Government and the 17th Annual Global CEO Survey

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Government and the Global CEO: Fit for their futures

1,344

CEOs in 68 countries and 45 government representatives/ state backed CEOs

71%

of CEOs remain concerned about government responses to fiscal deficits and debts

See page 4

86%

of state backed CEOs identify technological advances as a top-three trend

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Foreword

Welcome to 'Fit for their futures: Government and the Global CEO', in which we assess the changing relationship between government, business and society.

Each year, PwC's Annual Global CEO Survey captures the issues at the top of the agenda for the world's business community. As in past years, we have deepened the research for PwC's 17th Annual Global CEO Survey[1] by including a range of interviews with senior decision makers in governmental organisations across the world.

Our aim in doing this is to compare and contrast the views of business and government, and understand the policy and delivery responses for the challenging conditions of today, and tomorrow.

Our sincere hope is that this will contribute to greater understanding and stronger relationships between the public and private sectors – and, in turn, create the society of the future for the citizens of tomorrow – today – by a trusted, sustainable and collaborative government.

Dealing comprehensively with the fiscal situation

Last year, PwC's 16th Annual Global CEO Survey[2] found that organisations, faced with the increasing pace, range and impact of disruptive events, were looking to become more agile and adaptable in order to not only survive, but thrive.

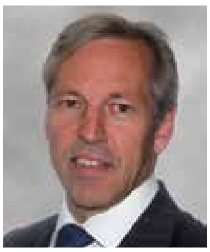
So, what are we exploring this year? As the world seeks to put the financial crisis in the rear view mirror, together with our private sector CEOs we have looked to the future and focused on how fundamental external forces of change, such as technology and demographics, are reshaping their businesses. We asked how CEOs are making their organisations fit for the future, and how government can help, and for their views on the purpose of business and the importance of building and sustaining trust in this new environment.

In turn, with our public sector interviews we have looked both at the responses needed to help businesses get fit for the future and how public sector organisations themselves can get ready for tomorrow's challenges by becoming more innovative, agile, connected and transparent.

This report sets out businesses' priorities for government, and discusses in turn how governments can:

- Get fit for the future through (digital) transformation.
- Deliver growth through collaboration.
- Build trust through engagement.

We would like to thank not only the 1,344 company leaders across the world who shared their views with us for PwC's 17th Annual Global CEO Survey, but also the 45 government representatives and state backed CEOs who took the time to share their thoughts in depth with us.[3] We are grateful to them for their cooperation and insights.



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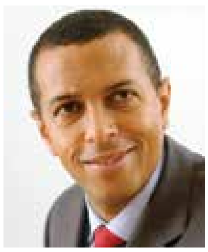

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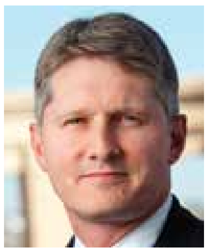

Richard Abadie

Global Leader,
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1 PwC's 17th Annual Global CEO Survey, '*Fit for the future: Capitalising on global trends*', PwC, 2014. http://www.pwc.com/gx/en/ceo-survey/2014/assets/pwc-17th-annual-global-ceo-survey-jan-2014.pdf
2 PwC's 16th Annual Global CEO Survey, '*Dealing with disruption: Adapting to survive and thrive*', PwC, 2013. http://www.pwc.com/gx/en/ceo-survey/2013/assets/pwc-16th-global-ceo-survey_jan-2013.pdf
3 See Annex for details

Content

Summary

Confidence among the CEOs who responded to the 17th Annual Global CEO Survey[4] is at last stabilising, with a net positive balance of 37% of CEOs surveyed believing that the global economy will improve over the next 12 months – a marked improvement on a year ago. But fiscal deficits and the public sector debt burden remain a major threat on the horizon for business.

Last year, 71% of the CEOs we surveyed were concerned about government responses to fiscal deficits and debts including countries not undertaking major austerity measures. This year, concerns have stayed at this same high level. This is not good news for investment or jobs, given that uncertainty delays decisions on both. And it may be reflected in the majority of CEOs surveyed (53%) still identifying financial sector stability and access to finance as their highest priorities for government.

But it is not only fiscal deficits that are a threat to business. Over-regulation (72%) and an increasing tax burden (70%) as well as continued slow or negative growth in developed economies (70%) are equally important as major threats. And there are continuing issues of mistrust, with about a third (31%) of CEOs surveyed saying they perceive that the level of trust government and regulators have in their sector has deteriorated over the last five years.

In response to these findings, we believe that governments and public sector organisations need to respond in three key ways.

1. Get fit for the future through (digital) transformation

Affordable government is the new reality. If government and public sector organisations are to put the fiscal issue finally to bed, the challenge is to adjust to this new reality by becoming more productive – 'doing more for less' (or 'doing less for less') – and get fit for the future while focusing on the outcomes that society needs and wants.

In this respect, technology is the next big enabler. In the private sector, technological advances are seen as the most important global trend which will transform business, with 81% of CEOs surveyed naming this as a top-three trend. And its transformative impact ranks even higher with CEOs running organisations with state backing (86% of state backed CEOs surveyed).

In our view, public bodies need to embrace digital technology as a tool to drive innovation, transform how they engage with citizens, foster the interaction of citizens with each other and explore how outcomes can be better secured. Public bodies also need to learn from digitally orientated companies in the private sector and explore whether more innovative business models can be developed.

4 PwC's 17th Annual Global CEO Survey, '*Fit for the future: Capitalising on global trends*', PwC, 2014. http://www.pwc.com/gx/en/ceo-survey/2014/assets/pwc-17th-annual-global-ceo-survey-jan-2014.pdf

2. Deliver growth through collaboration

To reduce deficits, governments at all levels must balance public service reform and cost-cutting with investments to create growth. The financial crisis demonstrated the risk of economic imbalances and going for growth at any cost. It also demonstrated the need to drive growth which is financially, socially and environmentally sustainable – good growth.

In the post-crisis 'new normal' it is clear that more needs to be done to build a platform for growth and competitiveness through collaboration across the public and private sectors in order to address businesses' priorities for government. These priorities include infrastructure (50% of CEOs surveyed, particularly those in emerging markets) and skills (41%).

This requires public leadership to facilitate collaboration across public, private and not-for-profit organisations as well as universities to create a platform for growth, with a focus on the three key levers of skills, infrastructure and innovation:

- **Brokering the right skills in the right places.** Acquiring the right skills is an essential prerequisite to the desired outcomes for citizens of getting a job and earning a decent income and is a top priority for businesses too. Education providers (often state funded) need to take advantage of business engagement, maximising the opportunity for businesses and pupils/ students to interact and smooth the transition from education to the world of work. Individuals also need to be empowered to make well-informed choices, with high quality, objective advice on potential career paths towards good jobs. And government must step in to improve the brokering process where there is most risk of a deficit of good quality information.
- **Developing investor ready infrastructure projects.** There is no universal blueprint that can be applied to economic development and infrastructure solutions across and within countries, particularly with the onset of new and rapidly evolving technology. Each place needs to plot its path, based on an analysis of its own particular strengths and weaknesses and a definition of what it wants to be famous for. What is clear, however, is that infrastructure delivery will not be achieved without being joined up at the critical points, being intelligently phased and sequenced, and addressing the underlying governance, legal and financing requirements.
- **Creating an innovation ecosystem.** Strategically, public bodies need to consider their role in local and national innovation strategies, based on areas of competitive advantage. This means identifying a place's competitive advantages and mobilising stakeholders (including business, universities, the not-for-profit sector and the public) around an inspirational vision for the future.

81%

In the private sector, technological advances are seen as the most important global trend which will transform business, with 81% of CEOs surveyed naming this as a top-three trend.

3. Restore trust through engagement

In our report in 2013, we argued for a new contract between business and the state in order to improve relationships and drive good growth. A shift is still needed in mindsets from coexistence to a real spirit of partnership on both sides in order to deliver better outcomes for business and society.

While the CEOs surveyed this year think most stakeholders trust their industry more now, the one major exception is government and regulators. About a third (31%) of CEOs stated they perceive that the level of trust government and regulators have in their sector has deteriorated over the last five years (although for a net balance of CEOs surveyed it has actually improved in the Middle and Far East).

In our view, three shifts are still needed in the relationship between government and business from:

- A belief of 'public good, private bad' to appreciation of the best of both.
- Forced cooperation to mutual collaboration.
- Distrust to mutual recognition of responsibilities on both sides.[5]

We continue to believe that the commitment of individual leaders on both sides makes all the difference. Public sector leaders can also help set the tone by taking the lead on dialogue in the two areas which are uppermost in the minds of the CEO from our Survey: tax and regulation.

5 From '*Government and the Global CEO: A new contract between business and the state*', PwC, 2013. http://www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-psrc-a-new-contract-between-business-and-the-state.pdf

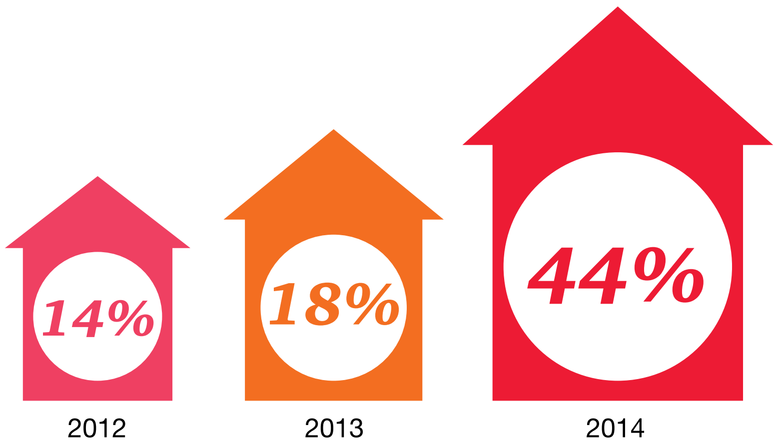
Fiscal deficits still in the spotlight

Confidence among the CEOs who responded to the 17th Annual Global CEO Survey is at last stabilising, with a net positive balance of 37% of CEOs surveyed believing that the global economy will improve over the next 12 months – a marked improvement on a year ago. But fiscal deficits and the public sector debt burden remain a major threat on the horizon for business.

Many CEOs remain very nervous about the success of government efforts to balance growth and reform. The ability of the mature world's debt-laden governments to tackle fiscal deficits has been the biggest cloud on their horizon for the past four years and anxiety continues to remain at a high level.

Last year, 71% of CEOs surveyed were concerned about fiscal deficits including countries not undertaking major austerity measures (up from 61% in 2011). This year, concerns about fiscal deficits have stayed at this same high level. The burning question arising is: how can government and public sector organisations address business concerns and put the fiscal issue finally to bed?

Figure 1 Global economy expected to improve



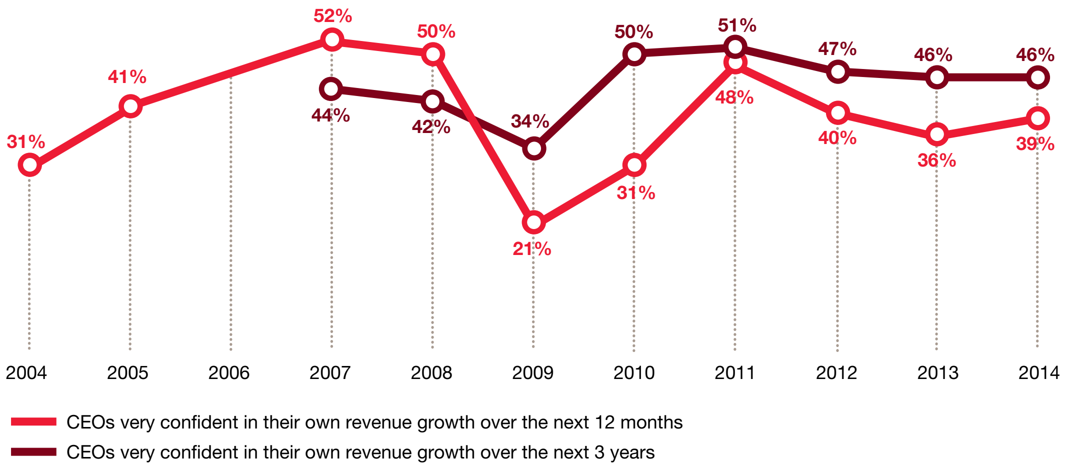
Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

How confident are CEOs?

CEOs are more confident about the immediate economic outlook than they were a year ago. More than twice as many of the CEOs we surveyed (44%) think it will improve in the next 12 months compared to last year (see **Figure 1**). Conversely, just 7% think it will deteriorate, compared with 28% in 2013.

But there are some marked regional differences in sentiment, with only about a quarter (26%) of CEOs surveyed in Central and Eastern Europe (CEE) believing the global economy is recovering. This compares with about half of all CEOs in Western Europe (50%) and the Middle East (49%).

Figure 2 CEO confidence in revenue growth



Base: All respondents (2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084; 2005=1,324; 2004=1,386)
Source: PwC 17th Annual Global CEO Survey

And CEOs are still cautious about whether greater global growth will translate into growth for their own companies. There has been a slight increase in the percentage of CEOs surveyed who are very confident of generating higher revenues over the next 12 months (to 39%) and a plateauing of confidence levels about the outlook over the next 3 years at 46% (see Figure 2).

Back to the future – new sources of growth

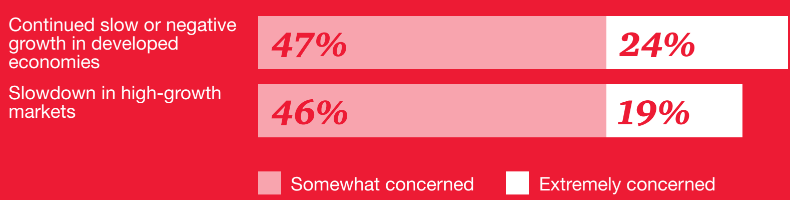
CEOs this year have also altered their views on where growth lies, as the global economy rebalances. Last year, there was a clearer split between the mature and emerging economies. This year, the picture is more nuanced as the advanced economies pick up and some of the emerging economies slow down.

Indeed, 70% of CEOs still worry about slow growth in the advanced economies. Meanwhile, 65% of CEOs surveyed are somewhat or very concerned about slowdown in emerging markets, due to the impact of developments such as the 'tapering' of government bond purchases and capital outflows.

Indeed, although CEOs are more worried about sluggish growth in the advanced economies than a slowdown in the emerging economies, the gap is surprisingly small (see right).

Where are the growth threats?

Q: How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects? (Two threats CEOs named.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

The 'portfolio' of overseas markets where CEOs are going for growth over the next 12 months is changing accordingly. Germany and the UK are now seen as more promising than some BRICs (Brazil, Russia, India and China). China continues to top the chart of overseas markets but CEOs are also turning to the US to a greater extent than they did last year (see **Figure 3**). There are also signs that CEOs are turning to non-BRIC emerging markets such as Indonesia and Mexico.

In short, the global economic landscape is shifting. Today's core markets will become tomorrow's high-value niche markets, with real incomes so much higher in advanced economies than they are in the emerging markets.

In contrast, the BRIC economies will become the new core markets, as they are still growing much faster than the advanced economies and are in a much better position to cope with any storms than they were ten years ago. And this will create space for today's frontier states – the younger, less developed economies that have yet to catch up with the BRICs – which will be tomorrow's emerging markets, as their GDP rises and their populations become more affluent.

What worries CEOs most?

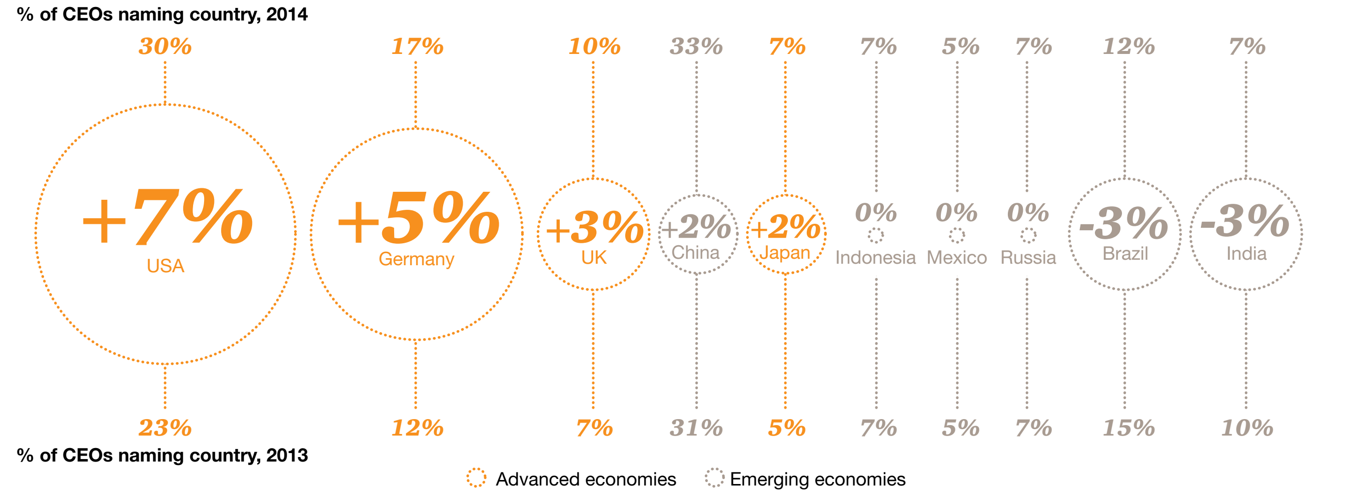
But there are clouds on these new horizons. CEOs still remain very nervous about government responses to fiscal deficit and debts (see **Figure 4**). And in no region does this threat fall below about two thirds of the CEOs surveyed, rising to 88% of CEOs surveyed in North America and 87% of those in Africa.

But it is not only deficit reduction that is a threat to business. Continued slow or negative growth in developed economies is equally important as a major threat, particularly for CEOs in North America (81%) as well as in Asia Pacific (73%) and Western Europe (70%).

Other key threats to growth, as they were last year, are over-regulation (72% of CEOs surveyed, rising to 87% in Africa and 81% in companies with revenues over $10 billion) and an increasing tax burden (70%, rising to 81% in Latin America). In addition, about two thirds (63%) of CEOs surveyed were concerned about the availability of key skills, rising to 91% of CEOs in Africa. And it is clear that CEOs are getting steadily more anxious on this score over time (see **Figure 5**).

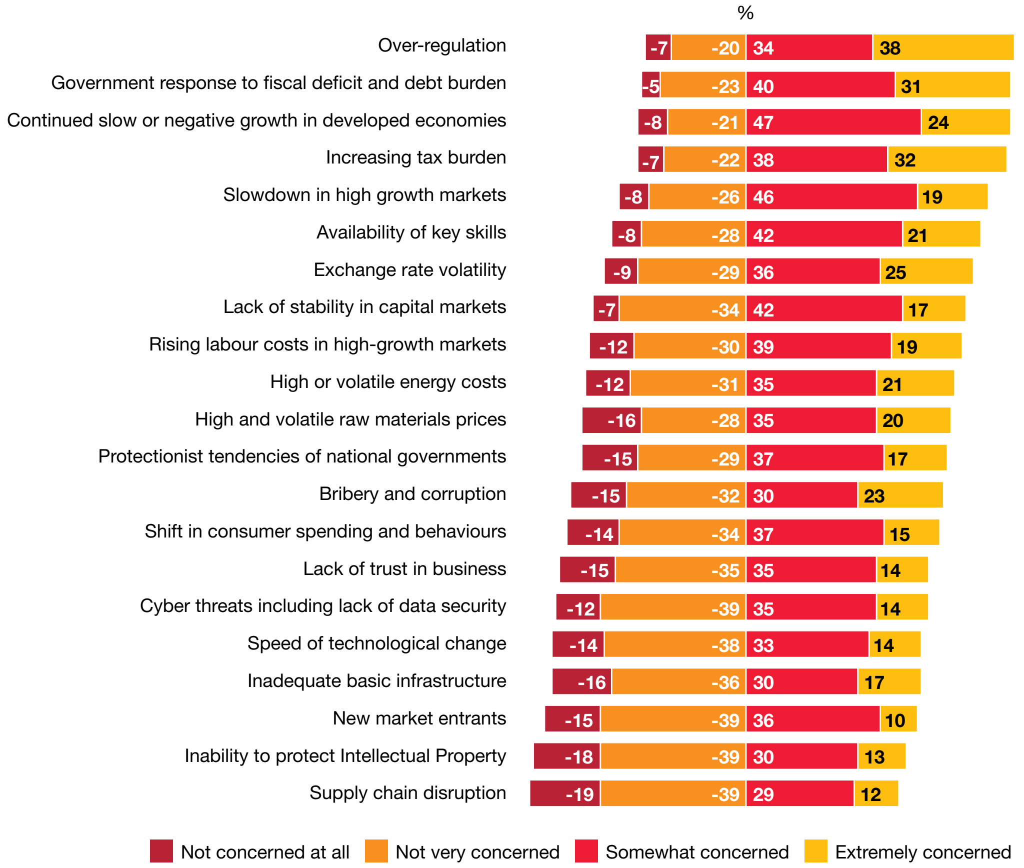
Figure 3 CEOs turning back to certain advanced economies for growth

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?



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

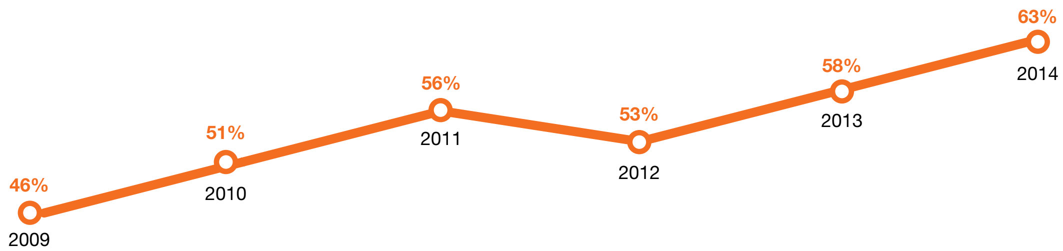
Figure 4 Threats to business



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure 5 Anxiety rising over finding key skills

Q: How concerned are you about the following potential economic and policy/business threats to your organisation's growth prospects? (Availability of key skills was one of the threats CEOs named.)



Base: All respondents (2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1, 124)
Source: PwC 17th Annual Global CEO Survey

What do CEOs want from governments?

From a CEO perspective, businesses want clarity on outcomes and priorities as well as on accountability – what are the respective roles and responsibilities of business and government in dealing with these challenges? In the same way that uncertainty is unhelpful for planning investments, lack of clarity on roles and responsibilities can add fuel to this uncertainty and be a recipe for delay in decision making.

Over half (53%) of the CEOs we surveyed this year still felt that government priorities should be targeted on ensuring financial sector stability and access to affordable capital (see **Figure 6**), with about two thirds (63%) in Western Europe agreeing. The lessons of the global financial crisis are clearly still in mind and an area for continuing collaboration.

Not far behind financial stability were CEO priorities for creating a more internationally competitive and efficient tax system (50%) and improving infrastructure (50%) as well as creating a skilled workforce (41%).

How are governments performing on the priorities for business?

But views on the extent to which governments are delivering on these priorities vary (see **Figure 7**). On the one hand, the CEOs we surveyed on balance see government as having been effective on their number one priority – ensuring financial sector stability and access to affordable capital. And there is a split view on improving infrastructure, with as many CEOs surveyed agreeing as disagreeing and with considerable variation across regions.

On the other hand, there are continuing concerns about effectiveness of government in delivering other priorities for business, particularly on tax and skills. And this is recognised within our governmental interviews too.

Fernando Bayón Mariné, General Director of EOI (Industrial Organisation School), Spain comments: “In the end the businesses worry about the taxes that are raised, labour charges that are really high, bureaucracy, the educational system and a lack of common policies around the country.”

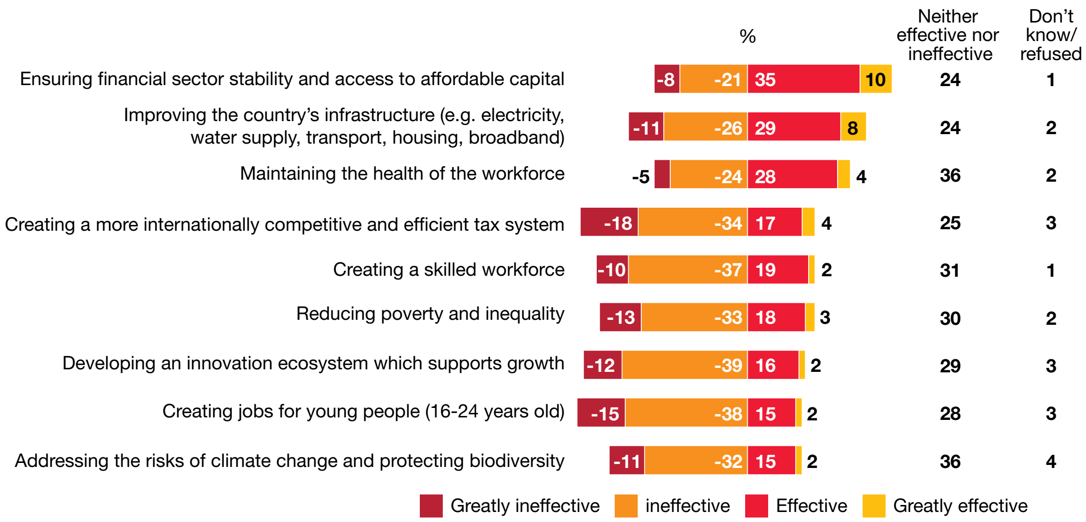
However, CEOs appear to be taking up the slack in some of these domains, with almost two thirds (64%) citing creating a skilled workforce as a priority for their focus over the next three years (see **Figure 8**).

Figure 6 CEO priorities for government

	%	2012
Ensuring financial sector stability and access to affordable capital	53	63
Improving the country’s infrastructure (e.g. electricity, water supply, transport, housing, broadband)	50	60
Creating a more internationally competitive and efficient tax system	50	N/A
Creating a skilled workforce	41	57
Developing an innovation ecosystem which supports growth	30	N/A
Creating jobs for young people (16-24 years old)	22	N/A
Reducing poverty and inequality	22	37
Addressing the risks of climate change and protecting biodiversity	10	17
Maintaining the health of the workforce	8	18
Others	5	N/A

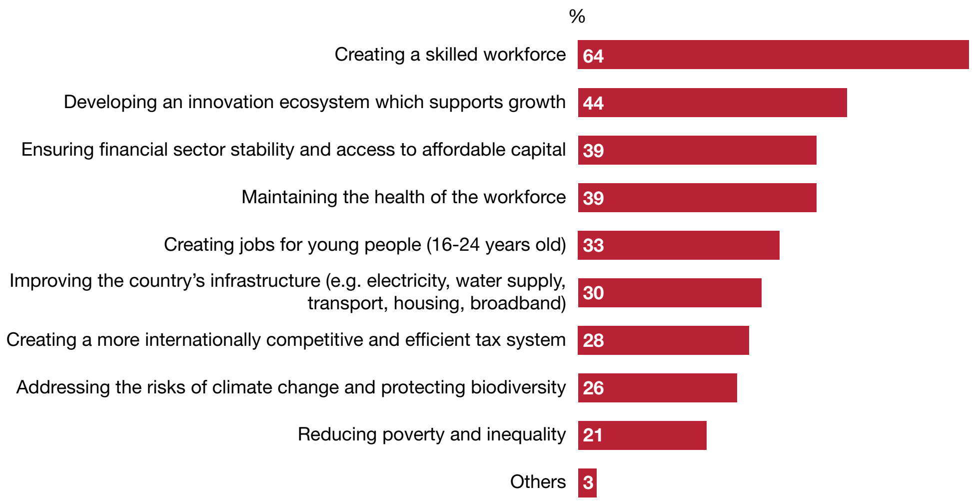
Base: All respondents (2014 = 1,344; 2012 = 1,330 – worded as ‘which three areas should be the government’s priorities today?’)
Source: PwC 17th Annual Global CEO Survey

Figure 7 **Does government deliver for business?**



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

Figure 8 **Business focus on national outcomes**



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

There are endless opportunities to lower costs and increase efficiency within the system. We only need to have the guts to say what's most important.

Hanna Birna Kristjánsdóttir, Icelandic Minister of the Interior

Our approach is not about cutting costs. Our approach is to ensure greater productivity. So we cut our costs by increasing our productivity

Trevor Fowler, City Manager of the City of Johannesburg in South Africa

Implications for government

So, what can governments be doing better? The last three Annual Global CEO Surveys have yielded some consistent themes to be addressed by government: dealing with fiscal deficits, working with business to improve skills and employability, developing infrastructure and adopting a smarter approach to regulation.[6]

All of these remain important this year, but with the further rise in CEO concerns on public finances, we focus below on the urgency of accelerating action to deal with fiscal deficits.

Making government affordable

The era of budgetary austerity is unlikely to disappear in many countries for some time. The future is therefore at risk of being consumed by today's debt, at a time when the demands for public services grow daily. And while not all governments are wrestling with fiscal deficits, there are still many with major fiscal problems.

Why does this matter so much? The answer is that uncertainty is bad for longer term planning and investment decisions, creating doubt in the minds of businesses when making major decisions on capital outlays, business expansion and therefore jobs.

As The Economist has commented: "Governments, however, are still breeding fears about the future. The most glaring form of uncertainty in the rich world is fiscal. […]If the fiscal path were a little clearer, the reduction in uncertainty should spur investment and output, which should in turn improve the fiscal picture". The Economist goes on to quote research by Bloom, Bond and Van Reenen which indicates that: "when uncertainty is high, companies' response to policy stimulus tends to be muted".[7]

We agree with this view: "A clear path for the future, rather than piecemeal changes, has the best chance of improving confidence and in turn business investment – which is the key to a sustainable economic recovery in the longer term."[8]

This has important ramifications for government. There is an urgent need to accelerate the efforts to bring deficits under control which will, in turn, help with tackling the public sector debt mountain. For those in debt (still mainly in the advanced G20 economies), fiscal austerity remains the order of the day, with a priority to get control over deficits and show a clear plan for returning to fiscal balance. Other governments, particularly in emerging economies, with more robust fiscal positions are still at risk from the risks of contagion, particularly as richer countries start to taper their bond purchases.

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has therefore become the watchword. This means doing more for less – meeting rising citizen expectations by doing things differently to deliver services more effectively and efficiently.

Indeed, it will often involve going one step further by doing less for less – prioritising public services that matter to citizens, doing different things, and in some cases stopping activities altogether (see box, **Getting to grips with public sector productivity**).

In Australia, Anne Nolan, Director General, Western Australia Department of Finance notes: "We are building flexibility, resilience and a very strong set of values. And ensuring we know clearly why we exist, then matching strategy and people and skillsets. […] Doing things differently needs to be encouraged and rewarded."

Dr DeLisle Worrell, Governor of the Central Bank of Barbados adds: "By creating a strong culture of performance and achievement, and rewarding people accordingly, we can achieve ever higher levels of productivity through training a highly motivated staff."

And in the UK, Sir Bob Kerslake, Head of the Civil Service and Permanent Secretary, Department for Communities & Local Government notes: "We have to transform across services, not just within services, so the health and care agenda is a text book example of that. We have to not just reduce costs; we have to manage demand here as well. So it is nothing less than a fundamental overhaul of the role of the state and how it delivers what it does."

6 '*Government and the global CEO: a new contract between business and the state*', PwC, 2013. http://www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-psrc-a-new-contract-between-business-and-the-state.pdf
7 '*Free exchange: Holding on for tomorrow – How economic uncertainty dulls investment*', The Economist, November 16th, 2013.Studies cited can be found at www.economist.com/uncertainty13
8 '*Autumn Statement: A case for prudence*', John Hawksworth, PwC Economics in Business Blog, 2nd December, 2013. http://pwc.blogs.com/economics_in_business/2013/12/autumn-statement-the-case-for-prudence.html

Getting to grips with public sector productivity[9]

Raising productivity is the touchstone for many politicians seeking to deliver affordable government by doing more for less, and is expressed in terms of improving efficiency, effectiveness and outcomes.

The complicating factor is that there is no commonly agreed way, within or across countries, to measure public sector productivity. Such is the extent of the problem that some treat this as an argument for treating productivity in the public sector as an unsolvable issue, or only relevant to publicly owned organisations able to exhibit commercial attributes such as state owned corporations. However, this does not mean that there aren't other ways into this critical issue for public services.

Productivity in the public sector usually equates to three interrelated drivers:

- **Reduction in the cost base –** pursuit of cost reductions in response to a constrained financial environment.
- **Public sector modernisation –** attempts to restructure public services.
- **Service delivery improvement –** improvement in outcomes for citizens by increasing the efficiency and effectiveness of service delivery.

In our experience, these initiatives often fail to achieve their desired outcomes because of three factors:

- **Prioritisation –** at a strategic level, insufficient attention is paid to examining critically what the public sector should be in the business of doing – its purpose – thereby embedding a range of activities that are no longer relevant to service delivery.
- **Measurement –** unlike in market sectors (i.e. where goods and services are sold for a price), productivity measures are not well developed, leading to the application of high level outcomes rather than a specific understanding of what an activity, function or programme will do.
- **Alignment –** regardless of the fiscal environment, capacity to connect strategy to execution has been limited and has created an environment of risk aversion, reluctance to drive wide-ranging reforms and unmet expectations at the political level and among the community.

Despite the challenges of the past, productivity is relevant in the public sector context if focused around three key questions:

- Can a collective approach for strategically prioritising government programmes and activities accommodate the diversity of responsibilities held by departments across the public sector?
- What can actually be measured as a means of determining productivity in the public sector, or is this an area for future research?
- How can plans and strategies to reform, and therefore improve, productivity be translated into an implementation plan that actually delivers on desired outcomes?

Each of these questions provides a way into addressing public sector productivity, whether this is about the supply of, and demand for, services, from the standpoint of maximising the focus on value adding activities, or simply executing on plans.

9 '*Improving public sector productivity through prioritisation, measurement and alignment*', PwC Australia, 2013. http://www.pwc.com/en_GX/gx/psrc/pdf/pwc-improving-public-sector-productivity-through-prioritisation-measurement-and-alignment.pdf

Prioritisation also involves deciding whether the state or citizens are best placed to deliver services in future. Peter Hegglin, Finance Minister of the canton of Zug and President of the Conference of Cantonal Finance Directors in Switzerland comments: “In order to prevent excessive growth of the cantonal administration, we are trying to avoid accepting any unnecessary tasks. There are still many things that we could or should do. But must the public administration provide for everything? I am of the opinion that personal responsibility should again start playing an increasingly crucial role in this question.”

Similarly, Gunnar Larsson, CEO of The Swedish Consumer Agency comments: “Demographic changes will put Sweden and the welfare system under major strain, unless we promote more individual responsibility. Consumers, and consumer decision making, have a role to play in creating welfare.”

However, it should also be remembered that affordability means different things to different people. The challenge for many advanced economies is to reduce the costs of service provision and so public bodies are often therefore seeking to limit demand. For instance, the US and the UK are grappling with the provision of free or low cost health services in the face of limited government resources, but increasing demand.

Solutions include a greater focus on prevention, greater use of charging and co-payments and ‘nudging’ healthier lifestyles. As Mike Farrar, former CEO of the NHS Confederation in the UK comments: “I believe that the biggest silver lining in the current economic cloud is to engage the public in thinking differently about their lifestyles and their use of healthcare resources.”

We depend on the citizen to make progress. We depend on partnership with the citizen. Without that partnership, we will not be able to reach our goals, which are ambitious for the city.

Dr. Fernando Haddad, Mayor of the City of São Paulo, State of São Paulo, Brazil

It is important to weigh up where the state should become active and participate – and where not. This gives rise to the question: Are there areas where the state should not become active, and are there sectors where it would be desirable for the state to become active, in particular in times of crisis?

Stephan Toscani, MdL, Finance Minister, Ministry of Finance and Europe, Federal State of Saarland in Germany

In contrast, emerging countries face the challenge of making services more affordable for the citizen so that they are actually used to deliver the outcomes intended. For example, in Africa and Asia, provision of (often subsidised) public services can still end up being too expensive for most citizens. This is because the total cost to the citizen includes long travelling times (particularly for those in rural, less connected areas) and long waiting times (e.g. for initial diagnoses), which also reduces working hours and hence take-home pay.

So when seeking to deliver public services affordably and effectively, cost needs to be calculated based not only on direct service provision (for government), but also on service consumption (for the citizen) with an assessment of the costs and the benefits of publicly funded activity.

As noted by Marian Piecha, CEO of CzechInvest, Czech Republic: “I believe that the state should take into account the economic benefit of certain activities of certain organisations when assessing austerity measures. I say this while being entirely pragmatic about the fact that the potential for savings are far greater in the case of certain institutions concerned with history generally or with research that is not entirely important. From the point of view of CzechInvest, this potential for savings needs to be assessed vis-à-vis possible economic benefits.”

PwC's view

Prioritisation is needed to ensure that public service delivery is targeted on achieving maximum outcome and impact, while maintaining affordability. But how should governments prioritise efforts such that today's citizens are being taken care of, while retaining a view for long-term sustainability – creating or consuming a legacy?

For countries still facing significant deficits, there must be urgency to execute plans to achieve better balanced public finances with a twin focus on:

- Reducing costs by:
  - Transforming operations – standardising, streamlining and sharing services to increase efficiency and operational effectiveness and in doing so making the most of digital technology.
  - Developing workforce strategies, with the necessary aim of creating smaller but more highly skilled workforces in order to achieve sustainable cost reduction.
  - Commissioning for outcomes, with private sector finance attracted in return for payments in future, linked to the successful delivery of results.
- Innovating service delivery by:
  - Partnering and collaborating more effectively with the private and voluntary sectors as well as directly with the public e.g. increasing self-provision.
  - Accelerating the take-up of new technologies including:
    - Data analytics, to better predict demand and reduce it through early intervention.
    - Big/open data, enabling new interfaces between customers and providers.
    - Crowdsourcing, creating new digital solutions to public service design and delivery issues.

Getting fit for the future through (digital) transformation

Governments and public sector organisations face a future where delivering services that are affordable, in the context of deficit-reducing budget cuts, is their new normal. So the challenge for public bodies is to become fit for the future, with a focus on redesigning public services and transforming their delivery, making the best use possible of digital advances.

Our experience in the private sector suggests that CEOs and their leadership teams find it hard to adopt new business models without a strategic context established for the change, which usually comes in the form of a significant opportunity for growth or a massive competitive threat. However, with that strategic context, strong leaders can adopt and manage the change within the organisation e.g. Rolls-Royce shifting to a Power by the Hour business model (bundled products and services).

Of course, many public sector organisations already have this context – the need to cut costs in the context of fiscal deficits!

How are businesses becoming fit to face their futures?

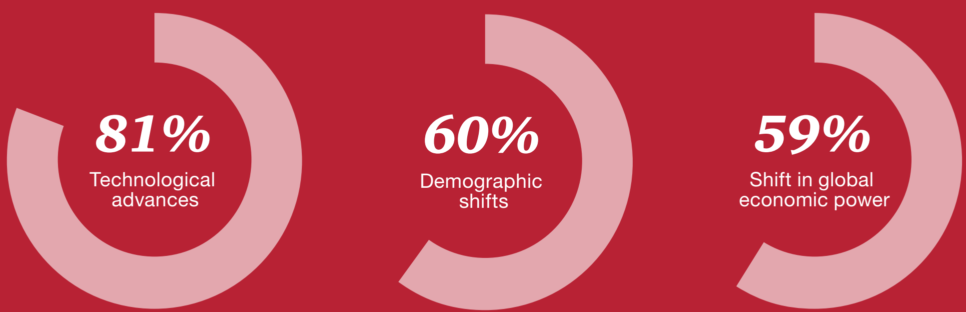
Technology, particularly digital, is the next big enabler. When we asked CEOs what they thought would transform business and society in the coming five years, 81% identified technological advances such as the digital economy, social media, mobile devices and big data (and 86% of state backed CEOs too). Although still a majority, the response for technological advances was a lower proportion of the CEOs surveyed in Africa (67%), just ahead of urbanisation (at 64%). Over half of all CEOs surveyed also pointed to demographic fluctuations (60%) and global shifts in economic power (59%) as being transformational (see opposite).

So how are private sector CEOs responding and making their organisations fit for the future? In summary, they are:

- **Harnessing technology to create value in totally new ways.** Technology, particularly the digital economy, mobile and big data, is enabling entirely new ways of creating value, and changing how companies define themselves and what business they're in. The focus is shifting from products and services to outcomes (a shift also being seen in the public sector). Opportunities are being created for service development, operating models and collaborative ways of working with external parties. For instance, joint ventures and alliances of capabilities, sometimes involving parties from very different industries, is moving business from '2D partnerships to 3D networks' and new ways of reaching and servicing customers. It should be noted, however, that it is not all about opportunity – technological advances also throw up new challenges including cybercrime and the issue of accessing enough of the right digital skills to make the most of new technology.
- **Capitalising on demographic shifts to develop tomorrow's workforce.** The composition of the global workforce is changing, making workforce demography one of the biggest talent challenges CEOs face, in particular finding and keeping the skilled workforce of the future. As we've already highlighted, 63% of the CEOs we surveyed were concerned about the availability of new skills and 93% said they need to change their talent strategies or are already doing so.
- **Serving consumers in a new economic landscape.** CEOs are understandably worried about evolving consumer patterns and striving to improve customer-centricity. CEOs face three key challenges. They have to chase a moving target, as consumers evolve in different ways in different markets. They have to address the needs of more diverse – and demanding – customer segments. And they have to fight off increasingly intense competition. As a result, 91% of the CEOs surveyed either recognise the need to change, or are changing, their customer growth and retention strategies.
- **Building broader considerations into business decisions, leading to better outcomes and improved trust.** CEOs know that trust matters: even though they think they've made progress on improving trust levels in the last five years, 49% of the CEOs we surveyed are worried about lack of trust in business (up from 37% in 2012[10]). And CEOs also recognise that customers care more and more about the wider impact of business decisions.

CEOs identified three transformative global trends

Q: Which of the following global trends do you believe will transform your business the most over the next five years? (Top three trends CEOs named.)



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

10 In our 2012 Survey we asked about 'lack of trust in industry'.

Looking to the long term – the view of the state backed CEO

In this year's Survey, 15% of CEOs were in an organisation with some form of government ownership or backing, the same as for last year.

Our findings this year suggest that state backed CEOs are relatively less confident in their prospects for revenue growth in both the shorter and longer term: 33% of state backed CEOs are very confident in prospects over the next 12 months and 38% over the next three years.

Their perception of the key threats is, however, very similar this year to non-state backed CEOs. Over-regulation comes out top, although there are relatively fewer state backed CEOs concerned about fiscal deficits/debts: two thirds (65%) of state backed CEOs are 'somewhat' or 'very' concerned about this, compared to 72% of non-state backed CEOs. The other key threats are similar although there are lower proportions of state backed CEOs concerned about the slowdown of growth in emerging markets, continued slow or negative growth in advanced economies or an increasing tax burden. In contrast, stated backed CEOs are relatively more concerned about inadequate infrastructure (51% compared to 46% of non-state backed CEOs) and a lack of trust in business (51% compared to 48%).

Growth for more of our state backed CEOs surveyed is expected to come from product/service innovation and new joint ventures and strategic alliances. However, the target countries for growth are much the same as for their non-state backed counterparts.

Cost reduction initiatives are the most prevalent restructuring activity – in line with companies with no state backing. But there is less focus looking ahead to the next 12 months on M&A and more on outsourcing and also insourcing – clearly it's not all one way traffic for operations in state backed entities. And relatively more CEOs in state backed organisations are expecting to reduce headcount, with over a quarter (27%) expecting to cut staffing by up to 8%, compared to 16% of the non-state backed CEOs surveyed.

Even more so than their counterparts with no state involvement, state backed CEOs see technological advances as having the potential to transform their businesses over the next five years (86% compared to 81%) and well ahead of the next trend – demographic shifts (55% of state backed CEOs, compared to 61% of non-state backed CEOs).

In response, relatively more state backed CEOs seem to recognise the need to change, or are changing, their organisation structure/design, corporate governance, R&D/innovation capacity, investments in technology and production capacity. This may perhaps be reflected by their longer planning horizons, with about a third (31%) of state backed CEOs having a planning horizon of more than five years, compared to only about a fifth (22%) of their non-state backed counterparts.

Only in customer growth and retention strategies are relatively fewer state backed CEOs acting, despite a relatively smaller number of these CEOs thinking that their organisations are well-prepared to capitalise on the transformative global trends with respect to their sales functions.

State backed CEOs also have more optimism on trust. Relatively more state backed CEOs, on balance, believe trust has improved with the media, NGOs, local communities and – unlike CEOs without state involvement – with government and regulators too. Perhaps this also reflects the relatively higher proportions of state backed CEOs who see the need to satisfy societal needs and protect future generations – 81%, compared to 75% of the non-state backed CEOs surveyed. Relatively more state backed CEOs also see it as important to measure and try to reduce their environmental footprint and measure/report on total (non-financial) impacts as this is seen to contribute to long term success.

State backed CEOs see similar priorities for government as non-state backed CEOs, but across the board more of the former see governments as being effective in delivering these priorities than those without state backing. One half or more of state backed CEOs commend government for its effectiveness in ensuring financial sector stability/access to affordable finance (59%) and improving infrastructure (50%).

The focus on technology is similar for the state backed CEOs in our Survey who are typically taking a longer term view of their businesses and also a wider view of their impacts (see box, **Looking to the long term – the view of the state backed CEO**). Emilio Lozoya, CEO, Petroleos Mexicanos (Pemex), Mexico comments: “The fact that we have one single shareholder – and that it is the state – gives us a very long-term planning horizon. At the same time, we have lacked the flexibility of other private enterprises.”

How public bodies are getting fit for their futures

So if the focus of business CEOs is on outcomes, customer-centricity and coping with issues such as talent shortages and new technology, how does this compare with the public sector?

Well, in many ways the agenda for government and public sector organisations is very similar. To be fit for the future tomorrow’s leading public bodies will need to act and behave quite differently (see box, **Tomorrow’s Leading Public Body**).

As Norman Dong, Deputy Controller, Office of Management and Budget, Executive Office of the US President notes: “Fiscal pressures will continue to drive the need for innovation in government. And it will be important for government to leverage the knowledge and expertise of the private sector to help address new challenges.”

The Civil Service, if we get things right, will be smaller, but more unified, much more open in the way it works and much more rounded in the range of skills it has. We need to be flatter and much more agile.

Sir Bob Kerslake, Head of the Civil Service and Permanent Secretary, Department for Communities & Local Government in the UK

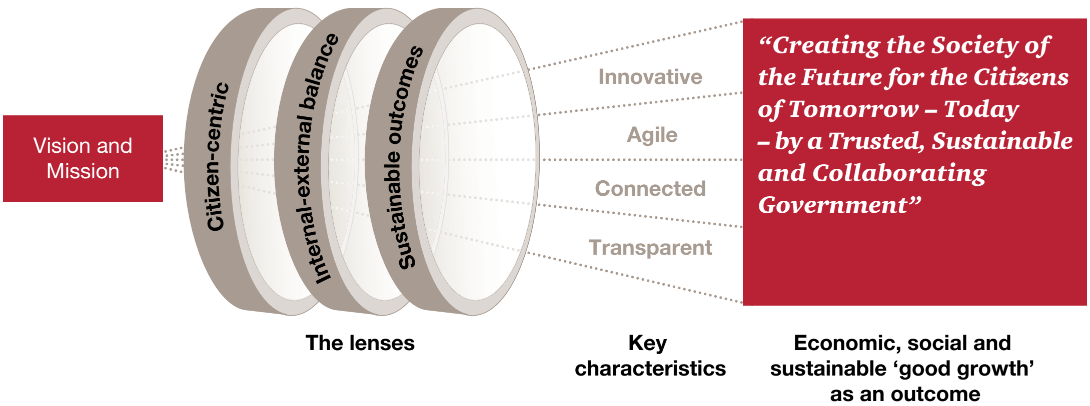
Tomorrow's Leading Public Body[11]

The public body of the future will need to act and behave like a living organism, adapting to change and evolving to address society's needs as they develop (**Figure 9**). The starting point is clarity over vision and mission, which enables the organisation to answer the first key question: where do we need to go? This begins with its purpose, as defined by politicians, which guides the vision and sets the direction. But this also needs to encompass internal and external stakeholder points of view, as well as reflecting changes in the environment through scanning the horizon and absorbing new intelligence.

To deliver its vision and mission, however, requires the organisation to find the ideal size, shape and operating model. The leadership of any public body will need to chart its course by viewing itself through different 'lenses' which guide its behaviour:

- **Citizen-centricity.** Always keeping the citizen at the very centre, ensuring that the public sector organisation remains relevant to meet citizen needs effectively, affordably and on a timely basis.
- **Internal-external balance.** Ensuring the right balance between managing internal organisational efficiency and effectiveness and external growth and so enable the delivery of durable, sustainable growth – or what we call good growth.
- **Sustainable outcomes.** Strategically building the assets for society by managing the 'capitals' needed for long term prosperity: social, environmental, cultural, intellectual, infrastructural, Information and Communication Technology (ICT) and political participation capitals.

Figure 9 **Tomorrow's Leading Public Body**



Source: PwC 'Future of Government'

11 *'Future of Government: Tomorrow's Leading Public Body'*, PwC, 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

In turn, we have identified four interdependent and reinforcing key characteristics that the future leading public sector body should develop. These will affect how leaders and their staff behave in order to deliver the outcomes and impacts required of them. The public body of the future should be:

- **Agile.** Able to anticipate situations, adapt and react optimally to unforeseen events, in a speedy and cost effective manner, providing needed responses in the short term without compromising long term options. Agility in turn reinforces organisational resilience.
- **Innovative.** Both operationally as an organisation (processes, partnerships and financing) as well as strategically. Innovative public sector organisations have the ability and capacity to incubate ideas and delivery models and accelerate their impact (scaling up via rapid prototyping).
- **Connected.** The organisation should collaborate across sectors, borders and organisations, with co-ventures, co-creation and co-design being key features in its service delivery toolbox across a variety of platforms, both physical and virtual.
- **Transparent.** This is especially important in today's era of eroding trust and legitimacy. Transparency helps rebuild trust and keeps all parties accountable for actions and outcomes.

Finally, organisations need to be equipped with the internal management capabilities to channel resources effectively and efficiently towards accomplishing the vision. This goes beyond an inspirational leadership and clear implementation planning. Managing finances effectively is an essential enabler, together with managing and prioritising the organisation's projects, performance, risks, partnerships, assets and human capital.

The result should be the successful execution of the organisation's strategy, aligned to its vision and mission, and delivering the outcomes and impacts citizens need.

In the rest of this section, we focus on the implications of the most important trend identified by private sector CEOs – technological advances – for digital transformation in public services.

Embracing digital

As we set out in our report on the 'Future of government'[12], the rate of change driven by technology will continue to impact on public services in a variety of ways. From robotic nurses, tele-medicine and smart diagnostic systems delivered via mobile phones to 3D-printing of low cost housing, technology has the power to change the face of public service delivery.

Probably of most significance is the social media explosion, shifting power from big organisations to networked individuals. Public bodies need to understand how to engage and deal with this new technology in a number of ways.

Meeting needs, delivering outcomes

The digital revolution has created a new generation of consumers who want ever more accessible, portable, flexible and customised products, services and experiences. They expect to move seamlessly – in real time – between the physical and virtual worlds. And they are prepared to disclose quite a lot about themselves to achieve their desires.

Two of our interviewees from India make this point. J. Satyanarayana, Secretary, Department of Electronics and Information Technology (DeitY), Ministry of Communication & Information Technology, Government of India notes: "With the citizens becoming more empowered through legislative interventions like Right to Information, Right to Services etc. they expect a greater accountability, efficiency and transparency in the delivery of public services. This will require that all the Government agencies redefine their service portfolio and build measures for enhancing the quantity and quality of services provided to the citizens through more convenient delivery channels, most notably, through mobile devices."

And Rajesh Aggarwal (I.A.S.), Secretary, Department of Information Technology, Government of Maharashtra comments: "Governance is continuously evolving as we speak and is becoming more and more centric towards citizens. Technology has been playing a key role in this evolution through solutions which have brought Governance closer to citizens and vice versa. The newer generation is more computer-savvy and expects the similar quality of services and delivery from the Government as has been provided by some of the top private sector organisations."

For the private sector, technological advances will produce numerous opportunities to create value in entirely different ways. The data consumers generate, coupled with predictive analytical tools, will provide a much clearer picture of what they want.

For society this presents new opportunities too. Armed with new technologies and a deeper understanding of consumer needs, the private sector now has more power than ever to create innovative outcomes that address complex social needs and solving pressing social problems profitably, as shown by Dow Chemical (see box, **Good business**)[13].

Good business

Dow Chemical has developed a seed line for making cooking oils that produce high yields and oils with a longer shelf life and less saturated fat than competing products. What's good for farmers, food manufacturers and consumers has been good for Dow; the seed line has become a best seller. Similarly, Becton Dickson has developed a syringe to protect health workers from needlestick injuries, which spread HIV and other infections. Needleless injection systems now account for a quarter of the company's revenues.

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12 '*Future of government: Tomorrow's leading public body*', PwC, 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

13 Marc Pfitzer, Valerie Bockstette and Mike Stamp, '*Innovating for Shared Value*', Harvard Business Review (September 2013), http://hbr.org/2013/09/innovating-for-shared-value/ar/

Raising public service productivity

Digital transformation also has an important role to play in raising productivity and meeting increasing demands on public services. As we have seen from the responses of private sector CEOs, whether state backed or not, technology disrupts 'business as usual'.

It is therefore more crucial than ever for governments to be in tune with technological change and its implications on citizen expectations, security and public service delivery. In Australia, Jim Hallion, Chief Executive, South Australia Department of the Premier and Cabinet notes: "The rise of mobile technologies which improve productivity and services will enable us to move more of our service delivery online, particularly in health."

Digital technology and culture is evolving quickly and has already had a significant impact on the way governments at all levels can support the delivery of services to their citizens. For instance, in the UK we have argued that local authorities need to use it as a tool to drive innovation in their understanding of people and place, how they interact with citizens, how they foster the interaction of citizens with each other and in exploring how outcomes can be better secured.[14]

The latest wave of digital innovation is also critical to enabling a potentially fundamental redefinition of the purpose and role of local government. Research by Zurich Mutual[15] suggests that the time of the 'virtual authority' is near, with digital tools becoming the primary method for the public to interact with councils.

But there are challenges, particularly with respect to skills. As Sir Bob Kerslake, Head of the Civil Service and Permanent Secretary, Department for Communities & Local Government in the UK notes: "We have to transform the way we deliver the services to people. Digital has massive transformational powers, but we're lacking the skills and capabilities to make the most of it in my view."

A strategy for digital

Looking more broadly, it can be said that the public sector does not so much need a digital strategy as a strategy for the digital age. As we see the balance tip to most citizens being digital natives, connected in some way to the internet through computers, tablets and smartphones, the much vaunted benefits of 'e-government' that date back around 15 years are likely to become a reality with citizens demanding digital ways of interacting (channel shift).

However, the current and imminent waves of digital innovation have the potential to go far beyond the things that have been achieved or planned to date (see box, **The rolling waves of digital transformation**). Digitally empowered consumers want to communicate and share information electronically. Just how much they're connecting is clear from the fact that Facebook's membership – at 1.19 billion – is now nearly as big as the population of India.[16]

Education provides a good example of the impact being felt from digital, as Sir David Bell KCB, Vice-Chancellor of Reading University in the UK explains. "I think that the innovative use of technology is a major trend in higher education. Students expect content to be available to them electronically as well as delivered in person. They will also expect lectures and seminars to be captured on audio and video, and be available to them later. Some of this is happening already but technology as it develops has the potential to transform the teaching and learning experience."

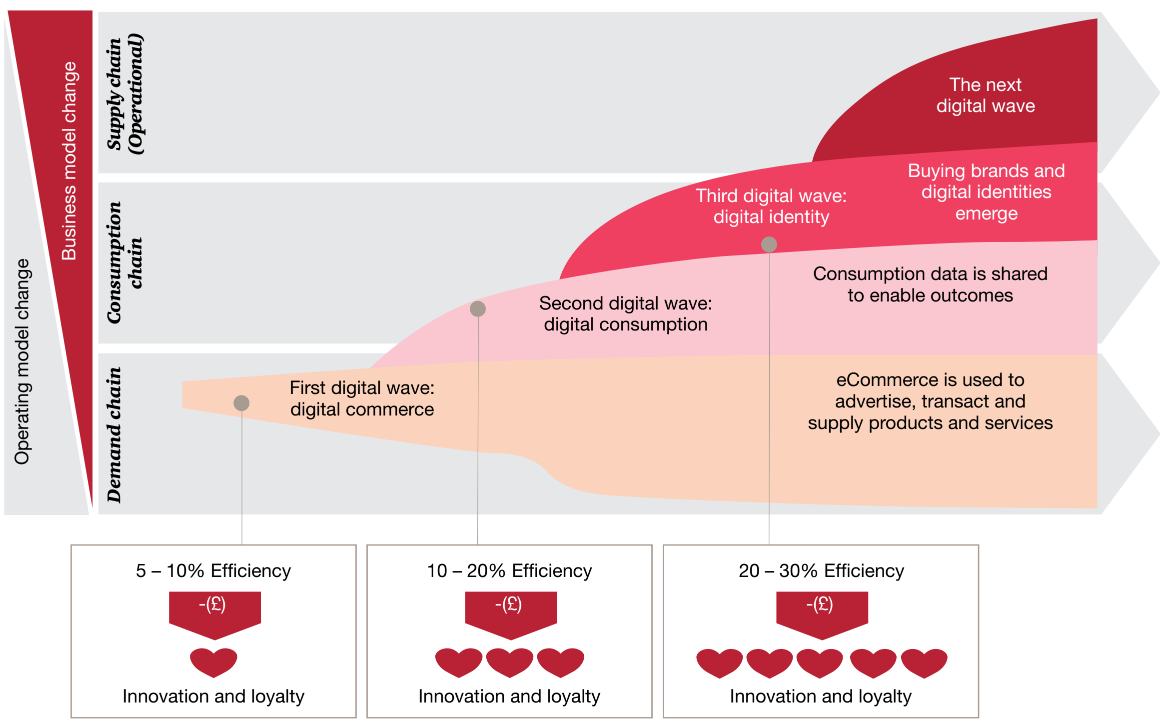
14 'Redefining local government', PwC, 2014. http://www.pwc.co.uk/redefininglocalgov
15 http://www.localgov.co.uk/Prediction-2014-will-be-year-of-virtual-authority/35211
16 'Facebook Reports Third Quarter 2013 Results' (30 October 2013), http://investor.fb.com/releasedetail.cfm?ReleaseID=802760

The rolling waves of digital transformation[17]

The impact of digital change to date can be described in three distinct waves of development (see **Figure 10**). The first wave saw a shift towards digital commerce, the second wave sees a much stronger focus on consumption patterns rather than supply, and the third wave sees a move towards digital identities and brand advocacy.

While there is still some way to go in terms of getting the full benefits from the first wave of digital transactions, public bodies now need to open up to the additional possibilities of the second wave and how using 'consumption data' changes the way that service innovation can be driven. These new arrangements will also have a significant impact on the future operating and supply chain arrangements within most authorities and we should expect to see further organisational redesign.

Figure 10 Waves of digital transformation



Source: PwC 'Redefining Local Government'

17 '*Redefining local government*', PwC, 2014. http://www.pwc.co.uk/redefininglocalgov

Digital and funding

As digital becomes all-pervasive, we are also likely to see an increase in the commercialisation of public services. And as digital disrupts existing business and operating models across all sectors, public bodies must be agile in finding opportunities to make more commercial decisions to help underpin future funding.

Public bodies can also learn from private sector, digitally orientated companies and explore what types of innovative business models can be developed. But the reverse is also true. As Norman Dong, Deputy Controller, Office of Management and Budget, Executive Office of the US President comments: "Public sector investments such as education, public safety, and national infrastructure have always been part of our national ecosystem to support economic growth. However one of the most significant assets we have in the Federal Government is data. As we make data more available and consumable, we have the ability to create and spur more economic activity and growth."

It is also clear from our interviews this year that many public leaders are acting to address the challenges of redesigning and transforming their businesses, particularly making use of the opportunities created by new digital technologies in partnership with others.

For instance, in Australia, Gill Callister, Secretary, Victoria Department of Human Services states: "We have moved from a 'programme and problem' approach to a 'people and place' approach i.e. looking at the whole person/client. […] We share some of our data with other providers in the community to bring greater connectedness."

In the Far East, Datuk Ismail Ibrahim, Chief Executive of IRDA Malaysia states: "We need to be innovative and creative by utilising the available tools in the market that is within our means. This includes the use of technology. We need to move with the times and utilise the best technology available in conducting our business. A lot of organisations ignore this aspect. Otherwise, we could be wasting resources and time. For example there are software, such as financial tools and Geographic Information Systems (GIS), that could help us make business decisions."

And Liseanne Forand, President and CEO of Shared Services Canada (SSC) adds: "The Government of Canada is focusing on modernising technology that has become out of date in recent years. This is important because it will create a more reliable and capable IT infrastructure platform, which will make it possible for the government to better leverage big data and open data and improve the delivery of programmes and services to Canadians."

PwC's view – Creating tomorrow's leading (digital) public body

Affordable government is the new reality for the future public body. The challenge for public sector organisations worldwide is to adjust to the new reality of 'doing more for less' (or 'doing less for less') while focusing on the outcomes society needs and wants.

The new core competence involves adapting to change and evolving to address society's needs as they develop. In tomorrow's leading public body, a premium will be put on people who are 'situationally aware', able to adapt and change to the circumstances and be resilient in the face of the multiple internal and external challenges they will face. Collaboration, co-creation and co-design are the new 'must-have' capabilities.

And with digital technology fast evolving, impacting across the board, public bodies need to use it as a tool to drive innovation, transform how they engage with citizens, foster the interaction of citizens with each other, and in exploring how outcomes can be better secured.

Public bodies also need to learn from private sector, digitally orientated companies and explore whether more innovative business models can be developed.

Delivering growth through collaboration

In the post-crisis 'new normal' it is clear that more needs to be done to build a platform for sustainable growth and competitiveness through collaboration across sectors in order to address businesses' top priorities of government, such as infrastructure (cited by 50% of CEOs surveyed, particularly in emerging markets) and skills (43%).

Public bodies must balance public service reform and cost cutting with investments to create growth. As Peter Hegglin, Finance Minister of the canton of Zug and President of the Conference of Cantonal Finance Directors in Switzerland states: "Going forward, the major challenge will be in jointly achieving the three goals of our financial strategy – offering a good range of state services and maintaining an attractive tax environment while keeping a balanced budget."

Public sector organisations therefore need to be configured to face inside-out – getting the balance right between an internal focus on efficiency and effectiveness, and an external focus on helping and co-creating value with stakeholders in society.

And the financial crisis also demonstrated the risk of economic imbalances and going for growth at any costs – we need good growth, not just any growth (see box, **Good growth**).

I've always been very clear that you have to have your cost base under control. You need to be lean at the same time as you're going for growth. There is nothing novel in that, that's what all businesses have to do. I suspect that universities came later to the business of getting their costs under control.

Sir David Bell KCB,
Vice-Chancellor of Reading University in the UK

Good growth

If the pursuit of growth is essentially about improving the prosperity, life chances and wellbeing of citizens, is there more to the equation than a narrow focus on 'Gross Domestic Product' (GDP) and 'Gross Value Added' (GVA)?

Our research in the UK with think tank Demos[18] has developed the concept of good growth, based on the views of the public on what economic success means to them. We have created an index within which good growth encompasses broader measures of economic wellbeing including jobs, income, health, skills, work – life balance, housing, transport infrastructure and the environment – the factors that the public have told us are most important to the work and money side of their lives.

Economic development and policy is ultimately about choices and priorities – where to take action and invest scarce resources to promote growth. The Demos-PwC Good Growth Index provides a framework for allocating resources and investment, driving decisions based on what people (and voters!) want.

This is an opportunity to move beyond the narrow confines of GDP and for public leaders to start with the outcomes that people – the voters – value and so providing a more democratic dimension to the decisions made.

18 *'Good growth for cities: A report on urban economic wellbeing from PwC and Demos'*, November 2012 & 2013. www.pwc.co.uk/government-public-sector/good-growth/index.jhtml

Reinvesting the dividend: public service reform and growth

But to achieve better long term outcomes, a new approach is needed where stakeholders collaborate and share in both the risks and also the dividends of public service reform and good growth (see Figure 11).

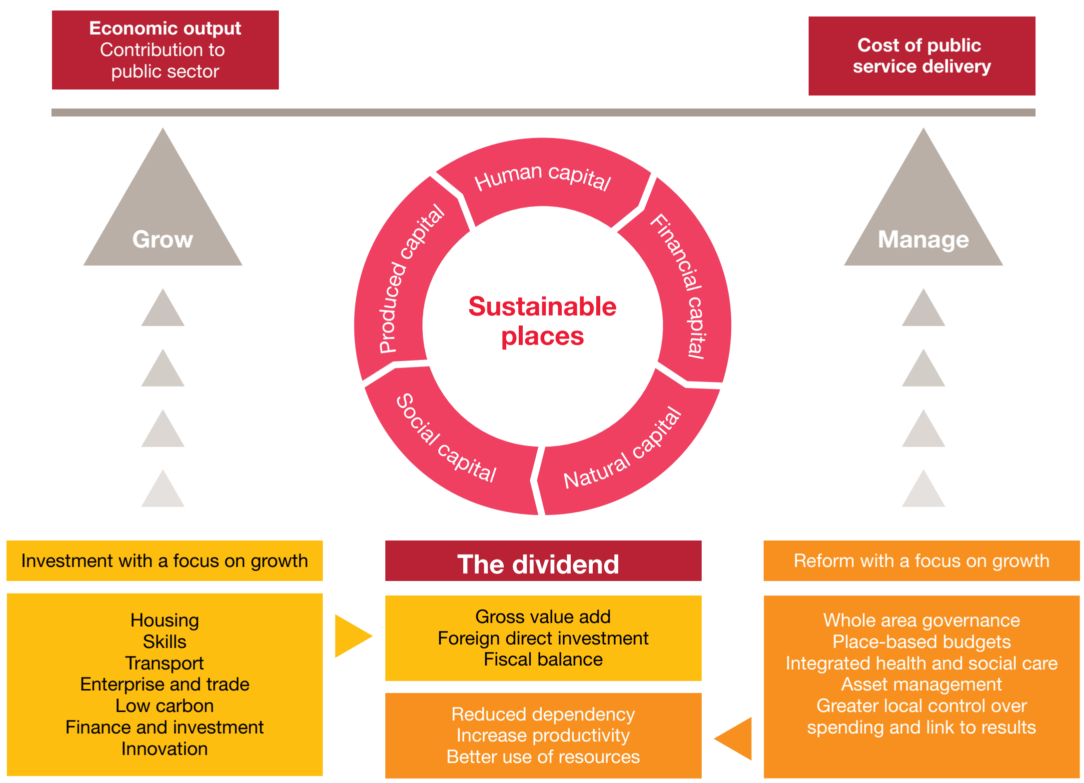
As far as public service reform is concerned, attention needs to go beyond cost cutting to:

- Review of business and operating models to get fit for the future.
- A focus on integrating public services, collaborating within and across administrative boundaries.
- Developing a much more granular and evidence-based assessment of need through data analytics.

On growth, public bodies can help themselves in a number of ways:

- Creation of funds, potentially a mix of public and private sources, with clear investment criteria promoting good growth outcomes.
- Development of innovative funding and financing models to discuss with potential investors and deliver a return to them, such as through Community Infrastructure Levies, Tax Increment Financing and user charging.
- Monitoring success, setting the economic baseline to capture the uplift of value from investments as well as wider outcomes.

Figure 11 Delivering sustainable public services



Source: PwC 'Good Growth for Cities, 2013'

In order to maximise growth potential, public bodies must identify a set of prioritised projects that will deliver growth and this process must be collaborative. A common understanding is required across sectors of the barriers and opportunities to grow with a focus on three key levers: skills, infrastructure and innovation.[19]

Bruce McCuaig, CEO, Metrolinx in Canada puts it as follows: "So public service is about enabling the economy, and there are two ways in which we need to be thinking about that. Internally, it's about how you can make it as efficient as possible, so you're focused on cost structures and driving those as much as you can. And the external way is how can you make sure the services you are selecting – and I will use my environment – how do you make sure that investment in that transit line is in the right place, serving the right things, and building the right kind of economy."

For those public authorities that have a clearly evidenced investment plan for growth, there is then the potential to attract more funds (public or private) for further investment. This is particularly welcome for cash-strapped authorities, although there is always a risk of public bodies all chasing the same funding.

As Gunn Ovesen, former CEO of Innovation Norway notes: "The main goal of the public sector in relation to innovation is value creation. It's vital to balance the private and public contribution in the ecosystem. This is done through public services companies that cooperate to support private businesses. It's important to prevent sub-optimising due to 'competition' between the public sector service companies. Public organisations should supplement and complement each other."

Public sector organisations at all levels (particularly in cities) therefore have an important role to play in creating a common platform for growth through a focus on:

- Creating an innovation ecosystem
- Developing investor ready infrastructure projects.
- Brokering the right skills in the right places.

We discuss each in turn below.

Developing an innovation ecosystem

Innovation is a competitive necessity for business and for government, and is fundamental to achieving good growth. Indeed, research by PwC has revealed that leading innovators delivered 16% higher growth over the last three years than the least innovative companies and expect their growth rate in the next five years to be nearly double that of the global average.[20]

Our research shows that leading innovators in business are doing three things to 'industrialise' innovation: make it repeatable, dependable and scalable. Innovation leaders create disciplined innovation operating models that enable innovation across all four phases of the innovation life cycle: discovery, incubation, acceleration and scaling. They experiment with new innovation operating models including open innovation, incubation and networked innovation.

And they're focusing on breakthrough innovation in all its forms, actively collaborating outside the company and bringing more structure in their approach to innovation. Indeed, J. Satyanarayana, Secretary, Department of Electronics and Information Technology (DeitY), Ministry of Communication & Information Technology, Government of India, in India states: "It is time that we moved away from 'Innovation by Accident' to 'Innovation by Design'."

The leading-edge CEOs don't think in terms of products and services so much as outcomes – similar to the trend in government (see box, **Goals, not goods**). Joseph Jimenez, CEO, Novartis, Switzerland makes the point clearly: "Rewarding innovation and protecting intellectual property are the two things on my wish list when it comes to government support for business. […] The companies that will win are those that deliver true innovation. Not just from a medicines point of view but also by helping those governments deliver positive patient outcomes."

19 '*Investing for Prosperity: Skills, Infrastructure and Innovation*', Report of the LSE Growth Commission in partnership with Institute for Government and Centre for Economic Performance, P. Aghion et al. 2013
20 '*Breakthrough innovation and growth*', PwC, 2013. www.pwc.com/gx/en/innovationsurvey/index.jhtml

So how can government play its part in creating an innovation ecosystem that supports good growth? Perhaps the most striking finding for government from our research on innovation is that of the 1,757 companies surveyed internationally, just under half take advantage of any form of government funding for innovation (48%) or tax incentives (45%).[21]

This raises the question of whether government funds devoted to innovation are being directed to best effect and suggests that businesses are not so much looking for funding and tax breaks but creating the right environment for innovation through collaboration.

Datuk Ismail Ibrahim, Chief Executive of IRDA in Malaysia comments: "We need to ensure that the ecosystem is always right as we move through this journey. What makes the ecosystem are not only investments, it should also be about the continuous build-up of talent, infrastructure, safety and security, and others."

Top innovators collaborate extensively with a wide range of partners both inside and outside their industries. And the CEOs in our survey are well aware of the importance of collaboration, with 44% focusing on developing an innovation ecosystem that supports growth as a priority.

Working with government likewise features on the boardroom agenda: 30% of the CEOs we surveyed think it should be a government priority to foster an innovation ecosystem that supports growth. Yet only 18% of CEOs believe government has been effective in this respect.

In fact, supportive government policies have been critical in developing innovation hotspots like Silicon Valley and Silicon Roundabout (see box, **A helping hand from government**).[22]

Goals, not goods

When people go shopping, they want an outcome. Products and services are just an input and many outcomes depend on intangible things like information as much as tangible goods. Digitisation has provided the tools with which to deliver customised intangibles on a mass scale.

Digital platforms can be used to enhance simple outcomes, such as completing a plane trip, by letting passengers know whether a flight is on time or not. They can also be used to support more complex outcomes where personal motivation plays a part, such as losing weight, by providing a forum where people can encourage each other. But to help customers get the best possible outcomes, given their individual circumstances, you have to understand what they really want, the barriers they face and how they use your offerings.

A helping hand from government

The US government played a key role in the creation of Silicon Valley. In the early years, it provided funding – both directly and through contracts for spin-offs from Stanford University. That encouraged close ties between industry and local research institutions. Flexible labour and immigration laws, together with robust intellectual property rules, have also helped to bring in the big brains; between 1995 and 2005, immigrants were responsible for founding more than half the firms in the region. And, under Chapter 11, it's relatively easy for bankrupts to get back on their feet, creating a culture in which people are free to fail.

The UK government has replicated this approach in nurturing London's Silicon Roundabout, with entrepreneurs' visas, lifetime capital gains tax relief, R&D tax credits and significant tax breaks for investors. It also set up a marketing agency to promote the area and launched a scheme where 50 firms a year get support to help them expand. The result? In 2008, there were 15 tech start-ups at the Silicon Roundabout; today, there are more than 1,300.

21 '*Breakthrough innovation and growth*', PwC, 2013. www.pwc.com/gx/en/innovationsurvey/index.jhtml

22 James K. Glassman, '*Immigration: Don't Be Stingy*', Forbes (30 April 2013), http://www.forbes.com/sites/jamesglassman/2013/04/30/immigration-dont-be-stingy/; '*Les misérables*', The Economist (28 July 2012), http://www.economist.com/node/21559618; 'Future Fifty', http://www.futurefifty.com/; Jay Mcgregor, 'Is the success of London's 'silicon roundabout' forcing new start-ups out of the capital?', The Independent (5 December 2013), http://www.independent.co.uk/life-style/gadgets-and-tech/features/is-the-success-of-londons-silicon-roundabout-forcing-new-startups-out-of-the-capital-8599699.html

Of course, public bodies need to consider their strategic role in local and national innovation strategies, based on a robust assessment of areas of competitive advantage.

We have often commented that smart specialisation[23] is one way to do this – formulating an economic transformation agenda which builds on, and innovatively combines, existing strengths in new ways. This means identifying a country, region or city's competitive advantages and mobilising stakeholders (including business, universities, the not-for-profit sector and the public) around an inspirational vision for the future.

It also requires public entrepreneurs: individuals and organisations within the public sector who create new ventures and ultimately increase local, regional and national innovation absorption capacity (see Figure 12). Their efforts are, in turn, championed by political entrepreneurs, who are key in channelling political will and vision to support innovative strategies.

Through our work around the world, we have seen the benefits of bringing together the key stakeholders needed to collaborate and provide a common platform for growth (see Figure 13)[25].

Figure 12 Rise of the public and political entrepreneurs[24]

Individual entrepreneurs	• Create new activities • Role model for young generations • Iconic person in and outside the country	**Very Small companies**
Intrapreneurs	• Absorb innovation in companies • Create new activities and jobs	**Large companies**
Public entrepreneurs	• Match the needs of the private entrepreneurs • Create new ventures • Increase country innovation absorption capacity	**Government and administration**
Political entrepreneurs	• Reshape citizen wellbeing • Smart specialisation strategies • Channel political will and vision to support innovative strategies	**Political leadership**

Source: PwC 'Future of Government'

Figure 13 Platform for growth through collaboration

Stakeholder collaboration – creating a new playground for growth

Source: PwC 'Future of Government'

23 '*Future of Government*', PwC, 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml
24 From '*Future of Government*', PwC, 2013. www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml
25 From '*Stepping stones to growth*' and '*Future of Government*', PwC, 2013. http://www.pwc.co.uk/government-public-sector/stepping-stones/index.jhtml and www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

To be effective, these stakeholders need to work together effectively and be clear on their roles and how they are jointly and collectively responsible for good growth including creating the business cases for others – in other parts of government and in other countries – to invest in their places.

Jordi Baiget, Government Secretary of the Government of Catalunya, Barcelona in Spain comments: "It is a key success factor to have a strong government, capable of making things happen in a collaborative framework with Europe.[…] That is why it has been necessary to rethink public policies and programmes using a collaborative approach with our economic and social stakeholders."

The success of this collaboration requires trust through effective partnerships and, among other things, an honest and shared understanding and articulation of their joint assets, sources of funding and finance, and their 'offer', based upon a shared view of the future. It can also involve formal organisational arrangements, such as pooling management and resources across organisations.

Joanna Killian, CEO of Essex County Council in the UK comments: "Some of the most successful partnerships have been where there has been a genuine joint venture. So even if we haven't gone to a full contractual model, staff from my organisation work with partners' staff to design solutions and processes together; it's a much more meaningful way of delivering a service than spending years agreeing a transactional approach to delivery."

And Yeoh Keat Chuan, Managing Director of the Singapore Economic Development Board makes the point that collaboration is not restricted to national borders: "We are also working with other governments to come together to provide better solutions. I co-chair a steering committee with my counterpart in the Malaysian Investment Development Authority (MIDA) to look at how we can develop Iskandar and Singapore together as an integrated solution, building on the strengths of each different region for a much stronger production and supply chain. How can we be much more competitive as a result of coming together or even extending this concept to the larger ASEAN region?"

PwC's view – delivering on innovation

In our view, focusing on areas of real potential has a much better pay-off than spreading investments thinly over unrelated areas. Through approaches such as smart specialisation, understanding a region's knowledge assets is achieved not through a top-down approach, driven by public leaders, but by involving key local stakeholders including academia and businesses in a process of 'entrepreneurial discovery'.

By involving key stakeholders through a consensus-driven process, public leaders can develop a clear and ambitious vision that is widely shared and then agree on a roadmap to deliver the strategy – the critical issue in making things happen as a result.

Competing for mobile finance: creating investor ready projects

In addition to the challenge of collaboration, delivering effective, efficient and sustainable infrastructure is essential to provide the backbone from which economic success and prosperity can grow. And as this year's 17th Annual Global CEO Survey shows, infrastructure is joint second on the list of government priorities for CEOs behind finance, and is at the top of the list of priorities for CEOs based in Africa (84%), the Middle East (74%), Latin America (68%) and Asia Pacific (50%).

It is clear therefore that more needs to be done to deliver and meet the needs of our citizens and businesses. Indeed, only in the Middle East does a majority of CEOs surveyed (54%) believe that government is effective in improving infrastructure, although there are positive net balances of CEOs surveyed in Asia Pacific (22%) and, to a lesser extent, in Western Europe (9%).

As technology drives mobility and connectivity, cities are seeking to upgrade what they can offer residents and businesses, and establish smart city systems that will position them as global leaders.

As Svetlana Ganeyeva, CEO, Moscow City Investment Agency comments: "It is noteworthy that Moscow can attract investors with its ability to become a good platform for the implementation of 'new urban' technologies in practice. These are the technologies which enhance the manageability of municipal services, as well as their efficiency and effectiveness. From this perspective, Moscow is a very interesting investment target compared to other global metropolitan cities."

Managing this scale of change is a complex undertaking, particularly if communities are to have a standard of living that meets modern-day expectations. Yet, governments at national, state and city level usually have limited access to funds and ways of financing their plans.

One of the most significant worldwide factors is the slowdown of the global economy, tighter budget restrictions and, as a result, growing competition for investors in Russia, as well as among global competing cities. Therefore, we need to search for new ways to attract private investment in the economy, and make significant changes in the way business and state interact.

Svetlana Ganeyeva, CEO, Moscow City Investment Agency in Russia

So what is the best way to attract investors and enable the financing and delivery of critical infrastructure? This is a key question which has formed the basis of a research collaboration in the context of urban infrastructure with Siemens and Berwin Leighton Paisner (see box, **Investor ready cities**).

Public bodies at national, regional or city level need to tap into all existing sources of funding available to them, and create the right conditions to harness new sources of funding to deliver projects ranging from housing through to local transport.

Investor ready cities[26]

First and foremost, cities need a clear, well-formulated vision of growth and economic prosperity, underpinned by a set of well-defined strategic objectives (the what) and initiatives (the how). This vision must be owned by key stakeholders – politicians locally (and nationally, where appropriate), officials, businesses and residents – with strong leadership needed to develop and sell their city vision. This in turn provides confidence to investors that the emerging challenges are understood and will be managed.

Cities also need to demonstrate visibly how infrastructure will deliver value to both users and investors. In a globally connected marketplace, where cities compete with each other for scarce investment funds, success will be reflected in the ability to attract internationally mobile capital.

Ultimately, cities must create a quality of life proposition which exceeds that of their closest competitors and provides an attractive offering to investors and prospective residents. City competitiveness therefore comes down to how to attract the financial investment and human capital that will sustain a city into the future.

Changing times also mean that city authorities can no longer plan for what is known today. They must plan to meet the needs of future generations too and provide, rather than consume, a legacy for successive generations.

Cities can no longer take 20 years to deliver major infrastructure developments. Our research with Siemens and Berwin Leighton Paisner (BLP) shows that planning needs to be swift and cities need to be agile in response to changing business, resident and investor needs.

26 '*Investor Ready Cities: How cities can create and deliver infrastructure value*', A report by Siemens, PwC and Berwin Leighton Paisner (BLP), 2014

Cities in particular must become more innovative and adventurous with respect to how they raise finance. Investment can come not only from domestic banks, institutions and capital markets, but also from overseas sovereign wealth funds, pension funds, bilateral and multilateral institutions, and public – private partnerships.

Dato' Jebasingam Issace John, CEO of ECERDC, Malaysia comments: "Externally from country to country the biggest challenge is competition. Everyone is going for the same type of investment, be it in Indonesia, Vietnam, Thailand. These countries have similar interests and therefore they, including us, Malaysia, are competing for investment."

But major investors are increasingly conservative in their decision making. Public bodies must therefore demonstrate clearly how investors will capture the value from infrastructure investments through a variety of mechanisms including user charging and tax incremental financing.[27] As our research with Siemens and BLP demonstrates, capturing value for the investor requires that value is also created for the user and for which they are prepared to pay e.g. through a tariff or user charge.

Of course, to fund the delivery of major infrastructure projects often some upfront public sector investment is still needed to create investor confidence in the commitment to an infrastructure development, and (if applicable) to subsidise the tariff charged to users.

As Frans Ndoroma, CEO of Telecom Namibia Ltd notes: "The mission for SOEs (State Owned Enterprises) in Namibia is to assist government to develop infrastructure (roads, telecommunications, railway, energy and ports), not to be profit-driven. […] Infrastructure investment in vast open areas with no population is a challenge we face. As companies will not provide infrastructure below cost, hence government must assist with infrastructure in sub-economical areas of the country."

PwC's view – creating investor ready projects

There is no universal blueprint that can be applied to economic development and the adoption of infrastructure solutions, particularly with the onset of new and rapidly evolving technology. Each place needs to plot its own path, based on an analysis of its own particular strengths and weaknesses, and a definition of what it wants to be famous for.

What is clear though, from our work with Siemens and BLP, is that infrastructure delivery will not be achieved without being joined up at the critical points, being intelligently phased and sequenced, and addressing the underlying governance, legal and financing requirements.

Laying the foundations for the right skills in the right places

Skills rank only just behind infrastructure in the priorities for CEOs. And having paid employment is the cornerstone of an individual's economic success and wellbeing as well. Moreover, a growing body of research confirms the link between work and other aspects of good growth, for example between job quality and physical and mental wellbeing.[28] This is consistent with research on what impacts on 'happiness'.

Our research with think tanks, the public and other organisations shows that if growth is a pre-condition for jobs, then good growth needs to go alongside the creation of good jobs. These include ones that give satisfaction, pride in doing good work, meaning (such as contribution to the community), an opportunity for career progression, flexibility (work – life balance) and income sufficient to live on, ideally with a little left over!

27 Further information on charging and TIF can be found in '*Out in the open*', PwC, 2011. www.pwc.co.uk/en_UK/uk/assets/pdf/out-in-the-open.pdf
28 See '*Stepping stones to growth*', PwC, 2013. http://www.pwc.co.uk/government-public-sector/stepping-stones/index.jhtml

As Joanna Killian, CEO of Essex County Council in the UK comments: "For me there's a really strong argument about supporting growth in industries that can provide high quality, sustainable jobs that have an appropriate level of reward and that really can sustain communities going forward."

And acquiring skills is the necessary foundation both for individuals to get a job and also for businesses seeking to expand. This is keenly felt in places like Singapore. Teo Eng Cheong, Chief Executive Officer of International Enterprise Singapore comments: "Asia has a relatively young population and should be able to reap the demographic dividend – though a young population must have a good education and development policies in place to take advantage of this."

And Yeoh Keat Chuan, Managing Director of the Singapore Economic Development Board states: "If you are wondering if Singapore is fit for the future, the question is whether we are developing the right capabilities? How do we work with the universities and the educational systems to ensure that we build up the right competencies? […] And it is not just any university degree; we want to make sure that it is the right degrees which ensure that Singaporeans are employable. For example, if we see a big opportunity in terms of analytics, we work with our universities to make sure they are providing the right kind of training in order for Singaporeans to sign up and graduate with the right qualifications and knowledge."

Singapore is, of course, near the top of the class when it comes to international benchmarks of educational performance. But similar views come from other developing nations like Namibia. "Government must ensure that the educational system is geared towards the business and economic development of Namibia. Government must engage the support of business and specifically in vocational training," according to Frans Ndoroma, CEO of Telecom Namibia Ltd.

The battle for expertise will be increasingly important – a life-long career path in the military is not an obvious choice – but perhaps a career in the military in several stages, where one in periods has employment elsewhere, also the private sector.

Erik Lund Isaksen,
Secretary General,
Ministry of Defence,
Norway

From this year's Survey we also know that CEOs believe government can play a major role in helping to educate the workforce. Yet employers continue to feel that the skills system does not meet their needs, despite the government measures to improve education and employability. We found that 41% of the CEOs surveyed think that educating the workforce should be a government priority, but only 21% think that government is doing it well.

Youth unemployment also remains unacceptably high in many countries, with about one sixth (16%) of CEOs surveyed believing that their government has been effective in creating jobs for young people. At the same time, an ageing population in many countries creates new demands to refresh the skills of older workers. CEOs also see regulation as a barrier to acquiring talent: 52% say it makes it harder to find or attract skilled workers (although 17% say the opposite).

This may also explain why many CEOs see workforce skills as a joint priority between business and government with almost two thirds (64%) of the CEOs we surveyed saying that creating a skilled workforce is a top business priority, albeit with regional variations. For instance, 84% of CEOs surveyed in Africa are focusing on developing a skilled labour force, compared with 54% of CEOs in Central and Eastern Europe.

The bottom line is that skilled workers are a prerequisite for innovation, good jobs and good growth. While this poses a challenge for those in charge of education policy and education delivery systems, there is also the challenge for public sector organisations themselves to acquire and retain the talent they need.

This has been noted by many of our interviewees, such as in Australia where Anne Nolan, Director General, Western Australia Department of Finance comments: "While our immediate focus is on doing less with less, probably the greatest challenge is having a workforce that is fit for the task at hand. We have seen a devaluing of the public sector workforce and what it has to offer to 20-somethings as an occupation. This is having an adverse impact on skills and capability."

In Norway, Wenche Nistad, CEO of the Norwegian Guarantee Institute for Export Credits (GIEK) states: “We focus on having the right people to do the right things. An important arena for building competence for our new employees is ‘on the job training’. We believe that experienced employees (‘senior labour force’) are a vital resource for the society and we urge to find a mix of experienced and younger employees.”

Meanwhile, across the Atlantic, Peter Wallace, Secretary of the Cabinet, Government of Ontario in Canada comments: “The core challenge that we face right now is actually making sure that we recruit and hire in a way that maximises our human resources capacity. […] That means essentially a relentless effort to make sure that we are an open government, that we attract the best and the brightest people and that we do it in a way that fully incorporates the skills that are available to us in a modern and a very, very diverse Ontario demographic base.”

Technological advances are also both alleviating and exacerbating the talent crunch, as we described it last year.[29] They will alleviate it by providing new, more efficient ways of finding talent, via digital platforms, and helping employees who might otherwise have had to leave the workforce to keep working.

But technology will simultaneously make it easier for competitors to poach good staff and enable talented individuals to set up independently. It will also raise the level – or change the kind – of education that’s required to perform many jobs.

Barry O’Leary, CEO of IDA Ireland comments: “So if you look at one of the big growth areas of opportunity, big data and analytics, it’s going to cover practically every sector. How agile, how nimble and how committed can we get the government to be to invest in the development of the skill pool.”

Fundamentally, creating the right foundations for skills in schools and further and higher education systems, connecting people with job opportunities and facilitating an effective school to work transition require better communication and information exchange between all of those involved.

As noted by David Nuyoma, CEO at the Government Institutions Pensions Fund (GIPF) in Namibia: “Business Leaders must become more involved in higher education institutions. […] As lecturers and as business coaches to share their experiences. Business leaders must also get involved at secondary school levels to stimulate youngsters and make them think positively about the world around them.”

PwC’s view – Making the right connections[30]

Acquiring the right skills is an essential prerequisite for the public’s desired outcomes of jobs and income, and is a top priority for businesses too. For those who want to maximise the potential of the workforce there are five key conclusions that are not only responsibilities for government, but also for business, education and training providers as well as individuals:

- Employers must take greater responsibility for helping young people understand the world of work and its opportunities. This responsibility does not fall solely on the shoulders of big business; small and medium-sized enterprises (SMEs) have an important role to play.
- Employers must also see the return on investment for being involved in schools and higher/further education, namely capturing talent early.
- The quality of the information being communicated is crucial: education providers and businesses must develop a shared language and collaborate to ensure courses are demand-led.
- Education providers (many of them state funded) need to take advantage of business engagement, maximising the opportunity for businesses and pupils/students to interact and smooth the transition from education to the world of work, by ensuring that individuals receive high quality, objective advice on potential career paths.
- Individuals need to be empowered to make well-informed choices. And government must step in to improve the brokering process where there is most risk of a deficit of good quality information.

29 ‘*Government and the Global CEO: A new contract between business and the state*’, PwC, 2013. http://www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-psrc-a-new-contract-between-business-and-the-state.pdf
30 ‘*Stepping stones to growth*’, PwC, 2013. http://www.pwc.co.uk/government-public-sector/stepping-stones/index.jhtml

Restoring trust through engagement

In our report last year[31] we argued for a new contract between business and the state in order to drive good growth, with a need to shift mindsets from that of coexistence to a real spirit of partnership if relationships between business and government are to improve. In this year's Survey, two areas stand out where trust needs to be restored: tax and regulation.

As CEOs grapple with the implications of a rebalancing economy, they're also significantly concerned with a lack of trust in business. And while CEOs think most stakeholders trust their industry more now than five years previously, the one major exception is government and regulators. About a third (31%) of CEOs surveyed this year stated that the latter's levels of trust have deteriorated, rising to almost half of CEOs surveyed in North America (48%) and in Latin America (44%).

However, it should be noted that this phenomenon is not all-pervading. For instance, only 20% of CEOs surveyed in the Middle East believe that the level of trust with government and regulators has deteriorated, compared with 34% who said it had actually improved. A similar net positive balance of 14% of Asia Pacific CEOs think that trust has improved as well.

And it is important also to note that CEOs are not purely focused on profit, with the majority of CEOs surveyed (76%) believing it is important to satisfy societal needs and protect the interests of future generations.

A renewal of trust between business and government

It is clear that more needs to be done to restore trust between business, government and regulators. As Johan Swanepoel, Chairman of the Board of Bank Windhoek Holdings Ltd in Namibia notes: "A huge challenge is the lack of trust between government and business – we should help each other more."

Brian Molefe, Group Chief Executive, Transnet SOC Ltd, South Africa comments: "But most importantly what maintains trust is the ability to do what the general population expects or demands of public institutions. And this is sometimes somewhat lacking, when governments in power or institutions are unable to deliver the basic things that people think are important."

Politically, according to Hanna Birna Kristjánsdóttir, Icelandic Minister of the Interior: "The single biggest issue that will ensure that society will be able to progress is that we trust each other. […] I feel the effects of this lack of trust and how important it is to change this everyday in my work as a politician and know that it would be a really big thing for politics and society if we succeed in strengthening trust. […] If I could select one thing that would change, I would like to see trust in society return to higher and more beneficial levels."

31 '*Government and the Global CEO: A new contract between business and the state*', PwC, 2013. http://www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-psrc-a-new-contract-between-business-and-the-state.pdf

Bruce McCuaig, CEO, Metrolinx in Canada comments: "There's less trust and greater cynicism, and uncertainty, about what our government structures can actually deliver for us. […] I think we need to reflect upon how do we regain public trust? How do we re-build the social contract? How do we get a common sense of what we want to achieve as communities, whether that community is a national community, or is more of a local community. And how do we sustain those visions over time?"

Indeed, as this year's CEO Survey results demonstrate again, the public and private sectors are as co-dependent as ever on key issues, such as skills and the health of the workforce. As a result, last year we asserted that in order to build better engagement, three shifts were needed in relations between government and business,[32] from:

- A belief of 'public good, private bad' to appreciation of the best of both.
- Forced cooperation to mutual collaboration.
- Distrust to mutual recognition of responsibilities on both sides.

We still believe this to be the case and that, as ever with most relationships, the quality and commitment of individual leaders on both sides makes all the difference.

Public sector leaders can help by setting the tone for the dialogue. We discuss below two areas that are uppermost in the minds of the CEOs in our Survey for improving trust: tax and regulation.

A supportive tax and regulatory approach

Over-regulation and an increasing tax burden are among the top five threats facing CEOs according to our Survey this year. Of course, it's difficult to strike the right balance so that tax is fair and equitable, and regulation meets the needs of society without imposing too high a burden on business.

The key challenge for collaboration is trust – a broader concept of the social licence to operate. There are very good organisations in the private and social sectors which could be given more autonomy. Also the notion of 'earned autonomy' is interesting and worthy of consideration.

Andrew Tongue, Secretary, Victoria Department of Premier and Cabinet in Australia

Mutual understanding frequently depends on the persons involved: with changes in personnel, you are frequently put back to square one. Or when the chemistry is not there, that mutual understanding is put to the test. Interpersonal factors are decisive even to this very day, because people are still people!

Peter Hegglin, Finance Minister of the canton of Zug and President of the Conference of Cantonal Finance Directors in Switzerland

Jim Hallion, Chief Executive, South Australia Department of the Premier and Cabinet provides a neat summary of the issue: "In the role we play helping the private sector – which is the engine of growth and jobs – we need to provide: a competitive tax system; a regulatory system that is world class and doesn't put too much burden on business and NGOs in terms of red and green tape; co-regulation with industry; and a risk-based approach to regulation."

And on the other side of the world, Robert Watt, Secretary General of the Department of Public Expenditure and Reform in Ireland has similar views: "We have to provide public infrastructure. We have to have regulation which minimises the burden on the private sector. We need to keep taxes as low as we possibly can and we also need to drive down the cost of the government and the cost of doing business. So in many ways our focus should be on doing the things that we're good at and not getting in the way of the private sector. Ultimately wealth and jobs are generated by what thousands of companies do."

Tax burdens

With respect to tax, CEO concerns about an increasing burden are also reflected in the 2013 Lloyds of London Risk Index where high taxation is now seen as the main threat to companies, up from 13th place in the 2011 version.

In our Survey, about two thirds (65%) of the CEOs surveyed agree that the current international tax system has not changed to reflect how multinationals operate today and is in need of reform.

32 From '*Government and the Global CEO: A new contract between business and the state*', PwC, 2013. http://www.pwc.com/en_GX/gx/psrc/publications/assets/pwc-psrc-a-new-contract-between-business-and-the-state.pdf

But whose task is it to sort this out? Of the CEOs we surveyed, 50% think it should be a top government priority to create a more internationally competitive and efficient tax system. Yet only 21% of the CEOs surveyed believe that government is doing a good job, compared to about half (51%) who don't. This is particularly important given that almost two thirds (63%) of the CEOs surveyed believe that government tax policy and the competitiveness of local tax regimes are key factors in locational decisions.

CEOs in North America, Western Europe, Central and Eastern Europe and Latin America are especially critical of government with over half of CEOs surveyed saying that government has been ineffective. And only 27% of CEOs are confident that consensus among international bodies like the G8/G20 and OECD can fix the situation.

So what do CEOs think should be done to create a better tax regime? Over half (59%) of CEOs surveyed favour multinationals reporting the revenues, profits and taxes for each territory in which they operate, with 58% saying national tax authorities should be able to share information about companies between themselves (see **Figure 14**).

The regulatory measures should be clearly designed and long term in nature. The state should give as much freedom as necessary so that the economy can develop freely and the depth of regulation can be reduced overall. Meaningful partnerships can enrich both sides.

Tanja Gönner, Chair of the Management Board, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany

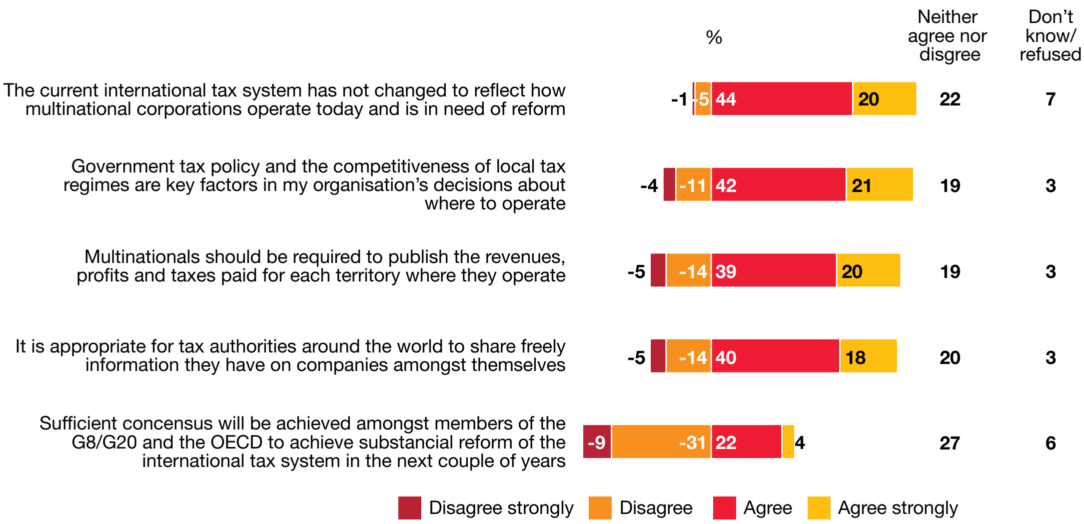
Over-regulation

Turning to regulation, a majority of CEOs believe that their businesses are over-regulated. This feeling is greatest in Africa where it is identified as a threat to growth prospects by 87% of CEOs surveyed.

From that region, Adv. Vekuii Rukoro, CEO of the Meat Corporation Ltd in Namibia comments: "Government must be the policy maker and regulator, creating an environment conducive to the private sector to invest. Roles must not be blurred. Often businesses do not understand where, for example, new regulations are coming from. Regulations get endorsed by Cabinet which were not critically assessed against impact, public policy and good corporate governance".

And Tom Alweendo, Director General of the National Planning Commission in Namibia adds: "Government should require feedback from business before legislation is submitted to parliament. If business and government are true partners, they will advise each other on issues. If government ignores such advice, trust must be lacking. The question to be asked then is whether they are true or adversarial partners?"

Figure 14 The changing nature of tax



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

The negative impact on business of regulation is seen by CEOs as increased operating costs (79%) and finding it harder to attract a skilled workforce (52%), while they tend to be less likely to pursue market opportunities or innovate effectively (40% of CEOs surveyed in each case). Nevertheless, business is not entirely negative with respect to the impact of regulation: about half of the CEOs surveyed (51%) see regulation as improving production and/or service delivery quality standards, particularly in Asia Pacific (59% of CEOs surveyed), Latin America (58%) and Central and Eastern Europe (56%).

Ease (or not) of doing business

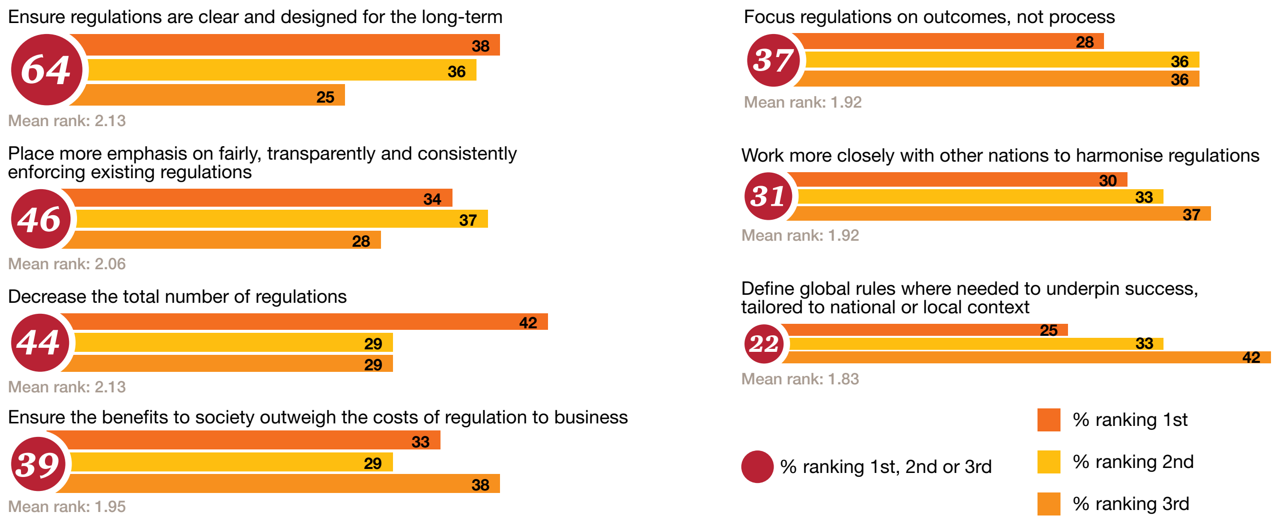
As the World Bank's annual reports on the ease of doing business in different countries show, there have been some marked improvements over the past decade. It's now easier to set up and run a company in Singapore, Hong Kong, Malaysia, South Korea and Georgia than it is the UK, Australia and most of Scandinavia, for example. A number of countries in Sub-Saharan Africa have also made great strides. But the high-income OECD economies are still, by and large, the world's most business-friendly states.

Ensuring regulations are clear and designed for the long-term is cited by almost two thirds (64%) of CEOs surveyed as having the biggest impact on government improving the policy-setting process, with about three quarters of CEOs agreeing in Central and Eastern Europe, Middle East and Africa. The most frequent first ranking, however, was to decrease the total number of regulations (see Figure 15).

The Minister of Industry and Commerce in Iceland, Ragnheiður Elín Árnadóttir, gives the following perspective: "It's clear that we need controls and we need rules – but it doesn't need to be overcomplicated: we need to have the playing field set out and the referee so that we can all play within a known framework. On the other hand, when the system becomes too complicated, you don't know what rules to follow or how to behave and the result is chaotic. Let me give you an example: a business which was being established in the tourism sector, with accommodation, a restaurant and entertainment had to apply for 55 licences with seven public institutions in order to get an operating licence. This is insane."

Arif Naqvi, Founder and Group Chief Executive, The Abraaj Group comments: "I'm a big believer in the fact that governments, especially in global growth markets, need to be in the business of governance, not in the business of management. [...] They really need to get out of managing enterprises and businesses. They need to provide the framework and leave it to the private sector to be able to emphatically address the challenges that are out there."

Figure 15 CEO views on improvements to regulation



Base: All respondents (1,344)
Source: PwC 17th Annual Global CEO Survey

However, it is easier to say that regulation should be reduced than to make it happen. The devil is in the detail as noted by Dean Yates, Deputy Secretary, Victoria Department of Transport, Planning and Local Infrastructure, Australia: "The private sector often says we want to reduce red tape, but we need to get beyond general motherhood statements and get down to the granular level of detail of where this could and should happen. […] It requires communication and engagement, and the private sector to recognise how easy or difficult it is for government to change in certain areas."

It is also worth noting that outcomes come some way down the list of priorities for improvement in the regulatory process for CEOs in most regions (with perhaps the exception of CEOs in the Middle East and Africa), which is not necessarily in tune with the views of policy makers.

Dr DeLisle Worrell, Governor of the Central Bank of Barbados comments: "A focus on results. This is really very important. At the end of the day we should not be satisfied until we achieve what is the desirable outcome. We always have to focus on what is the ultimate objective: the ultimate objective is to improve the quality of life within the society as a whole."

Sir David Bell KCB, Vice-Chancellor of Reading University in the UK adds: "I think business ignores at its peril public disquiet and dissatisfaction. Regulations are not the ideal answer but it's an understandable reaction and response to a lack of trust in business. I sometimes worry when I hear lots of complaints about regulation that people haven't asked themselves the most searching questions about what they might have done, put themselves in a position where governments feel that they're acting on behalf of the citizenry to impose regulation. It's important to point out there's good regulation and bad regulation. Again sometimes I think businesses are a bit unsophisticated. I do think in presentational terms it would help occasionally if businesses said 'here's a regulation that we actually think really adds to either the protection of customers or ensures that we're kept honest or make sure that this is good for our staff'."

And this view is not just held in the public sector but also by some private sector CEOs. As Raul Baltar Estevez, CEO, Banco Exterior, Venezuela comments: "I think that the government's top priority, at least in connection with the banking sector, should be to establish a suitable regulatory framework for banks to fulfil their duty as public service providers – in Venezuela banks are considered public service providers – thereby allowing them to participate in the country's economic development."

In practice, a balance needs to be struck between protecting consumers and employees while not overburdening employers with regulation, particularly in terms of compliance. Over many years we have therefore argued the case for smarter regulation as a way to address both business and public concerns.

PwC's view – smarter regulation

To help business, and indeed public bodies at arm's length to government, regulation needs to be proportionate, accountable, consistent, transparent and targeted.

In our view, some of the key principles underpinning a smarter approach to regulation are as follows:

- Outcome-based – focus on outcomes and impacts, not purely process, and make judgements on results, not just box-ticking.
- Clarity and stability – ensure that the rules for regulation are clear and not subject to constant tinkering.
- Even-handed implementation – it is not enough to define a transparent set of rules, but to implement them in a fair way, and be seen to do so.

Agenda for action for business and government

Government and public sector leaders across the world are facing the challenge of balancing between an internal focus on efficiency and effectiveness and an external focus on helping business to create the wealth and jobs that societies need to prosper. Radical action is needed to remove the overhang of fiscal deficits and clear the way for businesses to invest for the long term.

Urgency is needed by governments, particularly in the developed G20 economies, to tackle fiscal deficits and return to a sustainable trajectory.

We believe public sector leaders can do more to help business by:

- Committing to a renewed focus on achieving fiscal balance, with a drive to **get fit for the future**, delivering affordable government through increasing productivity and transforming operations, taking advantage of digital technology to create tomorrow's leading public body.
- Going back to basics and **reassessing the purpose** of their organisations and developing a shared, citizen-centric vision that energises their organisations to deliver value.
- Creating and communicating their **growth stories**, setting out how businesses and the public sector can work together to reduce the uncertainty that hinders the confidence to invest and create jobs.
- Making bold moves to address business priorities – public sector organisations at all levels have an important role to play in creating a **platform for growth** with a focus on the key levers of skills, infrastructure and innovation while also tackling the threat of over-regulation.
- Collaborating in a true spirit of partnership with business, citizens, academia and NGOs to **restore trust** and drive us towards good growth.

As the world tries to put financial crisis in the rear-view mirror, we are optimistic that together we can make a real difference to the future of our society. A demand-driven skills system, value-adding infrastructure and a self-sustaining innovation ecosystem are needed, with good growth at the heart of the purpose and mission of our public bodies.

Annex: Government interviewees

Gill Callister
Secretary
Victoria Department of Human Services
Australia

Jim Hallion
Chief Executive
South Australia Department of the Premier and Cabinet
Australia

Anne Nolan
Director General
Western Australia Department of Finance
Australia

Karl O'Callaghan
Police Commissioner
Western Australia Department of Police
Australia

Andrew Tongue
Secretary
Victoria Department of Premier and Cabinet
Australia

Dean Yates
Deputy Secretary
Victoria Department of Transport, Planning and Local Infrastructure
Australia

Dr DeLisle Worrell
Governor of the Central Bank of Barbados
Barbados

Dr Fernando Haddad
Mayor of the City of São Paulo
State of São Paulo
Brazil

Liseanne Forand
President and CEO of Shared Services Canada (SSC)
Canada

Bruce McCuaig
CEO
Metrolinx
Canada

Photo courtesy of Bank of Canada

Tiff Macklem
Senior Deputy Governor,
Bank of Canada
Canada

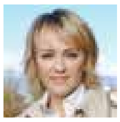
Peter Wallace
Secretary of the Cabinet
Government of Ontario
Canada

Marian Piecha
CEO
CzechInvest
Czech Republic

Tanja Gönner
Chair of the Management Board
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Germany

Stephan Toscani, MdL
Finance Minister
Ministry of Finance and Europe
Federal State of Saarland
Germany

Ragnheiður Elín Árnadóttir
Minister of Industry and Commerce
Iceland



Hanna Birna Kristjánsdóttir
Minister of the Interior
Iceland

Rajesh Aggarwal (I.A.S.)
Secretary
Department of Information Technology
Government of Maharashtra
India

Debashree Mukherjee
Former CEO
Delhi Jal Board
Government of Delhi
India

J. Satyanarayana
Secretary
Department of Electronics and Information Technology (DeitY)
Ministry of Communication and Information Technology
Government of India
India

Barry O'Leary
CEO
IDA Ireland
Ireland

Robert Watt
Secretary General of the Department of Public Expenditure and Reform
Ireland

Datuk Ismail Ibrahim
Chief Executive
IRDA
Malaysia

Dato' Jebasingam Issace John
CEO
ECERDC
Malaysia

Tom Alweendo
Director General
National Planning Commission
Namibia

Frans Ndoroma
CEO
Telecom Namibia Ltd
Namibia

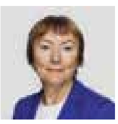
David Nuyoma
CEO
Government Institutions Pensions Fund (GIPF)
Namibia

Adv. Vekuii Rukoro
CEO
Meat Corporation Ltd
Namibia

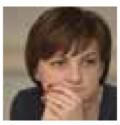
Johan Swanepoel
Chairman of the Board of Bank Windhoek Holdings Ltd
Namibia

Erik Lund Isaksen
Secretary General
Ministry of Defence
Norway

Gunn Ovesen
Former CEO
Innovation Norway
Norway



Wenche Nistad
CEO
Norwegian Guarantee Institute for Export Credits (GIEK)
Norway



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Russia

Teo Eng Cheong
Chief Executive Officer
International Enterprise Singapore
Singapore

Yeoh Keat Chuan
Managing Director
Singapore Economic Development Board
Singapore

Trevor Fowler
City Manager of the City of Johannesburg
South Africa

Jordi Baiget
Government Secretary
Government of Catalunya
Spain

Fernando Bayón Mariné
General Director
EOI (Industrial Organisation School)
Spain

Gunnar Larsson
CEO
The Swedish Consumer Agency
Sweden

Peter Hegglin
Finance Minister of the canton of Zug and President of the Conference of Cantonal Finance Directors
Switzerland

Sir David Bell KCB
Vice-Chancellor
Reading University
UK

Mike Farrar
Former CEO
NHS Confederation
UK

Sir Bob Kerslake
Head of the Civil Service and Permanent Secretary, Department for Communities & Local Government
UK

Joanna Killian
CEO
Essex County Council
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