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C-Suite Survey Findings Executive Summary

June 18, 2012 – In this the 27th edition of the C-Suite Quarterly survey, conducted on behalf of KPMG; published and broadcast by the *Globe and Mail's Report on Business (ROB)* and *BNN*. Telephone interviews were conducted with 156 C-level executives from ROB 1000 companies between May 17th and June 5th, 2012. The margin of error for this study is +/- 7.85%, 19 times out of 20.

Economic Outlook

- ❑ Based on renewed optimism about the US economy, business expectations for Canada's economy are improved this quarter.
- ❑ The outlook of executives for the US economy has improved slightly since last quarter; confidence in growth is now back to the same level as June of last year, recovering from a pessimistic September 2011.
- ❑ The C-Suite's evaluation of the Canadian economy at the current time continues a yearlong trend of steady incremental improvement. Four in five executives said the economy is in moderate growth.
- ❑ We have found for many quarters now that executives with Canada's top companies have a more positive outlook for their companies than for the economy.
- ❑ Although resources executives have tended to be more confident of their company's growth relative to other sectors, this quarter sees resources executives approximately as confident about their company's growth as manufacturing executives.
- ❑ There are still a number of dark clouds that executives see, but none darker than Europe which is preoccupying the Canadian business community.
 - These concerns particularly manifest themselves in concern about another credit crisis where debt financing is unavailable.

Cash Reserves and Financing

- ❑ Concern about those risks has business sitting on healthy balance sheets, hoarding for a rainy day. Almost half of Canada's biggest companies - 45% - are holding on to cash reserves rather than investing that money in capital, human resources or otherwise, as policy makers are urging them to do.

- ❑ Mostly, they are doing so to give themselves a buffer against the risks they see out there.
- ❑ Most leading Canadian businesses will need to borrow money over the next year, and the balance of risk is seen as shifting back toward restricted credit.
 - Two thirds of those that said they are not holding cash said they would access debt financing, while less than half of those that are holding onto cash said the same.
 - Executives were more likely to say they expect equity financing, rather than debt financing, to become more difficult over the next year compared to last.

Interest Rates

- ❑ There is considerable concern about the impact rising interest rates would have, and most in Ontario are opposed to any move by the Bank of Canada (BOC) to raise rates even a point.
- ❑ The majority of executives in the resources industry support raising interest rates, while only about one third of those in manufacturing and services said the same.
- ❑ Ontario executives overwhelmingly said that keeping the dollar at a level where Canadian exporters can compete is important, while fewer (two-thirds) from the West said the same.
- ❑ When setting rates, executives want the BOC to be considering a number of, sometimes contradictory, objectives, but most want the Bank to place more emphasis on encouraging growth than on fighting inflation.

CEO Compensation

- ❑ Most business leaders think that CEO's compensation cannot be justified by improvements in shareholder value, and see growing income disparity as a negative development in society.
- ❑ Most believe that the disparity will not continue to grow - most expect the ratio between CEO and average workers' salaries will decrease or stay the same.

Ontario's New High-Income Surtax

- ❑ Most executives oppose the new 2% surtax on annual incomes above \$500k, introduced in Ontario, while one third support it.
- ❑ Support nearly matched opposition among those that said that the CEO wage disparity has a negative impact on society.

Emerging Markets

- ❑ Most leading Canadian business leaders do not think that it is critical that their company be globally competitive, nor do they think an emerging markets strategy would be strongly beneficial.
- ❑ There is a divide between the exporting Western Canadian companies focused on global markets and manufacturing and service sectors in Ontario locked into North America.
 - Many manufacturers are undertaking emerging markets strategies, but think the Canadian dollar is working against them in global markets.