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Resilience

A journal of strategy and risk

Risk and growth, but not as we know them

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Risk and growth, but not as we know them

By Dennis L. Chesley and Marco Amitrano

Every year PwC's Global CEO Survey uncovers the risks that are keeping most business leaders up at night. But the story this year isn't what CEOs said about risk, it's what they said about growth and risk together.

It's a risky world. In a still ambiguous economic environment, only 37% of CEOs think global economic growth will improve in 2015 (down from 44% last year).

59% of CEOs see greater risk this year than three years ago

Figure 1: Practically every concern is weighing more heavily on CEOs' minds

Q: How concerned are you about the following potential economic, policy, social and business threats to your organisation's growth prospects?

Base: All respondents (2015=1,322; 2014=1,344; 2013=1,330)
Note: Figures are %
Source: PwC 18th Annual Global CEO Survey

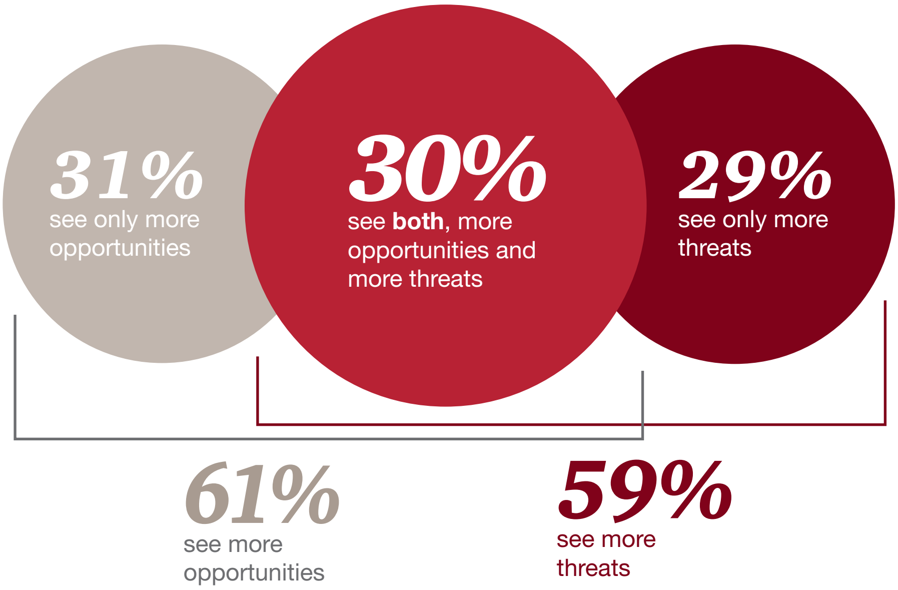
Yet opportunities abound. 84% of CEOs are confident about their own organisation's prospects for revenue growth this year. And 61% of CEOs believe there are more opportunities now than there were three years ago.

What's bolstering confidence in the face of mounting risks?

There's a pattern deeper in the data that explains these seemingly contradictory findings. Put simply: companies are embracing enterprise resilience, although most still aren't using that term. However, we believe this will change as business leaders move from intuition enterprise resilience to wanting rigorous frameworks and methodologies to support what they are doing. And, as we'll see below, there's a distinct group of CEOs who are ahead of the pack in building enterprise resilience capabilities.

Figure 2: Despite greater concern, CEOs also see more opportunities now than three years ago. In fact, they believe risks and opportunities have both increased.

Q: How much do you agree/disagree that there are more growth opportunities/threats for your company than there were three years ago?



Source: PwC 18th Annual Global CEO Survey

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CEOs are counting less on global economic growth and more on their businesses' ingenuity and adaptability.

"It is less important to try and put a finger on where the economy is headed. It is more important to put a finger on your strategy and to be sure that it is sound, so that – particularly when things are down – your company is better able to withstand the adversity."

— Ravi Bajaj, Managing Director, Bajaj Auto Limited, India

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CEOs know that growth requires a greater appetite for risk.

"In a sense, the risk taking hasn't changed. What has changed is the speed at which risky decisions have to be made. You can't spend a year or two or three debating individual decisions, but instead have to often move much quicker, and the boundaries of those decisions are less clear."

— Arne M. Sorenson, President and CEO, Marriott International, Inc., USA

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CEOs can take on more risk because their enterprises are more "resilient" to change.

"There are both more opportunities and more threats, which means that the market will be very volatile. We could see big disappointments and then we might go up again quite quickly. So we need to be prepared and develop our models so that we are able to live in a constantly volatile environment."

— Pekka Lundmark, President and CEO, Konecranes Plc, Finland

The Brilliance of Resilience

Admittedly, the term "resilience" has become a catchall in management literature, although not yet in practice, for all things related to risk and change. So let's be clear what we mean by resilience: *Resilience is an organisation's capacity to anticipate and react to change, not only to survive, but also to evolve.*

To survive and evolve today, companies need to do more than simply innovate incrementally or tweak their balance sheets; they need to prepare their entire organisations to take advantage of big shifts. That means creating new markets, configuring game-changing operating models, confronting greater uncertainty, and surmounting unprecedented hurdles. Indeed, key to our understanding of this definition of resilience is that it includes both the capability to recover from crisis and to capitalise on change.

Without a doubt, resilience has always been a valuable characteristic. What's renewing its importance today is the fact that it provides CEOs confidence to take on the higher levels of risk needed to realise the reward they seek.

Growth, but not as we know it

Growth expectations have soured for most major economies, with the notable exception of the US. From the slow-down in China to stagflation in Brazil and deflation in the Eurozone, the global picture does not look rosy. The International Monetary Fund recently downgraded its global economic forecast this year from 3.8% to 3.5%.

Meanwhile, megatrends – demographic change, rapid urbanisation, shifts in economic power, and climate change – are also fundamentally changing the global economy. They are turning established business models on their head, and disrupting business as usual.

So why are CEOs optimistic? It's because they are crafting entirely new growth strategies and preparing their organisations to respond positively to disruptions. Some, for example, are earning new revenues from generational shifts in purchasing behaviours. Others are creating new markets with leapfrogging technologies. Indeed, technology is a pervasive enabler of responses to disruption.

> *"I am positive that at some point in time we will be able to tailor a pair of jeans to a body scan that you've taken on your smartphone or on your webcam and be able to turn that around in a couple of weeks, tailored for you, one unit at a time. That's amazing, and it will completely change everything when that capability comes along,"*
>
> **Chip Bergh**
> President and CEO
> Levi Strauss & Company, USA

Risk, but not as we know it

The ebb and flow of the global economy matters, but far more important are these seismic shifts that are cracking open new opportunities. CEOs know they have to take on significantly more risk for the same reward. One example: complex cross-industry moves. We explore this trend in detail in our Global CEO Survey report, "A marketplace without boundaries?" Fifty-four per cent of CEOs have entered or considered entering a new industry in the past three years. This trend cuts both ways; 56% of CEOs also expect to be challenged by competition from outside their core sectors.

Companies are encroaching on others' turf with a sense of urgency. They are determined to redefine the way products and services are created and delivered. Most visibly Google, Apple, Facebook, and Amazon are blurring lines between technology, retailing, publishing, social networks, entertainment, telecoms, and finance.

But this new economy is being shaped by many players, big and small. Majorities of both smaller companies in our survey (revenues up to $100 million), and the largest companies (revenues of over $10 billion), have entered or considered entering a new sector. Disruption today can come from anywhere, from a start-up in one's own industry to a new entrant from another. Other disruptive forces include regulatory change, new distribution channels, and shifting customer behaviours (Figure 3).

Traditional risk mitigation is hardly an adequate shield in this environment. What's needed instead is a new capability to compete effectively with disruptive rivals, coupled with a mindset that regards disruption as opportunity.

Figure 3: Different industries are being disrupted in different ways

Q: How disruptive do you think the following trend will be for your industry over the next five years?

Source: PwC 18th Annual Global CEO Survey

> *"I think you've got to look at the disrupters and see what you can learn from them, because they often come in with some very smart innovations and service propositions. I feel threatened occasionally by how and where they come in, but I also see opportunities in learning from them."*
>
> **John Neal,** CEO, QBE, Australia

Next generation risk management: Resilience

Risk management continues to be critical, but it is part of the broader capability of resilience, a capability needed by every company today. To be resilient, an organisation needs to be able to quickly recover from adverse events, ideally becoming even stronger. It also needs to be able to detect opportunity amidst disruption.

Just what resilience in action looks like becomes clearer when we consider a unique segment of CEOs from our survey: the 30% who believe that both threats *and* opportunities have increased (see Figure 2). In what they believe is a dynamically changing business environment, they are more optimistic than their peers.

Thus, we call these CEOs "resilience builders". Their beliefs suggest their organisations are equipped to act on emerging opportunities – even in the most daunting circumstances.

Here's what we know about resilience builders.

They are more likely to:

- Anticipate competition from outside their industry
- Enter a new industry themselves
- Show greater concern about a range of threats to growth prospects
- Pay attention to societal concerns, such as unemployment and social instability
- Collaborate with non-traditional partners

As Figure 4 shows, resilience builders are watchful of disruption and preoccupied with a range of concerns. For example, 74% of these CEOs (compared to 61% overall) expect increased competition from traditional and new sources and 68% of them (compared to 54% overall) worry about new market entrants.

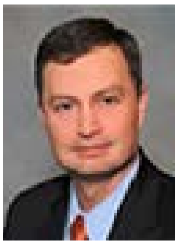
Their heightened risk awareness, however, is not leading to defensive positions. Quite the opposite. Their attitudes to risk reflect how they expect to grow. They are venturing outside of their core sectors and preparing to face-off with non-traditional competitors at their doorstep. And blurred industry boundaries lead to diverse collaborations: Resilience builders are more likely to consider partnering with start-ups (52% compared to 44% overall).

Growth has always meant taking risks.

> *"Somehow people have decided that big companies are safe and stable, and I would say the facts over the last 50 years suggest the opposite; if companies aren't rapidly changing on a continuing basis, their risk is increasing, not decreasing."*
>
> **Douglas M. Baker, Jr.**
> Chairman and CEO
> Ecolab, Inc.

For resilience builders the greatest risk of all is not properly managing risk, as a core enabler of growth.

What sets resilience builders apart? It is not their strategy. Or culture. Or risk management. It's their ability to integrate all three. They can do this because they systematically pursue resilience as an essential capability.



Dennis L. Chesley *is a Principal in PwC's Advisory practice with over 21 years of experience across a broad range of public and private entities within global operations. In this capacity, Chesley is the Global Leader for Risk Consulting Services and an important driver of PwC's approach to solutions that cross the intersection of business strategy, risk management, business operations, compliance, internal control and technology.*

Chesley is a frequent speaker and author on topics related to strategy, risk, compliance and control. His clients include global financial institutions, NGOs, federal agencies and industry utilities, and he was responsible for leading several of PwC's larger and/or more complex projects, most recently the Treasury TARP engagement and the start-up of the Small Business Lending Fund. In his client-facing role, Chesley is the Global Relationship Partner for The World Bank Group and Advisory Point Partner for the US Treasury accounts.

Marco Amitrano *is the Global Risk Assurance Leader. He is a Risk and Controls specialist Partner with a strong background of advising clients on developing their risk management functions. He leads PwC's UK Risk Assurance Solutions business, a practice focused on improving organisational efficiency, effectiveness and resilience through better risk assessment, control design and the provision of assurance.*

Marco is a member of PwC UK Assurance Executive team and currently serves clients across the UK and Europe, including Sony, IBM and Siemens. He is a Chartered Accountant with the Institute of Chartered Accountants in England & Wales.

Publishers
Dennis Chesley
Global Risk Consulting Leader
PwC US

Miles Everson
US Advisory Leader
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Juan Pujadas
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PricewaterhouseCoopers International Ltd.

Executive Editors
Robert G. Eccles
Professor of Management Practice
Harvard Business School

Christopher Michaelson
Director, Strategy and Risk Institute, PwC Global Advisory
Associate Professor, University of St. Thomas Opus College of Business

Managing Editor
Shannon Schreibman
+1 (845) 489 8473
shannon.schreibman@us.pwc.com
PwC US

Dennis L. Chesley
Global Risk Consulting Leader
Tel: +1 (703) 918 6154
PwC US

Marco Amitrano
Global Risk Assurance Leader
Tel: +44 (0) 1895 522 386
PwC UK

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Elaine Aitken, Poh-Khim Cheah, Lisa Cockette, Kathleen Davies, Tracy Fulham, Lock Nelson, Kathleen Martell, JJ Schneider, Suzanne Snowden, Deepali Srivastava, Paul Stulov, Larry Yu

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