

Dealing with disruption ***16th Annual Global CEO Survey***

Key findings in the chemicals industry

February 2013



Welcome

Far-reaching changes are taking place and they're taking place faster than ever. In this new era of 'stable instability', risks that once seemed improbable, even remote, have become the norm. For CEOs across the world, 'expect the unexpected' has become the mantra. The only solution is to build organisations that can thrive amidst disorder: organisations that are agile and adaptable, as well as able to cope with disruption, can emerge stronger than before.

We polled 1,330 CEOs in 68 countries, and talked face-to-face with another 33 CEOs, in our 16th Annual Global CEO Survey, to find out how they're creating resilient organisations that can flourish under stress. *Dealing with disruption* shows that CEOs are:

- focusing on a few carefully selected initiatives to stimulate organic growth;
- exploring new ways to attract and keep customers; and
- balancing efficiency with agility.

And to succeed in these three goals, CEOs are recognising the role that trust plays, and that they'll have to work hard to repair the bridges between business and society.

This report is a summary of our key findings in the chemicals sector, based on interviews with 77 CEOs in 27 countries.

To see the full results of the 16th Annual Global Survey, please visit www.pwc.com/ceosurvey.

Contents

	<i>Page</i>
Introduction	4
The disruptive decade	6
What worries CEOs?	8
Strategies that CEOs are using	13
• Targeting pockets of opportunity and concentrating on the customer	14
• Improving operational effectiveness	21
It's a question of trust	25

Introduction

Introduction

Chemicals CEOs are surprisingly confident about revenue growth this year, considering the range of threats – particularly macroeconomic ones – they see looming.

When we looked at the results of this year's 16th Annual Global CEO Survey for the chemicals sector, two major themes stood out:

- 1) Growth in China (and foreign markets more generally)***
- 2) The importance of innovation and R&D***

In both these areas, the results for chemicals CEOs far outdistanced the overall survey and were the strongest for any industry sector. Chemicals CEOs say their companies are committed to serving customers better, by going where they're going and developing the products they need.

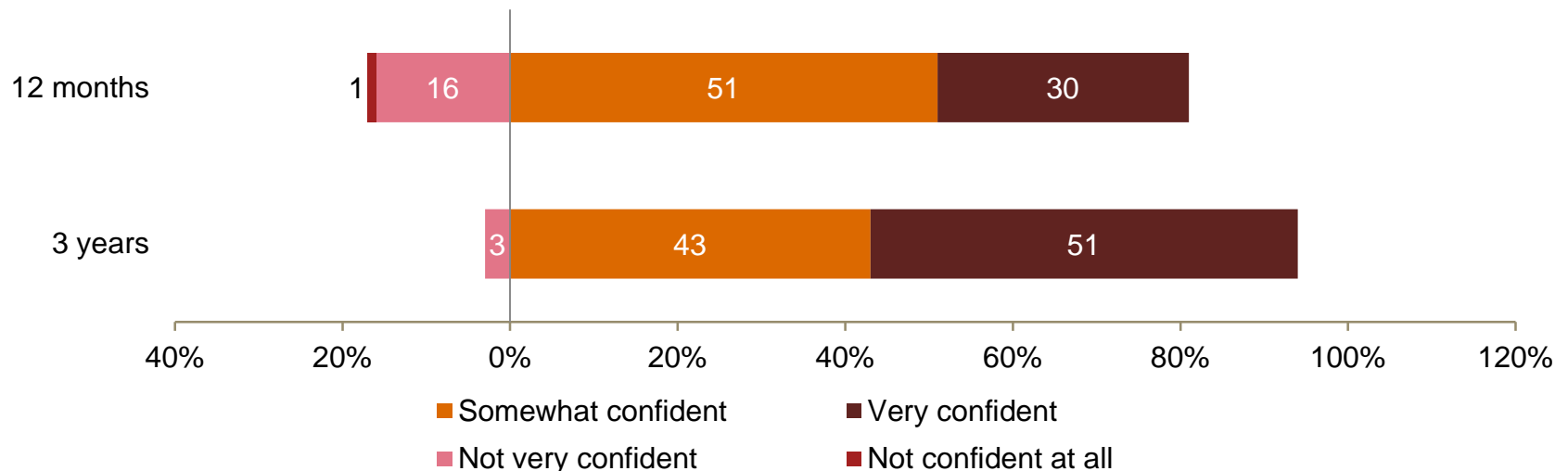
The disruptive decade

94%

of chemicals CEOs are confident they
can increase the revenues that their
companies generate over the next 3
years

Chemicals CEOs are remarkably confident about the future

There have been many disruptions in the past decade, from the financial crisis of 2008/2009 to natural disasters such as hurricanes in the Gulf of Mexico. But most chemicals CEO's expect to master future challenges of the new 'stable instability.' 81% are confident of generating higher revenues in the next 12 months, while an impressive 94% are confident of doing so over the next three years.



Q: How confident are you about your company's prospects for revenue growth over the next 12 months? Over the next 3 years?

Base: All respondents (Chemicals, 77)

Note: Don't know/refused excluded. Not confident at all for 3 years is 0%.

Source: PwC 16th Annual Global CEO Survey 2013

What worries CEOs?

84%

of chemicals CEOs are concerned about
volatile or uncertain economic growth

There are some clouds on the horizon though

Exchange rate volatility

is causing anxiety.

61% of chemicals CEOs worry it could slow down growth, and 30% are 'extremely' concerned

Raw material and energy costs

are going up.

75% of chemicals CEOs are concerned, far more than across the total sample.

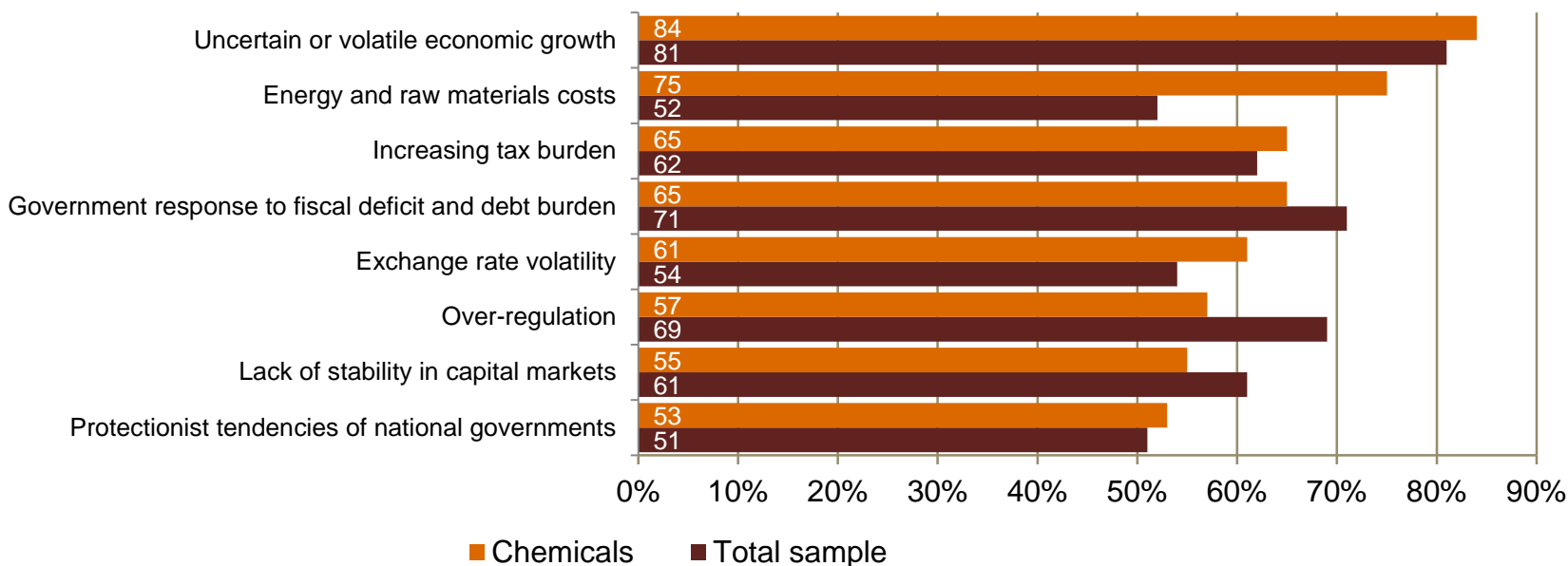
Economic volatility

is the biggest worry.

84% of chemicals CEOs fear it could slow down growth

Macroeconomic worries dominate chemicals CEOs' concerns

Nearly all of the top threats to growth are related to macroeconomic factors. Chemical sector CEOs see governments as having a major impact on growth prospects.



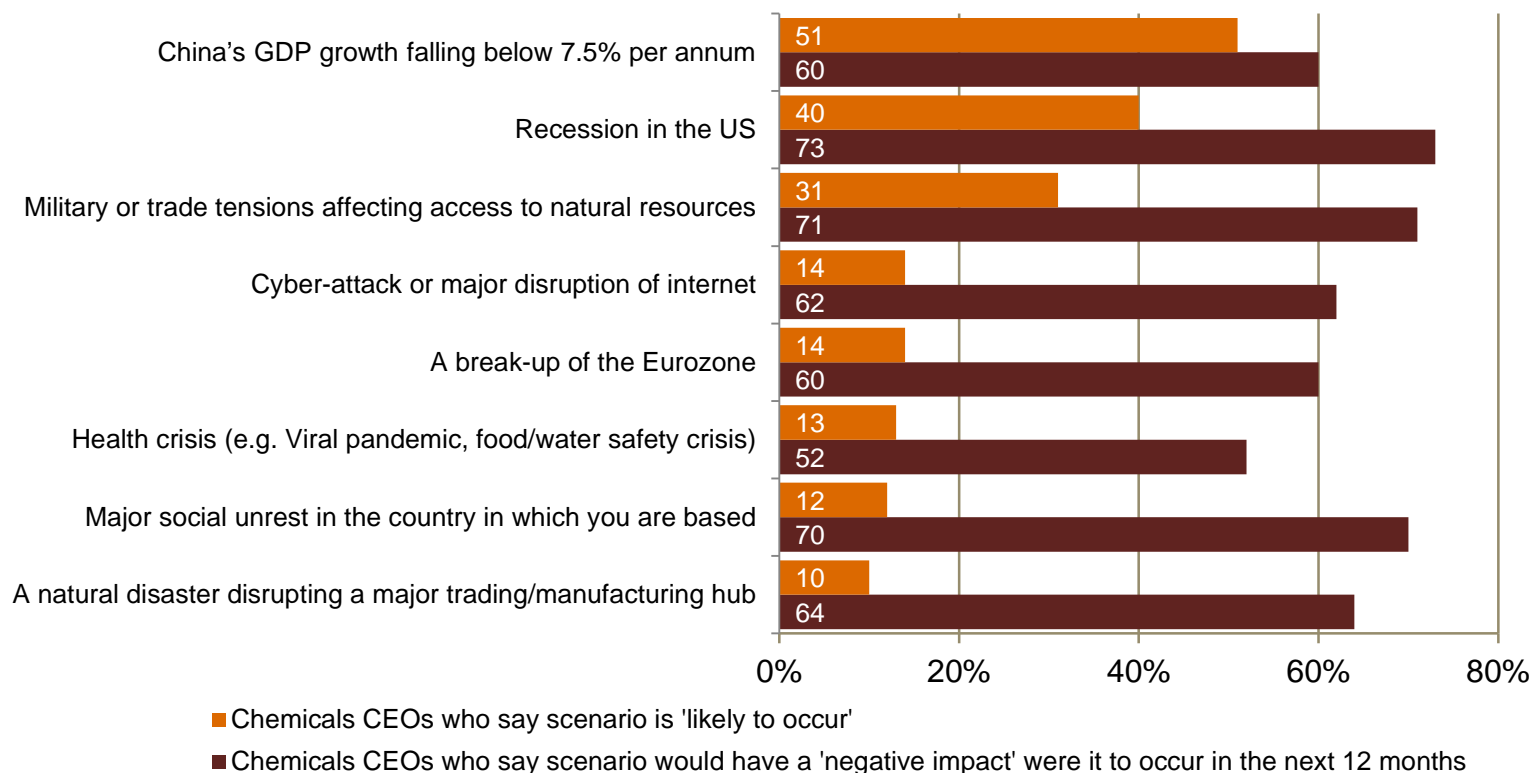
Q: How concerned are you, if at all, about each of the following threats to your growth prospects?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Note: Respondents who stated 'extremely' or 'somewhat' concerned. Only the top 8 threats for healthcare CEOs are listed.. List combines 'economic and policy threats' and 'business threats'.

Chemicals CEOs don't expect most major disruptions to happen

...but if they do, there will be a big impact



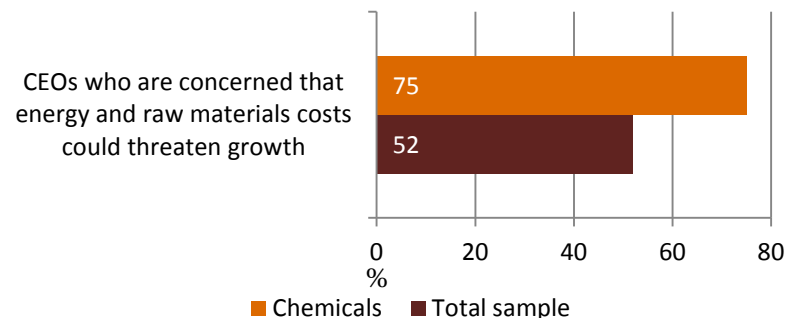
Q:How likely are the following scenarios to occur? How would your organisation cope with the following scenarios, if they happened within the next 12 months?

Base: All respondents (Chemicals, 77)

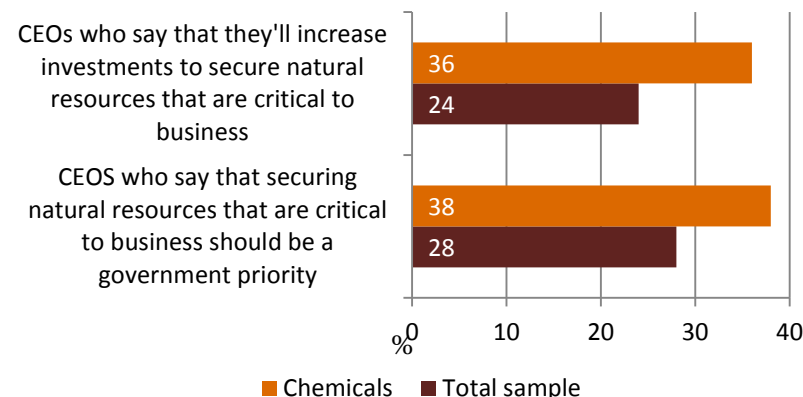
Source: PwC 16th Annual Global CEO Survey 2013

Facing natural resource threats

Chemicals CEOs are far more worried about the pending 'resource crunch' than CEOs across the overall sample, with 75% seeing energy and raw material costs as a concern (although some other sectors, like metals and automotive, also rate these costs as a serious threat).



More than a third think securing natural resources should be a government priority, and almost as many say they'll increase their own investments in these areas.



Q. How concerned are you about the following potential business threats to your growth prospects? How much does your company plan to increase its investment over the next three years to achieve the following outcomes in the country in which you are based? Which three areas should be the Government's priority today?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

Strategies that CEOs are using

- **Targeting pockets of opportunity and concentrating on the customer**
- **Improving operational effectiveness**

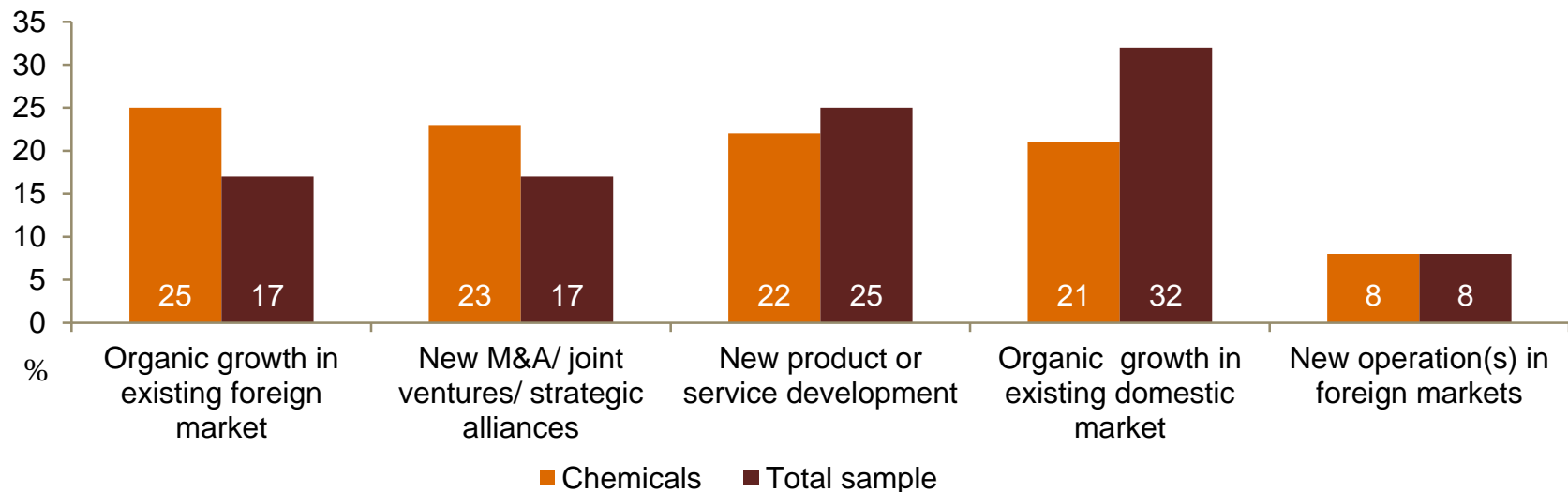
Targeting pockets of opportunity and concentrating on the customer

73%

of chemicals CEOs say they're focusing
on a few carefully selected initiatives

Chemicals CEOs are looking to foreign markets to drive growth

The chemicals sector is already global, and CEOs see organic growth in existing foreign markets as holding the most promise for growth this year. Deals and innovation follow close behind.



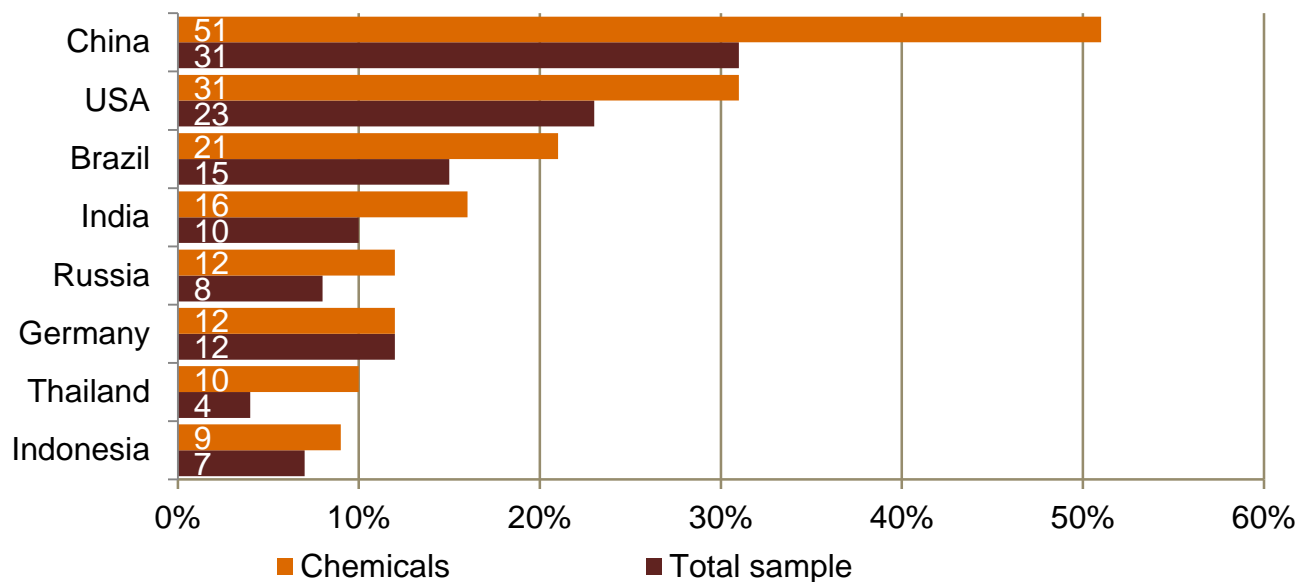
Q: Which one of these do you see as the main opportunity to grow your business over the next 12 months?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

Counting on growth in emerging markets with China leading the way – but the US is important too

More than half of chemicals CEOs say China is one of the countries most important to their overall growth. That's more than in any other sector. That's twenty points higher than the overall average. Brazil, India and Russia make the top 5 too, with the US coming in second.



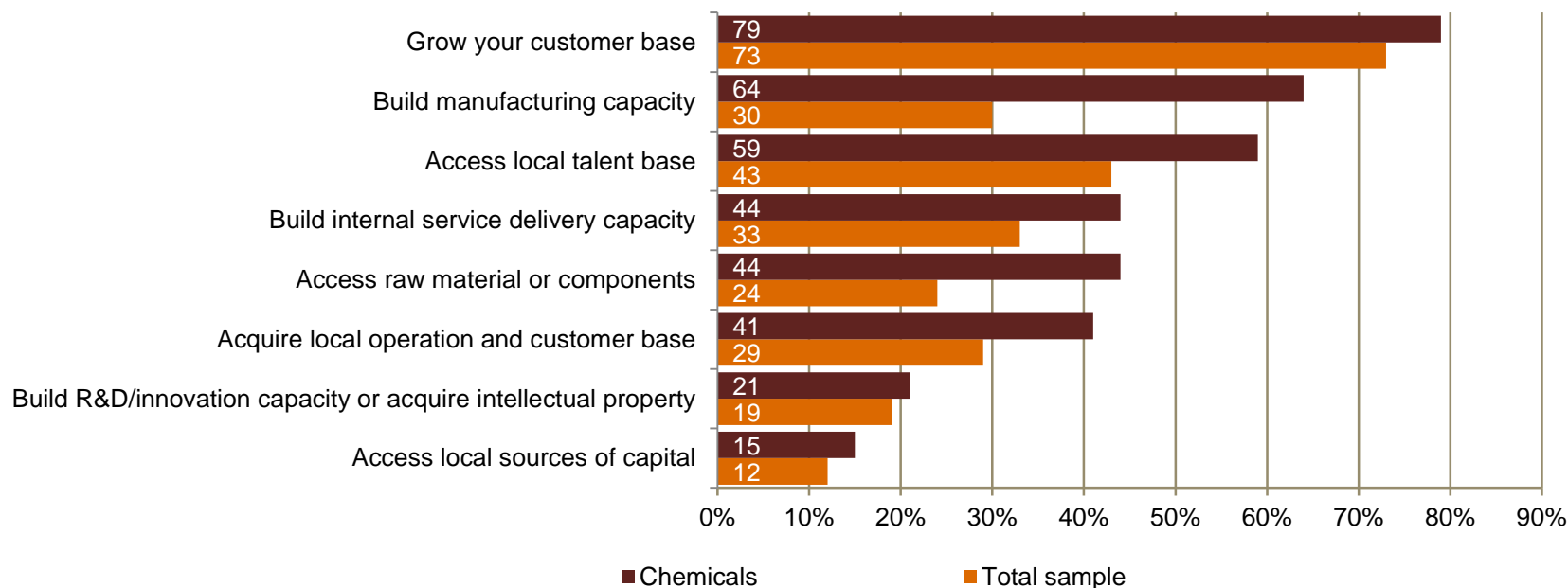
Q: Which countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

Why China? Customers, capacity and talent

Like peers across the sample, the #1 objective for chemicals CEOs in China is growing the customer base. But building manufacturing capacity and accessing local talent are important too. To serve local customers they're looking to develop their internal service delivery capacity. The resource crunch is a factor here too, with 44% saying they'll access raw materials or components.



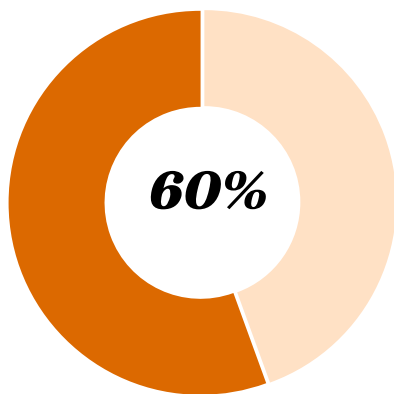
Q: Which of the following objectives do you hope to achieve in the next 12 months??

Base: Respondents who identified China as one of their most important growth markets (Total sample, 414; Chemicals, 39)

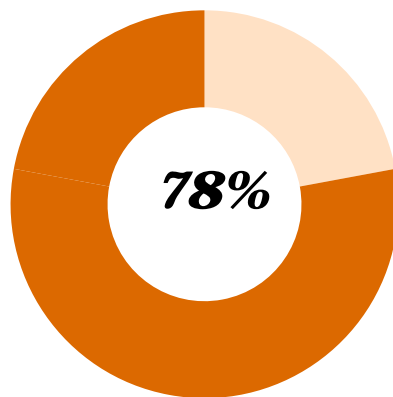
Source: PwC 16th Annual Global CEO Survey 2013

R&D and innovation are a top priority

60% of chemicals CEOs say R&D is a top investment priority over the next 12 months. That's almost double the overall average, and significantly more than other innovation-driven sectors.



And 78% of chemicals CEOs say they'll make changes to increase R&D and innovation capacity. Again, that's more than across the overall sample.



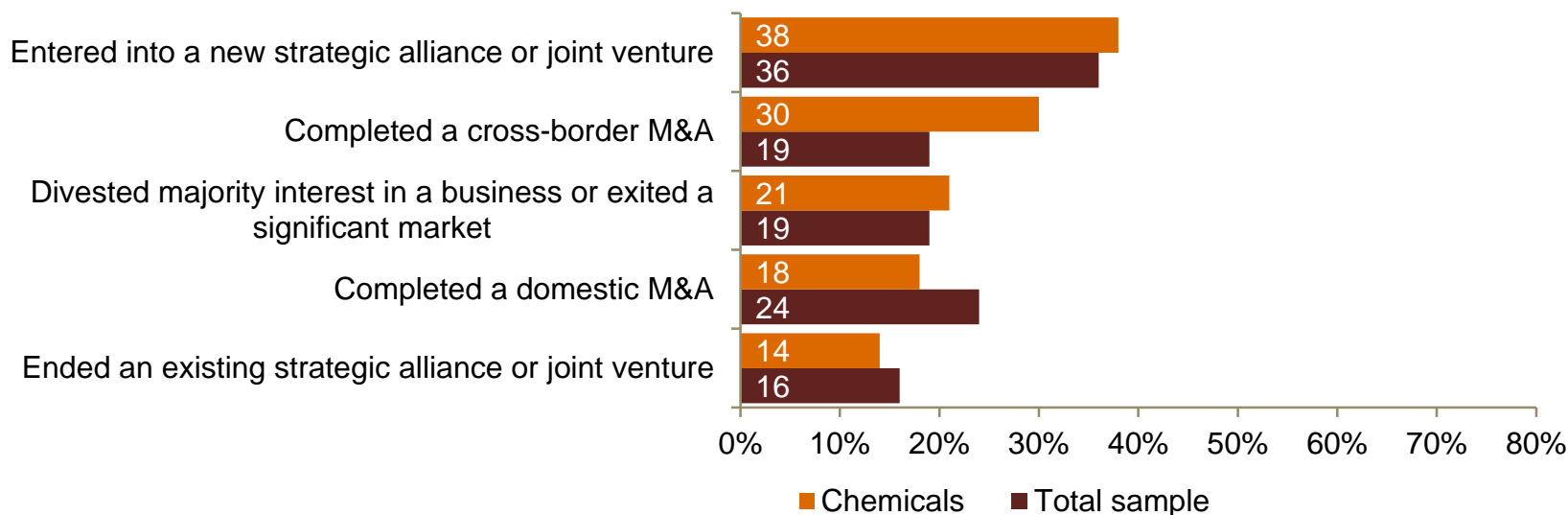
Q: What are your top 3 investment priorities in the next 12 months? To what extent do you anticipate changes at your company over the next 12 months with regards to an increase in R&D and innovation capacity?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

Deals still a factor

More chemicals CEOs say they have completed a cross-border M&A over the past 12 months than across the total sample. And more say they're planning a cross-border M&A for the next 12 months (39% of chemicals CEOs vs. 26% overall) too. Our other research on chemical sector transactions suggests that deal values in 2012 have declined, although overall deal volume for the year looks to be up slightly.*



Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Note: Does not include all restructuring activities.

Source: PwC 16th Annual Global CEO Survey 2013

*See our quarterly series on industry M&A, [Chemical Compounds](#)

Improving operational effectiveness

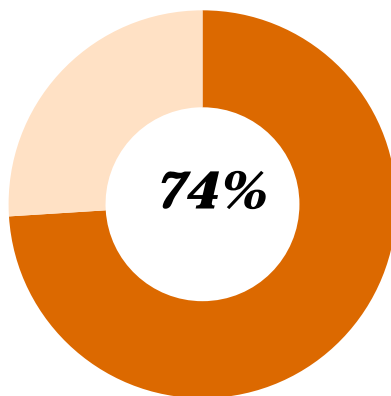
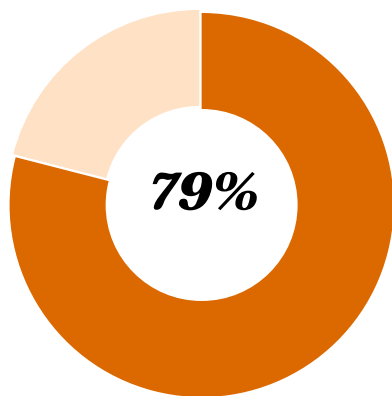
43%

of chemicals CEOs say its one of their
top investment priorities for the coming
12 months

Cost-cutting is on the agenda

79% of chemicals CEOs say they cut costs last years. That's in line with the results across our sample as a whole.

And 74% of chemicals CEOs say they'll implement a cost-reduction initiative in the coming 12 months.



Q: Which, if any, of the following restructuring activities have you initiated in the past 12 months? Do you plan to initiate in the coming 12 months?

Note: those who listed 'implemented a cost-reduction initiative' or plan to 'implement a cost-reduction initiative'

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

Diversifying supply chains

**Chemicals CEOs are
worried about
supply chain
disruption**

42%

The chemical industry has shown a strong commitment to supply chain security, with a number of voluntary initiatives in place.

One way CEOs tell us they're taking action to head off the possibility of supply chain disruption is by spreading out the risk.

Nearly two-thirds of chemicals CEOs say their companies are diversifying their supply chains and working with more partners across varied geographies.

And many are working to strengthen engagement with supply chain partners too.

It's a question of trust

Chemicals CEOs are working to build trust with customers, employees, and society

Listening to customers

Most chemicals CEOs say customers and clients influence strategy—and for 83% the influence is 'significant'

Developing leaders

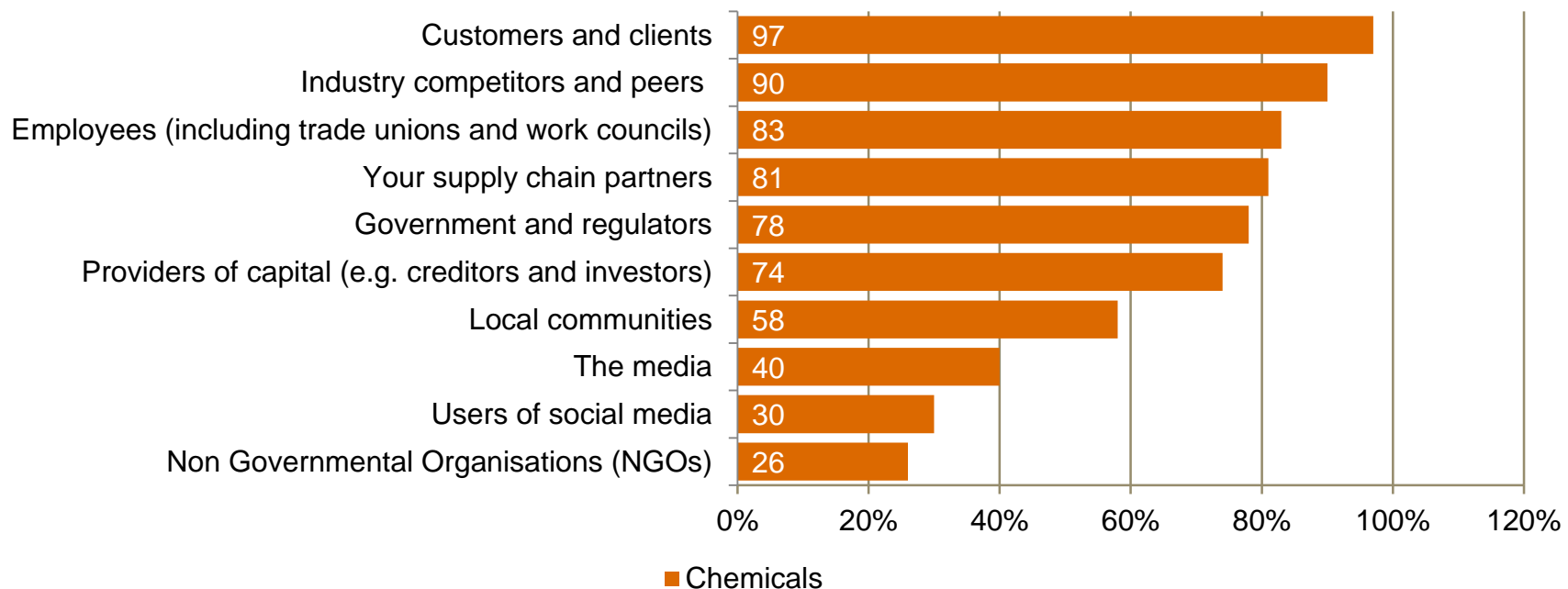
81% of chemicals CEOs are encouraging global mobility and involving managers below board level in strategic decision-making

Protecting the environment

More chemicals CEOs say they'll reduce their environmental footprint and more are focusing on climate change too.

Chemicals CEOs are listening to a wide range of stakeholders

Customers and clients stand out, but industry peers, employees and supply chain partners are influencing company strategy too.



Q: How much influence do the following groups have on your strategy?

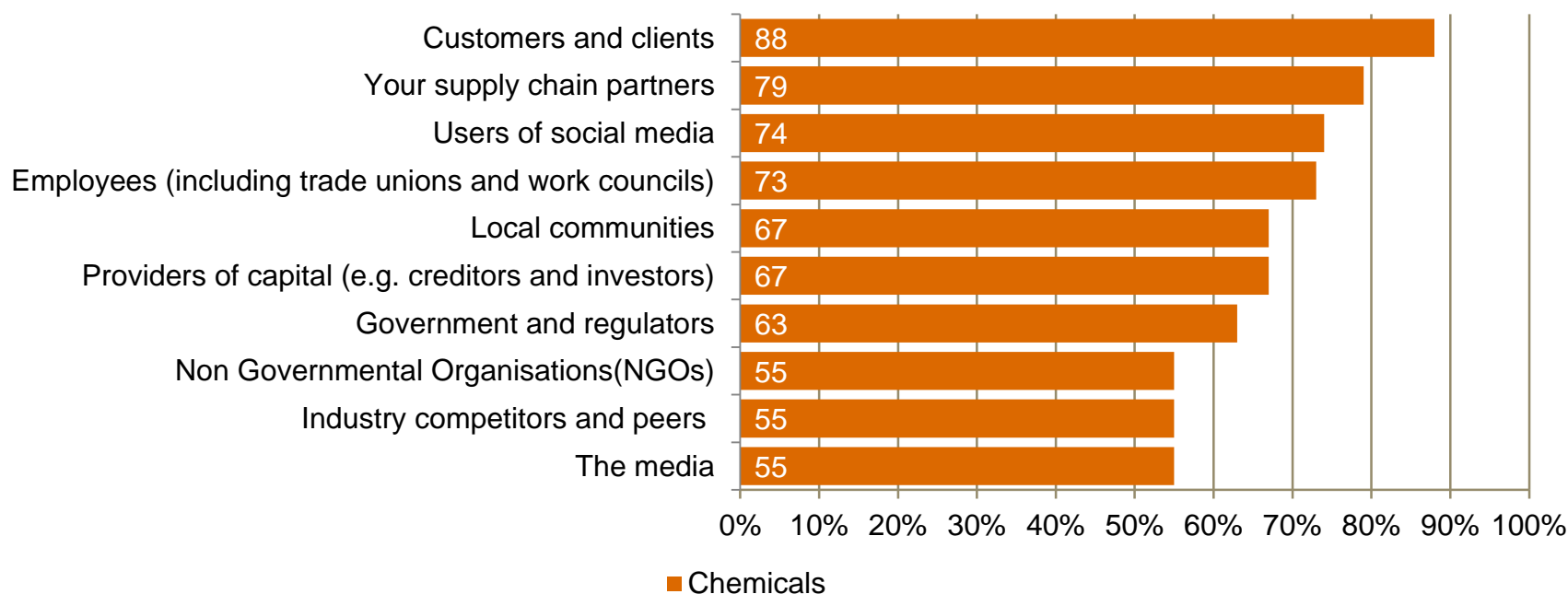
Base: All respondents (Total sample, 1330; Chemicals, 77)

Note: Respondents answering 'some' or 'significant' influence

Source: PwC 16th Annual Global CEO Survey 2013

And they're reaching out

Chemicals CEOs who see stakeholder groups as influential are generally working harder to strengthen their engagement with them too.



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

Base: All respondents (Total sample, 420-1285; Chemicals, 20-85)

Note: Respondents who answered 'some' or 'significant' influence to Q14a. Please note some categories reflect a small sample size.

Source: PwC 16th Annual Global CEO Survey 2013

Chemicals CEOs are also putting programmes in place to develop their leadership pipeline



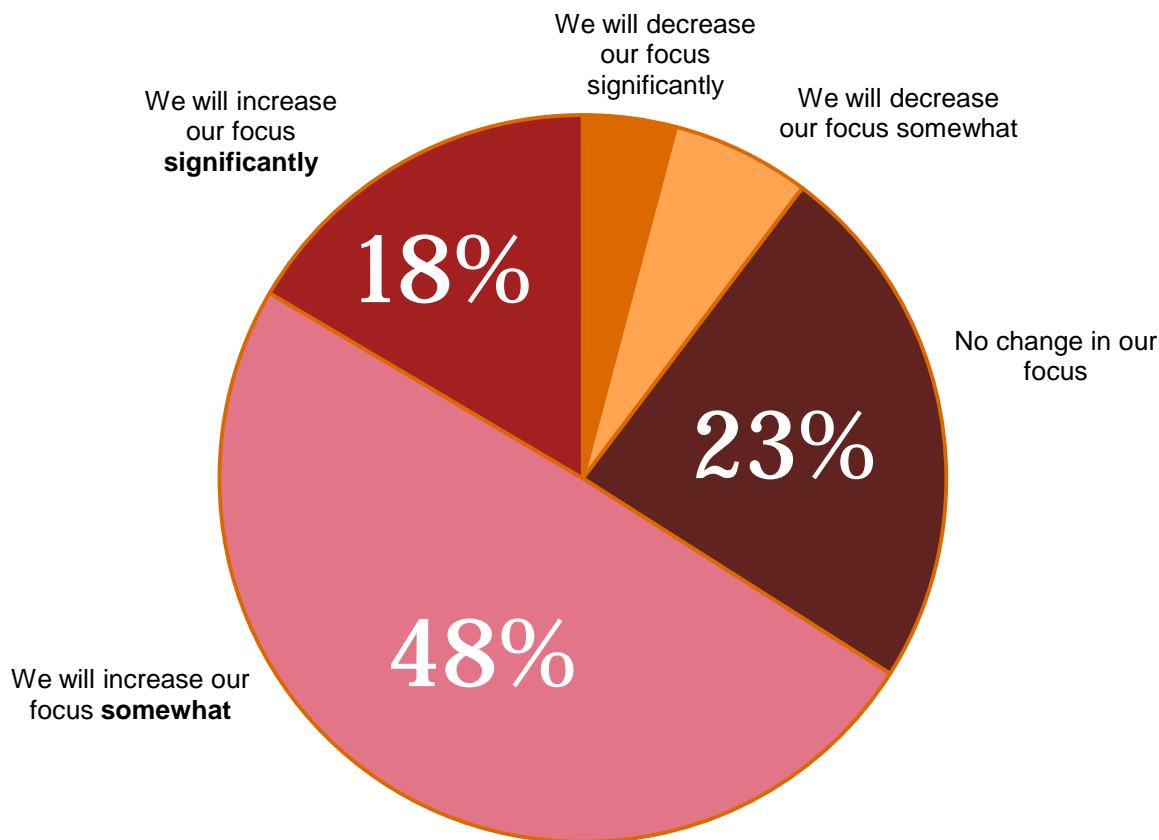
Q: Do you deploy any of the following to develop your leadership pipeline?

Base: All respondents (Chemicals, 77)

Note: Respondents who stated yes.

Source: PwC 16th Annual Global CEO Survey 2013

And chemicals CEOs say they are committed to reducing their company's environmental footprint



66% of chemicals CEOs say their company will increase its focus on reducing the environmental footprint this year.

Q: Please indicate to what extent your organisation plans to focus on reducing environmental footprint over the next 12 months?

Base: All respondents (Total sample, 1330; Chemicals, 77)

Source: PwC 16th Annual Global CEO Survey 2013

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