

# GMF: WEF 2023, Davos

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## Q&A- Firms looking to reduce costs without major layoffs: Bob Moritz, PwC



Companies preparing for potential economic recession are focusing on cutting costs without resorting to major layoffs, **Bob Moritz, global chairman at PwC**, told the Reuters Global Markets Forum in Davos, Switzerland on Monday, January 16.

Moritz said he expects a slowing U.S. economy with the potential to be negative in terms of growth for a quarter or two, and that firms are reacting accordingly.

"You are seeing organisations react by focusing on a couple of key things - cost reduction is the biggest one. Our own CEO survey, though, shows that they're trying to do cost reduction without human capital changes and large layoffs."

Following are edited excerpts from the conversation:

### Q: Do you see any signs that we're getting over the problem of fragmentation?

A: The concept of fragmentation and geopolitical tensions still exist. What is different is that you have two things happening. One is that there's acknowledgment of it, and there's a need to transform into it. What I mean by that is adjust accordingly to the world that we're dealing with. We see this within our own CEO survey that geopolitical tensions have risen quite a bit which comes back to, 'what are organizations doing about it?' scenario planning rather than straight line budgeting a lot more on their supply chains, but it's well beyond just the Russia-Ukraine issue or the China-U.S. issue in terms of the factors people are considering. The global economy still needs to exist, it just needs to be rewired going forward.

### Q: What problems do you think will be caused by the fragmentation? Do you see more individual trade deals being signed, and is protectionism increasing now?

A: You do see more regional or bilateral deals from a trade and foreign direct investment perspective. You also see a shift in supply chain in terms of thinking about, how do you deal with a supply chain that is secure, affordable and resilient, as well as cleaner, which is another theme that comes through. You are starting to see different manifestations around regulation and policy-setting. For example, what the U.S. did in embedding some significant climate initiatives in the Inflation Reduction Act causes attention now in Europe in terms of how they see themselves positioned, compared to where they were relevant to the Green Deal they put forward. More organisations are trying to understand first what that means and then adjust accordingly. The one thing I would say about supply chains is they are looking for more optionality as well, so it's not singularity and it's not just singularly bringing it home to their home office or home base, but rather looking for multiple different options that are going on out there. You see a lot of different examples of it coming through. The other thing you're seeing is increased regulation, which is a big concern.

### Q: Speaking of the Inflation Reduction Act, does it worry companies, and you?

A: I will say, it is concerning to some that see it as more downside risk. It's actually opportunities though as well. The organisations that are quicker to speed, assimilate and understand what it is they can and can't control but rather have to react, those are seeing an opportunity and moving with speed, and they're dedicating capital, both financial and human capital, against those opportunities. The U.S. Inflation Reduction Act enhanced manufacturing in a cleaner way. It also enhanced consumers to be more interested and act accordingly. So you see not only domestic organizations in the U.S. try to take advantage of that, but also foreign institutions operating in the U.S., you're likely to see the same thing from an EU perspective.

**Q: Are countries going to look more inward for production, manufacturing etc.?**

A: They'll look for more options because what's most important now with supply chain is cost with inflation as a problem. So who's going to be economically feasible? Second is going to be the issue of resiliency and security. And third is going to be for cleaner supply chains as well as they go forward.

**Q: What sort of recession do you forecast and how are companies preparing for it?**

A: I can't predict whether the recession is coming or necessarily how deep it is. What we do see is a slowing economy, one that has the potential to be negative in terms of growth relative to GDP. So you are seeing organisations react by focusing on a couple of key things, cost reduction is the biggest one. Our own CEO survey, though, shows that they're trying to do cost reduction without human capital changes and large layoffs. The second is how do they stay close to the consumer? The consumer is still going to drive what they need and expect both in terms of quality, service and price in terms of what they pay for. And the last thing is how do they become more effective and efficient by transforming their organizations, leveraging digital technologies as much as possible? We start to see those in some of the CEO survey feedback that has come through in preparation of a slowing economy or the threat of recession as well.

**Q: Does that mean the more pessimistic outlook that most CEOs have now is more on account of fears of recession?**

A: The pessimistic view of the CEOs that comes through the survey clearly comes back to the issue of, do you see economic growth better or worse than last year? That's why it's doubling down and you see an excessively pessimistic CEO community saying relevant to last year, it's going to be worse, it's going to be harder. So for those organisations that did fairly well last year, you're going to see a more challenging and difficult year this year, hence the reason they've got to react and take some of the actions that I've talked about.

**Q: How has the risk of climate change featured in this year's survey?**

A: Climate has not risen to the top short-term risks because of the other economic risk factors - macroeconomics, inflationary risks, FX currency transitions and disruption coming from that. It's lower on the list but over the medium to longer term it's still at top-of-mind position. What is interesting though is that we see even if it's lesser on the risk profile on a relative basis, CEOs are still spending more time doing it. They're doing it because they're worried about cost increases, because what you're going to see now is more institutions provide a cleaner supply chain, a cleaner product offering, a cleaner service, but it is going to have a cost associated with it. Others are seeing this as the competitive advantage. You see a significant percentage of CEOs already starting to decarbonise their product offerings or their service offerings or in some way shape or form their supply chain. You are starting to see them report more so and get prepared for that relevant to the data that they need and have to aggregate and ultimately report on and you're starting to see more of them incentivise behavioural change of their people as they redesign their work processes as well.

**Q: Rising interest rates add another layer in terms of costs for companies, do you see that impacting climate financing?**

A: I don't think it's interest rates specifically that's having an impact on climate financing. You do see it in terms of how can we come up with a package from a macro and monetary policy perspective of how do you drive economic change for the benefit that's going to create jobs, sustain jobs, etc., to maintain an economy, while at the same time trying to put money into the right hands for people to innovate and drive change going forward and/or sustain businesses that are out there? So I think it's in lieu of the macroeconomic policies in terms of a higher interest rate, a tighter supply chain FX rates that are going to be challenging as well as you look at the differences around the world.

**Q: What was the most unexpected data point that that you got from the CEO survey?**

A: The data point that nearly 40% of the CEOs, believing their businesses will not have an economic viable model in 10 years was the top surprise. This goes to the fact that you've got a significant number of issues, all of which have been known, but coming together in new and different ways, being much more disruptive if you don't react quickly. And a lot of demand both from a client or regulatory and economic perspective, or climate perspective, or otherwise, that is really troubling to CEOs and as a result, they've got to transform those organisations much faster. So how do I survive the next two to three years and make my way through what is going to be a challenging environment because of the macroeconomics, while transforming my organisation to be sufficient and fit for growth over the next 10, so I can thrive over the next 10 - that's the biggest surprise out there.

You're already starting to see some differentiation between those that see the opportunity and are going after it and driving change versus those that are not. You're seeing it in terms of those that have a debt driven balance sheet that are going to struggle because they've got to deal with the rising interest rates and or some inflationary pressures versus those that have done a really good job of managing down the debt over the last couple of years and have capacity to actually transform their portfolio, be it from an m&a perspective or otherwise. So I do think you're going to see a lot more differentiation between the organizations that get this and are driving that change versus not.

**Q: With China's economy reopening now, what impact do you see of that on businesses?**

A: China is equally concerned about the global economy, but less concerned lesser concerned about its own economy, because again, it's a relative position compared to previous year. And clearly coming out of COVID coupled with some of the macroeconomic policies that are happening now by President Xi and his team, you're starting to see at least a opening up of that economy much more. So the relative position of the CEO community is less negative than perhaps the rest of the world. The second thing that's happening is you've got a CEO community there that is very much focused on the domestic agenda, no different than the government, and you've got a foreign CEO community that is trying to think about, how do I operate in China in a different way and give myself multiple options? So you are seeing organizations rethink supply chains, you are seeing them rethink organizational construct there.

**Q: Are foreign CEOs and companies preparing differently to operate in China?**

A: You are seeing as a result of the fragmentation, people invest more in cyber, worried about data protection, etc. You're seeing organizations think about places around the world where they have much more optionality, learning the lessons of what happened in Russia, specifically in terms of how they set up their organizational constructs and their oversight in their governance right now.

**Q: How has the U.S. regulatory inspections of audits and Chinese companies been proceeding?**

A: First we have to get agreement to have access to the information for the U.S. regulators to do an assessment, so that was the first and thus far the only thing that's been done successfully. The U.S. regulators came through and said mission completed in that regard. The second piece now is concluding on the inspections themselves which is in process. The third is then what comes out of that process and the conclusions thereon. Then the fourth is the sustainability of it. Both regulatory regimes are very focused on ensuring that sustainability, of the access to the information and then do the inspections as necessary and come up with necessary remediation. So we're in the very early stages of that second, third or fourth point right now, but at least a lot of progress has been made and conclusions reach relevant to the access of information.

**Q: Has the PwC withdrawn from more audits than usual especially in high risk areas and sectors such as crypto?**

A: We didn't have a large presence in crypto relevant to the audit business. We had already made some risk management decisions and as was reported by various individual institutions and by the media, we didn't have a large audit market share in that space. We are watching carefully, risk management each case individually, and then making determination as to what services then we'll provide but it is an area where both the capital markets, the regulatory regimes and the auditing profession is very focused on what's happening. There's more sensitivity that we're going to see on a going forward basis.

**Q: What is PwC's position on mirroring moves to separate its consultancy arm?**

A: First, it was only done by one firm. So the profession really hasn't talked about this at all effect. PwC's position in this regard has not changed at all. We continue to believe that it's in the best interest of our stakeholders, that being the market that we serve the capital markets, the clients that we serve, as well as our people to actually maintain the multidisciplinary firm in scale the way we are currently constructed, for a number of different reasons. First, is to make sure that you can withstand different economic cycles. That diversification and size allows you to make the investments over those economic cycles. Second is if you look at, for example, mandatory firm rotation in some countries, we have a lot of countries in particular Europe that go through this, you don't want to deal with a changing portfolio. Audit versus not having any audit, so that sustainability is super important. And last but not least, you're going to make a significant amount of investments. And you want that stability relevant to the technology investments and investment in people going forward here.

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