



KPMG 2021 UK CEO Outlook

Plugged-in, people-first, purpose-led

KPMG UK

home.kpmg/uk/ceo-outlook





Foreword

CEOs confident in a future driven by purpose

After an extraordinarily difficult 18 months, CEOs in the UK and globally are emerging from the pandemic to a world of opportunity and are looking to move their plans from resilience to expansion.

Leaders are becoming increasingly confident about the prospect of a stronger global economy and are approaching investment with renewed optimism. While CEOs say their top five risks to growth are tech disruption, regulatory matters, cyber security, supply chain and the environment, they are identifying new opportunities, acquisitions and partnerships to accelerate their plans.

Since the start of the pandemic, the world of work has fundamentally changed, and CEOs have had to pivot their business strategies to face into the many associated uncertainties. Some businesses are looking to implement hybrid working, where employees work remotely 2-3 days a week, but the expectation to downsize their physical footprint or office space has declined. Digitisation and connectivity of functional groups will be a key priority for the next three years.

It's not surprising that environmental, social and governance (ESG) issues continue to be at the top of the agenda for CEOs. Stakeholders are putting immense pressure on businesses to be the drivers of change, supporting measures to tackle climate change, as well as societal challenges — from gender and race, to equality and social mobility — and wanting to see companies leave a positive impact on society.

Clients and investors are laser-focused on working with businesses who have their own house in order. Many CEOs are facing increasing demands for more reporting on ESG issues and, with the 26th UN Climate Change Conference of the Parties (COP26) just two months away, now is the time for a renewed push on setting out their businesses' ESG credentials.

Jon Holt
Chief Executive
KPMG UK



Contents

04

Key findings

06

The road to renewal

12

Trusted purpose

15

Digital agility

18

Three areas of focus

20

Methodology

Unless otherwise indicated, throughout this report, “we”, “KPMG”, “us” and “our” refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.



Key findings

The road to renewal

Trusted purpose

Digital agility

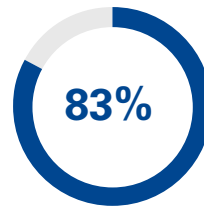
Three areas of focus

Methodology

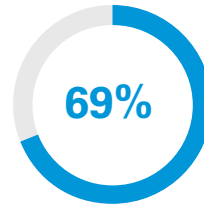
Key findings

Our 2021 report focuses on how today's connected CEOs need to be plugged-in, people-first and purpose-led to grow their organisations and emerge stronger:

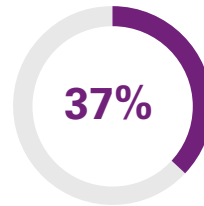
- CEOs are optimistic, confident and expect aggressive growth through acquisitions and other inorganic methods. They continue to put an emphasis on leading with purpose and a focus on digitally transforming their organisations while upskilling an agile workforce in the new world of work.
- With increased stakeholder pressure to build back better, organisations in the UK and globally are committed to investing in environmental, social and governance (ESG) priorities and staying true to their purpose.
- With people returning to places of work, and society increasingly looking for business to lead a return to normal, some CEOs are shying away from making wholesale changes to the future of work — but they recognise and are adapting to employee demand for continued flexibility.



83% of UK CEOs are confident about UK growth over the next three years.



69% of UK CEOs say that their organisation's defining objective is to embed purpose into everything they do.



37% of UK CEOs say that most employees will work remotely at least two or more days a week.

About the CEO Outlook

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, including 150 CEOs in the UK.





Renewal, purpose and agility

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

The road to renewal

Despite continued uncertainty, CEOs are optimistic about growth and are looking to drive expansion.

Rebounding growth

58% of UK CEOs (60% across our full global sample) are confident about growth prospects for the global economy. 83% are confident about UK growth over the next three years.

Leading with purpose

69% of UK CEOs say that the defining objective of their business is to embed purpose into everything they do — creating long-term value for all stakeholders. Just one in ten (11%) say it's to deliver economic returns for shareholders.

Accelerating growth and the digital agenda

88% of UK CEOs are confident about their own organisation's growth prospects, with 87% looking to make deals in the next three years. 73% say they have an aggressive digital investment strategy.

Trusted purpose

Faced with increased stakeholder pressure, CEOs are embedding ESG into business strategy.

Stepping up on social issues

74% of UK CEOs say that they'll be increasingly held personally responsible for driving progress in addressing social issues. But 54% are concerned that they may struggle to meet expectations.

Collaborating to power sustainability

35% of UK CEOs (30%, global) plan to invest more than 10% of their revenues in becoming more sustainable. 78% say world leaders at COP26 need to inject urgency into the climate agenda.

Connecting ESG with financial returns

Only 37% of UK CEOs believe that their ESG programmes improve financial performance. But ESG remains a priority. 65% agree that they face increased demand for reporting and transparency on ESG issues.

Digital agility

To gain a digital advantage, CEOs are embracing flexible working and establishing digital ecosystems.

Building a flexible future of work

CEOs need to decide on an operating model for the future that works for both employers and employees. 37% of CEOs (UK and global) say that most employees will work remotely at least two or more days a week.

Disrupting the disruptors

While emerging tech is ranked by UK CEOs as the biggest risk to growth, 77% see technological disruption as more of an opportunity than a threat. 73% say they'll increase investment in disruption detection and innovation processes.

Partnering for transformation and resilience

73% of UK CEOs (70%, global) say new partnerships are critical to continuing the pace of digital transformation. 81% say that protecting their partner ecosystem is as important as building their own cyber defences.

The road to renewal

The pandemic was a test of leadership for CEOs across the globe: the true leaders protected the health and wellbeing 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 continued uncertainty around the potential of an uneven global recovery, the impacts of new virus variants and vaccine inequality.

To deliver sustained growth, CEOs need to be plugged-in, people-first and purpose-led:

- 1 Plugged-in.** Digital is a prerequisite for succeeding in a rapidly evolving landscape. This means building a digital core, and 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 re-allocating capital expenditure to new digital growth opportunities. It means being resilient to cyber risk, while also pursuing bold digital innovations.
- 2 People-first.** Digital doesn't deliver results on its own. At the same time, CEOs need to have a people-first mindset — investing in human capability as well as new technologies.
- 3 Purpose-led.** Success will take 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 programmes.

“ We expect the UK economy to continue recovering, with UK GDP set to grow by 6.2% this year and 4.7% in 2022. However, we may still experience some impediments to growth as labour and raw materials shortages remain an issue for some industries, while the possible emergence of new variants of the virus that are less responsive to the current vaccines is also a downside risk. ”



Yael Selfin
Chief Economist,
KPMG UK

Rebounding growth

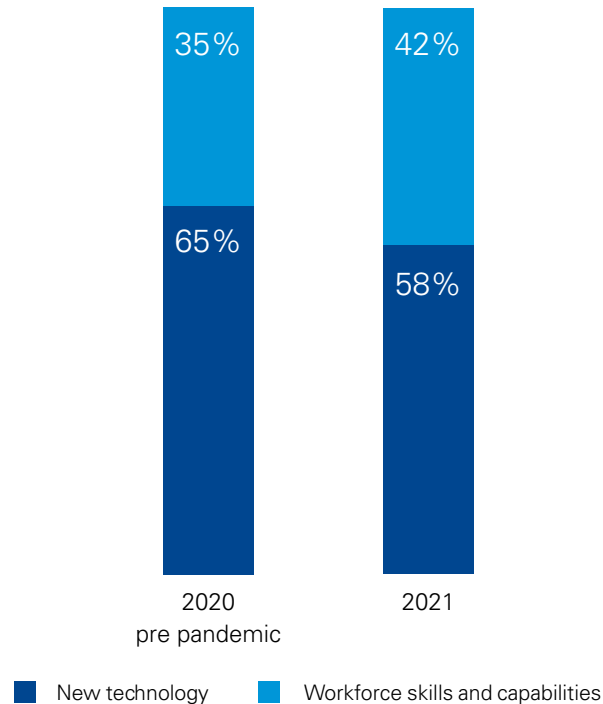
Despite continued uncertainty over the COVID-19 pandemic, our 2021 CEO Outlook survey shows that the perspectives and confidence of CEOs have shifted. CEOs in every region are more optimistic about growth: for the first time since January/February 2020, prior to the pandemic, more than half (60%) of CEOs from our full global sample say they're confident about the growth prospects of the global economy over the next three years. That renewed confidence is matched in the UK by 58% of respondents.

Overall, CEO confidence levels have returned to those 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 80% of UK CEOs (a little behind the global average of 88%) plan to increase headcount over the next three years, with over a third (37%) of UK CEOs planning an increase of more than 6%.

CEOs have also narrowed the gap between their digital transformation objectives and investing in a digitally enabled workforce. More UK CEOs (58%) are prioritising technology investment when pursuing growth. But the 42% who are putting more emphasis on people investments is a notable increase from 35% in 2020 prior to the pandemic. It's a trend matched by the full global sample.

Chart 1: Technology investments are the priority, but the gap is narrowing



Thinking about your growth and transformation objectives, which of the following investments are you prioritising?

Source: KPMG 2021 UK CEO Outlook

“

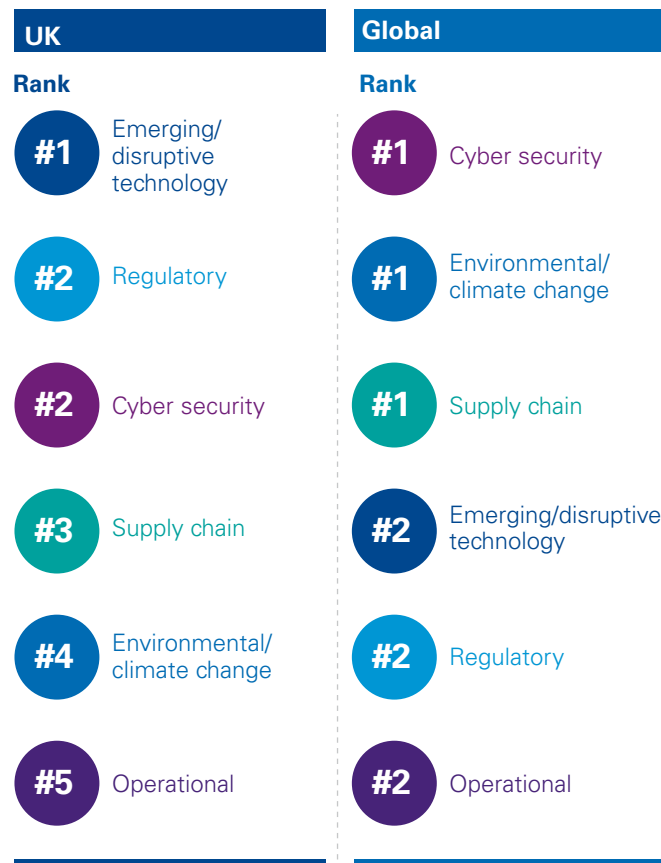
Over the past 18 months, digital transformation has accelerated hugely. Organisations have needed to fix foundational things like moving to the cloud, implementing base security requirements and integrating collaboration tools. But to do this properly, and really enable the workforce to be effective, more of these tools and technologies are needed than many businesses initially realised. The job is not done yet and significant investment is still required.”



Lisa Heneghan
Chief Digital Officer,
KPMG UK



Chart 2: The biggest threats to growth over the next three years



Which of the following risks pose the greatest threat to your organisation's growth over the next three years?

Source: KPMG 2021 UK CEO Outlook

As CEOs look to drive growth, they face the significant task of leading companies in a time of great uncertainty, where assumptions and forecasts are subject to constant change. This lack of certainty means no single risk has emerged on top when we look at responses from our full global sample. There's a three-way tie for threats to growth: supply chain, cyber security and climate change. And these are very closely followed by disruptive technology, regulatory and operational risk.

Among UK CEOs, there is a clearer differentiation, with disruptive technology considered the biggest risk to growth over the next three years. That's followed by regulatory, cyber security, supply chain, climate change and operational risk.



The biggest risks to growth by sector

Across our full cohort of global respondents, looking at risks through a sector-specific lens provides a clearer picture of the top challenges to growth:

- **Supply chain** risk is the biggest concern among retail/consumer segment CEOs (28%), manufacturing (25%) and automotive (26%).
- **Climate change** is the top risk for CEOs in energy (37%) and infrastructure (19%).
- **Cyber threats** are the focus of CEOs in technology (31%), telecoms (32%) and banking (17%).



What also distinguishes individual risks is how they've moved up the agenda since 2020, prior to the pandemic. Three have seen marked rises in the UK: supply chain, regulatory and tax.



Supply chain risk (UK, up 12 percentage points; Global, up 10 percentage points). Well over half (59%) of UK CEOs say their supply chain has been under increasing stress over the past 18 months. When asked about the impact of the pandemic in three years, the same proportion say they'll be ensuring that their supply chain is resilient in the event of a global lockdown or travel restrictions.



Regulatory risk (UK, up 9 percentage points; Global, up 3 percentage points). UK CEOs were less concerned than their global counterparts about regulatory risk at the beginning of 2020. But it now ranks in the top three risks facing UK CEOs over the next three years.



Tax risk (UK, up 6 percentage points; Global, up 8 percentage points). Over three-quarters (77%) of UK CEOs — and a similar proportion across our full global cohort (75%) — 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, 79% (global, 77%) agree that the proposed global minimum tax regime is of significant concern to their organisation's goals on growth. The same proportion (79%) 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 (75%) of UK CEOs are feeling increased pressure to report their tax contributions publicly.

“

The disruptions brought about by COVID-19, Brexit and geopolitical trade tensions, have seen supply chain risk rise up the agenda. To address the war for talent — as both people and operational capacity become an issue — organisations will need to amend their supply chain operating models so that they can take advantage of digital operations and agile logistics networks. ”

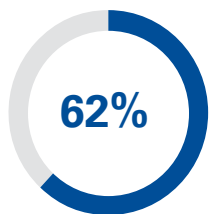


Iain Prince
Associate Partner,
Operational
Transformation,
KPMG UK

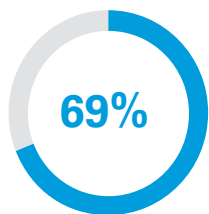


Leading with purpose

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.



62% of UK CEOs 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.

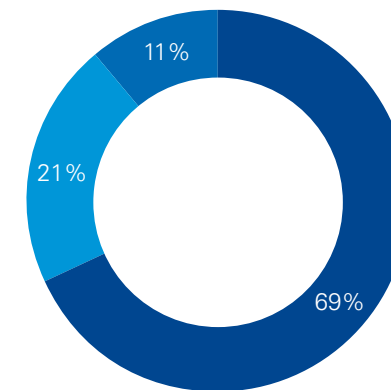


69% recognise that large corporations have the resources — both financial and people — to help governments find solutions to pressing global challenges.

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 understand the importance of purpose. For example, 92% of UK CEOs say that purpose is central to building their brand reputation. This reflects the transition of business to multi-stakeholder capitalism, with over two-thirds (69%) saying purpose is the defining objective of their business and only 11% focused on managing shareholder value.

Chart 3: CEOs say purpose is their organisation's defining objective



- Embed our purpose into everything we do to create long-term value
- Advance public interest and improve society
- Deliver economic returns to shareholders

Which of the following best describes your view of the overall objective of your organisation?

Source: KPMG 2021 UK CEO Outlook

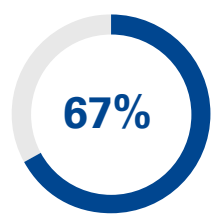


Accelerating growth and the digital agenda

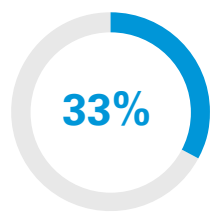
Optimism is high among all CEOs. The vast majority (global, 87%; UK, 88%) are confident in their own company's growth prospects. And many are looking to inorganic strategies to achieve their growth ambitions.

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% of UK CEOs say they're looking to make deals in the next three years. Among that number, 48% characterise their M&A appetite as 'high', with CEOs likely to undertake acquisitions that will have a significant impact on their organisation.

For many businesses, 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 behaviours, 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 just over half (52%) saying that they intend to partner with a third-party cloud technology partner in the next three years in pursuit of their growth objectives. This is a trend that's mirrored across the globe.



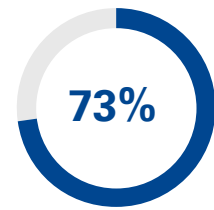
Over two-thirds (67%) of UK CEOs say they will primarily use inorganic tactics to drive growth, including strategic alliances with third parties (the focus for 33%), M&A (21%), joint ventures (10%) and outsourcing (3%).



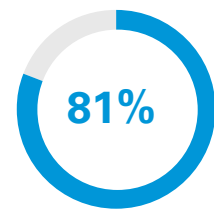
33% say organic approaches — such as innovation and R&D — are their most important route to growth.

The research shows that UK CEOs are embracing the need to push the boundaries of their business. Frank Slooman, Chairman and CEO, Snowflake Inc. — the 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?"



73% say they have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status.



81% agree they need to be quicker to shift investment to digital opportunities and divest businesses that face digital obsolescence.

“Global venture capital continued to deploy record amounts of money into UK scaleups in the first half of 2021, with fintech and healthtech businesses attracting the largest deals.”



Bina Mehta
Chair,
KPMG UK



Trusted purpose

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 into real actions by executing on their high-level commitments. Focusing on a bold ESG programme can help identify key opportunities and challenges and allow CEOs to demonstrate how they can deliver on their purpose.

Stepping up on social issues

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 our research shows they embrace the role that companies can play in driving total shareholder return and total societal return.

Today, we're seeing a major focus on the 'S' in ESG. 84% of UK CEOs — and a similar proportion (81%) across our full global sample — agree that their response to the pandemic has caused their focus to shift toward the social component of their ESG programme.

But the research also suggests 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, almost three-quarters (74%) of UK CEOs say that they'll be increasingly held personally responsible for driving progress in addressing social issues. But on the other hand, over half (54%) admit that with public, investor and government expectations of diversity, equity and inclusion (DEI) rising so fast, they may struggle to meet expectations. In addition, almost half (46%) of CEOs note 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.

“ Embedding diversity, equality and inclusion within an organisation's culture takes a personal and visible commitment from the top. It's about senior leaders committing to self-education, and acknowledging their own blind spots, whilst driving a culture of zero tolerance for discrimination and vocally celebrating and uplifting the underrepresented. ”



John McCalla-Leacy
Head of ESG,
KPMG UK



Key findings

The road to renewal

Trusted purpose

Digital agility

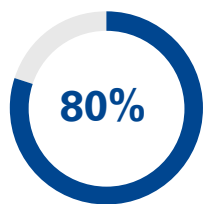
Three areas of focus

Methodology

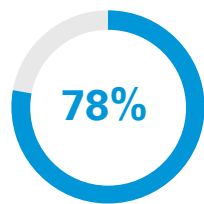
Collaborating to power sustainability

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. CEOs are looking to devote significant capital to becoming more sustainable, with 35% of UK CEOs (30% across our whole global survey) planning to invest more than 10% of revenues in their efforts. At the same time, CEOs stress that progress on sustainability and climate change requires equally strong government commitment.



80% of UK CEOs say government stimulus is required to turbocharge climate investments being made by the business community.



78% say “world leaders at COP26 must inject the necessary urgency in the climate change agenda.”

Connecting ESG with financial returns

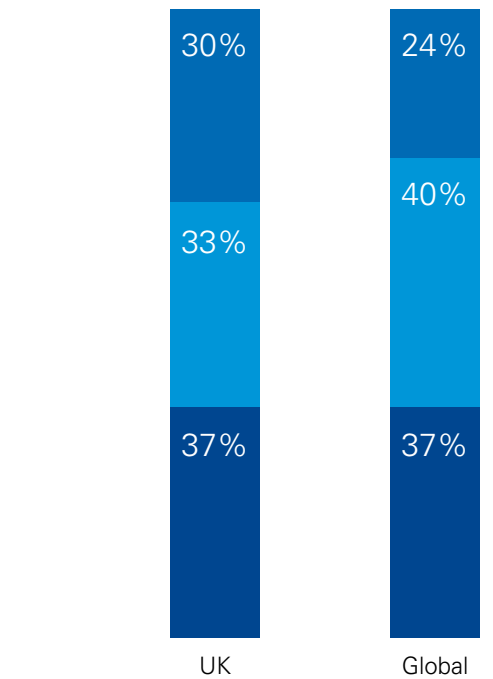
The public is demanding more ambitious ESG goals — but have CEOs taken the necessary steps to bring them to life? Today’s connected CEOs are those that can deliver on a trusted purpose by responding to increased societal expectations while driving sustainable business performance through digital innovation.

Neither can be done in a vacuum — and CEOs recognise this. Over four-fifths (81%) of UK CEOs are on the right track, saying that their digital and ESG investments are inextricably linked, slightly ahead of the global average of 75%. As CEOs plan to devote significant capital to becoming more sustainable, it’s important their digital investments are plugged into their ESG needs.

But while CEOs believe that social and environmental priorities are key, they’re less convinced about making the connection between ESG programmes and hard results. More needs to be done to connect ESG strategy with financial returns. Looking at our full global sample, just over half (52%) of CEOs at high-growth organisations (those who see earnings growth exceeding 5% a year over the next three years) believe that their ESG programmes will improve financial performance. But this drops to 37% when all respondents are included — and it’s the same proportion for UK respondents. Close to a quarter (24%) of CEOs across our full global sample say ESG programmes may reduce financial performance. The figure is nearly a third (30%) for UK CEOs.

CEOs may perceive their current ESG programmes to be more about compliance and risk management. And they may feel there’s still much more that needs to be done before they’re convinced their ESG programmes are reshaping the business and driving new growth.

Chart 4: CEOs need convincing that ESG impacts financial performance



Legend: Improves financial performance (dark blue), Neutral (medium blue), Reduces financial performance (light blue)

Please rate the impact of your company’s ESG programmes on your financial performance

Source: KPMG 2021 UK CEO Outlook



CEOs feel that 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 them to identify the one critical challenge that was undermining their ability to communicate ESG performance to key stakeholders, the standout challenge (selected by 47% of UK CEOs and 42% across the full global sample) 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% of CEOs across our global sample are seeing increased demands from stakeholders — such as investors, regulators and customers — for increased reporting and transparency on ESG issues. UK CEOs feel even more under pressure. 65% say they face increased demands for more transparent ESG reporting – up from 59% in 2020 before the pandemic.

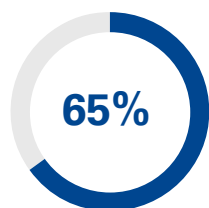
At Mitsubishi UFJ Financial Group, President & Group CEO Hironori Kamezawa makes it very clear that there’s a strong link between ESG principles and tangible value, and that ESG factors should drive strategic planning.

“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 first identifying the environmental and social issues we would like to address. Then we took steps to carefully examine the content of our business and made sure they address the issue we identified. I believe that by ensuring both upstream and downstream 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.”

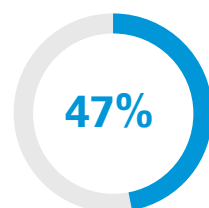
“Being able to tell a compelling ESG story is all about authenticity. It isn’t enough to invest in ESG because everyone else is. To really resonate, it helps if the story is personal and passionate. It needs to recognise what the pandemic has shown us so clearly – that we all live in a connected world.”



John McCalla-Leacy
Head of ESG,
KPMG UK



65% of UK CEOs say they face increased demands from stakeholders for increased reporting and transparency on ESG issues.



47% of UK CEOs say they “struggle to tell a compelling ESG story”, making this the standout challenge to communicating ESG performance to key stakeholders.

Digital agility

Organisations across every sector have had to accelerate their digital transformations to be able to operate during the pandemic. And CEOs recognise that a focus on digital will be key to driving growth over the next three years and beyond — and to being a disruptor, rather than one of the disrupted.

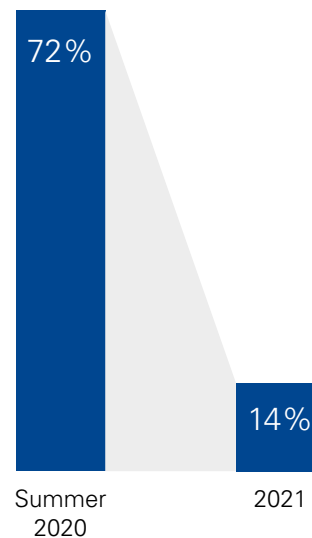
Digital will be integral to how organisations address ESG issues, how they interact with customers and how they manage and engage their people in the hybrid workplace.

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 than wholesale changes to office-based work.

Only 14% of UK CEOs plan to or have already downsized their physical footprint or office space as a result of the pandemic and changing working habits. That's a significant change from the summer of 2020, when 72% said they'd be downsizing their office. And it's a change that's reflected across our full global sample, with 21% now planning to downsize compared to 69% in 2020.

Chart 5: Fewer CEOs are planning to downsize office space



What impact do you foresee the COVID-19 pandemic having on your organisation in three years?

Source: KPMG 2021 UK CEO Outlook

“

While the physical footprint may stay the same, the design of the workplace is changing. Rows of desks are being replaced with communal areas to foster collaboration and innovation. ”



Mel Newton
Partner, People Consulting
KPMG UK



However, while the physical footprint may not be changing as drastically as some might have expected, CEOs are expecting changes to the way work is done. Over a third (37%) say that their organisation will have most employees working remotely at least two or more days a week. That might be a lower proportion than expected, but remote working is not practical for every role in every sector. If we look at sectors where we'd expect there to be more opportunity to work remotely — banking, insurance, technology and telecommunications — 44% expect employees to be working remotely at least two or more days a week.

Over two-fifths (43%) of UK CEOs — which rises to over half (51%) for the full global sample — 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 17% of UK CEOs who said they'd be doing so when we ran our pulse survey in January/February 2021.

Organisations embracing hybrid working will need to rethink how they attract and retain the talent they need to enable growth. When asked for the key success factors in ensuring employees are engaged, motivated and productive in a hybrid world, over half (53%) of UK CEOs said 'focusing on employees' mental health and wellbeing. Almost half (48%) said investing in digital training, development and upskilling to ensure employees' skills remain future-focused. And a third (35%) said creating a purpose-led, value-driven culture where leaders 'walk the talk'.

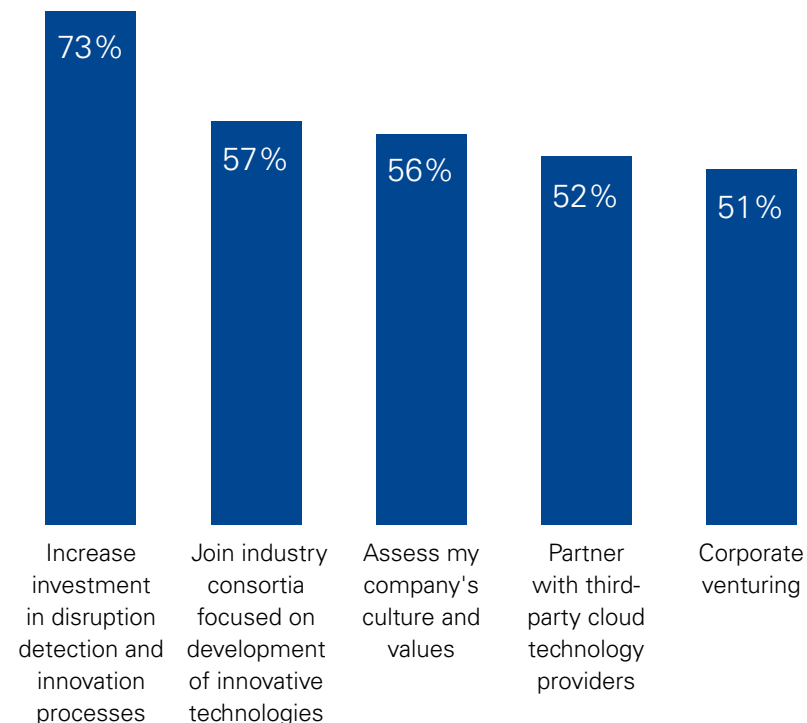
Disrupting the disruptors

UK CEOs rank 'advancing the digitisation and connectivity of all our functional areas' as their top operational priority over the next three years — selected by over a third of respondents (34%). There's a risk involved in accelerating digital transformation though: it can mean that business models that have existed for years can quickly become obsolete and irrelevant.

But UK CEOs see technological disruption as more of an opportunity than a threat (77%). They're 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. They aren't waiting to be disrupted by their competitors; 74% of UK CEOs say they're actively disrupting the sector in which they operate — that's up from 57% at the beginning of 2020 prior to the pandemic.

When we asked them what action they planned to take in pursuit of their growth objectives, almost three-quarters (73%) said they intended to invest in disruption detection and innovation processes. 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.

Chart 6: To pursue growth objectives, UK CEOs are focusing on disruption detection and innovation



Does your organisation intend to undertake any of the following actions over the next three years to help in pursuing your growth objectives?

Source: KPMG 2021 UK CEO Outlook

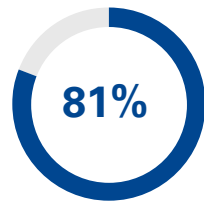
Partnering for transformation and resilience

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 their purpose.

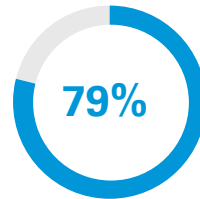
CEOs recognise the importance of collaboration and a fluid approach. Almost three-quarters (73%) of UK CEOs — and 70% across our global sample — say new partnerships will be critical to continuing their pace of digital transformation. Just less than half (45%) plan to collaborate with innovative start-ups (for example, fintech, insurtech and healthtech companies).

But as they digitally connect their systems and share data with partners, organisations need to make sure their systems and data — especially customer data — are secure. Cyber 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 instil confidence that a business is well governed. That's why CEOs are focused on ensuring cyber security extends beyond the four walls of the enterprise and is built into collaborations and ecosystems.

When asked for the key steps they plan to take to build digital resilience, focusing on the security and resilience of their supply chains and supplier ecosystem was the most important alongside improving skills in cyber security and other areas of technology risk (both 48% of UK CEOs).



81% say that protecting their partner ecosystem and supply chain is just as important as building their own organisation's cyber defences.



79% say a strong cyber strategy is critical to engender trust with their key stakeholders.

“ There are many components needed for successful innovation – but a critical element is diversity of thinking. This means reaching out beyond your own business. You can't innovate just by thinking from within. You need to access the wider ecosystem – tech businesses, start-ups and other organisations outside your own sector. ”



Lisa Heneghan
Chief Digital Officer,
KPMG UK



Three areas of focus

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 defences — CEOs will need to surround themselves with resilient people.

There are two priorities:

- 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.
- Put in place a team of motivated and engaged employees who are determined in the face of crises. This means motivating them by engaging them with a compelling purpose.

ESG and financial value

Our 2021 findings show that there's still a significant number of CEOs who remain unconvinced about the positive financial impact of ESG programmes. This reflects that ESG programmes 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:

- 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. In addition, set out how ESG initiatives can directly drive revenue growth through opportunities for innovative new products and services.
- 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 that operates with speed and agility.

- CEOs should ensure that 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 keen to maintain the benefits of working from home. Active listening, empathetic communications and a commitment to finding the right balance in the long-term will be key.
- 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 the planet and to people.



Key findings

The road to renewal

Trusted purpose

Digital agility

Three areas of focus

Methodology



Methodology

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

The UK edition draws heavily on the responses of the 150 UK CEOs who took part in the survey.

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).

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

KPMG would like to thank the following for their contributions:

- Hironori Kamezawa, President & Group CEO, Mitsubishi UFJ Financial Group
- Frank Slooman, Chairman and CEO, Snowflake Inc.

home.kpmg/uk/ceo-outlook



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

CREATE | CRT137791A | September 2021.