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Delivering results through talent
The HR challenge in a volatile world

15th Annual Global CEO Survey.

pwc

About the survey

We conducted 1,258 interviews with CEOs in 60 countries between 22 September and 12 December 2011. By region, 440 interviews were conducted in Asia Pacific, 291 in Western Europe, 236 in North America, 150 in Latin America, 88 in Central and Eastern Europe and 53 in the Middle East and Africa in line with GDP.

In addition, 38 CEOs sat down with us near the end of 2011 for more extensive conversations. Their thoughts are reflected in the quotes throughout this report.

The interviews were spread across a range of industries. Further details, by region and industry can be found at: **www.pwc.com/ceosurvey**

The HR challenge

"Our starting point is to have a human capital strategy that, as much as possible, pre-empts and mirrors our business strategy and business plan. And that's a challenge in itself."

Rohana Rozhan, CEO, ASTRO Malaysia Holdings, Malaysia

The talent crisis is no longer a problem of the future. It is here and now and is threatening business growth and economic prosperity.

As the global business landscape continues to evolve, the challenges remain and intensify in many countries. We are witnessing a huge shift of economic power and opportunities to emerging economies, particularly in the East. Businesses are looking for sustainable growth and their targets are more demanding than ever. Organisations are having to rethink their talent pipeline and transform their HR function to deal with new priorities and risks.

The impact of technology and need for innovation continue to demand new skills in new places. A clear plan for global talent mobility alongside the development of strong local talent is vital. The new world has also brought new regulatory obligations, transformed our view of pay and incentives, and refocused our definition of employee engagement.

We are in the age of the millennials, a generation that wants more, wants it now and has many questions and challenges for its employers. The pace of change is not slackening and is set against a backdrop of changing demographics and new sophisticated emergent competitors.

To be successful HR has to be a true partner to the CEO – helping to shape the priorities and plans of the business. How HR leaders take up this challenge may well determine whether their organisation will sink or swim in these turbulent times.

PwC's view

"But what is interesting and what is changing is that among Western companies, the ability to hire, develop and retain talent in the developing economies has become a major point of competitive differentiation."

Marijn Dekkers, Chairman, Bayer AG

- A lot of investment in talent over the past few decades has been made in economies that are now slower growing. CEOs need to work out how to align their absolute top talent with their most pressing opportunity – that of growing in priority markets.
- We believe many organisations are unclear about how they can create a sustainable talent pipeline for the long term. Organisations need to manage their talent supply chain with the same rigour that they would apply to other parts of the organisation. They must focus on making their businesses the most attractive to the best local talent.
- The reality is that many companies do not understand who their key talent is – never mind how engaged they are, whether they have the right incentive/reward models to keep them and the impact on the business of losing that talent. This means that key talent will be lost while 'non talent' may be over-incentivised.
- Refocusing efforts and investment on pivotal roles could provide a major competitive advantage over the next 12-18 months. Businesses need to identify the key capabilities, competencies and positions before looking at the mix of talent required – the mix of local talent versus expats and permanent versus contingent employees.
- Whilst a large majority of CEOs say they are changing their strategies around managing talent, only the most forward looking are taking the actions most likely to deliver real competitive advantage. Many businesses are simply using the same tactics they've always used – which will deliver the same results. In today's world it just won't be good enough.
- CEOs need to consider the future of the HR function – some HR teams are failing to deliver the strategic thinking needed to drive growth. We believe a rethink of this function is overdue in many businesses. HR needs to respond.

Headlines

Looking for global growth

- 83% of CEOs expect to grow their operations in South-East Asia, 80% will grow in South Asia. 77% in East Asia and 77% in South America.
- 59% say they see emerging markets as more important than developed markets to their future.

Making talent strategic

- Integrating HR with business planning: 79% of CEOs say the chief human resources officer is a direct report.
- More than three-quarters of CEOs are making a change to their strategy for managing talent. The top target for change for the second year running.

Skills shortages are a top threat to growth and profitability

- 53% of CEOs see lack of key skills as a major challenge. Only 30% of CEOs are 'very confident' that they will have access to the talent they need over the next three years.
- Talent shortages are already biting: over half of CEOs say lack of talent meant they either, cancelled/delayed a strategic initiative, were unable to pursue a market opportunity or could not innovate effectively.
- 43% say it is now more difficult to hire workers in their industry.
- 53% of business leaders say that they have the greatest challenge recruiting and retaining high potential middle managers. This talent pool is the most elusive.

Operating in the dark?

- Only a minority of CEOs are getting comprehensive HR management information for the measures they say are important.

Looking for global growth

"Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you'd better be able to operate in both at the same time"

Brian Duperreault, President and Chief Executive Officer of Marsh & McLennan Companies Inc.

As the global business landscape continues to shift and change, businesses are looking for growth – but most growth is going to come from the markets many business leaders know less well. More than three-quarters of CEOs are planning to build up their business in Asia, Africa or Latin America over the coming year. 59% say they see emerging markets as more important than developed markets to their future. There are good reasons for that – BRICs are still growing far faster than more mature markets. We no longer see these economies as a source of cheap labour, but a source of consumers ready to buy.

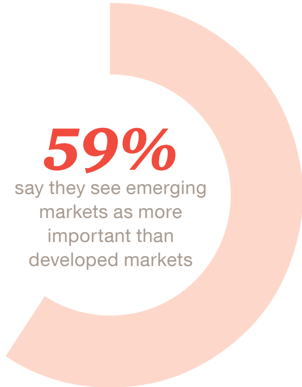
And businesses are deciding how to grow – how will they enter new markets? Joint ventures and M&A activity raise many HR challenges – as does attempting to swiftly upscale operations. We ask: Where will your talent come from? Where will you get the skills you need? What mix of expats and local talent will you use? How will you get teams to understand your corporate culture? How do you engage them? What will it take to keep them?

CEOs report challenges in hiring across most industries. Even industries such as banking that have retrenched workers in large numbers are still struggling to get the right people in the right places. Half of CEOs are looking to increase their headcount over the next 12 months, with more than half of these anticipating staff increases of above 5% over the coming year. Just 18% are planning to reduce staff overall, though these headline findings mask more varied changes in skills needs, shortages and surplus numbers in particular locations.

Particular pressure on talent is being felt in the growth markets of South America, Asia, Africa and the Middle East, where suitably qualified and experienced people are already in short supply. As these markets expand and become more crucial to industry growth, this squeeze on available talent is likely to increase.

The quality and availability of key talent is crucial to success in this fast-moving world, allowing businesses to seek out fresh sources of value and capitalise on opportunities that competitors without the right people will be unable to exploit. In turn, businesses must make sure their workforce reflects the changing nature of the marketplace and shifting focus of growth. The challenge is to identify what skills are needed where, in order to deliver on future growth strategies – not just for the next quarter but for the next three years and beyond.

This is the talent crunch. It's a complex and frustrating challenge and it's being felt worldwide.



"As emerging markets accelerate – or maybe the rest of the world decelerates – there is a significant sense of urgency. There is the sense that it may already be too late to place your bets. A second factor to consider it that it is much more difficult to get into those markets because of their attitude change. They feel that post-2008 they have less to learn from the West."

Lázaro Campos CEO, SWIFT, Belgium

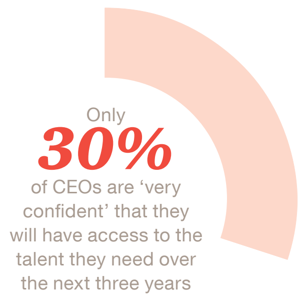
Talent shortages biting

Talent gaps and mismatches not just an issue for the future, they are hurting businesses now.

Many businesses believe they can simply hire or relocate the staff they need. Yet, as businesses chase candidates, competition for good people is soaring and leading to rapidly rising pay costs within many businesses – particularly those in parts of Asia, the Middle East, Latin America and Africa. Over 40% of businesses leaders saw an immediate and unwelcome impact on their bottom line with people costs rising more than planned in the last 12 months.

Of greater long-term concern, one in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent challenges. One in three is concerned that skills shortages will impact their company's ability to innovate effectively. Over 50% of businesses say they were hit by one or more of these three issues.

The real question is why talent gaps remain such a challenge, despite being an evident strategic priority. This is not a new issue. Our CEO surveys throughout the past decade have consistently highlighted the availability of skills as a significant strategic threat across all sectors.



Talent constraints are imposing tangible costs on global companies

Q: Have talent constraints impacted your company's growth and profitability over the past 12 months in the following ways?

Base: All respondents 2012 (1,258).
Source: PwC 15th Annual Global CEO Survey 2012.

"We've definitely grown less fast than we would have liked to in some places, particularly in some of these new skill areas – business intelligence or future IT skills – because we haven't been able to recruit and attract and train enough people fast enough."

Andy Green, CEO, Logica Plc

Making talent strategic

CEOs are determined to be more strategic in the way they manage their workforce today and plan for future needs. We see that 78% of CEOs are demanding a change to strategies for managing talent. Two-thirds of CEOs are planning to spend more of their own time on developing the leadership and talent pipeline in their businesses.

Leading businesses are looking beyond the next budget round to plan talent needs. They see that a longer-term strategic view is needed, if they want to close the gap today and map how talent needs will evolve. Delivering growth depends on being able to institute well-informed and proactive strategic workforce planning. Plans that address the fundamental questions of: 'What skills do we require to deliver our strategic objectives and how do we ensure that we have the right people in the right places at the right time?'

"One of the first things I committed to was to take our human resources function to a whole other strategic level and capability to impact the business"

Michael White, Chairman, President and CEO of US-based DIRECTV

Is HR stepping up?

Being more strategic on talent calls for HR and the business to work closely together in planning and decision making. The good news is that 79% of CEOs say that the chief human resources officer, or equivalent, is one of their direct reports (most have ten or fewer direct reports).

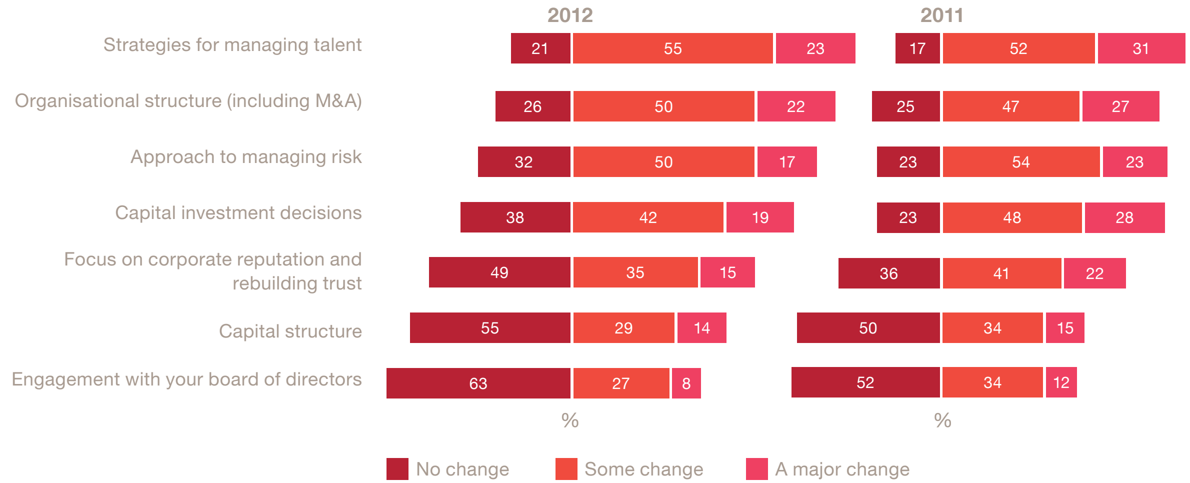
But the greatest challenge remains around HR's ability to drive the change needed to deliver growth. To become a true strategic business partner means understanding the company's business, industry and strategy. HR needs to be actively involved in investment and business decisions and looking to financial measures to gauge results. A strategic HR function should act as a consultant to the company on all people issues; providing insights that can help business leaders make the right decisions and helping to craft the right business strategy including those around new market entry.

And there are other challenges for HR as businesses look for growth, not least how the function aligns as global corporate footprints change and expand. Will we see more HQs moving East? Is centralised or local governance the way forward? It's a multi-speed world – will a one speed HR model work?

In businesses where HR is not focused on the strategic business issues that have a direct impact on overall value then the future may be bleak. With CFOs taking a much wider role around growth and business transformation HR leaders need to become more strategic or face becoming purely functional.

Talent remains the top priority for CEOs

Q: To what extent do you anticipate changes at your company in any of the following areas over the next 12 months?



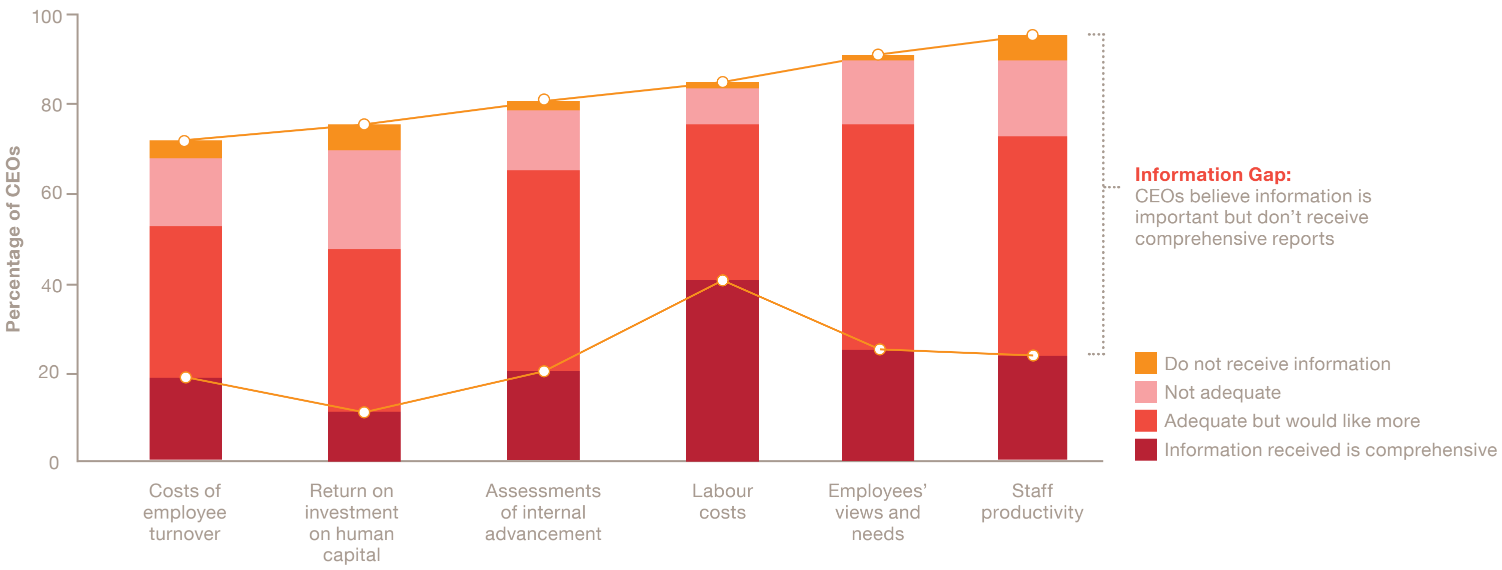
Base: All respondents 2012 (1,258); 2011 (1,201).
Source: PwC 15th Annual Global CEO Survey 2012.

Operating in the dark?

A minority of CEOs get comprehensive reports on their workforce

Q: When making decisions, how important is it to have information on each of the following talent-related areas? For those areas that are important to you, how adequate is the information that you currently receive?

% of CEOs who believe the relevant information is important or very important



Base: All respondents 2012 (1,258).
Source: PwC 15th Annual Global CEO Survey 2012.

So how can companies become more strategic about talent? One place to start is by getting better data.

CEOs consistently say they don't have enough information to improve decision making in areas such as cost of employee turnover, staff productivity, or employees' views and needs. Three-quarters of them say that it is important to have information on return on investment in human capital upon which to make decisions, yet only 16% believe the data and analysis they currently receive is sufficiently comprehensive. That's an information gap that needs to be bridged.

A lack of quality information is making it very difficult to anticipate strategic talent needs and plan ways to meet them in a timely, assured and cost-effective way. In short, many businesses are operating in the dark.

The future of employee engagement

Employee engagement analysis can give business leaders a clear link between engagement and improved performance measures such as retention and discretionary effort. The point is to align strategy and engagement – and so understand the organisation's capacity to generate the benefits derived from engagement in ways that directly impact delivery of the business plan.

A study conducted by the Corporate Executive Board found that the employees who were most committed to their organisations gave 57% more effort and were 87% less likely to resign than employees who consider themselves disengaged.[1] Yet during the recent downturn, engagement levels among top performers fell more sharply than for workers overall, PwC has found.[2]

That's why forward-looking businesses are going further. They're coupling a clear view of the pivotal roles within their business – the roles that create (or threaten to destroy) disproportionate business value – and applying data mining and predictive modelling to gain insight into retention, recruitment or productivity. For example:

- a retention score for each employee, which measures the probability that an employee will leave in the next year

- use of engagement studies to identify barriers to high performance within specific groups of employees, as well as the tangible improvements that can drive both engagement and business performance, or

- a focus on the direct market-facing impact employee engagement has on measures of business performance such as customer satisfaction or product quality.

[1]*Corporate Executive Board, The Role of Employee Engagement in the Return to Growth, Bloomberg Businessweek, August 2010.*
[2]*PwC Saratoga data.*

Finding and winning talent

CEOs fear they won't have the right talent to compete effectively in the global economy. More than half fear talent shortages will constrain their company's growth. Just 30% of CEOs are 'very confident' that they will have access to the talent they need over the next three years.

Many organisations still rely on recruiting the key people they need from their competitors and using expatriates from other parts of the business. The scale of the talent demand and shortfall they face means that such responses alone are not enough.

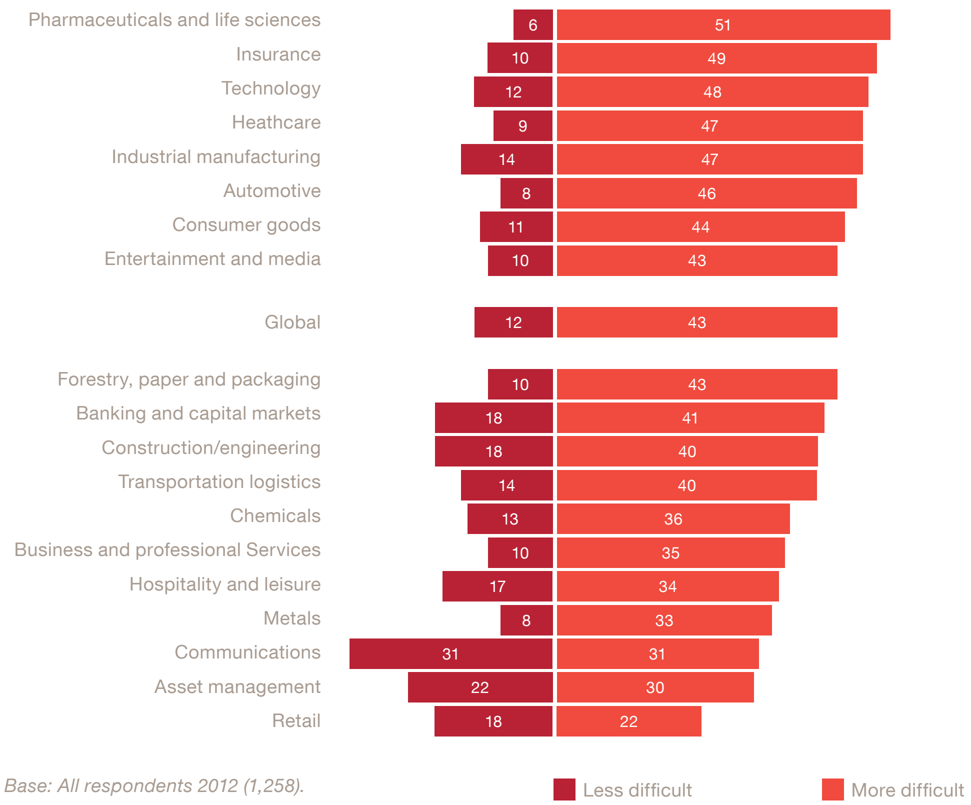
Companies need to refocus efforts and investments on those employees who will be most valuable to their businesses in light of their growth ambitions. Looking to newer markets brings with it a need for a more global mindset across the whole business. Hierarchies are becoming flatter meaning employees are more empowered. Technology and collaborative platforms support innovation and global working but bring their own challenges. The world of tomorrow needs employees who can work in virtual global teams and leadership who are up to the task.

"Let's face it. There are 80 million Baby Boomers who are going to retire over the next five to seven years, and they're going to be replaced by 40 million Gen Xers. That's two to one, so you'd better be developing your next generation now if you're going to be ready for that transition."

Michael White, Chairman, President and CEO, The DIRECTV Group Inc., US

Different industries, different requirements – but skills gaps remain

Q: In general, has it become more difficult or less difficult to hire workers in your industry, or is it unchanged?



Base: All respondents 2012 (1,258).
Note; Responses of 'unchanged' not depicted.
Source: PwC 15th Annual Global CEO Survey 2012.

"We're starting to attract some technically inclined people out of the schools today, but there are fewer mining schools and mining engineers – at the same time there's more demand for them."

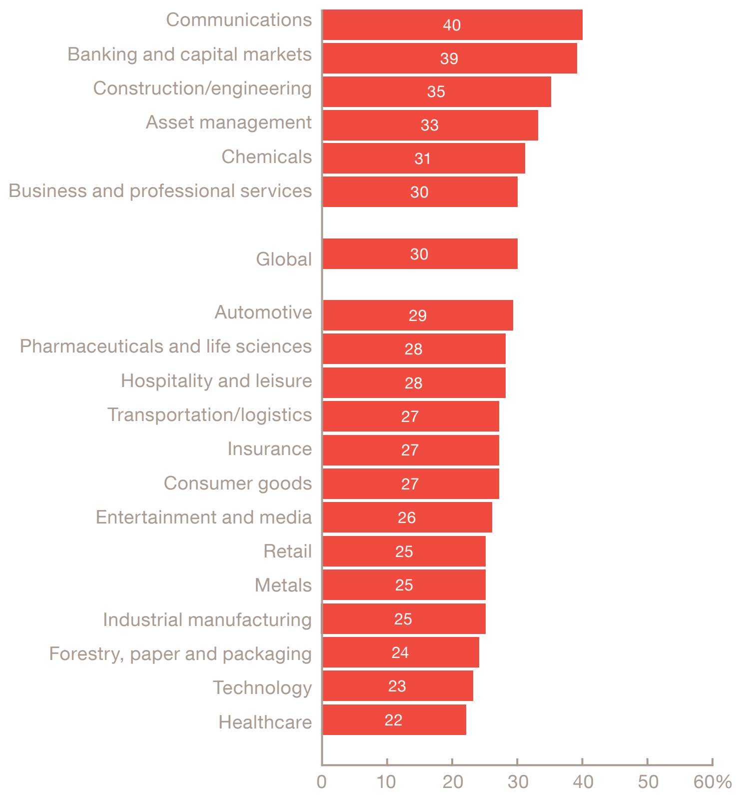
Richard O'Brien, President and CEO, Newmont Mining Corporation

"VTB's corporate university was established six years ago. Since then it has become a promotion springboard for many middle-level managers."

Andrey Kostin, CEO, VTB Bank OAO

Bridging talent gaps

How confident are you that you will have access to the talent needed to execute your company's strategy over the next 3 years?



Leading businesses are reaching back further into the talent pipeline and seeking to 'grow their own'. We are seeing a proliferation of employer-led universities. Companies are taking the long view and partnering with their governments and foundations to invest in workforce development.

Most CEOs believe business also has a role in upgrading and fostering skills outside their own companies. 78% say they are making direct investments in workforce development and just over half say they are investing in formal education systems and adult or vocational training programmes.

CEOs are more focused on recruiting local talent and developing and promoting from within

Q: With regards to plans for your global workforce over the next three years which of the following statements do you feel is more likely to occur?

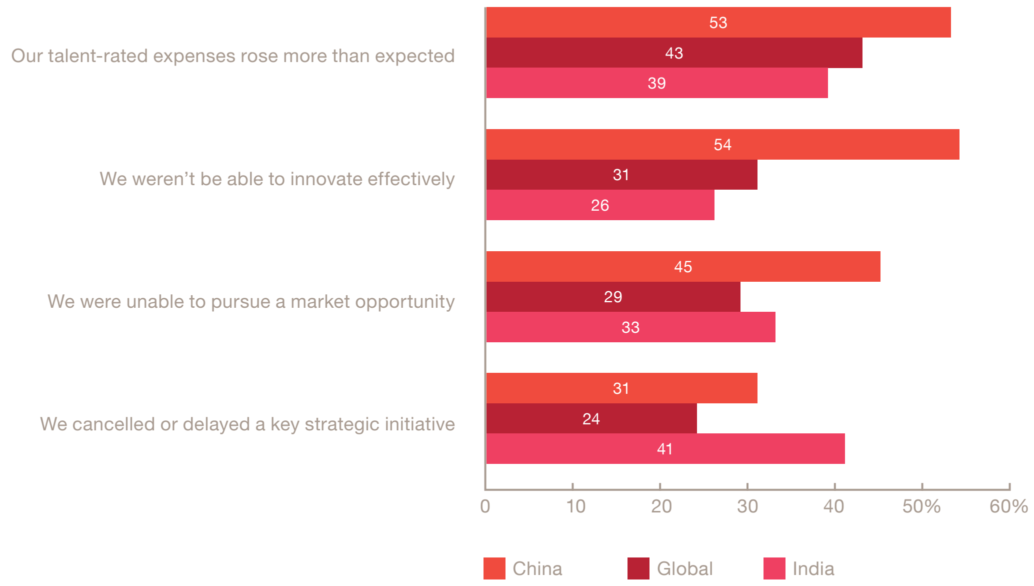
Statement	Agree with statement (%)	Agree with statement (%)	Statement	Don't know
We plan to move experienced employees from our home market to newer markets to circumvent skills shortage	53	16	We plan to move experienced employees from newer markets to home markets to circumvent skills shortages	31%
We plan to develop and promote most of our talent from within the company	67	24	We plan to recruit more experienced talent from outside the company	8%
We plan to primarily recruit local talent wherever we have market needs	70	19	We plan to move more talent across borders to fill market needs	11%

Base: All respondents 2012 (1,258).
Source: PwC 15th Annual Global CEO Survey 2012.

Contrasting China and India

Talent constraints are imposing tangible costs on global companies

Q: Have talent constraints impacted your company's growth and profitability over the past 12 months in the following ways?



Base: All respondents 2012 (1,258).
Source: PwC 15th Annual Global CEO Survey 2012.

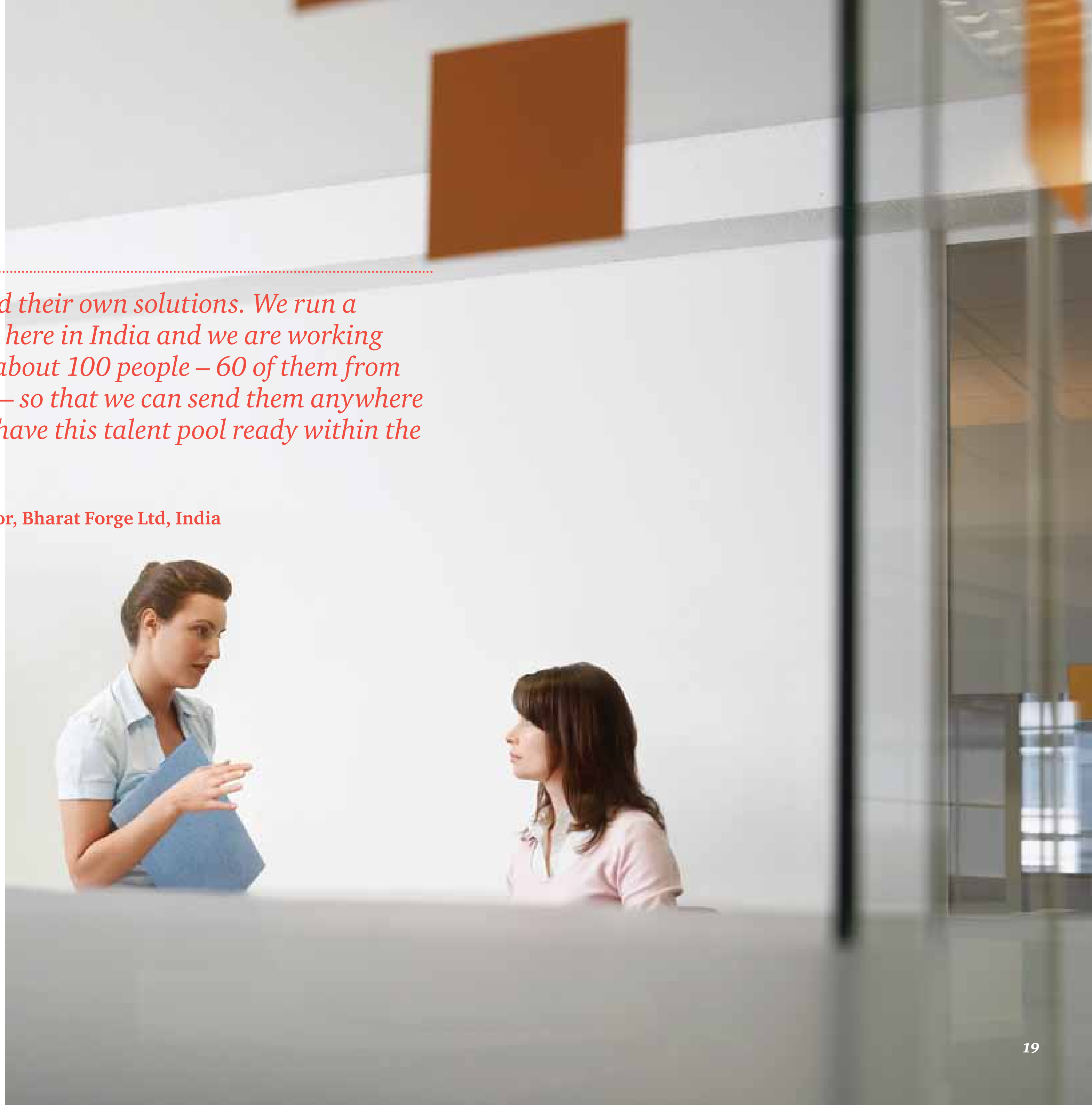
Compared to their global peers, CEOs from India are less concerned about the availability of talent in spite of widely acknowledged skills gaps in the country. Around 66% are 'very confident' about having access to the talent needed to execute their company's strategy over the next three years. Neither Chinese (38% confident) nor global (30% confident) peers had such optimism.

A look at the impacts talent constraints are already having on Chinese businesses shows that costs are rising fast and strategies are being harmed. In India a far bigger slice said that they had cancelled or delayed a key strategic initiative.

What is clear is that issues around talent are already having a hefty impact in both China and India – despite their population size advantages and their relative confidence about future talent supplies.

"I believe organisations have to find their own solutions. We run a talent factory of 700 to 800 people here in India and we are working on creating a global talent pool of about 100 people – 60 of them from India and 40 from other countries – so that we can send them anywhere across our operations. We hope to have this talent pool ready within the next three years."

Baba Kalyani Chairman and Managing Director, Bharat Forge Ltd, India



Global talent mobility

"We really do need to staff up local businesses with people from those countries. It doesn't make sense to have large numbers of expats working all round the world as it's just very expensive, so we have to train, we have to develop and we have to attract the right local talent. For the most part these locations are in pretty wild places. And now most professionals want to be in urban locations, particularly if they have families. So it's an increasing challenge to induce people to work in those difficult locations"

Tom Albanese Chief Executive, Rio Tinto, UK

More than half of CEOs are planning to move experienced employees from their home market to newer markets to circumvent skills shortages. If approached in a well-thought-out way, such moves can help to pass on skills to local staff and develop leadership potential among the assignees.

But sending key managers on international assignment is not an easy or cheap fix – it comes with significant costs and needs to form part of a wider talent strategy. Assignees typically cost three to four times more than their local counterparts, once all the relocation, compensation and benefits costs are totted up. And not all countries with a high growth potential for business make the most attractive postings. Even the millennial generation, which sees international travel and working as a rite of passage, tends to prefer more traditional destinations.[5]

It is also important to make sure that companies do not become over-reliant on expatriates in senior and skilled positions, as this could limit career development opportunities for local people and discourage them from committing their future to the firm. 29% of CEOs say their senior managers are transferred from their headquarters country to newer markets; in an ideal world, only 18% would continue to move their senior leaders from headquarters.

[5] *Millennials at work: Reshaping the workplace, PwC, December 2011*

Reverse transfers, involving moving top performers from emerging markets into developed markets for a short period of time to become 'credentialised', can also be an effective retention and development measures. And businesses are making greater use of short-term assignments to address skills shortages in high priority markets, and costs related to long-term assignments. These can be extended business travel or flexible commuter arrangements, often intra-regional, which address situations where an employee or candidate is reluctant to move. Leading employers are also looking increasingly to task or outcome, rather than duration, focused postings.

It's also an issue for governments, which increasingly see the need to compete on talent. India and China have invested heavily to upgrade skills and widen access to education, and are more actively encouraging Chinese origin students and entrepreneurs to return. Singapore and Malaysia are taking comprehensive, long-term approaches to attract highly skilled foreigners to enhance their economies; the UK is reforming its R&D tax credit to incentivise innovative businesses to stay. In short, policy makers are seeing the effects of talent mobility on economic competitiveness and, as a result, more countries are acting to attract and retain talent.[6] This is likely to encourage even more global talent mobility, which will, in turn, impact business talent management strategies.

"We try to avoid overseas assignments just to fill a gap, but sometimes you just can't avoid it."

Marijn Dekkers, Chairman, Bayer AG

[6]The number of countries looking to 'systematically encourage talent mobility' rose from just a few in 2001–01 to nearly two dozen in 2008, according to Papademtriou et al.,'Talent in the 21st Century Economy' Migration Policy Institute (November 2008).

Rethinking reward

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

Many companies believe their reward strategy drives a high performance culture, yet they may not be tracking the key talent they are losing and analysing how, why and at what level?

We believe that often incentive models are not focused on what motivates key talent. Enterprise wide reward models which are uniform across operations may misjudge the differences in market competition or the cultural norms in emerging markets. Demographic differences may also mean a rethink – we see that millennials are driven by different needs and expectations than previous generations.

The reality is that many companies do not understand who their key talent is – never mind how engaged they are, whether they have the right incentive/reward models to keep them and the impact on the business of losing that talent. This means that key talent will be lost while 'non talent' may be over-incentivised.

In the West, regulation continues to increase – driven by public opinion. The public want to see regulators making visible changes – they want to see more controls on the bonus culture they blame for the financial crisis. The public reaction to the growing gulf between executive pay and the rank and file still occupies shareholders' minds.

53%
of CEOs worry about a lack of key skills

43%
of CEOs say their talent costs rose more than expected

Risky business

Not all risks can be anticipated. While an earthquake in Japan is far from unusual – did anyone foresee the nuclear power plant crisis that followed? And who would have thought that a small volcano in Iceland would cause such havoc stranding business travellers on the wrong side of the world or that the Arab Spring would take hold so quickly and mean that global mobility teams had to repatriate so many so quickly. Over 20% of businesses say they were impacted by unrest in the Middle East. Can HR really expect the unexpected?

29%
of businesses were impacted by the quake and nuclear crisis in Japan

Attitudes to bribery and corruption vary. In some of the fast growing parts of the world doing business means a different attitude to 'incentives' and decision making. Cultural differences can't be underestimated. Do your employees in these parts of the world understand and accept the rules of international business? How do you change behaviours that are normal to them?

So what's to be done against a background of complexity, uncertainty and change?

We are seeing a push towards clearer performance management in regulated industries – financial services and oil most notably. Again, public opinion demands a visible reaction and lessons seen to be learnt. And the board is reacting to risk in other ways too – we see more chief reputation officers and a rise in lawyers appointed to lead the HR Function.

The fundamentals have not changed. Protecting against risk requires systems, processes and documentation – but more than that, it requires people to do what's right. And the right people, doing the right things, in the right places, to generate the right results – that's what HR is all about.

Businesses taking action?

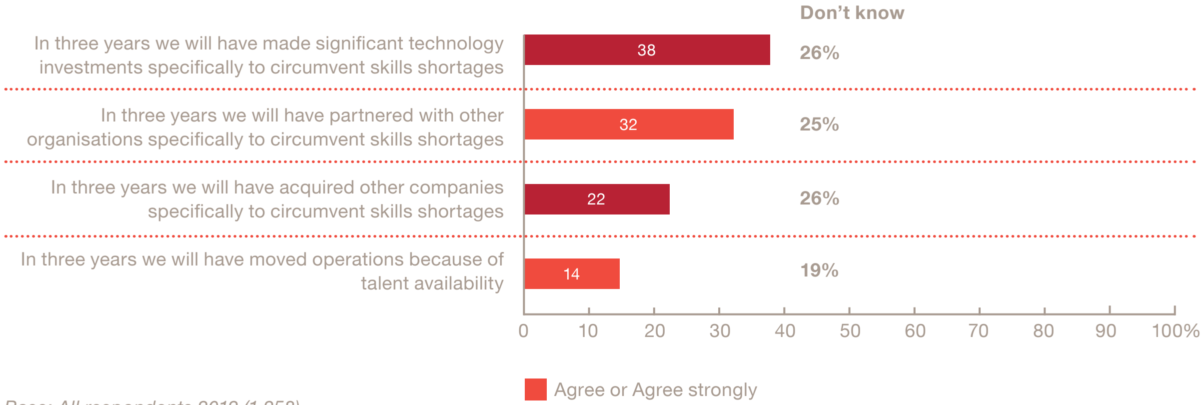
CEOs say they will change their strategies for managing people – but will they be the innovative and competitive strategies needed for the next decade? For instance more than two-thirds of CEOs have no intentions of relocating operations to take account of talent availability. Only a small minority plan to use acquisitions or partner with other organisations to deal with skills shortages. It's also telling that more than a fifth of CEOs seem not to have really considered these options at all.

Organisations cannot realise their growth objectives without the people to make it happen. Businesses that develop a well-informed and proactive approach to strategic workforce planning have an opportunity to gain a crucial competitive edge.

Getting talent management right means you can worry less about your talent problems and more about your business opportunities.

Bridging talent gaps

Q: To what extent do you agree or disagree with the following statements about the future of your global workforce?



Base: All respondents 2012 (1,258).
Source: PwC 15th Annual Global CEO Survey 2012.

What does talent management mean to you?

Whatever the size or shape of your business and whatever your talent issues, we believe there are four fundamentals to talent management:

Align your business plan and talent strategy – make sure every aspect of your talent strategy directly contributes to your overall business plan and to creating value. Change anything that doesn't.

Face the future – look at where your business is heading not where you've been. Keep questioning whether your talent management pipeline will give you what you need when you need it.

Pay attention to pivotal roles – get the right talent into the roles which have a disproportionate ability to create (or destroy) business value.

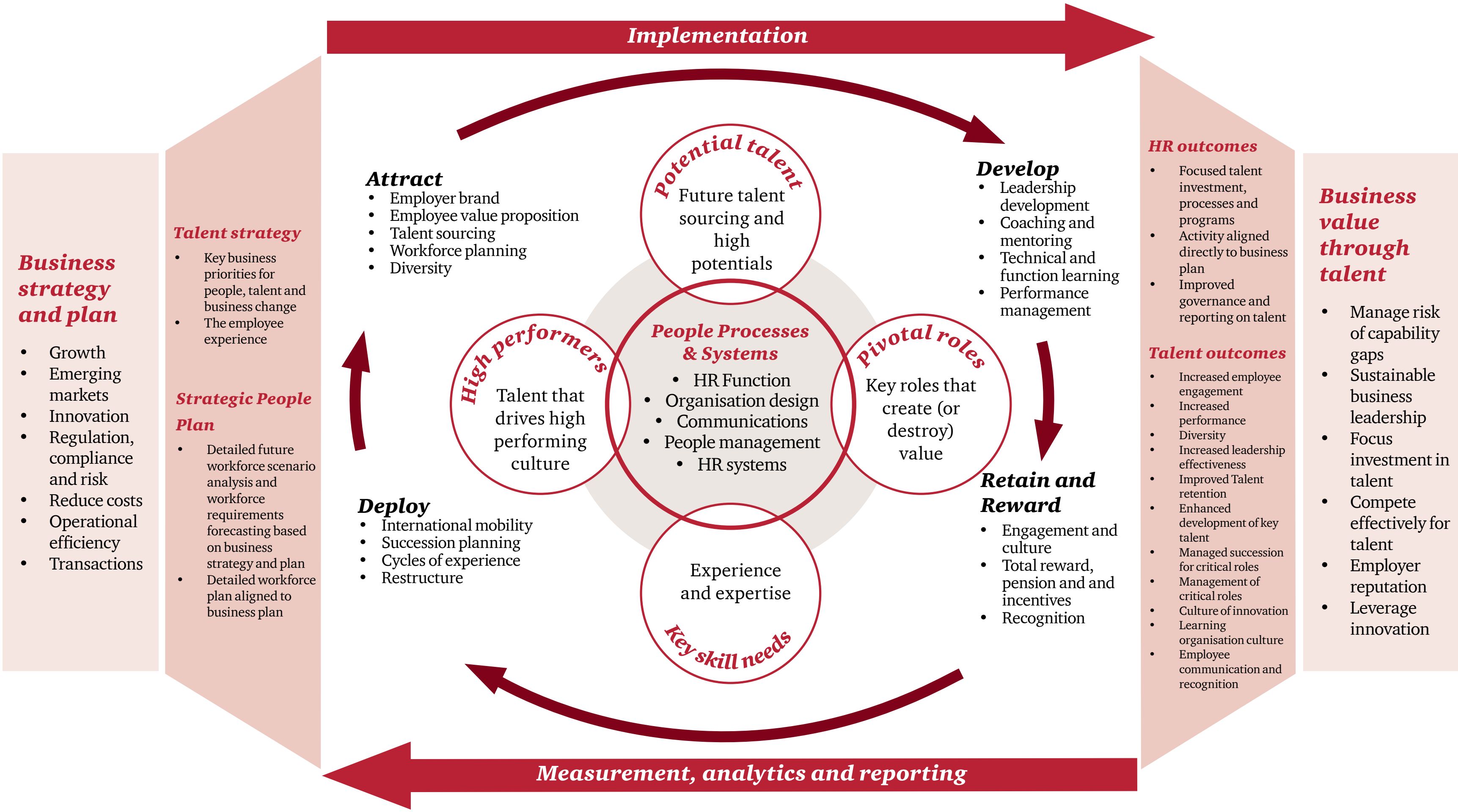
Focus on the financials – make measurement, benchmarking and analytics part of your plan. Look to your people ROI.

Do you need a talent management rethink?

Is your current talent management plan fit for purpose? Ask yourself these challenging questions:

- Do I have the talent to quickly and successfully execute my organisation's strategy?
- Do I have people with the right skills, the right knowledge and the right experience in the right places – now and in the next 3 to 5 years?
- What will it cost me if I get my talent pipeline wrong?
- Which roles drive most value in my business, how do I best resource them and what is my cost of turnover?
- How am I engaging and rewarding talent in these pivotal roles? Am I over-rewarding 'non-talent'?
- Are my global mobility programmes truly strategic – or are they reactive?
- How do my people metrics stack up to my competitors in this industry? Is my people ROI good enough?
- How effectively is the HR function delivering what I need?
- Finally, does every aspect of my talent strategy directly contribute to the business plan and to creating value?

Managing talent to deliver value



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