

12th Annual Global CEO Survey
Redefining success
Executive Summary

Ensuring short-term survival
while building a sustainable future

~~Foot~~
~~proof~~
~~plans~~

Future
proof
plans



Executive Summary

PricewaterhouseCoopers' 12th Annual Global CEO Survey is published at a time of unprecedented economic and financial turmoil. Highlighting the current concerns and future expectations of major business leaders around the world, the findings provide vital insights into how CEOs are rebalancing their own short- and long-term interests with those of their stakeholders in order to achieve success. There is agreement that new approaches are essential, particularly where cross-border alliances, people management and risk management are concerned. At the same time, CEOs want governments to transform institutions and policies so that they are more in tune with today's global economy.

Research for this latest survey coincided with the rapid escalation of the current financial crisis. As a result, its findings chart a steady deterioration in the optimism of CEOs around the world. While CEOs interviewed in September 2008 felt comfortable about their growth prospects, by the start of December, up to 45% of them were seriously worried about how best to weather the raging storm. Reflecting this mounting concern, the 12th Annual Global CEO Survey divides into three sections:

- **An historic moment: One world united in crisis** – highlighting how globalisation accelerated the rapid spread of the crisis amongst economies worldwide;
- **The search for global solutions** – the need for government leadership, combined with the importance of greater collaboration between companies and their stakeholders as they all seek to address key global issues (including climate change, scarce natural resources and the global talent shortage); and
- **Walking a tightrope** – the challenges CEOs face as they seek a balance between securing the immediate survival of their businesses while continuing to build for long-term success, including the need for new approaches to cross-border transactions, risk management and people management (each supported by better information) and the development of a new mindset about risk and return.

An historic moment: One world united in crisis

The storyline in this year's survey is one of deepening despondency. Although business confidence was already in decline a year ago, the speed with which anxiety levels have soared – particularly since mid-September 2008 – is dramatic.

As disquiet about the fragile state of the global economy mounted, worries dwindled over some of the other issues that until recently featured prominently in boardroom discussions. In September 2008, the scarcity of natural resources troubled roughly one in five CEOs; by late November, this had more than halved to less than one in ten.

The breakdown in business confidence has changed CEOs' business plans. In September, just 46% thought that the banking crisis would affect their expansion plans. By the end of November, that figure had risen to 67%. And as the depth of the economic winter became more apparent, more and more CEOs told us that they would have to reduce staffing levels in the next 12 months.

It was not just the scale of the carnage that took senior executives, governments and regulators by surprise. As bad news accumulated, the extent of the contagion worldwide underlined just how interconnected global markets have

become. Last year, CEOs in the so-called BRIC economies – Brazil, Russia, India and China – were considerably less worried by the prospect of a global downturn than their counterparts in the US, Japan and Western Europe. This year, it was clear that there would be few hiding places. A problem that began in the US has now infected all the world's major economies.

This is the *downside of globalisation*. And an analysis of our research shows that as CEOs combated the early stages of economic crisis, short-term confidence reached a six-year low. Only 21% of respondents remain very confident about growth prospects for the next 12 months. And, with bad news continuing to dominate the headlines, it is possible that even this residue of optimism has evaporated since we completed our research in early December.

The breakdown in business confidence has changed CEOs' business plans

Looking ahead – and in view of the extreme volatility of global markets – it is hard to predict exactly where and when the green shoots of recovery will appear. For the moment, as the rest of the survey makes plain, the depth and speed of the

ongoing downturn has served as a wake-up call for CEOs worldwide. Re-thinks are the order of the day – not just of specific responses, but more profoundly, of just what business success should mean from now on.

The search for global solutions

Encouragingly, CEOs are not just concerned by the immediate threats facing their businesses during the downturn. Climate change, dwindling natural resources and the scarcity of talent each pose profound longer-term questions. Facing this array of issues, CEOs are reconsidering basic assumptions about their roles and responsibilities, and those of governments.

Our survey shows a marked increase in support amongst CEOs for public sector involvement in shaping financial markets from now on, as well as the recognition of the need for much more international coordination. CEOs are also looking for clearer and more consistent guidance from governments to help them connect operational decision-making with wider global trends.

CEOs want governments to strike a delicate balance. On the one hand, they want more governmental leadership and action on economic and environmental issues, such as climate change and the convergence of global tax and regulatory frameworks. On the other, they tend to support government intervention only when it helps their businesses. As evidence of this, 55% of CEOs are concerned or extremely concerned about overregulation as an obstacle to growth.

The trend is towards more collaboration between businesses and government (only 22% of CEOs see no need for this). Looking ahead therefore, one of the key challenges for public and private sector organisations alike will be the establishment of regulations and governance arrangements that simultaneously restore order to the global economy, and encourage effective and innovative collaboration.

The trend is towards more collaboration between businesses and government (only 22% of CEOs see no need for this)

While the financial crisis is a global, systemic event, CEOs are well aware that the impact of climate change could be even bigger. Already moving fast to assume responsibility for the role of business in stemming carbon emissions, they also want greater clarity from government in this area. CEOs are hoping for an international framework and agreement on national carbon emissions targets in

order to generate and direct the capital needed for the massive transformation to a global, low-carbon economy (83% of CEOs identify this as a crucial priority for governments).

Walking a tightrope

Although CEOs confront different pressures and opportunities, they face a common challenge – how to meet the acute demands of short-term survival while ensuring their business model will be durable over the long-term.

So what are the short-term strategies? As the crisis persists, our survey clearly shows that CEOs are striving to maintain sources of credit, preserve revenue, use working capital more efficiently and carefully manage costs. Overall, the focus is on maximising returns from existing markets, not expanding into new ones.

As CEOs walk the tightrope between short-term survival and sustainable operations, new business approaches are coming to the fore

These approaches must also make sense in a broader context. Business leaders feel responsible for a wider range of long-term issues than ever before. Consequently, their ultimate success depends on a change in mindset. Instead of focusing principally on quarterly results, CEOs want financial markets to allow for more investment in large-scale opportunities, which have less predictable payback periods, and in mitigating risks that have the potential to erase years of incremental gains. The opportunities behind major global risks provide a powerful incentive for companies to seek out solutions to apparently intractable problems. For instance, deeper analysis of our data shows that nearly one-third of construction and civil engineering CEOs believe that climate change and mounting demand for dwindling natural resources will have a positive impact on their success.

As CEOs walk the tightrope between short-term survival and sustainable operations, new business approaches are coming to the fore. We asked CEOs about their strategies in three key areas – cross-border alliances, people and risk management – and found that collaborative approaches are increasingly in favour. However, the vast majority told us that they still lack comprehensive information on their various stakeholder communities (e.g., just 21% feel they have comprehensive data on customer needs and preferences).

But CEOs do not just want more data. They want better data. Specifically, this means more forward-looking information, which includes both financial and non-financial metrics. This requirement is urgent in all areas that CEOs say are critical to long-term success – talent, reputation, customer service, and agility. To remain agile under extreme operating conditions, CEOs must be able to anticipate the direction markets are likely to take and react swiftly.

Never before have such daunting threats to short-term business survival coincided with the need to formulate long-term business strategies geared to address ‘big picture’ risks

Looking forward

The key theme in this year’s survey is the need to achieve a viable balance between short-term and long-term perspectives. Most CEOs stress the need to balance the immediate drive to cut costs and to reduce headcount against the retention of key talent that will help the business capitalise on the recovery when it comes. It’s no surprise that risk management is also under the spotlight (and not just in the financial sector). In operational terms, this means that we should expect to see improved information-gathering and stakeholder collaboration high on

boardroom agendas. And the collaborative mindset (in the shape of joint ventures and alliances) will also shape cross-border strategies, as CEOs look to share risk in both operational and financial terms.

Our survey is published at an historic moment. Never before have such daunting threats to short-term business survival coincided with the need to formulate long-term business strategies geared to address ‘big picture’ risks. The good news is that the markets appear to be on the path away from short-termism. What remains unclear is the extent to which global businesses are truly assimilating their experience of this financial crisis into their long-term thinking.

For further information, please contact:

Sophie Lambin

Director of Global Thought Leadership
PricewaterhouseCoopers LLP (UK)
sophie.lambin@uk.pwc.com
+44 20 7213 3160

Mike Davies

Director of Global Communications
PricewaterhouseCoopers LLP (UK)
mike.davies@uk.pwc.com
+44 20 7804 2378

Full findings of the PricewaterhouseCoopers 12th Annual Global CEO Survey are available at www.pwc.com/ceosurvey