Contents

1. ***16th Annual Global CEO Survey***

2. ***The talent challenge: A time for extraordinary leadership***

16th Annual Global CEO Survey

The disruptive decade p3/ *What worries CEOs most?* p5/ *A three-pronged approach* p10/ *It's a question of trust* p22

Dealing with disruption

Adapting to survive and thrive

1,330

CEOs in 68 countries

36%

of CEOs are very confident about their growth prospects

See page 3

82%

of CEOs plan to change customer strategies in 2013

See page 15

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Preface

During the past decade, we've seen economic volatility and disruption escalate to arguably unprecedented levels. In a globalised world – one where countries, economies and companies are more interconnected and interdependent than ever before – risks that once seemed improbable and even remote have become the norm. For business leaders across the world, 'expect the unexpected' has become the mantra.

To navigate through this environment, companies need to develop resilience. This combines an ability to ride out the immediate impact of shocks with a long-term capacity to adapt to constantly changing conditions. We're helping more and more of our clients achieve this blend of qualities not only to survive through new and emerging challenges, but to thrive in this environment.

In my view, the shift to resilience helps to explain the widening gap between CEOs' levels of confidence in their organisations' one-year and three-year outlooks. This year's survey shows that just 36% of CEOs are 'very confident' about their business's growth prospects over the next 12 months, down from 40% in 2012 and 48% in 2011 (see Figure 1). In contrast, the proportion confident about growth over the coming three years has held up much better. This suggests that leaders believe their organisations can be resilient by rolling with the short-term blows while reshaping for longer-term growth.

What strategies are CEOs adopting to become more resilient? Our findings highlight three common approaches. First, they're targeting specific pockets of opportunity for organic growth, avoiding spreading their resources too thinly. Second, they're 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 third, they're fine-tuning their operational effectiveness by reducing costs without cutting value and collaborating with trusted partners.

The focus on trust also goes much further. In the post-crisis world, trust is at a premium. But it's also an essential component of the ongoing relationship between an organisation and all its stakeholders – and thereby an important pillar of resilience. With social media giving a voice to evermore diverse groups of stakeholders, CEOs are recognising the need to secure a stronger social mandate by rebuilding public trust. From promoting an ethical culture to increasing workforce diversity and reducing environmental impacts, they're pursuing a wide array of initiatives to simultaneously support their growth strategies, establish the right mandate and boost resilience.

My sincere thanks go to the more than 1,300 CEOs from 68 countries who shared their thinking with us. Their active and candid participation is the single greatest factor in the success of the PwC Annual Global CEO Survey, now in its 16th year. We greatly appreciate our respondents' willingness – indeed eagerness – to free up their valuable time to help make this survey as comprehensive as possible. I'm especially grateful to the 33 CEOs who sat down with us in late 2012 to hold deeper and more detailed conversations. You can see their verbatim comments throughout this report.

Dennis M. Nally
Chairman, PricewaterhouseCoopers International

Contents

The disruptive decade 3

What worries CEOs most? 5

A three-pronged approach 10

Targeting pockets of opportunity 10

Concentrating on the customer 14

Improving operational effectiveness 18

It's a question of trust 22

CEO survey participants 28

Research methodology and key contacts 30

I think the level of external threats has increased with every passing decade. And as the pace of change has increased, organisations like ours have to be a lot more flexible than we might have been in the past.

Shikha Sharma, Managing Director and CEO, Axis Bank Limited, India

The disruptive decade

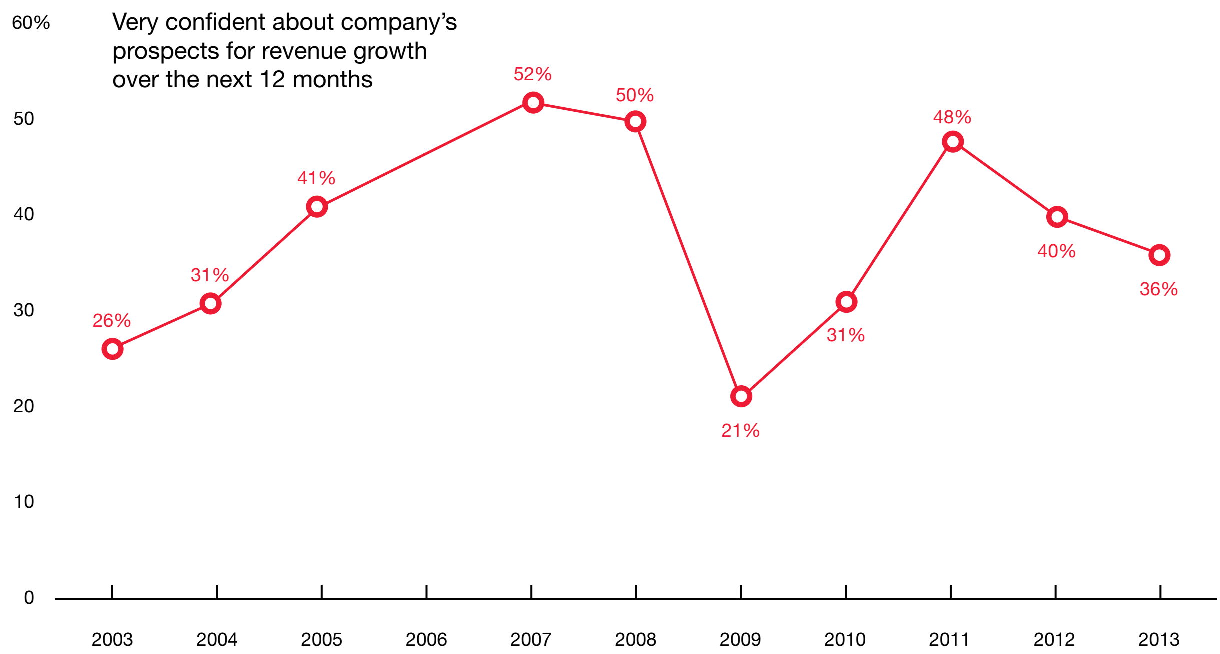
The global economic outlook is certainly enough to test even the strongest enterprises. The eurozone is still mired in recession and the US economy is forecast to expand by just 2.2% this year.[1] The situation in some of the growth markets is also getting harder, as the slowdown in the BRIC economies demonstrates.

While market conditions in many countries are still very difficult, CEOs are more positive about the prognosis than they were last year: 52% think the global economy will stay the same for the next 12 months and only 28% believe it will shrink. In 2012, by contrast, 48% were convinced the global economy would contract.

But economic plateaux aren't exactly grounds for cheer. That's why short-term confidence about the prospects for revenue growth has continued falling (see Figure 1). CEOs in Western Europe are especially nervous. Only 22% feel very confident they can increase their company's revenues in the coming 12 months, compared with 53% of CEOs in the Middle East and Latin America.

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: All respondents (2013=1,330; 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)
Source: PwC 16th Annual Global CEO Survey

1 PwC, 'Global Economy Watch' (December 2012).

When people ask me, 'What's going to happen in the next five years?', I throw up my hands and say 'I have no idea and neither do you.' How do you cope with that degree of uncertainty? Well, I think, first, by having the right attitude about the process of change and reinvention.
Peter Tortorici, CEO, GroupM Entertainment Global, US

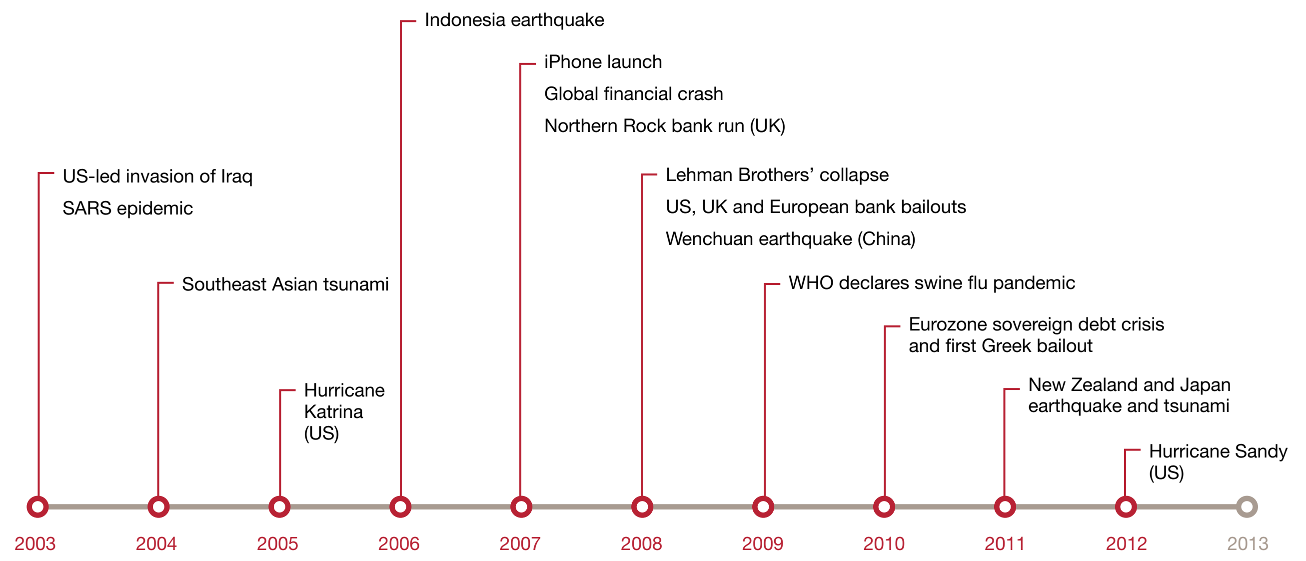
The prevailing mood is, as usual, somewhat more optimistic when it comes to the longer-term outlook: 46% of CEOs are very confident about expanding over the next three years. That said, CEOs in most parts of the world are much less positive than their peers in the E7 markets (46% versus 58%).[2]

It's easy to understand why they're so cautious. Far-reaching changes are happening – and they're also happening faster than before. Between 1970 and 2011, the number of man-made disasters nearly tripled, while the number of natural disasters surged sevenfold.[3] The past decade alone has seen a number of major disruptions (see Figure 2).

In short, improbable risks aren't so improbable now; they're becoming the norm in a more uncertain world. And CEOs everywhere are feeling the heat.

…people always tend to think that a tough economic situation is the sign of a 'new normal' and, conversely, that a robust world economy will last forever. But economic conditions always alternate.
Yasuchika Hasegawa, President and CEO, Takeda Pharmaceutical Company Ltd., Japan

Figure 2: Major disruptions over the last decade



Source: PwC

2 E7 markets: China, India, Brazil, Russia, Mexico, Indonesia and Turkey.
3 Swiss Re, *sigma* No 2/2012.

What worries CEOs most?

The global community of regulators – as well as the political classes – are keen on ensuring the stability of the financial system. And that implies a completely new order, a new set of rules to play by. In these cases, it's not uncommon to wind up in a situation of regulatory overreach.

Piyush Gupta, CEO and Director, DBS Group, Singapore

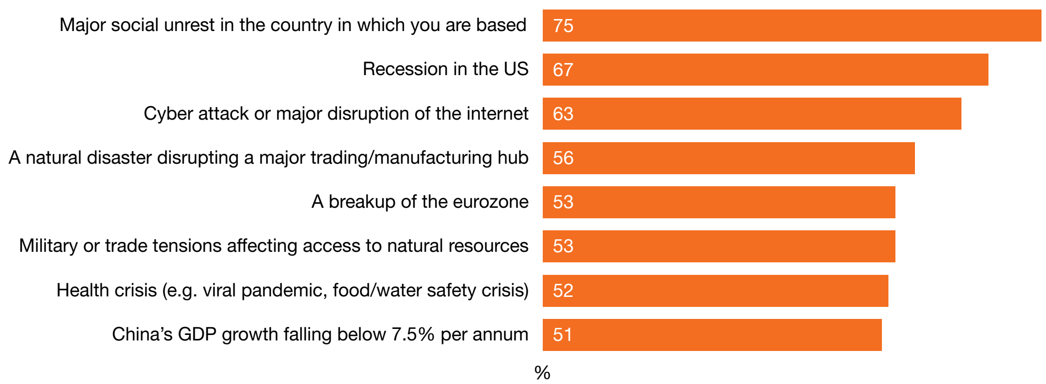
Today's CEOs are concerned about a wide range of potential and ongoing threats to their business growth prospects. These include catastrophic events, economic and policy threats and commercial threats.

Major disruptions

We asked CEOs about their organisation's ability to cope with the potential impact of various disruptive scenarios. The majority thought their organisations would be negatively affected, with major social unrest being cause for the greatest concern (see Figure 3). Indeed, CEOs are far more concerned about this than they are about a slowdown in China, possibly because they've already factored the latter into their calculations.

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)
Source: PwC 16th Annual Global CEO Survey

Red numbers, red tape

Of course, major disruptions aren't the only cause for concern; CEOs are nervous about a whole clutch 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% – rising to 89% in North America – are also concerned about how debt-laden governments will try to address growing deficits. And 69% are anxious about the risk of overregulation, now seen as a bigger threat than at any time since 2006 (see Figure 4a).

Has regulation gone too far? The US Dodd-Frank Act of 2010 runs to a massive 884 pages, which makes it 23 times longer than Glass-Steagall, the reform that followed the Wall Street Crash of 1929.[4] And the European Commission (EC) has generated so much red tape that business ministers from Germany, the Netherlands, Poland and the UK recently wrote a letter urging Brussels to reduce the burden.[5] This is in spite of the EC's efforts of the past years to consolidate, codify and simplify existing legislation and improve the quality of new legislation.

Figure 4a: Volatile conditions top the list of economic and political threats, but concerns vary by where CEOs are located

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?
(top four threats global CEOs named)

Base: All respondents (North America=227; Western Europe=312; Asia Pacific=449; Latin America=165; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

4 'Over-regulated America', *The Economist* (18 February 2012), http://www.economist.com/node/21547789
5 James Kirkup, 'Lift the weight of red tape, Vince Cable and allies urge Brussels', *The Daily Telegraph* (20 November 2012), http://www.telegraph.co.uk/finance/yourbusiness/9689165/Lift-the-weight-of-red-tape-Vince-Cable-and-allies-urge-Brussels.html

Too much tax, too little talent

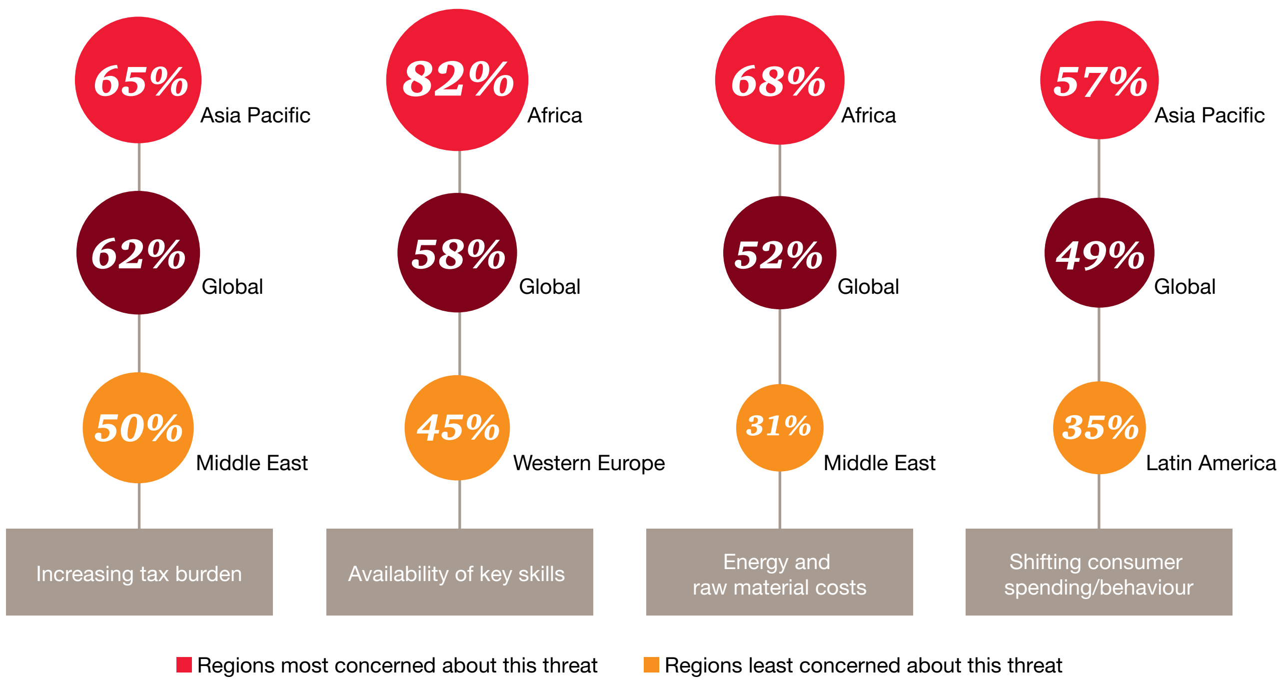
On the commercial front, CEOs are particularly anxious about higher taxes and the shortage of key skills (see Figure 4b). These are perennial fears, but current events have brought them to the fore.

In the US, for example, one of the most pressing issues in President Obama's in-tray is reform of the corporate tax system. In February 2012, he proposed reducing the headline tax rate by eliminating dozens of subsidies, a move that could hit some companies hard.[6] Meanwhile, the competition for talent has become more fierce than ever before, with the aging of the global population and the changing nature of work.

Energy and raw material costs are also a significant source of unease – especially in Africa and Asia Pacific, where 68% and 63% of CEOs, respectively, see them as a serious threat.

Figure 4b: Volatile conditions top the list of business threats, but concerns vary by where CEOs are located

Q: How concerned are you about the following potential business threats to your growth prospects?
(top four threats global CEOs named)



Base: All respondents (Western Europe=312; Asia Pacific=449; Latin America=165; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

6 Jackie Calmes & John H. Cushman Jr., 'Obama Unveils Proposal to Cut Corporate Tax Rate', *The New York Times* (22 February 2012), http://www.nytimes.com/2012/02/23/business/economy/obama-introduces-plan-to-cut-corporate-tax-rate.html?pagewanted=all

Silver lining for some

It's not all doom and gloom, though. Nearly a fifth of all CEOs in the Middle East believe the collapse of the eurozone could provide new business opportunities.

Similarly, 16% of CEOs in the Middle East and 13% of CEOs in Central and Eastern Europe believe China's slowing growth could open new doors. And 13% of CEOs in North America would welcome a squeeze on natural resources for the same reason.

In fact, Chinese CEOs are already benefiting from the lingering uncertainty in the eurozone. Our research shows that, in 2011, there were 61 deals in which mainland Chinese companies acquired European companies – up from 11 in 2006. And in the three months to March 2012, the number of Chinese firms purchasing European firms surpassed the number of European firms purchasing Chinese firms for the first time in history.[7]

From risk management to resilience

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. Confronted with this changing risk landscape, CEOs recognise that traditional risk management techniques aren't enough. And, in a stagnating global economy, they know 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.

"If you don't evolve and change, you go backwards. It's pure physics," says Larry Fink, Chairman and CEO of asset management firm BlackRock Inc. "So we've adapted quite considerably. Even this year we changed our entire firm architecture to be more adapted to our clients, to be more adapted to the situation and, importantly, to finalise our evolution from a founders' culture firm to a global, hopefully entrepreneurial firm. And that has been a big evolution."

Some European countries have a high level of productivity while others have a lower level of productivity while they are all wrapped up in a 'monetary corset' subject to different tax regulations. If the eurozone fails, an array of opportunities may arise, because some of the current rigidities will disappear.

Julio Patricio Supervielle, Grupo Supervielle's CEO and Banco Supervielle's Chairman, Argentina

7 PwC, 'China deals: A fresh perspective' (October 2012).

To be honest, we wouldn't dare to predict the future. The fact is the world has been changing a lot more quickly in recent years. And looking back, we find that many forecasts of the global economy turned out to be incorrect. In our company, we just try to do well everything we need to do today. There are so many things out of our control that we feel it's unnecessary and impractical to make too many predictions about the economy. Instead, we focus on building robust systems that can operate under a variety of conditions.

Alex C. Lo, President, Uni-President Enterprises Corporation, Taiwan

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

So what are CEOs doing to make their organisations more resilient in this era of 'stable instability'? Our survey shows that they're taking three specific approaches:

- **Targeting pockets of opportunity:** 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.
- **Concentrating on the customer:** 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.
- **Improving operational effectiveness:** CEOs 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.

Targeting pockets of opportunity

Two-thirds of all CEOs are focusing on a few carefully selected initiatives rather than nurturing numerous different ideas and then weeding out the weakest. That's easier said than done because every business unit naturally thinks its plans should take precedence. But there's considerable evidence to suggest that concentrating your firepower works much better than adopting a scattergun approach.

One analysis of how 4,700 companies weathered three previous downturns shows that the star performers – those that emerged stronger than ever – weren't the obvious ones. They weren't the companies that cut fast and furiously or went on the offensive with ambitious restructuring programmes, acquisitions and the like. The former saw customer satisfaction drop as the quality of their offerings deteriorated, while the latter were stretched much too thin.[8]

The companies that fared best in terms of both sales growth and profits growth were those that mastered the delicate balance between cutting costs to survive in the short term and investing to expand in the longer term. They took advantage of depressed prices to buy property, plants and equipment that would help them compete more effectively in the future. And they invested judiciously in R&D and marketing to boost their sales and profits when demand rose again.[9]

The CEOs in our survey are responding in the same fashion. They're weighing up all their options, making a few smart investments and consolidating their resources to maximise the odds of success. And they're doing so not because they think it's the best way of surviving a downturn but because they think it will make their organisations more robust.

Steve Holliday, CEO of international energy distributor National Grid Group Plc., sums up this approach. "It's very easy to just go off and think you can do things that you do well in many countries around the world which arguably need some of your skills," he warns. But if a company doesn't have a clear idea of where it can deliver value and isn't disciplined in its focus, it risks extending itself too far. "We're very, very conscious of making sure we don't overreach ourselves."

8 Ranjay Gulati, Nitin Nohria & Franz Wohlgezogen, 'Roaring Out of Recession', *Harvard Business Review* 88, no. 3 (March 2010): 62–69.
9 Ibid.

Homing in on organic growth

So exactly which pockets of opportunity are CEOs targeting? Nearly half are pinning their hopes on organic growth in their existing markets (see Figure 5). Only 17% plan to complete M&As or form new strategic alliances. And only 25% are turning to new product and service development.

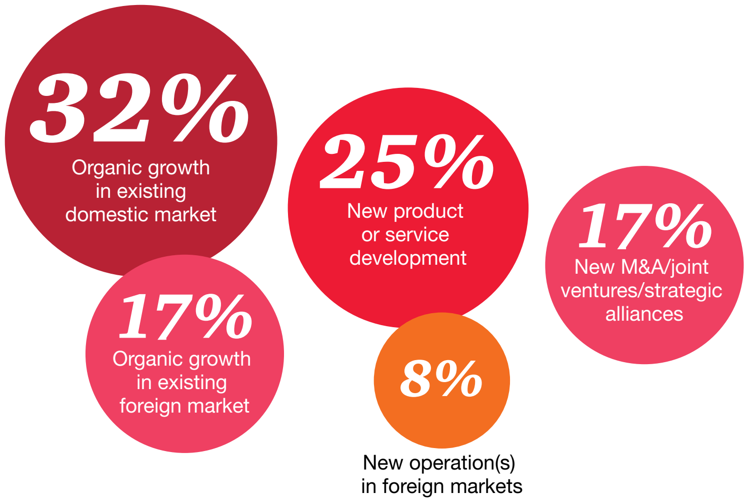
At first glance, then, it might look as if CEOs are hunkering down and waiting for better times. But CEOs also know that, if they want to grow their business, they'll have to go where the growth is – and four distinct economic clusters are emerging (see Figure 6).

The troubled states of Southern Europe are contracting. Meanwhile, Australia, Japan, North America and the more robust members of the European Union are showing signs of recovery, albeit rather shaky.

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: 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)
Note: 1% of CEOs responded 'Don't know/Refused'
Source: PwC 16th Annual Global CEO Survey

Figure 6: Two faster and two slower economic lanes are developing

The global growth leaderboard is changing

Growing but susceptible to disruption

Poland	3.4%	France	1.2%
Australia	3.1%	Japan	0.9%
Canada	2.3%	United Kingdom	2.1%
United States	2.4%	Netherlands	1.1%
Germany	1.3%	Ireland	2.2%

Growing and accelerating

Indonesia	6.2%
Brazil	4.0%
South Africa	3.6%

Struggling to grow

Italy	0.3%
Spain	0.9%
Portugal	0.5%
Greece	0.6%

Growing but decelerating

China	7.3%	South Korea	3.6%
India	6.6%	Mexico	3.7%
Saudi Arabia	4.2%	Russia	3.8%
Turkey	5.1%		

Aggregates Eurozone *1.0%* Global (market rates) *3.0%*

All percentages are projected 2013-15 average growth rates

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.

With growth rates among both mature and growth economies diverging, and with highly unique opportunities and threats in each market, CEOs are looking for specific opportunities in all clusters.

It's not surprising that five of CEOs' top ten overseas destinations are growth markets, nor that four of these are the BRIC economies (see Figure 7). But the fact that Indonesia is now in the top ten – for the first time – shows that CEOs have been quick to spot more subtle shifts in the distribution of economic power.

Indonesia is the fastest of the accelerating markets, with real GDP growth forecast to increase by 6.2% a year for the next three years.[10] By 2050, Indonesia's economy in purchasing power parity (PPP) terms could be bigger than that of Germany, France or the UK.[11] Its stock market has soared 12.6% in the past 12 months alone.[12] And the government has launched a major programme to improve the country's overburdened infrastructure.[13]

Other emerging markets are also being prioritised, like Mexico and Thailand, which are close on the heels of CEOs' top ten markets. Mexico is particularly notable – it could become the world's 7th largest economy by 2050 in PPP terms.[14]

And a growing number of CEOs are looking to Africa. For example, Nestlé sees Africa as one of the biggest opportunities for the food industry in the next 10-20 years.[15] Dr. João Bento, CEO of Portugal-based international technology provider Efacec Capital SGSP SA says, "…we also have a presence in growth economies, such as Latin America, Southern Africa, Magreb and also in India."

The US, meanwhile, remains second on CEOs' list of top ten overseas destinations, as it did last year. All five of the mature economies on the list are growing, albeit susceptible to disruption. These markets, which comprise five of the G7 countries, are quite simply too big to ignore: the US, Japan and Germany are projected to remain among the world's ten biggest economies, in PPP terms, in 2050, while Canada and the UK are expected to remain in the top 20.[16]

Furthermore, although the E7 countries will have overtaken the G7 countries in terms of GDP size by 2050, they are still expected to lag far behind the G7 countries in terms of GDP per capita.[17] So large, mature markets will still remain attractive for higher valued products and services, given their more affluent consumers.

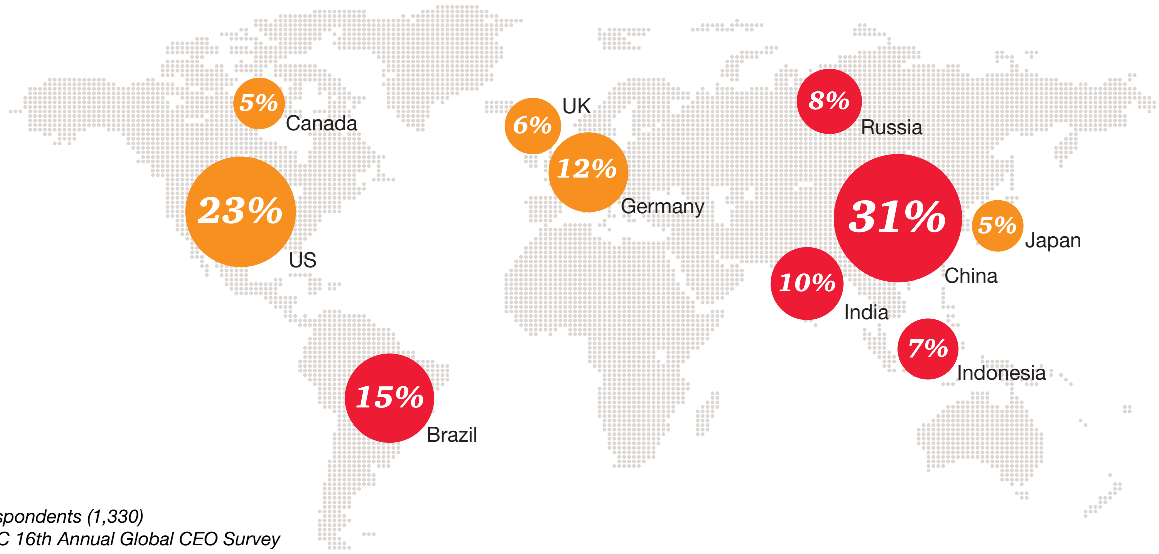
CEO opinion is divided on Europe, though some CEOs see promise, including those countries that are struggling to grow. "People there [in Western Europe] have decided that they should work less and retire earlier. And that may not be affordable. So I think that Western Europe has a serious structural issue." says Seymur Tari, CEO of Turkish private equity firm Turkven.

Yves Serra, President and CEO of Swiss industrial components manufacturer Georg Fischer Ltd., is more positive. "We focus our efforts on where we see growth. This includes Asia and America, at least for our products, and also some sectors in Europe. …So the picture is not just black and white; there are definitely pockets of growth in Europe as well."

The traffic isn't going in only one direction, though. CEOs in the mature markets may be looking to various growth markets, but CEOs in growth markets are equally prepared to go further afield: 33% of CEOs in Asia Pacific and 19% of those in the Middle East are targeting the US, for example, while 27% of CEOs in Latin America and 18% of those in Africa are targeting China.

Figure 7: Half of CEOs' top ten countries are growth markets

Q: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months? (maximum of 3 responses)



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

10 PwC projections.
11 PwC, 'World in 2050' (January 2013).
12 Daniel Inman, 'Southeast Asia's Growing Appeal', *The Wall Street Journal* (3 December 2012), http://online.wsj.com/article/SB10001424127887324020804578151761632189982.html#mod=djemITPE_t
13 Eric Bellman, 'Indonesia Boosts Infrastructure Investment', *The Wall Street Journal* (7 December 2012), http://online.wsj.com/article/SB10001424127887323501404578165794187322794.html
14 PwC, 'World in 2050' (January 2013).
15 Caroline Scott-Thomas, 'Nestlé eyes big food industry opportunities in Africa', *Food Navigator* (26 November 2012), http://www.foodnavigator.com/Financial-Industry/Nestle-eyes-big-food-industry-opportunities-in-Africa
16 PwC, 'World in 2050' (January 2013).
17 Ibid.

…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

Concentrating on the customer

Irrespective of the markets they're in, CEOs have one overwhelming goal: to grow their customer base. Indeed, 51% say it's a top three investment priority for the coming year.

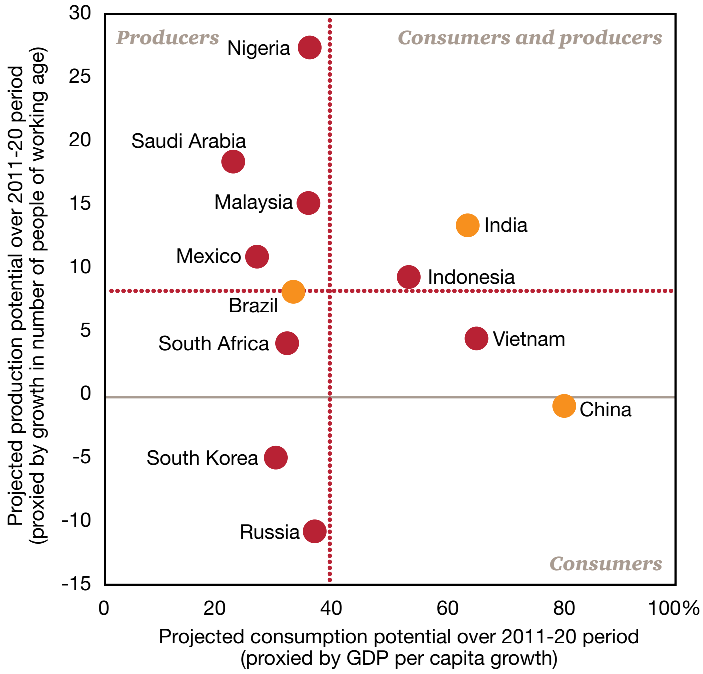
That's not surprising. What's changed is the fact that CEOs are now trying to attract more customers while focusing on a smaller, more targeted range of growth strategies – no easy task in the current economic climate. The recession has hit some businesses and consumers badly, particularly those in richer countries. Between 2000 and 2011, consumer spending in the mature markets increased by just 2.1% a year. In the growth markets, by contrast, it increased by a much healthier 5.7%.[18]

Very different consumption volumes and patterns in different markets add to the challenge. Though the growth economies have some common characteristics, they also differ in key respects – and these differences are likely to intensify as they continue to develop. Some growth countries are primarily producers rather than consumers, for example (see Figure 8).

The purchasing power and preferences of consumers can also vary a lot within, as well as between, countries, and adapting to such disparate tastes requires a deep understanding of the local environment. "It all starts with the consumer – a rich and robust understanding of what they want, where they're going, but, most importantly, what they want in the future," Douglas D. Tough, Chairman and CEO of International Flavors & Fragrances, Inc., observes.

"We interview consumers all around the world to make sure we have a robust database, and we don't extrapolate necessarily from any one country to get a global view." But there are obvious risks for multinationals, he adds. "…they have to adapt properly to local needs." The competition from local and regional rivals is also increasing all the time.

Figure 8: Not all growth markets are consumer-led economies



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

In fact, nearly half the CEOs we polled see shifts in consumer buying patterns as a serious business threat. And they realise that being able to respond quickly and effectively to such changes is crucial.

Dr. Weihua Ma, President and CEO of China Merchants Bank Co. Ltd., puts the position particularly well: "We commercial banks are service institutions, so changes in customer demands are extremely important for us. Just as a chef in a restaurant will lose his job if his cooking cannot satisfy his customers, a service institution will not exist if it has no customers."

We keep close track of the real estate sector in order to remain on the cutting edge of all advanced trends in the construction of buildings, energy efficient technologies and environmentally friendly materials. We introduce ready-to-move-in residential apartments in our buildings in response to client suggestions.
Valentina Stanovova, Senior Vice-President, Capital Group, Russia

18 PwC, 'Introducing the PwC Global Consumer Index' (October 2012), http://press.pwc.com/GLOBAL/global-consumer-spending-slowdown-eases.-pwc-releases-first-ever-global-consumer-index-gci/s/bc11166a-cd72-4ea7-93fa-c167d10a5cb5

Getting customers onside

So it's no wonder that new strategies to stimulate demand and foster customer loyalty play a big part in CEOs' plans for the next 12 months. A full 82% anticipate making changes on this score – and 31% have major changes in mind (see Figure 9).

One obvious measure is to take advantage of the new marketing platforms now emerging. Most organisations have traditionally used market research, competitive benchmarking and the like. But these sources of information can only show how customers behave en masse.

That's not the case in the digital arena. Mining social media sites, blogs, consumer reviews and other such data sources helps an organisation find out what individual customers think and want. Equipped with these insights, it can then develop products and services for specific customer segments and craft more personalised marketing messages – as well as enhancing the brand. This may explain why three-quarters of CEOs say they're increasing their technology investments.

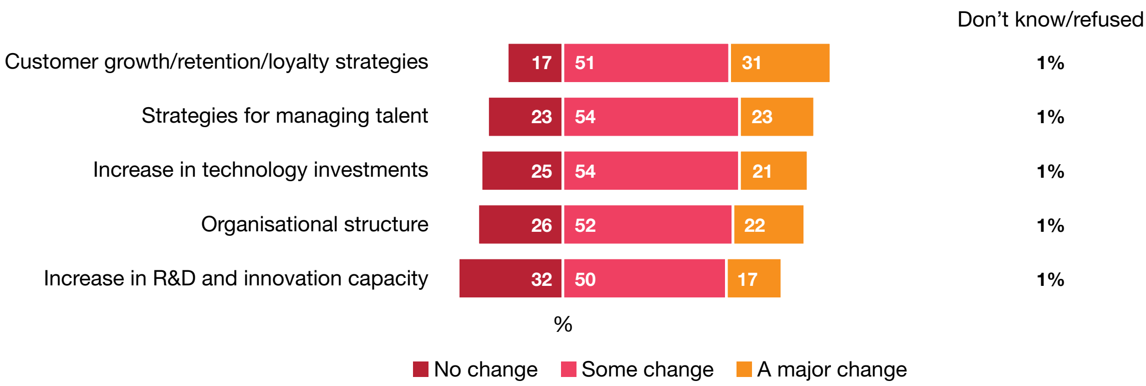
In terms of the importance of our different stakeholders, our customers are absolutely the most important. If we don't give them a good service – affordable tariffs, high reliability, good customer service – then we know we are going to be in trouble.

Andrew Brandler, CEO, CLP Holdings Ltd., Hong Kong, China

Engaging with customers isn't just about communicating with them, though. It's also about working with them to co-create new offerings, and helping them use the products and services they've bought more enjoyably or effectively. Boeing has perfected the first of these two approaches: it consults airlines and frequent flyers alike when it's designing new planes.[19] Digital music service Spotify has perfected the second by inviting subscribers to customise their playlists, which enhances the product offering for them and for others.

Figure 9: Attracting – and keeping – more customers is a key priority

Q: To what extent do you anticipate changes at your company over the next 12 months?



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

19 Bryan Urbick, 'Innovation Through Co-creation: Consumers Can be Creative', *Innovation Management* (26 March 2012), http://www.innovationmanagement.se/2012/03/26/innovation-through-co-creation-consumers-can-be-creative/

Making the most of disruption

Yet innovation – generally one of the most important factors in attracting and retaining customers – is surprisingly low down the schedule for many CEOs. It comes fifth on their list of investment priorities for this year. And though 67% plan to increase their company's R&D capacity, only 17% intend to make major alterations.

The drive for efficiency explains why some CEOs are reluctant to invest more in R&D, but a closer look at the data also shows marked regional variations. CEOs in Africa, Asia Pacific and Latin America are more likely to be beefing up their company's R&D than those in the rest of the world – possibly because the growth countries are still in catch-up mode.

Nevertheless, CEOs know that innovation isn't possible without investment. That's why a number of leading companies are adopting a more imaginative approach to the innovation process itself, whether it's incremental changes or more fundamental changes to their business models, in order to become more agile and responsive to competitive threats or shifts in customer demand.

Finland-based international communications and information technology company Nokia is a case in point. "…our focus is very much on disruption – disrupting ourselves, disrupting the trends that have been established in the industry and moving forward with new strategies, new products and new ways of managing our organisation in order to keep pace and indeed accelerate the pace beyond others." says President and CEO Stephen A Elop.

"One of the most important ways that we see to drive disruption is to focus on unique and differentiating consumer experiences. That's a fancy way of saying, 'how can we help you do something you couldn't do before?' … when you look at the patterns of disruption, particularly in the area of technology, it's often something relatively focused, relatively simple that allows you as a person to do something you couldn't do before, or to do it faster or more efficiently. And it's those types of innovations that we're focused on today," he explains.

Human capacity is key to any company's growth. The second important factor is R&D.

Karen Agustiawan, President Director and CEO, PT Pertamina (Persero), Indonesia

…we want more than just satisfied consumers. We want to delight them – to go beyond their expectations. We are seen as a company that delivers excellence in terms of customer service. But our main innovations are our [retail] collections and how quickly we get them to market.

José Galló, CEO and Director, Lojas Renner, Brazil

It all starts with the consumer – a rich and robust understanding of what they want, where they're going, but, most importantly, what they want in the future.

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

Improving operational effectiveness

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. Nearly half say improving operational effectiveness is one of their top three investment priorities this year.

Anders Nyrén, President and CEO of global investment firm Industrivärden AB, based in Sweden, spoke for many CEOs when he told us: "Given that the global economy and the global pace of life are getting faster in all aspects, one needs to become more agile and efficient about everything – including running a company. It's essential that you streamline operations and become leaner wherever you can, so as to be able to react more quickly to changing market conditions."

Finding the right balance

Cost-cutting is still high on the agenda: 77% of CEOs have undertaken cost-saving initiatives in the past 12 months and 70% plan to do so in the next 12 months (see Figure 10). But they're not wielding the knife indiscriminately; they're trying to balance efficiency with other strategic objectives. As Artem Konstandyan, CEO of Russia's Promsvyazbank (PSB), notes, "Downsizing is not a goal in itself. We're trying to streamline our operations and improve staff performance."

An example? Many companies discovered in the aftermath of the tsunamis in Southeast Asia and Japan that the quest to maximise the efficiency of their supply chains had severely impaired their ability to cope with disruption. Today's CEOs have clearly learned from that experience: 50% are diversifying their supply chains and working with suppliers in a wider range of territories.

CEOs are also wary about inadvertently cutting value in the course of cutting costs – and slashing the workforce is one action that can certainly backfire. This probably explains why 25% have kept their company's headcount the same for the past 12 months, while 48% have actually increased it. It may explain, too, why 77% of CEOs plan to revise their strategies for managing talent in the coming year; they realise they won't be able to attract and retain new customers without well-trained, highly motivated employees.

I think the underlying idea of trying to reduce cost in whatever we do actually makes us become creative and innovative.

Aireen Omar, CEO,
AirAsia Berhad, Malaysia

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

…we have had to look seriously at how we manage our business. And, we have had to learn how to be prepared to disrupt ourselves. So, rather than getting too rigid and bureaucratic and too procedures-driven, sometimes we've had to step outside of ourselves, but yet within ourselves, by creating new units to challenge the way that we do business and to extend that learning to the traditional parts of our business.

Alex Arena, Group Managing Director, HKT Ltd., Hong Kong, China

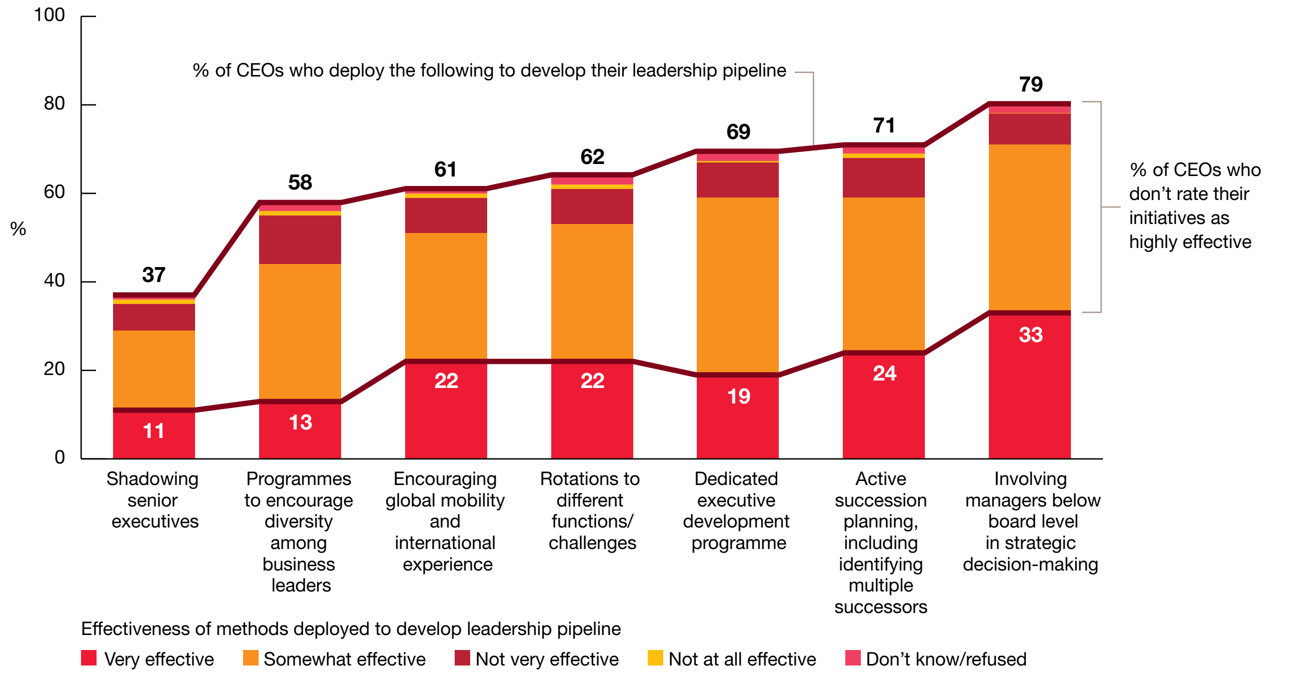
Figure 10: Cost-cutting tops the list of restructuring activities CEOs plan to put in place in 2013

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

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

Figure 11: Involving less senior managers in strategic decisions is seen as most effective in preparing them for leadership

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



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

Putting power in more hands

In fact, some CEOs are going considerably further: they're devolving power more widely to make their organisations more agile and responsive. Although only 31% encourage all their staff to get involved in strategic planning, 79% include managers below board level in such decisions as part of the process of developing their leadership pipelines. And most CEOs think it's the best way of nurturing their successors (see Figure 11).

"We don't have one way of doing things nor do we have one point of authority to which all questions have to be directed," says Carl Sheldon, CEO of United Arab Emirates-based global energy company TAQA. "Instead, our approach is to create a culture that empowers people and – within the context of a set of shared values – provides them with the freedom to take action. That gives you tremendous strength, flexibility, and agility."

That said, there are pronounced regional variations in behaviour. CEOs in North America are far more likely to encourage their employees to participate in strategic decisions than those based in Central and Eastern Europe, Asia Pacific and Latin America. They're also more likely to involve middle managers.

These variations obviously reflect cross-cultural differences in how decisions are made. CEOs in cultures that are relatively egalitarian typically adopt a more participative approach than those in cultures that are relatively hierarchical.[20] But whereas participative management can improve profitability in less hierarchical cultures, it can worsen profitability in more hierarchical cultures.[21] So using different decision-making styles in different cultures makes good business sense.

I prefer a management style based on openness and cooperation at every level; one that does not necessarily obey or respect hierarchy at all times. I believe in leadership that can stay flexible.
Sándor Csányi, Chairman and CEO, OTP Bank Plc., Hungary

20 Pankaj Ghemawat & Sebastian Reiche, 'National Cultural Differences and Multinational Business', Globalization Note Series, 2011.
21 Karen L. Newman & Stanley D. Nollen, 'Culture and Congruence: The Fit Between Management Practices and National Culture', *Journal of International Business Studies* 27, No. 4 (4th Quarter, 1996), pp. 753-779.

Sharing as well as buying

It's not just the way management and employees interact within organisations that's changing, though; it's also the way organisations interact with each other. Nearly half the CEOs we polled aim to form a new strategic alliance or joint venture during the next 12 months, which is broadly in line with the pattern for the past four years.

At the same time, global M&A activity has declined sharply since the start of the global financial crisis, although CEOs in some sectors, like mining, power and utilities and communications, are much more likely to be prioritising investment in M&A in the coming year.

Even so, the aggregate value of the deals completed in the first half of 2012 was less than half the value of the deals completed in the first half of 2007.[22] Further evidence of how cautious CEOs have become is the fact that three-quarters of the deals conducted in 2012 were cash-only transactions.[23]

Yet, some firms have plenty of money in their piggy banks. US companies are sitting on about $1.7 trillion in cash reserves.[24] Canadian companies hold nearly $300 billion.[25] And British businesses hold another £720 billion.[26] Nearly two-thirds of the CEOs who participated in our survey also intend to boost their capital spending over the next 12 months, which suggests that they have enough cash to finance their plans or are confident of raising the funds. So, if money isn't the issue, what is?

We believe the dip in M&A is being driven by current levels of uncertainty rather than a major change in emphasis. But we're also seeing a move by businesses towards 'sharing', by forming partnerships or networks. Inspired by companies like Amazon and Apple, CEOs recognise that they're no longer confined to the traditional options of 'build or buy'.

Collaborating with other organisations in the same or adjacent industries provides new opportunities for generating business by co-developing products and services, taking advantage of a common infrastructure and sharing customers. It also carries much less risk than an M&A because it doesn't require a significant upfront investment and doesn't entail spending several years integrating the target company to realise the gains.

That's not to say there's no place for M&As. On the contrary, one study shows that firms using multiple modes to obtain new resources were much more likely to survive over a five-year period than those that relied solely on alliances, solely on M&As or solely on internal development.[27]

But partnering with other organisations, as distinct from purchasing them, does carry considerable organisational implications. The qualities needed to form a successful network are quite different from those needed to pull off an acquisition. Key among these is the high degree of collaboration that's required to make an alliance work.[28]

Our innovation comes from globally collaborative efforts and a lot of encouragement from within. It is also about empowerment, decentralisation and encouragement to come up with new ideas for R&D programmes and product development.

A.M. Naik, Executive Chairman, Larsen & Toubro Limited, India

22 mergermarket H1 round-up report (July 2012).
23 mergermarket 2012 round-up report (January 2013).
24 Federal Reserve, 'Flow of Funds Accounts of the United States' (June 2012).
25 'Dead money', *The Economist* (3 November 2012), http://www.economist.com/news/finance-and-economics/21565621-cash-has-been-piling-up-companies'-balance-sheets-crisis-dead
26 Michael Izza, 'Business Confidence research suggests recovery has not yet taken hold', ICAEW (5 November 2012), http://www.ion.icaew.com/MoorgatePlace/25687
27 Laurence Capron & Will Mitchell, *Build, Borrow, or Buy: Solving the Growth Dilemma* (Harvard Business Review Press, 2012).
28 PwC, 'Creating successful alliances and joint ventures' (2012).

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 Oyj, Finland

It's a question of trust

The number one thing that will make people more at ease is transparency. Being a public company, the preservation of transparency is an inherent obligation for us. We keep in touch with our customers in order to understand their needs. Everything is interconnected.

Dr. John Coustas, President and CEO, Danaos Corporation, Greece

We've discussed what CEOs are doing to make their organisations more agile, more appealing and more profitable. To succeed in, and align, these three goals, CEOs know they'll have to repair the bridges between business and society. CEOs also recognise the important role that business can play in addressing social challenges and improving national outcomes.

The global financial crisis and questionable behaviour of some companies have badly damaged faith in institutions of every kind. And this is impacting their brand value and performance. CEOs are understandably concerned: 37% worry that lack of trust in their industry could endanger their company's growth. They know that nothing they do to get closer to customers will work if they don't have the confidence of the public.

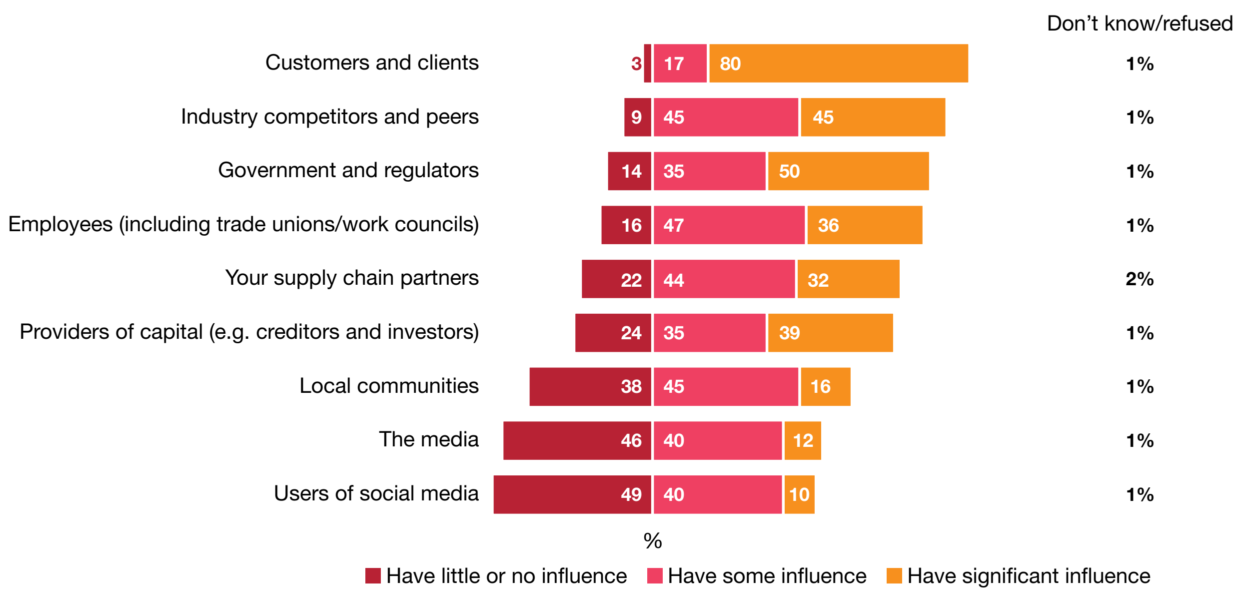
But trust isn't just an essential part of the customer relationship, it's the glue that binds an organisation and all its stakeholders together – and there are now many more stakeholders to consider. Thanks to the social media revolution, many of these stakeholders also have an unprecedented amount of clout.

CEOs recognise this. While they regard customers, competitors, governments and regulators as their most influential stakeholders, they're certainly not ignoring others, like employees, suppliers, investors or local communities (see Figure 12).

"As a public company we have to demonstrate growth and improve margins, quarter by quarter, because that is what the market wants to see. But we are a lot more than that," says Alonso Quintana, CEO of Mexican construction and engineering company ICA. "We are a company that really affects many more people and many more stakeholders than one would think from just a financial perspective."

Figure 12: More stakeholders have more influence

Q: Thinking about the range of stakeholders, to what extent do they have a significant influence on your business strategy?



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

Starting from within

So what are the CEOs we surveyed doing to rebuild trust? They're starting from within: 56% – rising to 72% in the Middle East and 76% in Africa – plan to focus more heavily on promoting an ethical culture this year (see Figure 13). That's a logical place to begin. The more customer touchpoints there are, and the more decision-making is delegated, the more an organisation is exposed to the actions of individual employees.

Building a business with a strong ethical foundation is partly about aligning the values of employees with those of the organisation they work for to create a shared, socially useful sense of purpose. It's also about shifting from a rules-based approach to one that rests on principles: moving from a culture of compliance to a culture in which people do the right thing for its own sake.

An important part of achieving this is how businesses connect with their employees. Over three-quarters of the CEOs who see employees as influential on their strategy say they're strengthening their employee engagement programme.

Organisational culture isn't the only issue on the internal agenda, though: 50% of CEOs – including 72% of those in the Middle East – intend to develop a more diverse and inclusive workforce. Malaysia's AirAsia Berhad is one such example.

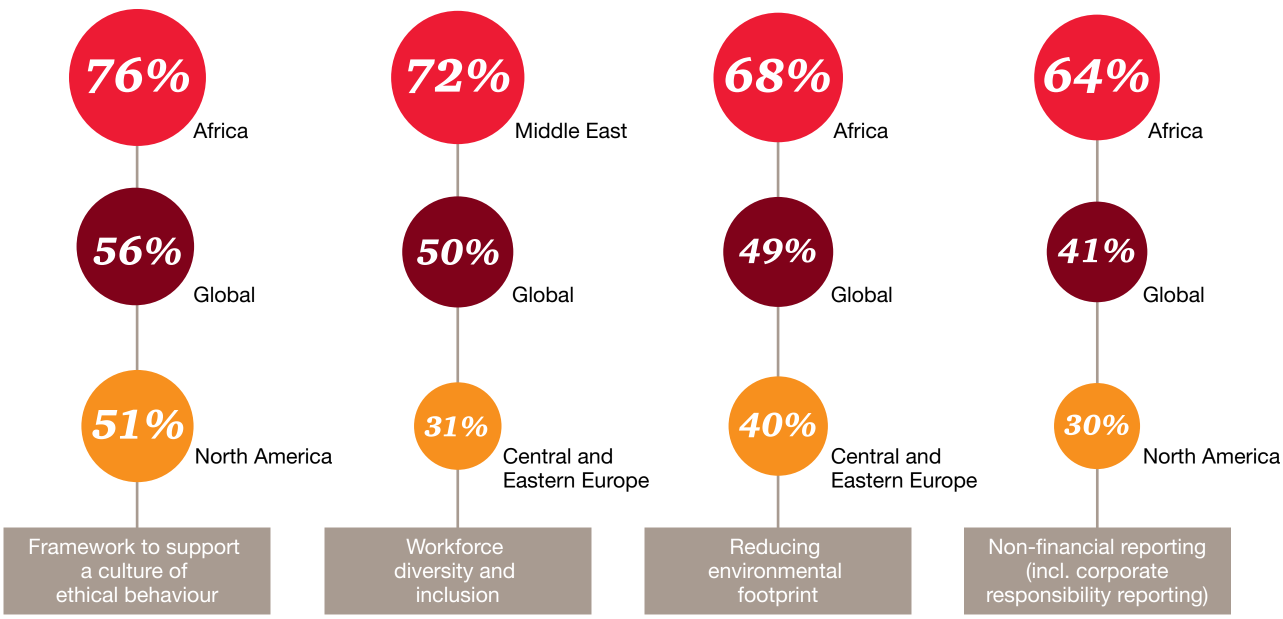
"…we hire people from all sorts of backgrounds, all sorts of different cultures," CEO Aireen Omar explains. "We understand and respect each other and at the same time it's a way for us to share ideas and see what sits best for the whole company. ... Moreover, despite the fact that we have operations in different countries with different cultures and backgrounds, we are able to work effectively as a team in one company culture."

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

Figure 13: A range of non-financial priorities are getting CEOs' attention

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



Base: All respondents. (North America=227; Central and Eastern Europe=95; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

Engaging with the outside world

The majority of CEOs are strengthening their engagement with the stakeholders they see as influential. Social media is becoming an increasingly important tool – but many businesses see it more as a way to increase brand awareness, rather than as a customer engagement channel. One survey, for example, found that 64% of businesses that use social media do so for brand awareness, while only a quarter do so for customer service.[29] This may explain why CEOs see social media users as having a much lower level of influence than customers – despite the fact that many of their customers are using these channels.

Looking beyond corporate walls, nearly half of CEOs plan to put more effort into reducing their organisation's environmental footprint in the coming year. Meanwhile, 41% plan to focus more heavily on non-financial reporting, which often more fully reflects a company's worth and the value it contributes to society.

Many CEOs are also aiming, more broadly, to improve national outcomes. Over the next three years, 61% plan to invest more in creating a skilled workforce and 45% in maintaining the health of the workforce (see Figure 14). Demographic factors are clearly one driver of these efforts. And the focus on employee health is increasingly being driven by rising healthcare costs in the mature economies and rising healthcare expectations in the growth economies.

CEOs in the Middle East and Africa have especially ambitious goals: 81% and 86%, respectively, intend to increase the amount they spend on staff training, while 75% and 72%, respectively, intend to spend more on keeping their staff healthy. More than half of all CEOs in North America – where health insurance is one of the most prized employee perks – also expect to invest more in employee healthcare programmes.

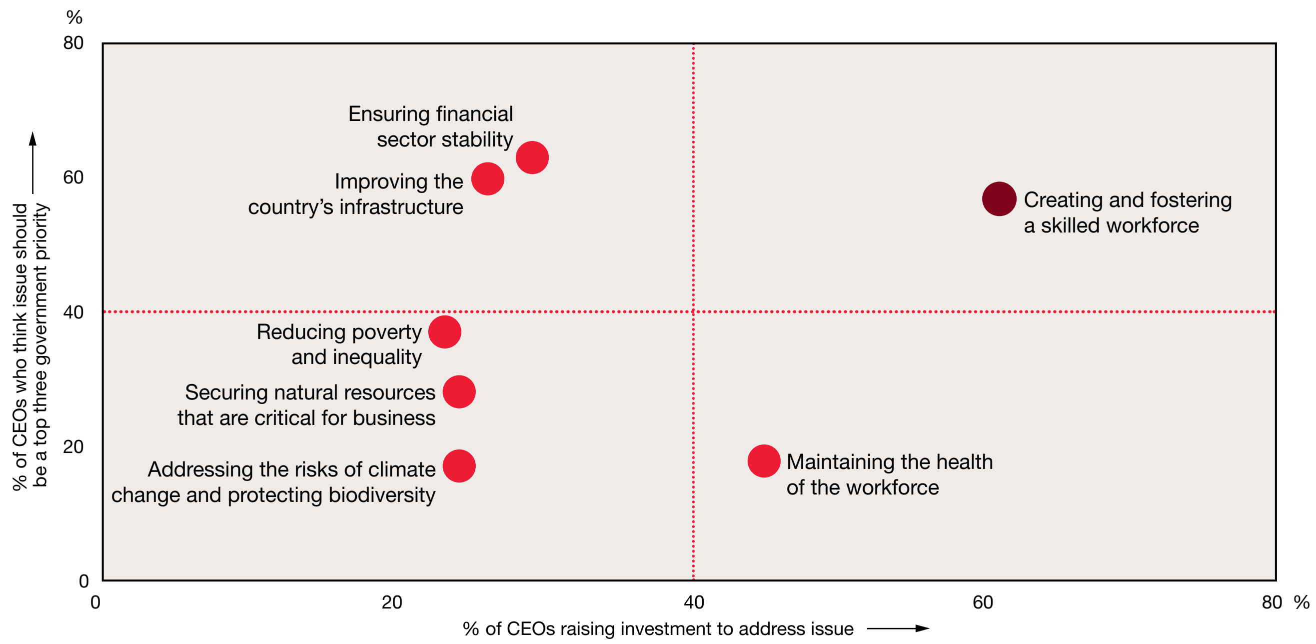
CEOs know that treating the workforce well creates a virtuous circle. Organisations with a reputation for looking after their staff find it easier to recruit and retain good people. And workers who feel valued talk more favourably about their employer. That matters more than ever, when disaffected employees can reach thousands of customers with a single tweet.

CEOs also increasingly recognise the importance of collaborating with government – both to promote their own commercial interests and to build a sustainable business ecosystem. They see developing a skilled workforce as one such shared responsibility (see Figure 14).

Nearly two-thirds of CEOs think governments should play a major role in ensuring the stability of the financial system and creating a strong national infrastructure, too – although they question how well governments have risen to the challenge. Yet, as the success of the private and public sectors becomes increasingly intertwined, it's becoming evermore important for business and government to work honestly and effectively together.

Figure 14: 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

29 Econsultancy, 'Social Media Statistics Compendium, Global' (November 2012). Marketers were asked to indicate the two most important uses of social.

Surviving and thriving amid disruption

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.

The following questions, derived from the conversations we've had with CEOs, focus on some of the biggest challenges facing today's business leaders as they strive to find growth and stay competitive through constant turbulence.

From risk management to resilience

- How can you complement your longer term planning and strategy with real-time tools to improve operational decisions and continually adjust your course as necessary?
- How can you efficiently anticipate and execute in an environment of constant change, turning scenario planning from a theoretical exercise into a real decision shaper?
- How can you complement your enterprise risk management systems with a stronger focus on strategic and systemic risks – and ensure that the right behaviour and culture are in place across your organisation and wider networks?

Targeting the right opportunities

- Picking the right initiatives for investment is critical to success, especially in tough times. What criteria should you use to ensure that your investments are targeted to where they can best deliver value?
- Organisations are increasingly aware that opportunities in growth markets are highly nuanced. How do you evaluate the specific opportunities offered in these diverse and diverging markets, both newer and more established?
- How can you ensure that you're effectively assessing opportunities in mature markets, and drilling deep enough to find growth in specific sectors and segments?

Concentrating on the customer

- Businesses haven't changed their focus on customers. But they're keeping a closer eye on costs – as are their customers. How can you best target highly disparate and ever-changing markets in order to find growth opportunities?
- There's so much information out there about customers. How can you best capture and standardise this data across all your markets, and turn your IT systems into a powerful tool to understand shifting buyer preferences and improve customer loyalty?
- How can you use digital channels to better communicate with your customers, co-create products, capture customer insights, increase loyalty and measure your impact in all of these areas?
- How can you innovate more effectively and efficiently – and focus more on the customer in your innovation strategy and processes?

Improving operational effectiveness

- Bottom line growth is of critical importance to organisations. But how do you ensure that you continue to create value, invest for growth and have the flexibility to bounce back from disruption?
- In order to take advantage of new opportunities before competitors do, how can you create the right degree of flexibility in your organisational structure and processes, which allows you to quickly deploy resources across your organisation to where they're most needed?
- What should you be on the lookout for entering into a partnership or joint venture?
- Employees and their interactions with customers are critical for long-term success. Do you have the right people, processes and information to engage with customers as effectively as possible?
- How can you create networks of formal and informal trusted relationships which go beyond contractual terms to target a shared vision, set of values and objectives?

Building trustworthy relationships

- How can you create the mutual trust necessary for your employees to take personal responsibility for doing the right thing, even as each of them is increasingly exposed to the front line of customer interaction?
- How can your board members and senior executives lead by example, to embody the values and behaviour core to your organisation?
- How can you more effectively support skills development in the markets in which you operate?
- It makes sense to focus on how a country's resources can improve the competitiveness of your local operations, whether it's the talent pool, capital or raw materials. But what do you have that governments might be interested in accessing, and how can you collaborate for mutual success?
- Working with a wide range of other stakeholders is critical to succeeding in your markets. How can you best understand and meet the needs of customers, suppliers, local communities and other groups within the ecosystem in which you operate?
- How can you build more transparency into your reporting that better communicates how you're working to create shared value in the markets in which you operate?

…social and environmental responsibility should be inherent not only in government authorities and the state but also in any commercial company in any country. The world of the future depends on solidarity in this area: the uniting of resources, efforts and initiatives from all economic entities.

Andrei Dubovskov, President and CEO, MTS OSJC, Russia

…since we're running scale businesses at a distance, every person leading each of those businesses is invested with trust from the centre. The leaders of our businesses have the authority to make decisions about the business they run. …So part of becoming agile is creating a culture that invests its people with trust. …our approach is to create a culture that empowers people and – within the context of a set of shared values – provides them with the freedom to take action. That gives you tremendous strength, flexibility, and agility.

Carl Sheldon, CEO, TAQA, United Arab Emirates

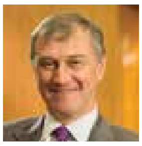
CEO survey participants

Karen Agustiawan
President Director and Chief Executive Officer
PT Pertamina (Persero)
Indonesia

Alex Arena
Group Managing Director
HKT Ltd.
Hong Kong, China

Dr. João Bento
Chief Executive Officer
Efacec Capital SGSP SA
Portugal

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



Andrew Brandler
Chief Executive Officer
CLP Holdings Ltd.
Hong Kong, China

Alison Cooper
Chief Executive
Imperial Tobacco Group
UK

Dr. John Coustas
President and Chief Executive Officer
Danaos Corporation
Greece

Sándor Csányi
Chairman and Chief Executive Officer
OTP Bank Plc.
Hungary

Andrei Dubovskov
President and Chief Executive Officer
MTS OJSC
Russia

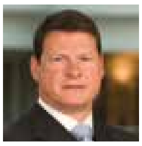
Stephen A Elop
President and Chief Executive Officer
Nokia
Finland

Larry Fink
Chairman and Chief Executive Officer
BlackRock Inc.
US

José Galló
Chief Executive Officer and Director
Lojas Renner
Brazil

Piyush Gupta
Chief Executive Officer and Director
DBS Group
Singapore

Yasuchika Hasegawa
President and Chief Executive Officer
Takeda Pharmaceutical Company Ltd.
Japan



Steve Holliday
Chief Executive Officer
National Grid Group Plc.
UK

Artem Konstandyan
Chief Executive Officer
Promsvyazbank (PSB)
Russia

Pertti Korhonen
President and Chief Executive Officer
Outotec Oyj
Finland

Alex C. Lo
President
Uni-President Enterprises Corporation
Taiwan

Dr. Weihua Ma
President and Chief Executive Officer
China Merchants Bank Co. Ltd.
China

A.M. Naik
Executive Chairman
Larsen & Toubro Limited
India

Anders Nyrén
President and Chief Executive Officer
Industrivärden AB
Sweden

Aireen Omar
Chief Executive Officer
AirAsia Berhad
Malaysia

Alonso Quintana
Chief Executive Officer
ICA
Mexico

Yves Serra
President and Chief Executive Officer
Georg Fischer Ltd.
Switzerland

Shikha Sharma
Managing Director and Chief Executive Officer
Axis Bank Limited
India

Carl Sheldon
Chief Executive Officer
TAQA
UAE

Valentina Stanovova
Senior Vice-President
Capital Group
Russia

Julio Patricio Supervielle
Grupo Supervielle's CEO
and Banco Supervielle's Chairman
Argentina

Seymur Tari
Chief Executive Officer
Turkven
Turkey

Peter Terium
Chief Executive Officer
RWE AG
Germany

Peter Tortorici
Chief Executive Officer
GroupM Entertainment Global
US

Douglas D. Tough
Chairman and Chief Executive Officer
International Flavors & Fragrances, Inc.
US

Jean- Pascal Tricoire
President and Chief Executive Officer
Schneider Electric SA
France

To read quotes from interviews and watch selected videos, visit www.pwc.com/ceosurvey

Research methodology and key contacts

This is the 16th Annual PwC Global CEO Survey

We've conducted interviews with CEOs in 68 countries worldwide, adjusting the number of interviews in line with each country's GDP to ensure CEOs' views are fairly represented.

In total, we conducted 1,330 interviews with CEOs in 68 countries between 5 September and 4 December 2012. By region, 449 interviews were conducted in Asia Pacific, 312 in Western Europe, 227 in North America, 165 in Latin America, 95 in Central and Eastern Europe, 50 in Africa and 32 in the Middle East. The interviews were spread across a range of industries, with further details by region and industry, available on request.

The majority of 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 Australia, Iceland and Singapore. The US and Greece also used a mixed approach of telephone and online. In addition, members of our global CEO panel were invited to take part online, with 230 CEOs providing their views. All interviews were conducted in confidence and on an unattributable basis.

The lower thresholds for inclusion in the top 30 countries are 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 $50 million in the top ten countries by GDP size. Forty-one percent of the companies had revenues of $1 billion and over, and a further 35% had revenues of over $100 million up to $1 billion. Additionally, 18% had revenues of up to $100 million. Company ownership is recorded as private for 48% of the companies, with a further 48% listed on at least one stock exchange.

To better appreciate CEOs' perspectives for 2013, we also conducted in-depth interviews with 33 CEOs from five continents over the fourth quarter of 2012. Their interviews are quoted in this report, and more extensive extracts can be found on our website – at http://www.pwc.com/ceosurvey – where you can explore responses by sector and location.

PwC's extensive network of experts and specialists has provided 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:

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

For media related enquiries, please contact:

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

The Design Group PwC UK 21352

www.pwc.com/ceosurvey

www.pwc.com/talentmanagement

The talent challenge
A time for extraordinary leadership

16th Annual Global CEO Survey: The talent challenge

pwc

Contents

Key findings	2
Searching for growth	4
Cutting costs, but not people	6
Tackling talent strategy	8
Room for improvement	12
Claiming back the people agenda	14
A question of trust	18
Understanding reward	20
What next?	22
About the survey	24
Contacts	25

A time for extraordinary leadership

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

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

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

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

Key findings

A lack of confidence.

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

Need to cut costs.

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

Worried about skills.

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

A question of trust.

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

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

Alison Cooper, CEO, Imperial Tobacco Group, UK

Really tackling talent strategy?

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

Time for strong leadership.

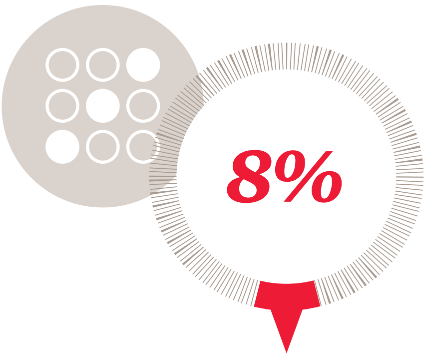
Building skills for future growth while cutting costs and without risking damaging employee engagement still further will require exceptional leadership. What's needed is a coherent talent strategy that is built on a powerful employer brand and which is embedded in the very DNA of the organisation. It's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

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

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

Piyush Gupta, CEO, DBS Group, Singapore

Searching for growth

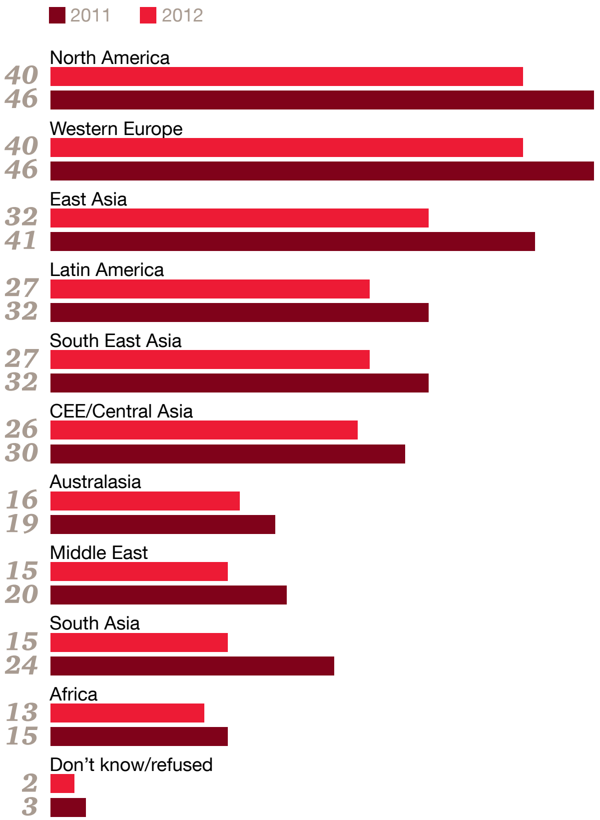


Only 8% plan to grow new operations in foreign markets

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

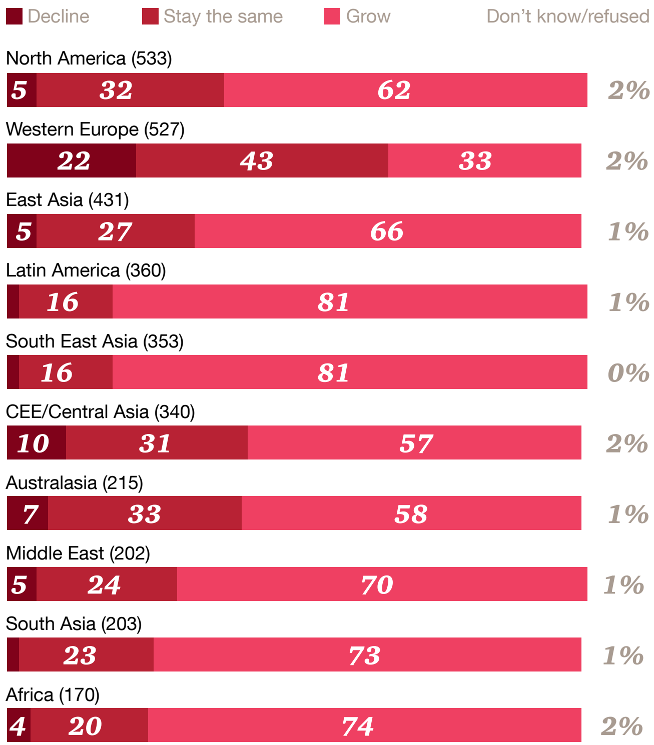
CEOs agree that Latin America and South East Asia are the regions that are most likely to deliver growth, but many are beginning to turn their attention to Africa – 74% of CEOs expect to pursue opportunities on the continent over the next 12 months. By contrast, the fortunes of Europe are clearly on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

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



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

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



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

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

Pertti Kerhonen, President and CEO, Outotec Oyj, Finland

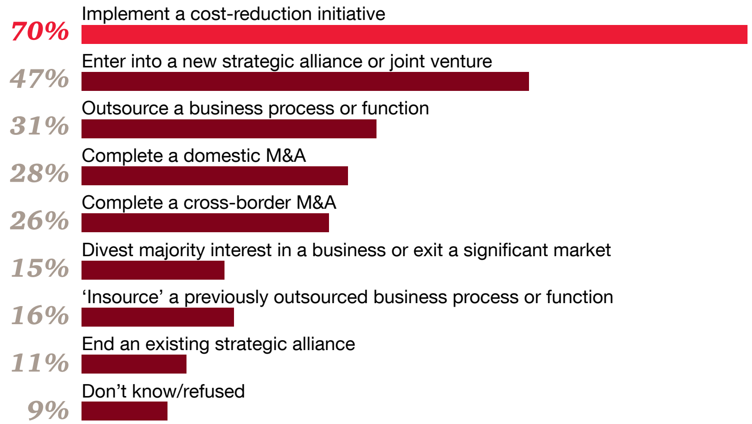
"The key in this environment is the people agenda. It's one of the easier things to cut in terms of investment when you're in a tough environment, but I think it's essential that companies continue to invest in their people."

Alison Cooper, CEO Imperial Tobacco Group, UK

Cutting costs, but not people

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

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



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

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

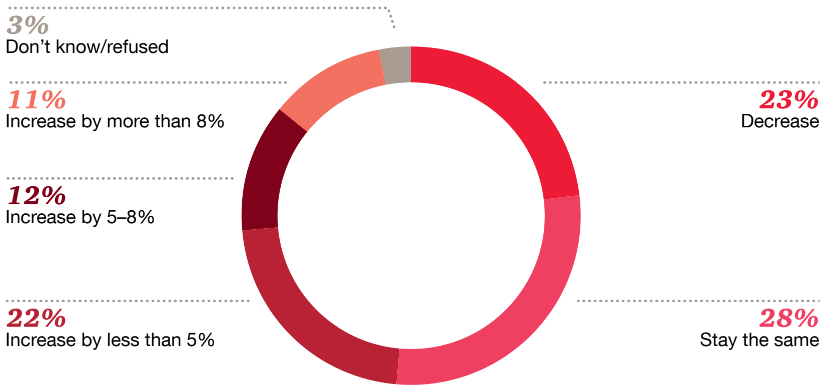
Headcount has been an obvious target for cost-cutting, but there are signs that some CEOs are recognising that, perhaps, they've gone as far as they should and that they need to be smart about cost-cutting; only 23% had plans to cut headcount in the next 12 months.

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

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

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

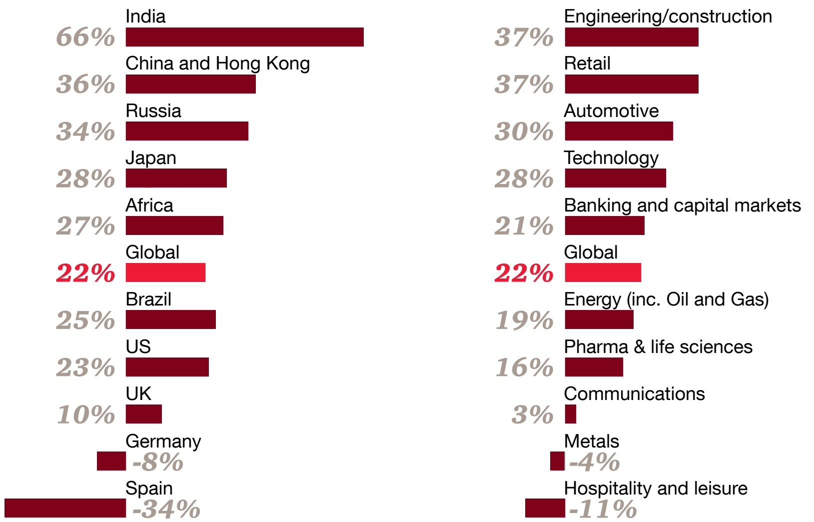
Q: What do you expect to happen to headcount in your company globally in the next 12 months?



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

Net hiring intent

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



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

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

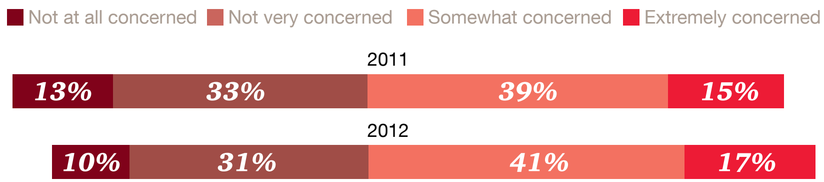
Tackling talent strategy

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

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

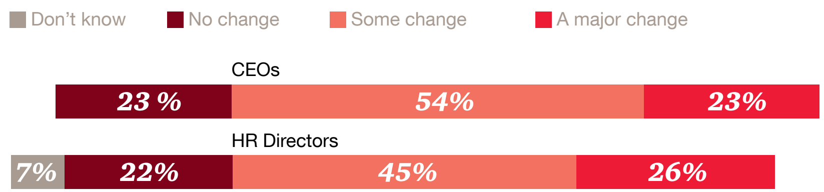
But this isn't new. In fact, talent management has been identified as the main target for strategic change in every CEO survey over the past six years. While it's heartening that talent strategy is high on the list of CEOs' priorities, there's clearly something wrong in its execution.

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



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

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



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

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

Talent strategy – the implementation gap?

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

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

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

Steve Holliday, CEO, National Grid Group plc, UK

Whose problem is it anyway?

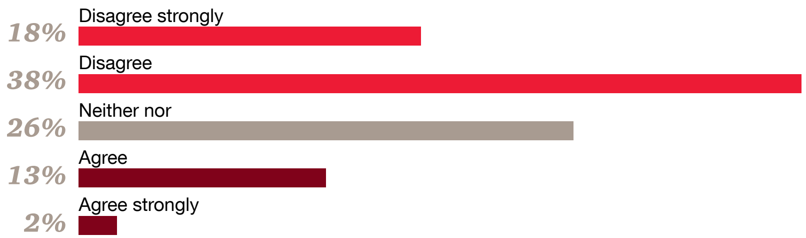
It's clear that there is a chronic shortage of skilled employees in some markets and sectors (75% of CEOs of mining companies, for example, say that availability of skills is a threat to growth). Many business leaders believe that they're suffering due to a long-term failure in government policy because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

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

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

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

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



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

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

Aireen Omar, CEO, AirAsia Berhad, Malaysia

Room for improvement

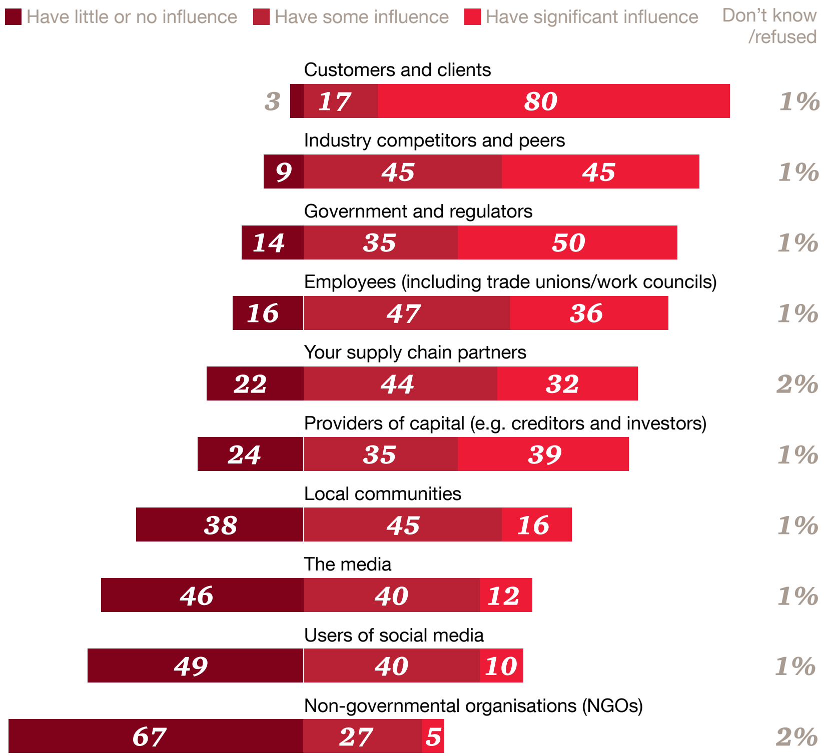
CEOs know that they need to take back the initiative on people strategy and target their investment in talent to make sure that they secure the skills they'll need to compete globally. But it's clear that their existing people strategy isn't fit for purpose.

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

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

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

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



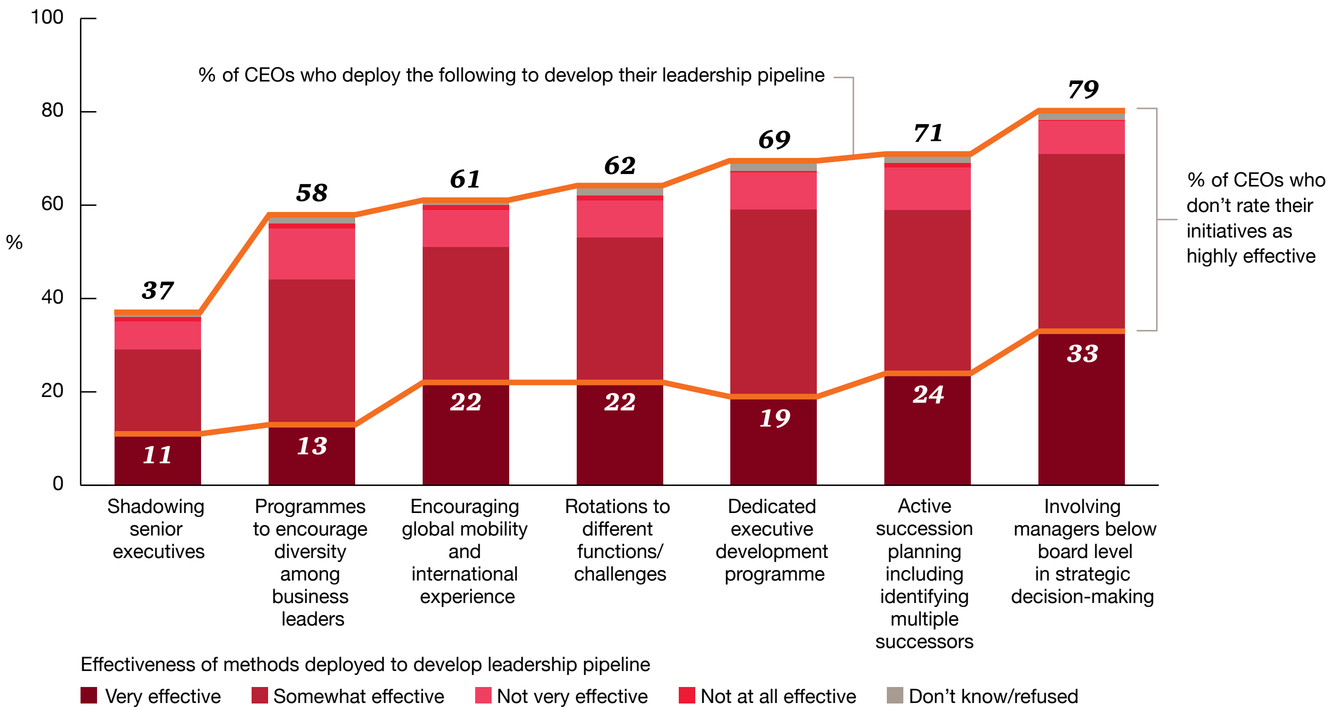
Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

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

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

> *"We have a more global and diverse team than we did a few years ago. We've increased our training and the exposure management has to new opportunities, all of which are oriented to making them more adaptable, because we think the pace of change is going to accelerate."*
>
> Douglas D Tough, Chairman and CEO, International Flavors & Fragrances Inc, US

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



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

Claiming back the people agenda

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

Karen Agustiawan, President and CEO, PT Pertamina, Indonesia

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

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

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

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

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

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

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

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

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

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

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

Carl Sheldon,CEO TAQA, United Arab Emirates

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

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

Jean-Pascal Tricoire, Schneider Electric SA, France

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

Steve Holliday, CEO, National Grid Group plc, UK

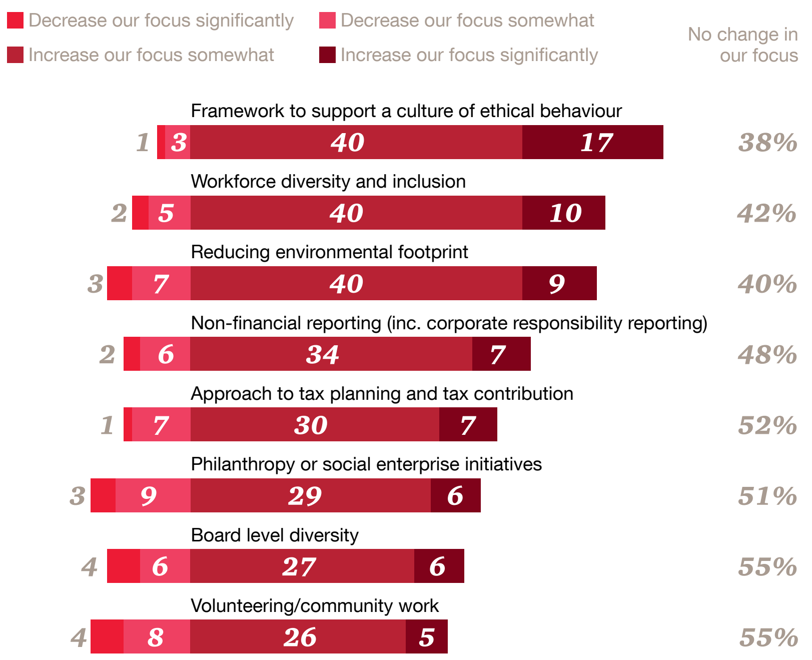
A question of trust

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

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

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

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

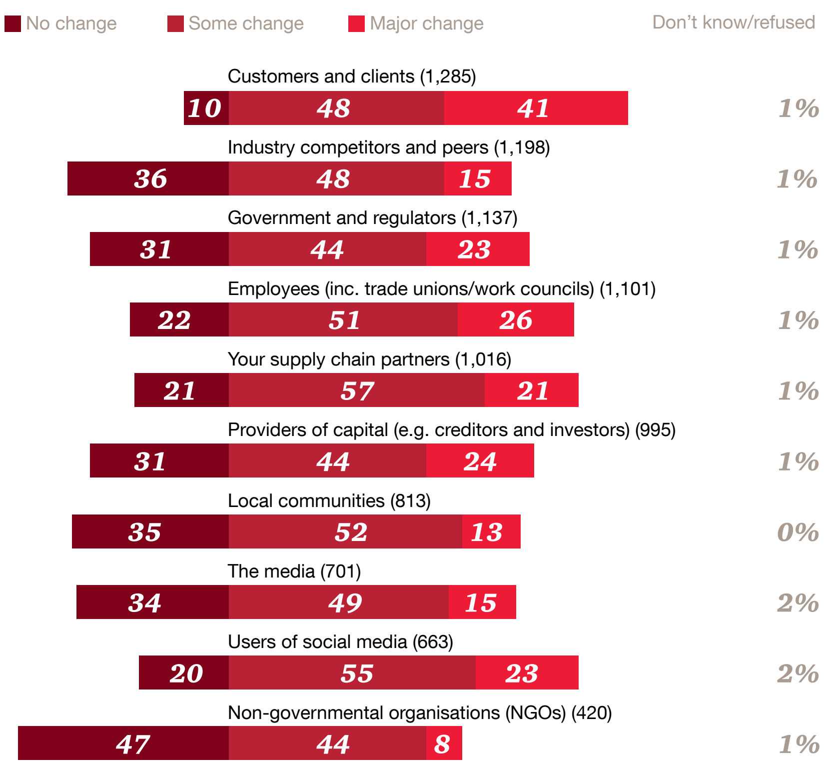


Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

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

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

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



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

The power of 'Like'

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

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

Understanding reward

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

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

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

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

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

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

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

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

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

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

[6] *Psychology of incentives,* PwC 2012

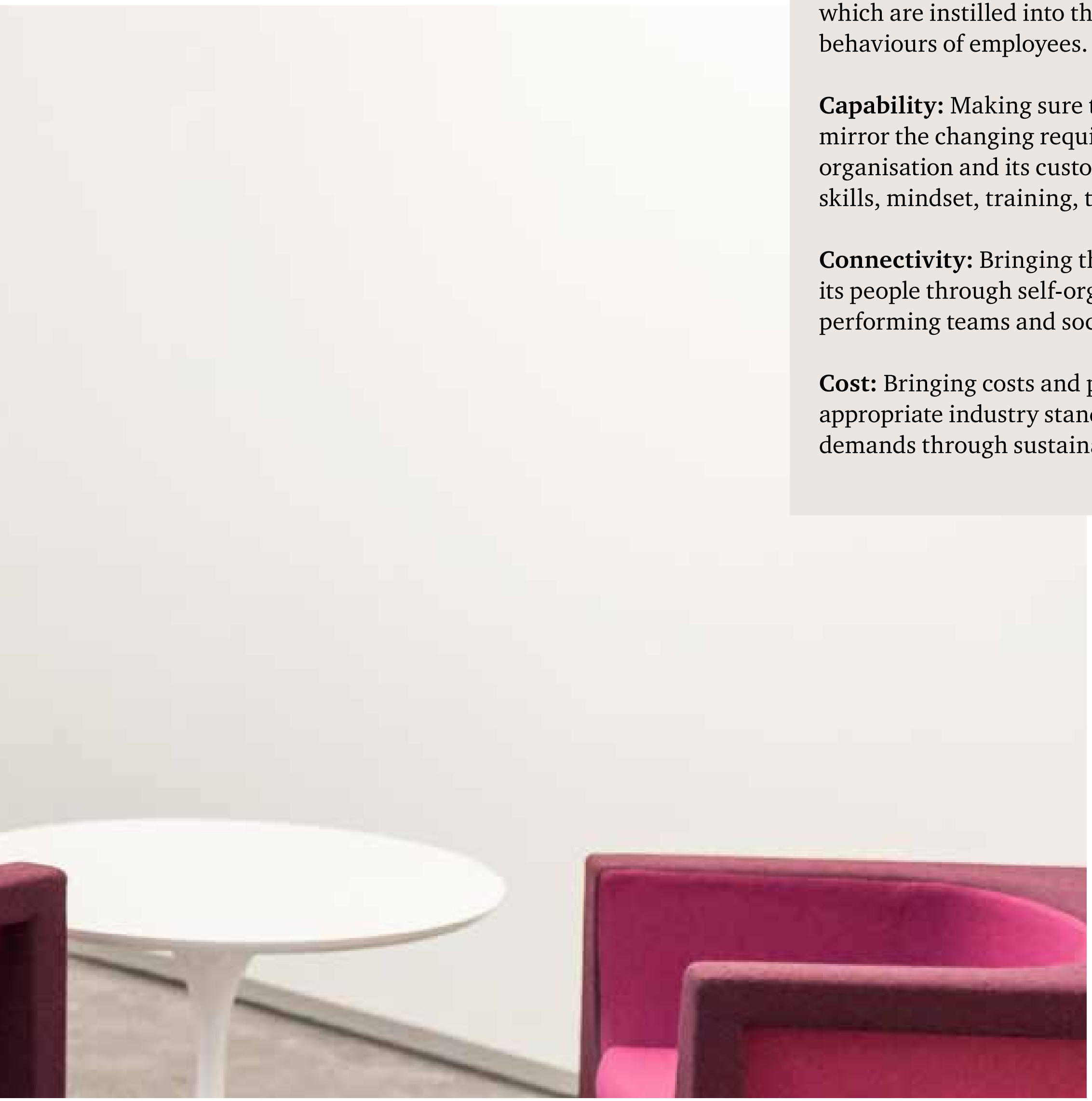
No organisation can afford to sit back and react to the many challenges ahead. It's time to take control. The time is now.

What next?

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

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

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



The four Cs

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

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

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

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

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

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

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

1,330

interviews with CEOs in

68

countries

About the survey

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

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

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

Contacts

Key contacts
Michael Rendell
Human Resource Services
Global Network Leader
+44 20 7212 4945
michael.g.rendell@uk.pwc.com

Justine Brown
Marketing
Human Resource Services
+44 113 289 4423
justine.brown@uk.pwc.com

North America
Scott Olsen
+1 646 471 0651
scott.n.olsen@us.pwc.com

Ed Boswell
+1 617 530 7504
ed.boswell@us.pwc.com

Western Europe
Jon Andrews
+44 20 7804 9000
jon.andrews@uk.pwc.com

Peter De Bley
+32 2 7104321
peter.de.bley@pwc.be

Till Lohman
+49 40 6378-8835
till.r.lohmann@de.pwc.com

Central and Eastern Europe
Zsolt Szelecki
+3614619733
zsolt.szelecki@hu.pwc.com

Middle East
David Suarez
+971 4304 3981
david.suarez@ae.pwc.com

China/Hong Kong
Mandy Kwok
+852 2289 3900
mandy.kwok@hk.pwc.com

Singapore
Alywin Teh
+65 62367268
alywin.teh@sg.pwc.com

India
Kaustubh Sonalkar
+91 (22) 6669 1203
kaustubh.sonalkar@in.pwc.com

Australasia
Debra Eckerlsey
+61 (2) 8266 903
debra.eckersley@au.pwc.com

South and Central America
Joao Lins
+55 11 2674 3536
joao.lins@br.pwc.com

Africa
Gerald Seegers
+27 (11) 797 4560
gerald.seegers@za.pwc.com

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