21st CEO Survey

Balancing privacy and transparency in a changing world

Key findings from Private Companies

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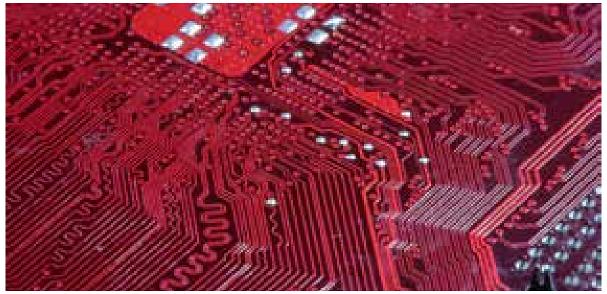
Contents



Introduction

This year, we interviewed 722 private-company CEOs as part of our annual CEO survey, representing some 56% of all participants. Clearly coming through are the themes we see and hear on a daily basis – private companies and their CEOs value their relative autonomy, enabling a greater choice around transparency of culture, internal policies, strategies, external reporting and other areas of their business. They enjoy operating free of much of the regulation that public ownership can often impose, and are able to do business in what they consider the right way, without second-guessing external commentators, thereby building trust with closer stakeholders.

In many cases, their relative privacy enables them to wait and see rather than succumb to external pressure to be early adopters of the latest technology fad or business model. Rather, we see time and again that established private companies choose to be fast followers. Many such companies opt to remain private because, put simply, they value the greater autonomy and reduced burden of regulated "red tape" born from private ownership.

In other ways, though, CEOs of private companies are ahead of the curve around being transparent around their practices and policies. The majority, for example, choose to disclose their compensation practices, more so than their public peers. The point is, the choice is theirs.

Operating in a world of growing complexity and wide-ranging risks, at a time when many are contemplating a move into new global markets, private-company CEOs are freer to operate with a degree of agility, flexibility, and pragmatism that some of their counterparts at public companies might envy.

In many other respects, however, the ownership model is far less differentiated. When it comes to the external key concerns affecting these anxious optimists, cyber threats, global market uncertainty and a shortage of digital talent are still at the forefront of mind for private-company CEOs.

But, make no mistake, these CEOs are indeed optimistic about the future, despite the hurdles they see. In fact, 85% of private-company CEOs said that they are somewhat confident or very confident about their organisation's prospects for revenue growth over the next 12 months.

David Wills
Global Leader, Entrepreneurial & Private Business

01

The biggest worries:
Cyber threats and the global market

Cyber threats loom large among the concerns of private-company CEOs. Many of them – 39% – cite cyber threats as the leading danger facing their organisation, followed closely by the scarcity of key skills to mitigate those risks (see exhibit 1). Like the CEOs of other types of companies participating in our survey, private-company CEOs see how digital technologies offer new opportunities, but also new threats, and they wonder if they are prepared for the changes to come.

That concern isn't universal across all types of private companies, however. The responses of CEOs of family-run companies to certain key questions differ significantly from the responses of the CEOs of other types of private companies. For example, only 32% of CEOs of family-owned private companies cited cyber threats as a leading concern, compared with 44% for private-equity-backed and 35% for those held in partnership (see exhibit 2).

Another concern is the uncertain future of once-stable trading relationships. The rising protectionist sentiment in the United States and the UK's impending exit from the European Union are driving many private companies, especially in North America and the UK, to seek out new markets. More than two-thirds – 67% – of the private companies that have made a significant acquisition did so largely to gain access to a new market.

Yet, despite these looming threats, private-company CEOs still report being optimistic about the future of their businesses and the overall global economy, and when asked how they thought the global economy would fare over the next 12 months 56% said they expected to see improvements.

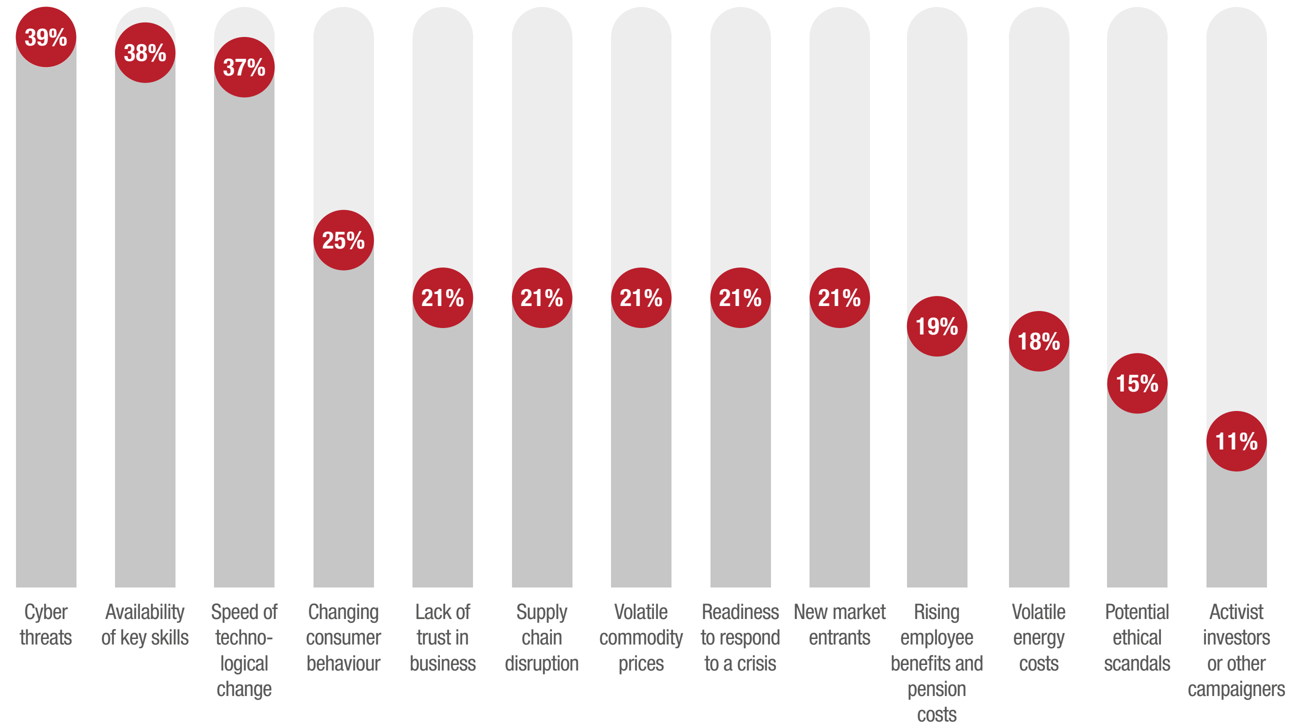
Furthermore, when asked how confident they were about their companies' prospects for revenue growth over the next 12 months and 3 years, 85% and 89%, respectively, said they were somewhat or very confident. That comes close to 87% and 91% reported in the overall CEO sample.

Exhibit 1

Private-company CEOs are concerned about cyber threats and the availability of key skills

Q How concerned are you about the following business threats to your organisation's growth prospects?

Chart shows percentage of respondents who responded 'Extremely concerned'



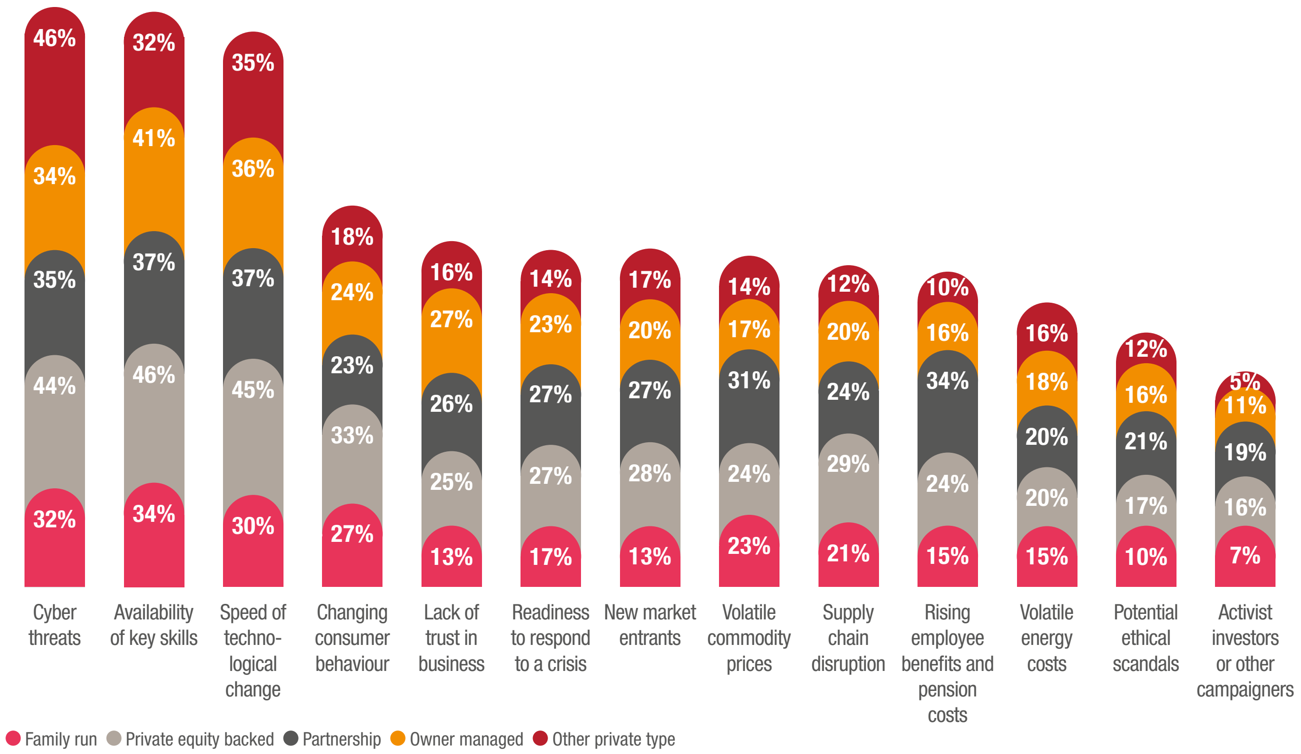
Source: PwC, 21st Annual Global CEO Survey. Base: Privately owned company respondents.

Exhibit 2

What's keeping private-company CEOs up at night – by ownership type

Q How concerned are you about the following business threats to your organisation's growth prospects?

Chart shows percentage of respondents who responded 'Extremely concerned'



02

Digital-talent shortages cause headaches…

but a remedy is lacking

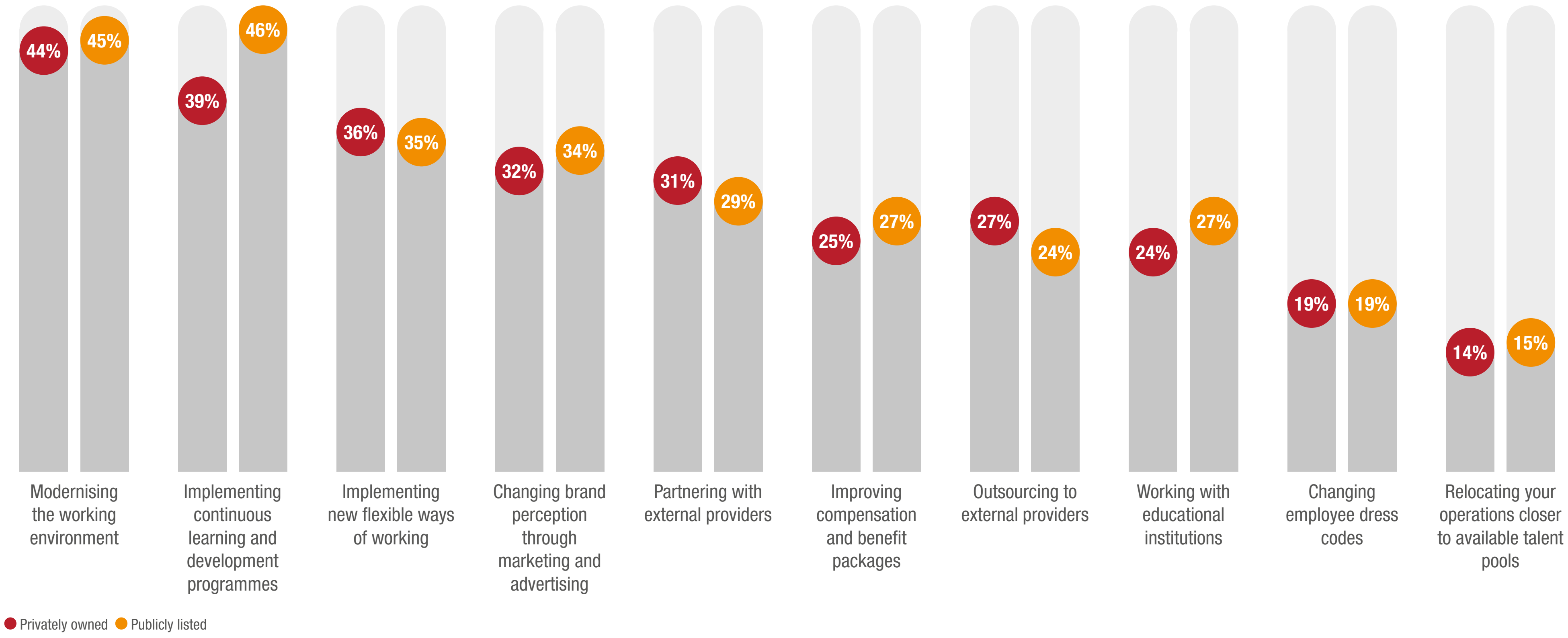
Nearly three-quarters (74%) of private-company CEOs are concerned about the availability of digital talent amongst their workforce, and 50% say it is very or somewhat difficult to attract digital talent. An even larger percentage of CEOs of family-run companies – 57% – say that attracting digital talent is very or somewhat difficult, in contrast to private-equity-backed companies where only 48% report similar levels of difficulty.

Exhibit 3

Private-company CEOs fall behind in digital-talent push

Q To what extent is your organisation using the following strategies and tactics to attract or develop digital talent?

Chart shows percentage of respondents who responded 'To a large extent'



Source: PwC, 21st Annual Global CEO Survey. Base: Privately owned company respondents.

At the same time, though, private companies lag publicly listed companies in developing and employing coherent strategies to attract digital talent. Only 39% of private-company CEOs – and within that only 34% of family-run companies – say their organisations have implemented continuous learning and development programmes, compared with 46% of CEOs of publicly listed companies. Only 14% of private companies and only 12% of family-run companies are relocating their operations to be closer to digital talent pools, and only 25% of all private companies are improving their compensation and benefit packages to attract digital talent (see exhibit 3).

03

Trust, transparency, and culture

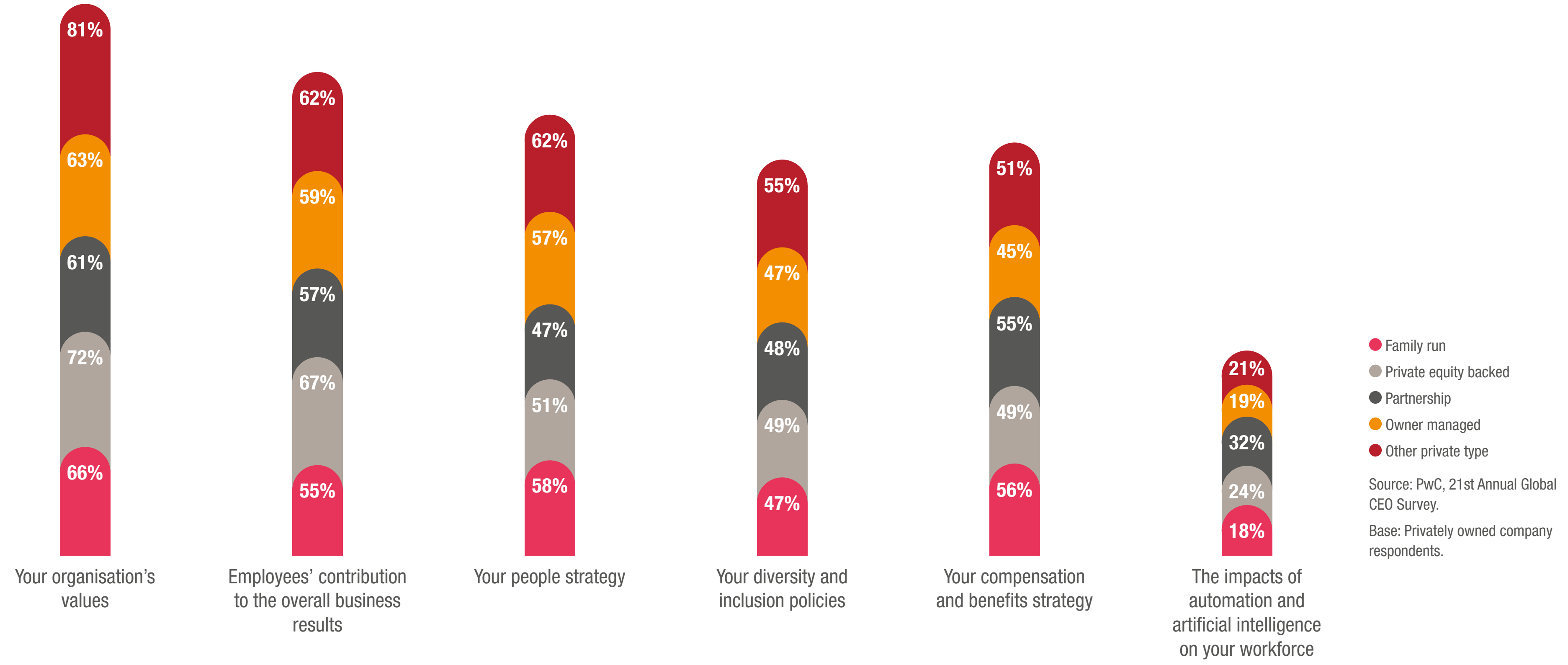
Private-company CEOs tend to rank high on feeling the need to build trust between senior leadership and an organisation’s workforce. Only 19% agree that such trust is declining at their organisations, compared with 20% of public company CEOs. Yet private companies trail publicly listed companies in actually measuring that trust, with 68% doing such measurement, compared with 74% of publicly listed companies overall. The gap is even more pronounced among family-run companies, only 59% of which measure employee-leadership trust, compared with 70% of private equity-backed companies and 69% of partnerships. In similar fashion, less than half of private companies – 49% – are creating transparency around their diversity and inclusion policies to a large extent, and only 47% of family-run companies (see exhibit 4). By comparison, 57% of publicly listed companies are doing so.

Exhibit 4

How private-company CEOs are building trust and transparency

Q To what extent is your organisation building trust with its workforce by creating transparency in the following areas?

Chart shows percentage of respondents who responded 'To a large extent'



Source: PwC, 21st Annual Global CEO Survey.

Base: Privately owned company respondents.

In contrast, family-run companies are above-average in creating transparency around their compensation and benefits strategies, with 56% doing so to a large extent, compared with 51% of publicly listed companies and 49% of private-equity-backed companies.

There is no single reason for these disparities. But we have observed, especially in our interactions with family-owned and family-managed companies, that many struggle to transmit their values and culture as their headcounts increase. When a private company has 30 employees, most of whom work on the shop floor, and nearly all of whom were interviewed and hired by the owners or family members, it's relatively easy to get to know employees, communicate the organisation's values and purpose, and assess whether an employee is a good fit with the culture. As the company adds to its headcount, however, the ties between management and employees can grow thin and frayed, and the personal approach to cultural transmission, so effective in a small organisation, is no longer possible.

Conclusion

Many private companies may wish to consider developing more formal, systematic means and mechanisms for communicating and reinforcing what the organisation stands for – and just as important, what it won't stand for. And they need do so quickly, before the competition for talent grows even more intense.

Despite these challenges and concerns, most private companies, including family businesses, expect near-term growth amid strengthening macroeconomic fundamentals, increasing consumer spending, and, in many jurisdictions, loosening regulation. Promising new markets beckon, increased profitability frees up new funds for capital investments, and new technologies can enable better communication and greater efficiency.

No wonder the mood in most corner offices is optimism tempered by anxiety. And with choices over transparency and privacy, expect to see private companies valuing their ownership structure for some time to come.

21st CEO Survey Methodology

PwC conducted 1,293 interviews with CEOs in 85 countries. Our sample is weighted by national GDP to ensure that CEOs' views are fairly represented across all major countries. The interviews were also spread across a range of industries. Further details by region and industry are available by request. Eleven percent of the interviews were conducted by telephone, 77% online, and 12% by post or face-to-face. All quantitative interviews were conducted on a confidential basis.

The lower threshold for all companies included in the top 10 countries (by GDP) was 500 employees or revenues of more than US$50 million. The threshold for companies included in the next 20 countries was more than 100 employees or revenues of more than $10 million.

- 40% of companies had revenues of $1 billion or more.
- 35% of companies had revenues between $100 million and $1 billion.
- 20% of companies had revenues of up to $100 million.
- 56% of companies were privately owned.

Notes

- Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 722 (Privately Owned) unless otherwise stated. The full base of figures for the CEO survey is 1,293.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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