

Competing & Collaborating

What is
success in
a connected
world?*

Executive Summary

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PricewaterhouseCoopers' 11th Annual Global CEO Survey provides a timely and insightful picture of the current attitudes, perceptions and expectations of major business leaders around the world. The theme of this year's survey, "how to succeed in a connected world", explores the way CEOs seek to balance the risks and opportunities of competing and collaborating in the face of enormous uncertainty and change. The findings indicate that establishing business networks is now a primary response to today's environment – and that CEOs believe the benefits of doing this clearly outweigh the costs.

To examine the dynamics of cause and effect in the connected world, the survey divides into two sections:

- The business environment – including business confidence; mergers & acquisitions; global risks; and climate change
- The impact on business models – including people and change; collaborative business networks; and regulation.

As well as presenting an analysis of the views of 1,150 executives from 50 countries, the survey also provides personal views expressed by individual CEOs, giving their perspective on how – and how successfully – their organisations are rising to the challenges and opportunities created by unprecedented change.

The global business environment

At a headline level, the survey clearly reflects the impact of the recent global credit crunch and resulting heightened risk of recession on business confidence. It shows that CEOs' level of confidence about the business outlook declined for the first time since the 2003 survey with fear of a global downturn emerging as the number one threat to growth. Significantly, the prospect of a recession was the only

growth risk to increase in concern among CEOs. All other risk factors – including energy and natural resource supplies, global climate change, and terrorism – declined as business threats compared to the previous year's survey.

The decline in business confidence is gradual rather than dramatic. The proportion of CEOs who said they were "very confident" about revenue growth over the next 12 months fell by two percentage points from the previous year to 50%. And despite this drop, CEOs remained nearly twice as confident as they were in the 2003 survey.

However, a closer analysis reveals deep regional differences. The decline in business confidence was most pronounced in North America, where just 35% of CEOs said they were 'very confident' about growth, compared to 53% last year. Confidence among Western European CEOs also fell relatively sharply, to 44% from 52% the previous year. In contrast, CEO confidence showed marked increases in the surging economies of Asia Pacific, Latin America and Central and Eastern Europe, rising to about 55% in each of these regions. This burgeoning confidence is spearheaded by China and India – where 73% and 90% of CEOs, respectively, professed

themselves to be 'very confident' about the prospects for growth in the next 12 months.

What lies behind this divergence in the confidence levels of CEOs around the world? The findings suggest that the combined effect of the credit crunch, rising energy prices, political uncertainty and the slowdown in the Western economies means the threat of recession looms especially large for CEOs in the established economies of the US and Western Europe. In the newly-emerged economies such as Asia, the continuing strength of CEOs' confidence may reflect the fact that they have experienced nothing but rapid expansion for a decade or more. This global split in confidence levels suggests that the coming twelve months will demonstrate, for the first time, whether the global economy can continue to expand without significant contributions from the traditional growth engines of the West.

Asia takes the lead on M&A and climate change

A further reflection of Asian CEOs' higher levels of business confidence is that interest in cross-border mergers & acquisitions (M&A) is also highest in Asia, where Asian companies have increasingly become the acquirers rather than the acquired. Western European CEOs in our survey were

the most likely to have participated in cross-border M&A activity in the past 12 months, but our findings show they are now set to hand the mantle to Asia. Only 23% of Asian CEOs have completed at least one cross-border deal within the past year, but 34% – a higher percentage than in any other region – say that they intend to do so within the next 12 months.

Asian CEOs also lead the way on supporting government action over global warming. Despite the ongoing and highly visible debate, just 34% of CEOs worldwide cited climate change as a concern. Four-fifths of CEOs, however, called for an increase in government action to reduce emissions. Support for increased government intervention was highest among CEOs in Asia, at 90%, and lowest in North America, at 64%. Terrorism and the threat of a pandemic, once seen as major concerns by CEOs, were cited by just 31% and 28% respectively.

These shifts underline the changing nature of CEOs' preoccupations, as the implications and effects of globalisation continue to evolve. This year's results marked the first time, since the survey's inception 11 years ago, that CEOs have cited a potential economic downturn as a top threat to their business growth prospects. They listed as other major threats a shortage of key labour skills, and over-regulation. Until now, CEOs had perennially rated over-regulation as the primary risk to their business. Though it remained among their top three concerns, the threat of over-regulation was mentioned by 59% of respondents, down from 73% in the previous survey.

Collaborative networks: an emerging business model

So, how is this sweeping and ongoing global change impacting business models? One of the clearest findings this year is the emergence of business networks as a front-line response for managing risks and exploiting opportunities. Our research shows that many CEOs worldwide now regard these networks as a defining principle of the organisation of the future, although actual implementation is still lagging behind these expectations.

What differentiates these new collaborative networks from companies' existing business relationships and alliances? The key difference is that most companies currently collaborate on an opportunistic basis to achieve a specific objective, such as reaching a new market or launching a new product. In contrast, a business network is a group of participants who come together in an open community of equals to conduct transactions – the transmission of products, services, information or money – with one another to produce capabilities and outcomes that advance a set of shared business goals.

These participants may include customers, distributors, suppliers, channel partners, logistics providers, regulators and other bodies – such as standards associations, community members or non-governmental organisations (NGOs). They may be companies, individuals, loosely defined groups or other entities; they may simultaneously collaborate and compete with other participants in the same network; and they may participate in more than one network.

Our findings show clearly that these collaborative business networks have gained global currency, but that most companies have yet to develop a systematic method of capitalising on them. More than half the CEOs we surveyed (57%) think that collaborative networks will be a defining organisational principle for business, and only 17% 'agree' or 'agree strongly' that the costs and risks of networks currently outweigh the benefits. Nevertheless, 37% still regard the establishment of networks as a secondary activity, suggesting that they have yet to exploit the full potential of collaboration. Taken together, these findings suggest that CEOs believe collaboration and open business models merit serious attention, but that this does not mean they feel confident about how to leverage them effectively in different contexts.

Deeper analysis of the data provides clues as to how the use of networks is evolving in different regions – and the extent to which history and positioning within the value chain are helping to shape attitudes. CEOs in Central and Eastern Europe sit at one end of the spectrum; only 44% 'agree' or 'agree strongly' that networks will be a defining organisational principle – perhaps reflecting the dominant role that central planning once played in these economies. At the other extreme, 63% of CEOs in Asia Pacific believe that networks will be a defining organisational principle. Indian CEOs (83%) are particularly open to the idea, perhaps as a result of India's role as a major centre of global outsourcing, a form of networking in which risks and rewards are increasingly shared.

The key ingredient: people

Irrespective of the business models they adopt in response to ongoing global change, the war for talent remains a key concern among CEOs worldwide, ranking second only to a potential economic downturn as the biggest threat to business growth. Our findings show CEOs continue to believe that people are a key factor in achieving success, but that it is difficult to find people with the right combination of technical and commercial skills. CEOs also point to shortcomings in middle and senior management, and organisational barriers, when it comes to managing change.

Among our research sample, CEOs in Asia – despite the region’s substantial working-age populations – were the most concerned over the availability of key skills, with nearly four-fifths of CEOs in the region citing this as a worry. Asian CEOs were also the most likely to believe that their organisation needs to change the way it develops talent. However, CEOs’ commitment to hands-on involvement in people issues is highest in North America, where 85% of CEOs – 18 percentage points more than the global benchmark – believed their time was best spent dealing with the people agenda.

More generally, CEOs globally said that combined technical and business experience, global work experience and leadership skills are the most difficult areas for their companies to recruit.

The way forward: connect and succeed

Overall, perhaps the most pervasive theme of this year’s CEO survey is the tension between collaboration and collective action on the one hand, and competition and individualism on the other. This tension reflects the fact that the connected world is still largely uncharted territory, and that many of the changes currently taking place are not merely refinements of traditional business practice. Given this ground-breaking trend, the next decade could well prove to be an extraordinary era for business and society – a period in which companies and governments work together to produce an environment capable of supporting wealth creation and social cohesion around the globe. Put simply, the world is connected as never before. And as this year’s CEO survey shows, the full power of collaboration is now beginning to emerge.

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Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey