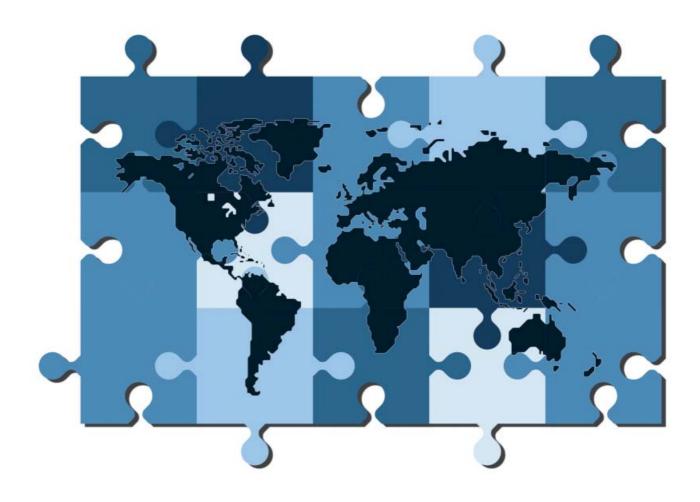
CEO BriefingCorporate priorities for 2006 and beyond



A report from the Economist Intelligence Unit Sponsored by UK Trade & Investment



Preface

CEO Briefing is an annual Economist Intelligence Unit research programme designed to identify the management challenges that face the world's corporate leaders. UK Trade & Investment sponsors CEO Briefing.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The Economist Intelligence Unit's editorial team executed the online survey, conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor.

Our research drew on two main initiatives:

- We conducted a wide-ranging online survey of senior executives from around the world in November-December 2005. In total, 555 executives, including 226 chief executives, took part.
- To supplement the survey results, the Economist Intelligence Unit also conducted in-depth interviews with CEOs, CFOs, chairmen and other senior executives from major companies in all of the world's regions.

Andrew Palmer was the author of the report. The following researchers conducted interviews with executives around the world: Peter Baldwin, Ross O'Brien, Alison Rea, Erica Rex and Ray Smyth.

We would like to thank all the executives who participated in the survey and interviews for their time and insights.

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Executive summary

lobalisation is nothing new but its meaning is constantly evolving. Once associated with low-cost manufacturing overseas, then a wave of foreign direct investment by Western multinationals into unsophisticated emerging markets, it has most recently been exemplified by the offshoring of back-office processes to low-cost locations. To judge by the results of this year's *CEO Briefing* survey, the terms of globalisation are changing again.

Customers in emerging markets are becoming far more important and far more demanding; offshoring is no longer driven solely by cost; and competition from overseas and domestic rivals is increasing in every market. The distinctions between high-cost mature markets and low-cost developing ones remain acute, of course, but they are less clear-cut than they once were.

Overseas markets will absorb more attention than domestic markets. Survey respondents expect the proportion of revenue coming from overseas markets to jump by an average of one-third over the next three years. Demand from emerging markets is seen as the most critical force affecting the global marketplace over the next three years—inevitably, China tops the list of growth opportunities.

Local will be as important as global. One paradox of globalisation is that it increases the value of local knowledge. Every market is becoming more demanding, as customers' tastes change and as competition intensifies. Understanding local customers is the biggest challenge that managers of global companies face, according to the survey.

Global sourcing will improve performance as well as margins. Offshoring is enabling companies to gain access to the best people and assets worldwide, not just the cheapest ones. Whether improving cycle times for back-office functions or tailoring product development to the needs of local markets, globalisation is helping to improve performance, not just cut costs. Indeed, asked which strategies would be most important to cost control over the next three years, respondents scored offshoring and outsourcing of manufacturing and processes low down the list of options.

Who took the survey?

555 executives from 68 countries around the world participated in this year's *CEO Briefing* survey. Respondents were spread evenly between the three main centres of economic activity—Asia-Pacific, Europe and North America. The US, India, Canada, the UK and China provided the largest number of respondents.

As well as being highly cosmopolitan, the survey group was very senior. Over two in five respondents was a CEO. In total, more than two-thirds of the executives we surveyed were C-level executives or board members.

A range of industries was represented—as in the previous survey, financial services and professional services were the industries with the greatest number of respondents. Participants also came from a spread of company sizes, with more than 40% reporting annual revenues of over US\$1bn.

Topline to the fore

The opportunities of globalisation are immense. Almost nine out of every ten respondents regard the prospects for business globally as either good or very good, a marked increase on previous years, even



though global economic growth is actually forecast to moderate over the coming three years.

Revenue growth and increasing market share are executives' strategic priorities. Sales, marketing and customer service head the list of functions that are regarded as most critical to realising corporate goals. New customers are seen as more important to revenue growth than existing ones.

A return to the heady days of the late 1990s is not on the cards. Risks may be taken, but in an environment still tightly focused on compliance and governance. Purchases may be made, but few executives see mergers and acquisitions (M&A) as their primary route to growth. Technology investments will be nodded through, but they will be thoroughly costed, rigorously planned and tightly executed.

Cost control remains crucial. In an era of

transparent and intense competition, the hunt to root out inefficiencies at every level of the organisation continues. But the perspective on costs is changing—how to scale up profitably is a bigger question for many firms than how to cut back the cost base in absolute terms.

This is just one of the management challenges posed by globalisation. Successful firms have to be flexible enough to identify and take advantage of local opportunities, and strong enough to instil a recognisable set of global corporate values. They need to offer a route to the top for their most talented employees, irrespective of nationality. Our research shows that the world's biggest companies continue overwhelmingly to favour their own nationals as board members. In this area as in so many others, change is inevitable.

The global marketplace

he optimists are in good heart for this year's CEO Briefing survey. Almost nine out of every ten respondents regard the prospects for business globally as either good or very good, a marked increase on previous years. The same proportion expects to see either robust or modest growth in revenues and profits at their own organisation over the next three years.

The bullish outlook is generally justified. According to forecasts from the Economist Intelligence Unit,

"Last year we were dancing in the streets. Now we've moved into the ballroom."

Rob Ritchie, CEO, Canadian-Pacific Railway

world GDP growth is expected to average 4% (measured using purchasing power parity weights) in 2006, slightly down on the 4.4% estimated for 2005 but still a strong rate of growth compared with much

of the 1990s. In 2007 and 2008 growth is expected to slow further, averaging about 3.9%, but by historical standards the pace of expansion will still remain robust.

But why should survey respondents be more confident about global prospects this year than in previous years? After all, the pace of global economic growth actually peaked back in 2004, before moderating in 2005, and it is expected to slow further over the next three years. Rob Ritchie, CEO of

Canadian-Pacific Railway, observes a moderation in demand for commodities from "crazy" levels in 2005. "Last year we were dancing in the streets," he says. "Now we've moved into the ballroom."

Risks to the global economy remain substantial. Rising interest rates could plunge indebted US and UK consumers into difficulties and reduce liquidity in emerging markets. The threat of a US dollar collapse hasn't disappeared. High commodities prices already weigh on many executives' minds, from fuel-intensive transportation industries to less obvious sectors. In the soft drinks industry, for instance, manufacturing of corn sweeteners relies heavily on natural gas. "It's worrisome," says Alfred Drewes, CFO of the Pepsi Bottling Group. "All of a sudden the price of manufacturing the sweetener is much more substantial than it used to be."

A number of reasons for the respondents' spike in optimism suggest themselves:

• Memories of the painful economic downturn at the start of the decade are only fading now. After a succession of good years, revenue growth and market share have become higher strategic priorities for respondents. The wash from the raft of new

Rising spirits

How do you view the prospects for business over the coming three years? (% respondents)



Source: Economist Intelligence Unit.



governance and compliance requirements is also passing. Only 7% of executives see new business regulations as one of the most critical forces in the marketplace this year, well down on the 18% who picked this option in 2005.

- The world's most dynamic emerging economies are gradually becoming less volatile. All of the 30 largest emerging economies grew in both of the past two years. Prior to 2004, there has always been at least one country in the group going backwards. Policies are improving too. The Chinese authorities are attempting to engineer a gradual slowdown of capital expenditure in order to prick an investment bubble. Growing foreign investment in India will gradually boost productivity growth in the services and industrial sectors. Reform and liberalisation programmes will improve operating environments around the world.
- Global growth is becoming more broad-based. The Japanese economy has largely recovered from the woes of the 1990s. Even Europe, a perennial underperformer, is entering 2006 with greater

momentum than in 2005, with signs of recovery in France and Germany in particular.

Europe: Light at the end of the tunnel?

The EU has been the world's weakest-growing region over the past five years. Although growth rates have diverged across countries, activity in much of the region has been hampered by rising international oil prices (which have eroded purchasing power), fragile public finances, weak employment growth, an unfavourable stock cycle and deteriorating consumer and business confidence.

The situation is gradually improving. In 2006 the Economist Intelligence Unit forecasts that real GDP will grow by 1.8% in the euro area and by 2.1% in the EU25. Key to the acceleration will be a pick-up in business investment. Corporate balance sheets have improved markedly since 2002, and firms that have postponed capital spending will soon have little option but to replace ageing plant and machinery.

Economic activity should gather pace in 2007 as the recovery broadens. In 2007 we forecast that real GDP will grow by 1.9% in the euro area and by 2.2% in the

All hands to the pump Real GDP growth (%)					
Real dur growth (%)	2004	2005	2006	2007	2008
	2004	2005	2000	2007	
OECD ^a	3.2	2.6	2.4	2.3	2.5
Non-OECD ^a	7.6	7.0	6.3	5.8	5.8
World ^a	5.0	4.4	4.0	3.9	4.0
Regional growth summary					
North America	4.2	3.6	2.8	2.6	3.0
Western Europe	2.6	1.8	2.2	2.3	2.3
Transition economies	6.7	5.0	5.1	4.8	4.7
Asia & Australasia	4.6	4.6	4.1	3.8	3.7
Latin America	5.8	4.4	3.9	3.4	3.7
Middle East & North Africa	6.0	5.1	5.1	4.8	4.5
Sub-Saharan Africa	4.9	5.2	4.7	4.6	4.8

^a At purchasing power parity exchange rates. Source: Economist Intelligence Unit.

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EU25. Three factors should support consumer spending: a pick-up in employment growth; a decline in inflation (which will lift real wages); and a recovery in consumer confidence.

Asia: Opportunities and risks

As in previous years, executives look to the Asia-Pacific region in particular to drive growth. Two-thirds of the survey respondents expect the region to offer the greatest opportunities, well ahead of central and eastern Europe and North America in second and third places, respectively.

They are right to do so. Asia (excluding Japan) is expected to enjoy the fastest rate of expansion of any world region in 2006-10, at an annual average GDP growth rate of 5.6%. Most Asian economies have a high rate of domestic savings and are subject to generally prudent macroeconomic policies, creating a fertile environment.

"The economic recovery in Asia, the emergence of free enterprise, the influx of offshore jobs and capital, the voracious and growing consumer demand—these factors all connect to create enormous business opportunities," says Dave Lesar, President and CEO of Halliburton.

China is the main engine of growth in the region and beyond, and the single most important market for survey respondents' growth ambitions. Forecast growth of 8% in 2006, 7.3% in 2007 and 7% in 2008, while moderating, will still make China one of the fastest-growing and most attractive markets in the world. "We expect Greater China to be a market where we will be establishing a strong foundation, so that we'll be in a position to capitalise on the growing interest in luxury goods as the economy continues to prosper," says Lew Frankfort, CEO of Coach, a US luxury accessory firm.

India is also expected to perform well over the next few years, despite some slowdown in domestic demand. We forecast that the rate of GDP growth will reach 7.8% in fiscal year 2005-06 (April-March), before slowing modestly to 7% in 2006-07 and 6.5% in 2007-08. The non-agricultural economy is expanding at a healthy pace, with the services sector, which is now the main engine of economic growth, set to grow by almost 9% per year over the next two years. "India is developing very rapidly and in quite unexpected ways," says David Lim, CEO of Neptune Orient Lines (NOL) in Singapore.

And don't forget Japan. Japanese GDP growth has continued to exceed expectations, with the economy surging ahead in 2005 thanks to private-sector investment and (to a lesser extent) consumer demand. Japanese GDP should decelerate but still deliver a fair performance over the next two years, growing by a forecast 1.6% in 2006 and by 1.2% in both 2007 and 2008.

Despite its bright prospects, Asia is also seen by survey respondents as the source of greatest risk. "As a business executive, one of my primary concerns is going to be Asia," says John Becker, CEO of Cybertrust, a US information security services provider. "It's the strongest market as well as the riskiest."

Continued high oil prices pose a major threat to economic growth prospects in Asia, which imports two-thirds of the oil that it consumes. The region is particularly vulnerable to developments in the US (a major purchaser of Asian exports). The rise of protectionism threatens to undermine the export performance of some emerging Asian economies, with protectionist sentiment rising in both the US and EU. Lastly, the region faces the prospect that bird flu could mutate and spread between humans, with potentially catastrophic consequences.

The Americas: All eyes on the US

The US has long been the motor of global growth but rates of expansion are gradually softening. After a very strong performance in 2004, when the economy

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expanded by 4.2%, we estimate that growth slowed to 3.6% in 2005 and expect a further slowdown to 2.8% in 2006 and 2.6% in 2007. A modest rebound to 3% in 2008 then seems likely.

The slowdown expected in 2006 largely reflects consumer fatigue, itself a result of the high levels of personal sector debt. Short-term interest rates have already increased sharply, reducing the amount of liquidity being injected into the economy. With further tightening expected over the coming months, monetary stimulus will soon come to an end.

The corporate sector is in better financial shape than the personal sector. But profitability is likely to deteriorate in 2006-07 as productivity growth slows and employment continues to rise. Corporate debt remains high and rising interest rates will be burdensome to companies. All these factors suggest that capital expenditure by businesses is likely to slow in 2006.

As US interest rates rise further, investors are likely to demand higher returns on their emerging-market

portfolios. By the end of 2006 those countries that need to fund large current-account deficits—or roll over substantial foreign debts—will gradually find economic conditions more difficult.

The problem of a deteriorating international financing environment will be particularly acute in Latin America. The region has seen a strengthening in economic performance, with Argentina and Venezuela rebounding from prolonged recessions, and Brazil performing reasonably on the back of rising exports to China, firmer commodity prices and enhanced domestic demand.

But the region is characterised by large financing requirements, driven by the need to roll over substantial foreign borrowings, and by late 2006 debt servicing is likely to become more burdensome.

Combined with an expected slowdown in US and Chinese import demand, and a stabilisation in commodity prices after several years of rapid increases, these factors are expected to lead to a moderation in Latin American growth in 2006 and 2007.



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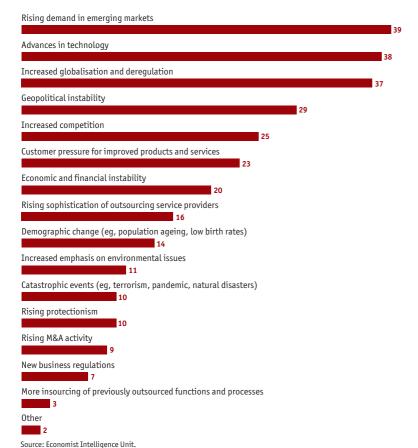
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Critical forces

s ever, business leaders will confront a variety of market forces as they look forward to the next three years. From rising customer demands to demographic change, from the risk of catastrophic events (pandemics, natural disasters, terrorism and the like) to an increased emphasis on

One world, much complexity

In your opinion, which of the following forces will have the greatest impact on the global marketplace over the coming three years? Select up to three options. (% respondents)



environmental issues, the range and intensity of challenges facing the corporate world is immense. But if one theme emerges more strongly than others from the survey and interviews, it is that of globalisation.

Globalisation doesn't really mean being global, of course. For a very few companies it will mean covering virtually every country on the planet. For most, it will mean focusing on particularly promising markets. More respondents agree with the statement that their organisations will concentrate on fewer, key markets over the next three years than disagree. "You need to pick your shots carefully," says Mr Frankfort of Coach. "You need to be extremely focused and not try to do everything at once."

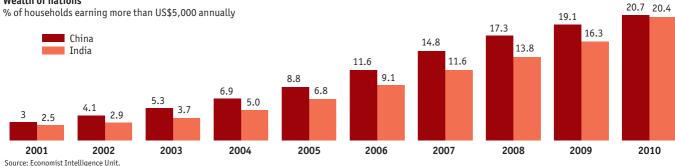
At the same time, very few companies plan not to venture overseas in search of growth. The proportion of revenue accounted for by overseas markets is expected to leap from an average of 30.5% now among the entire survey sample to 41.5% in three years' time. A majority of survey respondents agree that their organisations will prioritise international markets over domestic ones in the coming three years.

Many of these international markets will be mature. Avanade, a technology integrator formed by Accenture and Microsoft, is not alone in seeing particular promise in Japan after a long period of under-investment in information technology (IT). But the biggest opportunities lie elsewhere. Rising demand in emerging markets is identified as the force that will have the greatest impact on the global marketplace over the next three years.

Most of this demand is driven by rising levels of income, consumer spending and economic activity. Relative to developed markets, China, India and other







emerging markets will be poor for a very long time to come. But their spending power is increasing at an impressive lick—the number of households earning more than US\$5,000 annually will more than double over the next five years in China, and will triple in India.

But it is also driven by changing customer behaviour. Consumers everywhere are becoming increasingly sophisticated in their buying patterns, leading to greater product complexity and bigger growth opportunities. "Go to Mexico City. There are people talking about health and wellness and thinking about their beverage consumption," says Mr Drewes at the Pepsi Bottling Group. "In the developed markets like the US, Western Europe and Japan, you might expect this. But it's now also happening in the developing markets such as Mexico, India and China. You're seeing this segmentation in all types of products."

Rising customer demand is forcing rapid change at companies such as Bharat Petroleum, one of India's leading energy companies. "Customer demands are changing continuously due to globalisation, rising affluence and the impact of the media," says Ashok Sinha, the company's chairman and managing director. Bharat Petroleum's brands have been consolidated, premium products launched and customers micro-segmented. Using its vast service

station network, Bharat Petroleum was among the first companies in India to develop smart card technology and today boasts 2m cardholders. By mining this database, the company is becoming

more adept at differentiating (and incentivising) its high-value customers.

The cutting edge of demand is no longer necessarily in the US, especially where technology is concerned. "If you think of anything that is exciting or sexy in "The key word for our business outlook is 'lifestyle investment'. I think the trend for the next 10 years will see people continue to invest in themselves and to think about themselves more."

Robert Naylor, COO, Pacific Coffee

technology development globally—IPTV, mobile, broadband—it is being adopted first, and fastest, in Asia," says Andrew Coward, CTO of Juniper Networks in Asia-Pacific. "The old 'pilgrimage' model of carriers coming to the US from Asia to see what technology is being developed is now the reverse—now everyone is coming to Asia."

Made in everywhere

The growing sophistication of emerging markets as sales destinations is matched by their evolution as sourcing destinations. The cost advantages of offshore volume manufacturing are well-known. China already produces two-thirds of the world's photocopiers, shoes, toys and microwave ovens; half of its DVD players, digital cameras, cement and textiles; one-

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"There are things that other companies can do better than us and these non-core activities are best handled by the experts."

Bronek Masojada, CEO, Hiscox plc

third of its desktop computers; and 25% of its mobile telephones, TV sets and steel.

But competition is growing in less commoditised industries, too. "Traditionally in this

industry, people source from cities like London, New York and Milan. Now, we need to be open-minded and find inspirations from all over the world", says David Riddiford, president of Lane Crawford, a prestigious specialty store with presence in Hong Kong and mainland China.

Services are globalising as well as manufacturing. High-end business processes as well as low-end ones are increasingly sourced internationally. More survey respondents offshore research and development

(R&D) activity—or plan to—than finance and human resources (HR) processes, for example.

Cost remains a principal driver of offshoring decisions, even for higher-value processes. "You have to get your R&D costs down just like every other manufacturing process," says Mike Pangia, President of Nortel Networks Asia Pacific, which has invested in a huge 6,000-person facility outside Beijing as its global centre for technology development. "So you throw more people at the situation to increase the volume and decrease the cost of intellectual property."

But the outsourcing and offshoring debate is no longer defined by costs. Asked which strategies would be most important to cost control over the next three years, respondents scored offshoring and outsourcing of manufacturing and processes low down the list of

Local advantage

Since its inception in 1925, Bell Labs, a wholly-owned subsidiary of Lucent Technologies Inc., has been at the forefront of technology innovation. The organisation attributes much of its success to the diversity of talent it has been able to attract. Over the years, Bell Labs has drawn scientists and engineers from among the best universities in the world.

"About 50% of our scientists were not born here [in the US]. It's not a US-centric company where US citizens need to be trained to work elsewhere," says Dave Bishop, Bell Labs VP of Physical Sciences Research and Nanotechnology Research. "There has always been a steady flow of people from all over the world."

As central European and Asian economies began to flourish, Lucent saw the

opportunity to establish a research and development (R&D) presence overseas. The task was eased by Bell Labs' long history of collaboration with research institutions abroad. Many regulatory and intellectual property issues had already been ironed out by the time Bell Labs built its first offshore research lab in Beijing in 2000.

Locating research laboratories in such far-flung locations (the company also has research facilities in Ireland and India) has several strategic and creative advantages. By using local talent and employing staff and researchers already immersed in local culture, Bell Labs is able to gain a different perspective on technology and how it is used.

"We're trying to recruit local talent and capture local experience," explains Sid Ahuja, Bell Labs VP of Convergence, Software and Computer Science and head of the division's research centre in Beijing. In turn, Lucent is able to implement new technologies and tailor products to the

needs and tastes of local markets.

"In each of these markets, there's a difference—each culture uses the technology differently, depending upon the economies and the kinds of communications desired. For example, in Asia, China and India, the heaviest use of cell phones is for SMS [text] messaging. Over there, it's a real craze. In the US, it didn't take off too well. We're used to paging systems and Blackberries. That brings a very different flavour of things."

Dr Ahuja points out that most new technology applications are not predesigned. Instead they develop from the bottom up. No one envisioned the Internet being used for chat rooms, for example, or search engines like Google. "In the same sense," says Dr Ahuja, "we think most communications are going to grow out of applications people will generate themselves. In order to capture that, you really have to be out in the society."



Coffee to go

Café Coffee Day, a division of the 125-year old Amalgamated Bean Coffee Trading Company Ltd, was among the first to roll out the coffee café concept in India in 1996. Controlling all segments of the industry from seed to brewing, Café Coffee Day is India's only fully integrated coffee company. Today, it is one of India's largest chains, with about 260 cafés, 400 coffee shops, 8,000 vending machines and 400 kiosks. It has revenue of about US\$70m and currently exports US\$20m-25m worth of green coffee beans to Europe each year.

Café Coffee Day now plans aggressively to expand its local market share while taking on the likes of Starbucks in overseas markets. Recently, the company launched its

first European café in Vienna. The choice of Vienna as the first test market outside of India was based largely on Austrians' high per-capita consumption of coffee.

Additionally, Vienna's status as a leading tourist destination is designed to enable Café Coffee Day to increase awareness of its brand.

It is also targeting other Germanspeaking countries. It plans to open two other shops in Vienna and expand into Munich and then Switzerland. "We plan to have 20-25 cafés in Europe within the next 18-24 months in Austria, Germany and Switzerland," says Naresh Malhotra, CEO of Café Coffee Day.

Although Mr Malhotra is enthusiastic about globalisation, "growth has to be controlled because of management bandwidth issues". Café Coffee Day is a fairly flat organisation and is divided into 12 regional offices in India. It adopts a

decentralised approach to managing its operations, except for the opening and shutting of businesses. Employees are heavily incentivised based on quarterly performance reviews.

In terms of branding, Café Coffee Day differentiates itself from global rivals such as Costa, Barista and Starbucks in a number of ways. One is its integrated business model. "No one can get coffee cheaper than us," says Mr Malhotra. Personalisation and adaptation to each market's culture is also essential. "We offer full service instead of self-service and blend our coffee according to what the market wants."

The changing perception of Indian service and manufacturing industries is also turning from a handicap into an advantage. "Our biggest motivator is the emergence of India in the global business place, whereby 'Made in India' is no longer associated with poor quality," says Mr Malhotra.

options.

Offshoring is increasingly driven by other concerns—ensuring business continuity, improving operational quality, and speeding execution. At the end of each day, for example, BT's legal team transmits work to be done overnight by paralegal staff in India, cutting costs and helping to reduce overall cycle times.

Perhaps more important still, offshoring also enables proper support of a globalising customer base. "All large businesses assume that they will serve their customers on a global basis, even if they aren't doing so now," says Mitch Hill, CEO of Avanade. Call centre operators, for example, often need specific and detailed knowledge concerning local customs, regulations and geography. Similarly, product development often needs to be localised in order to reflect the conditions and opportunities in specific markets.

As experience grows, it is becoming clear that certain types of activity are more suited to offshoring and outsourcing than others. "Everybody can outsource service to India and manufacturing to China," says Donald Peterson, President and CEO of Avaya. "You have to do it well. It's a toolset every manager has to have and utilise

when it's right, and not utilise if it has costs."

Globalisation spells threat as well as opportunity, of course.
Geopolitical instability preoccupies many executives. Commoditisation as low-cost producers gain footholds in export markets is another major concern for many businesses.
Increased competitive pressures are

"As the model of the technology market shifts away from selling 'gear' to selling more technical support, professional services and value-added solutions around the gear, all delivered in the local market, having a local presence is critical."

Mike Pangia, President, Nortel Networks Asia Pacific

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the greatest risk that companies face, according to the survey respondents, and competition comes as much from overseas firms as from domestic rivals.

White-faced talk of the scale of competitive threat from emerging markets can easily be overblown. Like their Western counterparts, local enterprises in China and India are largely focused on the opportunities in their own thriving markets. The China market is the main target for the next three years for the overwhelming majority of mainland Chinese companies, according to recent research.¹ The handful of Chinese enterprises going global are either looking to secure a steady supply of energy and other resources or are buying international brands to strengthen their own. They are also mostly in oversaturated and competitive sectors in China, such as household appliances and personal computers.

Technology shrinks the globe

Globalisation largely depends on technology, and advances in technology are seen as the second most critical force affecting the global marketplace. IT evangelism is making a comeback. "The ability to digitise information affordably and reliably, and the ability to move it anywhere you want in the world, is a huge change for every industry", enthuses Andy Green, CEO of BT Global Services.

The convergence of voice, video and data, the so-called "triple play", is particularly important as firms seek to ensure effective communication across borders, companies and time zones. (Some add "mobility" to the convergence equation for the thrill of "four play".) "Technology breaks down geographical borders," says Mr Becker at Cybertrust. "It's all one big system in which data moves back and forth."

The tyranny of demography

As they have done in every *CEO Briefing* survey so far, survey respondents believe that the healthcare and pharmaceuticals industry has the bubbliest prospects. This enduring success is perhaps unsurprising: it is the ultimate non-cyclical industry and its principal customers are governments. As David McGirr, CFO of Cubist Pharmaceutical, observes: "Disease knows no recession."

The industry's rosy prospects are also underpinned by demography. The first of the baby boomers will celebrate their 60th birthdays, the effective retirement age in many

countries, in 2006. An ageing population spells obvious opportunity for healthcare providers and pharmaceutical companies alike.

Financial institutions are also at the coalface of demographic change, as the needs of their customers shift from borrowing to saving for retirement and monetising capital. "Our response to demographic trends is partly going to be focused on product design, helping people translate wealth into income," says Douglas Flint, CFO of HSBC. "And it's partly going to be focused on brand support because as people move more towards savings and security, trust is by far and away the most important thing."

Canada's RBC Financial is also

positioning itself to meet the financial planning needs of an ageing population. "There aren't many places you can go where you can get a full suite, soup-to-nuts service, from getting your taxes done, your will sorted out and your investments looked after, to meeting day-to-day banking needs," says Barbara Stymiest, RBC's COO.

Of course, ageing populations spell threats as well as opportunity. Pensions and healthcare benefits will absorb increasing amounts of boardroom discussion, as companies weigh the need to attract and retain staff against the impact of pensions deficits on balance sheets and as pension trustees exert more influence over corporate decision-making.

1. Domestic companies in China: Taking on the competition, Economist Intelligence Unit, September 2005

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The development and implementation of just-intime supply-chain technologies is another big area of development, not least in industries such as shipping that have previously lagged behind. "The globalisation of manufacturing has added significant complexity to the supply chain," says Mr Lim of NOL. "Increasingly, customers will want to intervene in the process, redirecting shipments as market conditions dictate."

The risks of technology still loom large, of course. Big bets on technology stir unhappy memories of the "There's a technology evolution that is killing distance and permitting the utilisation of resources combined with other resources to create an overall business model."

Donald Peterson, President and CEO of Avaya

downturn of 2000-01. Ambitious IT implementations will often now be instigated by large customers (witness the leadership role of the biggest US retailers in the adoption of radio frequency identification or RFID) or depend heavily on their input.



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Special feature:

How global are global boards?

"If you were to go into any business forum in Europe and America and ask which country is going to be most important in the global environment in the next 25 years, I suspect that a vast majority would say China and the second-highest number might say India," says Douglas Flint, CFO of HSBC. "If you then ask how much do people in Europe and America understand about the history and culture of those countries, the answer would be a negligible amount."

In part, that's because the highest echelons of the corporate world are remarkably homogenous. As part of the research for this report, we analysed the composition of the boards of directors at the 25 largest firms (by market capitalisation) in ten stockmarkets in Amsterdam, Australia, Germany, Hong Kong, London, Milan, New York, Paris, Switzerland and Tokyo. The findings make it clear that most of the world's largest companies have a long way to go before they can claim to be run by truly global boards.

- Across the 250 companies we analysed, only 624 board members out of a grand total of 3,352 executives, or 18.6% of the total, were different in nationality to the company they steered. In every market we studied, the overwhelming majority of board executives came from the country where the firm was listed.
- The Swiss exchange was the most cosmopolitan, with 36% of board members coming from overseas and an average of 3.7 nationalities on the board. Conforming to stereotypes, companies listed on the Tokyo exchange were the most insular, with only 6.8% of board members from overseas. The New York Stock Exchange, home to some of

the world's most global companies, scarcely did better—only 38 board executives out of a total of 334 were from overseas. Companies listed on the London Stock Exchange were most likely to have a foreign national on the board, with an average of 4.3 nationalities.

- Some nationalities are much more likely than others to find their way onto the boards of foreign companies. US nationals are the most widely dispersed, followed by UK executives. European executives are most likely to sit on the boards of other European companies. China and India may be the world's most exciting long-term growth markets but they boast a paltry six board members apiece across the entire sample.
- Variations between industries are less significant than between geographies. Of the industries represented in the sample, professional services firms are most likely to have a foreign national on their board (28% of board members are foreign), and automotive firms least likely (14%).

Cosmopolitan: Not in voque

Does it really matter whether boards of directors represent a spread of nationalities? After all, all of the companies in the sample are already large and successful firms—they haven't obviously suffered from

failures of cosmopolitanism. Even so, a majority of executives expect their senior management teams to become more international, and there are several reasons to believe that the globalisation of boards offers important advantages.

Better decisions. The biggest single challenge associated with running a global company, in the eyes of survey respondents, is understanding customers in multiple territories. As overseas markets become ever more important, boards must be able to take informed views of the consequences of their actions. Even one board member with some local insight is better than none.

Improved lobbying clout. Having a national on the board can be an important asset in dealing with governments in more regulated emerging markets such as China, and in countering perceptions of foreignness.

More motivated employees. Finding high-quality people in multiple territories is another major headache for global companies. The chances of attracting and retaining talented staff is enhanced if they can see that career opportunities stretch all the way up to the top of the company. Knowing that senior vice-president is as far as non-nationals ever get in the organisation is a recipe for demotivated global staff.

Stock exchange	Aggregate number of people on the boards of relevant companies	Aggregate number of board members with overseas nationality	% of board members with overseas nationality	Average number of nationalities on all boards
Swiss Stock Exchange	248	90	36.3	3.7
Amsterdam Stock Exchange	238	83	34.9	4.1
London Stock Exchange	348	103	29.6	4.3
Hong Kong Stock Exchange	352	104	29.6	2.9
Paris Stock Exchange	377	72	19.1	3.5
Milan Stock Exchange	377	47	12.5	2.3
New York Stock Exchange	334	38	11.4	2.4
Australian Stock Exchange	241	22	9.1	2.0
Deutsche Börse	468	40	8.6	2.4
Tokyo Stock Exchange	369	25	6.8	1.7



Corporate strategies

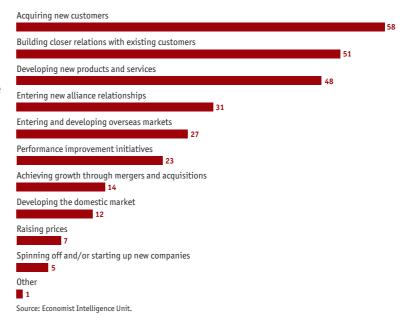
iven how optimistic survey respondents are about the prospects for the global marketplace, it is no surprise that revenue growth and increasing market share outstrip lowering the cost base as strategic priorities. In a shift from previous years, the acquisition of new customers is seen as more important to revenue growth than building closer relations with existing customers. Many of these customers will be abroad—twice as many respondents will focus on developing overseas markets to drive revenue growth as on the domestic market.

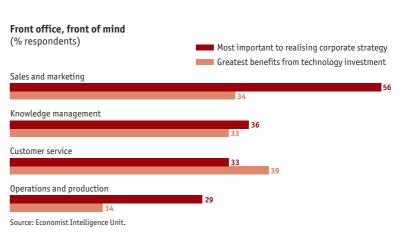
At home or abroad, old customers or new, the focus on revenue growth is reflected in an emphasis on the sales and marketing functions. More than half of the executives surveyed believe that sales and marketing will be the functions that are most important to realising their organisation's strategies; and improved sales and marketing is the top operational priority for the survey group. Unsurprisingly, given rising competitive pressures and increasing customer demands, customer service comes high up the corporate agenda too.

Much technology investment will be targeted at these front-office areas over the next three years. Mr Hill believes that there are better returns from technology investment in the customer-facing Internet-based infrastructure than in back-office systems, citing work that Avanade did to enable a major US airline to notify its customers about spare capacity on flights. Mr Drewes at the Pepsi Bottling Group describes how handheld devices have turned from simple order management tools into active sales devices, telling salespeople which promotions and price points to use in selling to individual store managers.

New frontiers

Which of the following strategies will be most important to driving revenue growth at your company over the next three years? Select up to three options. (% respondents)





Y

CEO Briefing

Corporate priorities for 2006 and beyond

"Our mission statement is putting the client first in everything we do. In order to serve our clients well, we have to be innovative in terms of meeting their current and future needs."

Barbara Stymiest, COO, RBC Financial

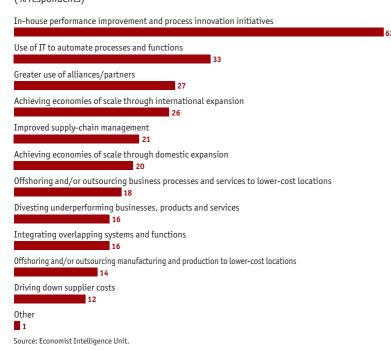
Organic growth is the preferred route for most respondents. There will be a heavy premium on innovation at companies large and small. "Like a big ship that requires much more lead time and effort to change course, we may not be as nimble as smaller companies," says

Lee Hsien Yang, SingTel Group CEO in Singapore, which has set up the SingTel Group Innovation unit to build new revenue streams. "However, with size comes the ability to mobilise more resources on the ground towards understanding customers' needs better and to undertake research and development of innovative products, services and business models."

There's still a cautious approach to M&A activity

No margin for error

Which of the following will be most important to lowering costs at your organisation over the next three years? Select up to three options. (% respondents)



among many executives: only 14% see M&A as a fundamental plank of their growth strategy. Alliance relationships are favoured by 31% of respondents, and are particularly useful weapons for smaller firms. "It's a way for us to get global reach," says Mr McGirr at Cubist Pharmaceutical. "You've got to hire people with local knowledge and that would be difficult for us to do as a small company."

Cost control

Cost efficiency will remain a central priority for every company, of course. But the focus for many will be less on lowering costs and more on controlling them as firms pursue topline growth. Scalability and productivity will be particular watchwords. "You need to be able to scale your business anytime, anywhere, to win in this global market," says Nick Yang, CEO of Cyberport Management Company in Hong Kong. "Most people know how to make money, but very few know how to make money and scale their business."

Outsourcing continues to be an important source of cost savings: 47% of survey respondents expect to outsource more non-core activities over the next three years. But this is only one of many strategies mentioned by respondents and interviewees.

- **Procurement.** The procurement function is growing in importance as a means both of integrating more tightly with key suppliers and driving greater efficiencies. "We're always looking to improve our vendor relationships and contracts, from technology vendors to real estate suppliers, maximising the value of every dollar that we have to spend," says Barbara Stymiest, RBC Financial's COO.
- Performance and process improvement. A large majority of respondents will focus on in-house process and performance improvement to drive down costs.
 Procurement itself is an area of focus for Steve Westly,



Controller of California, whose state government can take up to 18 months to complete bigger purchases. "We need a streamlined procurement process so we can be an effective buyer of goods," he says, citing the example of the Bay Bridge in San Francisco. "We changed our mind on the design a few times and went back and forth. The cost of concrete and steel skyrocketed and the price tag of the Bay Bridge expansion increased by a couple of billion dollars."

- Rationalisation. "The focus should be on percapita productivity," says Bill Padfield, Datacraft Asia's CEO. "Never mind the bottom line—you'll get there." Rationalising its contact centres—closing four in the region and opening one in Bangalore—has helped boost the company's services gross margins from 22% to 30% within the space of 12 months. Per-capita productivity has shot up; headcount increased by just two persons in the year to end-September 2005, while turnover has soared by US\$100m.
- Automation. Many will use technology to automate and streamline processes. At Halliburton, for instance, electronic invoicing has significantly reduced receivables and improved the firm's cash position. Many of the company's HR functions have moved online. Logistics is next in line. "Logistics is one of our largest expenses, and with the ability to maximise the yield of our people and equipment, we expect substantial savings," says Mr Lesar, the company's CEO. And where the private sector leads, government is fast following. "The basic provision of government services will be made better through use of technology," says California's Mr Westly.

Running the global organisation

Globalisation sets senior executives a new set of management challenges. Operationally, the task of managing teams effectively across borders is a major

test of organisational structure and employee capabilities. "Professionals have to be trained to manage people and teams differently," says Mr Coward of Juniper Networks. "The shift has been most profound for our development managers, who once were stationary product line managers, but now have to spend all their time on planes, talking to development teams and talking to demanding clients."

Recruitment and retention of high-quality people across multiple territories is another major headache, particularly as the war for talent heats up in specific hotspots in emerging markets. Employers are planning to pull a number of levers, from performance-based compensation to training and development programmes, to ensure that their organisations have the right employee profile. "We have been focusing on

the attraction, retention and systematic development of talent for leadership positions, both locally and in the region, as a key priority for the company," says Lee Hsien Yang of SingTel Group.

Improving the appeal of the company culture and working environment is another imperative. "A relaunch of the company brand, providing a new cooler image, also helps bring people to the table,"

says Datacraft Asia's Mr Padfield. At some of Datacraft's company events, "slow death by PowerPoint has been replaced by shorts and swimwear at the beach."

But global companies will need to address two major issues if they are to become employers of choice for the brightest and the best.

One is the glass ceiling preventing foreign nationals from reaching the very top of large companies (see page 14). Peter Altabef, President and CEO of Perot Systems, an IT services firm, argues that

"You need to find the right company culture to attract people into the company. The management has to have the vision to define the right set of characteristics. In the case of Google, they wanted to create a team of geeks and it worked."

Nick Yang, CEO, Cyberport Management Company



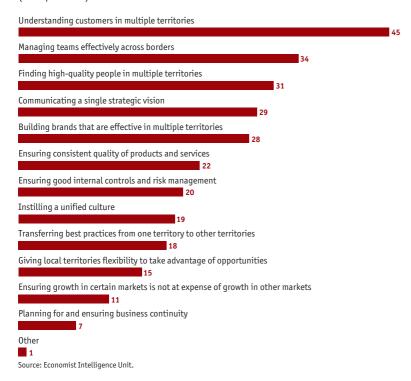
CEO Briefing

Corporate priorities for 2006 and beyond

Management, multiplied

What will be the greatest challenges to running a successful global company over the next three years?

(% respondents)



the wholesale integration of staff, regardless of location and role, is vital. "All staff locations have equal opportunity for involvement, progression and senior representation," he says.

Another is the performance of the HR function.
Asked to rate the performance of various areas of their

"You have to be incredibly flexible and empathetic, yet more rigid in other ways, because you'll have people trying to tell you all the reasons why you can do that in New York but you can't do that in Moscow."

Alfred Drewes, CFO, The Pepsi Bottling Group

business, survey respondents gave HR an emphatic thumbs-down. Alone of the functions under review, more people rated the performance of HR bad than good. No other function—not even the notoriously unlovable IT department—came close to being this unappreciated.

Central issue

One myth of globalisation is that it means uniformity. Understanding customers in multiple territories is the greatest of all the global management challenges, in the eyes of survey respondents.

Decentralisation is one obvious answer. Almost half the respondents believe that their organisations' decision-making processes will become less centralised over the next three years. But some elements of a successful company have to be set at the centre.

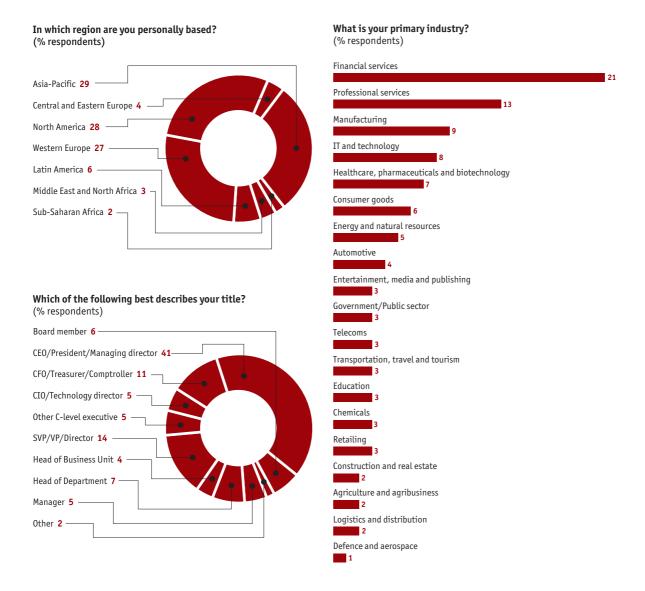
Many executives point to the importance of identifying and instilling a unified company culture, for example. At Moog, a manufacturer of precision controls and components, keeping all employees aligned with a global culture is given high priority. "This involves an ongoing effort to build the brand internally, assign senior managers to be culture evangelists and invest as much as possible in training initiatives," says Ashis Bhattacharya, the firm's international marketing director.

Others point to the need to ensure consistency in operating and quality standards. "It doesn't matter if you're in Minneapolis or Namibia, the truck's got to get out of the warehouse at five in the morning and it's got to have the right SKUs [stock-keeping units] on it," says Mr Drewes. "When the product comes off the production line, it has to meet worldwide quality standards."

Similarly, at Coach, it takes a year on average for a factory to meet the company's quality standards, which reach right back to the sourcing of raw materials from tanneries and mills.

The secret of global management, in other words, lies in knowing when to respond to local conditions and when to insist on uniform practices. Achieving the right blend of flexibility and rigidity will be the hallmark of successful leadership.

Appendix: survey results

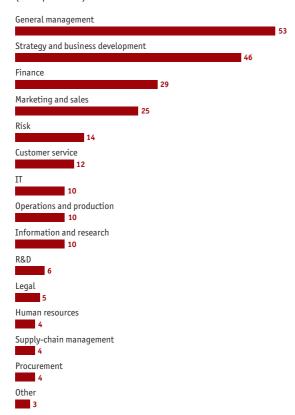


Appendix: survey results

CEO Briefing: Corporate priorities for 2006 and beyond

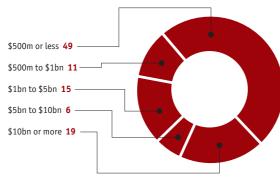
What are your main functional roles? Select up to three functions

(% respondents)



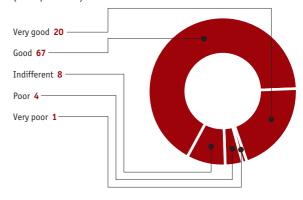
What are your organisation's global annual revenues in US dollars?

(% respondents)



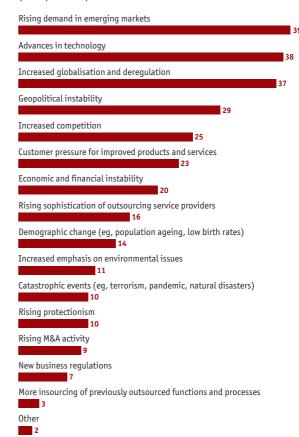
How do you view the prospects for business in the global marketplace over the coming three years?

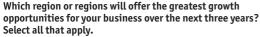
(% respondents)



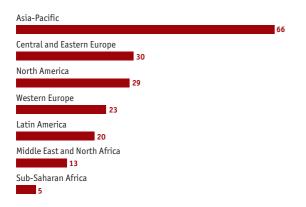
In your opinion, which of the following forces will have the greatest impact on the global marketplace over the coming three years? Select up to three options.

(% respondents)

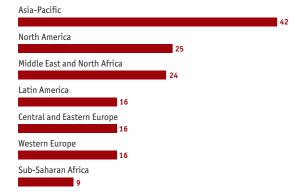




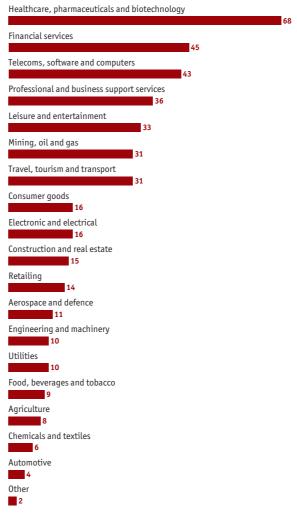
(% respondents)



Which region or regions will offer the greatest risks for your business over the next three years? Select all that apply. (% respondents)

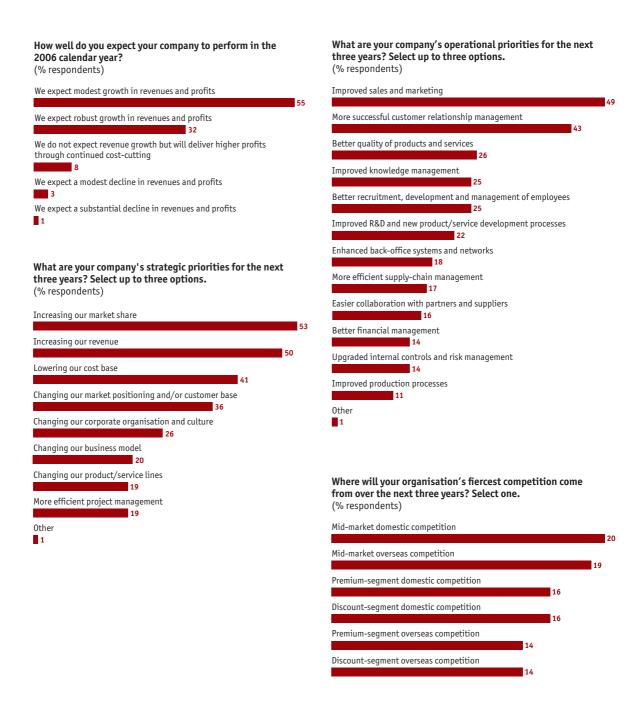


Which industries do you believe enjoy the best growth prospects over the coming three years? Select all that apply. (% respondents)



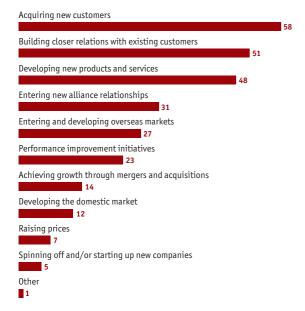
Appendix: survey results

CEO Briefing: Corporate priorities for 2006 and beyond



Which of the following strategies will be most important to driving revenue growth at your company over the next three years? Select up to three options.

(% respondents)

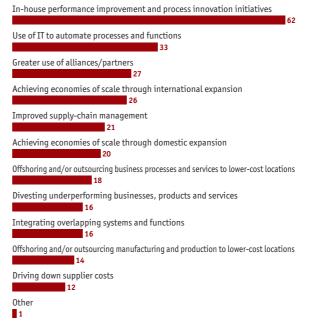


Approximately what proportion of your organisation's revenue is accounted for by overseas markets now and what proportion will be in three years' time? (%; average of all responses)



Which of the following will be most important to lowering costs at your organisation over the next three years? Select up to three options.

(% respondents)



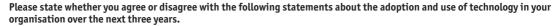
What will be your organisation's preferred method for developing technology-based business solutions over the next three years? Select one.

(% respondents)



Appendix: survey results

CEO Briefing: Corporate priorities for 2006 and beyond





What are the greatest risks your company will face over the next three years? Select up to three options.

(% respondents)

Failure to innovate

37

Inability to respond quickly to changing market conditions

37

Difficulty attracting and retaining talent

36

Macroeconomic and financial risk

24

Geopolitical and security threats

16

Rising employee wage and benefit costs

14

Inability to manage start-ups, alliances and acquisitions

12

Failure to meet regulatory and compliance obligations

11

Information security risk

8

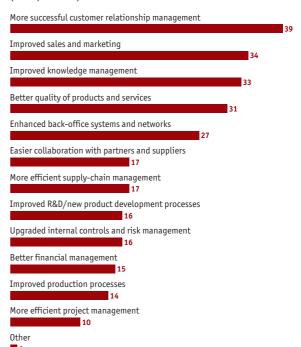
Bankruptcy and credit risk

6

Other

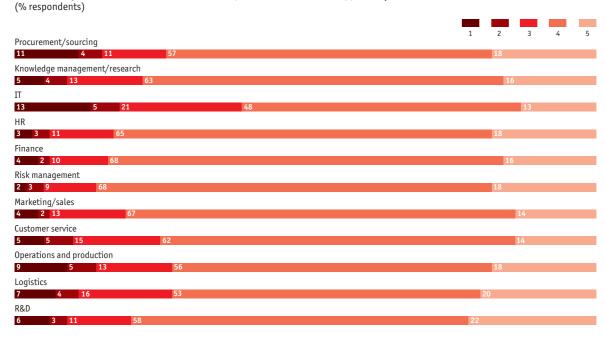
In which areas of the business do you expect to see the greatest benefits from investment in technology over the next three years? Select up to three options.

(% respondents)

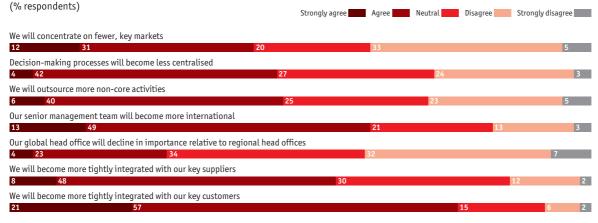


Which functions, if any, does your company offshore now and which does it plan to offshore within the next three years?

1=Currently offshore. 2=Currently offshore, but plan to bring back onshore within three years. 3=Do not offshore, but plan to do so within three years. 4=Do not offshore, and do not plan to offshore. 5=Not applicable/Don't know.



Please state whether you agree or disagree with the following statements regarding how the structure of your business will evolve over the next three years.

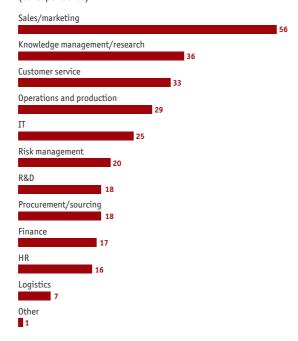


Appendix: survey results

CEO Briefing: Corporate priorities for 2006 and beyond

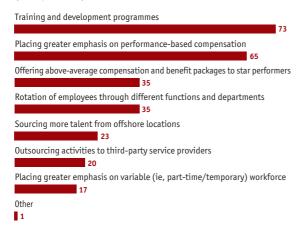
Which of the following business functions will be most important to realising your corporate strategy over the next three years? Select up to three functions.

(% respondents)



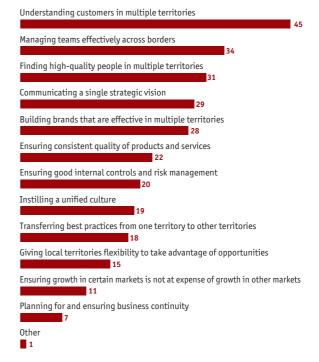
How will your organisation ensure that its employees have the skills required to meet its strategic objectives over the next three years?

(% respondents)

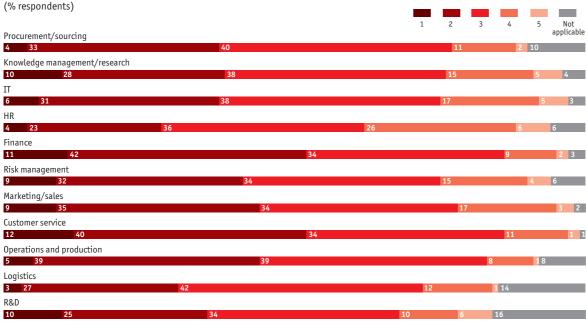


What will be the greatest challenges to running a successful global company over the next three years, in your view? Select up to three options.

(% respondents)







Please state whether you agree or disagree with the following statements about your organisation over the coming three years.



Although every effort has been taken to verify the accuracy of this information, neither the Economist Intelligence Unit nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in this white paper.

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