

American Perspectives*

2008 2009 2010 2011 2012 2013

2014 2015 2016 2017 2018 2019

2020 2021 2022 2023 2024 2025

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Managing the way we live and work now and in the **future**

Each succeeding generation brings its own values and expectations to the American workplace. But Generation Y, the Internet generation, approaches work from a dramatically different perspective than the baby boomers, or even Generation X. Aligned personal and corporate values, total workplace flexibility and the ability to “try on” different careers and companies all rank high on Gen Y’s list of priorities. To attract and retain this group, organizations need to recalibrate not just the rewards they provide, but their overall approach to work itself.

“Even by using the phrase *work-life balance*—which we boomers think is cutting-edge—we show that we don’t really get Generation Y,” says Jeff Summer, partner in the people and change practice at PwC. “They have no need to balance work and life. To them, work and life are totally integrated. The boundaries that we see blurring don’t exist for them in the first place.”

With Generation Y writing its own rules and the demographics indicating a dramatic, global drop-off in available knowledge workers in the decades to come, companies need to rethink the nature of work right now. Figure 1 on the following page shows how companies in the Fortune 100 have fared from decade to decade. Just 16 companies on the list in 1958 are still there today. (This includes business combinations and mergers.) And among those companies that made the list in 1998, just 58 made it to 2008. There are many reasons why companies don’t remain high-performing enterprises. But one thing is for sure: To avoid extinction, companies must build organizations that the smart, demanding—and increasingly scarce—knowledge workers want to join.

Reversal of fortune

Only the most well-managed and agile companies stand the test of time

Figure 1

Fortune 100 survivors

Of the Fortune 100 in 1958, just 16 are still on the list 50 years later

Source: PwC analysis

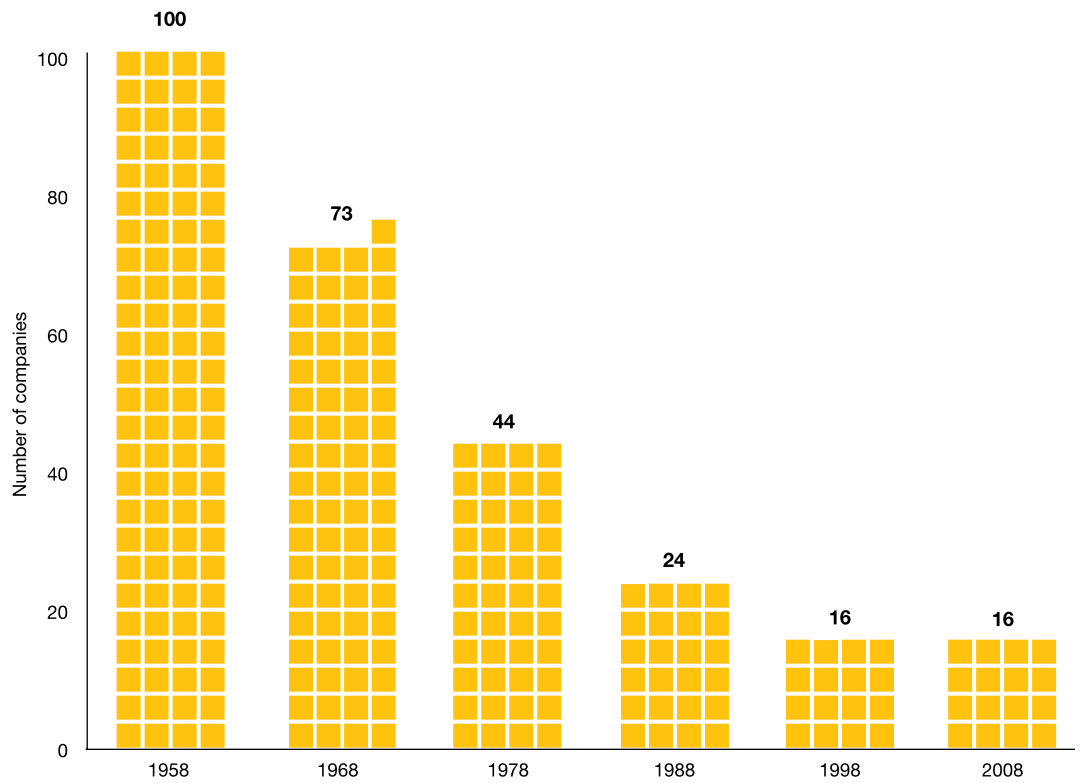
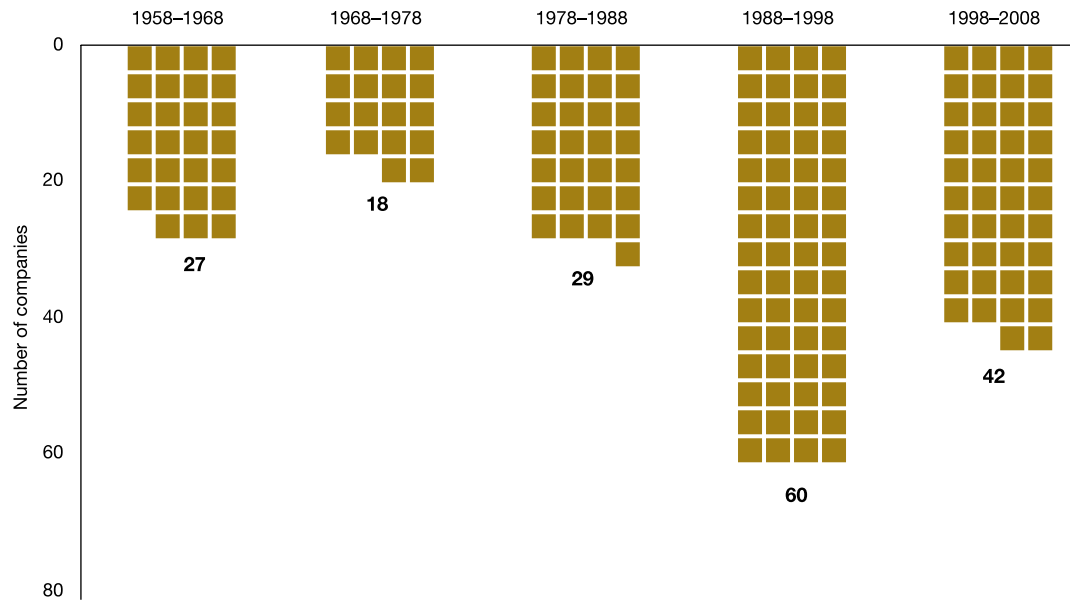


Figure 2

Fortune 100 dropouts*

In recent decades, it's been more difficult for companies to hold their spot in the Fortune 100

Source: PwC analysis



*Includes business combinations and mergers.

“There is much less company loyalty now than there was 20 years ago. There is a lot of discussion about how you motivate people.”

Global electronics

“The old model of putting all business managers through essentially the same training is badly outdated.”

University

“The next decade will completely surprise us. The world will be shaped by technologies that have not yet been invented—to solve problems that we don’t yet know we have.”

International public policy

“Demands for greener approaches to manufacturing come from both inside and outside. Employees want to see it as much as customers do.”

Global consumer products

“The best young creative talent is no longer drawn to large incumbent players.”

US-focused media and entertainment

“US-trained people are still considered to be the best managers in the world and our graduate educational practices remain the envy of all.”

US-focused manufacturing

“Many of the most talented people I’ve worked with stay just long enough to master a set of skills and then they move on. This means we need a more robust pipeline for replacements.”

Global science/technology manufacturing

“We are planning for a much larger role for open-source innovation, where the best new ideas come from outside of the company walls.”

Global furniture design/manufacturing

“What I think is far-fetched may strike someone else as virtually inevitable.”

Global technology and consumer goods

“We will see an absolute shift toward maintaining general wellness and prevention of future health issues.”

Global health science

“To get where we want to go, we must learn to develop and utilize deep reservoirs of trapped human capital from around the world.”

Global consumer products

“Companies are looking for extraordinary learning attributes first and skills second, because skills are becoming dated very quickly.”

University

“More-diverse teams capture, retain and share more knowledge because they view similar experiences and data sets differently.”

Global science/technology manufacturing

“The next wave of US business development overseas will require getting beyond expatriate management. We need to move toward a legitimately local model.”

Global technology and consumer goods

“Healthcare will be increasingly administered remotely to manage costs.”

Global consumer products

“I have a daughter wondering how she is going to combine a career with her biological clock. I want a new kind of workplace for her—one that is more supportive of combining work and family life.”

University

“We call this generation ‘the precious ones.’ They grew up in a world where T-ball was not supposed to be competitive and where everybody was supposed to win the trophy.”

University

What we’re hearing about the future

Caught in the quagmire

A skills crisis looms as companies fight yesterday's talent war

US companies engaged in a war for talent may soon find that they are, instead, bogged down in a bottomless and costly quagmire they're not equipped to win.

In the 1980s, companies began to think of potential employees as a talent market in which they competed, much as they vied for capital or customers.¹ Today, with the demand for highly educated and skilled employees—particularly in science, engineering and technology—growing far faster than the supply (see “All Companies Left Behind,” on page 60), US companies are pitted against each other on two fronts: they must attract and retain the most sought-after American workers while also seeking and keeping talent from around the world.

From the New York Yankees to New York Life, companies are always looking for the best people. But global demographics and evolving employee expectations have changed the battlefield in the global war for talent.

Nobody home

The staggering talent gap faced by the US and other industrial countries is a far more fundamental demographic shift than most companies yet realize. As Figure 3 shows, the world's working-age population growth will plummet in the years 2010–2050, compared with 1970–2010. Working-age populations are expected to shrink in Japan, Russia, Italy, Germany, China and France—dramatically so in Japan and Russia. In the US, working-age population growth will slow to about 20% from 2010 to 2050, down over 60% from the growth seen in the previous four decades. No amount of salary and benefits, distance-learning programs or international office openings can change the fact that companies are preparing to battle for qualified workers who simply won't exist.

That means that even top companies will fall short on recruiting. As Jeff Summer of PwC, puts it: “The war for talent is basically over—and nobody won.” He continues: “Going out and getting people is certainly one aspect of people management. But companies should start thinking about the nature of work itself, and designing a way of working that's highly attractive to the people they want.”

An out-of-date playbook

The first step is throwing out the old playbook, which concentrates on aggressive recruitment and compensation, followed by intensive catering to the needs of the perceived stars. According to experts, stars are the hardest employees to manage and the first to leave.² Besides, many promising employees never get the chance to become stars because forces conspire to prematurely push them out of the workforce. In a paper recently published by the *Harvard Business Review*, “The Athena Factor: Reversing the Brain Drain in Science, Engineering, and Technology,” economist Sylvia Ann Hewlett (see interview later in this section) and her team found that 52% of high-achieving women in science, technology and engineering eventually quit, driven out by “hostile work environments and extreme job pressures.”³

Companies realize that their current recruiting and retention efforts fall short. In a 2008 survey of global CEOs, this question was posed: “What are the biggest issues that executives will face in the next 2-5 years?” Number one, ahead of 18 other business headaches, was “staffing and skills,” with 43% of respondents citing this as the issue that most keeps them up at night.⁴ Moreover, according to the 2007 PricewaterhouseCoopers CEO survey, 62% of CEOs “agree” or “strongly agree” that their company needs to change the way talent is recruited, motivated and developed.

Tactical steps are fine, but a new approach is needed

In response, some companies are committing themselves to positive tactical steps. Boeing started recruiting on the social networking Web site Facebook in 2007, holding contests for iPods and iTunes gift cards before showing Boeing job openings.⁵ Lockheed Martin operates a paid apprenticeship program for high school students in Philadelphia, enticing some students to take part-time jobs with Lockheed while attending college.⁶

Other companies are taking a more strategic approach by homing in on certain segments of at-risk employees. For example, Cisco's Executive Talent Insertion Program attempts to help promising young, female technicians avoid isolation in a male-dominated profession.⁷ At Johnson & Johnson, the Crossing the Finish Line program seeks to nurture female, multicultural employees, with an eye toward management positions.

Anywhere, anytime

Companies are also recognizing that technology now allows employees to often work from anywhere, anytime, making for a more flexible, family-friendly environment. IBM, for example, doesn't keep track of vacation time and allows many employees to work off-site.⁸ Best Buy gradually abolished fixed hours for its corporate office employees in 2006 and 2007, allowing them to work when they wanted and where they wanted, as long as they completed their assigned work.⁹ But the devil is in the details, according to Summer, and a lot of companies don't execute well when it comes to changing the work culture. "You know, we still have work flows designed with manufacturing companies in mind," he says. "We have the technology to develop a new kind of workplace, but many managers haven't seriously considered changing their own organizations."

While managers are fond of saying that people are their greatest concern, the ultimate solution doesn't lie in scouring the globe for potential employees. Companies need to rethink work itself and how they can get employees to embrace that vision. After all, according to CEOs themselves, no single issue will carry more weight in the near future.

1 Interview with Jeff Summer, partner in PwC's people and change practice, July 17, 2008.

2 Ibid.

3 Sylvia Ann Hewlett, "The Athena factor: Reversing the brain drain in science, engineering, and technology," *Harvard Business Review*, June 2008.

4 *FutureWorld Flash Survey 2008*.

5 *Harvard Business Review, World Newsletter*, August 2007.

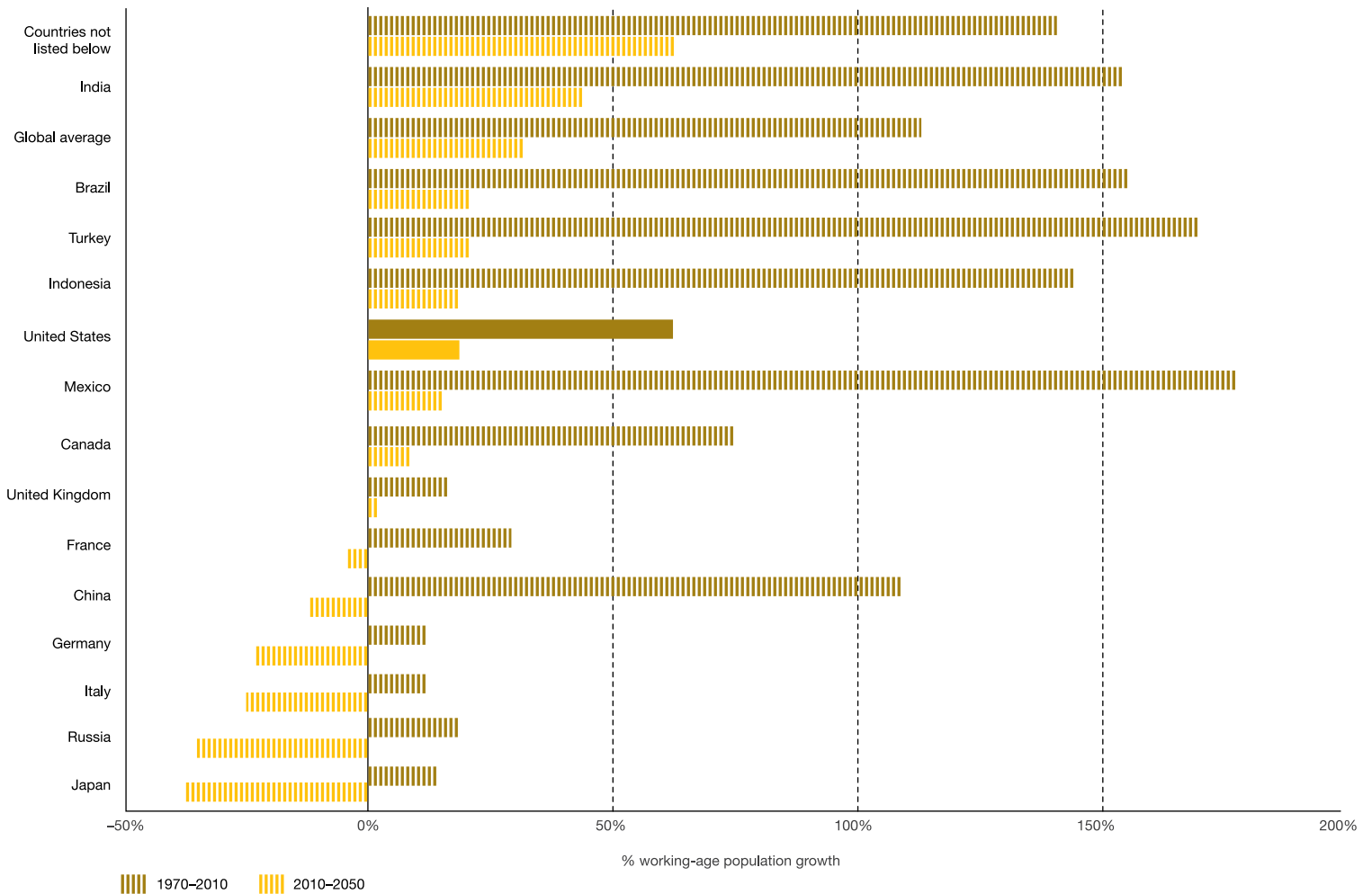
6 Nanette Byrnes, "Get 'em while they're young," *BusinessWeek*, May 22, 2006.

7 Hewlett.

8 Ken Belson, "At I.B.M., a vacation anytime, or maybe none," *New York Times*, August 31, 2007.

9 Matthew Kirdahy, "Viva la workplace revolution," *Forbes.com*, June 23, 2008.

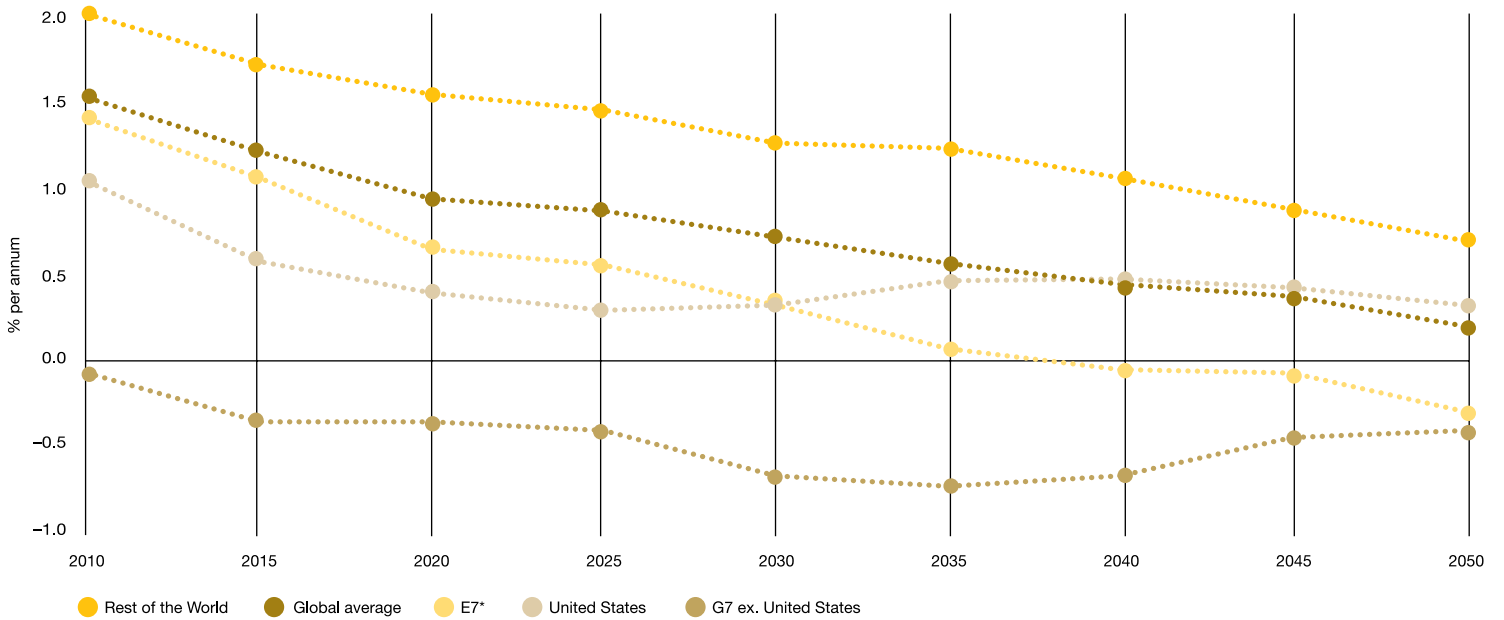
Figure 3
Talent will be hard to come by in the decades ahead as the world's working-age population growth slows to a crawl in many countries and turns negative in some



Source: PwC analysis based on United Nations data

Figure 4

The G7, excluding the US, will experience working-age population decline each year over the next four decades



Source: PwC analysis based on United Nations data
*Defined as Brazil, China, India, Indonesia, Mexico, Russia and Turkey.

“The war for talent is basically over—and nobody won.”

Jeff Summer, PricewaterhouseCoopers

All companies left behind

US educational woes are contributing to the talent gap, so some companies are going back to school

Demographic trends showing population declines in many countries are at the root of the looming global talent gap. But US-based companies may also be handicapped by the expected dwindling of America's decades-long knowledge advantage.

As many other countries' workers are becoming more educated and literate, US workers as a group are not advancing. According to a 2007 report by the Organization for Economic Co-operation and Development (OECD), the US ranks 18th in high school graduation rates among developed nations, 28th in math proficiency, 18th in reading and just 15th in college graduation rates.

Perhaps most alarmingly, America's baby boomers who retire over the next two decades have better education qualifications than the workers replacing them. In 2006, for instance, Americans aged 55 to 59 years held more doctorates, professional degrees and master's degrees than those aged 30 to 34.¹

Problem already crystallizing in the sciences

For a preview of the future for many industries, consider the sciences. Currently, two-thirds of doctoral candidates in science and engineering at US universities were born outside the United States, and the raw number of incoming candidates is likely to decline under current immigration guidelines.²

Data from the US Bureau of Labor Statistics indicates, moreover, that the number of science and engineering graduates in the US has remained relatively constant for two decades, while the data predicts a need for 1.25 million of these graduates each year—a 26% increase—by 2012. Another shortfall is apparent in the high-tech field: American universities graduated 49,000 computer professionals in 2006, but 135,000 are needed each year by US firms, according to the bureau.

In response, some companies have taken matters into their own hands. For example, UPS has created its own college—Metro College—in Louisville, KY, where part-time workers at their global sorting hub can take classes toward a bachelor's degree awarded by the University of Louisville. Many of these part-timers go on to full-time careers with the company.

The remarkable rise in the US of community, or two-year, colleges, could also stand as a model of success. Employers, acutely aware of the need for training that nurtures their own people, often underwrite these colleges with grants and work-study scholarships. Those companies heavily dependent on research and development may want to extend that sort of investment into the postgraduate realm.

¹ "America's human capital is tested," Clive Crook, *Financial Times*, July 7, 2008.

² "Building a wall against talent," George Will, *Washington Post*, June 26, 2008.

Figure 5

University graduation rates are staying flat in the US from generation to generation, while other regions are improving

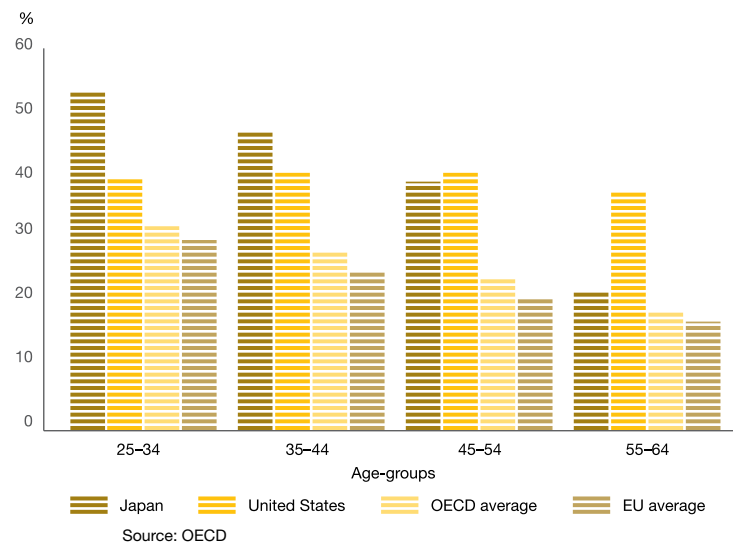


Figure 6
The US lags in high school graduation rates among developed nations

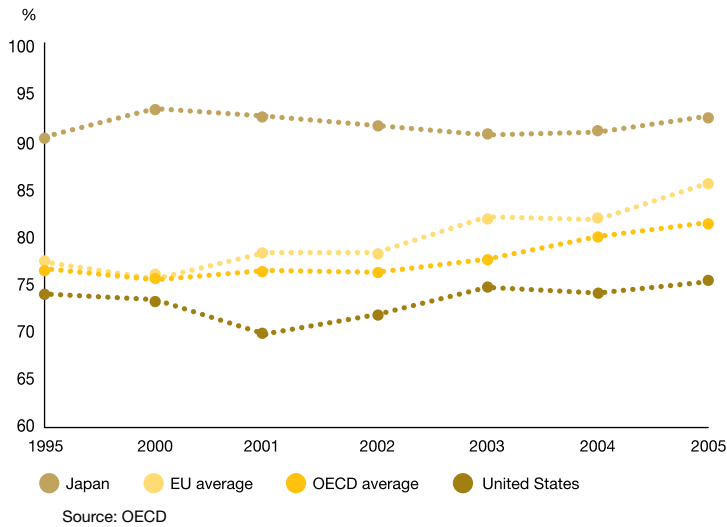
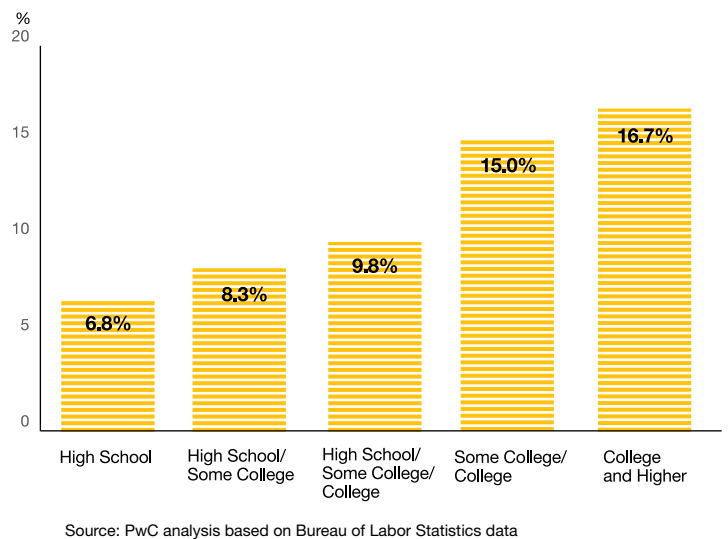
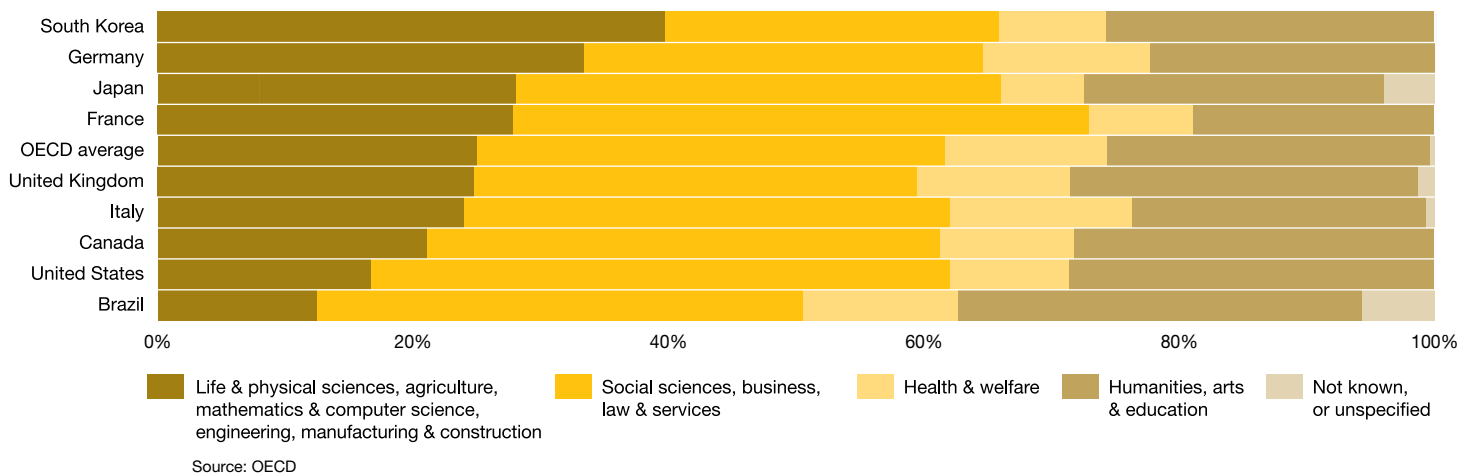


Figure 7
By 2016, the majority of jobs being created will require at least some college attainment
Projected job growth 2006–2016



UPS has created its own college where part-time workers can take classes toward a bachelor's degree awarded by the University of Louisville

Figure 8
US lags the developed nations in graduation rates for science and technology students



The gold standard in CEO pay

Observers say US pay packages will travel abroad as globalization demands creative, risk-taking managers

US executive pay is back on the corporate governance radar with the recent proliferation of say-on-pay shareholder proposals and corresponding federal legislation that would support them. But notwithstanding shareholder activism and a US economic downturn, compensation models in the rest of the world will most likely continue to move toward that of the US, not the reverse, according to both a Wharton professor and a leading executive search firm.

A vote heard round the boardroom

Last May brought the first-ever shareholder vote on a US executive's pay when shareholders of insurer Aflac approved CEO Dan Amos's \$15-million compensation package. In 2007, 41 nonbinding say-on-pay proposals were introduced and voted on in US public companies.

This type of activism has its roots in the UK, where Parliament passed a law in 2003 requiring public companies to allow advisory votes on compensation—the goal being to prevent perceived American-style excesses. The US House of Representatives followed suit in 2007, and now similar legislation is before the US Senate Banking Committee.

But on the global playing field, the desire for the best possible leaders has trumped efforts to rein in executive pay. The median pay of US CEOs at the 500 largest companies rose to \$8.8 million in 2007.¹

A premium on getting the very best

According to Wayne Guay, an accounting professor at Wharton who specializes in executive compensation, the premium on finding the right executive is likely to increase, as big organizations manage more and more assets as they expand globally. In such cases, there's simply too much at stake to settle for less than the best. "If a board believes that there is even a 1% difference in ability

between the best person for the job and the second-best person—and the firm is worth tens of billions of dollars—then that 1% difference could translate into hundreds of millions of dollars on the bottom line," Guay says. The management team of Jack and Suzie Welch wrote much the same in *BusinessWeek* on July 14, 2008: "We live in a market economy where companies that field the best team win and, because of global competition, the best teams can be expensive."

As Asian countries continue to move toward free markets, jump into the capital markets and empower executives, they are looking to the US for a compensation model, because they want American-style innovation—which they believe is fueled by incentives. "The rest of the world will probably look a lot more like us than we will like them," says Guay. "American managers are known to be risk takers, to be creative, to understand the financial markets, and that's now what is going to be expected of the Chinese or Indian CEO." And that means pay packages largely consisting of equity-based compensation.

No fire in the belly?

In the US, the number of top candidates for senior management positions may dwindle in the future, according to Lauren Doliva, a partner with global executive search firm Heidrick & Struggles. According to Doliva, research shows that the so-called Generation X in the US, people born from 1965 to 1980, do not have the numbers to fill jobs held by retiring baby boomers. Generation Y, those born after 1980, want rewards from their jobs different from the baby boomers approaching retirement. "Earlier generations would do anything they could to get to that corner office, preferably at a pretty young age," Doliva says. "Today there's a different mind-set. Young people want to succeed, but they want an integrated lifestyle with time to enjoy work, play, travel and time with their families."

"We may be shocked by the future salaries commanded by the best and brightest."

US-focused media and entertainment

If that's the case, one could reasonably assume that in the war for top managerial talent, US companies will be scouring the globe, much as they scramble for highly skilled technicians. But according to Guay, that's not very likely. While many skilled jobs in the sciences and technology can be outsourced across the globe, that's not the case when seeking someone to lead a major US company, Guay says. "The issue is that running a business in China is currently nothing like running a business in the US," he says. "I think it's highly unlikely that many US companies will be turning to foreign executives who haven't come up through our system." Doliva acknowledged that she expects US executive searches to focus on those professionals with global experience, but with significant background in the US market.

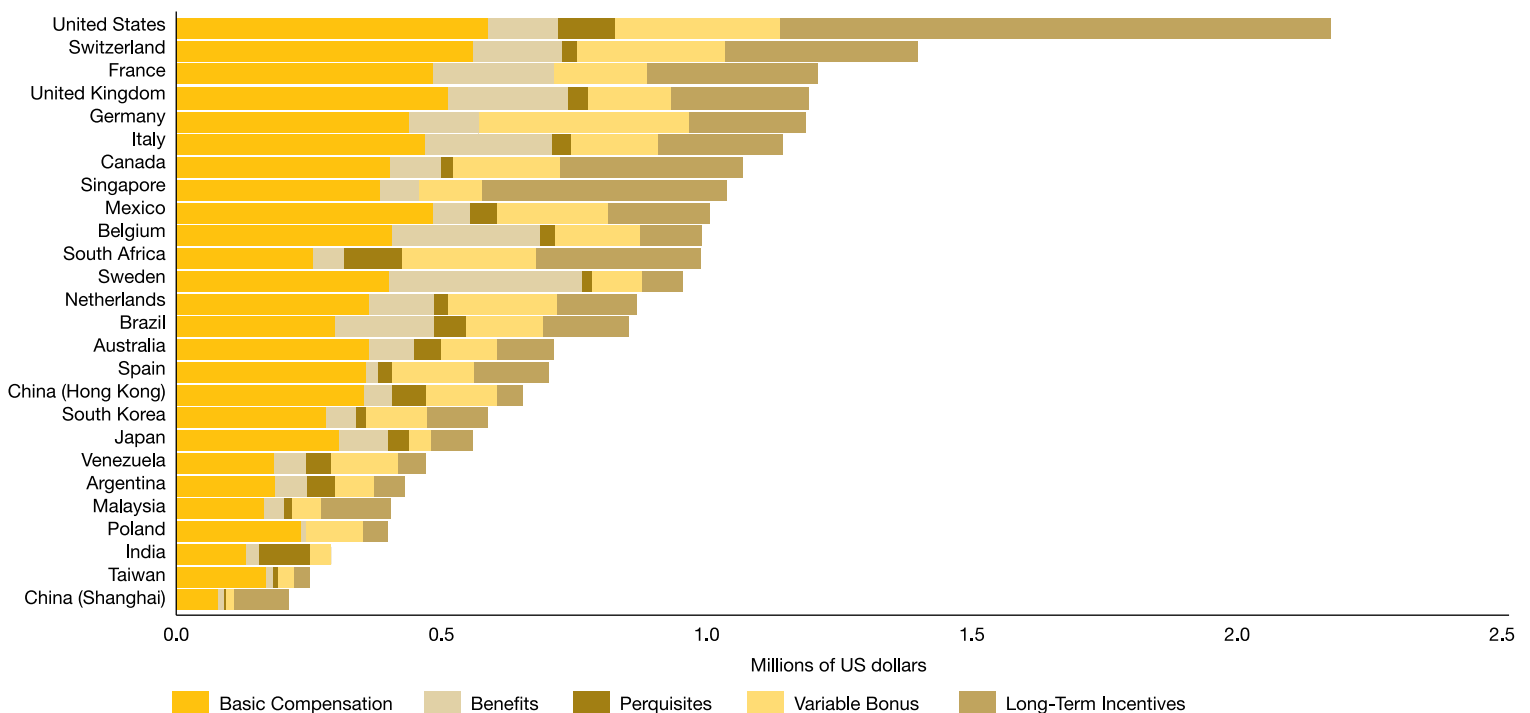
Those foreign-born executives who do end up running US companies will probably have backgrounds similar to that of Indian-born Vikram Pandit, named CEO of Citigroup in December 2007. Pandit earned his bachelor's degree and Ph.D. from Columbia University and then spent two decades with Morgan Stanley before launching his own hedge fund, Old Lane, which was bought by Citigroup.

¹ Amy Martinez, "Pay for CEOs in Northwest shot up in 2007," *Seattle Times*, June 16, 2008.

Asian countries are looking to US compensation models because they want American-style innovation

Figure 9

CEO compensation in the US dwarfs that in other countries, mostly because of long-term incentives like stock options (based on 2005 data)



Source: Towers Perrin, *Worldwide Total Remuneration 2005-2006*

Sylvia Ann Hewlett

...Gives her take on the reluctant exodus of women from the technical workforce

In “The Athena Factor,” a ground-breaking report published in June 2008 by *Harvard Business Review*, economist and Center for Work-Life Policy founder Sylvia Ann Hewlett and her team show why a rich pipeline of talented female scientists, engineers and technicians runs dry just as these professionals should be hitting their stride.

The study found that the conventional wisdom—that these women are choosing to leave to raise families—gets it mostly wrong. In fact, many are driven out of careers they love by a combination of work culture “antigens.” Hewlett has written many articles and best-selling books on the integration of work and life, including *The War Against Parents*. Here we talk about her conclusions.

PwC: Where did you come up with that wonderful name for your report?

SH: There’s a very famous book from about 20 years ago called *Athena Unbound*. It was about the excellence and commitment that women can bring to scientific fields. More than anything, it was about how women go into these fields spurred on by the possibility of healing the planet and saving lives.

PwC: One of the most surprising things about your study is just how many young women are going into science and technology, something that doesn’t jibe with the so-called gender gap in these fields.

SH: Yes, when we looked at the results of our surveys and focus groups, the number of young scientific and engineering female professionals was quite a bit higher than we thought it would be. Forty-one percent of highly credentialed scientists, engineers and technicians coming into companies are female, which is an amazing figure, given the numbers most experts cite.

PwC: Does that mean that our educational system is actually a far more positive experience for women in terms of science and math than we think?

SH: I think what’s happening is that in a kind of piecemeal, fragmentary fashion, we have now given a green light to girls and

young women that it’s OK to choose this field. But there are still big problems in our schools, in our universities, in terms of fully tapping into female talent. I would say that women are succeeding in these subjects despite an educational system that’s still tilted against them.

PwC: In your paper you talk about a “perfect storm” of events for women, starting in their mid to late 30s, that starts driving them out.

SH: I call it the fight-or-flight moment, and you can absolutely see it in the data. Between the ages of 35 and 40, there is a huge exodus of women out of the science and tech sectors, and when we probed and prodded to find out why, it was fascinating. Certainly there are family pressures, but the survey numbers show that at the top of the list are a number of, as we call them, cultural antigens.

PwC: What kind of cultural antigens?

SH: They range from a lack of sponsors who can tap women for a promotion, to a culture where long hours of face time in a lab are expected, to a diving-catch mentality, to outright sexual harassment. For instance, many of these engineering cultures seem to be laden with various kinds of underlying predatory behavior. Our survey results show that 63% of woman engineers have experienced sexual harassment, which is three times the rate in any other field.

PwC: All that flies in the face of the impression many have that a meritocracy exists in the sciences. I haven’t heard that term *diving catch* before. Can you describe it?

SH: Many of the women we surveyed felt that what was constantly rewarded was the Superman save. A system crashes in, say, Romania, and a manager gets a team ready in the middle of the night, flies out, and within hours is saving the day by fixing the system on-site.

PwC: Something that many working mothers would find impossible to do.

SH: Exactly, but it goes much further than that. Many diving catches fail, right? It turns out that men have a built-in buddy system that closes ranks around them. Since there are not as many women in these professions, they don’t have the same buddy network. So if a woman dives to make the catch and fails, she’s out of there the next day.

There’s also new research coming out that shows that women are often tabbed as the fall guy in various risky situations. The upshot is that women avoid these risky situations and focus on preventing disasters, which isn’t nearly so rewarded.

“If companies look in their own backyards, they can reduce female attrition by half right away.”

PwC: And if companies could find better ways to reward women so that they didn't leave, it would go a long way to solving some major talent gaps in the science and technology industries.

SH: Just think back to last autumn, when Craig Barrett of Intel and Bill Gates went to Capitol Hill to persuade lawmakers to increase the visa limit and bring more highly trained foreign workers into the country. But even if they had been successful, which they weren't, it would not have solved their problems. If companies look in their own backyards and address the women already in the talent pipeline, they can reduce female attrition by half right away.

PwC: According to your paper, companies need to step in with targeted support for women.

SH: One of my favorites is the Johnson & Johnson program called Crossing the Finish Line, which is actually about helping women get over that fight-or-flight moment.

They take women in their early 30s who have shown considerable commitment and capability, and essentially say: “Hey guys, we're really going to help you get through the next five years. The data shows that this is a really dangerous part of the career path, and we want to help you get through it.”

The specific pieces include workshops with supervisors, a sponsor arrangement with a key senior person and very clear objectives for career development. What they create with this program is a very tailored path to promotion for talented women, people who are really going to be valuable in the years ahead.

Read more at:
www.pwc.com/AmericanPerspectives



The incredibly shrinking female workforce in science, engineering and information technology

Figure 10
Intervening at the fight-or-flight moment can help companies retain valued female employees

% female scientists, engineers and technologists out of total

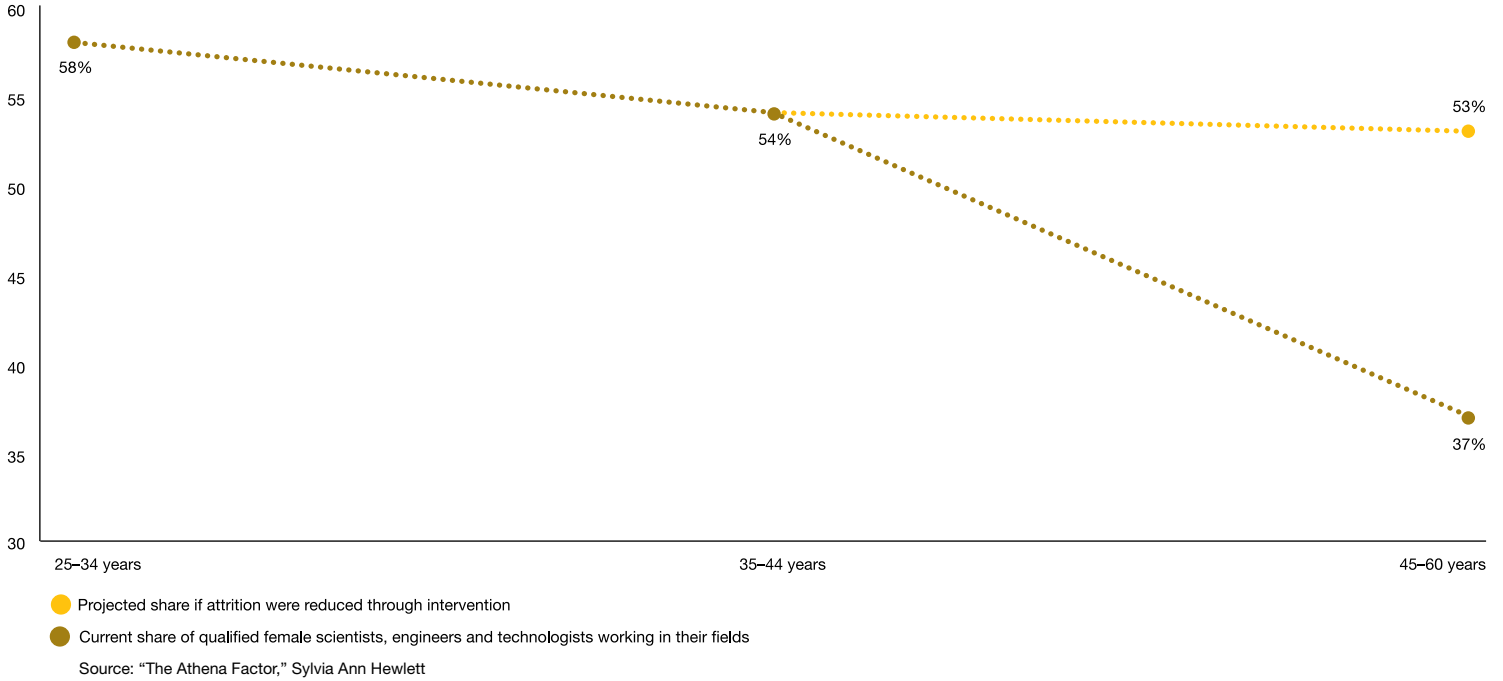


Figure 12
Why women leave private-sector science, engineering and technology careers

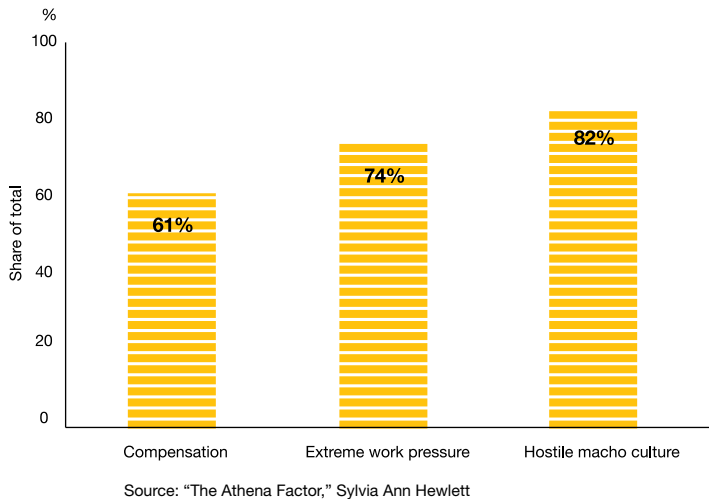
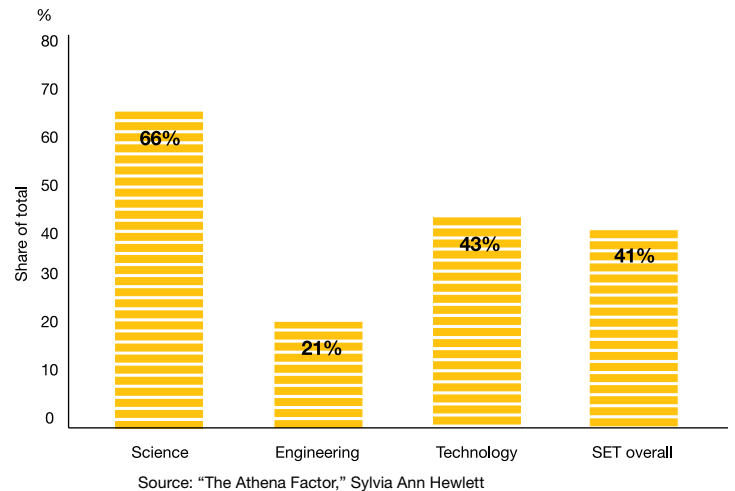


Figure 11
Women aged 25 to 29 years make a strong showing in private-sector science, engineering and technology before the mid-30s exodus



The new global citizens

Collaborative networks, partnerships and models of shared success can spark corporate growth

In January 2008, leaders from industry, government, media and international organizations convened for the 38th annual World Economic Forum in Davos, Switzerland. The forum's theme—"The Power of Collaborative Innovation"—addressed issues like resource competition, capital flows linked to the rise of the BRIC (Brazil, Russia, India and China) economies, research and development (R&D), regional rivalries and environmental concerns.

Davos underscored that, even as power is shifting in the marketplace and the world continues to shrink, the challenges to growth are only expanding—and may be too great for any single company to act on independently. While developing countries—particularly India, China and South Korea—seem to welcome the idea of partnership, North American CEOs show the greatest tendency to remain close to home. According to the PricewaterhouseCoopers 2007 CEO Survey, these leaders stick with their existing markets and strengths and show the least interest in acquiring foreign language skills and global experience. A majority (54%) view collaborative networks as a secondary activity, useful in the future but not today.

Indeed, Forrester Research estimates that while most major companies are aware of innovation networking, only about 20% to 30% are experimenting with it, and a mere 5% have mastered the practice of collaborative partnership and networking.¹ Those that do can reap benefits: from greater R&D return on investment to increased global revenue growth.

The wisdom of crowds

In healthcare, for instance, where the cost of developing a new drug is as high as \$800 million—and where only a third of new medications actually make it to market—big pharmaceutical companies often work collaboratively to share risk. Procter & Gamble (P&G)

took that path nearly a decade ago. Back then it started a program to evaluate the thousands of innovations emerging every year from academia, biotech labs and pharmaceutical companies. Today P&G reports that its R&D return on investment has improved by 60%, and nearly 35% of the company's new products have elements that originated from outside the company.²

For some pharmaceutical companies, such collaboration extends to rivals. Eli Lilly recently shared with other drug manufacturers the cost of jointly developing biomarkers—substances that indicate the presence of a disease. With these new tools in hand, the competitors are separately developing drugs to combat diseases.

IBM was once dedicated to going it alone, especially in the critical area of R&D. But no longer. Research costs have been rising at an average of 12% a year, while revenue for the industry is growing at just 6%. In a departure, IBM recently joined nine partners—including Advanced Micro Devices, Sony, Toshiba, Freescale Semiconductor and Albany NanoTech, a university research center—to build a research facility and chip factory in East Fishkill, New York. Various analysts, including InStat, estimate that the companies will save \$2 billion to \$4 billion in research costs and perhaps \$7 billion over the next three years.³

For General Electric, the new spirit of collaboration has meant an abrupt about-face in its strategy regarding joint ventures overseas. "We've learned," says CEO Jeffrey R. Immelt, "that it's better to partner with the number three company that wants to be number one than to buy a tiny company or go it alone."⁴ In an increasingly risky and costly global marketplace, joint ventures have allowed GE to press for global growth while spreading the risk and the capital. In 2007, for the first time, GE derived a majority of its revenue from overseas—and much of that from joint ventures in which GE had a minority stake.⁵

While developing countries seem to welcome the idea of partnership, North American CEOs show the greatest tendency to remain close to home

Private-public partnerships

In the past five years, P&G West Africa has experienced double-digit growth in its detergents, Pampers disposable diapers and Gillette, Duracell and Oral B products. To preserve its stake in Africa, P&G hosts an annual regional economic summit to address private-public partnerships. One result is that the company has invested over \$50 million in production facilities in Nigeria, and the Nigerian government has planned a range of infrastructure improvements, such as updating its electrical grid.

At Coca-Cola, a partnership with the World Wildlife Fund in Asia is part of the company's effort to address a crucial constraint—a shortage of drinking water in one of its biggest emerging markets. Such a move only makes good branding sense. Continued growth requires that corporations engage globally, but it also means managing reputational risk. A corporate reputation “has to be managed in the same way that other core assets have to be managed,” said Coke executive Michael Stopford in a speech last year.

Meanwhile, back in the private sector

In the US, consumer packaged-goods manufacturers like General Mills, Campbell's Soup and Hershey have been exploring ways to work with retailers like Wal-Mart and Costco for improved products

and supply chain efficiencies.⁶ Software companies like TradeCard, Inc., have made vendor and supplier automation their main product. Brooks Brothers, for instance, a TradeCard client, has improved collaboration with its worldwide vendors by using TradeCard's on-demand supply chain management software.

Microsoft, Oracle and Google, among others, have established support and partnering initiatives for start-up companies. Last October, Microsoft's Steve Ballmer announced a “global start-up accelerator” in the UK, funding 10 start-up companies and planning to develop another 10 by the end of the year. Depending on the fate of that initiative and others like it, North American CEOs will better appreciate the opportunities inherent in international, collaborative partnerships.

1 Steve Hamm, “Radical collaboration: Lessons from IBM's innovation factory,” *BusinessWeek*, September 10, 2007.

2 Andy McClenaghan, “P&G strategy: Connect and develop: Procter & Gamble sees C + D as a strategic evolution from the more traditional R&D and grows through collaborative partnerships,” *The Gazette* (Montreal), October 9, 2006.

3 Hamm.

4 Claudia H. Deutsch, “The venturesome giant,” *The New York Times*, October 5, 2007.

5 Ibid.

6 Julie Jargon and Ann Zimmerman, “Grocers tout ‘sales’ even as prices climb,” *The Wall Street Journal*, April 1, 2008.

Collaboration begins at home

The deteriorating US infrastructure may usher in a new dawn of private-public partnerships

A quiet little boom is under way to repair America's infrastructure. The assumption of long-term, accelerating fuel costs—together with the need to upgrade the nation's aging highways, bridges and tunnels—has created a host of unlikely private-public partnerships.

Cintra, a Spain-based international operator of toll roads and parking garages, and Macquarie Infrastructure Group, an Australian company that is one of the world's largest developers and operators of private toll roads, have joined with the state of Indiana to maintain the Indiana Toll Road. The 157-mile interstate artery has been leased by the state to the two companies for \$3.8 billion. In just one year, the state has already earned \$174.5 million in interest on the lease.¹ Cintra and Macquarie are expected to break even in 15 years, and earn upwards of \$21 billion in tolls and tax write-offs over the course of the 75-year lease.²

Rebuilding old highways is just one piece of the red-hot private-public partnership market. Babcock & Brown, a San Francisco-based global asset management firm that specializes in public-private projects, plans to build an \$882-million undersea tunnel for the Port of Miami and has already broken ground on a

\$450-million undersea electricity cable project in San Francisco. The company is also one of the lead developers in the first stage of Denver's \$6-billion mass transit rail system, heading a team that consists of—among others—three American civil engineering firms, Siemens of Germany and Veolia, a French company that will operate and maintain the system.

Malcolm Macintyre, joint head of private-public partnerships at Babcock, says that the mood in America has changed with regard to investing in the nation's infrastructure. Even Los Angeles—the land of the automobile—is considering a variety of new mass transit rail systems. “There really has been a paradigm shift in the last couple of years, with traffic congestion and high gas prices,” Macintyre says. “In Denver, they've accepted that a rail system is going to cost a substantial amount of money, but they've recognized that this is not just a ‘tomorrow’ problem, or a ‘next-year’ problem—this is a problem that demands a 50+ year solution.”

1 Tom Coyne, “Indiana lawmakers at odds over toll roads,” *Associated Press*, June 27, 2007.

2 Ibid.

Kevin Kelly

...Sees the successful CEO aligning with a changing world and emerging perspectives

The average tenure of a US CEO is now under two years, and according to Wharton executive compensation expert Wayne Guay, failed CEOs rarely get another chance. Which brings up this question for Kevin Kelly, CEO of the biggest executive search firm in the world, Heidrick & Struggles: Despite the perks, is the C-suite all that attractive today?

“I was at a conference recently speaking before a couple hundred people,” Kelly says, “And I asked for a show of hands of how many people wanted to run a company. It was no more than 20 or 30.”

One reason the job is so difficult is that some American notions of leadership aren't that applicable to a world in which the US isn't the sole economic power. We recently spoke with Kelly at Heidrick's headquarters in Chicago about how today's collaborative business world demands new skills.

PwC: *Newsweek's* Fareed Zakaria, author of *The Post-American World*, says the US isn't declining as much as the rest of the world is catching up. In this rise-of-the-rest scenario, how must leadership at US companies evolve?

KK: I was at a CEO dinner in China a few weeks back, and I was asked by someone in the audience, “Kevin, how many Chinese CEOs could run a Fortune 500 organization today?” I said that I didn't know if there were any, at which point this gentleman said “That's okay—I don't know any foreigners who could run a Chinese company.”

If you look at the rapid pace of internationalization and globalization, I think the ability to maneuver through different cultures across the globe is going to be critical. For leaders, emotional quotient—EQ—has proven just as important as IQ, and now we have a third element coming into play—cultural quotient, or CQ.

PwC: Do you think that this cultural quotient is currently on the radar of American companies as they tap future leaders?

KK: Absolutely. Even today, if you look at the number of executives with international experience who have risen to be CEOs—whether those years were spent in Asia, Europe or Latin America—it's clear that a global perspective is invaluable.

It will only get more so, as growth for U.S. companies increasingly comes from outside North America.

The dictatorial CEO will die out given the different cultures that will have to be navigated and the different people that will have to be engaged in order to drive a global strategy.

PwC: So communications skills will be paramount?

KK: Yes, it will be crucial that US CEOs can communicate the direction and vision not only domestically or in North America—in other words, as a US company—but as a global firm.

PwC: US companies are collaborating in unusual ways today, not only with each other but with NGOs, customers, and other stakeholders. What does this broad range of potential collaborative relationships imply for leadership skills?

KK: We've gone from an age of information to an age of participation. What used to give most organizations a distinct advantage was the proprietary information they could use and leverage to their own advantage.

With the informational playing field evening out, organizations will create value by collaborating with all kinds of players that they

never thought of before. One great example is Komatsu, the large Japanese heavy-machinery company, and Caterpillar here in the US. These are big global competitors, but Caterpillar uses Komatsu's technology to detect equipment failures—before they happen—in items like brake pads. Now, are they still competitors? Sure. But they are also collaborating.

PwC: The demographics are pretty frightening when it comes to developing talent in the science, engineering and technology sector. Are we, as a nation, doing enough to combat this upcoming skills gap?

KK: The demographics are frightening, and not just in the sciences. Fifty percent of Fortune 1000 listed officers will retire in the next three to five years. Over the next couple decades, there will be 75 million fewer Japanese and 65 million fewer Europeans.

But the US has other issues in these areas besides demographics. If you look at engineering, for example, China and India have each become more advanced than the US in how they develop and educate. In North America the perception is that if you are an engineer, you are going to be put into the “technical” box. In Asia they've created a career path for technicians because it's seen as a core, integrated skill, not the “IT department.”

“It’s clear that a global perspective is invaluable. It will only get more so, as growth for US companies increasingly comes from outside North America.”

PwC: There’s been a lot of discussion about how Generation Y, collectively, approaches the concept of work much differently than previous generations. Do you think every generation starts out as different and that Generation Y will end up being far more similar to previous generations than we might think?

KK: Generational definitions can sometimes obscure more than they reveal but I do believe there are important and unique characteristics in the behavior of Generation Y—those born from 1978 to 2005. These individuals grew up getting constant feedback, going through an interview process to get into elementary school at a young age, and being much more supervised in highly structured environments as kids. I was talking to a senior banker recently who interviewed a young candidate who had brought his mother with him. She explained that he had a lot of options and she wanted to make sure that that was the right environment for him!

PwC: As Generation Y ages and its members start landing leadership roles, how do you think their different views on work will change executive leadership?

KK: Generation Ys expect to be able to choose where and when they work, using technology to escape traditional office hours and space; they do not see strict

separations between work and life. Similarly if a company is not treating them as they think they should be, or they don’t feel that they are learning enough, they will not think twice about leaving. Many CEOs I speak to are wondering how you drive a global strategy when faced with those kinds of retention issues. You are going to see some real attempts at changing corporate culture to try and retain these employees. Maybe you give someone very young an international experience, or let a person study a different language on company time.

PwC: And the converse is true, as well, right? With such a looming talent gap, there could be value in keeping older employees around longer.

KK: That expertise is desperately needed already, there is a huge need for individuals who want to work for two or three months, or a few hours per week, and they could still add value to 10 or 15 years beyond the official retirement age.

Read more at:
www.pwc.com/AmericanPerspectives



Surprise!

Business sense makes the best case for sustainability

A funny thing happened this decade on the long road to US scientific, regulatory and corporate consensus around climate change. Companies around the world—particularly those in emerging markets—came to the collective realization that the common sense case for business sustainability also implied a golden opportunity for competitive advantage.

Leaders in this arena have embarked on ambitious and creative sustainability initiatives that have both reduced costs and built shareholder value. Examples range from Brazilian construction company Amanco, which has achieved enormous cost savings through environmental efficiency,¹ to Indian chemical company Jubilant Organosys, which switched its feedstock from crude oil to molasses.² In the past few years, some US companies have ramped up their own sustainability efforts, but late adopters will be left behind in terms of corporate reputation, the ability to attract young employees and chances to explore green business opportunities.

More companies are holding themselves accountable

According to the Dow Jones Sustainability Indexes, corporate sustainability is a “business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments.” In 2007, more than 2,500 companies around the world published a sustainability report—10 times as many as in 1995 and twice as many as in 2001. Some companies are including third-party verifications of their sustainability efforts in the reports, a practice followed by Starbucks, Carrefour, Puma and LG Electronics.³

The US still lags far behind the UK in terms of issuing sustainability reports (see Figure 13), but the number issuing them is increasing every year. Other good news is that according to the Carbon Disclosure Project’s 2008 report, 46% (or 228) of the S&P 500 reported that they disclosed their greenhouse gas emissions.⁴

As Daniel Esty, author of *Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value, and Build Competitive Advantage*, told PwC: “What I think is really interesting is the growing number of companies and far-sighted business leaders who recognize that environmental concerns are not just about downsides, not just about regulation to follow and costs to bear. There’s a real upside opportunity for companies that can position themselves as environmental solutions providers.”

What’s good for the environment can be good for business

Individual American companies each have their own reasons for acting in a more sustainable manner. As Clorox CFO Dan Heinrich told PwC: “For us, sustainability is about responding to consumers who are getting more educated, who want less chemicals in the home environment and who want to use fewer petroleum-based products.”

General Mills has built integrated sustainability practices deep into its business planning and fundamental process. That makes it easier for the company to implement initiatives related to using less water, less packaging and less fuel. As one example, General Mills reconfigured the way it packaged certain items, which allowed the company to load more pallets on trucks leaving distribution centers. “If you are delivering more goods with the same amount of fuel,” says Tom Forsythe, vice president of corporate communications, “that’s sustainability in action, but it’s also better productivity.”

Indeed, it often seems that what is good for the environment is even better for the corporate ecosystems operating in it. “We see tremendous opportunities for UPS around ‘green, clean, and socially responsible,’” UPS CFO Kurt Kuehn told PwC. “Remember: trucks are a much more efficient means of moving goods than individual cars are.”

Leaders in this arena have embarked on sustainability initiatives that have both reduced costs and built shareholder value

Figure 13

Though they far outnumber their UK counterparts, US companies issue fewer sustainability reports

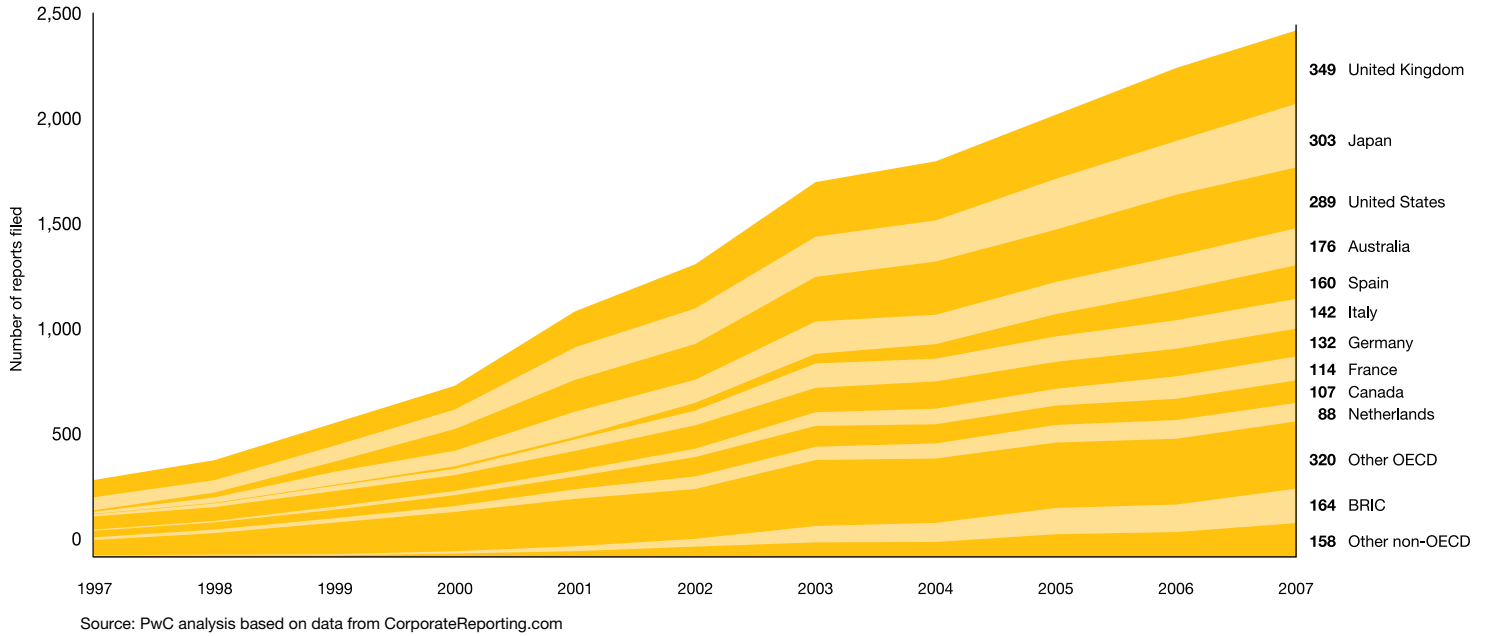


Figure 14

In 2007, only 5% of companies that sought external verification on their sustainability report are from, or based, in North America

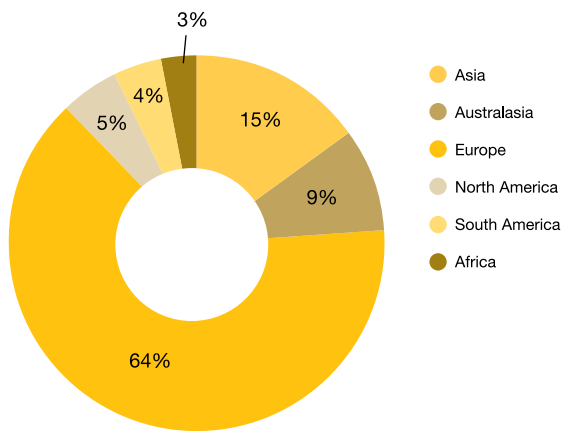
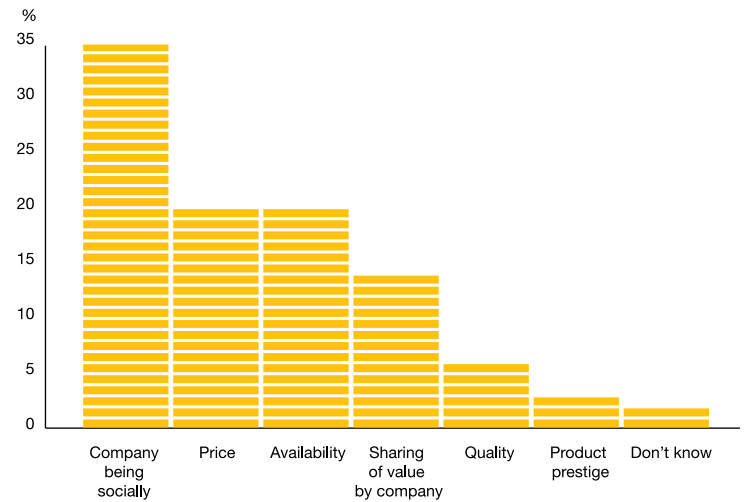


Figure 15

Social responsibility is the number one brand loyalty factor for Western consumers (2007)



Companies are parlaying sustainable practices into their own value-generating products

Breaking down barriers

To illustrate the new intersection between business and the environmental movement, Heinrich, the Clorox CFO, cited this past Earth Day, April 21, when Clorox CEO Don Knauss celebrated a new line of environmentally friendly products by ringing the opening bell of the New York Stock Exchange with none other than Carl Pope, executive director of the Sierra Club.

Photo opportunities like this depict real business, not just public relations. Companies are breaking barriers in geography, industry and—especially—the range of partners with which they are teaming. In January 2008, PepsiCo announced a partnership with H2O Africa, a foundation dedicated to fostering clean-water initiatives on the continent. Not to be outdone, Coca-Cola is working with the World Wildlife Fund to reduce its own water usage throughout the developed world. Unilever has joined with Oxfam to assess the consumer products giant's effect on villages in Indonesia, and Costco is working with Central American nongovernmental organizations (NGOs) on sustainable-farming initiatives. The creative examples of unlikely collaboration keep coming. British Petroleum and Indian NGOs have combined forces to bring power to far-flung communities on the subcontinent, and Nike enables some of its Thai workforce to produce apparel items in their homes.⁵

Other companies are parlaying sustainability practices into their own value-generating products. According to research supplied by PwC's Global Best Practices group, Xerox evolved a sustainability calculator this year to help customers save money and environmental resources on their office equipment. The tool calculates the environmental impact of printers, copiers and multifunction devices and recommends improvements in financial efficiency and environmental performance. Xerox used the sustainability calculator to evaluate more than 2,000 printing, copying and multifunction devices for Northrop Grumman. By optimizing its office equipment to fewer than 1,100 devices, the global defense and technology company reduced energy use by 27%, greenhouse gas emissions by 26% and solid waste by 33%, at the same time reducing costs.

Sustainability and performance

It's impossible to say for sure that sustainable companies create more shareholder value than nonsustainable ones do. But in June 2007, Goldman Sachs compared businesses with strong sustainability characteristics in six industries—energy, mining, steel, food, beverages and media—with the general stock market. The investment bank found that the high-sustainability companies had outperformed the general stock market by 25% since August 2005. During the same time frame, 72% of these companies outperformed their industry peers.

A recent analysis conducted by PwC supports the notion that sustainable companies tend to perform better.⁶ We examined companies that have established certain sustainability and social responsibility practices, reported sustainability along with financial results and achieved recognition for having done so through one of six well-known sustainability indexes. The analysis attempted to measure how this group's financial results performed in relation to companies that reported only standard financial data.

We found that sustainability reporters consistently achieved higher return on assets, higher gross margins and higher return on sales. While it's premature to definitively say that sustainable companies perform better, clearly they are benefiting from operational improvements.

Sustainability information drives analysts' buy calls

Another PwC study suggests that analysts are placing a premium on the additional information provided through corporate sustainability reports.⁷ We conducted an experiment with Schroders Investment Management, a leading London-based investment firm, and Coloplast, a Danish company renowned for its corporate reporting, to determine how sustainability reporting affects the way analysts view a company.

PwC experimented with two versions of Coloplast's annual reports. The first version was the company's actual report, containing all the information the business regularly includes about sustainability,

such as sections on corporate governance, ethical business conduct, environmental impact and social responsibility. The second set, styled after a more traditional annual report, was stripped of Coloplast's quantified sustainability data. The analysts were split into two groups, each receiving one of the reports, and were asked, among other things, to forecast revenue and earnings, as well as provide buy and sell recommendations for the stock.

Among those analyzing the real, "sustainable" version of the report, 60% of the analysts said they would buy shares in the company. By contrast, 80% of those with the altered version said they would sell the stock. The analysts with the original report responded positively to the fact that they had more data by which to assess the quality and future sustainability of the company's performance.

Companies will no doubt find many other potential benefits to sustainable business practices. Green companies, for example, are becoming employers of choice, particularly for the age-group often referred to as millennials. According to a late 2007 poll

from employment Web site MonsterTrak.com, four out of five respondents (mostly students and young adults) were hoping to use their jobs to improve the environment, and 9 out of 10 said they preferred to work in an environmentally friendly organization.⁸ Clearly, the youth of America believes that working in a sustainable manner is the right thing to do.

1 International Finance Corporation 2008 report, "Market movers: Lessons from a frontier of innovation."

2 Ibid.

3 Grocery Manufacturers of America (GMA)/PwC 2008 report on consumer packaged-goods industry.

4 Carbon Disclosure Project 6 S&P 500 Report.

5 Peter Senge, *The necessary revolution*, pg. 94.

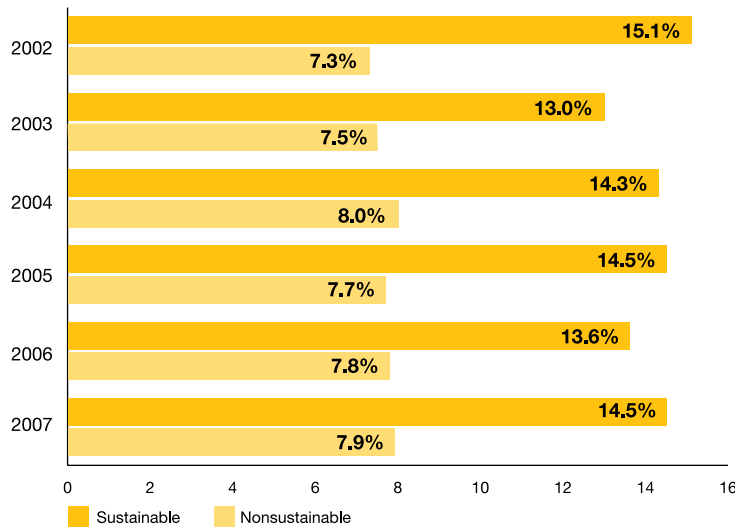
6 Grocery Manufacturers of America.

7 Ibid.

8 Ibid.

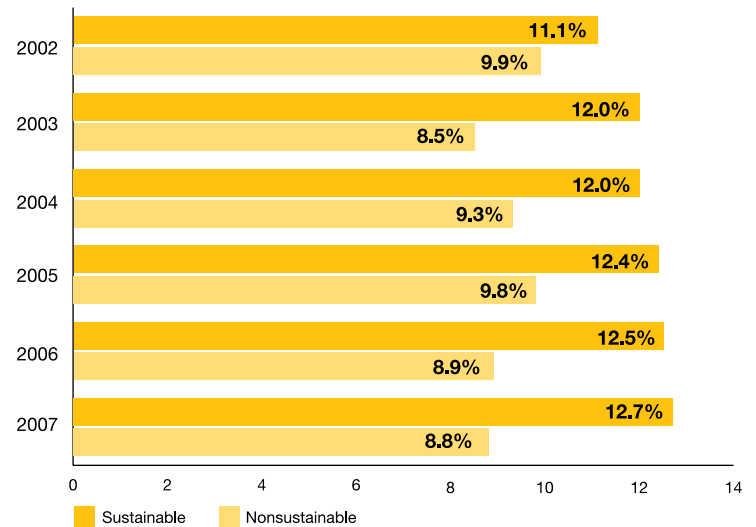
Sustainable versus nonsustainable companies: A PwC analysis

Figure 16
Sustainable companies registered a higher median return on sales...



Source: PwC analysis

Figure 17
...and a higher median return on assets



Source: PwC analysis

An ounce of prevention

In the emerging era of customized treatment, there's a cure for what ails companies

Major healthcare reform tops the domestic agendas of both US presidential candidates. And for good reason: Regardless of the election outcome, our era of ever-more-customized medicine portends far-reaching ramifications for employers, workers and the overall economy. Corporate America, in remaining competitive, has an enormous stake in how medical care is financed and delivered.

The future of healthcare turns on three salient objectives: targeted treatments, preventive behaviors and simplified administration. Each of these trends has near-term implications for employers.

Healthcare's economic footprint will grow

Today, healthcare costs in the US reach about \$2 trillion a year, or about 16% of gross domestic product. At the current rate of growth, 20 cents of every dollar spent in 2020 will go for medical care. For perspective, imagine that grocery prices had paralleled the rate of healthcare inflation over the past 75 years. A modern shopping list would look like this:

Item	Price
1 pound coffee	\$64.17
1 roll toilet tissue	\$24.20
1 dozen eggs	\$80.20
1 pound butter	\$102.07

Source: American Institute for Preventive Medicine, 2007

Whether companies consider the rapid growth in healthcare costs a positive or a negative depends largely on their role in healthcare. On one hand, a general cross section of US CEOs recently told PwC that the cost of healthcare is the biggest obstacle to competitiveness.¹

On the other hand, the healthcare economy offers tremendous opportunities for organizations that operate within the sprawling healthcare network, including hospital systems, big pharmaceuticals, life sciences companies and technology players specializing in healthcare equipment or software. A few promising revenue streams are gene based, personal anticancer cocktails; video-assisted robotic surgery; and sophisticated prescription monitoring.

Healthcare remains a powerful growth engine for jobs. Witness the communities that vie to become known as biomedical research centers, a status that reliably attracts public and private funding and highly paid professionals. In Boston, for example, the two largest employers are hospitals, not IT companies.

Healthcare specialization has a price

Forget about the “Take two aspirins and call me in the morning” school of healthcare. Myriad treatment options—from multipill cholesterol suppression to sophisticated chronic pain protocols—are proliferating. For example, tailored drugs can now influence wayward genes, helping arrest such diseases as Parkinson’s and cancer.

“Physicians are increasingly specialized, and consumers seek out specialists who understand their unique medical issues,” says David Chin, M.D., leader of the PricewaterhouseCoopers Health Research Institute. A singular aspect of the US healthcare market, according to Dr. Chin, is that “we don’t believe there are limits to healthcare. If a loved one is in the hospital, people think no stone should go unturned. In other nations, there are more cultural limits on healthcare.” This high level of care customization is invariably passed on to health insurers and employers. In fact, as shown in Figure 19, US employer costs for health insurance in 2007 surpassed 7% of total employee compensation.

At the current rate of growth, 20 cents of every dollar spent in 2020 will go for medical care

A preventive mind-set can help companies address rising costs

Chronic diseases cost the US economy more than \$1 trillion annually, according to new findings by the Milken Institute.³ Surprisingly, though, in member countries of the Organisation for Economic Co-operation and Development (OECD), just 3% of all healthcare spending in 2004 went toward prevention and overall public health. If governments have abdicated this role, individual companies will benefit by developing their own plans for employees' preventive healthcare.

PepsiCo's HealthRoads program, for instance, accomplishes two goals—reducing chronic disease risk and encouraging electronic health records—at low cost. Employees receive \$100 bonuses for supplying health risk appraisals that gauge chronic disease risk factors like weight, diet, blood pressure and fitness habits. The results were dramatic. Approximately 90% of those who submitted personal health data were found to be at risk and were referred for quick healthcare follow-up.⁴ In a wellness program at Motorola Corp., participants accounted for a slight, 2.4% increase in health costs versus nonprogram participants who had an 18% increase in monitored healthcare costs. According to federal data and the Kronos Optimal Health Company, a customized healthcare consultant/provider based in Phoenix, corporate savings range from \$1.65 to \$4.91 for each dollar spent on well-designed wellness programs.⁵

Aside from prevention, companies are working with employees who suffer from long-term, chronic conditions to maintain some level of work performance and avoid hospital stays. Initiatives include improved employee monitoring and feedback programs, such as ask-a-nurse lines, and early-referral programs for asthma and diabetes patients. Employers are also increasing outreach in mental health and anxiety counseling.

Technology will take medical administration out of the dark ages

Administrative costs currently consume 13% of healthcare insurance premiums, according to recent research. In a recent PwC study, only about one-quarter of physician practices say they routinely use electronic medical records.⁶ Privacy considerations

aside, that's a stark shortcoming. In no other field would three-quarters of professionals—bankers, for instance—collect and distribute paper-based records of their clients. The migration toward digitized health record data and administration will allow US providers and employers to exchange real-time, meaningful histories of conditions, diagnoses and treatments, saving employers millions of dollars in costs.

Technology will also help control costs through improvements in medical training. Notably, some medical schools are training medical students to recognize an array of irregular heartbeats by using MP3 and iPod downloads, achieving in just a few hours' time what used to take weeks or months of clinical experience.

More efficient medical training won't by itself resolve onerous employer healthcare costs, nor will the most efficient exchange of digital medical files, the most enlightened corporate wellness programs, or the best monitoring of employees with cancer or diabetes. But taken together, these initiatives will help heal much that is wrong with healthcare cost management in the US.

1 PricewaterhouseCoopers, "11th annual global CEO survey; global presentation of findings," December, 2007 (CEO survey research data).

2 Kevin M. Murphy and Robert H. Topel, *Journal of Political Economy*, "The Value of Health and Longevity," 2006, vol. 114, no. 5, University of Chicago, pp. 871-904.

3 The Milken Institute, "An unhealthy America: The economic burden of chronic disease," October 2007; Exec. Summary and Research Findings, p.2.i.

4 World Economic Forum, "Working towards wellness: Accelerating the prevention of chronic disease," (produced in conjunction with PriceWaterhouseCoopers) 2007, p. 13.

5 US Department of Health and Human Services, "Prevention makes common 'cents'" (Motorola Corp.), September 2003.

6 PricewaterhouseCoopers Health Research Institute, "Research rewired: merging care and research information to improve knowledge discovery," sec. 1:6, 2008.

Coming back from cancer

As cancer becomes more manageable, companies stand to benefit more as employees stay productive longer

At the annual American Society of Clinical Oncology (ASCO) meeting in June 2008, it wasn't quite a "cure for cancer" that had doctors and researchers buzzing. Rather, it was new targeted, gene-based drugs—for lung and colon cancer in this particular instance—pointing to longer patient survival.

Personalized medicine is fast arriving in oncology, and the days of one-size-fits-all chemotherapy are disappearing. Also, better screening and treatment regimens have reduced cancer death rates in the US by 18.4% among men and by 10.5% among women since the early 1990s. This translates to some 534,500 deaths avoided annually, according to American Cancer Society statistics.¹

If cancer proves as controllable as, say, diabetes in the next decade—as some oncologists believe—there are cost implications for companies. On one hand, superior, targeted chemotherapy could help employees manage their conditions and continue as productive team members while undergoing treatment. As David Chin, M.D., leader of PwC's Health Research Institute, says, "With

genomics, cancer treatment could very rapidly be personalized. We could begin to see a Starbucks model of healthcare, where patient customization is really the name of the game."

On the other hand, economic realities are stark for health insurers and employer health plans. For example, Avastin, a relatively new biologic treatment for breast cancer and colon cancer, typically costs \$7,700 per month. Erbitux, a biologic with FDA approval for colon cancer, costs from \$18,000 to \$38,000 for a 7- to 16-week regimen, according to an ASCO report. Developing these large-molecule pharmaceuticals will continue to drive up the cost of employer insurance premiums.

Even if the Starbucks model of treatment hasn't yet arrived for cancer patients, it's well on its way. And while more choice for the afflicted might mean higher insurance premiums for employers, it also means rising productivity.

¹ American Cancer Society: "Cancer facts & figures 2008" (57th edition).

Even if the Starbucks model of customized treatment hasn't yet arrived, it's well on its way

Figure 19

In 2007, employer costs for health insurance totaled more than 7% of total compensation to employees

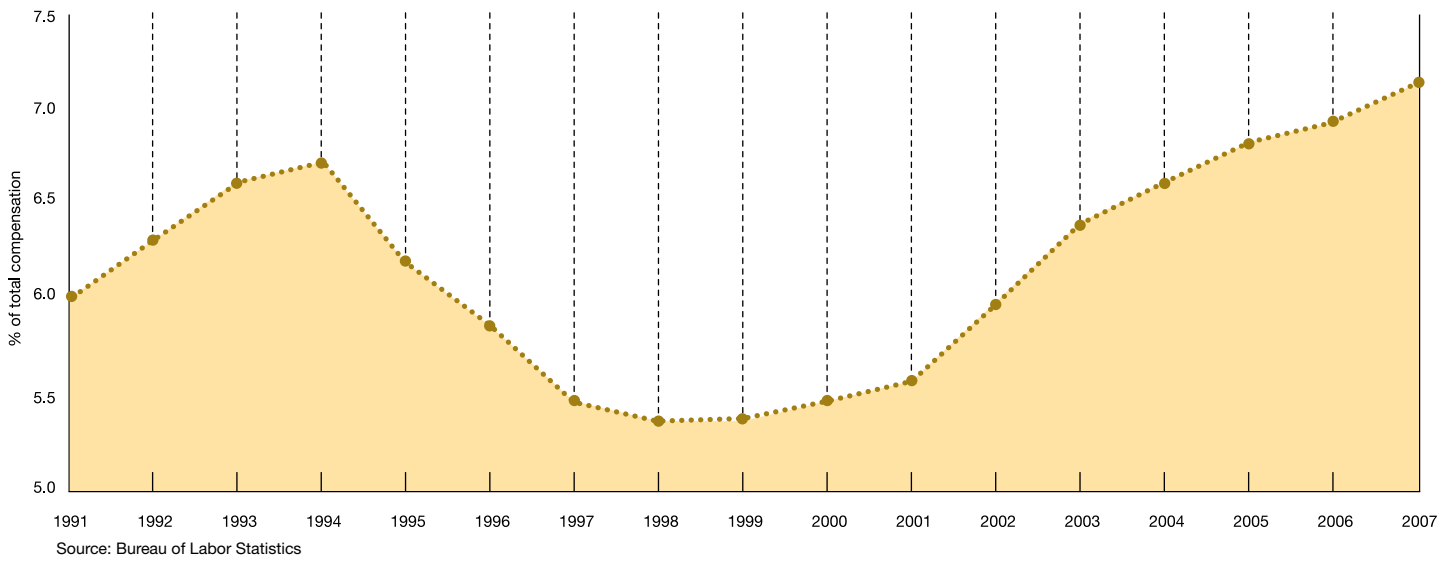
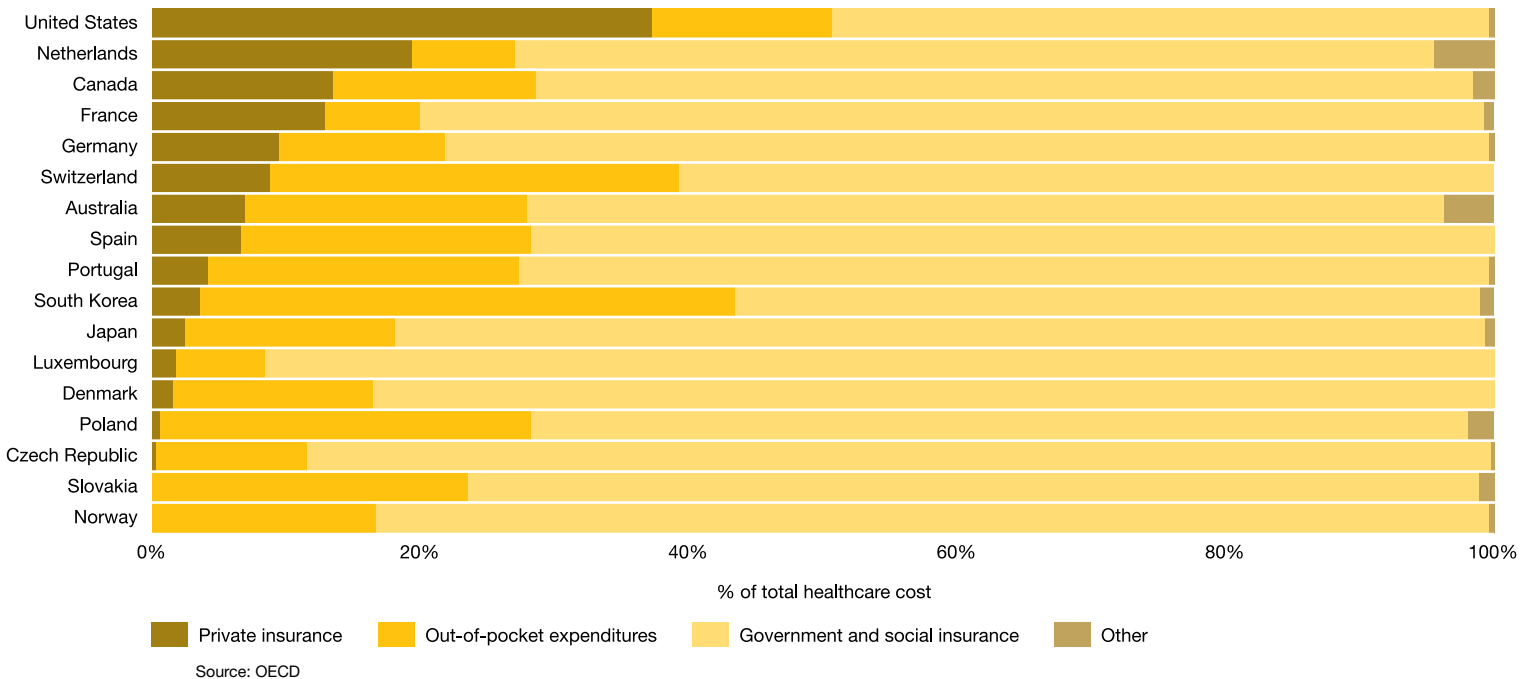


Figure 20

Private insurance, much of it funded by employers, covers a far higher percentage of healthcare costs in the US than in other countries



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