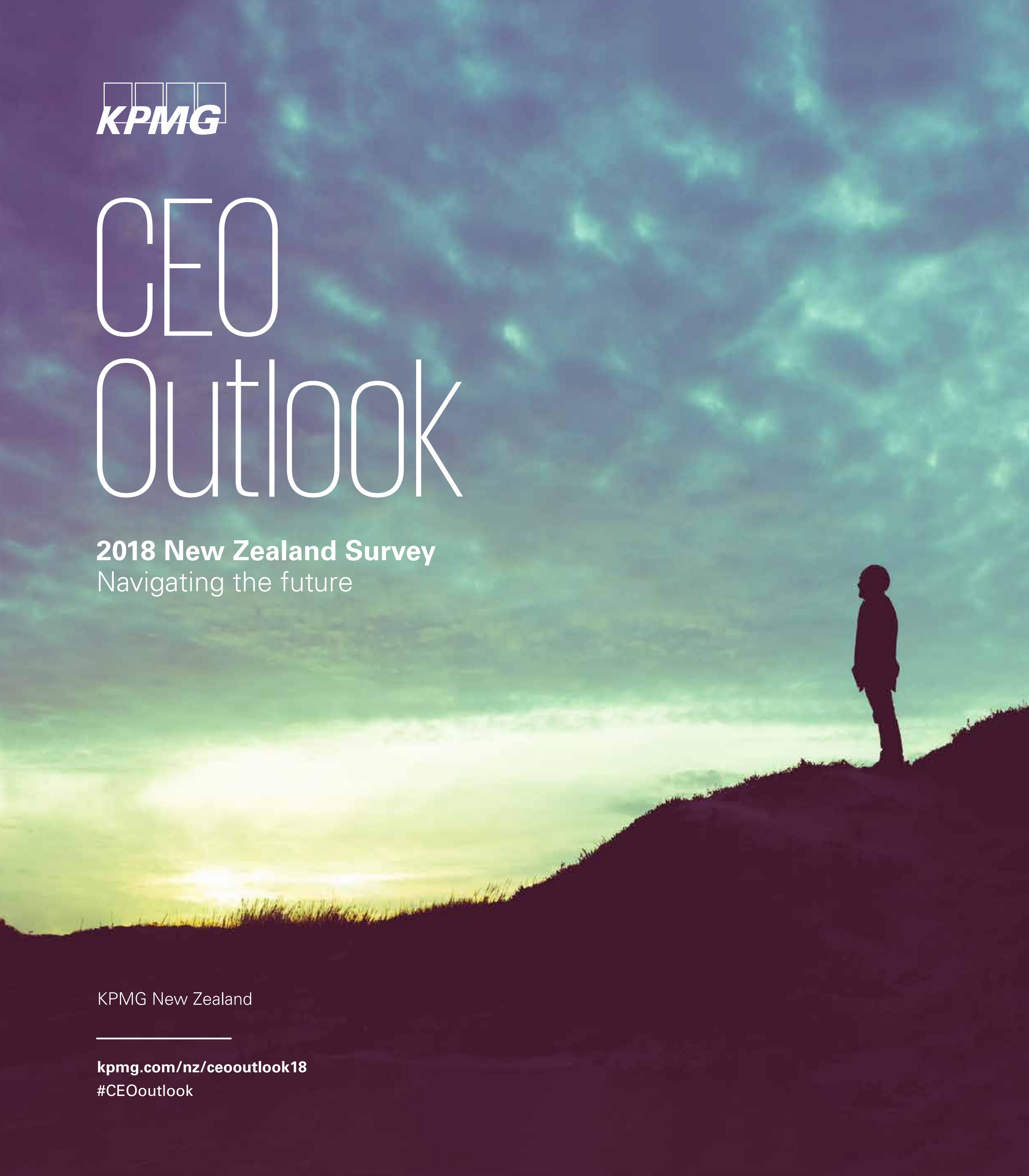


CEO Outlook

2018 New Zealand Survey
Navigating the future

KPMG New Zealand

kpmg.com/nz/ceooutlook18
#CEOoutlook

About the report

Methodology

The data published in the '2018 KPMG Global CEO Outlook: Growing Pains' is based on a survey of 1,300 chief executive officers (CEOs) in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The survey was conducted between 22 January and 27 February 2018.

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

Of the 1,300 CEOs, 314 came from companies with revenues between US$500 million and US$999 million; 546 from companies with revenues between US$1 billion and US$9.9 billion; and 440 from companies with revenues of US$10 billion or more.

50 leading New Zealand CEOs provided their perspectives as part of the Global report and the split of their responses forms this report.

New Zealand CEOs

All 11 sectors from the global report were represented by the New Zealand CEOs surveyed with the highest concentration in financial services, energy, technology and consumer & retail. Despite our global orientation, our size and local market does appear to play a part in our proactivity in partnering with third parties and our responsiveness to regulation change and territorialism.

50% of CEOs surveyed were in organisations where the most recent fiscal year returned revenue of more than US$1 billion. And they are on par with global CEOs in terms of fiscal growth, with 82% stating an increase compared to the previous financial year.

The mean of years served within their current organisation as CEO was 4.8 years. The 50 New Zealand CEOs surveyed included 7 female CEOs.

Driving to the conditions

Godfrey Boyce
Chief Executive, KPMG New Zealand

What a difference a year makes. Our latest '2018 KPMG New Zealand CEO Outlook: Navigating the future' has shown a change in sentiment among New Zealand business leaders across a number of measures. Compared to our last CEO Outlook Survey in 2017, there has been a slight softening of confidence. A total of 64% expressed confidence in New Zealand's growth outlook for the next three years, compared to 74% 12 months ago.

In KPMG's view, we don't see this as a faltering of confidence – but more of a realistic re-balancing. The past year has seen global vagaries continuing to play out; with a return to territorialism in response to Brexit and the US Government's protectionist trade direction. At the same time, we've dealt with the policy changes associated with bedding in a new Government, which inevitably brings a level of uncertainty.

Given that New Zealand has come through a period of robust growth, a little tempering of confidence is both realistic and expected. It's also an opportunity to refocus our collective attention on what's needed. As Zespri CEO Dan Mathieson reflects on p10 of this report, building resilience within any organisation must now be a standard KPI for leaders.

Another key theme to emerge from the Survey findings is that New Zealand CEOs are grappling with the challenges of digital transformation. While virtually all see digital transformation as an opportunity rather than a threat, only 26% are confident that existing leadership is fully equipped to oversee radical transformation of their organisations (compared to 44% of their global counterparts).

While transformation isn't easy, we believe there are some fundamental principles that can provide a road-map for any future-state endeavours. One of these is a relentless focus on understanding the customer, and using technology to deliver an outstanding customer experience. KPMG has recently released another piece of research, the Customer Experience Excellence Report, that shows New Zealand's top-performing brands in this respect are achieving significantly higher revenue growth.

Of course, research only becomes valuable when it leads to action. So we invite you to talk through these findings with us, and your specific challenges as a CEO, executive or Board member. As always, we're keen to share our insights and strategies on building our nation of world-class organisations.

REALISTIC GROWTH

It's about recognising the opportunities and the challenges to participate in global economic growth.

Realistic growth

As we look to achieve growth, are we being realistic?

92% of New Zealand CEOs surveyed have confidence in global growth, as compared to a global average of 67%. However, there is a general lack of confidence as to how much of this will translate into growth in the New Zealand economy, with only 64% expressing confidence in our outlook for the next three years.

Recently released GDP numbers support this, with suggestions that the economy has lost some of its momentum in the March quarter. New Zealand CEOs' expectations of growth within their own organisations have also reduced since the last Survey, with most now forecasting less than 2% top line revenue growth over the next three years. This is a significant change since last year's Survey.

The Survey highlights a return to territorialism as the greatest threat to growth, with nearly two thirds of New Zealand CEOs surveyed identifying this threat. Whilst this was mirrored globally to a lesser degree, New Zealand's reliance on export led growth perhaps underpins why there is nervousness about how we share in global growth, particularly if there is a trade war between the US and China.

Cyber security and environmental/climate change were also identified as key risks to growth. Only 32% of New Zealand CEOs surveyed see their organisations as well placed overall to withstand a cyber attack, when compared to their global counterparts (at just over 50%). Difficulty with sharing information securely with third parties was also perceived to be a barrier to extracting value from networks of third parties by a third of New Zealand CEOs, much higher than the global average.

64% perceive that growth over the next three years will be harder earned than ever before, more than double the global average. The challenge of moving toward an agile business model and linking the growth strategy to wider societal purpose were two themes which underpinned the responses to this question. Increased interest in integrated reporting across a number of leading New Zealand corporates is a positive step toward the challenge of dealing with the latter issue.

New Zealand's CEOs are conscious of the need to respond to change by fostering innovation and building agility but are equally conscious that the ability to achieve growth at scale in the domestic market is limited. Accordingly the combination of the domestic and global outlook means New Zealand's CEOs are now looking for 'realistic growth'.

Despite the rather sombre Survey results, there are many positive stories in the New Zealand economy to be celebrated. The Survey highlights that we are perhaps at a point of having to reconsider where we fit globally and how best to respond to the rate of change in technology and in society.

Navigating forward

64% of New Zealand CEOs surveyed think growth will be harder over the next three years, compared to just 28% of global respondents.

How can your strategy for growth remain adaptable to emerging factors and changing requirements?

66% of New Zealand organisations surveyed are struggling to link growth strategy with societal purpose, compared to 37% of global respondents.

What are you doing to take on board the future needs and requirements of your customers?

78% agree that acting with agility is the new currency of business.

Is your approach to agile projects being reflected in people transformation for an agile workplace?

34% of New Zealand CEOs surveyed have difficulty sharing data with third parties compared to 22% of global respondents.

How are your governance policies promoting external collaboration?

68% of New Zealand CEOs surveyed identify a return to territorialism as the greatest threat to their organisation's growth.

To ensure growth is realised over the next three years, how is your organisation mitigating the effects of both local and global territorialism?

Dan Mathieson
CEO, Zespri International

For the New Zealand kiwifruit industry, the risk of a rise in economic protectionism is a significant concern. Barriers to trade raise the costs of export and damage competitiveness. This can impact grower returns and undermine growth, with knock-on effects on jobs and regional economies.

It is not a surprise to know that the KPMG Survey finds that so many New Zealand chief executives consider the rise of protectionism the greatest threat to growth. It is also why Zespri and many other primary sector companies support the New Zealand government's efforts to improve market access with our trading partners. Despite the news, we do see some positive trends. For example, the beginning of the NZ-EU Free Trade Agreement talks is encouraging and can deliver benefit for consumers in Europe and growers in New Zealand.

The outlook for growth in the global economy is reasonable, certainly better than it was a few years ago, but New Zealand exporters should remain cautious. It is possible that when you see good growth, peoples' perception of risk diminishes. Inherent risks need to be factored into planning and investors in horticulture always need to be thinking about how to build resilience in their businesses.

SHIFTING SANDS

Less certainty over future growth moves the focus to transformation but always with an eye on the customer.

Shifting sands

Why is leading radical transformation a daunting task?

Whilst 58% of New Zealand CEOs surveyed are personally prepared to lead a radical transformation of their business to maintain its competitiveness, more than 70% of global CEOs are making transformation a personal priority. Why is it such a daunting task?

New Zealand CEOs' confidence in growth prospects for our country and for their companies has gone backwards, and is now well below what their global peers are thinking about their countries and the businesses they manage.

The key driver of this is geopolitics – territorialism is in the top three risks of 68% of New Zealand CEOs surveyed, reflecting the export-driven nature of our economy. Whilst also a top concern globally, CEOs from the US, UK, Europe and China can see upsides and downsides from Trump's trade policies and Brexit. Whilst 58% of New Zealand CEOs surveyed are personally prepared to lead a radical transformation of their business to maintain its competitiveness, more than 70% of global CEOs are making transformation a personal priority – right now, more than ever, there's a need for our CEOs to become more globally connected to overcome the risk of geographical and geopolitical isolation.

But it's hard. Our CEOs highlight the importance of acting with agility, linking growth strategies to societal purpose, and improving how market disruption is monitored. Almost all New Zealand CEOs are finding the lead times to achieve progress with transformation projects "overwhelming", and technology is not the only source of disruption.

And although only 8% view talent as one of their top three risks, a third don't believe they have the right leadership team to oversee transformation, and over three quarters think their board's expectations of return on investment from transformation is "unreasonable". In our recent publication *No normal is the new normal* (published in conjunction with the Consumer Goods Forum), Willy Kruh – Global Chair Consumer & Retail, KPMG International describes this sector "being transformed by three revolutions at once: geographic, demographic and technological".

In the face of such momentous change it's important to remember that growth is as much about mind set as it is about market conditions. CEOs need to ask if their culture, strategies and business models are facilitating growth or inhibiting it. And they need to ensure efforts to improve supply chains, embed smart technology and go digital are not just internal projects but are responsive to the needs of their customers – and executed fast enough to ensure their customers don't become their competitors' customers!

Navigating forward

Only 26% of New Zealand CEOs surveyed are confident that their existing leadership team is fully equipped to oversee the radical transformation needed in their organisation.

Do you need a different leadership team, skills or outside expertise to drive change?

Organisations that excel at customer centricity have been shown to experience 54% greater revenue growth than those who don't.*

Is the voice of the customer present in discerning your next investment?

98% of New Zealand CEOs surveyed strongly view technological disruption as more of an opportunity than a threat.

How are you choosing which technology offerings will benefit your organisation the most?

68% of New Zealand CEOs surveyed agree that it's a matter of when, not if, for experiencing a cyber attack.

What data asset presents the biggest risk for your organisation in the event of a hack?

"Geopolitics now has to be seen on par with other strategic challenges and CEOs need to develop their awareness and skills to manage an increasingly uncertain environment."

Gary Reader – Global Head of Clients and Markets, KPMG International

*KPMG New Zealand Customer Experience Excellence Report 2018

Sam McIvor
CEO, Beef + Lamb New Zealand

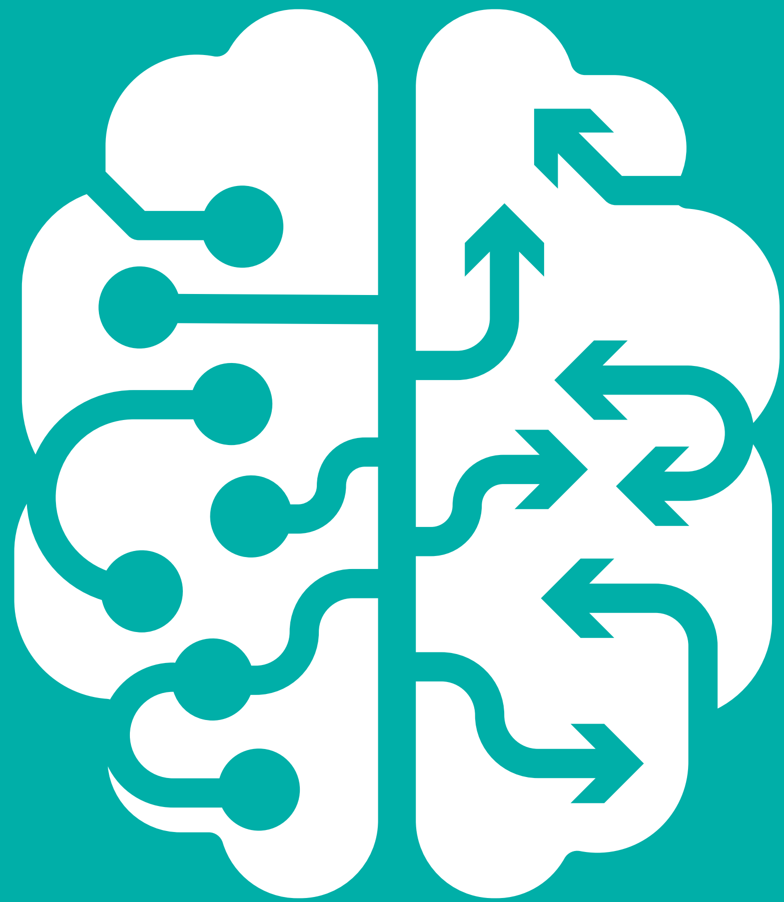
The sheep and beef industry is facing its most disruptive times since the economic reforms of the eighties. Domestically, social licence, biosecurity, the environment and employment law reform are all playing on industry's mind.

Internationally, Brexit, the US government's protectionist trade direction and other disruptors such as alternative proteins is undermining trading confidence. However, the fundamentals of growing global protein demand (expected to double by 2050), and a growing discerning middle class is giving our industry tremendous confidence and anticipation for the future.

The industry has positioned itself for just this time. Since 1990 there's been a dramatic increase in efficiency. While maintaining a grass-fed, natural (no antibiotics/hormones), low impact animal friendly production system, we have reduced our greenhouse gas emissions by 30% and are further offsetting our emissions through 1.4m hectares of indigenous bush on our farms. These attributes are sought by the world's most discerning meat eaters; it is our farmers and exporters time to shine. They're up for it too.

DATA VERSUS INTUITION

The CEO role is about getting fine judgments right most of the time – data analysis combined with intuition improves the odds.



Data versus intuition

Could humans and machines working together give rise to better decisions?

As the world of business accelerates, leaders are expected to make more complex decisions – at pace. When the data they need is available and known, or they have a long track record of experience and evidence, they can apply cognitive reasoning, analysis and estimation to make the right choices.

However in ambiguous situations, leaders face an incomplete view of the situation and a lack of data. In these situations, leaders tend to rely on their "gut feel" or intuition to make decisions. Intuition played an important role in our evolution: gathering years of individual data to determine when something doesn't feel right, and merits investigation. First impressions draw on our bedrock of instinct – interviewing someone for the first time, or into a prospective new home and "something doesn't feel right". In many instances, when data is gathered down the track, our initial instinct is proven to be correct.

The explosion of "big data" and the increase of computing power has allowed us to make advances in machine learning, AI and automation. These analytical techniques can be applied to everything from predicting which valuable customer might leave, to anticipating the next best product or service. With this increasingly data-driven and rational approach, it's easy to wonder if there will still be a place for intuition in the future of business.

One approach is to think of intuition as a starting point and input to decision making. For example, a hypothesis is an intuition about what is going on in your business, where the risks, issues, and opportunities may be, which products to develop, or which future direction to take. You can test these hypotheses by performing experiments, gathering and analysing the data. The combination of intuition and information remains powerful. As analytical tools and approaches become more intuitive, through the rise of "augmented analytics", we will increasingly see that the combination of humans and machines working in unison gives rise to the greatest success.

Navigating forward

Social Media was shown to be the most trusted data source for informing strategic decisions.

How is your social media strategy driving and building customer trust?

80% of New Zealand CEOs surveyed believe that AI will create more jobs than it eliminates compared to 62% globally.

How are you looking to embrace AI in conjunction with intuition, to drive customer loyalty?

Over the next three years 64% of New Zealand CEOs surveyed will look to increase their use of predictive and analytical data models, compared to 32% of global respondents.

What is the weighting of data analysis versus leadership intuition in your decision making? Is too much data analysis leading to paralysis?

78% of New Zealand CEOs surveyed are hiring new skills into their organisation regardless of future growth targets, compared to 48% globally.

Is it your data or your intuition giving you the confidence to hire ahead of the curve?

"The 'need for speed' can short-change the depth of analytical rigor that typically precedes major strategic decisions, and could result in strategic misalignment, sub-par payback, and value destruction."

KPMG series: Decoding disruption, 2018

Frances Valintine
Founder, Tech Futures Lab

The '2018 KPMG New Zealand CEO Outlook: Navigating the future' highlights the extraordinary tolerance of New Zealand leaders to be sideline participants in the rapidly transforming world. Years of traditional business hold little bearing as we enter the rapid transition period from analogue to digital.

Top of the agenda items should be the redefinition of 'what was' to focus on 'what is' and 'what will be'. It is time for CEO's to champion hard conversations with their boards to seek urgent commitment to shift from shareholder returns and dividends to the priority of business re-invention, investment and innovation.

This new era rewards the bold, the informed and the responsive. First-mover advantage must be coupled with a commitment to learning and to seeking contemporary solutions. We live in a learners world, and no amount of analogue knowledge will ward off the digital disruptor or the technology leveraged competitor.

Talent has never had more importance. Teams are smaller, more agile, more diverse and plugged into the world starting in 2018.

Macro global trends are increasingly shaped by the burgeoning digital generation and the rising middle class. Generation Y and Z now dominate the workplace, and they are questioning the ways of the past and demanding better solutions that place people and the environment over profit.

The digital transformation challenge is on. Algorithms are the business advantage. New knowledge and bravery is the antidote to indecision. While the impact of artificial intelligence on business cannot be denied, the impact of AI will be insignificant in comparison to operating a business using out-dated knowledge, analogue experience and traditional hierarchical structures and systems.

The CEO survey should see the language of contemporary business, where AI, IoT, APIs, UI & UX, VR and SaaS models are the conversation of progress. However, the results show a reluctance to embrace technological advances.

What will it take for businesses to invest in talent, capability and skills to help shape the future? When will companies shift from treading water to actively planning for a digitally transformed future? With little over a year until 2020, I would recommend the conversation needs to start now.

DIGITAL WINS

Instead of leaping forward, we need to take change one step at a time.

Digital wins

How do we step into digital transformation and promised return?

The '2018 KPMG New Zealand CEO Outlook: Navigating the future' shows that something has changed for CEOs in New Zealand around Digital Transformation. And it's a step backwards. Compared to their global cohort, and their own responses from a year ago, New Zealand leaders have lost confidence in their organisations to deliver digital transformation.

If transformation is focused on enhancing customer experience, developing new products and services or re-inventing internal processes, the Survey data tells a concerning story for New Zealand organisations. In the 2017 New Zealand CEO Outlook Survey, 88% of CEOs surveyed were confident they were disrupting their sector rather than waiting to be disrupted. In 2018 that has dropped to 28% – a major change in sentiment.

A little more than half of New Zealand CEOs (58%) surveyed are "personally prepared to lead their organisation through a radical transformation of its operating model to maintain competitiveness[†]" compared to a global metric of 71%. Perhaps more concerning is that only 26% are "confident that existing leadership is fully equipped to oversee the transformation[†]" compared to a global response of 44%.

Yet, the data suggests that New Zealand CEOs understand the challenge, with nearly all (98%) positively viewing digital transformation as an opportunity rather than a threat. However the majority (64%) acknowledge that their organisation is struggling to keep pace with technology innovation (global response 36%).

So where to from here? We believe that New Zealand organisations can reap significant rewards from taking a digital approach, and need solutions that are appropriate to the market. To achieve this the Survey reveals both a change we need to make to our perceptions of transformation and also how we can navigate a path forward.

First, nearly all New Zealand respondents (96%) saw lead times as overwhelming (global 65%). Secondly, there is a clear view (held by 76%) that "Board has an unreasonable expectation of ROI on digital transformation".[†] These indicate that digital programmes are being contemplated as large scale, with matching high investment, longer lead times, and higher execution risks. Clearly, when presented with these business cases, Boards are seeking significant returns.

The business returns exist. We suggest that most organisations will reduce cost by using robotic process automation to replace simple repetitive data entry tasks. Others will increase revenue by using customer analytics to deliver appropriate offers. The secret to success is to start with a small investment and clear scope to deliver the first 'wins'.

† 2018 KPMG Global CEO Outlook: Growing Pains

Navigating forward

58% of New Zealand CEOs surveyed are personally prepared to lead their organisation through a radical transformation of its operating model to maintain competitiveness compared to the global metric of 71%.

What are your greatest personal concerns about leading a transformational change?

98% of New Zealand CEOs surveyed view digital transformation as an opportunity rather than a threat.

Is your confidence translating to operational efficiencies?

64% of New Zealand CEOs surveyed agree that their organisation is struggling to keep pace with the rate of technological innovation in their sector.

What quick wins will create the greatest positive impact on your customers?

96% of New Zealand CEOs surveyed saw project lead times as overwhelming. There is also a clear view that boards have an unreasonable expectation of ROI on digital transformation.

Are you able to chunk a bigger project down to initially prove ROI?

"It tends not to be that people struggle to see pathways to a successful future, but they feel unable to put the current position at risk or they do not feel confident in making what can be a complex transition."

KPMG Global Top of Mind Survey 2018

Our view is that navigating forward has three steps

1 **Learn digital**
To lead digital transformation the Executive Team and Board must understand the opportunity, the current possibilities and what is working in other organisations. You can achieve learning through a mix of activities and this must be ongoing. You and your teams can attend formal programmes, receive advice from organisations that are ahead, and from people with war stories of failure. Some of these people will be in your own organisation – engage them.

2 **Start small and think big**
Make small investments in projects with specific scope to make rapid progress and/or to understand the challenges ahead. Jumping into a large scale project is 'old world' thinking. Successful transformation is a series of incrementally larger projects, each building on its predecessors successes and failures (yes, there will be failures).

3 **Become agile… from the top**
Digital transformation is about people, process and technology. There are likely to be pockets of agile capability in your organisation, but how could that be extended across the organisation to introduce new ways of thinking and acting? Start leading and governing in this agile world. This needs to be led from the Executive to enable your organisation to transform at pace.

Stopping for directions

Each year, the annual KPMG New Zealand CEO Outlook allows us to examine the current challenges and opportunities from the perspective of those leading New Zealand's largest organisations.

The '2018 KPMG New Zealand CEO Outlook: Navigating the future' has highlighted to us the importance of a number of key themes, as summarised below. This informs both the critical discussions we're having with our clients, and the work we're doing to support them, as we look to navigate the future together.

Realistic growth

What is a realistic measure of growth in the current climate? KPMG suggests it's the benchmark set by New Zealand's top 10 customer-centric companies, as identified in our 2018 Customer Experience Excellence report. We've analysed the unique DNA of these companies, in order to replicate their approach in our next tranche of high-performers.

Shifting sands

There's no doubt that the current geopolitical climate is both challenging and unpredictable, particularly for an export nation such as ours. KPMG's Accelerating Export team is focused on helping our clients get closer to the consumer in-market, and thus secure a more valuable position in the value chain. We also recognise that it's never been more important for our exporters to stay true to their premium strategy, and take a collaborative approach to advancing the reputation of New Zealand Inc.

Data versus intuition

Commercial decisions are now driven by both digital and human intelligence – the challenge lies in getting the balance right. KPMG's multidisciplinary approach allows our clients to make their most critical decisions using these 'augmented analytics'. In addition to our full suite of consulting services, we provide clients with assurance around the quality, integrity and deployment of their data.

Digital wins

At KPMG, we know that digital wins can be both large and small. We can help clients completely transform their operating model, for instance, in response to their changing industry landscape. For others, it's about implementing small changes that deliver big dividends for the customer experience. Either way, it's about embracing opportunity and being agile enough to act.

Ready to continue the conversation? We invite you to get in touch.

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FUELLING PROSPERITY

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