

# 10 Minutes on PwC's Global CEO Survey\*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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## Welcome to the world economy 2.0

### Highlights

- Our survey finds emerging-market players significantly more confident than their US counterparts about growth prospects and more aggressive about expansion plans.
- As the domestic economy slows down, US businesses should consider how they can take advantage of opportunities in emerging markets.
- For those pursuing a global growth strategy, three key risks will become increasingly significant: talent shortages, over-regulation, and weak supply chain security.
- Seizing new opportunities while managing these risks will require fundamental strategic, operational, and cultural changes.

**The business world may be approaching an important new milestone. In 2008, many economists expect emerging economies to sustain global growth as the US faces recessionary pressures.**

**Findings from PwC's 11th Annual Global CEO Survey point clearly to the fact that the world economy is no longer dominated by the US and other developed countries. Success in this rapidly evolving environment requires competing in one global marketplace, and not a series of regional ones. This adjustment will be difficult, but the rewards are significant. Those accustomed to years of market leadership will need to begin shifting their domestic and regional focus toward greater integration with the global economy if they are to rise to the challenge of the new economic reality.**

### World economy 2.0 rules

1. Venture farther afield: It has become necessary to monitor, attract, and capture opportunities in unfamiliar and diverse markets.
2. Acquire new knowledge and anchor the analysis in principles: CEOs must cultivate a robust awareness of risks and rewards arising in a complex environment, and then focus their attention on *what* needs to be done, rather than on *who* should do it and *where*.
3. Progress from territorial to truly global business models: Companies headed in this direction are seizing opportunities while managing risks. They are:
  - Managing talent as a global portfolio of skills.
  - Supporting global harmonization of critical standards and laws.
  - Analyzing the value added at each stage of the supply chain, estimating the risk to its delivery, and uncovering hidden opportunities.

## At a glance

### Emerging-economy CEOs take the lead

#### Growth outlook

- Sixty-seven percent of emerging-economy CEOs are very confident about revenue growth prospects in 2008, versus 38% of US CEOs.
- Only 58% of CEOs in Brazil, Russia, India, and China/Hong Kong are concerned about the impact of a major economic downturn, compared to 79% in the US.
- A majority in emerging economies remains very confident about growth through 2010, compared to less than half in the US.

#### Expansion plans

- Asian CEOs are aggressively planning to penetrate far-off locations, increasing their M&A activity in Latin America (+6%), The Middle East (+5%), Africa (+5%), and Eastern Europe (+3%) over last year.
- In contrast, US CEOs are most focused on their own region. Thirty-six percent are planning M&A in North America, versus 20% last year.

## Sustained growth in emerging markets spells both promise and peril

The significance of emerging markets is being felt more than ever in 2008, as tight credit weakens growth in the US.

Will a recession in America drag down growth in emerging economies? A slowdown in exports to the US could certainly be a setback, but many emerging economies are in a position to offset it by stimulating domestic consumer-driven growth. Growing cash reserves, high commodity prices, balanced or in-surplus budgets, and political stability will allow many emerging economies to take fiscal and monetary measures to boost demand.

The importance of emerging economies as the world's engine of growth has been clear for some time. Over the last seven years, the United States' contribution to growth in world output has diminished to 14%—half of what it was in 2000—while the growth contribution of emerging economies has increased from 28% to 45%. By many estimates, emerging markets now account for more than half of the global GDP on a purchasing power basis.

The growth projections are staggering. By the middle of this century, the economies of China and India will be 130% and 90% the size of the US economy, respectively, according to PwC's report *The World in 2050*. As a block, these two economies, along with Brazil, Russia, Indonesia, Turkey, and Mexico, would be approximately 50% larger than the current G7 economies (US, UK, Japan, France, Germany, Italy, and Canada).

Such massive, sustained growth presents tremendous opportunity but is also fraught with uncertainty. For example, innovation from emerging markets is creating efficiencies but also increasing competition. India-based Suzlon Energy, the world's fifth-largest wind turbine supplier, was originally a textile manufacturer's solution to the country's erratic power supply. But as demand for alternative energy has escalated, so has Suzlon's global business. The reasons attributed for its success range from a low-cost supply chain to design and technology that can withstand extreme weather conditions.<sup>1</sup>

<sup>1</sup> Naazneen Karmali, Wind Man, *Forbes* (June 5, 2006).

## By turning inward, US companies may miss an opportunity at a critical time

Across industries, international expansion is a compelling proposition. Energy companies are looking for new oil and gas reserves and clean fuel technologies, media companies are strengthening their digital platforms, pharmaceuticals are seeking new medicines for their drug pipelines, and the financial services industry is striving to counter the effects of huge writedowns.

Analyzing CEOs' expansion plans by region, Asian executives show a healthy appetite for making forays into popular international investment destinations such as Eastern Europe, as well as relatively untapped regions like Africa. US companies, on the other hand, are focusing on North America, thus limiting themselves to domestic and regional markets.

### **Excessive caution is risky business**

While caution and restraint are natural responses to an economic downturn, competition is intense, and international expansion has become necessary to increase revenue and market share.

It is a mistake to assume that US companies with purely domestic business models are immune to global forces. The weakening dollar has made US assets more attractive to cash-rich foreign investors from Asia, Russia, and the Middle East. And, of the 60 Fortune Global 500 companies that are headquartered in emerging markets, many have ambitions to acquire assets in the US and other mature economies.

Regardless of where they are headquartered, executives at the helm of large companies (\$10 billion + in annual revenues), which often straddle multiple geographies, take a similarly expansive view of how opportunities and risks connect in this complex environment. Analysis by revenue size shows that CEOs of large companies are most aggressively pursuing opportunities in emerging markets. In 2008, 61% plan expansion into Asia (versus 41% in 2007), 32% have their sights on Eastern Europe (versus 16%), and 27% are looking to the Middle East (versus 7%).

## Expansion into unfamiliar territory increases exposure to risks

### Perceived threats to growth

	Large-company CEOs	All CEOs
Availability of key skills	72%	61%
Over-regulation	70%	58%
Security of the supply chain	47%	39%

Large companies in our survey have long operated internationally, and therefore have more experience with risks that might stymie global ambitions.

Compared with CEOs of smaller companies, large-company CEOs have a higher level of concern about various potential threats. Three in particular are causing substantial worry:

- **Availability of key skills:** Competition for skilled labor is fierce all over the world, and creating a workplace that attracts and retains that scarce talent has become a priority.
- **Over-regulation:** Regulatory requirements across multiple jurisdictions are difficult to navigate, and compliance is costly.
- **Security of the supply chain:** Supply chains have become so extended and complex that both vulnerabilities and opportunities are getting obscured.

Many organizations have responded to these risks and stringent compliance requirements by creating layers of processes and controls on top of existing functions. This has resulted in silos

that provide costly and uncoordinated oversight, which is inadequate for monitoring risk interdependencies.

### The power of principles

A principles-based approach is more effective in managing the risk inherent in extended business models. It focuses attention on what needs to be done and frees management from traditional notions of who should do it or where it's supposed to be done. Companies with a global growth strategy are beginning to consider this approach.

For example, some are recognizing that it is difficult to navigate a dynamic and unfamiliar environment from a distance. Deutsche Bank recently moved its global head of equity trading from New York to Hong Kong to be close to a rising center of global capital as well as to its India-based IT infrastructure. Company leaders explained the move as “not simply about the weight of revenues from the region.”<sup>2</sup> Rather, in a complex market characterized by rapid innovation, it helps to “align risk management with centers of innovation.”<sup>2</sup>

<sup>2</sup> Andrew Wood and Chris Hughes, Deutsche Moves Top Trading Post to HK, *Financial Times* (March 4, 2008).

## Addressing global risks requires borderless solutions

Breaking down borders requires some difficult strategic, operational, and cultural changes. But trailblazers are reaping rewards while managing risks.

**Availability of key skills:** Simply reacting to well-established trends—for example, retiring baby boomers at home and high employee churn in emerging markets—is no longer sufficient. Some companies are weighing the implications of potential marketplace changes in determining how to secure and retain talent. GE, for example, has distributed its operations around the world to function as a vast, integrated network of global capabilities.<sup>3</sup> BP is partnering with schools to help cultivate tomorrow's workforce. This includes providing educational resources on sustainable development.

**Over-regulation:** Companies are coping with disparate regulatory regimes that address a host of issues, from banking supervision to environmental legislation. More than half of all CEOs already believe that governments should drive convergence of global tax and regulatory frameworks. We expect more efforts aimed at reducing complexity and leveling the playing field.

For example, many CEOs endorse collaboration among each other and with governments on climate-change mitigation strategies.

**Security of the supply chain:** In a recent PwC survey of large US-based consumer product companies, one-third reported having recalled products over the last year. More than half intend to conduct supplier audits and investigate alternative suppliers. But reactive measures alone won't cut it. A global supply chain should deliver cost savings while protecting brand and minimizing tax burden. This requires front-end coordination across all functions to determine the cost and benefit trade-off of each decision. For example, operational decisions should consider the environmental impact of business. And tax experts should ensure that costs from indirect taxes common in emerging economies (customs duties, ports processing fees, etc.) do not wipe out expected savings.

For more on how CEOs are responding to the global business environment, please see the *11th Annual Global CEO Survey* at [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey).

<sup>3</sup> Caludia H. Deutsch, At Home in the World, *The New York Times* (February 14, 2008).

## Upcoming 10Minutes topics:

### **Tax reform on the horizon**

As the race for the White House heats up, the forces for tax reform are aligning. Concerns for US competitiveness may drive corporate tax reform, but what are the risks? 10Minutes identifies the key issues in the debate and how their resolution may affect your company.

### **Unwinding complexity in financial reporting**

The SEC is studying how to simplify the US reporting system. Would a move to principles-based standards, revising the materiality guidance, or increased use of professional judgment help? 10Minutes clarifies what could be beneficial for companies, investors, and the overall capital markets.

### **Why climate change matters today**

Concerns over energy security and costs are heating to uncomfortable levels, both at the gas pumps and in the boardrooms. Meanwhile, consumers, employees, and communities are increasingly expecting action from businesses. Climate change

has become a matter of managing risks, costs, and reputation. 10Minutes explores how you can link your response to climate change more strongly to your business strategy and your corporate performance.

### **How to be better prepared for the impact of “fair value” on your bottom-line**

Fair value accounting is becoming more pervasive in financial reporting and is underscoring the importance of professional judgment. And the recent events in the capital markets are providing lessons and insights on this issue. 10Minutes will discuss the “value” of fair value and how you can be better prepared for its impact.

### **The changing face of financial reporting**

The income statement and balance sheet—foundations of public reporting and financial analysis—are not optimally serving investors and analysts. This has caught the standard setters’ attention and they are considering major changes to basic form and content. 10Minutes provides an update on the state of play.

## How PwC can help

To have a deeper discussion about competing in the world economy 2.0, please contact:

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