17th Annual Global CEO Survey

Fit for the future
Capitalising on global trends

1,344

CEOs in 68 countries

39%

of CEOs are very confident about their company's growth prospects

See page 5

86%

of CEOs recognise the need to change R&D and innovation capacity

See page 14

pwc

Preface

The global economic recovery continues to be fragile, but with immediate pressures easing. CEOs are feeling more optimistic and gradually switching from survival mode to growth mode. As the latest PwC Annual Global CEO Survey shows, the changes they're making within their organisations now have less to do with sheltering from economic headwinds and more to do with preparing for the future.

The number of CEOs who believe that the global economy will improve over the next 12 months has doubled to 44%, compared to the previous year. Only 7% of CEOs, compared with 28% last year, think that things will get worse in the year ahead. CEOs are also feeling better about their own companies' prospects, with 39% now very confident of revenue growth in 2014.

But CEOs are also challenged to decipher some very mixed signals about the global economy. Last year, the advanced economies were struggling, while the emerging economies surged. This year, the advanced economies are mending, while growth in some of the emerging economies is decelerating.

So how are CEOs responding to these nuanced shifts in global growth? Our findings show that nearly a third of them are focusing on opportunities for growth in the countries where they already do business, with just 14% planning to explore new geographic markets. Many are also revising the portfolio of overseas markets where they will concentrate their efforts. As well as turning to the US to a greater extent than last year, they believe Germany and the UK now look more promising than some of the BRICS economies.

More seismic shifts loom on the horizon. CEOs told us that three global trends – technological advances, demographic changes and shifts in economic power – would have a huge impact on their businesses over the next five years. And the interplay between them will be as significant as the trends themselves.

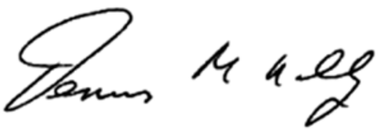
Quite simply, everything is now in flux – from where and how people live and work, to the wider social and political contexts in which companies interact with their stakeholders. These developments will create many new opportunities for innovation and growth. But to seize these opportunities, companies must be ready to radically reassess how they function. In this new world, the very purpose of business – not just its practices – will come into question.

CEOs told us that three global trends – technological advances, demographic changes and shifts in economic power – would have a huge impact on their businesses over the next five years.

We believe organisations must overcome three particular challenges in their race to become fit for the future. They'll need to harness technology to create value in totally new ways; capitalise on demographic shifts to develop tomorrow's workforce; and, just as important, understand how to serve increasingly demanding consumers across the new economic landscape.

CEOs recognise that as these trends unfold, the demands placed on them will increase exponentially. They will have to encourage innovation that's both radical and methodical; connect with employees and consumers who don't look, think or act like them; experiment with new operating models while preserving existing efficiencies; and deliver value without compromising on quality or integrity. In short, CEOs will have to become hybrid leaders who are comfortable straddling two worlds – drawing on the best of the old while operating at the frontiers of the new.

My sincere thanks go to the more than 1,300 company leaders from 68 countries who shared their thinking with us. Their active and candid participation is the single greatest factor in the success of PwC's Annual Global CEO Survey, now in its 17th year. We greatly appreciate our respondents' willingness to free up their valuable time to make this survey as comprehensive and accurate as possible. We're especially grateful to the 34 CEOs who sat down with us to hold deeper and more detailed conversations. You'll see their comments throughout this report.



Dennis M. Nally
Chairman,
PricewaterhouseCoopers International Limited

The glass half-full

CEOs are more positive about the state of the global economy than they were last year. Twice as many think it will improve over the next 12 months (see Figure 1). Conversely, just 7% think it will deteriorate, compared with 28% in 2013.

But there are marked regional differences in sentiment. Only a quarter of CEOs in Central and Eastern Europe believe the global economy is recovering, versus half of all CEOs in Western Europe and the Middle East. The optimism some CEOs display may therefore stem from relief that certain risks (such as the collapse of the eurozone) have been averted for now, rather than the conviction that things are really getting better.

Moreover, CEOs are still cautious about whether greater global growth will translate into growth for their own companies. They're slightly more hopeful about the short-term outlook (see Figure 1), but just as wary about opportunities over the next three years as they were 12 months ago.

In the second half of 2013, we have seen signs of recovery in the global economy and respectively, recovery in shipping [an early indicator of economic activity]... We are optimistic that this positive trend will continue in 2014.

Angeliki Frangou,
CEO & Chairman,
Navios Group of Companies

44%

of CEOs think the global economy will improve over the next 12 months

Many CEOs also remain very nervous about government efforts to balance reform with growth. Overregulation tops the list of potential threats to their organisations' growth prospects, with 72% expressing concern about this. And the ability of debt-laden governments to tackle soaring deficits has been one of the biggest clouds on CEOs' horizons for the past four years, with 71% worrying about this, compared to 61% in 2011.

So, in essence, CEOs still have serious concerns, but their confidence regarding the immediate economic outlook has stabilised over the past 12 months. They seem to think – as Mark Carney, governor of the Bank of England, observed of the British economy in November 2013 – that, for the first time in a long time, you don't need to be an optimist to see the glass as half-full.[1]

We do have forward momentum in the economy. [But] it's not what it should be. The reason it hasn't rebounded in a much more vigorous way is that we're bearing the burden of too much uncertainty in almost every area, whether it's in the financial area with banking regulations, Basel III and Volcker rules, uncertainty on tax reform, or healthcare uncertainties with the Affordable Care Act. It makes it more difficult to plan and to have general confidence, with so many things still to be determined, five years after the onset of the financial crisis.

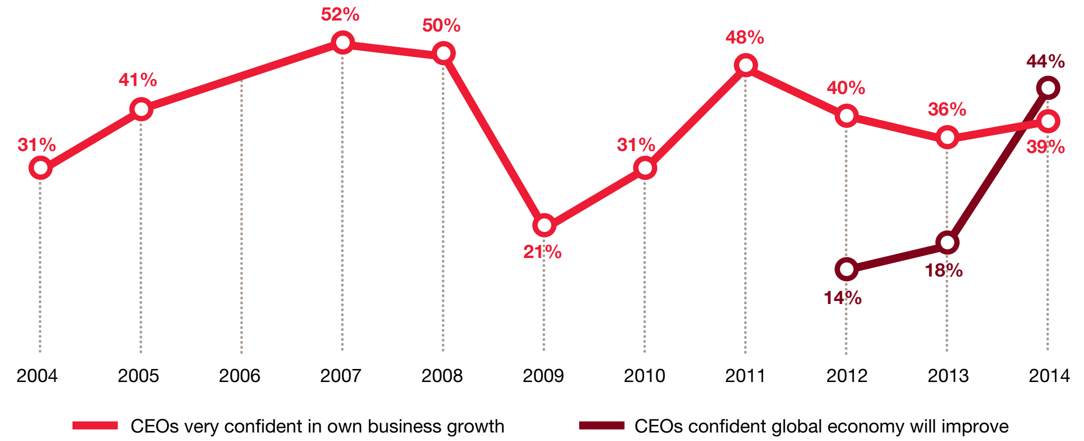
Stephen A. Schwarzman, Chairman, Chief Executive Officer and Co-Founder, Blackstone, US

88%

of CEOs in North America are concerned about government response to fiscal deficit and debt burden, compared to 71% globally.

Figure 1 CEOs are more confident the global economy will improve than they are about their own business growth prospects

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?
Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



Base: All respondents (2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084; 2006 (not asked); 2005=1,324; 2004=1,386)
Source: PwC 17th Annual Global CEO Survey

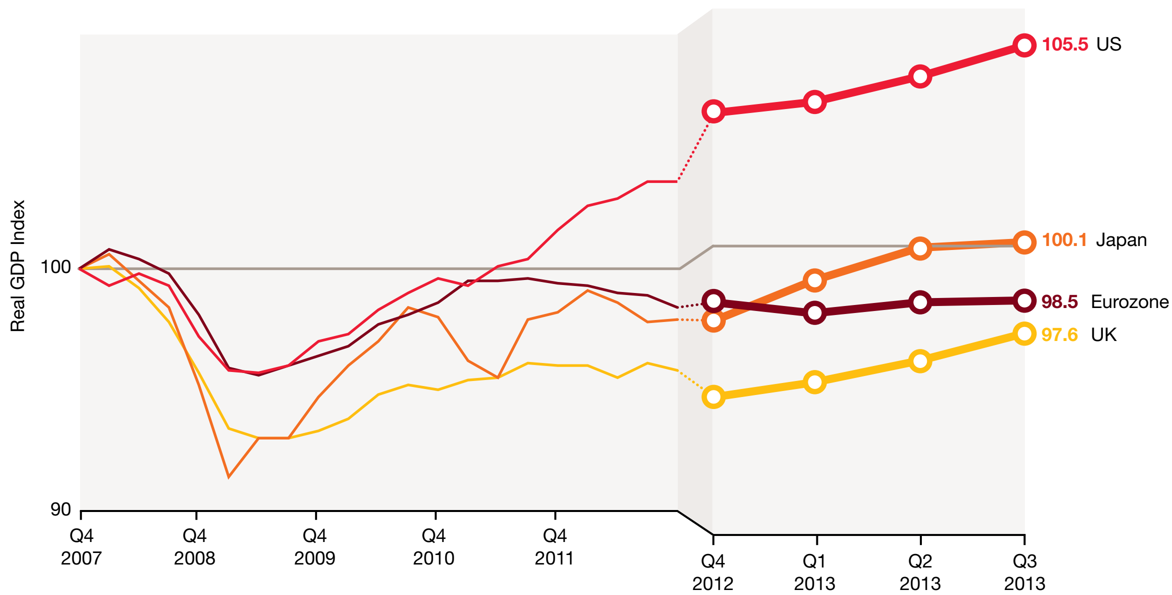
The global rebalancing act

CEOs are coming out of survival mode, but the search for growth is getting increasingly complicated as the global economy gradually rebalances itself. In 2012, the advanced economies were spluttering, while the emerging economies sizzled. In 2013, the picture became more nuanced. The advanced economies are mending, while some emerging economies are slowing down – and separating out in the process.

By the third quarter of 2013, the US economy was already 4% bigger than it was in 2007, before the financial crisis was in full swing. The Japanese economy had also recovered all the ground it lost, although a listless performance in the second half of 2013 dented hopes that the eurozone had done likewise (see Figure 2).

While the advanced economies are recovering, some of the emerging economies have been decelerating. The prospect of a shift in monetary policy in the US (which materialised in December 2013) and other advanced economies triggered substantial capital outflows from some emerging countries. These macroeconomic changes have revived interest in a number of the mature markets and exposed the weak spots in some of the emerging economies, as well as the extent to which they're diverging.

Figure 2 The advanced economies have recovered lost ground



Source: PwC

The BRICS aren't a single brick

China remains robust, thanks to vast foreign-exchange reserves and extensive reform measures introduced by the central government. But Brazil is suffering from a huge debt hangover and India has been slow to open up its markets. Meanwhile, Russia is unduly reliant on commodity exports and South Africa's growth has been impeded by heavy regulation.

The business leaders in our survey have sensed the change in the weather. Last year, 53% of CEOs in Latin America were very confident they could increase their company's revenues over the next 12 months. This year, only 43% feel so sanguine. CEOs in the Middle East, by contrast, have become more upbeat: 69% believe they can boost revenues – up from 53% in 2013. CEOs in Western Europe are also feeling more heartened, although they remain less confident than CEOs in other regions. There's been a similar shift in regional views about the outlook for the next three years.

We've got to decouple even within the global growth markets themselves, and the opportunities then appear with more clarity and are many… It's not going to be about a BRIC in a wall. It's going to be about many such BRICS in the wall and continued and sustainable growth.

Arif Naqvi, Founder and Group Chief Executive, The Abraaj Group

I think the global economy is going to be a real patchwork over the next few years. So, it's going to be really crucial to consider where you're playing as a company.

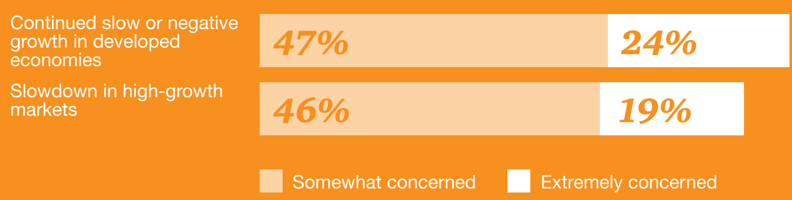
Alison Watkins, CEO, GrainCorp, Australia[2]

And though CEOs are more worried about sluggish growth in the advanced economies than a slowdown in the emerging economies, the gap is surprisingly small (see below).

The hidden costs of doing business in some emerging economies are likewise becoming more apparent. Institutional inefficiencies are one key source of concern. But CEOs in Africa, Latin America and the Middle East are also more apprehensive about infrastructure problems, supply chain disruptions and bribery and corruption than those in the rest of the world.

CEOs worry almost as much about a slowdown in the emerging economies as they do about sluggish growth in the advanced economies

Q: How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects? (Two threats CEOs named.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

A changing global footprint

So how are CEOs responding to these changes? Nearly a third see increased share in existing markets as the main opportunity for growth over the coming year, compared to only 14% who say the same for new geographic markets.

CEOs are also looking on multiple fronts for growth opportunities. Many are revising the portfolio of overseas markets on which they will concentrate. They're turning to the US to a greater extent than they did last year. And they think Germany and the UK now look more promising than some of the BRICS markets (see Figure 3).

But those aren't the only places they're exploring. When we asked CEOs which countries, other than the BRICS, offered the best prospects for growth in the next three to five years, Indonesia, Mexico, Turkey, Thailand and Vietnam all featured in the top 10.

For the next few years, we are planning to make the most of the countries where we are already operating. We are aiming to diversify our operations, and to expand and diversify our investments, mainly in Angola, Peru, Mexico, Venezuela, Argentina and the United States. In terms of new markets, our focus is on Africa, a continent where we foresee the highest growth rate.

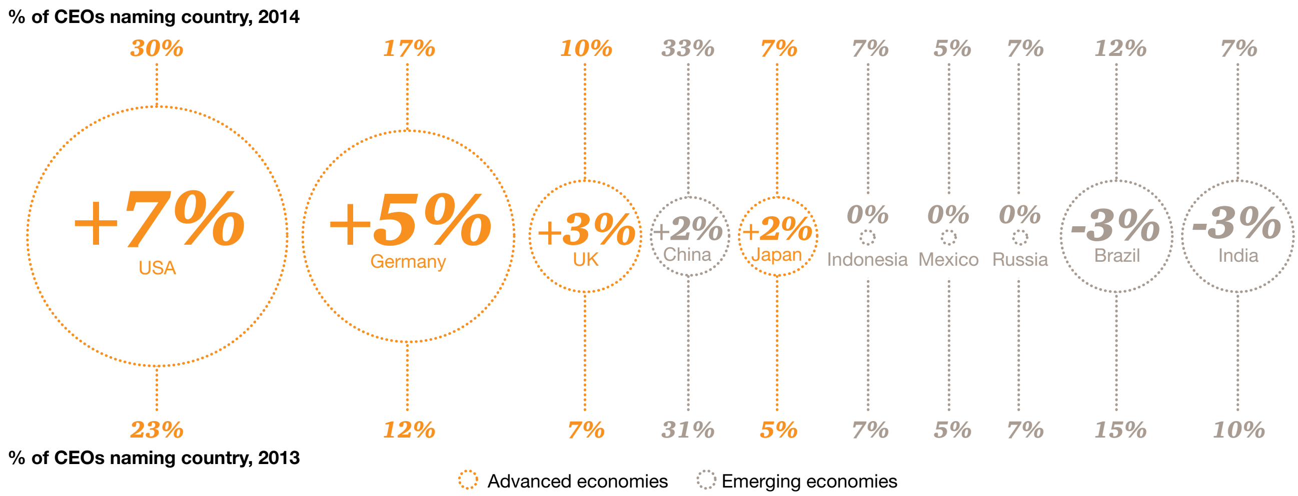
Marcelo Odebrecht,
CEO, Odebrecht, Brazil

We're concentrating our capital on markets where we believe we have more of a comparative advantage and where we can better assess risk. So we're getting simpler, we're getting more focused. We're reflecting carefully on where the growth will come over the next 20 years, and making sure that we've got the firepower to address those markets as opposed to being spread too thin.

Douglas Flint,
Chairman, HSBC Holdings Plc., UK

Figure 3 CEOs are turning back to certain advanced economies for growth

Q: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?



Base: All respondents (2014=1,344; 2013=1,330)
Source: PwC 17th Annual Global CEO Survey

Among the emerging markets, we think that Africa – for the first time in many centuries – is going to contribute quite significantly to global economic growth. While it's coming from a low base, the continent is beginning to grow at about 5%, making it the fastest-growing region in the world.

Brian Molefe, Group Chief Executive, Transnet SOC Ltd., South Africa

Difficult questions about finding growth in a rebalancing economy

What are you doing to ensure the accuracy of the information you use to make critical decisions?

How are you adjusting your funding plans to prepare your business for a world where the cost of debt increases (on the back of tighter monetary conditions)?

In what ways have you adjusted your strategy to capitalise on the pickup in economic activity in the advanced economies?

Is your organisation prepared for emerging markets becoming your core markets in the longer term?

How are you positioned in newer emerging markets that will increasingly become the source of tomorrow's growth?

Three trends that will transform business

You can't continue to think that the world is the same as it was five years ago. It is incredibly different now: it's even changed from how it was five weeks ago or five months ago. The spiral of change is speeding up. Leaders of society and institutions should communicate this new state of constant change in the world and live accordingly, so that they can lead from an awareness of this change.

Juan Béjar, CEO, Fomento de Construcciones y Contratas (FCC), Spain

Technology is an all-pervasive megatrend. So that is going to impact banking and revolutionise it.

Chanda Kochhar, MD & CEO, ICICI Bank, India

So what does the future hold? CEOs told us they think three big trends will transform their businesses over the coming five years. Four-fifths of them identified technological advances such as the digital economy, social media, mobile devices and big data. More than half also pointed to demographic fluctuations and global shifts in economic power (see below).

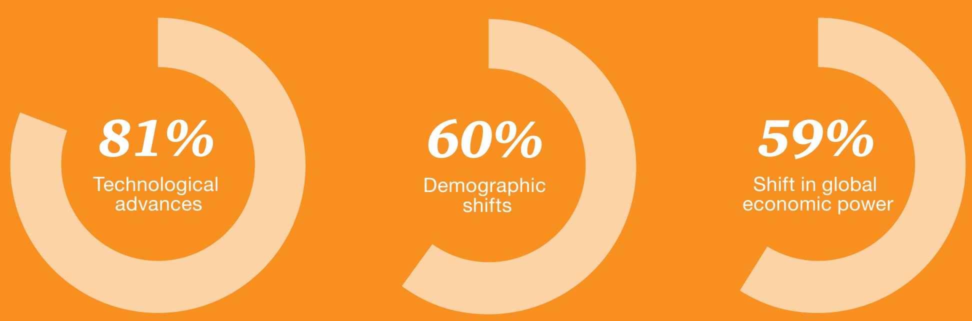
Of course, these trends aren't new. What *has* changed is the pace at which they're unfolding – and the way they're colliding to create a completely different environment.

The digital revolution has put more power in the hands of more people than ever before. Collaborative networks are replacing conventional corporate modes of operating. Consumers are swapping information and advice on the virtual airwaves. And citizens are assuming the journalist's mantle.

Meanwhile, demographic shifts caused by slow – or no – population growth in some countries are causing a massive redistribution of the world's workforce. And since work is what generates wealth, that will have a huge bearing on future consumption patterns as well.

CEOs identified three transformative global trends

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (Top three trends CEOs named.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

These global forces are also changing society in fundamental ways. On the positive side, for example, a billion people will be better off than they are now, as incomes in the emerging economies rise. On the negative side, unemployment and resource shortages could be exacerbated.

The business community won't be divorced from such problems. On the contrary, it will be expected to engage with them – and there will be a pay-off for those that get it right. Companies that come up with innovative solutions to serious social issues will earn more revenues and more trust.

But CEOs also know that responding to such powerful global swings has major organisational repercussions. This is evident in the way CEOs are changing their cost structures (see Figure E on page 25) and in the changes they're making in areas like organisational design, technology investments and the supply chain, in response to global trends (see Figure C on page 25). The key question is how to create an operating model and cost base that's aligned with changing markets and customer offerings in order to grow profitably.

Nowadays, the biggest threat to companies is the companies themselves. If you don't adapt to the circumstances, if you don't understand that, now, competitiveness has to be generated internally, as well as through external opportunities, then your business is at risk.

Raul Baltar Estevez, CEO, Banco Exterior, Venezuela

76%

of CEOs have cut costs in the last 12 months and 64% plan to do so over the next 12 months.

Internal efficiency means not only reducing staff in our call centres, for instance, but also enhancing our business model through more simple interfaces, more convenient use of our services.

Mikhail Slobodin, CEO, VimpelCom Russia, Russia

A revolution in the offing

To sum up, technological advances, demographic changes and global economic shifts will continue to generate enormous change over the next few decades. And the interplay between these three trends will be as significant as the trends themselves. Together, they will create many new opportunities for innovation and growth, but they will also raise many new challenges.

Where people live and work, how they live and work, the social and political context in which they live and work – everything's in flux. And that means the way companies function must alter as well. But incremental adaptations won't suffice. In a world that's changing beyond all recognition, the very purpose of business – not just its practices – will come into question.

In the following pages, we'll look more closely at what these trends mean for CEOs and how they're making their organisations fit for the future. We'll focus on three particular challenges:

- Harnessing technology to create value in totally new ways.
- Capitalising on demographic shifts to develop tomorrow's workforce.
- Serving consumers in a new economic landscape.

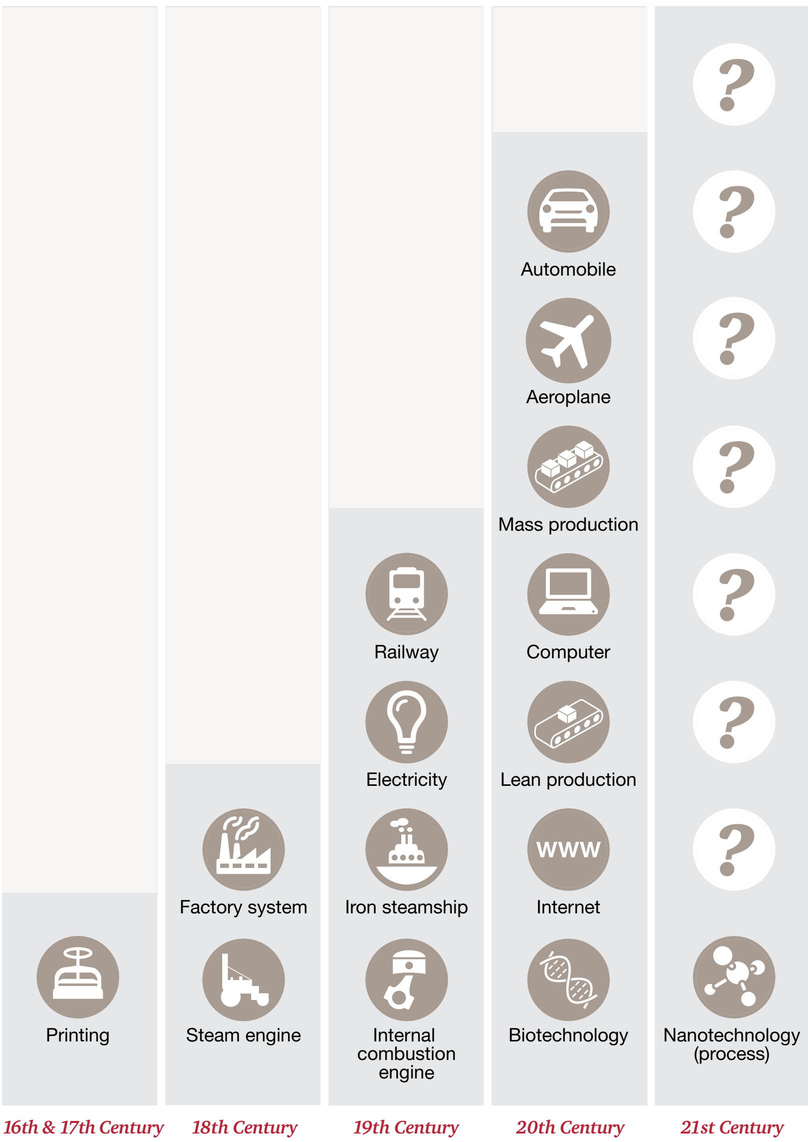
Creating value in totally new ways

The world has benefited from the development of more general-purpose technologies in the past century than in the previous four combined (see Figure 4).[3] Consumers are embracing these advances ever more rapidly. The telephone took 76 years to reach half of all US households. The smartphone reached the same level of penetration in less than a decade.[4]

The number of digital natives (i.e. those those actively using social media and multiple devices regularly) is expected to grow at a rapid pace. In the UK, for example, 61% of consumers are expected to be digital natives by 2020 – up from 19% in 2013.[5]

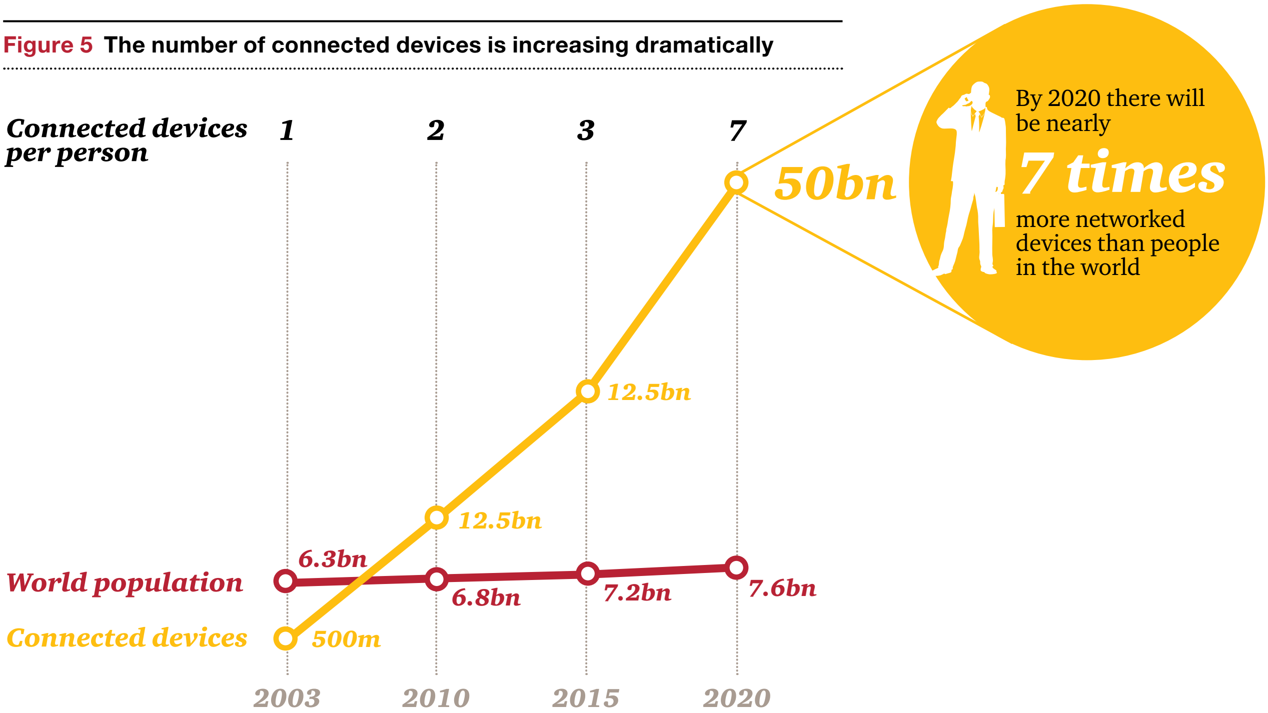
And we know that many of these tech-savvy consumers want to communicate and share information electronically. Just how much they're connecting is clear from the fact that Facebook's membership – at 1.19 billion – is now nearly as big as the population of India.[6] The number of networked devices is soaring accordingly; by 2020, there will be seven times more such devices than there are people (see Figure 5).[7]

Figure 4 The pace of innovation is accelerating dramatically



Source: Richard Lipsey, Kenneth I. Carlaw and Clifford T. Bekhar

Figure 5 **The number of connected devices is increasing dramatically**



Source: Cisco Internet Business Solutions Group

The digital revolution has given birth to a new generation of consumers who want ever more accessible, portable, flexible and customised products, services and experiences. They expect to move seamlessly – in real time – between the physical and virtual worlds. And they're prepared to disclose quite a lot about themselves to achieve their desires.

When we asked CEOs what they thought would be the next big thing that would revolutionise their business, industry or society over the next 10 years, technology was unsurprisingly their top pick (see Figure A on p.24). The social, mobile, analytic and cloud technologies that underpin this revolution are creating numerous opportunities for companies to generate value in entirely different ways – and even, indeed, to redefine the businesses they're in.

Moreover, the ramifications go far beyond serving customers better in order to expand. Armed with new technologies, CEOs have the leadership opportunity to drive social change by addressing complex needs. And this doesn't have to be a philanthropic exercise; as some firms have proved, it's quite possible to solve pressing social problems profitably (see sidebar, ***Good business***).[8]

We're constantly thinking about how we engage with, and embrace, technology, but in a way that actually engages our customers.

Craig Donaldson,
Chief Executive Officer, Metro Bank, UK

Good business

Dow Chemical has developed a seed line for making cooking oils that produce high yields and oils with a longer shelf life and less saturated fat than competing products. What's good for farmers, food manufacturers and consumers has been good for Dow; the seed line has become a best seller. Similarly, Becton Dickinson has developed a syringe to protect health workers from needlestick injuries, which spread HIV and other infections. Needleless injection systems now account for a quarter of the company's revenues.

It's all happening very fast!

How, then, are the CEOs we surveyed preparing for the future? A third of them are pinning their hopes on new products or services, primarily to fuel organic growth in existing markets (see Figure 6). Most also want to improve their company's ability to innovate: 86% aim to alter their R&D functions, while 88% are exploring better ways of using and managing big data and 90% are changing their technology investments.

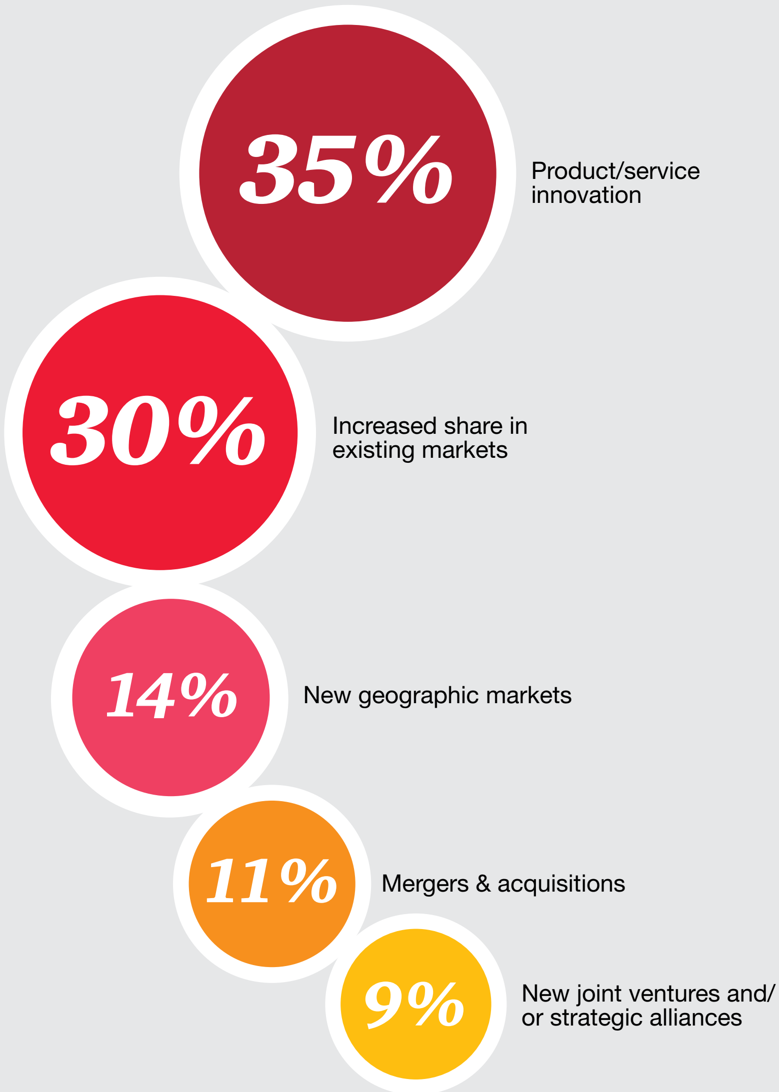
But there's a glaring gap between aspiration and action. Only 27% of CEOs have already started or completed the changes they're planning, to make their companies more innovative. Only 28% have made any headway in getting to grips with big data and only 35% have altered their technology investments. This is despite 65% thinking the R&D function is insufficiently prepared to capitalise on the trends now transforming business and society.

So what's holding CEOs back? One factor may be uncertainty about how to convert those 'a-ha' moments into systematic innovation. A second may be concern that a newer technology could negate their efforts. Nearly half of CEOs are worried about the speed at which technology is advancing – and getting on the 'wrong side' has major consequences: witness the diverging fortunes of the Blu-ray and HD DVD formats. Many companies are also unsure about how to use the data they collect.

Faced with these challenges, it's no wonder that many CEOs feel they can't move fast enough on the innovation front. But the most successful CEOs are doing three things to 'industrialise' innovation, i.e. to make it repeatable, dependable and scalable: they're focusing on breakthrough innovation in all its forms; putting disciplined innovation techniques in place; and collaborating much more actively.[9]

Figure 6 CEOs are focusing more heavily on new products and services this year

Q: Of these potential opportunities for business growth, which one is the main opportunity over the next 12 months?



Base: All respondents (1,344)
Note: 1% of CEOs responded 'Don't know/Refused'
Source: PwC 17th Annual Global CEO Survey

We are focusing on innovation and have already taken various important steps to that end.

Stavros Lekkakos,
CEO, Piraeus Bank, Greece

47%

of CEOs are concerned about the speed of technological change as a potential threat to their organisation's growth prospects, up from 42% last year.

The costs for acquiring ICT [Information and Communications Technology] and information have fallen to incredibly low levels – and whoever takes advantage of information innovation will win in the marketplace... We have formed a task force to investigate how ICT is going to impact our company's business and how we can take advantage of it. We are also working on big data to see how we can use it.

Shigetaka Komori,
Chairman and Chief Executive Officer, FUJIFILM Holdings Corporation, Japan

Focusing on breakthrough innovation

The smartest CEOs are concentrating on breakthrough, or game-changing, innovation. They're explicitly incorporating it in their strategies. And they're using technology not just to develop new products and services, but also to create new business models, including forging complete solutions by combining related products and services. In fact, they don't think in terms of products and services so much as outcomes, because they recognise that products and services are simply a means to an end.

Breakthrough innovation can help a company rewrite the rules and leapfrog long-established competitors, as some firms in the emerging economies are doing. Khosla Ventures is one such instance. The company has funded a Kenyan start-up that combines physical schools with online learning via mobile phones, instead of textbooks. It's already operating hundreds of schools that break even at $5 per child per month, which is locally affordable.[10]

New blends of the physical and virtual offer many other opportunities for turning the status quo on its head – and alleviating serious social challenges in the process. Using smart diagnostic systems, delivered via mobile phones, to help patients distinguish illnesses that can be self-medicated from those that require a doctor's attention could cut the cost of healthcare provision, for example.

As Preetha Reddy, Managing Director of India's Apollo Hospitals observes, "We have to invest in [technology] and find ways and means to be extremely cost-effective in taking the point of care from within the hospital system to the doorstep of the consumer. I think that will revolutionise the way healthcare is delivered… We should be able to take the point of care literally to their homes."

Putting a robust innovation framework in place

The most successful executives not only focus on breakthrough innovation, they treat it like any other business process. Close collaboration at board level is crucial here. Companies in which the chief information officer has a strong working relationship with the other members of the C-suite typically fare better at fostering systematic innovation.[11]

Such companies set clear ground rules on the sort of innovation they want, how they plan to measure it and the trade-offs they're willing to make. They also create a disciplined R&D structure, with dedicated units and rigorous processes that can be reiterated and scaled up. Intel is a good example. The chipmaker has established a global innovation centre, uses systematic R&D processes akin to those used for quality control and routinely captures feedback from the people who are closest to its customers.[12]

44%

of CEOs say their organisation is focusing on developing an innovation ecosystem which supports growth, as a priority over the next three years.

My personal view is that, at the moment, organic growth is necessary in many aspects and therefore it is critical to have the right partner in a strategic alliance.

Chen Long, Chairman, China Resources Enterprise, Limited, Hong Kong

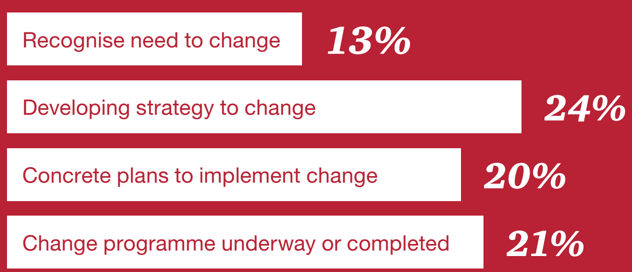
Collaborating with an ecosystem of partners

The top innovators don't try to do everything themselves, though. On the contrary, they collaborate extensively with a wide range of partners, both inside and outside their industries. They regularly co-create new products and services with customers. And they experiment with different ways of innovating, including open innovation, incubation and networked innovation.

The CEOs in our survey are well aware of the importance of collaboration: 44% are actively developing an innovation ecosystem. Partnerships also feature prominently in their plans: 44% intend to enter into a new joint venture or alliance in the next 12 months. But more than three-quarters of all CEOs concede that they either need to change, or are already changing, their strategies for initiating such arrangements (see below).

CEOs are overhauling their strategies for partnering

Q: In order to capitalise on the top-three global trends which you believe will most transform your business over the next five years, to what extent are you making changes, if any, to the following areas? (*M&A strategies, joint ventures or strategic alliances* was one of the areas listed.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

That's partly, perhaps, because it's getting harder to find good allies, as more and more firms collaborate. So any organisation that wants a first-rate partner has to bring more to the table itself. Some companies are also redefining the skills they require, as they redefine the businesses they're in. Google is a case in point. It normally works with other technology firms, but is now seeking a partner in the auto insurance industry to help get its driverless cars on the road.[13]

Working with government likewise features on the boardroom agenda: 30% of CEOs think it's part of government's job to foster an innovation ecosystem. Yet only 18% of CEOs think government has been effective in this respect. And 40% say that regulation has impeded their efforts to innovate, although 33% say the opposite.

In fact, supportive government policies have been critical in developing innovation clusters like Silicon Valley and Silicon Roundabout (see sidebar, ***A helping hand from government***).[14]

Breakthrough innovation comes from: jettisoning old ideas and habits; practising and evolving; and adapting as circumstances change. It also requires a culture that nurtures innovation. A company's culture alters only when the people who work in it alter how they think, talk, decide and act – and that happens only when top management shows the way.

A helping hand from government

The US government made a major contribution to the creation of Silicon Valley. In the early years, it provided funding – both directly and through contracts for spin-offs from Stanford University. That fostered close ties between industry and local research institutions. Flexible labour and immigration laws, together with robust intellectual property rules, also helped to bring in the big brains; between 1995 and 2005, immigrants were responsible for founding more than half the firms in the region. And, under Chapter 11, it's relatively easy for bankrupts to get back on their feet, creating a culture in which it's acceptable to fail.

The UK government has replicated this approach in developing London's Silicon Roundabout, with entrepreneurs' visas, R&D tax credits and significant tax breaks for investors. It also set up an agency to promote the area and launched a scheme where 50 firms a year get support to help them expand. The result? In 2008, there were 15 tech start-ups at the Silicon Roundabout; today, there are more than 1,300.

We are now in the age of collaborating with our customers and service providers… Our corporate customers keep changing their business models. Amidst a host of megatrends, cloud computing included, I want our company to be their partner capable of helping them carry out the transformation they need. Meanwhile, our consumer customers are looking for a life that is richer and more convenient in an increasingly digitalised society. We also want to be their partner helping them to change their lifestyle.

Hiroo Unoura,
President & CEO,
Nippon Telegraph and Telephone Corporation (NTT), Japan

Difficult questions about creating value in totally new ways

- What are you doing to become a pioneer of technological innovation?
- Do you have a strategy for the digital age? And the skills to deliver it?
- How are you using 'digital' as a means of helping customers achieve the outcomes they desire – rather than treating it as just another channel?
- How are you adapting your sales cycle to avoid product obsolescence, as new technologies emerge at breakneck speed? And how are you accelerating innovation to increase revenues?
- What sort of benefit/risk-sharing models will you need to encourage innovation within collaborative networks?

Developing tomorrow's workforce

Demographic trends are having profound implications for the workplace. The global population is expanding; it will hit 8 billion in 2025. But this growth won't be uniform, since declining fertility rates will hit some countries much harder than others. By 2020, the median age will be 43 in Europe, 38 in China and just 20 in Africa.[15]

The working-age population is, as a result, undergoing major geographic shifts. It's still growing rapidly in countries like India, where nearly a million workers will swell the labour force every month for the next 20 years. But it's already peaked in China and South Korea, and has been falling for more than a decade in Germany (see Figure 7).

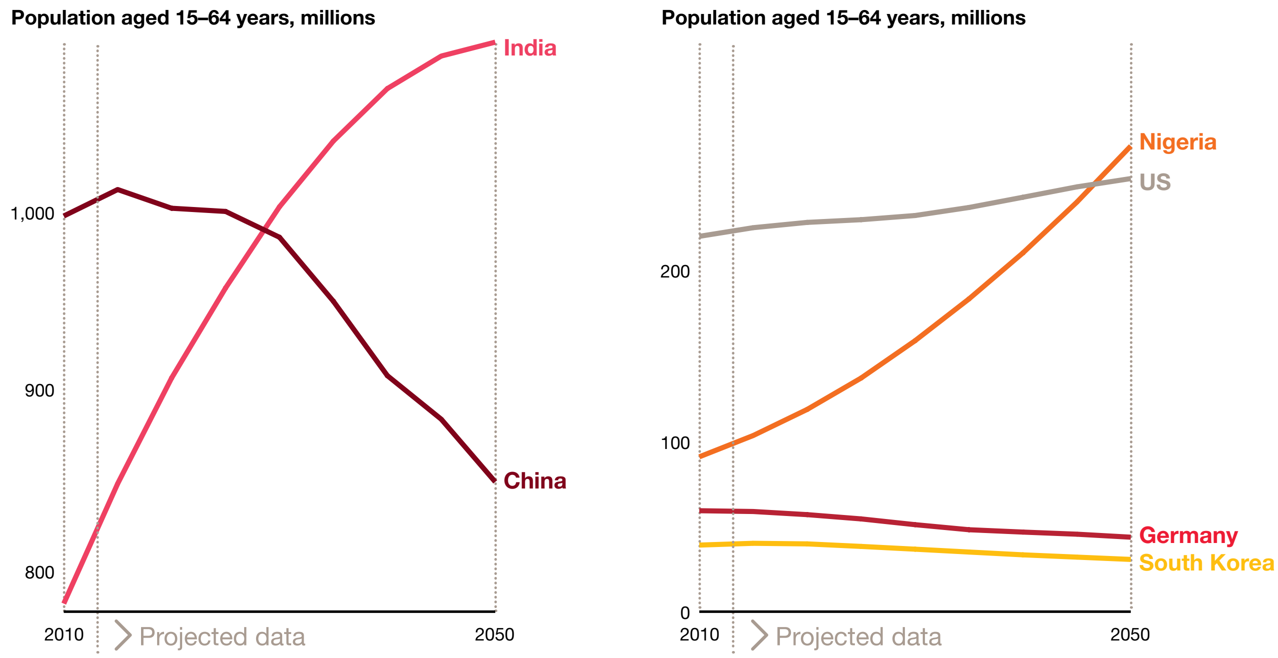
63%
of CEOs are concerned about the availability of key skills.

58%
of CEOs are worried about rising labour costs in emerging economies.

Urbanisation is causing further upheavals, with the number of city dwellers projected to rise by 72% over the next four decades. The concentration of people and resources in a compact area is a powerful combination. Cities currently generate about 80% of global economic output.[16] But uncontrolled urbanisation can also result in overcrowding, poverty and poor schooling – conditions that neither attract nor nurture talent.

And it's talent that's the main engine of business growth. So one of the biggest issues CEOs face, as these huge demographic changes occur, is finding and securing the workforce of tomorrow – particularly the skilled labour they need to take their organisations forward.

Figure 7 **In two generations, China will have lost 150 million workers while India will have gained 317 million**



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 'World Population Prospect: The 2010 Revision'.

Reverse migration and rising wages

The business leaders in our survey are acutely aware of the challenge. Half of CEOs want to hire more people in the coming year (see Figure 8) and nearly two-thirds are concerned about finding the right skills. In fact, they're getting steadily more anxious on this score (see Figure 9).

They have reason to worry. The problem is not just that the working-age population in the advanced economies is contracting. Some of the other sources of talent to which companies in these countries have turned are also shrinking, with the industrialisation of the emerging economies. That's had two effects. It's triggered a reverse brain drain, as highly educated foreigners go back home, attracted by opportunities that weren't previously available. It's also driving up wages in the manufacturing sector.

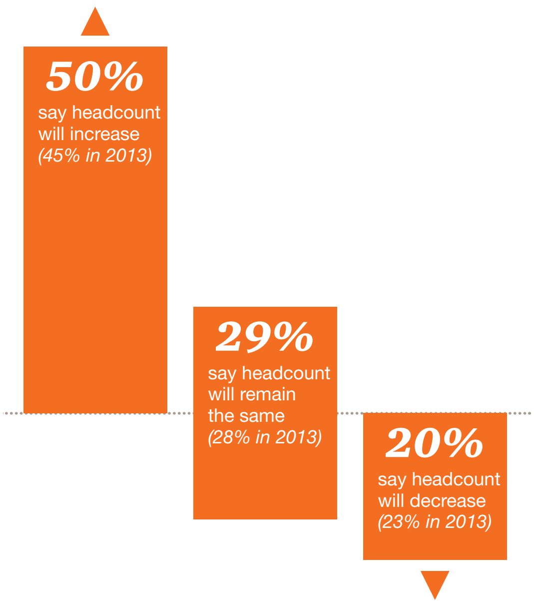
More than half of all CEOs are already concerned about labour costs in the emerging economies. But corporate payrolls will get a lot bigger over the next 15 years, as greater competition for labour and social pressure to raise salaries in line with productivity growth cause even greater wage convergence (see Figure 10).

Technological advances will make it both easier and harder to find skilled workers. They will make it easier by providing efficient new ways to recruit talent, via digital platforms, and allowing employees who might otherwise have had to leave the workforce to keep working, for example.

But technology will simultaneously help competitors to poach good staff and talented individuals to set up, independently. It will also raise the level – or change the kind – of education that's required to perform many jobs. And if it ultimately eliminates the need for a large swathe of workers, that will have serious social consequences.

Figure 8 50% of CEOs plan to increase headcount over the next 12 months

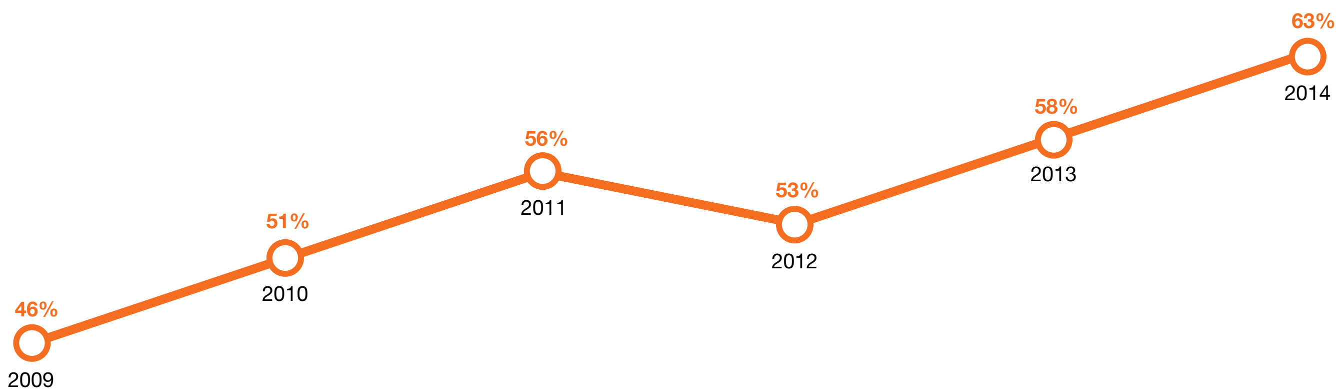
Q: What do you expect to happen to headcount in your company globally over the next 12 months?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

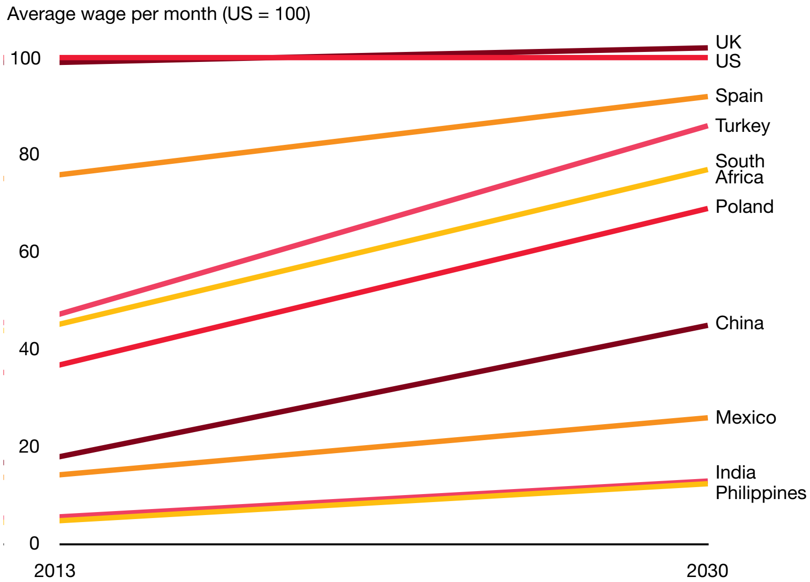
Figure 9 CEOs are becoming more worried about finding key skills

Q: How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects? (*Availability of key skills* was one of the threats CEOs named.)



Base: All respondents (2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124)
Source: PwC 17th Annual Global CEO Survey

Figure 10 **Wages in the emerging economies are gradually catching up**



Source: PwC, 'Global wage projections to 2030' (September 2013)

Nestlé woos younger workers

Swiss food giant Nestlé is one firm that has seized the initiative. Worried by the prospect that up to 15% of the 93,000 employees in Europe will retire by 2024, as greying baby boomers leave the workplace, the company has launched a drive to recruit 20,000 young workers. Over the next three years, Nestlé hopes to hire 10,000 people under the age of 30. It will also create 10,000 positions for trainees, who may eventually be offered permanent jobs.

Time's running out

So how are CEOs responding to these challenges? A full 93% recognise the need to change, or are changing, their strategies for attracting and retaining talent (see sidebar, ***Nestlé woos younger workers***).[17] But 61% haven't acted on their plans – possibly because they don't think the HR function could cope: nearly two-thirds of CEOs believe the HR function isn't well-prepared for the changes needed to respond to transformative trends. Conversely, the CEOs who *do* think their company's HR team is well-prepared are more likely to have already taken steps to strengthen their talent strategies.

This disconnect isn't new. CEOs have routinely told us they're revising their talent strategies, without appearing to make much progress from one year to the next. But they can't afford to wait any longer – and tinkering at the edges won't be enough. They'll have to look for new sources of labour to build tomorrow's workforce. They'll also have to reconceive the workplace: the way people work and the configurations in which they work.

32%

of CEOs have started or completed changes to talent strategies.

Finding the right people

One obvious step is to follow the talent – not only to the big emerging economies like China, but also to places like Indonesia, Vietnam and the Philippines, as the former becomes less competitive. Wage convergence has also benefited advanced economies, with US firms like Ford going back to North America.[18]

There are other sources of talent, too. The female labour force, for example, remains a largely untapped asset in many emerging economies. Women still bear most of the domestic load, so family-friendly measures, like maternity breaks, part-time work, day care and elder care, can ease such problems (see sidebar, ***Breaking down gender barriers***).[19]

Older workers will likewise play a much more active role in tomorrow's workforce, and some firms are trying to alleviate the challenges facing these employees. German carmaker BMW has adopted a particularly imaginative approach. In 2007, the company staffed one of its production lines with employees whose average age equalled the projected average age of BMW's workforce in 2017. Then it asked them for ideas. Some simple design changes costing less than $50,000 to implement – such as better lighting, adjustable magnifying glasses, computer displays with variable font sizes and forgiving flooring material – made all the difference.[20]

But it's not always necessary to employ people in order to tap their skills. Mobile telecoms provider giffgaff relies on its customers as key enablers of the business, doing critical work normally done by employees; they earn points whenever they participate in a marketing campaign, recruit a new customer or post an answer to a problem on the community forum.[21] And there are many other ways of accessing external resources, such as using online job matchmakers like oDesk to find qualified freelancers.

Breaking down gender barriers

Infosys has stemmed the flood of women leaving work after having a child, with one-year sabbaticals for new mothers, part-time job options, day care centres located close to its offices and onsite supermarkets. And Cisco, GE and Intel all host networking events for female employees in Southeast Asia, where they can forge helpful connections and find moral support.

Young people Google me before they accept a job in the company. They look at ethical issues, the sustainability work of the company. We are being tested as much as we are testing them.

Jan Johansson, CEO, Svenska Cellulosa AB (SCA), Sweden

We have been working for some years on an organisational design that empowers the contribution of [the] new working generation.

Mario Alvarado, CEO, Graña y Montero, Peru

Redefining the workplace

We've talked about various strategies for securing tomorrow's skilled workers. But there's another – more radical – option: to redefine the workplace itself.

The rise of the networked society has already made it much easier to operate virtually. The workplace is becoming less and less place-specific, as one observer noted.[22] Cultural changes will reinforce the shift. Younger generations, in particular, want flat and flexible structures; expect to influence the decision-making processes of the companies that employ them; and often prefer to work outside a conventional office setting.

So, what does this mean for employers? Among other things, it means providing digital tools for communication and training. It also entails establishing conditions that allow individuals to work independently and manage their own time. Managing digital natives and autonomous workers has major implications, too, requiring people who are highly skilled at assembling teams and resolving conflicts, and who have collaborative management styles.

Moreover, given how easily employees can now reach a global audience on the internet, how companies engage with their workforce will be paramount. This is particularly the case with younger workers, who are looking for employers that espouse their values.

Raul Baltar Estevez, CEO of Banco Exterior, a major private financial institution in Venezuela, believes investors should be focusing on employees' values: "I say to the shareholder: 'I think you should be interested in knowing what your employees want from your companies because understanding what they want will generate much more wealth and added value, because they are the ones who are generating it now and will generate it in the future.'"

Addressing social issues

Some of the measures outlined previously would not only alleviate the talent shortage, but would also deliver social benefits, such as enfranchising women or helping senior citizens supplement their pensions.

Offering employee benefits such as affordable housing in cities where property is very expensive, or healthcare in countries without socialised medicine can likewise alleviate social problems and make an employer more attractive. So, too, can providing support for employees who want to do voluntary work in their local communities.

And there are other ways in which companies can help society, even as they help themselves. In Africa, for example, the youth bulge is far outstripping the ability to create new jobs, producing a large population of disaffected youngsters. So several multinationals have launched schemes to nurture local enterprise. Coca-Cola's micro-distribution centres – locally owned businesses that distribute and sell its drinks in remote regions – are one such case.[23]

Swelling the skills base

The South Korean government gives parents with three or more children tax breaks. The German Bundestag has likewise introduced incentives to raise the birth rate, as well as lifting the retirement age and encouraging inbound immigration. Meanwhile, the Chinese central government is relaxing its one-child policy: married couples can now have two children, if one spouse is an only child. Beijing is also promoting high-tech industries that require fewer workers.

But it's not just the governments of 'shrinking' countries that need to act. If nations with growing populations are to reap the 'demographic dividend', they will have to equip their youth with the right skills, as more and more jobs requiring few skills get automated.

We need to work very closely with the universities in Mexico, which – by the way – are producing almost 100,000 engineers a year. But their skills need some adaption in order to be productive for our industry… We have created a corporate university in order to certify our employees on various tasks and also provide training on leadership skills. This is important in the new landscape where we will need to compete with private players. I foresee that as one of our key challenges.

Emilio Lozoya, CEO, Petroleos Mexicanos (Pemex), Mexico

64%

of CEOs say creating a skilled workforce is a priority for their organisation over the next three years.

Working with the policymakers

CEOs think government must shoulder its share of the responsibility for developing the future labour supply. While some policymakers have been quite proactive (see sidebar, ***Swelling the skills base***), CEOs are generally dubious about how well government is doing.

Fewer than a quarter of the 41% of CEOs who believe creating a skilled workforce should be a top government priority think policymakers have proved effective. Some also consider regulation a barrier: 52% say it's impeded their efforts to find skilled workers.

This may help to explain why so many CEOs are picking up the baton themselves. Nearly two-thirds of them regard creating a skilled workforce as a key business goal, albeit with pronounced regional variations. Only 54% of CEOs in Central and Eastern Europe are focusing on developing a skilled labour force, for example, compared with 84% of CEOs in Africa – despite the fact that the former's population is declining more rapidly than most.

Difficult questions about developing tomorrow's workforce

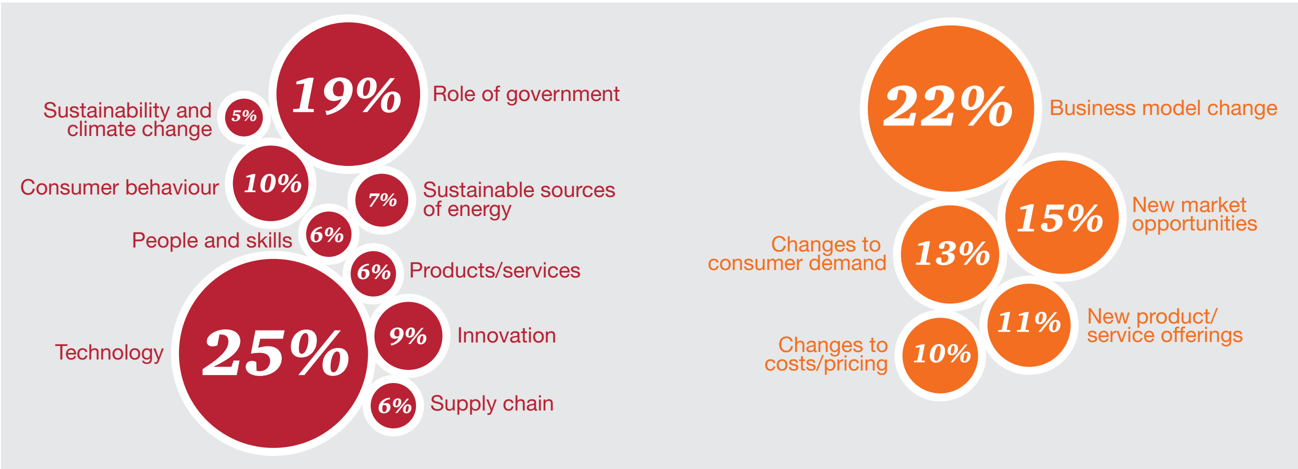
- How well-prepared is your organisation to find, attract and keep tomorrow's workforce – even as you deal with today's talent challenges?
- What are you doing to make your workforce more diverse? And how will you utilise the benefits of diversity?
- How will you manage employees with different needs, aspirations and experiences from those of your generation?
- How will you address the challenges of dealing with an increasingly autonomous workforce?
- What will it cost your organisation, if you get your talent pipeline wrong?

So you want more data?

Figure A The 'next big thing' according to global CEOs

Q: What's the next big thing that you think will impact your business, industry or society over the next 10 years?

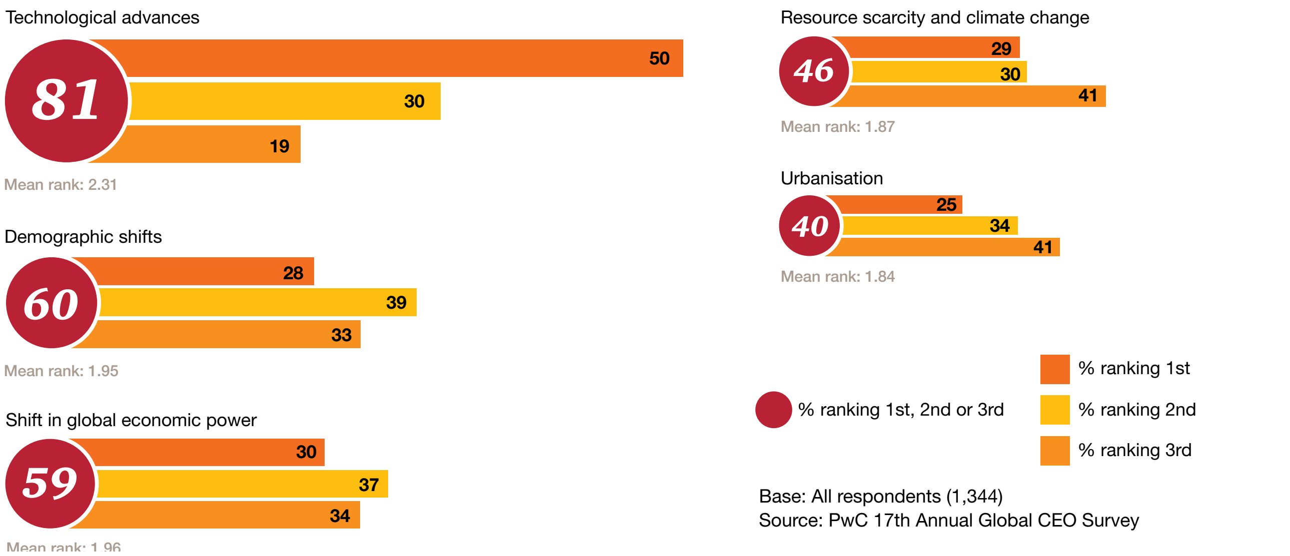
Q: Why do you think it will do so?



Base: All respondents (1,344) plus additional CEO interviews. Total = 2,053.
Source: PwC 17th Annual Global CEO Survey. To explore CEOs' specific responses to these questions, go to www.pwc.com/ceosurvey.

Figure B CEOs believe technological advances, demographic changes and global economic shifts will have a huge impact on their businesses over the next five years

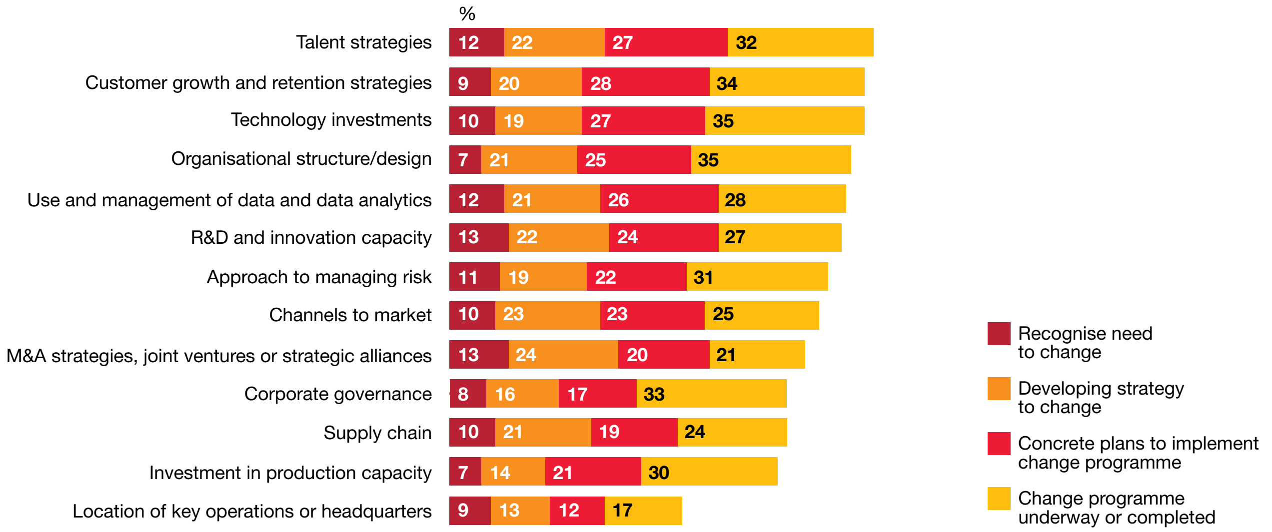
Q: Which of the following global trends do you believe will transform your business the most over the next five years?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure C In most areas of business, at least three-quarters of CEOs acknowledge the need for change, or are making changes, in response to global forces

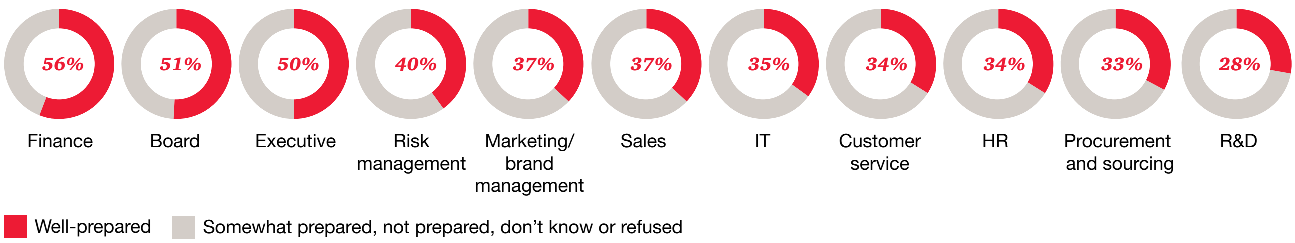
Q: In order to capitalise on the top-three global trends which you believe will most transform your business over the next five years, to what extent are you making changes, if any, to the following areas?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure D Across most business functions, only a minority of CEOs feel that their organisations are well-prepared for transformative change

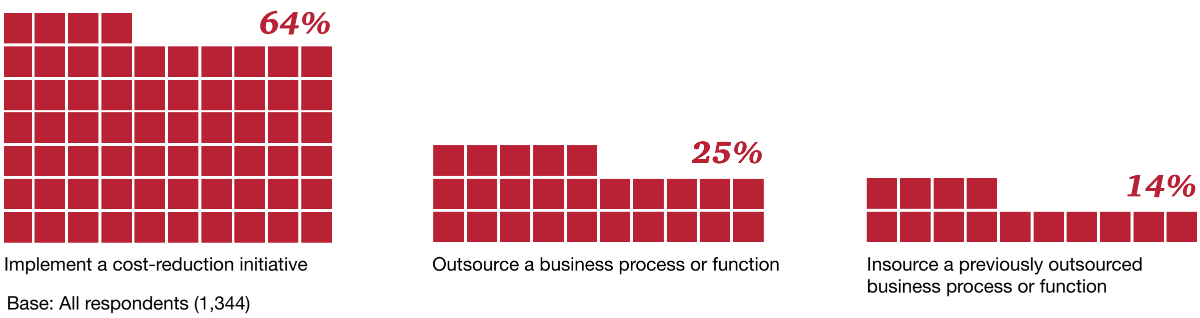
Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?



Base: Respondents who stated 'recognise need to change', 'developing strategy to change', 'concrete plans to implement change programme' or 'change programme underway or completed' to any option listed in the question 'In order to capitalise on the top-three global trends which you believe will most transform your business over the next five years, to what extent are you currently making changes, if any, in the following areas?' (1,338)
Source: PwC 17th Annual Global CEO Survey

Figure E CEOs plan to cut costs, as operating models evolve

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

To explore the numbers further, see our Data Explorer at www.pwc.com/ceosurvey

Serving the new consumers

The technological and demographic trends we've discussed are causing massive economic shifts, both between and within countries – and, as a result, equally momentous swings in consumption. The business leaders in our survey are intensely aware of the implications: 52% are concerned about changes in the way consumers behave.

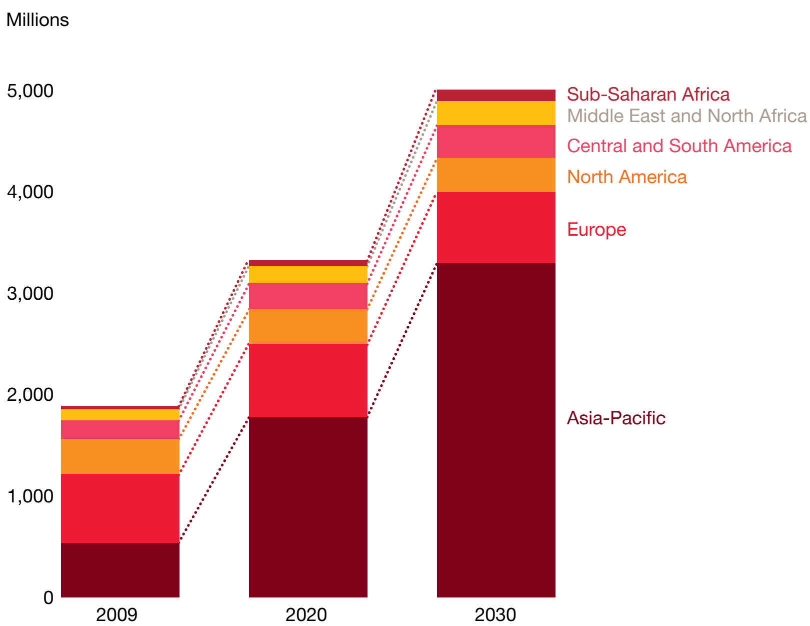
CEOs face three key challenges. They have to chase a moving target, as consumers evolve in different ways in different markets. They have to address the needs of more diverse – and demanding – customer segments. And they have to fight off increasingly intense competition.

A wealthier world

The world is getting wealthier; the number of middle-class consumers is projected to rise dramatically over the next 15 years, especially in Asia (see Figure 11).[24] That's creating all sorts of new opportunities, particularly for companies in the sectors in which richer consumers typically spend their money, such as culture and recreation, services and healthcare.[25]

With urbanisation, this affluence is also becoming more geographically concentrated. Shanghai is already as wealthy as the Netherlands.[26] By 2025, Istanbul's GDP could be comparable to that of Austria, and New Delhi's GDP could nearly rival that of New Zealand.[27]

Figure 11 The global middle class is expanding



Source: Brookings Institute

52%

of CEOs are concerned about shifts in consumer spending and behaviour.

World GDP growth is coming down, but I think there's a lot of opportunity. I look at Asia and I see the fundamental need of people wanting to improve their quality of life and I see that incredible population coming into the world. So, I remain positive.

David Thodey, CEO, Telstra, Australia

The average Chinese person [is] being transformed into a major consumer [at a time when the country's] investment boom still isn't over. This has been quite a long time coming and the fact that Americans are being replaced by the Chinese as the main consumers for the Chinese economy is a very important trend.

Alexei Yakovitsky, Global CEO, VTB Capital, Russia

The consumer has so much more information available to them because of all the technology that's out there. The way they communicate is different, what they're looking for is different. We have to help our clients reach those consumers in a relevant and trustworthy way, and every day that's changing.

Michael I. Roth, Chairman and Chief Executive Officer, Interpublic Group, US

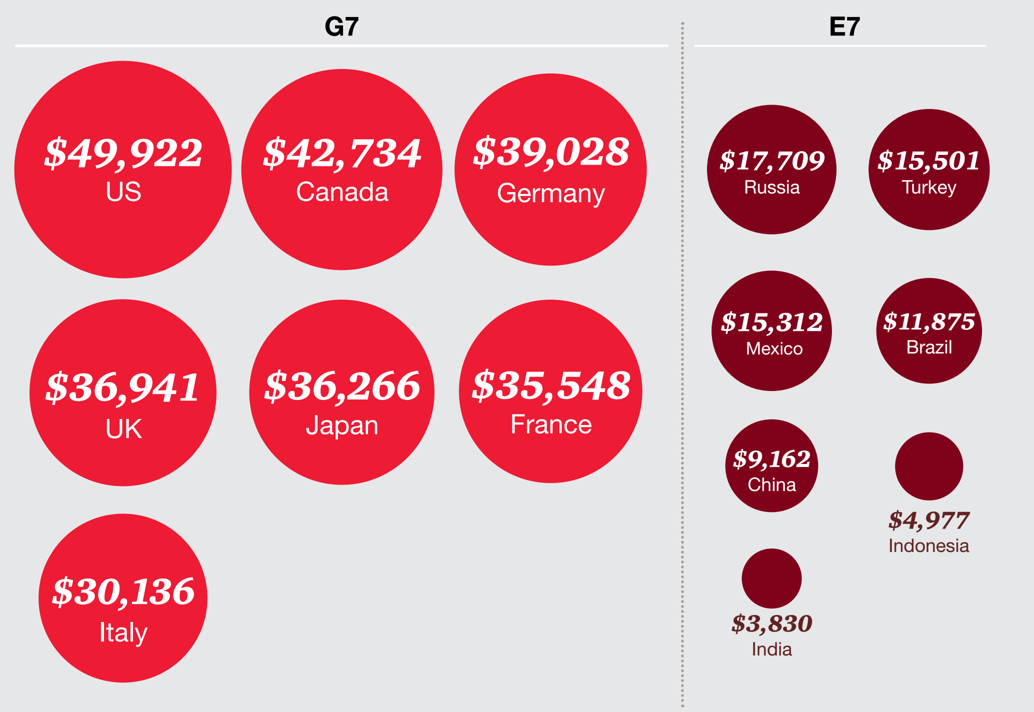
A fragmenting customer base

But major inequalities in income remain. Average incomes in the E7 countries are still less than a third of those in the G7 countries, for example (see Figure 12).[28] And the gap between rich and poor has widened in all but three of the OECD states over the past two decades.[29]

The customer base is becoming more diverse in other respects as well. Urbanisation is exacerbating the rural/urban divide. The structure of the household is evolving, as the nuclear family gives way to a much wider variety of family types. And intranational demographic movements are reshaping the distribution of wealth.

In the US, for example, the number of Hispanic households making more than $100,000 a year has climbed by 41% since 2000.[30] And female buying power is on the increase; more than a billion women will join the global middle class by 2020, as they migrate to cities and swap agricultural work for clerical or professional jobs.[31]

Figure 12 **GDP per capita in the E7 is still less than a third of that in the G7, based on PPP (current international dollars)**



Source: International Monetary Fund, 'World Economic Outlook: Hopes, Realities, Risks' (April 2013)

Incumbents in the line of fire

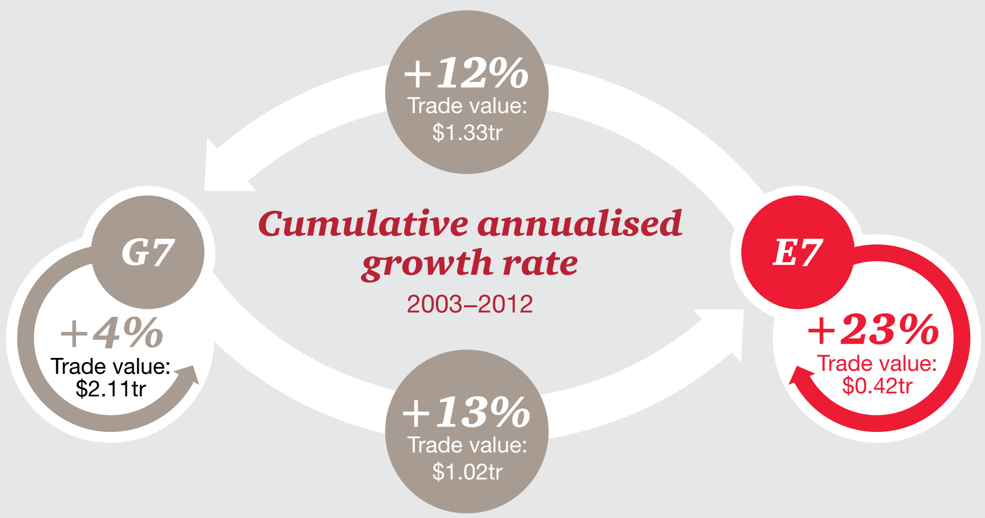
As if this weren't challenging enough, the shift in the balance of global economic power is making it easier for emerging-market competitors to fight for the same consumers that mature-market companies are targeting. Higher domestic spending on infrastructure and education, together with increased foreign direct investment, has brought rapid productivity improvements. Some emerging-market firms are also investing heavily in R&D, and they may be faster to market because they're often willing to launch products that aren't yet perfect and refine them later.

46%
of CEOs are concerned about new market entrants.

Economic reforms and greater demand for commodities have reinforced these advances, culminating in the development of a powerful trading bloc of interconnected emerging markets. Between 2003 and 2012, intra-E7 trade flows grew at nearly double the rate of G7–E7 flows – and five times the rate of intra-G7 flows (see Figure 13).

This helps to explain why nearly half of all CEOs are nervous about new market entrants. But technology has also lowered the barriers to entry in many industries – and some of the most disruptive new players could come from completely unexpected quarters. In the internet age, skilled freelancers can rapidly band together and buy commoditised services like data inputting via efficient online marketplaces. With improvements in 3D printing, they will also be able to manufacture bespoke goods quickly, economically and locally.

Figure 13 **The E7 economies have become a close-knit trading bloc**



Source: United Nations Conference on Trade and Development, UNCTADSTAT (14 February 2012)

Moving to new markets

So how are CEOs reacting? They've been quick to adapt to the geographical drift in the customer base. Six of the ten overseas markets in which they expect to generate most growth over the next 12 months are emerging countries.

Some also say that government has been helpful here: 35% report that regulation has helped them pursue new market opportunities, although more – 40% – claim the opposite. Similarly, 51% think regulation has raised production and service delivery standards.

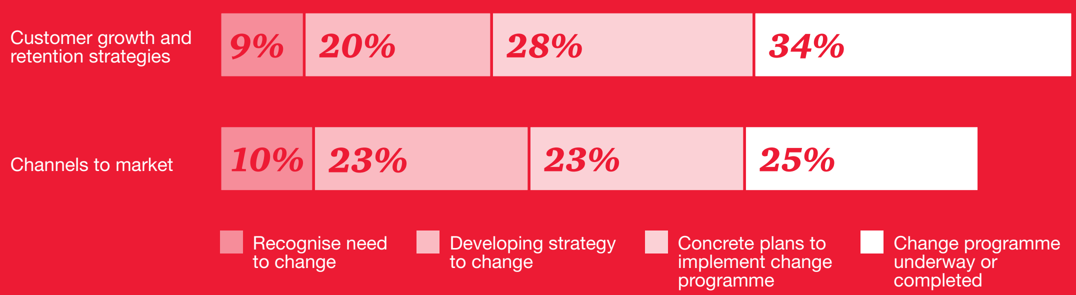
But CEOs have been slower to address the many ways in which consumers' expectations are evolving – partly, perhaps, because of the sheer pace at which those expectations are altering and the time necessary to achieve transformation in turbulent times. The vast majority of CEOs plan to change their customer growth and retention strategies and channels to market. But fewer have embarked on these changes (see below). And only about a third think the marketing, sales and customer service functions charged with carrying out these tasks are fit for purpose.

But some of the CEOs we spoke with are only too aware of the need for action in changing how they market and sell to consumers in a completely new economic landscape. Let's take a closer look at some of the opportunities they're exploring.

> *At Michelin we support regulations and have our say in various debates across the globe. Regulations reassert the idea of quality and demonstrate that research is useful, therefore promoting the technology that goes into Michelin tyres. However, regulations can also pose a threat when they become protectionist in different areas of the world.*
>
> **Jean-Dominique Senard,** Chief Executive Officer, Michelin Group, France

Most CEOs see the need to change the customer-facing parts of their business

Q: In order to capitalise on the top-three global trends which you believe will most transform your business over the next five years, to what extent are you making changes, if any, to the following areas? (Two of the areas listed.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Serving distinct demographic segments

Creating customised products and services for clearly defined demographic clusters isn't new, of course. But global trends are upping the ante, as the size, location and tastes of different consumer segments evolve in significant ways.

New Zealand entertainment and gaming business SKYCITY Entertainment Group Limited sees the upside of changing demographic segments: "There is an opportunity for us on the positive side of demographic shifts, with the increasing Asian population, Chinese population, Indian population in Auckland and so on," says CEO Nigel Morrison. "In terms of aging communities… having great destinations where people can meet and enjoy great dining and entertainment experiences is hugely important in enabling people to come together as they get older. The other demographic shift is around younger people and technology. The way young people have grown up with different interactive technologies is a challenge for us."

Switzerland-based global healthcare solutions provider Novartis also sees huge opportunities in catering to older populations. As CEO Joseph Jimenez says: "The biggest trend is the ageing population… If you look at the number of people who will be over 65 in a few decades, it is a staggering figure. But then you realise this is going to create demand for disease-modifying new agents. The IT explosion and what we are working on right now is going to lend itself to managing the challenges that come with the ageing population."

As faster economic growth shifts to places in Africa, across Asia, and Latin America, consumer goods companies have to adapt with the right products in the right stores at the right prices at the right time to meet the needs of new consumers.

Muhtar Kent,
Chairman and Chief Executive Officer, The Coca-Cola Company, US

We are moving more and more from a product-orientated company to a client-orientated company.
So we put the client at the centre of our strategy and activities, and – linked to a very strong segmentation strategy – this gives us the opportunity to identify new products and services that can be offered to the client to better satisfy their information needs.

Donatella Treu,
CEO, Il Sole 24 Ore SpA, Italy

Targeting the bottom of the pyramid

Chasing wealth isn't the only route to growth, however. Savvy CEOs recognise that focusing on underserved populations can be as profitable as it's socially desirable. Collectively, the billions of world's poorest people possess immense buying power. And the governments of many emerging countries now take a dim view of multinationals that enter their markets without supporting the communities in which they work. So catering for the needs of these local communities can protect a company's 'licence to operate'.

Qualcomm Incorporated, a US-based global provider of wireless technology and services, is one company that sees both revenue opportunity and social benefit in serving this segment of consumers. Chairman and Chief Executive Officer Dr. Paul E. Jacobs says: "All around the world, cellular is touching everybody's lives, and so the opportunities in Africa, in Southeast Asia, in areas that are not traditionally thought of as huge growing markets, are big for us, because people are moving from the second-generation phone, or maybe no phone…[to] the internet.

"We're not just investing at the high end and trickling technology down, but focusing heavily to drive cost out at the very low end... We'll be able to change people's lives and improve standards of living in emerging markets. People will have access to information they never had before, access to education, to healthcare, to governance. We've been using technologies in Africa for voter fraud detection. Things not necessarily associated with a cellular telephone now are possible."

But serving poorer consumers entails adopting fundamentally different manufacturing, marketing and selling techniques. As Qualcomm's Jacobs says: "We're trying to execute faster. We're bringing out new products. We've moved product management into some emerging markets so we will get feedback more rapidly to the product development teams and turn out products quickly."

Joining the shared economy

In a connected world, though, customers don't have to own a product or service permanently to enjoy it, and that's transforming the way we 'consume'. Online marketplaces like eBay and Craigslist started this revolution by facilitating serial ownership. Other companies have dispensed with the need for ownership altogether. Want some entertainment? Rent a film from Netflix. Going on a journey? Check out car club service Zipcar. Planning a holiday? Ask one of the 500,000 people hiring out spare rooms on Airbnb.

Technology has provided the tools with which to measure – and monetise – spare capacity accurately and easily, while urbanisation has created the critical mass to serve many markets more effectively. Together, these trends are creating profitable new business models; it's no accident that companies like Avis and General Motors have bought into car-sharing firms, while Daimler developed its own franchise car2go.[32] But the sharing economy could also bring major social benefits by giving the poorest members of society access to assets that are concentrated in the hands of a few owners.

Difficult questions about serving the new consumers

- Who creates the value in your organisation – you or your consumers? How?
- How are you keeping abreast of – and anticipating – the evolving needs of highly different customer segments? And how are you customising your offerings to meet these needs?
- What changes will you need to make to sell outcomes rather than products or services?
- Will sustainability ever trump cost-cutting? In what circumstances?
- What are the three things you will do in 2014 to retain – or regain – consumers' trust?

The need for hybrid leadership

CEOs know that technological advances, demographic changes and economic shifts are reshaping the world. And they're responding. At least 75% either recognise the need for change, have plans for change or have already started making changes, in most areas of business. But few of these CEOs have embarked on change programmes, even though most concede that their organisations aren't well-prepared.

Why? CEOs are naturally wary, after coping with the worst economic crisis for 80 years. The sheer magnitude of these trends is probably a big factor, too. Dealing with them is enough to tax any management team to its limit.

Yet, the future has an unfortunate way of sidelining those who simply wait and see. So what should CEOs do? We think there are two particular steps that would help: improving the strategy-setting process by adopting multiple planning horizons and improving the decision-making process by measuring an organisation's total impact across multiple criteria to identify the best trade-offs.

I plan for ten years (dream), focus on five years and execute for three years.

Juan Pablo Calvo,
CEO, Nuevatel PCS de Bolivia (VIVA), Bolivia

Adopting a multifocal perspective

CEOs recognise that they need to plan for the short-, mid- and long-term. Many are dissatisfied with their current planning horizons (see Figure 14). There are those who want to look further out: of the 12% of CEOs with a one-year planning timeframe, 70% would like to plan for three, five or more than five years. And of the 51% of CEOs who currently plan three years out, 38% would like to plan for five or more years. Yet of the 24% of CEOs who do plan further out – on a five-year basis – 19% would like to plan over one or three years.

Mark Wilson, Group CEO of UK-based insurer Aviva, says: "When we are doing planning I don't think we can look at it with just one lens. I think we've got to look at what we are doing next week, we've got to look at what [we're] doing next year and then [we] also have to look at a three-, five-, ten-year cycle as well. Our process that we're moving to is more iterative, as I don't like a scenario where you have a definitive approach to planning year-by-year, because I think you need your long-term vision… We need to become more agile and dynamic in the way we plan."

Adopting multiple planning horizons is admittedly very difficult, particularly for publicly quoted companies under pressure to report quarterly. As Sergio Pietro Ermotti, Group Chief Executive Officer of Switzerland-based bank UBS says: "Having a strategic plan for the next three to five years is always very important. But today, economic and political conditions and financial markets are so volatile, and the speed of change so rapid, that you cannot afford to ignore short-term influences. That applies in particular to exchange-listed companies that have to publish financial reports on a quarterly basis. The big challenge here is to maintain an appropriate balance between short- and long-term planning."

Looking at the whole footprint

The planning horizons a firm uses aren't all that matters, of course. So does the total impact of its activities across social, environmental, fiscal and economic dimensions. Most CEOs already recognise that business has social as well as financial responsibilities. They believe it's important to balance the interests of different stakeholders, rather than focusing solely on investors, employees and customers. And they understand that this entails measuring the full impact of their company's activities (see Figure 15).

In this global, interconnected, uncertain world. I am thinking more and more that the two essential time horizons are 'now' and 'the longer-term future'. 'Now' is naturally dependent on the industry. In our case, we have defined that 'now' [as] two years. What we are developing now very often has an impact within this two-year timeframe. Simultaneously, we are thinking about 10 years forward – and thinking actively all the time about whether our current vision, and hence our current business direction, is the right approach from this 10-year perspective.

Matti Alahuhta, President & CEO, Kone, Finland

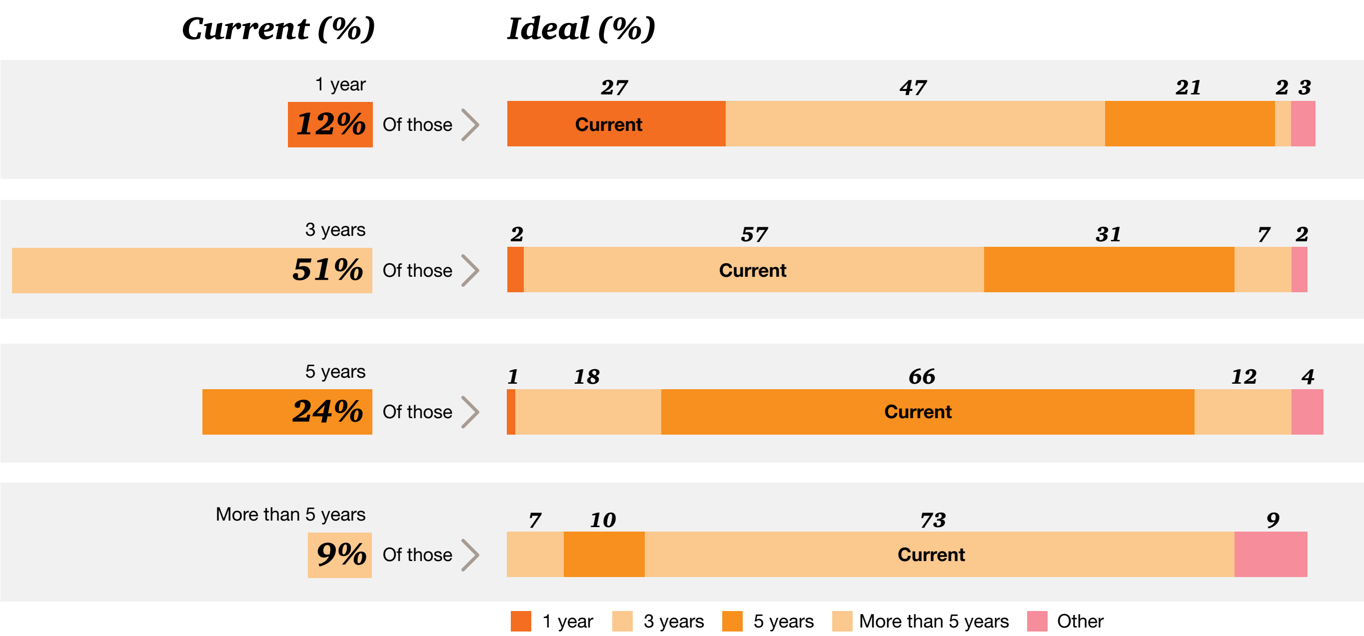
But most companies only measure – and report on – their financial performance, and they use conventional measurement techniques to do this. In other words, they measure inputs and outputs. And they define risk solely in terms of factors that could throw their finances off course.

Measuring a company's total impact shows management the full impact it's making (see Figure 16). So, for example, it shows a company's social effect on the health and education of the communities in which it operates; its environmental effect on the air, land and water; its fiscal effect on the public coffers; and its economic effect in terms of the value it adds or the number of jobs it creates.

According to a report issued by the United Nations High-Level Panel on the post-2015 development agenda, about a quarter of large companies currently report on their social and environmental impact.[33] The panel calls for all major corporations, as well as governments, to do so, as part of a series of recommendations aimed at eradicating extreme poverty by 2030. Adopting such measures, within a relatively short timeframe, would require a transformational shift, not only in terms of information gathering, but also in terms of the will of business leaders to do so.

Figure 14 Many CEOs want to change their planning time horizons

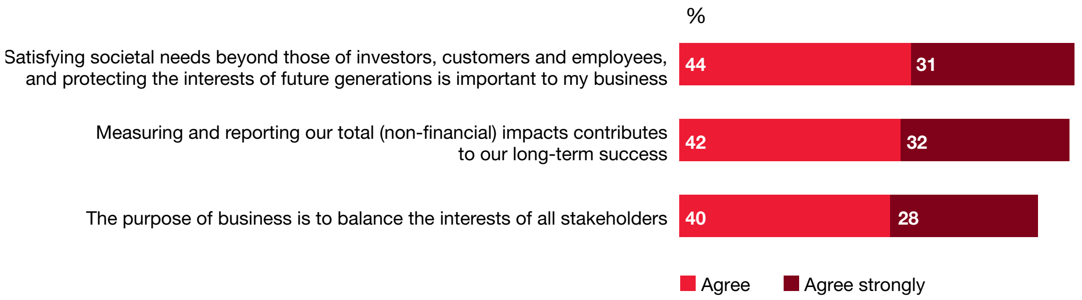
Q: What is your current planning time horizon?
Q: Ideally, what would you like your planning time horizon to be?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure 15 Most CEOs believe business has a social as well as a commercial role

Q: To what extent do you agree or disagree with the following statements? (Three of the statements listed.)

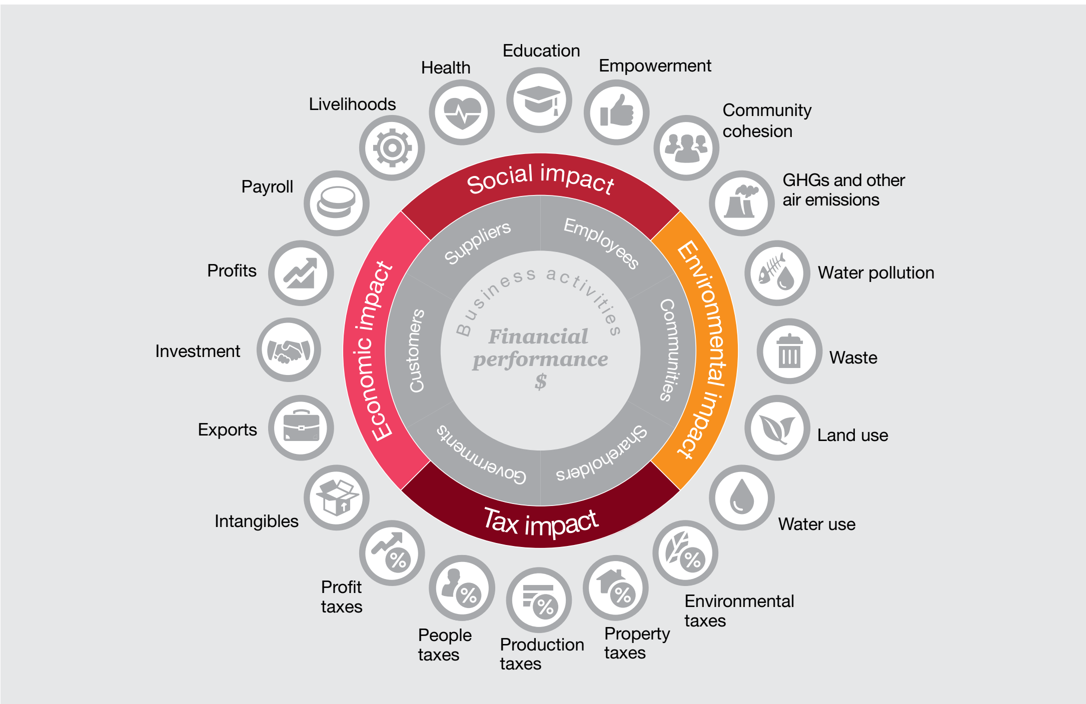


Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Despite the challenges, quantifying an organisation's footprint in a common business language has two major benefits. It helps management understand the trade-offs between different strategies and make the best decisions for all its stakeholders. That, in turn, helps the organisation earn more trust, more custom and so, more profit.

Construction and environmental services company Fomento de Construcciones y Contratas (FCC), based in Spain, is one company that is committed to exploring the wider impact of its activities. As CEO Juan Béjar says: "We are developing a project to assess the positive non-financial impact of our construction projects and service contracts. While our

Figure 16 Measuring an organisation's total impact helps to show the best route forward



Source: PwC

I think that to stand a chance of ensuring prosperity for their companies, business leaders today have to… move towards the triple bottom-line thinking… The missing link today is measuring… Today, financial markets drive businesses, especially public businesses… There are three pieces of paper which ultimately determine how healthy a company is today in the eyes of the financial market: a balance sheet, a P&L and a cash flow statement. But these are three documents which don't tell you very much about the overall impact of that business. So, we desperately need to develop a system to try and measure and quantify and communicate the wider stakeholder engagement.

Badr Jafar,
Managing Director, Crescent Group, UAE

environmental services and water management activities are, *per se*, part of the cities' sustainability policies, we want to go even further than that and find out what the real drivers behind social and shared values are."

Meanwhile, US-headquartered global beverage company The Coca-Cola Company is leveraging local ties in different markets to better understand stakeholder interests. "We source locally, market and produce locally, and hire and distribute locally, and that gives us a tremendous insight into the markets we serve and an edge in actually operating sustainably," Chairman and Chief Executive Officer, Muhtar Kent observes. "Now we want to connect even more closely with our communities to create value not only for a growing breadth of stakeholders, of course, but also for our bottling partners, retail and restaurant customers, consumers, suppliers, NGOs, civil service organisations, governments, and so on. Now, more than ever, business has to work across that golden triangle of government, civil society and business."

Hybrid leadership

There's no handbook to the future, though – and what makes the global trends we're currently facing particularly hard to handle is the fact that they require a hybrid set of leadership skills.

CEOs must now be able to run the business of today while creating the business of tomorrow. They must foster creativity and yet make sure that it's systematic; manage a multigenerational, multicultural global workforce; and satisfy the needs of consumers who are more disparate than ever before. They must pursue all these opportunities for growth while bearing the interests of society in mind, and without compromising on traditional values like quality or integrity.

To put it another way, today's CEOs must be hybrid leaders capable of looking into the near and far distance, combining the best of the old with the new and piloting their organisations through enormous changes to make them fit for the future.

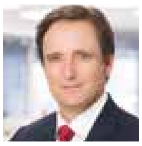
Difficult questions about hybrid leadership

- How do you ensure you're in a position to make sufficient – even radical – change today to realise your longer-term vision for your organisation?
- How do you drive growth that is lasting, responsible, real and inclusive?
- How do you measure the impacts of your decisions today on your stakeholders and your business tomorrow?
- How do you assess/compare the relative weight of the expectations of, or the outcomes for, various stakeholders in order to arrive at decisions that create most value?
- Have you considered the legacy you want to leave? How have you incorporated this into your strategic planning?

CEO survey face-to-face interviews

Arif Naqvi
Founder and Group Chief Executive,
The Abraaj Group

Preetha Reddy
Managing Director,
Apollo Hospitals,
India

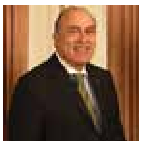


Mark Wilson
Group CEO,
Aviva,
UK

Raul Baltar Estevez
CEO,
Banco Exterior,
Venezuela

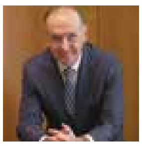
Stephen A. Schwarzman
Chairman, Chief Executive Officer
and Co-Founder,
Blackstone,
US

Chen Long
Chairman,
China Resources Enterprise Limited,
Hong Kong

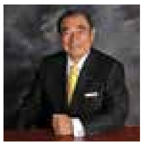


Muhtar Kent
Chairman and Chief Executive Officer,
The Coca-Cola Company,
US

Badr Jafar
Managing Director,
Crescent Group,
UAE



Juan Béjar
CEO,
Fomento de Construcciones y Contratas (FCC),
Spain



Shigetaka Komori
Chairman and Chief Executive Officer,
FUJIFILM Holdings Corporation,
Japan

Alison Watkins
CEO,
GrainCorp,
Australia[2]

Mario Alvarado
CEO,
Graña y Montero,
Peru

Douglas Flint
Chairman,
HSBC Holdings Plc.,
UK

Chanda Kochhar
MD & CEO,
ICICI Bank,
India

Donatella Treu
CEO,
Il Sole 24 Ore SpA,
Italy

Michael I. Roth
Chairman and Chief Executive Officer,
Interpublic Group,
US

Matti Alahuhta
President & CEO,
Kone,
Finland

Craig Donaldson
Chief Executive Officer,
Metro Bank,
UK

Jean-Dominique Senard
Chief Executive Officer,
Michelin Group,
France

Angeliki Frangou
CEO & Chairman,
Navios Group of Companies

Hiroo Unoura
President & CEO,
Nippon Telegraph and Telephone Corporation (NTT),
Japan

Joseph Jimenez
CEO,
Novartis,
Switzerland

Juan Pablo Calvo
CEO,
Nuevatel PCS de Bolivia (VIVA),
Bolivia

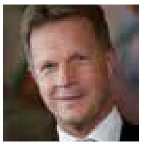
Marcelo Odebrecht
CEO,
Odebrecht,
Brazil

Emilio Lozoya
CEO,
Petroleos Mexicanos (Pemex),
Mexico

Stavros Lekkakos
CEO,
Piraeus Bank,
Greece

Dr. Paul E. Jacobs
Chairman and Chief Executive Officer,
Qualcomm Incorporated,
US

Nigel Morrison
CEO,
SKYCITY Entertainment Group Limited,
New Zealand



Jan Johansson
CEO,
Svenska Cellulosa AB (SCA),
Sweden

David Thodey
CEO,
Telstra,
Australia

Brian Molefe
Group Chief Executive,
Transnet SOC Ltd.,
South Africa

Sergio Pietro Ermotti
Group Chief Executive Officer,
UBS,
Switzerland

Mikhail Slobodin
CEO,
VimpelCom Russia,
Russia

Alexei Yakovitsky
Global CEO,
VTB Capital,
Russia

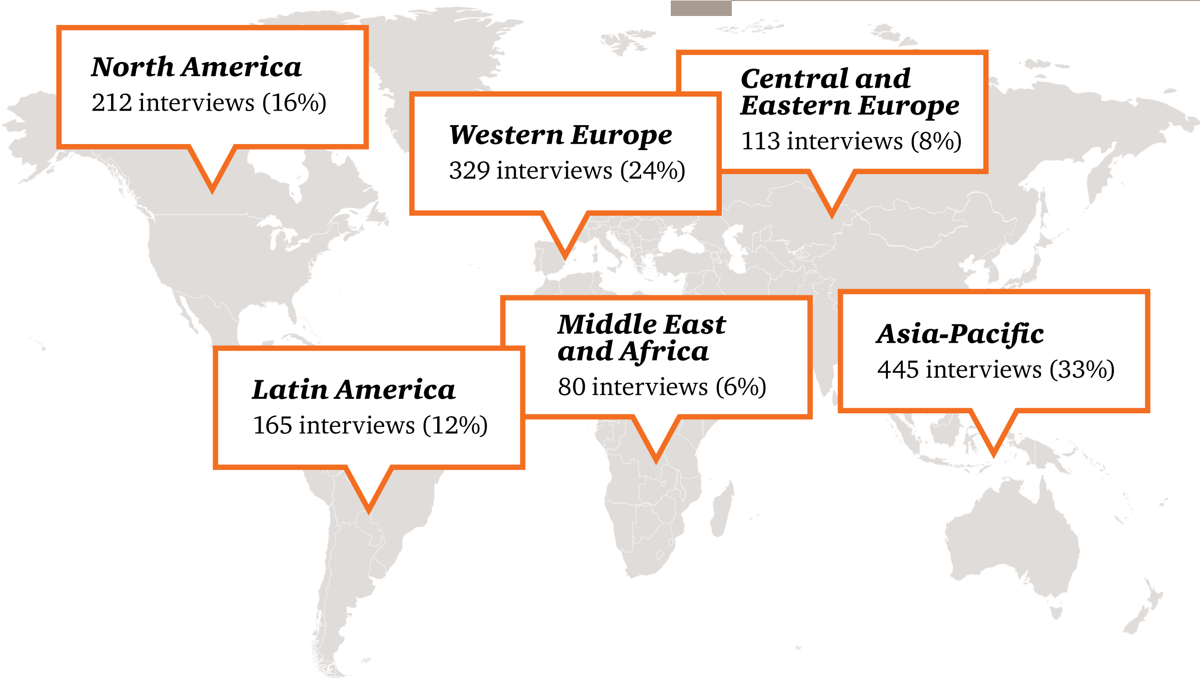
To read quotes from interviews and watch selected videos, visit www.pwc.com/ceosurvey

Research methodology and key contacts

We've conducted 1,344 quantitative interviews with CEOs in 68 countries worldwide, selecting our sample based on the percentage of the total GDP of countries included in the survey, to ensure CEOs' views are fairly represented across all major countries and regions of the world. The interviews were also spread across a range of industries. Further details, by region and industry, are available on request. Fifty-four percent of the interviews were conducted by telephone; 38% online; and 8% by post. All quantitative interviews were conducted on a confidential basis.

***1,344** interviews completed in 2013 across **68** countries between 9 September and 6 December 2013*

***2,162** members of the Global PwC CEO Panel were invited to participate via the online survey, contributing to the total online responses.*



The lower threshold for inclusion in the top 10 countries (by GDP) was 500 employees or revenues of more than $50 million. The threshold for inclusion in the next 20 countries was companies with more than 100 employees or revenues of more than $10 million.

- **44%** of companies had revenues of **$1 billion** or more.
- **35%** of companies had revenues of over **$100 million** up to **$1 billion**.
- **18%** of companies had revenues of up to **$100 million**.
- **46%** of companies were privately owned, while **50%** were listed on at least one stock exchange.

To better understand CEOs' perspectives for 2014, we also conducted in-depth interviews with **34 CEOs from six continents** over the fourth quarter of 2013. Their interviews are quoted in this report and more extensive extracts can be found on our website at **www.pwc.com/ceosurvey**, where you can explore responses by sector and location.

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

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

For further information on the survey content, please contact:

Suzanne Snowden
Director, Global Thought Leadership
+44 20 7212 5481
suzanne.snowden@uk.pwc.com

For media related enquiries, please contact:

Mike Davies
Director, Global Communications
+44 20 7804 2378
mike.davies@uk.pwc.com

Credits

Editorial, research and project team

Poh-Khim Cheah
Angela Lang
Suzanne Snowden (Programme Director)
Sarah Watts

Online and multimedia

Elaine Aitken
Lee Connett
Ashley Hislop

Editorial contribution

Cristina Ampil
Emily Ansell
Mike Ascolese
Bridget Atherton
Richard Boxshall
Justine Brown
Maria Burazar
Emily Church
Suzanne Coupe
Mike Davies
Nick Jones
Dominic Kelleher
Barret Kupelian
Emily Litz
Robert MacKay
Sarah McQuaid
Christopher Michaelson
Elizabeth Montgomery
Oriana Pound
Robert Vaughan

We'd also like to thank the following for their guidance and expert insight:

Martha Corbett, Tom Craren, Chris Curran, Marcel Fenez, Patrick Figgis, Dennis Finn, Simon Friend, Rob Gittings, Bharti Gupta Ramola, John Hawksworth, Leo Johnson, Andrew Jurczynski, Henrique Luz, Richard Oldfield, John Preston, Malcolm Preston, Juan Pujadas, Richard Sexton, Rob Shelton, Mark Strom, John Sviokla, Matthew Tod, Christopher Wasden, Grant Waterfall, David Wu, Jasper Xu.

Design and layout

The Design Group, PwC UK

Research and data analysis

The research was coordinated by Research2Insight (r2i), PwC UK, located in Belfast, Northern Ireland. The results were analysed by r2i and Appinions.

Notes and sources

1. Chris Giles and Claire Jones, 'Carney's economic glass is half full', *Financial Times* (13 November 2013), http://www.ft.com/cms/s/0/a948944a-4c80-11e3-958f-00144feabdc0.html#axzz2l54GnAI2
2. At the time of interviewing, Alison Watkins was Managing Director and CEO of Graincorp. Alison will take up the position of Group Managing Director, Coca-Cola Amatil Ltd. in March 2014.
3. General-purpose technologies are technologies that have many uses and spillover effects, producing major social and economic changes over time. For further details, see Richard Lipsey, Kenneth I. Carlaw and Clifford T. Bekhar, *Economic Transformations: General Purpose Technologies and Long Term Economic Growth* (Oxford University Press, 2005).
4. Michael DeGusta, 'Are Smart Phones Spreading Faster than Any Technology in Human History?', *MIT Technology Review* (May 2012), http://www.technologyreview.com/news/427787/are-smart-phones-spreading-faster-than-any-technology-in-human-history/
5. PwC, 'Profitable growth in a digital age: From multi-channel to Total Retail' (2013). Digital natives are those who: actively or passively use Twitter, Tumblr, Instagram, Foursquare/Facebook places, BBM/Whatsapp, Spotify, Pinterest or Myspace; use more than one device simultaneously at least once a week; and use a smartphone, tablet computer or smart TV at least once a week.
6. 'Facebook Reports Third Quarter 2013 Results' (30 October 2013), http://investor.fb.com/releasedetail.cfm?ReleaseID=802760
7. Cisco Internet Business Solutions Group, 'The Internet of Things: How the Next Evolution of the Internet Is Changing Everything' (April 2011).
8. Marc Pfitzer, Valerie Bockstette, and Mike Stamp, 'Innovating for Shared Value', *Harvard Business Review* (September 2013), http://hbr.org/2013/09/innovating-for-shared-value/ar/
9. PwC, 'Breakthrough innovation and growth' (2013).
10. Vinod Khosla, 'How to win at leapfrog', McKinsey Insights and Publications (December 2013), http://www.mckinsey.com/insights/asia-pacific/how_to_win_at_leapfrog
11. PwC, 'Digital IQ Survey' (2013).
12. 'Innovation Isn't "Creativity," It's a Discipline You Manage', *MIT Sloan Management Review* (1 April 2010), http://sloanreview.mit.edu/article/it-innovation-baldwin-article/
13. Adam Fisher, 'Inside Google's Quest To Popularize Self-Driving Cars', *Popular Science* (18 September 2013), http://www.popsci.com/cars/article/2013-09/google-self-driving-car
14. James K. Glassman, 'Immigration: Don't Be Stingy', *Forbes* (30 April 2013), http://www.forbes.com/sites/jamesglassman/2013/04/30/immigration-dont-be-stingy/; 'Les misérables', *The Economist* (28 July 2012), http://www.economist.com/node/21559618; 'Future Fifty', http://www.futurefifty.com/; Jay Mcgregor, 'Is the success of London's "silicon roundabout" forcing new start-ups out of the capital?', *The Independent* (5 December 2013), http://www.independent.co.uk/life-style/gadgets-and-tech/features/is-the-success-of-londons-silicon-roundabout-forcing-new-startups-out-of-the-capital-8599699.html
15. Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 'World Population Prospects: The 2010 Revision'.
16. PwC & Eurasia Group, 'New Urbanism Taking Hold in Developed Markets', Eurasia Group Global Trends Quarterly (First Quarter 2013).
17. John Revill, 'Faced With Graying Workforce, Nestlé to Start Major Recruitment Drive', *The Wall Street Journal* (14 November 2013, http://online.wsj.com/news/articles/SB10001424052702303559504579195853629905432
18. Brad Plumer, 'Is U.S. manufacturing making a comeback – or is it just hype?', *The Washington Post Wonkblog* (1 May 2013), http://www.washingtonpost.com/blogs/wonkblog/wp/2013/05/01/is-u-s-manufacturing-set-for-a-comeback-or-is-it-all-hype/

19. Rahim Kanani, 'Winning the war for talent in emerging markets: Why women are the solution', *Forbes*, 6 September 2011, http://www.forbes.com/sites/rahimkanani/2011/09/06/winning-the-war-for-talent-in-emerging-markets-why-women-are-the-solution/

20. Kenneth Scott, 'Investing in an Aging Workforce: Universal Design and Health Promotion Can Pay off in Productivity Gains', The Sloan Center on Aging and Work (2 October 2013), http://agingandwork.bc.edu/blog/investing-in-an-aging-workforce/

21. giffgaff website, http://giffgaff.com/

22. Sheila Moorcroft, 'The future of organisations by 2020', *Shaping Tomorrow* (3 December 2013), http://www.shapingtomorrow.com/home/alert/152705-The-future-of-organisations-by-2020

23. Coca-Cola, 'Empowering women in Africa', http://www.coca-cola.co.uk/community/empowering-women-in-africa.html

24. Homi Kharas and Geoffrey Gertz, 'The New Global Middle Class: A Cross-Over from West to East', *China's Emerging Middle Class: Beyond Economic Transformation* (Washington, DC: Brookings Institution Press, 2010).

25. Our research shows, for example, that between 1963 and 2013, UK household spending on culture and recreation rose from 7.8% to 10.6%, while spending on miscellaneous services rose from 6.4% to 10.5%, as consumers became more affluent.

26. 'Making data dance', *The Economist* (9 December 2010), http://www.economist.com/node/17663585

27. McKinsey Global Institute, 'Urban World: A new app for exploring an unprecedented wave of urbanization' (September 2013), http://www.mckinsey.com/insights/mgi/in_the_news/urban_world_app

28. The E7 group of countries, identified by PwC, comprises China, India, Brazil, Mexico, Russia, Indonesia, Turkey.

29. OECD, 'Growing unequal? Income Distribution and Poverty in OECD countries' (October 2008).

30. U.S. Census Bureau, Table 690, 'Statistical Abstract of the United States' (2012).

31. Ford Motor Company media release, 'Farley: Demographic Shifts, Consumer Fuel Economy Focus, Mobile Growth Reshaping Post-Recession U.S. Auto Industry' (27 March 2013), http://corporate.ford.com/news-center/press-releases-detail/pr-farley2658-demographic-shifts-37864

32. Eileen Rojas, 'Automakers Invest in Car-sharing Industry', *The Motley Fool* (3 April 2013), http://beta.fool.com/er529/2013/04/03/investing-in-the-sharing-economy/28960/

33. U.N. 'A New Global Partnership: Eradicate Poverty and Transform Economies Through Sustainable Development' (2013).

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

The Design Group PwC UK 21635