

# Government and the Global CEO

## Redefining success in a changing world



**74%**

of CEOs are concerned about geopolitical uncertainty

**69%**

of CEOs believe government and regulators have a high or very high impact on their organisation's strategy

**1,409**

CEOs interviewed in 83 countries and 41 government representatives / state backed CEOs

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# *Foreword*

*Welcome to 'Redefining success in a changing world: Government and the Global CEO', in which PwC assesses the critical 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 deepened the research for PwC's 19th Annual Global CEO Survey<sup>1</sup> by including a range of interviews with senior decision makers in governmental organisations around the world.

Our aim in doing so is to compare and contrast the views of business and government, understand the policy and delivery responses for the challenging conditions of today, and tomorrow, and contribute to greater understanding and stronger relationships between the public and private sectors.

### **Redefining success**

Last year, PwC's 18th Annual Global CEO Survey<sup>2</sup> found that leaders were making changes across their organisations to make their businesses fit for the future, with CEOs recognising the increasing importance of building and sustaining trust in society.

So, what are we exploring this year? New political, economic and social models are prompting new ways of doing business across the world. The 19th Annual Global CEO Survey looks at how organisations are responding to changing societal expectations of business and how leading organisations are responding by: reshaping the way they define success; redefining their corporate purpose, including the broader impact they have on society; and measuring and reporting on their wider business impacts.

In turn, with our public sector interviews, we have been seeking to understand better both the policy and public sector delivery responses to these issues and also how public sector organisations themselves can get ready for tomorrow's challenges by:

- Redefining their purpose to drive success and channel their resources.
- Collaborating with business to build the foundations for growth.
- Measuring success and impact in smarter ways.

This report also looks at confidence, concerns and opportunities for growth and, in particular, the distinctive views of CEOs of state backed organisations.

We would like to thank not only the 1,409 company leaders across the world who shared their views with us for PwC's 19th Annual Global CEO Survey, but also the 41 government representatives and state backed CEOs who took the time to share their thoughts in depth with us.<sup>3</sup> We are grateful to them for their cooperation and insights.



A stylized, handwritten signature of Rollie Quinn in black ink.

**Rollie Quinn**

Global Government & Public Services Leader



A handwritten signature of Nick C Jones in black ink.

**Nick C Jones**

Director, PwC's Public Sector Research Centre

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# Summary



Over-regulation remains the top concern for business while geopolitical uncertainty, exchange rate volatility, skills availability, fiscal deficits/debt and an increasing tax burden are also clouds on the horizon. Seven in ten or more of the CEOs surveyed are ‘somewhat’ or ‘extremely’ concerned about each of these issues.

Looking at business priorities for government, CEOs have clear views: a clearly understood, stable and effective tax system (56% of those surveyed) is top of their wish lists for government attention. Next comes a skilled, educated and adaptable workforce (53%), followed by adequate physical and digital infrastructure (50%).

In addition, CEOs see the need to pay attention to wider stakeholder needs, with government and regulators only second behind customers in their impact on organisations’ strategies. This may provide public sector bodies with more opportunity to work with business to co-produce the societal outcomes that the public wants and needs.

In response to these findings, we believe that there are four areas for attention in the public sector.

## ***Redefine purpose and restore public finances: delivering better for less***

Fiscal deficits remain in the spotlight, with 71% (72% last year) of CEOs surveyed ‘somewhat’ or ‘extremely’ concerned about this threat.

The challenge remains for public sector organisations to ‘do better for less’ and **strategically manage their costs** in the face of budgetary pressure and ever increasing demands on public services.

This requires a fundamental reassessment of the public sector cost base in relation to the outcomes to be achieved. In this context, it is

essential to take a fundamental look at the **purpose** of public bodies, invoking a **zero-based strategic review** of the activities, costs and assets of public bodies. This requires finance functions in governments to step up and play their role, delivering insights through analysis.

In addition, there is a need to build the **digital capability** of public sector organisations as well as the agility and resilience to cope with future changes. This includes **retaining and attracting the talent** needed, often under severe competition from the private sector at a time of public sector cuts and pay restraint.

### **Actively own and manage state backed organisations**

We know that State Owned Enterprises (SOEs) are an influential force globally.<sup>4</sup> And this year, 12% of the CEOs surveyed lead organisations with some form of state backing.

A significant difference for state backed CEOs is who they see as having the biggest impact on their organisation's strategy. In contrast to the private sector where the customer is king, government and regulators have a 'high' or 'very high' impact for 87% of state backed CEOs.

It's therefore important that SOEs are **actively owned and managed** by their state backers. This requires those undertaking key roles in state backed organisations, particularly the board and executive leadership, to have:

- **Clarity:** a clear understanding of the purpose and objectives of the SOE and their role in delivering this.
- **Capacity:** the time and resources to conduct their roles well.
- **Capability:** required and relevant expertise and experience to steer and manage the state backed organisation.
- **Commitment to integrity:** serving citizens to create societal value.

In addition, state ownership status should be continually monitored and evaluated to ensure that public value continues to be delivered.

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# 12%

of the CEOs surveyed lead organisations with some form of state backing

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# 76%

of CEOs agree that in future business success will be defined by more than just financial profit

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### **Build the foundations for growth**

For over three quarters of the CEOs surveyed this year having a **skilled, educated and adaptable workforce** is the outcome which to them is most important to society today and is also the outcome which is the most important priority for business itself to deliver.

Acquiring the right skills is clearly an essential prerequisite to the desired outcomes for citizens, particularly new entrants to the labour force, of getting a job and earning a decent income. But another key issue is **matching people to opportunities** so that the right skills are in the right places at the right time.

In addition, business needs **effective, efficient and sustainable infrastructure** – the backbone on which economic success and prosperity can grow. In particular, transport, which is so important for connectivity nationally and internationally, needs particular focus.

### **Measure success in new ways**

As the saying goes, 'what gets measured gets done'. The 19th Annual Global CEO Survey looks at the ways in which CEOs are redefining business success. Around three quarters (76%) of CEOs agree that in future business success will be defined by more than just financial profit; and many agree that they should be doing more to measure and communicate their impact on wider stakeholders. The starting point for CEOs is to redefine success fundamentally such that **creating societal value** is part and parcel of a profitable enterprise.

This offers an opportunity for public bodies as well: to engage with business and support a shift to measuring and managing performance over the longer term which rewards a 'whole of enterprise' and 'whole of society' view, focused on outcomes and impact.

# A more connected, yet divided, world?

CEOs who responded to the 19th Annual Global CEO Survey have become less optimistic about global economic growth prospects. Nearly half of CEOs surveyed believe that global growth will plateau over the next 12 months. Over-regulation remains the top concern for business while geopolitical uncertainty, exchange rate volatility, skills availability, fiscal deficits/debt and an increasing tax burden are also clouds on the horizon.

## 74%

of CEOs are concerned about geopolitical uncertainty

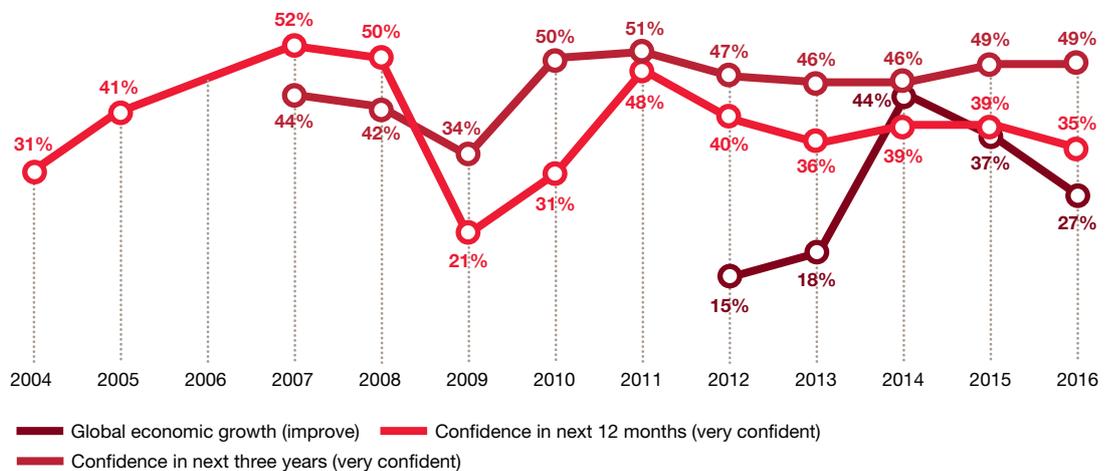
### How confident are CEOs?

Over the past year, business sentiment seems to have become further becalmed with 49% of CEOs who responded to this year's Survey believing that global economic growth will stay the same over the next 12 months, while those thinking it will improve has fallen to 27% (see Figure 1).

It also seems that, unlike last year, lacklustre economic growth expectations and rising concerns about potential threats (discussed later) are having an impact on CEOs' confidence in their own short term growth prospects.

**Figure 1 CEO confidence in revenue growth**

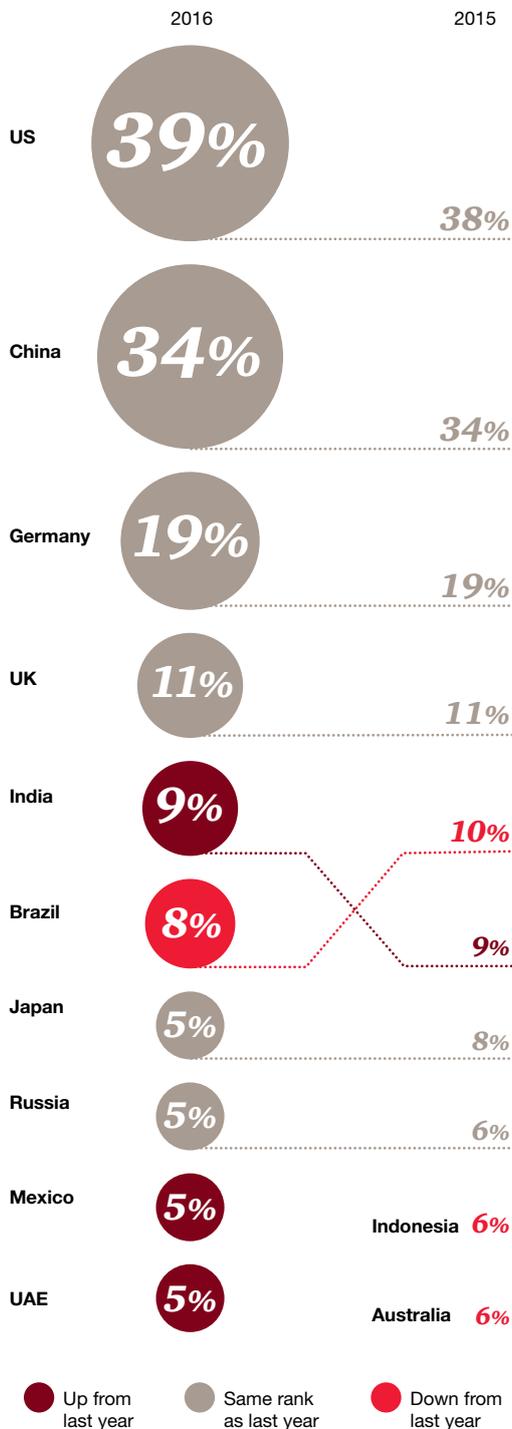
Q: How confident are you about your company's prospects for revenue growth over the next 12 months and next three years? Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



Note: From 2012–2014 respondents were asked 'do you believe the global economy will improve, stay the same or decline over the next 12 months'  
 Base: All respondents (2016= 1,409; 2015= 1,322; 2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084)  
 Source: PwC 19th Annual Global CEO Survey

**Figure 2 Top ten attractive markets for growth**

Q: Which three countries, excluding the one in which you are based, do you consider most important for your overall growth prospects over the next 12 months?



Base: All respondents (2016= 1,409; 2015=1,322)  
Source: PwC 19th Annual Global CEO Survey

There are, however, some regional differences in sentiment. Short-term confidence has fallen most dramatically in North America, Latin America and the Middle East. However, in the long term (next three years) confidence is highest in North America and the Middle East.

**Where is growth coming from?**

CEOs see growth opportunities emanating from diverse places. Mature markets are generally in favour, notably the US, which has remained ahead of China as the most important country for the overall growth prospects in the next 12 months for the CEOs surveyed. Meanwhile, Mexico and UAE make the top ten this year (see Figure 2).

CEOs view Mexico as the most important emerging market (excluding the BRICs) for overall growth, closely followed by UAE. But the marketplace remains uncertain and volatile with about two thirds of the CEOs surveyed identifying that there are more threats to growth while a similar (slightly lower) proportion see more opportunities compared to the 18th Annual Global CEO Survey (see Figure 3).

**Figure 3 Uncertain times?**

Q: To what extent do you agree or disagree with the following statements about threats and opportunities facing your business?

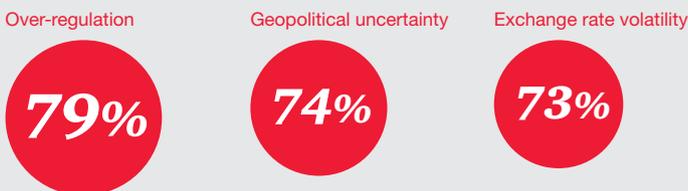


Base: All respondents (2016= 1,409; 2015=1,322)  
Source: PwC 19th Annual Global CEO Survey

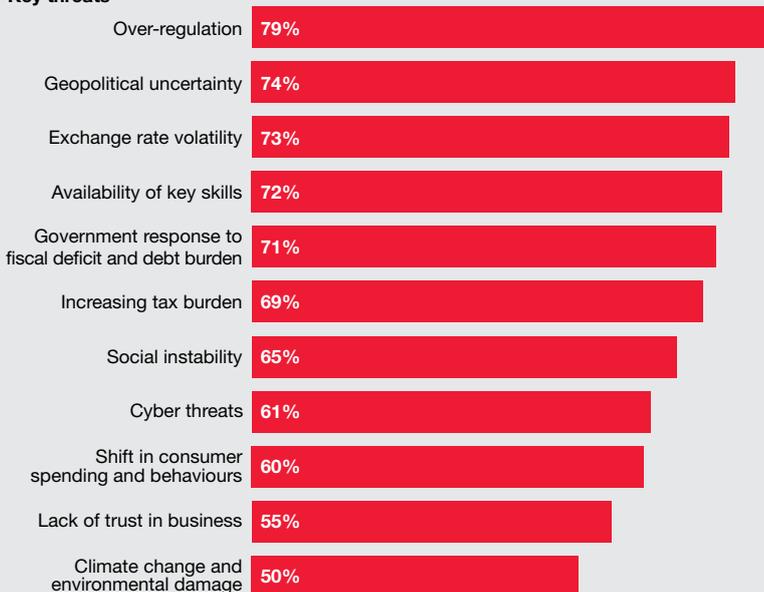
**Figure 4 Threats to business**

Q: How concerned are you about the following potential economic, policy, social and business threats to your organisation's growth prospects?

**Top-three threats**



**Key threats**



**Top risers since 2015**



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

**Where are the clouds on the horizon for CEOs?**

CEOs' level of concern has again increased across a number of potential threats this year. But CEOs still see the enduring issue of over-regulation as the top threat to their growth prospects this year, with 79% of CEOs concerned. (see Figure 4).

Over-regulation is a particular problem for CEOs surveyed in companies with over \$10 billion turnover (88% of CEOs surveyed) and for CEOs in Latin and North America as well as Western Europe (all with eight in ten or more of CEOs surveyed).

In addition, 42% of CEOs surveyed believe unclear or inconsistent standards or regulations are a barrier to responding to stakeholder expectations. The call therefore grows ever louder for a smarter approach to regulation (see 'Smarter regulation' box).

Added last year as a new threat, in this year's Survey geopolitical uncertainty has also quickly risen to prominence and is now seen as a top-3 threat. This is particularly the case in the Middle East (94% of CEOs surveyed) and Central and Eastern Europe (86%) where it is the top threat in both of these regions, perhaps reflecting the levels of tension inherent in regions where there is conflict. Social instability has also seen the biggest surge in concern over the past year (by five percentage points globally) and is also the second biggest concern for CEOs surveyed in the Middle East (91%).

Geopolitical uncertainty, in turn, impacts on business investment and locational decisions. Indeed, 84% of the CEOs surveyed in companies with over \$10 billion revenues in the last year, and those therefore most likely to have the greatest international exposure, appear to be 'extremely' or 'somewhat' concerned by this threat.

In general, CEOs appear to be increasingly concerned across the majority of potential threats (compared to previous years). With geopolitical uncertainty on the rise, and social instability seeing the biggest increase, the conclusion might be drawn that business is increasingly troubled.

### Smarter regulation<sup>5</sup>

For regulation to be smarter it needs to be proportionate, accountable, consistent, transparent and targeted. In particular, a smarter approach to regulation needs a focus on:

- Outcomes and impacts, not purely process and box-ticking.
- Clarity and stability, with rules for regulation that are clear and not subject to constant tinkering.
- Even-handed implementation, with not only a transparent set of rules, but implementation that is done in a fair way.

### A new world order?

This does seem to be borne out by the emerging view of the CEOs we surveyed who believe that the world is becoming more divergent (see Figure 5).

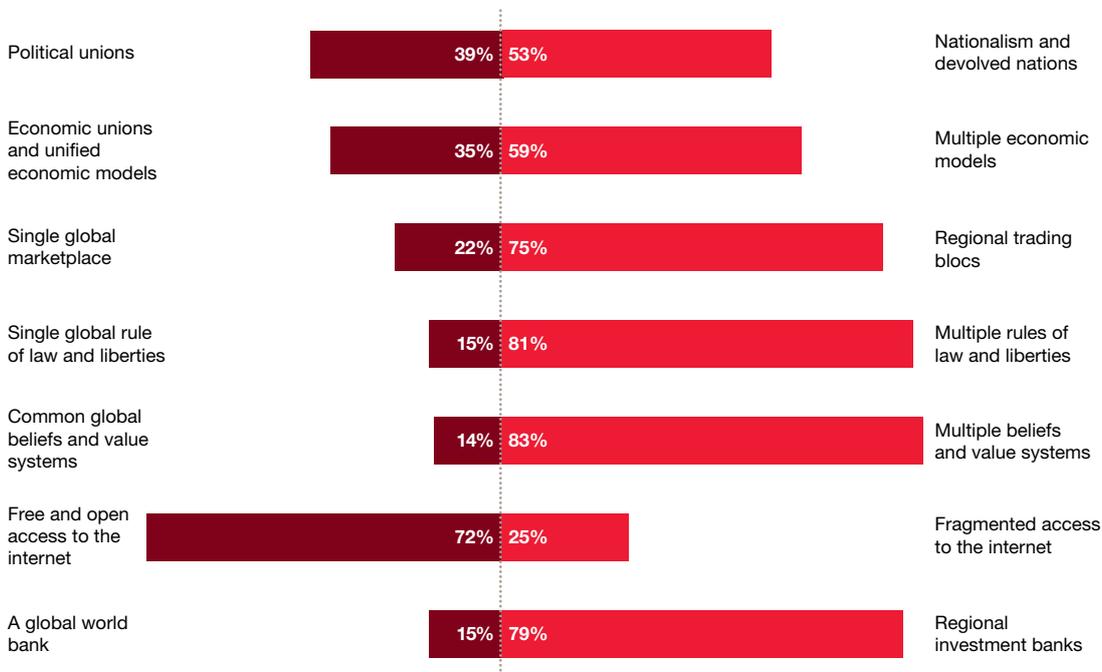
The majority of CEOs surveyed (three quarters or more) believe there is a move towards multiple belief and value systems, laws and liberties together with the rise of regional trading blocs and investment banks. And yet there is a high level of agreement that the world is more connected than ever before through free and open access to the internet.

*We are living in a day and age where technology gets us connected so easily, but also is drawing us somehow apart.*

His Excellency Marwan el Sarkal  
CEO, Sharjah Investment and Development Authority

**Figure 5 What's the world coming to?**

Q: For each alternative, please select the one that you believe the world is moving more towards.



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

## A more connected, yet divided, world?

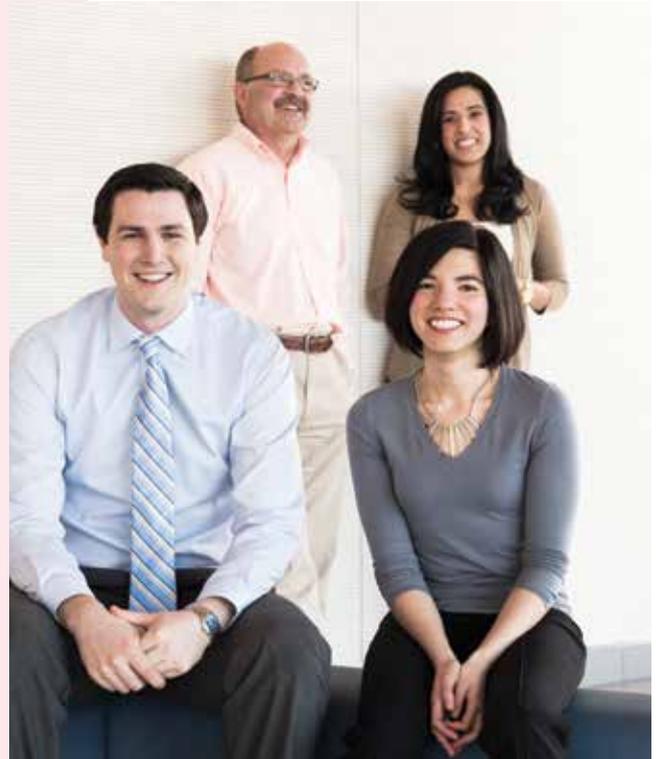
### **Border management – facilitating prosperity, maintaining security<sup>6</sup>**

Globalisation brings real opportunities and effective border management is an integral element of what needs to be put in place to both facilitate prosperity and maintain security.

Although events in Paris have changed many perceptions, governments that wish to share in the benefits of globalisation have to be able to facilitate the movement of people and trade. This presents challenges for border management arrangements, particularly when under additional pressure from the large numbers of refugees and displaced people from conflict areas.

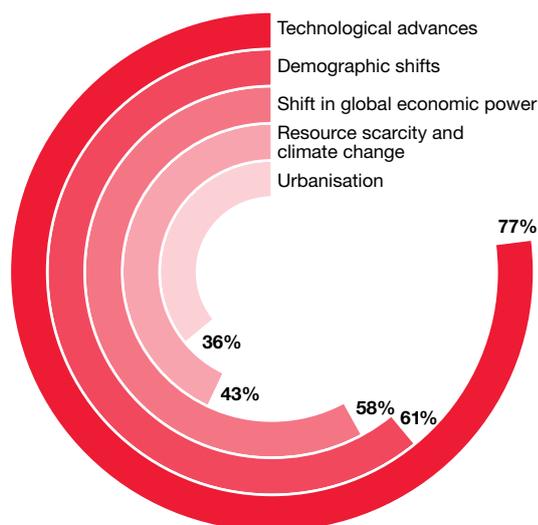
Governments have to reconcile the demands of commerce and travellers for high standards of service, particularly timeliness, and the requirement to examine the goods and people wanting to enter to ensure their true identity and safety.

Security and service to travellers are not conflicting, but dependent. Any national economy that wants to compete globally has to provide those visiting or trading levels of security. Effective border management needs innovative technology and infrastructure, effective international cooperation, coherent processes and an agile organisation.



**Figure 6 Megatrends in action**

Q: Please rank the top three global trends, which you believe will be most likely to transform wider stakeholder expectations of businesses within your sector over the next five years?



Note: Percentage of respondents ranking first, second or third  
Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

This divergence of views is being driven primarily by technology, demographics and economic shifts (see Figure 6) and the collisions between them. Even as globalisation and digital connectivity brings the world closer together, people appear to be becoming more polarised, localised and divided.

Together these factors are changing wider stakeholders' expectations of business and of government.

In this context, it is not surprising to see that governments are being challenged on many fronts, not least how best to cope with some of the more far-reaching consequences, such as how to manage their borders to maintain prosperity while being agile to deploy military resources to address new challenges (see 'Border management – facilitating prosperity, maintaining security' and 'A new global defense map' boxes). How nations address these challenges will also profoundly impact global stability.

In the rest of this report, we look at how government and public sector organisations can enable prosperity, with a focus on 'doing better with less', enabling growth and working with businesses with a new societal purpose to co-produce outcomes.

### A new global defense map<sup>7</sup>

Nations around the globe are facing a myriad of threats that vary greatly in both scope and scale and are transforming the global defence landscape.

As a consequence, governments are considering how to prioritise their defence spending and position or 'posture' their countries in the new global security environment, where threats are as great from 'lone wolves' and terrorist groups as they are from neighbouring nations (see Figure 7).

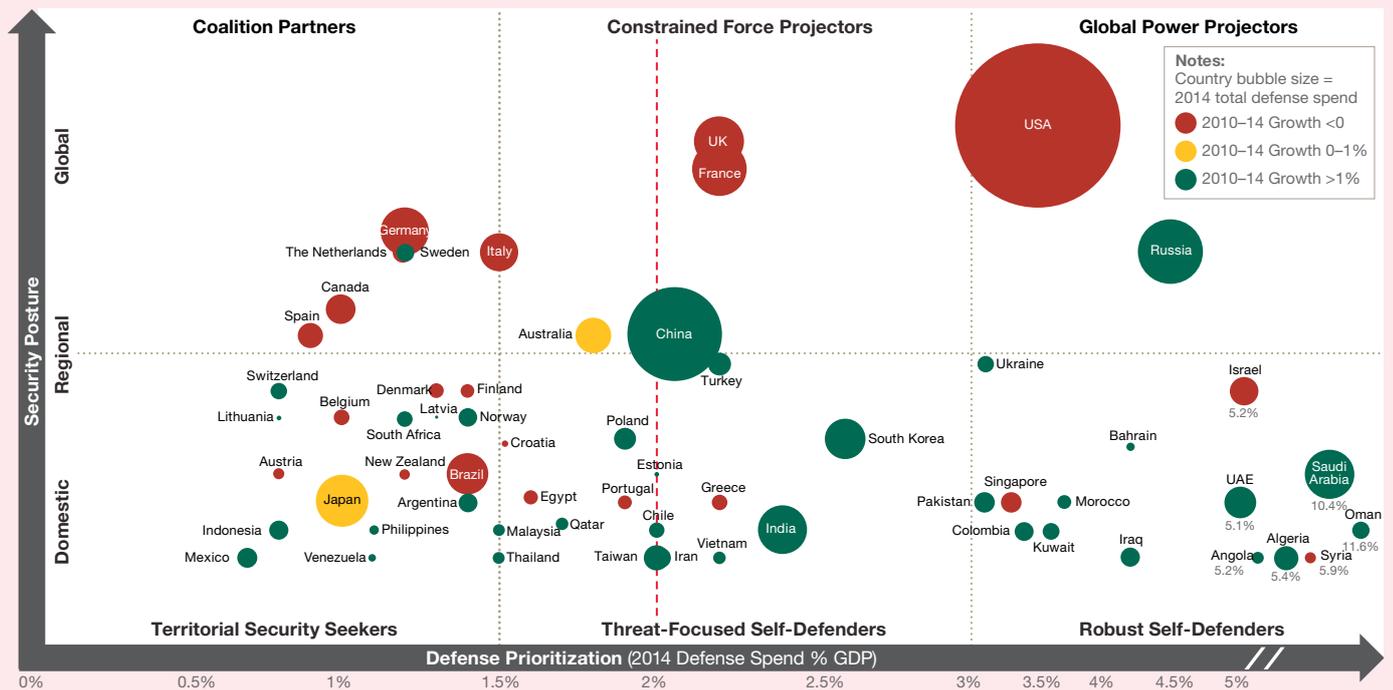
The resulting security challenges leave defence leaders with some tough choices:

- What **institutional reform** initiatives are needed to posture their ministries for the future?

- What **procurement priorities** are needed for the coming years?
- How do they build the necessary **organisational agility** in order to address a wider range of threats?
- How should they **cooperate with allies and partners around the world**?
- What should be the priorities for their **domestic industrial base**?

In order to address this complex and dynamic threat environment, defence ministries around the world must adapt their operating concepts, acquire advanced capabilities, and transform their business processes to create more agile and effective organisations.

Figure 7 A New Global Defense Map



**Security Posture**

• Does the country have a global, regional or domestic security orientation?

**Defense Prioritization**

• How much does the country spend: total and % GDP?  
 • Recent trends and expected future vector: upward, flat or down?

Source: SIPRI, Teal Group International Defense Briefing, The Military Balance, IHS Defense Budgets, PwC Analysis

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# Delivering better for less

***Fiscal deficits remain in the spotlight, with over seven in ten of CEOs surveyed ‘somewhat’ or ‘extremely’ concerned about this threat. The challenge remains for public sector organisations to ‘do better for less’. This means strategically managing costs in the face of both budgetary pressure and ever increasing demands on public services.***

Since the financial crisis, CEOs concerns globally about the ability of governments to tackle fiscal deficits have continued at a high level, with over seven in ten (71%) of CEOs ‘somewhat’ or ‘very’ concerned about fiscal deficits.

There is also a large regional variation. For instance, CEOs surveyed in the Middle East (85%), Latin America and Africa (84%) were the most concerned. In comparison, the lowest level of concern is in Western Europe (59%), which may seem surprising given the continuing need to repair government balance sheets across the region.

Indeed, despite significant effort to restore fiscal balances in many countries, there is still some way to go. For instance, the OECD in its ‘The State of Public Finances 2015’<sup>8</sup> points out that “although OECD countries have achieved a considerable amount of fiscal consolidation from 2009 to 2014, there is still a significant gap left to attain a debt ratio of 60% of GDP by 2030.” It goes on to highlight 14 countries still with “very high consolidation needs”.

As such, it is essential to take a fundamental look at the purpose of public bodies, invoking a zero-based strategic review of their activities, costs and assets. This requires finance functions in governments worldwide to step up and play their role play too.

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***Our main goal is sustainability of the institution – supporting itself to implement its mandate independent from government.***

Benedict Libanda  
CEO, Environmental  
Investment Fund, Namibia

Meanwhile there is a need to make best use of digital technology and build the agility and resilience of public sector organisations to cope with future changes. This includes retaining and attracting the talent needed, often under severe competition from private sector opportunities at a time of public sector cuts and pay restraint.

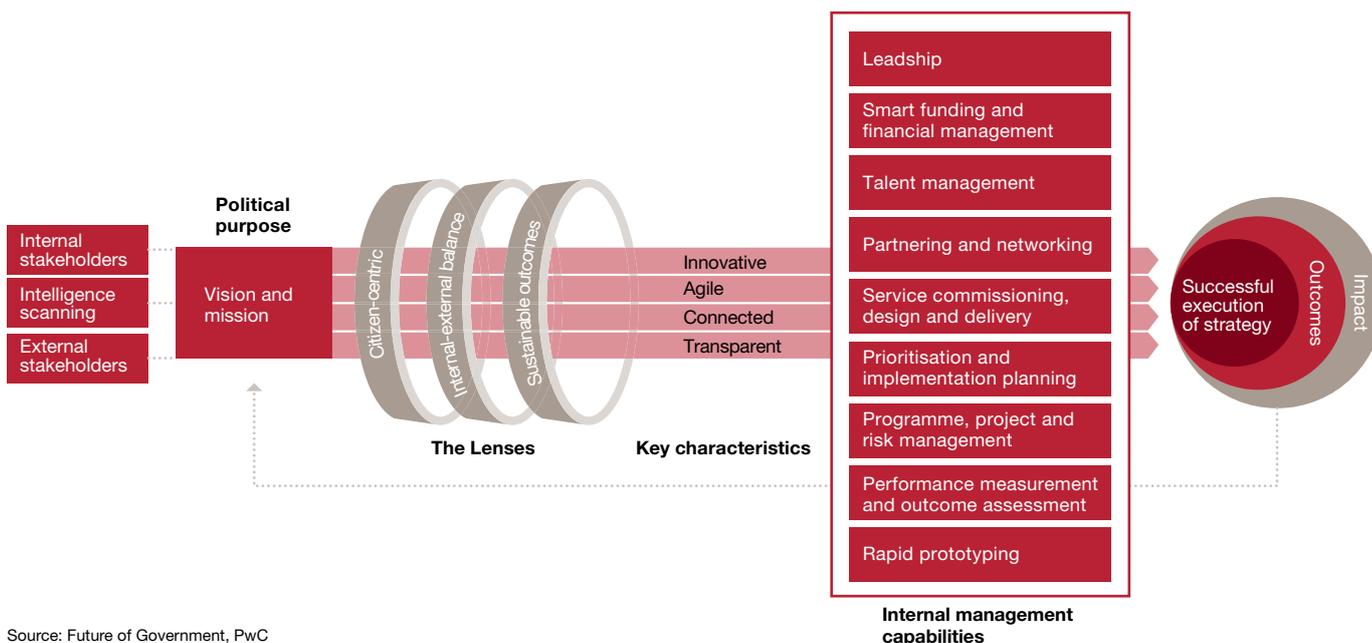
## ***Redefining purpose***

The starting point for any fundamental review of the financial position of any individual public body begins with its purpose, which guides the formulation of the vision and mission and sets the strategic direction. This is the bedrock of a public body (see Figure 8).

Although politicians define the purpose of public bodies, this needs to encompass a range of internal and external stakeholders’ points of view. It should also reflect changes in the organisation’s environment on the functions needed to deliver the outcomes important to politicians, and their constituencies, in the relevant policy area.

Vision and leadership are essential to connect people to the organisation’s purpose: without agreement on the point of an organisation, being productive (in the sense of getting things done) seems meaningless. Clarity of organisational purpose, objectives and outcomes therefore impacts directly on staff engagement and productivity.

**Figure 8 Tomorrow's Leading Public Body**



Source: Future of Government, PwC

Whether in the role of leader of a major government department, a manager in a council or a porter in a hospital, people need to see purpose in their work and how they add value. As Dr Steve Peters comments: “When we have a sense of purpose in life it brings with it a sense of meaning and this in turn leads to achievement, satisfaction and wellbeing.”<sup>9</sup>

Indeed, the foundation of having a good job is that it means something, not only to the worker, but to wider stakeholders. In public services, purpose is given by being connected to the outcomes valued by the public.<sup>10</sup>

**Delivering strategic cost reduction**

With clarity of purpose established, the next step is to ensure that costs are managed strategically to deliver outcomes and value within the resource constraints set by the relevant government of the day. So what can be done at the individual organisational level?

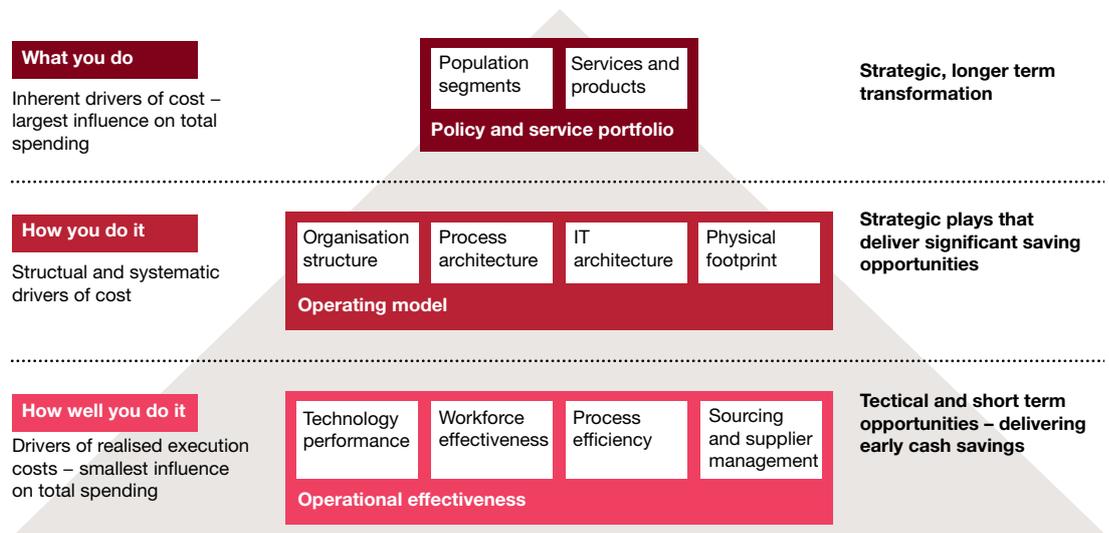
*When we talk about affordability or cost, we focus the conversation on value, ensuing our stakeholders see the value they derive.*

Laura Nashman  
CEO, British Columbia Pension Corporation, Canada

In our experience, an approach to strategic cost reduction is needed which:

- Enables public bodies to develop an evidence-based view of the opportunities to get cash out of the business while balancing priorities, risks and savings across their portfolio of services.
- Provides fundamental challenge, and is enabled by robust data, while being deliverable quickly to meet often challenging timescales.
- Produces transparent resource allocation across business areas that feels fair and is able to withstand scrutiny.
- Is highly participative, and utilises knowledge and experience across public bodies to consider costs, operational effectiveness and risk as a whole.
- Provides a rapid opportunity assessment alongside a rigorous zero-based approach.

**Figure 9 A bold approach to strategic cost reduction**



Source: Strategy& PwC

Figure 9 sets out an overview of the approach which we have found valuable in helping public bodies through the process, even when addressing cuts of up to 40% or more of their budgets.

Public bodies should begin with a strategic assessment of opportunities to reduce costs. This involves a particular focus on identifying the cost drivers associated with the policy and service portfolio and the operating model including optimising its effectiveness.

The heart of this approach is the zero-based review (ZBR) which provides a data-driven and structured way to identify and realise cost reductions. The ZBR process should force public service owners to clearly articulate the impact of the drivers of cost, and the risks and opportunities associated with different cost reduction options. It is then driven by a series of collaborative challenge panels, where service leads walk through their analysis and proposals for cost reduction options.

*Budgets are always about what you would like to do and what the government can afford to give you.*

Carolyn Tremain  
Chief Executive and  
Comptroller of Customs, New  
Zealand Customs Service

*The role of the state should primarily be regulatory while providing goods and services that are necessary and can be best provided by the state ... But the state doesn't have to own assets for public services to be delivered at optimal levels.*

Honourable Donville O. Inniss  
Minister of Industry,  
International Business,  
Commerce and Small Business  
Development, Barbados

This leads to an implementation plan, a roadmap for realisation of the benefits and a sustainable plan to reduce costs that is owned by the whole organisation: the key to effective delivery.

### **To own or not to own?<sup>11</sup>**

As part of this strategic approach to day-to-day operations, there is also a need to question whether the assets held in public hands are realising most value. There are many cyclical and political trends at work when it comes to the question of public ownership of assets and how to maximise their value. And there is no universally 'right' answer.

Indeed public bodies are, on a day-to-day basis, aiming to make best use of the resources and assets at their disposal. But it is helpful on occasion for all public bodies to stand back and take stock of their existing operations and assets in the light of their organisation's core purpose (Figure 10).

The key questions to be asked are: do we need to be providing all of our current range of services, given spending constraints? And are all of our assets still needed to enable a **public service requirement** to be met? If the answers are that assets should be retained in public ownership, there is clearly an important job to be done to ensure value for money, with efficient and effective service delivery and examining how new business models could deliver better outcomes for less.

Of course if the answer is that an asset should be moved out of the public sector (in part or in full), there is then a need to choose the right option from the range of alternatives and ensure that the assets are 'investor ready' - packaged in a way which is attractive for private sector investment.

There is then a need to follow through and pay attention to realising the full potential benefits from any sale including modelling the trade-offs between up front proceeds versus longer term value for money while also identifying the right structure for the transaction.

The reality is that if the value of assets is to be maximised, whether in the public or private sector, there needs to be innovation and appropriate risks taken. By building capability, being pragmatic and putting in place the right rewards and incentives, the chances of success are increased.

## **Developing government's finance and accounting**

Whether looking at current cash flow or an organisation's assets, the finance function clearly also has a key role to play.

The global financial crisis, and subsequent sovereign debt crisis, brought into sharp focus how a lack of transparency in public finances and poor public finance management can put at risk governments' abilities to service large public debts and meet their public service delivery objectives.

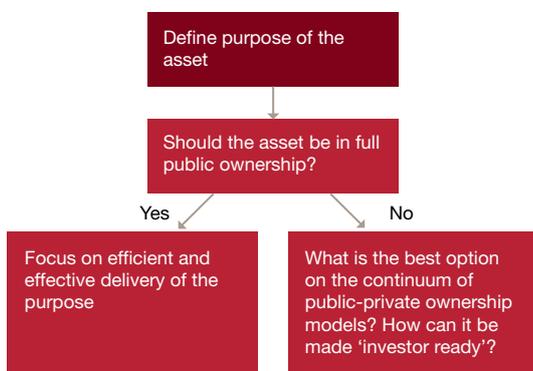
Indeed, there is now growing recognition of the importance of appropriate accounting and financial management in the public sector as a key means of achieving sustainable public finances.

Governments need to adopt sound and transparent accounting and reporting rules. According to our research,<sup>12</sup> accounting modernisation reforms are being initiated or planned all over the world, with seven in ten governments intending to use accrual accounting in five years' time, often taking IPSAS<sup>13</sup> as a reference point.

Transitioning to accrual accounting is not, however, an end in itself: the ultimate goal is to deliver better public services with sustainable public finances, creating a positive legacy for the next generation. This requires transparent accrual-based financial statements reflecting the true long term implication of political decisions and helping governments to demonstrate, and users to evaluate, accountability for the use of public funds.

Adoption of high quality accrual accounting also lays the basis for developing better management information systems, and contributes to better decision making and a better use of public money.

**Figure 10 Key decisions for public sector managers**



## Participative governance<sup>14</sup>

The digital age has empowered connected citizens to be more aware and expect more from public services. Governments, however, are inherently process driven and usually risk averse. And they seldom move as fast as the emerging technologies of the times.

However, a handful of governments, most of whom rank highly in the United Nation's e-Government index, are innovating and taking the lead by seeking citizen participation in important matters of governance. For instance, Singapore initiated, with its REACH programme, participation of citizens in policy making and setting priorities on public expenditure.

This has gradually picked up pace with more than a handful of countries now striving towards open and participative governance. For instance, the US has challenge.gov to crowdsource ideas in the form of online citizen competitions. And India has recently started a programme called MyGov to facilitate citizen-government dialogues on important governance matters.

Three indicators are critical in ensuring the success of such participative governance programmes. First is timing. For instance, a government is better off starting when the country's general sentiment is of hope and development rather than when a country is in crisis, conflict or economic turmoil. Second is strong political will, to make bold changes to existing policies and programmes. Third, and the most important, is a machinery of the state which has an appetite to welcome feedback and undertake improvement mid-way through established programmes.

## Becoming digitally-led

In an increasingly complex and interconnected world, where the pace of change in society is accelerating, governments know that change is inevitable, and that they must re-invent the ways they do business.

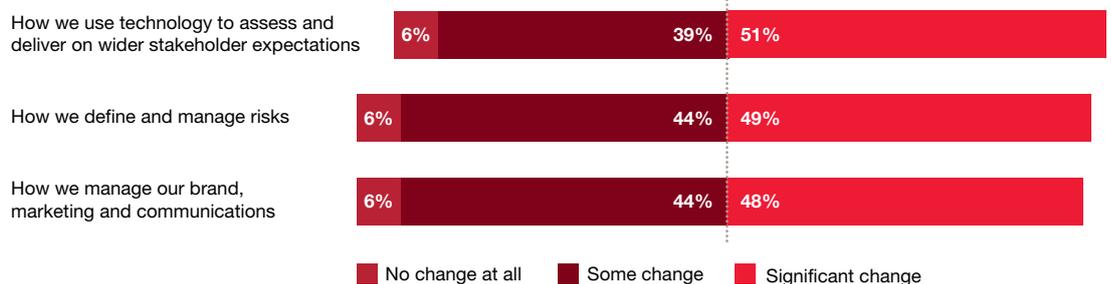
For years, the public sector has been grappling with how to meet citizens' increasing expectations. The inherently risk averse nature of government means that public service innovation has often been avoided.

But the acceleration of technology and globalisation has put pressure on government to catch up to the private sector and to invest in innovation, even if it means taking on greater risk and the possibility of failure.

Digital is a good example, where the private sector sees the use of technology as the top priority to respond to changing stakeholder needs (see Figure 11).

**Figure 11 The role of digital**

Q: To what extent are you making changes in the following areas in response to changing stakeholder expectations?  
Top three responses.



Note: Responses for 'don't know'/'no response' are excluded so may not total 100% in each case  
Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

Predicting what's going to work in the digital age is not easy. In government, this makes investing in big system and process change a huge risk. But bringing in the expertise of many different providers – such as corporates, start-ups and platform innovators - could combat this risk.

A radically improved ecosystem can then generate the best public services driven by consumer choice. This means a new role for government across siloes, understanding demand and providing the controls and standards for others to deliver safely, securely and seamlessly.

The challenge is to create a vehicle that puts citizens in the driving seat and for a new relationship to be created between citizens and the state – powered by digital (see 'Participative governance' box).

Through digital, there is also now much more data than ever before. And there is great potential for big data to improve outcomes for the public if there is the investment, innovation and imagination to make this happen (see 'Data: opportunity or threat?' box).

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*We should create an eco-system that is conducive for innovation to flourish in the public sector.*

Dato' Sri Dr. Sharifah Zarah Syed Ahmad  
Secretary General, Ministry of Communications and Multimedia (KKMM), Government of Malaysia

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*With democracy reaching the grassroots, the involvement of citizens to solve their local problems will become more essential.*

Nitin Bhaduria  
Commissioner, Municipal Corporation, Dehradun, India

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### **Data: opportunity or threat?**

The agenda for public sector leaders looking to create more data-savvy organisations is challenging. In 'Big data, better public services',<sup>15</sup> we set out some clear areas for action:

- **Building the skills base:** Public bodies need to develop their data collection, management and analytics capacity and capability in order to produce the quality insight and intelligence required to underpin their strategies and plans.
- **Integrating data:** Master data management, standards, policies and clarity on who is gathering what data for what purpose is needed. Big (and expensive) systems are not required to achieve these goals. This is about collecting, using and sharing information better. Citizen data gathering, trend analysis and the use of digital enables the development of these approaches.
- **Opening up good data:** Research into the use of open data and data analytics<sup>16</sup> has highlighted that the volume, veracity and speed of data all need to be improved. Overall, the quality, accuracy or completeness of the underlying data within organisations is often the biggest hurdle to making good decisions along with limitations on the ability to share data for different purposes.
- **Balancing rights:** There is an important balance to be found between the rights of individuals to privacy and confidentiality and the benefits from sharing information. This requires better selling of the value proposition to the public, building public trust and reducing cynicism as to how their data will be used and alongside confidence in data security.

## Agile government

In Canada, along with Canada's Public Policy Forum,<sup>18</sup> we reflected on how government can be more agile. Through a series of roundtable sessions and one-on-one interviews with leaders from health care, education and the public and private sectors we explored the concept of agility and what it means in today's government. The key themes that emerged from our discussions include:

- **Partnership:** Agility won't be fully realised until governments are more open and engage meaningfully with potential partners.
- **Leadership:** Agility can't be expected without investing in the required leadership skills.
- **Human capital:** Agility overwhelmingly hinges on the capabilities of public servants.
- **Technologies:** Investment in IT is unavoidable if the public service is going to be agile and keep pace with the digital revolution.

There was also frank discussion about risk and existing and potential barriers to success. For instance, change has to begin at the top. Inherent in cultural change is that organisations don't change – people do. This means questioning some core assumptions of public service leadership and preparing to explore new ways of working together outside their comfort zone.

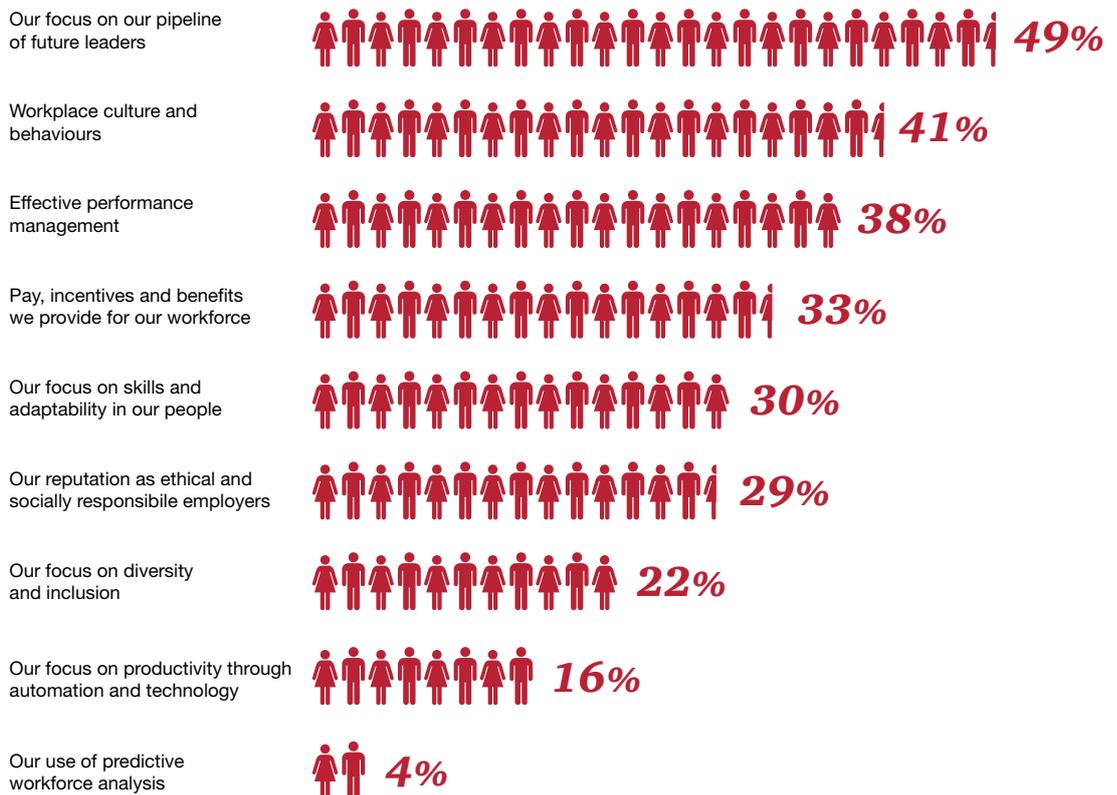
## Maintaining agility

Public sector leaders are also looking to become more agile: adaptable, flexible and resilient in the face of uncertainty. Our research reveals five key elements of agility<sup>17</sup>:

- **Adaptability** – the ability to adjust and meet changing requirements.
- **Innovation** – the ability to generate and use new ideas, methodologies and technologies.
- **Collaboration** – the ability to leverage internal and external knowledge and resources to enhance the mission for the organisation.
- **Visibility** – the ability to create and maintain transparency to enhance fact-based decision making.
- **Velocity** – the ability to recognise and respond with the requisite tempo to new circumstances and events.

**Figure 12 Our greatest asset!**

Q: What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

The potential rewards of greater agility are worth grasping – higher productivity, greater employee satisfaction and higher citizen satisfaction – as we found in discussions with Canada’s Public Policy Forum (see ‘Agile government’ box).

### **Attracting and retaining talent**

One of the biggest challenges is for public leaders to retain and attract talent, often under severe competition from private sector opportunities. For CEOs, the availability of skills remains a top six threat and, with many public bodies facing pay restraint and job cuts, it becomes even more important for public leaders to invest in their people and offer attractive careers.

PwC’s 19th Annual Global CEO Survey highlights the actions CEOs surveyed plan to attract, retain and engage their people (see Figure 12). CEOs appear most likely to change their talent strategy to focus on the pipeline of leaders, workplace culture and behaviours as well as effective performance management.

Public sector leaders will clearly be looking to act in a similar fashion in order to seek and preserve the talent they need to deliver their missions.

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*I believe that qualified people can be attracted [into public administration] by the challenges we are dealing with, and in some ways by the variety of tasks.*

Eduard Muřický  
Deputy Minister, Ministry  
of Industry and Trade,  
Czech Republic

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## **Questions to think about**

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What is our **purpose** and is it still relevant and resonant with political priorities?

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What’s the direction and are our key **stakeholders on board**?

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What are the organisation’s **priorities** to ensure that public service delivery is targeted on achieving maximum outcome and impact, while maintaining affordability?

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Is the capability in place to **commission for outcomes** and implement payment by results contracts with payments linked to the successful delivery of results?

---

What drives our **costs** and the **value** we generate?

---

Do we need to be providing all of our current **range of services**, given spending constraints?

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Are all of our **assets** still needed to enable a public service requirement to be met?

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Is the Finance function delivering the **robust management information and insight** needed to enable decisions?

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How do we maintain **agility** in the face of change?

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Will the workforce strategy **attract and retain a skilled workforce** in the face of private sector competition for talent?

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# Redefining success (for SOEs)

*We know that State Owned Enterprises (SOEs) are an influential and growing force globally.<sup>19</sup> For instance, the proportion of SOEs among the Fortune Global 500 has grown from 9% in 2005 to 23% in 2014,<sup>20</sup> driven particularly by the growth of Chinese SOEs. In this year's Survey, 12% of the organisations surveyed had some form of government ownership or backing.*

## **Going for growth?**

Our findings this year suggest that state backed CEOs have a similar (less optimistic) view to their private sector counterparts when it comes to their confidence about revenue growth over the next 12 months or three years. But they are slightly more optimistic about the prospects for global economic growth over the next 12 months: about a third (34%) expect improvement compared to a quarter (25%) of CEOs without any form of state backing.

However, relatively more CEOs in state backed organisations are expecting to reduce headcount, with just under a third (30%) expecting to decrease headcount over the next year compared to 20% of the non-state backed CEOs surveyed. Perhaps unsurprisingly, cost reduction initiatives are also the most prevalent restructuring activity – in line with companies with no state backing - although relatively more state backed CEOs (36%) are planning to outsource in the next 12 months (compared to 27% of non-state backed CEOs).

## **What worries the state backed CEO?**

State backed CEOs' perceptions of the key threats are very similar this year to non-state backed CEOs. Overregulation, geopolitical uncertainty and exchange rate volatility are the top threats.

The other key threats are also similar although state backed CEOs are relatively more concerned about the readiness to respond to a crisis (70% of state backed CEOs surveyed).

Like other CEOs, state backed ones also see the world as one which is becoming more divergent, moving to multiple beliefs/value systems and rules of law and liberties (78%) and regional trading blocs and investment banks (75%).

## **Priorities for government**

State backed CEOs see the same top three priorities for government as non-state backed CEOs (set out in full in the next section) although in a slightly different order. The top priority for state backed CEOs is adequate physical and digital infrastructure (52% of those surveyed), followed by a skilled, educated and adaptable workforce (50%) and a clearly understood, stable and effective tax system (43%, although significantly less than the 58% of non-state backed CEOs surveyed).

But when it comes to effectiveness of government delivery, state backed CEOs are more positive across the board, with a net positive balance on infrastructure, workforce health and wellbeing and employment levels (see Figure 13).

### The impact of stakeholders

A significant difference for state backed CEOs is who they see as having the biggest impact on their organisation’s strategy. In contrast to the private sector where the customer is king, for the state backed CEOs surveyed government and regulators have a ‘high’ impact for 41% of them and a ‘very high’ impact for 45%. This highlights the unique influence of government and regulators where they have an ownership stake. Nevertheless, for 53% of state backed CEOs surveyed customers and clients still have a very high impact.

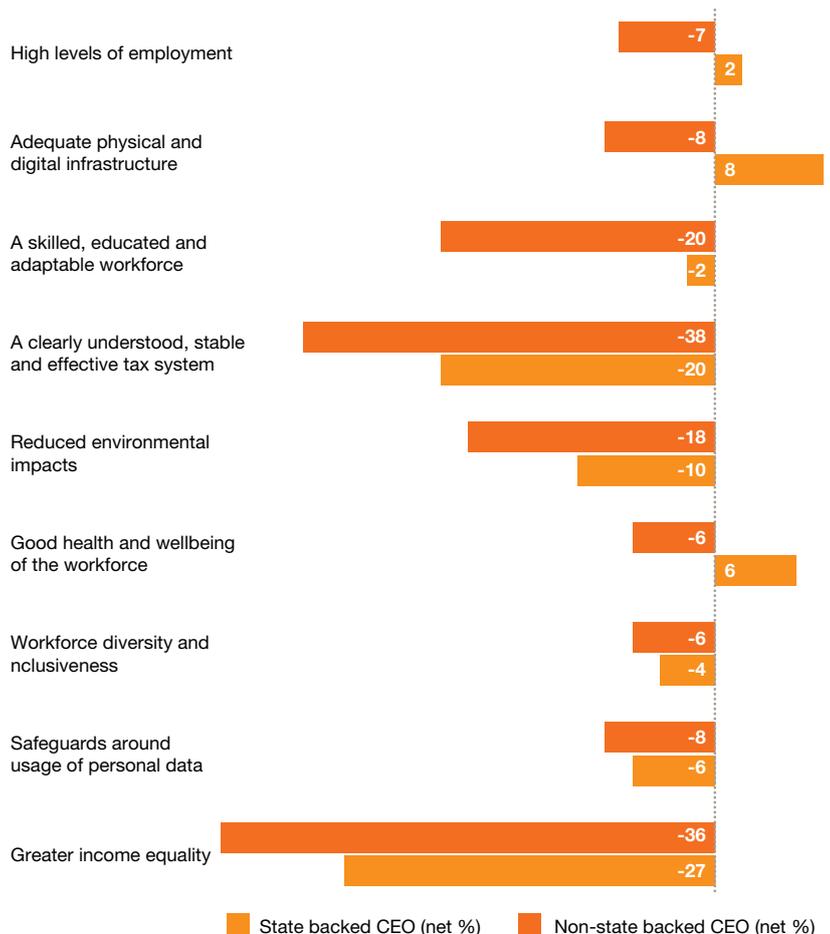
State backed CEOs also seem to take a wider view of their role and purpose. For instance, 92% of the state backed surveyed believe they are expected to address wider stakeholder needs today - significantly more than the 83% of CEOs surveyed without state backing. Meanwhile 82% report on financial and non-financial matters and 77% believe their purpose is centred on creating value for wider stakeholders – both again significantly above their private sector counter-parts.

In addition, state backed CEOs feel they should be doing more compared to their private sector counter-parts to measure impact and value on the environment (52%) and wider communities (41%) and to communicate this too (56% and 55% respectively). These results are significantly higher than for non-state backed CEOs, perhaps due to the more direct influence of government and regulators.

Significantly more (45%) state backed CEOs also ‘agree strongly’ that business success in the 21st century will be redefined by more than just financial profit, with another 32% ‘agreeing’.

In responding to these wider stakeholder expectations, however, significantly more state backed CEOs (50% of those surveyed) see unclear or inconsistent standards or regulations as a barrier. Similarly, significantly more state backed CEOs believe that conflict between stakeholder interests and financial performance expectations is a barrier (44%) while misalignment between stakeholder interests and business strategy is another barrier (31%).

Figure 13 Delivering on priorities?

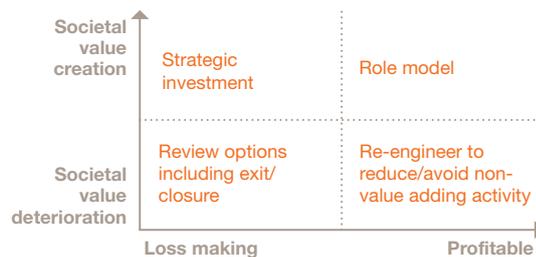


Note: Net % is the difference between CEOs responding that government is greatly effective or effective and those responding greatly ineffective/ineffective  
 Base: All respondents (2016= 163 state backed CEOs; 1,229 non-state backed)  
 Source: PwC 19th Annual Global CEO Survey

## Redefining success (for SOEs)



**Figure 14 Strategic positioning of SOEs**



Source: State Owned Enterprises, PwC 2015

### *What makes the SOE of the future?*<sup>21</sup>

So what are the implications for state backed enterprises?

Clearly there are many different drivers where state ownership is the favoured option. But whatever the primary motivation, one consequence is that SOEs need to be evaluated not only on the basis of financial results (the profit and loss account), but more widely on how they contribute to societal value creation, taking an integrated and holistic view of their impact (see Figure 14).

As such, SOEs face a number of areas for attention. Of primary importance, they need to be actively owned and managed. This means establishing a clear purpose and mission for the SOE, linked to desired societal objectives and outcomes, and continually monitoring and evaluating state ownership to ensure that public value continues to be delivered.

It also means that those undertaking ownership and management roles, particularly the board of directors and the executive leadership, need to fulfil the “4 Cs” tests:

- **Clarity:** Clear understanding of the purpose and objectives of the SOE and their role in delivering this.
- **Capacity:** Time and resources to conduct their role well.



- **Capability:** Required and relevant expertise and experience to steer and manage the SOE.
- **Commitment to integrity:** Serving the citizen for the purpose of societal value creation.

SOEs of the future also need to be transparent and accountable through quality, timely and reliable reporting of SOE performance. This goes beyond financial reporting to integrated reporting, with SOEs being role models for good reporting practices. This also aids in building trust between the government (owner) and the citizens and other stakeholders (including other shareholders).

An appropriate internal-external balance also needs to be achieved. Like any organisation, SOEs need sound internal management in order to maximise efficiency and effectiveness. They should also leverage technological and service innovations to deliver products and services which meet user needs within constrained budgets (doing ‘better for less’), as well as achieve desired outcomes economically and socially.

At the same time, the SOE should leverage its external influence by co-creating value with other stakeholders in society and driving good growth, linked to its purpose, mission and strategic objectives.

In this way, SOEs really can become catalysts for sustainable public value creation.



## Questions to think about

For whom are SOEs **creating value**?

Who are the most influential and important **stakeholders**?

How is **public value** defined?

To whom should SOEs be ultimately **accountable**?

How does this affect their **purpose**, management and operations?

Do owners and managers pass the “4Cs” test?

What is the **total impact** beyond profit and loss considerations?

How is SOE performance being **monitored and evaluated** in a way that reflects its contribution to societal outcomes?

Is there a clear vision and **continuing purpose** for state ownership?

For SOEs which no longer need to be under state ownership, are they being considered for **privatisation** in a way that extracts the most value for society?

# Building the foundations for growth

*This year, a skilled, educated and adaptable workforce is the outcome cited most frequently by CEOs (76%) as the most important to society today. As far as government priorities are concerned, however, CEOs place a clearly understood, stable and effective tax system (56% of those surveyed) top of their wish lists for government attention. Next comes a skilled, educated and adaptable workforce (53%), followed by adequate physical and digital infrastructure (50%).*

*Actually it's the businesses that create the value for society. What is the raison d'être of the state? To facilitate businesses...*

Constantinos Petrides  
Under Secretary to the President of the Republic, Cyprus

*We need business to continue to work with us to find solutions to our daily problems.*

Jason Ngobeni  
City Manager, Tshwane, South Africa

**Figure 15 Education, education, education!**

Q: Which three of the following outcomes do you think are most important to society today, in the country in which you are based?



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

## What are the CEO priorities for business and government?

In this year's Survey, we asked CEOs which outcomes they thought are most important to society today. The answer was unequivocal: a skilled, educated and adaptable workforce (see Figure 15).

This outcome was the most important for CEOs across all regions and firm sizes. And there's no doubt that this is a high priority for the public and a key driver of good growth and productivity too (see 'Skills drive good growth' box).

In addition, 75% of CEOs believed it was a priority for business itself to help deliver a skilled, educated and adaptable workforce (see Figure 16).

Given this is a high priority for governments too (see below), this is an obvious area for collaboration and partnering to deliver an outcome of benefit to both business and society.

*We want to build 'inclusive prosperity' which harmoniously combines economic growth and social equality.*

Unai Rementeria  
President of the Provincial Council of Biscay (Bizkaia), Spain.

## Skills drive good growth<sup>22</sup>

Skills are a critical enabler of success for any organisation. In the UK, we have found that they are the strongest driver of good growth (see Figure 17).

Figure 17 Drivers of good growth

Variable	Correlation between 2005–2007 score and subsequent change
Skills	0.37
Jobs	0.22
Income	0.13
Environment	0.11
Transport	0.06
Work-life-balance	0.02
Owner occupation	-0.06
Sectoral balance	-0.18
House price to earnings	-0.19
Health	-0.24
Income distribution	-0.29

Source: Good Growth for Cities, PwC/Demos, 2015

Figure 16 A question of priority

Q: Which three of these outcomes do you think should be government priorities, in the country in which you are based? Which three of the following outcomes do you think should be priorities for business to help deliver in the country in which you are based?



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

Skilled workers tend to be more flexible, able to learn new skills and be entrepreneurial. In a recession these workers can adapt to a changing job market and drive new ventures to support recovery. Highly skilled areas not only typically perform better, they also tend to develop a place's resilience to economic instability.

### **Taxing times**

At the top of the list of priorities for government is a clearly understood, stable and effective tax system: (56%) of CEOs surveyed, rising to 73% of North American CEOs.

It is clear that more needs to be done to improve the design and operation of tax systems, both nationally and internationally. This was expressed succinctly by a Business Jury in the UK which was convened for its views on the future of tax and the outcomes that would be most valued (see *'The future of tax: a UK business view'* box).

### **Skilled for the future**

In addition, just over half of the CEOs we surveyed (53%) put the outcome of a skilled, educated and adaptable workforce on their list of their priorities for government. However, this rises to around three quarters (74%) of CEOs surveyed in the Middle East and is their top priority for government by a wide margin.

### **The future of tax: a UK business view<sup>23</sup>**

A Business Jury debated tax policy with two main areas of focus: balancing fairness with revenue raising; and the tension between tax reliefs and simplicity. The idea was to identify the cornerstones of tax policy that should be kept sacrosanct and recommendations for long term reform, focused on the big picture. Some key outcomes were:

- Governments must be clearer, bolder, and more specific about the objectives of tax changes and policies.
- A longer term approach to tax policy, divorced from short term politics, will improve stability and growth.
- Tax policy needs to be more focused: there are too many tax reliefs and exemptions.
- An internationally competitive tax system is a good thing – but more needs to be done to ensure and show it will bring sustainable revenues.
- More needs to be done to educate people on how the tax system works and the trade-offs.
- Better collaboration is needed between business and with tax authorities (HMRC) – businesses large and small need help navigating the system.

Acquiring the right skills is clearly an essential prerequisite to the desired outcomes for citizens (particularly new entrants to the labour force) of getting a job and earning a decent income. But another key issue is matching people to opportunities so that the right skills are in the right places.

This is evident from the release of the results of AIESEC's first YouthSpeak report on millennials worldwide.<sup>24</sup> According to this report, millennials are increasingly worried about the widening gap between education and employment. In particular, universities are not connected to their future goals and employers do not engage with them in a meaningful way.

Worldwide, millennials say they are lacking the career guidance and support that would help them understand what they need for the ideal post-graduation career with university advisors ranking last in the report's list of influencers to support career decisions.

But it is not just the educators who can bridge this gap. One of the most important conclusions from the YouthSpeak survey is that students and employers have a vital role to play too. As Gordon Ching, Global Vice President at AIESEC International, comments: "If we are to develop an effective education system that meets student needs, it will need greater integration of youth opinion and more employer input. These inputs are critical to ensuring that curriculums are aligned with external trends and utilizing teaching methods like experiential learning that can better engage young people."

This requires education providers (often state funded) 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.

### **Investing in infrastructure**

Completing the top three on their wish lists for government attention is adequate infrastructure – both physical and digital. This appears to be particularly important in Africa (62% of CEOs surveyed) and Western Europe (57%).

Transport is one of the key elements of infrastructure needed, which is so important for connectivity of service, product and labour markets nationally and internationally (see 'Transport infrastructure: outlook 2025' box).

Key to success is making sure the right legislative, judicial, institutional, financial, fiduciary and technical frameworks are in place. This includes actions such as: undertaking initiatives to improve skills; enacting laws that encourage private participation; and establishing regulatory frameworks for each industry that allow long term pricing certainty for investors.

If government is seeking private investment for an infrastructure project, it should also provide assurance to potential investors around the risks by conducting a detailed feasibility study in cooperation with well-respected international advisors. This will ensure a higher level of interest in the project – and a greater chance of overall success.

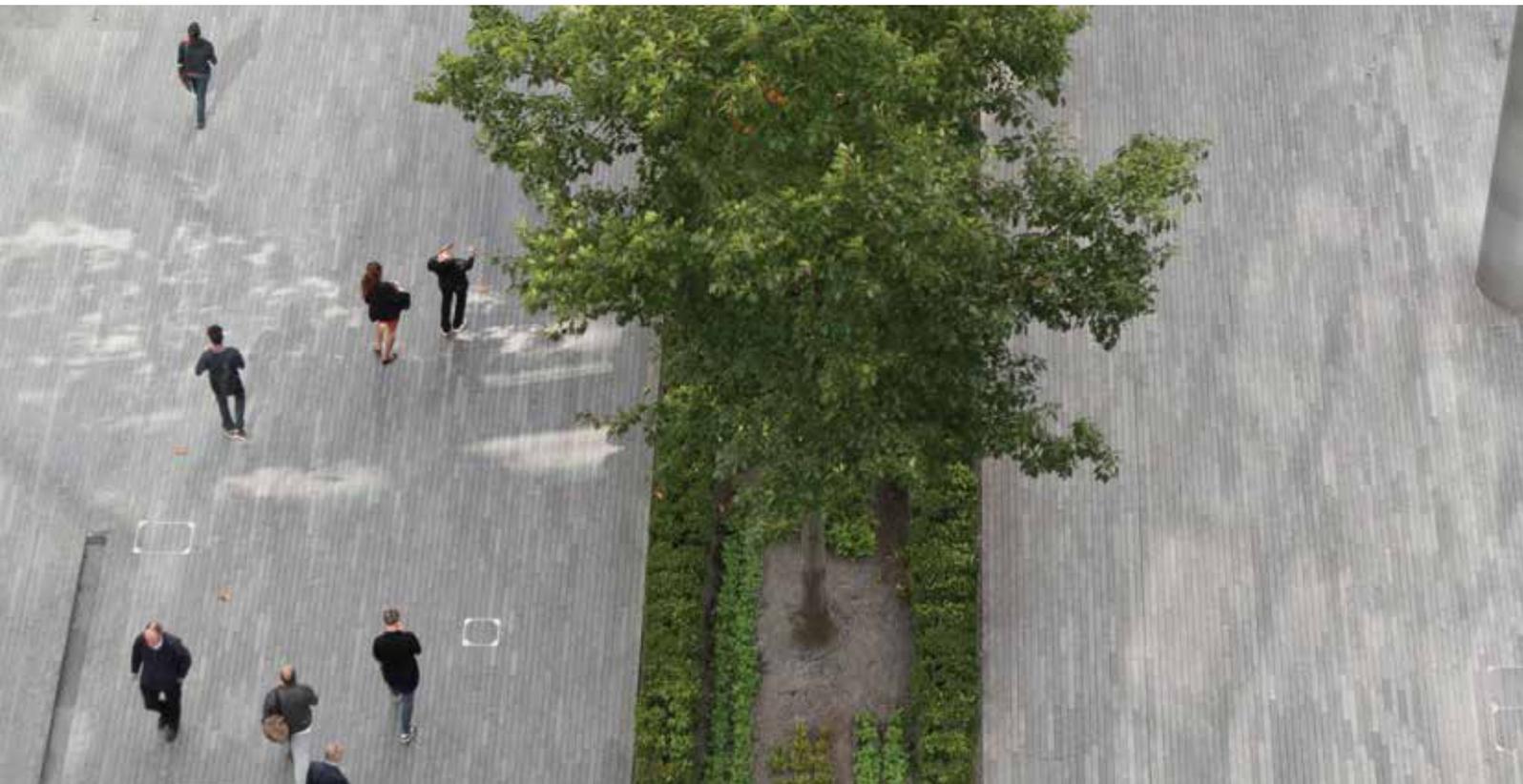
### **Transport infrastructure: outlook 2025<sup>25</sup>**

Our latest annual forecast for the global transport market over the decade to 2025 with Oxford Economics paints a generally positive picture of a growing global market for transport infrastructure. At a global level, we estimate that transport infrastructure investment will rise at a healthy annual rate averaging about 5% during the ten years.

Growth will be led by Sub-Saharan Africa, with annual rises of almost 12% a year. And Asia-Pacific will remain by far the world's largest transport infrastructure market, with investments surging from \$557bn to nearly \$900bn by 2025. Less positively, it will take until 2022 for investments in Western Europe to return to their 2008 levels.

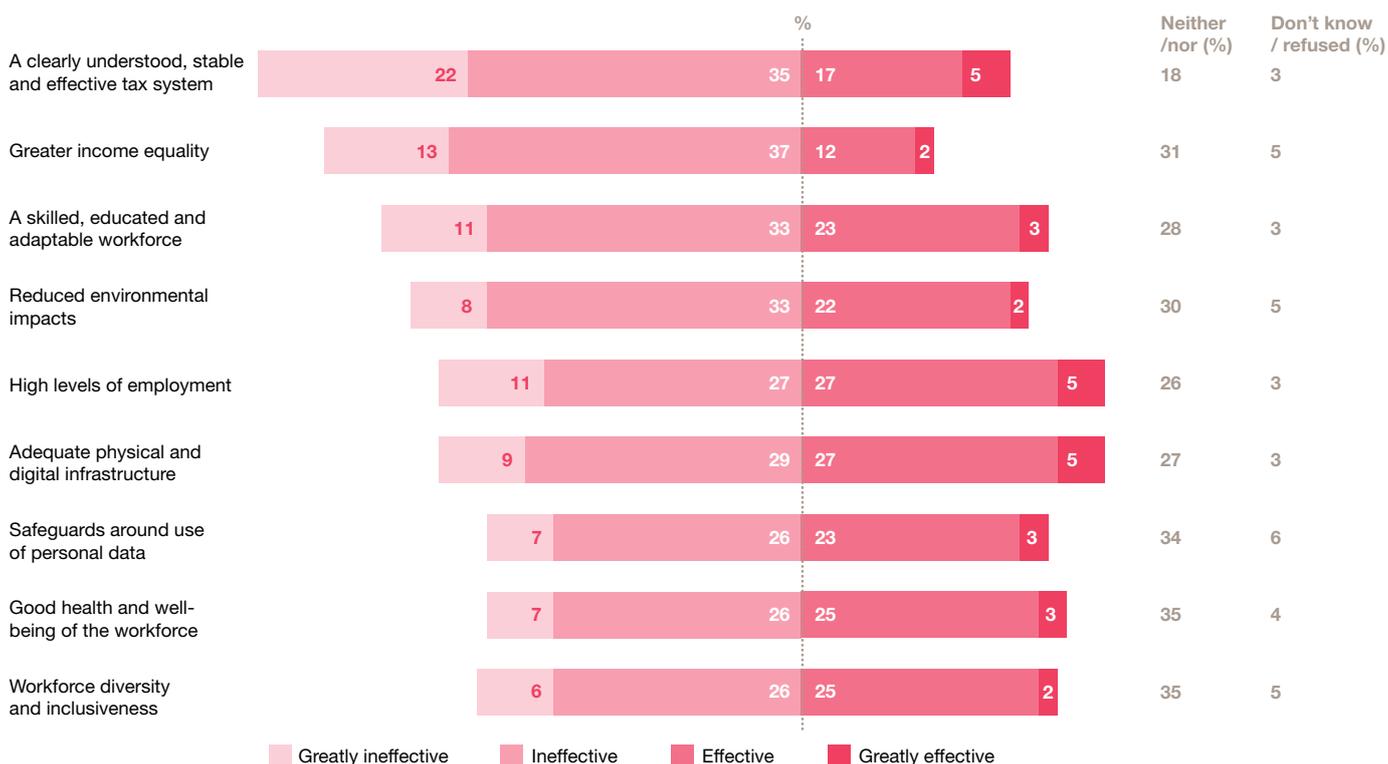
But this growth comes against a background of widely reported difficulties in preparing and delivering projects. If governments and investors are going to deliver good projects, and realise the respective social and financial returns they're seeking, there needs to be better preparation (including a review of national infrastructure needs).





**Figure 18 Are governments delivering?**

Q: How effective do you think government has been in achieving these outcomes in the country in which you are based?



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey



### **How are governments performing on these priorities for business?**

Overall, CEOs tend not to rate the effectiveness of their governments highly in delivering on these priorities, particularly around the tax system and income equality (see Figure 18).

On balance, the CEOs surveyed perceive government as not having been effective on their top three priorities: tax, skills and to a lesser extent infrastructure (although it should be noted that a high proportion of CEOs questioned felt government had been neither effective nor ineffective).

However, there is considerable variation across regions and sizes of companies. For instance, in the Middle East 49% of CEOs surveyed believed their government has been 'effective' or 'greatly effective' in delivering adequate physical and digital infrastructure.

It is therefore important to pay careful attention to the priorities and performance of governments at a country level to understand fully the perceived effectiveness of government.



## **Questions to think about**

### **Tax**

How transparent is the system in raising tax and showing how the money raised is spent?

Is the system simple to understand and navigate?

To what extent is the tax system fair, with every person and organisation paying their correct sum?

Does the system incentivise the right things e.g. encouraging work, saving and planning for the future?

### **Skills**

How agile and adaptable is your workforce?

What is your organisation's strategy to developing diversity and inclusiveness?

Do employers and education providers have a shared language and collaborate to ensure courses are demand-led?

Do individuals receive high quality, objective information and advice on potential career paths to maximise their chances of matching their knowledge and skills with job opportunities?

### **Infrastructure**

Will proposed infrastructure investments deliver value to both users and investors?

How swift and agile is the planning regime in response to changing business, resident and investor needs?

Are the right legislative, judicial, institutional, financial, fiduciary and technical frameworks in place?

Are potential investors assured e.g. around the risks of investments through a detailed and independent feasibility study, with effective governance and controls in place to ensure oversight of capital projects?

# Measuring and communicating success

As the saying goes, ‘what gets measured gets done’. A focus for the 19th Annual Global CEO Survey is on the ways in which CEOs are redefining business success. Three quarters (76%) of the CEOs surveyed agree that in future business success will be defined by more than just financial profit; and many agree that they should be doing more to measure and communicate their impact on wider stakeholders.

*People are coming around to the idea that social responsibility is real, that they ought to do the right thing, and that with that, return-on-investment is higher than without it.*

Michael Møller  
Director-General, United Nations Office at Geneva (UNOG), Switzerland

The starting point for CEOs is to redefine success fundamentally such that creating societal value is part and parcel of a profitable enterprise. CEOs clearly recognise how much societal views are changing which is driving a recognition of the need for business to respond. Indeed, 84% of the CEOs surveyed believe that they are expected to address wider stakeholder needs today.

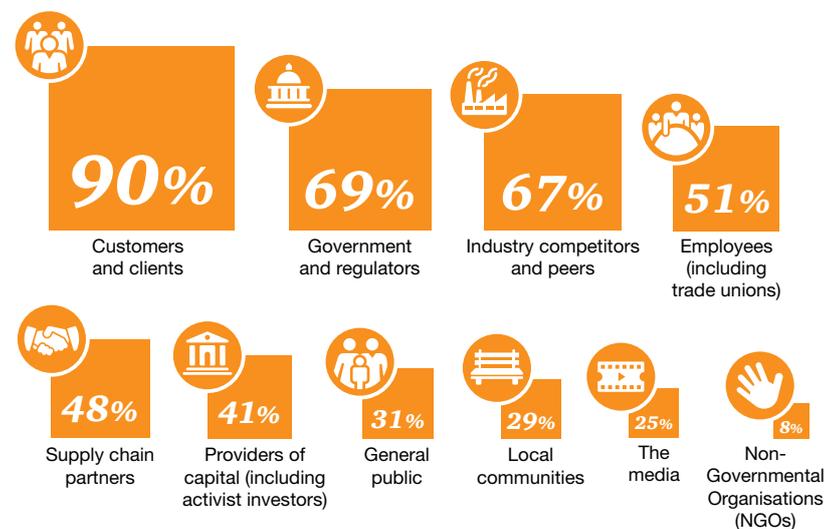
It’s clear that businesses are also responding to stakeholders’ views, taking a more holistic view: 67% say their purpose is centred on creating value for wider stakeholders today, with 71% believing this will be the case for successful organisations in their sector in five years’ time. Most telling of all is that 44% of CEOs think that for successful organisations in five years’ time their customers will seek out companies that address wider stakeholder needs, compared with 27% today.

In addition, 82% say that they prioritise long term over short term profitability today (rising to 87% in future) and 64% say that corporate responsibility is core to everything they do today, again rising to 70% for successful organisations in their sector in five years’ time. So the direction of travel seems clear.

And it’s not only customers that are demanding more of business. Government and regulators – who rank second on the list of influential stakeholders for CEOs surveyed (Figure 19) – are increasingly stepping in to try to ensure that companies are acting in the public interest.

**Figure 19 Wider stakeholders**

Q: What impact do the following wider stakeholder groups have on your organisation’s strategy?



Note: Respondents who indicated 'high' or 'very high' impact  
Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

There is therefore an opportunity here for public bodies: to engage with business and support a shift to measuring and managing performance over the longer term which rewards a ‘whole of enterprise’ and ‘whole of society’ view, focused on outcomes and impacts.

### Measuring and communicating – the great divide

However, the additional costs to doing business (45% of CEOs surveyed) and unclear/inconsistent standards or regulations (42%) are key barriers to responding to wider stakeholder expectations.

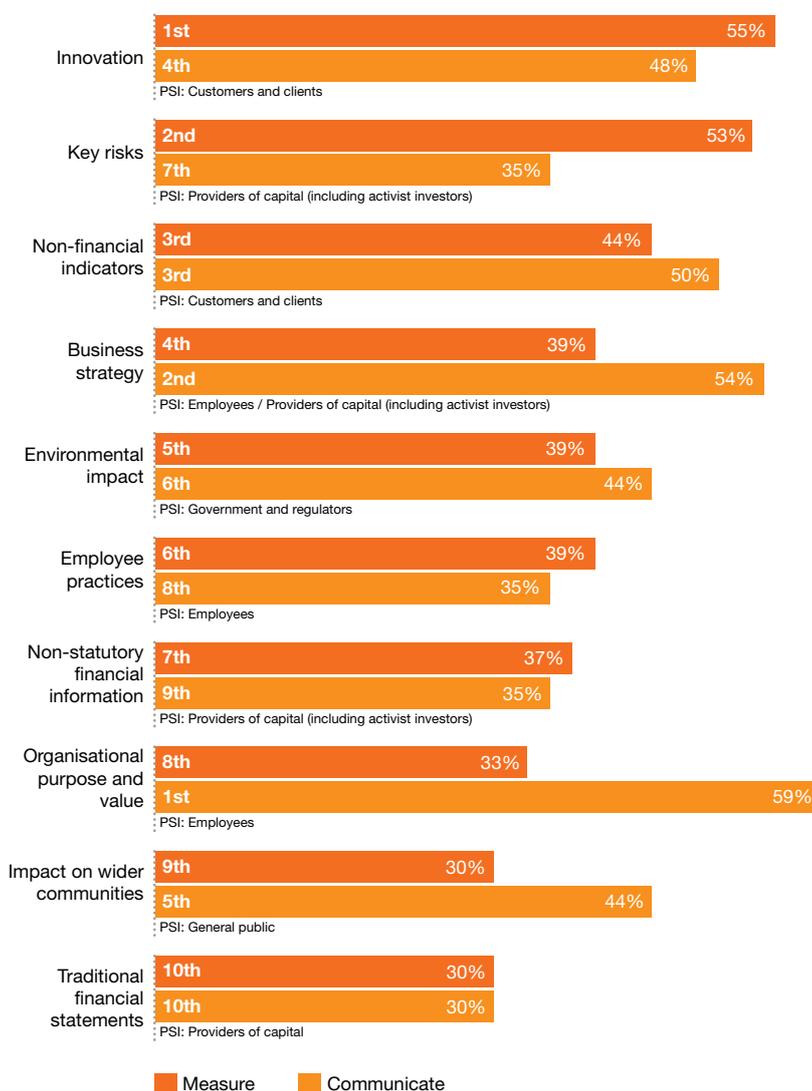
There is also a big difference in what CEOs want to better measure and what they want to better communicate. CEOs want to better measure activities which traditionally are seen to drive business success such as innovation and risks. However, they want to better communicate around traditionally ‘softer’ drivers like organisational purpose and values, business strategy and non-financial indicators (Figure 20).

But both measuring and communicating success and impact are vital across all business functions. They are the biggest enablers of a purpose driven company (no matter what that purpose is). Without metrics, it's difficult to define what success looks like, let alone how to implement it. And without communication stakeholders won't know what companies are doing.

**Figure 20 Measuring and communicating impact**

Q: In which of the following areas do you think business should be doing more to measure and communicate impact and value for wider stakeholders?

Q: Please select the stakeholder group which you believe would be most influential in causing you to communicate in each of these areas (Predominant Stakeholder Influencers, PSI)



Base: All respondents (2016= 1,409)  
Source: PwC 19th Annual Global CEO Survey

*The measures of success for any public body should be the overall outcomes from the place in which they're operating.*

Joanne Roney  
Chief Executive, Wakefield Council, UK

*So it also matters what type of growth you are having in your country, as much as the regional degree of growth that you have.*

Enrique Ochoa Reza,  
Director-General, Federal Electricity Commission, Mexico

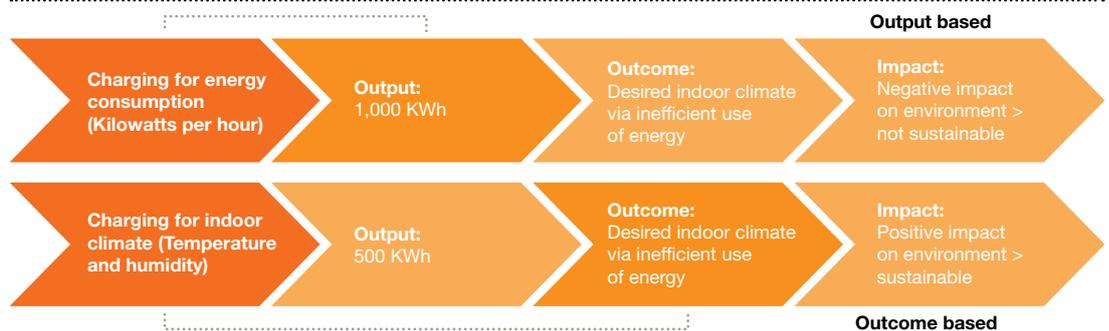
## The direction of travel for public services

Public bodies will similarly only really know if value for money has been delivered if they have the systems in place to measure outcomes and progress towards key milestones. And this is becoming a priority as payment by results and outcomes is, in our view, the direction of travel when services are delivered by outside providers.

This remains one of the key challenges facing public service delivery in the next few years, especially as budgets continue to be tight. A focus on outcomes and impact can also change perspectives on the best service for the citizen and tax payer. While measuring outcomes is a stated goal, it is easier said than done given their often qualitative nature.

Figure 21 illustrates this with the example of a state owned energy company using an output-based business model (charging for energy consumption via kilowatts per hour) versus an outcome-based one (charging for an optimum indoor climate as measured by temperature and humidity). In the first instance, the energy company has no incentive to reduce energy consumption – in fact, the opposite applies! However, in the outcome-based scenario, the energy company partners with building, lighting and appliance companies to supply the desired outcome i.e. an optimal indoor climate.

**Figure 21 Output-based vs outcome-based operating models**



Source: Future of Government, PwC, 2013

But taking an outcomes-based approach is a fundamental shift for public bodies. The outcomes a public body wants to achieve will rarely be in the control of their organisation only (see 'Beyond gross value added' box). Public bodies need to develop an understanding of the different factors that impact the outcomes they want to achieve and how to influence them.

Establishing this relationship between interventions, impact and outcomes will be critical. One approach to measuring impact is Total Impact Measurement and Management (TIMM), a technique supporting decision making between options to improve outcomes, many of which are long term in nature (see Figure 22).

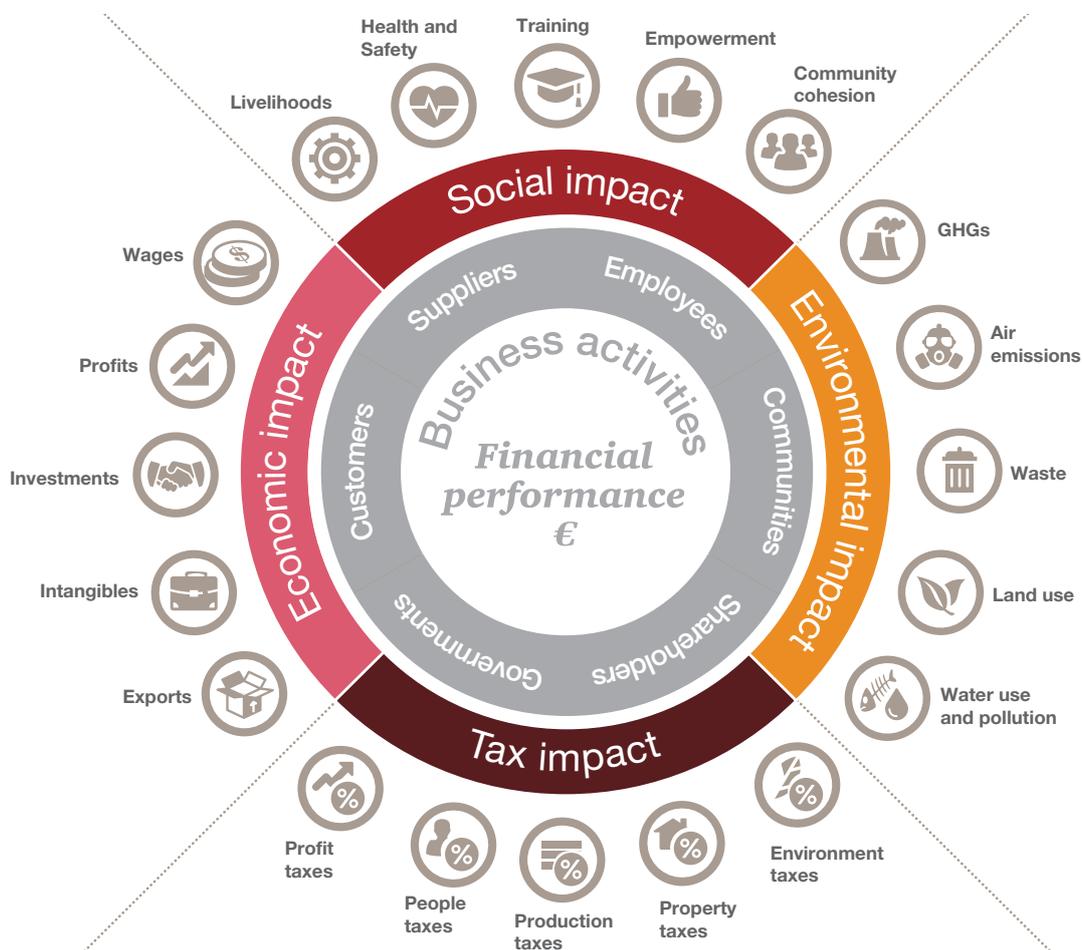
### Beyond gross value added

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 GVA?

Our research with UK think tank Demos has created a Good Growth for Cities Index, based on the views of the public on what economic success means to them.<sup>26</sup> Within the index, 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 has told us are most important to the work and money side of their lives.

Local 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 for Cities Index provides a framework for allocating resources and investment, driving decisions based on outcomes that people – the voters – value.

Figure 22 TIMM framework



Source: Measuring and managing total impact: a new language for business decisions

TIMM provides a clear framework within which to design the strategy to deliver the vision and, critically, the priorities for the implementation plan. Being able to measure, understand and compare the trade-offs between different options means decisions can be made with more complete knowledge of the overall impact and a better understanding of which stakeholders will be affected by decisions, whether an organisation is in the public, private or not-for-profit sectors.



### Questions to think about

How is performance currently being **measured and rewarded**?

Thinking back to your **organisational purpose**, how effective do you think these metrics are in measuring and reporting on achieving that purpose?

What other **metrics** do you think your organisation should be taking into account?

What do you think should be the measures of success for a **modern public body**?

In what areas do you think your organisation should be doing more to measure and communicate **impact and value** e.g. social, environmental, key risks or economic impacts?

To what extent do you have the appropriate systems in place to ensure **transparency** and that the right people are being held **accountable** for actions taken and decisions made?

How can business and government **co-create more value for society**?

Is your organisation making use of **collaborative partnerships** to drive affordable and effective public service delivery?

Are you making effective use of **collaborative partnerships** e.g. with the private and voluntary sectors?

What are the key challenges, and opportunities, to create stronger **partnerships and trust** between business and government?

# Agenda for action

*Government and business leaders across the world are facing the challenge of rising geopolitical uncertainty and a more connected, yet in many ways more divergent, world.*

In this changing environment, we believe public sector leaders can do more to help business and society by:

- Committing to a renewed focus on delivering **fiscal sustainability**, with a spotlight on re-defining purpose and with a zero-based approach to strategically managing both costs and assets.
- Delivering the **digitally-led public body** which is agile and resilient to change.
- Building the foundations for long term, **sustainable (good) growth** with a focus on the key levers of skills, infrastructure and tax.
- Collaborating to reduce the **geopolitical uncertainty** that hinders the confidence to invest, drive good growth and create good jobs.

As the world tries to cope with rising tensions, we remain optimistic that together business and government can deliver what citizens really want by putting good growth and good jobs at the heart of the purpose and mission of public bodies.



## Questions to think about

.....  
In what ways do you think **global megatrends**<sup>27</sup> will change society's expectations of your organisation and its purpose/role?  
.....

.....  
How will these trends affect the way your organisation **delivers its services** and your strategy/business model 5–10 years out?  
.....

.....  
How is **purpose** driving success by channelling energy and resources in your organisation?  
.....

.....  
How can you take advantage of a shift in **business values** to co-produce societal outcomes?  
.....

.....  
How are you engaging your **internal and external stakeholders** in your decision making?  
.....

.....  
What is the most efficient model to deliver the **value and outcomes** required?  
.....

.....  
Does this delivery model require full public ownership of all of the **assets** currently owned?  
.....

.....  
How are you **aligning your people** to your organisational purpose and remit?  
.....

.....  
How actively is your organisation **managing and developing talent**?  
.....

.....  
What **barriers** are you encountering when executing your strategy and aligning the organisation to its purpose?  
.....

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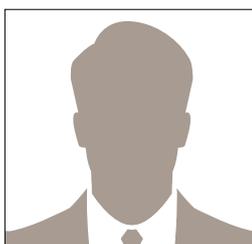
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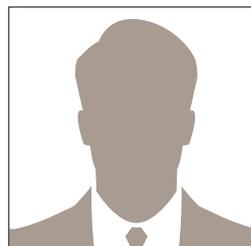


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# Notes and sources

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24. In partnership with PwC and with the support of the United Nations Millennium Campaign, MY World and United Nations Secretary-General's Envoy on Youth, 42,257 millennials voiced their opinion about education, employment and entrepreneurship. For more information, go to: <http://youthspeak.aiesec.org/>
25. [http://pwc.blogs.com/psm\\_globally/2015/10/how-public-and-private-sector-can-work-together-to-keep-the-global-transport-infrastructure-investme.html](http://pwc.blogs.com/psm_globally/2015/10/how-public-and-private-sector-can-work-together-to-keep-the-global-transport-infrastructure-investme.html)
26. [www.pwc.com/gx/en/industries/government-public-services/public-sector-research-centre/united-kingdom/good-growth-for-cities.html](http://www.pwc.com/gx/en/industries/government-public-services/public-sector-research-centre/united-kingdom/good-growth-for-cities.html)
27. Demographic shifts, Technological advances, Resource scarcity and climate change, Shift in global economic power, Urbanisation

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