

**19th Annual Global CEO Survey: Forest, paper and packaging industry key findings**  
*Growing in complicated times / Addressing greater expectations / Transforming: technology, innovation and talent / Measuring and communicating success*

# *Redefining business success in a changing world*

## *Forest, paper and packaging industry key findings*



**44**

*forest, paper  
and packaging  
executives  
interviewed  
in 25 countries*



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## ***About the 19th Annual Global CEO Survey***

In this year's survey, global business leaders voice fresh concerns about economic and business growth. At the same time, they see a more divergent and multi-polar world where technology is transforming the expectations of customers and other stakeholders. In *Redefining business success in a changing world*, we explore how CEOs are addressing these challenges. We surveyed 1,409 CEOs in 83 countries and a range of industries in the last quarter of 2015, and conducted face-to-face interviews with 33 CEOs.

Today's business leaders have a tough job finding growth and delivering results year in, year out. But they know an even tougher task lies ahead: to prepare their organisations for a more complex future where customers and other stakeholders increasingly expect them to do more to tackle society's important problems.

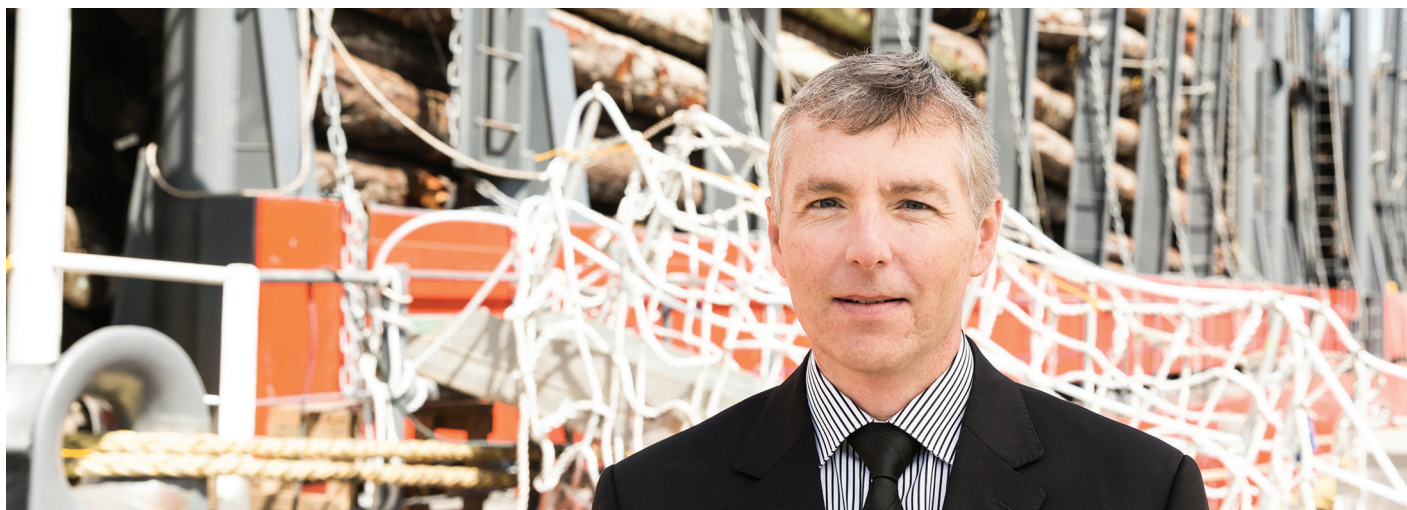
To equip themselves for this challenge – and to build trust and ensure long-term success – CEOs are focusing on three core capabilities. Firstly, they're focusing even more strongly on customer needs as well as drawing on their organisational purpose – what their companies stand for – to define a more comprehensive view of how their business operates within society. Secondly, they're harnessing technology, innovation and talent to execute strategies that meet greater expectations. And finally they're developing better ways to measure and communicate business success.

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## ***About the Forest, paper and packaging industry key findings***

This report looks in more detail at the views of 44 forest, paper and packaging (FPP) CEOs in 25 countries.

## 19th Annual Global CEO Survey: Forest, paper and packaging industry key findings



*Forest, paper and packaging (FPP) CEOs see the industry starting to stabilise, but threats are still looming. Customers are their CEOs' top priority. To meet their expectations, forest, paper and packaging companies are enhancing sustainability across the supply chain and using innovation. Talent remains a top concern. FPP CEOs are also looking to measure risk better and communicate more around their environmental impact and purpose.*

### Growing in complicated times

#### **Environmental concerns dominate the agenda for forest, paper and packaging CEOs**

Forest, paper and packaging (FPP) CEOs' responses to this year's survey make it vividly clear that the industry's exposed position in the debate on the utilisation of the planet's resources dominates the CEO agenda. They see climate change and resource scarcity as the trend most influencing stakeholder expectations, and the industry is at the heart of debates. The world's forests have an enormous influence on the atmosphere. Sustainably managed, forestry companies can potentially be a positive actor – but companies that don't follow good practices can injure the environment. Packaging companies face issues too, with their products often seen as garbage that wastes resources. By preserving food, which also requires resources to grow, sustainable packaging can have a positive impact – but education and a focus on recyclable materials are key.

Most forest, paper and packaging CEOs say their companies are already focused on building value over the long term. But in many areas,

the industry still needs to do more to get their messages across, and to make sure that every employee understands and upholds the company's purpose. More than half of FPP CEOs (55%) plan some change in their values, ethics and codes of conduct in response to changing stakeholder expectations, compared to 44% of CEOs overall.

#### **Confidence continues to increase**

39% of forest, paper and packaging CEOs are very confident of revenue growth over the next 12 months, and that number goes up to 50% looking forward three years. That continues last year's trend of increasing optimism.

There are other signs that CEOs see the industry's overall situation stabilising. Last year, 69% of FPP CEOs said there were more threats to growth, while 73% saw more opportunities, compared to three years prior. That was more, in both cases, than across the sample overall. This year, those numbers are down. Just 61% see more threats, and 57% more opportunities for growth – which is more in line with the sample overall.

# 50%

of FPP CEOs are very confident of revenue growth over the next 3 years

## The tide is turning for FPP

There are other signs of greater stability in the sector. Over the past several years, we've seen signs of radical retrenching in the sector. CEOs have reported more cost-cutting and outsourcing than other sectors and more of them have said they plan to divest business units or exit markets too. This year, though, the tide finally seems to be turning. While 75% of FPP CEOs still say they plan to implement cost reduction initiatives, that's down from 90% last year. And a scant 2% plan to sell a majority interest in a business or exit a significant market over the next 12 months.

## But worries around exchange rates and government debt are top of mind

Exchange rate volatility tops the list of CEO worries, with 77% of forest, paper and packaging CEOs somewhat or very concerned it could threaten growth. Many FPP companies are exposed to input costs and selling prices in different currencies. Particularly crucial is the Dollar/Euro exchange rate, where the strengthening Dollar has created headwinds for US producers selling to Europe. The volatility of the Brazilian Real and the Rouble are also important, with Brazil being a global fibre source and the collapse of the Rouble enabling Russian wood-traders to sell to China at prices undercutting just about all available competition and still make a handsome margin.

Other top concerns for sector CEOs are government responses to fiscal debt and deficit and social instability. The success of the industry is closely linked to GDP growth, which can only grow sustainably if a country's finances are on a sound footing and wealth distribution functions reasonably fairly. Similarly, social unrest both jeopardises solid growth and is itself an expression that the necessary growth isn't happening.

Talent continues to be a big issue too, with 73% of forest, paper and packaging CEOs concerned that they won't be able to access the key skills they need to assure growth, down slightly from last year but still up significantly from 2013. Other worries include over-regulation, commodity prices, taxes, crisis-readiness and geopolitical uncertainty.

One concern that's been on an upward path in recent years is bribery and corruption, moving from 37% in 2013 to 57% this year.

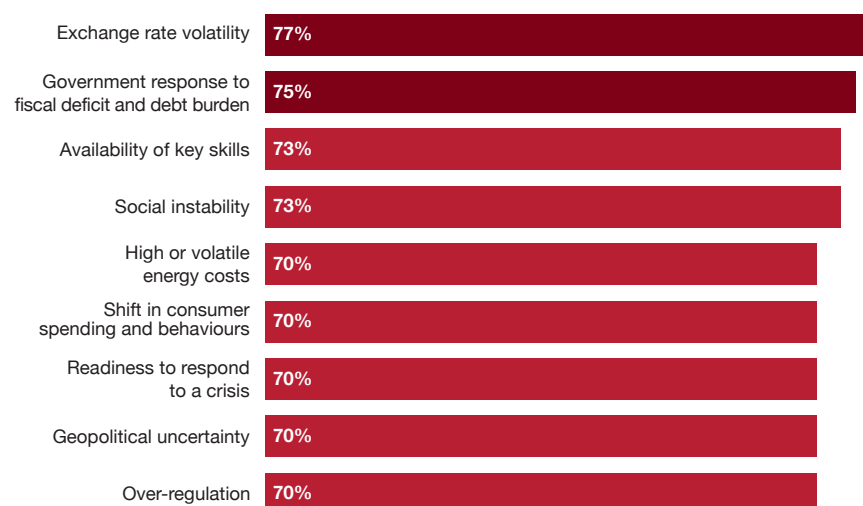
# 73%

of FPP CEOs are concerned about the availability of key skills

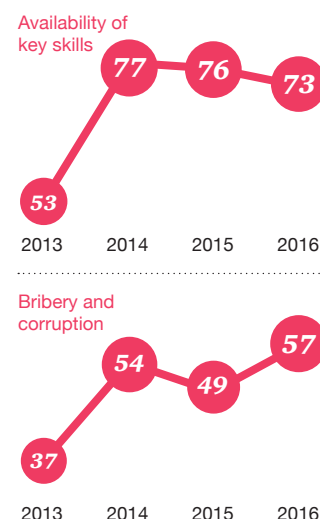
**Figure 1: FPP CEOs are concerned about a range of threats, from exchange rates to taxes**

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

### Key risks



### Moving upwards



Base: All respondents (Forest, paper and packaging, 2016=44; 2015=51; 2014=52; 2013=38)

Source: PwC, Annual Global CEO Survey data

Note: In previous years, respondents were asked 'Do you believe the global economy will improve, stay the same or decline over the next 12 months?'



## Addressing greater customer and stakeholder expectations

### Customers are forest, paper and packaging CEOs' top priority

93% say customers and clients have an impact on their organisational strategy, making them the industry's most influential stakeholder group. That's true of most other industries as well. It can be tough to know what customers want, though. The industry's end customers are consumers, and 70% of forest, paper and packaging CEOs see changes in consumer spending and behaviour as cause for concern. Two-thirds of FPP CEOs also rate demographic shifts and resource scarcity and climate change as top trends transforming wider stakeholder expectations of businesses over the next five years.

While 80% of FPP CEOs believe that today's customers seek a mix of cost, convenience and functionality in products/services, 20% say customers are seeking a relationship with an organisation that addresses wider stakeholder needs. In five years, they think that more than a third of customers will prioritise working with these types of organisations.

### Companies are enhancing sustainability across the supply chain

Many companies have already begun focusing on products and production methods which are sustainable; for example, many forest companies are managing forests as renewable resources and demonstrating their commitment through FSC or PEFC certification. Packaging companies have improved their sustainability too, for example by developing plastic or metal packaging that requires significantly less raw material. Forest, paper and packaging CEOs expect to continue down this path – 36% say they'll make significant changes to develop new 'ethical' products and services in response to changing stakeholder expectations, compared to 23% of CEOs overall.

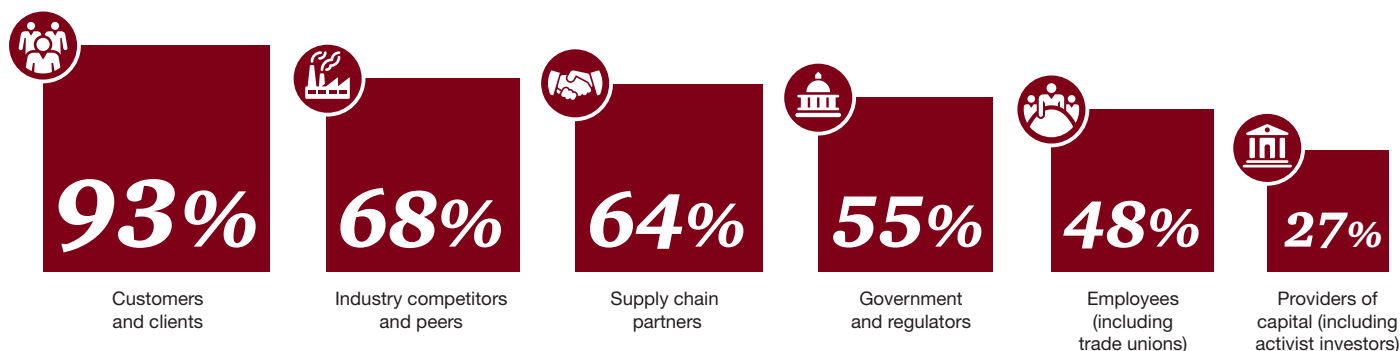
Often, developing sustainable products means working closely with supply chain partners. Indeed, nearly two-thirds of CEOs (64%) say that supply chain partners have a high or very high impact on their organisation's strategy, compared to just 48% of CEOs overall. And 86% of forest, paper and packaging CEOs plan to make changes, in some cases significant ones, to minimise the social and environmental impact of their supply chain.

# 36%

of FPP CEOs will make significant changes to develop ethical products and services

**Figure 2: Nearly all FPP CEOs say they are changing strategies to adapt to customer expectations**

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



Base: All respondents (Forest, paper and packaging, 44)  
Source: PwC, 19th Annual Global CEO Survey

# Transforming: technology, innovation and talent

## Making it happen

It's clear that most FPP CEOs recognise the needs of a wider set of stakeholders and their customers' expectations about how they address those needs. And with the industry situation stabilising a bit, executives may have more scope to focus on important issues. For example, 45% plan significant changes to minimise social and environmental impacts of their business operations in response to changing stakeholder expectations, compared to 31% of CEOs overall.

That's not to say it will be easy. Some of the barriers FPP CEOs say they face include additional costs to doing business (43%), customers' unwillingness to pay (39%), unclear or inconsistent standards or regulation (32%) and a misalignment between stakeholder interests and business strategy (30%).

Many FPP CEOs believe operating sustainably and sharing their efforts with the marketplace is worth the effort, though. It helps attract capital: forest, paper and packaging CEOs are more likely than those in other industries to believe that their investors are seeking ethical investments, both now (52%) and in five years (61%).

## Innovation is the top tool for meeting expectations

Two-thirds of forest, paper and packaging CEOs think innovation and R&D generate the greatest return in terms of engagement with wider stakeholders (66% vs. 53% of overall). The winners in the innovation game will be those that harness technology and innovation to deliver products and services that are cost-effective, convenient, functional and sustainable. Forest, paper and packaging CEOs feel their companies are up to the task. Fewer are concerned about the speed of technological change, compared to most other industries.

In our view, though, they may not be taking cyber threats seriously enough. More than half aren't concerned about their possible impact on growth.

## People will make the difference

Companies will need a new generation of entrepreneurs, engineers, mathematicians and technologists to harness technology and drive innovation. It's no wonder, then, that 73% of forest, paper and packaging CEOs are concerned about the availability of key skills. While FPP CEOs are less likely to be increasing headcount compared to our sample overall, many CEOs recognise that the recent stabilisation in the business environment that they're seeing may not be permanent. To achieve long-term competitive advantage they will need to win the battle to attract good talent.

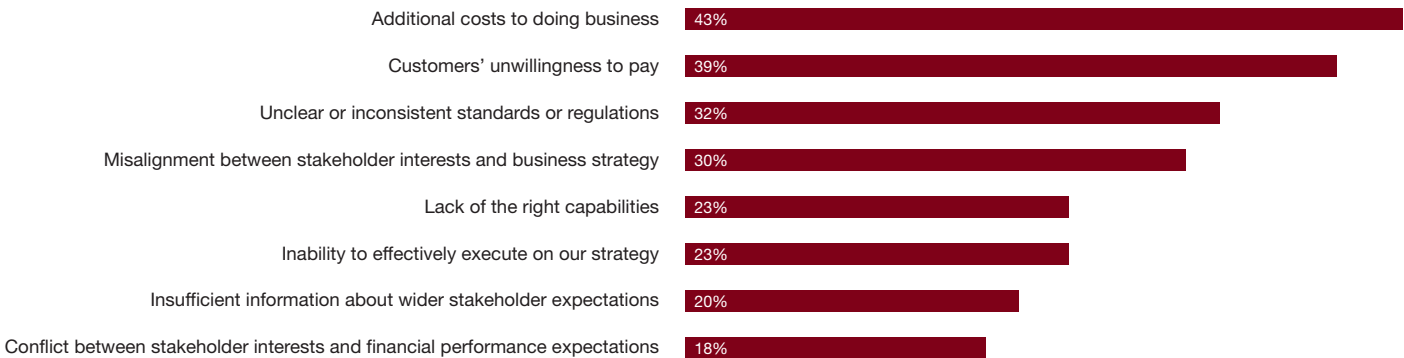
Some forest, paper and packaging CEOs say their companies are already changing their talent strategies to attract, retain and engage the people they need to remain competitive. Half are changing their focus on the leadership pipeline, and nearly as many (45%) are planning to adapt their workplace culture and behaviours. 61% of forest, paper and packaging CEOs believe that top talent already prefer to work for organisations with social values which are aligned to their own – and 73% believe they will do so in five years' time.

66%

of FPP CEOs rate R&D and innovation as a top way to engage stakeholders

Figure 3: Costs, customer unwillingness to pay are key barriers to change for FPP CEOs

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations?



Base: All respondents (Forest, paper and packaging, 44)  
Source: PwC, 19th Annual Global CEO Survey

# Measuring and communicating success

## FPP CEOs want to measure risk better

We asked CEOs where they wanted to better measure impact and value. For CEOs across all industries, risk and innovation emerged as the top two areas, with nearly equal numbers of CEOs naming them. They topped the list for forest, paper and packaging chief executives too, but key risks took a strong lead with sector CEOs. Non-financial indicators (including brand), employee practices and environmental impact were some of the other areas that FPP CEOs think they could do more on.

That echoes the emphasis on building corporate reputations that we’ve seen throughout the sector results. Half of FPP CEOs say they plan significant changes in how they measure success and what they hold their companies accountable for. Moving forward, companies will need to call on a broader (and more detailed) set of tools to measure indirect value.

## And communication is just as important

Many FPP companies have made great strides on a whole range of sustainability measures, but these advances often aren’t recognised by broader stakeholder groups. Along with measurement, communication is vitally important to helping leading companies get credit for what they already believe they’re doing for society

We’ve already stressed the need to spread the word. When it comes to reporting non-financial measures and areas like innovation, that’s not always easy. FPP CEOs believe especially strongly in the need to communicate around their environmental impact, organisational purpose and values, and non-financial indicators (e.g. brand). FPP CEOs agree it’s the way of the future – 86% agree that business success in the 21st century will be redefined by more than financial profit.

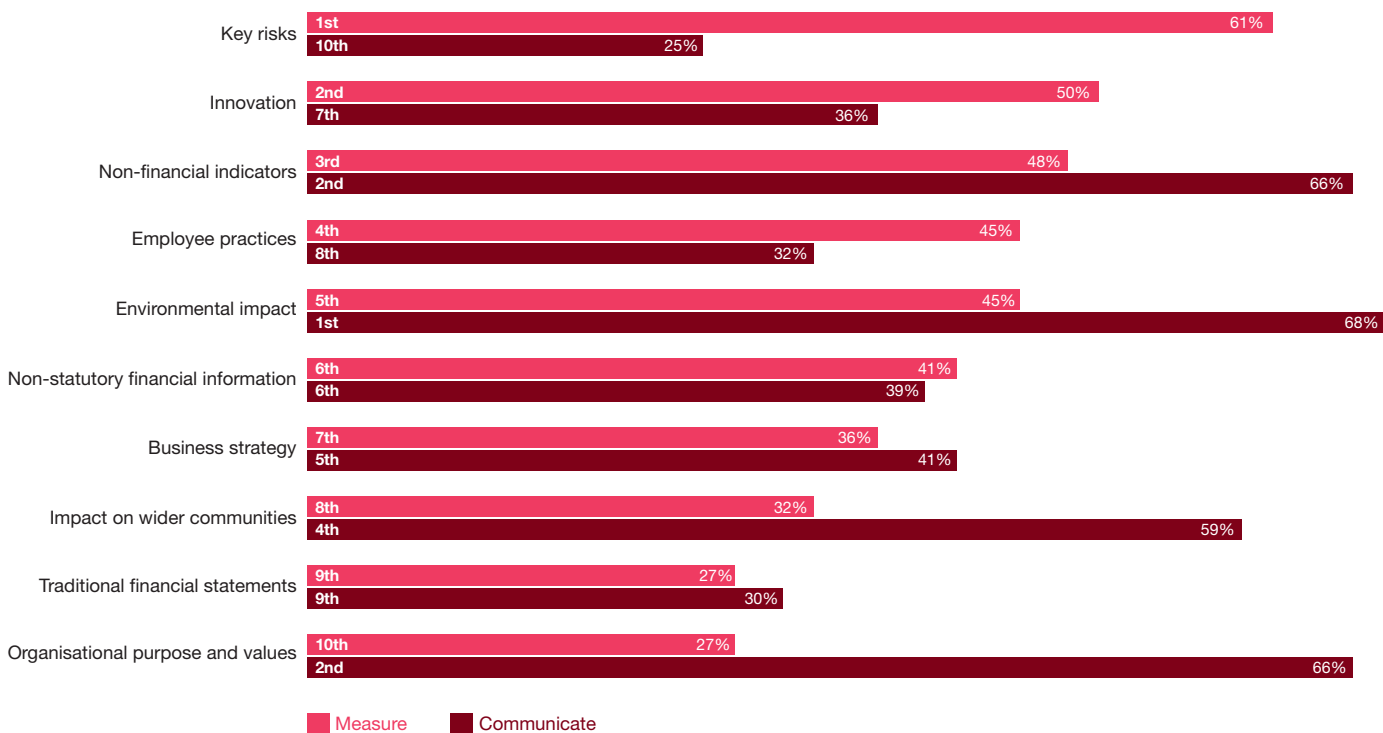
PwC’s Strategy& recently studied some of the world’s most successful companies, noting that a key part of their success was committing to an identity and aligning their entire organisation around that<sup>1</sup>. In successful organisations we see a tighter integration of strategy through execution than we have ever seen in the past. We believe that what gets done needs to be tightly linked to how it gets done – both for speed and differentiation. This approach enables a business to define a compelling and distinctive customer value proposition that’s aligned with its purpose, a business strategy focused on that proposition, and an operating model and differentiated capabilities that can effectively deliver on the proposition.

86%

of FPP CEOs say business success in the 21st century will be redefined by more than financial profit.

Figure 4: FPP CEOs are seeking to better measure risks, communicate more on environmental impact, purpose, and brand

Q: In which of the following areas do you think business should be doing more to measure/communicate impact and value for wider stakeholders?



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## Explore the data

See for yourself what else forest, paper & packaging CEOs told us about leading in complicated times.

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