

16th Annual Global CEO Survey:  
Dealing with disruption  
*Focus on tax*

# *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.

### **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 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.

### **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.

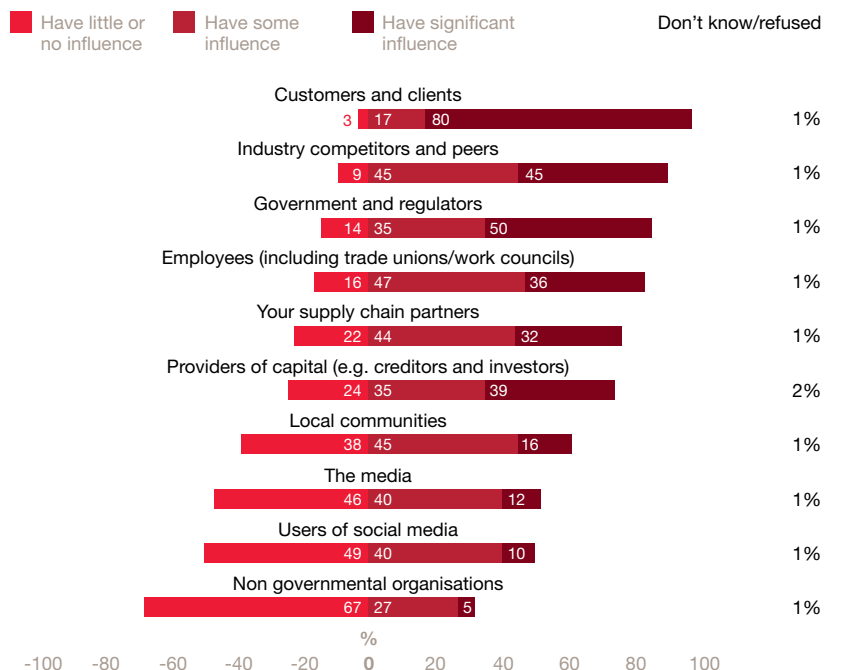
## Trust and confidence

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?

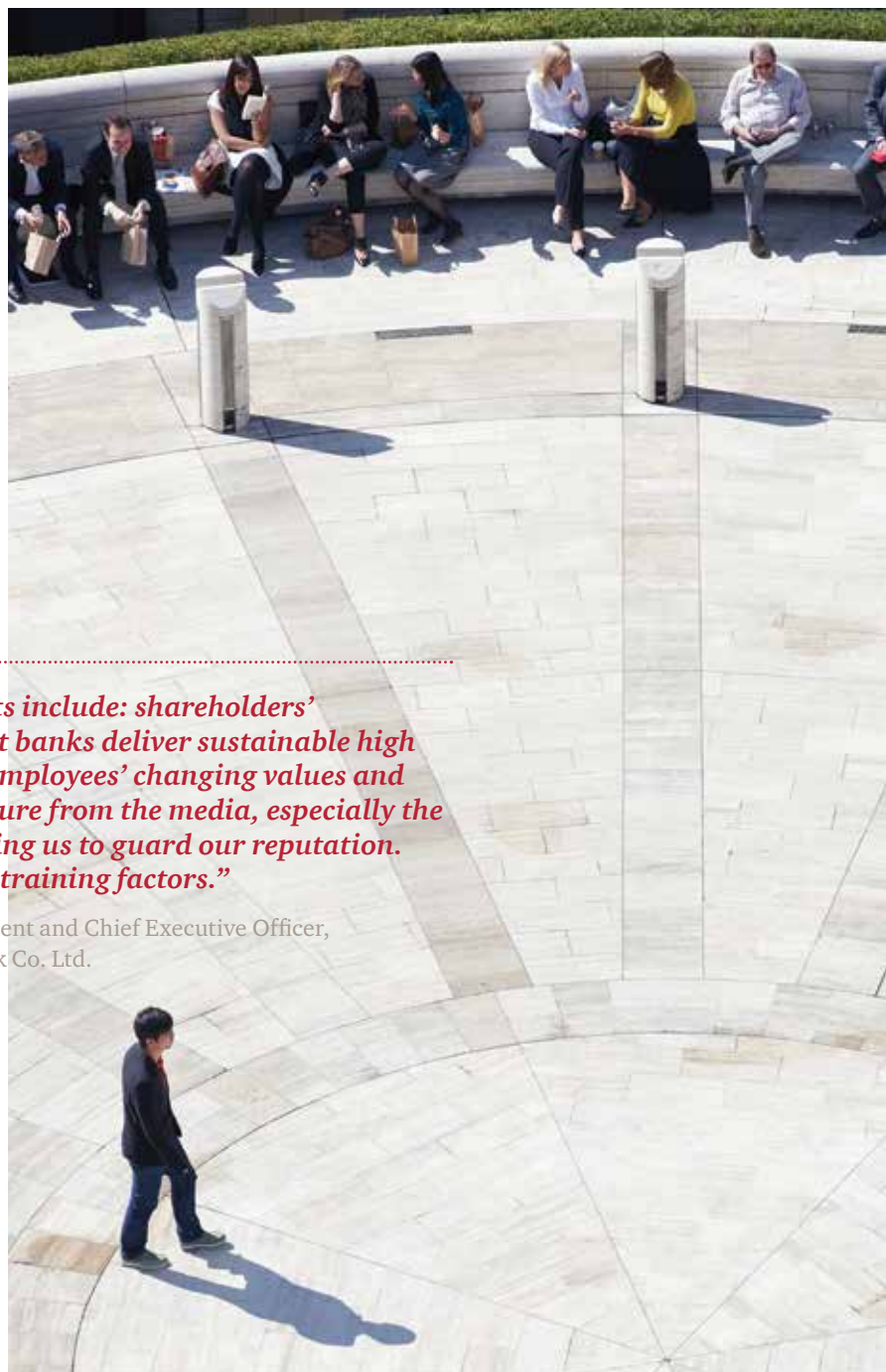


Source: PwC 16th Annual Global CEO Survey  
Base: All respondents (1,330)

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

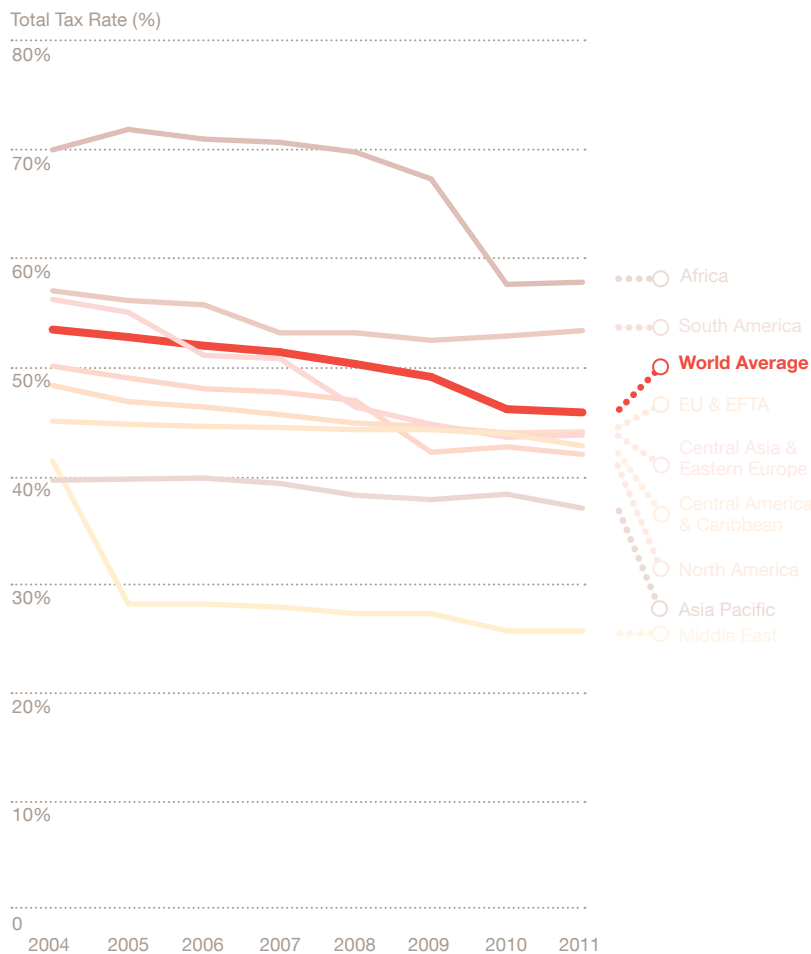
CEOs must tread a careful line that balances these many stakeholder influences. This is seen particularly clearly when it comes to the issue of corporate tax. CEOs tell us that they've cut costs wherever they can during the recession, but many business leaders are also concerned that the tax burden is 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.

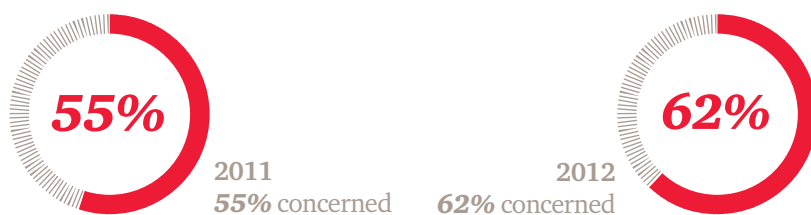
Even so, it's clear that business has a role to play. What constitutes 'acceptable' tax planning may vary geographically but it's still apparent that attitudes are changing, and that politicians and policy-makers are reacting to these changes. So it's essential that every company has a clear policy in 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 continue 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**



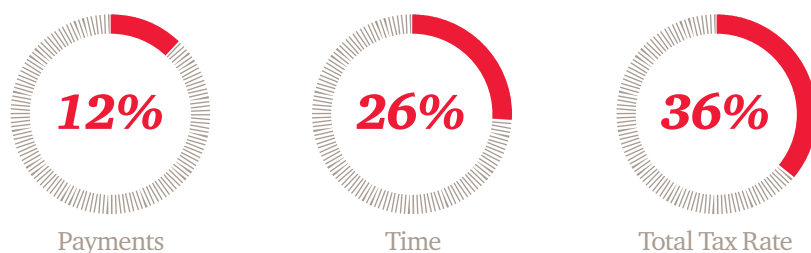
Source: PwC Paying Taxes 2013

**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.

**Ethics matter to CEOs**

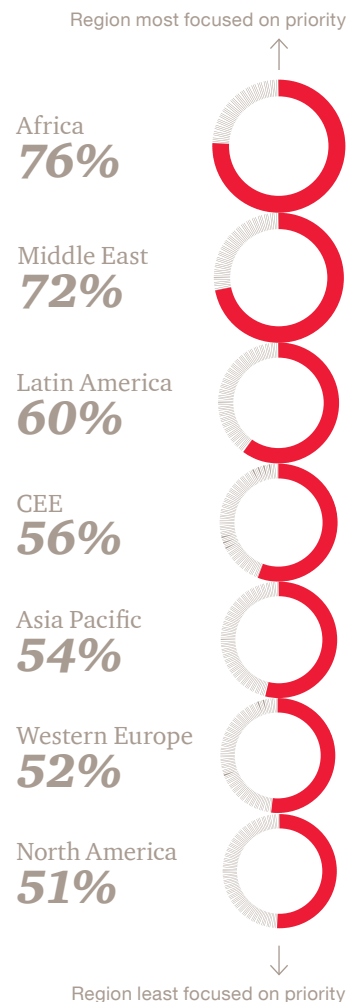
CEOs are fully aware that they and their company are under more scrutiny than before, and that they’re being judged on their behaviour. Our survey clearly shows that ethical behaviour is a focus for many business leaders in 2013. 56% told us that a priority for the year was to create a framework to support 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.

**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)



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## *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.

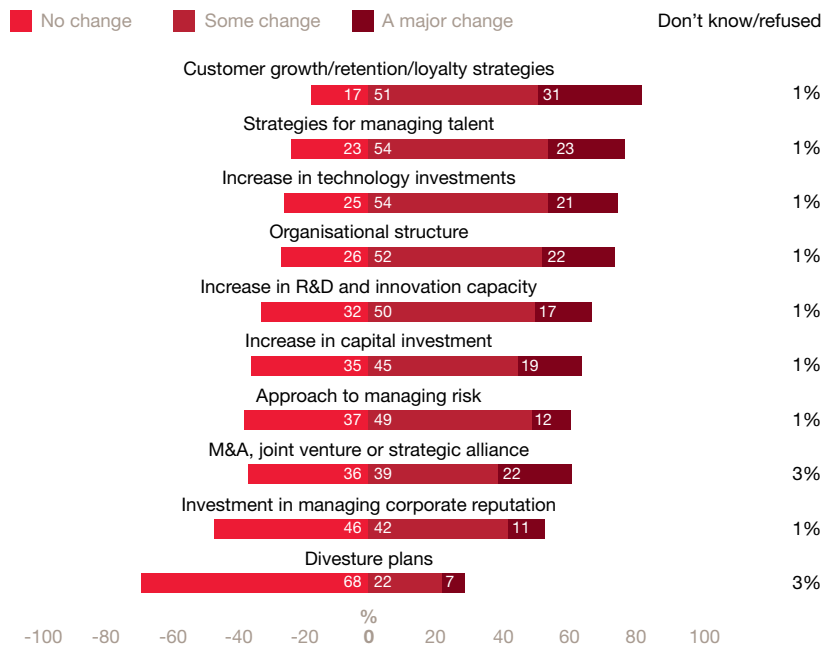
Trust is an essential component of the relationship between a company and its stakeholders and as such, is a vital element of this resilience. CEOs know that they have to rebuild bridges between business and society – 37% of CEOs told us that they worry that a lack of trust could damage their company’s 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.

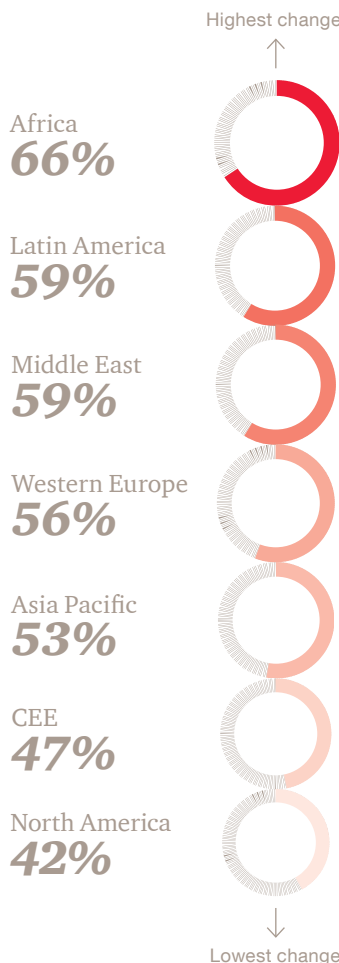
**Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?**



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

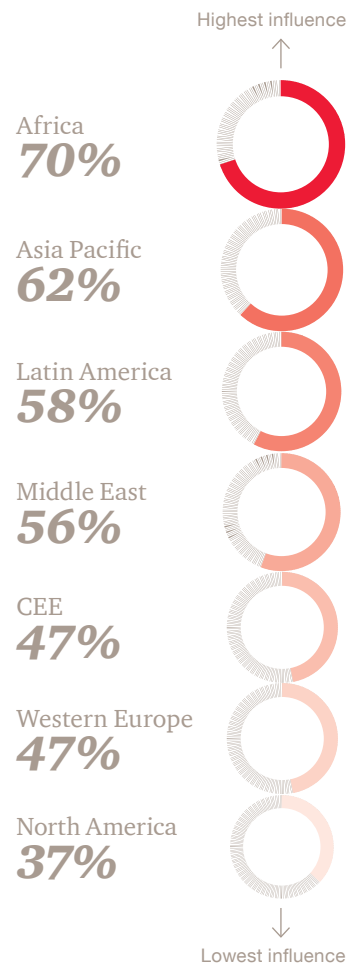
**Q: To what extent do you anticipate changes at your company in the following areas over the next 12 months?**

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 do users of media have a significant 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)

5%  
Canada

23%  
US

15%  
Brazil

## 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.

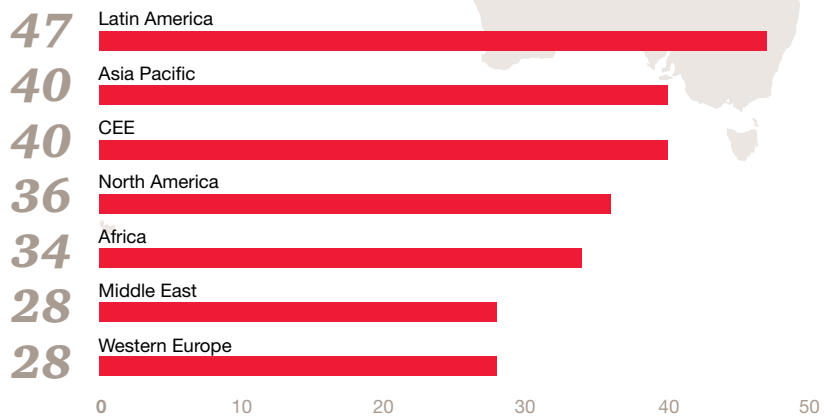
And yet, our survey shows that CEOs' attitude to tax planning varies widely from region to region. 47% said they planned to focus on their approach to tax planning and contributions as a priority in Latin America, while only 28% in Western Europe said the same. And just 31% of CEOs in the largest companies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

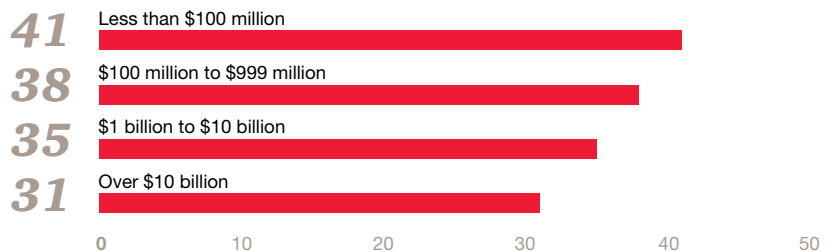
**Q: To what extent does your organisation plan to focus on the following priorities over the next 12 months?**

**Tax planning focus by region and by size**

Latin American companies are most likely to increase focus, Western European companies least likely...



**Large companies are less likely to be increasing focus on tax planning**



Respondents who stated 'increase our focus somewhat' or 'increase our focus significantly'  
**Source:** PwC 16th Annual Global CEO Survey

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## *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:

### **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](http://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](http://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.

### **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.

*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.*

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