KPMG NZ 2022 CEO Outlook

Realistic optimism in turbulent times

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CEOs are having to anticipate uncertainty and make decisions for a long-term horizon that is increasingly blurry

Finding opportunity in uncertainty

Godfrey Boyce
Chief Executive
KPMG New Zealand

2022 has not been a simple year. A rise in natural disasters, the invasion of Ukraine, and the ongoing consequences of the pandemic, including high inflation, have made it more important than ever for business leaders to be attuned to global trends. CEOs are having to anticipate uncertainty and make decisions for a long-term horizon that is increasingly blurry.

However, due to the delayed impact of Covid-19 and our geographic position, New Zealand's situation does not always follow the direction of other countries. Despite global economic headwinds, pandemic fatigue and supply chain issues, local CEOs are feeling encouraged by our emergence from lockdown restrictions and opening borders.

In our survey, 60% of the New Zealand CEOs expect earnings growth of more than 5% per annum over the next three years. They are less concerned about a recession than their overseas counterparts but are realistic as to the possibility and impact of recession and what they may need to do to respond.

In addition, CEOs are having to contend with a tight talent market, disruptive technologies, and growing demand for transparency around their organisations' environmental, social and governance (ESG) practices.

Unless leaders already have expertise in local and international recruitment, employee value proposition, digital transformation and ESG issues, they will need to bolster themselves and their leadership teams with informed advisors. Ensuring that the C-suite is equipped with the best information and supported by specialists will be critical to steering organisations on the right path forward. Resisting the urge to be reactive and thinking strategically about the long-term opportunities in these areas will be critical.

In this report, you will see I have drawn on the expertise of my team at KPMG New Zealand. I hope you enjoy exploring insights from our leaders across technology, sustainability, talent and economics, and better understand what is on the agenda for New Zealand's CEOs.

ECONOMIC OUTLOOK

Stormy weather or taking a breather?

New Zealand CEOs remain positive about their economic prospects, and for good reasons. Unlike the rest of the world, New Zealand has recently come out of Covid restrictions and reopened its borders.

53% of New Zealand CEOs are very confident in their industry's resilience over the next three months.

This reconnection to the wider world should provide a direct boost to dormant sectors such as tourism, hospitality and international education, as well as boosting primary industry exports, with a flow on effect for the rest of the economy. Recent economic results support this outlook with the economy proving resilient to the threat of a recession so far. In our survey 60% of New Zealand CEOs expect their earnings to grow by high single or double digits. This is significantly higher than other countries – most global CEOs expect growth in low single digits. At least at the time of the survey, none of our Kiwi business leaders highlighted economic conditions, such as interest rate increases or the threat of a recession, as their top concern. Rather, the biggest threats are emerging and disruptive technology and regulatory risk.

Immigration will remain the big uncertainty for some time yet. 73% of local CEOs believe the ability to retain talent, given inflationary pressures and the rising cost of living, will have an impact on their organisation over the next three years. And the labour market may get even hotter in the near term. While the border is now open, net migration is mostly outwards so far. Young talent may choose to leave for their delayed OEs, while other developed economies are starting to introduce incentive programmes to attract critical workforce, a recent example being Victoria offering support for clinical nurses who wish to relocate there. Other concerns of New Zealand CEOs, such as logistic and supply chain challenges, should ease as management practices adjust and global demand cools.

Despite the rosy outlook of New Zealand CEOs, we should not ignore an increasingly gloomy global outlook. Globally, 14% of CEOs are concerned about the changing economic conditions and the threat of a recession. New Zealand has historically experienced the impact of global recessions slower than the rest of the world, and we could be seeing a similar pattern here.

However, a slowdown in New Zealand's case could give businesses time to catch up to demand and consolidate the gains they have made over the past two years. Based on survey responses, we anticipate that business leaders will look at acquiring some of their competitors to quickly boost their capacity and will start exploring or investing in new technologies to help them stay competitive domestically and globally. Only 3% say they are unlikely to make any acquisitions in the next three years, with 97% citing a moderate or high M&A appetite. With a fifth of Kiwi CEOs surveyed selecting disruptive technologies as their top concern, we can expect that some of this M&A activity will be directed at bolstering or developing tech capabilities.

Despite global economic headwinds, this year's CEO Outlook indicates New Zealand's economy is not stalling; we are just catching our breath.

Adrian Wimmers
Economic and Social Development Co-Lead

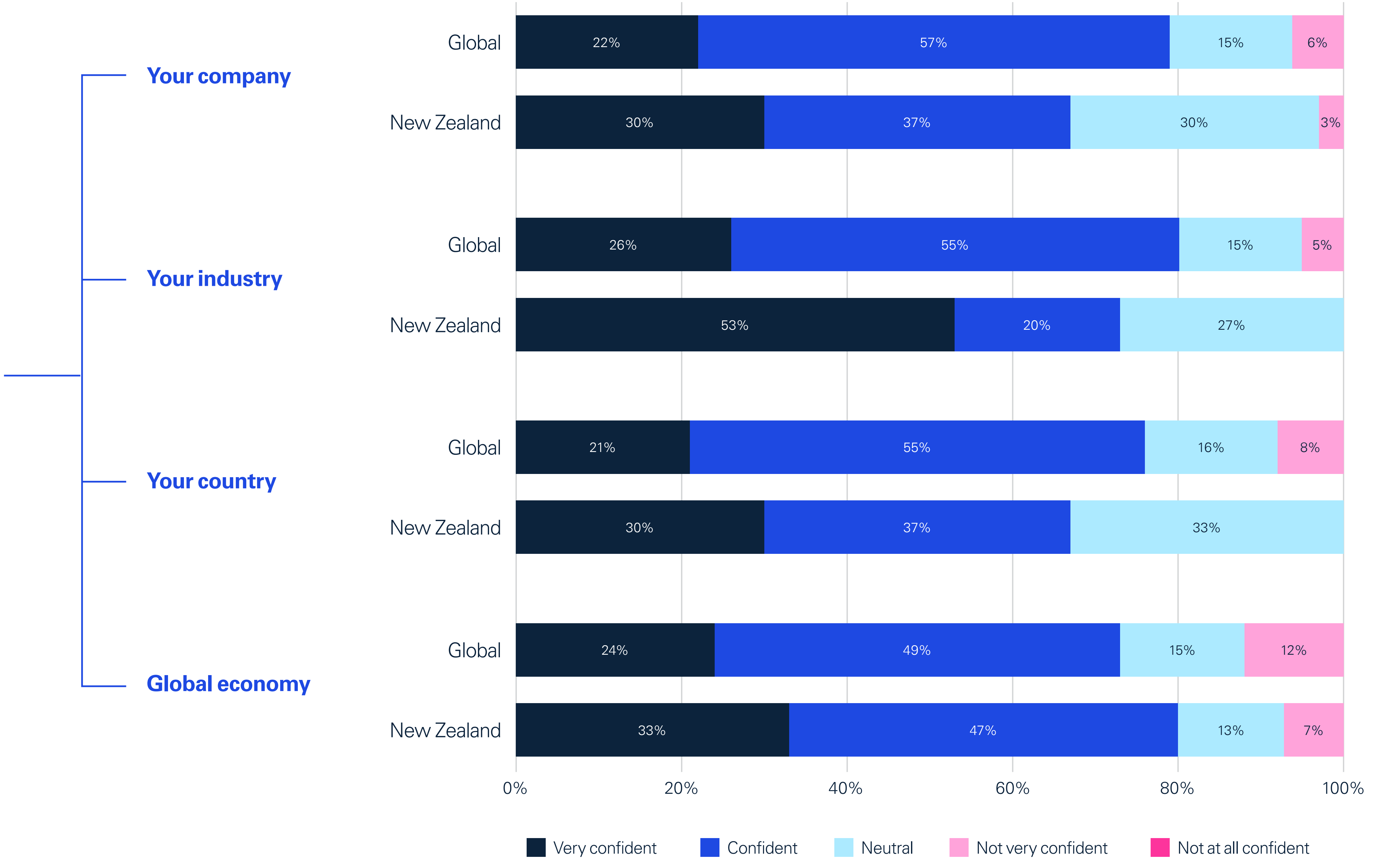
Anton Samoilenko
Associate Director
Deal Advisory

97%

of surveyed CEOs in New Zealand have a moderate or high M&A appetite

Economic outlook and business confidence

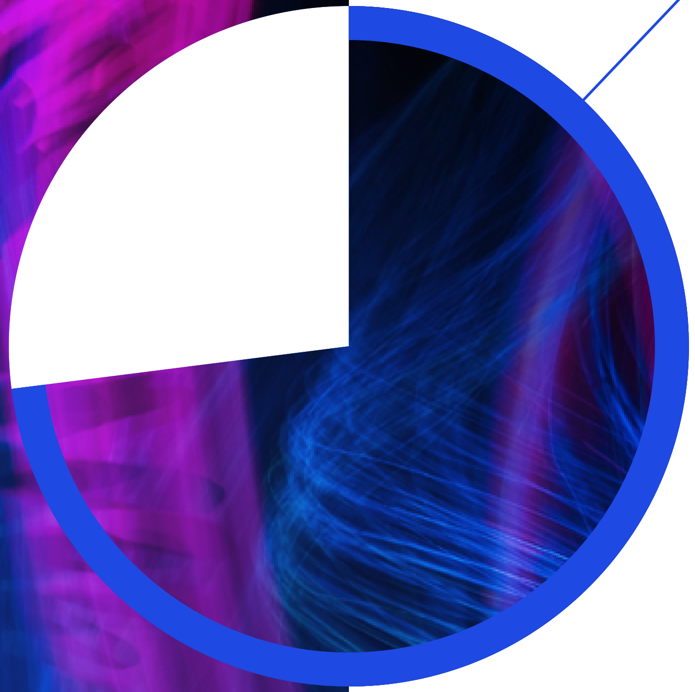
How confident are you in the resilience of the following in the next six months:



TECHNOLOGY

Digital transformation and the confidence conundrum

There is a great deal to be positive about in the survey regarding technology investment and adoption in New Zealand. Our survey revealed that 80% of New Zealand CEOs currently consider their digital investment strategy to be aggressive, aiming to secure first-mover or fast-follower status. It is fantastic to see that they are also well attuned to how digital investments are intrinsically linked to ESG outcomes; 80% agree they are linked, with over half of those strongly agreeing that they are connected.



73% of local leaders strongly believe adopting and sustaining new ways of working is a significant challenge

However, despite this digital ambition, there is less confidence in their ability to implement change. Most of these local leaders (73%) strongly believe that getting their employees to adopt and sustain new ways of working is a significant challenge.

All leaders know that true digital transformation is not just about implementing technology. Creating a material improvement to the user experience is often at the heart of successful change. Only outstanding solutions that are designed to create a step-change in experience will convince people to adopt new ways of working. And for internal organisational transformation, the discipline of change management should not be the poor relation to the challenge of technology delivery; it needs to be at the core of programme design, from day one.

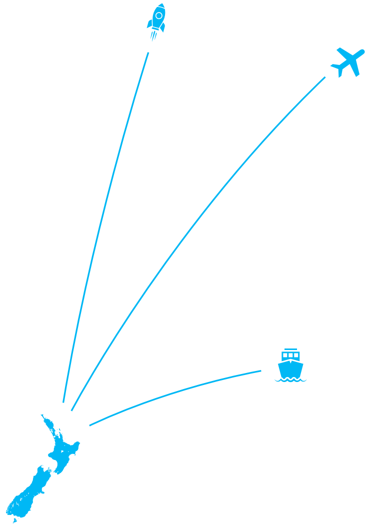
The lack of confidence in being able to create change might also be informing how Kiwi CEOs are preparing for potential recession. Compared to their overseas peers, fewer New Zealand CEOs strongly agree that they need to focus on boosting productivity as a response to economic uncertainty (33% in New Zealand vs 50% globally).

Looking at business transformation, our local CEOs seem to have lower confidence than their overseas equivalents in their ability to deliver change and manage the associated risks. We believe **it's time we change how we change in New Zealand.**

Does the lack of confidence in transformation root from too many programmes setting out to deliver exceedingly ambitious outcomes? While ambition is to be applauded, global experience tells us that complex large-scale programmes only exceptionally deliver their promised benefits, on time and to budget.

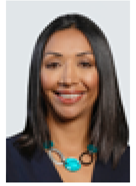
But this shortcoming is often not related to execution. Despite billions of dollars of investment in improved business case processes and project delivery disciplines, the failure rates for projects and programmes have remained unchanged for decades. Instead, we believe it is for leaders to be much bolder in defining the priorities that their programmes must deliver – 'everything' is rarely a credible answer. From the start of any major initiative, leaders also need to understand which levers of change, including scope, timeframe, and cost, are most critical to success – believing that a programme will deliver to all three measures is rarely a realistic option.

New Zealand CEOs also have less confidence than their overseas peers that business transformation will deliver the promised benefits. Successful leadership teams do not delegate transformation; they take active ownership of complex change while backfilling business-as-usual activities. Demonstrating that we can achieve the promised benefits and sustain new ways of working will break this cycle of low confidence and capability, bringing us closer to our international peers.



This survey suggests that **it's time for New Zealand to take productivity seriously**. Unless we systematically use technology to change the way we work, the price of our goods will become less competitive in global markets. And in the public sector, we will not be able to deliver all the services that our citizens need and demand.

James Dowle
Partner
Digital Lighthouse

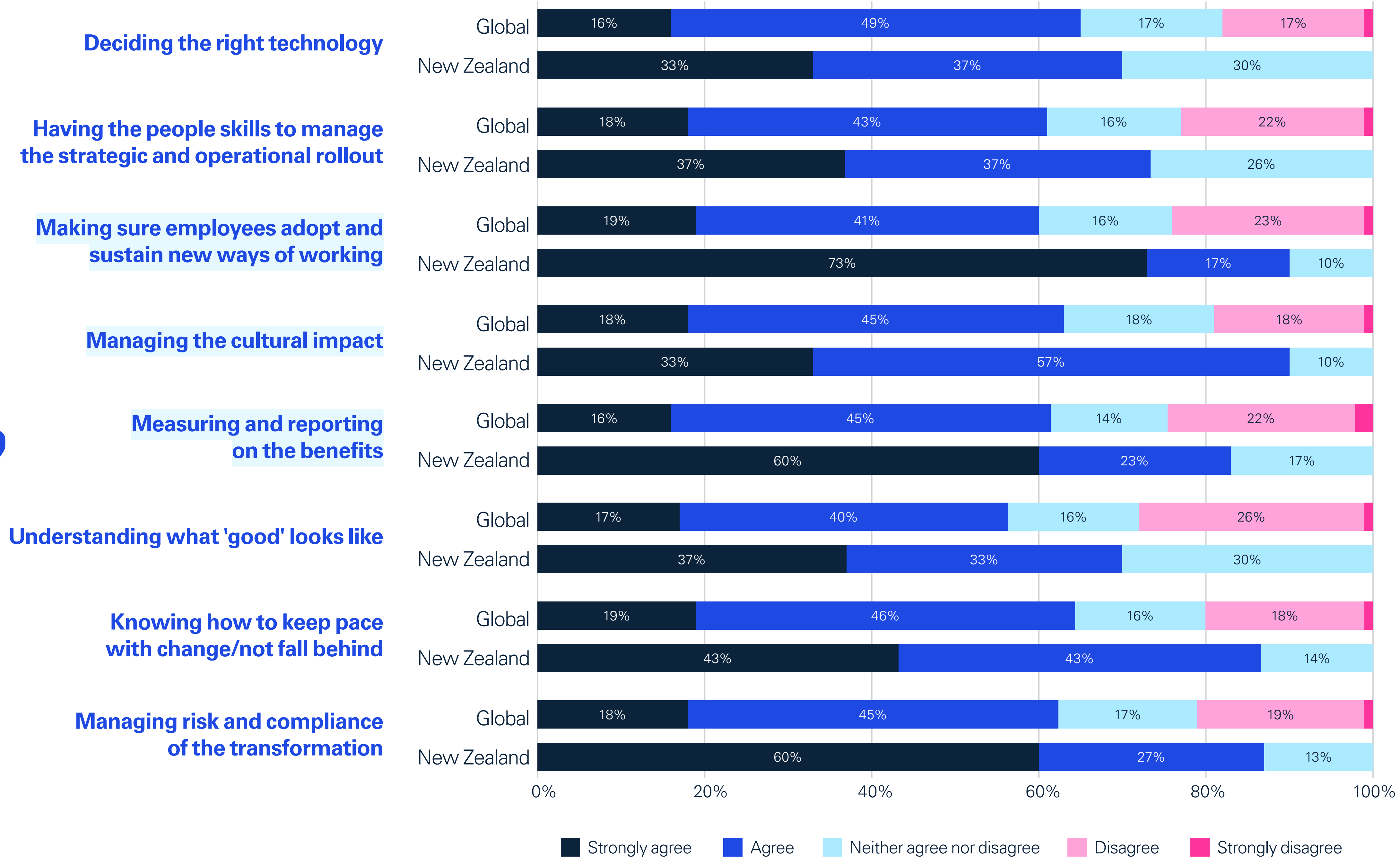


Rachael Niao
Partner
Technology Consulting

With over three-quarters (77%) of our CEOs acknowledging that we need to be quicker to shift investment to digital opportunities, we need to bolster ourselves with digital expertise and be bolder in our approach to digital transformation.

Digital Agility

To what extent do you agree the following is holding back progress on your business transformation?



TALENT

The ‘T’ word: Talent in New Zealand

‘Talent’ has been a topic high on many leadership agendas since our borders closed in 2020. While it was ranked as one of the lowest risks for the rest of the world, talent was joint fourth in a list of the most pressing concerns for New Zealand CEOs alongside both climate change and political uncertainty.

90% of NZ executives have or will implement a hiring freeze in the next six months in case of a recession

Our local leaders are also more concerned than their global counterparts about the ability to retain talent given inflationary pressures and the rising cost of living. 43% of New Zealand CEOs surveyed strongly agreed this would have an impact on their organisation in the next three years, versus 21% of global CEOs.

But CEOs in New Zealand feel they need to balance this concern around retaining their people with wider economic uncertainty. 90% of executives in New Zealand say they have or will implement a hiring freeze in the next six months in case of a recession, while internationally this sat at 75%. Sales pipelines will likely be under increasing scrutiny as leaders grapple with the battle for top talent and fiscal pressures that may – or may not – hit in the coming months.

Forecasting their organisation's headcount, however, implied some stability. Only 3% of local leaders expect a decrease in headcount in the next three years and 63% expect it to increase. This expectation for growth is tempered somewhat by the third of CEOs who anticipate their workforce staying the same over this period.

So how are executives planning to retain their people?

Purpose: In New Zealand, CEOs appear to view corporate purpose as more impactful for their employee value proposition (EVP) than the international average; 47% consider their purpose very important in strengthening their EVP compared to 19% globally.

This trend also holds true for the drivers behind greater ESG transparency and reporting. 40% of Kiwi CEOs believe employees and new hires are putting the greatest pressure on their organisation to be better in this area, above regulators, investors and customers. People are holding their organisations to account on ESG in New Zealand.

Flexible working: When asked about the impact of hybrid working, New Zealand CEOs were twice as likely to think this flexibility has had a positive effect on employee morale (80% vs 41% globally). It's a similar story with retention; 63% of Kiwi leaders see a positive impact from flexible working compared to 38% globally.

This discrepancy in opinions might be linked to how Covid-19 affected New Zealand in particular. For example, hybrid working was less common in New Zealand than in some other parts of the world before the pandemic, so we are newer to the benefits of flexibility. Furthermore, longer lockdowns in some jurisdictions meant working from home became more restrictive than flexible. The border restrictions in New Zealand have also meant that the ability to connect virtually rather than depend on travel has been critical – this may also explain why 47% of New Zealand CEOs think hybrid working has had a positive impact on collaboration and innovation. We have seen this in our own organisation, with a significant number of people taking advantage of our 'Work from Overseas' arrangement which allows them to travel or reconnect with family while still maintaining productive working relationships and schedules.

Leaders should consider the importance of this flexibility when planning ahead.

Contrary to the benefits noted by the majority of Kiwi CEOs, 93% expect that corporate employees with traditionally office-based roles will be office-based in three years' time. Only 7% anticipate their workers will be in hybrid arrangements. This would indicate that the CEOs believe flexible working was a reaction to Covid-19 versus a change in long term workforce trends. This belief is counter to what we are hearing from our people and wider global trends. With flexible work now seen by many workers as a core EVP offering, CEOs who force a move back to office work may find it difficult to attract and retain the local and international talent their firms need to grow.

Evan Bateup
Chief People Officer
PPC

Helen Mason
Head of Talent and Mobility

63%

of Kiwi leaders see a positive impact from flexible working compared to 38% globally

ESG

Are you telling the full story?

87% of Kiwi CEOs believe major global challenges such as income inequality and climate change are a threat to their company's long-term growth and value

A stunning 87% of Kiwi CEOs believe major global social and environmental challenges such as income inequality and climate change are a threat to their company's long-term growth and value. Globally the figure is 72%, suggesting that we are feeling this more acutely in New Zealand.

Yet our survey suggests that many New Zealand business still have a way to go when it comes to identifying and defining ESG metrics and information to facilitate strategy, track implementation and inform key stakeholders through reporting and disclosure. Identifying what to measure for impact early in the ESG journey will ensure efforts are delivering towards the organisation's purpose and unlocking the most opportunity.

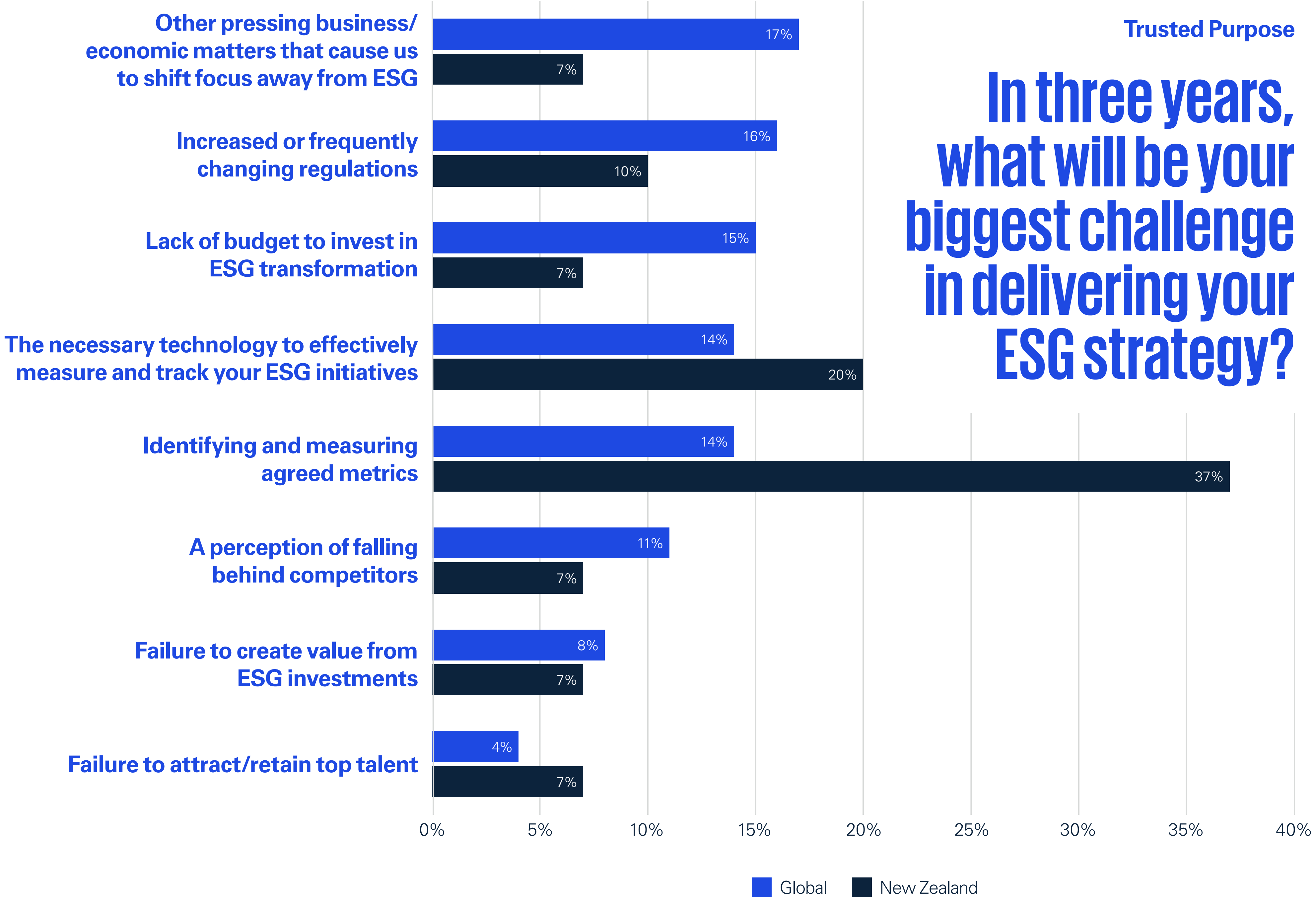
Given the plethora of reporting standards and frameworks available, the fact that 37% of local CEOs surveyed highlight identifying and measuring agreed metrics as their biggest challenge in delivering their ESG strategy may not be surprising. But why do only 14% of global CEOs agree that this is the biggest challenge?

We are behind some international peers in reporting, despite being the first country to mandate climate-related disclosures.

Locally, CEOs also believe more strongly that increased worldwide geopolitics have affected their ESG strategies or plans compared to their international counterparts (47% versus 21% strongly agree). This uncertainty or shift in priorities may have contributed to difficulty in identifying meaningful metrics.

Trusted Purpose

In three years, what will be your biggest challenge in delivering your ESG strategy?



But if we consider the second-biggest challenge - technology that can measure and track ESG initiatives – the issue becomes broader and predates recent global turbulence. Based on this, 57% of New Zealand CEOs are struggling with ESG measurement in some way. Guidance is certainly a critical piece of the reporting puzzle, but developing key metrics and, more importantly, operationalising ESG plans also need the right data and capability in-house. Organisations are only just beginning to invest in data platforms needed to help collate and analyse the broad spectrum of data captured under ESG and this is likely hampering progress to date.

A higher bar

Regardless of the origin of impediments to measuring and reporting progress, the pressure is already on. 83% of Kiwi CEOs are seeing a significant demand from their stakeholders for ESG reporting and transparency. In New Zealand, this is being driven by employees and new hires according to 40% of CEOs, versus 26% globally.

This has certainly been on the rise in the aftermath of Covid-19 as the labour market tightened. Heightened awareness of the urgency of global ESG challenges and greater expectations for employer transparency has led to many employees looking for employers with stronger alignment to their values. The full scope of ESG goes beyond carbon emissions, covering areas such as procurement practices, biodiversity, inclusion and diversity, and governance. It is undoubtedly complex, and there has been a tendency to be selective and focus on reporting positive progress. However, with increased scrutiny and demand for disclosure, the need for transparency has never been greater. Reporting on performance (or lack thereof) needs to be balanced to mitigate confusion or misleading messaging.

This challenge in communication was not lost on the leaders we surveyed; two-thirds are either struggling to articulate a compelling ESG story (37%) or match the rigour of financial reporting (30%). To address these challenges there are steps that can be taken:

— Educate your organisation on ESG risks and opportunities, and what they mean for your organisation.

— Establish a board-led governance structure that fully integrates ESG issues into core activities.

— Build organisational capabilities to understand and respond to the challenges ahead. This extends beyond hiring new skillsets to ensuring existing leaders and managers are equipped to incorporate new thinking into what they do.

— Develop business cases and strategic responses based on the counterfactual, not the status quo. Reframe "compliance costs" as investments in opportunities, building resilience and long-term value.

Achieving progress in these areas is a long game focused on substantive steps. With increasing concerns of "greenwash", stakeholders should welcome greater transparency including clarity around areas with slower progress – we can only move forward by shining a light on what is holding us back. CEOs who wish to be leaders in this area and respond to the demands of their stakeholders should take note. The time for talk and selective communication is over. A compelling ESG story needs to be balanced, complete and focused on actions.

Simon Wilkins
Head of KPMG IMPACT

Ronja Lidenhammar
Senior Manager
Sustainable Value

83%

of Kiwi CEOs are seeing a significant demand from their stakeholders for ESG reporting and transparency

Conclusion

Economic outlook:

New Zealand CEOs remain positive about their economic prospects, and for good reasons. Unlike the rest of the world, New Zealand has just come out of Covid restrictions and opened the borders. How we will stay competitive is top of mind for many. New Zealand CEOs are prepared for the possibility of a recession and understand the levers they may need to pull.

Technology:

It's time for New Zealand to take productivity seriously. We must use technology systematically to change the way we work to stay competitive in global markets. Focus is required on change management to ensure benefits are realised.

Talent:

CEOs must balance fiscal pressures with the battle for top talent, so retaining people through a strong employee value proposition and flexible working will be crucial.

ESG:

Every large business needs to know their emissions number and the ESG characteristics of their supply chain - and be open about where progress is lacking. A compelling ESG story needs to be balanced, complete and focused on actions.

Contacts

For further information about this report and how KPMG can help your business, please contact:

Godfrey Boyce
Chief Executive
E: gboyce@kpmg.co.nz
↘ LinkedIn

Adrian Wimmers
Economic and Social Development Co-Lead
E: awimmers@kpmg.co.nz
↘ LinkedIn

James Dowle
Partner
Digital Lighthouse
E: jdowle@kpmg.co.nz
↘ LinkedIn

Evan Bateup
Chief People Officer
PPC
E: ebateup@kpmg.co.nz
↘ LinkedIn

Simon Wilkins
Head of KPMG IMPACT
E: swilkins1@kpmg.co.nz
↘ LinkedIn

Matt Prichard
Executive Chair
E: matthewprichard@kpmg.co.nz
↘ LinkedIn

Anton Samoilenko
Associate Director
Deal Advisory
E: asamoilenko@kpmg.co.nz

Rachael Niao
Partner
Technology Consulting
E: rniao@kpmg.co.nz
↘ LinkedIn

Helen Mason
Head of Talent and Mobility
E: helenmason@kpmg.co.nz
↘ LinkedIn

Ronja Lidenhammar
Senior Manager
Sustainable Value
E: rlidenhammar@kpmg.co.nz
↘ LinkedIn

kpmg.com/nz