



Keeping us up at night

The big issues facing
business leaders in 2025



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[KPMG.com.au](https://www.kpmg.com.au)



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Introduction

This 7th edition of KPMG's *Keeping us up at night* survey of Australian business leaders reflects the fast pace of change facing organisations.

The survey results show that talent issues – having access to a sufficient number and range of quality workers – which had been top of the priority list for the majority of executives for the past few years, are now seemingly under control. By contrast, the exponential march of technology in our corporate and personal lives – while undoubtedly creating new opportunities – is also continuing to raise unease in leaders from a risk, investment return and adaptation perspective.

Digital transformation – and extracting organisational value from it – rose from 4th place in the 2024 edition to 1st place in this year’s survey, with 53% of Australian business leaders nominating this as their main concern for the next 12 months. It also topped the list of medium-term concerns (the next three to five years), again rising from 4th place from last year’s survey.

Second in the list for the next 12 months is *Cyber* (previously 1st place), while *New technologies including AI* (previously 6th place) and *Controlling costs in an inflationary environment* (5th last year) were joint-third in the priority list.

While dealing with regulation has marginally slipped from last year, the impact of regulation is central to another issue which has risen in importance for business leaders this year – that of dealing with stakeholder expectations, including regulators. This issue, new to this year’s survey, came 6th in the list of priorities and reinforced other recent KPMG Australian and global research, which has identified it as a growing challenge both for executive management and board directors.

On social issues concerning business leaders, housing availability and affordability has risen to the top, up from 5th a year ago. The lack of meaningful progress on housing affordability, especially for young people, has driven consternation in our survey respondents, not only for the immediate outlook but, given the runway required to achieve improvements in supply, also for the medium-term outlook.

Geopolitics continues to be identified as a concern, with the last 12 months only adding to the unease. During 2024, more than half of the world’s population enjoyed the ability to participate in the democratic process of electing a government to lead them. The outcome of these elections has shown two common themes: a cost-of-living backlash towards incumbent governments and a continued trend towards populist leadership and economic nationalism.

The impact of populism was also shown by the recent global KPMG [CEO Outlook](#), in which supply chain concerns rose back to top priority, despite falling from their Covid pandemic high of 2021. The driver of this rise in can be attributed to concerns regarding the escalation of global trade tensions, the adoption of punitive tariffs unrelated to trade, and an increase in inward-looking government policies as opposed to outward-focused.

One of the most consistent findings between the two surveys has been the elevated risks associated with the operations of running a business. Higher costs, more competitive marketplaces, and increases in regulations are collectively keeping executives and boards on their toes. Unsurprisingly, this challenge is not unique to Australia but is an issue for CEOs the world over.

Operational issues have long been a challenge nominated by those CEOs, while *Cost controls*, *Evolving regulatory processes* and *Business growth* have been identified in our new survey by Australian business leaders as three of the top six immediate challenges they are facing as they enter a new year. 2025 looks like being a year of dealing with the nuts and bolts of a slow economy, while being alert for cautious growth where possible.

In this year’s survey, KPMG also questioned business leaders on how their investment outlook might respond to a potential easing in monetary policy. The response was muted. Around 40% said they would not change their plans if the cash rate was dropped by 50bp, while 30% said their spending plans would still hold even if the cash rate was dropped by 75bp.

We hope you find it valuable in understanding how other leaders in Australia’s business community see the challenges ahead.

The issue of dealing with stakeholder expectations, including regulators - new to this year’s survey - came sixth in the list of priorities and reinforced other recent KPMG Australian and global research, which has identified it as a growing challenge both for executive management and board directors.

About our survey

KPMG Australia surveyed respondents between 24 October and 16 November 2024. We received a total of 320 valid responses. The respondents were a mix of C-suite executives and board members from private sector enterprises.

A summary of the respondent mix:

Company size		Role type	
5,000+ employees	28%	C-suite/Owner	29%
1,000–4,999 employees	33%	Director/Non-Executive Director	28%
501–999 employees	14%	Head/Team Leader	37%
51–500 employees	18%	Manager	4%
<50 employees	7%	Other	2%

We opened our examination on what's *Keeping us up at night* in the same way as previous surveys by asking respondents the simplest, broadest of questions, namely:

What are the key challenges that you predict your organisation will be focused on addressing in 2025?

Respondents were asked to choose five challenges from a list of 19 preset responses, plus we provided the opportunity for respondents to give a short written response if they wanted to provide an alternative answer.

KPMG also asked respondents to nominate the five key challenges they are facing over a longer time horizon, being the next three to five years. We again provided respondents with the same list of concerns from which to choose their responses, as well as the opportunity to write a specific response.

Key findings

Key challenges for 2025 and for the next 3 to 5 years ahead

Top 5 challenges in 2025

Digital transformation



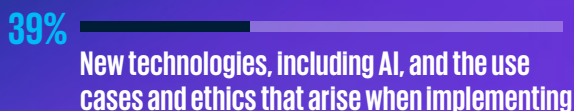
Cyber risks



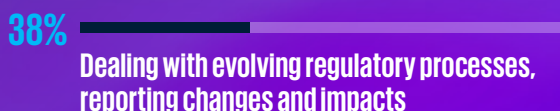
Cost controls



Emerging technologies

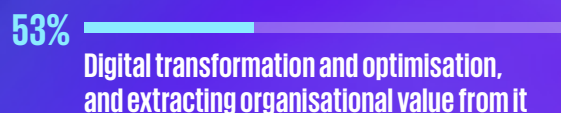


Regulation

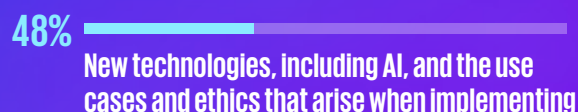


Top 5 challenges in the next 3 to 5 years

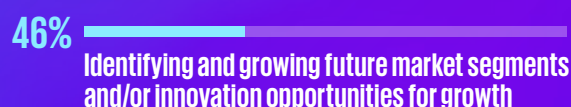
Digital transformation



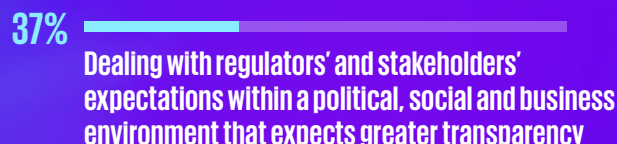
Emerging technologies



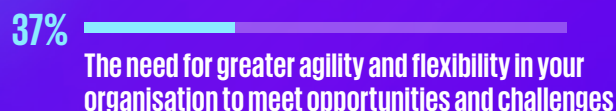
Future markets



Regulation



Flexibility



ALL RESPONDENTS % say top 5 challenge for their organisation	Top 5 challenges in 2025	Top 5 challenges in 3-5 years
Digital transformation and optimisation, and extracting organisational value from it	53%	53%
Protecting and dealing with cyber risks	42%	34%
Cost controls in an inflationary environment	39%	27%
New technologies, including AI, and the use cases and ethics that arise when implementing	39%	48%
Dealing with evolving regulatory processes, reporting changes and impacts	38%	34%
Dealing with regulators' and stakeholders' expectations within a political, social and business environment that expects greater transparency	37%	37%
Identifying and growing future market segments and/or innovation opportunities for growth	36%	46%
The need for greater agility and flexibility in your organisation to meet opportunities and challenges	32%	37%
Talent acquisition, retention and re/upskilling to meet a more digitised future	32%	34%
Balancing short-term versus long-term value creation in your organisation	31%	30%
Genuinely embedding innovation into your organisational culture and practices	21%	28%
Declining consumer confidence as a result of cost-of-living and interest rate pressures	17%	10%
Industrial relations settings, and their impact on ways of working	15%	11%
Designing and implementing an ESG strategy that will deliver benefits in the short and long term	14%	18%
De-risking supply chains in an era of geopolitical tensions	11%	11%
Building greater purpose into organisational culture	11%	10%
The challenges and benefits of hybrid working versus staff being in the office full-time	10%	4%
Sourcing investment to fund growth opportunities	10%	14%
Building diversity into leadership and talent mapping	8%	11%

Note: Respondents were permitted to give more than one answer, so figures will not add up to 100%.

Key economic and business challenges

Early adopters of AI and associated technology innovations are already seeing productivity gains, not only in special-case uses but also when it is applied to day-to-day activities where routine practices can be evolved using AI-based procedures.

While we are seemingly on the cusp of unimaginable benefits associated with the adoption of AI, we should remember that from a business leadership perspective, having responsibility creates pressure. The risks and concerns about IT, AI, cyber security and associated issues like ethical use, government regulations and investment cost/returns are becoming a more day-to-day challenge for Australia's business leaders, as the delivery of goods and services becomes universally more technology dependent.

What is interesting in this year's survey is the rise in the ranking of *New technologies, including AI, and the use cases and ethics that arise when implementing*, which lifted from 6th place to equal 3rd place in the context of immediate risks, but has been elevated to 2nd place when considered from a medium-term perspective. One interpretation of this increase has to do with the concern business leaders have around the ethical use of technology.

Societal expectations are that businesses will, first and foremost, use technology ethically. Privacy, safe data storage including the ability to withstand hacking, capture of only 'necessary' information, and the non-commercialisation of personal data are

among (albeit an exhaustive list) the minimum expectations customers have when dealing with businesses.

External frameworks to help business leaders manage these risks are being developed alongside the technology, although the age-old problem of mitigation strategies lagging the risks remain. This is especially so in the area of IT and cyber. Such a framework is the (relatively) new ISO 42001:2023 AI Management System Standard,¹ which is aimed at providing guidance on establishing, implementing, maintaining, and continually improving an AI management system.

Technology and all its applications, both positive and negative, is clearly a fundamental risk that occupies the time and thoughts of business leaders. This latest survey, however, reinforces the findings from KPMG's 2024 global CEO Outlook, which showed that as the world continues to emerge from the pandemic, the focus of business leaders back on core principles of growing revenue and managing costs has remained.

Bread and butter business management activities of cost containment, achieving target investment returns and improving revenue (through product innovation and accessing new markets) have grown as key issues for leaders as they look toward 2025. To see why this is so, we can simply examine the aggregate (nominal dollar) profits for private non-financial corporations in the ABS national accounts. These show gross operating surplus was down 5.6% over FY24 compared to FY23, while 80% of the 15 industry sectors analysed in the ABS Business Indicators recorded either a falling or flat ratio of gross operating profit to sales revenue over the 12 months to the end of June 2024.

'Technology and all its applications, both positive and negative, is clearly a fundamental risk that occupies the time and thoughts of business leaders.'

¹ [KPMG Australia becomes first company in the world to achieve certification to AI management system standard by BSI](#), KPMG Australia, 17 October 2024

Key findings

Social issues impacting the business environment

ALL RESPONDENTS

Social issues impacting the business environment

Top 5

Meeting the challenges of housing availability and affordability	48%
Preparing for a future skills gap – technology, data scientists, health workforce shortfall	48%
Geopolitical disruptions and shifting levels of regional/global tension and cooperation	47%
Social impact of new and disruptive technologies such as AI, autonomous vehicles, Internet of Things, biotechnology, and a different physical world	47%
Meeting the challenge of an ageing population	42%
Embracing the economic opportunities that climate change, energy transition and the move towards net zero presents	40%
Dealing with future income and wealth inequality through shifts in intergenerational equity – the balance of financial burden on younger versus older generations	34%
Inflation, high interest rates and other economic impacts	33%
Tax reform and policy settings to increase productivity and inward investment	31%
Building and managing physical and digital infrastructure to fuel productivity and growth	26%
Social licence to operate/reputation	26%
Closer collaboration between the public and private sectors in dealing with social challenges	18%
Creating an environment that fosters inclusion, diversity and equity in the workplace and broader society	17%
Changing citizen dynamics – the shifting balance between personal benefits versus community benefits	12%
Opportunities and challenges presented by policy shifting to deal with a long-term debt horizon	11%
Importance and practicability of flexible education and retraining	11%
Balancing the need to address inflation with keeping high levels of employment	0%

Note: Respondents were permitted to give more than one answer, so figures will not add up to 100%.

Housing

In addition to the issues facing respondents directly in the running of their own organisations, KPMG also quizzed leaders on the social challenges they saw impacting Australia's business environment.

Consistent with last year's results on the same questions, there was a bunching in the top four answers provided by business leaders, being:



Meeting the challenges of housing availability and affordability



Preparing for a future skills gap – technology, data scientists, health workforce shortfall



Geopolitical disruptions and shifting levels of regional/global tension and cooperation



Meeting the challenge of an ageing population

Given housing has risen to the number one issue (with a bullet) this year, we will examine that issue here. But it is a challenge facing the nation – our housing system has been under stress for decades.

In reviewing the survey findings, KPMG's Urban Economist Terry Rawnsley surmises that respondents this year have picked up on the fact that that policymakers, the community, and business leaders have all recognised the current housing crisis is very different in nature to the problems that have plagued the sector in the past, and the nature of the problems today require a reassessment of the entire housing system in order to improve outcomes for all Australians.

Housing involves all levels of government, the development sector, the construction industry, and the people who live in the homes. Understanding the needs of these different stakeholders in the housing system helps in the crafting of new policy solutions. From the perspective of the Commonwealth, population growth contributes to economic expansion, which in turn leads to increased generation of taxation revenue. This increase in tax intake helps to fund public services and national initiatives, creating a more prosperous economy for all Australians.

However, state and local governments are often faced with the direct costs associated with accommodating this growth. They shoulder the responsibility of developing additional infrastructure, from transportation to utilities, to meet the needs of a growing population. Moreover, they must also expand service provision – which includes education, healthcare, and community services – to ensure that the quality of life and public welfare are maintained. This can place a significant strain on their budgets and resources, necessitating careful planning and financial management to balance these needs.

Housing markets across Australia are facing multiple challenges, with availability and affordability being chief concerns among potential homebuyers and renters. Price increases in major cities have outpaced wage growth for decades, putting significant pressure on low- and middle-income earners (households earning less than \$90,000 per year). The historical absence of significant social housing investment over the past 30 years has also exposed lower-income households to an increasingly unaffordable private housing sector. This structural undersupply was exacerbated by the COVID-19 pandemic, which led to steep increases in construction costs and rendered large swathes of Australia commercially unfeasible for development despite strong demand.

The 30–40% increase in construction prices since 2020 have reshaped the commercial feasibility paradigm. This has fundamentally changed how housing can be provided in Australia.

Households have complex needs within the constraints of a budget. The attitudinal mindset acts as a mediator between the notional ideal home that house-hunters envision and the reality of available options. It encompasses needs and preferences, aspirations, values, and a balance between preconceptions and open-mindedness. And these preferences, aspirations and values change across the lifecycle.

Ultimately, however, low housing affordability has multiple economic and social costs, and the lived experience of business leaders over the past few years has crystallised their concerns that this societal issue can have a direct detrimental impact on an individual company's financial performance. For example, poor housing affordability outcomes, or even just low housing supply, results in a shallowing in the depth of the labour market as workers live farther from jobs, diminishing available workers in high-cost areas causing businesses to incur higher recruitment costs and productivity losses and experience higher underemployment.



Levi Watters

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Digital transformation

This year's *Keeping us up at night* survey saw 'Digital transformation and optimisation and extracting organisational value from it' as the number one challenge facing business leaders, both as they plan for 2025 and extend their thoughts towards the next three to five years.

Digital transformation has jumped to front of mind for Australian CEOs, following a year where the key issues dominating the zeitgeist were the rise of artificial intelligence (AI) and a cost-of-living crisis that has impacted businesses – both large and small – across the country. While technically the concepts of technology, AI and cyber are all separate issues, our respondents are increasingly joining them together as a single issue, indistinguishable due to their increasing interconnectedness.

The pace of development of AI has stunned the world, accelerating at breakneck speed following the release of ChatGPT by OpenAI in November 2022. Today, most leaders would agree that over the long term, AI is going to have a massive impact on how people work, live and play.

Leaders are rightly concerned about how AI is reshaping their industries. They are grappling with the question of how to harness the power of new technology to transform how they do business – while at the same time balancing ethical, governance and regulatory concerns.

At the heart of the issue is uncertainty about where to start. What steps can businesses take today to ensure that they don't get left behind, while still keeping pace with the expectations of the clients and communities they serve?

As a result, not all Australian businesses are approaching the challenge with a similar mindset. There is a large spectrum of engagement with AI, from 'all in' to 'trial and see'.

Some organisations are making the leap into an AI-driven future. Telstra, for example, has committed to improve 100% of its key business processes using AI by 2025.² CBA has been recognised in the top five banks globally for AI maturity by the Evident AI Index³ – and is already providing customer-facing messaging services powered by generative artificial intelligence (gen AI).

Other companies are taking a more conservative approach, running smaller scale projects to test the technology and how it fits into operational processes. When it comes to practical applications with a demonstrable ROI, AI technology is still in a nascent, experimentation phase for most businesses.

2024 became 'the year of the Proof of Concepts (POC)' – a time for organisations to pilot AI to demonstrate how the technology could add value across various aspects of a business. The expansion of AI-driven use cases over the past 12 months has highlighted both the benefits and potential risks of AI, around both trust and technology.

Over the next year, expect AI to evolve from a conceptual challenge to a practical one. 2025 is likely to be the year of ROI and scalability. The challenge will shift to how to effectively bring AI initiatives out of the 'laboratory' of smaller pilot projects and into 'production' – and embed AI into an organisation's operating model.

To deliver a return on investment for the capital invested in AI, leaders will have to carefully avoid 'AI POC Graveyard' – the gap between investing heavily in AI experimentation and delivering actual benefits to a business.

The POC Graveyard holds many pitfalls for an organisation and can be seen in several examples:

- Trialling an AI tool – you find that it saves an hour a day of work, but that productivity gain is not driving an equivalent cost reduction.
- In cases when there are productivity gains, how can an organisation redeploy these effectively?
- An AI tool can be quick to deliver up to 80% accuracy during a POC trial, but how can we ensure that accuracy translates when it goes into full production across an organisation?

Due to the continuing staggering pace of AI technology development, the organisations which have been early movers to embrace AI experimentation may also have an advantage in avoiding the POC Graveyard.

At the heart of the AI issue is uncertainty about where to start. What steps can businesses take today to ensure that they don't get left behind, while still keeping pace with the expectations of the clients and communities they serve?

² D. Stevens OAM, [Elevating data in the race to unlock the AI opportunity](#), Telstra, 29 July 2024

³ [Commonwealth Bank lifts ranking on global Evident AI Index](#), CBA, 18 October 2024

KPMG Australia was an early adopter as one of the first organisations globally to gain access to a secure ChatGPT instance. At first, the accuracy of KPMG's KymChat was in the 50% range – within a few months it was 95%. We have thousands of people who leverage gen AI every day and are thinking about how they can use it for us and their clients on a daily basis. This experimentation has led to the development of tools such as KymTax, a gen AI application that ensures tax specialists have immediate access to the latest tax rulings and supports their work on client advice.

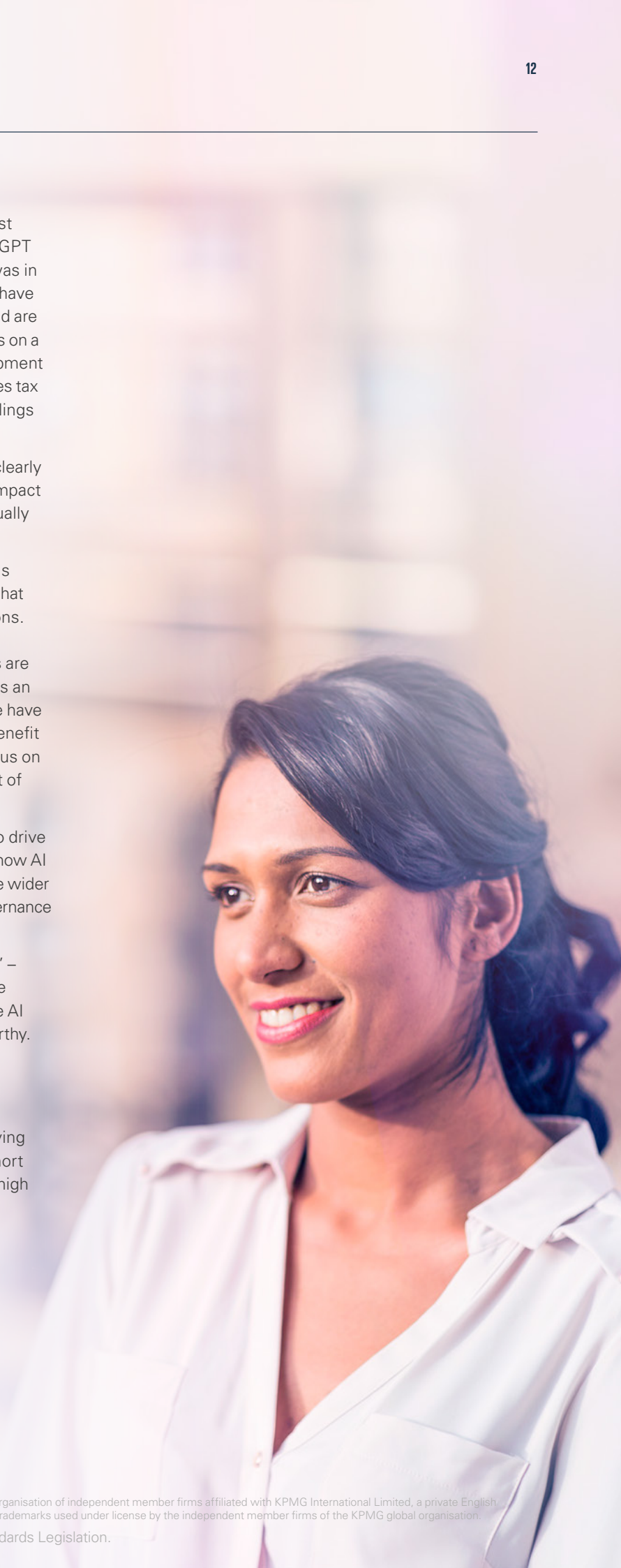
The key to rolling out AI is to start with use cases that clearly align with business objectives and thinking about the impact of AI in a business's operating model – how it will actually change the way that teams work.

An example of this can be seen in work that KPMG has done with Telstra to roll out KymCompliance, an AI tool that ensures ongoing compliance with regulatory obligations. The key to success is ensuring the project is business led, has set a clear north star, and metrics for success are cascaded through the business with the technology as an essential enabler to be able to achieve this. While there have been significant improvements in efficiency, the real benefit is the uplift in quality and enabling the business to focus on customer excellence with compliance as a by-product of what they do, not an additional task

Alongside the hurdle of effectively implementing AI to drive organisational benefits, leaders must also grapple with how AI will shape the wellbeing and future of individuals and the wider communities. The answer is to put people, trust and governance at the core of how AI is developed and implemented.

At KPMG Australia we have committed to 'Trusted AI' – investing in developing governance systems to ensure appropriate checks and balances take place, and that the AI we develop is values driven, human centric and trustworthy. Our approach has also included becoming the first organisation globally to receive ISO 42001 certification by BSI for AI Management Systems.

With over half of our survey respondents this year saying that digital transformation is a top challenge for the short and medium term, it is clear that AI will continue to be high on the agenda for Australian organisations in 2025.



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