Was:
Within borders
Is:
Across borders
Will be:
Without borders?*

As market forces rebalance the global equation, how are today's business leaders responding to change?

10th Annual Global CEO Survey

Foreword

To achieve global competitiveness, manage scale and risks, and overcome regulatory hurdles, CEOs are revisiting their strategies to emphasise collaborative opportunities

In this, our 10th Annual Global CEO survey, PricewaterhouseCoopers examines the evolving phenomenon of globalisation as it exists in 2006. Once measured solely in terms of financial transactions, today we find knowledge, culture and people also emerging as key components of global value.

What we discovered is a movement clearly at a crossroads, one still driven by exciting new financial and market opportunities, but one no longer realised through a 'one-size-fits-all' model. To achieve global competitiveness, manage scale and risks and overcome regulatory hurdles, CEOs are revisiting their strategies to emphasise collaborative opportunities – not only across boundaries within their own network – but externally as well, with strategic partners and peers in both the public and private sectors.

The quest for new markets, new products and new customers continues to dominate CEO agendas. Our survey revealed renewed M&A activity and a significant opening up of the global marketplace, driven by emerging economies – not only the so-called BRICs (Brazil, Russia, India and China), but other countries (Indonesia, Mexico and Turkey) and regions (Eastern Europe, the Middle East and Latin America) as well. We also see companies in these so-called 'emerging' countries leveraging their sizeable assets to make substantial investments – and encountering unfamiliar risks – within more established economies.

While emerging economies continue to be the focus of growth among developed economy company CEOs, our study indicates that the roster of global players is dramatically expanding – a clear indication of market forces driving a rebalancing of the global equation for some time to come.

As we mark a decade of PricewaterhouseCoopers Annual Global CEO surveys, I want to extend our gratitude to the many thousands of CEOs around the world, who over the years have taken the time to share their thoughts with us. The success of the survey is directly attributable to the enthusiastic participation of the CEOs, and we are very proud of that continuing commitment. As you will note, the survey continues to change and grow – this year we have added more interviews and analysis. We trust that in asking these questions and raising these issues, we continue to inform and stimulate debate. If so, we will have achieved our objective.

Samuel A DiPiazza Jr
Chief Executive Officer
PricewaterhouseCoopers
International Limited

To view Sam DiPiazza's video commentary on the 10th Global CEO Survey visit www.pwc.com/ceosurvey

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A force in transition: The changing face of globalisation

'My role is to concentrate on managing people as the drivers of revenue, rather than on hitting the bottom line'

CEO, Sweden

Our 10th Annual Global CEO Survey reveals that globalisation is a powerful and unstoppable force. But it is also a force in transition. Once driven primarily by the flow of financial capital, globalisation is evolving. While still a significant driver, the transfer of financial capital is now perceived as but one of the factors underpinning economic value creation in a global environment. Instead, knowledge, people, culture and the degree to which stakeholders collaborate – both to generate returns and to mitigate risks – are cited in this study as critical on the journey towards globalisation. And we stress the word 'journey'. There is clear evidence in this study that most CEOs still exhibit a 'headquarters' rather than a truly global mindset. For them, globalisation remains an aspiration rather than a reality.

What are the opportunities and challenges faced by executives as they move closer to attaining their global ambitions? First, CEOs recognise the substantial potential for growth presented by an ever-increasing base of global consumers. Globalisation offers opportunities for new market penetration, acquisition and innovation. This confidence is tempered, however, by the realities – and risks – of the challenge. These include working within diverse cultures, sharing and building knowledge, nurturing management talent, managing an increasingly dispersed value chain and responding to competition brought on by a new set of global players.

Looking hard at soft assets

CEOs acknowledge that they face real obstacles as they pursue their global

Racing towards globalisation: Still at the starting gate?

How many companies are truly global? The results of our study indicate that, although there is strong evidence of the emergence of new global business models, they are still the exceptions rather than the rules.

This is reflected in our study, where we find that responses are clustered according to geographic location.

Today, the current global environment is probably best defined as one dominated by companies that are geographically, but not culturally, global, companies, whose aspirations are still constrained by a territorial mindset. The transition from a territory-based 'headquarters' mentality to a 'global' mindset is, admittedly, not an easy one. It will require executives to abandon deeply rooted working assumptions and to embrace the new rules of engagement in the global marketplace.

strategies. But these are obstacles that have little to do with funding activities or with building adequate plant and equipment. Instead, the challenges of globalisation today are less tangible than they were in the past. Although academics and commentators have long stressed the importance of such issues in the global business environment, this survey reveals the degree to which intangibles have become central to the CEOs' agendas.

Attracting talent

The management of global talent is a key concern among the participants in our study. The global war for talent is fierce and growing fiercer, a trend verified by PwC's day-to-day experience working with global organisations. In our view, global companies are undergoing a transition in how people are valued. Once thought of primarily in terms of cost, people in successful global companies are valued as rich sources of talent, skill and diversity, which are critical to the success of the enterprise.

The CEOs in our study agree. The shortage of key skills is viewed as one of the main threats to prospects for growth. CEOs say they are also devoting a greater share of resources to protecting themselves against this threat. For example, they acknowledge that they are developing programmes to equip leaders to take active roles in creating a sustainable business environment; that they are identifying, retaining and promoting women; and that they are engaging in social issues as a means of employee recruitment and retention.

Malvinder M. Singh

CEO and Managing Director,
Ranbaxy Laboratories Limited

Today's organisations are a lot less hierarchical, but more network and matrix-oriented. It is a structure by which you allow and enable people to drive decisions. A good leader builds a cohesive and synergised team and provides an enabling environment in which talent and opportunity can be optimised and people can perform to their potential, contributing to the growth of the organisation.

At Ranbaxy, we have created a culture that gives people who perform, the opportunity to grow. It is important for the company to grow, but the people within the company should also be able to see a future in the company for themselves. Over time, they should be given more challenges and entrusted with more responsibilities. I think that's what has enabled Ranbaxy to keep good people within the company as it grew rapidly.

Today we have over 50 nationalities working for the organisation. We have always been a learning organisation, open to ideas and thoughts coming from different markets. People and their culture and sensitivities are extremely important when you are creating a global organisation.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Flexibility, adaptability and a truly global mindset are all critical attributes of today's CEO

Bridging the culture gap

Although globalisation can be a force for reducing the differences between business cultures, it is clear that coping with a diversity of customs and habits remains challenging. While nearly half of the CEOs feel that increased globalisation has significantly diminished cultural differences, nearly as many cite cultural issues and conflicts as the main obstacle with regard to cross-border mergers and acquisitions (M&A).

In our own experience, CEOs speak of the increasing need of finding 'global citizens' – people who can view business with a truly global mindset and who are flexible enough to deal with uncertainty.

Leveraging knowledge

In our experience working with clients, we have found that there is broad recognition of the need to grow competitive intellectual capital within a rapidly changing environment and to innovate when applying that knowledge. The CEOs in our study see evidence that the global environment presents challenges to the growth of knowledge. For example, CEOs say they are particularly concerned with the lack of control over intellectual property (IP), a concern shared by many of our global clients.

How are such concerns being addressed? At PwC, we believe the conventional legalistic and procedural approaches to IP protection will be replaced by innovative solutions to IP management. Collaboration within a community of stakeholders is, for example a growing trend.

Winning through collaboration

While the survey identifies challenges, it also offers an insight into solutions – solutions that share a common theme. Successful organisations value collaboration highly as a business strategy.

While the CEOs indicate a high level of collaboration among themselves and their value chain partners, we believe that this is just the start of a trend towards using collaboration in a variety of areas of corporate value creation. We view collaboration, for example as a means of mitigating risk, of developing, exploiting and protecting knowledge, of building networks that harness shared expertise and experience within an organisation's talent pool, and of aligning core values and the needs of local society. In fact, this study of the global CEO community illustrates that large companies in particular are already embracing collaboration in a number of these areas.

In short, we believe that collaboration is becoming the catalyst that transforms capital, knowledge and people, into value.

Expanding the playing field: the new global players

While knowledge, people, culture and collaboration are emerging as powerful forces on the global business scene, they are not the only aspects of the global landscape that are changing. Significant change is also at work in the universe of emerging economies.

While the so-called BRIC economies (Brazil, Russia, India and China) will continue to enjoy explosive growth, additional emerging economies such as Indonesia, Mexico and Turkey are joining their ranks. We refer collectively to these countries as the E7 and project that by 2050, their economies will outstrip those of the current G7 (US, Japan, Germany, UK, France, Italy and Canada).[1] Inflows of foreign direct investment (FDI) into developing economies increased nearly 10% between 2001 and 2005. This trend is expected to continue to rise in 2006 as a result of the recent boom in M&A activity.[2]

Harnessing the power of change

Globalisation is not some esoteric concept that can be safely ignored. It is a force that signals change – not only in the participants and beneficiaries of globalisation, but also in the issues that global CEOs face every day. Whether related to M&A activity, to the structure and integration of the global value chain, or to issues of leadership style and focus, globalisation is impacting key elements of the day-to-day activities of today's corporate leaders.

Flexibility, adaptability and a truly global mindset are all critical attributes of the CEO in today's business environment. Whether through the adoption of new, potentially collaborative approaches to assessing and mitigating risk, or through the integration of new organisational capabilities for managing a geographically and culturally diverse organisation, the impact of globalisation on the demands on business leaders is profound.

In the rest of this report, we examine aspects of this changing global landscape, both from the perspective of the CEO and from that of our global network of client service professionals.

Fred Kindle

President and CEO,
ABB Group

The general leadership characteristics that were necessary 20 or even 100 years ago remain important. But today, the globalised world with realtime communication and many different stakeholders requires leaders to be very open-minded. I think that is a key word.

A business leader today cannot do his job well unless he is able to think beyond the boundaries of the local constituencies; think about the relevance of the Chinese, the Indian and the Brazilian market to his business; anticipate implications of national and international policies on his business operation, etc. So a leader has to be open-minded. She really has to be a global CEO who is willing to travel and engage into dialogue with stakeholders wherever they are.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

1 The World in 2050: How Big Will the Major Emerging Market Economies Get and How Can the OECD Compete? PricewaterhouseCoopers, January 2006.
2 See UNCTAD World Investment Report, 2006.

Was:
React
Is:
Plan
Will be:
Collaborate?*

As constant change becomes a reality of daily business life, how will your organisation collaborate to survive and thrive?

*connectedthinking

Section 1
Assessing the global landscape

CEO confidence levels are at an all-time high: rational expectations or a symptom of overconfidence?

Our annual survey of CEOs continues to note high levels of global business confidence, both in the short and medium term – an upward trend we have charted in four of the past five years. As figure 1.1 indicates, the outlook for revenue growth continues to be strong over the next year, the CEOs say, with 52% 'very confident' and 40% 'somewhat confident'. Overall, confidence levels have nearly doubled since 2001.

Companies with more than $10 billion revenue are significantly more confident of future growth prospects

However, this upbeat tone wanes over the long term as economic unknowns cloud the future. Still, very confident responses averaged at 44%, and for nearly half the CEOs interviewed, confidence levels have generally improved over those of a year ago (figure 1.1).

Drilling down, we find some interesting variants by region, by industry and by company size: (figure 1.2)

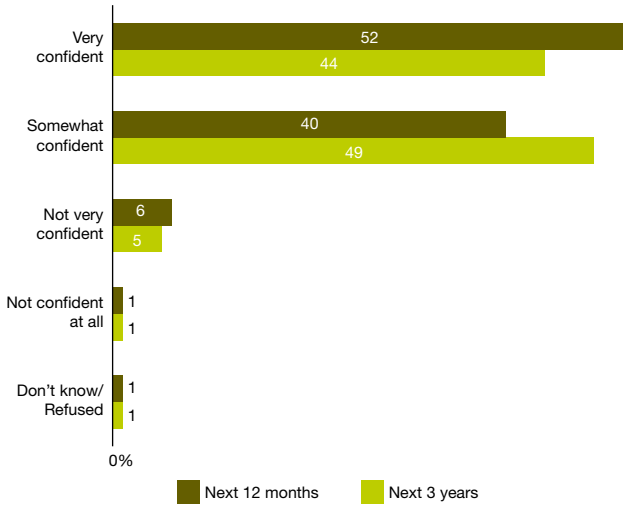
- North American CEOs report the highest level of long-term confidence.
- CEOs of companies with more than $10 billion in revenues are significantly more confident about revenue growth over the short term than their smaller company counterparts.
- Small company CEOs (under $100 million in revenue) report the largest increase in confidence.
- The banking and other financial services sectors are more confident than other industries, over the next 12 months.

A measured outlook or unbridled optimism?

In analysing the survey data, we asked ourselves the following question: Is the confidence reported by CEOs overly exuberant or is it tempered by a healthy dose of realism?

1.1

CEO confidence about future revenue growth prospects is very high

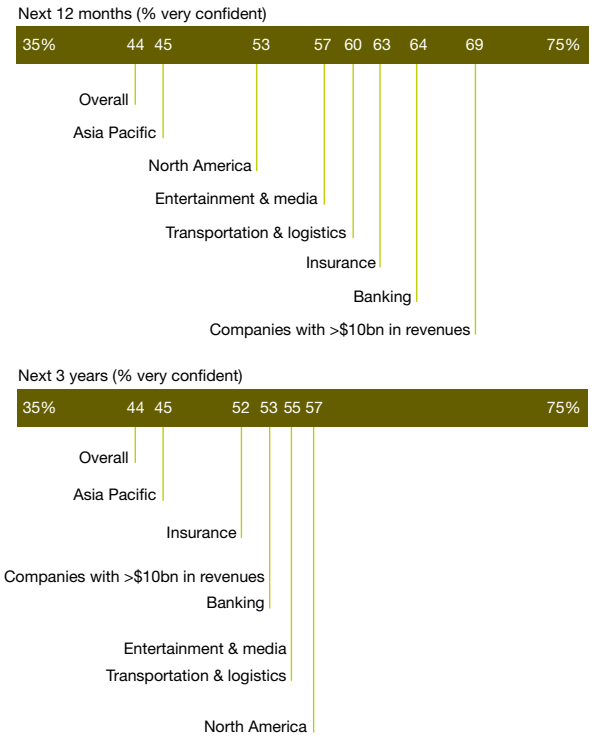


Q: How would you assess your level of confidence in prospects for the revenue growth of your company? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

1.2

Some CEO groups are remarkably more confident than the overall group, although their optimism becomes tempered in the next three years



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 3 years? (Base: Total 1,084; Asia Pacific 278; Insurance 46; Banking 95; >$10bn 72; Entertainment & media 42; Transportation & logisitics 42; North America 131)

Source: PricewaterhouseCoopers Global CEO Survey

When we last asked CEOs to assess their levels of confidence for our 8th Annual Global CEO Survey, we noted that their enthusiasm was set in the context of a relatively cautious assessment of economic prospects; they were not overly optimistic. This year, the picture is somewhat less clear.

Based on the data, we have concluded that, although there is little evidence of unjustified exuberance, there are perhaps a few early warning signals of corporate stretch over the coming 12 months.

The survey findings in three key areas will explain:

- How growth is to be financed
- What risks management face
- Sources of future growth.

Financing growth

When it comes to financing growth, CEOs appear to have little appetite for risk. Or perhaps, they have little need to take risks. An overwhelming number of those interviewed (79%) intend to fund future activities through their own cash flow, with just 28% and 18%, respectively turning to the debt and equity markets. Only 10% plan to divest to raise cash, and just 10% will turn to private equity or venture capital.

Managing risk

While a conservative picture emerges from the funding data, the story is less clear-cut in participants' assessments of the key risks they face.

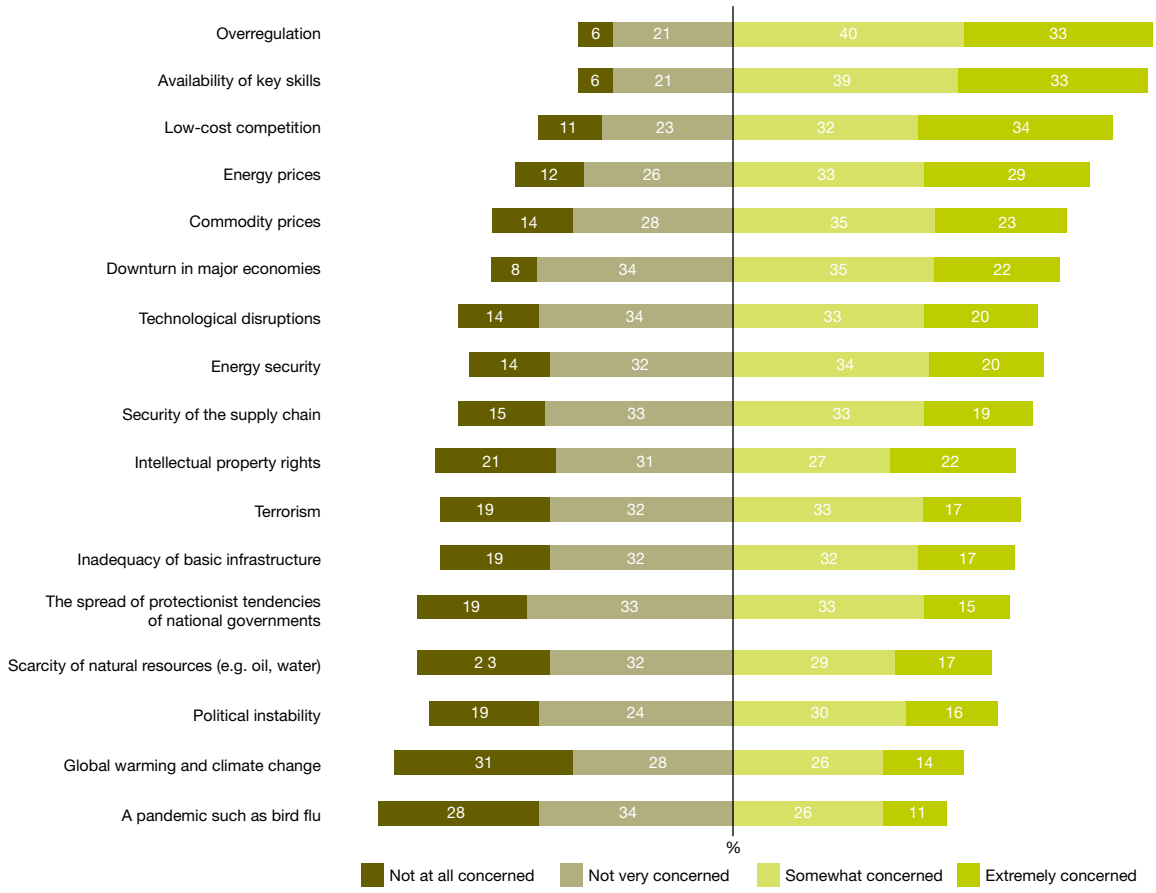
We – and particularly our risk management team – were intrigued by the CEOs' rankings regarding threats to growth. While not surprised to find their greatest focus to be on near-term business threats, we were interested in finding that the more systemic, macro risks (such as terrorism, global warming and pandemics) ranked relatively low (figure 1.3). Interestingly, the more confident CEOs were less concerned about such potential threats to their businesses than their less confident peers.

This raises two key questions.

- Are the less confident CEOs being more realistic about business threats than their more confident counterparts?
- Alternatively, are the more confident CEOs better at risk management?

1.3

Serious concerns about business and macro threats indicate CEO optimism is not unbridled



Q: How concerned is your company about each of the following potential business threats? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

Figure 1.3 illustrates management's rankings of the risks they face. Topping the list are overregulation and the availability of key skills, followed closely by low-cost competition and raw material costs. Terrorism, by contrast, is seen as a key risk by just 50% of respondents, global warming by 40% and pandemics by 37%.

Interestingly, Asia Pacific CEOs are considerably more concerned about these threats than their regional counterparts. For example, North American and central and eastern European CEOs are significantly less concerned about global warming than CEOs in Asia Pacific and indeed in Latin America.

Some interesting variations in the risk data emerge when the responses are organised by size and by market maturity and viewed according to the resources CEOs are committing to risk mitigation.

Companies with revenues of $1-10 billion, for example are more concerned than their smaller company counterparts about many of the threats to their globalisation ambitions, including the availability of key skills, energy prices, technology disruptions and energy security. They also express a higher degree of anxiety about macro issues such as the inadequacy of basic infrastructure, the spread of protectionist tendencies of national governments, the scarcity of natural resources, political instability, climate change and pandemics.

And while emerging economy CEOs share many of the concerns of their developed economy peers, the former are somewhat more concerned about raw materials costs, the inadequacy of basic infrastructure, protectionist tendencies and political instability than the latter.

In our analysis of responses, however, perhaps a more telling indicator of CEOs' views is the degree to which they plan to commit resources to mitigate perceived threats. As one might expect, this commitment mirrors their overall rankings of risk. Attracting and retaining the right skill base, for example is universally high on the list of areas where CEOs intend to dedicate resources.

Of course, this also means that expenditures on systemic, macro events tends to be limited. Is this because such events are seen as too remote or too improbable to warrant attention, or are they simply too big for any individual company to address? Either interpretation is possible.

Interestingly, the findings of the survey offer some insight into new and innovative solutions to some of these more systemetic business and macro threats. Collaboration – often linking the public and private sectors – is starting to bring some 'macro' risks into manageable proportions. We see this as a possible solution to what traditionally might be perceived to be an Achilles' heel in a company's risk management solution set.

Sources of future growth

Where can opportunities to grow revenue best be found? Are CEOs targeting organic growth in the domestic market, or are they venturing into new and potentially slightly riskier areas?

'Forget past success stories and challenges and aim for something new'

CEO, Australia

Collaborating on risk

CEOs place systemic risks, such as global warming and pandemics, low on the list of the threats that face their businesses. Some might see this as being indicative of a short-term approach to risk assessment and mitigation. Our experience, however, suggests that it reflects a sense of futility among managers as they face a set of nearly insurmountable challenges.

It is interesting to note that while most companies are not expending significant resources on trying to mitigate these risks, some are trying to tackle global risks through innovative, collaborative ventures. Recognising that these threats are bigger than any single company could manage, a small but significant proportion of CEOs – about 12% of the sample – are heavily involved in public/private collaborations as a means of attempting to respond to external threats.

With a further 64% of CEOs citing some limited involvement in such collaborations and initiatives, we believe that we are beginning to see a trend that merits further analysis in subsequent studies.

As figure 1.4 indicates, CEOs identified a range of opportunities for growth over the next 12 months. This includes penetration of new markets, M&A activity, new products and technical innovation. Far fewer CEOs saw growth opportunities through less venturesome channels, such as better penetration of existing markets (23%) or through improved operations (16%).

Getting back to optimism: a mixed picture

We began this section of our report by questioning the nature of the optimism being displayed by the CEOs. Is it wishful thinking, or is it based in reality?

As noted earlier, growth in revenue is expected to be funded primarily by cash and will depend upon the successful management of a broad set of business risks – risks that CEOs are trying to mitigate. At first glance, this would suggest that the confidence displayed by management is rooted in realism.

The survey does strike the odd note of caution, however. The primary sources of growth cited are not without challenges, and the relative lack of concern about longer term, systemic risk raises some red flags.

On balance, we are not surprised by the mixed picture that has emerged from this year's survey. In fact, such an assessment would be consistent with some of the more recently reported macro economic data.

For example, the IFO World Economic Climate Survey assesses business sentiment on the current economic situation and on prospects over the next six months. According to the most recent survey, at a global level, on an annualised basis, the combined overall index is running well above the long-term average. However, when viewed quarter on quarter, it becomes clear that confidence in the second half of 2006 moderated slightly – and a more mixed picture starts to emerge.

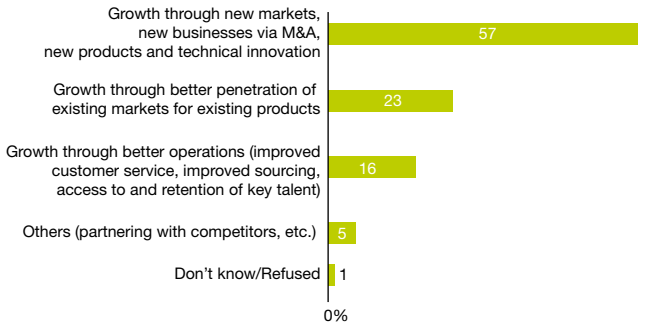
In short, growth opportunities abound, but they are potentially more difficult to achieve.

Assessing risk in the technology sector

When it comes to CEOs' perception of risk, the high-tech sector stands out in our sample. Technology companies are considerably more concerned than most of their peers in three areas: a downturn in major economies and intellectual property rights, and availability of key skills. But perhaps more significant is the degree to which they, along with entertainment and media companies, cite 'technological disruption' as a major business risk. Several explanations are possible. On the one hand, it is possible that the CEOs simply are reflecting the fact that their businesses are inherently more exposed to any such disruptions. On the other hand, their response might offer a lesson to all companies about the potential fragility of the infrastructure upon which they all rely.

1.4

Forays into new activities – new markets, new products, innovation and new businesses through mergers and acquisitions – represent the pursuit of growth for many CEOs



Q: Which one of the following do you see as the major opportunity to grow your business in the next 12 months? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

Over half of CEOs are looking for growth through new markets, new business via M&A, new products or innovation

Was:
Poor cousin
Is:
Challenger
Will be:
Global leader?*

As different economies evolve, how will your organisation harness the opportunities of the growing global consumer base?

*connectedthinking

Section 2
Growing abroad: East meets west

Nearly half the CEOs interviewed for our survey are involved in cross-border mergers and acquisitions, but the stereotypes of acquiror and target are set to change.

Nearly half the CEOs interviewed for our survey are involved in cross-border mergers and acquisitions, a further indication that the recent recovery in M&A is both real and sustainable.

67% of Asia Pacific CEOs are intending to conduct M&A outside of their region or with new trade partners

Business conditions constrained M&A activity in the first three years of this century, but today, with strong economic indicators, high liquidity and favourable financial markets, M&A has resumed its long-term path of growth. Estimates by financial information systems supplier Dealogic indicate that record levels were achieved in 2006, with forecasts suggesting that continued healthy levels of M&A are likely in 2007.

Supported by the M&A surge, global foreign direct investment (FDI) numbers grew by 29% to $916 billion in 2005, following a 27% increase in 2004 (figure 2.2). When 2006 results are finalised, they are expected to exceed the previous peak levels of 2000.

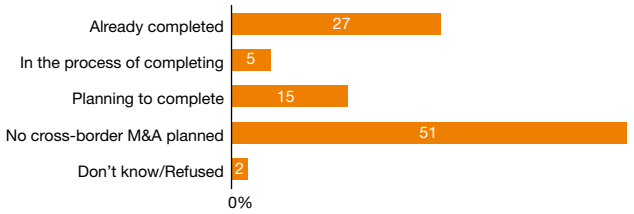
Who benefits from this accelerating flow of capital? Historically, the lion's share of FDI has gone to the developed economies, principally western Europe and the United States (figure 2.2). However, emerging economies are steadily increasing their share of global FDI.

Emerging economies have now become active participants in the globalisation process, not only receiving a greater share of FDI, but also as FDI players in the developed economies.[1]

Our survey data is in line with this analysis. Nearly half of survey respondents assert that they have already completed, are in the process of completing, or are planning to complete cross-border M&A transactions (figure 2.1). As CEOs in our survey have made clear, however, globalisation is no longer just about financial transactions. Knowledge, culture and people are emerging as

2.1

47% of all CEOs interviewed are actively engaged to some degree in M&A activity

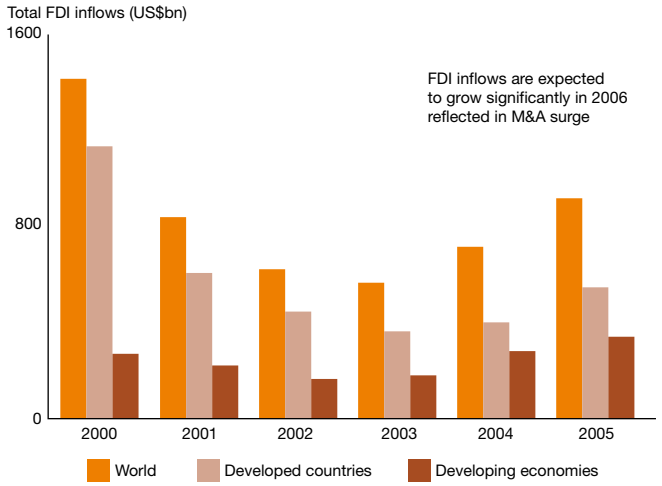


Q: Have you completed a cross-border merger or acquisition in the past twelve months or are you planning to do so in the next twelve months? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006Source: UNCTAD World Investment Report 2006

2.2

Emerging economies are steadily increasing their share of global FDI



Source: UNCTAD World Investment Report 2006

[1] See *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development,* United Nations, New York and Geneva, 2006 and *The New Global Challengers: How 100 Companies from Rapidly Developing Economies Are Changing the World,* The Boston Consulting Group, 2006.

additional key components of global value. This new reality is reflected in the CEOs' cautionary notes on M&A execution and implementation.

Assessing the urge to merge

While 47% of all CEOs interviewed are actively engaged to some degree in M&A activity, most of that action is among companies in the large, developed economies. In fact, 50% of the respondents in developed economies said they have already completed, are in the process of completing, or are planning to complete a cross-border M&A operation. Among CEOs of large companies (those with revenue of more than $10 billion) the proportion rises to 61%.

While large company CEOs are doing most of the acquiring, all CEOs, regardless of company size or location, rank their reasons for pursuing M&A in similar ways. Across the board, the CEOs generally agreed (65%) that gaining access to new markets/customers is their primary motivator. Trailing well behind are the need to obtain new product lines (10%), achieving vertical integration (8%), and eliminating competitors (4%).

Among all CEOs, western Europe is the favourite M&A destination (43%), followed by Asia (31%) and North America (25%). However, among emerging economy CEOs, Asia (33%) is the preferred region, followed by western Europe (23%), eastern Europe (21%), Latin America (20%), North America (15%), the Middle East (8%), Africa (7%) and Australasia (2%).

A closer look at the regional data reveals an interesting pattern. Regardless of increases in global FDI inflows, the majority of CEOs are investing close to home – targeting countries in their intraregional area or traditional trading partners (figure 2.5). They seem to be avoiding bold moves away from their comfort zones.

Encountering obstacles

A partial explanation for this reticence might be found in our survey data related to obstacles to successful M&A activity. Cultural issues top the list. As figure 2.6 indicates, 45% of all CEOs either have encountered or anticipate encountering cultural obstacles. However, this summary figure conceals some interesting regional variations.

North American and Asia Pacific CEOs seem most concerned about cultural issues, while emerging economy CEOs are less concerned. Some observers have suggested that emerging economy CEOs can be inherently more flexible than their developed economy counterparts. CEOs from developed economies may have to learn that a better appreciation of cultural differences can be critical to them, too.

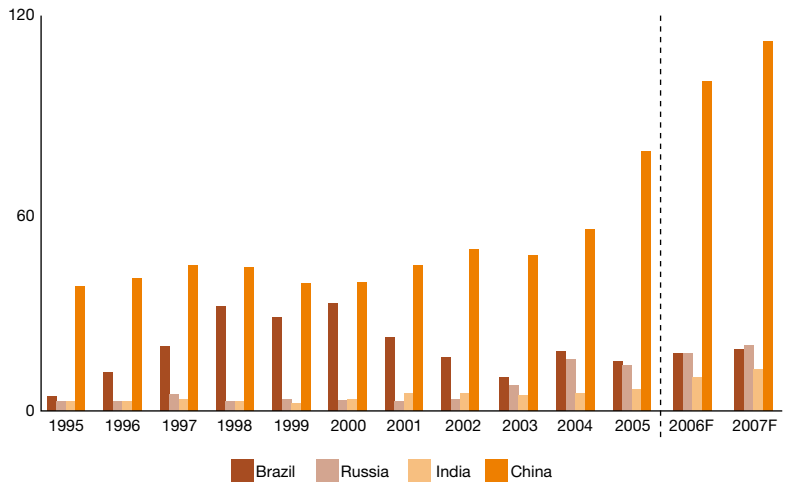
While emerging economy companies appear to be more open to cultural integration, our data suggests that they are simply less experienced in M&A

Following the money: FDI inflows to Asia

The upward trend in inward FDI flows to Asia is expected to continue, driven by high GDP growth and ongoing economic reforms. Forecasts indicate that FDI inflows into China, by far the highest recipient among emerging economies, will grow significantly in 2006/2007. This growth will be fuelled mainly by China's strong economic performance and by the gradual opening of its economy. In parallel, FDI inflows to other emerging countries are on the rise.

2.3

FDI inflows into to BRICs (US$bn)



Source: IMF, UNCTAD, PricewaterhouseCoopers

Cultural issues top the list of obstacles encountered or anticipated by CEOs

than companies that operate in developed economies. This opinion may find support in the fact that it was the more experienced acquirers who were most likely (47%) to cite cultural issues and conflicts as a major obstacle.

When the survey results are sorted for company size, we find that larger companies (over $10 billion in revenue) are most likely to cite conflicting regulatory requirements and conflicting workforce expectations as major obstacles. This finding might indicate that large acquirers need to be more nimble in order to succeed. In addition, more of these CEOs cited political interference/opposition as a major obstacle than their smaller company counterparts.

Problems and obstacles that arise in our own day-to-day work with clients are supported by the survey data. For most of the executives we work with, M&A is all about the challenge of implementation, which brings us right back to the growing importance of knowledge, people and culture, and of the collaboration among them. In a global economy where financial capital is not the only value driver, the way a team executes, implements and integrates in the post-merger phase is increasingly important. The survey results indicate that the CEOs agree.

2.4

CEOs show an appetite to venture into new markets amid continued preference for M&As within the same region or with companies in traditional trading-partner countries

Acquirer location	Within region or traditional trading partner	Outside region or new trade partner	Base
North America	87%	13%	55
Western Europe	73%	27%	231
Asia Pacific	33%	67%	123
Latin America	46%	54%	54
Central Eastern Europe	58%	42%	30

Q: Where did you make this merger or acquisition or where are you planning to make it?

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.5

CEOs show appetite to venture into new markets amid continued preference for M&As within the same region or with companies in traditional trading-partner countries

	Acquiror location					
Target location	All	North America	Western Europe	Asia Pacific	Latin America	Central Eastern Europe
Western Europe	43%	44%	56%	33%	19%	30%
North America	25%	35%	24%	32%	20%	3%
Asia Pacific	31%	42%	26%	51%	11%	10%
Eastern European	23%	9%	30%	12%	9%	60%
Latin America	13%	13%	11%	5%	54%	0%
Africa	5%	2%	5%	4%	2%	0%
Australasia	4%	6%	4%	8%	0%	0%
Middle East	5%	4%	5%	8%	2%	0%
Base	502	55	231	123	54	30

Intraregional trading partner

Q: Where did you make this merger or acquisition or where are you planning to make it? (Base 502)

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.6

Reflecting various levels of experience with cross-border M&As, CEOs from different regions and large-company CEOs report different degrees of concerns

Percentage that are extremely and somewhat concerned	All	Emerging economies	North America	Asia Pacific	Companies with more than $10 billion in revenues
Cultural issues/conflicts	45%	41%	58%	51%	48%
Conflicting regulatory requirements	36%	40%	47%	45%	59%
Unexpected costs	29%	26%	42%	27%	18%
Inadequate leadership	24%	23%	36%	28%	23%
Conflicting workforce expectations	21%	20%	33%	29%	27%
Political interference/opposition	17%	20%	13%	16%	27%
Stakeholder opposition	14%	11%	16%	15%	8%
Others	8%	7%	13%	7%	5%
Popular backlash against foreign presence in local markets	10%	12%	7%	9%	11%
Base	502	178	55	123	44

Top mention

Q: What obstacles did you encounter or do you anticipate encountering?

Source: PricewaterhouseCoopers Global CEO Survey 2006

In-depth CEO interviews

Malvinder M. Singh
CEO and Managing Director, Ranbaxy Laboratories Limited

Barriers to entry are certainly coming down across markets. There is also a greater desire for companies to increase in terms of scale and size. Therefore, consolidation and globalisation, which go hand in hand, will lead to more cross-border M&As. At the end of the day, the question of who owns the company is not that important, what is important is that the customers get a product that meets their needs.

Clearly there would be consolidation across industries and geographies, so you would have much bigger entities being created through M&As. And you will have big companies coming out of the emerging markets, acquiring companies in the developed markets. Today, Indian companies, such as the Tata, Videocon, Ranbaxy or Mahindra & Mahindra, are spearheading global acquisitions. Each of us has gone out and bought companies overseas. While there is foreign direct investment flowing into India, at the same time, there is substantial investment going out of India into the developed markets.

Antoni Brufau
Executive President and CEO of Grupo Repsol

In the next two to three decades, the consumption patterns of a large part of the world's population will become similar to those of the developed countries. The consumer durables, construction and commodities sectors, including metals, energy and food, will see a large number of M&A deals.

Extractive farming and manufacturing will be characterised by the emergence of a few large international players in all sectors and by the continuation of the outsourcing phenomenon. In other words, large businesses will be created and will not be based in a specific country; their activities will take place in numerous countries among which intra-industrial trade will grow. Business will be dominated by the so-called transnational companies, many of which will be companies from emerging countries.

I've observed industrial countries becoming more concerned that certain activities are strategic and cannot be in the hands of countries not regarded as allies. This stance is countered by nationalism regarding natural resources in certain developing countries. This tension, arising from a perceived absence of reciprocity, will be the main obstacle to cross-border M&As in coming years.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Jairo Senise
CEO, Gruma

It is important to see the reaction of the people and the government in every country. The first time I met with Chinese authorities they were really surprised that we wanted to build a plant in China to supply the Chinese market. They said, 'but Chinese people do not eat tortilla'. I invited the authorities to visit fast-food restaurants in Shanghai to show that we were already selling our products from California to China.

The support of local advisors is critical to succeed and to monitor all the process stages and needs. For example, the plant in China was built and started operating within nine months, which is an unprecedented achievement.

Another basic element to approach a new country is the responsiveness of the local market. We go to the street, the suburbs, the markets; we observe what people eat and separate the flavours – I have become a specialist in these matters. And in these visits we find a lot of surprises. For example, in the border between Russia and China we found out people eat chimichangas and corn tortillas. They eat these because they are affordable and there is a lot of poverty in the region. That made me realise that, even if today they do not buy our products, someday they will because of our quality and prices.

Zhang Chunjiang
Chairman, China Netcom Group Corporation (Hong Kong) Limited

China Netcom's purchase in 2002 of Asia Netcom was the first purchase of a major telecommunications entity outside China by a Chinese entity. Through Asia Netcom, we operated undersea optical fibre cable businesses in 13 countries and regions, and even some ground-level communications services.

However, we sold it this year. Considering the operations of Asia Netcom, the quality of the internal staff of China Netcom, mainland regulations, and our familiarity with the laws of the places where Asia Netcom operated its businesses, we found it risky as a whole, and we decided to divest. In the few years that we owned Asia Netcom, all these problems were big challenges to us. For example, the entrance rules of the telecommunications industry vary a lot among different countries. Some countries allow direct investments, while some restrict the amount of foreign capital that can go directly into the local telecommunications industry, and you must enter into joint ventures with local companies and let them own the major shares. Moreover, the laws protecting labour are also different in each country.

In 2004, China Netcom acquired 20% of the shares of the Hong Kong-based PCCW and entered into a strategic partnership with Telefonica of Spain.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Yang Yuanqing
Chairman,
Lenovo Group

Culture is one of the four major challenges related to cross-border M&As that we have had to address in our acquisition of IBM's notebook business. As an international company, we don't think we should have the so-called difference between eastern and western cultures. Since it is impossible for any single company to alter the culture of another nation, you simply have to understand and adapt.

The American companies doing business in China have to know the Chinese culture and adapt to our cultural needs. The same situation applies to the Chinese enterprises doing business overseas.

We must also identify differences in corporate cultures of the merging companies and establish a new corporate culture that suits the development of the new company.

Which side's culture should be adopted depends on which one is more appropriate for our industry. We are not solving our problems according to the old Lenovo culture or the old IBM culture, but with the culture that enables us to be the winner of the industry. That would be easier for everybody to accept and lead to compromise with and respect for each other.

F. Bülend Özaydinli
CEO, Koç Holding A.Ş.

In the 1990s, the transition of Turkey's economy from a closed to an open one influenced our business strategies. On the one hand, Koç Holding faced greater competition in our home market; on the other hand, we gained greater access to international markets.

In closed economies, diversified conglomerates enjoy advantages such as access to capital and control of distribution channels. The opening up of these economies forces conglomerates to focus on a few core businesses where they can be competitive.
It increases the importance of having a more focused and carefully managed business portfolio. Conglomerates embark on a series of cross-border M&As to divest the non-core businesses and to make international acquisitions as part of the international expansion in their core businesses.

That's what has happened to Koç Holding. We adjusted our strategies, and managed to be competitive in a fairly diverse array of businesses. In 2005 and 2006 we were executing major portfolio decisions.

We have had to adjust our organisational culture and internal processes, and acquire new skills to be able to act faster, go beyond what we consider as our natural markets and develop new competences to replace the ones challenged by the new actors on the scene.

PwC view

Embracing a world of opportunity

As the global economy expands, traditional M&A strategies are coming under strain. With so much at stake, businesses are searching for the best route to future global success. However, making the right choice is far from easy.

Some experts believe that companies will only complete successful cross-border M&A initiatives if they adopt a single, global operational framework. IBM Chairman and CEO Samuel J. Palmisano suggests that the globally integrated enterprise of today:

'…shapes its strategy, management, and operations in a truly global way. It locates operations and functions anywhere in the world based on the right cost, the right skills, and the right business environment. And it integrates those operations horizontally and globally'.

While that may be the optimum approach in many cases, we at PwC do not hold it to be a universal truth. We are currently, for example working with highly successful multinational companies that are moving away from this 'one-size-fits-all', global model. They are realising that the only way to overcome cultural differences as well as a mass of regulatory hurdles and manage scale and complexity of global operations is by creating regional or national centres of excellence.

Similarly, we are seeing some businesses turning away from M&A in favour of collaborations, partnerships, alliances and joint ventures. These, suggests Sarah Friar, Vice President of Goldman Sachs:

'…are a preferred route in many cases and may often represent the best approach for any particular company or group of companies'.

Whatever route they eventually choose, businesses will only be able to bridge geographical and cultural divides if they achieve the right blend of global knowledge management, an appreciation of local practices and, most difficult, a strategic approach that embraces the essence of globalisation. Though the future is uncertain, it is also exciting. As our survey shows, there is plenty of surplus cash available to finance cross-border M&A, not least through the rise in private equity funding. For the company that makes the right global choices, a world of opportunity awaits.

Successful cross-border M&A initiatives increasingly depend on a truly global perspective to succeed

Was:
Linear
Is:
Connected
Will be:
Virtual?*

As value chains become more globally dispersed, how will your company navigate the resulting risks and opportunities?

*connectedthinking

Section 3
From cost to collaboration: Redefining the value chain

The value chain is being scrutinised by management intent on gaining competitive advantages in the global environment.

Outsourcing (both supply chain and traditional back office functions)[1] has been a regular feature of business life for many years. Through their responses to this survey, CEOs have indicated a marked shift in their motivation for using external suppliers, from simply as a mechanism to lower cost to a means of achieving a more strategic, collaborative framework. In tandem, CEOs tell us of an increasing trend to expand the scope of activity that is covered by outsourcing arrangements, from the traditional component supplies and IT infrastructure to other activities that, in the past, were held sacrosanct, including human resource management (HRM) and R&D.

Hints of a new value chain model are beginning to appear – a model in which even core functions are being outsourced

Strategic partnering

Initially intended primarily to reduce costs, outsourcing is evolving into an integrated element in a strategy to increase companies' competitive advantage. This trend is underscored by the findings of this study. As figure 3.1 indicates, only 15% of CEOs interviewed claim that their relationship with suppliers is based entirely on lowest cost.

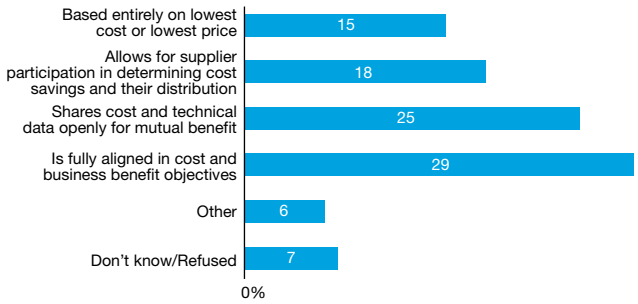
Recently, the Economist Intelligence Unit (EIU) surveyed 187 senior executives on the subject of collaboration. According to the report, more than one-half of all executives polled say collaboration will either form an important part of their firm's competitive advantage or will actually be central to its survival over the next three years.[2] In today's economy, effective value chain management is increasingly about collaboration – that is, full alignment of business objectives and incentives among partners in the value chain.

This is further validated in our survey. When asked to describe their relationships with their current suppliers, 29% of survey respondents said that they were already fully aligned with their partners in the value chain.

Interestingly, only small differences exist between developed economy company CEOs and their emerging economy counterparts in the assessment of outsourcing supplier

3.1

Companies are increasingly in strategic and collaborative relationships with their suppliers, a departure from arrangements based solely on lowest cost



Q: How would you describe your relationship with your current suppliers? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

1 Strictly speaking, a company 'outsources' when it moves from managing a core process of the organisation internally to purchasing that process from an external supplier. 'Sourcing' is a broader concept that encompasses all aspects of a company's value chain – including procurement. In practice – and indeed in management's response to this survey – these terms are often used interchangeably.

2 Companies without Borders: Collaborating to Compete, an Economist Intelligence Unit Report Sponsored by BT, November 2006.

relationships. The same is true regionally, with one exception: central and eastern European CEOs are far more likely to describe their relationships with suppliers as based entirely on cost or lowest price. As one might expect, those companies that source more than 30% of their business from low-cost countries, are most likely to see themselves as fully aligned with their suppliers in cost and business benefit objectives (figure 3.2).

While these findings suggest that global leaders are increasingly innovative in their management of each element of their value chain, we wonder whether the CEOs have accurately assessed the scope of the relationship with their suppliers. Our experience working with global companies suggests that survey respondents might be overestimating the degree to which they are engaging in fully collaborative relationships across the value chain. Truly collaborative relationships are dynamic, adapting to change in business conditions. They require an innovative approach to intellectual property management, to training and to cultural exchange – themes that we explore in greater depth at the end of this section.

The boundaries of the organisation

As outsourcing ceases to be purely a low-cost strategy, a shift is occurring in the elements of the value chain being outsourced and in what is perceived as adding value. Hints of a new value chain model in which even core functions are being outsourced are beginning to appear.

However, we were interested to note a small but significant number of CEOs who derive competitive advantage from outsourcing activities that were traditionally perceived to be too strategically important to outsource, including R&D (12%), human resources (11%), and even marketing and sales (9%), a trend that runs through a number of the CEO in-depth interviews, presented later in this section. This willingness to allow normally tightly protected activities to migrate outside the company is a convincing signal of the degree to which the nature of outsourcing is changing.

3.2

CEOs from emerging economies, Latin America, large companies and the retail sector report higher propensity to source a larger part of their businesses

	Global CEOs	Developed Economies	Emerging Economies	Latin America	Large Companies >$10bn	Retail
Less than 10%	35%	42%	25%	19%	40%	48%
11-20%	12%	14%	9%	11%	19%	10%
21-30%	6%	6%	6%	7%	8%	3%
31-40%	4%	4%	4%	4%	4%	8%
41-50%	2%	2%	3%	4%	1%	5%
More than 50%	11%	4%	22%	30%	8%	15%
Do not source/have business in low-cost countries	24%	24%	23%	17%	13%	8%
Between 11-50%	26%	26%	22%	26%	32%	26%
Base	1,084	653	431	139	72	40

Q: What percentage of your business is currently sourced from, or located in, low-cost countries?

Source: PricewaterhouseCoopers Global CEO Survey 2006

Global leaders are increasingly innovative in their management of each element of their value chain

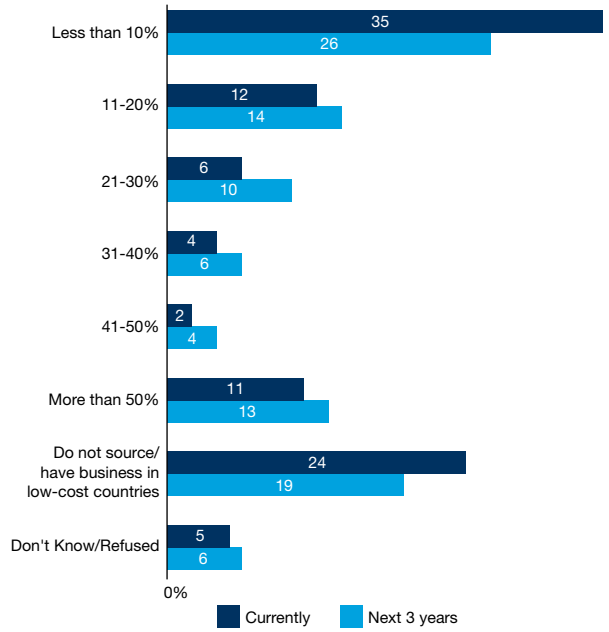
A geographic shift

When we asked CEOs about the geographic location of their current outsourcing activities, they provided mixed responses. As figure 3.3 indicates, 35% of respondents said that more than 10% of their current value chain is sourced from, or located in, low-cost countries. In three years time, this number is expected to have increased to 47%.

As one might expect, there were some variations in the responses. For example, as figure 3.1 indicates, 22% of emerging economy companies are sourcing more than 50% of their business to low-cost countries compared to 4% of their developed economy counterparts. This is probably at least partly due to interregional trade. In terms of company size, smaller companies (those with revenues of less than $100 million) are much less likely to source to or have business in low-cost locations.

3.3

While 35% of CEOs report sourcing more than 10% from low-cost countries, that figure will increase to 47% in the next three years



Q: What percentage of your business is sourced from, or located in, low-cost countries (e.g. Brazil, Malaysia, China and Ukraine)? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

Working the value chain: current trends in outsourcing

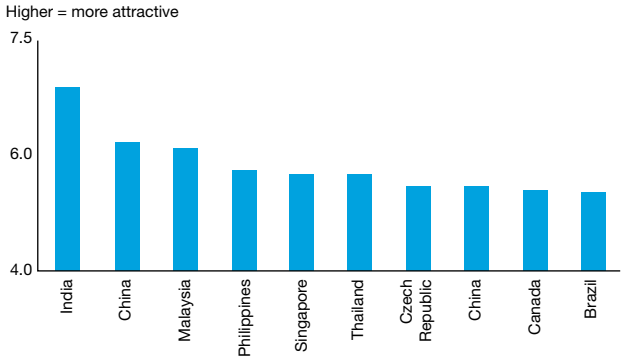
As figure 3.4 indicates, India leads the way as the major outsourcing destination, followed by China. While India is significantly ahead, both destinations are regarded by CEOs as having the right elements to provide good services – a sound but low-cost business environment, complemented by the availability of skilled labour.[3]

Asia dominates as the most desirable outsourcing region. However, we expect that over the long term, outsourcing will increase significantly in Latin America, central and eastern Europe, and the Middle East. In fact, we expect even lower-cost destinations such as Ghana and Vietnam to become increasingly competitive.

Outsourcing is clearly a strategy that has been widely accepted by global companies, and that acceptance is growing. According to a 2003 survey conducted by Forrester Research Inc., 60% of Fortune 1000 companies had neither offshored nor outsourced any business, and only 5% had taken full advantage of offshoring/outsourcing. However, by this year the picture had changed considerably. A 2006 study published by the India Institute of Management (IIM) indicated that 55% of Fortune 1000 companies source service activities from other countries.[4] This dramatic increase can mean only one thing: the global impact of outsourcing is rising and rising fast.

3.4

Top 10 outsourcing destinations



Source: AT Kearney

3 A.T. Kearney's Annual Global Services Location Index, November 2005.
4 Rupa Chandra, Global Outsourcing of Services: The Case of India, October, 2006.

Survey respondents might be overestimating the degree to which they are engaging in fully collaborative relationships across the value chain

In-depth CEO interviews

F. Bülend Özaydinli
CEO, Koç Holding A.Ş.

With its low labour costs compared to developed economies, Turkey has become a production centre in many sectors. But as production started to shift to countries with even lower costs, Turkish companies started to offshore themselves to become competitive.

One of Koç Holding's core competencies is excellence in high-quality, low-cost manufacturing. When the low-cost part of this comes under threat, we respond by outsourcing low value-added production. For example, we are sourcing table-top refrigerators from China for both our home market and export markets in Europe to free up capacity in our plants for larger sizes with more value-added. In another example, we transferred a complete electrical heater production line to China to operate it with a local partner.

Value chain relationships will evolve much faster in the future. Foreseeing, or even better, influencing and reacting to these changes quickly is the main competitive challenge for businesses. You have to be able to move up and down on the value chain, or even jump to an adjacent one to capture profits. You have to continuously locate the best suppliers and partners.

Companies in developed economies have to migrate higher and higher up the value chain in order to remain cost-effective. Developing economies have to move to higher value-added industries to achieve higher living standards.

Yang Yuanqing
Chairman,
Lenovo Group

I think all parts of the value chain are important. However, with globalisation, it is more important for a company to position its value chain. Considering global resources, you may deploy your manufacturing operations in China, your call centre in India, your sales support in Brazil, the Czech Republic or Slovakia.

After you determine where to locate your functions, you have to consider who will be responsible for them. You may be responsible for certain functions and commission contractors for other functions. You have to decide the best deployment for your company in accordance with your competitiveness and operational capacity. Different deployment strategies suit different companies and reflect their difference in competitiveness. Then you need an appropriate operational workflow, linking up your deployed resources to ensure the chain runs smoothly.

Finally, you should settle on a good IT and information support system.

I think this is the significance of globalisation: future innovations are not limited to technology and product development, but more important, are driven by the business model. The most critical factors that determine whether you win or lose are the way you do business, the deployment of your resources, the allocation of functions and your operational workflow.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

George Halvorson
Chairman and CEO,
Kaiser Permanente

Healthcare will be much less bound to a local geography than it has ever been. Certain types of care can be done offshore now. You can have high-tech operations – for example, knee surgery or heart surgery – in other countries for a fraction of the cost of doing them in the US. That market is going to grow. People are going to be tempted and intrigued by the possibility of having procedures done in other settings, for much less money. That is one effect of globalisation.

Here in the US, we're facing significant potential shortages of lab technicians, nurses and other healthcare workers. But training programmes in other countries are turning out large numbers of potentially qualified people, so the global pool of workers might be enough to meet our needs.

The ability to do all kinds of virtual consults is another possibility. Having highly qualified caregivers in other countries, connected remotely to the US, with a nurse and a computer connection here, could be in our future.

Another opportunity to globalise healthcare is to embed best practices and information in computer support systems and transplant those across the world. It could be the start of addressing some universal problems in healthcare: inconsistency in treatment methods and limited clinical trials. A golden age of healthcare data is dawning, and healthcare is going to be much, much better as a result.

Paul Anthony
Managing Director
and CEO,
AGL Energy Limited

Once you take the first step to globalise procurement, then it makes a whole different set of business propositions become apparent.

First you have to decide where you are trying to take the business strategically. Once you have decided on a basic road map, you have to decide what type of competencies you need to build to sustain and deliver the strategy. Can you build those competencies in-house, retain the talent and retain competitive advantage core competency, or do you acquire it from an external resource? That is what we are trying to do in a stepwise approach at AGL. For example, instead of having over 380 full-time employees in the IT space – the information management space – we will end up with a small number of expert procurers of services to build a capability for our business, which we could not hope to build or retain by insourcing.

Ultimately, we will have the potential to build strong strategic alliances with those providers who can give us access to world currency in technology.

It extends beyond IT. You take a long, hard look at a business and say – 'what do we do and why do we do it?' For instance, payroll is the core stock and trade of hundreds of outsourcing companies in Australia, which can do it far better and more cheaply than we can. Another example is in-house legal. It is expensive to keep a complement of in-house lawyers. And the danger you run there is, because they are only dealing in your practice, their skill currency of the outside world gets eroded very quickly.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Malvinder M. Singh
CEO and Managing Director, Ranbaxy Laboratories Limited

Speed and costs are the two key aspects that drive a generic pharmaceutical company. Today, we have a presence in 49 countries, where we have our own people selling products in those markets. Our products are sold in over 125 countries and we have manufacturing facilities in nine countries. We launch two to three SKUs (Stock Keeping Units) or products every day around the world – that's over a 1,000 products a year. Therefore, the complexities of our business are evident.

Our global outsourcing strategy is an extremely dynamic process. At the end of the day, it is a make versus buy decision. Our systems are flexible, so that we can decide on what to make and what to outsource. Given that most of our business is in the developed markets, which are highly regulated, there is a time-lag for us to get the approval to use an alternative source of raw material. We have a well-oiled system that looks at optimising this process continually to minimise costs and be more competitive.

For many of our key products, we always keep two or more sourcing options. So, if anything goes wrong, you always have a backup and there is no interruption in your supply chain to take the product to the market.

Fred Kindle
President and CEO, ABB Group

Globalising the supply chain and the manufacturing and the engineering footprint has been a topic for the last 10 to 15 years. How far will it go? How quickly does your organisation jump on the trend? As for ABB, we have done a lot in the last 20 years, but the situation continues to evolve. We are looking at pushing the classical sourcing, putting more engineering into places like Bangalore in India or Shanghai in China.

Our decision to set up an R&D operation in China was not a trivial one. We had to take into account how we feel about the next 10 to 20 years in that environment with regard to intellectual property rights, access to well-qualified people, the need to customise certain technologies for local market demands, etc. We made the decision because we believe there is only one way to succeed, which is to take advantage of the globalised world and not to try to block it.

But there are areas we will not consider, if we feel there are certain risks that are too big or uncontrollable. For example, intellectual property rights are at the very core of our existence. If we are not able to protect the developments we make and make sure that we are a step ahead of the competition, then we would rather pull out. This is an example of a boundary constraint that could prevent us from making investments in emerging countries, specifically in China. If we do not feel safe, we will not do it. We are not just looking at project opportunities for the next three to four years; we have to make sure that ABB stays competitive for the next 10 to 20 years.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

PwC view

Becoming a global orchestrator

The composer sits at her desk. Her task is to create an orchestral arrangement of a popular tune. Her manuscript paper can accommodate every instrument in the orchestra, from strings and woodwind to brass and percussion. With the musical theme firmly fixed in her mind, the orchestrator begins to weave the musical strands together, creating a seamless whole in which all of the elements complement each other and work together harmoniously.

As value chains become more complex and global, companies need to be less like virtuoso soloists and more like talented orchestrators. Success will increasingly be influenced by the degree to which companies embrace networked collaboration and harness expanding opportunities in a global economy.

As we work with our clients, we are seeing a profound change in the nature of outsourcing. Once focused almost exclusively on operational savings, outsourcing has become a way to add competitive edge to what were once regarded as core functions – research and development, product development, and human resources procurement and management.

Implementing a collaborative global network is not easy. Managing even a simple relationship internationally can be difficult; managing multi-sourcing relationships is exponentially more challenging, requiring a different set of skills and governance arrangements. Capturing the economic benefits of intellectual property, negotiating a complex web of legal and regulatory requirements, operating multiculturally, and managing talent that lies outside the firm – all while ensuring high ethical standards – demands sensitivity, flexibility and a clear vision of the objectives. This means anticipating change and striving continuously to redefine what is core to the business. In our view, it soon will be commonplace for companies to locate themselves at the centres of coordinated networks of highly specialised businesses. Rather than soloists, such companies will be global orchestrators that achieve competitiveness through collaboration.

Successful value chains will increasingly be defined by the degree to which networked collaboration is harnessed to achieve a common objective

Was:
Ignored
Is:
A priority
Will be:
An opportunity?*

No longer optional, how can corporate responsibility be integrated into your business strategy to deliver truly sustainable competitive advantage?

*connectedthinking

Section 4
Defining the role of business leaders in society: A business imperative

To create competitive advantage and sustainable economic growth, management have to balance the needs of the shareholder against those of a broader set of stakeholders.

Ask a classically trained financial economist about the role of the company in society and the response is likely to be to maximise shareholder returns. The 10th Annual Global CEO Survey reinforces a growing recognition among academics and practitioners alike that this traditional view of the long-term objective of a company is too narrow; that to sustain long-term financial growth, management need to balance the needs of the shareholder against those of other stakeholders – most notably the employee and society.

‘As my legacy, I want to build a high performance organisation that will sustain growth long after I am gone’

CEO, Canada

In the course of this study, we asked not only a series of questions about the attributes of global leadership today, but also encouraged an open dialogue with CEOs about the legacy for which they would like to be remembered. This discussion highlighted some interesting aspirations among business leaders today in balancing competing stakeholder needs – aspirations that we have subsequently grouped, somewhat simplistically, into two broad and interrelated headings: assessing local impact of global change and developing global talent.

A business imperative

CEOs are still ultimately focused on the bottom line. Creating a business that will generate long-term sustainable economic growth was cited by many as a critical objective of their terms in office. However, it was notable that very few defined success solely in financial terms.

Instead, the findings of the survey support Michael Porter and Mark Kramer’s contention that, to gain competitive advantage, management need to align their strategies to factor in the needs of a broader set of stakeholders, including employees and society as a whole. This is a strategic decision that can often involve having to make some tough trade-offs; for example, it is possible that improving employee compensation could in the short-term impact shareholder returns. Judging from the findings of this study, this ‘inescapable priority for business leaders in every country’[1] is clearly a reality for many business leaders today.

Is globalisation viewed by CEOs as helping them to achieve this ambition? Is it perceived to add value not simply to the shareholders they serve, but also to their employees and communities?

The local impact of global change

The overwhelming majority of CEOs (73%) believe that globalisation is good for both developed and developing markets. However, there are some concerns that such benefits are not evenly distributed either over time or across markets. Fifty-three percent of the CEOs state, for example that while beneficial in the long term, globalisation has adverse effects on society in the short term.

‘I would like to leave behind a sustainable workforce-centred culture’

CEO, Chile

1 ‘Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility’, Harvard Business Review, December 2006

Perhaps of greater concern, however, is the variation in CEO responses when they were asked whether there was any difference in the degree to which developed and developing nations benefit from globalisation. Emerging economy company CEOs feel significantly more strongly (41%) than their developed economy counterparts (32%) that globalisation benefits developed markets more than emerging markets. The message is clear: companies need to be seen to be contributing, and not simply exploiting, the local communities in which they operate.

Developing global talent

When we asked the CEOs about one lasting achievement that would stand as their legacies, it was notable that the number one response (21%) concerned employee issues (developing talents and skills through training and creating a great working environment). CEOs are acutely aware of their dependence upon a global talent pool for their continued success: ensuring that the development and lifestyle needs of their key employees are met, is an overwhelming priority for many of the study's respondents. In discussing how best to attract and retain talent, it is interesting to note how highly CEOs value the importance of creating and maintaining a reputation for good corporate citizenship (figure 4.1). Sixty-five percent agree or agree strongly that active engagement in social issues will be a key success factor in this regard.

Building a new kind of legacy

Responses to our question on legacy suggest that the CEOs have a vision of a world where sustainable economic returns can be attained while meeting the needs of employees and society as a whole. Indeed, the message coming through the interviews – and reinforced in the extracts featured later in this section – implies that sustainable economic returns can only be achieved if the needs of society and the employee are balanced equitably.

It must be acknowledged, however, that while many are working towards this vision, few have achieved it. There clearly remain significant challenges along the way to the 'promised land'. Not least among these is the change in mindset required at all levels of management.

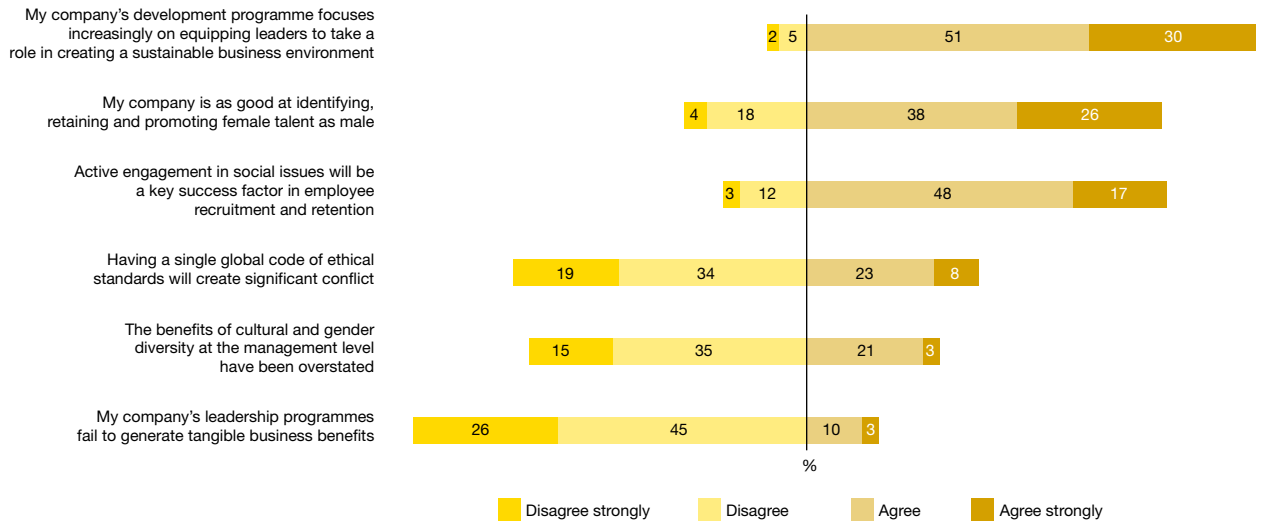
Today's leaders need to think globally, not territorially, expansively rather than parochially. Such leaders recognise that they cannot focus only on the bottom line. They are finding that genuine global success results when the mindset required to truly explore the opportunities of globalisation is also applied to meeting the challenges related to playing a meaningful role in global society, a role that embraces and furthers important social goals. In our view, getting this balance right will define tomorrow's global winners.

'I would like to build a company that satisfies not only shareholders and employees, but the community as well'

CEO, Portugal

4.1

Leadership in a more globalised world entails CEO attention on social issues, diversity, sustainability and ethical standards



Q: Now I am going to read out a number of statements and I'd like you to tell me how strongly you agree or disagree with each statement. (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

Leading the way: CEOs at the helm

Global businesses require new approaches to leadership. In their responses, the CEOs we interviewed confirm what we regularly see among our clients: the old-style command and control structures are giving way to models that value not just C-suite executives, but people throughout the organisation.

As figure 4.1 illustrates, most CEOs agree that their leadership programmes generate tangible business benefits. An overwhelming number of survey respondents (81%) agree or strongly agree that their companies' development programmes focus increasingly on equipping leaders to take a role in creating a sustainable business environment. This finding reflects the fact that 72% of CEOs are somewhat or extremely concerned over the availability of key skills. Emerging economy company CEOs are more likely (88%) to view their company's development programmes in this light than developed economy company CEOs (77%).

The majority of CEOs believe that the benefits of cultural and gender diversity have not been overstated. The skill with which companies leverage the range of human resources that are available is clearly seen as critical for sustainable critical advantage.

Are CEOs achieving this ambition? Are they able to identify, retain and promote talent in a fair and equal, meritocratic basis? Here, CEOs believe that significant progress has been made. Sixty-two percent of CEOs feel that their companies treat men and women equally.

Emerging-economy and small-company CEOs (74% and 71%, respectively) are most likely to agree or strongly agree in this regard.

Based on our experience with clients, we know first-hand how difficult it is to achieve genuine diversity in any organisation, even in companies that truly value diversity and that make tremendous efforts in this regard. So we were a bit surprised by the high percentages of CEOs who feel that when it comes to diversity, they are getting it right.

A possible explanation might be found in what we perceive to be a change in what diversity actually means and in how best to bring it about. Diversity was once defined by headcount and the CEOs may be rating themselves on that definition. However, we contend that that fails to demonstrate how well management are making the most of the opportunity that such diversity presents. We believe that diversity should focus not just on numbers, but on making the interactions among diverse people productive. For the value of diversity to be realised, people must be able to reconcile and discuss their differences. Achieving diversity in this sense is a much greater challenge, one that we suspect few are meeting today.

‘My legacy will be that I equipped my people to deal with rapid change’

CEO, Belgium

In-depth CEO interviews

Edward J. Ludwig
Chairman of the Board, President and CEO, Becton, Dickinson and Company

Talent management – attracting, retaining, developing and promoting outstanding talent – is one of the critical capabilities that will distinguish a successful organisation now and in the future. Wherever the culture of a company is more supportive of a pluralistic, liberal, individual, freedoms-oriented society, the company is going to have natural advantages over those that might discourage that kind of egalitarian approach.

Women have been and continue to be an underutilised resource and skill source in our environment. In more traditional environments, women have had the societal burden of managing both their families and their careers. Within the broad spectrum of diversity, the needs of women to progress in the executive and leadership ranks represents a particular challenge. Companies need to rise to that challenge, to provide flexible work systems, mentoring and other types of support so that we not only can attract, but also retain, promote and celebrate talented women.

Zhang Chunjiang
Chairman, China Netcom Group Corporation (Hong Kong) Limited

China Netcom is focused on gaining shareholder confidence, given our transformation from a traditional state-owned enterprise into a publicly listed company.

For example, we have set up the China Netcom rule, which states that if a piece of information is found to be untrue, or an operational activity is found to be out of compliance (such as running a non-communications enterprise outside the core business or setting up a small treasury or maintaining a 'second' set of accounting books outside the normal financial system), we will take harsh action.

Frankly speaking, turning into an entrepreneur from a government official is a painful process. When I was the Vice Minister of the Information Industry Department, I was the referee of this industry. As the head of China Netcom, I am an athlete. When this company was totally state-owned, we taught our staff to be loyal to the country, which is a lofty value. Now we require our staff to be loyal to our shareholders. Our slogan is to build a highly efficient, corruption-free and service-oriented headquarters.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

John Ellice-Flint
Managing Director and CEO, Santos Ltd

Climate change is a priority area in which we need leadership – from business and government. As an energy company, this is an area in which Santos has a great interest. Our industry is full of people who have a passion for the environment, who understand the ecology and who are vitally interested in doing the right thing.

We all need to understand the global warming debate and take a more active interest in where it is heading. At the moment, on one side of the debate we have the sensationalists who claim climate change is catastrophic, and on the other side, we have those who are still in denial. The reality is that the weight of scientific evidence is undeniable – it indicates that carbon dioxide concentrations in the atmosphere are increasing. That's a fact.

So the 'new style of leadership' will be characterised by an ability to grasp the facts, understand the science and make a meaningful contribution to the debate.

Look at the style of leadership that was required to get through times such as the Depression or the two World Wars. The basics of great leadership will hold true. Being able to adapt to different situations is the foremost attribute of great leadership. Recognising when to alter the course you have set – and then knowing what to do next – is what separates average leaders from great leaders.

George Halvorson
Chairman and CEO, Kaiser Permanente

How has globalisation changed leadership? Doing strategic planning, you now have more pieces on the chessboard to play with. You have the possibility of having your programming done in India. You have the opportunity to recruit trained nurses out of the Philippines. You can't limit yourself by thinking local and thinking linearly. As you think about what you need to do for the future of your organisation, the opportunity now is to think internationally and to think in nonlinear ways.

I think a collaborative style of leadership is essential today. Organisations now tend to be fabrics of multiple processes and systems. When you're involved in that type of environment, you need to tie all the pieces together. It's impossible for somebody with a hierarchical management style to know enough about all of the complexities of the business to be very effective as a dictator.

The world has become complex enough that you need to bring all of the various minds and energies and expertise together inside an organisation. One of the advantages of having a diverse staff and diverse leadership team is you're more likely to have people good at anticipating different aspects of that future than if you just have clones in your leadership group. 'Clone thinking' is not adequate for the world we're moving into.

Antoni Brufau
Executive President and CEO, Grupo Repsol

In our new global society, more and more companies compete for the same group of people and companies must therefore identify, recognise and develop the best talent in order to retain it. In the oil industry, the current talent shortage will be aggravated by the existing age pyramids. The shortage is not limited to management posts: companies also need technical leaders, people with excellent capabilities in the company's key functions.

To appreciate the importance of diversity, we must realise that it is not a question of identifying, developing and retaining female or minority talent, but of identifying, developing and retaining all talent. At Repsol YPF we are highly committed to developing diverse talent, which we pursue by fostering improvement in the quality of life (balancing work and life) for all the Group's employees. For example, when our employees are asked about measures to balance work and life, both men and women voice the same opinion and demand greater flexibility.

Globalisation has hastened Repsol's export of good practices in management, people development and social commitment to all areas in which we do business. We've been able to influence companies in which talent management programmes had not been deeply rooted.

Pedro Passos
CEO, Natura

Sustainability matters will profoundly affect business. I cannot tolerate seeing cars in the City of São Paulo transporting only one person. This is going to have to change. Some businesses and products will no longer exist; consumption habits will change radically.

Many organisations, including the government itself, treat sustainability as a restriction and not as an opportunity for transformation. But there is an opportunity to build and rebuild businesses. Why not integrate the chain of people that do not participate in the consumption market? The writer C.K. Pralahad, author of the book *The Fortune at the Bottom of the Pyramid*, treats the matter in the following way: Because the opportunity has been exhausted in the First World, let us address it in the emerging countries. I prefer to think: how can we bring quality of life to these people?

Recently, Natura began to use science and technology more extensively to seek ingredients in the Brazilian biodiversity. Harmonising business growth with social concerns is an important value proposition. We have only been in France for two years, but we have already noticed how much sense it makes over there: people want to hear new business proposals that meet society's demands a little more.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

PwC view

Determining the role of business in society: In pursuit of sustainable development

The CEO sits back to reflect on the briefing material she has just been shown in advance of her next institutional investors meeting. In addition to the very positive financial performance numbers, it is the key stakeholder feedback metrics which give her the greatest confidence that the business is on track. Sales numbers and margins have increased, with data indicating that customers recognise and value the steps taken by the business to reduce the environmental and social impact of both the product and its supply chain. The company continues to be the most successful in its sector in attracting the best graduates, with the business focus on promoting more sustainable development cited by 80% of graduates as a major factor in their decision to join. This is backed up by employee opinion survey results that show that 95% of all employees are very proud to be associated with the company and would recommend it to their friends and family as an employer. These statistics are matched by feedback obtained from other key stakeholder groups – government and regulators, major suppliers and local communities – and wider surveys of opinion formers, including NGO's and media searches. All the evidence points to a company that is trusted, not just by investors, but by those affected by the company's activities. A company which is acting responsibly in pursuing more sustainable development!

The idea that responsible business is good business is not new. Some of the world's leading companies were founded many years ago by leaders who recognised that long term financial success would be more sustainable if the company focused on creating real value for all it's stakeholders. However, the observations from CEOs in this year's survey on the need to reorientate their business around this principle reflect the fact that globalisation, coupled with continuing distrust of the business community in many parts of the world, makes responsible business even more of a priority.

PwC is working in this area with many of the world's leading companies and is also proud to be acting as co-chair of the World Business Council for Sustainable Development (WBCSD), 'Business Role in Society' focus area. Our work and the comments from CEOs, indicate, that many business leaders increasingly see the need for a new business model that firmly positions the company around delivering products and services and operating in ways which recognise both financial and wider societal issues. However, the practical challenges for business leaders to create the platform for change are significant: the business needs to understand the risks and opportunities created by the relevant sustainable development issues and change its strategy to accommodate these. It needs to redefine how success is managed and measured to enable it to define business success in the long term, and underlying all of this, CEOs need to create a set of values and a culture that will promote responsible business. The businesses that are able to deliver these changes will be best equipped for success in tomorrow's business world.

Globalisation, coupled with continuing distrust of the business community in many parts of the world, makes responsible business even more of a priority

Was:
Company profit
Is:
Stakeholder profit
Will be:
Societal profit?*

As stakeholders demand more than financial return, what kind of legacy will your business leave behind?

*connectedthinking

Section 5
Final thoughts on the changing face of globalisation

Final thoughts on the changing face of globalisation

We began this report by observing that globalisation is in transition. While this study confirmed many of our beliefs about the changing nature of the global business environment, it has also revealed trends that challenge some of our previously held assumptions and that provide us with new insights into the reality of the priorities of global CEOs today.

We discovered, for example, fundamental changes in the nature of value creation, in the competitive landscape, in technology and innovation, and in traditional business models. Our data reveals a significant opening up of the global marketplace driven by emerging economies – not only the so-called BRICs (Brazil, Russia, India and China), but other countries and regions as well. The data also suggests the growing importance among CEOs of working collaboratively across the value chain as they confront change to meet new challenges.

In short, what this study tells us is that globalisation is on the march, and that today's business leaders are confident in, and actively seeking, the benefits it can provide. They are also aware that the path to globalisation offers a new set of challenges and opportunities, different from those encountered in the past. For example:

- Ample evidence suggests that for companies in developed economies, value creation increasingly is based on intangibles such as knowledge, ideas and innovation. PwC's experience suggests that the value of these intangible assets is enhanced by collaborative relationships between and among employees, customers, partners and networks.

- Collaborative creation (collaboration both inside and outside the company) is emerging and is manifesting itself most obviously in the development of open-source computer software. However, it is also spreading to other areas of intellectual property (IP) development.

- FDI in emerging markets has increased significantly. However, its character has changed. As recently as 20 years ago, FDI was the primary means of establishing connections in these markets. Today, emerging markets are no longer dependent on FDI. The combination of burgeoning consumer markets, production of high-value services and high returns on capital may very well ensure that as economic players, the influence of the BRICs and other emerging markets will increase over the next several years.

- Even though many global companies participating in the survey have retained distinctive national characteristics, they and their growing numbers of stakeholders recognise an urgent need to forge stronger ties to the local communities in which they operate and to play a meaningful role in addressing social issues such as global warming, healthcare and education.

- Many CEOs recognise the growing importance of maintaining consistent global ethical standards, a recognition that perhaps reflects the expectations

of many stakeholders that companies need to strike an appropriate balance between doing the profitable thing and doing the right thing.

- As a consequence of complex technology, multiple regulatory regimes and a trend towards geopolitical tensions, risk is becoming more complex. This requires that executives be extremely attuned to establishing control and risk management mechanisms and that they possess the foresight needed to anticipate many different risk scenarios.

How then should business leaders respond to new challenges and opportunities? While there is no definite answer to that question, the CEOs we interviewed in-depth for this report collectively suggest that global executives will be those who:

- **Possess vision** – Exploiting the potential of ever-expanding markets and harnessing the power of technology and innovation requires vision. Global executives must possess the vision required to redefine their business models. They must also be able to inspire, motivate and empower their people to fulfill that vision.

- **Demonstrate agility** – The successful global executive will be agile enough to react to rapidly changing business conditions and to collaborate in support of new business models.

- **Become global citizens** – In the global marketplace, parochial or territorial thinking will not suffice. Global business leaders must embrace diversity, understand and be able to reconcile cultural differences, and contribute in meaningful ways to the communities in which they do business.

- **Show courage** – Important at any time, courage is even more necessary in an environment defined by uncertainty and increased risk. The courageous business leader boldly embraces new opportunities, responds to new risks and takes on new responsibilities. Such a leader is prepared to make tough decisions to ensure that the needs of sometimes competing stakeholders are fairly and equitably met.

Where will such qualities ultimately take today's and tomorrow's global leaders? What companies will be the global winners? Only time and additional research will tell. For now, this much is evident: the roadmap to true globalisation is becoming clearer. We hope the results of our study and our analysis of those results will assist organisations as they strive to attain their global aspirations.

In-depth CEO interviews

Edward J. Ludwig
Chairman of the Board, President and CEO, Becton, Dickinson and Company

The pace of globalisation will continue to increase over the next five to 10 years. In the medical technology industry, BD views global markets as sources for our products, as places where we can supply and manufacture products, and as a great and rich resource of minds to help us invent new products.

I think an organisation's social skills in learning, adapting, assimilating, sensing, and anticipating issues and unmet needs in global markets is going to be emphasised more in the future, and at a faster pace. Then, we'll need to convert those skills and knowledge into products and services that are constantly changing.

The organisation that works best in the global environment has a network of engaged associates integrated and working towards a common purpose. Everyone should understand what the goal is, where we're going, bound by our values and our purpose. This is not new, but the emphasis, the urgency to deploy this kind of agile learning organisation is intensifying. The world is rapidly increasing its ability to throw the unexpected at you.

F. Bülend Özaydinli
CEO, Koç Holding A.Ş.

Globalisation, in the long term, will result in a more balanced distribution of wealth and 'quality of life' among regions and countries, but in the short to medium term, it is disturbing existing balances. People who previously lived in their own closed societies face the harsh reality of a global economic system. My hope is that this transition does not have a devastating effect on too many people.

Individuals, not just corporations, face international competition. A software engineer, for example used to face competition among her peers to get a job, and later among her co-workers for a raise or promotion. The same engineer now faces competition from engineers in India or China. And it is more difficult for her to respond than it is for a company.

Another issue we all have to be worried about, of course, is the ever-increasing strain on our planet's resources and ecology.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Paul Anthony
Managing Director and CEO, AGL Energy Limited

I can understand how executives struggle to think globally. It's very hard to put on a different set of lenses, and say, Well, I've always lived and worked in one country, but all of a sudden I'm a global international citizen.

I think you do need to be bloodied in the early stages of your career by having an international background in business. I've worked in numerous countries – Hong Kong, Singapore, Malaysia, New Zealand, Australia, Brazil, Bolivia, Argentina, Uruguay and Denmark, not least the UK. That has given me a certain outlook on life that to get the best out of business, people and systems, you need to empathise with the culture in which you are participating. It does give you a certain confidence to act as a global businessman. I don't think it's easy to stand in those shoes and take on those responsibilities unless you've at least had some experience of working and developing businesses in a different culture.

Fred Kindle
President and CEO, ABB Group

Globalisation in essence is good. It makes markets more efficient and therefore, it provides more value to everybody who is involved. But there are side effects, whether they are social or environmental.

Some regions of this world will become more protective about their old stake. They want to keep what they have. So we might see more protectionism, prompted by social concerns as jobs transfer to new places. We have to be ready to face up to this challenge.

In general, business leaders have to help in a political way. That could mean closer alliances with governments or non-governmental organisations. Clearly we all have to create shareholder value in business. But at the end of the day, we need to face up to other stakeholders as well. In a globalised world, these stakeholders are not just the stakeholders around my corporate headquarters, they are really around the world. I have to take them seriously, all of them.

Antoni Brufau
Executive President and CEO, Grupo Repsol

A multinational company such as Repsol YPF must define global ethical standards that may be applied in any country and must do so without compromise.

We should not do anything in one country that we do not consider to be ethical in another; it is not a question of adapting our ethical code to the country in which we operate.

Our leaders travel around the world, and wherever they go, we must expect the best from them: excellence in business, leadership and people management, together with irreproachable conduct. We acknowledge that certain behaviour must be adapted to local customs or practices, but it should not affect our ethical code, which must be applied worldwide.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Was:
Find them
Is:
Keep them
Will be:
Win them?*

As the right skills and experience become rarer, how will your organisation attract and retain top talent?

*connectedthinking

Section 6
Appendix

In this appendix, we present a complete set of exhibits used in our study. While some of these exhibits appear in the body of the report, many do not. Taken together, they provide additional information and offer a visual complement to our narrative. We also discuss our survey methodology and briefly highlight the CEOs who participated in the in-depth interviews featured in this report and available in their entirety at www.pwc.com/ceosurvey

I.1

Mexico, Korea and Indonesia top list of countries, beyond the BRICs (Brazil, Russia, India, China), that present growth opportunities

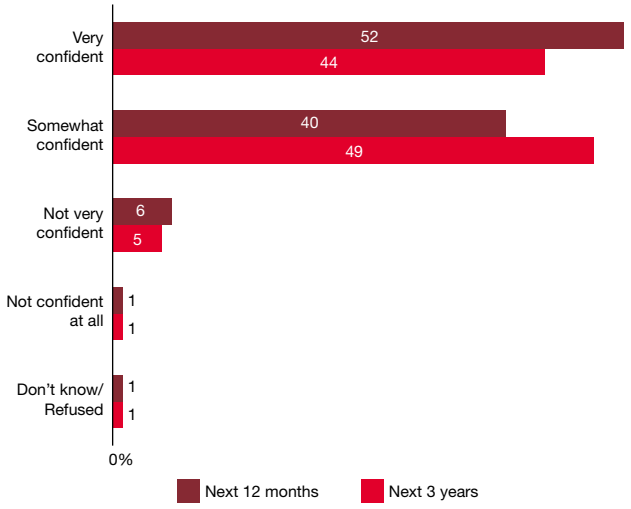
	Outsourcer region				
Location of opportunity	**CEE**	**Latin America**	**Asia Pacific**	**Western Europe**	**North America**
Asia Pacific countries	7	7	36	13	20
CEE countries	59	5	6	34	22
Latin American countries	–	51	4	6	11
Middle East countries	10	7	8	10	15
Mexico	2	13	6	6	15
Korea	1	2	11	6	4
Indonesia	5	3	16	3	4
Turkey	6	3	3	8	3
South Africa	–	4	5	5	1
Other	1	1	–	1	2
North America	2	1	1	2	2
Western Europe	5	5	3	5	2
Base	83	139	278	428	131

Q: In which other developing/emerging countries or areas, beyond the BRICs, do you expect to find significant growth opportunities?

Source: PricewaterhouseCoopers Global CEO Survey 2006

1.1

CEO confidence about future revenue growth prospects is very high

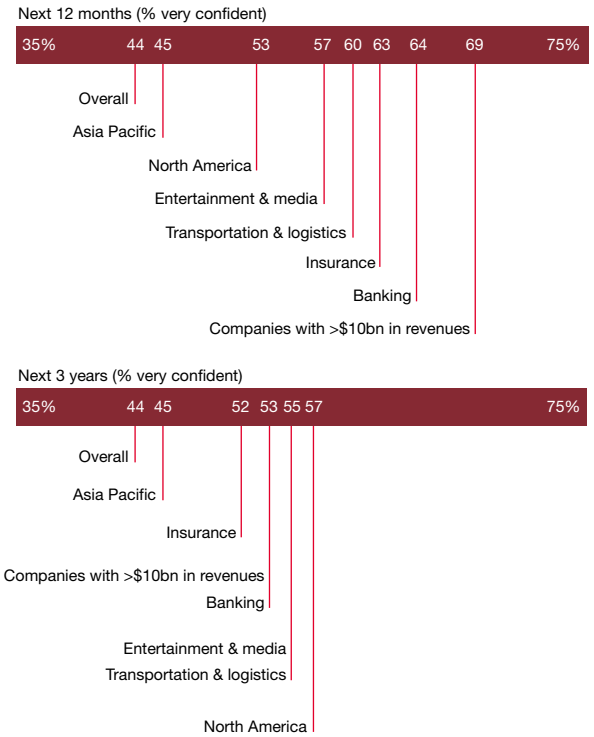


Q: How would you assess your level of confidence in prospects for the revenue growth of your company? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

1.2

Some CEO groups are remarkably more confident than the overall group, although their optimism becomes tempered in the next three years

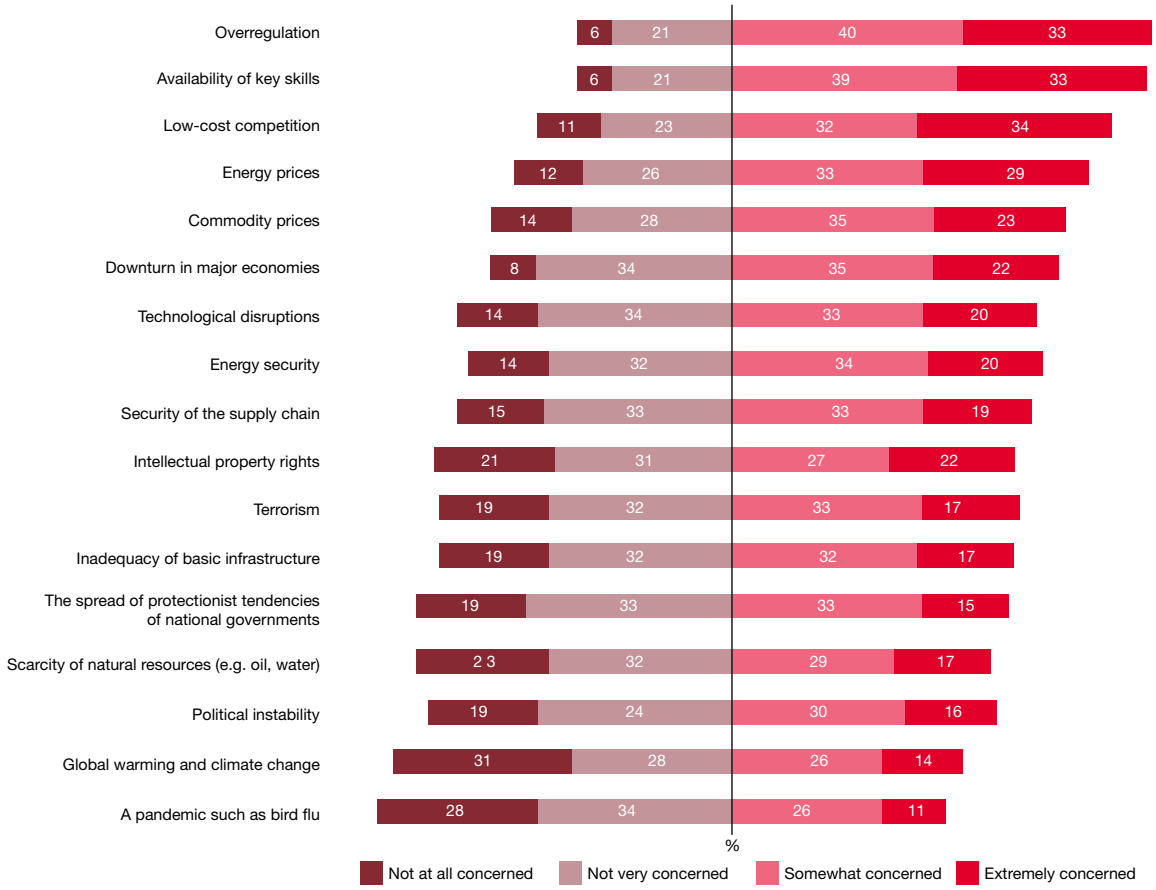


Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 3 years? (Base: Total 1,084; Asia Pacific 278; Insurance 46; Banking 95; >$10bn 72; Entertainment & media 42; Transportation & logisitics 42; North America 131)

Source: PricewaterhouseCoopers Global CEO Survey

1.3

Serious concerns about business and macro threats indicate CEO optimism is not unbridled

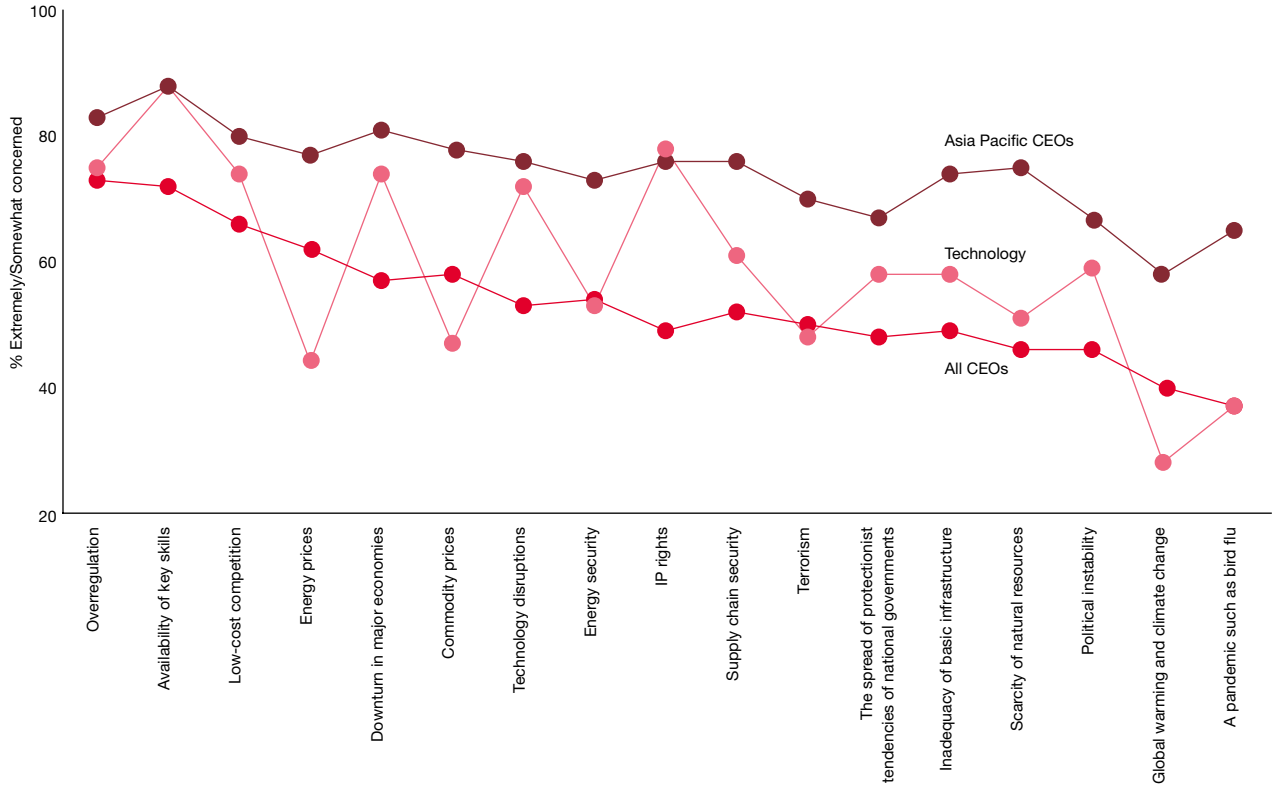


Q: How concerned is your company about each of the following potential business threats? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

1.3A

Asia-Pacific CEOs are more acutely concerned about each macro and business threat, while technology company CEOs indicate a slightly different concern profile

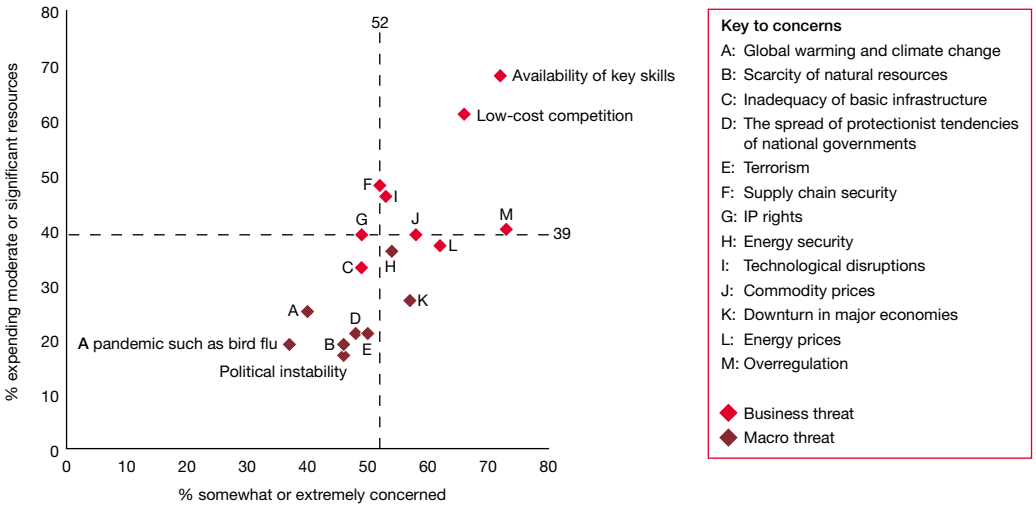


Q: How concerned is your company about each of the following potential business threats? (Base: Total 1,084; Asia Pacific 278; Technology companies 85)

Source: PricewaterhouseCoopers Global CEO Survey 2006

1.3B

Of all the threats, availability of key skills and low-cost competition are the two that companies are addressing with resources

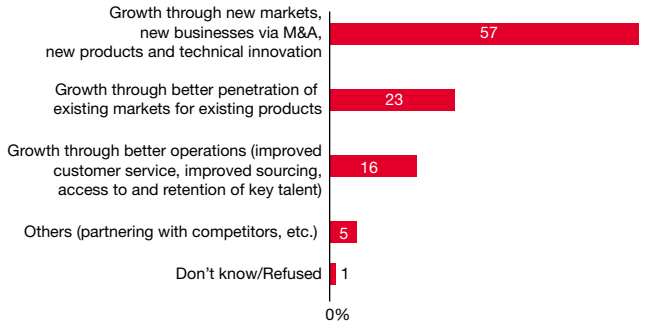


Q: How concerned is your company about each of the following potential business threats?
How much effort has your company expended preparing for each of the following potential business threats? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

1.4

Forays into new activities – new markets, new products, innovation and new businesses through mergers and acquisitions – represent the pursuit of growth for many CEOs

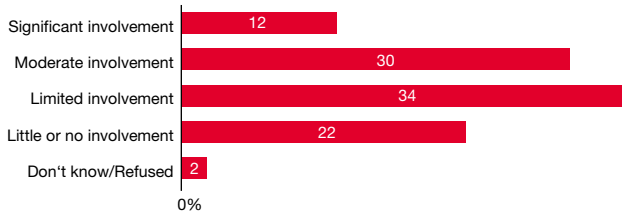


Q: Which one of the following do you see as the major opportunity to grow your business in the next 12 months? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey

1.5

Less than half of CEOs are involved in public-private collaboration to address risks

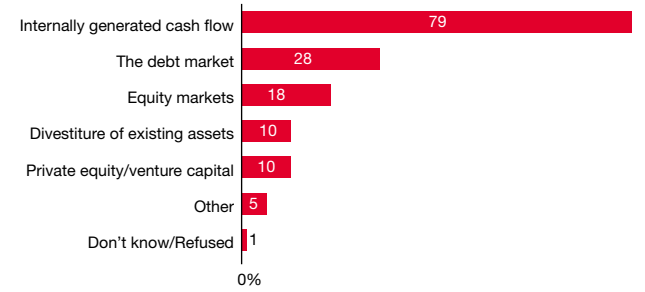


Q: When responding to these external threats how involved is your company in public-private collaborations and other related initiatives? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

1.6

Improved corporate profitability makes internally generated cash flow the popular source of financing for growth plans

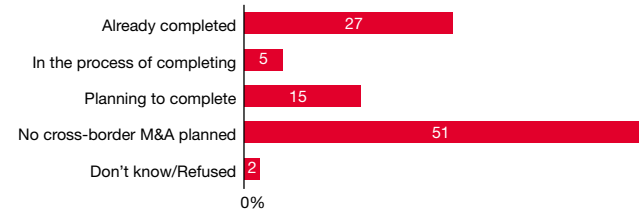


Q: How do you expect to finance this growth? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.1

47% of all CEOs interviewed are actively engaged to some degree in M&A activity

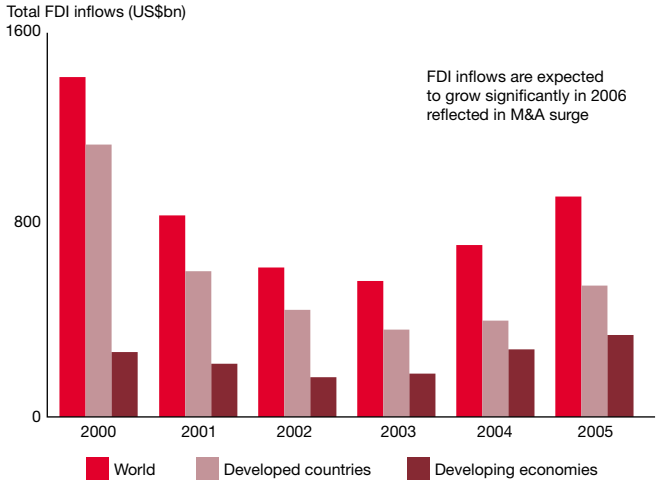


Q: Have you completed a cross-border merger or acquisition in the past 12 months or are you planning to do so in the next twelve months? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.2

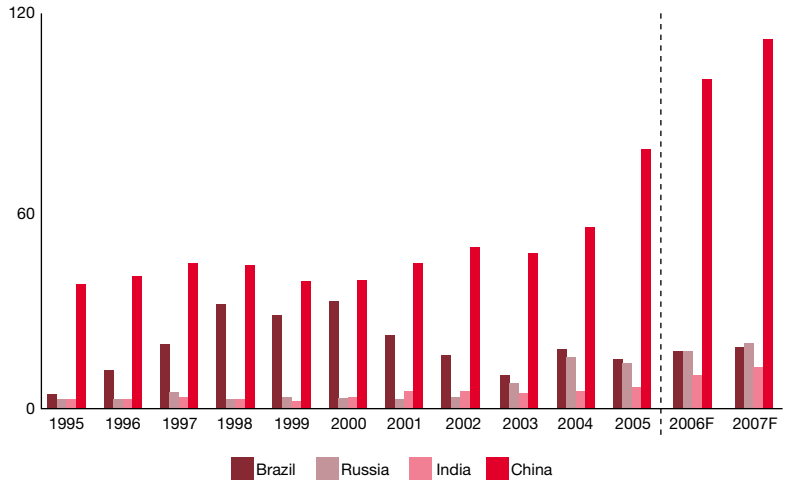
Emerging economies are steadily increasing their share of global FDI



Source: UNCTAD World Investment Report 2006

2.3

FDI inflows into BRICs (US$bn)



Source: IMF, UNCTAD, PricewaterhouseCoopers

2.4

CEOs show an appetite to venture into new markets amid continued preference for M&As within the same region or with companies in traditional trading-partner countries

Acquirer location	Within region or traditional trading partner	Outside region or new trade partner	Base
North America	87%	13%	55
Western Europe	73%	27%	231
Asia Pacific	33%	67%	123
Latin America	46%	54%	54
Central Eastern Europe	58%	42%	30

Q: Where did you make this merger or acquisition or where are you planning to make it?

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.5

CEOs show appetite to venture into new markets amid continued preference for M&As within the same region or with companies in traditional trading-partner countries

		Acquiror location				
Target location	All	North America	Western Europe	Asia Pacific	Latin America	Central Eastern Europe
Western Europe	43%	44%	56%	33%	19%	30%
North America	25%	35%	24%	32%	20%	3%
Asia Pacific	31%	42%	26%	51%	11%	10%
Eastern European	23%	9%	30%	12%	9%	60%
Latin America	13%	13%	11%	5%	54%	0%
Africa	5%	2%	5%	4%	2%	0%
Australasia	4%	6%	4%	8%	0%	0%
Middle East	5%	4%	5%	8%	2%	0%
Base	502	55	231	123	54	30

Intraregional trading partner

Q: Where did you make this merger or acquisition or where are you planning to make it?

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.6

Reflecting various levels of experience with cross-border M&As, CEOs from different regions and large-company CEOs report different degrees of concerns

Percentage that are extremely and somewhat concerned	All	Emerging economies	North America	Asia Pacific	Companies with more than $10 billion in revenues
Cultural issues/conflicts	45%	41%	58%	51%	48%
Conflicting regulatory requirements	36%	40%	47%	45%	59%
Unexpected costs	29%	26%	42%	27%	18%
Inadequate leadership	24%	23%	36%	28%	23%
Conflicting workforce expectations	21%	20%	33%	29%	27%
Political interference/opposition	17%	20%	13%	16%	27%
Stakeholder opposition	14%	11%	16%	15%	8%
Others	8%	7%	13%	7%	5%
Popular backlash against foreign presence in local markets	10%	12%	7%	9%	11%
Base	502	178	55	123	44

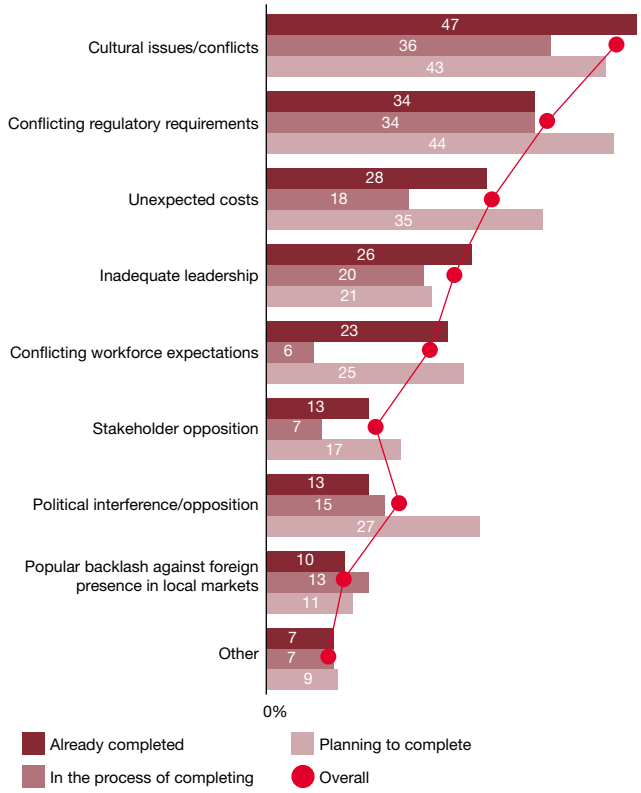
Top mention

Q: What obstacles did you encounter or do you anticipate encountering?

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.7

Cultural issues top the list of obstacles encountered or anticipated by CEOs, although obstacles differ in importance depending on companies' levels of M&A experience

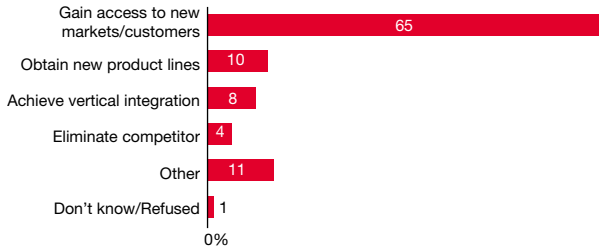


Q: What obstacles did you encounter or do you anticipate encountering? (Base: Total 502; Already completed 288; In the process 55; Planning 159)

Source: PricewaterhouseCoopers Global CEO Survey 2006

2.8

Access to new markets is the number one motivation for cross-border M&As

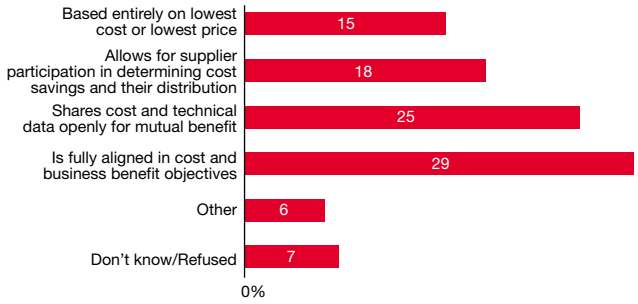


Q: What was/is the main purpose of this cross-border merger or acquisition? (Base 502)

Source: PricewaterhouseCoopers Global CEO Survey 2006

3.1

Companies are increasingly in strategic and collaborative relationships with their suppliers, a departure from arrangements based solely on lowest cost



Q: How would you describe your relationship with your current suppliers? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

3.2

CEOs from emerging economies, Latin America, large companies and the retail sector report higher propensity to source a larger part of their businesses

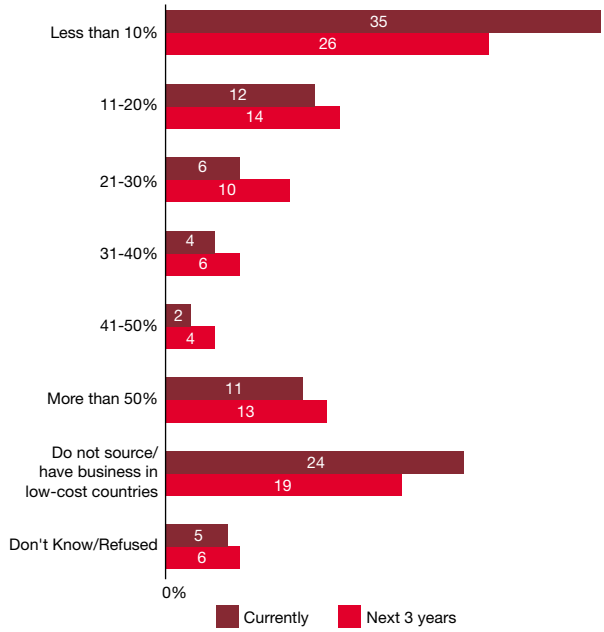
	Global CEOs	Developed Economies	Emerging Economies	Latin America	Large Companies >$10bn	Retail
Less than 10%	35%	42%	25%	19%	40%	48%
11-20%	12%	14%	9%	11%	19%	10%
21-30%	6%	6%	6%	7%	8%	3%
31-40%	4%	4%	4%	4%	4%	8%
41-50%	2%	2%	3%	4%	1%	5%
More than 50%	11%	4%	22%	30%	8%	15%
Do not source/have business in low-cost countries	24%	24%	23%	17%	13%	8%
Between 11-50%	26%	26%	22%	26%	32%	26%
Base	1,084	653	431	139	72	40

Q: What percentage of your business is currently sourced from, or located in, low-cost countries?

Source: PricewaterhouseCoopers Global CEO Survey 2006

3.3

While 35% of CEOs report sourcing more than 10% from low-cost countries, that figure will increase to 47% in the next three years

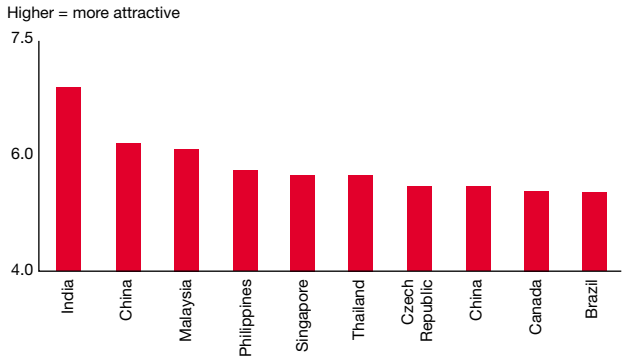


Q: What percentage of your business is sourced from, or located in, low-cost countries (e.g. Brazil, Malaysia, China and Ukraine)? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

3.4

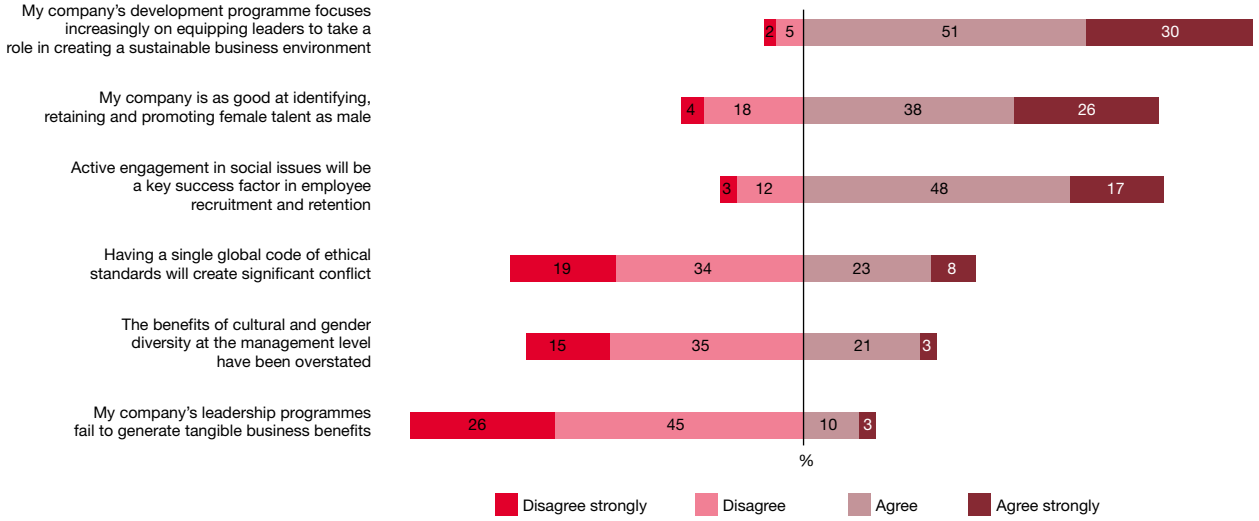
Top 10 outsourcing destinations



Source: AT Kearney

4.1

Leadership in a more globalised world entails CEO attention on social issues, diversity, sustainability and ethical standards



Q: Now I am going to read out a number of statements and I'd like you to tell me how strongly you agree or disagree with each statement. (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

4.2

Legacy to the business at hand – long-term financial success, market domination, defense of current position – is the focus of a third of the CEOs, followed by legacy to employees and legacy in social and ethical terms

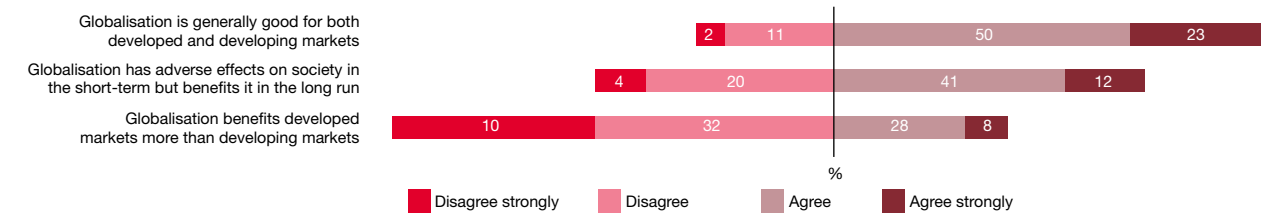
Employee issues (develop talent and skills in the business, develop staff education, create a great working environment)	21
Social and ethical goals	14
Long-term financial success	12
Market/industry domination	12
Maintaining/defending current position	10
Succession/leadership development	7
Innovation	5
Achieved operational/business objectives	4
Environmental goals	3
International expansion/globalisation	3
Good quality/price of services or products	2
Turnaround	1
Mergers & Acquisitions	1
To be known for having done a great job	1
Company growth/restructuring	1
Other	3

Q: As a leader, if you could achieve one lasting result that would stand as your legacy, what would it be? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

5.1

CEOs are generally strong advocates of globalisation, even as they recognise its adverse effects in the short term

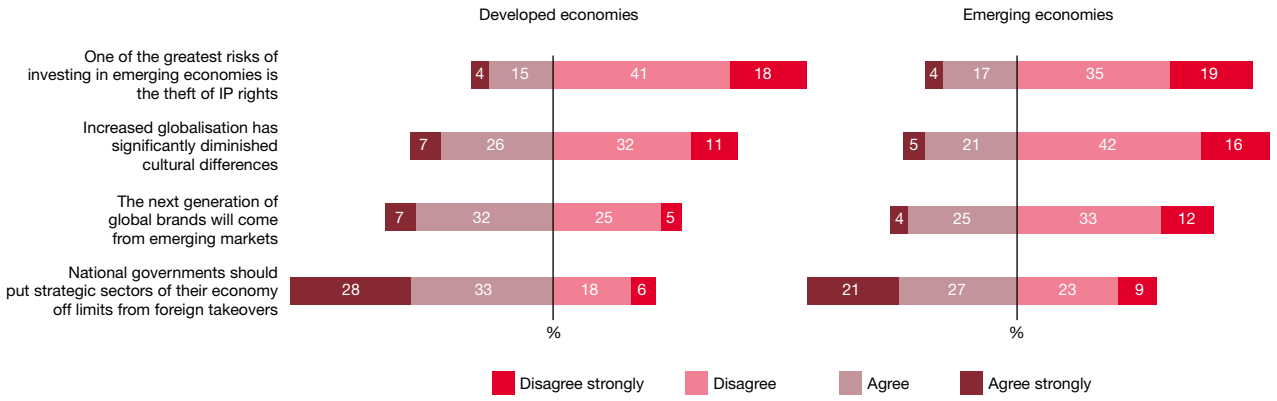


Q: There continues to be significant debate about the impact of economic globalisation on social well-being. How strongly do you agree or disagree with the following statements? (Base 1,084)

Source: PricewaterhouseCoopers Global CEO Survey 2006

5.2

CEOs from both developed and emerging economies are concerned about the theft of intellectual property rights



Q: How strongly do you agree or disagree with each of the following statements? (Base: Developed economies 653; Emerging economies 431)

Source: PricewaterhouseCoopers Global CEO Survey 2006

5.3

Subtle, but meaningful differences divide CEOs from various regions on IP rights, the protection of a country's strategic sectors, the rise of global brands from emerging economies, and overall benefits of globalisation

	Central & Eastern European CEOs are more skeptical of globalisation, while North American and Asian CEOs are more concerned about IP rights				CEOs in emerging economies have a slightly different view on globalisation's effects	
Percentage that agree and strongly agree	**All Regions**	**Central & Eastern Europe**	**North America**	**Asia Pacific**	**Developed Economies**	**Emerging Economies**
Globalisation is generally good for both developed and developing markets	63%	58%	87%	71%	75%	71%
Globalisation has adverse effects on society in the short term but benefits it in the long run	54%	55%	51%	58%	49%	61%
Globalisation benefits developed countries more than developing markets	36%	41%	26%	43%	32%	42%
The theft of IP rights is one of the greatest risks of investing in emerging economies	57%	47%	69%	65%	59%	55%
Increased globalisation has significantly diminished cultural differences	49%	51%	52%	48%	43%	58%
National governments should put strategic sectors off limits from foreign takeovers	27%	36%	24%	44%	24%	32%
The next generation of global brands will come from emerging markets	36%	40%	31%	41%	30%	45%
Base	1,084	83	131	278	653	431

Q: How strongly do you agree or disagree with each of the following statements?

Source: PricewaterhouseCoopers Global CEO Survey 2006

Research methodology

The methodology for PricewaterhouseCoopers' 10th Annual Global CEO Survey has been designed to ensure a fair representation of developed and emerging economies. Based on 2004 data for GDP at market exchange rates, we scaled our numbers of interviews in the top 30 countries worldwide. The remaining countries covered had a target number of 10 interviews to ensure representation in the overall results.

The survey criteria required interviews to include representation from the top 100 and top 1,000 companies. The threshold for larger GDP nation companies' inclusion was organisations with more than 100 employees or revenues of more than $10 million.

The majority of interviews were conducted by telephone, with some regional exceptions. In Japan, for example, a postal survey was determined to be the most suitable approach. In China, including Hong Kong, and also in Kenya, most interviews took place face-to-face. All interviews were confidential and not attributable to individual CEOs. (In some cases, as detailed below, CEOs agreed to take part in additional in-depth interviews in which their comments are attributed.)

A total of 1,084 interviews were conducted in 50 countries between mid-September and mid-December 2006. The regional breakdown included: 428 in western Europe, 278 in Asia Pacific, 139 in Latin America (including Mexico), 131 in North America (30 in Canada), 83 in eastern Europe and 25 in the Middle East and Africa. The interviews were spread across a significant range of industries, and survey results are available for selected regions, countries and industries.

More than one-third of companies surveyed had revenues in excess of $1 billion, 44% had revenues of $100 million to $1 billion, and the remaining 20% had revenues less than $100 million. Sixty percent of participant companies were listed on at least one stock exchange while the remaining 40% were recorded as privately owned.

Twelve in-depth, attributed face-to-face interviews were conducted across a number of countries to elaborate on and provide further perspectives regarding the survey results. These ranged across the key survey topics, including the impact of cross-border M&A, alliances, joint ventures, risks and opportunities, value chain strategies in a 'flatter world' and the skills needed to support globalising models.

Extracts from these interviews appear throughout this report while the full Q&As and selected video extracts are available online at www.pwc.com/ceosurvey.

PricewaterhouseCoopers' global network of business professionals have provided specialist analysis of the survey results.

For further information on survey content, please contact Sophie von der Brelie – Lambin on +44 20 7213 3160.

For media inquiries, please contact Mike Davies on +44 20 7804 2378.

NOTE: Not all figures add up to 100% due to rounding of percentages and to the exclusion of 'neither/nor' and 'don't know' responses.

In-depth CEO interviews – company profiles

Mr. Fred Kindle,
ABB Group (Switzerland)
ABB (www.abb.com) is a leader in power and automation technologies that enable utility and industry customers to improve their performance while lowering environmental impact. The ABB Group of companies operates in approximately 100 countries and employs about 107,000 people.

Mr. Paul Anthony,
AGL Energy Limited (Australia)
AGL Energy is Australia's leading integrated energy company. With a 170-year history, the company has Australia's largest retail energy and dual fuel customer base, supplying approximately 3.7 million customer accounts.

Mr. Edward J. Ludwig,
Becton, Dickinson and Company (USA)
Becton, Dickinson and Company, a leading global medical technology company that manufactures and sells medical devices, instrument systems and reagents, is dedicated to improving people's health throughout the world by improving drug therapy, enhancing the quality and speed of diagnosing infectious diseases, and advancing research and discovery of new drugs and vaccines.

Mr. Zhang Chunjiang,
China Netcom Group Corporation (Hong Kong) Limited (China)
China Netcom Group Corporation (Hong Kong) Limited is China's leading fixed line telecommunications operator and a leading international data communication operator in the Asia Pacific region; it aspires to become one of the best telecommunications operators, a leading broadband and regional corporate data services provider and a premier communications company in China and the Asia-Pacific region.

Mr. Jairo Senise,
Gruma (Mexico)
GRUMA S.A. de C.V. (GRUMA) is one of the largest cornflour and tortilla producers in the world, focusing on the production, commercialisation, distribution and sale of cornflour, packed tortillas and wheat flour. With leading brands in most of its markets, GRUMA operates mainly in the US, Europe, Mexico, Central America, Venezuela, Asia and Oceania and exports to 50 countries around the world.

Mr. Antoni Brufau,
Grupo Repsol (Spain)
Repsol YPF is an integrated international oil and gas company, operating in more than 30 countries and is the leader in Spain and Argentina. It is one of the 10 major private oil companies in the world and the largest private energy company in Latin America in terms of assets.

Mr. George Halvorson,
Kaiser Permanente (USA)
Kaiser Permanente is an integrated managed care organisation based in Oakland, California. Founded in 1945 by industrialist Henry J. Kaiser and physician Sidney R. Garfield, Kaiser Permanente is a consortium of three distinct groups of entities: the Kaiser Foundation Health Plan, Inc. and its regional operating organisations, Kaiser Foundation Hospitals and the Permanente Medical Groups.

Mr. F. Bülend Özaydinli,
Koç Holding A.Ş. (Turkey)
Koç Group, a multinational conglomerate, established in 1926 by Vehbi Koç, is a leader in Turkey's automotive, household appliances and consumer electronics, food, retailing, energy, financial services, hospitality and information technology industries.

Mr. Yang Yuanqing,
Lenovo Group Limited (China)
Lenovo Group is now a leader in the global PC market, with approximately US$13 billion in annual revenues. The company's principal operations are in Beijing, China and Raleigh, North Carolina, USA. It also has an enterprise sales organisation around the world. It employs more than 19,000 people worldwide.

Mr. Pedro Passos,
Natura (Brazil)
Natura is one of the leading companies in the Brazilian cosmetic, fragrance and toiletry industry.

Mr. Malvinder M. Singh,
Ranbaxy Laboratories Limited (India)
Ranbaxy Laboratories Limited, headquartered in India, is an integrated, research-based, international pharmaceutical company producing a wide range of quality, affordable generic medicines, trusted by healthcare professionals and patients across geographies. Ranbaxy's continued focus on R&D has resulted in several approvals in developed markets and significant progress in New Drug Discovery Research. The Company serves its customers in over 125 countries and has an expanding international portfolio of affiliates, joint ventures and alliances, ground operations in 49 countries and manufacturing operations in 9 countries.

Mr. John Ellice-Flint,
Santos Limited (Australia)
Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in the US, Indonesia, Papua New Guinea, Vietnam, Kyrgyzstan and Egypt. The company is one of Australia's largest gas producers, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.

In-depth interviews available in full at www.pwc.com/ceosurvey

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