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Dealing with disruption: Adapting to survive and thrive

Events & Trends

Key findings from PwC's 2013 global CEO survey.

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資誠

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Words from the Editor

For the past 16 years, PwC has set out to uncover how CEOs view the most challenging business issues of the day, and how they're responding. PwC's latest *Annual Global CEO Survey*, Dealing with disruption: adapting to survive and thrive, shows that continued volatility and uncertainty in the global economy has taken a toll on CEO confidence in the prospects for their business growth in 2013.

This issue of *Events & Trends* highlights the findings of PwC's survey of 1,330 business leaders in 68 countries, which was released at the World Economic Forum annual meeting in January. CEOs worldwide remain cautious about their short-term prospects and the outlook for the global economy. Longer-term, overall confidence is more upbeat. This suggests that leaders believe their organisations can be resilient by rolling with the short-term blows while reshaping for longer-term growth.

CEOs worldwide are working to deal with the ongoing risks. Strategically, CEOs continue to refine their business operations, looking to cut costs without reducing value as they manage through sluggish times. They are seeking growth opportunities organically, avoiding large outlays that could strap resources for the future. Most important, they have a clear focus on customers, collaborating with them more closely than ever on programmes to stimulate demand, loyalty and joint innovation.

Nevertheless, CEOs remain anxious about the global economy. Many are casting a wary eye over how governments are addressing their deficits—and seeing a potentially rising tax burden as the key threat to their business's growth. The first 'Issues' article looks at the current debate on corporate tax avoidance and how tax has become a reputational issue. It's a risk that no business leader can afford to ignore. The article advocates that tax planning should form a key element of their strategic thinking.

For a local perspective, the second first 'Issues' article highlights the findings of PwC's *2013 Taiwan CEO Survey*, which was released in May. Taiwan's business leaders are fairly confident about their growth prospects for 2013, having already prepared themselves for a choppy ride that may lie ahead. PwC Taiwan's Markets & Strategies Leader Steven Go discusses the three common approaches that local CEOs are adopting to make their organisations more resilient to survive amid economic disorder.

As always, I welcome your constructive feedback and suggestions on ways to improve this PwC publication, and encourage you to contact me at damian.gilhawley@tw.pwc.com

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Damian Gilhawley
Editor-in-Chief, Events & Trends

Feature

Dealing with disruption: adapting to survive and thrive

The disruptive decade

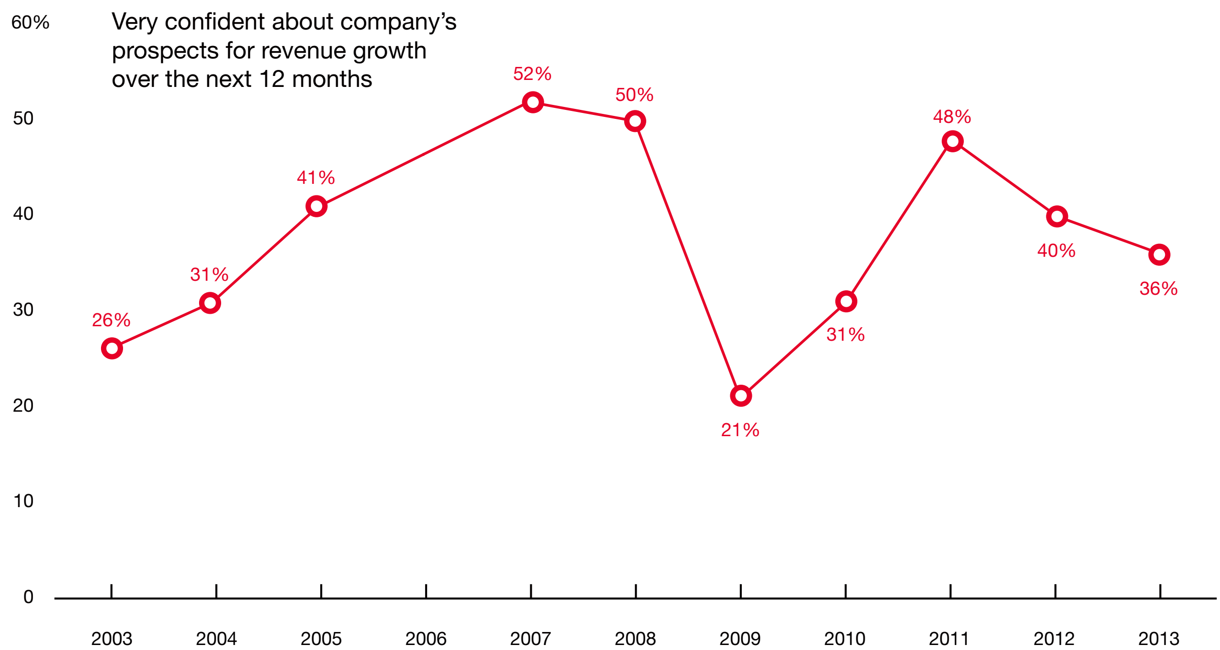
The global economic outlook is certainly enough to test even the strongest enterprises. The eurozone is still mired in recession and the US economy is forecast to expand by just 2.2% this year.[1] The situation in some of the growth markets is also getting harder, as the slowdown in the BRIC economies demonstrates.

While market conditions in many countries are still very difficult, CEOs are more positive about the prognosis than they were last year: 52% think the global economy will stay the same for the next 12 months and only 28% believe it will shrink. In 2012, by contrast, 48% were convinced the global economy would contract.

But economic plateaux aren't exactly grounds for cheer. That's why short-term confidence about the prospects for revenue growth has continued falling (see Figure 1). CEOs in Western Europe are especially nervous. Only 22% feel very confident they can increase their company's revenues in the coming 12 months, compared with 53% of CEOs in the Middle East and Latin America.

Figure 1: CEO confidence has gone up and down sharply over the past decade

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?



Base: All respondents (2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084; 2006 (not asked); 2005=1,324; 2004=1,386; 2003=989)
Source: PwC 16th Annual Global CEO Survey

1 PwC, 'Global Economy Watch' (December 2012).

When people ask me, 'What's going to happen in the next five years?', I throw up my hands and say 'I have no idea and neither do you.' How do you cope with that degree of uncertainty? Well, I think, first, by having the right attitude about the process of change and reinvention.

Peter Tortorici, CEO, GroupM Entertainment Global, US

The prevailing mood is, as usual, somewhat more optimistic when it comes to the longer-term outlook: 46% of CEOs are very confident about expanding over the next three years. That said, CEOs in most parts of the world are much less positive than their peers in the E7 markets (46% versus 58%).[2]

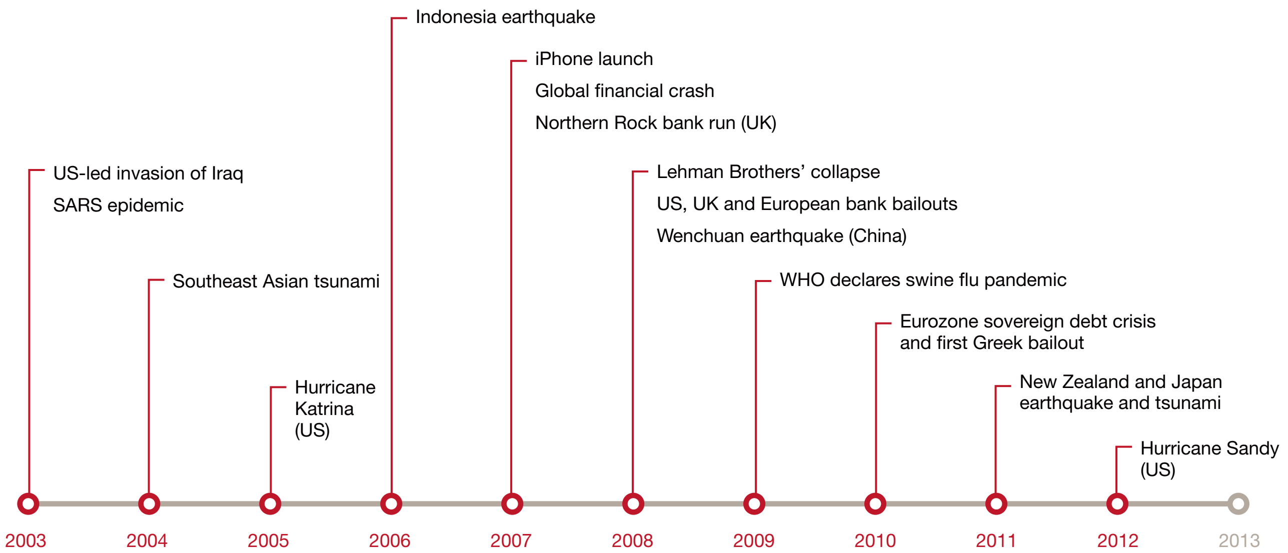
It's easy to understand why they're so cautious. Far-reaching changes are happening – and they're also happening faster than before. Between 1970 and 2011, the number of man-made disasters nearly tripled, while the number of natural disasters surged sevenfold.[3] The past decade alone has seen a number of major disruptions (see Figure 2).

In short, improbable risks aren't so improbable now; they're becoming the norm in a more uncertain world. And CEOs everywhere are feeling the heat.

…people always tend to think that a tough economic situation is the sign of a 'new normal' and, conversely, that a robust world economy will last forever. But economic conditions always alternate.

Yasuchika Hasegawa, President and CEO, Takeda Pharmaceutical Company Ltd., Japan

Figure 2: Major disruptions over the last decade



Source: PwC

2 E7 markets: China, India, Brazil, Russia, Mexico, Indonesia and Turkey.
3 Swiss Re, *sigma* No 2/2012.

What worries CEOs most?

The global community of regulators – as well as the political classes – are keen on ensuring the stability of the financial system. And that implies a completely new order, a new set of rules to play by. In these cases, it's not uncommon to wind up in a situation of regulatory overreach.

Piyush Gupta, CEO and Director, DBS Group, Singapore

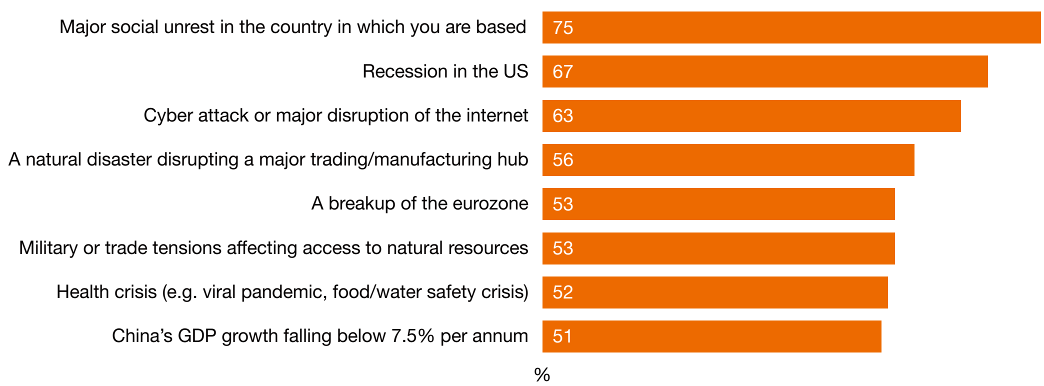
Today's CEOs are concerned about a wide range of potential and ongoing threats to their business growth prospects. These include catastrophic events, economic and policy threats and commercial threats.

Major disruptions

We asked CEOs about their organisation's ability to cope with the potential impact of various disruptive scenarios. The majority thought their organisations would be negatively affected, with major social unrest being cause for the greatest concern (see Figure 3). Indeed, CEOs are far more concerned about this than they are about a slowdown in China, possibly because they've already factored the latter into their calculations.

Figure 3: Major social unrest tops the list of scenarios that would have the worst impact on CEOs' organisations

Q: How well would your organisation be able to cope with the following scenarios, if they happened within the next 12 months? (respondents who answered 'negative impact')



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

Red numbers, red tape

Of course, major disruptions aren't the only cause for concern; CEOs are nervous about a whole clutch of fiscal and political threats. The prospect of continuing economic volatility heads their worry list, as it has for the past two years. But 71% – rising to 89% in North America – are also concerned about how debt-laden governments will try to address growing deficits. And 69% are anxious about the risk of overregulation, now seen as a bigger threat than at any time since 2006 (see Figure 4a).

Has regulation gone too far? The US Dodd-Frank Act of 2010 runs to a massive 884 pages, which makes it 23 times longer than Glass-Steagall, the reform that followed the Wall Street Crash of 1929.[4] And the European Commission (EC) has generated so much red tape that business ministers from Germany, the Netherlands, Poland and the UK recently wrote a letter urging Brussels to reduce the burden.[5] This is in spite of the EC's efforts of the past years to consolidate, codify and simplify existing legislation and improve the quality of new legislation.

Figure 4a: Volatile conditions top the list of economic and political threats, but concerns vary by where CEOs are located

Q: How concerned are you about the following potential economic and policy threats to your business growth prospects?
(top four threats global CEOs named)

Base: All respondents (North America=227; Western Europe=312; Asia Pacific=449; Latin America=165; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

4 'Over-regulated America', *The Economist* (18 February 2012), http://www.economist.com/node/21547789
5 James Kirkup, 'Lift the weight of red tape, Vince Cable and allies urge Brussels', *The Daily Telegraph* (20 November 2012), http://www.telegraph.co.uk/finance/yourbusiness/9689165/Lift-the-weight-of-red-tape-Vince-Cable-and-allies-urge-Brussels.html

Too much tax, too little talent

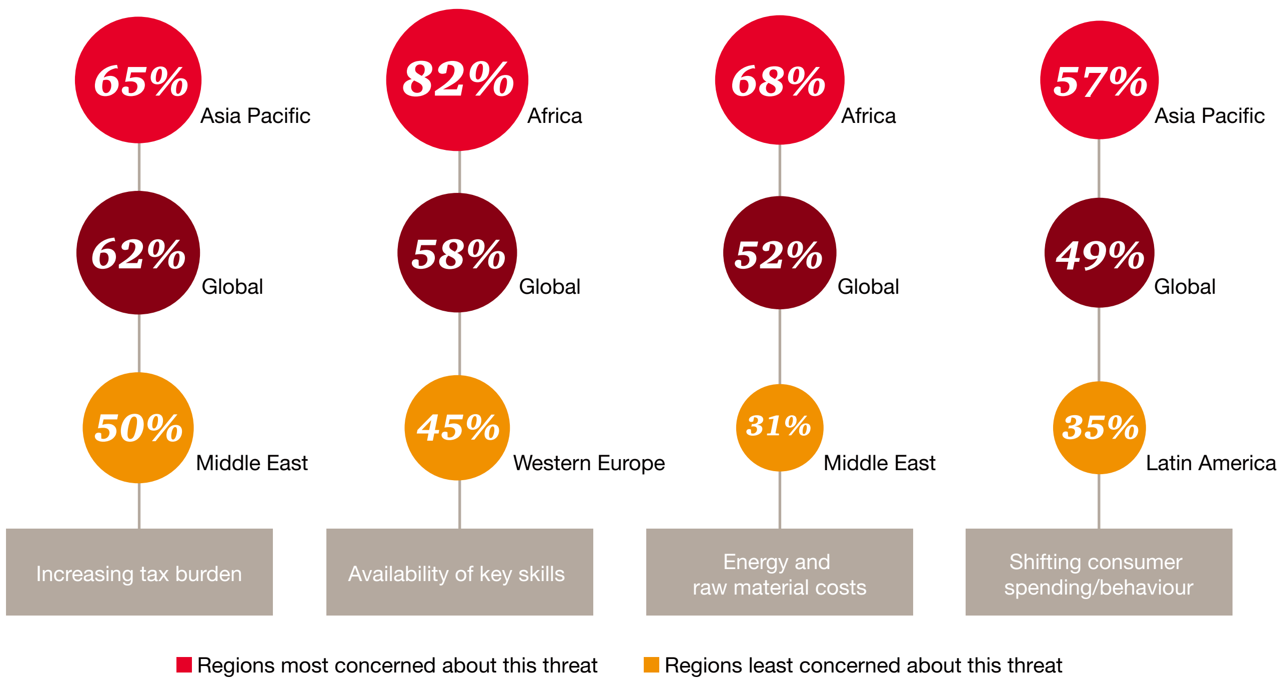
On the commercial front, CEOs are particularly anxious about higher taxes and the shortage of key skills (see Figure 4b). These are perennial fears, but current events have brought them to the fore.

In the US, for example, one of the most pressing issues in President Obama's in-tray is reform of the corporate tax system. In February 2012, he proposed reducing the headline tax rate by eliminating dozens of subsidies, a move that could hit some companies hard.[6] Meanwhile, the competition for talent has become more fierce than ever before, with the aging of the global population and the changing nature of work.

Energy and raw material costs are also a significant source of unease – especially in Africa and Asia Pacific, where 68% and 63% of CEOs, respectively, see them as a serious threat.

Figure 4b: Volatile conditions top the list of business threats, but concerns vary by where CEOs are located

Q: How concerned are you about the following potential business threats to your growth prospects?
(top four threats global CEOs named)



Base: All respondents (Western Europe=312; Asia Pacific=449; Latin America=165; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

6 Jackie Calmes & John H. Cushman Jr., 'Obama Unveils Proposal to Cut Corporate Tax Rate', *The New York Times* (22 February 2012), http://www.nytimes.com/2012/02/23/business/economy/obama-introduces-plan-to-cut-corporate-tax-rate.html?pagewanted=all

Silver lining for some

It's not all doom and gloom, though. Nearly a fifth of all CEOs in the Middle East believe the collapse of the eurozone could provide new business opportunities.

Similarly, 16% of CEOs in the Middle East and 13% of CEOs in Central and Eastern Europe believe China's slowing growth could open new doors. And 13% of CEOs in North America would welcome a squeeze on natural resources for the same reason.

In fact, Chinese CEOs are already benefiting from the lingering uncertainty in the eurozone. Our research shows that, in 2011, there were 61 deals in which mainland Chinese companies acquired European companies – up from 11 in 2006. And in the three months to March 2012, the number of Chinese firms purchasing European firms surpassed the number of European firms purchasing Chinese firms for the first time in history.[7]

From risk management to resilience

One thing is clear: the threats facing CEOs are coming from all directions; they're coming harder and faster; and they're coming in more subtly varied forms. Confronted with this changing risk landscape, CEOs recognise that traditional risk management techniques aren't enough. And, in a stagnating global economy, they know they can't rely on a rising tide to come to the rescue.

The only way forward is to build organisations that can survive and thrive amidst disorder: organisations that are agile and adaptable, able to cope with disruption and emerge stronger than before.

"If you don't evolve and change, you go backwards. It's pure physics," says Larry Fink, Chairman and CEO of asset management firm BlackRock Inc. "So we've adapted quite considerably. Even this year we changed our entire firm architecture to be more adapted to our clients, to be more adapted to the situation and, importantly, to finalise our evolution from a founders' culture firm to a global, hopefully entrepreneurial firm. And that has been a big evolution."

Some European countries have a high level of productivity while others have a lower level of productivity while they are all wrapped up in a 'monetary corset' subject to different tax regulations. If the eurozone fails, an array of opportunities may arise, because some of the current rigidities will disappear.

Julio Patricio Supervielle, Grupo Supervielle's CEO and Banco Supervielle's Chairman, Argentina

7 PwC, 'China deals: A fresh perspective' (October 2012).

To be honest, we wouldn't dare to predict the future. The fact is the world has been changing a lot more quickly in recent years. And looking back, we find that many forecasts of the global economy turned out to be incorrect. In our company, we just try to do well everything we need to do today. There are so many things out of our control that we feel it's unnecessary and impractical to make too many predictions about the economy. Instead, we focus on building robust systems that can operate under a variety of conditions.

Alex C. Lo, President, Uni-President Enterprises Corporation, Taiwan

A three-pronged approach

Growth is not necessarily about revenue growth. In this uncertain environment there is more and more emphasis on bottom line growth.
Peter Terium, CEO, RWE AG, Germany

So what are CEOs doing to make their organisations more resilient in this era of 'stable instability'? Our survey shows that they're taking three specific approaches:

- **Targeting pockets of opportunity:** CEOs are focusing on a few well-chosen initiatives, primarily in their existing markets, to stimulate organic growth. They're more wary about entering new markets or engaging in mergers and acquisitions (M&As), and diluting their resources too much.
- **Concentrating on the customer:** CEOs are looking for new ways to stimulate demand and foster customer loyalty, such as capitalising on digital marketing platforms and involving customers in product/service development. But they're also aiming to keep their R&D costs down and make the innovation process more efficient.
- **Improving operational effectiveness:** CEOs are balancing efficiency with agility. They're trying to cut costs without cutting value or leaving their organisations exposed to external upheavals. They're also delegating power more widely and collaborating with organisations to share resources and develop new offerings.

Targeting pockets of opportunity

Two-thirds of all CEOs are focusing on a few carefully selected initiatives rather than nurturing numerous different ideas and then weeding out the weakest. That's easier said than done because every business unit naturally thinks its plans should take precedence. But there's considerable evidence to suggest that concentrating your firepower works much better than adopting a scattergun approach.

One analysis of how 4,700 companies weathered three previous downturns shows that the star performers – those that emerged stronger than ever – weren't the obvious ones. They weren't the companies that cut fast and furiously or went on the offensive with ambitious restructuring programmes, acquisitions and the like. The former saw customer satisfaction drop as the quality of their offerings deteriorated, while the latter were stretched much too thin.[8]

The companies that fared best in terms of both sales growth and profits growth were those that mastered the delicate balance between cutting costs to survive in the short term and investing to expand in the longer term. They took advantage of depressed prices to buy property, plants and equipment that would help them compete more effectively in the future. And they invested judiciously in R&D and marketing to boost their sales and profits when demand rose again.[9]

The CEOs in our survey are responding in the same fashion. They're weighing up all their options, making a few smart investments and consolidating their resources to maximise the odds of success. And they're doing so not because they think it's the best way of surviving a downturn but because they think it will make their organisations more robust.

Steve Holliday, CEO of international energy distributor National Grid Group Plc., sums up this approach. "It's very easy to just go off and think you can do things that you do well in many countries around the world which arguably need some of your skills," he warns. But if a company doesn't have a clear idea of where it can deliver value and isn't disciplined in its focus, it risks extending itself too far. "We're very, very conscious of making sure we don't overreach ourselves."

8 Ranjay Gulati, Nitin Nohria & Franz Wohlgezogen, 'Roaring Out of Recession', *Harvard Business Review* 88, no. 3 (March 2010): 62–69.
9 Ibid.

Homing in on organic growth

So exactly which pockets of opportunity are CEOs targeting? Nearly half are pinning their hopes on organic growth in their existing markets (see Figure 5). Only 17% plan to complete M&As or form new strategic alliances. And only 25% are turning to new product and service development.

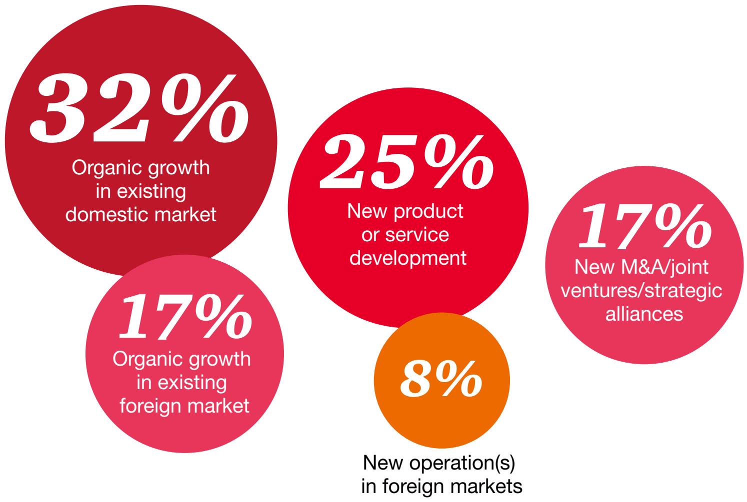
At first glance, then, it might look as if CEOs are hunkering down and waiting for better times. But CEOs also know that, if they want to grow their business, they'll have to go where the growth is – and four distinct economic clusters are emerging (see Figure 6).

The troubled states of Southern Europe are contracting. Meanwhile, Australia, Japan, North America and the more robust members of the European Union are showing signs of recovery, albeit rather shaky.

The growth countries are also diverging. China and India are still expanding rapidly, but the pace is slowing down. Conversely, some parts of Southeast Asia and Latin America are picking up speed. This pattern is expected to continue for the rest of the decade.

Figure 5: CEOs are pursuing the opportunities for organic growth in existing markets

Q: Of these potential opportunities for business growth, which one is the main opportunity in the next 12 months?



Base: All respondents (1,330)
Note: 1% of CEOs responded 'Don't know/Refused'
Source: PwC 16th Annual Global CEO Survey

Figure 6: Two faster and two slower economic lanes are developing

The global growth leaderboard is changing

Growing but susceptible to disruption

Poland	3.4%	France	1.2%
Australia	3.1%	Japan	0.9%
Canada	2.3%	United Kingdom	2.1%
United States	2.4%	Netherlands	1.1%
Germany	1.3%	Ireland	2.2%

Growing and accelerating

Indonesia	6.2%
Brazil	4.0%
South Africa	3.6%

Struggling to grow

Italy	0.3%
Spain	0.9%
Portugal	0.5%
Greece	0.6%

Growing but decelerating

China	7.3%	South Korea	3.6%
India	6.6%	Mexico	3.7%
Saudi Arabia	4.2%	Russia	3.8%
Turkey	5.1%		

Aggregates Eurozone *1.0%* Global (market rates) *3.0%*

All percentages are projected 2013-15 average growth rates

Sources and methodology: PwC analysis, national statistical authorities, Thomson Datastream and IMF. The tables above form our main scenario projections and are therefore subject to considerable uncertainties.

With growth rates among both mature and growth economies diverging, and with highly unique opportunities and threats in each market, CEOs are looking for specific opportunities in all clusters.

It's not surprising that five of CEOs' top ten overseas destinations are growth markets, nor that four of these are the BRIC economies (see Figure 7). But the fact that Indonesia is now in the top ten – for the first time – shows that CEOs have been quick to spot more subtle shifts in the distribution of economic power.

Indonesia is the fastest of the accelerating markets, with real GDP growth forecast to increase by 6.2% a year for the next three years.[10] By 2050, Indonesia's economy in purchasing power parity (PPP) terms could be bigger than that of Germany, France or the UK.[11] Its stock market has soared 12.6% in the past 12 months alone.[12] And the government has launched a major programme to improve the country's overburdened infrastructure.[13]

Other emerging markets are also being prioritised, like Mexico and Thailand, which are close on the heels of CEOs' top ten markets. Mexico is particularly notable – it could become the world's 7th largest economy by 2050 in PPP terms.[14]

And a growing number of CEOs are looking to Africa. For example, Nestlé sees Africa as one of the biggest opportunities for the food industry in the next 10-20 years.[15] Dr. João Bento, CEO of Portugal-based international technology provider Efacec Capital SGSP SA says, "…we also have a presence in growth economies, such as Latin America, Southern Africa, Magreb and also in India."

The US, meanwhile, remains second on CEOs' list of top ten overseas destinations, as it did last year. All five of the mature economies on the list are growing, albeit susceptible to disruption. These markets, which comprise five of the G7 countries, are quite simply too big to ignore: the US, Japan and Germany are projected to remain among the world's ten biggest economies, in PPP terms, in 2050, while Canada and the UK are expected to remain in the top 20.[16]

Furthermore, although the E7 countries will have overtaken the G7 countries in terms of GDP size by 2050, they are still expected to lag far behind the G7 countries in terms of GDP per capita.[17] So large, mature markets will still remain attractive for higher valued products and services, given their more affluent consumers.

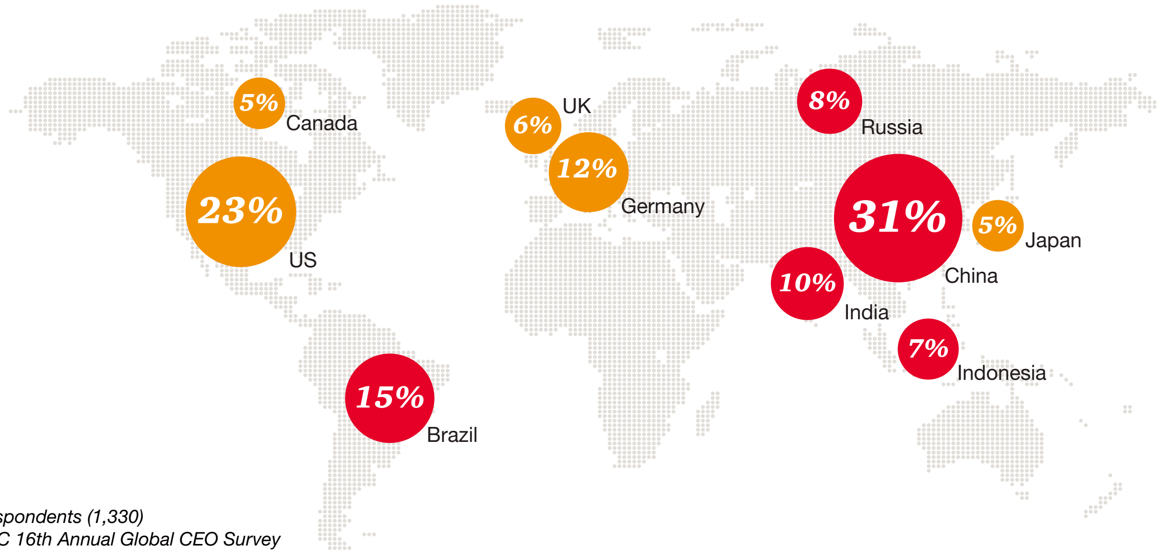
CEO opinion is divided on Europe, though some CEOs see promise, including those countries that are struggling to grow. "People there [in Western Europe] have decided that they should work less and retire earlier. And that may not be affordable. So I think that Western Europe has a serious structural issue." says Seymur Tari, CEO of Turkish private equity firm Turkven.

Yves Serra, President and CEO of Swiss industrial components manufacturer Georg Fischer Ltd., is more positive. "We focus our efforts on where we see growth. This includes Asia and America, at least for our products, and also some sectors in Europe. …So the picture is not just black and white; there are definitely pockets of growth in Europe as well."

The traffic isn't going in only one direction, though. CEOs in the mature markets may be looking to various growth markets, but CEOs in growth markets are equally prepared to go further afield: 33% of CEOs in Asia Pacific and 19% of those in the Middle East are targeting the US, for example, while 27% of CEOs in Latin America and 18% of those in Africa are targeting China.

Figure 7: Half of CEOs' top ten countries are growth markets

Q: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months? (maximum of 3 responses)



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

10 PwC projections.
11 PwC, 'World in 2050' (January 2013).
12 Daniel Inman, 'Southeast Asia's Growing Appeal', *The Wall Street Journal* (3 December 2012), http://online.wsj.com/article/SB10001424127887324020804578151761632189982.html#mod=djemITPE_t
13 Eric Bellman, 'Indonesia Boosts Infrastructure Investment', *The Wall Street Journal* (7 December 2012), http://online.wsj.com/article/SB10001424127887323501404578165794187322794.html
14 PwC, 'World in 2050' (January 2013).
15 Caroline Scott-Thomas, 'Nestlé eyes big food industry opportunities in Africa', *Food Navigator* (26 November 2012), http://www.foodnavigator.com/Financial-Industry/Nestle-eyes-big-food-industry-opportunities-in-Africa
16 PwC, 'World in 2050' (January 2013).
17 Ibid.

…I think what we have to do … is look for the growth opportunities very carefully. The easy route is to say, well that's an emerging market so that's got to be good, that's a mature market, that's got to be tougher, but … I think you've got to drill down to see where the growth really is. … and there is *growth in every market – but you've got to go granular.*

Alison Cooper, Chief Executive, Imperial Tobacco Group, United Kingdom

Concentrating on the customer

Irrespective of the markets they're in, CEOs have one overwhelming goal: to grow their customer base. Indeed, 51% say it's a top three investment priority for the coming year.

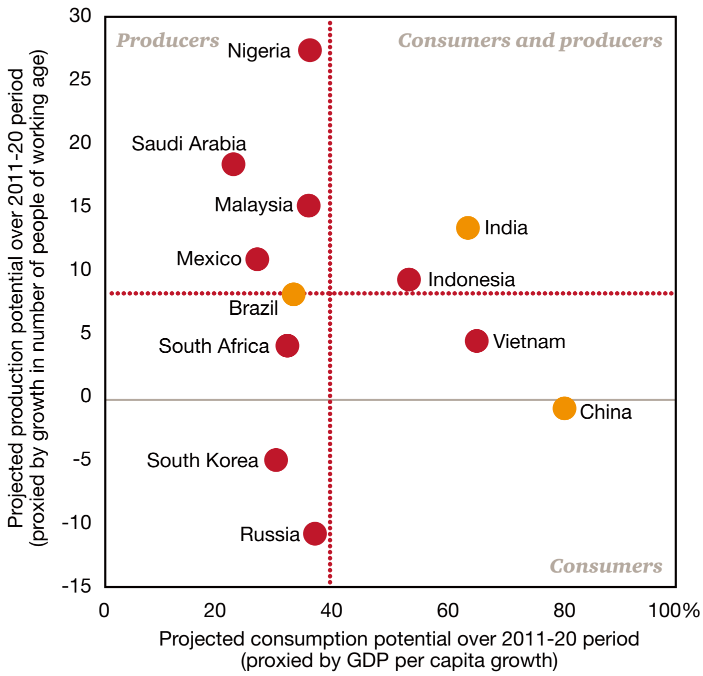
That's not surprising. What's changed is the fact that CEOs are now trying to attract more customers while focusing on a smaller, more targeted range of growth strategies – no easy task in the current economic climate. The recession has hit some businesses and consumers badly, particularly those in richer countries. Between 2000 and 2011, consumer spending in the mature markets increased by just 2.1% a year. In the growth markets, by contrast, it increased by a much healthier 5.7%.[18]

Very different consumption volumes and patterns in different markets add to the challenge. Though the growth economies have some common characteristics, they also differ in key respects – and these differences are likely to intensify as they continue to develop. Some growth countries are primarily producers rather than consumers, for example (see Figure 8).

The purchasing power and preferences of consumers can also vary a lot within, as well as between, countries, and adapting to such disparate tastes requires a deep understanding of the local environment. "It all starts with the consumer – a rich and robust understanding of what they want, where they're going, but, most importantly, what they want in the future," Douglas D. Tough, Chairman and CEO of International Flavors & Fragrances, Inc., observes.

"We interview consumers all around the world to make sure we have a robust database, and we don't extrapolate necessarily from any one country to get a global view." But there are obvious risks for multinationals, he adds. "…they have to adapt properly to local needs." The competition from local and regional rivals is also increasing all the time.

Figure 8: Not all growth markets are consumer-led economies



Note: Dotted lines represent average values
Source: PwC analysis, UN population figures.

In fact, nearly half the CEOs we polled see shifts in consumer buying patterns as a serious business threat. And they realise that being able to respond quickly and effectively to such changes is crucial.

Dr. Weihua Ma, President and CEO of China Merchants Bank Co. Ltd., puts the position particularly well: "We commercial banks are service institutions, so changes in customer demands are extremely important for us. Just as a chef in a restaurant will lose his job if his cooking cannot satisfy his customers, a service institution will not exist if it has no customers."

We keep close track of the real estate sector in order to remain on the cutting edge of all advanced trends in the construction of buildings, energy efficient technologies and environmentally friendly materials. We introduce ready-to-move-in residential apartments in our buildings in response to client suggestions.

Valentina Stanovova, Senior Vice-President, Capital Group, Russia

18 PwC, 'Introducing the PwC Global Consumer Index' (October 2012), http://press.pwc.com/GLOBAL/global-consumer-spending-slowdown-eases.-pwc-releases-first-ever-global-consumer-index-gci/s/bc11166a-cd72-4ea7-93fa-c167d10a5cb5

Getting customers onside

So it's no wonder that new strategies to stimulate demand and foster customer loyalty play a big part in CEOs' plans for the next 12 months. A full 82% anticipate making changes on this score – and 31% have major changes in mind (see Figure 9).

One obvious measure is to take advantage of the new marketing platforms now emerging. Most organisations have traditionally used market research, competitive benchmarking and the like. But these sources of information can only show how customers behave en masse.

That's not the case in the digital arena. Mining social media sites, blogs, consumer reviews and other such data sources helps an organisation find out what individual customers think and want. Equipped with these insights, it can then develop products and services for specific customer segments and craft more personalised marketing messages – as well as enhancing the brand. This may explain why three-quarters of CEOs say they're increasing their technology investments.

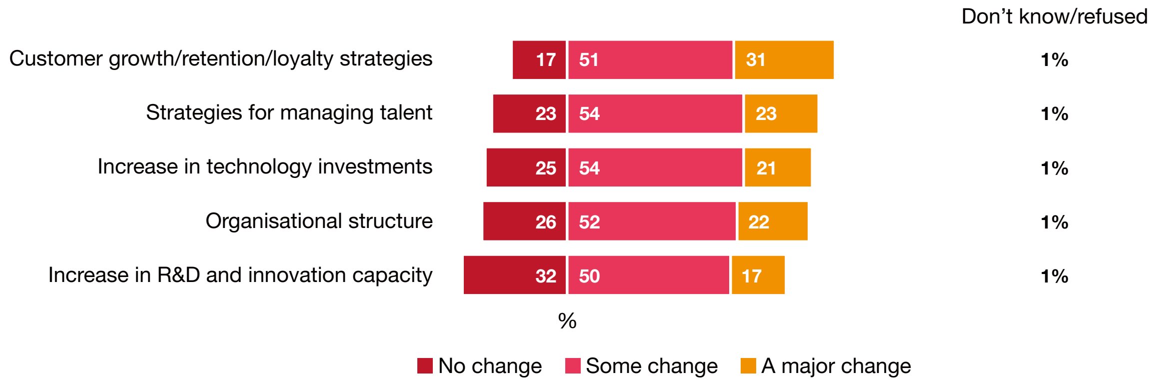
In terms of the importance of our different stakeholders, our customers are absolutely the most important. If we don't give them a good service – affordable tariffs, high reliability, good customer service – then we know we are going to be in trouble.

Andrew Brandler, CEO, CLP Holdings Ltd., Hong Kong, China

Engaging with customers isn't just about communicating with them, though. It's also about working with them to co-create new offerings, and helping them use the products and services they've bought more enjoyably or effectively. Boeing has perfected the first of these two approaches: it consults airlines and frequent flyers alike when it's designing new planes.[19] Digital music service Spotify has perfected the second by inviting subscribers to customise their playlists, which enhances the product offering for them and for others.

Figure 9: Attracting – and keeping – more customers is a key priority

Q: To what extent do you anticipate changes at your company over the next 12 months?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

19 Bryan Urbick, 'Innovation Through Co-creation: Consumers Can be Creative', *Innovation Management* (26 March 2012), http://www.innovationmanagement.se/2012/03/26/innovation-through-co-creation-consumers-can-be-creative/

Making the most of disruption

Yet innovation – generally one of the most important factors in attracting and retaining customers – is surprisingly low down the schedule for many CEOs. It comes fifth on their list of investment priorities for this year. And though 67% plan to increase their company's R&D capacity, only 17% intend to make major alterations.

The drive for efficiency explains why some CEOs are reluctant to invest more in R&D, but a closer look at the data also shows marked regional variations. CEOs in Africa, Asia Pacific and Latin America are more likely to be beefing up their company's R&D than those in the rest of the world – possibly because the growth countries are still in catch-up mode.

Nevertheless, CEOs know that innovation isn't possible without investment. That's why a number of leading companies are adopting a more imaginative approach to the innovation process itself, whether it's incremental changes or more fundamental changes to their business models, in order to become more agile and responsive to competitive threats or shifts in customer demand.

Finland-based international communications and information technology company Nokia is a case in point. "…our focus is very much on disruption – disrupting ourselves, disrupting the trends that have been established in the industry and moving forward with new strategies, new products and new ways of managing our organisation in order to keep pace and indeed accelerate the pace beyond others." says President and CEO Stephen A Elop.

"One of the most important ways that we see to drive disruption is to focus on unique and differentiating consumer experiences. That's a fancy way of saying, 'how can we help you do something you couldn't do before?' … when you look at the patterns of disruption, particularly in the area of technology, it's often something relatively focused, relatively simple that allows you as a person to do something you couldn't do before, or to do it faster or more efficiently. And it's those types of innovations that we're focused on today," he explains.

Human capacity is key to any company's growth. The second important factor is R&D.

Karen Agustiawan, President Director and CEO, PT Pertamina (Persero), Indonesia

…we want more than just satisfied consumers. We want to delight them – to go beyond their expectations. We are seen as a company that delivers excellence in terms of customer service. But our main innovations are our [retail] collections and how quickly we get them to market.

José Galló, CEO and Director, Lojas Renner, Brazil

It all starts with the consumer – a rich and robust understanding of what they want, where they're going, but, most importantly, what they want in the future.

Douglas D. Tough, Chairman and CEO, International Flavors & Fragrances, Inc., US

Improving operational effectiveness

Under pressure to meet demanding customer growth targets within tightly defined investment parameters, CEOs know they'll have to change the way their companies function. Nearly half say improving operational effectiveness is one of their top three investment priorities this year.

Anders Nyrén, President and CEO of global investment firm Industrivärden AB, based in Sweden, spoke for many CEOs when he told us: "Given that the global economy and the global pace of life are getting faster in all aspects, one needs to become more agile and efficient about everything – including running a company. It's essential that you streamline operations and become leaner wherever you can, so as to be able to react more quickly to changing market conditions."

Finding the right balance

Cost-cutting is still high on the agenda: 77% of CEOs have undertaken cost-saving initiatives in the past 12 months and 70% plan to do so in the next 12 months (see Figure 10). But they're not wielding the knife indiscriminately; they're trying to balance efficiency with other strategic objectives. As Artem Konstandyan, CEO of Russia's Promsvyazbank (PSB), notes, "Downsizing is not a goal in itself. We're trying to streamline our operations and improve staff performance."

An example? Many companies discovered in the aftermath of the tsunamis in Southeast Asia and Japan that the quest to maximise the efficiency of their supply chains had severely impaired their ability to cope with disruption. Today's CEOs have clearly learned from that experience: 50% are diversifying their supply chains and working with suppliers in a wider range of territories.

CEOs are also wary about inadvertently cutting value in the course of cutting costs – and slashing the workforce is one action that can certainly backfire. This probably explains why 25% have kept their company's headcount the same for the past 12 months, while 48% have actually increased it. It may explain, too, why 77% of CEOs plan to revise their strategies for managing talent in the coming year; they realise they won't be able to attract and retain new customers without well-trained, highly motivated employees.

I think the underlying idea of trying to reduce cost in whatever we do actually makes us become creative and innovative.

Aireen Omar, CEO, AirAsia Berhad, Malaysia

We believe the underlying growth trends will be slow. So we have to just be better than the competition in these markets, and that is also one of the reasons why we have to keep costs under control.

Martin Blessing, Chairman of the Board of Managing Directors, Commerzbank AG, Germany

…we have had to look seriously at how we manage our business. And, we have had to learn how to be prepared to disrupt ourselves. So, rather than getting too rigid and bureaucratic and too procedures-driven, sometimes we've had to step outside of ourselves, but yet within ourselves, by creating new units to challenge the way that we do business and to extend that learning to the traditional parts of our business.

Alex Arena, Group Managing Director, HKT Ltd., Hong Kong, China

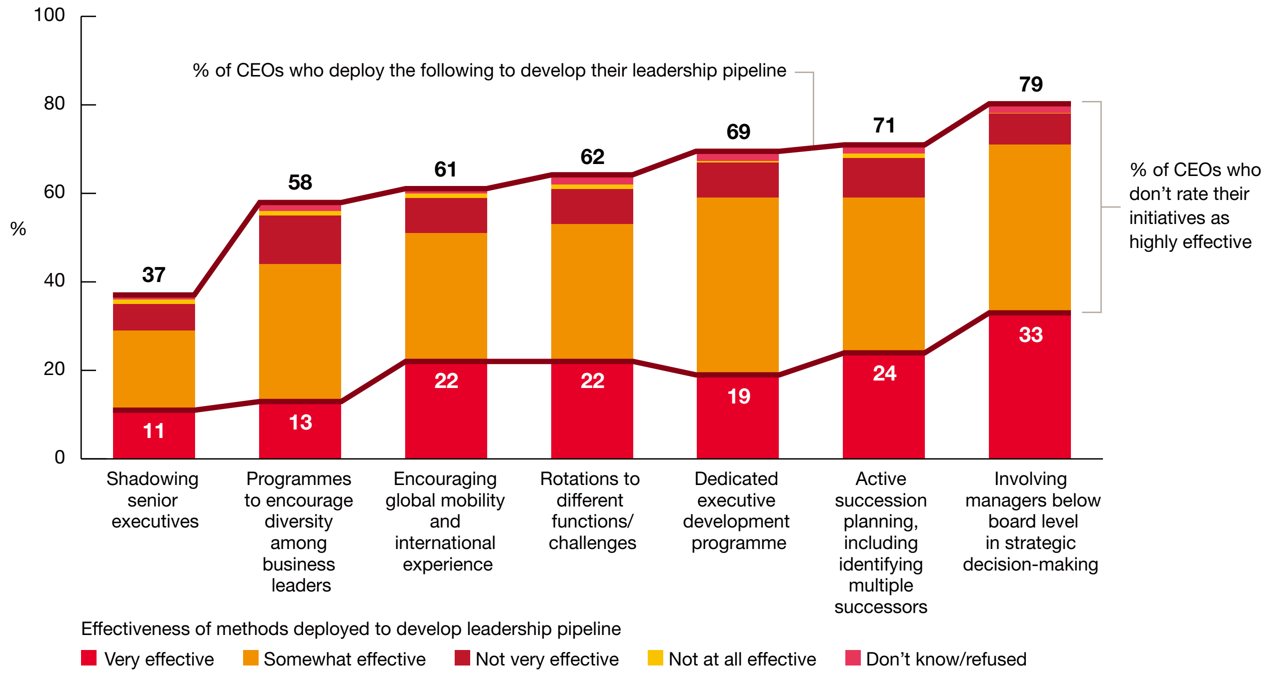
Figure 10: Cost-cutting tops the list of restructuring activities CEOs plan to put in place in 2013

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months?

Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

Figure 11: Involving less senior managers in strategic decisions is seen as most effective in preparing them for leadership

Q: Do you deploy any of the following to develop your leadership pipeline?
Q: If so, how effective are they?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

Putting power in more hands

In fact, some CEOs are going considerably further: they're devolving power more widely to make their organisations more agile and responsive. Although only 31% encourage all their staff to get involved in strategic planning, 79% include managers below board level in such decisions as part of the process of developing their leadership pipelines. And most CEOs think it's the best way of nurturing their successors (see Figure 11).

"We don't have one way of doing things nor do we have one point of authority to which all questions have to be directed," says Carl Sheldon, CEO of United Arab Emirates-based global energy company TAQA. "Instead, our approach is to create a culture that empowers people and – within the context of a set of shared values – provides them with the freedom to take action. That gives you tremendous strength, flexibility, and agility."

That said, there are pronounced regional variations in behaviour. CEOs in North America are far more likely to encourage their employees to participate in strategic decisions than those based in Central and Eastern Europe, Asia Pacific and Latin America. They're also more likely to involve middle managers.

These variations obviously reflect cross-cultural differences in how decisions are made. CEOs in cultures that are relatively egalitarian typically adopt a more participative approach than those in cultures that are relatively hierarchical.[20] But whereas participative management can improve profitability in less hierarchical cultures, it can worsen profitability in more hierarchical cultures.[21] So using different decision-making styles in different cultures makes good business sense.

I prefer a management style based on openness and cooperation at every level; one that does not necessarily obey or respect hierarchy at all times. I believe in leadership that can stay flexible.
Sándor Csányi, Chairman and CEO, OTP Bank Plc., Hungary

20 Pankaj Ghemawat & Sebastian Reiche, 'National Cultural Differences and Multinational Business', Globalization Note Series, 2011.
21 Karen L. Newman & Stanley D. Nollen, 'Culture and Congruence: The Fit Between Management Practices and National Culture', *Journal of International Business Studies* 27, No. 4 (4th Quarter, 1996), pp. 753-779.

Sharing as well as buying

It's not just the way management and employees interact within organisations that's changing, though; it's also the way organisations interact with each other. Nearly half the CEOs we polled aim to form a new strategic alliance or joint venture during the next 12 months, which is broadly in line with the pattern for the past four years.

At the same time, global M&A activity has declined sharply since the start of the global financial crisis, although CEOs in some sectors, like mining, power and utilities and communications, are much more likely to be prioritising investment in M&A in the coming year.

Even so, the aggregate value of the deals completed in the first half of 2012 was less than half the value of the deals completed in the first half of 2007.[22] Further evidence of how cautious CEOs have become is the fact that three-quarters of the deals conducted in 2012 were cash-only transactions.[23]

Yet, some firms have plenty of money in their piggy banks. US companies are sitting on about $1.7 trillion in cash reserves.[24] Canadian companies hold nearly $300 billion.[25] And British businesses hold another £720 billion.[26] Nearly two-thirds of the CEOs who participated in our survey also intend to boost their capital spending over the next 12 months, which suggests that they have enough cash to finance their plans or are confident of raising the funds. So, if money isn't the issue, what is?

We believe the dip in M&A is being driven by current levels of uncertainty rather than a major change in emphasis. But we're also seeing a move by businesses towards 'sharing', by forming partnerships or networks. Inspired by companies like Amazon and Apple, CEOs recognise that they're no longer confined to the traditional options of 'build or buy'.

Collaborating with other organisations in the same or adjacent industries provides new opportunities for generating business by co-developing products and services, taking advantage of a common infrastructure and sharing customers. It also carries much less risk than an M&A because it doesn't require a significant upfront investment and doesn't entail spending several years integrating the target company to realise the gains.

That's not to say there's no place for M&As. On the contrary, one study shows that firms using multiple modes to obtain new resources were much more likely to survive over a five-year period than those that relied solely on alliances, solely on M&As or solely on internal development.[27]

But partnering with other organisations, as distinct from purchasing them, does carry considerable organisational implications. The qualities needed to form a successful network are quite different from those needed to pull off an acquisition. Key among these is the high degree of collaboration that's required to make an alliance work.[28]

Our innovation comes from globally collaborative efforts and a lot of encouragement from within. It is also about empowerment, decentralisation and encouragement to come up with new ideas for R&D programmes and product development.

A.M. Naik, Executive Chairman, Larsen & Toubro Limited, India

22 mergermarket H1 round-up report (July 2012).
23 mergermarket 2012 round-up report (January 2013).
24 Federal Reserve, 'Flow of Funds Accounts of the United States' (June 2012).
25 'Dead money', *The Economist* (3 November 2012), http://www.economist.com/news/finance-and-economics/21565621-cash-has-been-piling-up-companies'-balance-sheets-crisis-dead
26 Michael Izza, 'Business Confidence research suggests recovery has not yet taken hold', ICAEW (5 November 2012), http://www.ion.icaew.com/MoorgatePlace/25687
27 Laurence Capron & Will Mitchell, *Build, Borrow, or Buy: Solving the Growth Dilemma* (Harvard Business Review Press, 2012).
28 PwC, 'Creating successful alliances and joint ventures' (2012).

One key point of our strategic advantage is the capability to 'orchestrate' the production and engineering value chain we create in partnership with other companies. That gives us the ability to scale up or scale down quickly and efficiently. We try to ensure our organisational structure is sufficiently fluid so that we can respond quickly to changes in demand.

Pertti Korhonen, President and CEO, Outotec Oyj, Finland

It’s a question of trust

The number one thing that will make people more at ease is transparency. Being a public company, the preservation of transparency is an inherent obligation for us. We keep in touch with our customers in order to understand their needs. Everything is interconnected.

Dr. John Coustas, President and CEO, Danaos Corporation, Greece

We’ve discussed what CEOs are doing to make their organisations more agile, more appealing and more profitable. To succeed in, and align, these three goals, CEOs know they’ll have to repair the bridges between business and society. CEOs also recognise the important role that business can play in addressing social challenges and improving national outcomes.

The global financial crisis and questionable behaviour of some companies have badly damaged faith in institutions of every kind. And this is impacting their brand value and performance. CEOs are understandably concerned: 37% worry that lack of trust in their industry could endanger their company’s growth. They know that nothing they do to get closer to customers will work if they don’t have the confidence of the public.

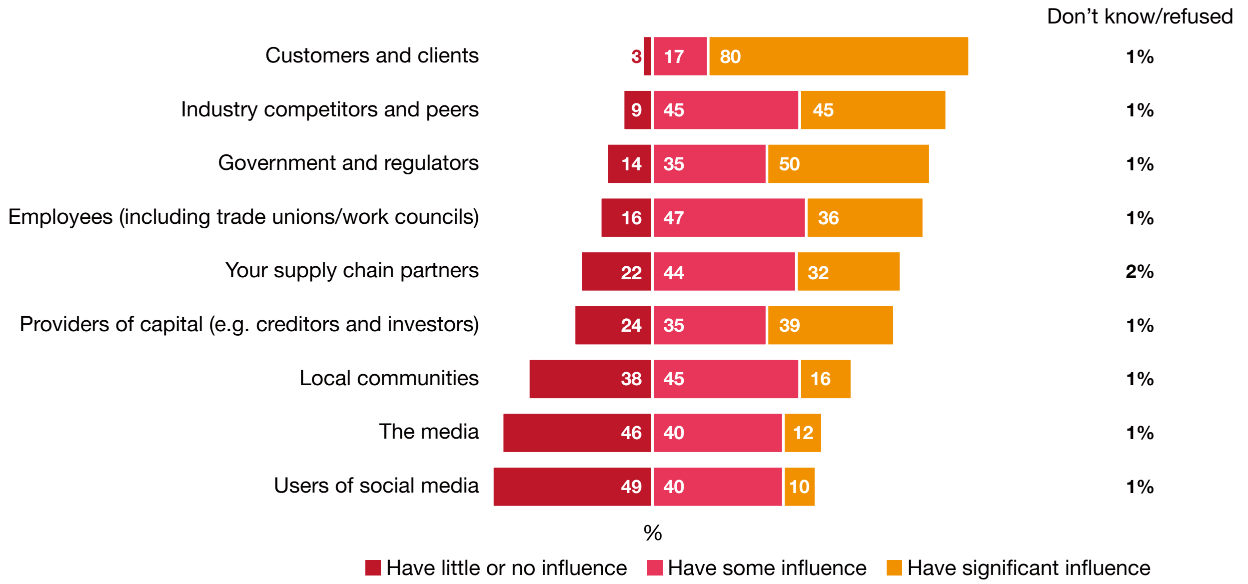
But trust isn’t just an essential part of the customer relationship, it’s the glue that binds an organisation and all its stakeholders together – and there are now many more stakeholders to consider. Thanks to the social media revolution, many of these stakeholders also have an unprecedented amount of clout.

CEOs recognise this. While they regard customers, competitors, governments and regulators as their most influential stakeholders, they’re certainly not ignoring others, like employees, suppliers, investors or local communities (see Figure 12).

“As a public company we have to demonstrate growth and improve margins, quarter by quarter, because that is what the market wants to see. But we are a lot more than that,” says Alonso Quintana, CEO of Mexican construction and engineering company ICA. “We are a company that really affects many more people and many more stakeholders than one would think from just a financial perspective.”

Figure 12: More stakeholders have more influence

Q: Thinking about the range of stakeholders, to what extent do they have a significant influence on your business strategy?



Base: All respondents. (1,330)
Source: PwC 16th Annual Global CEO Survey

Starting from within

So what are the CEOs we surveyed doing to rebuild trust? They're starting from within: 56% – rising to 72% in the Middle East and 76% in Africa – plan to focus more heavily on promoting an ethical culture this year (see Figure 13). That's a logical place to begin. The more customer touchpoints there are, and the more decision-making is delegated, the more an organisation is exposed to the actions of individual employees.

Building a business with a strong ethical foundation is partly about aligning the values of employees with those of the organisation they work for to create a shared, socially useful sense of purpose. It's also about shifting from a rules-based approach to one that rests on principles: moving from a culture of compliance to a culture in which people do the right thing for its own sake.

An important part of achieving this is how businesses connect with their employees. Over three-quarters of the CEOs who see employees as influential on their strategy say they're strengthening their employee engagement programme.

Organisational culture isn't the only issue on the internal agenda, though: 50% of CEOs – including 72% of those in the Middle East – intend to develop a more diverse and inclusive workforce. Malaysia's AirAsia Berhad is one such example.

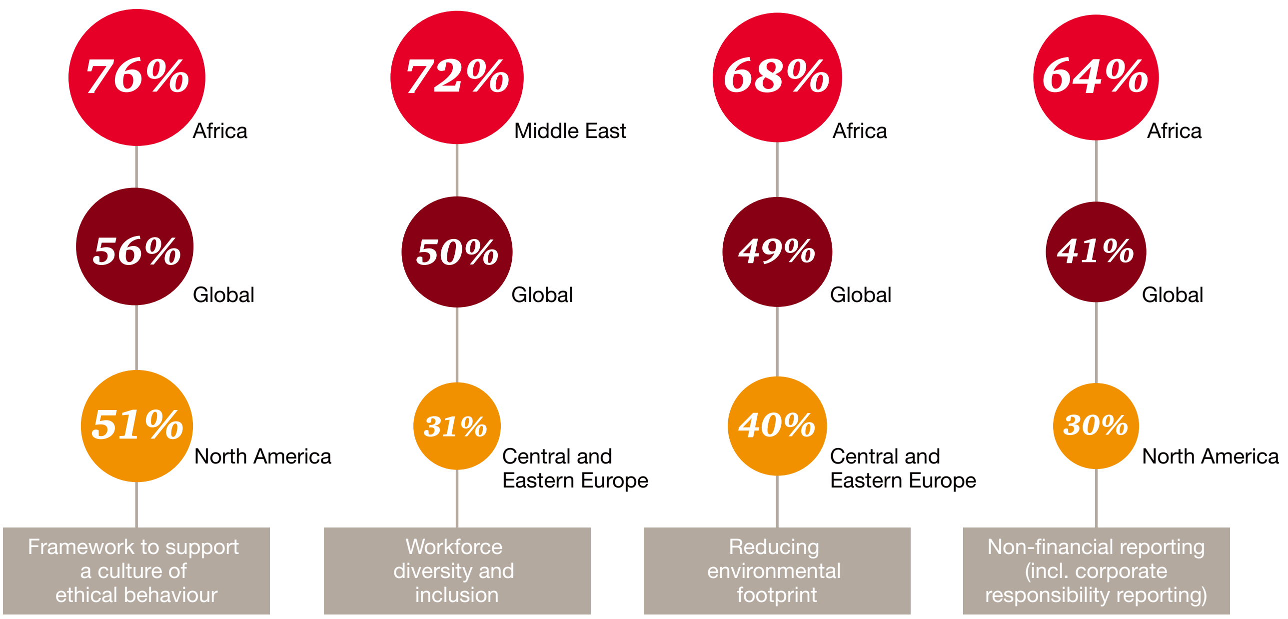
"…we hire people from all sorts of backgrounds, all sorts of different cultures," CEO Aireen Omar explains. "We understand and respect each other and at the same time it's a way for us to share ideas and see what sits best for the whole company. … Moreover, despite the fact that we have operations in different countries with different cultures and backgrounds, we are able to work effectively as a team in one company culture."

People need a sense of purpose. Gross margins are not the stuff of which dreams are made. And even without going so far as to talk of dreams, you cannot inspire people to take action, create or motivate without instilling a sense of purpose, especially when times are difficult.

Jean-Pascal Tricoire, President and CEO, Schneider Electric SA, France

Figure 13: A range of non-financial priorities are getting CEOs' attention

Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?



Base: All respondents. (North America=227; Central and Eastern Europe=95; Middle East=32; Africa=50)
Source: PwC 16th Annual Global CEO Survey

Engaging with the outside world

The majority of CEOs are strengthening their engagement with the stakeholders they see as influential. Social media is becoming an increasingly important tool – but many businesses see it more as a way to increase brand awareness, rather than as a customer engagement channel. One survey, for example, found that 64% of businesses that use social media do so for brand awareness, while only a quarter do so for customer service.[29] This may explain why CEOs see social media users as having a much lower level of influence than customers – despite the fact that many of their customers are using these channels.

Looking beyond corporate walls, nearly half of CEOs plan to put more effort into reducing their organisation's environmental footprint in the coming year. Meanwhile, 41% plan to focus more heavily on non-financial reporting, which often more fully reflects a company's worth and the value it contributes to society.

Many CEOs are also aiming, more broadly, to improve national outcomes. Over the next three years, 61% plan to invest more in creating a skilled workforce and 45% in maintaining the health of the workforce (see Figure 14). Demographic factors are clearly one driver of these efforts. And the focus on employee health is increasingly being driven by rising healthcare costs in the mature economies and rising healthcare expectations in the growth economies.

CEOs in the Middle East and Africa have especially ambitious goals: 81% and 86%, respectively, intend to increase the amount they spend on staff training, while 75% and 72%, respectively, intend to spend more on keeping their staff healthy. More than half of all CEOs in North America – where health insurance is one of the most prized employee perks – also expect to invest more in employee healthcare programmes.

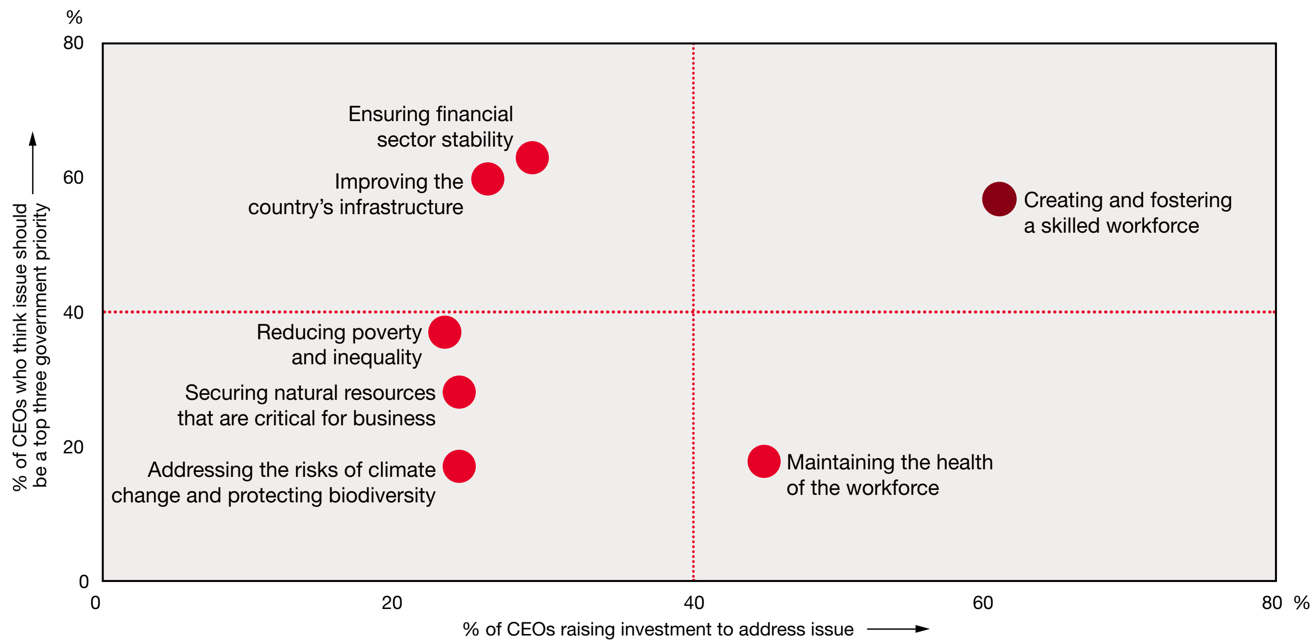
CEOs know that treating the workforce well creates a virtuous circle. Organisations with a reputation for looking after their staff find it easier to recruit and retain good people. And workers who feel valued talk more favourably about their employer. That matters more than ever, when disaffected employees can reach thousands of customers with a single tweet.

CEOs also increasingly recognise the importance of collaborating with government – both to promote their own commercial interests and to build a sustainable business ecosystem. They see developing a skilled workforce as one such shared responsibility (see Figure 14).

Nearly two-thirds of CEOs think governments should play a major role in ensuring the stability of the financial system and creating a strong national infrastructure, too – although they question how well governments have risen to the challenge. Yet, as the success of the private and public sectors becomes increasingly intertwined, it's becoming evermore important for business and government to work honestly and effectively together.

Figure 14: CEOs see developing a skilled workforce as the top joint priority between business and government

Q: Which three areas should be the Government's priority today?



Base: All respondents (1,330)
Source: PwC 16th Annual Global CEO Survey

29 Econsultancy, 'Social Media Statistics Compendium, Global' (November 2012). Marketers were asked to indicate the two most important uses of social.

Surviving and thriving amid disruption

In conclusion, trust is the prerequisite for everything CEOs hope to achieve as they move from risk management to resilience. Businesses' efforts to target the right opportunities, increase customer demand and loyalty and improve operational effectiveness are only as effective as their ability to build trustworthy relationships with all their stakeholders.

CEOs are recognising the need to align their strategies around a stronger social mandate – starting from the top – and through it create organisations that are more agile, adaptable and resilient.

This means developing a deep understanding of the changing needs of a growing range of stakeholders across existing and new markets, and investing to engage and empower them. Networks of trusted relationships, with shared vision, values and objectives, are helping to build strong yet flexible ecosystems that can not only survive, but flourish amid disruption.

The following questions, derived from the conversations we've had with CEOs, focus on some of the biggest challenges facing today's business leaders as they strive to find growth and stay competitive through constant turbulence.

From risk management to resilience

- How can you complement your longer term planning and strategy with real-time tools to improve operational decisions and continually adjust your course as necessary?
- How can you efficiently anticipate and execute in an environment of constant change, turning scenario planning from a theoretical exercise into a real decision shaper?
- How can you complement your enterprise risk management systems with a stronger focus on strategic and systemic risks – and ensure that the right behaviour and culture are in place across your organisation and wider networks?

Targeting the right opportunities

- Picking the right initiatives for investment is critical to success, especially in tough times. What criteria should you use to ensure that your investments are targeted to where they can best deliver value?
- Organisations are increasingly aware that opportunities in growth markets are highly nuanced. How do you evaluate the specific opportunities offered in these diverse and diverging markets, both newer and more established?
- How can you ensure that you're effectively assessing opportunities in mature markets, and drilling deep enough to find growth in specific sectors and segments?

Concentrating on the customer

- Businesses haven't changed their focus on customers. But they're keeping a closer eye on costs – as are their customers. How can you best target highly disparate and ever-changing markets in order to find growth opportunities?
- There's so much information out there about customers. How can you best capture and standardise this data across all your markets, and turn your IT systems into a powerful tool to understand shifting buyer preferences and improve customer loyalty?
- How can you use digital channels to better communicate with your customers, co-create products, capture customer insights, increase loyalty and measure your impact in all of these areas?
- How can you innovate more effectively and efficiently – and focus more on the customer in your innovation strategy and processes?

Improving operational effectiveness

- Bottom line growth is of critical importance to organisations. But how do you ensure that you continue to create value, invest for growth and have the flexibility to bounce back from disruption?
- In order to take advantage of new opportunities before competitors do, how can you create the right degree of flexibility in your organisational structure and processes, which allows you to quickly deploy resources across your organisation to where they're most needed?
- What should you be on the lookout for entering into a partnership or joint venture?
- Employees and their interactions with customers are critical for long-term success. Do you have the right people, processes and information to engage with customers as effectively as possible?
- How can you create networks of formal and informal trusted relationships which go beyond contractual terms to target a shared vision, set of values and objectives?

Building trustworthy relationships

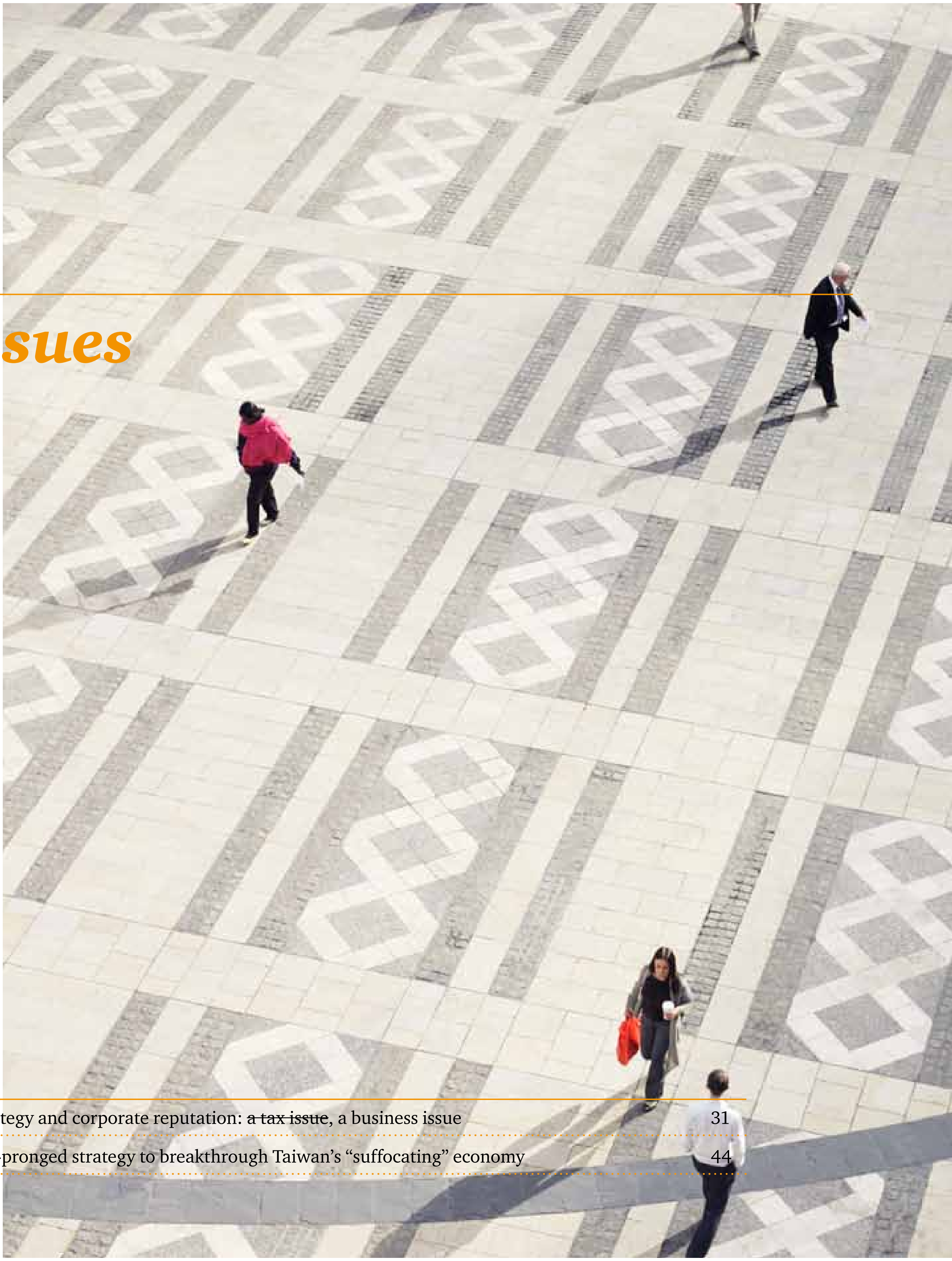
- How can you create the mutual trust necessary for your employees to take personal responsibility for doing the right thing, even as each of them is increasingly exposed to the front line of customer interaction?
- How can your board members and senior executives lead by example, to embody the values and behaviour core to your organisation?
- How can you more effectively support skills development in the markets in which you operate?
- It makes sense to focus on how a country's resources can improve the competitiveness of your local operations, whether it's the talent pool, capital or raw materials. But what do you have that governments might be interested in accessing, and how can you collaborate for mutual success?
- Working with a wide range of other stakeholders is critical to succeeding in your markets. How can you best understand and meet the needs of customers, suppliers, local communities and other groups within the ecosystem in which you operate?
- How can you build more transparency into your reporting that better communicates how you're working to create shared value in the markets in which you operate?

…social and environmental responsibility should be inherent not only in government authorities and the state but also in any commercial company in any country. The world of the future depends on solidarity in this area: the uniting of resources, efforts and initiatives from all economic entities.

Andrei Dubovskov, President and CEO, MTS OSJC, Russia

…since we're running scale businesses at a distance, every person leading each of those businesses is invested with trust from the centre. The leaders of our businesses have the authority to make decisions about the business they run. …So part of becoming agile is creating a culture that invests its people with trust. …our approach is to create a culture that empowers people and – within the context of a set of shared values – provides them with the freedom to take action. That gives you tremendous strength, flexibility, and agility.

Carl Sheldon, CEO, TAQA, United Arab Emirates



Issues

Tax strategy and corporate reputation: ~~a tax issue~~, a business issue

Introduction

The fallout from the global financial crisis and subsequent recession continues to be felt by businesses around the world, in many forms. The consequences have been wide ranging and complex, as well as difficult (if not impossible) to predict.

The impact which five years of uncertainty and unpredictability has had on the world's business leaders can be seen clearly in our 16th Annual Global CEO Survey, which questioned more than 1,300 CEOs in 68 countries. The survey found that many CEOs are worried about almost everything, from the prospects for economic growth to a shortage of skills and over-regulation. Business has rarely been more difficult.

As a tentative recovery gets underway in some countries hit hardest by the crisis, many global businesses and their leaders are struggling to get to grips with a new complication – the issue of trust, and the role that corporations should play in contributing to rebuilding the financial strength of nations.

Many countries are facing enormous fiscal debt and this is echoed on a personal scale by the squeezed budgets of their citizens – including the customers and employees of large businesses. The priority for western governments in particular is to maximise the revenue they receive from taxation and the overwhelming public mood is that everyone should 'pay their fair share'. And 'everyone' inevitably means large corporations.

A public debate

Over the past year or so, corporate taxation has become a matter of significant public interest. This is no surprise. People are more concerned during difficult economic times about where tax revenue is coming from and that everyone, particularly those with the most, are paying their fair share.

The debate has been particularly fierce in Europe, where a number of multinationals have tasted the bitterness of public opinion. In December 2012, Starbucks announced that it would voluntarily pay more tax in the UK than it was legally obliged to after a series of negative media reports about its tax arrangements, as well as the threat of a customer boycott. Tax has become a reputational issue.

This is an attitude that began in Europe but isn't confined to its borders. In the US, a nation previously relaxed about companies minimising their tax liabilities, a bill was recently introduced to the Senate that aims to close tax loopholes and raise tax revenues as a way of addressing the fiscal deficit. In introducing this bill to the senate, Senator Carl Levin quoted a recent survey that had found that two-thirds of Americans now believe that corporations should bear a larger share of the tax burden.

Regulation bites

Governments and regulators, perhaps aware in some cases of the strength of public opinion, have so-called 'aggressive tax planning' in their sights. The UK government, while acknowledging that tax planning is legal, has said that it intends to take on 'tax dodgers' and added that companies must pay their 'fair share' of tax.

But there is wider recognition that a mismatch between the tax regimes in different jurisdictions is behind many of the problems and as a result, internationally coordinated efforts are underway. In December 2012, the European Commission published an 'action plan' for a more effective EU response to tax evasion and avoidance, in the recognition that 'unilateral solutions alone won't work'. The agenda for this summer's G8 meeting includes discussions on tax avoidance, with the intention of addressing international tax loopholes and strengthening global standards. The G20 nations are already well on their way to formulating an agreement to ease the exchange of information relating to individual and corporate taxation.

A better tax system

The focus on tax avoidance is understandable but we'd add that it's obscuring the real issue, which is that the international tax system is out of date and was never designed to deal with the way in which business operates today.

The principles governing the taxation of cross-border trade are anywhere between 40 and 100 years old and were broadly designed to do two things: To reward the providers of capital in the broadest sense (financial capital, intellectual capital and so forth); and to deal with a world where most business was domestic and the great majority of the value chain related to a physical good. Today, business is international, operating on a global basis but with the centralisation of various regional or global functions. And to add to the complexity, much of the value chain today, even for manufacturing businesses, relates to intangible assets such as brands, software, know-how and other forms of intellectual property.

Even the concern over 'tax havens' (a term, incidentally, to which many territories strongly object) is misdirected. The simple fact is that countries (and even states within federal systems) compete for inward investment and they use their tax systems as a key weapon in their armoury. It's been said that one country's foreign direct investment is another country's tax avoidance. For example, is it tax avoidance for a US company to move some research and development activity to the UK to take advantage of the UK's new Patent Box regime? It's surely unreasonable to criticise companies for making use of tax incentives which were specifically designed to encourage them to behave in certain ways.

In other words, if governments are unhappy with the results of the way the international tax system operates, they should work together to find ways to change it. Indeed, there's some evidence they are starting to do this. Crucially however, they need to ensure that any changes they make don't damage the international trade flows that are so essential to the global growth that's so desperately needed.

Tax is a strategic issue

That said, in the current climate and until the world's governments tackle an outdated international tax system, there are many more risks around tax – reputational and strategic – than ever before. It's a risk that no business leader can afford to ignore. CEOs recognise that their company's future depends on their ability to get their strategy right. We believe that tax planning should form a key element of that strategy.

There are many more risks around tax – reputational and strategic – than ever before. It's a risk that no business leader can afford to ignore.

> *"Leadership is about being connected. Leadership means you are not only connected with your clients, but you're connected with the markets... you just have to be connected and understand what it means to be a leader, what it means to be current. You can't be a leader without being current."*

Larry Fink, Chairman and Chief Executive Officer, Blackrock Inc.

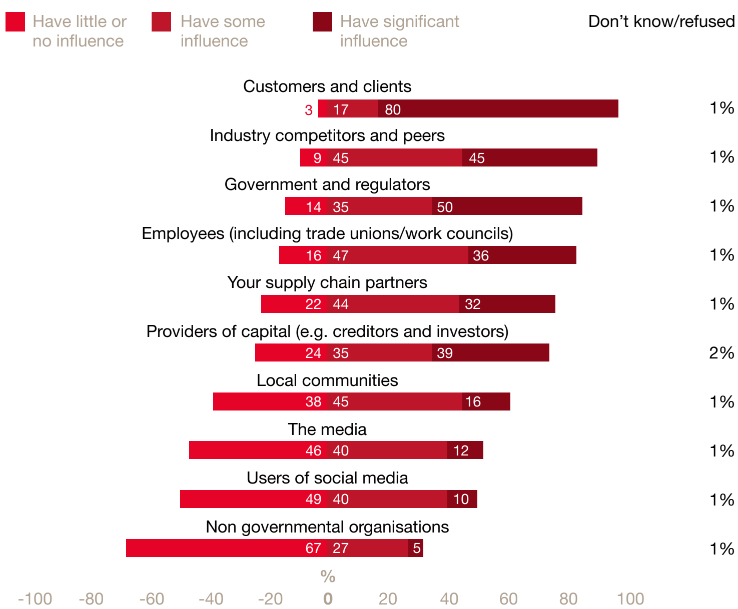
Trust and confidence

It's clear from the survey that CEOs are grappling with many problems, but also that they're very conscious of how closely they're being watched. The traditional stakeholders – investors, customers, employees – have been joined by new stakeholder groups, many of whom are seen as very influential by CEOs.

Watched by many

We asked the CEOs to tell us how much influence they felt each of these stakeholder groups had on their business strategy. What was striking about this conversation was the number of stakeholders that CEOs felt influenced their strategy in some way. More than half named nine different stakeholder groups that they took into account when making their decisions.

Q: Thinking about the range of stakeholders, to what extent do they have a significant influence on your business strategy?

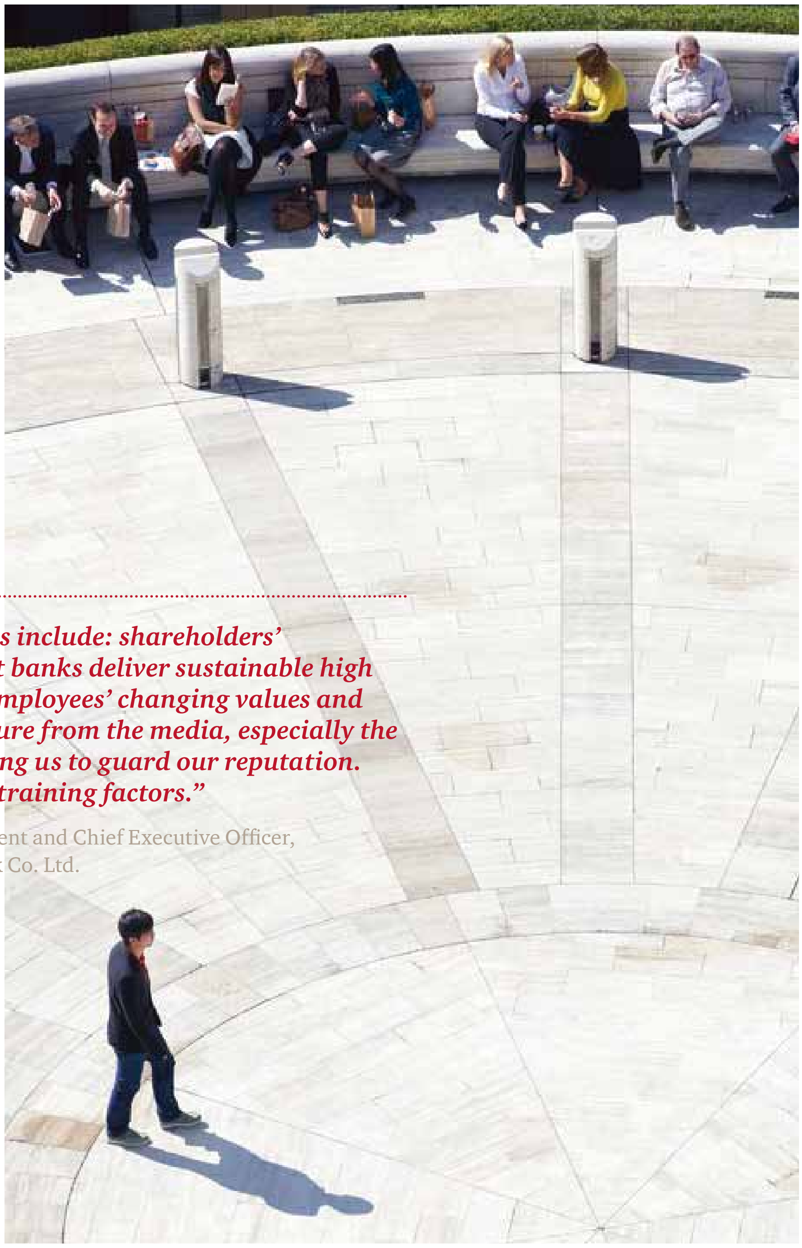


Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

As we'd expect, customers and clients are the most influential stakeholder group, named by 97% of CEOs. Peers and competitors are also influential, with 45% of CEOs saying that their influence was significant. But most tellingly, 85% cited regulators and government as an influence, and 50% said that their influence was significant.

This view of regulators and government varied geographically. Every CEO based in the Middle East said that government and regulators had some or a significant influence on their strategy, compared with 90% of CEOs in Africa, 88% in Latin America, 86% in Europe and Asia Pacific, and 80% in North America.

What's also interesting is the extent to which public opinion and perception, both directly and through the voice of the media, were a concern. 40% of CEOs said that the media had some influence on their company strategy and a further 12% said this influence was significant. Clearly, CEOs are very aware of the multiple audiences watching their company and their strategic decisions. And that makes life much more complicated.



"Other constraints include: shareholders' requirement that banks deliver sustainable high capital return; employees' changing values and needs; and pressure from the media, especially the new media, forcing us to guard our reputation. These are the restraining factors."

Dr. Weihua Ma, President and Chief Executive Officer, China Merchants Bank Co. Ltd.

Tax and reputation

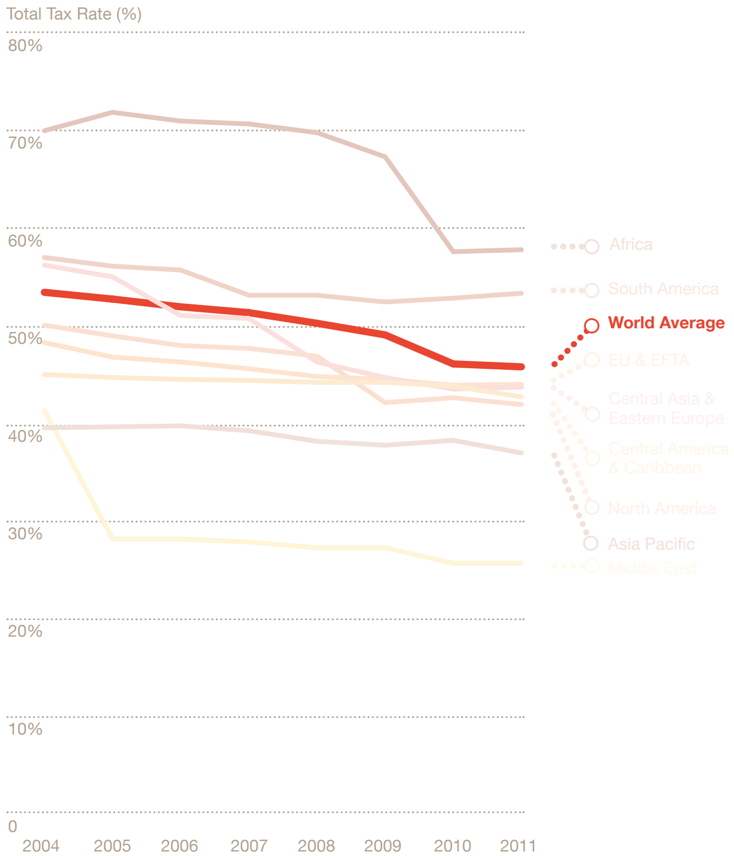
CEOs must tread a careful line that balances these many stakeholder influences. This is seen particularly clearly when it comes to the issue of corporate tax. CEOs tell us that they've cut costs wherever they can during the recession, but many business leaders are also concerned that the tax burden is increasing. In our 15th Annual Global CEO survey carried out in 2011, the increasing tax burden was named as the top business threat by 55% of CEOs. In 2012 this has risen to 62% and is still the key concern. CEOs' concerns about the tax burden are not unfounded: Our latest Paying Taxes research shows, that after an eight year trend of decline, the total tax rate appears to be stabilising. It also shows that corporate income tax only makes up just over a third of the total tax rate.

But at the same time, as we've seen, governments, the public and media have become far more interested in the question of corporate tax, generally without any reference to the regulatory regime that governs international tax liability. The subjective idea that companies should pay their 'fair share' of tax is a tricky one: How much is fair?

The single biggest danger here is reputational. We're living in a world of 24-hour news and Twitter, a world where information is amplified and distributed in seconds and, most critically in the case of complicated tax arrangements, where complex issues are brutally summarised. Great damage can be done before a company has a chance to explain their position. Public opinion, even if it's based on inaccurate information, is powerful.

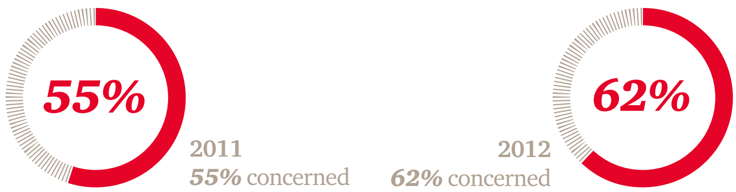
Even so, it's clear that business has a role to play. What constitutes 'acceptable' tax planning may vary geographically but it's still apparent that attitudes are changing, and that politicians and policy-makers are reacting to these changes. So it's essential that every company has a clear policy in relation to tax planning – meaning one that's been fully discussed by the main board and which it's prepared to explain in public if necessary.

PwC's Paying Taxes research shows that while businesses contuinue to benefit from administration reforms, consistent falls seen over the past 8 years in the total tax rate – 8% over 8 years – seems to have stalled



Source: PwC Paying Taxes 2013

Top business threat to growth cited by CEOs in 2012 and a growing issue



Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

Corporate income tax only part of the burden

Corporate income tax continues to represent only part of the tax burden on business – it accounts for only 12% of payments, 26% of time and 36% of the Total Tax Rate. This profile has changed very little over the eight years of the study.

Source: PwC Paying Taxes 2013

“Leadership is a critical element for all companies, and it’s based on the courage and conviction that a leader has to have, as well as ethics in doing the right thing. Employees want to look at their leadership, whether it’s the board of directors or their CEO, as good people doing the right thing for the business, the company and the people.”

Douglas D. Tough, Chairman and Chief Executive Officer, International Flavors & Fragrances, Inc.

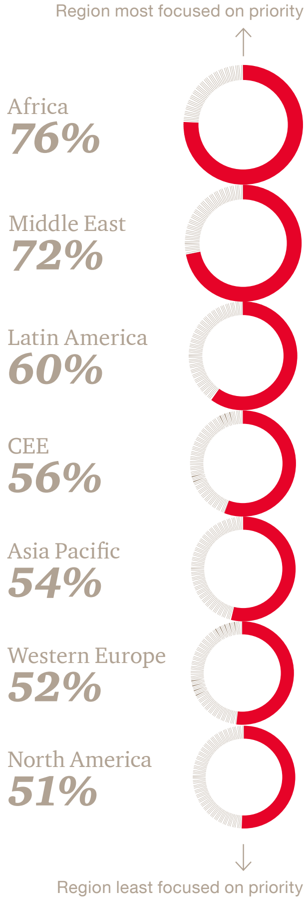
Companies are likely to find that their activities in offshore locations are subject to greater scrutiny than ever before - it’s even possible that some locations may become more unacceptable than others over time. Similarly, pressure for companies to be more transparent in relation to their tax affairs will also increase and that may cover all the taxes they pay, not just corporate income tax. This has been evidenced by the introduction of the mandatory provisions in the US and the forthcoming provisions in the EU. Each company will also decide the extent to which it wishes to engage with policy-makers, either directly or through representative bodies.

If a company isn’t comfortable explaining its tax policy in public, it has to ask itself if its policy is the right one. It’s entirely up to each company to decide where it wishes to draw the line – what’s crucial is that the board is comfortable with the consequences of that policy.

Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?

Framework to support a culture of ethical behaviour

Respondents who stated ‘increase our focus somewhat’ or ‘increase our focus significantly’
Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)



Ethics matter to CEOs

CEOs are fully aware that they and their company are under more scrutiny than before, and that they’re being judged on their behaviour. Our survey clearly shows that ethical behaviour is a focus for many business leaders in 2013. 56% told us that a priority for the year was to create a framework to support a culture of ethical behaviour in their business. This was particularly the case in the largest companies (those with turnover of $10bn or more), where 64% of CEOs said that this was a priority for the year.

There are, however, strong regional differences within this statistic. CEOs in Africa are far more preoccupied with a framework to support ethical behaviour than their counterparts in the developed markets of Western Europe and North America, probably because developing markets are less likely to have a strong framework already in place.

Managing corporate reputation

A recurring trend in our CEO survey is that business leaders are responding to an environment of 'stable instability' with more agility and adaptability. We argue in the report that companies need to develop resilience if they're going to succeed in the current environment, by which we mean a combination of an ability to ride out any short-term shocks with the long-term capacity to adapt to a constantly changing world.

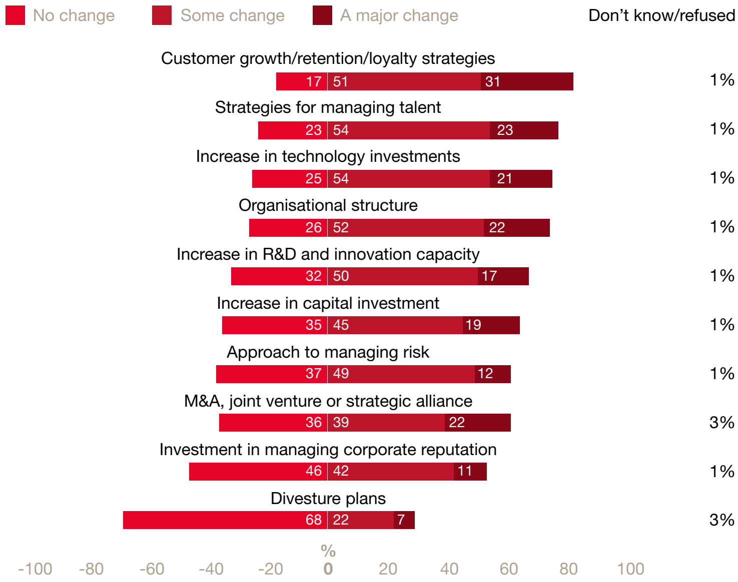
Trust is an essential component of the relationship between a company and its stakeholders and as such, is a vital element of this resilience. CEOs know that they have to rebuild bridges between business and society – 37% of CEOs told us that they worry that a lack of trust could damage their company's prospects for growth – and tax forms an important part of that process. The financial crisis damaged the public's faith in institutions and the highly-charged debate around corporate tax threatens to stop any progress that's been made.

But despite this, there are signs that CEOs are neglecting to invest properly in the management of their corporate reputation. We asked the CEOs if they planned to make changes in a number of key strategic areas at their organisation over the coming 12 months. Most said they planned to concentrate on customer growth and retention, and on talent management. Investment in managing the corporate reputation was a relatively low priority, with 46% saying that they planned to make no changes in this area at all.

Once again, though, there are significant region variations. CEOs of companies in North America were the least likely to make any change to their plans for managing corporate reputation, with 57% saying they anticipated no change in this area, while two-thirds of CEOs in Africa were planning to make some or a significant change to the management of corporate reputation.

Given that the recent high-profile debate about corporate taxation has centred largely around US companies – most notably Amazon, Google and Starbucks – we'd expect the issue of trust and corporate reputation to move up the agenda of CEOs in the region over the coming months. So far, though, as well as being the least likely to make any changes to their management of corporate reputation, CEOs in the US are also the least influenced by their media stakeholders when it comes to setting business strategy.

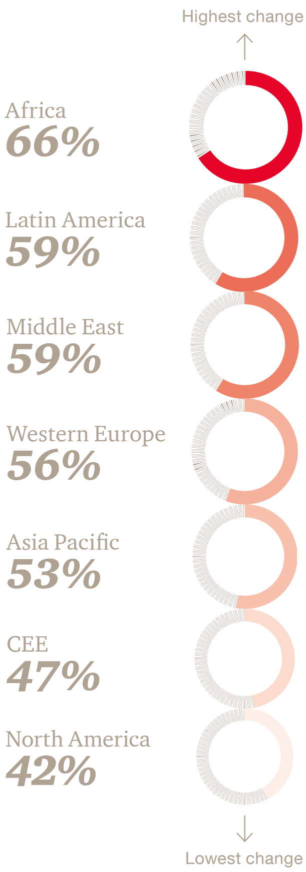
Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?



Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

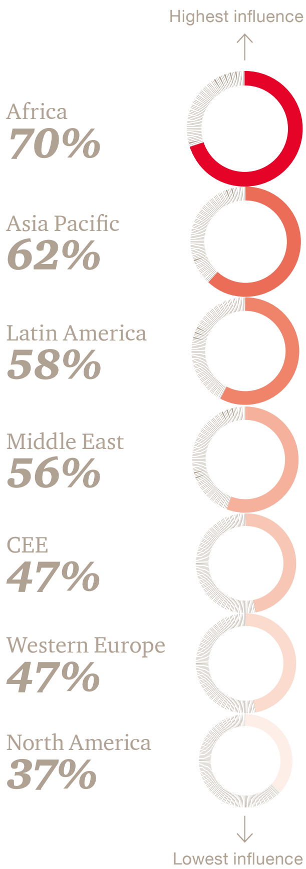
Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?

Investment in managing corporate reputation



Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

Q: Thinking about the range of stakeholders, to what extent does the media have a influence on your business strategy?



Source: PwC 16th Annual Global CEO Survey
Base: All respondents (1,330)

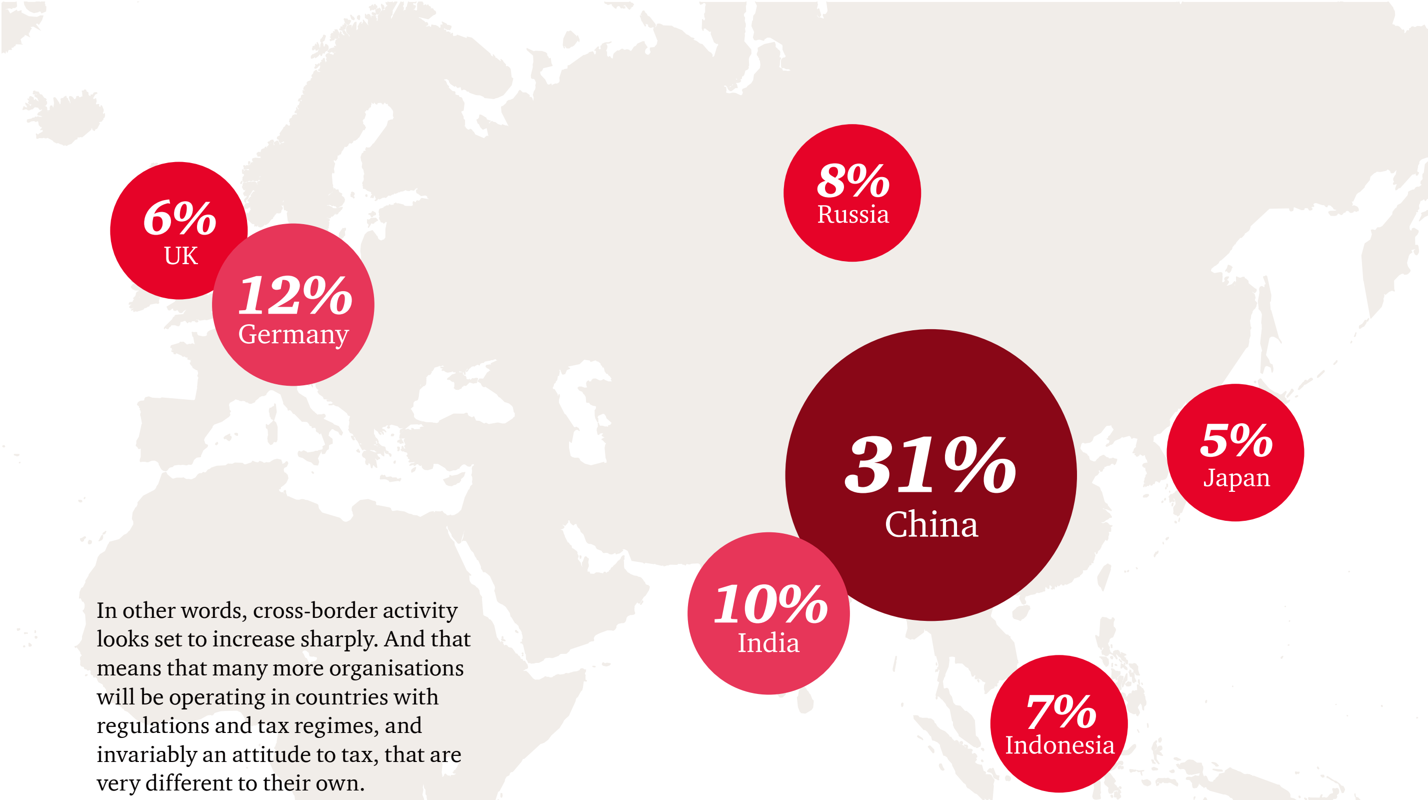
Q: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months (maximum of 3 responses)?

Source: PwC 16th Annual Global CEO Survey. **Base:** All respondents (1,330)

Tax is a strategic issue

Our survey showed that CEOs' confidence about growth, in the short-term at least, remains fragile. CEOs in Western Europe are particularly anxious, with only 22% very confident that they'll be able to grow their company's revenue in the coming 12 months. CEOs in less developed markets, though, are far more confident – 53% of CEOs in the Middle East and in Latin America were very confident that their company's revenue would increase this year.

This fits with our view that over the medium to long term, more CEOs will look beyond the BRIC markets to emerging economies. For the first time Indonesia joined the four BRIC economies in CEOs' top ten overseas destinations for growth, and Thailand and Mexico were not far behind. At the same time, CEOs in many emerging economies are targeting developed markets; 33% of CEOs in Asia Pacific and 19% of those in the Middle East are targeting the US, while 27% of CEOs in Latin America are targeting China.



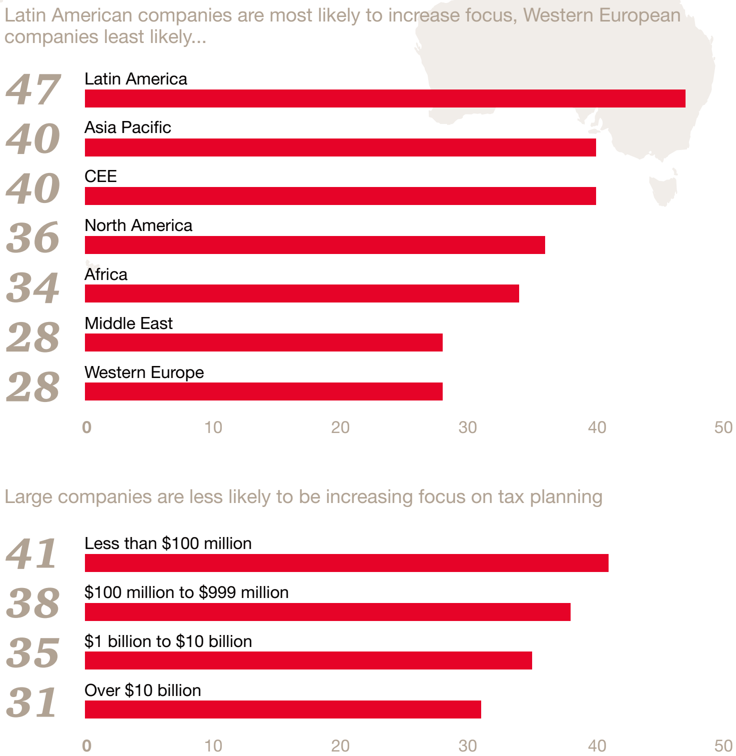
In other words, cross-border activity looks set to increase sharply. And that means that many more organisations will be operating in countries with regulations and tax regimes, and invariably an attitude to tax, that are very different to their own.

And yet, our survey shows that CEOs' attitude to tax planning varies widely from region to region. 47% said they planned to focus on their approach to tax planning and contributions as a priority in Latin America, while only 28% in Western Europe said the same. And just 31% of CEOs in the largest companies said that tax planning was a priority for them.

This is a serious risk in the current climate. Governments, regulators and the public in general are more focused on tax than before and as we've seen, there are considerable reputational risks involved. Tax planning should be a key strategic priority.

Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?

Tax planning focus by region and by size



Respondents who stated 'increase our focus somewhat' or 'increase our focus significantly

Source: PwC 16th Annual Global CEO Survey

Recommendations

The results of our 16th Annual CEO Survey show clearly that tax has moved up the agenda of business leaders around the world. They're concerned about the increasing tax burden, but also aware of a changing public attitude to tax that is threatening to evolve into an even more stringent tax regime. Tax has become closely tied to corporate reputation – and that means that tax issues should be discussed and communicated more carefully than ever before:

Set a clear policy on tax planning.
The policy should be comprehensive, covering all aspects of tax planning, and discussed and agreed by the board. If board members are not comfortable in discussing and defending the company's tax policy openly and in public, it's probably the wrong policy.

Decide whether greater transparency around the company's tax affairs is appropriate and if so, how best to communicate the key messages.
There are many methodologies that can be used to illustrate how a company meets its tax obligations, including country-by-country reporting, an approach championed by various civil society organisations and now being discussed by legislators in some regions. PwC's Total Tax Contribution approach can help your company identify and measure your company's overall tax contribution and our Tax Transparency Framework with best practice to help companies communicate about tax.

Understand your stakeholders.
There is increasing pressure from a number of stakeholder groups for more transparency around tax reporting, each with a slightly different focus. Investors, customers, the media, civil society organisations and governments all have an interest in the tax contributions but communication to key internal stakeholders, such as employees and PR departments, is equally important.

Determine the extent to which the company will engage in the debate over domestic and international tax.
Not all organisations will want to get involved in the debate with politicians and policymakers over the international and/or domestic tax framework but some will want to make their voice heard, either individually or through representative bodies.

Avoid surprises.
Tax legislation is a rapidly moving target. Developments in tax policy around the world, as well as developing discussions and changing attitudes to tax, should be carefully and constantly monitored to ensure that companies stay ahead of events.

Useful resources

- PwC's *Worldwide Tax Summaries* provides quick access to information about the corporate tax systems in more than 150 countries: www.pwc.com/taxsummaries
- PwC's *Paying Taxes 2013* allows a comparison of the tax systems in 185 economies on a like-for-like basis, using a case study company as well as key indicators such as the Total Tax Rate and the time to comply: www.pwc.com/payingtaxes
- PwC's *Total Tax Contribution framework* can help your company identify its true tax contribution, benchmark against your industry peers and help you decide how to communicate your tax contribution to stakeholder.
- PwC's *Tax Transparency Framework* provides best practice in communicating about tax covering three areas of corporate tax affairs – tax strategy and risk management, tax numbers and performance and total tax contribution and the wider impact of tax.

There are many more risks around tax – reputational and strategic – than ever before. It's a risk that no business leader can afford to ignore.

A three-pronged strategy to breakthrough Taiwan's "suffocating" economy

Steven Go, PwC Taiwan Markets & Strategies Leader
steven.go@tw.pwc.com

Amid economic disruption in 2013, there seems to be a light of hope. Yet it is obscure, creating a "suffocating" atmosphere in Taiwan society. All business leaders are pondering an important question: "How to navigate their business in the right direction and breakthrough to achieve growth?"

This year PwC Taiwan again conducted its survey of Taiwan-based CEOs, including a questionnaire survey of 105 Taiwan-listed companies and in-depth interviews with the leaders of the top 12 local companies, to understand about their strategic visions and top business-related concerns.

The report reveals that 46% of local CEOs expect a similar weak economic outlook in 2013 as last year. Most agree that "expect the unexpected" has become a mantra among corporate leaders. The prospect of continuing economic volatility was the biggest threat to business growth prospects according to 89% of CEOs. But 50% were very confident about their growth prospects over the next 12 months, higher than the 36% rate in PwC's corresponding global CEO survey. This suggest that Taiwan's business leaders are more confident about growth prospects than their counterparts around the world.

The comparatively higher level of confidence among Taiwanese business leaders can be explained with reference to the external and internal environments.

Regarding the internal environment, local business leaders believe their companies need to become more resilient and also identify potential growth opportunities, such as new product and service development, manufacturing process optimization, business model innovation, and so on.

CEOs realize that companies will have no time to develop key technologies if they continue to position themselves as original equipment manufacturers (OEMs). Many Taiwanese companies follow the OEM business model and for years have faced competition on production capacity and pricing in their industries. Their businesses have been in decline since the financial crisis.

But every crisis presents an opportunity. Since 2008, large-scale manufacturers have re-thought their OEM and brand strategies and initiated reorganization plans, including the spin-off of OEM business units, the development of own brands, and the exploration of innovative business models.

Regarding the external environment, 75% of the respondents consider China to be the most important country for their business growth prospects over the next 12 months, and the second and third top destinations are the United States (47%) and Japan (25%), respectively.

Taiwan's corporate leaders continue to intensely focus on the Chinese market. Large-scale OEMs with clear division of labor still need to cater to client demand and use China's labor and services. Furthermore, China is gradually transforming itself from a manufacturing- and export-oriented market to one focused on domestic demand and imports as a result of its 12th Five Year Plan. Thus, the world's largest market offers new business opportunities for OEMs. It is also a key market in the eyes of brand marketers when it comes to overseas positioning and business model innovation.

Regarding growth opportunities, 58% of the interviewed companies believe that market cultivation, both domestically and overseas, was the most important focus for their business, while 37% considered new product and service development to the major growth opportunity. In this context, businesses in Taiwan are adopting three common approaches to breakthrough and achieve growth:

1. **Target pockets of opportunity.** Taiwanese companies primarily focus on the Taiwan, China and Southeast Asian markets to build their own brands and control end-channels to better understand market dynamics. To identify client and market needs, these Taiwanese companies are creating new business models and adding other services to extend their value chain.

2. **Focus on the customer.** Taiwan business leaders value their customers. They invest in talent to focus on providing localized and differentiated services, and also establish key technologies and strengthen their R&D capacity based on their customers' needs or competitive strategies.

3. **Improve operational effectiveness.** Taiwan business leaders believe that streamlined operations and focused management are key to their core corporate competence. In terms of product, they implement a "subtraction" initiative by reducing costs, spending money only when necessary and pursuing process innovation. In terms of organizational operations, they abide by regulations and implement comprehensive risk management by considering possible types of risk—legal, ethical, reputational and tax. At the same time, they emphasize staff training and competitive salary increases to ensure the proper implementation of operational policies.

In addition to the above three approaches, Taiwan business leaders recognize that building trustworthy relationships with all their stakeholders is a pre-requisite for a sustainable enterprise. This means forming partnerships with upstream suppliers, downstream buyers and others; building a quality working environment for staff; creating value for customers to activate positive interactions; being accountable to shareholders and society by strengthening corporate governance, and pursuing sustainable development by giving back to society and the environment.

A healthy and competitive enterprise will grow and thrive in a stable, friendly, and effective business environment. This year's Taiwan CEO survey shows business leaders wish the government can establish an open, effective, transparent and friendly business environment to enhance international competitiveness and have a forward-looking approach. They also hope the government can create new possibilities for Taiwan's economy by establishing fair and effective policies in the areas of information management, taxation, labour, environmental protection and investment.

In conclusion, most business leaders in Taiwan are optimistic and confident about thriving in the disruptive economic environment in 2013. With China rapidly transforming from the world's factory to being the world's market, it will continue to be the number one destination for investment considering the large domestic demand generated by its immense population base. Taiwan businesses are well placed to capitalize on this trend given geographical and cultural advantages.

Facing economic uncertainty, businesses need to develop new approaches—targeting pockets of opportunity, concentrating on the customer, and improving operational effectiveness. They need to be agile and responsive to threats emerging from uncertainty, and hence develop adaptive capacity for the long run. Also the government may deliberate about how to establish a fair and effective environment to foster business growth and to break through the suffocated economy.

(This is a translation of an excerpt from the Chinese booklet, Dealing with Disruption—Business Breakthrough and Growth, published in conjunction with the release of PwC's 2013 Taiwan CEO Survey.)

PwC Taiwan updates

Taiwan Vice President Den-Yih Wu speaking at the PwC Forum.

PwC Taiwan CEO Dexter Chang speaking at the PwC Forum

PwC Taiwan Markets & Strategies Leader Steven Go presenting the survey findings

2013 Taiwan CEO Survey results released at PwC business forum

On 7 May 2013, PwC Taiwan released the results its 2013 Taiwan CEO Survey, Dealing with Disruption—Business Breakthrough and Growth, at its annual signature business event in Taipei City. The 2013 PwC Forum was attended by more than 300 local and international business leaders, key government officials and renowned business professors.

PwC again collaborated with Taiwan's leading business newspaper, Economic Daily News, to conduct its highly-regarded annual survey of Taiwan-based CEOs. The report is based on questionnaire responses received from 105 Taiwan-listed companies, as well as the findings of in-depth interviews with 12 CEOs of selected top local companies.

The survey findings show that Taiwan's business leaders are fairly confident about their growth prospects for 2013, having already prepared themselves for a choppy ride that may lie ahead. The report identifies five key challenges currently facing Taiwan's CEOs, including the challenge of surviving and thriving through disruption, positioning their businesses in Asia and grasping opportunities in a transforming China, breaking through the low-growth trap, building trust-based stakeholder relationships, and exploiting innovation opportunities.

Taiwan Vice President Den-Yih Wu, special guest of honour at the 2013 PwC Forum, lauded the survey report. He congratulated PwC Taiwan on "delivering highly-credible and precious survey results, and making substantial contributions to our society and nation."

PwC Taiwan CEO Dexter Chang added that he hoped the "report would be a valuable reference source for businesses, academia, government and society in improving Taiwan's competitiveness."

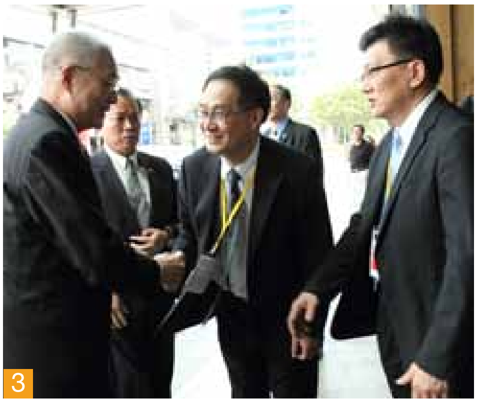
Analysing the survey findings, PwC Taiwan Markets & Strategies Leader Steven Go advised local companies seeking to break through the low-growth trap to focus on their core advantages and follow three specific approaches, namely targeting pockets of opportunity, concentrating on the customer, and improving operational effectiveness. He added that companies should also put more emphasis on cultivating stakeholder relationships.

In the keynote speech, "How to Transition out of the Middle-Income Trap," Professor Kenneth Kin of National Tsing Hua University urged local business leaders to place more importance on talent development, technological R&D and innovation, and investment in intangible assets and skills in order to successfully transition out of the middle-income trap.

The PwC Forum concluded with a panel discussion, with contributions from the floor, chaired by Professor Edward H. Chow. The panelists included Yancey Hai (Delta Electronics), Mark Wei (KGI Securities), Tony Ho (Test Rite Group) and Chris Tsai (Bionet). The panel discussed a range of topical business issues including market opportunities, innovative business models, branding strategies, talent development and corporate social responsibility.

For more information about the 2013 Taiwan CEO survey, please go to: www.pwc.tw/ceosurvey

Event photo gallery



1. Key dignitaries attending the 2013 PwC Forum included (from left to right) Chyan-long Jan (Business School Dean, Soochow University), Edward H. Chow (Finance Professor, National Chengchi University), Mark Wei (KGI Securities Chairman), Wei-Ta Pan (President, Soochow University), Yancey Hai (Delta Electronics Chairman), Steven Go (PwC Taiwan Markets & Strategies Leader), Den-Yih Wu (Taiwan Vice President), Dexter Chang (PwC Taiwan CEO), De-Yuan Weng (Economic Daily News Vice President), Kenneth Kin (Associate Dean, College of Technology Management, National Tsing Hua University) Tony Ho (Test Rite Group Chairman), Chris Tsai (Bionet Chairman), Jason Tsai (College of Business Dean, National Taipei University).
2. The panel discussion members for the 2013 PwC Forum included (from left to right) Chris Tsai (Bionet Chairman), Tony Ho (Test Rite Group Chairman), Yancey Hai (Delta Electronics Chairman), Mark Wei (KGI Securities Chairman) and Edward H. Chow (Finance Professor, National Chengchi University).
3. Taiwan Vice President Den-Yih Wu (left) being greeted on his arrival at the 2013 PwC Forum by PwC Taiwan CEO Dexter Chang (centre) and PwC Taiwan Markets & Strategies Leader Steven Go (right).
4. The 2013 PwC Forum was attended by more than 300 local and international business leaders, key government officials and renowned business professors.
5. PwC Taiwan's publications booth drew attention from forum attendees.

Clearing up misconceptions about Taiwan's luxury tax

PwC Taiwan Tax Partner Jason C. Hsu

On May 9, 2013, PwC Taiwan Tax Partner Jason C. Hsu held a press conference to clarify common misconceptions among the general public and corporations about Taiwan's luxury tax, and to offer suggestions on possible changes to the relevant laws in relation to possible exemptions in M&A cases.

The common misconceptions held about the luxury tax largely relate to the tax-induced holding periods of real estate. Mr. Hsu stated that accurate calculation of the "real estate holding period" is a key factor in determining the application of luxury tax. According to current case studies and legal interpretations issued by the Ministry of Finance, there are three ways to calculate a holding period starting from 1) the "original acquisition date", 2) the "reacquisition date," and 3) "the original acquisition date" plus the "reacquisition date" (mixed type).

Mr. Hsu suggested that luxury tax should not be levied on real property acquired in corporate M&A transactions in order to encourage M&A activities in Taiwan and improve business efficiency. His specific taxation proposals included:

1. In cases of mergers, acquisitions and spin-offs executed pursuant to the Business Mergers and Acquisitions Act, luxury tax should be exempted on acquired companies' property where the holding period is less than two years.

2. After a merger or acquisition, the acquiring company should calculate the holding period of the acquired company's property starting from the first date that the acquired company's was recorded as holding the property.

Tax management planning for Southeast Asia

PwC Taiwan Tax Partner Elliot Liao

In May 2013, PwC Taiwan held seminars on tax management strategies for the Vietnam, Malaysia, Cambodia, and Thailand markets. Tax experts from the PwC firms in Taiwan and Vietnam discussed the latest regulations and tax issues regarding Taiwanese investment in Southeast Asia.

PwC Taiwan Tax Partner Elliot Liao said the 2013 Taiwan CEO Survey results showed that 39% of Taiwan companies regard Southeast Asia as a key area for labor-intensive manufacturing and business growth opportunities. Among the various Southeast Asian countries, Vietnam was regarded as the leading investment destination for its manufacturing base and consumer market.

PwC Taiwan Tax Director Peter Y. Su said the ASEAN bloc as a whole had the third largest population in the world after China and India. Ten ASEAN countries jointly have six hundred million people and rich natural resources. All member states have aggressively pursued free trade agreements with other countries in recent years and set the goal of establishing an ASEAN Economic Community by 2015. In addition, the ASEAN Plus Three forum was set up to coordinate cooperation between ASEAN and the three East Asia nations of China, Japan, and South Korea. All of this will certainly have an impact on future business models of Taiwanese companies, which have so far primarily relied on China as their manufacturing base.

Mr. Su also pointed that bilateral trade volume between China and ASEAN had doubled to US$400 billion in 2012 from US$200 billion in 2009. The expected formation of a single ASEAN market in 2015 will allow not only the free movement of goods and services, but also capital and labour, and will unleash unlimited potential for economic development and growth.

Notwithstanding the potential investment and market opportunities in Southeast Asia, Mr. Liao cautioned companies to be aware of the tax risks arising from different and complex tax laws and regulations in different ASEAN countries regarding cross-border trade and investment. When positioning their operations overseas, transnational corporations have to carefully deliberate on how to develop a tax-efficient organizational structure and how to avoid any tax-related risks.

Given the growing attraction of Vietnam, Malaysia, Cambodia and Thailand as alternative investment destinations, Mr. Liao suggested companies take the initiative to implement a corporate tax risk management framework and stay one step ahead of tax policy and compliance trends in these and other countries when considering their overall global positioning strategy.

Dexter Chang takes over as new chairman of PwC Taiwan

On July 1, 2013, Dexter Chang took over as chairman of PwC Taiwan on the retirement of former chairman Albert Hsueh. A gala dinner was held in late June to celebrate Albert's chairmanship. The event was attended by all PwC Taiwan partners as well as the senior partner leaders of the PwC China, Hong Kong, Singapore firms.

At the gala, the then CEO of PwC Taiwan Dexter Chang lauded Albert Hsueh's leadership, saying he had successfully followed in the footsteps of PwC Taiwan's founders Kuo-chang Chu and Cheng-hsien Chen, and former chairman Springfield Lai, to maintain the firm's spirit of honesty, trustworthiness, persistence and integrity. After becoming chairman in 2006, Albert placed further emphasis on professionalism and quality services, and oversaw significant business growth during his tenure.

Looking to the future, Dexter Chang said integrity will continue to be the key touchstone for the firm, while holding fast to professionalism and quality services, and boosting the firm's reputation through corporate social responsibility efforts.

Also speaking at the gala, Albert Hsueh said that he had much to be grateful for during his 33 years at PwC Taiwan. He gave thanks to all members of the firm, saying that PwC Taiwan was where it was today due to their efforts and contributions.

Dexter Chang (right) took over as chairman of PwC Taiwan on the retirement of former chairman Albert Hsueh (left)

When PwC Taiwan celebrated its 40th founding anniversary in 2010, a commemorative book was published to mark the occasion and reaffirm the firm's commitment to honesty, trustworthiness and integrity. At the gala, Albert gave a copy of book to Dexter as a token of passing on the firm's heritage, and encouraged him to hold fast to superior traditions and to achieve as yet unfulfilled goals.

Despite stepping down as PwC Taiwan Chairman, Albert Hsueh will continue to contribute to the firm's corporate social responsibility efforts by serving as the Chairman of the PricewaterhouseCoopers Education Foundation.

Further reading

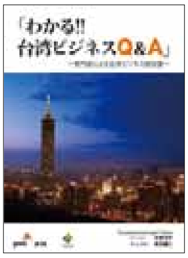
Other PwC Taiwan publications of interest are also available to download on our website at www.pwc.tw.
Below is a selection of some of our recent and significant publications.

The heart of Asia: Doing business in Taiwan [English and Chinese]

July 2013

This practical guide provides insight into the key aspects of doing business in Taiwan, from establishing a business presence to dealing with accounting, tax and employee matters.

Taiwan Business Q&A [Japanese]



March 2012

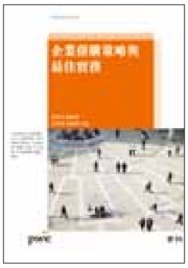
This Japanese guide examines the different aspects of doing business in Taiwan, including the local accounting, tax and legal requirements. It also looks at the implications of the Economic Cooperation Framework Agreement between Taiwan and China for Japanese companies, as well as the benefits of the investment agreement between Taiwan and Japan.

Taiwan CEO Survey 2013: Dealing with Disruption [Chinese]

May 2013

PwC Taiwan's latest annual survey of Taiwan-based CEOs on the most challenging business issues of the day, and how they are responding.

M&A strategies and best practices [Chinese]



August 2011

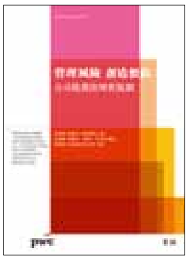
The book provides comprehensive coverage of M&A strategies and best practices from various perspectives. It leads the reader through the planning, execution and integration stages of corporate M&A transactions, and highlights ways to mitigate any possible risks.

Checking up on Taiwan healthcare: Market challenges and opportunities [English and Chinese]

July 2012

This paper provides an introductory overview of Taiwan's healthcare sector—including the healthcare services, pharma and medical device industries—and highlights the challenges and opportunities for market participants.

Corporate governance for tax: Creating value, management risk [Chinese]



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The interaction of tax and corporate governance is an emerging issue in business and practice. This book provides a framework for integrating tax and corporate governance in a COSO control structure for the benefit of strategic management and decision making.

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