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CEOs on sustainable growth: Five areas of focus through 2014

PwC's 14th Annual Global CEO Survey

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In our 14th Annual Global CEO Survey, we find CEOs are optimistic about growth. But after the worst economic crisis in 75 years, new strategies are needed to create it.

One area of business opportunity—and risk—involves the ways businesses can help meet the needs of a growing population, particularly as competition for finite resources increases and if the earth cannot replenish its natural resources fast enough to keep pace with demand. Another area involves the ways business leaders will alter their assumptions about societal development and economic stability in the face of global climate change.

In this document, we present results of the *14th Annual Global CEO Survey,* which explores how CEOs will pursue "good growth"—growth that is financially, socially, and environmentally sustainable.

In the last quarter of 2010, we surveyed 1,201 business leaders in 69 countries and conducted further, in-depth interviews with 31 CEOs to gain a better understanding of those issues.

To see the full report from this survey, which includes the in-depth story and CEOs' views in their own words, visit www.pwc.com/ceosurvey.

CEOs on sustainable growth: Five areas of focus through 2014

1. How do we tap into growing customer sentiment about environmental and corporate responsibility practices?
2. Where are the opportunities to develop more ecofriendly products and services?
3. To what extent do we need to work more effectively with governments on issues involving global risks, including climate change?
4. How do we protect against natural resource depletion that could threaten growth prospects?
5. If we have the right ecoinnovation strategy, how do we attract the right people to deliver it?

1. *How do we tap into growing customer sentiment about environmental and corporate responsibility practices?*

The economic crisis has had a clear effect on purchasing decisions, and nearly half of CEOs surveyed (48%) said the crisis has changed consumer spending permanently. As a result, CEOs cannot rely on what they knew about purchasing behaviours before the recession. Instead, they must listen closely for new signals on how purchasing behaviours are shifting, particularly in emerging markets where recovery is happening at a faster speed.

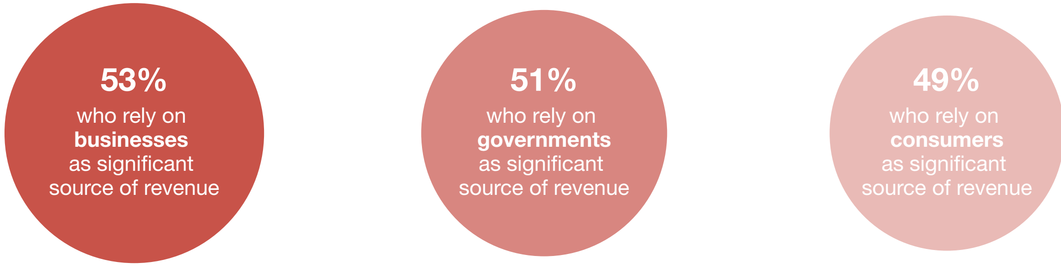
In this year's survey, nearly half of CEOs said they would change their companies' strategies within the next three years because they expect stakeholders to factor companies' environmental and corporate responsibility practices into purchasing decisions (see figure).

Companies are planning to adapt their offerings—or develop entirely new ones—to address society's changing sentiments. They're also planning to answer questions about their environmental and corporate responsibility practices—which includes the practices of their suppliers—to stay in their customers' good graces.

CEOs see big opportunities to make their companies more responsive to society's expectations

Q: To what extent will you change your strategy, in the next three years, because customers are factoring environmental and corporate responsibility practices into purchasing decisions?

CEOs who will change strategies because customers are factoring environmental and corporate responsibility practices into purchasing decisions …



Base: *All respondents who responded yes to the question "For each of the following end customers, do they directly represent more than 33% of your revenues today?" and who replied they would make a "significant change" or "some change" in strategy (Businesses=870, Governments=176, Consumers=548).*

Source: *PwC, 14th Annual Global CEO Survey, January 2011*

"We recently launched Unilever's 'Sustainable Living Plan,' and within hours of the launch, two million people had commented on the plan using Twitter. So consumers are using the Internet to make their expectations known. And if you can fulfil those consumer expectations—which is what we're trying to do with our Sustainable Living Plan—there's tremendous opportunity for business."

Paul Polman
CEO, Unilever

2. Where are the opportunities to develop more ecofriendly products and services?

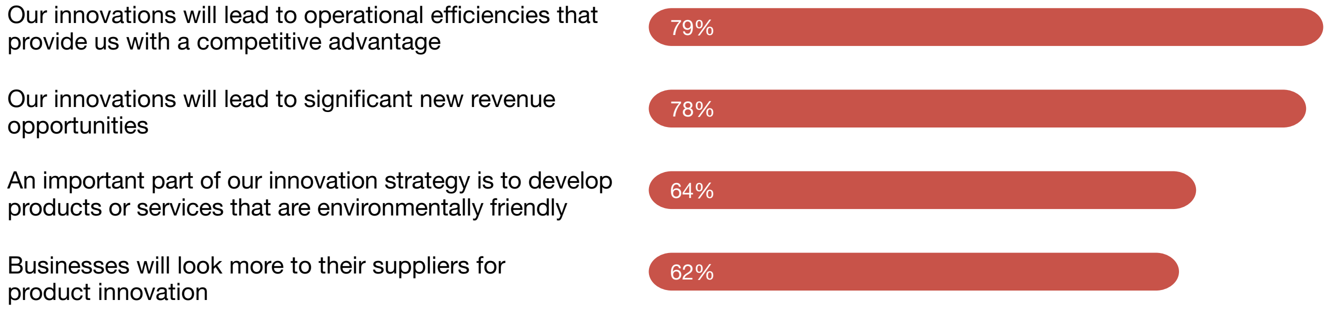
Almost 80% of CEOs we surveyed see both operational efficiency and revenue opportunity coming from their innovation pipelines (see figure). And more than two-thirds (64%) said environmentally friendly products and services are an important part of their innovation strategy.

New ideas for green products and services are not all grounded in technology, but many are. And these new technologies are competing with one another for everything: how we power our cities and factories, how we move people and freight, how we grow food, and how we use natural resources.

The supply chain is critical in the development of ecofriendly products and services. Almost two-thirds (62%) of the CEOs said they plan to look to their suppliers for help in developing and carrying out a shared agenda on innovation.

Companies expect their suppliers to contribute to a shared agenda on innovation

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



Base: *For the first, second, and third items, all respondents who "agree" or "agree strongly" with the question as shown (Global=1,201). For the fourth item, all who receive more than 33% of total revenues from businesses and responded they would make a "significant change" or "some change" in strategy because they expect businesses will rely more on suppliers for product innovation (Global=870).*

Source: *PwC, 14th Annual Global CEO Survey, January 2011*

"Our most important customers have made it eminently clear to us that our reputation impacts their reputation. As a result, value-chain mapping—looking back through the value chain to consider issues like water use, environmental stewardship, labour practices—has become a critical element in our business and product planning."

Gregory R. Page
Chairman and CEO, Cargill, Incorporated

"I think the increase in demand as the global economy recovers will undoubtedly lead to higher prices of certain commodity materials. What we, as a company, need to do as innovators is innovate our way out of that."

Bob McDonald
Chairman, President and CEO, The Procter & Gamble Company

3. To what extent do we need to work more effectively with governments on issues involving global risks, including climate change?

While there is little agreement over what governments should do to mitigate global risks, including climate change, half of the CEOs surveyed are optimistic that a shared agenda between the public and private sector would be more effective than it has been in the past.

In fact, 72% said they would actively support policies that promote good growth—growth that is financially, socially, and environmentally sustainable.

CEOs are thinking win-win—meaning, they want policy makers to balance policy objectives against concerns about overregulation that could harm economic recovery.

It also means they're willing to help the public sector achieve financial-sector stability, infrastructure improvement, workforce training, or other outcomes. But the right framework for collaboration needs to be in place if companies are to join with governments in a sustained effort toward mitigating global risks.

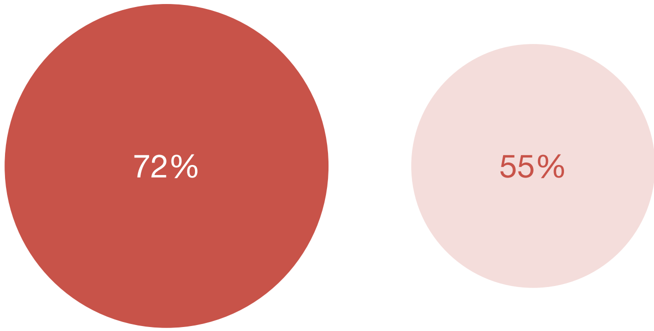
CEOs support policies that promote good growth, but many are concerned about overregulation

Q: How strongly do you agree or disagree with the following statements regarding the changing dynamics of the world economy? How concerned are you that public policies could harm your company's growth prospects?

On policy development and effectiveness

CEOs will actively support policies that promote good growth

More than half are optimistic that public/private partnerships will be effective at mitigating global risks, including climate change



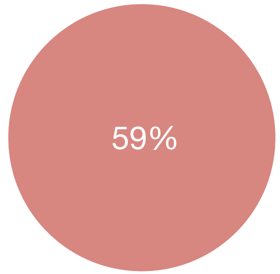
__Base:__ All respondents (Global=1,201)

__Notes:__ Respondents who "agree" or "strongly agree" regarding the changing dynamics of the world economy.

__Source:__ PwC, 14th Annual Global CEO Survey, January 2011

On regulation

More than half are concerned that overregulation will harm their own company's growth prospects



__Base:__ All respondents (Global=1,201)

__Notes:__ Respondents who are "somewhat concerned" or "extremely concerned" about the potential for overregulation to harm business growth prospects.

__Source:__ PwC, 14th Annual Global CEO Survey, January 2011

"Most corporations want to do the right thing. They want to be responsive regarding energy use. The people we're hiring expect us to be. They want to work for a company that has a value system built around sustainability. I don't think you need government regulation to drive it."

Stephen A. Roell
Chairman and Chief Executive Officer, Johnson Controls

4. *How do we protect against natural resource depletion that could threaten growth prospects?*

One out of three CEOs we surveyed said their companies have fundamentally changed strategies due to the global recession, and fundamental change like that requires attention to risk management.

But how do sustainability issues fit into the broader landscape of risk? CEOs said scarcity of natural resources is more likely to derail growth than climate change or natural disasters are—at least for the next three years (see figure).

Limited supplies will leave companies looking for efficiencies in the supply chain, for replacements for materials, or for new partnerships to obtain supplies. Political instability or natural disasters can exacerbate efforts to keep supply chains moving. And such concerns raise risk levels—depending on the sources of raw materials.

In fact, many global risks are linked with each other in a complex web. For instance, social reform, including health and safety concerns, can be linked to political instability. Political instability can in turn raise questions about energy security, natural resource use, and biodiversity loss. And natural disasters have a nasty tendency to catalyze a range of unforeseen impacts—including political instability or more resource shortages. Untangling that web of global risks requires strategic discipline and the foresight to close the gap between strategic planning and operational reality.

Political instability, climate change, and natural disasters—along with other health and environmental issues—can have effects on the availability of natural resources

Q: Which of the following global risks concerns you the most regarding their potential impact on your company's growth prospects in the next three years?

Global risk concerns, next three years

Industry	Political instability	Scarcity of natural resources	Climate change	Natural disasters
Automotive	74%	56%	22%	22%
Metals	70%	65%	24%	16%
Oil & Gas	70%	41%	43%	11%
Private Equity & Investment Management	68%	45%	23%	13%
Engineering & Construction	65%	39%	19%	26%
Industrial Manufacturing	62%	46%	21%	21%
Chemicals	59%	66%	31%	25%
Technology	58%	22%	19%	25%
Pharma & Life Sciences	55%	13%	19%	21%
Retail	51%	31%	16%	19%
Retail & Commercial Banking	51%	17%	22%	30%
Consumer Goods	50%	42%	32%	26%
Transportation & Logistics	50%	37%	32%	32%
Utilities	49%	34%	60%	34%
Insurance	46%	9%	44%	61%
Entertainment & Media	43%	3%	20%	30%

60-80%
40-60%
20-40%
0-20%

Notes: *Up to three responses allowed for the following: political instability, scarcity of natural resources, climate change, natural disasters, biodiversity loss, terrorism, and pandemics.*

Base: *All respondents. (Automotive=50, Metals=37, Oil & Gas=46, Private Equity & Investment Management=31, Engineering & Construction=77, Industrial Manufacturing=76, Chemicals=59, Technology=59, Pharma & Life Sciences =53, Retail=75, Retail & Commercial Banking=69, Consumer Goods=153, Transportation & Logistics=60, Utilities=53, Insurance=57, Entertainment & Media=30)*

Source: *PwC, 14th Annual Global CEO Survey, January 2011*

5. If we have the right ecoinnovation strategy, how do we attract the right people to deliver it?

A focus on managing risk and building trusting relationships with stakeholders remains squarely on the agenda as a means of attracting consumers, investors, and employees; but the most-urgent concern for the next 12 months involves talent (see figure).

We expect companies' talent strategies to reflect companies' growth plans: more than three-fourths (76%) of CEOs surveyed said they would need leaders who can navigate emerging market growth opportunities, and 64% are planning for more ecofriendly products and services.

Yet the most sought-after people can be choosy when picking employers. By investing in the specific needs of pivotal employees, CEOs can have a better case for attracting—and keeping—the people they'll need.

CEOs need leaders capable of driving strategies for sustainable growth

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

Changes to the organization, next 12 months

Industry	Strategies for managing talent	Approach to managing risk	Focus on corporate reputation and rebuilding trust
Insurance	91%	84%	81%
Automotive	90%	84%	62%
Retail & Commercial Banking	87%	83%	74%
Entertainment & Media	87%	73%	77%
Transportation & Logistic	85%	80%	57%
Private Equity & Investment Management	84%	87%	74%
Technology	83%	68%	59%
Industrial Manufacturing	82%	75%	57%
Metals	81%	73%	73%
Engineering & Construction	81%	75%	61%
Chemicals	81%	78%	51%
Utilities	81%	79%	62%
Retail	80%	72%	53%
Pharma & Life Sciences	79%	70%	60%
Consumer Goods	79%	75%	61%
Oil & Gas	78%	67%	63%

80-100%
60-80%
40-60%

Notes: *Up to three responses allowed for the following: strategies for managing talent, approach to managing risk, focus on corporate reputation and rebuilding trust, investment decisions, organizational structure, capital structure, and engagement with your board of directors.*

Base: *All respondents. (Insurance=57, Automotive=50, Retail & Commercial Banking=69, Entertainment & Media=30, Transportation & Logistics=60, Private Equity & Investment Management=31, Technology=59, Industrial Manufacturing=76, Metals=37, Engineering & Construction=77, Chemicals=59, Utilities=53, Retail=75, Pharma & Life Sciences=53, Consumer Goods=153, Oil & Gas=46)*

Source: *PwC, 14th Annual Global CEO Survey, January 2011*

Related reading

The China Greentech Report 2011

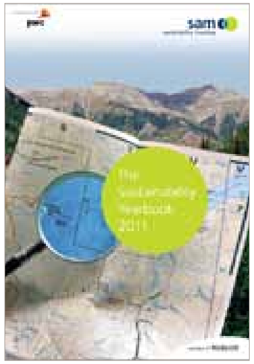
The China Greentech Report 2011 cites five specific trends that are driving China's emergence as a global greentech leader. It includes market updates of six greentech sectors, and summaries of 19 prioritized greentech market opportunities.

Growth reimagined: The 14th Annual Global CEO Survey and what it means for your business

Companies are reshaping their strategies and operating models—focusing on issues like talent, innovation and collaboration—to find new sources of revenue growth and competitive advantage. This paper asks eight key questions about where and how to change, as CEOs redefine what growth looks like in a post-crisis world.

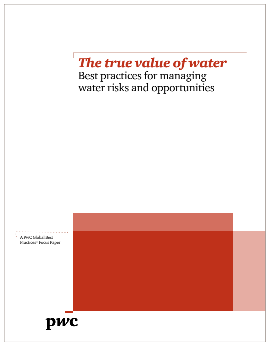
Guide to Corporate Ecosystem Valuation (2011)

PwC has collaborated with the World Business Council for Sustainable Development (WBCSD) to develop this first-of-its-kind framework. This WBCSD guide enables companies to consider the actual benefits and value of the ecosystem services they depend upon, giving them new information and insights to include in business planning and financial analysis.



The Sustainability Yearbook 2011

PwC and Sustainable Asset Management bring you the 12th annual assessment of corporate sustainability practices, which provides the basis for the Dow Jones Sustainability Indexes. In it, we share our views on water availability and business risk.



The true value of water: best practices for managing water risks and opportunities (2010)

As the world faces growing scarcity of the freshwater essential for sustaining life and running businesses, leading companies are waking up to the true value of water—and the related risks and opportunities.

Carbon Disclosure Project: Global 500 and S&P 500 reports (2010)

The Carbon Disclosure Project (CDP), to which PwC has been appointed global advisor and report writer, provides institutional investors with an annual analysis of how the world's largest companies are responding to climate change.

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