



Turn risks and opportunities into results

Exploring the top 10 risks and opportunities
for global organizations

Global report

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Introduction

While risk continues to dominate the business agenda, competition is becoming just as dominant a feature. Market volatility, pricing pressure, variations in market performance, demanding stakeholders – all have contributed to a global economy that encourages competitive drive. And with that drive comes opportunity. For that reason, we have broadened the scope of what has traditionally been our Business Risk report to incorporate both risks and opportunities.

In this report, we explore the global top 10 business risks and opportunities emerging from our study. As in previous years, we have taken a “bottom-up” approach to our work, gathering opinions from leading industry-based and academic commentators, across seven global sector groups.

In addition, for the first time, this year we have conducted a second wave of research. This comprised a large-sample survey of companies and governments in 15 countries in order to rank the risks and opportunities, obtain forecasts on whether these challenges would be more or less important in 2013, and discover how leading organizations in each of the seven sectors are responding to these challenges.

Our research suggests that regulation and compliance continues to be the biggest overall risk. In fact, four out of the seven sectors we surveyed ranked this as number one. Across all sectors, both cost cutting and pricing pressure rose significantly up the ranking, although many respondents indicated steps taken to mitigate these risks have been reasonably effective.

With regard to opportunities, improving execution of strategy across business functions was ranked number one overall. Looking across the sectors, the impact of this opportunity is uniformly high in all cases. Investing in processes, tools and training to achieve greater productivity was ranked second overall. However, individual sectors and countries vary widely in the relative importance they give to this opportunity. Emerging market demand growth might have been expected to rank highly but in fact came fifth in the global rankings and, although a top five opportunity for the oil and gas and life sciences sectors, for many other countries and sectors, it is viewed as a much less significant opportunity.

The top 10s are the result of a qualitative, opinion-gathering process, designed to identify the key risks and opportunities for businesses in 2011 and beyond. However, we recognize that the definition of risks and opportunities varies from sector to sector and from firm to firm, depending on a company's objectives and many other factors. We therefore hope the list will trigger a debate, which we would like to explore further. Are the items on the global lists similar to those you are monitoring? Are they your top 10? Have our panelists missed anything critical?





Executive summary

We first interviewed a panel of more than 75 sector commentators to identify the strategic challenges facing organizations in seven sectors both today and in 2013. We then surveyed more than 700 leading organizations in 15 countries to discover how companies and governments perceive and are addressing the risks and opportunities that were identified – or in some cases, are struggling to address these challenges.

The top 10 risks and opportunities, aggregated across the seven sectors, are presented on the next pages as ranked by our survey respondents, along with changes from last year and the outlook toward 2013.



The top 10 risks

The top 10 risks for 2011 are, in rank order:

- 1. Regulation and compliance.** Unchanged from number one in the 2010 report.
In four out of seven sectors we surveyed, regulation and compliance risks rank first. Furthermore, the two sectors that rate the impact highest see risk levels rising still further by 2013. (Forecast for 2013: no change from the current ranking.)
- 2. Cost cutting.** Up four places from the 2010 report.
Much of the pressure driving the rise of cost cutting appears to originate from government austerity programs. The most frequently reported mitigation strategy is process optimization. (Forecast for 2013: falling from the current ranking.)
- 3. Managing talent.** Up one place from the 2010 report.
While never first, in almost all sectors human resources risks rank among the top four challenges. Many of the geographies where the risk is of particular concern are emerging markets. (Forecast for 2013: rising from the current ranking.)
- 4. Pricing pressure.** Up 11 places from the 2010 report (where it was below the radar in fifteenth place).
Organizations in many sectors are facing mature markets and slow organic growth rates, and thus pressure on prices. Additionally, like cost cutting, national austerity programs seem to be a driver of this risk. (Forecast for 2013: falling from the current ranking.)
- 5. Emerging technologies.** Up eight places from the 2010 report.
The most frequently reported drivers of this risk are difficulties in developing an innovation culture and uncertainties inherent in untested technologies. (Forecast for 2013: rising from the current ranking.)
- 6. Market risks.** New this year.
Market risks are a new entrant to the radar, combining issues such as commodity price shocks and real estate market volatility. Mitigation strategies based on active monitoring are most frequently reported. (Forecast for 2013: rising from the current ranking.)
- 7. Expansion of government's role.** New this year.
Another new entrant to the radar, expanding government ranks among the top four concerns of respondents from the world's two largest economies, the US and China. (Forecast for 2013: rising from the current ranking.)
- 8. Slow recovery/double-dip recession.** Down five places from the 2010 report.
Economic risks have fallen, as expectations of recovery have risen. Still, 50% of respondents from Germany report concerns related to fiscal tightening, and 50% of US respondents report continued weakness in private demand. (Forecast for 2013: falling from the current ranking.)
- 9. Social acceptance risk/CSR.** Unchanged from nine in 2010.
Oil and gas, life sciences and public administration respondents are most likely to report a rise in public pressures on their sector. The most frequently reported response is the integration of CSR into strategy. (Forecast for 2013: rising from the current ranking.)
- 10. Access to credit.** Up eight places from the 2010 report.
Concerns about access to credit have abated overall. Still, one in four organizations worldwide report ongoing struggles to obtain the credit they need. (Forecast for 2013: rising from the current ranking.)



The top 10 opportunities

The top 10 opportunities for 2011 are, in rank order:

- 1. Improving execution of strategy across business functions.** The most frequently cited successful response to this opportunity is to enhance strategic communication. Respondents located in China are more likely to emphasize the development of the strategic planning function as a key to success. (Forecast for 2013: no change from the current ranking.)
- 2. Investing in process, tools and training to achieve greater productivity.** The sectors vary in the degree to which cost optimization or staff development are emphasized in seeking productivity. Overall, the banking and public administration sectors report the greatest barriers to productivity improvements. (Forecast for 2013: rising from the current ranking.)
- 3. Investing in IT.** Across Europe and the US, investing in IT is typically either the top or second-highest priority for executives. In China, Russia, and India, however, IT tends to rank farther down the list. (Forecast for 2013: falling from the current ranking.)
- 4. Innovating in products, services and operations.** Respondents identified four key barriers to innovation success: lack of focus or investment, excessive conservatism, lack of sufficient expertise and inflexibility. Life sciences firms lead the way in incorporating innovation into core strategy. (Forecast for 2013: rising from the current ranking.)
- 5. Emerging market demand growth.** One in five organizations surveyed reported scaling back in Asia, following setbacks there. Initial unrealistic expectations are being replaced by long-term commitments. (Forecast for 2013: rising from the current ranking.)
- 6. Investing in cleantech.** The opportunity from cleantech tends to vary depending on an organization's country and sector. Respondents from China were the most likely to see the need to adapt corporate cultures and strategies to prioritize cleantech in coming years. (Forecast for 2013: rising from the current ranking.)
- 7. Excellence in investor relations.** Although not the number one strategic initiative in any sector, banking and power and utilities respondents give particular priority to investor relations. (Forecast for 2013: rising from the current ranking.)
- 8. New marketing channels.** New marketing channels include social media, web 2.0, email, mobile marketing, search and apps. These channels are notably of interest to executives in the US, China and Russia. (Forecast for 2013: rising from the current ranking.)
- 9. Mergers and acquisitions.** Lack of experience is the most frequently reported perceived obstacle to success in M&A, while the desire to enter new markets is the strategic goal most frequently pursued via acquisition. (Forecast for 2013: rising from the current ranking.)
- 10. Public-private partnership.** Increasing government intervention in markets appears not only on our risk radar, but also on our opportunity ladder. This was due in part to significant interest from respondents in the health care sector. (Forecast for 2013: rising from the current ranking.)

A long, dark shadow of a person is cast onto a gravel path that stretches into the distance. The path is flanked by dry, scrubby vegetation under a clear sky. The shadow is cast from the right side of the frame, suggesting the sun is low in the sky.

Part 1: risks

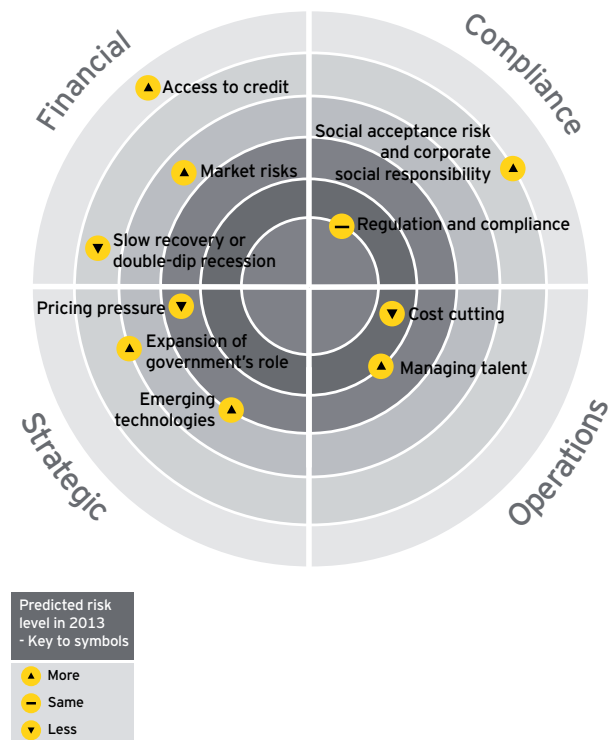
Ernst & Young Sector Risk Radar

Our risk radar is a simple device that allows us to present a snapshot of the top 10 risks across the seven sectors we covered.

The risks at the center of the radar are those that the more than 700 executives we interviewed, on average, thought posed the greatest challenge to their organization in the years ahead. Arrows indicate whether the executives thought the risk would rise or fall in importance by 2013.

The radar is divided into four sections that correspond to the Ernst & Young Risk Universe™ model. Compliance threats originate in politics, law, regulation or corporate governance. Financial threats stem from volatility in markets and the real economy. Strategic threats are related to customers, competitors and investors. Finally, operational threats affect the processes, systems, people and overall value chain of a business.

Top 10 global business risks

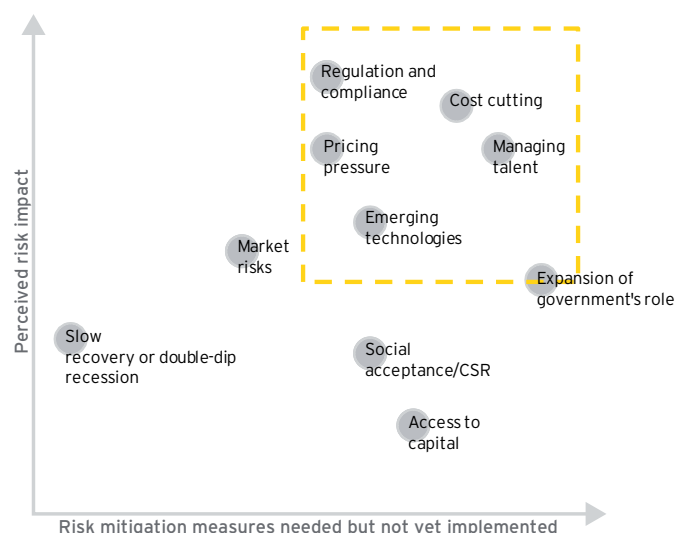


Ernst & Young Risk Heat Map

The risk heat map presents an alternate view of the top risks, taking into account the information the executives we surveyed have provided on their risk mitigation strategies.

The risks in the upper-right hand corner are those of greatest concern. Respondents have, on average, rated these as having a relatively higher impact on their organization. At the same time, respondents are relatively more likely to indicate that additional risk management measures are necessary to manage these risks effectively, but that these measures have not yet been taken.

While the placement of risks on this heat map is not always based on statistically significant differences in responses, the map - by taking into account risk mitigation efforts - provides an alternate view of the risks that may be most important. This view highlights cost cutting and managing talent as being of particular concern.



The top 10 risks

1. Regulation and compliance

Regulation and compliance risks are the most serious perceived threat to global firms and thus appear at the center of the radar. This was also the case in 2010. In 2009, risks associated with the global credit crunch took the first position.

Risk outlook and impact

Regulation and compliance risks are of greatest concern to banking and life sciences firms, and of least concern to retail, but in every sector, regulation and compliance ranks among the top four risks. In fact, in four out of the seven sectors we surveyed, regulation and compliance risks rank first. This uniformity is perhaps surprising, given that sector-specific pressures are the most frequently reported driver of this risk.

Looking ahead to 2013, both banking and life sciences - the sectors ranking this risk highest today - see risks in this area continuing to rise in the years ahead. This view is aligned with comments from the panelists we interviewed: "[New regulations] are having a material impact on banks' operations - particularly those with large capital market trading books. It will be increasingly difficult for banks to generate the ROEs expected by investors," in the words of a banking CRO. However, in other sectors, including oil and gas and power and utilities, the impact of regulation and compliance risks is expected to fall as 2013 approaches.

On average, respondents in most emerging markets - including China, India, Russia and the Middle East/North Africa (MENA) region - report that the impact of regulation and compliance risks is expected to diminish by 2013. This may be attributable to economic development in these countries that is producing enhanced stability of regulatory regimes.

Drivers of regulation and compliance risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Driver |
|-------|---|
| 1 | Sector-specific regulatory pressures |
| 2 | New legislation |
| 3 | General trend toward regulatory tightening |
| 4 | Rapid pace of changes in regulation |
| 5 | Rising CSR pressures |
| 6 | Creation of new regulatory oversight bodies |
| 7 | Regulation driven by public pressure |

* Based on 492 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

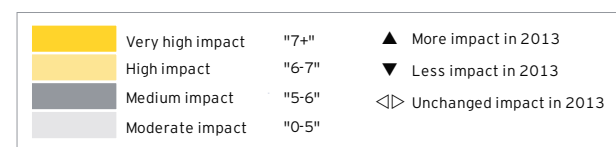
Indeed, regulatory risks are apparently of greatest concern in the US, where the companies interviewed report an exceptionally high perceived impact of regulation and compliance risks; furthermore, they expect risk levels to rise further by 2013.

Risk mitigation strategies

Given that regulation and compliance has been the number-one rated risk for four of the five years in which we have conducted our study, it is unsurprising that companies and governments are aware of, and actively responding to, the threat. More than 60% of organizations surveyed report that they have implemented measures to address these risks.

In the banking sector, companies are particularly confident in their approach, with more than 70% reporting that a strong risk management function is effective in addressing the threat. (This

Regulation and compliance



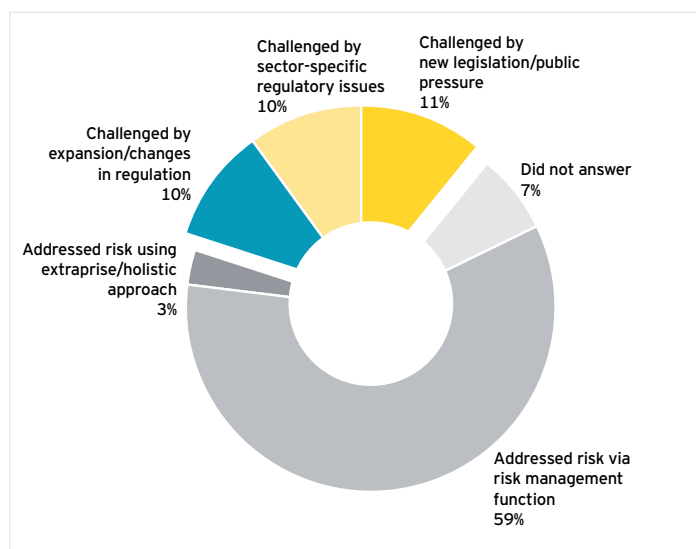


is perhaps unsurprising, because in banking, the performance of the risk management function is now regulators' chief concern.)

However, some of the banking panelists we interviewed were less optimistic. Regarding the rush to impose new capital adequacy requirements as a means to reduce risk in the banking sector, Avinash Persaud, a Non-Executive Director of the UK Treasury's Audit and Risk Committee commented, "It is not the amount of capital that determines safety, but how risks are allocated, and it is highly likely that we will end up with much more capital but not much more safety."

In other sectors, regulation and compliance risks take different forms, and investing in government relations is one of the most frequently reported risk mitigation strategies. In health care and power and utilities, firms appear more likely to report that new legislation and general trends toward regulatory tightening are key challenges. In oil and gas, power and utilities and retail, firms tend to report that the broadening of regulation into areas such as CSR is making this risk difficult to address. For instance, in power and utilities, traditional regulatory interactions centered on the rate case are being supplemented by pressures regarding environmental impact and security of key infrastructure.

Organizations' responses to regulation and compliance risk



Factors mitigating regulation and compliance risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Mitigating factor |
|-------|--|
| 1 | Management of risk via CRO function |
| 2 | Investment in government relations capability |
| 3 | Continuous updating of compliance function |
| 4 | Investment in IT to support compliance |
| 5 | Capability for rapid implementation of new requirements |
| 6 | Narrowing of compliance focus to key issues |
| 7 | Expansion of compliance focus to external partners/suppliers/customers |

** Based on 492 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown*

Looking across the geographies, organizations from Russia, Sweden and Australia are particularly likely to be confident in their ability to manage this risk, and firms based in Poland are the least confident (only 40% of respondents from Poland report that their current risk mitigation measures are effective). The challenges faced by companies in Poland could be ascribed to the rapid evolution of regulatory standards associated with EU entry. Indeed, respondents in Poland appear particularly likely to report that they face challenges associated with both new legislation and a generally rapid pace of regulatory tightening. (Organizations in Germany and in France are also more likely to report that new legislation is a particular challenge.)

The strengthening of risk management and government relations functions is the approach favored by a majority of respondents in nearly all geographies covered. However, respondents from China are particularly likely to adopt an approach which seeks to embed suppliers and customers in their regulation and compliance efforts.



2. Cost cutting

After two years as the sixth risk, the challenges associated with cost control have risen to second on the radar. Our risk heat map also suggests this is an important risk to watch: on average, our survey respondents report that the impact of the risk is high, and yet a relatively large number also report that measures to respond are still in progress in their organizations.

Risk outlook and impact

A review of our survey results suggests that the rise of this risk to second position is driven by developments in the public sector (although cost inflation triggered by the recent rise in commodity prices surely also plays a role).

Government sector respondents, grappling with national austerity measures, have assigned this risk the highest average rating of any risk across all the sectors. This relatively extreme pressure to cut costs in the public sector has fed through into other sectors where regulation has a strong influence on pricing: notably health care, where the risk ranks first, and power and utilities, where the risk ranks second. The high ranking in health care and power and utilities can in part be attributed to government efforts at cost control. "[The] increasing ability of clinicians (through technology) to keep practically anyone alive ... will raise costs dramatically, and will precipitate the conversation that we have not wanted to have on the unavoidable rationing of health care," noted Douglas E. Hough, an Associate Professor at the Carey Business School of Johns Hopkins University.

By contrast, banking executives gave lower priority to challenges relating to cost cutting than any other sector, even though political pressures not to cut staff during the downturn were

Drivers of cost cutting risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Driver |
|-------|--|
| 1 | Legislation restricting flexibility to cut costs |
| 2 | Political pressure on organization when considering cuts |

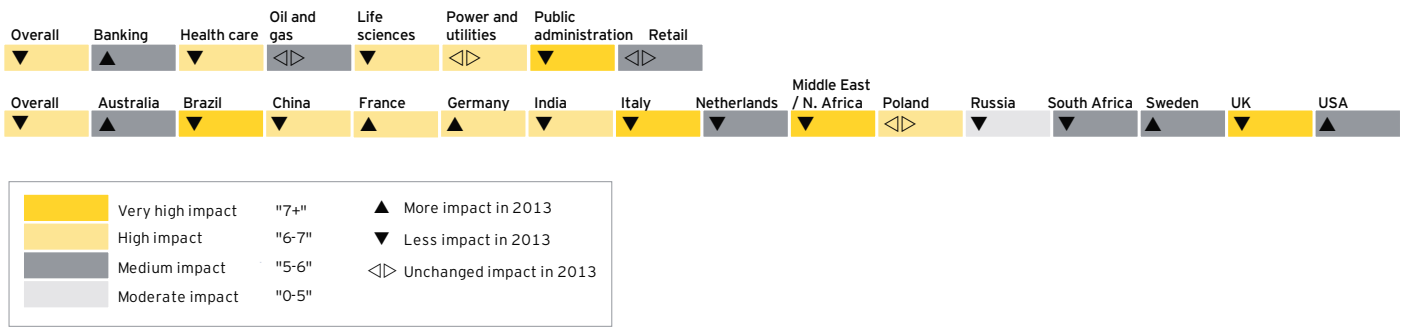
* Based on 430 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

the second most frequently cited driver of this risk - and such pressures have been acute in financial institutions that were provided with public support during the financial crisis.

In light of the public sector origins of much recent cost cutting pressure, it is logical that the global regions where cost cutting is of greatest concern are those that are most exposed to the sovereign debt crisis: notably the UK, France, Italy and Germany. (Ireland, Portugal, Greece and Spain are not covered in our survey.) As one of the panelists we interviewed, Andrew Nickson, Director of Governance and Development Management at University of Birmingham, put it, "A further significant worsening in the fiscal outlook facing either the US or Europe or both would force another range of fiscal cutbacks."

Turning to the outlook for 2013, respondents in most sectors expect challenges associated with cost cutting to decline in importance as 2013 approaches. (A relatively extreme exception is banking, where these challenges are expected to rise fairly dramatically.) These expectations are somewhat at odds with forecasts from the panelists we interviewed that challenges associated with both public debt and health care costs will continue to grow over the next few years.

Cost cutting





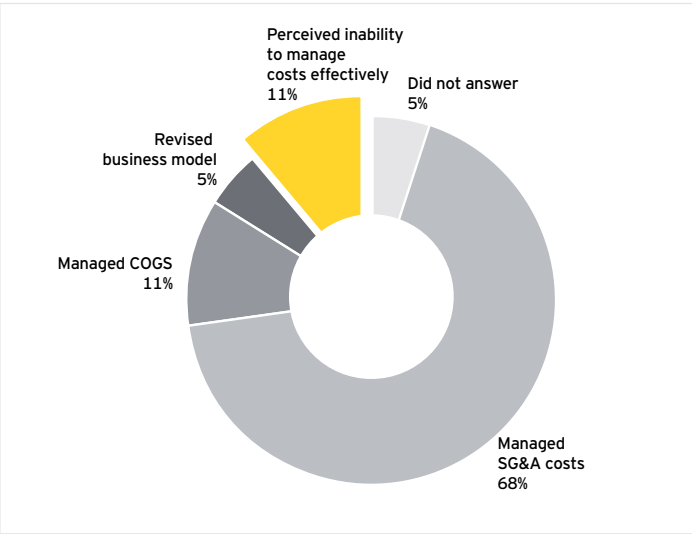
Risk mitigation strategies

In light of the high priority given to cost cutting risks, it is reassuring that over 7 in 10 companies surveyed report that the measures they have taken to mitigate these risks are reasonably effective. Cost cutting was most commonly carried out by optimizing processes and implementing cost controls (45%), while 13% of organizations had reduced headcount.

Although US and European organizations were, in general, strongly proactive in managing costs, firms and governments in India and China were significantly less likely to report having implemented measures to control costs, perhaps suggesting that executives in these countries remain strongly focused on growth, and also face less pressure from national austerity measures. Respondents from the Middle East were exceptional in emphasizing reduction of costs of goods and services (COGS), while selling, general and administrative (SG&A) expenses remained the overwhelming focus in most geographies.

It is perhaps cause for concern that respondents in the public sector appeared most likely to report that their efforts to respond to this challenge are as yet unsuccessful. This echoed the comments of a commentator we interviewed, who said of public sector cost control efforts that “Because of the speed needed... there will be insufficient time to ‘cut/prune’ in the most efficient manner. Instead standard ‘across-the-board’ percentage

Organizations' responses to cost cutting



| Factors mitigating cost cutting risks, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Process optimization and embedding of controls |
| 2 | Reduction of headcount |
| 3 | Revisions to budgeting/forecasting process |
| 4 | Enhanced IT/infrastructure |
| 5 | Standardization of product portfolio and/or optimization of technologies |
| 6 | Advice from external consultants |
| 7 | Focus on core business model |
| 8 | Efficiencies in procurement processes |
| 9 | Streamlining of service portfolio |
| 10 | Limited impact of economic downturn |
| 11 | Shifting of production to emerging countries |
| 12 | Adjustment of business model to reflect new realities |
| * Based on 430 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

reductions will be the norm.” Organizations in the health care sector, which also face serious cost cutting pressures, are particularly likely to say that measures for cost control are still in the planning stages. (Less than 50% of health care respondents report that mitigation measures have already been taken, against nearly 70% in life sciences.)



3. Managing talent

Risks associated with the war for talent are continuing to rise on the radar for the third consecutive year. In addition, together with cost cutting, this risk shares the most precarious position on the heat map: at a high level of perceived impact, and with relatively more organizations indicating that measures to respond are, as yet, a work in progress.

Risk outlook and impact

There is a further reason to be concerned with this challenge: most sectors expect this risk to continue to escalate in importance as 2013 approaches. Indeed, the only sector to expect a decrease in the level of human resources risk is oil and gas. This can perhaps be attributed to the fact that oil and gas firms have been grappling with this challenge for some time: “human capital deficit” was the number one risk on the oil and gas sector risk radar in 2008, but has since fallen back, possibly because firms have put programs in place to manage the threat.

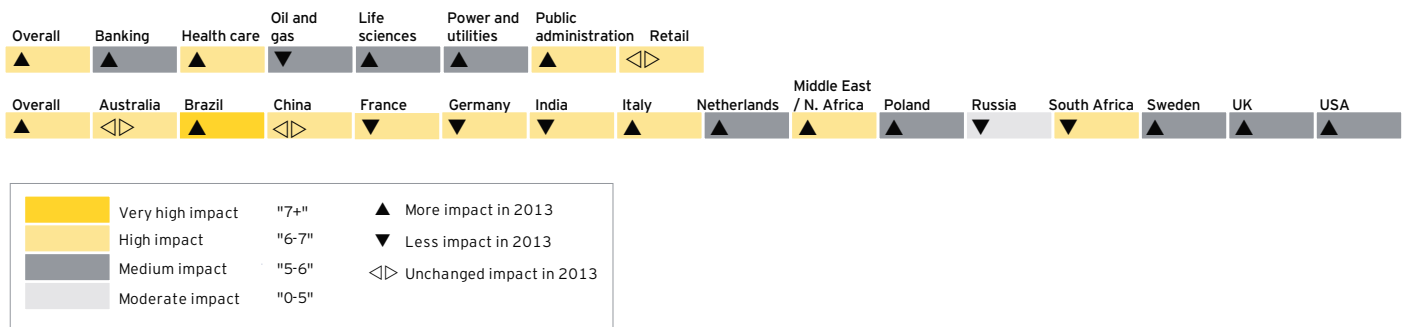
In 2011, however, no sector ranked this risk first. The risk appears near the top of the global radar by virtue of consistency: while never first, in almost all sectors it ranks among the top four. Talent risk is a particular concern for the retail sector and for public administration (exposure to talent risks in this latter sector is likely to be heightened by a lack of flexibility over hiring practices and remuneration). It is also worth noting that many of the geographies where the risk is of particular concern are the emerging markets: in Brazil, China, India and South Africa, it ranks in the top four. This suggests that the much publicized “reverse brain drain” of talented Chinese and Indian workers

| Drivers of managing talent risks, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Driver |
| 1 | Shortage of personnel with necessary skills |
| 2 | Lack of organizational focus on managing talent |
| 3 | Lack of development in talent management processes |
| 4 | Increased global competition for talent |
| 5 | Negative impacts of law or regulation on organization's ability to attract talent |
| 6 | Freeze on new recruitment impacting ability to manage talent |
| * Based on 380 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

returning to their home countries has not been sufficient to offset the rising need for skilled workers in these economies.

In terms of drivers, respondents appear on the whole to be evenly divided in citing both internal problems, e.g., weaknesses in HR processes, and external pressures, such as rising competition for talent, as responsible for pushing this risk up the radar. Nearly 20% report that people with the right skill sets are simply not available, a factor that may in part reflect weaknesses in educational systems. This is a weakness that is likely to get worse: “Education is emerging as a key government strategic concern. In the US, state fiscal problems are already hurting the quality of public universities,” commented Harvey Chen, Chairman of the First Light Academy of Finance and Management in Shanghai.

Managing talent





Risk mitigation strategies

Despite the high priority given to talent risks in this survey, active management of this risk is relatively infrequently reported (which accounts for the risk’s prominent position on our heat map). Overall, only 50% of respondents who identified this risk as a top-four concern reported that they had already taken measures to manage talent risks, with the development of a talent management program the most common measure mentioned.

In general, risk mitigation strategies showed little variation between sectors, although it is notable that banking sector respondents are less likely than those from other sectors to have programs to manage talent actively, and appear more likely to complain of shortages of skilled personnel or weaknesses in HR processes.

Nearly 30% of respondents from the public sector also complain of weaknesses in talent management. As Geoffrey Fitchrew, former Director-General for Financial Institutions and Company Law at the European Commission, noted, “this risk could apply to both private and public sectors ... given planned speed of the fiscal consolidation and uncertainty about how much capacity was lost in the recession.”

Across the geographies, we found that organizations from the emerging markets are the most likely to actively manage talent-related risks. In particular, organizations located in China appear to lead the way in developing university recruitment programs, and respondents from China and India (followed by respondents

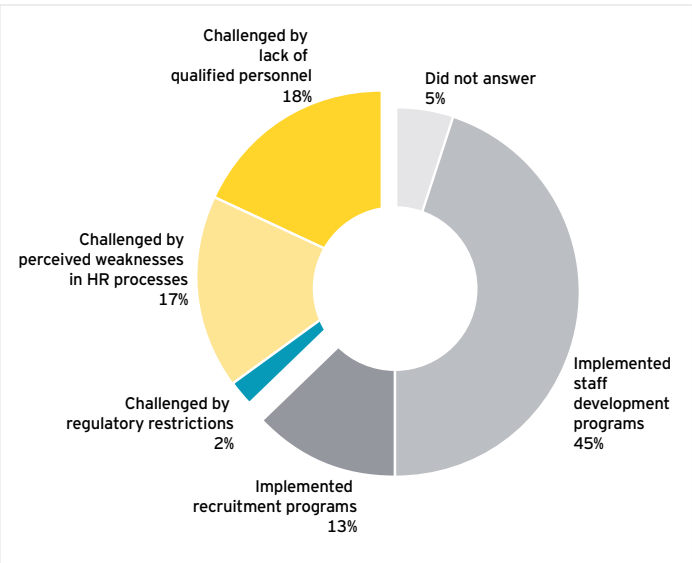
| Factors mitigating managing talent risks, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Well-developed program for managing talent |
| 2 | Embedded culture of developing employee potential |
| 3 | Increased diversity of workforce |
| 4 | Focus on employee satisfaction |
| 5 | Development of an “employer brand” |
| 6 | Management of risks and opportunities related to workforce aging |
| 7 | Intensification of university recruitment programs |

* Based on 380 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

from Sweden and France) appear most likely to have programs to nurture high-potential staff. These results may reflect expectations of longer employment tenure in these countries.

Still, it is also the emerging markets where particular talent management challenges are most notable. For instance, while overall, 17% of respondents reported that their firms lack developed HR processes for managing talent, this figure rises to 40% among organizations operating in Russia and Poland.)

Organizations' responses to managing talent





4. Pricing pressure

Pricing pressures have emerged from our fifth below-the-radar threat last year to fourth position on the radar this year. Together with the three risks discussed previously, pricing pressures are ranked consistently as being a high-impact challenge across almost all sectors. Pricing pressure ranks in the top four in six out of seven sectors. (In the public administration sector, of course, the risk generally does not apply.)

Risk outlook and impact

Perhaps unsurprisingly, some of the drivers of this risk are similar to those of risk two, cost cutting. For instance, political and regulatory pressures feature prominently among the drivers of this risk reported by respondents in the health care sector. (“Enforced product price reductions in countries with high fiscal debt [would be] difficult for companies to resist without losing the market completely,” noted a chairman of a health care consultancy.) The second and third most commonly reported drivers of this risk are political or regulatory pressure and trade union or public pressure.

However, for most sectors, pricing pressures appear to be predominantly market-driven. The global recession that followed the financial crisis, and the weak recovery that is now under way in many developed nations, has brought home the reality of a structural shift in market conditions. In many European and North American market segments, market maturity, declining populations, population aging and slow economic growth are producing slow or even negative organic growth for companies. This means that firms seeking rapid growth must take it from

Drivers of pricing pressure risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Driver |
|-------|---|
| 1 | Pricing pressures inescapable in core markets |
| 2 | Government price controls or legislative pressure on prices |
| 3 | Trade union or public pressures on prices |
| 4 | New entrants from emerging markets |

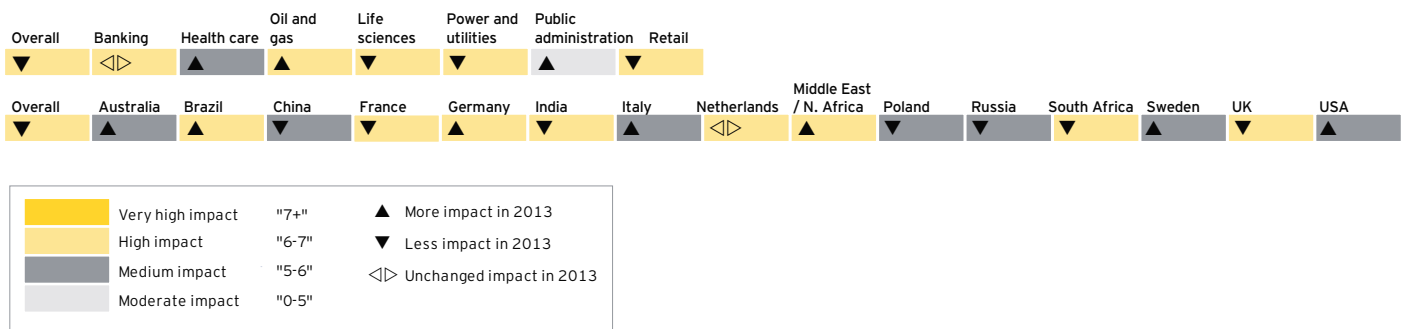
* Based on 392 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

competitors, and must often price aggressively. The retail sector, for instance, where these challenges are particularly acute, ranks pricing pressures first. “Retailing in Europe is a zero-sum game where a retailer’s gain is another player’s loss,” reported an executive in the sector.

Pricing pressures are not strictly a mature markets phenomenon, however. Respondents in some emerging markets – notably India, South Africa, and Russia – rank the risk among the top three. This may perhaps be attributable to rising exposure to international competition in these rapidly globalizing economies.

Looking to 2013, in many emerging markets, including China, Poland, India, Russia and South Africa, this risk is expected to fall in importance. Overall, there is no clear pattern in the outlook to 2013, with sectors and geographies divided over their views on whether the impact of the risk will rise or fall. This may reflect uncertainty over whether or not recovery will return markets to growth in the near term.

Pricing pressure





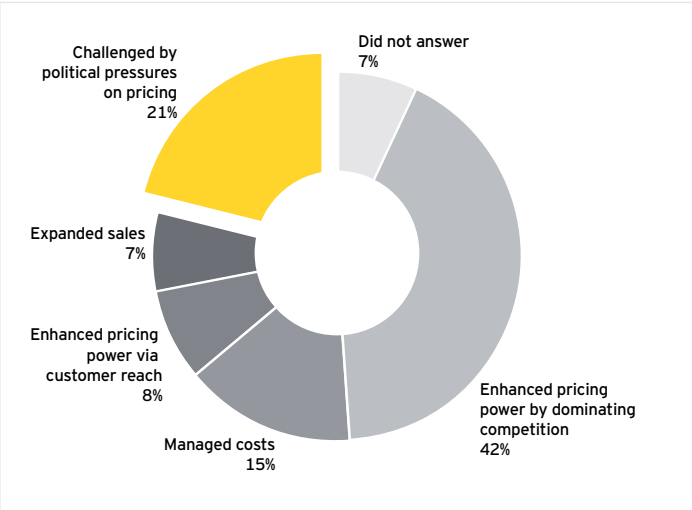
Risk mitigation strategies

Overall, a majority of respondents to our survey indicated that they were actively managing price pressure risk, primarily by adjusting their pricing strategies to remain competitive. Oil and gas, life sciences and power and utilities firms appeared to be more likely to attempt to tackle competition head-on through measures such as leveraging market dominance to retain pricing power. Nearly 40% of health care companies indicated that their efforts to mitigate this risk were unsuccessful due to political pressures on pricing - presumably another reference to efforts in many countries to control health care costs.

The survey also revealed geographical variation, with executives from Australia, Brazil, China and the US apparently far less likely to have already implemented measures to manage pricing risk than their counterparts in Europe and Russia.

Political pressures on pricing appeared particularly acute in Australia, France and Germany. In China, managing costs was the response adopted by approximately 50% of respondents-far more than any other geography. (Germany, also an export-oriented nation, was second with approximately one-quarter reporting strategies based around managing costs.) And in Sweden, more than 50% of respondents indicated that no measures to respond had been either taken or planned. This figure is particularly striking when one considers that (as with all risks and opportunities) only respondents placing pricing pressures among their top four concerns were asked about the measures they had taken to manage the risk.

Organizations' responses to pricing pressure



| Factors mitigating pricing pressure risks, as reported by organizations surveyed | |
|--|--|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Adjustments to pricing strategy |
| 2 | Focus on taking market share from key competitors |
| 3 | Management of supply chain costs |
| 4 | Enhancements to customer service |
| 5 | Development of pricing power through market dominance |
| 6 | Reduction in production costs |
| 7 | Reduction in labor costs |
| 8 | Increase in spending on marketing to enhance pricing power |
| 9 | Increase in sales to compensate for lower margins |
| 10 | Diversification into growing markets where pricing pressures are less severe |

* Based on 392 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown



5. Emerging technologies

Risks relating to emerging technologies have risen from below the radar last year to the fifth position on the radar in 2011. On average, across all respondents, the impacts of these risks are expected to continue to rise toward 2013.

Risk outlook and impact

Risks relating to emerging technologies are the only top 10 challenge that is expected to be more important in 2013 in every sector surveyed. This finding may be inherent to the risk, as the phrase “emerging technologies” implies a challenge that has not yet reached its maximum impact. The picture is similar across geographies: in all countries and regions except Russia and China, emerging technologies are expected to have a higher impact in 2013 than today.

Looking at drivers of the risk, the most frequently noted issue relates to the difficulty of developing an innovation culture. However, an apparently similar proportion of respondents point to the inherent uncertainty that comes along with untested technologies, the commercial or operational performance of which is a “known unknown.” “[White elephant investments] are potentially company breakers and related to the current high rate of technological innovation,” noted a senior energy panelist we interviewed.

In terms of current impact, the sectors are very consistent: most report a medium level of impact, with no sector averaging particularly higher or lower. There is somewhat more variation in geographies, as the risk is ranked second, on average, by

| Drivers of emerging technologies risks, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Driver |
| 1 | Failure to develop an innovation culture or processes |
| 2 | Inherent uncertainty in untested emerging technologies |
| 3 | Insufficient investment in innovation |
| * Based on 292 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

respondents in both China and the US, higher than any other region. In the US, this presumably reflects the challenge of commercializing leading-edge innovation, and in China the challenge of rapid adoption of advanced technology, although the situation is changing as emerging markets increasingly become centers of innovation in their own right. “The growth of research capabilities in emerging economies such as India and China has led many to question the status of innovation in the current leading economies such as the United States,” noted Yali Friedman, Managing Editor of the Journal of Commercial Biotechnology.

Risk mitigation strategies

A majority of companies surveyed indicate that they are actively managing this risk. By far the most frequently reported mitigation strategy is to develop an organization-specific “innovation culture” to monitor new technologies and review products, services, and internal processes continuously.

Emerging technologies





However, respondents in the banking, public administration and, to a lesser extent, health care sectors indicate that their efforts to respond to this threat are not yet adequate. “Despite the consistent weaknesses in governmental experience in implementing innovation, there is considerable scope for progress,” noted a former ambassador we interviewed.

Organizations operating in Europe apparently feel particularly exposed to technology risks. Nearly four in ten respondents from the Netherlands and approximately one-quarter of respondents from Sweden, Italy and Germany reported that their firms failed to invest sufficiently in technology or lacked an established process for evaluating innovation. (In the US, the comparable figure appeared to be less than one in ten, and in China, so small as to be negligible.)

Arguably the most difficult position is that of firms that have decided a risk must be managed, but have not yet implemented measures to do so. Almost no life sciences respondents fell into this category. But in the oil and gas sector, more than 30% did, which perhaps reflects significant uncertainty regarding low carbon technologies. For instance, as one energy commentator noted, “Energy is increasingly being delivered in the form of electricity, a process that would be greatly speeded up if advances are made in electricity storage. If electric cars take hold, the implications for oil and gas would be huge.”

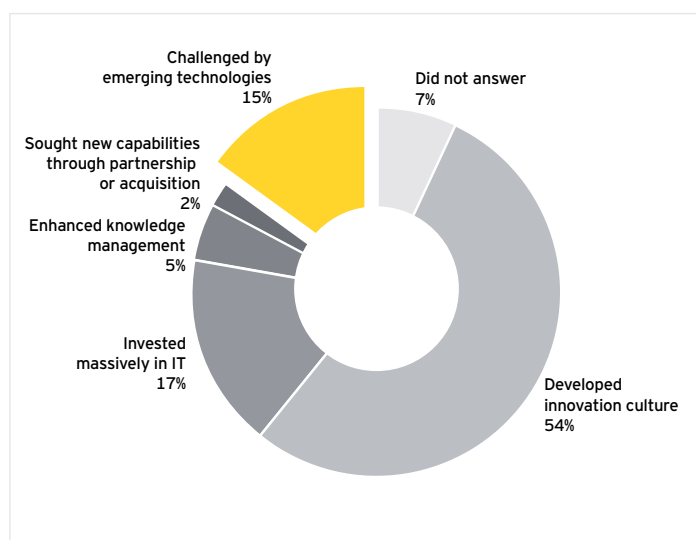
Factors mitigating emerging technologies risks, as reported by organizations surveyed

Ranked by frequency of mention

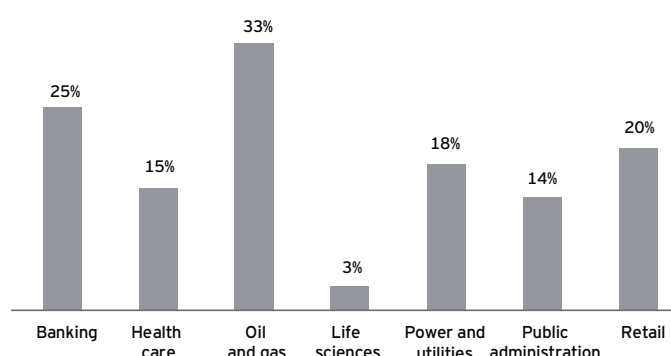
| Rank* | Mitigating factor |
|-------|--|
| 1 | Continuous monitoring of new technologies |
| 2 | Continuous innovation of manufacturing processes |
| 3 | Continuous innovation of products and services |
| 4 | Organization-wide prioritization of IT |
| 5 | Investment in IT systems |
| 6 | Investment in staff with IT expertise |
| 7 | Development of a knowledge management system |
| 8 | Merger or acquisition to gain key technological capabilities |
| 9 | Development of a culture of innovation |

* Based on 292 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Organizations' responses to emerging technologies



Percentage reporting that measures to address emerging technology risks are planned but not yet implemented, by sector





6. Market risks

Market risks are a new entrant to the risk radar for 2011, combining challenges such as real estate market volatility, commodity price volatility and speculative financial attacks, which have become threats to many sectors in the wake of the global financial crisis. Averaging across all the sectors covered, respondents expect the impact of such risks to continue to rise as 2013 approaches.

Risk outlook and impact

The panelists we interviewed expressed concerns about many aspects of market volatility in the wake of the financial crisis. “The banking system could collapse again, as there is no clear idea of how much toxic waste still exists in the system,” noted Jonathan Hopkin, Senior Lecturer in Comparative Politics, London School of Economics. “Engineering a soft landing for bond markets, avoiding a turbulent end to low yields, will be critical in ensuring economic stability,” argued a Senior Research Fellow at Chatham House.

However, in our global survey, concerns tended to be oriented not toward such economic uncertainties, but rather, to risks occasioned by government intervention in markets. For instance, a commentator in the power and utilities sector noted that “climate change objectives require intervention that constrains liberalized electricity sectors.” Such concerns echo themes previously discussed in regard to regulation and compliance and cost cutting risks, and discussed in the next section in relation to the expansion of government’s role. The re-elevation of the state

| Drivers of market risks, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Driver |
| 1 | Government intervention in markets |
| 2 | Inability to respond flexibly to market shifts due to state ownership |
| * Based on 336 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

to the status of active market participant, as a result of financial sector bailouts and the rise of more state-oriented emerging economies, among other factors, is apparently creating a wide array of challenges for both the private and public sectors.

Although market risks are commonly mentioned by executives across all sectors, they are of particular concern to retail, oil and gas, and banking, which likely reflects exposure to real estate, commodity and financial markets respectively. By contrast, organizations in the health care and public administration sectors reported that market risk was less of a threat, although they were more likely to report that their ability to manage the risk was restricted by the possibility of government intervention.

Looking to 2013, both banking and oil and gas respondents, on average, felt the risk would fall in importance, perhaps reflecting optimism that recent volatility in financial and commodity markets would be a temporary phenomenon.

Market risks





Risk mitigation strategies

Our survey indicates substantial variation from sector to sector in strategies for managing market risks, although the two most commonly reported strategies both involve monitoring programs. Other risk mitigation strategies included diversification and hedging of currency risks.

Unsurprisingly, banking respondents were among the most likely to report that measures to respond to market risks had been taken, with close to 70% indicating this to be the case. Public administration respondents were most likely to indicate they had been unable to formulate an effective response.

The survey revealed wide geographical variation in management of market risk, although the reasons for this variation were somewhat unclear. Overall, 6 in 10 organizations had already taken measures to manage market risks, although this figure was markedly lower in China, and ranged within Europe from 41% in Sweden to 81% in Germany. Respondents based in Russia and China appeared particularly likely to indicate that measures to respond to market risks are planned but have not yet been undertaken.

| Factors mitigating market risks, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Continuous monitoring of market risks |
| 2 | Continuous monitoring of market trends, shifts and developments |
| 3 | Diversification of customer base; expansion of customer reach |
| 4 | Diversification of supplier base |
| 5 | Monitoring of commodity availability and pricing |
| 6 | Active management of currency risk |
| 7 | Diversification of product/service portfolio |
| 8 | Improvements to business relationships with suppliers |
| * Based on 336 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |



7. Expansion of government's role

Expansion of government's role is another new addition to the risk radar in 2011. Six of seven sectors see the risk continuing to rise in importance as 2013 approaches. As one political panelist we interviewed commented, "The 'intelligent state' role implies a very different kind of relationship between the state and the private sector from that which happens today. The state will adopt a more assertive role in its relationship with the private sector. State development banks will re-emerge, aimed at promoting strategic investment in leading-edge sectors."

Risk outlook and impact

While such measures create opportunities (discussed under public-private partnership), there are also significant challenges posed to both public and private organizations. The position of this risk among the global top 10 is a result of relatively extreme responses in certain sectors and geographies. Respondents in the banking sector give this risk a higher priority (ranking it fifth) than any other sector – an unsurprising finding given both recent bailouts in the sector as well as ongoing efforts at financial sector reform. Indeed, a number of the panelists we interviewed argued for yet more radical public policy shifts in the sector. "Effective reform to reduce risk of future financial meltdowns is essential. This should include measures to separate retail banking from 'casino' investment banking," argued a former senior civil servant.

The risk of expanding government is seen as being among the top four concerns by respondents in the world's two largest economies, the US and China, as well as in South Africa and India. These sharp concerns in key geographies elevated the risk

| Drivers of expansion of government's role risks, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Driver |
| 1 | Expanding regulation, increasing workload and costs |
| 2 | Expanding regulation, harming organizational flexibility/agility |
| 3 | Regulatory backlash/ill-considered government policies |
| 4 | Expanding regulation, harming ability to innovate |
| * Based on 244 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

into our global radar. Aggregating all regions covered, roughly one-quarter of respondents to the survey said that the rise in government regulation was increasing their workload and costs, while 1 in 10 also said that it was harming the flexibility of their organization. "There is a flight risk insofar as talent may move to other banks in more 'friendly' jurisdictions and/or to unregulated entities," noted a senior banking executive we interviewed.

Oil and gas respondents were much more likely, in comparison to other sectors, to indicate that expanding government roles pose a serious competitive challenge, with 55% identifying this issue. "State-owned and state-backed companies are creating increased competition for access to reserves around the globe. A combination of loans to energy-rich developing countries, deep pockets, [and] the linkage of energy deals to infrastructure investments ... combine to create huge advantages for state-owned and state-backed companies," noted Julian Lee, Senior

Expansion of government's role





Energy Panelist at the Centre for Global Energy Studies. Power and utilities sector respondents were the second most likely to make such a comment, at 41%.

As noted above, there is a near consensus across the sectors that the impact of this risk will increase as 2013 approaches. However, there is more geographic variation in opinions. While respondents based in Europe and in the US almost uniformly expect the impact of the risk to continue to rise, in Brazil, China and India, where processes of liberalization and economic reform are ongoing, the impact of this risk is expected to fall over time.

Risk mitigation strategies

As might be expected, risks relating to shifting government roles are particularly hard for companies to mitigate. Fewer than half of respondents overall said that their companies had implemented measures to respond to this challenge. By far the most common risk mitigation strategy was simply to ensure adherence to legal requirements, but 8% of respondents had taken the more active step of adjusting their business strategy to respond to growing government influence.

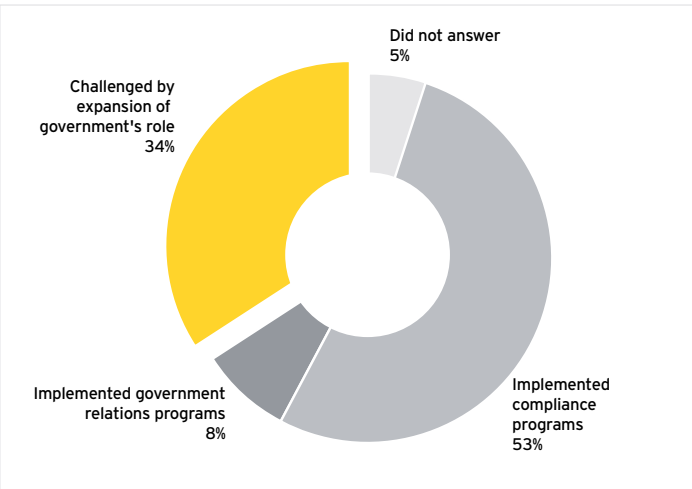
Mitigation strategies also varied somewhat by sector, with executives from oil and gas, banking and power and utilities apparently more likely to manage this risk proactively by attempting to influence government policy through lobbying or other forms of engagement. At the same time, respondents in

| Factors mitigating expansion of government's role risk, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Adherence to legal requirements |
| 2 | Limited impact in sector as yet |
| 3 | Adjustments to business strategy to respond to rising government role |
| 4 | Adoption of a constructive "partnership" approach with government |
| 5 | Investment in government relations |
| 6 | Investment in compliance |

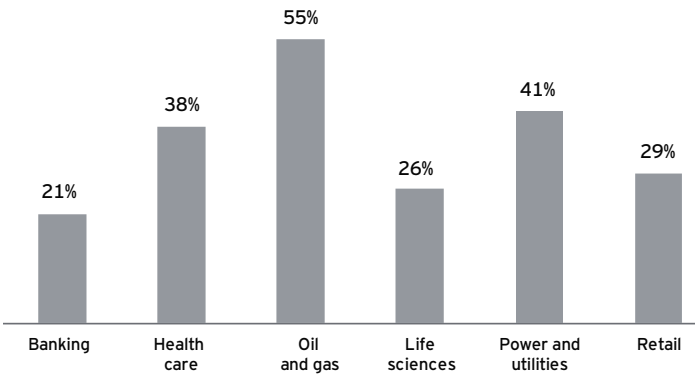
* Based on 244 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

these sectors appeared more likely to say that while measures to respond to this risk are necessary, these are still in the planning stages (30% of banking, 28% of power and utilities and 27% of oil and gas respondents said so). The sector most likely already to have taken active measures to respond to this risk is health care at 51%.

Organizations' responses to expansion of government's role



Percentage reporting that the expansion of government's role has had negative impacts on competitiveness, by sector





8. Slow recovery and double-dip recession

After two years at the third position on our radar, this risk has fallen to eighth. The global financial crisis brought home the potential impact of macro risks to companies and governments worldwide. “The financial crisis has opened the eyes of the consumer to the possibility of something they never thought possible,” as Craig Ryder, a former strategy specialist at ASDA, put it. But in 2011, organizations are optimistic, expecting this risk to continue to fall as 2013 approaches. This is despite recent shocks in the Middle East, which occurred as this survey was under way; although the catastrophic earthquake and tsunami in Japan occurred after the survey was completed.

Risk outlook and impact

Such positive findings about the outlook for this risk undoubtedly reflect growing levels of optimism about the global economy. The perceived threat from this risk seems to have receded in France, Germany and the BRICs. However, executives in the UK give this risk a higher priority (fourth) than any other country or region covered, suggesting that the UK may have been slower than other developed economies to emerge from the financial crisis.

Looking to 2013, six of seven sectors perceived economic risk as falling in importance over time (the exception was power and utilities). As might be expected, variation by geography was greater, with the BRICs uniformly optimistic, but several European countries, including Germany and France, reporting that the risk would rise in impact by 2013. One commentator we interviewed, Desmond Lachman, Resident Fellow at the American Enterprise Institute, commented that “a series of defaults in the European

Drivers of slow recovery and double-dip recession risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Driver |
|-------|---|
| 1 | Decrease or stagnation in private sector demand |
| 2 | Rise in competition in sector, and associated downward pressure on prices |
| 3 | Dependence of sector on declining government spending |
| 4 | Economic impact of national austerity measures |

* Based on 203 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

periphery has the potential to inflict loan losses on the European banking system on the order of that occurring in the aftermath of the 2008 Lehman collapse.”

The drivers of this risk also varied significantly by geographical region. Two-thirds of organizations in the Netherlands, and half of organizations in the US, reported that their exposure to this risk was driven by reduced private sector demand and downward pressure on prices. (However, the comparable figure was apparently less than 15% in China, and negligible in India.) Other drivers of this risk are related to national austerity programs. In Germany, where respondents are more positive overall about the current impact of the risk, 50% report concerns regarding fiscal tightening (even as apparently fewer than one in five report concerns regarding private demand). This echoes comments from economic panelists such as: “Reduction of government consumption has significant economic consequences.”

Slow recovery/double-dip recession





Risk mitigation strategies

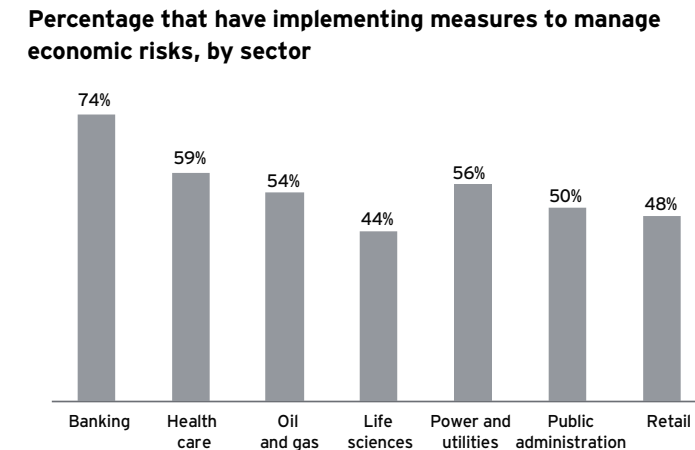
In line with the particularly high priority given to this risk in the UK, British respondents appeared far more likely than those from any other country or region to be actively implementing measures to address the risk of a slow recovery or double-dip recession (nearly 90% had done so). Across all respondents, the most popular mitigation strategy was to enhance supply chain efficiency, a measure adopted by approximately one in five organizations that rated this risk among their top concerns.

“Customer reach” strategies reflect measures to develop innovative market entry strategies and seek alternate distribution channels; “operational agility” refers to measures such as accelerating speed of response and using data insight to support decision-making.

Executives from China, India and the Middle East were relatively unlikely to have taken action to mitigate economic risks, reflecting economic confidence in these regions. In Australia, 50% of respondents indicated measures were needed but not yet implemented. This may reflect a recognition of the potential volatility of an economy with a sizeable commodity sector, coupled with the difficulty of mobilizing an organizational response to such a hypothetical vulnerability during a commodity price boom.

Looking at the sectors, the degree of response to economic risks appeared to relate directly to levels of exposure. The banking and retail sectors, which are arguably the most vulnerable of the sectors we surveyed to sudden changes in economic conditions, were the most likely to have taken measures to increase their organizational resilience in the face of recession. Executives in the health care industry, by contrast, were significantly less likely to manage this risk actively.

| Factors mitigating slow recovery and double-dip recession risks, as reported by organizations surveyed | |
|---|-------------------------------------|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Increase in supply chain efficiency |
| 2 | Adjustments to pricing strategy |
| 3 | Expansion of customer reach |
| 4 | Well-developed finance function |
| 5 | Increase in operational agility |
| * Based on 203 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |





9. Social acceptance risk/CSR

Social acceptance risk/CSR was a new entrant to the risk radar last year at ninth. This year it stays in the same position, but, averaging across all respondents, it is expected to rise by 2013.

Risk outlook and impact

All sectors surveyed consistently rank this risk in eighth or ninth place – with the exception of public administration, which places it fifth, likely reflecting issues such as the impact of WikiLeaks, mass demonstrations against austerity programs in Europe and North America, and government-toppling “people power” unrest in the Middle East.

Several of the panelists we interviewed, prior to the outbreak of unrest in the Middle East, made comments that were in retrospect extremely prescient. For instance, a lecturer in regional politics at a European university noted that “in many developing countries, the combination of the spread of mobile phones and access to the internet has [undermined] the capacity of governments to maintain the control of information that is essential for the maintenance of an authoritarian regime.”

The sector-by-sector graph of the percentage reporting that public expectations have risen provides a fascinating insight into the degree to which stakeholder pressures have increased in recent years. Oil and gas narrowly leads public administration in the percentage of respondents that indicated they are facing rising pressure. (This can surely be attributed to the industry-wide fallout from the spill in the Gulf of Mexico. “The recent disaster in the Gulf of Mexico has the potential of delaying the deepwater oil and gas exploration and development globally,” as one energy

Drivers of social acceptance and CSR risks, as reported by organizations surveyed

Ranked by frequency of mention

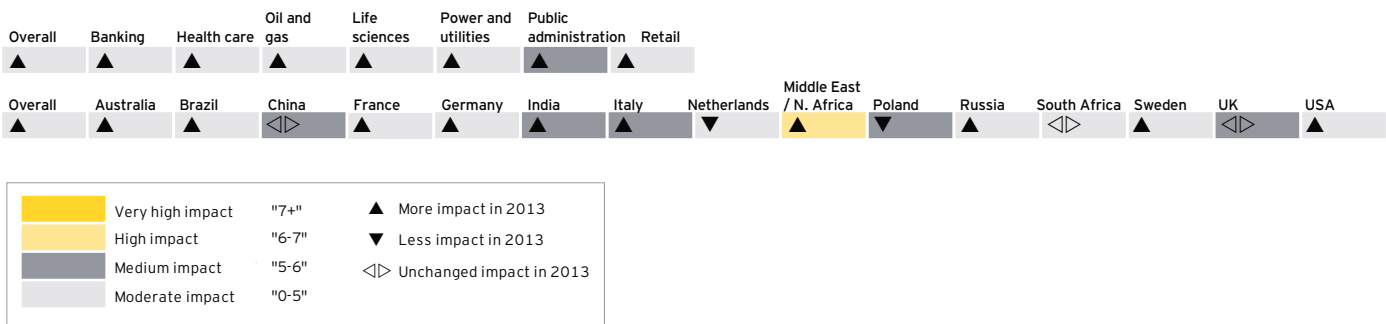
| Rank* | Driver |
|-------|--|
| 1 | Rise in CSR standards |
| 2 | Growth in public pressure and activism |
| 3 | Increase in government pressure and legislation in CSR |
| 4 | Sector-specific image problems |
| 5 | Increasing mistrust of public-sector organizations and staff |

* Based on 197 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

commentator noted.) Life sciences is next, facing intensifying pressure to provide life-saving medicines at lower cost, particularly in poor countries, followed by banking, where public interest in payment structures has soared in the wake of the financial crisis. (“Given the negative press the banking sector has received over the last couple of years, it is absolutely essential that the ‘clean’ banks retain their reputational integrity or else risk undermining their longer-term franchise,” noted one banking executive.) As drivers of the risk, rising CSR standards are noted most frequently, followed by public pressure and activism, and then new CSR legislation (such as the conflict mining provisions of the US Dodd-Frank Act).

Our survey results show that CSR and social acceptance are perceived as relatively important risks not only in North America and Europe but also in emerging markets. Approximately four executives in ten in Australia, the Netherlands and South

Social acceptance risk/CSR





Africa report their organizations struggling to manage rising CSR standards, and 3 in 10 respondents in China complain of challenges managing their sector's negative image. Nearly all sectors see this risk rising in importance by 2013.

Risk mitigation strategies

Our findings underline the extent to which the management of CSR risks has become an integral part of organizational cultures and strategies around the world. Over one in five respondents said that CSR was "a must" for organizations operating in their sector, and approximately one in three had taken measures to integrate CSR into their business strategy. "It will be very difficult to put the transparency genie back in the bottle," noted a lawyer and financial sector consultant, "[and] this will have a major impact on way firms conduct their business."

Power and utilities respondents were most likely to have adopted CSR as part of corporate culture. (A utilities panelist commented that "The issue of siting of new power generation plants has already been with us and increasing in importance for some time... there appears to be no letup in this trend, while there is a reasonable chance that it will become even stronger" - and this was prior to the crisis at Japan's nuclear plants.) Banking and public administration, two sectors facing rising public scrutiny, were least likely to have made such extensive CSR efforts. It is

Factors mitigating social acceptance and CSR risks, as reported by organizations surveyed

Ranked by frequency of mention

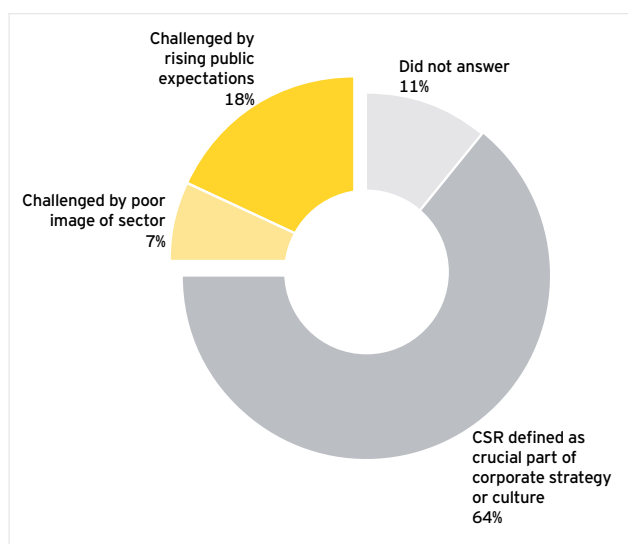
| Rank* | Mitigating factor |
|-------|---|
| 1 | Integration of CSR into strategy |
| 2 | Integration of CSR into organizational culture |
| 3 | Development of specific processes to manage CSR risks |
| 4 | Creation of competitive advantage through CSR focus |

* Based on 197 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

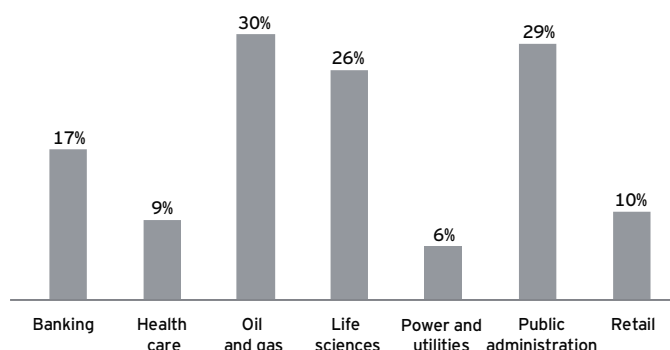
notable, however, that, averaging across all the sectors, only 4% of respondents perceived a competitive advantage stemming from their CSR activities, suggesting that social acceptance is still understood primarily as a risk, rather than as a potential source of business opportunity.

Over 90% of organizations in France, Germany and Russia report having taken measures to manage CSR risks actively, more than twice the levels in the US and Australia. In Italy, the proportion implementing measures to manage the risk is small enough that the sample size prevents accurate assessment - however, 50% of respondents based in Italy say that such measures are planned in the future.

Organizations' responses to social acceptance risk/CSR



Percentage reporting that public expectations have risen, by sector





10. Access to credit

The global credit crunch has appeared prominently on the risk radar since the first report in 2008. That year it was second on the radar, in 2009 it ranked first, and last year it ranked second again. This year the risk falls to 10th position – although, unexpectedly, survey respondents on average expect the impact of credit access challenges to rise once again by 2013.

Risk outlook and impact

Concerns about access to credit have declined across the board, although these risks apparently remain slightly higher in the BRICs, where credit access generally ranks seventh or eighth. (In most areas of North America and Western Europe, this risk ranks 10th.) Higher impacts of challenges relating to access to credit in the BRICs very likely reflect lower levels of financial markets development in these economies, as opposed to any lingering issues from the global credit crunch.

Despite this sharply improved picture from previous years, our survey revealed that many organizations continue to struggle to gain access to credit: 35% continued to report constraints on credit availability, while one in 10 report challenges obtaining capital needed for major investment programs. Executives in the power and utilities sector are most likely to report insufficient access to credit. By contrast, the life sciences and oil and gas sectors are least likely to report continued challenges in addressing this risk. Despite the ongoing sovereign debt challenges facing Europe, relatively few respondents in the public sector (27%) reported immediate credit access issues.

Drivers of access to credit risks, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Driver |
|-------|---|
| 1 | Continued constraints on capital availability |
| 2 | Large capital needs for major investment programs |
| 3 | Sector perceived as unattractive to investors |

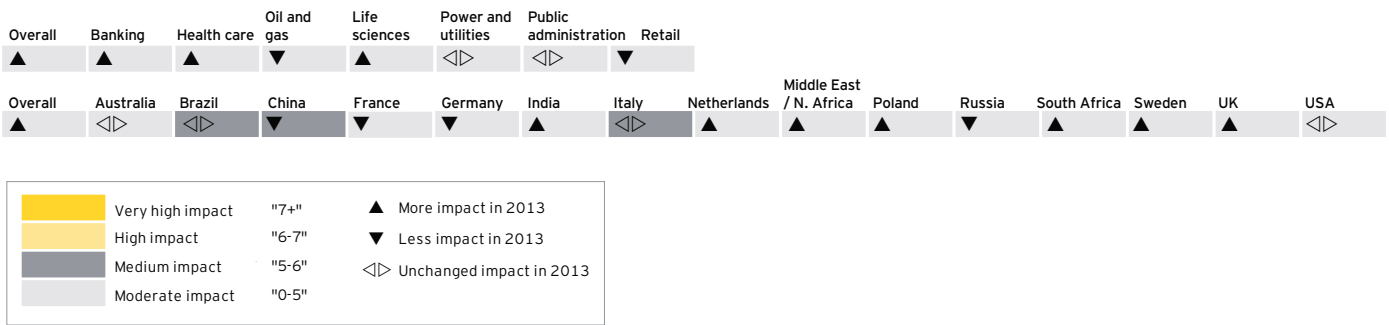
* Based on 171 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Looking to 2013, again unexpectedly, some sectors, on average, expect challenges relating to credit access to rise again on the radar. This was true in the banking sector, and may reflect expectations of higher capital requirements and sovereign debt issues. “The sheer volume of sovereign refinancing that will need to take place over the next few years, precisely at the same time as banks are going to have to raise additional capital and liquidity to meet Basel 3 requirements, will place a significant strain on the liquidity pools,” noted a senior banking executive. The health care and life sciences sectors, where business models are challenged by efforts to control health care costs and a diminishing pipeline of blockbuster drugs, also expect a rising impact of credit access challenges.

Risk mitigation strategies

Strategies for managing credit access risks are relatively straightforward: our respondents reported only two, either direct capital markets access or obtaining support from the parent company. Roughly half (55%) of all organizations in our survey

Access to credit

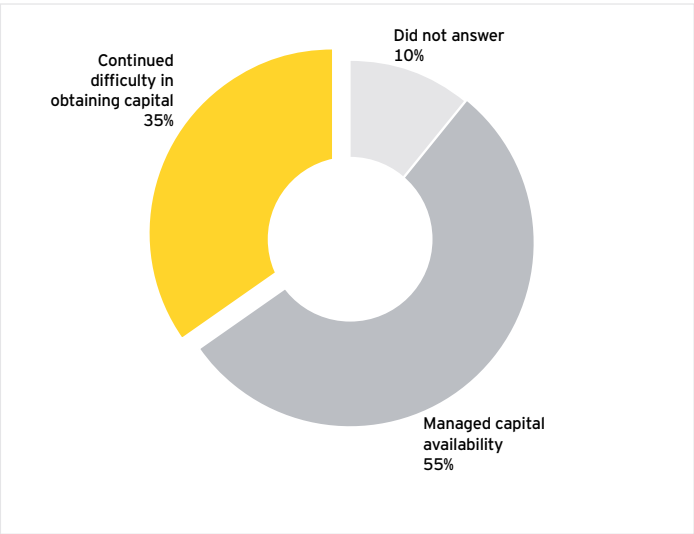




reported that their efforts to manage liquidity-related risks were reasonably effective. Understandably, banks were most likely to have taken such measures (nearly 70%), while the public sector was least likely to have done so (apparently, fewer than one in four). Respondents in the power and utilities sector were most likely to be in the uncomfortable position of seeing measures to manage credit access as necessary, but not yet implementing such programs. “Capital market conditions create additional hurdles for power and utilities throughout the world ... the US has disproportionate exposure to risks to municipalities’ ability to raise capital due to the large amount of ‘public power’ which is largely linked to municipal governments,” commented the chairman of a leading energy firm.

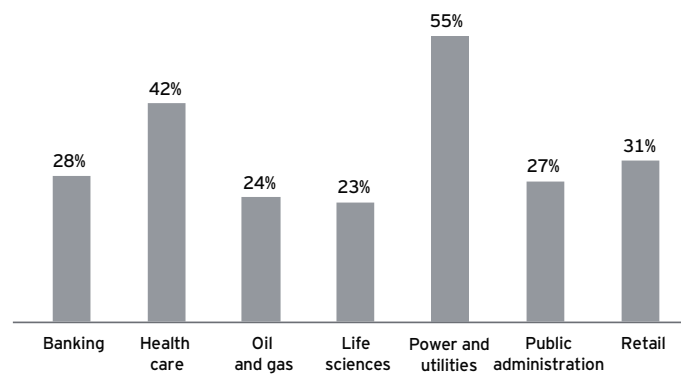
There was substantial geographical variation in the ability of organizations to manage against credit access risk. The proportion of firms or government entities that felt their risk mitigation programs had enabled them to secure necessary funds - through capital markets, or via support from their parent company - was significantly higher in the US, China and the Middle East than in most major Western European economies (although the highest figure of all was reported by Swedish organizations). Organizations in South Africa and in Poland also report significant difficulties in managing this risk, suggesting that the availability of credit may be an important factor in (or a barrier to) future national development in some markets.


Organizations' responses to access to credit



| Factors mitigating access to credit risks, as reported by organizations surveyed | |
|---|------------------------------|
| Ranked by frequency of mention | |
| Rank* | Mitigating factor |
| 1 | Reopening of capital markets |
| 2 | Support from parent company |
| * Based on 171 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

Percentage reporting continued difficulty in accessing credit markets, by sector





Part 2: opportunities

Ernst & Young Opportunity Ladder

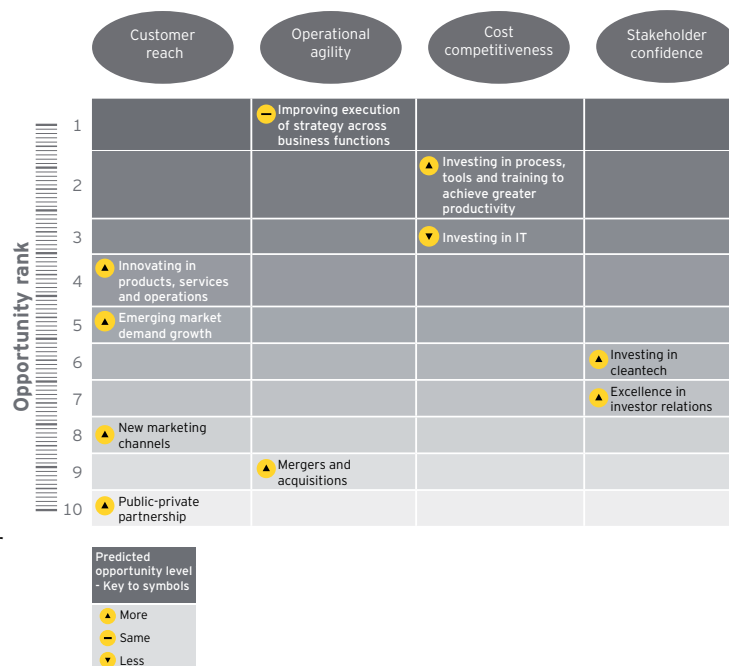
The opportunity ladder presents a snapshot of the top 10 opportunities, aggregated across the seven sectors we covered.

The opportunities at the top of the ladder are those that the executives we interviewed thought would have the greatest impact on their organization in the years ahead. Arrows indicate whether the executives thought the potential performance impact of the opportunity would rise or decline by 2013.

The ladder is divided into four sections. These represent the four drivers of competitive success identified in our *Competing for growth* research. This study showed that successful companies – the top quartile in both revenue and EBITA growth – have focused on executing four drivers of competitive success:

- ▶ Customer reach – to optimize their potential market
- ▶ Operational agility – to maximize their effective response
- ▶ Cost competitiveness – to optimize their profitability
- ▶ Stakeholder confidence – to secure both talent and support for achieving their goals

Top 10 global business opportunities

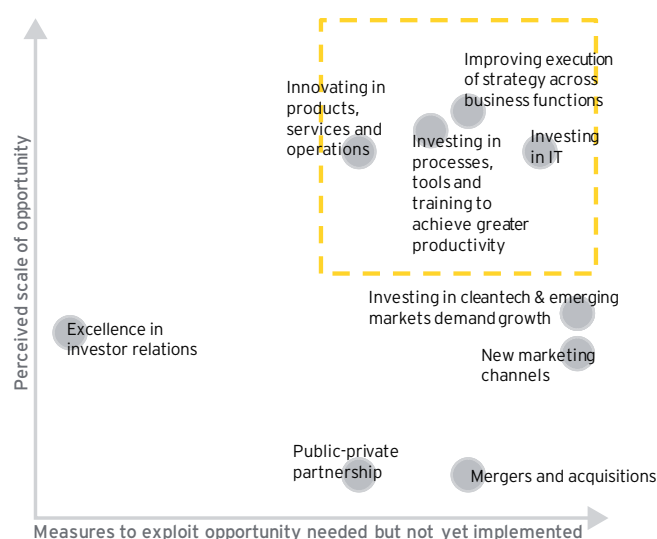


Ernst & Young Opportunity Heat Map

The opportunity heat map presents an alternate view of the top 10 opportunities, reflecting the degree to which executives believe their organization has been able to respond effectively to each opportunity.

Arguably, the focus should once again be the upper right-hand corner. Respondents have, on average, rated these opportunities as having the highest impact. In addition, respondents are relatively more likely to indicate that measures to exploit these opportunities are necessary, but not yet taken.

As with the risk heat map, the placement of opportunities on this map is not always based on statistically significant differences in responses. Two opportunities – investing in cleantech and emerging markets demand growth – appear at the same point on the map.



The top 10 opportunities

1. Improving execution of strategy across business functions

This is the first year we have invited respondents to comment on opportunities as well as risks. The executives we interviewed represent a range of senior management, from CEOs (about 19% of respondents) to CFOs (22%) and business unit heads (16%). At the top of the ladder for 2011 is an opportunity that appeals to financial and business unit executives alike: improving execution of strategy across business functions.

This is also an opportunity for which organizations are relatively likely to report that measures to respond are needed but not yet implemented. Coupled with a high impact, this gives the opportunity a prime position on our heat map.

Opportunity outlook and impact

Looking across the sectors, the impact of this opportunity is uniform, rated highly in all cases. As might be expected for an opportunity that is operational in nature, on balance, executives tend to see this opportunity as stable, neither rising nor falling when looking forward to 2013.

In the health care and power and utilities sectors, however, this opportunity is seen to be growing. This can perhaps be attributed to shifts in business models that are occurring in both sectors. In power and utilities, firms are increasingly exploiting new markets, such as energy services, and this requires the development of new competencies. "Now is the time for companies to decide what they want to become - a generator/supplier, a regulated network operator, a supplier/energy service operation," in the words of one executive in the sector. In health care, changes

Challenges to improving execution of strategy across business functions, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Challenge |
|-------|---|
| 1 | Insufficient focus or investment |
| 2 | Difficulties or setbacks in execution of plans |
| 3 | Weaknesses in internal communication limiting effectiveness |

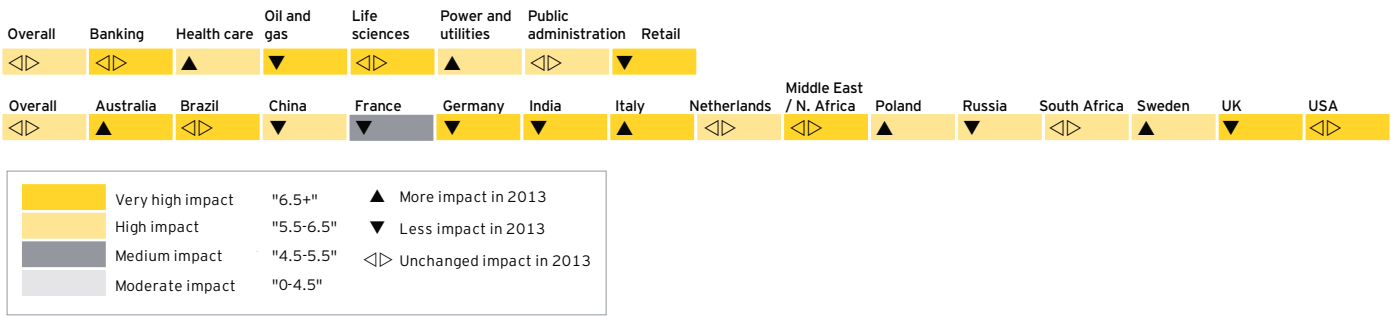
* Based on 436 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

to health care systems and payments structures will arguably require companies to reorient business functions to support new strategies. At risk of over-simplifying a complex strategic picture, customer-oriented approaches may supplant strategies based on blockbuster innovation and high-cost products. "There will be a significant market for organizations that can facilitate patient-centered, outcomes-based practice," as one life sciences panelist we interviewed put it.

Across geographies, there is some variation in the perceived impact of this opportunity, but overall, improving execution of strategy across business functions achieves its high place on our list because it is popular everywhere.

Looking ahead to 2013, in most of the BRICs, the impact of this opportunity is expected to decline in the future. This could be because firms operating in these rapidly growing markets are currently struggling to develop the institutional framework needed to implement their growth strategies - a challenge they perhaps hope to overcome in order to focus on other opportunities by 2013.

Improving execution of strategy across business functions





The obstacles most frequently reported by executives seeking to take advantage of this opportunity are operational in nature: either their organization has been unable to execute current efforts effectively, or more often, a strategic alignment process has been started but remains a work in progress.

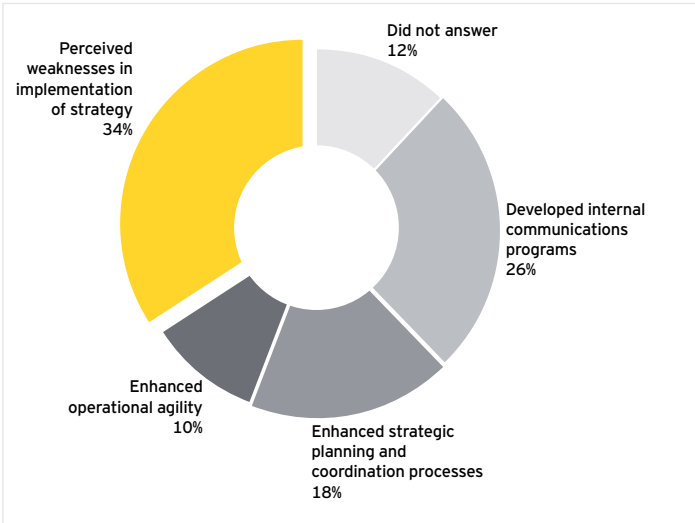
Responding to the opportunity

The most frequently cited successful responses to this opportunity are centered around communication of strategy within the organization. This is particularly true of the US, where nearly 60% of respondents indicate they have adopted this approach. (In other geographies, the figures tend to range from 20 to 30%.)

Other approaches to addressing this opportunity are more organizationally focused, such as developing an integrated strategic planning function. (Firms from China in particular emphasize the development of a strategic planning function as a key opportunity.)

Despite the top rank of this opportunity, a significant number of companies report that efforts to respond are still a work in progress. In the power and utilities sector, where the importance of improving execution of strategy across business functions is seen to be rising, nearly 50% of respondents nonetheless state that their efforts to respond are not yet effective. In the banking

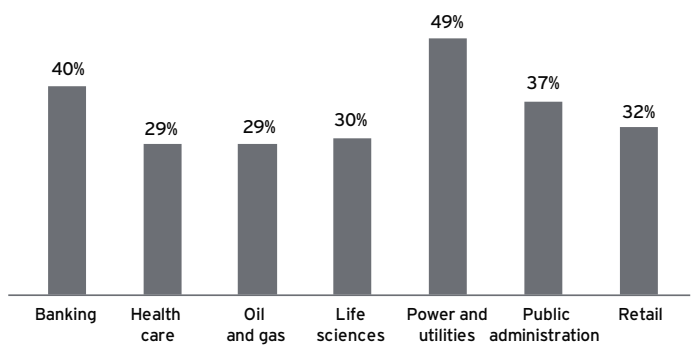
Organizations' responses to improving the execution of strategy across business functions



| Factors enabling improving execution of strategy across business functions, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Enabling factor |
| 1 | Regular communication on vision, goals and strategy |
| 2 | Strategy planning process involving all business functions |
| 3 | Alignment of business unit actions with performance drivers |
| 4 | Delegation of decision-making to the operational level |
| 5 | Regular training for employees on strategy |
| 6 | Monitoring of business environment trends |
| 7 | Enhanced planning, budgeting and forecasting |
| 8 | Definition of responsibilities throughout management team |
| * Based on 436 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

sector, the figure is 40%. In Sweden, nearly 60% of respondents say the same; in South Africa, the figure is nearly 50%, and in Australia, 46%. These figures provide some evidence of the difficulty of implementing such a far-reaching program effectively, and demonstrate that maintaining operational effectiveness in the face of organizational and business model change is an ongoing challenge.

Percentage reporting challenges or delays in improving execution of strategy, by sector



2. Investing in process, tools and training to achieve greater productivity

The second-rung opportunity on the ladder is also one with cross-functional appeal: achieving greater productivity. Overall, executives expect this opportunity to continue to rise in its potential impact as 2013 approaches.

Opportunity outlook and impact

Individual sectors and countries vary widely in the relative importance they give to this opportunity. Although power and utilities and public administration respondents report that productivity is their top priority, banking executives rank this opportunity only in fifth position overall, and yet, a senior banking executive commented that "in the absence of significant revenue growth opportunities, banks are going to have to take an ever more critical look at their cost/income ratios and wherever possible drive out operational efficiencies in order to support ROE aspirations."

Geographically speaking, productivity is a key focus for executives in most of the BRICs (with the exception of Russia) and in continental Europe. By contrast, executives in the US and UK are relatively less likely to feel this is a high-impact opportunity.

Our survey results suggest that the principal barriers to improving productivity are a lack of investment in skilled personnel, an insufficient budget to make the necessary process investments, and an organizational focus on competitors, rather than on operational effectiveness.

Overall, respondents in the banking and public administration sectors appeared most likely to report significant barriers within

Challenges to investing in processes, tools and training to achieve greater productivity, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Challenge |
|-------|---|
| 1 | Insufficient budget to achieve objectives |
| 2 | Results of investment not yet apparent |
| 3 | Insufficient investment in personnel |
| 4 | Organization is still in cost-saving mode |
| 5 | Organization focused on competitive pressures rather than capacity-building |

* Based on 390 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

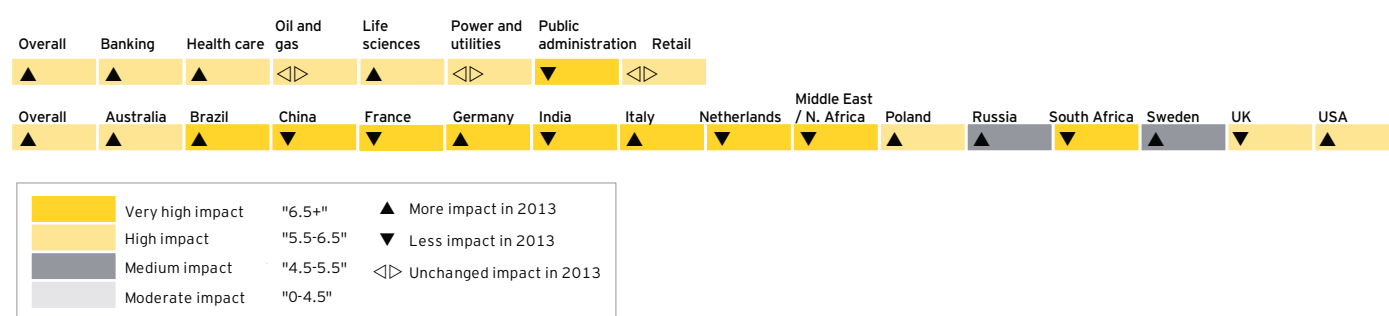
their organizations to making significant gains on this opportunity. Executives in China, Poland and Sweden were similarly more likely to report that their organization placed insufficient emphasis or resources on improving productivity. In the case of China and Poland, in particular, this may reflect the fact that organizations are more focused at present on achieving rapid growth.

Most sectors expect the importance of this opportunity to rise as 2013 approaches. A notable exception is public administration, which predicts a fall in importance.

Responding to the opportunity

The key strategy for improving productivity - mentioned by over 4 in 10 organizations in our survey - was a focus on investing in staff skills and development. The second most important strategy, cited by nearly 3 in 10 organizations, was a focus on cutting

Investing in process, tools and training to achieve greater productivity





costs. Reflecting a continuing scarcity of investment capital in many firms in the aftermath of the global financial crisis, many respondents commented that their goal was to “achieve more with the resources available.”

Once again, different sectors varied in their approaches to improving productivity. Executives in banking, public administration and retail were more likely than other sectors to focus on developing staff skills, and less likely to prioritize cost cutting. By contrast, respondents from the oil and gas industry were much more likely to prioritize reducing costs above developing staff skills. (This contradicted the views of some of the oil and gas panelists we interviewed – for instance, one expert’s view that “it behoves companies to offer incentives, such as upgrade courses, that go beyond financial rewards.”)

Our survey also suggests that, despite the global importance of improving productivity, it is more likely to be exploited by companies operating in certain geographical regions. Although executives in Europe (with the exception of Italy) and Russia are highly likely to manage productivity actively, executives in the Middle East, US and China lag behind.

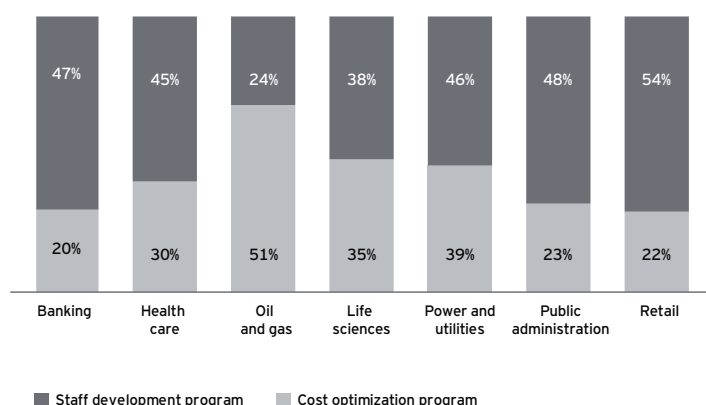
Factors enabling investing in process, tools and training to achieve greater productivity, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Enabling factor |
|-------|---|
| 1 | Growing recognition of importance of training and staff development and willingness to invest in same |
| 2 | Need to achieve more with the resources currently available |
| 3 | Need to improve the efficiency of business forecasting, planning, budgeting and reporting processes |
| 4 | Identification of areas where further cost optimization potential exists |
| 5 | Ongoing program to increase productivity |
| 6 | Recognition of importance of improving internal communication |
| 7 | Increasing appeal of building new competencies |

* Based on 390 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Relative proportion of respondents reporting staff development vs. cost optimization programs, by sector



3. Investing in IT

Investing in IT can produce a range of strategic and operational benefits, according to the executives we interviewed – from enabling new distribution channels to accelerating innovation. While seen as third-highest opportunity on the ladder for 2011, on average, executives saw the opportunity as lessening in potential impact by 2013. That said, a relatively high proportion of respondents indicated that measures to exploit this opportunity were needed but not yet implemented, giving it a prime position on our heat map.

Opportunity outlook and impact

Across Europe, America and the Middle East, investing in IT is typically either the top or second-highest priority for executives. In China, Russia and India, by contrast, IT opportunities are ranked behind a mixture of other strategic initiatives.

Looking at the sectors, we found that this opportunity was a top priority for the health care and public administration sectors. “The introduction of IT enables significant cost reductions in virtually all aspects of public expenditure. In most countries these economies have hardly been realized yet,” argued a political panelist we interviewed.

Looking across sectors and regions, most expect the potential impact of this opportunity to decline as 2013 approaches. The exception is the retail sector, where the importance is expected to rise. This may reflect the ongoing growth in e-commerce – “The explosion in the number of people online means that it is possible to reach more people directly ... it will be very important to be heard in a very noisy marketplace,” as a former chief economist of a consumer goods company put it.

Challenges to investing in IT, as reported by organizations surveyed

Ranked by frequency of mention

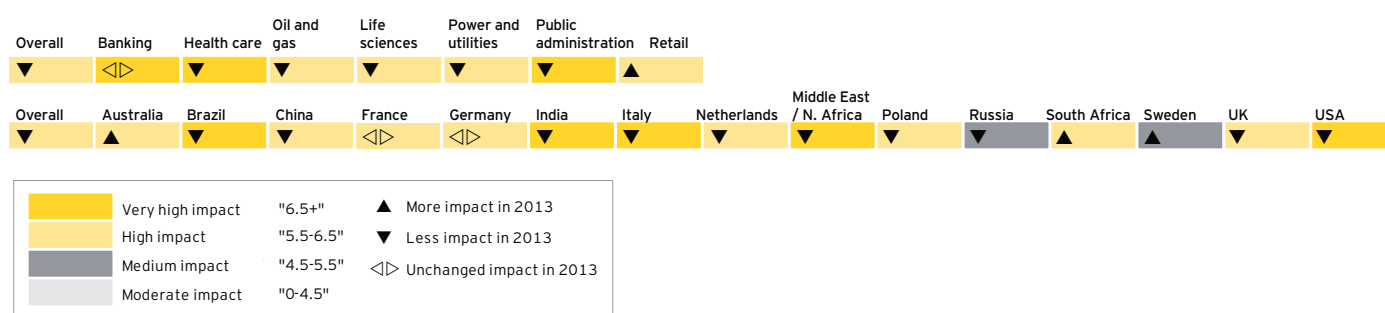
| Rank* | Challenge |
|-------|---|
| 1 | Insufficiency of current levels of investment to achieve desired results |
| 2 | Failure of organization to prioritize IT |
| 3 | Lack of alignment between IT department and organization needs and strategy |
| 4 | Focus on technical challenges rather than business challenges |
| 5 | Insufficient investment in skilled personnel |

* Based on 383 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

The most frequently reported obstacles to taking advantage of this opportunity included insufficient investment and a failure by senior management to prioritize this opportunity (two problems that seem likely to be interrelated). Despite the importance of IT for health care and public administration, we found that these two sectors were the most likely to complain that current levels of IT investment were insufficient. Also, the public administration and retail sectors were particularly likely to complain of poor alignment between the IT department and overall business need and strategy.

In comparisons between nations, respondents from the US and China were particularly likely to be satisfied with their organization's efforts to take advantage of the opportunities produced by IT investment, while executives in Australia and the Netherlands were particularly likely to report they had faced challenges.

Investing in IT





Responding to the opportunity

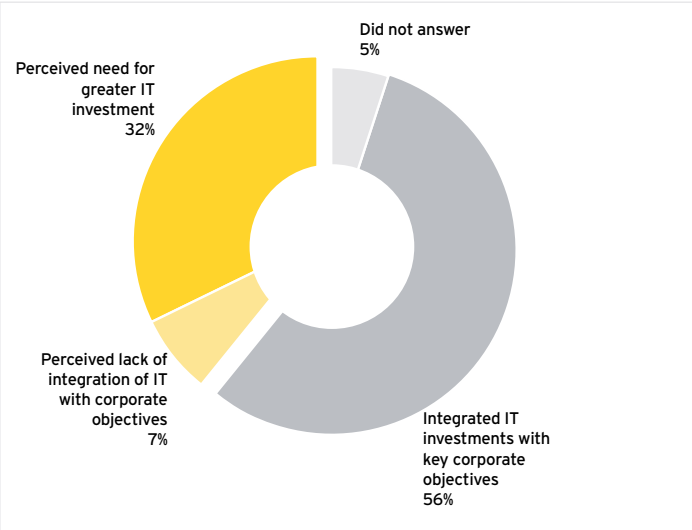
Our survey revealed that success in exploiting IT investment opportunities is strongly dependent on the attitudes of senior management. The well-positioned organizations are those whose leaders recognize the potential of IT in driving innovation, enhancing business information systems and managing risk.

Overall, a majority of respondents (56%) indicated that their organization had been successful in giving IT a key role in supporting organizational objectives. The sector in which respondents were most likely to report such success was oil and gas (70%); by contrast, the equivalent figure among public sector officials was just 47%, an issue that may reflect current constraints on funding.

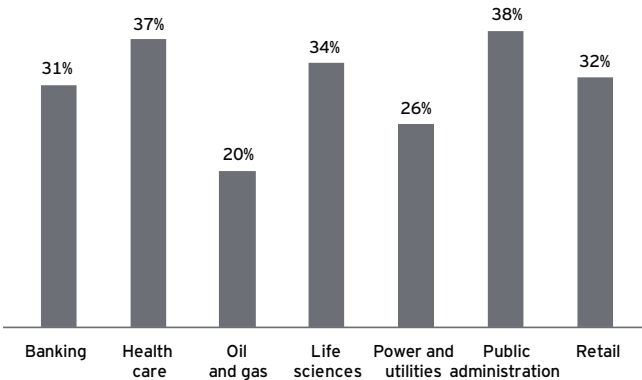
Among the countries we surveyed, the US emerged, by some margin, as the nation whose executives were most active in exploiting IT opportunities. Executives in the Netherlands were likely (67%) to report that measures to exploit this opportunity are needed, but have not yet been taken.

| Factors enabling investing in IT, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Enabling factor |
| 1 | Prioritization by senior management |
| 2 | Recognition of IT's role in enabling innovation |
| 3 | Recognition of IT's role in enhancing business information systems |
| 4 | Recognition of IT's role in enhancing risk management |
| * Based on 383 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

Organizations' responses to investing in IT



Percentage reporting additional IT investment is needed, by sector



4. Innovating in products, services and operations

Innovating in products, services and operations is central to the business models of organizations in some of the sectors we surveyed - notably life sciences. Overall, it ranks as the fourth opportunity on the ladder, and one that is expected to rise in importance by 2013.

Opportunity outlook and impact

There is significant variety in the priority that different countries give to this opportunity. In Europe and America, product and service innovation is currently one of the top three priorities: in fact, it is currently the number one strategic initiative for organizations in Germany. "Companies will need to do this in order to grow in developed markets but also to ensure growth in emerging markets is profitable," noted the head of group strategy at a global beverages company. By contrast, this opportunity was ranked in fourth or fifth place by organizations across the Middle East and in most of the BRICs.

Looking ahead to 2013, most sectors see the potential impact of this opportunity rising. Only banking and life sciences are ambivalent, noting the direction as uncertain. The result for life sciences is perhaps unsurprising given that drug innovation has long been core to the business model, but other competencies are now rising in relative importance. European organizations - in France, Germany, Poland, Italy, Sweden and the UK - are particularly likely to see this opportunity as rising.

Respondents identified four key barriers to innovation success: lack of focus or investment, excessive conservatism within their organizations, lack of sufficient expertise and inflexibility. Overall, the retail, life sciences and banking sectors gave this opportunity

Challenges to innovation in products, services and operations, as reported by organizations surveyed

Ranked by frequency of mention

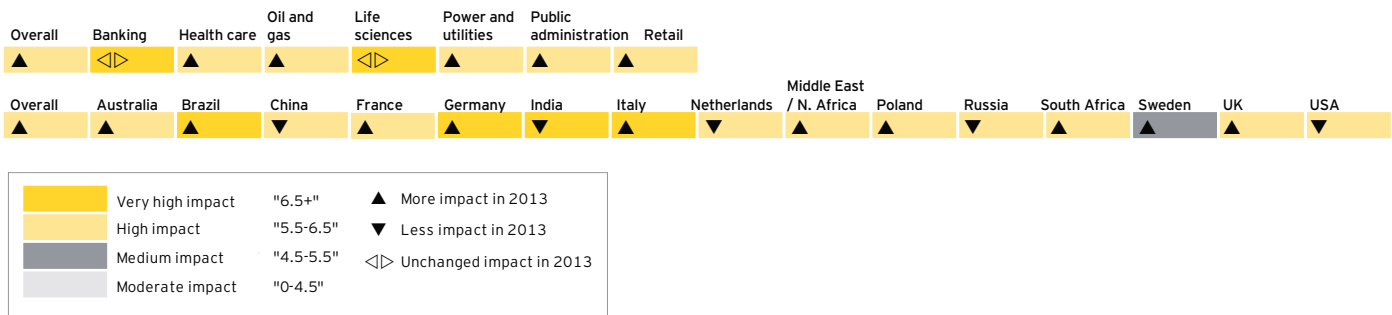
| Rank* | Challenge |
|-------|--|
| 1 | Insufficient focus or investment |
| 2 | Organization is too conservative |
| 3 | Lack of specific expertise or knowledge |
| 4 | Insufficient strategic or organizational flexibility |

* Based on 473 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

the highest priority, and are least likely to report challenges in exploiting it. Respondents in the power and utilities sector, on the other hand, are the most likely to report obstacles to exploiting innovation. A power and utilities executive commented that "businesses, especially those related to electricity, need to be careful about becoming focused on a static conception of complex systems like the 'smart grid.' Technologies and processes will be every bit, if not more important, than components at the generation level or behind the meter."

Organizations in China and Poland were most likely to complain of barriers to exploiting this opportunity. This may reflect the fact it is less common to drive cutting-edge innovation - as opposed to adopting leading-edge practices - in organizations based in emerging markets. (Although the panelists we interviewed were optimistic about their eventual success: "The main driver here is the remarkable growth in capacity and confidence of Chinese science and engineering. There has been a shift in the locus of scientific research, R&D and innovation," noted Nigel Lucas, Retired Professor of Energy Policy, Imperial College.)

Innovating in products, services and operations





Responding to the opportunity

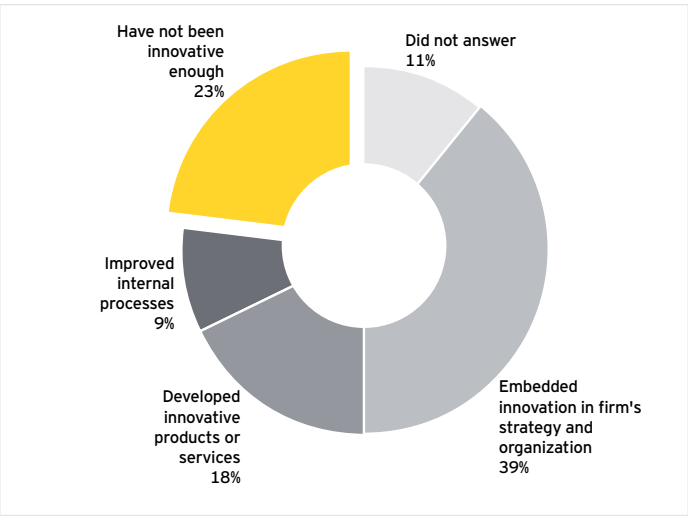
Our survey identified two main factors that allow organizations to become leaders in exploiting innovation in products, services and operations: the development of a coherent organization-wide strategy for innovation, and well-established processes for managing new products and services. (Although IT investment was also mentioned, echoing the previous opportunity.)

We found interesting differences between the different industry sectors we surveyed, in terms of the way innovation is managed. Unsurprisingly, life sciences led the way in incorporating innovation into the core strategy of the firm. By contrast, the retail and health care sectors were relatively more focused on developing market-leading products. Finally, public administration was the most likely sector to aim for innovation in internal processes and IT systems.

Geographically, the results were surprising. Organizations in South Africa and Australia were the most likely to report that innovation was part of core strategy, and Brazilian and Swedish firms were most likely to report success in developing market-leading products.

Finally, our survey suggested that, while much publicized, open innovation initiatives based on cooperation between competing organizations are still some way off: just 1% of our respondents

Organizations' responses to innovation in products, services and operations

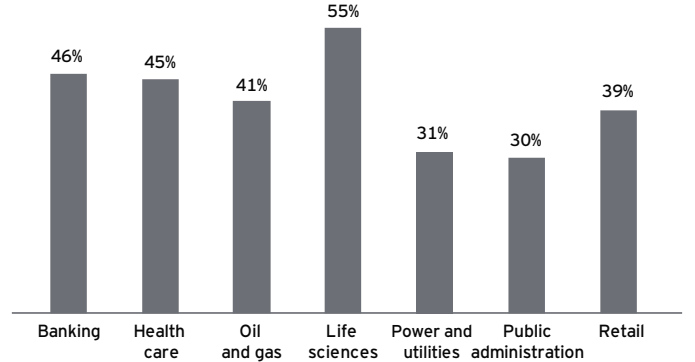


| Factors enabling innovation in products, services and operations, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Enabling factor |
| 1 | Organization-wide strategy of continuous innovation |
| 2 | Well-established processes for managing innovation |
| 3 | Monitoring and investigation of future consumer needs |
| 4 | Investment in new markets, products, brands and services |
| 5 | Investment in IT systems |
| 6 | Development of culture of innovation |
| 7 | Investment in renewable energy |
| 8 | Enabling of innovation in a public sector setting |
| 9 | Creating innovation partnerships with competitors |

* Based on 473 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

had entered such partnerships. Still, a head of strategy in a global pharmaceuticals firm argued that such open innovation partnerships would eventually produce “more rapid extension of capabilities.”

Percentage reporting innovation is part of the company's core strategy, by sector



5. Emerging market demand growth

The fifth opportunity on the ladder is one that has been a source of much hype as well as some dashed expectations: the rise of the emerging markets, not simply as centers for low-cost labor, but as centers of global consumer demand. Despite the difficulties experienced by many firms entering these markets, it is hard to disagree with this long-term trend, and respondents on average see this opportunity rising on the ladder by 2013.

Opportunity outlook and impact

Unsurprisingly, emerging market demand growth is a top current focus for executives in India and Russia, and is also ranked third by respondents from the Middle East. It is also a top-three opportunity for the oil and gas and the life sciences sectors. For executives in most other countries and sectors, however, emerging markets are a much less significant opportunity than might be expected: in France, for example, they are ranked 9th overall, and in Italy 10th.

This may be largely due to an increasing sense of the difficulty of profiting from emerging markets. Indeed, one in five organizations in our survey reported that they had limited their focus on Asia, following setbacks there, in order to concentrate on their home market. Emerging markets are “an opportunity that is unlikely to be met right the first time,” noted a former retail sector executive.

Executives from continental Europe – particularly from France, Germany and Italy – were the most likely to perceive such barriers to entering emerging markets. By contrast, executives from the

Challenges to emerging market demand growth, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Challenge |
|-------|--|
| 1 | Tendency to focus on home markets following setbacks in Asia |
| 2 | Inability to turn market share into profit in emerging markets |
| 3 | Lack of market-specific expertise |

* Based on 407 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

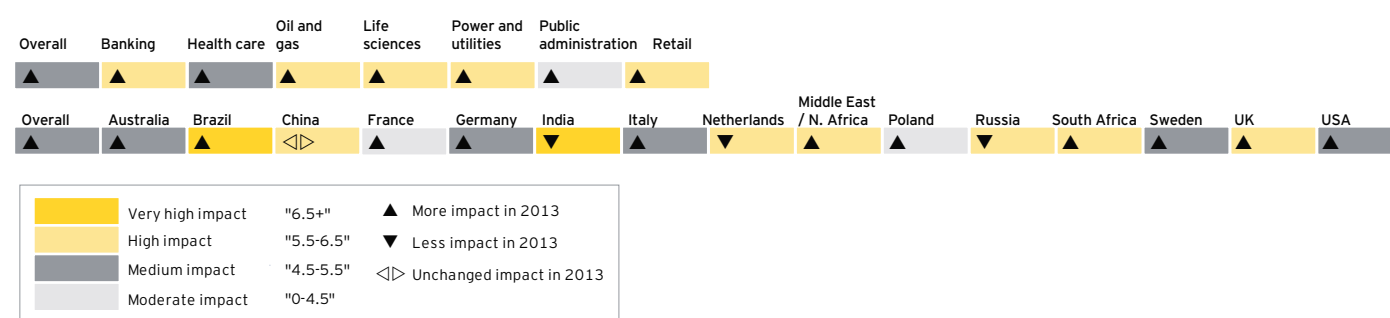
UK, India and the Middle East were least likely to report such obstacles to exploiting this opportunity.

Regardless of current obstacles, the sectors are unanimous in predicting a rise in this opportunity by 2013. “Rapid growth in the emerging markets with large population (China, India, Brazil) is triggering a huge increase in the number of people who can afford branded FMCG (fast moving consumer goods),” commented Donald Hepburn, Managing Director of Lochinver Consulting. Respondents in most geographies are similarly optimistic, although respondents from Russia and India expect the potential impact of the opportunity to decline over time.

Responding to the opportunity

The most common factor driving organizations to seek growth in emerging markets was a perception of rising competition in traditional markets: this was mentioned by 4 in 10 companies surveyed. A number of organizations also mentioned the sheer

Emerging market demand growth



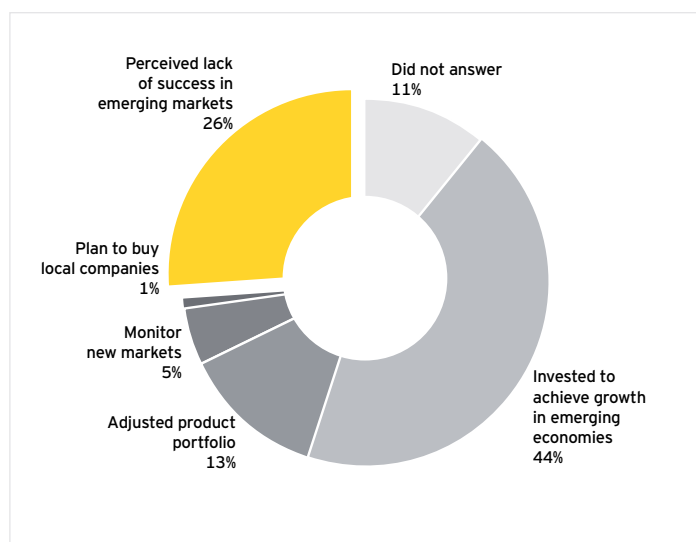
rapidity of market growth (and expected growth), specifically in Asia, as a factor.

Overall, respondents in the oil and gas sector and the retail sector were particularly likely to focus on this opportunity as a route to growth: over half of organizations in these sectors said they had expanded business in emerging markets, particularly in Eastern Europe or Asia. Executives in nearly all countries reported a substantial recent rise in engagement with emerging markets - with the exception of France and Germany, where the retrenchment from Asia seems to have been particularly pronounced.

We saw less evidence, however, that companies were positioning themselves to exploit this opportunity to the full. Only 5% of companies were actively monitoring market opportunities in Asia, and only 1% of respondents (primarily from the power and utilities sectors) reported that they had invested in innovative local companies in emerging markets. In addition, relatively few companies had attempted to develop products specifically for the Asian market. These findings may help explain why many companies have found it difficult to profit from this opportunity.

Overall, health care and public administration organizations were most likely to monitor customer needs in Asia, and to attempt to develop products and services specifically for that market. The banking sector, by contrast, was least likely to develop

Organizations' responses to emerging market demand growth



Factors enabling emerging market demand growth, as reported by organizations surveyed

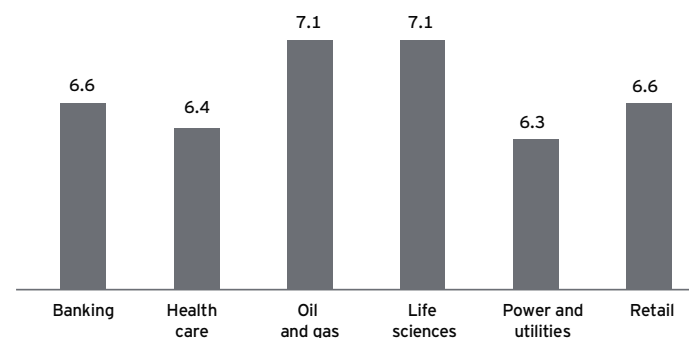
Ranked by frequency of mention

| Rank* | Enabling factor |
|-------|--|
| 1 | Rising competitive pressure in home markets |
| 2 | Rapid market growth in Asia |
| 3 | Monitoring of emerging market customer needs |
| 4 | Focus on taking market share from competitors |
| 5 | Flexible strategy for different markets |
| 6 | Growing business opportunities in Eastern Europe and Scandinavia |
| 7 | Reduction in product life cycles to increase responsiveness |
| 8 | Development of products and services specifically for the Asian market |
| 9 | Investment in innovative local companies in emerging markets |
| 10 | Development of an Asia-specific strategy |

* Based on 407 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

an Asia-specific portfolio of products or services. Generally, unrealistic expectations appear to be increasingly replaced by more sustained campaigns. "Aggressive expansion into Asian markets [is] not a short-term solution but the future lies in these markets where a middle class is emerging," wrote Professor Keith Mansford, chairman of Mansford Associates and a former Director of Research and Development at Beecham Group.

Perceived impact of emerging markets demand growth, by sector, 1-10 scale



6. Investing in cleantech

A very specific opportunity, investing in cleantech, takes the sixth position on our 2011 opportunity ladder. Despite the sector-specific nature of this opportunity, on the whole, respondents across the sectors expect its impact to rise as we move toward 2013.

Opportunity outlook and impact

Overall, cleantech ranks in the middle of our list of opportunities for companies in 2011. In practice, however, cleantech tends to hold a significantly higher or lower priority for individual organizations, depending in part on the respondent's region and sector. Cleantech is the second highest priority overall for power and utilities firms, due in part to the important role played by green technologies and clean energy in this sector. "Technological progress in bringing down the costs of exploiting renewable energy resources is key, not only to attaining commercial viability but also in expanding to less promising and less accessible sites, given some level of subsidy," noted an emeritus professor at MIT. Cleantech is also the fourth highest priority in the public administration and oil and gas sectors.

Cleantech is of particular importance to Western European firms, reflecting the growing importance of environmental issues across the region. In France, for example, cleantech is perceived as the third most important opportunity facing businesses.

These perceptions of current opportunity are in many cases countered by perceptions of outlook. For instance, looking ahead to 2013, the oil and gas and public administration sectors see the impact falling, and power and utilities respondents see it unchanged. As these are the sectors rating the current impact of the opportunity highest, this suggests an element of timeliness to the strategic gains to be made in this area.

Challenges to investing in cleantech, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Challenge |
|-------|---|
| 1 | Failure to prioritize cleantech |
| 2 | Insufficient capital available to invest |
| 3 | Not perceived as relevant to organization or sector |
| 4 | Public or customers not interested in cleantech |

* Based on 295 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

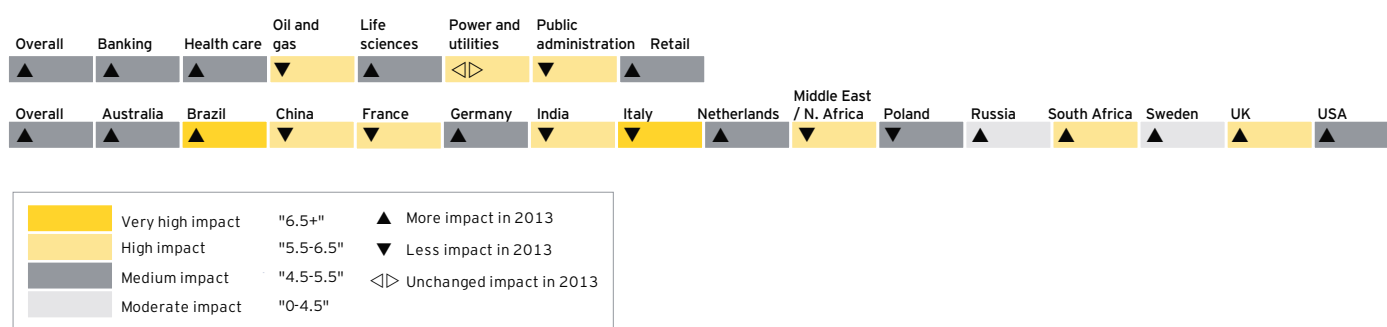
The most commonly identified barriers to investing in cleantech include a lack of organizational focus, insufficient investment in technology, or a lack of perceived relevance for the sector. But, with the exception of the banking sector, the incidence of these barriers to entry was consistently low across the sectors we surveyed. This is an encouraging finding, which indicates broad openness among organizations to exploring cleantech opportunities.

Responding to the opportunity

The two most frequently reported factors underlying successful exploitation of investment in cleantech are, firstly, a perception that it is relevant to the innovation strategy of the organization and, secondly, expectation of a growth in the market for green and eco-friendly products and services.

With the exception of the banking industry, in all sectors surveyed, a majority of respondents reported that cleantech was either a key initiative, or ought to become one because it was rising in importance. This finding perhaps accounts for the high position of this relatively specific opportunity on our ladder. The power

Investing in cleantech

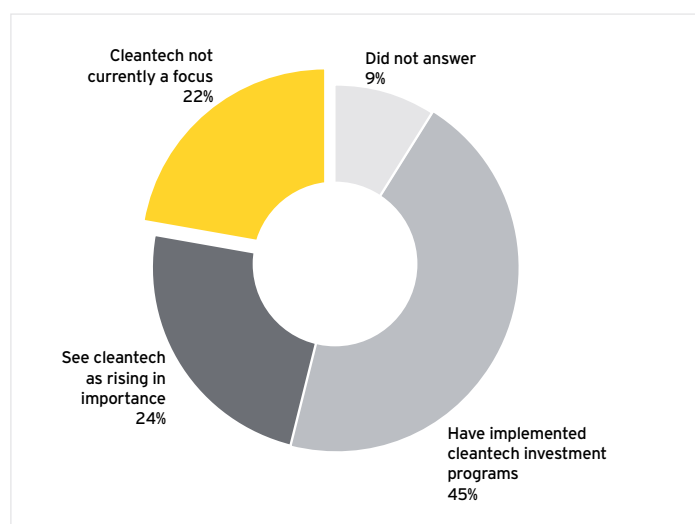




and utilities sector led the way in its view of the centrality of clean technology to the future of the sector. The health care and public administration sectors were the most likely to report that the importance of cleantech was rising, for instance as a result of greater public pressure or rising CSR standards. “Government bodies will provide new market opportunities in energy-saving investment, particularly with regard to reducing energy consumption in buildings,” claimed a professor at a European research institute.

Finally, it is also worth noting that, although cleantech is not currently a top priority for organizations in China, executives at firms based in China were the most likely to see a need over the coming years to adapt their corporate cultures to prioritize cleantech issues. This suggests that the world’s second largest economy may be on the verge of more widespread involvement in green innovation. Panelists we interviewed tended to agree: “China and possibly India (and less probably Brazil) will be the lowest cost providers of wind turbines and solar technology in the next decade,” argued Nigel Lucas, retired Professor of Energy Policy at Imperial College London. In terms of organizations already having implemented measures to exploit this opportunity, the UK led at 94% of respondents followed by Germany at 81%.

Organizations' responses to investing in cleantech



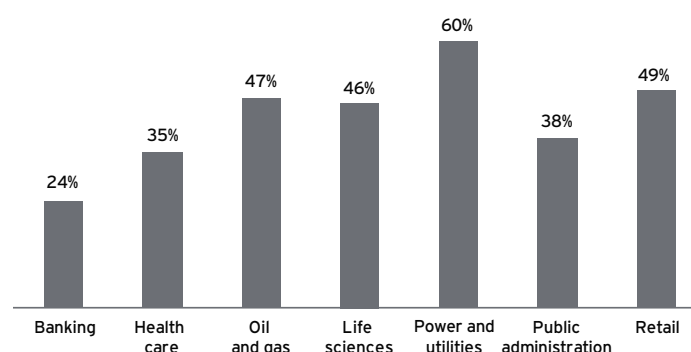
Factors enabling investing in cleantech, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Enabling factor |
|-------|--|
| 1 | Centrality of cleantech to organization's innovation strategy |
| 2 | Expected growth in market for eco-friendly products and services |
| 3 | Shift in corporate culture to reflect importance of green issues |
| 4 | Growing need to increase energy efficiency and decrease carbon emissions |
| 5 | Increasing importance of cleantech for CSR |
| 6 | Increasing sector-specific importance of cleantech |
| 7 | Increasing public pressure to invest in cleantech |

* Based on 295 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Percentage reporting that cleantech is a core element of culture or strategy, by sector



7. Excellence in investor relations

Excellence in investor relations occupies the seventh rung on the opportunity ladder, with respondents on average seeing the impact as rising toward 2013.

Opportunity outlook and impact

Although excellence in investor relations is not a top-rated strategic initiative in any sector surveyed, it is given particular priority (sixth place) by executives in the banking and power and utilities sectors. (“Tighter money and reduced leverage appears likely to be with us for some time and the consequences for renewable energy deployment are being reported frequently in the trade press,” noted one energy panelist we interviewed.) In addition, executives in two countries – Sweden and China – identify improving investor relations as their second most important opportunity at present. This may be related to the current strength of both national economies, which have increasingly become a focus of regional investment. It may alternately be a sign that respondents in these geographies are having difficulty attracting the capital they require.

Executives in our survey identified two key barriers to improving investor relations: a lack of strategy for managing relations with the financial community, and a failure by senior management to prioritize this opportunity. Overall, however, we found that executives in all sectors were well-positioned to take advantage of this strategic initiative: only 14% reported that their organizations faced such barriers. Yet respondents from Russia reported a much higher incidence of these challenges than any other country.

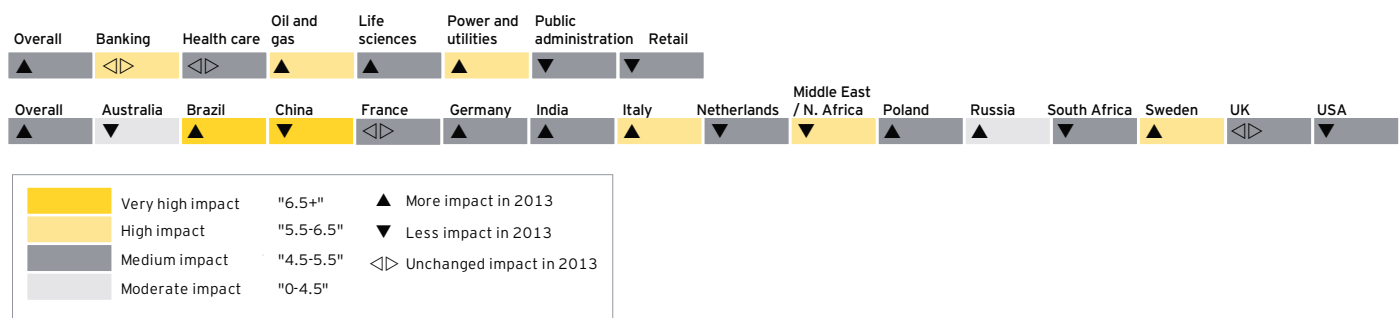
| Challenges to excellence in investor relations, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Challenge |
| 1 | Poorly defined strategy for managing investor relations |
| 2 | Failure to prioritize investor relations |
| * Based on 213 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

Looking to 2013, the picture by sectors and regions is mixed. Oil and gas, life sciences and power and utilities respondents, on average, expect the impact of this opportunity on corporate performance to climb. In retail it is expected to decline. (The opportunity has relatively limited applicability to the public sector.)

Responding to the opportunity

Our survey identified three key factors that help organizations to create excellence in investor relations: firstly, a focus by senior management on enhancing relations; second, a desire to improve an organization’s rating; and third, a concern for the organization’s image among its current and potential stakeholders. We found that the prevalence of these factors depended more on geographical location than on industry sector. In the UK, US, Netherlands and South Africa, around 9 out of 10 respondents reported one or more of these factors. But this fell to barely 7 in 10 organizations in Russia, France, Italy and the Middle East. These findings may demonstrate how differences in

Excellence in investor relations





corporate culture and levels of financial sector development can propel organizations in certain countries to focus on excellence in investor relations.

In terms of measures to exploit this opportunity, banks tended to be most proactive, with 80% reporting that their organizations had implemented measures to this effect. Retail followed closely at 74%; proportions in other sectors were 60% or lower. Relatively few companies reported being in the position of recognizing such measures were necessary but not yet having implemented them. However, power and utilities were relatively likely (42%) to say that no such measures were either taken or planned, which may reflect the increasing ability of power and utilities companies to turn directly to bond markets for financing.

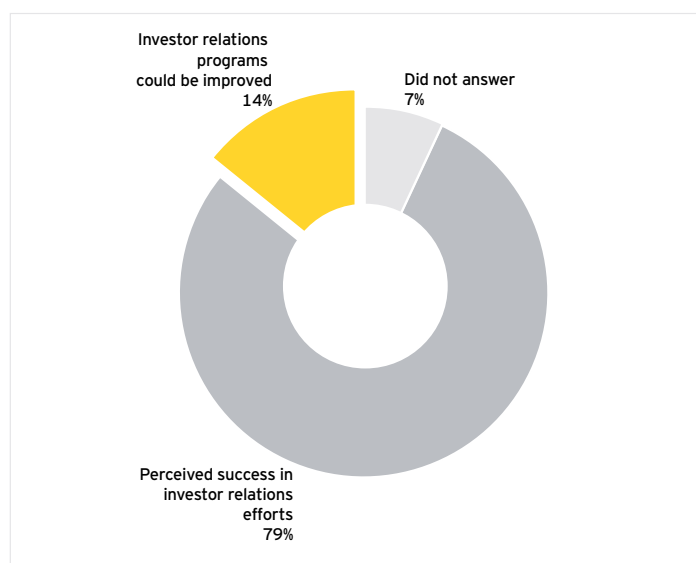
Factors enabling excellence in investor relations, as reported by organizations surveyed

Ranked by frequency of mention

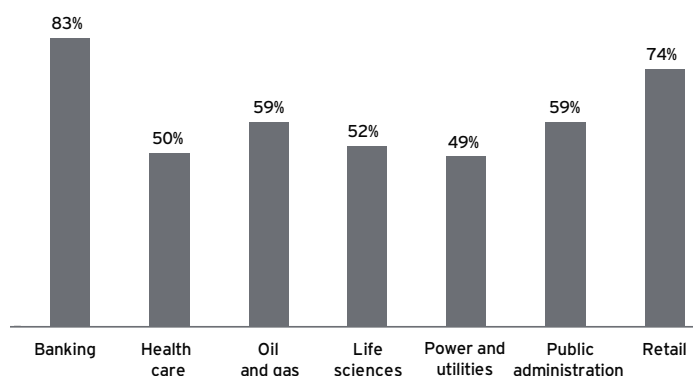
| Rank* | Enabling factor |
|-------|---|
| 1 | Organizational priority to enhance relations with investors |
| 2 | Desire to improve organization's rating |
| 3 | Desire to improve image and reputation |

** Based on 213 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown*

Organizations' responses to excellence in investor relations



Percentage reporting that measures to improve investor relations have been taken, by sector



8. New marketing channels

New marketing channels include social media, Web 2.0, email, mobile marketing, search, and apps. Again, despite the apparent sector-specificity of this opportunity, it was seen as important in a sufficiently broad cross-section of organizations to elevate it onto our top 10 list of opportunities. Overall, this opportunity is expected to rise by 2013.

Opportunity outlook and impact

The possibilities created by new technologies for connecting directly with customers and consumers are of particular interest to the banking and retail industries, which both rank this among the top five current opportunities for their sector. For instance, a retail panelist noted that “the death of old media is leading to the death of places to advertise. The converse of this is more positive with the rise of new places to do business and to use for advertising and marketing.” However, this may well reflect an opportunity that has peaked: both these sectors expect the opportunity to stay at the same level of impact by 2013.

Our survey results suggest that these marketing channels are of heightened interest particularly to executives in the US, China and Russia, perhaps because of the opportunities they create for reaching the vast (and increasingly networked) populations of these three countries. In many other countries, particularly in Europe, this opportunity is seen as likely to rise in impact in the future.

We found that the two most significant barriers to exploiting social media opportunities were a decision by senior management to focus on more traditional marketing channels, and an absence of necessary technology expertise within the firm. These barriers were highest in the life sciences sector. By contrast, they were lowest in retail, oil and gas, and health care. Analyzing this data by geographical region, we found that barriers to exploiting

Challenges to new marketing channels, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Challenge |
|-------|---|
| 1 | Focus on traditional marketing channels |
| 2 | Lack of technological expertise |
| 3 | Involvement in social media depends on parent company |
| 4 | Clients or customers do not use social media |
| 5 | Lack of perceived relevance of social media to the sector |

* Based on 238 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

this opportunity are reported to be lowest in Italy and China. By contrast, executives in Poland and Germany were significantly more likely to report that their efforts to exploit new marketing channels had been beset by serious challenges.

Responding to the opportunity

Our survey identified three principal factors that enable organizations to benefit from the opportunity of new marketing channels. The first was evidence of the effectiveness of social media in marketing their brands, products or services; the second was a decision by senior management to prioritize this issue. The final issue of key importance was the extent to which this opportunity could be successfully integrated into a multichannel approach to marketing, blending traditional avenues with new media.

We found wide variations in the extent to which different industry sectors were currently able to benefit from this opportunity. The health care and, perhaps surprisingly, oil and gas industries were significantly more likely than any other sectors to have already adopted a multichannel approach. In oil and gas, this may

New marketing channels



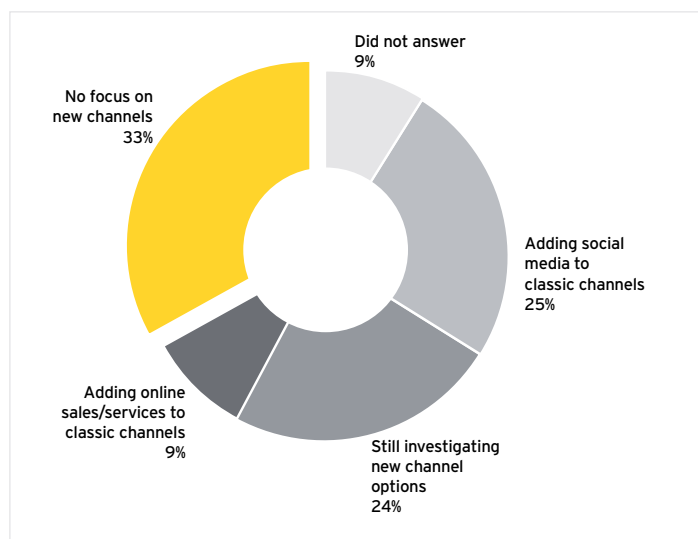


represent efforts to communicate with the general public, as CSR strategies have become increasingly sophisticated. “In today’s environment of global competition, oil and gas multinationals have to operate according to emerging global CSR norms, set by legal obligations as well as based on what is socially accepted by the public opinion,” argued Philippe Copinschi, a lecturer at l’Institut d’Etudes Politiques de Paris.

Executives in the retail and public administration sectors were most likely to be still in the process of considering this opportunity, and building the necessary expertise. Organizations in the life sciences sector are one of the least likely to have implemented new marketing channels, but the most likely to say such measures are intended in the future. This accords with the view of some panelists we interviewed: “through social networking tools, companies can reach out directly to consumers and the public to let them know about their activities. Rather than seeing the move toward transparency as a negative thing, pharma companies should embrace it and use it to improve their image in health,” argued a health care panelist.

Additionally, nearly 10% of respondents reported progress in moving toward greater online delivery of products and services, with those in the banking sector particularly likely to be interested.

Organizations' responses to new marketing channels



Factors enabling new marketing channels, as reported by organizations surveyed

Ranked by frequency of mention

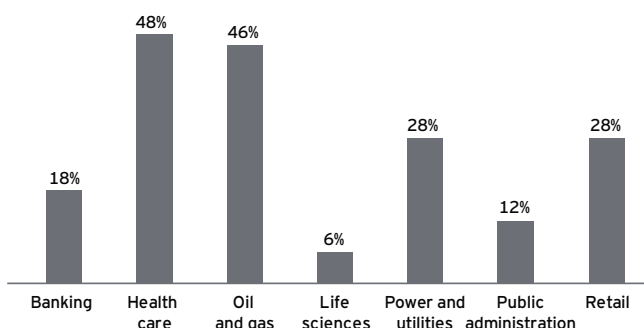
| Rank* | Enabling factor |
|-------|---|
| 1 | Proven effectiveness of social media in promoting brand, product or service |
| 2 | Desire to explore marketing possibilities created by new technologies |
| 3 | Potential for a multichannel approach (social media alongside classic marketing channels) |
| 4 | Increased focus on selling products or services online |
| 5 | Desire to acquire skills and knowledge |
| 6 | Goal of understanding and valuing social media opportunities |
| 7 | Desire to develop new products and services for online market |

** Based on 238 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown*

It is notable, however, that so far only a very small number of organizations (2% of our survey) are developing new products or services specifically for the online market.

Geographically, one country stands out in its openness to new marketing opportunities: China, where 78% of organizations were either persuaded in principle of the potential value of new marketing channels, or were actively exploiting them. This is far above equivalent levels in the US and Europe.

Percentage reporting current use of social media, by sector



9. Mergers and acquisitions

Mergers and acquisitions rank 9th in our list of the top 10 global opportunities for organizations in 2011. This relatively low ranking doubtless reflects the recent downturn in M&A activity; on average, respondents expected M&A to rise on the opportunity ladder in the year ahead.

Opportunity outlook and impact

Our survey found indications of the growing importance of this opportunity in several nations and sectors. This opportunity ranked, in relative terms, highest for executives in Russia and China, perhaps reflecting the fact that many companies in these markets are focused on rapid growth and international expansion. Executives in life sciences and retail also gave this opportunity a greater relative priority than other sectors.

M&A opportunities are seen as rising in the majority of geographies surveyed. In five of the six sectors we looked at (M&A has less relevance for the public sector, aside from state-owned enterprises), M&A was expected to have potentially greater impact as a strategic initiative in 2013 than today. The one exception was life sciences, where firms may feel that efforts to “buy in” innovation have reached a peak. “Some synergies may be possible but many companies have already merged once and taken synergies already,” argued a life sciences panelist.

The most frequently mentioned barrier to exploiting M&A opportunities was a lack of organizational experience; the second was a lack of perceived value. These perceived challenges were highest among health care organizations, although this may reflect lower use of M&A in that sector. We also found that executives from the BRICs and the Middle East perceive significantly more barriers to M&A than respondents in Europe and the US. This may well reflect a lack of experience among fast-growing companies in developing countries that have

| Challenges to mergers and acquisitions, as reported by organizations surveyed | |
|---|--|
| Ranked by frequency of mention | |
| Rank* | Challenge |
| 1 | Lack of experience in M&A deals |
| 2 | Lack of perceived value in merger or acquisition |
| 3 | M&A responsibility lies with parent company |
| 4 | Lack of appropriate opportunities |
| * Based on 228 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

historically relied upon organic growth. In the UK, barriers to M&A opportunity were also reported with surprising frequency: this may, in part, reflect continuing economic pessimism.

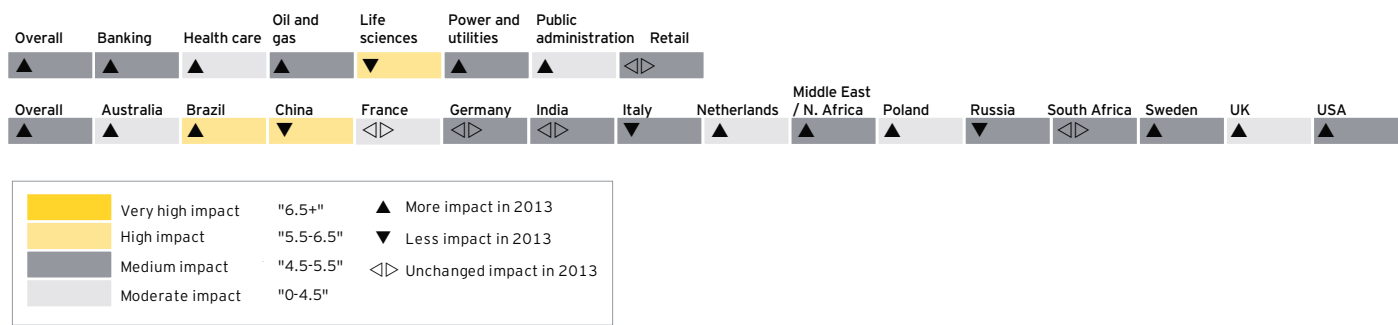
Responding to the opportunity

We found that the two most frequently reported factors enabling M&A success were, firstly, the use of M&A deals as part of a strategy to enter new product or service markets, and secondly, continuous and systematic searching for opportunities, based on a defined target profile.

Although these factors were frequently reported by a broad range of organizations in our survey, we observed certain important distinctions between sectors. The health care sector was significantly less likely to report that M&A opportunities were a key part of their strategy for growth, while the banking industry was the least likely sector to be currently considering M&A opportunities.

Across all sectors, 1 in 10 companies surveyed were currently evaluating a specific merger or acquisition opportunity. However, this proportion was twice as high for power and utilities

Mergers and acquisitions





companies. “[Consolidation] can increase market concentration and result in few dominant players,” noted one power and utilities panelist.

Interest in M&A opportunities also varies among geographical regions. Globally, a relatively high proportion of BRIC organizations were currently monitoring the market for acquisition opportunities. This was particularly true for India, where 6 out of 10 respondents expressed interest. Organizations in the major continental European economies were also active in monitoring markets for opportunities. This is in stark contrast to the US and UK, where only 1 in 10 organizations surveyed were actively seeking to benefit from this strategic initiative.

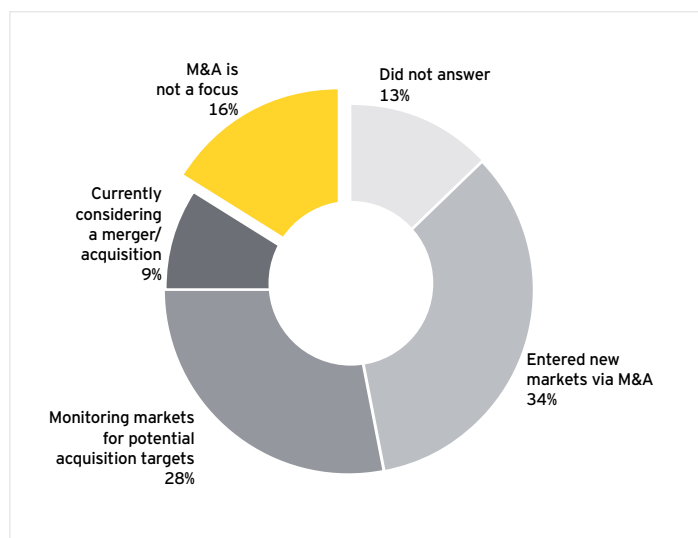
Factors enabling mergers and acquisitions, as reported by organizations surveyed

Ranked by frequency of mention

| Rank* | Enabling factor |
|-------|---|
| 1 | Acquisition or merger to enter new product/service markets |
| 2 | Continuous searching for opportunities based on a defined profile |
| 3 | Enhanced capability to analyze concrete M&A opportunities |
| 4 | Acquisition or merger to enter new geographical regions |
| 5 | Ongoing discussions regarding merger proposal with counterpart |
| 6 | Offer made to organization |

* Based on 228 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Organizations' responses to M&A



10. Public-private partnership

Public-private partnership (PPP) is the tenth 10th and final opportunity on the ladder. Its low position is to be expected given the sector-specific nature of the opportunity. That said, on average across all respondents, the impact of this opportunity is expected to rise over time.

Opportunity outlook and impact

This opportunity earns a place in the top 10 as a result of its high relevance in a few sectors. As expected, it was given relatively high priority by the public administration executives we surveyed. “The state will increasingly work in collaboration with non-profit and private sectors in addressing societal problems and delivering public services. Public-private partnerships, outsourcing and networked alliances will characterize public service delivery,” noted a political panelist we interviewed.

Private-public partnership is also ranked as one of the top five opportunities in the health care sector, where public partnership, investment or ownership is particularly frequent. Additionally, in the health care sector, respondents, on average, reported that the opportunity will grow in impact over the next few years. “As public sector capacity is reduced, governments will be forced to rely on private sectors to provide health care to their populations,” argued a fellow at a US health research institute.

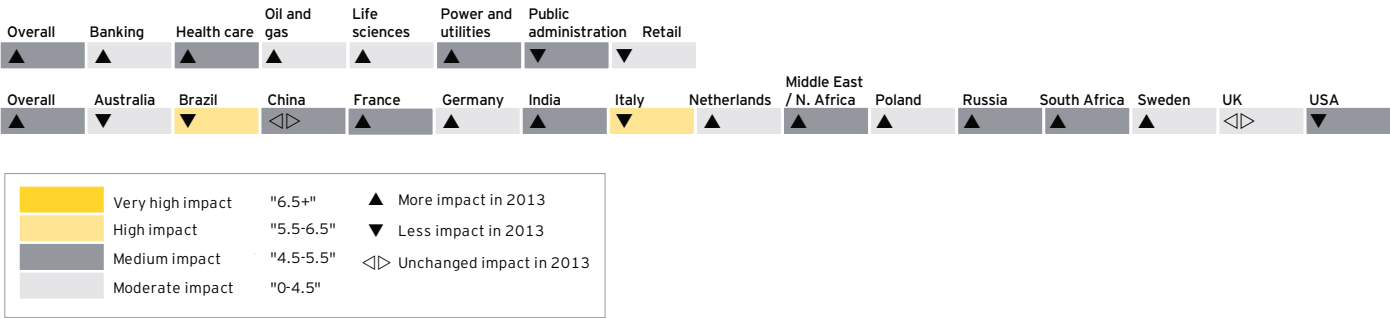
PPP opportunities were, however, one of the lower-ranked priorities in many sectors we surveyed. Executives in the retail and oil and gas sectors were particularly likely to report that their firms did not focus on PPPs. The result for oil and gas was in some respects unexpected, given the growing publicity surrounding partnerships between international oil companies and state-owned oil companies. For instance, “different cultural

| Challenges to private-public partnership, as reported by organizations surveyed | |
|---|---|
| Ranked by frequency of mention | |
| Rank* | Challenge |
| 1 | Lack of organizational focus on PPP |
| 2 | Conflicting objectives, making PPP difficult to sustain |
| 3 | Slow pace of public sector decision-making compared with private sector |
| 4 | Lack of flexibility in public sector |
| 5 | Lack of experience of cooperation on both sides |
| * Based on 189 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown | |

background and goals [of national oil companies and international oil companies] can provide synergy,” argued a senior oil and gas executive.

By contrast, power and utilities and life sciences firms were much more likely to be focused on PPPs, but also to cite a range of operational barriers to success, including conflicting objectives, a lack of experience on both sides, and a mismatch between the cultures of the public and private sectors. This is unsurprising in the power and utilities sector, where the regulators that actively shape the financial incentives of companies are seeking to achieve an increasingly complex mix of objectives, ranging from emissions reduction to energy security. It is a problem that may worsen over time: “the lack of commercial viability of renewable energy and its dependence on public subsidy does not augur well for an era of fiscal austerity for governments,” as one power and utilities panelist commented. These challenges were recently highlighted by the nuclear accident in Japan, which could lead to a rethink of government programs to encourage nuclear development.

Public-private partnership





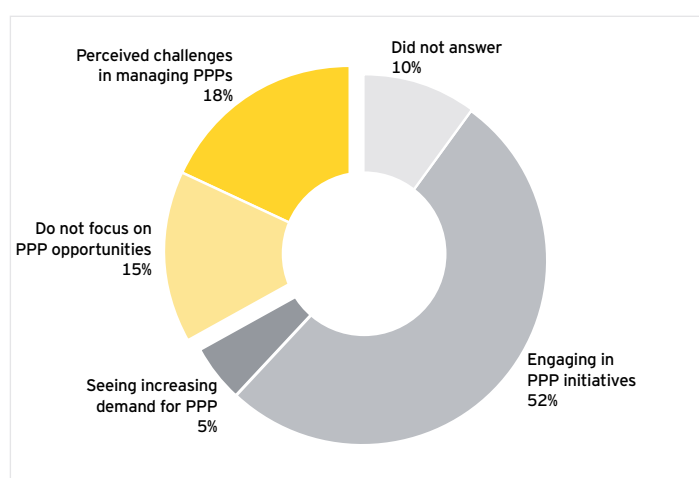
Our survey results indicate that levels of perceived challenges to PPP opportunities vary by country. Firms in the US were the most open to, and confident in, exploiting this opportunity. This may be attributed to the frequency in the US of government outsourcing and use of private firms to deliver public services. It also appears that firms located in India are increasingly well positioned to benefit from PPPs, perhaps a legacy of frequent interaction between the government and private sector during the era of central planning.

Responding to the opportunity

Our survey underlined the critical importance, for firms looking to profit from PPP opportunities, of investing resources in building relationships at local and national government levels. By far the most important factor in enabling success was a history of cooperative relationships with the public sector. The second was a perceived strategic advantage in enhancing cooperation. These factors were commonly reported by executives in all sectors, but particularly in health care and banking.

The incidence of success in public-private partnerships also appears to vary significantly by country. The proportion of organizations reporting previous PPP success and exploring future collaborations was particularly low in Germany and the UK, and particularly high in China and Brazil. Executives in India and Poland were more likely to report that authorities in their countries were increasingly interested in PPP.

Organizations' responses to public-private partnership



Factors enabling public-private partnership, as reported by organizations surveyed

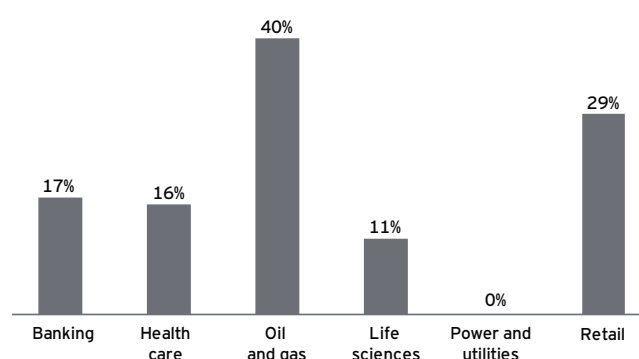
Ranked by frequency of mention

| Rank* | Enabling factor |
|-------|---|
| 1 | History of cooperative relationship with public sector |
| 2 | Perceived strategic imperative to enhance cooperation |
| 3 | Increased demands from public authorities |
| 4 | Possession of expertise/competency not found in public sector |

* Based on 189 responses from our global multi-sector survey. Rank order may not reflect statistically significant differences in all cases. Unclassifiable/refused responses not shown

Results from the power and utilities sector seemed to indicate that firms are grappling with the challenges posed. Power and utilities firms, in particular, were likely to report that their efforts to benefit from PPPs had faced serious challenges, as noted above. In addition, nearly 40% of power and utilities firms reported that measures to take full advantage of this opportunity were needed, but not yet implemented.

Percentage reporting that they have no interest in public-private partnership, by sector



Methodology

Identifying strategic challenges

We interviewed a panel of at least five commentators in each of the seven sectors, asking each interviewee to identify the top risks and opportunities for their sector in 2011, as well as risks and opportunities “below the radar” that could rise into the top 10 in years ahead.

The panelists included strategy planning and risk management executives, heads of internal audit, business unit directors, academics, journalists for trade publications, advisors and our own Ernst & Young practice professionals. These individuals were selected not to be representative, but because of their demonstrated insight and leadership within their sector.

We asked the panelists to focus on risks and opportunities for the “leading global organizations” in their sector. We also asked them to provide commentary on how they saw the risks and opportunities evolving over the next three years, and for their views on how firms should respond.

The commentators’ risks and opportunities were grouped and aggregated to form a strategic challenge list for each sector. The risks and opportunities that were common to the largest number of sectors were then promoted to a global list.

Ranking the top ten challenges

The second phase of our research was to conduct a large-sample survey of companies and governments in 15 countries in order to rank the strategic challenges and obtain forecasts on whether these challenges would be more or less important in 2013.

Unlike the panelists we interviewed, respondents to our large-sample survey were asked to focus on challenges for their own organization, not the sector as a whole.

Understanding how organizations are responding to the top 10 challenges

We then interviewed the survey respondents to discover how leading organizations in each of the seven sectors are responding to the top challenges they had identified. Only organizations ranking risks and opportunities among the top four were subsequently asked about measures they had taken to address these challenges.

The respondents were asked open-ended questions about their responses. These open-ended results were then coded and aggregated, to produce data on which types of responses were most popular in each country and sector we covered.

In 15 countries and seven sectors, a total of 733 interviews were conducted. This resulted in approximately 50 to 52 interviews

per country, with the exception of the MENA countries due to the difficult political situation, and a minimum of 82 and a maximum of 142 interviews per sector.

The organizations interviewed had an average of 13,487 employees. Annual sales revenues in home countries amounted to more than US\$1 billion in the last fiscal year for 17% of respondents, while global annual sales exceeded US\$1 billion for 28% of the organizations interviewed.

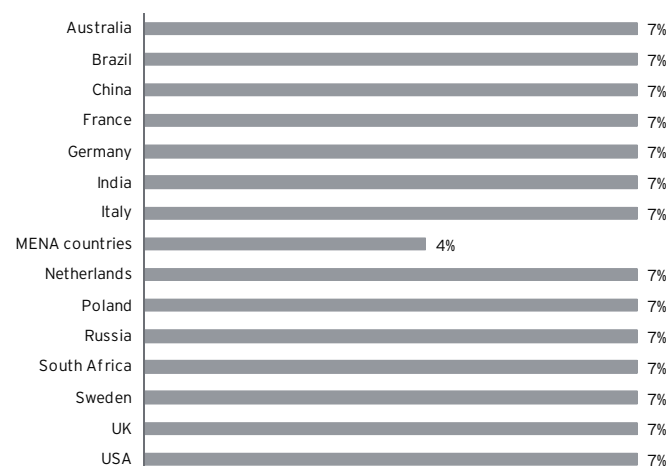
Notes

Individual open-ended responses were in most cases coded as a single answer. However, in some cases, an individual's response was ambiguous or lengthy, and therefore coded as multiple answers. To present the data as clearly as possible, figures in excess of 100%, which have been produced as a result of this coding process, have been adjusted to sum to 100%. The conclusions drawn about the relative frequency of responses within sectors are not affected by this adjustment. To avoid error, when comparisons are made between sectors, the unadjusted figures are used.

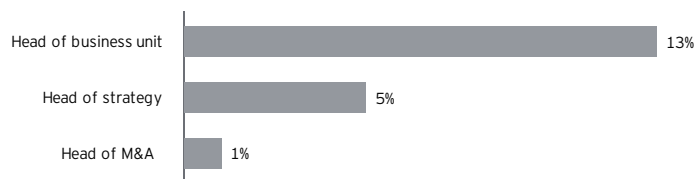
Our global report addresses high-level “macro” risks and opportunities. Our sector reports address sector-specific risks and opportunities. For this reason, the relative ranking of risks and opportunities is sometimes different.

Risk and opportunity rankings in our global report reflect the results of a large-sample survey regarding current issues. Risk and opportunity rankings in our sector reports are based on forward-looking analysis by panels of sector experts. For this reason also, the relative ranking of risks and opportunities is sometimes different.

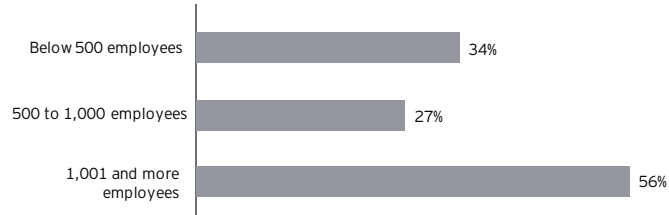
Geographic location



Operational level



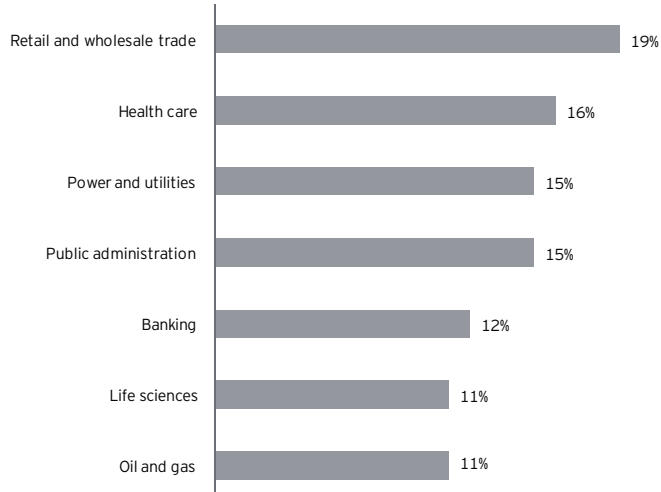
Size of workforce



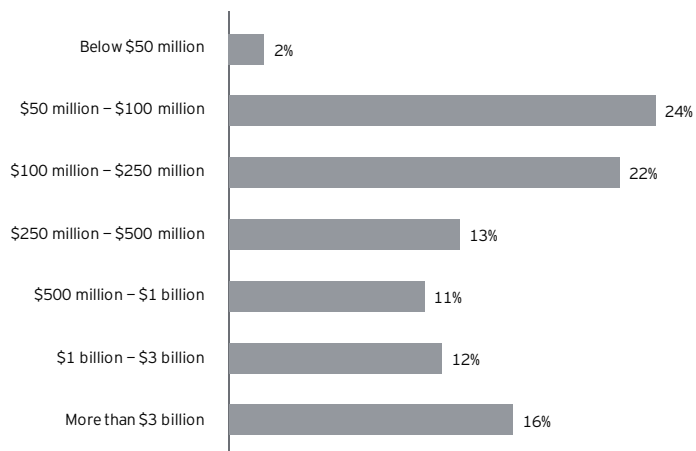
Leadership management level



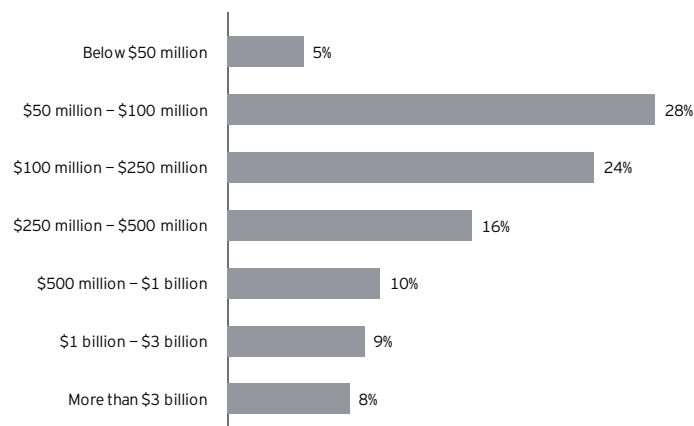
Sector



Worldwide annual revenue (in US\$)



Domestic annual revenue (in US\$)



A photograph of a rocky coastline. In the foreground, a long, dark shadow of a person stands on the sand, arms raised. The background shows a rocky cliff face with horizontal layers of rock. The word "Appendix" is written in large, bold, black letters on a white, angular background that overlaps the top left of the image.

Appendix

Risks below the radar

Shown below are the next 10 risks identified by the panelists we interviewed, ranked on the expected cross-sector impact of each risk.

Several of these risks are new for this year: political shocks have hit the Middle East largely unexpectedly. Business model redundancy can afflict sectors in which long-standing strategies, such as a reliance on blockbuster drugs in life sciences, cease to deliver returns.

Other risks below the radar have fallen from last year's top 10. Radical greening, for instance, a compilation of climate – and environment-related threats, has dropped from the radar as companies and governments grapple with more immediate challenges of national austerity. But it seems likely to return.

| Risks below the radar - the next 10 | | | |
|-------------------------------------|-----|------|-----------|
| Business risk | New | Old | To 2013 |
| Political shocks | 11 | New | Rising |
| Inability to innovate | 12 | (11) | Rising |
| Taxation risk | 13 | (14) | Rising |
| Sovereign debt | 14 | New | Falling |
| Business model redundancy | 15 | New | Rising |
| Radical greening | 16 | (8) | No change |
| Non-traditional entrants | 17 | (7) | No change |
| New operational challenges | 18 | New | Rising |
| Energy shocks | 19 | (20) | Falling |
| Commodity price volatility | 20 | New | Falling |

Emerging opportunities

Shown below are the next 10 opportunities identified by the panelists we interviewed, ranked on the expected cross-sector impact of each opportunity.

The first of these is a sign of difficult times, pointing out that divestiture and business model restructuring can have an upside, by enabling organizations to reposition themselves strategically. Similarly, leveraging CSR and public confidence suggests that organizations can turn a top 10 risk into a source of competitive differentiation.

Several other opportunities reflect ongoing globalization: global relocation of key functions, growth in frontier markets, optimizing strategy to local market conditions and emergence of cross-national markets. This last refers to regulatory harmonization making small national markets into sizeable opportunities when addressed on a regionalized basis.

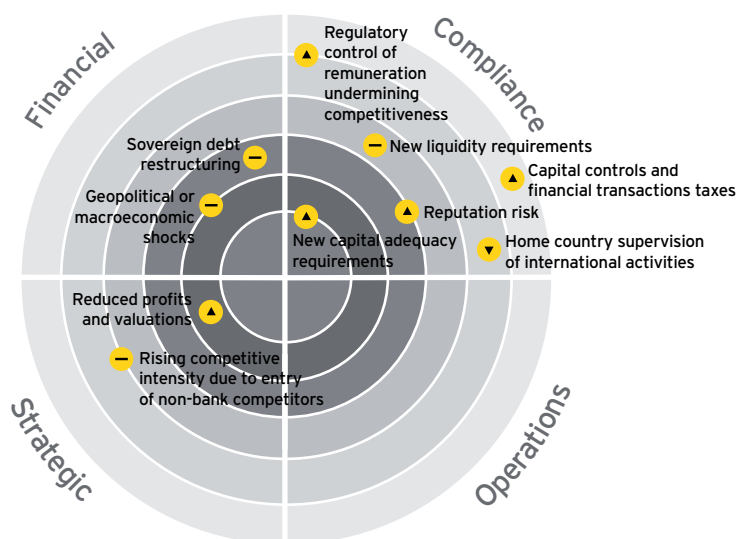
| Emerging opportunities - the next 10 | | | |
|--|-----|-----|-----------|
| Opportunities | New | Old | To 2013 |
| Divestiture and business model restructuring | 11 | - | Falling |
| Cross-sector alliances | 12 | - | No change |
| Building regulator confidence | 13 | - | No change |
| Global relocation of key functions | 14 | - | Rising |
| Leveraging CSR and public confidence | 15 | - | Rising |
| Capitalizing on demographic shifts | 16 | - | No change |
| Growth in frontier markets | 17 | - | No change |
| Optimizing strategy to local market conditions | 18 | - | Uncertain |
| Emergence of cross-national markets | 19 | - | No change |
| New distribution channels | 20 | - | Rising |



Sector risk radars

Shown below are the risk radars for the seven sectors that we examined as part of this research. Please refer to the specific sector report for more detail on the risks shown below.

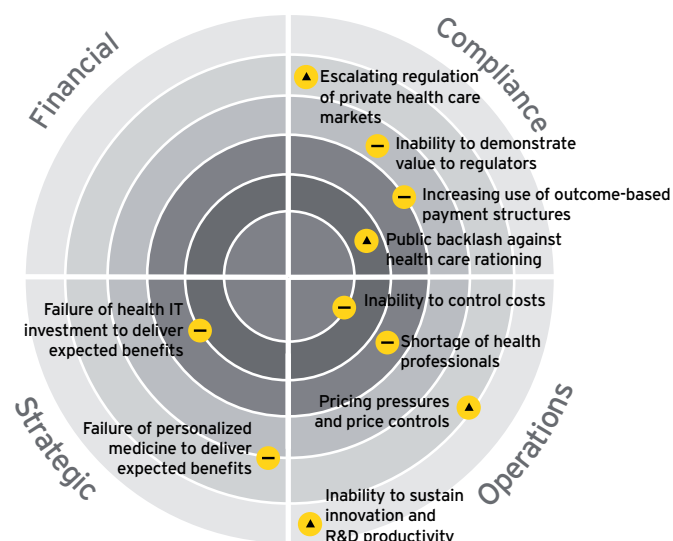
Banking



Government and public sector



Health care

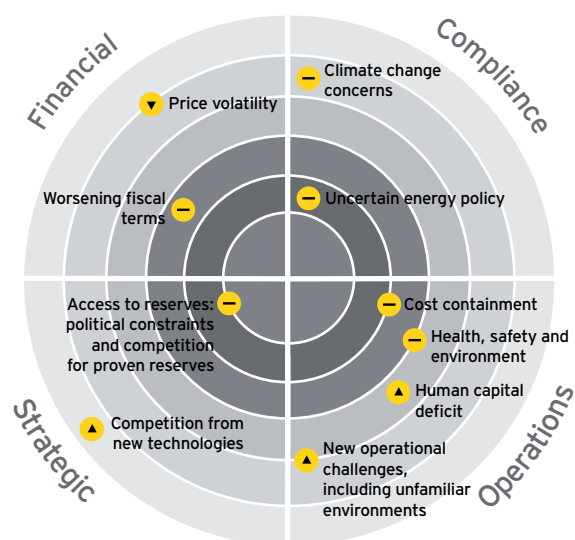


Life sciences





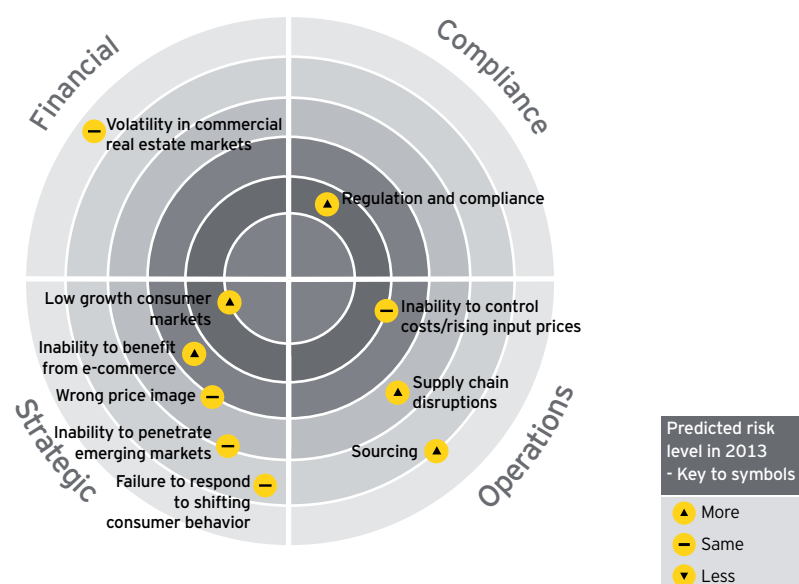
Oil and gas



Power and utilities



Retail and wholesale trade

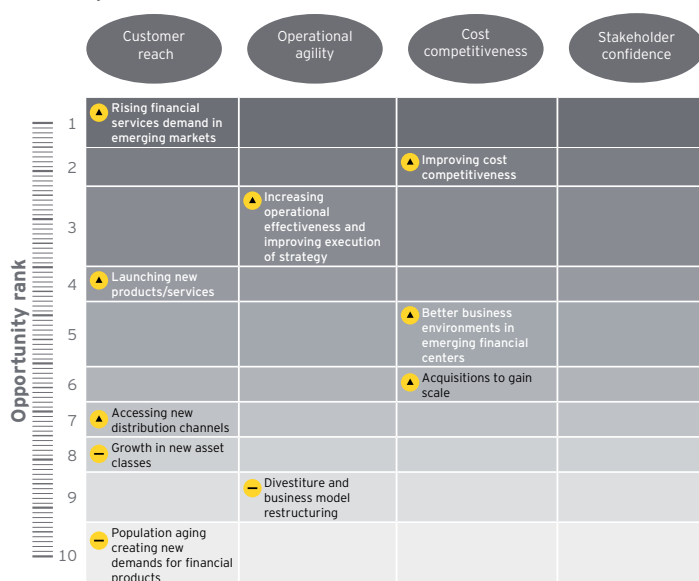




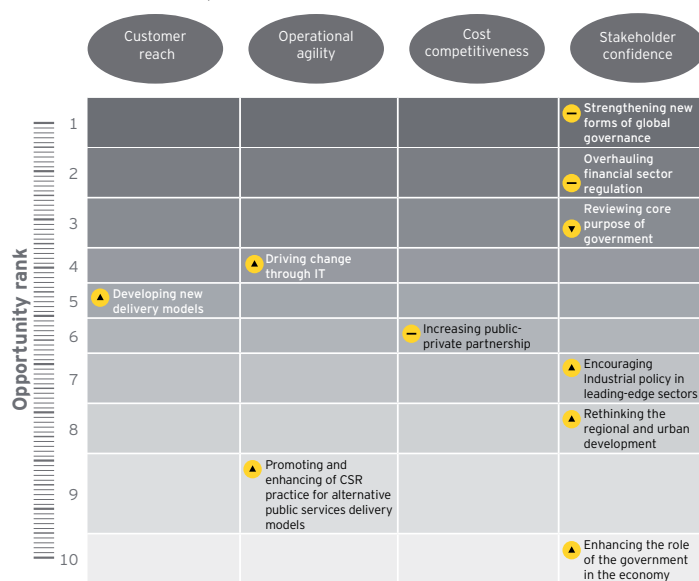
Sector opportunity ladders

Shown below are the opportunity ladders for the seven sectors that we examined as part of this research. Please refer to the specific sector report for more detail on the opportunities shown below.

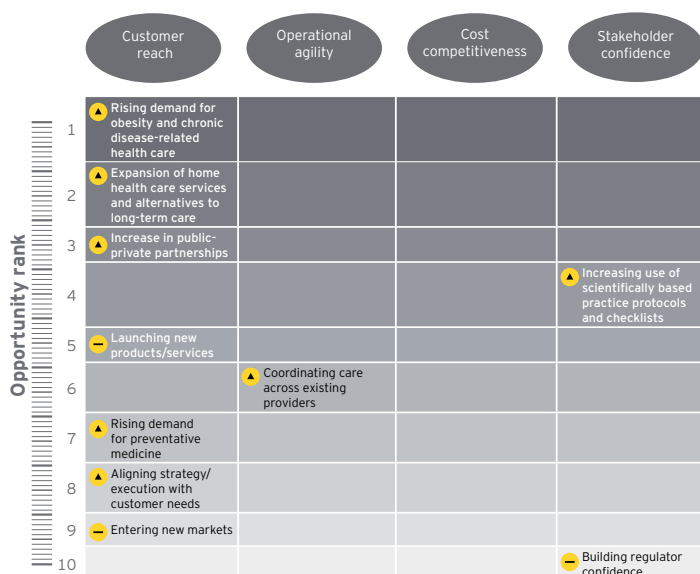
Banking



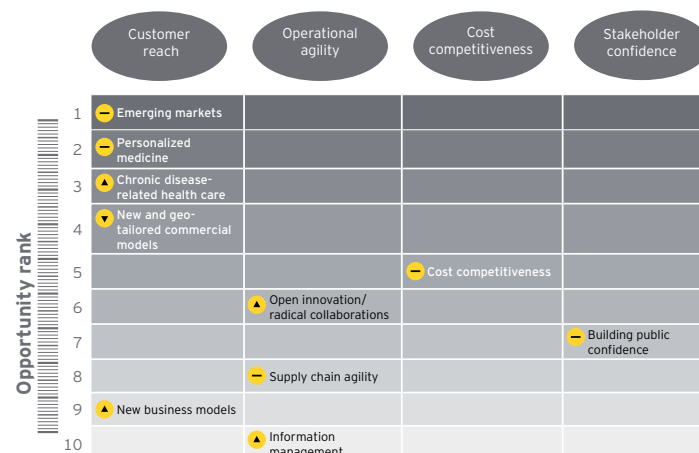
Government and public sector



Health care



Life sciences





Oil and gas

| | Customer reach | Operational agility | Cost competitiveness | Stakeholder confidence |
|----|--|-----------------------------------|--|----------------------------------|
| 1 | | | ▲ "Frontier" acreage | |
| 2 | | | ▲ Unconventional sources | |
| 3 | | | — Conventional reserves in challenging areas | |
| 4 | — Rising emerging markets demand | | | |
| 5 | | | — NOC-IOC partnerships | |
| 6 | | — Investing in innovation and R&D | | |
| 7 | — Alternative fuels including second-generation biofuels | | | |
| 8 | ▲ Cross-sector strategic partnerships | | | |
| 9 | | | | ▲ Building regulatory confidence |
| 10 | — Acquisitions or alliances to gain new capabilities | | | |

Power and utilities

| | Customer reach | Operational agility | Cost competitiveness | Stakeholder confidence |
|----|---|--|---|---------------------------------|
| 1 | ▲ Rising emerging markets' energy demand | | | |
| 2 | | | | — Building regulator confidence |
| 3 | — Growth in smart metering/energy service business models | | | |
| 4 | | | | — Building investor confidence |
| 5 | | — Acquisitions or alliances to gain new capabilities | | |
| 6 | | | ▲ Integration of distributed energy resources | |
| 7 | | | | — Building public confidence |
| 8 | — Increasing international integration of grids | | | |
| 9 | ▲ Growth in the electric vehicle market | | | |
| 10 | | ▲ Rising energy innovation in emerging markets | | |

Retail and wholesale trade

| | Customer reach | Operational agility | Cost competitiveness | Stakeholder confidence |
|----|---|-----------------------------------|--|--|
| 1 | ▲ Rising emerging markets' demand and rise of global middle class | | | |
| 2 | ▲ New marketing channels and social media | | | |
| 3 | | | | ▲ Competitive differentiation via CSR/green branding |
| 4 | ▲ Multichannel approach | | | |
| 5 | — Demographic change | | | |
| 6 | ▲ Private label | | | |
| 7 | | ▲ Launching new products/services | | |
| 8 | ▲ Global urbanization | | | |
| 9 | | | | ▲ Competitive differentiation via local branding |
| 10 | | | — Enhancing efficiency in the supply chain | |

Predicted opportunity level in 2013
- Key to symbols

- ▲ More
- Same
- ▼ Less

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