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European CFO Survey Autumn 2018:
Winter is coming

Contents

Foreword

Welcome to the eighth edition of the Deloitte European CFO Survey, which presents insights on market and business sentiment from CFOs across 20 countries in Europe. Economic and political events in the past few months have dented the confidence of CFOs, although their expectations for the next few months remain fairly positive – particularly among CFOs in countries within the euro area. However, structural rather than cyclical trends seem to be driving strategic direction among CFOs. With the lack of skilled labour still a big concern for CFOs, the special questions in this edition of the Survey investigate the type of skills shortages that exist and the strategies currently used to address the issue.

The European CFO Survey is an important part of the Deloitte EMEA CFO Programme, an initiative which brings together multidisciplinary teams of senior Deloitte professionals and subject matter experts across Europe to help CFOs effectively address the challenges and demands of their role. It is important that we have a clear understanding of what CFOs see as their primary concerns and focus areas. The Deloitte EMEA CFO Programme helps inform, develop, empower and connect the CFO community across the region. It does this through initiatives such as the Deloitte Next Generation CFO Academy and CFO Transition Labs, geared to assist CFOs in executive transitions and transformations. If you would like further information please contact the programme leader in your country.

We would like to thank all the CFOs who took the time to participate in this edition of the Deloitte European CFO Survey. We hope that these insights bring an interesting dynamic to your discussions.

Alan Flanagan
Partner, EMEA CFO Programme Lead

Executive summary

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Economic and political events over the few past months have dented the confidence of CFOs across Europe, so that on balance they have become more pessimistic than they were at the beginning of the year. An increasing number of CFOs perceive the external financial and economic environment as highly uncertain, and their willingness to take risk on to the balance sheet is less than it was six months ago.

Despite the deteriorating mood, expectations for the future remain fairly positive. In particular a majority of CFOs remain willing to invest and to add to their workforce – although in this respect, the views of CFOs in countries inside and outside the euro area differ substantially: CFOs in the euro area are more bullish.

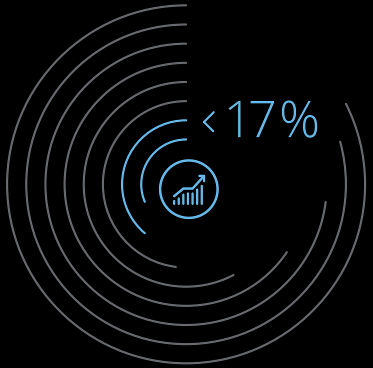
Accordingly, the perceived risks and strategic priorities among CFOs have not changed dramatically compared to the Spring 2018 survey. Although concerns relating to geopolitical risks and the economic outlook have greater prominence in the thinking of CFOs, skilled labour shortages remain the greatest perceived risk. Furthermore, a majority of CFOs continue to prioritise expansionary strategies.

Rather than cyclical factors, there may be a structural reason for this expansionary strategic direction, namely the need to keep pace with technological change and disruptive competitors. This would explain the greater focus on developing new products and services and on digitalisation. CFOs seem to be keeping their eyes on the longer term, although with clouds gathering over the economic and political landscape it could prove increasingly difficult to strike a balance between the short and the long term.

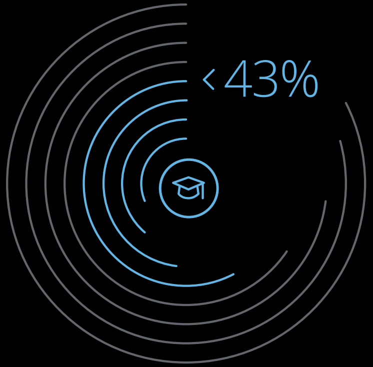
This edition of the survey focuses on skills shortages and looks to better understand the kind of shortages that companies are currently experiencing, and what they are currently doing to address this issue. Most CFOs report a shortage of workers with the required technical knowledge and work experience – although in countries with particularly tight labour markets the main concern is an overall lack of workers, rather than a lack of specific skills. In companies, the workforce is perceived as under-skilled, explaining why wages have failed to pick up despite tight labour markets: under-skilled workers cannot be as productive as they should and poor productivity tends to suppress wage growth (see also Deloitte's '**Monday Briefing**').

Meanwhile, companies are addressing the issue of labour shortages in various ways: increasing automation, offering a more attractive working environment and tapping into a broader network of workers external to the company. Outsourcing and offshoring of business processes – two strategies that just a decade ago were the typical response to bottlenecks in labour markets, are not popular anymore. Rising uncertainties about the future of international trade jeopardise global supply chains and outsourcing agreements, providing an additional push towards more automation. Trade wars might bring home factories - they do not necessarily bring home the same jobs that have been outsourced.

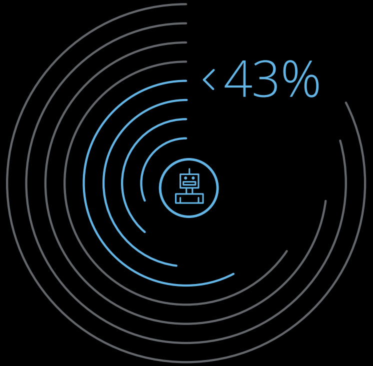
Only a minority of CFOs report that their company is looking into non-traditional labour pools, such as older workers or returning parents. With ageing and shrinking labour pools in Europe, that could be a strategic misjudgement in the medium term.



A net balance of 17% of CFOs plan to increase their capital expenditure over the next 12 months.



43% of CFOs report their company has difficulties finding people with the appropriate technical knowledge.



43% of CFOs report their company uses increased automation to a large extent to address shortages of skilled labour.

01 The economic landscape

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An outlook on the last six months

MARCH

23 March
US tariffs on aluminium and steel go into effect

31 May
Italy's populist parties win approval to form government

JUNE

13 June
US FED raises interest rates

14 June
ECB announces the end of the bond-buying programme

22 June
EU retaliates on US tariffs

7 July
UK cabinet presents a plan on EU future deal

2 August
Bank of England raises interest rates

SEPTEMBER

9 September
Swedish general election delivers a hung parliament

24 September
US imposes tarifs on $200 billion of Chinise imports

Financial · Political · Trade

Macroeconomic update

At the beginning of 2018, the world economy looked in good shape. 2017 ended on a high note and economic activity was expected to remain strong over the coming year. There had been a rebound in trade, investments and industrial production. The announcement in March of a deal on the terms of a transition period eased fears of a post-Brexit cliff edge, raising hopes that a wider deal with the UK would soon be achievable.

Since then many things have happened. Most central banks have become less concerned about economic weakness and more worried about inflation, and have started tightening monetary conditions, although at different speeds. While the US Federal Reserve has increased its interest rate already three times this year, the Bank of England has done so only once. And while the European Central Bank announced that its bond-buying programme would end in December, the first rate increase will probably not come until late in 2019. The faster pace of interest rate hikes by the US Federal Reserve has strengthened the dollar against other currencies – making dollar-denominated debt costlier to service for emerging markets, increasing their financial pain. Argentina and Pakistan have sought a bail-out from the International Monetary Fund (IMF). The Turkish economy is also in distress, accentuated by a geopolitical dispute. International friction has materialised in other ways too over the past few months. The trade skirmishes that began in March 2018 have since then evolved into a more substantial trade war. US tariffs now cover $200 billion of Chinese imports, while retaliatory measures by China cover $60 billion of US goods. The European Union and Russia imposed import duties on US goods in response to US tariffs on steel and aluminum (**Peterson Institute for International Economics**). The atmosphere in world trade is currently rather tense.

From a political perspective, recent months have seen an increase in uncertainty. In Italy the new populist government has made costly promises to voters and threatened to unwind previous pension reforms. A showdown with the European Commission seems probable, which in a worst-case scenario might put the euro under stress. There has been political unrest in other countries as well. In Germany the governing coalition experienced serious internal disagreements over the summer. In Sweden, the general election in September delivered a hung parliament, with a populist political party gaining traction. As for Brexit, a succession of good and bad news has been a feature of the past months, without any clarity emerging yet about the way forward.

With so many downside risks materialising, it is no wonder that the latest **IMF World Economic Outlook**[1] (October 2018) trimmed the growth projections for the current year and the next.

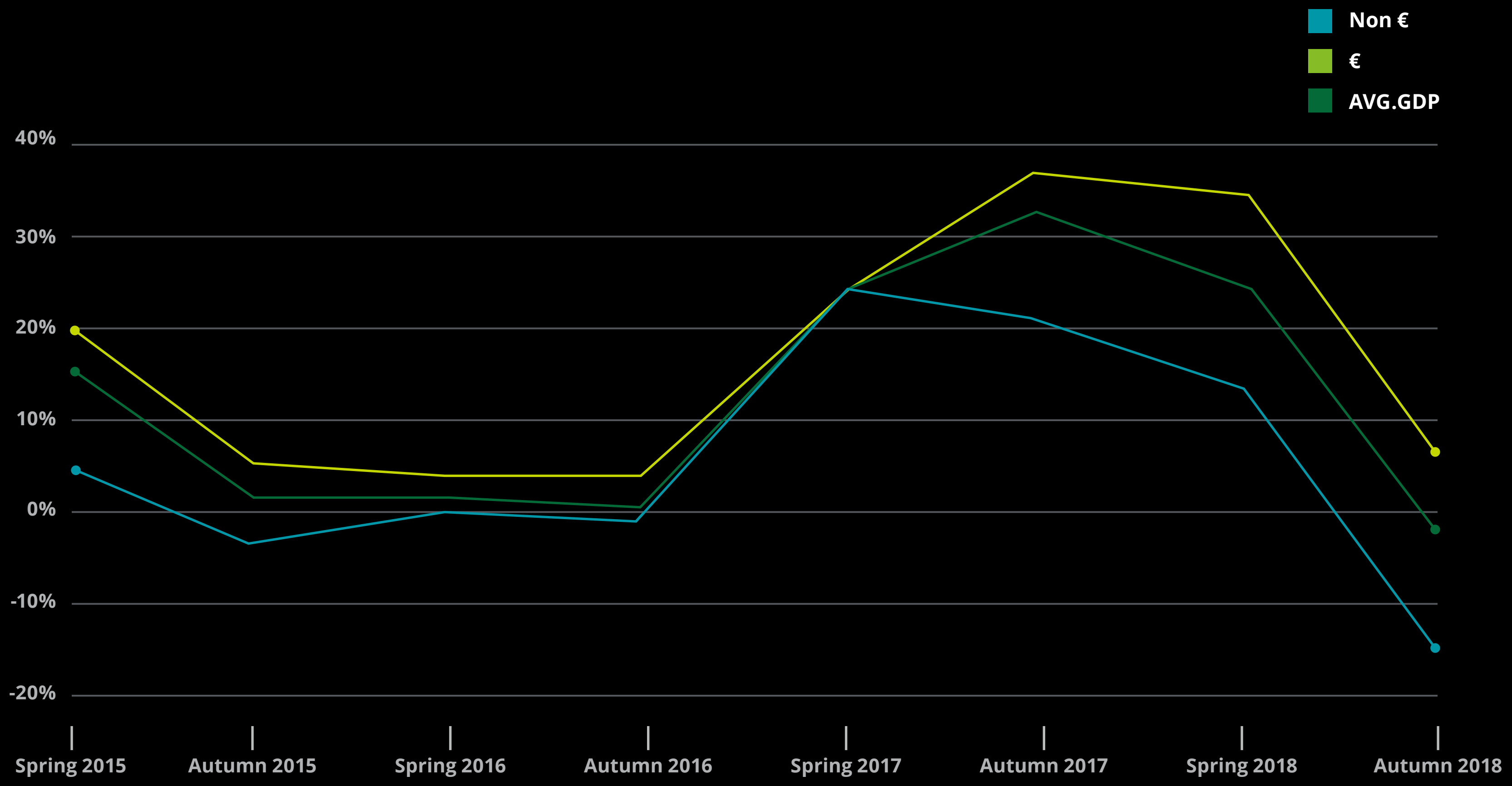
Even so, economic growth in many European countries is forecast to remain steady for a while and above its medium-term potential. In the euro area in particular, private consumption and a strong labour market have been the main drivers of growth – making the economic recovery fairly resilient against external risks (**Deloitte Insights, Global Economic Outlook**)[2]. However, although an economic recession in Europe is unlikely to happen soon, it is perhaps time to use the favourable current conditions to prepare for the worst. Winter is coming - but this isn't the coldest winter yet.

02 Cloudy with a chance of rain

Losing confidence

Chart 1 / Financial prospects over time (net balance %)

Compared to three months ago, how do you feel about the financial prospects for your company?*



The net balance of CFOs feeling more confident about the financial prospects for their companies compared to three months ago dropped by 28 percentage points (pp) since the previous edition of the **European CFO Survey** in Spring 2018.

The proportion of CFOs feeling less optimistic more than doubled, from 12% to 26%, while the proportion feeling more optimistic fell from 38% to 25%. As a consequence, for the first time since the inaugural survey in Spring 2015, the net balance between those more optimistic and those more pessimistic is now negative (-2%). The drop in confidence among CFOs is similar both inside and outside the euro area (-27 pp and -29 pp respectively).

Outside the euro area, a fall in confidence was already apparent in the Autumn 2017 survey, and optimism among CFOs has been substantially lower than in the euro area since then. So while inside the euro area the net balance is still positive (8%) and above the lowest value reached in Autumn 2016, the net balance reached a record low of -16% in the countries outside the euro area. Altogether, the gap in sentiment that opened up at the beginning of 2017 remains and CFOs in the two areas continue on average to show different levels of confidence (Chart 1).

*Note: To explore the results country by country, please view the interactive graphs at: **www.deloitte.com/europeancfosurvey**

Chart 2 / Financial prospects (net balance %)

Compared to three months ago, how do you feel about the financial prospects for your company?*

Confidence dropped in all countries in the sample, except for Greece, where the net balance actually increased by 3 pp. Greece is now the country with the highest net balance of CFOs feeling more confident about the future compared to the recent past.

In Turkey, at the other end of the spectrum, the net balance of CFOs feeling more optimistic about the financial prospects for their company fell by 71 pp. Clearly, sharp currency depreciation and the rising interest rates accompanied by inflation figures at their 15 year peak are weighing negatively on CFO sentiment. In the UK, CFOs are almost as pessimistic as they were in the survey following the Brexit referendum (Autumn 2016). Interestingly, the drop in confidence (by 26 pp compared to the Spring 2018 survey) happened at a time of relatively positive news about economic activity, with unemployment at its lowest level since 1975 and economic growth strong enough to persuade the Bank of England to raise the interest rate in August. It therefore seems that the uncertainty around Brexit and the real possibility of a no-deal outcome is outweighing the more positive news on growth.

The change in the current mood is also visible in the perceived level of uncertainty and in the willingness of CFOs to take risks. A net balance of 55% of CFOs consider the current level of financial and economic uncertainty to be high, an increase of 11 pp compared to the Spring 2018 edition of the survey.

*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey
*Note: In Denmark, Finland, Norway, Italy and Poland the question specified a six-month period.

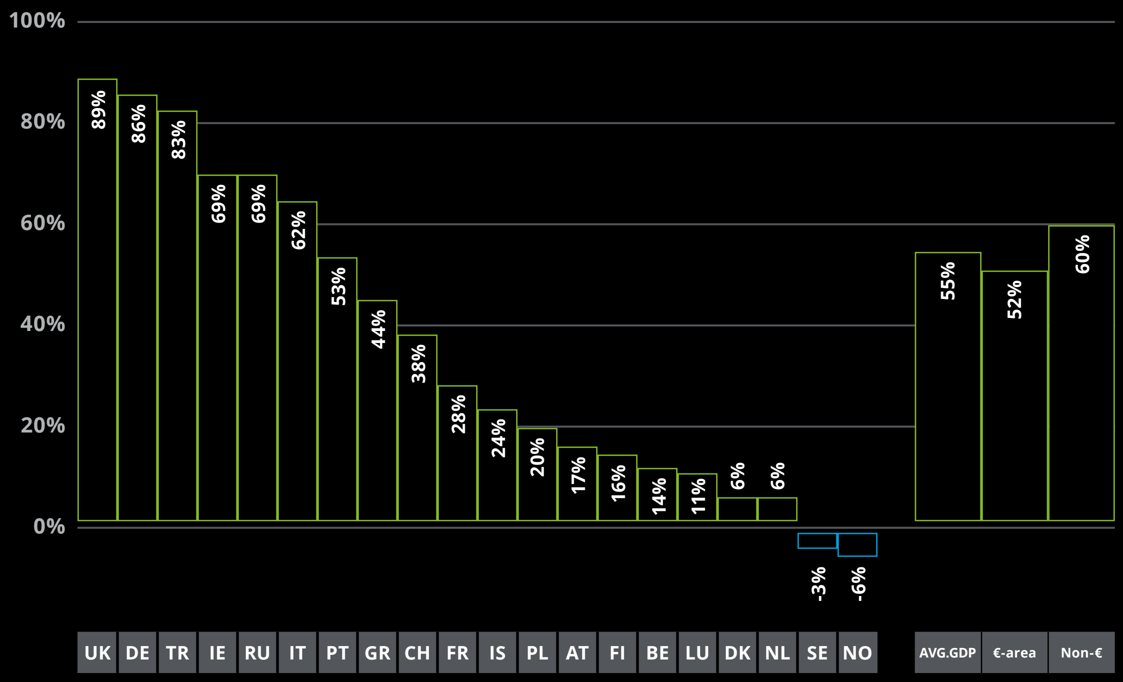
Perceived uncertainty increased more among CFOs in the euro area

Although CFOs in countries within the euro area on average continue to perceive a lower level of uncertainty compared to their peers outside the euro area, the gap narrowed compared to the Spring 2018 survey (Chart 3) – driven mainly by recent developments in the political landscape. The perceived uncertainty increased particularly in Ireland (+45pp) - reflecting concerns around the effect of US trade policy on Irish trade with the US and the European Union, as well as concerns surrounding the Brexit agreement and the unresolved question of the border with the UK. Also in Italy, where the new government entered into a dispute with the European Commission and pushed through legislation to overturn previous labour market reforms – the level of perceived uncertainty increased for the second survey in a row. Italy is now the only country in the euro area where the net balance of views about uncertainty is at its highest level since the beginning of the CFO Survey series. Greece is the only country where the mood is less frightened: compared to the previous edition of the survey fewer CFOs consider the level of uncertainty around them to be high (a drop of 37 pp).

CFOs in countries outside the euro area have mixed feelings. Uncertainties and tensions around domestic and international affairs are particularly high among CFOs in the UK, Turkey and Russia. In contrast, recent macroeconomic and political events have not affected CFOs in Norway and Sweden, and the perceived uncertainty among them has been declining since Autumn 2016.

Chart 3 / External financial and economic uncertainty (net balance %)

How would you rate the overall level of external financial and economic uncertainty facing your business?



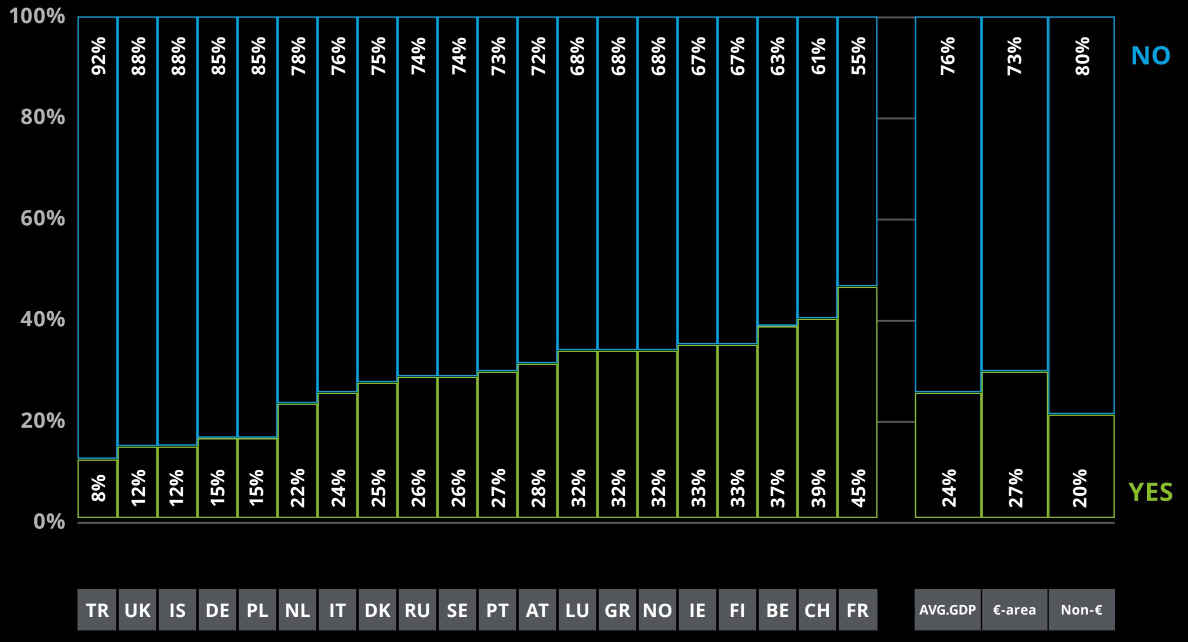
*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey

CFOs more cautious about taking risks

CFOs are becoming more cautious about taking risks. Almost one in four CFOs (24%) consider this a good time to take greater risk on to their balance sheets, resulting in the lowest negative net balance (-52%) since the inaugural European CFO Survey in Spring 2015. The gap between the risk appetite of CFOs inside and outside the euro area, first recorded in the Autumn 2017 survey, has narrowed. The net balance dropped by 27 pp among CFOs within the euro area and by only 9 pp among CFOs in European countries outside. Again, the only bright spot is Greece, where the net balance of CFOs willing to take on more risk increased by 12 pp and it is now at its highest level since the data collection in Greece began (Spring 2016). The official end to nearly 10 years of bailouts seems to have boosted overall confidence among CFOs. Only CFOs in Greece showed an increase in optimism and greater willingness to take on risk, as well as demonstrating the largest fall in perceived uncertainty compared to the Spring 2018 edition. Greece can finally start to focus on growth again.

Chart 4 / Risk appetite (net balance %)

Is this a good time to be taking greater risk on to your balance sheet?*



*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey

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03 A sunny outlook despite the gloom

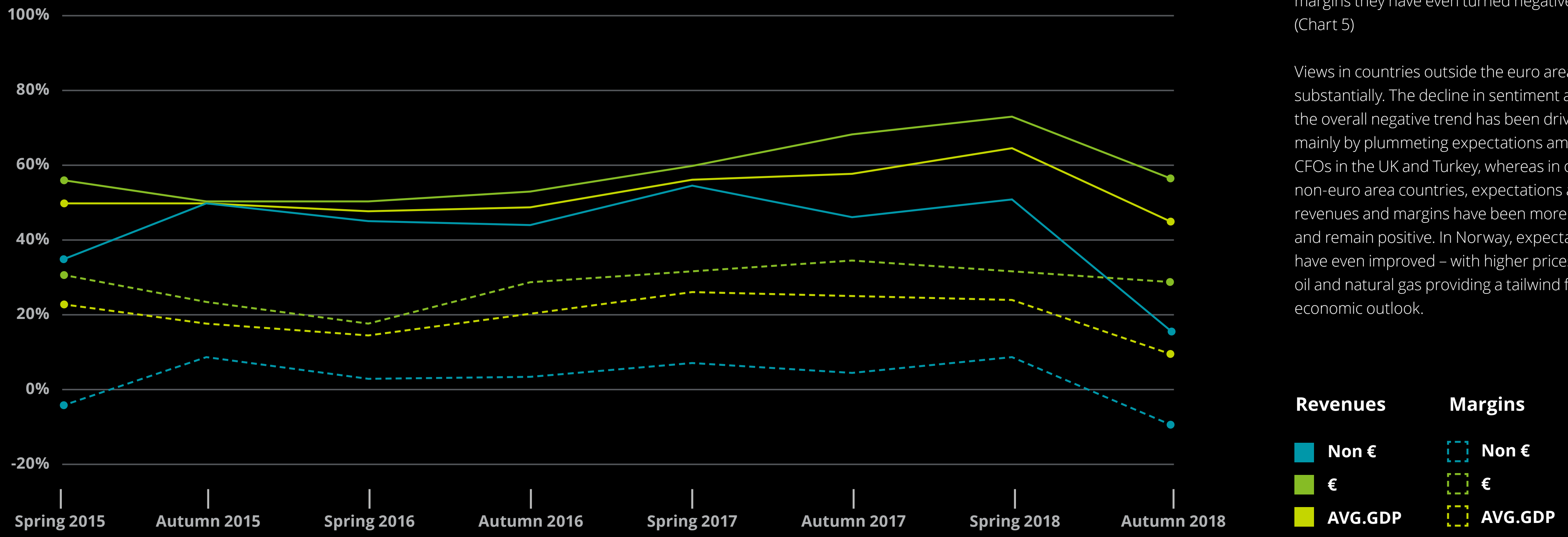
Expectations drop more for revenues than operating margins

While overall CFO sentiment about the current economic situation is quite gloomy, their outlook for the next 12 months is a bit more positive, particularly in the euro area. While the net balances declined substantially, they remain positive – meaning that more CFOs expect an improvement than a deterioration in revenues, profits, capital expenditure and jobs.

Expectations among CFOs continue to be positive for both revenues and operating margins. Overall, a net balance of 41% of CFOs expect the revenues of their companies to grow, and a net balance of 12% expect their operating margins to improve over the next 12 months. However, while the net balance for revenue expectations fell by 22 pp compared to the previous edition of the survey, the drop in expectations for profit margins has been smaller (-11 pp).

Chart 5 / Revenues and margins over time (net balance %)

In your view, how are revenues/margins for your company likely to change over the next 12 months?*



For both revenues and profits, expectations differ between CFOs inside and outside the euro area. CFOs within the euro area are more positive about the future. For both metrics the net balance remains positive and well above the lowest level reached in Spring 2016. In contrast, the expectations of CFOs outside the euro area for both revenues and margins are at their lowest level since the beginning of the CFO Survey series in 2015 and for operating margins they have even turned negative. (Chart 5)

Views in countries outside the euro area vary substantially. The decline in sentiment and the overall negative trend has been driven mainly by plummeting expectations among CFOs in the UK and Turkey, whereas in other non-euro area countries, expectations about revenues and margins have been more stable and remain positive. In Norway, expectations have even improved – with higher prices for oil and natural gas providing a tailwind for the economic outlook.

*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey
*Note: In the UK CFOs were asked, "How are revenues/margins for UK corporates likely to change over the next 12 months?"

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Investments and hiring expectations remain high

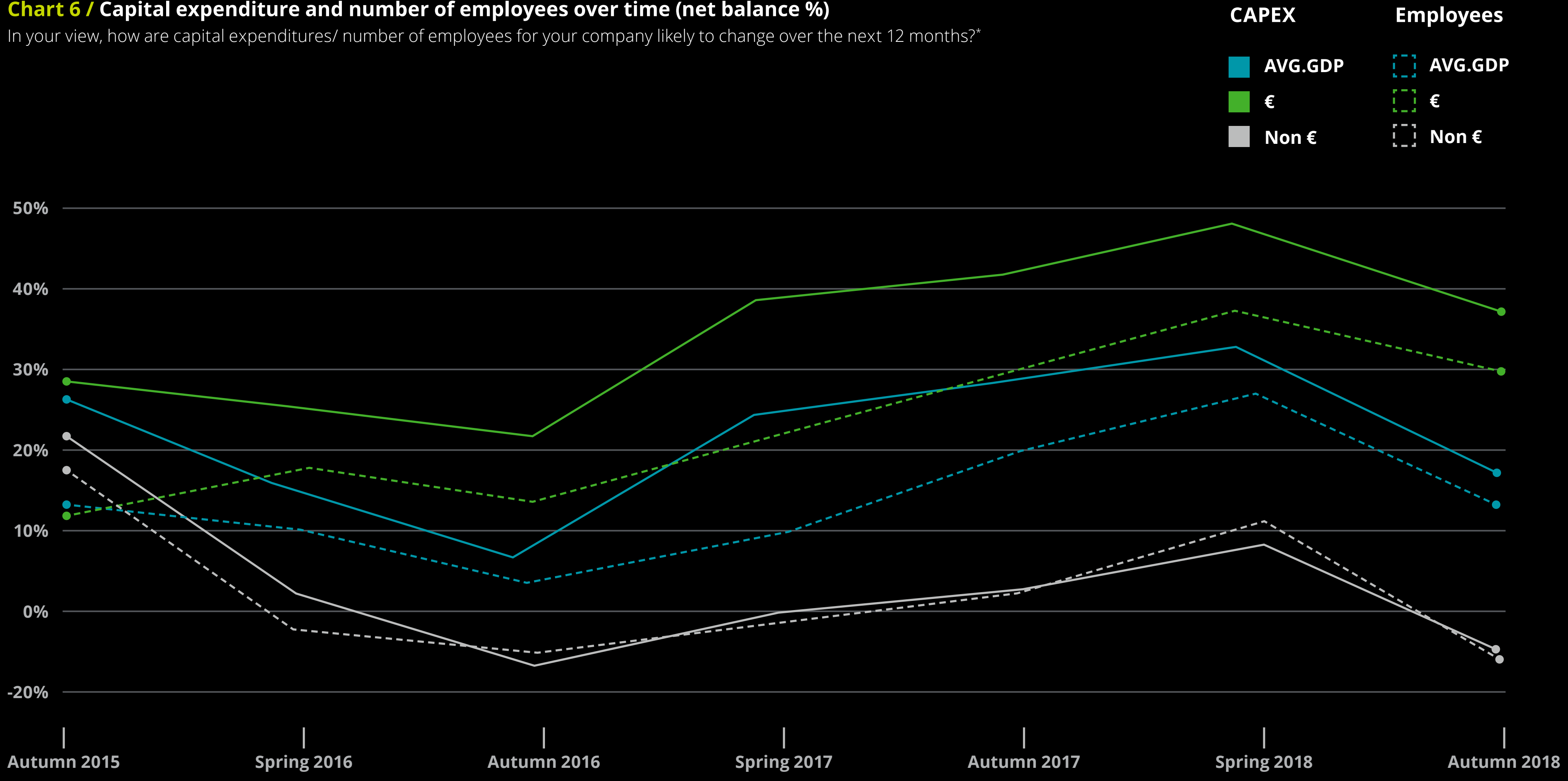
Investment and hiring intentions on aggregate remain positive, although lower than in the Spring 2018 Survey (**Chart 6**). A net balance of 17% of CFOs plan to increase their capital expenditure (Capex) over the next 12 months (down by 15 pp), whereas a net balance of 13% of CFOs expect employee numbers to increase (a fall of 12 pp).

Again, the outlook for both investment and jobs remains more positive in euro area countries, but as with expectations about revenues and margins, the negative aggregate expectations of CFOs outside the euro area are driven mainly by a large drop in the net balances for both Turkey and the UK. Hiring intentions in the euro area have slipped only marginally (by 4 pp) and the net balance is still higher than one year ago. As companies are planning to increase the size of their workforce in a relatively tight labour market (the unemployment rate in the euro area is at its lowest level since 2008), wages will necessarily start rising over the next months. CFOs however expect a drop in revenues rather than a drop in operating margins.

It therefore seems that they are planning to pass part of their higher labour costs on to their customers in order to protect their margins and as a consequence are expecting a drop in their revenues. If that is the case, the survey results provide evidence that inflationary pressures are building up in the euro area. The process might however take quite some time – unless CFOs are not alert yet to this development. On average, CFOs expect an inflation rate in the euro area of 2.04% - close to the current inflation rate.

Chart 6 / Capital expenditure and number of employees over time (net balance %)

In your view, how are capital expenditures/ number of employees for your company likely to change over the next 12 months?*



*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey
*Note: In the UK CFOs were asked, "How are capital expenditures/the outlook for hiring for UK corporates likely to change over the next 12 months?"

Chart 7 / Capital expenditure and number of employees by industry (absolute change to Spring 2018 in pp)
In your view, how is capital expenditure/number of employees for your company likely to change over the next 12 months?*

How have hiring and capex intentions changed within industries?

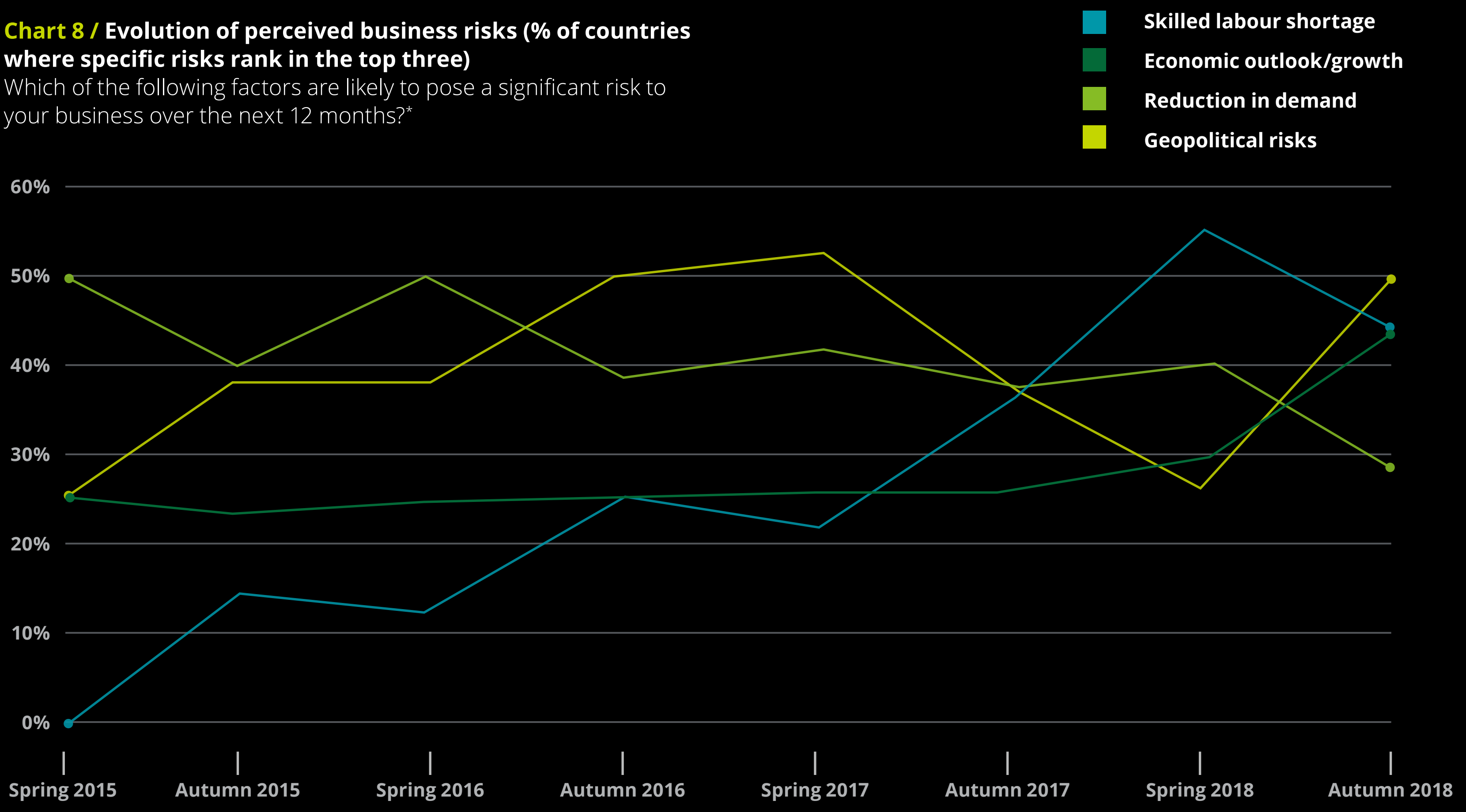
In many industries CFOs have revised downwards their expectations about capital expenditure and the number of employees, but that is not the case everywhere. Two industries are worth mentioning in this respect. In the energy, utilities and mining sector CFOs have revised upward both their capex and hiring intentions. Oil prices have increased and in September they hit a four-year high - as US sanctions against Iran and outages in Venezuela will lead to supply shortages. For CFOs in this industry it is therefore a good time to expand the payroll and to invest capital.

CFOs in the transport and logistics sector, on the other hand, have reduced their hiring intentions dramatically (at 17% the net balance is still positive but 29 pp lower than in the Spring 2018 Survey), but a net balance of 46% of CFOs plan to increase their capital expenditure – the highest net balance across all industries. It is telling perhaps that in this industry CFOs report a lack of workers in total rather than a shortage of specific skills (see the chapter "*Searching for an umbrella of talent*"), suggesting that a substitution of (scarce) labour with capital may be taking place.

*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey

Geopolitical risks are back on top, but skilled labour shortages remain a concern

Chart 8 / Evolution of perceived business risks (% of countries where specific risks rank in the top three)
Which of the following factors are likely to pose a significant risk to your business over the next 12 months?*



*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey

There has been a steady increase over past editions of this survey in the number of CFOs who mention 'skilled labour shortage' as one of the main risk factors to their businesses. In the Spring 2018 edition it was one of the top three concerns in more than half the countries surveyed. In this edition concerns about geopolitical risks have overtaken the shortage of skilled labour and were among the top three risks mentioned in half of the countries. CFOs also appear to be increasingly concerned by the general economic outlook: it was mentioned this time by CFOs in nine out of the 20 participating countries (Chart 8).

Given the developments that occurred over recent months, it is not surprising to see geopolitical risks and economic uncertainties gain prominence in the thinking of CFOs. However, a lack of skilled labour remains among the top three concerns and is the risk that most often ranks number one. This further supports the idea that this is a long-term concern for companies, which is unlikely to disappear even when the economic cycle goes into reverse.

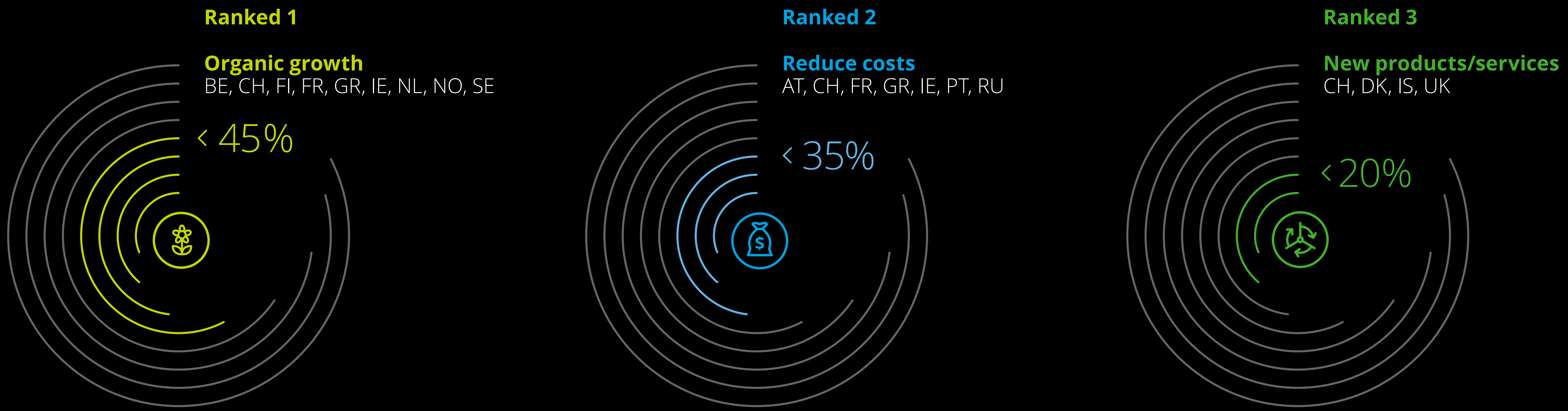
Heightened concerns about a reduction in demand were among the top three risks in six countries – two less than in the previous edition – supporting the general view that although the mood has changed and CFOs now see more clouds on the horizon, economic growth in Europe will remain steady at a less vigorous pace.

Strategic priorities: running to stand still

CFOs are putting more emphasis on expansionary strategies. In 14 out of 20 countries – three more than in the previous edition – they included more expansionary strategies than defensive ones among their top three. 'Organic growth' continues to be the preferred expansive strategy. At first glance, that may seem surprising, given the recorded drop in confidence and cooling expectations about the near future. However, it is consistent with the more general picture of CFOs getting more wary but not in despair. Furthermore, if the next recession is in the making, CFOs might want to use this window of opportunity (while growth is still positive) to adopt expansionary strategies and prepare their companies for worse times ahead. There may be another reason why CFOs prefer to stick to expansionary strategies at the moment - technological change. Even if we might now have reached the peak of the economic cycle, companies must keep pace with technological change and the disruption to business models that comes with it. In a sense, there is a need to run in order to stand still. In this respect, it is interesting to note that development of new products and services is one of the top three strategies among CFOs in nine out of 20 countries – two more than in the previous edition.

Similarly, digitalisation is a top three strategy in four countries out of 20 – compared to just one out of 20 in Spring 2018.

Chart 9 / Strategic priorities next 12 months (% of countries where specific strategies were ranked in the top three)



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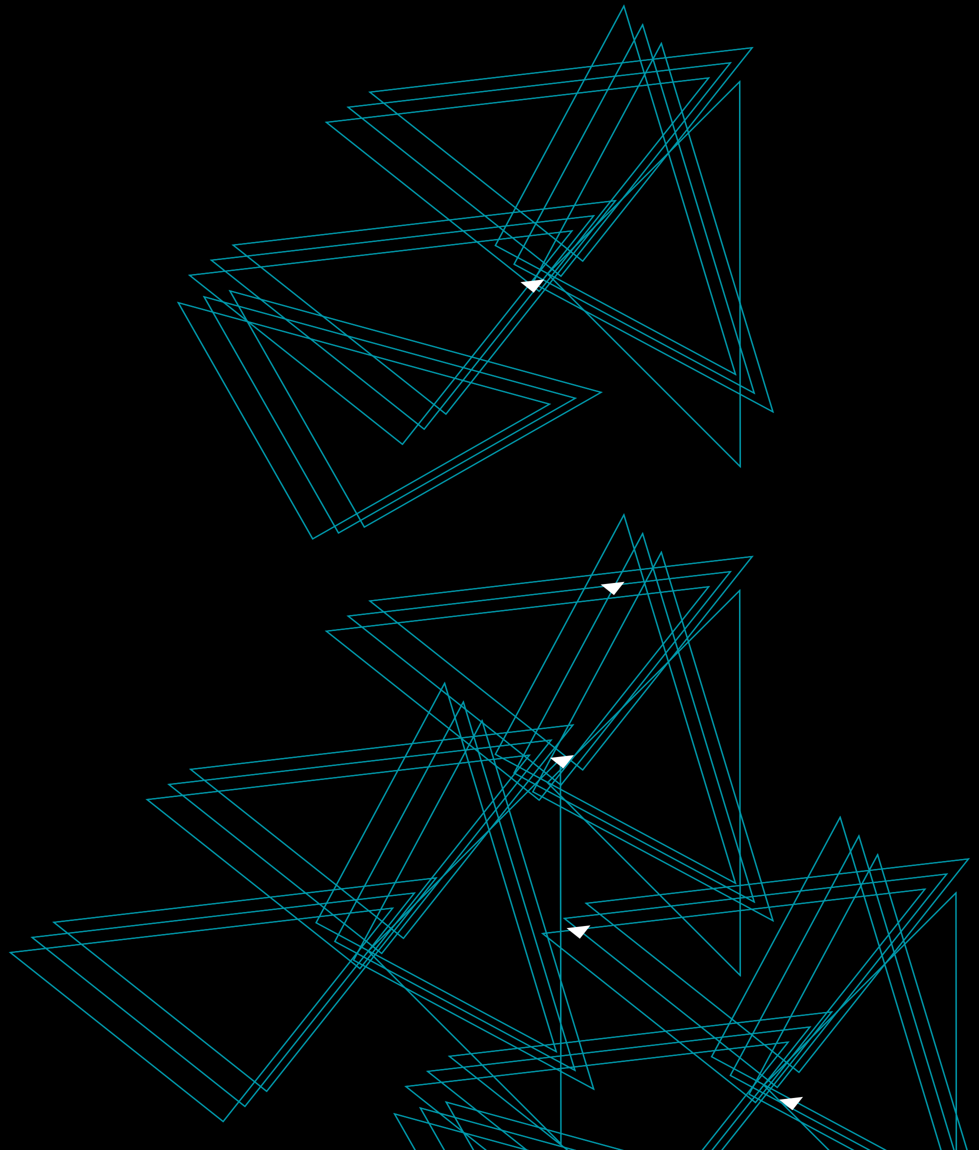
04 Searching for an umbrella of talent



A closer look at the shortage of skilled labour

The shortage of skilled labour is a growing concern for companies across Europe. This is partly due to the fact the labour market is currently tight. Unemployment rates have been on a declining trend for several years and in some countries, such as the UK and Germany, they've reached record lows, making it difficult for employers to find the talent they need.

Demographic change and technological progress are also causes of concern for skills shortages. Demographic change affects the supply side - as the numbers of young people entering the labour market are smaller than those of retiring workers, the size of the workforce is going to shrink. A simple calculation based on the UN population projections and Eurostat data on activity rates shows that within just five years the pool of workers in the group of 28 EU countries will decline by about 2 per cent (or 6 million workers) if activity rates by age and gender remain as they are today. Technological progress however, affects the demand side. According to a survey of Chief Human Resources Officers and senior Talent Executives conducted by the **World Economic Forum (WEF) in 2016**[5], more than a third of the desired core skill sets could change by 2020.

The interaction of these two factors implies that the problem of skilled labour will persist, irrespective of the economic cycle. As highlighted in the breakout box, the term 'lack of skilled labour' can refer to different situations that present different challenges. Therefore, the special questions in this edition aim to shed light on the nature of the issues that companies are facing when they refer to skills shortages.

Skills shortage or gap?

Although the term 'lack of skilled labour' is widely used, the definition is not clear-cut and it could have different meanings to different people. The existing literature distinguishes two concepts (e.g. Green et al. 1998[3]; European investment Bank, 2017)[4].

Skills shortage: when for a particular occupation the supply of workers who are qualified, available and willing to work under existing market conditions does not meet the demand. For example, a hospital might need nurses, but there are not enough qualified nurses around to hire.

Skills gap (deficiency): when the pool of available workers is under-skilled relative to the desired level, thus preventing them from contributing optimally to the business' objectives. For example, at the same hospital, there might be enough qualified nurses ready to work and the hospital will eventually hire some of them. However, they lack certain skills (e.g. knowledge of a specific procedure or a new software; critical communication skills) so the employer may still express concerns about a lack of skills, even if there is not a shortage in terms of the number of workers able to perform the job.

Both types of shortages can prevail across the whole spectrum of the skills distribution and present different challenges (EIB, 2017). While the problem of significantly low numbers of qualified people requires for example an increase in enrolment rates in certain subjects or courses, skills gaps require reviewing the curriculum of existing courses to refocus them on the market's needs.

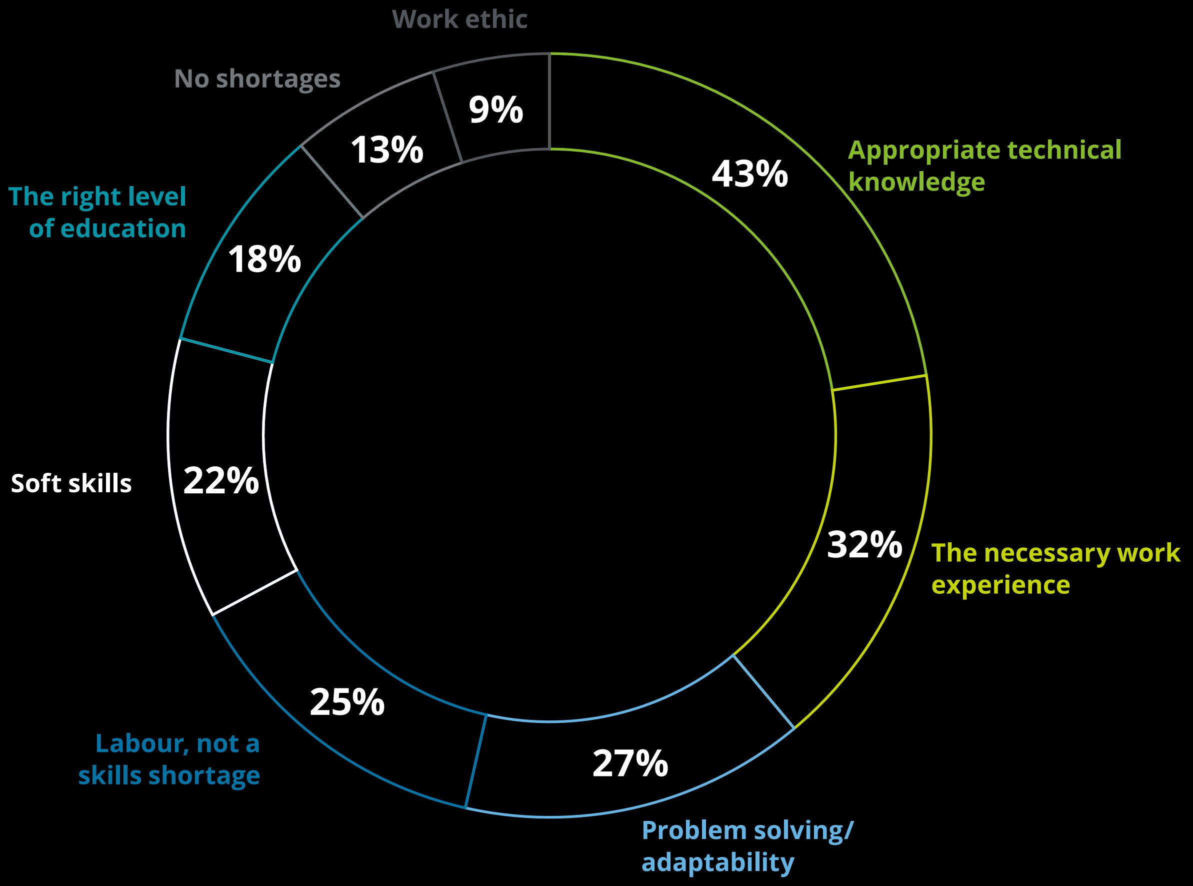
Gaps rather than shortages

In general it seems that companies are currently experiencing a skills gap rather than a skills shortage. According to the respondents, job applicants are mostly lacking the 'appropriate technical knowledge' (43%), followed by the 'necessary work experience' (32%). One out of four CFOs consider 'problem solving/adaptability' a difficult skill to find. These findings reflect the challenges that technological change presents both to companies and the workforce. Specific technical knowledge is required to keep up with technological change, but as this knowledge becomes out-of-date very quickly, companies are searching for workers with a high degree of mental agility who are capable of adapting to change.

A real skills shortage, in the sense that there are not enough qualified workers to meet the demand, is a problem for one-quarter of the respondents.

However, there are differences between countries, depending on the local labour market conditions. For example in **Germany**, where the labour market is particularly tight, the majority of CFOs (44%) selected the option 'lack of labour rather than skills'. On the other hand, in countries with more slack in the labour market, CFOs identified skills gaps more often as the main problem – for example in **Greece**, where a lack of soft skills and problem solving/adaptability are the first and second most selected options respectively.

Chart 10 / Skills that are difficult to find in the workforce (%)
What are currently the most difficult skills for your organisation to find?*



*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey
*Note: respondents could select more than one options, therefore percentages add to more than 100.

Automation is in, outsourcing is out

According to the respondents, European companies are following a multidimensional strategy to address skills shortages. First and foremost, they are pushing forward with automation: 43% of CFOs report that their company is making extensive use of this strategy. Only 16% focus on outsourcing of business processes and even fewer (12%) on offshoring - two strategies that just few years ago were the typical responses of companies to bottlenecks in the labour market and rising labour costs. Apparently, technology has advanced sufficiently to make it increasingly more convenient for companies to relocate production back to Europe (Dachs et al., 2017)[6].

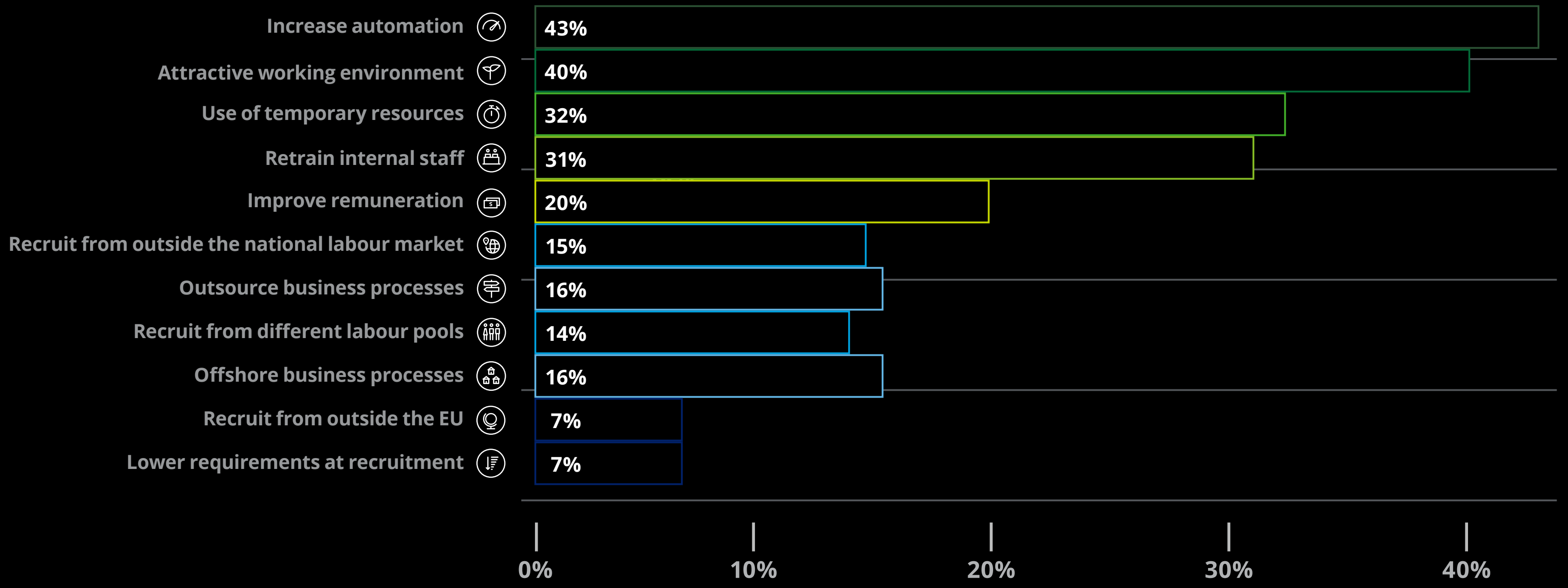
CFOs also indicate that they are offering workers a more attractive working environment (40%) rather than improving remuneration packages (20%). From an economic standpoint, this is surprising as a shift in prices (in this case, an increase in wages) is the primary mechanism for clearing market imbalances. Furthermore, holding back on raising compensation is a strategy that could backfire in a tight labour market, as workers dissatisfied with their wages might decide to quit and search for better opportunities elsewhere. In the US in 2017 for example, the rate of voluntary resignations in most industries was back up to 2007 levels (**Conference Board, 2018**)[7].

However, a strategy of improving working conditions rather than paying higher remuneration is consistent with the fact that most companies are experiencing a skills deficiency. If companies perceive that workers are under-skilled, it might be appropriate for them not to push on too fast with increasing compensation, when their employees – although able to perform the job – are not as productive as they should be and they therefore need to invest in training and upskilling (which is indeed the fourth most common strategy) - increasing employment-related costs. Other factors may play a role as well. Wage setting policies at the company level might be slow to adjust, thus not reflecting current shortages. (e.g. Tan and Zago, 2017)[8]. Companies might also try to mobilise internal resources first by investing in training and improvements in working conditions, rather than hiring new staff at higher wages (**ZEW, 2017**)[9]. The data also shows that companies are relying increasingly on a broader pool of workers to fill their skills gaps. A third of CFOs indicate that to address the problem their company uses temporary labour resources to a large extent.

However, taking advantage of the benefits of a flexible pool of workers brings challenges with it. According to the latest **Global Human Capital Trends**[10], only a minority of companies have established policies and practices to manage external, non-traditional workers. In addition to the opportunity cost of failing to capitalise on alternative work arrangements, new workforce models can create a series of risks (e.g. legal, security and privacy). Looking forward, companies need to establish a more systematic approach to the management of non-traditional workers.

Interestingly, only a low proportion of CFOs (14%) indicated that they recruit from different labour pools (e.g. older workers and returning parents) to address their skills shortages. In an ageing continent like Europe, failing to look at non-traditional pools of labour could turn out to be a strategic mistake.

Chart 11 / Strategies to address skills shortages (% to a very large/to a large extent)
To what extent does your organisation use the following to address shortages in (skilled) labour?*

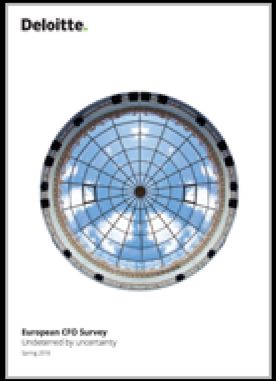


*Note: To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey

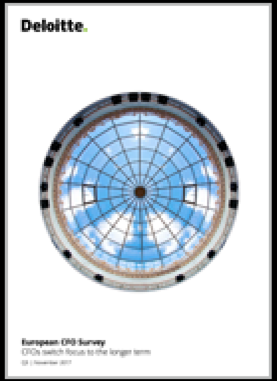
05 About the European CFO Survey

The European CFO Survey is part of a global cohort of surveys benchmarking the current and future intentions, sentiment and opinions of European Chief Financial Officers. The survey in its fourth year represents the views of **1,373 CFOs** based in 20 European countries including: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russia, Sweden, Switzerland, Turkey and the United Kingdom.

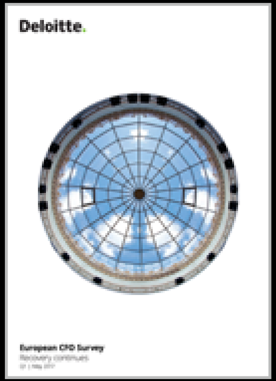
The series



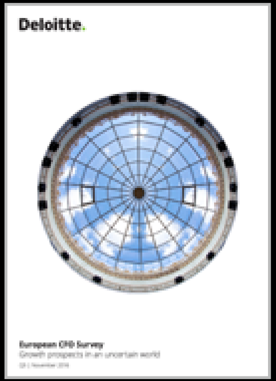
European CFO Survey Spring 2018
Undeterred by uncertainty



European CFO Survey Autumn 2017
CFOs switch focus to the longer term



European CFO Survey Spring 2017
Recovery continues



European CFO Survey Autumn 2016
Growth prospects in an uncertain world

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The data

The findings discussed in this report were collected from 1,373 CFOs between August and September 2018. Some of the charts in the survey show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither positive nor negative are deemed to be neutral. Due to rounding, not all percentages shown in the charts will add up to 100.

For further information and a more detailed analysis please visit **www.deloitte.com/europeancfosurvey**

To contact us please email us at **europeanCFO@deloitte.co.uk**

Country breakdown

Country	Percentage
Germany	13%
Denmark	8%
Norway	8%
Switzerland	8%
Sweden	8%
Italy	7%
United Kingdom	7%
Portugal	6%
Iceland	5%
Belgium	4%
France	4%
Ireland	4%
Russia	3%
Greece	3%
Finland	3%
Turkey	2%
Austria	2%
Poland	1%
Luxembourg	1%
Netherlands	1%

Industry breakdown

Industry	Percentage
Consumer business	22%
Manufacturing	20%
Financial services	13%
Technology, media & telecommunications	9%
Construction	8%
Energy, utilities, mining	8%
Life sciences	6%
Business & professional services	4%
Public sector	1%
Others	10%

Business size breakdown

Size	Percentage
Between 100 and 999 million euro	46%
Less than 100 million euro	33%
1 billion euro and more	20%

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