Media title: CEO optimism booms despite increasing anxiety over threats to growth
Author: Hoang Anh
Source: Vietnam Investment Review on 24 January 2018
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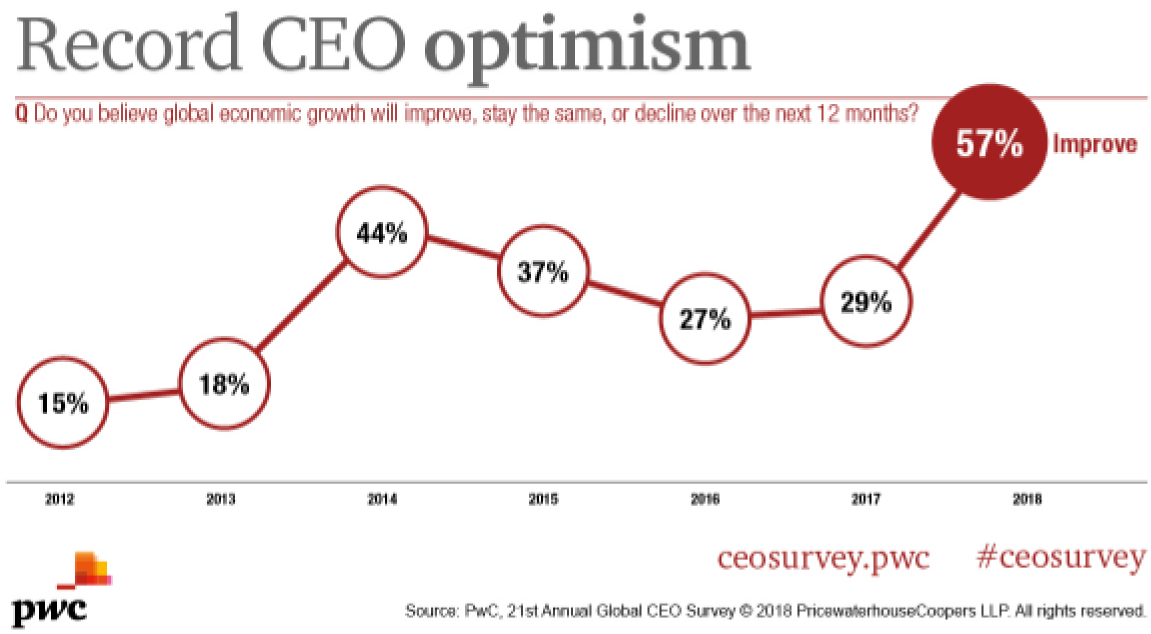
CEO optimism booms despite increasing anxiety over threats to growth

A record-breaking share of CEOs are optimistic about the economic environment worldwide, at least in the short term. This is one of the key findings of PwC's 21st survey of almost 1,300 CEOs around the world, launched on January 22 at the World Economic Forum Annual Meeting in Davos.

57 per cent of business leaders say they believe global economic growth will improve in the next 12 months. It is almost twice the level of last year (29 per cent) and the largest ever increase since PwC began asking about global growth in 2012.



Optimism in global growth has more than doubled in the US (59 per cent) after a period of uncertainty surrounding the election (2017: 24 per cent). Brazil also saw a large increase in the share of CEOs who are optimistic that global growth will improve (+38 per cent to 80 per cent).

And even among the less optimistic countries such as Japan (2018: 38 per cent vs. 2017: 11 per cent) and the UK (2018: 36 per cent vs. 2017: 17 per cent), optimism in global growth has more than doubled since last year.

"CEOs' optimism in the global economy is driven by the economic indicators being so strong. With the stock markets booming and GDP predicted to grow in most major markets around the world, it is no surprise CEOs are so bullish," said Bob Moritz, global chairman of PwC.

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Confidence in short-term revenue growth on the rise

This optimism in the economy is feeding into CEOs' confidence about their own companies' outlook, even if the uptick is not so large. 42 per cent of CEOs said they are "very confident" in their own organisation's growth prospects over the next 12 months, up from 38 per cent last year.

Looking at the results by country, it is a mixed bag. CEOs' outlook improved in several key markets, including in Australia (up 4 per cent to 46 per cent) and China (up 4 per cent to 40 per cent), where the share of CEOs saying they are "very confident" in their own organisation's 12-month growth prospects rose.

In the US, CEOs' confidence has recovered. After election nerves last year, the early focus on regulation and tax reform by the new administration has seen confidence in business growth prospects for the year ahead rising significantly—from 39 per cent in 2017 to 52 per cent in 2018. And North America is the only region where a majority of CEOs are "very confident" about their own 12-month prospects.

In the UK, with Brexit negotiations only recently reaching a significant milestone, business leaders' drop in short-term confidence is unsurprising (2018: 34 per cent vs. 2017: 41 per cent).

The top three most confident sectors for their own 12-month prospects this year are Technology (48 per cent "very confident"), Business Services (46 per cent), and Pharmaceutical and Life Sciences (46 per cent)—all exceeding the global "very confident" level of 42 per cent.

Strategies for growth remain largely unchanged since last year's survey—CEOs will rely on organic growth (79 per cent), cost reduction (62 per cent), strategic alliances (49 per cent), and M&As (42 per cent). There was a small increase in interest in partnering with entrepreneurs and startups (33 per cent vs 28 per cent last year).

Top countries for growth: *Confidence in US continues, reinforcing lead on China*

CEO confidence in the US market extends overseas, with non-US based CEOs once again voting it the top market for growth in the next 12 months. This year, the US reinforces its lead on China (46 per cent US vs 33 per cent China, with the US lead over China up 2 per cent compared with 2017).

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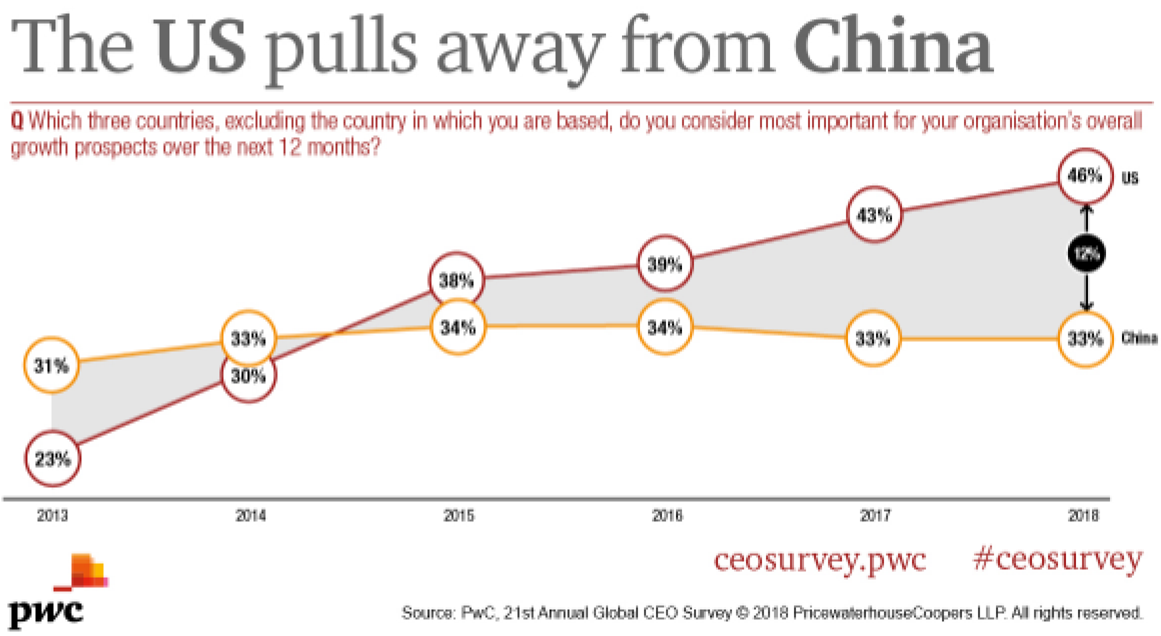

Germany (20 per cent) remains in third place, followed by the UK (15 per cent) in fourth place, while India bumps Japan as the fifth most attractive market in 2018.

"Even with high levels of global growth confidence, business leaders want and need safe harbours for investment to secure short-term growth," said Moritz. "Access to consumers, skills, finance, and a supportive regulatory environment are reinforcing leading markets' positions for business leaders to achieve their short-term growth targets."

Jobs and digital skills: *headcounts to increase; leaders concerned about availability of digital talent*

Confidence in short-term revenue growth is feeding into jobs growth, with 54 per cent of CEOs planning to increase their headcount in 2018 (2017: 52 per cent). Only 18 per cent of CEOs expect to reduce their headcount.

Healthcare (71 per cent), Technology (70 per cent), Business Services (67 per cent) Communications (60 per cent) and Hospitality and Leisure (59 per cent) are amongst the sectors with the highest demand for new recruits.

On digital skills specifically, over a quarter (28 per cent) of CEOs are extremely concerned about their availability within the country they are based, rising to 49 per cent extremely concerned in South Africa, 51 per cent in China, and 59 per cent in Brazil.

Overall, 22 per cent of CEOs are extremely concerned about the availability of key digital skills in the workforce, 27 per cent in their industry, and 23 per cent at the leadership level.

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Investments in modern working environments, learning and development programmes and partnering with other providers are the top strategies to help them attract and develop the digital talent they need.

Impact of technology on employment and skills

While recent research by PwC showed that workers were optimistic about technology improving their job prospects, CEOs admit that helping employees retrain, and increasing transparency on how automation and AI could impact jobs is becoming a more important issue for them.

Two thirds of CEOs believe they have a responsibility to retrain employees whose roles are replaced by technology, chiefly amongst the Engineering & Construction (73 per cent), Technology (71 per cent), and Communications (77 per cent) sectors.

61 per cent of CEOs build trust with their workforce by creating transparency, at least to some extent, on how automation and AI impact their employees.

"Our education systems need to arm a global workforce with the right skills to succeed. Governments, communities, and businesses need to truly partner to match talent with opportunity, and that means pioneering new approaches to educating students and training workers in the fields that will matter in a technology-enabled job market. It also means encouraging and creating opportunities for the workforce to retrain and learn new skills throughout their careers. As the interest in apprenticeships and internships shows, lifelong training relevant to a business or industry is critical."

Bob Moritz - Global chairman of PwC

The digital and automation transition is particularly acute in the Financial Services sector. Almost a quarter (24 per cent) of Banking & Capital Markets and Insurance CEOs plan workforce reductions, with 28 per cent of Banking & Capital Markets jobs likely to be lost to a large extent due to technology and automation.

Threats to growth: *CEOs fear wider societal threats they can't control*

Despite the optimism in the global economy, anxiety is rising on a much broader range of business, social and economic threats. CEOs are 'extremely concerned' about geopolitical uncertainty (40 per cent), cyber threats (40 per cent), terrorism (41 per cent), availability of key skills (38 per cent), and populism (35 per cent).

These threats outpace familiar concerns about business growth prospects such as exchange rate volatility (29 per cent) and changing consumer behaviour (26 per cent).

PwC in the News

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Underlining the shift, extreme concern about terrorism doubled (2018: 41 per cent vs 2017: 20 per cent) and terrorism enters the top 10 threats to growth. The threat of over-regulation remains the top concern for CEOs (42 per cent extremely concerned), and over a third (36 per cent) remain concerned about an increasing tax burden.

Key skills availability is the top concern for CEOs in China (2018: 64 per cent extremely concerned vs. 2017: 52 per cent). In the US (63 per cent) and the UK (39 per cent), cyber has become the top threat for CEOs displacing over-regulation. And in Germany, cyber jumped from being the fifth threat in 2017 to third place (28 per cent) this year.

A year after the Paris Agreement was signed by over 190 nations, which saw countries commit to voluntary action on climate change and low carbon investment, CEOs' concern about the threat of climate change and environmental damage to growth prospects has now doubled to 31 per cent of CEOs (2017: 15 per cent).

High-profile extreme weather events and the US withdrawal from the Paris Agreement have significantly raised the profile of business action on climate risk, regulation and resilience. In China, over half (54 per cent) of business leaders are extremely concerned about climate change and environmental damage as a threat to business growth, equal with their levels of concern about geopolitical uncertainty and protectionism.

"The higher level of concern is being driven by larger societal and geopolitical shifts rather than the dynamics of business leaders' own markets," said Moritz. "It's clear their mid to long-term confidence

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in revenue growth is tempered by threats the business world is not used to tackling directly itself."

Trust and leadership: *CEOs divided over whether future economic growth will benefit the many or the few*

Echoing the theme of the World Economic Forum this year, CEOs acknowledge that we live in a fractured world. They are divided over whether future economic growth will benefit the many or the few. They see the world moving towards new, multifaceted metrics to measure future prosperity.

Examining the key challenges to trust for businesses, CEOs admit that delivering results in shorter periods of time (60 per cent) is the main challenge.

However, following this, there is a significant shift with the majority reporting higher levels of pressure to hold individual leaders to account (59 per cent), including for misconduct. Over a third report more pressure from employees and customers to take political and social stances (38 per cent) in public.

In the Banking and Capital Market (65 per cent), Healthcare (65 per cent) and Technology sectors (59 per cent), the profile of leadership accountability was higher than average. So too were expectations in the US (70 per cent), Brazil (67 per cent), and the UK (63 per cent).

"The higher levels of CEO concern about broader societal threats underlines how companies are navigating an increasingly fractured world. CEOs across every region and country that we spoke to recognise that the old ways of measuring growth and profit won't work alone for the future. Particularly in the context of the Sustainable Development Goals, we're likely to see more work developing and defining metrics that capture and communicate an organisation's purpose in a way that is relevant to businesses' stakeholders in the coming years."

Bob Moritz - Global chairman of PwC

High-profile debates on diversity, immigration, social inclusion and pay equity have raised employees' expectations of leadership to engage in political and social issues, particularly in the US (51 per cent), China (41 per cent) and the UK (38 per cent).