
Building for the future

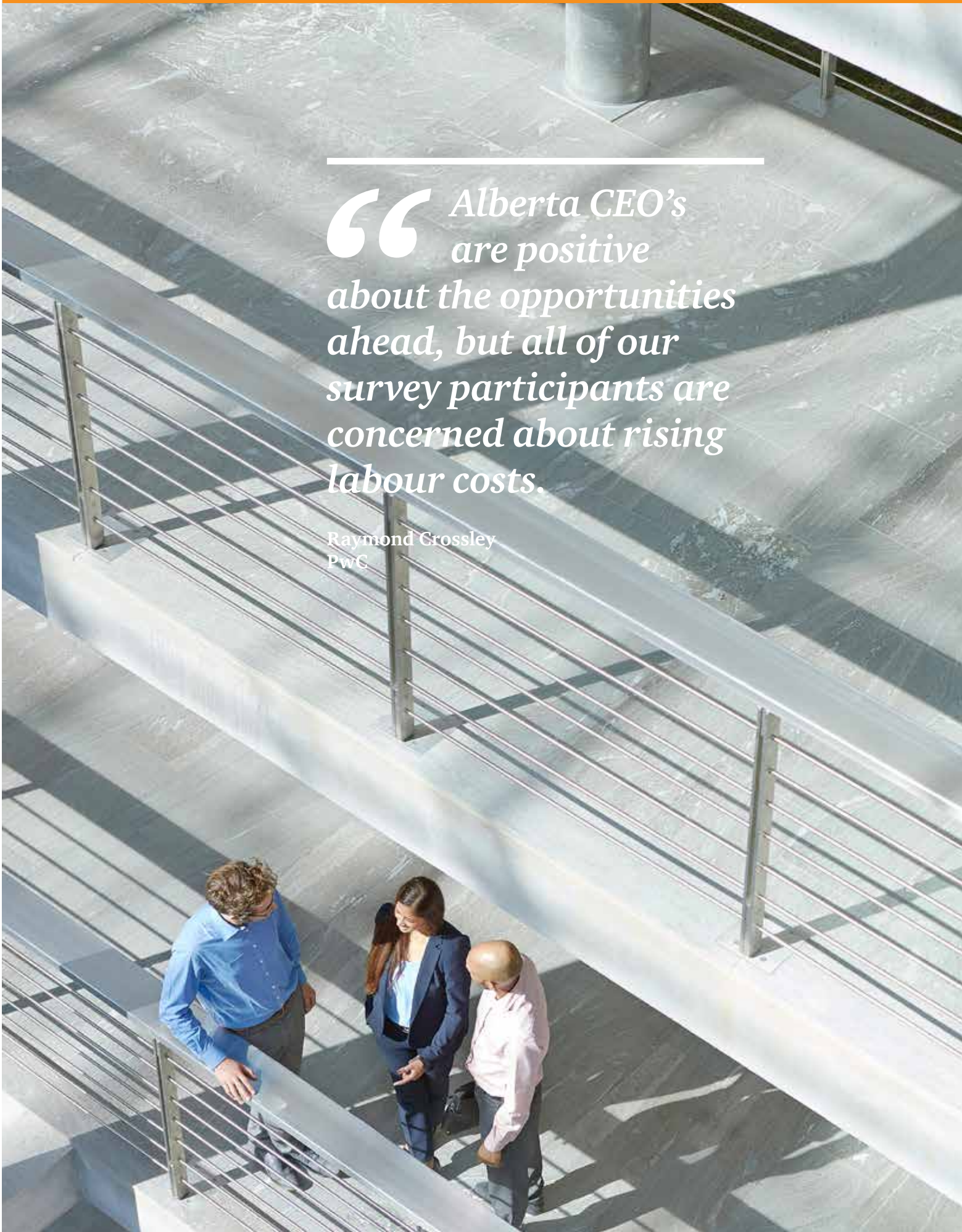
2014 Alberta CEO Survey



www.pwc.com/ca/ABCEOSurvey

*“ Alberta CEO’s
are positive
about the opportunities
ahead, but all of our
survey participants are
concerned about rising
labour costs.*

Raymond Crossley
PwC



Foreword

For the second year in a row, we've interviewed a number of Alberta CEOs on the opportunities and challenges facing our unique region of Canada. We found many CEOs are confident in their growth prospects and excited about their recent endeavours and projects. Yet CEOs also recognize that doing business in the province presents unique challenges —from increasing market access and dealing with the complexity of stakeholder engagement, to finding and keeping the talent they need to be successful.

While businesses are thriving in Alberta, we can't rest on our laurels. Global demand, new innovations and more accessible oil and gas (O&G) sources could have a serious, long-term impact on our province if we don't stay ahead of the competition.

Alberta's buoyant economy is helping drive the Canadian economy. That's why we need federal and provincial governments, and public and private sector organizations, to be on the same page about what matters most in our province—and the actions we need to take to help keep the future looking bright.

In this report, we share insights into the top-of-mind issues facing executives across Alberta. Our research isn't just about showing where Alberta is today, but about sparking the conversation on where Alberta can be tomorrow.

We look forward to you joining the conversation.



Raymond Crossley
Calgary Partner



David Bryan
Edmonton Managing Partner

The future's bright

Growth and innovation

CEOs in Alberta are much more optimistic about the year ahead, compared to CEOs across Canada.

“Everything is vibrant here [in Alberta]. A lot of communities are just popping up.

A CEO in the financial services industry

94%

of Alberta CEOs are confident of their growth potential.

83%

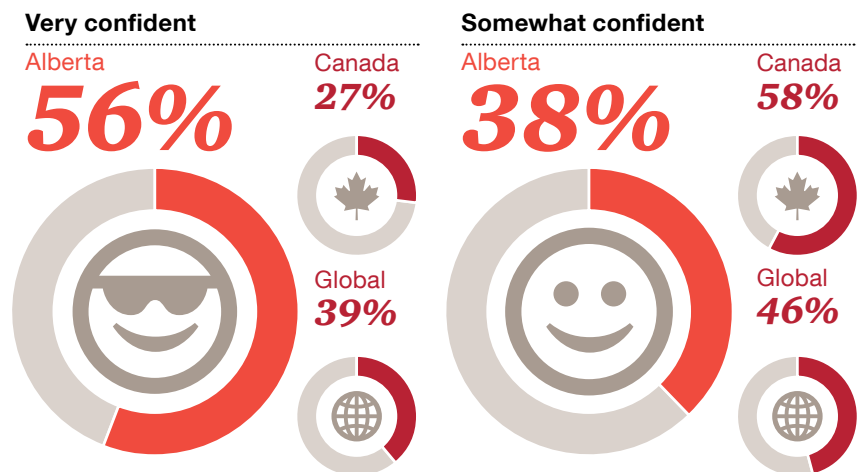
of Alberta CEOs believe that the Alberta economy will be better off than in the rest of Canada or the world.

Here in Alberta, CEOs have a very positive outlook for the future with 56% saying they're very confident in their growth prospects over the next 12 months. When looking at Canada as a whole, CEO confidence isn't nearly as high.

In our 17th Annual Global CEO Survey, only 27% of Canadian CEOs said they were very confident in their growth prospects – a number significantly lower than the global outlook (39% very confident).

Part of the reason for the local optimism is the Alberta economy itself, with many CEOs expecting the province to fare better than the rest of Canada. Other activities said to be driving confidence include an improving O&G market, new projects coming on stream, and their ability to create partnerships and move strategic plans forward.

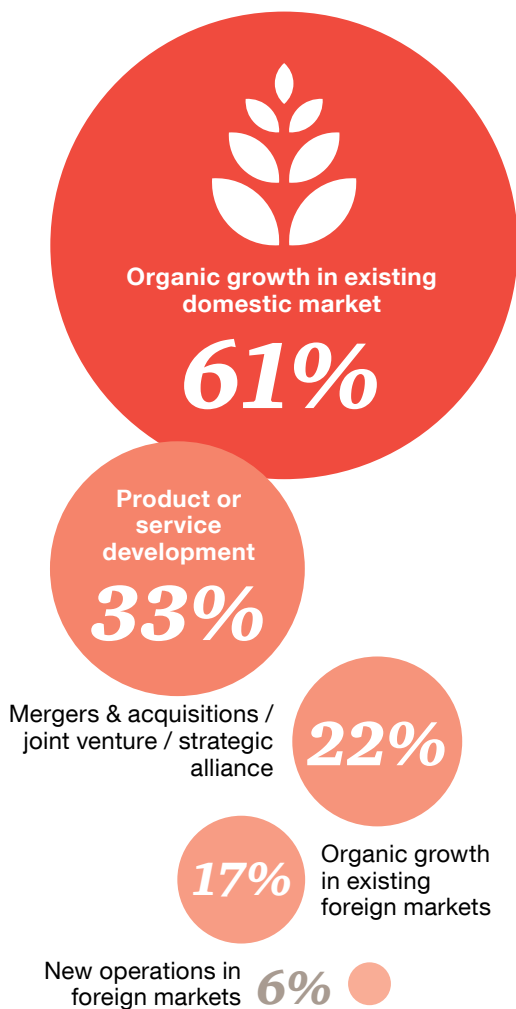
Figure 1: How confident are you about your company's prospects for growth over the next 12 months?



Where will the growth come from?

Over 60% of Alberta CEOs we spoke with believe that next year's growth will come organically in existing domestic markets, although one third see growth coming from new product and service development.

Figure 2: What do you see as the main opportunities to grow your business in the next 12 months?



We can't stand still: Alberta CEOs recognize the importance of innovation.

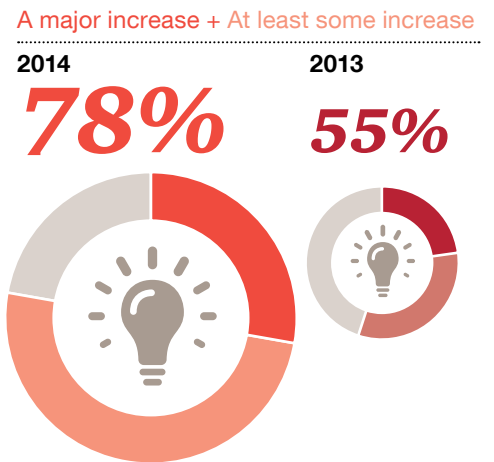
Many CEOs in Alberta recognize that in order to thrive and grow, they can't stick to the status quo — no matter what industry or sector they work in. "For social services, there's a trend toward innovation and new ways of doing business," says one CEO in the Not for Profit industry. That's likely because social services organizations are constantly under pressure to find more cost effective ways to provide and expand their services.

At the same time, for private businesses, the pressure to innovate often comes from increased competition and the need to address new regulatory requirements. That's why it wasn't a surprise to hear that 78% of the CEOs we interviewed anticipate at least some increase in their research and development (R&D) and innovation capacity over the next year. About half even see R&D and innovation related activities as one of their top three investment priorities over the coming year.

This trend toward R&D and innovation appears to be stronger this year than last. In our 2013 Alberta CEO Survey, 55% of CEOs planned increases in R&D and innovation capacity, while only 14% listed R&D and innovation as one of their top investment priorities.

But innovation can't happen in a vacuum. Entrepreneurs and innovators often need help with funding and finding the right partners to help them grow and succeed. "There are lots of entrepreneurial activities going on," explains Dr. Cy Frank, CEO of Alberta Innovates — an organization fostering innovation and collaboration in the health care sector. "It's about creating the right support in the ecosystem to find the best and help them grow."

Figure 3: To what extent do you anticipate changes in R&D and innovation capacity at your company over the next 12 months?



Access. Access. Access.

Most of the Alberta CEOs we spoke with, both within and outside the O&G industry, recognize that market access is a critical barrier to growth for companies in Alberta. The lack of access for the distribution of O&G products could have a resonating negative impact across industries.

“ We're at a significant disadvantage... viewed as second world country due to lack of access.

A CEO in the Energy industry

“ [Key issues?] Market access, project execution and project management.

Stephen Smith
Strike Energy Services

Staying the course

Organizational strategy

CEOs in Alberta are ready to make the capital and technology investments they need in order to thrive.

Based on the interviews we conducted, it appears that CEOs in Alberta are more confident in their organizational direction than they were in 2013, with 61% saying they have no plans to make changes to their corporate strategy over the next year. In 2013, the same percentage said they had plans to make at least some changes to their strategy.

At the same time, many CEOs we spoke with are planning to make a range of strategic investments over the next year – with the need to make capital investments leading the way in terms of priorities. In fact, almost 90% of CEOs say

they're planning at least some increase in their capital investments, while 72% plan to increase their technology investments, and 67% plan to make changes to their customer growth, retention or loyalty strategies.

Only 11% of CEOs plan to make major changes to their approach to managing risk. This doesn't suggest risk management isn't an issue to business leaders in the province, but rather illustrates the fact that business leaders in Alberta are more confident in their strategic direction than they may have been previously.

Figure 4: To what extent do you anticipate your company's strategy will change over the next 12 months?

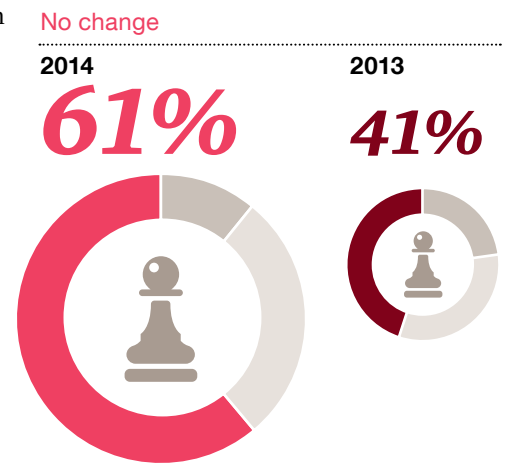
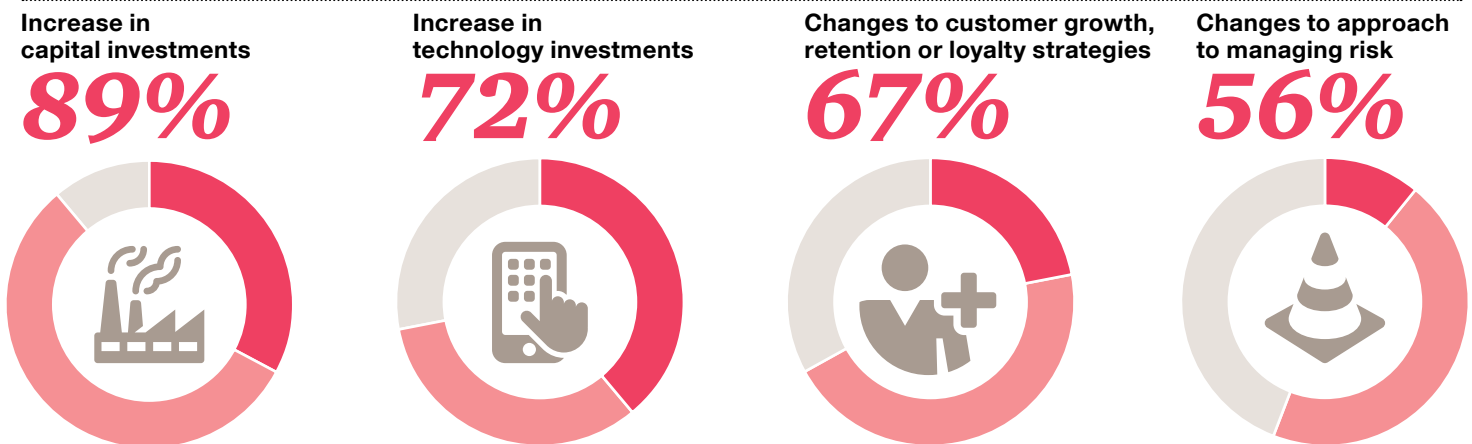


Figure 5: To what extent do you anticipate changes at your company in any of the following areas over the next 12 months?

A major change + At least some change





44%
of Alberta CEOs are planning to implement cost reduction activities over the next year.

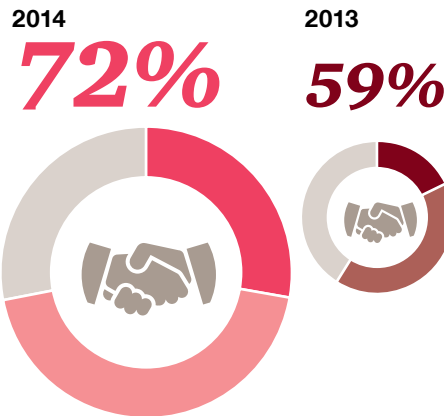
Alberta CEOs continue to look at mergers & acquisitions (M&A), joint ventures and strategic alliances as a way to grow, and in some cases, diversify their businesses.

When it comes to organizational structure, Alberta CEOs are also considering a range of deals related opportunities. Almost three-quarters (72%) of the Alberta CEOs we interviewed are planning at least some changes with respect to M&A, joint ventures and strategic alliances over the next year. 61% anticipate entering into a new strategic alliance or joint venture over the next year, while 33% are planning to complete a domestic M&A.

These results are slightly higher compared to last year, when 59% of CEOs planned at least some changes with respect to M&A, joint ventures or strategic alliances, 55% planned to enter into a new strategic alliance or joint venture and 32% planned to complete a domestic M&A.

Figure 6: To what extent do you anticipate changes in M&A activities, joint ventures or strategic alliances at your company over the next 12 months?

A major increase + At least some increase



“ [We’re] extremely positive about all aspects of growth and innovation in Edmonton... A tremendous number of new companies are wanting to enter this market. M&As and strategic alliances are great ways to make things happen.

Brad Ferguson
Edmonton Economic Development





The search is on Talent

Talent management issues continue to be a significant challenge for Alberta CEOs — critical issues include retaining qualified staff and rising labour costs.

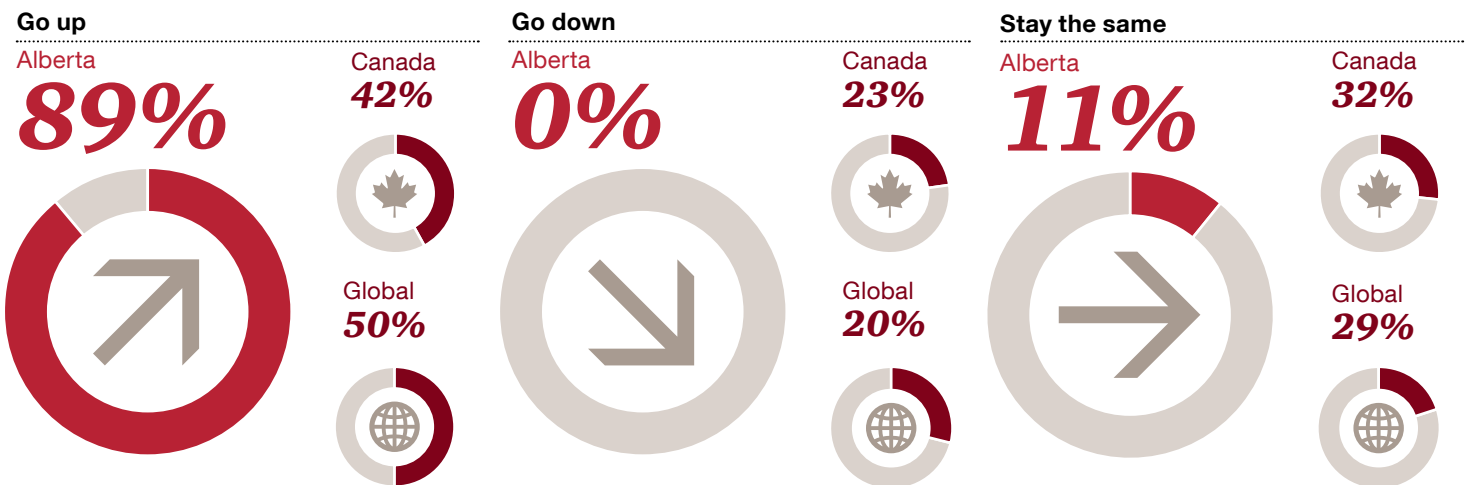
“ Really, it’s about getting people in the right place at the right time.

A President and CEO in the energy industry

Headcount is rising.

When it comes to headcount, almost 90% of CEOs in Alberta say they expect their headcount to go up over the next 12 months. In fact, the percentage expecting their headcount to increase is more than double that of overall Canadian respondents of our 17th Annual Global CEO Survey (89%, compared to 42%).

Figure 7: What do you expect to happen to your headcount over the next 12 months?*



*Uncertain: Canada = 3%; Global = 1%



“Talent is the thing that bothers me most . . . relocating talent, the older workforce, growing and replacing people, how to be competitive.”

A President in the transportation industry

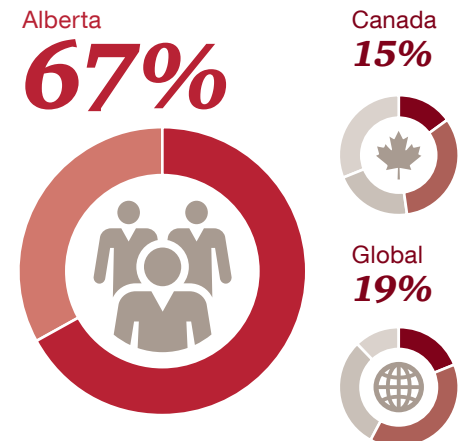
The high cost of talent.

The ability to attract and retain people isn't the only substantial issue facing CEOs in Alberta — the high cost of labour may also be an impediment to long-term sustainability. Two-thirds of CEOs in Alberta said they're very concerned about rising labour costs in their high growth markets, primarily Alberta, while the remaining third were at least somewhat concerned.

Comparatively, 48% of Canadian and 58% of global CEOs said they were either somewhat or very concerned about rising labour costs.

Figure 8: How concerned are you about rising labour costs in high-growth markets as a potential business threat to your organisation?

Very concerned



The war for talent in Alberta is very real.

The expectation of increasing headcount further drives home the importance of finding the right talent. About 83% of Alberta CEOs said they're concerned about their ability to find the talent they need to be successful in the future. Given that many organizations are fighting for talent, the ability to attract and retain people is paramount.

For small businesses and not for profit organizations, finding and keeping talent is an even larger challenge. “The market is very competitive and we [smaller companies] are competing for talent against big business,” explains Doug Hagedorn, CEO of Tactalis.

Mario Siciliano, President and CEO of Canada's Sports Hall of Fame agrees. “I am very concerned about retention,” he says. “We're at higher risk since the primary movement is from not for profit to corporate.” Not for profit organizations rarely have the resources to offer the same kind of compensation as the private sector, so experienced people may end up leaving for more lucrative options.

Alberta CEOs are split over whether it's harder to find talent in Alberta than in the rest of Canada.

50% of respondents believe that it's harder to find talent in Alberta than in the rest of Canada.

33% believe that it is not harder.

17% don't know (or are uncertain).

More complex than ever

Stakeholder engagement

There's no doubt that stakeholder trust is essential for getting things done. This is particularly true in resource-intensive industries where many stakeholders — from aboriginal groups, to local communities and the general public — have an interest in proposed and actual projects.

Figure 9: Are you concerned about lack of stakeholder trust in business?

Yes

Alberta

50%



Canada

42%



Global

49%



In Alberta, stakeholder trust is a significant issue. Half of the CEOs we spoke with said they're concerned about the lack of stakeholder trust in business. This is slightly higher than the 42% of Canadian CEOs and 49% of global CEOs who voiced similar concerns in our 17th Annual Global CEO Survey.

This high level of concern raises the question of whether CEOs are doing enough to understand the issues facing their primary stakeholder groups and to develop effective means of communicating knowledge and information that might help improve trust in business within the province.

When it comes to the changing level of perceived trust among specific stakeholder groups over the past five years, CEOs believe that while the trust of some groups has improved (e.g. supply chain partners, customers), there are also concerning pockets of deterioration, primarily focused on the media and Non-Governmental Organizations (NGOs). A third of Alberta CEOs we surveyed say the trust of the media has deteriorated, while 28% say trust of NGOs has deteriorated.

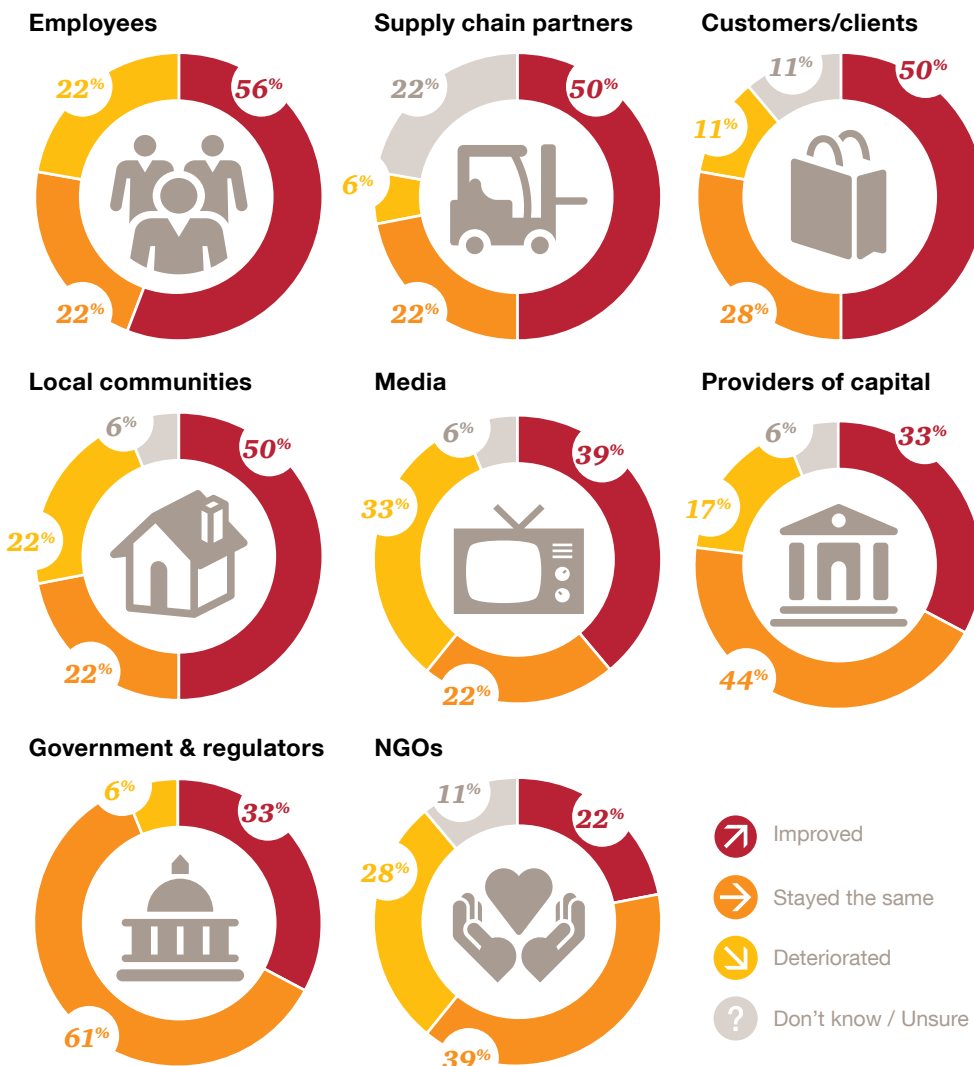




“ It’s about engaging stakeholders...getting the real story out. Canadian based companies are very important. We [companies] need to build a strong shareholder base in Canada. People need to want to be shareholders.

A CEO in the energy industry

Figure 10: To what extent has the level of stakeholders trust in your industry changed over the past five years?



At the same time, the CEOs we spoke with appear to have divergent opinions when it comes to employees and local communities, with more than 50% of respondents suggesting trust has improved for each group and over 20% suggesting trust from those groups has deteriorated. These stratified results could reflect the different industries represented by the CEOs interviewed.

Many CEOs we spoke with mentioned the need to work with First Nations and other aboriginal groups as an important issue, especially those representing companies in the O&G industry. “When it comes to First Nations, we need clarity on what needs to happen, obligations and how to do it properly. We need clear guidelines” says Ross Douglas, CEO of Mancal Corporation.

A President and CEO in the energy industry agrees. “Our company has a great relationship [with aboriginal groups], but...it’s the absence of policy that is the main issue.

Pipelines, people and politics

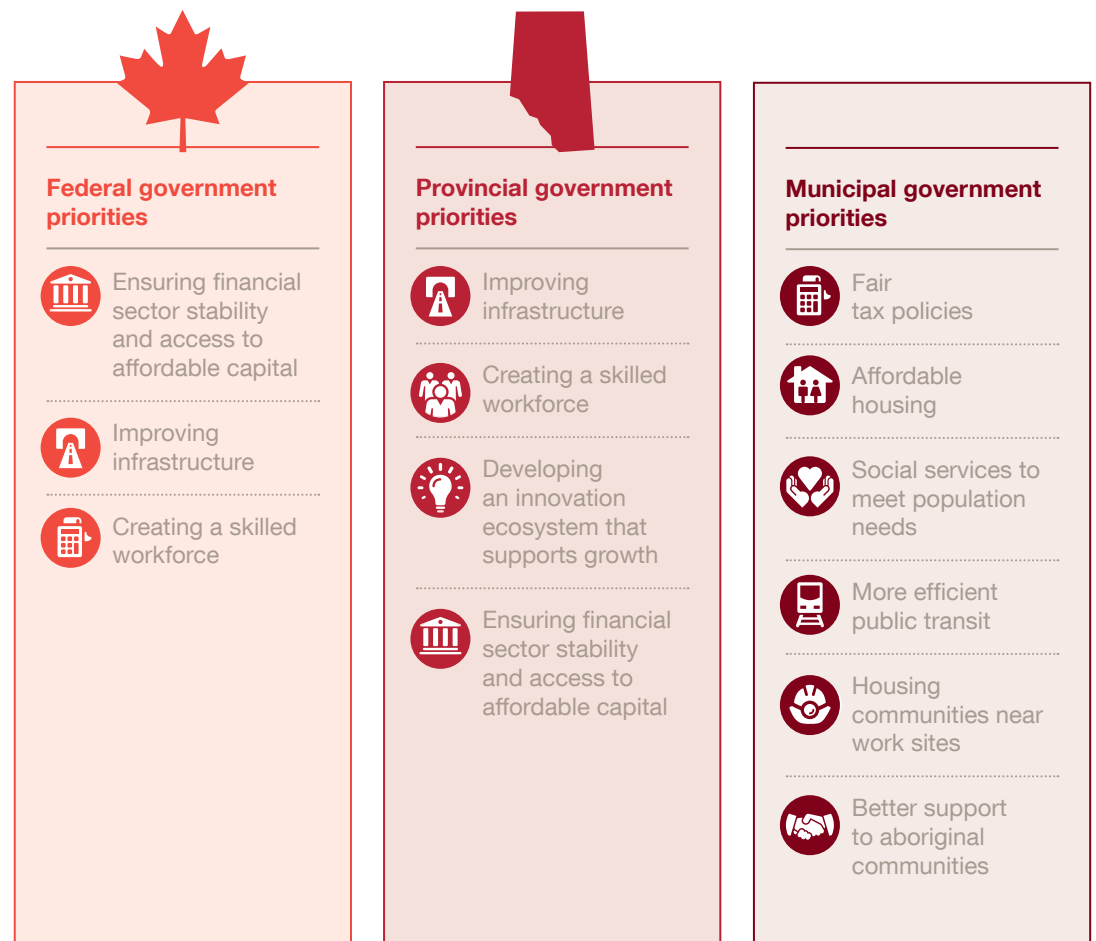
Government policies

When it comes to helping Alberta businesses to prosper and thrive, federal, provincial and municipal governments all have a role to play. As part of our survey, we asked CEOs where different levels of government should be focusing their attention.

From talking to CEOs, there's no doubt that Alberta needs to find a way to gain better market access, whether through a Northern Gateway, Energy East or one of the other proposed pipeline routes. A number of the CEOs we spoke with mentioned that it's critical for the provincial government to work with their counterparts to move these projects forward, and for the federal government to take more active interest.

Based on our conversations with CEOs, new oil reserves are being found in other areas of the world, and new technologies are making hard-to-reach sources more economically feasible to explore. If Alberta doesn't get its products moving more efficiently, it may lose the faith of investors in the near future. And if the Alberta economy gets stifled as a result of its inability to move product quickly, the entire Canadian economy will be affected.

Figure 11: What are the top issues that the federal and provincial governments should be focusing on?





“ [We] won’t be able to attract the best and brightest because Alberta won’t be able to provide affordable housing for employees, especially in Calgary.

A President and CEO in the real estate industry

 **Innovation**

“ Our innovation system in the province is a strong attempt to encourage not only applied research, but the expansion of applied research and the commercialization of that research...We’re looking at how we can focus the research dollars into areas of greatest concern to the economy of Alberta and the people. Those are health, bio sciences, energy and environmental sciences.

A President in the public sector

 **Infrastructure**

“ The game changers will be overcoming pipeline approval inertia— whether east, west or south.

Dave Reed
Weatherford Canada

 **Provincially, infrastructure mostly means pipelines**

 **Skilled workforce**

“ Immigration policies in Canada need to reflect the skilled worker requirements of the distinct geographic regions, not setting quotas based on existing population.

John Gorman
Halliburton Group

 **Tax policy**

“ The municipal tax management system in Alberta isn’t connected to business prosperity [income]. You pay tax based on your activities. There is no appropriate adjudication, which causes disparity between businesses.

A President and CEO in the energy industry

 **Municipal infrastructure matters**



Almost every individual we spoke with in Alberta agreed that the province is growing. But with growth, comes an increased need for supporting infrastructure — including affordable housing, public transit and social services. If these offerings don’t keep pace with growth, Alberta could find it harder and harder to attract skilled talent to the province. “They [municipalities] need to spend more time understanding growth trends...realize that in cities with growth, people are users of everything. Sewers, transportation, water,” says Moiz Bhamani, CEO of Prime Real Estate Group. “They need to think ahead to deal with these.”

A shifting horizon

Future trends



After assessing the current state, it's important to look ahead and examine how the world of business might evolve in the future. We asked Alberta CEOs for their impressions on the top three business trends that would transform their business over the next five years and compared their responses to the ones gathered as part of our 17th Annual Global CEO Survey.



Technology is key, but cyber-security is not a top priority

Alberta CEOs see technology change as a major trend, with 56% of CEOs surveyed concerned about the speed of technology change. Only 39% are concerned about cyber security or their ability to protect their intellectual property or customer data.



Alberta CEOs agreed with their Canadian and global counterparts in believing that technological advances would be the most likely trend to affect their business over the next five years, although only 72% ranked it as one of their top three trends, compared to 88% of Canadian CEOs and 81% of CEOs globally.

CEOs in Alberta split from their Canadian and global counterparts when it came to the second most identified trend, with 62% picking resource scarcity and/or climate change over other options. Only 35% of Canadian and 46% of global respondents to our 17th Annual Global CEO Survey saw resource scarcity and/or climate change as one of their top three trends.

Given Alberta's resource intensive economy, this result shouldn't be surprising. The large gap between Alberta and Canada as a whole suggests that there may be very different priorities when it comes to fostering a future business environment conducive to businesses in different regions of the country. At the same time, given the younger demographics of Alberta's population compared to other provinces, it's understandable why only 50% of Alberta CEOs identified demographic shifts as a major trend that could affect their organization. This is compared to 71% of CEOs in Canada and 60% of CEOs globally.

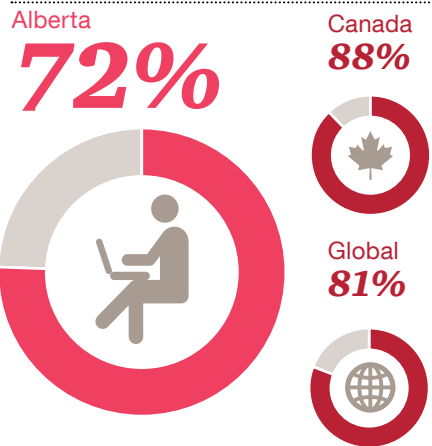


“ In Alberta, the average age of the population is actually going down. We’re creating jobs and attracting young families to the province. Of the 105,000 people that came to Alberta last year, the majority were between 20 and 40 – and not by a small margin.

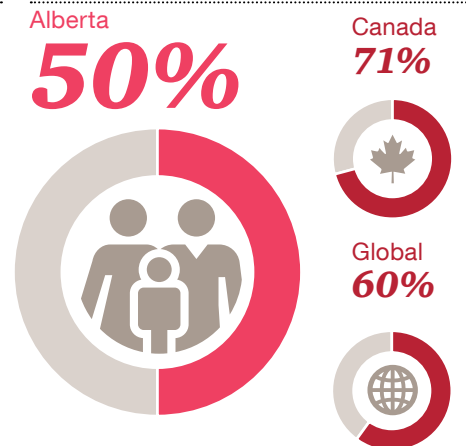
A President in the public sector

Figure 12: Rank the following business trends according to which you believe will transform your business the most over the next five years (percentage of CEOs who ranked the trend as one of their top three).

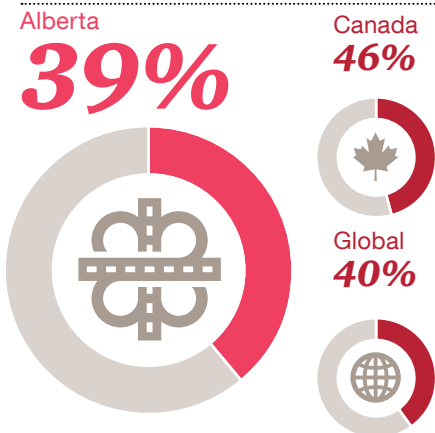
Technological advances



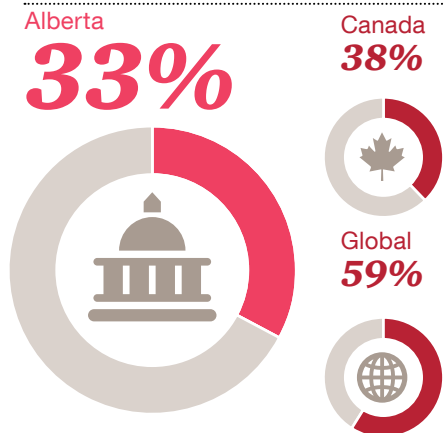
Demographic shifts



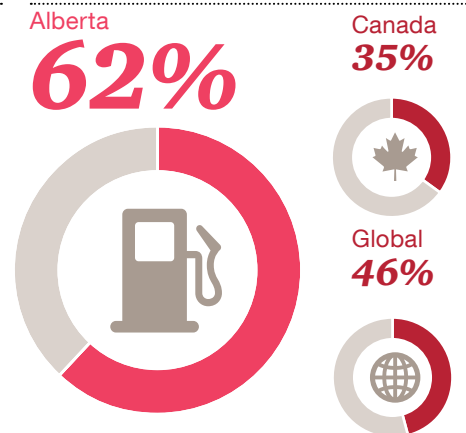
Urbanization



Shifts in global economic power



Resource scarcity and/or climate change



Looking forward

Conclusion

Here in Canada, Alberta is leading the way. Employment, immigration, a friendly and entrepreneurial atmosphere — the province offers plenty of opportunities for both current businesses and those seeking to do business here. That's not to say working here doesn't have challenges: the high cost of labour; keeping quality people once you find them; and the ability of the province and municipalities to keep up with growth in terms of affordable housing, roads and social services.

Then, there's the pipeline debate and the complexity of stakeholder relations, especially when it comes to an industry that needs ways to get its product to market more effectively.

So, what can be done to help businesses in Alberta to be successful in the future?



Be collaborative. Government and industry need to work together to find solutions to the province's infrastructure crisis — primarily pipelines, but also supporting infrastructure, including roads and public transportation options. Municipalities need to understand where their growth is coming from and look at developing infrastructure plans that are proactive so that they're able to provide the affordable housing and essential services required to help attract top talent to the province.



Be responsive. Most of the CEOs we spoke with recognized the need to engage with stakeholders on sensitive issues, especially aboriginal groups. This means working together to recognize and mitigate stakeholders' concerns, while making sure that communications being provided are accurate and honest. Developing a strategy for sensitive stakeholder engagement in the province could help so that companies know what they should be doing and when they should be doing it. Government and business leaders should also take a more active role in making sure that any misinformation about developments in the province are countered with fact.



Be global. Alberta is full of talented people and businesses on the cutting edge of innovation — in energy, O&G, health care, technology and many other fields. The technologies and innovations being developed in our province could be used to spark change or advance organizations worldwide. While thinking about growth in Alberta, government and businesses also need to look beyond our borders. The question becomes: how do governments support local businesses and organizations to commercialize their products, expand their reach and ultimately play a larger role on the global stage?

Participant snapshot

For PwC Canada’s 2014 Alberta CEO Survey, we conducted in-depth interviews with CEOs and senior executives representing a diverse range of organizations in our province — from publically listed and privately owned businesses to Not for Profit agencies and government organizations. Interviews were conducted during the spring and summer of 2014.

This survey is intended to provide insights into important issues that resonate with CEOs, rather than make conclusions about the opinions of all organizations in Alberta, in order to spark further dialogue on how to foster continued growth, innovation and prosperity in the province.



Figure 14: Length of tenure as CEO/President /Executive Director

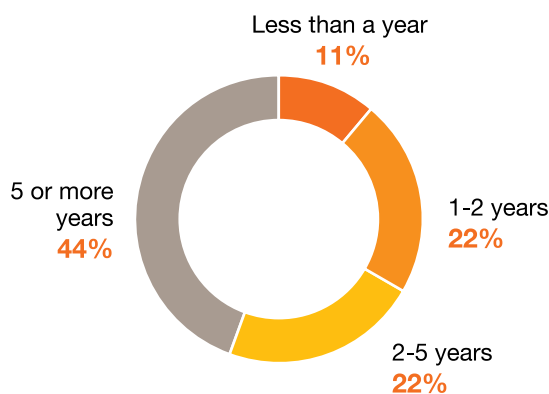


Figure 13: Organization type

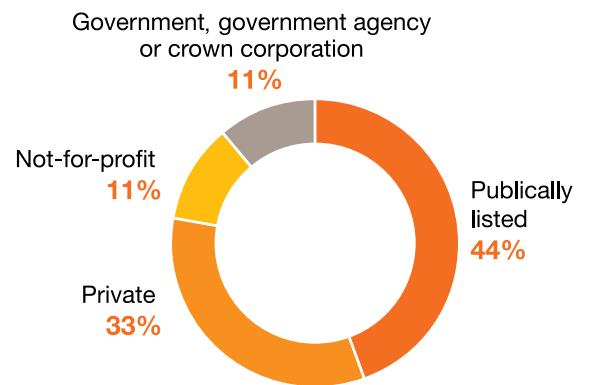


Figure 15: Industry focus

