

Luxembourg Business Compass

14th Survey Wave

October 2015

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INTRODUCTION

In April 2009, top decision-makers at the largest companies in Luxembourg, as defined by the number of employees, were interviewed for the first time within the framework of the *Luxembourg Business Compass*. Using this instrument, the aim was to establish an economic indicator—for the first time ever—that could be employed to ascertain Luxembourg business leaders' expectations regarding the future economic trend in Luxembourg at regular intervals. The survey focuses particularly on how business leaders expect the Luxembourg economy will develop in the next 12 months, along with their expectations and plans for their own companies' future development. These core questions are supplemented by varying questions pertaining to business or politics.

In October 2015, the survey for the *Luxembourg Business Compass* was conducted for the fourteenth time. As with the prior survey waves, the INSTITUT FÜR DEMOSKOPIE ALLENSBACH was commissioned by KPMG S.A.R.L. to design the survey methodologically, develop the questionnaire in cooperation with the client, confidentially process the anonymous data collected and compile a report on the findings. After being notified about the survey in writing or by telephone, a total of 53 top decision-makers were interviewed using an online questionnaire in English in the time from October 14 – 31, 2015. As in all of the previous survey waves, it was also possible to draw a top-notch sample for the present survey: in 15 percent of the cases, the interview was completed by the company owner him- or herself, while about three quarters of the respondents either belong to the executive board or top management of their companies (74 percent), and the remaining 11 percent hold other executive positions.

The companies were selected based on the STATEC directory, "Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2, Situation au 1er janvier 2014 (édition juin 2014)." In drawing the sample, companies were selected from the different business sectors in line with these sectors' share of the gross domestic product in Luxembourg. Within the different economic sectors, the largest companies—as determined by the number of employees—were included in the investigation.

The present report summarizes the most important findings of the study and presents them in graphic form. The report is supplemented by a basic volume of tables showing the responses to all questions in tabular form.

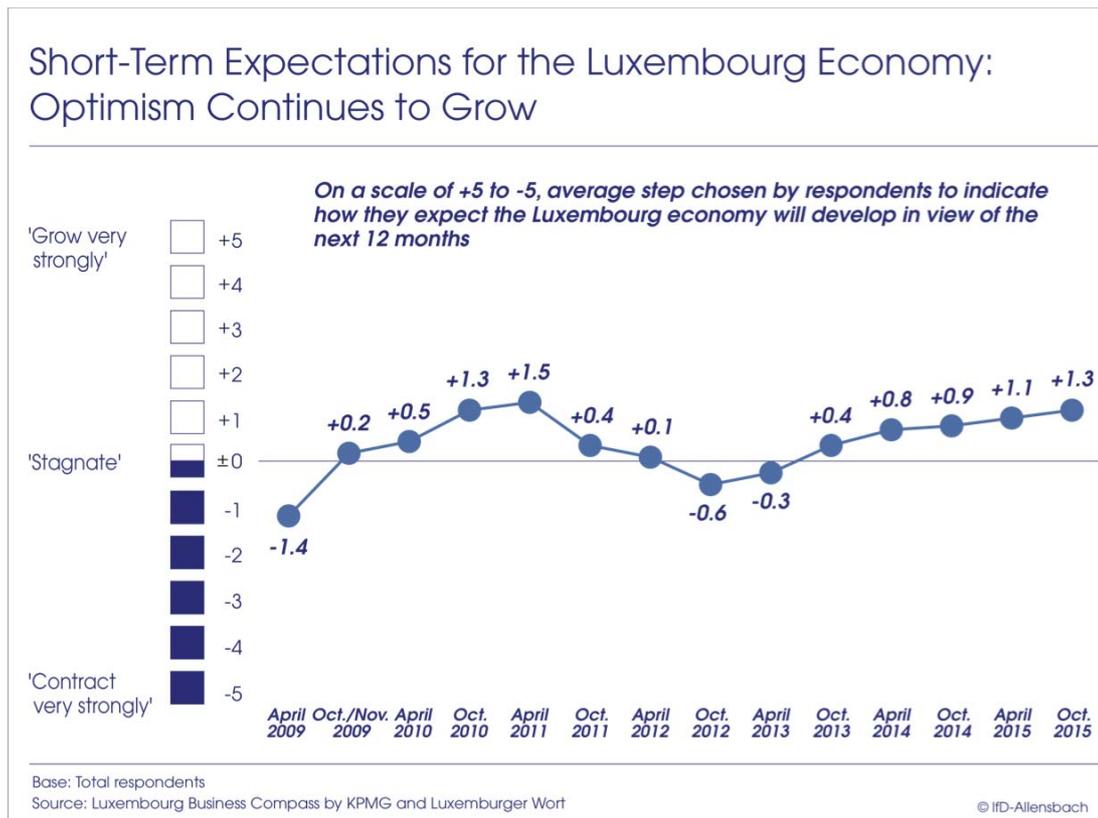
Allensbach on Lake Constance, INSTITUT FÜR DEMOSKOPIE ALLENSBACH
November 13, 2015

FINDINGS

Optimism about the economic outlook continues to grow among Luxembourg business leaders

In the view of Luxembourg business leaders, the Luxembourg economy is continuing on its upward path, as evidenced by their expectations for the economic development over the next 12 months, which are again clearly optimistic. On an 11-step scale ranging from '-5' ("economy will contract very strongly") to '+5' ("economy will grow very strongly"), respondents currently choose an average value of +1.3, indicating that they anticipate perceptible economic growth over the course of the year. Their expectations have thus risen—slowly but surely—for the sixth time in a row (Figure 1).

Figure 1



As was already the case a year ago, business leaders' expectations for the next 12 months are very homogeneous: about three quarters of the entrepreneurs interviewed choose steps +1 or +2 on the scale (73 percent). 17 percent expect the economy will stagnate, whereas a share of 10 percent anticipate strong economic growth (+3 on the scale). The other points on the scale are not selected by anyone—and it is particularly striking that none of the business leaders interviewed expects that the Luxembourg economy will contract in the upcoming year (Figure 2).

Figure 2

		Oct./Nov. 2009	Oct. 2010	Oct. 2011	Oct. 2012	Oct. 2013	Oct. 2014	Oct. 2015
'Grow very strongly'	+5	x	x	x	x	x	x	x
	+4	x	x	x	x	x	x	x
	+3	2 48%	10 82	5 57	x 23	x 55	1 72	10 83
	+2	22	42	16	2	14	20	28
	+1	24	30	36	21	41	51	45
'Stagnate'	±0	22	10	23	28	27	23	17
	-1	13	4	4	23	14	5	x
	-2	11	3	9	17	3	x	x
	-3	6 30	1 8	7 20	6 49	x 18	x 5	x x
	-4	x	x	x	2	1	x	x
'Contract very strongly'	-5	x	x	x	1	x	x	x
		100	100	100	100	100	100	100
On average		+0.2	+1.3	+0.4	-0.6	+0.4	+0.9	+1.3

x = less than 0.5 percent

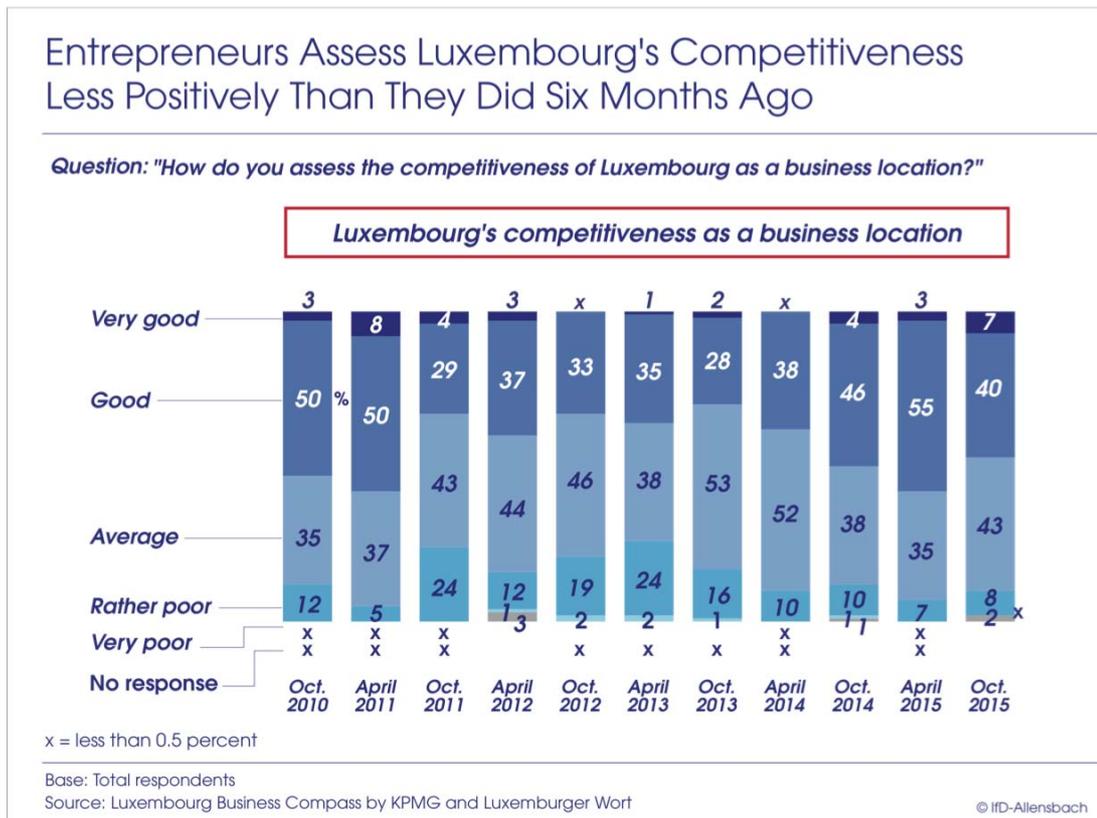
Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

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Luxembourg's competitiveness is assessed somewhat less positively than it was six months ago—and the lack of qualified staff is becoming increasingly problematic

Nevertheless, Luxembourg's competitiveness as a business location is now assessed somewhat less positively by business leaders than it was 6 months ago. Currently, less than half of the top decision-makers interviewed rate the country as "good" or "very good" in terms of competitiveness, as opposed to 43 percent who rate it as "average" and 8 percent who assess it as "poor." These assessments are significantly worse than those obtained in April of this year, although they are still at about the same level as was measured in October 2014 (Figure 3).

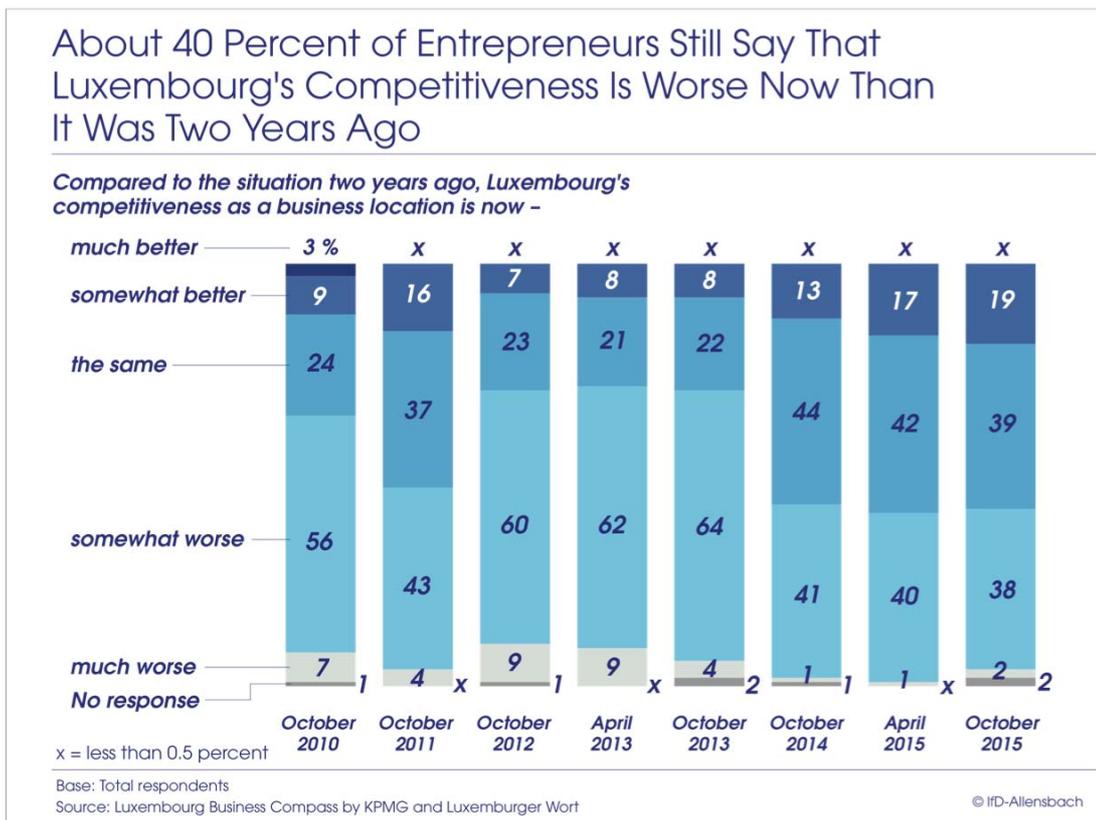
Figure 3



In contrast, when asked about the development of Luxembourg's competitiveness in comparison to the situation two years ago, assessments given by the country's top decision-makers are less negative than they were in any of the prior survey waves:

although 40 percent believe that Luxembourg's competitiveness as a business location is worse now than it was two years ago, as many as 39 percent perceive no change in this regard and 19 percent even believe there has been an improvement (Figure 4). On balance, the share of entrepreneurs who perceive a negative trend with respect to the country's competitiveness is still larger than the share of those who perceive a positive development. This stands in direct contradiction to the previous finding, since a comparison of current assessments of Luxembourg's competitiveness with the assessments provided in October 2013 reveals a distinctly positive trend.¹ Apparently, many business leaders still feel that the country has not completely recovered from the setbacks caused by the crises in recent years.

Figure 4



¹ Cf. Figure 3

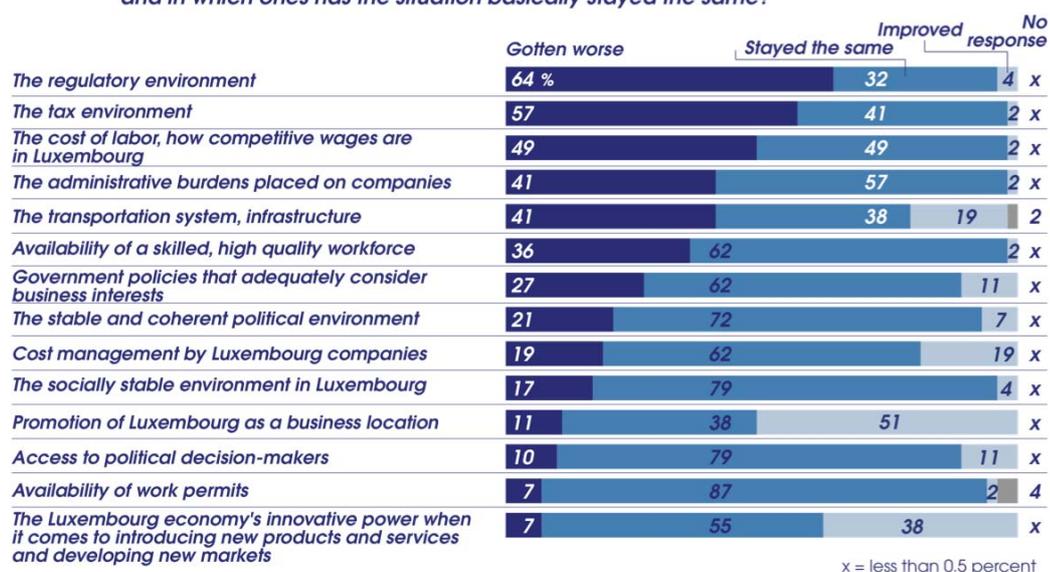
In keeping with the negative overall assessment of how Luxembourg's competitiveness has developed over the past two years, business leaders also tend to perceive negative trends in connection with a number of individual factors that contribute to Luxembourg's competitiveness as a business location. This is especially true with respect to the regulatory environment and the tax environment. For both of these factors, a majority of business leaders say the situation has gotten worse over the past two years. About half say the situation has gotten worse when it comes to labor costs.

In contrast, a (slight) majority perceives improvements in connection with the promotion of Luxembourg as a business location. Business leaders' assessments are also positive on balance with regard to the development of the Luxembourg economy's innovative power over the past two years, even if the majority perceives no change in this regard. The development of cost management by Luxembourg companies is viewed neutrally on balance. Although the majority perceives no change over the past two years with respect to practically all of the remaining location factors, the share of respondents who perceive a negative trend with respect to these factors still outweighs the share of positive assessments. This is particularly pronounced in connection with the administrative burdens placed on companies by the state (Figure 5).

Figure 5

When It Comes to Many Location Factors, Entrepreneurs Tend to Perceive a Negative Trend in Luxembourg

Question: "Thinking of Luxembourg's competitiveness as a business location: which of these areas have improved over the past two years, in which areas has the situation gotten worse, and in which ones has the situation basically stayed the same?"



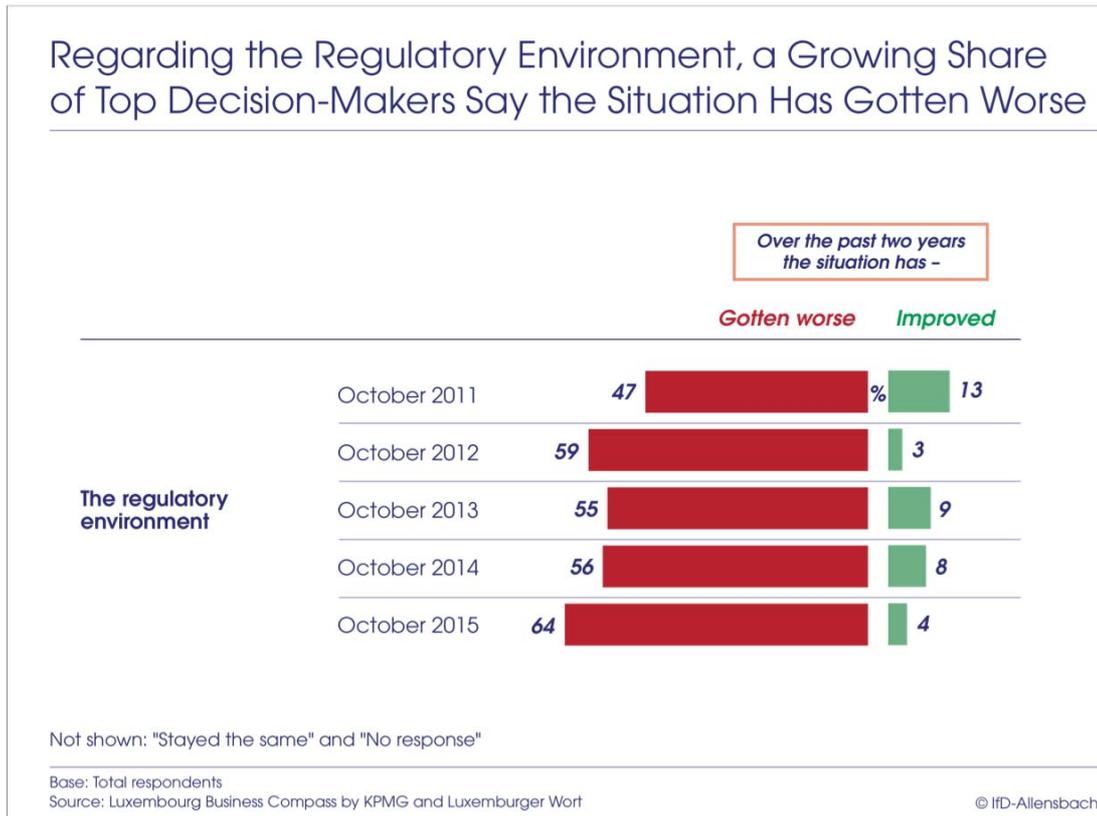
Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (October 2015)

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An increasingly negative trend is found in connection with the perceived development of the regulatory environment: assessments of the development of this location factor are more negative on balance than in any prior survey wave (Figure 6).

Figure 6



In contrast, business leaders' assessments of the trend regarding the Luxembourg economy's innovative power and the promotion of Luxembourg as a business location are more positive than in any previous survey waves. In both cases, there has been an unmistakable rise in positive assessments, particularly since October 2013 (Figures 7 and 8).

Figure 7

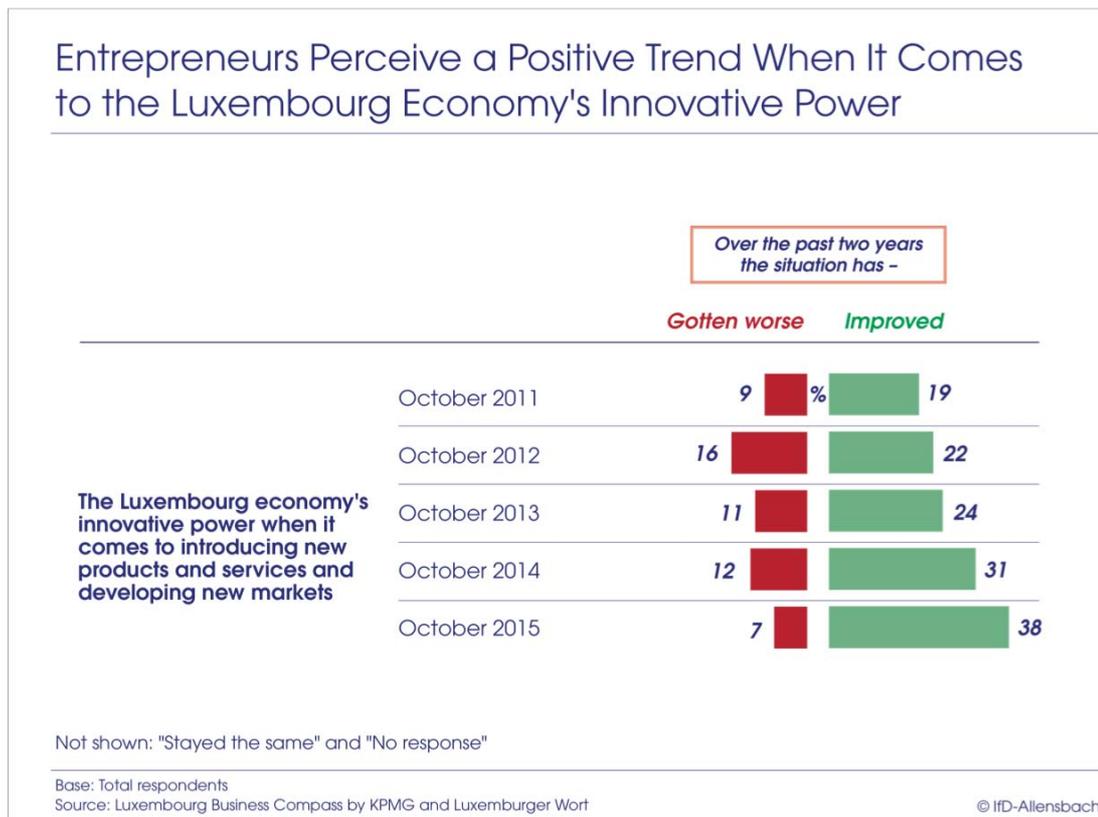


Figure 8

Continued Improvement with Respect to the Promotion of Luxembourg as a Business Location



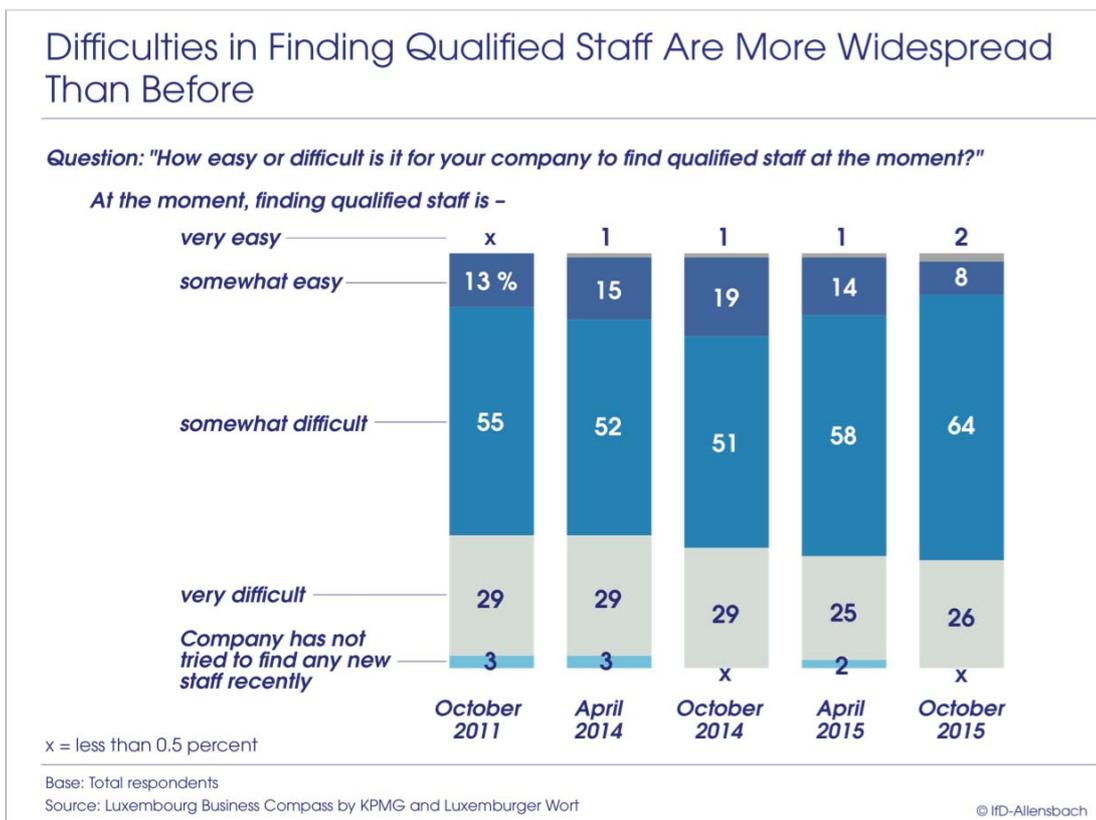
Not shown: "Stayed the same" and "No response"

Base: Total respondents
Source: Luxembourg Business Compass by KPMG and Luxemburger Wort

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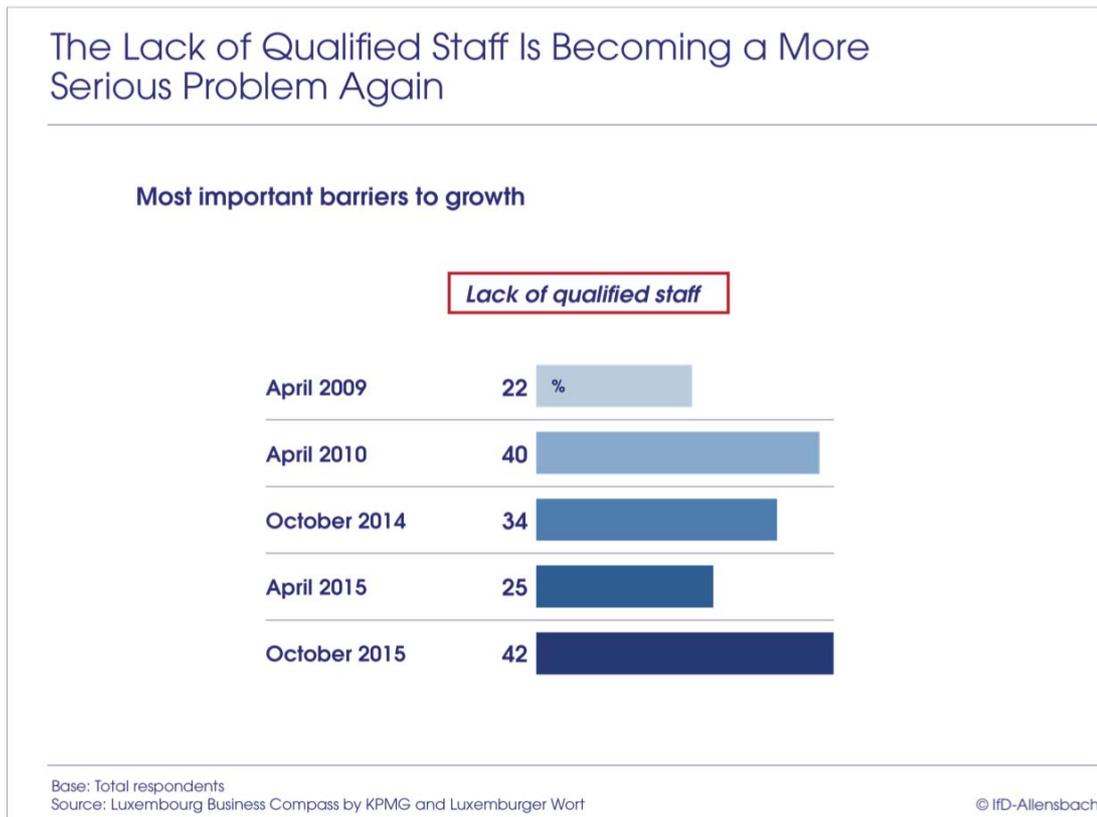
About a third of Luxembourg business leaders rate the availability of a skilled, high quality work force as worse than it was two years ago (cf. Figure 5). This is reflected in the difficulties Luxembourg companies have in finding qualified staff: only about 10 percent of the business leaders interviewed report that finding qualified staff is currently "somewhat easy" or even "very easy." In contrast, about two thirds say finding qualified staff is "somewhat difficult," while about one quarter even say it is "very difficult"—meaning that a total of 90 percent have at least some difficulties in this respect, a share that is larger than in any prior survey waves (Figure 9). Consequently, the lack of qualified staff is becoming a barrier to growth for an increasing share of companies (Figure 10). In fact, this is currently the second most frequently mentioned barrier to growth, cited by 42 percent of the respondents interviewed.²

Figure 9



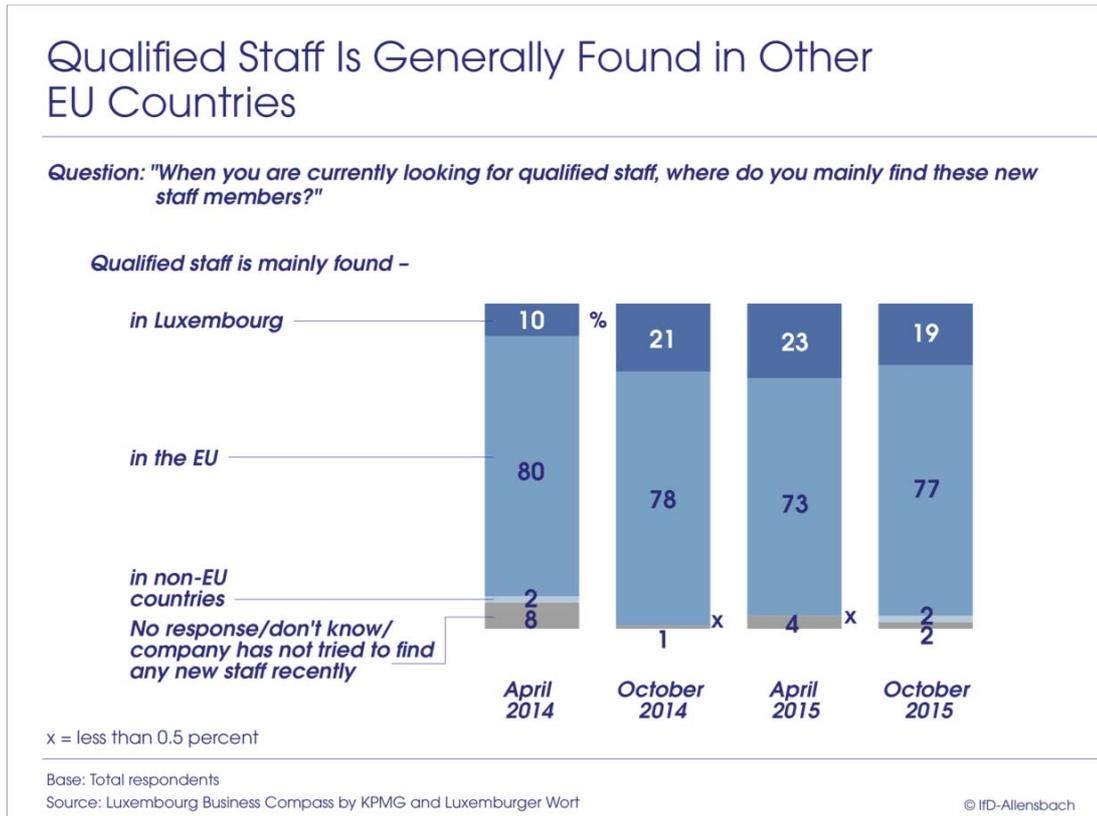
² Cf. Figure 15, p. 19

Figure 10



About three quarters of Luxembourg companies primarily find qualified staff in other EU countries. The share of companies that mainly find qualified staff in Luxembourg is currently 19 percent, which is a slight decline in comparison to the findings obtained in April 2015 (Figure 11).

Figure 11

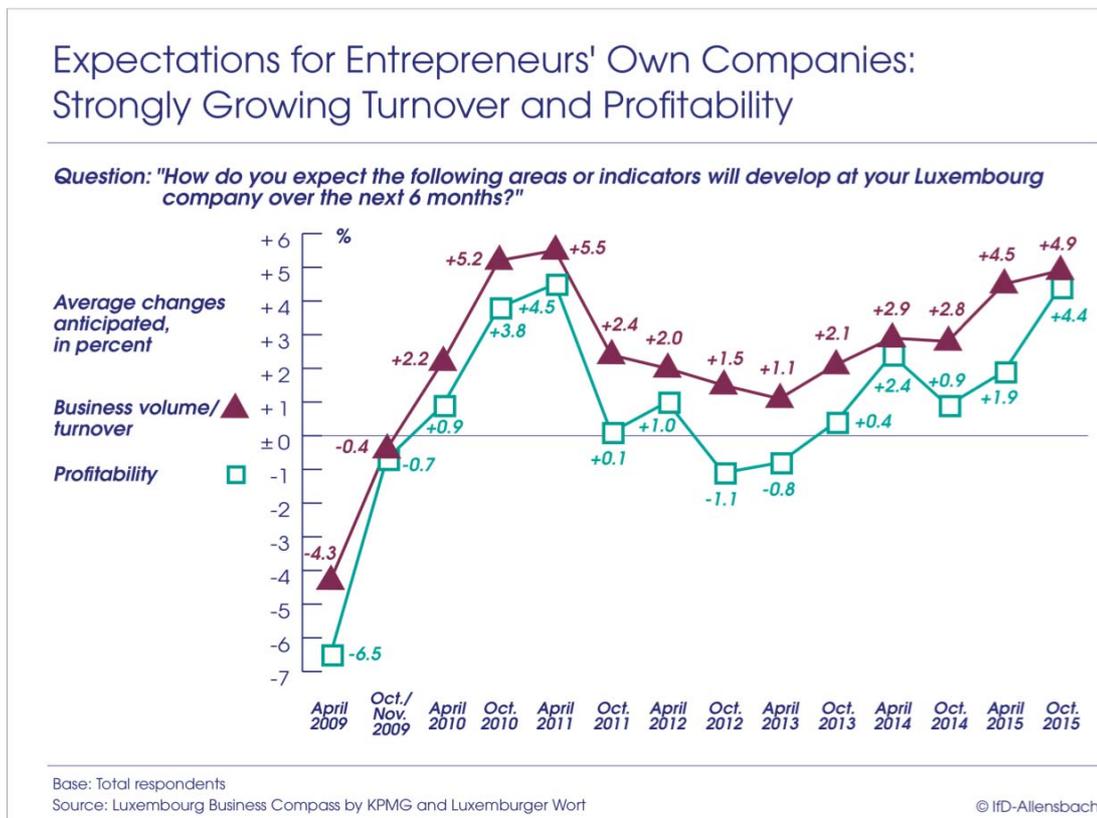


Luxembourg companies expect considerable increases in turnover and profits on average—along with growing investments and an increase in the number of employees

In keeping with their increasingly positive outlook on the overall economic development, Luxembourg decision-makers are also optimistic when it comes to the expected development of key economic indicators at their own companies. Most notably, business leaders expect substantial increases in turnover and profits over the next 6 months.

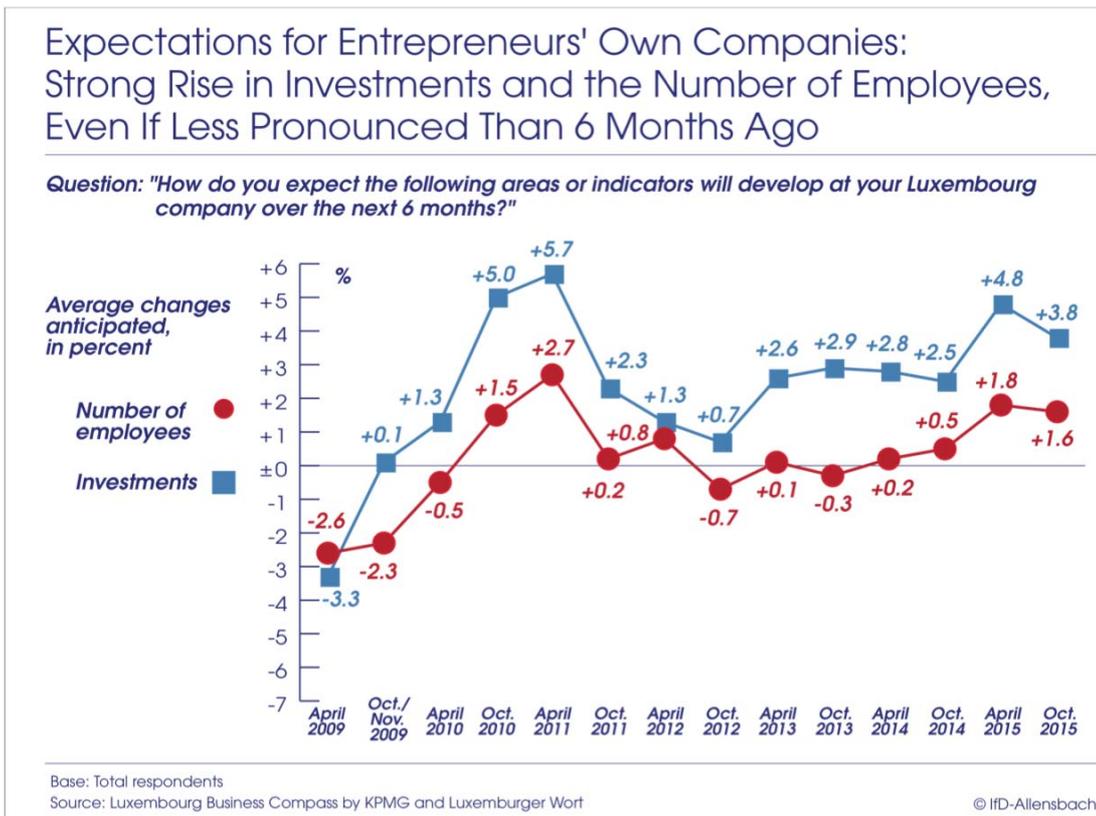
Respondents now anticipate that business turnover at their own companies will increase by an average of 4.9 percent and profits will grow by 4.4 percent over the next 6 months. Business leaders have not expected these indicators to grow so strongly since April 2011 (Figure 12).

Figure 12



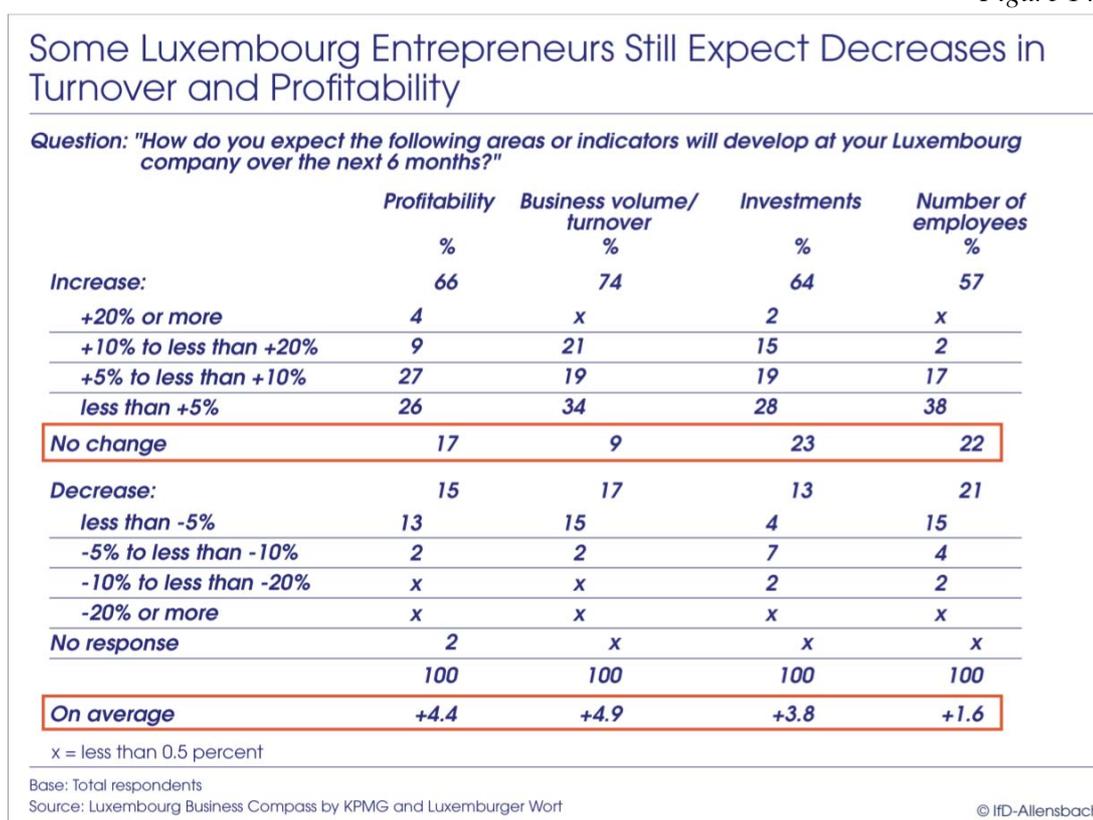
Investments are still clearly expected to develop positively over the next 6 months—specifically, by +3.8 percent on average—although the expected increase is somewhat smaller than it was in April of this year. The number of employees is also expected to grow by an average of +1.6 percent over the next 6 months, which is another markedly positive development (Figure 13).

Figure 13



Even though expectations regarding turnover and profitability are very positive on average, a more differentiated analysis shows that about one out of six or seven entrepreneurs anticipate a—generally slight—decrease in turnover and/or profits at their Luxembourg companies over the next 6 months. When it comes to the number of employees, the share of companies that are expecting a decrease is about one out of five (Figure 14).

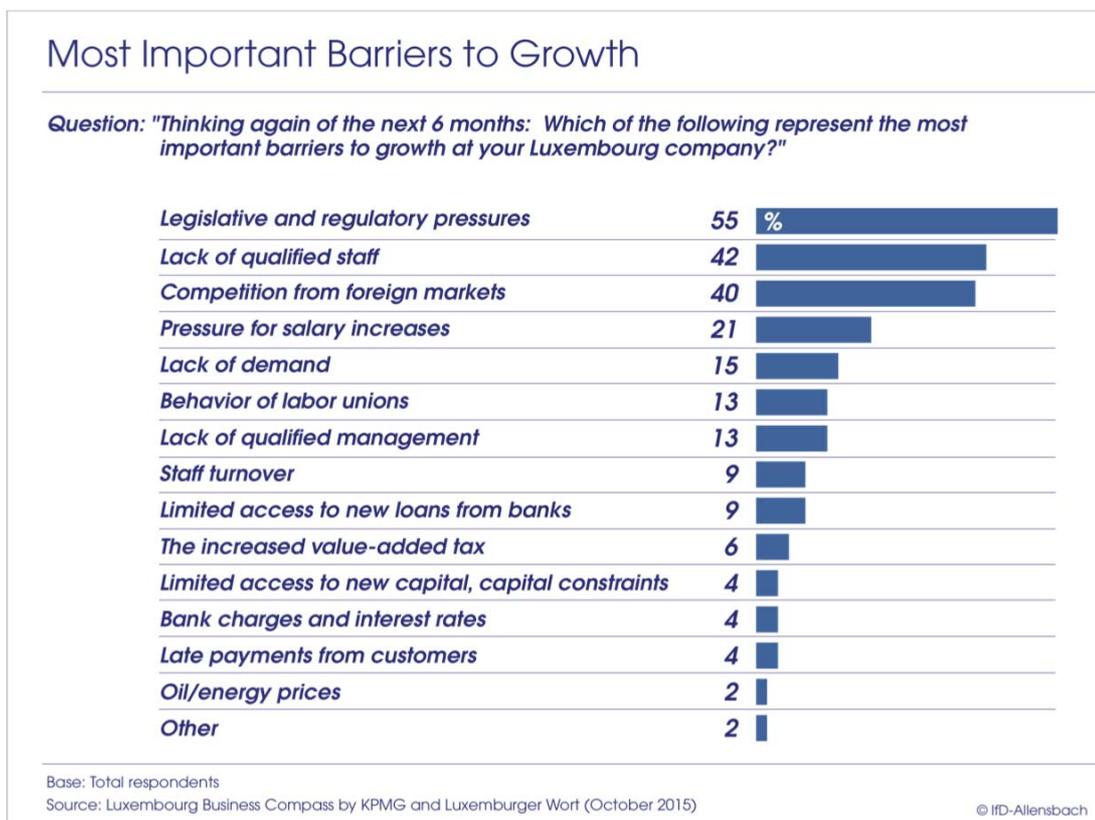
Figure 14



Legislative and regulatory pressures and the lack of qualified staff are increasingly perceived as important barriers to growth—whereas the situation with respect to sales markets has improved somewhat

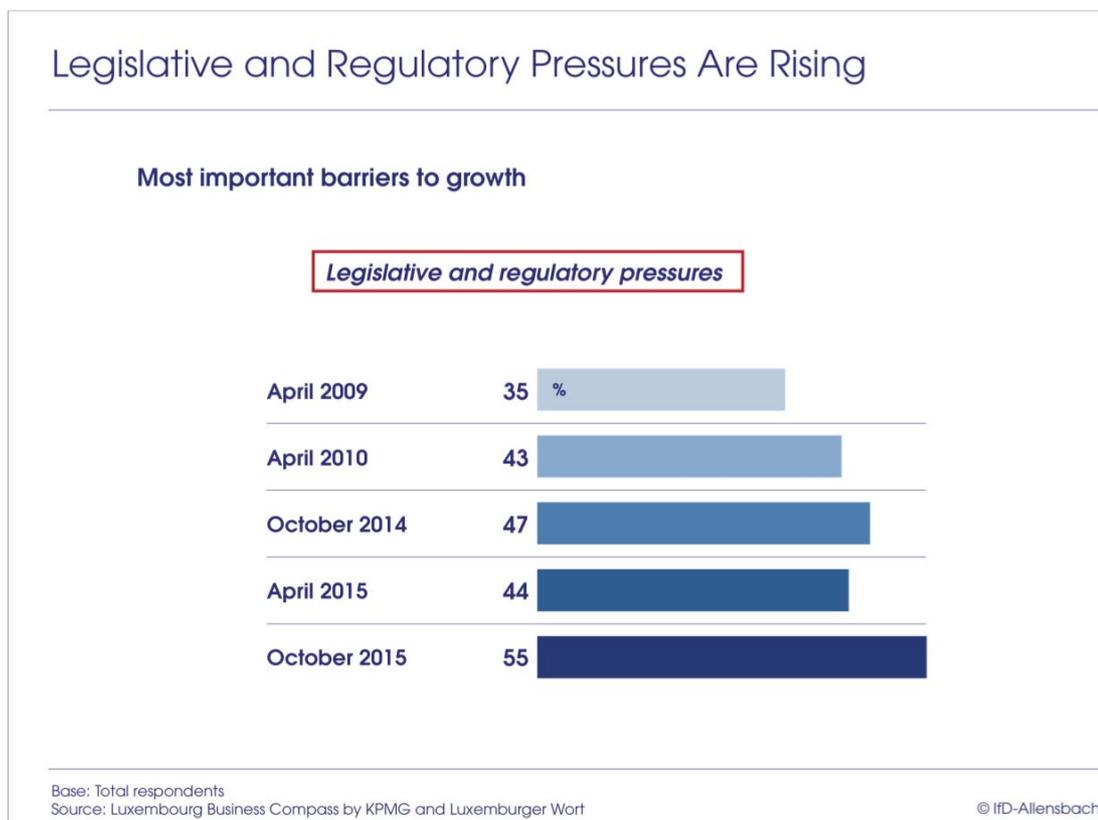
By far the most frequently cited barrier to growth at respondents' Luxembourg companies are the legislative and regulatory pressures imposed by the state (55 percent), followed by the lack of qualified staff and competition from foreign markets. In comparison, other possible barriers to growth, such as pressure for salary increases or a lack of demand, are cited considerably less frequently (Figure 15).

Figure 15



Viewed over time, the findings reveal that legislative and regulatory pressures and the lack of qualified staff are perceived as important barriers to growth by a growing share of business leaders. With respect to the lack of qualified staff, this trend has already been outlined above.³ A similar trend is found in connection with legislative and regulatory pressures: in April 2009, only about one third of all respondents cited this factor as an important barrier to growth at their own companies. In April of this year, the corresponding share had risen to 44 percent, as compared to 55 percent in the latest survey wave (Figure 16).

Figure 16



³ Cf. Figure 10, p. 14

In contrast, sales markets are now viewed less frequently as a limiting factor for growth at Luxembourg companies: the lack of demand—cited by about two thirds of decision-makers as an important barrier to growth in April 2009 and by about one third even just a year ago—is now perceived as a barrier to growth by only 15 percent. In this connection, competition from foreign markets is also cited less frequently now than it was a year ago, and has in fact returned to the level found in 2009 and 2010 (40 percent; Figure 17).

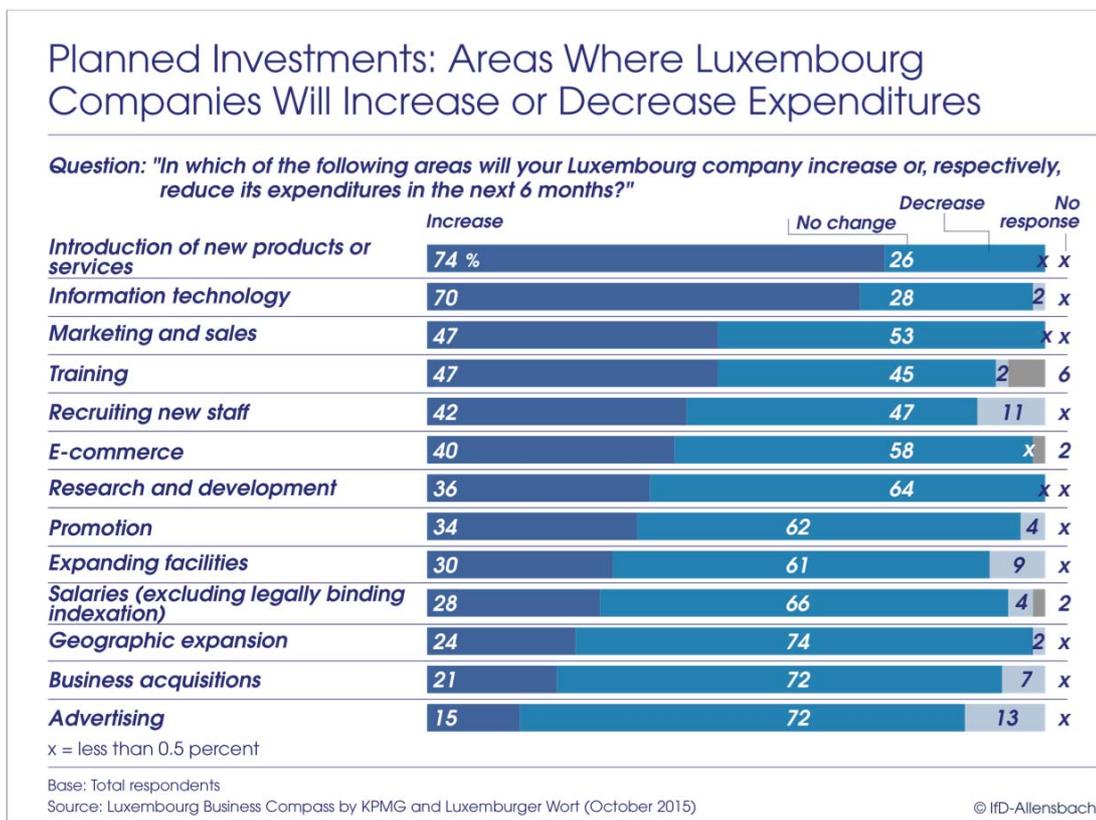
Figure 17



An overwhelming majority of companies are planning to expand their budgets for introducing new products and services and for information technology

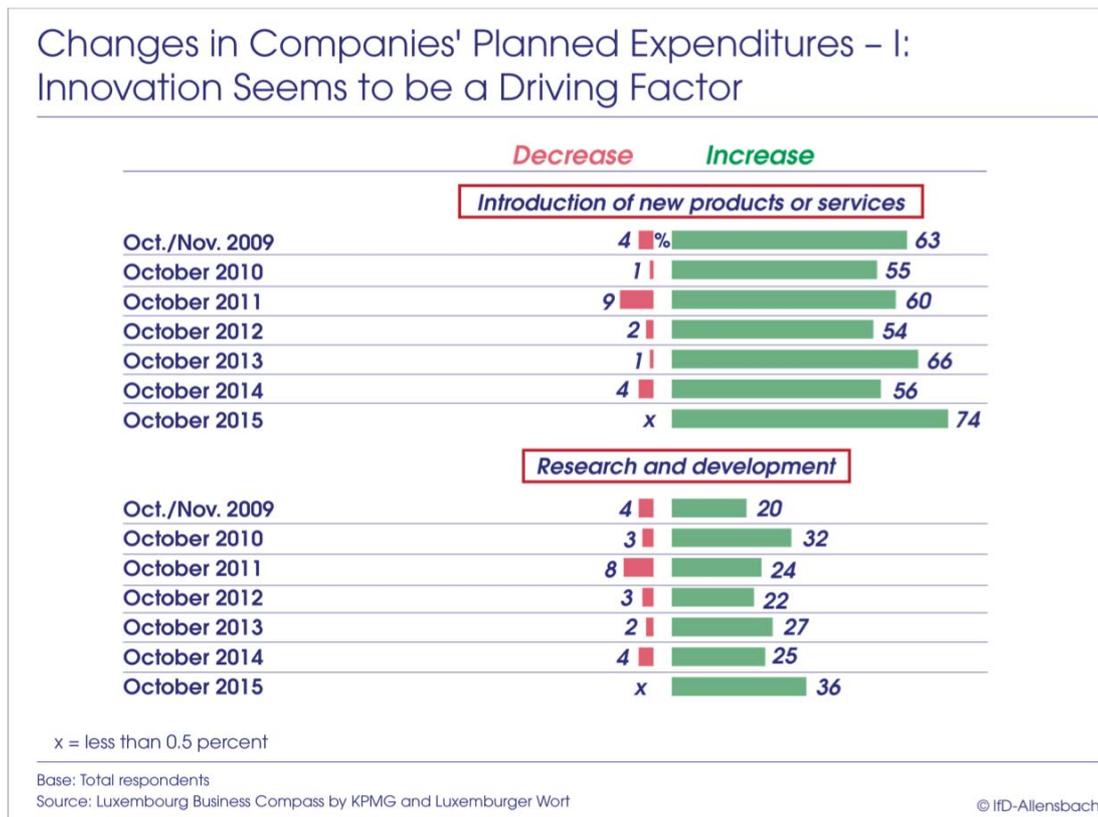
The largest Luxembourg companies are generally planning to increase rather than reduce their budgets for all areas of operations over the next six months. A particularly large share of companies anticipate increases in connection with introducing new products or services (74 percent), as well as for IT (70 percent). The most moderate budgetary increases are expected in connection with advertising (Figure 18).

Figure 18



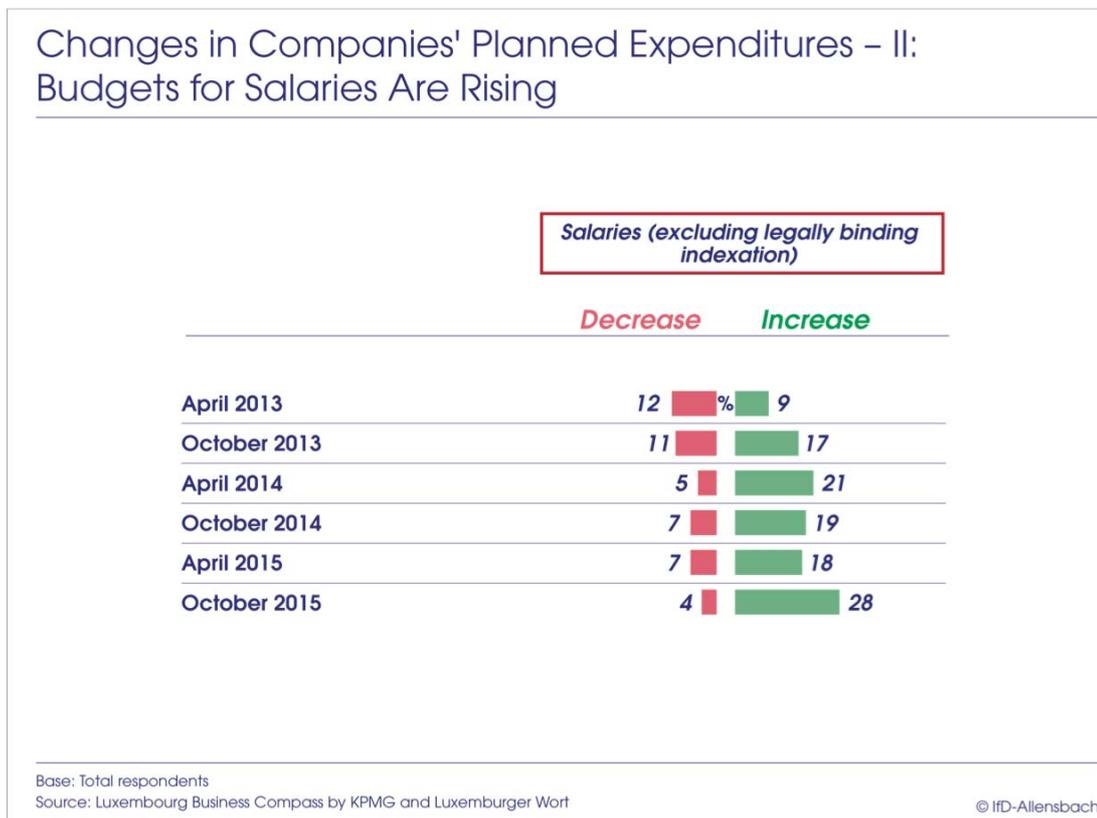
In comparison to the planned increases found in prior years, the share of companies that intend to increase their budgets for introducing new products and services is also remarkably high, that is, higher than in all prior survey waves. Moreover, entrepreneurs also intend to invest more strongly in research and development than in prior years (Figure 19). Obviously, innovation is currently a driving factor when it comes to planned budget increases.

Figure 19



Likewise, the share of companies that are planning to increase their budgets for salaries and wages has grown in comparison to the past two years (Figure 20). This finding is probably connected to the widely reported lack of qualified staff.⁴

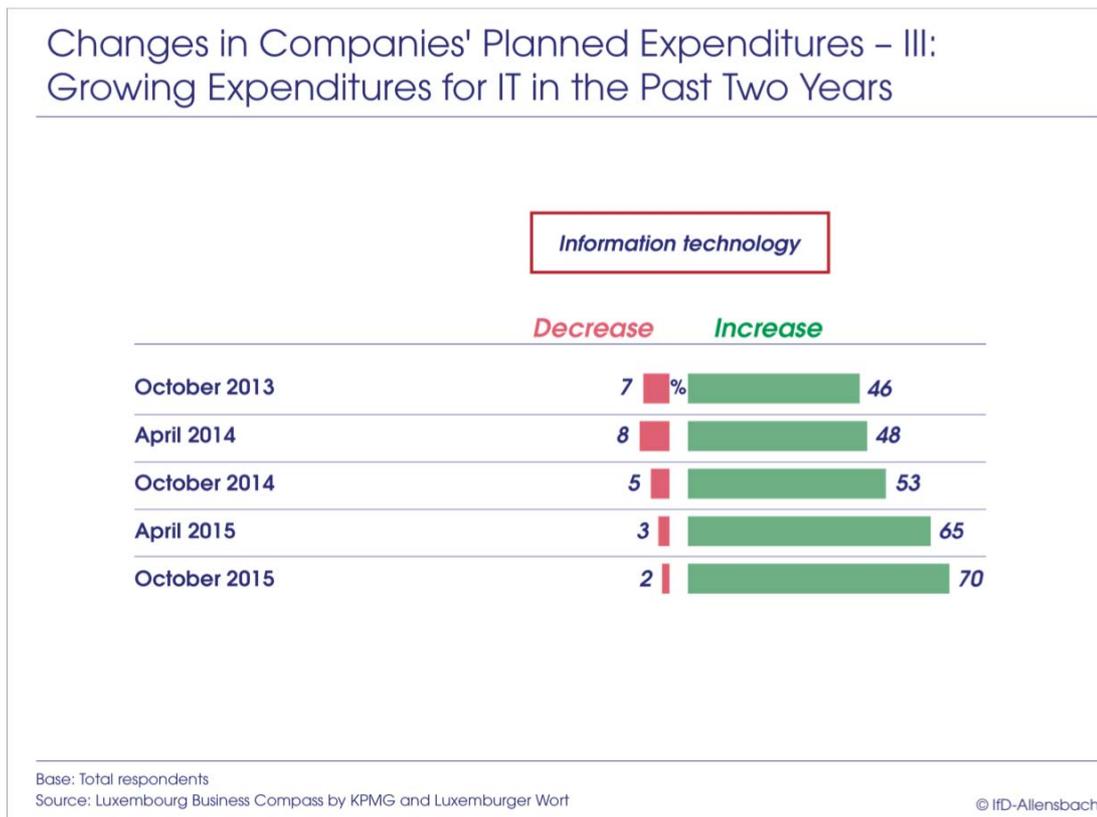
Figure 20



⁴ Cf. Figures 5, 9 and 10

In addition, plans to increase expenditures for IT are also clearly more widespread now than in the past two years. Thus, in October 2013, only 46 percent of Luxembourg companies were planning to increase their budgets in this area and 7 percent even anticipated budget cuts. In the current survey wave, 70 percent of respondents say their companies are planning to increase their IT expenditures, while only 2 percent foresee budget cuts (Figure 21).

Figure 21



Cyber security: An important issue, yet most business leaders do not feel their companies are well prepared to deal with it

Luxembourg decision-makers view "cyber security" as an important topic for their companies in the IT area. 28 percent say that protecting their company's network from unauthorized access is "very highly important" and an additional 30 percent classify this issue as "highly important." Only 4 percent assess the significance of this issue as "somewhat important," while no respondents say it is "not very important." The remaining respondents provide no concrete response to this question (Figure 22).

Moreover, this topic is gaining in importance: about three quarters of the top decision-makers interviewed state that this issue has taken on greater importance over the past two years, including 36 percent who perceive a strong increase in the importance attached to this issue by their companies (Figure 23).

Figure 22

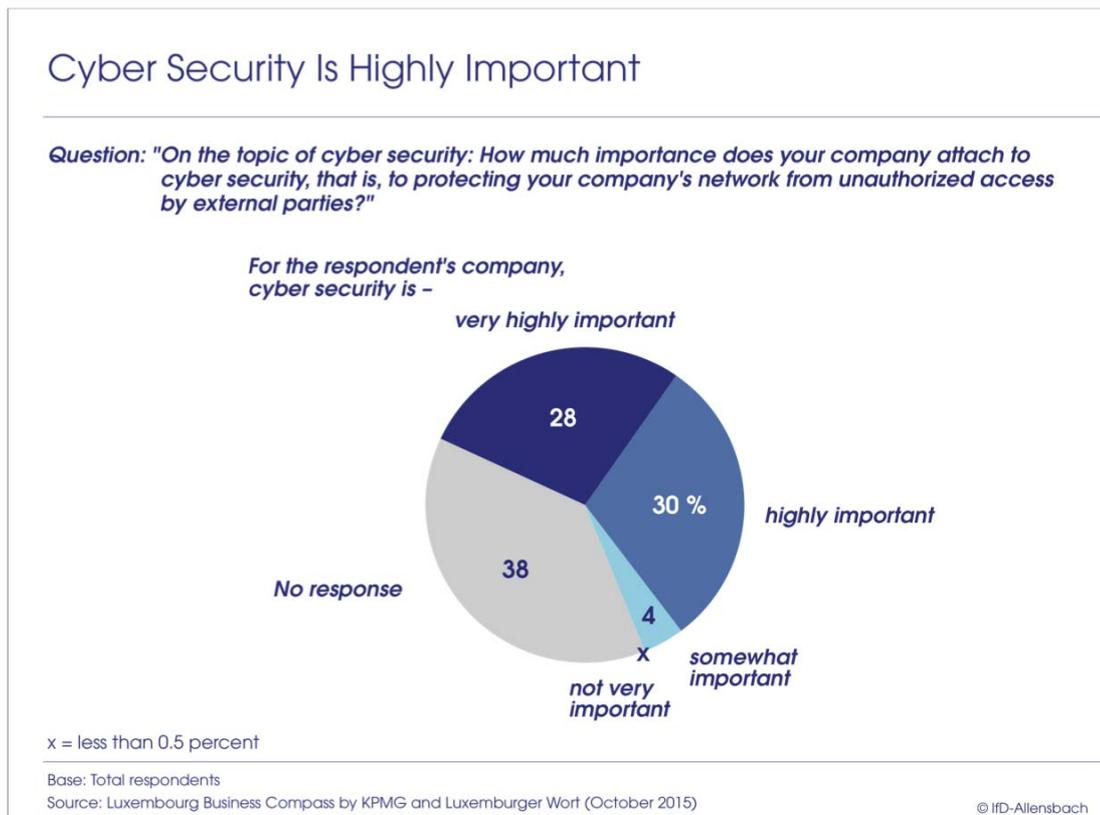
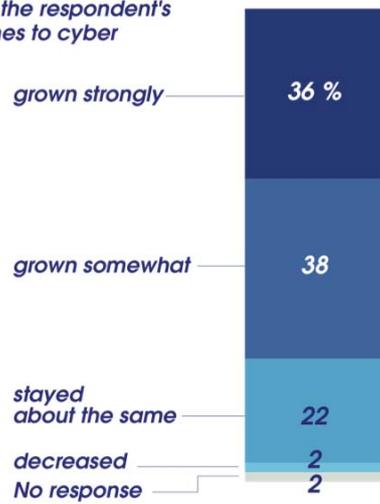


Figure 23

The Importance of Cyber Security Has Grown

Question: "How has the situation changed in this regard over the past two years?"

Over the past two years, the importance that the respondent's company attaches to cyber security has -



Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (October 2015)

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This finding is not surprising, given the fact that the majority of business leaders believe there is a significant risk that their companies could be harmed by a cyber attack, including 15 percent who say there is a very significant risk of that happening (Figure 24).

At the same time, however, most business leaders do not know how often their companies are in fact exposed to such cyber attacks. Of those business leaders who do know, a large share reports that such attacks on their companies' networks occur quite frequently: specifically, among the 41 percent of entrepreneurs who are knowledgeable about these cyber attacks, 13 percent say they occur on a daily basis and an additional 9 percent say they occur once or several times a week (Figure 25).

Figure 24

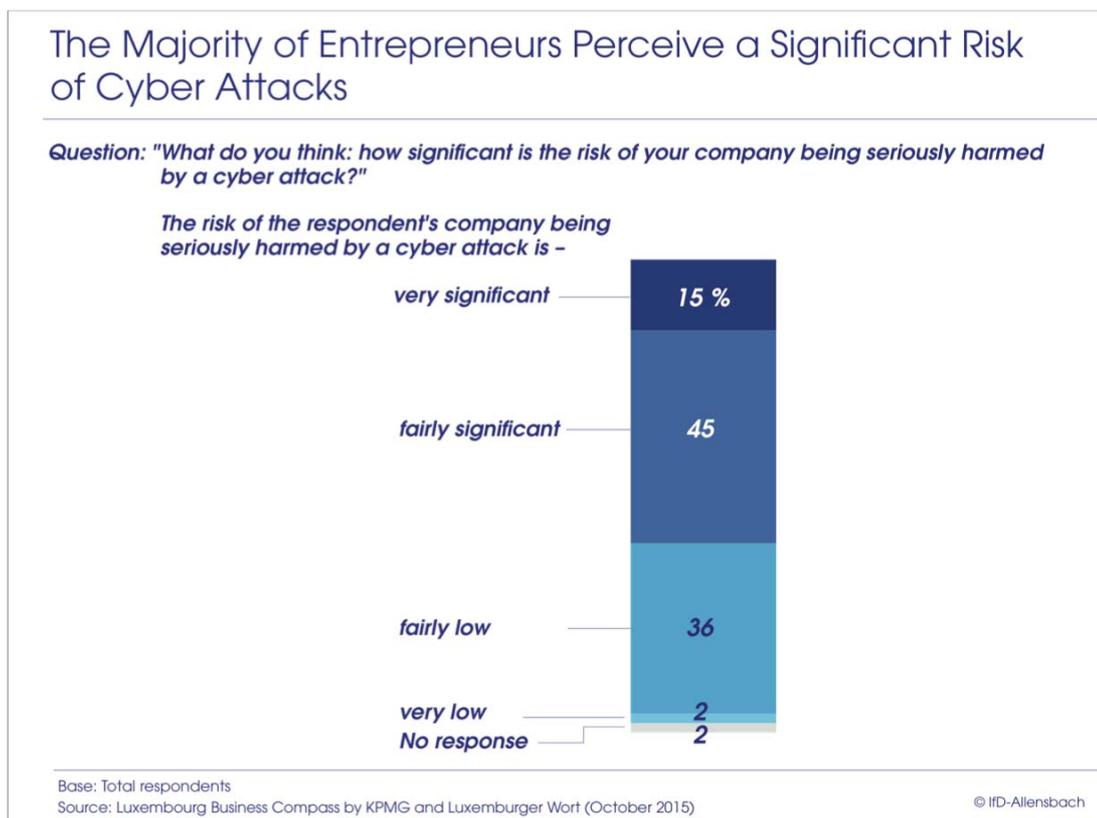
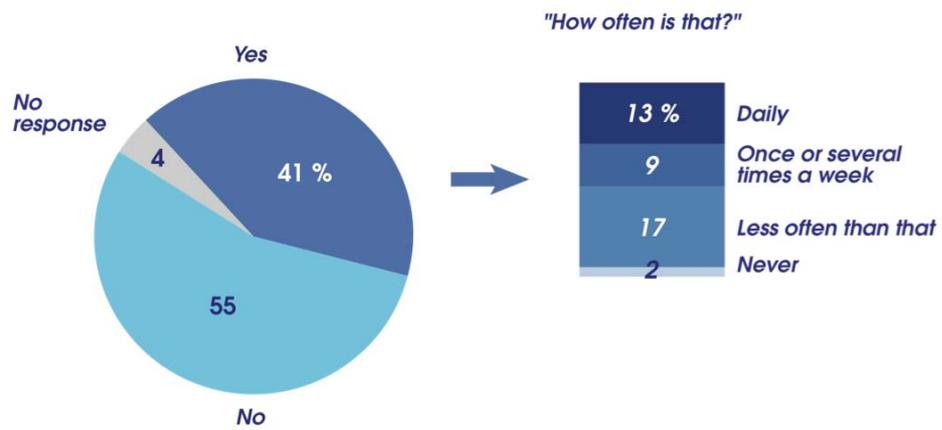


Figure 25

Most Top Decision-Makers Do Not Know How Often Their Companies Are Exposed to Cyber Attacks

Question: "Do you know at least roughly how often your company is exposed to cyber attacks aimed at spying on your company or causing some other harm?"



Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (October 2015)

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By the same token, more than one quarter of business leaders do not know whether the efficacy of the cyber security measures implemented at their companies has been tested and evaluated using an established standard framework. An additional 26 percent explicitly state that their companies have not assessed their cyber security performance—and only 38 percent of the entrepreneurs interviewed can confirm that an assessment of this kind was completed in the past 12 months (Figure 26).

Almost one quarter of Luxembourg companies have no cyber security reporting system, that is, an established reporting system designed to inform management about the state of Internet and data security at the company, for example, in connection with newly implemented measures or cyber attacks that have occurred. Still, 42 percent of companies do have a regular reporting system, while 34 percent compile cyber security reports on certain occasions (Figure 27).

Figure 26

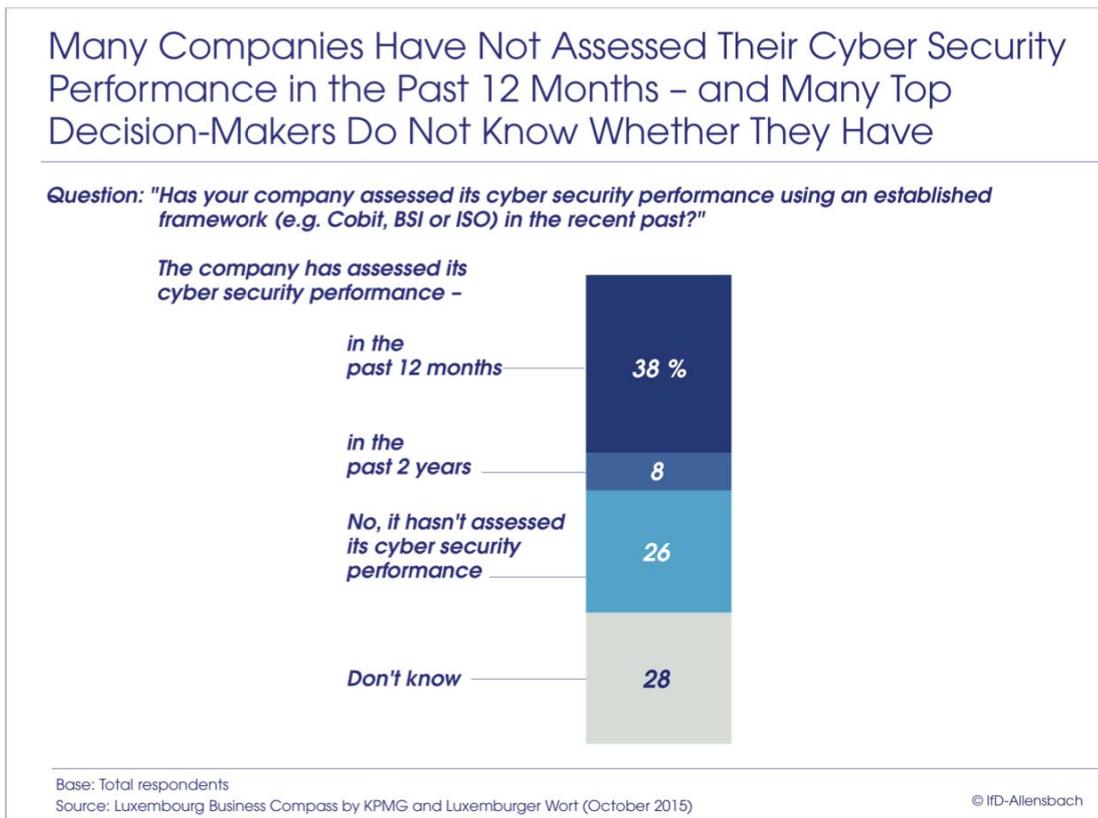
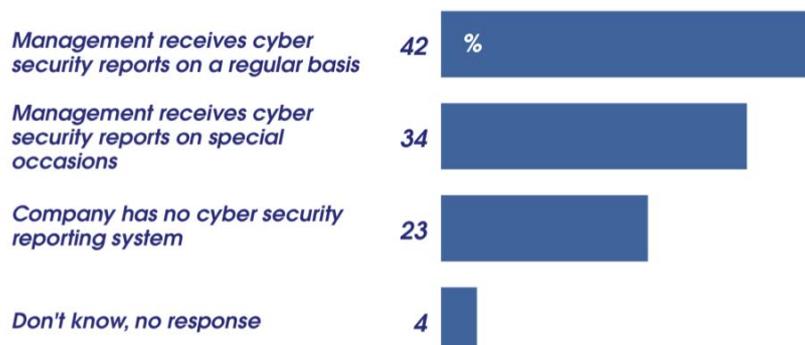


Figure 27

Almost One Quarter of Major Luxembourg Companies Have No Cyber Security Reporting System

Question: "Does your company have a cyber security reporting system, i.e. does your management receive reports on the state of Internet and data security at your company, for example, with regard to cyber attacks or new security measures?"



Base: Total respondents

Source: Luxembourg Business Compass by KPMG and Luxemburger Wort (October 2015)

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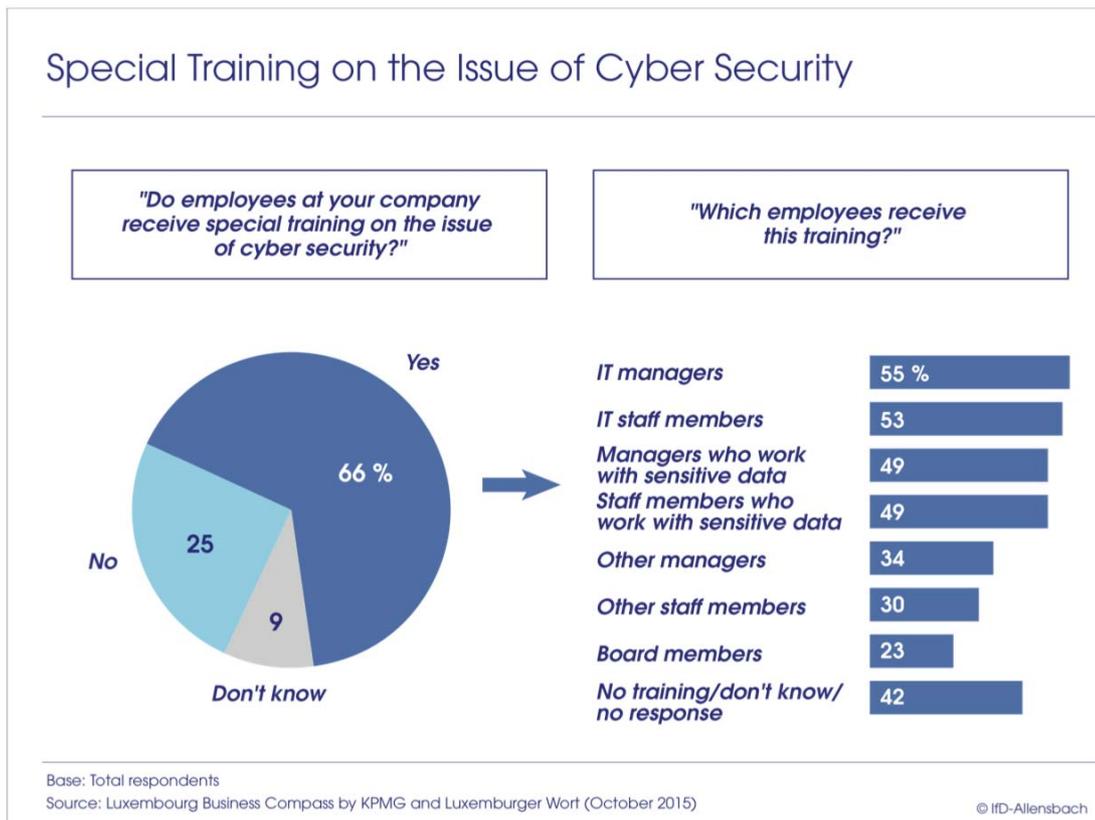
In the great majority of cases, employees who are responsible for cyber security do not deal with this issue as their sole responsibility; rather, they deal with it along with other tasks. Only about one quarter of Luxembourg companies have employees who concentrate exclusively on the issue of cyber security, while an additional 11 percent have (also) entrusted this task to an external service provider (Figure 28).

Figure 28



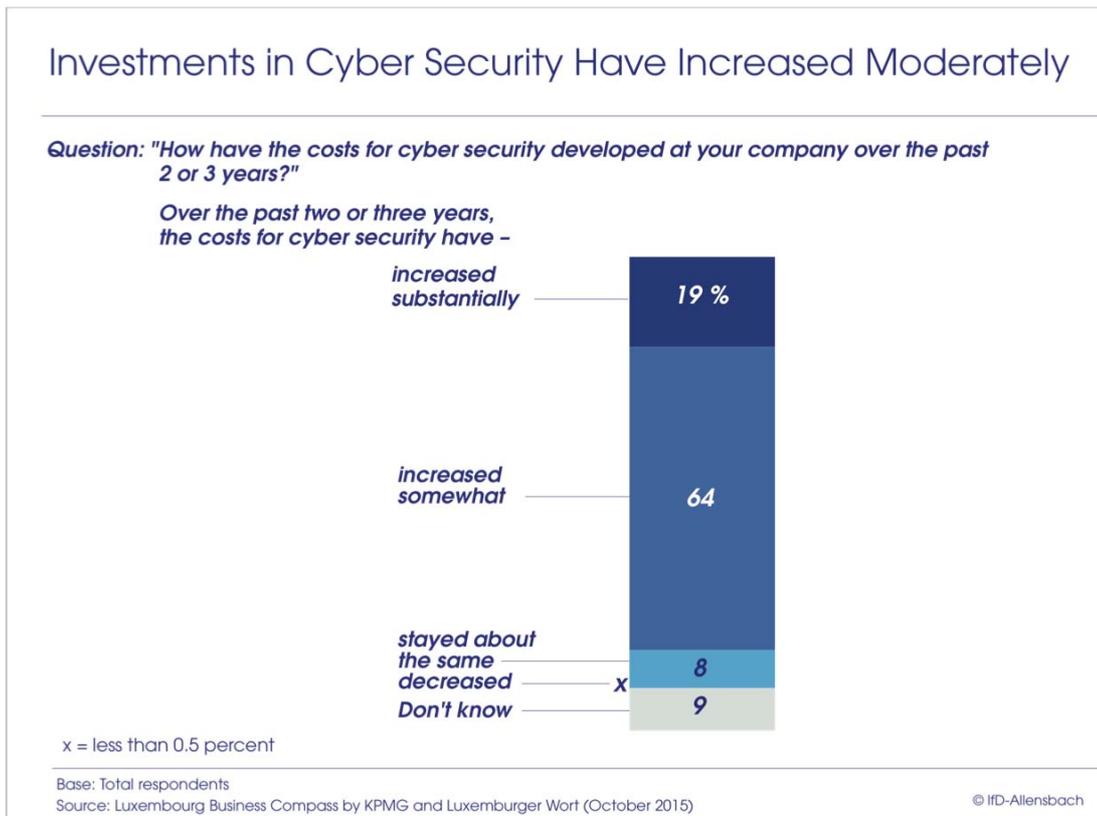
At about two thirds of major Luxembourg companies, employees receive special training on the topic of cyber security, for example, on how to deal with sensitive data. Training of this kind is most frequently received by IT managers and staff members, but also almost just as frequently—at about half of all companies—by managers and staff members who work with sensitive data. At almost one out of four companies, cyber security training is also provided to board members (Figure 29).

Figure 29



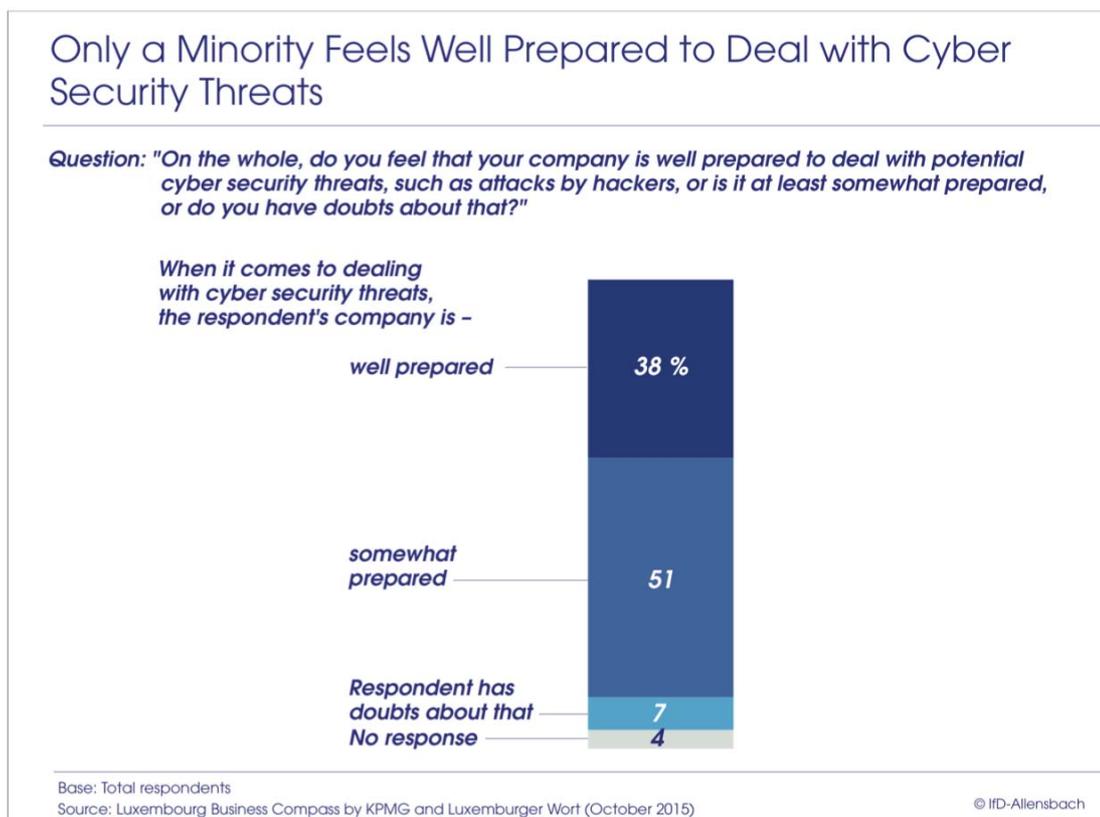
Although no Luxembourg companies have reduced their expenditures for cyber security over the past two or three years, only 19 percent report any substantial budgetary increases in this area. The vast majority of companies—about two thirds—have either increased their expenditures for cyber security only somewhat (64 percent) or not at all (8 percent; Figure 30).

Figure 30



In view of the fact that business leaders perceive a significant risk of cyber attacks, yet admit that their companies have in part implemented only half-hearted measures in this area, it is hardly surprising that most companies do not feel well prepared to deal with cyber security threats. Only 38 percent believe they are well prepared to deal with potential threats, whereas the majority (51 percent) feels only somewhat prepared. And 7 percent of the business leaders interviewed even have doubts about that (Figure 31).

Figure 31



APPENDIX

Survey data

SURVEY DATA

Overall responsibility for methods:	Institut für Demoskopie Allensbach
Planning and drawing the sample:	KPMG Luxemburg
Group of persons interviewed (universe):	Top decision-makers at the largest companies in Luxembourg, as defined by the number of employees
Sampling method:	<p><u>Top-down approach stratified according to business sectors</u></p> <p>The sample was drawn based on the directory^(*) of the Luxembourg statistics bureau (Statec), which lists companies with 90 employees or more in Luxembourg. For each business sector, the number of companies included in the survey was roughly commensurate with the sector's share of the gross domestic product (GDP) of Luxembourg, whereby the companies were selected in descending order according to the number of employees.</p> <p>In the companies selected to participate, every effort was made to persuade a representative of the upper management (owner, CEO, CFO, COO, etc.) to complete the online survey.</p>
Number of respondents:	53
Type of interviews:	Online survey completed after prior notification in writing or by telephone
Fieldwork dates:	October 14 – 31, 2015
IfD Archives Survey No.:	7237

(*) Les principaux employeurs au Luxembourg d'après l'effectif classés par branche d'activité économique de la NACE Rév.2 Situation au 1er janvier 2014 (édition juin 2014)