Government and the 16th Annual Global CEO Survey

A new contract between business and the state

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Foreword

Welcome to 'A new contract between business and the state: Government and the Global CEO', in which we assess the changing relationship between government, business and society.

Each year, PwC's Annual Global CEO survey gives business leaders, governments and the world's business community a unique insight into the vision and decisions of the global CEO. As in past years, we have extended and deepened the research for PwC's 16th Annual Global CEO Survey[1] 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 contribute to mutual understanding and productive relationships between the public and private sectors.

Dealing with uncertainty – resilience and engagement

So, what are we exploring this year? Change and complexity are a constant challenge. Disruptive events, both 'black' and 'grey' swan, seem to be happening faster than ever and are changing the nature of risk which needs to be managed, in both the public and private sectors.

The sovereign debt crisis has yet to be fully resolved. The 'Arab Spring' has yet to blossom into summer. And economic conditions are becoming tougher for all, even in the BRIC economies.

PwC's 16th Annual Global CEO Survey has therefore focused on what CEOs are doing to create organisations that are nimble, able to absorb shocks on both the demand and supply-side e.g. from natural disasters to new and disruptive technologies, and able to turn adversity into opportunity. We have also learnt about the steps that CEOs are taking to make their organisations more resilient to cope in a complex and rapidly changing competitive environment.

This report sets out how businesses are adapting their approaches in these uncertain times, including their priorities for government, and discusses in turn how governments can:

- deal with uncertainty and create the conditions for good growth and jobs;
- build resilience by becoming more agile; and
- shift the mindset and engagement of public sector and business leaders from co-existence to mutual collaboration.

With our government and public sector interviews, we have sought to understand better the policy and public sector delivery responses needed to meet the challenging conditions facing business today. And how to create the society and government of the future for the citizens of tomorrow – today – in a trusted, sustainable and more collaborative society.

We would therefore like to thank not only the 1,330 company leaders across the world who shared their views with us for PwC's Annual Global CEO Survey, but also the 42 government representatives and state-backed CEOs who took the time to share their thoughts in depth with us.[2] We are grateful to them for their cooperation and insights.

Jan Sturesson

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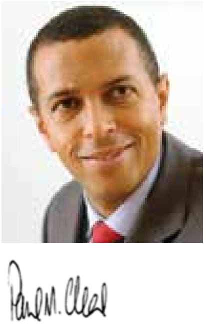

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1 'Dealing with disruption: Strategies to survive and thrive', PwC, 2013.
2 See Annex for details.

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Summary

Business is facing a world of ***volatility and uncertainty,*** *which impacts on short and long term confidence and businesses' willingness to invest and create jobs. Over half (52%) of CEOs in this year's Survey believe that the global economy has plateaued, and there has also been a further drop in short-term confidence.*

We are seeing a world now, and for some time to come, characterised by:

- **Global uncertainty**, accentuated by disruptive events, ranging from natural disasters through to social unrest, and the shifting balance of power from the 'old world' to rapidly emerging economies.
- **Global austerity**, as many developed economies face a future of constrained public and private sector demand, with a knock-on impact on the demands for goods and services from the emerging economies.

Business is particularly worried by a combination of **economic and policy threats** and **business threats**:

- Uncertain and volatile economic growth and fiscal deficits/debt are top worries for the CEOs surveyed in North America, Europe and Asia Pacific.
- In emerging markets (perhaps reflecting the higher confidence, especially in Latin America and the Middle East), difficulties are more around the lack of available skills as well as over-regulation (highest for Latin American CEOs at 72%). In addition, 50% or more of CEOs surveyed in Latin America and Africa are concerned about a lack of infrastructure (including for some the basics of energy, water and sanitation).

These threats have significant implications for governments and public sector organisations which need to respond in three key ways.

1. Deal with uncertainty

Uncertainty in the global economy continues to influence business confidence and investment. Last year, four out of five CEOs were concerned about uncertain or volatile economic growth and two thirds of CEOs were concerned about fiscal deficits, including countries not undertaking major austerity measures. This year, concerns about uncertain or volatile economic growth have stayed at the same high level, but concerns about fiscal deficits have risen further, with 71% of CEOs surveyed somewhat or extremely concerned.

Governments and public sector organisations need to play their part in responding to the key threats to business and reducing levels of uncertainty which hinder investment plans and jobs growth. Public sector organisations need to do things differently and do different things and consider whether their actions are creating or consuming a legacy. How should government prioritise efforts such that today's citizens are being taken care of, while retaining a view for long-term sustainability?

We believe that governments need to address businesses' top priorities as these are also essential ingredients to improve national competitiveness and drive growth which is financially, socially and environmentally sustainable – good growth:

- Create financial sector stability, in particular by tackling public sector deficits/debts, with a twin focus on cost reduction and innovation in public service delivery models.

- Create and foster key skills, through creative approaches to engaging employers and their ownership of the skills agenda.
- Build infrastructure which is integrated and makes effective use of new technology and, where appropriate, builds in risk resilience given the potential for the catastrophic impact of disasters, natural or otherwise.

In addition, businesses crave regulatory stability, and a smarter approach to regulation.

Public sector organisations at all levels also need to get the balance right between an internal focus on efficiency and effectiveness and an external focus on helping businesses to grow and create jobs. In this context, where State Owned Enterprises (SOEs) and state-backed companies form a critical mass in a country, they have a unique strategic role to play in fostering growth and development through collaboration across the public, private, not-for-profit and university sectors.

2. Build resilience

Uncertainty is not only a challenge for business, but also for public sector leaders. Private sector CEOs are focusing on three actions to cope with uncertainty and create more resilient organisations: targeting pockets of opportunity; improving operational effectiveness; and forging a new relationship with their stakeholders, particularly their customers. Indeed, the most confident CEOs in our Survey are those adapting to change fastest and taking advantage of the opportunities to innovate and transform operating models.

The pressures of less money and an environment of uncertainty and volatility also point to a need for greater resilience in the public sector. We believe many of the actions revealed by the CEO Survey are equally relevant to public sector leaders and could enable them to build more operational flexibility and connectedness within and outside their organisations.

Public sector organisations need to build their capability to anticipate the future, adapt to new circumstances and unforeseen events and become more agile through reducing the complexity of their organisations, enhancing customer intelligence and developing new business models. And governments also need to be ready to act more quickly to deal with the consequences of failure (financial, operational and/or strategic) when it occurs.

3. Engage with business

In light of growing government involvement in private sector activities, either through ownership or regulation, CEOs are changing their views on the role and influence of government in the key areas that impact on business. Government and regulators are a key stakeholder: 85% of CEOs stated that government and regulators have some or a significant influence on their business - only 14% say that they have little or no influence; and 67% of CEOs say that they are making some or major changes to strengthen their engagement with government and regulators.

Like it or not, the public and private sectors are more co-dependent than ever on key issues such as skills and the health of the workforce. But there is a need to shift mindsets from coexistence to a real spirit of partnership on both sides if relationships are to improve. We need a new contract between business and the state in order to drive good growth.

We believe three shifts are needed in relations between government and business, from:

- A belief of 'public good, private bad' to a more nuanced appreciation of the best of both.
- Forced cooperation to mutual collaboration.
- Distrust to mutual recognition of responsibilities on both sides.

As ever, with most relationships the quality and commitment of individual leaders on both sides makes all the difference. Public sector leaders can help by setting the tone for the dialogue and by taking personal responsibility in order to make things happen, both within their organisations and with their external stakeholders.

Dealing with uncertainty

Uncertainty in the global economy continues to influence business confidence and investment. Last year, four out of five CEOs were concerned about uncertain or volatile economic growth and two thirds of CEOs were concerned about fiscal deficits, including countries not undertaking major austerity measures. This year, concerns about uncertain or volatile economic growth have stayed at the same high level, but concerns about fiscal deficits have risen further, with 71% of CEOs surveyed somewhat or extremely concerned. How can government and public sector organisations address businesses' concerns?

How confident are CEOs?

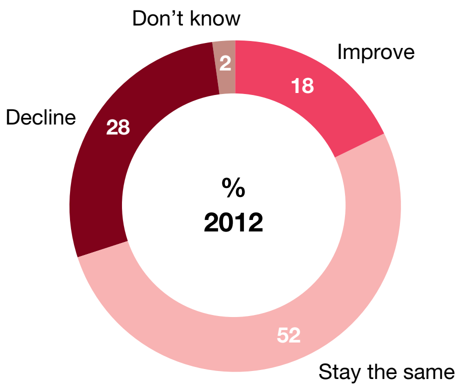
CEOs are facing a world of volatility and uncertainty, which impacts on their short and long term confidence and their willingness to invest and create jobs. As William Whitford, Managing Director, Treasury Corporation of Victoria in Australia, comments: *"We are a decade away from uncertainty lifting and return to a steady growth stream. Uncertainty breeds volatility in financial markets."*

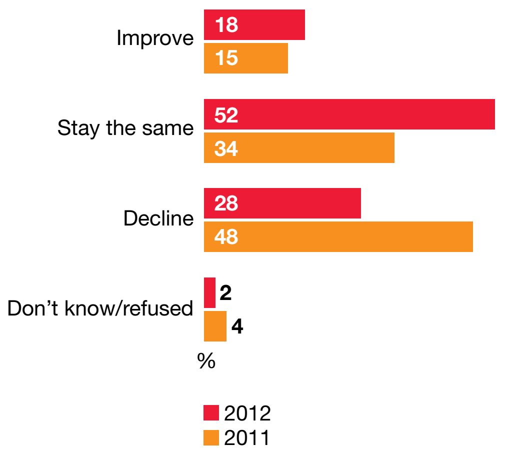
Peter Ong, Head of Civil Service, Permanent Secretary in the Ministry of Finance and Permanent Secretary (Special Duties) in the Prime Minister's Office in Singapore makes the point: *"From the perspective of a small economy plugged into the globalised world, we need to keep our fundamentals right. We need to keep ourselves open for business. This means we need a predictable and stable operating environment for businesses. In this world of uncertainty, businesses will value that."*

Indeed, over half (52%) of CEOs in our Survey believe that the global economy has plateaued and will stay the same over the next 12 months (see Figure 1). There has been a further drop in short-term confidence, although CEOs are (as usual) more optimistic about the longer-term outlook, with long term confidence stabilising.

Figure 1: Global economy plateauing

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?





Base: All respondents (2012=1330; 2011=1,258)
Source: PwC 16th Annual Global CEO Survey

What worries CEOs most?

The results for this year's CEO Survey tell us that economic and policy threats are more prevalent for all regions in comparison to business threats (see Figures 2 and 3 overleaf). Uncertain and volatile economic growth and fiscal deficits/debt are top worries in North America, Europe and Asia Pacific. Kairat Kelimbetov, Deputy Prime Minister in the Government of the Republic of Kazakhstan, comments: *"There is an apprehension about a lost decade. In order to clean all balance sheets and let the common budget principles work, there is more time needed. During these difficult times there won't be any fast growth."*

Meanwhile, in the emerging markets (perhaps reflecting the higher confidence especially in Latin America and Middle East), difficulties are more around the lack of available skills as well as over-regulation (highest for Latin American CEOs at 72%). In addition, 50% or more of CEOs surveyed in Latin America and Africa are concerned about a lack of infrastructure (including for some the basics of energy, water and sanitation).

Figure 2: It's the economy, stupid!

Q: How concerned are you about the following potential threats to your growth prospects?

Top 10 threats by region – Respondents who stated 'extremely' or 'somewhat concerned'

North America	Western Europe	Central & Eastern Europe	Asia Pacific
Government response to fiscal deficit and debt burden	Uncertain or volatile economic growth	Uncertain or volatile economic growth	Uncertain or volatile economic growth
Uncertain or volatile economic growth	Government response to fiscal deficit and debt burden	Over-regulation	Exchange rate volatility
Over-regulation	Over-regulation	Bribery and corruption	Over-regulation
Increasing tax burden	Lack of stability in capital markets	Exchange rate volatility	Lack of stability in capital markets
Lack of stability in capital markets	Increasing tax burden	Government response to fiscal deficit and debt burden	Government response to fiscal deficit and debt burden
Availability of key skills	Shift in consumer spending and behaviours	Increasing tax burden	Increasing tax burden
Protectionist tendencies of national governments	Energy and raw material costs	Lack of stability in capital markets	Availability of key skills
Speed of technological change	Availability of key skills	Shift in consumer spending and behaviours	Energy and raw material costs
Shift in consumer spending and behaviours	Inability to finance growth	Energy and raw material costs	Protectionist tendencies of national governments
New market entrants	Protectionist tendencies of national governments	Availability of key skills	Shift in consumer spending and behaviours

Business threats Economic and policy threats

Source: PwC 16th Annual Global CEO Survey

Figure 3: Skills and over-regulation concern for CEOs in developing economies

Q: How concerned are you about the following potential threats to your growth prospects?

Top 10 threats by region – Respondents who stated ‘extremely’ or ‘somewhat concerned’

Latin America	Middle East	Africa
Over-regulation	Availability of key skills	Availability of key skills
Bribery and corruption	Over-regulation	Uncertain or volatile economic growth
Uncertain or volatile economic growth	Government response to fiscal deficit and debt burden	Bribery and corruption
Increasing tax burden	Lack of stability in capital markets	Over-regulation
Availability of key skills	Inflation	Exchange rate volatility
Protectionist tendencies of national governments	Inability to finance growth	Protectionist tendencies of national governments
Exchange rate volatility	Uncertain or volatile economic growth	Government response to fiscal deficit and debt burden
Lack of stability in capital markets	Bribery and corruption	Lack of stability in capital markets
Government response to fiscal deficit and debt burden	Supply chain disruption	Inflation
Inadequacy of basic infrastructure	New market entrants	Increasing tax burden

Business threats   Economic and policy threats

Source: PwC 16th Annual Global CEO Survey

What are the key economic and policy threats?

Overall, uncertain and volatile economic growth and fiscal deficits/debt top the list of economic and policy threats. CEOs surveyed are particularly concerned about uncertain and volatile economic growth in Australia (95%), US and Japan (both 90%). Fiscal deficits are of most concern to CEOs surveyed in the US (93%), France (89%) and Italy (86%).

But this is not only a developed economy issue. For instance, Dato' Sri Dr Mohd Irwan Serigar Bin Abdullah, Secretary General of Treasury, Ministry of Finance in Malaysia notes: *"There is strong external pressure from rating agencies for the budget to move into surplus but the Malaysian government also has to take into account the need for stimulus during the current global economic crisis alongside. This is being done with a programme to reduce systematically the deficit over the next few years involving public expenditure and tax reviews, price discovery exercises and debt restructuring as well as putting in place accrual accounting."*

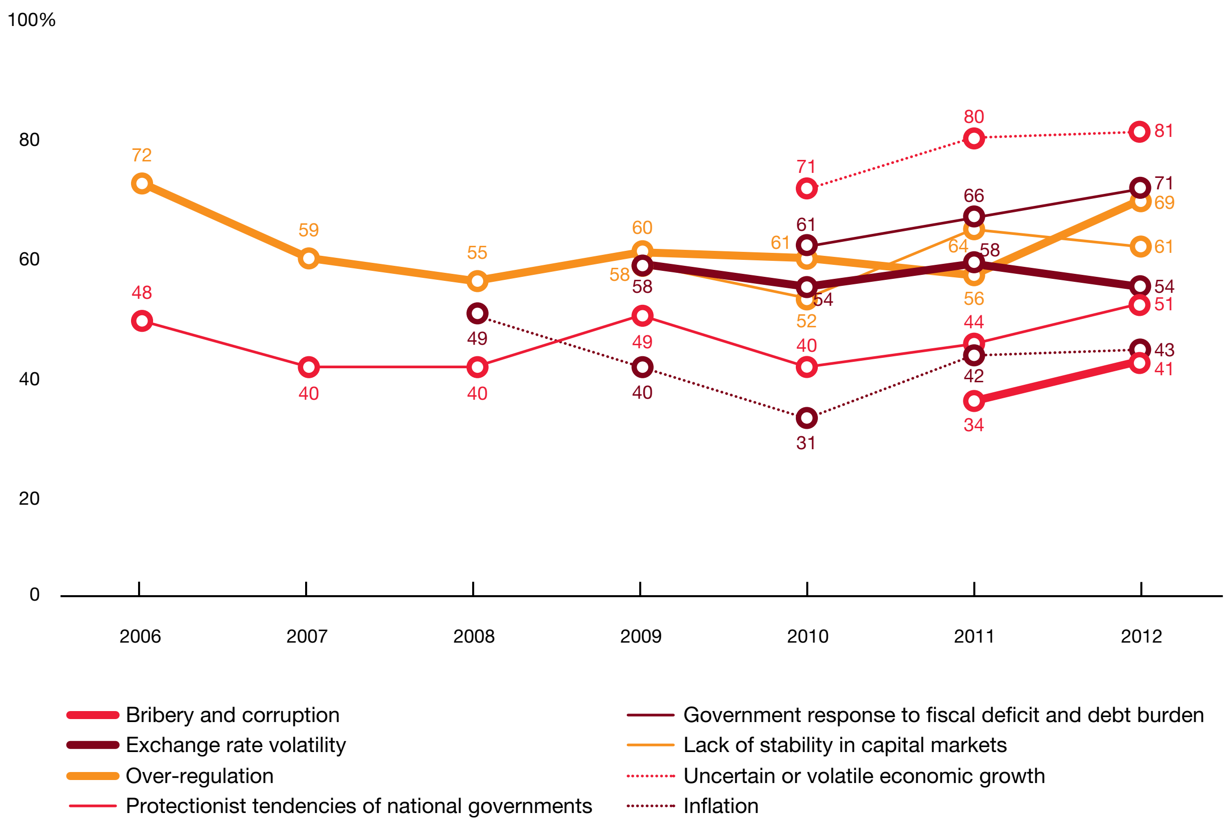
Over-regulation has returned to the top three economic and policy threats and is now at its highest level since 2006 (see Figure 4). Bribery and corruption also remains a problem for two thirds or more of CEOs surveyed in Latin America (70%) and Central and Eastern Europe (66%, CEE), and for four in five CEOs (80%) in Africa.

And a high number of large companies ($10bn+) also see protectionism as a major threat, at 65% of CEOs surveyed. Dr John Coustas, President and CEO of Danaos Corporation in Greece notes: *"As far as the global economy is concerned, the threat is the start of economic stagnation, which, in turn, could encourage protectionism across the various economic blocks. The solution to stagnation is not protectionism. Instead, the solution lies in structural changes that will unlock productivity and growth potential."*

This is recognised in government. As Kairat Kelimbetov, Deputy Prime Minister in the Government of the Republic of Kazakhstan, comments: *"Businesses understand they get more out of the market if they work together (e.g. Silicon Valley). We don't want protectionism. What we want are people from different countries trying to cooperate, make business together and exchange views. This is also the government's responsibility. It needs to create a space for businesses. That's how we can attract new businesses in the future."*

Figure 4: Over-regulation again a top 3 threat

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects? Respondents who stated 'extremely' or 'somewhat' concerned.



Base: All respondents (2012=795; 2011=1,258; 2010=1,201; 2009=1,198; 2008=1,124; 2007=1,150; 2006=1,084)
Source: PwC 16th Annual Global CEO Survey

What are the key business threats?

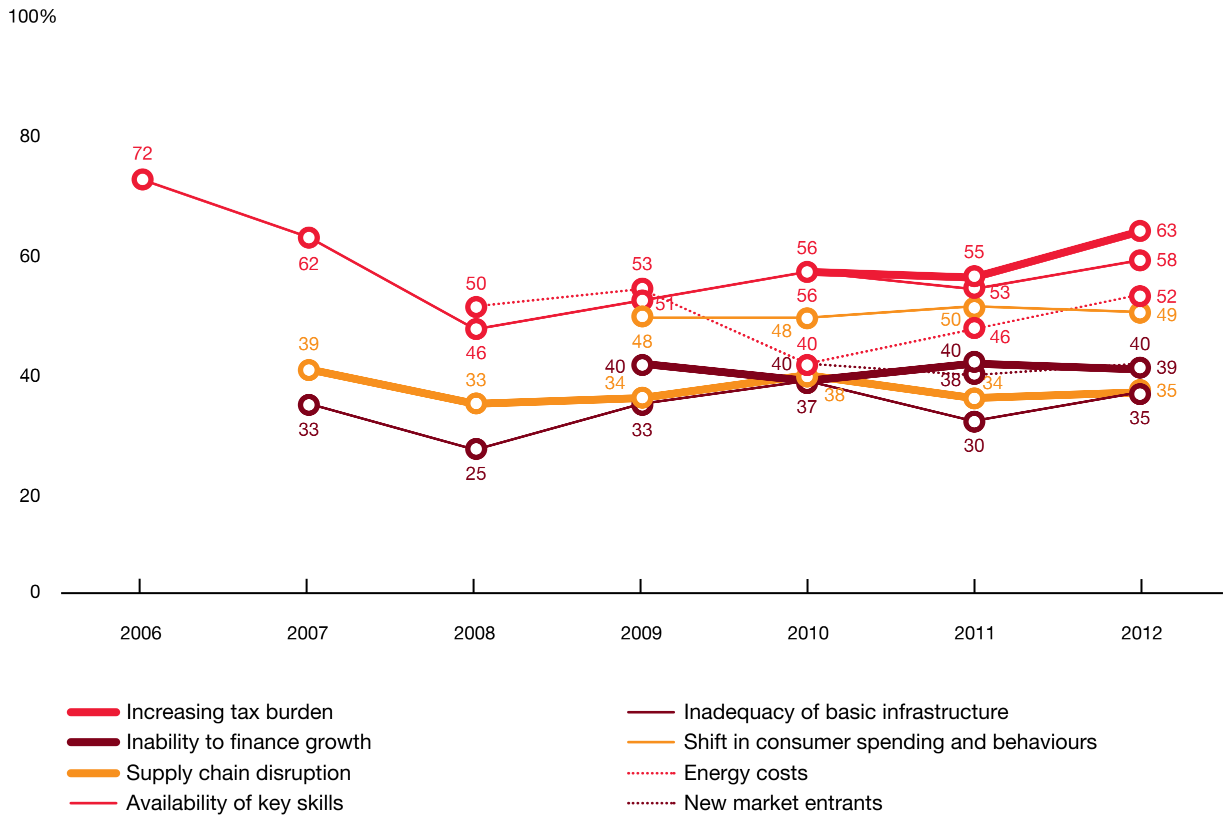
Tax burden, availability of key skills and energy/raw material costs are seen as the top business threats to growth (see Figure 5).

Looking at these threats in a bit more detail reveals that:

- CEO concerns about the tax burden are rising, particularly for CEOs surveyed in Italy (86%) and France (84%).
- Lack of availability of key skills is a particular issue for smaller companies (68% of CEOs surveyed in companies with less than $100m revenues).
- Energy and raw material costs have also risen to take third place and are back to levels last seen at the start of the financial crisis.
- Infrastructure is not high on the list of constraints on revenue growth for most CEOs, except in Latin America where it is third on the list.

Figure 5: Energy costs and raw materials on the rise

Q: How concerned are you about the following potential business threats to your growth prospects?
Respondents who stated 'extremely' or 'somewhat' concerned



Base: All respondents (2012=1330; 2011=1,258; 2010=1,201; 2009=1,198; 2008=1,124; 2007=1,150; 2006=1,084)
Source: PwC 16th Annual Global CEO Survey

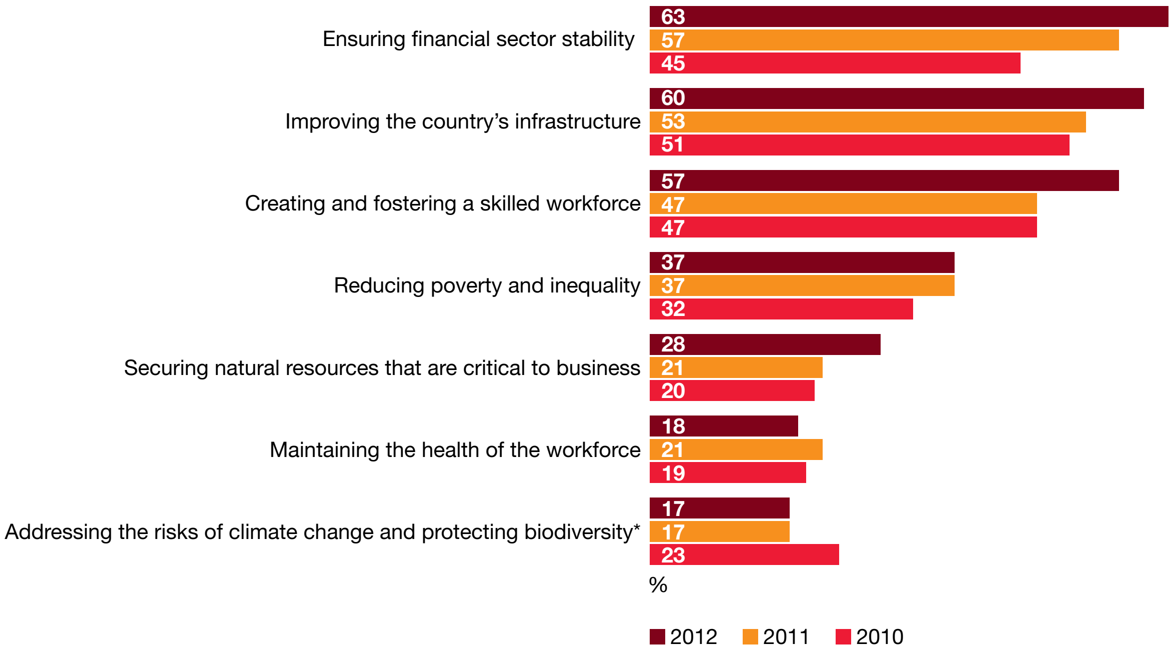
What do CEOs want from government?

Reducing uncertainty is key to unleashing business investment and generating jobs. As such, business has three priorities for government – financial sector stability, creating a skilled workforce and improved infrastructure. All three are essential ingredients to improve national competitiveness and drive growth which is financially, socially and environmentally sustainable – good growth.[3] And all three priorities for government have also increased in importance over time (see Figure 6).

However, CEOs do not assume government has to do everything. Indeed, CEOs expect to play a role particularly through increased investment in creating and fostering a skilled workforce and also maintaining the health of their workforce (see Figure 7). Businesses therefore have a key role in driving good growth given their influence on jobs, income and health.[4]

Figure 6: CEO priorities for government

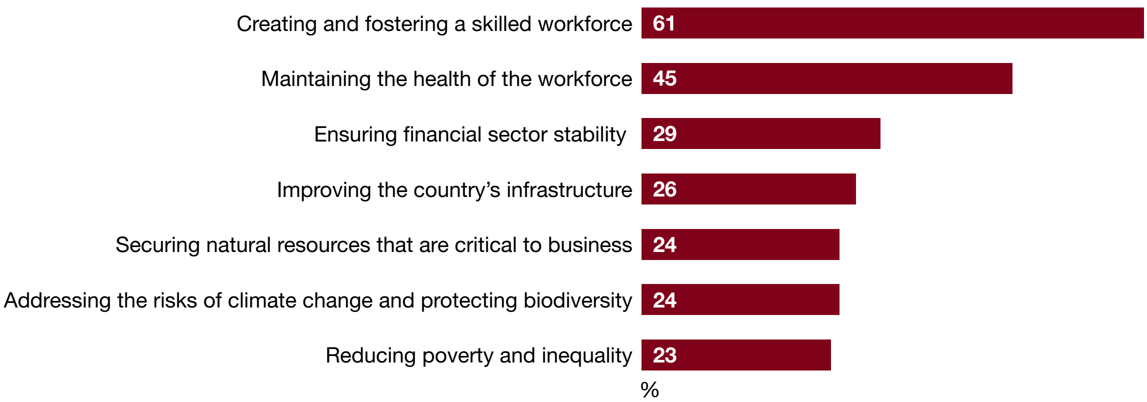
Q: Which three areas should be the Government's priority today?



**Note: In 2010 these were separate responses*
Base: All respondents (2012=1330; 2011=1,258; 2010=1,201)
Source: PwC 16th Annual Global CEO Survey

Figure 7: CEO priorities for investment

Q: How much does your company plan to increase its investment over the next three years to achieve the following outcomes in the country in which you are based? Respondents who stated 'some' or 'somewhat concerned' in investment



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

3 'Good growth: a Demos and PwC report on economic wellbeing', Demos, 2011.
4 'Good Growth' Demos/PwC, 2011: our research in the UK identified that the top three factors that the UK public associates with economic wellbeing are jobs, income and health.

So how is government doing on CEOs' priorities?

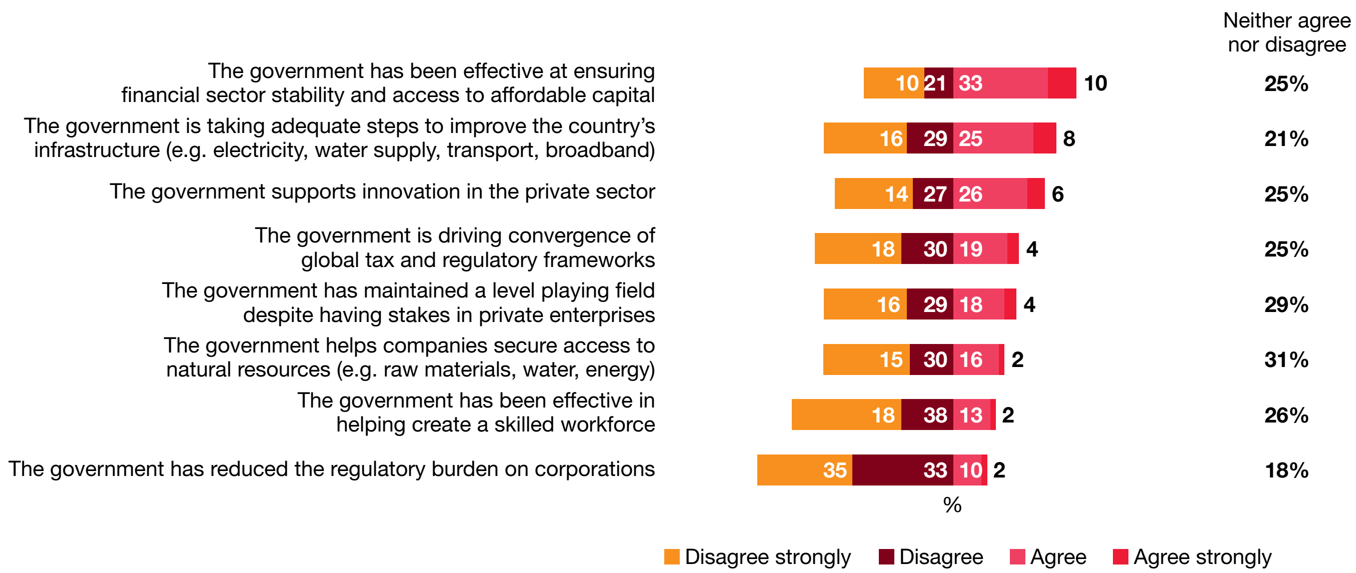
A net balance of CEOs believe that government has been effective in ensuring financial sector stability and access to affordable capital (see Figure 8), driven mainly in regions which have been less directly affected by the financial crisis (Latin America, Middle East and Africa). However, Martin Zeil, Minister of Economics, Infrastructure, Traffic and Technology for the State of Bavaria in Germany also comments: *"9/11 and the financial crisis are two more recent events that have given rise to great uncertainty, however the financial crisis has been much better managed than other crises in the past and therefore we have been able to overcome it rapidly."*

Most CEOs, however, feel that government has been less effective in other priority areas, particularly helping create a skilled workforce and reducing the regulatory burden on business.

It should be noted, however, that between a fifth and a third of CEOs neither agreed nor disagreed with these statements, and that state-backed CEOs were more optimistic for all of these statements.

Figure 8: Is government meeting business needs?

Q: Thinking about the role of the Government in the country in which you operate how strongly do you agree or disagree with the following statements?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

Implications for government

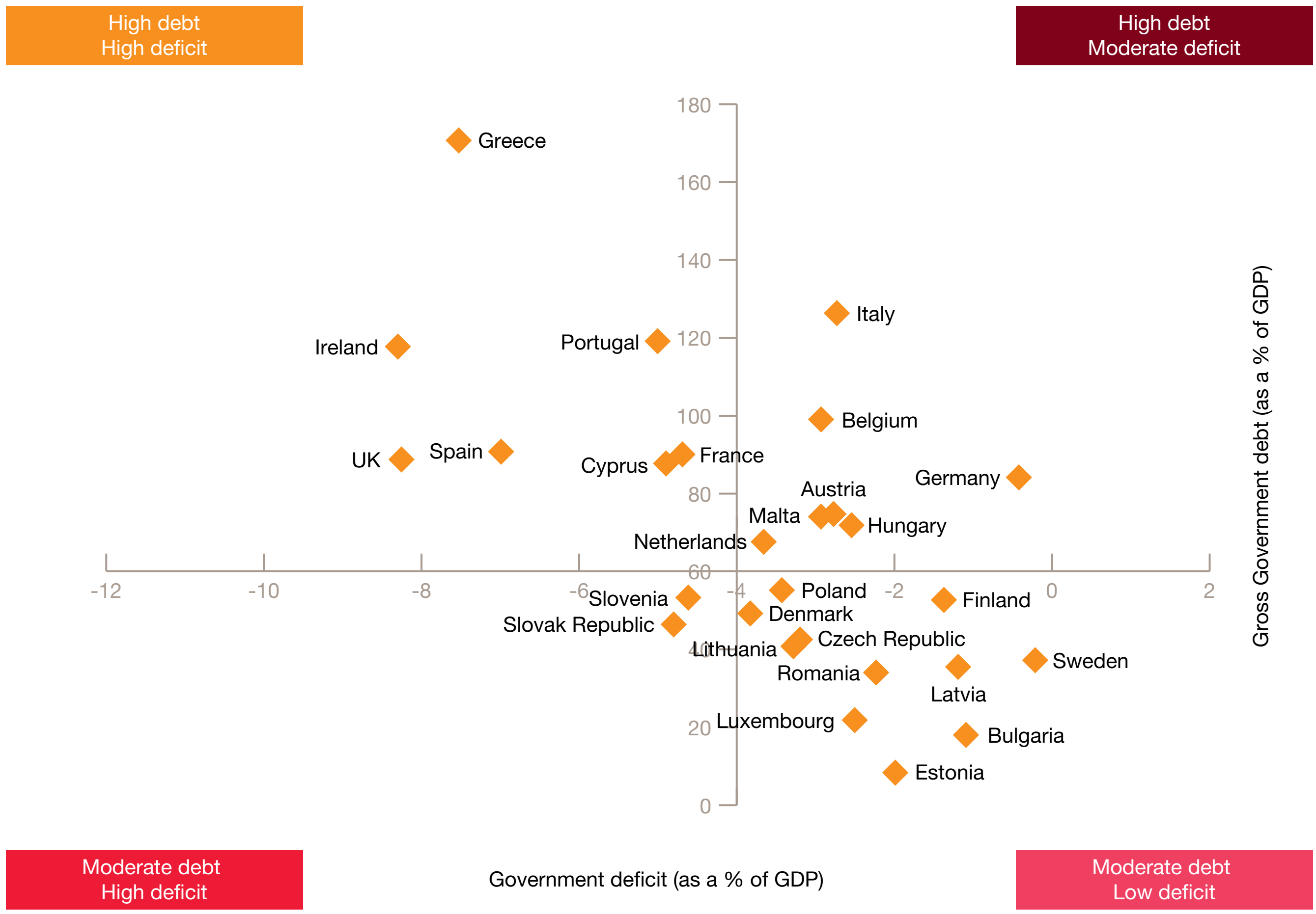
So, what can government be doing better in addressing businesses' concerns? There are some consistent themes to be addressed, namely dealing with deficits, working with business to improve skills and employability, developing infrastructure and adopting a smarter approach to regulation. We address each in turn below. But it is also important to note now, as we discuss later in this report, that both business and government need to work together better to achieve their goals – there is no room in future for an 'us and them' approach. And both need to accelerate their efforts to tackle these priorities.

Dealing with deficits

Ensuring financial sector stability is the top priority in Western Europe (80% of CEOs surveyed). This perhaps reflects the geographical area where government needs to tackle one of the key threats to business – reducing public sector deficits/debts to manageable levels - and becoming fiscally sustainable over the long term (see Figure 9).

Francesco Paolo Schiavo, General Director, Ministry of Economy and Finance in Italy states: *"The critical challenge faced by public organisations is how to combine current spending reductions and useful investments while maintaining a high level of services."*

Figure 9: Many Eurozone governments are highly indebted



Source: IMF (2012 estimates)

This requires government and public sector organisations to focus on efficiency, cost-cutting and value for money as well as innovation and transforming service delivery, even in countries where fiscal austerity is not so severe. Doug McKay, Chief Executive of the Auckland Council, New Zealand, notes: *"We are now trying to innovate through what we are calling transformation, for example, we are looking at the business model in operations, we are looking at the way we deliver our services, we are looking at the way people interact with us, we want to give them multi-channel, multi-ways of talking to the council, working with the council. We are innovating with the way we work with our union partners, so to get to the outcomes we want we have to change the culture of the organisation and there's a whole lot of innovation required around business practices, people practices, processes and systems and so on."*

Also in New Zealand, Iain Rennie, State Services Commissioner comments: *"One of the things the government has done in New Zealand to reinforce that message is to give agencies greater certainty around their four year funding levels which for the vast majority of the agencies encompasses a reduction in nominal funding levels. So, people are now having to think about, ok if my real funding level in four years time is 10% - 12% lower than today, I have to think about either dropping some outputs or changing my business model in different ways."*

Irene Svenonius, CEO of the City of Stockholm, Sweden, agrees: *"The city of Stockholm doesn't look at all like it did 10 years ago and we are serving an increasing population with fewer employees but in a more efficient way. E-government, shared services, out-sourcing and new service delivery models have had a great impact on many aspects of the city on all levels."*

PwC's view

Dealing with deficits

Prioritisation, making tough choices and doing more (or the same) for less are key to success. Public sector organisations need to do things differently and do different things and consider whether their actions are creating or consuming a legacy. How should government prioritise efforts such that today's citizens are being taken care of, while retaining a view for long-term sustainability?

Of the priorities for government which we highlighted in last year's report,[5] two remain particularly important in today's environment for countries still facing significant deficits:

- Developing/executing plans to achieve better balanced public finances with a focus on:
  - Reducing costs, particularly through standardising, streamlining and sharing services to increase efficiency and operational effectiveness, including deciding whether to make or buy goods, services and infrastructure.
  - Developing new approaches to workforce reform, with a priority to be more active in planning workforce strategies and managing and retaining 'pivotal' talent in order to achieve sustainable cost reduction.
  - Developing new sources of funding to cover current spending as well as bringing private sector finance in return for payments in future, increasingly linked to the successful delivery of outcomes (payment by results).
- Innovating service delivery in particular by:
  - Opening up public services to other providers, requiring the public sector to partner and collaborate more effectively with the private and voluntary sectors.
  - Accelerating the take up of new technologies, particularly social media and interactive digital tools which enable a new interface between customers and providers e.g. crowdsourcing approaches to public service design and delivery.

Peter Veld, Director-General of the Netherlands' Tax and Customs Administration ('Belastingdienst') comments: *"Faced with strong pressure to cut costs, we chose an innovative approach that turned out to produce a lot more benefits than just cost-efficiency. In the process of finding cost-saving measures, the Belasting-dienst also became more effective at collecting taxes, brought about significant benefits for our taxpaying clients, and, I believe, contributed to keeping the Netherlands an attractive place for business. Administrative costs are only 1% of total tax proceeds."*

5 'Taking responsibility: Government and the Global CEO', PSRC, 2012.

In Australia, we found a range of similar views:

- *"From a government wide perspective, uncertainty is making us more focussed on returning to surplus, looking at ways of improving productivity, and what we can do as a government to build buffers against that uncertainty e.g. making sure the financial system is in good shape. We are cutting expenditure – both programs and operating costs, fairly broadly – everything from defence to welfare."* Dr Ian Watt AO, Secretary, Department of the Prime Minister and Cabinet, Australian Government.
- *"We need to get the economy moving, and more efficient public sector service delivery, but these things demand a more responsive, engaging and innovative public service."* Jon Grayson, Director-General, Department of the Premier and Cabinet, Queensland Government.
- *"There is also a government role to build capacity in the NGOs and some profit making enterprises to help incentivise co-creation, so government does have a role in assisting smooth transitioning and to help the market develop."* Jim Hallion, Chief Executive, Department of the Premier and Cabinet, Government of South Australia.

In Malaysia, Dato' Sri Dr Ali Hamsa, Chief Secretary to the Government of Malaysia, comments: *"To improve the delivery service of the public sector, the National Blue Ocean Strategy initiative aims to break silos between government bodies and agencies. With the commitment and collaboration between all parties, the impact from the initiatives has been extraordinary. For example, innovative policing has brought down the crime rate and made Malaysia a safer place, while urban and rural transformation centres have brought Government services nearer to the public. Through the National Blue Ocean Strategy, the well-being of Malaysians has been greatly enhanced. And ultimately, by working together, we can maximise outcomes and increase utilisation of public sector assets."*

Clearly uncertainty and lower growth also translates into lower government revenues, which adds to the pressure to restrain public spending but also to generate growth. Helen Silver, Secretary, Department of Premier and Cabinet, Victorian Government in Australia comments: *"Volatility and uncertainty is having a direct impact on the government's available revenue. [...] Volatility is also difficult in the sense that from a broader perspective it affects business confidence, it affects the broader parameters that we're very much concerned about, such as job opportunities for Victorians."*

Improving infrastructure

Business again sees government in the lead in terms of improving infrastructure. Indeed, this is the top priority for over half of CEOs surveyed in Asia Pacific and two thirds or more in North and Latin America, Africa, Central and Eastern Europe and the Middle East. Building infrastructure of the right type not only builds long term productive potential on the supply side, but also provides a multiplier effect for jobs and growth. And as Francesco Paolo Schiavo, General Director, Ministry of Economy and Finance in Italy states: *"Infrastructure is an enabling factor of critical importance to the provision of public services. Consequently, it helps increase productivity. It allows improvements in citizens' quality of life, thus playing a vital role in the development of modern market economies."*

In developed economies, the issue tends to be more about updating aging infrastructure, adding to capacity and improving quality and competitiveness but with the challenge of how to finance investments given budget constraints. Emerging markets have different issues, in many cases with major infrastructure deficits (particularly in energy, water and transport) often linked with a need to keep up with rapid urbanisation.

This is, however, also an area for collaboration. Torbjörn Rosdahl, Commissioner for Financial Affairs, County of Stockholm in Sweden comments: *"The best way for us to cooperate is to increase competitiveness via co-financing and cooperation models which drive innovation and research. [...] Co-financing related to infrastructure investments is becoming increasingly important. One challenge we face is in setting the limits as to precisely what falls under the responsibility of the public sector, as infrastructure investments tend to generate an increase in value for the area impacted by the infrastructure."*

There is also an important issue around choice and how decisions are made on resource allocation. One aspect of this is the need to be evidence based. Björn Zoëga, Managing Director of Landspítalinn, The National University Hospital of Iceland, has a clear view on this: *"The state should use data to decide where to invest. Looking at what would benefit the biggest number of citizens, would that be investing in a tunnel through a mountain where the road is impassable two days each year or investing in infrastructure that needs funding such as the police or healthcare? I think the majority can answer that question without hesitating. We are seeing too many decisions based on feeling and then the calculations are done afterwards to see if it was correct. As a result, the political factions are in the trenches and have difficulties having confidence in the numbers presented."*

PwC's view

Tackling the infrastructure finance and talent crunch

For any modern economy to function effectively and competitively, government needs to ensure that there is adequately developed and maintained infrastructure. The quality of hard infrastructure, such as road and rail networks, influences business location decisions. So a balanced and integrated infrastructure programme is the key to facilitating economic growth: infrastructure only drives economic growth when it is well aligned with the country's economic, industrial, social and environmental priorities.[6]

To maximize the benefits from selected economic infrastructure it is essential that governments address two fundamental questions:

- How should governments prioritise which economic infrastructure projects create the greatest impact in terms of economic growth, social uplift and sustainability?
- Once prioritised, what should governments do to help ensure the projects are delivered effectively and efficiently?

It is also important to recognise the non-economic effects of infrastructure spending. For instance, more reliable energy, clean water and good internet access improves standards of living vastly, particularly in developing countries. Transport infrastructure improves quality of life by making travel more comfortable, safe and quicker.

However, there are two major challenges. Firstly most governments lack the necessary scale of public funds. Raising taxes is difficult given budget deficits whilst the private sector has become more risk averse and is struggling to raise private funds for infrastructure development in the current climate. Governments need to re-start the market for infrastructure development both through direct public investment as well as creating new incentives to the private sector (including pension funds) given the risks involved. Some examples include offering termination fees to protect businesses against failure of projects and offering a guarantee of a minimum rate of return (or return on investment floor) commensurate with the risks of a project. In the UK, the announcement of the successor to PFI – called PF2 – envisages government taking an equity stake but also quicker, less costly procurement processes.

The second challenge is a lack of talent and skills to deliver capital projects resulting in high staff mobility and wage inflation in infrastructure companies.[7] Booming metropolises from Mumbai to Sao Paulo have an almost inexhaustible need for new roads, pipelines, power plants, sewers, water recycling facilities, ports, airports, schools, hospitals, housing and other vital infrastructure. To plan, build and maintain this infrastructure, developing nations will need millions of highly skilled workers, including civil engineers, electrical and mechanical engineers, architects, designers, surveyors and project managers. They will also require a burgeoning army of low-to-medium skilled workers, including technicians, drivers, labourers, construction workers and machine operators.

But the infrastructure sector is already facing significant talent shortages. According to Manpower Group, the top five jobs that proved most difficult for global employers to fill in 2011 included technicians, engineers, skilled trade workers, and labourers — all critical to the infrastructure sector. Indeed, cities need to do a better job of marketing themselves by telling the world what's attractive and interesting about their particular city and why someone would want to choose an expat assignment in that city. Talent has a choice: people can work wherever they want to work which is why those who are trying to attract them need to do a good job of highlighting positive local, regional, and national attributes.[8]

The other is to have support from the wide range of stakeholders who see the impacts (positive or negative). Gabino Cué, Governor of the State of Oaxaca in Mexico comments: *"The current state administration has focused on business and population councils. As for infrastructure for competitiveness and growth, for example, we established the Citizens Consultative Infrastructure Council to make joint decisions on planning, execution, follow-up and assessment of the shared-works, considering the opinion of federal, state and municipal officials involved, and also of the experts, constructors, academics and civil society in general to decide how, where and when will such works be carried out."*

6 'Strategic Infrastructure: Steps to Prioritize and Deliver Infrastructure Effectively and Efficiently', World Economic Forum, prepared in collaboration with PwC, 2012.
7 'Infrastructure development in emerging markets: Closing the talent gap in the emerging world,' Richard Abadie, PwC, 2012.
8 Drawn from 'Global mobility is key to bridging the talent gap: An interview with Dennis Finn', PwC, 2012.

Developing skills and employability

Creating and fostering key skills is a high priority, particularly for nearly seven in ten (69%) of CEOs surveyed in North America. Business also sees a joint responsibility with government on the skills agenda, which presents perhaps the most obvious area for government and business to improve its collaboration along with the education system. This is a particular priority for young people given historically high levels of youth unemployment in many countries.

The challenge, however, is twofold:

- Governments need to work with providers to create an education system which produces people with capability to learn: adaptability to change and curiosity breeds innovation. As Peter Ong, Head of Civil Service, Permanent Secretary in the Ministry of Finance and Permanent Secretary (Special Duties) in the Prime Minister's Office in Singapore comments: *"In this very volatile world, the worker may have to go through disruption throughout his/her career and so we need to ensure the worker is prepared for successive changes in technology, for enterprise and industry restructuring and our job is to ensure they are well trained, versatile and resilient to ride these cycles."*
- Businesses need to truly own the skills agenda and drive the system to deliver its requirements. This is easier said than done, as businesses often find it difficult to forecast their skills needs far enough in advance for formal education systems to re-orient their provision. This is a concern for Julio Patricio Supervielle, Grupo Supervielle's CEO and Banco Supervielle's Chairman in Argentina: *"The development of an education system that ensures that Latin American communities are able to compete with the challenges of the 21st century. It is necessary to address education policies that will have an impact in 20 years' time."*

However, there are approaches emerging which are tackling this challenge. The emerging economies are seeing some of the greatest challenges, as noted earlier in the context of infrastructure. Dilip Chenoy, CEO of the National Skill Development Corporation in India also highlights the role of the private sector: *"By acting as a fund manager of the National Skill Development Fund (NSDF) – a trust set up by the government – NSDC aims to skill and up skill 150 million people by 2022."*

"As far as the National Skill Development Corporation is concerned, our model depends on private sector participation. The biggest risk is the private sector not stepping forward and actually owning skill development initiatives in the country. [...]The underlying thought is that industry actually steps up its engagement with the skills cause so that a large number of young people can obtain the skill sets that would enable them to participate in and contribute to the India growth story."

There are some other ways in which the public sector can contribute directly to increase the employability of those at a disadvantage such as offenders and increase the participation of women in the workforce.

For instance, Christine Stevenson, Deputy Chief Executive, Department of Corrections in New Zealand notes: *"Christchurch is a wonderful opportunity for us and our offenders and prisoners. So we've got things going now with Fletcher Construction, they're going to work with us and take some of the prisoners and employ them. I see quite a lot of opportunity there. [...] That's a tangible way we can contribute to rebuild and hopefully it has a win-win effect for prisoners and offenders. And NGOs, we've opened our doors a crack and let them in, so we're doing far more in that space then we've done before. We actually have a bunch of major employers lined up, I think that is contributing to economic growth."*

In Bahrain, the Supreme Council for Women was set up to reduce barriers to labour force participation faced by women by creating incentives to employ on a balanced basis such as the "Award for the Empowerment of Bahraini Women". The Gulf Petrochemical Industries Co. is one of the Bahraini enterprises used as ambassador for positive change. Dr Hala Al Ansari, Secretary General of the Supreme Council for Women, Bahrain, commented: *"With the current economic uncertainty and fiscal constraints we are faced with a greater challenge in positioning women as a preferred choice for employment in the private sector. [...] While some of our neighbouring countries have created a reputation for themselves as tourist destinations, we would like to create a regional brand for the quality of life and women's role in society. We aspire to create an experience that can be shared with neighbouring countries."*

PwC's view

Talent and employability

There are a number of areas where businesses, governments and educational establishments can work together to co-create solutions to meet business needs:

- Develop course curricula and training programmes which equip people with a range of 'employability' skills as well as their particular subject matter skills and expertise, particularly young people given the high levels of youth unemployment currently being experienced in many countries. A commitment to hard work, presentation and punctuality are every bit as important as basic numeracy and literacy. In addition, communications, team-working, analytical skills and innovative thinking are highly valued by business as well as the relevant professional or technical skills for a given occupation. Training programmes should have these employability skills embedded within them so that individuals emerge with the full package of skills they need in the world of work.
- Developing new career entry paths, which provide (again particularly for young people) recognised, credible routes to high-skill careers. This involves reducing the barriers to entry and increasing access of candidates to opportunities e.g. by lowering the cost of vocational degrees and technical education programmes, which enables employers to tap into a broader, more diverse talent pool. Employers also need to step up and take a lead on this where they are lagging by playing a more active, direct role in the development of the employability and business skills that they need. For instance, a pilot has been commissioned by UK Commission for Employment and Skills whereby employers are being invited to develop proposals that raise skills, create jobs, and drive enterprise and economic growth. Government will invest in projects in which employers are also prepared to commit their own funds in order to make better use of combined resources.
- Tackling untapped and underutilised talent pools which could boost productive potential e.g. reducing the barriers to labour force participation faced by women in many countries, especially developing economies, as well as enabling ageing workforces to be kept healthy enough to work later into life and reskilling them.

Regulating smartly

Whilst the issue of over-regulation has returned as a top three business threat, the solutions remain largely behavioural, again requiring improved collaboration to address the 'how' of regulation as much as the 'what' of regulation.

Financial Services is now at the sharp end of a harsher regulatory environment. Martin Zeil, Minister of Economics, Infrastructure, Traffic and Technology for the State of Bavaria in Germany comments: *"The role of the state will continue to take an important place in some sectors. This is especially true for the financial sector. The financial crisis is after all a consequence of state failure."*

And Larry Fink, Chairman and CEO of asset management firm BlackRock Inc., notes: *"At BlackRock there's no question that regulation and the issues around future regulation are a major component of how we think today. We all have to remember the financial markets failed, banks failed. As a result we are going to have more regulation. Depending on how that regulation is designed, it's going to have a cost to our business and there are unintended costs across the spectrum. [...] I'm not as fearful of the long-term impact of regulation as long as it's good regulation. Our job is to minimise the impact regulations have on the market without jeopardising society."*

This particularly applies for sectors with long investment horizons such as energy companies. For instance, Steve Holliday, CEO of National Grid Group Plc., comments: *"A threat to our business can come about when we're investing in infrastructure that requires support over a long period of time and there is a sudden switch or u-turn in energy policy. You can find yourselves having made investments that are not in the long-term interest of consumers all of a sudden, or having to make a whole bunch of other investments very quickly to ensure you've got reliable supplies of energy. [...] So it is very important to our business that there is consistency of policy and sticking with things and making sure that, as governments develop those policies and the regulations, they're well thought through and based on real evidence."*

And Peter Terium, CEO of RWE AG states: *"In recent years we've seen significant government intervention in the energy system in Europe and specifically in Germany. Post-Fukushima, the German government decided almost overnight to have a forced scale down of nuclear power, with further capacity phased out by 2022. That has been a major shift as we're talking here about 20% to 25% of the base load capacity of an industrial country like Germany. That combined with the forced expansion of renewable energy, an expansion which has been very much supported by government schemes, has a very significant impact on our business and our business development."*

Richard Masson, CEO of the Alberta Petroleum Marketing Commission (APMC) in Canada comments: *"My general disposition is trying to have low taxes and stable rules which help companies to see a jurisdiction as attractive and stable and that helps them to reduce the cost of capital. So the lower risk means lower cost of capital and that's generally good. So that's a starting point."*

Similarly, Jon Grayson, Director-General, Department of the Premier and Cabinet, Queensland Government, Australia comments: *"Government should focus on where it can add most value – providing an effective regulatory and policy framework, in an efficient way designed to provide the minimum amount of regulation necessary – and let business get on with what it does best."*

However, there is a need for a mature approach. As Erkki Raasuke, Adviser to the Minister of Economic Affairs and Communications in Estonia notes: *"In Estonia I could tolerate more intervention from the state - if we leave everything to the free market we miss out on some opportunities."* However, he recognises that if government is not able to formulate effective strategies, then it should not intervene: *"There is a certain maturity needed for intervention."*

The focus must be on delivering economic wellbeing, which for citizens means jobs and income. As Gabino Cué, Governor of the State of Oaxaca in Mexico, comments: *"Government activity should promote an environment that simplifies the creation, development, expansion and consolidation of the companies through regulatory improvement, training and advisory services, public safety and investment certainty, credit support and competitive infrastructure, among other actions. The objective is increasing business profitability and stimulating the capacity of the state to attract and retain investments, which ultimately reflect employment, incomes and wellbeing."*

Enrique Ossorio, Regional Minister of Economy and Treasury of the Community of Madrid in Spain comments: *"Economic recovery requires the reactivation of the private sector, the only one that is capable of creating wealth and employment. The public sector's role is to create a framework to enable companies to successfully carry on their economic activities, remain competitive on the international stage and make our region become a magnet to entice foreign investment and talent."*

PwC's view

Smarter regulation

Many of the principles of better regulation are well known: regulation needs to be proportionate, accountable, consistent, transparent and targeted. In our view, some of the key principles underpinning a smarter approach to regulation are as follows:

- Outcome-based – focus on outcomes and impacts, not purely process, and make judgements on results, not just box-ticking.
- Clarity and stability – ensure that the rules for regulation are clear and not subject to constant tinkering.
- Even-handed implementation - it is not enough to define a transparent set of rules, but to implement them in a fair way, and be seen to do so.

The role of the state-backed CEO

The financial crisis demonstrated the risk of economic imbalances and going for growth at any costs and has raised new questions about the role of government and state-backed organisations as a tool for growth and development. How different are state-backed companies compared to those that are privately owned? And do state-owned enterprises (SOEs) have a distinct strategic role in the new global economy?

The rise of the state-backed CEO

State-backed businesses are playing an increasingly important part in the global economy. For instance, based on Fortune's Global 500 list of top stock companies as of 2011 87 out of 500 (17.4%) were SOEs (defined as having 50% or more government ownership), mainly in energy and financial services. The top 10 SOEs contributed 34.7% of total revenues from these 87 SOEs and the top 3 SOEs were from China, contributing 15.6% of total revenues from the 87 SOEs. In our Survey, 13% of CEOs surveyed have some form of state backing.

What is the view of the state-backed CEO?

State-backed CEOs in our Survey have many similar views to their private sector counter-parts on the major threats to their businesses: uncertain/volatile economic growth, fiscal deficits/debt and over-regulation are their top economic and policy threats. State-backed CEOs also agree with their private sector counter-parts on their top three priorities for government: financial sector stability, skills and infrastructure. However, state-backed CEOs also have distinctively different points of view on a range of issues, as set out below.

Confidence and concerns

Whilst overall levels of confidence in prospects for revenue growth in the short term (next 12 months) and long term (next three years) are the same, 42% of state-backed CEOs are very confident over the next 12 months, compared to 34% of private sector CEOs.

State-backed CEOs are relatively more worried about some policy and business threats such as inflation, lack of stability in capital markets and bribery and corruption.

There is also more concern about a wide range of business threats including availability of key skills, supply chain disruption, inadequacy of basic infrastructure, the speed of technological change, lack of trust in their industry and an inability to finance growth.

Priorities for growth

Growth is more likely to be expected to come from organic growth in existing markets (35% for state-backed CEOs compared to 31% in the private sector), with the USA the most important overseas market (28% of state-backed CEOs). However, the USA is also the market where more state-backed CEOs are expecting recession (38% compared to 31% of their private sector counter-parts).

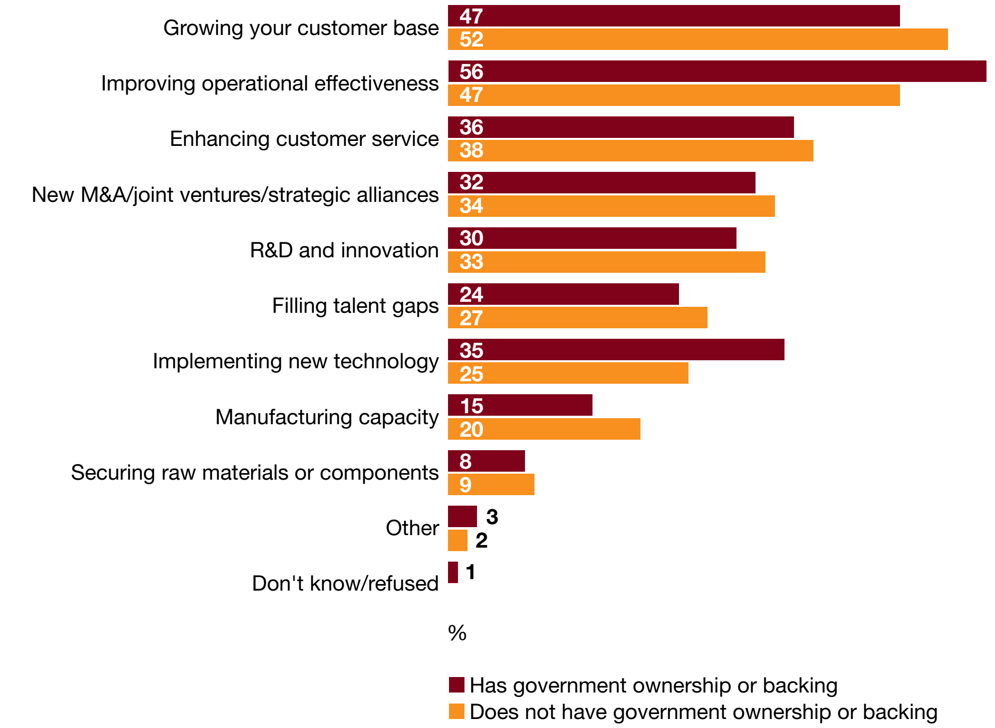
Although state-backed CEOs have similar investment priorities to their private sector counter-parts, their focus is more on operational effectiveness than on growing their customer base (top two priorities), perhaps linked to the significantly higher priority (in fourth place, just behind customer service) for implementing new technology (see Figure 10).

State-backed CEOs also anticipate similar changes to their private sector counter-parts in the next 12 months in a range of strategic areas such as customer growth and retention but see a greater need to invest in some key areas including managing talent, technology investment, corporate reputation and particularly risk management (see Figure 11).

Over the next year state-backed CEOs are similar to their private sector counterparts in planning to implement further cost reduction (seven in ten for both), but significantly more expect to initiate a new strategic alliance or joint venture (52% compared to 47% of private sector CEOs) and to outsource (40% compared to 30%).

Figure 10: Investment priorities

Q: What are your top 3 investment priorities over the next 12 months?
Respondents who stated 'some change' or 'a major change'



Base: All respondents (200; 1118)
Source: PwC 16th Annual Global CEO Survey

Figure 11: Changing strategies

Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?
Respondents who stated 'some change' or 'a major change'

Base: All respondents (106; 681)
Source: PwC 16th Annual Global CEO Survey

Stakeholder engagement

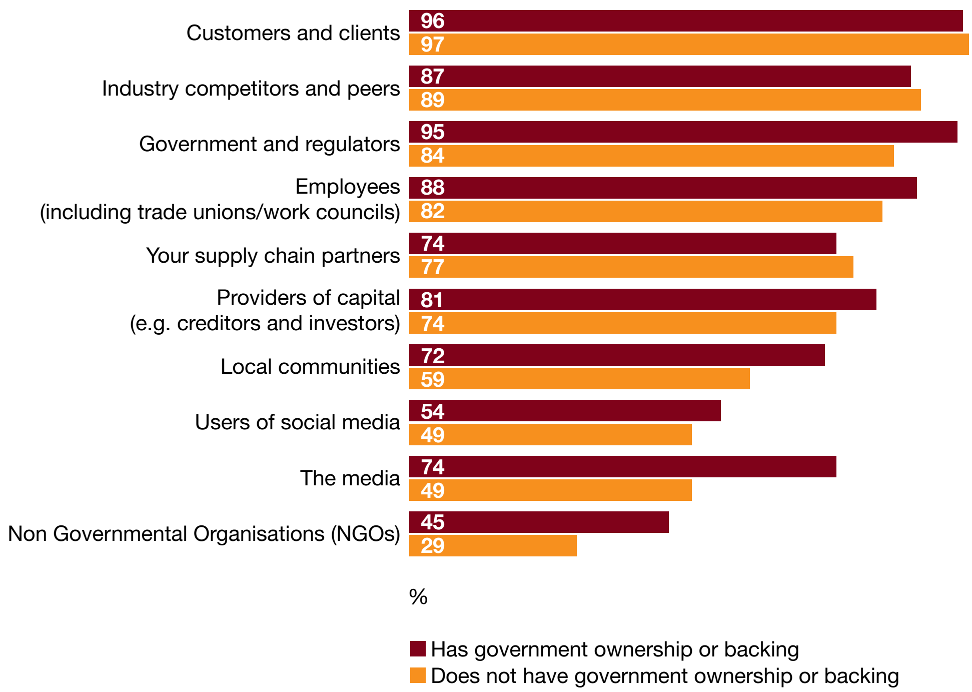
State-backed CEOs see government and regulators as having a major influence on their business strategy, equal to their customers and clients (see Figure 12). Indeed, state-backed CEOs generally see a greater influence of wider stakeholders than their private sector counter-parts, with employees, local communities and NGOs all having an influence. State-backed CEOs also seem to feel particularly in the glare of public life through the media.

In response, both state-backed and private sector CEOs are planning to strengthen future engagement with customers and clients as their top priority. However, relatively more state-backed CEOs are planning engagement with their other stake-holders particularly government and regulators, employees and providers of capital (three quarters or more -of state-backed CEOs surveyed).

Perhaps as a result, significantly more state-backed CEOs surveyed also have plans over the next year to focus on philanthropy or social enterprise initiatives, volunteering/community work, supporting a culture of ethical behaviour and changing the way they set executive pay in response to shareholder and public reaction and relative to risks taken. Finally, significantly more state-backed CEOs surveyed believe they need to match pay conditions of their peers to retain talent (81% compared to 67% of the private sector CEOs).

Figure 12: Stakeholders have extensive influence

Q: How much influence do the following stakeholders have upon your business strategy?
Respondents who stated 'some influence' or 'significant influence'



Base: All respondents (106; 681)
Source: PwC 16th Annual Global CEO Survey

Implications for government

All countries have some state-backed businesses, and for some it is the rule rather than the exception for businesses to be state-backed. Clearly it is a political as much as an economic judgement as to whether state-backed companies are desirable or not.

However, given their prevalence our view is that, where they form a critical mass, SOEs and state-backed CEOs can have a unique and distinctive impact on the innovation system and become a strategic partner for growth.

Karen Agustiawan, President Director and CEO of PT Pertamina (Persero), a state owned enterprise in Indonesia, illustrates this well in the field of education and skills: *"The Pertamina Academy is our corporate university. We are working with the University of Auckland and also the Masters degree of ITB on this initiative. At first the course will be only for Masters grade work because the potential of geothermal is so huge in Indonesia and we have a shortage in sub-surface expertise. After we have developed this course, we are going to continue to develop courses for the new graduate. So the students then will stay at the Pertamina training centre. Then they will be able to go to Auckland and then the ITB. So this is like the international programme in the university in Indonesia, but this is more geared towards geothermal. We are also in discussions with Petrofac about how we can develop general sub-surface and surface facilities training courses."*

Dr Cheong Koon Hean, CEO of the Housing and Development Board (HDB) in Singapore also makes a point on talent: *"In a government agency, we need to have a different mindset. We look for people with certain attitudes and values. We are public service and not a profit driven organisation. We're here to help people to make lives better. We need to have employees who share the same outlook with us to achieve the mission of the organisation."*

Colonel Faisal Al Shueibi, Head of Strategy and Performance Improvement, AD Police GHQ, Ministry of Interior in Abu Dhabi comments: *"I believe that human capital is one of the biggest challenges that we face especially when it comes to recruitment, retaining, and development, as well as performance measurement."*

Janet Dore, CEO of the Transport Accident Commission, Victorian Government, Australia also states: *"By applying commercial principles to their operations state-backed enterprises should help growth and development. That does keep us conscious that as a monopoly provider we cannot be complacent."*

But the state's role also needs definition. As Hörður Arnarson, CEO of Landsvirkjun, the National Power Company in Iceland, comments: *"We hold town hall meetings where we invite stakeholders to participate in a discussion with us and through this we make our strategy transparent. This also enables us to counter the uncertainty that results from the lack of strategic directives from the state. But, of course, it is the state's role to put forth a clear strategy […] The state hasn't put forth an ownership strategy but this is an essential element of the state's involvement in the company; this strategy needs to be independent of who is in the administration at each time […] It's very important that the owner creates the laws and then does not get involved in the operation of the company, just as in a regular business where there are clear roles, a responsible board, a responsible CEO and a focus on corporate governance."*

Kairat Kelimbetov, Deputy Prime Minister, Government of the Republic of Kazakhstan, also cautions: *"State capitalism helps construct modern infrastructure and extractive production but is very bad for innovation. We need to start to privatise and create a private eco system for innovation. A new strategy would be to privatise everything that could be interesting for people. Innovation happens where people have free minds."*

PwC's view

A new strategic role for SOEs

SOEs have a new strategic role to drive good growth, focusing not just on the Profit & Loss account but looking more broadly at their impact on a society's innovation system with respect to wealth creation, growth, job creation and wellbeing (see Figure 13). The results of this year's Survey appear to endorse that state-backed CEOs recognise this wider role through their engagement with a wide set of stakeholders.

SOEs can therefore play a vital and active part in creating a new playground for growth by fostering collaboration across the public, private, university and not-for-profit sectors and absorbing innovation for the home country (see Figure 14).

Figure 13: Scorecard of the Future for SOEs?

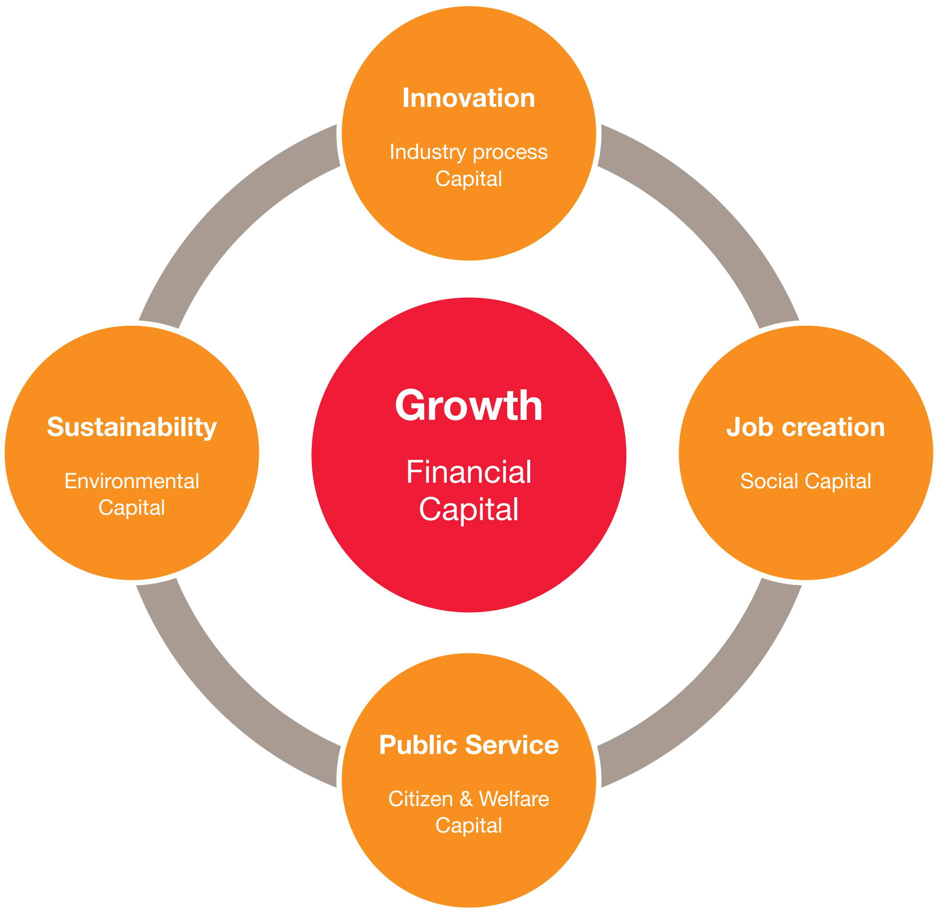
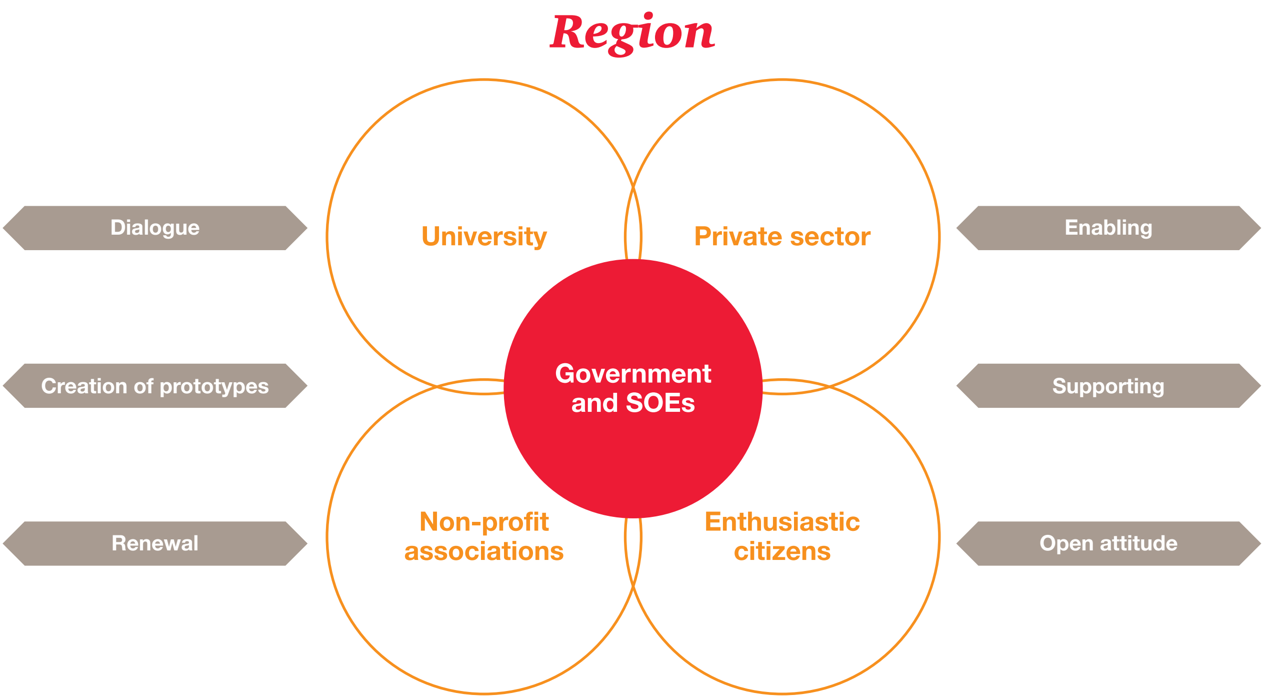


Figure 14: Stakeholder collaboration – creating a new playground for growth



To play this role, however, requires the following guiding principles:

- SOEs should not be run as a private company given the different business logic and task: their primary task is not just to generate financial return on investment to the government short and long term – it is value creation through the right investments, creating a long term sustainable and competitive advantage for the nation.
- SOEs need to be actively owned, directed and evaluated in a holistic way including human, social, environmental, intellectual and financial perspectives. Cost-revenues are not enough. Cost-benefit, outcome and societal impact need to be vital parts of the future scorecard of SOEs.
- SOEs need new principles for corporate governance – for owner, board, CEO and auditor – regarding their tasks, roles and internal collaboration.
- SOEs must be a bigger strategic player linked to the ambition of creating new jobs, growth and innovation in existing and emerging industries.
- SOEs can be an instrument for exponential value creation, if the right ideas, people and processes are put in place together with a solid and mature energising leadership at all levels.

Building resilience

Uncertainty is not only a challenge for business, but also for public sector leaders. How can public sector leaders become more adaptable to deal with the pressures ranging from budget cuts to increasing demand? And deal with failure when it occurs?

How are CEOs building resilience?

With confidence plateauing in tough economic conditions, CEOs are focusing on three specific strategies to create more resilient organisations. We believe many of these actions are equally relevant to public sector leaders and could enable them to build more operational flexibility and connectedness within and outside their organisations.

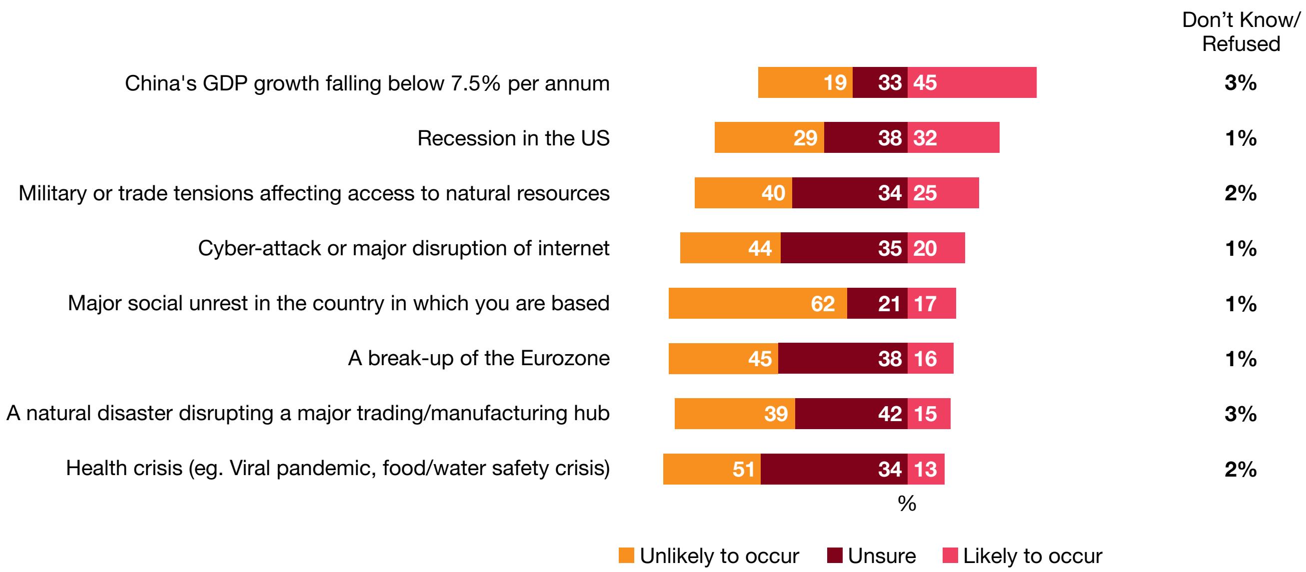
- **Targeting pockets of opportunity:** CEOs are focusing on a few well chosen initiatives, primarily in existing markets, to stimulate organic growth. However, CEOs are more wary about entering new markets or engaging in mergers and acquisitions (M&As) and diluting their resources too much.
- **Concentrating on the customer:** CEOs are looking for new ways to stimulate demand and foster customer loyalty, such as capitalising on digital marketing platforms and involving customers in product/service development. But they are also aiming to keep their R&D costs down and make the innovation process more efficient.
- **Improving operational effectiveness:** CEOs are balancing efficiency with agility and are trying to cut costs without cutting value or leaving their organisations exposed to external upheavals. The challenge of improving operational effectiveness has been ever present in both public and private sector organisations. CEOs know that they have to deliver on their promises, implicit and otherwise – which means honing operational effectiveness. Cost cutting is therefore still high on their agenda.

Anders Nyrén, President and CEO of Swedish public investment firm Industrivärden AB, spoke for many CEOs when he told us: *"Given that the global economy and the global pace of life are getting faster in all aspects, one needs to become more agile and efficient about everything – including running a company. It's essential that you streamline operations and become leaner wherever you can, so as to be able to react more quickly to changing market conditions."*

CEOs also seem to feel high levels of uncertainty related to the likelihood that events like major social unrest or cyber attacks could have an impact on their company (see Figure 15).

Figure 15: Future scenarios

Q: How likely are the following scenarios to occur?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

However, the CEOs who are more confident tend to be more likely to believe such disruptive events provide opportunities rather than have a negative impact. This perhaps provides us with real insights into the mind of the CEO – confident that they can take advantage of any situation by adapting fastest in uncertain times. A quality that government and public sector leaders should take to heart!

This is further reflected in findings that 'very confident' CEOs appear to believe in 'distributed leadership' across their organisation and their supply chains. Confident CEOs are diversifying their supply chain, encouraging staff to get involved in strategic decision-making and nurturing many strategic initiatives.

CEOs are also collaborating with trusted partners in related industries both to share resources and to develop new offerings. In the post-crisis world, trust is at a premium, is an essential component of the ongoing relationship between an organisation and all its stakeholders and thereby is an important pillar of resilience.

Many CEOs also recognise the need for a new relationship – the impact of recent scandals and social media has damaged trust. Indeed, 57% of CEOs surveyed plan to focus on promoting an ethical corporate culture as well as planning to focus on developing a more inclusive workforce, reducing their environmental footprint, and improving reporting and tax planning – all 'hot' customer issues.

And as commented upon earlier, there is increasing investment in creating a skilled and healthy workforce – a virtuous circle because cared-for employees stay longer and reinforce reputation, which bolsters trust.

As Drew Fagan, Deputy Minister of the Ministry of Infrastructure of Ontario, Canada, comments: *"In order to improve resilience to external factors, it is important to focus on our world-class education system and maintain our economic strengths coming out of the Great Recession."*

Implications for government

There are two different sets of implications for government and public sector organisations: the extent to which they can work with the private sector to improve resilience, perhaps best exemplified by the role of governments in coping with natural disasters, and how government and public sector organisations can make themselves more resilient.

Building a more resilient environment

Our interviews with public and private sector leaders suggested that the main role for government should not be to intervene in individual business efforts to build resilience, but rather to focus on some of the broader enablers for business. In particular, the role of government in building more risk resilient infrastructure has come to the fore in the wake of a range of natural disasters ranging from tsunamis in the Far East to earthquakes around the Pacific Rim and floods in many parts of the world.

Gabino Cué, Governor of the State of Oaxaca in Mexico discusses their approach: *"Through the Civil Defense Institute of Oaxaca, responsible for defining the risks, disasters and subsequent crisis prevention and response mechanisms and policies, we perform monitoring activities of recurring phenomena, such as rain, tropical cyclones and seismic activity, besides the diffusion of notifications and news in case of emergencies or disasters."*

"On the other hand, thanks to the National Civil Defense System we have the Natural Disasters Fund (FONDEN), which supports federal entities to respond and recover from natural disasters. During 2012, Oaxaca was tested, because the Coast Region was affected by the earthquakes that took place on March 20th, and by Carlotta hurricane. The government implemented timely alert actions –for the hurricane– as well as planned reconstruction in seven basic sectors: housing, roads, hydraulic, electric power, educational, healthcare, public buildings and business strengthening."

PwC's view

Post-disaster recovery

Both the frequency and intensity of disasters are expected to increase due to climate change, urban migration, population growth, and the increased scarcity of natural resources. All cities are prone to natural disasters and they can also be targets of violent large-scale acts.

The trend in many disaster-prone countries has been to work jointly with all sectors of their communities in recovery and reconstruction. "Whole Community" planning that takes place prior to disasters and incorporates risk mitigation and reduction strategies contributes to more resilient communities and therefore enables them to return to their primary functions sooner.

Building disaster-resilient infrastructure is therefore critical for a city's competiveness, both nationally and globally. The private sector can offer innovative solutions to help cities build or rebuild disaster-resilient infrastructure.

We believe in the need to structure public-private partnerships for post-disaster rebuilding: resilient infrastructure cannot be rebuilt without both public and private sector collaboration. Specifically, there is a need to:

- Provide incentives for rebuilding more smartly by incorporating disaster risk management and mitigation strategies in rebuilding.
- Create frameworks for bringing the public and private sectors together following a disaster to develop reconstruction strategies that take risk management and mitigation into account.
- Emphasise the role of resilience in post-disaster rebuilding, asking the question: How can the infrastructure hold up in the case of a similar threat in the future?
- Consider the best ways to fortify infrastructure in the likelihood of unanticipated events like flooding, pandemics, energy shortages, or terror attacks (as opposed to more commonplace events like equipment failure).
- Align rebuilding strategies and investments with the priorities of a region: having that clear and agreed upon amongst stakeholders before disaster strikes is a good first step.

The agile public body

Public sector leaders need to address many of the same areas as private sector CEOs but also need to have their own view of the different futures that may emerge and take a wide view of the threats and opportunities facing their organisations. One way to enable organisations to plan their responses and build their capability to respond to unforeseen events is through scenario planning and 'gaming the future'.

As Hrólfur Jónsson, Director of Property Management and Industrial Development at Reykjavíkurborg (City of Reykjavík) comments: *"We created scenarios to try to visualise what's driving the system and if we get pulled backwards or downwards, what scenarios will we face […]One of the things we are focusing on to counter uncertainty is to improve our financial models as this would enable us to create realistic scenarios."*

Doug McKay, Chief Executive of the Auckland Council, New Zealand, makes an important point about mindsets: *"Resilience is so much about an attitude, about having an expectation about the world you're living in is changing all the time and finding that exciting and looking for opportunities within that. Creating mindsets that revel in that environment, creating a culture that looks for opportunities in that environment, maybe even creates uncertainty and change and disruption because disruption is such a key part of reinvention so what goes on in the top two inches is the most important issue for me around the resilience question. In the more practical sense, it's clearly about your physical resilience, your processes, your physical location and safety and security, ability to perform when something goes wrong."*

Dr Cheong Koon Hean, CEO of the Housing and Development Board (HDB) in Singapore makes a related comment: *"One danger of focussing on immediate delivery only is that you keep looking down at the details and when you look up, you suddenly realise that there is a cliff right in front of you which you might fall off from. It's important for the organisation to look further and not just at the project on hand."*

In response, HDB did two things. Firstly, it set up a strategic futures office to scan the horizon using tools such as scenario planning to anticipate trends that are going to happen and their impact on the organisation.

"The strategic futures office also helps to educate our staff on what's going on around the world, broaden exposure, particularly in the area of R&D and innovation. If you keep looking inward you never know what's happening outside. We use these mechanisms to get our people to think outward and not only inward. It will be a long sustained process in order for that to happen." The second thing was to develop an enterprise risk management framework to help anticipate short, medium and long term issues.

PwC's view

Gaming the future

The financial gap that councils in the UK are attempting to bridge is set to widen further. The Autumn Statement in 2012 announced further spending cuts with local authorities in the front line.

The UK's Audit Commission has commended local authorities for their management of the outcomes of the Spending Review 2010. However, there are no more quick wins for councils. Radical thinking is required.

At a recent New Local Government Network Policy Summit,[9] the cuts expected for local government were set out and the event was used to 'war game' their implications for both metropolitan and rural councils.

The key questions addressed included:

- Where will the cuts fall and which services will be vulnerable and which prioritised?
- What will be the shape and purpose of local government after 2015?
- What will be the impact on the relationship between the citizen and the local state?

The final output of this project will be a publication that combines original desk research with insights collected from local government decision makers – at both the 'war game' and through round tables – to assess what the future financial settlement could mean for local government.

9 Summit held at the end of November, 2012 with local government CEOs.

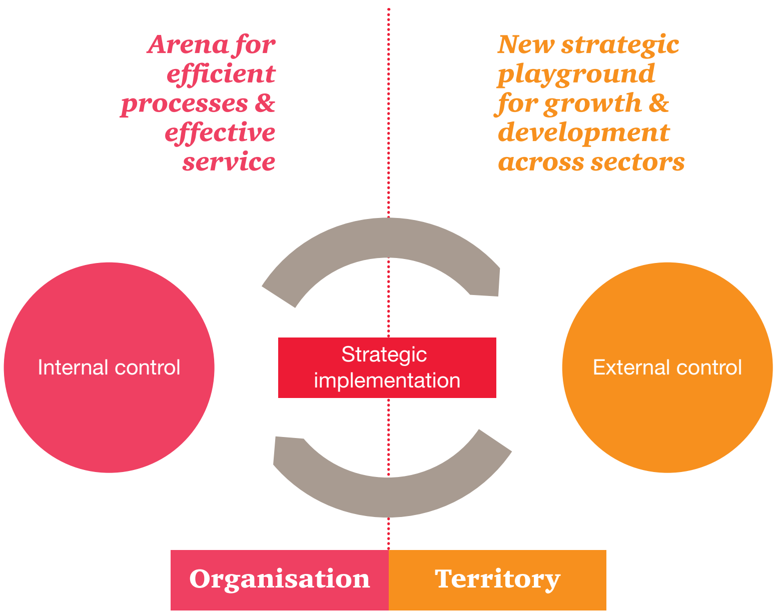
Strong financial management is also critical to ensure organisations are on a sound financial footing and more resilient as a result. As another interviewee from New Zealand, Ray Smith, Chief Executive of the Department of Corrections, comments: *"Because of the pressure that we have come under financially in the past few years we are in a far better position to know where we are, what our costs look like, and what's driving them. I think most well performing businesses will be in that place now."*

Of course, risk management is also essential. Rafael Borras, Under Secretary for Management, the Department of Homeland Security, US, makes a number of important points: *"How do you strengthen and build an organisation that is nimble or agile enough to deal with uncertainties so we don't have tremendous swings up and down in organisations contributing to a whole host of maladies, whether it is morale or poor internal controls? From a resiliency standpoint, I think the identification, mitigation and management of risk is a good place to start."*

"In a management context, having both the internal controls and the repeatable processes in place in your organisation is a great part of building resilience of the organisation to be able to be prepared for a potential bad day, which talks about not only what are we doing day to day, but under the worst case scenario, how do we continue to run this government, how do we continue to run this department. [...] You also help build resilience by improving the quality of your workforce. Improve the quality of your new talent and you improve the quality by retaining the good talent."

But public sector organisations at all levels also have an even greater challenge to get the balance right between an internal focus on their efficiency and effectiveness and an external focus on helping their stakeholders, particularly businesses in this context (See Figure 16). As Torbjörn Rosdahl in Sweden comments: *"Our focus is on increasing the productivity of the operations, not on making cuts. We do this by, amongst other things, ensuring that the right skills and competence are applied in the right places [...] in order to succeed in finding the right balance between the internal and external environments, I believe that a results-oriented thinking must be implemented in our operations, something which has traditionally not been found in this sector."*

Figure 16: Balancing internal and external focus



In Spain, Máximo Buch Torralva, Minister of Economy, Industry, Tourism and Employment of the Regional Government of Valencia provides an example: *"Internal and structural costs are cut by 25% as a result of austerity and current cost control requirements, while support for business and productive sectors, summarised in the Incentives Plan, is increased to drive the real economy, general employment and reduce the deficit. One clear example is the redistribution of the funds assigned to internationalisation: in 2013 direct aid will increase by 18% to encourage more and more companies to venture abroad. Our aim is to multiply the number of exporting companies in the Valencia Region, which has increased by 21% in recent years. Simultaneously, we are restructuring the IVEX,[10] entailing a considerable reduction in costs through the integration of its offices into the ICEX[11] network to avoid duplication."*

Perhaps the clearest overall message to emerge, however, is the need for public sector leaders to manage their organisations to cope with increasing uncertainty and risk by creating more agile organisations, ones that are capable of responding more quickly and flexibly to change, are focused on outcomes not processes and see collaboration with others as a core capability.

This is a challenge to which the private sector is also rising. For instance, Steve Holliday CEO of National Grid Group Plc., in the UK comments: *"The shape of the industry, the challenges we've got in terms of this unpredictability, the need for us to think about different scenarios, but also understand new technologies that are coming in and how we can quickly adopt them for our customers, all mean we've got to be agile to a degree we've never been before."*

And as Irene Svenonius, CEO of the City of Stockholm also comments: *"Stockholm's strategy for resilience is to always be relevant! [...] Cooperation between the city and the surrounding region, universities, NGOs and the businesses are vital in our strategy."* Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue in New Zealand states: *"I think for me its understanding which things you can't take risk with and then being agile with everything else."*

The economic crisis in Spain has shifted mindsets towards a greater resilience in the public sector, which is forging a new relationship with their stakeholders (private sector/business) to build its capacity to anticipate the future. Enrique Ossorio, Regional Minister of Economy and Treasury of the Community of Madrid comments: *"The public sector's role is to create a framework to enable companies to successfully carry on their economic activities, remain competitive on the international stage and make our region become a magnet to entice foreign investment and talent. [...] Governments are required to build the appropriate framework to ensure that companies, taking their own decisions, can be competitive in the domestic and foreign markets alike".*

And resilience has a particular meaning in the development arena. As Helen Clark, Administrator of the United Nations Development Programme, notes: *"We can't stop shock. There will be shocks. There will be economic shocks. There will be climate shocks. There will be seismic shocks. There will be meltdowns of all sorts. The issue is do you have the resilience to deal with it. Now developed countries have resilience. They have shocks too. They have huge financial shocks as we see but they tend to have automatic stabilisers. They have social safety nets. The whole society doesn't fall apart as a result. It's tough, but it doesn't fall apart. So yeah, supporting others to develop that level of resilience which will enable people to cope through severe shocks is pretty important."*

10 Local Spanish Chambers of Commerce, State of Valencia.
11 Federal Spanish Export Promotion Intitution.

PwC's view

Agility as an organising principle[12]

Most public sector organisations face a future where they will be smaller, employing fewer staff, and be involved in significant delivery partnerships with others increasingly in private and voluntary organisations, as discussed earlier. There will also be less in-house direct service delivery and more commissioning of services.

But the sheer scale of continued financial pressures for the foreseeable future means that public bodies will need to go further and transform themselves into more flexible, responsive and adaptive entities to cope with new circumstances and unforeseen events and take advantage of opportunities to innovate and transform operating models.

We believe the key organising principle for the future will therefore be the emergence of the agile public body, a strategic leader, focused on and accountable for outcomes, not processes, and who sees collaboration, accessibility and transparency as core capabilities.

Agility is as much about a state of mind, an idea, as an actual organisational form. It requires:

- Adaptability: The ability to adjust and meet changing requirements.
- Innovation: The ability to generate and utilise new ideas, methodologies, and technologies.
- Collaboration: The ability to leverage internal and external knowledge and resources to enhance the mission.
- Visibility: The ability to create and maintain transparency to enhance evidence-based decision making.
- Speed: The ability to recognise and respond with the requisite tempo to new circumstances and events.

The concept of agility is harder to explain than achieve. Some key steps include:

- Reducing complexity through consolidating and standardising operations: using common corporate approaches can drive cost improvement, efficiency and operational effectiveness.
- Enhancing customer intelligence through insight, technology and integrated data management: customer personas and segmentation approaches can help prioritise services and make them more responsive.
- Managing demand through more sophisticated commissioning, procurement and supplier management.
- Developing new delivery models by increasing diversity in delivery arrangements: more co-design of service delivery arrangements with customers involved in shaping services.
- Creating new support models focused on improving the way the back office functions, creating standard services.

There is also a feedback loop to the UN's own programmes, as Helen goes on to say: *"So our organisation has to be effective in a world environment which is extremely difficult, buffeted by the global financial crisis over the last four years, buffeted by mega disasters, climate-related, seismic-related, and then buffeted by conflict – war, armed violence as one can see in Mexico and Guatemala, can be very debilitating and blight development. So we need to be agile enough to work effectively."*

In addition, in an environment where budgets and resources are becoming ever tighter, whilst demand for most services increases and expectations of users rise, there is an increasing risk that some providers of public services may fail to cope. Public sector leaders need to be ready for this eventuality and prepared to deal with failure.

12 Ideas drawn from: 'Agile Defense', PSRC, 2011; and 'The Agile Council', PwC, 2012.

PwC's view

Dealing with failure[13]

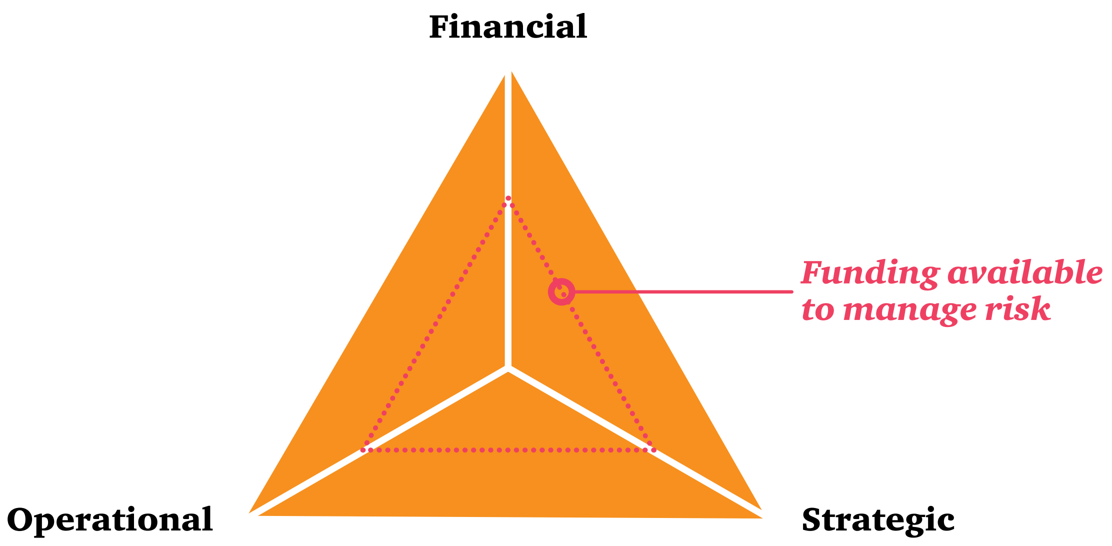
As public bodies come under more pressure to reduce costs and also to innovate, the risks increase and the likelihood of financial and service distress become more significant. But what do we mean by failure in the public sector?

In the private sector, failure is associated with services not being provided and companies going bust. How does this translate to the public sector? In our view, failure comprises three inter-related elements (see Figure 17):

- Financial: the performance of an organisation in terms of its key financial activities including its income and expenditure (or profit and loss) account, its cash flow and its balance sheet, particularly its debt levels.
- Operational: the efficiency and effectiveness of the delivery of services to end users and the supporting infrastructure of people, processes and systems.
- Strategic: the organisation's overall approach to succeeding in the markets it is serving, including decisions on whether to expand, contract or stop services.

Each of these three points of the 'failure triangle' is important, and a well-run organisation sees a balance across all three. Indeed, these areas of focus will be reflected in day-to-day practice for the best run organisations with the most important item at any particular time featuring at the top of the leadership team agenda.

Figure 17: The 'Failure' Triangle



13 Drawn from 'Under Pressure', PwC, 2012.

Engaging business

In light of growing government involvement in private sector activities, either through ownership or regulation, CEOs are changing their views on the role and influence of government in the key areas that impact on business. How can government and public sector organisations collaborate better together and develop a new 'business contract'?

How influential are government and regulators on CEOs' strategies?

Business leaders are connecting more with a wider group of stakeholders - such as non-governmental organisations, business partners, local communities, governments and providers of capital – as they become more and more influential on the decisions organisations make.

In response to changing stakeholder expectations, CEOs are also having to draft a new social contract that better balances the needs of shareholders and of the wider communities in which they operate.

Government and regulators are key stakeholders:

- 85% of CEOs surveyed stated that government and regulators have some or a significant influence on their business; only 15% say that they have little or no influence; in comparison, Non-Governmental Organisations (NGOs) were cited by 67% of CEOs as having little or no influence (see Figure 18).
- 67% of CEOs surveyed said that they are making changes to strengthen their engagement with government (see Figure 19).

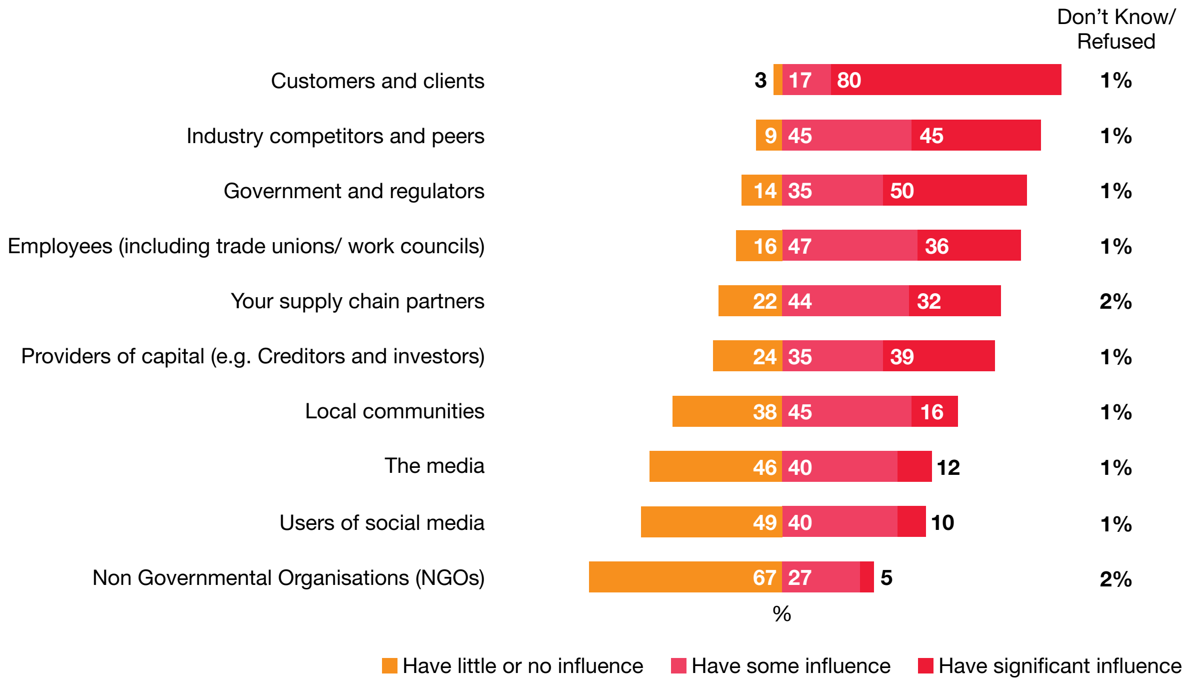
The views of a range of the private sector CEOs interviewed in our Survey make the point:

- *"The most influential stakeholders we have are the regulatory authorities, such as Ministry of Health, Labour and Welfare and Consumer Affairs Agency in Japan; and the Food and Drug Administration in the US."* Yasuchika Hasegawa, President and Chief Executive Officer, Takeda Pharmaceutical Company Ltd., Japan.
- *"In turbulent times, a company making long-term investments can't always be sure that the regulatory regime won't change or that the government won't intervene in the marketplace. So, in our business, we have to be careful to form lasting relationships with our host governments. We're not trading in and out of financial positions. We're investors for the long-term. So managing our relations with host governments is crucial to how we operate."* Carl Sheldon, CEO of TAQA, UAE.
- *"Another goal is to ensure that we are respected within the community by the regulators, the policy makers and the communities that we work in. Those are all important objectives for us if we want to build a long term valuable business."* Shikha Sharma, Managing Director and CEO, Axis Bank Limited, India.

Stephen A. Elop, President and CEO, Nokia asserts: *"On the macro level, you can list all of the different economic issues, including the financial threats in Europe and the United States, but if you look across all of these various challenges, the common threat is the extent to which business leaders and government leaders cannot reach a reasonable conclusion to do the right thing. [...]When parties aren't willing to come to the table or are so far apart in their points of view and unwilling to compromise, that's a problem. After all, the art of business, the art of government is about being able to come to a reasonable conclusion in the end, because you must move forward."*

Figure 18: Extent of influence of stakeholders

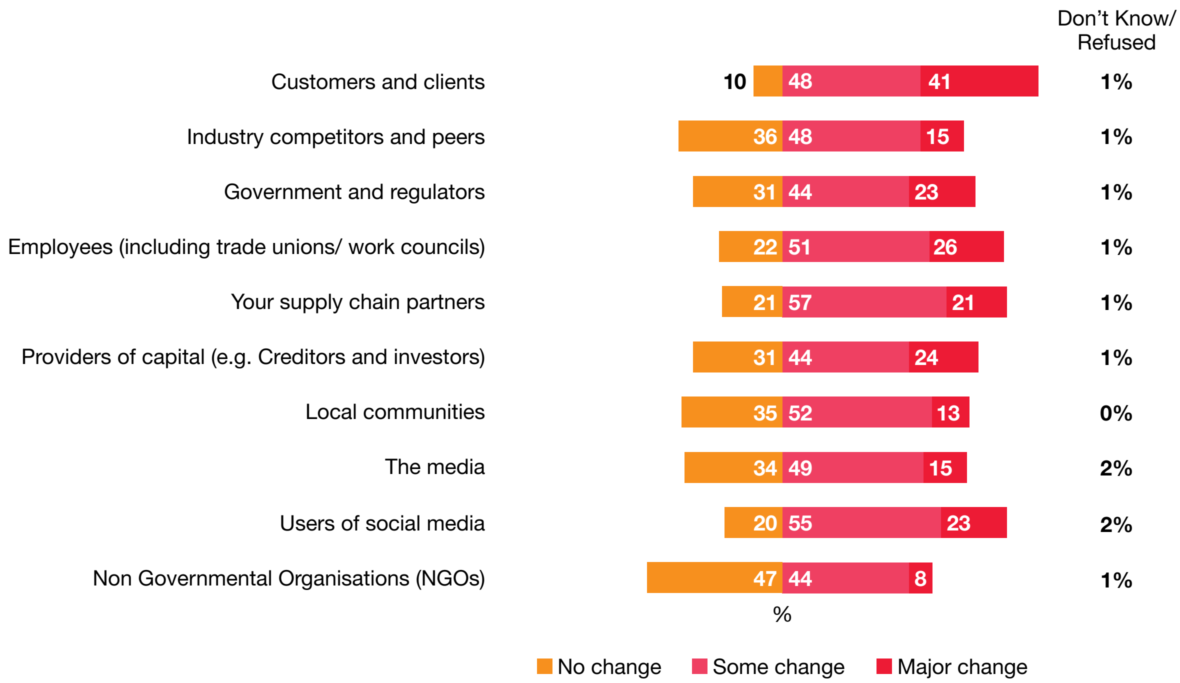
Q: How much influence do the following stakeholders have upon your business strategy?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

Figure 19: Changes in stakeholder engagement

Q: For those stakeholders with some or significant influence, to what extent are you strengthening your engagement programme?



Source: PwC 16th Annual Global CEO Survey

But with CEOs concerned on issues such as the burden of regulation and tax, it is clear that collaboration isn't working as well as it could be. As Larry Fink, Chairman and CEO of asset management firm BlackRock Inc., comments: *"I tell every politician and regulator that what's inhibiting the world today is a lack of trust and confidence. [...]So we need to find a way to create trust so that we can look beyond the next year. We need to create confidence and a partnership between government and business, so that CEOs worldwide and their leadership teams put that money into capital expenditures and people and building better opportunities for the future."*

Implications for government

Businesses and government and public sector organisations need to collaborate more effectively particularly as the influence of the state has risen in the West. For many emerging markets, state ownership has long been a feature of the business landscape which has meant that dialogue between business and the state has been more natural. CEOs in developed economies need to discover how best to engage with government and regulators given the changed nature of the business landscape with more state ownership.

In our view, leaders in government and the public sector need to set the tone for improved collaboration, with a focus on outcomes. Dato' Sri Dr Mohd Irwan Serigar Bin Abdullah, Secretary General of Treasury, Ministry of Finance in Malaysia comments: *"The government is focused on a smart partnership between the private and public sectors where the use of government subsidies in terms of infrastructure, training and R&D helps to achieve both private and public sector outcomes. For example, sending nurses to private colleges helps the government avoid the costs of building training centres whilst for highway projects soft-loans provided by government means reasonable toll charges and makes travelling affordable to the public."*

Improved and effective government-business engagement cannot be left to chance. Dilip Chenoy, CEO of the National Skill Development Corporation in India points out: *"The onus of getting the private sector and the government to work together depends on the CEO and the ambition of the Board. If we have got a particular approach right, there is no reason why the government and the private sector can't work together."*

Helen Silver, Secretary, Department of the Premier and Cabinet, Victorian Government in Australia illustrates the action that can be taken: *"We have the Victorian Leadership Development Centre which is very much focussed on identifying leaders. It gives them appropriate training to manage very complex portfolios, create networks so they see themselves as not isolated but connected, so they feel a sense of ownership in the broader issues faced by government. It also demonstrates our commitment to their career development."*

William Whitford, Managing Director, Treasury Corporation of Victoria in Australia, comments: *"Regulators can help the private sector to become more resilient by providing a proper legal and risk framework e.g. prudency buffers. Government also plays an important role in providing leadership to the community. [...]Trust is the key challenge for collaboration: there seems to be some business distrust of government's intent, arising from changes in legislation, taxation and so on. To be collaborative there needs to be open and responsive dialogue, and commitment to the path (from both sides) once an agreement is reached."*

Rob Goudswaard, CEO of the Rural Finance Corporation, Victorian Government in Australia provides an example which also tackles the theme of resilience discussed earlier: *"Within agriculture, government and business are collaborating on what can be done around farming methods e.g. genetically modified crops and methods that use water less, to build resilience."*

In the US, Rafael Borras, Under Secretary for Management, Department of Homeland Security, advises: *"The issue of uncertainty extends to those businesses that do either a whole or a portion of their business portfolio with government-they need the same access to information on what our trends are, what is our level of spend, where are we shifting resources or priorities; because industry has to be able to move along with that. I am very mindful of making sure we increase our transparency with the private sector about these issues whether it is contracting methods, whether it is procurement forecasts, whether it is areas or priorities of focus, whether it is technology needs in the future; industry needs that information."*

This collaboration may extend to a more porous boundary between business and the state when it comes to people. Indeed, Rafael Borras expresses the wish to move towards more staff exchanges between industry and the government instead of competing for the same talent pool. His opinion illustrates the shift in mindset from forced cooperation to mutual collaboration and shows how the public and private sectors are more co-dependent than ever on key issues such as skills.

Rafael Borras comments: *"It really is a broader conversation with industry and other government agencies- how do we grow and nurture the talent we need, not only for today, but for tomorrow so that we can create a supply chain that is sufficient to meet all of our needs? [...] I think it is very healthy to bring people from industry into government […]Why can't we have more exchanges between industry and government where I would send to industry contracting officers and programme managers and I would get in return programme managers from industry? That would begin to break down those barriers"*

Such exchanges happen in other countries. For instance in Germany's Federal Foreign Service where it is common that some civil servants in the Directorate-General for Economic Affairs and Sustainable Development go for a few years into the private sector and vice versa; likewise in the UK's Department for Business, Innovation and Skills which has both short and longer term exchanges.

Drew Fagan, Deputy Minister of the Ministry of Infrastructure of Ontario, Canada, also notes: *"We are looking for private sector leaders to collaborate for success. Private and public sectors both want to make Canada (and Ontario) more competitive. For example, the 'Jobs and Prosperity Council' composed primarily of private-sector leaders provided important advice recently to the Ontario Government on how government can operate more efficiently and how the private sector can be more productive. Encouraging flexible work experiences for public employees to gain some private sector experience (and vice versa) helps to bridge the two sectors and provides greater opportunities for collaboration in the future."*

Iain Rennie, State Services Commissioner in New Zealand comments: *"Ideas about embedding collaborative purposeful working is the way to build system resilience and reduce the inevitable limits to agencies' specific resilience. So, I think it's those two levels about more foresight and strategic role, plus increased capacity to work collaboratively at speed across organisation boundaries."*

Of course, although not the focus for this report, it should also be remembered that citizens should also be part of this engagement, particularly when it comes to places. For instance, "Urban Empowerment 2010-2011" was a pilot initiative in Gothenburg creating new forms of citizen participation in urban development. The main project, called Hammar Park, was the creation of partnerships between 8000 inhabitants and their municipal building contractors to try out new ways of civil participation and inclusion. Bengt Delang, City Director, City of Gothenburg, Sweden, commented: *"We are currently trying out new models of participation and citizen dialogue. A city is nothing more than the sum of its inhabitants and if we want to be relevant we have to go along with our citizens now and in the future".*

In Brazil, Antonio Anastasia, Governor of the State of Minas Gerais also comments: *"In summary, the conception of the Minas Gerais government is a managerial shock in the first phase, the delivery of results in the second phase and the involvement of the citizens in the third, being this the hardest one. The third phase is hard because our culture is not used to stimulate citizen participation. This culture reflects in the government and in the private sector, so it is necessary to evolve in terms of a more effective participation of the citizens and mature government practices."*

The last word goes to Peter Ho, Senior Advisor to the Centre for Strategic Futures in Singapore who gives an all embracing view: *"As we enter a period of greater complexity, change is more rapid and there are going to be more frequent shocks. We cannot assume that plans and policies that worked in the past will work well in future. We also cannot assume that the government will be able to find solutions to all challenges that lie ahead. There are many factors to consider in the interconnected and complex world. We are looking for insights, ideas, experiences, competencies both from within and outside government."*

"Each agency cannot assume they know the full solution to the problem, or even what to do. They need to work with other government agencies to better deal with complexities of the problem. This is the whole-of-government approach. However with such complex problems, governments must also work much more closely with the private sector and the people sectors, to tap into their competencies, experiences and insights. This is the whole-of-nation approach."

"Going forward, we have to decide whether it is 'government to you', or 'government with you', which is co-creation. This is about working together. Effective governments will be those who can collaborate with resources outside of government."

PwC's view

Leaders setting the tone

Like it or not, the public and private sectors are also more co-dependent than ever. Trust needs to be re-built to ensure shared success between business, government and the wider community in a changing and interconnected world.

At the moment, particularly in developed economies, government-business relations are often seen as adversarial, with state intervention accepted only when there is a crisis.

Looking ahead, with the state likely to stay involved in businesses for much longer than might have been envisaged at the start of the Great Recession, there is need to shift mindset from:

- A belief of 'public good, private bad' to a more nuanced appreciation of the best of both.
- Forced cooperation to mutual collaboration;
- Distrust to mutual recognition of responsibilities on both sides.

This applies particularly where businesses are getting more involved in public service delivery. Public sector leaders of the future need to:

- Facilitate the development of an energising vision, for their organisations and their wider stakeholders.
- Create meaning and context for collaboration, setting out clearly their purpose and role.
- Embed a solid value system to guide behaviour and action.

Collaboration holds obvious attractions for public service commissioners, by promising to bring the commercial acumen and resources of private providers together with the 'mission focus', specialist skills and perceived respectability of not-for-profit and public sector organisations. Experience suggests that this mutually beneficial joint enterprise is difficult to enact in practice. Shared values are important and organisations will struggle to work together successfully if they partner only for reasons of expedience. In our view, differences should be addressed openly and up front, and all sides need to make compromises.

As ever, with most commercial partnerships, the quality and commitment of individual leaders on both sides makes all the difference. Public sector leaders can help by setting the tone for the dialogue and by taking personal responsibility in order to make things happen,[14] within their organisations and with their external stakeholders (Figure 20).

Figure 20: Making it happen

14 'Making it happen', PSRC, 2011

Agenda for action for business and government

Government and public sector leaders across the world have to deal with enduring challenges of global uncertainty and austerity. And all government and public sector leaders are facing the challenge of balancing between an internal focus on efficiency and effectiveness and an external focus on helping business to create the wealth and jobs that societies need to prosper.

Whilst more developed regions such as North America and Europe continue to wrestle with fiscal deficits and debt, developing countries are coping not only with the consequences of reduced demand in their export market but also the effects of their own rapid growth, such as the lack of availability of talent and skills.

In our view, the world has become so interconnected and inter-dependent that there has emerged a clear and common agenda of actions for government and public sector organisations when dealing with business in the context of wider societal views.

We believe public sector leaders must set the tone from the top and act as strategic role models for their organisations, and their partners, by:

- **Developing leaders of the future today**, energising their organisations to deliver their mission.
- **Developing their growth stories**, setting out how businesses and the public sector can work together to reduce the uncertainty that hinders the confidence to invest and create jobs.
- **Prioritising resources and actions** to develop the financial sector stability, skills and the enabling infrastructure (transport, housing, energy) required by business to succeed, whilst also tackling the threat of over-regulation as it rears its head again. This involves supporting businesses in their ambitions to foster the skills and health of their workforces.
- **Building agility** to enable public sector organisations to adapt more easily and quickly to their external pressures, from budget cuts to disruptive events, and emerge as more resilient entities able to face the future whatever the uncertainties.
- **Innovating** to make breakthroughs in doing things differently and doing different things in a systematic way, including rapid prototyping of new ideas to speed up the service delivery cycle using new technologies and social media.
- **Collaborating** with public sector organisations and businesses working in a true spirit of partnership both with each other and with citizens, academia and NGOs to drive us towards good growth.

By creating a new way of working – a new contract between business and government – we believe we should be optimistic that together we can make a real difference to the future of our society.

Annex: Interviewees

Name	Organisation	Country
Colonel Faisal Al Shueibi	Head of Strategy and Performance Improvement, AD Police GHQ, Ministry of Interior	Abu Dhabi
William Whitford	Managing Director, Treasury Corporation of Victoria	Australia
Dr Ian Watt AO	Secretary, Department of the Prime Minister and Cabinet, Australian Government	Australia
Janet Dore	CEO, Transport Accident Commission, Victorian Government	Australia
Rob Goudswaard	CEO, Rural Finance Corporation, Victorian Government	Australia
Jon Grayson	Director-General, Department of the Premier and Cabinet, Queensland Government	Australia
Jim Hallion	Chief Executive, Department of the Premier and Cabinet, Government of South Australia	Australia
Peter Conran AM	Director General, Department of the Premier and Cabinet, Government of Western Australia	Australia
Melissa Skilbeck	Deputy Secretary, Department of Treasury and Finance, Victorian Government	Australia
Helen Silver	Secretary, Department of Premier and Cabinet, Victorian Government	Australia
Dr Hala Al Ansari	Secretary General of the Supreme Council for Women	Bahrain
Antonio Anastasia	Governor of the State of Minas Gerais	Brazil
Drew Fagan	Deputy Minister of the Ministry of Infrastructure of Ontario	Canada
Carolina Giliberti	Senior Assistant Deputy Minister, Service Management, Service Canada	Canada
Richard Masson	CEO Alberta Petroleum Marketing Commission	Canada
Erkki Raasuke	Advisor to the Minister of Economic Affairs and Communications	Estonia
Martin Zeil	Minister of Economics, Infrastructure, Traffic and Technology, State of Bavaria	Germany
Hörður Arnarson	CEO, Landsvirkjun (National Power Company)	Iceland
Hrólfur Jónsson	Director of Property Management and Industrial Development, City of Reykjavík	Iceland
Björn Zoëga	Managing Director of Landspitalinn, The National University Hospital of Iceland	Iceland

Name	Organisation	Country
Dilip Chenoy	CEO, National Skill Development Corporation	India
Francesco Paolo Schiavo	General Director, Ministry of Economy and Finance	Italy
Kairat Kelimbetov	Deputy Prime Minister, Government of the Republic of Kazakhstan	Kazakhstan
Dato' Sri Dr Mohd Irwan Serigar Bin Abdullah	Secretary General of Treasury, Ministry of Finance	Malaysia
Dato' Sri Dr Ali Hamsa	Chief Secretary to the Government of Malaysia	Malaysia
Gabino Cué	Governor of the State of Oaxaca	Mexico
Peter A.W. Veld	Director-General, Belastingdienst (Tax and Customs Administration)	The Netherlands
Iain Rennie	State Services Commissioner	New Zealand
Doug McKay	Chief Executive, Auckland Council	New Zealand
Ray Smith	Chief Executive, Department of Corrections	New Zealand
Christine Stevenson	Deputy Chief Executive, Department of Corrections	New Zealand
Naomi Ferguson	Chief Executive and Commissioner, Inland Revenue	New Zealand
Dr Cheong Koon Hean	CEO of the Housing and Development Board and Deputy Secretary of the Ministry of National Development	Singapore
Peter Ho	Senior Advisor to the Centre for Strategic Futures	Singapore
Peter Ong	Head of Civil Service, Permanent Secretary in the Ministry of Finance and Permanent Secretary (Special Duties) in the Prime Minister's Office	Singapore
Enrique Ossorio	Regional Minister of Economy and Treasury of the Community of Madrid	Spain
Máximo Buch Torralva	Minister of Economy, Industry, Tourism and Employment of the Regional Government of Valencia	Spain
Bengt Delang	City Director, City of Gothenburg	Sweden
Irene Svenonius	CEO, City of Stockholm	Sweden
Torbjörn Rosdahl	Commissioner for Financial Affairs, County of Stockholm	Sweden
Helen Clark	Administrator of the United Nations Development Programme	UN
Rafael Borras	Under Secretary for Management, U.S. Department of Homeland Security	USA

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