

17<sup>th</sup> Annual Global CEO Survey: The talent challenge. Growth, but not as we know it<sup>p4</sup> / What does this mean for skills availability?<sup>p8</sup> / Tackling talent strategy<sup>p14</sup> / The role of governments<sup>p16</sup> / Valuing adaptability<sup>p17</sup> / What's next?<sup>p18</sup>

Key findings for New Zealand

# *The talent challenge*

## Adapting to growth





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# *The new challenge for New Zealand's CEOs*

The past few years have tested the world's CEOs to their limit. The global recession, economic crisis and constant redrawing of the economic map have demanded truly extraordinary leadership. Our 17<sup>th</sup> Annual Global CEO Survey at last sees the world's leaders in a more optimistic frame of mind.

Our survey explored CEOs thoughts on growth, the global trends transforming business, and how they are preparing their organisations to be 'fit for the future'.

What we found in New Zealand is our CEOs are facing many of the same challenges and opportunities identified by our Global CEO Survey results. However, they are significantly more optimistic about the outlook for the global economy and their business revenue growth over the next 12 months, with 63 percent believing the global economy will improve and 89 percent confident about their business growth.

The mood has shifted from survival to growth. But this doesn't mean CEOs have space to breathe – capitalising on opportunities will be far from easy. The rules have changed.

Megatrends such as technological development, demographic change and urbanisation are transforming New Zealand and the world, and the business landscape along with it. At the same time, the relationship between corporations and their stakeholders has shifted and fundamental questions are being asked about the purpose and nature of business.

It's clear that the implications for talent management are profound. Skills shortages are once again keeping CEOs awake at night and megatrends are only likely to make the problem worse. This is no time for tinkering at the edges of talent management; the magnitude of the changes underway mean that a fundamental rethink is needed.

Time isn't on their side. CEOs have led their organisations through the toughest of years, but the fight isn't over. The most successful organisations will be those that learn quickly how to harness the opportunities and minimise the risks brought by megatrends. The age of crisis management is coming to an end – now it's time for transformative change.





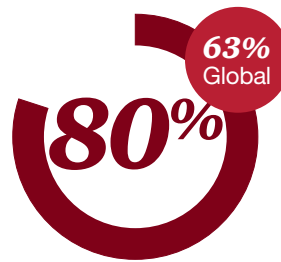
# Main findings: What's on the minds of New Zealand's CEOs?



*of New Zealand's CEOs believe the global economy will improve over the coming 12 months*

## **The megatrends challenge**

New Zealand's CEOs see better times ahead; 63% believe the global economy will improve over the coming 12 months. But they also know that the rules have changed. Megatrends including technological development, demographic change and urbanisation, are creating profound challenges for the future of business and their workforces.



*of New Zealand's CEOs said availability of skills was a serious concern*

## **New talent battlegrounds**

Megatrends are redrawing the skills map for New Zealand businesses; the supply of talent is shifting at a time when demand is increasing. This is exacerbating a familiar worry for CEOs; 80% said availability of skills was a serious concern. With more than half of CEOs (54%) planning to hire more people over the next 12 months, competition for talent will be intense.



*of New Zealand's CEOs report an improvement of trust between employer and employee*

## **A question of trust**

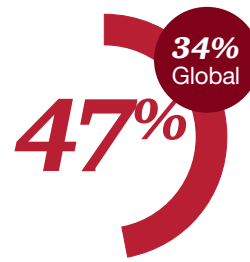
In a competitive talent market, the employer value proposition becomes critical. New Zealand's CEOs have worked hard to rebuild trust between employer and employee, and 49% report an improvement. But will trust translate into loyalty?



*of New Zealand's CEOs say that they recognise the need to change their strategy for attracting and retaining talent*

### **Action paralysis**

New Zealand's CEOs see that there are serious talent management challenges ahead; 90% say that they recognise the need to change their strategy for attracting and retaining talent. But an enormous 61% haven't yet taken the first step. New Zealand's CEOs are well aware that something needs to be done, but are less sure of exactly what that is.



*of New Zealand's CEOs felt that HR was well-prepared to capitalise on transformational trends*

### **HR has much to prove**

Less than half of New Zealand's CEOs feel HR is ready for the task ahead. When asked how well-prepared the major functions in their business were to capitalise on transformational trends, only 47% felt that HR was well-prepared and 12% said it was not prepared at all.

# Growth, but not as we know it

After years of testing economic conditions, New Zealand's CEOs are more buoyant about the future. Sixty-three percent believe that the global economy will improve over the coming 12 months, compared to 44% of global CEOs. CEOs are also feeling confident about their own company's future, with 69% 'very confident' that they will see revenue growth in 2014, compared to 39% of global CEOs.

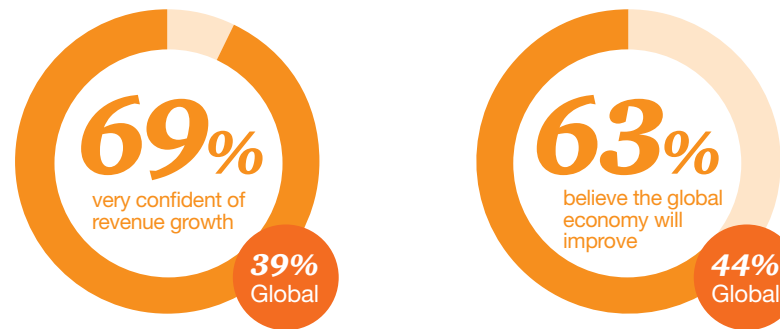
The focus is turning away from constraint, with CEOs switching from survival mode to transforming their organisations to be fit for the future. They're now more worried about the trends that are going to impact their businesses.

Beneath the headline figures, though, is a strong note of caution, and concern. Economic conditions may have improved, but CEOs know that this is just the beginning of an even more difficult battle. Opportunities are available but the rules have changed; growth in this new world will be more difficult to find.

## ***New Zealand's CEOs are confident they can increase revenue in the next year, and believe the global economic outlook is broadly positive***

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?

Q: Do you believe the global economy will improve over the next 12 months?



Source: All New Zealand (online) and global respondents

### The megatrend challenge

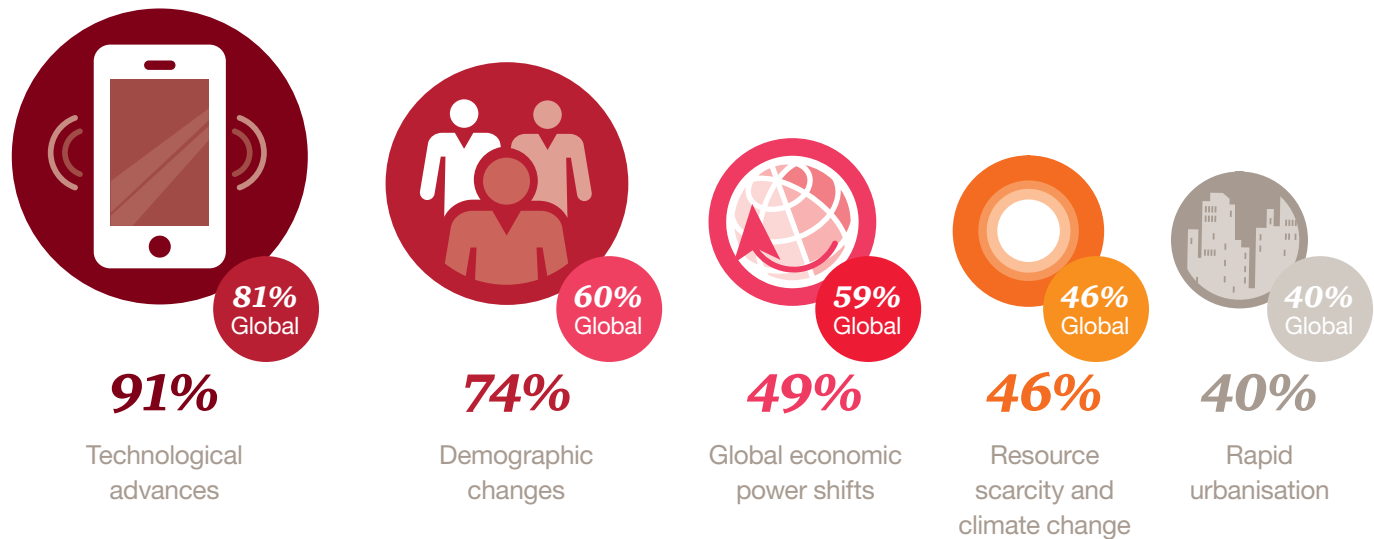
Identifying trends and preparing the business to take advantage of them has always been a critical element of leadership. For today's CEOs, though, it's become the most important and the most difficult test of all. The megatrends affecting organisations across the world bring risks for the unprepared but also opportunities for companies that are willing to radically reassess the way in which they function.

The scale of the changes is massive, and organisations must adapt at every level. Their thinking, their strategy and their mindset around long-standing assumptions and processes (especially when it comes to talent management) must change. And organisations must become more agile to survive in a world where economic events or political unrest can force a rapid change of plan.

Above all, leaders will need a far wider range of skills than before – from a deep understanding of technology to the ability to manage a multi-generational workforce. This places huge demands not only on existing management, but on the development teams tasked with creating the next generation of leaders.

#### New Zealand's CEOs focused on five megatrends that are reshaping the business landscape

Q: Which global trends do you believe will transform your business the most over the next five years?



Source: All New Zealand (online) and global respondents

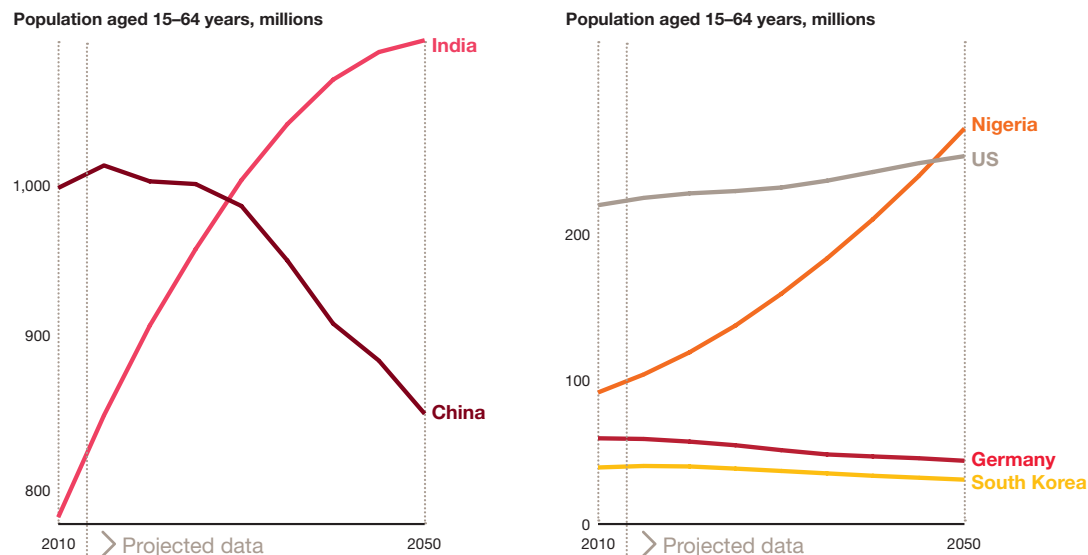
## The megatrend challenge

### Redistribution of the workforce

The world's population is projected to reach 8 billion by 2025, with New Zealand's population estimated to increase to 5.4 million by 2033<sup>1</sup>. But this isn't uniform growth – the population in some countries is slowing or has stalled, which will happen in New Zealand as our population ages, while in others it's booming. This, combined with variances in the birth rate from region to region is transforming the world map of the working-age population. By 2020, the median age will be 43 in Europe, 38 in China and just 20 in Africa. In New Zealand, Statistics New Zealand believe it is likely the median age will exceed 41 by the late 2030s.

This effectively means a massive redistribution of the world's workforce. Within two generations, China will have lost 150 million workers and India will have gained 317 million. The working-age population has already peaked in South Korea, but has been falling for the past decade in Germany.

**In two generations, China will have lost 150 million workers while India will have gained 317 million**



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, 'World Population Prospect: The 2010 Revision'.

<sup>1</sup> Statistics New Zealand, 'National Population Projections: 2011 (base)-2061', 2012.

### Fast-growing cities

When urbanisation is factored in, the picture becomes more complicated. The world's urban population is projected to increase by 72% by 2050 and will grow fastest in sub-Saharan Africa and Asia, regions where the overall population growth is highest and the current proportion of city-dwellers is relatively low.

Cities currently generate about 80% of global economic output, but a fast rise in urbanisation, particularly in regions at a relatively early stage in their economic development, brings the risk of overcrowding, poverty and poor schooling – conditions that are unlikely to attract or nurture talent.

Given the ongoing population growth of New Zealand's cities, we can't afford to be complacent to the impacts of urbanisation locally.







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# 72%

*The urban population is projected to increase by 72% by 2050*

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### ***Talent in the digital age***

New Zealand's CEOs see technological advances as the most significant megatrend (91%), driving change in every area of business. The implications for talent management have been, and will continue to be, profound – changing the foundations of our understanding of where and how we work, and how employers find, train and manage their people.

Technological development is changing the skills that employers need, replacing physical roles with knowledge-based roles. It has, in effect, shortened the shelf-life of employees' skills: competition for people with in-demand tech-based skills, such as cloud computing, mobile technology and data analytics, is fierce – finding efficient ways of securing a solid pipeline of technology-savvy talent is a priority. But there's also the question of predicting where technology will lead us in the future – software as a substitute for some knowledge-based roles is already a reality.

CEOs and HR are being asked to plan for a world that remains largely unknown. The skills that are needed are constantly shifting as technology develops, as is the way in which work is carried out and delivered. Fortunately, technology also provides the answer, in the great leap forward it has brought to HR data analytics. HR has the opportunity to add significant strategic value in predicting the skills that will be needed, and plan for changes in demand and supply.

# What does this mean for skills availability?

Urbanisation and demographic changes, combined with other megatrends, are redrawing the skills map for businesses. The supply of talent is shifting at a time when demand for skills is increasing sharply.

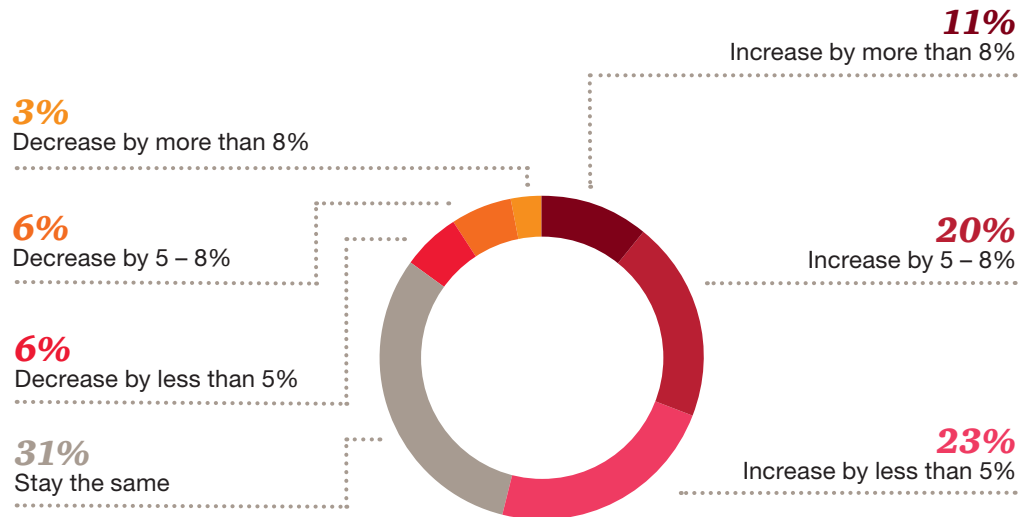
After a number of years of headcount cuts in developed markets, CEOs are looking to hire again. In New Zealand, 54% of CEOs expect to increase their headcount in 2014.

CEOs need skilled labour to drive the growth of their businesses and more than half have plans to hire more people in the near future. The question is, from where?

**54%**  
of New Zealand's CEOs plan to increase headcount in 2014.

50%  
Global

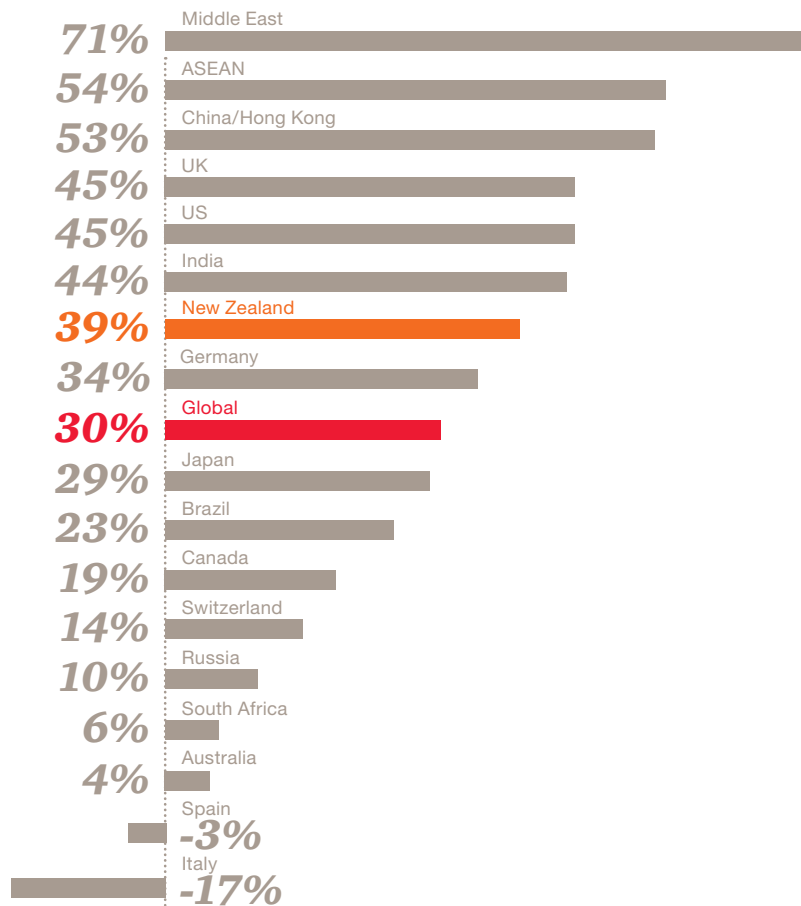
New Zealand's CEOs headcount intentions



Source: All New Zealand (online) respondents

**Net Hiring intent %**

Percentage of CEOs reporting they expect to increase headcount, less those expecting to decrease

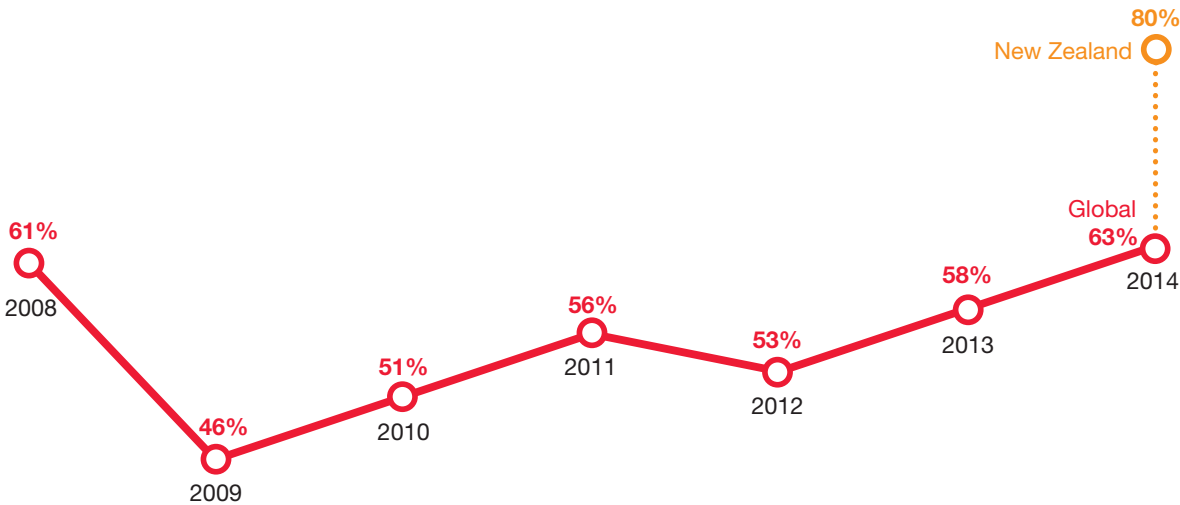


Source: All New Zealand (online) and global respondents

The nightmare returns

The availability of skills has long been a worry that keeps New Zealand’s CEOs awake at night. Eighty percent named it as a serious concern this year, compare to 63% of global CEOs. While there are regional variances – the issue is less pressing in Western Europe (50% overall named it a concern including 31% in Spain) but an overwhelming worry in Africa (91% of CEOs are concerned) – and some sectors are affected more than others (CEOs of engineering and technology companies were the most worried), it’s clear that the recovery in developed markets, combined with demographic shifts, has the potential to make a bad problem even worse.

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



Source: All New Zealand (online) and global respondents





63%  
Global

80%

*of New Zealand's CEOs are concerned about  
the availability of key skills.*

## ***What does this mean for skills availability?***

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### ***Trust improves, but will it help?***

In a highly competitive talent market, the employer value proposition (EVP) – the ‘deal’ between employer and employee which lays out what each can offer and expect in return – and the employer brand has become an important bargaining tool.

As organisations that rely on pay to bolster their EVP – such as those in the financial services sector – may not be able to increase compensation levels any further, employee engagement and trust will become more important in attracting and retaining talent.

New Zealand CEOs, though, report an improvement in the level of trust they see from their employees, with 49% saying trust has improved and the same number saying it has stayed the same.

But there’s no room for complacency, as improved trust won’t necessarily translate into loyalty.

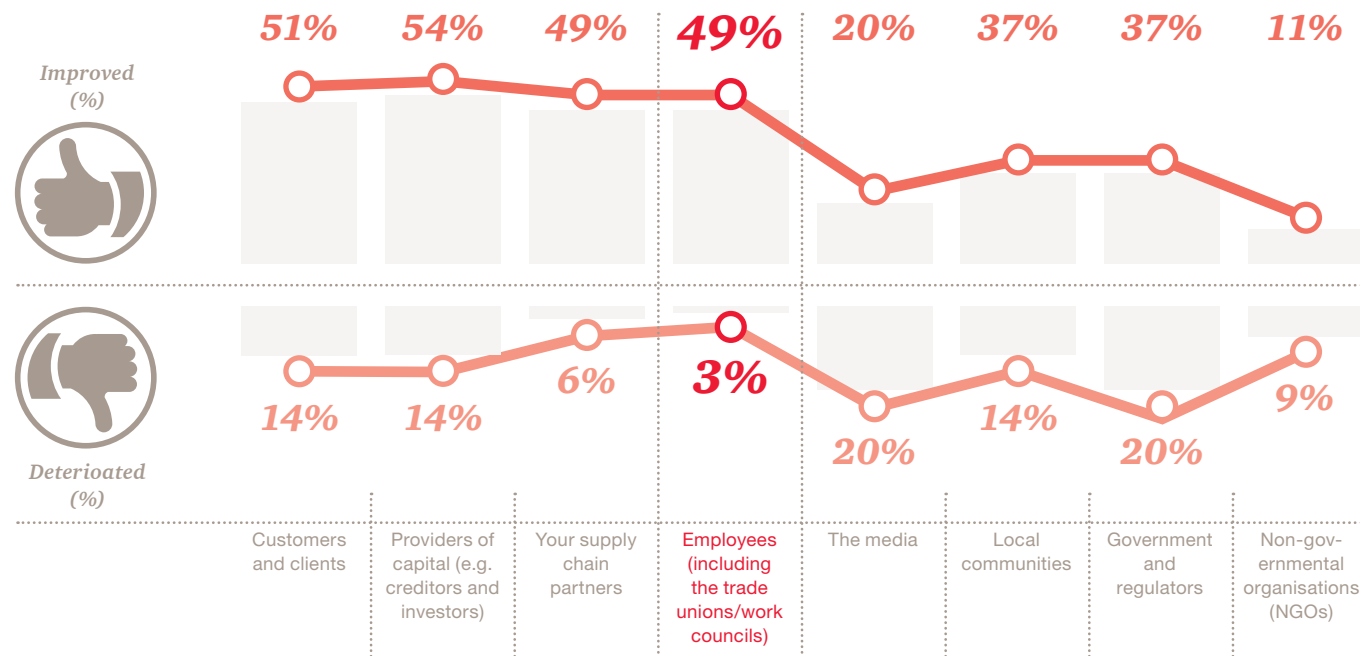
It’s also important to recognise that the nature of trust is changing. We all have access to far more information than before. Employees can compare reward, benefits, development opportunities and corporate culture against competitors at home and abroad – and they share their own experiences widely.

There’s no place to hide. It’s not enough for CEOs to talk about improving mutual trust – if they fail, the evidence will be there for all to see.

When economic conditions improve, employees start to look for better options elsewhere – an exodus could be just around the corner.

### New Zealand's CEOs see stakeholder trust in their industries... but with exceptions

Q: To what extent has the level of trust the following stakeholders have in your industry changes in the past five years



Source: All New Zealand (online) respondents

39%  
Global

# 49%

of New Zealand's CEOs believe employee trust in their industry has improved over the last 5 years

# Tackling talent strategy

New Zealand's CEOs know that there are serious talent management challenges ahead, driven by the need to adapt to megatrends. Ninety percent say that they recognise the need to make a change, or are already changing, their strategy for attracting and retaining talent. But there's still an enormous gulf between intention and action; a staggering 61% of CEOs haven't yet taken the first step.

**90%**  
93%  
Global

*of New Zealand's CEOs say that they recognise the need to make a change, or are already changing, their strategy for attracting and retaining talent.*

**29%**  
32%  
Global

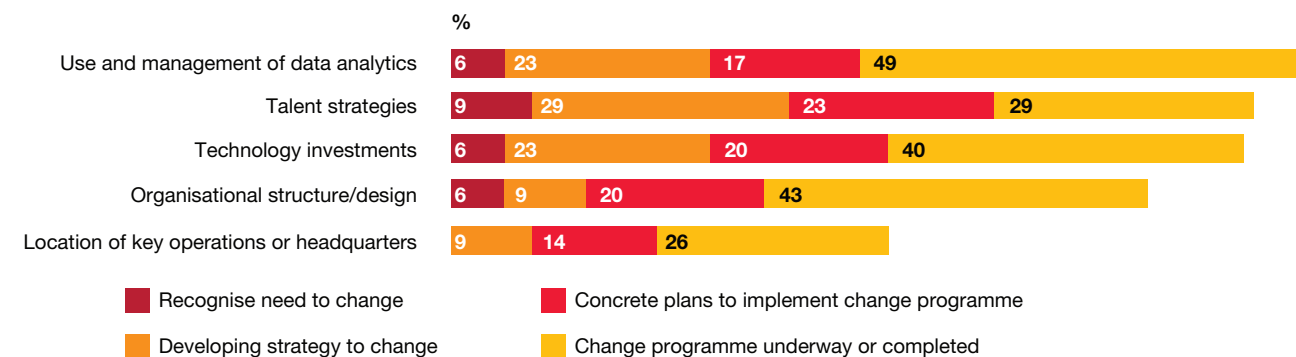
*of New Zealand's CEOs have started or completed changes to talent strategies.*

This paralysis is familiar. In 2013, 77% of global CEOs said they had plans to change their strategy for managing talent in the coming 12 months – but if we look back at the past seven years of CEO surveys, talent management has been identified as the main target for strategic change in every year. And every year, their concerns about availability of talent have increased. CEOs are well aware that something needs to be done, but are less sure of exactly what that is.

This is no time for tinkering at the edges. The magnitude of the changes underway mean that a fundamental rethink of talent strategy is needed, and right now. New sources of labour to build tomorrow's workforce must be found, and the way in which people work, and where they'll work, needs to be reconceived.

## New Zealand's CEOs recognise the need to change and take action

Q: To what extent are you currently making changes, if any, in the following areas?



Source: All New Zealand (online) respondents



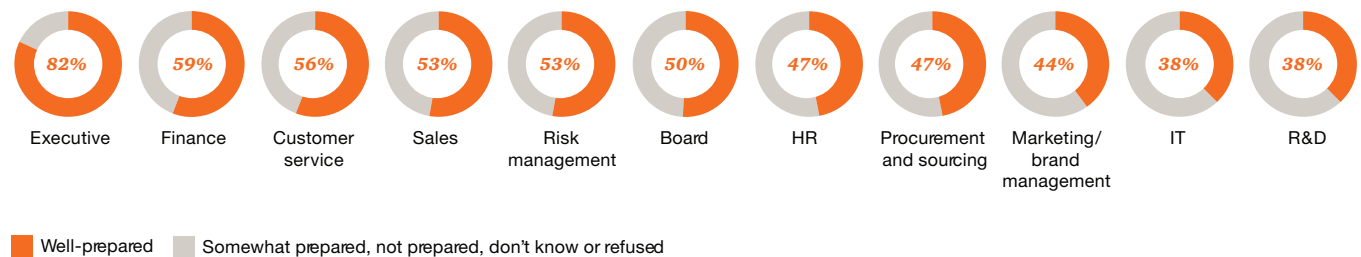
### HR must prove its worth

Part of the problem is that many of New Zealand's CEOs feel that HR simply isn't up to the task ahead. When asked how well-prepared the major functions in their business were to capitalise on transformational trends, 59% said that the finance function was well-prepared but only 47% felt that HR was well-prepared and 12% said it was not prepared at all.

The demands created by megatrends require an HR function that's at the top of its game – one that uses sophisticated analytics to spot talent trends and skills gaps, and provide the insight that will help organisations adapt their talent strategy, training and reward frameworks to maximise the opportunities available. It's clear, though, that many CEOs lack confidence that HR can cope with the changes ahead – it's up to HR professionals to prove them wrong.

**Across most business functions, New Zealand's CEOs give a mixed response about how well prepared their organisations are for transformative change.**

Q: Thinking about the changes you are making to capitalise on transformative global trends, to what degree are the following areas of your organisation prepared to make these changes?



Source: All New Zealand (online) respondents

# The role of governments

The impact of megatrends on talent supply and demand has implications for individual jurisdictions as well as employers. In some countries the contribution of a falling working-age population and language barriers that deter foreign entrants – Japan and Germany being prime examples – suggest a talent crisis ahead unless governments and businesses move quickly.

The ability of individual nations to thrive in the new world depends on the ability of their businesses to attract and retain the best people. Some markets – Singapore being a notable example<sup>2</sup> – recognise this and have taken steps to create favourable conditions that allow for talent movement. Other governments have been less active, with the result that their nations are struggling to compete.

**29%** 52% Global

*Overall, 9% of New Zealand's CEOs said regulation made it easier to find and attract skilled workers, but 29% said regulation had made things more difficult.*

Some New Zealand CEOs blame at least part of the skills crisis on the enthusiasm of legislators. A small proportion of CEOs felt that the balance was weighted against them in the fight to attract talent. Overall, 29% said regulation had made things more difficult.

CEOs believe that government must take its share of responsibility for developing the future labour supply, but are sceptical about the role that governments have played so far. Forty-six percent of New Zealand's CEOs said creating a skilled workforce should be one of the top three government priorities, and 11% said creating jobs for young people.

While CEOs feel that government has an essential role in developing skills, they don't feel that it's meeting its obligations. Only 29% of New Zealand's CEOs felt government had been effective in improving workforce skills.

**46%** 41% Global

*of New Zealand's CEOs said creating a skilled workforce should be one of the top three government priorities*

**29%** 21% Global

*while only 29% of New Zealand's CEOs felt government had been effective in improving workforce skills*

<sup>2</sup> According to the World Economic Forum's 2012 Global Competitiveness Report, Singapore ranked 5th in the world in terms of labour regulations that were beneficial for business

## Valuing adaptability

CEOs may place some of the blame for the skills shortage at the door of governments, but they must also accept that changes need to be made closer to home if their organisation is to win the battle for the best talent.

Clearly, talent mobility will only become more important in the future as demographic trends create an unequal supply of new workers. In a perfect world, the best and brightest workers are free to move around and apply their skills wherever the need is greatest, but the world is far from perfect. Immigration legislation and, increasingly in New Zealand, public opinion, often gets in the way.

A more lasting solution is for organisations to change the way they think about, look for and value talent.

Some changes are already underway, driven by megatrends – improvements in technology have made time and location-independent working a popular reality, allowing employers to access skills from anywhere. PwC studies<sup>3</sup> have highlighted a growing trend for talent to work independently or on project-based terms, filling specific skills needs when they're required.

The willingness of organisations to embrace flexibility in the way they source and manage talent has already become a differentiating factor for employers, but great possibilities open up if employees, employers and governments are willing to go one step further. Structural flexibility in the labour market helps to improve the match between talent supply and demand, but if employees are willing and able to adapt their skills and experience to available opportunities, and employers are willing to look beyond traditional boundaries for the skills they need, even greater potential can be reached.

The skills that an organisation needs can come from anywhere – from a different country, from a different organisation, even from a different sector. We believe that adaptability will become the defining element in talent competition – the willingness and ability of employees to switch sectors and locations to find a role that suits their skills well. The more adaptable New Zealand's workers, the better the match between talent supply and demand, and the wider the talent pool for employers.<sup>4</sup>

Employees, employers and governments all have a role to play in encouraging adaptability, and CEOs must help to lead the debate. Ultimately, they have the most to gain.

<sup>3</sup> Managing Tomorrow's People: The future of work to 2020, PwC

<sup>4</sup> For more on this see Adapt to Survive, a global study by PwC into the value gained by a better talent fit, commissioned by LinkedIn

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## *What's next?*



Our 17<sup>th</sup> Annual Global CEO Survey shows that New Zealand's business leaders are well aware of the extraordinary challenges ahead of them, but many are paralysed by the scale of change that's needed. Megatrends have enormous implications for talent management, but this isn't a problem for organisations and their CEOs alone – the economic welfare of entire nations depends on their ability to adapt to this new world.



## Priorities for CEOs, HR and governments

### **Get HR ready**

CEOs know that talent strategy has to change, but too many have wavered in execution. There's no time left for inaction. Organisations need an HR function that's up to the task and CEOs need to make it a priority to help HR get ready.

### **Look to analytics**

It's going to be harder than ever to find the right skills for the organisation, now and in the future. Identifying what's needed could be the single biggest differentiator for global employers – and that means making full use of HR analytics, and feeding the results into the formation of future strategy.

### **Embrace adaptability**

Organisations need to take a fresh look at their attitudes to talent. Adaptable people who can develop new skills and a new mindset around talent sourcing and management will both be needed in a fast-changing world.

### **Trust and be trusted**

CEOs have rightly identified rebuilding trust as a priority. But in a world where everything is shared, this is far more difficult than it sounds. HR and CEOs need to refocus the 'deal' with employees and make sure that everything, from culture to reward, reinforces intent.

### **Explain and collaborate**

CEOs complain that governments aren't doing enough to plug the skills gap – but perhaps the problem is a lack of understanding. Employers have a vested interest in the education and training system – working together would benefit everyone.

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# About the survey

In total, we conducted 1,344 interviews with CEOs in 68 countries between September and December 2013<sup>1</sup>.

Forty-three of New Zealand's CEOs contributed to the survey; including 35 online survey respondents and 11 in-depth face-to-face interviews<sup>2</sup>. These CEOs lead companies with a combined annual revenue of approximately NZ\$39.5 billion, employing around 65,000 people, across a diverse range of industries<sup>3</sup>.

To see the full New Zealand insights from the 17<sup>th</sup> Annual Global CEO Survey go to [pwc.co.nz/ceosurvey](http://pwc.co.nz/ceosurvey).

- <sup>1</sup> Not all figures add up to 100%, due to rounding of percentages and exclusion of 'neither'/'nor' and 'don't know' responses.
- <sup>2</sup> Three of our online survey respondents also participated in an in-depth interview (therefore the total number of interviewees does not equal 46). One in-depth interviewee participated anonymously.
- <sup>3</sup> Company information is based on publicly available information and estimates for 2012/13.





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**Auckland**

PwC Tower  
188 Quay Street  
Private Bag 92162, Auckland 1142  
T: +64 9 355 8000

**Waikato**

PwC Centre  
Level 4, 109 Ward Street  
PO Box 191, Hamilton 3240  
T: +64 7 838 3838

**Hawkes Bay**

PwC Centre  
36 Munroe Street  
PO Box 645, Napier 4140  
T: +64 6 835 6144

**Taranaki**

PwC Centre  
54 Gill Street  
PO Box 144, New Plymouth 4340  
T: +64 6 757 5477

**Wellington**

PwC Tower  
113 – 119 The Terrace  
PO Box 243, Wellington 6140  
T: +64 4 462 7000

**Canterbury**

5 Sir Gil Simpson Drive  
Canterbury Technology Park  
PO Box 13244, Christchurch 8053  
T: +64 3 374 3000

**Otago**

Westpac Building  
106 George Street  
PO Box 5848, Dunedin 9058  
T: +64 3 470 3600

