Dealing with disruption
Adapting to survive and thrive

January 2013

16th Annual Global CEO Survey
Country Summary: Key findings in the UK
Leaders and their organisations are now operating in a world where uncertainty and volatility have increased to unprecedented levels, and economic growth varies widely between countries and regions. It’s against this background that we have conducted our 16th PwC Annual Global CEO Survey.

Our study shows that UK CEOs have been focusing on short term challenges; that they expect economic difficulties to continue, and that they are concerned with building resilience into their organisations—both to meet those challenges and seize future opportunities.

Resilience combines a short-term ability to ride out the immediate impact of shocks, with the flexibility to ‘future-proof’ the organisation by adapting, over the longer term. Resilience is a quality that’s becoming ever more important in today’s highly connected world, where previously isolated risks have become both contagious and commonplace.

In this context, our study highlights three priorities that UK CEOs are intending to focus on: first, reshaping their operations for growth in a changing world; second, building—and in some cases re-building—relationships and trust, and finally, finding and keeping the talent they need to succeed.

This year’s research covers more than 60 countries and includes the views of over 1300 CEOs, as well as many PwC specialists, providing valuable insights which we hope will stimulate debate over the coming months.

Ian Powell
Chairman and Senior Partner

Our study highlights three themes on which UK CEOs say they want to focus their attention:

1. Reshaping their operations for a changing world.
2. Building—and in some cases re-building—relationships and trust with stakeholders.
3. Finding and keeping the talent they need to succeed.
Reshaping for a changing world

Across the globe, profound structural changes are creating a new world order. With the European economy largely flat and the US remaining fragile, opportunities to expand are concentrated in growth markets. UK CEOs are actively reshaping their businesses for this, with three-quarters anticipating changes in their company’s organisational structure over the coming year.

Some 83% plan cost-reduction initiatives in 2013, well above the global average. Strategic deals are also on the agenda, with over half of UK respondents having entered a new strategic alliance or joint venture in the past year, and 60%—the highest proportion in Western Europe—planning to do the same in the coming year.

While 30% are contemplating cross-border M&A, a much higher proportion are planning a domestic deal—43% of UK CEOs, compared to a Western European average of just over a quarter and just 11% in Germany. This suggests that UK businesses see more opportunity than their European counterparts to generate growth in their mature—and currently subdued—home market.

However, it may also be a signal that UK CEOs are more concerned about the risks associated with overseas acquisitions or are struggling to find acceptable international targets. Either way, the focus on the low growth home market is perplexing. This overly domestic focus is borne out by the fact that only a third of UK CEOs say China’s GDP growth rate falling below 7.5% would be bad news for their business. This is a far lower proportion than in Germany, which has more exposure to China’s economic fortunes through higher exports and more China-based operations.1

Also, at a time when the UK Government is encouraging businesses to invest in innovation to drive high-value exports, UK CEOs are half as likely to name R&D as a top three priority over the next 12 months as Western European CEOs (17% versus 41%). And only half of UK CEOs say they intend to increase R&D capacity over the coming year, compared to two-thirds of German and three-quarters of French CEOs. Instead, UK CEOs say they’re keener to invest in growing their customer base and improving operational effectiveness.

The challenge is to understand how and where UK businesses will generate growth in the future. Our experience shows that many recognise the need to be present in fast-growth economies, but end up targeting the UK, US or Western Europe because these markets are more familiar and promise returns on investment within a shorter timeframe. We believe sustainable, longer-term growth requires a longer-term view. Additionally, with many CEOs often in the position for shorter terms, the role company boards and strategy teams play in supporting longer-term change is a vital one.

Lower R&D may point to a shorter-term view

“For some time, there have been signs that business leaders have become increasingly short-term in their outlook. Risk aversion and scepticism about the benefits of R&D have institutionalised a cycle of lowered expectations that looks more to quarterly performance rather than a longer-term view of where new growth might come from. These figures suggest that short-termism is now entrenched in the minds of UK business leaders.”

Norman Lewis, Director, PwC

Figure 1: Priorities for UK CEOs over the next 12 months

Q: What are your top 3 investment priorities in the next 12 months?

52% Enhancing customer service
33% Filling talent gaps
54% Improving operational effectiveness
40% New M&A / joint ventures / strategic alliances
62% Growing your customer base

Base: All UK CEOs (63)
Source: PwC 16th Annual Global CEO Survey

1 Source: PwC UK Economic Outlook November 2012, page 26
Building relationships and trust

Events over the past few years appear to have undermined trust in public and private institutions. Against this background, an ability to establish trust among all stakeholders is a vital part of the resilience companies need to foster. This is underlined by the fact that regulators now talk openly about changing the ‘culture’ of organisations – reinforcing the view that companies need to focus on cultures and behaviours alongside policies, procedures and mission statements.

UK CEOs score higher than most other CEOs on the intention to build a framework to support a culture of ethical behaviour over the next year. However, 60% of UK CEOs say they’re not concerned about trust in their own industry. One area where trust appears to be under strain is executive remuneration. But while 60% of UK CEOs admit that executive incentive pay structures are too complex, only three in ten say they’re taking action to change them.

CEOs that actively engage in building and sustaining trust may find that they will help to create and sustain longer-term value for all stakeholders.

Widening stakeholder relationships

“A few years ago, Imperial would have seen shareholders as the key stakeholder, and almost the only stakeholder we really focused on. It’s absolutely valid and right for a plc to focus on driving shareholder returns, but the reality is you do that through focusing on other stakeholders. That’s the key shift that we’ve made over the last couple of years: if we want to drive those shareholder returns we’ve got to get other stakeholders right. That means changing our approach in terms of our employees, in terms of our customers and in terms of our suppliers.”

Alison Cooper, CEO, Imperial Tobacco Group

Figure 2: CEOs strengthening their engagement programmes with users of social media

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

Base: All CEOs in those countries with who say social media has some/significant influence on their business strategy (UK=35, US=89, Spain=30, Japan=75, China & HK=61, India=42)

Source: PwC 16th Annual Global CEO Survey
Virtually all UK CEOs talk about strengthening their organisation’s engagement with customers, and 87% are planning to change their strategies for customer growth, retention and loyalty. At the same time, 91% – against a global average of 78% – are seeking to strengthen their engagement programmes with users of social media.

However, establishing the right approach to reputation management in the age of social media and rising transparency is a major challenge. In its *Global Risks 2013* report, the World Economic Forum highlights the rising threat from ‘digital wildfires’ that can turn local events into global corporate crises in a few hours. Companies need to understand how to manage such risks whilst using the insights social media provides to build competitive advantage.

Our experience shows that the companies that make the most effective use of social media tend to do two things. First, they use social networks not as a one-way communications channel, but as a forum for hosting dialogue, learning, and seeing themselves from their stakeholders’ point of view. Second, they use it not just to react to events, but also to monitor, anticipate and head off future issues.

Social media changes the game with consumers

“Leaders who recognise how their relationship with consumers has changed forever also know that data is the ingredient that will help them thrive.”

Matthew Tod,
Partner, PwC
UK CEOs portray themselves as custodians of a reliable pipeline of future leaders, with 84% claiming to have an active succession planning programme in place. And nine out of ten say their strategic decision-making processes involve managers below board-level, the highest proportion of any major economy, bar the US.

However, there seem to be challenges here. The availability of key skills remains a concern for two-thirds of UK CEOs, higher than anywhere else in Western Europe.

In addition to this, a similar proportion are planning to increase investment in building a skilled workforce over the next three years, while an even higher proportion – 83% – see a need to change their talent management strategies in the next year. This seems to indicate that while UK CEOs voice a deep commitment to developing people, many organisations are still finding it difficult to implement and enforce the right strategy to ensure an effective talent pipeline.

Another reason why organisations may be struggling to develop the talent they need is because they oversee fewer dedicated executive development programmes than the global average, and are much less likely to actively encourage future leaders’ global mobility and international experience.

When asked what should be the Government’s priorities for business, four out of five CEOs point to creating and fostering a skilled workforce – the highest response rate in any country surveyed, and well above the global average of 57%.

These findings may be a reflection of the worrying tendency for some UK companies to take a short-term view and stay in their comfort zone, or look to government to drive talent strategies. Skills and talent are the lifeblood of the UK’s economic future – and smarter, more forward-looking companies will invest in them.

The need to invest in skills

“In the US and the UK, the statistics on the number of kids doing science, technology, engineering and maths show that we’re not creating enough people with the necessary skills today to fuel the industry in the future. So an awful lot of work has to be done by companies like ours to ensure understanding of the jobs and rewards that are there, to keep people doing subjects that, in both the US and the UK, they view as harder.”

Steve Holliday, CEO, National Grid Group Plc

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**Finding talent, developing talent**

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As UK CEOs attempt to build greater resilience in their organisations, they must also scour the horizon for new sources of growth. When asked which non-domestic market is most important to their overall growth prospects next year, UK CEOs put the United States first at 24%, followed by China (19%), Germany (11%) and France (11%).

This represents a slightly more dispersed focus than last year, when 40% cited the US, with China and Germany equal second on 26%. UK CEOs in this year’s survey also quote a wider variety of other markets, such as Singapore and the UAE. But a greater proportion also said they were unsure where to look.

It’s against this changing backdrop that companies need to build a platform for future global growth. Currently, UK CEOs have a tendency to look closer to home, with 38% – a higher figure than in any other major Western European country – citing organic domestic growth as their main opportunity to expand. Only 14% regard organic growth in an existing foreign market as the key opportunity, against 36% of German and 37% of French CEOs.

These findings may be influenced by the markets in which companies have ‘existing’ operations: for example, over a third of German firms have operations in East Asia, against only 14% of UK companies. This disparity should be of critical interest both to the UK business community and government. However, more positively, UK companies’ stronger presence in markets such as the Middle East and Australasia suggests they can close the gap if they commit themselves to doing so.

The opportunity to build revenues in growth markets is underlined by the confidence of companies based in them. In Western Europe (including the UK), around one-third of CEOs are ‘very confident’ over revenue growth for the next three years. However, the proportion of Mexican CEOs voicing strong confidence over future revenue growth however is 61%, rising to 79% across Africa, and an overwhelming 85% in India. The long-term impact

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**Figure 4: This year’s global investment priorities**

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

Base: All respondents (1,300) and All CEOs in those countries (UK=63, Germany=36, Russia=41, Brazil=45, China & HK=132, US=167)

Source: PwC 16th Annual Global CEO Survey
of such differences is reflected in the latest update of PwC’s ‘World in 2050’, which has E7 counties overtaking G7 in terms of purchasing power just four years from now, and in absolute GDP terms before 2030.

For UK businesses seeking growth, these shifts encapsulate both the challenges and the opportunities ahead. How long will current uncertainties persist? How reliably can they look forward, and how far? Where should they target growth, and why? UK businesses have been concentrating on survival, but the route to growth will mean embracing change, resilience, and extending their plans over the longer term.

Global economic shifts
“The shift in the global economic centre of gravity is clear; but there are still major challenges for the emerging economies to sustain their recent strong growth. At the same time, there are huge opportunities for Western companies in the emerging markets – but also great competitive challenges from fast-growing emerging market companies.

John Hawksworth, chief economist at PwC

UK businesses are relatively strong in the kind of tradable services that may grow strongly in future decades due to rising demand from the BRICs and other emerging economies – such as creative industries, business and financial services, university education and healthcare/pharmaceuticals. So we should see the rise of these emerging markets as an opportunity to be grasped for UK business rather than a threat.”

John Hawksworth, chief economist at PwC
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Further reading

UK Economic outlook - November  
http://www.pwc.co.uk/the-economy/publications/uk-economic-outlook/ukeo-november-2012-full-report.jhtml

The World in 2050  
http://www.pwc.co.uk/the-economy/issues/the-world-in-2050.jhtml