

## Latin American CFO Survey: Strong Outlook for 2013

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### CFO SURVEY: LATIN AMERICAN OPTIMISM FALLS BUT REVENUE AND SPENDING REMAIN STRONG

Note to editors: For additional comment, see contact information at the end of this release.

DURHAM, N.C. – Optimism among chief financial officers fell in Latin America this quarter, with those growing more pessimistic outnumbering optimists by a two-to-one margin. The primary concern is weakening consumer demand. Latin American CFOs are also worried about the ability to maintain robust profit margins and attract qualified employees and as a result are planning to increase worker training. According to the findings, revenue, capital expenditures, and wages should all experience growth. A majority of CFOs indicated business corruption has a negative impact on their firms.

These are some of the findings of the most recent [Duke University/Fundação Getúlio Vargas/CFO Magazine Latin America Business Outlook survey](#). The quarterly survey, which concluded May 31, asked 1,112 CFOs around the world, including 280 from Latin America, about their firm's expectations and the economy. (See end of release for survey methodology.) The Latin American edition is a part of the Global Business Outlook Survey which has been conducted for 69 consecutive quarters. It spans Latin America, the U.S., Asia, Europe and Africa, making it the world's longest running and most comprehensive research on senior finance executives. Presented results are for Latin American firms unless otherwise noted.

#### SUMMARY OF FINDINGS

-- Forty-six percent of Latin American CFOs became more pessimistic about their country's economy this quarter, compared to only 24 percent that became more optimistic. Even with this reduced optimism however, Latin American CFOs remain the most optimistic in the world.

-- Latin American companies expect to increase their number of fulltime employees by 4.8 percent over the next 12 months. Many firms in Latin America say they are having difficulty finding employees with the right skill sets. Wages are expected to rise 6.5 percent.

-- Companies say their product prices will rise on average 2.5 percent due to inflation, less than what they expected last quarter when they expected an increase of 4.4 percent.

-- Two-thirds of Latin American CFOs say that corruption (for example, bribes or fraud) are significant problems in their country, leading to higher prices, reduced quality, less competition, and reduced government tax collections.

## FALLING OPTIMISM

Forty-six percent of Latin American CFOs say that they have become less optimistic about the economic prospects of their home countries, relative to their views last quarter. Although on average CFOs are a bit more pessimistic this quarter, some of them are still optimistic (24 percent).

"This waning optimism is consistent with weaker economic prospects for firms in Latin America and also for the global markets in which they operate," said Klenio Barbosa, an economics professor at Fundação Getúlio Vargas (FGV) in Brazil and co-director of the Latin American Business Outlook survey. "Interestingly, CFO optimism about their own firms increased, reaching the highest level since we have started the survey in Latin America. It suggests that many Latin companies are worried about the fundamental and government policies that has been in practice in the region", noted Barbosa.

Compared to CFOs around the world, Latin American CFOs are still the most optimistic. Latin CFOs rate their optimism at 66 on a scale of 0 to 100, greater than the 61 rating assigned by Asian and North American CFOs. European (3) and African (55) CFOs are more pessimistic about economic prospects on their continents.

## HIRING REMAIN STRONG; SHORTAGE OF SKILLED WORKERS

Hiring should remain strong with the number of full-time employees increasing by 5 percent in the next year. Wages should rise 6.5 percent. However, the large majority of Latin American firms (72 percent) have experienced difficulty in filling open job positions, most likely due to a "skills gap".

## TOP CONCERNS, INCLUDING SHORTAGE OF SKILLED WORKERS

The greatest concern among CFOs is maintaining robust profit margins. Latin American firms report difficulty in attracting and retaining qualified employees, the CFOs' second greatest concern.

"There continues to be somewhat of a mismatch between employee skills and company needs," said Gledson de Carvalho, a finance professor at FGV and co-director of the Latin American Business Outlook survey. "Fortunately, Latin American firms show that they are still willing to increase full-time and part-time employees."

## BUSINESS CORRUPTION

Results show business corruption (fraud or bribery, for example) hinders economic growth in many countries in Latin economies. One third of CFOs in the region say that corruption is a very significant risk to economic development, and another third view corruption as a moderate to significant risk. Comparatively, about 50 percent of CFOs in Africa view corruption as a very significant risk. In contrast, that number is 16 percent in Europe and 6 percent in the U.S.

This problem is more severe in Brazil and Colombia than in other Latin American countries. Fifty-nine percent of the Brazilian executives say that business corruption is very significant risk factor. Fifty-three percent of the CFOs in Columbia share the same view with the Brazilians. Whereas only 13 percent of Chilean executives say that business corruption is a significant risk factor.

"Corruption harms business development in fundamental ways: by increasing prices, reducing product quality, and reducing tax revenues collected by the government. Other negative effects include hindering expansion, hurting a company's reputation, and contributing to poor employee morale. Foreign companies are less likely to do business in a country that is known for having higher business corruption, also harming economic growth," said John Graham, a Duke University [Fuqua School of Business](#) finance professor and director of the survey. "Our survey also highlights the specific ways that corruption hampers economic growth."

#### EXECUTIVE PAY

Approximately 20 percent of Latin American firms (30 percent in Brazil) report that the level of executive pay at their firms came under scrutiny. In contrast, only one-in-ten U.S. and African firms have felt executive compensation pressure.

In those regions most affected, scrutiny of executive pay comes primarily from shareholders and boards of directors and only secondarily from regulators.

#### CASH HOLDINGS

Almost sixty percent of Latin American companies plan to spend from their cash hoards during the next year, notably higher than the 48 percent of companies in U.S. and Europe that plan to begin to spend their accumulated cash. Only 30 percent of Brazilian firms plan to begin to spend their cash holdings, which might indicate that many of the other 70 percent of firms are taking a precautionary stance in the face of uncertainty and slowing economic growth.

Please visit [www.cfosurvey.org](http://www.cfosurvey.org) for more results specific to the U.S., Asia, Europe, and Africa.

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Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at [www.cfosurvey.org](http://www.cfosurvey.org). You can watch Professor John Graham talk about the results in this video - <http://bit.ly/1bcDeI2>

About the survey: The Latin American Business Outlook is a quarterly survey of financial executives that is part of the Global Business Outlook survey. This is the 69<sup>th</sup> consecutive quarter the Duke University/*CFO* Global Business Outlook survey has been conducted. The survey concluded May 31, and generated responses from 1,112 CFOs, including 353 from the U.S., 257 from Asia, 153 from Europe, 280 from Latin America, and 69 from Africa. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil. The Japanese survey was conducted jointly with Takashi Yamasaki at Kobe University and Kotaro Inoue at Tokyo Institute of Technology. This is the first quarter for the African survey, which was conducted jointly with SAICA in South Africa. Results in this release are for U.S. companies, unless otherwise noted.

A wide range of companies (public and private, small and large, many industries, etc.) are polled, with the distribution of responding firm characteristics presented in online tables. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. The average growth rates are weighted by revenues or number of employees; for example, one \$5 billion company affects an average as much as ten \$500-million firms. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending and prices of products. Employee-weighted mean growth rates are used for health-care costs, productivity, number of employees and outsourced employment. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless noted, all other numbers are for all companies, including private companies.

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Fundação Getúlio Vargas (FGV) was founded in 1944. FGV is an educational center of quality and excellence that dedicates its forces to the intellectual development in Brazil. Its mission is to push the boundaries of knowledge in social sciences and related fields through the production and dissemination of ideas, data and information, as well as their preservation and systematic organization; to contribute to the country's social and economic development, improving the nation's ethical standards, promoting a responsible and shared government, and inserting the country into the international stage. For more information, visit [www.fgv.br](http://www.fgv.br).

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