



Disrupt and grow

2017 Global CEO Outlook

KPMG International

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Foreword

Welcome to this third annual KPMG Global CEO Outlook, offering deep insight into the challenges and opportunities faced by nearly 1,300 CEOs leading many of the world's largest and most complex businesses. The research offers a unique lens through which to view the strategic issues these CEOs are focusing on as they lead their businesses through a period of profound change and significant opportunity.

In last year's Global CEO Outlook, we said it was "now or never" for CEOs focused on making transformative change in their companies. In the year since, many top executives have clearly made progress toward achieving their goals.

But those 12 months have also seen new waves of uncertainty that are compelling CEOs to think in fresh ways about the disruptive forces impacting their businesses. Our advice of "now or never" still stands, but the CEOs we have spoken with are telling us that in the face of new challenges and uncertainties, they are feeling urgency to "disrupt and grow."

This year's Outlook emphasizes that disruption has become a fact of life for CEOs and their businesses as they respond to heightened uncertainty. But importantly, most see disruption as an opportunity to transform their business model, develop new products and services and reshape their business so it is even more successful than it has been in the past.

The majority of CEOs we spoke with for this year's study are still optimistic about their company and its prospects, as well as the national and global economy they operate within, although less so than last year.

They say they are taking the necessary steps for their business to be a disruptor, rather than the disrupted. They recognize the impact of increased geopolitical and economic uncertainties on their business, and are working hard to be prepared. Moreover, they understand that speed to market and innovation are strategic priorities for growth in these uncertain conditions.

With continued pressure to deliver on the bottom line, CEOs are keenly focused on managing their business' core strengths while transforming the way they create value.

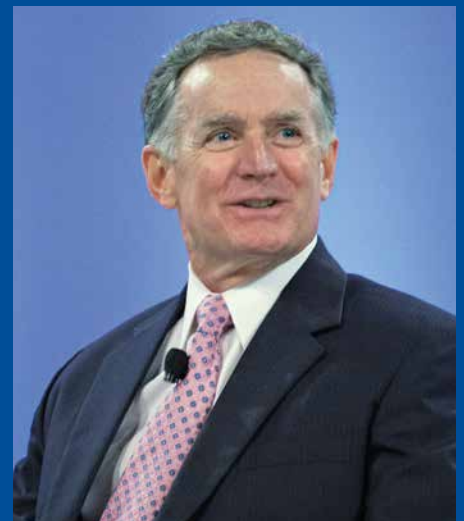
Operating in a more complex and rapidly changing environment is also challenging CEOs like never before, with an expanding breadth of skills and expertise needed to lead their organizations. CEOs need to stimulate innovation, oversee new types of customer relationships, manage heightened reputational risks and make bold decisions about their investments in technology.

In the wake of these challenges, it isn't surprising that a significant number of the CEOs we spoke with say they are working to develop new skills and capabilities, as well as

exploring new ideas and influences, so as to drive essential change across their business.

Our 2017 Global CEO Outlook offers rich insights into the major forces disrupting today's business landscape, and how today's CEOs are equipping their companies, and themselves, to manage the challenges of the future. On behalf of KPMG, I would like to thank every one of the CEOs we spoke with for their candor.

We are excited to talk further about these insights, and KPMG's partners and professionals welcome the opportunity to discuss how you can 'disrupt and grow' your organization.



John Veihmeyer
Chairman, KPMG International

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Key findings



Disruption as an opportunity

- More than six in 10 CEOs (65 percent) see disruption as an opportunity, not a threat, for their business.
- Three in four (74 percent) say their business is aiming to be the disruptor in its sector.



Heightened uncertainty

- CEOs in general remain confident about the global economic outlook, but that confidence has dipped from last year: two in three CEOs (65 percent) are now confident about global economic growth during the next 3 years — down from 80 percent in 2016.
- Most CEOs are confident in their own industry's prospects for growth in the next 3 years, but there has again been a notable dip over the past 12 months (from 85 percent to 69 percent).



A changing geopolitical climate

- Forty-three percent of CEOs are reassessing their global footprint as a result of the changing pace of globalization and protectionism.
- Fifty-two percent believe the political landscape has had a greater impact on their organization than they have seen for many years.
- Thirty-one percent think protectionist policies in their country will rise in the next 3 years.



Reputation risk climbs the agenda

- Reputational and brand risk has risen in importance for CEOs during the past year, to become one of the top three most important risks they face today (out of 16 in total), after not featuring in the top 10 in 2016.
- CEOs believe reputational damage will have the second-biggest impact on the growth of their organization over the next 3 years.



Strategic balance

- More than half of CEOs (53 percent) are increasing penetration in established markets, making this the most highly cited priority for growth.
- Innovating new products, services and ways of doing business comes second at 47 percent.



The evolution of the CEO

- Seventy percent of CEOs say they are now more open to new influences and collaborations than at any other point in their careers.
- CEOs are evolving their skills and personal qualities to better lead their business. Almost seven in 10 (68 percent) say they are evolving their skills and personal qualities to better lead their business.



Battle for talent in cognitive revolution

- CEOs are more confident in their understanding of new technologies than they were in 2016, though competition for expert talent is fierce.
- As they embed cognitive technologies, businesses are expecting short-term headcount growth. Across 10 key roles, 58 percent on average are expecting a slight or significant growth in number of employees.



Headcount still growing, but weaker than last year

- In 2016, 73 percent expected their number of employees to increase by more than 6 percent in the next 3 years. In 2017, less than half (47 percent) expect this level of growth.



Intuition and analytics in understanding the customer

- Most CEOs (64 percent) say they are effective at sensing market signals.
- Yet ongoing success relies on good-quality data and close to half (45 percent) say their customer insight is hindered by a lack of quality data. More than half (56 percent) are concerned about the data they are basing decisions on.



A perception of improved cyber resilience

- CEOs clearly believe they are making progress in their management of cyber, which this year has dropped to number five in the list of top risk concerns, down from number one last year.
- Four in 10 (42 percent) believe they are fully prepared for a cyber event — up from just 25 percent in 2016.



Trust in a time of disruption

- Two in three (65 percent) believe that levels of trust in business will stay the same or decline in the next 3 years.
- About three-quarters of CEOs (74 percent) say their organization is placing greater emphasis on trust, values and culture in order to sustain its long-term future.
- More than seven in ten (72 percent) of CEOs correlate being a more empathetic organization with higher earnings.

Disruption as an opportunity

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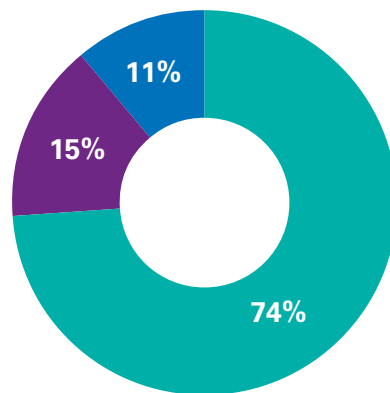
Every CEO I meet with is asking, 'How do I better drive my business in a digital world?' ”

Mark A. Goodburn
Global Head of Advisory
KPMG International

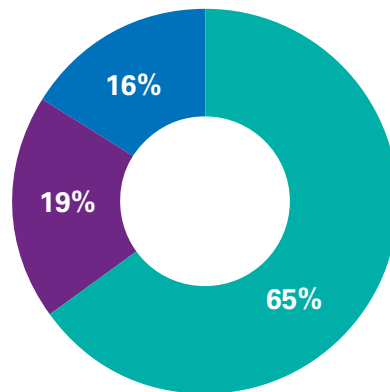
Today, more than ever before, leading a business is about challenging convention and driving radical change. Three in four CEOs in the survey (74 percent) say their company is striving to be the disruptor in its sector.

There are many reasons why CEOs are embracing disruption. We have witnessed a shake-up of the geopolitical status quo by way of the elections in the US, the UK and other countries. Above all, technology-driven change is sweeping through industries and economies on a global scale.

Chart 1: CEOs' views on disruption



Rather than waiting to be disrupted by competitors, my organization is actively disrupting the sector in which we operate



We see technological disruption as more of an opportunity than a threat

● Agree ● Neither agree nor disagree ● Disagree

Source: 2017 Global CEO Outlook, KPMG International

“

As a CEO you have to recognize that your business will be radically different in the next 5 to 10 years, and then build and lead a team to succeed in that new world.”

Adena Friedman

CEO

Nasdaq, Inc.



While these developments are welcome for some, they have created an even greater level of uncertainty. In turn, CEOs are championing new ways of creating value to ensure their businesses are not left behind. Respondents say they are making innovation a top strategic priority, as well as a key initiative designed to achieve growth.

“The CEOs I speak with recognize they are operating in a rapidly changing and complex business environment. Domestically, China’s restructuring process and an increasingly sophisticated consumer are leading to both challenges and opportunities, and CEOs are responding to this by embracing technological disruption to innovate their production and distribution models, as well as to create new products,” says Benny Liu, Chairman, KPMG China.

“We are also hearing from clients that they are investing more of their time and resources in managing geopolitical risk,” adds Liu. “The CEOs leading business that are winning in this era of disruption are the ones leading organizations that are agile and prepared to transform their business today to be prepared for tomorrow.”

Adena Friedman, CEO of Nasdaq, Inc., the stock exchange and global technology company, looks outside her own sector for ideas and inspiration to disrupt her business. “We’re the stock exchange on which many of the world’s leading technology companies are listed and those ground-breaking companies expect Nasdaq to be leading technological change in our own business. As a CEO you have to recognize that your business will be radically different in the next 5 to 10 years, and then build and lead a team to succeed in that new world,” she says.

Driving disruption in their own business may be a relatively new priority, but it is welcomed by CEOs — more than six in 10 (65 percent) consider technological disruption to be an opportunity, not a threat, for their organization.

“I think what CEOs see is the opportunity that disruption presents,” says Mark A. Goodburn, Global Head of Advisory at KPMG. “Every CEO I meet with is asking, ‘How do I better drive my business in a digital world?’ Unless they’re continually taking advantage of a shifting marketplace, they will certainly be left behind.”

Interestingly, there are slight variations by country in their willingness to proactively address disruption. India-based CEOs are most inclined to actively disrupt the sector in which they operate, as well as view technological disruption as more of an opportunity than a threat.

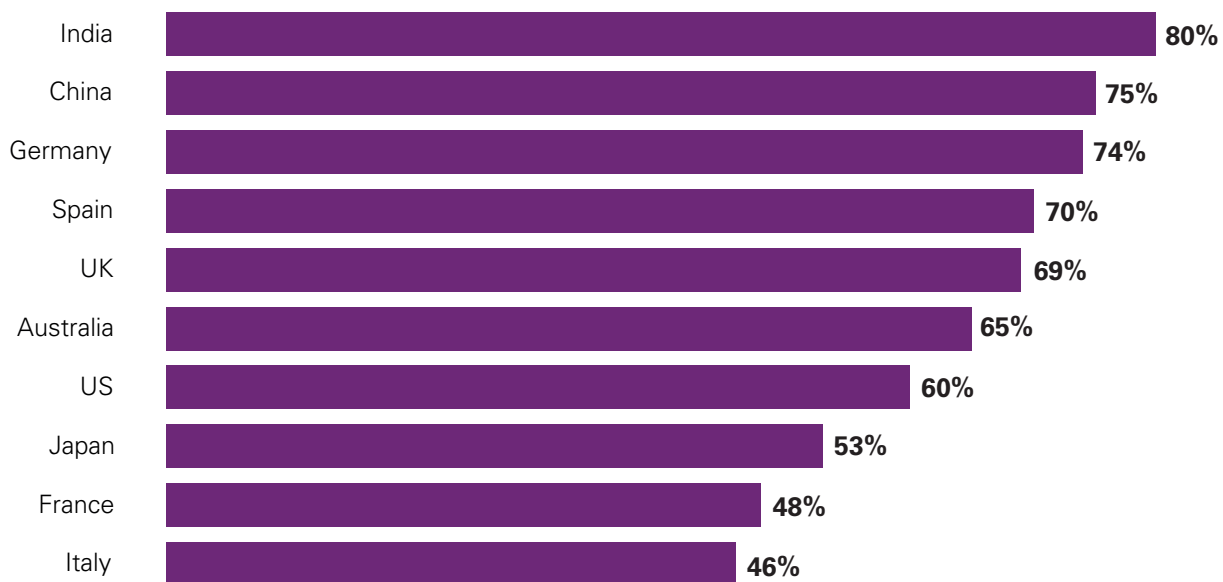
Chart 2a: How CEOs are disrupting the sector they operate in, by country



■ Rather than waiting to be disrupted by competitors, my organization is actively disrupting the sector in which we operate

Source: 2017 Global CEO Outlook, KPMG International

Chart 2b: How technological disruption is viewed, by country



■ We see technological disruption as more of an opportunity than a threat

Source: 2017 Global CEO Outlook, KPMG International

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At Oracle, transformation never ends. It's like working out every day. You've got to constantly improve.”

Safra Catz

CEO

Oracle



The balancing act

CEOs understand that leading an organization in 'interesting times' takes more than talk about new business models and innovation; it requires courage and inspirational leadership, an ability to protect as well as provoke, and close involvement in all corners of the organization.

For this reason, we find CEOs performing a difficult balancing act. Innovation is a clear focus, but respondents are also pragmatic about managing the uncertainty on the horizon. As a result, they are strengthening their business in established markets so they

can protect their bottom line while preparing to seize new opportunities.

CEOs are also wary of disrupting for disruption's sake. Aware that new entrants want to take their share of the market, they are maintaining their laser focus on the customer, understanding their needs and articulating how the business is creating value for them.

“The hit that wipes you out is the one that comes from the side,” says **Safra Catz, CEO of Oracle**. “So you need to keep an eye on all directions. If I were to give anybody advice, I would say: ‘Do your job and look around, talk to your customer and stay on mission. Don't get distracted by success.’”

Redrawing the horizon

In this report, we explore the many challenges that CEOs face as they disrupt and grow in a changing landscape. It is also worth noting that in the context of this year's research, success is not defined purely by the ability to displace rivals and claim market share. CEOs tell us they want to improve trust in business, build cultures based on clear ethical values, and create a more sustainable future for their organizations. For them, disruption is an entirely positive goal.

A shifting playing field

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Together we need to ensure that different countries, different social strata and different groups of people all share in the benefits.”

Benny Liu
Chairman
KPMG China

The world has become a more complex and unpredictable place since KPMG's 2016 Global CEO Outlook. The global economy and the direction of geopolitics look remarkably different from just 12 months ago. 'Business as usual' certainly no longer applies.

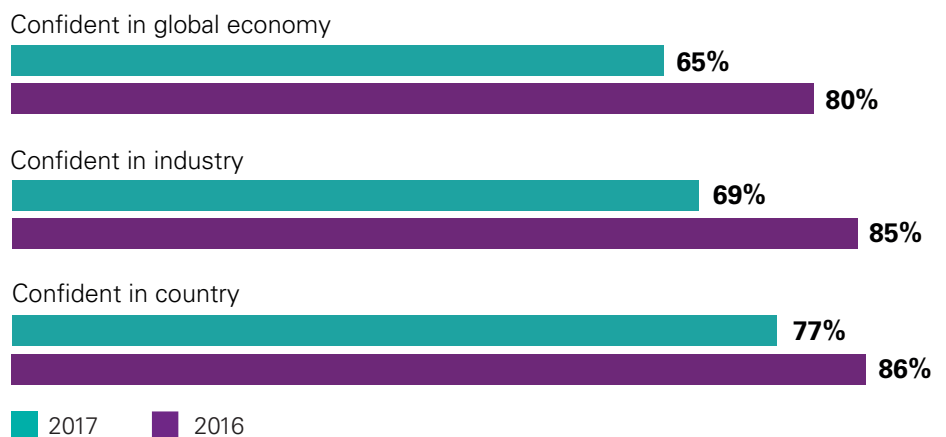
Cautious optimism about the bigger picture

In 2017, CEOs are still broadly confident about the prospects for the global economy, but their optimism is more

modest than it was last year. There are, however, marked differences in outlook depending on geography and sector.

According to the survey, approximately two in three CEOs (65 percent) are confident about global economic growth during the next 3 years — down from 80 percent in 2016. This more restrained level of confidence is also reflected in respondents' views on the outlook for their country and industry over the same period (see Chart 3).

Chart 3: Confidence in 3-year growth prospects, 2017 and 2016



Source: 2017 Global CEO Outlook, KPMG International

“

Consumer and business confidence in the US is solid. The US economy continues to steadily perform and Europe and Asia are growing.”

Brian Moynihan

CEO

Bank of America



Looking at the results on a country basis, it's clear that CEOs in the US are notably more confident than their non-US peers. They are, in fact, the only regional grouping whose confidence has increased since last year.

Brian Moynihan, CEO of Bank of America, is optimistic about the economy. “Consumer and business confidence in the US is solid,” he says. “The US economy continues to steadily perform and Europe and Asia are growing.”

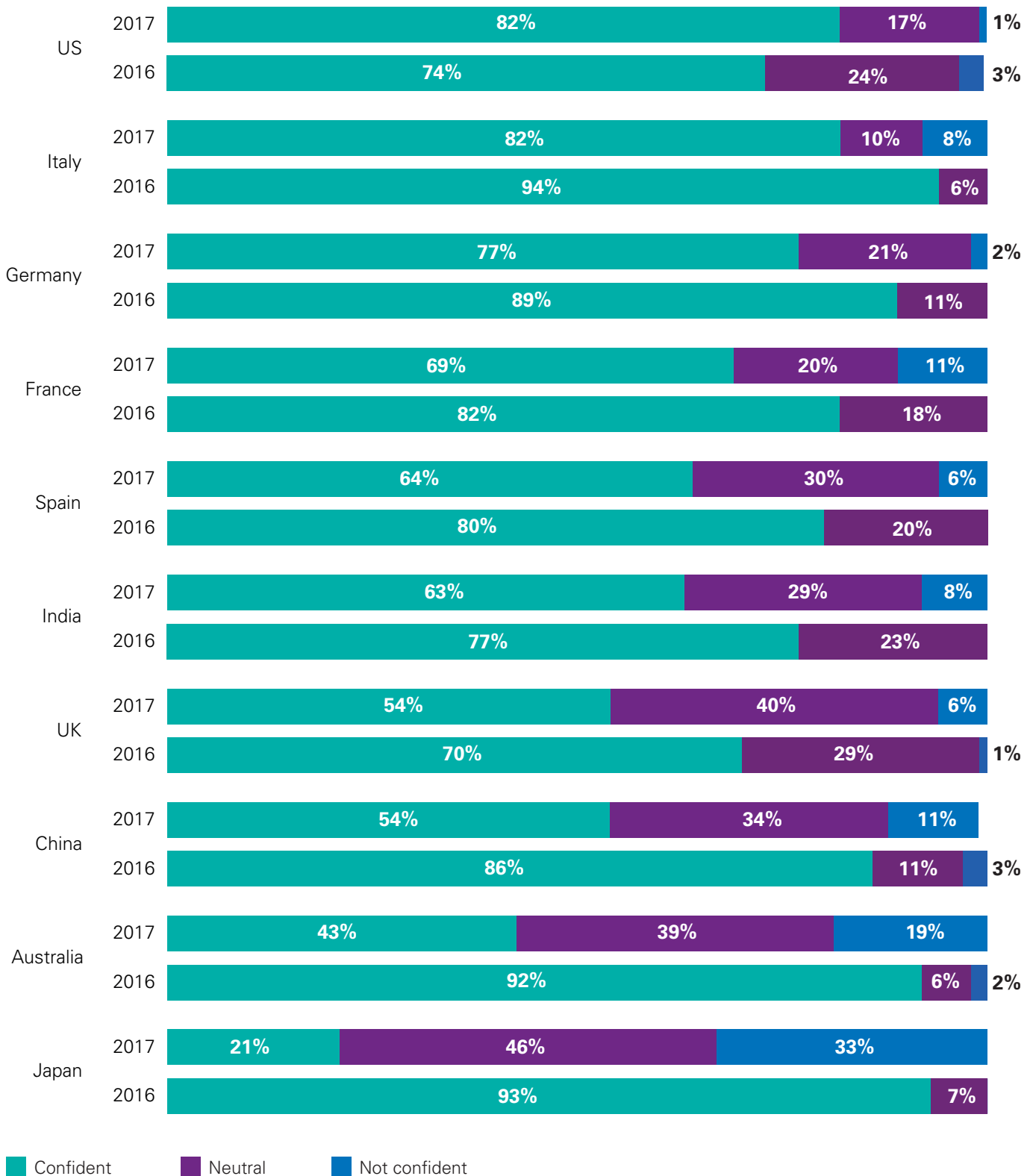
In Europe, the outlook among CEOs remains positive overall, albeit less

pronounced than in 2016. But the biggest change is in ASPAC, where optimism about global economic growth over the next 3 years — especially from the vantage point of Australia, China and Japan — has dipped during the last 12 months (Chart 4).

While confidence among some US respondents may partly reflect their assessment of the hoped-for impact of the new administration's economic plans, the results among ASPAC respondents could suggest a wider trend toward uncertainty.

It would be premature to describe the mood as pessimistic however, as the data overall primarily suggests a ‘wait and see’ attitude toward economic change. In Japan, for example, where confidence has dropped the most since 2016, 46 percent of CEOs say they are neutral in their outlook for global growth in the next 3 years, compared with 33 percent who say they are not confident (see Chart 4). Similarly, in Australia, 39 percent are neutral while 19 percent say they are not confident.

Chart 4: Country-by-country confidence in global economic growth in the next 3 years, 2017 and 2016



Note: Due to rounding, figures may not add up to 100 percent.

Source: 2017 Global CEO Outlook, KPMG International

Meanwhile, as Chart 5 highlights, CEOs from a small number of industries — notably banking, consumer and retail, and energy — are more upbeat about sector growth than their peers.

For organizations in several industries, confidence levels are likely being influenced by anticipated changes to regulation.

“In the US, a review is underway to ensure that existing regulations — across many sectors of the economy in addition to financial services — strike the right balance and are achieving the desired outcomes,” says Bank of America’s **Moynihan**. “That process will play out through the year.”

Optimism at the business level

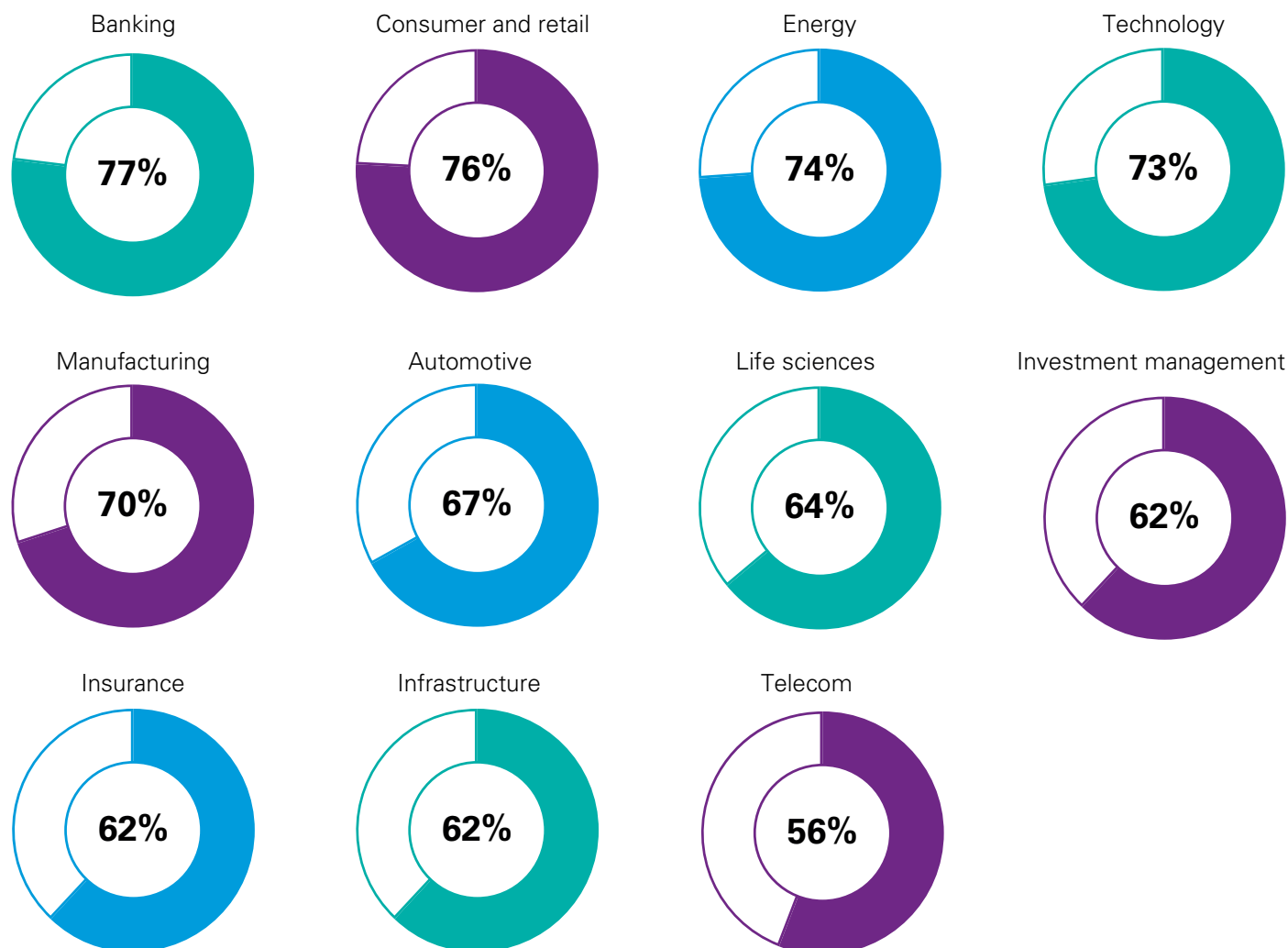
Despite reduced levels of optimism about the overall outlook for the global economy, the survey suggests that CEOs remain confident about their own businesses. They appear to have faith in their ability to make adjustments as required, innovate to solve problems and withstand difficulties ahead.

More than eight in 10 CEOs (83 percent) describe themselves as confident in their company’s growth prospects for the next 3 years, and around half (47 percent) say that they are very confident.

While this is a slight decline — down 6 percentage points from last year (the ‘very confident’ figure is the same) — the high percentage still points to a strongly optimistic mindset among CEOs.

“The environment will remain challenging in the coming months,” says **José Antonio Álvarez, CEO of Santander Group**, a multinational banking group based in Spain. “The pace of technological change is a huge challenge for all banks, and we may see further macroeconomic challenges in some of our core markets. But the outlook for Santander is positive.”

Chart 5: Confidence in industry growth in the next 3 years



Source: 2017 Global CEO Outlook, KPMG International

“

While there is heightened political uncertainty around the world, we remain optimistic about the longer term global growth trends. We retain operational flexibility and can adapt the portfolio mix to changing market conditions.”

Nicholas Moore
CEO
Macquarie Group



CEOs' confidence in their own organizations is particularly strong in ASPAC. Whereas less than half of Australian CEOs (43 percent) express confidence in the global economy, for example, the overwhelming majority (91 percent) are confident in the prospects for their own company.

Nicholas Moore, CEO of Macquarie Group, the global financial services business, is positive about the future for his organization. “While there is heightened political uncertainty around the world, we remain optimistic about the longer-term global growth trends,” he says. “We retain operational flexibility and can adapt the portfolio mix to changing market conditions.”

Geopolitical uncertainty

For CEOs, geopolitical shocks always have potential consequences for the business. CEOs today are aware of the new strategic and operational challenges they may face in the years ahead, following the political events of the past year.

A majority (52 percent) believe that the uncertainty of the current political landscape is having a greater impact on their business than they have seen for many years. Respondents understand,

for example, that they may have to structure and conduct their overseas businesses differently depending on the nature of the UK's exit from the EU.

Most CEOs have already taken steps to manage their exposure. The majority (69 percent) are bringing new specialists into the management team to help them better understand potential threats. Three in four tell us they are spending much more time on scenario planning to plot a course through the shifting climate. With this in mind, we could expect geopolitical risk to rise up the list of businesses' top risks over the coming year.

Brian Porter, President and CEO of Scotiabank, Canada's international bank, believes geopolitical risks are becoming more prevalent, but believes his own business is in a strong position to overcome them. “We've been able, through our 185-year history, to deal with governments that are left of center and right of center,” he says. “You've got to distance the political noise from the economic reality.”

Geopolitical implications for tax

One of the short-term impacts on businesses of geopolitical uncertainty could be around taxation.

Jane McCormick, KPMG's Global Head of Tax, says businesses are “in a period of unprecedented change in relation to tax and trade policy,” which she believes is an aspect of the changing geopolitical landscape.

“Different countries are approaching tax reform in different ways,” she notes. “But from a global perspective, pressures on national budgets and the political difficulty of increasing taxes on individuals are likely to lead to increases in the taxes borne by business.”

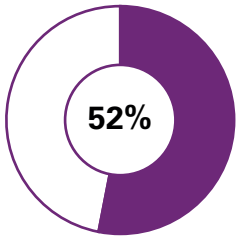
This may be why 67 percent of CEOs expect tax rates in their country to increase in the next 3 years. The proportions are even higher if we break the results down on a national level, with the UK (81 percent), France (80 percent), China (76 percent), Spain (74 percent) and Germany (74 percent) the most concerned about the prospect of higher rates.

A check on globalization

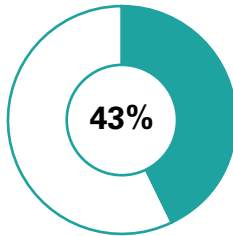
CEOs tell us they remain broadly confident about the growth of globalization, but they clearly have some reservations: fewer than two in three (64 percent) think the pace of globalization will grow in the next 3 years. Three in 10 (31 percent)

Chart 6: Views on globalization

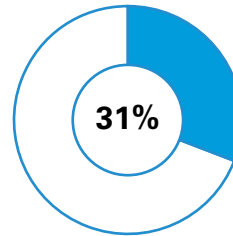
Proportion of CEOs who...



believe the political landscape has had a greater impact on their organization than they have seen for many years



are reassessing global footprint as a result of the changing pace of globalization and protectionism



think protectionist policies in their country will rise in next 3 years

Source: 2017 Global CEO Outlook, KPMG International

expect a rise in the number of protectionist policies adopted in their country.

This is noteworthy, considering the rise in populist, protectionist rhetoric, as well as growing debate about the wider impact of labor, capital and trade flows.

KPMG's Liu believes that the growth in populism has been fueled by "wage stagnation, the expanding gap in income inequality and continued high unemployment in certain countries,"

which have created dissatisfaction with the status quo.

"The Chinese CEOs I'm speaking with are committed to globalization, and recognize the need to highlight the positive impacts it brings," Liu notes. "Together we need to ensure that different countries, different social strata and different groups of people all share in the benefits. They see practical steps such as the Belt and Road initiative as critical to delivering those benefits."

The research suggests that recent trends are already influencing operating decisions. CEOs in the survey are focusing less on penetrating new geographical markets than on increasing their operations in existing ones (as explored in Section 3). More than four in 10 (43 percent) tell us they are reassessing their global footprint as a result of the changing pace of globalization and protectionism.

“

We've got 23 million customers and their preferences are changing. They want their banks to be more relevant to them. We're spending a lot of time enhancing the customer experience, making it easier for them to do business with us. ”

Brian Porter

President and CEO
Scotiabank



The evolving risk landscape

As uncertainty increases, businesses have reviewed their register of key risks. Seven in 10 CEOs (69 percent) report that they have increased investment in governance and risk management in the past year, with 27 percent increasing it significantly. As they do so, operational risk has risen to become the highest concern for CEOs overall.

Reputational risk

One of the most striking changes in this year's survey is the rise in the number of CEOs who cite reputational and brand risk as a top concern. As Chart 7 shows, this is the third most important risk for CEOs (out of 16 in total), whereas last year it did not even break into the top 10.

CEOs also see reputation and brand risk as having the second-biggest impact on growth over the next 3 years; in 2016, it ranked seventh out of 10.

CEOs are acutely aware that everything they do takes place in a

Chart 7: The risk landscape, 2017 and 2016

2017		2016	
1	Operational	1	Cyber security
2	Emerging technology	2	Regulatory
3	Reputational/brand	3	Emerging technology
4	Strategic	4	Strategic
5	Cyber security	5	Geopolitical

Source: 2017 Global CEO Outlook, KPMG International

more transparent environment than ever before. The impact of social and mainstream media spreading damaging news on a global scale, and at a pace never seen before, is well understood by CEOs. Hackers can quickly distribute compromising emails online, while harmful videos of poor customer service can rapidly 'go viral'.

This issue may be amplified by compositional changes to the labor force, where a larger proportion of

employees are hired 'on demand' and do not necessarily 'live' the brand's values as consistently as full-time employees.

The cyber connection

Considering the high-profile nature of many recent cyber attacks, and the catastrophic damage they can cause, it might seem surprising that cyber appears at number five on the risk list — after ranking first last year.



“

I've been recognized for not beating around the bush and for talking straight. In my conversations with our teams...speaking clearly shows up again as a valuable attribute, as does the ability to listen.”

José Antonio Álvarez

CEO
Santander Group

“

CEOs need to make sure their employees feel a sense of ownership. Employees need to be committed, and not see their jobs as something they're doing to earn a salary. That can bring a major change in any business that you operate.”

Aliko Dangote
President and CEO
Dangote Industries



To an extent, this is explained by CEOs' growing confidence in their management of the risk, as we explore in Section 3. And it is worth noting that there is a cyber dimension to all of the top risks in Chart 7 — particularly operational, emerging technology and reputational risk — which confirms that CEOs' perception of the risk and its interconnectedness is maturing.

We see strong signals that many CEOs are moving beyond a generic view of cyber risk to develop risk, resilience and mitigation plans in the context of the parts of their business that could be most seriously affected. The risk remains very much top of mind.

“With cyber, you will never be safe,” asserts **Mark Wilson, Group CEO of Aviva PLC**, a multinational insurance company. “It's always going to be a red flashing light. We wouldn't have a board meeting where it isn't discussed; there wouldn't be an executive meeting where it isn't discussed. We are paranoid — and rightly so.”

Self-disruption: Finding a fresh perspective

The survey suggests that as CEOs prepare to meet new challenges and manage evolving risks, a significant proportion are focusing on their own skills and the roles they perform. For many, disruption is as much a personal challenge as an organizational one.

CEOs are seen to be evolving their role and the attributes they need for success. This may mean relying more heavily on soft skills such as emotional intelligence — as is the case for 45 percent of respondents — or understanding the limitations of their own personality, as expressed by 52 percent. It certainly means becoming more forward-looking and agile.

Santander Group's **Álvarez** says he has been recognized in his business for “not beating around the bush and for talking straight. In my conversations with our teams, at town hall meetings or through our internal feedback system, speaking clearly shows up again as a valuable attribute, as does the ability to listen.”

CEOs also say they are constantly learning new skills that may not have been as critical when they set out in their roles. Almost seven in 10 (68 percent) have taken steps to challenge themselves, often through formal training, during the past 12 months.

“I'm continuously learning,” says **Aliko Dangote, President and CEO of Dangote Industries**. “But I need to know the basics of the business first. They say leadership is by example, so I need to be committed. It is exciting because I don't really take my job as something that I have to do. It is my hobby.”

CEOs are also considering different ways of working. The majority (70 percent) say they are more open to new influences and collaborations than at any previous point in their career.

Scotiabank's **Porter** certainly believes the role of CEO is changing. “You have to want to understand how technology is impacting our business, changing our customers' attitudes,” he explains. “That's where curiosity is important.”

Priorities for today's CEO



Innovation is less about changing everything you've got. It's about being ready to take on new challenges and opportunities, to be flexible and agile.”

Lisa Heneghan
Global Head of
Technology, Management
Consulting
KPMG International

If three in four CEOs are aiming to disrupt their sector, what does this mean — in practical terms — for their business? And if 68 percent of CEOs are evolving their roles, how will they challenge the people and systems that make up their organizations?

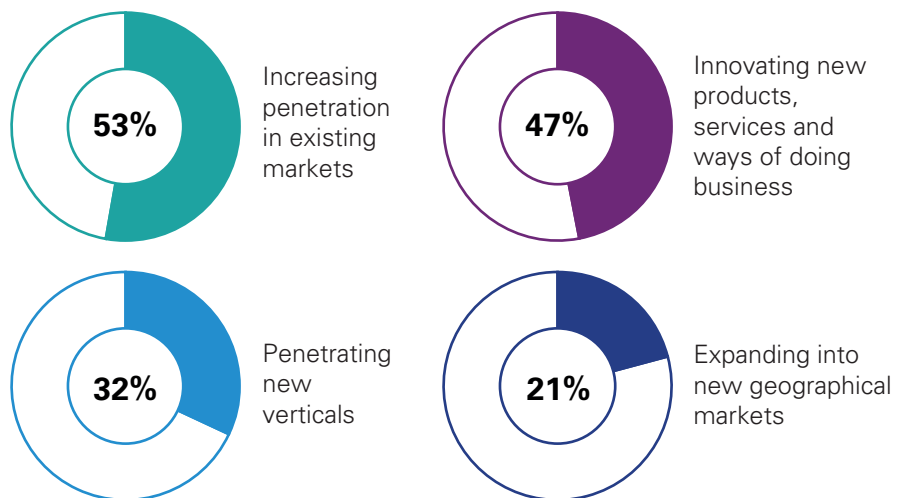
An even bigger question relates to the balancing act that CEOs must play as they prepare for future uncertainty. Taking bold moves in the market while ensuring resilience in a changing world, inevitably has implications for a company and how it operates.

This section summarizes how CEOs are answering these questions by looking at

their priorities across seven core areas of the business — specifically its market strategy, its approach to innovation, the technology it needs to achieve its goals, its relationships with customers, its talent, its management of cyber as an ever-evolving threat and, finally, its place in society more broadly.

In the words of **Rob Lloyd, CEO** of US-based transportation business **Hyperloop One**, “There’s no proven playbook for leading disruptive innovation. We have entered the moonshot era and to execute you need a killer team, clear technology milestones, a sharp focus on customers and a little bit of luck.”

Chart 8: CEOs' strategic priorities for growth in the next 3 years



Source: 2017 Global CEO Outlook, KPMG International

“

There's no proven playbook for leading disruptive innovation. You need a killer team, clear technology milestones, a sharp focus on customers and a little bit of luck. ”

Rob Lloyd

CEO

Hyperloop One



1. Strengthening the core

We find CEOs preparing for uncertainty in the years to come by strengthening their existing markets and their core businesses. One in two (53 percent) is increasing strategic penetration in established markets as a high priority, while only 32 percent and 21 percent are expanding into new verticals and regions as a high priority, respectively (see Chart 8). At the same time, 70 percent of CEOs are making bottom-line growth a primary objective for investment.

“Depending on where you are in the cycle, you either press the foot on the accelerator or not,” says **Piyush Gupta, CEO of DBS Group**, a multinational bank headquartered in Singapore. “We’re being a little more careful in China right now. We’re a little more

bullish in India and Indonesia, but that’s just tactical and timing.”

A focus on the core does not contradict CEOs’ stated ambitions around disruption, because we see innovation coming a strong second as a strategic priority and as a top business-wide initiative (see ‘Champions of disruption’ and Chart 9, on pages 20 and 21).

Businesses are likely to be prioritizing disruption in their existing markets and will move into other markets as a secondary consideration. Once they are confident in the resilience and agility of the underlying organization, and once the economic climate seems more stable, we could expect CEOs to focus again more strongly on new opportunities further afield.

Tatsuo Yasunaga, President and CEO of Mitsui & Co., says his business

focuses on its underlying resilience as well as taking steps outside its primary sectors. “Our strategy is to strengthen our core businesses as a foundation on which to establish new business in sectors with promising growth potential,” he explains. “Because we want to generate sustainable growth, we take a long-term management perspective from the earliest stages of our planning.”

Dangote Industries’ **Dangote**, meanwhile, says that entering new markets remains a key ambition for his business. “Our strategy has always been that we go into new markets as a new company,” he says. “We have a greenfield project that we build from scratch, get into the market and start competing with a lot of people, some of whom have been there for 50 years before us.”

“

We live in an age of immense technological disruption with incredible opportunities for innovation.”

Tatsuo Yasunaga
President and CEO
Mitsui & Co.



Disrupting from within

Today, one in four CEOs (26 percent) expects their business to be transformed into a significantly different entity within 3 years — down from 41 percent in 2016. This data point at first appears to go against CEOs’ stated drive for disruptive innovation. Yet a closer reading of the data suggests that the picture is more nuanced.

We see CEOs’ appetites for transformation varying markedly by region, due to local market pressures and geopolitics. Respondents in China, India, Australia and Japan are more likely to expect their businesses to become significantly different entities within 3 years; those in the US and Europe are less likely to expect this.

It appears that a number of organizations in the US and Europe are leading a growing trend in innovation that does not necessarily equate disruption with wholesale transformation.

“Innovation is less about changing everything you’ve got,” explains Lisa Heneghan, KPMG’s Global Head of Technology, Management Consulting. “It’s about being ready to take on new challenges and opportunities, to be flexible and agile. Businesses are becoming more pragmatic and are creating a platform that will enable them to transform as they need to respond.

“We also know that disruption does not have to be wholesale industry disruption,” adds Heneghan. “Disruption within functions or sectors can still be bold and have a significant effect.”

Chart 9: The top five strategic initiatives

Rank	Initiatives
1	Greater speed to market
2	Fostering innovation
3	Implementing disruptive technology
4	Becoming more data driven
5	Digitization of the business

Source: 2017 Global CEO Outlook, KPMG International

Transformation as usual

The survey finds that rather than seeing transformation as a discrete program, with an abrupt transition from one incarnation of the business to the next, many businesses will have accepted it as part of ‘business as usual’. Again, this may be targeted at the areas that need it most at the time, as a means to enable agility, rather than across the board.

Catz of Oracle describes how transformation has been embedded throughout her company. “At Oracle, transformation never ends,” she says. “It’s like working out every day. You’ve got to constantly improve. You have to build trust in transformation. You have to show a little bit of immediate thinking, some quick results. You’ve got to build momentum.”

Catz believes that embedding transformation is as much about understanding people as it is about leveraging technology. “People hate change because they’re afraid that you don’t know what you’re doing. So you have to build trust in transformation. Get a coalition of the willing, get a few people started and everybody else will follow.”

2. Champions of disruption

The prospect of uncertainty would traditionally cause businesses to restrict their investments in innovation. Yet CEOs today are scaling up, rather than scaling back, on technology-led innovation. For many, fresh thinking is a logical response to challenging conditions.

Moore of Macquarie says his company has relied on its innovativeness in the face of uncertainty in the past. “Our organization has thrived on intellectual curiosity, optimism and an openness to ideas,” he says. “This has been particularly important in the face of the geopolitical and global economic challenges of recent years.”

CEOs may be focusing on existing markets as a growth priority, but the strategic initiatives they are pursuing across the rest of the business all support innovation in one respect or another (see Chart 9) — whether that’s getting to market more quickly, embracing digitization or implementing disruptive technology. We also see many CEOs taking a hands-on role in the innovation process.

Mitsui’s **Yasunaga** sees a focus on core strengths as a contributor to performance over the long term, particularly in challenging, fast-changing business climates. “We live in an unpredictable, disruptive era,” he says, “but I believe that even when adapting to rapid change we have to incorporate our prime strengths, a long-term management perspective and robust corporate governance to drive sustainable growth.”

Aviva’s **Wilson** is a good example of a CEO who takes a close personal interest in enabling disruption. When his company set up a ‘digital garage’ in London to explore digital opportunities, **Wilson** describes how he helped make the initiative a success.

“I knew we had to cut the ties between the digital business and the old business,” **Wilson** says. “At the launch I said, ‘Your strategy is to compete with and cannibalize the rest of the business.’ Everyone hated that. But I had to make sure that no one in the traditional business could block what we were doing. It’s changed the total dynamic.”

Managing the impacts of disruption

Disruption is not without its risks — especially when the majority of competitors are also planning to out-innovate the market. About half of CEOs (48 percent) are expecting major disruption in their sector in the next 3 years.

“The simple truth is that businesses can no longer expect their customers to be satisfied with the products and services they have received in the past,”

says Lynne Doughtie, Chairman and CEO, KPMG in the US. “Not only do businesses need to harness digital and innovate like never before, they need to do it faster and more effectively than all of their rivals. It never stops.”

The findings suggest that many CEOs are confident in their ability to manage industry change and succeed in a highly competitive, innovation-focused environment. Last year, 65 percent of CEOs said they were concerned about their business model being disrupted by a new entrant that they do not currently see as a competitor. This year, that proportion has dropped to 48 percent. Four in 10 CEOs (39 percent) believe that any disruption their business encounters can be contained within specific functional areas.

Yet CEOs are not complacent: they know that their businesses can always innovate more effectively, especially when deploying emerging technology. One in two CEOs, for example, admits that their organization may not yet have the advance warning systems, capabilities and innovative processes to respond to rapid disruption.

As KPMG’s Heneghan explains, it is this ability to respond that is at the heart of a truly digital business. “Digital is not a ‘thing’, but a description of our world as it is today,” she says. “Being digital is an appetite to use phenomenal advances in technology to respond to disruptors as well as to disrupt and change the business where necessary.”

Incredible opportunities ahead

The picture the research paints is a positive one for innovation and digital business overall. DBS’s **Gupta** says digital technologies have helped his business achieve some ambitious goals, for example. “We would not have been able to contemplate going into markets in India and Indonesia, where we are a challenger bank, before digital,” he says. “Creating a network of branches would be extraordinarily expensive in this day and age.”

“

The digital revolution allows us to forge new types of relationships with customers, where technology is not only a business enabler but becomes an integral part of the way customers interact with the brand.”

François-Henri Pinault
Chairman and CEO
Kering



Photo courtesy of David Sims.

François-Henri Pinault, Chairman and CEO of Kering, the France-based luxury retail group whose brands include Balenciaga, Gucci and Puma, says digital is helping his business become more customer-centric rather than product-centric. “The digital revolution allows us to forge new types of relationships with customers, where technology is not only a business enabler but becomes an integral part of the way customers interact with the brand,” he says.

In the words of Mitsui’s **Yasunaga**, “We live in an age of immense technological disruption, with incredible opportunities for innovation.”

3. Technology: A mixed picture on maturity

The ability to disrupt a market, or to innovate within an organization’s established structures, is closely linked to a business’s understanding of emerging technologies and their potential application.

Nasdaq’s **Friedman** believes that technological change in her sector is unprecedented. “I think there is a lot of talk in the market about disruption, but those who are really leading are those who are embracing technological innovation to transform their business. Those who are seizing on the opportunity created by disruption will get an advantage in this market.”

CEOs in 2017 are notably more confident in their understanding of new technologies than they were in 2016. While half (47 percent) remain concerned about whether their business is keeping up to speed with new technologies, this figure was significantly higher — 77 percent — in 2016. KPMG’s Goodburn believes that this growth in confidence may reflect that CEOs are working with different technologies on a daily basis and have more experience in seeing how they are interlinked. After assessing the opportunities and limitations of one technology, it becomes much easier

to adapt and apply that knowledge to newer technologies.

Goodburn uses the iPhone® mobile digital device as an analogy. “Apple® didn’t create mobile, or the internet, but created the ability to bring those technologies together at the consumer level and disrupt the world,” he says. “CEOs know they need to mix one technology with another technology or platform, and those intersections enables them to create new solutions and capture new opportunities.”

Understanding technology does not mean, however, that CEOs consider technological innovation within their business to be a *fait accompli*. Four in 10 (38 percent) express concern that they are not using digital as effectively as they could to connect with customers. And six in 10 (61 percent) tell us they are concerned that their organization is not having as much success with new business models as it should.

This is another area where we see a notable difference between geographies. As Chart 10 shows, organizations in the ASPAC region are more likely to feel concerned about falling behind in their usage of new technologies, such as cognitive and digital labor.

Ongoing challenges

Despite the progress that businesses have made around technology, deep-seated challenges remain. In

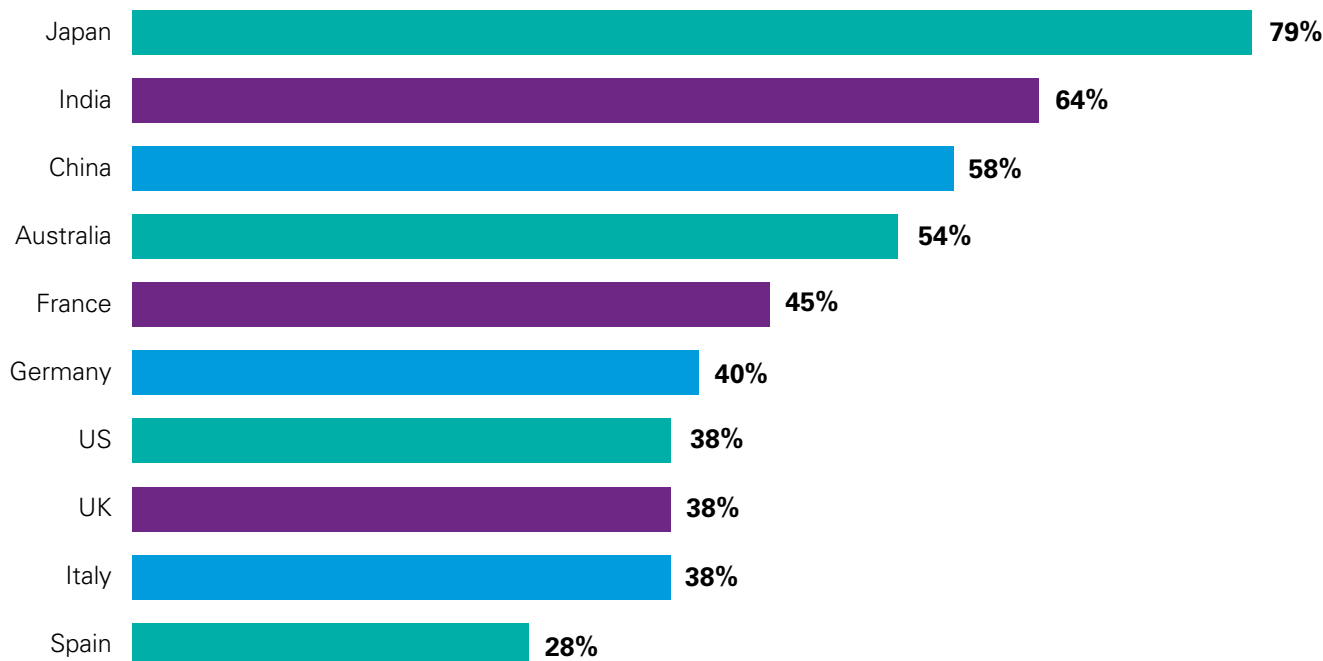
particular, as illustrated by Chart 11, the principal issues that CEOs face relate to talent shortages, and the complexity of integrating cognitive technologies. Similarly, when asked about their biggest barriers to implementation, complexity of integration and internal skills shortages, come first and third, respectively.

The challenge of complexity is heightened, of course, when the business does not have an adequate number of suitably skilled people

with an in-depth understanding of the technologies involved, especially when it comes to fast-evolving cognitive processes.

Half of CEOs (52 percent) say they are concerned about their business' ability to integrate artificial intelligence (AI) into basic automated processes. Approximately one in three (31 percent) tells us that their organization is not ready to adopt advanced AI.

Chart 10: CEO concern about keeping up with new technology, by region



Source: 2017 Global CEO Outlook, KPMG International

Chart 11: Chief technology challenges over the next 3 years

Rank	Challenge
1	Attracting new strategic talent
2	Integrating cognitive technologies
3	Piloting emerging technologies
4	Optimal use of data analytics and predictive technologies
5	Reskilling the current workforce

Source: 2017 Global CEO Outlook, KPMG International

If they are to keep abreast with developments in this field, businesses obviously need to draw on the expertise and guidance of individuals with specific knowledge. Yet such talent is expensive to acquire — either because there is great competition for experts with these skills, or because up-skilling existing staff is time-consuming and creates new gaps to fill.

It is this competition for highly skilled talent, especially in the next few years, that is behind one of the most surprising findings of the 2017 research.

The popular view of cognitive technologies is often that they will make a large number of positions redundant, but 58 percent of CEOs in the survey, on average, expect to increase headcount across key roles in the immediate future (see Chart 12). While 32 percent expect this growth to be slight, on average, there is still a clear expectation that more specialist employees will be needed.

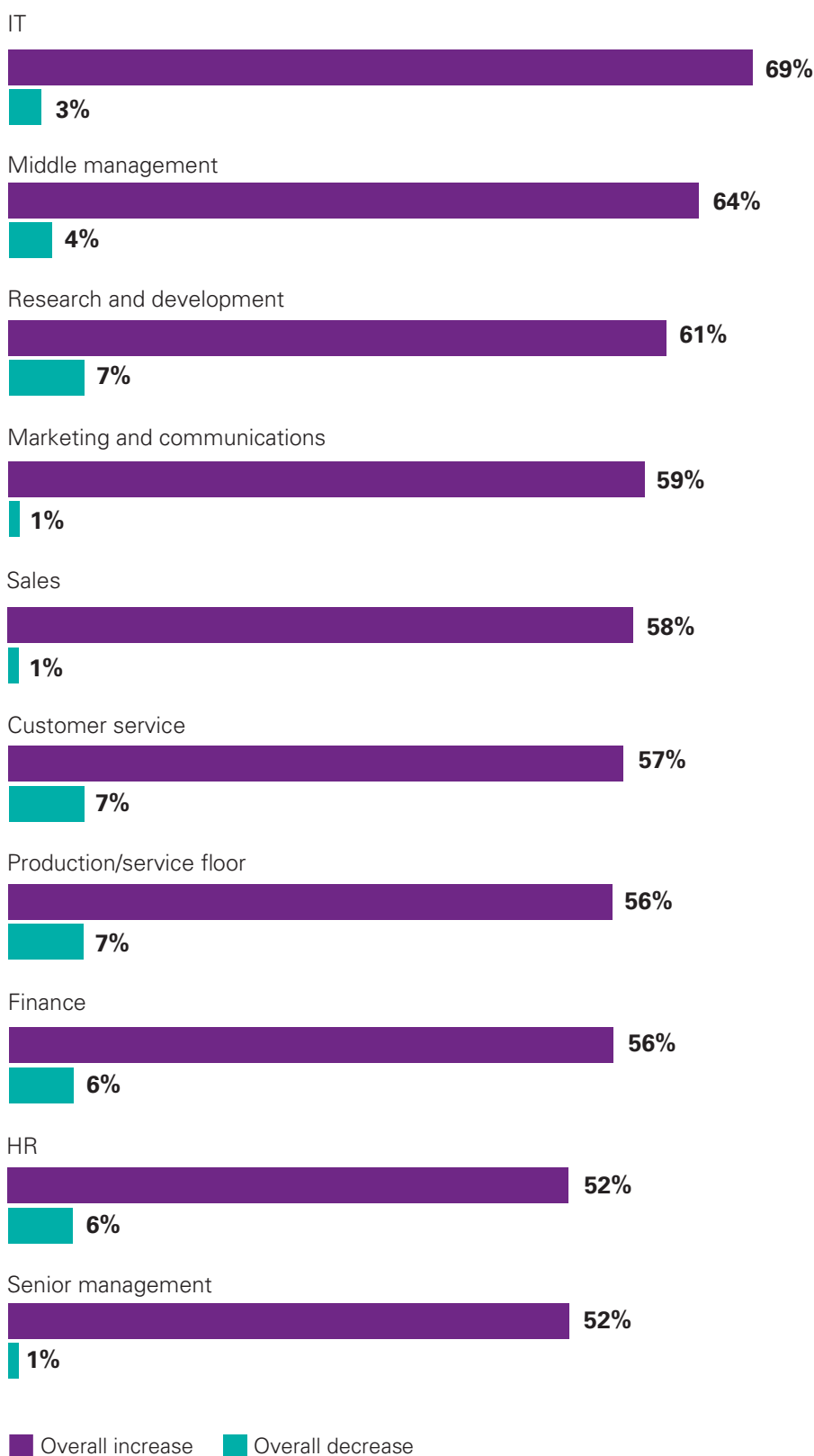
KPMG’s Heneghan warns, however, that the rise in headcount will not be permanent. “At the moment, businesses are using digital labor primarily to improve the experience for their clients,” she explains. “The biggest driver is oftentimes not cost reduction and, until it is, we won’t see them making big changes to their workforce strategy. That will take more time.”

Another factor to be resolved, before businesses use cognitive technologies to reduce employee numbers, is one of trust. “If you’re relying on software to make the decisions for you, at what point can you trust that those decisions are going to be the right ones?” asks Heneghan. “You only build that over time.”

4. Customers and the market: Balancing intuition with hard numbers

CEOs want to increase penetration in their core markets. They also want to disrupt those markets. Meeting these

Chart 12: How cognitive technology will affect headcount in the next 3 years



Source: 2017 Global CEO Outlook, KPMG International



“

My vision is to make DBS invisible. We should be able to hide the banking service in something else that the customer really wants to do with their life, and it should be just completely seamless.”

Piyush GuptaCEO
DBS Group

ambitions relies in large part on their ability to manage their relationships with the market, understand what their customers are looking for and protect their brand. As seven in 10 respondents tell us, CEOs feel a growing responsibility to protect the best interests of their customers.

For **Catz**, Oracle's success relies on their understanding of what their customers need. "You have to understand," she says, "especially with a product like ours that you can't physically see, that the only way to measure the success of our company is by understanding the success of our customers."

Gupta at DBS also supports the view that businesses should strive to help people achieve their own goals, be they professional or personal. "I sometimes like to say that my vision for DBS is to make DBS invisible," he says. "What that means is that we should be able to

hide the banking service in something else that the customer really wants to do with their life, and it should be just completely seamless."

In this year's research, CEOs have showcased their understanding of customers needs and desires on a highly intuitive level. More than six in 10 (64 percent) say they are effective at sensing market signals.

The ability to understand what customers value is critical to improving their experience of the company's services and products, which plays a key role in protecting brand reputation at a time of heightened reputational risk. Accordingly, we see businesses implementing changes to improve the experience they provide to customers: 55 percent, for example, tell us they have aligned their middle-and back-office processes to reflect a

more customer-centric approach to front-office operations.

"We've got 23 million customers and their preferences are changing," says **Porter** of Scotiabank. "They want their banks, and any of their financial providers, to be more relevant to them. We're spending a lot of time enhancing the customer experience, making it easier for them to do business with us, reducing friction times, getting rid of clunky processes."

The power of data

For many, enduring success with customers — and the ability to introduce successful new services and products — relies on an ability to balance human understanding with a mature capability in data and analytics. But it appears there is still some way to go. Almost half of CEOs (45 percent) say their customer insight is hindered by a lack of quality data.

And 56 percent express concern about the integrity of the data upon which they base decisions.

“I doubt we will ever get to a point where all decisions can be 100 percent data-driven,” says KPMG’s Goodburn. “The instinctive nature, the experiences that top executives have — which you can then layer with the insights you get out of your data — is critically important.”

Yet some businesses are making strong progress in generating new value out of data, particularly in how it can support R&D activity. At **Tata Motors Limited** in India, **CEO and Managing Director Guenter Butschek** says his company is “harnessing the power of advanced analytics to get ahead of customer trends, by using the insights and feeding them directly into our product development. We see AI as a business opportunity to redesign the operations and create unique customer experiences.”

Nonetheless, it is clear that without greater confidence in data, many other CEOs will find it harder to provide innovative products and services that are truly game-changing. “Previously, we’ve relied heavily on historic data,” says KPMG’s Goodburn. “Data has become much more near-term and can be predicted more easily. Now it’s not about how much data you have, it’s how predictive that data can be. What are the interests, trends and desires of our customers in the near term or further afield?”

5. Talent and recruitment: Lean and specialized

We see the balance between CEOs’ two principal goals this year — driving disruption and harnessing uncertainty — playing out clearly in their approach to talent.

In anticipation of potential economic or political challenges ahead, as well as new opportunities for growth, CEOs predict they will grow their headcount

over the next 3 years. But they are more restrained in their expectations than they were last year. In 2016, 73 percent expected their number of employees to increase by more than 6 percent in the near future; this year, 47 percent expect headcount growth on this scale.

The majority of CEOs are, however, planning to boost their investment in recruitment in the near future. In the past 12 months, 52 percent say they have increased spending on recruitment. Over the next 3 years, the proportion who are increasing investment in recruitment rises to 75 percent. This suggests that businesses are increasingly looking to hire more specialized talent in the years ahead — such as the cognitive technology experts mentioned above or, as noted in Section 2, those with greater insight into geopolitical issues. This supports a view that highly skilled talent will be key to businesses successfully disrupting their markets.

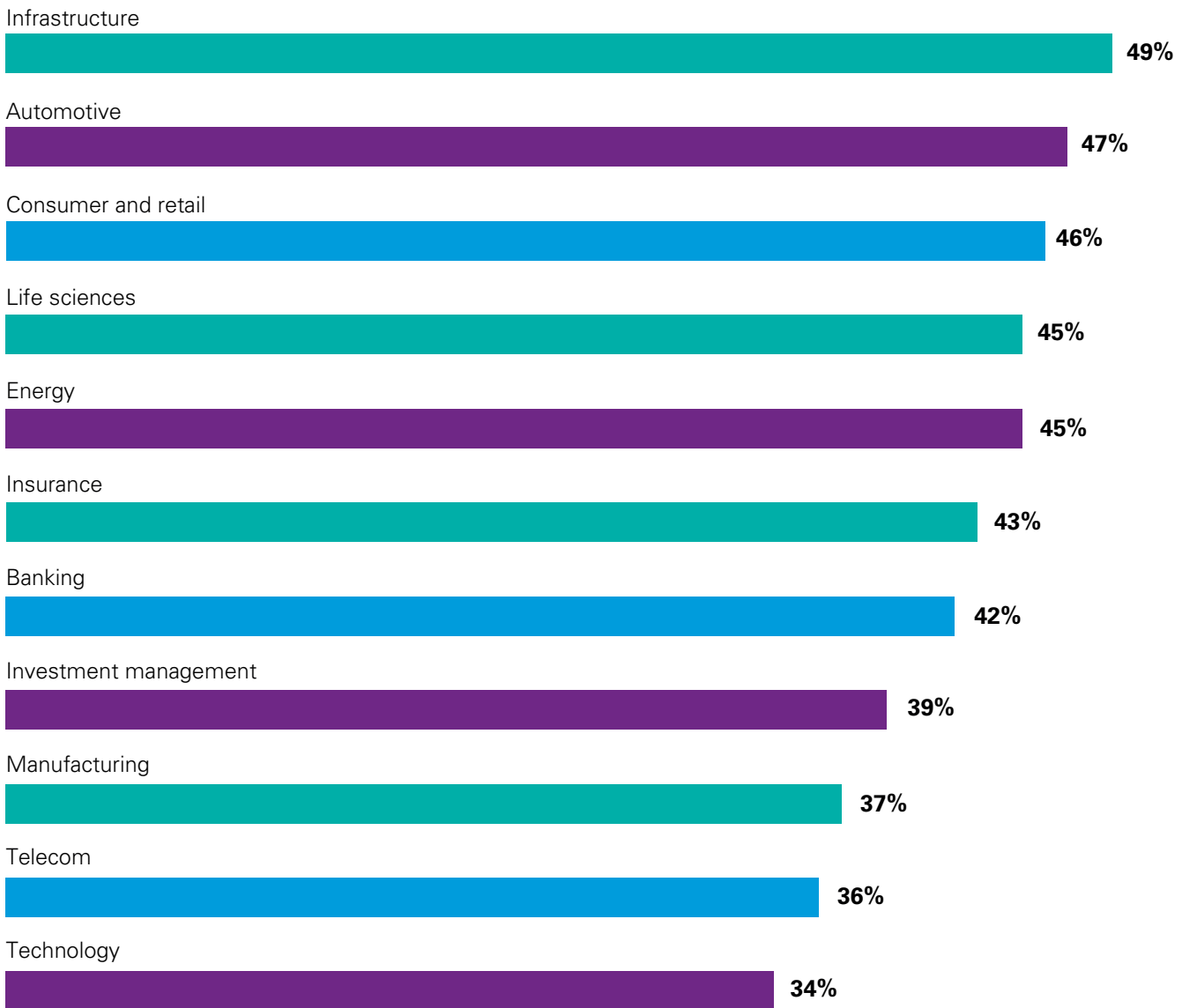
“

We're harnessing the power of advanced analytics to get ahead of customer trends. We see AI as a business opportunity to redesign operations and create unique customer experiences.”

Guenter Butschek
CEO and Managing Director
Tata Motors Limited



Chart 13: Industries that say they are fully prepared for a cyber event



Source: 2017 Global CEO Outlook, KPMG International

“Businesses are struggling to find people with data skills who can address analytics challenges around how they deal with customers,” says KPMG’s Heneghan. “Organizations are also struggling to find enterprise architects. You need people who can help you develop a strategy across your business that can enable it to use technology to disrupt.”

While the conventional wisdom remains that increased automation, robotics and AI will ultimately

dampen the demand for labor, CEOs appear to believe this major shift may be a few years away.

6. Cyber: An ever-evolving threat

Cyber continues to be a major concern for CEOs, although it has dropped to rank as the fifth most significant risk from first place in last year’s survey. The 2017 survey shows that CEOs believe their business is making progress in their management of the

threat, which may help explain why it is not the number-one risk overall this year. Today, four in 10 (42 percent) feel adequately prepared for a cyber event — up from 25 percent in 2016.

While CEOs believe they are making progress, due to the controls and systems they have put in place, the need for vigilance remains high. As Akhilesh Tuteja, Co-leader of Global Cyber Security at KPMG, says, “CEOs tend to have a better understanding of cyber risk than ever before, but many

“

Two things keep me awake at night: cyber-crime and geopolitical issues. You need to be fast-paced and agile or you're toast.”

Mark Wilson

Group CEO
Aviva PLC



still don't 'own' cyber to the extent they need to properly manage the risk.

"The response of many companies is disproportionately towards trying to prevent an attack rather than responding quickly to control the damage afterwards," Tuteja explains. "Clearly, CEOs are taking note of cyber risks and many of them are taking charge to address these personally. However, some may have a false sense of security, as they know they have made significant investments to build capability or have personally gotten closer to cyber security discussions. When you have personally done something about a risk, you inevitably feel more confident about it than if you have just been told that it has been done."

Some businesses are clearly engaging their senior leaders in the demands of managing a live situation. "We're working on realistic simulations," says Scotiabank's **Porter**. "What happens if we do have some form of attack?

How does management act? What's management's role? What's the board's role? Those are the different type of scenarios that we're working on."

The demands of cyber security management are growing for CEOs. In the survey, 72 percent say they are comfortable with the extent to which mitigating cyber risk is part of their role. Last year, it was 83 percent.

"Two things keep me awake at night," says **Wilson** of Aviva, "cyber-crime and geopolitical issues. You need to be fast-paced and agile or you're toast."

The industry view

There is a great deal of variation in the kind of harm that cyber criminals can cause by sector. While healthcare businesses are at risk due to the sensitive customer data they hold, automotive and infrastructure organizations, for example, are at risk from criminals corrupting automated cars and online control systems and thereby causing physical harm to the

public. Financial institutions, meanwhile, are a lucrative target for cyber criminals.

"Banking and capital markets face the greatest risk because cyber criminals can use fake identities to steal money and create destruction in the financial services ecosystem," says KPMG's Tuteja. "At the same time, if you think how important the smartphone has become to consumers and businesses, then telecommunications companies are at great risk due to the many attacks that people could carry out on their consumer and business clients."

Considering Tuteja's comments, it may be surprising that banking and telecom — as key industries at risk — feel that they are not more prepared for a cyber incident, compared to other industries. The flipside may be, however, that they are much more aware of the growing sophistication of hackers, and have a better understanding of how difficult it is to achieve resilience.

Cyber innovation

Reflecting sentiments in last year's report, we find a significant proportion of CEOs (71 percent) who see their investment in cyber as an opportunity to find new revenue streams and innovate, rather than as an overhead cost. For example, some businesses have created value by investing in technology that sends an alert to the customer if there is an unusual login, such as in a different country. This means that the customer knows if someone is pretending to be them, which gives these businesses a good opportunity to delight their customers.

7. Beyond the short term: Building trust inside and out

In recent years, and particularly since the global financial crisis, public opinion has been highly critical of big business. Many CEOs believe that there will be little improvement in this sentiment in the near future. Just one in three respondents to the survey (35 percent) expect public trust in business to get better in the next 3 years.

Negative public opinion can have a direct impact on business, as KPMG's McCormick explains. "In some countries, the interest from civil society in the question of who is paying their 'fair share' of tax has resulted in tax behaviors being seen as an indicator of wider corporate culture, impacting reputational risk and public trust," she says.

Partly for this reason, and in recognition of the growing importance of brand and reputation to business success, 61 percent of CEOs say building greater trust among external stakeholders and customers is a top three priority for their organization today.

"It is clear that the banking sector suffered significant damage to its reputation during the financial crisis and still has work to do to regain the trust it has lost," says Santander Group's **Álvarez**. "We recognize that earning the trust of customers and the society is something we have to work at every day. That is why we focus on making our services and products simple, personal and fair. If we do that well and consistently, we believe that we can earn the trust of customers."

Trust and corporate culture

However, building integrity and improving perceptions of an organization is far from easy, and is unlikely to be achieved in the short term. Indeed, organizations that seem overly keen to demonstrate their principles, through expensive marketing campaigns, may find their efforts met with cynicism from critics who delight in accusing big business of 'greenwashing' and other tactics.

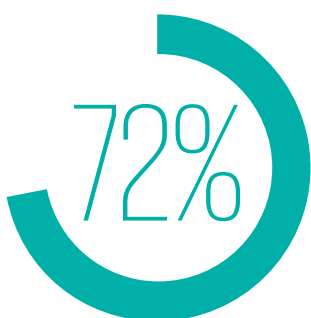
With this in mind, we believe it is critical to have a long-term focus on building a respectful and transparent culture within the organization. This view appears to be shared by CEOs in the survey, three in four of whom (74 percent) say they are placing greater importance on trust,

values and culture in order to sustain their future. Six in 10 (61 percent) believe that becoming more socially responsible is incompatible with short-term performance objectives.

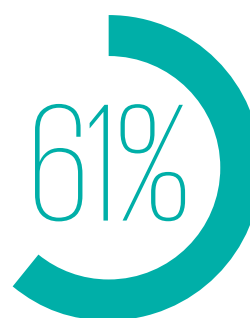
"We always try to get an inclusive engagement between us and our staff so they understand us," says **Dangote**. "We ensure they understand the culture. The main thing for any CEO to do is to make sure that there's ownership. First of all, you must be committed. Don't take it as something that you're just doing to earn a salary. That can bring a major change in any business that you operate."

Kering's **Pinault** agrees on the importance of a values-based culture. "An inclusive culture is vitally important in our industry," he says, "to bring the diversity of thought we need to innovate and grow our business."

More than seven in 10 CEOs in this year's survey (72 percent) correlate being a more empathetic organization with higher earnings. Companies today are increasingly realizing that building trust is consistent with their business objectives.



More than seven in 10 CEOs in this year's survey (72 percent) correlate being a more empathetic organization with higher earnings.



of CEOs say building greater trust among external stakeholders and customers is a top three priority for their organization today.

Conclusions

Innovation alongside uncertainty

In a world that has changed radically in a short space of time, CEOs are slightly less confident about the future than they were last year — but the majority remain optimistic for the global economy overall and particularly for their own business' potential. Most notably, their ambitions for innovation — for disrupting their businesses and the market — are as strong as ever. This paints an optimistic picture of the resilience and resourcefulness of today's leading businesses, and the CEOs leading them.

Strengthening the core

CEOs recognize the value of disruption — for themselves, their businesses and the market — but they are far from reckless. Expecting fresh uncertainty ahead, many are balancing innovation with a focus on core resilience. They are disrupting their existing markets and making their underlying businesses stronger until moving into new markets becomes a less risky prospect.

Smart technology still needs smart people

Businesses are confident in their ability to use innovation to their business' advantage. For many however, a core challenge will be ensuring they can draw on enough suitably talented technology experts to adopt, deploy and deliver results from new technologies.

While these new technologies might reshape the labor force in the longer term, we are hearing clearly from CEOs that in the near term they still expect headcounts to rise, and that they are struggling to find enough suitably skilled staff to implement the technology already available to transform their business. For this reason, and perhaps counterintuitively, CEOs expect cognitive technologies in the short term to lead to an increase, rather than a decrease, in headcount.

The personal challenge

As they consider the economic, technological and geopolitical challenges of the future, CEOs are rethinking their own skills

and personal qualities. This is encouraging in a commercial landscape that is evolving fast. And yet the bigger test for CEOs is how they apply these enhanced talents to the business and put their new technical and soft skills to optimum use.

Reputation matters

Reputation risk is one of the biggest threats faced by organizations — primarily due to the transparency created by the digital world. By building cultures based on respect and clear ethical values and planning for a more sustainable future, organizations can demonstrate integrity and help ensure their business' long-term success.

At a time of growing uncertainty, the role of the CEO will not become any easier or any less complicated. Yet the survey shows that CEOs around the world have accepted the challenge and are leading their businesses with determination, passion and an inspirational openness to new ideas.

Methodology and acknowledgments

The survey data published in this report is based on a survey of 1,261 chief executive officers (CEOs) from Australia, China, France, Germany, India, Italy, Japan, Spain, the UK and the US. The survey was conducted between 21 February and 11 April 2017.

These CEOs operate in 11 key industries: automotive, banking, infrastructure, insurance, investment management, life sciences, manufacturing, retail/consumer markets, technology, energy/utilities and telecom.

Three hundred and twelve CEOs came from companies with revenues between US\$500 million and US\$999 million; 527 from companies with revenues from US\$1 billion to US\$9.9 billion; and 422 from companies

with revenues of US\$10 billion or more. 1,105 CEOs came from public companies and 156 from private companies.

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