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Growth reimagined

Prospects in emerging markets drive CEO confidence

14th Annual Global CEO Survey

Executive summary

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In 2011, CEOs face a global business environment still recovering from the worst economic crisis in 75 years.

It's true that the depths of the crisis are behind us and stability has returned to most of the world. But most major economies are still grappling with the aftermath of the recession and sustainable economic growth is far from certain.

In the 14th Annual Global CEO Survey, we set out to uncover how CEOs are approaching growth in the post-crisis business environment. We surveyed 1,201 business leaders in 69 countries around the globe, in the last quarter of 2010, and conducted further in-depth interviews with 31 CEOs.

We found a surprising renewal of optimism: Chief executives were nearly as confident of growth this coming year as in the boom years before the crisis. And what was really interesting was *where* they saw growth coming from, and *how* they were going to achieve it. We identified three strategic focal points among the CEOs' responses.

This document highlights key findings in the 2011 CEO Survey. Please go to ***www.pwc.com/ceosurvey*** to read the full report, the in-depth story (which summarises CEO views in the words of those we spoke to and which graphically illustrates our detailed findings) and explore other online tools.

Telling the CEO survey story

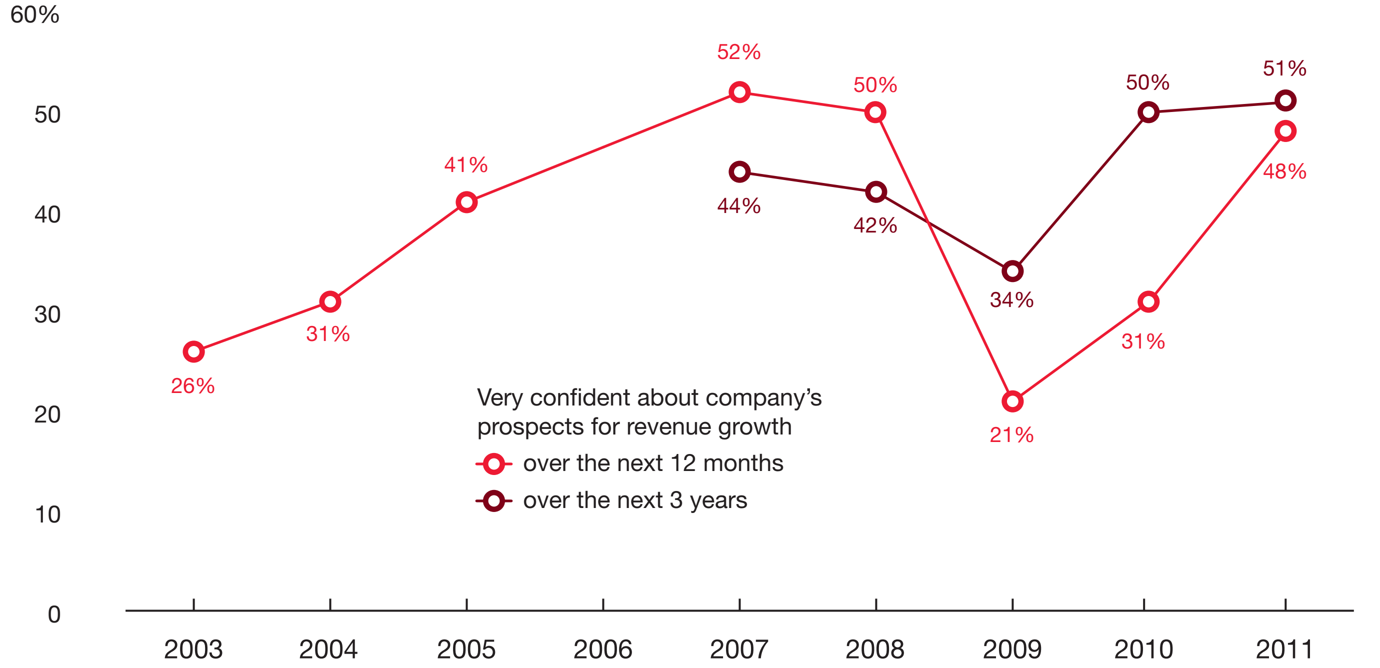
1. Are conditions right for growth?

CEOs honed their cost discipline during the recession, driving a patient optimism about their prospects when global growth returned. This can be seen in the high confidence CEOs reported last year in their three-year revenue growth outlooks. 'Things will get better", they seemed to be telling us a year ago.

Sure enough, things got better. Now, CEOs have set their targets on more immediate growth. That's what we see this year in the big jump in 12-month revenue growth prospects. Confidence levels are rising virtually across the board, whether we slice by how big they are, what sector they're in, or where they're based.

CEOs prepared for recovery in 2010 and expect growth in 2011

Q: How confident are you about your company's prospects for revenue growth over the next 12 months/3 years?



Base: 2011 (1,201), 2010 (1,198), 2009 (1,124), 2008 (1,150), 2007 (1,084), 2006 (not asked), 2005 (1,324), 2004 (1,386), 2003 (989)
Note: Percentage of CEOs who are very confident about their companies' prospects for revenue growth
Source: PwC 14th Annual Global CEO Survey

Confidence levels are rising across the board, whether we slice by how big they are, what sector they're in, or where they're based.

2. So companies are gearing up for markets to grow?

Selectively, yes. Developed markets – half the world economy – are forecast to grow at half the rate of global growth this year. But big emerging markets like China, India and Indonesia are growing much faster than the world economy. This multi-speed recovery will have a big impact on strategies going forward.

CEOs plan to grow revenues in regions where recoveries are strong and the promise, stronger still. And those regions are not always close to home. CEOs in Western Europe are targeting growth in Asia and elsewhere. And CEOs from Asia-Pacific and Latin America are more likely to rely on their own regions for growth. High expectations are being placed on Latin America and Asia, and most clearly, on China. And CEOs are being very selective in choosing specific markets, rather than adopting a shotgun approach to entering emerging markets all at once.

Growth to come in emerging markets' operations, regardless of location

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

	Region of operations							
Company headquarters	Africa	Asia	Australasia	Eastern Europe	Latin America	Middle East	North America	Western Europe
Africa	93%	89%	33%	100%	100%	75%	29%	36%
Asia-Pacific	73%	88%	77%	40%	80%	70%	40%	32%
CEE	80%	87%	83%	73%	80%	55%	71%	69%
Latin America	67%	86%	18%	59%	86%	47%	48%	31%
Middle East	70%	100%	50%	0%	0%	85%	25%	0%
North America	64%	94%	71%	67%	80%	73%	67%	51%
Western Europe	72%	92%	57%	75%	86%	75%	55%	48%

0% 100%

Base: Respondents who reported operations in said region (168-672)
Note: Percentage of respondents who expect to grow their key operations in the region.
Source: PwC 14th Annual Global CEO Survey

'From a global perspective, it's difficult to see where the engines of sustained economic growth will emerge. I expect overall global unemployment will remain high for some time, and this will be the biggest obstacle to economic recovery.'

Dr. Zhang Xiaogang
President, Anshan Iron and Steel Group Corporation, China

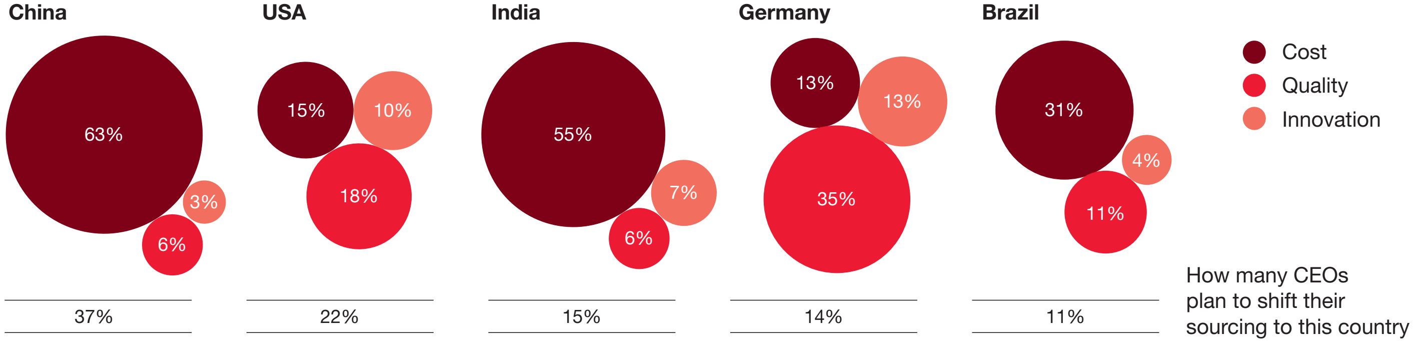
3. Does that mean companies are abandoning developed markets?

Absolutely not! Large developed economies still have their attractions. The US was the second most popular choice (after China) for a growth market, with 21% of CEOs naming the nation among the three most important for growth. Another 12% selected Germany.

We also asked CEOs which nations would be most important for their future sourcing needs. China dominates the list, largely for reasons of cost competitiveness. But quality control, risk profiles, innovation capabilities, logistics and existing relationships remain factors to many CEOs. So, the US and Germany joined China, India and Brazil in the ranks of the most important future suppliers.

Developed nations have competitive advantages

Q: Which countries, not including the country in which you are based, do consider most important to your future sourcing needs? Which of the following reasons apply for shifting sourcing to the countries you have just mentioned?



Base: China (442), USA (261), India (178), Germany (172), Brazil (137)
Note: Top reasons why CEOs plan to shift their sourcing to these supplier nations
Source: PwC 14th Annual Global CEO Survey

'The question each energy provider must consider is where it should position itself on this spectrum of differing market requirements. How much focus should be placed on supplying the growing needs of emerging economies using well-understood technologies versus, let us say, joining the race for a superior future? Where energy companies position themselves on this spectrum is going to require them to make decisive strategic choices in the years ahead.'

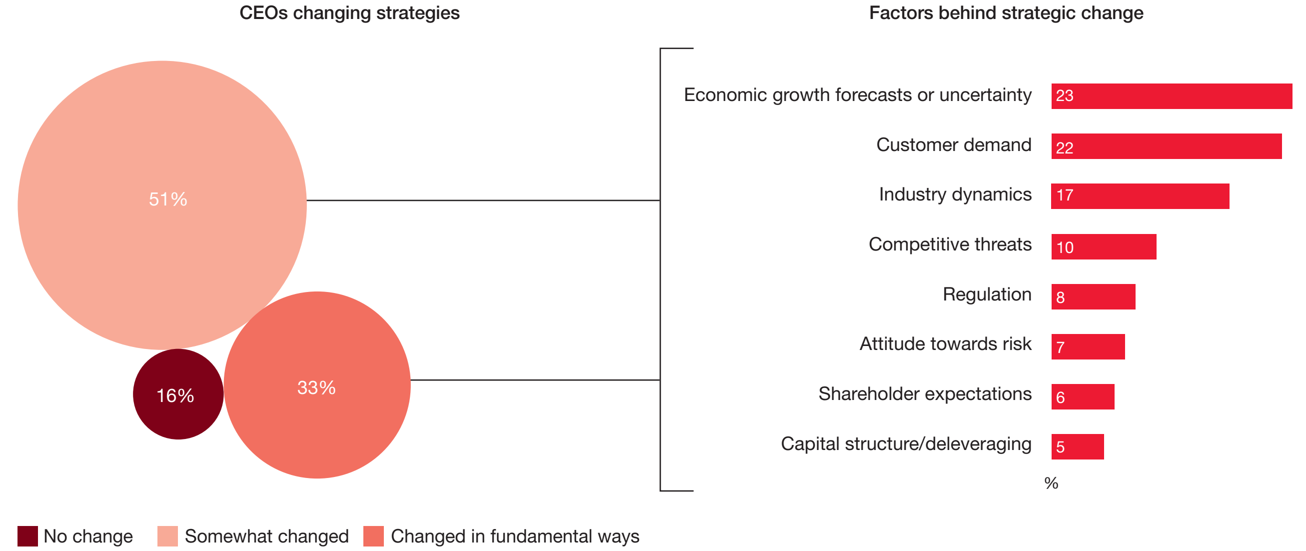
Johannes Teyssen
Chairman and CEO, E.ON AG, Germany

4. Haven't emerging markets been part of corporate strategies for years?

To some degree. But change is accelerating because of the multi-speed recovery. The vast majority of CEOs (84%) say they are changing company strategies – and a third of CEOs describe that change as 'fundamental'. Investments are more disciplined from the cost perspective, and more targeted from the market perspective.
To a large extent, these changes are driven by this diverging picture of global growth. It's a break from the recent past, when consumption in developed markets drove global growth. Now, it's increasingly, emerging markets.

Strategies are responding to changes in demand

Q: To what degree has your company's strategy changed over the past two years? Which factor had the biggest impact on your need to change your strategy?



Base: All respondents (1,201)
Source: PwC 14th Annual Global CEO Survey

'Looking ahead, there are going to be very large players that can do huge projects, and then there are going to be the boutiques. The firms that are stranded in the middle are going to struggle. At the moment we're big enough, so I'm not worried about the next several years, or perhaps the next decade. But we will need to ensure that we remain large enough to be significant on a global scale. Partnering on projects with other firms is one way ahead.'

Philip Dilley
Group Chairman, Arup Group, UK

5. Isn't all that risky?

Yes, and CEOs are watching out for macro-economic risks; 71% report being somewhat or extremely concerned about economic uncertainty. Volatility in currency and bond markets greatly complicate strategies geared towards more trade. Rising public sector deficits is their number two concern. There is a clear expectation that governments in mature economies will have to raise taxes and cut spending. Nearly three-quarters of US CEOs, for example, believed their company's total tax contribution will rise because of their government's response to a rising public deficit. The sentiment is shared in many emerging economies as well.

The heightened awareness of macro-risks is working its way into the boardroom. Risk management is increasingly high on the agenda for boards and senior management, and incorporated in formal strategic planning processes. CEOs are taking a long view of the evolving risks in a global economy. Senior level attention to this could strengthen the linkage between operational and strategic approaches to risk, and mitigate the impact of another crisis.

Top risks relate to government policies – and talent

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

	2008	2009	2010	2011
1	Availability of key skills	Recession/economy	Recession/economy	Recession/economy
2	Recession/economy	Unstable capital markets	Overregulation	Public deficit[1]
3	Overregulation	Overregulation	Unstable capital markets	Overregulation
4	Low-cost competition	Energy costs	Currency volatility[1]	Availability of key skills
5	Energy security	Inflation	Economic imbalances[1]	Increasing tax burden[1]
6	Scarcity of resources	Low-cost competition	Low-cost competition	Exchange rate volatility
7	Protectionism	Availability of key skills	Energy costs	Unstable capital markets
8	Security of supply chain	Protectionism	Availability of key skills	Shift in consumers
9	Technology disruption	Security of supply chain	Protectionism	Energy costs

[1] New options

Base: 2008 (1,150), 2009 (1,124), 2010 (1,198), 2011 (1,201)
Note: Rank of top threats, by % of somewhat or extremely concerned
Source: PwC 14th Annual Global CEO Survey

'In the present environment, we see increased risk with regard to the viability of input costs. There's also the possibility that government protectionism may slow the pace of globalisation. In any case, we are living increasingly in a world that is more volatile.'

Paul Polman
CEO, Unilever, UK

6. *What are some common elements of those new strategies?*

CEOs have three focal points as they change their strategies to address the multi-speed recovery.

- CEOs are responding to a rise of middle-class consumers in emerging economies by developing products and services tailored to those high-growth markets, while also looking to serve the changed needs of more mature markets. So **innovation,** in the context of new patterns of demand, **is a clear strategic focal point for CEOs.**
- Then there's talent. As they look across their organisations, **CEOs fear they won't have the right talent to compete effectively as recoveries take hold**. A lot of investment in talent over the past few decades has been made in economies that are now slower growing. Whether that talent can understand and adapt to the realities of faster-growing emerging markets remains to be seen.
- Yet, CEOs don't necessarily want to go it alone. **CEOs increasingly call for a shared agenda with government in areas deemed critical for business growth**. Outcomes like improving the skills of the workforce and improving infrastructure are best achieved through sustained collaboration between public and private sectors.

Innovation, in the context of new patterns of demand, is a clear strategic focal point for CEOs

CEOs increasingly call for a shared agenda with government in areas deemed critical for business growth

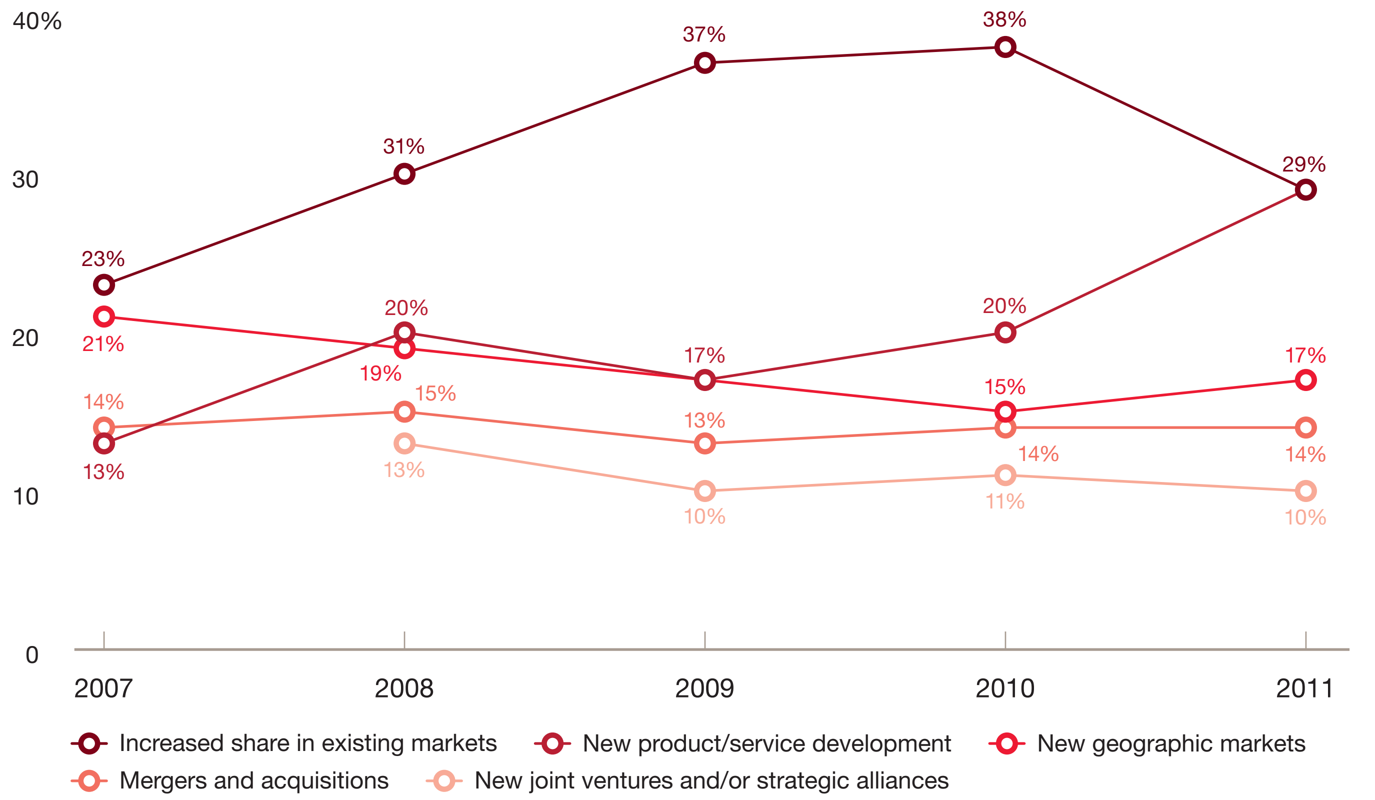
7. What do CEOs expect from innovation?

A lot. The rise in importance for new products and services marks a significant shift for CEOs in where their best avenue for growth lies. Innovation is high on the agenda in virtually all industries, including industrial sectors such as metals, chemicals and manufacturing. Since 2007, business leaders have consistently reported that their single best opportunity for growth lay in better penetration of their existing markets. Now they're just as likely to focus on the innovation needed for new products and services.

And they're confident their innovations will succeed: 78% expect their development efforts to generate 'significant' new revenue opportunities over the next three years. It won't be easy. But they are making changes at all levels of their organisations to make sure they can take advantage of incremental innovations, as well as breakthroughs.

CEOs have a new commitment to innovation

Q: Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



Base: 2007 (1,084), 2008 (1,150), 2009 (1,124), 2010 (1,198), 2011 (1,201)
Note: Percentage of CEOs who see the following as the main opportunity to grow their business in the following 12 months
Source: PwC 14th Annual Global CEO Survey

'People tend to see innovation strictly in terms of revolutionary, breakthrough products – technologies to sequester carbon emissions or microchips that can process data 600 times faster. That's fine. But most innovations are the result of steady, continuous improvement.'

Paul Polman
CEO, Unilever, UK

8. What are their approaches to innovation?

First off, they start with the customer. Many are bringing their innovation activities closer to their customers by giving customers a say in the design of offerings. Some CEOs are literally moving development processes to customer locales, in order to get closer to them. They're creating products for faster-growing markets, in those markets, and then distributing worldwide.

Beyond that, a lot of ideas link to the idea of 'open innovation', involving more employees, more partners and even customers in the development process. A consumer goods' business, looking to expand in India, for example, is focused not only on shipping the best possible product out of its facilities, but also on where it is best designed, and on how to package, distribute and sell it into a changing marketplace. Innovation can takes place at each stage, with different partners.

CEOs expect innovation to involve external partners

Q: To what extent do you agree or disagree with the following statements about your expectations regarding your company's innovation over the next three years?

Base: All respondents (1,201)
Note: Expectations regarding companies' innovation over the next 3 years
Source: PwC 14th Annual Global CEO Survey

'Today, nearly every new item we bring out was produced with at least one partner somewhere in the world. For example, we co-locate scientists from partner organisations and from our organisation in the same laboratory. It's amazing what you can do when you knock down the barriers in an organisation or the barriers between organisations.'

Bob McDonald
Chairman of the Board, President and CEO, The Procter & Gamble Company, US

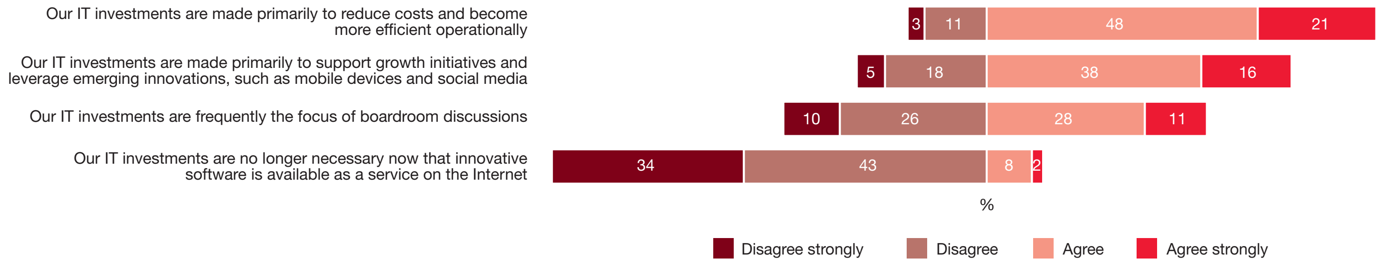
9. How does technology fit in?

CEOs are looking to gain both efficiencies and differentiation at the same time: 80% of CEOs in the survey believe innovation will drive efficiencies and lead to competitive advantage, to go with the 78% who expect new revenues. Technology is one way of capturing both. Close to 70% are investing in IT to reduce costs and become more efficient, while 54% are also funnelling funds towards growth initiatives, including emerging technologies in mobile devices, social media and data analytics.

Cloud computing, for example, can enable companies to manage business processes more efficiently. But it can also empower entirely new business models, for example ones that connect supply chain partners in a single differentiated offering for customers. In the survey, CEOs told us they are exploring both possibilities for technology, in general, and for cloud computing, in particular.

IT investments are 'ambidextrous' – made for both cost efficiency and growth

Q: To what extent do you agree or disagree with the following statements about capital investments in strategic IT that your company is making over the next three years?



Base: All respondents (1,201)
Source: PwC 14th Annual Global CEO Survey

'The best way to compete is to find new and more efficient ways of accepting, processing, and delivering cargo. In that way, innovative technology helps position Globaltrans as a client-focused company – and that provides us with a competitive edge. It is very important that Globaltrans be at least a step ahead of the rest of the industry in offering new railway logistics' solutions to the marketplace.'

Alexander Eliseev
Chairman of the Board of Directors, Globaltrans, Russia

10. *Will CEOs have the talent they need as growth returns?*

More companies expect to add jobs in 2011 than they did in 2010, led by industrial sectors such as chemicals, automotive and manufacturing. (For a detailed look at which regions and industries are adding jobs, go to **www.pwc.com/ceosurvey**.) As more ready plans to hire, the talent shortage becomes more apparent: two-thirds of CEOs believe they're facing a limited supply of skilled candidates.

In high growth markets such as China, India and parts of Latin America, talent shortages are as critical as – and in some cases more acute than – the rest of the world. But talent shortages are not isolated to emerging markets. Voluntary turnover declined in mature economies during the recession, but historical trends demonstrate that it will return. As a result, talent is at the top of the agenda for global CEOs.

Talent is now on top of the CEO agenda

Q: In response to changes in the global business environment, to what extent do you anticipate changes to any of the following areas of your company's organisation or operating model over the next 12 months?

Base: All respondents (1,201)
Note: Anticipated changes in the companies' organisation or operating model over the next 12 months
Source: PwC 14th Annual Global CEO Survey

'These nascent markets come with various uncertainties. One is the regulatory environment; another is talent-related. Finding the appropriate talent to take advantage of the growth prospects of emerging markets is one of the biggest challenges we face.…There is a high level of education, there's a lot of enthusiasm, but there is a pretty steep learning curve as well. It's just a process, and it will take some time in some markets.'

Louis Camilleri
Chairman and CEO, Philip Morris International, Switzerland/US

11. How are CEOs getting the most from their key staffers?

Most CEOs say they plan to use more ‘non-financial’ rewards. These approaches can take many forms, but often involve training and mentoring ‘me’: programmes, with a closer focus on career trajectories. Instilling a deeper sense of ownership by spreading employee stock ownership more widely is another important retention tool for CEOs.

Filling skills gaps begins with companies making themselves more attractive to potential and current employees, and looking for better ways to develop and deploy staff globally. Many of today’s multinationals are seeking greater independence for managerial talent locally, to get closer to those markets. Yet, global sourcing of talent isn’t a reality yet: over half of CEOs are planning to send more staff on international assignments in 2011.

‘We’re building the next generation of leadership to take International Paper to the next level. We don’t believe you can run a global business with expatriates. You’ve got to have local talent. They understand the local culture and how to do business there.’

John V. Faraci
Chairman and CEO, International Paper, US

12. What else can they do to address skills shortages?

The scale of shortages, CEOs describe, is leading to some new thinking around existing workforces, particularly around tapping underused pools of talent. In virtually all markets, for example, many fewer women than men are active in the labour market. Some companies have already taken note. But there is a lot further to go: only 11% of CEOs globally are planning 'significant change' to policies to attract and retain more of their female employees today.

Older workers are another underused pool of talent. Over half of North American CEOs foresee challenges as older workers retire, for example, but only 5% of North American CEOs are planning significant changes to hold on to older workers, and just 10% of CEOs globally are doing so. Similarly, over half of CEOs (54%) foresee challenges in recruiting and retaining younger employees. These three pools of talent are particularly vital in thinner talent markets where skills are scarcer – but they require specific strategies to approach.

Retention and deployment figure highly in CEOs' talent strategies

Q: To what extent do you plan to change your people strategy in the following ways over the next 12 months?

Base: All respondents (1,201)
Note: Plan to change people strategy in the following 12 months
Source: PwC 14th Annual Global CEO Survey

'With Generation Y coming into the business, hierarchies have to disappear. Generation Y expects to work in communities of mutual interest and passion – not structured hierarchies. Consequently, people management strategies will have to change so that they look more like Facebook and less like the pyramid structures that we are used to.'

Vineet Nayar
Vice Chairman and CEO, HCL Technologies, India

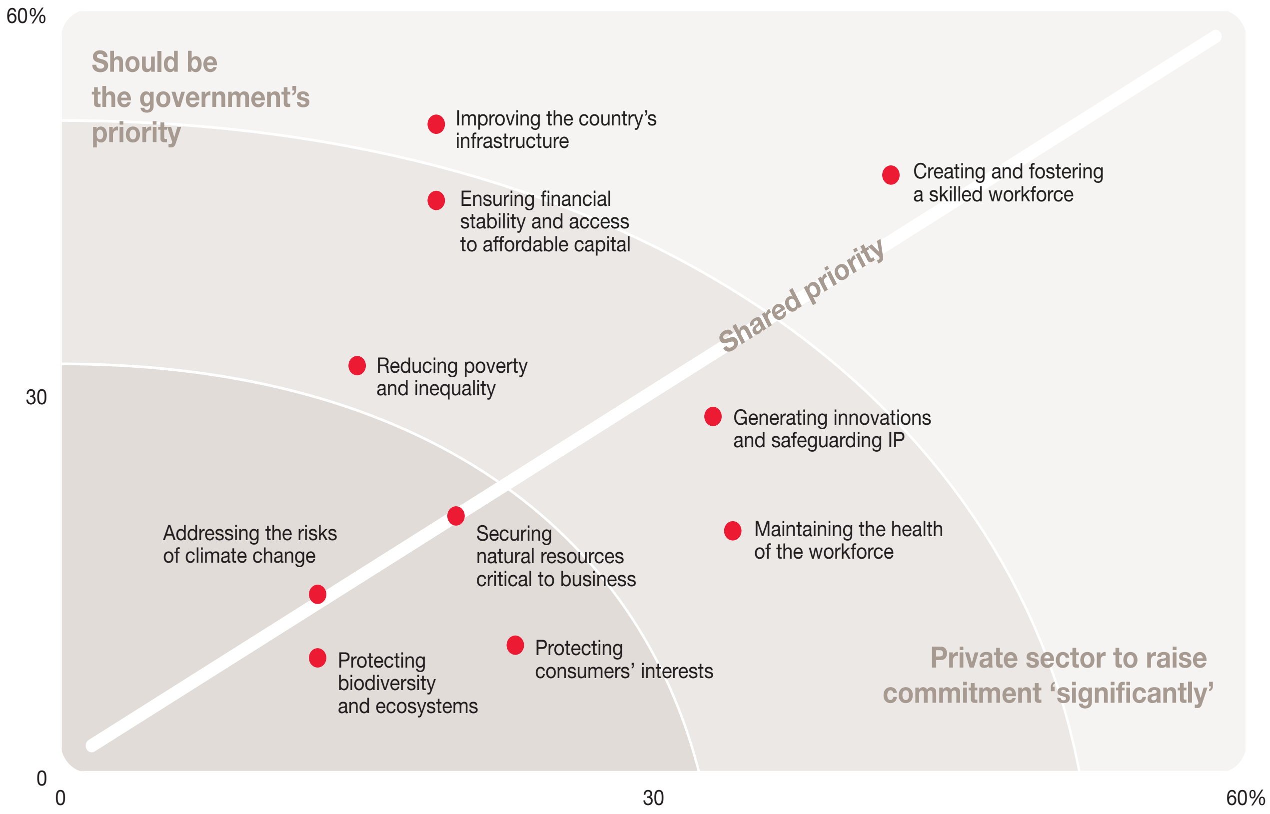
13. Isn't workforce development a job for the government?

Only in part. CEOs that told us a skilled workforce is the top item on the shared agenda between public and private sectors. Fifty-four percent of CEOs plan to work with government and the education system to improve the talent pool available.

The role for business is well recognised when it comes to leadership development and on-the-job training. What's newer is that the training and education systems are becoming much more of an integrated market with companies and governments both looking to meet workforce requirements.

CEOs see shared commitments with government to achieve public outcomes

Q: How much does your company plan to increase its commitment in the following areas, to improve national competitiveness and social well-being over the next three years? Which three areas should be the Government's priority today?



Base: All respondents (1,201)
Note: CEOs were asked how much their companies plan to increase commitments to achieve these outcomes; and what should be the government's priority. The plot shows percentages of CEOs who chose each of these areas. Multiple choices were allowed
Source: PwC 14th Annual Global CEO Survey

'Public education is a big issue and one where the private sector can fill the gaps that government often has a difficult time addressing. It's an issue that links back to how do we define business success, because if we don't solve the education issue then the problem will eventually degrade the private sector's ability to recruit a capable workforce.'

Tan Sri Dato' Azman Hj. Mokhtar
Managing Director, Khazanah Nasional Berhad, Malaysia

14. What about infrastructure?

Infrastructure is the second highest item on the shared agenda. Constrained budgets are forcing difficult decisions on public sector leaders, and CEOs are keen to protect a shared priority that is critical to business growth. Infrastructure's importance comes through clearly for CEOs. Those in infrastructure-related sectors such as engineering and construction, and utilities, as well as banks, reported increased commitments of their own to infrastructure development.

While CEOs expect governments to take the lead, the role of private capital in financing infrastructure is unavoidable: an estimated US$3 trillion per year needs to be spent on infrastructure across the globe in the coming decades.[1] The scale of this funding requirement means it is unlikely to be met solely through public finance, so there's a need for governments to engage with the private sector, and tap a range of funding sources, potentially through public–private partnerships (PPPs).

1 'Paving the Way: Maximising the Value of Private Finance in Infrastructure', World Economic Forum (2010)

'India's administrative capabilities are not like China's. Therefore, PPPs in healthcare, roads, education, ports, airports or railways can be a good alternative to the government going it alone.'

Sajjan Jindal
Vice Chairman and Managing Director, JSW Steel Limited, India

15. Are CEOs saying globalisation is back?

It never really went away. Multinational businesses, designed for worldwide operations with international supply chains and global talent pools, didn't retreat from globalisation during the crisis.

But CEOs are signalling a potential change in globalisation's future. That 72% of CEOs support 'good growth' that is economically, socially and environmentally sustainable is recognition that they would like to see globalisation evolve in a way that links economic growth and social development.

CEOs' approaches to the three strategic focal points address business imperatives, but also shift towards this 'good growth' stance. Developing talent is a business imperative, but entire communities and countries stand to benefit as companies work with governments to develop workforces, not just their own employees. Innovation is a long-term building block for any company, but reverse innovation in emerging markets will deliver products and services that are better matched to the cultures they are sold to. The shared agenda with government likewise acknowledges how businesses are connecting competitiveness and social well-being: they recognise that equal commitments need to be made by the public and private sectors on issues such as climate change and poverty reduction.

'Our definition of value has always been characterised by a high level of responsibility towards our stakeholders, besides our shareholders, that goes far beyond financial results and investment returns. The community, the economies of the countries where we operate, our customers and our employees, feature prominently as stakeholders in our definition of value, especially under the adverse economic conditions of recent years.'

Efthimios Bouloutas
CEO, Marfin Laiki Bank, Cyprus

For further information, please contact:

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

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

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