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The 31st Quarterly C-Suite Survey: Cyber-Security and Income Inequality

June 2013

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- ❑ This is the 31st edition of the C-Suite Quarterly Survey, conducted on behalf of KPMG; published and broadcast by the *Globe and Mail's Report on Business* and *BNN*.
 - Previous quarters' surveys are available at GandalfGroup.ca .
- ❑ This quarter's survey asked executives about:
 - The outlook for the Canadian and US economies
 - Cyber Security issues facing businesses
 - Income Inequality and its potential implications for businesses
- ❑ Methodology: telephone interviews were conducted with 153 C-Suite executives from ROB1000 companies between May 28th and June 12th, 2013.



- ❑ The C-Suite's forecasts for the US economy continue to improve, which is important given that forecasts for resources companies – which had been so bullish for so long – have weakened considerably.
- ❑ Executives are divided on whether or not income inequality is going to be an ongoing concern for Canada. Nearly half are very or somewhat concerned about data suggesting a declining middle class.
- ❑ Most believe Canada is doing better than the US in this respect. But most also believe continued erosion of the middle class would have negative impacts on business.
- ❑ In response, the C-Suite would rather build incomes through better worker/skills training than boost public pensions or taxes on capital gains and top incomes. Most support closing tax loopholes. Many are open to raising the minimum wage or boosting private pensions.



- ❑ Executives seem complacent about cyber-threats to their companies. They know this is a “whole business” issue (not just something for their IT departments) but most think it’s unlikely their company would be victimized.
- ❑ Most are somewhat confident in their organization’s cyber-security efforts; only 24% are very confident.
- ❑ Services sector companies are the most likely to have taken steps to protect themselves, with their top concern being customers’ and employees’ information. They and others believe threats to their companies are more likely to come from criminal organizations or individuals committing fraud than foreign governments or domestic competitors.



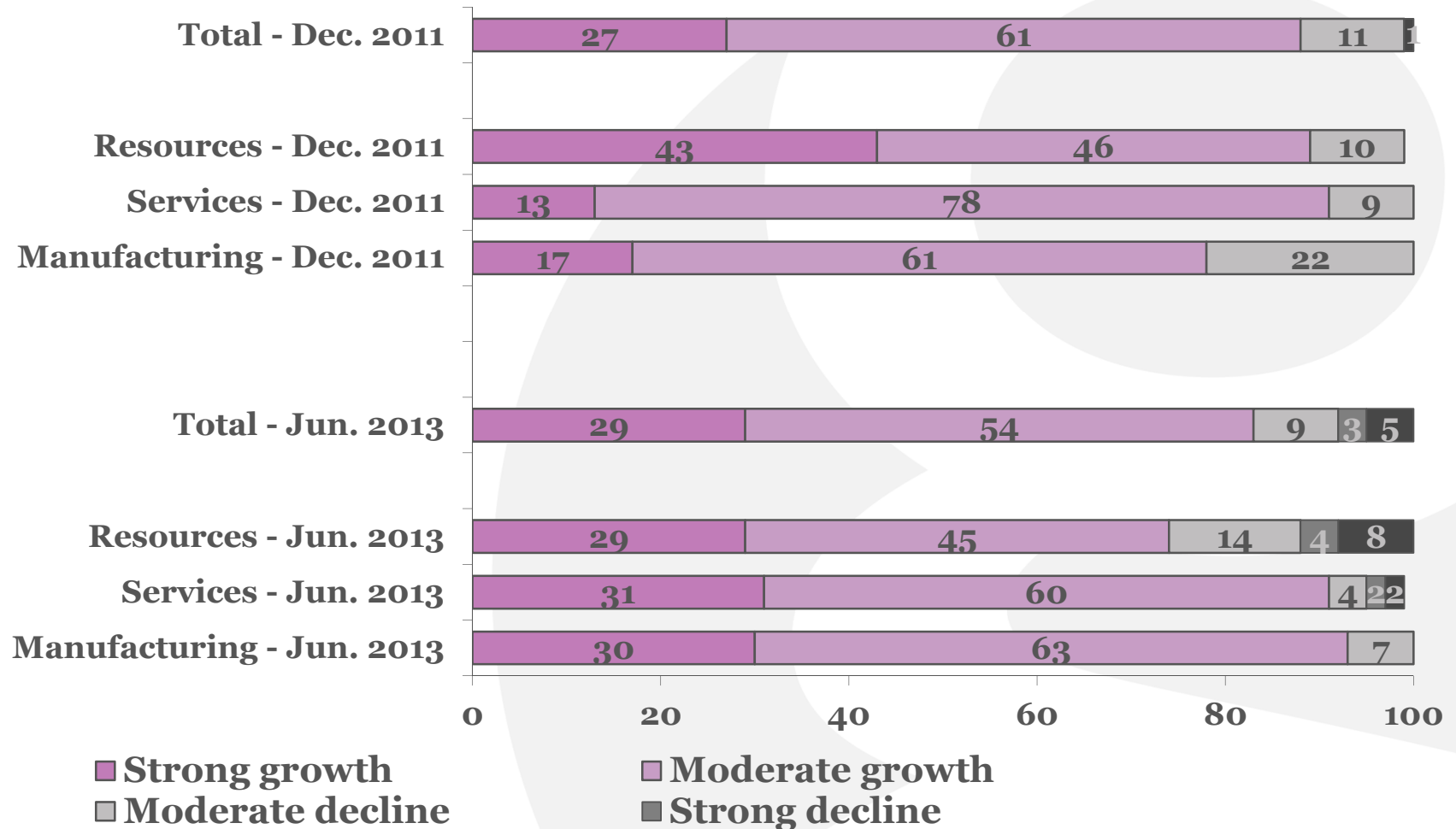
- ❑ Expectations for the Canadian economy remain modest.
 - The outlook for resources businesses continues to soften, though most remain positive.
 - Expectations for the US economy are up significantly from where they were in 2011.
 - Executives who expect the US to grow strongly are less bullish about Canada. (8% predict strong growth for the US - 1% said the same for the Canada.)
 - In previous years, forecasts for the resources sector were well ahead of those in other sectors, and Western Canadian executives tended to be more optimistic about the economy overall. Now executives in both the West and East share a similar outlook.
 - While the outlook for the next 12 months is modestly positive, 19% believe the Canadian economy is struggling now – including 22% of Western Canadian executives who said the economy is in moderate decline this quarter.



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Company Optimism by Sector, Dec. 2011 vs. Jun. 2013

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

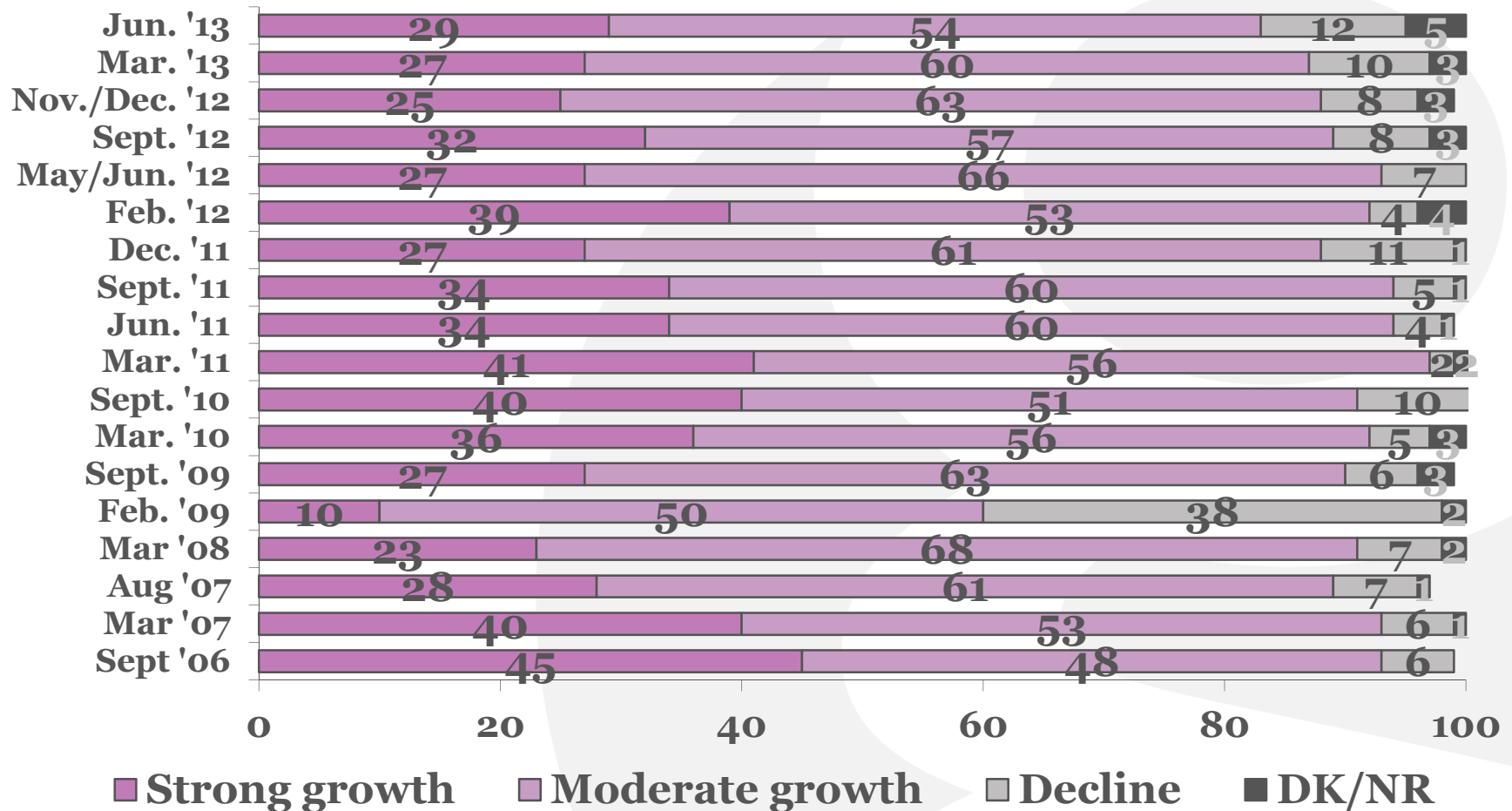




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Expectations Tracking Among Companies

“What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

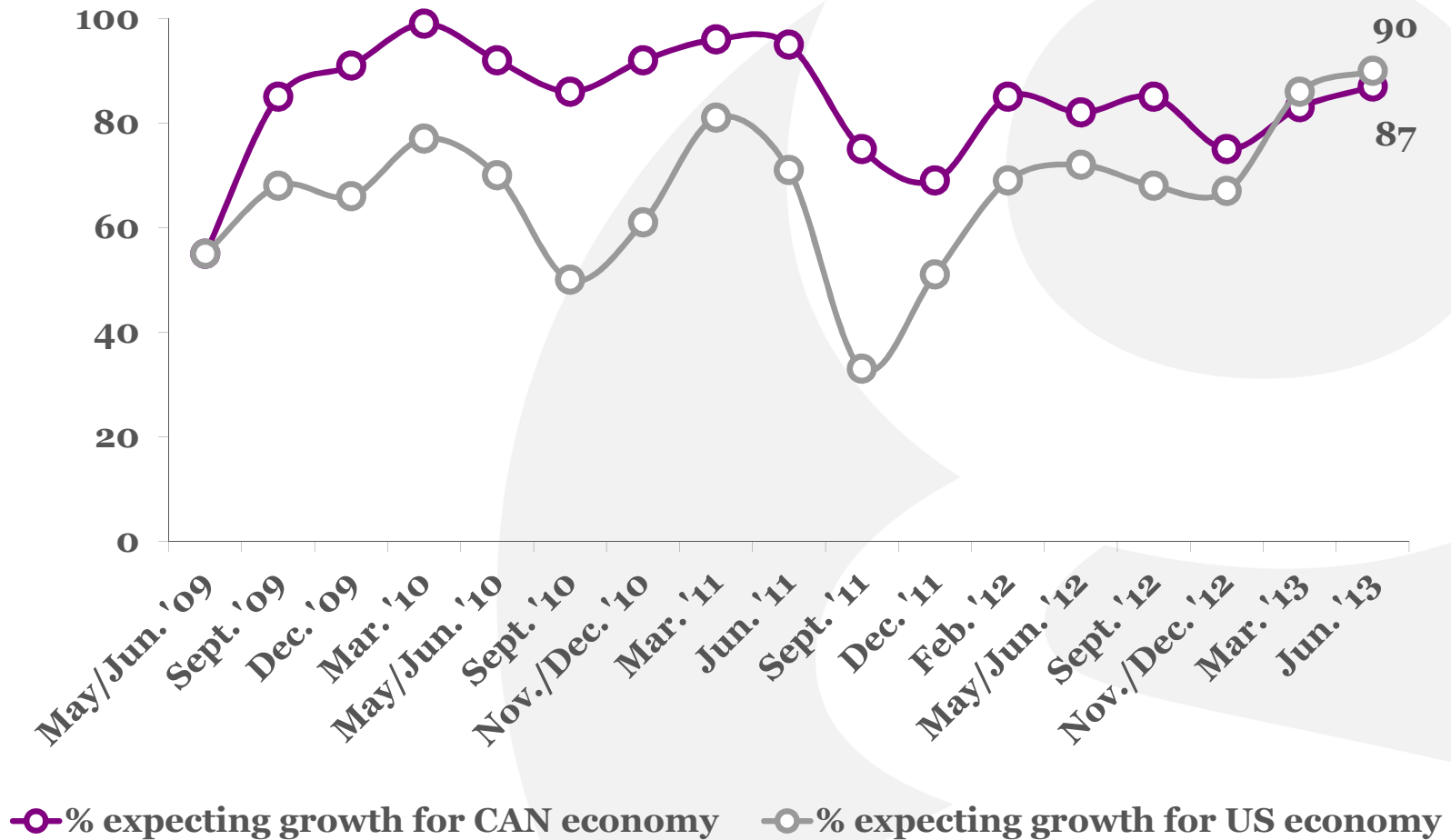




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Expectations of the Canadian and US Economies

“What are your expectations for the **U.S. /Canadian** economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

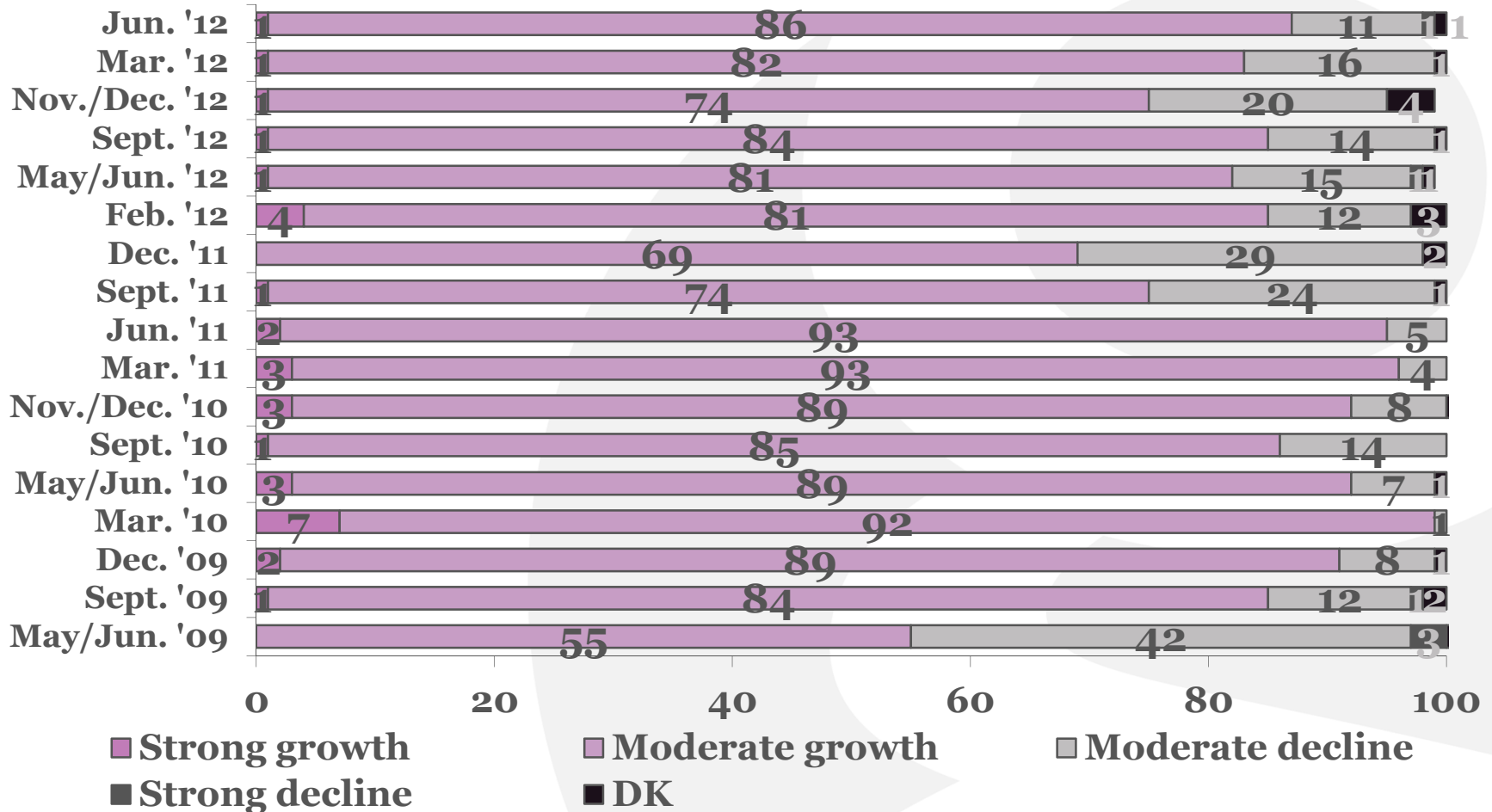




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Projections For The Canadian Economy

“What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

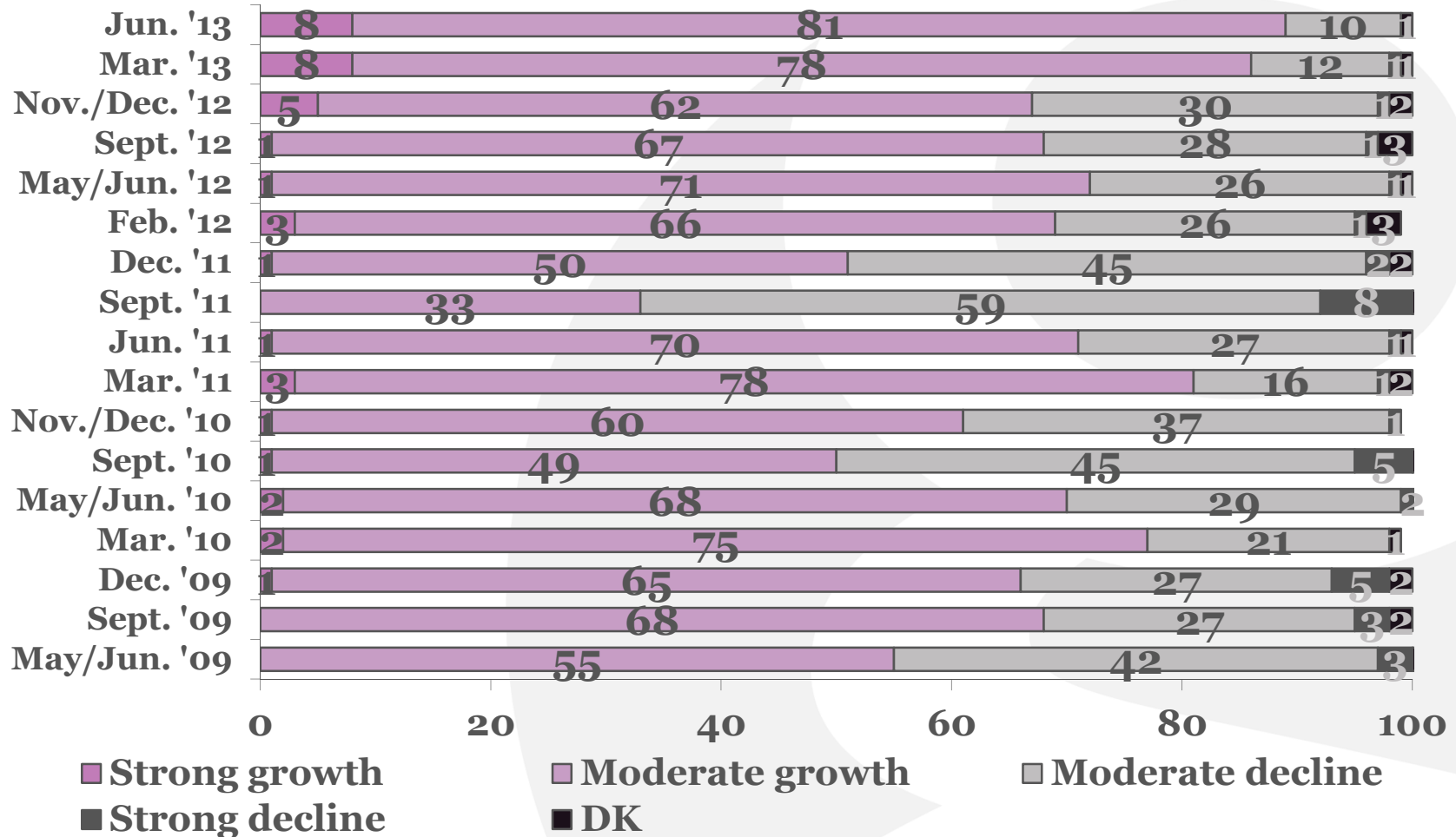




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The US Economy Over The Next Year

“What are your expectations for the U.S. economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?”

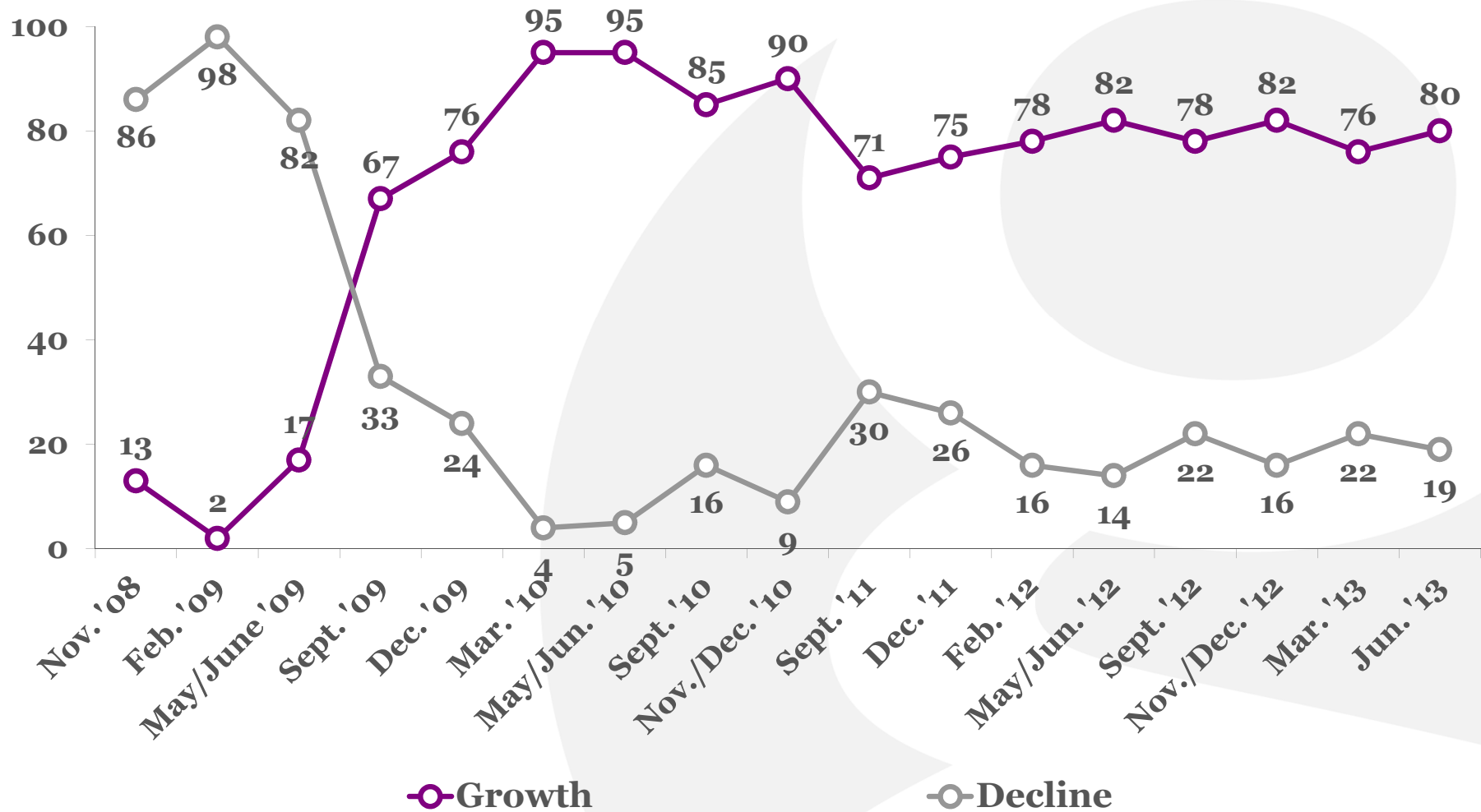




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Current Growth Levels In The Canadian Economy

“Which of the following do you think best describes the Canadian economy at the current time - strong growth, moderate growth, moderate decline, strong decline?”



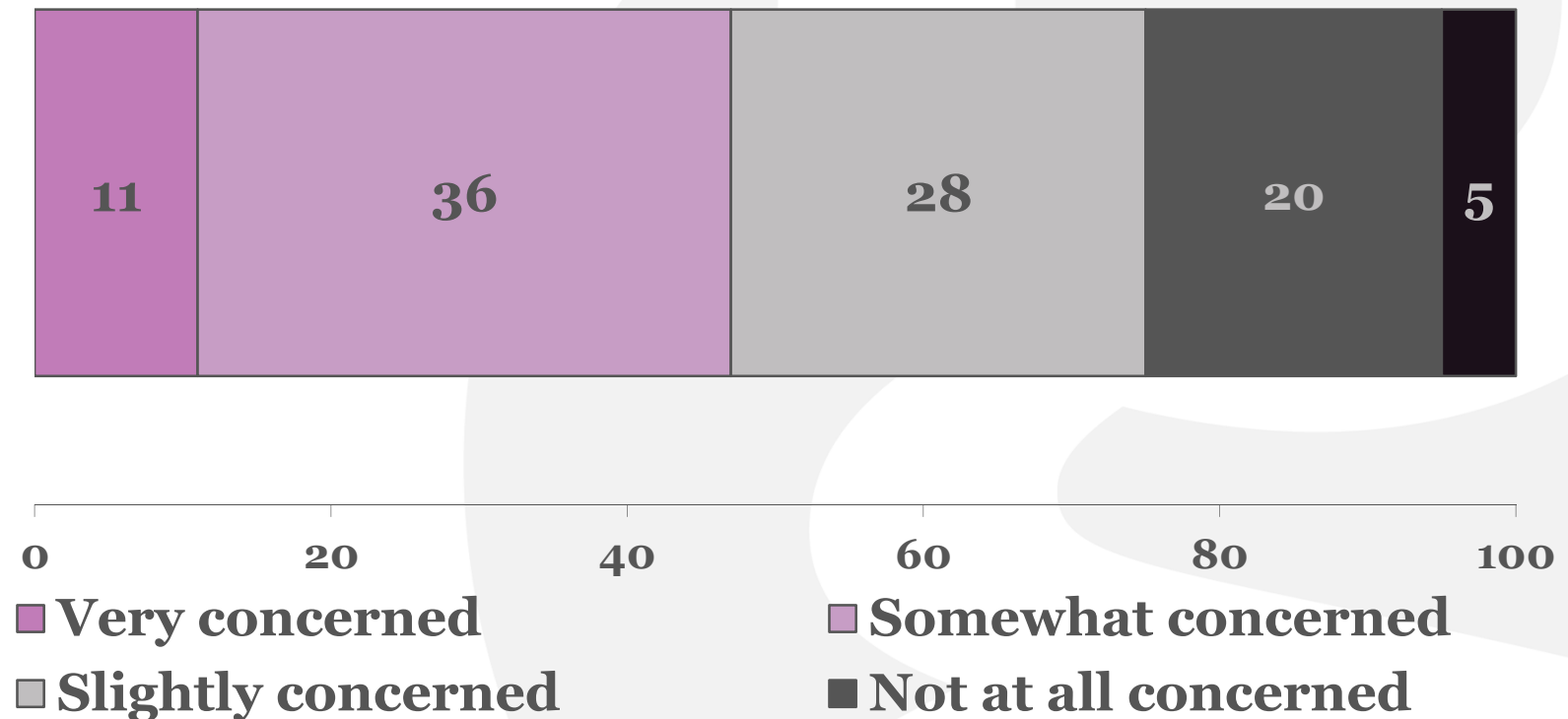


- ❑ While nearly half the C-Suite is very or somewhat concerned about data showing growing income inequality, many are not concerned about this trend.
- ❑ This may be due in part to the fact that they clearly believe there is less income inequality Canada compared to the US.
- ❑ Also some may feel this is cyclical. Most said the recession of 2008 and global downward pressure on wages have been drivers of income inequality.
- ❑ However it's not all downward pressure - most agreed that executives' compensation are a part of this issue.



Concern Over Income Inequality

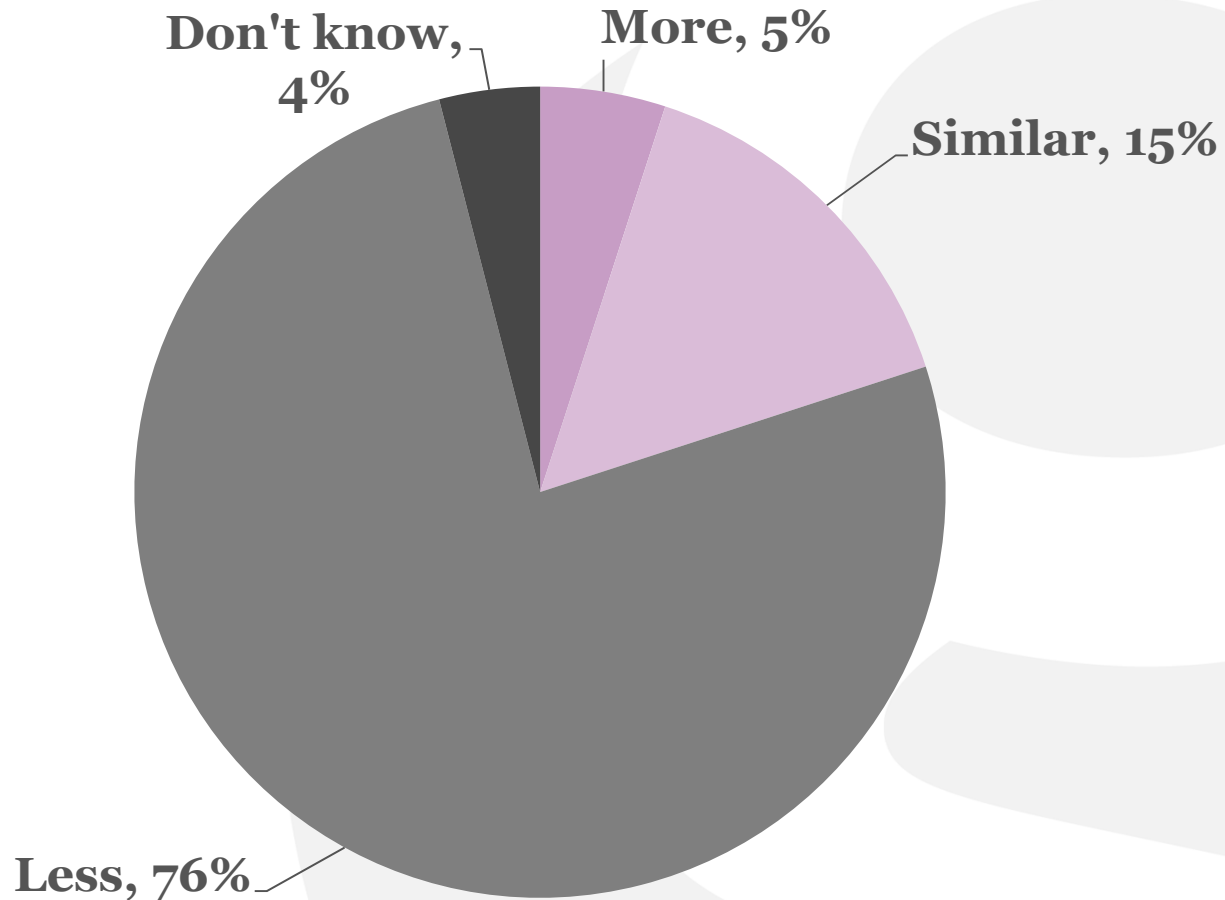
“According to the World Bank and the Conference Board, income inequality is greater in the US than in Canada, but income inequality in Canada is increasing and Canada ranks behind 11 other similar OECD nations in this area. Taking this into account, how concerned are you about income inequality in Canada – that is to say the gap between how much top income earners and others?”





Canada vs. US Income Inequality

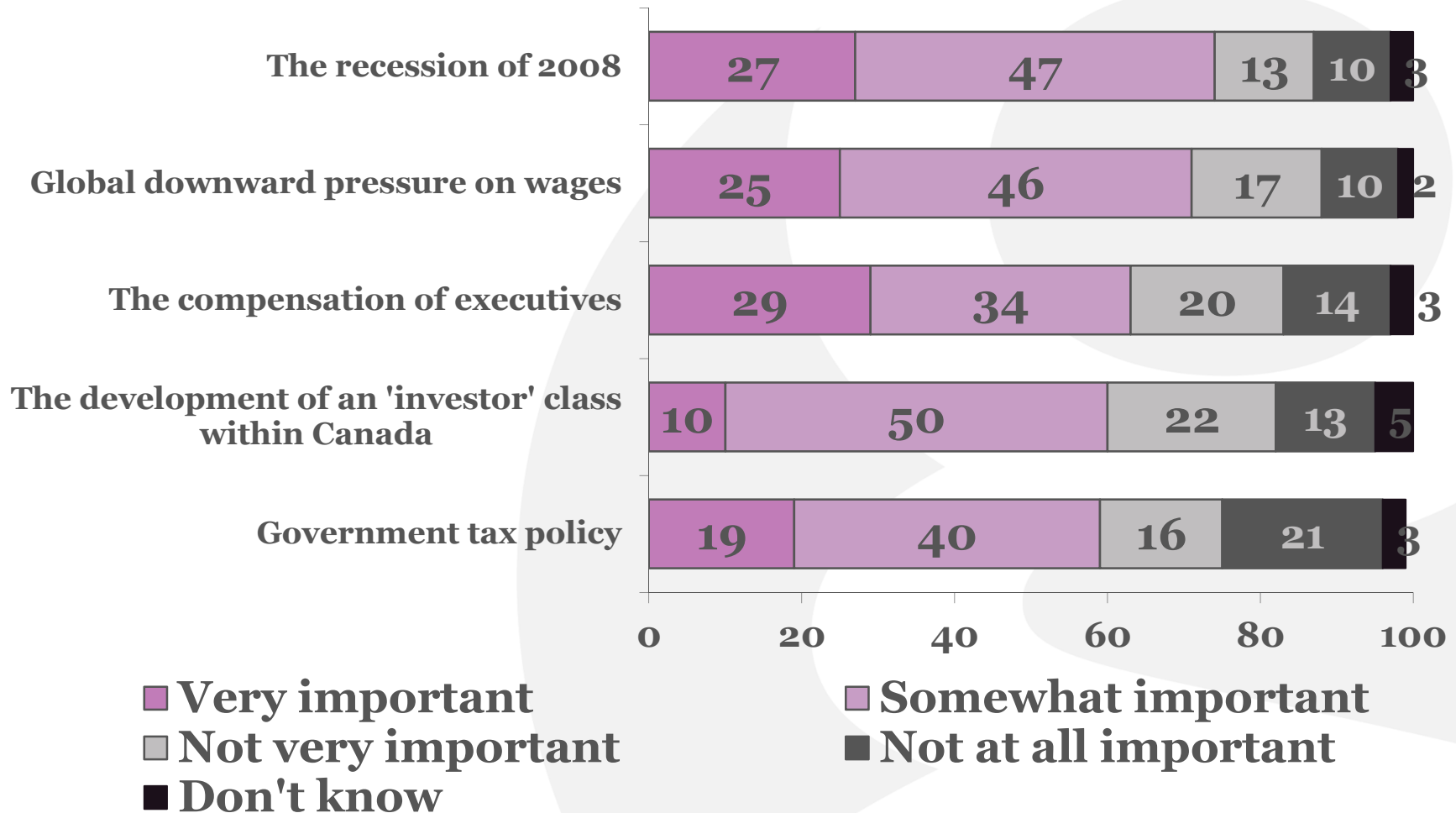
“Do you think there is more income inequality in Canada than in the US or less or are the two countries effectively similar?”





Factors in Income Inequality

“How important have the following factors been to creating income inequality in Canada?”





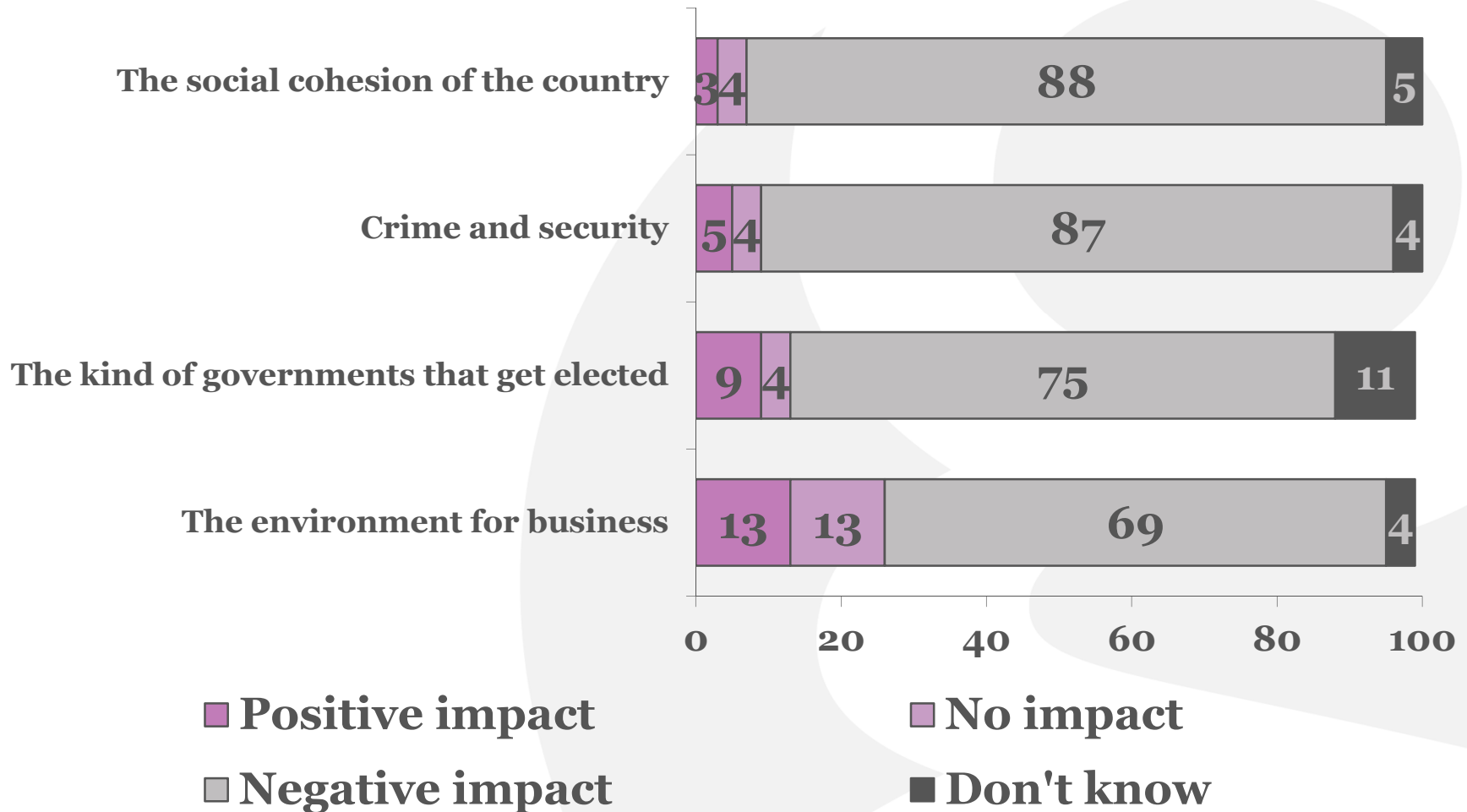
Possible Impacts of Income Inequality

- ❑ Executives were clear that if the middle class continues to diminish, it will have a negative impact on:
 - social cohesion of the country
 - crime and security
 - the types of governments elected
 - and the environment for business
- ❑ More recessions, a weak economy and declining income among consumers are the primary risks to businesses if income gaps continue to widen.



Impacts of Income Inequality

“If the middle class is on the decline, and Canada is divided up largely into rich and poor, what would the consequences for _____ in your view?”

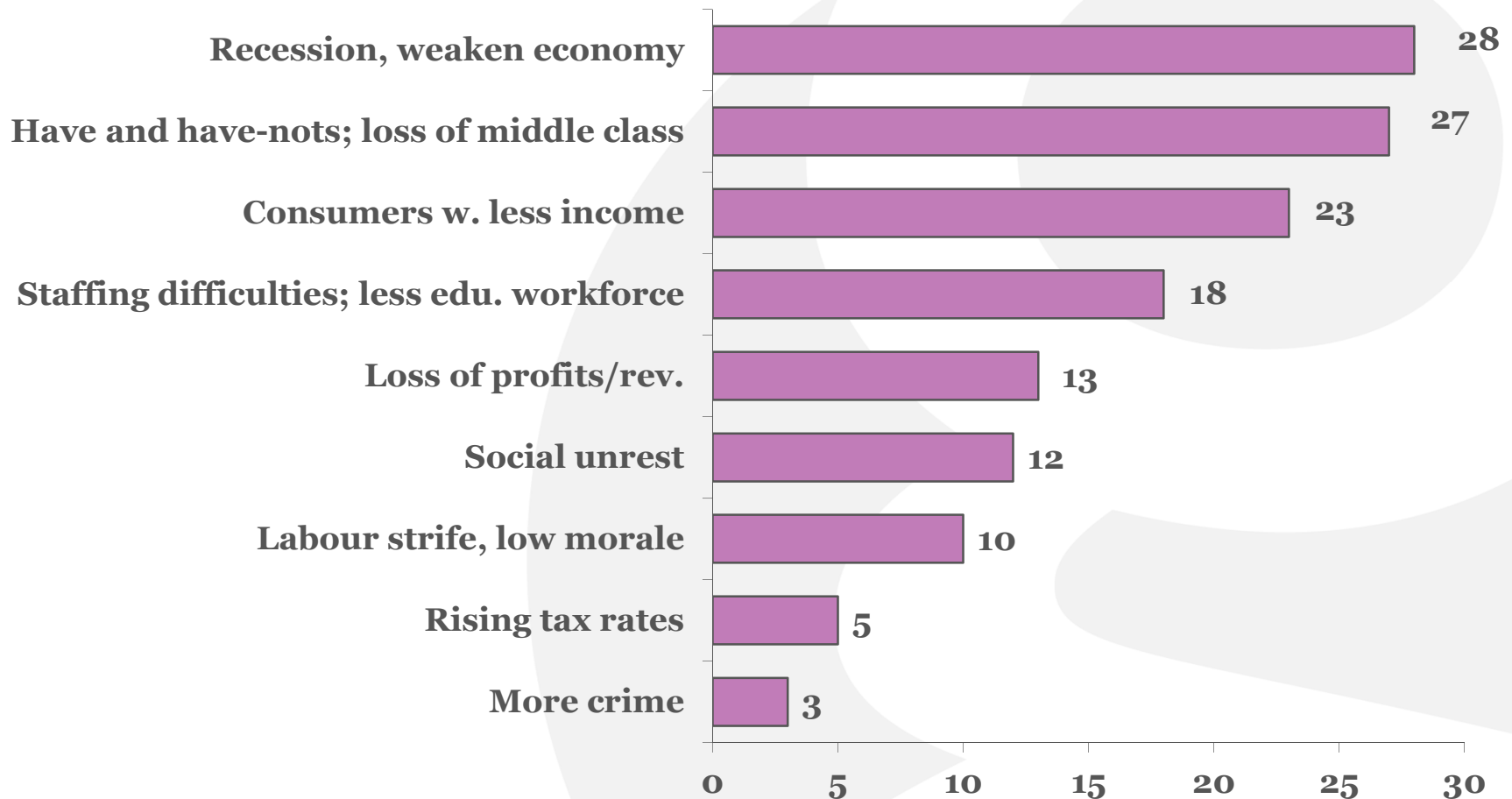




Negative Impacts of Income Inequality on Business

“What is the main example you would give of the negative impact [of growing income inequality] on businesses?” (open-ended)

[Asked of those who said it would negatively impact business, n=105]



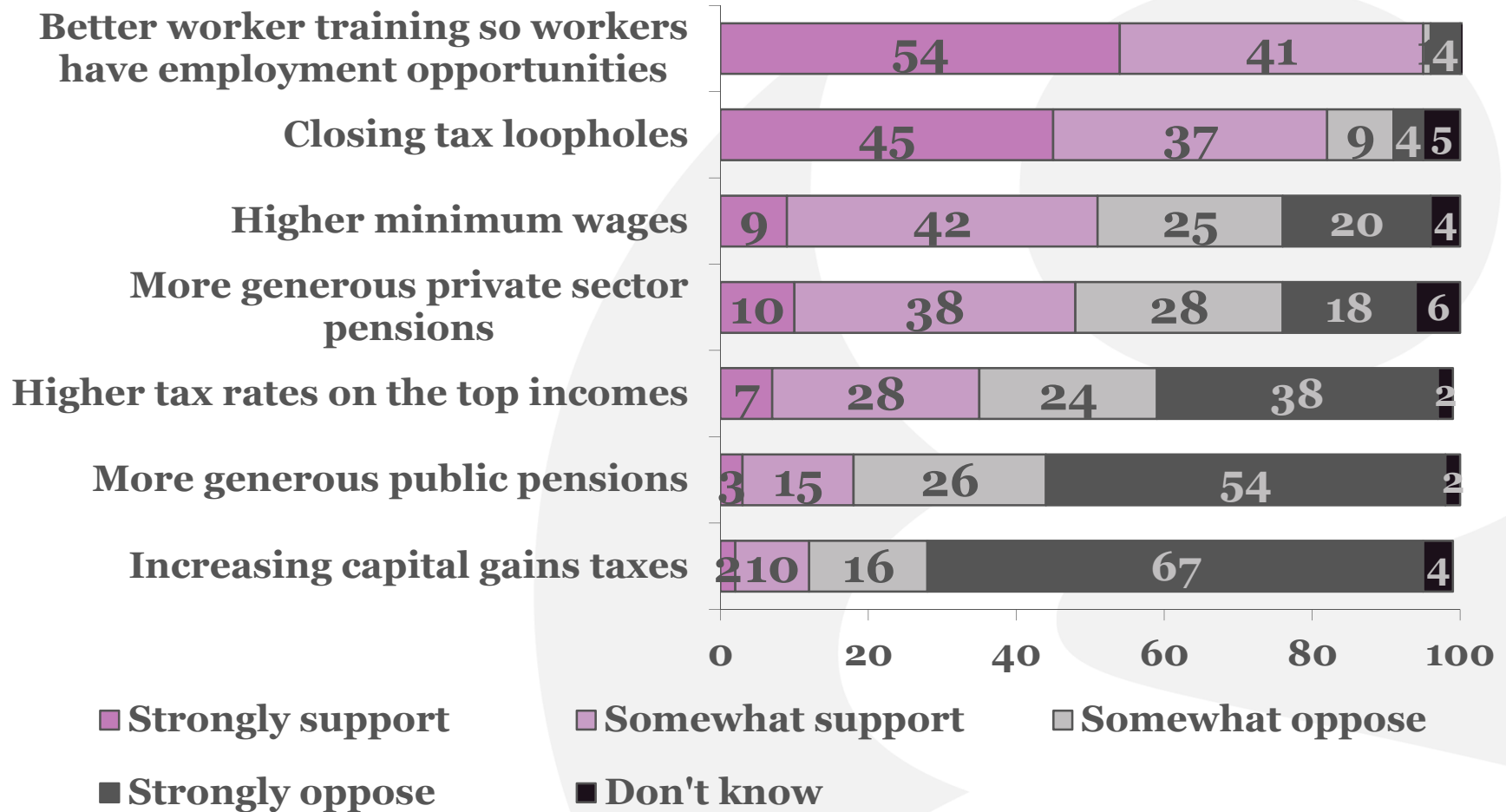


- ❑ Various policies have been proposed in the US & Canada to deal with income inequality and we tested these.
- ❑ The vast majority support closing tax loopholes, but most oppose adjusting tax treatment of capital gains or higher taxes on top incomes.
- ❑ Better worker training is supported by nearly all.
- ❑ Executives were split on whether to offer more generous private sector pensions. Many executives interviewed do not offer pensions now at their companies.
- ❑ Most opposed more generous public pensions.



Income Inequality Policies

“Please tell us if you would strongly support, somewhat support, somewhat oppose or strongly oppose the following policies?”

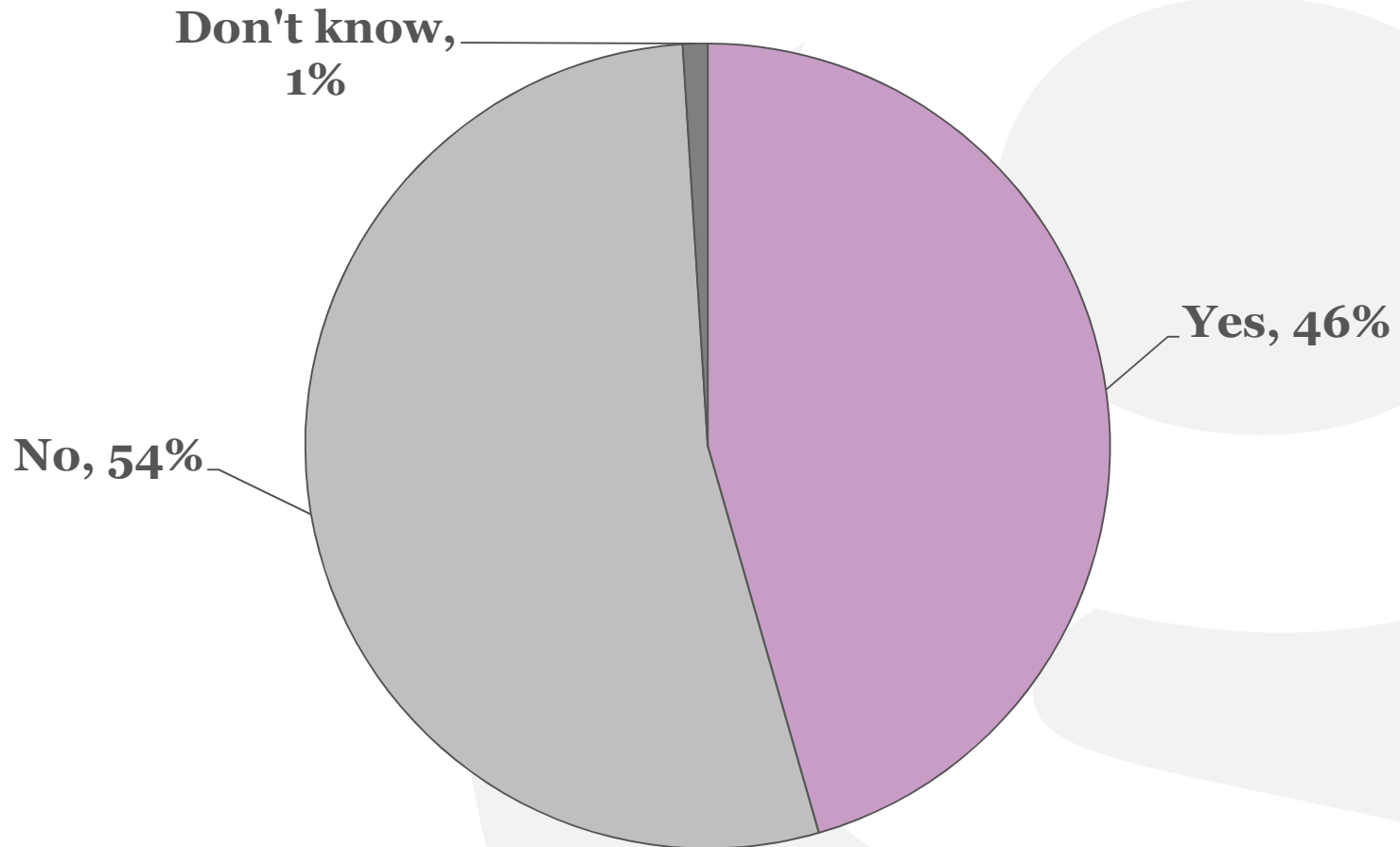




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Cos. Providing Pensions for Majority of Employees

“Does your company provide pension benefits to the majority of employees?”





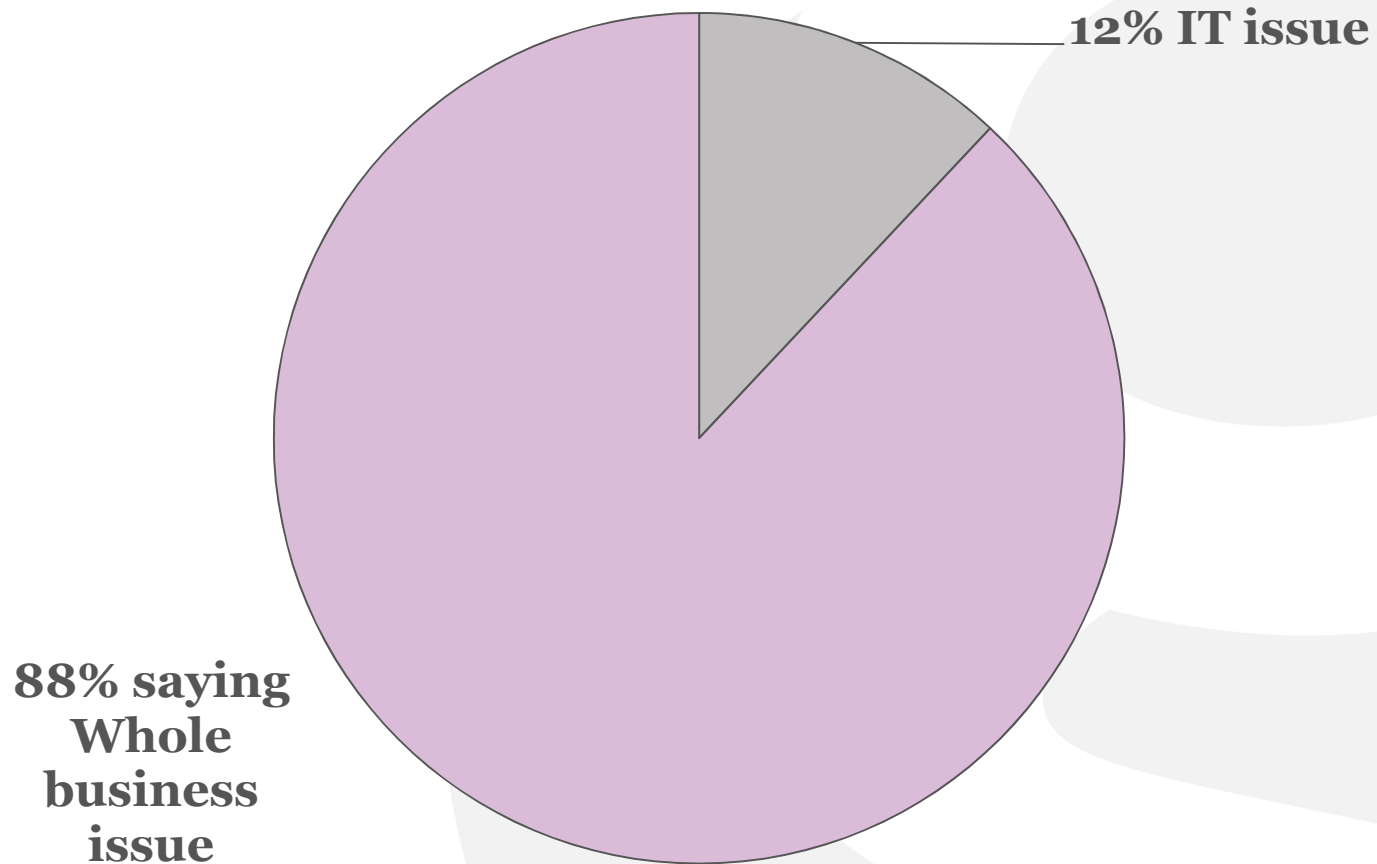
- ❑ Only 40% of executives said they were very or somewhat concerned about cyber-security. And only 39% said businesses like theirs were very or somewhat likely to be targets of a cyber-attack or threat.
 - Services sector companies are more concerned about these issues. Half of executives in this sector said they were very or somewhat likely to be targets.



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Cyber-Security is a Whole Business Issue

“Do you believe Cyber Security issues are an IT issue or a whole business issue” (% saying each_

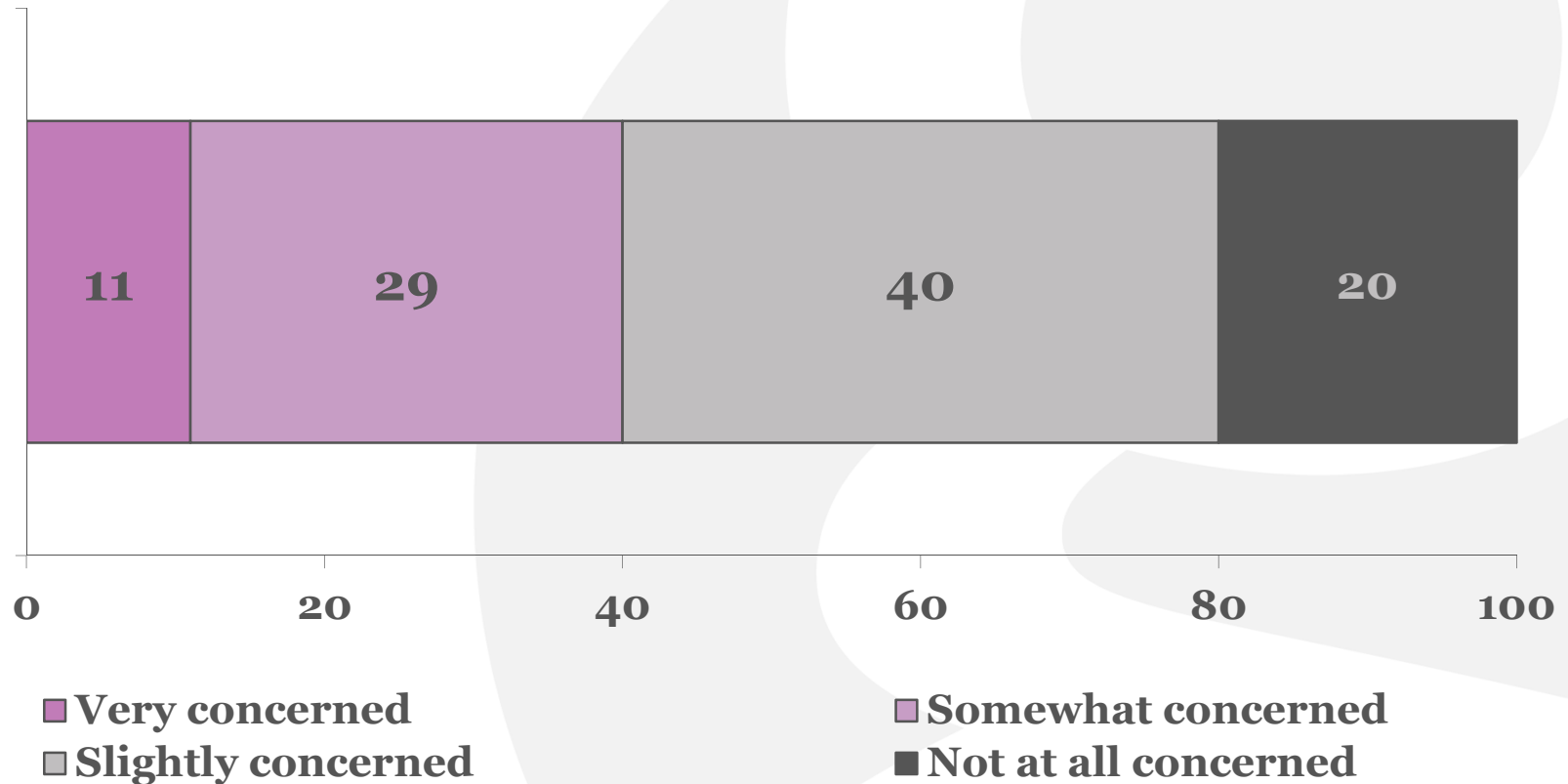




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Concern Over Cyber-Security Threats

“How concerned are you about cyber-security threats to your company? This could include direct threats such as espionage and intellectual property theft or random attacks aimed at destabilizing systems.”

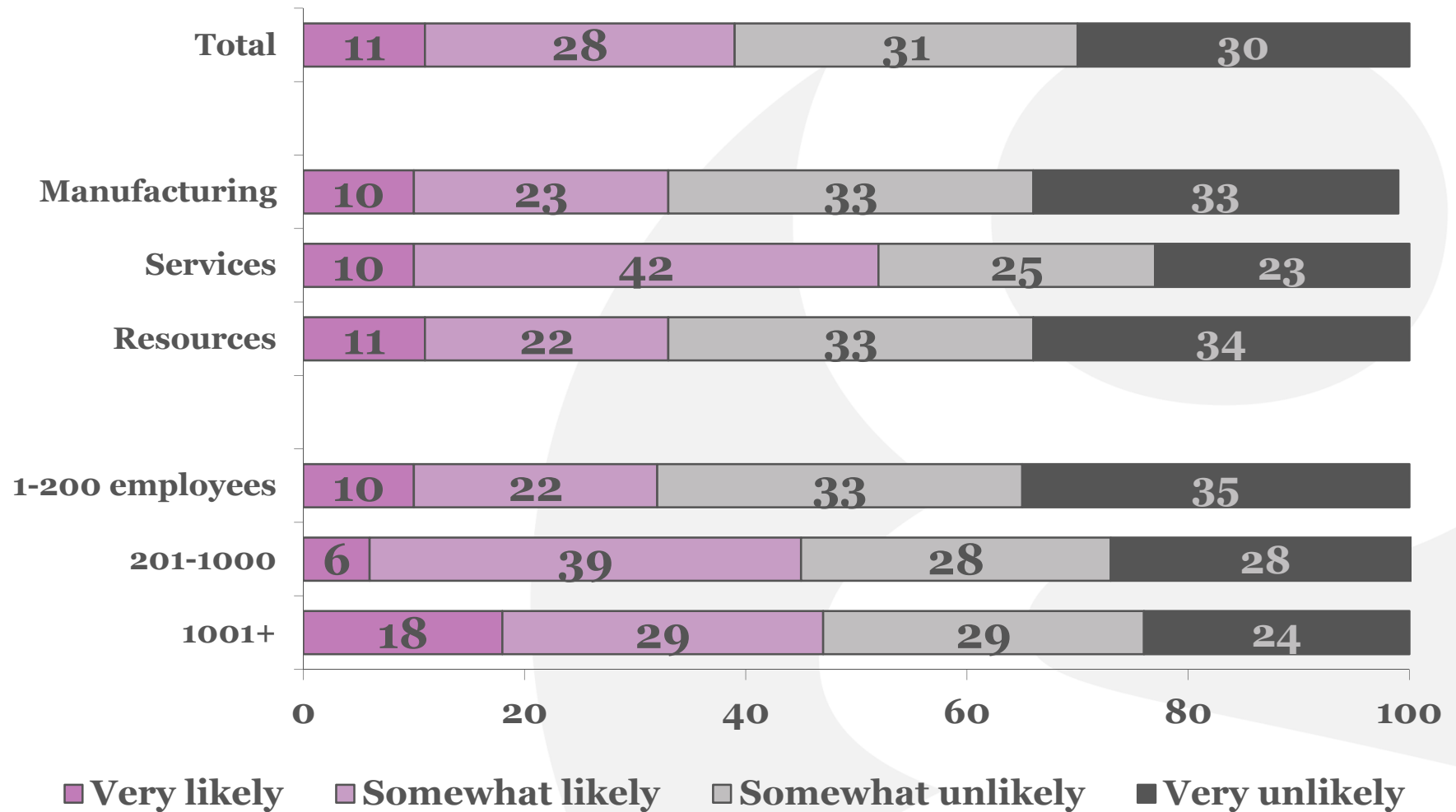




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Concern Over Cyber-Security Threats

“And, do you think that businesses like yours are likely to be a target of cyber-attacks?”



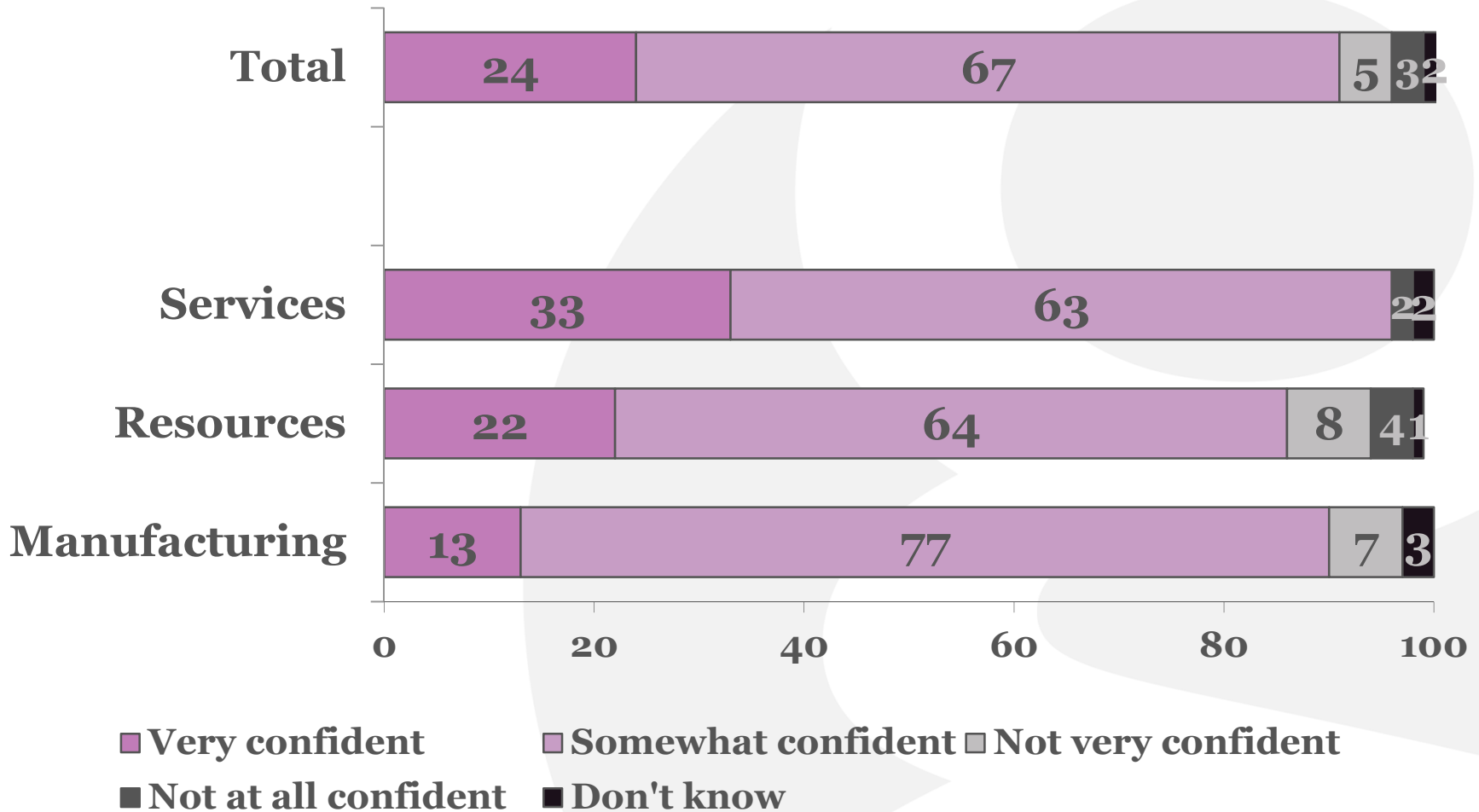


- ❑ The vast majority said they were very or somewhat confident in their organization's cyber-security efforts.
- ❑ Executives were more likely to say many other companies were not prepared – 31% said businesses *like theirs* theirs were poorly prepared.
- ❑ Only among those in services industries (e.g. finance, retail, etc.) is there a broad sense of confidence in their sector's cyber-security efforts.
- ❑ In part this is due to the fact that services companies were more likely to report increased spending in this area. Nearly half of executives report they've increased IT budgets to address cyber security in the last two years.



Confidence in Company's Protection

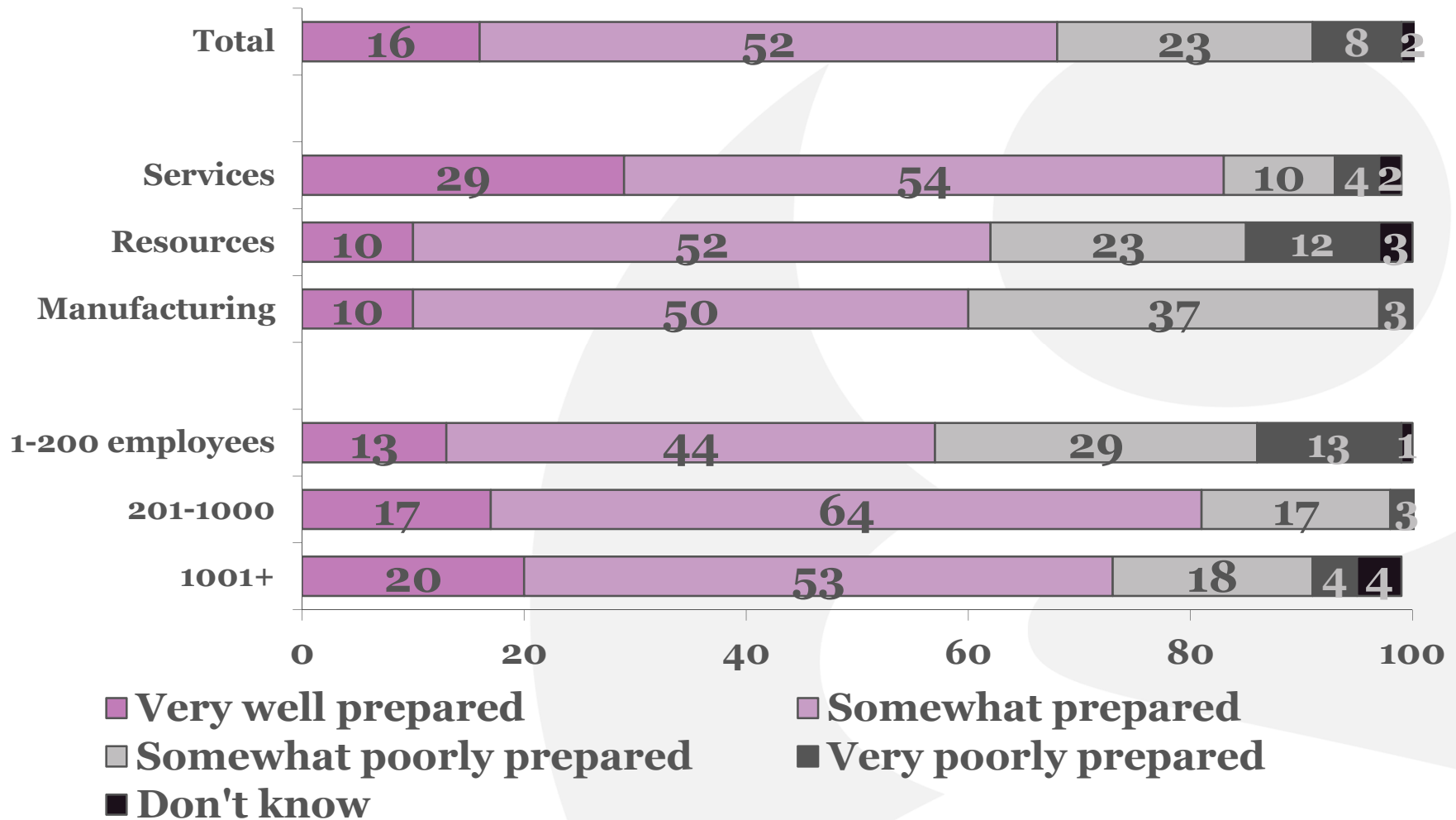
“How confident are you in your organization's efforts to protect Canadian business from these threats?”





Cyber-Security Preparedness

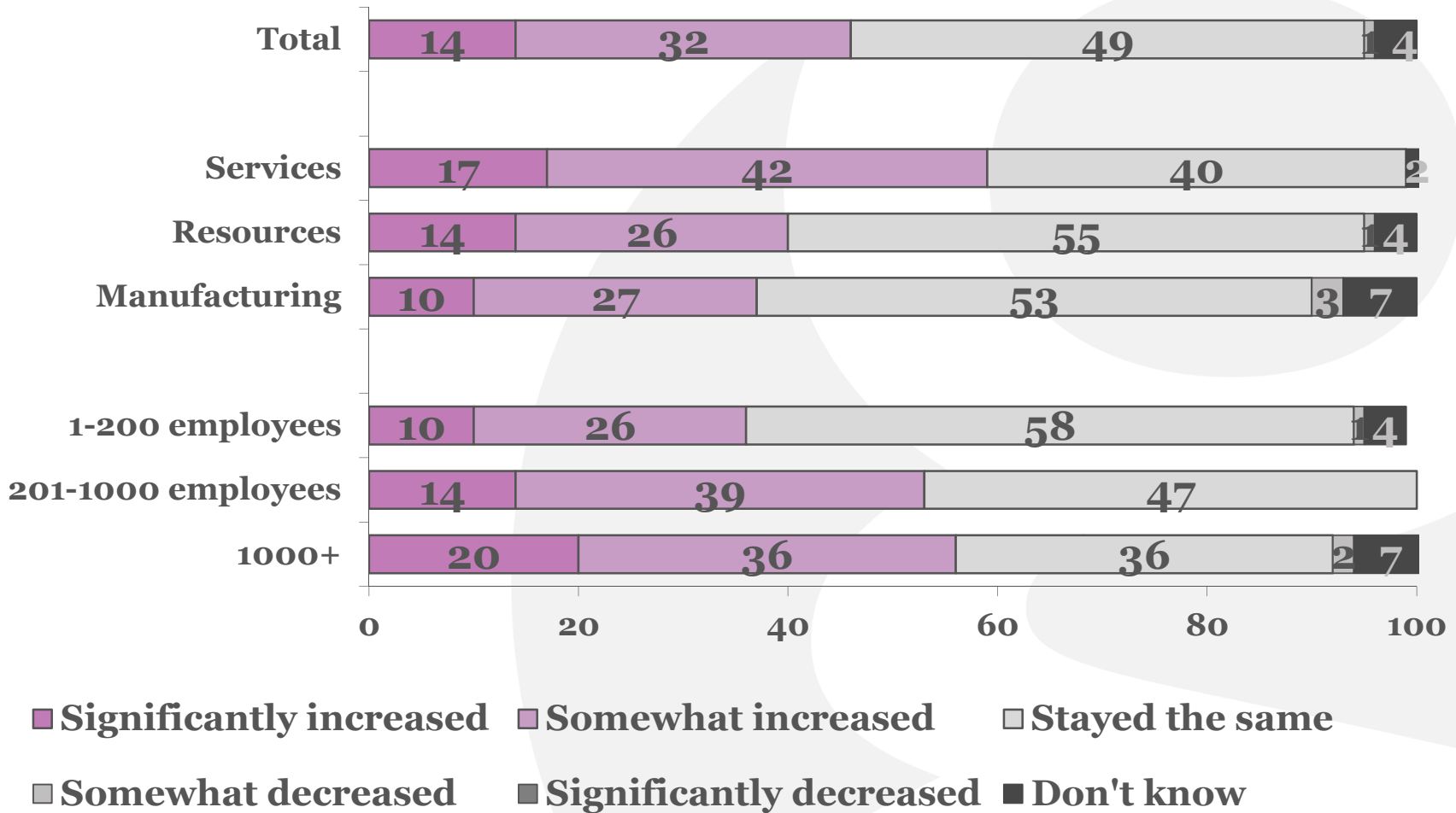
“How well prepared are businesses like yours are to handle cyber security threats?”





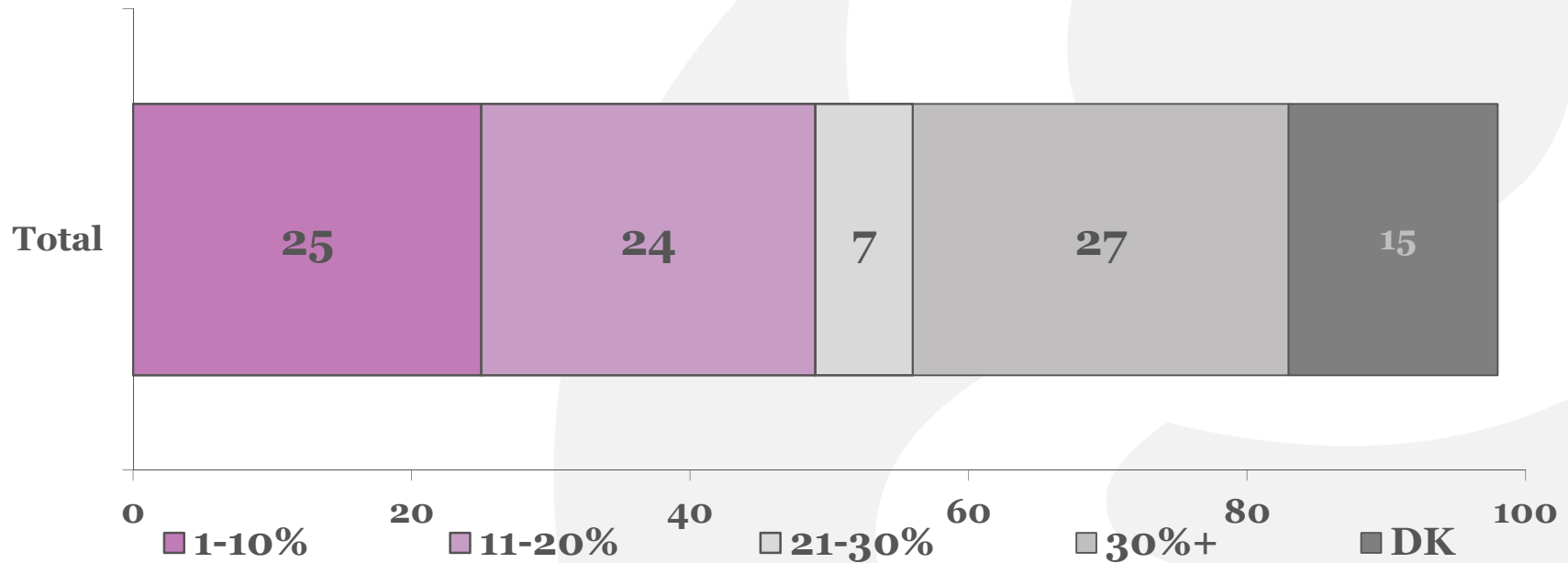
Cyber-Security Investment

“Has the amount of money your company has invested in cyber-security in the last two years increased or stayed the same or decreased compared to previous years?”





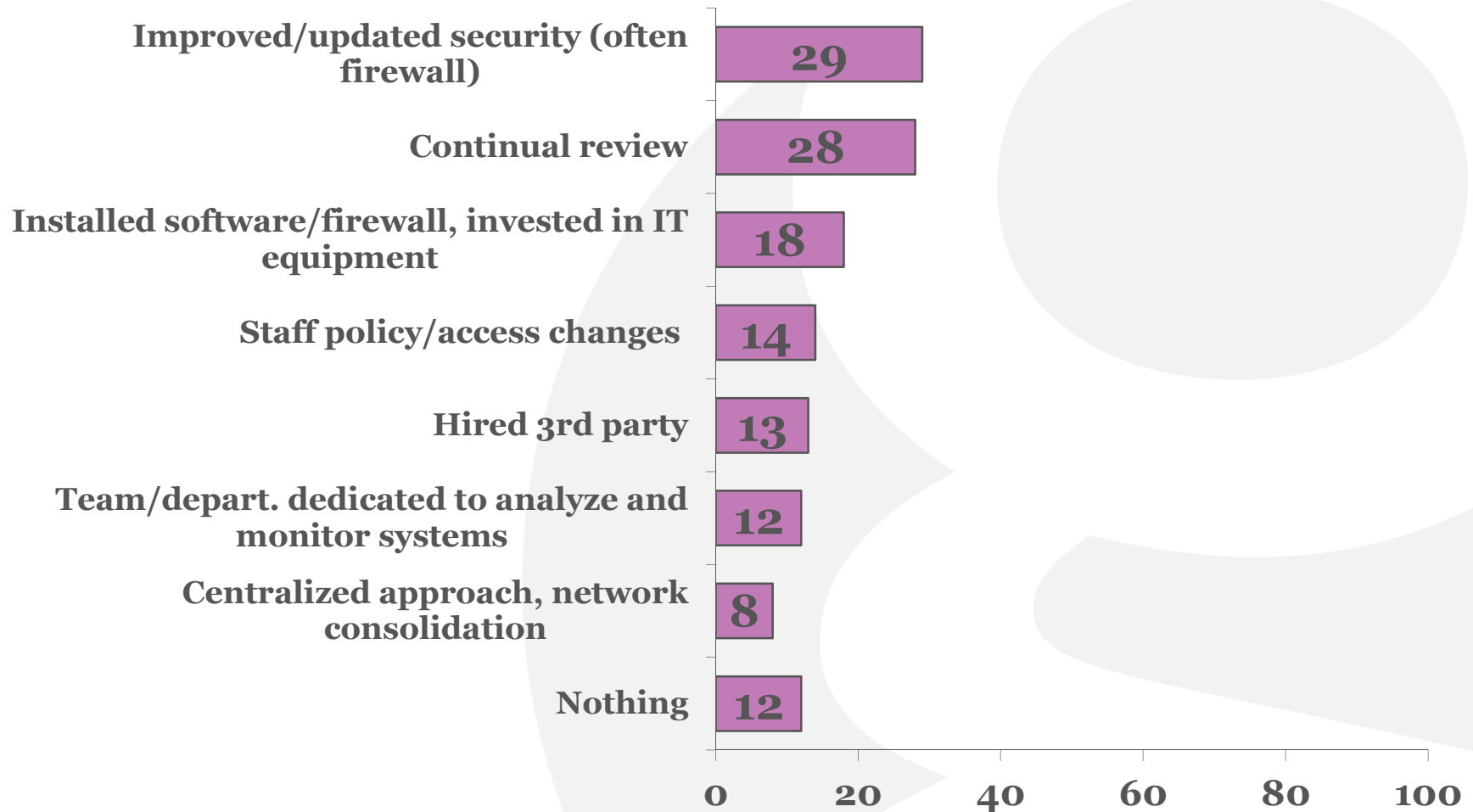
“By what amount in percentage terms would you say that your annual spending on IT security has increased?” (AMONG THOSE SAYING SPENDING HAS INCREASED)





Cyber-Security Measures Taken

“What, if anything, has your company done in the last two years to protect itself from cyber-security threats?” (Open-ended)



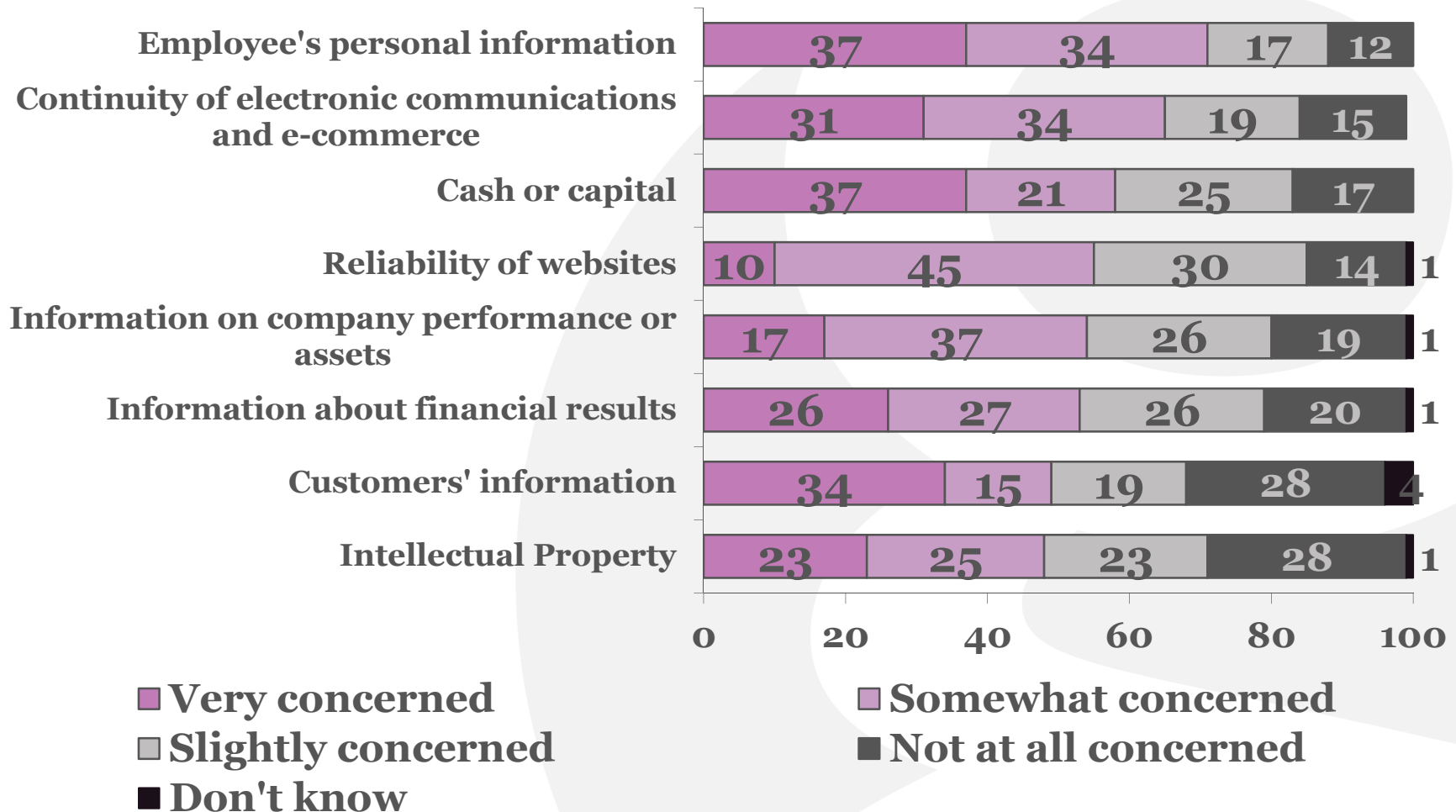


- ❑ The systems or data executives most want to protect deal with:
 - Employees' information
 - Continuity of electronic communications and e-commerce
 - Customer information and intellectual property is of little concern for resources companies. For services companies, customer data is by far their top concern.
- ❑ The main threats executives believe they would face come from criminally motivated individuals or organizations.
 - Half of services sector executives were concerned about organized crime.
- ❑ They are less concerned about domestic business competitors or foreign governments.
- ❑ Most are not confident in governments' and law enforcement's ability to protect Canadian businesses or the economy.
- ❑ Stronger deterrents and more information sharing were the most frequently mentioned that governments should be implementing in this area.



Concern Over Cyber-Threats to Various Assets

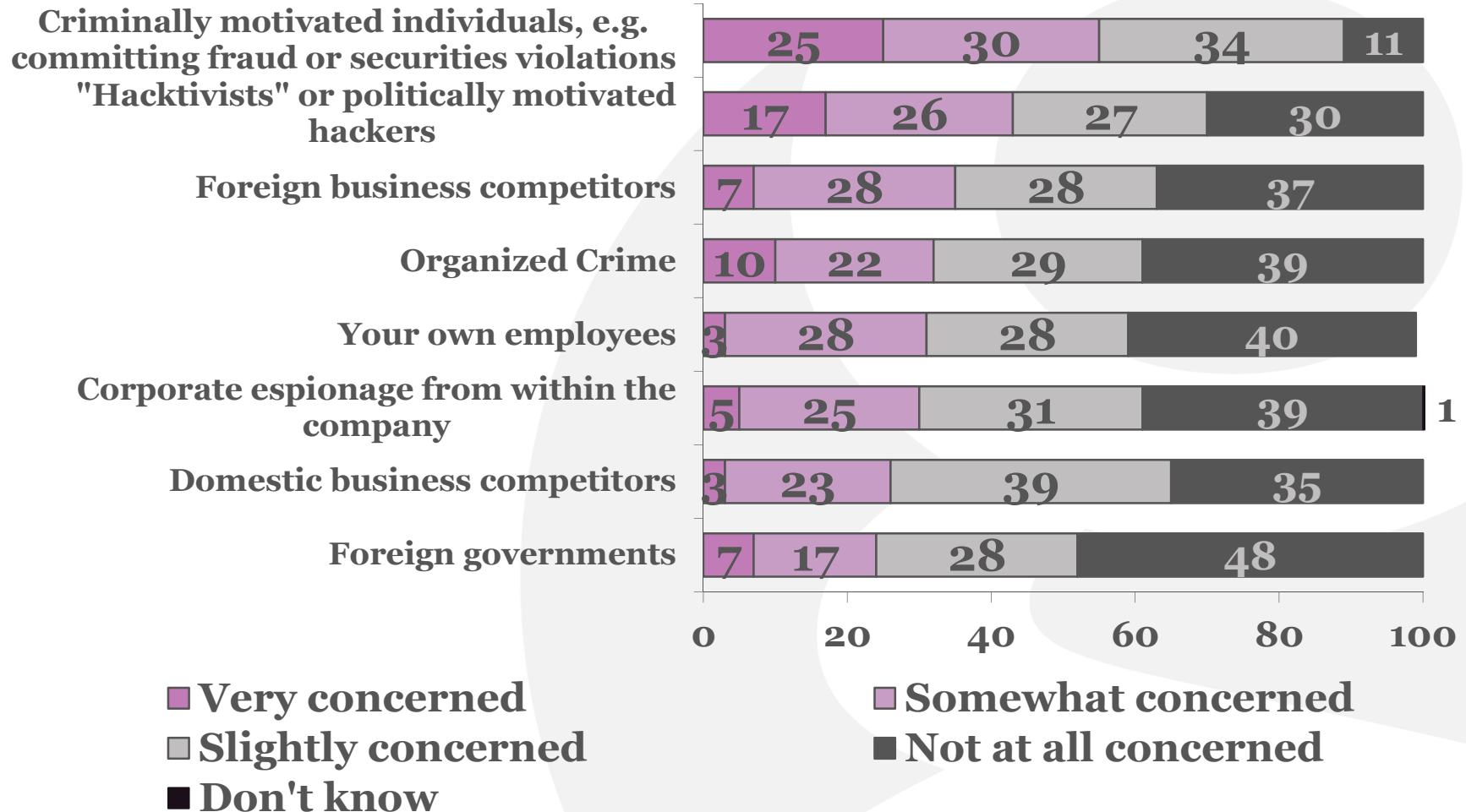
“We’d like to know what companies want to protect most with respect to cyber-security. How concerned are companies like yours when it comes to protecting the following from cyber-threats?”





Concern Over Various Sources of Cyber-Threats

“We’d like to ask who poses a threat to companies. How concerned are you about the following cyber-security threats?”

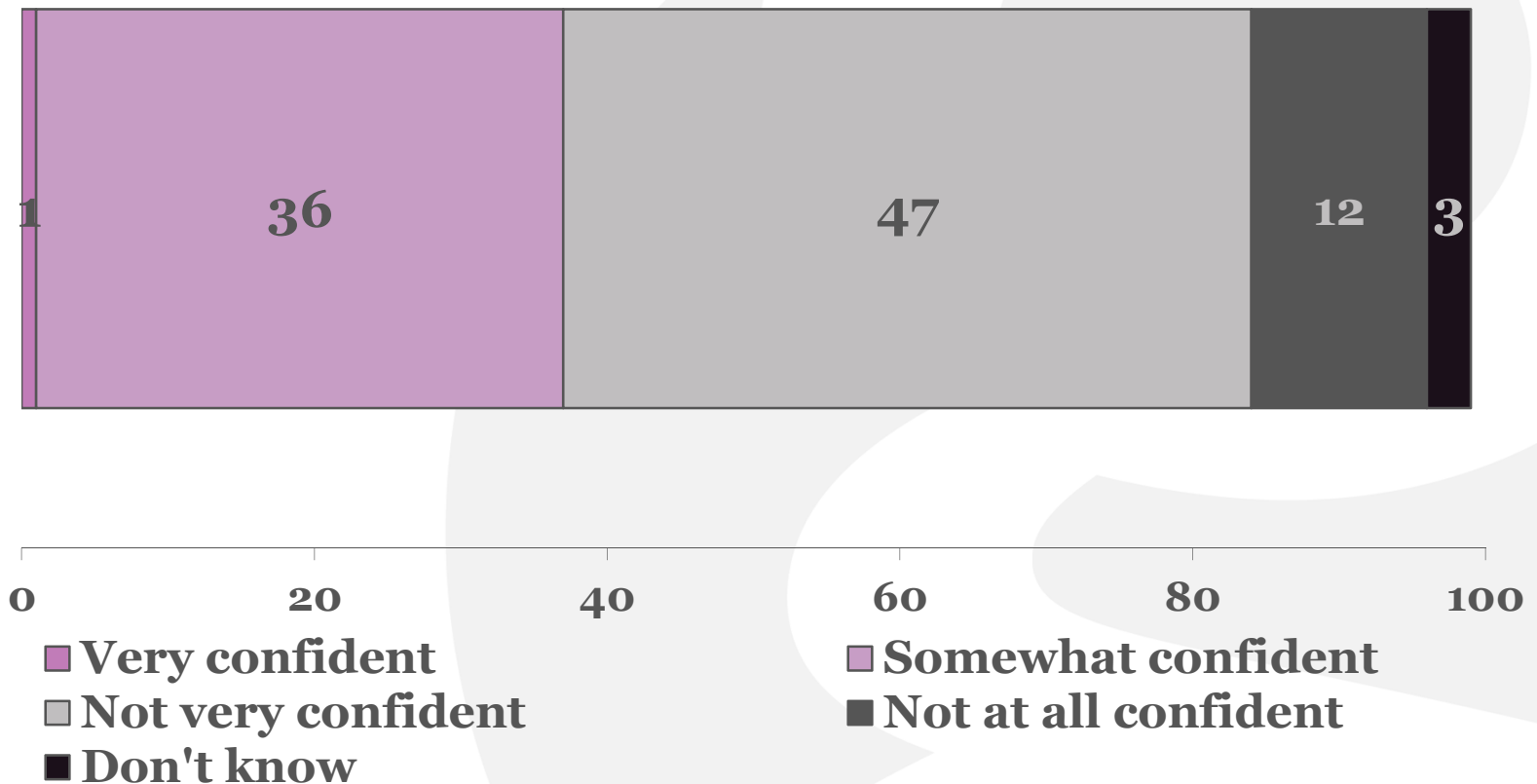




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Confidence in Government/ Law Enforcement Protection

“How confident are you in Canadian government and law enforcement efforts to protect Canadian business from these threats?”





Cyber-Security Measures Government Should Take

“What, if anything, should the Government of Canada be doing to help combat cyber-security issues facing Canadian businesses?” (Open-ended)

