

19th Annual Global CEO Survey: Assurance findings

Tensions and opportunities ^{p01} / Regulation: tread water or keep pace ^{p02} / Relevance: who matters and why? ^{p04} / Reporting: breaking and bettering tradition ^{p06} / Risk: walking the tightrope ^{p08} / Calls to action ^{p09}

Redefining business success in a changing world

Assurance findings



Foreword



Richard Sexton
Vice Chairman,
Global Assurance

This year's CEO Survey reveals some important insights for us in Assurance as we work with companies to build and sustain trust.

CEOs are keen to discuss new ways of operating and communicating – they want to find better ways to tell their story. Leaders are eager to talk about their growing responsibilities towards a wider range of stakeholders who behave differently than they did even five years ago. Today's CEOs want to communicate that their business creates more than financial value; that they are managing a broad range of risks; and they are experimenting with new ways of engaging with and reporting to stakeholders.

It is an exciting time for us as we work with companies to devise innovative frameworks and methodologies to help address their risks and build confidence in new and traditional information. And it is an exciting time for society too as it now has the opportunity to gain a better understanding of the operations and impacts of business.

CEOs are also considering their regulatory strategy as an opportunity to engage, build trust and resilience and encourage competitiveness across the market – rather than as an annual exercise in compliance. And in continuing uncertainty, the CEOs interviewed in this survey have a much clearer view on how they will prepare their business to create value. Some are becoming much more confident in the way they respond to risk and some are using the information they collect in the course of reporting to seek out and address opportunities.

The narrative for business in the 21st Century is changing rapidly. This year's CEO Survey echoes what I hear on my visits to the many countries in which PwC operates – the future is filled with opportunity as well as challenge. For businesses that base their value strategy in long-term resilience and arrange their resources to address the growing needs of stakeholders, the future looks bright. And for those that choose to invest in innovation, communication and building trust, the possibilities are enormous.

A handwritten signature in dark blue ink that reads "Richard Sexton". The signature is fluid and cursive, with a period at the end.

richard.g.sexton@uk.pwc.com

Tensions and opportunities

Every year, PwC's CEO Survey reveals what keeps business leaders up at night. This year, it's no surprise that CEOs are concerned about the global economy, conflict and societies that are undergoing lightning-fast change. But the big story in 2015 is tension between these trends, and how that tension is causing problems for CEOs.

For example, businesses feel they can be trusted to do the right thing – but in many cases, regulators disagree. Geopolitical uncertainties are affecting CEOs' willingness to invest heavily in the innovation needed to achieve growth. Businesses are showing the strain as they watch the traditional economic and social tapestry unravel and as they define and manage yesterday's risks. The atmosphere between business and the increasingly empowered customers they serve is changing. Many businesses already subscribe to responsible business as an essential investment that contributes to the bottom line, but they're struggling to measure and communicate their achievements, putting stress on their relationships with government and the public.

But where tension exists, so does opportunity. The companies that manage their risks, relationships and reporting well can take advantage of a market that rewards agility, transparency and a long-term outlook. So while more CEOs see threats than opportunities overall, this doesn't stop more than a third being very confident about short-term business growth. Many others continue to see the BRIC bloc as offering investment opportunities, even as they rely on familiar names for growth (US, Germany, UK, China). Seventy-two percent

see the world moving towards free and open access to the internet, opening the door to new markets, new customers and new ideas globally. As the economy continues to surprise, many CEOs are focusing on the things they can control – such as the pipeline of leaders and the development of a skilled and adaptable workforce. And nearly half are planning to enter into a new strategic alliance or joint venture.

The results from the CEO Survey highlight tensions in four areas:

- Regulation
- Relevance
- Reporting
- Risk.

The results from the CEO Survey highlight tensions in four areas:

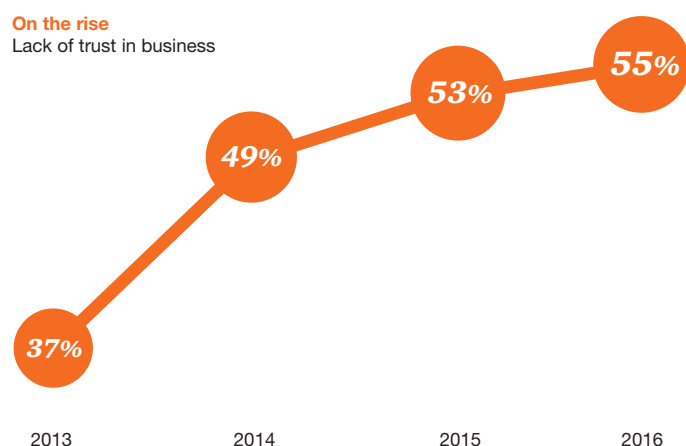
- Regulation
- Relevance
- Reporting
- Risk

Figure 1: Lack of business trust

Q: How concerned are you about the following potential economic, policy, social and business threats to your organisation's growth prospects?

On the rise

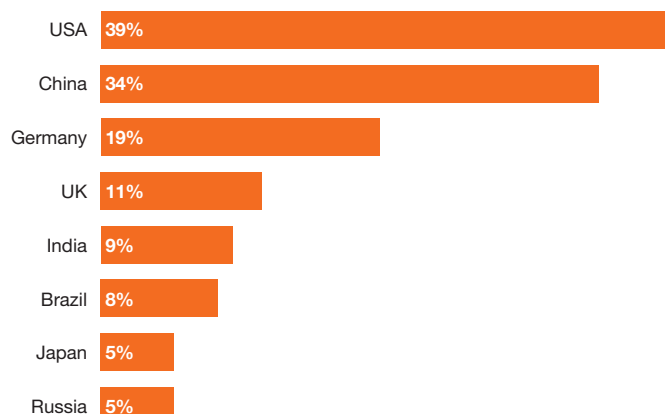
Lack of trust in business



Base: All respondents (2016=1,409; 2015=1,322; 2014=1,344; 2013=1,330)
Note: Respondents who answered somewhat or extremely concerned
Source: PwC, 19th Annual Global CEO Survey

Figure 2: CEOs continue to see investment opportunities across the BRICs

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



Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

Regulation: tread water or keep pace

Top threat – but attitudes are changing

CEOs selected over-regulation as their top threat. Fully 79% were concerned that over-regulation posed a threat to their organisation's growth prospects. The CEOs from Latin America were most concerned on this point– notable, considering 54% of CEOs selected one or more BRIC countries as the most important for their overall growth prospects in the next 12 months. This may suggest that a volatile regulatory environment might very quickly affect where, and how positively, CEOs see growth markets.

CEOs also see government and regulators as having, after customers and clients, the biggest impact on their organisation's strategy (69% high or very high impact). So while companies are well aware of the power regulators can exert over their operations, they do not have a commensurate level of regulatory resilience – that is, their response to changes in the regulatory environment may not be as agile, coherent or confident as it needs to be.

Regulation has an important role to play in ensuring comparability, consistency and structure of information. CEOs are rightly concerned that regulation may not be keeping pace with market dynamics and some have noted that “over the past five-plus years, there has been a divergence” in regimes. Anecdotally, they are also concerned that regulation has not been developed on a coordinated basis and as a result, they are having to deal with multiple and overlapping requirements. And in companies' response to these demands, critics say they're seeing confusion, boilerplate, an increased volume of reporting and 'compliance mindsets'.

79%

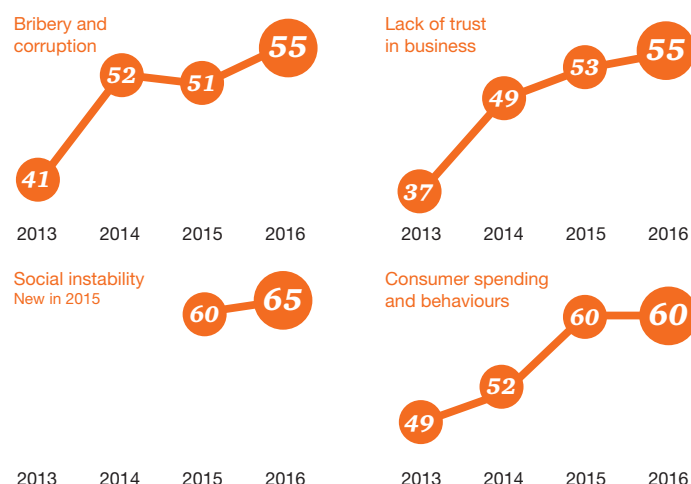
were concerned that over-regulation posed a threat to their organisation's growth prospects

'Regulation has an important role to play in ensuring comparability, consistency and structure of information'

Figure 3: CEOs are more concerned about a wide range of risks

Q: How concerned are you about the following potential economic, policy, social and business threats to your organisation's growth prospects?

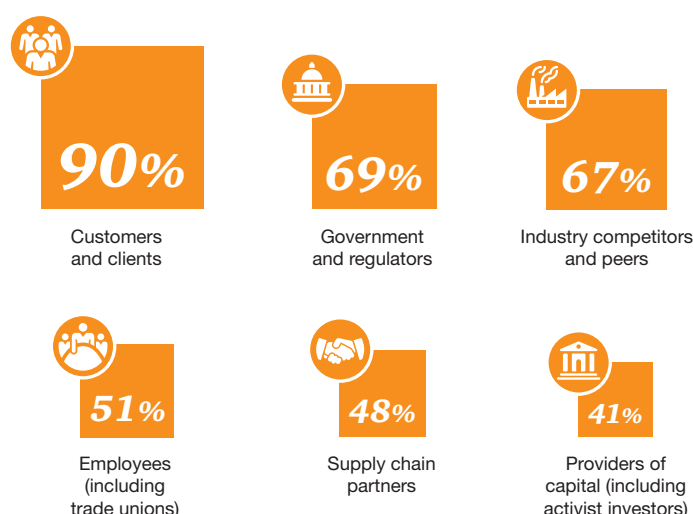
Top-four risers since 2013



Base: All respondents (2016=1,409; 2015=1,322; 2014=1,344; 2013=1,330)
 Note: Respondents who answered somewhat or extremely concerned
 Source: PwC, 19th Annual Global CEO Survey

Figure 4: Customers and clients are top priority for CEOs

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?



Base: All respondents (1,409)
 Note: Respondents who indicated high or very high impact
 Source: PwC, 19th Annual Global CEO Survey

The resilient approach

It comes down to approach. Organisations that handle regulation on a case-by-case basis are likely to find themselves at best treading water with the regulators and at worst continually having to pull the organisation back from the brink of – or from actual – disaster. This historically has included fines, bans and reputational damage.

Good organisations recognise that their approach to regulation defines their resilience, contributes to good practice in the market overall, helps control the competition, keeps compliance costs down, contributes to good governance and to their company's performance.

Compliance-smart companies keep an eye on the regulatory horizon and consider what might have an impact on strategy. These companies tend to have a really good grip on their data too – understanding their reporting outputs and the systems and controls used to generate that information. And they communicate well – not just about their success in responding to or anticipating the impact of regulation – but with the regulators too, engaging at a strategic level to avoid heavy-handed treatment.

‘Compliance-smart companies keep an eye on the regulatory horizon and consider what might have an impact on strategy’



Relevance: who matters and why?

The last few years have seen increasing tension over the possible roles of business in society. This year's CEO Survey results indicate that this debate is unlikely to end soon. CEOs' chief challenge is: how can they continue to protect and grow the bottom line while meeting the needs of disparate stakeholders with conflicting views? Companies have to discover who matters to them as a stakeholder, and to whom they matter.

Divergent forces

The survey revealed that multiple divergent forces are making life hard for CEOs. Their customer and client base is not as homogenous as it used to be (nor as local), and it is playing a much greater role in setting priorities that have previously been the remit of (primarily) business and government. Eighty-three percent of the CEO respondents saw the world moving towards multiple value systems – an enormous challenge to companies who operate in different jurisdictions. And CEOs told us that in spite of the benefits of the web and continuing globalisation, other factors are pulling them in opposite directions: nationalism, multiple economic models, opposing value systems, varied laws and trading blocs.

CEOs' fears about making critical decisions are growing amidst continuing geopolitical uncertainty (74% saw this as a threat), and they are reluctant to be positive about such factors as economic or company growth while their businesses are subject to social trends and forces that are not easily defined or controlled.

The survey signalled that the external events making it tougher to turn a sustainable profit are being exacerbated by an increased demand from their buyers to cater to more than just financial value.

But they also know that the vision of responding to wider demands than creating value for their shareholders is muddled by insufficient information about other stakeholders' expectations (24%), a misalignment between stakeholders' interests and their current business strategy (20%) and a conflict between those interests and financial performance expectations (33%), a lack of the right capabilities (31%) and perhaps most damaging, an inability to effectively execute strategy (23%).

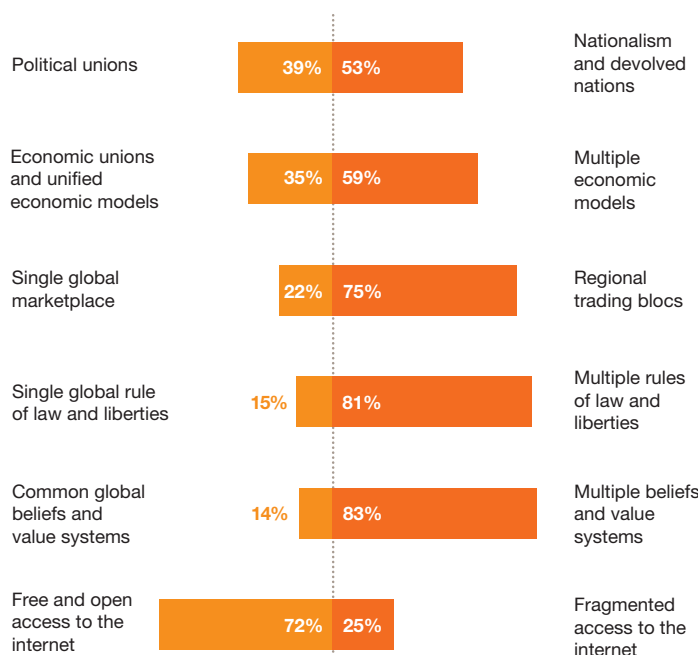
[Customers are] self-directed... They know everything. They Google everything. Therefore they come to [us] with a completely different expectation.

Ralph Hamers
CEO, ING Group, Netherlands

74%
saw geopolitical
uncertainty as a threat

Figure 5: CEOs must navigate an increasingly complicated world

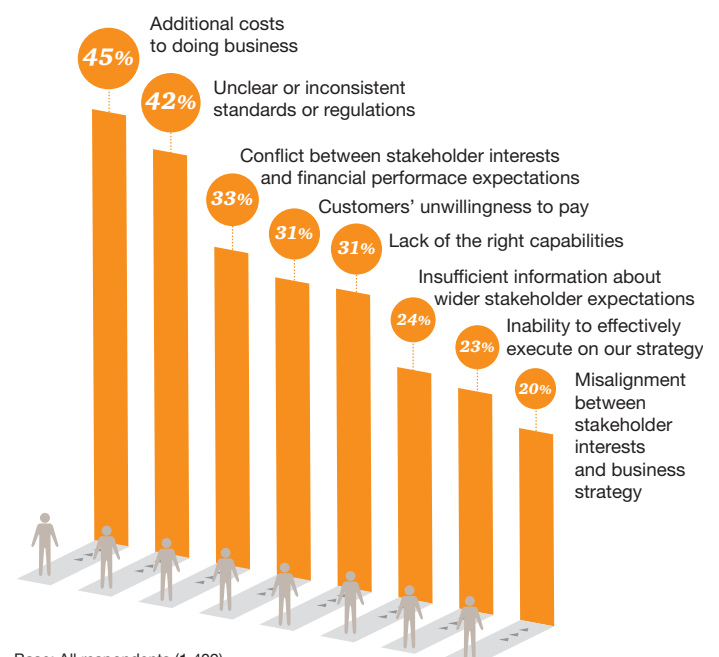
Q: For each alternative, please select the one that you believe the world is moving more toward.



Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

Figure 6: CEOs are facing a number of barriers to execution when responding to changing customer and stakeholder expectations

Q: Which of the following barriers, if any, is your organisation encountering when responding to wider stakeholder expectations?



Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

Stakeholder value = profit/Profit = stakeholder value?

A closer look at the data shows that CEOs themselves are split about how to respond consistently to demands beyond the bottom line. To one question, 67% responded that their 'purpose' is centred on creating value for stakeholders beyond the customer. But to another, 53% responded that the purpose of their organisation is to create value (primarily) for the customer, with 'wider society' only getting 31% of the vote.

Semantics about 'wider stakeholders' and 'wider society' aside, it seems that CEOs may suffer from a lack of clarity. Fifty-two percent of CEOs said that creating value for 'wider stakeholders' helps their company to be profitable, whereas 42% said that profitability helped them to create value for wider stakeholders. They remain divided over which comes first.

To address greater expectations, businesses need a firm grasp of what's happening in all their markets and their options to respond. The real issue they face is doing everything they can to generate sustainable returns for shareholders while maintaining their license to operate – which appears to involve, for some companies, more than caring for their customers' and suppliers' immediate needs.

Data: the power to solve

Luckily for the CEOs facing these demands, technology is revolutionising the ability to know and understand their stakeholders. With the right skills, companies can access stacks of information about the habits, beliefs, intentions and expectations of their customers and clients. Some are using this data to manage their business better. And much of this data is available to regulators too, allowing them to build a better picture of how individual businesses operate.

CEOs recognise the value of this information. While they saw technology as the challenge, they also recognised its power to solve. Technological advances were seen by 77% of CEOs as a top three trend that will expand the expectations of their stakeholders, but 68% responded that data and analytics technologies generate the highest return on stakeholder engagement and 65% saw technology-enabled customer relationship management systems as generating excellent returns too.

But few companies appear wholly able to deal with this data. Only 51% were making changes to harness data across their organisation and deliver the information stakeholders require. CEOs also cited a large number of barriers in responding to the expectations of stakeholders. This suggests that few are equipped to pair the information they collect with what they're finding out about global trends, demographic changes and economic shifts. In many cases, the information is trapped in silos, making it hard to use confidently as part of decision-making – and for those CEOs not able to start unwinding the information they collect, the problem is only set to grow as the volume of data grows.

For companies to remain relevant, a one-size-fits-all commitment to being a 'good corporate citizen' is not enough. Stakeholders won't be convinced by language that is not reflected in the companies' operations – and reputations are at stake for those companies found to fall short of their stated ideals. Comprehensive research and a clear outline of exactly where the business aims to create value, and crucially, why these areas are essential to their first and enduring purpose of financial success, is the most appropriate and persuasive response to markets demanding extensive involvement in non-financial matters.

We have to have propositions which are based on sound ethics but which customers are prepared to pay a commercial price for. And getting that balance right is fascinating and not necessarily straightforward.

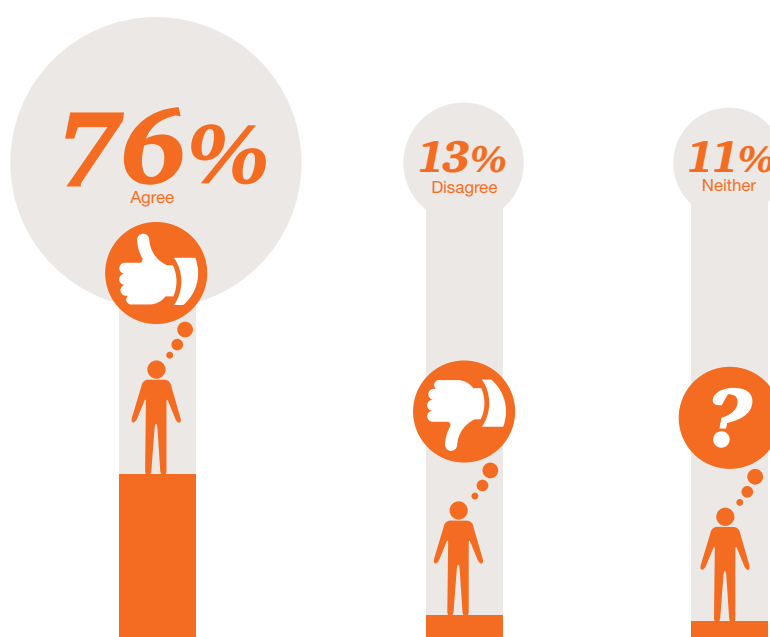
Richard Pennycook
CEO, The Cooperative Group, UK

I don't think, as a listed company, there's any doubt that our primary objective is to generate returns for our investors. But we have to ... do it ethically and we have to do it in a way that contributes to the communities in which we operate. That's for our own good anyway [b]ecause ... those communities will have more capacity to do business with us in the future.

Richard Goyder
MD, Wesfarmers, Australia

Figure 7: A majority of CEOs agree that business success will be defined by more than financial profit

Q: To what extent do you agree that business success in the 21st century will be redefined by more than financial profit?



Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

Reporting: breaking and bettering tradition

The CEO Survey reflected leaders' desire to better measure traditionally 'harder' elements of their business but better communicate the 'softer' aspects. This is most likely a response to increased pressure on companies to provide more than a financial window into their operations and performance, but it also suggests that CEOs feel there are improvements to be made to traditional financial reporting too.

Measurement beyond reporting

The tension between these two priorities threatens to lower the quality of corporate communications overall, as companies flood the market with large volumes of unrefined data that bears little relation to their strategic priorities.

CEOs were asked what they wanted to measure better, and separately what they wanted to communicate better. Their responses indicated that they believe measurement has value far beyond reporting. Fifty-five percent of CEOs stated that they were keen to better measure innovation – even above areas such as environmental impact (39%) and non-statutory financial information (37%). Measured information is the first stage in an important loop that helps business to see the gaps in their strategy and the effects of their efforts.

Describing value

While financial information remains the bedrock of performance reporting, CEOs recognise the importance of providing insights that tell their shareholders how they create value. At a time when the balance of global corporate worth rests overwhelmingly in intangible assets, it might be hard to see how a company is – and might remain – successful.

CEOs looking to communicate less mature information, such as social impact, might be worried about obscuring the story of their business. CEOs that encourage innovation and integration in the information their company releases should be able to describe clearly, and in detail, how the business creates value now, and how it intends to endure.

'Results reflect leaders' desire to better measure traditionally 'harder' elements of their business but better communicate the 'softer' aspects'



How comfortable?

What CEOs should be concerned about is discovering the level of comfort or assurance stakeholders require over reported non-financial information and then acquiring the tools to enable it. And it's not just stakeholders that need to be confident about the transparency and quality of reported information, but the business itself too – they use that information to make critical strategic decisions. For example, stakeholders are demanding that certain businesses report environmental information but the quality of that reported information is fast becoming an issue.

Even before they address what level of quality or maturity of information they are willing to rely on, companies should look at the way they collect and examine the information in the first place. Should they wait for tools or best practice to collect such information and frameworks to provide comfort over it, or should they create and test their own frameworks? Fortunately, their success in communicating this information should be easier to assess: the market will tell them whether they are sharing enough information of sufficient quality – and whether the level of maturity that the business has assigned to instances of information has had an impact on, for example, investment decisions.

Seventy-six percent of CEOs agreed that business success in the 21st Century will be defined by more than just financial profit, so it is arguably high time that robust measurement and 'confidence' methodologies – whether market-wide or on a business-by-business basis – were in place to calculate and understand the indirect value that allows companies to continue to operate in their chosen environments.

76%

of CEOs agreed that business success will be defined by more than just financial profit.



Risk: walking the tightrope

CEOs firmly believe risk has generally increased and diversified. Many were extremely concerned about supply chain disruption, bribery and corruption, exchange rate volatility, new market entrants and the speed of technological change. And rightly so. The tension between risk and growth is causing some business leaders to be worried about opportunities and their business's longevity.

But the CEO Survey highlighted a group of CEOs that were able to remain confident despite these mounting threats. These opportunists, 14% of the total sample of CEOs, have found the upside to risk and were optimistic about the global economy at the same time as acknowledging the spread of risks. For example, within this group of CEOs, 72% also believed there are more opportunities today than there were three years ago, versus 60% of all CEOs. They were much more likely than the CEOs overall to be increasing headcount, by a 70% to 48% margin. They were also more likely to be planning M&A activity this year.

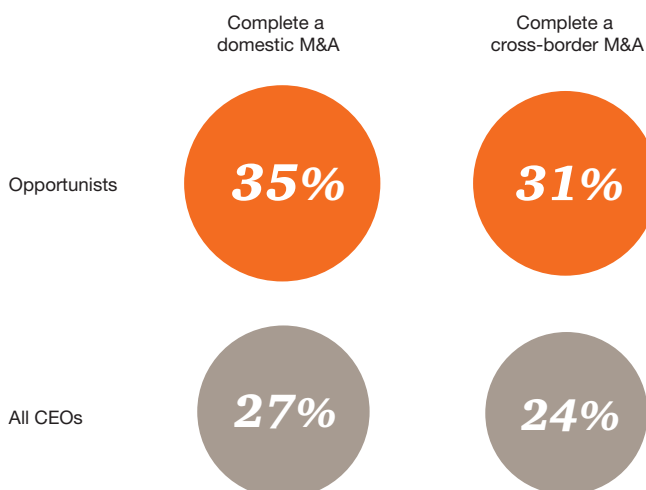
The tensions that other CEOs were struggling to manage – between the long and short term, between profit and value for stakeholders beyond the balance sheet and between cutting back and investing to succeed – were proving less difficult for this small slice of leaders. Their answers suggested that these CEOs were keen to achieve financial profit and address a broad range of concerns as part of their business model. They were more likely to suggest that investors care about companies' ethical values.

These CEOs appeared to have a coherent approach to manage risk: focus on the long term, pursue alliances and secure key talent, focus on providing value beyond profit and try to measure and communicate success in ways that differ from traditional financial reporting.

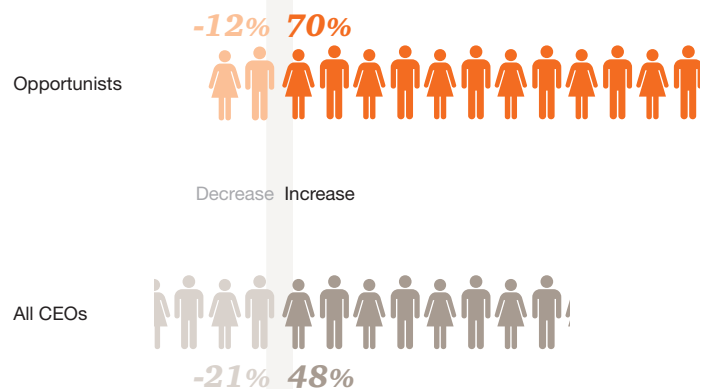
In managing these risks, CEOs also put their companies in a strong position to handle different, but related, areas of tension. For example, businesses that focus on the long-term are less likely to fall foul of regulators. They define their resilience by being in it for the long term and by listening to their investors when they highlight ethical considerations as important. And by considering more than just financial profit, these CEOs address their relevance – they have examined the purpose of their business, and have got their story straight.

Figure 8: Opportunists are taking bolder actions than most CEOs

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming twelve months?



Q: Do you expect headcount at your company to increase, decrease or stay the same over the next twelve months?



Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

Note: Responses of stay the same or don't know have been excluded
Base: All respondents (1,409)
Source: PwC, 19th Annual Global CEO Survey

www.pwc.com/ceosurvey-assurance

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2016 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

Design Services 30129 (3/16).