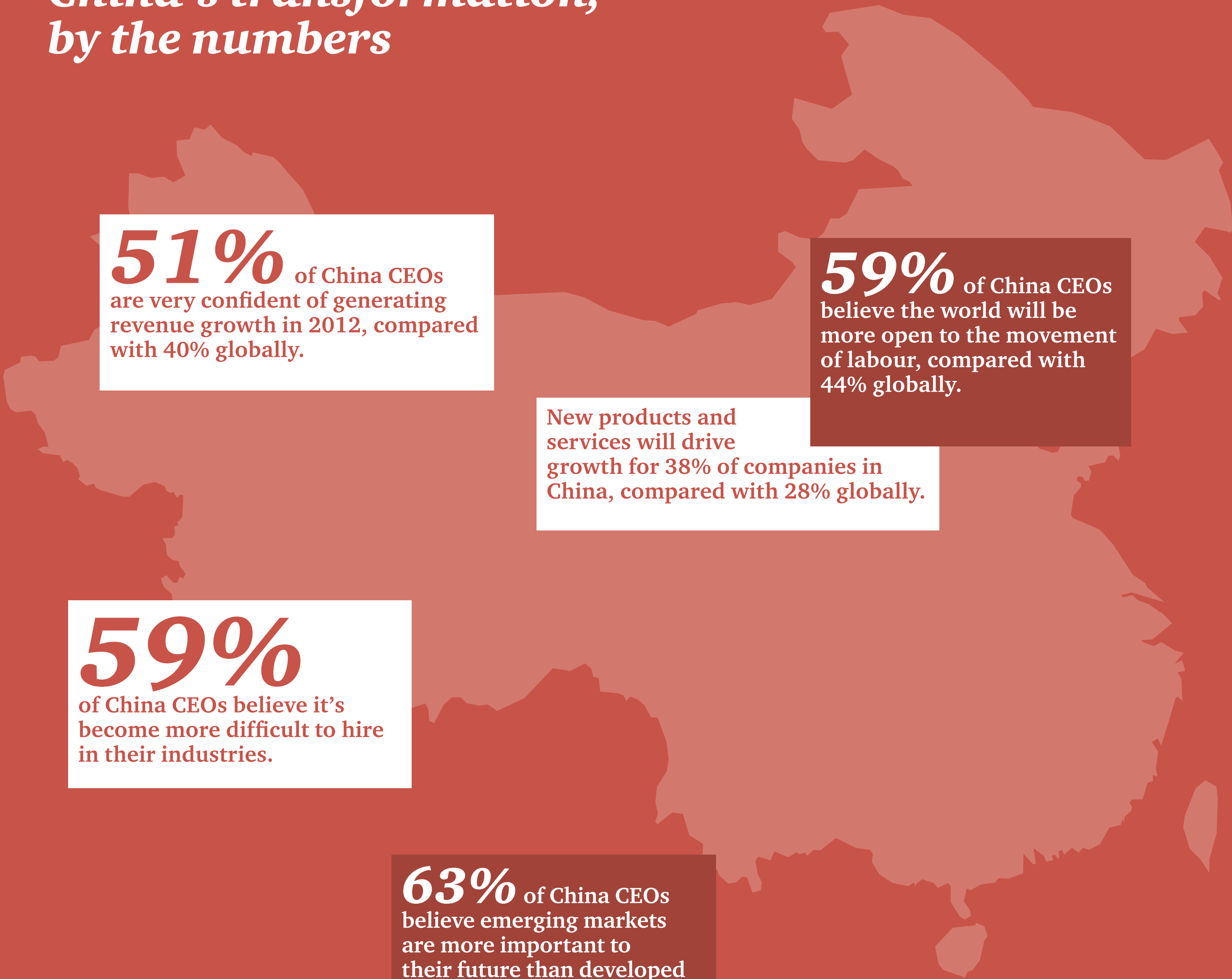
China: transforming value for growth

15th Annual Global CEO Survey 2012

The view from China

普华永道

China's transformation, by the numbers



51% of China CEOs are very confident of generating revenue growth in 2012, compared with 40% globally.

59% of China CEOs believe the world will be more open to the movement of labour, compared with 44% globally.

New products and services will drive growth for 38% of companies in China, compared with 28% globally.

59% of China CEOs believe it's become more difficult to hire in their industries.

63% of China CEOs believe emerging markets are more important to their future than developed markets.

87% of companies in China plan to change their innovation and R&D capacity in 2012.

For more information, visit www.pwc.com/ceosurvey

Foreword

As the global economy deals with the uncertainty of a US recovery and a potentially worsening Eurozone debt crisis, China CEOs remain relatively optimistic about delivering growth over the next 12 months.

The still-promising economic outlook and strong potential for internally generated growth in the world's fastest-growing major economy provides Chinese business leaders with some relief and assurance.

Government policy — outlined in China's 12th Five-Year Plan — is also supporting the business agenda as China transitions from a production-export market to a domestic-consumption driven economy.

But in the current environment, nothing is certain — not even for China. Strong expectations are being placed on China by CEOs in other markets seeking growth in a sluggish global environment. Business leaders from around the world — from the US and Europe to Australia and ASEAN — see China as the market that offers them the greatest opportunity. Competition will intensify as global companies look to further increase their presence in the world's most populous nation. More than ever, Chinese companies will need to be agile and adaptive to the dynamic marketplace to sustain growth.

To meet this challenge, China CEOs are assembling building blocks that will support their long-term competitiveness. They're telling us, for example, that they are even more focused on developing their people and securing the right talent to strengthen their organisation's capabilities.

With major developed economies in a state of flux, China CEOs are also focusing their resources to grow local and pan-Asian operations. Part of this effort will be to invest in innovation and R&D to drive growth and increase productivity. Business leaders are also placing an emphasis on product and service differentiation in order to maintain their relevance to consumers in key markets.

These views and more are presented in this China-focused analysis of PwC's Annual Global CEO Survey — now in its 15th year. By canvassing the challenges and concerns, goals and ambitions of business leaders in China, we hope to enrich the dialogue between business leaders and their key stakeholders.

I want to thank the 160 top management executives in China and Hong Kong who took time to share their views with us.

I hope you find this report useful as you map out your organisation's plans and goals for the future.

Frank Lyn
China Markets Leader, PwC
5 March 2012

51%

40%

51% of China CEOs are very confident of their revenue growth prospects in 2012, compared with 40% globally

Confidence amidst uncertainties

China's sustained economic expansion and the prospect of rising domestic consumption are buoying the optimism of its business leaders despite stresses in the world's financial system. The nation is forecast to maintain the strongest economic growth among major economies over the next few years. A recent report by the Shanghai Academy of Social Sciences estimates that by 2020, two in five people in China will be part of its middle class — double its size since the start of the century — creating a vast new domestic consumer market.[1]

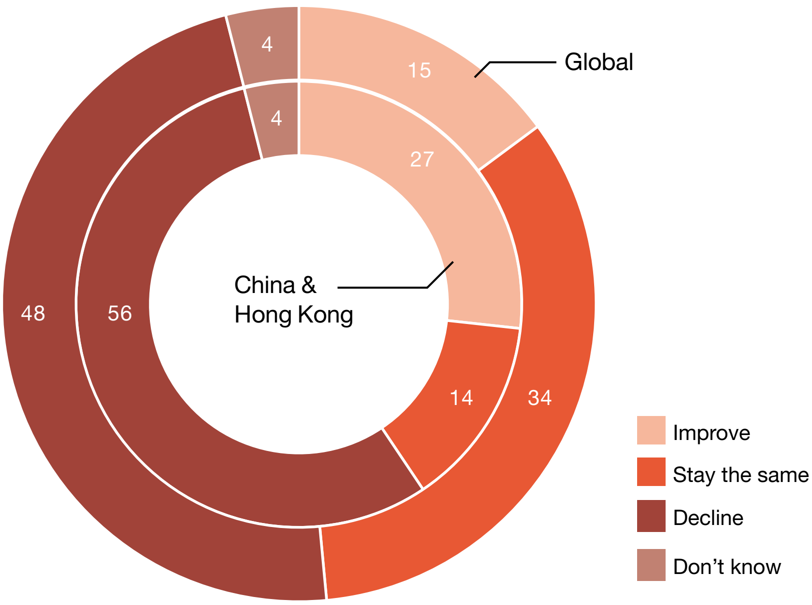
1 http://news.bandao.cn/news_html/201202/20120210/news_20120210_1798817.shtml?i|146707:2

China CEOs are pursuing this opportunity by focusing on having the right talent with the right skills, investing in innovation and R&D to drive growth and enhance productivity. Equally, a lot of expectations are being placed on China's relative strength. Business leaders in other markets are looking to China for growth in a sluggish global economic environment.

But in the short term, danger signs are still evident, notably the Eurozone debt crisis and the uncertainty of a US economic recovery. As the World Bank's most recent *Global Economic Prospects* in January 2012 wrote: "The world economy has entered a dangerous period." Forty-eight per cent of CEOs globally expect the world economy to decline in 2012, including 56% of CEOs in mainland China and Hong Kong (see Figure 1).

Figure 1: More than half of China CEOs believe the global economy will decline in 2012 (%)

Q: Do you believe the global economy will improve, stay the same, or decline over the next 12 months?



Base: All respondents (1,258); China and Hong Kong (160)
Source: PwC 15th Annual Global CEO Survey 2012

This pessimism has disrupted the confidence of CEOs. Globally, the percentage of CEOs who are "very confident" of their revenue growth prospects in the coming 12 months fell from 48% last year to 40% this year. This echoes a fall in the global growth rate from 3.8% in 2011 to a forecast 3.3% in 2012.[2]

China's growth for 2012 is forecast at 7.5%[3] — more than double the global rate. This rate is still lower than the growth achieved during the worst of the global financial crisis in 2008.

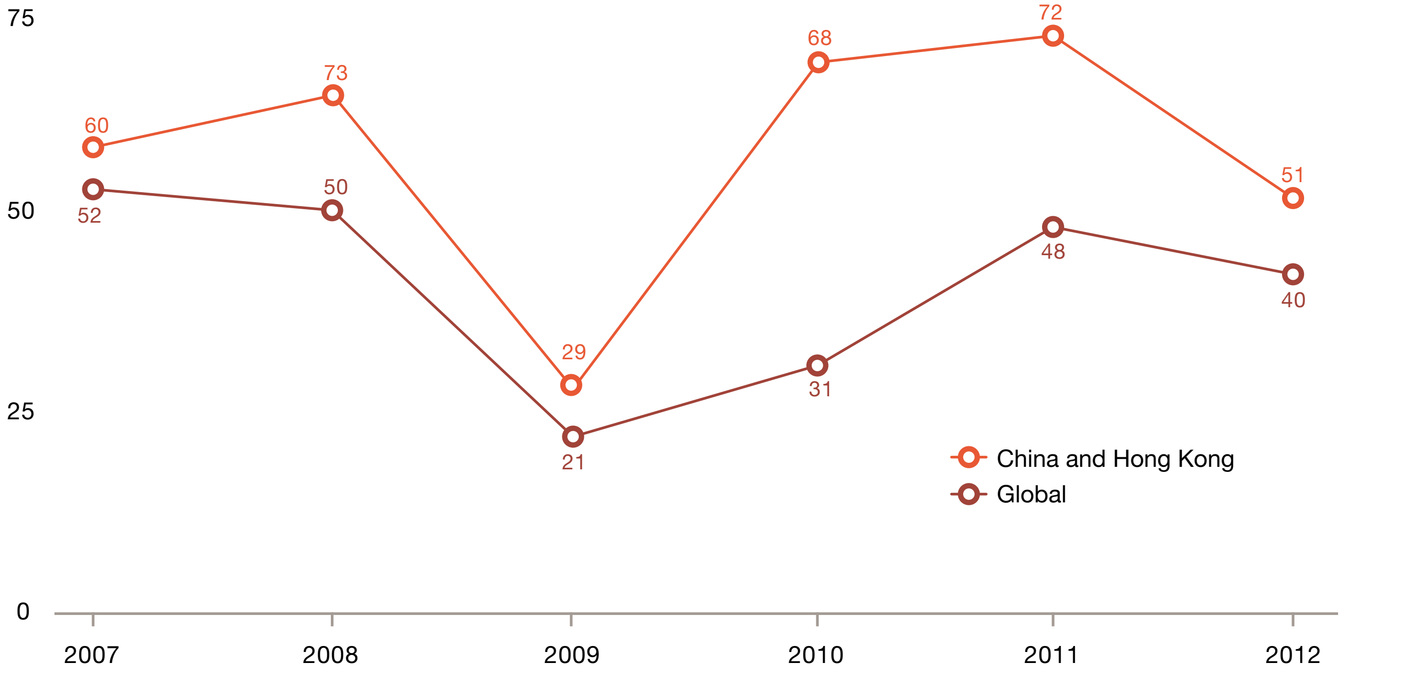
The prospect of slower growth has eroded confidence from a year ago, when 72% of China CEOs were "very confident" (see Figure 2). However, China CEOs are still optimistic about 2012 — with 51% "very confident" about generating growth. Government programmes to encourage domestic consumption and China's strong trade flows with emerging markets both support this level of confidence.

2 IMF World Economic Outlook Update, January 2012.

3 Fifth session of the Eleventh National People's Congress, 5 March 2012.

Figure 2: Confidence has fallen, but a majority of CEOs are still very confident in China (%)

Q: How confident are you about your company's prospects for revenue growth over the next 12 months? Yearly comparison of CEOs who are 'very confident'.



Base: All respondents, China and Hong Kong (2012 =1,258, 160; 2011=1,201, 46; 2010=1,198, 60; 2009=1,124, 63; 2008=1,150, 52; 2007=1,084, 47)
Source: PwC 15th Annual Global CEO Survey 2012

As with their counterparts overseas, CEOs in China consider uncertain or volatile economic growth as the biggest threat to their growth. They also place a larger weight than their counterparts on inflation (including energy costs) and protectionism as threats to growth, with less emphasis on over-regulation, infrastructure and fiscal deficits.

China's growth in context

Should we consider 7.5% growth an unexpected slowdown or a powerful engine of global growth? It's a bit of both, of course. That growth rate is down significantly from the 10.3% experienced in 2010 and would be the slowest expansion since China's accession to the World Trade Organisation in December 2001. But it is also more than double the global growth rate, making China the fastest growing major economy in the world.

One way of viewing it is to look at China's 12th Five-Year Plan, for 2011-15, which calls for 7% annual growth through to 2015. Seen in that light, 7.5% is relatively healthy, particularly against the headwinds of a global economic slowdown.

And the 12th Five-Year Plan provides valuable context for understanding the plans of China's business community. The weight of China's policy is likely to shift towards supporting the goals included in the plan, as we highlight in this report, and companies operating in China are paying close attention.

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>
> Cheung Yan, Chairlady of
> Nine Dragons Paper (Holding) Limited

China businesses: Reengineering growth

Chinese businesses are making strategic changes in three key ways:

- Staying closer to home: Growth will be less dependent on faraway markets in North America and Western Europe. This will intensify as China continues to transition from an export-focused to a consumer-driven economy.
- Changing labels from "Made in China" to "Designed in China": Value propositions are shifting from low cost to high design.
- Developing talent at "China speed"? More focus on developing the right talent, rather than just hiring talent. However, businesses may be discovering that the talent market does not yet have a "China speed".

Staying closer to home

Global businesses and Chinese multinationals continue to turn towards emerging markets to drive growth. The rise in investment and commerce to and from emerging economies — more pronounced than in any period over the past decade — creates vast market potential. Half of CEOs based in developed markets believe that emerging economies are more important to their company's future, as do 63% of CEOs based in China. The world may be slowed for a time by financial problems, but this structural shift is potentially bigger than the institutional problems and depressed growth in developed economies. Gradually rising incomes and economic opportunities for millions more people around the world have enormous implications for infrastructure spending, clean energy technologies, demand for health care, education and personal finance products, and the list goes on.

Of course, the US and European Union remain China's largest markets. But export-oriented companies are exploring opportunities closer to home, with China CEOs expecting to grow operations in South-East Asia (75%) and other parts of East Asia (76%). By contrast only four in 10 expect growth in Western Europe and 51% in the US (see Figure 3).

> ***"If the people have sufficient security in terms of medical services, endowment and education, the development of domestic demand may be nurtured more effectively."***
>
> Yang Yuanqing, Chairman and CEO of Lenovo

Figure 3: Three-quarters of businesses in China and Hong Kong expect growth in their South-East Asian and East Asian operations

Q: In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow? Percentage of CEOs who have key operations in the region and who responded 'grow'.

Company headquarters	Western Europe	North America	Middle East	Latin America	CEE	Australasia	South Asia	South-East Asia	East Asia	Africa
	Region of operations									
China and Hong Kong	43%	51%	49%	66%	57%	57%	67%	75%	76%	47%
Global	36%	55%	67%	77%	60%	57%	80%	83%	77%	75%

Base: All respondents (1,258); China and Hong Kong (160)
Source: PwC 15th Annual Global CEO Survey 2012

In addition, many expect domestic consumption to play a bigger role in China's economy. Household spending is roughly one third of GDP right now, among the lowest of major economies. The government's 12th Five-Year Plan, covering 2011-15, calls for a rise in domestic consumption's contribution to GDP.

Thus, CEOs in China see a real opportunity at home. "There are still large rooms for improvement on the living standards of most of the Chinese population," said Cheung Yan, Chairlady of Nine Dragons Paper (Holding) Limited. "We have not yet reached a balance point on this, so this will constitute a strong driving force for future domestic consumption growth."

Changing public behaviour to encourage consumption will take some policy changes. "Social security systems should be implemented in order to make people willing to spend money," said Yang Yuanqing, Chairman and CEO of Lenovo. "If the people have sufficient security in terms of medical services, endowment and education, the development of domestic demand may be nurtured more effectively." Indeed, government-run pension schemes covering both rural and urban residents, among other initiatives, are likely to come as part of the 12th Five-Year Plan.

As consumption at home rises, however, competition is likely to pick up. CEOs of major economies across the region believe China will play a critical role in their own future growth plans. This includes 63% of CEOs in Japan, 56% in Australia, 48% in the US and 45% in Association of South-East Asian Nations (ASEAN). China is the top trade partner for Japan, Australia and ASEAN (factoring in external trade only), and is the second largest trade partner for the US.

With foreign markets slowing and competition overseas rising, China's own emerging middle class is a major opportunity for Chinese companies. They are already more familiar with differences in local consumer segments and will have opportunities to establish their brands within a still evolving domestic market.

Value propositions designed for countries at the upper end of the global income distribution rarely work for the needs of this "emerging middle." It's not only products that must be adapted or built anew, but also production, distribution and marketing capabilities — in other words, entire business models. Success involves understanding customer segmentation and the dynamics driving it. Category — even price — is not as important as solving a specific set of consumer problems that are not being met with existing products.[4]

4 PwC, 'Profitable growth for the next 4 billion' (forthcoming 2012).

"On business development, we would traditionally start with a standard product set and adapt it to the local needs," said Lázaro Compos, CEO of SWIFT, based in Belgium. "But in India and China you need to forget the products that you've got and start from scratch. Start from what it is they need and build from there." Along similar lines, KFC, owned by US-firm Yum Brands! Inc., has a menu in China that now includes not only its traditional fried chicken, but also beef, seafood and rice dishes, fresh vegetables, soups and breakfasts that appeal more to local Chinese tastes.

Changing labels from "Made in China" to "Designed in China"

Just a few years ago, China was known as the "manufacturer to the world." Indeed, in 2010, China surpassed the US as the world's largest manufacturing nation.[5] Yet many Chinese companies aim to put that label behind them, recognising that competitiveness based solely on low-cost manufacturing can be eroded by rising wages and lower-cost competitors overseas.

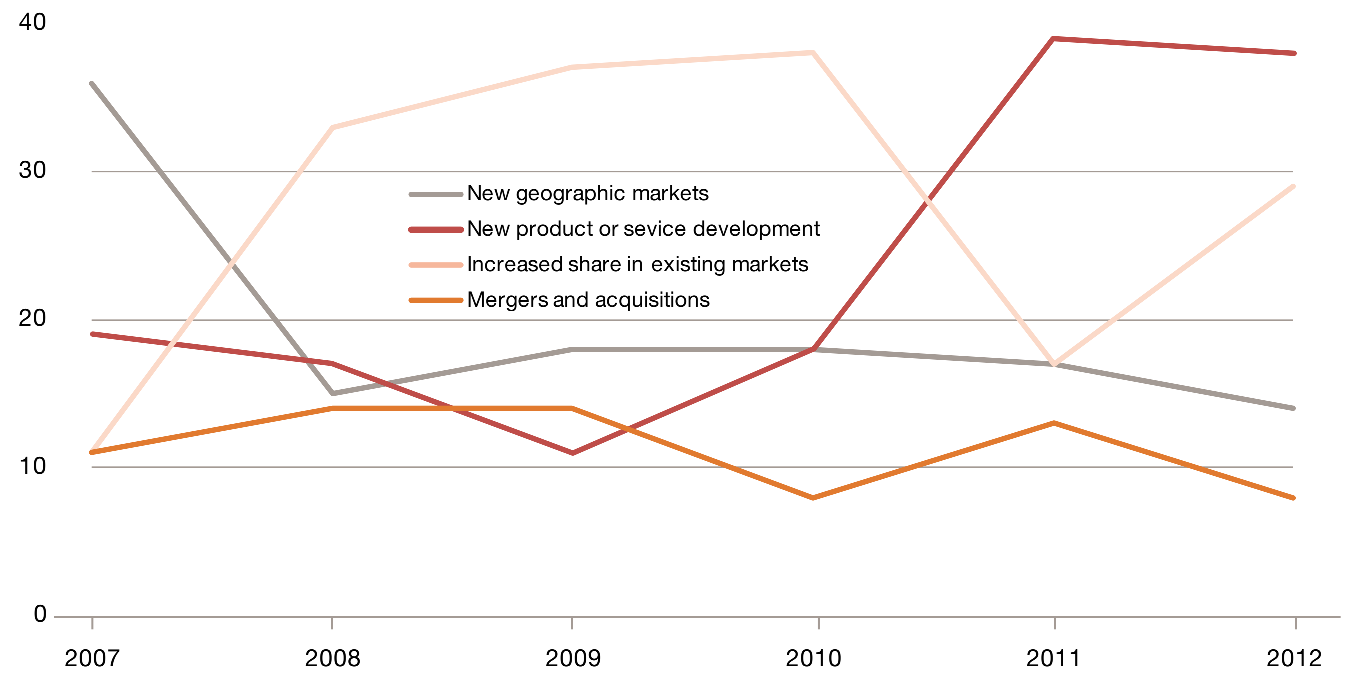
The government has recognised this growing risk. Its 12th Five-Year Plan has a major focus on private-sector innovation, calling for significant increases in R&D, a shift towards knowledge industries, and an expansion of Chinese brands both at home and overseas.

As a result, many Chinese enterprises are moving away from a sole emphasis on low costs, towards increasing the value-added content of their products and services. In China, 87% of CEOs plan to change their R&D and innovation capacity in 2012 and 78% plan to change their technology investments — making them the two biggest agenda items for business leaders. In addition, 38% of CEOs in China believe new products and services — the end-products of many innovations — will be the primary driver of growth, compared to 28% of CEOs globally (see Figure 4).

5 Peter Marsh, 'China noses ahead as top goods producer', Financial Times (13 March 2011).

Figure 4: The importance of new products and services has risen sharply for CEOs in China and Hong Kong (%)

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? Responses from mainland China and Hong Kong



Base: All respondents, China and Hong Kong (2012 =1,258, 160; 2011=1,201, 46; 2010=1,198, 60; 2009=1,124, 63; 2008=1,150, 52; 2007=1,084, 47). Responses of 'new joint venture and/or strategic alliances' excluded.
Source: PwC 15th Annual Global CEO Survey 2012

Qingdao-based Haier Group, for example, is investing more to generate its own innovations in a way that is responsive to its customer segments. The company listened to its rural Chinese customers, and learned that its laundry washing machines were breaking down because farmers were using them to wash potatoes, as well as clothes. Haier responded by redesigning its machines for this dual use.[6] More recently, the company acquired Panasonic's Sanyo white-goods business in Japan and South-East Asia, in part, to acquire Sanyo's R&D talent in Japan, as well as its brand.

But examples like this are not yet the norm in Chinese enterprises. A business culture that is oriented towards identifying new solutions to fill market needs, and is more willing to take risks, is far from ubiquitous in China. An ecosystem of innovation needs further development. This is needed within companies that are looking to tap into their workforces for more innovative ideas. It's also needed externally, to create an environment that allows entrepreneurs to protect their intellectual property, access venture capital, and connect with sources of expertise. Enterprises need the right environment to better develop their ideas, test them and bring them to market.

Developing talent at "China speed"?

China's success in manufacturing and other sectors over the past decade is testament in part to the nation's ability to operate at "China speed" — the extraordinary pace which, products can be designed and specified, factories retooled and production ramped up. In few countries have businesses been able to keep up. "China speed" applies to other areas, as well, including infrastructure building and technology deployment.

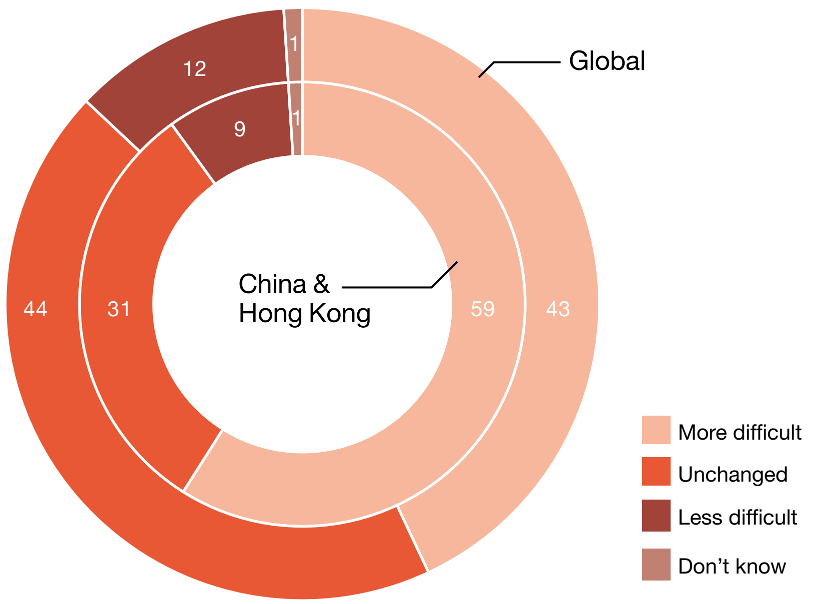
However, enterprises and government are increasingly focused on talent development to capitalise on China's rapid growth. And when it comes to talent development, "China speed" often slows down: Across industries and provinces, ambitious plans for growth and innovation consistently run into talent constraints in China, the most populous nation in the world.

Demand for talent in China is intensifying. Almost half of China CEOs are looking to expand headcount by more than 5% in 2012, versus 28% globally. But six in 10 business leaders in China — 16 percentage points higher than the global average (see Figure 5) — believe hiring is becoming more difficult in their industry. As a result, only a third of China CEOs are very confident they'll have the talent needed to execute their strategies over the next three years.

6 'Haier: A Chinese company that innovates', Forbes (17 June 2010), http://www.forbes.com/sites/china/2010/06/17/haier-a-chinese-company-that-innovates/

Figure 5: The majority of CEOs in China and Hong Kong see hiring in their industry becoming more difficult (%)

Q: In general, has it become more difficult or less difficult to hire workers in your industry, or is it unchanged?



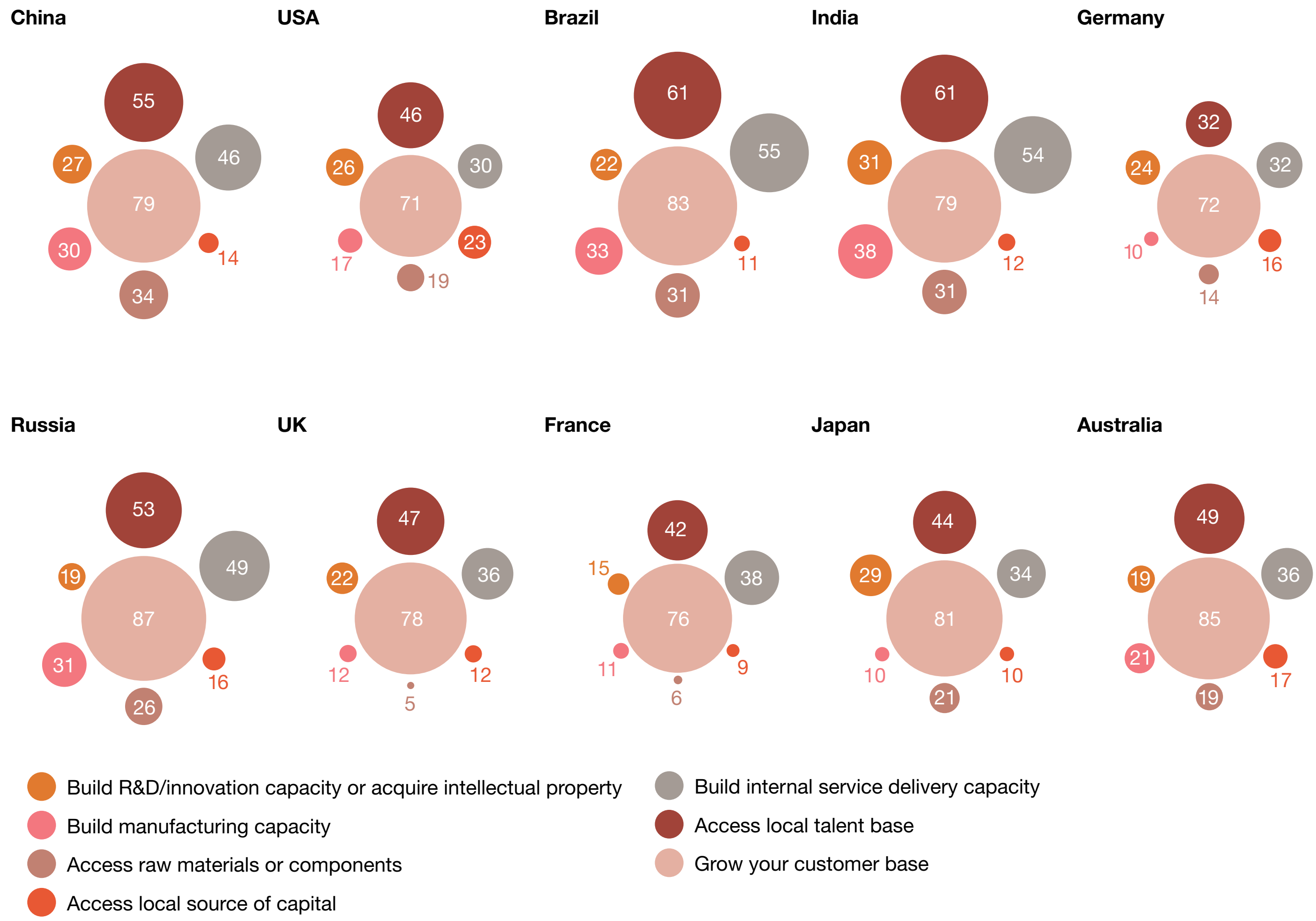
Base: All respondents (1,258); China and Hong Kong (160)
Source: PwC 15th Annual Global CEO Survey 2012

Even today, the talent crunch is having a real impact. Inflation is among the top risks CEOs identified in China, and wage costs are part of that equation: 27% of the CEOs who have found hiring more difficult blamed compensation expectations.

Cost inflation is making China less competitive in some sectors, such as industrial manufacturing. Skilled production workers are a recruitment and retention challenge for half of China CEOs, versus only one-third globally. This is one reason why CEOs globally are looking to build manufacturing capacity in a wider variety of countries. In fact, they were more likely to be growing capacity in Brazil, Russia, and India than in China (see Figure 6).

Figure 6: Growing customer bases is far from the only objective of CEOs in their key overseas markets (%)

Q: Which of the following objectives do you hope to achieve in the next 12 months? (The top 10 countries mentioned by CEOs in 'Which countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months?')



Base: China (383); USA (275); Brazil (188); India (176); Germany (152); Russia (101); UK (81); France (66); Japan (62); Australia (53)
Source: PwC 15th Annual Global CEO Survey 2012

Perhaps of greater concern is that 54% of China CEOs believe talent constraints have prevented them from innovating effectively. That's considerably higher than the global average of 31% (see Figure 7). If manufacturing is becoming less competitive due to rising workforce costs and innovation is restricted by talent limitations, then talent constraints are squeezing the competitiveness of China's private sector at both ends.

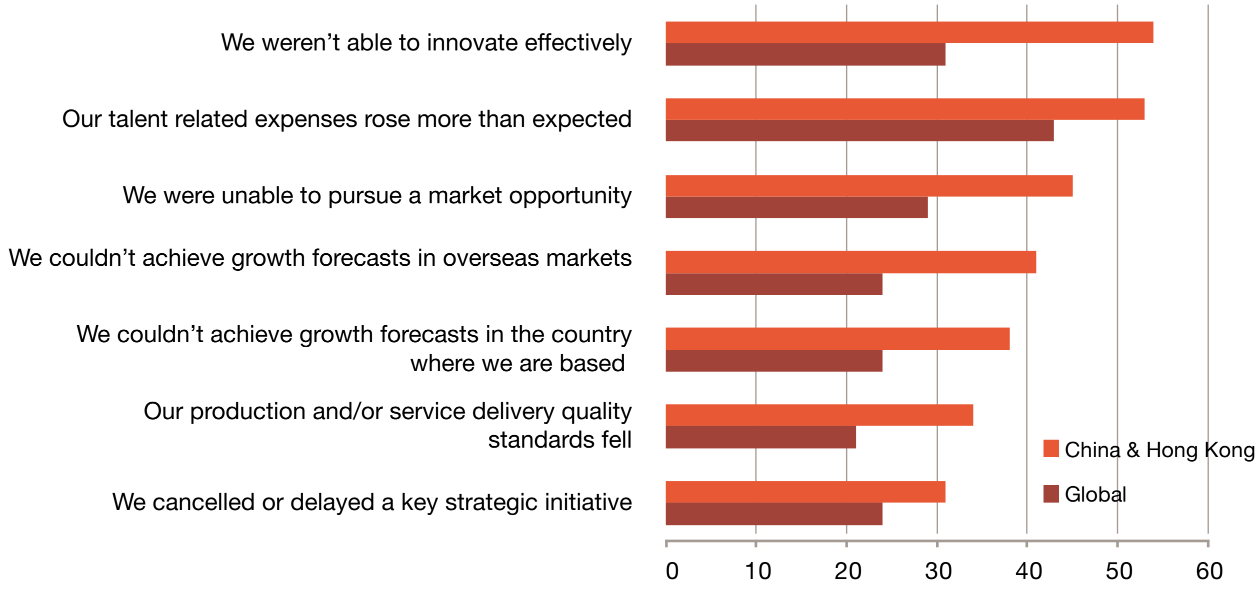
> ***"The world is changing so quickly that it's just not enough to go to school once."***
>
> Jaime Augusto Zobel de Ayala, Chairman and CEO of Ayala Corporation in the Philippines

Talent: Sustaining future growth

In the future, China CEOs will need to address structural challenges around the labour force. As systems and processes grow increasingly sophisticated, many are now questioning the need for the continued use of the manual systems that often run parallel with more computer-based systems in China. Four in 10 China business leaders, higher than the global average, believe investments in technology will be required to circumvent skill shortages. While labour is still relatively less costly compared to other markets, China's businesses may need to ensure that their long-term people strategy is sustainable.

Figure 7: In China and Hong Kong, talent constraints are not only rising rapidly, but also constraining innovation (%)

Q: Have talent constraints impacted your company's growth and profitability over the past 12 months in the following ways? Percentage of respondents who said "Yes".



Base: All respondents (1,258); China and Hong Kong (160)
Source: PwC 15th Annual Global CEO Survey 2012

The risks of talent constraints on Chinese business are well recognised by leadership. The government's 12th Five-Year Plan outlines a strategy for finding and nurturing talent, with the idea of bringing 2,000 skilled Chinese expats home, to cultivate entrepreneurs to grow more Chinese companies into Fortune Global 1000 competitors. The programme will also enable foreign nationals of Chinese origin to take senior positions in state-owned enterprises.

And China CEOs are thinking outside the box to address talent constraints. In China, 65% of CEOs are investing in workforce development outside of their own companies, to build a bigger base of potential employees and partners. It's a trend CEOs are reporting around the world. "We're investing much more now in retraining people," said Jaime Augusto Zobel de Ayala, Chairman and CEO of Ayala Corporation in the Philippines. "The world is changing so quickly that it's just not enough to go to school once."

Talent mobility is another strategy with 59% of CEOs expecting more global talent mobility and 57% planning to move employees from China overseas, versus global averages of 44% and 53%, respectively. To get the most from their mobility programmes, companies will need to do more acclimatisation, whether into China or moving abroad. Business leaders in China are finding that Chinese overseas returnees, sometimes known as "sea turtles," are finding it difficult to adapt to a workplace culture that can be vastly different from that of the West.

In addition, recent research has shown that collaboration is vital to making talent mobility work. This could even include working with competitors at home and overseas. As a recent report from the World Economic Forum on talent mobility pointed out: "Businesses depend on one another to sustain the talent pool from which they draw their employees. Deepening the talent pool through collaborative action — rather than by competing for increasingly scarce talent resources — serves both individual and collective needs." [7] Perhaps that's why 57% of CEOs in China are partnering with other organisations specifically to circumvent skills shortages, versus only a third of their overseas peers.

7 'Talent Mobility Good Practices: Collaboration at the Core of Driving Economic Growth', World Economic Forum (2012).

Leaders of the future

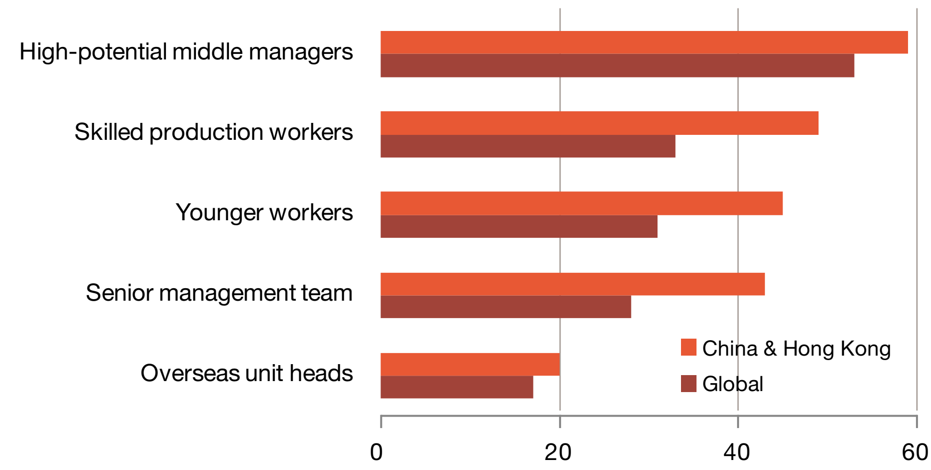
Many companies in China also promote younger workers into middle and senior managerial roles very quickly. But not all of those individuals have had the years of experience in high-level executive roles that their more seasoned global counterparts have had. Indeed, development practices such as mentoring by senior executives and rotational assignments are most effective over years or even decades — far from today's expectations of "China speed". Talent challenges will be solved by focusing on improving talent *development*, not just hiring. And there may yet be a "China speed" for talent development, but a proven formula to achieve it has yet to be established.

That's best seen in the area most in demand: managerial skills. Some 59% of China CEOs identified high-potential middle managers as a significant recruitment and retention challenge, and 43% named senior managers (see Figure 8). Keeping key leadership personnel is an area that's received a lot of attention over a long period of time. "The central challenge facing us is how to transform our corporate culture to a more open one," said Sun Mingbo, President, Executive Director and Chairman of the Strategy & Investment Committee of

> ***"The central challenge facing us is how to transform our corporate culture to a more open one."***
>
> Sun Mingbo, President, Executive Director and Chairman of the Strategy & Investment Committee of Tsingtao Brewery Co Ltd.

Figure 8: High-potential middle managers are the biggest concern of CEOs worldwide (%)

Q: With which of the following groups do you currently face the greatest challenges with regard to recruitment and retention?



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Tsingtao Brewery Co Ltd. "As recently as 10 years ago, we were intent on recruiting the best talent from around the entire country. But we experienced some setbacks. We hired experienced, talented people and gave them large salaries. But did we retain them? No."

To retain talent, businesses in China are discovering that career opportunities are displacing high compensation as the one commodity valued most highly by workers: opportunities to grow and opportunities to advance. "We like to cultivate our own human resources, with the belief that talent can only be discovered when given the opportunity," said Cheung Yan, Chairlady of Nine Dragons Paper (Holding) Limited. "If not, you cannot retain good people."

The growing appetite for Chinese managerial talent is also driven by overseas demand. The majority of foreign multinationals naming China as a key market also seeks access to China's talent base. "We're a little newer to the scene in China, but we're growing a bit faster there than in India," said Michael Thaman, Chairman and CEO of Owens Corning in the US. "China's consumed all the talent we've been able to find and grow in country."

But the advantage may be shifting towards local companies. In 2007, just 13% of Chinese working for local firms preferred to work for domestic companies. That figure rose to 55% in 2009, driven by a sense that they would have broader career paths working for domestic firms.[8]

Survey methodology

The Survey polled 1,258 CEOs based in 60 different territories from September to early December 2011 — including 122 from mainland China and 38 from Hong Kong[9] (For purposes of this report, we aggregated responses from mainland China and Hong Kong samples.) We supplemented their comments on plans for business growth and assessments of constraints with insights from the global PwC network and in-depth interviews with 39 CEOs, including three based in China[10]. The combined views and responses form the basis of our 15th Annual Global CEO Survey.

8 Conrad Schmidt, 'The Battle for China's Talent', Harvard Business Review (2011).

9 Hong Kong is one of two Special Administrative Regions (SARs) of the People's Republic of China.

10 This report includes views from three China CEOs: Cheung Yan, Chairlady of Nine Dragons Paper (Holding) Limited; Sun Mingbo, President, Executive Director and Chairman of the Strategy and Investment Committee of Tsingtao Brewery Co Ltd.; and Yang Yuanqing, Chairman and CEO of Lenovo.

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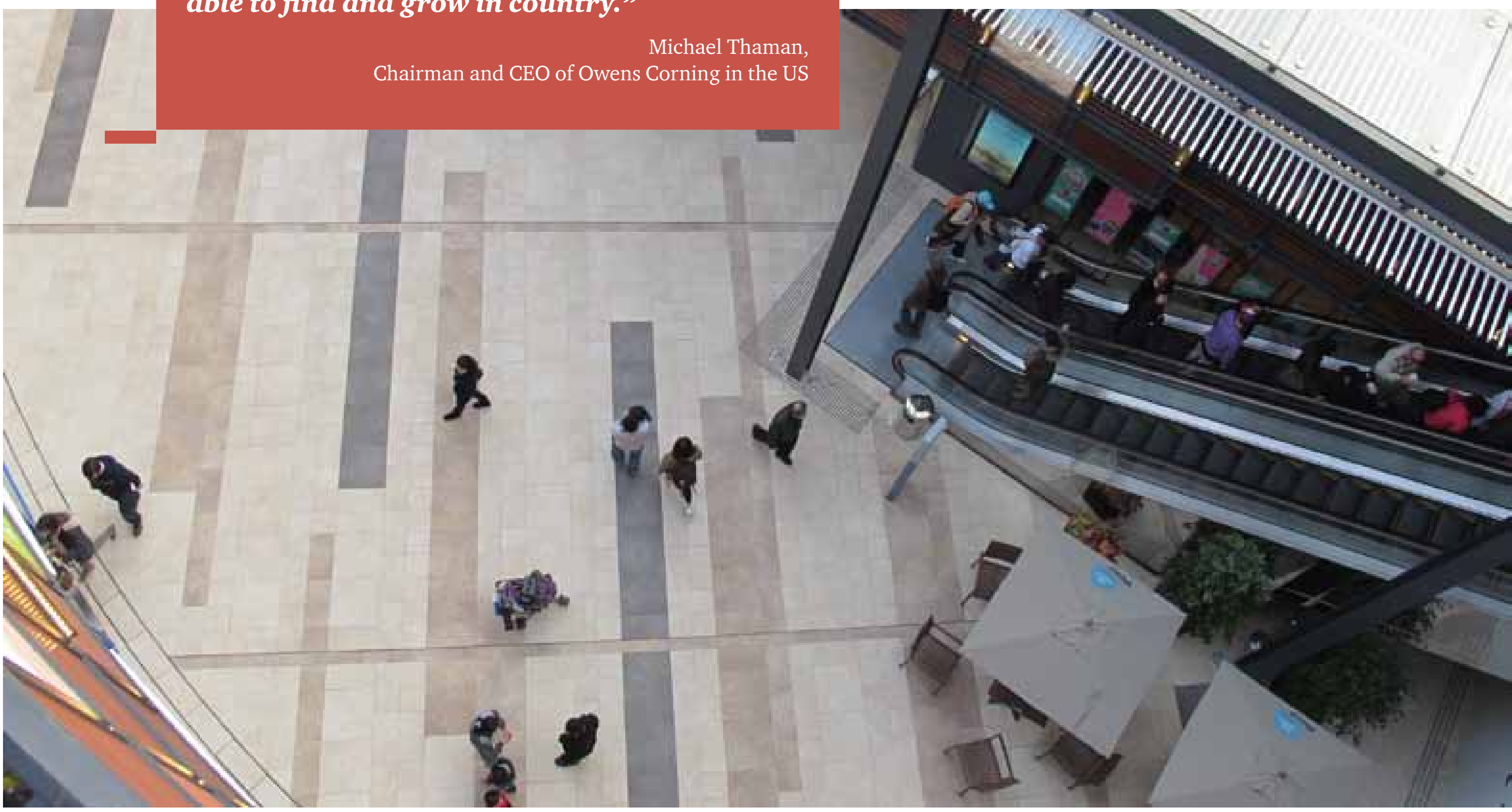

What's next?

The following eight questions are distilled from CEO insights and can help business leaders create value in these volatile times.

1. How local is your global growth strategy?

CEOs are shifting away from an export mindset to respond more attentively to local markets. A third of global business leaders rank China among their top three regions for generating growth over the next 12 months. Competition will be tough, particularly when operating in the China market where appreciating the local culture can be as important as understanding local business practice. The traditional way of setting an overarching global strategy and pushing it out to operations may need to give way to a more agile strategy that can be adapted at the China level.

2. How are you balancing local capabilities with global opportunities?

China CEOs are not only developing offerings that are relevant and specific to domestic audiences but are also applying this approach to their foreign operations. Two-thirds plan to invest in developing new products and services for their customers, and as many will bring about changes to their existing offerings. However, CEOs will need to balance the need to satisfy local demands with outbound opportunities in order to stay competitive and maintain profitability.

3. Is your talent strategy fit for growth?

Cost-focused measurements around talent strategy need to give way to measurements around returns on investment, as leaders increasingly implement new approaches to solve their talent shortage problems. Leaders are seeking more comprehensive data and analysis from talent managers to make informed decisions around people: 94% of CEOs in China believe information on staff productivity is important for decision-making and 86% think the same about data on human capital ROI. But only 31% and 18% of those CEOs, respectively, say they're getting comprehensive reports on those issues. Furthermore, a fifth of CEOs expect they will have to make acquisitions or partnerships to fill the gaps. This may be conservative, considering the degree of challenges businesses face with talent.

4. Are you innovating for your customers?

Between a fifth and a third of all CEOs globally say they are creating products specifically for their important markets. It will be increasingly important to get segmentation right — at the regional, country, city or even neighbourhood level — and to design operating models around serving those segments. That means looking beyond product design to include factors such as production, distribution and marketing.

5. Do your strategic plans focus on how to respond to the most serious consequences you could face?

The range of CEO concerns reflects how diverse sources of risks are for example 19% in China are "extremely concerned" that instability in capital markets will impact business. While risk assessment is still an emerging concept in China, some risks to your business simply cannot be ignored in this market environment. PwC's Banking Banana Skins 2012 survey cited credit risk as the top concern among bankers in China.[11] The number of potential risks and their inter-relationships make it very difficult to predict what will occur where and when, but companies can better deal with uncertainty — and take a more strategic approach to risk — by focusing on likely consequences, no matter what the cause.

6. Are you responding to the needs and constraints of the communities in which you operate?

CEOs recognise that sustainable business growth requires working closely with local populations, governments and business partners, and investing in local communities. This can mean creating job training programmes, helping to manage resource constraints or contributing to health solutions. In China, 56% of CEOs plan to increase investments in the next three years to help maintain the health of the workforce, for example.

7. Where are the biggest opportunities for business and government to coordinate better?

Compliance with a growing body of regulations, particularly when operating in disparate markets, is a complex task for most businesses, which is why CEOs consistently report over-regulation as a threat to their growth. However, the successes of the private and public sectors are increasingly intertwined. Roughly a third of CEOs in China believe that workforce skills are a top priority for government, and 93% say their business has a role in workforce development, other than their own employees.

8. Are you adapting your governance model to changing stakeholder expectations?

Organisations will likely be accountable to a different mix of stakeholders across a range of markets. Governance models need to adapt, beginning with building a leadership pipeline that reflects potential future demands. It's a key area of focus globally, with 59% of China CEOs concerned about recruiting and retaining high-potential middle managers and a desire to build more diverse leadership teams.

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