KPMG

Agile or irrelevant

Redefining resilience

2019 China CEO Outlook

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Overview

China's CEOs face a number of headwinds, as do their global counterparts. With a volatile global economic outlook and ongoing US-China trade tensions, these uncertainties are bound to have some impact on overall business sentiment.

This report summarises the China findings from a global survey of 1,300 CEOs – including 125 from companies headquartered in mainland China and Hong Kong (China CEOs) – across a wide range of industries, providing insights into investment priorities, growth strategies, and key concerns.

The survey findings suggest that despite the rapidly changing business environment as a result of both domestic and external developments, China CEOs are confident in the resilience of their companies, and in their ability to innovate, disrupt and adapt. They are also proactively thinking about investing in new technologies to be ahead of the competition; and are placing increasing importance to partnering in order to achieve their growth objectives.

Confidence

While China CEOs have become less optimistic about the growth prospects of the global economy, their confidence in the growth prospects of their country has increased, and they continue being overwhelmingly confident in the growth prospects of their companies, with most expecting to see top-line revenue growth and an increase in headcount over the next three years.

Risks to growth

When asked about the greatest threat to their organisation's growth, "environmental/climate change risk" was selected by more China CEOs than other options, closely followed by a "return to territorialism". Consistent with this, over two-thirds of China CEOs told us that their organisation's growth will be determined by their ability to anticipate and navigate the shift to a low-carbon, clean technology economy. Of the China CEOs selecting "return to territorialism" as the top risk, 46 percent said they were most concerned about the ongoing China-US trade negotiations.

Expansion into new markets and M&A

Despite these challenges, Chinese companies have not lost the appetite to invest overseas. All surveyed China CEOs told us that they are planning to expand overseas over the next three years. Although more than half are looking to invest in emerging markets, we also noted an increase in the proportion of China CEOs that are looking to invest in developed markets when compared to last year's results.

Specifically with respect to their expansion to emerging markets, more than 80 percent of surveyed China CEOs said they are doing this to increase their resilience as a business. And over 60 percent of China CEOs and a similar proportion of global CEOs told us they are prioritising countries and regions that form part of the 'Belt and Road' Initiative when expanding to emerging markets. This suggests there is significant potential for cooperation between Chinese and foreign firms – including those from developed countries – in emerging markets.

More China CEOs reported having a "moderate" or "high" appetite for making acquisitions compared to last year, with the top three reasons being: (i) reducing costs through synergies and economies of scale; (ii) diversifying their business; and (iii) transforming their business model faster than what organic growth can deliver.

Innovation and technological disruption

How to innovate, disrupt and adapt to a changing business landscape continues to be front of mind for China CEOs. Most consider technological disruption as more of an opportunity than a threat, and over two-thirds told us that their companies' growth relies on their ability to disrupt "any business norm". Over half of China CEOs also told us that they are actively disrupting the sector in which they operate rather than waiting to be disrupted, a significant increase from last year.

Consistent with this, over two-thirds of China CEOs said that they are placing more capital investment in buying new technology in order to improve their companies' resilience, and all surveyed China CEOs told us that their companies are either piloting or implementing AI to automate processes.

Taking into account the fast-paced development of China's digital economy, it was also not surprising to find that almost all surveyed China CEOs expect to see a significant return on investment from their digital transformation programs in the next three years.

Agility and partnering

China CEOs recognize that their ability to disrupt the market must be complemented with an ability to adapt quickly and efficiently to changes and disruptions coming from others – they understand they need to be agile to survive in the market. And while a majority of China CEOs believe that acting with agility is the "new currency of business," over 60 percent told us that the only way for their companies to achieve the agility they need is to increase the use of third-party partnerships. Consistent with this, China CEOs told us that the most important strategy to achieve their companies' growth objectives over the next three years will be to enter into "strategic alliances with third parties".

Final word

Despite the current global economic and geopolitical uncertainties, China CEOs are continuing with their growth and expansion strategies. They recognise the challenges of operating in a rapidly changing business landscape, which are likely to become a new reality. Innovation, meanwhile, continues to be at the forefront of competitor differentiation, while key national initiatives such as the 'Belt and Road' and the Guangdong-Hong Kong-Macao Greater Bay Area offer unique opportunities for government and the private sector to collaborate on projects that can bring lasting benefits. As with their global peers, China CEOs need to continue to strengthen their capabilities and pursue strategies for sustainable long-term growth. This focus on agility is redefining what is understood by resilience. In the past, organisations looked to defend their positions and use scale to maintain competitive advantage. But now, against a complex, volatile and increasingly uncertain environment, organisations need to be comfortable disrupting their business models and adapting to a constantly changing world if they want to achieve their growth objectives.

Survey highlights

Confidence

China CEOs have become more cautious in their views about the global economy, but continue to maintain a positive view about the growth prospects of China and their own companies

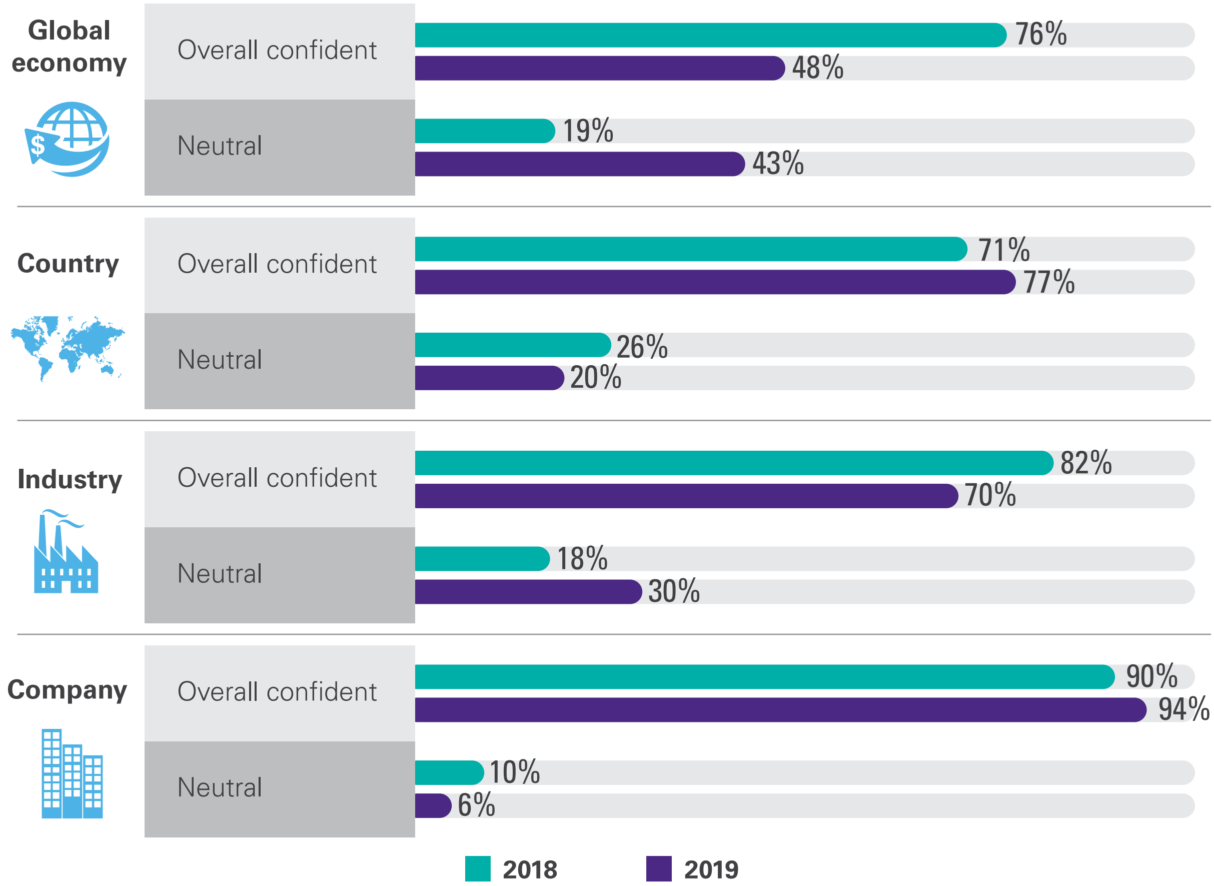
Fewer China CEOs surveyed this year are confident in the growth prospects of the global economy compared with 2018 (See Figure 1). Less than half (48 percent) told us they are confident or very confident in the growth prospects of the global economy, down from 76 percent last year. But despite what this result might suggest, China CEOs have actually not turned pessimistic, as a large proportion of them hold neutral views with regards to the growth prospects of the global economy (43 percent). In other words, China CEOs have become more cautious in their views about the world economy.

Comparatively, global peers are more optimistic about the outlook of the global economy this year, with 64 percent of them responding that they are confident or very confident in its prospects, while 31 percent hold a neutral view.

China CEOs also feel less confident about the growth prospects of their industry compared with last year, with the proportion of respondents who feel confident or very confident having declined to 70 percent from 82 percent in 2018. Again, a large proportion of respondents (30 percent) were neutral on this question, suggesting a more cautious attitude rather than pessimism.

In contrast, there was a slight rise in the percentage of global peers that are optimistic about the prospects of their respective industries, from 78 percent in 2018 to 81 percent in 2019.

Figure 1: China CEOs' confidence in the growth outlook



Source: KPMG 2019 Global CEO Outlook

While the above results might suggest otherwise, China CEOs continue to be confident in the growth prospects of their country as well as their companies.

Over three quarters of China CEOs polled (77 percent) told us they are confident or very confident about the prospects of their country, up from to 71 percent last year. In comparison, 83 percent of global peers say they are confident or very confident about the growth prospects of their respective countries.

Additionally, China CEOs not only continue to be overwhelmingly confident in the growth prospects of their own companies, but their confidence levels have actually increased, from 90 percent in 2018 to 94 percent in 2019. In line with this, over the next three years, 98 percent of them expect to see top-line growth, and 96 percent an increase in headcount. This finding is on par with global peers, of whom 94 percent also say they are optimistic about their companies' growth prospects.

In my conversations with China CEOs, it is clear that they are aware of the importance for China to continue to transition into a high value-added economy and are supportive of the measures that are being implemented to facilitate this process. This year's survey results suggest that, while facing challenges, they remain confident in the direction of China's development and its long-term prospects.

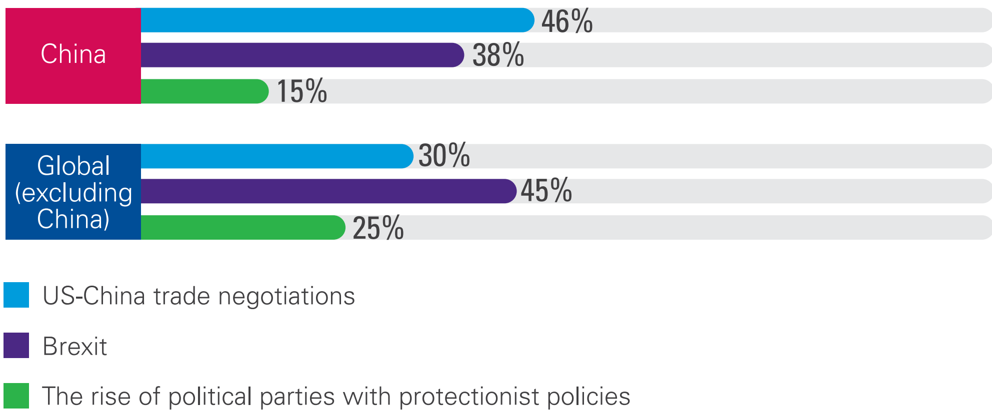
Honson To, Chairman, KPMG China and Asia Pacific

Risks to growth

China CEOs continue to see "environmental/climate change risk" and a "return to territorialism" as the greatest threats to their companies' growth

The ongoing trade negotiations between China and the US have captured the attention of global markets since they began over a year ago, sparking worries about the impact that a protracted trade dispute could have for global businesses. It was therefore not surprising to find that this was the most pressing issue for 46 percent of the China CEOs who chose a "return to territorialism" as the greatest threat to their companies' growth. The second highest proportion, 38 percent, said they are most concerned about Brexit, while 15 percent said they are most worried about the rise of political parties with protectionist policies (see Figure 2).

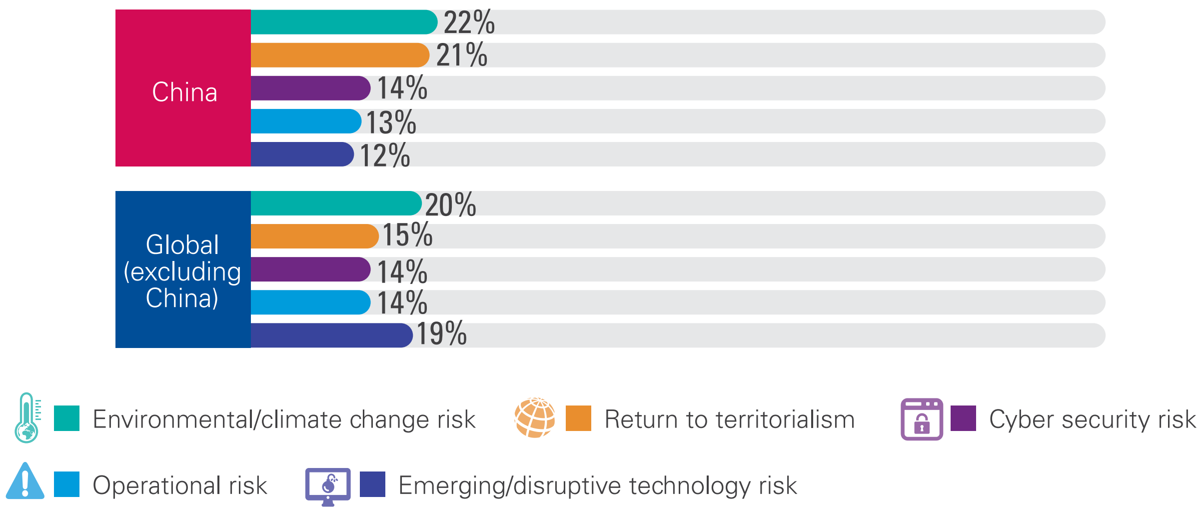
Figure 2: Top concerns regarding a return to territorialism



Source: KPMG 2019 Global CEO Outlook
Note: Only respondents who cited "return to territorialism" as the top risk could answer.

Overall, China CEOs cite the top five risks posing the greatest threat to their organisations' growth as: environmental / climate change risk (22 percent); a return to territorialism (21 percent); cyber security risk (14 percent); operational risk (13 percent); and emerging / disruptive technology risk (12 percent) (see Figure 3).

Figure 3: Risks that pose the greatest threat to growth

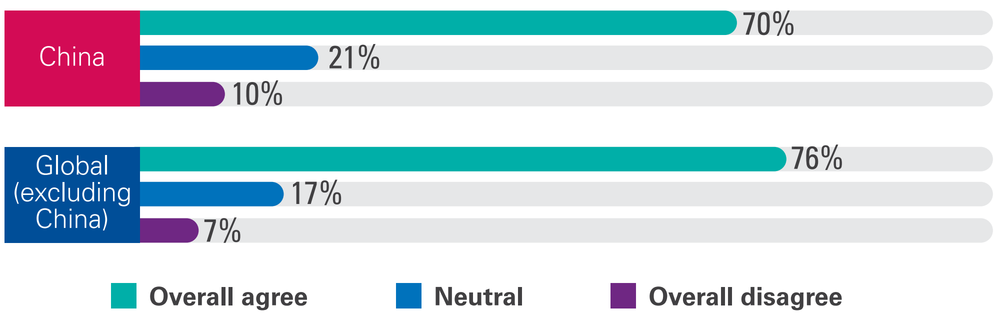


Source: KPMG 2019 Global CEO Outlook
Note: partial list shown

That "environmental/climate change risk" emerged as the top risk helps to explain why over two-thirds of China CEOs (70 percent) believe that their organisations' growth will be determined by their ability to anticipate and navigate the global shift to a low-carbon, clean technology economy. 76 percent of global peers also agreed with this point (see Figure 4).

Figure 4: Global shift to a low-carbon, clean technology economy will determine future growth

Percentage of CEOs who agree or disagree that their organisation's growth will be determined by the ability to anticipate and navigate the global shift to a low-carbon, clean technology economy



Source: KPMG 2019 Global CEO Outlook

Expansion into new markets and M&A

China CEOs' appetite for overseas expansion remains high

Despite reduced confidence in the growth prospects of the global economy, Chinese companies have not lost their appetite to invest overseas. All China CEOs surveyed say that they are planning to expand overseas over the next three years, up from 94 percent in 2018 (see Figure 5).

Similar to last year's results, a majority of China CEOs (56 percent) say that their organisations' biggest priority for geographical expansion is emerging markets; and 84 percent of all surveyed China CEOs told us that they are building their presence in these markets to "become more resilient as a business". Importantly, this year we also noted a significant increase in the proportion of China CEOs who plan to focus on expanding into developed markets, from 30 percent in 2018 to 44 percent in 2019.

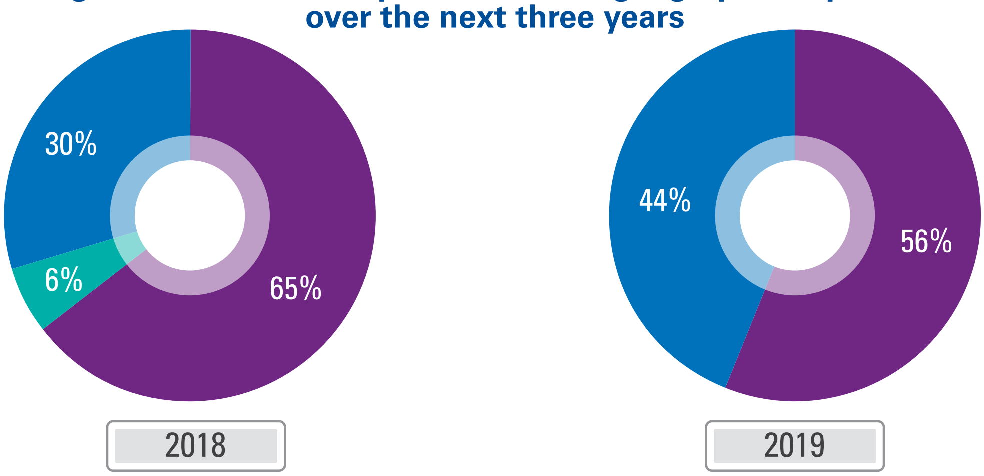
For those prioritising emerging markets, 33 percent want to expand to Central/South America; 27 percent to Eastern Europe; 17 percent to Africa; 11 percent to Asia Pacific; and 11 percent to the Middle East. For those who want to expand to developed markets, 29 percent say they want to expand to Japan, Hong Kong and Singapore; 25 percent to North America; 25 percent to Australasia; and 20 percent to Europe.

In addition, the China-initiated 'Belt and Road' Initiative is front of mind for a majority of global CEOs (i.e. China CEOs and global peers), with close to two-thirds of them – 65 percent – telling us that when expanding to emerging markets, they are prioritising countries and regions that form part of the Initiative (see Figure 6).

The 'Belt and Road' Initiative is giving rise to more cooperation opportunities between Chinese and foreign firms in emerging markets – not only in infrastructure investment but across a wider range of sectors, including financial services, logistics, trade and even digital technologies. This type of cooperation can help unlock the socioeconomic development potential of host countries, while allowing Chinese and foreign firms to access new market opportunities, achieve synergies and manage risks.

Vaughn Barber, Global Chair, KPMG Global China Practice

Figure 5: China CEOs' preferences for geographic expansion over the next three years

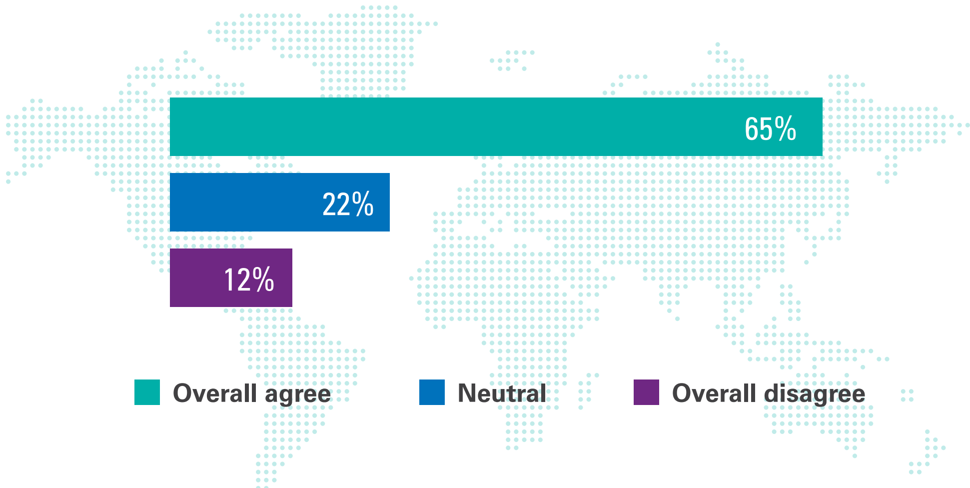


- Developed markets (i.e. mature economy and capital markets, open to foreign ownership)
- Emerging markets (i.e. economy with less well-developed capital markets, regulation and infrastructure, but becoming more advanced)
- Not applicable — we do not plan to enter any new country markets

Source: KPMG 2019 Global CEO Outlook; KPMG 2018 Global CEO Outlook

Figure 6: Prioritising 'Belt and Road' Initiative countries and regions in emerging markets expansion plans

Percentage of China and global CEOs who are prioritising countries and regions that form part of the 'Belt and Road' initiative when expanding into emerging markets

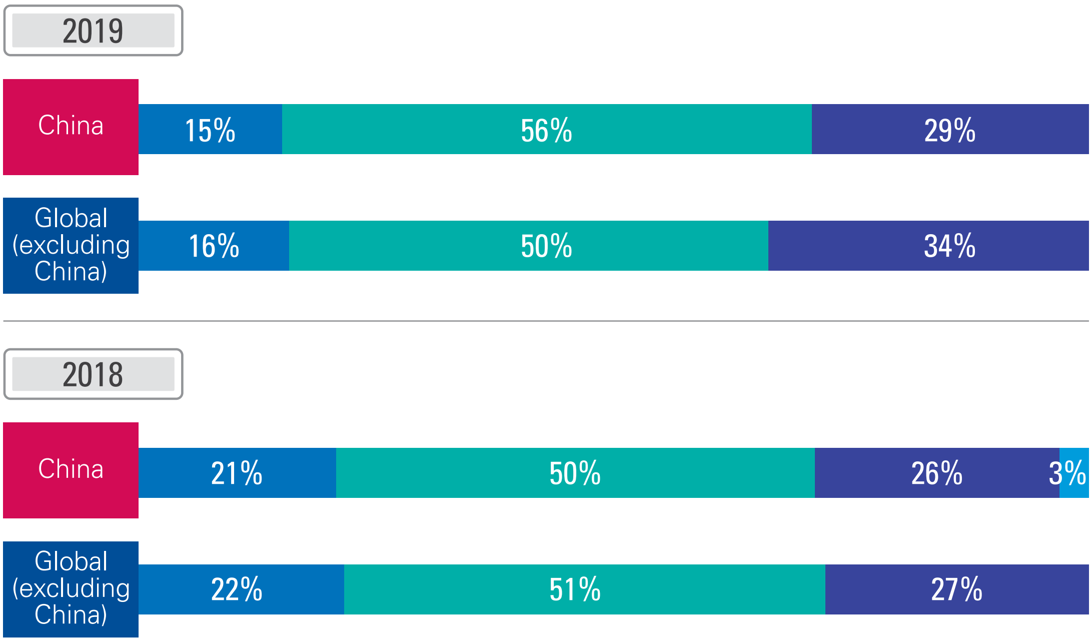


Source: KPMG 2019 Global CEO Outlook

China CEOs' appetite for M&A has increased

This year's survey also finds that China CEOs' appetite for conducting M&A transactions is increasing (see Figure 7), with 85 percent of them having told us that they have a high or moderate appetite for M&A transactions over the next three years, up from 76 percent last year. Comparatively, 15 percent told us they have a low M&A appetite, down from 21 percent last year.

Figure 7: M&A appetite over the next three years

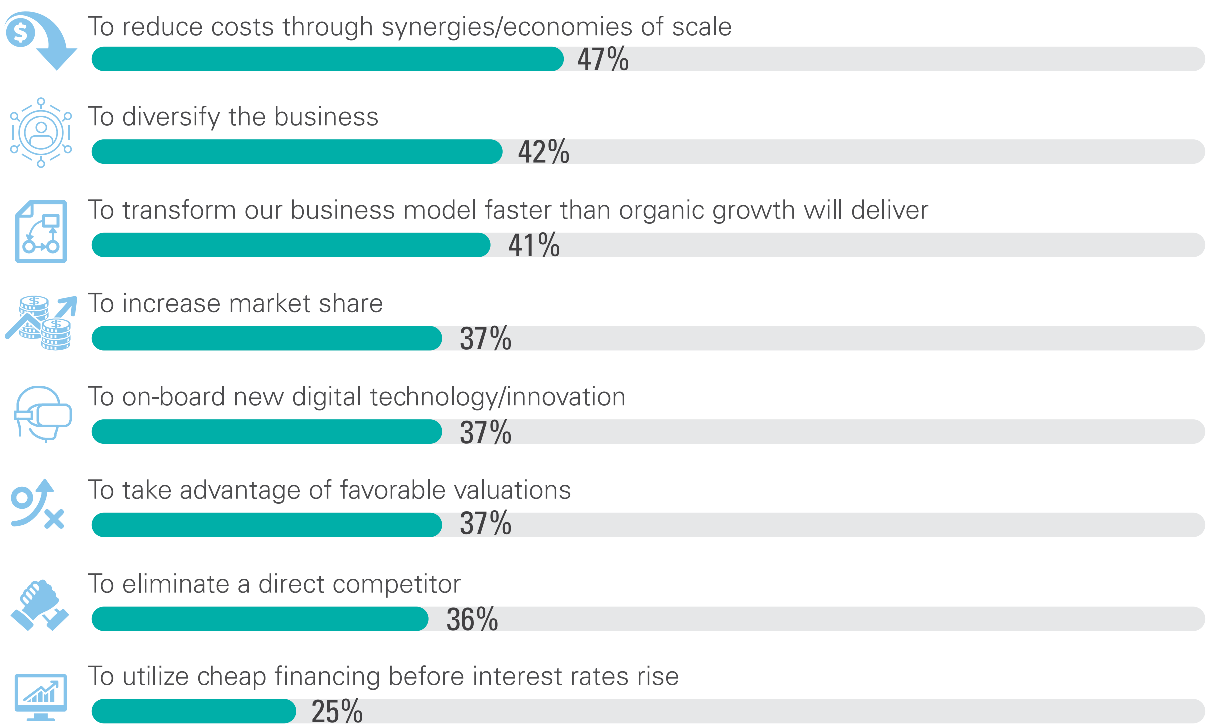


- **Low M&A appetite** — unlikely we will make any acquisitions
- **Moderate M&A appetite** — we will make acquisitions, but with moderate impact to my overall organisation
- **High M&A appetite** — likely to undertake acquisitions which will have a significant impact to my overall organisation
- **We are seeking to be acquired ourselves** — likely we will be the target of an acquisition or merger

Source: KPMG 2019 Global CEO Outlook; KPMG 2018 Global CEO Outlook

The results also show that the top three drivers for Chinese companies' M&A appetite are (i) to reduce costs through synergies or economies of scale (47 percent); (ii) to diversify the business (42 percent); and (iii) to transform their business models faster than organic growth will deliver (41 percent) (see Figure 8).

Figure 8: Primary drivers for M&A over the next three years among China CEOs



Source: KPMG 2019 Global CEO Outlook

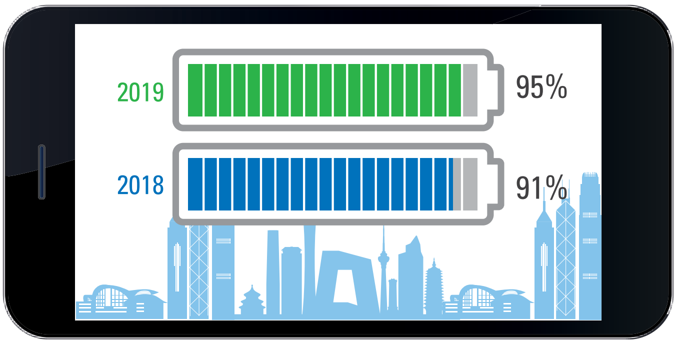
Innovation and technological disruption

Similar to previous years, innovation is at the top of China CEOs' agendas, with an increasing proportion of them embracing technological disruption as a way to gain an edge in the market

This year, 95 percent of China CEOs told us they consider technological disruption as more of an opportunity than a threat, up from 91 percent last year (See Figure 9).

Figure 9: Technological disruption is more of an opportunity than a threat

Percentage of China CEOs who see technological disruption as more of an opportunity than a threat

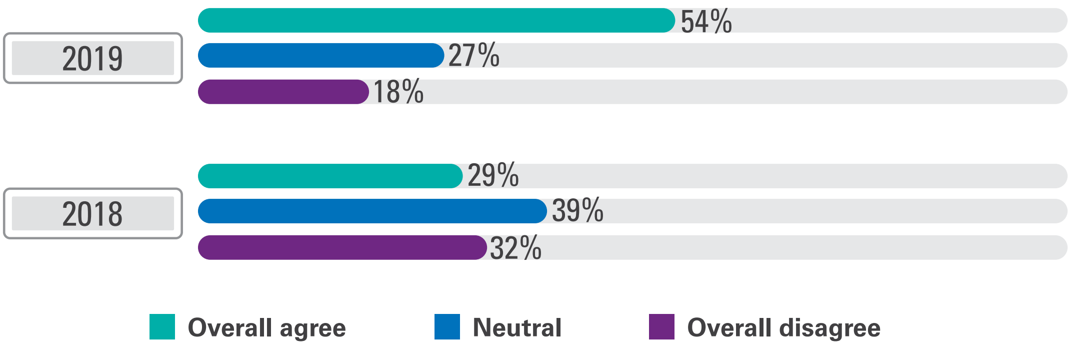


Source: KPMG 2019 Global CEO Outlook

Additionally, seven in 10 China CEOs (70 percent) said their companies' ability to grow relies on their ability to challenge and disrupt any business norms. And more than half (54 percent) of China CEOs told us their companies are actively disrupting the sectors in which they operate, rather than waiting to be disrupted, a sizeable increase compared with 29 percent who said the same in 2018 (See Figure 10).

Figure 10: Actively disrupting the sector in which we operate

Percentage of China CEOs who agree that their organisation is actively disrupting the sector in which it operates, rather than waiting to be disrupted by competitors



Source: KPMG 2019 Global CEO Outlook; KPMG 2018 Global CEO Outlook

In line with these results, 68 percent of China CEOs said they are investing more capital to buying new technology in order to improve their organisation's resilience, while all surveyed China CEOs told us that their companies are either piloting or implementing AI to automate processes.

When asked about the timeframe over which they expect a significant return on their investment in a number of disruptive technologies, 97 percent of China CEOs told us they expect their digital transformation strategies to deliver significant returns in the near term (i.e. up to three years), up from 93 percent last year, and compared to 91 percent of their global peers. We did not find this surprising given the fast-paced development of China's digital economy, which is estimated to have grown 20.9 percent in 2018 to reach USD 4.67 trillion, accounting for about 35 percent of GDP.[1]

With regard to their companies' investments in robotic process automation and AI systems, a respective 60 percent and 47 percent of China CEOs expect to see significant returns in the near term, while the rest believe this will be achieved in the medium-term (i.e. four to 10 years).

Finally, there appears to be increasing recognition that achieving progress on companies' transformation goals requires sufficient lead time. 69 percent of China CEOs polled this year agree that "lead times to achieve significant progress on transformation often seem overwhelming", down from 92 percent in 2018.

China's CEOs recognise the challenges of operating in a complex and changing business landscape. Innovation and technological disruption continues to be at the forefront of competitor differentiation, which combined with key national initiatives such as the 'Belt and Road' and the Guangdong-Hong Kong-Macao Greater Bay Area offer unique opportunities for government and the private sector to collaborate on projects that can bring lasting benefits.

Benny Liu, Chairman, KPMG China

[1] China Academy of Information and Communications Technology, 2019 White Paper on the Development of China's Digital Economy and Related Industries (中国数字经济发展与就业白皮书 2019年), April 2019, p3. http://www.caict.ac.cn/kxyj/qwfb/bps/201904/P020190417344468720243.pdf

Agility and partnering

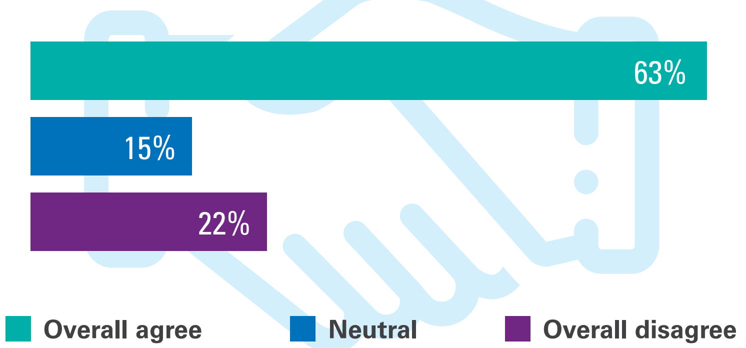
China CEOs understand that being agile is key to succeed in a rapidly changing market, and are increasingly aware of the importance of partnering to achieve this

Against a changing business landscape, technological disruption and geopolitical developments, agility is key to build resilient companies and succeed in the market. This year's survey findings further validate the trend that partnerships and strategic alliances with third-party firms are becoming increasingly important for Chinese firms to successfully face and adapt to disruption.

58 percent of China CEOs agreed with the statement that "acting with agility is the new currency of business", while 63 percent said that increasing the use of partnerships with third-party firms is "the only way for our organisation to achieve the agility it needs" (See Figure 11).

Figure 11: Increasing use of third-party partnerships is the only way to achieve the agility our organisation needs

Percentage of China CEOs who agree that only way for their organisation to achieve the agility it needs is to increase the use of third-party partnerships

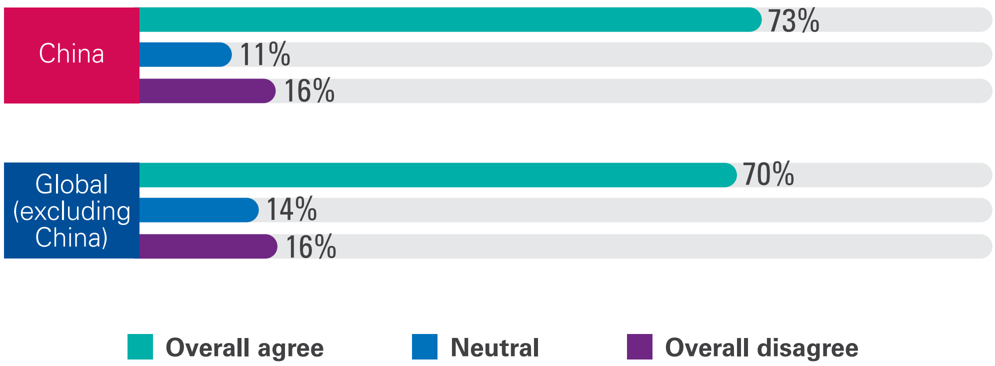


Source: KPMG 2019 Global CEO Outlook

Furthermore, this year's survey findings suggest that Chinese firms are just as selective – or more selective – than their global peers when it comes to partnering: 73 percent of surveyed China CEOs said that they are looking for quality over quantity in new partnerships (e.g. having fewer, deeper relationships), compared to 70 percent of their global peers (see Figure 12).

Figure 12: We are looking for quality over quantity in our new partnerships (such as having fewer, deeper relationships)

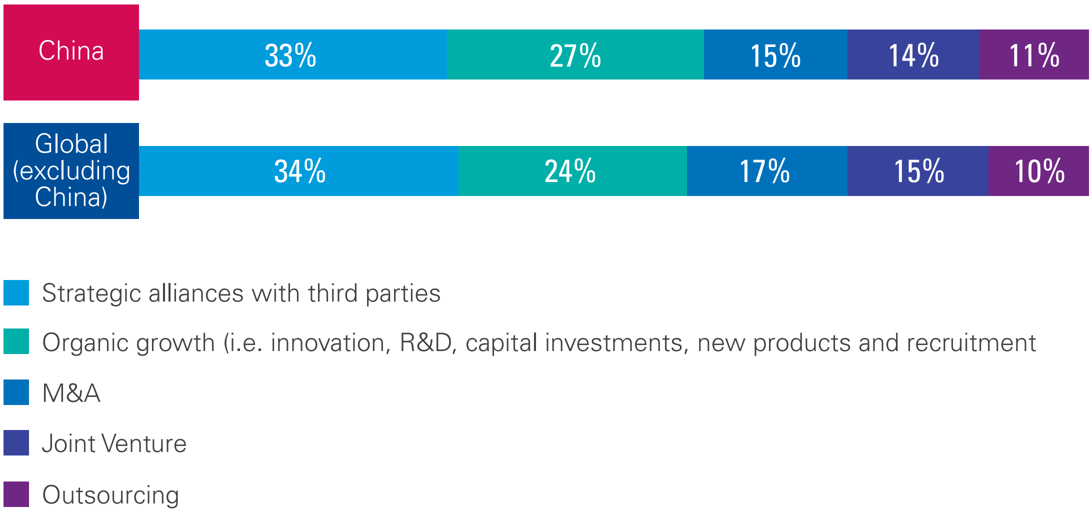
Percentage of CEOs who agree or disagree with the above statement



Source: KPMG 2019 Global CEO Outlook

Similar to last year, "strategic alliances with third parties" was the top choice for both China CEOs (33 percent) and their global peers (34 percent) as the most important strategy to achieve their respective organisations' growth objectives over the next three years (See Figure 13).

Figure 13: Most important strategies for achieving growth objectives in the next three years



Source: KPMG 2019 Global CEO Outlook

China CEOs also told us that they are relying on "improving customer engagement" (35 percent); "modernizing the workforce" (34 percent); "refining how they value assets (including data)") (18 percent); and "reimagining internal functions as services" (14 percent) to ensure their organisation is future-ready.

Finally, and once again reflecting the increasing importance of partnering and innovation to survive and succeed in the market, more than half of China CEOs told us that their companies intend to undertake the following actions over the next three years to help pursue their growth objectives.

Planned actions to achieve growth

Actions that CEOs plan to undertake over the next three years to pursue their growth objectives

	China CEOs	Global CEOs (excluding China)
"Increase investment in disruption detection and innovation processes"	64%	60%
"Set up accelerator or incubator programs for start-up firms"	63%	60%
"Make products and services available via an online platform provider"	62%	61%
"Corporate venturing"	61%	59%
"Join industry consortia focused on development of innovative technologies"	58%	59%
"Partner with third-party data providers"	57%	48%
"Partner with third-party cloud technology providers"	55%	49%
"Collaborate with innovative start-ups (e.g. FinTech, InsurTech, HealthTech firms)"	54%	59%

Source: KPMG 2019 Global CEO Outlook

About this survey

The survey data published in this report is based on a survey of 1,300 chief executive officers (CEOs) in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The survey was conducted between 8 January and 20 February 2019. 125 of the 1,300 CEOs surveyed for this report are from companies headquartered in mainland China and Hong Kong.

The CEOs operate in 11 key industries: asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecom.

Of the 1,300 CEOs, 310 came from companies with revenues between US$500 million and US$999 million; 543 from companies with revenues between US$1 billion and US$9.9 billion; and 447 from companies with revenues of US$10 billion or more.

For more information on the global survey, please visit https://home.kpmg/xx/en/home/campaigns/2019/05/global-ceo-outlook-2019.html.

A note about the data

Our data calculations are based on the results of the survey that was conducted for the *2019 Global CEO Outlook*.

For the results presented throughout this report for 'global peers' and 'global CEOs (ex China CEOs)', the responses of China CEOs have been excluded from the calculations.

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About KPMG China

KPMG member firms and its affiliates operating in Mainland China, Hong Kong and Macau are collectively referred to as "KPMG companies headquartered in mainland China and Hong Kong".

KPMG China is based in 22 offices across 20 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.

KPMG's Global China Practice (GCP)

With dedicated teams in nearly 60 locations around the world, including countries and regions along the 'Belt and Road', the Global China Practice plays a leading role in 'bringing China to the world' and 'bringing the world to China'.

We are passionate about facilitating Chinese outward direct investment (ODI) in meaningful ways, including by helping Chinese companies integrate into local business communities, and introducing them to potential partners in key overseas markets. The Global China Practice also enhances KPMG's ability to serve foreign companies as they enter and grow in China. While many of our clients have been active in China for decades, the 13th Five-Year Plan represents an important turning point in the Chinese Government's attitude towards foreign direct investment (FDI), and marks a new era of potential Sino-foreign cooperation in China. To succeed in the 'new normal' in China, foreign companies should review what contribution they can make to China's ongoing economic transformation, align their value proposition and business strategies accordingly, and prepare for a shifting landscape of risks.

Through the Global China Practice, KPMG works alongside both Chinese and foreign companies as they navigate through dynamic business environments, shape business partnerships, and build platforms to achieve long-term market positions.

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