Confidence or complacency?

Latin America's leaders face the disrupted future

KPMG International

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Introduction

Every year, KPMG surveys CEOs around the world to assess their attitudes to technology and confidence in their economic prospects, to find out which issues are having the biggest impact on their agendas. Here, we look more closely at CEOs in Latin America, drawing insights from 271 interviews with CEOs in 17 countries across the region.[1]

What sets Latin American organizations apart from their global counterparts? First, there are differences in business structure. Many Latin American firms are family owned, with one family often dominating a sector and sometimes even an economy, for long periods of time.

Second, in some Latin American countries, it is more common for local or regional players to dominate single sectors than it is in Europe or North America. The region is also home to a growing group of 'multilatinas' — firms which are dominant within the region but have not yet significantly expanded into other continents. The Latin American CEOs interviewed for this survey represent a cross section of leading Latin American companies.

Four broad themes emerge:

1. Latin American CEOs are relatively confident about the outlook for their companies and countries, especially over the short term. They are, however, slightly more concerned about the outlook globally and the potential impact it may have on Latin America.

2. They are strikingly less concerned about technological disruption than the global average. While many acknowledge the potential for technology — apps, aggregators, artificial intelligence — to disrupt traditional business models, most do not expect it to upend their organizations in the short or medium term.

3. They do not view cyber security as a similarly significant concern as do their global counterparts. Nevertheless, recent global attacks may have created a new sense of urgency on this matter.

4. They share a growing awareness of the need for business leaders to upgrade or expand their base of skills to deal with emerging challenges and technology.

[1] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela.

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"Although Latin American CEOs are confident about the prospects for their own companies' growth in the medium term, when it comes to their own countries they are more confident for prospects over the next year versus the next 3 years. This is most likely being driven by the geopolitical environment in the region," says **Scott Ozanus, Chairman of KPMG in the Americas**.

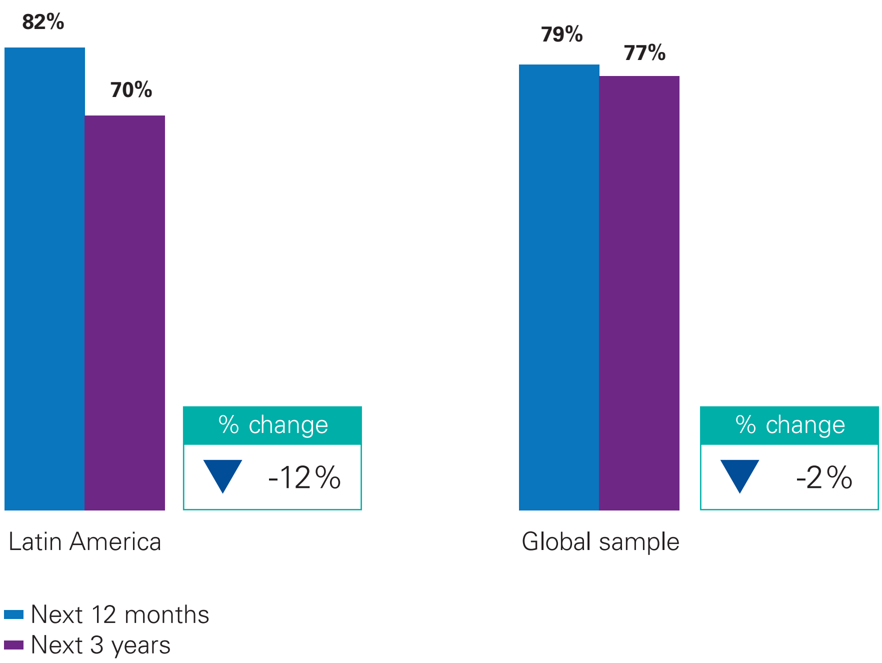
"In addition, although Latin American CEOs recognize the impact that technology disruption will have on their businesses in the longer term, they see technological disruption more commonly as an opportunity than a threat, which is very different than CEOs in other parts of the world."

Confidence at home, concern abroad

Latin American CEOs are more confident about the prospects for their own companies' growth over the next 3 years than the global average: 89 percent against an 83 percent global average.

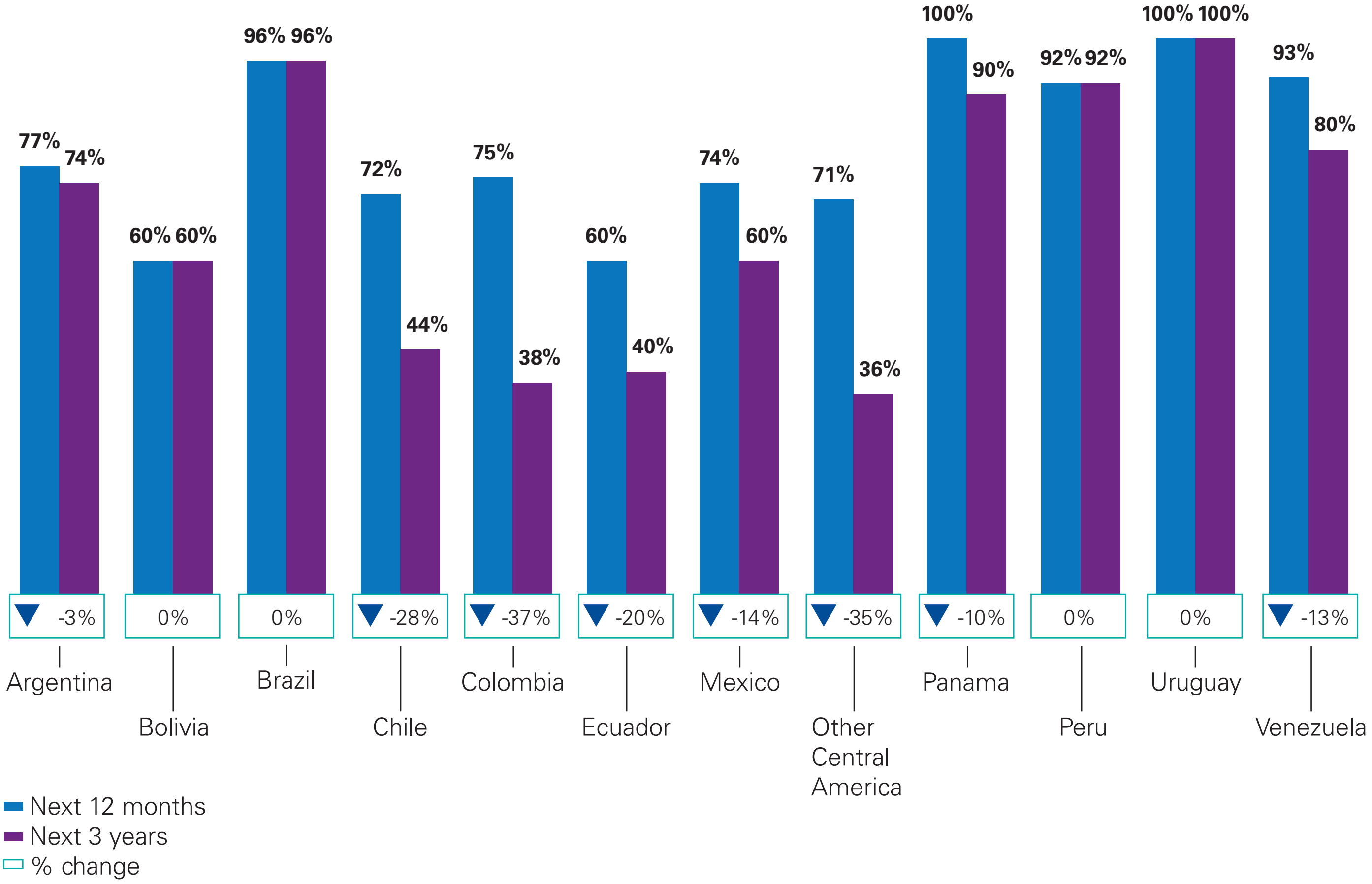
When it comes to their own countries, they are more confident for prospects over the next year than over the next 3 years: 82 percent are confident about the next 12 months; 70 percent feel the same about the next 3 years. Comparing these figures against the global average, meanwhile, they are more confident about the next 12 months (the global average is 79 percent) but less confident about the outlook for the next 3 years (the global average is 77 percent).

CEOs' net confidence in growth prospects for their own countries (global/regional results)



Source: 2017 Global CEO Outlook, KPMG International

CEOs' net confidence in growth prospects for own country (country-by-country results)



Source: 2017 Global CEO Outlook, KPMG International

Pedro Melo, President of KPMG in Brazil and South America, explains this with reference to political prospects in the region. "Business leaders expect positive change in the short term but are less clear about implications for the longer term," he explains. He cites, for example, the recent peace agreement in Colombia, the Argentinian government's new businesslike relationship with old allies, the positive promises of the new Peruvian government and business-friendly reforms in Brazil.

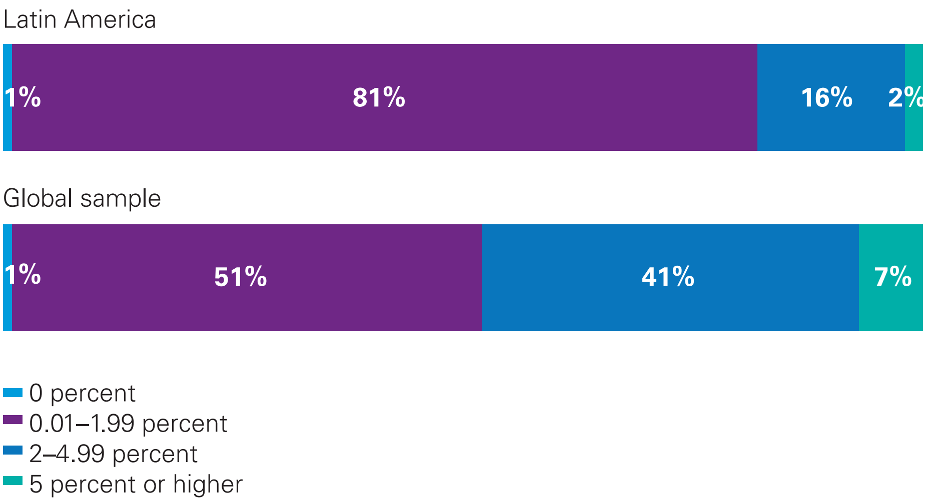
In the longer term, however, it is unclear that the government's stance towards peace in Colombia will survive the coming congressional elections, or that the Brazilian government's pro-business outlook will survive the election next year. Melo also cites inflation as a reason why business leaders in certain countries are less positive about the next 3 years than they are about this year. "When you have inflation," he says, "it's much more difficult to deal with the long term."

However, Mexican growth may be constrained in 2017 by the prospect of President Trump renegotiating NAFTA. "Compared with most Latin American countries, Mexico's economy is less reliant on commodities and more reliant on manufacturing output, trade and investment," says Victor Esquivel, Senior Partner of KPMG in Mexico. "This reflects its strong links with the US and Canada."

"Business leaders expect positive change in the short term but are less clear about implications for the longer term."

Pedro Melo, President of KPMG in Brazil and South America.

Expectations for top-line growth in the next 3 years (per annum)



Four-fifths (81 percent) of Latin American CEOs expect their company to grow up to 2 percent annually over the next 3 years.

Source: 2017 Global CEO Outlook, KPMG International

The survey reveals a group of CEOs whose expectations for the growth of their own companies is positive, but moderated. Four-fifths (81 percent) of Latin American CEOs expect their company to grow up to 2 percent annually over the next 3 years, whereas only 18 percent predict growth over 2 percent. This is a more moderate estimate than the global sample, where 41 percent expect growth of between 2 and 5 percent. One percent of both the global sample and of the Latin American CEOs are not anticipating growth in the next 3 years (0 percent per annum).

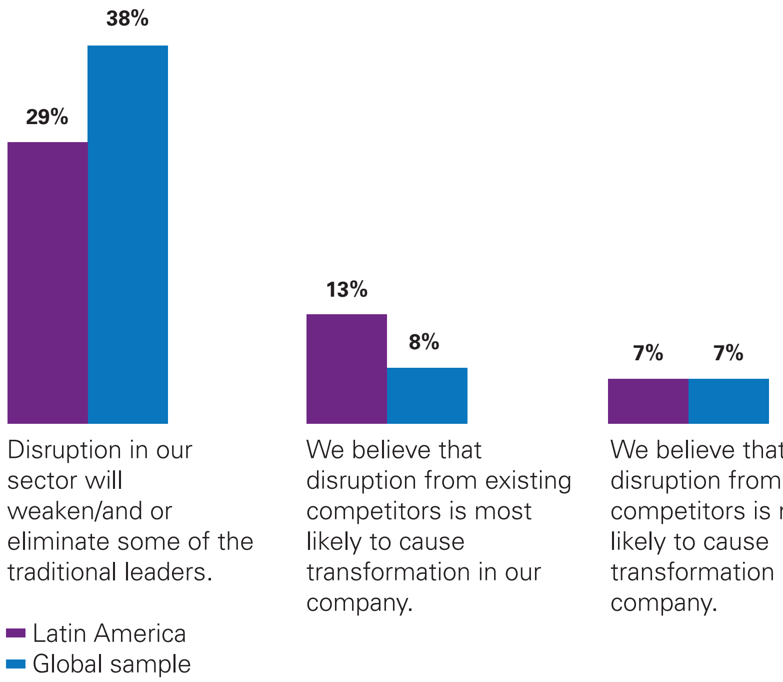
Most CEOs see disruption as a future problem

The possibility for disruption is a fact of life for Latin American CEOs, as it is internationally. “New competitors are emerging with new business models and competing against traditional corporations,” says Victor Esquivel. “It is happening in the retail sector and in the financial services sector, in all sorts of sectors across the region.”

Indeed, as a market force, the outlook for disruption in Latin America seems to be largely positive. Nearly three-quarters (71 percent) of CEOs in the region say they see technological disruption more as an opportunity than a threat, compared to the global average of 65 percent, and 78 percent of Latin American CEOs say that rather than waiting to be disrupted, their organization is actively disrupting the sector in which they operate.

However, the attitude of many Latin American CEOs to ward disruption seems to be that it is a long-term concern rather than something to deal with today.

Disruption and competition



Source: 2017 Global CEO Outlook, KPMG International

Compared with their global peers, however, Latin American CEOs are less concerned about disruption to their sectors. An enormous 94 percent of Latin American CEOs expect their firms to be largely the same in 3 years' time. Such confidence in the status quo is striking — it is nearly 20 percent higher than the 74 percent of CEOs internationally who say the same.

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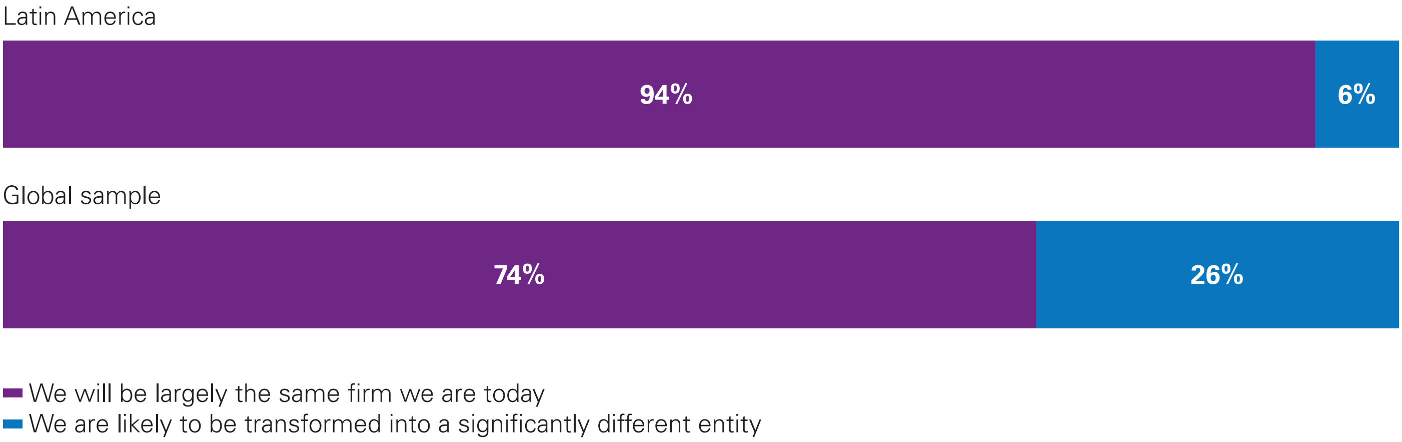
Expectations for transformation



Source: 2017 Global CEO Outlook, KPMG International

According to Charles Krieck, Senior Partner-Elect of KPMG in Brazil and South America, this could be because so many CEOs of large companies work in the commodities, agriculture and raw materials businesses, which are harder to disrupt. Most new technology is adopted by the dominant players in the market. "For instance," he says, "in the crop industry, like beans and cereal, you already see drones assessing the whole production line to check for signs of a plague or another problem in the culture. Robots controlling the whole cycle of a crop or cattle have become very common here in Brazil in recent years."

"This may also be partly because Latin American CEOs tend to be aged in their fifties or sixties, who are less likely to see a disruptive tech sector emerging around them," explains Milton Ayón, President of KPMG in Panama and Central America. "They may expect that if their sectors are going to be disrupted, they will be able to wait and see how developments play out in other countries, such as the US."

"They don't expect to have to change anytime soon," he explains. "The bank executives think they won't be forced to change until banks like Bank of America do." He adds that big local and regional companies are often family owned and think they have a dominant position in that market, so they feel relatively secure.

There is another indication that Latin American CEOs are less worried than others about keeping up with change: only 30 percent say they are concerned about whether their organization is staying on top of developments in products and services, compared with nearly half (45 percent) of their international peers.

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30 percent of Latin American CEOs say they are concerned about whether their organization is staying on top of developments in products and services.

Ayón explains that this attitude is understandable: these CEOs are not currently experiencing a serious threat from technological disruption. While some Latin American countries already have the likes of Netflix and fast food delivery apps, in other smaller Central American countries, there is a sense among business leaders that, "it doesn't matter, because my business will continue to do well."

One distinctive feature of the Latin American market is the high proportion of companies that are family owned: about 70 percent, according to Ayón. That offers stability, but can also bring complacency. Indeed, only 25 percent of Latin American CEOs say they expect major disruption in their sector in the next 3 years — indeed, that's half the proportion of global CEOs who expect their business models will face disruption in the next 3 years.

Perhaps there's a reason they feel this way. Much of the technological disruption that has taken place in Europe and the US has come from apps and online services, which rely on payment by debit or credit card. In Latin America, a lower proportion of the population has a bank account — let alone a debit card: in 2014, 51 percent of adults in the region had a bank account and just 7 percent used the internet to pay bills or make purchases.[2]

The concern Esquivel detects in Mexico is related to the sectors most engaged with disruption. "We are seeing concern in the venture capital community in Mexico and in the fintech startups, some of which are starting to play a regional role."

Online services will come to pose a greater threat to traditional businesses, but only when financial inclusion increases significantly — perhaps when cellphone providers encourage more people to exchange value and currency by phone, as they are in Africa. In the very short term, however, these CEOs appear complacent about technological disruption.

25 percent of Latin American CEOs expect major disruption in their sector in the coming 3 years as a result of technological innovation, compared to 48 percent of the global sample.

[2] http://datatopics.worldbank.org/financialinclusion/region/latin-america-and-caribbean

Cyber security is in the long grass

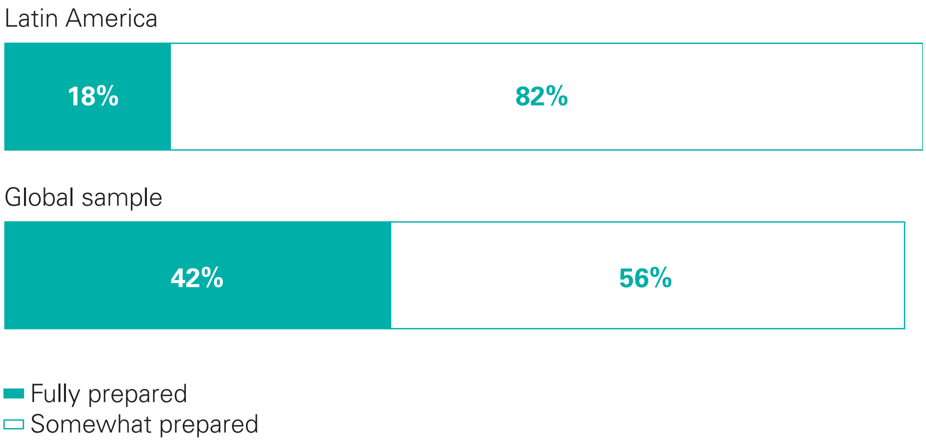
Cyber security, the business risk of highest concern in the 2016 global sample, has fallen to position five (of 16) in 2017, perhaps reflecting CEOs' views on the progress their businesses have made in cyber risk management.

Seven-in-ten CEOs in Latin America and in the rest of the world reported a high level of investment in cyber security in the past year, though it appears to be a less pressing issue for Latin American CEOs than the global average going forward.

Pedro Melo notes that there are worries about cyber security in the financial sector across the region and a little in other sectors in the region's largest economies, but in most sectors and countries there is little concern over the issue.

Very few CEOs say they feel prepared for a cyber event. Less than one in five — just 18 percent — says that their organization is fully prepared for a cyber event. This is less than half of the 42 percent internationally who say the same.

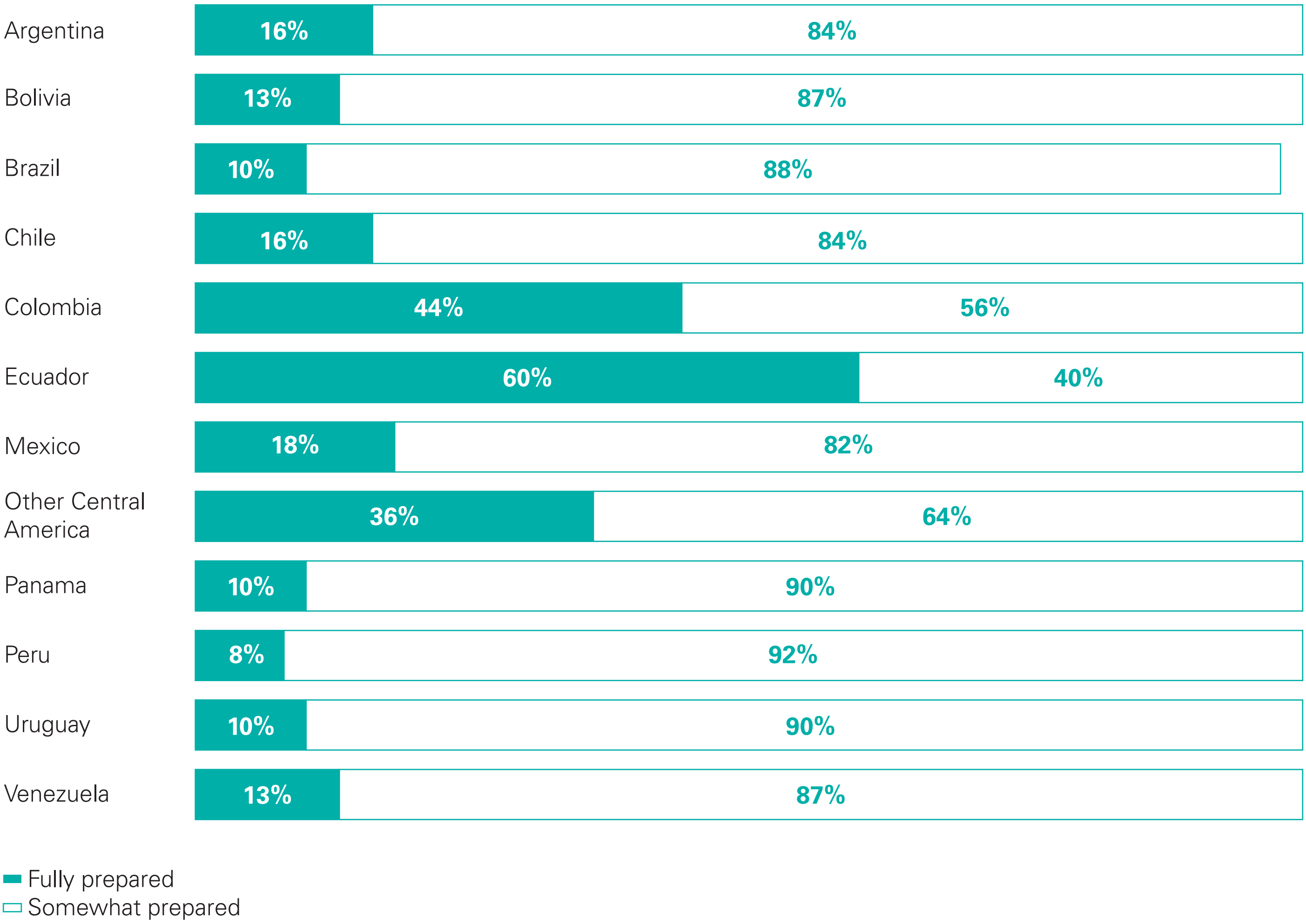
How prepared is your company for a cyber event? (global/regional results)



Note: 'not where we need to be' and 'unsure' response options not shown.

Source: 2017 Global CEO Outlook, KPMG International

How prepared is your company for a cyber event? (country-by-country results)



Note: 'not where we need to be' and 'unsure' response options not shown.

Source: 2017 Global CEO Outlook, KPMG International

Yet Latin American CEOs share a similar high degree of comfort with their global peers in mitigating cyber security risk as part of their leadership role (78 percent and 72 percent respectively). They are also significantly less concerned than the global average about the human capital challenge in relation to tackling cyber security — just 27 percent compared with 47 percent.

In light of the rest of the results on cyber security, this confidence likely reflects a perception of lower vulnerability rather than having invested more heavily in anticipation of cyber threats.

CEOs are hungry for new skills

Compared with their global peers, Latin American CEOs are a bit more likely to have focused on professional development in the past year: 72 percent have taken a course or studied for a qualification to challenge themselves, compared with 68 percent of the core sample.

They are also relatively open to new influences and collaboration. Nearly three-quarters (71 percent) say they are more open to new influences and collaborations than at any other point in their career.

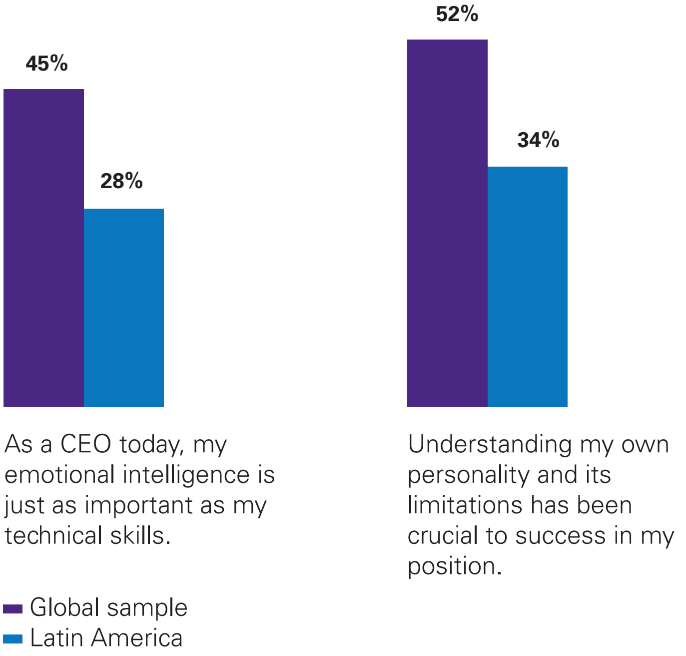
CEOs' openness to change

Source: 2017 Global CEO Outlook, KPMG International

Charles Krieck links the demand for new skills to the response to digital disruption. He points out that Latin American CEOs see companies such as Uber generating significant value while owning minimal assets and feel the need to assess what they and their companies need to do to best respond. "There are traditional businesses that are still generating a lot of revenue here," he says, "so you have to be prepared for the new, for the digital, for the disruptive, without forgetting that your revenue stream is still highly dependent on the traditional businesses."

As traditional business models are replaced by new ones, Latin American CEOs must cultivate the skill of assessing when their company should make the jump. Krieck expresses it with a metaphor: "I think the biggest job for the CEO now is really knowing how to navigate between the lights that are going down and the ones that are starting to shine. The fundamental question is: when is the right moment to really turn out the light on one side and turn on the light on the other side?"

Personalizing the CEO role



Source: 2017 Global CEO Outlook, KPMG International

> "The biggest job for the CEO now is really knowing how to navigate between the lights which are going down and the ones that are starting to shine."

Charles Krieck, Senior Partner-Elect of KPMG in Brazil and South America.

Krieck argues that as technical skills are gradually replaced by machines, motivation and leadership will become the key CEO skills.

Pedro Melo, too, sees a gradual change in the skills that Latin American business leaders think they need. CEOs in the region, he says, "spend more time understanding the impact of the business on people. They talk much more about inclusion and diversity." He also argues that Latin American CEOs are "much more concerned with the impact on the environment," which requires a different skillset. In sum, he believes that Latin America is moving in this direction "at the same pace as we see globally."

Victor Esquivel says that Latin American CEOs understand that it is increasingly necessary to understand their customers in an ever more sophisticated way. "In Mexico," he says, "one of the main concerns is about customers' unsatisfied demand." Developing that insight requires new skills. "How to use data and analytics to better understand their needs and consumption patterns, how to use social media to increase brand value or address customer concerns."

Esquivel says it is beginning to happen, however. Companies are "starting to develop models that include mobile, social media and other means of nontraditional advertising to communicate with the customer. This is part of the CEOs' concern."

He singles out cinema companies and financial services industries as areas that are changing fast. In Mexico, he explains, "about two-thirds of the banking system is international companies, so they're bringing business models from outside to make sure that the customer is at the center, differentiating their business strategy, improving the relationship and opportunities by capturing information about the customer." These skills are new, but international competition is pushing the continent in that direction organically.

Just one-third (34 percent) of Latin American CEOs say that understanding their own personality and limitations has been critical to their success, compared with 52 percent of CEOs overall. And fewer Latin American CEOs than global CEOs overall consider emotional intelligence to be important: 28 percent say their emotional intelligence is just as important as their technical skills, compared with 45 percent of CEOs overall.

"Latin American CEOs understand that it is increasingly necessary to understand their customers in an ever more sophisticated way."

Victor Esquivel, Senior Partner of KPMG in Mexico.

Conclusion

Broadly, the Latin American CEOs' perspectives paint a picture of business leaders who are more optimistic about their countries' prospects than the global average and more optimistic about the next 12 months than they are about the next 3 years. They are slightly more confident in their own companies than CEOs in the rest of the world and more confident that their countries will flourish over the next year than the next three.

It seems that concern about technological disruption is a feature of the leading sectors that are closest to it, such as finance, but has yet to migrate outwards across the rest of the economy, perhaps reflecting a predominance of sectors — such as agriculture and commodities — where dominant players are often naturally less susceptible to disruption and are more easily able to adopt new technology into their businesses than be threatened by it.

The picture that emerges is of a region in which a relatively senior cohort of CEOs remains confident not only that business will revive in the medium term, but will also continue to be run in a familiar way.

It is heartening to see that the challenges facing some Latin American economies — political, economic, national or regional — have not dampened confidence in the future of these companies or countries," says **Rob Brouwer**, **Regional Head of Markets for KPMG in the Americas**.

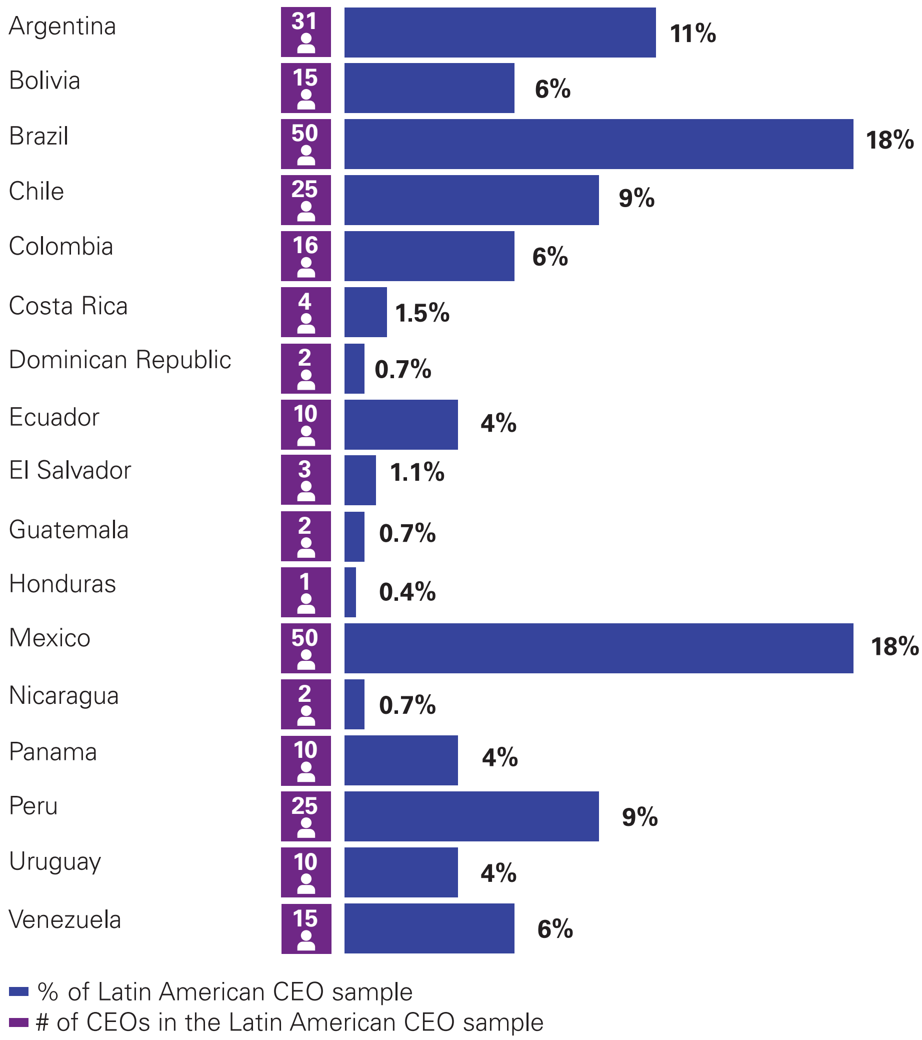
"The optimism they have for the future of Latin America is similarly reflected by US and Canadian CEOs. For Canadians, Latin America is the top region for investment over the next 3 years, and for US CEOs, it is in the top three.

About the research

The research for KPMG's CEO Outlook 2017 was conducted between February and April 2017. This report refers to two groupings of respondents from that survey:

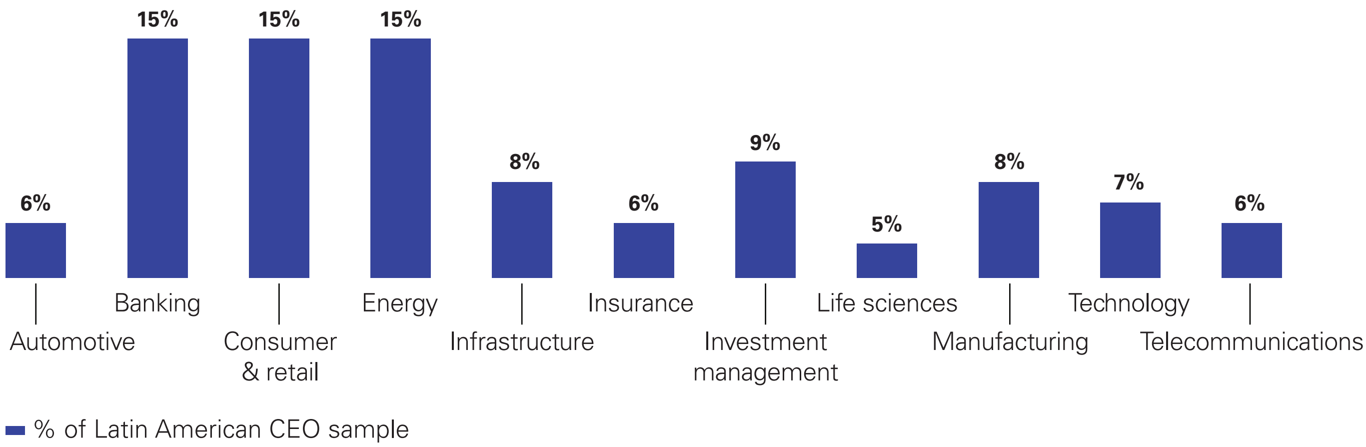
1. 'Latin American CEOs' refers to a grouping of 271 CEOs from the following countries:
2. The comparison group, which in various places throughout this report is referred to as either the 'global average', the 'global sample' or the 'rest of the world'.

   This grouping comprised of 1,261 CEOs from the following countries: Australia, China, France, Germany, India, Italy, Japan, Spain, the UK and the US.



Source: 2017 Global CEO Outlook, KPMG International

In both cases, the CEOs represented organizations from across a wide range of sectors. The sectoral distribution of Latin American CEOs is as follows:



Source: 2017 Global CEO Outlook, KPMG International

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