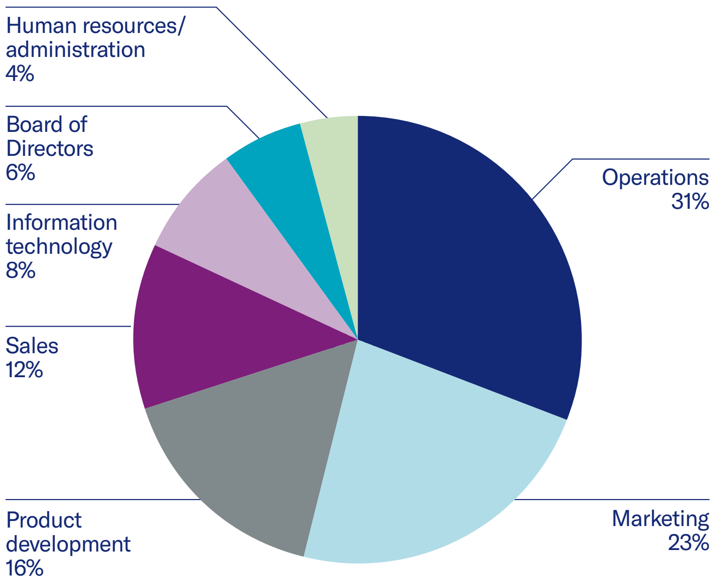
Fully 58% of respondents see the finance function providing the expertise, tools, and discipline necessary to develop and execute business strategy. “We serve as the analytical function to measure value, set budgets, and determine the ceiling of what we would invest in a venture,” says the CFO of a U.S.-based technology, media, and entertainment company with $10 billion in annual revenue.

Respondents from Europe and Asia-Pacific are somewhat more likely than those elsewhere to see their function in a more active leadership role in developing and executing strategy. “We don’t have many instances of not being involved in business development and strategic planning. We have become heavily involved in marketing and operations especially,” says the Hong Kong-based regional finance director of a European insurer with $18 billion in annual revenue.

Finance teams are most likely to seek closer collaboration and engagement with operations groups (31%) and marketing teams (23%). (See figure 12.) Finance executives in Europe and Asia-Pacific are especially eager to work more closely with marketing groups (37%), while those in North America, Latin America, and the Middle East say they’d benefit most from working more closely and collaboratively with their operations groups.

Figure 12. Finance sees better collaboration with operations and marketing as source of great benefit

Which of the following functions at your company would benefit the most from closer collaboration and engagement with the corporate finance function?



Source: Institutional Investor Custom Research Lab

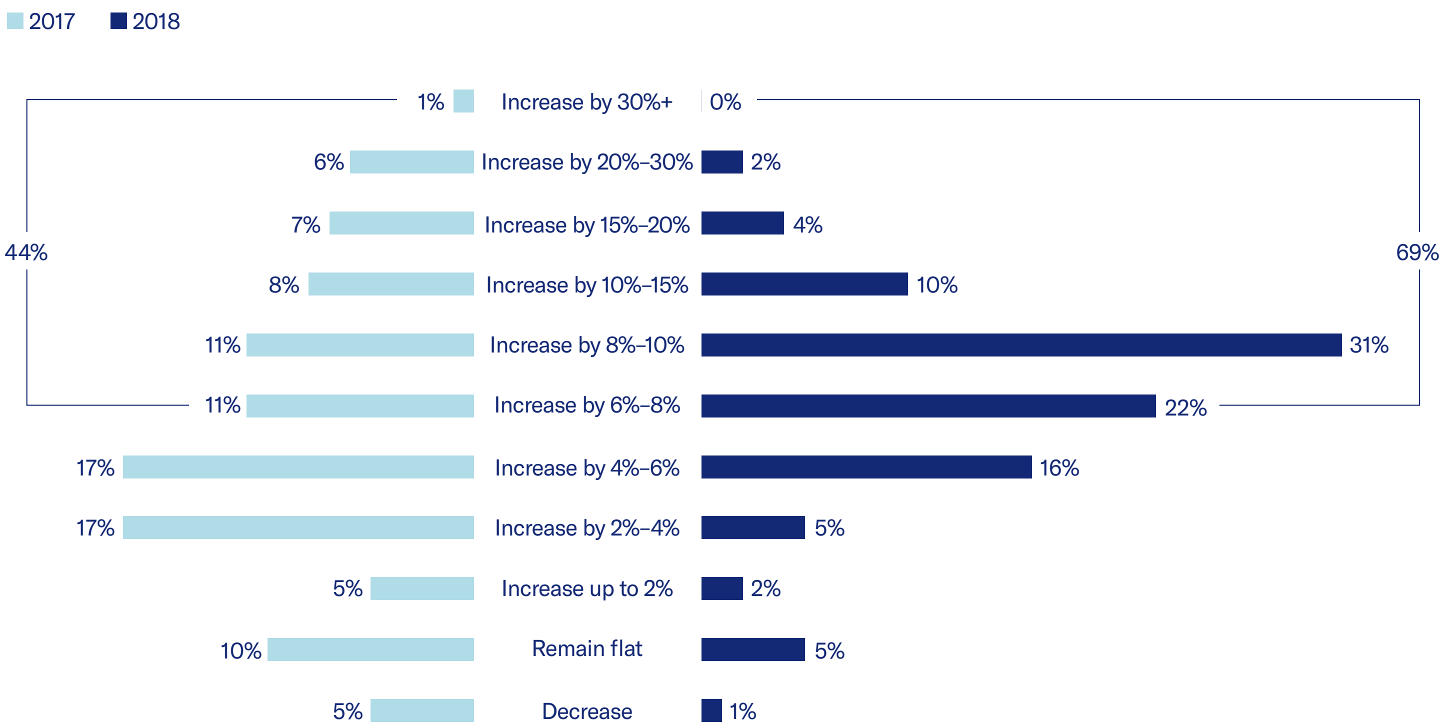
Employment and Human Capital Management

Companies will continue to hire, but at a slower pace, and provide current talent with career development and improved working conditions

Senior finance executives worldwide anticipate an increase in the number of employees at their companies in the year ahead. More than 90% of respondents (up from 80% in 2017) expect headcount to grow by 2% or more. Employee growth of 6% or more is widely expected as well — by 69% of respondents worldwide this year versus 44% in 2017. (See figure 13.) Aggressive hiring (an increase of 10% or more) is more likely in Asia-Pacific (30% this year versus 19% in 2017), led by China (37%) and Singapore (33%), and in Europe (26% this year versus 24% in 2017), led by Germany (37%) and Spain (30%). In North America aggressive hiring falls steeply to just 3% this year, versus 31% in 2017. Worldwide, general management staff (45%) and support and administrative staff (45%) are cited most often as difficult to hire and retain.

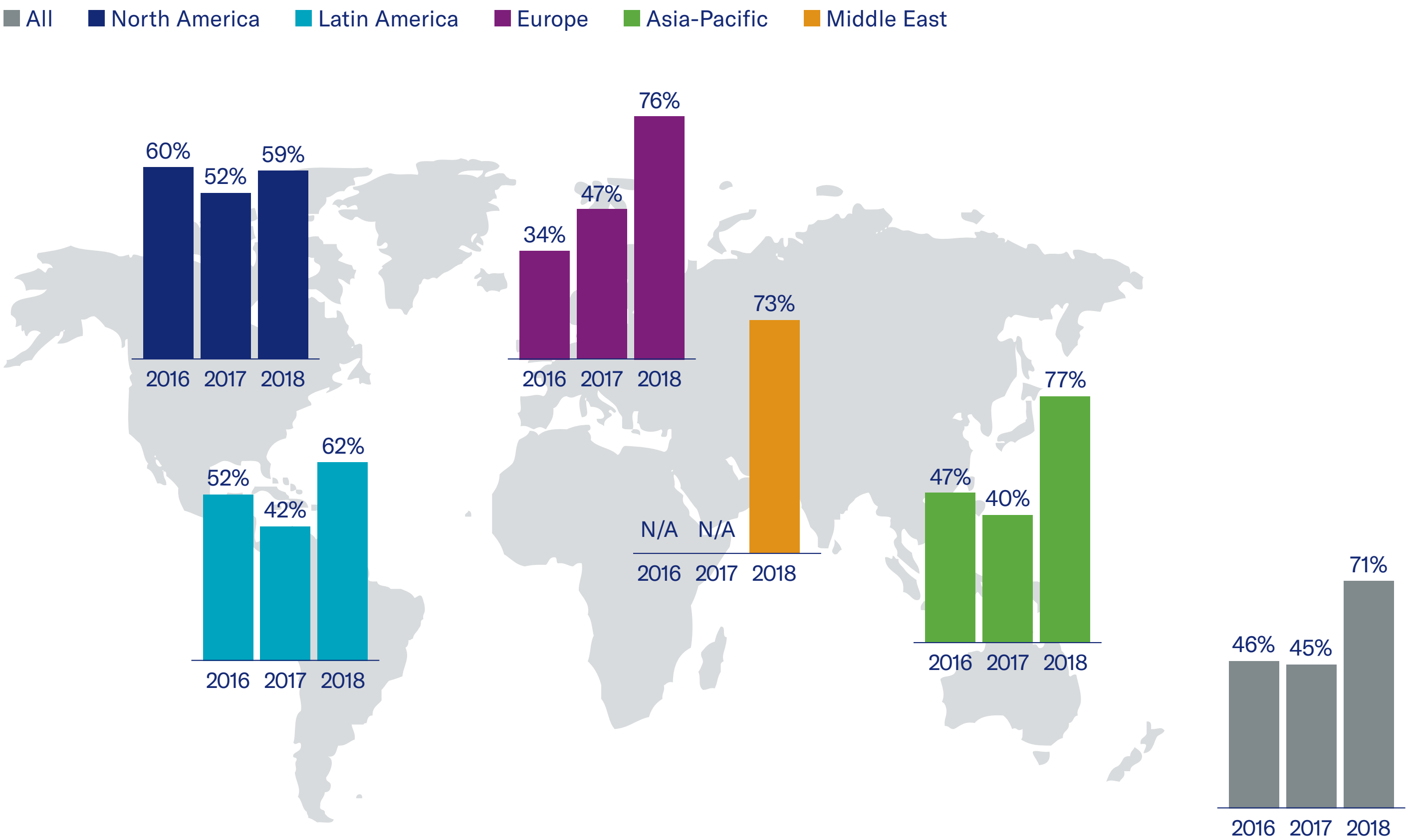
69% expect headcount growth of 6% or more.

Figure 13. Companies expect to increase headcount this year
Anticipated change in company headcount in the next 12 months



Source: Institutional Investor Custom Research Lab

Figure 14. Companies expect to hire at an aggressive or moderate pace worldwide
Percentage of respondents anticipating a change in headcount of 6% or more in the next 12 months, by region



The survey did not include respondents from the Middle East prior to 2018.

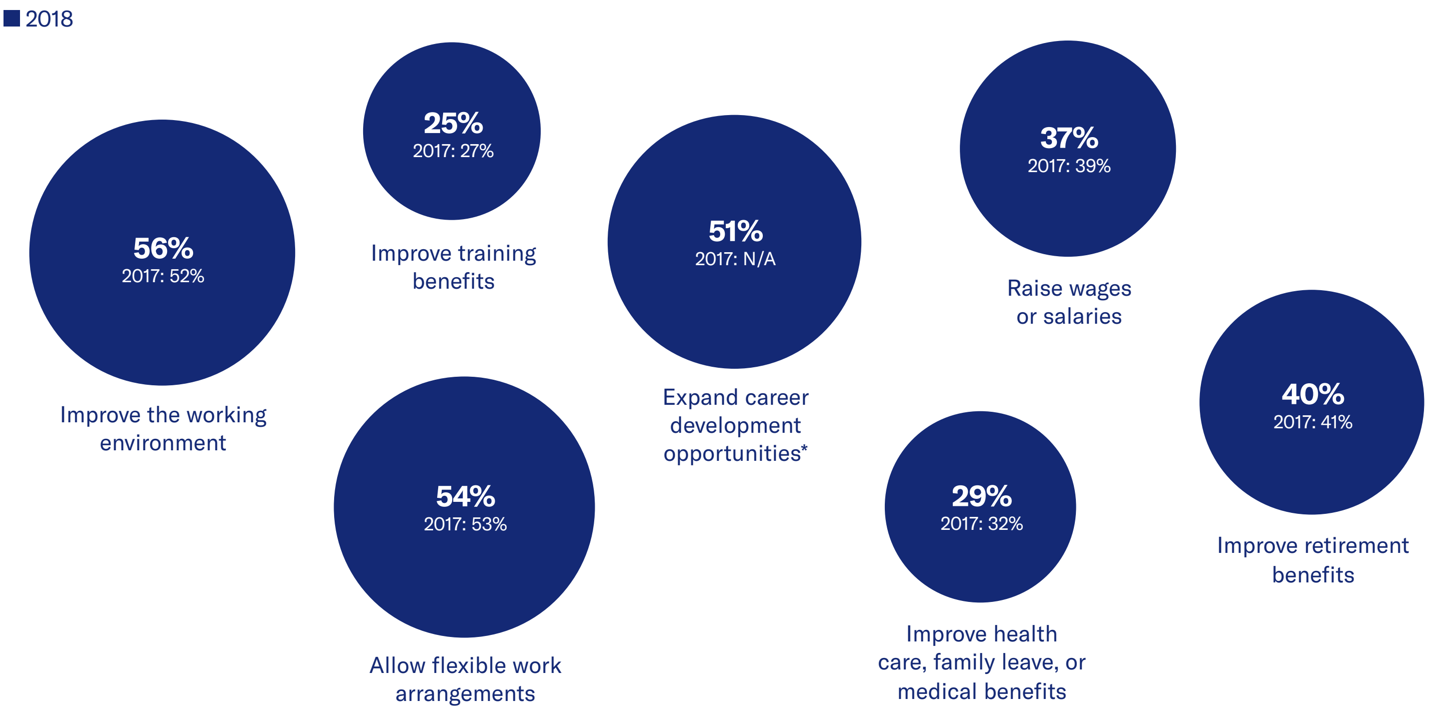
Sources: Institutional Investor Custom Research Lab (2017–2018 data); CFO Research (2016 data)

The employment data from the last three years of the *Global Business & Spending Outlook* suggests healthy growth in hiring around the world in 2018. (See figure 14.) Worldwide, 71% of respondents expect to increase hiring by 6% or more, a jump of 26 percentage points over last year's study. Viewed regionally, expectations for such aggressive or moderate hiring are strongest in the Middle East, Asia-Pacific, and Europe, where 70% or more of respondents anticipate expanding hiring by 6% or more, led by Spain (87%) and Germany (80%). In Asia-Pacific, 77% of respondents anticipate increasing their number of employees by 6% or more. Companies in Japan (83%), China (80%), and Singapore (80%) are especially likely to do so. In North America, 59% of respondents expect a 6%-plus increase in headcount; 70% of Canadian respondents expect an increase of 6% or more, in contrast to 56% of their peers in the U.S.

71%

Respondents who expect to increase headcount at their companies by 6% or more, a jump of 26 percentage points over last year's study.

Figure 15. Companies take steps to make day-to-day work life more appealing
Percentage of respondents likely to use each improvement to attract and retain employees in the coming year



*Not included in 2017 survey

Source: Institutional Investor Custom Research Lab

Attracting and retaining employees

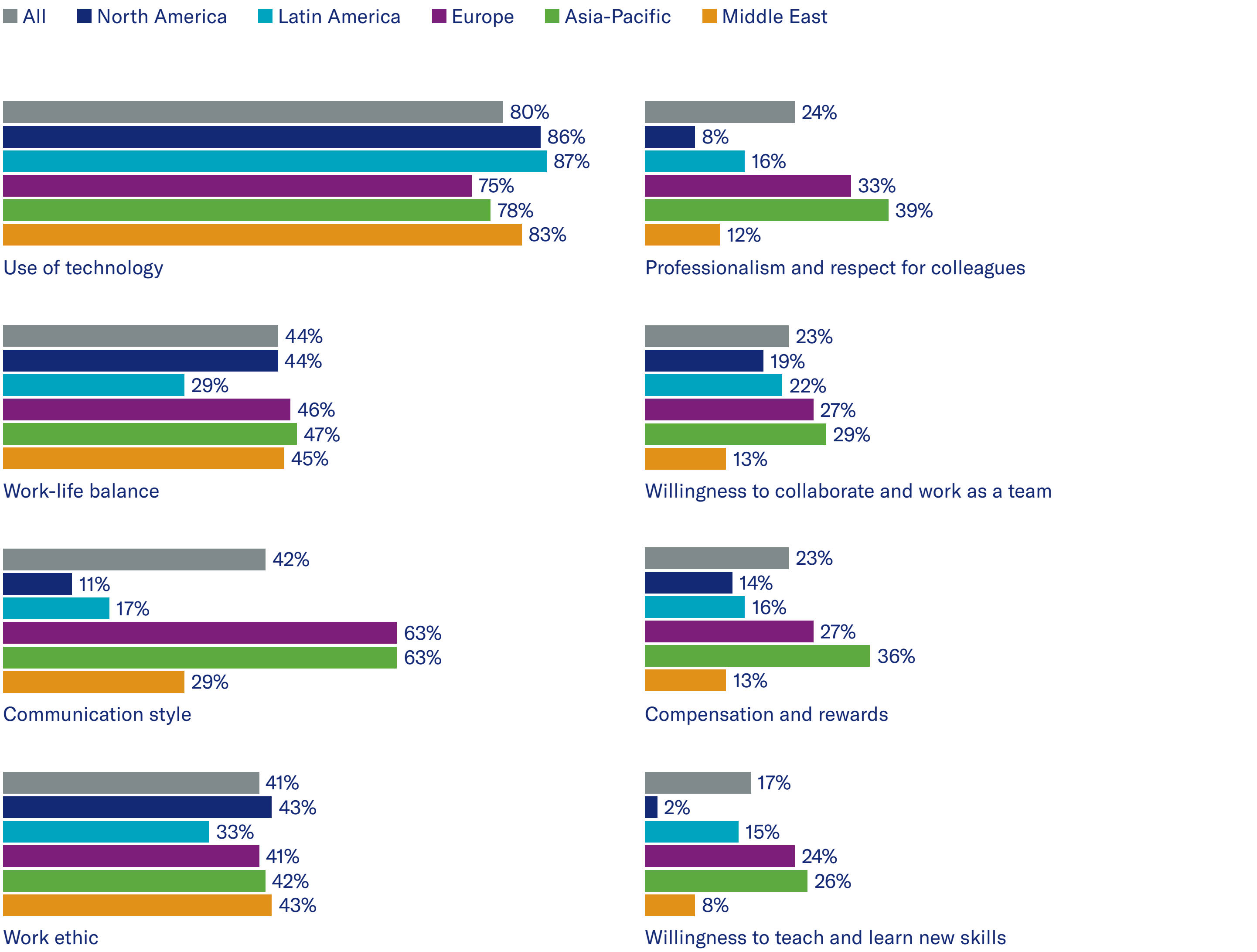
To attract and retain talent, respondents expect to make career development opportunities more readily available, and to make day-to-day work life more fulfilling, and comfortable. Companies plan to improve their physical workplaces by reconfiguring office space and providing more amenities (56%), as well as offering more flexible schedules and remote work opportunities (54%), as shown in figure 15. Half of respondents — 51% worldwide — expect to expand career development through relocation and geographic rotation programs. In Europe and Asia-Pacific, respondents are especially likely to use monetary rewards to attract and retain employees. This year, 54% of respondents from Europe are likely to raise compensation, led by Germany (63%) and the U.K. (60%). In Asia-Pacific, 62% are likely to do so, particularly in India and Singapore (67% in each country). In the Americas (14%) and the Middle East (19%), respondents are far less likely to take this approach. Similarly, improvements in health-, family-, and retirement-related benefits are especially likely to receive attention in Asia-Pacific (62%) and Europe (54%).

50%+

Respondents who say they'll improve physical workspaces, offer more flexible schedules, and expand career development programs.

Figure 16. Technology is a common source of conflict between age groups

Persistent sources of conflict or disagreement between various age groups of respondents' workforce, by region

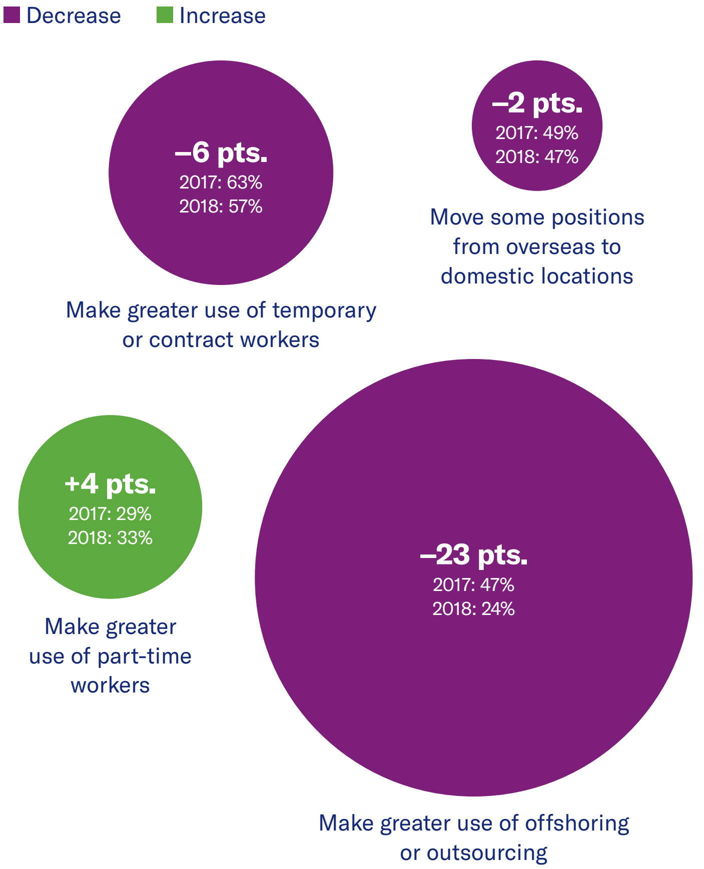


Source: Institutional Investor Custom Research Lab

The intergenerational workforce

With populations living longer, employees are working longer, and companies must manage various intergenerational and other constituencies in their workforces. Worldwide, 80% of respondents say the use of technology is the main cause of conflict between younger and older workers (See figure 16). No other factor is cited by a majority across the global response base. Respondents from Europe and Asia-Pacific are substantially more likely to encounter conflict tied to communication style, compensation and rewards, and professionalism and respect for colleagues and coworkers. Companies with workforces that have an average age of less than 40.3 years are more likely to report having problems with communication styles and work ethic, as well as professionalism and respect for colleagues. At companies with workforces that have an average age of more than 40.3 years, matters of work-life balance and the use of technology are cited more often as the sources of conflict and disagreement.

Figure 17. Temporary and contract workers remain important staffing tools, while interest in outsourcing falls
Percentage of respondents likely to use each practice to meet staffing needs



Source: Institutional Investor Custom Research Lab

Figure 18. By using temporary staff, companies scale their workforce to meet operating needs and avoid cost
Percentage of respondents selecting each reason for engaging contractors, freelancers, and temporary workers

Source: Institutional Investor Custom Research Lab

Meeting staffing needs

To meet staffing requirements, companies worldwide are likely to expand their use of temporary and part-time workers (57%) and to "onshore" (47%) by moving positions from overseas to domestic locations (see figure 17). Overall, respondents see the use of contractors, freelancers, and temporary workers as an important part of (55%) — but seldom central to (4%) — their employment strategies, a drop from 2017 and most dramatic in Europe (56%) and Asia-Pacific (56%).

When temporary workers are employed, it is most likely as a means to scale workforces to short-term operating needs. More than seven in 10 respondents cite cost flexibility as a principal reason for hiring contractors, freelancers, and temps (see figure 18). A solid majority engage such employees to cover for staff while on leave (63%), to avoid the cost and administrative burden inherent in full-time permanent employee relationships (60%), or to expand operations without making long-term commitments. ●

72% of respondents cite cost flexibility as a principal reason for hiring contractors, freelancers, and temps.

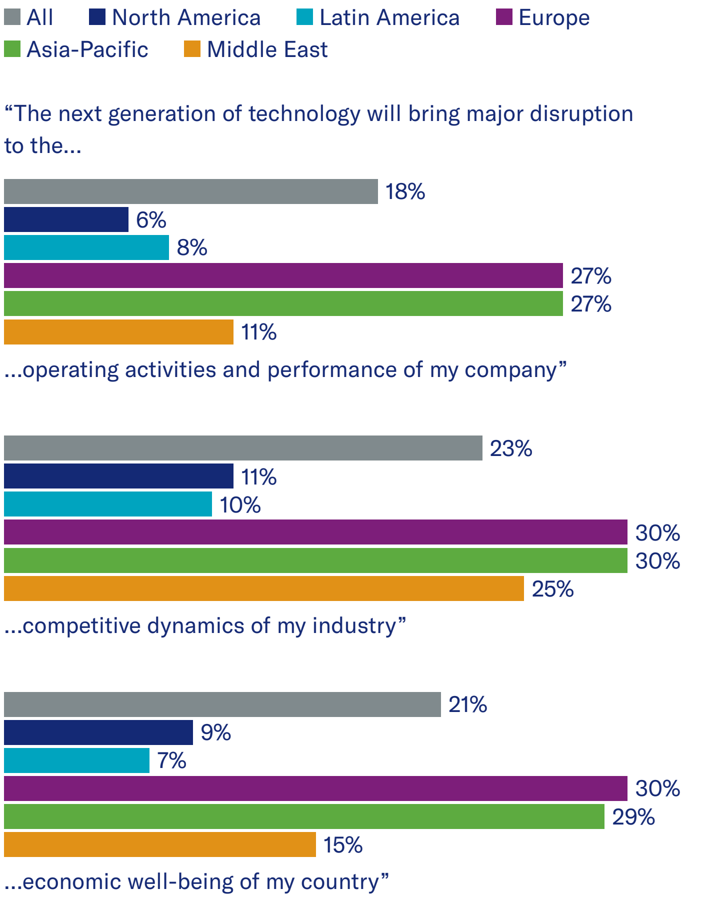
The Next Generation of Technology

Next-generation technology will bring disruption to respondents' countries, industries, and companies; artificial intelligence, as well as robotics and automation, are cited most often

Visionary finance executives have great interest in how next generation technologies might change the way they do their jobs and their company's future.

Across the entire response base, approximately one in five respondents anticipate that the next generation of technology innovations — which includes artificial intelligence (AI), embedded sensors and the Internet of Things, and innovation in robotics, biotechnology, autonomous vehicles, and energy, among others — will bring major disruption to their country, industry, or company. (See figure 19.) Industry dynamics, rather than national prosperity or company performance, are most likely to be disrupted, as new competitors, product offerings, and business models challenge market incumbents. Respondents from Europe and Asia-Pacific are notably more likely to anticipate major disruption (30%) from next-gen technology in the near term. Those from North America, Latin America, and the Middle East are less likely to expect disruptive effects from new technology over the next five years.

Figure 19. Anticipated effects of next-gen technology

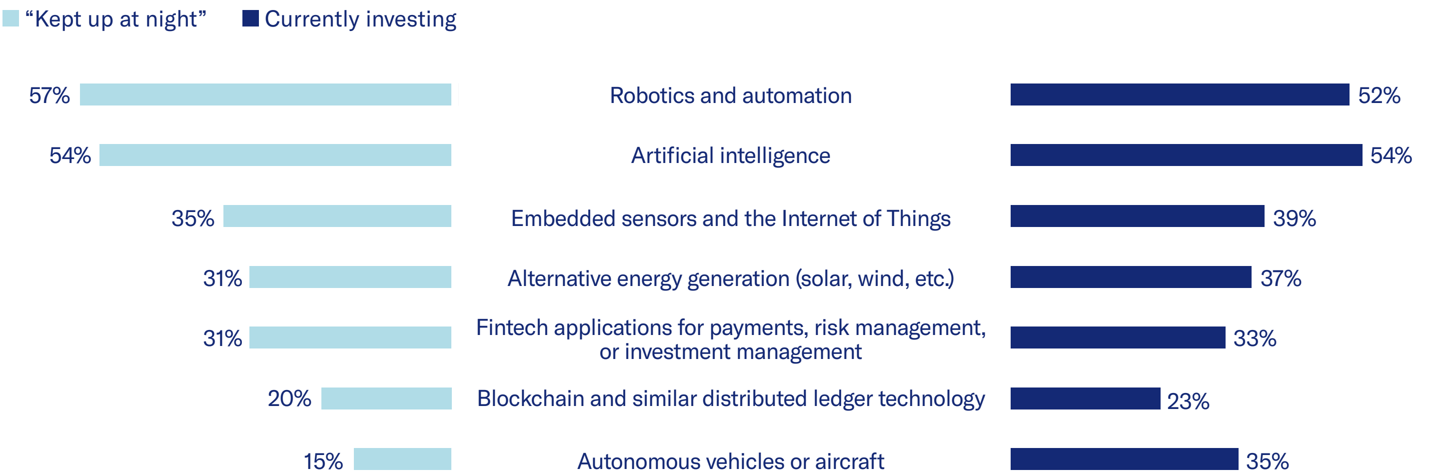


Source: Institutional Investor Custom Research Lab

20%

The approximate proportion of respondents that anticipate that the next generation of technology innovations will bring major disruption to their country, industry, or company.

Figure 20. Respondents are most likely to focus their thinking and investment on robotics and AI
Percentage of respondents "kept up at night" and currently investing in each technology category



Source: Institutional Investor Custom Research Lab

Asked about the technology that "keeps them up at night" and whether their companies had begun to invest in specific categories of innovation, 57% of respondents affirm they are most uneasy regarding robotics and automation (with 52% investing in it). AI is a source of concern for 54% (with 54% also investing in it). (See figure 20.) Less pressing are nascent technologies such as blockchain/distributed ledger, alternative energy, and others.

Respondents from several industries — wholesale/retail trade, health care, financial services/real estate/insurance, transportation and warehousing, and education — are especially likely to anticipate major disruption to their national economy, the competitive dynamics of their industry, and the operations and performance of their own companies.

Wholesale and retail trade, already greatly disrupted by technology, is likely to experience dramatic changes to its cost structure, sales, and workforce composition from further innovations in artificial intelligence and neural networks, dynamic pricing, and robotics. Further innovation in understanding customer preferences and strategic pricing is likely to extend the rise of retail and wholesale behemoths, and to continue the disruption of both the industry and the operating activities of its constituent companies. Senior finance executives in this sector are most focused on robotics and automation (68%), AI (52%), and alternative energy (36%).

Next-gen technology is expected to profoundly change health care industries, as new and more accessible medical technology brings higher quality health care to a vastly larger customer base, creating a healthier populace and a larger, and perhaps more competitive, health care sector. Technological innovations in diagnosis and treatment, and in delivery systems that are more economically sustainable, are likely to challenge both the competitive dynamics of the health care industry and the performance of companies in the sector. Senior finance executives in this sector are most focused on AI (66%), robotics and automation (51%), and embedded sensors (38%).

The innovation that next-gen technology has already brought to the financial services/real estate/insurance sector has been revolutionary, and respondents worldwide expect this disruption to industry dynamics will continue. Applications include product distribution and accessibility, lower costs, mass customization, risk management, back-office processing, robo-investing, and deeper analytics and intelligence. Not surprisingly, senior finance executives in this sector are most focused on fintech (58%), AI (45%), robotics and automation (33%), and alternative energy (33%).

Innovations in AI (56%), robotics and automation (50%), and embedded sensors (44%) are especially interesting to those in the transportation and warehousing industry. ●

Core technologies such as robotics and artificial intelligence are most likely to capture respondents' attention and investment.

Conclusion

A positive outlook, tempered by caution

The global economy is growing, and senior finance executives at companies around the world remain optimistic that growth will continue — although their confidence is somewhat tempered by caution. In the *2018 Global Business & Spending Outlook*, they indicate a new level of risk awareness and risk management focused on geopolitical risk, economic risk, cybersecurity risk, and the opportunities that next-generation technology could bring.

Overall, revenues are expected to be higher, and senior finance executives indicate that spending and investment will continue to grow in the year ahead, although it may be more strategic and directed to specific growth initiatives targeted at better serving customers and developing new products and services. Hiring across all functions is expected to continue. The top priority for technology spending is protection against data breaches, which is a notably greater focus this year among senior finance executives.

On the horizon is next-generation technology, but senior finance executives aren't waiting to take action. One in five anticipate major disruption from such innovations, especially from artificial intelligence as well as robotics and automation. More than half have already made investments in some of these technologies. The years ahead are likely to see tremendous innovations as companies have cash on hand and their leaders have a well-directed view of an expanding business environment. ●

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