Rethink
Volatility

Reshape
Strategy

Result
Smarter growth

13th Annual Global CEO Survey
Setting a smarter course for growth
Main report

PricewaterhouseCoopers

Foreword

In the 13th Annual Global CEO Survey we hear how businesses leaders responded to the challenges brought about by the recession, the concerns they are facing today and, reflecting on often difficult 'lessons learned', their strategies for positioning their companies for the long-term.

The effects of the downturn were far-reaching. Many business leaders contend they should have anticipated the impact and prepared sooner – allowing them more time to consider various strategic options. As we see in the survey, CEOs continue to work to strengthen their organisations while seeking opportunities emerging from structural shifts in their industries, economies and regulatory environments. They recognise that the decisions they make today, dealing with issues like cash management and cost pressures, will have a lasting impact on their companies' competitive position. The ability to understand and respond to the structural shifts underway, and to improve risk management capabilities, will be fundamental considerations as CEOs plan their course for growth.

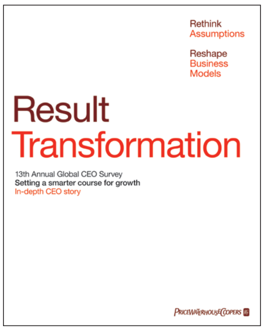
I want to thank the 1,198 company leaders and government officials from over 50 countries who shared their thinking on these difficult issues. The demands on their time are many and we are certainly grateful for their involvement. I am particularly appreciative of the 27 CEOs and 5 senior government representatives who sat down with us for more extensive conversations and provided additional context to our findings.

The tremendous success of the PwC Global CEO Survey – now in its 13th year – is directly attributable to the enthusiastic participation of leaders around the world. We at PricewaterhouseCoopers are very proud of that ongoing commitment.

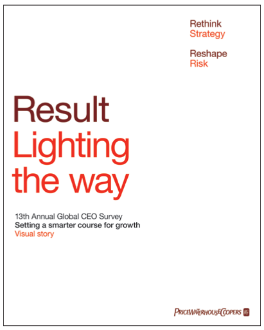
Dennis M. Nally
Chairman
PricewaterhouseCoopers International Limited
January 2010

Contents

Supplements



In-depth CEO story



Visual story

Introduction: Heading towards a growth agenda

The past 18 months could serve as the defining period for many CEOs. The recession in developed nations was the worst many had ever experienced, marked not only by the loss of liquidity and the contraction in demand but equally, by the speed with which conditions changed. The resulting rupture to business planning and operations came through clearly in our survey of 1,198 business leaders from around the world for the PricewaterhouseCoopers 13th Annual Global CEO Survey.

With uncertainty on future revenue, business leaders had no option but to act on what they could control. Close to 90% of companies cut costs over the past 12 months. Cash preservation was paramount as assets were divested and jobs cut. The effects of these measures are now being felt in high unemployment in developed nations and in volatile currency and capital market conditions in developed and emerging economies alike.

Most CEOs recognise the situation could have been worse. While business thinking is slowly getting back onto an even keel, there are lasting impacts that may colour future actions. Business leaders are emerging with a healthy respect for risk, volatility and flexibility and a different view of the growth imperative.

How did we look at this situation? First we were afraid, scared in many ways, since we were all exposed to a situation we did not fully understand and could not gauge; pessimism went from 0 to 10. It made us think about our businesses, our boards, our teams – this was an emergency situation and we were forced to make some important decisions. As I see it now, I'm neither more optimistic nor more pessimistic than before, my perception has remained the same since the beginning of the year. We have to handle things carefully, delicately… and we have to visualise a recovery soon.

Carlos Fernandez Gonzalez
Chairman and CEO, Grupo Modelo, Mexico

'The big learning point we are all looking for is one that has to do with organisational agility', said Dr. Paul Reynolds, CEO of Telecom Corporation of New Zealand Limited. 'In response to the economic crisis, most businesses took action appropriate to a more difficult trading environment. But the real trick is how to get the balance right between hunkering down through tough times and investing in a way that will prepare you to make the most of opportunities that begin to materialise, post-recession. That's the big lesson – getting the balance right and being sufficiently agile to take advantage of chances for growth and expansion.'

The wreckage of 2009 makes clear the implications of getting the short-term and long-term balance right. We believe measures over the past year to adjust costs, realign capital structures and reinvigorate risk practices throughout organisations as the basis for growth herald a new management agenda.

I have emphasised repeatedly that Air China benefited from the rapid growth and quantum leaps in development of the past five years. Since 2008, I have changed my tune somewhat; prudent operation and sustainable development are the most important factors for the development of an excellent enterprise. This is a shift from our previous view on accelerating the pace of development.

KONG Dong
Chairman, Air China Ltd, China

Key Findings

Organisations are limbering up

A sizeable majority of CEOs are planning to take out more costs. Companies in the US, Europe and the UK led in cost-cutting over the past 12 months, and they remain more focused on cost cuts in the short-term. Now the momentum is shifting to companies based in Asia: **93% of CEOs in China and India and 90% in Korea plan cost efficiencies over the next three years compared with the global average of 78%.**

CEOs are striving to keep debt low and liquidity ample, in part because of uncertainty over the capacity of banks to lend when the time for growth comes. Thus, 83% of CEOs expect internally generated cash flow to finance growth, seven percentage points higher than last year. A majority plan to change capital structures as a result of the crisis. 'We did a lot of work on our balance sheet for the first six months [of 2009]', said Dean A. Scarborough, President and CEO of US office supplies maker Avery Dennison Corporation. 'We're focusing on de-leveraging. We converted some convertible debt to equity earlier this year, and we cut our dividend in July. We're well-positioned to survive even another downturn. I wouldn't say we have a fortress balance sheet, but the walls are higher and thicker than they were a year ago.'

There has been a dramatic cull in headcount over the past 12 months. **However, while 25% of CEOs are planning more job cuts this year, 39% plan to increase headcount**. One area where resources continue to flow is leadership and talent development. Business leaders are aware they will need the right skills in the right places when recovery sets in. 'What you do in this environment is add to your talent base and reposition your talent to be more suited for the challenges that are ahead,' Michael I. Roth, Chairman and CEO of US-based advertiser Interpublic Group, told us. 'Even though we've had a nine to 10 percent reduction in terms of staffing, we've also had increases to invest in those markets and resources that are necessary to be competitive.'

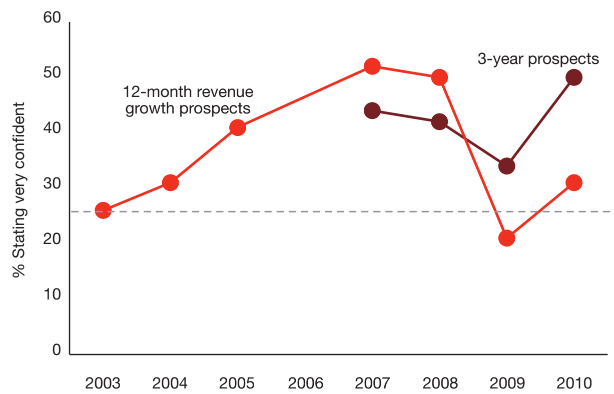
Global growth contagion, starting in emerging markets

This year, 31% of CEOs are 'very confident' in achieving revenue growth over the next 12 months, a significant increase from last year (see figure 0.1). Their outlooks partly reflect unfolding macro-economic conditions yet they are also more confident in their companies' ability to generate revenue than they are in recoveries in either their industries or their economies.

CEOs based in Latin America and Asia are 11 percentage points more likely to be confident about their near-term revenue growth than those in North America and 20 percentage points more confident than their Western European peers. 'Companies in India may not be as strong today as they were two years ago, but they have emerged out of this downturn in a far better position than companies in the developed world. In terms of resources both human and financial, we are better off vis-à-vis our brethren in the developed world', said Sunil Duggal, CEO of consumer goods group Dabur India Limited.

0.1

CEO confidence is on the mend



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?

Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 3 years?
Base: All respondents (2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084, 2005=1,324, 2004=1,386, 2003=989)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: 2006 confidence question was not asked.

There is a strong indication the recession and subsequent recovery may have accelerated trends favouring growth in some emerging markets, particularly as growth returns to emerging markets earlier. 'Production but also the consumption of products is shifting to Asia and South America. It would have taken longer without this event, but now it will happen more quickly', said Mikael Mäkinen, President and CEO of Finnish transport services group Cargotec.

Wary of aftershocks

It is natural after a crisis for a heightened state of wariness to set in, at least temporarily: CEOs are more concerned on a broad range of threats to growth this year. They are actively addressing risk assessment and management as a result.

Responses this year signal that risk is becoming a permanent element of the strategic planning process. **More CEOs intend to change their risk management process than any other element of their strategy, organisation or business model**. And more boards are increasing their engagement with assessing strategic risk than any other item on the boardroom agenda.

Regulation and its discontents

Unprecedented global measures to stabilise the financial system are drawing qualified praise from business leaders. A majority now think businesses and governments can successfully collaborate to mitigate systemic risk.

But government rescue is one thing; regulatory reform is quite another. Thus, while a protracted global recession remains the biggest worry of CEOs, it is closely followed by over-regulation. More CEOs are 'extremely concerned' about over-regulation than any other threat to growth. **Concerns over protectionist tendencies are also up ten percentage points on last year's survey** (see figure 0.2).

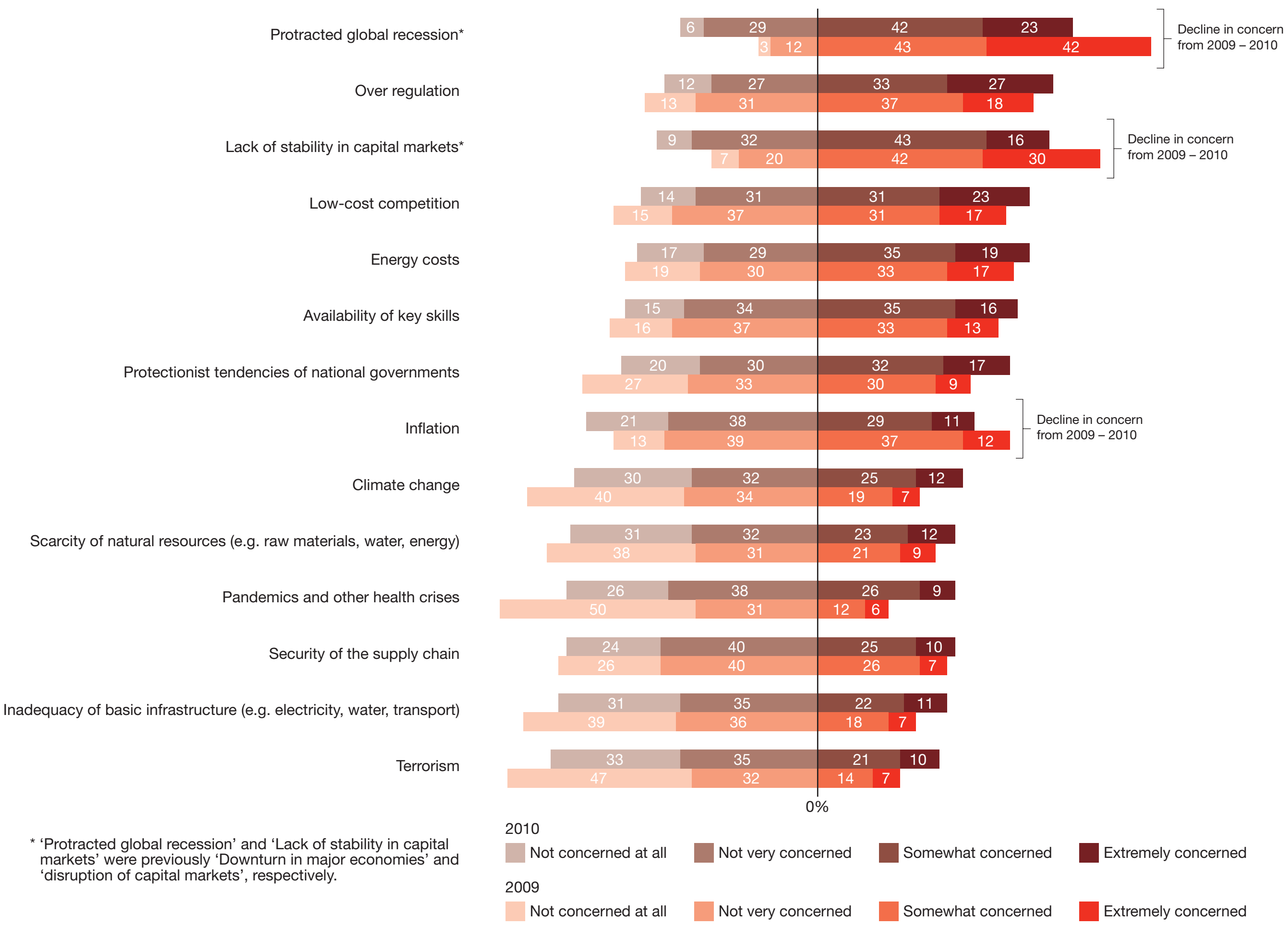
The concerns are present across industries and borders. 'For the first time in history, we've experienced a financial pandemic and need to determine what sorts of firewalls are required,' Alfredo Sáenz, Second Vicechairman and CEO, Banco Santander told us. 'But even minor firewalls will necessarily restrict the way financial institutions deploy their resources globally. The point is that protections against systemic risk will also restrict the globalisation of financial flows.'

Our survey this year looks at how CEOs responded to the crisis and what they are doing to position their companies for recoveries. It also reveals where CEOs best believe regulation can become more effective and what they consider the lasting legacies of the global recession.

> This crisis brought up another insight about business. It drove us away from the fact that when we do business with other individuals or companies, the existence of tension, negotiation and conflict is natural. But when you live in a world in which secured Swiss derivatives are swapped, and a safe return is sought in paper, then there is no tension but there is also no care for the other individual. That is why, if you look at this financial collapse in a certain way, it is also a blessing, in particular because it breaks up the world of reckless revenue-seeking to leave behind only that which is basic and essential. It is obviously so much easier to build up a structure of investment papers and derivatives, and it takes less time. However, in that scheme the human being is not considered. The basic principle behind money is that it has to do with doing something with another to mutual benefit. Dealing with another is always difficult but it is a natural process.
>
> **Eduardo Elsztain**
> **President, IRSA Group, Argentina**

0.2

CEOs’ concerns have broadened beyond the economic crisis



* ‘Protracted global recession’ and ‘Lack of stability in capital markets’ were previously ‘Downturn in major economies’ and ‘disruption of capital markets’, respectively.

Q: How concerned are you about the following potential threats to your business growth prospects?
Base: All respondents (2010=1,198; 2009=1,124)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Rethink

Section 1

Rethink: From crisis to cautious optimism

CEOs are still addressing cost-cutting while they set their companies for take-off in recovery.

Confident in companies, tentative on recoveries

CEOs are emerging from deeper cost-cutting than they expected last year. In last year's survey, conducted as the financial crisis unfolded late in 2008, 26% of CEOs told us they expected headcount reductions over the next 12 months. A year later, close to half of respondents reported they cut jobs and at least 80% of CEOs in each region initiated cost reductions. In North America and Western Europe, close to a quarter of companies divested a business or exited a significant market. It is clear that few considered simply riding out the recession a viable response. 'The crisis took us to a new place. It was a reset for our business', said Angela F. Braly, President and CEO of US health insurer WellPoint Inc.

They are now guardedly confident about generating revenue growth in the near term and they are decidedly more confident over a three-year time horizon. Indeed, over that time period, CEOs are about as confident of their revenue prospects as they have ever been in our survey. Of course, this may partly be a reflection of the depths to which demand had sunk.

Higher confidence on growth holds true regardless of where CEOs are based, although geography is strongly correlated with the relative strength of confidence levels. CEOs based in countries where the crisis had the least impact on GDP and where recoveries were already underway by the third quarter of 2009 are naturally the most confident. Nonetheless, confidence increased markedly among CEOs in North America and in Latin America, two regions where most CEOs (except those in Brazil) are expecting a later recovery.

'We know there's a lot of pent-up demand for our products from the SME [small- and medium-size enterprise] base and, indeed new customers,' said Paul Walker, Chief Executive of UK business software maker The Sage Group plc. 'When confidence returns to the SME community, when the economies pick up, we'll see software growth come back into the sector. So, we remain very confident.'

The consistently higher confidence suggests CEOs believe companies are strategically positioned to capture competitive gains in their markets ahead of a broad-based improvement in demand. This may be a different future than they expected only two years ago, but their growth strategies appear to bear this out: A clear majority of CEOs are focused on their existing markets and fewer believe new geographical markets or new product development offer better potential for business growth.

There's been a lot of talk about the new normal. But I think you have to ask the question 'What was normal before?' I subscribe to the theory that the economic activity we saw in 2007 and 2008 was overly buoyant – and that drove overly buoyant consumption. The pendulum has now swung in the opposite direction. From a debt-pricing and risk-pricing perspective, I don't think we will or should go back to where we were in 2007 and 2008. At the same time, I suspect that to some extent, the pendulum has overcorrected. But I don't think we're going to go back to the conditions that we saw in 2007 and 2008.

Ken MacKenzie
Managing Director and CEO, Amcor, Australia

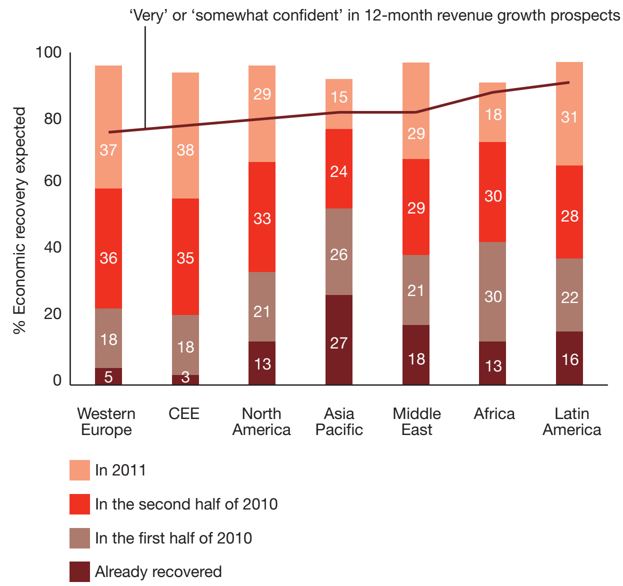
This may further signal a period of heightened competition as companies aim to increase sales at a time of uneven or moderate economic growth. For example, in North America 80% of CEOs are somewhat or very confident of growth over the next 12 months, despite only 67% believing the economy will have recovered by the end of 2010. The same pattern emerges for CEOs in Western Europe, the most pessimistic in our survey (see figure 1.1). The trend is most striking among CEOs in Latin America, the most confident in our survey: 91% have some measure of confidence on revenue growth in the near term, but only 66% anticipate national economic recoveries during that time frame.

We will definitely become a more focused organisation as a result of the crisis. Our service operations have gotten sharper, for example. And the crisis also prompted us to sell off some peripheral parts of our business, and that has made us a leaner organisation. So I do think we're stronger as a result of facing these challenges and preparing ourselves for whatever might happen in the economy. Our people figured out how to achieve higher productivity as a result of some of the challenges they faced and they're not going to go back to their prior behaviour. They're going to take advantage of what they've learned and carry it forward. So the crisis took us to a new place – it was a reset for our business.

Angela F. Braly
President and CEO, WellPoint Inc., US

1.1

CEOs are confident, despite expectations that recovery will not begin until at least the second half of 2010



Q: When do you expect recovery to set in for your nation's economy?

Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?
Base: 28-442

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

For us, the key to wise foreign investment is good risk management practices. Risk management is now the primary task of state-owned enterprises.

SHEN Heting
Executive Director, President, Metallurgical Corporation of China Ltd, China

When it comes to confidence, size matters

The highest levels of confidence emerge from CEOs of the largest firms, which we define as revenues of over $10 billion a year. Over the longer term, nearly all large-company CEOs are somewhat or very confident in revenue prospects. They are more likely to be very confident as a group than all CEOs, by 13 percentage points.

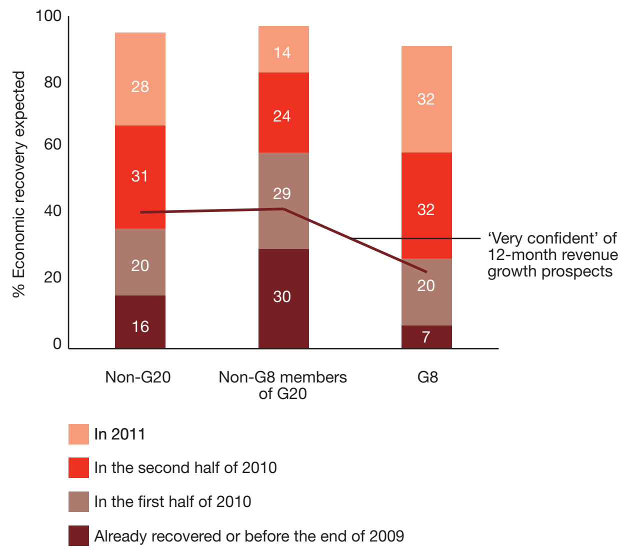
CEOs from the largest companies also acted more dramatically during the crisis and they appear to be more actively positioning their portfolios for growth. More undertook cost-cutting measures than CEOs from smaller companies; slightly more are expecting further cost cuts in the near term. They were far more likely to have completed an acquisition or entered a strategic alliance over the past year and to be planning deals and alliances in the coming year.

In emerging economies, optimism comes with unease

A distinctive split emerged between CEOs based in the G8 developed economies and those based in the other members of the G20, including faster growing China and India. CEOs in the developed economies were far more cautious on near-term revenue prospects, with 23% 'very confident' versus 42% of CEOs in newer member G20 nations (see figure 1.2).

1.2

CEOs from G8 nations are less confident and expect a later recovery



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months?

Q: When do you expect recovery to set in for your nation's economy?
Base: All respondents (249-453) N.B. Recovery is defined as stable and steady economic growth. Don't known/refused not included.

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

> Research efforts and new product development will increasingly be focused on emerging countries. We have made the ability to develop products on the ground central to our marketing organisation. Why restrict innovation to just 20% of the market (i.e. developed countries)?
>
> **Bruno Lafont**
> Chairman and Chief Executive Director, LAFARGE Group, France

> Scaling back our capacity expansion programme, scaling back working capital from inventories, managing the demands for increased credit from distressed distributors – it's all been pretty demanding. In the event, however, we've been able to take some costs out of our system. All in all, we've come through pretty well. The real question is: Where is the economy headed? Is it bouncing back? I don't really see that it is.
>
> **Graham Mackay**
> Chief Executive, SABMiller plc, UK

CEOs also believe recovery for G8 nations is likely to occur much later than in the new G20 countries and non-G20 countries. This reflects economic reality: In China's case, for one, output accelerated over the course of 2009; the country is likely to exceed the government's target of 8% for 2009, the IMF estimates. To compare, the output of developed economies is forecast to decline 3.4% in 2009.[1]

Yet, CEOs from the newer member G20 economies are also the most aware of threats to business growth prospects. They are more concerned about over-regulation, low-cost competition, currency volatility and energy costs.

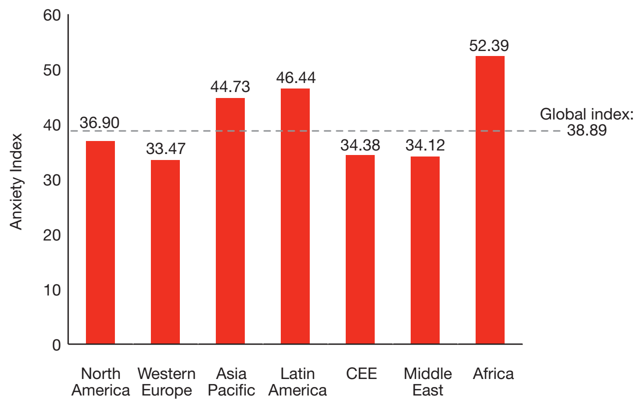
We examined just how broadly and deeply different CEOs considered the risks present in the business environment by constructing an 'Anxiety Index', which measures their relative levels of concern over 20 potential threats to business growth prospects.[2] Chief executives in Western Europe scored the lowest on our Anxiety Index, at 33.47 (out of a theoretical range of 0 to 100), against a global average of 38.89 (see figure 1.3). CEOs in Japan are a very notable exception among the G8. They have the highest Anxiety Index score of CEOs in all major countries at 57.54. Younger companies – those that have been in business fewer than five years – also tended to have a higher Anxiety Index scores.

When we look at the developing world, such as the Middle East and Southeast Asian economies, for us it is not China or India but countries like Indonesia, Pakistan, Thailand, Vietnam and the Philippines that have grown and are continuing to grow. Even through the crisis they have grown at 5% or 6%.

Phil Cox
CEO, International Power plc, UK

1.3

CEOs from Western Europe show the lowest level of concern in the 'Anxiety Index'



Q: How concerned are you about the following potential threats to your business growth prospects related to or emerging from the current economic crisis and other threats? Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: We analysed concerns by creating an index score out of 100 based on responses to 20 potential threats to growth: 'Extremely concerned' received a score of 100; 'Somewhat concerned' received a score of 50; 'Not very concerned' received a score of 25; and 'Not concerned at all' received a score of 0.

Basically, our response to the crisis has focused on the upgrade of procedures.

Pablo Isla Álvarez de Tejera
Deputy Chairman and CEO, Inditex, Spain

1 International Monetary Fund, *World Economic Outlook* (October 2009).
2 The Anxiety Index scores CEO concern levels on 20 threats to business growth prospects, thus allowing us to compare different groupings. We analysed concerns by creating an index score out of 100: "Extremely concerned" received a score of 100; "Somewhat concerned" received a score of 50; "Not very concerned" received a score of 25; and "Not concerned at all" received a score of 0. This resulted in a global anxiety index of 38.89 which suggests that overall respondents are "somewhat concerned" about potential threats.

These responses suggest CEOs based in developed economies are more comfortable with their current positioning. For example, compared with CEOs in other regions, fewer CEOs in Western Europe and in North America are planning new cost-cutting initiatives or making changes to their long-term leadership development programmes and capital investment plans. The greater level of both confidence and concern for CEOs of companies based in developing nations suggests that they have more room to climb and perhaps at the same time, fewer safeguards to check a fall.

One explanation for the relatively higher levels of concern in emerging economies in Asia Pacific, Latin America and Africa is that some of these CEOs are encountering stresses that may engulf more companies as they shift from a focus on cost-driven restructuring measures to a focus on growth.

Emerging economies also bore the brunt of the drop-off in global capital flows in 2009, triggering currency swings and higher financing costs in some regions. Export-oriented emerging markets faced a sharp decline in overseas demand. World trade was projected by the IMF to fall 11.9% in 2009.[3]

Thus CEOs in Latin America, Central and Eastern Europe, and Asia are more likely to be concerned about threats centred on globalisation, including exchange rate volatility, protectionism and macro-economic imbalances. The higher anxiety levels outside North America and Europe may also reflect not only different phases of the business cycle, but also differing levels in economic development.

> The global economy is now starting a process of recovery, but the greatest challenge will be the way in which this mega-issuance of money and debt will be absorbed, and it is here where I see a very bright warning light, because I look at the situation with Argentine eyes, and we are very well aware of the cost of resolving a crisis by means of the printing of money.
>
> **Eduardo Elsztain**
> **President, IRSA Group, Argentina**

> The flow of foreign investment has been substantial and has been targeted at Brazil as one of the best world market options. It can't be denied that our universe has become very jittery. These funds have not necessarily come to stay. Investors are very agile at seeking the best markets at any specific time, so there could be a migration of these funds as the markets recover. For now, though, the financial world is still in a crisis recovery mode. Although things have become much better, that doesn't mean it is over.
>
> **Claudio Eugênio Stiller Galeazzi**
> **CEO, Pão de Açúcar Group, Brazil**

3 International Monetary Fund, *World Economic Outlook* (October 2009).

Employment turning the corner

As a sustainable, credible economic recovery is unlikely without a reversal in unemployment rates, headcount expansion plans in the private sector are a key indicator. Our survey shows that while many companies are still downsizing, more will be adding to their workforces (39%) than will be cutting (25%) over the next 12 months (see figure 1.4).

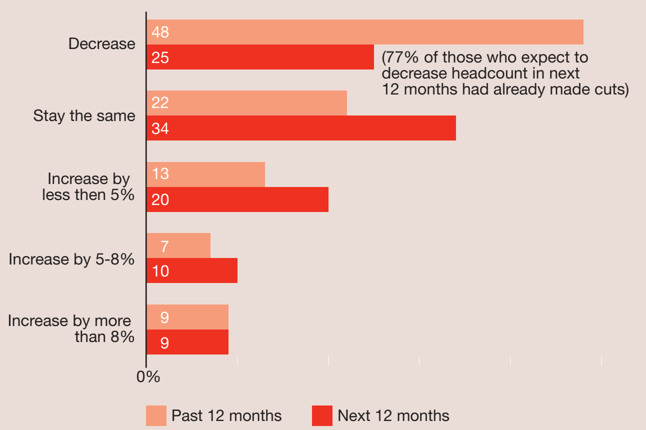
Certainly one of the more difficult actions in the past year was cutting jobs. Close to half of companies in the survey decreased the size of their workforces. Companies based in North America and in Western Europe led, with 69% of US companies and 63% of UK companies decreasing headcount. Utilities proved the most stable, with 21% of companies reporting cuts. Cuts were most prevalent in industrial manufacturing (68%) and auto (80%) companies and in the media/entertainment sector (71%). The latter two sectors are among the least likely to be adding jobs in the coming year (see figures 1.5 and 1.6).

Highly skilled still globally in demand

Specialists remain in demand, and many parts of the world are still struggling to attract and keep talent. Over the long term, businesses may live to regret the drastic headcount reduction they have made during the downturn.

1.4

More CEOs will be adding jobs than cutting them in the coming year



Q: What happened to headcount in your organisation globally over the past 12 months?

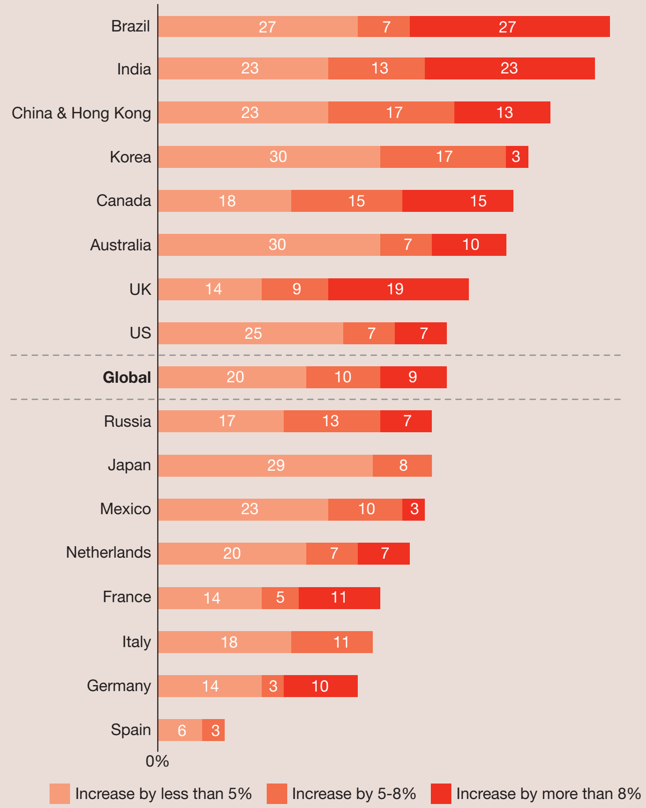
Q: What do you expect to happen to headcount in your organisation globally over the next 12 months?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Tigran Nersisyan, President of Russian food and beverage maker Borodino Group, said he spends a significant amount of his time on 'HR issues' locally and abroad. 'We did our best to retain our specialists, who are always in demand. To be honest, just as before the crisis, we still face a shortage of highly trained workers, such as IT specialists, software developers, and experienced marketing staff. Specialists of all kinds are in great demand. In manufacturing the situation is worse still because we are implementing new generation technologies that require highly qualified employees', he said. 'We still face major HR issues. I spend about 40 percent of my time on HR policy issues both locally and overseas. It's impossible to reduce costs or material consumption without new technologies and these new technologies require highly qualified employees who are hard to come by.'

1.5

Where are jobs being added?



Q: What do you expect to happen to headcount in your organisation globally over the next 12 months?
Base: All respondents (30-1,198)

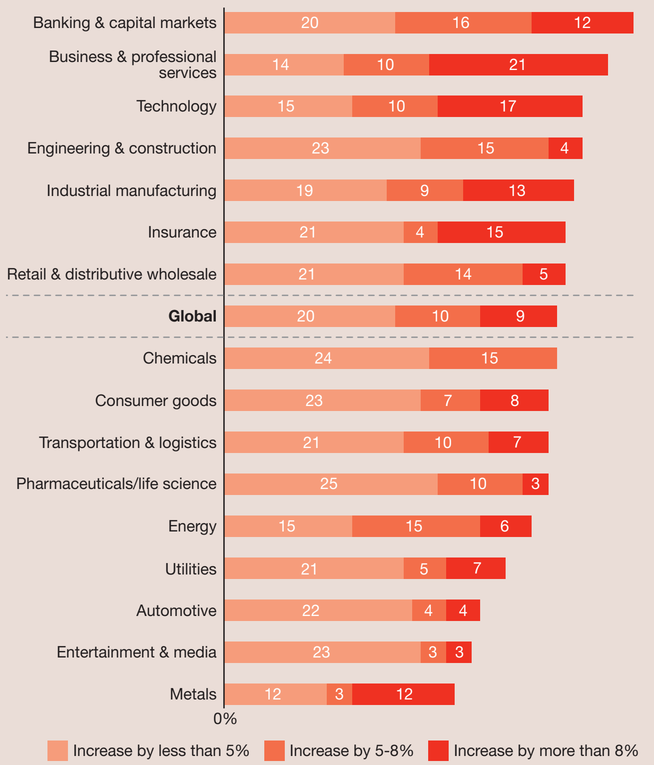
Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

With many companies cutting their graduate and trainee intakes and CEOs becoming increasingly critical of government's ability to provide a skilled workforce, there is emerging evidence of a growing 'talent gap' in a number of regions – where demand for key skills over the coming decade will exceed the available supply. The spectre of demographic shifts and ageing populations may have temporarily slipped from some CEOs' minds, but it could return to haunt them in future.

African CEOs are the most concerned, but they've taken steps to respond. 'One aspect in which the financial crisis has worked in our favour is that it has created a wider pool of available talent. In the last two years, we have managed to attract very significant talent from both Europe and North America. These are highly experienced people who bring with them enormous knowledge. And since many of them experienced the banking crisis firsthand, they also understand how to mitigate such events. That has been a major benefit to Equity', said Dr. James Mwangi, Managing Director and CEO of Equity Bank in Kenya.

1.6

Who is adding jobs?



Q: What do you expect to happen to headcount in your organisation globally over the next 12 months?
Base: All respondents (33-1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Time for an overhaul of HR

A majority of CEOs (79%) intend to increase their focus and investment on how they manage people through change, which includes redefining employees' roles in the organisation. They feel they need to change their strategies for managing talent. The scale of these intended changes suggests that, for whatever reason, existing practices did not support the business when the crisis hit. We believe there are three major human capital failures that were brought to the surface as a result of the downturn:

Existing reward models are broken. Whether as a result of regulatory or public pressures, they are not seen as fit for purpose in many parts of the world. This is not just confined to financial services; we are seeing criticism of reward models across sectors.

CEOs were unable to move talent around quickly when the crisis hit. This led to large-scale layoffs to save cash at one extreme, but also left crucial talent gaps at the other. Organisations will have to find more agile ways of deploying and reallocating talent to where it is most needed. Those organisations that underwent drastic headcount reduction now face the costly exercise of rehiring and retraining as demand improves and we head into the upturn.

Employees lack the key skills needed to operate and compete in the new emerging environment. Notable skill gaps include greater risk awareness, market adaptability, change management capability and responding to new customer demands. CEOs in many parts of the world also believe that governments have largely failed to supply a workforce with the right skills. This is likely why 41% of CEOs expect to increase their focus on training and development.

The thorny problem of global policy coordination

CEOs have long sought more cooperation among governments to harmonise tax and address other overlapping regulatory burdens that stem from running an international business operation. In this survey – conducted before global climate talks in Copenhagen concluded without a binding agreement on emissions reductions – expectations were high that regulatory coordination would successfully mitigate systemic risks and harmonise new regulations.

CEOs were less certain that the path to smarter regulation involves governments working more closely or in empowering multilateral organisations to act as global regulators (see figure 1.7). It begs the question: Where will effective supranational cooperation on economic and financial policies take place? It is of increasing importance to business leaders. Sixty-five percent said they fear governments will become more protectionist. These concerns are rising even as trade conditions were little affected over the past year. The World Trade Organisation (WTO) in its annual report released in November 2009, while noting slippage on trade policy in most G20 countries, said 'the world economy is about as open for trade today as it was before the crisis started.'

Most CEOs expect that the G20 group, representing 85% of the global economy, will become the dominant political and economic power. The G20 succeeded the G7 or G8 as the forum for international economic coordination in response to the financial crisis and in recognition of the growing relevance of emerging markets in the world's economy.

Yet the G20 forum poses challenges for global policy coordination. In recent years, global negotiations have become more difficult as more parties, often with differing perspectives and constituencies, come to the table, as witnessed by the Copenhagen climate negotiations and earlier by the WTO's Doha trade talk stalemate. Ian Bremmer, President of the US-based Eurasia Group consultancy, anticipates less policy coordination as the G20 replaces the G8: 'The G20 is not just a bigger coordination problem; it's not just herding more cats, though that would be more difficult. The G20 is herding cats along with animals that don't like cats.'

Among government officials, we also found support for greater convergence as well as an acknowledgement of the challenges to get there. 'It's probably not realistic to think that regulatory frameworks are going to be identical across countries. It's probably not productive to even try to achieve that', said Robert Bhatia, Deputy Minister of Alberta Seniors and Community Supports in Canada. 'But convergence – meaning moving closer together while allowing for somewhat differing approaches – yes, I think that is a positive. That has to help in terms of facilitating international transactions and trade.'

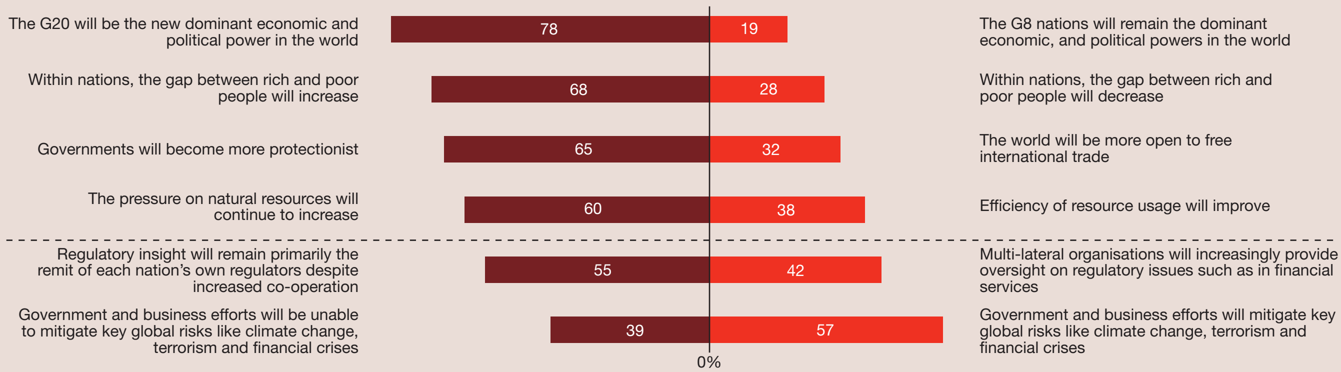
> It's a bit too many Gs [G8, G20]. There is some inflation of such institutions here. Their function is not absolutely clear, whether or not they for example should be a substitute for international institutions that don't work. It is definitely necessary to include economically strong states into these organisations, even when they do not have a status of market economies, such as China, for example, and non-members of OECD.
>
> **Martin Tlapa**
> Deputy Minister, Ministry of Trade & Industry, Czech Republic

Of course, global forums such as the WTO and the G20 are not the only outlet for national cooperation on economic policy. Even as the WTO's talks have broken down, for example, regional trade agreements have risen sharply, accompanying a broader trend of rising intra-regional trade and capital flows before the financial crisis. CEOs expect the trend to continue despite the downturn. 'Right now I see a lot more trade agreements happening between countries that don't include the United States', said Dean A. Scarborough of Avery Dennison Corporation.

Regional trade agreements are largely thought to impede global trade in the long-term. And some issues cannot truly be addressed with regional solutions; problems such as climate change or financial system stability would leak over borders and undercut the desired outcomes of the regulatory cooperation. Yet regional agreements could represent stepping stones towards global coordination and begin the process of harmonisation among neighbouring nations that are likely to have some interests in common.

1.7

Global risks will be contained – but not by multi-laterals



Q: Which of the following scenarios do you feel is more likely to occur in the future (more than 3 years)?
Base: All respondents (1,198) Respondents chose a scenario from each pair, or the option *'Don't know/Refused'*.

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Reshape

Section 2

Reshape: The post-crisis environment

As the process of economic stabilisation unfolded in 2009, we sought to discover what CEOs consider the lasting legacies of the downturn.

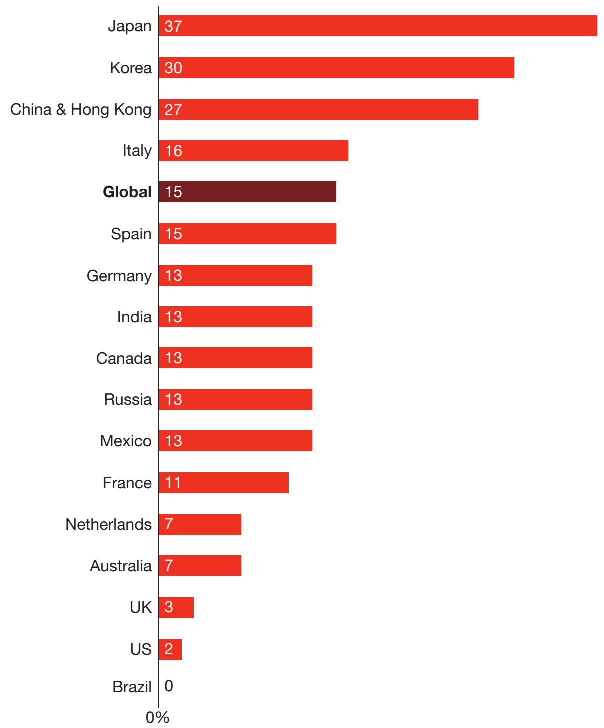
Worst fears fail to materialise on regulations… yet

Regulation is a perennial concern for CEOs. This year, how business leaders view regulatory issues has to be understood through the lens of 'what might have been' at the start of 2009, when the uncertainty which hung over the financial system and by extension, the global economy, was so great. At that time, drastic measures to contain the crisis and preserve national economies were a realistic prospect. Massive bailouts ensued and with them, expectations of radical regulation to prevent another crisis.

The alarmist scenarios of trade barriers and regulatory rewrites largely failed to materialise. Yet there remains a sense that more regulatory change is inevitable. CEOs see little encouraging news on compliance costs. Regulatory burdens on corporations were not addressed during the downturn. In fact, in this year's survey, more CEOs cited a lack of progress on cutting red tape than a year ago, 67% to 57%. Only 2% of CEOs based in the US said the government has reduced regulations (see figure 2.1). Some governments are listening, at least when it comes to taxes. Our annual measure of the comparative ease of paying taxes in 183 countries found that 45 economies had reduced the tax burden on SMEs, or made it easier for them to pay taxes, in the year through 1 June 2009.[4] Yet, few CEOs believe that trend will continue.

2.1

Only 15% of CEOs worldwide believe their government has reduced the regulatory burden



Q: Thinking about the role of Government in the country in which you operate, how much do you agree or disagree with the following statements? % who 'agree' or 'strongly agree' with the statement, 'The government has reduced the regulatory burden on corporations'.
Base: All respondents (30-1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who 'agree' or 'strongly agree'.

4 'Paying Taxes 2010: The Global Picture', PricewaterhouseCoopers and the World Bank (2009).

We believe CEOs also worry that regulatory approaches designed to deal with perceived problems in the financial sector will wend their way through the entire economy. 'There's a tendency by government to tar every company with the same brush', said Graham Mackay, Chief Executive of UK brewer SABMiller plc. 'Certain regulatory reforms useful and necessary for financial companies – new approaches to risk, remuneration, or corporate governance – would clearly be intrusive if applied indiscriminately to business as a whole.' Other CEOs shared similar concerns about the unintended consequences of regulatory reforms.

Getting closer to consumers

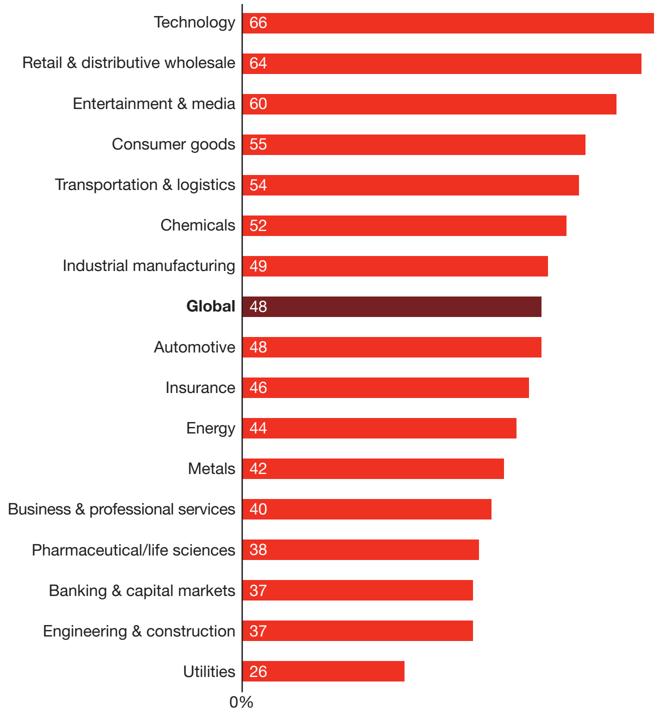
Some of the strategic rethinking we uncovered – aside from consideration of varying regional growth rates – is connected with what is happening to consumers. Business leaders appear as split as economists on the lasting impact of the crisis on the consumer but they are changing company strategies to adapt.

Not surprisingly, consumer goods, retailers and wholesalers, media/entertainment and technology companies are the most concerned that a permanent shift is underway (see figure 2.2). Nearly half of CEOs cite a permanent shift in consumer spending and behaviour as a threat to their business growth prospects. The concern is highest among CEOs based in North America, Asia-Pacific and Africa.

Eighty-one percent of CEOs expect to adjust their strategies in response to changing consumer behaviours. Technology and media/entertainment companies are deeply involved in reorienting their businesses to those changing purchasing habits: 46% of media/entertainment companies predict a 'major change' in strategy as do 44% of technology companies. Even less cyclical industries such as energy companies and utilities are making those types of changes (see figure 2.3).

2.2

Technology, entertainment, retail and consumer goods companies are likely to be concerned about permanent shifts in consumer behaviour...



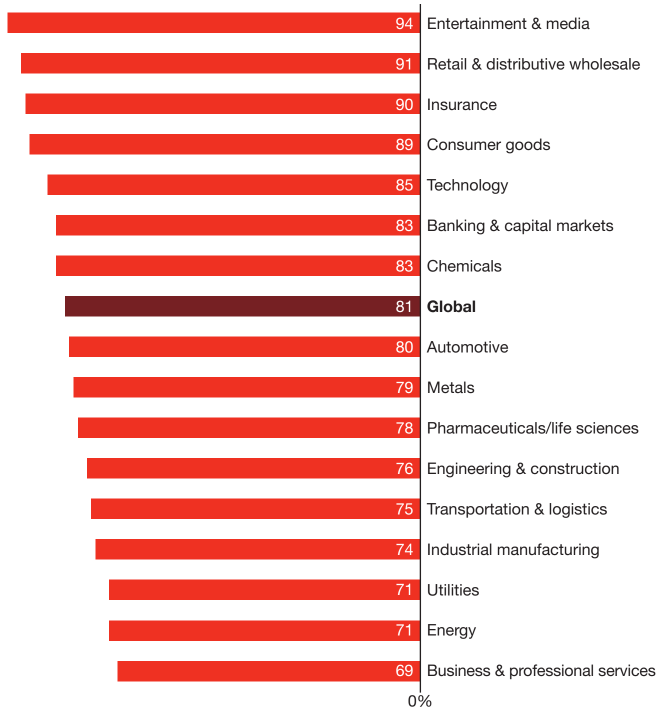
Q: How concerned are you about the following potential threats to your business growth prospects related to or emerging from the current economic crisis? % 'extremely concerned' or 'somewhat concerned' about 'permanent shifts in consumer behaviour'. Base: All respondents (33-1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

> We certainly don't need more regulation in the media industry overall. In general, markets have to be free. But we've also seen, in other industries, what can happen when freedoms are abused or when there is too little regulation. There have to be rules, and these rules must be binding for all players in the market.
>
> **Hartmut Ostrowski**
> Chairman and CEO, Bertelsmann AG, Germany

2.3

… and they are likely to be changing their strategies in response



Q: In the wake of the economic crisis, to what extent do you anticipate changes to any of the following areas of your company's strategy, organisation or operating model?
Base: All respondents (33-1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who stated 'some change' or 'a major change' to their strategy, organisation or operating model in response to changing consumer purchasing behaviours.

Benetton's positioning in what we like to call 'democratic fashion' is helpful in facing the crisis, however; the consumer on average is spending less and more shrewdly. Spending a lot is less trendy than it has been in the past and consumers prefer to buy greater quantities of products at the same price rather than a single 'designer' product.

Gerolamo Caccia Dominioni
CEO, Benetton Group SPA, Italy

'What we do see is more down-trading to discount economy brands,' said Graham Mackay of SABMiller plc. 'But it's really an extension of a more fundamental dynamic. As markets mature, mainstream, standard-price beers eventually come under threat from premium brands at the top and discounters at the bottom. The middle gets eroded.'

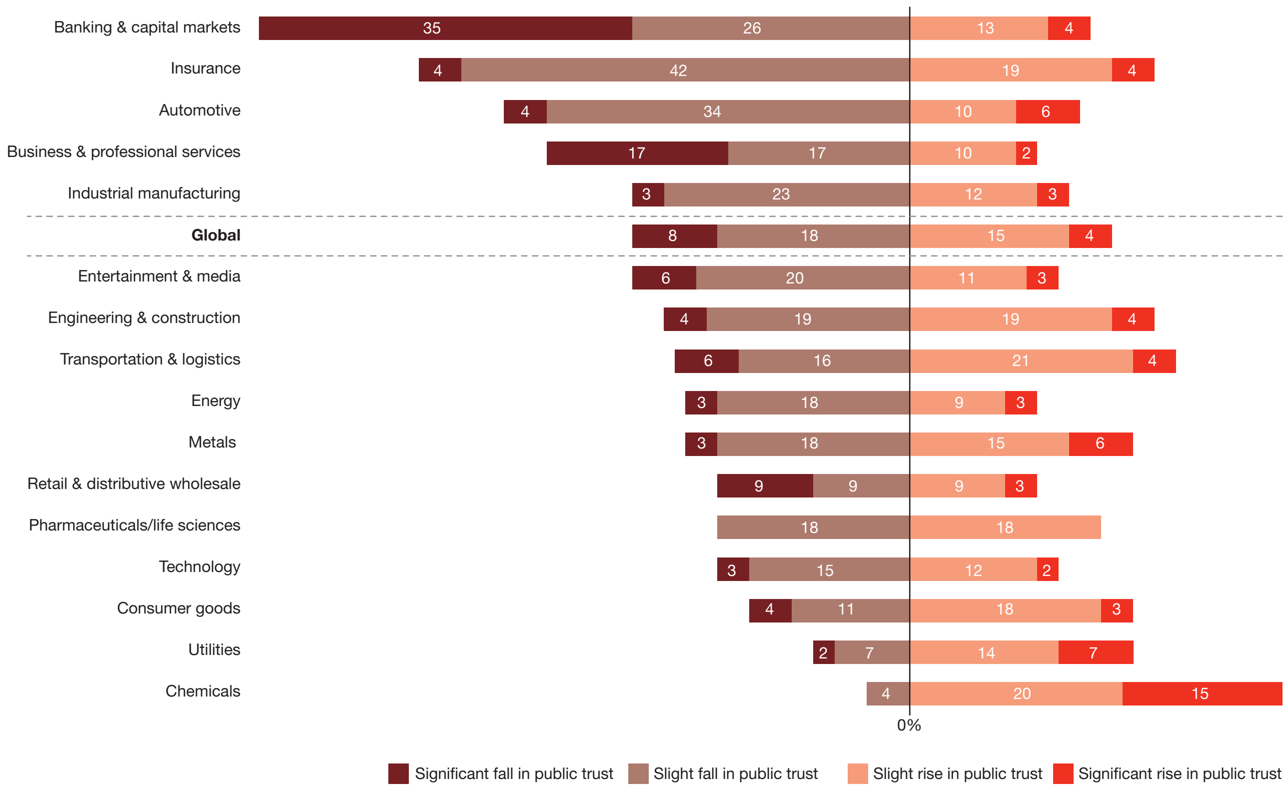
On the other hand, household earnings are expected to rise in emerging economies, fuelling an expansion of middle classes. A slow but steady shift towards more consumption in emerging markets is an opportunity that CEOs are pursuing across segments.

Sensing opportunity in new consumer habits

Consumers are seeking more value, but 'value' manifests itself in a variety of ways in consumers' eyes. The survey shows that 64% of CEOs are sensing a shift in consumers' preferences to associate with environmentally and socially responsible businesses – consumers perceive value in a company's reputation. And 60% of CEOs expect consumers will play a more active role in product development in their companies, another dimension of value perceived by consumers and a trend represented by open source computing and social networks. 'After the crisis, consumers will demand a very high level of quality', said Pablo Isla Álvarez de Tejera, Deputy Chairman and CEO of Spanish fashion retailer Inditex. 'There are also new communications technologies to keep in touch with consumers, such as blogs, Facebook and so on. Inditex has two million Zara users fans on Facebook, a completely new and powerful communications tool.'

2.4

Public trust is down in financial services and automotive, but much less elsewhere



Q: To what extent do you believe the public's trust in your industry has changed as a result of the economic crisis?
Base: All respondents (33-1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Responses of 'Public trust stayed the same', 'Don't know/Refused' excluded.

The interest in drawing in consumers at the product development stage is not limited to companies in the technology and consumer goods sector, which have long been in the forefront in collaborative product development initiatives. Financial services CEOs are more likely than their peers to involve consumers in development, perhaps as a result of regulatory initiatives on consumer financial protection in addition to the growing sophistication of online financial products.

Public trust: A concern for the financial and auto sectors

Perceptions of a change in public trust in business as a result of the recession are driven by sectoral and regional differences. Globally, only 8% of CEOs believed their industries experienced a 'significant fall' in trust. The figure rises to over one-third of banking and capital markets CEOs (see figure 2.4).

The perspectives may come as a surprise to some in Western Europe and North America, where a wave of populist outrage prompted authorities to discourage bonuses in the financial sector, the recipient of significant public funds. An FT/Harris poll of adults in six Western countries shows the recession negatively influenced views of business leaders. On average, 67% said they held a worse opinion of leaders as a result of the downturn.[5]

Yet most CEOs outside of financial services believe the economic crisis has not changed public perceptions of their industries, despite the broad-based job cuts and other cost-driven measures in 2009. Most business leaders believe that problems of trust are restricted to the banks and countries that experienced the worst banking crises. 'I agree with the view that the recent behaviour and actions of certain company managements has disillusioned the public', said Pawan Munjal, MD and CEO of Hero Honda Motors Limited in India. 'But just as a few rotten apples cannot ruin an entire harvest of apples, a few unethical acts cannot, and should not, tarnish the reputation of an entire industry.'

It would be surprising for CEOs to report a steep drop in public trust if they were based in countries where the downturn was muted. Accordingly, few CEOs based in China and Hong Kong feel there has been a significant decline in trust in their industry – and no CEOs in Canada or Brazil do. 'In less developed countries, the private sector – and the multinational corporation, specifically – is viewed as a bastion of wealth, power, and influence. Consequently, we are very conscious of public opinion and go to great lengths to protect our reputation and build the trust of the local community', said Graham Mackay of SABMiller plc. 'Quite frankly, if there's any clear erosion of trust, I think it's directed towards the political establishment.'

5 FT/Harris Interactive Poll (April 2009).

Executive compensation is a persistent and prominent focus of public distrust. Yet, the furore over soaring executive pay did not register widely. The view that companies can rebuild trust through new remuneration models appears to be held by a minority of CEOs from virtually every country. Overall, less than a third of CEOs who recognised a decline in public trust said they were changing compensation practices in response. Banks and capital markets companies are, not surprisingly, the most likely to be changing compensation practices.

In the US, 44% of CEOs who experienced a decline in trust said they were changing pay practices. They appear to stand somewhat apart from their boards on the contentious subject. A majority of US directors expect the heightened government focus on pay will impact board-level discussions on compensation for all companies, according to a 2009 poll of 1,007 directors. In the same poll, 60% of directors conceded boards are having trouble controlling CEO compensation levels.[6]

In general, compensation and workforce practices are areas where CEOs would least like to see any change in regulation. They are concerned that more regulation in this area will limit their ability to attract and keep good people and, in turn, hamper their ability to recover from the effects of the downturn.

As for improving public trust in their industry, far more favour participating in industry initiatives or engaging in dialogue with regulators (see figure 2.5). Overall, the financial services companies are the most active in adopting a variety of strategies to help rebuild trust.

> Globally, yes, the public's trust in the private sector has certainly been shaken. But not so in India. Not a single bank in India went bankrupt and not a single investment house defaulted. So there is a big difference.
>
> **Sunil Duggal**
> CEO, Dabur India Limited, India

> One of the biggest lessons we have learnt is about risk management. In the past, we believed that it is the things that we ourselves do – or fail to do – that would hurt us most. But now we understand that the environment can also affect us significantly. So we now want to be in a position to shape and influence the wider banking industry. Most of the organisations that failed were brought down not because of toxic assets but because public trust was lost. So we have learnt a valuable lesson about managing the external environment, about thinking macro and acting micro. That's made Equity Bank a stronger organisation. We are more aware now of the possible repercussions of events out of our control.
>
> **Dr. James Mwangi**
> MD and CEO, Equity Bank, Kenya

6 'What Directors Think', PwC/Corporate Board Member Magazine (November 2009).

2.5

CEOs who are addressing issues of trust are split on their approaches

Q: Which, if any, of the following activities have you initiated or are you planning to initiate in your own company as a result of the decline in trust?
Base: Respondents who stated there has been a slight or significant fall in public trust in their industry (304)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

The regulation paradox: Seeds of a more effective engagement

A year into the crisis, businesses are at a critical juncture in their relationship with government. The broad effects of coordinated monetary and fiscal measures to stimulate growth – and the measured approach to date on regulatory reform and trade policy – have set a foundation for a closer engagement with the public sector.

At the same time, there is an increase in the negative perceptions of CEOs on the success of government intervention regarding the environment, access to natural resources, availability of skills and the regulatory burden. This reflects the 'regulation paradox' we encounter each year in the survey: CEOs express the desire for more government leadership and action in certain areas (e.g. climate change and tax harmonisation) while also believing government action is only positive when it helps their business.

In an effort to highlight the gaps – and find where there is promise of a more effective public and private sector engagement – we asked CEOs for their views on a smarter approach to regulation. We also extended the research through interviews with senior decision-makers in governmental organisations across the world.[7]

CEOs are more willing than in the past to step up to the challenge. 'I think there is much that can be done in partnership between business and government', said Angela F. Braly of WellPoint Inc. They are not waiting for new regulation but increasing involvement to help shape it. Over two-thirds are prioritising cooperation with regulators. Nearly 60% believe smarter regulation will stem from working more closely together (see figure 2.6).

Businesses and regulators cannot expect to agree on everything, yet we did find areas where CEOs acknowledge common goals with more activist regulators:

CEOs favour better enforcement over new regulation for financial sector stability, and for social and environmental sustainability. They believe regulators have the leeway to make use of powers they already have and thus that

> Some countries may impose protectionist barriers but I don't think they'll be very significant. In addition, in Brazil's case, the appreciation of its currency (the real) may offset possible protectionist barriers.
>
> **Claudio Eugênio Stiller Galeazzi**
> **CEO, Pão de Açúcar Group, Brazil**

> The public's disillusionment has moved beyond the banks to the private sector in general, so that governments are now talking about more regulation to stop a similar crisis from ever happening again. But hasty regulation will be bad regulation and my concern is that creativity, innovation, and enterprise will be stifled at a time when they should be encouraged
>
> **Paul S. Walsh**
> **Chief Executive, Diageo plc, UK**

7 For more from the government perspective, see 'Government and the global CEO: Setting a smarter course for growth', PwC Public Sector Research Centre (January 2010).

heightened enforcement would be more effective than systemic change. Only 8% and 12% called for less regulation for financial sector stability and for social and environmental sustainability, respectively.

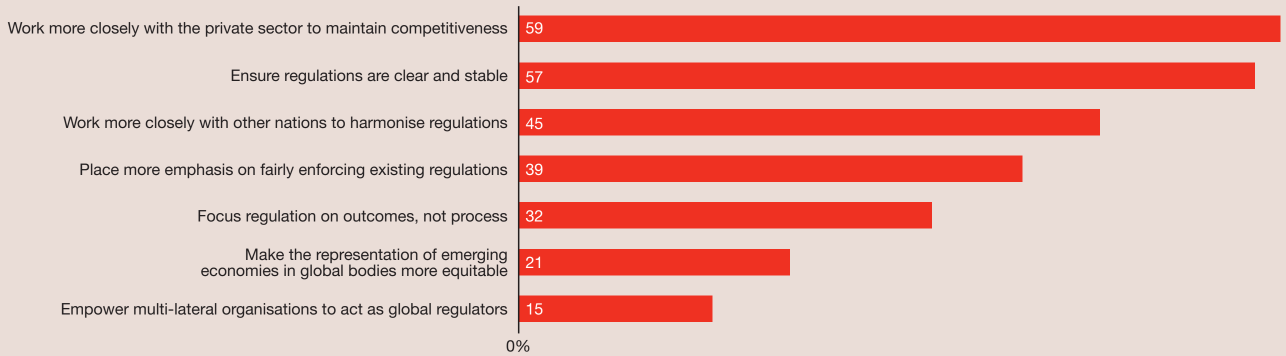
Antipathy to regulation strengthens where regulation could harm job creation. Business leaders are more clearly opposed to new regulations in innovation, foreign investment and access to capital.

Most oppose new or more regulation on workforce practices, including compensation. Opposition is led by Brazil, where 63% seek less workforce regulation, followed by 52% in the US and 46% in Germany.

> It is incumbent on us to engage as much as we possibly can with government and with the civil service. The power sector does not speak with one voice, since it is a collection of individuals, all of whom have got a slightly different agenda. I have some sympathy for government and opposition when they say, ‘What does the industry want me to do here?’ and they get seven different replies.
>
> **Phil Cox**
> **CEO, International Power plc, UK**

2.6

CEOs want regulatory clarity and stability, and to be included in the policy-making process



Q: In which of the following ways do you believe government could best improve the policy-setting process with regard to smarter business regulation?
Base: All respondents (1,198) N.B. Respondents chose up to three of the seven possible options

Note: Responses of ‘Don’t know/refused’ excluded.

Government ownership: A strategic game-changer

Rising government influence over the global business environment in 2009 was marked by the increase in state ownership and control in a whole range of companies. Our survey reflects the change: 14% of companies have government ownership or backing, up from 10% in the last year. Nearly a third of all companies said the government owns a stake in a major player in their industry.

Government's new reach in 2009 – largely a result of the unprecedented measures to stabilise the financial system – is changing the debate on government ownership in the private sector. Nearly half of CEOs were positive towards government taking an ownership role in times of crisis, including those in North America, whose dissatisfaction with most issues involving government measures to improve business conditions is evident elsewhere in the survey (see figure 2.7). CEOs from two sectors that received considerable support from governments around the world during the crisis – automakers and banks – are among the most appreciative of government ownership to stabilise a crisis.

I am unable to say with any certainty how a regime for controlling systemic risk will come about. I do know, however, that this issue has many unanswered questions. In the case of a cross-border institution, when a failure occurs as a result of systemic risk, who pays the bill? The treasury of one country or the other?

Alfredo Sáenz
Second Vicechairman and CEO, Banco Santander, Spain

The relative acceptance of public ownership ends when a crisis fades away. More than two-thirds of CEOs have significant concerns about long-term state involvement in business with important implications for government policies on competition and fair markets. Even those that are experiencing government ownership have negative perceptions over long-term state ownership, although slightly less so.

While CEOs may desire a pull-back from government ownership, popular support appears to be holding in some polls. A GlobeScan/University of Maryland poll in 2009 of

We've learned which conditions apply to China and which do not. With regard to this crisis, China is in a relatively advantageous position and I attribute that to China's monetary policy. But there are also conditions in China that we must pay attention to. China's economic development relies on exports and all over the world we're regarded as a manufacturing country. However, the raw material we use is mostly supplied domestically, and the products we produce are sold relatively cheaply. In fact, the products we sell seldom reflect a high technical content or value-added. So in my opinion, China should reduce its volume of exports, but begin to manufacture products of higher quality and higher value-added. That would contribute substantially to China's economic development. The core issue is how much innovation is contained in your products.

SHEN Heting
Executive Director, President, Metallurgical Corporation of China Ltd, China

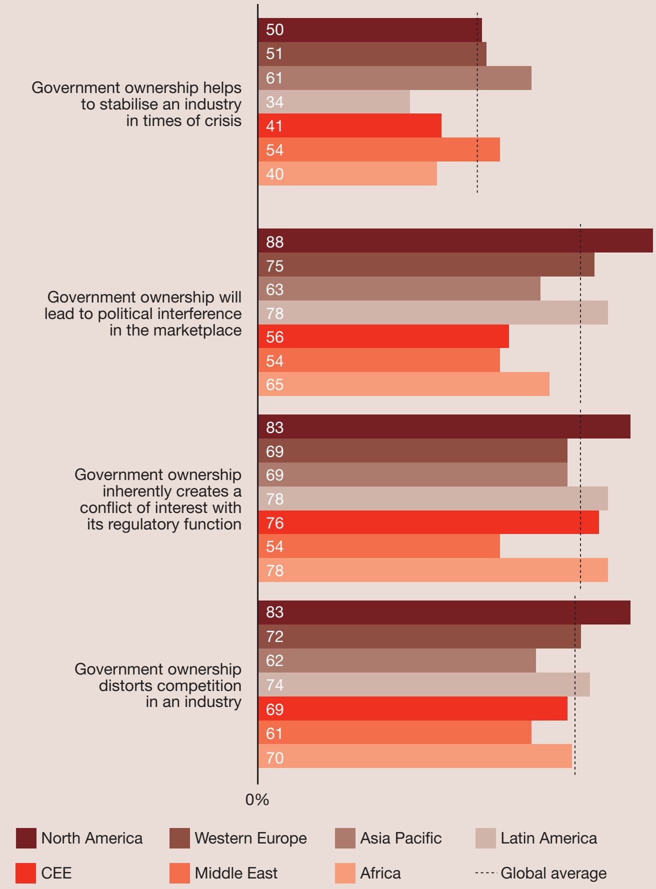
adults in 27 countries found that a majority called for less active government ownership or control in just four of the countries.[8] Indeed, given the range of experiences with public ownership in countries where the crisis was more muted – from East Asia to the Middle East and Latin America – state ownership is likely to endure for some time in one form or anther, be it state-owned enterprises, sovereign wealth funds or national oil companies.

And CEOs recognise this. They are shifting strategies to respond to other influences of the government over the economy. 'Government spending as a percentage of GDP in almost every economy is going up. We'll adapt to that environment. In fact, we need to look at government as more of a customer', said Dean A. Scarborough of Avery Dennison Corporation. 'Our strategy in the past was 'let's just stay under the radar', and that's not doable anymore. We need to be an influence, certainly, so we're going to step up our involvement in the public sector to influence the outcome in a good way.'

> We should work to refine our model of regulation whereby a merits-based review becomes part of the regulatory process and acts, if you like, as a self-managing check over the scale and scope of regulation and whether or not it's achieving its intended outcomes.
>
> **Dr. Paul Reynolds**
> CEO, Telecom Corporation
> of New Zealand Limited, New Zealand

2.7

Not all CEOs agree that government ownership is helpful in times of crisis



Q: How much do you agree or disagree with the following statements about Government ownership?
Base: All respondents (28-442)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who stated 'agree' or 'strongly agree'. Please note small base for Middle East.

8 'Wide Dissatisfaction with Capitalism — Twenty Years after Fall of Berlin Wall', BBC World Service, GlobeScan, University of Maryland Program on International Policy Attitudes (PIPA) (November 2009).

Result

Section 3

Result: Adapting to compete

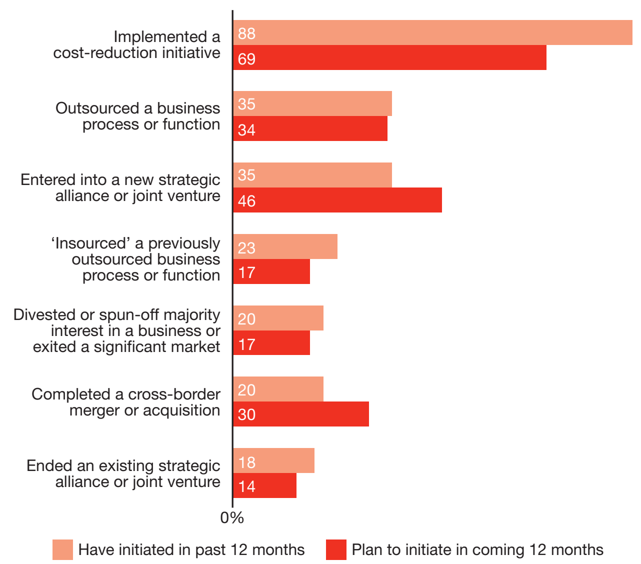
Last year's survey found CEOs taking action to survive swift drops in demand without cutting deeply into investments vital to long-term competitiveness. Conditions are improved but the cost pressure remains.

Short-term cost focus

Despite widespread restructurings last year, many businesses remain committed to further cost-cutting. In an indication of the cost pressure they continue to face, 69% of CEOs we surveyed plan cost-reduction initiatives in the next 12 months, compared with the 88% who made cuts over the past year (see figure 3.1).

3.1

Cost-cutting remains agenda item no. 1



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

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Responses of 'Don't know/Refused' and 'None of the above' excluded.

Business leaders are also bracing for continued volatility. 'Under the current situation, demand changes every day, and enterprises need to adapt rapidly. In fact, wide fluctuations in market conditions have become very normal and we must be ready to respond to a whole range of possible conditions: low market prices, strong demand, or no demand', Huang Tianwen, President of China-based Sinosteel Corporation, told us.

Price fluctuations are impacting recovery scenarios for some. 'What makes this recovery atypical is the degree of volatility in commodity pricing. We are seeing demand come back. But demand might not fully recover because of the degree of volatility that still exists', said Andrew Ferrier, CEO of New Zealand dairy exporter Fonterra Co-operative Group.

In this environment, CEOs are less likely to explore new markets. And an unrelenting focus on cash flow is likely to force CEOs to make hard decisions about where they allocate resources for the long-term and how they account for risks – including climate change – along the way.

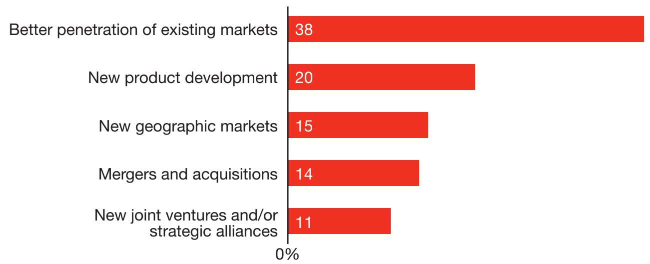
> We decided, going into this recession, that while we didn't have a huge amount of debt compared to many people in the UK, we had to be very focused on cash generation and reducing our debt. We've done that over the last 15-18 months, and opted not to pursue an acquisition strategy during this difficult time, given the risk it would bring to the business.
>
> **Paul Walker**
> **Chief Executive, The Sage Group plc, UK**

Organic growth for now

The largest proportion of CEOs (38%) is positioning companies for better penetration of their existing markets. Such an approach is expected when capital and resources are scarce and business managers have fewer margins for error (see figure 3.2). However, the focus on organic growth captured in the survey this year fits a trend that predates the economic crisis. The concentration on existing markets has risen steadily since 23% of CEOs in 2007 cited it as the main vehicle for growth. It naturally follows that in each year since 2007, consistently fewer CEOs see more potential for growth in new geographic markets.

3.2

Existing markets remain the focus for growth



Q: Which one of the following potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010
Note: Responses of 'Don't know/Refused' excluded.

I am more worried about the growing public borrowing and its serious consequences. With all its seriousness, the crisis has shown us some positive lessons which we should take advantage of. The situation was worse in 2007, when there was heavy borrowing and a bubble with no clear end. This crisis should teach us to be more demanding of ourselves.

Pablo Isla Álvarez de Tejera
Deputy Chairman and CEO, Inditex, Spain

An existing-markets focus is overwhelmingly favoured by the largest companies; they are also the most likely to have operations in different geographies already. CEOs in Asia-Pacific and Africa are also more likely to take this view than those in Western countries. An organic growth outlook for businesses in developing nations is not surprising; their home markets are growing more quickly and many were less impacted by the downturn. In fact, if anything, it appears to have accelerated longer-term growth strategies for some. 'The recession in the Western economies has prompted Indian IT companies to re-examine their global delivery model and address weaknesses. And as a result, a number of these companies have moved up the value chain', said Pawan Munjal of Hero Honda.

Cash is still king

Companies are relying heavily on internally generated cash flow to finance growth. This is little changed from a year ago. With new customers proving difficult to acquire, businesses can be expected to increasingly focus on cash flows from the existing customer base. Nevertheless, the heightened focus on costs and cash preservation likely signals continued pricing pressure on suppliers and vendors in the near term. 'People are thinking more about cash flow. If it lasts for 10 years, I have to take equipment for 10 years. This means that I do not spend 100% of my capital needs now; it means that I spend 50% now and 50% in 10 years' time. This is affecting the strategy on all of our products', said Mikael Mäkinen of Cargotec.

I am concerned about the significant rally in the valuation of several businesses and corporations when this whole situation has not been completely absorbed or eliminated; this could be generating another kind of economic bubble. Such high valuations do not match the reality of some countries' markets and economies. I think we might be seeing what we want to see – a kind of illusion. Moreover, the bad credit or toxic investments that have caused so much damage in the financial systems haven't been assimilated or eliminated yet. So there is no real alignment between what we see and what we feel. One of the main things that will emerge is how our people, clients, consumers and the families of our co-workers feel. Because they are living the reality.'

Carlos Fernandez Gonzalez
Chairman and CEO, Grupo Modelo, Mexico

Slightly fewer expect to tap the bond markets, with 24% planning to issue debt v. 28% last year. It may suggest that the record-pace of issuance in 2009 in part served to satisfy immediate financing needs over longer term growth-related plans. It is also apparent that business leaders are reluctant to 'over-finance' in the near term. This is perhaps as much a measure of lessons learned as it is conservatism in the face of a period of slack demand.

CEOs are striving to keep debt low and liquidity cushions ample: 61% are expecting to change capital structures as a result of the crisis. 'To the extent that changes in the capital markets dictate a more conservative approach to one's balance sheets, I would say that every business in the world has been affected', Andrew Ferrier of Fonterra Co-operative Group told us. 'We plan to run our gearing at a significantly lower level than we have traditionally. That is not to say that we ran a high-risk strategy previously. But we are feeling as a result of market uncertainties that it is better to be more conservative going forward.'

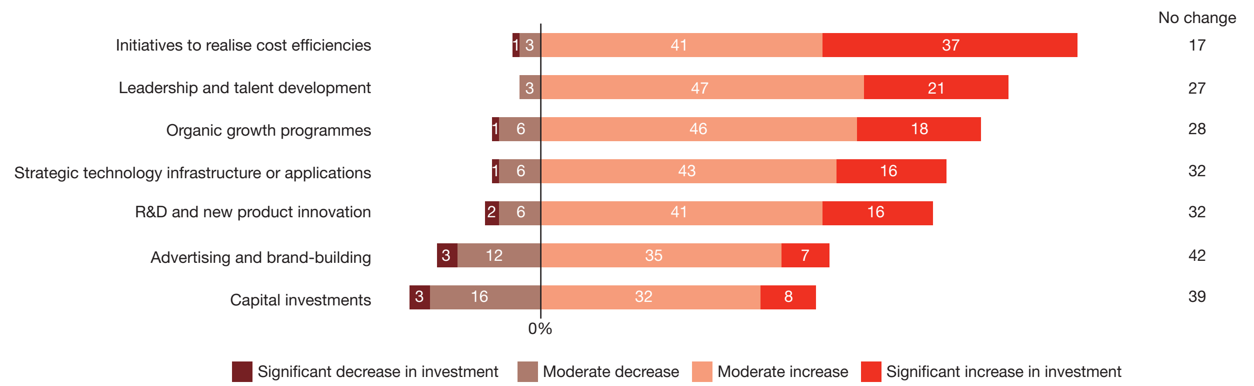
Sourcing investments from cash generated by operations is certainly not a new approach, but a renewed emphasis could have profound implications for some suppliers as it impacts the purchasing and capital investing cycle, which has accelerated in recent years. 'Business development is often funded not out of profits but through investments using debt or equity finance. And while it may take 10–12 years to pay back long-term investments, technology often becomes obsolete after three years. So investment in new technology may actually hinder profitability. So a question arises: How can companies shift away from development financed by investment to development financed by profit generation?' noted Tigran Nersisyan of Borodino Group.

Positioning for the long-term

In a sign of the times, when CEOs were asked about their investment plans over the next three years – 'initiatives to realise cost efficiencies', cited by 78% of CEOs, was the most frequently identified target for a moderate or significant increase in investment. Investments that are commonly considered vital for long-term growth, such as R&D and new product development, and advertising and brand-building, lagged far behind. And capital investments were last on the list, with just 40% of CEOs planning to increase cap-ex spending (see figure 3.3). This is true even in capital-intensive industries, such as industrial manufacturing and automotive, which may reflect overcapacity relative to demand forecasts that have been revised downwards.

3.3

R&D and advertising are lower on the list of investment priorities



Q: How do you plan to change your long-term investment decisions in the following areas over the next 3 years as a result of the economic crisis?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010
Note: Responses of 'Don't know/Refused' excluded.

Different strategies for growth emerge at the industry level. Banks and capital markets businesses, for example, say they are more likely than others to focus on organic growth; they are also among the least likely to consider new geographic markets as the best opportunity for growth, which partly reflects the regulatory barriers they face when they enter new geographies. This perhaps explains why banks are most likely to be investing in advertising and brand-building, in order to rebuild reputation and strengthen the franchises they already have.

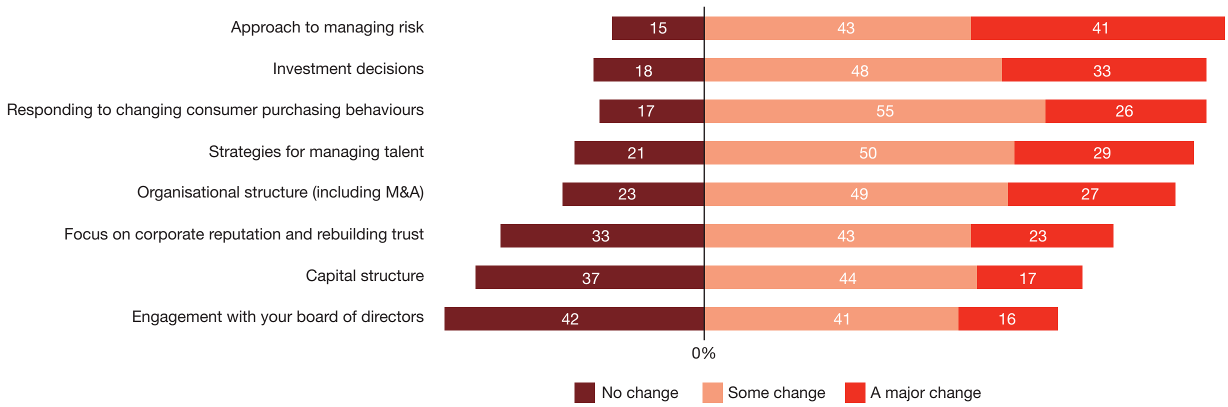
On the other hand, industrial manufacturers are now among the least likely to be investing in initiatives to realise cost efficiencies. Many of them have been living under intense margin pressures for years, as their downstream customers shopped for cheaper suppliers and as raw materials prices fluctuated. Cost efficiencies are a fact of life. Rather, these CEOs are now more likely than most of their peers to be increasing investments in R&D.

Risk and strategy go hand in hand

Business leaders are making changes ahead of what many expect may become a more restrictive regulatory environment once recovery sets in. Clearly, CEOs are more risk aware: 41% anticipate a 'major change' to their risk management approach (see figure 3.4).

3.4

More CEOs are planning a 'a major change' to risk management than other elements of their strategy, organisation or operating model



Q: In the wake of the economic crisis, to what extent do you anticipate changes to any of the following areas of your company's strategy, organisation or operating model?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010
Note: Responses of 'Don't know/Refused' excluded.

> The bank has a social purpose which is that of financing the system's growth. Ultimately, that became irrelevant. What became relevant was what mechanisms one could put in place to try to earn more.
>
> **Gerolamo Caccia Dominioni**
> **CEO, Benetton Group SPA, Italy**

> When the market changes, you cannot simply follow normal procedures or maintain outmoded strategies, management structures, or market positioning. New conditions dictate a quick response.
>
> **HUANG Tianwen**
> **President, Sinosteel Corporation, China**

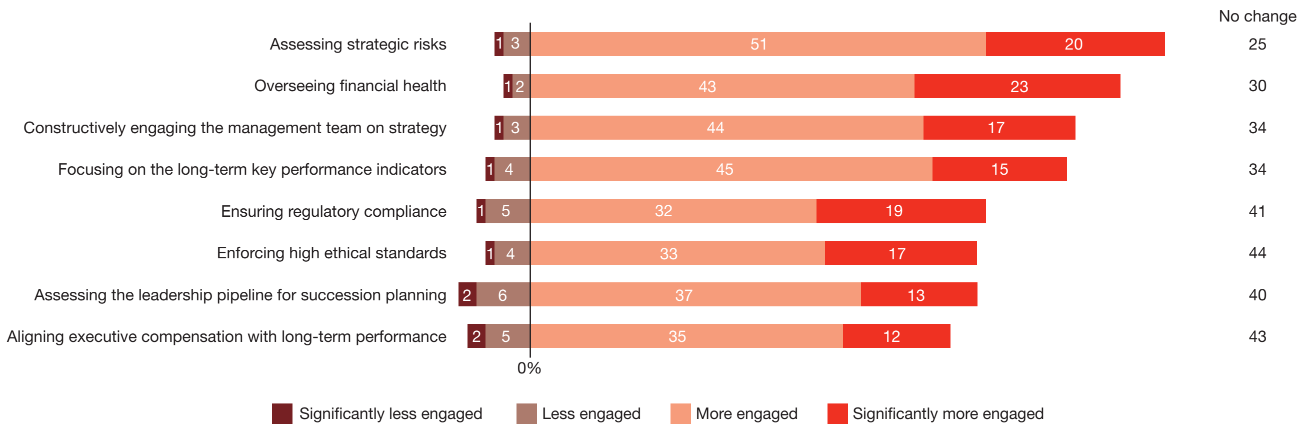
Risk is not only moving up the corporate agenda in response to the crisis, but is seen as something that needs to be embraced by the organisation as a whole. That one in five say their board of directors is 'significantly more engaged' in assessing strategic risk indicates that for many, approaches to risk are moving beyond controls-based risk management to corporate strategy and financial management.

'We did not realise that the damage was going to be so great. What inspires me most is that an enterprise like ours cannot go through such difficulties by its own efforts or by using a simple form of protection. Therefore, we are paying more attention to our internal controls and management mechanisms', said Kong Dong, Chairman of Air China Ltd.

The higher level of involvement by directors is not merely taking place in the financial sector, where risk standards are actively changing, but across all sectors. Directors are more focused on internal as well as external concerns, raising their engagement on long-term key performance indicators and succession planning as well as compliance and strategic risk (see figure 3.5).

3.5

Board agendas are getting busier – with assessing strategic risks at the top



Q: With respect to your board, to what extent is your board of directors modifying their behaviour as a result of the economic crisis?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010
Note: Responses of 'Don't know/Refused' excluded.

Currently, the M&A market is very sluggish and there are few opportunities around. However, given the current climate, transactions that can represent the first step towards strong future development are not out of the question. Crucially, we have a clear strategy and know how to draw out and develop added value.

Bruno Lafont
Chairman and Chief Executive Director, LAFARGE Group, France

I believe that we will emerge stronger and with more influence. We have capital and a well-established business. So I believe that there will be clear opportunities for us.

Alfredo Sáenz
Second Vicechairman and CEO, Banco Santander, Spain

Risk management is a process for all

Of those CEOs who said they plan some change or significant change to their approach to managing risk – and 89% are – slightly more said they plan to integrate risk management capabilities into business units than change other processes related to risk. They are assigning risk functions to business heads, a process that aligns risk with strategic business planning. 'We learned that we must further strengthen our internal controls and risk management capabilities. The financial crisis has made it clear that all enterprises must be better prepared against future risks', said Huang Tianwen of Sinosteel Corporation.

No clear consensus emerges on what CEOs consider the first steps to take as they reinvigorate and reinforce risk management in their organisations. Their focus ranges from changing reward structures to improving risk-related information analysis. They are also collectively managing risks with supply chain partners and working with other partners – regulators, customers, NGOs and even competitors – to prevent and prepare systemic risks.[9]

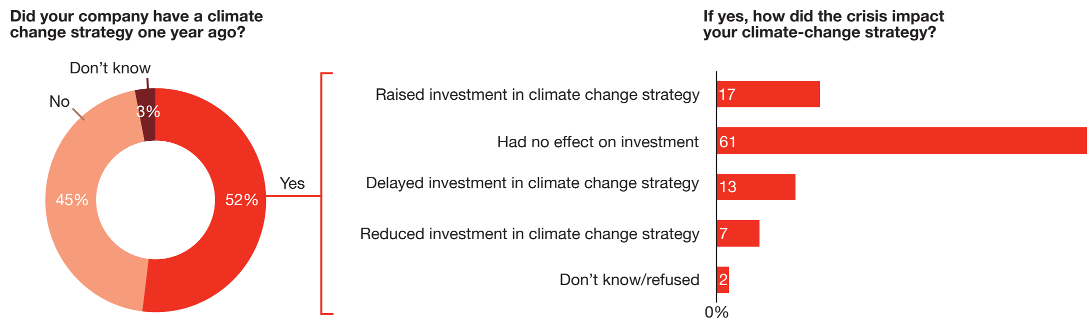
Companies in sectors generally more reliant on the global trading system are raising their engagement to address risks in the supply chain and exposure to systemic or low-probability, high-impact events. Auto industry businesses are nearly unanimous in responding to potential supply chain issues, and planning further collaboration with partners to collectively manage risks. They are also the most concerned over financially stressed suppliers, at 76%, compared with a global average of 47%.

Setting the pace on climate change

The recession restricted corporate investment in many areas – but climate change wasn't one of them. Indeed, climate change raised its position on the CEO agenda despite the severity of the recession. More CEOs said they were concerned about climate change this year than last. And among the slim majority of CEOs who had climate change strategies in place before the crisis, more CEOs maintained or even increased investment in their climate strategies than reined in spending (see figure 3.6).

3.6

More companies raised their investment in climate change during the crisis than reduced



Q: Thinking back one year ago, did your company have a strategy to respond to the challenges posed by climate change?
Base: All respondents (1,198)

Q: To what extent has the recession affected your company's investment in its climate change strategy?
Base: Respondents who had climate change strategy in place one year ago (623)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

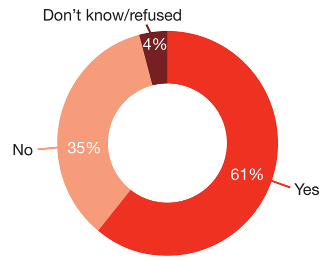
9 'Exploring Emerging Risks', PricewaterhouseCoopers (January 2009).

Corporate responses to climate change are linked to government policy and regulatory requirements: 61% of CEOs were preparing for the impacts of climate-change initiatives such as emissions trading or carbon taxes (see figure 3.7). This despite significant uncertainties over the direction and speed of climate policy. Only 25% of CEOs agree in the survey – conducted prior to the Copenhagen climate change summit in December – that the government has clear and consistent long-term environmental policies. In this regard, then, the failure to produce a binding global agreement on climate change at Copenhagen was a setback for CEOs.

Yet Copenhagen may not have affected CEOs' plans that dramatically. Many leaders are moving ahead despite both financial pressures and the regulatory uncertainty. 'I think that in 2009 sustainability has been less front-of-mind. But I have no doubt that as we move through the current global economic crisis and we start to get back to the 'new normal', sustainability issues will become front-of-mind again for the consumer', said Ken MacKenzie, Managing Director and CEO of Australian packaging group Amcor.

3.7

Three out of five CEOs are preparing for the impacts of climate-change initiatives such as emissions trading



Q: Is your company preparing for the impacts of climate-change initiatives in the coming 12 months?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Climate-change initiatives defined to include cap-and-trade or other carbon pricing policies, energy efficiency standards, industry or capital markets reporting requirements, climate-change adaptation strategies, and other efforts to move towards a low-carbon economy.

It also makes good business sense to find innovative solutions to this issue [sustainability] and to create 'green growth' long-term. We see a growing public interest in 'green topics' and sustainability, which is catered for by our books, magazines, TV programmes and also in our printing business. Overall we will further explore the market for green products and services.

Hartmut Ostrowski
Chairman and CEO, Bertelsmann AG, Germany

CEOs have to recognise that a lot of their long-term planning will need to be tossed out of the window. There has to be a lot more volatility built into your modelling; your ability to do your three- and five-year planning in that kind of an environment is diminished. You have to be much more tactical.

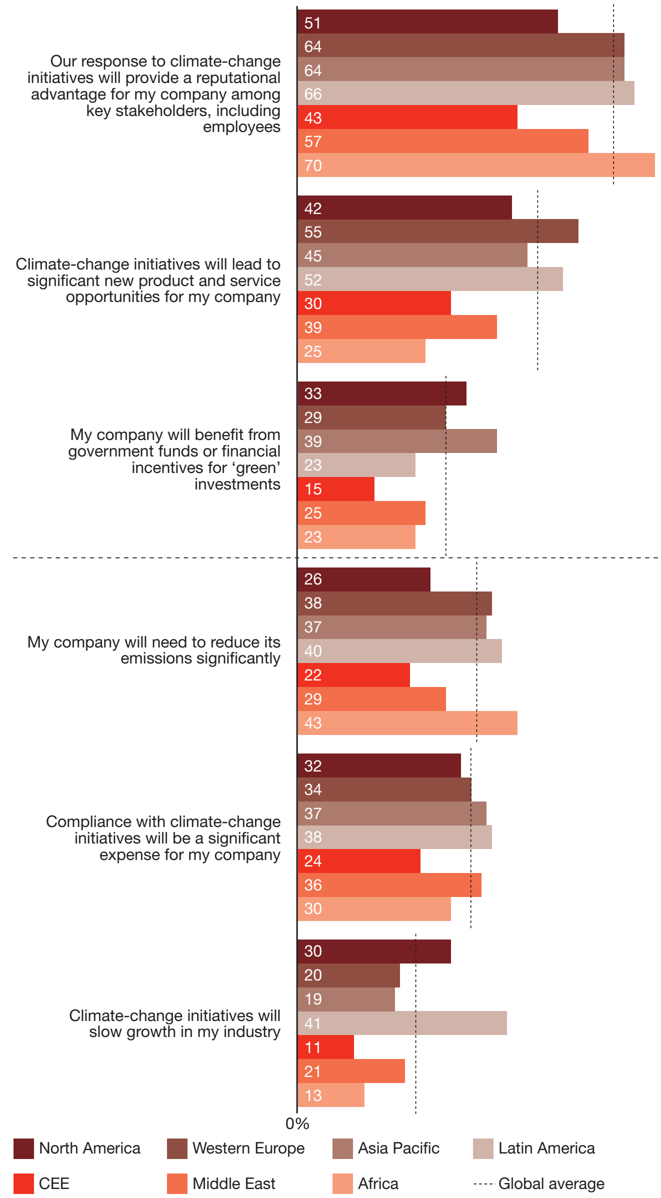
Ian Bremmer
President, Eurasia Group, US

In a separate survey of executives with responsibility over sustainability practices, two-thirds of large companies believe their efforts, including publishing reports on environmental performance, go beyond legal requirements.[10] So many leaders are beginning to craft a business case for sustainability. The output from the World Economic Forum's Task Force on Low Carbon Prosperity, a global multi-stakeholder group, set the tone for proactive business leaders to begin that process independently and in collaboration with the public sector.[11] 'We have always been interested in moving in this direction. But even for us, even in this, it is important to get ourselves up to date and therefore perhaps to become less, I would say, provocative/challenging and a little more specific', Gerolamo Caccia Dominioni, CEO of Italian fashion retailer Benetton Group SPA, told us.

Several business drivers underpin the business benefits of a climate-change strategy. More CEOs expect climate change will lead to new products and services for their companies than those who worry that climate change entails a significant expense. And CEOs are attuned to the shift in public perceptions of climate change and corporate responsibility: Nearly two-thirds of CEOs in Western Europe, Asia-Pacific and Latin America expect a reputational advantage from their climate strategies (see figure 3.8). 'As a consumer marketing company, our biggest concern is that consumers will choose not to buy our brands because we have not done the right thing,' said Paul S. Walsh of UK-based beverage company Diageo plc. 'But having done the right thing, it's invigorating to see how that can ignite the imagination of our employees and the communities in which we operate. It also affords us the opportunity to get out ahead of regulation.'

3.8

Reputational advantage is the leading driver of responses to climate-change initiatives



Q: How much you agree or disagree with the following statements about the potential impacts of climate-change initiatives?
Base: All respondents (28-442)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who stated 'agree' or 'strongly agree'.

10 'Appetite for change: Global business perspectives on tax and regulation for a low carbon economy', PricewaterhouseCoopers (January 2010).
11 For more information on the Task Force on Low Carbon Prosperity, for which PricewaterhouseCoopers served as project advisor, visit: www.weforum.org/en/initiatives/ghg/index.htm

One driver that fails to register broadly – that is, outside China – is government financial incentives and other measures to 'go green'. China has been the major beneficiary of the UN's Clean Development Mechanism carbon offset programme and investments in low-carbon technology over the past decade have accelerated as part of the government's stimulus spending directed at infrastructure. These investments are seeding what one report estimates could develop into a US$500 billion to US$1 trillion greentech market by 2013.[12]

Energy companies and utilities are more likely to have climate strategies in place and lead all sectors in preparing for climate initiatives in the near term. The two industries are already heavily regulated on emissions in many nations. At 53% and 55%, respectively, they are also more concerned about the cost of climate-related regulation than the global average of 34%, and acknowledge the potential for slower industry growth as a result. Equally, however, they are more convinced that climate-related initiatives will lead to substantial new products and services (62% and 67%, respectively) than the global average (47%).

Interestingly, of all business leaders, those in energy and utilities are among the most likely to believe that efficiencies will improve natural resource usage over the next three years. The sentiment is not shared by some of their greatest customers: CEOs in automotive and transportation and logistics are among the most likely to believe the opposite.

I would like to see greater focus by CEOs on long-term environmental issues. We must not be slaves of the immediate. Otherwise, we will destroy the future.

Dr. James Mwangi
MD and CEO, Equity Bank, Kenya

We do take full legal, economic, and social responsibility to protect the environment, which – as a by-product – also benefits our public reputation. Compared to the US, Europe, Japan and other industrialised countries, China still has a long way to go in terms of environmental protection. Only through relevant laws and regulations established by government, and voluntary implementation by enterprises of those laws and regulations, will the goal of environmental protection be achieved.

SHEN Heting
Executive Director, President, Metallurgical Corporation of China Ltd, China

12 'The China Greentech Report 2009', PricewaterhouseCoopers (September 2009).

Access to capital is a looming problem

In the middle of a financial crisis and billion-dollar bank bailouts, it may come as a surprise that an inability to finance growth does not score among the top-ten concerns for CEOs globally. The relatively low concern on financing, at least in the short term, is consistent with surveys from central banks in the US, the Eurozone and Japan, which revealed persistently weak demand for commercial loans through the first nine months of 2009. Chinese banks were a notable exception among the G20 economies. Bank lending surged as the Chinese government pushed stimulus measures largely through the banking sector.

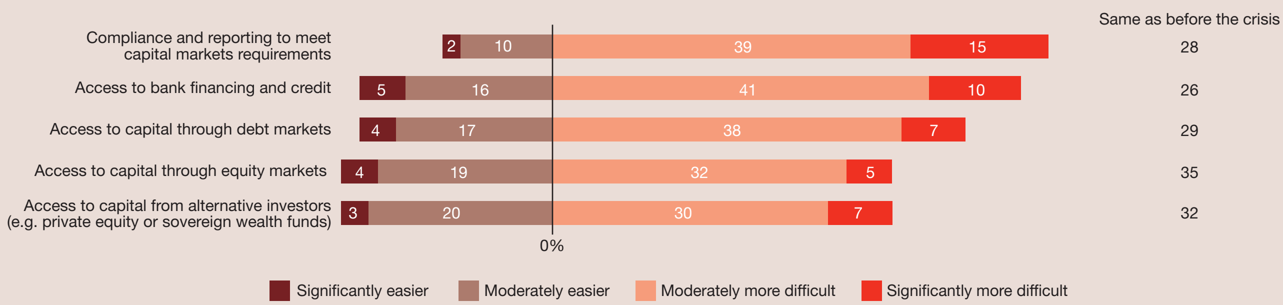
Fund-raising pressures typically lag a recovery and capital spending remains subdued in most economies. Many companies also rely on their own resources: 83% of business leaders in the survey expect internally generated cash flow to help finance growth plans. Moreover, many companies have completed a round of cost cuts and moved to refinance at low interest rates.

Post-crisis bank lending capacity is untested

Look ahead, however, and it is clear that financing will become a more pressing issue. If liquidity was ‘last year’s problem’, the survey responses suggest that access to capital is a strong contender for ‘next year’s problem’ – meaning it will rise in importance as growth spreads in 2010 and beyond, and companies seek more funds to invest. Over half of CEOs expect access to bank financing and credit will become more difficult after the recovery sets in. Forty-five percent anticipate more difficult access to capital through the debt markets, despite the healthy rebound in the bond market in 2009 (see

3.9

Access to capital is expected to become more difficult



Q: For each of the following, how do you expect conditions to change after economic recovery sets in, compared with before the economic crisis?
Base: All respondents (1,198)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Responses of ‘Don’t know/Refused’ excluded.

figure 3.9). 'Which ever way you look at it, the cost of capital has definitely gone up', said Paul S. Walsh of Diageo plc. 'So we continue to try to level out our investment profile.'

Expectations that access to capital will become more difficult stretch across industries and company sizes. Yet it is expected to weigh more heavily on smaller companies. 'First of all, for our SME customers, there are not many options around finance. The old days of long-term leases, HP on assets, is something either they're in or have done or would find more difficult, so a lot of them are restricted to the more traditional markets of banking', said Paul Walker of The Sage Group plc. 'Even some of the venture capital availability for SMEs has probably disappeared, so I don't think they have the same options as the larger corporates when looking for finance.'

Smaller companies in the survey are showing higher levels of concern over financially stressed suppliers than their peers. Unlike the largest companies, they are more reliant on banks for financing.

Challenge comes when businesses start to grow

Several factors point to tighter capital conditions. Chief among these is the prospect for higher interest rates as inflation rises. As always with interest rate cycles, it is a question of when. CEOs anticipating a 2011 recovery in their industries are the most concerned over an inability to finance growth at an acceptable cost of capital.

Other concerns surrounding capital costs are likely related to global market conditions. Cross-border capital flows, including foreign direct investment, lending, and sales and purchases of securities, dropped over 80% in 2008, leading to volatility in exchange rates and higher costs of capital in some emerging economies last year.[13] Capital markets stability remains a highly ranked concern for CEOs, although not at the level seen last year.

In developed economies, weak demand for lending throughout much of 2009 has left the post-crisis capacity of banking sectors to fuel and support growth largely untested. Banks are expected to remain risk-averse as regulations evolve and as they repair their balance sheets and the weak securitisation market continues to limit their own sources for loan funds.

'There is a lot of concentration on lower risk, higher strength organisations. Unfortunately, what happens in that environment is that the people who don't need the money are the ones who have the money easily available to them', said Michael I. Roth of Interpublic Group.

The challenge will come when businesses start to grow and need more people and more capital. The implications for companies with weaker market positions or those that are more reliant on banks for credit are clear. Banks will seek to lend to customers they regard as a long-term and valuable partner. 'As far as our customers are concerned, capital is available, but not to everybody. That's a huge difference now', said Mikael Mäkinen of Cargotec. 'Most of our 'key risk' customers do get capital. However, a few years back, you could see all kinds of companies popping up like mushrooms and starting up businesses – that capital is not available today. That should mean it is a better foundation. The sources of capital that our customers go to are being much more selective than before. That is a huge change.'

13 'Global capital markets: Entering a new era', McKinsey Quarterly (September 2009).

Post-crisis models emerge

When we analysed responses related to threats to growth, engagement with boards and regulation, we found that two sets of CEOs emerged from the others. Each represents different attitudes towards achieving success in the post-crisis environment, spanning geography, industry and size. Both engaged in similar levels of restructuring activities last year, and both also share similar outlooks on revenue growth prospects. Yet, the two clusters indicate that despite universal relief that the worst of the crisis appears over, not everyone is approaching recovery in the same way. Here's a look at where they differ on key points in our survey.

Consolidators: Drawing on existing networks

The first cluster, representing roughly a third of business leaders in our survey, we call 'Consolidators' for their conservatism: they are making few changes to their strategies and operations. Consolidators come from all regions of the world, although two-thirds are based in North America and Europe. The majority are established businesses with a long tenure. They are far less concerned about threats to business growth than the Adaptors, but they exhibit greater antipathy to regulation in general, particularly regulation surrounding foreign investment and innovation.

Consolidators are focused on strengthening their existing market position. They are also more likely to be planning to strike strategic alliances and to close acquisitions than other CEOs.

Consolidators investment plans are restrained. Most Consolidators will rely on internally-generated cash flow to finance growth. And fewer plan to raise or change spending on technology, R&D or capital investments. (See figure 3.10.)

Consolidators expect fewer organisational changes. More Consolidators cut workforces during the recession. While the two groups were equally likely to have implemented cost-cuts in the past year, Consolidators are less likely to be planning cuts going forward. Consolidators are less likely to outsource and far less likely to collaborate with external specialists suggesting a more traditional internal organisational approach.

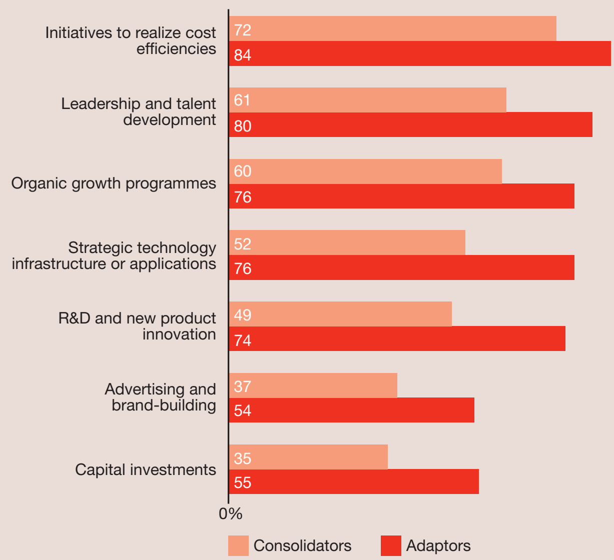
Adaptors: Concerns prompt radical changes to the business model

The other set of CEOs, whom we call the 'Adaptors', is taking bold steps in many directions, to adjust to a new environment. Roughly one-sixth of business leaders fall into this category. Adaptors come from all regions although 63% are based in emerging markets in Asia-Pacific and Latin America. They are a mix of both small and large businesses. They are far more concerned over a range of threats to growth: they are twice as concerned as Consolidators on their ability to finance growth, exchange-rate volatility and energy costs. They are nearly three times as concerned as Consolidators over supply chain security. These concerns are leading them to take decisive actions to adapt to the new environment and mitigate risks to their business. Adaptors are aggressively changing operating models and investment strategies and they are not done with restructuring. More are planning cost-cuts in the near-term than Consolidators.

Adaptors are reorienting strategies. (See figure 3.11.) More are planning investments in technology, R&D and capital investments. They are investing in people, including in training and leadership programmes.

3.10

Adapters are more aggressively investing in a range of areas



Q: How do you plan to change your long-term investment decisions in the following areas over the next 3 years as result of the economic crisis?
Base: All respondents (361, 215)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who stated 'moderate' or 'significant increase in investment'.

Adaptors are highly risk-aware – and are pro-actively addressing many of their concerns. They are more likely to be pushing risk management practices out into all business operations. And they are taking steps to prepare for systemic risks.

3.11

Adaptors are more likely to be changing their strategy, organisation or operating model

Q: In the wake of the economic crisis, to what extent do you anticipate changes to any of the following areas of your company's strategy, organisation or operating model?
Base: All respondents (361, 215)

Source: PricewaterhouseCoopers 13th Annual Global CEO Survey 2010

Note: Respondents who stated 'some change' or 'a major change'.

Our view

It is too early to tell whether one strategy will be more successful than the other. In fact, in our view, Consolidators and Adaptors represent archetypal strategies that could both lead to lasting success, building on particular organisational strengths and environmental factors. Yet, clearly risks remain for both.

Consolidators feel they are now on the right track for recovery, that the recession helped them 'cut the fat' and do what they do better, but otherwise, they are not looking to change drastically. For this set, too much change may be a distraction from the market or departure from their business model. Or, they may have the luxury to be more conservative as they wait for their competition to thin out. They will concentrate on finding ways to keep existing customers in a challenging environment and alliances and joint ventures could be a smart way to offer customers more.

However, there is a risk that new players, with innovative products, emerge and that Consolidators may not have the agility to adjust their operating model. They are cutting fewer costs and investing relatively less in R&D, talent and organic growth programmes than Adaptors.

Regulatory simplicity and fairness are also a cornerstone priority for Consolidators. They are aware that regulation shapes growth strategies – regulations impacting innovation and foreign investment are particularly anathema. But are they equally attuned to potential change to regulatory frameworks as recoveries set in? They are less likely than Adaptors to believe government can improve policy by more engagement with business.

Adaptors are undergoing significant change to create a new basis for sustainable growth over the long-term. This may signify a belief that as the market shakes out, this is the time to come forward and seize opportunity. For Adaptors, this includes being more innovative about climate change, more collaborative about regulation, and more agile. They want to be ready to compete in the emerging environment, and potentially steal the lead over other organisations that might be taking a 'business as usual' approach. These businesses will be more resilient to change over the long-term and are creating a talent pipeline for the long-term, despite having had to make some short-term headcount reductions.

Yet there is no real comfort zone for Adaptors. Some are acting from a position of strength; some may be under duress. Each may be as likely to boom as to bust. While most expect to finance growth from internal sources, their wider ranging investment strategies may require additional, alternative sources of finance in a lending environment that most CEOs expect is about to become more difficult. They recognise that capital is likely to be in short supply in the coming months and they may find it difficult to execute their strategy for that reason. There might also be a danger that they are changing too rapidly, before it is really clear what the new environment will look like.

Final thoughts

Lessons learned and applied to 2010

Throughout this report, we have described how business leaders responded to the challenges brought by the recession and how they are positioning their companies for the future. We also asked CEOs to describe, anonymously and in their own words, what lessons they are taking away from the crisis.

One of the more consistent regrets was not acting fast enough when conditions turned. 'If I was to do it all over again, I would be more pessimistic. All the stuff I had to do, for example in cost savings, I would do at the beginning. Be more radical', reads one fairly typical comment. The idea that some businesses or entire industries can be immune from or little changed by conditions appears to have taken some time to defeat. It is not easy to appreciate how a bankruptcy on Wall Street can so swiftly sap liquidity throughout the banking system.

Judging by the number of times certain words or phrases were used, if there had been signposts warning of the turmoil on the road ahead and how to prepare, they would have read, in order: 'Evaluate risk', 'Cost is king', 'Cash is king', 'Be transparent', 'Greed can be hazardous', 'Don't Trust anymore', 'Be flexible' and helpfully, from a CEO in Uruguay, 'Always have a Plan B'.

CEOs are attempting to strengthen the resilience of their organisations and yet remain attuned to the opportunities emerging. It is a difficult balancing act, as attested by the apparent contradictions they conveyed. Lessons learned from the financial crisis revolve chiefly around gaining more control over these newly appreciated vulnerabilities, internal and external.

Long-term planning is critical – but be prepared to change at a moment's notice

The importance of strategy, clearly understood by customers, employees and business partners, cannot be underestimated in a crisis. Yet the speed with which market conditions change today can render planning models moot. The key is embedding agility throughout an organisation to enable rapid reaction to changing trends while maintaining a strategic positioning. 'Flexibility is the most important weapon', said a CEO in Portugal. 'Flexibility is the key to smoothing the effects of the crisis and is needed in production, costs and commercial actions.'

Lessons learned from the financial crisis revolve chiefly around gaining more control over these newly appreciated vulnerabilities, internal and external.

Stay disciplined on costs, but incur them to innovate

The vigorous cost-cutting measures adopted over the past year exposed inefficiencies throughout organisations, and CEOs remain highly focused on costs. Yet this inward concentration needs to be balanced with a long-term focus on what it will take to remain competitive. 'I've discovered that you can't actually reduce your costs dramatically and still remain profitable', said a UK-based CEO. With so much of the world's growth expectations placed on demand from emerging markets, more heated competition is likely, with domestic competitors buoyed by relative financial strength to compete with Western multinationals. Innovation and ew product development are cornerstones for future positioning. One CEO said the crisis taught his company not to outsource on innovation. 'Don't wait on another crisis for change', said a CEO in industrial manufacturing. 'It's with innovation than we can be strong.'

Encourage banks to lend – but assume they won't

Companies are paying far closer attention to their own cash management and leverage, and have learned not to rely on a single source for financing. 'It had never been a big factor before, but borrowing levels have over-extended companies financially, leaving them vulnerable to the whim of the banks', said a UK CEO. The reality is that this is the time to deepen the relationship with the bank. While a majority of CEOs expect to finance growth from internal cash, 40% also expect to turn to banks. Financing costs are rising as banks become more selective; they will favour companies whose strategy and long-term outlook give them confidence.

Manage risk in good times and bad

The importance of good risk management practices was by far the most frequently cited 'lesson learned'. CEOs fault their own approaches to risk as much as risk practices in the financial sector. 'The regulations are fine, but it's the companies that should evaluate the risks better', concluded a CEO in financial services. 'We thought the party of 2008 would continue forever. We need to take our risk management seriously', said a Czech CEO. Effective risk management cannot be done on the fly. The time to manage risks and address complacency is when conditions are improving. 'Risk management should be a long term systematic strategy. Not just implemented at the time of crisis', commented a CEO in China. The alternative has proven daunting. 'Managing risk in a changed environment is a big challenge', noted a Belgian CEO.

We thought the party of 2008 would continue forever. We need to take our risk management seriously.

CEOs were very candid about the lessons they learned during this crisis. We could not possibly include all of the helpful lessons in this document, so we put many on our website.

We welcome you to visit **www.pwc.com/ceosurvey** to read CEOs' views, in their own words, on how they intend to avoid another crisis, on the tough choices they are making to enforce cost discipline while preserving long-term investments, on the lasting legacies of the crisis on regulation and public trust, and how they are reshaping their strategies to compete in a post-crisis environment.

Research methodology and key contacts

This is the 13th Annual PricewaterhouseCoopers' Global CEO Survey and we have followed the same methodology as we used the previous years to ensure we are fairly representing the emerging economies of the world. We have conducted interviews in 52 countries worldwide, and varied the number of interviews in line with their GDP, measured at market exchange rates, in 2006.

In total, we conducted 1,198 interviews with CEOs in 52 countries between 24th August and 16th November 2009. By region, 442 interviews were conducted in Western Europe, 289 in Asia Pacific, 167 in Latin America, 139 in North America (39 in Canada), 93 in Eastern Europe and 68 in the Middle East & Africa.

The interviews were spread across a significant range of industries. Further details, by region and industry, are available on request. The interviews were mainly conducted by telephone, with the exception of Japan, where a postal survey was administered and Africa, where most of the interviews were conducted face to face. All the interviews were conducted in confidence and on an unattributable basis. The lower threshold for inclusion in the top 30 countries was companies with more than 100 employees or revenues of more than $10 million. This is raised to 500 employees or revenues of more than $50 million in the top 10 countries.

37% of the companies had revenues in excess of $1 billion, and a further 38% had revenues of $100 million to $1 billion. The remaining 21% had revenues of less than $100 million. Company ownership is recorded as private for 50% of all the companies, with the remaining 47% listed on at least one stock exchange.

To better appreciate what is underpinning the CEOs' outlook for growth we also conducted in-depth interviews with 27 CEOs from five continents over the fourth quarter of 2009. Their insights cover a wide range of topics, from prospects for recovery to new dynamics of post-crisis environment, balancing growth with risk management and lessons learnt. Their interviews are quoted in this report, and more extensive extracts can be found in the CEO Story supplement. The full interviews and a selection of video bites are available on the dedicated website www.pwc.com/gx/en/ceo-survey/perspectives.html.

PricewaterhouseCoopers' extensive network of experts and specialists has provided its input into the analysis of the survey. Our experts span many countries and industries.

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.

For further information on the survey content, please contact:
Sophie Lambin, Director of Global Thought Leadership
+44 20 7213 3160
sophie.lambin@uk.pwc.com

For media enquiries, please contact:
Mike Davies, Director of Global Communications
+44 20 7804 2378
mike.davies@uk.pwc.com

For enquiries about the research methodology, please contact:
Claire Styles, Thought Leadership Research Manager
+44 20 7804 0115
claire.e.styles@uk.pwc.com

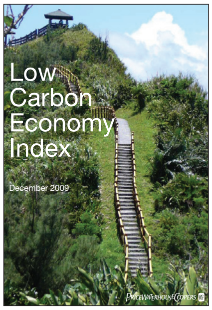
Further reading

These publications can all be found on **www.pwc.com/researchandinsights**

Re-thinking and Re-shaping the business environment: Government and the Global CEO (January 2010)

This publication assesses the changing relationship between government and business as the world emerges from crisis and sets out on the road to recovery. The research carried out for the PricewatehouseCoopers' 13th Annual Global CEO Survey is extended and deepened by including a selection of interviews with senior decision-makers in governmental organisations across the world to understand better the implications for government policy of the views of CEOs as we emerge from troubled times.

Low carbon economy index (December 2009)

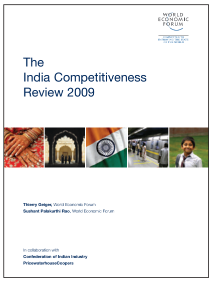


This publication examines climate change issues and the challenges facing the world economy as it works to reduce carbon emissions. The index looks at the period from 2000 to 2050, and an intermediate timeframe to 2020.

Appetite for change: Global business perspectives on tax and regulation for a low carbon economy (January 2010)

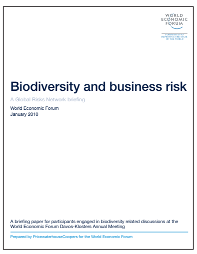
A global study which explores the views of the business community on environmental issues and perceptions of the current environmental tax and regulation regimes. The survey comprises almost 700 interviews worldwide, covering 15 countries. The paper is intended to help inform the dialogue between national governments and international institutions on tax policy in this arena and to ensure that the perspective of business is well represented and understood.

The India competitiveness review 2009 (November 2009)



This paper shares advance findings of PwC's 13th Annual Global CEO Survey for the Indian chief executives. The analysis suggests that the Indian CEOs remain optimistic despite the global economic crisis. Underlying this confidence is their belief that the country's economy is well on its way to recovery, with nearly two-thirds expecting recovery by the middle of 2010.

Biodiversity and business risk: (January 2010)



Recently, the broad systemic implications of biodiversity loss and ecosystem degradation linking to resource management, climate change and population growth have been more explicitly articulated. This briefing paper explores both specific and broader systemic effects and the associated business risks.

Rebuilding the global economy: Rebalance, Connectedness, Sustainability (November 2009)

This survey of business leaders in the APEC region explores the impact of the financial crisis and the role of APEC in rebuilding the global economy going forward, with particular emphasis on the themes of rebalancing, connectedness, and sustainability.

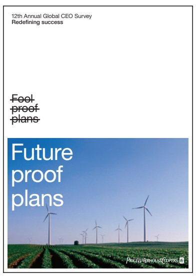
Managing tomorrow's people: How the downturn will change the future of work (September 2009)

Pay and promotion freezes, changes to pension schemes, cuts in recruitment and slashed training budgets have eroded the trust between some employers and their employees. This paper uses scenario planning to map how the global economic crisis will impact the widely accepted shortage of talent predicted for tomorrow's world.

Exploring emerging risks: (January 2009)

Extending Enterprise Risk Management (ERM) to address emerging risks: This paper looks at how organisations identify, assess, and manage risks, what techniques they are using as the basis for determining response strategies that align with their strategy and risk appetite and tolerance.

PricewaterhouseCoopers' 12th Annual Global CEO Survey (January 2009)



This survey sets out to further explore the pessimism that prevailed across all geographic regions, business sectors and levels of economic development, painting a picture of how CEOs were navigating the time of extreme economic uncertainty while working to achieve enduring success.

Acknowledgements

The following individuals and groups in PricewaterhouseCoopers and elsewhere contributed to the production of this report.

Editorial team

Emily Church
Sophie Lambin
Larry Yu

Editorial board

Cristina Ampil
Mike Davies
Nick Jones
Christopher Michaelson
Elizabeth Montgomery
Oriana Pound
Deepali Sussman
Leyla Yildirim

Advisory board

Hans Borghouts
Tom Craren
Dan DiFilippo
Moira Elms
Glen Peters
David Phillips
Tony Poulter
Michael Rendell
Mark Schofield
Jeremy Scott

Publishing and Project management

Angela Lang
Irina Ruseva
Suzanne Snowden
Alina Stefan
Claire Styles

Online content

Vhanya Barba
Lee Connett
Tracy Fulham
Tim Kau

Design and layout

Studioec4

Research and data analysis

The research was coordinated by the PricewaterhouseCoopers International Survey Unit, located in Belfast, Northern Ireland.

pwc.com/ceosurvey

100%

Printed on FSC 100% recycled material, supporting responsible use of forest resources. Produced at a mill that is certified to the ISO14001 environmental management. This product has been awarded the NAPM 100% Recycled Mark.