

Growth through adaptation

Canadian CEOs focused on sustainable change

*Canadian findings from
PwC's 15th Annual
Global CEO Survey*

*Delivering results –
growth and value in
a volatile world*



15th Annual Global CEO Survey

Every year, PwC conducts an extensive survey of CEOs around the world to take a pulse on the business environment and to identify emerging trends, issues and prospects. Our aim was to find out how CEOs see the economy evolving this year and beyond, and how they expect to deliver business results in this turbulent environment. To do this, we asked CEOs a broad range of questions across a series of topics, including:

- The current economic environment
- Organizational strategy and growth
- Emerging markets
- Talent management
- The role of the CEO
- The role of government

Who was surveyed?

PwC conducted 1,258 interviews in 60 countries during the last quarter of 2011 in order to inform the 15th Annual Global CEO Survey. By region, 291 interviews were conducted in Western Europe, 440 in Asia Pacific, 150 in Latin America, 236 in North America, 88 in Central and Eastern Europe, and 53 in the Middle East & Africa. In Canada, 130 CEOs were surveyed.

Canadian highlights

This document highlights Canadian results from the 15th Annual Global CEO Survey related to growth and adaptation. Additional findings related to the survey can be found at www.pwc.com/ca/ceosurvey.

Executive Summary

Our 15th Annual Global CEO Survey suggests that Canadian CEOs are more focused on long-term change than their global counterparts. While CEOs in other countries are highly focused on the impact of recent economic events, Canadian CEOs have a more strategic focus. They are working to identify what they need to grow and compete in a changing world. Specific findings from the survey included:

1. Canadian CEOs are confident, despite global economic uncertainty

43% of Canadian CEOs are very confident in their growth prospects for the coming year, compared to 40% globally. At the same time, Canadian CEOs are also less focused on risk—with only 52% planning to change their approach to managing risk over the next twelve months—compared to 67% globally. This difference really brings to light the confidence Canadian CEOs have, not only in their organizations, but also in the resilience of the Canadian business environment.

2. Canadian CEOs are planning substantial organizational changes—from strategy right through to day-to-day operations

Two-thirds of Canadian CEOs expect to change their business strategy over the next twelve months—and not because of one-time issues like the sovereign debt crisis. Instead, strategic changes are being prompted by changing customer demand (79%), economic growth and uncertainty (74%), competitive threats (50%), availability of talent (50%) and changes to risk tolerance (47%). Canadian CEOs are also eyeing changes to help make their organizations more efficient and able to drive customer value. 75% of Canadian CEOs expect to make changes to their organizational structure, 52% plan to change their approach to managing risk, and two-thirds are considering changes to their capital investment decisions.

3. Canadian CEOs are continuing to choose cost cutting over alternative service delivery

Canadian CEOs have really been focused on cost-cutting for the past year—with 82% saying they implemented a cost-cutting initiative last year, compared to 75% globally. This trend is expected to continue with 73% planning to implement a cost-cutting initiative over the next 12 months, compared to 66% globally. Comparatively, only 29% outsourced a business process or function over the last 12 months, compared to 35% globally, while 27% plan to outsource a process or function over the next 12 months, compared to 33% globally.

4. Canadian CEOs more reticent about innovation

Only 63% of Canadian CEOs expect to make changes to their Research and Development and innovation capacity over the next year, compared to 72% globally. This despite the fact that Canadian CEOs and CEOs in the BRIC countries are leading the way with respect to their plans to make investments in technology over the year ahead (76% each, compared to 72% globally). Canadian CEOs were lower than the global average in terms of their plans for investment across all forms of innovation—from innovation associated with new products or services to innovation associated with finding cost reductions for existing products.

“Considering the turmoil in the global environment—and the relative stability here in Canada, it makes sense that Canadian CEOs are focused on finding ways to adapt and get ahead of their competition—who might be focused on more immediate risks.”

Tracey Riley

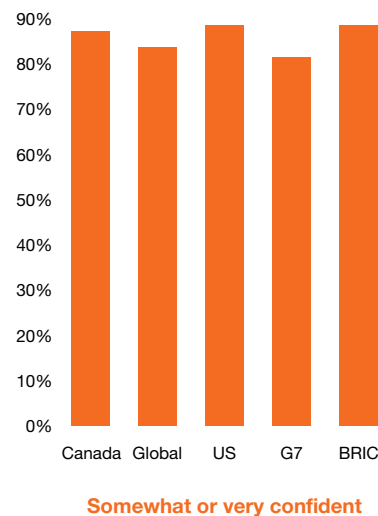
National Leader – Consulting and Deals, PwC

Key findings

Canadian CEOs are confident, despite global economic uncertainty

88% of Canadian CEOs are 'somewhat or very confident' about their company's prospects for revenue growth over the next 12 months, compared to 84% globally.

Figure 1: How confident are you in your company's prospects for revenue growth over the next 12 months?



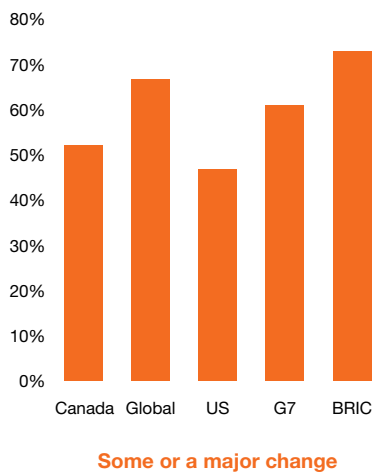
Canadian CEOs are relatively confident in their growth prospects for the coming year

88% of Canadian CEOs were somewhat or very confident in their growth prospects for the coming year (see Figure 1). At the same time, 43% 'very confident, compared to 40% globally. While this is down slightly from last year (50%), the result is still substantially more than it was in 2010, when only 36% of Canadian CEOs 'very confident' in 2010.

In general, it is not hard to understand why Canadian CEOs are upbeat about the next year. Compared to companies in other countries, Canadian organizations have been less affected by volatile economic events that have caused havoc in the global markets. While other countries focus on risk-management, Canadian CEOs are focusing on how to position themselves for the long-term.

Canadian CEOs are planning substantial organizational changes—from strategy right through to day-to-day operations

Figure 2: To what extent do you anticipate changes at your company in... **Approach to managing risk... over the next 12 months?**

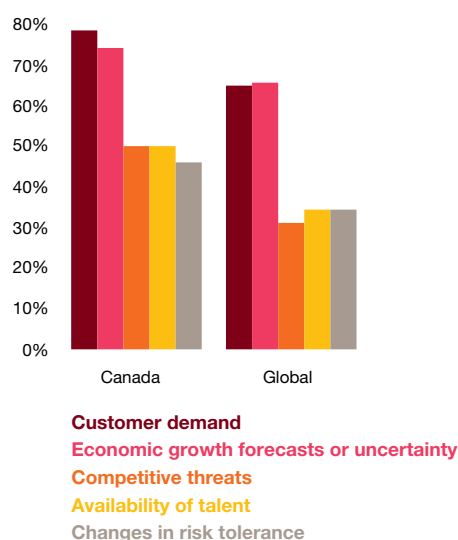


Canadian CEOs are less focused on risk than CEOs globally

While more than 50% of Canadian CEOs are expecting to change their approach to managing risk over the next 12 months, this number is substantially less than the average globally (67%). Only CEOs in the United States had a similar result to Canada. In the BRIC countries, almost 75% are planning to change their approach to risk (see Figure 2).

With Canada perceived as being less affected by recent global economic crises, the lesser focus on risk is understandable. The more important question, however, is whether Canadian CEOs are ready to address any catastrophic events that may face their organization in the future. There is no guarantee that Canadian organizations won't ever face a catastrophic incident—whether specific to their organization or as a result of external causes.

Figure 3: Which of the following factors influence your anticipated need to change your strategy?



66% of Canadian CEOs expect to change their business strategy over the next year—primarily because of long-term issues

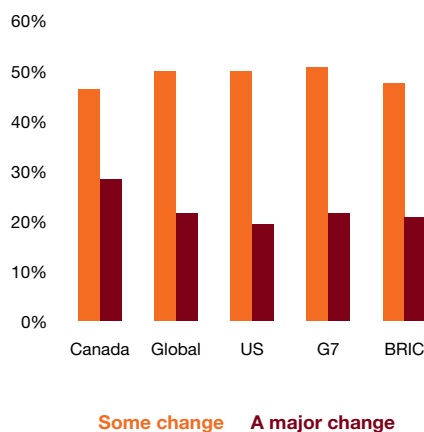
Despite the global economic environment being in a state of constant uncertainty, Canadian CEOs are focusing on long-term issues over short-term ones—more so than their global counterparts at least. Asked whether they made changes to their strategy due to the European sovereign debt crisis, only 22% of Canadian CEOs said yes—compared to 45% of CEOs globally. At the same time, only 12% of Canadian CEOs changed their strategy as a result of the earthquake and nuclear crisis in Japan, compared to 24% globally.

Canadian CEOs are changing their business strategies—but the drivers of change appear to be bigger picture issues: customer demand (79%), economic growth forecasts and uncertainty (74%), competitive threats (50%), availability of talent (50%) and changes to risk tolerance (47%). Globally, a much lower percentage of CEOs cited these as reasons for making strategic changes (see Figure 3).

These numbers suggest that Canadian CEOs are focused on bolstering their existing operations and making changes to address issues of long-term sustainability and profitability. Comparatively, strategic changes addressing such issues did not appear to be the near-term focus of CEOs globally.

While Canada may not be significantly impacted right now—there is no certainty that economic turmoil will not have a resonating impact here.

Figure 4: To what extent do you anticipate changes at your company in... **Organizational structure (including M&A)...** over the next 12 months?

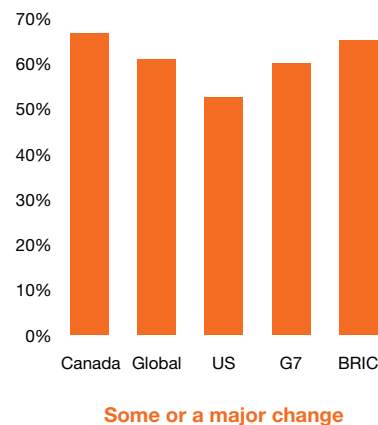


75% of Canadian CEOs expect to make changes to their company's organizational structure

As a complement to changes in their strategy, three-quarters of Canadian CEOs are expecting to make organizational changes, including mergers and acquisitions (M&A), over the next 12 months. A higher percentage of Canadian CEOs are expecting to make major changes (28%) compared to their global counterparts (22%), and to CEOs in the US, G7, and BRIC countries (see Figure 4).

This finding doesn't come as a surprise considering the focus of Canadian CEOs on long-term change. In order to meet the needs of a shifting business environment, CEOs need to take a close look at how they are structured. Whether they are looking to become more efficient, target new customers, or grow globally—often changes start by looking at how an organization can be better structured for success.

Figure 5: To what extent do you anticipate changes at your company in... **Capital investment decisions...** over the next 12 months?



Canadian CEOs eyeing changes to their capital investment decisions

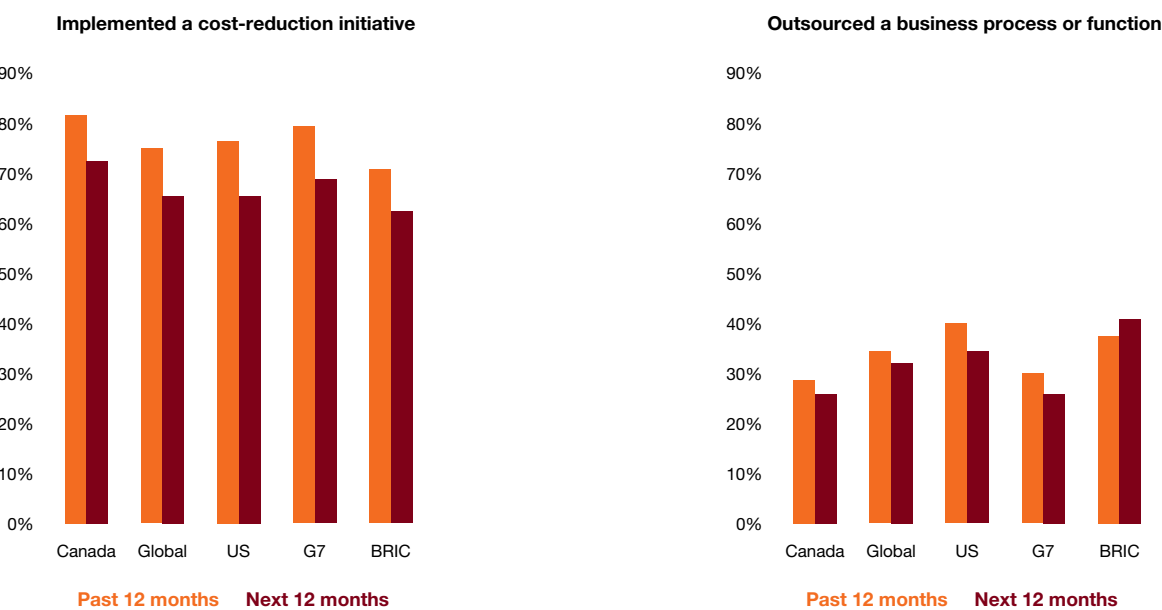
Almost two-thirds of Canadian CEOs are expecting to make changes to their capital investment decisions over the next 12 months, more so than CEOs in other major regions and countries of the world—including the U.S. (see Figure 5).

This suggests a level of confidence that underpins much of the findings from this year's survey. The stability of the Canadian banking industry, the perception that Canadian companies are somewhat insulated from current economic uncertainty—each of these are providing Canadian companies with confidence that focusing on future investments and projects is the right thing to do.

The challenge, of course, will be for Canadian CEOs to not take a blind eye to what is happening globally. While Canada may not be significantly impacted right now—there is no certainty that economic turmoil will not have a resonating impact here. Focusing on flexible planning, risk identification and management will be critical in the short and medium term to make sure that decisions can reap their intended benefits.

Canadian CEOs are continuing to choose cost cutting over alternative service delivery

Figure 6 & 7: Which, if any, of the following restructuring activities have you initiated in the past twelve months, or do you plan to initiate over the next 12 months?



Cost cutting still high on the agenda for Canadian CEOs

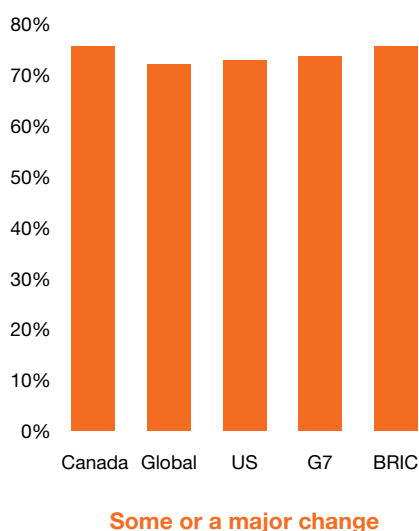
82% of Canadian CEOs said that they implemented a cost-cutting initiative over the past 12 months—compared to 75% of CEOs globally. While fewer Canadian CEOs expect to make implement cost-reductions over the next 12 months, the numbers are still higher on average than the global average and CEOs in major markets like the U.S., G7, and BRIC.

However, in other regions of the world, there is a higher priority on other activities that could be considered organizational improvement initiatives. For example, 35% of CEOs globally—and 40% of CEOs in the US—outsourced a business process (compared to just 29% in Canada) over the past 12 months, while 33% plan to outsource over the next 12 months.

Considering the instability of the global economic environment, it is unsurprising that Canadian CEOs are looking to reduce costs and focus on value creation. At the same time, with such a high focus on cost-cutting, it will be important for Canadian CEOs to look at their long-term plan and ensure all initiatives contribute to their end goal in order to ensure that individual activities are aligned to achieve the best possible outcome.

Canadian CEOs more reticent about innovation

Figure 8: To what extent do you anticipate changes at your company in... **Technology investments... over the next 12 months?**



Over three-quarters of Canadian CEOs are expecting to make technology investments over the next 12 months.

Canadian CEOs and CEOs in the BRIC countries are leading the way with respect to their expectation that they will make investments in technology over the year ahead—although the numbers are only slightly higher than the global average of 72% (see Figure 8).

Technology is a major enabler of change, so this result is not unexpected considering the focus that Canadian CEOs have on change and long-term adaptation. The need to embed technology within an organization can assist with increasing efficiencies, reducing non-value added work, and expanding the reach of an organization's product and services.

“New and engaging technologies will quickly influence and change the lifestyles, work and spending habits of Selfsumers, as we move towards a digital society. How Canadian companies are prepared to meet the challenges of providing easy-to-use, reliable applications and services to meet this increasingly fast-paced, competitive environment will determine their future success.”

**Digital mobility drives you –
you drive digital mobility**
PwC, 2011

Despite interest in new technology, Canadian CEOs are less focused on R&D and innovation than CEOs globally

Only 63% of Canadian CEOs expect to make changes over the next 12 months with respect to their R&D and innovation capacity, compared to 72% of their global counterparts (see Figure 9). In the BRIC countries, R&D and innovation appears to be more of a driving force for future change, with 82% of CEOs in BRIC countries anticipating changes in R&D and innovation capacity in the next year.

When it comes to different types of innovation, Canadian CEOs appeared to place the most emphasis on innovation related to new products and services within existing business models—with two-thirds mentioning a plan to increase their investment in this area, compared to 69% globally. Canadian CEOs placed the least amount of value on innovation related to changes to existing products and services, with only 50% mentioning an expected increase in investment, compared to 55% globally.

In order to stay competitive in the long-term, Canadian organizations will need to recognize and leverage R&D and innovation opportunities. While numerous companies in Canada have become leaders in innovation, there appears to be a general perception that because of the focus and reliance on the natural resources sector, Canada has lagged behind other countries in terms of its investment and support to R&D. Canada has also not had the same economic volatility that has been felt in other countries which have been under pressure to develop.

Looking to the future, R&D and innovation should be one component of a company's long-term vision and strategy. Innovation takes time and a corporate culture built on innovation and collaboration, where everyone from the C-suite to the shop floor is encouraged to make suggestions on ways to transform the business.

Figure 9: To what extent do you anticipate changes at your company in... **R&D and innovation capacity... over the next 12 months?**

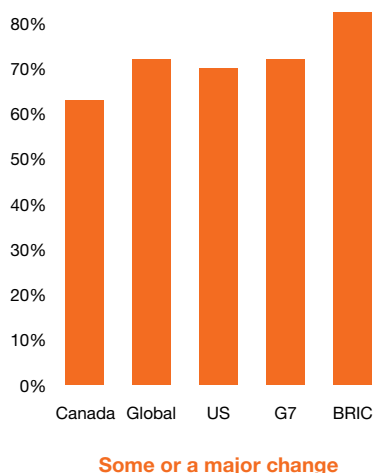


Figure 10: To what degree are you changing the emphasis of your company's overall innovation portfolio in relation to... ***New products and services within existing business models***

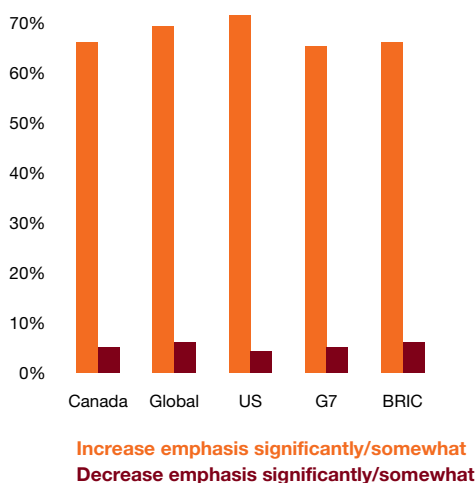


Figure 12: To what degree are you changing the emphasis of your company's overall innovation portfolio in relation to... ***Cost reductions for existing processes***

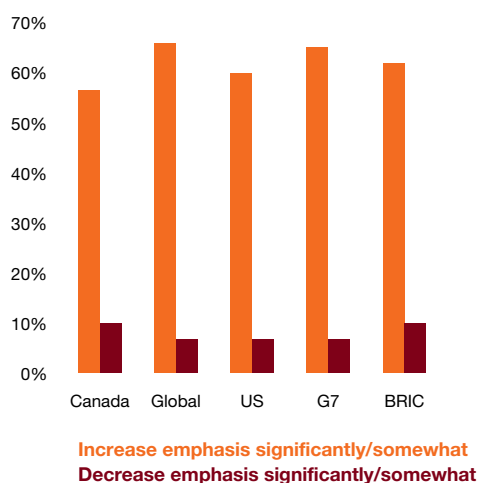
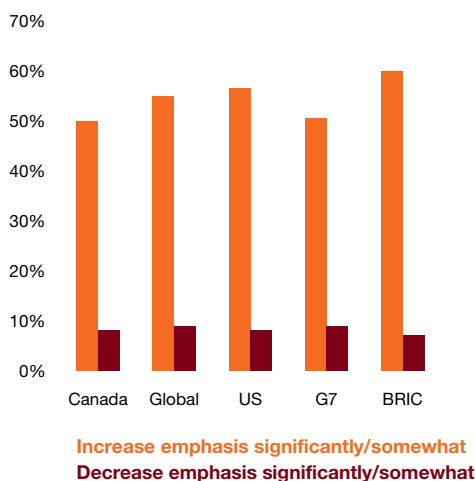


Figure 11: To what degree are you changing the emphasis of your company's overall innovation portfolio in relation to... ***Changes to existing products and services***



3 steps to encourage innovation

1. Reduce distance between your leaders and good ideas.
2. Enable innovation – encourage creativity, provide the right atmosphere, and reward and celebrate success.
3. Keep processes simple – don't hinder innovation with beaurocracy.

Strategies for the future

The results of the 15th Annual Global CEO Survey are clear—Canadian CEOs are ready and confident in their ability to grow. To do this, they continue to focus on making their organizations streamlined, cost effective and ready to adapt to whatever comes. But the results of the survey also bring to light one key question: How can you leverage adaptability to position your organization for long-term growth?

Develop a long-term vision

Canadian companies are in an excellent position right now compared to companies in other countries. We've been somewhat sheltered from the brunt of the economic storm and from recent crisis events like the European debt crisis and the 2011 tsunami and nuclear crisis in Japan. Our banking system has also weathered the economic turbulence admirably, although we cannot assume that this stability will continue. If the international financial environment continues to deteriorate, the impact for the Canadian financial system could become more pronounced.¹ This could, in turn, result in a negative impact to Canadian companies.

In order to take advantage of Canada's current strength position, now is the time to think outside the box in terms of your future vision. While many other companies are focused on immediate needs and risks, consider looking at what you need to thrive in the long term—from how competition may affect your business to the products and services your customers may require. Consider also looking at the talent you need to be successful and whether your operating model is the right one to carry you into the future.

By focusing on the development of a future vision, you can identify systematic actions and initiatives that will help you obtain your desired outcomes while also achieving operational goals, like reduced costs and increased efficiency.

“A further significant deterioration in global financial conditions could be expected to have a considerable impact domestically through financial, confidence and trade channels.”

Financial System Review
Bank of Canada, 2011

¹ *Financial System Review*. Bank of Canada. 2011

Identify and manage your risks

While there are many reasons for Canadian CEOs to be optimistic and less anxious of catastrophic events that have occurred globally over the past year, they should not be complacent. One lesson from the events of the past year is that extreme events can occur without warning—and have resonant impact for years to come.

Developing an enterprise risk management plan—including the identification and prioritization of possible events and contingency plans can help you in the event that your organization suffers an unexpected event. Knowing what your plan is—and communicating that plan to your staff and major customers (if relevant), can go a long way toward ensuring that when the unexpected occurs—your organization will be quick to respond and recover.

Align your transformation initiatives

Canadian companies are making significant efforts to cut costs. At the same time, many expect to transform their current operating model or key elements of their business strategy over the next year. For transformation initiatives to really deliver on their expected outcomes, they should consider all aspects of your organization and be aligned with your strategic objectives right from the get go.

By amalgamating your large scale change initiatives into a single transformation program, you can decrease duplication and maximize your investment by identifying synergies, interdependences, and opportunities to leverage particular efforts more readily. You will also be better equipped to manage your internal and external stakeholders by communicating an overarching plan for change, the rationale for the change, their involvement, and projected benefits.

Create a culture of innovation

Every industry requires innovation. From new and more efficient ways to process natural resources to new and innovative products and services, innovation can leapfrog you over your competition and also open the door to new customers and markets.

Innovation isn't just about technology. It's about staying on top of current trends, imagining what if scenarios, and bringing the right people to the table to imagine, "how can we better meet the needs of our customers?"

By reviewing advances in your industry, staying on top of inventions and current trends, and potentially engaging your stakeholders to creatively think about how best to conduct your business—both now and in the future—you can be better prepared to face the competitive threats that many Canadian CEOs are concerned about.

Engage your people in any changes

Canadian CEOs are expecting change on the horizon—both at a strategic level and at an operational level. Regardless of how large or small your proposed changes may be, it will be critically important to engage your people. By putting your people at the heart of the change, you can gain their buy in and support for what could otherwise be a complex and stratifying effort.

Integrating and aligning your change management plan, your transformation agenda and your strategic goals can provide the confidence to know that whatever comes your way—your organization and your people will be able to adapt and respond successfully.

PwC Consulting Services

The only thing constant in today's world is change. That's why we invest in long-term relationships to help you design, manage and execute initiatives that will create value for your organization, both now and in the years to come.

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