Swiss edition of the 25th Annual Global CEO Survey

Challenge accepted

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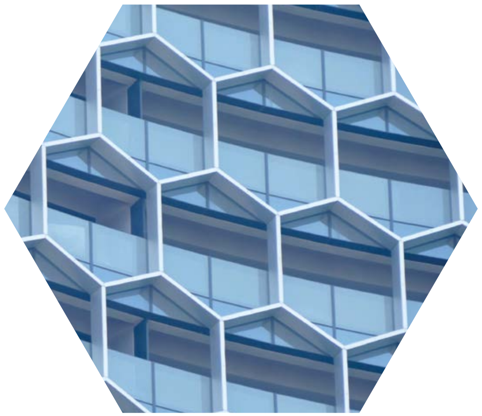
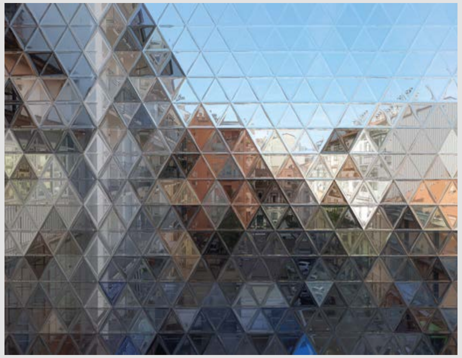


"

On one side of the equation is our commitment. On the other side is our clients' trust plus sustainable results. In other words, we help our clients to achieve sustainable success."

Stefan Räbsamen, Chairman of the Board of Directors of PwC Switzerland

Content



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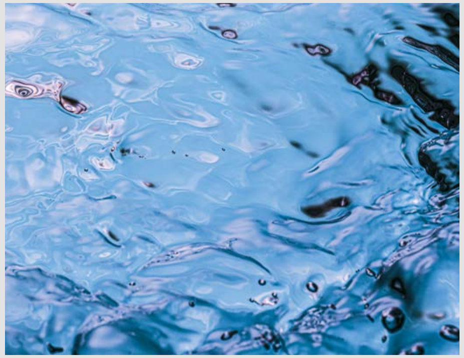

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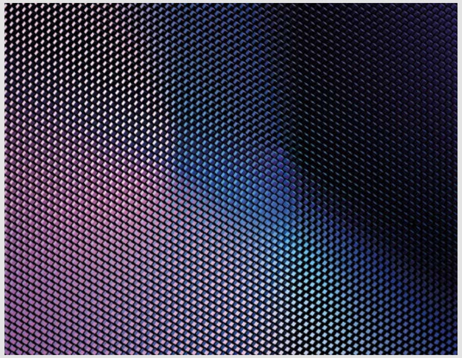

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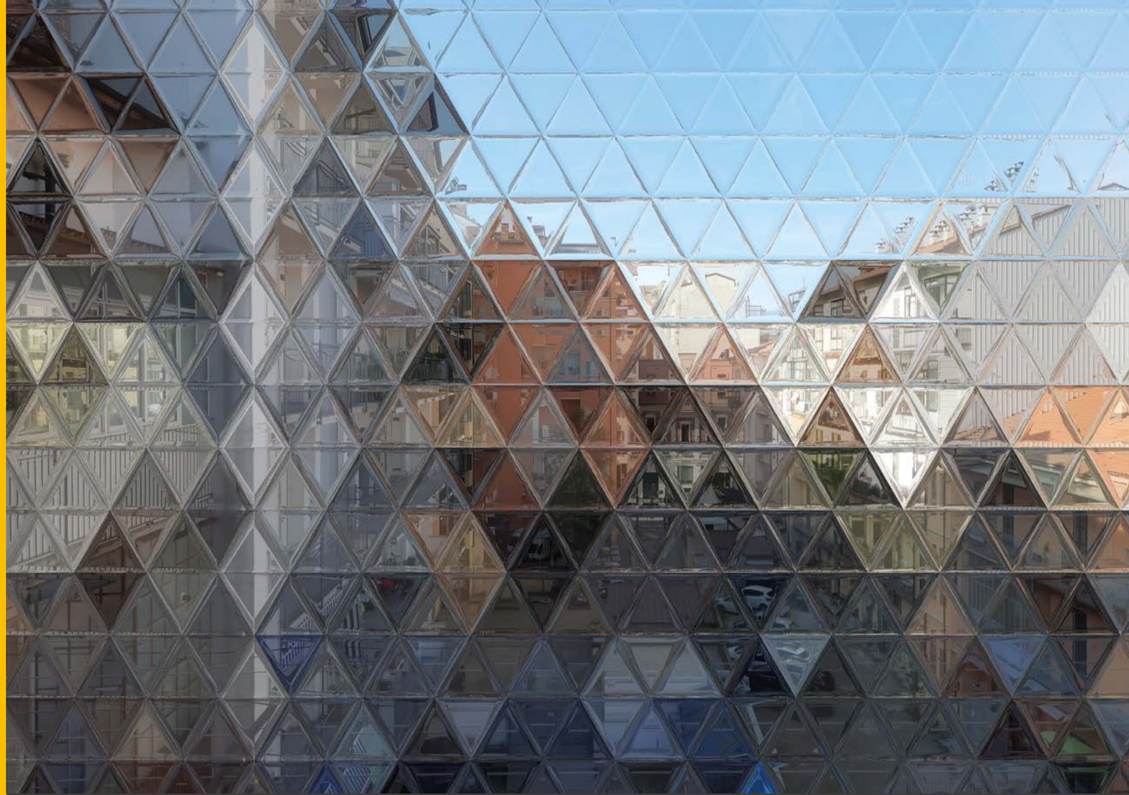
Design of the survey
Swiss edition of the 25th Annual Global CEO Survey



Survey participants

This study is based on the 25th Annual Global CEO Survey 2021 conducted by PwC Global. The participants were surveyed in November 2021. Around the world a total of 4,446 CEOs were surveyed in 89 countries, including 100 CEOs in Switzerland. Global sampling was weighted according to national GDP to make sure that the views of the CEOs in the all regions of the world are fairly represented. In Switzerland, the participants completed an online questionnaire.

Structure of the random sample for Switzerland

Of the 100 CEOs who participated in the Swiss edition, 35 % represent manufacturing, 27 % retail and consumer goods, 15 % financial services, 10 % healthcare, 9 % chemicals, metals and energy, and 4 % tech and telecoms (see Figure 1).

50 % of the participating companies employ fewer than 500 employees, 14 % between 500 and 999, and 34 % over 1,000. 16 of the CEOs we surveyed represent companies with a revenue of at least CHF 1 billion, 41 companies with a revenue between CHF 101 million and CHF 999 million, and 34 companies with a revenue of up to CHF 100 million. 28 % of the companies are listed on a stock exchange, 72 % are privately owned and 13 % represent the public sector. 44 % of the CEOs we surveyed manage Swiss family businesses with at least 32 % of the share capital in family hands.

Presentation

The population for this 25th Swiss edition comprises – unless otherwise stated – 100 CEOs of companies in Switzerland. Not all the results add up to 100 %, as the percentages were rounded and the "neither/nor", "not specified", "other" and "don't know" responses were either excluded or only partially included.

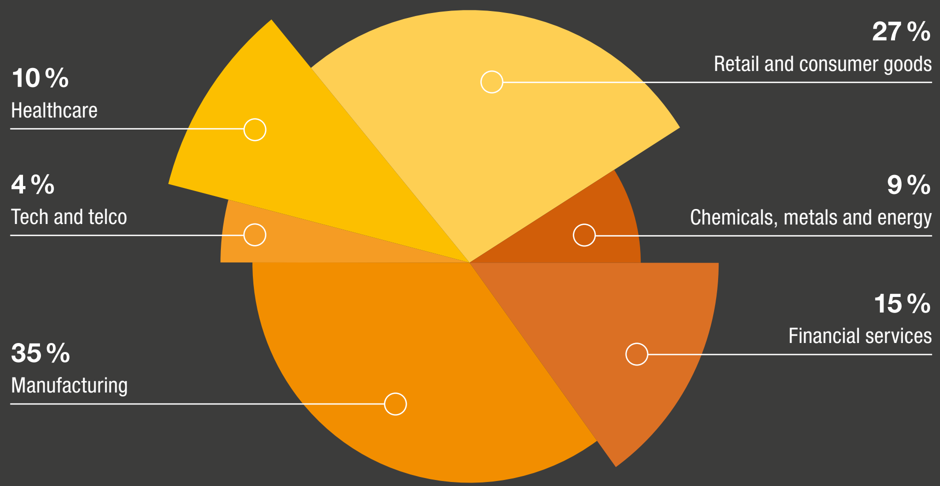


Figure 1: Most of the participants in the survey represent the manufacturing and consumer goods sectors

01 Editorial

From CEO to CEO

Dear fellow CEOs,

When times are uncertain, we managers and decision-makers need to give one thing above everything else – certainty. We must do this with respect to growth, jobs, transformation, cybersecurity and supply chains. And especially with respect to the future. This is no easy task, but it is one that unites us CEOs worldwide.

PwC Global's 25th Annual CEO Survey looks at how we are meeting this challenge. For the third year in a row, we are publishing a Swiss edition of the survey. 100 CEOs of Swiss companies from various industries participated in it. We have presented their assessments in this publication, divided into chapters on Growth, Sustainability and Strategy, and have supplemented them with comments, background information and recommendations from our experts.

A few words about the content. **Optimism about growth** continues unabated in Switzerland and worldwide and has even increased compared to the previous year. It reflects the fact that strong demand returned rapidly in 2021, the second year of the pandemic. Cybersecurity ranks once again as the number one threat, followed by health risks, geopolitical conflicts and climate change. Less threatening, but just as significant, is workforce and talent management. The battle for talent remains fierce and can only be won by offering job security, upskilling, personal development opportunities and a meaningful value proposition.

The picture is more complex when it comes to **sustainability.** There is now a new awareness of climate change and most industries have shifted from crisis mode to focus directly on sustainability. This was a widespread concern even before the pandemic, but it is now seen as a competitive advantage and upstream and downstream value-adding partners, especially in B2B commerce, are demanding it. However, a clear majority of the participants in our survey state that they cannot afford a net-zero commitment financially. It appears that the desire for more ESG (environment, social and governance) is not always compatible with price elasticity in the markets, and that scaled technologies that will also serve to keep costs down are not yet available in all sectors.

Companies have changed their **strategies** fundamentally. Their main focus in past decades was on costs, efficiency and value creation but the discussion has recently turned to major strategic transformations. Some industries are facing fundamental changes, such as the electrification of mobility and technological and digital transformation. The latter has introduced new distribution channels and players that are intensifying competition and rewriting the rules of the game. The cross-sectoral drive for sustainability is forcing companies to think around their contribution to all aspects of ESG and especially their social commitment – because customers' loyalty to brands and employees' loyalty to their employers are both declining.

We hope that this publication will encourage the debate about our tasks as CEOs and the expectations people have of us. We want to help you to keep an eye on the big picture and provide you with certainty about sustainable answers – especially at a time when so many questions remain unanswered.

I hope this publication will give you valuable input and inspire you.

Andreas Staubli, CEO, PwC Switzerland

02 Growth

Satisfied expectations increase optimism

High level of confidence in the global economy

The definition of growth has changed somewhat in recent years. Companies remain under intense pressure from investors and customers and most of them still define growth in terms of financial profit – albeit not at any price. But they are now paying more attention to the qualitative aspects of growth, especially in view of the sustainability value proposition and the non-environmental ESG factors – i.e. social and governance (see the chapter on Sustainability starting on page 12).

The CEOs we surveyed in Switzerland in 2020 had high expectations that the global economy would make a comeback. 2021, the second year of the pandemic, has evidently met their expectations. The participants in our new survey are highly optimistic that the global economy and core markets will grow over the next 12 months. 81 % expect the global economy to grow (see Figure 2). This confidence is more pronounced within Switzerland than globally (where it is 76 %) and shows little difference between industries – except for pandemic-hit sectors like tourism, restaurants, hotels and event management, which are still struggling with the severe consequences of the COVID-19 restrictions.

How do you believe economic growth will change, if at all, over the next 12 months in the global economy?

Switzerland
Global

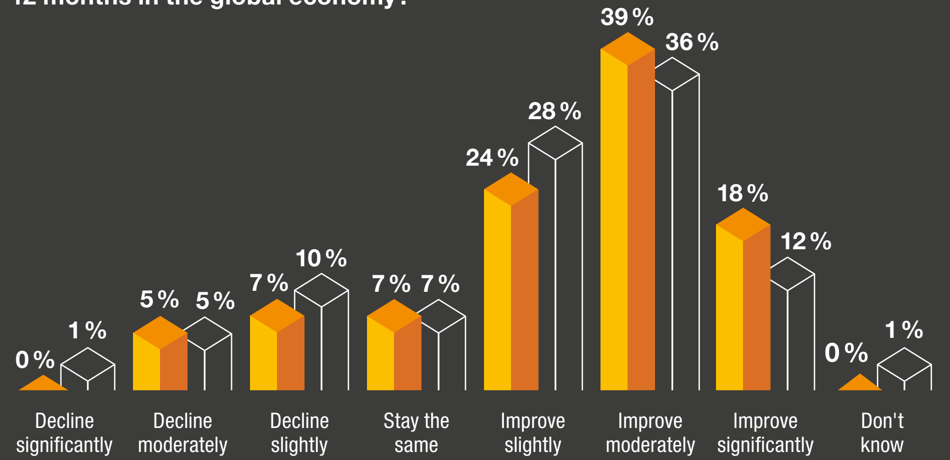


Figure 2: Four-fifths of the CEOs we surveyed in Switzerland expect global economic growth. The figure is three-quarters globally.

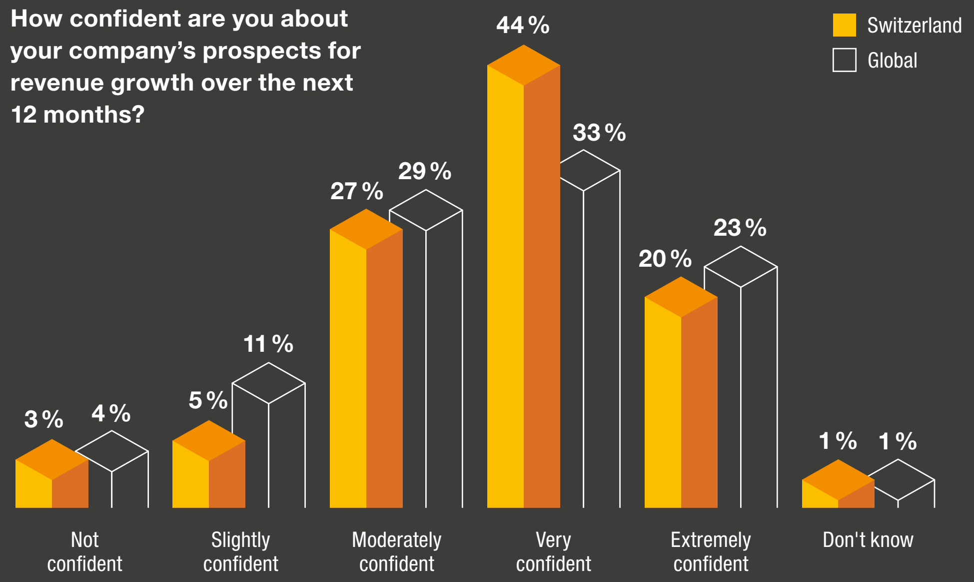


Figure 3: Almost two-thirds of the CEOs we surveyed are at least very confident about revenue growth in the coming year.

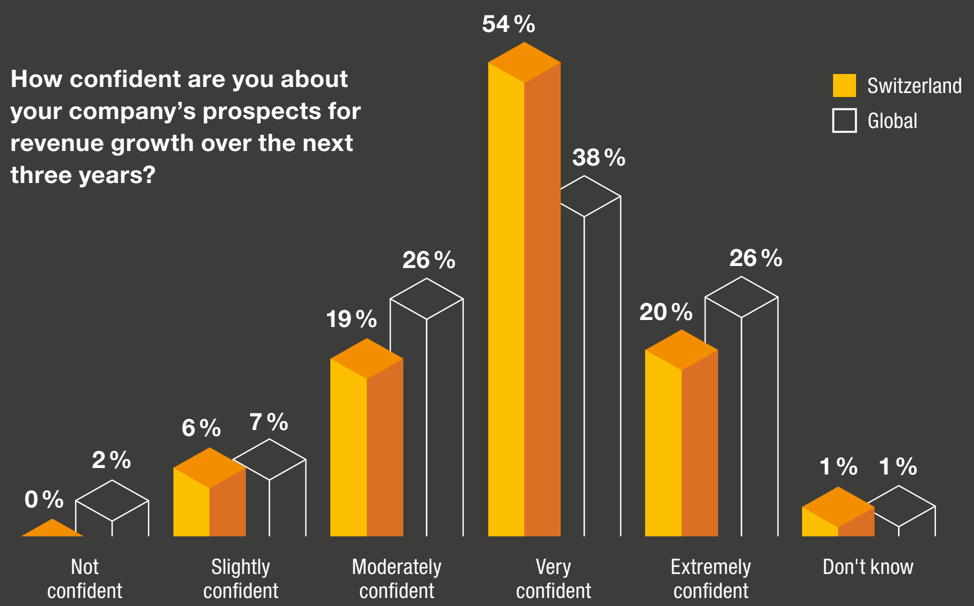


Figure 4: A clear majority is highly confident about medium-term revenue growth.

Revenues are looking up

The CEOs' optimism that there will be a macroeconomic recovery is reflected in their assessment of the trend in revenues over the next 12 months. 64 % of the Swiss decision-makers in our survey are very confident or extremely confident that their companies' revenues will grow (see Figure 3).

The participants are even more optimistic about revenue growth in the next three years (see Figure 4). 74 % of the participants are very confident or extremely confident that their companies' revenues will grow. Many companies are currently struggling with supply bottlenecks and some key components and raw materials are in very short supply (see Focus on supply chains, page 8), but the CEOs expect that this situation will ease next year. Their forecasts for the next few years are therefore even more optimistic.

There are several reasons for this widespread optimism, and they influence and reinforce each other. The pandemic has caused a backlog that is currently translating into full order books for manufacturers and buoyant online and direct purchases from retailers. At the same time, recognised economic indices – such as one provided by the KOF Swiss Economic Institute at ETH Zurich – predict that the recovery will continue with GDP growing at more than 3 %. Although it is currently unclear how inflation and interest rates will develop in the medium term, the Swiss CEOs evidently expect that these indicators will have little or no impact on the microeconomic or macroeconomic upturn.

[1] https://kof.ethz.ch/en/forecasts-and-indicators.html

Around the world and back – but safely

In Spring 2020, the pandemic showed internationally networked companies that their supply chains can expose them to existential risk. In some sectors, production facilities had to close entirely, and raw materials, semi-finished products and components were completely blocked at borders, or were severely delayed, during the lockdowns. Common global supply structures were rendered useless overnight. So companies tried to rid their supply chains of weak points and dependencies – as much as they could – and to purchase and produce more regionally and locally[2].

Short-term logistical bottlenecks

Some sectors are still experiencing severe delivery problems and the waiting times for many goods (including cars, wooden furniture and electronic equipment) are very long. The pandemic is just one of many reasons for this situation[3].

1. **Sluggish acceleration:** some companies were unable to ramp up their supply chains to keep pace with excess demand after the pandemic.

2. **Less "just in time" production:** Learning from their experience in the 2020 lockdowns, companies are now storing increased quantities of safety stock in their warehouses. This is causing a shortage of key components such as semiconductors.

3. **Shortage of coal:** China still relies on burning coal, a fossil fuel, for more than 50 % of its electricity. It is rationing electricity because coal is currently in short supply due to its trade dispute with Australia. 44 % of Chinese industrial enterprises are believed to be affected. This is in turn reducing supply. This is antithetical because coal-fired power generates carbon emissions and increases climate risks.

4. **Timber beetles in Canada:** Demand for timber rose to unprecedented levels during the pandemic, because people suddenly had time for renovation and construction work. The mountain pine beetle has been ravaging Canada's forests for years due to the timber industry's unsustainable monocultures. British Columbia used to provide 15 % of the USA's construction timber imports; today it provides less than 10 %. American importers engaged in a bidding war with Chinese and Indian buyers in Europe, which caused a 500 % spike in timber prices.

5. **The logistics bottleneck factor:** Transport logistics is battling capacity bottlenecks and incidents worldwide. In March 2021, for example, the container ship Ever Given blocked the Suez Canal. In August 2021, a COVID-19 outbreak occurred in China's second largest cargo port and caused an extensive closure. This resulted in delays of bulk shipments from overseas and extreme price increases.

2 See From globalisation to glocalisation, PwC, 2021

3 https://www.tagblatt.ch/wirtschaft/rohstoffe-weltweite-lieferengpaesse-7-gruende-dafuer-und-welche-produkte-betroffen-sind-ld.2201439

A paradigm shift in B2B commerce

B2B companies tend to focus on product characteristics and customisation. They often lack an end-to-end view of their customer interaction along the value chain and focus instead on their ability to offer responsiveness at a competitive price. A paradigm shift towards a new focus on holistic value creation is currently taking place in this type of commerce. With this new focus, manufacturers of industrial products engage their B2B customers in a similar way to online retailers – who engage their users by offering positive experiences and ensuring visibility into their products' availability[4].

Creating transparency and security

The current spate of bottlenecks in many supply chains is likely to prove a short-term operational problem that will be resolved in the next few months. Even so, Swiss companies should examine their supply chains and consider multi-sourcing approaches. The increasing demand for transparency in the supply chain, as part of the drive for sustainability, may warrant a report on system and organisation controls for the supply chain (a SOC for Supply Chain). The goal of resilient and sustainable supply chain controls should be to design more robust supply chain processes and structures and to communicate them more comprehensibly.

[4] See The new B2B value chain, PwC, 2021

“

The pandemic has caused a backlog and the leading economic forecasts are all positive. The expectations that the CEOs expressed in last year’s survey have been met and their current mood reflects their pronounced optimism about growth.”

Reto Brunner, Partner, Advisory, PwC Switzerland

A shift in foreign trade

Our survey’s findings on foreign trade markets show a shift in perceptions. When asked about the potential impact of countries on revenue growth in the next 12 months, 52 % of participants in our survey named Germany, 50 % the USA and 27 % China. In the 2020 survey, the same trading partners headed the list, but with different weightings: the USA with 45 % (2020) and 40 % (2019), followed by Germany with 39 % (2020) and 36 % (2019) and China with 39 % (2020) and 36 % (2019) respectively. This suggests that Switzerland and Europe are increasingly seeing growth rates in markets other than the giant in global trade – China.

Two factors are playing a key role in this assessment. First, the topical subject of sustainability and the vulnerability of globalised supply chains have prompted many companies to look for more local and regional suppliers and trading partners. Secondly, China has presented a new five-year plan that focuses even more clearly than before on decoupling itself from other countries and on strengthening its own national companies and its domestic market. This will make it increasingly difficult for foreign companies to earn money in China or from trading with it.

Imminent virtual danger

At the top of this year's threat barometer are cyberthreats (100 %), followed by trade conflicts (93 %), health risks (93 %), uncertain economic growth (90 %) and climate change (85 %). This ranking has moved only marginally compared to the previous year. It is also consistent with the global CEOs’ statements and with our everyday practice as a business consulting firm. Corporations and SMEs are increasingly faced with attacks that threaten their existence and ransom demands from cyberspace. The pandemic has driven the dynamics of digitalisation, and this has enabled cybercriminals to rapidly professionalise themselves even further and to perfect their methods (see Focus on cybersecurity, page 20).

The scars that the pandemic has left – including the long-term consequences of the infection, the repeated flare-up of incidence rates, the spread of the new Omicron variant and the consequent new legal requirements – are all too visible in society and the economy. So health risks still occupy second place in the worry table. Geopolitical conflicts have long ranked high on the list of threats because there

How concerned are you about the following global threats negatively impacting your company over the next 12 months?

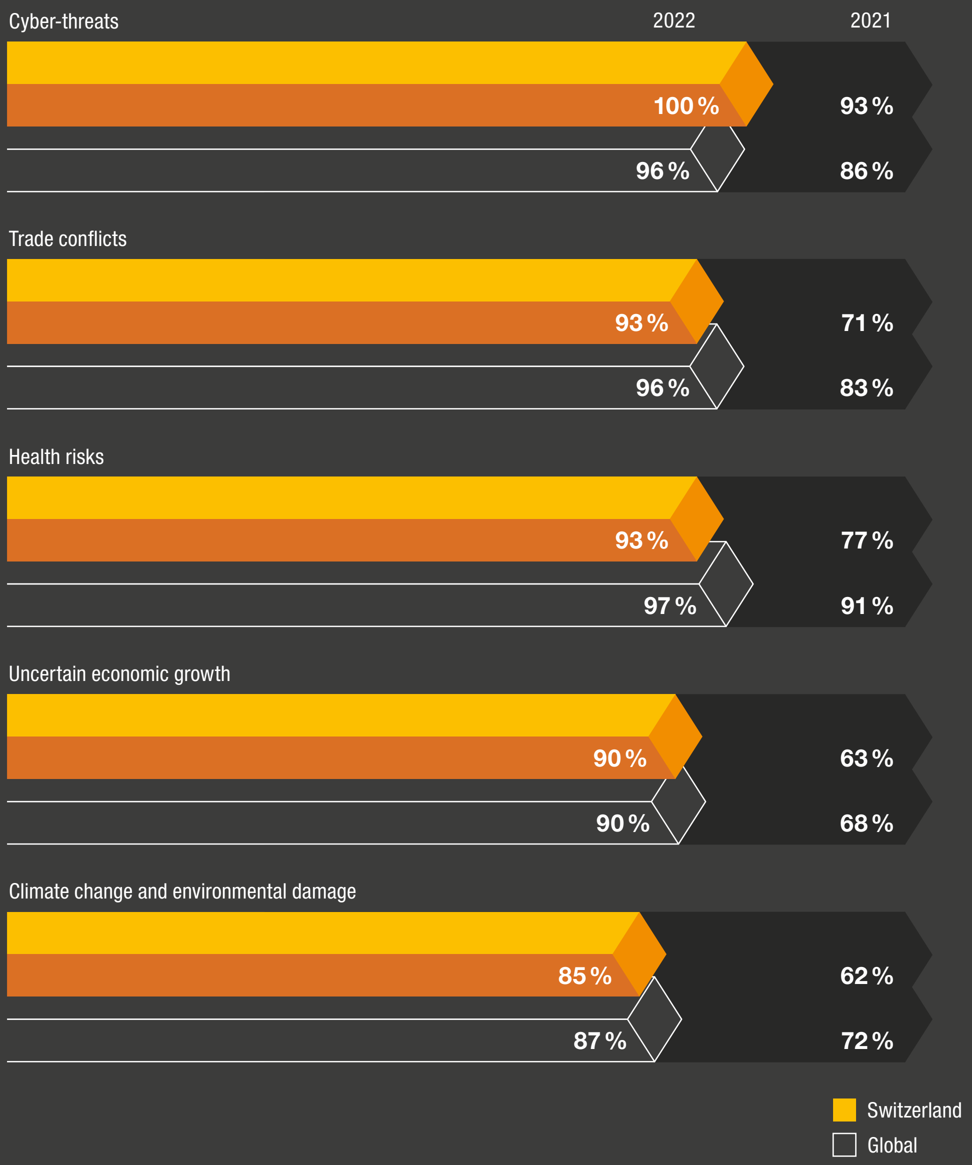


Figure 5: The CEO threat barometer shows cyberthreats as the biggest risk.

are no winners here. Trade relations between the USA, China and the EU have somewhat eased since President Joe Biden took office and dialogue between the global powers is now much more constructive. But a lot of conflict hotspots continue to smoulder – for example in Taiwan, Northern Ireland, Ukraine and Australia.

With climate change, the fifth area of concern, it's not just a matter of managing the operational risks to your business, but also of identifying and potentially exploiting opportunities for unique positioning, new products and circular business models[5].

Making an art of necessity

Skills shortages and the continuing battle for talent continue to preoccupy CEOs in 2021, with 44 % of the respondents citing macroeconomic volatility (GDP, unemployment and inflation) as a driver for attracting and retaining talent. 44 % of the participants see social inequality (including unequal opportunities between the sexes and the wealth gap) as an impediment to recruitment. It is worth noting that in the 2020 survey the Swiss CEOs rated the availability of specialist skills as the seventh most significant threat to their companies – at 64 %.

The C-suite in Swiss companies is aware of the importance of skilled workers and talent as a primary factor for growth. It is especially important to ensure job security and an attractive working environment when remuneration is increasing rapidly – as can currently be seen in some professions. A strongly inclusive company culture and a meaningful purpose are just as important. Managers also need to balance their employees' personal development with the needs of the company – for example by introducing flexible and hybrid working models for a healthy life balance. This is easier to implement in service companies and back offices than in development or manufacturing. Regardless of its size or sector, a company should intensify its long-term relationship with its employees and offer a work experience that will make them want to stay permanently.

[5] See «Circularity as the new normal – Future fitting Swiss businesses», PwC, 2021

03 Sustainability

If you make a promise, you must keep it

No longer a choice, but a duty

Climate change ranks fifth in the threat barometer, with 85 % of the CEOs in our survey mentioning it. They rate the urgency of doing business sustainably – for example, with a net-zero promise or through carbon neutrality – as equally high (see Figure 6). Swiss and international regulations impose sustainability requirements with varying degrees of severity on most companies – especially in the financial sector and in energy-intensive industries such as steel, cement and manufacturing. Sustainability is no longer just a marketing tool, but a matter of mandatory compliance. The intensity of the regulations will only increase in the next few years.

The goal of reducing greenhouse gas emissions means reducing emissions or bringing them down to zero **(net-zero)** as quickly as possible – everywhere. Unavoidable emissions must be offset by an equal amount of negative emissions **(carbon neutrality)** – for example, by capturing CO_2 from the air and storing it permanently **(carbon removal).**

What are net-zero emissions?

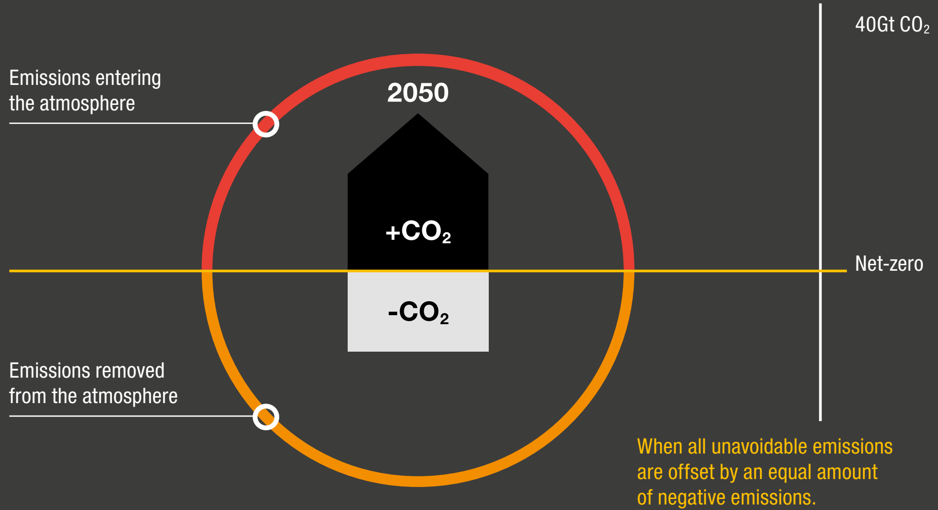


Figure 6: Net-zero and carbon neutrality efforts are needed if we are to achieve the climate goals set by the Paris Agreement.

Figure 7: External stakeholders are increasing the pressure on companies to commit to sustainability.

External pressure is increasing

97 % of the participants in our survey state that meeting customer expectations or recruiting and retaining employees would slightly to very strongly influence their commitment to a climate-neutral and/or net-zero obligation. 90 % name the achievement of government targets as an important influencing factor. At 77 %, investors are also seen as influencing companies' own climate protection commitments (see Figure 7). The external pressure on companies to take concrete measures and to disclose them transparently is increasing overall. This is reflected in the increasing number of cases in which a shareholder association recommends to the general meeting that the board of directors should be denied a formal discharge of liability because of a lack of transparent ESG reporting – and is also reflected in the voting results that follow these recommendations.

It's hard to step out of a comfort zone

The CEOs' attitude to implementing decarbonisation strategies can be summarised as one of hesitancy. 45 % of the participants in our survey haven't yet committed to carbon neutrality and 55 % haven't yet set a net-zero target. 65 % of the CEOs we surveyed aren't confident that they'll be able to achieve carbon neutrality or net-zero. There are several reasons for their hesitancy.

First, the time frame for the climate targets will exceed their own tenures. A net-zero commitment, for example, is targeted for 15 to 20 years, while the average tenure of a Swiss CEO is only 6.9 years[6]. Secondly, the solutions that are available today will not suffice, and more research and innovation will be needed. What we have is still in the development phase and is often academically driven. It's therefore neither scaled nor industrialised – and it's often expensive. A CEO needs a lot of courage to implement measures that have so much uncertainty about them. Thirdly, many companies are heavily dependent on fossil energies or fuels in their core businesses – for example for plastics. If one of them wants to commit to net-zero, it will have to revolutionise its entire business. So far, it's been hard to persuade customers and investors to support this kind of decision. And, finally, many Swiss CEOs don't like to see themselves as pioneers when the task is one that affects the whole world. They still believe that they are just small Swiss players and can't be expected to generate the necessary momentum when a far greater onus lies with others.

[6] https://www.strategyand.pwc.com/ch/de/presse/2019/Switzerlander-CEOs-sitzen-sicherer-chefsessel.html

The cost perspective

65 % of the Swiss CEOs in our survey believe they cannot afford carbon neutrality or a net-zero commitment financially. This statement reflects a pronounced focus on costs and could be reformulated as follows: sustainability puts pressure on companies' profit margins. In Switzerland, CO_2 does not have an economic price and is therefore insufficiently reflected in return-on-investment calculations. The abbreviation CO_2 is already causing alarm among consumers. Petrol is getting more expensive, flying is getting more expensive, and deliveries are getting more expensive! Interestingly, there was no similar outcry when fuel climbed to an all-time high over a few months, perhaps because delivery volumes were slow to follow and the Swiss franc to US dollar exchange rate rose at the same time.

The CEOs in our survey seem to have difficulty dealing with the opportunities created by decarbonisation and the question of how it could increase their revenues, improve efficiency and save costs. Most of the CEOs are highly optimistic about global economic growth and their own revenue growth (see the chapter on Growth, starting on page 6). However, their fear of losing competitiveness or customers if they invest in reducing their greenhouse-gas (GHG) emissions evidently prevails over their desire to gain competitive advantages and new markets through sustainable behaviour. This attitude may be due to the tendency for Swiss economic players to have strong global networks and to be dependent on foreign trade.

ESG targets and reporting are underweighted

88 % of the CEOs in our survey believe that their companies do not emit significant amounts of greenhouse gases. Only 44 % include quantitative targets for reducing greenhouse-gas emissions in their long-term corporate strategies (see the chapter on Strategy, starting on page 16). There are two reasons for this assessment.

First, climate protection measures don't develop in a linear way but in leaps: they show no effect for several years and then suddenly show a very strong impact. Companies can therefore disclose the development of their sustainability measures but must be vague about their effectiveness because the frame of observation often falls too short. Targets that are formulated for 15 to 20 years are inconsistent with the short cycles against which a company's performance is measured – and with the performance period against which the CEO is judged.

"Many Swiss CEOs are hesitating to define and implement net-zero targets. The time frame for the targets will exceed their own tenures. The solutions that are available today will not suffice, and more research and innovation will be needed. In other words, they want more certainty before they will take urgent decisions."

Stephan Hirschi, Director and Sustainability Leader, PwC Switzerland

Secondly, some companies lack a stable information base with which to provide meaningful reporting and reliable carbon emissions data. These companies simply have no idea where to start with their decarbonisation measures. You can't set a target if you don't have a baseline to start from. So it's not surprising that CEOs often prefer to formulate sustainability as a qualitative goal. Such a goal provides a verbal description of the company's contribution to avoiding climate change but is neither quantifiable (and therefore directly measurable) nor binding.

Concerns about measuring GHG emissions

91 % of the CEOs in our survey state that their companies are currently unable to measure their greenhouse gas (GHG) emissions. One reason for this response is the way in which companies must calculate their GHG emissions in accordance with the GHG Protocol. While Scopes (i.e. emission categories) 1 and 2 show what a company itself emits, Scope 3 includes upstream and downstream emissions from activities that do not directly belong to the company. Scope 3 emissions make up the largest (and hardest-to-quantify) part of a holistically considered value creation.

Companies must account for their Scopes 1 and 2 emissions when reporting in accordance with the GHG Protocol. Although accounting for Scope 3 emissions is not yet as advanced, it will also become mandatory for many companies[7]. A large proportion of managers probably do not know how to measure their companies' carbon footprints effectively. Disclosing Scope 3 emissions is highly demanding. If a company has not yet implemented systems to measure its GHG emissions, it may be due to these uncertainties.

Developing standardised approaches

81 % of the CEOs in our survey state that their industries don't yet have a standardised approach to decarbonisation (see Figure 8). Cross-sectoral approaches to decarbonisation are just starting to be established, and uniform standards and frameworks are currently being developed. For these standards and frameworks to be effective, companies need to work with the upstream (suppliers) and downstream (consumers) links in their value chains, communicate interdependencies and jointly define targets. This dialogue is happening, but its progress is slow.

[7] See Task Force on Climate-related Financial Disclosures (TCFD)

"In 2021, during the second year of the pandemic, awareness of climate change has increased. Driving ESG into the heart of business is proved today to a be long-term competitive advantage for companies."

Christophe Bourgoin, Partner, ESG and Investor Reporting Leader, PwC Switzerland

How accurate are the following statements regarding why your company has not made a carbon-neutral or net-zero commitment?

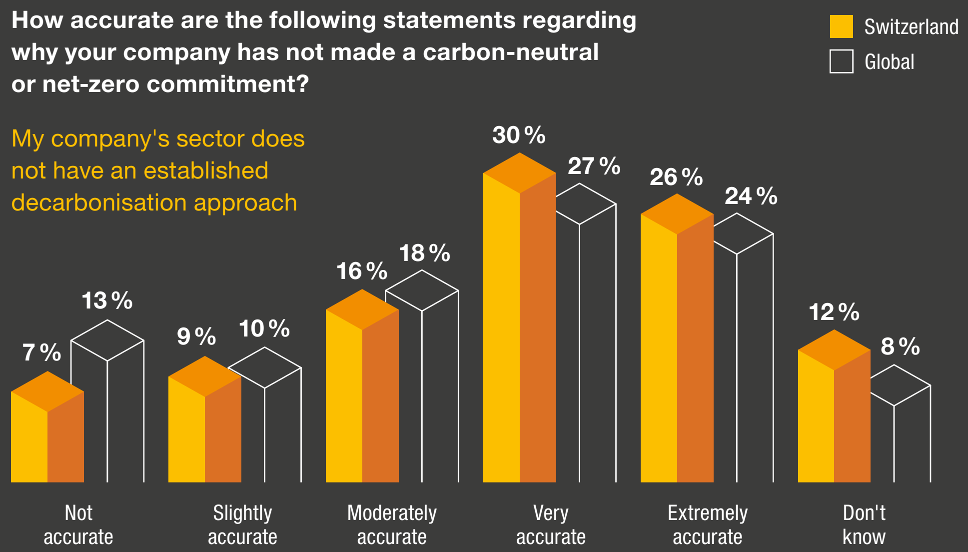


Figure 8: Cross-sectoral decarbonisation approaches are being developed, but most are not yet ready for use.

Combining foresight and agility

After tactics, back to strategy

When we asked the CEOs in our survey what factors help to create value in their companies, 77 % cited long-term industry trends, 76 % proprietary assets, capabilities and relationships, and 57 % demographic, cultural, ecological and technological macro-environmental forces (see Figure 9). This assessment reflects the latest change in the development of company strategies. For the last 10 to 15 years, the focus has been on activating business operations, and boards have discussed the tactical optimisation of costs, efficiency and value creation.

But now the strategic discussion in many industries is being shaped by fundamental transformations. Major, existential and strategic changes – such as the decarbonisation of energy supply and metal production, and the e-commercialisation of manufacturing industry – are running CEOs and other members of the board off their feet and are requiring them to transform entire business systems. The automotive industry, for example, is facing the electrification of mobility. For car manufacturers, this requires a complete reorientation of their value creation processes, from purchasing to production, distribution, sales, maintenance and repair.

How favourable are the value-creation factors with regard to your company's abilty to create financial value?

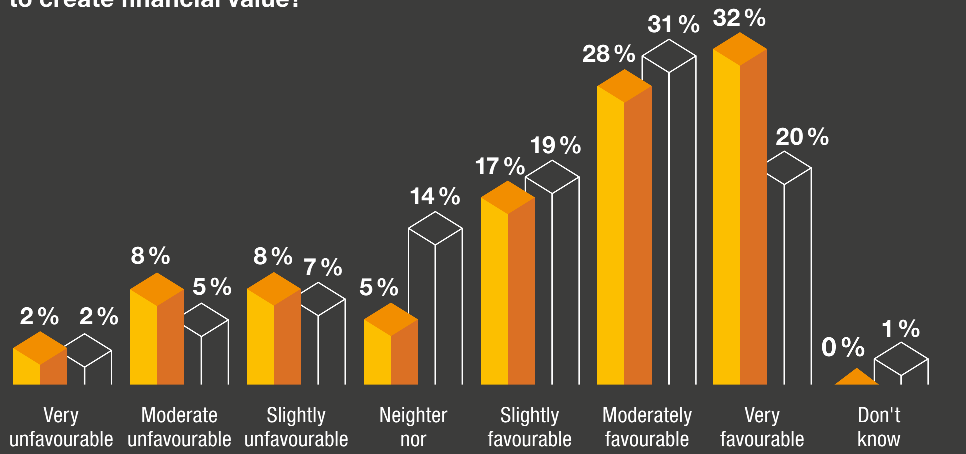


Figure 9: Fundamental industry transformations are keeping managers and decision-makers awake at night.

Pandemic magnification

The pandemic has accelerated the industry-specific transformations that we have described above but has not influenced companies' strategic decisions on how to respond to them. It has magnified the issues – as if with an immense magnifying glass – and forced companies to see their urgency. Issues such as supply chains and warehousing were at the top of the agenda for CEOs and boards in 2020, but the pandemic year of 2021 has brought bigger, transformation issues to the table. These have thrown companies' entire business models – together with their available resources and their infrastructures – into question. Companies will soon cease to exist if their decision-makers cannot provide far-sighted answers. This makes it more understandable that CEOs are falling back on their own resources – such as capital, skills and relationships – for the answers.

> **"For years, the strategy discussion was about efficiency and costs. Today, the focus is on major industry transformations and on sustainability as an overarching goal."**
>
> **Andreas Pratz,** Head of PwC Strategy& Switzerland

Finding rhythm and pace

Companies are implementing their strategic changes in a balanced way and with sufficient target figures. 52 % of the CEOs in our survey have one to three overarching strategic goals. 62 % review these goals at least annually. This rhythm is appropriate, because the world does not change that much in a year and a hectic rush is not conducive to strategy. Some sectors – for example, the cement and chemical industries – have very long investment cycles. And a Swiss payment institution needs up to four years just to replace a credit card product across the board.

Operational agility is in demand

Companies ideally combine a far-sighted view of the big picture at the strategic level with agility at the operational level. A company can demonstrate operational agility by, for example, changing its suppliers, redesigning its products or opening up new distribution channels. 65 % of the Swiss companies we surveyed generally allocate significant resources to new key initiatives within a maximum of six months. 43 % take a maximum of three months from proposing an idea for a major initiative to approving it. And 39 % of the CEOs we surveyed approve investments in new initiatives once a year.

Companies are releasing more capacity for change projects. However, they often design corporate projects with excessively long work packages. They should instead divide large programmes into shorter sprints and carry them out in a more agile way to make them more flexible and to ensure that they proceed at a consistently swift pace. Agile project management methods work incrementally, i.e. through a succession of small steps. However, there is nothing new about this. The first publication on agility was entitled 21st Century Manufacturing Enterprise Strategy and appeared in 1991. And Toyota, with its legendary production system, is considered to be the founder of lean management and the co-founder of operational agility.

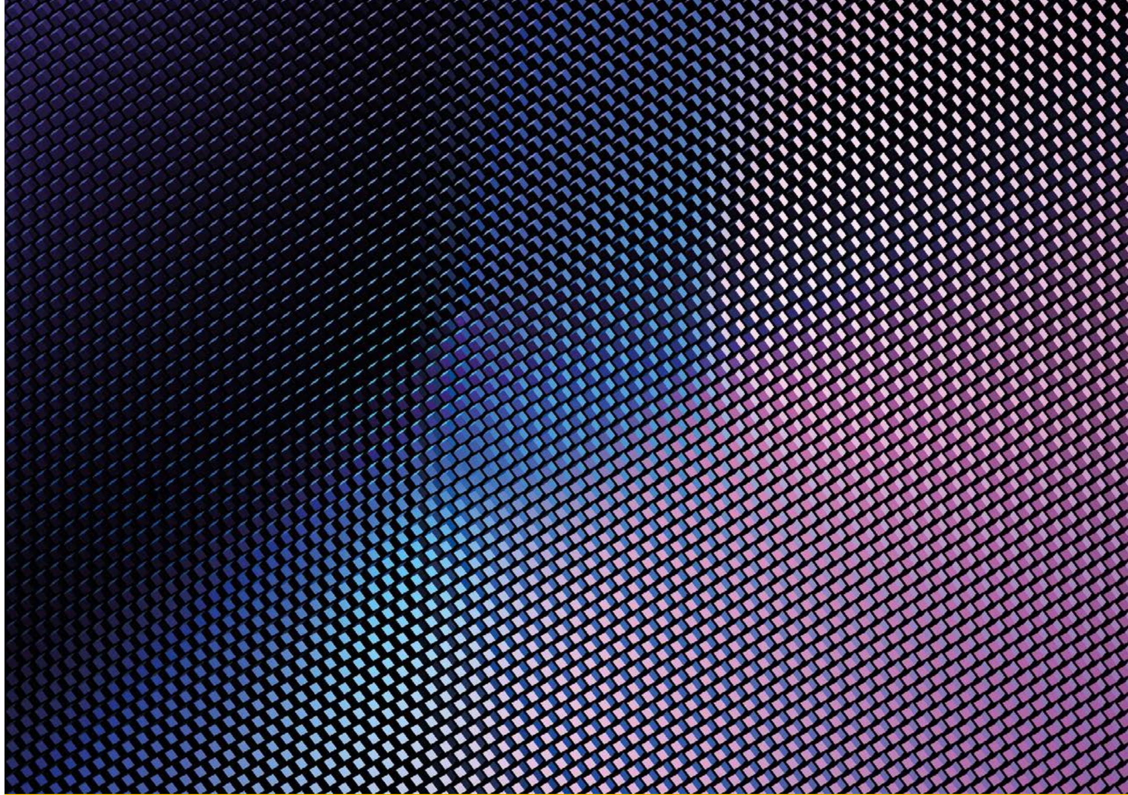
Record-breaking M&A volumes

67 % of the CEOs in our survey stop projects that have low potential or a lack of focus annually or more frequently. 83 % invest with the same frequency in high-potential projects. These assessments reflect a trend that is emerging in the M&A market. More corporate transactions – including acquisitions, sales, restructuring, financing measures, mergers and demergers of business units – are being completed than ever before.

The total value of announced, pending and completed business deals for 2021 is estimated to be USD 3.6 trillion[8]. Mergers and acquisitions with a value of USD 2.14 trillion took place in the United States alone in 2021, while Europe and Asia-Pacific accounted for USD 657 billion.

Transactions offer attractive opportunities for companies to focus on their core business, to achieve non-organic growth or to make strategic consolidations or adjustments during transformations. They can use a corporate transaction to accelerate a change in corporate strategy or a digital or technological transformation – or both.

Companies (e.g. family businesses) that have a majority of their capital in private hands often dispose of their peripheral activities. This enables them to free up resources and focus on their core competencies. Companies that are undergoing a fundamental transformation sometimes bring value creation elements in-house – perhaps to eliminate dependencies in their supply chains or their transport logistics (see Focus on supply chains, page 8). In the financial sector, the trend towards embedded finance – embedding financial services in non-financial industries – is gathering pace. E-commerce vendors that have regular customer interactions hope that it will improve customer loyalty, generate new revenue streams and provide valuable data on their customers' payment behaviour.



"Most people think that transformation is about technology, but it's really about business and mindset. A technology transformation is above all a business transformation."

Julie Fitzgerald, Member of the Management Board, PwC Switzerland

[8] See refinitiv.com/reuters.com, August 2021

The transformation of technology is continuing

Digitalisation is still high on the agenda for companies' management bodies. However, their expectations and approaches are more mature now than they were a year ago because the pandemic has brought momentum and experience. Companies have a clearer understanding of how they can transform technologically and digitally – and profit from it. Companies would often launch individual pilot projects, but we are now seeing more comprehensive programmes to use digitalisation to transform core businesses. This is especially true for designing ERP systems, supply chains and customer journeys. In digital transformation, however, uncertainties remain around the security of IT systems and cyber structures (see Focus on cybersecurity, page 20).

Non-financial indicators have little importance

67 % of the CEOs in our survey say that their companies have integrated customer satisfaction metrics into their business strategies. However, the figure for employee engagement metrics is only 36 %. The figure for inclusion of non-financial indicators as a basis for the CEOs' own bonuses or long-term incentive plans is also quite low (see Figure 10). Only 22 % have customer satisfaction metrics included as an outcome in their personal objectives frameworks. The figures are even lower for employee engagement metrics (16 %) and GHG emission targets (12 %). 70 % couldn't find a suitable statement in the list of available answers or abstained.

A possible reason for this pattern of responses is that non-financial indicators hardly change in a year or develop in leaps. This makes them unsuitable for calculating financial incentives or bonuses for a single business year. The observation period would have to be much longer.

We expect that companies will put more emphasis on employee metrics in the next few years. The labour market has become more competitive, and employees have a variety of alternatives and are increasingly willing to change jobs. The younger generations do not want to be seen as resources and strive for well-being and recognition. This is changing the relationship between companies and their employees and, given the continuing shortage of skilled workers and talent, it should certainly be near the top of any CEO's agenda.

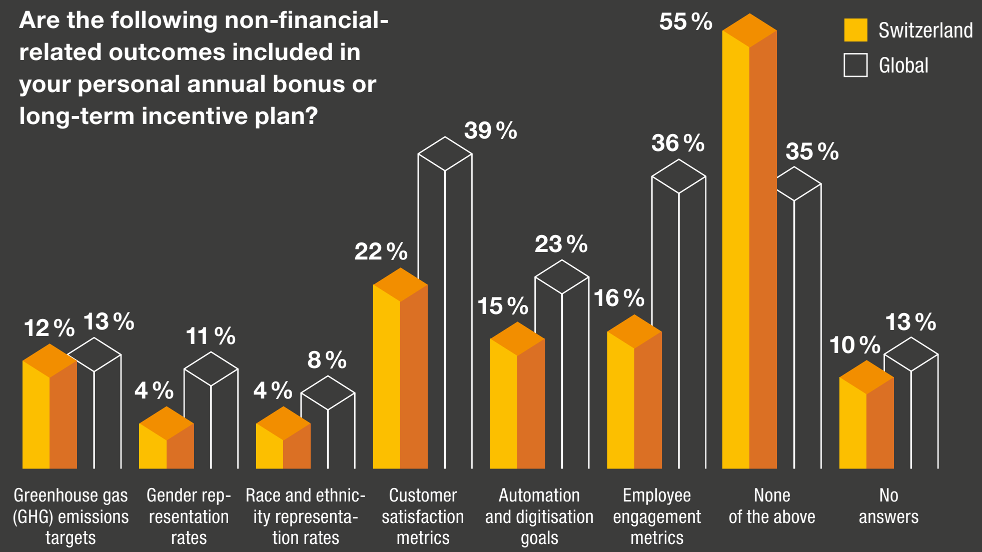


Figure 10: Non-financial outcomes are rarely included in Swiss CEOs' own bonus calculations or long-term incentive plans.

Responsibility of the highest priority

The numbers say it all

We hear about new cyberattacks almost every week. In 2020, 20,544 cases of cybercrime were reported in Switzerland, and 16,395 of these were classified as cyberfraud[9]. Medium-sized Swiss companies suffer average damage of about CHF 6 million per cyberattack. However, the amount of damage is increasing rapidly. When the entire IT infrastructure gets encrypted, the average is over CHF 100 million. And the number of unreported cases is a lot higher, because most cases are still not reported. To put this in proportion, a Swiss company suffers ransomware attacks every 11 seconds on average. All companies are potential targets, irrespective of size or “importance” – around one-third of all SMEs have already been victims of cybercrime. Today, this threat mainly affects companies that have not been on the cybercriminals’ radar, which means they’re unprepared.

Incidents and understanding have increased

Cybersecurity is the threat that the CEOs in our survey are most worried about – all of them named it – and this is not only because hacking is mentioned so frequently in the media. People have gained a deeper understanding of cyberattacks and their consequences over the last two years. A lot of managers know people from their own professional networks who have been affected. However, most managers still have little idea of how to counter the threat or where investments would achieve the fastest and best results. CEOs know how long it can take to close gaps in their companies’ defences that date from the past. There’s no solution giving 100% protection, but most importantly: having sufficient resilience in the event of a cyberattack doesn’t equate to having good security. How to seamlessly manage a cyber incident must be planned for, implemented and rehearsed. Security requirements must be adapted to the threat, and the corresponding technical and personnel resources must be available.

Striking the major arteries

83 % of the CEOs in our survey say they believe that cyberrisks could damage their companies’ sales, marketing, distribution and public relations. This is understandable. Today’s cyberattackers try to cripple companies by shutting corporate IT systems down completely – and this causes corporate business-critical processes to fail. So, if a company’s production processes are IT-dependent, its production will come to a halt. If its warehouse management is IT-based, it will find it virtually impossible to prepare its products for shipping. And if its B2C or B2B sales platform is IT-based, it will not be able to sell, deliver or invoice.

Creativity and professionalism are increasing

Cybercriminals now use an almost limitless number of ways in which to launch their attacks, but the most common is still phishing emails. And there are still many outdated or poorly maintained systems in operation, which makes it easy for cyberattackers to penetrate companies’ firewalls. Ransomware attacks consist of extortion accompanied by threatened or actual theft and encryption of data, and these have been among the most common in recent months. In addition, large-scale distributed denial of service (DDoS) attacks are used to slow platforms right down or to crash them entirely.

Cybercriminals and threat actors have professionalised themselves a great deal over the last few years. Their work is now standardised and highly automated. For example, they often know exactly what ransom sum they can demand in a case of extortion so that the company pays rather than accepts the damage and then fixes the gap in its defences.

[9] https://de.statista.com/statistik/daten/studie/294565/umfrage/gemeldete-faelle-von-internetkriminalitaet-in-der-schweiz/

Obstacles to preparing for combat

Various initiatives have been launched to combat cybercrime comprehensively. The National Cyber Security Centre (NCSC) was established as part of the Swiss Federal Council's strategy to protect the country against cyberrisks. An initiative was launched at the same time to create an independent seal of quality for IT services.

Neither the Swiss Federal Act on Data Protection nor the EU's General Data Protection Regulation (GDPR) currently requires companies to report cyberattacks. However, reporting is required in some sectors – e.g., in the financial world by the Swiss Financial Market Supervisory Authority (FINMA) and in the medical sector by Medicrime MKA (which is committed to detecting and combating fraudulent activities in connection with the online sale of medicinal products).

With more consistent reporting, the number of unreported attacks could be reduced. Victims could learn from each other and prepare themselves better. In addition to reporting, it is important to immediately collect and use the information that the reports provide in order to combat, prepare, prosecute, etc. If there is nothing to counter to cybercrime in every area and at every level, the criminal world will continue to grow and will perfect itself and spread unhindered.

Existential issues are matters the boss should deal with

A cyberattack could cost a company its existence. That makes it even more important that CEOs not only rate the risk as their number one concern, but also take action to mitigate it. That includes appropriately weighting competing priorities. The starting point is to plan and practise for a cyber emergency as carefully and seriously as for a major fire or a pandemic. Crisis planners usually focus on ensuring that data and information are available. In the process, they often lose sight of the need for confidentiality and integrity. Below are six recommendations for a course of action that Swiss CEOs should discuss with their chief information officers and risk managers:

1. **Know the risks and their consequences for the company:** identify critical systems and processes and their key risks and formulate scenarios.
2. **Understand cyberattackers and their methods:** identify company-specific vulnerabilities and issues.
3. **Protect the company and recognise and identify attacks that have occurred:** keep IT systems and cybersecurity up to date and personnel aware.
4. **Plan for cyberattacks as a critical situation:** tailor your planning to your particular company.
5. **Restore operations and cybersecurity:** plan and prepare measures along the chain of events.
6. **Communicate in a targeted manner:** define who will disseminate information – and how and when. And when not to disseminate it.

"People will lose their trust in you if you fail to keep your promises."

Trust and loyalty have been at the heart of PwC's value framework for years. Stefan Räbsamen, Chairman of the Board of Directors of PwC Switzerland, explains in this interview why trust is a strategic priority and how PwC will develop it further in the coming years.

Mr Räbsamen, what characterises trust and how has it changed?

Stefan Räbsamen: When I entered professional life as a young man, it was normal to train and stay with one company. Nowadays, a lot of young people take charge of their own destinies. They start, change, take a break and try something new. I don't find anything wrong with that. But we companies have to take this decreased loyalty into account when recruiting younger generations and in employee retention.

According to the Edelman Trust Barometer, people's trust in state organisations and governments has dropped significantly with the pandemic. Business institutions, on the other hand, have gained a lot of trust[10]. People trust companies, and especially local ones, even more than before the pandemic. They see them as competent, ethical and influential. So there seems to be a certain trust bonus that ascribes competence and integrity to economic players like us. We should also take account of this when shaping our relationships with our clients and employees.

How important are trust and loyalty with respect to buying behaviour?

Trust is extremely fragile – it is hard to win and easy to lose. But you must distinguish between B2C and B2B. In the consumer goods sector, consumers' trust can be lost in a moment, for example because an event triggers a viral outrage. Companies can no longer control how their customers will react on social media and on the many new communication channels, even if they invest a lot of money, time and effort in building trust and an authentic set of values. In the B2B sector, the bond between a supplier and its customers influences more than just buying behaviour. Connections are very important in this sector. Relationships of trust often take years to establish and are closely tied to a company's core values.

How can companies prevent a loss of trust?

They shouldn't promise too much because people will lose their trust in them if they don't keep their promises. Companies need to ensure throughout their organisations that their managers act in a way that builds trust and that they make the right decisions. That has a lot to do with the G in ESG – namely governance. This includes a clear tone at the top, authentically exemplified values and a rigorous cascade from top to bottom.

What do employees demand from their employers today?

An attractive employer brand above all in terms of the work models and personal development opportunities and also with respect to the company's purpose and values. Swiss companies need to make their work structures even more flexible.

How does that work at PwC?

PwC Switzerland employs people with 85 nationalities. We have a high level of cultural diversity across all hierarchical levels. However, we need to do better in terms of gender equality – not to satisfy quotas, but because we aren't exploiting the full potential of female talent. We can only do that by offering new forms of collaboration with flexible components.

We do our best to offer our employees a fertile environment in which they can develop – not just with their technical skills but also with soft skills like leadership. We also use upskilling programmes to keep our employees abreast of the latest technological developments. We want them to be able to use their skills even outside PwC. They will then remain valuable ambassadors even if they leave us.

What do clients want from companies? And what do they want from PwC?

They want us to remain steady and accessible. A lot of our client companies are in the course of ground-breaking transformations – for example, of their business models, their distribution channels or their ERP systems. In these situations, they want to be able to rely on an expert partner who will help them generate value beyond their transformations. That is why we have refined our vision and our brand promise. It used to be titled "Trust in Transformation", and we have modified it to "The New Equation".

What does "The New Equation" mean?

We want to establish a new equation, just as the name suggests. On one side of the equation is our commitment. On the other side is our clients' trust plus sustainable results. In other words, we help our clients to achieve sustainable success. We do this by bringing multidisciplinary teams together, using technology intelligently and making our extensive expertise and our global network available. Our new brand promise manifests itself in integrated solutions for diverse strategic focus areas – such as client-centricity, ESG, financial transformation and the future of work. The result is greater trust and sustainable added value.

Mr Räbsamen, thank you for talking to us.

[10] https://www.edelman.com/trust/2021-trust-barometer/belief-driven-employee

Contact

Global survey

The results and interpretation of the 25th Annual Global CEO Survey conducted by PwC Global are available at: **www.ceosurvey.pwc**

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Thank you!

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Swiss edition of the 25th Annual Global CEO Survey

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