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Growth reimagined

Prospects in emerging markets drive CEO confidence

14th Annual Global CEO Survey

Main report

pwc

Foreword

Confidence is back – say CEOs in PwC's 14th Annual Global CEO Survey. Chief executives were nearly as confident of growth this coming year as they've ever been in our survey.

But with much of Europe and North America still confronting the lingering effects of the downturn, many companies in search of sustainable economic growth are focusing their sights on specific markets far from home – where recoveries are strong and the outlook is stronger still. In 'Globalisation reimagined', the survey explores where CEOs see growth coming in 2011 and just how they plan to achieve it.

Realising growth aspirations won't be easy – thriving in a multi-speed recovery is a new undertaking for CEOs – one that demands different approaches and attitudes. CEOs are already shifting strategies in areas like talent and innovation and reconsidering the upside of working more closely with partners and governments.

Bottom line – companies will not only be affected by this multi-tiered recovery; their targeted investments will help shape the path of globalisation. There are great opportunities ahead for those who anticipate how business is changing and creatively search for value in new markets.

I want to thank the more than 1,200 company leaders and government officials from 69 countries who shared their thinking on these difficult issues. The demands on their time are many and we are greatly appreciative of their involvement. I am particularly grateful to the 31 CEOs who sat down with us in the last quarter of 2010 for a more extensive conversation and provided additional context to our findings.

The tremendous success of the PwC Global CEO Survey – now in its 14th year – is directly attributable to the enthusiastic participation of leaders around the world. We at PwC are very proud of that ongoing commitment.

Dennis M. Nally
Chairman, PricewaterhouseCoopers International

Contents

Introduction 3

Targeting emerging markets 4

Putting customers at the centre of innovation 9

Bridging global skills gaps 13

Achieving shared priorities with government 18

Globalisation reimagined 22

Final thoughts from our CEO interviews 23

Research methodology and key contacts 30

Acknowledgements 31

Related reading 32

Introduction

Just two years after the depths of the worst economic crisis in 75 years, CEOs have a renewed optimism.

The 1,201 chief executives in 69 countries we polled for our 14th Annual Global CEO Survey were nearly as confident in their outlook for revenue growth over the coming 12 months as in the boom years before the crisis (see Figure 1). The rise in short-term confidence holds true among CEOs from all regions.

High levels of confidence in light of continued uncertainty in several major economies are surprising. Yet, CEOs honed their cost discipline during the recession, driving a patient optimism about their prospects when global growth returned. This can be seen in the high confidence CEOs reported last year in their three-year revenue growth outlooks. This year, they have set their targets on more immediate growth, in particular, by growing revenues in regions where recoveries are strong and the promise stronger still. And those regions are not always close to home.

CEOs in our survey also identified three focal points to drive strategic change internationally: innovation, talent and a shared agenda with government. In all three areas, they pointed to new attitudes and approaches, tailored to deal with the issues of the multi-speed global recovery that they hope is now underway.

Figure 1: CEOs prepared for recovery in 2010 and expect growth in 2011

Q: How confident are you about your company's prospects for revenue growth over the next 12 months/3 years?

Base: 2011 (1,201), 2010 (1,198), 2009 (1,124), 2008 (1,150), 2007 (1,084), 2006 (not asked), 2005 (1,324), 2004 (1,386), 2003 (989)
Note: Percentage of CEOs who are very confident about their companies' prospects for revenue growth
Source: PwC 14th Annual Global CEO Survey

Targeting emerging markets

'The key point about Asia is that there is no real need for capital to come into that market. Rather, the emphasis is on what sorts of technology enhancements are needed there. How can Asian labour work smarter and more efficiently? How can Asian operations deliver added value to a global marketplace that is already well served? I think that's what the CEOs of the world are thinking about. Being in Asia for its own sake is entirely pointless – and a great way to destroy value.'

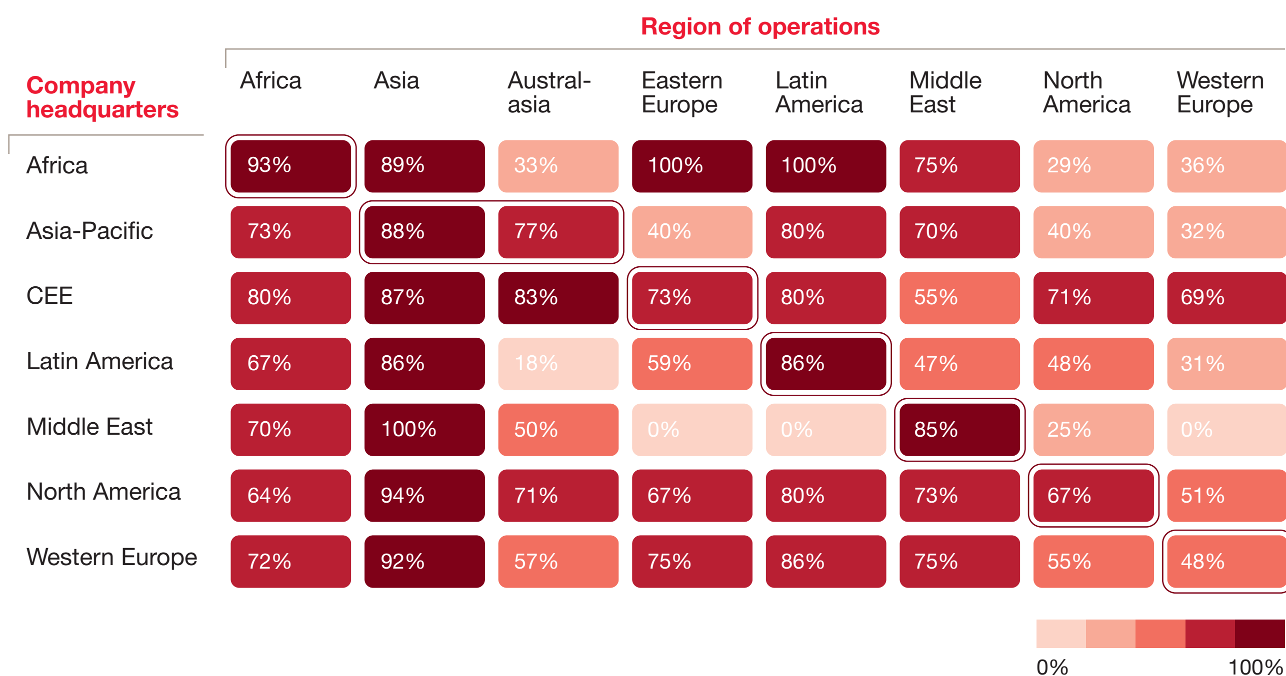
Nicholas Moore
CEO, Macquarie Group Limited, Australia

The divergence within the global economy is one of the main reasons why most CEOs (84%) say they've changed their company strategy in the past two years – with a third of them describing the change as 'fundamental'. Only half the world is growing at a robust rate. Although the International Monetary Fund (IMF) forecasts global growth at 4.2% for 2011, developed countries – which make up 52% of the world economy – are growing at only half that pace. In contrast, emerging markets are booming, with Indonesia, India and China all forecast to grow faster than 6%.[1]

So *where* CEOs expect to grow is notable. While 83% of Western European CEOs are at least 'somewhat confident' of their overall revenue growth prospects in 2011, for example, 41% see only low growth opportunities for their companies at home. They're confident because growth will come

Figure 2: Growth to come in emerging markets' operations, regardless of location

Q: In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow?



Company headquarters \ Region of operations	Africa	Asia	Australasia	Eastern Europe	Latin America	Middle East	North America	Western Europe
Africa	93%	89%	33%	100%	100%	75%	29%	36%
Asia-Pacific	73%	88%	77%	40%	80%	70%	40%	32%
CEE	80%	87%	83%	73%	80%	55%	71%	69%
Latin America	67%	86%	18%	59%	86%	47%	48%	31%
Middle East	70%	100%	50%	0%	0%	85%	25%	0%
North America	64%	94%	71%	67%	80%	73%	67%	51%
Western Europe	72%	92%	57%	75%	86%	75%	55%	48%

Base: Respondents who reported operations in said region (168-672)
Note: Percentage of respondents who expect to grow their key operations in the region.
Source: PwC 14th Annual Global CEO Survey

1 IMF World Economic Outlook (October 2010). Estimates for shares of the world economy made on a purchasing power parity basis.

from other regions: 92% of Western European CEOs expect growth in their Asian operations, while only 48% expect growth in their Europe operations. On the other hand, CEOs from Asia-Pacific and Latin America were more likely to expect growth in their own regions than elsewhere. In both cases, this likely represents a break from the recent past, when consumption in developed markets was a primary driver of growth.

'Any industrial company – if they're going to be a global leader – has to have a large presence in emerging markets,' Ed Breen, Chairman and CEO of US-based industrial conglomerate Tyco International, said in one of 31 in-depth follow-up interviews we conducted (see the appendix for some additional commentary from the CEOs we interviewed). 'Fifteen percent of our revenue right now is coming from emerging markets, and we're looking to double that in the not too distant future. It's an opportunity that you have to take very seriously.'

High expectations are placed on Latin America and Asia (see Figure 2), and most clearly, on China. China is likely to overtake the US as the world's largest economy within the next 25 years.[2] So 39% of CEOs named China as one of the three countries most important to their company's growth. And they're being very selective in choosing specific markets, rather than adopting a shotgun approach to entering emerging markets all at once.

Still, the net effect is growth spreading across emerging markets, and beyond the BRIC (Brazil, Russia, India and China) economies. Take Africa – companies are not only investing in Africa's natural resources, but also banking on growth in their African operations in 2011. The interest in the continent from international players has not been lost on African CEOs: 28% have changed their strategy because of 'competitive threats' compared with a global average of 10%.

Many of those competitors will come from other emerging markets; 'south-south' trade (i.e. trade among emerging markets) will expand. 'Earlier, Europe and the US were our major export markets. Today, they are minor markets for us and the Latin American and African markets have become more important,' Sajjan Jindal, Vice Chairman and Managing Director of India's JSW Steel, said. 'That has been a huge change for us.'

Although CEOs expressed fears of protectionism coming into 2010, trade barriers overall appear to be coming down. As a result, emerging markets are becoming hyper-competitive battlegrounds for global companies. Many of the toughest competitors are making reasoned bets in key markets, signally intensifying competition in the regions experiencing the most growth. Sixty-four percent of automotive CEOs named China as important for their growth, 25 percentage points higher than the global average. Revenues are rising steadily for public companies in China – but competition is pushing margins down.[3] So companies need to approach markets with a careful eye on their operating models if they want growth that is profitable and sustainable. That's true in all markets, not just in China. 'In the future, we hope to further expand our overseas networks through a range of strategic options that include establishing additional branches and considering select merger and acquisition opportunities,' said Li Lihui, President of the Bank of China. 'Regardless of the approach, though, our objective is to improve the efficiency and profitability of our overseas operations.'

'Throughout the world, new markets are developing. We're soaring in Western Europe, and the Far East, Eastern Europe and Latin America are beginning to buy more. So we're seeing a great international marketplace for our content.'

Leslie Moonves
President and CEO,
CBS Corporation, US

'The current situation in the financial markets has significantly changed our approaches and outlook on those areas, those territories where we are planning to invest. In other words, the range of countries we are ready to go to has decreased.'

Evgeny Dod
CEO, RusHydro, Russia

2 'The World in 2050', PwC (January 2011 update).
3 'Where are the profits?', The Economist (11 December 2010).

‘I am quite sceptical regarding the capacity of governments to prevent another crisis of this magnitude in the future. I believe a crisis like the one we just experienced is likely to occur every 30 or 40 years whenever levels of public indebtedness reach a breaking point.’

Marcos Marcelo Mindlin
Chairman, Pampa Energía S.A., Argentina

Developed markets play to their advantages

But developed markets are far from barren of opportunity. Indeed, the US was the second most popular choice for a growth market, with 21% of CEOs naming the nation among the three most important for growth. Another 12% selected Germany.

Large developed economies still have their attractions. Case in point: we asked CEOs which nations would be most important for their future sourcing needs. China dominates the list, largely for reasons of cost competitiveness. But quality control, risk profiles, innovation capabilities, logistics and existing relationships remain factors to many CEOs. ‘I haven’t seen a shift towards low cost products, nor any change relative to low cost country sourcing. It’s more about the quality and technology,’ said Stephen A. Roell, Chairman and CEO of Johnson Controls Inc. in the US. ‘Customers are looking for quality products and value.’ As a result, the US and Germany joined China, India and Brazil in the ranks of the most important future suppliers (see Figure 3). Developed markets that focus on quality and innovation are still competitive suppliers on the world stage.

CEOs wary of macro risks

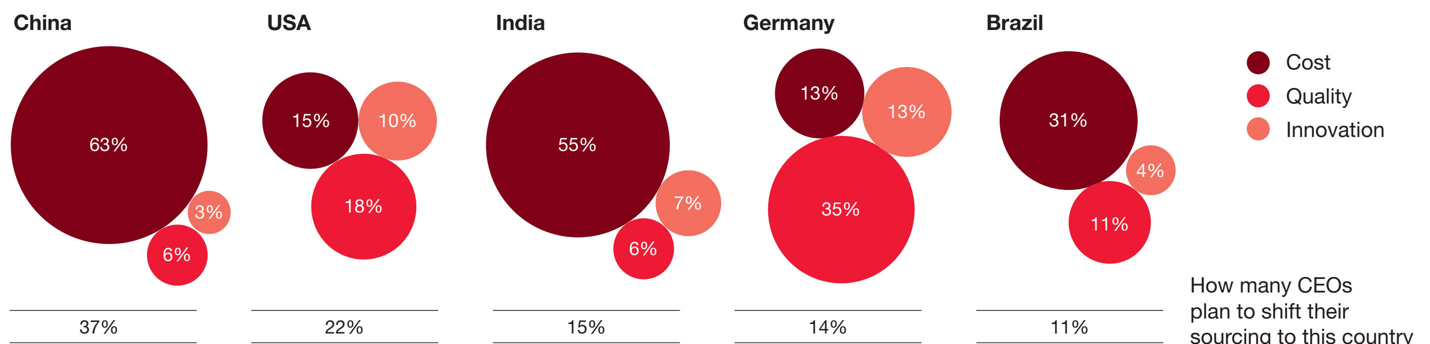
As CEOs select target markets overseas, 71% are somewhat or extremely concerned about economic uncertainty and volatility (see Figure 4 on the facing page). Partly, this is an after-effect of the crisis. As Agah Uğur, CEO of Turkey’s Borusan Holding A.Ş. , said, ‘Our baseline is definitely a stable political and economic view – a less volatile pattern than the past in terms of crisis – but the risk is our memories.’

But they’re also watching a broad range of macro-economic threats. Rising public sector deficits is their number two concern. Concerns over the ability of highly leveraged countries to refinance their debt, and subsequent volatility in currency and bond markets, greatly complicate strategies geared towards more trade. And lingering uncertainty could erode the willingness and ability of businesses to invest and expand.

Moreover, there is a clear expectation that governments in mature economies will have to raise taxes and cut spending further. Nearly three-quarters (74%) of US CEOs, for example, believed their company’s total tax contribution will rise because of their government’s response to a rising public deficit.

Figure 3: Developed nations have competitive advantages

Q: Which countries, not including the country in which you are based, do you consider most important to your future sourcing needs? Which of the following reasons apply for shifting sourcing to the countries you have just mentioned?



Base: China (442), USA (261), India (178), Germany (172), Brazil (137)
Note: Top reasons why CEOs plan to shift their sourcing to these supplier nations
Source: PwC 14th Annual Global CEO Survey

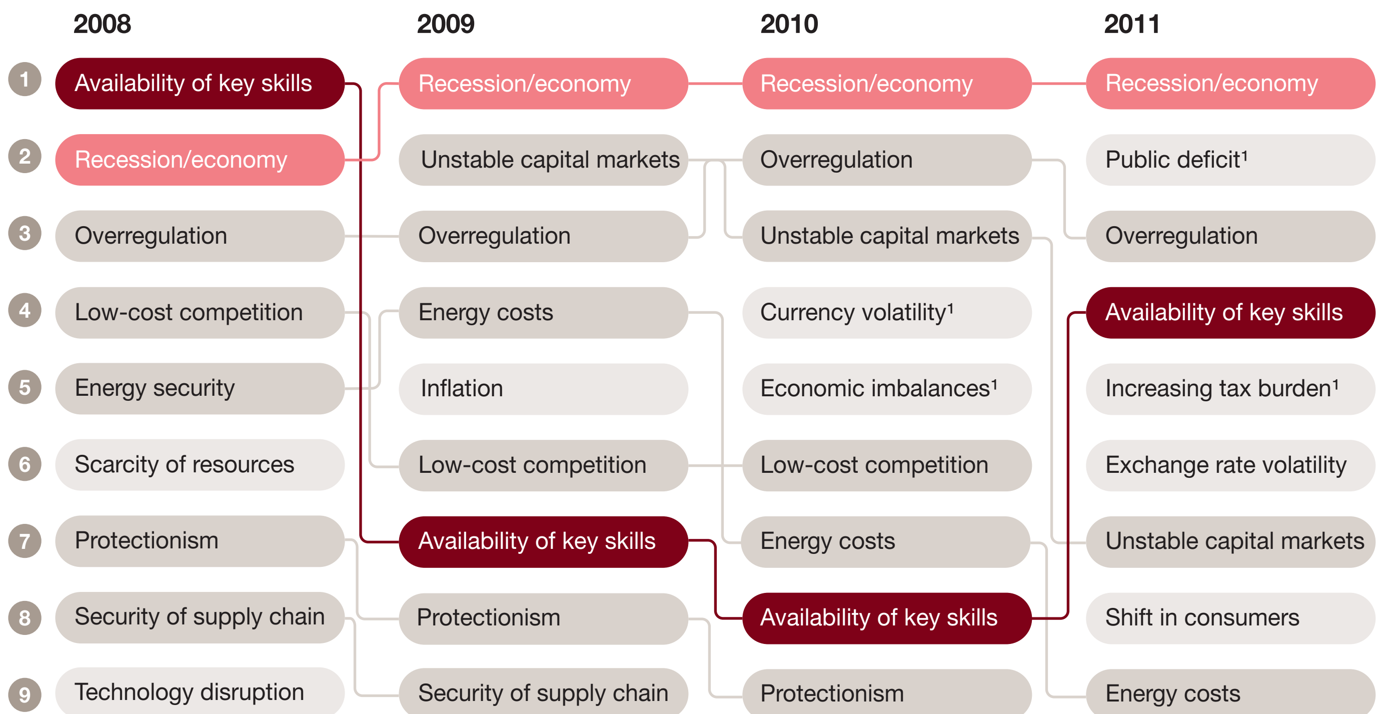
The sentiment is shared in many emerging economies, as well, with 70% and 63% of CEOs in India and Brazil, respectively, agreeing. The concerns are surfacing despite concerted efforts at improvements by a number of countries. A 2011 PwC study of 183 economies found paying taxes is getting easier, and that since 2006, the tax cost has fallen on average by 5%.[4] So it is the spectre of future government policies to address deficits, rather than the current tax burden, that haunts many CEOs.

Related government austerity measures are also a concern, and not just in markets where budget cuts and national bailouts are in the headlines. CEOs in all regions (except the Middle East) perceive risk to their own domestic economies from possible contagion stemming from sovereign debt crises in countries like Greece and Ireland, as well as to the tax rises and public spending cuts that other governments are taking to pre-empt the risk of such a crisis.

> *'The high level of government debt in Greece could be a concern in our expansion in the country, as a high government debt can lead to a crowding out effect, a reduction in private consumption and/or investments and constrain our opportunities for asset expansion in the country.'*
>
> **Efthimios Bouloutas**
> CEO, Marfin Laiki Bank, Cyprus

Figure 4: Top risks relate to government policies – and talent

Q: How concerned are you about the following potential economic and policy/business threats to your business growth prospects?



¹ New options

Base: 2008 (1,150), 2009 (1,124), 2010 (1,198), 2011 (1,201)
Note: Rank of top threats, by % of somewhat or extremely concerned
Source: PwC 14th Annual Global CEO Survey

4 'Paying Taxes 2011: The Global Picture', PwC (2011).

Most CEOs are responding to a rise of middle-class consumers in emerging economies by developing products and services tailored to those high-growth markets, while also looking to serve the changed needs of more mature markets.

The heightened awareness of macro risks is clearly having an impact in the boardroom. Risk management is increasingly high on the agenda for boards and senior management, and incorporated in formal strategic planning processes, according to CEOs. The fact that strategy and risk must be considered in concert has always been present in successful companies, but has been given a further boost by the crisis. Senior level attention to this could strengthen the linkage between operational and strategic approaches to risk, and mitigate the impact of another crisis.

Strategic focal points for targeting growth

Three themes emerged in how CEOs were reorienting their strategies and operations to respond to the multi-speed recovery. Nearly half of CEOs who reported a change in strategy pointed at the uncertainty of economic growth or changes in customer demand as the primary reason. Although some sectors were the exception – for example, the primary driver for banks is a changed attitude towards risk, while utilities are closely watching regulatory shifts – the pattern is clear.

Most CEOs are responding to a rise of middle-class consumers in emerging economies by developing products and services tailored to those high-growth markets, while also looking to serve the changed needs of more mature markets. **So innovation, in the context of new patterns of demand, is a clear strategic focal point for CEOs.** The rise in importance for new products and services, in fact, marks a significant shift for CEOs in where their best avenue for growth lies.

Talent is a second strategic focal point. As they look across their organisations, CEOs fear they won't have the right talent to compete effectively as recoveries take hold. At a time of high unemployment in parts of the world, and large numbers of recent graduates in others, CEOs are reporting worrisome skills mismatches. A lot of investment in talent over the past few decades has been made in economies that are now slower growing. Whether that talent can understand and adapt to the realities of faster-growing emerging markets remains to be seen. CEOs are planning to deal with this deficit now.

Yet CEOs don't necessarily want to go it alone. **That raises the third strategic focal point – a more effective collaboration with government in areas deemed critical for business growth.** Education and workforce health, IP protection and infrastructure development, are all part of a shared agenda with governments to maintain competitiveness.

These three business imperatives have always had their place on the CEO agenda. But now, with the worst fears of the crisis behind them and an emerging recovery ahead, CEOs are applying a different lens to the three focal points. We explore them further in the sections that follow.

For further detail on all results, see the interactive graphics at our website at **http://www.pwc.com/ceosurvey**, where you can explore responses by sector and location. A companion publication, the 'In-depth story' – with more detailed charts from our entire questionnaire and insights from the in-depth interviews – is also available at our website.

'Three themes emerged in how CEOs were reorienting their strategies and operations to respond to the multi-speed recovery.'

Putting customers at the centre of innovation

Turning a geographic toehold into a growth stronghold requires innovation that is precisely tuned to the needs of customers.

CEOs are placing a higher premium on innovation today. Since 2007, business leaders have consistently reported that their single best opportunity for growth lay in better penetration of their existing markets. Now they're just as likely to focus on the innovation needed for new products and services (see Figure 5). It's high on the agenda in virtually all industries, including industrial sectors such as metals, chemicals and manufacturing.

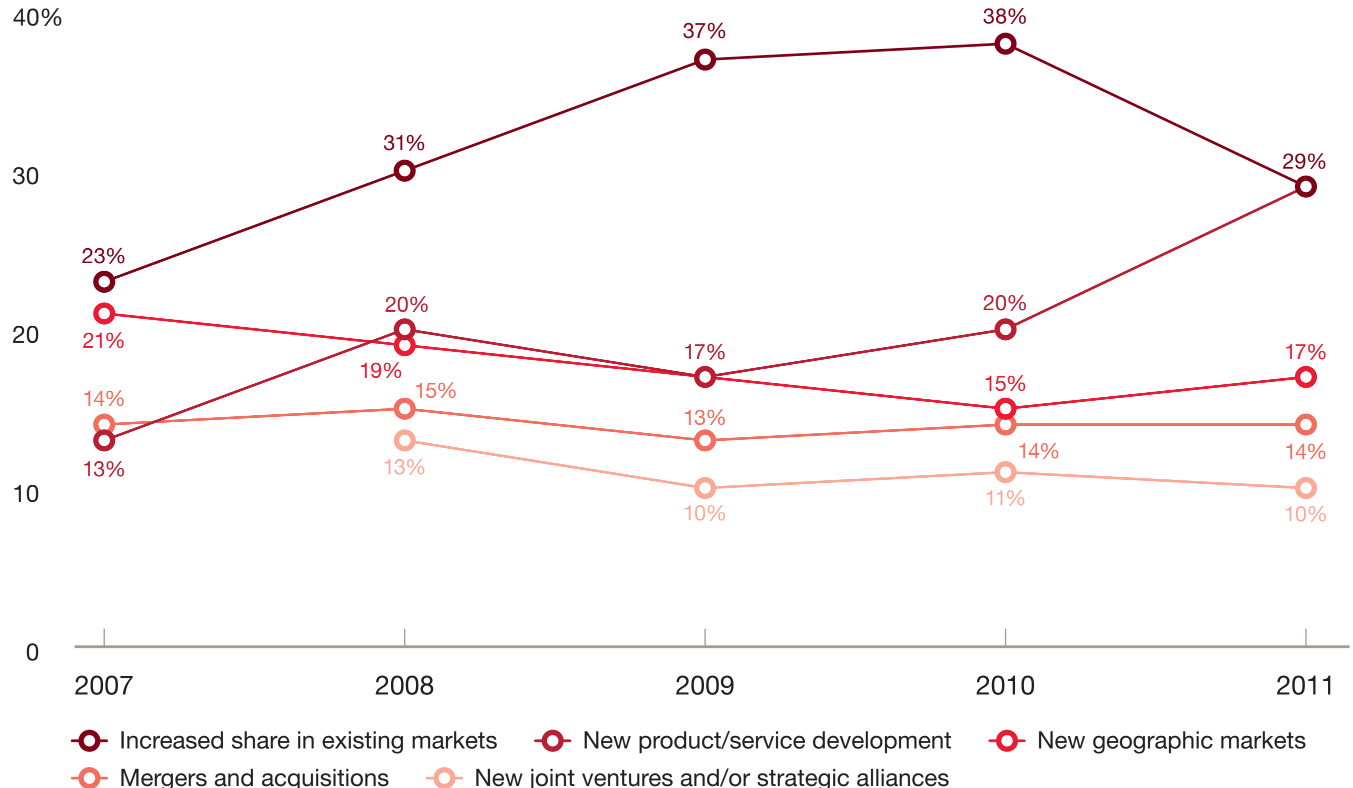
Revamping the organisation for innovation

CEOs are confident their innovations will succeed: 78% expect their development efforts to generate 'significant' new revenue opportunities over the next three years. It won't be easy. But they are making changes at all levels of their organisation to make that happen. 'For the first time in our corporate history, I've decided to task a specific E.ON board member with the responsibility for focusing exclusively on technology and innovation. We realise that our future success really hinges on our ability to innovate and mobilise new technology', Johannes Teyssen, Chairman and CEO of German energy corporation E.ON AG, told us.

They're also doing the hard work of putting operational arrangements in place to make innovation work. Eureka moments are few and far between. 'People tend to see innovation strictly in terms of revolutionary, breakthrough products – technologies to sequester carbon emissions or microchips that can process data 600 times faster. That's fine. But most innovations are the result of steady, continuous improvement', said Paul Polman, CEO of Unilever, UK.

Figure 5: CEOs have a new commitment to innovation

Q: Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: 2007 (1,084), 2008 (1,150), 2009 (1,124), 2010 (1,198), 2011 (1,201)
Note: Percentage of CEOs who see the following as the main opportunity to grow their business in the following 12 months
Source: PwC 14th Annual Global CEO Survey

Yet incremental innovations can only become revenue and profit generators when companies are effective at linking up new ideas with customer needs. So marketing, distribution and finance, among other functions, all need to be part of the innovation development and assessment process. 'Innovation goes way beyond just the products. It's the way you market the product, the way you sell the product, the whole aspect of consumer engagement', said Louis Camilleri, Chairman and CEO of US-based Philip Morris International. That means addressing cultural and organisational factors for some, and fresh thinking about what technology can enable for others.

Using technology to drive ambidextrous innovation

In what could be called 'ambidextrous innovation', CEOs are looking to gain both efficiencies and differentiation at the same time: 79% of CEOs in the survey believe innovation will drive efficiencies and lead to competitive advantage, to go with the 78% who expect new revenues. Technology is one way of capturing both; CEOs are approaching IT with the spirit of ambidextrous innovation in mind.

Close to 70% are investing in IT to reduce costs and become more efficient, while 54% are also funnelling funds towards growth initiatives, including emerging technologies in mobile devices, social media and data analytics.

Cloud computing, for example, can enable companies to manage business processes more efficiently. But it can also empower entirely new business models, for example, ones that connect supply chain partners in a single differentiated offering for customers. In the survey, CEOs told us they are exploring both possibilities for technology, in general, and for cloud computing, in particular.

Innovation begins with customers

CEOs are approaching innovation with an emphasis on putting customers first. 'Companies give innovation a lot of "airtime" but not enough "dollar time",' said Vineet Nayar, Vice Chairman and CEO of India's HCL Technologies. 'At HCL, we put innovation on our balance sheet. We innovate on behalf of our customers and participate with them in the risk associated with innovation. When innovation results in a new revenue stream for them, we share in it. We have this arrangement now with several customers. It's a way of "putting your money where your mouth is".'

Many companies are bringing their innovation activities closer to their customers by giving customers a say in the design of offerings, or opening innovation up to more partners. A consumer goods business looking to expand in India, for example, is focused not only on shipping the best possible product out of its facilities, but also on where it is best designed, and on how to package, distribute and sell it into a changing marketplace. Innovation takes place at each stage and increasingly with different partners along the way.

'Today, nearly every new item we bring out was produced with at least one partner somewhere in the world', said Bob McDonald, Chairman of the Board, President and CEO of US-based Procter & Gamble Company (P&G) 'For example, we co-locate scientists from partner organisations and from our organisation in the same laboratory. It's amazing what you can do when you knock down the barriers in an organisation or the barriers between organisations.'

Making innovation local

Innovation is considered an essential ingredient to a global model. 'You end up having to innovate simply to provide the same high-standards across very diverse operating environments', said Douglas M. Baker, Jr., Chairman, President and CEO of Ecolab, in the US. 'So, innovation is a constant in our business.'

> *'Innovation has a cultural dimension too, so Angang Steel has taken steps to nurture a culture in which innovation can thrive. This includes building relationships with external research institutions; engaging clients in research and development; creating a corporate environment in which risk-taking is encouraged and mistakes are tolerated, and recognising and rewarding individual initiative.'*
>
> **Dr. Zhang Xiaogang**
> President, Anshan Iron and Steel Group Corporation, China

Some CEOs, however, are literally moving development processes to customer locales, in order to get closer to them. They're creating products for faster-growing markets, in those markets, and then distributing worldwide. General Electric's CEO, Jeffrey Immelt, described GE's 'reverse innovation' strategy in 2009. Developing products domestically 'worked fine in an era when rich countries accounted for the vast majority of the market and other countries didn't offer much opportunity. But those days are over – thanks to the rapid development of populous countries like China and India and the slowing growth of wealthy nations', he wrote.[5]

Similarly, Juha Rantanen, President and CEO of the Finnish firm, Outokumpu Oyi, told us, 'One of the big issues for us is that our European-based customers are moving many of their operations off-shore.' As a result, with its customers increasingly moving their factories to China, Outokumpu established a new service centre in Shanghai – to serve existing customers as well as new customers in China.

Giving consumers their say

You can't get closer to consumers than involving them directly in product and service development, a trend that many CEOs see coming. That doesn't mean shoppers are putting on lab coats and entering clean rooms. More frequently, it involves having consumers test new offerings before they're launched. Media and entertainment companies, for example, increasingly factor input from the global consumer base in determining the viability of new products and consumption models, before the 'official' product launch.[6]

> *'The question is, where do you place your bets? If you go on a certain new media platform, is it going to hurt any of your core businesses?'*
>
> **Leslie Moonves**
> President and CEO, CBS Corporation, US

Consumers now expect that level of engagement from businesses. Technology has become a key enabler, as well as a driver of consumer involvement in product development. Close to half of consumer-facing CEOs in the survey foresee social media and mobile devices prompting a 'significant change' to their strategy, as consumers turn to these media to voice their preferences. U.S. Bancorp is investing in mobile banking technology, for example, deciding the time is now right. 'The next step, though, is mobile banking and the advent of transaction-based activities, including banking on the more viral options, and so we have been investing heavily in that', said Chairman, President and CEO Richard K. Davis. 'But five years ago we would not have been investing but, waiting for others to do it and then being a quick follower.'

Companies are responding to changing consumer expectations in other ways. Many continue to innovate in energy-saving and sustainable technologies, not because of the prospect of regulation, but rather because enough consumers are telling companies they prefer sustainable products and green companies. So 64% of CEOs said that developing environmentally friendly products or services are an 'important part' of their companies' innovation strategy, a nod to the greening of consumers.

Opening innovation to supply chain partners and beyond

The same demand for innovation is driven through the supply chain. 'Our basic strategy is focused on improving technology to improve fuel economy and reduce emissions. Every country in the world is focused on improving fuel economy and reducing CO_2 emissions. It's turned out to be an excellent strategy. It was strong before the recession, it was strong during the recession and it's strong after the recession.', Timothy M. Manganello, Chairman and CEO, BorgWarner Inc., said in an interview. The US auto components supplier reduced operating costs during the recession, but has continued to reinvest in technology, innovation and new product launches. Post-recession, its fuel economy and emissions technologies are driving sales while profits growth is stemming from cost-control strategies, he said.

5 'How GE is disrupting itself', Harvard Business Review (October 2009).
6 'Global Entertainment and Media Outlook: 2010-2014', PwC (2010).

‘In order to strengthen our R&D efforts, we have entered into collaboration agreements with universities in Mexico, the United States and Europe. We also have technological partners in some of our companies, who provide us with valuable support in this field.’

Armando Garza Sada
Chairman of the Board of Directors, Alfa, S.A.B. de C.V., Mexico

It’s not uncommon for supply chain partners to work together in the search for innovation; 39% of CEOs this year expect the majority of their innovations to be co-developed, following established models for supplier innovation (see Figure 6). Consider the automobile industry, where a lot of high-value components emerge from suppliers. Entirely new industries are evolving with supplier partnerships in innovation at the core; utilities are working jointly with electric car, battery makers and IT companies around the smart grid, for example.

In part, the willingness to team-up reflects post-recessionary challenges with working capital, which is also reflected in the popularity of joint ventures over M&A among most CEOs in the survey. Many CEOs are concluding that no one organisation has enough of the right people and the right amount of funding to innovate successfully on its own.

Given that an estimated 90% of all patents expire without creating any economic value,[7] an approach to innovation that envelops employees, partners and alliances makes sense. It keeps costs down and improves the odds of success. Open innovation provides companies a way to use market discipline to foster innovation. ‘The world has changed. The definition of ‘competition’ is different’, P&G’s McDonald said. ‘Another thing we spend a lot of time talking about is new categories we can create. Often, new categories will fall between the boundaries of two existing categories. So if you’re an innovative company and you’re organised by category, who’s going to invent the category that falls between the boundaries?’

Similarly, UK based Unilever believes changing the relationship with its entire supply chain is how it can drive innovation. ‘Tesco is going to be around for another hundred years or more – and so is Unilever. It only makes sense to work in concert to meet consumers’ needs’, said CEO, Paul Polman. ‘By working together towards a common goal there is much more value to be gained than there is in haggling over costs.’

In brief: Innovation

CEOs are adopting new strategies to embrace technology and innovation, and get closer to customers. Innovation has become a big tent, with companies at once giving customers a say in product offerings, opening innovation up to more partners, and shifting development to the countries where they’ll be purchased.

Figure 6: CEOs expect innovation to involve external partners

Q: To what extent do you agree or disagree with the following statements about your expectations regarding your company’s innovation over the next three years?

Base: All respondents (1,201)
Note: Expectations regarding companies’ innovation over the next 3 years
Source: PwC 14th Annual Global CEO Survey

7 C. Wasden, ‘Getting beyond novelty: How discipline and failure foster innovation’, View, PwC (Fall 2009).

Bridging global skills gaps

Growth opportunities, especially in emerging markets, prompt changes to talent strategies

'As we look at growing globally, we recognise we're going to need a more diverse workforce, including more women and different geographic leaders.'

Stephen A. Roell
Chairman and CEO, Johnson Controls, Inc., US

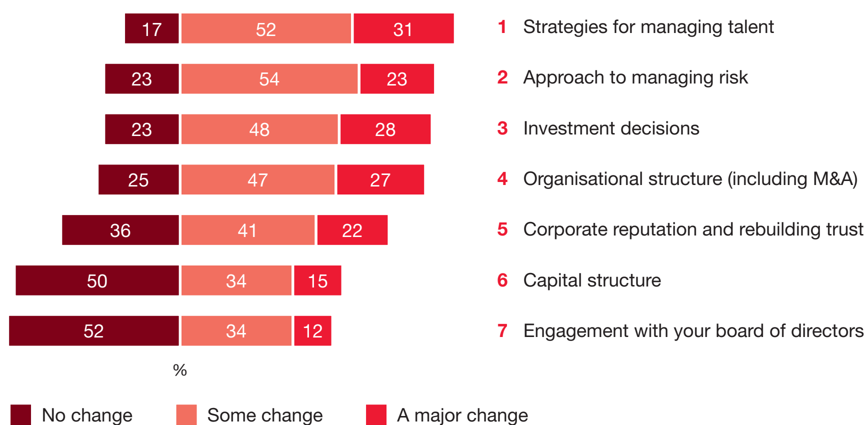
The 'war for talent' was declared more than 10 years ago, but few CEOs are prepared to declare victory. They know talent isn't just a numbers game. It means finding, retaining and motivating employees whose skills really fit the company's strategy. Given that 84% of CEOs have changed strategies in the past two years, companies' talent needs are changing, too. So talent is now at the top of the CEO agenda for 2011, across all regions (see Figure 7).

More companies expect to add jobs in 2011 than they did in 2010 – led by industrial sectors such as chemicals, automotive and manufacturing. There are other differences by region and by industry. The entertainment & media sector is the least optimistic about jobs growth, for example, as industry dynamics adapt to internet delivery models. By contrast, the technology sector is the second most likely to add jobs. (For a detailed look at which regions and industries are adding jobs, go to **www.pwc.com/ceosurvey**.)

As more ready plans to hire, the talent crunch becomes more apparent: two-thirds of CEOs believe they're facing a limited supply of skilled candidates, particularly as they establish a long-term presence in key emerging markets. 'As we shift eastward, we have to make sure that our corporate culture and operating model reflect the markets there. Trying to get that right is where I spend most of my time', Paul Polman, CEO of Unilever told us. The consumer products group expects around 70% of its business will come from Asia-Pacific within 10 years.

Figure 7: Talent is now on top of the CEO agenda

Q: In response to changes in the global business environment, to what extent do you anticipate changes to any of the following areas of your company's organisation or operating model over the next 12 months?



Base: All respondents (1,201)
Note: Anticipated changes in the companies' organisation or operating model over the next 12 months
Source: PwC 14th Annual Global CEO Survey

Thinking globally and locally

Filling skills gaps in these regions begins with companies making themselves more attractive to potential and current employees, and looking for better ways to develop and deploy staff globally. Becoming the 'employer of choice' is a vital advantage in dynamic markets where top talent has the pick of jobs from domestic and foreign employers. Hiring the best workers amounts to nothing if the firm can't retain top talent in hypercompetitive talent markets.

In high growth markets such as China, India and parts of Latin America, talent shortages are as critical as – and in some cases more acute than – the rest of the world. Businesses looking to double or triple revenue in five years in emerging markets, for example, and anticipating equivalent growth in their workforces, find that the availability of talent is often their biggest constraint. In 2010, 41% of employers in Asia-Pacific had difficulty filling positions, according to a Manpower survey of 35,000 employers worldwide, 10 percentage points greater than the global average.[8]

'For much of its history, Kirin was focused on serving a domestic market only, but in the past few years, we changed course dramatically and have embraced globalisation. Consequently, Kirin needs human resources that are capable of working with people of very different backgrounds and nationalities. So our priority is to make sure that our young and up-and-coming managers are prepared to work internationally. For their part, however, our young employees appear to have an intrinsic expectation of building careers that include assignments in other countries. We also actively recruit veterans with extensive international business experience.'

Senji Miyake
President and CEO, Kirin Holdings Company, Limited, Japan

Despite the relatively large numbers of recent graduates in emerging markets, around 40% of CEOs report difficulty forecasting talent availability in these regions. 'These nascent markets come with various uncertainties. One is the regulatory environment; another is talent-related. Finding the appropriate talent to take advantage of the growth prospects of emerging markets is one of the biggest challenges we face,' Louis Camilleri, Chairman and CEO of US-headquartered Philip Morris International, pointed out. 'There is a high level of education, there's a lot of enthusiasm, but there is a pretty steep learning curve as well. It's just a process, and it will take some time in some markets.'

Figure 8: Retention and deployment figure highly in CEOs' talent strategies

Q: To what extent do you plan to change your people strategy in the following ways over the next 12 months?

Base: All respondents (1,201)
Note: Plan to change people strategy in the following 12 months
Source: PwC 14th Annual Global CEO Survey

8 'Supply/Demand: 2010 Talent Shortage Survey Results', Manpower (2010).

> *'A top priority in our HR strategy is to develop more financial management talent enhanced with international experience to the extent possible, to support the Bank's future global development.'*
>
> **Li Lihui**
> President, Bank of China, China

Stepping up overseas deployments

Over half of CEOs are planning to send more staff on international assignments in 2011 (see Figure 8). The number of international assignments among multinationals increased 25% over the past decade; PwC predicts there will be further 50% growth over the next ten years.[9] Indeed, 20% of our CEO respondents lead organisations based in a nation other than the one where they were born. In the talent market, skilled employees with experience in more than one country are increasingly viewed as valuable as their specialties. Nonetheless, close to half of CEOs foresee problems deploying experienced employees in other countries.

Global deployments are a first step to address shortages as company footprints change, but many CEOs know they need to nurture local talent in the long run. 'We use foreign managers to manage foreign companies because they have the best management team already; it's totally impossible for us to go over there and manage them well. We have learnt some lessons in this regard', Zhou Zhongshu, President of China Minmetals Corporation told us.

Any idea that a centralised headquarters can effectively dictate to far-flung operations in increasingly important markets is disappearing. Many of today's multinationals want to give independence to local managers, to get closer to those markets. 'We're building the next generation of leadership to take International Paper to the next level,' John V. Faraci, Chairman and CEO of the US-based firm, said. 'We don't believe you can run a global business with expatriates. You've got to have local talent. They understand the local culture and how to do business there.'

Casting wider nets in the talent pool

The scale of shortages CEOs describe is leading to some new thinking around existing workforces. Consider two talent challenges reported in the survey: two-thirds of CEOs believe there is a limited supply of candidates with the right skills, and creativity in the workforce was found lacking by 44% of CEOs. Fortunately, companies have alternatives within their own companies and communities that can address both challenges at once – by tapping underutilised pools of talent.

In virtually all markets, for example, many fewer women than men are active in the labour market.[10] Some companies have already taken note. For example, in South Korea, where only 60% of female university graduates aged 25–64 are working, foreign multinationals got ahead 'by aggressively hiring an excluded group, women, in the local managerial labour market', according to research from the Harvard Business School.[11] But there is a lot further to go: only 11% of CEOs globally are planning 'significant change' to policies to attract and retain more of their female employees today.

9 'Talent Mobility 2020:The next generation of international assignments', PwC (2010).
10 'Women in labour markets: Measuring progress and identifying challenges', ILO (March 2010).
11 J. Siegel, L. Pyun and B.Y. Cheon, 'Multinational Firms, Labour Market Discrimination, and the Capture of Competitive Advantage by Exploiting the Social Divide', Harvard Business School working paper (2010).

‘Only 20% of our young people every year are studying at the university. OECD said we should have at least 40% or 50%. And we said no because we do not want an “academic proletariat”. We have our dual education system with apprenticeships on the one hand and university studies on the other. I think it’s a perfect model. It’s something that other countries don’t have.’

Prof. Dr. Peter Gomez
Chairman of the Board, SIX Group AG, Switzerland

Older workers are another underutilised pool of talent. In many countries, populations are ageing and baby boomers are becoming eligible for retirement. In the US, for example, more than one in 10 employees are currently eligible for retirement. Over half of North American CEOs foresee challenges as older workers retire. Even though many valuable workers nearing the traditional retirement age say they want to carry on working, only 10% of CEOs are planning significant changes to hold on to older workers.

Similarly, over half of CEOs (54%) foresee challenges in recruiting and retaining younger employees – the mercurial Generation Y workers who have their own distinct expectations about their relationships with employers. However, outside of Latin America, only a minority of businesses are changing the way they incentivise younger employees to improve recruitment.

These three pools of talent are particularly vital in thinner talent markets where skills are scarcer – but they require specific strategies to approach. You can’t just pay lip service to them. As India-based HCL Technologies Vice Chairman and CEO, Vineet Nayar, told us, ‘With Generation Y coming into the business, hierarchies have to disappear. Generation Y expects to work in communities of mutual interest and passion – not structured hierarchies. Consequently, people management strategies will have to change so that they look more like Facebook and less like the pyramid structures that we are used to.’

Successfully attracting, developing, deploying and retaining from these talent pools also helps to address the creativity challenge. A diversity of backgrounds on a well-managed team tends to foster diversity of thought – which is a key driver for creativity and innovation. Ivan Blagodyr, General Director of Russian energy group JSC RAO Energy Systems of East, had that in mind regarding one such pool: ‘We need to readjust our thinking, become more innovative, and it’s very important not just to have proper qualifications and experience but a proper mindset as well. That is why I think it’s important to recruit young people.’ No doubt others have had similar experiences when they’ve tapped underutilised pools of talent of their own.

Necessity is the mother of retention

Many employers made concerted efforts through the recession to hold as many qualified people as possible, opting for hiring freezes and pay-cuts rather than layoffs. Voluntary turnover declined in mature economies during the recession, but historical trends demonstrate that it will return.

In hot talent markets, turnover rates can be high, reflecting scarcity. Annual staff turnover in China can reach 20% or even 40% in some sectors, compared to turnover rates that are typically less than 10% in the US or UK. ‘Assembling talent is part of the reason companies are making acquisitions in the emerging markets. At the same time, retaining that talent is very tough. In China right now, competition for people is quite fierce’, said Ed Breen, Chairman and CEO of Tyco International, based in the US. A majority of CEOs globally said they’re concerned about competitors recruiting key personnel.

Countering talent poachers

Recognising these trends, CEOs are changing their people strategies to improve employee engagement and retention. Most CEOs (65%) say they plan to use more 'non-financial' rewards. These approaches can take many forms, but often involve training and mentoring programmes, with a closer focus on career trajectories. 'There are an enormous number of talented people in the world. But the trick for any organisation is to hire people early enough so that their careers can grow in tandem with the organisation's vision of its future,' said Gregory R. Page, Chairman and CEO of Cargill, Incorporated in the US.

Likewise, Russian rail transport group Globaltrans adopted a 'careful' approach to pay increases during the recession, 'Of course, during the crisis we were a bit more careful about annual pay increases. But that was the only action we took that affected our work force. There was no significant reduction in headcount – but neither were there new joiners,' noted Chairman of the Board of Directors Alexander Eliseev. 'The key to our people strategy is to provide every employee with the opportunity to advance their professional development.'

Instilling a deeper sense of ownership by spreading employee stock ownership more widely is another important retention tool for CEOs. 'In a high-growth economy like India, many companies are building capacity rapidly and, as a result, become easy targets for talent-poaching. So, employee retention is a real challenge,' said Sajjan Jindal, Vice Chairman and Managing Director of India's JSW Steel Limited. 'In order to maintain our own retention rates, we've made our employee stock option scheme more attractive.'

In brief: Talent

The challenges CEOs report in recruiting and retaining talent reflect the strategic and geographical changes afoot for many companies. Companies are taking the long view on addressing talent needs in every market where they operate. Experienced and skilled employees are their best asset, and the costs in lost productivity and retraining are becoming clear.

'Our capacity to attract, retain and manage executive talent does not depend on the compensation package, but rather on our ability to create a sense of belonging to an organisation that offers a long-term relationship and a professional development opportunity, and that has a clear conception of itself, of what it wants to be, and of how to achieve it.'

Armando Garza Sada
Chairman of the Board of Directors, Alfa, S.A.B. de C.V., Mexico

Achieving shared priorities with government

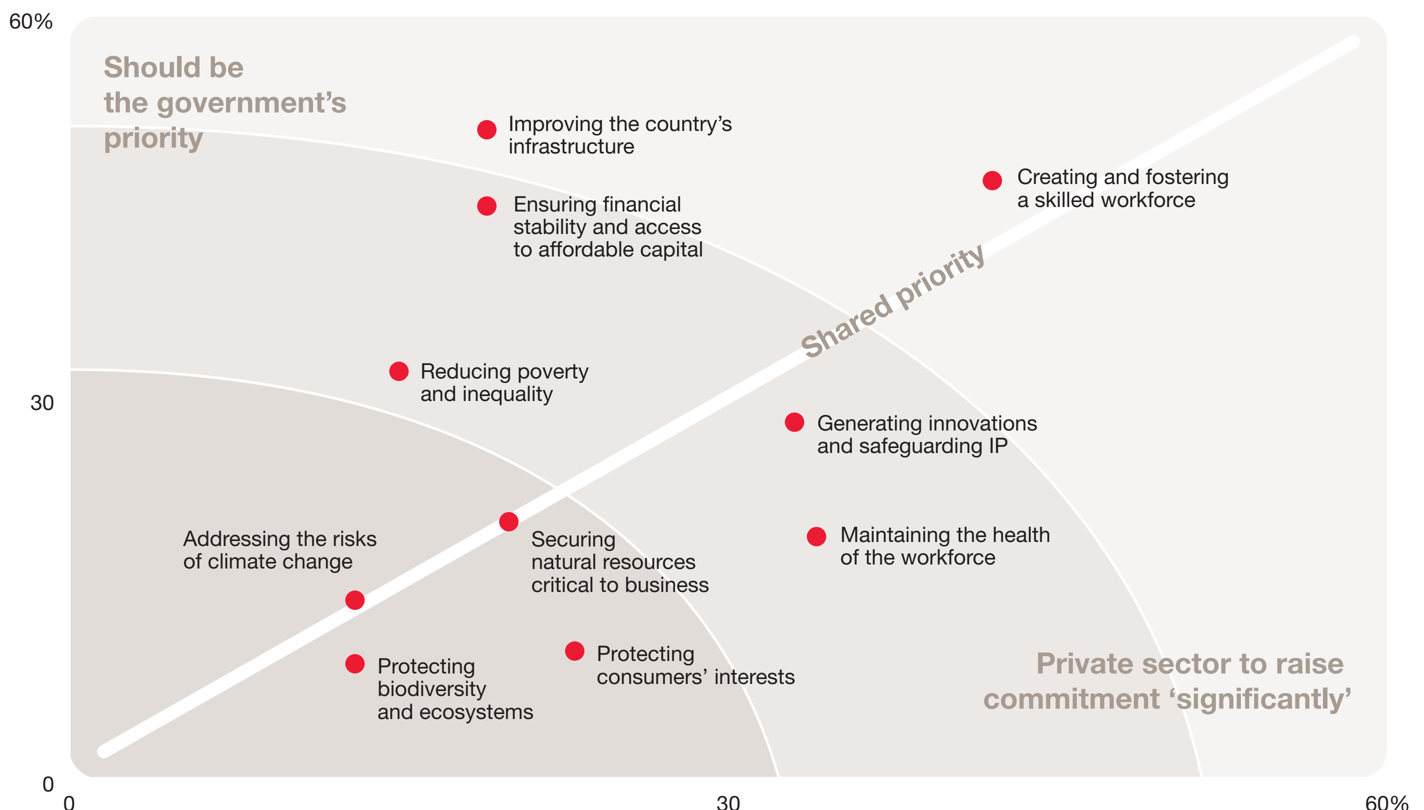
Businesses adopt a shared agenda to support sustainable growth

While CEOs focus on their own growth plans, many also see a common purpose with governments. Constrained budgets are forcing difficult decisions on public sector leaders; CEOs are keen to protect shared priorities that are critical to business growth and their own competitive advantages. Fostering a skilled labour force is but one area where CEOs see greater potential for deeper engagement with government bodies.

Sustained collaboration between public and private sectors doesn't always come naturally. A level of tension over the boundaries and roles continues to colour the ongoing relationship. Overregulation has remained among the top three concerns of CEOs through economic times, good and bad, for example. And countries have different starting points

Figure 9: CEOs see shared commitments with government to achieve public outcomes

Q: How much does your company plan to increase its commitment in the following areas, to improve national competitiveness and social well-being over the next three years? Which three areas should be the Government's priority today?



Base: All respondents (1,201)
Note: CEOs were asked how much their companies plan to increase commitments to achieve these outcomes; and what should be the government's priority. The plot shows percentages of CEOs who chose each of these areas. Multiple choices were allowed
Source: PwC 14th Annual Global CEO Survey

in terms of the cooperation between business and government. Think of the role of government in supporting growth in, say, China versus the United States. The current relationship between public and private sectors in a given country influences expectations about working together in the future.

But barriers are beginning to come down and expectations are changing. Nearly three-quarters of CEOs told us they would actively support new government policies that promote 'good growth' that is economically, socially and environmentally sustainable. And they're optimistic about outcomes: 54% believe that collaborative government and business efforts will mitigate global risks such as climate change. Indeed, as Paul Polman, CEO of UK-based Unilever, commented, 'we clearly need a business model that will help us return to growth – but growth that is equitable and sustainable for all of society. This will take political will.'

It will also take private sector commitments, as many CEOs pointed out, which means that corporate and government leadership have a shared agenda that each has an interest in pushing forward collaboratively. Worker skills are the highest priority issue on this shared agenda (see Figure 9). Indeed, 42% of CEOs reported a 'significant increase' to their commitments on workforce improvement, and another 40% expect 'some increase'.

CEOs also clearly stated the importance of infrastructure for competitiveness. Those in infrastructure-related sectors such as engineering, construction and utilities, as well as banks, reported increased commitments of their own. But CEOs overall believe it's the government's job to build and maintain transport links, power and telecoms grids, and the water supply. 'In the absence of infrastructure, economic opportunity declines for everyone,' Gregory R. Page, Chairman and CEO of Cargill, Incorporated, based in the US, noted. 'No one company is big enough to compensate for a substandard electrical grid. You can't run a big business on the back of a 300 horsepower diesel engine.' Similarly, businesses expect government to take more of a lead to ensure financial sector stability, reflecting a post-crisis view that market mechanisms alone may not be enough.

Businesses also have another key expectation for their governments: to tackle fiscal deficits to restore stability to the markets in a way that is mindful of the fragile environment for global growth. Public revenues are of course expected to be part of the equation: a majority of CEOs expect taxes will rise, led by 65% of CEOs in Asia and 70% in Latin America. 'With worries over sovereign debt, we also see states looking everywhere for sources of new tax revenue,' said Johannes Teyssen, Chairman and CEO, E.ON AG in Germany. 'And industries that are more embedded in the national infrastructure and can't easily avoid state intervention are natural targets for new taxes increases. In my view, states are on a dangerous path in applying special tax regimes on energy companies.'

'Through public private partnerships, the private sector can also make possible certain investments with optimal allocation of risks and responsibilities. This enables the government to concentrate its investments in key social areas.'

Marcelo Odebrecht
CEO, Odebrecht, Brazil

> *'We also expect that governments will not only be looking to the private sector for the provision of capital, but increasingly for the delivery of a whole range of social services. For example, in the UK the government is looking at different ways to procure services from the private sector in terms of meeting the governments' objectives.'*
>
> **Nicholas Moore, CEO**
> Macquarie Group Limited, Australia

Partnering for infrastructure

Government leadership in building infrastructure is critical for competitiveness. A majority of CEOs identified the priority for the governments of all countries outside of Western Europe and Japan, where infrastructure is well developed, and of China – where the government allocated almost US$600 billion of stimulus spending for infrastructure projects over the past 2 years.

But the role of private capital in financing infrastructure is unavoidable: an estimated US$3 trillion per year needs to be spent on infrastructure across the globe in the coming decades, according to a recent report from the World Economic Forum.[12] The scale of this funding requirement means it is unlikely to be met solely through public finance – so governments need to engage with the private sector and tap a range of funding sources.

That's where public–private partnerships (PPPs), in their varied forms, are likely to fit in. 'PPPs will take root in other countries because most countries don't have lots of spare cash right now,' Philip Dilley, Chairman of UK-based Arup Group said. 'We see substantial PPP activity already in European countries.' PPPs have the most potential in regions with a stable regulatory structure as a method of sharing risk or financial burden as well as locking in the funding for necessary maintenance of infrastructure. Dilley expects similar partnerships to evolve in India in particular – where 88% of CEOs told us the inadequacy of basic infrastructure was a threat to growth. The Indian government aims to increase investment in infrastructure to more than 9% of GDP by 2012.[13]

Sajjan Jindal, Vice Chairman and Managing Director of India's JSW Steel Limited, believes PPPs are perhaps the best model for businesses to contribute to the shared agenda: 'India's administrative capabilities are not like China's. PPPs in healthcare, roads, education, ports, airports or railways can be a good alternative to the government going it alone.' A key element is the consideration of user fees that can make PPP-financed projects more attractive to private finance, although the World Economic Forum report highlights the need to understand and manage public perceptions at the same time.

Businesses can provide more than cash: they have expertise, and the abilities to execute and manage risks. This is part of what makes PPPs attractive. As Berthold Leetfink, Deputy Secretary General of the Ministry of Economics, Agriculture and Innovation in the Netherlands told PwC, 'At least for the Netherlands, and I think for many other countries, planning and building infrastructure is very much in the hands of government. But it's obvious that the private sector has a lot of knowledge in terms of building cheaply, efficiently or in a more environmentally friendly way.' As an example, a PPP project in 2009 to connect a 12-mile regional rapid transit line in Vancouver – Canada Line – was completed several months ahead of schedule.[14]

This model of cooperation is explored further in PwC's forthcoming 'Rethinking Government: doing things differently' report.

12 'Paving the Way: Maximising the Value of Private Finance in Infrastructure', World Economic Forum (2010).
13 Eleventh Five-Year Plan, Government of India Planning Commission (2008).
14 'Public-private partnerships: The US perspective', PwC (2010).

Filling the talent pool

The highest priority on the shared agenda relates to the workforce. Over the next 3 years, 42% of CEOs expect to significantly increase their role in fostering a skilled workforce. And 34% plan significant raises in their commitments to healthcare. In both cases, CEOs are addressing their own competitive concerns – while simultaneously responding to the universal need to improve uneven education and healthcare services.

As Juha Rantanen, President and CEO of Outokumpu Oyi in Finland points out, 'If you think about it, many of the things one learns through formal schooling either at the vocational or university level, often become superseded by new knowledge and new technology within a matter of a few years. That's why companies like ours have to provide their people with continuous training and education.'

The role for business is well recognised when it comes to leadership development and on-the-job training. What's newer is that the training and education systems are becoming much more of an integrated market with companies and governments both looking to meet workforce requirements. For instance, in Malaysia, investments are being made directly in the education system. 'Public education is a big issue and one where the private sector can fill the gaps that government often has a difficult time addressing,' said Tan Sri Dato' Azman Hj. Mokhtar, Managing Director, Malaysia's government investment holding arm Khazanah Nasional Berhad (Khazanah). 'It's an issue that links back to how do we define business success, because if we don't solve the education issue then the problem will eventually degrade the private sector's ability to recruit a capable workforce.'

Similar trends can be seen in other countries ranging from the charter schools in the US to free schools in Sweden and academies in the UK. Fifty-four percent of CEOs plan to work with government and the education system to improve the talent pool available. 'We've also undertaken another initiative in cooperation with the technology institution, ITBA – one of the finest universities in Argentina. With support from Pampa Energía S.A., the university re-started an electrical engineering programme which had been previously dropped from the curriculum,' said Marcos Marcelo Mindlin, Chairman of the country's largest electricity company. 'Not only do we fund the programme, but we also offer full programme scholarships to ITBA students whose parents work for Pampa Energía. This is our way of helping to train more local electrical engineers, which Argentina badly needs.'

The issue becomes how to integrate private business in education and define an agreed role for the private sector. In many areas, like Australia and in Scandinavia, the private sector is a new player in education and its role has grown with perceptions of a decrease in the performance of government in dealing with the issue.

In brief: The shared agenda

Public and private sectors have a common purpose in achieving outcomes ranging from improved infrastructure and workforce development, to climate change mitigation and poverty reduction. Leaders from both recognise the need to collaborate more on that shared agenda, but they also still see the need for a government lead in key areas like infrastructure.

'It is impossible to make education the sole responsibility of the business. Education should be state-supported, with additional corporate programmes aiming to develop the company's own human resources.'

Evgeny Dod
CEO, RusHydro, Russia

Globalisation reimagined

The shared agenda with government likewise acknowledges how businesses are taking a broader view of their role and responsibility and the connection between competitiveness and social well-being.

CEOs' shift towards a targeted strategy signals the advance of globalisation – but it may diverge from how it's looked in the past. Companies are not only affected by globalisation; the actions they take will shape it. And this time, the evidence shows, CEOs are going to do it a little differently.

That 72% of CEOs support 'good growth' that is economically, socially and environmentally sustainable is recognition that they would like to see globalisation evolve in a way that links economic growth and social development. Good growth is a long-term path towards value creation that creates lasting prosperity for both shareholders and society.

While that sounds like a lofty ideal, approaches to the three strategic focal points hint that change is really happening. Developing talent is a business imperative, but strategies are shifting towards the view that employee wants and needs – whether for career development opportunities or flex-time for work-life balance – are to be factored into employment agreements. And CEOs expect to work with governments to develop workforces, not just their own employees. So entire communities and countries stand to benefit.

Innovation is a long-term building block for any company, but open innovation – involving partners in a range of innovation processes for mutual benefit – also creates avenues for further value creation in society. Partners in collaboration, think suppliers or academia, for example, learn much more about related processes. That tacit knowledge and experience can bear fruit in future projects, while fully respecting the intellectual property of the initial collaboration. And reverse innovation and other methods that bring innovation processes closer to customers, particularly in emerging markets, stand to deliver products and services that are better matched to the cultures they are sold to.

The shared agenda with government likewise acknowledges how businesses are taking a broader view of their role and responsibility and the connection between competitiveness and social well-being. Even issues such as climate change and poverty reduction, though lower priority on the agenda CEOs reported, are not being 'outsourced' to government. Far from it, in fact, as CEOs recognise that equal commitments need to be made by the public and private sectors. If they don't tackle these issues, their operations will be constrained over the long-term.

These findings suggest that CEOs are beginning to take the long view. This isn't out of altruism; businesses reap great value directly from getting talent, innovation and government partnerships right. But the approaches they are taking also create broader value for society, value that extends beyond the profits and jobs they create, and the products and services they provide. The public has high expectations and needs to trust that the business community is playing a crucial role in the development of society. If the business community can rise to meet these expectations, its license to operate will be secure.

Final thoughts from our CEO interviews

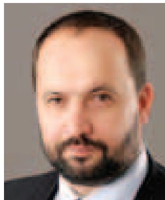
Douglas M. Baker, Jr

Chairman, President and CEO, Ecolab, US **www.ecolab.com**

'Sometimes I wonder if we're working too hard to minimise the risk of a future downturn and whether that outcome is really achievable by government at all. If we discourage people from taking risks – and possibly making mistakes – we'll have a lot less innovation as a result. Having said that, government can take some positive actions. As a start, government can bring clarity to what the rules are going to be going forward. How are we going to go manage the financial sector? What regulations will they operate under? What are the capital requirements going to be? What about the liquidity requirements? Until we're clear on those issues, we shouldn't expect lending to pick up.'

Ivan Blagodyr

General Director, JSC RAO Energy Systems of East, Russia **www.rao-esv.ru**



'The main thing that we can use now to counter the forces of nature and technology failures is the expertise and readiness of our people. This is what allows us to survive and get prepared for winters, winter and summer peak periods, everything. It is where the value lies, definitely. Everyone who tries to enter the Far Eastern market now understands that utilities companies have valuable human resources. Retaining this value is a big challenge.'

Efthimios Bouloutas

CEO, Marfin Laiki Bank, Cyprus **www.laiki.com**

'Maintaining a strong capital base has been key in attracting liquidity, especially during these turbulent times, and instrumental in allowing us to extend credit. This particular element of our strategy, being in a position to continue extending credit, has been crucial in attracting a number of high quality and profitable clients.'

Ed Breen

Chairman and CEO, Tyco International, US **www.tyco.com**

'All the companies with big vehicle fleets compare notes about ways to reduce carbon emissions. Fred Smith, CEO of FedEx, was recently here to see what Tyco is doing to modernise our fleet. One of the things that always strikes me is that when we talk to new recruits to our company, they all ask about our environmental programmes. So having a credible environmental track record is actually a big recruiting advantage.'

Louis Camilleri

Chairman and CEO, Philip Morris International, Switzerland / US
www.philipmorrisinternational.com

'In times of uncertainty and recession, all consumer products companies basically face two fundamental issues. One trend is trading down to cheaper products. The other is consumer fragmentation. In terms of fighting these trends, the answer is innovation. […] But I think it's a mistake to restrict innovation to product innovation. We have the ambition to innovate across everything we do, to become more effective and to enhance our execution abilities and to get better at speed to market. Innovation goes way beyond just the products. It's the way you market the product, the way you sell the product, the whole aspect of consumer engagement.'

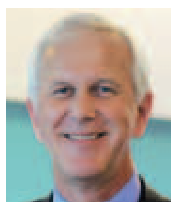
Richard K. Davis

Chairman, President and CEO, U.S. Bancorp, US **www.usbank.com**

'In the very beginning when things started to fall apart in fall of 2008, I expected the flight-to-quality to be completely in deposit-gathering. I thought it would be all the CFOs and treasurers of large companies who would be the first to say 'Let's put our money in there, because we have way more than the insurance will cover, so we better know that the company is safe'. That happened, but at the same time those same business leaders invited us into their credit line as the banks they had changed the rules, making it more expensive, making it harder. So the lending side was surprisingly quick to welcome us in under flight-to-quality. They're both now present. So for us, the longer this goes, on a relative basis we get advantaged On an absolute basis we don't get hurt.'

Philip Dilley

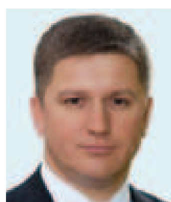
Group Chairman, Arup Group, UK **www.arup.com**



'Today, we've become more strategic about what we do and where; we endeavour to avoid becoming too reliant on any one market. If I look at some of the architectural firms we collaborate with – ones that are now suffering in the current economic climate – often this is because they have been too focused on a single market, such as commercial property. So, diversification across sectors and geographies has been very important for us.'

Evgeny Dod

CEO, RusHydro, Russia **www.eng.rushydro.ru**



'It is clear that the financial crisis has limited rather than eliminated opportunities for renewables, say, in Southern Europe. This is because today it's impossible just to set tariffs that would ensure return on the projects. Territories that are in a stable situation or, in our opinion, have growing economies are of key interest for us. These countries include BRIC and developing economies. Here I mean India, Southeast Asia, Africa and South America.'

Alexander Eliseev

Chairman of the Board of Directors, Globaltrans, Russia **www.globaltrans.com**

'There's no doubt that liberalisation of railway freight transport is good for the sector and good for the Russian economy as a whole. But liberalisation also means that competition will become much tougher. The Second Freight Company will be a serious player – it has about 150,000 carriages, which is a considerable inventory. So, they are a powerful potential competitor. But we are used to tough competition. We are sure we can win this game.'

John V. Faraci

Chairman and CEO, International Paper, US **www.internationalpaper.com**

'The recession reminded people, maybe for the first time in their lives or careers, what happens when capital markets are frozen. Even though you have a strong balance sheet, you can't refinance your debt. That's a very uncomfortable situation to be in, for an individual, a business, a country or a municipality. The risk-averse way is to have no debt, but that's not the way to run a company, so it's the notion of having enough flexibility that you can respond to the unforeseen event. That's what 2008 and 2009 reminded us of. We didn't see the recession coming, and when it did, the ability to respond quickly and effectively so that we had enough levers to pull to manage through it is very important. That's a lesson learned.'

Armando Garza Sada

Chairman of the Board of Directors, Alfa, S.A.B. de C.V., Mexico **www.alfa.com.mx**

'We see a great opportunity: a wide market, customers who have not yet consolidated their preferences, competitors with small-scale processes, with poor technological differentiation and high costs, etc., conditions that could be propitious for our acquiring an interesting part of the market and increasing our operations in Asia.'

Prof. Dr. Peter Gomez

Chairman of the Board, SIX Group AG, Switzerland **www.six-group.com**

'One major change is, of course, that regulatory activities have increased considerably. The second is technology. We have today this phenomenon called algorithmic trading, trades are done in nanoseconds. And that requires a lot of technological know-how and very expensive infrastructure. It can be a dangerous thing as we saw about a year ago when the New York Stock Exchange really fell down because there were no circuit breakers built in. The third thing is that we have much more competition and while the incumbents, the existing exchanges, have become more and more regulated, new exchanges are popping out of the ground without much regulation. So fragmentation is going on and that's very dangerous for the whole system.'

Sajjan Jindal

Vice Chairman and Managing Director, JSW Steel Limited, India **www.jsw.in**

'The economic downturn has made us become more India-focused. Before the downturn, we would export 50 to 60 percent of our steel products and sell the remaining in the Indian domestic market. Post-2008, there was virtually no overseas market for steel. Consequently, we had to shut down some of our manufacturing capacity. On the other hand, the domestic market for steel has been relatively less affected by the downturn. Indeed, we found India could be a very good market for us.'

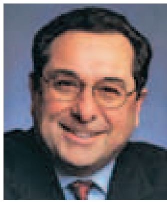
Li Lihui

President, Bank of China, China **www.boc.cn**

'The degree of internationalisation of Bank of China is the most considerable among the Chinese domestic banks, with approximately US$ 360 billion of foreign currency assets. The challenges of the global financial crisis have been especially significant as a result. Apart from foreign currency loans to domestic borrowers in China, these assets largely represent foreign debt instruments and other investments. The turbulent international marketplace created tremendous challenges for us in terms of enterprise-wide and global risk management, including assessment of market conditions. We responded to these challenges head-on, successfully implementing effective global risk management solutions and minimizing the cost of adverse market conditions.'

Timothy M. Manganello

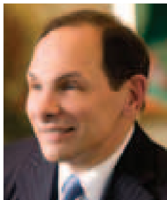
Chairman and CEO, BorgWarner Inc., US **www.borgwarner.com**



'I think the US manufacturing sector would have had a major problem if we lost the contributions and capabilities of GM and Chrysler. Both companies may have downsized without government help, through bankruptcy, but the government help allowed them to go through bankruptcy in a much more humane fashion. The Automotive Task Force did force them to eliminate a good chunk of excess capacity. In Europe, the governments have probably not allowed some of the auto companies to restructure, and the European industry is going to be faced with a lot of difficulties caused by excess capacity. It's quite possible not all of them will survive.'

Bob McDonald

Chairman of the Board, President and CEO, The Procter & Gamble Company, US **www.pg.com**



'In the 1990s, it was all about global expansion in the markets that opened up for capitalism. Eastern Europe, Russia, China. This decade for us, I think, will be about getting our categories into every country around the world. We're reaching about 4.2 billion people today, but we're not reaching everybody on the planet. We're in 38 product categories around the world, and there's not a single country where we're in all 38 categories. In the United States we're in 36 categories. [...]At the same time, we're extending our distribution in developing markets, deeper into rural areas where economies may not exist at all. That combination – more consumers, more parts of the world – will help us get to every consumer and touch and improve every consumer's life.'

Marcos Marcelo Mindlin

Chairman, Pampa Energía S.A., Argentina **www.pampaenergia.com**

'A world of low interest rates and high liquidity is ideal for countries in Latin America because these conditions help us access the capital markets. Today, the prices of Argentine commodities are competitive and on an upward trend. Unless there is a significant slowdown in the Chinese or Indian economies, the demand for Argentine commodities will continue to grow. For us, cheap access to credit is highly beneficial. And China seems to keep growing and able to absorb all the raw materials we produce.'

Senji Miyake

President and CEO, Kirin Holdings Company, Limited, Japan **www.kirinholdings.co.jp**

'In Japan, one of the key trends we see is a new-found attraction towards lower-priced products. So while some businesses remain focused on consumer products with high value-added and brand-recognition, there is also a counter-trend among mass-merchandisers toward bringing to market less-costly, privately-branded products. I think this is a trend that's here to stay. On the other hand, the personal tastes of Japanese consumers are growing ever more diversified and fragmented. This represents an opportunity for us if we can respond with a broader product offering or develop entirely new product categories. Indeed, it's critical that each of our business units develop the sorts of products that meet changing and increasingly differentiated consumer tastes.'

Tan Sri Dato' Azman Hj. Mokhtar

Managing Director, Khazanah Nasional Berhad (Khazanah), Malaysia **www.khazanah.com.my**

'As early as 2004, we were talking about human capital, social capital, knowledge capital, and taking a holistic view of our corporate mission. Ultimately, we focus on total stakeholder return, if you like. Of course, you have to acknowledge the special interests of shareholders. But those interests are contingent upon total stakeholder return. We adopted this approach five or six years ago, and subsequently, have never questioned its validity. In fact, the current financial crisis has strengthened our belief that it is not only the right approach, but the only way forward for us.'

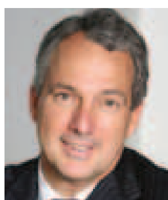
Leslie Moonves

President and CEO, CBS Corporation, US **www.cbscorporation.com**

'No question, the younger generation is not as used to a television screen as the older ones. They're much more used to a computer screen. They are much more impatient. We've all heard, "I want what I want when I want it." And for every new media device, there are more and better ways of getting content. It is a challenge for us, getting content out there, and getting paid for it.'

Nicholas Moore

CEO, Macquarie Group Limited, Australia **www.macquarie.com**



'If US employment begins growing in 2011, that will trigger a series of positive economic outcomes around the world. From an investor and a corporate viewpoint, we'll start to see confidence returning and more activity flow. We'll see more allocations in terms of the equity markets, and everyone will start to feel like the world is getting back to a more normal condition.'

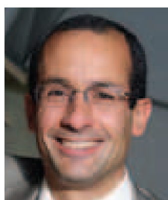
Vineet Nayar

Vice Chairman and CEO, HCL Technologies, India **www.hcltech.com**

'Technology is changing very quickly. Traditional forms of computing are fading and online mobility is rising. Even more importantly, most of the population in the emerging economies will soon require access to digital networks. But while there will be tens of millions of new consumers of digital services in the years ahead, the cost of those services must reflect the sorts of prices that the people in the emerging markets are willing to pay.'

Marcelo Odebrecht

CEO, Odebrecht, Brazil **www.odebrecht.com.br**



'We are quite optimistic about what lies ahead of us. We do believe that most of the countries in Latin America, Africa and Asia will continue to grow steadily for the next few years, especially those that have done their homework and/or have plenty of natural resources. For its part, the US has always proved able to reinvent itself, and it does have the flexibility and pragmatism to keep doing so. My doubts regard Europe and its capability and even its willingness to change and do what has to be done in order to resume growth. [...] With regard to the risks, the main risk is a downturn in China's economy, which I do not foresee and which would have a major impact on the volumes and prices of goods and services worldwide. The other risk is that of the developed world trying to hold on to its status, not allowing developing countries to acquire more influence and participation in politics, trade and the overall economy.'

Gregory R. Page

Chairman and CEO, Cargill, Incorporated, US **www.cargill.com**

'In the past, it was probably sufficient to simply run our own affairs in a way we thought appropriate and responsible. Today – local communities, national governments, NGOs – have articulated a higher standard of corporate behaviour. Similarly, our most important customers have made it eminently clear to us that our reputation impacts their reputation. As a result, value-chain mapping – looking back through the value chain to consider issues like water use, environmental stewardship, labour practices – has become a critical element in our business and product planning.'

Paul Polman

CEO, Unilever, UK **www.unilever.com**

'The concept of value is continuously evolving. In the past, value was about delivering a basic commodity like sugar or salt to the consumer at an attractive price. Later on, the goal was to create a brand – like Persil or Dove – which was a guarantee of quality. Then, value became synonymous with the experience a product delivered. Starbucks isn't just about coffee – it's about a warm, inviting place where you can relax and check your email. It's an entire experience. Today, the concept of value is increasingly associated with products that demonstrate social responsibility. A successful product must provide utility, but it must also exhibit a social consciousness, if you will.'

Juha Rantanen

President and CEO, Outokumpu Oyj, Finland **www.outokumpu.com**

'Climate change and how that will be addressed is another cause for uncertainty. Unchecked CO_2 levels are a threat unless some kind of established global scheme is put in place. So far, the US and China have not played a big part in that effort. But Europe has, and that means Europe has to bear most of the cost associated with CO_2 reduction. On the upside, greater efforts toward CO_2 reduction could open up important business opportunities for our company because investment in low emissions power generation would increase demand for stainless steel.'

Stephen A. Roell

Chairman and CEO, Johnson Controls, Inc., US **www.johnsoncontrols.com**

'In terms of resiliency, I've been surprised to the extent the automotive markets recovered in 2010. We also were surprised at how far they fell the preceding year. The supply base, for the most part, has weathered it much better than I thought it would. Had liquidity and access to capital been prolonged, we would have had a lot more issues in our industry around the supply base. In Building Efficiency, as we look at the more mature markets in North America and Western Europe, the recovery has been slow, and it's expected to continue to be slow. What has been impressive, from a global standpoint, is the emerging markets have held up so well. Markets in the Middle East, China and South America either stayed strong or came back much quicker than we anticipated. The Power Solutions business was down only for a short time.'

Johannes Teyssen

Chairman and CEO, E.ON AG, Germany **www.eon.com**

'Retail customer behaviours are changing and you need to build a relationship with those customers so that they become part of the solution toward the overall goal of energy optimisation. This will pose a big challenge because energy companies will need to adopt technologies and adjust to new patterns of consumer behaviour. It will not be easy and a lot of utilities will probably be unable to make that transition.'

Agah Uğur

CEO, Borusan Holding A.Ş., Turkey **www.borusan.com.tr**

'In the steel business there has been a change in buying patterns and contract patterns from one year or six months down to three months. So every quarter there is a new contract. The supply side has become more of a spot market with quarterly driven business and that behaviour change is going all the way down the value chain. Our customers, including some of our major white goods customers as well, no longer want to make longer term contracts with us: they want quarterly deals as well. So I think that shorter contract periods is the right way to manage price volatility.'

Dr. Zhang Xiaogang

President, Anshan Iron and Steel Group Corporation, China **en.ansteelgroup.com**

'In recent years, the Chinese steel industry has undergone rapid development. But the economic crisis has exacerbated the complications that come with rapid development. The fundamental way to address these problems is to focus the industry's efforts on increasing energy saving and decreasing emissions; and ensuring that future patterns of growth are sustainable, both in economic and environmental terms.'

Zhou Zhongshu

President, China Minmetals Corporation, China **www.minmetals.com**

'We took three measures, which I still remember clearly. First, we decided it was essential to keep our management steady and avoid cash flow problems. We had to have enough liquidity to avoid a capital crunch. Second, we planned to strengthen the internal management of the corporation to reduce costs and increase efficiency. Third, a financial crisis can be an opportunity. This was an opportunity for us to expand or invest with low cost. Looking back, we can say that these measures were effective. At that time, I said that as the leading enterprise in the industry, we shall be the last to fall and the first to stand up. Actually we didn't fall. The financial crisis led to an industry reshuffle, which gave us the opportunity to get what we wanted. For example, we went abroad to get resources, something which might have been quite difficult before the financial crisis. We also successfully acquired the core assets of OZ Minerals, the third largest mining corporation in Australia.'

Research methodology and key contacts

This is the 14th Annual Global CEO Survey

We have followed the same methodology as we used the previous years to ensure we are fairly representing the emerging economies of the world. We have conducted interviews in 69 countries worldwide, and varied the number of interviews in line with their GDP, measured at market exchange rates, in 2006.

In total, we conducted 1,201 interviews with CEOs in 69 countries conducted between 6th September and 2nd December 2010. By region, 420 interviews were conducted in Western Europe, 257 in Asia Pacific, 221 in Latin America, 148 in North America (40 in Canada), 98 in Eastern Europe and 57 in the Middle East & Africa.

The interviews were spread across a significant range of industries. Further details, by region and industry, are available on request. The interviews were mainly conducted by telephone, with the exception of Japan, where a postal survey was administered and Africa, where most of the interviews were conducted face to face. All the interviews were conducted in confidence and on an unattributable basis. The lower threshold for inclusion in the top 30 countries was companies with more than 100 employees or revenues of more than $10 million. This is raised to 500 employees or revenues of more than $50 million in the top 10 countries.

37% of the companies had revenues in excess of $1 billion, and a further 37% had revenues of $100 million to $1 billion. The remaining 21% had revenues of less than $100 million. Company ownership is recorded as private for 52% of all the companies, with the remaining 47% listed on at least one stock exchange.

To better appreciate what is underpinning the CEOs' outlook for growth we also conducted in-depth interviews with 31 CEOs from five continents over the fourth quarter of 2010. Their insights cover a wide range of topics, from prospects for recovery to new dynamics of post-crisis environment, balancing growth with risk management and lessons learnt. Their interviews are quoted in this report, and more extensive extracts can be found in the CEO Survey In-depth Story companion publication. For further information on the data, interactive graphics are available at our website at **http://www.pwc.com/ceosurvey** where you can explore responses by sector and location.

PwC's extensive network of experts and specialists has provided its input into the analysis of the survey. Our experts span many countries and industries.

Note: Not all figures add up to 100% due to rounding of percentages and to the exclusion of 'neither/nor' and 'don't know' responses.

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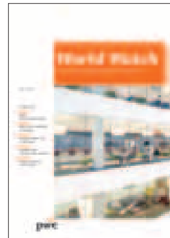
Related reading

World Watch: Issue 1 2011 (January 2011)

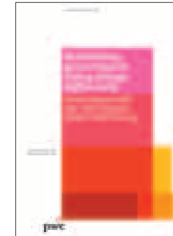


Need to know what's on the minds of regulators, standard setters, business leaders and others as they set the course for improved governance, reporting, and assurance? The latest edition shares PwC views on today's hot topics and keeps you up-to-date with new developments from around the world.

View: Issue 13 (January 2011)

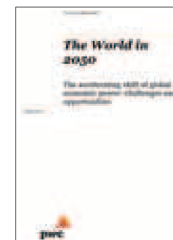
This issue looks at how US companies are co-opting China's long-term interest in stability and prosperity into their business strategies. Learn about cloud computing's potential to speed innovation and create new revenue opportunities. Find out how customizing healthcare could transform employer benefits in a postreform world. Read about how to narrow the 'trust gap' between companies and shareholders in 'Trust but verify.' Plus: An interview with economist Anatole Kaletsky, who looks at how markets and governments affect our financial future, and much more.

Government CEO Survey (January 2011)



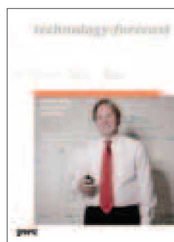
'Rethinking government: doing things differently' assesses the changing relationship between government and business as the world emerges from the depths of global recession. The research for PwC's 14th Annual Global CEO Survey has been deepened by including a selection of interviews with senior decision-makers in governmental organisations across the world. The aim is to better understand the implications for government policy of the views of CEO and so contribute to mutual understanding and productive relationships between the public and private sectors.

The World in 2050: a shift in economic power (January 2011)



The global financial crisis has accelerated the shift in economic power to emerging economies. In the latest in the series of PwC's 'World in 2050' reports, analysis reveals that the E7 emerging economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey) are set to overtake the G7 economies (US, Japan, Germany, UK, France, Italy and Canada) before 2020.

Technology Forecast: Unleashing enterprise mobility (December 2010)



The latest issue of our quarterly Technology Forecast examines how the current generation of smart handhelds implies more opportunities for enterprises than might be obvious at first glance. How do enterprises turn what has been a consumer trend in smart handhelds to their long-term advantage? The first step is to understand how the workforce is changing.

Paying Taxes 2011: The global picture (November 2010)

A joint publication produced by the World Bank, the International Finance Corporation (IFC) and PwC. The study is based on data collected as part of the Doing Business project.

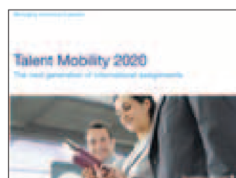
The Asian engine for global growth (November 2010)

In the wake of the historic financial and economic crisis, tremendous efforts have been made in the public and private sectors across the globe to turn the world economy around. There is no doubt that APEC will have an even greater role and responsibility in global effort to help the world economy to achieve a strong recovery and get back on track for robust growth and further prosperity.

See the future: Top industry clusters in 2040 revealed (September 2010)

The old economic order is shifting. As the global economy recovers some emerging markets are likely to grow faster than traditional economic powers. At the industry level, these shifts are even more apparent with accelerating capital flows, fundamental demographic changes, and the rise of state capitalism reshaping the world map for many sectors. PwC's Macro Consulting team has developed a tool to map future clusters across the world which this report uses to highlight the geographical locations that will host the largest clusters in five industries.

Talent Mobility 2020: The next generation of international assignments (April 2010)



The year 2020 is only a decade away, yet the way our global workforce is sourced, organized and managed will change radically by that time. An explosion of activity in emerging markets has contributed to a significant increase in the need for companies to move people and source talent from all around the world. In this next installment of Managing tomorrow's people series, the issue of future talent mobility is explored in more detail.

PwC's 13th Annual Global CEO Survey (January 2010)

The 13th Annual Global CEO Survey offers an up-close look at how business leaders have responded to the challenges brought about by the recession, the concerns they are facing and their strategies for positioning their companies for the long-term.

www.pwc.com/ceosurvey

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