

Under embargo until 25 January 2012

15th Annual Global CEO Survey 2012  
*Executive Summary*

# *Delivering results*

## Growth and value in a volatile world



## **In 2012, CEOs face rising uncertainty in the global economy, as developed economies struggle to sustain recoveries.**

In the PwC 15th Annual Global CEO Survey, we asked CEOs how they see the global economy evolving this year and beyond, and how they expect to deliver business results in this environment. We surveyed 1,258 business leaders in 60 countries from September to December 2011, and conducted further in-depth interviews with 38 CEOs.

We found a growing sense of preparedness and a surprising optimism: chief executives were nearly three times as confident of their companies' growth this coming year as they were in the global economy's growth. Their strategies to achieve this success centre around addressing three areas:

- balancing global capabilities and local opportunities
- resilience to global disruptions and local risks
- the talent challenge

This document highlights key findings in the CEO Survey. Please go to [www.pwc.com/ceosurvey](http://www.pwc.com/ceosurvey) to read the full report and explore other online tools.

## **Telling the CEO survey story**

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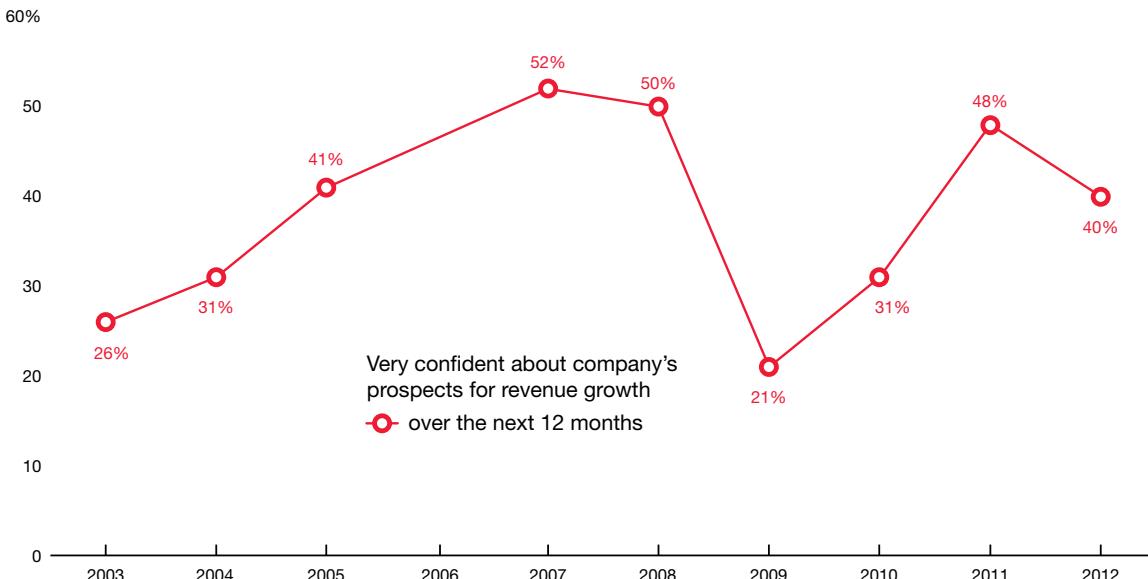
## 1. How is 2012 shaping up?

Four years into the global financial crisis and uncertainties are mounting: just 15% of CEOs expect the global economy to improve this year, and confidence is down among CEOs across all regions, except for the Middle East and Africa. Yet while CEOs don't think growth will be easy, they do believe they're more ready for turbulence. As a result, 40% are 'very confident' in prospects for revenue growth in their own companies in the next 12 months.

Improved cost structures, continued strength in cross-border ties and the rise in investment and commerce to and from emerging economies are lending considerable support to business optimism. 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. 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.

### 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

*"The emergence of a middle-class in India and in China is going to be a huge stimulus for the global economy over the next 20 years. Additionally, emerging technological advances – whether in the digital domain, bio-technology, or any number of fields – still have a long way to go before their full positive effect on the economy is felt. So I am concerned about the next two or three years, but optimistic over the long-term."*

**Dimitrios Papalexopoulos**  
CEO, TITAN Cement SA, Greece

*"The message that we're going to take five to ten years to recover doesn't get through at all and so readjustments between the expectations and the reality are painful. Maybe because we are a long-term business, we tend to think about the long term a lot and our interpretation of the crisis was that it would take a long time. It's just simple maths. If you destroy 10% to 15% of your GDP and you need to recover it and you're growing at 1% or 2% per annum, it's not difficult to figure out how much time it's going to take to get back to where you started."*

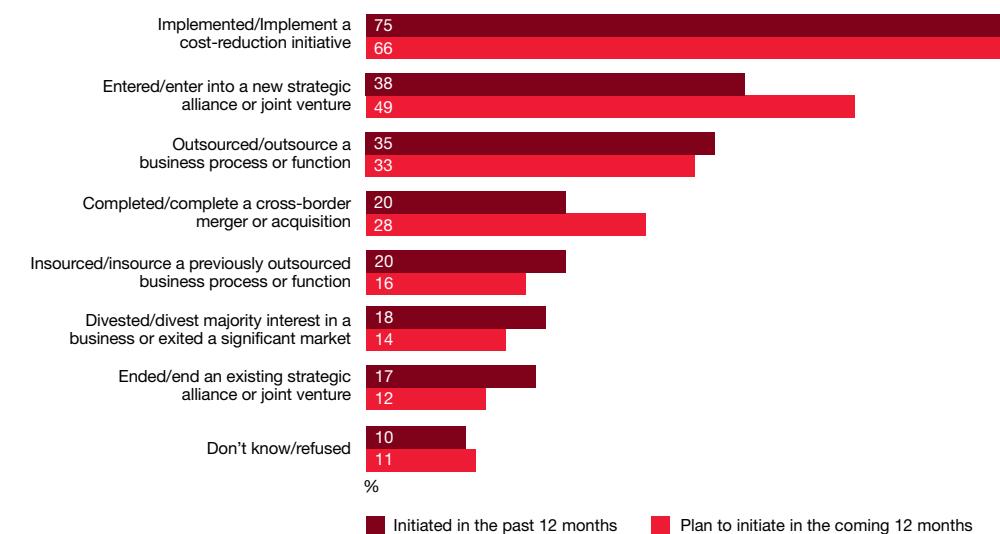
**Tidjane Thiam**  
Group Chief Executive, Prudential Plc, UK

## 2. So CEOs are preparing for the worst?

CEOs are paring down ambitions in the near term as recoveries in Europe and the US disappoint. Volatile input costs and currency fluctuations continue to pressure margins in many sectors. Thus many CEOs are holding back their cash reserves as a buffer against an economic pullback: fewer CEOs are planning a ‘major change’ to capital investment strategies this year than did in 2011. Similarly, CEOs are keeping vigilant watch over their operating costs: 66% plan to initiate cost cuts in 2012, with CEOs in healthcare and the forestry and paper industries most likely to pare costs.

### CEOs to remain vigilant over costs

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



Base: All respondents (1,258)

Source: PwC 15th Annual Global CEO Survey 2012

*“We’ve entered into some significant outsourcing agreements, not only with respect to administration but also mill maintenance with the aim of achieving maximum flexibility in the use of our assets at a time of great uncertainty.”*

**Jouko Karvinen**

CEO, Stora Enso Oyj, Finland

*“What we have seen, though, is that we have to find ways to build capacity in emerging markets at lower capital costs.”*

**Michael Thaman**

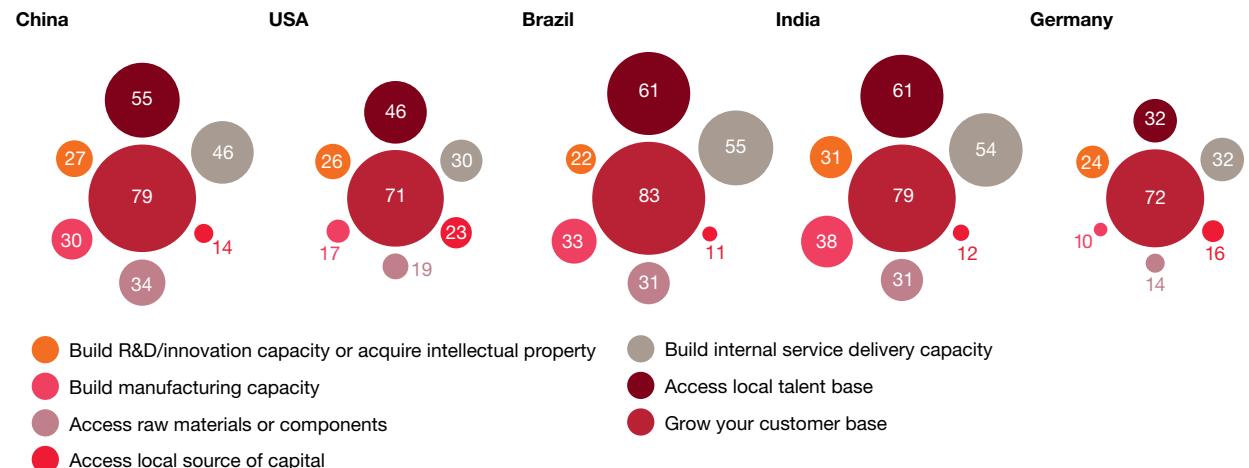
Chairman of the Board and CEO, Owens Corning, US

### 3. How, then, can CEOs be confident?

This is where it gets more interesting. Almost a third of CEOs globally believe that their biggest opportunities for growth lie in developing new products and services to differentiate themselves and remain competitive. 30% are determined to expand share in existing markets. Above all, CEOs are looking to grow outside their home base, and are simultaneously building local capabilities in each of their important markets. They are extending operational footprints, building strategic alliances and creating networks that include research and development (R&D), manufacturing and services support. Building manufacturing capacity, for example, is important for many CEOs in each of their key markets, so China faces increasing competition as CEOs reach further afield.

#### 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? (Top five 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)  
Source: PwC 15th Annual Global CEO Survey 2012

*"We have stepped up our global investment programme over the last 18 months, particularly in emerging markets, including Thailand, China, India, Indonesia and Brazil. We're putting in new brick-and-mortar facilities and adding capacity in order to expand our ability to manufacture and assemble products in those markets. I firmly believe that with seven billion people on the planet wanting to live as we do in the US, they're going to want infrastructure. Caterpillar makes infrastructure, so we have to be there."*

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

*"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."*

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

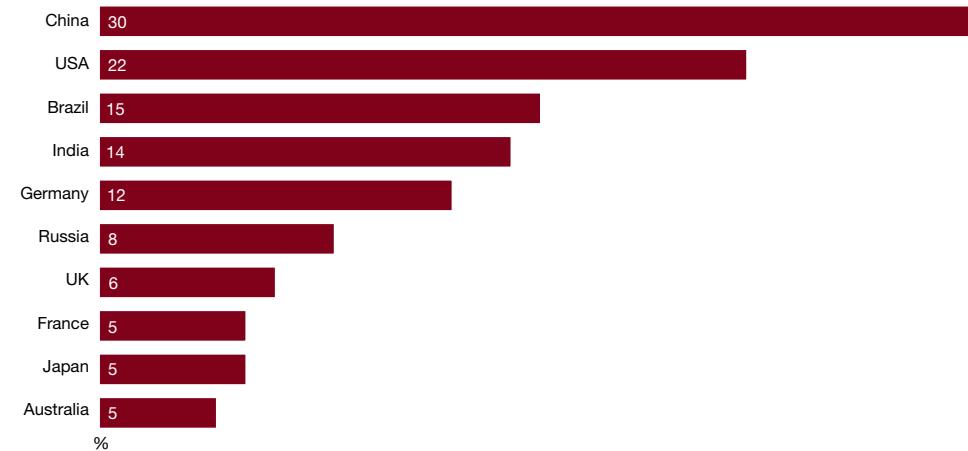
## 4. Will there be a continued rush into fast-growing, emerging economies?

Not entirely. Emerging economies are an increasingly important source of growth for most CEOs, whether these markets are close to home or 5,000 miles away. Yet developed and emerging economies alike are considered destinations that CEOs believe are critical for their organisations. Over 60 different economies were named by CEOs as key overseas markets. Solid growth and rising domestic spending power in more economies around the world, like Indonesia, Colombia and Turkey, for example, are propelling CEOs past a mindset focused solely on the BRICs.

The US and Germany were among the economies identified by the most CEOs, and mentioned as economies where they are expanding capabilities. Nearly 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.

### CEOs are focusing on a mix of large emerging and developed markets

Q: 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: All respondents (1,258)

Source: PwC 15th Annual Global CEO Survey 2012

*"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."*

**Keith McLoughlin**

President and CEO, AB Electrolux, Sweden

*"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."*

**Nancy McKinstry**

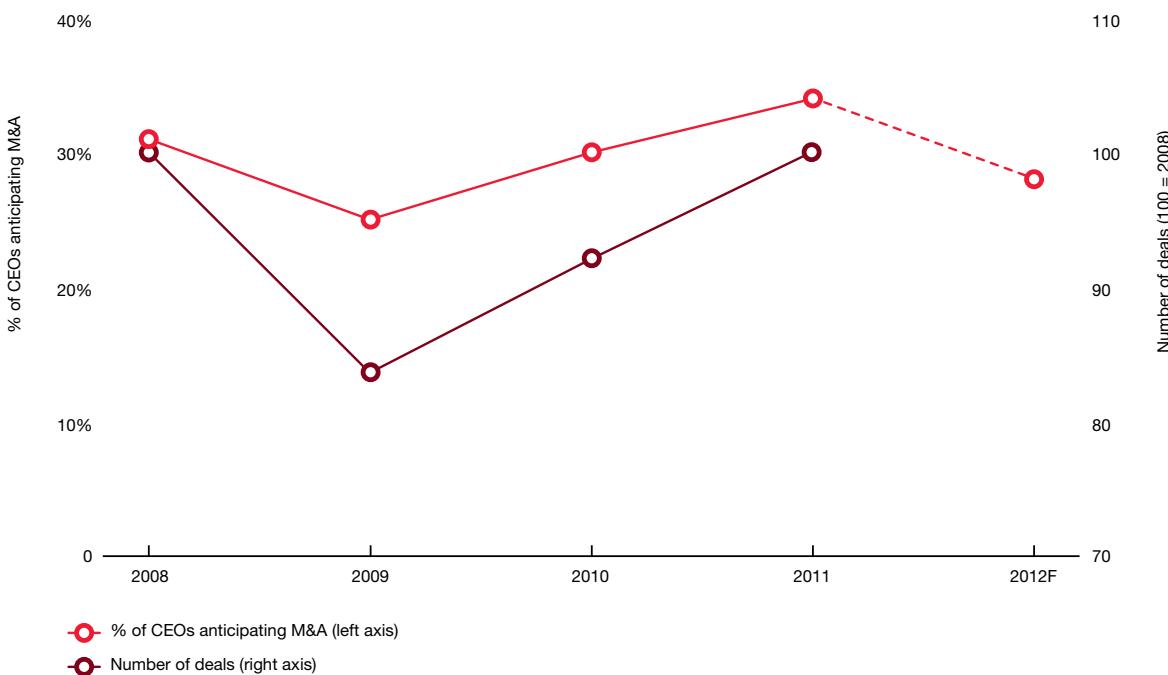
CEO and Chair of the Executive Board, Wolters Kluwer, The Netherlands

## 5. Does that mean we'll see more M&A this year?

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 markets were active deal-makers in 2011, with 26% completing a cross-border transaction, and were also more likely to have divested an operation. But 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.

### 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

*"Company valuations are now much more attractive than they were last year. Today, we would pay half or one-third of what we would have paid for these companies last year."*

**Ajay G. Piramal**  
CEO, Piramal Group Ltd, India

*"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."*

**Yoshio Kono**  
President and CEO, The Norinchukin Bank, Japan

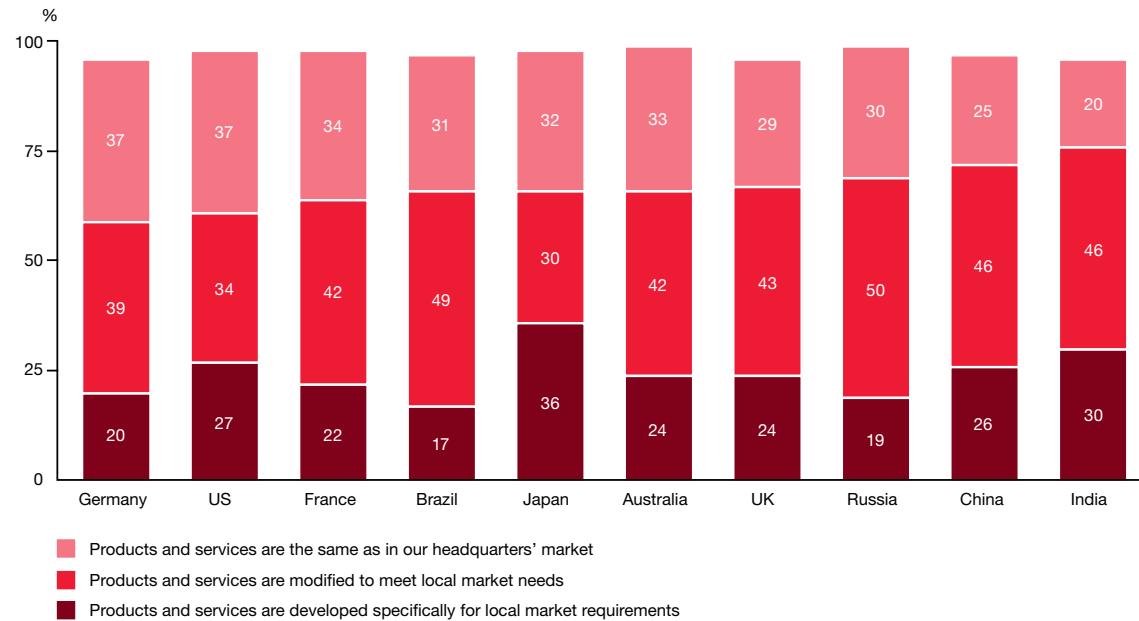
## 6. So the plan is to step up exports instead?

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. 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.

### 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

*"We've certainly seen much more innovation coming from outside the US. Ten years ago, less than 40% of our sales were outside the US. Today it's approximately 55%. 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

*"Our Latin American business is booming. One of the fundamental elements there was to think about a more affordable price point with more affordable programming for the market's middle class."*

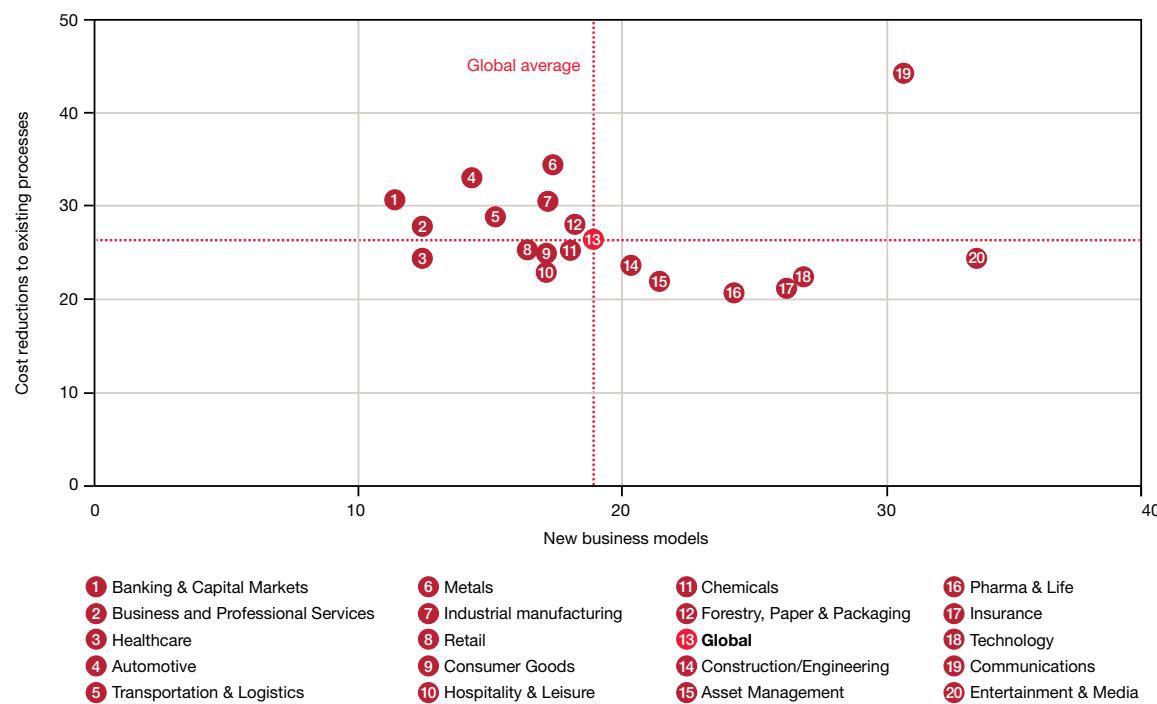
**Michael White**  
Chairman, President and CEO, The DIRECTV Group Inc., US

## 7. Doesn't this put a big emphasis on innovation?

Cost reduction remains an important driver of innovation, but the drive to get ahead by fostering innovation is unmistakable. With strong balance sheets supporting investments to grow future business, over half of CEOs (56%) who are changing innovation strategies are pursuing opportunities in new business models. CEOs in the communications, and media and entertainment sectors, facing swiftly changing dynamics in their industries, are the most active on all fronts, whether it means refocusing innovation efforts for existing products and services or for entirely new products in new models. 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 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.

### 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

*"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."*

**Antonio Rios Amorim**

Chairman and CEO, Corticeira Amorim SGPS SA, Portugal

*"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."*

**Yang Yuanqing**

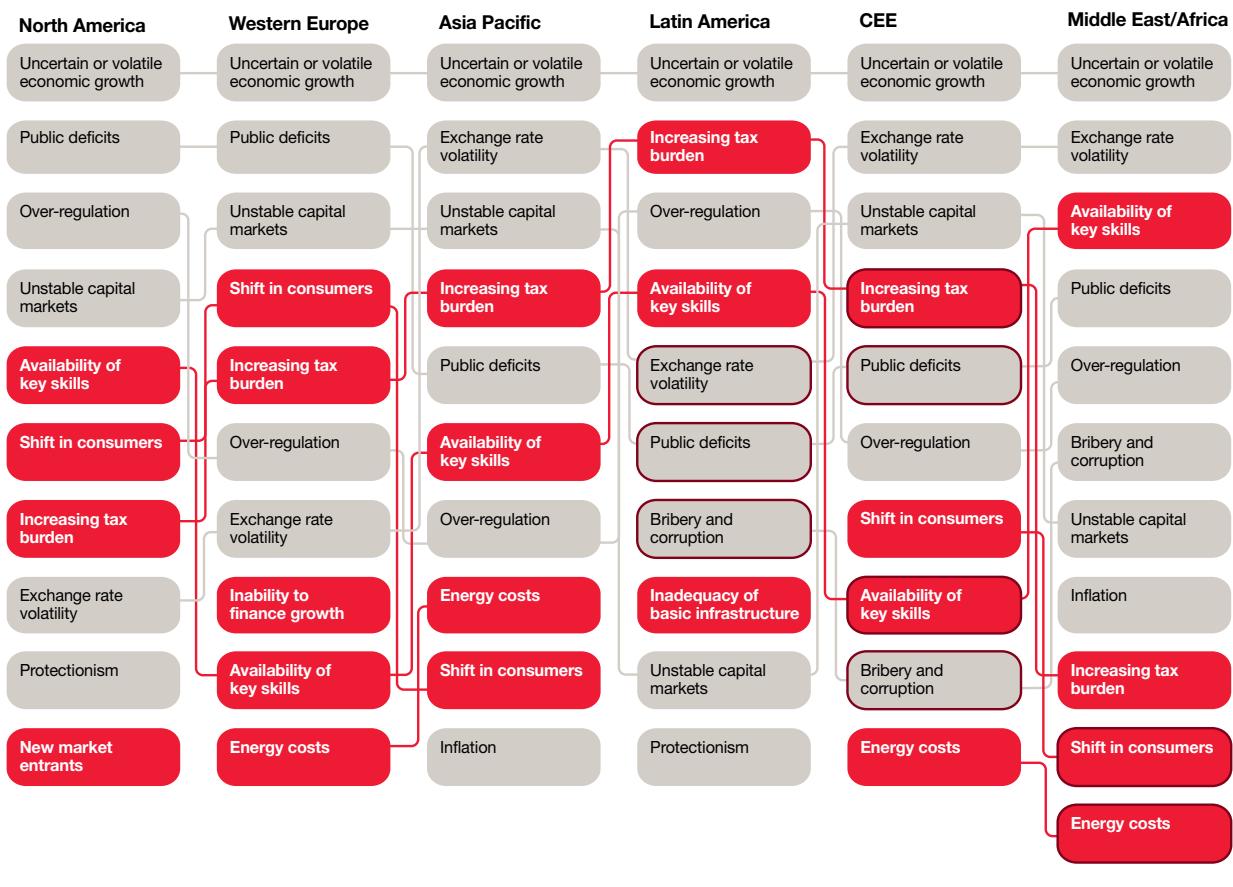
Chairman and CEO, Lenovo, China

## 8. Let's come back to risk. Didn't you say uncertainty is on the rise?

Absolutely. There's broad consensus that uncertain or volatile economic growth in the coming year is the chief concern, and that risk is having a big influence on plans for 2012. Many other risks differ in their importance by region. For example, three-quarters of CEOs in Western Europe are concerned about instability in capital markets and government responses to fiscal crises. Many in North America also believe that rising public deficits are a threat, although they're the least concerned about rising taxes. Exchange rate volatility and unstable capital markets are potential constraints on expansion in both Asia-Pacific and CEE economies. Rising taxes and over-regulation loom large for CEOs in Latin America. And exchange rate volatility is high among the concerns of CEOs in the Middle East and Africa – as is the availability of key skills. In fact, the availability of key skills is a common concern across most regions.

### 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

*"We're consistently, I think, really focused on two risks – the management of our contract risk in an increasingly unstable world and one where clients need to change a lot: how do we come up with new ways of managing that risk so that we can make money and our clients can be successful? The second one is around IT security and the stability of that."*

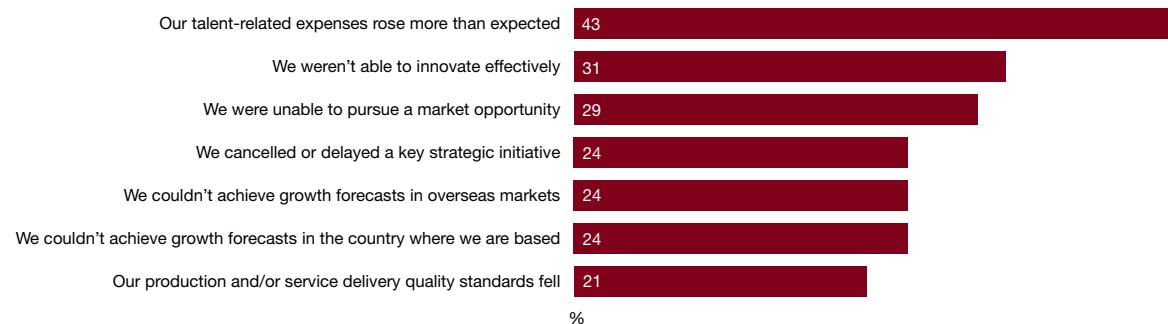
**Andy Green**  
CEO, Logica Plc, UK

## 9. Don't CEOs always talk about the 'war for talent'?

Yes – but now they're telling us it's having a real impact on growth. One in four CEOs said they've had to cancel or delay a strategic initiative because of talent constraints: 40% of CEOs in the technology industry say they've missed a market opportunity. And, above all, rising pay packages are impacting faster-growing economies: talent costs are a constraint for 53% of CEOs in China and Hong Kong, 58% in Brazil and 67% of CEOs in South East Asian nations. Look ahead and the problem gets worse. More CEOs (47%) are 'very confident' in prospects for revenue growth in the next three years than CEOs who are 'very confident' (30%) that they'll have access to the talent needed to execute over the same period.

### 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

*"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."*

**Michael White**

Chairman, President and CEO, The DIRECTV Group Inc., US

*"Every CEO says people are my most important asset, but the proof of the pudding is in the eating. I think we all say that. I think it's more important to believe it."*

**Tidjane Thiam**

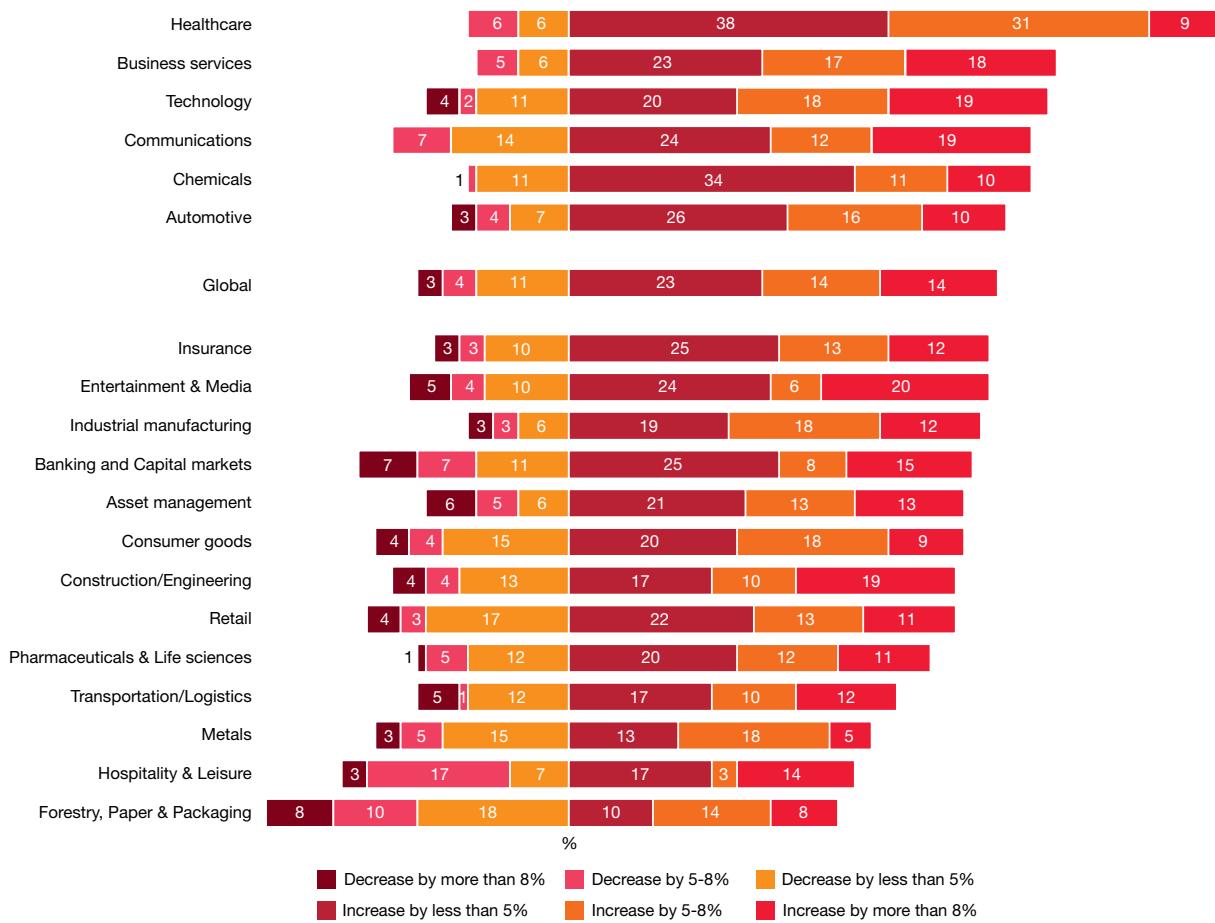
Group Chief Executive, Prudential Plc, UK

## 10. Where are talent constraints most acute?

Even industries that have retrenched workers in large numbers, such as banking, are still struggling to get the right people: 41% of CEOs in banking and capital markets say it's become more difficult to hire in the industry, versus only 18% who believe it's become easier. CEOs in the US and Canada are more likely to face the greatest challenges in hiring skilled production workers; senior management teams are proving more challenging for CEOs in the Middle East and Africa. Rising compensation and changing skills requirements are factors, but for more CEOs, there is simply a deficit of qualified candidates, especially in healthcare and technology, where half of CEOs are facing more difficulties in hiring. The strain in hiring will not abate in the near term. More CEOs are expecting to expand their workforces than to reduce.

### 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

*"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."*

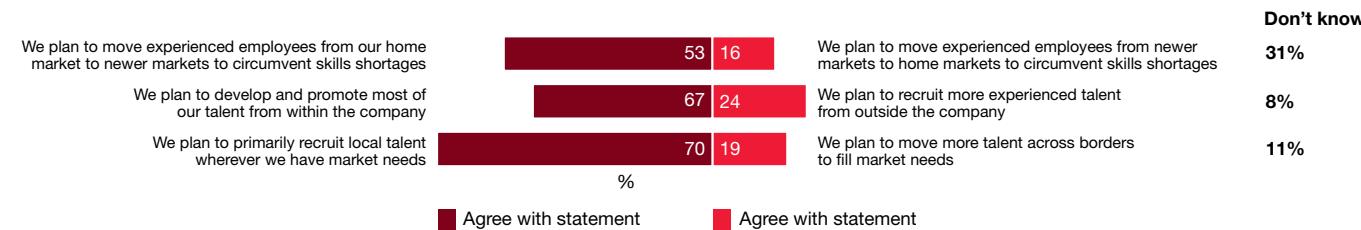
**Laércio José de Lucena Cosentino**  
CEO, TOTVs SA, Brazil

## 11. So what are CEOs doing about it?

Businesses are once again investing heavily in attracting and retaining talent, and it is increasingly apparent that companies need to better align their people and business strategies going forward. As part of this effort, CEOs are closely integrating HR with business planning at the highest levels of the company: 79% of CEOs say the chief human resources officer, or equivalent, is one of their direct reports (most have ten or fewer direct reports). Two-thirds also say it's more likely that talent will come from promotions within their companies over the next three years, reflecting an increasing focus on talent development.

### 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

*"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

*"The active rotation and promotion of top managers within the group secures the best performance capabilities and shapes a corporate culture which is open to the best international practices."*

**Andrey Kostin**

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

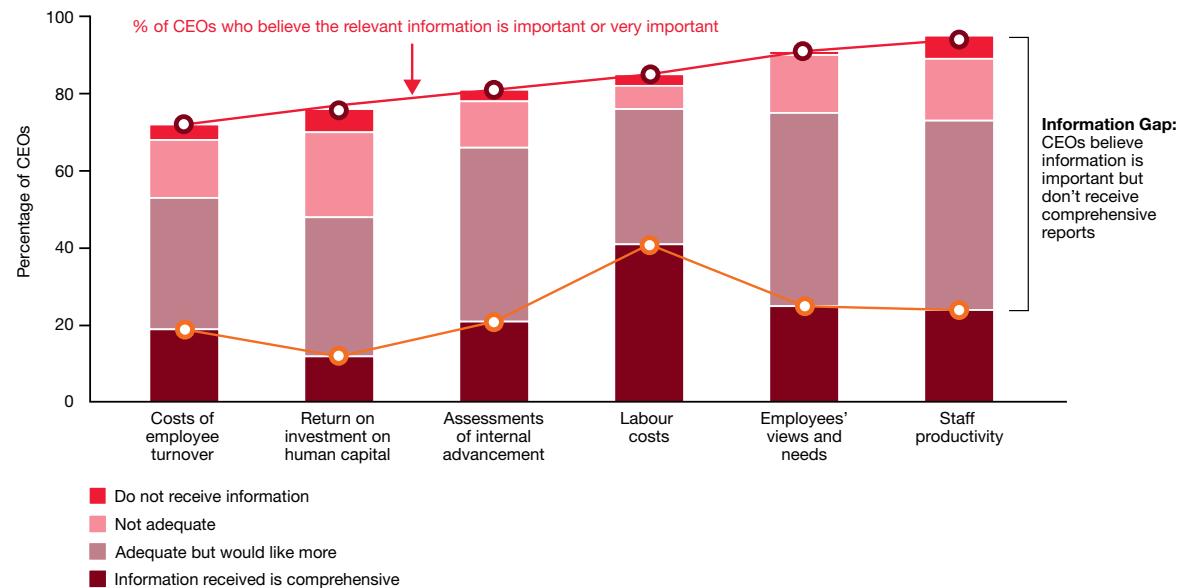
## 12. What do CEOs hope to do more of?

CEOs are seeking a better understanding of the scale and effectiveness of their investments in talent. Productivity and labour costs 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. They're 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.

### 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

*"The degree to which an HR mindset is integrated into the thinking of the company's top management – and by that I mean the way management ensures the quality of our HR services – has become much more important to MOL over the past three to five years."*

**Zsolt Hernádi**  
Chairman and CEO, MOL Plc, Hungary

*"You have to realise that if you want your workforce to embrace innovation, they must first develop a certain appetite for risk. So, my job is not to punish failure, but instead to provide everyone with a safe environment in which to take risks."*

**Rohana Rozhan**  
CEO, ASTRO Malaysia Holdings, Malaysia

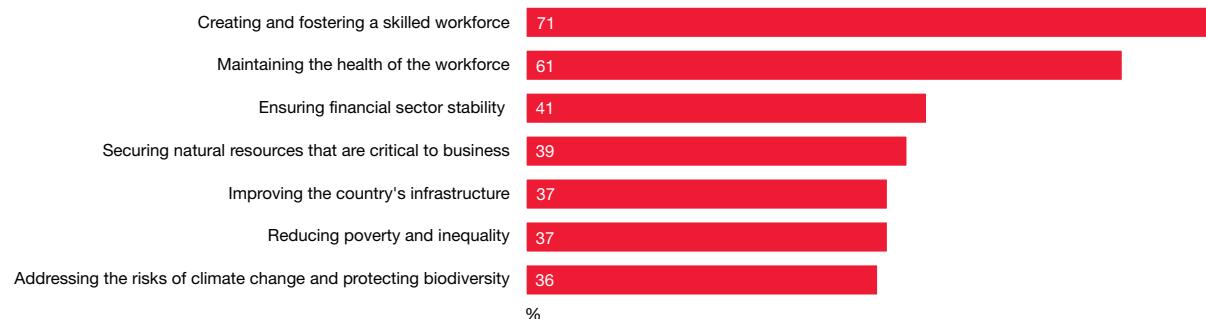
## 13. Are they also thinking outside the box?

Investments to bridge talent gaps in strategic plans don't stop at the four walls of the company. CEOs recognise that talent is vital to competitiveness at a time when business success relies increasingly on knowledge capital and innovation capacity. So most are making direct investments in workforce development programmes outside their own companies. Just over half say they are investing in formal education systems and adult or vocational training programmes.

Talent shortages are also increasingly an issue for governments, with more competing to attract the world's best talent to their shores. Close to half of CEOs (47%) believe that fostering a skilled workforce is one of three top priorities for their governments.

### Most CEOs plan to increase their investments in skilling the workforce

Q: How much does your company plan to increase its investment over the next three years to achieve the following outcomes in the country in which you are based?



Respondents who stated 'a significant' or 'some increase in investment'

Base: All respondents (1,258)

Source: PwC 15th Annual Global CEO Survey 2012

*"Now with increasing globalisation and recruitment challenges, we've developed a greater range of strategic programmes with some top universities around the world and are helping them tailor their programmes toward our career requirements."*

**Tom Albanese**

Chief Executive, Rio Tinto, UK

*"Countries like the Philippines have fairly large growth in the population base. Maturing the educational system and building a progressive element into it that is aligned to the needs of the workforce is something I think we can coordinate better with the government."*

**Jaime Augusto Zobel de Ayala**

Chairman and CEO, Ayala Corporation, The Philippines

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