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Old-style strengths, new-style challenges

848 *private company CEOs interviewed in 79 countries*

75% *of private company CEOs say business success in the 21st century will be defined by more than financial profit*

74% *of private company CEOs are changing the way they develop 'ethical' products and services*

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"We are as professional and ambitious as any other company, but we are also value-driven, which means we can communicate to both employees and consumers in an emotional way without it sounding artificial. That's because our culture stems from our family rather than anonymous owners no-one knows.That builds loyalty inside the firm, and is very attractive to talented people outside. That's a huge advantage."

Christian Weber,
CEO, Karlsberg Brauerei

19th Annual Global CEO Survey - Private Company View

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Introduction from Henrik Steinbrecher

This year's PwC Global CEO Survey looked at how the business landscape is changing; from the accelerating pace of technological advances to the profound geopolitical, environmental, and economic shifts we are all now living with. We explored how companies and their CEOs are addressing those changes and making a success of them, and how rising stakeholder expectations are redefining what 'success' now means.

60% of the 1,400 respondents this year were privately owned,[1] and we have all been struck by how much similarity there is between private and public CEOs' answers this year. There is a caveat here, in that the questions were looking at particular topics, so it's important not to draw general conclusions from specific data; but that said, in the areas explored, all CEOs are clearly facing similar risks, challenges, and opportunities and regardless of sector or ownership structure. From internal issues like fostering innovation and attracting talent, to much wider external trends, such as climate change, geopolitical shifts, and technological advances, these are challenges demanding new approaches, and new ways of working.

There are some differences in the responses of public companies and private ones and while these were sometimes subtle, they're worth examining for what they tell us about this vital part of the economy, and the risks and opportunities they face in a world of change. Risks, because private companies sometimes find it harder to access the capital they need to grow internationally and invest in new technology. And opportunities, because trust is more important than ever before, and private and family-owned businesses have built their own success on the strength of their relationships with partners, customers, employees, and communities. In 2014, for example, the Edelman Trust Barometer showed the public trust family-owned businesses almost twice as much as big business in general – 85% versus 45% in North America, and 76% versus 47% in the EU.[2] Private companies have other innate advantages too, which many of them could make more of, such as flexbility, freedom from a short-term reporting cycle, strong values, authenticity, and lean decision making.

1 Family-run, private equity-backed, a partnership or owner-managed.
2 www.edelman.com/p/6-a-m/family-business-ceos/

In the rest of this report we look at the results from the private company sector in more detail, through the three interrelated perspectives of progress, perceptions, and people. In all three areas there are significant opportunities for private businesses, as well as emerging issues which they will need to address. But what's most exciting, for me, is how private companies are leveraging the strengths of their special business model to succeed in the 21st century. In other words, using some old-style strengths to succeed in a brave new world.

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Progress: Achieving growth in complicated times

The business environment has never been more complex, or more volatile, but private companies are very confident about their prospects.
81% of private company CEOs believe their company is likely to grow its revenue over the next year, which is only slightly lower than the public company average of 84%. Companies defining themselves as private partnerships are even more confident, at 86%.

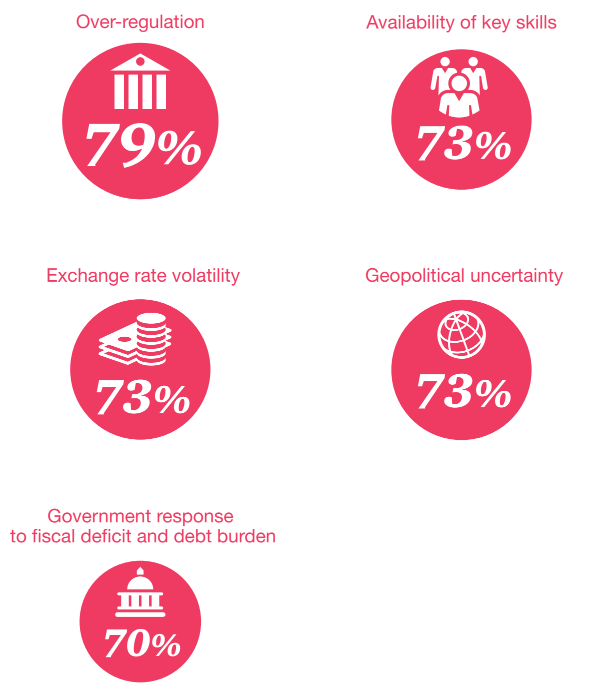
As many as 91% of private company CEOs see growth over a three-year period. In the next twelve months, they believe this growth will come primarily from the US (37%), China (31%), and Germany (19%), the same three countries which dominated in the previous two surveys. China has, of course, recently announced its lowest growth figures for 25 years, sending the world's stock markets into a crisis of confidence. But even at the peak of its growth, China was a demanding market for foreign businesses, and its huge size – geographically and in terms of population – remains both a vast opportunity and an enormous challenge. But if they can secure the funding and the operational expertise they need to operate there effectively, private companies could have many advantages compared to public ones: they can take a longer perspective than businesses required to report quarterly figures, and many of them have built their success on the strength of personal relationships, which is still the way much business is done in China. As noted by Ken Esch, a partner in PwC's Private Company Services in the US, these companies are "more able to think with a longer horizon, [so] they can seize opportunities and keep themselves in the game, even when conditions don't look good in the near future."[3] And, of course, this is an advantage which applies to any kind of long-term investment, both domestic and overseas.

Looking more widely, only 28% of private company CEOs (and 27% of public ones) expect the overall world economy to improve in the next 12 months, which is significantly down from last time. This raises some interesting issues about why so many CEOs – public and private – are confident in their own prospects, especially since 66% of private company CEOs believe there are more threats to their company's growth now than there were three years ago (up from 58%, when we asked the same question in 2015). To take one example, 66% of owner-managed companies, and 62% of Private Equity-backed firms, are concerned about new market entrants, compared to 57% of public companies, and 59% of private companies as a whole.

But in business, risk has always been the flipside of opportunity, and 58% of private companies also believe there are more new prospects for growth now than before. The strength of the private company sector has always been its ability to make decisions quickly, and move swiftly to seize opportunities.

3 Trendsetter barometer® Q4 2015, PwC US, 2016

Figure 1 **Private company CEOs are concerned or extremely concerned about the following factors potentially threatening growth**



Base: responses from 848 private company CEOs

What we observe today in the world in terms of trade agreements is a type of multi-polarity, where we no longer have two world powers fighting over geopolitics

David Bojanini

President, Grupo SURA, Colombia

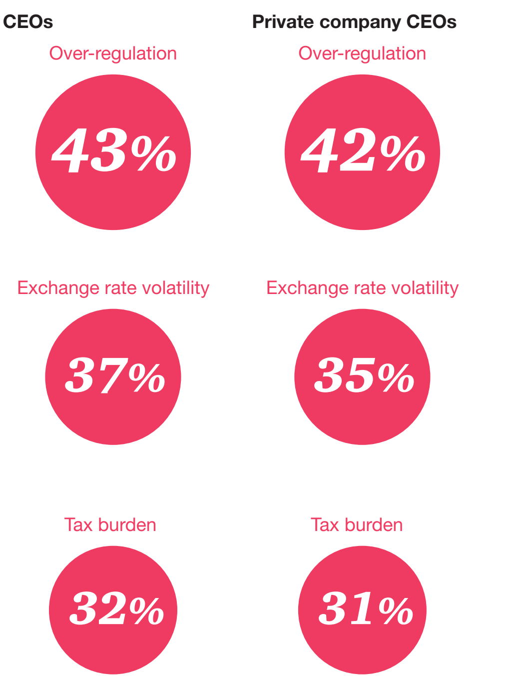
At the same time, private company CEOs want to be as competitive and efficient as their publicly listed peers, and 65% intend to implement a cost-reduction initiative in the next year. This is noticeably below the figure of 74% for public firms, which could mean that private companies have done more of the necessary restructuring already, or conversely, that they are lagging slightly and need to look at this area as a matter of urgency.

Forty-seven percent of private companies are planning a new strategic alliance or joint venture in the next year, which rises to more than half among owner-managed private companies, and 25% plan a domestic merger or acquisition, compared to 31% for publicly listed companies. More public companies plan a cross-border merger or acqusition than private ones (29%, compared to 21%), and only 14% of owner-managed firms have this in mind, which is perhaps not surprising given the operational and financial resources required to do this. The surprise here, though, is the 31% figure for family businesses, which is not dramatically higher, but interesting nonetheless, given that family firms are often thought to lack the skills to complete international M&A successfully. But they also know that as the world gets smaller, and more consumers buy online across borders, having a fortress mentality at home will no longer be enough: private companies of all kinds need to think about how they will compete internationally, and decide the best way to do this – whether by overseas expansion, joint ventures, foreign branches, or strategic partnerships.

There are huge opportunities out there – as well as risks that need to be managed

All businesses are facing different political, social and economic risks. The top three risks for private sector CEOs compared with their public counterparts are (Fig 2):

Figure 2 **CEOs are getting more concerned about a wide range of risks. The top three economic, policy, social and business threats to an organisation's growth prospects are:**

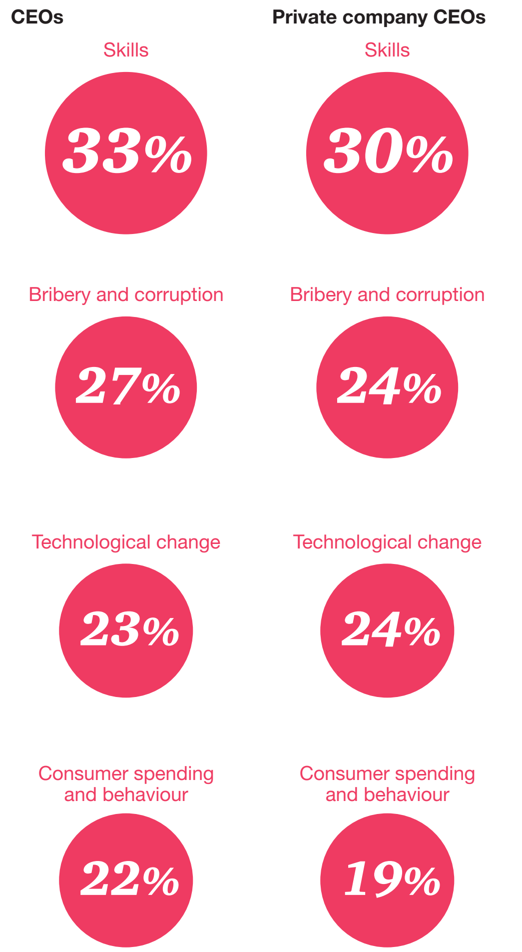


Base: responses from 848 private company CEOs

74% of private company CEOs also believe the world is more likely to evolve into regional trading blocs than a single global marketplace. Though as we have discussed, even if this is the case, it will be important to develop a global mind-set, as consumers will think and act that way, even if the mechanics of world trade operate regionally.

And looking more narrowly at business threats, all CEOs are getting more concerned about a range of risks, the top four being (Fig 3):

Figure 3 **Regarding business threats specifically, CEOs are getting more concerned about a wide range of risks, the top four being:**



Base: responses from 848 private company CEOs

But no company can afford to be complacent around technological change. The cost of this sort of investment is undeniably high, but doing nothing is no longer an option. As Abdullah Al Majdouie, President of the Saudi Arabian Al Majdouie Group, says, digital is "not an option any more, it's necessary to keep the business alive. We have a dedicated communications unit for social media, interacting with customers and managing our online reputation."[4]

Through the development of social media everybody knows everything, in a way. As a company you are much more transparent, or you have to be much more transparent, about what's going on

Dirk Van de Put
CEO, McCain, Canada

The only threat I can foresee as the world economy becomes integrated, is if you don't move, if you don't change, you will be left behind

Don Lam
CEO and Founding Partner, VinaCapital, Vietnam

A different world is coming. I am no expert in IT, but technology forces us to rethink many of our businesses

Luis Pagani
Presidente, Grupo Arcor, Argentina

4 Up close and professional: the family factor, PwC's Global Family Business Survey, 2014

Perceptions: Addressing greater stakeholder expectations

Family-run companies, in particular, have a business model built on trust, personal relationships and strong values, and as stakeholder expectations change this could become a significant competitive advantage.

In PwC's 2012 Family Business Survey,[5] 78% of respondents believed that family firms have stronger culture and values than other types of company, and a more personal approach to business based on trust. Many other types of private company would also say the same. In the new business landscape trust is ever more important, and ever harder to build. It's something of a paradox, but as the world becomes more global, consumers increasingly want a real relationship with the products or brands they buy – an emotional connection, or confidence in its authenticity. Clearly, family and private businesses could have a real advantage here, and this is reflected in the CEO Survey results: 58% of public company CEOs are concerned about public trust in business, but this falls to 53% for private companies, and 48% for family firms.

It's no surprise that consumer expectations have a big influence on corporate strategy – 90% of all CEOs say customers have a high or very high impact in this respect, and the figure is marginally higher for private company CEOs, at 91%. As John Winning, CEO of the Winning Group, Australia, says, "It's about culture, and it's about the customer. In fact, the two go hand in hand. The customer always comes first in everything that we do, and our people know they are absolutely being empowered to make decisions to the benefit of the customer."[6]

If you want to be profitable consistently, you need to provide your customers with value in the way they measure it

Eduardo Stock da Cunha

CEO, Grupo Novo Banco, Portugal

Private company CEOs are also making changes in the way they develop new 'ethical' products and services in response to changing stakeholder expectations – 74% are doing this to some extent, and 27% are making significant changes, which compares to 19% in publicly listed companies. The number of these ethical, sustainable and Fairtrade products has been growing fast in the last few years, with the increasing purchasing power of the millennial generation being one important reason.

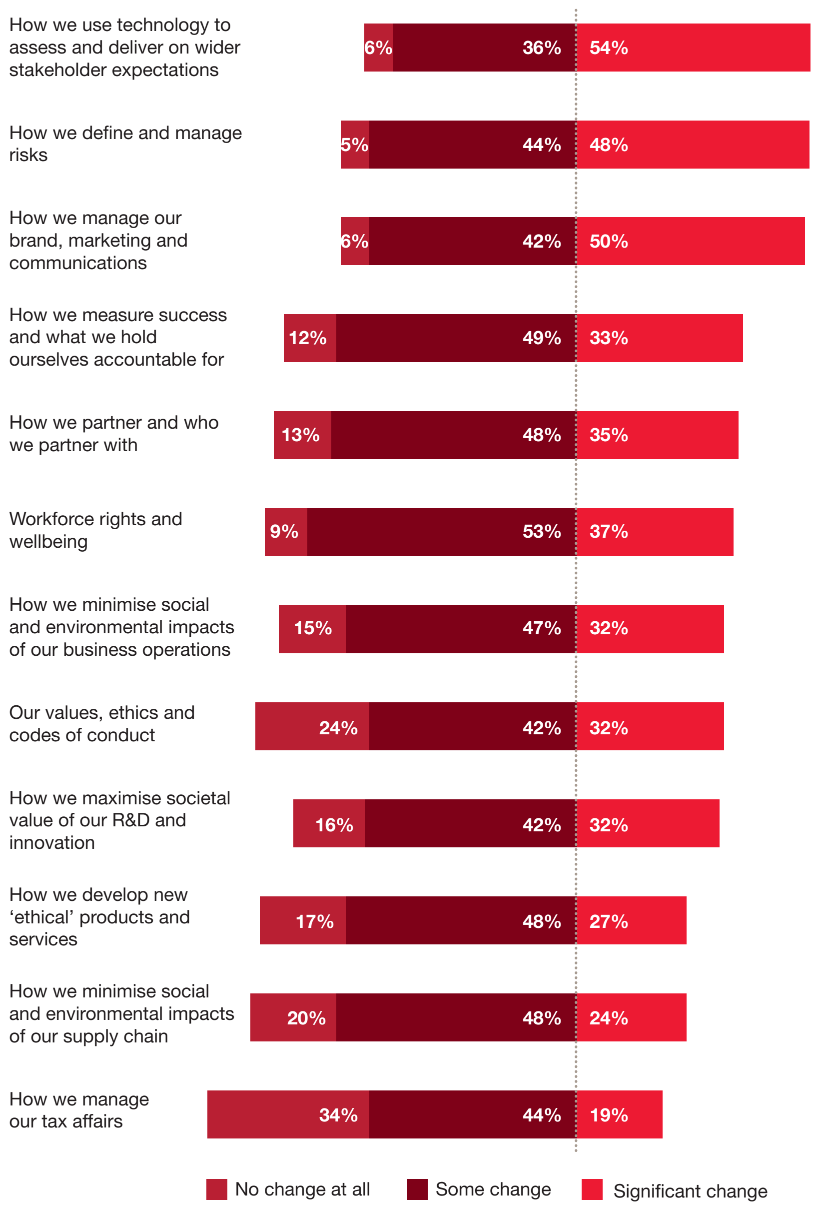
And it's not just product ranges that are changing. Companies are now making major adaptations to the way they manage every aspect of their business to take account of how the world sees them. Ninety-two percent of private company CEOs are changing how they manage their brand, marketing and communications, and the same percentage are looking at how they define and manage risks. Ninety percent are making more use of technology to assess and deliver on wider stakeholder expectations. In all these cases, the numbers are exactly the same for the sample as a whole.

Forty-seven percent of private company CEOs believe the greatest challenge in addressing stakeholder needs is the extra cost it imposes on the firm, but compared to public companies, fewer of them see a conflict between meeting these expectations and delivering financial performance (30%, versus 37% for public companies).

5 Family firm: A resilient model for the 21st century, PwC, 2012
6 Up close and professional: the family factor, PwC's Global Family Business Survey, 2014

Figure 4 **Technology and risk management are the top areas in which private company CEOs are making significant changes to respond to stakeholder expectations**

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations?



Base: responses from 848 private company CEOs

Strategy is changing, as is the definition of 'success'

The majority of private companies have made changes to their organisation's purpose to address wider expectations – 66% have done this in the last three years, and 43% say they have always had a purpose that includes the broader impact they have on society (the comparable number for all respondents is 45%). To quote Philip Mills, CEO of the family-owned Les Mills International, "It's not just about building a big international brand – it's about making the world a better place. That's the important part."[7]

Organisational purpose and values also topped the list of issues that private company CEOs want to communicate more effectively (59%, rising to 63% for family firms, and compared to 57% for public companies). Family firms certainly have a good story to tell on values, as we discuss later.

Our organisation has a very clear purpose, which is to generate value and trust among the stakeholders with whom we interact. I'm talking about customers, shareholders, employees, suppliers, regulators

David Bojanini
President, Grupo SURA, Colombia

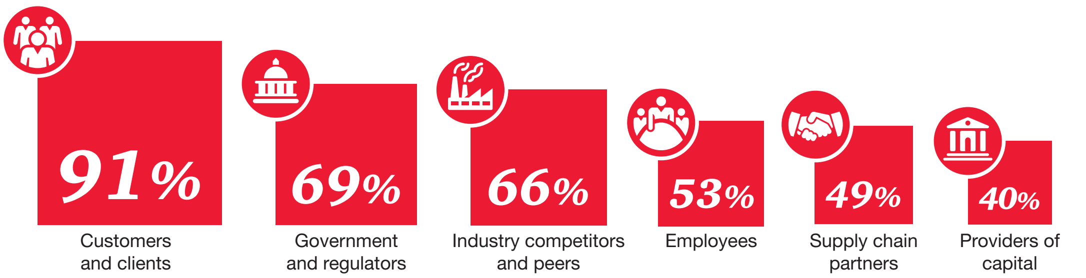
As a business develops, especially a business of a large size that is under a lot of public scrutiny, like CMI, we have to take two interests into consideration from the very beginning and align them. These are the company's interests and society's interests, which should be aligned with one other

Li Huaizhen
President, China Minsheng Investment Corp., Ltd., China

7 Up close and professional: the family factor, PwC's Global Family Business Survey, 2014

Figure 5 Customers and clients are top priority for private company CEOs

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?



Note: Respondents who indicated high or very high impact
Base: responses from 848 private company CEOs

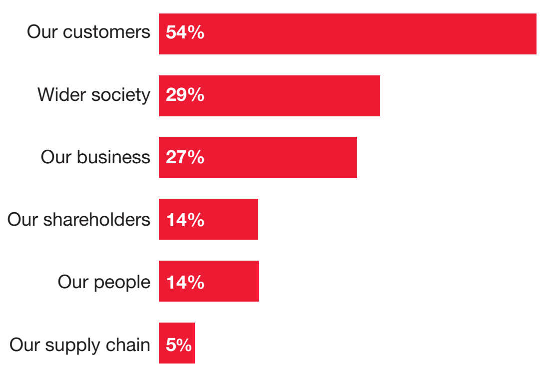
Like all other companies, private businesses are looking to new technology to help them engage more effectively with the outside world – from social media to CRM systems to web-based collaboration tools. Given the vast and growing range of digital tools available, it's important to approach this sort of investment with a clear idea of who you want to communiate with, and the best channels to use to do that.

The stakeholder groups which have the biggest impact on strategy, aside from customers and consumers, are government and regulators (69% of private company CEOs say they have a high or very high impact), industry competitors and peers (66%), employees (53%) and the general public (33%). For the last two categories the numbers are slightly higher for private versus public companies which may be due to the family structure and prominent community status of some of these businesses. Family businesses rank suppliers more highly than the average (58%, versus 48% overall), which probably reflects the fact that they often have personal relationships with their business partners, some of which can date back many years: for example, J Miles Reiter is CEO of the US fruit business Driscoll Strawberry Associates Inc., and in their case "most of [our] growers are multigenerational companies, so they have some of the same aspirations that we do. There are bonds beyond financial that hold you together."[8]

Seventy-five percent of private company CEOs agree that business success in the 21st century will be redefined by more than financial profit, and this will need new definitions of success, and new approaches to reporting to measure and monitor these new criteria. That's leading to new approaches to reporting, both in terms of content (the 'what'), and channel (the 'how'). The 'what', in particular, needs to broaden out to include non-financial material such as employment and environmental information.

Figure 6 CEOs describe their corporate purpose in terms of value for a variety of stakeholders

Q: In your own words, what is the purpose of your organisation today? To create value for...



Base: responses from 848 private company CEOs

Well, to my mind, our core objective as an investment firm is always making money for investors, first and foremost. You need to make money so that you can use that profit and give it back to society

Don Lam
CEO and Founding Partner, VinaCapital, Vietnam

Regulators have to understand the new environment in which we operate in order to make public policies that really respond to the new situations

David Bojanini
President, Grupo SURA, Colombia

That's part of our founding spirit ... We have to have a long-term vision to be a good corporate citizen, not separate from the main business

Takeshi Niinami
President and CEO, Suntory, Japan

8 Up close and professional: the family factor, PwC's Global Family Business Survey, 2014

People: Securing the right skills, and fostering innovation

It's more important than ever to find, develop, and retain the right people, with the right mix of skills and creativity.

In this year's CEO Survey, 73% of private company CEOs were concerned to some degree about the availability of key skills, which is broadly the same as the sample as a whole. But as we have already discussed, 33% of private CEOs are extremely concerned, versus only 25% for their publicly listed peers, and that figure rises to 40% for owner-managed businesses.

Skills are always high on the list of issues in PwC's Family Business Survey: in 2014, 61% of those respondents saw skills as their key challenge for the following five years. Family firms can struggle to provide the clarity of career path offered by multinationals, and restricted shareholding structures mean that neither private nor family businesses tend to offer the same stock options that public companies do. Likewise, at the very top, the most talented C-suite candidates may be wary of investing their career in a family business, given the difficult and sensitive issues involved, and the potential for disputes among family members. Issues like this may help to explain why 42% of CEOs of family-run businesses are looking to change the pay and incentives their company offers, compared to 35% of private companies in general, and 33% for the CEO Survey sample as a whole. Likewise 33% of private companies are focusing on skills and adaptability in their people, compared to just 24% for publicly listed companies.

The big question that people these days ask is, "Who is the company I work for? ... What's the purpose of this company? What is it trying to achieve, and what's my role in it?" ... The millennials [specifically] are very in-tune with what the purpose of the company is

Dirk Van de Put
CEO, McCain, Canada

We always have to be alert to the reaction of millennials in any part of the world ... because they are the future to lead the country. They are the target to check if we are doing fine or not as a corporate citizen

Takeshi Niinami
President and CEO, Suntory, Japan

Family firms have the added complexity of managing effective succession and defining how to engage the next generation and their role as owners and managers.

In the new business landscape, innovation is no longer just a 'nice to have'.

Companies with a focus on innovation used to be the clear leaders in their field, with the rest often reaping the benefits of the pioneers' ideas. But the pace of change is now so fast that every company will have to innovate or die, and sustainable competitive advantage will be about an organisation's capacity for constant reinvention: not just its business model, but its products and services, and its route to market. As this suggests, this will mean being innovative inside the company as well as outside, by exploring new ways of working, and harnessing the creativity of all employees, not just those who work in R&D.

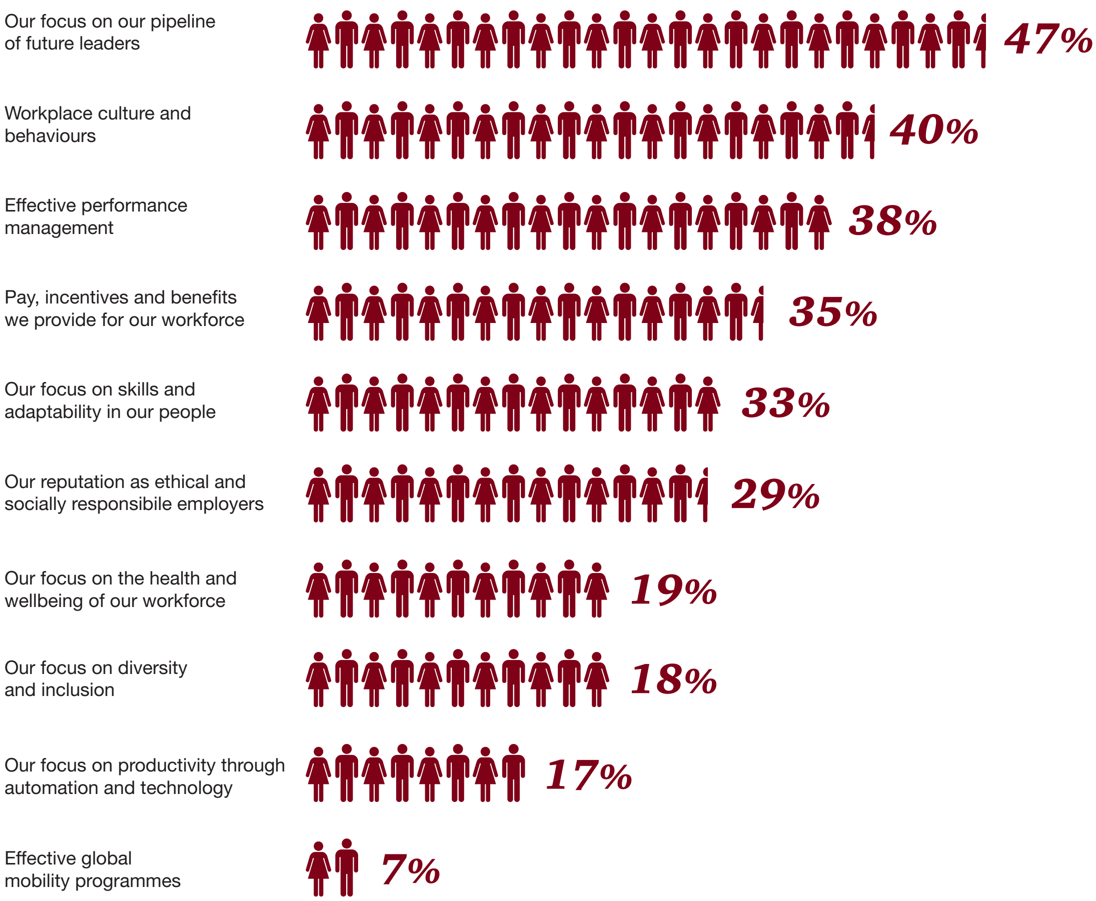
In PwC's 2014 Family Business Survey, the ability to continually innovate was the single most important challenge cited by respondents – 64% said this was top of their agenda for the next five years. And in this year's CEO Survey, innovation ranked top of the list of issues private companies want to measure more effectively, in terms of their impact and value to wider stakeholders (59% cited this, compared to an overall average of 55%).

As more millennials enter the workforce they bring new skills with them – not just a familiarity with digital technology, but a more flexible approach to work.

All companies – private and public – need people who are comfortable with digital technology, and understand the other global trends which are changing the business landscape. The major demographic changes we're seeing across the world mean that 'millennials' are making up an ever-growing proportion of the workforce, and this will rise to around 50% by 2020.[9] These young people have different goals for their working lives than previous generations did. They want a comfortable lifestyle and the money to finance it, but they also want more intangible things from work, like the chance to achieve, and a sense of connection and purpose. They see careers as portfolios of experiences rather than a ladder to be climbed in one organisation, and hence only 18% plan to stay in their current role for the long term.[10]

Figure 7 Private company CEOs are most likely to change their talent strategy to focus on their leadership pipeline

Q: What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



Base: responses from 848 private company CEOs

9 Millennials at work: Reshaping the workplace, PwC, 2011
10 Millennials at work: Reshaping the workplace, PwC, 2011

So how do companies attract and keep these talented young people? Getting the basics like pay and benefits is important, but clearly working culture and values have a very large part to play. Millennials want to be proud of their employer – to feel their company's values match their own, and that they're doing work that's worthwhile. Hence private businesses – like public ones – agree that in five years' time top talent will prefer to work for organisations which have values which are aligned to their own (66% versus 69%). This is another area where both private and family businesses can have a real advantage. As Christian Weber, CEO of the German family firm Karlsberg Brauerei, says, "We are as professional and ambitious as any other company, but we are also value-driven, which means we can communicate to both employees and consumers in an emotional way without it sounding artificial. That's because our culture stems from our family rather than anonymous owners no-one knows. That builds loyalty inside the firm, and is very attractive to talented people outside. That's a huge advantage."

In this year's CEO Survey, 47% of private company CEOs said they're changing how they manage their pipeline of future leaders to help attract, retain and engage the people they need to remain relevant and competitive, and this will include the millennial generation. This figure compares to 53% for publicly listed companies, which isn't a huge difference, but may indicate that private companies need to work a little harder here. Likewise only 18% of private company CEOs said they are focusing on diversity and inclusion, which tend to be bigger issues for younger workers. They're noticeably lagging public companies here, where the number is 27%.

?

Questions to ask about people and talent

How are you ensuring that millennials see you as an employer of choice?

Are your values a USP which will appeal to talented people outside the organisation, and if so, are you communicating them strongly enough?

Do you need to do more on diversity and inclusion?

Have you identified the right capabilities to support you from strategy to execution?

What are you doing to enable your people to work towards better meeting new and wider stakeholder expectations?

Have you got a robust and documented succession plan in place for ownership and management of your business?

Conclusion

The results from this year's CEO Survey have led us to conclude that there are three core capabilities that CEOs need to focus on to equip themselves for growth in complicated times, whether they run a private or a publicly listed business.

The first is about managing ***perceptions*** and addressing greater stakeholder expectations. CEOs accept that their customers and other stakeholders want them to do more to tackle important problems, from the social to the environmental. The key to success here is to have a strong corporate purpose and values, which are reflected in how the company behaves, and meets what stakeholders want, both in terms of what it does, and how it makes its profits. Private companies are well placed to do this, and family firms have a particular advantage.

The second is about harnessing ***technology, innovation and people*** to develop and execute strategies that meet these greater expectations, while also delivering fundamental profitability. Technology and innovation can sometimes be a challenge for private companies, especially if they are struggling to find the capital to fund large-scale investment. But when it comes to digital, in particular, it's now a case of adopt or die. As for talent, private companies need to focus on the advantages and attractions of their distinctive working culture and values, and ensure they are creating a workplace that appeals to millennials.

And finally, CEOs from all businesses need to think harder about how they ***measure and communicate*** success, and this covers both financial information and wider issues such as purpose and values, and contribution to society.

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