11th Annual Global CEO Survey

Compete & Collaborate

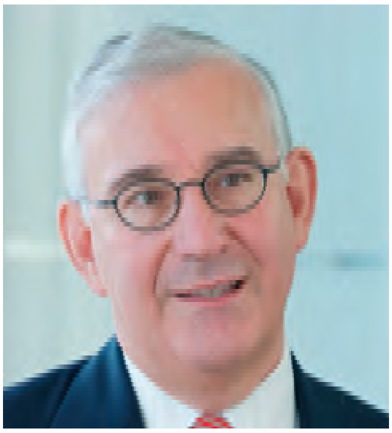
What is success in a connected world?*

*connectedthinking

PricewaterhouseCoopers

Foreword

This year's 11th Annual Global CEO Survey examines how CEOs perceive the business environment in which they are operating, and how an increasingly connected world affects the way their companies function and achieve success.



Contrary to the results of recent years, views on short-term business growth were not universally optimistic. Our survey reveals a dramatic split in the confidence levels of company leaders around the world. In the developed economies of the US, Japan and Western Europe, CEOs are concerned that economic decline could result in recession and affect their ability to grow. Yet in the newly-emerged economies, confidence remains strong.

In addition, for the first time since the survey began, CEOs ranked the potential downturn in major world economies as the top threat to their business growth.

The survey also explores the impact of an increasingly connected world on the way in which companies work, grow, deal with risk and ultimately achieve business success. How does a more connected world help companies assess global risks and provide new opportunities for reducing them? Many risks undoubtedly spread farther and faster in a highly connected world – yet in the longer term, CEOs believe connectivity will bring greater prosperity and understanding. In fact, globalisation and technology advances have already eliminated many of the barriers to the movement of ideas, capital, labour, products and services.

This year's survey is entitled 'Compete & Collaborate.' Evidence of increasing collaboration as a source of business success appears in the survey in everything from the pursuit of talent and technological innovation to organisational dynamics and regulatory harmonisation. The mitigation of global risks will require extensive collabo rative innovation between the public and private sectors. The urgent need to address climate change is one global concern that clearly demands a collaborative approach, and the survey indicates progress, with a growing number of CEOs willing to commit to government-led action.

But competition is not vanishing any time soon. In fact, the key to getting the most out of collaboration is determining how to balance it with competition and how to infuse collaboration with traditional management discipline. More than ever, executives are being challenged to evaluate whether their companies are fully exploiting the power of their global networks.

As always, I want to thank the more than 1,150 company leaders and government officials from 50 countries who took the time to share their thoughts with us. The success of the survey is directly attributable to their enthusiastic participation, and we are very proud of that continuing commitment. I am also pleased to announce that this April we will be releasing our first Emerging Market CEO Survey. Succeeding in emerging markets has become a major business priority for CEOs and business executives. I expect the results will be of great interest to many.

Samuel A. DiPiazza, Jr
Chief Executive Officer
PricewaterhouseCoopers
International Limited

To view Sam DiPiazza's video commentary on the 11th Annual Global CEO Survey, visit www.pwc.com/ceosurvey

Research methodology

This is the 11th Annual PricewaterhouseCoopers' Global CEO Survey, and we have followed the same methodology as we used last year to ensure we are fairly representing the emerging economies of the world. We have conducted interviews in 50 countries worldwide, and varied the number of interviews in line with their GDP, measured at market exchange rates, in 2004.

In total, we conducted 1,150 interviews with CEOs in 50 countries conducted between early September and the end of November 2007. By region, 454 interviews were conducted in Western Europe, 277 in Asia Pacific, 136 in Latin America, 130 in North America (30 in Canada), 30 in Mexico, 86 in Eastern Europe and 37 in the Middle East & Africa. The interviews were spread across a significant range of industries. Further details, by region and industry, are available on request.

The interviews were mainly conducted on the telephone, with the exception of Japan, where a postal survey was administered. In China (including Hong Kong) and Kenya, most of the interviews were conducted face to face. All the interviews were conducted in confidence and on an unattributable basis.

The lower threshold for inclusion in the top 30 countries was companies with more than 100 employees or revenues of more than $10 million. This was raised to 500 employees or revenues of more than $50 million in the top 10 countries.

Nearly 40% of the companies had revenues in excess of $1 billion, and a further 39% had revenues of $100 million to $1 billion. The remaining 23% had revenues of less than $100 million. Company ownership is recorded as private for 47% of the companies, with the remaining 53% listed on at least one stock exchange.

In support of the Global CEO Survey, 11 in-depth, attributed, face-to-face interviews were conducted across a number of countries. These interviews covered some key topics, including collaboration across business networks, regulatory complexity and talent, and the 'people equation'.

Throughout this report there are extracts from these interviews. The full Q&As and some video extracts are available online at www.pwc.com/ceosurvey.

PricewaterhouseCoopers' extensive network of experts and specialists has provided its input into the analysis of the survey. Our experts span many countries and industries.

For further information on the survey content, please contact Sophie Lambin on +44 20 7213 3160.

For media inquiries, please contact Mike Davies on +44 20 7804 2378.

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.

In-depth CEO interviews – company profiles

AUDI AG
AUDI AG is a globally-operating developer and manufacturer of high-quality, technically-innovative cars. It is based in Ingolstadt (Germany), with a further main location in Neckarsulm (Germany). Its largest production plants outside Germany are Brussels (Belgium), Györ (Hungary) and Changchun (China).

Banco Itaú Holding Financeira
Banco Itaú is one of the largest retail banks in Brazil and operates on the financial and capital markets in Brazil and abroad. It has more than 13 million clients and has structures, products and services that have been developed to meet the needs of small and medium-sized companies, public authorities and institutional investors, private individuals (branches), affluent individuals (Itaú Personnalité) and high net-worth clients (Itaú Private Bank).

Bank Julius Baer
Julius Baer is the leading dedicated wealth manager in Switzerland. The Group, which has roots dating to the nineteenth century, concentrates exclusively on private banking and asset management for private and institutional clients. With more than 3,800 employees worldwide, the Julius Baer Group's global presence comprises more than 30 locations in Europe, North America, Latin America and Asia.

Bharti Enterprises and Bharti Airtel Limited
Bharti Enterprises is one of India's leading business groups with interests in telecom, agribusiness, insurance and retail. Bharti Airtel is a part of Bharti Enterprise, and is India's leading provider of telecommunications services.

Caterpillar Inc.
For more than 80 years, Caterpillar Inc. has been driving positive and sustainable change on every continent. With 2006 sales and revenues of $41.517 billion, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines.

China Eastern Airlines Corporation Limited
China Eastern Airlines Corporation Limited (the 'Company'), a joint stock company limited by shares, was incorporated in the People's Republic of China on 14 April 1995. The Company and its subsidiaries are principally engaged in the operation of civil aviation.

China Life Insurance Company Limited
China Life Insurance Company Limited (the 'Company') is a life insurance company established in Beijing, China on June 30, 2003 according to the Company Law of the People's Republic of China. The Company is the largest life insurance company in the country, with the most extensive distribution network in PRC.

Ferrovial Group
Ferrovial is one of the world's leading infrastructure groups in terms of earnings, with more than 100,000 employees. It is focusing on investments in four strategic business areas (construction, airports, toll roads & car parks, and services). As a result, just 50 years after its foundation, it has become one of the world's leading groups specialised in developing, financing, maintaining and managing transport, urban and services infrastructure.

H.Ö. Sabancı Holding A.Ş.
Turkey's leading industrial and financial conglomerate, Sabancı Holding's main business units include financial services, automotive, tire & tire reinforcement materials, cement, food and retailing, energy, textiles and some other smaller businesses.

Sims Group Limited
Sims Group Limited is one of the world's largest recycling companies. Founded in Sydney in 1917, the company is listed on the Australian Securities Exchange (ASX:SGM) and had revenue of A$5.6 billion in the 2007 financial year. The Group's key divisions are Metal Recycling and Recycling Solutions, now the world's leading recycler of e-waste (IT, electrical and electronic goods).

X5 Retail Group N.V.
X5 Retail Group N.V. is the largest food retail company in Russia in terms of sales. The company uses a multi-formatted strategy to develop three formats simultaneously: soft discounters, supermarkets and hypermarkets.

Contents

The contents of this document as well as the full edited transcripts of the interviews are also available at www.pwc.com/ceosurvey

Introduction

A tale of two worlds

In this year's survey, we set out to understand the forces CEOs believe will shape the future, and shed light on the emerging opportunities and risks, so that businesses can better manage their own outcomes.

In an increasingly connected world, what differentiates the business that thrives from that which merely survives? Our 11th Annual Global CEO Survey explores the impact of global connectivity on the sources of growth and risk, the way in which companies work and their relations with their stakeholders.

The evolving pattern

In last year's CEO Survey, CEOs told us that the competitive landscape and nature of value creation were undergoing fundamental changes. Three trends, in particular, were transforming the way in which organisations operate:

- Globalisation: the increasingly borderless nature of capital, labour, goods, services and information;
- Connectivity: new, IT-enabled forms of collaboration, including supply-chain networks and flexible webs of employees and contractors; and
- Community: the growing emphasis on integration of a business with its neighbours, investors, regulators and other stakeholders.

These trends are opening up new markets, facilitating the development of new business models and new ways of working, and providing new means of interacting with customers.

CEOs continued to stress the importance of people – both for the skills they bring and for the strategic role they play in the dynamics of change. They also acknowledged that the war for talent is fierce, and getting fiercer as demand for the best people becomes increasingly globalised.

Our 11th Annual Global CEO Survey drills more deeply into some of these issues. It examines what the 'connected world' – as we have called it – means for businesses today.

Our framework this year

We have focused on two major themes this year: how CEOs perceive the business environment in which they are now operating; and how connectivity is affecting the way companies function. We began by asking CEOs what they think about the macro-economic climate, the opportunities for expansion, including mergers and acquisitions (M&As), the risks to growth and the potential impact of climate change.

Definition of a business network

A business network is a group of participants who conduct transactions (the transmission of products, services, information or money) with one another to produce capabilities and outcomes that advance a set of shared business goals. It is typically led by a company, which orchestrates the interactions of all the participants.

The participants may include customers, distributors, suppliers, channel partners, logistics providers, regulators and other bodies – such as standards associations, community members or NGOs. They may be companies, individuals, loosely defined groups or other entities; they may simultaneously collaborate and compete with other participants in the same network; and they may participate in more than one network.

We then addressed the organisational implications of globalisation and connectivity. How are these two forces changing the business models companies use – i.e. where, when and in what ways they generate a profit? How are they changing the nature of the relationship between companies and their main stakeholders – in particular, their people and regulators? And are collaborative business networks now a prerequisite for success?

Understanding change

The story that emerges from our findings – which are based on the responses of 1,150 CEOs, in-depth interviews with a number of CEOs and discussions with various regulators and government officials – is complex. But one of the most pervasive motifs is the tension between collaboration and collective action on the one hand, and competition and individualism on the other.

Building market share may now mean having to collaborate with a rival to share technologies. Building a team may mean having to manage a fluctuating network of employees and contractors. And building a community may mean having to work with a wide range of non-governmental organisations (NGOs) or other entities, each with its own agenda. Moreover, though collaboration brings rewards, it also carries risks – the most significant, perhaps, being the diffusion of power and loss of managerial control.

This tension is hardly surprising, then. The connected world is still largely uncharted territory, and many of the changes that are currently taking place are not refinements of traditional business practice. They probably foreshadow yet other changes, which may ultimately bring about a revolution, rather than an evolution, in the way businesses operate. Understanding that pattern will help organisations gain from the unfolding opportunities and minimise the risks.

Ahmet Dördüncü

CEO, H.Ö. Sabancı Group A.Ş.

Collaboration and interdependence create efficiencies that benefit all concerned. But being dependent on others can increase a company's exposure to a range of risks, including those associated with reputation, regulatory compliance, earnings performance and credibility. However, companies can harden themselves against these risks with the right business continuity and insurance programmes.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Jeremy Sutcliffe
CEO, Sims Group Limited

From my perspective, technology is often a disservice, not a good service. When you're a trading company, your information, your market information, is your intellectual property and you often rely on having more information, better information and more real-time information than the people you are trading with. Ironically, now with email and internet, everybody has the same information instantaneously. So, to some extent, it can be said that it takes away from our competitive advantage.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Key findings

- Caution dominates the near-term outlook of CEOs in the industrialised nations of North America, Western Europe and Japan. Conversely, CEOs in much of Asia, Latin America and other emerging markets are much more optimistic.
- CEOs believe the biggest business risk they face is the risk of an economic slowdown. This is the only threat (of the 14 they were asked to evaluate) they rank more highly than they did in last year's survey.
- Fifty-seven percent of CEOs believe that collaborative networks will play a key part in future business models. A substantial number of CEOs in Asia (particularly India) and Latin America are already using collaborative business networks.
- CEOs want governments to play a more prominent role on the international stage – both in promoting the convergence of global tax and regulatory frameworks, and in leading efforts to address climate change.
- CEOs acknowledge that governments cannot, in isolation, tackle climate change – and that collaboration within the business community will be critical. Asian CEOs lead the way in this respect.
- CEOs continue to think that people are a key factor in achieving success, but say that it is difficult to find people with the right combination of technical and commercial skills. They also point to shortcomings in middle and senior management, and organisational barriers, when it comes to managing change.

Section 1
The business environment

Vigour & Circumspection

Business confidence

For 11 years, our Annual Global CEO Surveys have tracked how confident global leaders feel about the prospects for growth. The overall level of confidence has now dipped for the first time in five years. But this troubling picture masks two very different regional trends. CEOs in the industrialised Western economies are less confident about the prospects for business growth than they were last year. Those in the emerging economies of Asia, Latin America and the 'new' Europe, by contrast, see increasing opportunities for expansion.

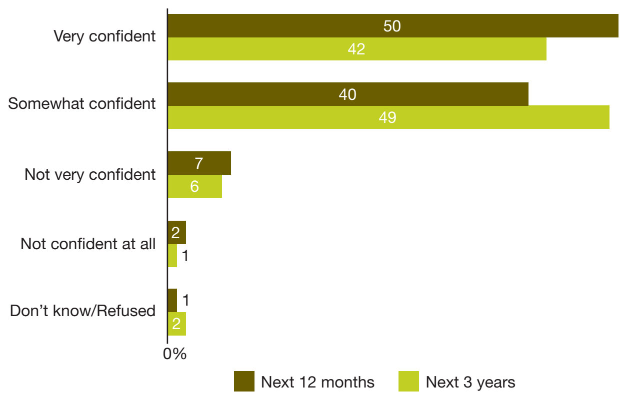
Confidence dips after surging for five years

The percentage of CEOs who say that they are 'very confident' about the potential for business growth over the next 12 months has fallen for the first time since 2002; only 50% of respondents now believe that the short-term prospects are very good, compared with 52% in 2006. This decline is in marked contrast with the double-digit increase in the level of confidence recorded in each of our two previous surveys (see figures 1.1.1 and 1.1.2)

Optimism about the longer term has also softened; 42% of CEOs are 'very confident' about the opportunities for growth over the next three years, down from 44% in 2006. Those who head the largest companies (with more than US$10 billion in annual revenues) are particularly concerned;[1] only 38% are 'very confident' about the long-term prospects for growth, compared with 47% of CEOs heading companies with a turnover of less than $100m.

1.1.1

CEOs are generally confident in their prospects for revenue growth in the short term, but less so in the longer term

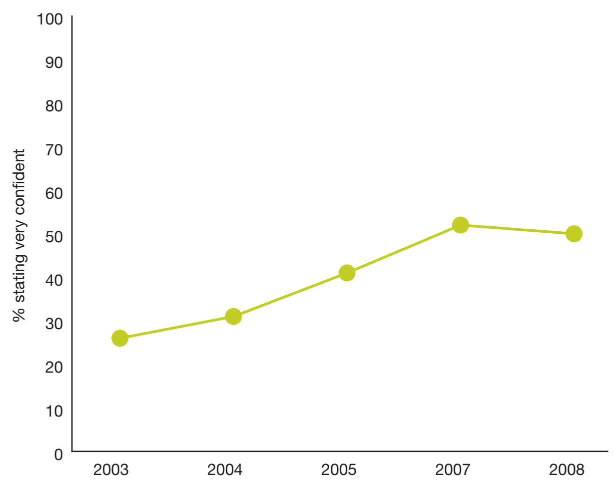


Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months and the next 3 years? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1.1.2

Short-term confidence has dipped slightly in 2007, following a period of sustained optimism



Q: How would you assess your level of confidence for the revenue growth of your company over the next 12 months? (Base: All respondents 2003: 916, 2004: 1394, 2005: 1316, 2007: 1084, 2008: 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1 All subsequent references are to US dollars.

The 'old' world is circumspect, while the 'new' world is buoyant

CEOs in the established, industrialised nations are clearly much less convinced about the prospects for growth than their peers in the emerging economies. Only 35% of North American CEOs are 'very confident' about the short-term outlook, down from 53% in 2007. They are more optimistic about the longer-term opportunities. Forty-eight percent are 'very confident' about the potential for growth over the next three years, but this is still substantially fewer than the 57% who expressed confidence about the long-term future in 2007 (see figure 1.1.3).

Western European CEOs have also become more guarded in their expectations. Forty-four percent are 'very confident' about the prospects for growth in the coming year, and 36% about the prospects for growth in the next three years – down from 52% and 40%, respectively, in 2007. Japanese CEOs are even warier; only 31% are now 'very confident' about the short-term outlook.

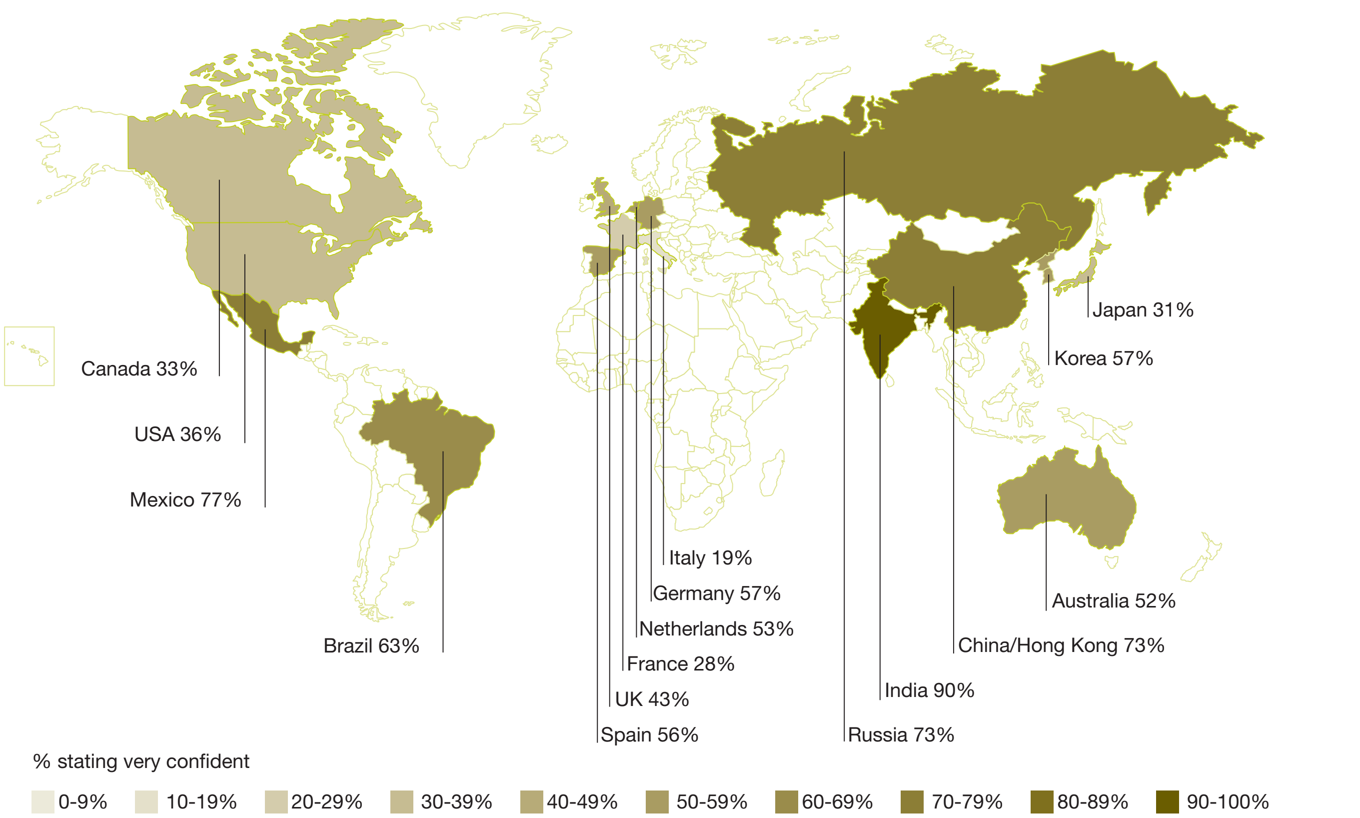
Various factors help to explain this overall air of caution, including the collapse of the US sub-prime mortgage market and ensuing credit crunch; rising energy prices; the shift in the global balance of economic power; political uncertainties; and the recent weakness of the US dollar, which slid by 6% against a trade-weighted basket of currencies between August and November 2007.[2] Given all these challenges, it seems quite reasonable that CEOs in the Western world should be nervous about the state of the economy.

However, CEOs in Asia, Latin America, and Central and Eastern Europe are much more confident about the potential for growth. Indeed, they are more confident than they were in 2007. So, what accounts for this divergence in views? CEOs in the 'new' world may have believed that their booming economies could insulate them to some extent from the problems affecting the 'old' world.

Asia's performance is being powered by the expansion of China and India – where 73% and 90% of CEOs, respectively, say that they are 'very confident' about the prospects for growth in the next 12 months. Much of Latin America is prospering as a result of demand for commodities. And Central and Eastern Europe is fast becoming one of the manufacturing sector's most favoured outsourcing locations.

1.1.3

CEOs in emerging economies report remarkably greater business confidence.



Q: How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months? (Base: All respondents 30-100)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

2 'The panic about the dollar', *The Economist* (1 December 2007).

Nevertheless, although Asian CEOs continue to express considerable optimism about the prospects for growth, they are far more worried about many of the risks which might jeopardise that growth than CEOs in other parts of the world. This may suggest that they fear the region is expanding too rapidly – and that the strain on resources could become too great to sustain the pace.

Other risks recede in importance as economic risk rises

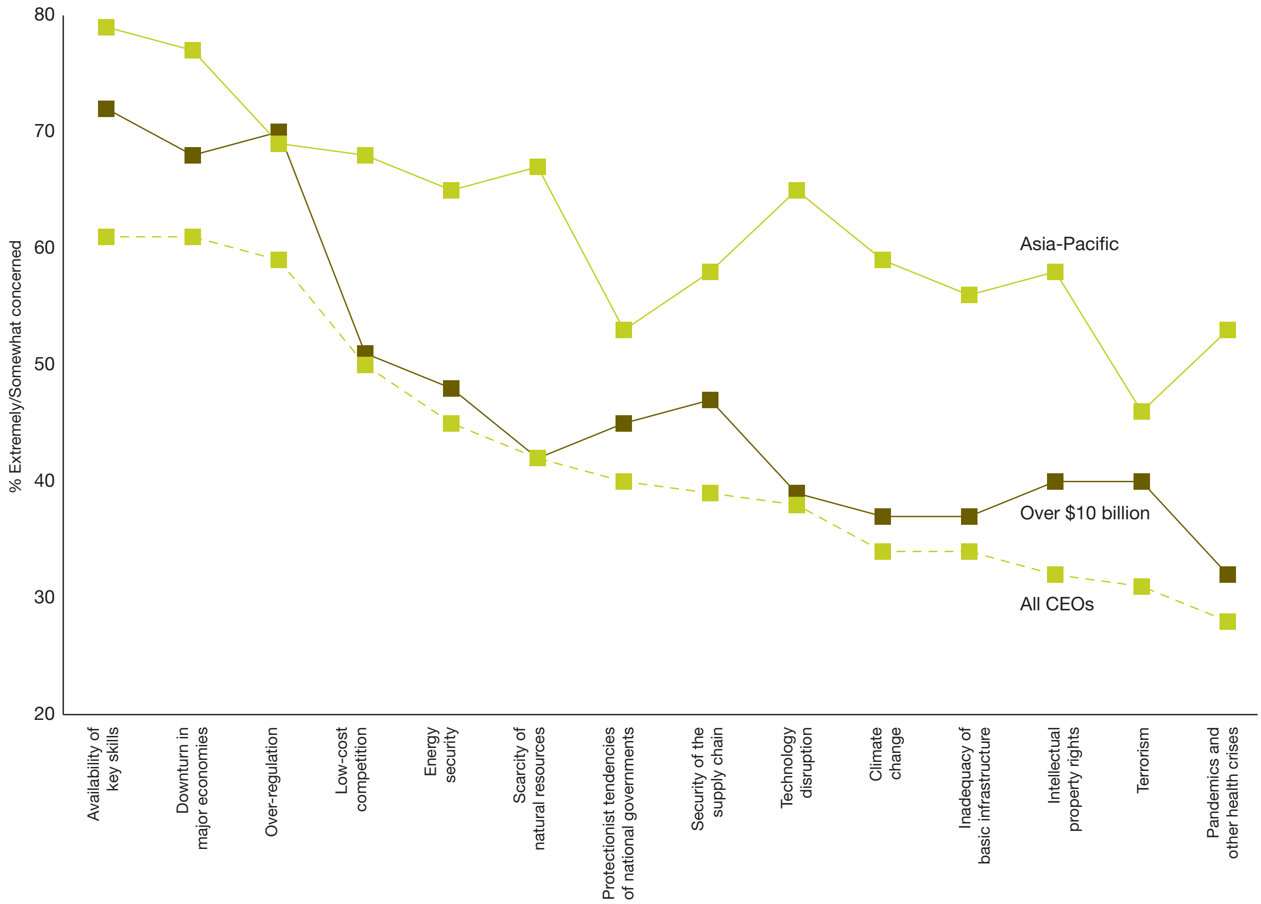
Asked what they think are the biggest threats to business growth, CEOs have regularly put overregulation and the availability of key skills at the top of the list in recent years. Now, however, they are equally anxious about the risk of a potential downturn in the world's major economies. Indeed, this is the only risk (out of 14) about which they are more concerned than they were in our last survey (see figure 1.1.4).

They are much less worried about overregulation; only 59% see it a business threat, compared with 73% in 2007 – a change that partly may reflect the easing of the audit rules under the US Sarbanes Oxley Act and increasing familiarity with its requirements. They are also much less concerned about terrorism. And, despite growing public concern about the risk of climate change, many CEOs clearly do not think that global warming will have a direct impact on their companies' potential for growth in the medium term.

This is understandable. As the economy moves centre stage, more intangible risks are likely to seem less pressing. Furthermore, in today's highly connected world, the potential for 'economic contagion' is much greater than before. If North America goes into recession, for example – and there is now a real danger that it might – the volume of US imports could shrink, thus dampening growth in the world's exporting economies. A recession in the US could also drive up financing costs (which have already increased after the collapse of the sub-prime mortgage market) and cause a downward correction in the price of stocks, real estate and commodities.

1.1.4

Large-company CEOs and those based in Asia-Pacific express greater concern about potential threats



Q: How concerned are you about the following potential threats in relation to your business growth prospects? (Base: All respondents 1,150; Asia Pacific 277; Over $10 billion 103)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

CEOs are focusing on the basic building blocks of growth

Given such concerns, it is probably not surprising that many CEOs are pulling in their wings. The percentage of respondents who are concentrating on better penetration of their existing markets and new product development has increased significantly, particularly in North America (see figure 1.1.5). Further evidence of this tendency to stay close to home comes from the fact that only 38% of CEOs have either completed a cross-border merger and acquisition (M&A) within the past 12 months or plan to do so within the next 12 months, compared with 47% in 2007.

Most CEOs also intend to fund their plans for expansion out of cash flows. Eighty-two percent (three percentage points more than in last year's survey) say that they will rely on internal sources of finance, although 31% still hope to tap the debt markets – despite the fact that borrowing is now more expensive.

Agility, service, talent and technology are the main tools for growth

Three-quarters of CEOs believe that their main sources of competitive advantage are the ability to adapt to change, first-rate customer service and access to key talent. North American CEOs are especially confident of their strengths in all three areas.

Sixty-five percent of respondents also cite technological innovation as a core skill – although here it is Latin American CEOs who express most self-assurance.

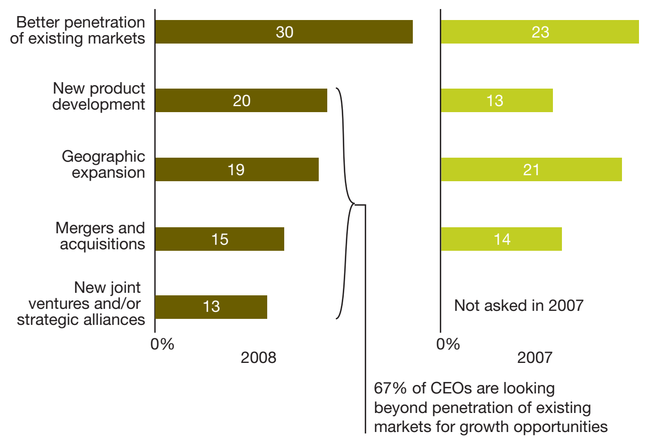
However, the story that emerges when CEOs single out their one most important source of competitive advantage is rather different. For 22% it is technological innovation; for 19% it is better customer service; and for 17% it is access to key talent (see figure 1.1.6). Only 14% believe their most critical competitive advantage is the ability to adapt to change.

Moreover, North American CEOs differ from their peers in other parts of the world in several material respects. Only 15% think technological innovation is their most important source of competitive advantage – which seems somewhat surprising for a region with a long history of entrepreneurialism. Conversely, 29% (more than double the percentage everywhere except Asia) think access to, and retention of, key talent is their greatest advantage. This suggests that North American CEOs believe innovation can be bought quite easily, whereas good people are much more difficult to find.

Convergence and differentiation around competitive advantage is a natural follow-up theme for this year's CEO Survey that warrants further exploration. The upcoming emerging markets CEO Survey to be launched in Spring 2008, will explore this topic from the perspective of emerging markets and provide insights into how this compares to developed nations.

1.1.5

CEOs are using a wide range of techniques to exploit business opportunities. New product development is considered to be a bigger opportunity for growth this year



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: All respondents 2008: 1,150, 2007: 1,084)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1.1.6

Technological innovation and improved customer service are considered to be the main sources of competitive advantage

Q: Which one of these key sources do you see as your main source of competitive advantage in achieving this growth? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Rupert Stadler
Chairman of the Board of Management, AUDI AG

I am an advocate of a truly free economy because a free economy requires society and individuals to deal with their own capital and funds. When you talk about a credit crisis – or any other crisis for that matter – the common factor is people. It always has to do with the actions and judgments of people.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Is optimism the vitamin C of CEOs?

Doctors, psychologists, teachers and coaches all cite optimism as a key ingredient in the recipe for health and success. It has even been suggested that the power of positive thinking helped humans reach the top of the evolutionary pyramid: how else could a man attack a mammoth and hope to survive until dinner?

We have not measured the relationship between optimism and corporate attainment in our latest CEO Survey. What we can say, however, is that the most optimistic CEOs – those who are 'very confident' about the potential for short-term growth – display a number of traits often associated with success: namely, adaptability, willingness to collaborate and faith in people.

Moreover, 67% of those CEOs who are 'very confident' about the short-term outlook are also 'very confident' about the prospects for growth in the next three years. And this same group of CEOs is more likely to pursue broader methods of financing; consider more cross-border M&As; favour the use of collaborative approaches in addressing climate change, finding talent, reducing costs, innovating and lessening risk; agree strongly that government and developed nations, respectively, should drive regulatory convergence and environmental solutions; implement changes without worrying as much about the associated barriers; and draw the best out of people by devoting a greater proportion of their time to endorsing their senior management and human resources organisations.

Of course, the most optimistic CEOs could simply be those who are currently performing best and are thus feeling most confident about the future. Moreover, scepticism unquestionably provides a vital balance for unchecked optimism. But the findings do present reason to wonder whether optimism is the vitamin C for some CEOs – a little tonic in their outlook that pays many healthy dividends.

The most optimistic CEOs display a number of traits often associated with success

North America & Asia Pacific at the axis of change

The world's economic axis is shifting, as Asia's importance waxes. In 2007, for example, China overtook the US as the greatest contributor to global growth, measured at market exchange rates. Our 11th Annual Global CEO Survey provides some interesting insights into how CEOs in Asia Pacific and North America are responding in a period of momentous change.

Asian CEOs are both optimistic and anxious

Asian CEOs are more confident than their North American peers about the potential for business growth over the next 12 months. Yet they are also more worried about every risk save one – government protectionism.

In fact, they have good grounds for feeling optimistic about the immediate future. The International Monetary Fund reports that, in the first half of 2007, Asia's growth exceeded expectations.[1] Its financial systems have held up well during the global credit crisis, and the economic prognosis is generally favourable.

China and India are powering ahead. Asia's newly industrialised economies (Hong Kong SAR, Korea, Singapore and Taiwan) and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Thailand and Vietnam) are also prospering, as are the industrialised economies of Australia and New Zealand. Only Japan is still lagging, as it shakes off a long period of deflation.

Why, then, should Asian CEOs be so anxious? Our experts in Beijing believe that there is a very simple explanation: burgeoning growth brings greater competition – both competition for customers and competition for finite resources, including everything from energy to employees. They also point to the fact that Asia is still in the process of fashioning its identity as a global centre of trade and investment, and that it is coping with a massive influx of multinational companies. In this year's survey, for example, Asia is one of the two most popular destinations for cross-border M&As; 37% of the CEOs who plan to complete a deal within the next 12 months have their eyes on the region.

A detailed analysis of our survey findings supports these ideas. It shows that:

- Nearly four-fifths of Asian CEOs are worried about the availability of key skills. This might seem odd, given that China alone is thought to have produced more than three million university graduates in 2006, dwarfing output in the developed world.[2] However, many Chinese graduates do not have the skills multinationals require – and some of the most able prefer to take advantage of the opportunities abroad.

Yang Chao
Chairman, China Life Insurance Company Limited

The marketplace is fiercely competitive, so you cannot stop learning. Now is a time of unprecedented opportunities and challenges. Yet I find that there are more opportunities than challenges, more hopes than difficulties.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

1 'Regional Economic Outlook: Asia and Pacific' (October, 2007), International Monetary Fund, World Economic and Financial Surveys.
2 'Emerging markets: The gender agenda' (2007), PricewaterhouseCoopers, Gender Advisory Council.

‘Our findings suggest that many CEOs are already anticipating a global shift in the balance of power’

- More than two-thirds of Asian CEOs are concerned about being undercut by cheaper rivals – with some justification. China and India still dominate the global outsourcing market, for example, but the Philippines, Brazil and Russia are becoming more popular, as lack of manpower drives up costs in more established locations.

- More than half of Asian CEOs are also apprehensive about various physical risks, including scarcity of natural resources (67%), climate change (59%) and pandemics or other health crises (53%). This is possibly because they live in a region that some experts think would suffer disproportionately from such risks.

North American CEOs are confident of their competitive strengths

On the other side of the world, by contrast, North American CEOs are proving remarkably resilient, despite increasing caution about the short-term prospects for growth.

- Nearly half of all North American CEOs – a higher percentage than in any other region – remain ‘very confident’ about the potential for growth over the next three years.

- Most North American CEOs also believe they have what it takes to succeed; they are more confident about their competitive strengths than CEOs in the rest of the world.

- And North American CEOs have a greater appetite for change than CEOs elsewhere. More than 90% say that they have implemented new business strategies, processes and technologies in the past three years – a markedly higher percentage than in any other region.

However, North American CEOs are rather less reliant on overseas expansion than their peers in other parts of the world. They are more likely to focus on their core markets; are more inclined to see the development of business networks as a secondary activity; place less emphasis on language skills and global experience; and express more doubts about realising the value of cross-border M&As.

Ironically, given their appetite for change, they also say that they find it very difficult to manage major change programmes – citing lack of cross-functional collaboration, lack of managerial motivation and internal politicking as particular obstacles. North America’s culture of rugged individualism may well be a factor here. But since North American CEOs have implemented substantially more change programmes than their peers in other regions, this may equally be the voice of experience. This will be explored further in the upcoming emerging markets CEO Survey.

Of course no survey can hope to capture the full range of views that can be found in any one country, let alone two continents as large as Asia and North America. Nevertheless, our findings suggest that many CEOs are already anticipating a global shift in the balance of power. Asian CEOs are preparing to assume the socio-economic responsibilities that come with greater power, while North American CEOs are drawing on their ability to adapt to change.

In-depth CEO interviews

Jim Owens
Chairman and CEO, Caterpillar Inc.

The biggest single risk that we face, in terms of a disturbance that could profoundly lower global GDP growth and therefore the standard of living of a lot of people, is a rising tide of protectionism. There's a populist sentiment out there – it's in the United States, it's in Western Europe – that is very dangerous. The business community and political leaders who know better need to step up and help people understand the benefits of [free] trade.

[Free] trade, generally speaking, is not win-lose. It's win-win. Usually when somebody sells something, they're happy they have sold it. When somebody buys something, they're happy they have had the opportunity to buy it. Economists the world over have lots of differences, but almost universally believe that free and open markets and trade are good things.

World GDP growth, I believe, will be slowed significantly if we don't continue to nurture global trade liberalisation and allow people to participate effectively in globalisation. Clearly, over the last 25 years, hundreds of millions of Asians have been lifted out of poverty on the strength of exports and competing in the global marketplace. Now, they're beginning to import more and everyone is better off. We need to continue to nurture this and allow countries to compete on the basis of the best ideas, the best products, and productivity.

So my key message is that our business leaders, our political leaders, need to find the courage to get out there and help educate the public on this subject or we're likely to start building legislative walls around our countries instead of bridges to compete. That would be a tragic mistake for the world economy.

Alex W. Widmer
CEO, Bank Julius Baer

I think it's going to get much worse. The problem of securitised mortgages is small compared with what we'll be faced with if the economy really takes a turn for the worse.

I believe the greatest threat to the financial markets lies in a globally overpriced real estate market and an overproduction of many basic commodities like steel, copper, cement and nickel. Everyone is driving up capacities to satisfy demand from emerging markets such as China and India. But nobody knows how demand will really develop. We're already seeing the first indications that production is exceeding demand.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Underlying optimism & Contrasting direction

Mergers & acquisitions

The economic prognosis may be gloomy, but many CEOs are still keen to expand overseas. However, North American CEOs are more cautious than their peers in other regions, and Asian CEOs favour strategic alliances over M&As.

Despite fears of an economic downturn, CEOs continue to recognise the strategic importance of overseas expansion. Our latest survey shows that 24% of respondents have completed at least one cross-border M&A within the past 12 months, while 31% plan to do so within the next 12 months.

CEOs running very large companies (with annual revenues of more than $10 billion) lead the way; 49% have acquired foreign firms within the past year, and 40% plan to do so in 2008. Conversely, fewer than 20% of CEOs heading companies with annual sales of less than $1 billion have undertaken cross-border transactions within the past 12 months, and fewer than 30% intend to do so in the near future (see figure 1.2.1).

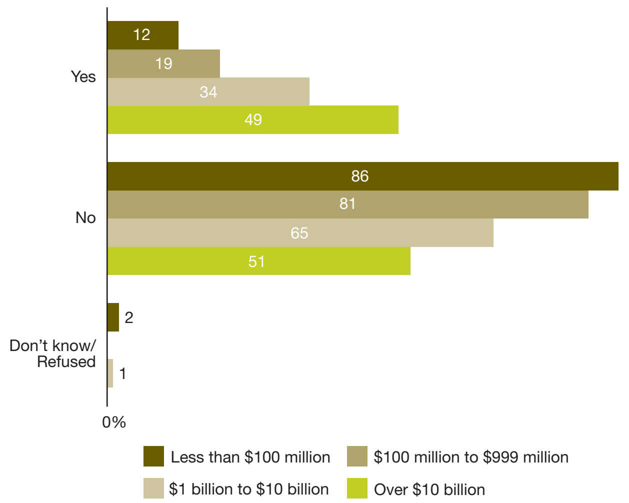
Western European CEOs have been particularly mobile; 28% have completed cross-border transactions within the past 12 months, and 33% plan to do so within the next 12 months. The enlargement of the European Union probably accounts for some of this activity. A number of Western European companies are moving into Central and Eastern Europe both to take advantage of lower labour costs and to tap into new markets.

However, Asian CEOs are also looking farther afield. Twenty-three percent have completed cross-border deals within the past 12 months, and 34% – a higher percentage than in any other region – say that they intend to do so within the next 12 months.

'Despite fears of an economic downturn, CEOs continue to recognise the strategic importance of overseas expansion'

1.2.1

About half of companies with $10 billion or more in revenues have completed a cross-border M&A in the past 12 months



Q: Have you completed a cross-border merger or acquisition in the past 12 months? (Base: All respondents 103-410)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

North American CEOs plan to focus on their home markets

Western Europe and Asia remain the most popular destinations; 36% of CEOs have their eyes on the former and 37% on the latter. Interest in Asia is especially strong in very large companies. Most CEOs also prefer to stay close to home than to venture into other regions – a trend that emerged in earlier surveys (see figure 1.2.2).

But two major changes are worth noting. First, the attractions of Central and Eastern Europe have now surpassed those of North America; 29% of those CEOs who plan to complete a cross-border M&A in 2008 are looking to the 'new' Europe, and only 27% to North America. Second, North American CEOs have become much more cautious about going overseas; 50% intend to focus on their home markets, up from 35% in 2007.

Cultural conflicts and difficulties in capturing value remain the key concerns

CEOs continue to believe that cultural and financial issues are the biggest barriers to successful deal-making: 43% are concerned about cultural conflicts, 43% about realising the full value of the deals they complete and 42% about incurring unexpected costs. In fact, the number of CEOs who are wary of incurring unforeseen expenses has increased substantially since 2007 – a reaction that is understandable in a period of considerable economic uncertainty.

What seems rather more surprising is that the CEOs of very large companies lose more sleep over such issues than those running smaller operations, even though big companies typically have more experience of doing cross-border deals. More than 50% of CEOs heading companies with revenues in excess of $10 billion worry about handling cultural conflicts and capturing the value of the deals they undertake.

Thirty-four percent of all CEOs also say that poor management of human resources is a source of anxiety, while 30% are concerned about conflicting workforce expectations, 26% about stakeholder opposition and 25% about political interference. Moreover, the level of concern about these three last issues has increased significantly since 2006, suggesting that they have all become more pressing.

Yet only 14% of CEOs anticipate a backlash against foreign investment in local markets, a finding which seems at odds with recent evidence. In early 2007, the Eurasia Group argued that the risk of full-scale protectionism is growing, as some countries come under increasing pressure to cut their trade deficits, while others experience a wave of populist nationalism in reaction to the trend towards globalisation.[1] More recently, representatives of both the European Union and US Chamber of Commerce noted signs of greater economic nationalism in China and discrimination against foreign companies.[2]

1.2.2

Majority of planned cross-border M&As are within the same or adjacent region

		Acquirer location				
Target Location	**All**	**North America**	**Western Europe**	**Asia Pacific**	**Latin America**	**CEE**
Asia Pacific	37%	26%	29%	73%	10%	5%
Western Europe	36%	21%	55%	25%	19%	25%
Eastern Europe	29%	13%	45%	15%	10%	65%
North America	27%	50%	24%	31%	19%	5%
Latin America	19%	18%	17%	11%	65%	5%
Africa	10%	3%	10%	9%	3%	10%
Middle East	10%	3%	12%	13%	3%	5%
Australasia	10%	0%	9%	18%	3%	5%

Q: Where are you planning to make this merger or acquisition? (Base: All respondents who plan to complete a cross-border M&A 20-355)

Note: Small base for CEE

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1 The Eurasia Group, 'Top 7 Political Risks for 2007: Four critical long-term risks', February 2, 2007.
2 China's preference: Chinese goods', The International Herald Tribune, November 16, 2007.

North American CEOs have more worries about cross-border deals

North American CEOs are especially daunted by the difficulties associated with doing cross-border deals. They worry more than their peers in other regions – but, in this year's survey, two concerns are particularly clear.

Fifty-three percent of North American CEOs – 10 percentage points more than the global average – are nervous about failing to maximise the full value of cross-border M&As. The falling US dollar obviously has a bearing here. However, public companies in the US are also under greater pressure to produce quick financial returns than private companies or listed companies in countries where the market pressures are less intense.

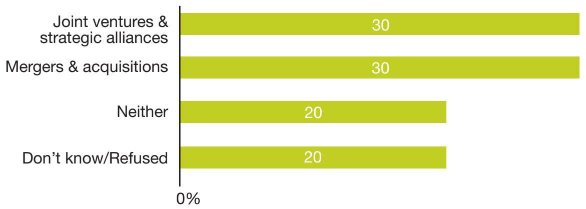
Similarly, 53% of North American CEOs – 23 percentage points more than the global average – are concerned about the conflicting expectations of overseas workers. This may, perhaps, stem from the fact that the US has a large domestic market, and many US companies have been able to enjoy considerable growth without going abroad. They may therefore be relatively inexperienced when it comes to managing workers from different cultures.

Joint ventures are of equal interest as a source of business growth

Cross-border M&As are not the only source of business growth in which CEOs are interested; while 30% favour M&As, another 30% favour joint ventures (see figure 1.2.3). Again, however, there are some marked regional variations. Asian CEOs are more inclined to collaborate with other companies than to buy them outright; 46% are interested in joint ventures and strategic alliances, and only 27% in outright acquisitions. Latin American and Western European CEOs, by contrast, far prefer M&As.

1.2.3

Joint ventures and mergers and acquisitions are of equal interest to CEOs as a source of business growth



Q: Over the next 3 years, do you think that cross-border mergers & acquisitions or joint ventures & strategic alliances will play a greater role in the growth of your business? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

M&As reach record levels before chill sets in

In the nine months to the end of September 2007, the global transactions market was worth $3.6 trillion – exceeding the total for the whole of 2006, according to Thomson Financial. The value of the deals that were announced in Europe and Asia Pacific rose by 62% year-on-year, while North, Central and South America saw increases of 43%, 79% and 38%, respectively.[3]

However, deteriorating credit conditions have now sent chills through the market. The value of the deals announced in September 2007 was a mere $192 billion – the lowest monthly total since August 2005. Private equity firms were particularly notable for their absence from the scene; they accounted for 23.7% of overall deal volumes in the first three quarters of the year, but just 13% of transactions in August and September 2007.

3 Thomson Financial, 'Mergers & Acquisitions Review: Third Quarter 2007'.

PwC view

The credit crisis will bring new opportunities for corporate buyers

The frenetic deal-making that characterised the first half of 2007 may have ended, but the global M&A market is far from moribund. Many companies still have plenty of liquidity – and public companies account for the vast majority of deals, even though private-equity transactions have garnered most of the headlines.

The credit crisis has also levelled the playing field when it comes to pricing. Private equity firms have traditionally used very large amounts of debt to fund their acquisitions, a tactic that has allowed them to pay huge multiples. But they are now required to put more equity into their offers. With the erosion of this financial advantage, the ability to generate value from synergies has become more important.

Moreover, new players from developing countries – including sovereign wealth funds with massive cash reserves in Asia and the oil-rich Middle East, and companies in fast-growing economies like China and India – are emerging. Dealogic reports that, by mid-2007, developing countries had completed $128 billion worth of deals in developed nations, compared with $14 billion in the whole of 2003.

This surge in outbound investment has sparked protectionist sensibilities in certain quarters. However, some Asian and Middle Eastern investors have recognised the need to tread carefully; they are taking minority stakes to maintain a low profile and minimise opposition, particularly when they are investing in politically sensitive industries.

We therefore believe that the global deals market will rebound, for the fundamental factors driving M&A activity – the desire to enter new markets, extract synergies, utilise capital and remain (or become more) competitive – have not changed. But the balance of power between private equity and corporate deal-makers may shift, as borrowing constraints restrict the ability to complete large, highly leveraged deals and increase the importance of synergies. Smaller deals and strategic cross-border transactions are also likely to predominate in the short term, at least, and joint ventures may become more popular, as Asia's emerging economies assume a more prominent role on the global stage.

In-depth CEO interviews

Li Feng Hua
Chairman, China Eastern Airline

The globalisation of the airline industry means that China Eastern Airlines has to attain world-class management skills and develop an internationally recognised brand. Partnering with a highly accomplished and popular airline like Singapore Airlines allows us to achieve these goals faster.

When one compares China Eastern Airlines to Singapore Airlines – or to other top international airlines – one sees many similarities. For example, like the top airlines China Eastern's air fleet is new, and its facilities are modern. Then what is our weakness? Our weakness lies in our brand, our marketing ability and our service overall. These are areas in which Singapore Airlines is very strong, and so we hope to improve ourselves with their strengths.

Singapore Airlines has the skills and experience we are looking for, and our corporate cultures are relatively close. But while having Singapore Airlines as a strategic partner provides us with a great opportunity, it does not by itself guarantee success. Even when all conditions are favourable, we must still exert ourselves or our goals will never be met.

Roberto Setubal
CEO, Banco Itaú

Banco Itaú has neither global operations nor direct access to foreign investors; nevertheless we have achieved major penetration of the Brazilian business community by serving as a financial intermediary between global investors and businesses in Brazil.

Our foreign competitors, on the other hand, intervene in the opposite manner, because they have access to investors and a relatively low level of penetration of the Brazilian market.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Yang Chao
Chairman, China Life Insurance Company Limited

I lay great emphasis on the promotion of the corporate brand. China Life now wants to turn its famous commercial brand into a brand welcomed by society at large, and also to turn our national brand into an international one. Whenever I say 'I am from China Life', I want others to say 'Oh, that's a good company'.

I want China Life to achieve the same reputation and be on the same rank as other top international companies. I want our employees to feel a sense of pride in their employer. I put great emphasis on branding. Without a brand, you can hardly set foot in the market. That's why I emphasise brand in our corporate strategy and positioning. When people see the China Life brand we want them to think of a financial services group that deploys its resources rationally, operates a strong core business, adequately mobilises its people, enjoys respect from society, possesses high internal value and strong competitive power, and has a promising future. I ask all our people to promote China Life as a company respected by society and industry so that wherever you go, you will be respected.

Jeremy Sutcliffe
CEO, Sims Group Limited

Obviously, where merger or acquisition is concerned, cultural fit is the number one criterion, with strategic fit a close-running second. We do have a list of about five strict acquisition criteria, and fortunately we're able to tick the boxes with most.

Part and parcel of the merger was the transfer of Sims and its corporate headquarters from Australia to North America. That was sad, but I think that's just a reflection of what we're seeing in Australia today. 'Outgrowing' Australia is probably the wrong word, but we're a mature market here and the growth opportunities are offshore. The growth beyond this latest merger is going to be offshore, and it's the type of business where you have to be on top of it during all waking hours, not just the very small window of business hours that overlap with Europe and New York from Australia.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

A riskier &/or Safer world

Global risks

Does greater connectivity increase the risk that local difficulties will turn into global disasters? Or does it provide opportunities to diversify and thus dilute the dangers? The preliminary evidence suggests that it may actually do both.

A connected world is more vulnerable to risk

In a report produced last year in collaboration with the World Economic Forum, we argued that economic interdependence means 'downturns and shocks are more likely than ever to be global'.[1] The collapse of the US sub-prime mortgage market in mid-2007 can, perhaps, be seen as proof of this point. Few Western banks proved immune – despite the fact that the debts they had assumed originated thousands of miles away.

Many risk experts clearly share our perspective. They contend that investors in every corner of the world, armed with the same information, will naturally make similar bets – causing the markets to follow a similar trajectory. This increases the risk that the markets will become unbalanced. They also point to the fact that two-thirds of the world's total economic output springs from a small group of very large economies – China, India and the G7 (the US, Japan, Germany, UK, France, Italy and Canada). A major downturn in these key countries would therefore cause considerable problems everywhere else.

Moreover, some risk experts suggest that the risk of economic 'contagion' is by no means the only 'cost' of greater connectivity. There is also a much higher probability that physical, technological and operational risks will spread. So, for example, quality problems at a Chinese plant recently forced one leading US toymaker to recall nearly one million products from the market.

A connected world offers more opportunities for diversification

Those in the opposing camp argue that greater connectivity will enable the world to float on a more even economic keel, because risks can be geographically dispersed. If an established economy falters, they say, others can take up the slack.

They also suggest that, in an interconnected world with greater scientific, technological and educational ties, mutual self-interest can forestall certain problems before they become worldwide shocks. There is certainly some evidence for this in our latest CEO Survey, where 73% of CEOs favour collaboration with their peers to address climate change.

Rupert Stadler, Chairman of the Board of Management, AUDI AG, puts the case for mutual self-interest particularly powerfully. He believes that one of the biggest future challenges facing business leaders is dealing with growth in a responsible way:

'What should we be doing now so that we can pass along an inhabitable planet for our children and grandchildren?… [And]… do we have enough trust in one another to prevent another war? As we've seen in our hemisphere, without war we have made immeasurable progress over the last 50 or 60 years. Elsewhere, we can see what damage war can cause. If we can, little by little, bring prosperity to many people, while managing the earth's resources in a responsible way, this will lead to sustainable growth and satisfaction for us all.'

1 World Economic Forum Global Risk Network & PricewaterhouseCoopers, 'Global Growth@Risk', 2007.

Self-interested altruism is a more effective strategy than greed

Does the connected world increase global risks or provide new opportunities for reducing them, then? The answer may well be both. Many risks undoubtedly spread farther and faster in a highly connected world – and, in the short term at least, we believe this means that the potential for global shocks is increasing.

In the longer term, however, connectivity will bring greater prosperity and understanding, which will, in turn, help to create communities of interest and stimulate greater cooperation. As game theorists have shown in various experiments, self-interested altruism is a more effective strategy than greed – and rational players who repeatedly interact consistently choose to collaborate.

PwC view

Managing global risks in a connected world

Comparison of the results of our 10th and 11th Annual Global CEO Surveys shows that the percentage of CEOs 'somewhat' or 'very' concerned about global risks – i.e. large-scale risks with potential implications across industries and borders – has fallen in the past 12 months. The only global risk about which they are more concerned is, predictably, an economic downturn.

The academic risk experts whose views we polled in December 2007 cannot say, with any greater certainty than CEOs, exactly what will happen and when. But they argue that, given the high number of low-probability, high-impact risks, it is reasonably likely that one such risk will materialise during the typical CEO's tenure.

Some of these risk experts also think that CEOS are under-investing in the mitigation of global risks to the detriment of their own long-term interests. They note that certain risks are interdependent and could thus have more far-reaching commercial consequences collectively than they would individually. Climate change could, for example, exacerbate the scarcity of water in equatorial regions, resulting in conflicts between the local populace and business about water use in manufacturing facilities. Similarly, cyber-terrorists could penetrate a global technology network, causing data losses, security breaches or other business problems.

However, CEOs and risk experts alike recognise that the key issue is not so much the need for more investment as it is for smarter investment. The real challenge with global risks is that uncertainty about what to prepare for can result in two equally bad responses – inaction or investment in the wrong measures. But CEOs and risk experts generally agree that smarter investment can turn dynamic market changes into strategic opportunities for growth.

Yang Chao

Chairman, China Life Insurance Company Limited

We are faced with risks every day, and so there cannot be too much emphasis on risk prevention. Only after you have managed risks can you ensure healthy progress and rapid development of a company. That's why it is necessary to build a strong foundation. Modern control methods, in particular, are to be emphasised. There is a saying I often quote, especially when I am talking to my management team: 'Corporate governance may not ensure the success of a company, but poor corporate governance will surely destroy a successful company.' I believe that enhanced internal control and good governance is the only way to manage risks and to constantly enhance our competitiveness.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Li Feng Hua
Chairman, China Eastern Airline

The full consequences of the sub-prime mortgage crisis are not yet known. But I think that for the time being, the airline industry will not be directly affected. Instead, I worry that the crisis might hurt the American economy – which, in turn, would hurt the worldwide economy – and eventually have a negative effect on our industry. When the economy is good, the airline industry flourishes. When the economy turns down a little bit, we are the first to feel its effects.

China is now well integrated into the global economy. Our exports account for an increasingly larger share of world trade. So when there is financial turbulence in the world economy, we feel the effects here. Therefore, I hope that through joint efforts undertaken by various governments, the present economic conditions can be maintained, and our company will be able to develop further.

Rafael del Pino
Chairman, Ferrovial Group

Our risk policy is governed by five key principles. First, it has to contribute to the generation of a sustainable profit in all business areas. Second, it must integrate all the strategic and operating factors which make up the risk profile of Ferrovial, such as economic, regulatory, legal, political, labour and environmental.

Third, it involves all the levels of the organisation with decision-making power, including senior management and the various board of directors' committees. Fourth, maintenance of the risk system and reporting of risks are independent from the business lines, although they contribute their knowledge to analyse and determine the most appropriate management models. And finally, the risk-management system has to facilitate decision-making and foster comparable measurement of risk independent of the nature of the risk assessed.

Ahmet Dördüncü
CEO, H.Ö. Sabancı Group A.Ş.

It is also possible for companies to transform these risks into opportunities. Take the example of two competitor companies, both of which are dependent on the same supplier of a critical component. When faced with a crisis that disrupts the supply chain – say a strike in the supplier's plant – the company that can swiftly put a creative solution in place will gain competitive advantage in the marketplace.

The risks companies are exposed to today are, in many cases, difficult to anticipate and even harder to respond to effectively. This is the case not only for companies, but also for entire industries – and even nation-states. Certainly, at a minimum, companies must try to understand the complexity of today's global business environment and attempt to identify major risks before they arise. But we cannot expect that free-market mechanisms alone will address these vulnerabilities: a collective global capacity to mitigate the impact of global risks is also required. That calls for close collaboration among the business community, governments, non-governmental organisations, and think-tanks in an effort to develop early warning mechanisms and establish risk-related controls.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

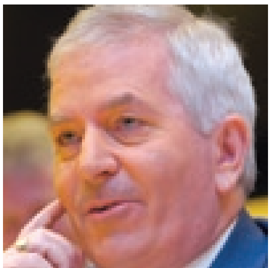
Alex W. Widmer
CEO, Bank Julius Baer

We're geared to a private clientele that demands a low degree of risk. Accordingly, we have a clear product philosophy: we didn't, for instance sell structured credit products. I have never believed in these products, and would never advise a client to buy a product where one has no idea what lies behind it. Here we're seeing loans from bad borrowers being bundled, dressed up differently, and then rated even though they're basically unrateable.

We don't have an internal investments directive saying that if Widmer doesn't understand it, we won't sell it. It's a question rather of leading by example and promoting the right corporate culture. We only sell products that we can stand behind; we don't sell products that we wouldn't want in our own portfolio.

Because hedge funds are acting more and more like banks – but aren't subject to the same capital and transparency requirements – we are seeing attempts to regulate hedge funds more closely. Clearly, it would certainly be helpful if these funds were more transparent. But I don't think it's possible to limit volatility by means of controls or guidelines.

A regulatory view



Charlie McCreevy
European Commissioner for the Internal Market and Services

We need to engage in enhancing resilience of the EU financial system so it can withstand external shocks. The Capital Requirements Directive, which is in the process of being implemented in member states, will enhance public disclosure, offer incentives to improve risk management and strengthen supervision. But in the face of closer integration and greater market interconnectivity, we need to do more.

The EU finance ministers have mandated the EU regulators in the area of banking, insurance and securities to work on a series of important issues related to the ongoing financial turmoil. We need to put in place effective crisis management arrangements. I have suggested that we should aim at having a college of supervisors for each cross-border banking group. The college would be composed of the supervisors of the jurisdictions where the group operates. In the event of a crisis such a college would decide on the appropriate measures.

Pragmatism & Heightened awareness

Climate change

During the past 12 months, climate change has soared up the public agenda. So what are CEOs now doing to combat the threat of global warming? At first glance, our survey suggests that they are largely reactive. But closer inspection shows greater levels of commitment, especially among CEOs running big companies.

CEOs believe that a combined effort is needed

We asked CEOs whether they agree or disagree with five statements about climate change, including how they think it will affect their companies and to what extent they are personally committed to environmental causes. We also asked them to tell us what climate-related issues concern them most. Our findings show that most CEOs believe greater government input and collaboration are essential (see figure 1.4.1 and 1.4.2).

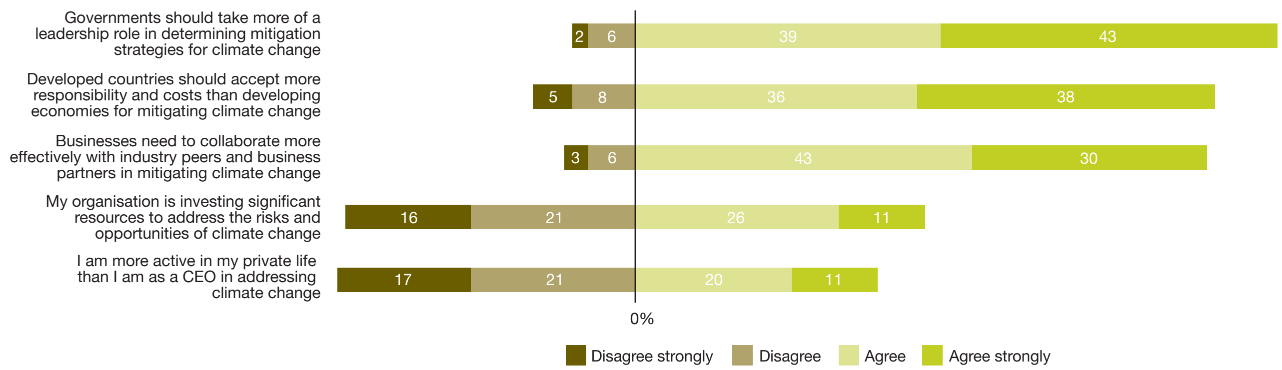
1. **Four-fifths of CEOs 'agree' or 'agree strongly' that governments should lead the effort to address environmental problems.** Asian CEOs are particularly convinced that governments should assume the initiative; 90% take this view, a fact which is not surprising in a region of rapidly emerging economies, where resources are in high demand and ecosystems from the atmosphere to major rivers have already shown signs of damage. Conversely, only 64% of North American CEOs – fewer than in any other region – support the idea of government intervention.

This call for greater government involvement is all the more remarkable, given that companies generally seek less regulation and more flexibility to manage their operations. It suggests that CEOs recognise the scale of the problem and think that only governments – in their role as public stewards – can act in concert to address it.

However, some CEOs may also be reluctant to take the initiative on matters they believe could reduce their short-term competitiveness. Many of the world's leading

1.4.1

CEOs clamour for government leadership in addressing climate change, but they also recognise the value of business collaboration



Q: To what extent do you agree or disagree with each of the following? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

companies have already made substantial efforts to reduce their energy consumption and raise awareness of environmental issues. But without clear global standards, applied equally in all jurisdictions, CEOs may be understandably anxious about incurring additional costs.

2. **Nearly three-quarters of CEOs believe businesses need to collaborate more effectively with each other to address climate change.** CEOs in India (93%), Japan (89%), France (82%), Korea (80%) and Germany (78%) top the chart in calling for closer collaboration to address environmental concerns. But CEOs in the US (52%), UK (54%), Russia (56%) and the Netherlands (57%) are more doubtful about the value of collaboration as a means of lessening environmental damage.

This powerful endorsement of greater collaboration may stem from early evidence of the impact business networks can have. Wal-Mart has, for example, formed a partnership with major suppliers to measure the 'carbon footprint' of its products and reduce waste and energy use through more efficient packaging. Similarly, Marks & Spencer is increasing its use of sustainable sources of cotton, wood and paper goods, and selling free-range poultry and eggs. It is even considering whether to locate facilities on its suppliers' farms to avoid waste and regenerate energy.

Many companies are also combining forces to press for greater government action. In December 2007, the leaders of 150 global companies appealed to environmental ministers convening in Bali to agree on a comprehensive, legally binding framework to address the problem. The EU Corporate Leaders Group on Climate Change spearheaded this effort, with signatories including Johnson & Johnson, Nike, Novo Nordisk, Sony, AIG, Allianz, Coca-Cola, Hewlett-Packard, HSBC, Nokia and Pacific Gas & Electric. The EU Corporate Leaders Group and US Climate Action Partnership (whose members include DuPont, GE, BP, Caterpillar, Alcoa and Duke Energy) had already asked governments to legislate for reductions in greenhouse gas emissions.

Lev Khasis

CEO, Chairman of the Management Board, X5 Retail Group N.V.

You have to worry when you read that in 100 years England might be under water. If England is going to drown then St. Petersburg is going to be under water as well. From my point of view anything that causes instability is bad for business. What we want is stability and predictability in climate, in particular.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

1.4.2

Large companies are more likely to agree or agree strongly. They are investing significant resources to address the risk and opportunities of climate change, while CEOs in developing nations put greater emphasis on government leadership

	Region					Revenue size			
	CEE	Latin America	Asia Pacific	Western Europe	North America	Over $10 billion	$1 billion to $10 billion	$100 million to $999 million	Less than $100 million
Governments should take more of a leadership role in determining mitigation strategies for climate change	87%	87%	90%	76%	64%	80%	81%	78%	87%
Developed countries should accept more responsibility and costs than developing economies for mitigating climate change	76%	88%	75%	71%	61%	65%	73%	71%	78%
Businesses need to collaborate more effectively with industry peers and business partners in mitigating climate change	66%	80%	82%	70%	58%	74%	78%	66%	77%
My organisation is investing significant resources to address the risks and opportunities of climate change	27%	40%	42%	39%	29%	56%	47%	29%	31%
I am more active in my private life than I am as a CEO in addressing climate change	28%	36%	38%	26%	23%	16%	27%	34%	36%
Base	86	136	277	454	130	103	291	410	241

Q: To what extent do you agree or disagree with each of the following? (Base: All respondents)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

3. **More than one-third of CEOs ‘agree’ or ‘agree strongly’ that they are investing significant resources to address the risks and opportunities arising from climate change.** However, the percentage is considerably higher in very large companies. Fifty-six percent of CEOs heading organisations with a turnover of more than $10 billion a year are committing significant resources to climate-related issues.

This is possibly because big companies possess the ready capital with which to address the commercial opportunities, install energy-saving technologies and prepare for changes in regulation. Smaller companies, by contrast, may find it harder to justify spending a lot of money on such initiatives without government guidance on the controls that are needed to allay environmental damage.

4. **Nearly three-quarters of CEOs expect developed countries to accept more responsibility and a greater share of the costs involved in mitigating climate change than developing nations.** CEOs in Korea (97%), India (93%), Russia (86%), Spain (85%), Germany (84%) and Brazil (83%) are most convinced that developed nations should bear the brunt of the burden, whereas those in Japan (52%), the US (59%) and the UK (61%) are least likely to share this view.

In fact, the question of how to apportion responsibility for cutting emissions between the developed and developing worlds proved one of the knottiest issues at the recent UN Climate Change Conference. The resulting Bali Action Plan acknowledged that ‘deep cuts’ in carbon emissions will be required, but stopped short of setting specific goals because of the difficulty in securing international consensus. It provides, instead, for a two-year period of negotiation to develop targets and formulate a new climate-change treaty to replace the Kyoto Protocol, which expires in 2012.

5. **CEOs are no more active in private than they are in business about addressing climate change.** Thirty-eight percent of respondents ‘disagree’ or ‘disagree strongly’ that they are more environmentally conscious at home than at work, while only 31% ‘agree’ or ‘agree strongly’ that they are more active in private and 28% are silent on this score. CEOs in Asia and Latin America are among those most likely to differentiate between their private and professional lives; 51% of Japanese CEOs, 43% of Brazilian CEOs and 40% of Indian CEOs say that they are more active in addressing climate change at home than they are in the workplace.

CEOs are concerned about the financial and physical consequences of climate change

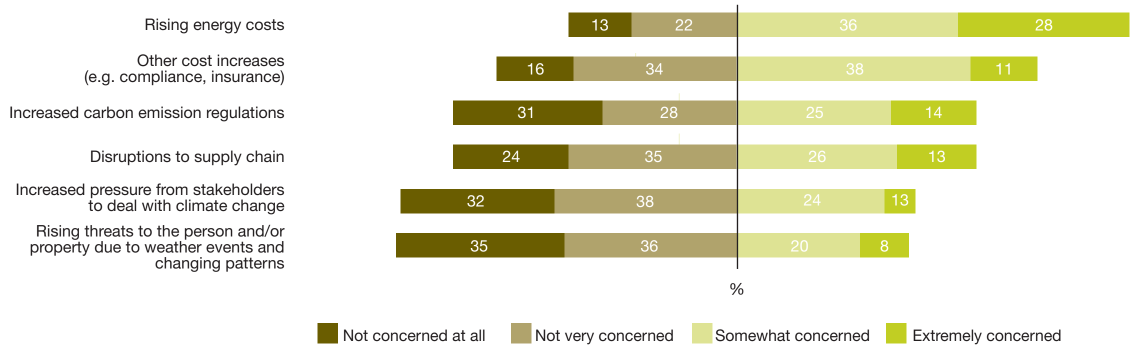
The costs of energy resources and other factors relating to environmental forces are the focus of anxiety to many CEOs. Sixty-four percent are ‘somewhat’ or ‘extremely concerned’ about rising energy costs (see figure 1.4.3), while 49% are nervous about increasing costs in areas such as compliance and insurance.

However, they also worry about the physical toll climate change is expected to levy. Thirty-nine percent of respondents are concerned about potential supply-chain disruptions and 28% about the risk to people and property from extreme weather events and the like.

Asian CEOs are especially apprehensive. Seventy-nine percent worry about the impact of rising energy costs; 67% about higher compliance and insurance bills; 59% about supply-chain disruptions; 46% about greater pressure from stakeholders to deal with climate change; and 46% about the physical damage climate change could inflict.

1.4.3

Worries about climate change and natural resources surface most visibly as concerns about rising energy costs



Q: How concerned, if at all, are you about each of these potential threats that could impact on the growth of your business? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Some CEOs see the positive side

Despite these concerns, 28% of CEOs see climate change as an opportunity to reduce their costs or generate additional profits from new environmentally-friendly products and services. Another 29% believe that demonstrating their companies' commitment to the mitigation of climate change will bring intangible benefits (see figure 1.4.4) such as stronger brands, an enhanced reputation or better access to talent.

These findings are supported by independent research, which shows that one-third of FTSE 100 companies have achieved cost savings as a direct result of setting quantifiable targets to reduce carbon emissions.[1] IBM alone is reported to have saved more than $100m from cutting its output of carbon emissions by 1.28 million tons since 1998.[2]

CEOs heading very large companies generally have the most positive outlook. Thirty-nine percent anticipate that climate change could bring economic benefits in the form of new products or lower energy bills, while 46% think that it could bring intangible opportunities.

PwC view

Will Bali pave the way for a new climate-change treaty?

A year of unprecedented scientific, corporate and public interest in climate change concluded with the United Nations Climate Change Conference in Bali, which was attended by more than 10,000 participants. Business leaders seeking greater clarity about the long-term regulation of greenhouse gas emissions called on policy-makers to develop a comprehensive, legally binding framework for tackling climate change.

The conference culminated in the adoption of the Bali Action Plan. At first blush, the plan looks as though it lacks teeth; although it acknowledges that emissions must be cut dramatically, it falls short of establishing actual targets – a fact that disappointed many non-governmental organisations. But the plan provides clear evidence of a growing determination to address climate change in both developed and developing nations. It also establishes a process for negotiating the terms of a new treaty, to be completed by late 2009.

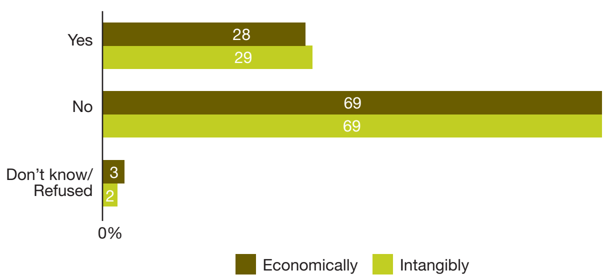
Three issues will particularly concern the business community:

- Which countries set targets for themselves, and how ambitious those targets are;
- What role the carbon markets play in any subsequent regime; and
- Whether particular sectors come under the spotlight.

However, the fundamental question is whether political changes in the US will support the development over the next two years of a new international agreement to address climate change.

1.4.4

More than a quarter of CEOs believe that climate change will benefit their business either intangibly or economically



Q: Do you think that climate change will benefit your business economically (e.g. in revenues, operational efficiencies etc.) or intangibly (e.g. in brand or reputation, or access to talent etc.)? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1 Greenstone Carbon Management research into data publicly disclosed by the Carbon Disclosure Project 2006.
2 IBM Cuts CO_2 Emissions by More Than 1 Million Tons, Saving $115 Million', GreenBiz.Com (September 30, 2005).

In-depth CEO interviews

Ahmet Dördüncü
CEO, H.Ö. Sabancı Group A.Ş.

Over the last decade the global economy has seen a substantial decline in inflation even as economic growth has surged. But asset prices and indebtedness have also gone up. In the long run, financial market strains could well deepen and trigger a crash in global asset prices. This would signal the start of a more pronounced global slowdown.

The new business environment – in which innovation has become a key competitive strategy – will also create new risks as a sharp upward demand for talent leads to a scarcity of highly-skilled labour. On the other hand, we also believe that the emerging focus on the environment will open fresh opportunities by driving demand for cleaner production, 'greener' buildings, new environmental safety products and better energy management. These represent attractive investment options over the next decade.

Akhil Gupta
Managing Director of Bharti Enterprises & Joint Managing Director of Bharti Airtel Limited

I feel it's wrong to expect developing countries to take the lead. I think it's not a matter of how much energy we consume. If we have a billion people, surely our energy consumption will be more than that of the developed world.

But if you look at per capita consumption, there is absolutely no comparison between the developed and the developing world...[In the developing world,] it is economics that will force companies to conserve energy. Since energy is an expensive commodity, I think there is plenty of incentive for every company in every industry to use it more efficiently.

Li Feng Hua
Chairman, China Eastern Airline

I worry about the listlessness in the industry on updating airplane models. With surging oil prices and higher social expectations with respect to environment issues, the need for new airplane technology is readily apparent.

But with only two major passenger airplane manufacturers in the world and strong market demand for existing models, there is little pressure on the manufacturers to develop next-generation air fleets. This really worries me. I really hope that manufacturers will develop new airplanes that consume less energy, are more comfortable and safe and address environmental concerns.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Rafael del Pino
Chairman, Ferrovial Group

Climate change has affected our business expectations from both a short- and long-term perspective. For example, new commercial aviation regulations that seek to reduce the emission of greenhouse gases could lead to a readjustment of the supply and demand equation for this means of transport.

A reduction in the “supply” could make it more difficult to authorise the expansion of airport infrastructures and to an adjustment in air traffic, which would have obvious implications for the business strategy of an airport operator such as Ferrovial. Actions and initiatives in this matter are already on their way. We are working on minimising CO2 emissions together with the airlines, reducing excess of traffic within the airports by developing electric vehicles, making buildings more energy efficient and in construction we are using materials that reduce the environmental impact.

We believe that companies must take an active role in reducing their carbon footprint and in working with the scientific community to develop greater certainty about the effects and minimise the long-term impact of climate change. For example, Ferrovial collaborates with other companies and governments on initiatives which aim to develop solutions to reduce the global impact of the transport of people, and to quantify the effects of global warming on ecosystems and natural resources.

A regulatory view

Jeffrey Owens
Director, Centre for Tax policy and Administration OECD

My views on climate change have evolved, and I think that partly reflects the natural disasters we have had over the last year. I think that climate change is now probably one of the greatest challenges that are facing world leaders. How to deal with it – I think that’s a more difficult issue!

The solution has to be a package broadly acceptable to a wide range of countries, from the United States to China to the UK to France, but a package of measures is slowly emerging. This could consist of three inter-related measures. The first is environmental taxes and levies; the second measure is tradable permits that would address the broad issue of CO_2 environmental damage; and the third is measures to promote technical innovation.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Jim Owens
Chairman and CEO, Caterpillar Inc.

So we view it [sustainability] as regulatory compliance, cost competitiveness, and business opportunities. All those dimensions have become very much at the forefront of our thinking about business strategy going forward, and how we should engage with governments around the world...

Also in this space we've taken the initiative to dramatically step up our focus on growing our remanufacturing business. This is [a form of] recycling. Today we can bring back the carcasses of engines that are spent – fuel systems, water pumps, hydraulic systems, etc. We take those components, and with great salvage value technologies, bring those back to a second and third life. We put them back on the shelf and resell them as remanufactured components, which has a dramatic impact on energy efficiency and savings. So instead of going into a landfill someplace, they're going back on the shelf for a second and third life. It's an attractive, very profitable business. It's been growing at double-digit rates, and we're now growing that to serve other companies.

I would view that as seizing the opportunity out of what is an emerging challenge – and perhaps a crisis... The one of those that impacts on us most significantly, I think, will be climate change-related legislation. That will affect our customer base in the oil and gas, coal, and nuclear industries, all of which we serve as a supplier of equipment. And it'll affect our manufacturing costs in various countries around the world. So my concern is if we have radically different regulations, in terms of emissions levels that are permissible, occurring at different times, different ways to measure those emissions levels, that will create tremendous complexity for companies that are operating on the global stage. We certainly intend to operate on a global stage, but we're working very hard to encourage a harmonisation of regulation and consistency so we don't 'un-level' the playing field, if you will, and give competitive advantage to one country or another based on what kind of environmental laws they have in place. They can have a big impact on manufacturing cost. Energy costs in some industries are critically important as to whether that industry will be in a certain country.

For example, we're involved with the Council on Competitiveness in looking at energy and sustainability policy in the United States. One of my concerns is, if we have a very high carbon tax here to address greenhouse gas emissions, that's not followed by other countries, we could find that this drives a lot of the basic industries – aluminium, steel, chemicals, fertilisers, etc – out of the country. So basic industry, which is the feed stock for upstream industry, might diminish the country's global competitive position in the world market in years to come.

So we need to be careful about that, and try to harmonise our policies with those policies that are emerging and evolving in other countries. And to the extent that policy makers around the world can get together and create consistent policies with the same regulatory time frame for improving energy efficiency, greenhouse gas emissions, etc, we don't [want to] continue to tilt the playing field along the way. That would be a much better approach.

Section 2
The impact on business models

Strategy & Execution

People and change

Section highlights

Talent remains a major issue, but results fall short – suggesting competitiveness is hampered while opportunities lie within reach.

Two-thirds of CEOs want recruitment, motivation and development improved. But they give HR a low vote of confidence.

Leaders and all-around performers prove hardest to find, while organisational structures get in the way of collaborative people.

Senior or middle management weaknesses are blamed most often for hindering change programmes.

A gap separates vision from execution. Discipline is needed to drive strategies through tactics, structures and results.

Many would argue persuasively that the effectiveness of people determines which businesses rise and which fall, especially in an era marked by increasing change. One of the themes we have therefore focused on in this year's CEO Survey is the people agenda and the role people play in realising change.

Akhil Gupta
Managing Director of Bharti Enterprises & Joint Managing Director of Bharti Airtel Limited

At Bharti, we feel it's our job to prepare people for the next level, so each time there is a requirement for talent, we try to source it internally first. But when we consider outsourcing, we don't consider it only for non-core activities, like most companies do. We ask three simple questions: First, who has better domain knowledge for this function, Bharti Airtel or outside vendors? Second, who can extract better economies of scale? Third, who can attract better talent?

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

We have approached the subject from a strategic perspective – as an integral element in building better, more agile businesses – rather than looking at the competition for talent as an end in itself. Our findings bear out the importance of people, both as drivers of growth and change, and as potential liabilities when they are not properly managed.

CEOs say that some of their main sources of competitive advantage are talent, customer service and the ability to change – all issues directly involving people. They also believe that the shortage of key skills is one of the biggest threats to business growth, together with the risk of an economic slowdown and over-regulation. Significantly, the people dimension is the only one of these three issues companies can control.

However, CEOs add that managing people is among the biggest challenges they face. They tell us that:

- The people agenda is one of their top priorities, they spend much of their time focusing on people issues and they are confident that their leadership teams are competent to drive change, but they do not see these efforts reflected in the results their companies achieve.
- A considerable part of the blame for failing to realise the benefits of major change programmes lies with middle and senior management, but organisational barriers, poor communications and internal politics are problems, too.
- The ability to compete for talent is critical – and the sort of skills that come with experience are particularly hard to find, but few human resources (HR) functions are perceived to be sufficiently effective in their approach.

Yet putting the right people in place is imperative in an increasingly fast-changing world. It is people who determine an organisation's agility and competitiveness.

CEOs stress the importance of people, but point to problems in executing change

The vast majority of CEOs (89%) say that the people agenda is one of their top priorities. Most (84%) also think that their leadership teams can direct change initiatives. But they are clearly less confident about the ability of their key lieutenants than they are about their own levels of commitment; only 29% of CEOs 'agree strongly' that their leadership teams can guide major change, whereas 58% 'agree strongly' that people are one of their main personal priorities.

A smaller but still significant number of CEOs (67%) 'agree' or 'agree strongly' that their own time is best spent on people. Slightly fewer (60%) believe that their management spends adequate time on people issues during periods of strategic change (see figure 2.1.1).

However, the competition for talent and competence of HR organisations concern CEOs rather more deeply. Sixty-two percent think that new methods of recruiting, motivating and developing people are necessary, but only 43% believe that their HR functions possess the right qualities to handle the job. This suggests that many HR organisations need to align themselves more closely with their companies' strategic direction in order to increase the value they provide.

There is considerable consensus among CEOs in every region on all these issues, although two exceptions are worth noting. In North America, 85% of CEOs (18 percentage points more than the global benchmark) believe that their time is best spent dealing with the people agenda. And in Asia, 78% of CEOs (16 percentage points more than the global benchmark) believe it is essential to upgrade the tactics their companies use in competing for talent.

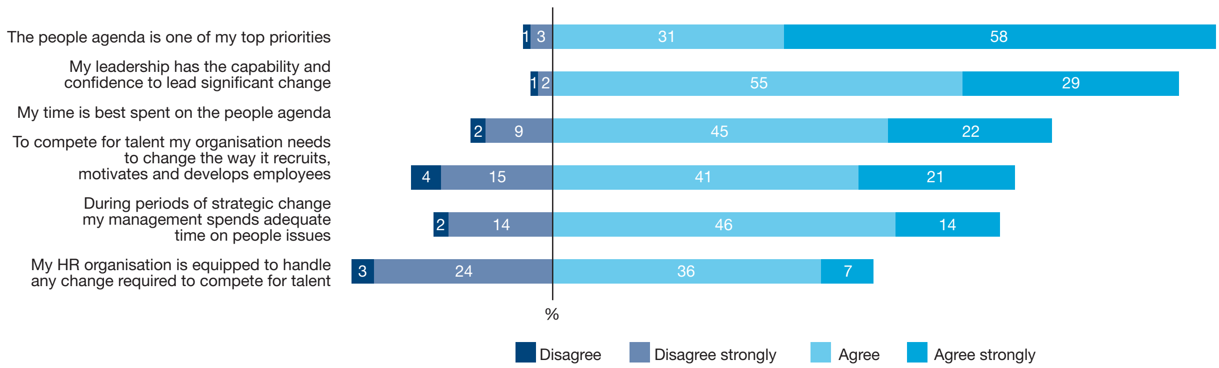
Rafael del Pino
Chairman, Ferrovial Group

Any large multinational organisation struggles with change, and people are often naturally resistant to change. That's why communication is so important. People need to understand what needs to change and why and their role in the process, while the company itself needs to be prepared to help people take on new roles in the organisation, as the company adapts to a constantly changing world.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

2.1.1

The people agenda has moved up CEOs' list of priorities



Q: To what extent do you agree or disagree with each of the statements regarding people issues in your organisation? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

CEOs value a wide range of skills

More than 80% of all CEOs rate eight skills (of the 10 on which they were asked to comment) as critical to their organisations. They place a particularly high premium on the ability to adjust rapidly to internal and external change, the ability to lead and develop others, and the ability to collaborate (see figure 2.1.2).

Only two attributes – language skills and global experience – come relatively low on the list of traits CEOs deem essential. However, it is somewhat surprising that they should accord little importance to either feature, given that they identify cultural issues, poor management of human resources and conflicting workforce expectations as major obstacles to the successful completion of cross-border deals. Greater attention to language skills and global experience might alleviate such problems.

North American CEOs are almost unanimous – at more than 90% – in believing that these eight skills are vital. But they are much more sceptical about the value of global experience and language skills than their peers in other regions. Only 39% rate global experience, and only 45% language skills, as important.

Asian CEOs place rather less weight on the eight skills business leaders rate most highly, with response rates ranging from 65% to 75%. But, like North American CEOs, they tend to discount the importance of language skills and global breadth, whereas European CEOs – in both Western Europe and Central and Eastern Europe – regard them as critical attributes. Indeed, three-quarters of respondents think that language skills are important, a fact that may reflect the linguistic diversity of the world's second-smallest continent.

Finding experienced people with leadership qualities is particularly difficult

Some of the strengths CEOs value are proving hard to find, however. More than two-thirds of respondents say that it is difficult to recruit people with a combination of technical and commercial expertise. At least 60% also say that global experience, the ability to lead and develop others, and creativity and innovativeness are all qualities in short supply. Straightforward skills like an aptitude for qualitative or quantitative analysis (44%), and 'soft' skills like the ability to collaborate (33%), are easier to find (see figure 2.1.3).

The overwhelming majority of CEOs (94%) are trying to address these shortfalls by investing in training and development, particularly in the areas that universities do not typically cover (see figure 2.1.4). However, a pilot test of the talent measurement index

2.1.2

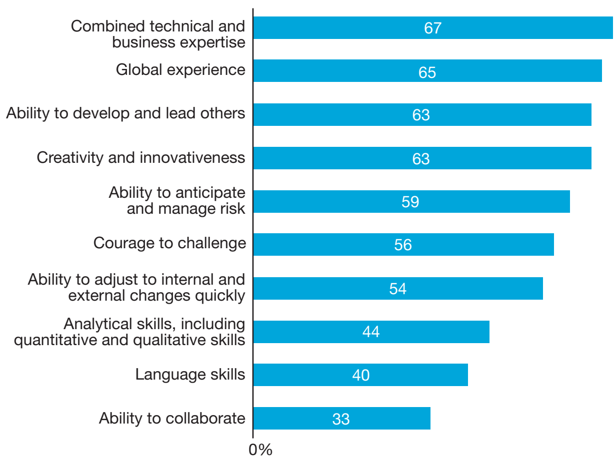
CEOs consider most of these skills critical

Q: Which of the following skills and characteristics are critical to your organisation? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

2.1.3

CEOs identify the hardest skills to find: combined technical and business expertise, global experience, leadership skills, and creativity and innovativeness



Q: Are you experiencing difficulty recruiting people with the following skills or characteristics? (Base: Respondents who stated particular skills were critical to their organisation 636-1,012)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

conducted by Saratoga, the human capital measurement and benchmarking arm of PricewaterhouseCoopers, shows that many key positions are still filled by external candidates; only 39% of the executive-level jobs in the companies Saratoga surveyed were awarded to the internal successors who had previously been designated to fill them, when those jobs fell vacant. This suggests that some organisations may be neglecting the talent they already possess.

Many CEOs (73%) are also increasing the remuneration they offer. But they are equally ready to use more imaginative methods, which reflect the dynamism and complexity of modern working life. These include creating a more flexible working environment (76%), hiring and developing people from more diverse pools of talent (67%), and collaborating with networks of external specialists (66%).

Conversely, only 46% of CEOs use outsourcing and only 42% use acquisitions as a means of getting access to critical skills. CEOs, it seems, generally prefer to enhance their internal resources than to risk diluting their control or resort to measures that might ultimately prove to be ‘quick fixes’.

Change proves prevalent, especially in North America

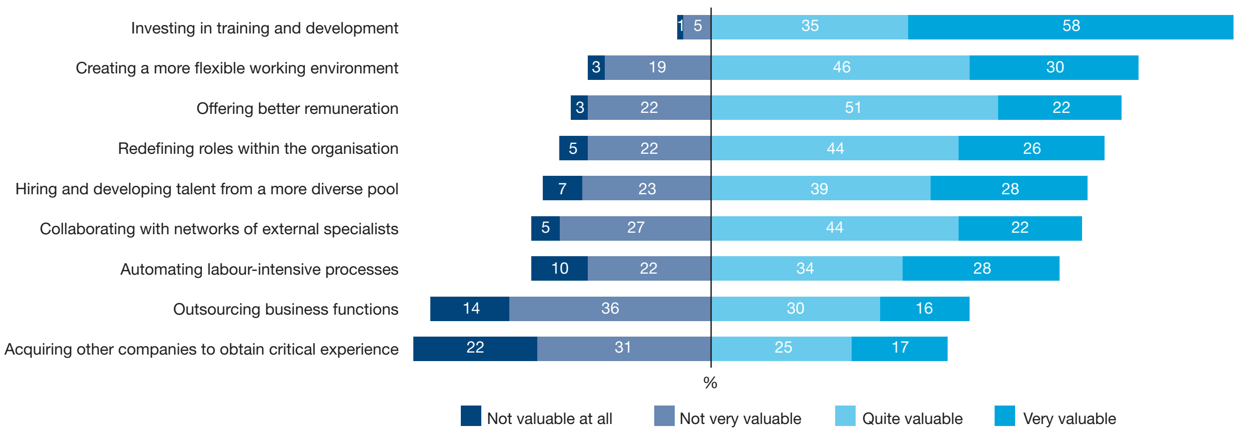
The struggle to recruit, train and retain the right people is one of the recurring motifs in our survey; so, too, is the scale on which change is occurring. Within the past three years alone, 80% of CEOs have implemented new business strategies; 72% have implemented new business processes; and 71% have implemented new technologies. Indeed, 90% of CEOs have made up to eight major kinds of change in the way they operate (see figure 2.1.5, overleaf).

Our findings demonstrate the extent to which change is now a ‘constant’ in business. But although this is true in every region, change is particularly prevalent in North America. CEOs in the US and Canada lead the rest of the world, in terms both of the number of changes, and the types of change, they have implemented over the past three years.

However, the payback on change programmes varies hugely; 21% of CEOs believe that new business strategies have the most positive impact, while 18% point to M&As (despite the many challenges they present). Outsourcing major business functions, initiating quality improvement programmes and implementing new business processes are widely thought to deliver fewer business benefits.

2.1.4

To address their skills/talent shortage, CEOs find it more valuable to work with what they have, rather than go outside the organisation



Q: How valuable are each of the following methods in addressing skills or talent shortages in your organisations? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

The weaknesses of middle and senior management are a major barrier to change

Moreover, although CEOs express considerable confidence in senior management's ability to direct change, they blame many of the difficulties in realising these benefits on the shortcomings of middle and senior management. A substantial 50% of respondents say that lack of motivation on the part of middle managers is a major obstacle, while 48% say that lack of change-management skills and experience at more senior levels is a serious barrier (see figure 2.1.6).

In other words, there is a huge gulf between vision and reality. CEOs widely agree that people are one of their most important personal priorities and that their most senior employees are capable of leading change. Yet they fault the very executives on whom they rely to champion and drive change through the ranks for their inadequate change management skills, know-how and commitment.

A similar paradox exists when CEOs talk about collaboration. Although they say that it is quite easy to recruit people who can cooperate with each other, they also say that lack of cross-functional collaboration is the third biggest roadblock in realising the benefits of major change programmes. This gap between willingness to collaborate and actual practice may suggest that the real problem is organisational – that many companies operate as functional silos and have still to adapt to the notion that horizontal networks are more flexible than vertically-integrated hierarchies.

North American CEOs find the human factor particularly difficult to address, despite the fact that they are more experienced in managing change than CEOs elsewhere. Over 60% point to lack of middle-management motivation, cross-functional conflicts and internal politics as critical obstacles. A significant number also cite failure to invest sufficiently in equipping people to adjust and failure to communicate the reasons for change clearly as major barriers to change.

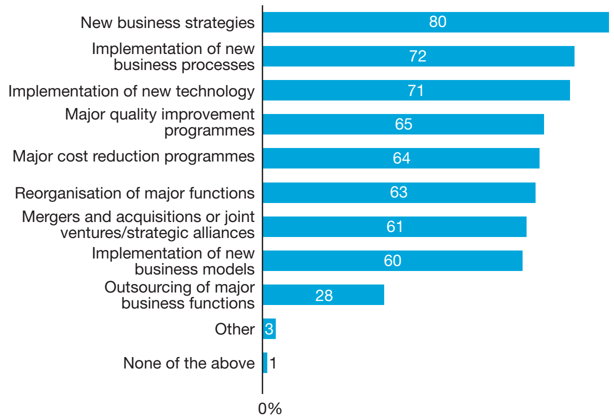
What can be done to improve the situation?

In short, our findings show that CEOs recognise the strategic importance of people and the need for agility (as they did in last year's survey). But they do not believe that their companies can manage change adequately.

So, what can be done to improve the situation? The evidence suggests that new organisational structures are necessary to facilitate collaboration; that more effort should be devoted to developing the leadership skills of middle and senior management; and that CEOs must empower their HR functions to adopt a more pivotal role. They will need both to task HR professionals with making their contribution more relevant to the current business environment and to encourage them to become more innovative in competing for talent and driving organisational change.

2.1.5

CEOs recognise the need for change in this business environment, judging from the number of changes they implemented in the past three years

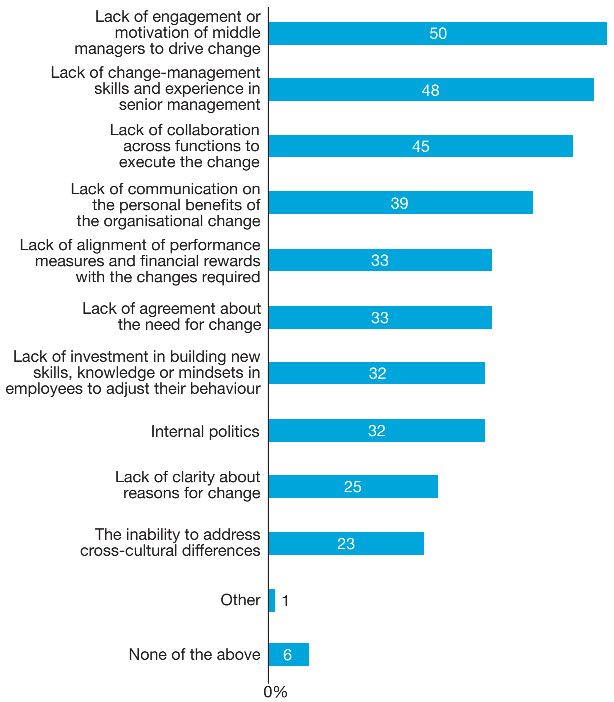


Q: Which of the following changes, if any, has your organisation implemented in the past 3 years? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

2.1.6

Management's lack of engagement/motivation and lack of change-management experience are considered the most critical barriers to effective change



Q: Which of the following people challenges were critical barriers for your organisation in terms of achieving the desired benefits? (Base: All respondents who have implemented specified change 1,131)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

PwC view

Managing change through people

At one time, it was widely thought that change management was a process of managing *people through change*. Today, CEOs are learning that the right approach is quite the opposite: it is a process of managing *change through people*. This means enabling employees to drive change, rather than using change to drive them; making them the owners and creators – not the targets – of change. But it is only possible when people are properly equipped, engaged in and rewarded for transforming the business.

So, how can CEOs best manage change through people? The start (and end) point is authentic leadership: the ability to embrace change and inspire the entire organisation, from top to bottom, to develop new ways of thinking and behaving.

Engage people in change

It is essential to begin by ensuring that people fully appreciate how their changing roles fit within the larger, strategic picture, and how the decisions and actions they take affect the wider context.[1] Most business leaders tackle technology and process matters vigorously, when they are building systemic changes – but they can fall short in their dealings with the people who must carry out those changes. Around three-quarters of all change programmes fail, largely because employees feel marginalised and, as a result, end up lacking the motivation, skills and knowledge needed to adopt new systems and procedures.[2] To truly lead change is to engage, inspire and motivate people to change.

Develop people continuously

The ability to cope with rapid change is a key attribute for survival in the current business environment; the skills that are most needed to adapt to unsettling change must be continuously honed. These same skills also make organisations more proactive, and less vulnerable to the risk of falling behind. So business leaders must be vigilant and systematic in developing such skills through day-to-day coaching and mentoring. Our survey shows that it is difficult to supplement the most crucial skills gaps by hiring new people or outsourcing activities. The qualities that are in shortest supply are better grown internally through embedded learning, closer alignment with business outcomes and collaboration.[3]

Connect people

The interactions among employees, rather than their individual skills, are what largely determine how quickly learning spreads through an organisation, how rapidly it absorbs and implements change, and how much innovation it produces.[4] It is therefore important to make these interactions as productive as possible. Business leaders need to ask: Do we create forums for connectivity? Does our organisational structure encourage collaboration? And do our employees have the right incentives to spur deeper collaboration? A corporate culture that promotes open communications, teamwork and the sharing of information is critical. But some business problems are better addressed by building collaborative networks. Such networks can connect more people, more rapidly and more effectively, resulting in more intelligent, well-informed business decisions.

1 PricewaterhouseCoopers, 'The people agenda: Optimising performance at the front line', 2007.
2 PricewaterhouseCoopers, 'Herding cats: Human change management', to be published.
3 Ibid.
4 PricewaterhouseCoopers, 'Organisation networks: Employees connecting, creating value', 2007.

Make people accountable at every level

People represent the biggest expense in most organisations. Yet the vast majority of companies do a much better job of measuring the performance of their physical assets than they do of measuring the performance of their people. Few companies have real-time, global people-measurement capabilities;[5] few quantify the financial value of their employees, where this is possible; and few track the return on investment from activities like training and development. Business leaders need to understand how much their employees contribute to the bottom line; only then can they ensure that their business and people strategies are aligned.[6]

Make the HR function the steward of the organisation's people assets

New business models require new ways of hiring, retaining and developing talent – and that, in turn, requires a fleet-footed HR function with a more elevated role.[7] Most HR functions currently focus on employee administration. Business leaders will need to invest in making them strategic advisers and charge them with responsibility for helping to build organisations that are ready for change.[8] The HR function of the future should be working in the front line with top management to enable people to lead and implement change, hold them accountable and make the people strategy work.

Recognise that change is the norm

In the traditional model of change management, an organisation 'unfreezes', changes, 'refreezes' and then resumes its course. Change itself is perceived as episodic, an aberration in an otherwise stable business environment. But our survey shows that change is now the norm. In today's dynamic milieu, business leaders must master the art of anticipating, creating and managing change through people. Their employees must likewise learn to drive, accelerate and adapt to change. People will be the key determinant of success in tomorrow's world.[9]

The HR function of the future should be working in the front line with top management to enable people to lead and implement change, hold them accountable and make the people strategy work

5 PricewaterhouseCoopers, 'The people agenda: Optimising performance at the front line', 2007.
6 PricewaterhouseCoopers, 'Key trends in human capital, a global perspective', 2006.
7 PricewaterhouseCoopers, 'Managing tomorrow's people: The future of work to 2020', 2007.
8 PricewaterhouseCoopers Saratoga Institute & University of Michigan in association with Convergys Employee Care, 'Agile Workforce, Agile Company', 2005.
9 PricewaterhouseCoopers, 'Herding cats: Human change management', to be published.

In-depth CEO interviews

Lev Khasis
CEO, Chairman of the Management Board, X5 Retail Group N.V.

The educational system in Russia does not adequately prepare students for our industry. Not a single university trains specialists for our industry. Therefore each company has to train its own staff on its own. Companies frequently pirate staff from each other. Hiring Western managers is not the answer either; their skills are limited. Russia is very different from the rest of the world, both in terms of the people's mentality and the worker's mentality. Very often a person who was a brilliant manager in the West is absolutely helpless in Russia.

In time, universities will adjust and start preparing students for business careers. We are starting to cooperate with universities. In the meantime, we are doing our best to solve our problems from within. We've created our own corporate university. We're doing everything we can to identify our brightest employees, our stars, and develop them. Our personnel director started out as a shop manager. Our operations director for the entire supermarket network was selling fruit and vegetables in the produce section 10 years ago. Such employees are the most valuable ones.

Ahmet Dördüncü
CEO, H.Ö. Sabancı Group A.Ş.

In this new environment we believe that our most important task is to establish and enhance the collaborative systems which people use to work together, learn from one another and create organisational synergies.

At Sabancı Group, our horizontal management platforms promote participation and collective thinking in the decision-making process. For example, SATEK – Sabancı Technology, Materials and Intellectual Property Committee – provides a lean and flexible goal-setting and funding mechanism for technology projects with high commercial potential. We're replacing hierarchical structures with partnerships across our various businesses and geographies. When we have the right environment for knowledge-sharing and increased connectivity inside the company, we generate more and better ideas.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Roberto Setubal
CEO, Banco Itaú

To start, people want to earn a fair salary. But they're also looking for a working environment where employees can learn, grow and develop their own ideas. That kind of environment has to be created almost from scratch. It's quite different from the more formal, hierarchical way companies have managed in the past where the executive issued instructions and the subordinates simply carried them out.

Today no one finds that model attractive. You can't recruit talented people and expect them to be content to sit around waiting to be told what to do. People want to participate and contribute to the discussion right from the start. So we work in integrated teams that seek input from all team members. It's not always easy though. Some staff members tend to find it difficult to work in teams, to share information and discuss things openly. And as we have grown through merger and acquisition, teams from different businesses have had to merge together. Like everything in life, some people adapt and some don't. You can't make everyone happy. Those who are unable to adapt end up, one way or another, simply leaving. But when we merged with BankBoston, more than 80% of the staff remained. That proves that it can be done.

We have high expectations of our key employees. They must be fluent in English, must have an open mind and must be far more informed about the world than the average person. They must also be well-versed in international business issues, not just in their own speciality area.

Jeremy Sutcliffe
CEO, Sims Group Limited

With all things, whether you're talking about health and safety, whether you're talking about environment, whether you're talking about customer service, leadership always comes from the top and I think you have to try and set an example by sharing a commitment.

I show that leadership in my focus on occupational health and safety throughout our operations, making sure that people look after themselves. That is paramount, but I also share our commitment to people. If I didn't show an interest in graduate programmes, for example, then my country regional heads wouldn't either, and if the subject were to be relegated down to the level of the HR department and a few general managers, it would not get the attention it merits.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Rupert Stadler
Chairman of the Board of Management, AUDI AG

With fewer resources, a person always becomes more creative than when everything is in abundance. At Audi, we consciously create these kinds of 'small adversities' to stimulate the creative potential in our people. Twenty years ago Audi was a nobody in the automotive world; our cars rusted and didn't last. But out of this adversity, the idea was born to use zinc-coated sheeting, and suddenly our cars were lasting 15 years. We reacted intelligently and quickly to an adverse situation and turned it into a market opportunity.

Aside from technical qualifications, we look for people with a passion for their work, who interact well with their colleagues, who can engage in constructive debate and discussion. We like people who question established wisdom, who are comfortable getting outside of their skin, so to speak. Globalisation has opened many markets for us, so people have to be open to new cultures and new things. For me it is quite impressive that a company such as Audi – one built and led by German engineers – is now comfortable with the notion that customer needs in various markets differ and that we have to have solutions that work for each market.

Specifically, we look for people with skills in engineering, and specialists in new materials, electrification and communication – but above all, people who can get things done. In my experience, there are people who want things and people who do things. In the end, I would prefer to have the ones who can do things.

Alex W. Widmer
CEO, Bank Julius Baer

There were many challenges [after the acquisition of three independent private banks and an asset management house from Swiss banking group UBS], including legal integration and merging the brands and IT functions. But the most important thing was to create a strong corporate culture. Bank Baer was a good bank with good bankers, but there was a lack of clear leadership. So I put together a new management team and encouraged its members to have confidence in themselves.

Now, rather than holing themselves up in their offices, our people are focused on developing the business. My passion for private banking has gripped the whole organisation and unleashed an incredible dynamism.

As a result, we have shown that we can grow again. Since the merger, client money has started flowing back in – we saw inflows of CHF 5.4bn in the first half of 2007. We are also now seen as one of the best places to work in banking. Old Julius Baer used to employ 170 private bankers. That figure grew to 370 after the merger, and now we have 500 private bankers. So we have increased our precious store of bankers by about 50%. It's unbelievable what's happening here.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Yang Chao
Chairman,
China Life Insurance Company Limited

Matters involving my staff or building staff teams account for 70% or more of my time. When it comes to people, or the building of teams, one needs to pay attention to the details. That's why I spend a lot of time talking with people and building real friendships with them. I treat them as friends with a sincere heart. Our human resources policy at China Life is to create a mechanism to attract talent; a system to allow talent to perform well; training to develop talent further; and an environment which will retain talent.

I put much emphasis on staff training. Every year, we send staff and managers to study overseas. At the same time, we have our own internal insurance school and our staff receive annual on-the-job training, so that their overall competencies will be constantly raised. You must first build a strong staff before you can build a good business.

A mobile workforce is the natural consequence of a thriving market economy. At China Life, we employ over 700,000 people, so it is impossible to retain them all. For me, the key is to maintain a strong core team that serves as a backbone. By offering a good salary you may keep an employee for a number of years, but it will not be forever. The key to retaining a person is to keep his heart. How can you keep a person's heart? To start, you do it through employee welfare and benefits and long-term incentive plans. However, equally important is the corporate culture – you have to let your employee feel that China Life provides a wide platform for career advancement. Therefore, we try to create an environment in which our people feel as if the growth and development of China Life is closely linked to their own personal growth and advancement. That is how we retain our people.

'A mobile workforce is the natural consequence of a thriving market economy. At China Life, we employ over 700,000 people, so it is impossible to retain them all. For me, the key is to maintain a strong core team that serves as a backbone'

Yang Chao, Chairman, China Life Insurance Company Limited

Opportunistic & Systematic

Collaborative business networks

Section highlights

More than half of all CEOs believe that collaborative networks will play a major role in the way companies operate in the future.

CEOs in Asia Pacific – one of the world's fastest-growing regions – are particularly convinced about the value of collaborative networks.

At present, networks are mainly used to accomplish 'soft' goals such as the advancement of learning and sharing of best practice, rather than to enhance product and service pipelines.

Most companies have not yet developed a systematic way of developing and capitalising on networks. They are still opportunistic in their approach.

Effective collaboration requires a clear understanding of the kinds of networks that are possible, the business objectives of the different stakeholders and the risks.

Most companies currently collaborate on an opportunistic basis. But more than half the CEOs participating in our survey believe that business networks will become a defining organisational principle and core part of the corporate armoury.

Collaborative networks have gained global currency, but most companies have not developed a systematic method of capitalising on them

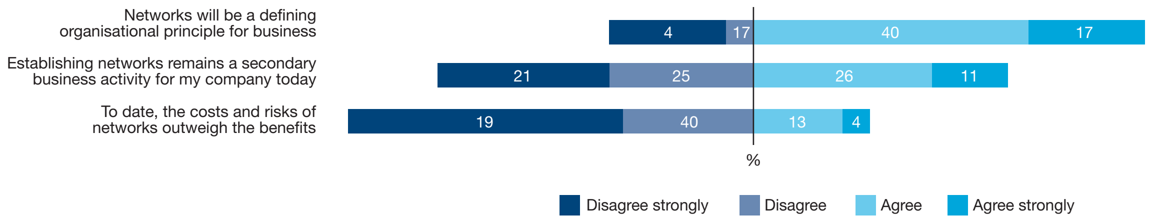
'The global integration of operations is forcing companies to choose where they want the work to be performed and whether they want it performed in-house or by an outside partner,' wrote IBM's CEO, Samuel J. Palmisano, in 2006. 'The corporation, then, is emerging as a combination of various functions and skills – some tightly bound and some loosely coupled – and it integrates these components of business activity and production on a global basis to produce goods and services for its customers. This simple change in the corporation's purpose and mission has many ramifications.'[1]

In our 10th Annual Global CEO Survey, CEOs reported that their companies' relationships with suppliers were becoming increasingly open, collaborative and strategic, rather than being based entirely on getting the lowest possible prices. Twenty-five percent said that they openly shared cost and technical data, while 29% said that their cost and business objectives were fully aligned with those of their suppliers.

A growing number of businesses are now using collaborative networks in a wide range of situations.[2] In 2007, for example, Swiss pharmaceuticals company Novartis released raw data from its efforts to unlock the genetic basis for Type 2 diabetes on the Internet – a rare move in a highly competitive industry, and one that aimed to tap the talents of the global research community to accelerate progress in R&D. Similarly, General Electric, which was once known for its desire to retain full control, is increasingly 'engaging with other companies in whole new ways', including collaborations and joint ventures.[3]

2.2.1

More than half of CEOs consider networks to be a defining organisational principle and recognise their benefits, yet many have not fully exploited their potential



Q: To what extent do you agree or disagree with each of the following network statements? (Base: All respondents 1,150)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

1 Samuel J. Palmisano, 'The Globally Integrated Enterprise', Foreign Affairs (May/June 2006).
2 In discussing external business networks and other methods for collaborations, we defined these as groups of individuals or entities that collaborate based on common interests, principles, or objectives, to create value. External collaboration across business networks include communities of practice, networks of suppliers, outsourcing arrangements, joint ventures and alliances.
3 Claudia H. Deutsch, 'The Venturesome Giant', The New York Times, October 5, 2007.

Against this backdrop, our latest CEO Survey set out to establish whether collaborative networks have actually transformed business. The answer? Not yet.

Our findings show that collaborative networks have gained global currency, but most companies have not developed a systematic method of capitalising on them. Many CEOs seem to believe that collaboration and open business models merit serious attention, but that does not mean they feel confident about how to leverage them effectively in different contexts.

Collaborative networks coming of age

More than half the CEOs we surveyed (57%) think that collaborative networks will be a defining organisational principle for business, and only 17% 'agree' or 'agree strongly' that the costs and risks of networks currently outweigh the benefits. Nevertheless, 37% still regard the establishment of networks as a secondary activity, suggesting that they have yet to exploit the full potential of collaboration (see figure 2.2.1).

Further analysis of the data provides some clues as to how the use of networks is evolving in different regions – and the extent to which history and place within the value chain may have played a part in shaping attitudes. CEOs in Central and Eastern Europe sit at one end of the spectrum; only 44% 'agree' or 'agree strongly' that networks will be a defining organisational principle – which may, perhaps, reflect the importance central planning once played in these economies.

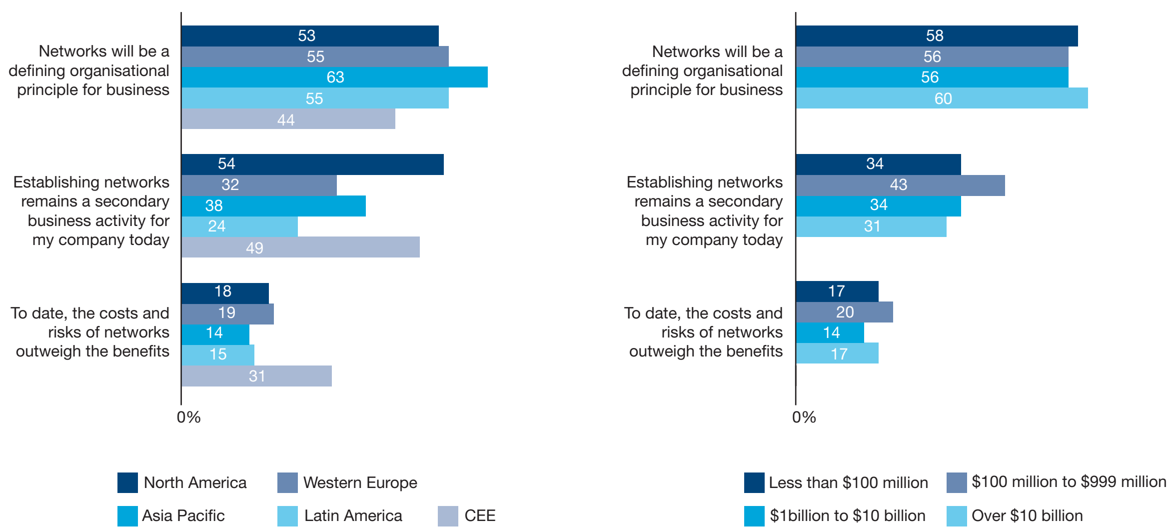
Conversely, 63% of CEOs in Asia Pacific believe that networks will be a defining organisational principle. Indian CEOs (83%) are particularly open to the idea. This may be a result of India's role as a major centre of global outsourcing, a form of networking in which risks and rewards are increasingly shared. Chinese CEOs are less convinced; even so, the percentage of Chinese CEOs who believe that networks will be a defining organisational principle is close to the global average, showing that a history of central planning does not completely preclude willingness to collaborate (see figure 2.2.2).

'…success now also depends on continuous growth in productivity, which, in turn, relies on new technologies, global networks, and innovative management methods'

Ahmet Dördüncü
CEO, H.Ö. Sabancı Group A.Ş.

2.2.2

Central and Eastern European CEOs are less convinced of the value of collaborative networks, compared to the other CEOs



Q: To what extent do you agree or disagree with each of the following network statements?
(Base: All respondents who stated 'agree' or 'agree strongly' 86-454)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

The picture is more mixed in the US and UK. Over half of all CEOs in these countries see the development of business networks as a secondary activity, compared with the global average of 37%. However, organisational size and breadth of internal resources may partly account for this divergence; about 40% of the companies in the Fortune Global 500 have their headquarters in the US and UK.

Moreover, both countries are home to some of the world's best-known collaborative networks, such as those of IBM and Procter & Gamble. Rather than suggesting that networks are not utilised, then, the data may indicate that networks are so much a part of the way things work that they are not perceived as external.

Many organisations in the US and UK also sit at the end of the value chain – as owners of consumer-facing brands and intellectual property. Such companies may therefore see business networks as playing a valuable but supporting role in the primary goal of serving consumers. Asian companies, by contrast, more typically provide goods and services that are eventually sold by other companies, and may thus be more inclined to see networks as a defining organisational principle.

However, CEOs in developed markets may eventually place more emphasis on networks, as consumer expectations change. Our research shows that companies in the technology and media sectors are already collaborating with all sorts of stakeholders to develop or redefine their business models.[4] As experience with networks grows, their use in all industries is likely to increase.

Reasons to collaborate: sharing knowledge leads the way

Although many CEOs recognise the value of collaboration, they have not fully embraced the concept in practice. More than half of all respondents report that their companies are 'moderately' or 'significantly' involved in networks that share best practice, create innovation, influence policy, reduce costs, find talent and mitigate operational risk. But a substantial percentage say that they are 'not at all involved' in such networks or are only involved to a 'minor' extent.

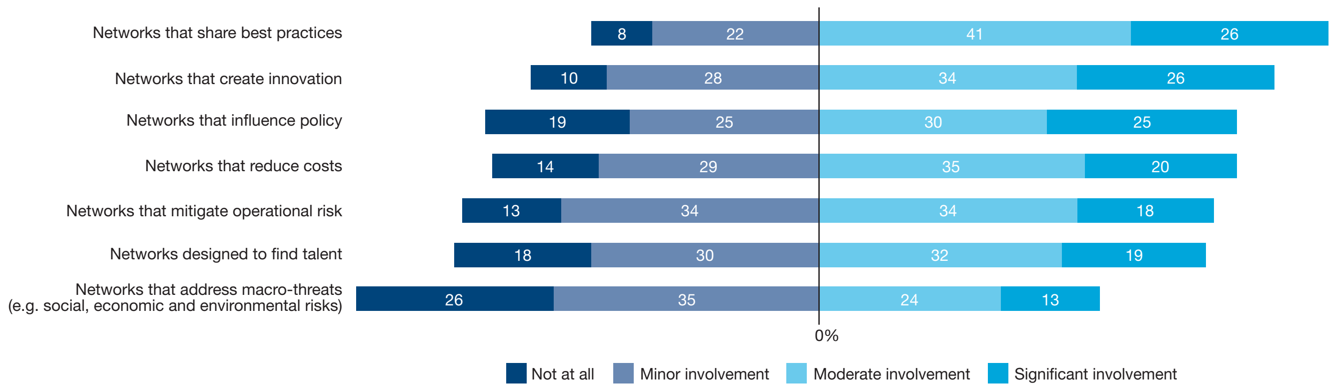
At present, it seems, networks are mainly used to accomplish 'soft' tactical goals related to learning, rather than to enhance the provision of products and services in a way that directly affects the bottom line (see figure 2.2.3).

This tendency is especially marked in America. Eighty percent of North American CEOs (13 percentage points more than the global average) say that their companies are 'moderately' or 'significantly' involved in networks for sharing best practices. Seventy-seven percent of Latin American CEOs say the same.

Many CEOs also think that such networks are the most effective. Seventy-five percent regard networks for creating and sharing knowledge

2.2.3

Participation in networks depends on the purpose of the network



Q: To what extent does your organisation participate in each of the following types of collaboration across business networks? Respondents who stated 'moderate involvement' or 'significant involvement' (Base: Respondents who stated 'Agree', 'Strongly agree' or 'Neither/nor' to 'Networks will be a defining organisational principle for business' 852)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

4 PricewaterhouseCoopers, 'Breaking down walls: How an open business model is now the convergence imperative', (2006).

as 'quite' or 'very' effective, while 70% regard networks for learning best practice in the same light. They are more dubious about the value of business networks in addressing the toughest macro-economic issues, such as climate change or persistent poverty. Only 35% of CEOs say that collaboration is 'quite' or 'very effective' in addressing such problems, while 62% say that it is 'not very effective' or 'not effective at all'.

However, there are signs that some companies are now beginning to form networks to solve a broader range of strategic business issues. In Brazil and India, for example, 96% and 100% of CEOs, respectively, 'agree' or 'agree strongly' that the people agenda is one of their top priorities. So it is not surprising that CEOs in these two countries are also more likely to use networks to find talent; 64% of Brazilian CEOs, and 88% of Indian CEOs, say that they are 'moderately' or significantly' involved in such networks, compared with the global average of 55% (see figure 2.2.4).

Time for a strategic approach to collaborative networks?

The overall evidence suggests that most companies are still using collaborative networks on an opportunistic basis – partly, perhaps, because collaborating requires considerable effort and discipline. Although CEOs report that it is relatively easy to recruit people who can collaborate, they also say that lack of collaboration across functions is a major organisational barrier when it comes to managing change.

Nevertheless, given that more than half the CEOs in our survey believe that business networks will become a defining organisational principle, it seems likely that a more strategic approach will eventually emerge. Tomorrow's networks will increasingly be initiated at the top, rather than being developed on an *ad hoc* basis to take care of a company's immediate needs.

'Public-private collaborative ventures can founder on a lack of understanding of each other's respective objectives. They depend on respect by the private sector of legitimate public goods, and sensitivity by regulators to the needs of business'

Richard Wakeford,
General Environment
Scottish Government

2.2.4

The CEOs who are more likely to see the benefits of networks are those in Asia Pacific and Latin America and CEOs of companies with less than $100 million in revenues

	Region					Revenue size			
	CEE	Latin America	Asia Pacific	Western Europe	North America	Over $10 billion	$1 billion to $10 billion	$100 million to $999 million	Less than $100 million
Creating and sharing knowledge	70%	71%	79%	73%	81%	73%	72%	73%	79%
Learning best practice	73%	79%	72%	64%	71%	74%	65%	66%	75%
Enhancing reputation or brand	82%	75%	73%	63%	56%	68%	62%	64%	76%
Increasing innovation in your company	55%	72%	63%	65%	55%	61%	62%	59%	70%
Accessing new markets or customers	62%	69%	66%	58%	44%	55%	54%	59%	66%
Implementing strategy	60%	64%	68%	55%	38%	57%	56%	51%	69%
Improving corporate citizenship	53%	68%	64%	50%	54%	72%	55%	55%	54%
Accessing new skills or scarce talent	48%	61%	65%	52%	47%	57%	52%	54%	55%
Controlling costs	53%	64%	54%	42%	42%	35%	48%	50%	54%
Influencing government and regulatory policy	25%	49%	53%	45%	60%	55%	52%	45%	46%
Tackling macro-risks	23%	47%	43%	27%	31%	42%	32%	33%	36%
Base	60	96	204	312	108	74	214	299	178

Q: How effective are collaborations across business networks in achieving the following range of objectives? (Base: Respondents who state 'quite effective' or 'very effective')

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

PwC view

Capturing the value of collaborative business networks

Numerous case studies show that business networks can deliver greater agility, consumer engagement, innovation and cost savings. But they do not provide a roadmap for capturing real value from collaboration. A systematic approach might start with a framework that examines three aspects of collaborative networks: the business objectives, stakeholders and risks.

Networks can address a wide range of business objectives. They can enhance innovation (e.g., through sharing R&D efforts or inviting consumers to participate in new product development initiatives); provide access to new markets (through partnering with local firms for distribution or participating in exchange marketplaces); and improve the supply chain (through global sourcing or outsourcing).

The current and potential stakeholders may include customers, communities, suppliers, logistics providers, regulators and even competitors – and each will have something unique to bring to the network. Traditional vendor-customer relationships sometimes evolve into business networks, through the sharing of risks and rewards. But completely new forms of networking with new stakeholders can also emerge.

However, collaborative business networks involve risks – and the level of risk varies according to the extent to which intellectual property is involved, the degree of control over the outputs and sheer complexity, among other factors. For example, some brands have been damaged by quality control problems in third-party production facilities or call centres. When a network becomes more complex, the brand-holder cedes some control over the final product or service, and its reputation is more exposed.

To marry these three elements – business objectives, stakeholders and risks – into a framework for collaborative networking, organisations need to be very clear about the various types of networks (both internal and external) that are possible. The following questions can help tease out the differences:

- Can the risks and rewards be shared among the existing value-chain partners – either product or service providers or customers?
- Would market-based networks provide better sourcing and distribution?
- Do networks offer opportunities to create new markets?
- What is the best way to use a peer network of firms, customers or the general public to enhance innovation, marketing or distribution?
- Can the rewards of collaborating with suppliers which are also competitors be balanced favourably against the risks?

The responses will vary, since different objectives require different kinds of collaborative network. Google, for example, has freely released the programming interface for its Google Earth software, thus enabling anyone to build satellite-imagery-based software. But the company fiercely guards its proprietary crown jewels – its search engine and ad-serving software algorithms – so that it can maintain its core competitive position and defend its revenue-generating businesses. Furthermore, collaboration is not appropriate for every objective in every company, industry and country. However, it is increasingly becoming an essential strategic tool for succeeding in the connected world.

To marry business objectives, stakeholders and risks into a framework for collaborative networking, organisations need to be very clear about the various types of networks that are possible

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In-depth CEO interviews

Rupert Stadler
Chairman of the Board of Management, AUDI AG

Networking plays a substantial role at Audi. We're a company with branches in 130 countries around the world. You can't make this business model work unless you have partners that you can trust. Obviously, we have wider performance expectations and different goals for subsidiaries that belong to us under company law. But we also have partners who are independent entrepreneurs. They, naturally, have their own interests. Here it is about harmonising their interests with our interests so that we can both realise our common goals.

The biggest opportunity of this networking model is that you make use of available skills and conserve your own resources. We assume that our local partners know their market much better than we do and can do a lot better than we could from Germany. As for risk, the big risk is mistrust. Obviously, in a collaborative relationship, you are completely dependent and at your partner's mercy. This means one has to think about how to manage everything. Are there enough alarm mechanisms in place to alert you when performance levels are not being met or if partners are not doing things the way you would want them done? But I think good networks and good partnerships are characterised by both parties continually moving forward to address these issues. One has to cultivate a culture of discussion. Friction is fine, if it leads to positive results.

I don't think this model will change because networks are all about people. People have to work closely together – they have to understand each other both intellectually and emotionally; they have to like each other. But what I do think we will see in the next few years is an enormous increase in speed. Globalisation forces us to make quick decisions. Quick decisions, if they are to be good decisions, need a high degree of trust. I think that is the core of any future approach.

Rafael del Pino
Chairman, Ferrovial Group

Business collaboration underpins our whole acquisition strategy. We're not here to 'make a quick buck' by merely making a financial investment in a target company.

Our approach is to actively manage the companies we acquire and work closely with local partners, banks, suppliers, governments and local staff to improve business practices by respecting the local context.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Akhil Gupta

Managing Director of Bharti Enterprises & Joint Managing Director of Bharti Airtel Limited

At Bharti Airtel, connectivity and collaboration are not just buzzwords. We have demonstrated connectivity and collaboration by adopting some unique outsourcing models in areas where it was totally unheard of – such as in network management and comprehensive IT management. For IT management, our strategic partner is IBM. For network management, our partners are Ericsson and Nokia. We pick the best vendors from across the world in order to offer the best service to our customers. And to my mind, that is globalisation.

We adjust our business models as circumstances dictate – for example, in response to changing technologies or changing consumer habits. The second fundamental is organisational structure – and questions about whether or not a particular function should be outsourced or not. Most companies tend to outsource only their non-core activities. We don't think that is the right approach. Instead, we ask three simple questions:

- Who has better domain knowledge for this function, Bharti Airtel or outside vendors?
- Who can extract better economies of scale?
- Who can attract better talent?

As we were growing, we realised that it would be very difficult for Bharti Airtel to cope with the ever-evolving IT environment. At one time, we were dealing with 60-70 different IT vendors. From these, we were able to identify one – IBM – which today takes care of all our IT needs. Now, we take all strategic decisions in consultation with IBM. By outsourcing IT, we were able to transform a large area of risk into an enormous opportunity. With fast-changing technology, a collaborative approach becomes all the more compelling. Our comprehensive arrangement with IBM takes care of any changes in technology and ensures that our IT infrastructure will be state-of-the art. For network technology we have similar agreements with Nokia and Ericsson. The expertise that they bring to the table is unmatched.

Lev Khasis
CEO, Chairman of the Management Board, X5 Retail Group N.V.

We are seeing more of collaboration as a way of doing business. In the past it was believed that suppliers and retailers were in some kind of antagonistic relationship because less profit for one meant a larger profit for the other. And it really was like that for a very long time, because pricing was based on the expenses principle. In other words, first there were manufacture expenses, manufacture profit, then logistics expenses, logistics profit, then retail expenses, then retail profit, and out of this the retail price was derived.

Today, because consumers in the 21st century have completely different access to information, the pyramid is actually turning upside down and starts not with the manufacturer but with the consumer. Consumers say, we know how much something should cost and this is the price we're going to pay. That's why in the retail trade we have to work in co-operation with our suppliers, so we can squeeze everything we need into the price a customer is willing to pay in order to cover our expenses and make a profit. And to do this we have to interact closely with a manufacturer as to the quality of goods, the packaging and logistics, because all of us in the supply chain are struggling with expenses. Any expenses we can consolidate create additional profit for both of us. That is why X5 is looking to develop new suppliers, new partners around the world. We need to be able to respond competitively to consumer expectations, which are becoming more and more demanding.

Such business networks help companies diversify their business and offer additional services that customers want. I believe this process will take place much more quickly in Russia than the rest of the world because developing markets are growing at such a pace that all of their processes are much more dynamic.

Jim Owens
Chairman and CEO, Caterpillar Inc.

We rolled out a new strategy in 2005. One of the things we clearly recognised is the value chain that wins in the global marketplace. We've always had a very strong collaborative partnering relationship with the Caterpillar worldwide dealer network. Those are independent businesses and they represent the marketing and product support arm of the company.

They're not our customers. They're our partners in delivering value to end-use customers of our products. So we've always had a very collaborative, hand-in-glove working relationship with them. We find that to achieve our strategy, we actually need to strengthen that [relationship] even further and get better alignment with our strategy. And do change management that involves both our marketing arm and the dealer network, and how they deliver value to our end-use customers. But also, in looking at our business model worldwide, we realised we had to do a much more extensive collaboration with key strategic suppliers to leverage their research and engineering for key component technologies into our products. To work with them on the just-in-time deliveries and the velocity-type elements of our strategy, which are critically important. So we actually had worldwide meetings with our dealer network and our supplier network to roll out our new strategy to them and ensure clarity as to their role in helping us deliver that strategy. And, of course, to explain what was in it for them because, as a value chain, we win together.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Ahmet Dördüncü
CEO, H.Ö. Sabancı Group A.Ş.

The essential ingredients in business success used to be cost cutting and quality improvement. While these factors are still important and necessary, they are not by themselves sufficient to ensure success today. Instead, success now also depends on continuous growth in productivity, which, in turn, relies on new technologies, global networks and innovative management methods. In this new environment, we believe that our most important task is to establish and enhance the collaborative systems which people use to work together, learn from one another and create organisational synergies. At Sabancı Group, our horizontal management platforms promote participation and collective thinking in the decision-making process.

We're moving away from hierarchical structures and replacing them with partnerships across our various businesses and geographies. When we have the right environment for knowledge-sharing and increased connectivity inside the company, we generate more and better ideas. At the same time, our companies are also encouraged to strengthen connections with external partners including customers, suppliers, retailers, educational institutions, non-governmental organisations, government entities and so on. This helps us to remove barriers within the value chain, reduce transaction costs and increase profitability. In our view, connecting and collaborating is key to gaining competitive advantage.

Above all else, successful collaboration requires that each party see the other as a true partner and their alliance as a win-win situation. They must also demonstrate mutual trust of and respect for each other's competencies, be willing to share fairly the benefits, burdens and risks inherent in the relationship, and have a clear understanding of how they will work together. Of course, these conditions are easy to cite but difficult to create in practice. Certainly, conflicts, disagreements or differences between parties that are left unresolved are likely to undermine collaborative relationships and make partnering a difficult and time-consuming process.

Public & Private

Regulations

Section highlights

Nearly two-thirds of CEOs – rising to more than three-quarters in some parts of Europe – factor the regulatory framework into their business decisions to 'a great extent'.

Taxation and the labour laws are the two areas of regulation CEOs would most like to see improved. However, there are significant national variations in opinion.

More than half of all CEOs support global harmonisation of critical elements of the regulatory regime.

Very few CEOs believe that their governments are reducing the regulatory burden or creating a business-friendly environment.

A study with the World Bank concludes that there is a win-win on both sides, if government simplifies tax systems, eases the compliance cost on businesses and reduces tax rates.

For the past two years, CEOs ranked ‘over-regulation’ as the leading threat to business growth. We therefore decided to examine the relationship between government and business more closely in this year’s survey. We focused on two particular issues: which areas of regulation CEOs view as priorities for improvement; and how they perceive the nature of their relations with government.

‘My perception is that, overall, regulation is increasing significantly, although many regulators claim to be trying to decrease bureaucracy… Despite this, I would characterise our relationship with government as a partnership rather than some distant association’

Rupert Stadler
Chairman of the Board of Management, AUDI AG

The results are striking. The global data provide an interesting snapshot of the areas where CEOs believe governments could most effectively reduce red tape. However, it is at the country level that the richness of the survey data can best be appreciated. By allowing the reader to compare the perceived strengths and weaknesses of the various regimes around the world, a compelling picture of the regulatory environment in which business operates emerges.

Of course, CEOs offer just one angle on the nature of the relationship between business and government. To hear the other side of the story, we conducted a series of parallel interviews with government officials and regulators. Excerpts from these interviews are reproduced later in this section.

Regulation matters

It is probably not surprising that 63% of CEOs factor the regulatory framework into their business decisions to ‘a great extent’. But the global average conceals some marked national variations. Spanish CEOs top the table; 90% take regulation into account when making business decisions. French (80%), Russian (80%) and Italian (78%) CEOs also pay close attention to the regulatory framework. Conversely, only 40% of Dutch and Korean CEOs place great weight on such issues when making business decisions (see figure 2.3.1).

What regulatory reforms do CEOs most want to see?

We asked CEOs which areas of regulation they believe it most important that governments should improve. As table 1 overleaf, shows, their two top priorities are taxation and labour laws. Again, however, there are some significant national differences. For example, while CEOs in Canada, China and Hong Kong concur with many of their global peers in putting changes to the tax regime at the top of the list, Canadian CEOs put labour law reforms in fifth place – behind improvements in environmental legislation, education and healthcare. CEOs in China and Hong Kong put greater emphasis on alterations in ‘capital controls’ and ‘law and enforcement’, which they rank second and third in order of importance, respectively. (A full breakdown of the findings for the top 15 territories in our survey is presented on pages 58-59.)

2.3.1

To what extent do you factor in the regulatory framework when making business decisions?

	Global	France	Germany	UK	Italy	Spain	Netherlands	Japan	China/ Hong Kong	Australia	India	Korea	US	Canada	Brazil	Russia
To a great extent	63%	80%	51%	52%	78%	90%	40%	45%	50%	64%	56%	40%	47%	53%	67%	80%
To some extent	25%	12%	41%	26%	6%	5%	30%	37%	35%	26%	30%	37%	31%	30%	17%	20%
To a minor extent	9%	8%	5%	15%	13%	–	20%	15%	12%	10%	7%	23%	17%	13%	13%	–
Not at all	2%	–	–	6%	–	–	7%	1%	–	–	7%	–	5%	3%	3%	–
Don’t know/ refused	1%	–	3%	1%	3%	5%	3%	2%	3%	–	–	–	–	1%	–	–
Base	1150	65	63	65	32	41	30	75	52	31	30	30	100	30	30	30

Q: To what extent do you factor in the regulatory framework when making business decisions? (Base: All respondents)

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

How do CEOs perceive the relations between government and business?

In order to understand what CEOs think about the relationship between government and business, we also asked to what extent they agree or disagree with six statements about the governments of the countries in which their headquarters are based.

CEOs 'agree' or 'agree strongly' that government should drive the convergence of global tax and regulatory frameworks. Over half (53%) of all respondents want their governments to harmonise critical elements of the regulatory regime. Only 17% oppose the idea of convergence. Clearly, the majority of CEOs see convergence in a positive light – as an opportunity to reduce the complexity of the regulations and cut costs rather than an additional burden.

However, there are some notable disparities among CEOs in different countries. More than 70% of CEOs in Italy, Brazil, India, Germany and Russia favour convergence, whereas fewer than 25% favour it in the UK, and over one-third of British CEOs, the highest margin by far (37%), 'disagree' or 'disagree strongly' with such harmonisation.

CEOs are evenly divided on whether their governments are aggressively changing the tax rules to raise additional revenues. Thirty-three percent believe that the rules are being changed to increase the tax take, while 37% disagree. CEOs in India (83%), Korea (50%) and Italy (50%) are most likely to think that their governments are increasing the tax burden. Conversely, over half of all CEOs in Australia, Canada, France, Germany, the Netherlands and the US think otherwise.

CEOs are almost evenly divided on whether the regulatory framework is designed on the assumption that companies will act without integrity. Twenty-nine percent of CEOs 'agree' or 'agree strongly' that governments assume companies will act in a completely self-interested fashion. Korean and Russian CEOs (57%) are particularly likely to take this view. However, 38% of CEOs do not believe that governments make such cynical prejudgements; French (67%) and Italian (59%) CEOs disagree most strongly that the regulatory framework is designed with potential wrongdoers in mind.

CEOs are doubtful that government supports business in stimulating innovation. Forty-one percent 'disagree' or 'disagree strongly' that governments provide much assistance in promoting innovation.

Italian (78%) and Indian (60%) CEOs are especially critical on this score. Only 28% of all CEOs – rising to 40% in Korea and France and 43% in Japan – 'agree' or 'agree strongly' that their governments nurture innovation.

Very few CEOs believe that their governments are creating a business-friendly environment. Only 26% of CEOs think that their governments are supportive; 40% disagree and 34% (increasing to 44% in Japan and 48% in France) are either undecided or prefer not to disclose their views. Indian CEOs (54%) are most likely to endorse their government for its business-friendly measures, whereas CEOs in Italy (81%), Korea (67%), the UK (66%) and Brazil (60%) are the most critical.

Most CEOs believe that their governments have not reduced the regulatory burden. Only 18% of all CEOs think that their governments have lightened the regulatory load, while 57% disagree. However, Asian CEOs are much more positive; 59% of those based in Japan and 53% of those based in India believe that the regulatory burden has declined. CEOs in the UK (91%), Italy (84%) and Brazil (83%), by contrast, disagree that the burden has shrunk.

> 'I believe that multi-stakeholder collaborations offer a practical solution to policy design, and the Joint Transfer Pricing Forum is an excellent example where different representatives of business together with experts from the EU Member States designed two codes of conduct in the area of transfer pricing. The format works well, but needs time to build trust between government and business, as such initiatives are new to both parties'
>
> László Kovács, European Commission, Commissioner for Taxation and Customs Union

Table 1

The priorities for government action

	France	Germany	UK	Italy	Spain	Netherlands	Japan	China/ Hong Kong	Australia	India	Korea	US	Canada	Brazil	Russia	Global
Labour laws	69%	57%	41%	29%	53%	42%	39%	22%	35%	52%	56%	30%	14%	51%	26%	42%
Tax regime	29%	47%	38%	56%	39%	29%	37%	31%	44%	27%	33%	33%	60%	61%	50%	39%
Education	23%	20%	28%	20%	20%	37%	9%	6%	17%	27%	1%	28%	22%	30%	10%	22%
Law and enforcement	16%	2%	7%	33%	15%	10%	11%	24%	4%	28%	30%	12%	8%	21%	33%	18%
Environmental legislation	19%	14%	14%	19%	18%	21%	20%	18%	31%	18%	26%	19%	31%	4%	9%	17%
Healthcare	7%	6%	19%	7%	3%	12%	10%	4%	13%	3%	1%	32%	20%	16%	9%	11%
Product safety regulation	16%	13%	7%	7%	14%	6%	21%	13%	18%	13%	22%	11%	10%	4%	8%	11%
Planning laws	2%	5%	21%	9%	17%	13%	7%	8%	12%	8%	20%	6%	–	7%	28%	10%
Capital controls	5%	7%	6%	8%	6%	17%	11%	28%	11%	13%	9%	9%	6%	–	12%	9%
Policy on foreign ownership	11%	10%	3%	–	6%	6%	8%	21%	5%	11%	–	3%	9%	4%	11%	8%
IPO/Listing requirement	–	4%	5%	6%	2%	4%	19%	10%	9%	–	2%	13%	12%	–	–	5%
Base	65	63	65	32	41	30	75	52	31	30	30	100	30	30	30	1150

Q: Which of the following areas in which the government could potentially improve, would you consider to be the most important area?

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Labour laws

It is perhaps not surprising that labour laws should share the top slot with taxation as areas which government could improve. People represent the biggest expense in most organisations, so any reduction in unnecessary labour costs or 'red tape' could generate significant economic benefits. Nevertheless, the emphasis CEOs place on labour law reforms varies substantially from one country to another. It is interesting to contrast, for example, the degree to which labour dominates French CEOs' agenda with, say, the results from Canada or China/Hong Kong, where labour laws do not rank highly on the list of areas for reform.

Tax regime

The CEOs from seven of the largest 15 countries in our survey rank taxation as the area they would most like to see their governments improve. CEOs in another six countries regard it as the second most important issue. The cost of complying with the various tax codes around the world is still high on the boardroom agenda. Again, however, there are numerous national variations. CEOs in Brazil, Canada, Italy and Russia regard reform of the tax rules as particularly important. For Indian and Dutch CEOs, it is a less pressing concern.

Education

Education – a building block for securing a competitive edge – is third on the list of issues CEOs target for government action. Dutch CEOs rank educational improvement even more highly, putting it a close second to labour law reforms. But CEOs in Asia (particularly Korea, China and Japan) are less likely to advocate government action in this area than their global peers.

Law and enforcement

Italian, Indian and Russian CEOs lead the world in calling for changes in law and order, which they place second in order of priority. CEOs in Korea, China and Hong Kong follow hard on their heels, believing it the third most important area for government action. Globally, law and enforcement lies in fourth position.

Environmental legislation

As environmental legislation is in its infancy in most territories, it is perhaps not surprising that improving such legislation is not generally seen as a priority by CEOs – it is ranked fifth globally. But Canadian and Australian CEOs place greater weight on this issue than their peers in other countries, ranking it in second and third place, respectively.

Healthcare

Healthcare reforms rank sixth on the global wish list – but second on the list of CEOs in the US. The costs US companies incur in funding healthcare for active and retired employees are often cited as a severe curb on their ability to compete internationally.

Product safety regulation

CEOs rate product safety regulation sixth in order of priority for government action. But Japanese and Australian CEOs rate it third and fourth in order of importance, respectively.

Planning laws

Russian CEOs place changes in planning laws third on the list of areas requiring government intervention. British CEOs place them fourth, marginally higher than healthcare.

Capital controls

Most CEOs are reasonably satisfied with their governments' existing capital control legislation, but Chinese CEOs regard it as the second most important issue for government action.

Policy on foreign ownership

Although most CEOs do not regard revisions of government policy on foreign ownership as a major concern, Chinese CEOs place it fifth on their list of priorities.

IPO/Listing requirements

Although at the bottom of the global list, IPO and listing requirements nudge up the CEO agenda in the US, where it is ranked as the sixth most important issue – possibly in reaction to the additional demands imposed with the introduction of the Sarbanes-Oxley Act in 2002.

PwC view

Recipe for effective collaboration

Business can play a much greater role in shaping regulation

National governments have to walk a fine line. They have to develop and implement regulations to achieve specific policy aims, often involving the correction of market failures, while avoiding unintended consequences – and they have to do this not just nationally, but within the context of other national governments and supranational entities, each with their own agendas. Given the scale of the task, it is perhaps not surprising to learn from our survey that their efforts are not always seen as business-friendly.

But do companies have to resign themselves to such a fate? Can business itself do more to improve the regulatory environment? And are governments and regulators open to such influence?

What are the options for business?

The way companies approach their relations with government(s) varies from the reactive to the strategic:

- The **responders** are reactive rather than proactive and regard regulations as necessities to be dealt with as they arise.
- The **integrators** are more strategic in their approach and seek to optimise their operations in the context of any given regulatory environment.
- The **shapers** try to get ahead of the curve by engaging with governments and regulators in every facet of the policy-making process, in order to improve the design of new regulations and ensure greater ease of compliance.

We contend that there is much greater potential for businesses to become shapers. The question is where and how should they focus their efforts – and whether their labours will be rewarded.

Is there a basis for collaboration?

To make effective long-term decisions, CEOs need a stable regulatory framework – a framework that will not strangle their operations with red tape and with which it is relatively easy to comply. To make effective long-term regulations, governments and regulators need to meet their policy objectives with a framework that is relatively simple to implement and which has limited exposure to the law of unintended consequences.

Mutual self-interest is a powerful starting point for successful collaboration. Given the objectives of all parties, it is clear that mutual self-interest often exists; by working together, government, regulators and companies can achieve a better outcome than they could in isolation.

But though many government officials and regulators are aware of the value of collaborative policy design and implementation, the survey findings – and our own experience both within the corporate community and from working with public officials – suggest that many CEOs have still to appreciate the influence they might have on the regulatory process. They fear that their input to the process will be ignored.

Do regulators listen?

In view of these concerns, we interviewed some of the world's most senior regulators and government officials to ask them about the value of business involvement in the policy-making process. The degree of consensus is notable: co-operation and dialogue are increasingly seen as the best way of ensuring the alignment of aims and incentives between business and government. Moreover, the commercial discipline business brings to the table is widely cited as a valuable addition to the process.

One example of a collaborative partnership comes from Australia. The Australian Taxation Office (ATO) explicitly recognises that involving business leaders more actively in the design of policy improves compliance. This is because it creates a better understanding of regulatory objectives and ensures that unintended consequences are designed out of policy at an early stage by those who have to implement it.

Under its '3 Cs' mantra of 'Consultation, Collaboration and Co-Design', the ATO seeks to engage business through some 50 consultative forums in helping to develop a 'fair and efficient administration of Australia's tax and superannuation systems'.[1]

Priorities for collaboration

In what areas, then, should business and government focus on working together? Our survey findings show that the tax regime and labour laws top the list of issues CEOs believe should be a priority for reform.

Taxation

The business community has long sought a constructive dialogue on tax policy with the tax authorities and government policy-makers. At a national level, tax policy issues are becoming ever more challenging. In some jurisdictions, tax is becoming increasingly complex in terms both of the legislation that has to be applied and of the administrative obligations required for compliance. In others, high rates of taxation are impeding the establishment and growth of new businesses.

However, today's business operates across multiple tax jurisdictions. The added complexity and cost this presents creates a pressing need for governments to improve the interface between the world's tax systems; promote a consistent approach that does not hinder the competitiveness of developed or developing economies; and ensure that key concerns such as climate change are adequately addressed. Collaboration – both among governments and between government and business – to help shape policy is essential here.

Business can also facilitate the process by being more transparent about the taxes it is required to pay. Helping government to understand the total tax contribution business makes is a good way of engaging in constructive dialogue and starting to build the relationships that are required to achieve positive change.

Labour laws

Some governments already actively solicit employers' views. However, we believe that here, too, business can play a greater part in influencing the development of labour law. When the UK government was developing its points-based migration system, for example, it produced consultation documents at each stage in the process and established an 'employer task force', as well as opening the debate to the general public. But few companies really took advantage of this willingness to collaborate; the number of responses to each consultation document was low.

The European Union, which plays a major role in shaping national legislation in the 27 member states, also adopts a consultative approach.

Nevertheless, there is arguably scope for more, and better, collaboration. A more integrated approach to producing legislation might, perhaps, achieve a better result.

Recipe for effective collaboration

In our view, there are a few basic principles that can help business, governments and regulators to collaborate effectively on regulation. These include:

- Taking a strategic, long-term view of the regulatory framework within which business operates;
- Creating an effective dialogue between the regulator and those regulated to ensure, at an early stage in the policy and law-making process, that the objectives of the legislator/regulator can be translated into practice, and unintended consequences can be reduced or completely avoided;
- Recognising that the languages of business and regulation can be very different – and making the effort to understand those differences;
- Allocating time and resources to collaborating on the co-design of regulations; and
- Investing in the development of the personal relationships and mutual trust that are necessary to achieve shared objectives.

1 Michael D'Ascenzo, Australian Commissioner of Taxation, in a speech to the National Institute of Accountants, Canberra, on 28 November 2007.

Is collaboration the only model?

Paul Boyle, CEO of the Financial Reporting Council (UK), believes that, while collaboration between regulators is a cornerstone of effective international regulation, there is also a legitimate role for 'regulatory competition' or 'arbitrage', where regulators learn lessons from their counterparts in other countries or industries and adjust their application to their own domestic environments.

Such arbitrage is currently evident, for instance, among a number of regulators seeking to attract new securities listings to their capital markets through the introduction of cost-effective listing requirements. Determining which areas of regulation are best left to competitive forces and which require collaboration is likely to become increasingly important, as globalisation progresses.

Regulatory competition has the potential to reduce or eliminate regulations that do not provide commensurate benefits. However, it places a burden on regulators to ensure that competition does not lead to a 'race to the bottom' that deprives the market participants of necessary protections. Fortunately, competition need not, and does not always, do this. For example, companies which qualify to list on Brazil's Nuevo Mercado adhere to higher standards of governance than do other listed companies in Brazil, and to date have provided higher returns.

Simple, equitable tax systems can benefit government and business alike

Paying Taxes 2008, a study from PwC and the World Bank,[1] which facilitates the comparison of tax systems in 178 economies worldwide, ranking each economy according to the relative ease of paying taxes, uses three indicators: the number of tax payments made, the time it takes to comply and the cost of taxes, in order to determine an 'overall ease of paying taxes' ranking for a standard modest-sized company in each economy.

A number of variations in tax systems around the world are highlighted, including:

- For tax payments, Sweden is the second simplest country in the world for compliance, requiring only two tax payments a year, while Romania requires 96.
- United Arab Emirates' total tax rate is only 14.4%, while Gambia's is 286.7%. Not surprisingly, they rank on the top and bottom rungs, respectively, for the total tax rate and in the top and bottom 10 for overall ease of paying taxes.
- Taking into account all economies participating in the study, a company spends on average 322 hours a year complying with tax regulations. However, in Brazil, this balloons to 2,600 hours. In the Maldives, it shrinks to less than an hour.

The study shows that when considering tax reform, governments need to look across all the taxes that a company pays, as corporate income taxes are only part of the story.

Paying Taxes uses the methodology of the PwC Total Tax Contribution framework, which was developed to enable companies to measure and communicate their tax contribution in a consistent and easily understandable manner. Generating total tax information is proving to be of great interest to governments in terms of having access to data that is not otherwise available, thereby informing the process of policy formation and facilitating a more constructive conversation with business as part of this process.

It also highlights the need for governments to ensure the effectiveness of the tax systems they implement, and for companies to appreciate and be more transparent in communicating their total tax contribution. More transparency and better information to assist with dialogue between government and business is key in helping to build trust between the stakeholders and, ultimately, to build confidence and willingness to invest.

The study concludes that there is a win-win on both sides, if government simplifies tax systems, eases the compliance cost on businesses and reduces tax rates. Economies with lower corporate tax burdens draw more new businesses into their markets, and tax reforms that simplify their tax systems and make it easier for firms to pay taxes can increase public revenues by broadening the tax base. Businesses pay more readily if ***all*** the burdens of tax are seen to be equitably shared. In particular, tax reform to deal with restrictive tax policies in poorer nations can generate economic momentum, which can help to sustain ongoing development. In short, looking at tax, some of the most effective government-business relationships appear to begin by ensuring that complexity is kept to a minimum.

1 *Paying Taxes 2008: The global picture*, November 2007

In-depth CEO interviews

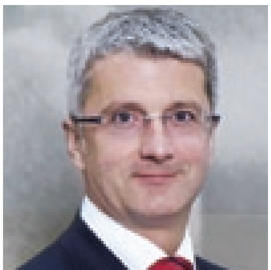
Jim Owens
Chairman and CEO, Caterpillar Inc.

If you got the CEOs of the top 20 US manufacturing companies together, you'd get a concurrence that the risk of the United States and the [rest of the] world turning inward in a more protectionist way, following years of steady, progressive trade liberalisation, is the biggest single risk we have. There's tremendous popular sentiment that is concerned about globalisation and sees the solution as turning inward to protectionism – walls, not bridges.

That's the most important message for forums like Davos. We've got to think about how we can do a better job of working with the public at large, to help them understand the benefits of global engagement and international competition, and how these can benefit and lift everyone.

If the business community and the political leadership don't do a better job of articulating that very important story in the near-term future, instead of this steady move towards a more open, free-trading world, we're going to turn towards protectionism, which will be very detrimental to human welfare in our world.

I'm working very hard to spread that message. That's one of the reasons I wanted to do this interview. This is an influential group with opportunities to touch a lot of people in their home communities. If our business leadership doesn't step up to the bar and take on this challenge, we're going to find ourselves slipping backwards. The world hasn't tried protectionism since the 1930s. It didn't work very well [then]. We don't want to try it again.



Rupert Stadler
Chairman of the Board of Management, AUDI AG

Our decision-making process is affected by regulation, but only up to a point. There is a lot of bureaucracy, but this is just something we deal with in the course of doing business. Clearly, we are influenced by external regulation, whether tax laws or other laws. Almost everywhere you look you can find some regulation where you have to ask yourself, 'what value is this rule adding?'.

My perception is that, overall, regulation is increasing significantly, although many regulators claim to be trying to decrease bureaucracy. You see that dynamic in the marginal reduction of local laws even as new European laws are being created.

Despite this, I would characterise our relationship with government as a partnership rather than some distant association. All the discussions have a similar aim of trying to understand the position of each party. We are all working in the same direction.

What I would really like to see, though, would be uniform standards. When it comes to sales, taxes, environmental standards and so on, the same rules should apply to everybody. Nowadays, we have such complicated regulations for entry into the markets in the US, Japan, China, Singapore, to name but a few, that one gets the impression that some countries are sealing themselves off from competition.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

In-depth CEO interviews

Yang Chao
Chairman,
China Life Insurance Company Limited

At university, I majored in law. So, abiding by the law is a core principle for me in both my professional and private lives. China's social reform and open-door policy has been very successful and provided us with a very desirable public administrative environment and a very good regulatory environment. For me, the objective of regulation is to ensure the healthy, rapid and methodical development of China's insurance industry. Therefore I take the lead in following and abiding by the policies, regulations and requirements stipulated by the regulatory department, and I also require the whole of the organisation to follow them strictly too. For an insurance company, trustworthiness is its capital, so operating our businesses in compliance with laws and regulations is a must for us. Development is necessary, but compliance, lawful operations and a good understanding of the law are obligatory.

Some say that regulation is like a cat, while those subject to it are mice. I don't think that is the case in China. I think there is communication and proper liaison. We report to the China Insurance Regulatory Commission, the relevant functional departments of the government and other regulatory authorities. At the same time, the regulators also come to us to learn more about our situation and actual conditions. Therefore, the relationship is complementary and helpful to our development.

Roberto Setubal
CEO, Banco Itaú

The dream of everyone in business is to be completely free of any kind of regulation. But in the modern world, this is obviously impossible. I naturally accept regulatory controls and am less disturbed by them than the majority of my colleagues, because regulation is necessary to avoid abuses.

Clearly, there is no business sector that is subject to as much regulation as banking – and in my opinion that is perfectly justifiable. But, from a competitive perspective, what bothers me is that while we are subject to local regulation here in Brazil, our foreign competitors are subject to a different regulation.

Akhil Gupta
Managing Director of Bharti Enterprises & Joint Managing Director of Bharti Airtel Limited

In an industry like telecom, where your fundamental raw material – spectrum bandwidth – is in scarce supply and in government control, regulation plays a significant role. In this industry, players make investments based on long-term assumptions about policy matters. If there is a change in policy, you might have to adopt radical corrective measures. Then again, it's not always possible to do that.

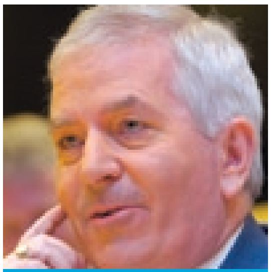
However, we have a good system of consultation between the players and the policy-makers. So there is no need to try to influence the government. All we need is an environment in which our voice can be heard. In policy matters, there has to be a level playing field and some consistency. Security is one such area. We don't mind the government enacting restrictive regulations in order to safeguard security. But those restrictions should apply to all. The telecom industry needs stable and fair policies – nothing else.

Jeremy Sutcliffe
CEO, Sims Group Limited

Regulation is both a net positive and a negative. One of our biggest bugbears on the negative side is, and I come back to my point that we in the recycling industry are the solution not the problem, we are minimising material entering landfill, yet every year governments around the world are increasing the landfill cost.

Merely to put the small portion of the product which we can't recycle into landfill is now attracting enormous tariffs around the world, particularly in Australia, New Zealand and then Europe. Government landfill levies are escalating at a terrible rate, which then makes recycling less economic; it then makes us less inclined to collect; this runs the risk of more material being abandoned in places where you and I wouldn't like to see it abandoned. So that's the negative side of regulation. The positive side of regulation is that, with a big proviso, it can help to eliminate what I would call the rogue operators. We are prepared to operate to best environmental standards and to make the investment to comply with regulation as it increases. But our greatest grievance is that having introduced legislation that we comply with, governments then do not police it or enforce it against the rogue operators. We're quite happy to put in the investment, but then it drives us crazy to see a whole raft of operators in the sector getting away with blue murder, ignoring the regulations.

In-depth interviews with regulators



Charlie McCreevy
European Commissioner for the Internal Market and Services

I prefer market-driven solutions wherever possible. I am convinced that business knows best how to do things in the most efficient way. However, we have to remember that regulatory intervention at the Community level is often necessary and justified.

The Commission has to react when there is a market failure, and I have not shied away from that. The major issue is to strike the right balance of powers and accountability and to avoid potential conflicts of interest between the private and public sector. I believe international co-operation and regulatory dialogues are the best way to reduce risks while opening new market opportunities. Co-operation is crucial – to open up markets, to promote convergent regulation and to ensure that EU regulatory principles are accepted by third countries. The international co-operation on financial supervision and stability issues within G-10 is of major importance, especially in the light of the recent financial crisis. So are our financial regulatory dialogues with third countries – US, Japan, China, India, Russia. We already have concrete achievements there: the solution found with US SEC on deregistration or the recent agreement to remove the requirement for IFRS accounts to reconcile to US GAAP. Similar co-operation should also be possible in other areas, and with other partners. The mutual recognition of securities between EU and US, mutual reliance on audit oversight systems or improving accounting valuation techniques of illiquid assets are some of the issues we need to discuss in 2008. The rewards to companies and investors could be significant.

Jeannot Krecké
Minister of the Economy and Foreign Trade, Grand-Duchy of Luxembourg

Government exists to create the conditions for society to prosper. My main motivation is to create a framework that is conducive to the development of the economy while maintaining high social standards. Private-sector players know best what they need to flourish, so they are regularly consulted.

The government engages with the private sector, first through the consultative process that is part of our law-making procedure; second, by actively consulting with business and involving private-sector experts in the very early stages of policy development; and, third, by having an approachable administration that is easily accessible to companies. The collected feedback from these activities constitutes a unique resource, helping to first shape and then implement policy.

However, it is sometimes difficult to engage the private sector in a project once there is a cost involved. Everybody wants to have a say on policy, but nobody wants to be first when it comes to joining the, sometimes strenuous, effort to make a venture successful. It is very important to communicate and explain, to convince. If people are convinced that it is in their direct interest to actively participate in the process and thus have a role to play in decision-making, they can also be won over to provide financial or labour input. Business and government do not exist in isolation. They stimulate, discuss and even quarrel with each other. Their goal is the same, though: to generate growth and prosperity. I think that business leaders are very much aware of their role to contribute to society, be it on a local level or on a global scale. The times of the 'robber barons' belong to the past – at least as far as publicly-listed multinational companies are concerned.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Achim Steiner
UN Under-Secretary General, UN Environment Programme

Corporations are increasingly being viewed as publicly-accountable players even though they are owned by shareholders. Their activities and responses are having an impact in the public domain, and I certainly believe that reporting formats such as the carbon disclosure issue are going to maintain momentum, because corporations have a vested interest in terms of being able to differentiate themselves as players. Moreover, if it is not done voluntarily by the corporate sector, it will come through stricter and stricter reporting guidelines.

The relationship between the private sector and the political sector can either be part of the problem or part of the solution. We are looking to identify players that recognise the challenge that exists in terms of environmental degradation of the planet and see their future business as being inextricably linked to addressing those issues. So we distinguish between companies who first of all recognise the problem and also identify that problem as being part of their corporate strategy in the long-term. We select businesses that we work with from that perspective. The business world, the markets, are a crucial part of changing course.

The private sector is increasingly involved in our work. We have an extensive number of round tables that we conduct, for example, with partners in industry – in construction, tourism and financial services. Sometimes, we are involved in dialogue with the top players on the climate-change issue. We also co-operate on specific projects and increasingly in co-financing initiatives.

The success of these ventures depends on understanding each other's respective roles and constraints. Each side must understand what they can do and what the other side cannot do – that's very important. Second, the political context can influence the outcome. The business world often only acts as a result of public or political pressure, when essentially an issue becomes a risk rather than simply the right thing to do. Sometimes, there is a certain naivety on the part of business in terms of the responsibility to invest in those processes, and also a tendency to treat the engagement of public sector as a free public good. On the public side there is often a lack of understanding of how business is constrained by shareholder profitability margins and market dynamics. But I think the more convergence exists between the public and private sector views of the future and the market, the greater the potential for working in a collaborative mode.

'The business world often only acts as a result of public or political pressure, when essentially an issue becomes a risk rather than simply the right thing to do'

Achim Steiner, UN Under-Secretary General, UN Environment Programme

In-depth interviews with regulators

Jeffrey Owens
Director, Centre for Tax Policy and Administration, OECD

One of the broad challenges that we face at a global level is how to maintain political support for globalisation. How do you convince the average man in the street that he is benefiting from globalisation when he may be seeing his neighbours losing jobs through it? It's going to demand a lot of political courage to get the message across that, in the long-term, all citizens, both in developing countries and in developed countries, benefit from open markets, from more trade, more cross-border activities. So far, that message is not being heard. There needs to be more political thought put into how we actually get a fairer sharing of the costs and the benefits of globalisation.

We need to look at how we deal with some of the losers from globalisation, whether in terms of segments of society within a particular country, low-income groups or people working in traditional industries that are being displaced. And we need to focus on getting a fairer sharing of costs and benefits between countries, and particularly developing countries. Some of them still need to be convinced that the painful structural changes they have to undertake to adapt to this new environment are in their long-term interests. That debate is playing out very much at the moment in India.

So the challenge is for politicians to go out there and, on the basis of facts, show people that the benefits of globalisation in the long run outweigh the costs. And there is perhaps another challenge: with the liberalisation of financial markets and the removal of exchange controls, and the controls on inward or outward investment, suddenly there is only one financial market, a global financial market. How do you deal with that? How do you deal with some of the downsides? How do you deal with the potential for abuse? And you can see this potential in the areas of money-laundering, financing terrorism, corporate scandal – Enron, for example – and you can see it in the area of tax. In a sense all of these behavioural patterns are the 'dark side' of globalisation, the downside of the process of liberalisation, and they need to be addressed.

'So the challenge is for politicians to go out there and, on the basis of facts, show people that the benefits of globalisation in the long run outweigh the costs'

Jeffrey Owens, Director, Centre for Tax Policy and Administration, OECD

Paul Boyle
Chief Executive, Financial Reporting Council, UK

People sometimes talk about regulatory arbitrage as if it's a dirty word. I'm not sure I agree with that. Arbitrage is part of the thing that makes markets work well, and if you don't agree with it then you are agreeing that there should be a sort of regulatory monopoly, which implies that a regulator would have a monopoly of wisdom. And it's highly unlikely that any one regulatory organisation would have a monopoly of wisdom for all time. So I think…some degree of regulatory competition is a good thing – provided you can avoid the 'lowest common denominator' scenario.

However, the evidence suggests that there is a strong incentive for regulators to avoid such a lowest common denominator situation. You could have, for example, a very lax set of arrangements for standards of child protection in employment legislation. However, there's no evidence that economies that base themselves on that idea are the ones that are doing best in the world. In fact, there's a lot of backlash from consumers and from companies about operating in those environments.

From the perspective of the Financial Reporting Council, I see no evidence that having a lax regime of accounting standards is beneficial for a capital market, because eventually investors lose confidence in that market while companies would rather not be associated with it. So I think the 'lowest common denominator' fears are slightly overdone. While some degree of regulatory competition is not a bad thing, though, it's also important that you have regulatory co-operation. There's no reason why those two should be inconsistent because even regulators that operate different regimes have plenty of incentives to co-operate with each other.

'While some degree of regulatory competition is not a bad thing, ...it's also important that you have regulatory co-operation. There's no reason why those two should be inconsistent because even regulators that operate different regimes have plenty of incentives to co-operate with each other'

Paul Boyle, Chief Executive, Financial Reporting Council, UK

In-depth interviews with regulators

Sir John Elvidge KCB

Permanent Secretary, The Scottish Government

I believe that we are in danger of leaning towards over-regulation at the moment. And I suppose that's not an entirely personal view in that both the UK government and the Scottish government have programmes of deregulation. But believing in clearing away the clutter of the past isn't always the same thing as having an instinct to look for market solutions to new challenges rather than regulatory solutions. I still think we are in a period where the public pressure is often to reach for regulatory solutions. So I think we are in a constant danger of leaning slightly too much towards regulation.

A realistic assessment of risk is critical to determining the right balance. The key guiding principle is that both the existence of regulation and the degree of regulation should be proportionate to risk. And I suppose a second principle that may just be a different way of articulating the first, is that regulation should always take the lightest form that is reasonable in the context of a particular objective. I also think that a built-in regular review of regulation is an important principle, so that we don't get the simple accretion of regulation and that we don't fail to observe that the evidence of risk has changed over time.

Where there are defined objectives, it isn't difficult to secure the involvement and co-operation of the private sector, both in the context of regulation and more generally. I believe that proceeding without multi-stakeholder engagement would be an irresponsible approach to risk management.

In any collaboration, there is certainly a risk of failure to appreciate properly the criteria that a solution has to meet for each side. If either side in the collaboration attaches insufficient weight to what are key criteria for the other partner in the collaboration, then there's a very substantial risk that the collaboration won't work.

'Where there are defined objectives, it isn't difficult to secure the involvement and co-operation of the private sector, both in the context of regulation and more generally'

Sir John Elvidge KCB, Permanent Secretary, The Scottish Government

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Connect
&
Succeed

Final thoughts

www.pwc.com/ceosurvey

Finding success in a connected world

The next decade could prove to be an extraordinary era for business and society – a period in which companies and governments work together to produce an environment capable of supporting wealth creation *and* social cohesion around the globe. The world is connected as it has never been before, and the power of collaboration is beginning to emerge.

Akhil Gupta
Managing Director of Bharti Enterprises & Joint Managing Director of Bharti Airtel Limited

I feel a CEO needs to take decisions based on both intuition and information. While you do need to have the capability to 'see around corners', that trait is more critical when kick-starting projects. But you can't live your life on intuitions and gut-feelings. Once a project is started, I think decisions have to be based on analysis and hard facts. It is dangerous to do business based on perceptions or intuitions.

These are extracts from in-depth interviews available in full at www.pwc.com/ceosurvey

Technological advances have already made networked computing ubiquitous, and created an infrastructure that can support collaboration across distance and time. And, as our survey shows, globalisation is gradually eliminating many of the barriers to the movement of ideas, capital, labour, products and services. As a result of these changes, knowledge is migrating from the province of the privileged few into a universal resource.

The challenge is to ensure that this momentum continues. But as the world alters, more divisive forces – including national and institutional rivalries – are also emerging. The task for the CEOs of the world's largest companies and political leaders of all persuasions is to understand the vital role they can *jointly* play in shaping the future, in a way no past generations could even imagine, let alone achieve.

From PwC's perspective, working with businesses and governments worldwide, there are three key areas in which collaboration is essential.

The first is the management of global risks. The mixture of confidence and wariness exhibited by many CEOs in emerging markets is a sign that the shift in the world's economic axis may well be accompanied by periods of significant volatility. As consumers in developing countries become more affluent, the pressure on resources and impact on the environment will also increase.

The stakes are tremendous. It is now widely thought, for example, that climate change could have a devastating effect on numerous natural and human systems, including ecosystems, economies and human settlements. But there is currently no 'blueprint' to guide us through the profound adjustments that will be required and ensure that we do not get mired in proliferating regulations and measurement systems.

Moreover, time is not on our side. However, effective public-private collaboration at the highest level could make a major difference in both the short and long term. One cause for optimism on this score is the fact that some of the world's biggest corporations are already collaborating and calling for greater government involvement in developing solutions.

The second key concern – market regulation – has surfaced again in recent months, as a result of the fallout from the credit crunch. Major market corrections have occurred on previous occasions, of course. But one of the most notable features of the latest upheaval is the extent to which regulators in key markets are collaborating in an effort to manage the situation, with support from some large financial institutions.

This suggests that new collaborative mechanisms may be the best way of maintaining the market stability society expects. It also raises bigger questions – such as, what is the optimal balance between the 'invisible hand' of a free market and government intervention? However, market regulation is by no means the only form of regulation about which CEOs are concerned. Many believe that an improved interface between national tax regimes and reduced tax complexity should be included within government's main priorities. Here, too, transparency and collaboration between business and government are critical to ensure that any proposed changes can achieve the objectives of both parties.

The third area in which collaboration can play a vital role is innovation. This will require that CEOs choose the right business combinations, network models and partners, since not all projects lend themselves to the same approach – or necessarily, indeed, to collaboration of any kind. It also requires that CEOs acquire and use their talent more effectively, for it is people who produce new ideas, discoveries and inventions; people who devise and implement new processes and systems; people who make change happen. Organisational structures and corporate cultures that tap into the power of internal and external networking will be essential.

It is easy to forget that the world's largest companies dwarf many sovereign states and are responsible for shaping the lives of millions of people every day – typically, with considerable integrity and a growing sense of corporate responsibility. Both the companies themselves and their wider stakeholders need to recognise and harness the value they can bring to the development of the future business world and the societies in which they operate. Collaboration – within companies, among companies and between the public and private sectors – is essential, for the challenges are simply too huge and the opportunities to make a quantum leap in humanity's progress too great to be ignored.

Lev Khasis

CEO, Chairman of the Management Board, X5 Retail Group N.V.

Do you know what I worry about? Over the last few years real purchasing power in Russia has grown enormously. At the same time, for the vast majority of businesses, there has been no increase in labour productivity or the efficiency of that business. In the end, this will lead to inflation. People tend to think: we want to live better not because we are working better or because the results are better, but because we simply want to live better. This is creating enormous expenses in the state sector which, to my mind, is often inefficient.

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'If the business community and the political leadership don't do a better job of articulating that very important story [the benefits of globalisation] in the near-term future, instead of this steady move towards a more open, free-trading world, we're going to turn towards protectionism, which will be very detrimental to human welfare in our world'

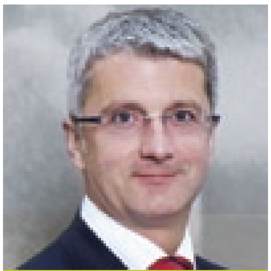
Jim Owens, Chairman and CEO, Caterpillar Inc.

Final thoughts

Li Feng Hua
Chairman, China Eastern Airline

Co-operation can never replace competition. Competition is the core dynamic of every market economy. Competition promotes the effective operations of enterprises, and brings better products to consumers.

A market without competition will ultimately degrade consumer benefits, and, in the long run, will cause harm to an enterprise. The co-operative relationships we have now simply provide us with the means to leverage our strengths, compensate for our weaknesses and offer a broader line of products to our customers.



Rupert Stadler
Chairman of the Board of Management, AUDI AG

We have to deal with growth in a responsible way. What should we be doing now so that we can pass along an inhabitable planet for our children and grandchildren? This is something we need to think about every day as we run our businesses because what we do as leaders today will influence the next 10 to 15 years.

Another matter which we can't influence so much ourselves as business people, but one which does concern me is: do we have enough trust in one another to prevent another war? As we've seen in our own hemisphere, without war, we have made immeasurable progress over the last 50 to 60 years. Elsewhere, we can see what damage war can cause. If we can, little by little, bring prosperity to many people, while managing the earth's resources in a responsible way, this will lead to sustainable growth and satisfaction for all.

Jeannot Krecké
Minister of the Economy and Foreign Trade, Grand-Duchy of Luxembourg

For successful collaboration, there has to be a direct involvement in defining the objectives and the work that is done has to be perceived to be in the interest of all participating parties. Once it is understood that 'together we are stronger', all other details fall into place.

Overall direction must, on the other hand, be compatible with the government's policy. Because of its political responsibility, the government or a government agency often takes a leadership role in such a venture. This must not be perceived as an attempt to control the other partners, but the recognition of the fact that, later on, only the Minister will have to answer to the voters. But, generally, the government's job is more of a co–ordinating role, channelling the different approaches or interests into a coherent effort.

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Roberto Setubal
CEO, Banco Itaú

Of course, when we are in the process of developing a new business, we think about the long term. We don't dwell excessively on the immediate-term opportunity of owning a little bit more or less, because if we do this we won't be building a foundation for sustained growth. With our customers, Itaú aims to establish long-term relationships, not opportunistic ones. Take, for example, the credit business. Five or 10 years ago, the way we handled clients who were unable to meet their debts was quite different from the way it is now. Then, it was more confrontational and frequently led to litigation. We weren't concerned so much with creating the conditions that could enable the customer to recover financially, such as granting longer repayment periods. Today, that's all changed. We are completely integrated within Brazilian society and cannot ignore the consequences of our actions.

For example, on the outskirts of São Paulo, where the bank is very well integrated into the community, we have special social programmes in place. We began by establishing one-off initiatives, which then evolved into a broader programme. Before long, we decided to set up a charitable foundation to co-ordinate all our social programmes and demonstrate our long-term commitment to the community. Our major focus is education. One of our programmes, which I personally developed, is called Writing the Future, and aims to create incentives to help children learn how to read and write – an essential tool for exercising one's citizenship. There is a tremendous difference between becoming merely literate and the real capacity to read a text, understand it, and write about it. In this sense, we aim to encourage the use of language. This will have an impact not only on our business activities but on Brazilian society as a whole. The basis of a working democracy is an informed citizenry that understands the issues and knows what they are voting for. I believe that many of the problems we see in Brazil – politicians who flagrantly disobey laws and are then re-elected, for example – are ultimately linked to ignorance, because many Brazilians do not possess the level of literacy required to make informed judgements.

'Five or 10 years ago… we weren't concerned so much with creating the conditions that could enable the customer to recover financially, such as granting longer repayment periods. Today, that's all changed. We are completely integrated within Brazilian society and cannot ignore the consequences of our actions'

Roberto Setubal, CEO, Banco Itaú

Success in a connected world

The responses to our latest survey and the many in-depth conversations we have conducted with business leaders suggest that they are beginning to ask themselves a number of questions about how to succeed in a connected world. These questions obviously vary, depending on the nature, geographic location, commercial focus and strategic direction of the organisations CEOs head. But they can be clustered into six areas of business activity.

1. Achieving growth

- How can I make sense of the huge array of networked business models in use today? How can I select the ones that will enable my organisation to compete and win?
- How can I analyse my company's key strengths and those of potential network partners in order to identify the best partners?
- How can I work with these partners to create a stable environment in which we can all realise our investments and develop a sustainable competitive advantage?
- How can I manage the boundaries between collaboration and competition when some of my business partners are also competitors?
- What more can I do to tap the power of customers in order to generate 'word of mouth' demand or contribute to the development of my company's products and services?
- Are territory strategies still important, or has connectivity created a nearly borderless marketplace?
- Am I using the sustainability agenda to provide growth stimulus in the organisation?

2. Improving operations

- How can I ensure that we capture and share information internally and across the value chain, while protecting proprietary knowledge?
- How can I achieve the advantages of a flexible, globally distributed supply network without introducing unacceptable levels of risk?
- How resilient is my company's global supply chain to environmental fluctuations, political disruptions, product contamination or commodity shortages?
- How long will the current centres for low-cost production of goods and services maintain their economic advantages?

3. Managing people

- How can collaboration help me access talent from a wider pool, given today's demographic challenges? Can emerging markets help deliver the talent that is needed?
- How should I manage and motivate an increasingly diverse, mobile and internationally distributed workforce?
- Where can I find and develop people with the management skills my company needs – a combination of technical expertise and business acumen, communications skills and leadership capabilities?
- Will today's 'Web 2.0' technologies finally make it possible to foster informal employee and partner networks to maximise the use of knowledge?
- Am I creating the culture and personal mind sets to deal with the complexity of 'sustainable' decision-making?

4. Managing risk

- How can I ensure that my organisation is taking the right risks and exploiting the right commercial opportunities in a much more volatile world?
- How can I establish a culture in which every employee takes decisions that reflect our business strategy and risk appetite?
- How can I manage the risks associated with participating in business networks, and the increasing number of risks that are outside my direct control?
- How can I be sure that the risk-management systems we have introduced are effective?
- How can I integrate risk management into our strategic scenario-planning?

5. Managing regulations

- How can I ensure that my organisation complies with the regulatory requirements of different countries as effectively as possible? Are some of these regulations likely to become global in scope?
- How will the increasing prevalence of business networks change the regulatory environment and the regulations we need?
- How can I establish a productive dialogue with government officials and regulators in the areas of regulation that most affect my organisation?
- Are there other companies, NGOs, consumer groups or other bodies with which I should be collaborating to improve the regulation of key areas of concern?

6. Reporting to stakeholders

- Do I need to adopt a different approach to corporate reporting with the emergence of new stakeholders, such as private equity firms and sovereign wealth funds?
- How should I respond to the increasing focus on principles-based reporting models, where the exercise of management judgement is critical?
- How does our organisation compare with others in terms of its total tax contribution, employment practices, community involvement and supply-chain integrity?
- How should I address our output of carbon emissions, waste management and use of resources, in an era when corporate footprints are coming under increasing scrutiny by customers and employees?

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