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16th Annual Global CEO Survey
*A European perspective produced for the 2013 IBEC CEO Conference, 28 February 2013*

# *Dealing with disruption*
# Adapting to survive and thrive

**1,330**
CEOs in 68 countries
407 CEOs in Europe

**27%**
of European CEOs are very confident about growth prospects

*See page 3*

**34%**
of European CEOs will increase employee levels

*See page 9*



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# *Key findings*
## The hunt for growth and resilience

Leaders and their organisations are now operating in a world where uncertainty and volatility prevails and economic growth varies widely between countries and regions. It's against this background that we have conducted our 16th PwC Annual Global CEO Survey.

Our study shows that CEOs, both globally and in Europe, have been generally focusing on shorter term challenges; that they expect economic difficulties to continue, and that they are concerned about building resilience into their organisations - both to meet those challenges and seize future opportunities.

Resilience combines a short term ability to ride out the immediate impact of shocks, with the flexibility to 'future-proof' the organisation by adapting, over the longer term. Resilience is a quality that's becoming ever more important in today's highly connected world, where previously isolated risks have become both contagious and commonplace.

In this context, our study highlights three priorities that CEOs say they intend to focus on:

- first, targeting specific pockets of opportunity for organic growth, avoiding spreading their resources too thinly;
- next, maintaining a clear focus on the customer, taking active steps to stimulate demand, loyalty and innovation in their customer base – through mechanisms ranging from digital marketing platforms to collaborative R&D;
- and finally, fine-tuning operational effectiveness by reducing costs without cutting value and collaborating with trusted partners.

In particular, it is positive that the Irish Government has renegotiated the promissory note arrangement with the European Central Bank. It is hoped that this will make a marked difference to Ireland's debt sustainability, to our prospects for regaining economic sovereignty and to our process for economic recovery. Most importantly, it also sends a message of confidence internationally that Ireland is open for business.

This year's research covers over 60 countries and includes the views of over 1,300 CEOs worldwide, including 407 CEOs in Europe, as well as many PwC specialists, providing valuable insights which we hope will stimulate debate over the coming months.

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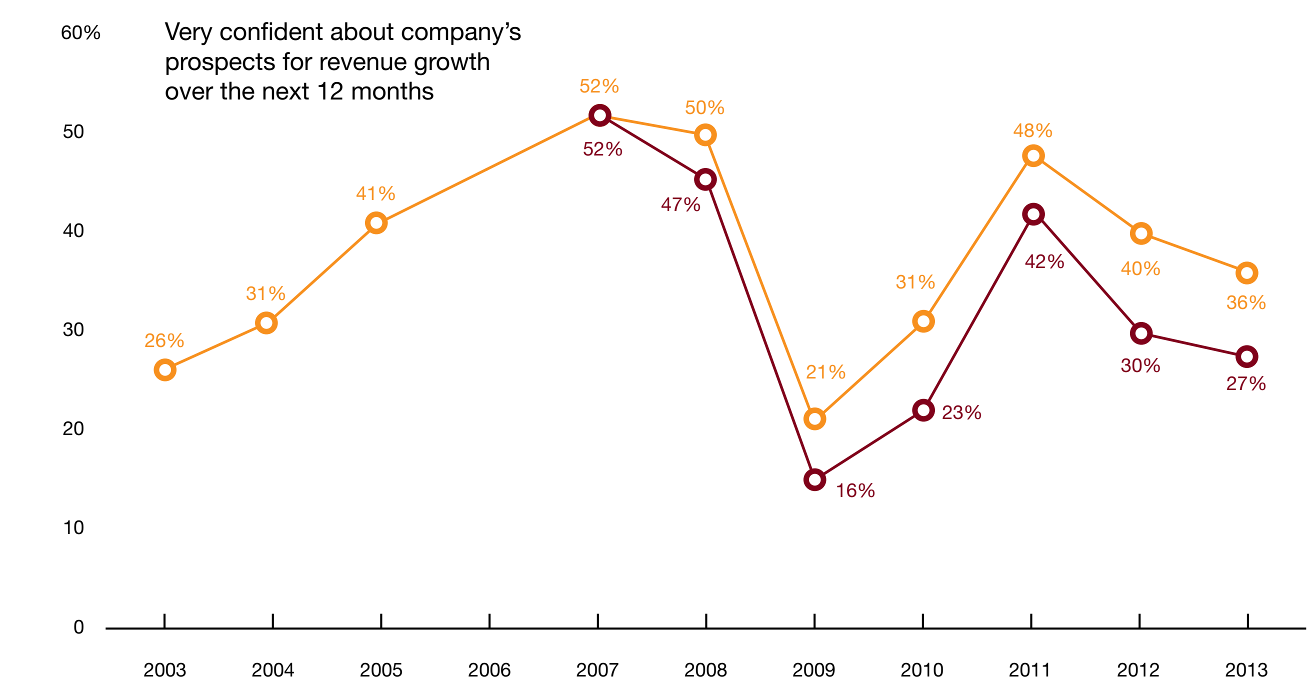
# Reshaping for a changing world

Across the globe, profound structural changes are creating a new world order. With the European economy largely flat and the US remaining fragile, opportunities to expand are concentrated in growth markets. CEOs across Europe are actively reshaping their businesses for this, with many anticipating changes in their company's organisational structure over the coming year. For example, nearly two-thirds (63%) of European CEOs anticipate they will change their company's strategy in the next year (global: 68%).

Today's CEOs are concerned about a wide range of potential and ongoing threats to their business growth prospects. These include catastrophic events, economic and policy threats and commercial threats.

**Figure 1: CEO confidence has gone up and down sharply over the past decade**

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




*Base: Global and European respondents*
*Source: PwC 16th Annual Global CEO Survey*

Global Europe

Whatever their hiring outlook, finding and keeping the right people remains a major challenge for CEOs. Availability of key skills was ranked by CEOs as a major threat to growth prospects, cited by 58% worldwide and 47% for the Europeans. The skills threat was especially acute among smaller companies and in high growth areas like Africa, the Middle East and Asia Pacific.

And the CEOs most concerned about the skills shortage were those in mining (75%), engineering and construction (65%), communications (65%), technology (64%) and insurance (64%).

## Surviving and thriving amid disruption

*"People need a sense of purpose. Gross margins are not the stuff of which dreams are made. And even without going so far as to talk of dreams, you cannot inspire people to take action, create or motivate without instilling a sense of purpose, especially when times are difficult".*

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

In conclusion, trust is the prerequisite for everything CEOs hope to achieve as they move from risk management to resilience. Businesses' efforts to target the right opportunities, increase customer demand and loyalty and improve operational effectiveness are only as effective as their ability to build trustworthy relationships with all their stakeholders

CEOs are recognising the need to align their strategies around a stronger social mandate – starting from the top – and through it create organisations that are more agile, adaptable and resilient.

This means developing a deep understanding of the changing needs of a growing range of stakeholders across existing and new markets, and investing to engage and empower them. Networks of trusted relationships, with shared vision, values and objectives, are helping to build strong yet flexible ecosystems that can not only survive, but flourish amid disruption.



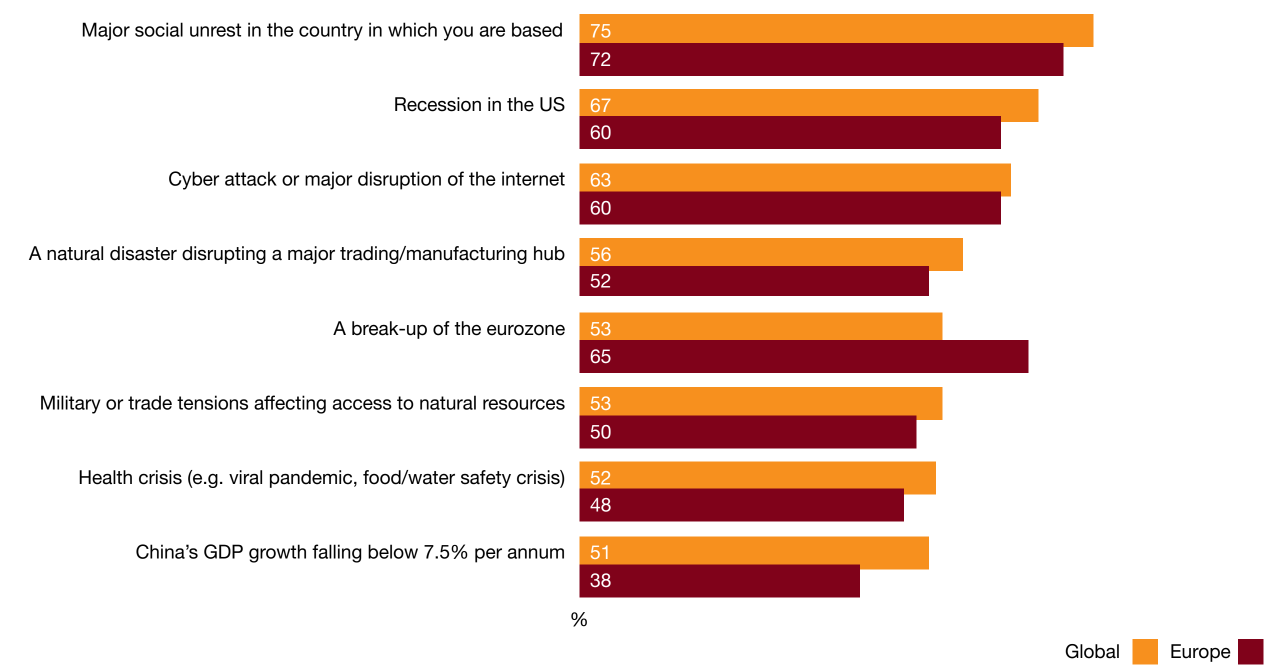
Faced with ongoing recession, European CEOs are less confident than their global counterparts in terms of revenue growth, both in the short term and in the longer term.

**Figure 2: Confidence in revenue growth**

| | European | | Global | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| % of CEOs very confident in next 12 months | 27% | 30% | 36% | 40% |
| % of CEOs very confident in next 3 years | 34% | 42% | 46% | 47% |

**Figure 3: Major social unrest tops the list of scenarios that would have the worst impact on CEOs' organisations**

Q: How well would your organisation be able to cope with the following scenarios, if they happened within the next 12 months? (respondents who answered 'negative impact')




*Base: All respondents (1,330) and European respondents (407)*
*Source: PwC 16th Annual Global CEO Survey*

*"One key point of our strategic advantage is the capability to 'orchestrate' the production and engineering value chain we create in partnership with other companies. That gives us the ability to scale up or scale down quickly and efficiently. We try to ensure our organisational structure is sufficiently fluid so that we can respond quickly to changes in demand".*

**Pertti Korhonen,** President and CEO, Outotec Oyi, Finland

According to the research, European CEOs feel that they would cope better when compared to their global counterparts should China's GDP fall below 7.5%. This may indicate that opportunities in this market may not be of immediate interest to many in Europe. Secondly, European CEOs would not cope as well should there be a break-up of the Eurozone.

CEOs around the world are nervous about a range of fiscal and political threats. The prospect of continuing economic volatility heads their worry list, as it has for the past two years. But 71% of global CEOs (Europe: 65%) are also concerned about how debt-laden governments will try to address growing deficits. Over two-thirds of global and European CEOs are anxious about the risk of overregulation, now seen as a bigger threat than at any time since 2006.

This view prevails despite the EC's efforts of the past years to consolidate, codify and simplify existing legislation and improve the quality of new legislation.

On the commercial front, global and European CEOs are particularly anxious about higher taxes (global: 62%; Europe: 59%) and the shortage of key skills (global: 58%; Europe: 47%). The competition for talent has become fiercer than ever before, with the aging of the global population and the changing nature of work. Energy and raw material costs also remain a significant source of unease.

One thing is clear: the threats facing CEOs are coming from all directions; they're coming harder and faster; and they're coming in more subtly varied forms. Nearly two-thirds (62%) of global CEOs report that they plan to change their approach to risk management (Europe: 57%). Confronted with this changing risk landscape, CEOs recognise that traditional risk management techniques aren't enough. And, in a stagnating global economy, they know that they can't rely on a rising tide to come to the rescue.

**The only way forward is to build organisations that can survive and thrive amidst disorder: organisations that are agile and adaptable, able to cope with disruption and emerge stronger than before.**

The challenge is to understand how and where businesses will generate growth in the future. We believe sustainable, longer-term growth requires a longer-term view. Additionally, with many CEOs often in the position for shorter terms, the role company boards and strategy teams play in supporting longer-term change is a vital one.

***Change in consumer behaviour and inability to finance growth are greater concerns for European CEOs***



# Jobs and the search for talent

***Creating and fostering a skilled workforce is the number one priority for the CEOs globally and in Europe over the next three years.***

CEOs remain relatively cautious on plans for increasing headcount for this coming year. Nearly half (45%) of global CEOs plan to recruit in 2013 (Europe: 34%) while 23% plan to reduce the size of their workforce (Europe: 36%).

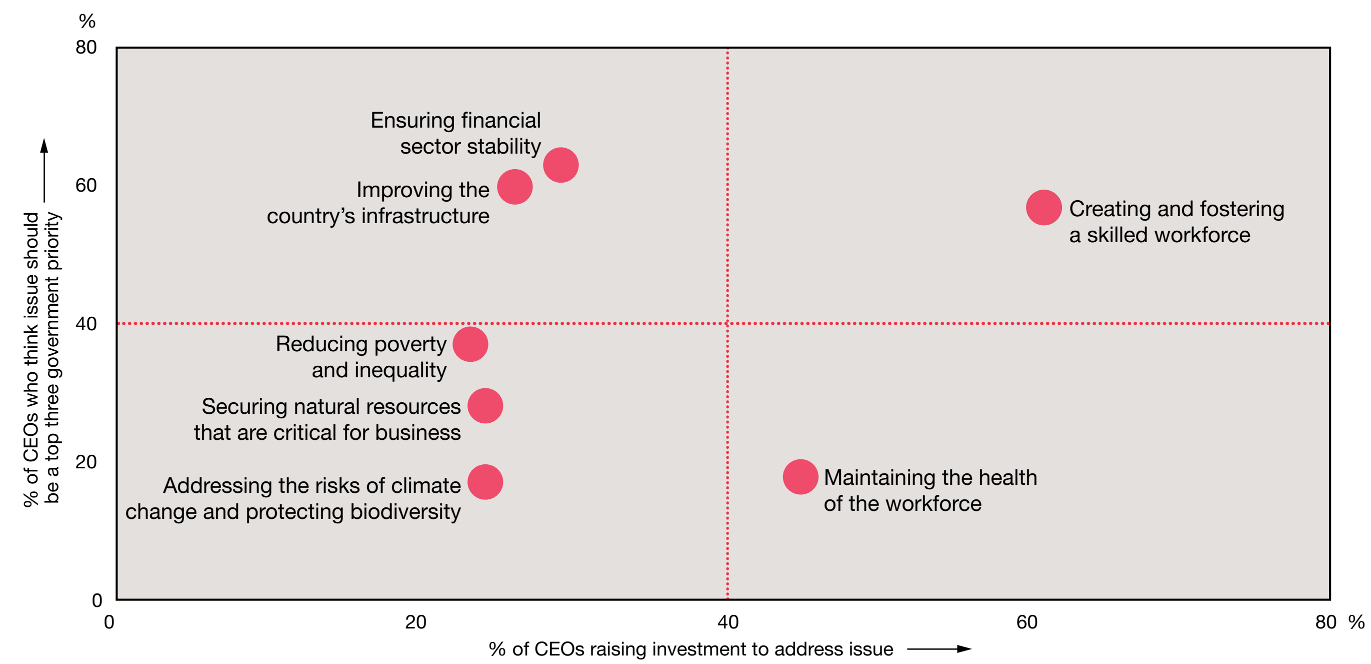
It is unsurprising that over three-quaters (77%) of CEOs globally (Europe: 65%) said they anticipate making changes in their company's strategies for managing talent during the next 12 months, and nearly a quarter said they expect these changes to be major.

Creating and fostering a skilled workforce is the number one priority for the CEOs globally and in Europe over the next three years. At the same time, CEOs are also looking for government to play their part. For example, 63% of European CEOs said that government should prioritise this area today – slightly less than their global counterparts (57%).

Looking at which industries are recruiting and which are shedding jobs shows an interesting picture. CEOs most likely to be increasing headcount are in business services (56%), engineering and construction (52%), retail (49%) and healthcare (43%). While the biggest number of CEOs planning headcount reductions are in banking (35%), the metal industries (32%) and forestry and paper (31%).

**Figure 8: CEOs see developing a skilled workforce as the top joint priority between business and government**

Q: Which three areas should be the Government's priority today?



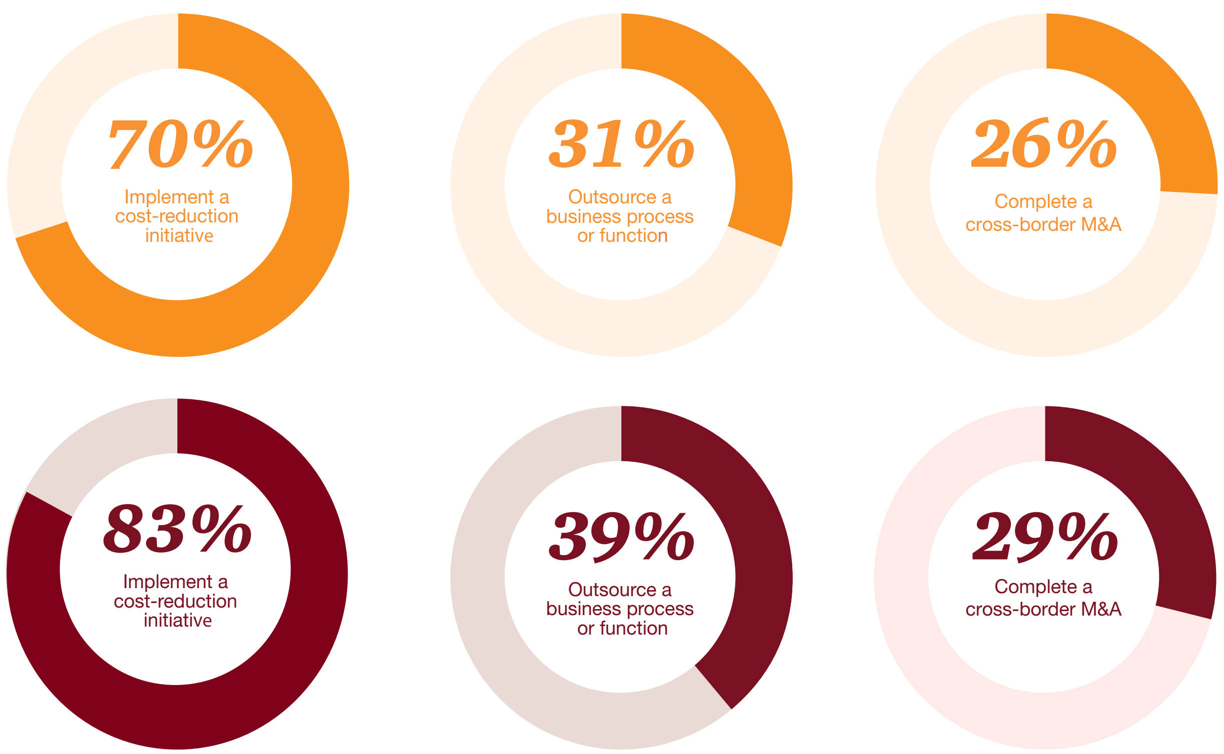

*Base: All respondents (1,330)*
*Source: PwC 16th Annual Global CEO Survey*

*"We believe the underlying growth trends will be slow. So we have to just be better than the competition in these markets, and that is also one of the reasons why we have to keep costs under control".*

**Martin Blessing**, Chairman of the Board of Managing Directors, Commerzbank AG, Germany

**Figure 7: Cost-cutting tops the list of restructuring activities CEOs plan to put in place in 2013**

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




*Base: All respondents (1,330) and European respondents (407)*
*Source: PwC 16th Annual Global CEO Survey*

Global Europe



# A three-pronged approach

*"Growth is not necessarily about revenue growth. In this uncertain environment there is more and more emphasis on bottom line growth".*

**Peter Terium**, CEO, RWE AG, Germany

Our survey shows that CEOs are essentially taking three specific approaches to make their organisations more resilient in this era of 'stable instability'.

**1. Targeting pockets of opportunity:**

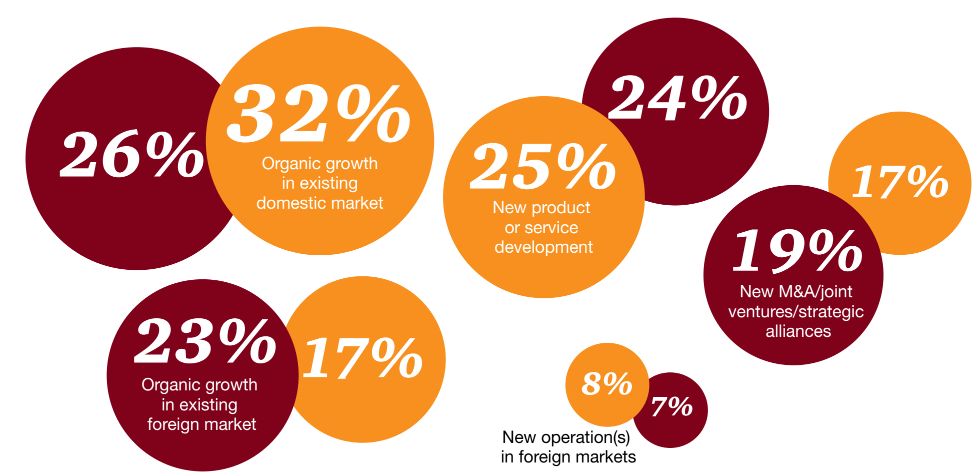
Nearly half (49%) of global CEOs are pinning their hopes on organic growth in their existing markets. A quarter (25%) are turning to new product and service development. And only 17% plan to complete M&As or form new strategic alliances.

European CEOs are more likely to seek organic growth in existing foreign markets (23%) compared to their global counterparts (17%).

CEOs are focusing on a few well chosen initiatives, primarily in their existing markets, to stimulate organic growth. They're more wary about entering new markets or engaging in mergers and acquisitions (M&As), and diluting their resources too much.

**Figure 4: CEOs are pursuing the opportunities for organic growth in existing markets**

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




*Base: All respondents (1,330) and European respondents (407)*
*Note: 1% of CEOs responded 'Don't know/Refused'*
*Source: PwC 16th Annual Global CEO Survey*

Global Europe

*"I think what we have to do is look for the growth opportunities very carefully. The easy route is to say, well that's an emerging market so that's got to be good, that's a mature market, that's got to be tougher, but I think you've got to drill down to see where the growth really is...and there is growth in every market – but you've got to go granular".*

**Alison Cooper,** Chief Executive, Imperial Tobacco Group, United Kingdom

CEOs know that, if they want to grow their businesses, they'll have to go where the growth is - and four distinct economic clusters are emerging (see Figure 5).

The troubled states of Southern Europe are contracting. Meanwhile, Australia, Japan, North America and the more resilient members of the European Union, including Ireland, are anticipated to show gradual signs of recovery.

The growth countries are also diverging. China and India are still expanding rapidly, but the pace is slowing down. Conversely, some parts of Southeast Asia and Latin America are picking up speed. This pattern is expected to continue for the rest of the decade.

**Figure 5: Two faster and two slower economic lanes are developing**

***The global growth leaderboard is changing***

**Growing but susceptible to disruption**

| | | | |
|---|---|---|---|
| Poland | *2.8%* | France | *1.0%* |
| Australia | *2.9%* | Japan | *1.0%* |
| Canada | *2.2%* | United Kingdom | *1.9%* |
| United States | *2.4%* | Netherlands | *0.7%* |
| Germany | *1.2%* | **Ireland** | ***1.9%*** |

**Growing and accelerating**

| | |
|---|---|
| Indonesia | *6.2%* |
| Brazil | *3.9%* |
| South Africa | *3.6%* |

**Struggling to grow**

| | |
|---|---|
| Italy | *0.1%* |
| Spain | *0.4%* |
| Portugal | *0.3%* |
| Greece | *-0.9%* |

**Growing but decelerating**

| | | | |
|---|---|---|---|
| China | *7.6%* | South Korea | *3.3%* |
| India | *6.6%* | Mexico | *3.8%* |
| Saudi Arabia | *4.1%* | Russia | *3.9%* |
| Turkey | *4.4%* | | |

| **Aggregates** | Eurozone | *0.7%* | Global (market rates) | *3.0%* |
|---|---|---|---|---|

The percentages above reflect PwC's main scenario annual average GDP growth projections for 2013-15 period.

Sources and methodology: PwC analysis, national statistical authorities, Thomson Datastream and IMF. The tables above form our main scenario projections and are therefore subject to considerable uncertainties.

**2. Concentrating on the customer:**

A large majority (82%) of global and European CEOs indicate that they plan to make changes to their customer retention/ loyalty strategies in the next year. Over half (51%) report that their top investment priority is to grow their customer base. Over a third say that they plan to enhance their customer service.

CEOs are looking for new ways to stimulate demand and foster customer loyalty, such as capitalising on digital marketing platforms and involving customers in product/service development. But they're also aiming to keep their R&D costs down and make the innovation process more efficient.

Irrespective of the markets they're in, CEOs have one overwhelming goal: to grow their customer base. Very different consumption volumes and patterns in different markets add to the challenge (see figure 6).

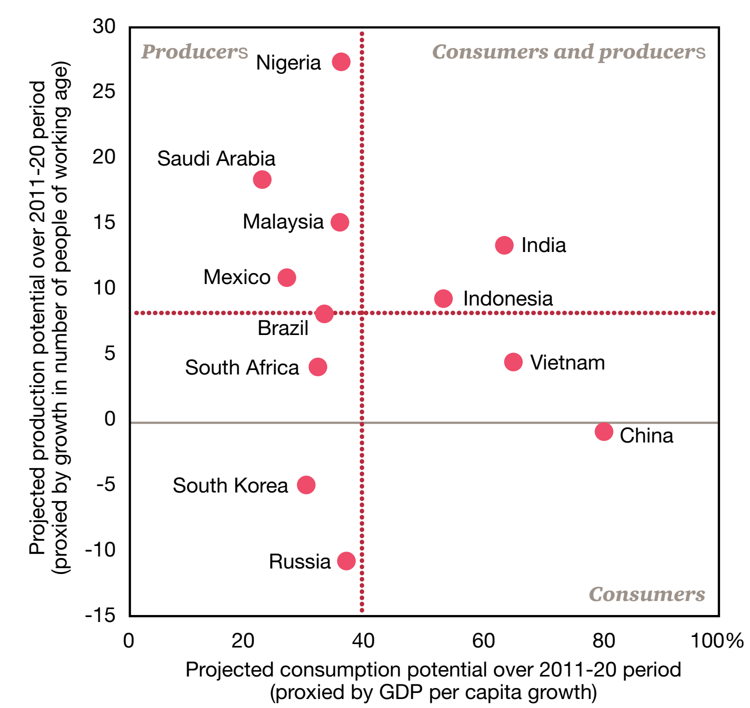
**3. Improving operational effectiveness:**

Half of global and European CEOs say that improving operational effectiveness is one of their top three investment priorities this year. Regarding restructuring, cost reduction is high on the agenda (global: 70% ; Europe: 83%). More European CEOs are planning cross-border M&As as well as outsourcing.

CEOs around the world are balancing efficiency with agility. They're trying to cut costs without cutting value or leaving their organisations exposed to external upheavals. They're also delegating power more widely and collaborating with organisations to share resources and develop new offerings.

Under pressure to meet demanding customer growth targets within tightly defined investment parameters, CEOs know they'll have to change the way their companies function.

**Figure 6: Not all growth markets are consumer-led economies**




*Note: Dotted lines represent average values*
*Source: PwC analysis, UN population figures.*