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Future proof plans



Foreword



CEOs around the world are retrenching, indeed many claim to be entering ‘survival mode.’ Our 12th Annual Global CEO survey shows how the financial crisis shattered short-term confidence. The percentage of CEOs who were ‘very confident’ about their one-year revenue growth prospects dropped to 21%, the lowest level in six years. Uncertainty about the future is still running high and confidence no doubt continued to deteriorate after we completed the survey in early December.

In times of unprecedented economic and financial turmoil like these, however tempting it is to focus on

short-term imperatives, we cannot afford to ignore the longer term. Amidst the confusing haze of risks, regulations and recovery packages, this year’s CEO survey asks this question: How do company leaders determine the strategy that will lead to success when the economic fog eventually clears?

I want to thank the 1,124 CEOs from more than 50 countries who spared the time to talk with us, despite the many pressures they face. I am particularly grateful to the 21 CEOs who sat down with us for more extensive conversations and shared their thoughts on how they were working through these difficult economic times.

The tremendous success of the PwC Global CEO Survey – now in its 12th year – is directly attributable to the willing participation of such leaders around the world. This CEO commitment to the Survey reinforces its role as a valuable tool, not only for better understanding the current mindset of their peers, but also for identifying the specific risks and the opportunities that they anticipate will shape the future of business. At PricewaterhouseCoopers we are extremely proud of this ongoing commitment.

Samuel A. DiPiazza Jr
Chief Executive Officer
PricewaterhouseCoopers International Limited

pwc.com/ceosurvey

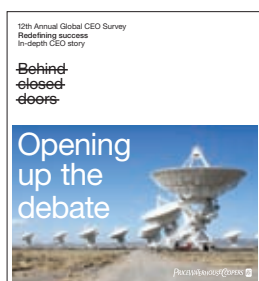
This year the 12th Annual Global CEO Survey website contains new, interactive tools, which allow users to customise data and charts for their own businesses.

- View an interactive compilation of video, key quotes and transcripts at pwc.com/ceosurvey/indepth.
- Examine the data from every angle – by business issue, region and industry sector at pwc.com/ceosurvey/thestory.
- Use the *benchmarking tool* to compare your point of view to that of your competitors and peers.
- Look at the *industry summaries* – a complete picture of the issues at the heart of each industry.
- Hand-pick the most relevant information and create a *custom report*.

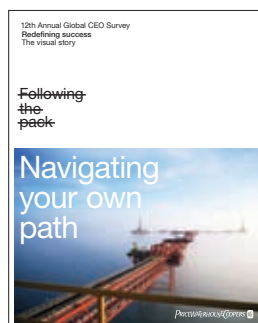
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Supplements



In-depth CEO story



The visual story

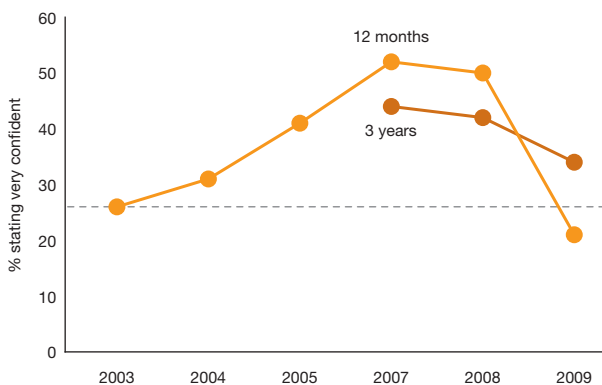
Introduction

The 12th Annual Global CEO Survey comes at a momentous time. A financial crisis of historic magnitude was unfolding as we set out to speak with 1,124 business leaders worldwide. We found CEOs operating in extreme conditions, with little margin for error. Many are still fighting threats to their companies' survival. At the same time, CEOs are also coming to terms with long-term, global trends that are challenging economic, political, social and cultural structures around the world.

John Donahoe, President and CEO of the US-based global online marketplace eBay Inc, says: 'If I can get three good nights' sleep in the next 12 months, I will consider the next year to be a success. I'm exaggerating, of course. But what I mean is...it's necessary to strike a balance between fighting each day to ensure your survival, while keeping a strong hand on the tiller in order to steady the ship. It's balancing the long term with the urgency of the short term and having the wisdom to discern what's what.'

Government and business leaders were caught unprepared for a global financial crisis, which has evolved into worldwide economic deceleration. In the short term, at least, this has shattered the confidence of CEOs and pulled their focus to urgent concerns about credit, liquidity, revenue and costs, in many cases forcing them to delay investments and expansions while they maximise returns from existing markets (see figure 0.1). CEOs generally support governmental efforts to intervene in the crisis. But CEOs also want governments to transform institutions and policies so as to be in tune with the dynamic of today's global economy.

0.1
The crisis shatters short-term confidence



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?

Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 3 years?

Base: All respondents 2009: 1,124; 2008: 1,150; 2007: 1,084; 2005: 1,324; 2004: 1,394; 2003: 992

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: 2009 data are based on interviews conducted in the last quarter of 2008. 2006 confidence question was not asked.

In the long term, half of CEOs do not believe that governments and businesses will be able to mitigate the risks created by global trends. CEOs see worldwide political and religious tensions increasing, the gap between rich and poor growing and a new set of countries emerging to challenge the group of eight industrialised nations (see figure 0.2, opposite). Added to these challenges are the scarcity of key skills, climate change, the depletion of natural resources and the potential for over-regulation by government.

The government's purpose should be to create a platform for economic development, but there is always tension between those who regulate and those being regulated.

SUN Mingbo
President of China-based Tsingtao Brewery Company Ltd

The extreme short-term and long-term pressures create a harsh operating environment. We heard repeatedly that this requires a new mindset, which includes different expectations about risk and return. For example, predictable quarterly financial results and other short-term financial metrics (such as those that determine compensation) must become less important. CEOs believe that the criteria for success should allow for more investment in large-scale opportunities, which have less predictable payback periods, and in mitigating risks that have the potential to erase years of incremental gains.

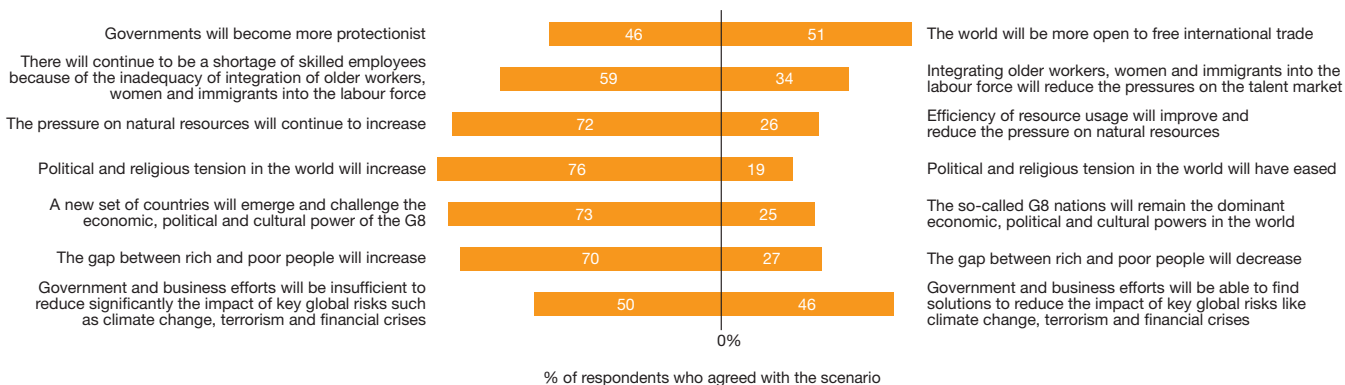
Another part of the shift in mindset that is required is the assumption of responsibility for issues, such as climate change, that were once considered outside the scope of any single business. Meeting the challenges and opportunities demand more collaboration among a wider group of stakeholders, and an acceptance of their increased influence. And the size and complexity of the issues require access to new information on the factors affecting the critical drivers of business. The need for collaboration and information can be seen in three strategies that we decided to examine in depth, based on the responses we received from CEOs – cross-border alliances, people management and risk management.

Am I making decisions today – whether I support carbon legislation or not, whether I build a nuclear plant or not – that my grandchildren will be able to look back and say, ‘My granddaddy made a decision that still makes sense?’ That is the true measure, I believe, of my stewardship as CEO.

James E. Rogers
 Chairman, President and CEO of US-based utility Duke Energy Corporation

Each CEO faces different challenges, but all want to meet the acute demands of survival, preserve the advantages that make them competitive over the long term and ensure that their business models are prepared for a return to growth when it comes. CEOs are seeking a formula for success in a world that is more connected than many had believed.

0.2
 Uncertainty about globalisation runs high



Q: Which of the following scenarios do you feel is more likely to occur in the future, keeping in mind they may not be mutually exclusive?
 Base: All Respondents chose a scenario from each pair, or the option 'Don't know/Refused' 1,124.

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Connectedness

Global markets spread wealth farther and faster than ever. They also spread damage. In today's environment, CEOs believe success is anticipating the risks of connectedness, not just reaping its rewards.



Section 1

An historic moment: One world united in crisis

Last year, many CEOs were expecting an economic downturn, but no-one was fully prepared for the intensification of the credit crunch in the second half of 2008, or for the global financial crisis that followed. Why? The current crisis is different from those that occurred in the previous few decades because the damage it inflicted spread further and faster than anything that has gone before.¹

Concerns about the prospect of a recession in the US, the UK and some other developed economies mounted, as 2008 marched on. By the time autumn arrived in the northern hemisphere, a deep economic winter seemed imminent. The trigger point came in mid-September, when US investment bank Lehman Brothers filed for bankruptcy, felled by nearly US\$60 billion in bad debts, and another US investment bank, Merrill Lynch, announced it would be acquired by Bank of America to avoid a similar fate. That evening, the US Federal Reserve asked two other Wall Street investment banks to help inject US\$75 billion into insurer American International Group.² All the major advanced economies were either in, or about to enter, a serious recession. Indeed, the International Monetary Fund (IMF) expressed fears that 2009 might be the worst year for the industrialised economies since World War II.³

Our survey findings provide a first-hand look at just how quickly the sentiments of senior executives changed. Between September 10 and November 24, 2008 (the period in which we conducted the bulk of our interviews), the number of CEOs who said that they were very confident about the short-term prospects for revenue growth plummeted from 42% to 11% (see figure 1.0.1 on page 8).

We all know that the sub-prime mortgage crisis in the US led to an overall financial crisis, and the impact has spread around the world, causing a global economic recession. Whether a country, an enterprise, or an individual, you can hardly escape it, and our company is no exception.

REN Jianxin
President of China National Chemical Corporation (ChemChina), a large-scale state-owned company approved by the State Council, China

¹ PricewaterhouseCoopers, *American Perspectives* (August 2008).

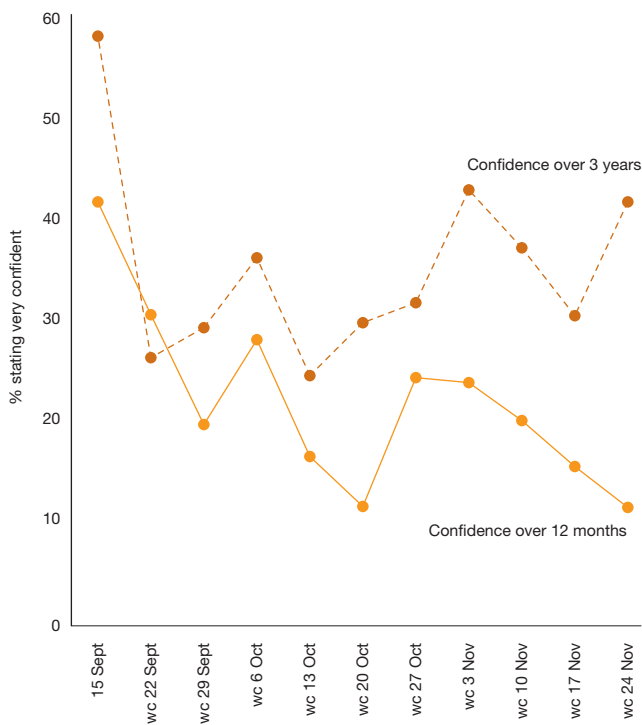
² Gary Duncan, 'Lehman Brothers collapse sends shockwave round world', *The Times* (September 16, 2008).

³ International Monetary Fund, *World Economic Outlook Update* (November 2008).

The shift in perceptions of the key dangers facing companies reflects this mood of increasing pessimism. In early September, CEOs were more concerned about the availability of key skills than the disruption of the capital markets or a downturn in the world's major economies. In late November, by contrast, the state of the global economy dominated the corporate agenda. Thirty-six percent of CEOs were extremely concerned about the risk of a recession. Conversely, only 11% were very worried about the talent shortage and 8% about the scarcity of natural resources, down from 42% and 21%, respectively, at the start of the survey period (see figure 1.0.2).

Falling confidence has had a very real effect on CEOs' business plans. At the start of September, only 46% thought that the banking crisis would affect their expansion plans. By the end of November, the figure had risen to 67%, after peaking in mid-October, when the Dow Jones and S&P 500 lost a fifth of their value in one week alone.⁴ As the gravity of the situation became increasingly apparent, more and more CEOs also told us that they might have to reduce staffing levels. Between 24% and 37% of those we surveyed during the bleak days of mid-October and November said that they expected the headcount at their companies to decrease over the next 12 months, compared with just 17% in early September (see figure 1.0.3, opposite).

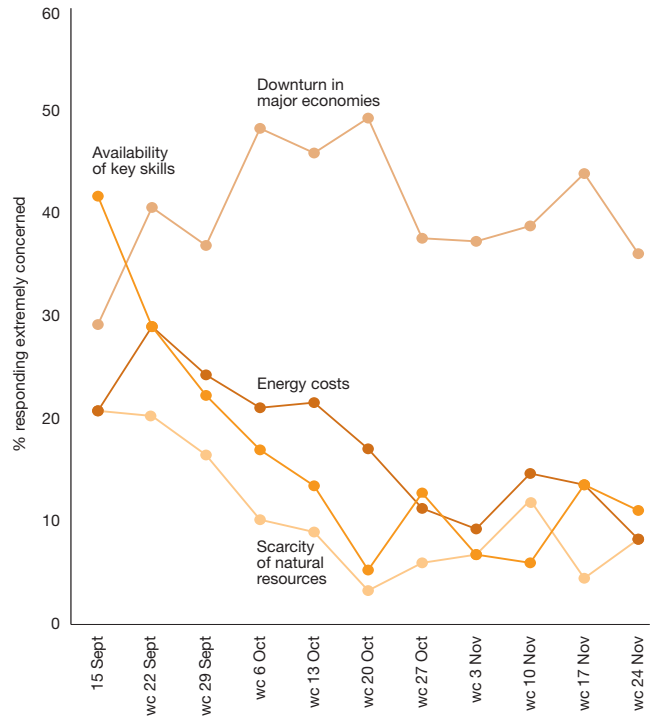
1.0.1
Confidence plummets as the crisis deepens



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?...the next 3 years?
Base: All respondents 24-161

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

1.0.2
Focus shifts from long-term success to survival



Q: How concerned are you about the following threats in relation to your business growth prospects?
Base: All respondents 24-161

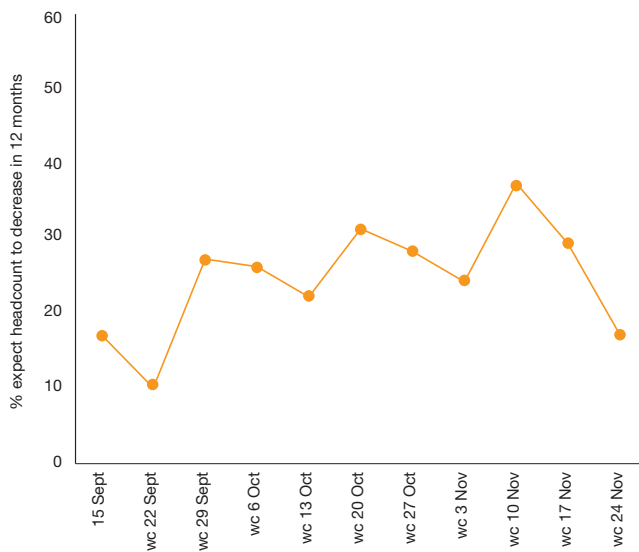
Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

⁴ Jonathan Sibun, 'Financial crisis: US stock markets suffer worst week on record', *The Daily Telegraph* (October 10, 2008).

The last downturn was a cyclical downturn. This is a structural downturn. When you have cyclical events, things go up and come down. When you have a structural event, something fundamentally changes. Our own view is that this is going to shake up fundamentals in a whole host of global economic areas.

Mukesh Ambani
 Chairman and Managing Director of India's largest private company, Reliance Industries Ltd

1.0.3
 Staff reductions become more likely



Q: What do you expect to happen to headcount in your organisation globally over the next 12 months?
 Base: All respondents 24-161

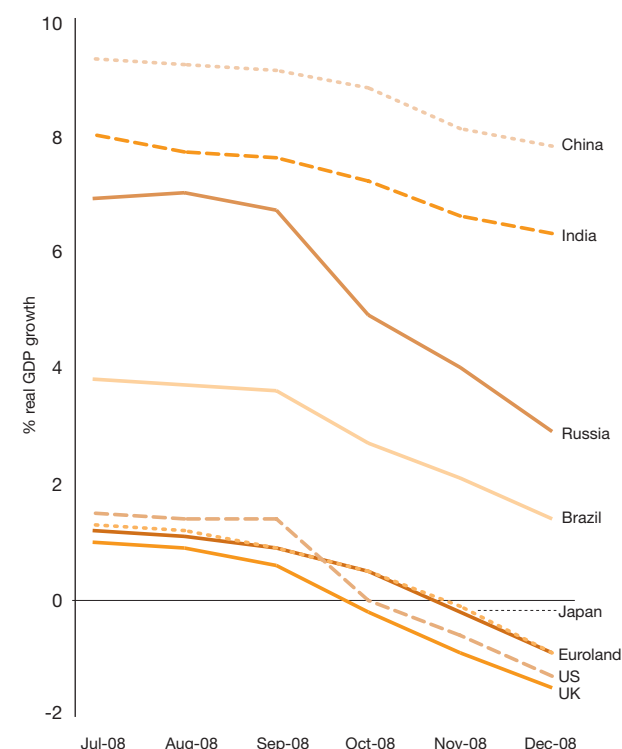
Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

1.1 We're all in this together: The darker side of globalisation

The scale of the carnage was not all that took senior executives and government ministers by surprise; so did the fact that the world markets were much more closely connected than most people had believed. Last year, CEOs in the US, Japan and Western Europe were far more worried about a global economic downturn than those in emerging markets such as Brazil, Russia, India and China. But, as capital started flowing back to the industrialised economies, it soon became clear that the emerging economies had equal cause for concern.

At first, the 'flight to safety' particularly affected countries with large trade deficits. The sudden reversal of foreign capital inflows forced Hungary, Latvia and Pakistan to seek bailouts from the IMF, for example. But, according to PricewaterhouseCoopers' analysis, the crisis rapidly spread to all the major emerging economies, in different ways. Declining consumer demand in the US and Europe stalled export-led growth in Asia and Latin America. India was hit by the drop in demand for outsourcing services and the decrease in overseas lending. Oil and commodities exporters experienced a dramatic slump in the world's commodity prices.⁵

1.1.1
World economies decelerate together



Source: Average forecasts from Consensus Economics surveys in months shown

Although the emerging countries are still expected to fare better than the industrialised ones in 2009 (see figure 1.1.2, opposite), the downside of globalisation is clear: a problem that started in the US has now infected all the major economies across the world, emerging and advanced alike. *The Economist* summed up the situation as follows: 'The idea that emerging economies had "decoupled", and would continue to boom even as the economies of America and other rich countries grapple with recession, has been exposed as fanciful.'⁶

⁵ 'Stumble or fall? Will the global financial crisis halt the rise of emerging economies?' *The Economist* (January 8, 2009).

⁶ Matthew Bishop, 'No More Business As Usual', *The Economist*, Special report: The World in 2009 (December 2008).

As CEOs watched the damage spread, short-term confidence reached its lowest point in six years. Only 21% of respondents remain very confident about the prospects for growth over the next 12 months, with the exception of Indian CEOs, 70% of whom were still remarkably positive (see figure 0.1 on page 4 and figure 1.1.2). Moreover, the level of confidence has declined in CEOs heading companies of every size in every sector and country.

The consensus forecasts for economic growth this year have fallen in line with short-term confidence (see figure 1.1.1, opposite). The IMF is predicting that China's GDP growth will slow to about 5-6%, down from almost 12% in 2007, for example.⁷ And most CEOs around the world are now planning for a slow recovery as opposed to a 'v-shaped' downturn. In every country except Korea and India, CEOs are more confident about the prospects for the next three years than the next 12 months. Even so, the overall percentage of

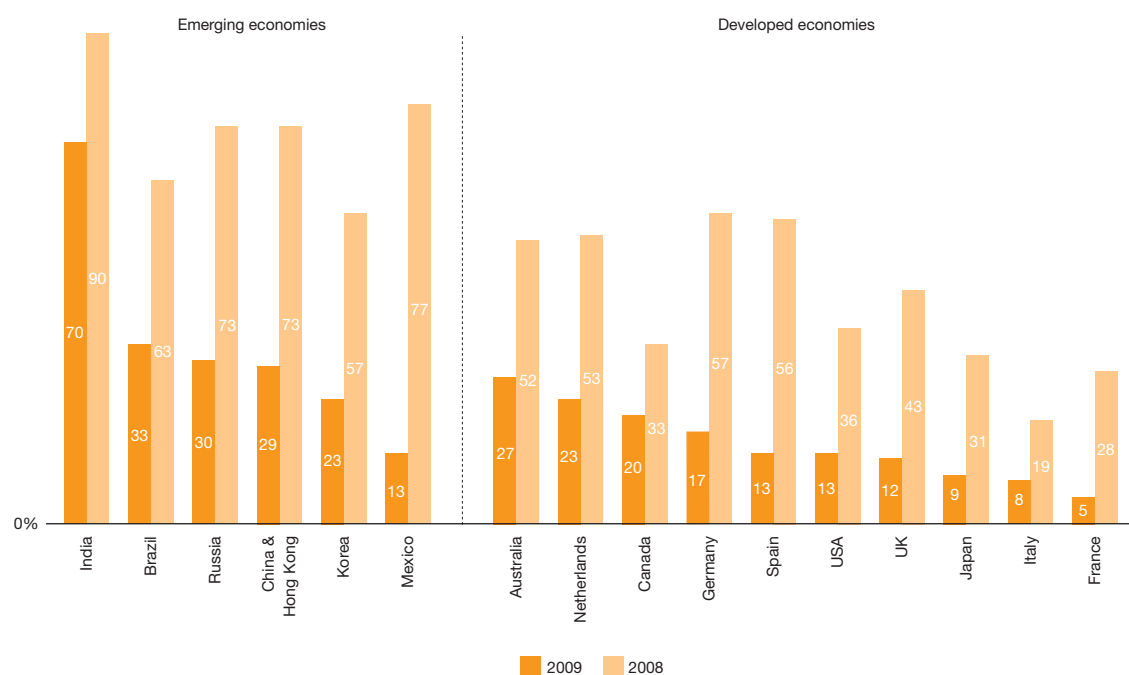
CEOs who are very confident is still only 34% (see figure 0.1 on page 4). Jorma Eloranta, President and CEO of Finland's Metso Corporation, the global supplier of sustainable technology and services, captures the zeitgeist: 'I am 57. If I look at the kind of uncertainty that I am now facing, I have never before seen such levels in my life.'

We have to keep in mind now that the US financial crisis may be a long-term crisis. Some say that it is similar to what happened in Japan in the 1990s, which was a crisis that lasted 10 years...Who knows what is going to happen next?

José Antonio Aranda
Executive Vice President, Argentinian media company Grupo Clarín

1.1.2

Pessimism spreads across the globe



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?

Base: Respondents stating very confident 2009: 30-97; 2008: 30-100

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: 2009 data are based on interviews conducted in the last quarter of 2008.

7 Remarks made by Dominique Strauss-Kahn, IMF Managing Director, in Madrid on December 15, 2008.

Tracking the crisis

The momentous events of the past few months coincided with the period in which we were conducting our latest global CEO survey. We therefore decided to analyse the responses we received each week to establish just how CEOs reacted. Our findings are based on a minimum of 24 responses per week. We have also cross-checked the results to ensure that they do not reflect any regional or industry-specific biases.

The story our analysis reveals is one of steadily increasing gloom (see figure 1.1.3, opposite). In early September, most CEOs were still relatively sanguine; only 29% were extremely concerned about the prospect of a downturn in the world's major economies. But with the collapse of Lehman Brothers and the sale of Merrill Lynch to Bank of America on September 15, the level of anxiety soared.

Between 46% and 49% of the CEOs we interviewed during the first three weeks of October were deeply worried about the prospect of a global recession – a fear that persisted even when the G7 nations announced a five-point plan to unfreeze the credit markets on October 11. In late October, news that China's economic growth had fallen below 10% proved conclusively (if any doubts still remained) that the emerging markets were suffering, too.

Barack Obama's election as president of the US, on November 4, briefly improved sentiment; the percentage of CEOs extremely concerned about the state of the global economy fell to 37% that week. But the respite was very short-lived. On November 6, the British Chambers of Commerce announced that the UK was in recession. By the end of the month, the euro zone economies, Japan and the US were also formally in recession, leaving between 36% and 44% of CEOs seriously worried about how to weather the storm.

As disquiet about the perilous state of the economy mounted, so anxiety about some of the other issues that have recently featured prominently in boardroom discussions dwindled. Between 21% and 29% of the CEOs we interviewed in September were extremely concerned about energy prices, for example. Between 17% and 21% were also extremely concerned about the scarcity of natural resources. In late November, by contrast, the percentage of CEOs worried about energy prices and natural resources had dropped to single digits, although lower commodity prices probably helped to allay their concerns (see figure 1.0.2 on page 8). Between early September and the end of November, petroleum spot prices more than halved.⁸ The global iron ore spot price also fell from approximately US\$150 to US\$70 a tonne.⁹

The battle for brains slid equally rapidly down the corporate agenda. Forty-two percent of the CEOs we surveyed in early September were seriously concerned about the availability of key skills but, by late November, the figure had shrunk to just 11% (see figure 1.0.2 on page 8). Rising unemployment may have played a part in changing the priorities of some CEOs. In the three months to the end of November, the percentage of unemployed civilians in the US population rose from 6.2% to 6.8%.¹⁰ The level of unemployment is increasing elsewhere, too. The number of people out of work in the UK has soared to more than a million for the first time in seven years,¹¹ while the number of jobless in China is thought to be well above the official figure of 8.3 million, following the closure of an estimated 670,000 small firms in the wake of the global financial crisis.¹²

8 International Monetary Fund, 'Indices of Primary Commodity Prices, 1998-2008', accessed January 13, 2009. Average Petroleum Spot Price (APSP) based on average of UK Brent, Dubai and West Texas Intermediate, equally weighted.

9 'Iron Ore Spot Price – Fines Only', *EconStats*, accessed January 13, 2009.

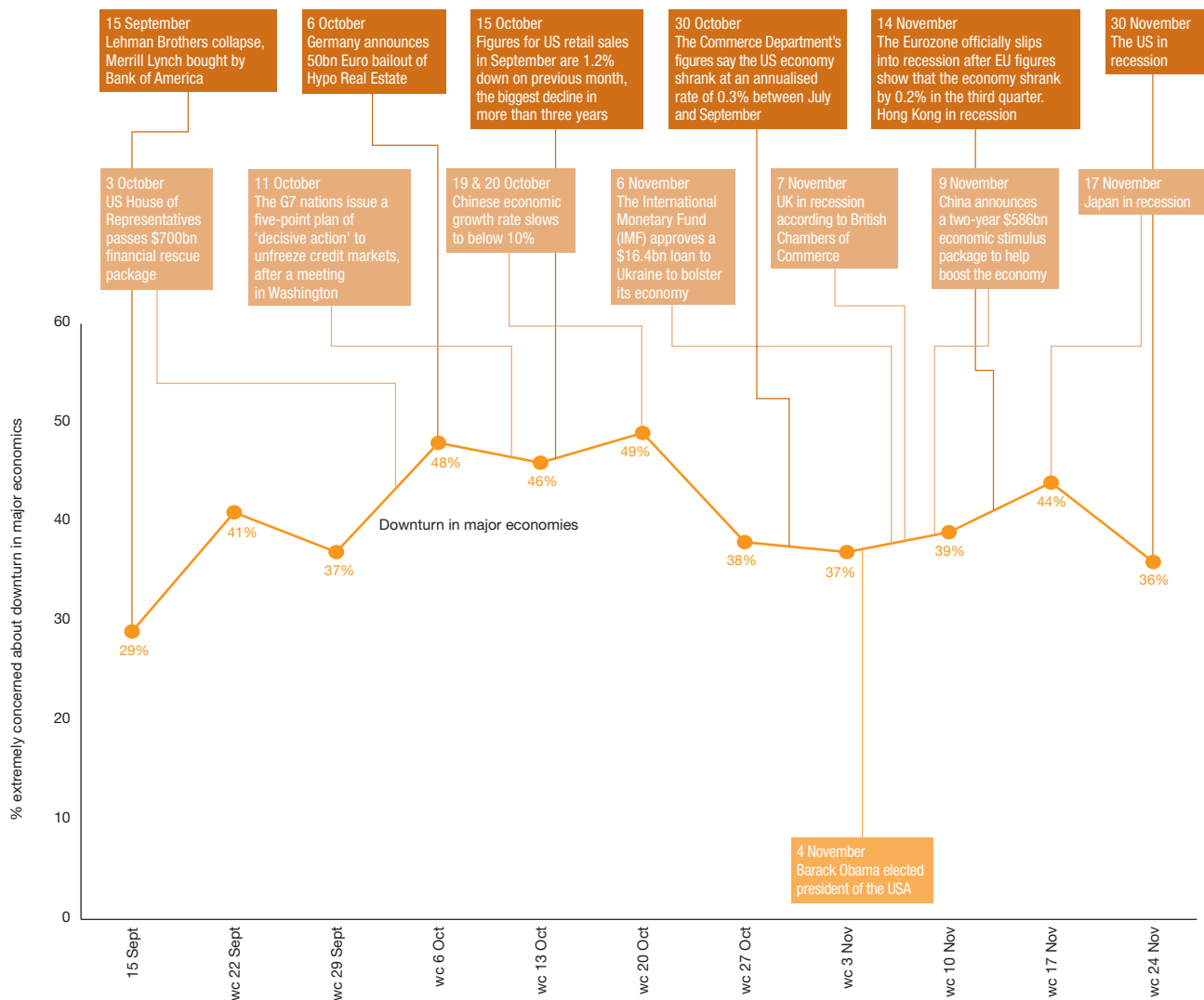
10 US Bureau of Labor Statistics, 'Employment status of the civilian non institutional population 16 years and over, 1970 to date', accessed January 13, 2009.

11 Julia Kollwe, 'Unemployment heads over 1 million', *The Guardian* (December 17, 2008).

12 'China jobless 'much more grave' than official figure', *Reuters* (December 19, 2008).

1.1.3

Tracking the crisis



Q: How concerned are you about the following threats in relation to your business growth prospects?
 Base: All respondents 24-161

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Collaboration

Distinctions among competitors, suppliers, customers and employees are blurring. This fuels growth and innovation. It also creates new risks. In today's environment, CEOs believe that success does not just require more collaboration but the right kind.



Section 2

The search for global solutions

Uncertainty is a basic component of financial panics. But the current uncertainty reaches well beyond the financial markets. Global crises are approaching from many directions.

Léo Apotheker, Co-CEO of the global business software maker SAP AG, which is based in Germany, says: 'One of the characteristics of the current environment is that we're actually dealing with more than one crisis. We have an economic downturn, but we also have an environmental crisis of significant proportions. Global warming has made its effects felt, and is no longer something to be disputed. We also have an energy crisis. And we have a scarcity of resources problem. There are nearly seven billion human beings on the planet and we need to feed them, and so we have a serious issue to address.'

Faced with an array of large-scale trends, the implications of which are difficult to understand, let alone mitigate, individually, businesses and governments are reconsidering the basic assumptions about their own roles and responsibilities. They are searching for multilateral institutions, regulations, governance models and strategies that do two things: first, they must address the risks and opportunities driven by interconnected global trends, and second, they must recognise the economic, political and cultural impacts of a changing world order. One example of the latter is the recent meeting of the group of 20 industrialised nations in response to the financial crisis.

In business, there is a marked increase in support for public sector involvement in shaping financial markets and calls for more international coordination. CEOs are looking

for clear and consistent policies from governments that will help businesses connect operational decisions with global trends such as climate change, natural resource depletion and the scarcity of appropriately skilled labour. Furthermore, even as they struggle to understand where and how the financial crisis will end, many CEOs are looking for the upside of the downturn. Léo Apotheker finishes his thoughts on global calamities with: 'I actually believe that my industry, software in particular, can help provide solutions [to the problems we face].'

The government plays a supportive role. As long as it provides an environment that is open and where the playing field is level for both domestic and global competitors, businesses will grow...The whole issue of the financial sector opening up in India will have to be looked at the way we had looked at the [World Trade Organisation] in the context of market access. I think this is going to be an important part of our market access strategy. But we should not sacrifice our interests for the interests of our global competitors.

K.V. Kamath
Managing Director and CEO of India's largest private sector bank, ICICI Bank

2.1 Government action: More of the right kind

The financial crisis spurred unprecedented levels of government intervention in business and highlighted the importance of international coordination in addressing global and systemic risks. As a result, CEOs are looking to government for leadership and reconsidering the old maxim that less government is better for business.

Governments, while willing, were underprepared for the global action that the current financial crisis requires. Some of the long-term trends that most concern CEOs could have even larger impacts, but thus far, CEOs remain frustrated at the past track record of governments in trying to address them. For instance, more than 45% of CEOs do not believe that government efforts have been effective in securing access to natural resources, creating a skilled workforce or formulating clear and consistent long-term environmental policies (see figure 2.1.1).

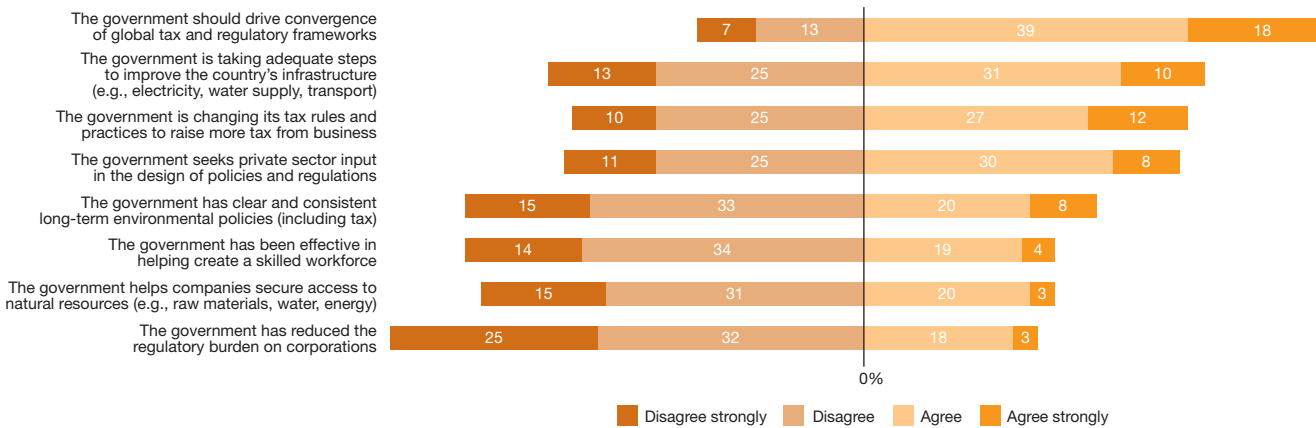
CEOs want governments to strike a difficult balance. Last year, we termed this the ‘regulation paradox’.¹³ On the one hand, CEOs want more government leadership and action, and not only on economic and climate change issues. For instance, 57% of CEOs believe that governments should drive the convergence of global tax and regulatory frameworks (see figure 2.1.1).

I think the government action we’ve seen around the world is very encouraging. We’ve never seen such a concerted approach to solving what is clearly a very deep and wide set of economic and financial issues.

Andrew Cosslett
CEO of UK-based InterContinental Hotels Group

2.1.1

CEOs want governments to strike a difficult balance



Q: To what extent do you agree or disagree with the following statements regarding the role of government in the country in which you operate?

Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

13 'Regulate & Collaborate: Government and the Global CEO' – PricewaterhouseCoopers' Public Sector Research Centre, March 2008.

On the other hand, CEOs are inclined to believe that government action is good when it helps the business and bad otherwise. In the past, they have usually called for less intervention. Indeed, 55% of CEOs remain concerned or extremely concerned about over-regulation as an obstacle to growth. This concern was one of the top three threats to business growth in 2008, and in 2009 it ranks just behind the top concerns about the current economic environment (see figure 3.2.3.2 on page 36). And over half (57%, the same as in 2008) do not believe that government has reduced the regulatory burden on corporations (see figure 2.1.1, opposite).

Despite their criticisms, CEOs still accept the need to work with government on central issues, particularly where regulation is a business enabler, e.g., climate change. Only 22% of CEOs believe there is no need to collaborate with government and regulators, and the majority of CEOs remain unconcerned about the protectionist tendencies of national governments (60% in 2009 compared with 59% in 2008 see figure 3.2.3.2 on page 36), although this issue is evolving rapidly.

One of the key challenges for governments and global businesses as they work through the downturn is the establishment of regulations and governance arrangements that simultaneously restore order and stability to the global economy, and encourage effective collaboration to address global risks and opportunities. There is little incentive for anyone to act alone on global risks, because they are beyond the control of any single business or nation. And CEOs remain wary about regulatory overreach. There is, however, a groundswell of support for increased government action to address climate change, the scarcity of natural resources, the talent shortage and other global issues.

Together, these conditions open an opportunity for businesses and government to start moving from collective stasis to effective global collaboration. Governments and businesses will not only need to collaborate, but to create innovative solutions jointly. In fact, the two work best together, according to the experience of industries,

such as pharmaceuticals, that depend heavily on innovation through research and development. Fred Hassan, Chairman and CEO of Schering-Plough Corporation, the US-based global health-care company, thinks that collaboration is 'critical in any innovation industry because nobody has a monopoly on know-how. Those that can reach out and work with others will always do better than those that either don't have the right mindset when it comes to working with partners, or who are not curious in the first place in terms of reaching out and getting to the best information or talent wherever that might be. You have to have a collaborative mindset starting from the top, and then very clear processes for each individual collaboration partner.'

Although air transport is responsible for only 2-3% percent of emissions globally, it is viewed by the public as a major contributor to pollution. So there is a disproportionate degree of responsibility placed on air transport, both commercial and private. Europe is talking about taxing all flights. This would have a direct impact on business. So the aviation industry is to a certain degree threatened by the environmental question. Consequently, all aviation businesses are investing in ways to minimise emissions... By the middle of the next decade, between 2015 and 2020, there are going to be big changes in the aviation sector. At that time, we will have airplanes consuming between 20 and 25% less fuel...When you have a significant technological change, you essentially have a 'reset' in terms of the competitive landscape. So this can be a threat or an opportunity. Generally, technological change is more threatening for industry leaders because of their greater stake in the status quo and more of an opportunity for secondary players because of their greater latitude to reinvent themselves.

Frederico Fluery Curado
President and CEO of Embraer, the Brazilian commercial airline manufacturer

A case in point: Collaborating on tax contribution

Finding solutions to global issues such as climate change and natural resource depletion will require huge investment by the private sector. Governments are looking for efficient ways to encourage and direct this investment, and business taxes are a key policy lever. But public attention tends to focus on corporate income tax because it is the only tax payment reported as part of financial statements. Businesses, on the other hand, care much more about the total tax cost and the clarity and stability of tax policies. To encourage fairer and more effective policies, governments and businesses need to speak in terms of total tax contribution.

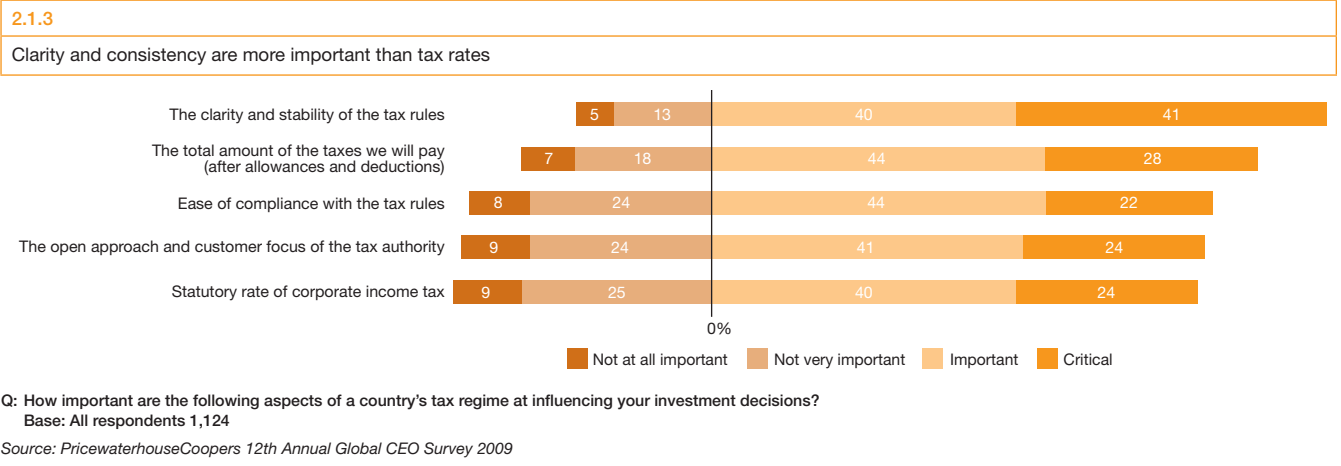
Critically, corporate income tax is only part of the total contribution that companies pay in taxes. A recent study by the World Bank Group's International Finance Corporation (World Bank IFC) and PricewaterhouseCoopers shows that, globally (across 181 economies worldwide), corporate income tax accounted for only 37% of the total tax rate, 13% of the tax payments made and 26% of the compliance time in 2008. The total tax contribution includes taxes borne (i.e., the taxes that impact on the profit and loss account) and taxes collected (e.g., the taxes where the business effectively acts as an unpaid tax collector on behalf of government).¹⁴

This total cost is much more important to business than the headline rate of corporate income tax, and it better reflects the tax contribution of a company to the country in which it operates. In a list of five influences on investment decisions, the lowest percentage of CEOs (64%) said that

the statutory rate of income tax was critical or important. The second highest (72%) said the total amount of taxes (after allowances and deductions) was critical or important.

In addition to tax rates, CEOs are concerned about the clarity and stability of tax policies. In fact, clarity and stability ranks first on the list of investment influences (see figure 2.1.3). Eighty-one percent of CEOs believe it is critical or important, sending a strong message that knowing exactly how much tax will be paid on a transaction is more significant than shaving a few dollars off the bill. Similarly, the overall ease of compliance is important, but CEOs are more interested in knowing exactly what governments expect and in being assured that policies will not change at short notice. Investment dries up most quickly when CEOs fear that policy changes could invalidate their business case.

Finally, the administrative costs associated with tax compliance are also important to business. In the words of the World Bank IFC,¹⁵ 'for businesses, it's not just the tax rates that matter. The administrative processes do too.' CEOs would like to see more intergovernmental cooperation and coordination on global tax systems to reduce the administrative burden (see figure 2.1.1 on page 16). To be most effective, this collaboration should include tax authorities, which already cooperate with one another to police tax evasion, but which could also share best practices for streamlining regulations and compliance, and for generating stability and certainty in global tax regimes. If tax authorities make it easier for businesses to pay taxes, they will also increase the predictability of governmental revenues.



¹⁴ See 'Total Tax Contribution Framework: What is your company's overall tax contribution', a discussion paper published by PwC in April 2005 and various subsequent reports and papers, including studies by PwC in the UK for the 100 Group of Finance Directors and by PwC in Australia for the Business Council of Australia.
¹⁵ World Bank, *IFC Doing Business 2009* (September 2009).

2.2 Climate change: The next global crisis?

The financial crisis is a global, systemic event. Climate change may prove to be bigger. This risk is not lost on CEOs. They are moving quickly to understand the commercial implications of stabilising global carbon emissions, but they also want more direction from government in the form of clear policies.

The majority of CEOs say that their companies are already adjusting how they manage risk in response to climate change or are planning to do so in the next 12 months. In other areas, CEOs are also making changes and are already seeing returns on their investments through innovation in products and services and through adjustments in day-to-day operations. Changes to risk management in response to climate change rank second behind changes to day-to-day operations in showing returns already (see figure 2.2.1 on page 20).

These efforts are good business and positive steps for society, but they fall far short of what is needed to stabilise the carbon levels in the atmosphere. Markets need an international framework and agreement on national carbon emissions targets in order to generate and direct the capital needed for the massive transformation to a low-carbon, global economy. Otherwise, the incentives for individual first-movers will remain unclear, and collective action is likely to come too slowly to avoid major crises.

Financial crises aside, the most important concern for an Argentine businessman fully invested in local markets is economic and political instability, which leaves no room for long-term planning.

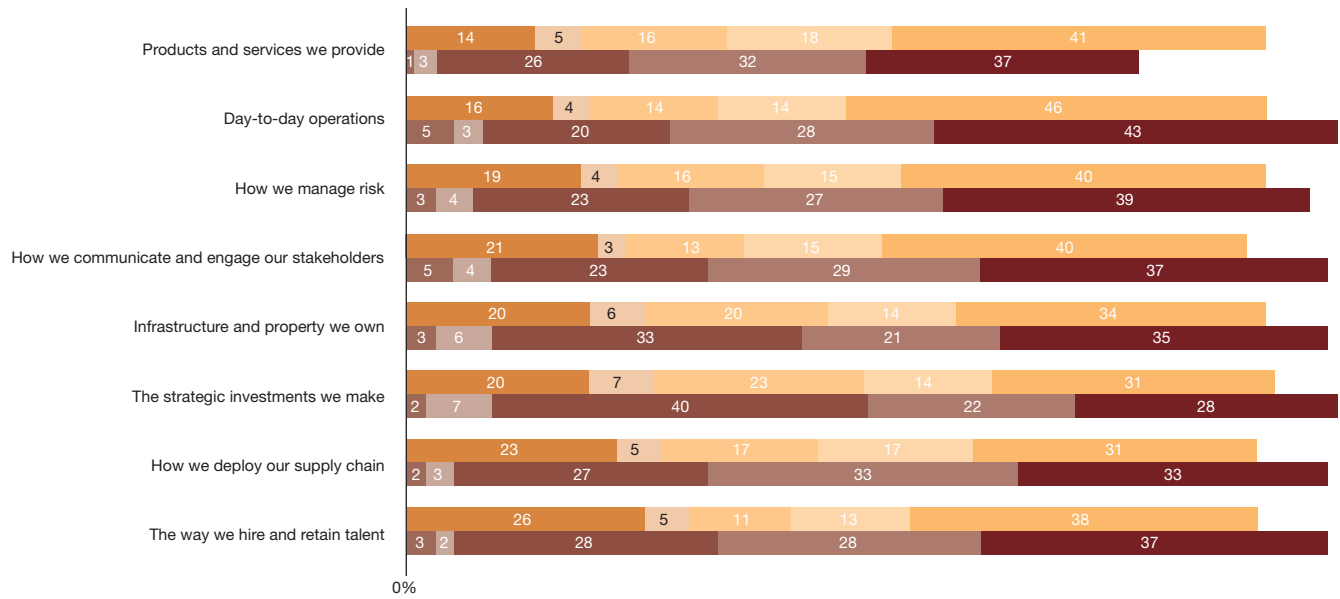
José Antonio Aranda
Executive Vice President, Argentinian media company
Grupo Clarín

Eighty-three percent of CEOs consider it important or critical for governments to provide a clear and consistent policy framework on climate change. They value clarity over specific types of frameworks, such as a Copenhagen protocol or a global carbon market (see figure 2.2.2, opposite). Globally, only 28% of CEOs feel that their governments have clear and consistent long-term environmental policies (see figure 2.1.1 on page 16). Japan, Italy, France and Brazil receive the lowest

marks. Fewer than 13% of CEOs in those nations agree that long-term policies are clear. Korea, on the other hand, is a notable exception. An astonishing 97% of Korean CEOs feel that their country's environmental policies are clear. Part of the reason may be the government's announcement that it is beginning a number of climate-change measures in 2009, including national emissions targets, a carbon tax and various green investments.

2.2.1

Businesses change in response to climate change and expect a return in 12 months



Q: When, if at all, do you anticipate making changes to the following areas of your business to respond to the challenges posed by climate change? Base: 1,124

Q: When do you anticipate a return on investment in these areas? Base: 499-669

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

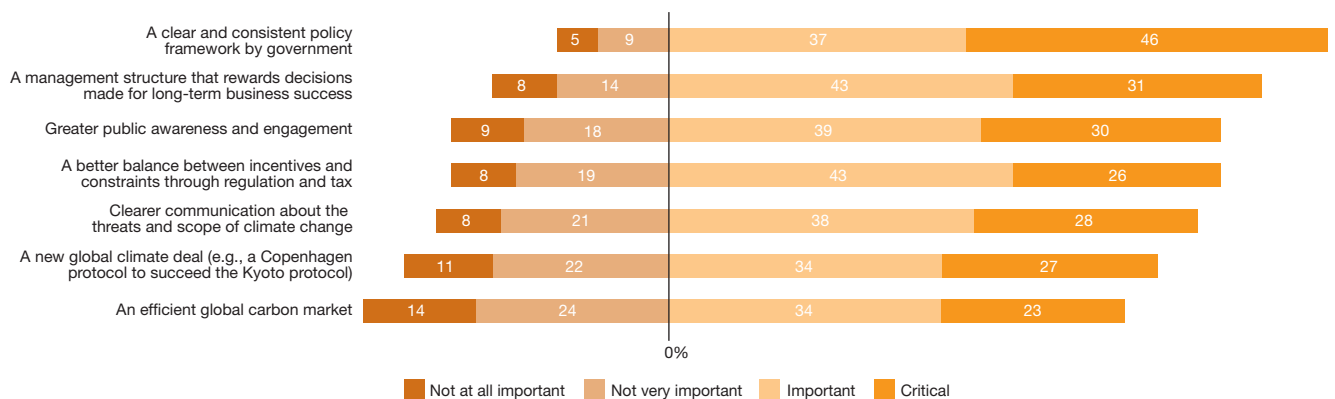
Thus far the development of standards is a patchwork of efforts by governments and non-governmental organisations (NGOs), but governments and businesses should be careful about allowing standards to be developed by NGOs without their active involvement. Most CEOs in our survey do not collaborate with NGOs and do not believe their influence is increasing. When asked about all the major stakeholder groups, only 34% of CEOs say they are already collaborating with NGOs, and just 22% feel that NGOs have increased their influence over the past three years. In contrast, 61% of CEOs say that they are already collaborating with government and regulators and 48% say that government's influence has

increased (see figure 3.2.1 on page 26). If government, business and NGOs collaborate more closely, they will ensure more efficient and less fragmented standards development around the world, particularly in climate change.

CEOs are looking to governments for leadership on the international standards necessary to propel global action, but they recognise their organisations' responsibility to create management structures that reward long-term thinking. Seventy-four percent of CEOs believe that this is a critical or important element of a solution to climate change (see figure 2.2.2).

2.2.2

Business and government need to lead together on climate change



Q: How important are the following measures to help you adapt your business to the issues raised by climate change?
 Base: All respondents who stated already making changes, next 12 months, next 5 years, beyond 5 years for any option 1,063
 Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Balance

The growing influence of customers, investors, regulators and supply chain partners cannot be ignored. Companies are in survival mode, but not at the expense of future priorities. In today's environment, CEOs believe success is finding new ways to balance short- and long-term stakeholder demands.



Section 3

Walking a tightrope

Despite the lack of clarity in many government policies and the difficulty of understanding the impacts of connected global trends, CEOs must act. Each confronts different pressures and opportunities, but a common challenge.

How does a business meet the current, acute demands of survival and at the same time ensure its business model is both durable over the long term and positioned to take best advantage of a return to growth?

Stephen Green, Group Chairman of the UK-based international banking and financial services organisation HSBC Holdings plc, explains: 'One of the obvious risks is that current emergencies drive out the longer-term perspective...You cannot rebalance economies overnight.'

No institution, whether it's a bank, or a government, or the World Bank or the IMF, has the power to do this. It simply will take time, and it's a difficult tightrope to walk.'

Walking the tightrope requires CEOs to balance extreme, short-term threats to survival, on the one hand, and on the other, large-scale, global issues that impact long-term success. Many CEOs believe this requires a mindset that is different from the past.

3.1 Redefining success: CEOs face extreme short-term and long-term challenges

3.1.1 Short-term survival

CEOs are working hard to maintain sources of credit, preserve revenue, use working capital more efficiently and manage costs carefully. This is drawing their focus to maximising returns from existing markets. Between 2008 and 2009 the number of CEOs whose 12-month growth plans centre on existing markets has grown from 30% to 37%, while the number who see new markets, new products, new acquisitions and new strategic alliances as their main growth opportunities has declined 2%-3%.

Even in cash-rich industries, such as pharmaceuticals, CEOs are more cautious. Fred Hassan, Chairman and CEO of Schering-Plough Corporation, says: 'Unlike industries which borrow a lot of money, like financial services and utilities, [pharmaceutical companies] tend to be less hungry for capital investments. However, R&D is in some ways a capital investment, although it's not accounted for in that manner. We are seeing more caution in launching R&D projects: more selectivity, much tougher hurdles...'

Right now we are focused on survival.

Companies don't go bust because they don't make money; they go bust because they don't have any cash...We could see this downturn was going to be here for a while, so we started conserving cash...We've taken our new store programme down from 100 to probably 30-50...We've also asked, what are the three things we're going to really push hard on? We always have a hundred opportunities, but what are the three or four really big things that can accelerate our strategy, differentiate us from our competitors, and use the downturn to our benefit?

Robert Willett
CEO, Best Buy International & Enterprise CIO,
US-based multinational retailer

3.1.2 Long-term success

As businesses try to survive immediate market conditions, they are also trying to make certain that they endure and succeed over the long term. CEOs have long believed that critical sources of competitive advantage take years, not quarters, to build. Agility, customer service, talent and reputation remain at the top of the list. More than 90% of CEOs believe that these four features are important or critical to long-term growth (see figure 3.1.2.1). Furthermore, meeting strategic objectives, such as building or maintaining these sources of competitive advantage, continues to be one of the top criteria in evaluating investments, along with maximising financial returns (see figure 3.1.3.1, opposite).

3.1.3 A new mindset for extreme conditions

CEOs have always tried to balance short-term and long-term considerations. But the conditions that prevail today are more extreme than ever. Many CEOs are confronting the biggest short-term challenges and uncertainties they have ever seen. At the same time, CEOs feel responsible for a wider range of long-term issues than ever before. Michael Mack, CEO of Syngenta, the global agribusiness

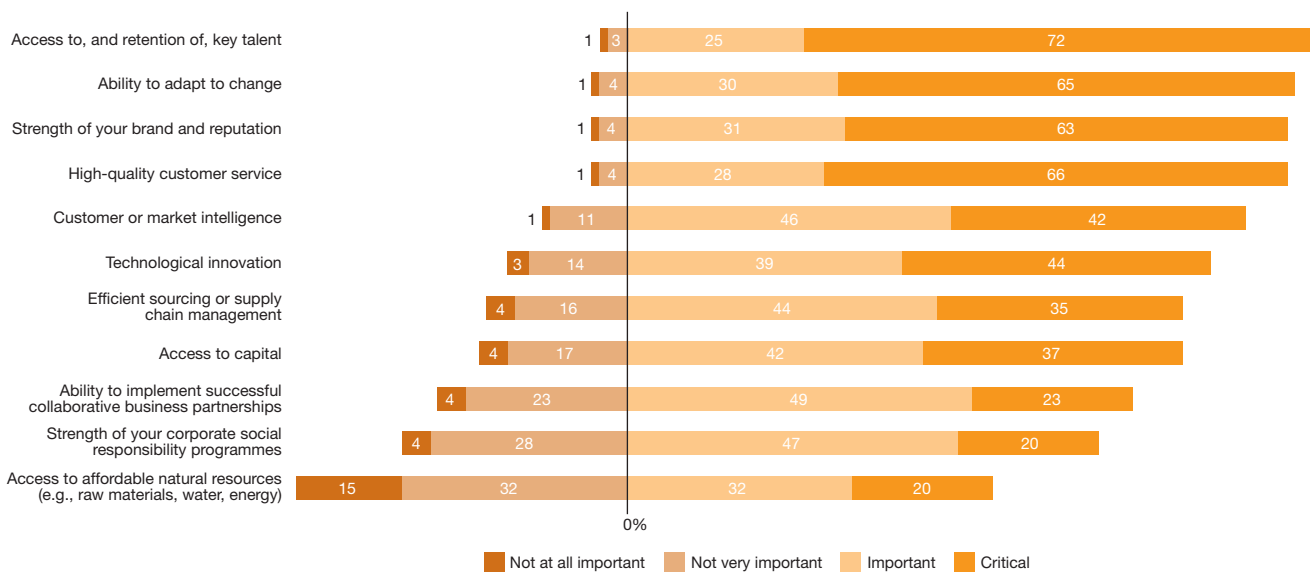
headquartered in Switzerland, says: 'I think that companies with a global footprint have a responsibility to help achieve sustainability in both agriculture and industry.'

As a result, business leaders are speaking about the need for a change in mindset, which includes a different understanding of risk and return. Dame Marjorie Scardino, CEO of the UK-based international education and media company Pearson, says: 'I do hope this particular economic turmoil is going to help businesses and their investors get back to a more long-term orientation.'

The old mindset focuses too much on quarterly results and exacerbated systemic risk, in the view of Michael Smith, CEO of Australia-based ANZ, an international banking and financial services group. 'In retrospect [the financial industry was] driven by short-termers,' he says. 'There was the holy grail of earnings-per-share growth, quarter on quarter, at any cost. That has, I think, driven behaviour which is not in keeping with good banking.'

In addition to delivering quarterly returns, CEOs are trying to plan for and profit from global issues that will play out over generations. In the criteria for evaluating investments,

3.1.2.1
Talent, agility, reputation and customer service are the critical drivers of long-term success



Q: How important are the following sources of competitive advantage in sustaining your growth over the long term?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

the wellbeing of future generations ranks about the same as recouping costs quickly. Close behind comes satisfying the needs of society beyond those of customers, employees and investors (see figure 3.1.3.1).

When asked about specific global trends, a surprising number of CEOs said that the issues would have no impact on the long-term success of their companies. This suggests that some organisations have not fully internalised the implications of large-scale trends. However, more CEOs believe that the spread of infectious diseases (49%), the scarcity of fresh water (50%), overpopulation (55%), climate change (56%) and the world's dependence on carbon-based energy (61%) will have either a positive or a negative impact on long-term success.

Energy strategy is one example of CEOs' long-term thinking. As the financial crisis deepened and the price of oil fell, CEOs became less concerned about energy costs as a threat to their short-term growth. The shift in short-term focus, however, did not change their long-term strategy. When the price of Brent Crude hit \$50 a barrel in November, more than 75% of CEOs told us that they still wanted to make their operations more energy efficient. Across the entire period of the survey, the global average is 82%. Many CEOs also say that they are looking to substitute existing energy sources with alternative sources (51%), to invest in technology to reduce energy dependence (46%), and to secure future energy supplies (44%).

The opportunities to develop goods and services that capitalise on large-scale trends provide a powerful incentive for businesses to help find solutions to seemingly intractable global problems. For example, almost one third of construction and civil engineering CEOs believe that climate change (29%) and the pressure on natural resources from population growth (30%) will have a positive impact on their companies' success.

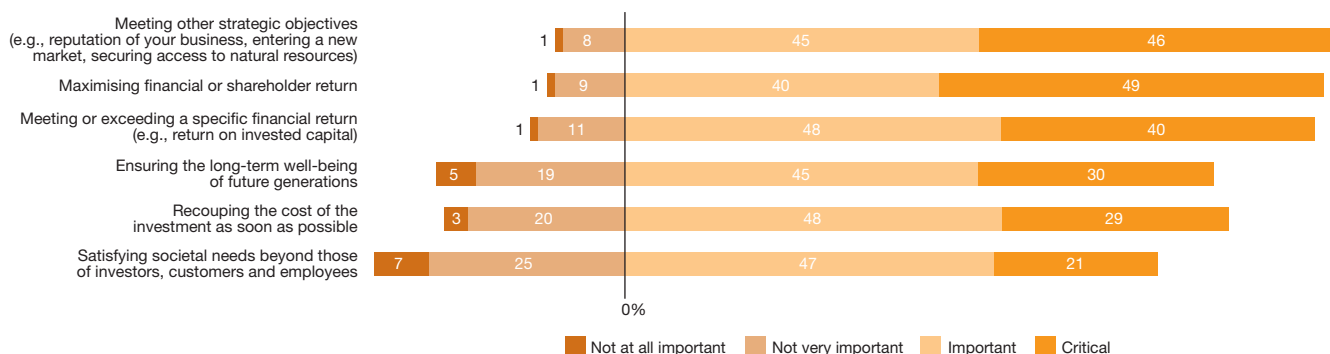
Realising the potential opportunities in extreme long-term and short-term conditions is now critical to success. In this year's survey, we asked CEOs about the challenges of doing this in three operational areas – cross border transactions, people management and risk management.

Future generations are part of our business planning because we're making material intended to educate them, directly or indirectly. At Pearson, we think that corporations have a social purpose – particularly corporations in education and journalism that have a public trust – and that purpose is to move civilisation along. We think profits are a by-product of what we do. We say: 'Profits sustain us, but they don't define us.' People are intent on making their numbers, but they do that for affirmative reasons.

Dame Marjorie Scardino
CEO of UK-based international educational and media company, Pearson

3.1.3.1

Investment criteria broaden



Q: When considering your company's investments, how important are the following?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

3.2 Shifting strategies: Better collaboration and broader information

The attempt to realise value from the opportunities related to global trends, such as demographic shifts, is one of many factors driving the increase in collaboration between business and its stakeholders. In this year’s survey, we questioned CEOs about their operations in three areas – cross-border transactions, people management and risk management – and we discovered that they are considering more collaborative strategies for short-term survival and long-term success.

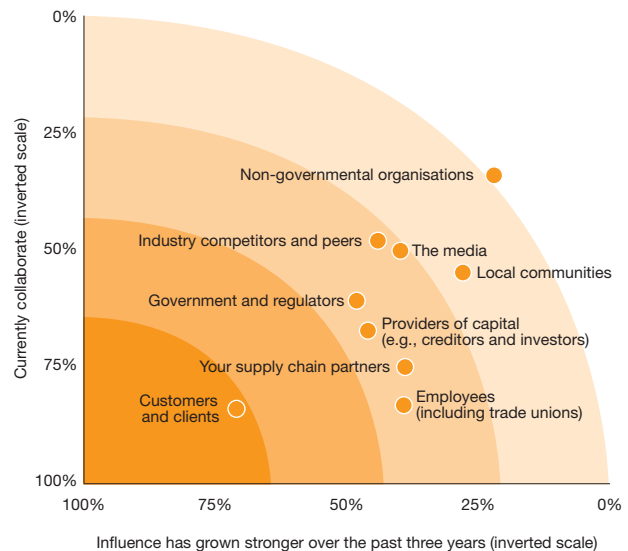
In last year’s report, 57% of CEOs agreed or agreed strongly that collaborative business networks would be a defining organisational principal for business.¹⁶ This year’s findings also demonstrate the importance of collaborative business networks. Almost half of the CEOs say that they are collaborating with each of the major stakeholder groups, except NGOs. Many CEOs also say that the influence of their stakeholders has increased over the last three years. Seventy-one percent of CEOs believe the influence of customers and clients has increased, and 40% or more say the same about government, investors, peers and the media (see figure 3.2.1).

As companies collaborate more with more stakeholders, they are able to gather more information, for example, about the risks their supply chain partners face. But CEOs still see major gaps in the information they need to survive the next 12 months and make decisions about the long-term success of their businesses. CEOs believe that agility, customer service, talent, management and reputation are the four most important factors in long-term competitive advantage (see figure 3.1.2.1 on page 24).

Not surprisingly, most also believe that data about their customers (94%), brand (91%) and employees (88%) are important or critical to long-term decision-making. However, strikingly low percentages of CEOs say they have comprehensive information in these and other critical areas that contribute to organisational agility. Just 21% have comprehensive information about the needs and preferences of customers and clients. Less than one third feel they have all the information they need about reputation (31%) and the views and needs of employees (30%).

CEOs do not just want more data. They want different kinds of information than the historical financial metrics they already have in abundance. More specifically, they want forward-looking information, which includes non-financial

3.2.1
Businesses collaborate with an array of stakeholders, whose influence is rising



Q: To what extent has the influence of stakeholders who influence your decisions about the success of your business in the future, changed in the past three years?
Do you currently collaborate or plan to collaborate with the following stakeholders?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

¹⁶ PricewaterhouseCoopers, 11th Annual Global CEO Survey (January 2008).

data. For example, the widest gap, 74 points, concerns the information necessary to anticipate customer needs. The second largest gap, is 70 points, between the importance and availability of risk information (see figure 3.2.2).

In order to make effective decisions in today's extreme operating conditions, CEOs are trying to see over a horizon that is approaching at high speed. To meet this challenge, companies need to collaborate more effectively, build relationships that can provide access to better information and use this intelligence to create the critical balance between short-term and long-term success.

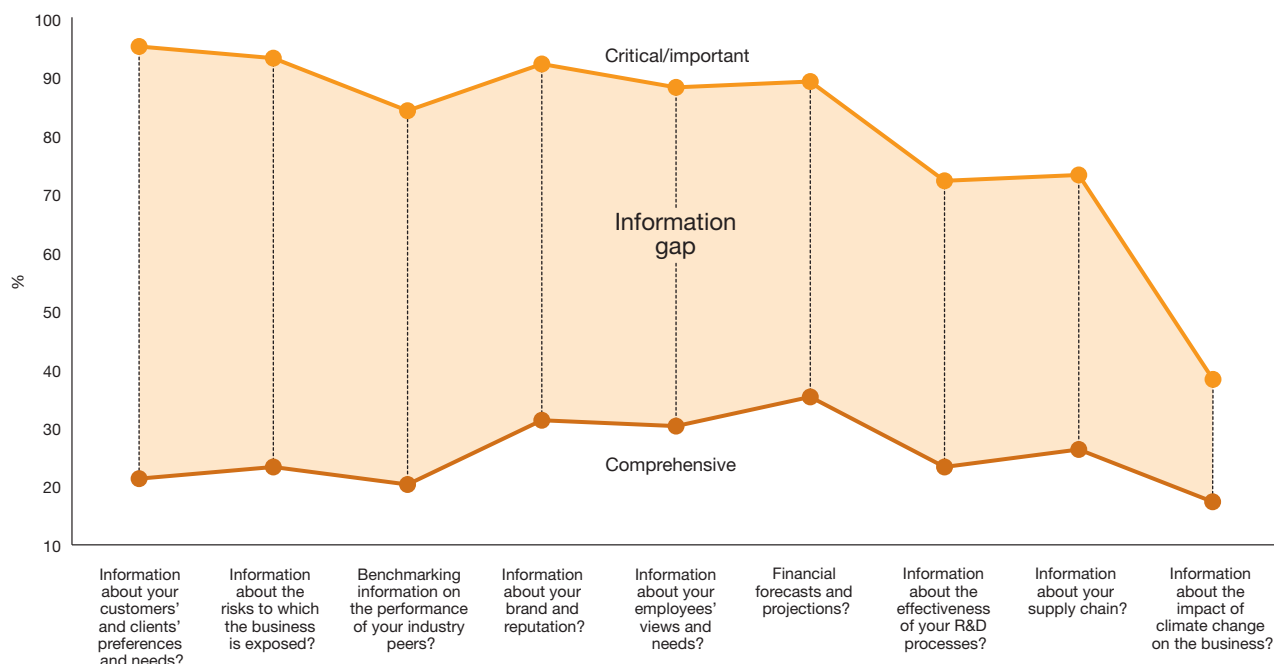
Three key operating areas in which CEOs gave us useful insights about the challenges of collaboration and information are cross-border transactions, people management and risk management.

Customers and local communities are critical to the success of any business. And, of course, the regulators. Without keeping the interests of these stakeholders in mind, you don't have a business. Local communities hold the key to the success of any business. If you look at some of the challenges businesses have faced – in terms of land acquisition, for example – by and large it boils down to how well they handle the local community. Businesses have to learn to deal appropriately with the communities in which they operate. That means learning and understanding the community's point of view and addressing it. To me, that is the first challenge. Then comes the customer. That's followed by the regulator because you have to do business within the regulatory framework.

K.V. Kamath
Managing Director and CEO of India's largest private sector bank, ICICI Bank

3.2.2

A huge gap in information about all the critical drivers of business



Q: How important are the following in terms of the information that you personally use to make decisions about the long-term success and durability of your business?

Information about the risks to which the business is expected.

Base: All respondents 1,124

Q: How adequate is the information that you currently receive?

Base: All respondents where information is important or critical 427-1,064

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

3.2.1 JVs overtake M&A

In order to meet cross-border growth objectives over the next three years, CEOs have to deal with a lack of capital, extremely tight credit and uncertainty about company valuations. As a result, many expect to depend more on collaboration in the form of joint ventures (JVs) and strategic alliances than on mergers and acquisitions (M&A).

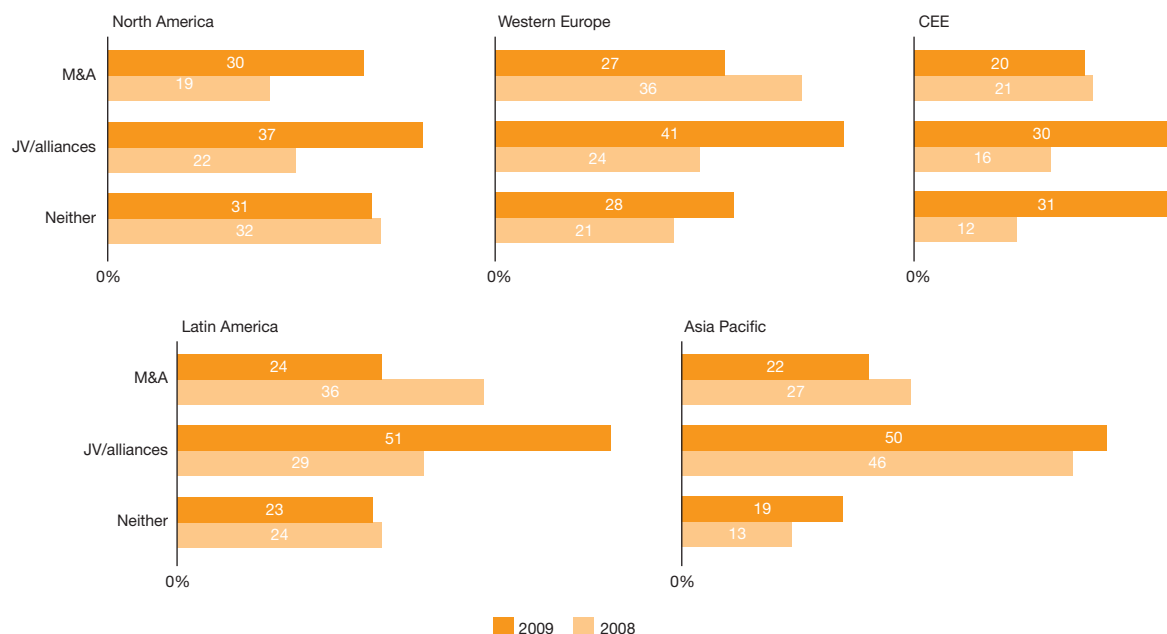
The percentage of CEOs who believe that JVs will play a greater role than M&A in cross-border growth has surged since 2008. Central and Eastern Europe and North America have seen increases of 14 and 15 points, respectively.

Among CEOs in Western Europe and Latin America, the increases are even higher – 17 and 22 points, respectively (see figure 3.2.1.1).

Last year’s survey found that most companies were using collaborative business relationships, such as JVs, opportunistically. It suggested that a more strategic approach would emerge.¹⁷ This year, many CEOs say that they are already collaborating with those groups into which most JV partners fall – supply-chain partners, providers of capital and industry peers. The lowest percentage (48%) chose industry peers, but an additional 19% of CEOs said they plan to collaborate with competitors and peers.

3.2.1.1

JVs overtake M&A as a growth strategy across all regions



Q: Over the next 3 years, will cross-border mergers & acquisitions or joint ventures & strategic alliances play a greater role in the growth of your business?
 Base: 2009: All respondents 80-420; 2008: 86-454

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: 2009 data are based on interviews conducted in the last quarter of 2008.

17 PricewaterhouseCoopers, 11th Annual Global CEO Survey (January 2008).

The increased collaboration with business partners may be a strategic choice in many cases, but in others it may be the consequence of a lack of availability of capital in the current market. JVs and strategic alliances, for example, may reduce cultural conflicts, but they also typically cost less and require less funding than an outright acquisition.

Over the long term, however, they may be less stable and ultimately more costly because control is divided among partners, and strategic objectives can never be totally aligned. This argues for adding more rigour to the strategic evaluation, execution and governance of alliances, including a more thorough evaluation of potential risks. For example, the business case could be 'stress tested' through scenario planning that considers worst case scenarios, such as what would happen to financial projections if a recession lasts through 2010 or GDP growth was significantly less than expected. One of the obstacles to better scenario planning is a lack of comprehensive information about many of the critical business drivers.

Two of the drivers mentioned in this year's survey are important to scenario planning. Only 20% of CEOs say that they have comprehensive benchmarking on the performance of industry peers, yet 84% say that this information is critical or important to long-term strategies. Similarly, just over one third of CEOs (35%) say that they have all the information they need for financial projections, while 90% say that this information is important or critical (see figure 3.2.2 on page 27).

The information gap may be one reason why companies have not made progress on the major obstacles to successful M&A, suggesting that these deals need more care as well. Twenty-five percent of CEOs still believe that M&A will play a greater role in cross-border expansion than JVs and strategic alliances over the next three years, but more CEOs are confronting the challenges of unexpected costs and cultural conflicts. Since 2008, the percentages of CEOs who believe that cultural integration is one of the biggest challenges in M&A has increased from 43% to 54%, making it the number one challenge again. Unexpected costs rank second this year. Forty-five percent of CEOs say that they are a major challenge, compared with 42% in 2008. Culture and people appear again in the fourth and fifth biggest obstacles to success – poor management of human resources and conflicting workforce expectations. All these challenges contribute significantly to the difficulties in realising the expected value of M&A, which continues to be a top-ranked M&A challenge.

We have changed our [capital expenditure]...what we've done is delay some of the gas plants. We've kept going forward with our two base-load coal plants. We're looking at joint-venture partners with respect to our wind [energy programmes], and that might be the right way to move forward. In every instance, what we're trying to do is, over the five-year period, maintain our capital-deployment objectives, but change the timing.

James E. Rogers
Chairman, President and CEO of US-based utility
Duke Energy Corporation

3.2.2 Balancing talent retention and cost reduction

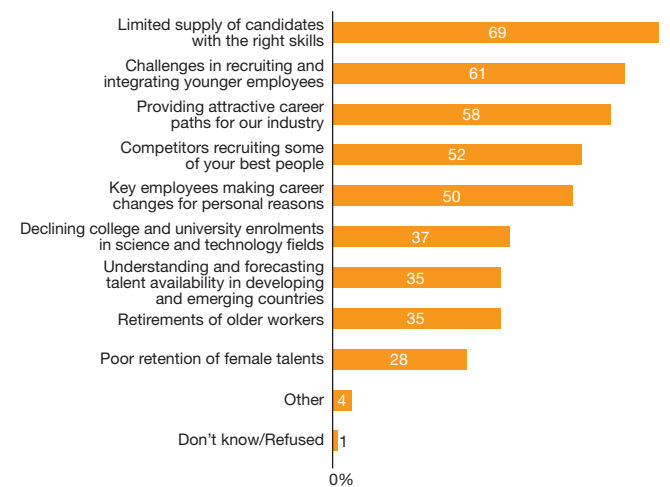
In the short term, many CEOs are understandably less worried about a skills shortage because their attention has turned to survival. Globally, the percentage of CEOs who are concerned about the availability of key skills fell from 61% in 2008 to 46% in 2009. And from September through November, concern for the talent shortage dropped as concerns about the economy rose.

CEOs are trying to balance cost reduction with the need to support critical talent and improve productivity so that their companies can weather challenging times and prepare for a return to growth. Chip Hornsby, Group Chief Executive of the UK-based international construction products, materials and services supplier Wolseley plc, explains: 'We have focused a lot of attention on recruiting, training and retaining. Unfortunately in this business environment we have to reduce headcount due to declining top line of revenues. I do have a major concern as we move into the middle part of the next decade, really not far away, about six years now, or less. The shortage of talented people in many of the markets where we are, is going to be a huge concern, just for sheer demographics. That's why the investment in technology is going to be even more critical, so people have the tools to be able to provide more sales per employee with the same amount of demand on hours as they have today.'

As the spread and depth of economic deceleration becomes clearer in 2009, CEOs may have to change their plans, but many are heading into the year hoping not to sacrifice long-term staffing priorities for short-term survival. As Hornsby says, the war for talent remains a major strategic concern. Ninety-seven percent of CEOs believe that the access to and retention of key talent is critical or important to sustaining growth over the long term. Most (72%) rate it critical (see figure 3.1.2.1 on page 24). And a similar number (69%) say that a limited supply of candidates with the right skills is a key challenge (see figure 3.2.2.1).

The long-term supply of key talent depends more on education systems than on business cycles, and many CEOs do not believe governments are doing enough to create a skilled labour force. For example, despite rising unemployment in the US and the UK, the percentage of CEOs who remain concerned or very concerned about the availability of key skills is 43% and 40% respectively, not far below the global average. Only 17% of US CEOs and 18% of UK CEOs agree that the government has been effective in creating a skilled labour force. In contrast, one of the lowest rates of concern about key skills (25%) occurs in China and Hong Kong, where CEOs top the global table (43%) in believing that their domestic governments are effectively

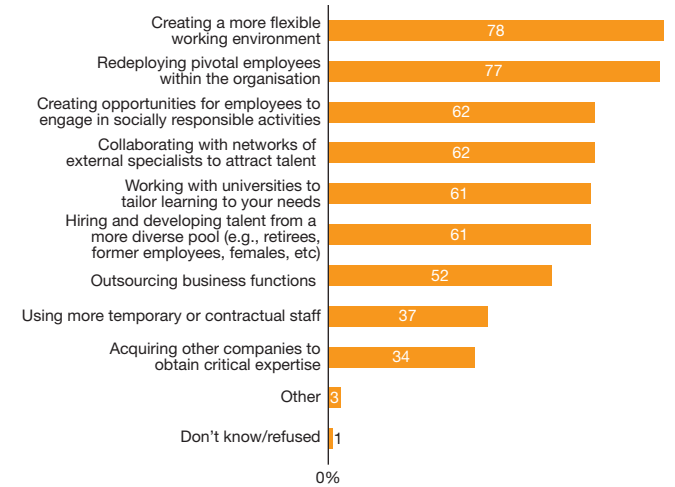
3.2.2.1
Talent shortage remains the top concern



Q: Considering the talent required for the success of your business, what are the key challenges you face?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

3.2.2.2
To retain talent, companies increase workplace flexibility and redeploy workers



Q: In order to ensure the long-term success and durability of your business, does your strategy regarding your people include any of the following measures?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

creating a skilled labour force (see figure 3.2.2.3). Still, this means the majority of CEOs in every economy do not agree that governments are effective.

Concern about the long-term skills shortage may have made CEOs somewhat more cautious than they would otherwise be about downsizing. Sixty-one percent of CEOs expect their staff levels to decrease (26%) or stay the same (35%) in the next 12 months. During previous economic downturns, many companies aggressively reduced their headcounts and investments in people. In the downturn of 2001 to 2002, spending on learning and development fell 20%.¹⁸

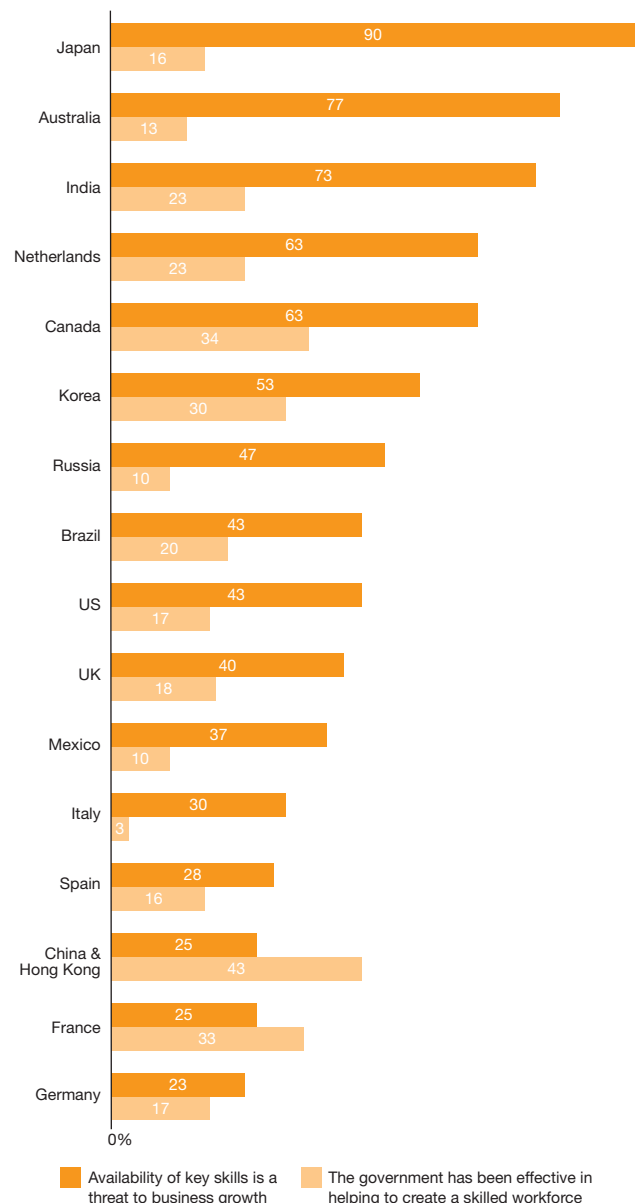
Cost-cutting can be an effective policy, not only to help companies survive in weak economic conditions, but also to help them shed non-core operations and make necessary but unpopular changes, for example, to compensation schemes. But the risk is that companies cut the wrong investments, impair their competitiveness and lose out to others who are using the economic winter to hire good people or gain market share. SUN Mingbo, President of China-based Tsingtao Brewery Company Limited, says, 'In the face of crisis, many companies go into hibernation. At Tsingtao, we have a slogan: "We don't hibernate in winter. We will achieve something while others hibernate. We will seize a share of the market when they hibernate".'

In a crisis, we are careful about hiring people and we make sure the good ones stay with us.

Léo Apotheker
Co-CEO of the global business software maker
SAP AG, Germany

3.2.2.3

Most governments receive low marks for workforce development



Q: How concerned are you about the following threats in relation to your business growth prospects? % somewhat/extremely concerned

Q: To what extent do you agree or disagree with the following statements regarding the role of the Government in the country in which you operate? % agree or strongly agree
Base: All respondents 30-97

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

18 Source: PricewaterhouseCoopers Saratoga.

Many CEOs feel that they are trying to conduct surgery by candlelight. They do not have a complete picture of the workforce, the money invested in employees and the skills needed for the business. For example, many companies do not know the total size and costs associated with payroll workers, the contingent workforce (e.g., contractors) and outsourced services.¹⁹ It is, therefore, impossible to predict the full impact of cost cutting.

Most CEOs believe that information about employees is critical to competitive advantage, but only 30% believe they have a comprehensive understanding of employees' views and needs (see figure 3.2.2 on page 27). And a separate PwC Saratoga survey found that fewer than 50% of companies calculate their total investment in training.²⁰ To keep their balance on the tightrope over cost cutting and talent retention, CEOs need to improve the way they identify, interpret and apply information about the workforce.

The long view on talent

For Securitas, which provides physical security services for companies and governments across North America and Europe, this means a new value proposition and a new business strategy. Alf Göransson, the company's President and CEO, explains, 'There has been a period of manpower shortage within low-salary jobs in major Western cities, a situation which is now changing due to the economic decline. In the long term, however, demographic development is a risk factor. Europe is expected to undergo a population decline to an extent that has not been seen since The Black Death.' One way to address the shortage would be to import foreign labour, but this is a medium-term solution at best. Instead, Göransson says Securitas is focused on a systemic solution, i.e. 'elevating the status of the security profession and making it more attractive. Salary levels are an important consideration in such a solution. In order to be able to raise salaries we must increase the value of the services, something that requires, in turn, an increased knowledge base. We are moving from a geographic organisation to a customer-segment oriented organisation in order to increase the level of specialisation. We're concentrating on building expertise in various industries – health care, retail trade, etc. The other method is to increase our knowledge of security solutions through increased investments in training. It is also important to efficiently disseminate knowledge within the company, for example through our websites, so that we are able to apply best practice.'

Alf Göransson
President and CEO of security services company,
Securitas, Sweden

3.2.2.4

Millennials value training more than flexibility

	1st choice	2nd choice	3rd choice
All respondents	Training and development (53%)	Cash bonuses (41%)	Flexible working hours (41%)
Asia	Training and development (64%)	Financial assistance with housing (46%)	Cash bonuses (39%)
Australasia and Pacific Islands	Training and development (58%)	Flexible working hours (45%)	Cash bonuses (42%)
Central and Eastern Europe	Training and development (61%)	Cash bonuses (40%)	Flexible working hours (32%)
Western Europe	Training and development (57%)	Flexible working hours (38%)	Cash bonuses (36%)
Middle East and Africa	Flexible working hours (55%)	Training and development (46%)	Cash bonuses (42%)
North America and the Caribbean	Flexible working hours (53%)	Cash bonuses (43%)	Free private healthcare (38%)
South and Central America	Training and development (73%)	Cash bonuses (45%)	Flexible working hours (41%)

Q: Please select the benefits you would value most over the next 5 years other than salary?
 Base: 3,953 global respondents

Source: PricewaterhouseCoopers Global Graduate Survey 2008

¹⁹ PricewaterhouseCoopers Saratoga data show that spending on payroll workers typically accounts for 40-70% of the total, with the remainder split between contingent workers and outsourced services. These costs vary widely, however, even within the same industry, and in many cases, companies can reduce them by as much as 5-10% without reducing their headcounts.

²⁰ Source: PricewaterhouseCoopers Saratoga.

Attracting the next generation

The majority of CEOs feel that they need more information to address talent concerns, such as the retention of key skills and cultural conflicts during M&A. One factor driving this need is the diversity of multicultural and multigenerational workforces in increasingly global organisations. As Ralph Norris, CEO of Commonwealth Bank of Australia, a leading provider of integrated financial services in Australia, says: 'Clearly, we're going to see a situation where the war for talent is only going to increase in intensity...As a result, we're doing a lot of thinking at the moment about how we handle workforce flexibility and the different requirements of the various generations that comprise our staff. At the moment, we have four generations of people working in our organisation: those born during the Second World War, the Baby Boomers, Gen X and Gen Y.'

CEOs are particularly concerned about managing younger employees. Sixty-one percent of CEOs experience difficulty recruiting and integrating younger employees, making the 'millennials' who are currently entering the workforce the second biggest talent challenge (see figure 3.2.2.1 on page 30). Clearly, there is a need for CEOs to better understand the professional priorities of younger workers.

PricewaterhouseCoopers decided to try to fill this information gap by surveying its incoming millennials – more than 4,000 graduates from 44 countries who had been offered jobs with the firm. Although the results give us a good insight into the views of new graduates from around the world, they are clearly not a proxy for the entire millennial group. However, we were struck by the similarity of many responses across the globe, which suggests that executives should take notice.

Some responses matched CEOs' expectations. Training and development, particularly through mentoring, was the top benefit most respondents wanted in addition to salary, which CEOs seem to understand. In this year's CEO survey, 61% of CEOs said that they were working with universities to tailor education programmes and 77% said that they were redeploying employees within their organisations (see figure 3.2.2.2 on page 30).

Businesses should segment their workforces more carefully, just as they do with their customers, to ensure that they offer the most appropriate benefits to employees at different stages of their career.

In some cases, though, CEOs reserve mentoring and redeployments for senior staff. With the proper tools and guidance, immediate managers of junior staff can provide one-on-one coaching to build a lasting mentoring culture throughout the organisation.

We also found that the expectations of millennials and CEOs differ. The most popular people strategy among CEOs is creating a more flexible working environment. Yet, flexible working hours are not the top priority for PricewaterhouseCoopers' millennials. There seems to be an even greater disconnect between tactics and expectations over corporate social responsibility. Sixty-two percent of CEOs say that providing opportunities for employees to get involved in socially responsible activities is key to attracting talent. But only 7% of the graduates we surveyed wanted time off for doing social or charity work as one of their top three benefits.

Does this show a lack of commitment, or are millennials the first generation to believe that social responsibility is inseparable from business? Despite their unwillingness to take time off, 86% of our survey group would consider leaving an employer whose corporate behaviour no longer met their expectations. These disconnects suggest that better people profiling of diverse workforces is essential to understand what drives employee loyalty and behaviour. Businesses should segment their workforces more carefully, just as they do with their customers, to ensure that they offer the most appropriate benefits to employees at different stages of their career.

3.2.3 Mitigating risks collaboratively

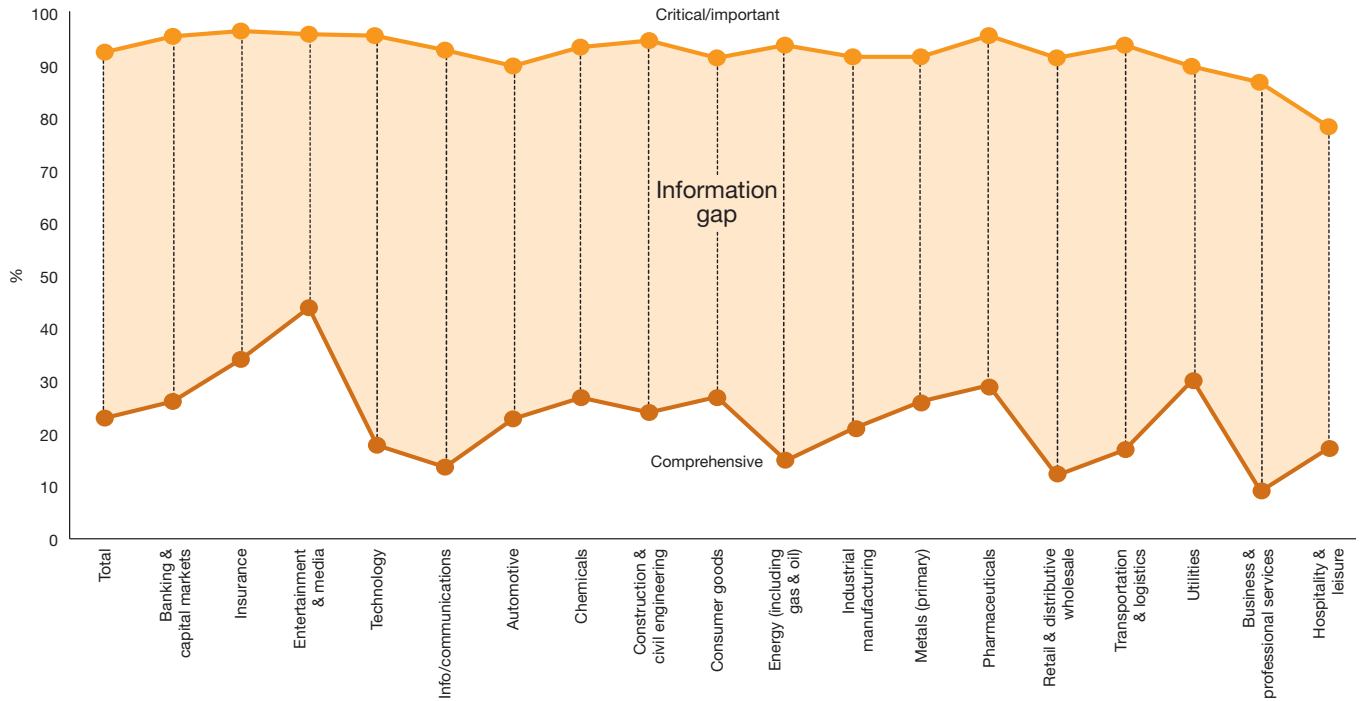
Along with market regulators, the entire financial services industry is rethinking risk management in the hope of rebuilding trust and preventing the next systemic failure. This has raised serious questions about the adequacy of risk management in business in general. In addition to new regulations, policies and procedures, many organisations will require different kinds of information about risk, as well as new cultures supported by new incentives that help employees stay focused on the long term.

The risks associated with many of today's large-scale, long-term trends – not just global financial risk – are difficult to identify and assess because they are unprecedented

and unregulated. The argument for action is often a modern version of Pascal's wager – the potential risks and benefits are too great for businesses to bet against these models having some truth. For example, an impressive amount of science has been poured into quantitative models for the effects of climate change and global resource shortages, including Sir Nicholas Stern's estimate that immediate action on climate change will cost 1% of global GDP, while delayed action could cost the global economy 20% of GDP.²¹

At the company level, however, it is difficult to weigh these scenarios, however well-informed, against the known costs and benefits of investing in compliance with existing regulations. To address risks that may seem unknown or unknowable, organisations need to develop individual

3.2.3.1
All industries have a wide gap in risk information



Q: How important are the following in terms of the information that you personally use to make decisions about the long-term success and durability of your business?

Information about the risks to which the business is exposed.

Base: All respondents by industry 25-130

Q: How adequate is the information that you currently receive?

Base: All respondents where information is important or critical by industry 23-119

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

²¹ BBC, 'Climate change fight can't wait' (October 31, 2006).

systematic approaches to scenario planning, which will inform the identification, assessment and management of global risks. One thing this will require is the reallocation of resources to get better data, because huge gaps remain in the information required to manage risks. In many cases, information is not flowing fast enough or from the right sources. Last year's CEO survey found that CEOs did not feel they had the information necessary to understand fully the risks in business networks, such as those created by outsourcing and other external supply relationships. In this year's survey, 92% of CEOs said that information on risks is critical or important to the long-term success of their businesses. However, only 23% believe they have comprehensive information about risks to their businesses.

The aviation industry was heavily impacted [by the terrorists attacks on September 11, 2001] and air transport suffered as a result. While we had little outright cancelling, we did have many postponements and this forced us to decelerate deliveries. This presented a challenge for us in that we had already purchased much of the materials we needed to fill our original orders. We have always valued our relationships with clients, so rather than trying to make clients fulfil their contracts to the letter, we re-negotiated with them. It was, shall we say, proof that strong client relationships are essential.

Frederico Fluery Curado
 President and CEO of Embraer, the Brazilian
 commercial airline manufacturer

CEOs in every industry and country that we surveyed report the same problem (see figure 3.2.3.1, opposite).

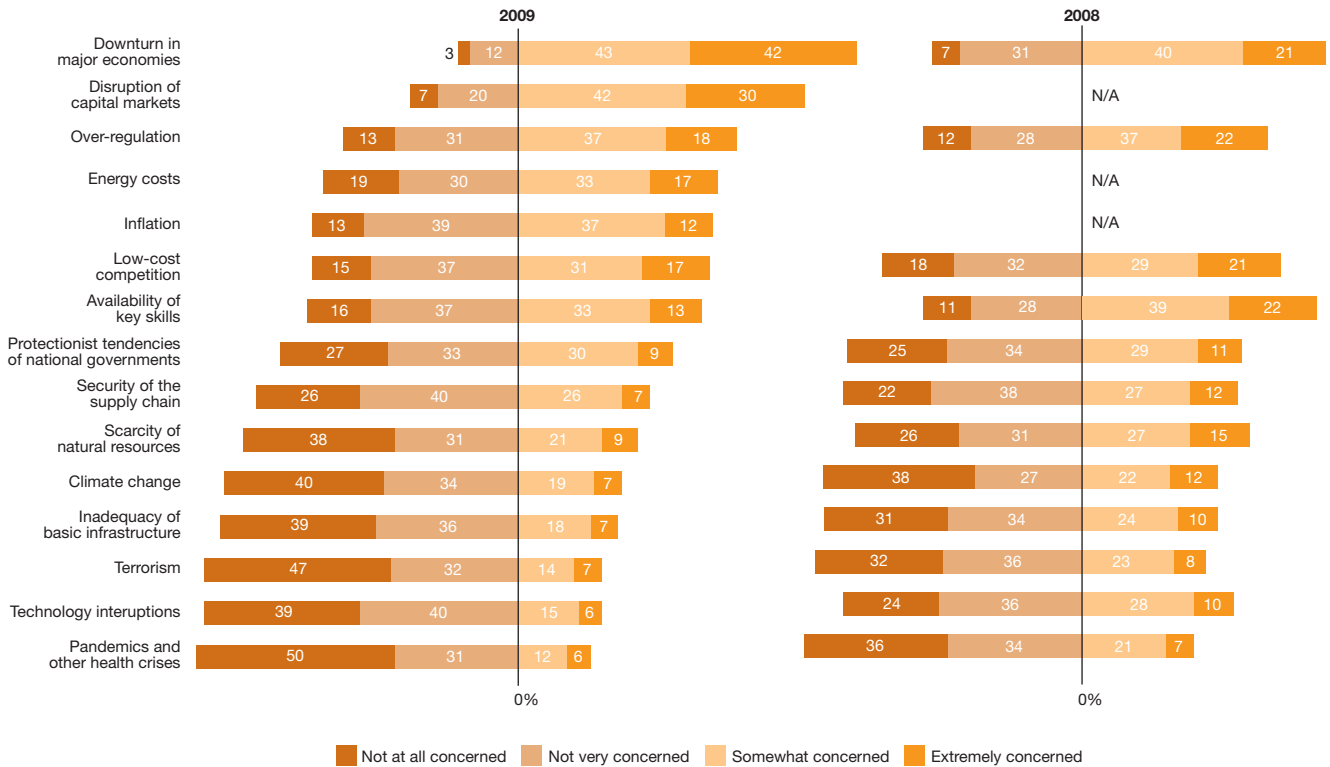
The gap is widest where cross-border flows of capital, labour, goods, services and information spread risk beyond the control of any one business or nation. Global and systemic risks may involve the entire range of external stakeholders, as well as competitors and the general public; therefore, these risks can only be managed collectively. Each stakeholder group has different motivations, exposures and resources, and the tension between collaboration and competition among these groups inhibits the flow of risk information among members of a business network.

In 2008, 61% of CEOs said that business networks played a minor role or no role whatsoever in responding to large-scale risks. For example, members of a supply chain often do not share information relevant to assessing risks. Jorma Eloranta, President and CEO of Metso Corporation, says that the company's customers 'were the last ones to tell us that demand was deteriorating. They want to maintain their capacity and investment targets. But, honestly, this took place very quickly – the order intake was nothing but positive and showed no sign of distress in the system.'

Determining whether to invest in mitigation of events beyond an organisation's internal processes and how to share costs with partners, competitors and governments involves complex negotiations. There are, however, hopeful signs that CEOs are not daunted by the challenge. In the case of climate change, 55% say they are changing risk management and the way they communicate with stakeholders, or are planning to do so in the next 12 months (see figure 2.2.1 on page 20). When there are many unknowns, businesses forge ahead on the basis of they do know.

Robert A. Milton, Chairman, President and CEO of ACE Aviation Holdings Inc, the Canadian investment holding company with various aviation interests including stakes in Air Canada and ACTS, explains that airlines are preparing for pandemics after the experience with SARS. He says: 'You've got to have a contingency plan in place, which we do, to deal with shuttering the operation if necessary... Most of the people running most of the [airline] companies around the world don't have minds like the people at [the US government's] Center for Disease Control in Atlanta...but even without knowing how a rapidly-moving infectious disease spreads, we do have the ability to figure out how to clamp the operation down.'

3.2.3.2 Immediate threats drive CEOs' priorities



Q: How concerned are you about the following threats in relation to your business growth prospects?
 Base: All respondents 2009: 1,124; 2008: 1,150

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Note: 2009 data are based on interviews conducted in the last quarter of 2008.

Even with improved information-gathering and collaboration, the management of global and systemic risks ultimately depends on the mindset of individuals. Between September and November, CEOs became much less concerned about longer term threats as they focused on the economy (see figure 1.0.2 on page 8). In previous surveys, CEO also revised their priorities to respond to immediate dangers. For example, when we spoke to CEOs a year after the terrorist attacks on New York City, global terrorism and the threat of war ranked second behind over-regulation among the threats to business growth. After our 2003 survey, it dropped and has remained well out of the top five (see figure 3.2.3.2, opposite). This demonstrates the challenge of taking all risks into account when large, immediate risks are pressing on the mind.

Short-term cultures change too late because the relentless drive towards growth encourages employees to ignore slowly building signs of trouble. One of the fundamental problems in the financial crisis was that many companies simply did not take the time to fully understand their own investments, because the returns were so good. Regulations can encourage people to take a wider and longer view of the risks behind outsized returns, but they will fail if people have strong incentives to work around them. This is sometimes thought of as the difference between a rules-based culture and a values-based culture. Aligning the values of top management, governance, compensation and infrastructure to support ethical and constructive behaviour is the cornerstone of any plan to build high levels of risk awareness into decision-making.

People assume that China's economy is relatively immune to foreign financial shocks. But when this financial 'bomb' went off, not a single country or a single enterprise was left unaffected.

REN Jianxin
 President of China National Chemical Corporation (ChemChina), a large-scale state-owned company approved by the State Council, China

Culturally, I'm trying to move us to a longer term orientation, and I'll give you a couple small examples. We used to have quarterly objectives and quarterly bonus payments, and that created a quarterly mindset that did foster a strong execution culture. But it also caused us to under invest in customer loyalty, which doesn't pay back in a quarter. So instead we changed the incentives so that this year bonuses are paid semi-annually for the organisation as a whole and annually for the most senior people. We think this will help reorient our people to a slightly longer term point of view. Similarly, we've put in place [performance-based restricted stock units] for the senior team, which are now tied to two-year goals. These attempts compensate to some degree for the outrageously short-term point of view coming from the external world. [Finally,] we use a net promoter score for measuring customer loyalty, which, by the way, you can move even during a recession. You can make your customers happier even if they're buying less, and in that way you're getting a greater share of what they are spending. So, I think metrics and incentives – along with the strategies that follow from them – are the two most powerful reinforcers of a long-term orientation.

John Donahoe
 President and CEO of US-based global online marketplace, eBay Inc.

Durability

Short-term results at any cost are no longer an acceptable measure of success. Companies want renewable profits based on sustainable relationships with communities and natural environments. In today's environment, CEOs believe success should be measured in decades, not quarters.



Final thoughts: Cool heads, collaboration and innovation

As this paper goes to print, the world's economies are still in crisis. Uncertainty about the future is running high, and the optimism among CEOs about their three-year prospects is low. No one knows when the economic downturn will end or what its ultimate impacts will be.

One thing is certain. Connectedness is part of the problem and part of the solution. Globalisation has produced huge economic returns. However, cross-border flows of information, people and capital have also spread this crisis farther and inflicted more damage, faster than ever before. As it was in good times, the world is now united in bad times.

Some see this as a sign that nations and industries need more protection from each other. The findings from this year's CEO survey argue that exactly the opposite is true. Markets around the world are now linked inextricably. The massive upside of global connectedness makes it politically and economically impossible to stop. As a result, more crises are coming that are beyond the control of any single nation or business.

How do we prepare? It is impossible to predict the details but CEOs have strong ideas about the main themes.

First, businesses have no choice but to increase the strength and variety of their connections. The extreme conditions in which they currently operate are beyond the control of any one organisation. CEOs believe that the only way to mitigate risk and realise opportunity is through collaboration with many different stakeholder groups and gathering better information about the critical drivers of business.

Second, to help business, public policies need to be clearer, more stable and internationally coordinated. For businesses to invest huge amounts of capital in solving global problems, they need to be able to calculate risk and return. In the case of climate change, CEOs told us that the choice of policy is much less important than transparency, leadership and consistency across borders.

Third, market participants need to shift their mindsets. CEOs are taking responsibility for issues that were once considered outside the scope of any single business. They believe the criteria for success needs to change accordingly. They must allow for more investment in large-scale opportunities that have less predictable returns and in mitigating risks that have the potential to erase years of incremental gains. As long as predictable, quarterly earnings and other short-term financial metrics (such as those tied to employee compensation) remain the ultimate measures of success, short-termism will continue and create more crises in the future.

As Michael Smith, the CEO of Australia's ANZ, says: 'This comes round in cycles; this is the seventh cycle I've managed my way through. Are the lessons the same? Yes, they are. It is quite incredible how people tend to forget. And I think it is driven by short-termism and investor expectations that are unrealistic in terms of a bank. To expect a bank to generate a 25% return on equity year-on-year, I think, is just ridiculous. Because if you think about banking as an industry, there is no industry in the world that is more highly leveraged, that works on such low margin. Therefore, the room for error is very, very small. And when that error comes, boy does it hurt – as we've seen.'

Despite the thin margin for error, business and governments have no choice but to keep trying new ideas. Fortunately, that is where the opportunity lies. Even in the hardest hit sectors, CEOs still spoke to us about gaining market share, planning for new markets and maintaining readiness for growth. Often, CEOs see the greatest business potential in products, services and operating models that help solve large-scale, social and environmental problems. And an increasing number of stakeholders, from customers to investors to employees, believe these issues are inseparable from success. In other words, the race to succeed in the post-crisis world has already started.

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Research methodology and key contacts

This is the 12th Annual PricewaterhouseCoopers' Global CEO Survey, and 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 50 countries worldwide, and varied the number of interviews in line with their GDP, measured at market exchange rates, in 2006.

In total, we conducted 1,124 interviews with CEOs in 50 countries between early September and the beginning of December 2008. By region, 420 interviews were conducted in Western Europe, 276 in Asia Pacific, 168 in Latin America, 138 in North America (41 in Canada), 80 in Eastern Europe and 42 in the Middle East and Africa. Throughout these reports, we report key statistics. Additional data and graphs are available in the *Visual Story* supplement and online at www.pwc.com/ceosurvey.

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 on the telephone, with the exception of Japan, where a postal survey was administered. In China (including Hong Kong) and Kenya, 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. In the top 10 countries 35% of the companies had revenues in excess of \$1 billion, and a further 43% had revenues of \$100 million to \$1 billion. The remaining 22% had revenues of less than \$100 million. Company ownership is recorded as private for 53% of all the companies, with the remaining 47% listed on at least one stock exchange.

To further understand how the mindset of global corporate leaders is evolving, we interviewed 21 CEOs from five continents to put the survey numbers to the test. Throughout this report are quotes from these interviews. Selected extracts are featured in the *In-depth CEO story* supplement and all the transcripts are available in full text online; some interviews are also available on video online at www.pwc.com/ceosurvey.

PricewaterhouseCoopers' extensive network of experts and specialists has provided its input into the analysis of the survey (see acknowledgements). 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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Further reading

Meeting the challenge of the current financial crisis (November 2008)



The current credit crisis has shaken the financial markets, undermined the confidence of consumers and investors, and caused enormous financial damage everywhere. However, in this new report, PwC has identified seven key steps that will help companies to navigate rough waters and emerge successful.

Technology Executive Connections – Managing the risks and rewards of collaboration (Volume 6) (December 2008)



How can technology companies manage the risks to reap the rewards of collaboration? To answer this question, PwC surveyed senior technology industry executives worldwide and conducted in-depth personal interviews with industry leaders.

American Perspectives (August 2008)



Published in 2008, American Perspectives discusses trends that US businesses will need to navigate the changing world. It focuses on four main areas: the need to reorient US perspectives as the world economic balance realigns the need to navigate big risks and opportunities in an interconnected world, the need to manage the changing way we live and work, and the need to leverage innovation with openness, discipline and creativity.

PricewaterhouseCoopers' 11th Annual Global CEO Survey (January 2008)



PricewaterhouseCoopers' 11th Annual Global CEO Survey, launched at the World Economic Forum's Annual Meeting in Davos, Switzerland, in January 2008, set out to discover how CEOs balance the risks and opportunities of competing and collaborating in a world where globalisation, technology and rapid social change are transforming the business landscape in ways that were unimaginable even 20 years ago.

World in 2050 – Beyond the BRICs (February 2008)



In 2006, PwC published a report on the rapid growth and increasing global significance of the so-called 'E7' emerging economies: the BRIC economies of Brazil, Russia, India and China, plus Mexico, Indonesia and Turkey. Here is an update of our economic growth projections, based on the latest available data.

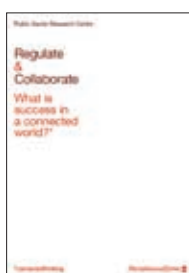
Public & Private – Global risks

(from the 11th Annual Global CEO Survey, January 2008)



CEOs polled in PwC's 11th Annual Global CEO Survey disagreed with academic risk experts about the threat posed by global risks to business growth. Were the CEOs too focused on economic conditions, near-term threats and recent history? For possible answers, read on.

Regulate and Collaborate – Government and the Global CEO (March 2008)



This study compares the viewpoints of CEOs and top-level government officials on regulation and collaboration between the public and private sectors, and comments on the extent of government-to-government collaboration, climate change and the future for public-private relationships.

From vulnerable to valuable: how integrity can transform a supply chain (November 2008)



Most companies think of supply chain improvements only in terms of cost reduction and undertake crisis management after a problem occurs. This study shows that escaping from this mindset is well worth the effort, and companies can learn how to enhance the integrity and security of their supply chains.

Does ERM matter? ERM in the insurance industry. A global study (June 2008)



The 2008 follow-up to our global survey report published in 2004, this report seeks to discern whether ERM can make a difference by strengthening risk control and strategic planning, and, if so, identify the critical attributes for success.

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