Government and the global CEO
Redefining success

a PwC Public Sector Research Centre publication

~~Current crisis~~

Contents

Foreword

Building global trust through mutual understanding

Welcome to 'Redefining success: Government and the Global CEO' in which we examine the newly emerging relationship between government and business in today's inter-connected, but uncertain, world.

For over a decade, PricewaterhouseCoopers' (PwC's) Annual Global CEO Survey – whose launch has become a feature of the Annual Meeting of the World Economic Forum – has provided an authoritative barometer of CEOs' views of the most pressing issues facing them. Today, the need for businesses and governments to understand each other and work together in the teeth of a global recession has become critical to citizens worldwide.

Following last year's report,[1] with its prescient theme on the need for collaboration, we have again extended and deepened the research for PricewatehouseCoopers' 12th Annual Global CEO Survey by including a selection of interviews with senior decision-makers in governmental organisations across the world.

Our aim in doing this – and in publishing the findings here – is to understand the fears and hopes of CEOs in troubled times and the implications for government policy. As such, I believe that this report represents a further significant contribution to mutual understanding and productive future relationships between government, business and the not-for-profit sector.

Business crisis in the face of systemic risk

The environment within which governments interact with business has undergone a seismic shift since our report last year. Business confidence has fallen off a cliff. As a result government and its brand, whether at international, national, regional or city levels, is being tested by the financial crisis and global recession as rarely before, taking public authorities into uncharted territory.

The global financial crisis has spurred unprecedented levels of government intervention in business and highlighted the importance of government's role in addressing global and systemic risks. Around the world, government and business leaders were caught unprepared for a global financial crisis that has evolved into worldwide economic deceleration.

1 'Regulate & Collaborate: Government and the Global CEO' – PwC's Public Sector Research Centre, 2008.

Governments have been forced to intervene in their economies. PwC's 12th Annual Global CEO Survey finds that CEOs generally support these efforts, but also want governments to take the lead by creating institutions, policies and mechanisms for collaboration that are appropriate for global flows of capital, knowledge, labour, goods, services and information.

Globalisation of governance

But what does this mean for government? This report sets out the views of CEOs and of government officials at an historic moment in time. It considers the implications of the global financial crisis and ensuing global recession for government in its role as a stakeholder in business, as a 'smarter' regulator and as a collaborator with business. And it considers the implications for mitigating systemic global risks, for instance, through the elevation of importance of the G20.

With so much focus on the current crisis, it would be easy to dwell on the past and the current but forget that at some point we will emerge from this recession and that government must even now be planning for the future. Governments around the world must act as the runway for future growth, navigating their economies through current troubled waters while charting the way ahead.

Government as catalyst

How can this be done? By investing in, and strategically managing, the 'capitals' needed by any society for long-term prosperity – financial, intellectual, social, environmental, technical and political capital. And of course all of this must done in a way that is sustainable. If this is successful, public trust will increase and help us towards future growth.

Finally, I would like to thank not only 1,124 company leaders from over 50 countries who shared their views with us for the CEO Survey, but also the government officials who took the time to share their thoughts with us. Their names are listed at the end of this publication. We are grateful to them for their cooperation and frank insights. We look forward to a continuing and fruitful dialogue on how to 'create the society and government of the future for the citizens of tomorrow' in a more and more collaborative society.

Jan Sturesson
Global Government Leader
PricewaterhouseCoopers LLP

Executive summary

As confidence collapsed in the wake of the global financial crisis, with CEOs somewhat or extremely concerned about economic downturn (85%) and the disruption of capital markets (72%), around the world governments have rushed to intervene in their economies. Indeed, this year's Survey revealed a startling statistic – 10% of the companies we surveyed had some form of government backing. And state ownership is spread globally across all industry groups in our Survey – not just in financial services.

Based on the evidence of our Survey, the implications of the current crisis are also clear. In our view there is a need for:

- Early decisions on exit strategies for businesses backed by governments through the current crisis, but which ultimately must stand alone;
- Stronger, better and smarter regulation, including clear and stable tax rules;
- More effective collaboration between business and government;
- Stronger mechanisms for the mitigating global systemic risks, including reform of institutions such as the International Monetary Fund (IMF) and the World Bank (WB) and a greater role for the G20 as a real-time decision-making forum; and
- Governments to chart a way ahead, investing in the future and creating a runway to growth.

We're all stakeholders now

Government is no longer a bystander but an active participant in business. Citizens, as taxpayers, have become the new owners and guarantors (through loans) of large swathes of business, from financial services to automotive.

This activism has its consequences. While, in general, we found that CEOs in government-backed companies have very similar views to those wholly in the private sector, we also found significantly fewer of them (31% of government-backed CEOs compared to 43% of CEOs without backing) were extremely concerned about the economic downturn. Of more far-reaching concern, such companies appear to focus less on customers: 57% of government-backed CEOs see high-quality customer service as critical compared to 67% of CEOs with no government backing. In comparison, wider stakeholders such as government (63% of government-backed CEOs compared to 47% for other CEOs) and local communities (37% compared to 27%) exert a strong influence.

Clearly, this is a major concern for citizens as customers and as taxpayers. Many are already understandably aggrieved at the extent to which they have been required to bail out organisations they once trusted and pay the consequence for what many see as corporate greed. Adding insult to injury, funds spent on bailouts are also funds not spent on public services and priorities such as aid for international development.

Trust must be rebuilt and taxpayers expect payback. Until now, government has handed over funding while asking for little in return, but this raises many questions: What should government be asking for and what obligations should companies that take public money have to the community? What about the need for accountability and transparency – where does the public sector end and the private sector begin? And who owns the problem now? Public expectations of the role of the state have increased – government is no longer a last resort option, but on the front line. Governments need to find ways to manage expectations and ensure cost-effectiveness, efficiency and value for money in the use of public finance.

In our view, governments must therefore make early decisions on their exit strategies for businesses that they have backed through the current crisis, but which ultimately must stand alone, and communicate when and how exit will happen to taxpayers and companies. Up to this point, governments have had to react, rather than lead the way. Decisions now need to be made on whether governments' newly acquired stakes in business are permanent or only transitional during the current crisis, recognising that this will vary by country: some nations expect their governments to be more involved in business.

Smarter regulation

Even in such dire times, overregulation is still a top-three issue for CEOs: this year 55% of CEOs remain concerned or extremely concerned about overregulation as an obstacle to growth. Furthermore, over half of CEOs (57%, the same as in 2007) do not believe that government has reduced the regulatory burden. Yet there is, equally, a greater recognition than perhaps ever before that there is a legitimate role for proactive government intervention in markets. For instance, 58% of CEOs believe government should drive the convergence of global tax and regulatory frameworks.

This reflects the 'regulation paradox' – on the one hand, CEOs want more government leadership and action, but on the other hand they are inclined to believe that government action is only good when it helps their business, and bad otherwise. Tax and climate change are two cases in point. Designed and implemented well, both can be a force for good, stimulating changes in behaviour as well as the economy. Equally, both can be a source of frustration and burden, both nationally and globally, for example when tax systems are not interconnected.

This has important implications for the nature and scope of regulation. Many of the principles of better regulation are already known: regulation needs to be proportionate, accountable, consistent, transparent and targeted. Yet there is a missing ingredient – stability – and a rapidly changing context – globalisation – as well as a renewed purpose – to stop players in markets behaving irresponsibly.

In our view, CEOs are sending a clear message to government on the need for a smarter approach to regulation:

- 'Think global, act local' – define the right rules to underpin success in a modern global economy, tailored to the national and local context;
- Fair reciprocity – it is not enough to define a transparent set of rules, but to implement them in a fair and reciprocal way;
- Outcome-based – focus on outcomes, not purely process, and make judgements on compliance based on results, not just box-ticking; and
- Clarity and stability – ensure that the rules for regulation are clear and not subject to constant tinkering and change for change's sake.

The current downturn provides an opportunity for government – to reform taxation and regulation, making it more effective and less burdensome.

Collaboration as an organising principle

Another clear message from our Survey is that, despite their criticisms, CEOs see the importance of collaboration. A majority (61%) of CEOs currently collaborate with government and regulators, with a further 14% planning to do so. Indeed, only 22% of CEOs believe there is no need to collaborate with government and regulators. And this collaboration needs to be at the policy level and not just when proposed legislative changes have been drafted, for example, new tax rules.

There are many examples of co-dependence. A prime example is the supply of key talent that depends more on education systems than on business cycles. Many CEOs do not believe governments are doing enough to create a skilled labour force or improve infrastructure. 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. And only 17% of US CEOs and 18% of UK CEOs agree that the government has been effective in creating a skilled labour force.

Businesses and governments need, and on the whole want, to work together to achieve a 'win/win', for example by easing tax administration and so making compliance easier. Governments can use the current economic crisis as an opportunity to change things for the future – to collaborate on sharing and designing best practice while also ensuring necessary compliance. Indeed, collaboration has become the organising principle of the day. But how is this best done? The bottom line is that more and better private sector input is needed in the design and implementation of policies and regulations. Although almost 4 in 10 CEOs believe that government is seeking private sector input in the design of policies and regulations, there is more to be done. Our government interviewees also see the merit of private sector input to the design of policies and regulations.

In our view, the route to more active business involvement and collaboration, and therefore smarter regulation and policy-making, is through 'co-design'. In this way, business input is designed and integrated into the regulatory and policy-making process in an active way, rather than through passive consultation.

Mitigating global risks, seizing opportunities

There is also a need to mitigate systemic risks collaboratively. 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. We have found that the risks associated with many of today's large-scale, long-term trends – not just global financial risk – are difficult to identify and assess precisely because they are unprecedented and unregulated.

Faced with such complex challenges, the implication for governments is a need to work better together. But the existing infrastructure of permanent institutions like the UN, the WB, the IMF and the World Trade Organisation (WTO) along with global summits, is too rigid and formal and insufficiently responsive or inclusive. The elevation of importance of the G20 is welcome, widening decision-making and influence to new powers, but governments need to find new ways for real-time collaboration and information sharing.

In our view, governments must establish real-time, virtual processes to enable effective collaboration and create a new strategic playground for stakeholders globally to collaborate and address systemic risks. A more network-based approach is essential with informal mechanisms, enabled by technology, to supplement and enhance formal institutions and set-piece summitry. Globalisation 2.0 needs legitimate global leadership, which resists the threat of protectionism, and is supported by better, more transparent information to mitigate systemic risks and rebuild trust.

Investing in the future: runway to growth

But all should not be doomsaying. In any crisis, there are opportunities for entrepreneurship, innovation and breakthrough developments. Even though the automotive industry is now in crisis, it was actually a beacon of innovation that emerged from the depths of the depression of the 1930s.

The recession will end and government is in pole position when it comes to navigating our way towards a better future and securing long-term success. In our discussions, it is clear that business is crying out for leadership and a positive vision of the future, rather than one based on fear. The need to embed sustainability, not in a narrow environmental sense but in the wider context of using natural resources (e.g. oil, water, air and soil), will not go away. Indeed, we found that 4 in 10 CEOs believe that the dependence on carbon-based energy, overpopulation, climate change, scarcity of freshwater and the spread of infectious diseases will have a negative impact on their businesses – all endorsed to varying degrees by our government interviewees.

A shift is needed in the paradigm, from being consumers to being 'sustainers' and 'satisficers', making use of resources in a more socially responsible way for the benefit of wider society, particularly as populations age, the talent base shrinks and the burden on care and pension systems grows.

We see three implications for government emerging from the current crisis:

- **'Glocalisation'** – we see national governments having to balance much more explicitly the viewpoints of their local and national communities with those of the international community and expect multilateral institutions such as the UN and the WTO to be forced to act more and more as real global bodies rather than collections of national interests.
- **'Co-opetition'** – the increasingly interconnected state of the world means that we are moving increasingly from a competing society to a collaborating society, with businesses and nations competing within an increasingly global set of governance arrangements. Real value can be created between sectors collaborating in a new creative way – a 'between management' approach – requiring a new type of leadership and management of complex processes with a mix of stakeholders from all types of sectors and industries. This can be seen in the emerging fusion between sectors, combining where there is a convergence of interest, for example, energy, security and defence aligning on the need to secure access to natural resources. And the rise of social entrepreneurship, with government, business and the not-for-profit sector joining forces in new ways and making use of technology, blurring the distinction between work and leisure time, home and office.
- **'Raplexity'** – government faces making decisions more rapidly and in a more complex environment. As a result, it needs agile management mechanisms to cope with the speed and complexity of decision-making in a modern global economy.

In our view, governments at global, national, regional and local levels need to shift mindsets and look to the long term:

- Instilling confidence and public trust and reducing uncertainty through leadership and vision based upon on positive ambition, not fear;
- Balancing risk and opportunity management – we need to move into the opportunity space, not be captured by the 'risk prison';
- Managing our strategic resources or 'capitals' (financial, intellectual, social, cultural, environmental, technical and political) in a new holistic way – a new capitalism – and control, monitor and report on these capitals;
- Developing new investment plans, both financial and non-financial, to enhance the new capitalism and sustain entrepreneurship;
- Shifting the paradigm from internal focus on control to an external approach, using social intelligence to develop the brand of the territory (at national, regional or city level); while
- Fighting the latent desire for protectionism (either in terms of trade or finance) with countries competing rather than collaborating.

The globalisation of government?

Does this imply a need for a more permanent shift in role for government, from a largely national focus to a globalisation of government, or at least of governance? It is certainly true that there is little incentive for anyone to act alone on global risks, because they are beyond the control of any single business or nation. One of the key challenges for governments and global businesses as they work through the downturn is the establishment of smarter regulations and governance arrangements that encourage effective collaboration and clear accountability to address global risks and opportunities in future. Already there is evidence of more collaboration internationally between governments and increasing recognition of the need for more global governance, such as the proposal in the November G20 communique, calling for a 'college' of national financial supervisors to oversee the biggest cross-border financial institutions.

And despite their criticisms, CEOs still accept the need to work with government on central issues, particularly where regulation is a business enabler. There is a groundswell of support for increased government action to address climate change, the scarcity of natural resources, the talent shortage and other global issues. This opens an opportunity for businesses and governments to start moving from collective stasis to effective global collaboration.

Governments and businesses need not only to collaborate, but to innovate. Governments are seeking to be a strategic player, facilitating collaboration across businesses and sectors (public, private and not-for-profit) and putting in place more effective global governance, to safeguard the fundamentals for the world economy, particularly human capital, financial capital and natural resources. ***In our view***, however, we are still some way from government itself becoming globalised. This is a matter for politicians together with business people and civic society to debate, and urgently.

In conclusion

In today's extreme conditions, which are beyond the control of any one organisation, the only way to mitigate risk and realise opportunity is through collaboration between many different stakeholder groups and sharing better information about critical business drivers. Governments need to adjust to this downside of globalisation and provide real global leadership, supported by a more effective system of global governance than ever before.

Collaboration – within companies, among companies and between the public and private sectors – is essential, for the challenges we are collectively facing are simply too great to be overcome in any other way.

Section 1

Global risks, global solutions

'History shows that there will be ups and downs, but that basically, you usually come out stronger from such a situation because you learn to create systems and regulations to prevent these things from happening again. It forces us to have an even more consistent approach to concepts such as sustainability, and so on. No one wants to end up in a crisis. We need to draw conclusions and lessons from it.'
Sune Reinhold, City Manager, Solna, Sweden.

PwC's 12th Annual Global CEO Survey occurred at a momentous time. A financial crisis of historic magnitude was unfolding as we set out to speak with 1,124 business leaders worldwide, augmented by our discussions with a selection of government leaders (see Appendix for details).

A collapse of confidence

This year's Survey represents an incredibly rapid acceleration of trends only just emerging at the time of our last report. Indeed, the top two 'pressing issues' identified by government interviewees in last year's 'Regulate & Collaborate' report[2] – increasing interdependence of economies and liberalisation of financial markets – presaged the rapid transmission of downturn across the globe.

Most critically, this year's Survey vividly illustrates how far business confidence has crashed, to below 2003 levels. Only 21% of CEO respondents remain very confident about the prospects for growth over the next 12 months, with the exception of Indian CEOs, 70% of whom are still remarkably positive. Moreover, the level of confidence has declined in CEOs leading companies of every size in every sector and country.

Figure 1.1

Back to the future

Last year	This year
• Economic downturn to the fore for CEOs mainly in the developed economies	• Economy to the fore for all economies, demonstrating the extent of interconnectedness
• Business wants more leadership on global issues requiring global solutions	• The same, but more – extending from climate change to financial stability
• Over-regulation a Top 3 risk – regulation seen as having some role to play by CEOs who generally want less	• Over-regulation still Top 3, but greater acceptance of need for effective regulation, especially in capital markets
• Over half of CEOs agreed or agreed strongly that business networks would be a defining organisational principle	• This year more than half of CEOs say they are collaborating with major stakeholder groups, including government (though less for NGOs)

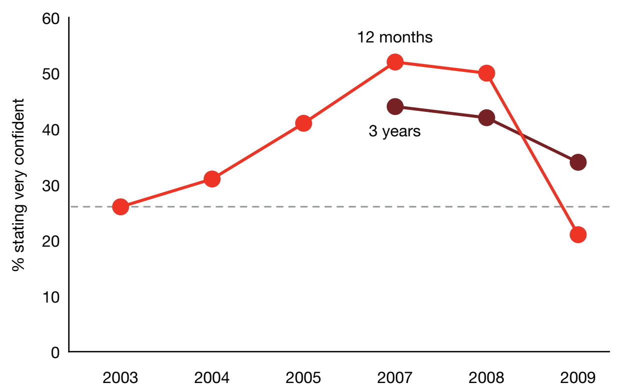
2 'Regulate & Collaborate: Government and the Global CEO' – PwC's Public Sector Research Centre, 2008.

Crisis of confidence

- CEOs are operating in extreme conditions with little margin for error. Many are still fighting threats to their survival. At the same time, CEOs are coming to terms with long-term, global trends that are challenging economic, political, social and cultural structures around the world. As John Donahoe, President and CEO of the global online marketplace eBay Inc, states, '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.'
- Short-term, confidence of CEOs has been decimated with their focus shifting to urgent concerns about liquidity, revenue and costs, in many cases forcing them to delay investments and expansions while they maximise returns from existing markets.
- Longer term, 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%.
- 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 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.

Figure 1.2

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

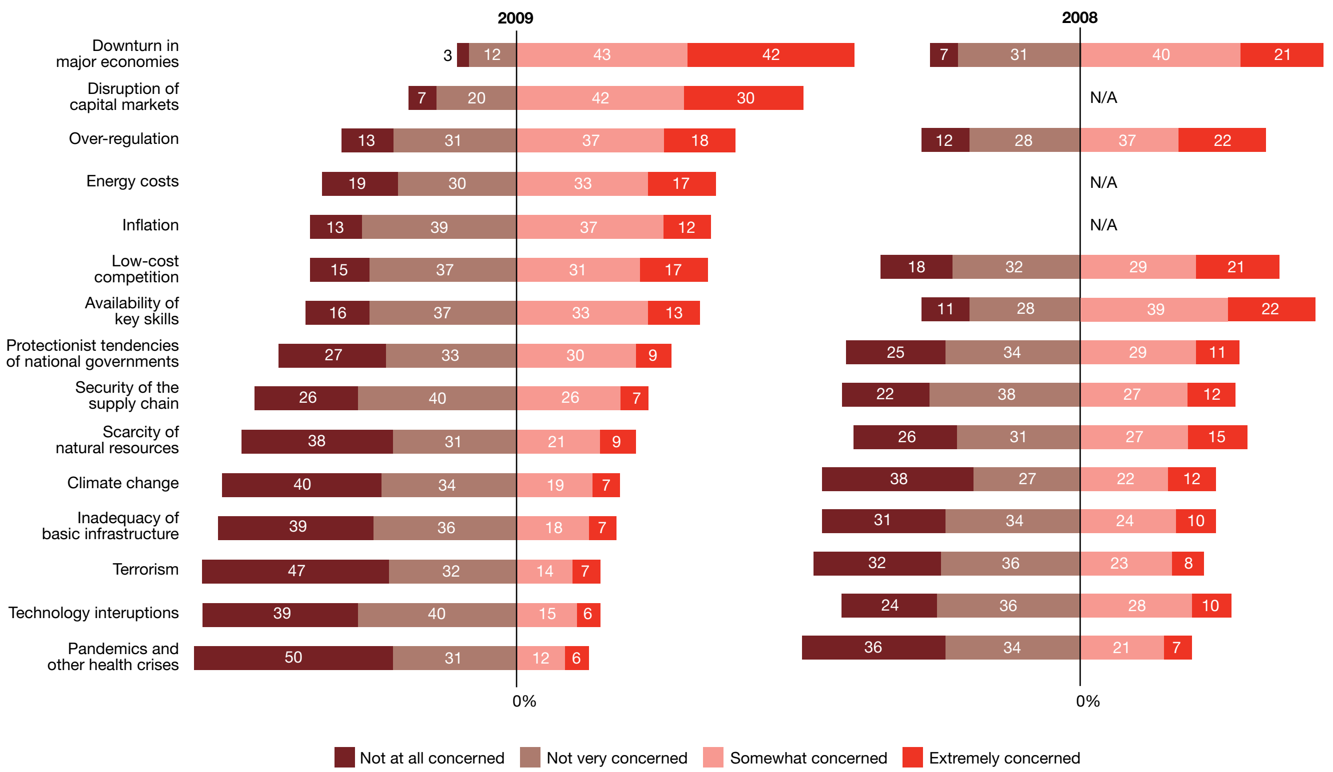
Note: 2009 data are based on interviews conducted in the last quarter of 2008. 2006 confidence question was not asked.

Last year, CEOs in the US, Japan and Western Europe were far more worried about a global economic downturn than those in emerging markets like 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 and were not as decoupled as many had hoped or expected.

As well as major concerns about economic downturn (85% of CEOs extremely or somewhat concerned), the other top three risks for CEOs are, understandably, disruption of capital markets (72%) and also the perennial concern about overregulation (55%). All of these issues are at the forefront of government agendas across the world.

Figure 1.3

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.

A joint search for global solutions

Global crises are approaching from many directions. As Léo Apotheker, Co-CEO of software maker SAP AG, 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 resource 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. I actually believe that my industry, software in particular, can help better manage these problems.'

Over the past year, there is no doubt that CEOs have become further concerned by resource scarcity. High commodity and energy prices have raised natural resources as a CEO agenda issue. Obviously the credit crunch has impacted the availability of capital. And accessing and maintaining talented human resources remains an ongoing dilemma for CEOs, who are adopting creative strategies to access this key resource.

The financial crisis has 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.

However, governments, while willing, were underprepared for the global action required by the current financial crisis. 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, all areas we will comment on later in this report.

Nevertheless, business and government need each other's help in resolving the current crisis, and increasingly collaborating across national boundaries. Government is an important influence on business' long-term success and can impact, positively or negatively, on long-term competitiveness through its approach to public policy.

Changing role of government

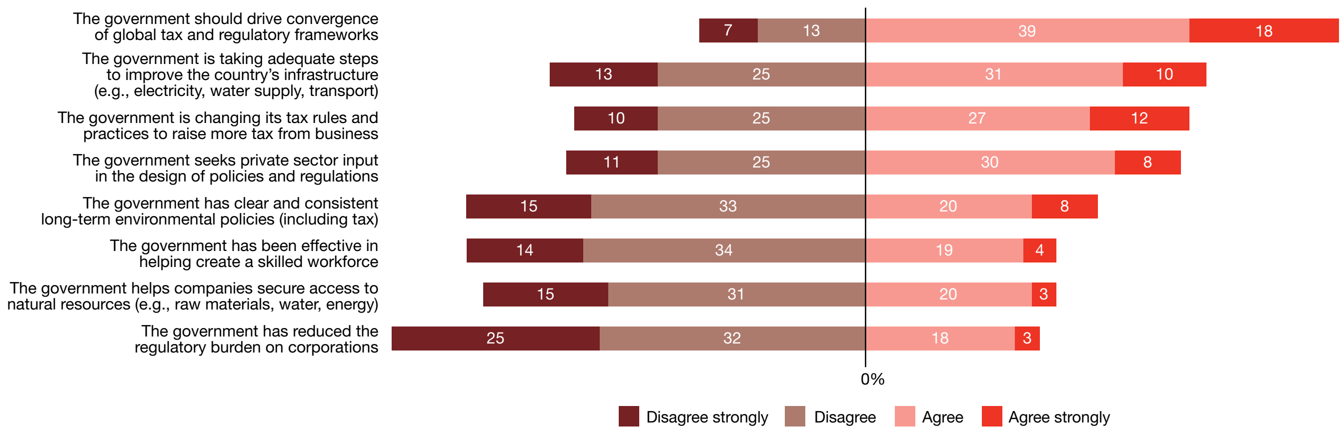
Government and its brand, whether at international, national, regional or city levels, is being tested by the financial crisis and global recession as rarely before, taking public authorities into uncharted territory.

The global financial crisis has spurred unprecedented levels of government intervention in business and highlighted the importance of government's role in addressing global and systemic risks. PwC's 12th Annual Global CEO Survey finds that CEOs generally support these efforts, but also want governments to take the lead by creating institutions, policies and mechanisms for collaboration that are appropriate for global flows of capital, knowledge, labour, goods, services and information.

But what does this mean for government? The rest of this report considers the implications of the global financial crisis and ensuing global recession for government in its role as a stakeholder in business, as a 'smarter' regulator and as a collaborator with business. And it considers the implications for mitigating systemic global risks, for instance, through the elevation of importance of the G20, as well as the role of government in planning for the future and acting as the runway for future growth.

Figure 1.4

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

Section 2

Government as stakeholder

This year's Survey revealed a startling statistic – 10% of the companies surveyed had some form of government backing. And state ownership is spread across all of the industry groups we surveyed, not just new ownership in financial services. The companies surveyed with some form of government backing also had a similar size distribution to the rest of our sample. So, we wondered if CEOs who have the backing of government shared the views of CEOs with exclusively private shareholders, or whether government backing yielded a different perspective? This section sets out our key findings.

The impact of government backing

In general, we found that CEOs in government-backed companies actually have very similar views to those wholly in the private sector which are commented on in detail in the main CEO Survey report.[3] And yet, we also found some important differences, which we comment on below.

Government breeds confidence…

There appears to be a tendency towards more confidence on prospects for revenue growth among government-backed CEOs both now (28% of government-backed CEOs are very confident compared to 20% with no government involvement) and in three years' time (41% compared to 33%). Significantly, less government-backed CEOs are extremely concerned about the economic downturn (31% compared to 43%).

This may be linked to another difference which is that, unsurprisingly, government and Sovereign Wealth Funds are significantly more important as a source of finance for growth (14% for government-backed CEOs compared to 4% of other CEOs). However, more government-backed CEOs think that the likely outcome of difficulties in the global banking and financial system is restricted access to finance (82% compared to 71%), rather than increased cost of finance (68% compared to 80%).

…with perhaps less focus on customers…

Government-backed CEOs perceive the same four sources of long-term success as those purely private sector CEOs, that is, talent, brand and reputation, customer service and an ability to adapt to change. However, less government-backed CEOs see high-quality customer service (57% compared to 67%) and an ability to adapt to change (49% compared to 67%) as critical (as opposed to important) to their success.

Indeed, alongside this finding, government-backed CEOs believe information about customer needs and preferences is less critical (55% compared to 65%) and more feel they have comprehensive information on their brand/reputation (42% compared to 30%). In contrast, such CEOs believe that while the current information they collect on the impact of climate change is adequate, they would like to have more (60% compared to 47%).

…but more on wider stakeholders

Government (63% of government-backed CEOs compared to 47% for other CEOs) and local communities (37% compared to 27%) have been a stronger influence over the last three years for CEOs in government-backed businesses. The latter have also collaborated more with these stakeholders: 70% compared to 59% and 64% compared to 54%, respectively. In contrast, there is less perceived need by government-backed CEOs to collaborate with the media (21% compared to 33%) and competitors (20% compared to 31%).

3 'Redefining Success', PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

A more optimistic view?

Generally, CEOs in government-backed organisations are more optimistic that, in future, business and government will be able to find solutions to reduce significantly the impact of key global risks like climate change, terrorism and financial crises (66% of government-backed CEOs compared to 43% of other CEOs). In addition, significantly more agree that government has been effective in helping create a skilled workforce (32% compared to 22%), securing access to natural resources (31% compared to 21%) and taking adequate steps to improve the country's infrastructure (53% compared to 39%), as well as agreeing that government seeks private sector input in the design of policies and regulations (46% compared to 37%). They also consider the clarity/stability of tax rules (28% compared to 42%) and the open approach and customer focus of tax authorities (14% compared to 25%) to be less critically important.

However, it is not all positive for government, as a small majority (52%) believe that, in future, government will become more protectionist with significantly more seeing a negative impact of climate change on the general population and property (52% compared to 42%).

Summing up…

In general, it would appear that government-backed CEOs have more opportunity to consider longer term threats like climate change, or more cause to do so due to their prominence on governments' agendas. They also are more inclined to an optimistic view on the actions by government, but less focused on the customer than on wider stakeholders.

Clearly, the latter is a major concern for citizens as customers and as taxpayers. Many are already understandably aggrieved at the extent to which they have been required to bail out organisations they once trusted and pay the consequence for what many see as corporate greed. Adding insult to injury, funds spent on bailouts are also funds not spent on public services and priorities such as aid for international development.

Trust must be rebuilt and taxpayers expect payback. Until now, government has handed over funding while asking for little in return, but this raises many questions: What should government be asking for and what obligations should companies that take public money have to the community? What about the need for accountability and transparency – where does the public sector end and the private sector begin? And who owns the problem now? Public expectations of the role of the state have increased: government is no longer a last resort option, but on the front line. Governments need to find ways to manage expectations and ensure cost-effectiveness, efficiency and value for money in the use of public finance.

In our view, governments must therefore make early decisions on their exit strategies for businesses that they have backed through the current crisis, but which ultimately must stand alone, and communicate when and how exit will happen to taxpayers and companies. Up to this point, governments have had to react, rather than lead the way. Decisions now need to be made on whether governments' newly acquired stakes in business are permanent or only transitional during the current crisis, recognising that this will vary by country: some nations expect their governments to be more involved in business.

> 'We had a strong policy to privatise most of the government owned companies...With sometimes a 100% stake in banks… we have to think through again how to handle government owned companies. How should the governance be organised? What sort of expertise we need at the government level, when do we sell the stakes again'
>
> **Geert van Maanen**
> Secretary General, Ministry of Health, Welfare and Sports, Netherlands

Section 3

Government as 'smart' regulator

Overregulation is still a top-three issue for CEOs, even in such dire times and yet there is equally greater recognition than perhaps ever before that there is a legitimate role for government intervention in markets. As Andrew Cosslett, CEO of InterContinental Hotels Group, says, '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.' In this section, we reflect on the regulation paradox and some clear messages for government on the need for a smarter approach to regulation, with reference to two particular examples of policy and regulation – tax and climate change.

The regulation paradox

CEOs want governments to strike a difficult balance. Last year, we termed this the 'regulation paradox'.[4] On the one hand, CEOs want more government leadership and action, and not only on economic and climate change issues. For instance, 58% of CEOs believe that governments should drive the convergence of global tax and regulatory frameworks. Only in Brazil are a majority of CEOs expressing a view against convergence (last year only UK was in this position).

On the other hand, CEOs are inclined to believe government action is good when it helps their business and bad otherwise. In the past, they have usually called for less intervention, with overregulation being one of the top three risks facing business over the last 10 years. Indeed, this year, 55% of CEOs remain concerned or extremely concerned about overregulation as an obstacle to growth, rising to more than three-quarters in some parts of the world with higher than average concerns for US, Japan and India. This concern was the top threat to business growth in 2007 and, in 2008, only ranks behind the top concerns about the current economic environment.

Furthermore, over half of CEOs (57%, the same as in 2007) do not believe that government has reduced the regulatory burden on corporations. Indeed, this year, only in Korea and Japan is there a positive balance of CEOs believing their government has reduced the regulatory burden. Compared to last year's results, the UK is still at the bottom of the listed countries, though by a much smaller margin.

Figure 3.1

CEOs' views of reduced regulatory burden

Balance of CEOs who agree (strongly or slightly) as against disagree (slightly or strongly) that the government in which their business is headquartered has reduced the regulatory burden on corporations (%)

	Global	US	Canada	Mexico	UK	France	Germany	Netherlands	Italy	Spain	Russia	Brazil	China and Hong Kong	Japan	India	Australia	Korea
2008	-39	-58	-57	N/A	-87	-54	-64	-77	-78	-52	-44	-73	6	35	20	-69	-44
2009	-36	-59	-34	-50	-68	-35	-49	-50	-48	-47	-47	-57	0	18	-40	-67	20

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

4 'Regulate & Collaborate: Government and the Global CEO' – PwC's Public Sector Research Centre, 2008.

Smarter regulation

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 encourage effective collaboration that underpins success in a modern global economy. As such, there is increasing recognition (or at least acceptance) of the need for what we term a smarter approach to regulation. This requires governments and regulators to define the right rules, not more rules, and intervene more effectively in areas where the public expects oversight, for example, a stable banking system, and also to implement them in a fair and consistent way. This approach appears to be in line with a number of our government interviewees.

Do you think businesses will be more accepting of certain types of government intervention?

'I think there's a general realisation that either we don't have enough rules or we don't have the right rules. I think it's more the latter; and I think there's a resignation on the part of business that there needs to be appropriate oversight… We have to make sure that we've created an environment that's not over burdened by regulation but has appropriate oversight.'

Shelly Jamieson, Secretary of the Cabinet and Clerk of the Executive Council, The Executive Council of Ontario, Canada

'Yes, I think so. We must work extremely closely with companies, and have a very generous attitude to businesses, but at the same time, the rules are clear. Neither the company owners, nor the municipalities where they're established have any interest in companies ending up in big trouble – we have a common interest in creating a close relationship, while at the same time having very distinct responsibilities. Honest communication is crucial.'

Sune Reinhold, City Manager, Solna, Sweden

'I think there was the idea that the more deregulation the better and that has been pushed to the limit… I think that culturally, private as well as public sectors have recognized more openly that each one has a role to play. And perhaps before this crisis, recognizing this was more diluted. A doctrinal change to a certain extent.'

David Cierco Jiménez de Parga, General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

'In order to create a more durable private sector, I believe the government must tighten regulation and increase financial transparency. An efficient financial market is dependent on having absolute transparency and in order to achieve this, the government must regulate and supervise.'

Tor Saglie, Director General, Administration of Labour and Welfare, Norway

'Both sides of the Atlantic are starting to identify more dishonesty as the economic crisis spreads. I think people will be more accepting of appropriate regulation even if it is heavier.'

Dave Hartnett, Permanent Secretary for Tax, HM Revenue & Customs, UK

'The role of intervention and regulation was obviously important before because it existed. The problem was that in some places it was done badly. I believe it is still important. I don't honestly believe it is more or less important than it was before this latest recession… I think that if the intervention is reasonable then businesses recognise the need for it. They recognised that before and they recognise it now. The problem is when it's done badly… I think if regulation is reasonable and helps to keep the economy healthy then I think the state and business owners have no problem in accepting it.'

José Antonio Zamora Rodríguez, General Director, European Funds, Ministry of Economy and Finance, Spain

'There are obviously increased calls for Government to intervene in a range of areas of the economy and the impact of that, of course, for us is that the public service is required to provide very sound, analytical and professional advice to Government on where intervention is warranted and where, despite lots of calls, it may not be. There is also the other side in which you need to be very conscious to resist the temptation to intervene or regulate unnecessarily and obviously this would do more harm than good while understanding the community's desire to feel protected in any activity.'

Helen Silver, Secretary, Department of Premier and Cabinet, Victoria, Australia

Alongside defining the right rules, the other key requirement for smarter regulation identified by CEOs is for government to provide clarity and stability in its policy and regulatory approach. Rules need to be clear and not subject to constant tinkering and change.

This is best illustrated with respect to the views we obtained from CEOs on two key areas of policy and regulation – tax and climate change. Designed and implemented well, both can be a force for good, stimulating changes in behaviour as well as the economy. Equally, both can be a source of frustration and burden, both nationally and globally, for example, when tax systems are not interconnected.

> 'To solve the financial problem we need not only inject money, but there is need to regulate financial markets, look into current rules/procedures deeply, as well as short falls in systems/controls'
>
> **Dr. Jouan Salem Al Dhaheri**
> Former Chairman of the Abu Dhabi Department of Municipal Affairs

Business and tax

Clear, stable tax rules are rated as the most important factor in a tax regime for encouraging investment, with the total amount of tax a close second. It can be concluded that government needs to do more to achieve stability, consistency and transparency of tax and regulations, and that there is a lot more to consider than just the headline rate of corporate income tax, even though politicians often use that as the measure of their country's competitiveness. Knowing the total tax contribution made by business is therefore clearly important to business.

Many governments will be considering 'green' taxes, both as part of the response to climate change issues and as a way of raising additional revenues, whether or not they have gaps in their budgets caused by the economic downturn. Such matters are clearly on the CEOs' agendas, but what they most want from governments is a clear and consistent policy framework. They want to know what governments want them to do, and to know that policies will not change at short notice. They clearly fear that they may commit their businesses in a particular direction, only to find that a sudden policy change invalidates their move. Part of the solution lies in looking at the total tax contribution made by business, as set out in the box.

As one of the government officials with long and extensive experience in tax administration said:

> 'What is the rate of corporate income tax? How much certainty can corporates get? Can they have a dialogue with the tax administration?....Can they have an engagement with the tax administration where they can say, "We want to do this, we are thinking of doing it like that" and the tax administration will listen and discuss rather than say, "You are not doing that" …If we get a big chance to look at tax and administration on the back of this crisis, we need to achieve simplicity, fairness and a more practical approach'
>
> **Dave Hartnett**
> Permanent Secretary for Tax, HM Revenue & Customs, UK

Talking total tax contribution

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 had, 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.

Corporate income tax is only part of the total contribution that companies pay in taxes. A recent study by the 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 the profit and loss account) and taxes collected (i.e. the taxes where the business effectively acts as unpaid tax collector on behalf of government).[5]

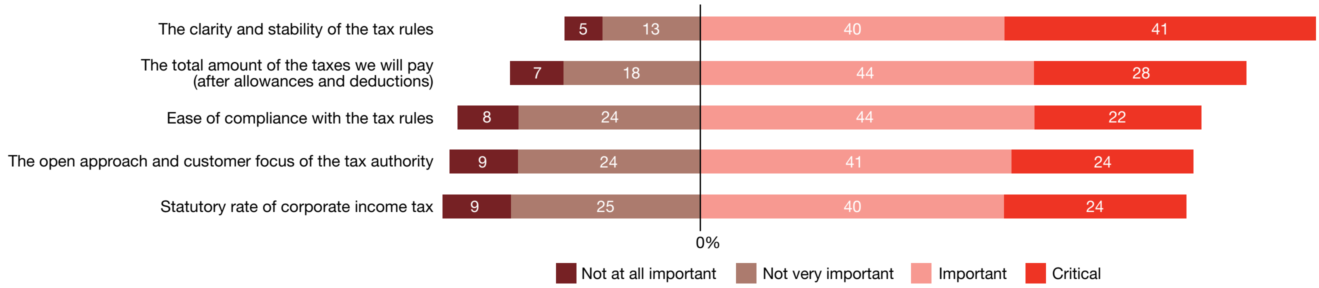
This total cost is much more important to business than the headline rate of corporate income tax. In a list of five influences on investment decisions, the lowest percentage of CEOs (64%) said the statutory rate of income tax was critical or important. The second highest (72%) said total amount of taxes (after allowances and deductions) was critical or important (see figure 3.2).

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. 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 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,[6] ‘For businesses, it’s not just the tax rates that matter. The administrative processes do too.’ CEOs would like to see more intergovernment cooperation and coordination on global tax systems to reduce administrative burdens. 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.

Figure 3.2

Clarity and consistency are more important than tax rates



Q: How important are the following aspects of a country’s tax regime at influencing your investment decisions?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

5 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, all available on www.pwc.co.uk/eng/issues/total_tax_contribution.html

6 World Bank – IFC Doing Business 2009 report: http://doingbusiness.org

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, who are moving quickly to take responsibility for the role of business in stabilising the carbon emissions. However, they also want more direction from government, again in the form of clear policies.

The majority of CEOs say 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. CEOs are also making changes and seeing returns on their investments in other areas, such as products and day-to-day operations. 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.

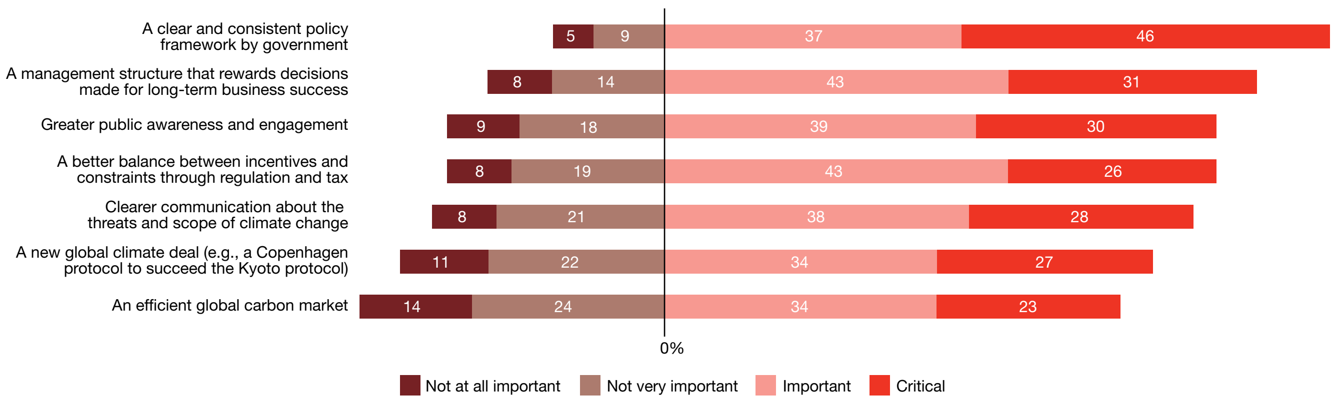
> 'We also want to make investments in sustainability, which means that we have "network groups" together with business managers who say that they would really like to be more visible in Malmö in the cleantech area. And we have discussions about creating special incubators for that kind of activity, with financial support from the municipality.'
>
> **Ilmar Reepalu**
> **Head of City Council, Malmö, Sweden**

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.

Government is a strong catalyst for climate change action. To address climate change, the most important issue for business is a clear and consistent policy framework by

Figure 3.3

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

government with 46% of CEOs seeing this as critical. Yet, globally, only 28% of CEOs feel that their governments have clear and consistent long-term environmental policies. Japan, Italy, France and Brazil receive the lowest marks. Less than 14% 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 their country's environmental policies are clear. Part of the reason may be the government's announcements that it is beginning a number of climate change measures in 2009, including national emissions targets, a carbon tax and various green investments.

Thus far the development of standards is a patchwork of efforts by governments and non-governmental-organisations, but governments should be careful about outsourcing standards to non-governmental organisations (NGOs). Most CEOs in our survey do not collaborate with NGOs and do not believe the influence of NGOs is increasing. When asked about all of 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 they were already collaborating with government and regulators, and 48% say government's influence has increased. If NGOs are leading the development of climate change standards, they may have much more difficulty gaining corporate cooperation than government regulators.

'I think climate change will be a huge impact on everybody – much more than we realise. Some of them may take more than 20 years to kick in. I think some of the "down the track" consequences of climate change could be quite significant. And it's not only climate change, it's also the increasing scarcity of carbon based fuels… I think Governments will have a key role in leading the climate change and the replacement of carbon based fuels movement and I don't think that's going to happen without a lot of Government intervention. So I think that's a number one priority area.'

Chris Robinson
Chief Executive, Department of Education and Children's Services, South Australia

'In our province it's very much a priority for our government to create a new economy that's a green economy.'

Shelly Jamieson
Secretary of the Cabinet and Clerk of the Executive Council, The Executive Council of Ontario, Canada

Summing up…

There are important implications of our results for the nature and scope of regulation. Many of the principles of better regulation are already known: regulation needs to be proportionate, accountable, consistent, transparent and targeted. Yet there is a missing ingredient – stability – and a rapidly changing context – globalisation – as well as a renewed purpose – to stop players in markets behaving irresponsibly.

In our view, CEOs are sending a clear message to government on the need for a smarter approach to regulation:

- 'Think global, act local' – define the right rules to underpin success in a modern global economy, tailored to the national and local context;
- Fair reciprocity – it is not enough to define a transparent set of rules, but to implement them in a fair and reciprocal way;
- Outcome-based – focus on outcomes, not purely process, and make judgements on compliance based on results, not just box-ticking; and
- Clarity and stability – ensure that the rules for regulation are clear and not subject to constant tinkering and change for change's sake.

The current downturn provides an opportunity for government – to reform taxation and regulation, making it more effective and less burdensome.

'It also provides an opportunity for more difficult policy changes which you might wish to do but in times of economic prosperity these can be a bit more difficult and that now, you may be able to bring those forward.'

Helen Silver
Secretary, Department of Premier and Cabinet, Victoria, Australia

Section 4

Government as collaborator and 'co-designer'

A clear message from recent events is the need for governments to collaborate more effectively in addressing the issues that impact globally. Businesses and government need, and on the whole want, to work together: a 'win/win'. But how is this best done? In this section we explore the changing nature of collaboration between business and government and the increasingly important role of private sector input to the regulatory and policy process – 'co-design' – which could be a key route by which to achieve smarter regulation and policy-making.

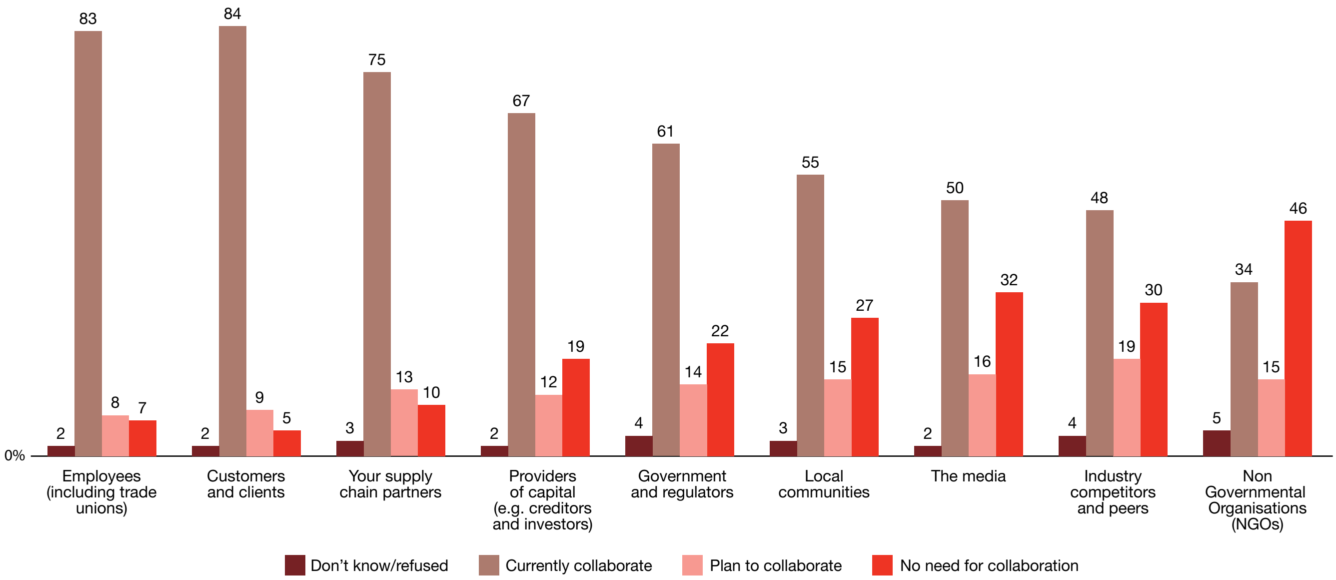
Changing nature of collaboration

Despite their criticisms, CEOs do have a basic level of trust in government. A majority (61%) of CEOs currently collaborate with government and regulators with a further 14% planning to do so. Only 22% of CEOs believe there is no need to collaborate with government and regulators. CEOs are also currently collaborating with their local communities (55%) or planning to do so (15%). And this collaboration needs to be at the policy level and not just when proposed legislative changes have been drafted, for example, new tax rules.

Part of the mindset shift among CEOs is a greater willingness to take responsibility for issues that were once considered outside the scope of any single business, such as climate

Figure 4.1

Changes in the patterns of collaboration with stakeholders

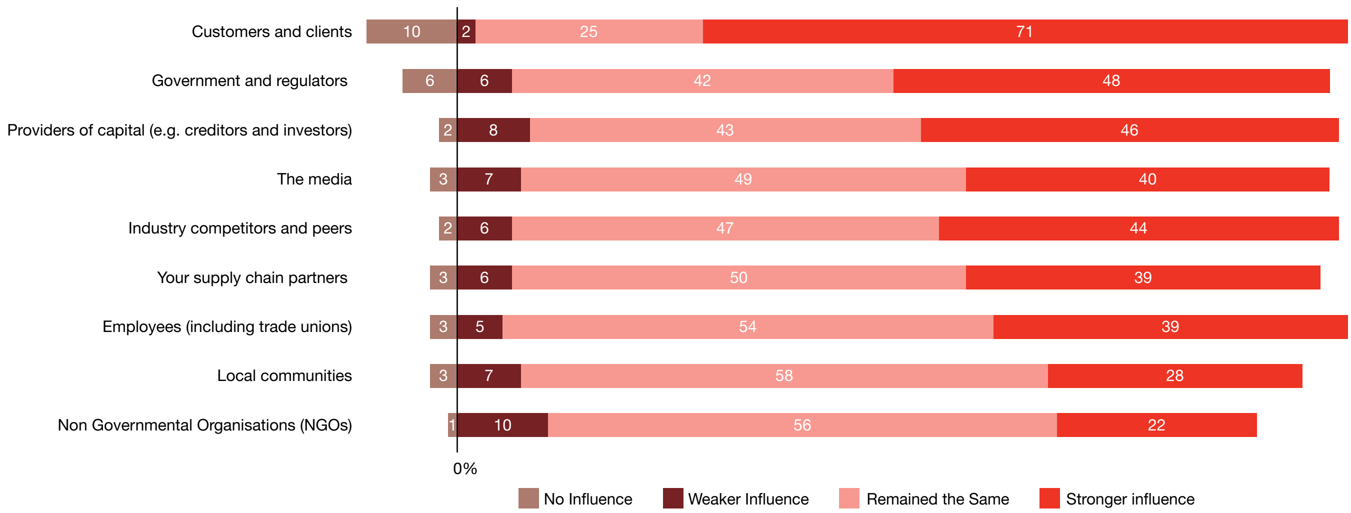


Q: Do you currently collaborate or plan to collaborate with the following stakeholders?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Figure 4.2

Decision-influencers on long term success



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?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

change. By nature, these issues require more collaboration among a wider group of stakeholders, many of whom are external to the organisation and increasing their influence.

Taxation is another example. CEOs want to see more intergovernment cooperation and coordination of tax systems to reduce their administrative burdens. Tax authorities around the world could also increase the predictability of revenues if they collaborated, not just to police tax avoidance and tax evasion, but also to share best practice on reducing the regulatory and compliance burden on business, to generate stability and certainty in global tax regimes, and therefore to make it easier for business to comply and pay their taxes.

'We do not believe that the economic uncertainties have affected our collaboration with the private sector. We keep close dialogue with the private sector and will keep improving this in the future.'

Tor Saglie
Director General, Administration of Labour and Welfare, Norway

Trust is one of the building blocks required to build the bridge from individualism and competition to collaboration and collectivism. There is surely an opportunity – if not an obligation – for government and companies to get together on issues such as tax policy and discuss ideas for improvement.

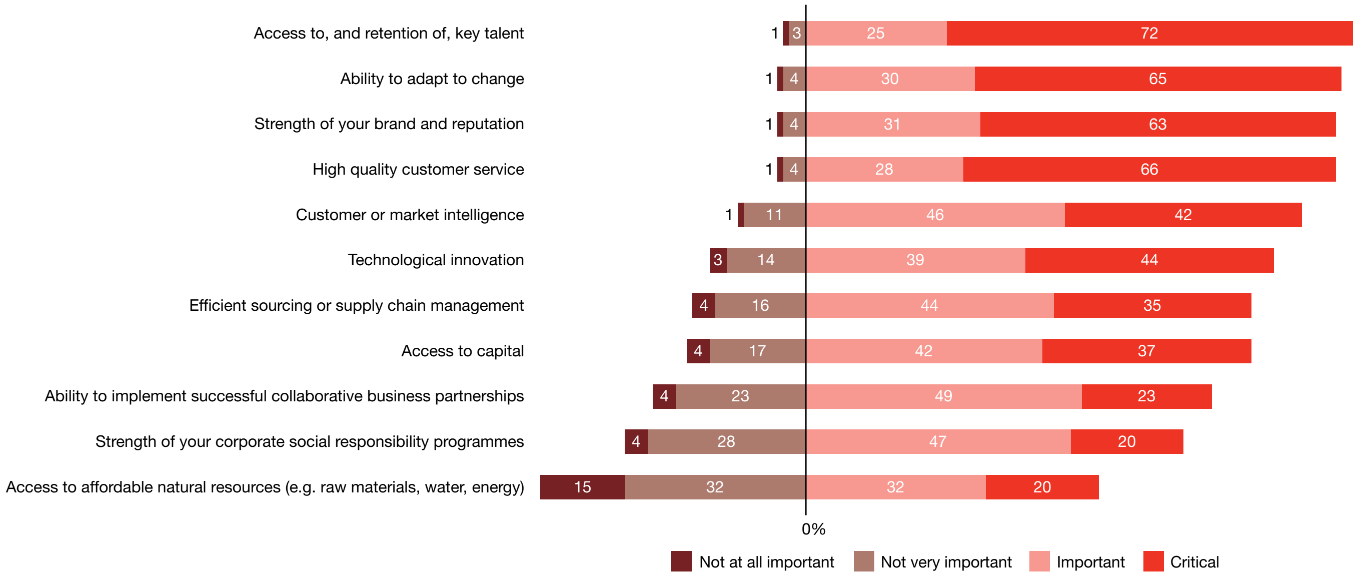
It is also clear that government and regulators now exert a much stronger influence on business decisions with almost half (48%) of CEOs seeing an increase in their influence, second only to customers (71%).

Collaboration also appears to be a strong theme for government officials and regulators. As we set out in last year's report, cooperation and dialogue are seen as the best way of ensuring the alignment of aims and incentives between business and government.

Government is an important influence on business's long-term success and can impact, positively or negatively, on long-term competitiveness through its collaborative approach to public policy in a number of key domains for business. We discuss three in turn below – talent, capital and raw materials – before turning to the implications for greater input and involvement of business in the design of policies and regulations.

Figure 4.3

What do CEOs see as the ingredients of long term growth?



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

Talent

The availability of key skills (an issue for 46% of CEOs this year, well down however on the 61% last year) is fundamental to long-term competitiveness for businesses, particularly large ones (58%). Indeed, over 9 in 10 CEOs view talent alongside brand and reputation, customer service and an ability to adapt to change as key to long-term success.

> 'Since we are the Industry Ministry, we have a very fluid relationship with the private sector and collaborate in many areas.'
>
> **David Cierco Jiménez de Parga**
> **General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain**

> 'It is a much more open dialogue… board level the engagement is really good… a cooperative relationship is beneficial – not cosy but it is informative and helpful'
>
> **Dave Hartnett**
> **Permanent Secretary for Tax, HM Revenue & Customs, UK**

Almost 7 in 10 CEOs believe the top people challenge is the limited supply of candidates with the right skills (69%), along with recruiting/integrating younger employees (61%) and providing attractive career paths for their industry (58%). Concern about the long-term skills shortage may also have made CEOs cautious about downsizing. Sixty-one percent of CEOs expect headcount to decrease or stay the same in the next 12 months, but the majority of these are hoping to hold staff levels steady. During prior economic downturns, many companies aggressively reduced headcounts and investments in people. In the downturn of 2001 to 2002, spending on learning and development fell 20%.[7]

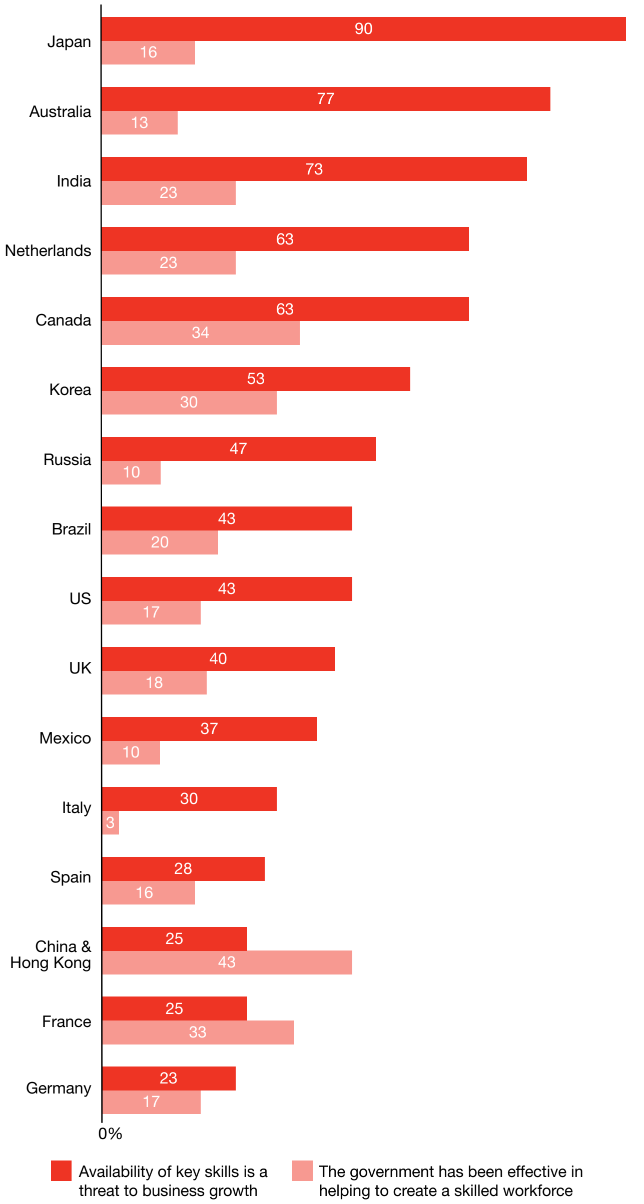
CEOs are obviously looking for their own solutions, such as creating a flexible working environment (78% of CEOs) and redeployment of pivotal employees in their organisation (77%). But government is seen as having more to do to make available people with the basic skills needed by business. The supply 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 or improve infrastructure. 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. And 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, while the highest proportion (43%) believe the governments in China and Hong Kong are effectively creating a skilled labour force. Still, this means the majority do not agree the government are effective. In the last few years, research has shown that despite China's impressive numbers of suitable graduates, multinational corporations struggle to find qualified candidates.[8]

> 'Solna has an incredibly strong tradition of working with the private sector… and what we mainly do is making it easier for companies to expand here, we make it easier for new companies to come here… we have a large number of companies that moved here in the last 10 years, who say that they chose us because they could trust our decisions, because of our fast turnaround times, but also the municipality's genuine interest in working with companies.'
>
> **Sune Reinhold**
> **City Manager, Solna, Sweden**

7 Source: PwC Saratoga
8 McKinsey Global Institute, Addressing China's Looming Talent Shortage (October 2005)

Figure 4.4

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

'It is very important that collaborations are established between the public sector and the private sector, each one understanding what its role is. I think that the public sector also has to become more modern, be very agile, being aware that leadership of the government is a driving force of the economic and social aspects, be very permeable to the needs of people and businesses, simplify procedures a lot, make intensive use of communication and information technologies, electronic administration. So, the governments have to be dynamizers of the social and economic activity.'

David Cierco Jiménez de Parga
General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

Capital

Increased cost, and reduced access, to capital are key concerns for businesses of all shapes and sizes and across all countries. Driven by the state of the capital markets, CEOs are focusing on generating cash from within and putting on hold expansion, or undertaking it through lower risk vehicles such as joint ventures and alliances, rather than full-scale mergers or acquisitions, despite greater challenges of alignment of interests and cultures.

Clearly, Government's challenge is to stabilise the banking systems and get credit flowing again. Pronouncements on how this might best be done have varied over the course of the global crisis and from country to country. Loans to banks, debt for equity swaps, partial or full nationalisation and the creation of bad banks for toxic debt represent the array of actions already underway or planned. Underlying all of these actions, the key to success is to restore confidence in a system where trust has dried up along with the credit drought.

Natural resources

As recently as September of last year, CEOs were concerned that natural resources were scarce and, with commodity prices at record highs, this was an issue at the top of many CEO's agendas. While these concerns have abated in the short term, along with the collapse of spot commodity prices, there is no doubt that access to, and prices of, energy and natural resources will return as an important issue for business as demand slowly returns. And even now, energy costs remain a key issue for 50% of CEOs, although in Asia Pacific, 55% of CEOs are concerned about scarcity. While businesses are actively looking to reduce raw material and energy costs, government is not seen to be doing enough to secure access to raw materials (except in China). Importantly, access to natural resources is also becoming a political issue, with a convergence of interest developing between sectors such as energy, defence and security.

The rise of 'co-design'

CEOs are now calling on governments to collaborate more effectively in addressing the issues that impact their businesses globally. But how is this best done? Perhaps by asking for the input of those at the sharp end. Almost 4 in 10 CEOs believe that government is seeking private sector input in the design of policies and regulations, with more than 1 in 2 believing this to be the case in Korea, China, Canada and India (although only 1 in 5 believe this is the case in Russia). Our government interviewees also see the merit of private sector input to the design of policies and regulations.

> 'I've been collaborating with the private sector all the time. It's easier to collaborate with the private sector if you've already built up a relationship with them... We created an organisation that we called City Interaction, together with building and business owners in the centre. And it's been very successful. It has lead to the refurbishment of a big part of the city.'
>
> **Ilmar Reepalu**
> **Head of City Council, Malmö, Sweden**

In the design of your policies and regulations, to what extent do you seek private sector input?

'Well, I don't think the private sector is necessarily feeding in as much as we would all like them to feed in to the design of policies and regulations but I think it is absolutely essential… where we change the tax system or try to improve the tax system we do it best in partnership with those who have to use the system and that is not only tax advisors. It is businesses and individuals too.'

Dave Hartnett, Permanent Secretary for Tax, HM Revenue & Customs, UK

'I think increasingly we're trying to be focused on being open for business… so we actually have an 'open for business' initiative here that is very much in listening mode. What are the three things that irritate businesses who work in Ontario and what's our role in them and what can we do to fix them. So much more collaborative, you know, I don't think that policy can be designed only by people who work in the civil service; it has to be people who understand the business dynamics.'

Shelly Jamieson, Secretary of the Cabinet and Clerk of the Executive Council, The Executive Council of Ontario, Canada

'We've been trying to signal to the employer that schools are changing and their willingness to engage with employers is changing. We're trying to build that notion that you can go and talk to your school and get a flexible response. So that's been a pretty important thrust for us… we've been talking with them a lot about the vocational education and training pathways and also a lot of the vocational programs which is the biggest area where employers have had an input.'

Chris Robinson, Chief Executive, Department of Education and Children's Services, South Australia

'The input we receive from the private sector does play a role in designing public policies and regulations. We have seen an increase in public versus private collaboration over the past years, however, we expect this to flatten out and remain stable in the future.'

Tor Saglie, Director General, Administration of Labour and Welfare, Norway

'So we invited leading representatives from the private sector and business chambers, and we met one evening over a sandwich and a glass of beer or water, and I presented my views and each one had to raise the 5 main issues where the municipality should take action. And we formalized these decisions at the Council and turned them into shared commitments, so they also felt included. And when people talk about Malmö and its transformation, we joke about that. Because it doesn't matter whether it's me or the Hilton Manager or the representative of a small company or academia – we all present the same picture. We have created a common vision for the future. This picture is not a plan stating that we should do this, this and that but it's a vision, with the direction to take, and so on. And they all use their own imagination to make this a reality in their own organisation.'

Ilmar Reepalu, Head of City Council, Malmö, Sweden

'What we favour is support between the public sector and the private sector. From this collaboration, very powerful synergies arise. Each one from its own role, not intrusive or invasive and with clear objectives… What you mainly achieve is a consensus, a sum of all of the opinions and of all of the contributions, the design is more sustainable, but mainly what it allows is to accelerate the process… So, it is very important that the private as well as the public sector collaborate.'

David Cierco Jiménez de Parga, General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

'All the time. All the time. There's an interaction between the municipality, businesses and the citizens. There's a constant dialogue between us. All projects need to be published and there's an official consultation with the citizens. Their opinions are expressed all the time.'

Sune Reinhold, City Manager, Solna, Sweden

Summing up…

The bottom line is that more and better private sector input is needed in the design and implementation of policies and regulations. Collaboration – among governments and with business – to help shape policy is essential. Collaboration enables the right rules to be put in place and, through dialogue, enables more clarity, transparency and stability in rule making – all essential ingredients to smarter regulation and policy-making.

Clearly, collaboration takes more time and effort to be rewarding. It requires an investment in the personal relationships and mutual trust necessary to agree and achieve shared objectives. But we know that CEOs are already looking to government to lead the collaborative effort in areas such as promoting stability in capital markets and the convergence of global tax and regulatory frameworks as well as leading efforts to address climate change.

Creating an effective dialogue between the regulator and those regulated can help ensure that, at an early stage in the policy and law-making process, the objectives of the legislator/regulator can be translated into practice, and that nintended consequences can be reduced or indeed completely avoided.

In our view, the route to more active business involvement and collaboration, and therefore smarter regulation and policy-making, is through 'co-design'. In this way, business input is designed and integrated into the regulatory and policy-making process in an active way, rather than through passive consultation.

'A big trend… is an increased desire of the community to be engaged in government policy decision making. In a real sense, not in a sort of 'here's a document; we'll consult you on that'. They want to do it in real time and be a participant and… it's a really important trend and it's a good trend in a democracy but it's how you manage that and manage that well is a big issue and obviously we want to do it well because we want to capture different ideas. Its also helps with the acceptance of ideas which, from an implementation sense, makes it a lot easier'

Helen Silver
Secretary, Department of Premier and Cabinet, Victoria, Australia

Section 5

Mitigating risks, seizing opportunities

Collaboration is clearly necessary to mitigate global risks and lay the foundations for long-term growth. In this section, we consider business hopes and fears for the future and the role of government in mitigating risks and seizing opportunities to improve the infrastructure for global decision-making.

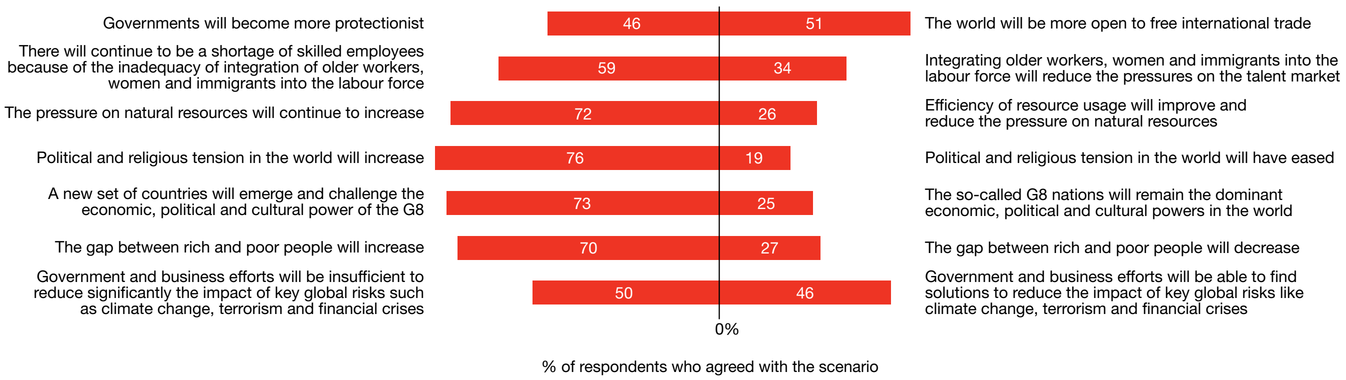
An uncertain world

There is some pessimism as to whether the efforts of business and government will be sufficient to reduce significantly the impact of key global risks like climate change, terrorism and financial crises: half of CEOs do not believe that governments and businesses will be able 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. Added to these are the scarcity of key skills, climate change, the depletion of natural resources, and the potential for overregulation by government discussed earlier.

Figure 5.1

Uncertainty about globalisation runs high

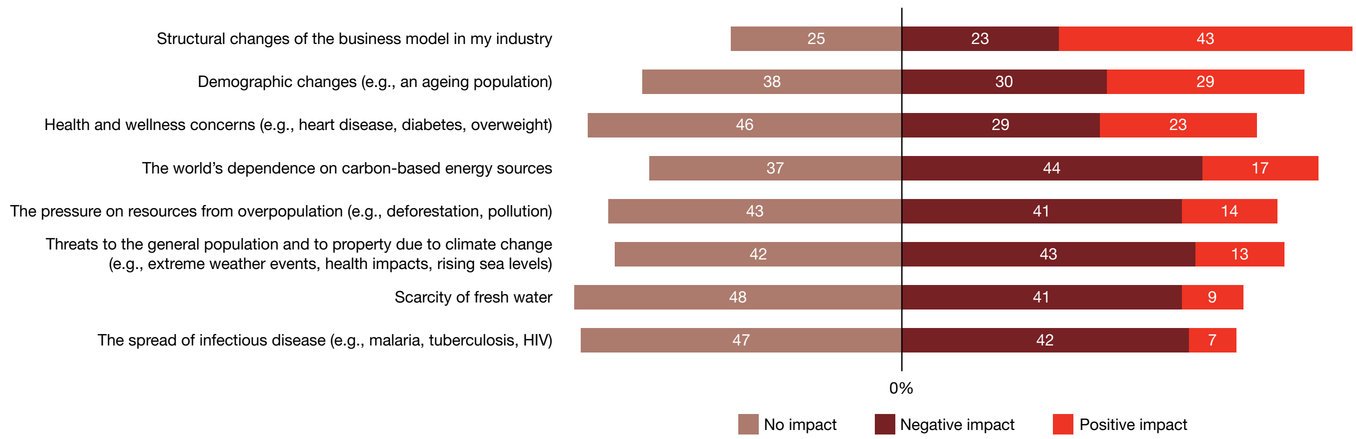


Q: Which of the following scenarios do you feel is more likely to occur in the future, keeping in mind they may not be mutually exclusive?
Base: All Respondents chose a scenario from each pair, or the option 'Don't know/Refused' 1,124.

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Figure 5.2

What are the threats to long term success and durability?



Q: What impact, if any, will each of the following have on the long-term success and durability of your business?
Base: All respondents 1,124

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

In addition, we asked CEOs about a series of key threats to long-term success, many of them issues at the heart of public policy. We found that 4 in 10 CEOs believe that the dependence on carbon-based energy, overpopulation, climate change, scarcity of fresh water and the spread of infectious diseases will have a negative impact on their businesses – all endorsed to varying degrees by our government interviewees.

Yet these threats are seen to have no impact by a similar number of CEOs and indeed are seen as a source of opportunity for some, for example, spread of disease, health and wellness, and demographic concerns for pharma and carbon dependence for the energy sectors.

'I think the other thing that is important is not to panic. We have been through downturns before. We have seen people with negative equity in the past. We have seen people unable to get mortgages before and these are all terrible things. There are numbers of people around here who know how to deal with these issues so I think we need more faith and strength in what we can do.'

Dave Hartnett
Permanent Secretary for Tax, HM Revenue & Customs, UK

Indeed, although CEOs see an increasingly uncertain world, not everything on the landscape is bleak. For instance, as mentioned earlier, in every country except Korea and India CEOs are more confident about the prospects for the next three years than the next 12 months.

Mitigating global risks collaboratively

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 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, there is a need to mitigate these systemic risks collaboratively.

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. To address risks that may seem unknown or unknowable, organisations need to develop individual 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.

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.

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.

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 2008, CEOs became much less concerned about longer term threats as they focused on the economy. In previous surveys, CEOs 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 overregulation among the threats to business growth. After our 2003 survey, it dropped and has remained well out of the top five. This demonstrates the challenge of taking all risks into account when large, immediate risks are pressing on the mind.

As well as new regulations, policies and procedures, many organisations – in business and in government – 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. 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.

Summing up…

Faced with complex challenges, the implication for governments is a need to work better together. But the existing infrastructure of permanent institutions like the UN, the WB, the IMF and the WTO, along with global summits is too rigid and formal, and insufficiently responsive or inclusive. The elevation of importance of the G20 is welcome, widening decision-making and influence to new powers, but governments need to find new ways for real-time collaboration and information sharing.

In our view, governments must establish real-time, virtual processes to enable effective collaboration and create a new strategic playground for stakeholders globally to collaborate and address systemic risks. A more network-based approach is essential with informal mechanisms, enabled by technology, to supplement and enhance formal institutions and set-piece summitry. Globalisation 2.0 needs legitimate global leadership, which resists the threat of protectionism, and is supported by better, more transparent information to mitigate systemic risks and rebuild trust.

Section 6

Investing in the future: runway to growth

With so much focus on the current crisis, it is easy to forget that at some point we will emerge from this global recession and that government must even now be planning for the future. In this section, we consider the determinants of long-term success, the changing role of government and whether there is a need for a more permanent shift from a largely national focus to a globalisation of government, or at least of governance.

What does long-term success look like?

Despite today's dreadful economic conditions, the most successful CEOs are still seeking to build long-term durable businesses, with deep and broad collaborations with their stakeholders, making investments with a long-term view, acting to secure resources and focusing on developing their agility that will enable their continued growth. Government must do the same and put in place the foundations for business and wider economic success.

As set out earlier, key ingredients of long-term growth identified by CEOs are led by access to talent – more so than either access to capital or natural resources. Long-term business success is founded on education, infrastructure, ICT and, increasingly, the environment ('green economy').

This was recognized by many of our government interviewees who, aside from commenting on the need to stabilise the capital markets and keep credit flowing, focused on two key areas for fundamental government support – education and innovation.

'So in terms of a long term agenda in this area the biggest change we need to make is to make sure most young people go onto further education and training and that is an issue for schools as it is for tertiary providers.'

Chris Robinson, Chief Executive, Department of Education and Children's Services, South Australia

'I think growing more and more talent is incredibly important.'

Dave Hartnett, Permanent Secretary for Tax, HM Revenue & Customs, UK

'Education is not only the most important thing, it is the first, second and third most important thing! All the focus should be directed upon education as this will not only make a difference in the economy and for companies but it will also make a difference in many other things… The second important thing is the creativity culture… innovation.'

Dr. Hazem Y. Abdelazim, CEO, Information Technology Industry Development Agency, Egypt

'…a better informed and educated society is a society with a better production capacity and greater capacity in generating economic activity and that translates into wellbeing. So, there, without a doubt, the government, I would also say has to maintain a decisive intervention in the sense of guaranteeing the quality of the education and guaranteeing the financing… Then, maintaining the investment policies in R&D. That is fundamental. Innovation. With public budget investments. That is without a doubt a driving force. And acting in collaboration with the private sector so that the total investment is multiplied by two or three.'

David Cierco Jiménez de Parga, General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

'Accessing talent is the key to everything of course, for companies, for government, for society. It's obvious that the dynamics of organisations are created by a relatively small group of people, talented people.'

José Antonio Zamora Rodríguez, General Director, European Funds, Ministry of Economy and Finance, Spain

A new 'capitalism'

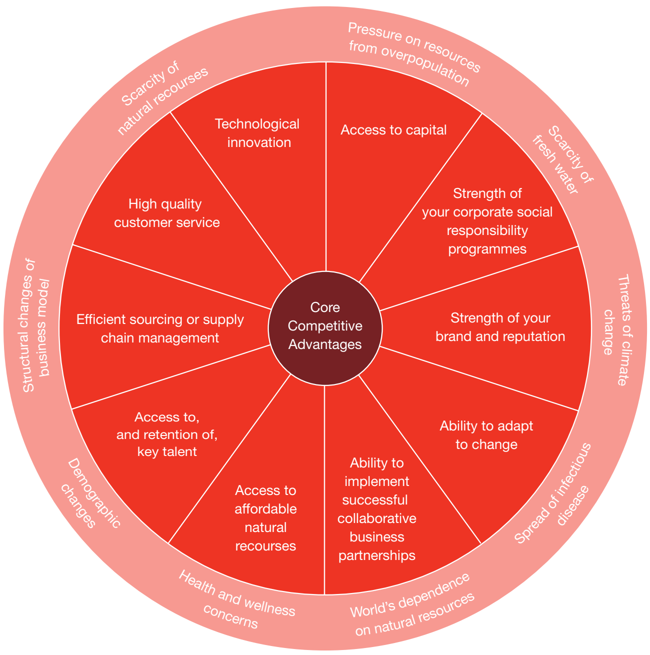
Governments are in pole position when it comes to navigating our way towards a better future and securing long-term success. In our discussions, it is clear that business is crying out for leadership and a positive vision of the future, rather than one based on fear. The need to embed sustainability, not in a narrow environmental sense but in the wider context of using natural resources (e.g. oil, water, air and soil), will not go away. Indeed, as indicated above, we found that 4 in 10 CEOs believe that the dependence on carbon-based energy, overpopulation, climate change, scarcity of fresh water and the spread of infectious diseases will have a negative impact on their businesses – all endorsed to varying degrees by our government interviewees.

Clearly, governments have a role to assist business with its sources of competitive advantage (particularly access to talent, capital and natural resources) while mitigating the global risks over which it has little direct control (the outer ring in figure 6.1). Governments around the world need to act as the runway for future growth, navigating their economies through current troubled waters while charting the way ahead to a better future.

How can this be done? By investing in, and strategically managing, the 'capitals' needed by any society for long-term prosperity – financial, intellectual, social, environmental, technical and political capital. And of course all of this must done in a way which is sustainable.

Figure 6.1

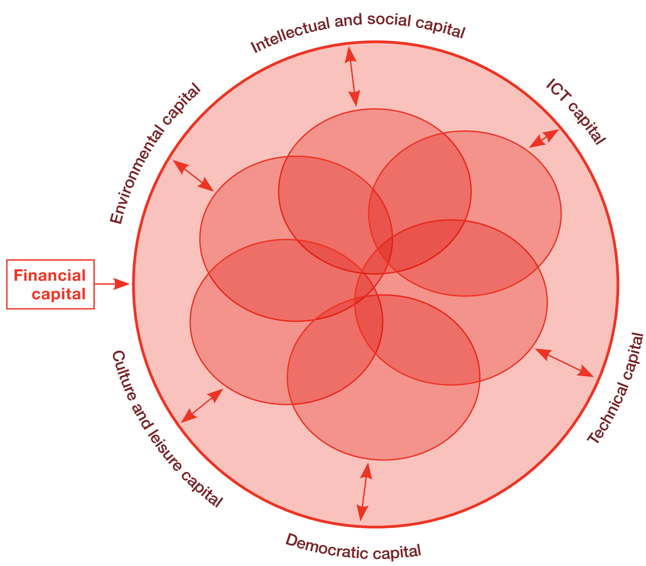
A framework for competitive advantage: The interplay with immediate and long term threats



Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

Figure 6.2

A Holistic Approach to Strategic Resource Management: The 'new capitalism'



Source: PricewaterhouseCoopers

However, this role for government has existed for some time. The concern from business is the effectiveness to date of governments in addressing CEOs' long-term priorities: about half believe that government does not have clear and consistent long-term environmental policies, has not been effective in helping create a skilled workforce, is not helping companies secure access to natural resources or has not reduced the regulatory burden on business.

There are also strong national differences of view, both ways, on the effectiveness to date of governments in addressing CEOs' long-term priorities, with CEOs in China and Korea being the most optimistic on the effectiveness of their governments' interventions:

- Half (52%) of Chinese CEOs believe its government has helped secure access to natural resources (compared to only 3% in UK) and 43% believe it has helped create a skilled workforce (compared with 3% in Italy). In both cases, China along with Korea are the only ones where the number of CEOs agreeing exceeds those disagreeing.
- Almost all (97%) of Korean CEOs believe their government has a clear, consistent, long-term environmental policy (as do 49% of Chinese CEOs), compared with less than 1 in 10 CEOs in Italy (8%) and Japan (9%).
- Again, almost all Korean CEOs (93%) believe their government is taking adequate steps to improve the country's infrastructure (as do 84% of Chinese CEOs and 56% of Spanish ones), yet in UK only 8% think likewise.

So, governments around the world need to demonstrate a stronger track record in delivering results. Part of this involves a shift to smarter regulation. But, given the increasingly interconnectedness of the world economy, does this also require a much more global outlook?

Figure 6.3

Strong national differences

	Global	US	Canada	Mexico	UK	France	Germany	Netherlands	Italy	Spain	Russia	Brazil	China & Hong Kong	Japan	India	Australia	Korea
The government should drive convergence of global tax and regulatory frameworks	57%	42%	56%	60%	40%	50%	62%	63%	75%	75%	73%	20%	54%	65%	77%	80%	83%
The government helps companies secure access to natural resources (e.g., raw materials, water, energy)	23%	21%	32%	10%	3%	18%	15%	27%	20%	13%	20%	10%	52%	28%	13%	13%	30%
The government is changing its tax rules and practices to raise more tax from business	39%	65%	24%	67%	63%	35%	36%	20%	13%	28%	43%	43%	19%	37%	67%	33%	17%
The government seeks private sector input in the design of policies and regulations	38%	33%	54%	33%	33%	33%	30%	40%	45%	31%	20%	17%	59%	47%	50%	37%	93%
The government has clear and consistent long-term environmental policies (including tax)	28%	20%	20%	23%	25%	10%	23%	30%	8%	38%	27%	13%	49%	9%	23%	30%	97%
The government has been effective in helping create a skilled workforce	23%	17%	34%	10%	18%	33%	17%	23%	3%	16%	10%	20%	43%	16%	23%	13%	30%
The government is taking adequate steps to improve the country's infrastructure (e.g., electricity, water supply, transport)	41%	24%	39%	37%	8%	35%	47%	37%	15%	56%	47%	17%	84%	24%	43%	30%	93%
The government has reduced the regulatory burden on corporations	21%	14%	22%	13%	13%	20%	11%	13%	10%	16%	10%	20%	30%	43%	17%	10%	40%

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

Source: PricewaterhouseCoopers 12th Annual Global CEO Survey 2009

The globalisation of policymaking

Faced by the current global financial crisis, the world's leading governments have come together – as rarely before in peacetime – to search for solutions on an international basis. Businesses and governments are reconsidering 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, secondly, recognise the economic, political and cultural power of a wider set of nations. One example of the latter is the recent meeting of the group of 20 industrialised nations (G20) in response to the financial crisis.

As we have discussed above, there is a marked increase in support from business for public sector involvement in shaping financial markets and calls for more international coordination. CEOs are looking for clear and consistent policies from governments, which will help businesses connect operational decisions with global trends like climate change, natural resource depletion and the scarcity of appropriately skilled labour.

It has been many years since any government could claim that it has the best solutions to all of the problems it faces. Lessons need to be learnt from experiences across the globe. From speaking to our government interviewees, we can already see signs of a significant shift in the approach to global policymaking, which may well stick beyond the current financial crisis.

'With the sometime 100 % actual stake in banks, and probably demand to do more, we have to think through again how to handle government owned companies. How should the governance be organised.'
Geert van Maanen, Secretary General, Ministry of Health, Welfare and Sports, Netherlands

'I think the lesson we've learnt in the last two months is this is a global market. It's a global economy that's all interconnected. So making our rules and our regulations in isolation doesn't appear to work. So there's an expectation I think that governments will co-operate with each other to create stable market forces beyond their borders.'
Shelly Jamieson, Secretary of the Cabinet and Clerk of the Executive Council, The Executive Council of Ontario , Canada

'Today, I have the feeling that there are a lot more direct contacts between cities and regions, and not through national bodies. We work directly with the Stettin region, or have direct contact with a region in Riga, or a region in China. And together with our experts from the municipality, we work with their regional experts, and build relationships with Swedish and Chinese companies.'
Ilmar Reepalu, Head of City Council, Malmö, Sweden

'I think it's very important to have a structure for international coordination in all areas, in finance, in international trade of course, in health.'
José Antonio Zamora Rodríguez, General Director, European Funds, Ministry of Economy and Finance, Spain

'I think that the world is more and more interrelated, where what happens in one country affects the others, from all points of view… natural resources, human resources and financial resources… All of these things are interrelated… So, I think we need to reflect on what the agencies or the instruments or the institutions are that we have in terms of worldwide governing.'
David Cierco Jiménez de Parga, General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

'Today, we have a crisis affecting the entire world… It's a global issue, which means that we need global bodies and global instruments, global regulations to prevent such things from happening… Five years ago, I think this would have been perceived as an intrusion in the national bodies by some higher authority, but I don't think anyone sees it that way today. We need to act on incredibly short notice, but also create systems that are sustainable in the long term.'
Sune Reinhold, City Manager, Solna, Sweden

'I think, therefore, that the role of the public sector is a very important one, creating stable frameworks so that the energy sector, in renewables, in non-oil sectors, can carry on investing and replacing oil, insofar as is possible, or using it more efficiently... What governments have to do is ensure that these alternatives can be developed and bring in regulations so that they can be developed.'
José Antonio Zamora Rodríguez, General Director, European Funds, Ministry of Economy and Finance, Spain

The globalisation of government?

Does this imply a need for a more permanent shift in role for government, from a largely national focus to a globalisation of government, or at least of governance? There are differing views on this, as shown by the range of responses from some of our interviewees.

It is certainly true that there is little incentive for anyone to act alone on global risks because they are beyond the control of any single business or nation. One of the key challenges for governments and global businesses as they work through the downturn is the establishment of smarter regulations and governance arrangements that encourage effective collaboration and clear accountability to address global risks and opportunities in future. Already, there is evidence of more collaboration internationally between governments and increasing recognition of the need for more global governance, such as the G20 communique calling for a 'college' of national financial supervisors to oversee the biggest cross-border financial institutions.

'Definitely [governments becoming global]… There's been a dramatic change in the attitudes to, and the need for international contacts… we have an incredible amount of foreign companies here. We need to understand how they work, their strategies, in order to become a successful host municipality for them. It's really crucial.'

Sune Reinhold, City Manager, Solna, Sweden

'No, this is because the globalization could be harmful on the basis of what we are seeing today and the state of the banks… globalization is a double edged sword.'

Dr. Hazem Y. Abdelazim, CEO, Information Technology Industry Development Agency, Egypt

'I wouldn't go that far. What is true, though, is that in times of crisis countries with a certain ability to safeguard global governance always appear. That is true. In moments of crisis there are countries that have enough economic, technical, intellectual resources. That's very important in them then emerging as global role models.'

José Antonio Zamora Rodríguez, General Director, European Funds, Ministry of Economy and Finance, Spain

'Government activity is becoming globalized. Any activity by one government can affect others that are dependent on supply of goods/services. Global coordination is needed to smooth out the effect of this crisis.'

Dr. Jouan Salem Al Dhaheri, Former Chairman of the Abu Dhabi Department of Municipal Affairs

'It is not only necessary for there to be supranational, international or worldwide governing to establish the playing rules, guarantors of the activity and global wellbeing, but when there are crises, you have useful mechanisms and instruments available, because what has been made clear is that a government connected, interrelated where almost space and time lose the considerations that they had before… there has to be a response on a global level because if not, it is acting on a very small part, that does not have the desired effect on a world that is so interrelated.'

David Cierco Jiménez de Parga, General Director, Information Society, Ministry of Industry, Tourism and Trade, Spain

And despite their criticisms, CEOs still accept the need to work with government on central issues, particularly where regulation is a business enabler. There is a groundswell of support for increased government action to address climate change, the scarcity of natural resources, the talent shortage and other global issues. This opens an opportunity for businesses and governments to start moving from collective stasis to effective global collaboration.

Governments and businesses need not only to collaborate, but to innovate. Governments are seeking to be a strategic player, facilitating collaboration across businesses and sectors (public, private and not-for-profit) and putting in place more effective global governance to safeguard the fundamentals for the world economy, particularly human capital, financial capital and natural resources.

Summing up…

There is no doubt that there needs to be much stronger global governance to safeguard the fundamentals for the world economy, particularly human, financial capital and natural resources.

In our view, governments at global, national, regional and local levels need to shift mindsets and look to the long term:

- Instilling confidence and public trust and reduce uncertainty through leadership and vision based upon positive ambition, not fear;
- Balancing risk and opportunity management – we need to move into the opportunity space, not be captured by the 'risk prison';
- Managing our strategic resources or 'capitals' (financial, intellectual, social, cultural, environmental, technical and political) in a new holistic way – a new capitalism – and control, monitor and report on these capitals;
- Developing new investment plans, both financial and non-financial, to enhance the new capitalism and sustain entrepreneurship;
- Shifting the paradigm from internal focus on control to an external approach, using social intelligence to develop the brand of the territory (at national, regional or city level); while
- Fighting the latent desire for protectionism (either in terms of trade or finance) with countries competing, rather than collaborating.

However, we are still some way from government itself becoming globalised. This is a matter for politicians together with business people and civic society to debate, and urgently.

'I believe policy making in today's world has become more globalized than it was just a few years ago. This is exemplified through the global response to the economic crisis seen over the past few weeks…The current financial downturn is in part due to declining governmental intervention in the financial markets and it is not until the past few months that people have seen the value of government regulations.'

Tor Saglie
Director General, Administration of Labour and Welfare, Norway

Section 7

Conclusions

The world is connected as it has never been before, and the importance and power of collaboration is beginning to emerge. Globalisation is gradually eliminating many of the barriers to the movement of ideas, capital, labour, products and services. The task for leaders in government and business is to understand the vital role they can *jointly* play in shaping the future, in a way no past generations could even imagine, let alone achieve.

A shift is needed in the paradigm, from being consumers to being 'sustainers' and 'satisficers', making use of resources in a more socially responsible way for the benefit of wider society particularly as populations age, the talent base shrinks and the burden on care and pension systems grows.

We see three implications for government emerging from the current crisis:

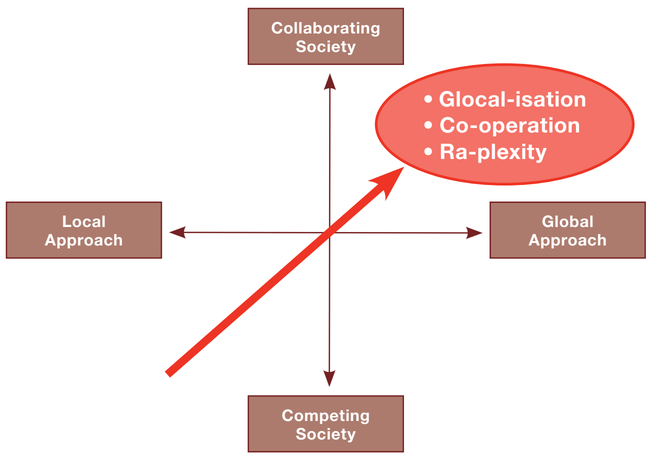
- **'Glocalisation'** – we see national governments having to balance much more explicitly the viewpoints of their local and national communities with those of the international community and expect multilateral institutions such as the UN and the WTO to be forced to act more and more as real global bodies rather than collections of national interests.
- **'Co-opetition'** – the increasingly interconnected state of the world means that we are moving increasingly from a competing society to a collaborating society, with businesses and nations competing within an increasingly global set of governance arrangements. Real value can be created between sectors collaborating in a new creative way – a 'between management' approach – requiring a new type of leadership and management of complex processes with a mix of stakeholders from all types of sectors and industries. This can be seen in the emerging fusion between sectors, combining where there is a convergence of interest, for example, energy, security and defence aligning on the need to secure access to natural resources. And the rise of social entrepreneurship, with government, business and the not-for-profit sector joining forces in new ways and making use of technology, blurring the distinction between work and leisure time, home and office.
- **'Raplexity'** – government faces making decisions more rapidly and in a more complex environment. As a result, it needs agile management mechanisms to cope with the speed and complexity of decision-making in a modern global economy.

In today's extreme conditions, which are beyond the control of any one organisation, the only way to mitigate risk and realise opportunity is through collaboration with many different stakeholder groups and sharing better information about critical business drivers. Governments need to adjust to this downside of globalisation and provide global leadership, supported by a more effective system of global governance than ever before.

Collaboration – within companies, among companies and between the public and private sectors – is essential, for the challenges we are collectively facing are simply too great to be overcome in any other way.

Figure 7.1

Future for government



Source: PricewaterhouseCoopers

Appendices

Government leaders interviewed

Name of organisation	Respondent name	Position
Abu Dhabi Department of Municipal Affairs	Dr. Jouan Salem Al Dhaheri	Former Chairman
Department of Premier and Cabinet, Victoria, Australia	Helen Silver	Secretary
Department of Education and Children's Services, South Australia	Chris Robinson	Chief Executive
Belgium	Pierre-Paul Maeter	Président du Comité de Direction du Service Public Fédéral de l'Emploi, Travail et Concertation sociale
The Executive Council of Ontario, Canada	Shelly Jamieson	Secretary of the Cabinet and Clerk of the Executive Council
Executive Office of HH Sheikh Mohamed bin Rashid Al Maktoum (Prime Minister and Vice President of the United Arab Emirates and Ruler of Dubai), Dubai	HE Nabil Al Yousef	Director General of the Executive Office
Information Technology Industry Development Agency, Egypt	Dr. Hazem Y. Abdelazim	CEO
Ministry of Health, Welfare and Sports, Netherlands	Geert van Maanen	Secretary General
Administration of Labour and Welfare, Norway	Tor Saglie	Director General
Information Society, Ministry of Industry, Tourism and Trade, Spain	David Cierco Jiménez de Parga	General Director
European Funds, Ministry of Economy and Finance, Spain	José Antonio Zamora Rodríguez	General Director
Malmö, Sweden	Illmar Reepalu	Head of City Council
Solna, Sweden	Sune Reinhold	City Manager
HM Revenue & Customs, UK	Dave Hartnett	Permanent Secretary for Tax

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About Public Sector Research Centre

PricewaterhouseCoopers' Public Sector Research Centre provides insights and research into best practice in government and the public sector, including the interface between the public and private sectors. Our evidence-based research enables a collaborative exchange of views on key public sector issues. This draws on the perspectives of public sector organisations themselves, our own global network of professionals (with day-to-day experience of the challenges facing the public sector), leading think tanks and academics.

The Centre has a particular focus on how to achieve the more effective delivery of better public services and infrastructure, both nationally and internationally. Our goal is to stimulate informed debate on public services and make effective, practical contributions on a wide range of issues including:

- Delivering customer-centric services
- Making public service markets work
- Delivering public services cost-effectively
- Increasing transparency and accountability
- Delivering sustainable development
- Building public sector capabilities

For more information, go to: www.psrc-pwc.com

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