



2022 China CEO Outlook

December 2022

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Foreword

In 2022, the world is undergoing unprecedented changes, with new challenges emerging alongside the lingering Covid-19 pandemic. Rising inflation, tightening monetary policies, and geopolitical issues have increased the uncertainty of economic growth around the world, posing challenges for enterprises in terms of strategy, operations, investment, and other areas.

KPMG's 2022 CEO Outlook report identifies leading issues of critical importance to enterprises and provides insights into how business leaders are addressing challenges and seizing opportunities. For this report, we surveyed more than 1,300 CEOs from 11 major economies, including 125 CEOs from China. This report enables us to better understand China CEOs' views on the macro economy, corporate development and investment.

Looking at this year's results, I am deeply impressed by how surveyed CEOs in China view the economy's future growth prospects. China CEOs are optimistic about the economy from a medium- and long-term perspective, with 80% of them expecting their businesses to grow over the next three years, higher than pre-pandemic levels. Although many believe that the global economy will experience a recession in the coming year due to various headwinds, most believe that it will be short and mild, while more than four out of five say that they have already put in place different countermeasures.

We have also noticed that CEOs are proactively adjusting strategies and taking actions to improve their business resilience and agility. In this regard, we think there are three key takeaways from this survey. First, CEOs are deepening digital transformation to stay competitive. In recent years, the digital economy has been gaining momentum in China, helping the country achieve high-quality economic development. Nearly 90% of China CEOs believe that their digital transformation strategies have a significant impact on their medium- and long-term development. In addition, in order to better translate digital transformation into value, they are carefully building digital business models, and prioritising investments in areas where they can drive business growth.

Second, driven by the country's "dual carbon" goals, China CEOs are accelerating the integration of environmental, social and governance (ESG) practices into the company's development strategy. Over the past year, a larger number of CEOs said they would invest more in business sustainability compared to last year, even though some mentioned that ESG investments had not yet proven beneficial from a financial performance and business growth perspective. In this context, enterprises need to better coordinate their development strategies with their ESG initiatives, and link their green investments more closely with their digital investments, so as to gain an edge amid fierce competition.

Third, cultivating and retaining high quality talent remains key to achieving business success. A greater proportion of CEOs regard recruiting and retaining talent as critical to ensuring their companies' long-term prosperity, and they plan to optimise their employee value proposition (EVP) and step up employee upskilling to increase their core business competitiveness. We should also note that employees are paying much more attention to enterprises' ESG performance. Therefore, enterprises should focus on better communicating their vision of sustainable development to employees, while also offering an inclusive, diverse, and flexible working environment to their people.

In spite of the current economic headwinds, we firmly believe that China CEOs possess the skills and tenacity to weather risks and challenges may come. We hope that this report presents readers with a clearer picture of China CEOs' leading concerns and their vision for the future. In the years ahead, KPMG looks forward to working alongside various stakeholders to contribute to China's high quality economic growth.



Honson To
Chairman for KPMG Asia Pacific
and China

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Key findings



Economic outlook

90% of China CEOs believe a recession in the short term will happen, but 80% feel it will be mild and short, compared to the global average of 58%. CEOs still have confidence in medium to long term economic growth.



Pressing concerns

Economic factors, reputational risk, and emerging and disruptive technology are the top pressing concerns for China CEOs. 22% of China CEOs say that the short-term global anticipated recession and future trajectory of China's economic growth are the top concerns for business. Meanwhile, China CEOs' focus on regulatory policies and supply chain as top concerns has declined relatively from the beginning of the year.

Economic outlook

Pressing concerns

Growth strategy

Digital transformation



Growth strategy

In order to enhance the enterprise resilience and achieve the growth objectives, top operational priorities for CEOs include improving employee value proposition to attract and retain the necessary talent; increasing measures to adapt to geopolitical issues; and advancing digitisation and connectivity across the business.



Digital transformation

To stay competitive, 82% say that they have an aggressive digital investment strategy and intend to secure first-mover or fast-follower status. Meanwhile, 81% believe that right partnerships will be critical to continuing their pace of digital transformation, a significant increase from 68% of last year. Meanwhile, how to measure and report the benefits of transformation is the main challenge faced by enterprises in the process of digital transformation.

ESG

Talent

Supply chain

About the survey



ESG

Stakeholder demand for greater ESG transparency and reporting continues to increase. As China CEOs respond to this growing need, 45% believe that the biggest challenge is articulating a compelling ESG story. Meanwhile, 80% say that their organisation's digital and ESG strategic investments are inextricably linked, up from 75% of last year.



Talent

81% of China CEOs believe that companies' ability to retain talent with rising cost of living associated with inflation is a pressing concern. As such, CEOs are investing more in talent. 53% say that they are devoting more capital investment to develop their workforce's skills and capabilities, an 11% increase from last year's finding and higher than global average. In addition, compared with the global average, more China CEOs would prefer to return to work in-office.



Supply chain

26% of China CEOs state they will monitor their supply chains more closely to mitigate potential supply chain risks over next three years. 21% say they will move a greater proportion of their supply chain onshore to enhance their production and operational resiliency, an increase of six percentage points from last year and four percentage points higher than the global average.



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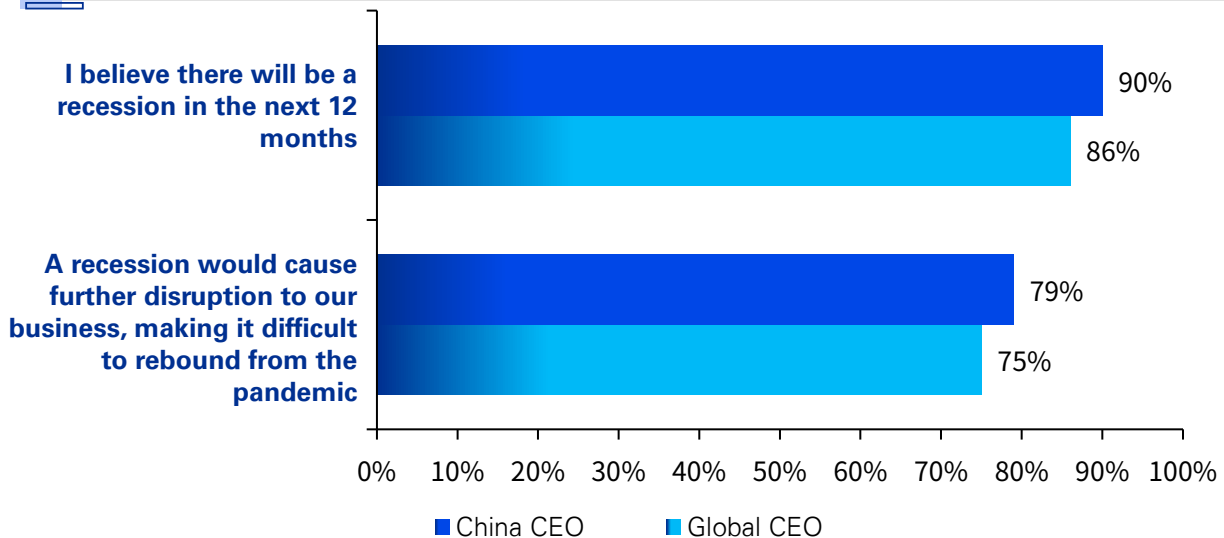
About the survey

CEOs expect the global economy to face a mild recession in the near term, but they are still confident in long-term growth



Rising inflation, hawkish monetary policies, and geopolitical issues have increased the uncertainty of economic growth around the world. According to our survey, 90% of China CEOs surveyed anticipate a global recession in the coming year, slightly higher than the global average of 86%. Additionally, nearly 80% of the China CEOs believe that a recession will slow down the post-Covid economic recovery, a figure which also exceeds the global average (see Figure 1).

Figure 1 CEOs' view on economic recession, %



Source: KPMG 2022 China CEO Outlook

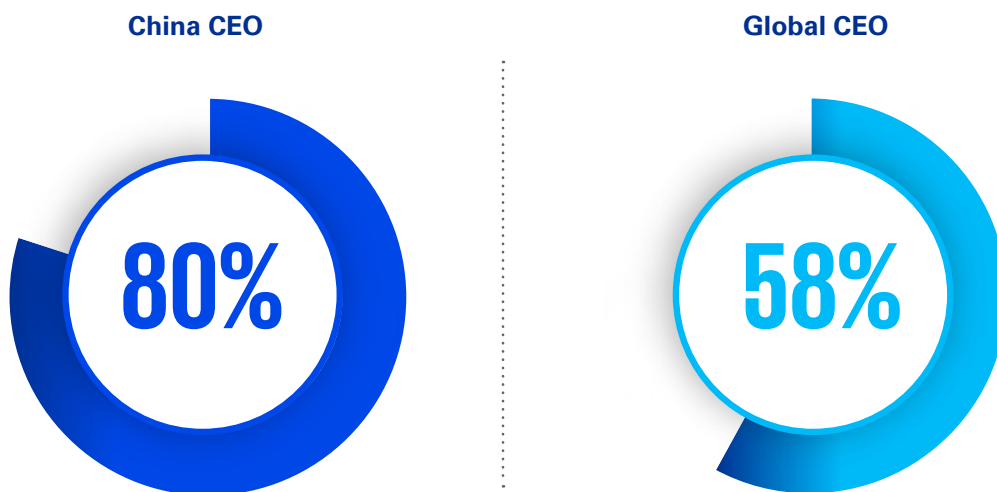
Since the beginning of 2022, major economies including the US and Europe have seen inflation rates reach 40-year highs, putting additional pressure on both residents and enterprises. In order to address this issue, advanced economies have tightened their monetary policies. From March to October 2022, the US Federal Reserve (the Fed) increased interest rates five times totalling 300 basis points, more than in its previous tightening cycle from 2015 through 2018. According to the Chicago Mercantile Exchange (CME) markets widely expect the federal funds rate to reach around 4.25%-4.5% by the end of 2022. Also, in July 2022, the European Central Bank started to raise its policy rates for the first time in 11 years; and it has hiked its marginal lending facility rate three times, raising it to 2.25%.

As the central bank of the world's largest economy, the Fed has a significant impact on policy interest rates, capital flows, and exchange rates in economies and financial markets around the world. Sharp interest rate increases have made financing more costly and work to suppress investment, consumption, real estate, etc. At the same time, many countries have significantly increased fiscal expenditure amid the pandemic to boost their economies, worsening their debt levels. In the face of interest rate hikes, countries will need more funds to repay their creditors, which could precipitate debt crises. Recently, the International Monetary Fund (IMF), the World Bank, and other international organisations have lowered their expectations for global economic growth. In its latest World Economic Outlook released in October, the IMF estimated that the global economy will grow by 3.2% in 2022, and it reduced its forecast for 2023 by 0.2 percentage points to 2.7%. According to the report, economies accounting for approximately one-third of the global economy will experience a recession for at least two consecutive quarters within in 2022 and 2023. In addition to monitoring the overall global economic situation, enterprises need to pay close attention to whether higher interest rates mitigate inflation.

Despite the current recession fears, our survey also indicates that 80% of China CEOs expect the current global economic recession to be mild and short, compared to the global average of 58% and the US CEOs' 37% (see Figure 2).



Figure 2 Share of CEOs who expect the anticipated recession to be mild and short, %



Source: KPMG 2022 China CEO Outlook

Unlike the US and Europe where inflation is ramping up, China has experienced relatively low inflation, allowing the country to maintain its current policy of monetary easing. In the first three quarters of 2022, China's Consumer Price Index (CPI) grew 2% year-on-year, much lower than that in other economies including the US and Europe. Although food costs have been increasing more noticeably in the latter half of the year due to rising pork prices, China's core CPI, which excludes food and energy, was up only 0.9% in those three quarters. Overall, inflation in China remains under control, allowing room for further stimulus policies.

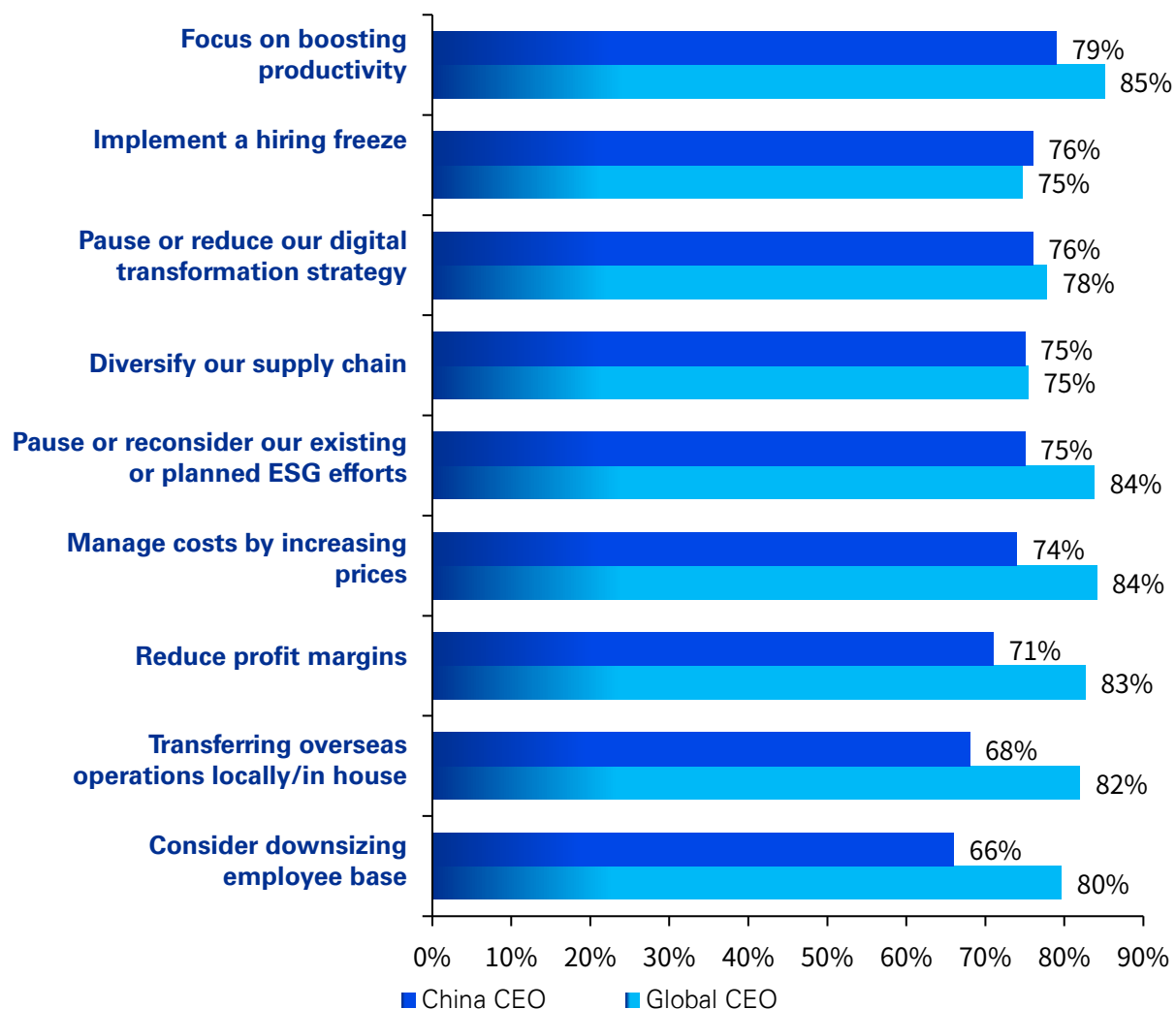
It should also be noted, however, that variation of monetary policy has contributed to a fluctuating foreign exchange market. The Fed's higher interest rates have resulted in a bullish dollar and a weaker yuan. In the first 10 months of this year, the exchange rate of RMB to USD depreciated by 14%, subjecting enterprises in China to greater import costs. Meanwhile, a potential slowdown of the global economy is threatening to shrink foreign demand and cripple exports. Against this backdrop, China CEOs

anticipate an average drop in operating income of around 20% compared to the global CEOs' relatively lower estimate of 10%. From a sector perspective, infrastructure, manufacturing, and technology are expected to see a relatively greater decline in operating income.

In the face of such challenges, China CEOs have been proactively preparing to fortify themselves against global headwinds. In this regard, 83% of them said that they are well prepared, while only 75% global CEOs on average said so. When it comes to implementing specific measures in the coming six months, a majority of CEOs (including those in China) put boosting productivity at the top of their agendas (see Figure 3).

Enterprises are striving to improve their efficiency and competitiveness through innovation, so as to better cope with the economic slowdown and greater market uncertainty. According to our survey, 76% of China CEOs say that they have implemented or plan to implement a hiring freeze in the next six months to weather short-term economic risks, but only 66% of the China CEOs have or plan to downsize their employee base for that purpose, considerably lower than the global average of 80%. As growing global uncertainty has given rise to the risk of supply chain bottlenecks and disruptions, 75% of the China CEOs say they have or plan to diversify suppliers, while 68% of them are considering repatriating their overseas operations.

 **Figure 3 Steps that CEOs have already taken, or plan to take in the next six months, to prepare for the anticipated recession, %**

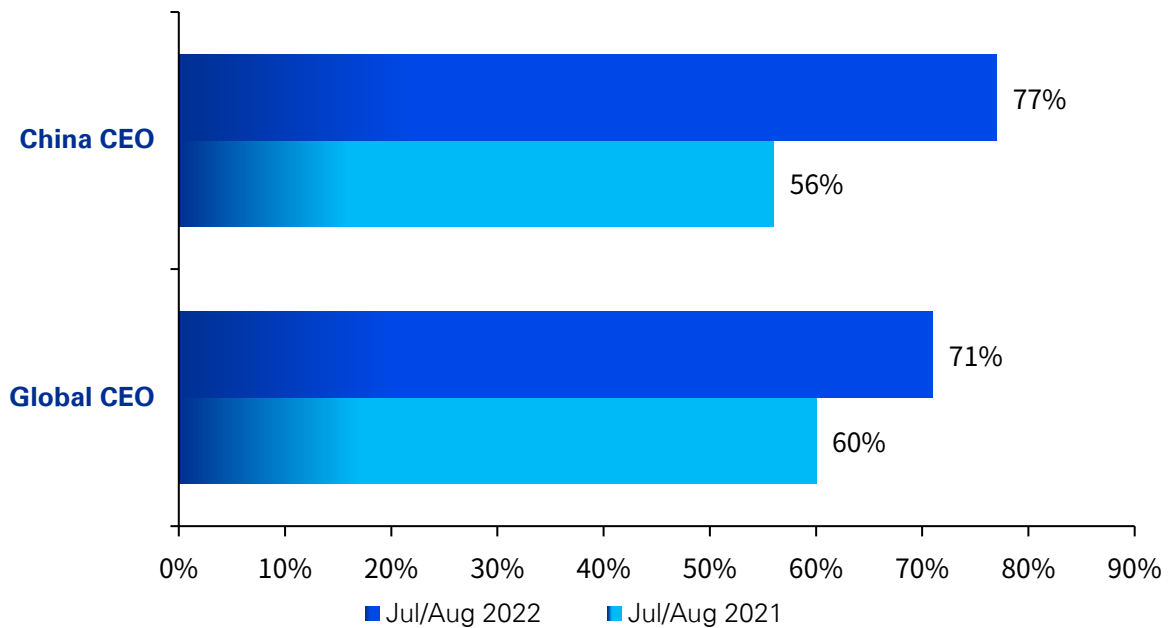


Source: KPMG 2022 China CEO Outlook

Although the risk of a short-term global recession has grown much more acute, CEOs surveyed remain optimistic about medium- and long-term growth. As Covid-19 vaccination campaign have accelerated, many economies have gradually lifted their Covid containment measures since the beginning of 2022 to reduce the impact of the pandemic on their economies. This policy relaxation has raised the prospects for economic growth in the eyes of CEOs. Among the China CEOs surveyed, 77% are confident about the global economy over the next three years, higher than last year's 56% and the global CEOs' 71% this year (see Figure 4).



Figure 4 CEOs' confidence on the global economy over the next three years, %



Source: KPMG 2022 China CEO Outlook



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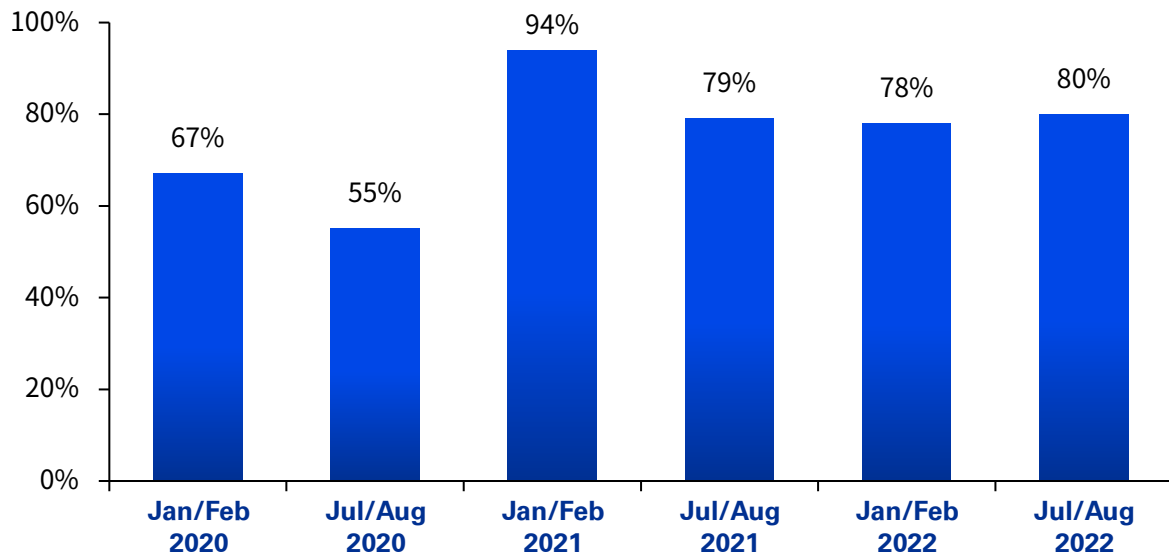
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China CEOs continue to be very optimistic about their country’s medium- and long-term economic growth prospects. In the face of headwinds such as the more infectious Omicron variant, a sluggish real estate market, and a complex international business landscape, the Chinese economy lost some of its vitality in the first three quarters of 2022, recording 3% of GDP growth during this period. Since late May 2022, China’s government has rolled out a series of policies to stabilise the country’s economic and social development, and the State Council has dispatched supervision and service taskforces to support and oversee the local implementation of these policies. As a result, production resuming in an orderly manner and month-on-month production, investment, and consumption growth improving significantly, demonstrating the resilience of the Chinese economy. From a medium-term perspective, 80% of the China CEOs are optimistic about China’s economic growth over the next three years, on par with sentiment in our 2021 survey (see Figure 5).

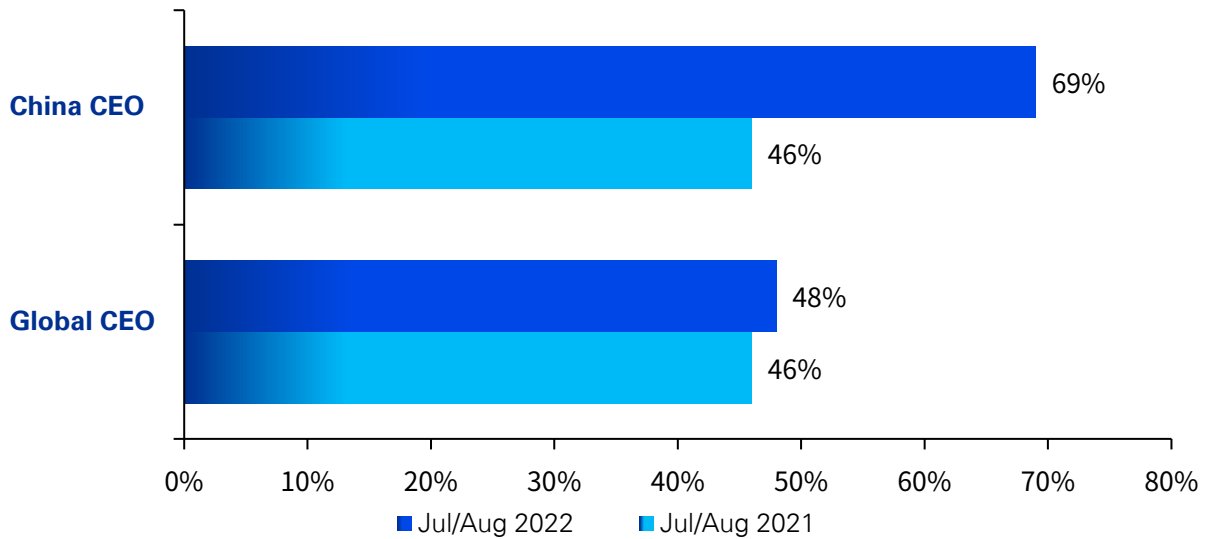
 **Figure 5 China CEOs’ confidence on China’s economic growth over the next three years, %**



Source: KPMG 2022 China CEO Outlook

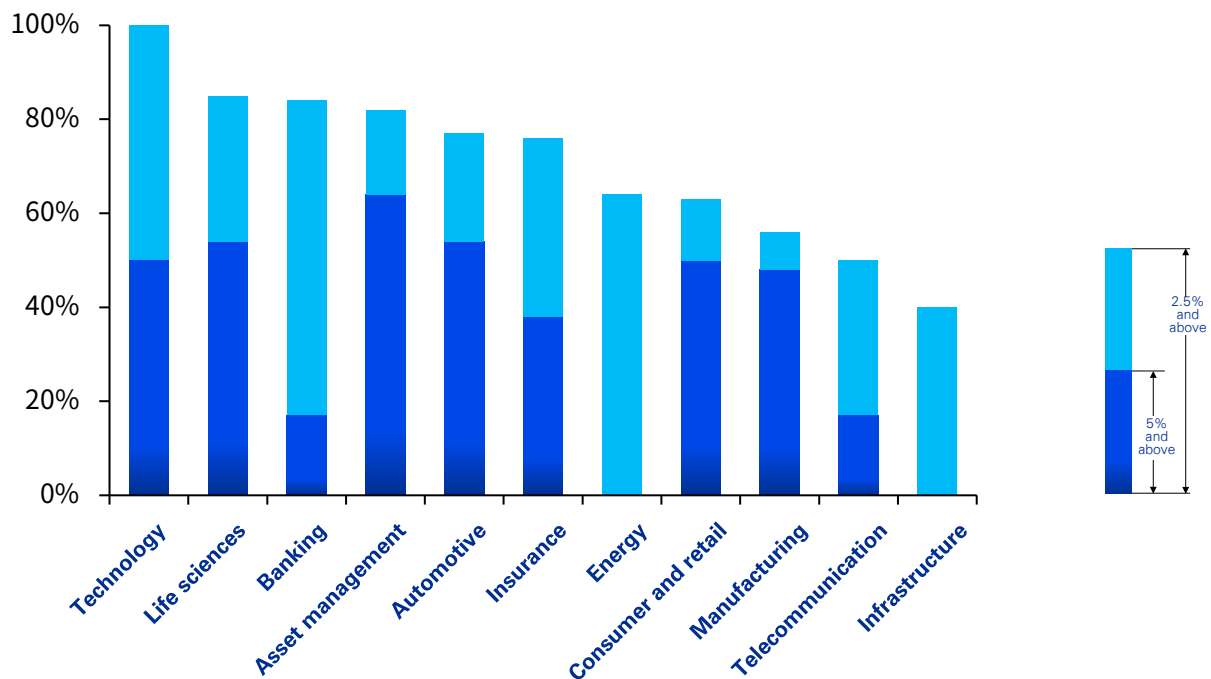
China CEOs are confident about their earnings outlook in the coming three years as well. Our survey suggests that 69% of the China CEOs are anticipating a 2.5% and above per annum increase in earnings over the next three years, which exceeds the global average of 48% as well as the proportion of China CEOs who responded similarly in 2021 (46%) (see Figure 6). An additional 12% estimate that their earnings will surge by more than 10% per annum, eight percentage points up from the previous year. In terms of sectors, the CEOs of technology and manufacturing enterprises have expressed greater confidence as the government has stepped up support for these industries since the 14th Five-Year Plan was put into action. The government’s efforts, which include launching relending instruments to facilitate technological innovation and tax preferences to drive basic research and equipment upgrading and optimisation, are mainly directed toward manufacturing, high technology, technological innovation, and industrial optimisation and upgrading. Given that China has been attaching great importance to life sciences in recent years, the operating income of related sectors is expected to be promising as well. At the same time, as the country has continued to develop its asset management sector, firms in this sector are expected to have a better earnings outlook in the coming years, with 64% of the China CEOs expecting growth of over 5% per annum over the next three years (see Figure 7).

Figure 6 CEOs believe their organizations' earning growth will reach 2.5% and above per annum over the next three years, %



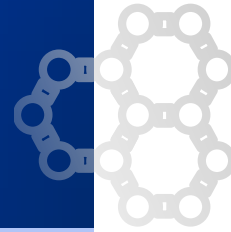
Source: KPMG 2022 China CEO Outlook

Figure 7 China CEOs' view on their organization's earnings outlook over the next three years by sector, %



Source: KPMG 2022 China CEO Outlook

Economic factors, reputational risk, and emerging/disruptive technology are the most pressing concerns for China CEOs



The global economy is facing many emerging challenges this year, which has affected the prioritisation of concerns that CEOs are handling with regards to their day-to-day business operations. Overall, 15% of global CEOs considered pandemic fatigue as their biggest concern (see Figure 8). The potential for a global recession caused by rising inflation ranked second, with 14% of the global CEOs considering it the most pressing concern, up from 9% at the beginning of 2022. Meanwhile, China CEOs consider economic factors, reputational risk, and emerging and disruptive technology to be their top priorities. Specifically, 22% of the China CEOs regard the possibility of a short-term global recession and China's economic growth as their paramount considerations; and similar to last year's survey, 13% of them argue that reputational risk, including misalignment with customer and public sentiment, is also a key concern.



Figure 8 The single most pressing concern for their organization, %

Global CEO		China CEO	
Pandemic fatigue	15%	Economic factors	22%
Economic factors	14%	Reputational risk	13%
Emerging/disruptive technology	11%	Emerging/disruptive technology	12%
Reputational risk	10%	Return to territorialism	10%
Environmental/climate change	9%	Environmental/climate change	8%
Regulatory concerns	9%	Pandemic fatigue	7%
Supply chain	9%	Regulatory concerns	7%
Political uncertainty	9%	Supply chain	6%

Source: KPMG 2022 China CEO Outlook

Meanwhile, continued technological innovation is impacting the global economic landscape. Our survey shows that 12% of the China CEOs rank emerging and disruptive technology as a major business challenge. Innovation is a core engine of China's modernisation initiative. Since the 14th Five-Year Plan was implemented, the country has been investing heavily in technology innovation to fuel its medium- and long-term technological innovation strategy. In 2021, total research and development expenditures amounted to RMB 2.8 trillion, the second largest spend globally. Within this total, RMB 2.14 trillion or nearly 77% was contributed by enterprises, demonstrating that as the Chinese government stepped up support, enterprises took the initiative to play a major role in pursuing innovation. Although technological development has been affected by geopolitical factors in the short run, China's efforts to drive basic research and technological innovation are expected to accelerate technological upgrading in the country in the medium- to long-term, enabling Chinese enterprises to play a more significant role in the global value chain.

While our pulse survey in early 2022 suggested that supply chain issues were a pain point for Chinese enterprises, our follow-on survey in July-August 2022 suggested challenge about these issues was waning, with the proportion of China CEOs mentioning this issue as a top pressing concern falling 12% to 6%. While the Russia-Ukraine conflict has put increased pressure on global supply chains, our survey suggests that pressure has eased from the peak that was seen late in late 2021.

The survey data suggests that regulatory concerns have also become less of a concern, particularly for China CEOs. According to the pulse survey in early 2022, 34% of China CEOs were most worried about regulatory risk, which was 19% higher than the global average. However, the percentage of China CEOs who were concerned about this issue dropped to 7% in our latest survey.

Last year, the Chinese government tightened regulations on the real estate, education, technology, and energy-intensive sectors. Related regulatory policies were released to address potential risks and social issues and ensure the sustainable development of these sectors. Generally, China's regulations are becoming more systematic and organised, as evidenced by the "1+N" policy system to realise carbon dioxide emissions peak and carbon neutrality, the Plan to Facilitate the Development of the Digital Economy in the 14th Five-Year Plan period, and a series of mandates and measures that aim to ensure the completion of houses under construction and guarantee people's livelihoods. These efforts are providing additional assurance to enterprises.

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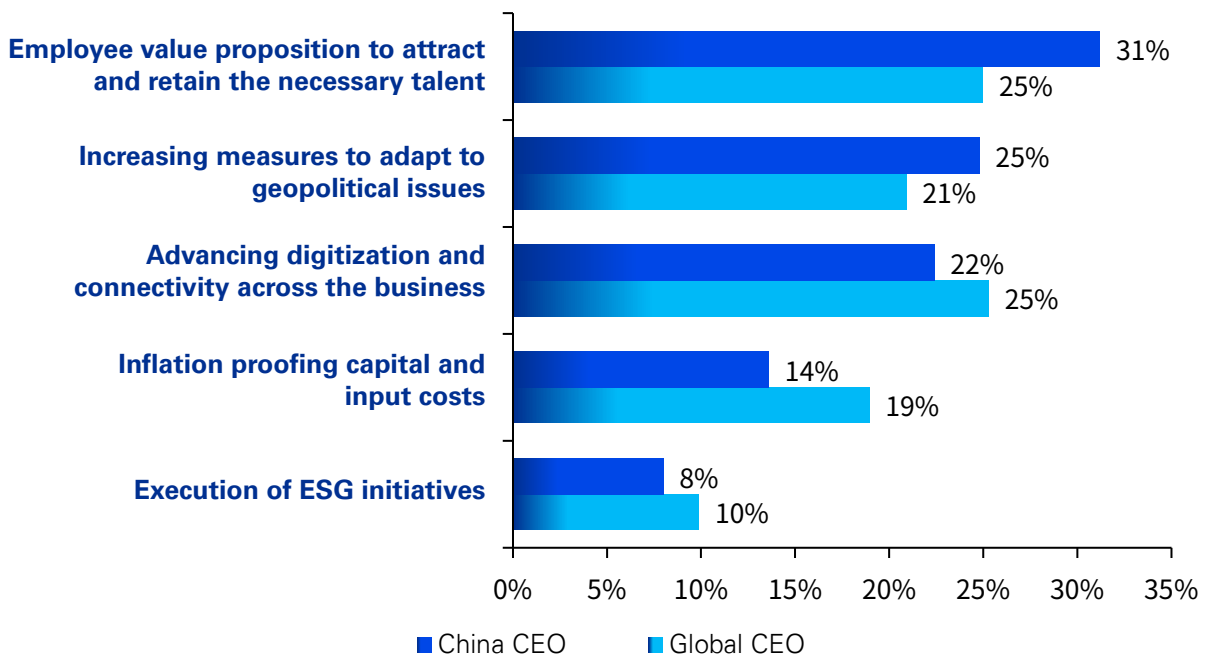
Attracting talent and adapting to geopolitical tensions cited as the top operational measures to achieve growth



CEOs are taking various actions to boost business resilience and grow amid this rapidly developing environment. Our survey indicates that 31% of the China CEOs, compared to 25% of global CEOs on average, believe that a well-defined employee value proposition (EVP) to attract and retain talent will help their enterprises realise growth targets over the next three years (see Figure 9). Notably, one-fourth of China CEOs surveyed (25%) stressed that taking more measures to adapt to geopolitical issues will be a top priority to reach growth objectives over the next three years, compared to 21% of the global CEOs. An additional 22% of China CEOs said they will advance digitalisation and connectivity across their businesses to reach their objectives.



Figure 9 Top operational priorities to achieve growth objectives over the next three years, %



Source: KPMG 2022 China CEO Outlook

In 2022, the world is suffering from a rising occurrence of climate-related natural disasters, surging food and energy prices, growing economic uncertainty, and volatile financial markets. Ongoing geopolitical tensions have these amplified the impacts for governments, enterprises, and residents to cope with these issues, leading to a volatile global economy which is continuing to impact corporate strategies, operations, and investments.

The Russia-Ukraine conflict has worsened global energy and food shortages in the short term and exacerbated inflation. Geopolitical conflicts such as the ongoing Russia-Ukraine situation have also resulted in greater restrictions on business activities, finance, technology, and other fields, drawing greater attention to the need for economic security. In an increasingly globalised world, the foreign exchange reserves of countries, the overseas assets of enterprises, and the security of cross-border settlement systems all play a crucial role to ensure economic stability.

In terms of specific measures to address geopolitical risks, 78% of the China CEOs said that they have already reconsidered their investment strategies or are reconsidering for the coming six months, and a similar proportion of them have diversified or plan to diversify suppliers. Geopolitical risks have also played a role in 76% of the China CEOs' decisions to pause their digital transformation strategies, while 72% of them have opted to transfer their overseas operations locally or move them in house. In addition, 66% said they have adapted their risk management procedures to geopolitical risks or plan to in the next six months (see Figure 10).

In its Global Risks Report 2022, the World Economic Forum mentioned that, by embracing diverse resilience strategies, such as implementing back-ups and redundancies, adjusting operational processes, organisations can move quickly and adapt in order to maintain business continuity, and shortening the supply chain, enterprises can mitigate some possible crises, reduce geopolitical risk exposure, and improve their business resilience¹.

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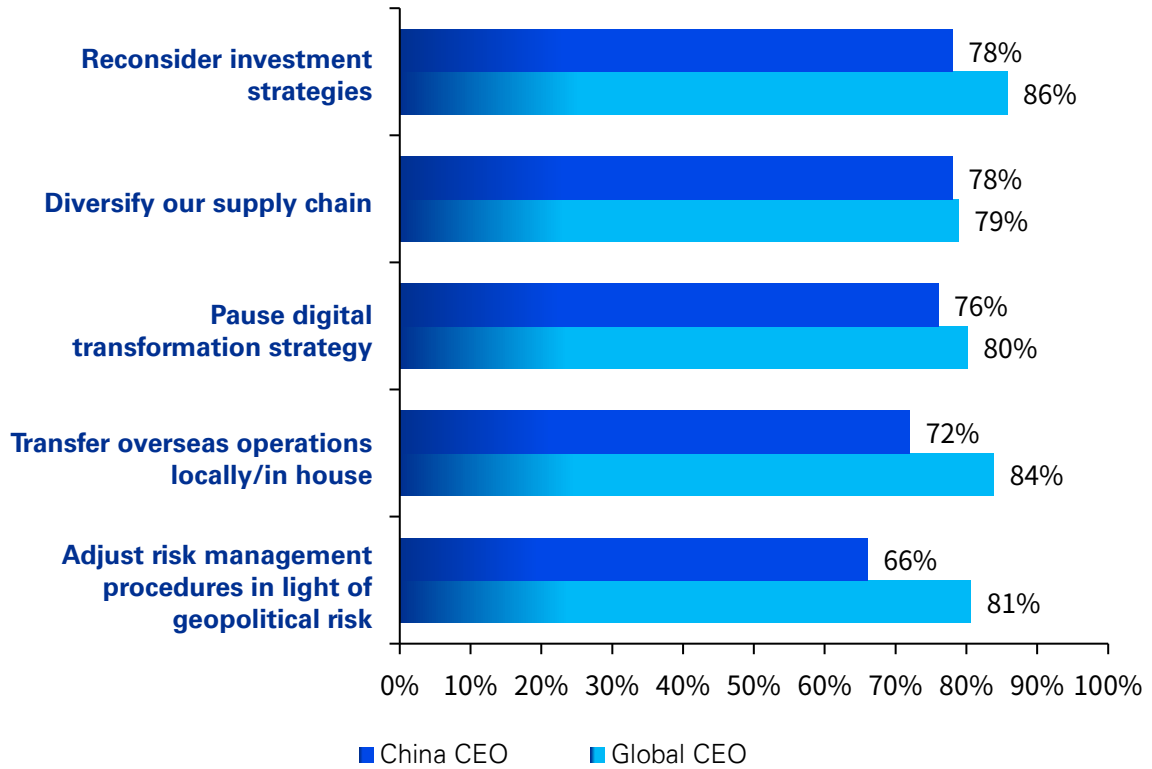
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¹ Global Risks Report 2022, World Economic Forum, January 2022, <https://www.weforum.org/reports/global-risks-report-2022>



Figure 10 Steps that CEOs have already taken, and plan to take in the next 6 months, to adjust strategy in response to geopolitical challenges, %

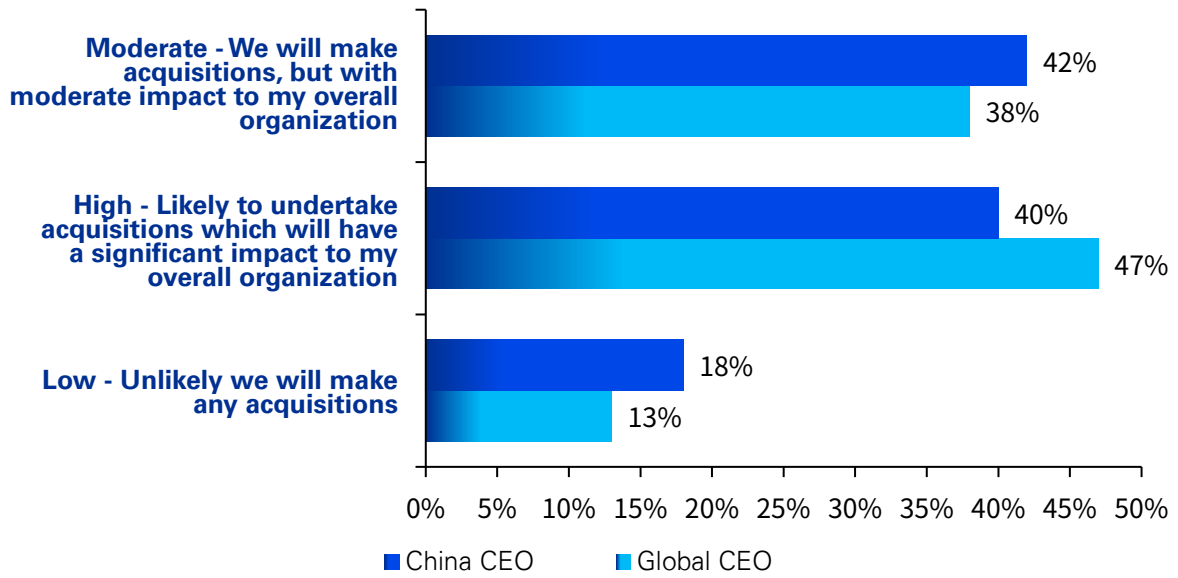


Source: KPMG 2022 China CEO Outlook

Our survey shows that 58% of China CEOs are looking to meet their three-year growth objectives by engaging in M&As or strategic alliances with third parties, indicating that these avenues remain among the leading development approaches for enterprises. At the same time, due to the current economic slowdown, geopolitical tensions, and tighter industry regulations, Chinese enterprises have become more cautious in choosing M&A targets. 40% of the China CEOs surveyed indicated that they are keen to look for M&A opportunities that could have a significant impact on their businesses, which is slightly lower than last year's proportion and also lower than the global average of 47% (see Figure 11). According to *KPMG China Venture Pulse 1H 2022* report, 22% of domestic exit deals in the first half of this year were concluded through M&As, down 15 percentage points from the previous year². Meanwhile, M&A demands in sectors such as advanced manufacturing, technological innovation, and new energy vehicles remain strong.

² China Venture pulse 1H 2022, KPMG China, August 2022
<https://home.kpmg/cn/zh/home/insights/2022/08/china-equity-investment-trends-2-2022-h1.html>

 **Figure 11 M&A appetite over the next three years, %**



Source: KPMG 2022 China CEO Outlook



Deepening digital transformation to stay competitive



In recent years, China has recorded a tremendous upswing in its digital economy, which grew from RMB 11 trillion in 2012 to RMB 45 trillion in 2021, or from 21.6% to 39.8% of GDP. This growth, which represents an average increase of 15.9% per year, has made the digital economy a driver of the overall Chinese economy as well as an important pillar for post-pandemic economic recovery.

Digital transformation holds great significance for enterprises looking to accelerate development and improve their core competitiveness. 86% of China CEOs polled believe that their digital transformation strategies will play a critical role in their growth over the next three years, while 75% of them say that continuing to drive digital transformation at a rapid pace is critical to competitiveness to attract talent and customers. To stay competitive, 82% of China CEOs say they have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status, higher than the global average of 72% and up from 76% last year. In addition, 82% of them said that they need to further accelerate investments to seize opportunities that come along with digitalisation and divest from some traditional areas that have lost their appeal. Meanwhile, 81% mentioned that before they embark on the next stage of digital transformation, they will need to address the 'burnout' resulting from their extensive efforts over the last two years (see Figure 12).

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75% of them say that continuing to drive digital transformation at a rapid pace is critical to competitiveness to attract talent and customers.

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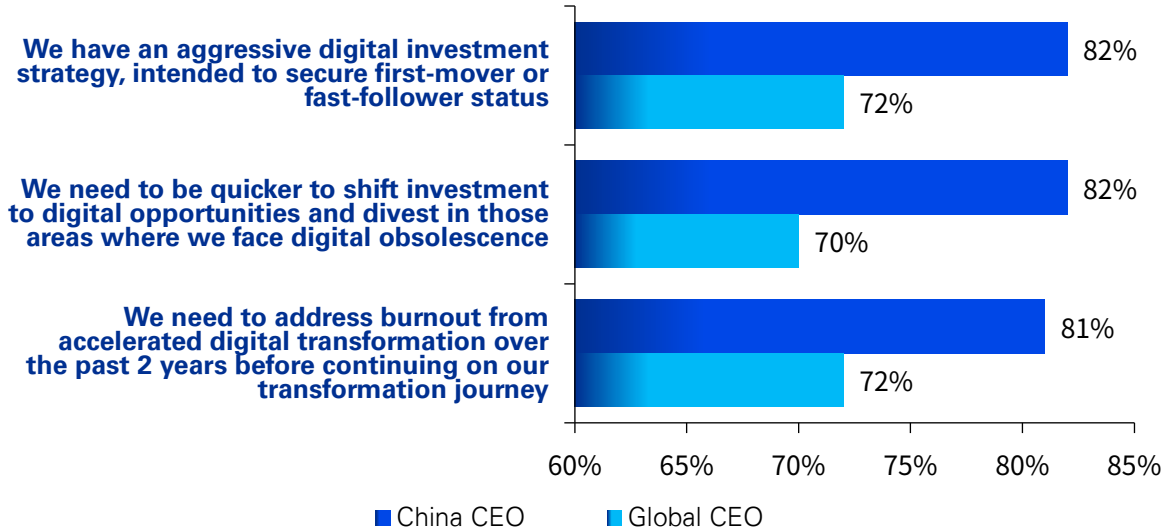
ESG

Talent

Supply chain

About the survey

 **Figure 12 Views on digital transformation strategy, %**



Source: KPMG 2022 China CEO Outlook

“
86%

of the China CEOs say that they lack a solid compliance management system to tackle risks.”

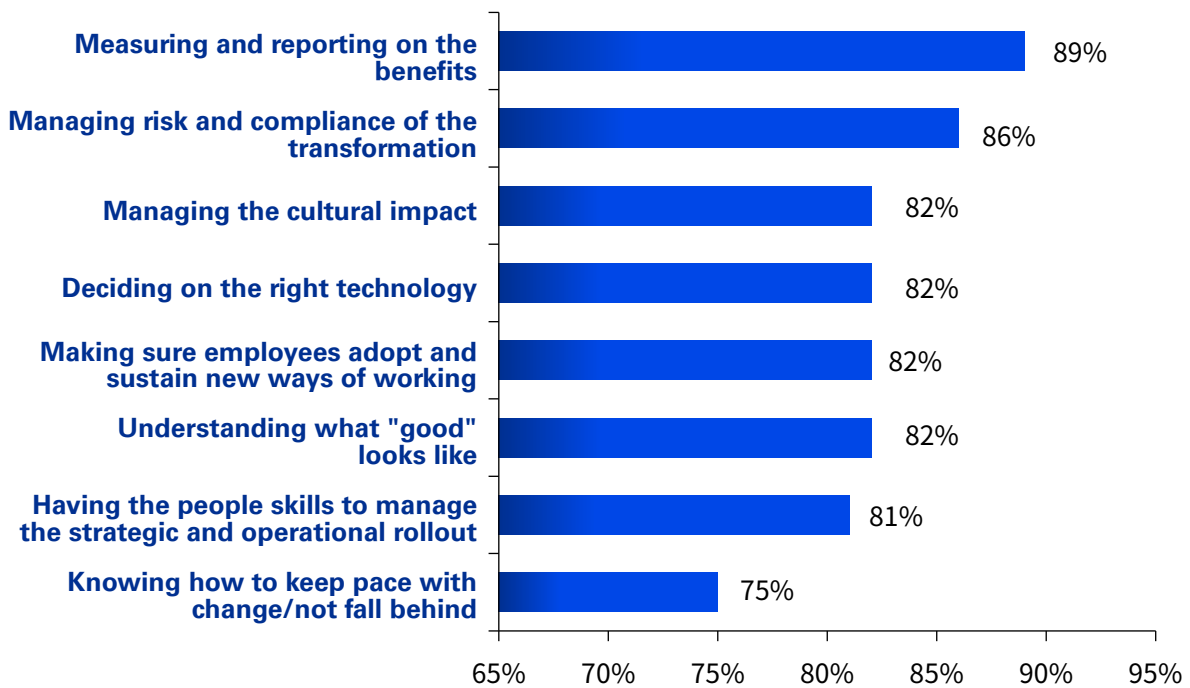
Nearly 90% of China CEOs polled considered how to measure the benefits on digital transformation as a top challenge in this journey (see Figure 13). Given that digital transformation requires substantial technologies, talent, and other resources, costs have become an inevitable issue for enterprises, especially small- and medium-sized ones. In order to maximise returns, they need to carefully examine their business logic, build a digital business model, and focus their digital investments on impactful, and measurable, value creation opportunities most able to support their strategic goals. They also need to harness artificial intelligence (AI), cloud computing, and other emerging technologies to mine data, which is now a vital factor of production, and fuel growth. While measuring short-term capital investments and output, CEOs must also focus on making comprehensive improvements in the medium and long term in the areas of management, production efficiency, risk control, and competitiveness.

With regards to digital transformation, 86% of the China CEOs say that they lack a solid compliance management system to tackle risks. For enterprises, digital transformation may present risks around data security, cybersecurity, and user information leakage, necessitating extensive compliance management. Enterprises need to put in place a robust compliance-risk identification and prevention mechanism that aligns with their digital transformation progress, so as to ensure stability throughout the process.

Companies also need to adapt their corporate cultures to ensure the success of their digital transformations. In this regard, 82% of the China CEOs believe that they need to address difficulties in promoting and managing a digital culture. These include situations where employees have not fully recognised digital transformation or are unwilling to follow new work procedures, or functions are not aligned in terms of progress or are unwilling to assume the risk of failure. To ensure the success of their digital transformation strategies, enterprises need to change their employees' mindsets through developing a corporate culture that prizes data-driven decision making, data sharing, collaborative innovation, and trial and error.



Figure 13 China CEOs' key challenges in the digital transformation progress, %



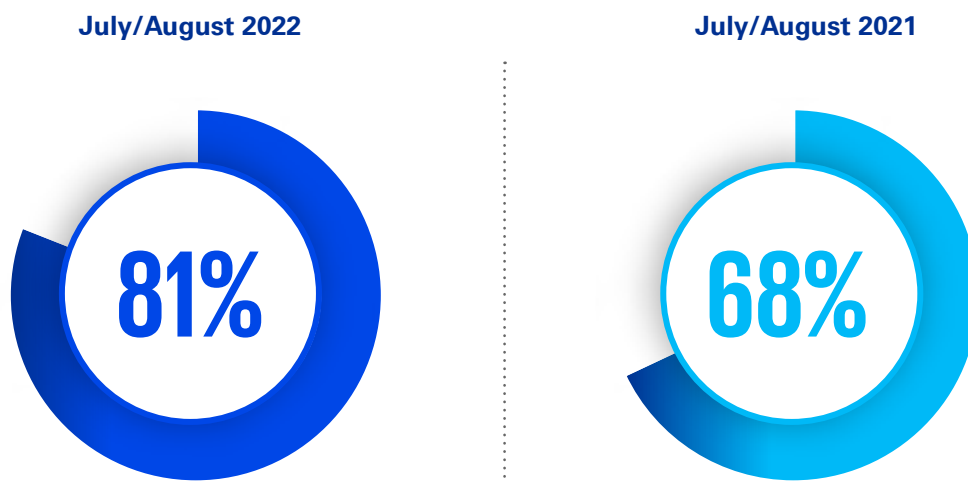
Source: KPMG 2022 China CEO Outlook



Partnerships are essential for driving digital transformation. As the enterprise itself may lack the technology or experience required for digital transformation, they often need support from business partners who are able to provide IT advisory services, financing services, software and hardware, and other assistance. In this survey, 81% of China CEOs believe that right partnerships will be critical to continuing our pace of digital transformation, a significant increase from 68% last year (See Figure 14). Effective partnerships can help enterprises develop targeted transformation strategies and measures and implement those strategies and measures as planned.



Figure 14 China CEOs believe that right partnerships are critical to their digital transformation, %



Source: KPMG 2022 China CEO Outlook



82% of China CEOs view information security as a strategic function and as a potential source of competitive advantage.



In the past year, cybersecurity has become more of a concern, with 78% of China CEOs believe that a strong cyber strategy is critical to engender trust with our key stakeholders. In addition, 82% of China CEOs view information security as a strategic function and as a potential source of competitive advantage. At the same time, 85% of China CEOs have grown more worried about cyber-attacks due to geopolitical uncertainty, and 70% say they are prepared for possible network attacks, up considerably from last year's 44%.

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Increasing ESG investments to achieve sustainable development

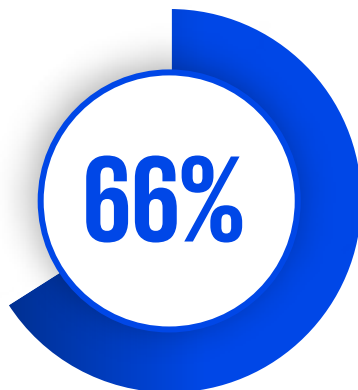


Recently, stakeholders have been expecting more from ESG information disclosures. This survey shows that 66% of China CEOs believe that their stakeholders are demanding greater ESG transparency and reporting, an increase of 17 percentage points from last year (see Figure 15).

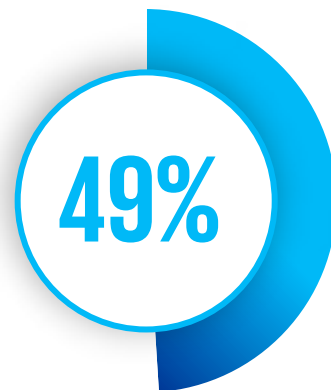


Figure 15 China CEOs believe that stakeholders have a significant demand for greater ESG transparency and reporting, %

July/August 2022



July/August 2021

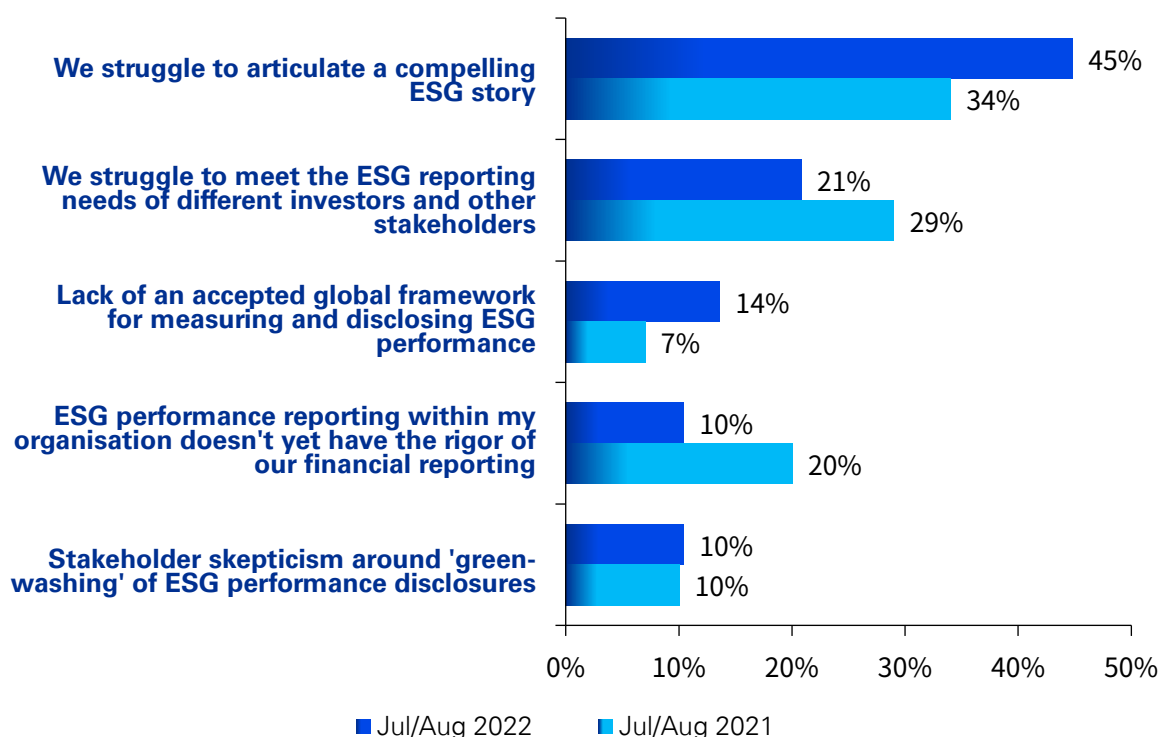


Source: KPMG 2022 China CEO Outlook

While ESG is drawing increasing attention across industries, enterprises are struggling to communicate their ESG performance to stakeholders. The biggest challenge for companies in this regard is articulating a compelling ESG story, a view held by 45% of China CEOs, up from 34% last year (see Figure 16). ESG reports represent a critical channel of communication between an enterprise and its stakeholders. With a well-prepared ESG report, an enterprise can help stakeholders clearly understand its vision for sustainable development, which is vital to raising capital in the market. Compared with last year, companies have improved in meeting the ESG reporting needs of different investors and other stakeholders and in the rigour of ESG reporting. However, 14% of China CEOs still point to the lack of an accepted global framework for measuring and disclosing ESG performance as a key challenge, twice that from the previous year. In China, various ESG disclosure standards have been released, and these should be improved based on the country's characteristics and aligned with international standards, so as to facilitate enterprises' pursuit of high-quality growth.



Figure 16 China CEOs' key challenges in communicating ESG performance to stakeholders, %

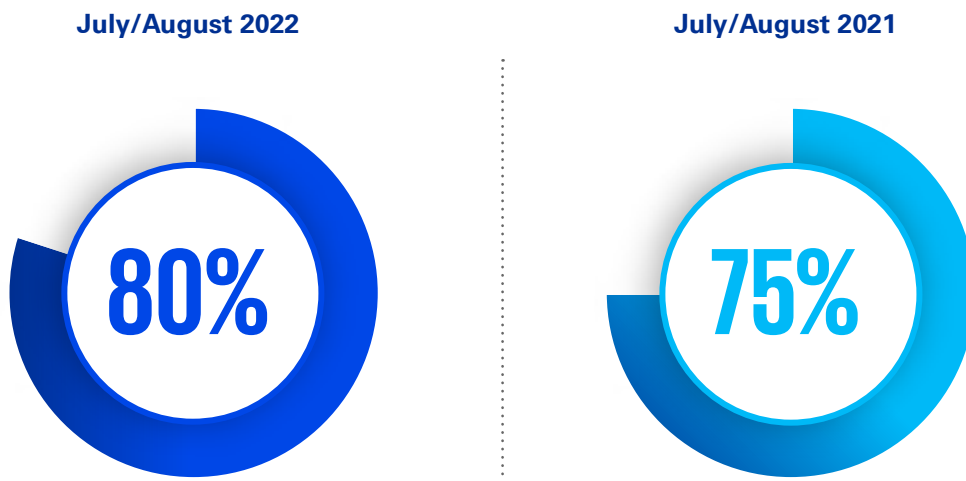


Source: KPMG 2022 China CEO Outlook

In this survey, 80% of China CEOs say their organisation's digital and ESG strategic investments are inextricably linked, up from 75% last year (see Figure 17). On the one hand, to develop a green and low-carbon economy and "dual carbon" goals cannot be separated from the support of digital transformation. With digital technologies, the country can promote the exploitation and use of renewable energy, improve energy efficiency, and reduce energy waste. For example, in the energy sector, wind power producers can leverage big data, AI, and other technologies to accurately forecast weather and energy demand, thereby reducing the wind curtailment rate. In the industrial sector, manufacturers can capitalise on digital technologies to fully explore consumer preferences and develop informed production plans to ensure efficient resource allocation and deploy digital platforms to better coordinate along the supply chain. In the transport sector, big data, cloud computing, and other digital technologies can be embedded into urban transportation systems to reduce traffic jams and emissions.

On the other hand, the rapidly developing digital economy has given rise to a myriad of innovative digital technology-supported infrastructure, such as digital base stations, 5G networks, data centres, and the Industrial Internet of Things; and this infrastructure emits a huge amount of carbon. Statistics indicate that China's data centres accounted for 1.5% to 1.9% of the country's total power consumption in 2020³. Therefore, reducing the amount of power consumed by these data centres is key to achieving green transformation and developing the digital economy. Generally, digitalisation and green development will be the two critical approaches to transformation for enterprises that are looking to pursue growth and also promote the "dual carbon" goals. These approaches will facilitate each other, helping enterprises stand out amid fierce competition.

 **Figure 17 China CEOs say their organisation's digital and ESG strategic investments are inextricably linked, %**



Source: KPMG 2022 China CEO Outlook

ESG

We have also noticed that enterprises are still facing difficulties in promoting ESG. 22% of the China CEOs surveyed suggest that if they have to compromise ESG investments over the next three years, it will most likely be due to other pressing business concerns or worsening economic conditions (see Figure 18). Another 18% say that they face challenges due to their inability to create value from ESG investments. When asked about the impact of ESG strategies on their financial performance, 32% of the China CEOs believe that their ESG programs have improved or significantly improved their financial performance.

Talent

Compared with the global average of 45%, this relatively lower percentage suggests that ESG programs in China are not as effective at driving financial performance and business growth. Thus, China CEOs need to better synergize ESG with corporate strategies to deliver more significant financial returns. The need for comprehensive ESG strategy is clear, with roughly one quarter of China CEOs polled believing that failing to meet stakeholders' ESG expectations would lead their businesses to higher costs or fundraising difficulties.

Supply chain

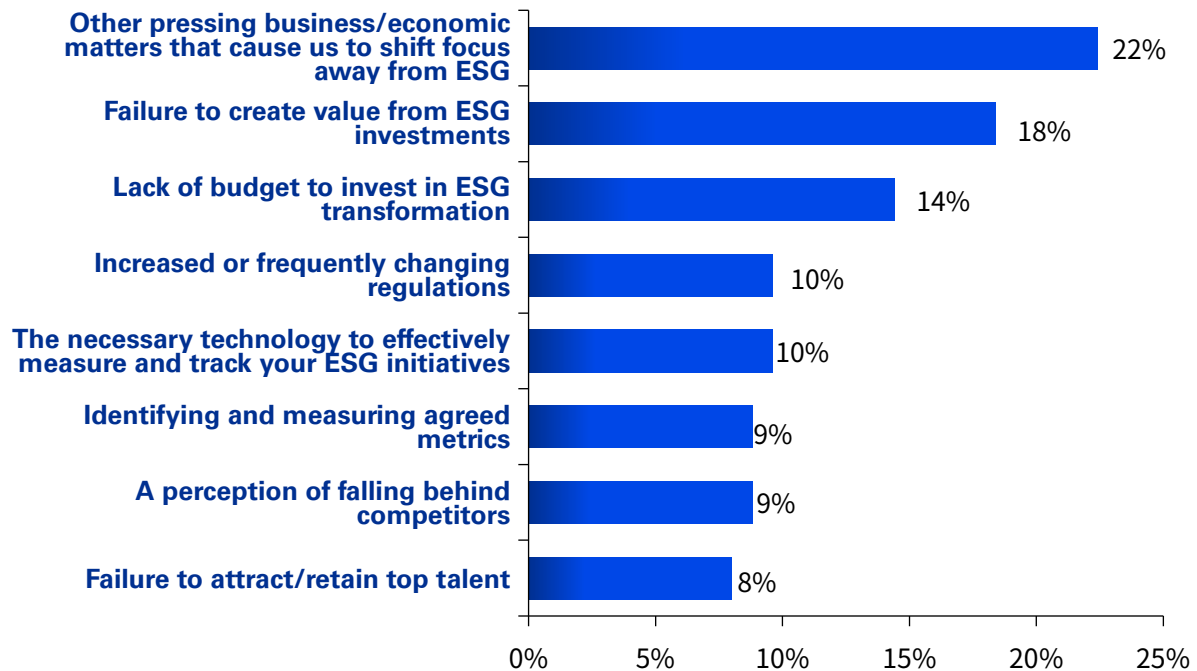
“ 32% of the China CEOs believe that their ESG programs have improved or significantly improved their financial performance, but lower than the global average of 45%. **”**

About the survey

³ China has converted a total of 153 data centres into national green data centres in three batches by reducing their power consumption, People's Daily, 6 May 2022 http://www.gov.cn/xinwen/2022-05/06/content_5688752.htm



Figure 18 China CEOs' view on key challenges in delivering their ESG strategy in the next three years, %

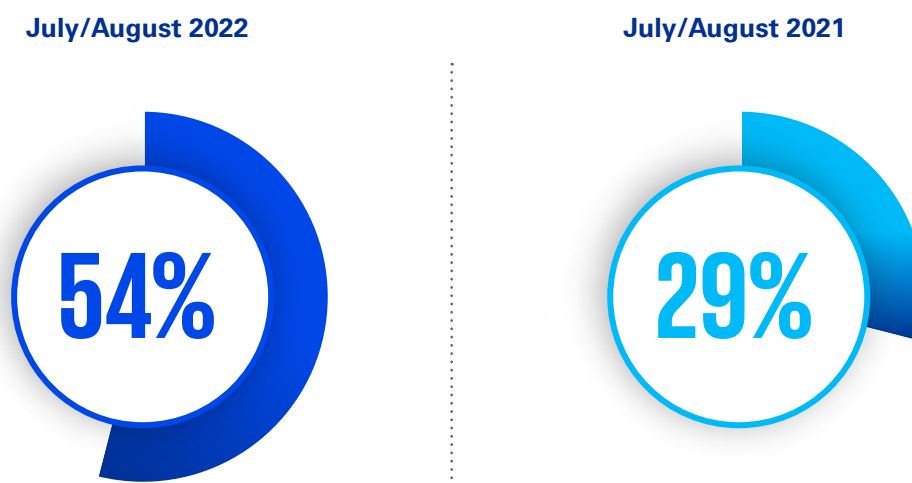


Source: KPMG 2022 China CEO Outlook

Echoing China's mission of sustainable, green, and high-quality development, ESG has become an intrinsic business imperative for enterprises. From a medium- and long-term perspective, our survey suggests that CEOs will step up ESG investments to sustain business growth in China. 54% of China CEOs said they would invest more than 10% of their operating income in sustainable development projects, a significant increase of 25 percentage points from last year (see Figure 19).



Figure 19 Share of China CEOs who will invest more than 10% of their operating income in sustainable development projects, %



Source: KPMG 2022 China CEO Outlook

Increase investment in talent and improve employee value proposition



Talent is a core driver of innovation. 81% of China CEOs surveyed believe that the ability to retain talent with pressures of inflation/rising cost of living is of great importance to their businesses. Talent will also play a critical role in companies' green and digital transformations. In this regard, 34% of the China CEOs rank the lack of skills and expertise to implement solutions as their top challenge in achieving net zero goals; while 81% regard the lack of people skills to manage the strategic and operational rollout as an obstacle to their digital transformation agendas.

More and more employees are paying more attention to whether they have access to sufficient career development space and opportunities when seeking or undertaking jobs. Therefore, optimising EVP and providing high performers with competitive compensation packages that combine incentives with rewards are crucial tasks for unlocking employee potential and advancing business development. This survey indicates that CEOs are paying more attention to talent investment, with 53% saying that they are investing more capital in developing their workforce's skills and capabilities, an increase of 11 percentage points from last year and higher than the average level of global CEOs this year(see Figure 20).

We should also note that employees are paying closer attention to ESG and consider it to be an integral part of the EVP. In this survey, 37% of China CEOs said that their employees are increasingly paying attention to ESG disclosures. They also acknowledge that their employees have become more concerned about their companies' performance in environmental protection, social issues and corporate governance.

Talent



81% of China CEOs surveyed believe that the ability to retain talent with pressures of inflation/rising cost of living is of great importance to their businesses.

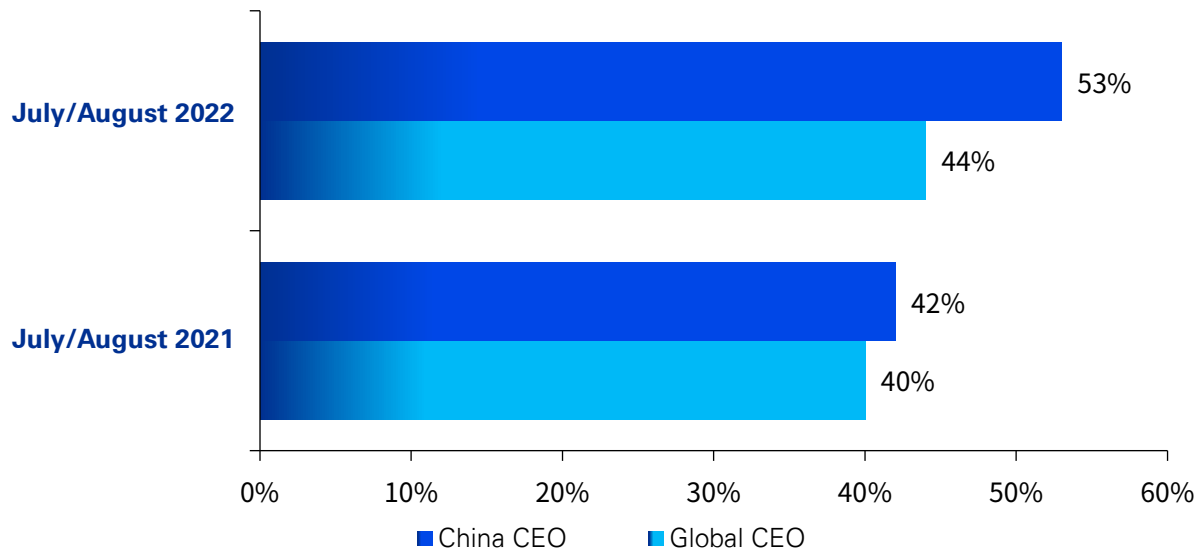


Supply chain

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Figure 20 China CEOs prefer to place more capital investment in employee skills and capabilities, %



Source: KPMG 2022 China CEO Outlook

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Digital transformation

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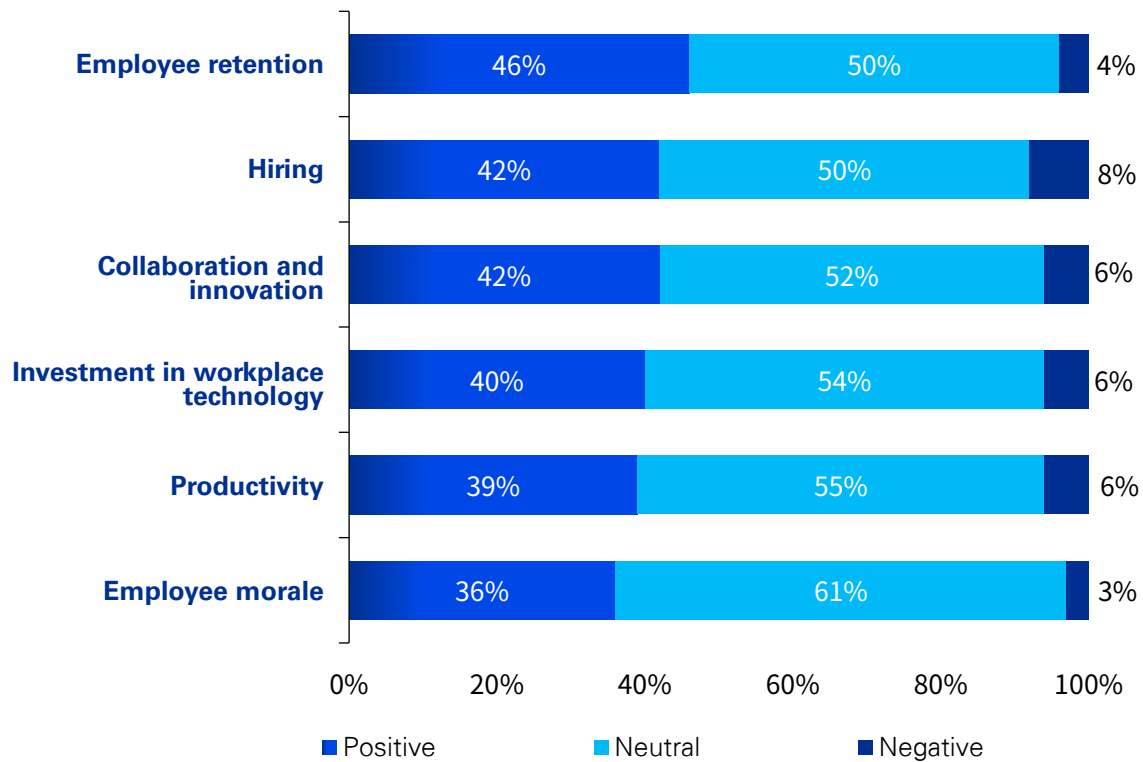
About the survey



Due to the Covid-19 pandemic, many enterprises have had to put in place remote working arrangements. According to the China CEOs, remote/hybrid working in the past two years has brought some positive impacts to business, such as employee retention(46%), hiring(42%), collaboration and innovation(42%), investment in workplace technology(40%), and productivity(39%) (see Figure 21). However, more than half of China CEOs said the positive impact was not significant.



Figure 21 China CEOs' view on the impact of hybrid/remote working, %



Source: KPMG 2022 China CEO Outlook

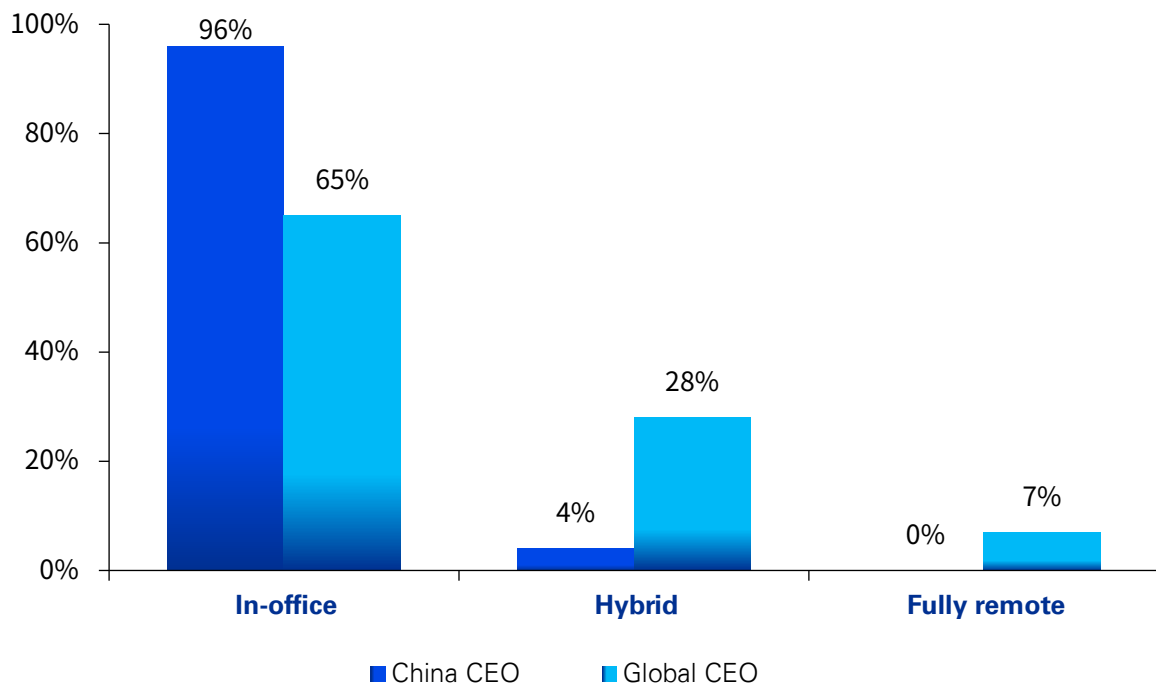
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After working from home for a substantial period of time, employees are showing less interest in remote working. In line with this trend, 96% of China CEOs said they will gradually return their employees to the office in 3 years, significantly higher than the global average of 65%. Only 4% of China CEOs said they could adopt a hybrid office model, and while none suggested they could embrace a fully remote working model. In contrast, 28% of global CEOs opt for a hybrid office and 7% support full remote work (see Figure 22). With regard to the ideal working environment, China CEOs believe that in-office working will still be key to developing a sound corporate culture, enhancing employee communication, and building trust. The findings suggest that going forward, CEOs should better engage their employees to find a suitable working model that ensures a safe, healthy, flexible, and inclusive working environment.

 **Figure 22 Ideal working environment over the next three years, %**



Source: KPMG 2022 China CEO Outlook

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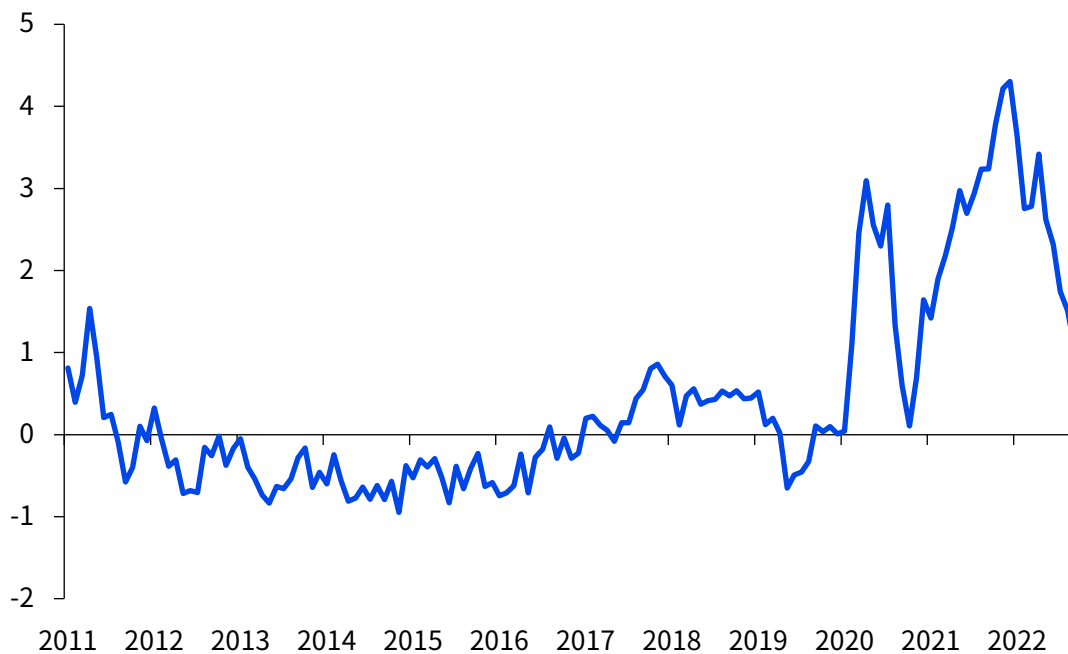
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Supply chain pressure is easing, but risk remains



Over the last three years, the pandemic has made the global supply chain a greater concern for CEOs, and numerous countries and enterprises have become more aware of the importance of supply chain resiliency. With the gradual reopening, the pressure on the global supply chain has eased. The New York Fed's Global Supply Chain Stress Index has dropped sharply for five consecutive months, which has helped to alleviate some executives' concerns about supply chain volatility. However, the index has not yet returned to pre-pandemic levels, and supply chain risk remains a major challenge for business growth in the eyes of China CEOs (see Figure 23). In the short run, individual suppliers appear vulnerable in the changing macro environment, and therefore enterprises should get better prepared for unknown risks while keeping their cost and inventory as low as possible. According to our survey, more than three quarters of the China CEOs view supplier diversification as an important measure for curbing the challenges presented by the short-term recession and geopolitical uncertainty.

Figure 23 Global Supply Chain Stress Index

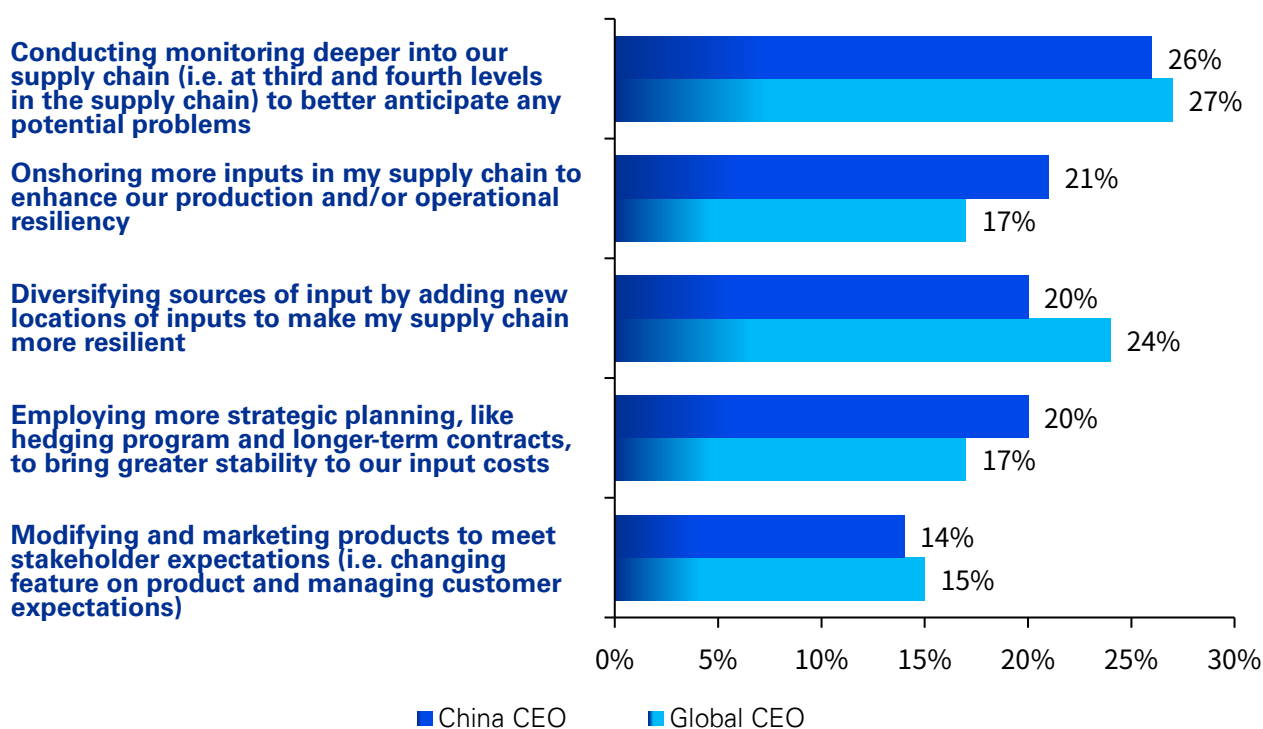


Source: Federal Reserve Bank of New York, KPMG analysis

To mitigate supply chain risks and challenges, 26% of China CEOs say they will monitor their supply chains more deeply—such as by assessing potential disruptions to the entire supply chain that would occur following the “withdrawal” certain suppliers—to cope with the impact of supply chain dynamics on their businesses over the next three years (see Figure 24).

In the current environment, worsening geopolitical tensions and regulatory uncertainties run the risk of turning global supply chain conflicts into a perpetual issue. Compared with years past, enterprises are now less willing to search for optimal manufacturers, sellers, and service providers on a global scale, while some are considering transferring some operations back to their home countries. 21% of the China CEOs indicate that they will engage more local suppliers to improve supply chain resilience, up 6 percentage points from the same period last year and four percentage points higher than the global average. Meanwhile, only 20% of the China CEOs have chosen to become more geographically distributed to diversify their raw material sources, compared to the global average of 24%.

 **Figure 24 Top strategies to mitigate supply chain pressure, %**



Source: KPMG 2022 China CEO Outlook

In view of lasting elevated inflation, 20% of the China CEOs polled have turned to hedge and long-term contracts to keep their costs under control. Another 14% believe that aligning products with the expectations of stakeholders, including customers, will help ease supply chain pressure. In this respect, demand management is a core aspect of supply chain management. In the post-pandemic era, consumer demands will change dramatically along with people's living and working styles, and enterprises need to keep an eye on and address these new demands while improving supply chain resilience.

Notably, one quarter of the global CEOs surveyed have chosen to make their supply chains more resilient by diversifying sources of input by adding new locations. The stability of social environments, markets, costs, and industrial chains is crucial to supply chain management. We estimate that despite the current concerns about a global recession, China's large consumer market, efficient production, and complete industry clusters will continue to make it a key destination of investment for multinational companies. According to statistics, China recorded rapid foreign direct investment (FDI) growth of 15.6% in the first three quarters of 2022, continually optimising its investment structure.

About the survey

Key findings

The KPMG 2022 CEO Outlook provides an in-depth 3-year outlook from 1,325 global chief executives of major organizations on enterprise and economic growth, including 125 from Chinese enterprises.

This latest research is part of the KPMG CEO Outlook series, which offers a unique perspective on the mindset shift of global CEOs in corporate development strategies and their prospects for future development in the context of greater uncertainty faced by the global economy. 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, including 50 from Chinese enterprises. This allows us to examine how CEO thinking has evolved over the course of 2022. 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.

The July/August 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 percent due to rounding.

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