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# The talent challenge
## A time for extraordinary leadership

*16th Annual Global CEO Survey: The talent challenge*

pwc

# Contents



# *A time for extraordinary leadership*

Our 16th Annual Global CEO Survey finds the world's business leaders facing market conditions that are as challenging as many can recall; only one in five CEOs believe that the global economy will improve over the coming year and 70% are committed to cutting costs. The division between markets has become more pronounced and CEOs find themselves navigating a multi-speed global marketplace where matching talent supply and demand has become a constant headache.

As if these challenges weren't enough, CEOs must also work in an environment where trust in the world's businesses (and their leaders) has hit an all-time low.

The need to rebuild trust through engagement, which will in turn attract and retain the best talent, set alongside the need to reduce costs still further creates a powerful dilemma for leaders. Actions to reduce or shift headcount often run counter to efforts to build enduring trust and create growth. It can be done, of course, but it requires extraordinary leadership.

In fact, it might be *the* leadership challenge of our times.

# Key findings

***A lack of confidence.***
Global businesses are continuing to struggle with rapid growth in some markets and stagnation in others. CEOs in Africa are the most confident about growth in 2013, while those in Central and Eastern Europe have little confidence at all that they will see any growth this year.

***Need to cut costs.***
Cost reductions continue apace in the regions hardest hit by recession. 70% of all CEOs and 83% of those based in Western Europe said they planned further cost cuts in 2013. These cost-cutting plans still mean a reduction in headcount for some organisations. 23% of all CEOs and 40% of those based in Western Europe said they planned further headcount cutbacks in 2013.

***Worried about skills.***
CEOs remain as concerned as ever about the availability of the key skills they need – 58% cited this as a problem compared with 54% in last year's survey. The skills shortage is particularly acute in fast-growing markets such as Africa (where 82% of CEOs say availability is a problem).

***A question of trust.***
The issues of trust, public perception and corporate image are creeping up the list of CEOs' priorities, partly as a reaction to the changing public mood, but also as they recognise that the best employees want to work for an organisation of which they can be proud. 57% of CEOs said they will increase their focus on encouraging a culture of ethical behaviour over the next 12 months.

*“Two words sum up the global economy currently for me and they are fragility and volatility. Wherever you look, things are shifting very rapidly indeed.”*

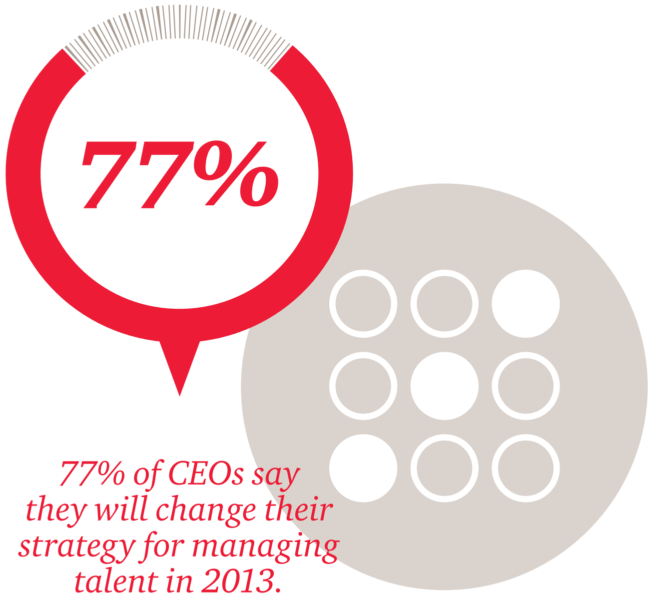
Alison Cooper, CEO, Imperial Tobacco Group, UK

### *Really tackling talent strategy?*

77% of CEOs say they’ll change their strategy for managing talent in 2013. But CEOs have told us the same thing for the past six years. This suggests either that the changes they’ve made aren’t working, or that their plans have never been put into practice. Clearly, a fundamental rethink of the established approach to talent strategy is needed.

### *Time for strong leadership.*

Building skills for future growth while cutting costs and without risking damaging employee engagement still further will require exceptional leadership. What’s needed is a coherent talent strategy that is built on a powerful employer brand and which is embedded in the very DNA of the organisation. It’s a time for strong leaders to come to the fore.

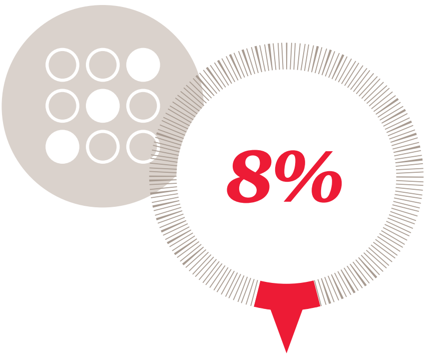



*77% of CEOs say they will change their strategy for managing talent in 2013.*

*"For us, I think the largest source of growth will be overseas markets, especially China. But we also see room for growth here in our home country of Taiwan. Taiwan is a changing society and offers unprecedented business opportunities."*

Piyush Gupta, CEO, DBS Group, Singapore

# Searching for growth

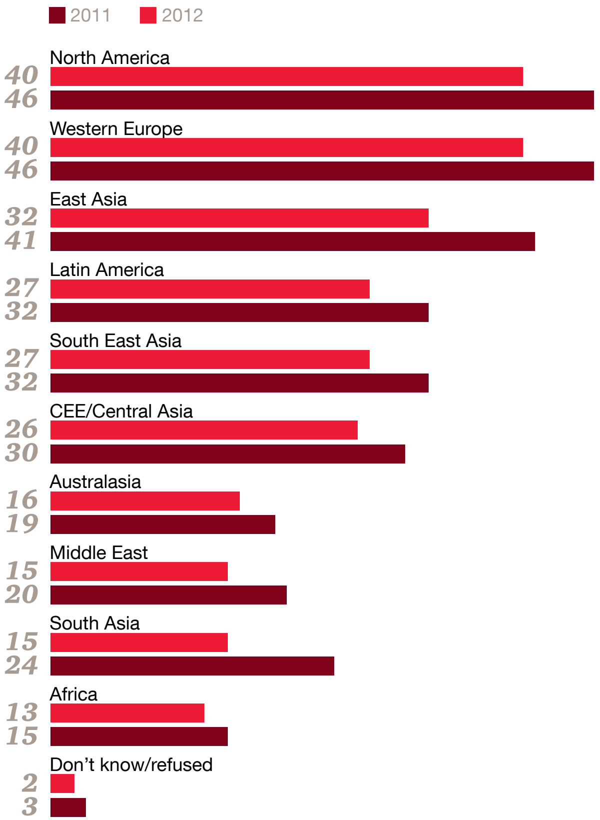



*Only 8% plan to grow new operations in foreign markets*

CEOs are changing their strategy for growth in the face of an unpredictable and volatile economic environment. Most will concentrate on growing in the locations where they already have operations. This means a focus on a smaller number of countries and less appetite for developing speculatively. Our survey shows organisations now have fewer key operations in all regions than they had a year ago.

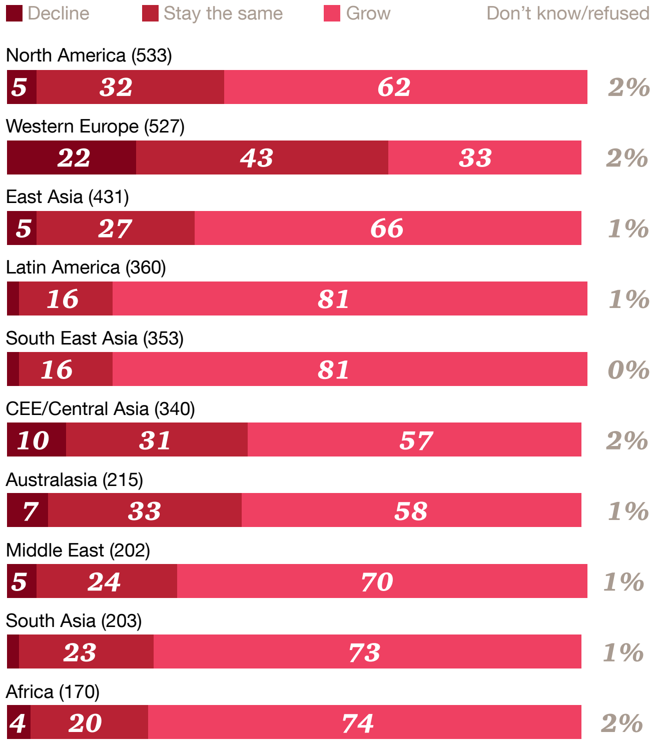
CEOs agree that Latin America and South East Asia are the regions that are most likely to deliver growth, but many are beginning to turn their attention to Africa – 74% of CEOs expect to pursue opportunities on the continent over the next 12 months. By contrast, the fortunes of Europe are clearly on the wane – 22% of CEOs in Western Europe say that they expect their key operations to decline during 2013.

**Q: In which region(s) does your business have key operations?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (2012=1,330; 2011=1,258)

**Q: In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** Respondents whose business has key operations in these regions (in brackets)

*“We skate to where the puck is going. We follow the global market as it evolves and develops. We try to make sure that we have the flexibility to change the emphasis of our business to go after those markets where the growth is.”*

Pertti Kerhonen, President and CEO, Outotec Oyj, Finland

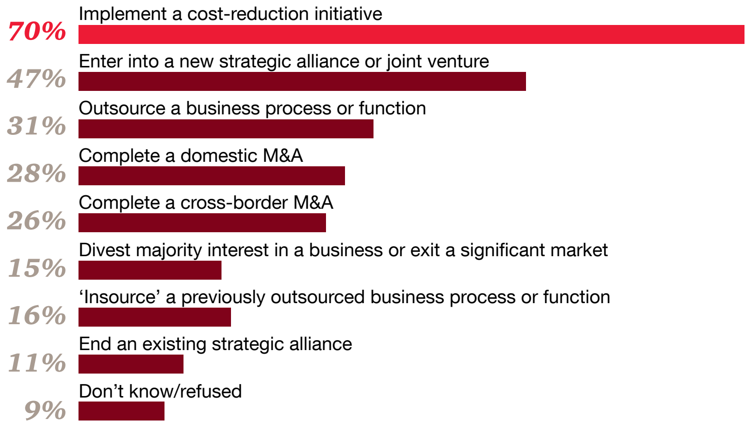
*"The key in this environment is the people agenda. It's one of the easier things to cut in terms of investment when you're in a tough environment, but I think it's essential that companies continue to invest in their people."*

Alison Cooper, CEO Imperial Tobacco Group, UK

# Cutting costs, but not people

For the fifth consecutive year, cost-cutting is a priority for the vast majority for CEOs; 70% said they're planning more cuts during the coming year. The propensity to cut costs is most pronounced in developed markets, but is by no means confined to those regions. Eight out of ten CEOs based in Europe said they were planning to cut costs in 2013, but even in the fast-growing Indian market, half of CEOs said the same.

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




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

The years of cost reductions have brought risk, mainly around people – morale and employee engagement have measurably suffered. CEOs are facing their most critical leadership challenge – to keep costs under control while improving employee engagement.

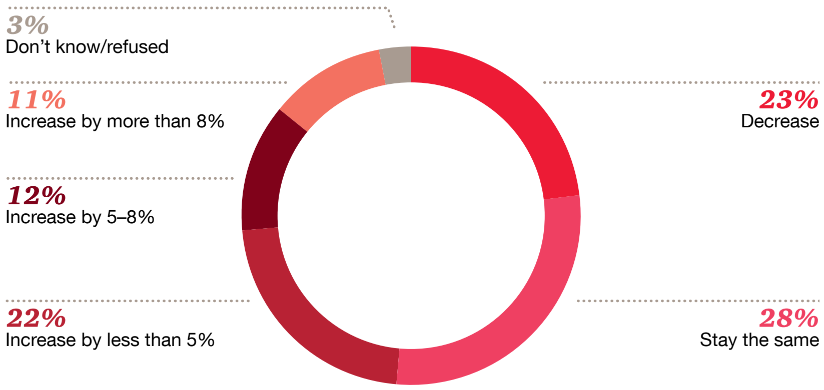
Headcount has been an obvious target for cost-cutting, but there are signs that some CEOs are recognising that, perhaps, they've gone as far as they should and that they need to be smart about cost-cutting; only 23% had plans to cut headcount in the next 12 months.

*CEOs are facing their most critical leadership challenge – to keep costs under control while improving employee engagement.*

But these global figures hide sharply contrasting approaches to headcount in different regions, countries, industries and skills. CEOs based in the eurozone tend to be the most pessimistic and relatively few have plans to increase headcount in the coming year, while three-quarters of CEOs based in India and the Middle East say that they would increase headcount during 2013.

These contrasts create an HR headache for many organisations and their leaders, as the demand and supply of talent shifts across the globe. The critical shortage of skills in some markets, combined with an excess of well-trained but possibly disenchanted workers in others, makes the cost-effective deployment and management of global talent absolutely critical. It's hardly surprising, then, that availability of key skills is the most pressing concern for our CEOs.

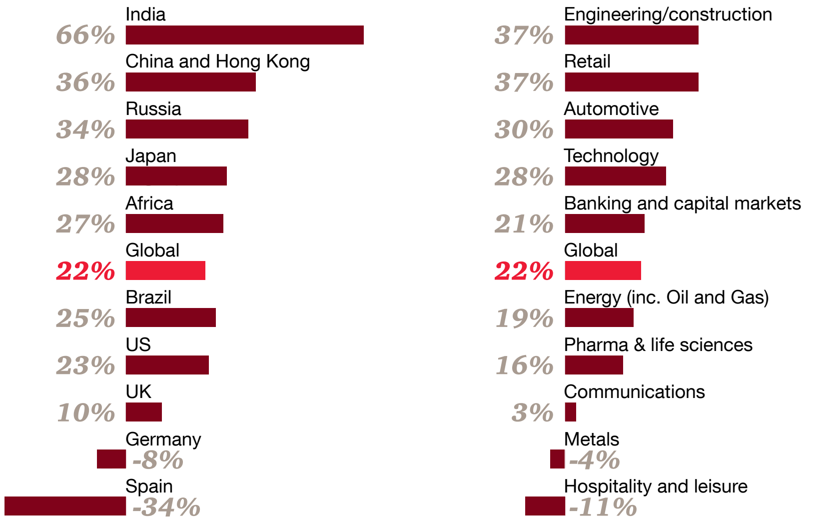
**Q: What do you expect to happen to headcount in your company globally in the next 12 months?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

**Net hiring intent**

Percentage of CEOs reporting they expect to increase headcount, less those expecting to decrease




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

> *"My basic equation is that you focus on your people, your people focus on the customers, and that, in turn, allows you to generate a decent return for shareholders."*
>
> Piyush Gupta, CEO, DBS Group, Singapore

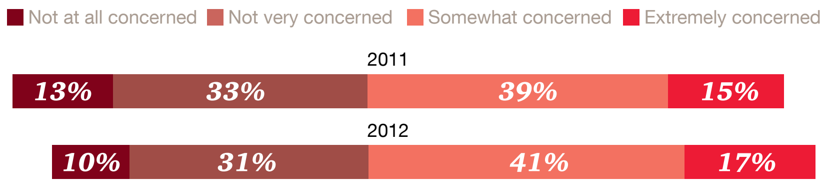
# *Tackling talent strategy*

The availability of key skills is named as one of the top business threats by over half of CEOs – exceeded only by worries about tax. Just one in ten had no concerns at all about finding the skills they need.

When asked if they planned to change their business strategy in the near future in response to these business threats, 77% of CEOs said they planned to alter their approach to talent management and 23% were planning a significant change. This was the case, with relatively little variation, across all geographies and industries.

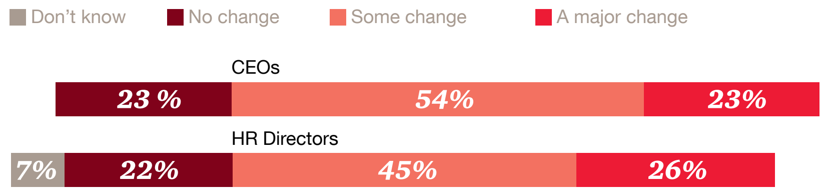
But this isn't new. In fact, talent management has been identified as the main target for strategic change in every CEO survey over the past six years. While it's heartening that talent strategy is high on the list of CEOs' priorities, there's clearly something wrong in its execution.

**Q: How concerned are you about the availability of key skills as a business threat?**




**Source:** PwC 15th and 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

**Q: To what extent do you expect changes to your strategies for managing talent over the next 12 months?**




**Source:** PwC 16th Annual Global CEO Survey (all respondents (1,330)), PwC's HR Monitor survey of 1,470 HR Directors and other senior HR leaders across 17 key economies around the world – January 2013

Many organisations and their leaders are clearly grappling with the myriad of short-term tactical problems around talent at the expense of long-term strategic planning. The two aren't mutually exclusive – modern businesses need to be agile enough to react quickly to a fast-changing environment, while maintaining a long-term strategic focus.

***Talent strategy – the implementation gap?***

CEOs clearly want to change and the HR function has got the message – so what's going wrong? Is it that...

- the talent strategy is changed – but proves ineffective?
- a change to talent strategy is planned or agreed – but never implemented? or
- talent strategy is being continually tweaked as a substitute for genuine agility?

*"I worry enormously about skills. Statistics from the UK and US on the number of kids studying science, technology, engineering and maths show that we're not actually creating enough people with the necessary skills today to fuel the industry in the future."*

Steve Holliday, CEO, National Grid Group plc, UK

### *Whose problem is it anyway?*

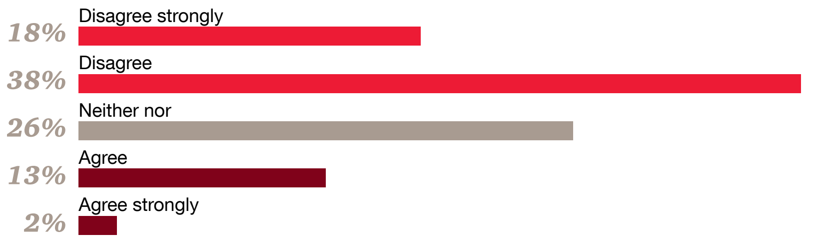
It's clear that there is a chronic shortage of skilled employees in some markets and sectors (75% of CEOs of mining companies, for example, say that availability of skills is a threat to growth). Many business leaders believe that they're suffering due to a long-term failure in government policy because education and training has failed to keep up with the talent requirements of modern organisations.

More than half of CEOs believe that it should be a government priority to create and encourage a skilled national workforce. CEOs based in those countries that have had the most acute skills shortages were more likely to believe that the government should be doing more to improve the nation's skills.

CEOs believe that their government should shoulder some of the blame for talent supply problems. Those based in the US, Japan, the UK, Italy and Spain were the most critical of their government's role in encouraging skills, with less than 6% of CEOs in each region agreeing that the government had been effective in creating a skilled workforce. But there are success stories – half of CEOs in the Middle East, where significant investment has been made in universities, felt that their government had been successful in creating a skilled workforce.


*57% of CEOs say that 'creating and fostering a skilled workforce' should be a top 3 priority for government*

**Q: How strongly do you agree or disagree that the government has been effective in helping to create a skilled workforce?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

“Our staff need to believe in what they’re doing. They need to be passionate and entrepreneurial in how they do things because with good team effort, you can achieve anything that you want to do.”

Aireen Omar, CEO, AirAsia Berhad, Malaysia

# Room for improvement

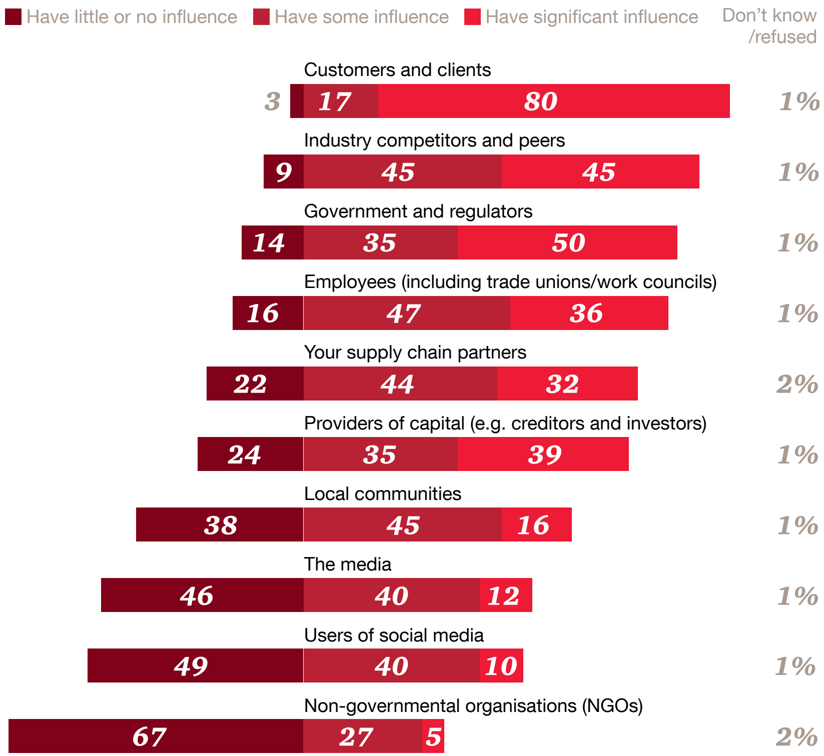
CEOs know that they need to take back the initiative on people strategy and target their investment in talent to make sure that they secure the skills they’ll need to compete globally. But it’s clear that their existing people strategy isn’t fit for purpose.

Business leaders understand the importance of employee engagement and how talent development programmes help to support and improve engagement. But while the will and intention to improve engagement exists, too many organisations seem to be relying on tried and tested techniques that are failing to produce the results they need.

For example, when asked how much influence specific groups of stakeholders had on their business strategy, 47% of all CEOs said employees had some influence and 36% said they had significant influence. And just 77% of those CEOs said they had plans in place to strengthen the engagement programme for their employee stakeholders.

Making employees feel involved in the business is a key pillar of engagement – but when it comes to the crunch, CEOs are simply not practising what they preach. 79% of CEOs told us that the most effective method for developing their leadership programme was to involve managers below board level in strategic decision-making. But when asked if their staff were actively encouraged to get involved in decision-making, 66% of CEOs said they weren’t.

**Q: How much influence do the following stakeholders have upon your business strategy?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

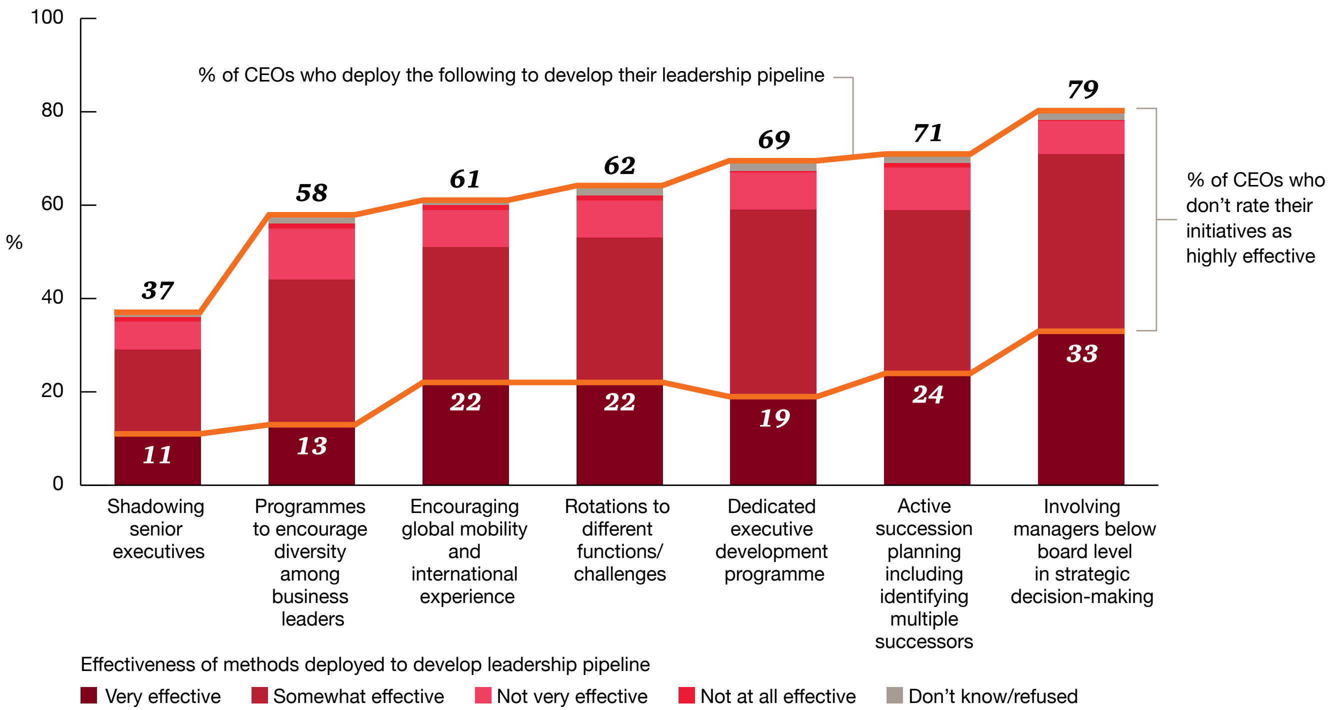
There are also signs that the career development and leadership programmes in many organisations are failing to pay off. CEOs told us that they employ a range of techniques to develop their leadership pipeline, many of which are key drivers of employee engagement. When asked to rate the effectiveness of these techniques, only a small proportion said that they were highly effective. If these programmes are considered so unproductive, surely it's time for a change?

Many leadership programmes focus on 'soft' skills – but today's business leaders need to be able to cope with crisis, understand risk and be comfortable with change – as will leaders of the future.

*"We have a more global and diverse team than we did a few years ago. We've increased our training and the exposure management has to new opportunities, all of which are oriented to making them more adaptable, because we think the pace of change is going to accelerate."*

Douglas D Tough, Chairman and CEO, International Flavors & Fragrances Inc, US

**Q: Do you deploy any of the following to develop your leadership pipeline? If so, how effective are they?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

# *Claiming back the people agenda*

*"I'm very optimistic about Pertamina's prospects for growth. But that growth will depend first of all on human capacity. Human capacity is the key to any company's growth."*

Karen Agustiawan, President and CEO, PT Pertamina, Indonesia

*"People need a sense of purpose. Gross margins are not the stuff of which dreams are made. You cannot inspire people to take action, create or motivate without instilling a sense of purpose, especially when times are difficult."*

Jean-Pascal Tricoire, President and CEO, Schneider Electric SA, France

If CEOs are to reclaim the initiative they need to be sure that their organisation has in place the talent it needs to deliver its strategy today, and, as its market and business develops in the future. That means becoming an employer that the best people would actively choose to work for.

This is particularly important in many developed markets where there's a real risk that the workforce is stuffed with the disengaged and dissatisfied, who will stay put only as long as economic conditions hold them to their current role. A recent PwC survey of 21 to 30-year-olds[1] found that 81% were either actively looking for a new job or were open to offers, and that almost three-quarters (across all regions) had made compromises in accepting their current role. Only 18% expected to remain with their current employer for the long-term.

As we've highlighted in the past,[2] the nature of work is changing and portfolio careers and project-based talent are becoming the norm. This is good news for employers as it increases the potential flexibility of the workforce – provided that it's able to attract the best.

Becoming an employer of choice means paying close attention to the employee value proposition – the 'deal' between employer and employee that lays out what each can offer as well as expect in return – to the extent that it's integrated into strategic planning and drives the business from within. This feeds into the employer brand – the values, personality and culture of the organisation – which is essentially the answer to that tricky question: 'Why do I want to work here?'

[1] *Millennials at work: Reshaping the workplace*, PwC 2012
[2] The PwC report *Managing Tomorrow's People: The future of work to 2020* discussed how work will evolve over the coming decade

People work for a variety of reasons and while pay is important, it's not necessarily everything. This is particularly true of the millennial generation (defined as those entering the workplace after 2000 and who now account for more than half of employees in many organisations), whose influence is fundamentally changing the nature of the workforce.

Our Millennials at Work[3] survey highlighted the unique qualities of this generation. They're ambitious and expect rapid progression. They want to feel that their work has meaning and is worthwhile. In short, they want to work for an organisation that makes them proud; 56% said they'd consider leaving an employer whose values no longer met their expectations. The employer value proposition gains a new significance with this generation.

The consumer brands that appeal to millennials are those that stress their environmental and social record, and similar rules apply to the employer brand. From an employer's perspective this means a strong ethical code, a commitment to diversity and CSR values that align with their own.

***"Part of becoming agile is creating a culture that invests its people with trust. There is guidance from the centre around business objectives and resource planning, but there is no command-and-control."***

Carl Sheldon,CEO TAQA, United Arab Emirates

[3] *Millennials at work: Reshaping the workplace*, PwC 2012

*"CSR helps to develop a vibrant, sustainable corporate culture. This is why many people join Schneider Electric: they are keen to belong to a company whose operations serve the best interests of the planet, cities, countries and people."*

Jean-Pascal Tricoire, Schneider Electric SA, France

> *"The regulator and government have always been major stakeholders but today there is also a very different new set of stakeholders. The public at large are stakeholders because they can take part in discussions on social media. They can influence our decisions and we actually want them to do that."*

Steve Holliday, CEO, National Grid Group plc, UK

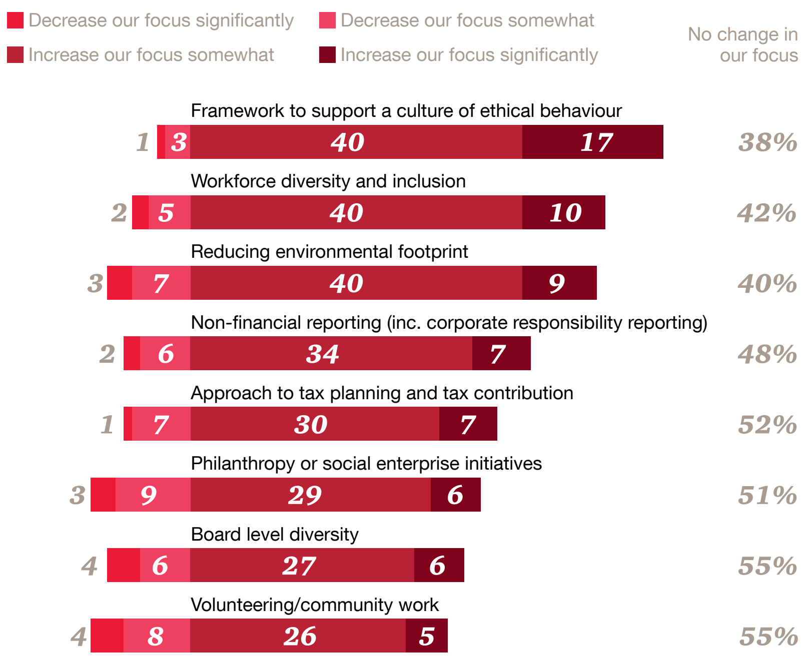
# *A question of trust*

Trust – between organisations, their customers and other stakeholders, and more directly between employer and employee – is clearly on the mind of many CEOs. The banking crisis and economic downturn have hit the image of business hard, and extends well beyond the financial services sector.

The Edelman Trust Barometer,[4] which measures trust in institutions, organisations and their leaders, shows that the public's trust in business has improved over the past year, but is still relatively low, particularly around the question of ethics and morality. Crucially, trust in business leaders has suffered and CEOs are seen as less credible today than they were a year ago;[5] only 18% of respondents to the survey felt that a CEO would tell the truth, regardless of how complex or unpopular it was.

CEOs are more aware than ever of the need to rebuild trust with their stakeholders. We asked the CEOs to what extent they planned to focus on a number of CSR-related initiatives over the coming 12 months. 57% said they planned to strengthen the framework to support a culture of ethical behaviour at their organisation, while philanthropy, diversity, green policies and even tax planning were on CEOs' minds. This suggests that business leaders recognise that how their organisation is viewed, and judged, by the public, media, shareholders, regulators and by employees, is critical.

**Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?**

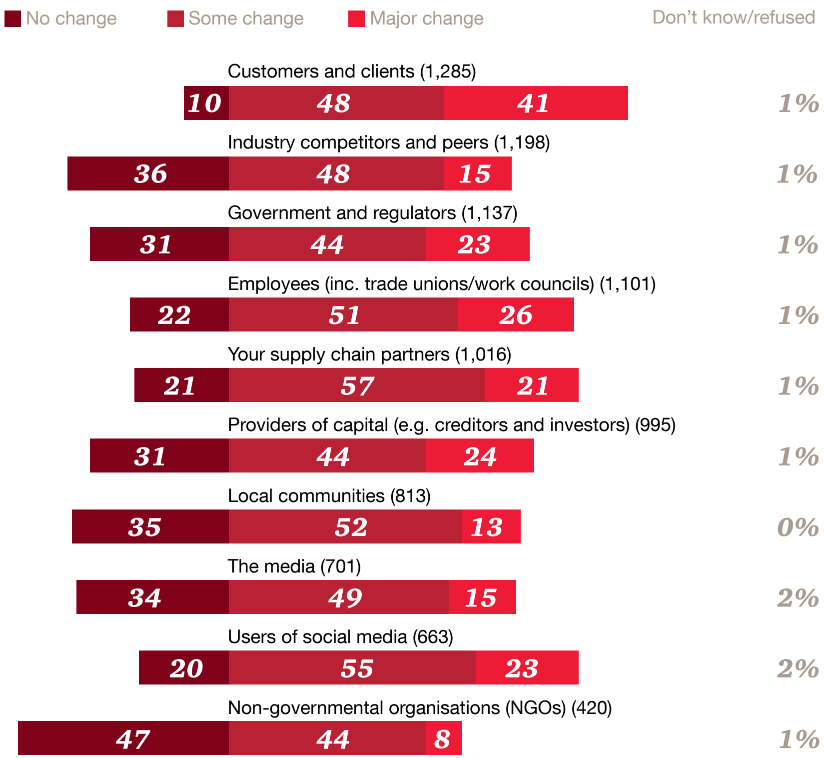



**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

[4] *The Edelman Trust Barometer 2013.* For more information see http://trust.edelman.com
[5] 43% of survey respondents said that CEOs were credible in 2013, compared with 38% in 2012

This emphasis on social responsibility is strongest in the regions and sectors where corporate image has suffered the most in recent years, such as the UK and Switzerland, and in the financial services sector. But it's also apparent in fast-emerging markets such as the Middle East, where 72% of CEOs were focusing on ethical behaviour, and Africa, where it was a priority for 77% of CEOs.

**Q: For those stakeholders with some or significant influence, to what extent are you strengthening your engagement programme?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** Respondents who stated 'some' or 'significant influence' at Q14a (in brackets)

***The power of 'Like'***
Social media has changed the rules for global organisations in a multitude of ways, not least in the risks of reputational damage. Twitter, Facebook and instant communication means that every voice is heard, every rumour spread and every mistake amplified. It's a concern, then, that CEOs named users of social media as one of the groups of stakeholders with the least influence over their strategic direction. Just under half said they felt social media had no influence at all on their business strategy, and startlingly just 10% felt that the influence of social media users was significant.

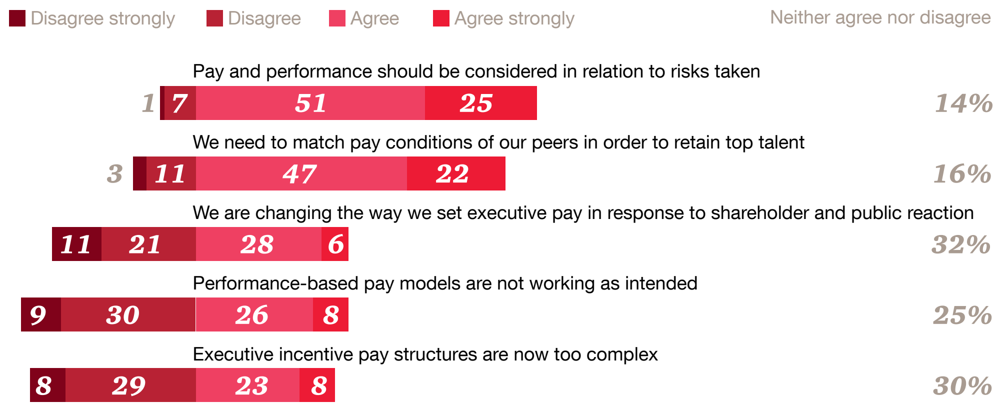
CEOs in some sectors placed far more importance on social media than others – generally those operating in sectors that have experience of the power of mass communication. 79% of those in the hospitality and leisure industry and 70% of those in media and entertainment said they had some or significant influence over strategy, compared with just 21% in the mining sector.

# Understanding reward

Pay, of course, is an important part of motivating employees, but in the current climate of seemingly relentless cost-cutting in many markets, perhaps it's time for a more thoughtful approach.

When asked about reward, 69% of CEOs agreed that they felt they needed to match the pay and conditions of their peers in order to retain talent, with CEOs operating in the most competitive markets more inclined to think along these lines (88% of CEOs in the Middle East agreed, compared with 51% in Spain).

**Q: To what extent do you agree with the following statements about alignment of top executive performance with company and wider stakeholder needs?**




**Source:** PwC 16th Annual Global CEO Survey
**Base:** All respondents (1,330)

The survey also found, though, that a third of CEOs felt that pay-for-performance models were not working as they were intended, and 31% felt that executive pay models had become far too complex.

This raises a question that is increasingly being asked around executive pay. Many executive models have become so complicated that they're impossible to understand (and by extension, to compare between organisations), and this has also impacted their effectiveness as a means of incentivising workers.

This was a key finding of our recent Psychology of Incentives study,[6] which looked in detail about how executives think about pay and incentivised reward. An important finding of that report was that executives were motivated by more than money. Of course people work for pay and benefits, but they also work for recognition and because they find it personally rewarding. The report showed clearly that companies have to pay their executives more in order to compensate for the intrinsic motivation that's lost when they're doing a job that they don't find particularly fulfilling.

Organisations have much to gain in looking beyond pure reward to the wider employee value proposition. This means an approach that balances financial and non-financial rewards, pays attention to career development, international experience (strongly valued by millennials) and training. It also means sustaining a corporate culture that reflects the vision for the business and defines the right behaviours, and which is reinforced at every stage of the people process, from the hiring process to development, performance management and reward.

***"Of course you have to pay people the market price, or they'll leave. But treatment of people is also important. Even in China, if people are well-treated and see opportunities, they'll stay – at least most of them will."***

Yves Serra, President and CEO, Georg Fischer Ltd, Switzerland

[6] *Psychology of incentives,* PwC 2012

*No organisation can afford to sit back and react to the many challenges ahead. It's time to take control. The time is now.*

# What next?

The availability of talent has been keeping CEOs awake at night for too long. In spite of their best efforts to address the problem, it's clear that current strategies are falling short. What's needed is a refocusing on the fundamentals of talent management – attracting and retaining the best people, organising them in the most effective way, creating a culture that encourages the best from them, and motivating them to give their best – without relying entirely on pay.

The CEO survey indicates that there's a substantial amount of momentum to build a stronger employer brand that appeals to the growing millennial group of workers, while also strengthening the bonds of trust between companies and their stakeholders.

But CEOs' recognition that trust has been eroded over the past few years is correct and this is something that needs to be urgently addressed. We believe that rebuilding trust with employees by creating the right culture and behaviours is one of the fundamental pillars around which organisations need to shape their business.

### *The four Cs*

We believe that the current business environment calls for the reshaping of businesses around four fundamental pillars, all with a crucial people dimension:

**Culture:** Creating a culture and behaviours that reflect the strategic and organisational vision and which are instilled into the mindset and day-to-day behaviours of employees.

**Capability:** Making sure that your capabilities mirror the changing requirements of the organisation and its customers including the right skills, mindset, training, tools and technology.

**Connectivity:** Bringing the organisation closer to its people through self-organising networks, high-performing teams and social media/communication.

**Cost:** Bringing costs and performance into line with appropriate industry standards and stakeholder demands through sustainable pay and reward.

This approach requires close collaboration between CEOs and HR. It also requires an urgent change to the existing mindset in many organisations. The traditional approaches to engagement, performance, reward and many other people issues are becoming less relevant by the day.

No organisation can afford to sit back and react to the many challenges ahead. It's time to take control. The time is now.

**1,330**

*interviews with CEOs in*

**68**

*countries*

# About the survey

We conducted 1,330 interviews with CEOs in 68 countries between 5 September and 4 December 2012. 449 of these were conducted in the Asia Pacific region, 312 in Western Europe, 165 in Latin America, 227 in North America, 95 in Central and Eastern Europe, and 82 in the Middle East and Africa.

Towards the end of December 2012, we sat down with 33 CEOs for a wider ranging exploration of their views. The results of these conversations are reflected in the quotes throughout the report.

More details about our survey methodology and findings by region and by industry can be found at www.pwc.com/ceosurvey

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