

Innovation for transformation

A Philippine CEO Survey



96 CEOs

79 responded to the survey
17 interviewed

84%

believe innovation is key to
their organization's growth

78%

will adopt technological
changes

Message from the M.A.P. President



We in the Management Association Of The Philippines (M.A.P.) would like to extend our deepest gratitude to Isla Lipana & Co./PwC Philippines (PwC) for serving as the M.A.P.'s Knowledge Partner for the September 8 M.A.P. International CEO Conference 2015.

We would also like to thank all the M.A.P. members who participated in the Survey on Innovation which PwC conducted in line with our 13th M.A.P. International CEO Conference 2015 entitled "METAMORPHOSIS: Inspired by Vision, Fueled by Innovation."

We hope that our respondents and the readers of the report will learn how to get ready for the exciting times ahead in view of the ASEAN Economic Community 2015, and how to develop innovative business strategies that will propel or re-configure emerging organizations to amazing heights.

There is no waiting out for the storms to pass; companies and business leaders will meet the waves head-on or sink. Change may have been enough for many enterprises to emerge from what was but not sufficient to ride the what is and what will be.

The imperative is to morph the organizational DNA and emerge completely different. The discipline, foresight and innovative spirit to transform processes will give birth to stronger, agile organizations that can create and shape their markets, unhampered by geographies.

The M.A.P. is pleased to work with PwC for this first of a series of annual CEO Surveys in the Philippines to be conducted by PwC which will be expected to benchmark the changes in how CEOs think, react and innovate.

We congratulate PwC for serving as Knowledge Partner for this year's Asia Pacific Economic Conference (APEC) CEO Summit in Manila. The M.A.P. is privileged to leverage on PwC's experience of being the knowledge partner for the APEC CEO Summit conferences for the last five years.

Francisco "Popoy" F. Del Rosario Jr.
President, Management Association
of the Philippines (M.A.P.)

Message from the PwC Philippines Chairman



Philippine CEOs say that innovation is needed to grow, stay relevant, and in some cases, even survive as a business. From the survey and interviews we conducted, CEOs candidly admit though, that their desire to innovate is much higher than what they actually do to innovate.

Whether it is in their own industry or Philippine businesses in general, many CEOs observe that the innovation initiative has a long way to go. Many would intimate that not much is budgeted or spent for R&D – costs that make use of the companies' limited resources but which may or may not result into something. Yet there are some who shared their own experience in using technology to innovate and have proven that R&D need not be costly.

For me, what's most important is that CEOs understand that there is a gap, from which opportunities for growth will come. Awareness is the first step.

The need to innovate is not the only concern of the CEOs. They are also looking at the government to create a competitive and level business environment through good governance, effective tax systems, and adequate physical and digital infrastructure.

CEOs say that while there are more opportunities than before, there are also more disruptors to their industries. To cope, some companies have transformed and have included in their agenda the penetration of industries other than their own in the next three years. Many cited collaborative partnerships as their go-to strategy. Collaboration is certainly one of the ways to innovate and grow the business without spending too much resources.

They also said that while their constant challenge is to get the right people, talent and skills, the modern-day CEO should likewise not stop learning. They cannot afford to be a mere spectator in today's knowledge-based economy and constantly evolving business landscape.

We would like to thank the 96 business leaders from various industries who invested their valuable time to share their insights and experiences with us. The entirety of this report is written from their views. We are honored to work with M.A.P. as its Knowledge Partner for the 13th M.A.P. International CEO Conference.

Atty. Alexander B. Cabrera
Chairman and Senior Partner,
Isla Lipana & Co./PwC Philippines
Chairman, M.A.P. Tax Committee

A Philippine CEO Survey

The country's business leaders and their views on innovation for transformation

The survey reflects the themes of this year's M.A.P. International CEO Conference – innovation and transformation.

We asked our respondents how these affect the growth of their companies, their industries, and the country.

CEOs gave their perspectives on the factors that encourage and hinder innovation and transformation.

In their journey to innovate and transform, most of the CEOs in the survey face challenges and opportunities.

We hope you will learn from the insights that can be gleaned from this survey and the experiences of other business leaders.

It is a competitive world out there, and it only offers two possibilities, as the American political economist Lester Thurow sees it. He said, "You can lose. Or, if you want to win, you can change."

Have you decided to make the change?

Out of the 79 respondents,

36 
consider innovation to be critical to their organizational growth



All 36 innovate to stay on top of the competition, remain relevant, and to grow revenues



19 believe that lack of resources can hinder them to pursue innovation



All believe that innovation should be part of the CEO's KPIs



29 have a transformative strategy in place while 3 plan to adopt one



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CEOs cautiously optimistic

In our survey, we asked the CEOs how confident they are about the growth prospects of their companies and the industry they represent. While over 73% feel very confident in general, they are slightly more confident in their business rather than the industry, and in the next 12 months rather than the next three years. It would seem that the CEOs' confidence increases along with the level of control and clarity they possess.

Interestingly, CEOs in the energy, utilities and mining sectors feel differently about their growth prospects. They are less confident about their growth in the next 12 months but are more optimistic about prospects in the next three years.

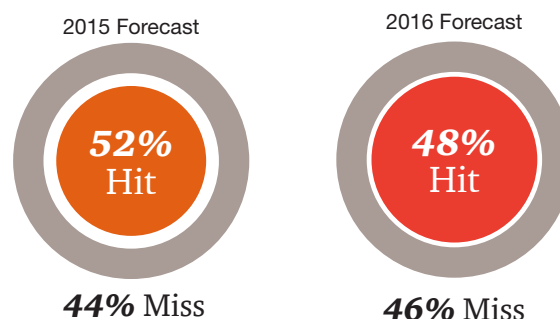
While most CEOs are confident about their business and industry outlook, there appears to be a divergent view on whether or not the government will hit growth forecasts of between 7% and 8% in 2015 and 2016. About half or 52% of the respondents think that the country will hit or exceed the forecast growth rate for 2015 and only 48% for 2016.

A number of those who are skeptical about the country's growth are concerned about the low level of government spending that has slowed down gross domestic product (GDP) growth, as well as the upcoming elections in 2016.

On the other hand, CEOs who are positive that the country's growth will be at least 7% cited the following growth enablers:

- Good governance
- Increase in investor confidence
- Strong business process outsourcing (BPO) services sector
- High remittances from overseas Filipino workers (OFWs)
- Low interest rates and oil prices

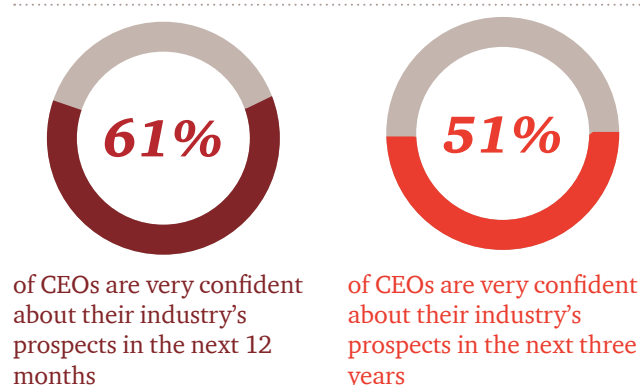
Q: Do you believe that Philippine economic growth will exceed, hit or miss forecasts of 7-8% in 2015 and 2016, respectively?



Q: How confident are you about your company's prospects for revenue growth over the next 12 months and three years?



Q: How confident are you about your industry's prospects for revenue growth over the next 12 months and three years?



This optimism of the CEOs is further evidenced by their ability to see more opportunities to grow. Eighty-five percent of the CEOs we surveyed say that there are more opportunities today than three years ago, compared with 56% who say that there are more threats.

CEOs recognize growth enablers in economic progress

Based on our interviews with CEOs, we note that they see opportunities for growth both in the local and regional markets. For example, untapped local markets exist for banks, as evidenced by the high percentage of unbanked Filipinos (69% in 2014), coupled with increasing population.

Demand for basic services

Tirso Antiporda, Jr., President of Milestone Petroleum Marketing Corporation, mentions that demand for energy is strong because of continued economic growth. He also cites unserved and underserved markets for broadband in the peripheries of urban centers, which can expand telecommunications revenues for companies that choose to serve these market segments.

Wider ASEAN market

Most of the CEOs we interviewed are excited about the possibility of expanding into the wider ASEAN market. Levy Espiritu, Founder and President of Datem Inc., believes that “the ASEAN (Association of Southeast Asian Nations) will greatly benefit [the] Philippine construction [industry] since companies like ours can compete and collaborate abroad.”

Going back to basics

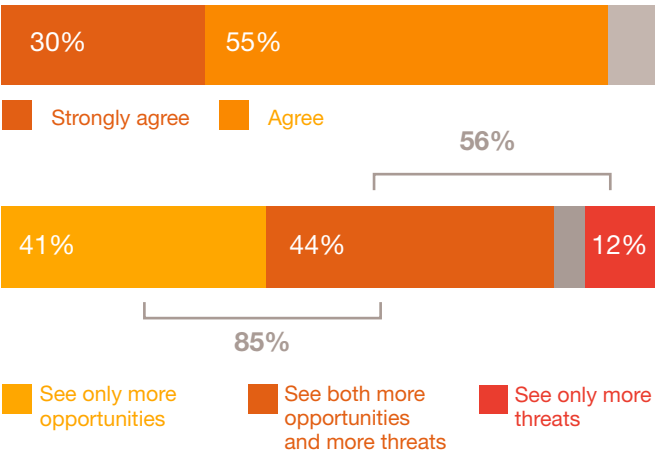
We always say we’re committed to infrastructure and that’s why we bid for these projects. The reality is we’re bullish about the demand for the services. We know that there’s a shortage of services so that’s not the risk we’re worried about.

Jose Ma. Lim
President and CEO, Metro Pacific Investments Corporation

There are more threats to the growth of my company today than three years ago



There are more opportunities to grow my company today than three years ago



The success of the Philippine economy is supported basically by the fact that we have very good economic fundamentals.

We have momentum, we have a good balance of payment situation, we have large international reserves, our interest rates are low, inflation is generally low, so far. A lot of things are going for us so the momentum is there.

And also business confidence is quite high... oil prices are very low and I think it would continue to be low until next year.

Tirso Antiporda, Jr.
President, Milestone Petroleum Marketing Corporation



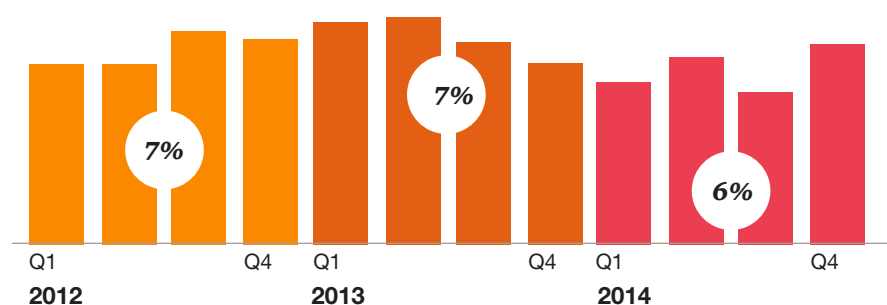
Some of the CEOs cited the importance of strengthening their back office and support system when looking at growth opportunities. This may involve working on the four pillars of their businesses – markets, products, people and processes. It may also be about continuously finding ways to differentiate themselves from other players or improving their capability to support their customers. Raul Joseph Concepcion, Chief Executive Officer of Concepcion Industrial Corporation, says, “we will need to step back in order to grow. Part of that is working on the processes to structure ourselves for the next phase of growth.”

Economic growth brings about business opportunities

Progress in the Philippine economic landscape is also seen to present growth enablers to businesses. The country’s economy grew remarkably during the past few years. Real GDP growth has been between 6% and 7% from 2012 to 2014, compared to 4-5% before that period. Moody’s, S&P and Fitch upgraded the country’s rating to investment grade, boosting investor confidence in the Philippine market.

Net foreign direct investments almost doubled from US\$3.2bn in 2012 to US\$6.2bn in 2014. This, along with the increasing population, GDP per capita, and the increasing interaction among several industries (e.g., business services and real estate, transportation and manufacturing) are somehow driving the growth in manufacturing, construction and real estate, renting and business activity sectors, which were the largest contributors to 2014 GDP.

Philippine GDP growth rate



Source: National Statistical Coordination Board

We do not look at difficulties as problems. Rather, we focus on them as opportunities to develop.

Meneleo Carlos, Jr.
President, RI Chemical Corporation

I think there are tremendous opportunities in the Philippines. The private sector is really trying to innovate and maximize their corporate reach by expanding into new industries that present tremendous value.

Raymund Azurin
Chief Executive Officer, Zuellig Pharma Corporation

The improving economic performance as well as the threats of new global players will compel businesses to embrace and implement good governance practices and ride with the trends of innovation. The foundation of real inclusive growth starts with the fundamental efforts of implementing clear strategic plans, succession planning, professionalization and good governance.

Virgilio Espeleta
Founder and President, Famcor Franchise Management and Executive Development Corporation

As an economy grows, the need for new entrants, new products and more job opportunities involves innovation.

Steven DeKrey
President, Asian Institute of Management

Increase in OFW remittances and BPO revenues

OFW remittances accounted for over US\$20bn in 2013 and 2014, equivalent to almost 9% of the country's GDP. According to Raymund Azurin, Chief Executive of Zuellig Pharma Corporation, our country has two very strong pillars: the BPO sector and OFW remittances. We need to nurture and support these growing industries.

Improvements in the Philippines translate to an increase in the country's competitiveness ranking. And according to the Global Competitiveness Index (GCI) report, "a more competitive economy is one that is likely to grow faster over time." The Philippines leaped 33 places in the GCI ranking in 2015 compared to 2010, the greatest improvement among 144 countries in terms of basic requirements, efficiency enhancers and innovation/sophistication.

Businesses, on the other hand, have learned to identify opportunities by responding to the megatrends in the increasingly global market. And as the country and business players strive to compete and remain relevant, more growth opportunities will emerge.

CEOs worry about taxes, regulation and talent

When asked about how concerned they are about the enumerated threats, CEOs have identified increasing tax burden and overregulation as their top two concerns under economic and regulatory risks. Their third top concern, availability of key skills, is a business related threat.

The biggest challenge for the BPO sector could be complacency. We have grown so big, we are now over a million people, we are No. 1 in the world when it comes to voice, so complacency can set in. Everything moves at Internet speed. If you don't move at the same pace, you'll get left behind. [Currently] growth rather than innovation is the priority. We need to step back and give some focus to innovation.

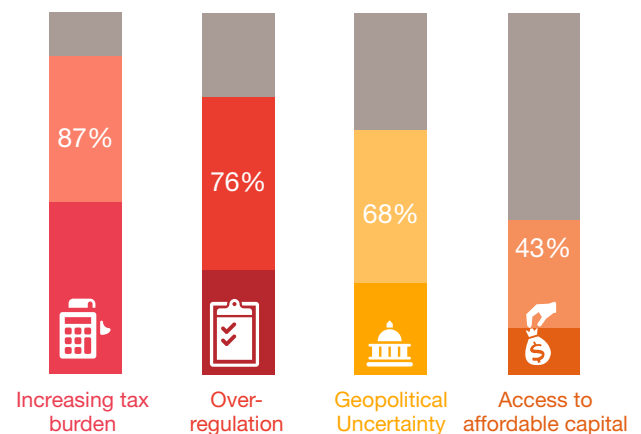
Jose Mari Mercado

President, IT & Business Process Association of the Philippines

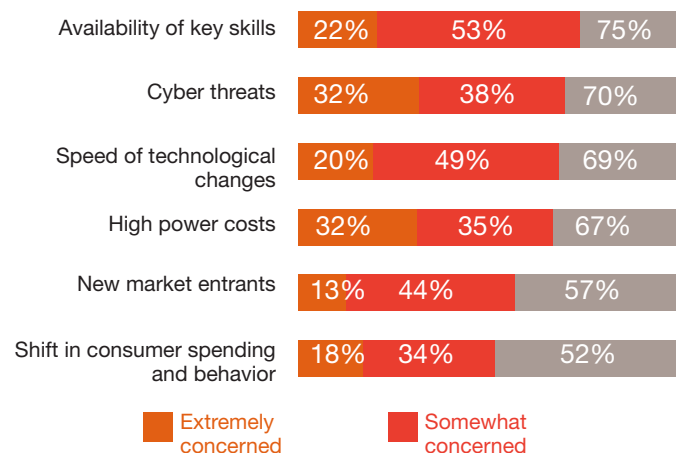
While the top concern of most CEOs are taxes, overregulation and talent, they are also somewhat concerned about the following threats:

- Cyber threats (70%)
- Speed of technological change (69%)
- Geopolitical uncertainty (68%) mainly due to the coming elections
- High power costs (67%)

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



Q: How concerned are you about the following business threats to your company's growth prospects?





Increasing tax burden

The majority of the respondents (87%) expressed concern regarding the increasing tax burden. The country has the highest corporate tax rate in ASEAN – that is why CEOs are worried about the competitiveness of the Philippine tax structure and increasing taxes. Some CEOs think that the tax regime should be revisited to be more business-friendly and to encourage more investments, particularly in the area of manufacturing. The high tax rates and uncertainties surrounding the application of certain tax rules are some of the reasons cited to explain why we continue to lag behind other ASEAN countries when it comes to foreign direct investment.

Overregulation

Overregulation is the top concern of 78% of CEOs around the world based on PwC's 18th Annual Global CEO Survey. According to the survey, "these concerns are not limited to industry-specific regulations but go into much broader areas like trade and employment."

In the Philippines, 76% of the CEOs share the same sentiment. Some CEOs we interviewed think that the country's foreign investments negative list may need to be revisited to be more attractive to investor, particularly in the pharmaceutical and real estate industries. Others mentioned that labor laws in the Philippines may need to be reformed to encourage productivity and continuous improvement.

Availability of key skills

Another top concern of CEOs in the Philippines is the availability of key skills. Globally, CEOs are looking into increasing headcount to support growth but are also looking at a broader set of skills in terms of recruitment. Hrishikesh Pradhan, Managing Director of Mega Lifesciences, believes that Filipino workers have the skills, attitude and capability to do greater work if provided with the foundation and support to do so.

Mr. Azurin agrees that education and good continuous support training would be huge enablers to further improve the country's labor force.

The government should understand, if it really aims for inclusive growth, [that] it's important not to negate mining because mining companies [give gainful employment in the rural areas.] I'm against irresponsible mining but I believe [mining can certainly help] the modern economy.

Isidro Consunji
President, DMCI Holdings

The premise of MPIC is that we are in infrastructure because we have a robust regulatory and legal framework, which gives us comfort that these contracts are very well thought out. But recently we have seen that this administration has unilaterally reinterpreted these contracts. I think there's a realization that maybe we're scaring off investors, as the FDI levels have fallen to half of what it was last year [2014].

Jose Ma. Lim
President and CEO, Metro Pacific Investments Corporation

The challenge would be to continue growing and to continue to be profitable.

Victor Chiongbian
Chairman, FAST Logistics Group

Although remittances have been a strong contributor to economic growth, a number of CEOs believe that in the future, the country has to find a way to bring back and retain the key Filipino talents shared with the world to enable them to contribute to the country's growth from within the Philippines. In other words, we need to reverse the brain drain.

Philippine CEOs vs. their global counterparts

In the midst of all the opportunities and concerns faced by Philippine CEOs, it is imperative that we highlight that they are significantly more optimistic compared to their global counterparts.

Since 2004, the percentage of global CEOs who are confident about their growth prospects has been below 60%. For the Philippines, it's 73%. And this optimism – the ability to see opportunities despite threats, together with enthusiasm and passion – is what keeps Philippine CEOs resilient.

While there is uncertainty brought by the coming elections, the new government leaders will only influence the velocity of the country's economic growth. Philippine CEOs appear to view this as a disruption that they have to deal with and work around, but still succeed.

Now, the Philippine economy appears to be ready to pick up from where it left off decades ago. The question is: How will Philippine CEOs catch and ride the wave to succeed? Or better yet, create the wave themselves?

We lack project engineers and consultants. One is brain drain. Not only are you competing with the brain drain outside but you are [also] competing with the brain drain within organizations in the Philippines.

Raul Joseph Concepcion
Chief Executive Officer,
Concepcion Industrial Corporation

We have great talent here in the country. When you look at the 12m OFWs, you would think that those jobs could have gone to any nationality, but a Filipino got it. So the talent is here, it is available and the Filipino talent is world-class.

Kenneth Lingan
Country Head for the Philippines, Google

Tough questions

1. In what areas of your business/industry do you perceive the greatest potential for growth?
2. What are your core strengths that have helped you grow? Are these the same set of enablers that you plan to utilize to grow further?
3. How engaged are your stakeholders to your growth direction?
4. Is your back office nimble enough to support your growth aspirations?
5. In case of conflict, do you choose market growth over profitability?



Evolving competitive landscape

In an increasingly dynamic and competitive business environment, companies must continually challenge the way they create value for their customers. And as customer relationships change, the lines that distinguish industrial sectors have never been more blurred as they are today. The focus on customers, rather than traditional competitive boundaries, is broadening the field of competition.

Out of 79 CEOs surveyed online, the majority (61%) are likely to compete in industries other than their own in the next three years.

Forward-thinking CEOs are actively taking their businesses into adjacent or completely new sectors. Most business leaders surveyed (59%) have entered or considered entering a new industry in the past three years.

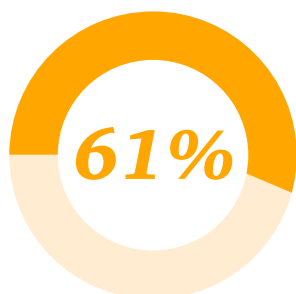
Operating within traditional definitions of demographic segments, channels, product and service offerings, geographies and industries are increasingly being redefined. Virgilio Espeleta, Founder, President and CEO of Famcor Franchise Management and Executive Development Corporation, states that “while the concept of my business is quite unique and highly niched, I am seeing other consulting companies entering into such a niche. Hence, the adage that we need to continue innovating and creating clear differentiation of our services and awesome experience [for our clients] to remain competitive.”

This trend is consistent with the results of PwC's 18th Annual Global CEO Survey showing that 54% of CEOs entered a new sector, sub-sector or considered it in the past three years. Over half (56%) of the CEOs surveyed globally think that cross-sector competition will become more common. As cross-industry competition becomes more prevalent, the ability to adapt to the changing competitive landscape becomes more important.



You've heard of amazing start-ups in the Philippines, like PawnHero and Kalibrr which are changing the rules of the game because of the internet and are disrupting established industries.

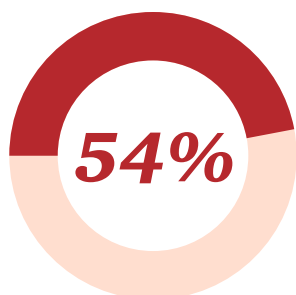
Kenneth Lingan
Country Head for the Philippines, Google



of Philippine CEOs are likely to compete in industries other than their own in the next three years



of Philippine CEOs entered a new sector or sub-sector, or considered it in the past three years



of global CEOs entered a new sector or sub-sector, or considered it in the past three years

Jose Victor Paterno, President and CEO of Philippine Seven Corporation, concurs. “There’s stuff that can be bolted on our logistics infrastructure and 1,500 stores across the country for very little additional investment – Internet connectivity, receiving and disbursing payments, verifying identity, logistics in support of e-commerce. We want to focus only on delivering the above reliably at low cost and seek partners to provide content, financial services, e-commerce services that can be built atop it to provide compelling value for our customers. All partnerships are non-exclusive, because it’s impossible to pick a winner given the fluidity of the space, so we’ll work with anyone who shows promise.”

Other companies are diversifying their businesses to consolidate their core strengths and take advantage of domestic opportunities.

ASEAN as an opportunity

While ASEAN integration can be a threat or an opportunity, Philippine business leaders are ready to embrace this development and capture the opportunities that integration will provide. According to Victor Chiongbian, Chair of FAST Logistics Group, “It is an opportunity to explore. We have to be ready. We are looking at the ASEAN to be the seventh largest economy in the world and will have over 600m consumers.”

I think in [the] long term, you have to [consider other industries]. The reality is the life cycle of a business is ten to 20 years. So you try and pick industries that have opportunity down the future.

George Drysdale
Chairman and CEO,
Marsman Drysdale Group

Innovation will be the driver of growth throughout Asia. Having unique products, services and opportunities is really what innovation delivers.

Steven DeKrey
President, Asian Institute of Management



Business leaders surveyed are optimistic about the increased market and the cross-cultural synergies the ASEAN integration will bring. “The nice thing about ASEAN is that it enlarges the market. The major contribution is opening up the market. [The] second nice thing is that we’re very near each other. [The] third nice thing is that we’re very different in many senses like culture, religion. This mixture is [the] ingredient for innovation,” says Meneleo Carlos, Jr., Chairman and President of RI Chemical Corporation.

Further, Mr. Espiritu says that “The transfer of technology within the ASEAN community has the potential to stimulate innovation in the Philippine construction [industry]. In fact, the Philippine Constructors Association (PCA) of which I am Past President, led a program on the harmonization of trade skills in construction in the ASEAN Constructors Federation. The Philippines set the benchmark for quality construction, edging competitors in neighboring Southeast Asian countries to have higher productivity rates.”

Government to create a competitive business environment

Under President Aquino’s administration over the last five years, the economy has been experiencing growth rates of over 6%, which is an indicator of a thriving business landscape.

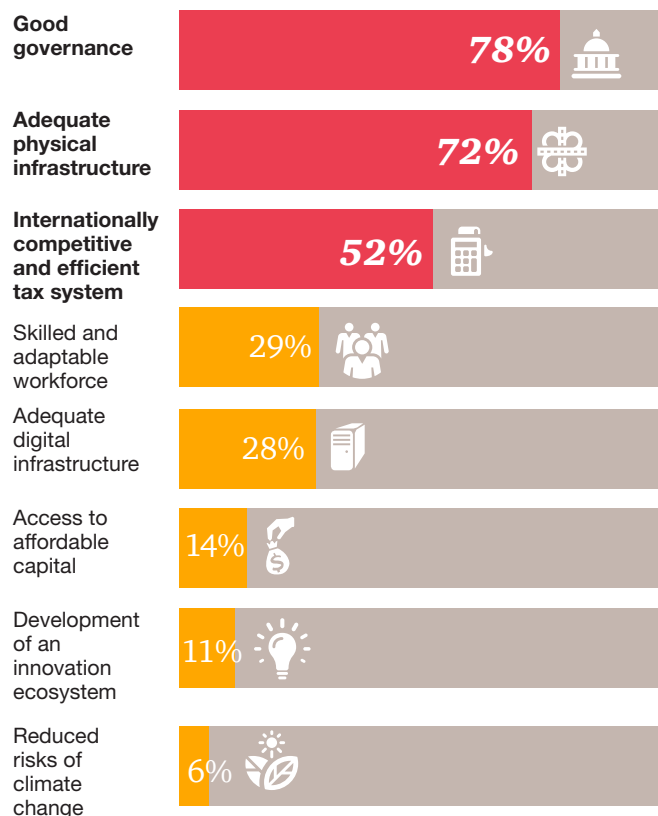
Among the CEOs surveyed, the majority of business leaders (51%) think that during the current administration’s term, the government has been quite effective in developing a skilled and adaptable workforce and providing access to affordable capital. However, the government has been less effective in the areas of modernizing the tax system, developing an innovation ecosystem, building physical and a digital infrastructure, reducing risks of climate change and enhancing good governance.

For his part, Mr. Azurin says: “The real pillar of a strong economy starts with education. The skilled labor just needs good support [and] training. The incoming government should continue to focus on education.”

Anna Irmina Navarrete, President of Kickstart Ventures, Inc., underscores the positive aspects of the current administration. “The Philippines has made great strides in improved global competitiveness, underpinned by the campaign for good governance. The investment grade credit ratings and feedback from globally respected bodies demonstrate this success. The [recently passed] Philippine Competition Act, if enforced, should help [keep] this momentum.”

Despite the achievements of the Aquino administration, CEOs surveyed recognize that a lot of work has yet to be done for the remainder of its term and, more importantly, by the succeeding administration.

Q: Select the top three initiatives/changes that you believe the Philippine government should prioritize



There is a need, really, to decongest Metro Manila. There's talk about maybe a major city in Clark because it's probably not going to be affected by the "big one" [earthquake].

Charlie Rufino
President, The Net Group

One of the challenges of Filipinos is we are not entrepreneurs by nature. Our parents raised us to work for large multinational companies. If we had told our parents that we wanted to open up a business, we would be told 'no', in my generation.

Jose Mari Mercado
President, IT & Business Process Association of the Philippines

The dark cloud to me is the elections. Politically, I'm not sure what will happen when another person is elected President. To me, that's the big question mark because that's the spoiler.

Tirso Antiporda, Jr.
President, Milestone Petroleum Marketing Corporation

The majority of CEOs surveyed consider good governance (78%), adequate physical infrastructure (72%), and an internationally competitive and efficient tax system (52%) as the top three initiatives that government should prioritize.

These findings are consistent with the World Economic Forum 2014 study on competitiveness in terms of most problematic areas of doing business in the Philippines: corruption, infrastructure and tax regulations.

Continue the path towards improved good governance

Seventy-eight percent of CEOs surveyed believe the government should prioritize good governance initiatives.

President Aquino came into power in June 2010 with a *Daang Matuwid* ("straight path") platform focused on good governance. During his term, he has made significant improvements in specific areas such as increased transparency and citizen participation in budget formulation, open data and procurement.

These good governance initiatives have been recognized by the private sector and civil society organizations. "Because of [the President's] goodwill and straight path, the business sector has become more aggressive than the foreign investors. This has been greatly affected by the *daang matuwid*," said Mr. Chiongbian.

According to Transparency International's Corruption Perception Index, which measures the perceived levels of public sector corruption, the Philippines' score improved over the last three years. In 2014, the Philippines ranked 85th among 175 countries – tied with Thailand, India, and Sri Lanka – and better than China, Indonesia, and Vietnam.

While there is a strong sense of confidence in the country's prospects, there is also concern about the sustainability and continuity of these anti-corruption initiatives in light of the May 2016 presidential elections.

Mr. Chiongbian says, "I wish and pray that the next leader will be *matuwid*." For his part, Mr. Antiporda shares, "If we get somebody whose ideas are different from what has been implemented in the last few years, we could be in trouble because business confidence would suffer."

Corruption Perception Index: Philippines



Source: Transparency International



Other business leaders envision embedding a culture of good governance, starting with the youth as future leaders of the country. Reynaldo Casas, President of NV Vogt Philippines Solar Energy One, Inc. believes that “raising (the) level of awareness to combat graft and corruption must be implanted in the hearts and minds of the young. Grade school, high school, and college students must understand the maligned culture so as to enter into corporate and government services properly prepared to follow the right path.”

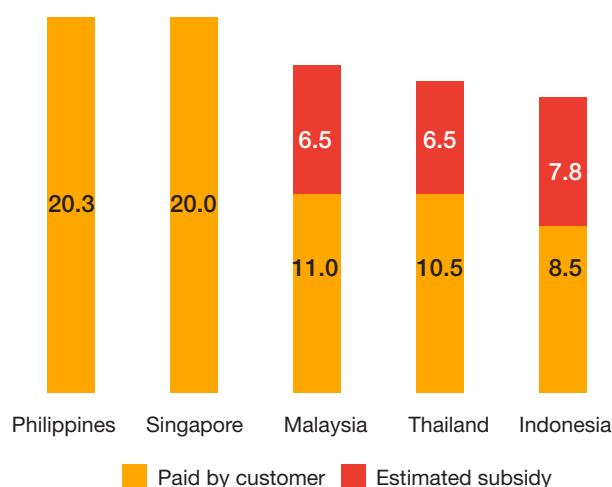
Physical infrastructure: missed opportunity

Seventy-two percent of CEOs believe government should prioritize building adequate physical infrastructure.

Government spending on infrastructure increased from PHP192bn (2012) to PHP267bn (2013) and PHP356bn (2014). Despite this 85% increase over the past three years, a lot of work remains to be done.

Manos Koukarakis, General Manager of Japan Tobacco International, observes that “sound macroeconomic improvements have not been followed by improvements in physical infrastructure. The port congestion is still a burning issue and energy cost remains a key barrier for further industrial development and investments.” And Mr. Concepcion mentions that the “heightened expenses caused by the port problem last year made up 1% to 2% of our cost.”

Average retail electricity tariffs, US¢/kWh



Source: International Energy Consultants, June 2012

According to the World Economic Forum's Global Infrastructure Competitiveness Ranking, the Philippines placed 95th out of 144 countries behind Singapore, Malaysia, Thailand and Indonesia.

Further, high power costs in the Philippines continue to undermine the Philippines' competitiveness. Power cost in the Philippines is one of the highest in ASEAN.

According to Mr. Pradhan, the country's high power cost is an important factor in his company's decision to potentially transfer manufacturing to the Philippines.

Global Infrastructure Competitiveness Ranking

Indicator	Philippines	Singapore	Malaysia	Thailand	Indonesia	Vietnam
Quality of roads	87	6	19	50	72	104
Quality of railroad infrastructure	80	n/a	12	74	41	52
Quality of port infrastructure	101	2	19	54	77	88
Quality of electric supply	87	6	39	58	84	88
Fixed telephone connectivity	113	31	73	91	71	86
Mobile telephone connectivity	86	17	30	34	54	42
Overall	95	5	20	76	72	112

Source: World Economic Forum (WEF) Global Competitiveness Report 2014-2015

High tax burden reduces the Philippines' competitiveness

Fifty-two percent of CEOs surveyed believe the government should focus on creating an internationally competitive and efficient tax system.

Compared to its peers in the region, the Philippines has the highest corporate tax rate at 30%, with the next highest tax rate at 25% for Indonesia, Malaysia and Myanmar.

In the latest report from the World Bank Group and PwC called *Paying Taxes 2015*, the Philippines' overall rating dropped from 121 to 127 out of 189 economies. The study says that the Philippines' total tax rate, which is the sum of the profit tax, labor tax and other taxes was 42.5% compared to 34.4% for economies in East Asia and the Pacific.

Some CEOs laud the efforts of Bureau of Internal Revenue (BIR) Commissioner Kim Henares that led to record-breaking revenue collections over the last few years. George Drysdale, Chairman and CEO of the Marsman Drysdale Group, says, "I think she's doing a great job, all that straight path and everything is phenomenal. I think it's the only way you bridge into a developed economy; it's when you level the playing field."

However, most CEOs interviewed stressed the need to review and simplify the tax structure. Mr. Concepcion notes that "a simplification of the tax system is necessary to uplift the business community. The tax system needs to be revamped so that it will be fair to all."

We're lagging in everything. Power, most expensive. Rail, it's measly, 50km, other countries have at least 300, 500 or even 1,500. Tollways, same thing. The government has got to buckle down and focus on getting infrastructure built. You can't build anything if you're afraid to spend or view these investments as an "expense".

Jose Ma. Lim
President and CEO, Metro Pacific Investments Corporation

Corporate income tax based on taxables profit	Country	Value Added Tax (VAT)
30%	Philippines	12%
12.5%-25%	Indonesia	10%
25%	Malaysia	10%
25%	Myanmar	
24%	Laos	10%
22% ¹	Vietnam	10%
20% ²	Cambodia	10%
20%	Thailand	7%
17%	Singapore	7%

¹ as of 2014

² on profits or 1% on turnover (whichever is higher)

Source: Runckel & Associates, Inc. 2015

Tough questions

1. What do your customers really value and how do your organization's differentiating capabilities deliver that value?
2. How are you learning from other industries to solve customer problems in your own industry?
3. What are your competitors up to, and how can you be ahead of the game?
4. Where does the government's role end and the private sector's start?
5. What is your differentiation strategy?



Innovation is all around us

The Organization for Economic Cooperation and Development defines innovation as the implementation of a new or significantly improved product or service, process, marketing method, or organizational method in business practices, workplace organization, or external relations. The US National Science Foundation says innovation is a process, a series of steps that begins with imagination and results in the creation of something of value for society.

Innovation can be loosely interpreted to be any enhancement or improvement that results in new products, services, technologies, business models, processes, channels and value chains.

Some equate innovation with technological advances, yet innovation is so much more. Its application is found in any industry, even those considered to be traditional. Renewable energy, online banking, distance learning, and telemedicine are just a few examples. Even government has innovated some of its processes with e-payments and e-procurement.

Indeed, innovation can manifest itself in multiple ways, whether in a technology change that determines the products and services you deliver, or a business model change that defines the value you deliver. Companies must determine the types of innovation they need:

- **Incremental innovations** make small changes to a company's existing technologies and business models.
- **Breakthrough innovations** make significant changes to either the technology or business model, producing significant growth.
- **Radical innovations**, which take place more rarely, combine technology and business model innovation to create major new industries with exponential growth.

Although breakthrough innovation is transformational, it's often the buildup of incremental but continuous innovation around existing technologies and business models that can transform the way a company does business.

Innovation as catalyst for growth and development

According to PwC's *Global Innovation Survey*, the world's leading innovators have grown over the last three years at a rate of 16%, faster than that of the least innovative. These same leading innovators forecast that their rate of growth will increase to almost double the global average, and over three times faster than the rate of the least innovative companies. Innovation is now becoming a competitive necessity for companies and is expected to deliver revenue growth for companies that will evolve. At the very least, executives need to develop methods to improve their innovation process.

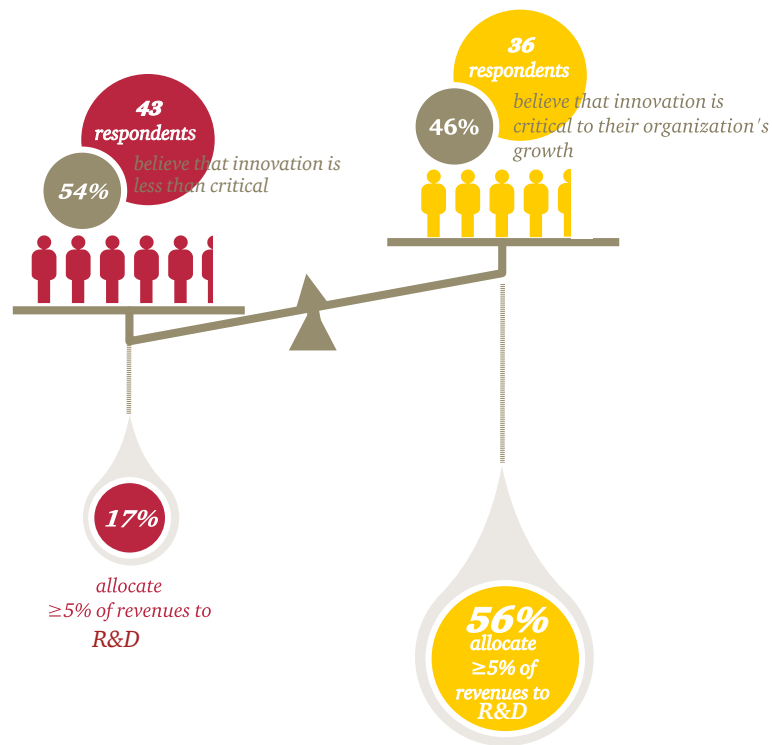
Innovation is a driver for rapid and profitable revenue growth and is recognized by the global executives interviewed as integral to sustaining the long-term future of their business. For almost half (43%) of the 1,757 international executives interviewed by PwC member firms, innovation is a 'competitive necessity' for their organization. In five years, that figure will increase to 51%.

If you consider innovation in the widest sense of [the] word, it is fundamental. I call it innovation if we apply the same knowledge to a different application. I think that's innovation. Looking at it in a different way, that's innovation.

Isidro Consunji
Chairman and President, DMCI Holdings

Philippine business leaders share the same opinion. About 46% of the CEOs who participated in our survey consider innovation critical to their organization's growth. An additional 38% of the CEOs consider innovation as important to the success of their organization bringing the total to 84% who view innovation to be key to their growth. This is more pronounced in the Technology, InfoComm, Entertainment & Media, and the Financial Services sectors where 56% and 48%, respectively, consider innovation as critical to their growth.

Our survey data likewise show that the more the companies consider innovation critical, the more likely they are to allocate a greater percentage of their revenues to research and development (R&D) and innovation initiatives. About 56% of these CEOs who said that innovation is critical also allocate at least 5% of their revenues to fund R&D and innovation. This is in contrast to just 17% of the CEOs who do not consider innovation to be critical – they set aside less than 5% for R&D. What is more notable is that out of the 27 CEOs who said that they allocate at least 5% of their revenues to R&D and innovation, 26 of them also said that innovation is critical.

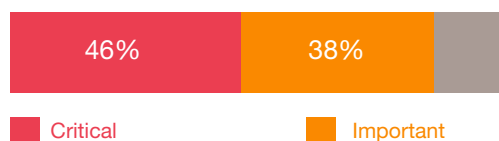


What drives leaders to innovate?

When asked why, about 95% to 96% of the CEOs say that they innovate to stay on top of competition, remain relevant and grow revenues.

For Mr. Espiritu, innovation should be intrinsic to every process of a construction company. "The industry is highly competitive and growth is driven by the capacity to innovate and adapt to new technologies."

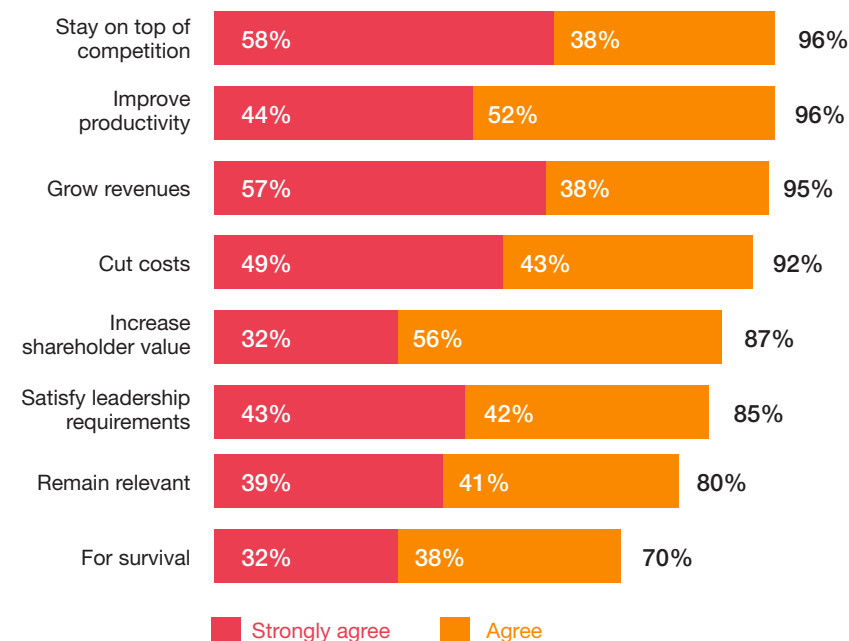
Q: How critical is innovation to your organization's growth?



Innovation is very important to maintain your competitive edge. You always have to come up with new product lines and services.

Francisco del Rosario, Jr.
President, Management Association of the Philippines

Q. What drives you to innovate?





Some even view innovation as not only important for their organization but their entire industry as well. “Being a market leader in healthcare services, innovation is a prerequisite. It is critical for us to continuously collaborate with industry partners to develop innovative solutions to significantly improve health care access to the wider population,” says Mr. Azurin.

Who drives innovation?

It is important to have a clear vision of where the company is going. This will define the context for the role that innovation will play in enabling profitable growth, the type of innovation you want to drive, and the way for you to organize to effect change.

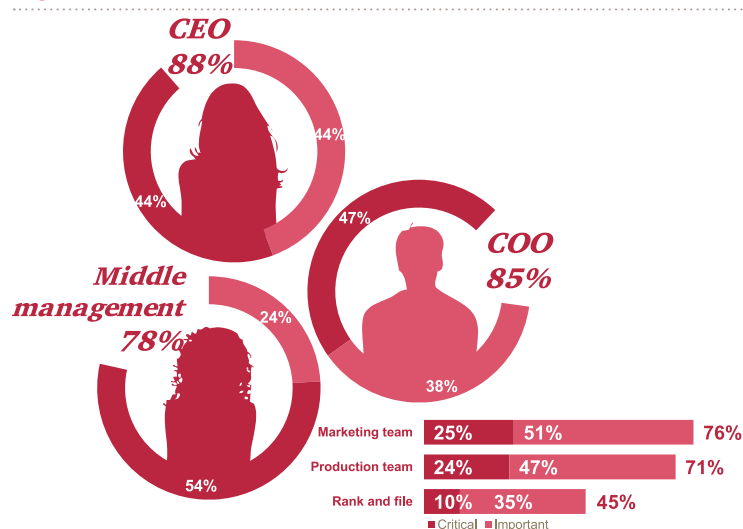
Innovation initiatives should be aligned with the organization’s strategy and goals. Innovation costs money, takes up a lot of resources, and can distract management from its focus. Unless innovations are attuned to what the market is saying or consistent with the strengths of the company’s core asset, innovating for the sake of innovation is not advisable.

About 88% of the CEOs who responded say that innovation is included in their key performance indicators (KPIs), while 85% say that it is included in their COO’s KPIs. It becomes less factored in the KPIs as you go down the organization. So who should drive innovation?

Leaders who often drive innovation are those who are forward-looking and are visionaries. Mr. Concepcion thinks that while innovation is driven at the top, the entire organization has to work together towards a common goal. “The core strength of any company is obviously the aspirational leader who sets the direction but at the end of the day, it’s the people below, the people who are managing the frontline, who face the clients [who will move the company], and as long as those two foundations are strong, then the leader would be able to accomplish the plan,” he says.

However, the innovation ecosystem in the country is still not established. We spoke with Tallwood Venture Capital Managing Partner and Founder Diosdado Banatao. For the technology sector, this technologist, innovator, and Silicon Valley visionary explains, “We Filipinos know some really important theories. We have a lot of bright people, very bright, but it ends there. We are forced to take these ‘brightness’ outside the country to practice and instantiate them. The industry does not have the ability to invest or practice that expertise. I had to do it in Silicon Valley and not here. A Filipino innovation is still affecting everyone’s lives all over the world. These innovations were used well beyond the PC.”

Q. How is innovation factored in the KPIs at various levels of your organization?



Every challenge is an opportunity to innovate.

Hrishikesh Pradhan
Managing Director, Mega Lifesciences Ltd.

Innovation is absolutely important in our industry. Technology, as well as business models and operating processes must engage customers where they're at, in both the physical and figurative sense.

Anna Irmira Navarrete
Co-Founder and President,
Kickstart Ventures, Inc.

The state of business innovation in the Philippines

The Philippines lags behind its peers in terms of business innovation. In the World Economic Forum’s *Global Information Technology (IT) Report 2015*, the Philippines is 85th of the 143 countries ranked for overall business and innovation environment. But the country is 30th in terms of businesses’ capacity to innovate and 41st in its openness to adopting new technologies. While the country has the capacity to innovate, it apparently falls short in terms of making innovation a part of its DNA.

My undergraduate training was inadequate in the emerging field of Solid State Device Physics and Computer Architecture and so I went to graduate school at Stanford University. Stanford, located in the heart of Silicon Valley, was one of the first universities that offered those fields of studies, which eventually was generally referred to as “semiconductors”. UC Berkeley was actually ahead but I chose Stanford. When I got my degree and started to work in industry, I joined National Semiconductors to be part of a pioneering group designing microprocessors. It was the perfect job leveraging my graduate studies at Stanford. Microprocessors are the “heart” of all computing systems today that affect lives all over the world.

This is one of the best examples that it is not enough to know theory. One has to create a technology that uses the theory, then innovate by creating a product that embodies the technology. It is only through innovation in products that society benefits from the use of technology.

Diosdado Banatao
Managing Partner and Founder,
Tallwood Venture Capital

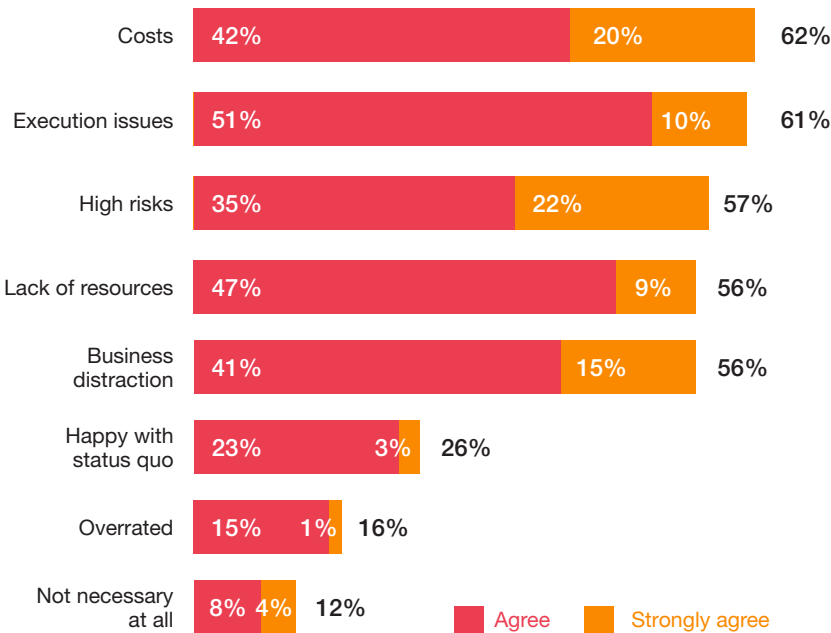
Mr. Banatao believes innovation is what separates developing countries from developed ones. “We need to participate more in the global economy. I know that we do participate but the value is not sizable compared to other countries. We do not design and manufacture valuable products such as cars, computers, communication systems, smartphones, etc. The only way for us to get out of the developing mode is to create technology-based high value products for the global market. But in order for us to do this, we need to create the foundation of technology experts and an ecosystem of innovation and entrepreneurship. Once growth accelerates, the diffusion of wealth to the population through entrepreneurship happens. Innovation coming from the intellect will be more valuable than money. Creating value-add products for the global market is the shortest path to economic development and the only means of eradicating poverty.”

What is preventing business leaders from innovating? CEOs identified costs, execution issues and high risks as the top reasons.

Innovation need not be expensive

The most successful innovators are willing to bear the brunt of innovation costs, which need not be on the high side all the time.

Q. What will prevent you from innovating?





PwC Philippines' Consulting Leader Benjamin Azada says, "You don't necessarily need to spend much to pursue successful innovation measures. There are a lot of SMEs (small- and medium-sized enterprises) that are able to innovate. One local company that I know of was a start-up with very little resources but it was very innovative with its services. It also forged partnerships, and it had a unique value proposition. It is now a multimillion-peso company."

PwC Strategy&'s 2014 *Global Innovation 1000* report says spending more on R&D does not necessarily drive more innovation or better financial performance. The Ten Most Innovative companies outperformed the Top Ten R&D Spenders on growth in market capitalization, revenue growth, and profitability. Apple and Google remain at the top of the Ten Most Innovative companies and only Microsoft has been among the Ten Most Innovative companies and Top Ten R&D Spenders in each of the past five years.

It's not how much you spend, but how you spend it that matters.

Execution issues

Most people will say that good business planning is 90% execution and 10% strategy. However, Benjamin Franklin also said that "By failing to prepare, you are preparing to fail."

Perhaps that's why 65% of the CEOs claim they have a transformative strategy in place and another 24% say that they plan to adopt one. It is not surprising that all 36 CEOs who consider innovation critical also have their transformative strategies in place.

Having a plan, though imperfect, is still a way to reduce risks. Thirty-four percent of the CEOs also agree that execution of plans and strategies, if done right, presents great opportunities.

High risks

Companies that are open to innovation are also aware of the risks, which they think are outweighed by potential benefits. "We want our people to take calculated risks. You should be ready to lose something in order to gain something in return," Mr. Pradhan explains.

Top 10 most innovative companies in 2014

2014	2013	Company	R&D spending		
			2014 US\$bn	Rank	as % of sales (intensity)
1	1	Apple	\$4.5	32	2.6%
2	2	Google	\$8.0	9	13.3%
3	4	Amazon	\$6.6	14	8.8%
4	3	Samsung	\$13.4	2	6.4%
5	9	Tesla Motors	\$0.2	440	11.5%
6	5	3M	\$1.7	79	5.6%
7	6	GE	\$4.8	30	3.3%
8	7	Microsoft	\$10.4	4	13.4%
9	8	IBM	\$6.2	18	6.2%
10		P&G	\$2.0	70	2.4%

Source: Bloomberg data, Capital IQ data, Strategy& 2014 Global Innovation 1000 survey data and analysis

Innovation is in our company's DNA. We feel the need to innovate. It is one of the best things that you can do for your company. And right now because of many free and inexpensive apps in the web, we can innovate without spending too much money. I thought cloud computing was going to be expensive. It turned out to be very cheap. The investment is more of time, deciding how to structure the ideas.

Tirso Antiporda, Jr.
President, Milestone Petroleum Marketing Corporation

Mr. Azada stresses that “there may be a cultural issue. Filipinos may not be inclined to innovate for fear of making mistakes. But in order to become innovative, you must be willing to take risks.”

Some of these risks can be overcome through collaboration and use of technology. As businesses get more complicated in a fast-paced environment, business leaders recognize that the best ideas don’t always exist within their own companies. PwC’s *Global Innovation* study findings show that companies are collaborating closely with a diverse range of partners, from suppliers to academics and even competitors.

Technology as the main enabler of innovation

Technology allows better collaboration and is a main enabler of innovation. It transforms the way we communicate, deal with challenges, stay competitive, heighten productivity and increase revenues. It is changing the way we think, work, and play and it has become part of our daily lives. In business, it allows companies to be more efficient, and this differentiation leads to competitive advantage.

About 48% of the CEOs have identified technological advances as the top trend that will certainly transform their business. Another 32% said it will most likely will.

Key concerns that might be both a problem and an opportunity



There are four key technologies that have converged to drive innovation: social networking, mobile computing, analytics, and cloud computing. These technologies enable new ways to develop products, interact with customers, partner with others, compete, and succeed. Top-performing companies show greater mastery in how they make the most of these four digital technologies to plan, innovate, measure results, interact with customers, and create value.

While each of the four technologies has its own unique impact, they are complementary in getting work done. Social media help people find colleagues with whom to collaborate and co-create. Mobile devices give people access to each other, applications stored in the cloud, and other data sources. Analytics help them make actionable sense of all that data. The cloud increasingly contains more of the information and applications that people use.

Of the CEOs we surveyed on what technologies are strategically very important, 62% cited data mining and analysis, while 52% said mobile technologies for customer engagement.

About 66% of the CEOs have identified cybersecurity as the most important digital technology. The latter could stem from the fear that anything that goes through the Internet is not secure.

Social networking

Social media is fast becoming an effective marketing and communications tool for businesses, which are constantly coming up with new ways to reach their market. In the *Global IT Report 2015*, the country ranked relatively high at 25th for use of virtual social networks (e.g., Facebook, Twitter, LinkedIn).

Social networks allow people to collaborate and communicate at almost zero cost. Companies can use social media platforms as a way to test an idea or even generate ideas. “We’re doing crowdsourcing. The idea is that it’s not just management that comes up with the ideas; they come from everyone. So if you have 5,000 employees and you can tap everybody and their friends and neighbors and get their ideas about how you can do things better, you’re increasing your odds instead of just having the top five people in the organization come up with the ideas. We’re trying to go the opposite way and have the ideas come from the entire organization,” Mr. Drysdale says.



Mobile computing

PwC's *18th Annual Global CEO Survey (2015)* reports that while mobile technologies have been around for decades, the sheer transformation of mobile devices in the last few years has revolutionized customers' ability to obtain information. The number of mobile phone users globally was said to total 4.55bn in 2014 – nearly 70% of the world's population – with smartphone users totaling 1.75bn. The volume of mobile traffic generated by smartphones is now about twice that of computers, tablets and routers – despite having only surpassed them in 2013 – and is predicted to grow tenfold by 2019.

The *Global IT Report 2015* ranks the Philippines at 66th in mobile network coverage and 86th in mobile telephone subscriptions. There are 114m mobile connections or 113% penetration rate, although there are only 36m mobile social users or 36% penetration rate.

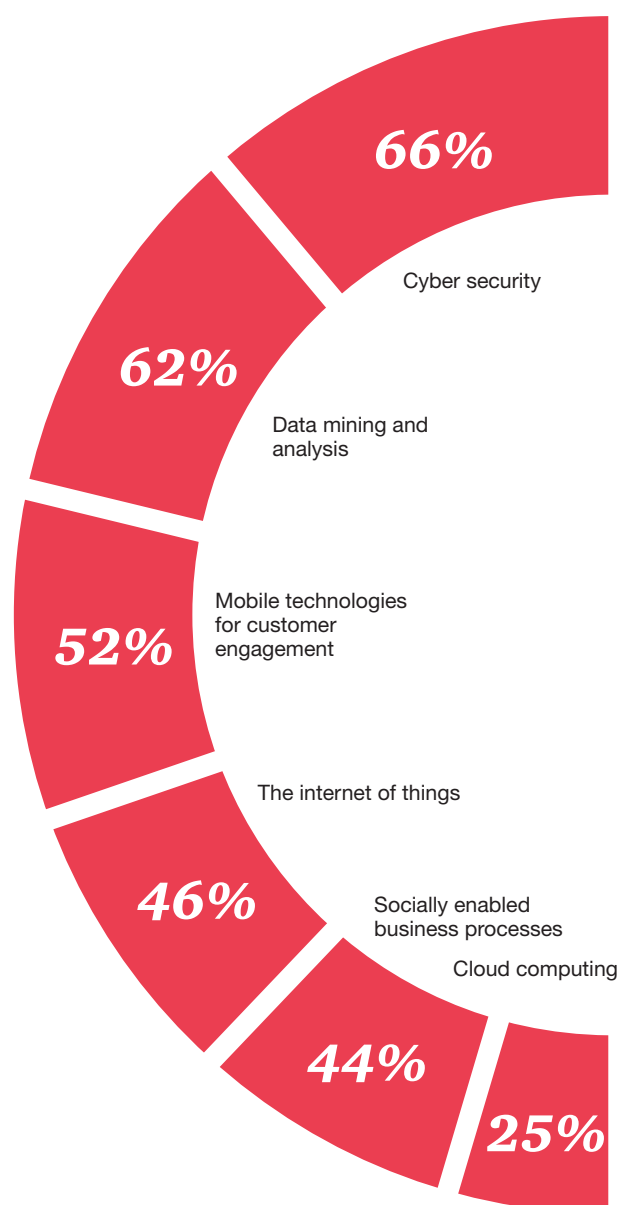
About 52% of the CEOs believe that mobile technologies for customer engagement are strategically very important. Another 32% believe they are somewhat important. As the number of smartphone users increases, we can expect that more CEOs will find mobile technologies to be very important, not just to market their products and services but to improve customer experience and drive competitive advantage.

Big data analytics

Enterprises are being inundated with vast amounts of data today—whether from existing business systems or from new information sources such as social media, mobile devices, and the cloud-based online marketplace. So much of what we do is digitized and available for analysis, and with the right analytics framework, companies can create value from this trove of digital data.

PwC reveals in its *18th Annual Global CEO Survey (2015)* that data analytics has transformed the ability of companies to access, analyze and circulate information about their customers, as well as use the data to create relationships with their customers. Companies that can use analytics to make demand-side decisions about business processes outperform those that do not use big data.

Q. How strategically important are these digital technologies in your organization:



As big data analytics is a relatively new tool, companies face challenges in their ability to effectively leverage the information. It has been estimated that 23% of all digital data generated annually would be useful if tagged and analyzed, but at present, only 3% is tagged and 0.5% analyzed. In the Philippines, big data analysis is not normally an in-house tool but can be available through external parties.

Mr. Paterno said that they have hired a team of six young data analysts who scrutinize the data they accumulate in the course of operating their stores, but acknowledged that it is very hard to hire seasoned big data experts. He said that “the big data that we do is for merchandise. We have billions of records, and we generate 1.5m transactions a day. Of the 1.5m transactions, about 15% have a loyalty card so that we can kind of get to know our 2m loyalty cardholders better.”

Mr. Paterno adds, “It’s actually not very hard crunching the data. The hard part actually is asking the right questions, and then deciding what information is useful to disseminate to the rest of the organization. Our mission is to get the right information to the right people at the right time. And I believe they’ll make the right decisions on their own. But to get there you have to sort through a forest of data, go down countless dead ends, to see what’s really important. Because if you show them too much, the patterns don’t emerge, and you get confusion instead.”

Cloud computing

Out of the four emerging technologies, cloud computing is probably the least understood. Only 25% of the CEOs believe that cloud technology is very important.

The cloud contains more of the information and applications that people use. Mobile devices give us access to the cloud, social networks help us collaborate and communicate with each other in the cloud, and analytics helps us make sense of the data we’ve gathered via the cloud.

Digital infrastructure leaves much to be desired

Seventy-nine percent of CEOs believe that the Philippine government has not been effective in improving the country’s digital infrastructure.

To speed up economic growth and spur further innovation, we need to fix the lagging digital infrastructure. “I was born before 1984 so I even have a hard time doing my email, attachments, and those kind of stuff. But everybody tells me that we may have the slowest Internet in this part of the world. I think it’s very important because if we have to do some catching up, it’s a good way of leapfrogging. A lot of things have been done but compare us to other countries, we probably could have done a lot better,” Mr. Consunji says.

Kenneth Lingan, Google’s Country Head for the Philippines, says that the high cost and slow speed of the internet in the Philippines are key constraints of having a vibrant Internet economy. There’s a World Bank study which has shown that a 10% increase in high speed Internet penetration has a positive impact of 1.3% on economic growth. So certainly, there’s still a lot to be done, in terms of [Internet] speeds.”

Speedtests done by Ookla showed that the Philippines has the second lowest consumer download speed in Asia as of May 2015 at 3.64 Mbps. This is way slower than the global average of 23.3 Mbps. Globally, the Philippines ranked 176 out of 202 countries included in the study.

The Philippines was also identified as having one of the most expensive cost per Mbps with an average value of US\$18.19 compared to the global cost of US\$5.21 per Mbps¹.

¹ <http://www.abs-cbnnews.com/business/05/19/15/guess-which-asian-country-has-slower-internet-philippines>

Competition is the mother of invention and innovation. And yet, why is it that opening the telecom and IT industries to a greater number of players has not produced a reliable, low-cost and high technology service?

Aurelio Angeles
President, Filipinas Multi-Line Corporation



Physical vs. digital infrastructure

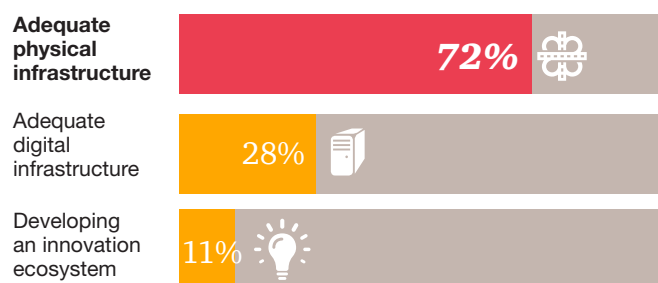
Seventy-two percent of business leaders have recommended adequate physical infrastructure to be the government's priority compared to 28% who chose digital infrastructure and 11% who chose developing an innovation ecosystem.

According to Mr. Banatao, "The impact of the digital infrastructure on a country is significantly bigger than highways and all kinds of physical infrastructure built for the population. People forget the fact that the Internet has so much impact on society that you should consider it as the highest, the most important infrastructure in any society today. The impact is huge. You can see a lot of examples: Silicon Valley, the entire US, the developed economies – Japan, Korea etc... We would see significant growth if our digital infrastructure improves."

He adds that, "Wi-Fi will solve a lot of problems in communications. And the nice thing is that these frequencies are free. Wi-Fi was designed by the regulatory bodies all over the world in such a way that Wi-Fi cannot be a spectrum that is licensable. It is free. Wi-Fi has enough bandwidth, way bigger than our cellular bandwidth. It is a bit backward here in the Philippines. It's amazing that the telephone companies use cellular as the de-facto backhaul for Wi-Fi."

There are not a lot of data to estimate the productivity loss we suffer as a result of the slow connectivity. One estimate puts this at over US\$5bn a year. However, that is just productivity loss. Imagine the opportunity costs of inadequate digital infrastructure.

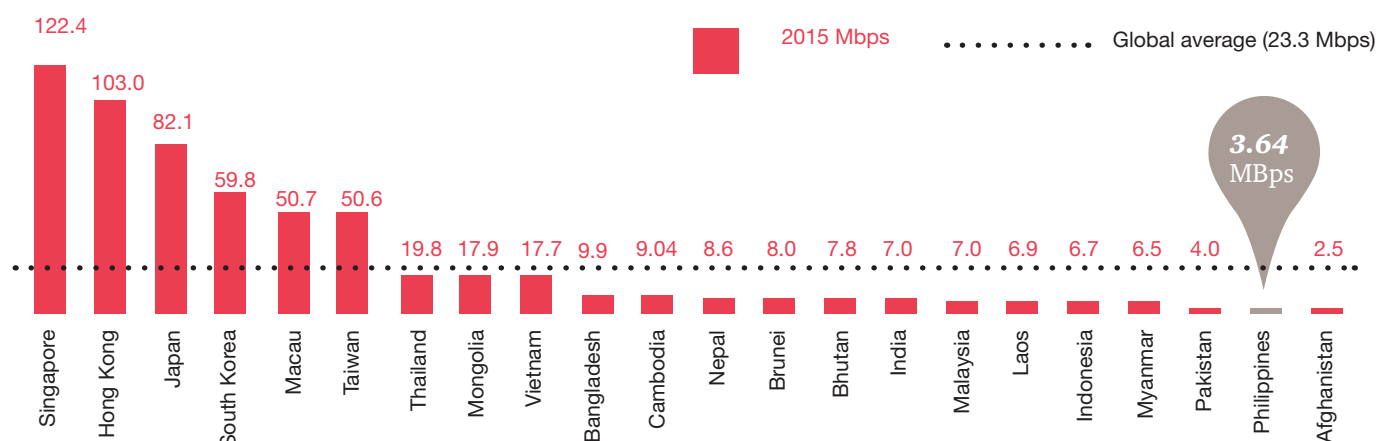
"There would be no big institutions like Apple, Google, Facebook, Intel, Uber, and thousands of others without the Internet. So you can imagine the impact of the Internet on society. But here, I guess, unless people understand the impact that the Internet can have on an economy, it will not get fixed. It is impactful and so obvious but a lot of people disregard it," Mr. Banatao says.



A good digital connection is the key to counterbalancing bad infrastructure and worsening traffic. The ability to remotely monitor what is happening in our business is critical to us and fundamental to our growth.

Raul Joseph Concepcion
Chief Executive Officer,
Concepcion Industrial Corporation

Internet speed



Is improving the country's digital infrastructure the responsibility of the government or of the private sector? As Information and Communications Technology (ICT) has been a key driver of growth over the last few decades, government has decided to step in and enforce rules to ensure the improvement of Internet speed and access. The National Telecommunications Commission (NTC) has announced that it is also studying measures to improve the Internet infrastructure in the country, including the possibility of using its own funds to develop the digital infrastructure.

Benefits of innovation

Some chief executives view client satisfaction as the key to their success. "Innovation today is much more important for the basic reason that we feel that our core businesses have shifted from basically selling products to what we now call solutions. It is our way of differentiating ourselves in a very competitive environment while giving more value to our customers," Mr. Concepcion says. "For us, customer satisfaction is a driver of innovation."

The results of the PwC *Global Innovation Survey* show that the most innovative 20% had already grown at a rate of 16% faster than that of the least innovative. This equates, on average, to each of the most innovative companies delivering US\$0.25bn of additional revenue over the last three years, compared with the least innovative.

Innovation has its costs and risks, but as the study shows, it also results to faster growth.



Companies that pair service and product innovation – providing customers with a solution – will reap rewards including higher revenues, better returns on their innovation investments, stronger brand loyalty, and bigger market share.

Rob Shelton
Global Innovation Strategy Leader, PwC

The legal system has to be built to look into these opportunities for success. I heard they passed the anti-trust law although they still have to define how they [will] police it.

Diosdado Banatao
Founder and Managing Partner, Tallwood
Venture Capital

Tough questions

1. On which areas should you focus your innovation?
2. What are you willing to risk to break the mold?
3. How are you using innovation to drive growth and what is the return on this investment?
4. How do you make sure that you're picking up and acting on trends as they emerge with increasing rapidity?
5. How are you navigating the sea of information out there so you can focus on the things that really matter?



Transformation

The economic and business landscape has been shaped by change. Decades ago, globalization started a diaspora of Filipino workers abroad, with their substantial remittances now fuelling the economy.

About ten years back, pressure on multinationals to register profits created and spurred the BPO industry in the country. This changed the lifestyle of Filipinos as well as stimulated the rise of retail/convenience store model and mixed-use developments, not only in the business districts of Metro Manila but in the provinces as well.

More changes are coming.

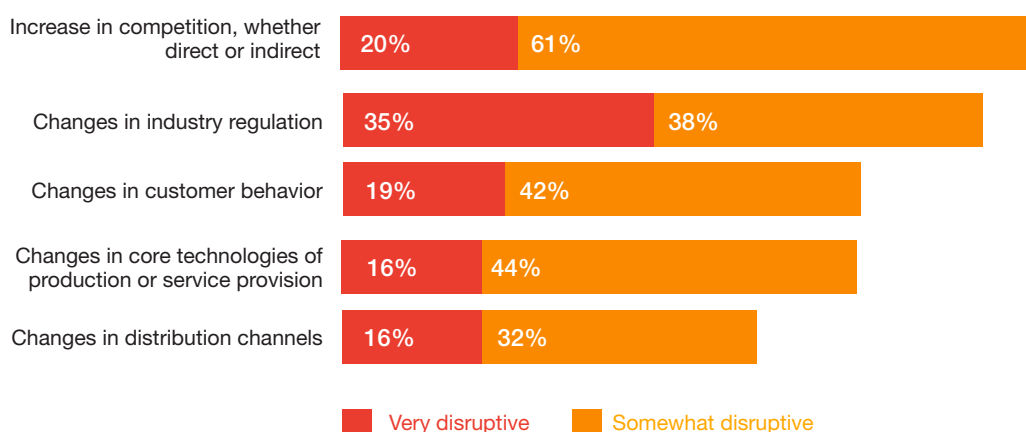
Industry game changers

In this digital age, what changes do Philippine CEOs perceive to be the most disrupting to their industries?

While technology and changes in consumer behavior are considered to be disruptive, 81% of the business leaders see increase in competition to be the most disruptive in their industries over the next five years.

Likewise, they believe changes in industry regulation (73%) can also be disruptive and likely to bring about drastic transformations in their sectors. The result is quite aligned with PwC's *18th Annual Global CEO Survey*, which said the majority of CEOs all over the world see regulation, competition and consumer behavior to be the most disruptive.

Q: How disruptive do you think these changes will be in your industry over the next five years?



Stick to your core or try to explore

Companies with a clear vision and that use their core competencies have transformed themselves into more flexible, wide-reaching and stronger organizations, penetrating industries other than their own.

Concepcion Industrial Corporation has moved from being a manufacturer of air conditioners to a 'solutions' provider. Recently, the company partnered with Midea and Otis to allow it to have a wider range of products catering to the requirements of household and commercial/industrial customers.

FAST Logistics, an end-to-end logistics group based in Cebu, started in the shipping industry. It ventured into other businesses mainly due to the prodding of its highly satisfied customers.

"When we went into warehousing, it was not our idea. It was the idea of our customers. When we went into trucking, it was not our idea. It was also the idea of our customers. When we went into distribution, it was not our idea. When you look at it, it came from our customers," Mr. Chiongbian reveals.

7-11 is in the process of transforming itself from a convenience store into an e-commerce platform, building on its core asset: 1,500 stores across the country, with an estimated 30m people living within 500m of a store, served daily from company-operated distribution centers.

Tapping into this extensive system means that "we can be a platform for payments and logistics, because we have points of presence," Mr. Paterno says.

DMCI has grown from a construction company to a conglomerate operating in various sectors: utilities, energy, real estate and mining. The reason it branched out is that cyclical construction business could not keep its good people in the company.

"Because of the nature of the business, you would create a rare breed of managers who are technically competent. The problem in construction [is] if you just rely on bidding, which we used to do before our IPO, and you lose the project, you cannot keep your good people. There's no continuity. You have to lay them off [and] somebody benefits from their experience. So what we wanted to do after the IPO was to acquire business or economic activities that will utilize skills that we've developed in engineering and in construction," shares Mr. Consunji.



Regulation: a game changer

A new regulation is, indeed, a game changer. In the banking sector, the relaxation of foreign ownership in the banking system has welcomed a number of newcomers into the industry. As of this writing, five foreign banks have been allowed by the Bangko Sentral ng Pilipinas (BSP, or the central bank) to establish a branch in the Philippines. One more is awaiting the green light from the regulator. Japan's second-largest lender, Sumitomo Mitsui Banking Corporation, was the first to secure approval from the BSP last February 2015 under the liberalization of foreign ownership rules in this industry.

In the power sector, the approval of feed-in-tariff (FIT) rates and setting up of Renewable Portfolio Standard spurred a number of players, local and foreign alike, to venture into the renewable space.

More than increasing competition, changes in regulation bring about necessary transformations in organizations wishing to comply. Regulatory risks and other contingencies should be considered when drafting the transformation plans.



Transforming through technology

We also asked the CEOs what trends will likely transform their business over the next five years.

The result was not surprising: technological advances (92%) take the top spot while demographic and social changes (89%), and rapid urbanization (85%) complete the top three.

PwC's *Global Annual Review 2014* has identified five global megatrends that will continue to advance and impact society and businesses in general. Of these megatrends, 48% of Philippine CEOs surveyed say that technological advances will certainly transform their business in the next five years.

Technological breakthroughs

Technological advances have reached the mass market more quickly in the last ten years. According to a report by Ericsson, four in ten Filipinos are set to own smartphones by the end of this year. This is a ten-percentage point jump from just 30% a year ago.

Most companies have also taken advantage of the benefits derived from the use of technology. Even agriculture, a sector which is not very much associated with technology, also uses technology to improve productivity in the fields.

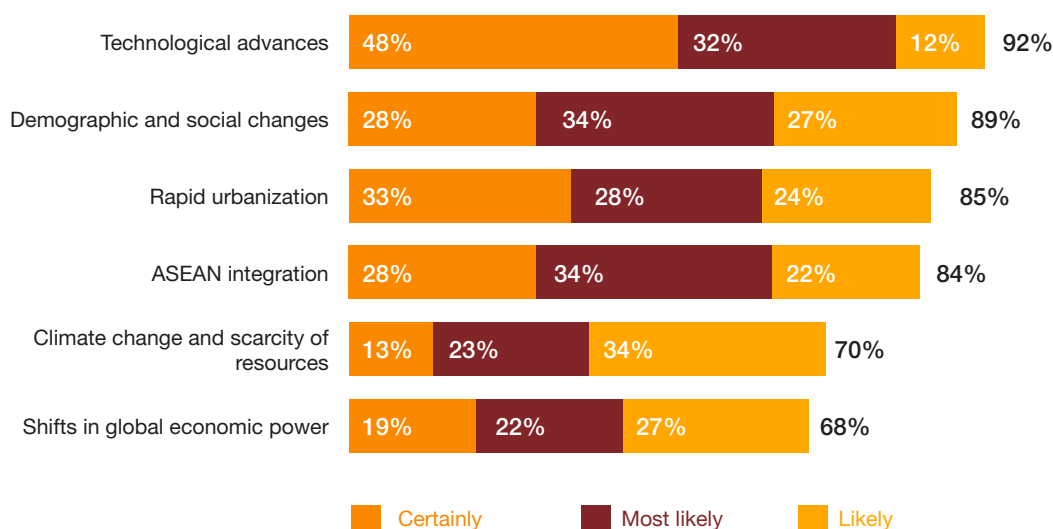
Marsman Agribusiness is a company that has embraced technological advances in its operations.

"We are now using drones to go over the top to look at [our crops], using GPS, to guide spray planes. Before, it was just done by the pilot looking at the ground and figuring out when to pull the lever. Now it's all done by GPS," says Mr. Drysdale.

Are you ready to change?

Increase in competition, technology and innovation, social changes, and other disruptive changes will necessitate transformation in companies.

Q: Which of these trends and changes will transform your business over the next five years?



This metamorphosis from a simple organization to an agile and adaptive institution that is quick to embrace the opportunities presented by change is happening in most Philippine companies.

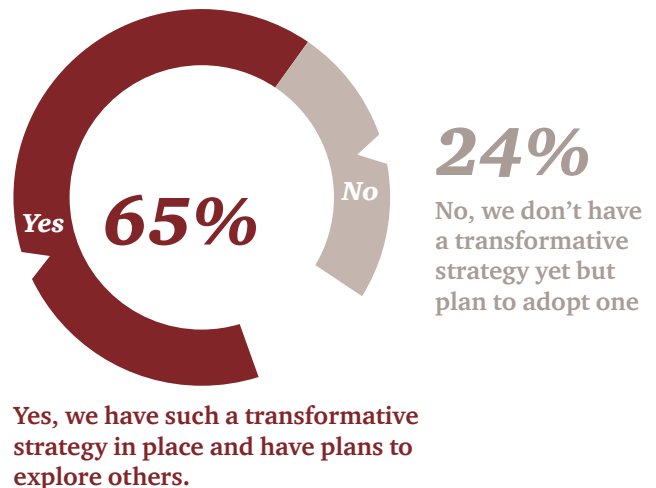
Our survey shows that 65% already have a transformative strategy in place and still have plans to explore others, and 24% do not have a transformative strategy yet but plan to adopt one.

This overwhelming result only confirms the importance of transformation. Transformation is necessary because the economic, social and business landscape is quick to change.

For instance, the 24/7 BPO culture is a disruptor that is both a challenge and opportunity for businesses to flourish. Digital platforms and networks will replace larger structures and organizations. Versatile and competent institutions prove to be a threat even to businesses belonging to other industries.

Process improvement, however, may thus not keep up with these complexities. Radical change is needed to embrace these opportunities, and survive and thrive in this fast-changing world.

Q: Does your company have a transformative strategy in place or plans to adopt one?



The definition of insanity is doing the same thing and expecting different results. If we continue to do our business the same way over the next five or ten years, we cannot survive.

Raul Joseph Concepcion
Chief Executive Officer,
Concepcion Industrial Corporation

Tough questions

1. How do you protect your market share from agile organizations that are branching out to other sectors?
2. How do you make your business failure-proof in the midst of disruptive changes in your industry such as cross-sector competition, technological breakthroughs, regulation, and changes in consumer behavior?
3. What are your core competencies or valuable assets that could allow you to expand and compete in other industries?
4. What do you see as the main disruptor in your business and industry, and how is your organization prepared to overcome it?
5. Do you have the right people and mindset to execute your transformation strategy?



Partnerships

The number of announced mergers and acquisitions (M&A) deals in the Philippines increased from 45 in 2012 to 65 in 2014. Management involved in these deals cited increased market share and global presence, product expansion, and technological advances as the drivers for these transactions. External factors include the country's strong macroeconomic fundamentals, credit rating upgrade, and improved governance.

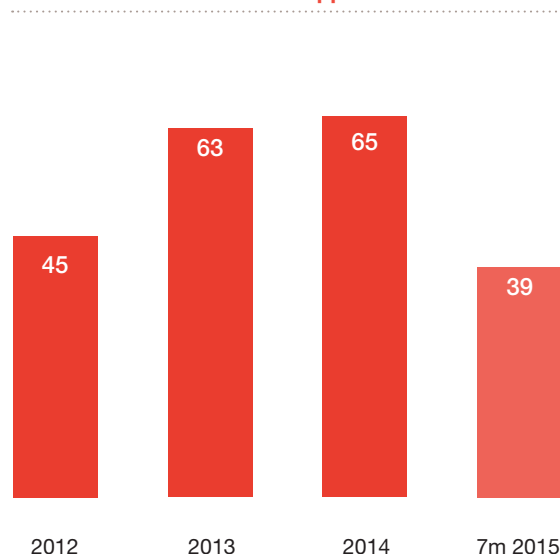
According to PwC's 18th Annual Global CEO Survey, CEOs would like to focus on areas where they have the competitive advantage, and form strategic alliances or joint ventures with partners who can complement or enhance their business. The CEOs in this survey also cited access to new emerging technologies, access to new customers and new geographic markets, and ability to strengthen innovation capabilities as the reasons for collaborating in joint ventures, strategic alliances, or informal collaborations.

In our survey, we asked 79 CEOs in the Philippines to identify the initiatives and changes that they will implement to respond to the changes in the macroeconomic and business environment. Like the responses in the Global CEO Survey, 46% of the local CEOs stated that they would certainly enter into strategic partnerships mainly to grow their business and drive innovation, and not just for financing purposes.

Partnerships and the ASEAN integration

The ASEAN is expected to be the seventh largest economy in the world with a combined GDP of US\$2.5 trillion, and could become the fourth largest economy by 2050 with continuous growth. While the ASEAN integration will allow the free flow of goods, services, investments, skilled labor, and capital, not all players will emerge as winners. To survive in the ASEAN Economic Community, industry players must plan their regional strategy, and start investing in new initiatives.

No. of M&A deals in the Philippines



Source: MergerMarket

We've noticed an increase in M&A activity. A number of family-owned companies have expressed interest in partnering. Unlike before, many of them now realize that through the right partnerships, their business can actually grow faster.

Mary Jade T. Roxas-Divinagracia, CFA
Deals and Corporate Finance Partner,
PwC Philippines

Sixty-two percent of the CEOs cited that the ASEAN integration will most likely transform their business. Mr. Chiongbian believes that it as an opportunity to explore new ventures and activities.

Strategic vs. financial partnerships

The CEOs we spoke with understand that certain changes must be implemented in their companies to respond to the trends that we have identified. Ninety-one percent of the CEOs said that they plan to tap new markets in the next 12 months to respond to trends while 90% intend to apply technological changes. Eighty-nine percent stated that they are looking into entering strategic partnerships and implementing business process improvement to keep up with changing trends.

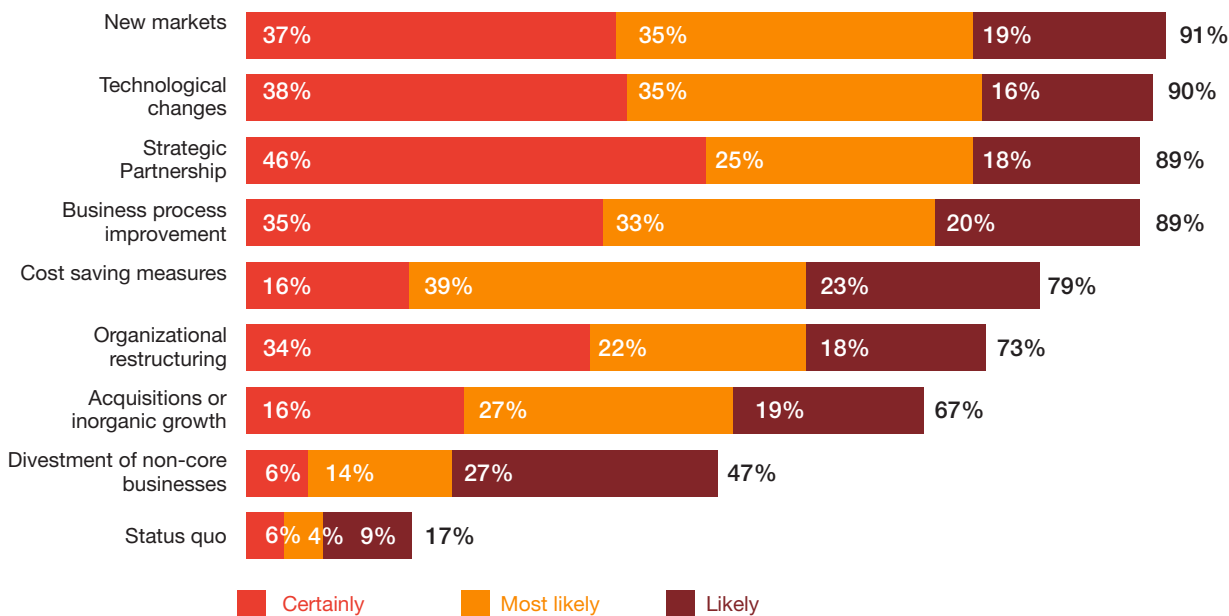
Potential partners include suppliers, start-ups, academe, trade organizations, NGOs, government, firms from other industries, and competitors. Collaboration with such partners can help develop new ideas and drive innovation. Having more diverse partnerships – whether short- or long-term, formal or informal – is seen as a successful way of generating solutions and perspectives.

7-Eleven tends to be more collaborative even in its core business. Retailers can be very old-fashioned when it comes to collaboration. The typical retailer guards his data, so his suppliers do not know how much inventory the retailer is holding. We open ours up so that we can use the information to better serve our customers.

Jose Victor Paterno
President and CEO,
Philippine Seven Corporation

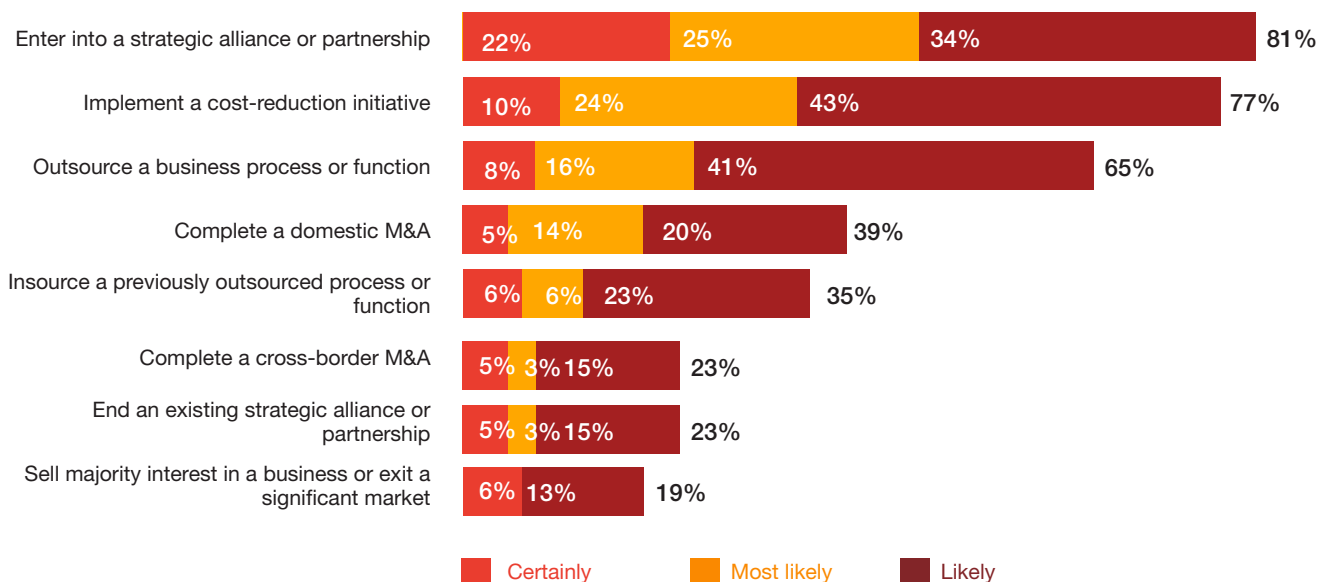


Q: Which of these initiatives would you like to adopt in the next 12 months to respond to global trends?





Q: Which of these restructuring changes would you most likely implement in the next 12 months?



Restructuring changes

Overwhelmingly, 81% of the CEOs plan to enter into strategic alliances or partnerships in the next 12 months as part of their restructuring changes. Seventy-seven percent of the CEOs intend to implement cost-reduction initiatives within their organizations while 65% will likely outsource a business process in the next 12 months.

Mr. Espiritu believes that processes outside one's core businesses or skill sets should be outsourced to ensure the highest level of quality. As general innovation contractors, Datem Inc. outsources mechanical, electrical, and plumbing and sanitary processes to specialty contractors.

Thirty-nine percent of the business leaders surveyed will likely complete domestic acquisitions in the next 12 months while 35% will go cross-border. A smaller percentage (23%) stated they would likely sell an existing business or end an existing strategic alliance that does not fit their capabilities and core competencies.

We have a focus at AIM on business and society because we have both a development school and a business school. As these schools integrate and cross-support, we envision seeing unique programs being formed.

Steven DeKrey
President, Asian Institute of Management

Collaboration in a competitive market

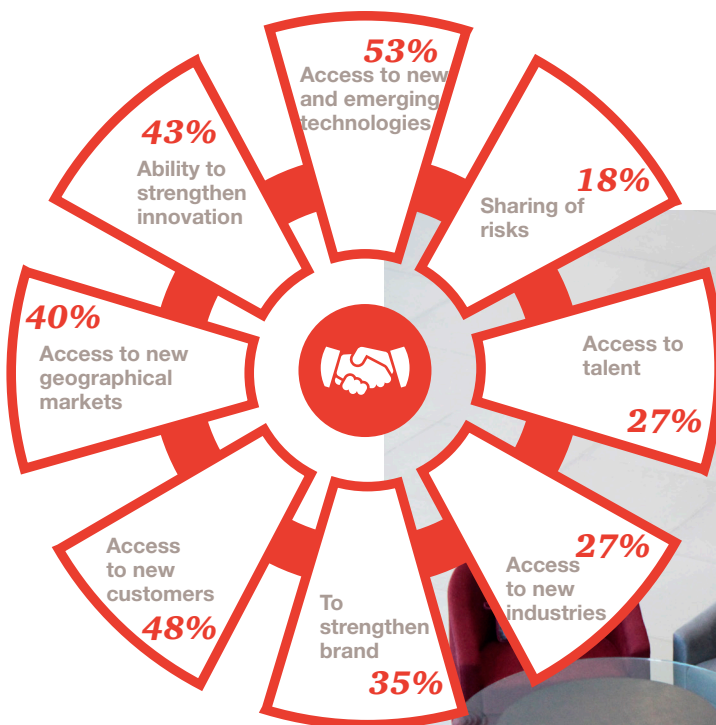
In PwC's 18th Annual Global CEO Survey, more than half of the CEOs said they were partnering, or have considered partnering, with other firms and even competitors mainly to drive innovation. "The competitor theme is a very interesting one because I don't believe in competitors, I only believe in colleagues that act together... to bring us more business opportunities," says Oscar Farinetti, founder and creator of Eataly, Italy.

In our Philippine CEO Survey, we asked the CEOs to select up to three reasons for collaborating in joint ventures, strategic alliances, or informal collaborations. Access to new and emerging technologies, access to new customers, and having the ability to strengthen innovation, were the top reasons for forming partnerships, as identified by most CEOs.

"We are always looking at partnerships. When we see appropriate technology, we borrow or adopt. We're open to possible partnerships," says Mr. Carlos.

In the technology space, collaboration is the norm. In technology, it's different. It moves so fast, you really have to collaborate even though you may be competing later. It works very much like cycling, where aerodynamics drive strategy. A breakaway of competing teams will work together to distance themselves from the main pack, knowing that when the finish line comes up, they're all going to try to elbow one another aside.

Jose Victor Paterno
President and CEO,
Philippine Seven Corporation





Creating successful partnerships

In our conversations with CEOs, it is evident that they understand the value of partnerships in growing their business.

With the growing economy and sound fiscal and monetary policies, partnerships in the Philippines are formed under different models. Some examples are public-private partnerships, joint ventures, and licensing arrangements.

Successful partnerships in the country include the cooperation among conglomerates to build the country's infrastructure projects, construct new real estate developments, and bring in new retail brands and formats. Of the 65 completed M&A deals in 2014, 20% were in the energy sector while 17% were in the financial services sector.

In PwC's *Global Innovation Survey*, leaders recognize that the best ideas do not always come from within their organizations. "There are a billion IQ points outside your organization that you can use if you know how to collaborate effectively," says Rob Shelton, PwC Innovation leader.



If you don't have trust, you have disagreements and you don't really see yourself going in the same direction, then why even continue?

Trust is the foundation of any relationship.

Raul Joseph Concepcion
Chief Executive Officer,
Concepcion Industrial Corporation

Tough questions

1. How are you leveraging partnerships to enhance your organization's capabilities?
2. What types of organizations are you collaborating with?
3. What can you learn from your collaborative networks in order to deliver value to customers?
4. How are you ensuring that your partnerships are mutually beneficial and aligned in objectives?
5. In what ways are you harnessing the power of collaborative technologies?



CEO agenda

You've heard it over and over again: the business world is undergoing rapid change. The rate of change is exponential. Concepts are being introduced much quicker and becoming obsolete so much faster. We see new emerging businesses taking hold of markets once dominated by the big guns. What used to be iconic companies are now almost forgotten. Taking their place are disruptive companies like Amazon, Apple, Google, Facebook, Uber and Airbnb.

Most of the leaders we spoke to recognize the challenges of today's market and the need to constantly adapt. But what qualities should a leader possess to thrive in today's environment?

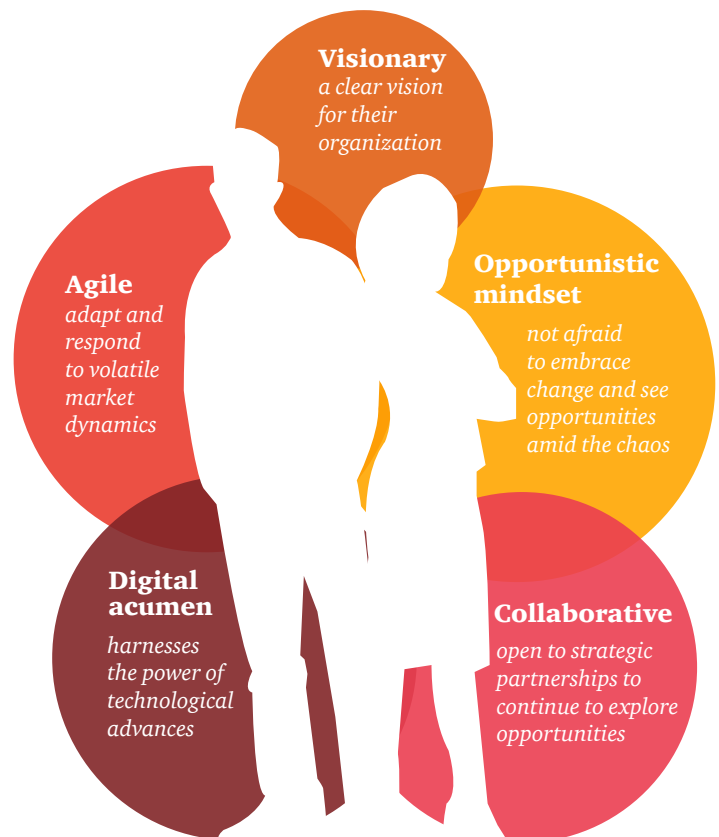
Our conversations with the CEOs revealed five attributes.

Visionary

Most of the leaders we spoke to have a clear vision for their organization. There are no crystal balls but they have a clear idea as to where and how they will take their companies forward. They know what they are good at and build on the strengths of their organizations. They listen to the market and can interpret trends. They set the direction for their people and lead the way. They do not rest on their successes nor get discouraged by failures. They keep moving forward but from time to time will take a step back to make sure that they are still on track.

Agile

A leader's ability to adapt and respond to volatile market dynamics is valuable in today's environment. CEOs find it increasingly important to create organizations whose processes are designed to react quickly to shifting marketplace demands. They sift through all the market movements and respond only to what is relevant, not losing sight of their organizations' core competence and long-term objectives.



We leaders have to be very open. The traditional way of doing things can be very dangerous — you can be “Uber-ized” or, as they say, “bnb” [Airbnb].

Charlie Rufino
President, The Net Group

There's no question that the complexity of leadership these days far outstrips what it's been in the past.

Steven DeKrey
President, Asian Institute of Management



Innovative leaders know that speed is the name of the game and that if you snooze, you lose. Oftentimes, it's not the lack of analysis that leads companies to inaction, but it's too much of it. For some, however, agility is mistaken to mean taking action, any action. Good leaders know that appropriate response is the right response.

Opportunistic mindset

Oftentimes, companies that fail are those that were initially successful. So successful that the status quo was the norm and change was much harder to introduce. Most of the CEOs we interviewed are not afraid of change. Most of them embrace change and see opportunities amid the chaos. In the case of DMCI, for example, all its acquisitions have been opportunistic. As mechanics, they acquire and turn around companies that need fixing.

Likewise, leaders should have the willingness to take risks along with the opportunities. Some studies show that successful innovators are actually prudent and take calculated risks when making decisions. The acceptance that they can potentially fail is there but they see these as humps that need to be overcome. Leaders agree that to encourage the organization to try new things is to cultivate a culture that allows some mistakes to be made.

Collaborative

We live in a world where change is the only constant. Our business leaders realize that today's digital technology is evolving fast and to build all competencies within the organization is not only costly but may not be effective long-term. Ideas come from all areas of the organization's ecosystem – customers, suppliers, employees, service providers, etc.

Value is created and multiplied as a result of new relationships formed. Also, leaders realize more and more that open and collaborative organizations are able to respond faster and more effectively to business stimulus. All the leaders we have interviewed are open to strategic partnerships to continue to exploit opportunities in the digital age—the conventional and proven management styles, working with the young and more technologically savvy entrepreneurs.

Digital acumen

Recent studies in the US show that organizations with strong digital leadership are more likely to grow faster than those whose leaders are not digitally wired. In our conversations with Philippine CEOs, it has become apparent that while they are no technology experts, they use technology to aid their businesses—whether it's in the way to reach customers through social media, to generate ideas using crowdsourcing, to monitor production through GPS (global positioning system) or to track service complaints using a mobile app—these leaders are employing digital technology to grow their business.

Size and scale is a good thing but it can be a liability if you want to speed things up. As you grow, bureaucracy comes with it. Even in Google, we're trying to fight the tendency to behave like a big company or a conventional company. Size could be a big hindrance to growth.

Kenneth Lingan
Country Head for the Philippines, Google

Owners and CEOs should give importance to R&D. When you invest in R&D, the results are medium-term, to long-term, not short-term. But most of our CEOs are short-term oriented because they may be concerned about the bottom line, generating profits, or stakeholders' requirements.

Francisco del Rosario, Jr.
President, Management Association
of the Philippines

Price to earnings multiple of different sectors in the Philippine Stock Exchange (PSE)

Sector	P/E multiple
Consumer Discretionary	25.3
Consumer Staples	25.8
Energy	27.4
Financials	20.4
Healthcare	37.9
Industrials	26.3
Information Technology	81.0
Materials	17.5
Telecommunication Services	23.1
Utilities	23.1
All Groups	22.9

Source: Capital IQ - 14 August 2015

It pays to innovate

Some of the most valuable companies globally are also the most innovative – Apple, Microsoft and Google. Investors seem to pay what *Forbes* magazine refers to as “innovation premium”. We live in a knowledge economy where higher value is attributed to intellect.

We looked at the price to earnings (P/E) multiple of various sectors and we see the same pattern in the Philippine Stock Exchange (PSE). Companies in the technology sector enjoy higher P/E multiples.

However, as we have seen, IT companies no longer have exclusive use of technology capabilities. Leaders from different industries understand the benefits that technology and innovation bring. The challenge now is: How do you, as a leader, translate innovative initiatives to enhance shareholder values?

- 1. Assess your strengths as an organization** – Know what business you are in. As boundaries between markets blur, it is easy to lose sight of what you are really selling. Identify your core asset, what you are good at and how you are differentiated from competitors.
- 2. Visualize the future** – Where do you want to take your company five or ten years hence? Look around you, listen to your customers and solicit ideas. Who will be your competitors and what might they be doing? Asking these tough questions will help you understand your long-term goals and anticipate market needs and competitors’ actions. Use a lot of imagination but keep your feet on the ground. Do not allow pressure for short-term gains override your long-term ambitions.
- 3. Craft your transformative strategy** – Prepare a solid plan which clearly identifies the goals, the resources required and the metrics to measure success. Build in contingencies and do consider regulatory changes. Identify the resources you need including back-office support. Do you have the right people to execute your plan? Who are the naysayers and how will you address them?
- 4. Harness the power of technology** – Identify technological tools that will provide you far-reaching access to markets yet at lower cost. Use existing digital applications like social media and online marketplace so your business can transcend geographical boundaries.
- 5. Collaborate as needed** – Technology allows us to collaborate over long distances. Certain resources may not be available in-house or it’s more efficient to outsource. Consider collaborating with partners who can complement your organization.
- 6. Execute and follow-through** – The best-laid plans will remain just dreams unless you put them into action. Sometimes it’s easier to execute if divided into bite-size projects. Monitor key milestones and adjust plans if need be.

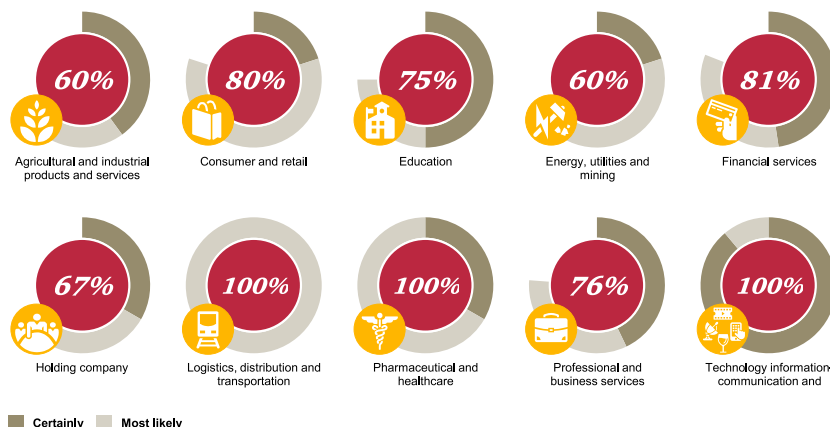
Tough questions

1. Is your organization agile enough to adapt to transformative digital technologies?
2. In a digitally driven world, how in touch are you with your customers?
3. How are you leveraging digital resources to expand beyond traditional channels?
4. As a leader, how do you keep yourself at pace with the digital revolution?
5. How are you harnessing the power of hyper-connectedness to talent and markets and who do you collaborate with?



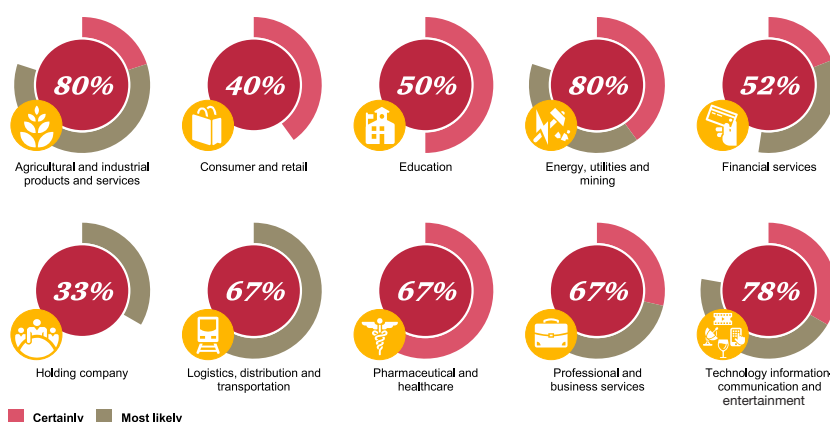
CEOs in various industries who confirmed that technological advances will certainly and most likely transform their business

Q: Will technological advances transform your business over the next five years?



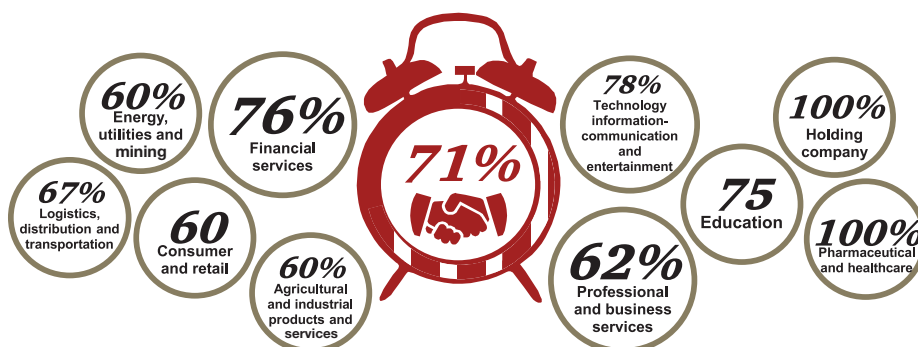
CEOs in various industries who confirmed that the ASEAN Integration will certainly and most likely transform their business

Q: Will ASEAN Integration transform your business over the next five years?



CEOs who will enter into strategic partnerships in response to business trends

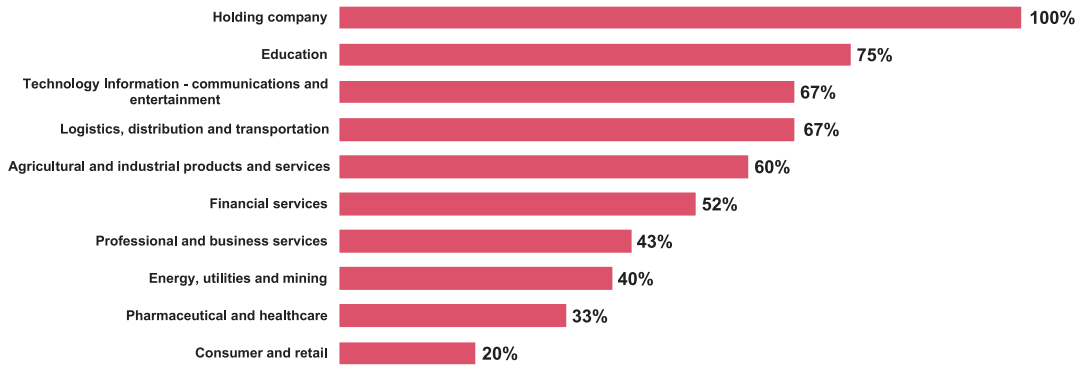
Q: What initiatives will you take in the next 12 months to respond to these trends?



Please note the distribution of respondents per industry as presented on page 43.

CEOs who collaborated or would collaborate to have access to new emerging technologies

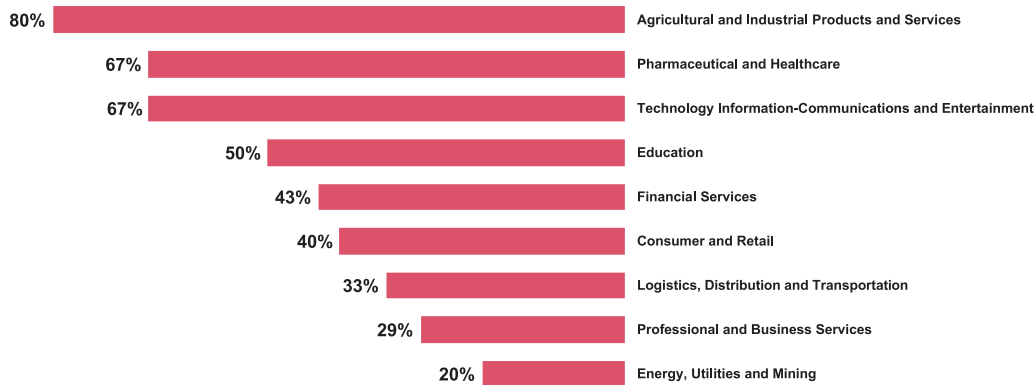
Q: What are the top three reasons why you have collaborated or would collaborate in joint ventures, strategic alliances or informal collaborations?



52% of the CEOs chose “access to new emerging technologies” as one of their top three reasons for collaboration.

CEOs who collaborated or would collaborate to strengthen their innovation capabilities

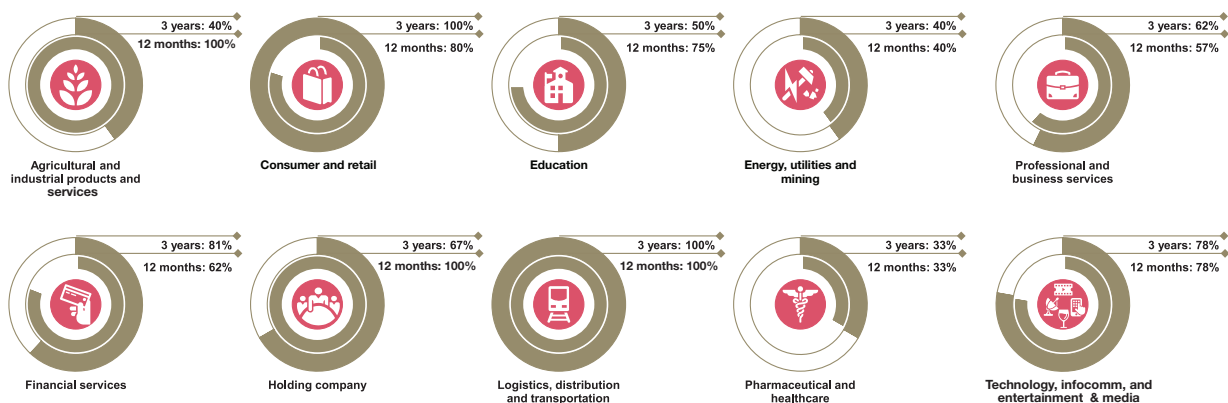
Q: What are the top three reasons why you have collaborated or would collaborate in joint ventures, strategic alliances or informal collaborations?



42% of the CEOs chose “ability to strengthen their innovation capabilities” as one of their top three reasons for collaboration.

CEOs who collaborated or would collaborate to have access to new emerging technologies

Q: What are the top three reasons why you have collaborated or would collaborate in joint ventures, strategic alliances or informal collaborations?



Please note the distribution of respondents per industry as presented on page 43.



Meet the CEOs we've talked to



Steven DeKrey
President
Asian Institute of Management



Jose Mari Mercado
President
IT & Business Process Association of the Philippines



Charlie Rufino
President
The Net Group



Raul Joseph Concepcion
Chief Executive Officer
Concepcion Industrial Corporation



Francisco del Rosario, Jr.
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Management Association of the Philippines



Jose Victor Paterno
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George Drysdale
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Zuellig Pharma Corporation



Kenneth Ligan
Country Head, Philippines
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Tirso Antiporda, Jr.
Chairman and CEO
Milestone Petroleum Marketing Corporation

The survey was conducted by PwC, in collaboration with the Management Association of the Philippines (M.A.P.). The respondents of the survey were primarily the members of M.A.P. We received 79 survey responses, 12 from non-M.A.P. members and 67 from M.A.P. members. The survey methodology used was a mix of online and printed questionnaires.

To better appreciate the CEOs' perspectives for 2015, we also conducted face-to-face in-depth conversations with 17 CEOs. Their interviews are quoted in this report.

They are featured on our "Meet the CEOs" page.

The interviews and the survey responses were also spread across a range of industries.

Fifty-five or 70% of the survey respondents came from large corporations, while the remaining 24 or 30% came from the academe and small and medium enterprises.

The results were tabulated and analyzed by PwC.

Notes:

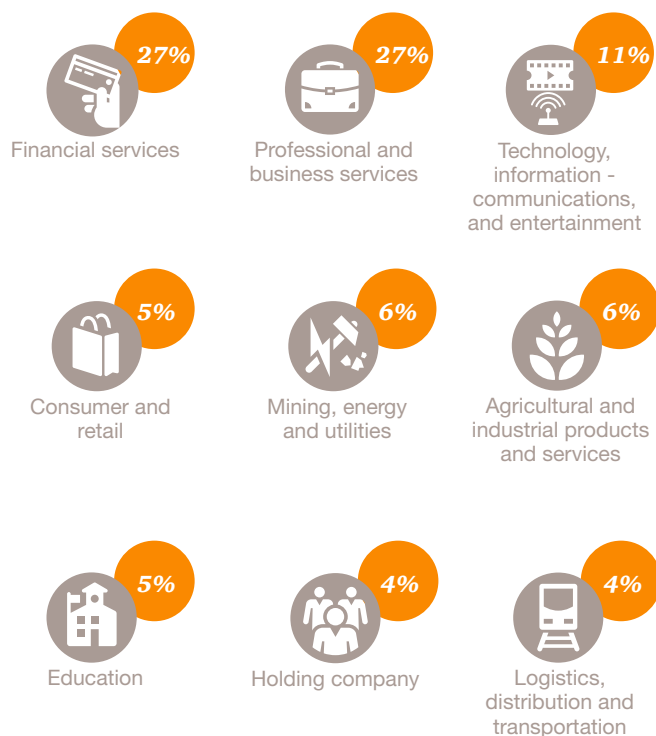
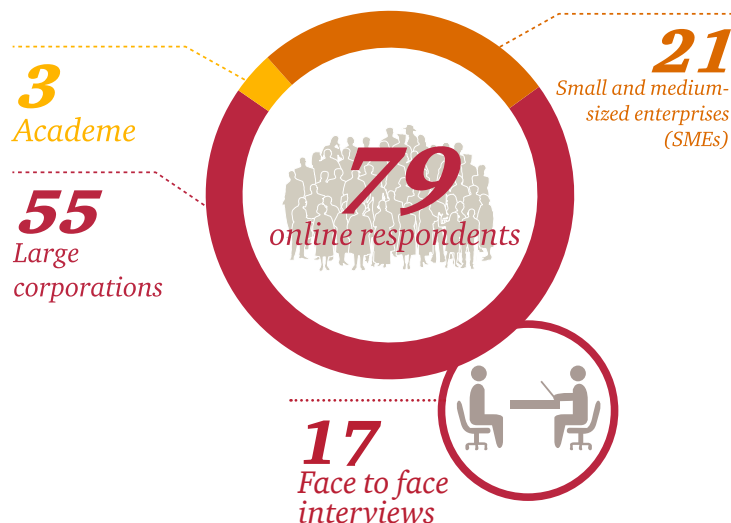
- Not all figures add up to 100%, due to rounding of percentages and exclusion of "no comment" or "no response".
- The base for figures is 79 (all respondents) unless otherwise stated.

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We'd like to thank the following PwC experts for their insights

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