

15th Annual Global CEO Survey 2012

Confidence disrupted ^{p5}/*Balancing global and local* ^{p9}/*Risk resilience* ^{p16}/
The talent challenge ^{p20}/*What's next* ^{p27}/*CEO interviews* ^{p30}

Delivering results

Growth and value in a volatile world



Preface



We all know these are uncertain times. Stories of strengthening economies, employment improvements and breakthrough products from some parts of the world are offset by reports on natural disasters, government debt, regulatory changes and political turmoil in others. It's hard to know for sure which way the wind is blowing.

While change presents opportunity for some, most business thrives on stability – and the fact that this is elusive makes forward plans increasingly hard to develop. No wonder that confidence is down from what we saw last year. Yet it's still at a reasonably high level. Why? Because despite the uncertainties, the long-term trends that have encouraged corporations to invest in the emerging world, create innovation and develop talent remain firmly in place.

Most multinational companies have been adjusting, without fanfare, to the new global economic reality for some time. This year, CEOs have made clear that they are not backing away from global growth programmes but in fact are deepening their commitments to their most important markets. Among the CEOs we interviewed, whether based in Italy, Malaysia, the US or South Africa, the goal of delivering results by growing whole operations – not just sales – outside of their home base is the same.

These are ambitious agendas, which is somewhat surprising given economic uncertainties. How are CEOs going to make it happen? This year, we asked CEOs how they think their time is best spent, and two-thirds said they want to devote more attention to developing talent pipelines and meeting with customers (see Figure 1). Four years into the financial crisis, we find CEOs more grounded about the risks and changing conditions for growth. The focus on talent and customers today is a natural 'next step' towards establishing their organisations in the markets where they operate and building the trust needed for the business of tomorrow.

That's why so many CEOs are changing talent strategies to improve their ability to attract and retain the right people. Skills shortages are very real – just 12% of CEOs say they're finding it easier to hire people in their industries – and the constraints are having quantifiable impacts on corporate growth. Just as our customers are changing rapidly, so are our workforces – and our talent needs are changing, too.

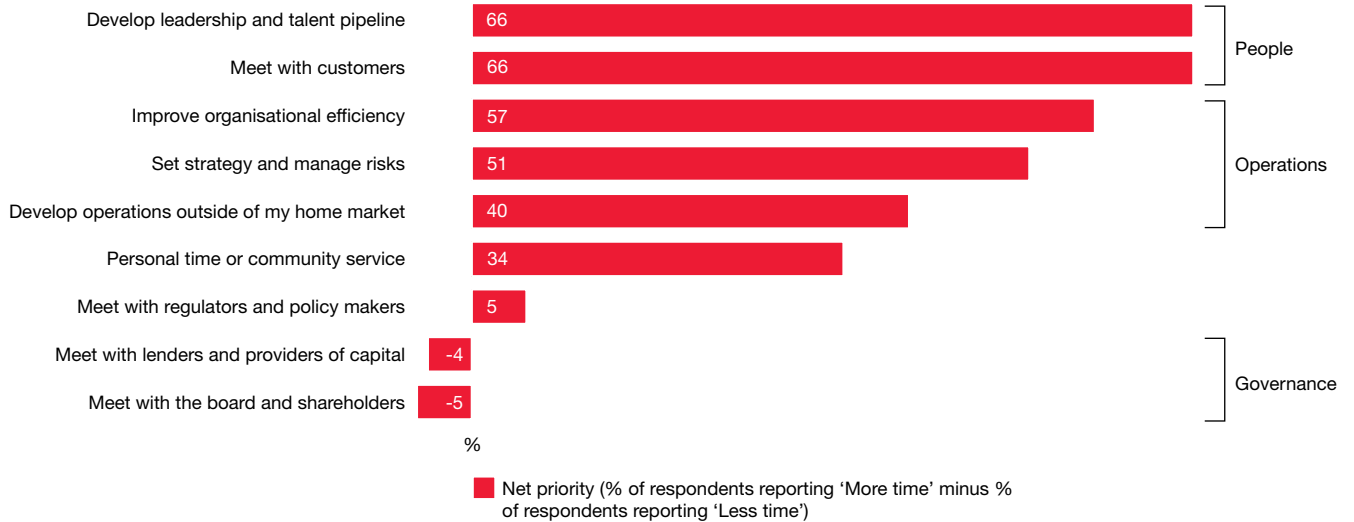
I want to thank the more than 1,250 company leaders from 60 countries who shared their thinking with us. The success of the PwC Annual Global CEO Survey – now in its 15th year – is directly attributable to the candid participation of leaders around the world. The demands on their time are many and varied; we greatly appreciate their involvement. And I am particularly grateful to the 38 CEOs who sat down with us near the end of 2011 for more extensive conversations. Their thoughts added invaluable context to our quantitative findings.

A handwritten signature in red ink that reads "Dennis M. Nally". The signature is fluid and cursive.

Dennis M. Nally
Chairman, PricewaterhouseCoopers
International

Figure 1: CEOs' personal priorities include spending more time with customers and developing leaders

Q: Do you wish that you personally could spend more time, less time or the same amount of time on each of the following activities?



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

I want to thank the more than 1,250 company leaders from 60 countries who shared their thinking with us. The success of the PwC Global CEO Survey – now in its 15th year – is directly attributable to the candid participation of leaders around the world.

Contents

Confidence disrupted	5
Balancing global capabilities and local opportunities	9
Resilience to global disruptions and regional risks	16
The talent challenge	20
What's next	27
Final thoughts from our CEO interviews	30
Research methodology and key contacts	36
Acknowledgements	37
Related reading	38

Confidence disrupted

The year 2012 unfolds with wide disparities in potential outcomes in many economies, and little prospect of a coordinated turnaround. Just 15% of CEOs believe that the global economy will improve this year (see Figure 2). Incremental improvements in business optimism seen in the PwC 15th Annual Global CEO Survey over the past two years are reversing. In a sign of converging economic fortunes, confidence declined in parallel among CEOs across all regions, except for the Middle East and Africa.

Yet businesses are not on the defensive. CEOs are taking deliberate steps to improve their businesses' resilience against further disruptions and to grow in the markets they believe are most important for their future. As a result, 40% are 'very confident' in prospects for revenue growth in their own companies in the next 12 months (see Figure 3).

F William McNabb III
Chairman, President and CEO
The Vanguard Group Inc.

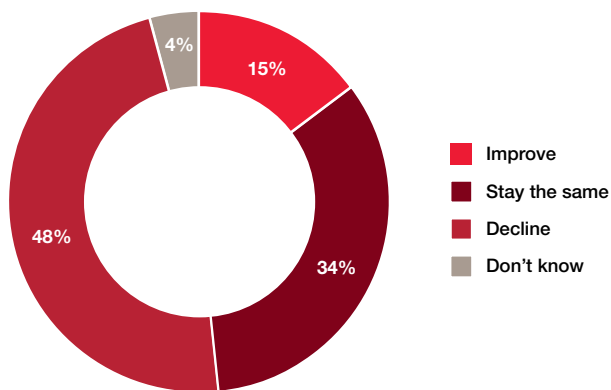
The lack of a credible, long term fiscal plan in the US is probably our chief concern. The fact that there is not one actually contributes to the market volatility.

Erdal Karamercan
President and CEO
Eczacıbaşı Group A S

We do not know how the Arab Spring will end or spread. We don't know how the situation with Iran is going to develop. We are uncertain about the position that the US would like to take in the region – in North Africa and the Middle East. There are political uncertainties that make it hard to forecast, and these are of concern.

Figure 2: Half of CEOs expect the global economy to decline in 2012

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



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

Brian Duperreault,
President and CEO,
Marsh & McLennan Companies Inc.

The balance sheets of companies are very strong. The cash balances are extraordinarily high. Companies are incredibly efficient. Everyone's poised for activity, and with a little less uncertainty, you'd see the whole world grow economically.

CEOs are manoeuvring to outpace the competition and the market, rather than relying on riding economic updrafts or just riding out volatility. They are nearly three times more confident in their own capacity to generate growth in their business than they are in the global economy's growth prospects.

At first glance, this relative optimism seems unfounded. The unfolding Eurozone crisis alone is creating more room for disappointment. So what does this pattern mean? Should we worry that the chart suggests we might be facing 2008 all over again, perhaps with another crisis precipitating a massive fall in business activity? After all, not everyone can outpace the market.

Possibly, but we don't think so. In our view, CEO confidence in business growth is holding up because of three important and related trends:

The tough choices and transformations made in business models since 2008. With stronger balance sheets, improved cost structures and a greater awareness of global risks, CEOs are more prepared. They don't think growth will be easy; but they do believe they're more ready for turbulence than they were four years ago.

The rise in investment and commerce to and from emerging economies – more pronounced than in any period over the past decade – creates vast market potential. Half of CEOs based in developed markets believe that emerging economies are more important to their company's future, as do 68% of CEOs who are themselves based in emerging markets. The world may be slowed for a time by financial problems, but this structural shift is potentially bigger than the institutional problems and depressed growth in developed economies. Gradually rising incomes and economic opportunities

Figure 3: Short-term confidence has declined – but remains well above the levels seen in 2009 and 2010

Q: How confident are you about your company's prospects for revenue growth over the next 12 months? Yearly comparison.



Base: All respondents (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; 2003=989)
Note: Percentage of CEOs who are very confident about their companies' prospects for revenue growth
Source: PwC 15th Annual Global CEO Survey 2012

Francesco Starace
 CEO, Enel Green Power SpA
We think government fiscal policies might become important criteria in choosing where companies invest and how they invest.

Yoshio Kono
 President and CEO
 The Norinchukin Bank
I think it necessary to invest in emerging markets such as BRICs. However, since our investment volumes in them are way too small and their country risks difficult to determine, we will have to be prudent about this.

for millions more people around the world have enormous implications for infrastructure spending, sustainability technologies, demand for health care, education and personal finance products, and the list goes on.

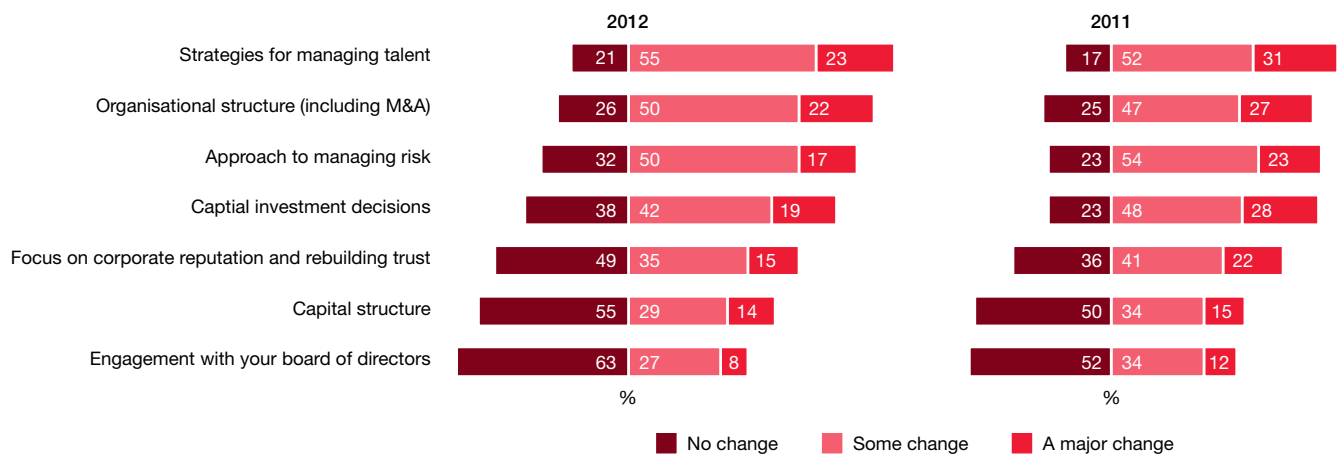
The strength of cross-border ties.
 In past economic downturns, the world experienced rises in protectionism. And since the most recent downturn began, negotiations in the World Trade Organisation's Doha Round have foundered and a few governments have taken measures to protect domestic industries they consider vital. But that shouldn't obscure real progress recently on bilateral and regional levels in fostering cross-border commerce and investment. Trade has rebounded since the downturn began, according to data from the World Trade Organisation.¹ Add in the greater mobility of capital today (both financial

and human) towards new opportunities and the full potential of a far more closely integrated world comes together. CEOs believe that the forces of global integration will stay on track: 45% believe the world will become more open to free international trade (with fewer than a third expecting a pullback) and 56% are convinced that cross-border capital flows will not come under new constraints.

As a result of these factors, business leaders' commitment to doing more business globally is, if anything, accelerating despite economic, regulatory and other uncertainties. Risks are weighted towards economic and in particular policy threats in 2012, but the fundamentals for future growth are still squarely in place. Businesses have adapted their strategies to take advantage when they inevitably reassert themselves.

Figure 4: Talent remains priority no. 1 for CEOs

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



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

¹ WTO data show global trade rebounded in 2010 to return to its 2008 levels (www.wto.org/english/news_e/pres11_e/pr628_e.htm).

For our 15th Annual Global CEO Survey, we polled 1,258 CEOs based in 60 different countries from September through to early December 2011. We supplemented their comments on plans for business growth and assessments of constraints with insights from the global PwC network and in-depth interviews with 38 CEOs from all regions. The combined conclusions form the basis of this report.

Twin aims for 2012: Secure growth in new markets, achieve more certainty in the domestic market

As businesses have faced volatile global conditions since 2008, CEOs have crafted new approaches to risk management and new strategies in response. But they're not going back on the defensive, as they did in 2008. Risk is not being ignored, but other issues are higher on the agenda (see Figure 4 on page 7). This year, CEOs are focusing on better execution in those markets which are important to the future of their business while also seeking stability and more certainty in their domestic markets.

This was a message we consistently heard from CEOs, regardless of where they are based. "We adopted a strategy called 'protect' in most cases in the mature markets. We pay more attention to profit making and how to transfer the core business into cash cows," said Yang Yuanqing, Chairman and CEO of Lenovo. "In emerging markets, we have primarily adopted an 'attack' strategy. That means we have to pay more attention to market share at the beginning instead of profit. We would say that it is difficult to make money if market share is less than 10%."

Similarly Keith McLoughlin, President and CEO of AB Electrolux pointed out: "Our goal is to maintain market share in the mature markets. Those markets generate a lot of earnings so we have no plans to shrink our presence there. On the other hand, we are planning to invest substantially in the emerging markets."

There will be winners and losers as businesses pivot to address markets they are less familiar with. CEOs see risks and customer segments through different lenses than they've used in the past, and are focusing on the talent they need to grow their businesses sustainably.

These are the priorities CEOs described to us, and that we take a closer look at in this report:

Reconfiguring operations to meet local market needs: CEOs are simultaneously building local capabilities in important markets, extending operational footprints, building strategic alliances and creating new networks for new markets that include research and development (R&D), manufacturing and services support. They're adapting how they go to market, reconfiguring processes and at times entire operating models.

Addressing risks that greater integration amplifies: It may feel as if disruptions are multiplying as their impacts expand across widely dispersed and finely tuned supply chains. During 2011, global businesses had to confront a portfolio of unrelated high-impact global risks – from political upheaval and a nuclear disaster to massive floods and a sovereign debt crisis. Through it all, CEOs have learned that prudent risk management should focus less on the probabilities of particular events, and more on understanding the potential consequences they have to prepare for from a range of risks. Many companies weren't directly affected by the improbable Fukushima crisis, for example, or the floods in Thailand. However, supply chain disruption as severe as those two events caused should be on every company's radar.

Making talent strategic: Not having the right talent in the right place is a leading threat to growth for many CEOs. One in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent constraints. There are short-term issues, such as an acute shortage of trained managers and technically skilled workers. And there are long-term concerns with the capacity of educational systems everywhere to keep up with business needs.

These areas suggest a set of questions that business leaders should consider in order to overcome execution challenges in 2012 and position for longer term growth – questions which we comment on in the last section of this report.

Andy Green
CEO, Logica Plc

Most clients are talking about reductions in spend. I think they will eventually move to do more outsourcing, which will be good, but that will take some time as they think through the consequences. What's clear, though, is they can't stop spending on technology because the way the world is changing.

.....

Tidjane Thiam
Group Chief Executive, Prudential Plc

Culturally, we are a company focused on growth. For me cost is hygiene. It is necessary in the same way that breathing is, but breathing has never been your life strategy. It's a necessary condition to be alive, no more. That's how I look at cost management. You don't cut your costs into greatness. You achieve greatness by generating more profits, being a winning company in your market. So the culture is very front-end driven.

.....

Balancing global capabilities and local opportunities

Maria Ramos
Group Chief Executive,
ABSA Group Ltd

It makes all the sense in the world to operate in a much more joined-up, integrated way and take advantage of an increasingly integrated client base across Africa. And that's what we're doing.

Cheung Yan
Chairlady, Nine Dragons Paper
(Holding) Ltd, China

There is still large room for improvement on the living standards of most of the Chinese population. We have not yet reached a balance point on this, so this will constitute a strong driving force for future domestic consumption growth.

A sensible strategy for globalisation today means far more than building cheaply in one location and selling in another. What has changed is the way operations are configured. India's Tata is now the largest manufacturer in the UK. Taiwan's HTC pioneered the use of Google's Android software. New operational strategies are required to compete successfully in such markets.

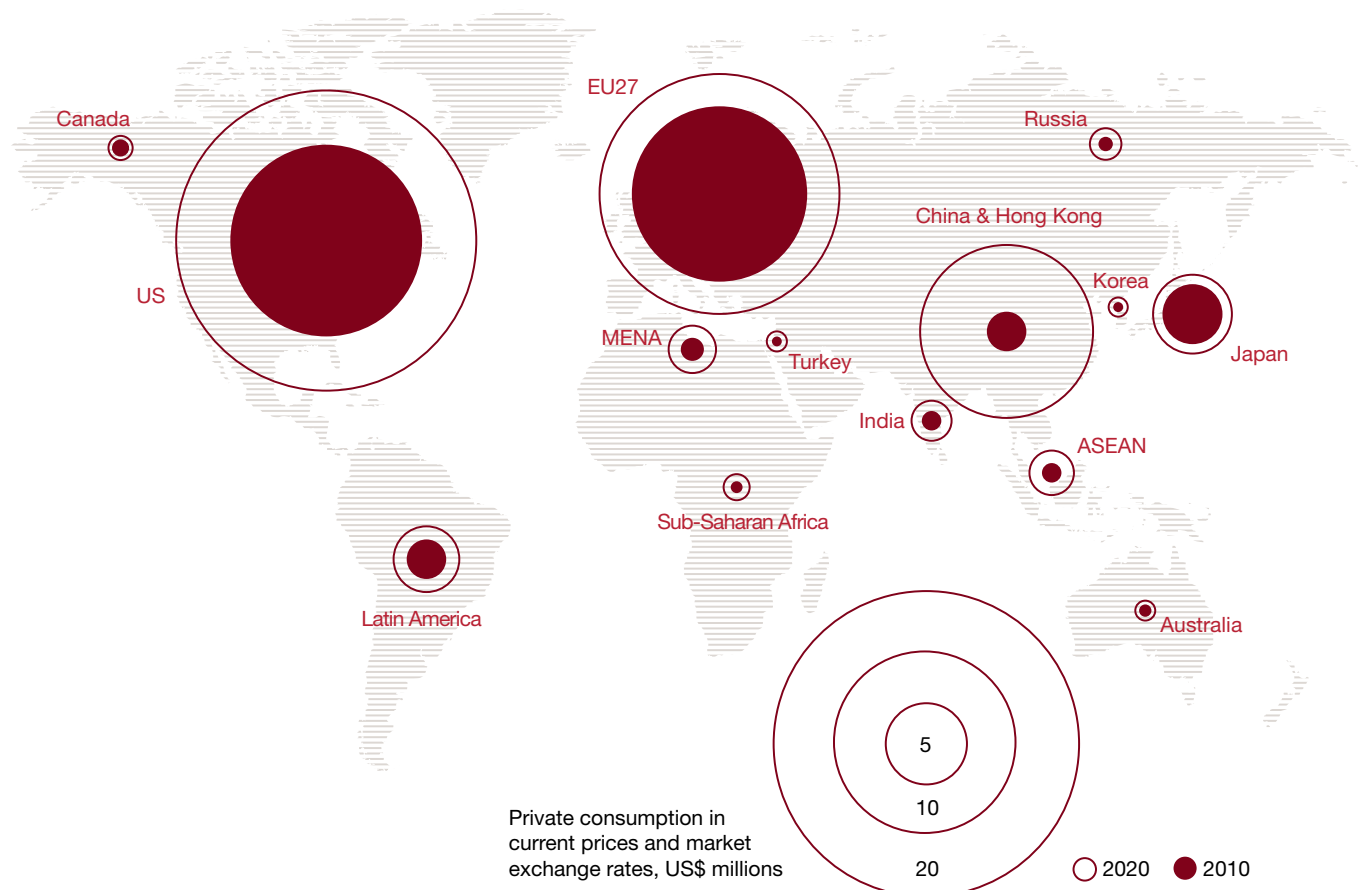
"You have to innovate, design, manufacture and source locally to be successful anywhere," said David Cote, Chairman and CEO of Honeywell. And that's what CEOs are investing to do: build fully fledged operations,

including manufacturing, in each of their priority markets, build deeper relationships with their customers, innovate anew, take advantage of local talent and brands, reduce risk and strengthen supply chains.

Over 60 different economies were named by CEOs as key overseas markets, some adjacent to their home market and others on the other side of the world. Solid growth and rising domestic spending power (see Figure 5) in more economies around the world, such as Indonesia and Turkey, for example, are propelling CEOs past a mindset focused solely on the BRICs.

Figure 5: CEOs eye the expanding buying power of emerging markets

Private consumption at current market exchange rates



Source: Oxford Economics

Pailin Chuchottaworn
President and CEO, PTT Plc

We have significant investments in North America, Australia and across Asia. And if the European countries eliminate their protectionist policies, Europe would be very attractive to us also. So I'm rather confident that we can maintain our growth.

The US and Germany were among the economies identified by the most CEOs, and mentioned as economies where they are expanding capabilities. Equal numbers of CEOs from developed and emerging markets identified the two countries as important. China presents a different picture of diversification: it's important to 37% of CEOs based in developed economies versus 24% of CEOs based in emerging economies.

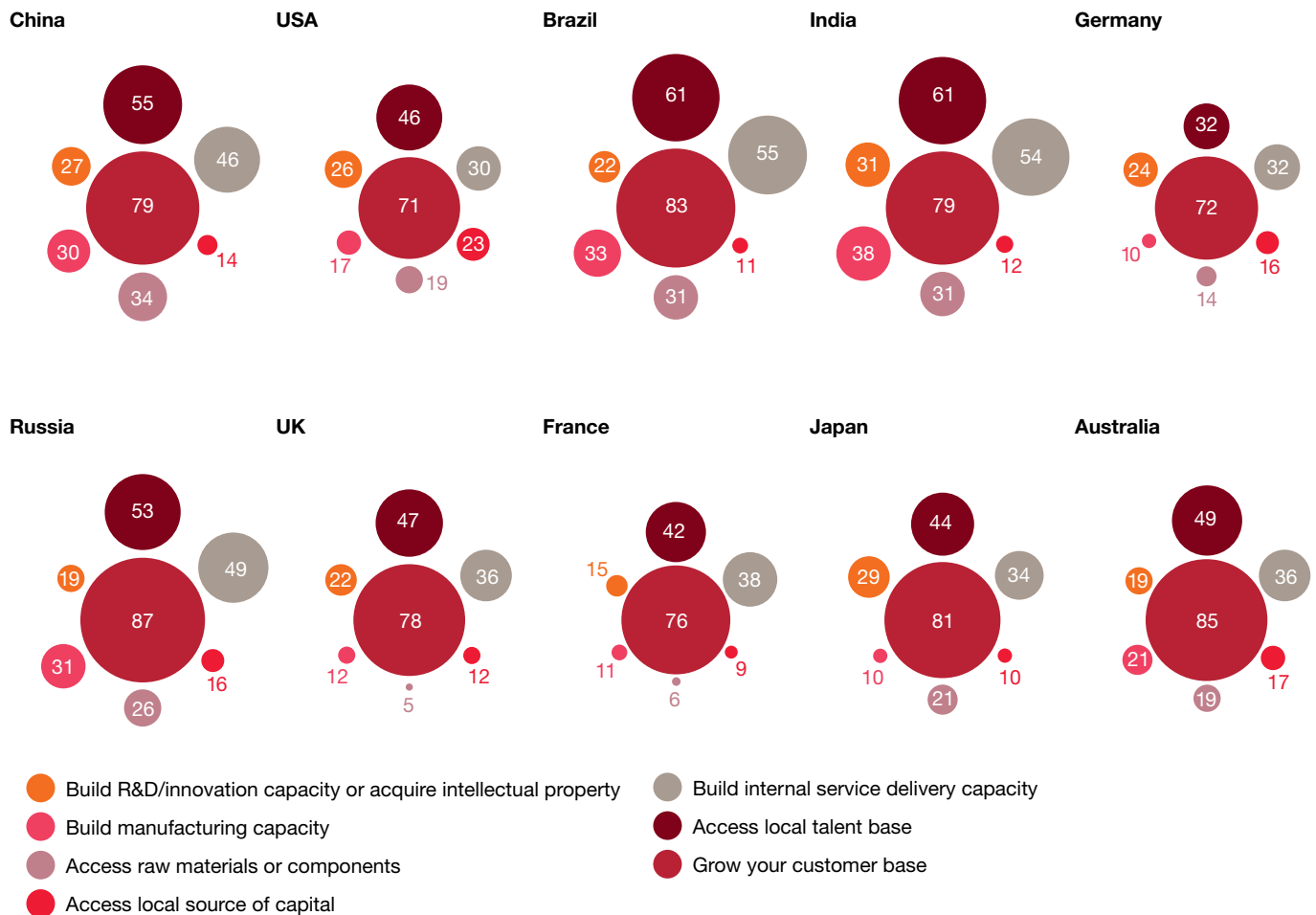
Many of their objectives in the next 12 months are similar (see Figure 6). Building manufacturing capacity, for example, is important for many CEOs in each of their key markets. China faces increasing competition as CEOs reach further afield. Of those CEOs who listed Brazil or India as important to their growth prospects, around a third cite manufacturing locally as an

objective for 2012; 31% plan to build manufacturing capacity in Russia, and 30% in China. A similar pattern holds for product development; CEOs are seeking to source innovation from within their key markets.

The recovery in foreign direct investment (FDI) in 2010 corroborates this trend.² Inflows into Brazil and Indonesia more than doubled from 2006 to 2010, above the 70% rise in FDI into China and Russia. FDI inflows into mature economies on the other hand, are flat – or down sharply in the case of the European Union. While FDI outflows from Organisation for Economic Cooperation and Development (OECD) member economies have also eased over the period, those from India increased to US\$14.6 billion and those from China rose nearly threefold to US\$60.1 billion.

Figure 6: Growing customer bases is far from the only objective of CEOs in their key overseas markets

Q: Which of the following objectives do you hope to achieve in the next 12 months? (The top 10 countries mentioned by CEOs in 'Which countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months?')



Base: China (383); USA (275); Brazil (188); India (176); Germany (152); Russia (101); UK (81); France (66); Japan (62); Australia (53)
Source: PwC 15th Annual Global CEO Survey 2012

² OECD FDI in Figures (October 2011 revision).

Hussein Hachem

CEO Middle East and Africa, Aramex

We are in key locations that will enable us to offer our customers a global service but we concentrate on our customers based in emerging markets, where we have better margins. You cannot do business without connections to Europe or the US. You have global hubs in emerging markets, in Dubai, in India, but at the same time you cannot ignore Amsterdam. Amsterdam is a global European hub so you have to go there.

Rohana Rozhan

CEO, ASTRO Malaysia Holdings

Malaysia is a starting point for launching a true multi-ethnic and multi-lingual proposition that has a presence in many markets.

FDI is commonly viewed as a measure of operational commitment, with the potential for both local job creation and knowledge transfers. So a rise in FDI indicates deeper cross-border ties than trade alone would imply.

CEOs are being guided by domestic customer demand in choosing their priority markets (see Figure 5). Measures to integrate product, service hubs, research facilities and operations in each market stem from that commitment.

The tax advantage

Market opportunity, natural resources, talent ... all of these factors matter when companies decide where and how to locate operations. But tax may be the most significant: 44% of CEOs say tax policies are a 'significant factor' in their decision-making on cross-border locations. This has not gone unnoticed. Nations are increasingly competing on tax to foster in-bound investment. Businesses, innovation and skilled people will flow to countries where tax systems encourage and offer the prospect of economic growth.

CEOs are paying close attention to changing tax conditions as a result of high debts and deficits in developed economies: 29% are anticipating they'll change growth strategies as a result, with 19% globally 'extremely concerned' over an increasing tax burden in countries where they operate.

Governments continue to reform their tax systems to help businesses grow and attract investment and employment. Over the past seven years more than 60% of economies made paying taxes easier, with 244 reforms, according to *Paying Taxes 2012*, a study from PwC, the World Bank and IFC, which measures the ease of paying taxes across 183 economies worldwide. Globally, the total tax rate has fallen by 8.5% since 2006; the time required to comply with taxes declined by more than one day per year (54 hours); and the number of tax payments required dropped by five.³

Build or buy? Acquisitions always have a role to play in growth plans. This year, acquisitions are more likely to be a component of strategies for CEOs based in developed markets, perhaps reflecting classic consolidation in mature economies: 15% say M&A offers the main opportunity for growth for their companies versus 10% in emerging economies. CEOs in developed economies were active deal-makers in 2011, with 26% completing a cross-border transaction, and were also more likely to have divested an operation. Responses this year indicate the potential of a modest pull-back on international deal-making over the next 12 months: 28% of CEOs globally plan to complete a cross-border deal in 2012, a decline from the 34% who agreed last year (see Figure 7 overleaf).

The pool of potential acquirers is becoming more diverse, as are the target locations. While most cross-

border deals continue to stem from investors in either North America or Western Europe, Chinese firms have emerged as major international investors, as have Indian companies, and this trend is set to continue.

"Company valuations are now much more attractive than they were last year," said Ajay G. Piramal, CEO of Piramal Group Ltd. "Today, we would pay half or one-third of what we would have paid for these companies last year."

CEOs based in Africa and the Middle East are the most bullish about continued deal-making in 2012: 40% expect to complete a cross-border transaction in the next 12 months. Foreign investment into Africa from a number of sources has soared in recent years, driven mainly by the mining and oil industries, but with increasing interest in tourism, telecoms and construction.

³ *Paying Taxes 2012* (www.pwc.com/gx/en/paying-taxes/index.jhtml).

Acquisitions are always risky, even during a time when assets can be acquired at seemingly attractive prices. Yet our research suggests that acquisitions in emerging markets – exactly the type of acquisition that appears to be more popular today – are particularly risky, with lower chances of success even for proven deal-makers. In our experience between 50-60% of deals that go into due diligence in emerging markets fail to complete.⁴ Difficulty in justifying emerging markets valuations is the most common reason that deals fail. For example, in China, high growth and strong competition from other foreign bidders, an emerging private equity industry and domestic rivals have driven up valuations. The most common issue to emerge in deals in India concerned partnering.

Acquirers will also need to learn new post-merger integration competencies to make these deals work. We believe that over 10% of deals that complete result in significant problems post-completion. In an assessment of ten public cases, we found that post-deal problems cost the buyer on average 49% of the original investment.

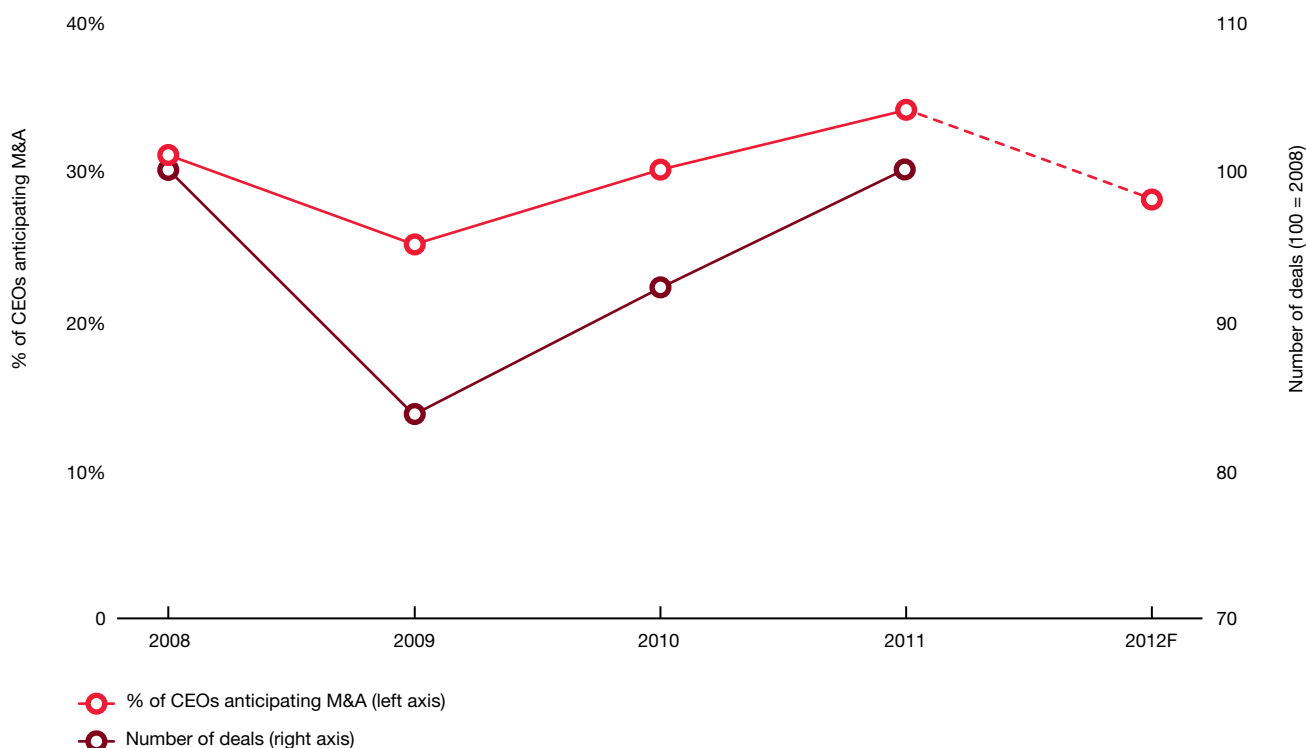
Modify or export? How businesses achieve the right mix between local manufacturing and international supply chains to service local needs is another defining question for growing in new markets. Strategies naturally differ; ‘local’ will be home or intra-regional for some CEOs and a thousand miles away for others. But in 2012, the tilt is clearly towards decentralising, creating more products whose design as well as production and distribution is more localised.

Martin Senn
CEO, Zurich Financial Services Group
For a multinational company such as Zurich, the ‘greenfield’ approach is sub-optimal. It takes too long to make a meaningful contribution to the group. So we employ other options: partnerships and acquisitions.

Yang Yuanqing
Chairman and CEO, Lenovo
We have expanded our development of personal computers to include smart phones, tablet computers and smart TVs. Therefore, we have a broader space and stage in which to develop.

Figure 7: A modest decline in cross-border M&A is expected in 2012

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?
Responses of ‘Complete a cross-border merger or acquisition’.



Base: All respondents (2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150)
Note: Number of deals is all completed deals where final stake is greater or equal to 20%.
Source: PwC 15th Annual Global CEO Survey 2012; Dealogic

⁴ PwC, ‘Levelling the playing field: avoiding the pitfalls of the past when doing deals in emerging markets’ (2012).

“On business development, we would traditionally start with a standard product set and adapt it to the local needs. That has worked well for us for years,” said Lázaro Campos, CEO of SWIFT. “But in India and China you need to forget the products that you’ve got and start from scratch. Start from what it is they need and build from there.”

In every major geographic market identified by CEOs, more companies are avoiding a simple export model. Substantial proportions, between 17% and 36%, say they are designing new products specifically for local markets (see Figure 8). The balance is surely changing as companies increasingly operate in dissimilar markets and learn to segment better. The advantages (and expense) of managing a uniform brand across many markets are being weighed against the different needs, cultures and price points of different customer bases, and in many cases, found wanting. But businesses

innovating locally need to reach scale in order to stay profitable. So global and regional operations still have an important role in the mix.

Segmentation in focus. CEOs expect to either modify or create products for specific markets to suit local customer preferences. Some four billion of the world’s population live in countries where the per capita income is between US\$ 1,000-4,000 per year. This vast segment represents an ‘Emerging Middle’ class in China, India and elsewhere that is prompting business leaders to fundamentally rethink business strategies that have been successful elsewhere.

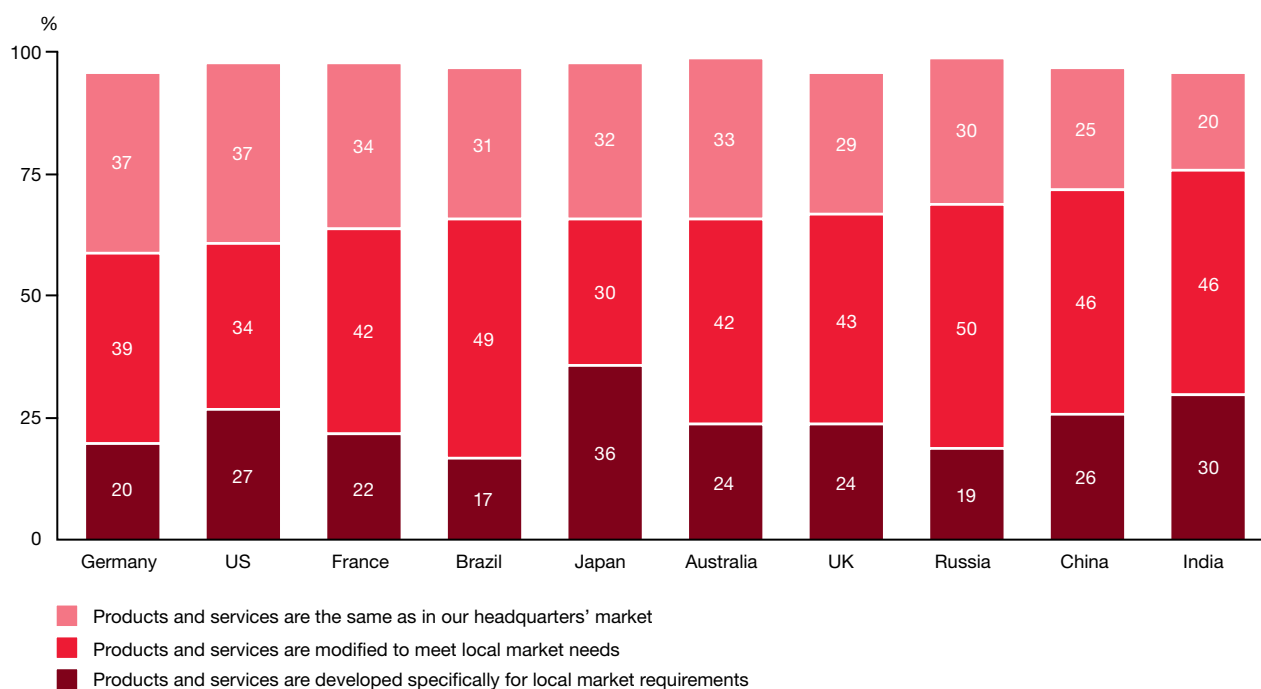
Value propositions designed for countries at the upper end of the global income distribution seldom work for the needs of this ‘Emerging Middle’. It’s not only products that must be adapted or built anew, but also production, distribution and marketing capabilities – in other words, entire business models.

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

The real prize in any emerging market is getting at the base of the pyramid, the B minus and the C customer who has income in that US\$8,000–12,000 range. So we’ve changed our product offerings, our approach, and our business model to be able to target a more affordable offering for that consumer, and that has unlocked an enormous amount of growth for us in Latin America.

Figure 8: Pulling away from an export mindset to meet local demand

Q: For each of the countries that you intend to grow your customer base, which of the following three statements best describes your approach to product and service development? (The top 10 countries mentioned by CEOs in ‘Which countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months?’)



Base: China (302); USA (195); Brazil (156); India (139); Germany (110); Russia (88); UK (63); France (50); Japan (50); Australia (45)
Source: PwC 15th Annual Global CEO Survey 2012

Jaime Augusto Zobel de Ayala
Chairman and CEO
Ayala Corporation

We had to reinvent the technology of pre-charging our phones to accommodate much smaller denominations. We had to come up with over-the-air technology that would transfer funds as needed, bring the cost down and allow people to just have the minutes in their phone that they needed for a specific period of time.

Michael Thaman
Chairman of the Board and CEO,
Owens Corning

We've been quite successful at that, so we actually believe that our developing-country strategy is giving us manufacturing technologies and insights that we can then take back to our existing, bigger-scale facilities in developed markets in the Americas or Western Europe.

Roger W. Ferguson, Jr
President and CEO, TIAA-CREF

Certainly we've seen generational differences, particularly around social networking and the use of technology, so there are many ways in which we are listening to clients and adapting our practices to respond to the unique needs of different groups.

Success involves understanding customer segmentation and the dynamics driving it. Category – even price – is not as important as solving a specific set of consumer problems that are not being met with existing products. Bajaj, one of India's leading motorcycle manufacturers, recently launched the Bajaj Boxer, targeted towards the rural consumer. The Boxer provides a functional benefit of higher cartage and resilience to poorer rural roads, features that are highly relevant for the rural markets. The Boxer was positioned as a sports utility vehicle of motorcycles, directly targeting the male consumer with power, sporty looks and functional benefits, and has been a success story for Bajaj Auto.⁵

Innovating on multiple fronts

Improving the effectiveness of innovation continues to be a major strategic priority. Three out of four CEOs plan to change R&D and innovation capacity in 2012, of which 24% expect 'major change'.

This is partly related to a widening definition of innovation. CEOs in industries in the throes of disruptive change require radical innovation; if their business cannot quickly create new products or services that customers will buy, they will not survive. However, innovation does not just mean end product or service changes – it sometimes now includes taking costs out of processes or forming strategic alliances to collaborate. Each aspect of the business is fair game for reinvention. Executives are targeting changes to their revenue and margin models – and the organisation as well – to find better ways to innovate across many dimensions.⁶

Supporting the capacity to innovate is at the forefront of priorities for CEOs this year and in recent PwC Global CEO Surveys. This is surely a reflection of the accelerating technology advances in many industries. Increasingly, being innovative is understood as a primary differentiator too. As Luiza Helena Trajano Inácio Rodriguez, CEO of retailer Magazine Luiza SA in Brazil, told us: "Today, everything's a commodity. Service quality is a commodity, price is a commodity. But there are two things that will make a

difference for your company or your professional profile: customer service and relations and innovation."

CEOs in insurance and asset management are among those more likely to emphasise innovation in new business models – often taking advantage of new technologies. Their customers are generating massive amounts of information that they can now capture, and analysis of this data is propelling companies towards models based on an entirely digital supply chain. A far more thorough understanding of customer behaviour, based on data now available, can change how an underwriter creates policies for customers, for example.

CEOs in communications, and media and entertainment, two industries facing swiftly changing dynamics, are the most active on all fronts, whether refocusing innovation efforts for existing products and services or for entirely new products in new models (see Figure 9). But competitive intensity continues to rise in virtually all industries, particularly as the Internet transforms possibilities. Innovation and competition is increasingly crossing industry boundaries, as Francisco González, Chairman and CEO of Banco Bilbao Vizcaya Argentaria (BBVA) SA, pointed out: "Our future competitors will not be traditional banks but large technology companies."

Those in industries with a historical dependence on innovation are still among the most likely to change approaches. A third of CEOs in pharmaceutical and life sciences, chemicals and technology industries expect 'major change' to R&D and innovation capacities in their companies as patent expirations and low R&D productivity are leaving many large pharmaceuticals with uncertain revenue streams. Pharmaceuticals businesses have been in the forefront in shifting some research resources to faster-growing economies in Asia. Overall R&D spending in Asia has surpassed EU levels, and Goldman Sachs predicts that it is likely to overtake US levels before 2020, due in large part to the rapid pace of growth in China.⁷

⁵ PwC, 'Profitable growth for the next 4 billion' (forthcoming 2012).

⁶ PwC, 'Caught in the crossfire', a 2009 survey of 65 executives on innovation strategies and expectations.

⁷ Douglas Gilman, 'The new geography of global innovation', Goldman Sachs (September 2010).

While primary R&D is still largely conducted in home markets, businesses are increasingly shifting some capabilities to their new priority markets. Spending by foreign affiliates of US multinationals on R&D in foreign countries, for example, rose to 15.6% of total multinational R&D spending in 2009 from 12.5% in 1999, according to a recent report by the US Bureau of Economic Analysis.⁸ The shift in research budgets is partly market-driven as multinationals seek footholds in fast-growing economies, but is also a result of rising scientific and technology capabilities in foreign countries. “It will take us another five to seven years to become as innovative as companies in the West,” said Baba Kalyani, Chairman and Managing Director, Bharat Forge Ltd. “But we will get there for sure.”

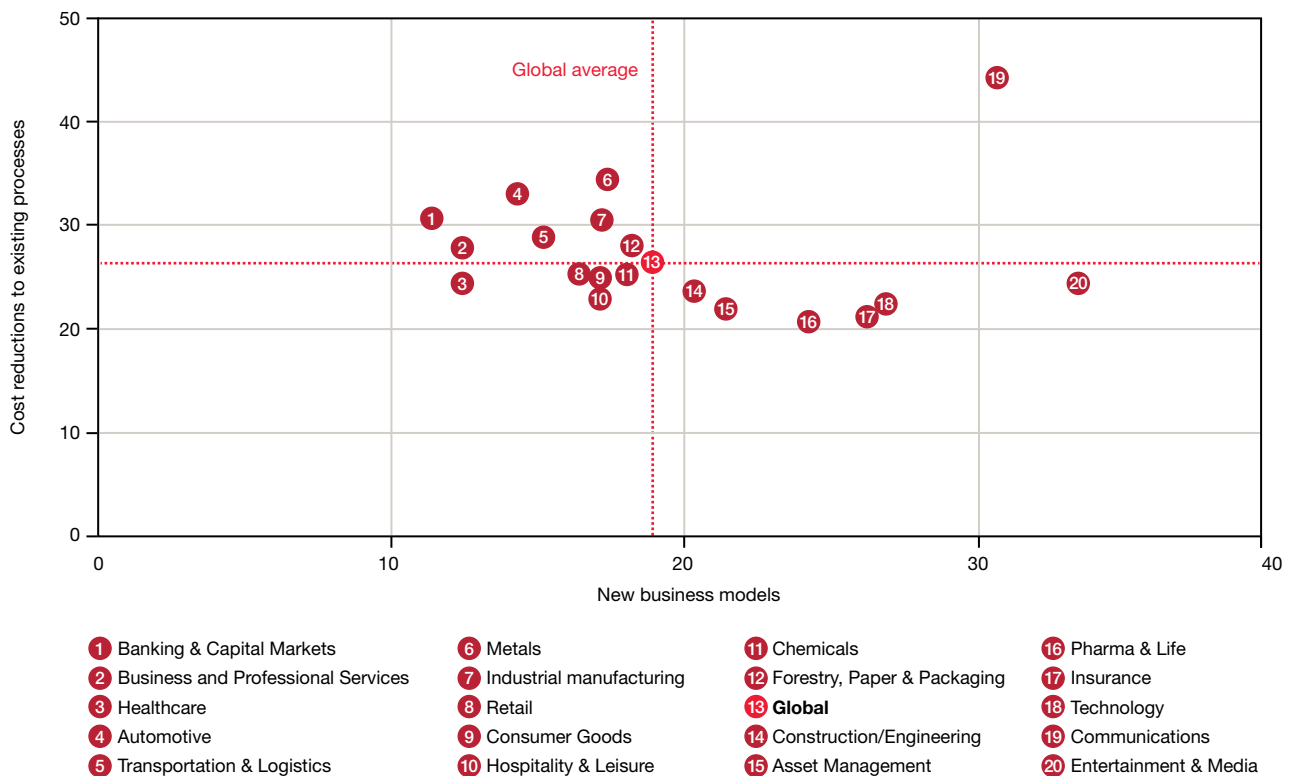
More innovations created in emerging economies are flowing their way back to other markets, according to CEOs. “To me, one of the interesting things that’s changed globally, particularly in our company, is where innovation takes place and where it migrates to,” said Brian Duperreault, President and CEO Marsh & McLennan Companies Inc. “Classically, innovation resided in the developed world. We took ideas and moved them into the emerging world. There’s now an equal chance, and maybe a greater chance, that innovative ideas will come out of the developing world, where the action is, where the need to deliver more for less is even more heightened. Today we’re getting as many ideas out of, say, China and India as we were before out of the US and Europe.”

Antonio Rios Amorim
Chairman and CEO
Corticeira Amorim SGPS SA

If volume growth is not going to be there, you need to have value growth, and in order to have value growth you need to offer the market innovative solutions, products, materials. So, we are focusing a lot more on innovating across the board in our company.

Figure 9: Many industries see significant pressure for both process innovations and radical innovation

Q: To what degree are you changing the emphasis of your company’s overall innovation portfolio in the following areas?
Responses of ‘significantly increase’.



Base: All respondents (29-245)
Source: PwC 15th Annual Global CEO Survey 2012

⁸ Kevin Barefoot and Raymond Mataloni, ‘Operations of US Multinational Companies in the United States and Abroad’, Bureau of Economic Analysis (November 2011).

Resilience to global disruptions and regional risks

Luiza Helena Trajano
Inácio Rodriguez
CEO, Magazine Luiza SA

In a globalised world, even localised crises end up having an impact on all economies. The 2008 crisis taught us that.

Nancy McKinstry
CEO and Chair of the Executive Board, Wolters Kluwer

There is much more need for scenario planning than there was a few years ago. Much more need for dashboards that senior executives can look at and understand risk.

Zsolt Hernádi
Chairman and CEO, MOL Plc

Right now, our 'homework' is to increase our fitness. What do I mean by that? Essentially, we must maintain our capacity to respond quickly in an unpredictable, ever-changing environment.

Richard O'Brien
President and CEO
Newmont Mining Corporation

Last year's BP oil spill in the Gulf of Mexico has led many companies to re ask the question, Is enterprise risk management one of those unfortunate check-the-box activities that every company should be doing because people tell us we should, or is it one that we embrace?

CEOs report that they are less likely this year to focus on changing approaches to risk management than on other areas of priority, from strategies for talent to organisational structure. Significant defensive steps have already been taken: balance sheets have improved and cash reserves have been built. Enterprise risk is now more frequently discussed in boardrooms.

Dimitrios Papalexopoulos, CEO of TITAN Cement SA, Greece, summarised the changes taking place in risk approaches since 2008 within many businesses: "In the past, our risk management and scenario planning was based on the assumptions that conditions would change incrementally. As events of the past couple of years have shown, that has not been the case. So we have now built into our risk management the possibility of more extreme conditions occurring. And our board of directors has become much more engaged in the enterprise-risk planning process."

There's greater awareness of specific and evolving risks within different markets, and how local risks can be amplified into global ones. Yet the speed with which risk events unfold – and the extent to which their impacts on the business spread across different risk categories – appear to be escalating. In the past 12 months alone, 56% of CEOs said their businesses were financially impacted by the sovereign debt crisis in Europe, another 29% cited an impact from the earthquake and tsunami in Japan, and 21% cited the political upheaval in the Middle East.

Key operational moves have already improved organisational resilience. After the earthquake and tsunami in Japan, for example, CEOs based in Asia Pacific focused on improving their company's ability to react more quickly to a supply chain shock.⁹ They sought new locations for their operations and reinforced buildings. Changes to supply logistics and increasing contingency plans in supplier networks were also areas that business leaders in a PwC survey in July felt were critical to managing future disruptions.¹⁰

⁹ 'APEC: The future redefined', PwC survey of business leaders in 21 Asia Pacific economies (November 2011).

¹⁰ 'Post 3.11 Japan: Global Community's Perspective', PwC Global CEO Pulse Survey (July 2011).

Companies are also learning that preparedness for uncertainty is about focusing on the consequences of business disruption. This approach can bring risk discussions to a more strategic level. In our experience, when the focus is on preparing to respond to consequences, discussions occur across people involved in strategy, operations, risk management, crisis management and business continuity management. By contrast, a focus on assessing the likelihood of particular risks tends to remain theoretical and the domain of risk managers rather than the functions that will have to respond to disruptions.

Regional concerns reveal regional risks. The risk of global economic volatility is a common threat, as is the continued uncertainty in markets as a result of depressed growth and rising fiscal debts and deficits in many developed nations: a concern cited by over half of CEOs regardless of where they are based. “We are now into the fourth year of the economic crisis and none of the European countries have emerged from the downturn – nor are they confident that they soon will. Compare that with the Asian economic crisis that began in 1997. By 2001 or 2002, most Asian countries had repaid their debts to the IMF and Japan,” said Pailin Chuchottaworn, President and CEO of PTT Plc, Thailand.

Comparing how CEOs perceive other threats to their business offers some insight into the risks that are top-of-mind in different regions (see Figure 10 overleaf). A business operating globally has to have operational strategies that encompass and respond to these very different risks.

Western Europe:

Outlook for taxes, financial market stability. Three-quarters of Western European CEOs are concerned about instability in capital markets and three-quarters are concerned about the government response to fiscal crises. It naturally follows, then, that 70% believe that ensuring stability in the financial sector should be a top priority of their governments. And stability includes calls for consistency in new regulations for the financial sector.

Central and Eastern Europe:

Exchange rates, corruption. These are two important threats for business leaders in CEE economies, with CEOs based there much more likely to report concerns than global average. As with CEOs in Asia Pacific, concerns related to adjusting to rapidly changing consumer demands are more prevalent.

North America:

Constrained state spending, skills mismatches. Like CEOs in Europe, many in North America believe rising public debts and deficits are a key threat, yet they are less concerned about an increasing tax burden and capital market instability. They’re also among the least concerned about inflation and protectionism.

Rüdiger Grube
Chairman and CEO,
Deutsche Bahn AG

The nuclear disaster in Fukushima and the political disturbances in North Africa and the Middle East have had a direct impact on global supply chains.

Jouko Karvinen
CEO, Stora Enso Oyj

We’re deploying our assets and operations in a more flexible manner so that we can control costs not only with regard to predictable business cycles, but also to cope with unpredictable macro-economic events.

Tidjane Thiam
Group Chief Executive, Prudential Plc

We certainly invest a lot around regulation. If you look at the functions of finance, risk and compliance, they are our highest growth areas. We invest a lot in beefing up our resources and our capability to deal with regulators at the right level, because it is strategic for us.

Laércio José de Lucena Cosentino
CEO, TOTVs SA

You can no longer analyse one country in isolation; all are part of the same context, so that anything that happens within a given group of countries will affect the whole world in some way.

Dimitrios Papalexopoulos
CEO, TITAN Cement SA

Below the surface of the unfolding economic crisis, there remains a deep society-wide concern around the issue of sustainability and the environment. And that is not going away.

Douglas R. Oberhelman
Chairman and CEO, Caterpillar Inc.

I find my time increasingly aimed at government policy makers and policy itself, which is a sign of the times. I hear this from my peer CEOs all over the world. Today, government policy seems to be wrapped so much more around business than it's ever been, and we all need to stand up and be heard. We have to make sure everybody understands what we need to do to add jobs, to grow and to be internationally competitive.

Asia Pacific:

Currency volatility, energy costs.

Currency fluctuations are among the top economic and policy threats for CEOs in Asia, and CEOs there are more concerned about inflation than most others. Skills shortages, rising tax burdens and higher energy costs loom as potential constraints on expansion plans.

Latin America:

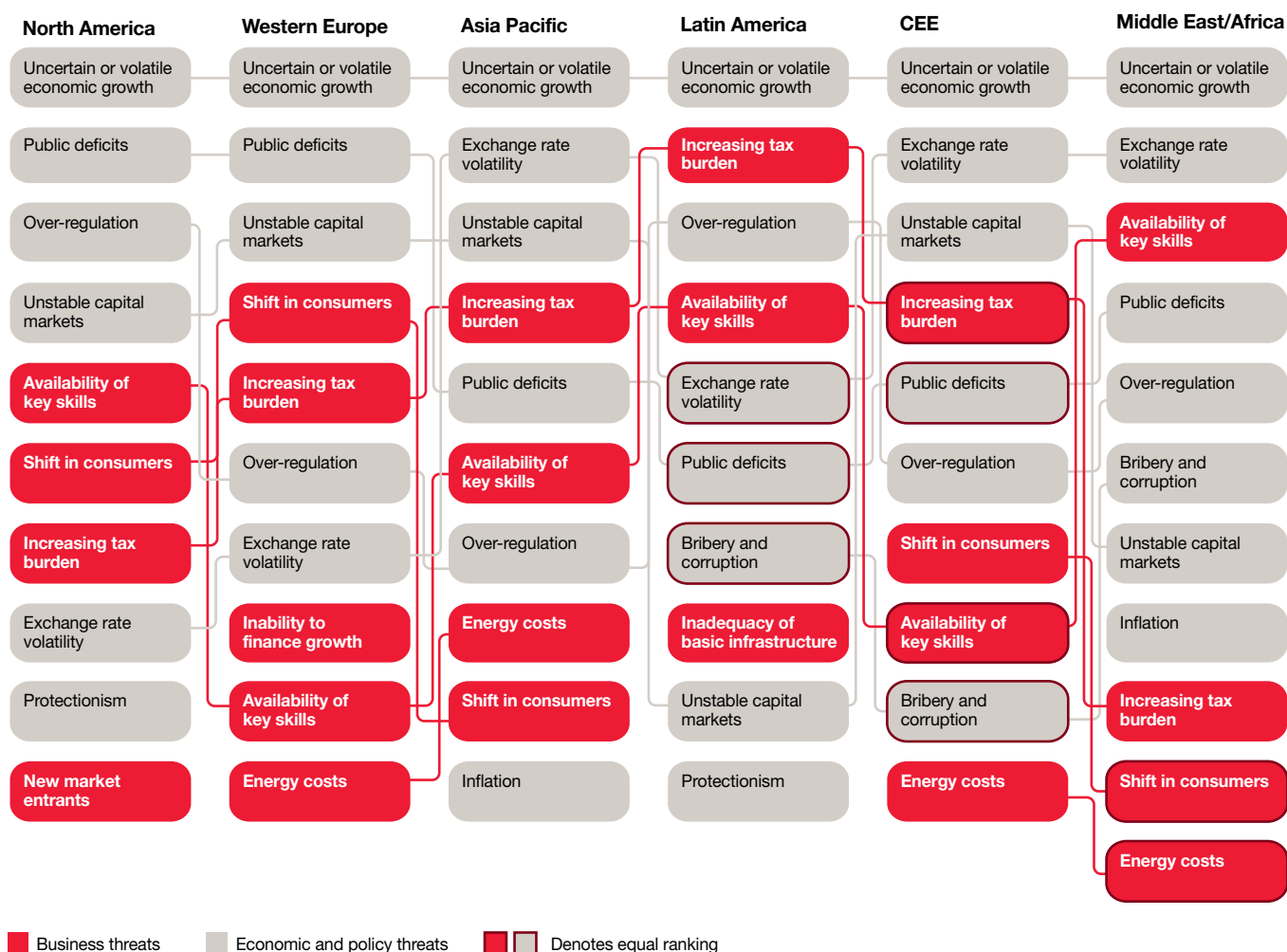
Underdeveloped infrastructures. Infrastructure looms larger for CEOs in Latin America as a growth threat and CEOs naturally call for governments to address it. Corruption and over-regulation stand out as potential barriers to business.

Middle East and Africa:

Skills shortages and corruption. The availability of key skills stands out as an acute concern in the Middle East, while CEOs in Africa – the most optimistic region in terms of their growth prospects in 2012 – have among the highest concern levels across a range of potential threats, notably over-regulation and official corruption.

Figure 10: Global economic uncertainty remains the top threat to growth prospects

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



Base: North America (236); Western Europe (291); Asia Pacific (440); Latin America (150); CEE (88); Middle East/Africa (53)
 Note: Rank of top threats, by % of somewhat or extremely concerned
 Source: PwC 15th Annual Global CEO Survey 2012

Tom Albanese
Chief Executive, Rio Tinto

If we're at any point in time suffering from an uncertainty of what our taxes or royalties are going to be, or there is a change in the investment conditions of the country, it has the effect of creating more risk. That increases our cost of capital, and has the effect of reducing the amount of re-investment, which one day might have produced more taxes for those countries. So in the longer term they might find that they're not seeing the re-investment, nor the jobs, nor the economic benefits they would have seen in the long term.

Hussein Hachem
CEO Middle East and Africa, Aramex

I was in Uganda three months back when there was a civil disturbance, but our worry is corruption. I want to make sure that we operate in an environment where we can do business without paying anybody under the table.

Opportunities and risks far from home

As CEOs seek growth outside familiar markets, they must adapt their firms' risk practices. Economic, social and political conditions vary by country, and a more subtle understanding of how these factors will shape the business environment is critical to spotting new opportunities and managing unexpected risks.

Many political, regulatory and tax risks are predictable. In developing countries, market-moving decisions are often made by government officials with identifiable political motivations or known limitations on their authority. One European firm operating in Latin America acted on an early warning of political deterioration and repatriated the firm's equity, shifting to local financing prior to currency devaluation. In a win/win outcome, the move allowed the company to avoid losses while maintaining operations in the country.

Even unpredictable risks can be managed. We cannot know when a natural disaster or social upheaval will spring a surprise, but we can predict which markets are most vulnerable to such shocks – and how decision-makers are likely to respond when they hit. Situational awareness and planning can ensure that their impact on balance sheets, supply chains and market demand is anticipated.

As they seek growth in new markets, many executives focus on market-entry risks, but underestimate the risks that come with sustained market presence – figuring that they have good people on the ground and a good lay of the land. But just as with the political, economic and social environments, the business environment has changed rapidly in developed markets. Business leaders must constantly return to the fundamental question: “How must my business practices evolve to profit from the torrent of change underway everywhere around the world?”

The largest emerging markets – notably Brazil, Russia, India and China – illustrate this principle. Many large multinationals now regard a presence in these countries as a competitive imperative. Yet, as we have seen recently, threats to or changes in political leadership, revelations of corruption and official malfeasance, and perceived economic threats from abroad can have profound downside impacts on the local business environment. Early movers and those who understand the shifting terrain in these countries will have substantial advantages, and unpleasant surprises await those who enter late or without preparation for the torrent of change underway in these markets. For example, one firm watching the opening of a market for its services after the 2005 Chinese accession to the WTO bought out its joint-venture partner and quickly established itself in interior cities once closed to foreign firms. The investment greatly increased its corporate profile among local and central government stakeholders and spread the brand name quickly in a lucrative market. In contrast, one bank's late arrival in Latin America resulted in a failed attempt to establish a dominant presence in a market where rivals were already in the midst of consolidating the market.

What's true for risk is true for opportunity. As their commercial rivals focus on yesterday's bonanza, business decision-makers can use a refined understanding of political, social and economic trends to spot the growth opportunities of tomorrow.

The talent challenge

Tom Albanese
Chief Executive, Rio Tinto

People of my generation will be retiring over the next 10 years leaving a pretty shallow pool of people; then everyone will be struggling and competing for a limited group of experienced mining professionals. But we do find that we can go outside our sector, for example, for mechanical engineers or people in the auto sector who are good with industrial enterprises.

Marijn Dekkers
Chairman, Bayer AG

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

Theoretically, finding a good candidate to fill a position should now be a very straightforward exercise. There have never been as many educated people in the world, nor has it ever been as simple for employers to tap this vast pool online. Highly skilled talent is also highly mobile; but just in case, networking advances also mean that many more tasks can be handled remotely or outsourced.

The reality is far different. A Chinese automaker attends job fairs in Germany, even though China produces large numbers of graduate engineers each year. High jobless rates persist in the US and Europe, disproportionately among the young, even as businesses fret that they cannot attract the digitally adept ‘Millennial’ generation to pursue careers in their industries. Too many well-educated citizens of the Middle East and elsewhere are not in the workforce at all. “Before, people looked for jobs. Now, companies look for talent,” said Erdal Karamercan, President and CEO of Eczacıbaşı Group A S.

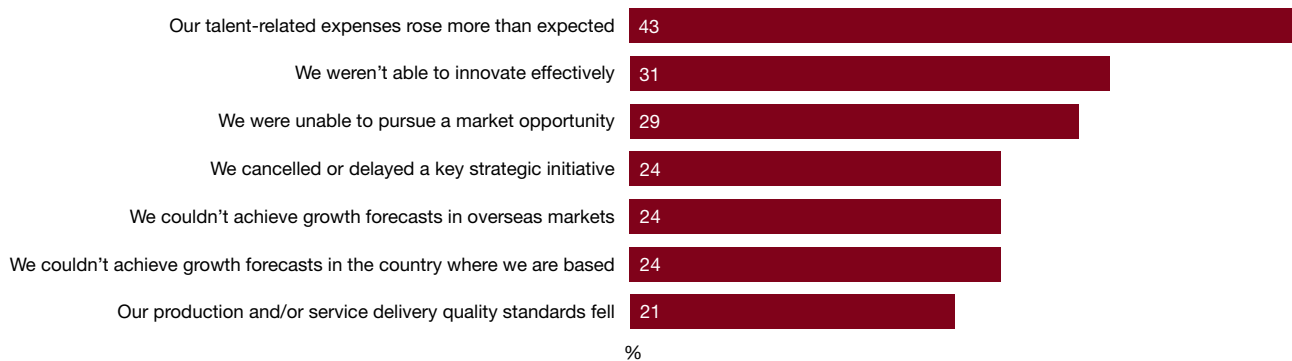
This is the talent crunch. It’s a complex and frustrating challenge and it’s being felt worldwide. To give a measure of the scale of the problem: more CEOs are changing talent management strategies than, for example, adjusting approaches to risk (see Figure 4 on page 7): 23% expect ‘major change’ to the way they manage their talent. And skills shortages are seen as a top threat to business expansion.

Talent shortages and mismatches are impacting profitability now. One in four CEOs said they were unable to pursue a market opportunity or have had to cancel or delay a strategic initiative because of talent (see Figure 11). One in three is concerned that skills shortages impacted their company’s ability to innovate effectively. “Close to 15 percent of energy-related investments around the world fail or are lost because a suitable workforce is not available,” said Zsolt Hernádi, Chairman and CEO of MOL Plc.

There are challenges in hiring across most industries, as well as in retention in some markets and industries, as businesses compete for highly talented people. CEOs are taking many approaches to address the shortfalls, as Andrey Kostin, President and Chairman of the Management Board of JSC VTB Bank, put it: “In some countries we have constant shortages of risk managers or retail experts, for example, or local finance experts with relevant expertise. Sometimes the solution is to relocate people from other offices.”

Figure 11: Talent constraints have impacted costs – but also factor in lost opportunities

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



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

A minority of CEOs expect to undertake deep restructuring measures specifically to fill the talent gap. As they consider how to build the future of their workforce, a third or less expect to make dramatic changes, such as making an acquisition to secure needed talent, seeking partnerships to get access to skills, or moving operations to more talent-rich areas. Slightly more CEOs (38%) expect to make significant investments in technology to circumvent shortages.

Hiring talent. CEOs across all industries say it's become more difficult to hire, but the challenges are acute in knowledge industries such as pharmaceuticals and life sciences, and technology, and in heavy industries such as industrial manufacturing and automotive (see Figure 12). The need for technically skilled people to manage the increasing sophistication in production is strong, and the growth in demand for professionals in manufacturing is projected to be over 4% a year across all economies and to peak at over 10% in developing economies in 2020.¹¹

Even industries such as banking that have retrenched workers in large numbers are still struggling to get the right people. Developed market banks are in competition with one another but also with increasingly ambitious and well-capitalised local competitors in faster-growing economies.¹² There are also shortages of specific financial services skills in these economies, for example, private wealth bankers or actuaries. Almost twice as many banking CEOs (48%) plan to expand workforces than to cut (26%) in 2012 (see Figure 13 overleaf).

Making talent strategic. CEOs are determined to be more strategic in the way they manage their workforce today and plan for future needs. Up to now, an assumption has held that the market analysis element of a strategic plan is paramount, and how a business 'resources up' to meet the plan is something that's worked out later. Now, leading businesses are looking beyond the next budget round to plan talent needs. A longer-term strategic view is needed, if they want to close the gap today and map how talent needs will change.

Andy Green
CEO, Logica Plc

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

Mariano Bosch
CEO, Adecoagro SA

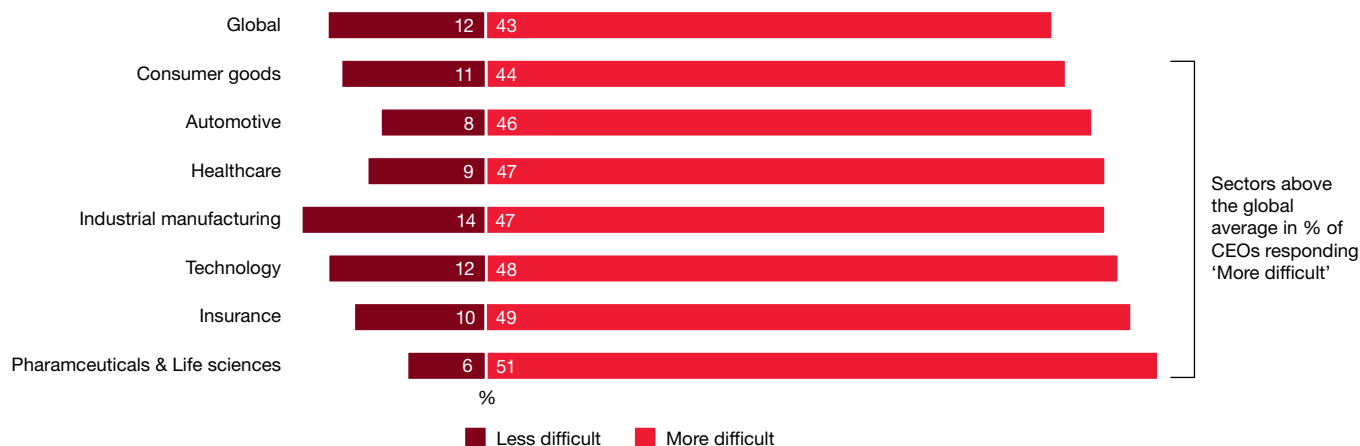
Adecoagro's greatest challenge for growth is recruiting the right people to manage operations.

Richard O'Brien
President and CEO
Newmont Mining Corporation

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

Figure 12: Different industries, different requirements – but skills gaps remain

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



Base: All respondents (29-245)

Note: Responses of 'unchanged' not depicted.

Source: PwC 15th Annual Global CEO Survey 2012

11 World Economic Forum, 'Global Talent Risk' (2011).

12 PwC, 'Securing the talent to succeed: Making the most of international mobility in financial services' (November 2011).

Francisco González
Chairman and CEO, Banco Bilbao
Vizcaya Argentaria (BBVA) SA

The idea that banks need only conventional people no longer holds true. If we really want to compete in the future, we need to update the qualifications of our people and that's where talent comes in.

Baba Kalyani
Chairman and Managing Director,
Bharat Forge Ltd

Talent is the most strategic issue for a country like India. The country is tremendously short on talent. Attrition rates are in double digits. There is a gap between what comes out of technical institutes and what the industry needs.

As part of this effort, more CEOs are now integrating HR with business planning at the highest levels of the company: 79% of CEOs say that the chief human resources officer, or equivalent, is one of their direct reports (most have ten or fewer direct reports).

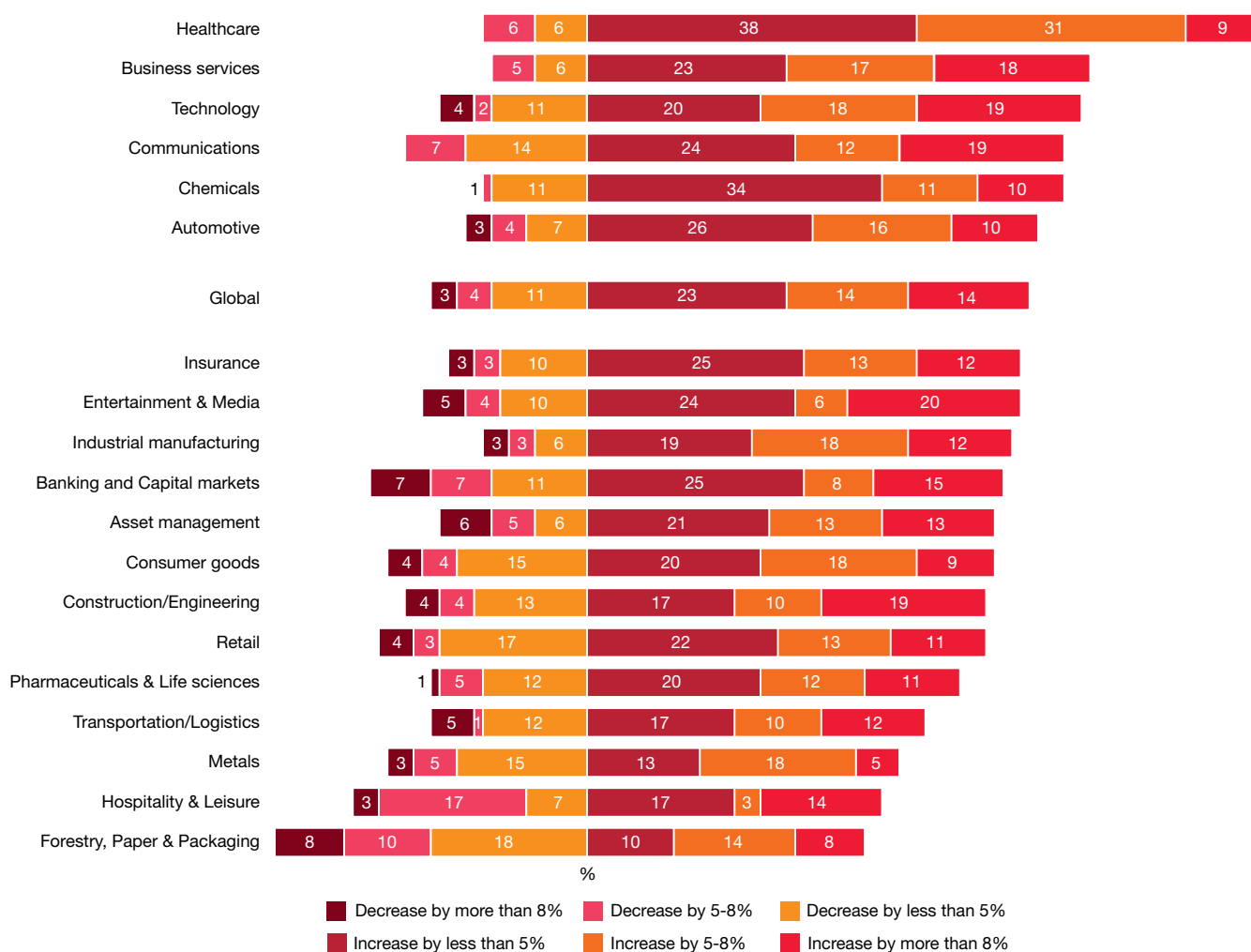
They are also seeking a better understanding of the scale and effectiveness of their investments in talent. Productivity and labour cost remain important measurements; these are the tools investors, lenders and businesses use to benchmark progress (or lack of it). They are largely standardised in many industries, and thus easy to implement. Yet for many CEOs, those tools aren't enough (see Figure 14 opposite).

They are very good at telling a CEO how the business is performing today relative to its peers, but not at indicating whether the organisation is investing enough in employees to generate future growth.

Such measurements cannot isolate skills gaps and struggle to identify the pivotal jobs that drive exponential value; they do not measure employee engagement or team performance, both of which are so critical for investments to foster innovation to bear fruit. These measurements are much harder to make, which is one reason why they've been neglected and why today, so many CEOs are frustrated with the issue of talent.

Figure 13: Half of CEOs expect to raise their headcount in 2012

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



Base: All respondents (29-245)

Note: Responses of 'stay the same' not depicted.

Source: PwC 15th Annual Global CEO Survey 2012

Laércio José de Lucena Cosentino,
CEO, TOTVs SA

If we don't work now on training people, a shortage of professionals could affect growth.

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

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

Roger W. Ferguson, Jr
President and CEO, TIAA-CREF

We have traditionally hired people at mid career, but over the last few years we've also reinvigorated our college campus recruiting.

The future of employee engagement

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

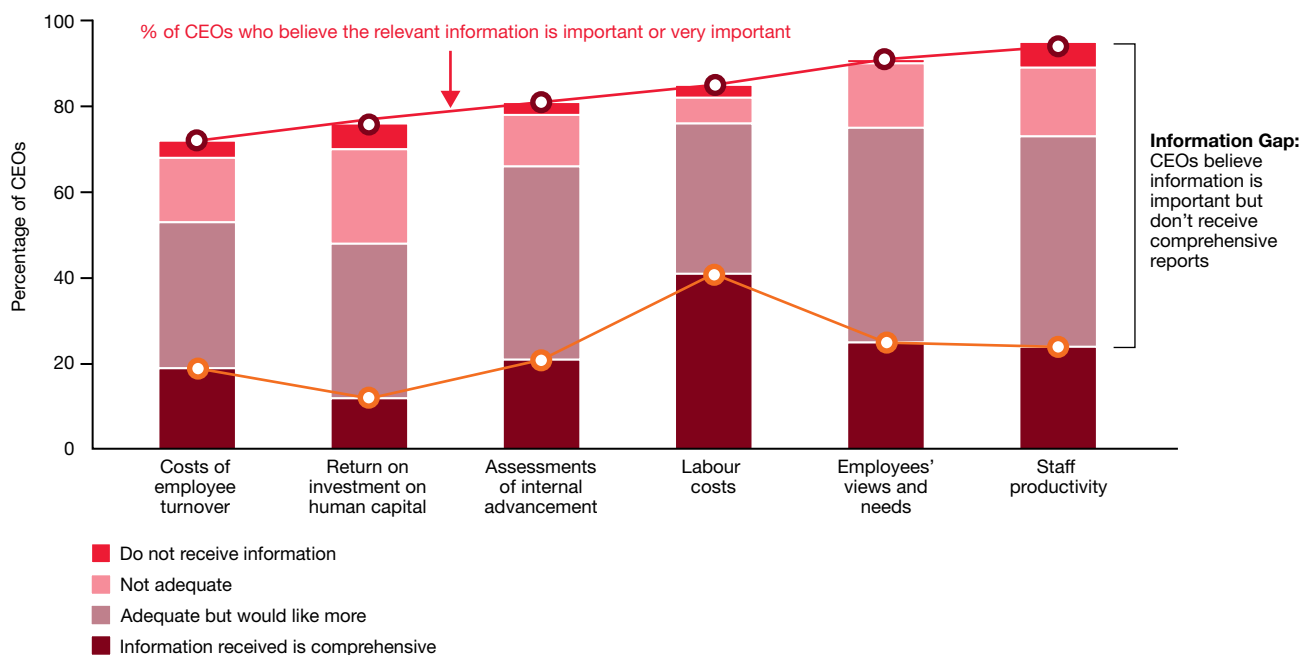
A study conducted by the Corporate Executive Board found that the employees who were most committed to their organisations gave 57% more effort and were 87% less likely to resign than employees who consider themselves disengaged.¹³ Yet during the recent downturn, engagement levels among top performers fell more sharply than for workers overall, PwC has found.¹⁴

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

- a retention score for each employee, which measures the probability that an employee will leave in the next year;
- use of engagement studies to identify barriers to high performance within specific groups of employees, as well as the tangible improvements that can drive both engagement and business performance; or
- a focus on the direct market-facing impact employee engagement has on measures of business performance such as customer satisfaction or product quality.

Figure 14: A minority of CEOs get comprehensive reports on their workforce

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



Base: All respondents (1,258)

Source: PwC 15th Annual Global CEO Survey 2012

13 Corporate Executive Board, 'The Role of Employee Engagement in the Return to Growth', Bloomberg Businessweek (August 2010).

14 PwC Saratoga Global Survey (2011).

Jaime Augusto Zobel de Ayala
Chairman and CEO
Ayala Corporation

We're investing much more now in retraining people. The world is changing so quickly that it's just not enough to go to school once.

Rüdiger Grube, Chairman and CEO,
Deutsche Bahn AG

We annually train about 10,000 apprentices in more than 25 vocational skill areas.

Yoshio Kono, President and CEO
The Norinchukin Bank

We have now radically changed that by developing a global HR training process to screen potential candidates and send them abroad to gain work experience for a year, beginning in 2012.

Rohana Rozhan
CEO, ASTRO Malaysia Holdings

Diversity is part and parcel of everything that we do because to succeed, ASTRO's workforce must directly reflect its market place.

Developing talent. Frequent job-hopping is endemic to many markets, at all levels of the organisation. A 2010 survey of over 2,200 mid- to senior-level managers in mainland China found that two-thirds had received at least one competing job offer in the last 18 months, and that nearly half (46%) had moved to a new role with a more than 30% increase in compensation.¹⁵ Employee loyalty to their employer is changing everywhere. Only 18% of Millennials in a global survey of new graduates said they intended to stay with their current employer, for example.¹⁶

This is a trend many CEOs would like to counter. Two-thirds say it's more likely that talent will come from promotions within their companies over the next three years. While outsiders bring many benefits, the loss in productivity and time when a valuable employee leaves, as well as the expense related to retraining, are beginning to be better appreciated: 21% say the information they receive on the cost of employee turnover to their organisations is not adequate and 47% receive some information but want more. "We need to grow our own talent," said Nancy McKinstry, Chair of the Executive Board and CEO of

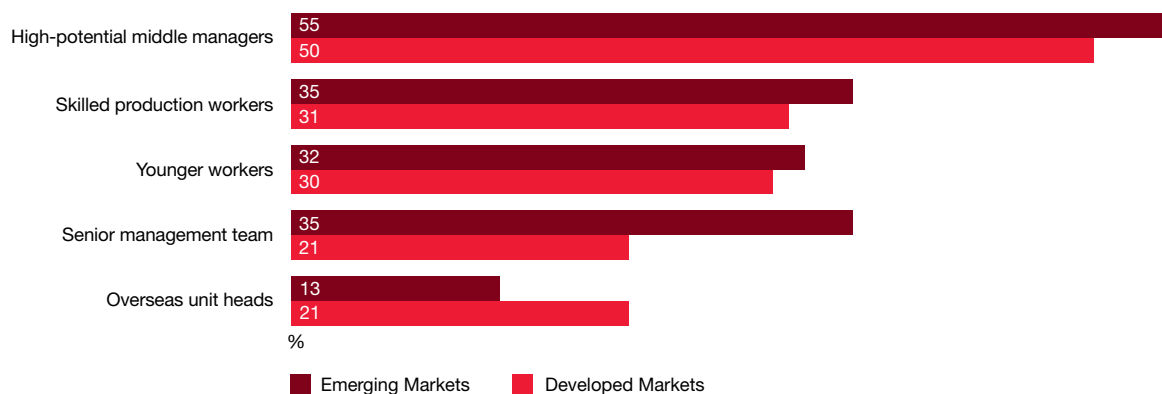
Wolters Kluwer. "It's very difficult often to take people from outside to come into the company and have them be productive in a short period of time."

To develop talent better, however, companies will need to understand that what works in one market might not work in another. Mentoring programmes, for example, are popular in some countries but fail in others, because of the way coaching is received in different cultures. Even companies that are well respected for their development practices are rethinking global talent strategies and adapting them for different markets.

Holding the organisation together. High-potential middle managers are the employees more CEOs across all industries and regions fear losing the most (see Figure 15). These operational managers are often the closest to changing customer demands and the ones charged with executing the strategic direction. This is one reason why formal succession planning in some companies is starting to go deeper into the organisation. Efforts to identify the talented managers earlier in their careers, and to specifically devote development resources to them, are taking place in more organisations.

Figure 15: Recruiting and retaining high-potential middle managers is the biggest concern for CEOs

Q: With which of the following groups do you currently face the greatest challenges with regard to recruitment and retention?
Respondents were able to choose all that applied.



Base: All respondents (621; 637)
Source: PwC 15th Annual Global CEO Survey 2012

¹⁵ MRI China Group Talent Environment Index.
¹⁶ 'Millennials at Work: Shaping the workplace', PwC survey of over 4,300 graduates aged 31 or under (December 2011).

Those future leaders will also need to reflect the world in which they operate. “The evolution of senior leadership teams is going to continue. I think people will have to be more global in their perspective. They will have to understand the interconnectedness around the world. That’s going to be a very important element,” said F William McNabb III, Chairman, President and CEO of The Vanguard Group Inc.

Moving talent. Across all industries, more CEOs would rather have local leadership run local business units. Today, 29% of senior managers are transferred from their headquarters country to newer markets; in an ideal world, only 18% of CEOs said they would continue to move their senior leaders from headquarters. This is becoming increasingly hard to achieve in fast-growing economies. Foreign multinationals remain desirable employers, but the best people in India and China, among other economies, have many more options with domestic multinationals today. These are groups which offer opportunities to run growing, global businesses and which can increasingly match Western

compensation packages. In 2007, 41% of highly skilled Chinese professionals preferred working for a Western multinational, while 9% preferred a job with a domestic firm. By the second quarter of 2010, the preference for employment by a multinational had risen to 44%, but the preference for Chinese employers had jumped to 28%, according to the Corporate Executive Board.¹⁷

While 53% of CEOs expect to move experienced people from the home market to newer markets to fill skills gaps (see Figure 16), reverse transfers, involving moving top performers in emerging markets into developed markets for a short period of time to become ‘credentialised’, can also be effective retention and development measures. And businesses are making greater use of short-term assignments to address skills shortages in high-priority markets, and costs related to long-term assignments. These can be extended business travel or flexible commuter arrangements, often intra-regional, which address situations where an employee or candidate is reluctant to move.

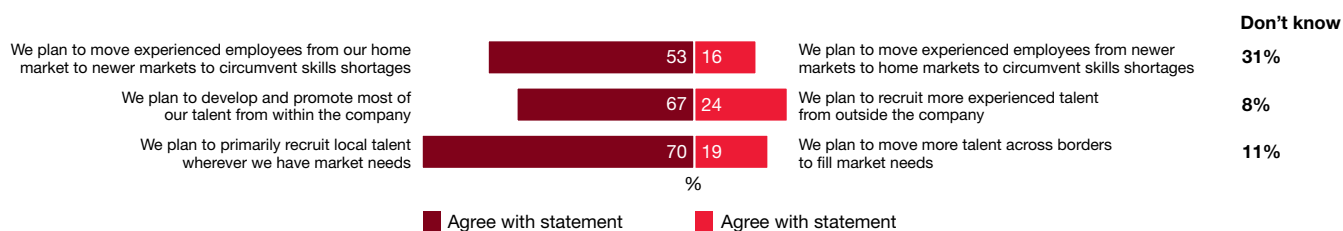
Daniel S. Glaser
Group President and COO,
Marsh & McLennan Companies Inc.
People want to have an impact. They want to be listened to, no matter the size of the company they work for.

Jouko Karvinen
CEO, Stora Enso Oyj
It isn’t about young versus old, or the developing world versus the developed world. The most critical selection criteria that we used in putting together our team of junior managers together was to maximise diversity of thought.

Marijn Dekkers
Chairman, Bayer AG
We try to avoid overseas assignments just to fill a gap, but sometimes you just can’t avoid it.

Figure 16: CEOs are more focused on recruiting local talent and developing and promoting from within

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



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

¹⁷ ‘The Battle for China’s Talent’, analysis from the Corporate Leadership Council, Harvard Business Review (March 2011).

Investing in workforce development

Skills constraints are not likely to go away soon. As economies evolve, workforces need to evolve as well. It's an issue for CEOs, who recognise that talent is vital to competitiveness at a time when business success relies increasingly on knowledge capital and innovation capacity. One-third of CEOs saw reduced innovation as a consequence of talent constraints.

It's also an issue for governments, which increasingly see the need to compete on talent. India and China have invested heavily to upgrade skills and widen access to education, and are more actively cultivating their substantial diaspora of students and entrepreneurs to encourage their return. Singapore and Malaysia are taking comprehensive, long-term approaches to attract highly skilled foreigners to enhance their economies; the UK is reforming its R&D tax credit to incentivise innovative businesses to stay. In short, policy makers are seeing the effects of talent mobility on economic competitiveness and, as a result, more countries are acting to attract and retain talent.¹⁸ This is likely to encourage even more global talent mobility, which will, in turn, impact business talent management strategies.

Yet while immigration and tax reform will bridge the skills gap to some extent, over the long term, multinationals will need to move from ad hoc solutions and create hubs to seed and develop the skills and managerial talent they need. That's why leading companies take the long view and are partnering with their governments and foundations to invest in workforce development.

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

This is part of a wider trend we have observed of businesses reaching back further into the talent pool and seeking to 'grow their own' with a proliferation of employer-led universities. Regions where the needs are greatest today have seen more employers taking the lead on solutions to skills gaps. Many more companies, such as Infosys in India, are putting employees through intensive training on their own campuses.

Not all countries are keen on this trend, with some arguing that direct involvement of business in education results in short-termism rather than establishing a broader education base to equip people better in the longer term. However, there are increasing examples of public-private partnerships involving a more active, strategic role being played by business in education. Take P-Tech, a six-year high school in large part created by the IBM International Foundation, where students can earn a diploma and an associate's degree in a computer science-related field and have a first crack at a job with IBM.¹⁹

Douglas R. Oberhelman
Chairman and CEO, Caterpillar Inc.

Chinese leadership and needs are so different from those in India, Brazil, Canada and Belgium. Talent has to be regionally directed, and that's what we're working on. Frankly, it's a big challenge, because as we're new to some of these places and our growth is strong, we're having trouble teaching what we want our leaders to do and know.

Francesco Starace
CEO, Enel Green Power SpA

We previously went through a phase in which we moved people out of the centre into the periphery of the company. Now we're in a phase in which people are coming into the centre from the periphery. A third phase will begin during 2012 in which people are moved between different locations to fill talent gaps.

Martin Senn
CEO, Zurich Financial Services Group

I look for globally-minded people with the capacity to anticipate change and the flexibility to accept it. I also put a lot of emphasis on character. Good character, honesty, and consistent behaviour – that's what we're looking for.

David Cote
Chairman and CEO, Honeywell

I personally spend a great deal of time on it. For example, I review the performance of our top 200 people three times a year.

Andrey Kostin
CEO, VTB Bank OAO

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

¹⁸ The number of countries looking to 'systematically encourage talent mobility' rose from just a few in 2001–01 to nearly two dozen in 2008, according to Papadetriou et al., 'Talent in the 21st Century Economy' Migration Policy Institute (November 2008).

¹⁹ For more on government and business partnerships in education and elsewhere, see 'Taking responsibility: Government and the Global CEO', PwC (forthcoming 2012).

What's next

In the past, recovering from a downturn was a relatively straightforward process; businesses could look forward to studying the trends and the competition, and planning how to respond. Those days are long gone. Three years into the financial crisis, uncertainty and volatility have become the baseline expectation.

Yet changing conditions also present opportunities. The rise of emerging economies, ever greater mobility of goods, capital and, increasingly, of people, along with accelerating technological advances in many industries, are supporting far more optimism for business prospects than the headlines today would suggest is merited. CEOs have built on the experience of the past few years and are better prepared to tackle emerging risks head-on.

That is why we're seeing greater confidence from CEOs in their own company's ability to grow than their expectations for global economic growth, and why they believe the main challenge today lies in how well organisations are able to become more local in their global strategies. Global fundamentals for future growth are still squarely in place – and businesses are positioning to take advantage when we do emerge from this period of economic volatility.

We believe the findings have broad implications for business in 2012 and beyond as companies position for long-term growth in their priority markets. The following eight questions are distilled from CEOs' insights and can help business leaders achieve the balance they'll need to grow their businesses in these volatile times.

The rise of emerging economies, ever greater mobility of goods, capital and, increasingly, of people, along with accelerating technological advances in many industries, are supporting far more optimism for business prospects than the headlines today would suggest is merited.

1. How local is your global growth strategy?

CEOs are shifting away from an export mindset to respond more attentively to local markets. Over 70% of CEOs are planning to grow domestic customer bases in their important markets. Competition will be tough, particularly when operating in markets that are dissimilar and far afield. The traditional way of setting a grand global strategy and pushing it out to operations may need to give way to a more agile strategy that can adapt at the local level.

2. How are you balancing global capabilities with local opportunities?

CEOs are developing new capabilities in their important markets, and tailoring approaches to ensure that the best of their global expertise supports rather than imposes operational structures on the local business. One in five plan to innovate locally in their important markets; and over a third expect to expand internal service delivery. They'll need to find the right scale to bring the benefits of their global organisation to the local level and maintain profitability.

3. Is your talent strategy fit for growth?

Cost-focused measurements around talent strategy need to give way to measurements around returns on investment, as leaders increasingly implement new approaches to solve their talent shortage problems. Two-thirds of CEOs are seeking relevant data and analysis from talent managers to make and inform investment decisions around people. Implementing strategic workforce planning will help leaders look beyond the talent shortages today to align the talent needed to fulfil business plans. Around a fifth of CEOs expect they will have to make acquisitions or partnerships to fill the gaps. This may be conservative, considering the degree of challenges businesses face with talent.

4. Are your innovations creating value for your customers – or just novelty?

When it comes to innovating in and for local markets, delivering on the value that customers in those markets expect is paramount. Between a fifth and a third of all CEOs say they are creating products specifically for their important markets. It will be increasingly important to get segmentation right – at the regional, country, city or even neighbourhood level – and to design operating models around serving those segments. That means looking beyond product design to include factors such as production, distribution and marketing.

The traditional way of setting a grand global strategy and pushing it out to operations may need to give way to a more agile strategy that can adapt at the local level.

5. Do your strategic plans focus on how to respond to the most serious consequences you could face?

The range of CEO concerns reflects how diverse sources of risks are: 25% are ‘extremely concerned’ that instability in capital markets will impact business, for example. The number of potential risks and their inter-relationships make it very difficult to predict what will occur where and when, but companies can better deal with uncertainty – and take a more strategic approach to risk – by focusing on likely consequences, no matter what the cause.

6. Are you responding to the needs and constraints of the communities in which you operate?

CEOs recognise that sustainable business growth requires working closely with local populations, governments and business partners, and investing in local communities. This can mean creating job training programs, helping to manage resource constraints or contributing to health solutions. Over 60% plan to increase investments in the next three years to help maintain the health of the workforce, for example.

7. Where are the biggest opportunities for business and government to coordinate better?

Compliance with a growing body of regulations, particularly when operating in disparate markets, is a complex task for most businesses, which is why CEOs consistently report over-regulation as a threat to their growth. However, the successes of the private and public sectors are increasingly intertwined. Roughly half of CEOs believe that workforce skills and infrastructure developments are top priorities for their governments, and eight in ten CEOs say their business has a role in workforce development, other than their own employees. Areas such as infrastructure development, education, intellectual property protection, healthcare and regulatory convergence standards are ripe for increased collaboration between the public and private sectors. Effective partnership models – better communication.

8. Are you adapting your governance model to changing stakeholder expectations?

The organisation of the future will likely be accountable to a different mix of stakeholders from a different mix of markets. Governance models need to adapt, beginning with building a leadership pipeline that reflects potential future demands. It’s a key area of focus globally, with 53% of CEOs concerned about recruiting and retaining high-potential middle managers and a desire to build more diverse leadership teams.

Roughly half of CEOs believe that workforce skills and infrastructure developments are top priorities for their governments, and eight in ten CEOs say their business has a role in workforce development, other than their own employees.

Final thoughts from our CEO interviews



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

Tom Albanese Chief Executive, Rio Tinto, UK



We are looking more and more at the balance sheet. We are looking much more at working capital needs. It is clear an economy that is going to be de-levered is going to have credit restrictions in the market so your investment policy, your acquisition policy has to be a lot more prudent than ever before. But it is also clear that the markets are not going to be growing. So you really need to invest.

Antonio Rios Amorim Chairman and CEO, Corticeira Amorim SGPS SA, Portugal



Before the crisis, Europe and the US were the most important markets. Now we are going to India, to China and building much stronger relationships with BRIC countries. We are selling rice, sugar and ethanol to a more expanded and balanced world.

Mariano Bosch CEO, Adecoagro SA, Argentina



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

Lázaro Campos CEO, SWIFT, Belgium



In the case of the EU, it seems that all its members were anxious to benefit from the union but some didn't want to uphold their responsibilities. The members of ASEAN must not fall into the same trap.

Dr Pailin Chuchottaworn President and CEO, PTT Plc, Thailand



The main concern for TOTVs – and for Brazilian companies in general – is a lack of skilled labour. This is a major limiting factor for Brazil today. For growth you need financial investment in infrastructure and you need people – qualified people who are able to carry out the plans of the companies who are set up here. Today there is a deficit of skilled labour in all sectors, from technical posts to less skilled labour, from the building trade to the transport sector.

Laércio José de Lucena Cosentino CEO, TOTVs SA, Brazil

To read the full interview transcripts and watch selected videos, visit www.pwc.com/ceosurvey



We've certainly seen much more innovation coming from outside the US. Ten years ago, less than 40 percent of our sales were outside the US. Today it's approximately 55 percent. We've grown from a US\$22 billion company to a US\$37 billion company. You don't do that by simply taking US products and selling them somewhere else. You have to innovate, design, manufacture and source locally to be successful anywhere. For instance, we talk about the need to develop products in India and China, for sales both in those countries and in other markets, including the US.

David Cote Chairman and CEO, Honeywell, US



The business case for innovation is increasing, but as I often say, the easy stuff has been done. For innovations to be meaningfully better requires more insight into the fundamentals of science. Take the example of blood thinning. Relatively early on, products like aspirin were used as a blood thinning drug. But in order to have a really sophisticated blood thinning treatment, a whole new level of chemistry is required. So moving from relatively straight forward chemistry to very complex chemistry is a difficult transition.

Dr Marijn Dekkers Chairman, Bayer AG, Germany



Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you'd better be able to operate in both at the same time. You have to manage that difficult slow growth and then completely switch gears and go to high growth. You have to find ways of moving your resources – and for us it's talent – from where it's not being utilised to where it can be utilised.

Brian Duperreault President and CEO, Marsh & McLennan Companies Inc., US



On the other hand, businesses have ample capital. We see businesses investing in equipment and software. And consumer spending of late has picked up. So there are some headwinds, there are some things that are supportive, and overall that's going to make for a picture of relatively slow growth but with very low inflation.

Roger W. Ferguson, Jr President and CEO, TIAA-CREF, US



All our management and staff know full well that we are onto something big and that in the future we may no longer be called a bank. Nowadays, some companies provide information, others credit but, at the end of the day, the borders will become blurred and all of us will be competing for customers. So, getting a client and transforming information into knowledge is where the battle will be fought.

Francisco González Chairman and CEO, Banco Bilbao Vizcaya Argentaria (BBVA) SA, Spain



The sort of glimmering trends we see are: should we develop ourselves more in South America or North Africa? That is something where we have taken option decisions rather than big strategic changes. The other key thing, I suppose, is we are beginning develop new business models around the 'cloud'. So the deployment of business process services where we create platforms which many industry players use and collaborate on, because they are happy to do so, such HRBPO platforms or platforms for the fuel cards that truckers use around Europe, or smart metering platforms which can be used by many utilities, all of these things are beginning to make a difference.

Andy Green CEO, Logica Plc, UK



The demographic changes that we see occurring in many of the regions where we operate – shrinking populations, an ageing workforce and diversifying demographics – compounds the challenges we face and intensifies the war for talent.

Dr Rüdiger Grube Chairman and CEO, Deutsche Bahn AG, Germany



We have said we are going to invest US\$100 million in Africa where the return on investment and margins are much better for us than the margins in other markets, such as Europe and the US. From that perspective we think investments in emerging markets make a lot of sense. That's why we are moving fast.

Hussein Hachem CEO Middle East and Africa, Aramex, UAE



During recent years, the issue of stakeholder management has become astoundingly important. The way in which a company can position itself within the larger society and how it can achieve acceptance within a given community has become a source of value.

Zsolt Hernádi Chairman and CEO, MOL Plc, Hungary



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

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



In the last four years, our innovation efforts have been focused on sustainability. In every product and service, in every technology that we develop, we prioritise sustainable development. That means anything we produce should utilise less resources. Anything we give to our consumers should help the consumer to utilise fewer resources. In the value chain as a whole, we should utilise fewer resources and work with companies who utilise fewer resources.

Erdal Karamercan President and CEO, Eczacıbaşı Group A S, Turkey



Innovation in most industries is too driven by technical perspectives rather than consumer perspectives. We're very fond of talking about all sorts of technical possibilities. But in many cases, we don't actually understand many of the markets that we're trying to sell into. And I happen to believe that's where you should start. You need to bring the consumer into the equation first, before pushing out technical solutions.

Jouko Karvinen CEO, Stora Enso Oyj, Finland



Our bank has branch and office managers in the Miyagi, Fukushima and Iwate Prefectures, which were all hit by the disaster. I told these local heads, who were the on-the-spot commanders, not to panic but to sit tight and issue explicit directions, and that if things went wrong, I as the president would assume full responsibility.

Yoshio Kono President and CEO, The Norinchukin Bank, Japan



From a longer-term perspective, potential asset quality damage stemming from the Eurozone crisis must be considered. However, no major Russian bank has any significant direct exposure to the peripheral European sovereigns, and the oil and commodities prices seem to be very resilient as they are supported by the Chinese demand, better than expected US economic data and the continuing political unrest in the Middle East.

Andrey Kostin President and Chairman of the Management Board, JSC VTB Bank, Russia



We've not been able to take one strategy that will work in India, that will work in China, that will work in Brazil. So you have to adapt the strategy very much to the local market. In China our focus has been on largely organic growth because we are a foreign entity. We can't actually own content assets so we have to have a lot of established partnerships: in China partnerships are really critical for us. In other places like India they are probably far less critical and there it's about how to get distribution across the country. So each market is different and I think that the focus for us is how to tailor our strategy to meet the local needs of the business.

Nancy McKinstry CEO and Chair of the Executive Board, Wolters Kluwer, The Netherlands



When R&D, marketing and design work independently of one another, we do have some successes. But we don't get the same sort of amplifying effect like we do when they work together in the innovation triangle.

Keith McLoughlin President and CEO, AB Electrolux, Sweden



We still are relatively optimistic that we have an awful lot of opportunities both domestically in the US, as well as around the world to grow by, frankly, taking market share.

William McNabb III Chairman, President and CEO, The Vanguard Group Inc., US



We deeply believe we have to be in China to know that market and those competitors, in order to take them on at their own game. We learned that in the early 1960s when our predecessors went to Japan and successfully took on Komatsu, a very strong emerging competitor. That's exactly what we're going to do in China, where we've already established 15 plants with 9,000 employees. Our dealers there are strong. We're building the same Caterpillar business model in China as we have everywhere else in the world, and I believe Chinese customers will respond to that over time.

Douglas R. Oberhelman Chairman and CEO, Caterpillar Inc., US



The biggest factor facing the global economy of today is, how do we re-inject growth into countries? If we get that right, then there's a world of possibilities for the economy. If we don't, it's going to be left up to those growing economies to pull the rest of the world along.

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



We were a Greek company for 90 years – but in the last 15 years we’ve become a multinational company. The senior management team, however, remains, to a large extent, Greek and male. How does a company like ours develop a multicultural talent pool from which a future management team can be drawn?

Dimitrios Papalexopoulos CEO, TITAN Cement SA, Greece



Last year, many companies were battered. They do not have the capacity to invest in the future and the capital markets have become absurd. There have been no initial public offerings (IPOs), while private equity is also sceptical. Valuations have come down. Large projects have come to a standstill because of regulatory reasons or cash constraints. So there are several opportunities out there for a cash-rich group like ours.

Ajay G. Piramal CEO, Piramal Group Ltd, India



Trade with Africa has increased significantly; and importantly, intra-Africa trade has also increased. We are seeing the patterns of exports change more and more into the emerging market economies. If I look at our own client base, both in South Africa and in the other African economies that we operate in, and if I look at the global clients that we interact with in the Barclays Group, the question we get asked all the time is, ‘Can you help us do business in Africa?’

Maria Ramos Group Chief Executive, ABSA Group Ltd, South Africa



Right now, we’re at 50% penetration of Malaysian households. So the question becomes, how do we continue to achieve double digit growth every year? The answer is that we have to simultaneously move up the value chain, in line with customer trends and demands, ahead of current and would be competition, so as to earn our fair share of the customer lifestyle wallet. And to continue growing our customer numbers, both households and individuals. Our content reach, given the current technology can also travel beyond Malaysian borders. So we have to think of ways to monetise and build on this.

Rohana Rozhan CEO, ASTRO Malaysia Holdings, Malaysia



I understand the outcry, but there’s a risk that if the regulators respond in a populist way, the recovery could be threatened. The public and the private sectors went into the crisis together; now they need to come out of it together. So for us, dialog is very important and something that we pursue.

Martin Senn CEO, Zurich Financial Services Group, Switzerland



In terms of technical breakthroughs, the renewable energy industry generates an inordinate amount of innovation. So, we have stopped trying to be the company that generates all the ideas and instead we focus on the best ideas regardless of where they originate. Instead of always trying to be the inventor, Enel now wants to become the company that is best at commercialising innovations and bringing them to scale – whether those innovations are internal or external to our company.

Francesco Starace CEO, Enel Green Power SpA, Italy



When we look at products that we provide to an emerging middle class, we don’t believe they want a quality standard below what Americans or Europeans have come to expect. What we have seen, though, is that we have to find ways to build capacity in emerging markets at lower capital costs.

Michael Thaman Chairman of the Board and CEO, Owens Corning, US



I am not going to sit in London and try to set the product strategy in Indonesia. It's doomed to fail. The business model, the kind of people you get and the culture is very, very intimately linked. I believe that the fact we are a decentralised federal model allows us to have better quality people and, ultimately, to do better in the marketplace. The holy grail, if you wish, is when you can combine the federal model, which Pru has always had in its history, with financial discipline, which has been more the story over the last three or four years: the combination is very powerful. We consume 12% less capital than four years ago and generate 90% more profit. That's the same business but with central management of capital. Linking those two aspects is important.

Tidjane Thiam Group Chief Executive, Prudential Plc, UK



It is worth remembering that 40 million people have recently joined the consumer market and that Brazil is not seeing a crisis in demand. On the contrary, 45% of people do not yet have an LCD TV, 45% do not yet have a washing machine and 95% of the new middle class don't own their own home, most of them in the northeast. As these people enjoy higher living standards, they will want their own homes, cookers, fridge freezers, LCD TVs, etc.

Luíza Helena Trajano Inácio Rodriguez CEO, Magazine Luiza SA, Brazil



A lot of the risks you tend to look at on risk maps are less of the traditional, financial risks, the control risks – albeit I strongly believe that internal audit ought to continue to focus on those. But there is much more risk around changes in competition or your consumers and how you're trying to accommodate those in your business strategy.

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



We have many middle management positions taken up by this young generation, and they share the same visions and corporate culture as their colleagues. They are also committed to the paper business. I feel very confident that they will make a significant contribution to the enterprise, and build promising careers for themselves.

Cheung Yan Chairlady, Nine Dragons Paper (Holding) Ltd, China



In order to internationalise, talented individuals from the acquired company have taken charge of some important positions. And importantly, we focus on developing the talent of our long-term employees by providing them with new opportunities. In this way the company can reflect the achievements made in terms of the cultivation of staff in new acquisitions and the forging of our own talents. Success depends on the balance between these two aspects.

Yang Yuanqing Chairman and CEO, Lenovo, China



In all our companies we've had to change radically the way we do business. It's been an exciting time because the Ayala of today is now, in my opinion, far more relevant to the vast majority of our countrymen than it was 10 to 20 years ago.

Jaime Augusto Zobel de Ayala Chairman and CEO, Ayala Corporation, The Philippines

Research methodology and key contacts

This is the 15th Annual Global CEO Survey

We have followed the same methodology as used in previous years to ensure we are fairly representing the emerging economies of the world. We have conducted interviews with CEOs in 60 countries worldwide, and varied the number of interviews in line with GDP.

In total, we conducted 1,258 interviews with CEOs in 60 countries between 22 September and 12 December 2011. By region, 440 interviews were conducted in Asia Pacific, 291 in Western Europe, 236 in North America, 150 in Latin America, 88 in Central & Eastern Europe and 53 in the Middle East & Africa. The interviews were spread across a range of industries. Further details, by region and industry, are available on request.

The majority of the interviews were conducted by telephone, with some country exceptions. Interviews were conducted face-to-face in Africa and the Philippines, postal surveys were used in Japan and Korea and online surveys were completed in most central American countries. In addition, members of our global CEO panel were invited to take part online, with 167 CEOs across the globe providing their views through this online panel. All the interviews were conducted in confidence and on an unattributable basis.

The lower threshold for inclusion in the top 30 countries was companies with more than 100 employees or revenues of more than US\$10 million. This is raised to 500 employees or revenues of more than US\$50 million in the top 10 countries.

42% of the companies had revenues of US\$1 billion and over, and a further 34% had revenues of over US\$100 million up to US\$1 billion. The remaining 20% had revenues of up to US\$100 million. Company ownership is recorded as private for 47% of the companies, with the remaining 48% listed on at least one stock exchange.

To better appreciate what is underpinning the CEOs' outlook for growth we also conducted in-depth interviews with 37 CEOs from five continents over the fourth quarter of 2011. With global recovery still appearing fragile their insights look at how multinational businesses are adapting their approaches in these conditions, including understanding how the global economy is changing, how strategies are changing in response, and how talent strategies in particular are changing. 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 its 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 to the exclusion of 'neither/nor' and 'don't know' responses.

For further information on the survey content, please contact:

Sophie Lambin
Director of Global Thought Leadership
+44 20 7213 3160
sophie.lambin@uk.pwc.com

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

For media enquiries, please contact:

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

For enquiries about the research methodology, please contact:

Heather Harrison, Market Insights
+44 20 7212 8334
heather.s.harrison@uk.pwc.com

Acknowledgements

The following individuals and groups in PwC and elsewhere contributed to the production of this report.

We'd like to also thank our Network Leadership team – Dennis M. Nally, Robert Moritz, Ian Powell, Norbert Winkeljohann and Silas Yang – for their invaluable insights and support.

Core editorial team

Emily Church
Sophie Lambin
Larry Yu

Editorial board

Cristina Ampil
Justine Brown
Áine Bryn
Mike Davies
Jonathan Grant
Nick Jones
Christopher Michaelson
Elizabeth Montgomery
Oriana Pound
Leyla Yildirim

Advisory group

Fouad Alaeddin
Donald Almeida
Jon Andrews
Tom Craren
Moirra Elms
Simon Friend
Leo Johnson
Paula Loop
Sridharan Nair
Tony Poulter
Juan Pujadas
Bharti Gupta Ramola
Alastair Rimmer
Yael Selfin
Jan Stuesson
David Wu

Other contributors

Ian Bremmer
Poh-Khim Cheah
Miles E. Everson
Himani Gupta

Publishing and project management

Natasha Cambell
Angela Lang
Roxana Opris
Heather Harrison
Suzanne Snowden

Online and multimedia

Elaine Aitken
Ashley Hislop
Nick Masters
Blake Neiman
Julie Szydlowski

Design and layout

Design & Media – The Studio

Research and data analysis

The research was coordinated by the PwC International Survey Unit, located in Belfast, Northern Ireland.

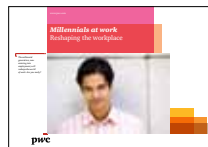
Related reading

10Minutes on the CEO agenda. Delivering results: growth and value in a volatile world (January 2012)



Continued uncertainty has taken a toll on CEO confidence in their prospects for business growth in 2012. But companies aren't on the defensive. Drawing on findings from our 15th Annual Global CEO Survey, 10Minutes on the CEO agenda explores eight critical questions for business leaders as they position their companies for long-term growth in their priority markets.

Millennials at work: Reshaping the workplace (December 2011)



The millennial generation, now flooding into employment, will shape the world of work for years to come. Attracting the best of these millennial workers is critical to the future of your business. In late 2011, PwC surveyed over 4,000 university graduates. This report explores their career aspirations, attitudes about work, and knowledge of new technologies.

Capital markets in 2025: The future of equity capital markets (December 2011)



Is the focus of capital markets finance moving eastward? Will emerging market

exchanges have the sophistication and infrastructure to challenge incumbent exchanges in the West? What are the drivers behind the change in capital market dynamics? These are some of the questions we asked in our survey of senior managers from companies across the globe. Their responses highlight the challenges facing incumbent markets in the coming two decades.

What next for the Eurozone? Possible scenarios for 2012 (December 2011)



The potential political and economic outcomes emerging from the Eurozone crisis in 2012 are disparate, although all share a similar theme.

A harsh adjustment to a new fiscal reality will be unavoidable, regardless of the path politicians decide to follow. This report analyses a number of scenarios and outlines the outcomes of each in terms of the potential Eurozone inflation and GDP impact over the medium term.

Securing the talent to succeed: Making the most of international mobility in financial services (November 2011)



There's a huge gap between financial services organisations' growth aspirations and the availability of talent in key growth locations to make this

possible. Drawing on interviews with senior HR executives from leading international financial services groups from around the world, this report explores the workforce management issues of matching talent with growth objectives and how companies can address these issues as part of their overall business planning.

The future redefined: Asia Pacific at an inflection point (November 2011)



As the Knowledge Partner for the 2011 APEC CEO Summit, PwC conducted a survey of over 300 business executives on the most pressing business issues and

trends. This survey explores topics such as barriers to trade, the growth of bi-lateral trade among countries within the region, the rising competition for talent, and the impact of innovations in the field of technology.

Paying Taxes 2012: The global picture (November 2011)



Based on a study of tax regimes in 183 economies worldwide, this joint annual report from PwC and the World Bank enables the comparison of tax

systems from the point of view of business. This year's study shows that tax reform is continuing around the world, with an increasing focus on improving the administrative aspects of tax systems.

Cybercrime: protecting against the growing threat. Global Economic Crime Survey (November 2011)



PwC's sixth global economic crime survey examines the causes and effects of fraud worldwide, focusing on the growing threat of cybercrime. A decade

on from our first survey and the fraud risk continues to rise. Our survey shows that economic crime is persistent and that organisations need to be vigilant and proactive when fighting fraud.

Eye of the storm. Key findings from the 2012 Global State of Information Security Survey® (September 2011)



According to the results of this study, the majority of executives across industries and markets worldwide are confident in the effectiveness of their

organisation's information security practices. This report explores the basis for this confidence, and examines where organisations have made progress in addressing information security over the past year.

Resilient growth: Making the most of opportunities away from home (August 2011)



CEOs aspiring to reignite company growth are looking at fast-growing emerging markets and seeking the opportunities that developed markets

continue to yield. In this report, PwC outlines the risks to look out for at each stage of the market lifecycle and how they could impact potential opportunities.

Post 3.11 Japan: Global Community's Perspective (July 2011)



In July 2011, we surveyed 201 global business leaders from our international CEO panel who participate in PwC's Annual Global CEO survey.

The aim was to gain insight into how the tragic events of the Great East Japan earthquake and Tsunami, and the ensuing crisis at the Fukushima nuclear plant, have affected international business leaders' confidence in Japan. The report looks at the strategic and operational lessons learned, and what Japan needs to focus on for its future competitiveness.

Growth re-imagined: Prospects in emerging markets drive CEO confidence (January 2011)



In the last quarter of 2010, we set out to uncover how CEOs were approaching growth, during a time when sustainable economic growth appeared far

from assured. We surveyed 1,201 business leaders in 69 countries around the globe. The results showed that two years removed from the depths of recession, CEOs' confidence in future growth had returned to nearly pre-crisis levels.

www.pwc.com/ceosurvey

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2012 PwC. All rights reserved. Not for further distribution without the permission of PwC. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.

Printed on FSC 50% recycled material, supporting responsible use of forest resources. Produced at a mill that is certified to the ISO14001 environmental management.