# Setting a smarter course for growth: Chemicals

Few, if any, business leaders will forget the past 18 months. The global recession was the most serious many have ever experienced. Setting a smarter course for growth, the PricewaterhouseCoopers 13th Annual Global CEO Survey, looks at what measures CEOs are taking in response to recession, how they view the post-crisis business environment and what changes they are making to adapt their organisations. We surveyed 1,198 business leaders from around the globe, including 46 chemicals sector CEOs, from September to November 2009 and conducted further in-depth interviews with 27 CEOs.

What did we learn? Global business leaders had to make dramatic changes to their organisations, including reducing headcount, selling off assets and preserving cash. That painful experience has led many CEOs to rethink their approach to risk in an increasingly volatile world. It's abundantly clear how quickly a contagion can spread, and how damaging it can be. CEOs now know they need to plan for volatility.

To do that, CEOs have begun to reshape not only their strategies, but also their capabilities. It takes strategic flexibility to address risk at a deeper level. And it takes organisational agility to respond to volatility. That doesn't mean CEOs will become risk averse; rather, they may become more deliberate in examining alternatives, formulating a Plan B, and ensuring they can execute on it. The result, we believe, will be a smarter course for growth, a resilient path that will produce a sustainable long-term upside for organisations – while accounting for a range of economic, social and environmental forces that comprise both threats and opportunities.

## Sector Key Findings

**Ready to strike a deal**

The number of chemicals companies engaging in cross-border mergers and acquisitions is substantially higher than it is in other sectors. Thirty-three percent of chemicals CEOs have completed at least one such deal within the past 12 months and 46% plan to do so within the next 12 months.

**Looking to Asia to lead the way**

The chemicals industry is particularly strong in Asia and North America; 67% of chemicals CEOs head companies with operations in Asia and 59% head companies with operations in North America (compared with 42% and 36%, respectively, of the total survey sample). However, most chemicals CEOs, like their peers in other sectors, expect Asia to prove more profitable than North America over the next 12 months; 84% anticipate doing more business in the former, while only 52% anticipate doing more business in the latter.

**Innovation key to growth**

Chemicals CEOs continue to invest in new product innovation. Sixty-five percent plan to increase their expenditure on R&D over the next three years, which is more than in any other sector except entertainment & media (at 74%). Indeed, 30% of chemicals CEOs plan to make 'significant' increases in the amount they invest.

## Talking Points

How are you evaluating acquisition targets?

Are you well-positioned to take advantage of growing markets in Asia?

Will you be able to keep up with competitors who are increasing spend on R&D to drive innovation?

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## Sector Key Findings

**Backing tomorrow's leaders**

Eighty-three percent of chemicals CEOs also plan to spend more on leadership and talent development over the next three years, and 30% of these CEOs intend to spend 'significantly' more.

**Cost-cutting and infrastructure improvements planned**

Cost-cutting and infrastructure improvements are high on the agenda of chemicals CEOs, too. Eighty-seven percent aim to invest more in cost-cutting initiatives over the next three years. Similarly, 76% aim to invest more in upgrading their strategic technological infrastructure in order to facilitate modern manufacturing and logistics processes.

**Major changes in the offing**

More chemical CEOs -- 39% -- anticipate a major change in their company's organisational structure in the wake of the economic downturn.

**Inflation, protectionism, exchange rates seen as major risks**

Chemicals CEOs are much more concerned about inflation and about possible protectionist tendencies of national government than their peers in other sectors; a full 63% are somewhat or very concerned that both of these factors may prove a threat to growth (compared to 40% and 49%, respectively, of the overall sample). An even larger number -- 76%-- are also worried that exchange rate volatility may pose a threat, compared to just 58% of the survey sample overall. These findings reflect the sector's strong exposure to macroeconomic trends.

**Energy costs remain a major challenge**

Chemicals CEOs are much more likely to be concerned about energy costs (72% vs. 53%) than their peers across the overall sample. This result is based primarily on concerns over oil prices, reflecting the importance of petroleum as a raw material for many products, as well as the energy-intensive nature of the sector's production and transport processes.

**Low-cost competition rings alarm bells**

Seventy percent of chemicals chief executives express concern that low-cost competition may threaten growth, compared to 54% of the survey sample overall.

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|---|---|
| Rethink | Reporting lines |
| Reshape | The organisation |
| Result | Simpler structures |

## Related Talking Points

Do you have robust programmes in place to foster key research talent and groom tomorrow's leaders?

Is your strategic technology infrastructure robust enough to handle globally networked supply chains and increasing security requirements?

Have you optimised your organisational structure?

Do you have a full picture of how oil price volatility could impact your profitability?

Are you responding to the threat of low-cost competition? What actions are you taking to position your business?

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## Sector Key Findings

**Resource scarcity, terrorism, supply chain security are key issues**

Chemicals CEOs are also more concerned about a number of other threats to business growth. They are much more likely to be somewhat or extremely concerned about future scarcity of natural resources (63% vs. 35% overall), as chemical producers rely on natural resources to supply raw materials for their products. Further, over half (54% vs. 34% overall) see security of the supply chain as an issue, while 43% expressing concern, compared to 30% of the sample overall. Forty-three percent worry about terrorism, compared to 30% of the sample overall. Concerns over terrorism and security of the supply chain stem from the reality that many chemical products can be dangerous to transport and store.

**Climate change and pandemics also cause for concern**

Other systemic risks also raise red flags for sector CEOs. Another 50% (vs. 37% overall) are concerned about climate change. Pandemics and other health crises have also moved up the list, with 48% expressing concern, compared to 35% overall.

**Bank financing seen as more accessible**

More chemicals CEOs, around 30%, anticipate that access to bank financing and credit will actually become easier after economic recovery sets in, compared with before the economic crisis.

**Sector CEOs believe systemic risks can be addressed**

Many chemical companies are developing products to help companies in other industries use resources more efficiently and combat climate change, and chemicals CEOs are accordingly much more likely than their peers to believe that efficiency of natural resource usage will improve in the future (59% vs. 38% of the overall sample), despite their view that scarcity of resources poses a risk. They are also more likely than their peers in other sectors to believe that government and business efforts will mitigate key global risks like climate change, terrorism, and financial crises.

**CSR will be a top priority for tomorrow's consumers**

Chemical CEOs are even more convinced than their peers that consumers will place a higher emphasis on a company's environmental and corporate responsibility practices before making a purchase (76% vs. 64% overall). They are less convinced that consumers will play a more active role in product and service development, though (48% vs. 60% overall), and also not as convinced that consumers will seek out familiar brands.

| | |
|---|---|
| Rethink | Systemic risk |
| Reshape | Collaboration |
| Result | A better world |

## Related Talking Points

How well are you managing risks related to resource scarcity?

Are you satisfied with your company’s efforts to promote and publicise corporate social responsibility practices?

13th Annual Global CEO Survey

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## Sector Key Findings

**Boards ramp up engagement around compliance, strategy**
Chemical executives are more likely to believe that the boards of directors are more engaged with ensuring regulatory compliance as a result of the economic crisis (65% vs. 52% of the overall sample). They are also more likely to see the board providing constructive engagement with the management team on strategy (72% vs. 61% overall).

**Trust in the sector undamaged by the downturn**
Chemical executives do not believe that the economic crisis damaged trust in their industry. Not one felt that the industry saw a significant fall in public trust, and only 4% believed trust suffered slightly. More than a third (35%) actually feel that public trust in their sector has increased – they were more positive on this front than any other sector in our survey.

**Poverty likely to continue**
Chemical CEOs are less sanguine about the prospects for social equality. Eighty-three percent feel the gap between rich and poor people within nations will increase (compared to 68% of the overall sample).

## Related Talking Points

To what extent are you engaging your board around compliance or strategy issues? Could you be doing more?

## Learn more

Please see www.pwc.com/ceosurvey to access the full PricewaterhouseCoopers 13th Annual Global CEO Survey, Setting a smarter course for growth, and supporting Visual Story and In-depth CEO Story documents, along with other online resources.

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