

KPMG AUSTRALIA CEO OUTLOOK

2021

Plugged-in, people-first, purpose-led





BILL THOMAS
Global Chairman and CEO
KPMG

FOREWORD

Optimism is back in the boardroom.

It's been roughly 18 months since the World Health Organisation declared a global pandemic, and KPMG returns with its annual CEO survey to gauge how leadership strategies and concerns have shifted during these demanding times. And if one word could summarise our report, it's optimism – a remarkable and reassuring shift.

CEOs are incredibly confident in the growth prospects of their company and the global economy in general. Leaders expect aggressive growth and are looking to expand their business and organisations in any way that they can. They are hiring, exploring tie-ups and feel a strong connection to their organisation's purpose.

AND IF ONE WORD COULD SUMMARISE OUR REPORT, IT'S OPTIMISM – A REMARKABLE AND REASSURING SHIFT.

Concerns about operational matters, like supply chain resilience, cyber security and regulatory matters, have climbed back to the top of their priorities. Although the pandemic is still influencing some of these issues, leadership is able to concentrate on important housekeeping items alongside their aggressive growth strategies.

A major lesson from the pandemic has been that we all need to work together to solve big problems, and importantly, ESG is front and center in most business plans. Our results show that corporates are ready to work closely with government to make good on their ESG commitments and are prepared to be held accountable for delivering on them. It's an encouraging sign, and one I am particularly pleased to see.

We may not be back to business as usual just yet – especially with the threat of new variants and what that may mean for growth. But like the many CEOs we interviewed, I share their optimism, and I would like to thank them for taking the time to participate in our survey.

The opportunity to build a stronger, more sustainable future exists only if we work together, for better. Thank you and please stay safe.



ANDREW YATES
CEO
KPMG Australia

FOREWORD

KPMG's annual survey of over 1,300 CEOs across 11 markets – including 50 from Australia – gives real insight into the current issues facing, and the mindset of, business leaders.

Firstly, it is encouraging to see that confidence is largely back to where it was 18 months ago, pre-pandemic. Over 80 per cent of Australian CEOs are expressing confidence in growth prospects for their company, sector and country in the next three years.

It is notable that in terms of growth strategies, these were mostly inorganic – 76 per cent of Australian CEOs said joint ventures, M&A deals or strategic alliances were the paths to growth – so deals rather than organic growth may be the way forward in the short-medium term.

But the real story of the survey is about ESG and corporate purpose, which have climbed up the corporate agenda during the pandemic. Purpose is increasingly used by most CEOs as the guiding framework for key business decisions, such as capital allocation, in the COVID-19 era, particularly in Australia.

Purpose is also a key part of Australian businesses' appeal to their workforces – 86 per cent of CEOs here said that purpose was a key part of their 'employee value proposition'. A majority of leaders said their main objective was to embed their purpose into everything they do in order to create long-term value for all stakeholders.

As for ESG, the issue of the moment, 70 per cent of Australian CEOs said they were experiencing increasing demand for ESG reporting and transparency, mostly from investors and regulators.

Against this backdrop, over a third of CEOs admitted they were 'struggling to articulate a compelling ESG story' to their stakeholders.

There are also risks to growth in the next three years. Australian CEOs expressed concern about cyber threats, regulation and supply chain resilience. There were concerns that tax regulation could become onerous as governments seek to repay huge COVID-19 era deficits, while a majority said the biggest impact of the Covid-19 era in three years' time would have been on supply chains.

Climate was also top of mind, with 84 per cent of Australian CEOs saying the November UN Climate Change Conference (COP26) meeting must inject necessary urgency into the climate debate. A similar number (77 per cent) of leaders both here and overseas believe government stimulus is needed to turbo-charge business climate change investments.

Governments and regulators will need to tread a fine line in balancing debt repayment with not overburdening businesses and hampering economic recovery.

Overall, the survey indicates there is a lot to be optimistic about as we emerge from the shadow of COVID-19.

I hope the report gives you insights and KPMG will be pleased to discuss any of the issues raised here.



CON TENTS

The KPMG CEO Outlook series offers a unique lens on the ongoing implications of the COVID-19 pandemic and the prospects for economic recovery. Across the trajectory of the pandemic, we've connected regularly with the world's business leaders, reporting on some of the insights through our pulse surveys in July/August 2020 and January/February 2021. The 2021 CEO Outlook, our major annual survey, draws on the perspectives for the future of 1,325 CEOs across 11 major markets.

Key developments are focused on how today's connected CEOs are plugged-in, people-first and purpose-led to grow their organisations and emerge stronger:



CEOs are optimistic, confident and expect aggressive growth through acquisitions and other inorganic methods. They continue to put an emphasis on leading with purpose and a focus on digitally transforming their organisations while upskilling an agile workforce in the new world of work.



With increased stakeholder pressure to build back better, global organisations are supercharged to increase investment into environmental, social and governance (ESG) priorities and stay true to their purpose.



With people returning to places of work, and society increasingly looking for business to lead a return to normal, CEOs are shying away from making wholesale changes to the future of work – but they recognise employee demand for continued flexibility.

Overall, three key themes emerged from this year's survey.

KEY GLOBAL FINDINGS

1

THE ROAD TO RENEWAL

Despite continued uncertainty and risk volatility, CEOs are confident and optimistic about growth, felt a strong connection to their purpose and are looking to drive expansion.

Rebounding growth

60% of CEOs are confident about growth prospects for the global economy (up from 42 per cent in March of this year). Overall, CEO confidence has returned to pre-pandemic levels of early 2020, despite the Delta variant slowing down the return to normal.

Leading with purpose

64% As the public looks to leaders to drive progress on major societal challenges, 64 per cent say that their organisation's defining objective is to embed purpose into everything they do – creating long-term value for all stakeholders (up from 54 per cent in February/March 2020).

Accelerating growth and the digital agenda

87% With 87 per cent of CEOs confident in their own company's growth prospects, M&A appears to be critical to powering this growth and acquiring digital capability – 87 per cent say that they are looking to make deals in the next three years.

2

TRUSTED PURPOSE

With increased stakeholder pressure to build business back better, CEOs are embedding ESG into business strategy.

Putting people first to drive societal return

71% said that CEOs will be increasingly held personally responsible for driving progress in addressing social issues. And 56 per cent admitted that with public, investor and government expectations of diversity, equity and inclusion rising so fast, they may struggle to meet expectations.

Collaborating to power sustainability

30% Making progress on climate change will likely require action from both businesses and government, with 30 per cent of CEOs planning to invest more than 10 per cent of their revenues in becoming more sustainable, and 75 per cent saying that world leaders at COP26 need to inject urgency into the climate agenda.

Connecting ESG strategy with financial returns

52% While 52 per cent of CEOs at high-growth organisations believe that their ESG programs improve financial performance, this drops to 37 per cent across all CEOs.

3

DIGITAL AGILITY

Digital agility: CEOs are strengthening their organisation's digital advantage by building a more flexible future of work and operating as part of digital ecosystems.

Building a flexible future of work

37% CEOs need to decide on an operating model for the future that works for both employers and employees, with only 37 per cent saying that they will have most employees working remotely at least two or more days a week, but 51 per cent investing in shared office spaces.

Disrupting the disruptors

67% CEOs are looking to get on the front foot when it comes to disruption and innovation, with 67 per cent saying they will increase investment in disruption detection and innovation processes.

Partnering for transformation and resilience

70% of CEOs say that new partnerships will be critical to continuing the pace of digital transformation, but they are also mindful of building cyber resilience into their approach.



“As we have talked about our purpose, and galvanised around it, that has raised our ambition level. It’s made us more growth oriented. It’s helped us innovate even faster.”

PENNY PENNINGTON

Managing Partner,
Edward Jones

ROAD TO RENEWAL

The pandemic was a test of leadership for CEOs: the true leaders protected the health and well-being of their employees, made big decisions amid uncertainty and adapted their leadership approach in a virtual environment. Today, CEOs are facing new challenges as their organisations manage the ongoing impact of the pandemic. They're balancing the potential to drive growth and transform their business with uncertainty around the potential of an uneven global recovery and the impacts of new virus variants and vaccine inequality.

CONNECTED CEOs RECOGNISE THAT THE PREREQUISITE FOR SUCCEEDING IN A RAPIDLY EVOLVING LANDSCAPE IS BEING PLUGGED IN.

This means building a digital core, connecting back-, middle- and front-office functions to focus on the customer. It means making sure the business model is relevant – deciding which businesses to divest or add, and reallocating capital expenditure to new digital growth opportunities. It means being resilient to cyber risk while also pursuing bold digital innovations. At the same time, CEOs need to have a people-first mindset – not only investing in new technologies, but also human capability.

Finally, CEOs need to be purpose-led – winning the trust of stakeholders and helping build a more prosperous, equitable and sustainable world. Purpose-led CEOs follow through and deliver on previous commitments and statements with bold ESG programs. Sustained growth is about connecting these three priorities.

REBOUNDING GROWTH

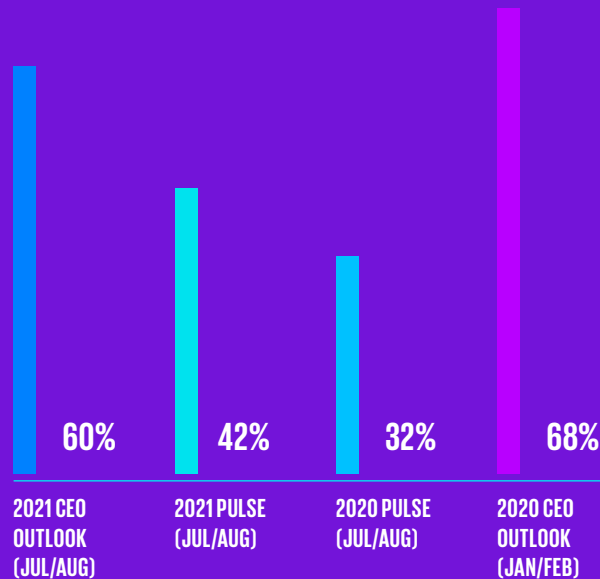
Despite the continued uncertainty of the COVID-19 pandemic, the survey shows that the perspectives and confidence of CEOs have shifted. CEOs are more optimistic about growth: for the first time since January/February 2020, prior to the pandemic, more than half (60 per cent) of global CEOs are confident about the growth prospects of the global economy over the next three years.

Overall, CEO confidence levels have returned to the levels of early 2020, despite the Delta variant slowing down the return to normal. But to deliver this growth, organisations will need to make sure they have the right talent with the right skills to bring their growth plans to life. The research found that 88 per cent plan to increase headcount over the next three years, with close to one-third (32 per cent) planning increase of more than six per cent. And as Chart 2 shows, CEOs have also narrowed the gap between their digital transformation objectives and investing in a digitally enabled workforce.

While more CEOs are prioritising technology investment when pursuing growth, the 40 per cent who are putting more emphasis on people investments is a notable increase from 33 per cent in 2020.

As CEOs look to drive growth, they also face the significant task of leading companies in a time of great uncertainty, where assumptions and forecasts are subject to constant change. As Chart 3 shows, this means very little is certain and no single risk emerged on top. There is a three-way tie for threats to growth: supply chain, cyber security and climate change. They were very closely followed by disruptive technology, regulatory and operational risk.

CHART 1: DESPITE THE CONTINUED UNCERTAINTY OF THE PANDEMIC, CEOs ARE CONFIDENT ABOUT GROWTH FOR THE GLOBAL ECONOMY



SOURCE: KPMG 2021 CEO OUTLOOK

CHART 2: BUILDING TALENT AN INCREASINGLY IMPORTANT DRIVER OF GROWTH AND PERFORMANCE



SOURCE: KPMG 2021 CEO OUTLOOK

CHART 3: CHANGING THREATS TO GROWTH



*BOTH 2021 SURVEY AND 2020 PULSE SURVEY WERE CONDUCTED IN JULY AND AUGUST.

SOURCE: KPMG 2021 CEO OUTLOOK AND KPMG 2020 CEO OUTLOOK COVID-19 SPECIAL EDITION

A SECTOR VIEW ON RISK

Differentiating between the top three risks comes down to a sector-specific lens, where a clearer picture emerges about their top challenge to growth:

Supply chain

28%

Over a quarter of retail/consumer segment CEOs (28 per cent) are focused on supply chain risk, as are manufacturing (25 per cent) and automotive (26 per cent).

Climate change

37%

Energy CEOs (37 per cent) and infrastructure (19 per cent) are focused on climate change.

Cyber security

31%

Technology sector CEOs (31 per cent), telecoms (32 per cent) and banking (17 per cent) are focused on cyber security.

What also distinguishes individual risks is how they have moved up on the agenda since 2020 – and two have seen marked rises:

Supply chain risk

10%

(saw a rise of 10 per centage points from 2020): In the research, 78 per cent of CEOs lead businesses that operate a supply chain, with 56 per cent of that group saying their supply chain has been under increasing stress over the past 18 months.

Tax risk

8%

(saw a rise of eight percentage points from 2020): Three out of four (75 per cent) CEOs believe that the pressure put on public finances by the pandemic response has increased the urgency for multilateral cooperation on the global tax system. At the same time, 77 per cent agree that the proposed global minimum tax regime is of significant concern to their organisation's goals on growth. Meanwhile, they're more worried about regulatory and tax risks than they were prior to the pandemic. The survey also found that 74 per cent of CEOs recognise the strong link between the public's trust in their businesses and how their tax approach aligns with their organisational values. As businesses aim to build back better, a majority (69 per cent) of CEOs are feeling increased pressure to report their tax contributions publicly as part of their broader ESG commitments.

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CHART 4: MAJORITY OF RESPONDENTS SAY PURPOSE IS THE DEFINING BUSINESS OBJECTIVE FOR MAJORITY OF CEOs



SOURCE: KPMG 2021 CEO OUTLOOK

LEADING WITH PURPOSE

The convergence of issues ranging from climate change to social tensions has not just created widespread uncertainty: it has called into question the role that institutions play in the world today. In this context, stakeholder expectations of businesses have risen, and the actions of organisations and their leaders are under increasing scrutiny. Today, CEOs aim to deliver the shareholder returns investors expect and help build a better future for society.

Corporate purpose is key to meeting those goals. Now, more than ever, people care about what the companies they buy from stand for. Purpose is connected to a company's role in society, its impact on the environment, how it sustains long-term value and how it operates within its community. It answers the question: "Why is our company in business – and how will it stay relevant?"

CEOs recognise the importance of purpose. For example, the research found that 87 per cent said that purpose is central to building their brand reputation. As Chart 4 shows, this reflects the transition of business to multi-stakeholder capitalism, with nearly two-thirds (64 per cent) saying purpose is the defining objective of their business and only 13 per cent focused on managing shareholder value.

CEOs are also focused on driving hard value from purpose and embedding it in their business and operating models to drive tangible value and growth. We found that 89 per cent of CEOs said that purpose plays an important role in driving financial performance.

THE RESEARCH SHOWS THAT CEOs ARE EMBRACING THIS DUAL CHALLENGE:

68% say that "as confidence and trust in governments decline, the public is looking to businesses to fill the void on societal challenges, such as gender inequality or climate change"

74% recognise "large corporations have the resources – both financial and people – to help governments find solutions to pressing global challenges"

WHY IS OUR COMPANY IN BUSINESS — AND HOW WILL IT STAY RELEVANT?



ACCELERATING GROWTH AND THE DIGITAL AGENDA

Optimism is high, with 87 per cent of CEOs confident in their own company's growth prospects, and inorganic strategies will be key to achieving this ambition.

As CEOs look to react quickly to how markets have changed during the pandemic – particularly digital-driven changes in consumer preferences – M&A will likely be key to quickly building new capabilities and capitalising on growth opportunities. Overall, 87 per cent of CEOs say they're looking to make deals in the next three years. Among that number, 50 per cent characterise their M&A appetite as 'high', with CEOs likely to undertake acquisitions that will have a significant impact on their organisation.

XXXXXX

69%

say they will primarily use inorganic tactics, including strategic alliances with third parties (the focus for 29 per cent), M&A (24 per cent), joint ventures (11 per cent) and outsourcing (6 per cent).

XXXXXX

31%

31 per cent make organic growth — such as innovation and R&D — their most important route to growth.

M&A WILL LIKELY BE PARTICULARLY IMPORTANT FOR DRIVING DIGITAL INNOVATION AND ACQUIRING TECHNOLOGY CAPABILITIES.

The acceleration in digital technologies we've seen during the pandemic has meant that markets now operate more quickly. There has been a reset in the velocity of business, in areas such as customer behaviors, and CEOs need to ensure their companies are plugged in to this new dynamic and leading the pack.

CEOs ARE SHIFTING TOWARD A CLOUD-FIRST MINDSET, WITH HALF SAYING THAT THEY INTEND TO PARTNER WITH A THIRD-PARTY CLOUD TECHNOLOGY PARTNER IN THE NEXT THREE YEARS IN PURSUIT OF THEIR GROWTH OBJECTIVES.

Overall

87%


of CEOs say they're looking to make deals in the next 3 years. Among that number, 50 per cent characterise their M&A appetite as 'high', with CEOs likely to undertake acquisitions that will have a significant impact on their organisation.

The research shows that CEOs are embracing the need to push the boundaries of their business:

- 75 per cent say "we have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status"
- 78 per cent say "we need to be quicker to shift investment to digital opportunities and divest businesses that face digital obsolescence"

Frank Sloatman, Chairman and CEO, Snowflake Inc. — a data cloud company — believes that getting on the front foot is critical, as there's a tendency for businesses to still put their faith in 'business as usual' even when digital is transforming markets around them. "What a lot of CEOs are experiencing is a need for this profound transformation as a result of all things going digital," he says.

"With the move to digital-to-consumer, enterprises that have no choice but to now approach the market digitally have to learn a whole bunch of new tricks. But everybody is sitting on their heels a little bit — sitting in that business-as-usual mode to try to anecdotally observe the world. But what they really need is a profound grasp on two areas: A, what's happening? B, what are we going to do specifically to navigate these thresholds?"



“Environmental and social sustainability is the starting point and the premise of our growth.”

HIRONORI KAMEZAWA

President & Group CEO,
Mitsubishi UFJ Financial Group

Today, corporate purpose is a business imperative. Key stakeholders – from customers to institutional investors – expect companies to have a positive impact on a range of areas, from driving diversity to helping protect the planet.

But a common challenge with purpose is how CEOs can turn it from a statement of intent to real actions by executing on their high-level commitments. Focusing on a bold ESG program can help identify key opportunities and challenges and allow CEOs to demonstrate how they can deliver on their purpose.

PUTTING PEOPLE FIRST TO DRIVE SOCIETAL RETURN

Over the past 18 months, the world has not only got faster as digital acceleration took hold, it has also become more divisive and fractious. In major economies, social tensions are on the rise, with a focus on addressing inequality. CEOs are cognisant of this public mood and the research shows they embrace the role that companies can play in driving total shareholder return and total societal return.

For Edward Jones Managing Partner Penny Pennington,

TACKLING SOCIAL ISSUES CAN SOMETIMES MEAN BEING WILLING TO HAVE DIFFICULT AND CHALLENGING CONVERSATIONS.

“Take the five-point commitment to address racism and positively impact opportunities for people of color that we launched in 2020,” she explains.

“We conducted a pay-equity study; we have committed to unconscious bias training and anti-racism training; and we have made investments in organisations like the Urban League in St. Louis, which is making a huge difference in providing opportunity and reducing inequity in our own community. And importantly, we promised to give everyone a voice. Now, that’s a pretty big promise, right? But we committed to a series of courageous conversations, and over 12,000 of us have participated in online meetings where we have what are sometimes very uncomfortable conversations about race, our experiences and how we were brought up.”

TRUSTED PURPOSE

ESG Focus

81%

Today, we see a major focus on the S in ESG, with 81 per cent of CEOs saying, “Our response to the pandemic has caused our focus to shift toward the social component of our ESG program.”

71%

But the research also found a profound tension between the accountability that CEOs feel they have for driving progress on the social dimension of ESG and their ability to meet expectations in the critical area of diversity. On the one hand, 71 per cent of CEOs said they will be increasingly held personally responsible for driving progress in addressing social issues. But on the other hand, over half (56 per cent) admitted that with public, investor and government expectations of diversity, equity and inclusion (DEI) rising so fast, they may struggle to meet expectations.

IN ADDITION, 46 PER CENT OF CEOS NOTED THE GLOBAL PANDEMIC'S NEGATIVE IMPACT ON WOMEN IN THE WORKPLACE HAS MADE IT DIFFICULT TO ACHIEVE THEIR GENDER PARITY GOALS AT A LEADERSHIP LEVEL.

DRIVING PROGRESS ON DEI WITHIN ORGANISATIONS WILL LIKELY REQUIRE ACTION IN TWO AREAS.

FIRST, CEOS WILL NEED TO ACTIVELY LISTEN TO EMPLOYEES TO UNDERSTAND WHAT ASPECTS OF DEI ARE IMPORTANT TO THEM.

SECONDLY, THEY WILL THEN NEED TO SET CLEAR AND MEASURABLE TARGETS TO ACHIEVE PROGRESS AGAINST THOSE PRIORITIES.

CEOS ALSO STRESS THAT PROGRESS ON SUSTAINABILITY AND CLIMATE CHANGE REQUIRES EQUALLY STRONG GOVERNMENT COMMITMENT:

77%

say government stimulus is required to turbocharge climate investments being made by the business community.

75%

say “world leaders at COP26 must inject the necessary urgency in the climate change agenda.”

COLLABORATING TO POWER SUSTAINABILITY

Action to limit climate change and reduce carbon emissions in the race to net zero has never been more important. The latest analysis from the UN’s Intergovernmental Panel on Climate Change (IPCC) – released in August 2021 – amounted to a “code red for humanity”, predicting that global warming will hit 1.5°C by 2040.

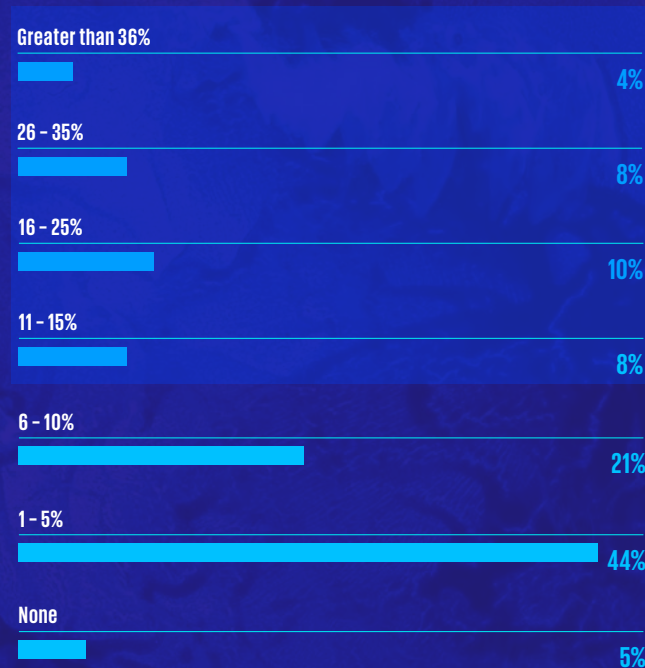
Making progress on addressing sustainability issues, including climate change and the decarbonisation of the economy, will require strong collaboration between business and government. As Chart 5 shows, CEOs are looking to devote significant capital to becoming more sustainable, with 30 per cent planning to invest more than 10 per cent of revenues in their efforts.

CONNECTING ESG STRATEGY WITH FINANCIAL RETURNS

The public is demanding more ambitious ESG goals – but have CEOs taken the necessary steps to bring them to life? Today’s connected CEOs are those that can deliver on a trusted purpose by responding to increased societal expectations while driving sustainable business performance through digital innovation. Neither can be done in a vacuum, as three-quarters (75 per cent) of global CEOs say that their digital and ESG investments are inextricably linked. As CEOs plan to devote significant capital to becoming more sustainable, it’s important their digital investments are plugged into their ESG needs.

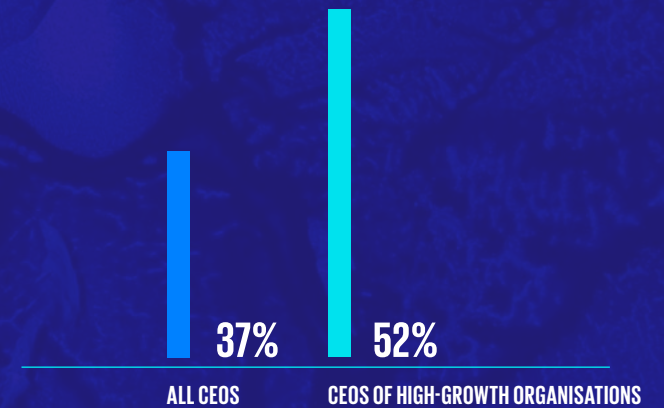
“30% investing more than 10% of revenues in sustainability programs in their companies”.

CHART 5: PERCENTAGE OF REVENUE CEOS LOOK TO INVEST IN SUSTAINABILITY PROGRAMS

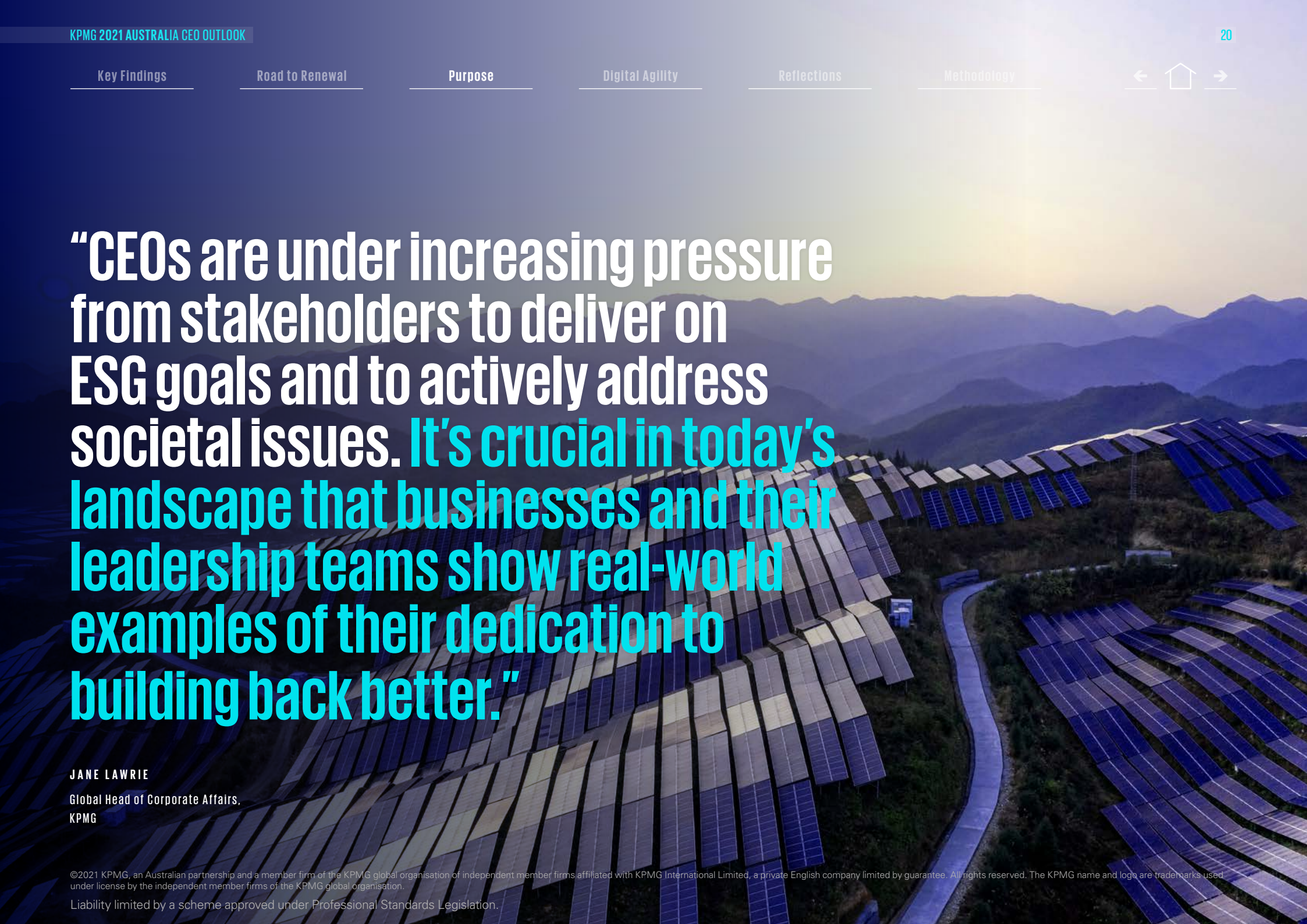


SOURCE: KPMG 2021 CEO OUTLOOK

CHART 6: HIGH-GROWTH COMPANIES MORE LIKELY TO SEE THEIR ESG PROGRAMS DRIVING FINANCIAL VALUE



SOURCE: KPMG 2021 CEO OUTLOOK



“CEOs are under increasing pressure from stakeholders to deliver on ESG goals and to actively address societal issues. It’s crucial in today’s landscape that businesses and their leadership teams show real-world examples of their dedication to building back better.”

JANE LAWRIE

Global Head of Corporate Affairs,
KPMG

But while CEOs believe that social and environmental priorities are key, they're less convinced about making the connection between ESG programs and hard results. As Chart 6 shows, more needs to be done to connect ESG strategy with financial returns.

While 52 per cent of CEOs at high-growth organisations (those who see earnings growth exceeding five per cent per annum over the next three years) believe that their ESG programs will improve financial performance, this drops to 37 per cent across the wider sample of CEOs.

Close to a quarter (24 per cent) of CEOs say ESG programs may reduce financial performance.

CEOS MAY PERCEIVE THEIR CURRENT ESG PROGRAMS TO BE MORE ABOUT COMPLIANCE AND RISK MANAGEMENT AND THAT THERE'S STILL MUCH MORE THAT NEEDS TO BE DONE BEFORE THEY'RE CONVINCED THEIR ESG PROGRAMS ARE RESHAPING THE BUSINESS AND DRIVING NEW GROWTH.

Secondly, CEOs feel their organisations are struggling to report on and communicate ESG performance in a way that matters to key stakeholders, such as investors. When we asked CEOs to identify the one critical challenge that was undermining their ability to communicate ESG performance to key stakeholders,

THE STANDOUT CHALLENGE (SELECTED BY 42 PER CENT OF RESPONDENTS) WAS THAT THEY "STRUGGLE TO TELL A COMPELLING ESG STORY".

Getting this right is critical, as investor scrutiny of companies' ESG performance is intensifying: 58 per cent of CEOs are seeing increased demands from stakeholders – such as investors, regulators and customers – for increased reporting and transparency on ESG issues.

At Mitsubishi UFJ Financial Group, President & Group CEO Hironori Kamezawa makes it very clear that there's a strong link between ESG principles and tangible value, and that ESG factors should drive strategic planning. "Environmental and social sustainability is the starting point and the premise of our growth," he says. "These include response to climate change and environmental protection; response to an aging population and low birthrate; and inclusion and diversity. Reversing the order of our way of thinking was a major factor here. We formulated our new medium-term business plan by taking steps to carefully examine the content of our work while linking it to discussions about environmental and social issues.

"I BELIEVE THAT BY ENSURING BOTH SIDES ARE PROPERLY LINKED, SOLUTIONS TO SOCIAL ISSUES AND CORPORATE STRATEGY WILL BE INTEGRATED. THIS ALIGNS WITH TODAY'S STAKEHOLDER CAPITALISM, LEADING TO A RISE IN STOCK PRICES AS A RESULT OF HIGHER INVESTOR VALUATIONS AS WELL AS THE PROPER EVALUATION OF NON-FINANCIAL INFORMATION."

“We are at a time when digital transformation has probably never been as critical as it is now.”

DEBORAH FLINT

President and CEO,
Greater Toronto Airports Authority

DIGITAL AGILITY

BUILDING A FLEXIBLE FUTURE OF WORK

With people returning to places of work, and governments increasingly looking for business to lead a return to normal, CEOs are focusing more on flexibility rather than wholesale changes to office-based work:

Downsizing and Working Remotely

21%

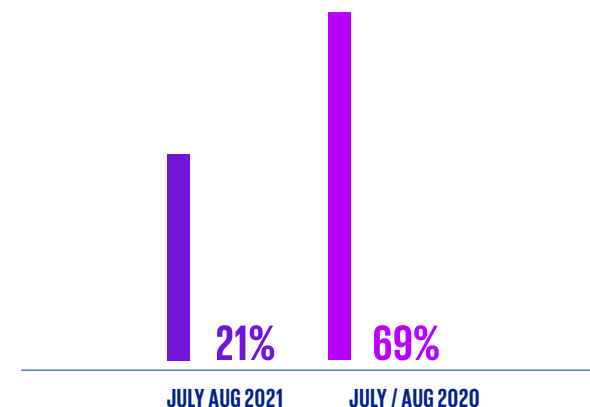
Only 21 per cent of CEOs plan to downsize (or already have downsized) their physical footprint or office space because of the pandemic and changing working habits. This is a steep decline from the 2020 CEO pulse survey (July/August 2020), where 69 per cent were aiming to downsize. In addition, only 37 per cent said that their organisation will have most employees working remotely at least two or more days a week.

Making Flexibility the Priority

51%

However, they're prioritising flexibility. Over half (51 per cent) of CEOs are recognising the demands created by a rapidly evolving future of work and will be looking to invest in shared office spaces to allow for increased flexibility. This is a significant increase from the 14 per cent we saw in the 2021 CEO pulse survey (January/February 2021). As well, 42 per cent indicate they will look to hire talent that works predominantly remotely, seizing the opportunity to expand their reach into a wider pool of talent.

CHART 7: CEOs PLAN TO DOWNSIZE (OR ALREADY HAVE DOWNSIZED) THEIR PHYSICAL FOOTPRINT.



SOURCE: KPMG 2021 CEO OUTLOOK

“THE GLOBAL PANDEMIC HAS CAUSED BUSINESS LEADERS TO RETHINK THEIR OPERATIONS AND THE ROLE THEIR EMPLOYEES PLAY IN THE FUTURE OF THEIR BUSINESS. SMART CEOs ARE ACTIVELY ENGAGING WITH THEIR WORKFORCE AND USING THEIR DATA MORE EFFECTIVELY TO REWRITE THEIR OPERATING MODEL TO POSITION THEIR BUSINESS FOR GROWTH.”

GARY READER

Global Head of Clients and Markets,
KPMG

“CEOs have narrowed the gap between digital transformative objectives for their organisations and investing in the future of work and a digitally enabled workforce. Technology advancement is still vital for businesses to remain competitive, but hiring talented people is equally important.”

CARL CARANDE

Global Head of Advisory,
KPMG

DISRUPTING THE DISRUPTORS

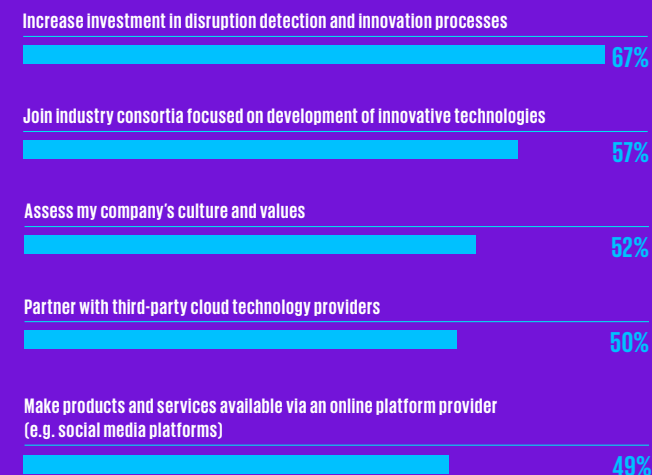
CEOs recognise that digital lies at the heart of how companies can create new sources of value. While this is an opportunity, it's also a risk: the acceleration of digital technologies means that business models that have existed for years can quickly become obsolete and irrelevant.

The research shows that CEOs are embracing the need to push the boundaries of their business and question long-held assumptions of what it will take to succeed in the mid- to long-term. When we asked them what action they planned to take in pursuit of their growth objectives, close to two-thirds said they intended to invest in disruption detection and innovation processes (see Chart 7). This is an essential step to enable teams to think disruptively: questioning historical assumptions and traditional mindsets and brainstorming new ideas for a vastly different market environment. And rather than waiting to be disrupted by competitors, CEOs also said they're actively disrupting the sector in which they operate. This went from 61 to 72 per cent in the past 18 months.

For Deborah Flint, President and CEO, GTAA – the operator of the Toronto Pearson International Airport, Canada's largest airport facility – digital transformation is critical to the GTAA's growth strategy as it responds to continued post-pandemic disruption. “We are at a time when digital transformation has probably never been as critical as it is now,” she says. “At Pearson, and broadly across large hub airports like ours, revenue was typically driven by one-third visiting family and relatives, one-third leisure travel and one-third business. And while business travel is returning, it is very slow.

Rapid digital transformation is going to be critical for airports and the air sector to be more competitive. We have got to offer more certainty and more predictability to both travelers and carriers so that they operate more efficiently at a time where margins are going to be more precious than ever.”

CHART 8: CEOs USING A RANGE OF DIGITAL TACTICS TO ACHIEVE THEIR GROWTH OBJECTIVES, WITH A FOCUS ON BUILDING DISRUPTION AND INNOVATION CAPABILITIES.



SOURCE: KPMG 2021 CEO OUTLOOK

THE RESEARCH SHOWS THAT CEOS RECOGNISE THE IMPORTANCE OF BUILDING CYBER SECURITY INTO COLLABORATIONS AND ECOSYSTEMS.

79%

say “protecting our partner ecosystem and supply chain is just as important as building our own organisation’s cyber defenses”.

21%

say “a strong cyber strategy is critical to engender trust with our key stakeholders”.

PARTNERING FOR TRANSFORMATION AND RESILIENCE

Companies across the world are operating as part of digital ecosystems – collaborating with partners, suppliers and even competitors to drive operational performance, identify new digital revenue streams and create compelling digital customer experiences that deliver on an organisation’s purpose. CEOs recognise the importance of collaboration and a fluid approach, with 70 per cent saying “new partnerships will be critical to continuing our pace of digital transformation”.

But as they digitally connect their systems and share data with partners, they need to make sure systems and data – especially customer data – are secure. Cyber security threats limit growth and create boundaries to digital development and inclusion. Purpose-led, sustainable cyber security practices help digital ecosystems thrive, bounce back from attacks and instill confidence that a business is well governed. The research shows that CEOs recognise the importance of building cyber security into collaborations and ecosystems.

WITH ONLY 58 PER CENT OF ORGANISATIONS SAYING THEY’RE WELL PREPARED FOR A CYBER ATTACK, CEOS ARE FOCUSED ON ENSURING CYBER SECURITY EXTENDS BEYOND THE FOUR WALLS OF THE ENTERPRISE.

FORTY-EIGHT PER CENT OF CEOS SAY FOCUSING ON THE SECURITY AND RESILIENCE OF THEIR SUPPLY CHAINS AND SUPPLIER ECOSYSTEM IS THE MOST IMPORTANT STEP THEY’RE TAKING TO BUILD DIGITAL RESILIENCE.

REFLECTIONS ON THE WAY FORWARD

There are three action areas that today's connected CEOs can focus on as they look to grow and manage the ongoing impact of the pandemic.

GROWTH AND RESILIENCE



Many organisations coped extremely well with the pandemic, showing resilience as they dealt with notable change, uncertainty and disruption. But resilience will also be key to economic recovery. For example, it will be key to managing climate risk and other threats as well as coping with ongoing digital disruption. Along with specific interventions – from managing supply chain risk to building cyber defenses – CEOs will need to surround themselves with resilient people. There are two priorities:

1

Make sure employees have the digital tools, data and skills they need to collaborate across the organisation, giving them the ability to respond quickly and creatively to emerging threats.

2

Resilience is also about having a team of motivated and engaged employees who are determined in the face of crises. This means energising them behind a compelling purpose.

ESG AND FINANCIAL VALUE



The research shows there's still a significant number of CEOs who remain unconvinced about the positive financial impact of ESG programs. This reflects that ESG programs serve many goals. For example, they can ensure the organisation is compliant with regulatory standards. Or they can contribute to ESG issues that are critical to local communities, such as diversity and equity. To help ensure ESG also drives financial growth, CEOs need to focus on two areas:

1

Identify the critical ESG investments that are necessary to drive long-term value, such as decarbonisation efforts. This needs to include investments in digital solutions to address major sustainability opportunities and risks. As well, set out how ESG initiatives can directly drive revenue growth through opportunities for innovative new products and services.

2

Establish metrics and standards for reporting on ESG performance, which sets the ambition level and ensures the company can communicate a compelling ESG story to investors and other stakeholders.

THE FUTURE OF WORK



CEOs recognise that the future of work is about more than where people are based. High-performing organisations are those that can flex their technology muscles and their ability to upskill their people. This means having a motivated and highly skilled digital workforce who operate with speed and agility.

1

CEOs should ensure that the decisions about the future of work deepen the extent to which employees are engaged and committed to the company. Leaders are obviously keen to see their people return but many employees are still anxious to hang on to those areas of work-from-home that are advantageous. Active listening, empathetic communications and a commitment to finding the right balance in the long-term will be key.

2

CEOs should invest in digital skills as well as technology modernisation. This isn't simply so that their people can use these new tools, but to help foster a digital-first culture where people naturally look to integrate technology into their work.

IN SUMMARY

Today's connected CEOs – those who are plugged-in, people-first and purpose-led – embrace these tough leadership challenges. They can deliver on their purpose commitments, making the ESG investments and changes necessary to address inequity and launch the race to net zero. They look to drive growth and prosperity through digital agility and business model innovation, while aiming to ensure that aggressive technology investments are matched by investment in human capabilities and skills. They pursue purpose to drive profitability and long-term growth while also recognising their wider responsibilities to planet and people.

The KPMG 2021 CEO Outlook provides an in-depth 3-year outlook from 1,325 global chief executives of major organisations on enterprise and economic growth.

This latest research is part of the KPMG CEO Outlook series, which offers a unique perspective on the mindset shift of global CEOs over the lifetime of the COVID-19 pandemic and looking forward to post-pandemic recovery. As well as this survey, which took place in July and early August, we also conducted a CEO Outlook pulse survey of 500 chief executives in January and February of this year. This allows us to examine how CEO thinking has evolved over the course of 2021. CEOs are drawn from companies with annual revenue over US\$500 million and a third of the companies surveyed have more than US\$10 billion in annual revenue, with no responses from companies under US\$500 million.

The July/August 2021 survey included leaders from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the UK and the US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecommunications).

KPMG would like to thank the following for their contributions:

**DEBORAH FLINT, PRESIDENT AND CEO,
GREATER TORONTO AIRPORTS AUTHORITY**

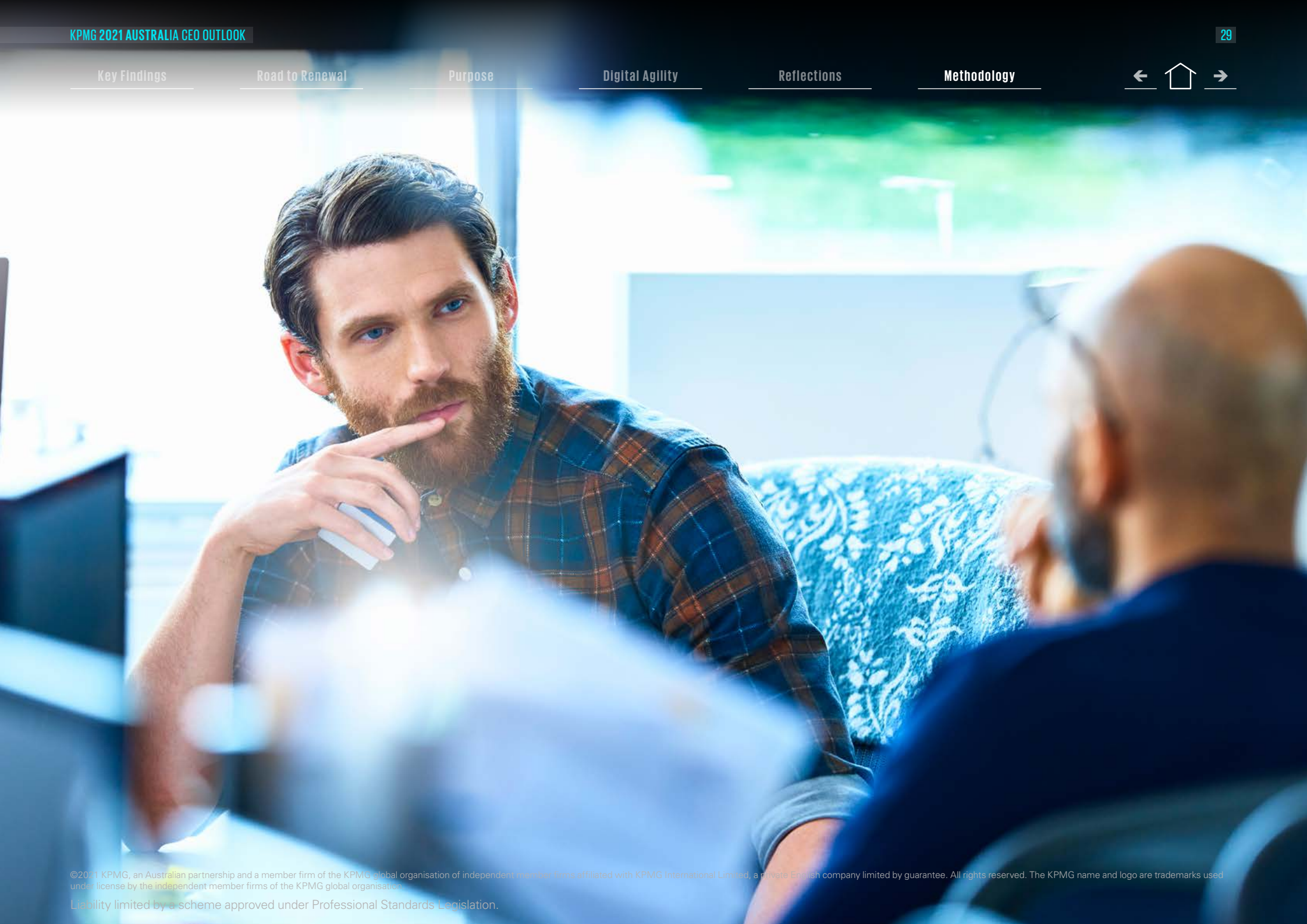
**HIRONORI KAMEZAWA, PRESIDENT & GROUP CEO,
MITSUBISHI UFJ FINANCIAL GROUP**

**PENNY PENNINGTON, MANAGING PARTNER,
EDWARD JONES**

**FRANK SLOOTMAN, CHAIRMAN AND CEO,
SNOWFLAKE INC.**

NOTE: some figures may not add up to 100 per cent due to rounding.

METHODOLOGY AND ACKNOWLEDGMENTS



For further information about this report and how KPMG can help your business, please contact CEOoutlook@kpmg.com

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MONTH YEAR. [JOB NUMBER]