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CFO SURVEY: CORPORATE SOCIAL RESPONSIBILITY LAGS IN U.S., OPTIMISM ABOUT U.S. ECONOMY GROWS

DURHAM, N.C. -- U.S. businesses trail their global counterparts in terms of how much importance they place on corporate social responsibility (CSR) and sustainability. Nearly half of U.S. chief financial officers rate CSR and sustainability as moderately important or very important items in their business strategies. By contrast, the rating in Europe is 63 percent, 67 percent in Asia, 76 percent in Latin America and 83 percent in Africa.

Also, optimism among CFOs about the U.S. economy is now above the long-run average for only the second time since 2007.

These results and other analysis of business corruption, cash hoarding and executive pay are some of the findings from the latest Duke University/CFO Magazine Global Business Outlook Survey, which concluded May 31. The survey has been conducted for 69 consecutive quarters and spans six continents, making it the world's longest running and most comprehensive research on senior finance executives. Presented results are for U.S. firms unless otherwise noted.

"In the U.S., companies are split on the importance of corporate social responsibility," said survey director John Graham, a professor of finance at Duke's Fuqua School of Business. "While concern about CSR has undoubtedly increased in the U.S. during the past decade, our results indicate that these objectives have not permeated the entire corporate sector."

The survey also asked CFOs why firms focus on CSR. Two-thirds of U.S. companies that consider CSR an important objective list "it's the right thing to do" as one of their top three reasons for engaging in CSR, followed by improving external image and brand (61 percent), improving employee morale and hiring (49 percent), and in response to legal or regulatory requirements (28 percent.)

The survey also asked European CFOs whether and how their companies track social responsibility. About 44 percent of European CFOs say their firms track such efforts, more than half well beyond the minimum legal or regulatory requirements. Among firms that do not track CSR, the most common explanations are lack of resources, and not sensing demand from stakeholders to do so.

OPTIMISM, SPENDING AND HIRING

CFO optimism about the U.S. economy has rebounded this quarter. The U.S. Business Optimism Index rebounded to 61 on a scale from 0 to 100, well above last quarter's reading of 55 and also above the long-run average index value of 59. Latin American CFOs are the most optimistic in the world (66, down from 69 last quarter), followed by Asian business leaders (62). African (56) and European (53, same as last quarter) CFOs are less optimistic about the future.

Despite the jump in optimism about the overall economy, U.S. companies plan only moderate increases in business spending (planned increase of 6 percent over the next 12 months, up from 5 percent last quarter) and full-time domestic employment (up 1 percent, not enough to significantly affect the unemployment rate.)

"It's noteworthy that, in the U.S., CFOs' perceptions of their own companies' prospects are remaining stable, but aren't surging forward as quickly as their perceptions of the broader economy," said Celina Rogers, vice president of research at CFO Publishing. "This may be an indication that companies are being cautious about their own plans until they have more assurance that the economic improvement they expect to see will last."

Japan stands out as the only major economy in which the outlook for the country's economy (63) is much higher than the own-firm outlook (55.) "This most likely reflects the very positive impression that the business community has of new Prime Minister Shinzo Abe and his aggressive monetary policy and fiscal spending," added Graham. "One concern, however, is Japanese firms expect the prices of their own products to decline this year, counter to the goal of government policy."

Full-time domestic employment is expected to fall by 2 percent in Europe and increase by 0.2 percent in Asia. In contrast, employment in Latin America and Africa is expected to increase by more than 5 percent.

BUSINESS CORRUPTION

Business corruption (fraud or bribery, for example) hinders economic growth in many developing economies. Half of CFOs in Africa say that corruption is a significant risk to economic development, as do more than one-third of Asian and Latin American financial executives. An additional one-third of CFOs in these developing regions say corruption is a moderate problem. In contrast, 16 percent of European CFOs and 6 percent of U.S. executives say that business corruption is a significant risk factor.

"While it might be expected that corruption is 10 times more prevalent in Africa than in the U.S., it is surprising that it is almost three times as prevalent in Europe than in the U.S.," said Campbell Harvey, a Fuqua finance professor and founding director of the survey. "Our survey also highlights the specific ways that corruption hampers economic growth."

CFOs say corruption harms business development in fundamental ways: by increasing prices, reducing product quality and reducing tax revenues collected by the government. Other 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 known for having higher business corruption, which also harms economic growth.

"Most areas of the world have a long way to go to reach the low levels of corruption in North America," added Harvey. "Pervasive corruption increases business costs both directly and indirectly -- leading to lower investment and employment. For a country to realize its full growth potential, it must tackle corruptive influences head-on."

CASH HOLDINGS

Forty-eight percent of U.S. and European companies plan to spend from their cash holdings during the next year, fewer than the 60 to 70 percent of companies in most emerging economies that plan to begin spending their accumulated cash.

Among businesses that will unleash cash, the most common uses of the cash will be for capital spending, acquisitions, paying down debt and increased hiring. Asian firms will also use cash to fund research and development, U.S. firms will use cash to increase payout to shareholders and European companies will use it to cover operating losses.

Among companies that will not begin to spend their cash holdings, the most common reasons are concerns about credit markets potentially tightening, extreme economic uncertainty and a lack of attractive investment opportunities.

EXECUTIVE PAY

Approximately one-in-five European, Asian and Latin American firms (30 percent in Brazil) report they have felt external pressure to reduce executive pay. In contrast, only one-in-10 U.S. and African firms say they 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.

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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.

About the survey: This is the 69th 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.

The Duke University/*CFO* Global Business Outlook survey polls a wide range of companies (public and private, small and large, many industries, etc.), with the distribution of responding firm characteristics presented in online tables. The responses are representative of the population of CFOs that are surveyed. Confidence ranges are reported in the online top line and banner tables for most of the numeric variables. A typical confidence range is less than one percentage point (e.g., capital spending is expected to increase by 6.1 percent with a 95 percent confidence range of 5.8 percent to 6.3 percent, which is a 0.5 percent confidence interval).

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 10 $500-million firms would. 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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