Global CEO Outlook 2015

The growth imperative in a more competitive environment

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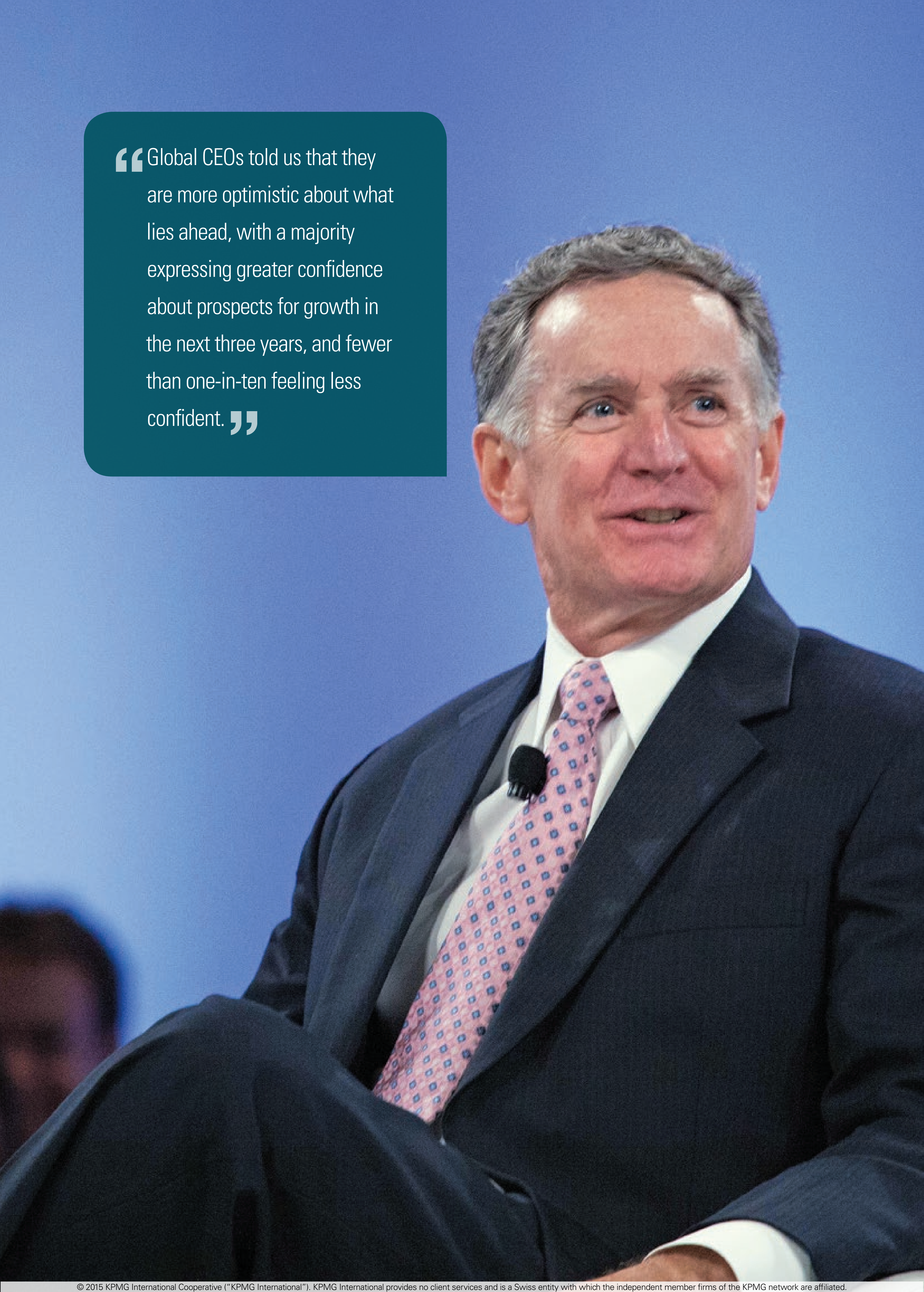
cutting through complexity



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Foreword

Today, we know better than ever how interconnected we are in the global economy. Recent years have seen rapid change in established and emerging markets, high levels of geopolitical risk affecting major economies, and the continued impact of a financial crisis that rippled around the world.

No matter what country they call home, today's businesses must operate in the wake of persistent and shifting global forces.

With so much change in the global economy in the years that have just passed, it is valuable to know what the leaders of today's global companies are anticipating for the years ahead. Last year, KPMG in the US published the first edition of *Setting the Course for Growth: CEO Perspectives*, a survey of 400 US CEOs providing extensive insights on what they saw ahead for the economy and their organizations – not just in the next quarter or six month period, but over the coming three years. This year, we are broadening and deepening our study by surveying three times as many chief executives, and seeking responses from around the globe.

We have surveyed over 1,200 chief executives from many of the world's largest and most complex companies, and obtained in-depth perspectives from a number of them on the major issues facing the global economy over the next three years — everything from cyber security and regulation to growth and hiring expectations. The findings provide powerful insights into the thinking and strategies that will shape business decisions for years to come.

Global CEOs told us that they are more optimistic about what lies ahead, with a majority expressing greater confidence about prospects for growth in the next three years, and fewer than one-in-ten feeling less confident. Almost 80 percent of CEOs expect to increase hiring, and "developing new growth strategies" emerged as the top organization priority. At the same time, CEOs across the globe are deeply concerned about growing regulation, global economic risks, and threats from competitors who might disrupt business models.

In addition to CEO perspectives, we have also provided analysis from KPMG's partners and luminaries, who draw from their experience working on the frontlines of the most pressing issues facing global companies.

KPMG is proud to present *Global CEO Outlook 2015: The growth imperative in a more competitive environment*. We hope it provides you with a source of vital insight about what the leaders of a diverse set of companies from around the world see in the years ahead, and the long-term future of the global economy.

John Veihmeyer,
Global Chairman of KPMG International

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Executive summary

The next three years will be challenging for CEOs. While their confidence about the growth of the economy remains high, they are less certain about prospects for their own organizations. This is a tough operating environment, with increased threats from both incumbent competitors and new entrants.

New technologies are redefining value chains and companies need to remain vigilant to stay relevant. What's more, much of the technology necessary to stay relevant will be controlled by partners or vendors. CEOs are beginning to look beyond traditional management models to the challenges of operating in a broader ecosystem. Managing talent is a particular challenge amid intensifying technological investment change.

Geographic expansion will be a high priority as CEOs embark on more aggressive growth strategies. The US will be a top destination for many companies, as will China. Nearly all CEOs expect to grow organically but some expressed a growing appetite for acquisitions within the next few years.

The regulatory environment continues to be increasingly intense, not just in highly regulated sectors, but across all industries that do business across borders. Compliance requirements affect growth, so it should not come as a surprise that CEOs see global economic growth and the regulatory environment as the two most impactful issues for their business.

The pressure on CEOs to deliver results is as intense as it has ever been. While execution may be the focus of the future, many CEOs are simultaneously accelerating their growth strategies, seeking alliances and looking for new ways to reduce development cycles. As a result, operating models are evolving at an accelerating pace.

Key findings

62% CEOs are optimistic on the economy: Sixty-two percent of CEOs are more confident than last year on the growth prospects for the global economy over the next three years, with only 6 percent less confident.

54% Optimistic on company performance: Asked about prospects for growth for their organizations over the next year, 54 percent are more confident than they were last year and only 13 percent are less confident than last year.

74% Competitive environment gets tougher: Seventy-four percent are concerned about new entrants disrupting their business model and 68 percent said that they are concerned about their competitors' ability to take business away.

78% Increasing headcount: CEOs are expecting to be in hiring mode through mid-2018.

89% Aggressive growth strategies prevail: Asked to identify their organizational priorities for the next three years, the greatest number of CEOs identified developing new growth strategies and geographic expansion as top priorities. Thirty-seven percent categorize their growth strategies as very aggressive and 52 percent as moderately aggressive.

30% Growing appetite for risk: Thirty percent of CEOs feel that they are not taking enough risk as it relates to their growth strategy. Sixty-five percent said they are taking the right amount of risk, with only 5 percent stating that they are taking too much risk.

86% Customer demand under pressure: Eighty-six percent of CEOs are concerned about the loyalty of their customers. At the same time, technology is driving change in the way organizations interact with their clients. Two-thirds (66 percent) of CEOs are concerned about the relevance of their products and services and nearly three-quarters (72 percent) are struggling to keep up with new technologies.

41% Mix of both organic and inorganic growth: A growing number see an acquisition in the future. Nearly half of CEOs (48%) expect an acquisition will change their firms' capital structure in the next three years.

47% Capital targeted for geographic expansion: Geographic expansion is the top priority for capital investment over the next three years for CEOs. Significant capital will be devoted to expanding into foreign markets, say 47 percent of CEOs.

63% Regulatory environment a top area of concern: Global economic growth and the regulatory environment were far and away the biggest issues CEOs identified as having the most impact on their companies. Tax regulation, followed by environmental regulation and corporate financial reporting were their top three regulatory concerns.

Confidence diverges in global growth

CEOs around the globe see the economy picking up over the next few years, particularly those based in Asia and Europe. Executives were more muted about prospects for their companies, however, with just over half expressing increased confidence about their own corporate growth over the next three years.

In the US, where the recovery is well underway, 19 percent are more confident than a year ago with another 46 percent expressing the same level of confidence about their prospects for growth. Part of the reason, says KPMG in the US's Chief Economist Constance Hunter, is that the US is seven years into the economic recovery. In three years the recovery will have been going on for ten years, thus it is reasonable to expect growth may hit some air pockets by that time as wage pressures emerge and the potential for capacity constraints increases. Additionally, the survey period included a time when the US economy was experiencing an appreciation of the dollar, which tends to hurt the profits of large US-based multinationals, poor weather in the Northeast and Midwest and the closings of West Coast ports.

Lower oil prices, the absence of inflation and aggressive quantitative easing in Japan and Europe are driving growth in the global economy, explains Bill Robinson, KPMG in the UK's Chief Economist. At the same time, the volatility in oil prices and the risk of low inflation turning into deflation are also fueling uncertainty and causing problems for some industries.

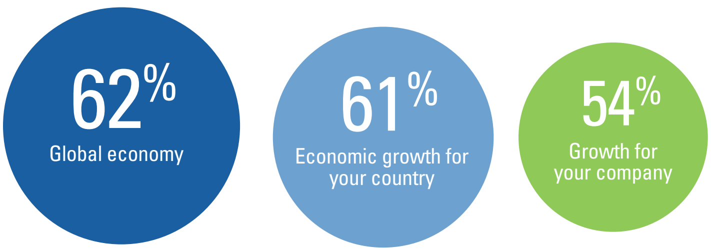
"This is simple economics: low oil prices are bad news if you're an oil producer but extremely good news if you're an oil consumer," says Robinson, and most industries and their customers are oil consumers. "It's like a tax cut in the global economy, and according to IMF calculations it could add one percent to global GDP growth. Lower oil prices are the most important single thing affecting the world economy this year.

"Meanwhile, in Europe and Japan there's full-scale quantitative easing going on and it's having quite a significant effect on stock markets, for a start, driving them up, and on currencies as well, driving them down," he adds, "so, they're feeling quite competitive."

In the US, on the other hand, with a stronger dollar, coming off a few years of solid growth, expectations are naturally lower. "With these survey results, we need to understand that the baseline in the US is higher than the baseline in Europe and Japan," he explains. "My longer-term view is that the US has come out of its recession in much stronger shape than Europe or Japan and it's doing fine, actually.

"What we are seeing is quite a vigorous recovery in real activity," he says, "but, it is accompanied by a very striking decline in inflation." US headline numbers, including food and energy, are slightly negative. IMF projections for advanced economies are flirting with zero. "This is a new world for business; they may be getting the volumes, but they're not necessarily getting the margins that they were expecting."

Higher levels of confidence in terms of growth prospects over the next three years compared to the previous year



Source: 2015 KPMG CEO Outlook, May 2015

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A sustained period of falling prices is very rare and it is hard to predict how business will be affected. "It will be a long while before we will see published accounts of companies who have lived through a whole year of no inflation, but they will affect companies differently," says Robinson. "At the moment, I am sanguine. I think what we're seeing is price increases falling below wage increases, so, in the UK, for the first time in five or six years, we have actually got real incomes growing and that's truly positive," he adds. "That is good deflation."

Perhaps the best news for the UK is the surge in business investment that we are now seeing, on the back of stronger demand and low cost of capital. That should keep this recovery on track into the medium term. The UK Treasury has just released its latest forecasts, which predict growth continuing at just under 2 ½ percent per annum for the next four to five years.

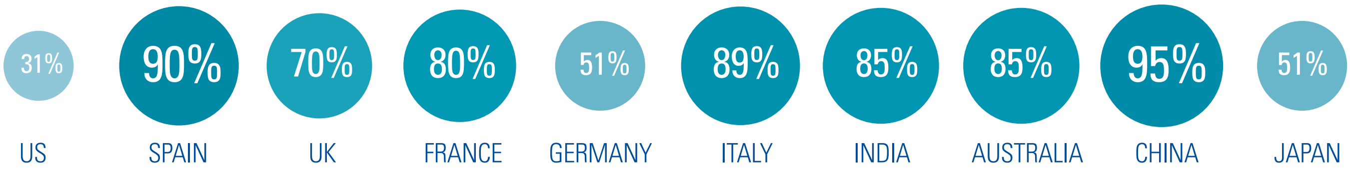
Many CEOs report that their companies are far more tied to global growth than to their own domestic market. Every company is also affected by the sweeping and dramatic changes brought by the digital revolution, but each is affected differently by specific megatrends. In the case of Kone, a 105 year-old elevator company headquartered in Finland, the driving force is urbanization and related investment in infrastructure and sustainable living. "The global economy continues to vary a lot and is quite fragile in places," notes Henrik Ehrnrooth, CEO of Kone. "But we are in a growth industry." Our market growth will be driven by people continuing to move into cities and work and live in buildings with elevators and escalators. KONE's objective is to continue to grow faster than its market, as it has done consistently for many years.

Technology is another factor that will affect the economy. Much of this effect will be progressive and positive. "The growth in computing power coming into its own with digital infrastructure is poised to radically improve the efficiency of our economy, and therefore GDP growth," says Jim Whitehurst, CEO of Red Hat, a provider of open-source software solutions. However, he admits that this growth will not necessarily translate into job growth, but is likely to create disruption around employment, further toughening operating conditions and adding uncertainty to the economic outlook.

While many companies in Europe and North America are coming off a high base, the story is different in emerging markets. Nishi Vasudeva, Chairman and Managing Director, Hindustan Petroleum, sees continued growth across the board. "Key indicators suggest that the Indian economy is looking up," she says, "and our industry is very much linked to the economy." Growth in sale of diesel is a good barometer of industrial growth. After a dull 2014, diesel sales are picking up this year.

Beyond the more immediate effects of the global economy, inflation and oil prices, there is the strong secular growth story in many emerging markets. "India has to grow," says Vasudeva. "Our per capita consumption of energy is low so there's a lot of headroom for growth." ●

Percentage of CEOs who expressed more confidence for their own country's prospects for growth over the next three years compared to the previous year



Source: 2015 KPMG CEO Outlook, May 2015

The tougher operating environment

The economic news may be positive, but the operating environment is proving a challenge for many companies. Digital and e-commerce technologies are upending business models and lowering the barriers to entry for new competition. Consumer spending is becoming less predictable. CEOs are aggressively trying to position their companies to survive amongst incredible technology-driven disruption. How can a company keep its products and services relevant? How to keep up with new technologies? How to stay ahead of competitors that didn't even exist a few years ago? These are the questions that keep CEOs up at night.

The top four concerns raised by CEOs in this survey were:

...new entrants disrupting our business model	74%
...keeping current with new technologies	72%
...competitors' ability to take business away from our organization	68%
...my company's products/services relevance three years from now	66%

Source: 2015 KPMG CEO Outlook, May 2015

The toughest strategic decisions are which companies to compete with and how.

"New technologies are redefining value chains. If you're a major automaker, are Zipcar or Uber competitors or partners? Will autonomous driving be a threat and how? In almost every industry there's a significantly greater amount of ambiguity and uncertainty," says Red Hat's Whitehurst.

CEOs are looking to new technology companies as disrupting their business, even though they may be in different industries. Uber exerts a pan-industry effect on consumer expectations about speed and method of delivery. Uber's business model is not based on a new core product or service, but how a service that has existed for a long time connects with the customer in a new way.

But in some cases, tackling technology entrants head-on would simply be a knee-jerk reaction. Going to the movies and watching television have been disrupted by streaming services such as Netflix and Hulu, which allow viewers to binge-watch programming. But Gerardo I. Lopez, CEO of AMC Entertainment, does not consider streaming services his competition. "The best Netflix customer is also our best customer, because that customer loves movies," says Lopez. He competes with other leisure activities, such as bowling or dining out.

Stephen Chase, US Leader of KPMG's Management Consulting practice, believes that all companies need to compete on how they connect with their customers, even if the core product or service stays the same. As an example, he points to car companies, where how well the car works with the consumer's mobile devices becomes a pretty important part of the buying decision.

At Kone, the core mission will remain the same, says Ehrnrooth. "We are in the people-flow business, and our business will be about delivering the best people flow experience," he says. "What we provide—elevators, escalators and service for them—will stay the same. But how we deliver those products and services will change." For example, new services will bring more intelligence, such as integrating building access control to the elevator. "So, the elevator knows who you are and where you're going before you get there," he explains. With this recognition, software can group people in a way so the elevator doesn't have to stop on every floor. Another innovation: many companies are already taking advantage of display screens to disseminate information while they have riders' attention. This will become more personalized in the future, Ehrnrooth predicts. The technology to achieve this is available to everyone. The challenge for any company will be "to make sure you have the organization and leadership to bring tangible benefits to end users and customers out of that technology," he says.

"Companies from all industries find themselves in a new ecosystem that they don't control. They need to stay competitive by using the right talent, technologies and ideas, to fit in the new environment," says KPMG's Chase.

In retail banking, for instance, mobile technologies allow clients to conduct simple transactions, says Frédéric Oudéa, CEO of Société Générale. The apps for money transfers, budget management or account access are not necessarily complex, but the changes brought by mobile banking are major disruptors. Increasingly, clients are using digital channels for their daily operations and online banking is becoming the main point of contact in the relationship. They are simply not visiting branches as often as they once did. "We need to adapt the branch infrastructure in terms of size of network and expertise to better respond to our clients' needs," says Oudéa. "This is not a technology challenge as much as it is an understanding that our business model is changing and that our teams have to change to be efficient and proactive in this transformation."

Shaping the organization around these changes is the real challenge. Oudéa's top strategic priority for the next few years is to adapt the traditional banking network and retail activities to digital technology and related new behaviors. "We are trying to move forward and accelerate the cultural change, to make everyone aware of how to deal with clients in a different way with new tools and much more on a real-time basis, as well as at a lower cost," he explains. Société Générale has, for instance, upgraded work stations and distributed tablets to employees. The bank is investing more in data management and capacity as well as upgrading IT systems but also changing the way businesses, functions and IT personnel work together. The bank is increasingly operating in an "open architecture system," says Oudéa. ●

Re-talenting to meet the skills gap

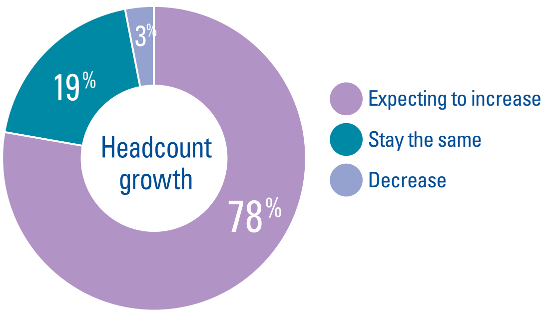
Chase sees talent as among the toughest issues companies need to address to stay relevant. In fact, CEOs report a looming skills gap that is likely to worsen in the coming years. Embracing disruptive technologies involves what he refers to as "re-talenting." The required skills include knowing how to translate data into business outcomes. "The continuing evolution of skills and capabilities is one of the hardest topics any leader deals with," says Chase.

CEOs—especially those across Asia Pacific—are very much focused on talent. "They are driving their executive teams to work together to identify critical roles and understand the capabilities needed to succeed so they can strategically place their people," says Margaret Cowle, KPMG's Head of Management Consulting, Asia Pacific. "This is creating a cultural shift in support of greater collaboration and innovation both across teams and countries. It also requires leaders to take a holistic look at their talent pool and develop robust programs that will grow their talent to meet their future needs."

For Hindustan Petroleum's Vasudeva, realizing her company's aggressive growth strategy—to add refining capacity, expand into cleaner fuels such as natural gas and move upstream with a petrochemical complex—will depend on finding the right talent and on re-talenting. "For our new businesses, we'll need to develop new skills," she says. "We only hire at the entry level so all our staff and executives are homegrown, cradle-to-grave types. We tend not to have any lateral hires," she says. "When we need new skills, we usually train our existing staff and we will continue to do that as we add new businesses."

Kathleen Mazzarella, CEO of Graybar, a distributor of electrical, communications and data networking products and a service provider, understands the crucial role of talent for staying relevant. As a people-intensive business, the company will need individuals who are as comfortable with data and analytics as they are with the products and services they provide every day. Mazzarella is fully aware of the difficulty of the task, especially since she is intent on sustaining the legacy of excellence that built the Graybar culture. This means continuing to support core business and employees committed to serving customers. "It will be a challenging balancing act in order to maintain profitable growth," she says. ●

Do you expect your organization's headcount to change over the next three years?



Source: 2015 KPMG CEO Outlook, May 2015

PREDICTING TALENT NEEDS TO MAXIMIZE VALUE Q&A with Nhlamu Dlomu, People and Change, KPMG

About 30 percent of CEOs expect a talent gap in the next three years, what can be done to get the right talent in place to drive business success?

It begins with understanding your talent needs. This requires predicting your business' future. Firstly, it is necessary to look at industry trends that will influence your business (e.g., pending regulations) and consider how you will make your revenues and profits. From there, you can begin to forecast your talent needs in terms of type of skills and number of people. It will also determine how best to borrow or buy those skills. Once this practice is part of the company's culture it can be used to proactively respond to anticipated changes, rather than react to current conditions. CEOs must redraw the battle lines to win the war for talent.

How can CEOs maximize their talent to serve the needs of their organization?

You need your people to want to work for your company. If your people aren't motivated, it will be very difficult to capitalize on their skills. The generation that is coming into the workforce now is very different—they want a sense of meaning at work and they want more feedback. They are also following a very different career path, wanting more variety and out-of-the-box experiences, rather than simply progressing up the ladder. Companies, then, need to really understand their people—what do they want and need to feel good about coming to work—and then give it to them. It may be simplistic, but fully engaging people on all levels (rational, emotional and decision-making) will prove invaluable in developing and retaining the specific skills your business needs today and tomorrow.

The aggressive growth imperative

For global CEOs, there has been a dramatic shift in the growth agenda, says Mark A. Goodburn, Global Head of Advisory at KPMG. "The question has clearly moved from 'How do I bring my costs down and not take too much risk?' to 'How do I expand into new geographies, new products and services, or be able to deliver or enhance the value of existing products and services?' The winners will find the right balance between cost, risk and growth."

The critical challenges CEOs see for themselves all tie back into growth. Many are exploring opportunities to make greater leaps, where they are fundamentally expanding their capabilities or evolving business models to access new markets, reach new customers or introduce new products.

Across the countries, our survey showed an even split between what CEOs see as most important for their company's well-being, with half naming growth and half naming efficiency.

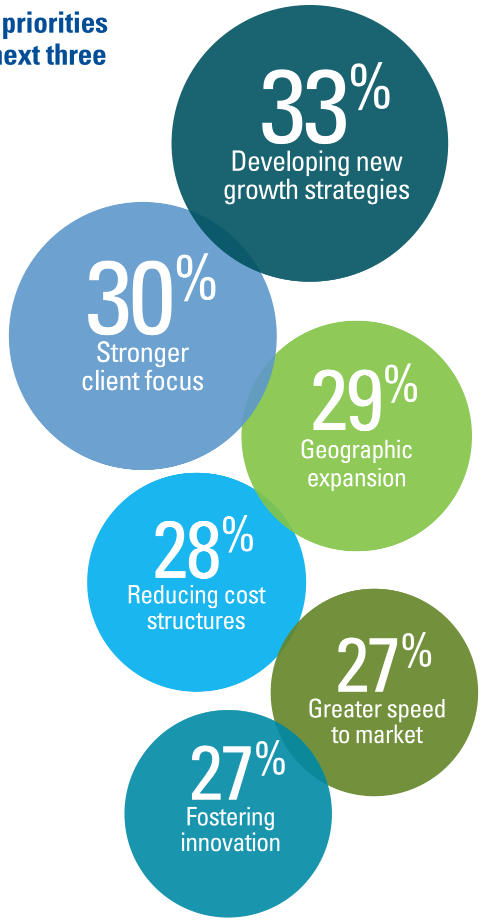
The two are not mutually exclusive—particularly in the context of disruptive technologies and evolving operating models.

Michael Dobson, CEO of Schroders, explains that their focus has principally been on growth in recent years, and it's going to remain on growth, but will also be on operational efficiencies. "We're unlikely to see the same rate of growth, in financial markets and in investor demand, in the short term," he says. "In light of the regulatory burden, the likelihood of interest rates moving up, looking for efficiencies is also going to be very important in addition to seeking to grow revenues. Technology is becoming a bigger part of the proposition," he explains. "Our technology spend is going up and up, so we're not getting near term efficiencies in that sense from technology," he says. "But better technology is enabling us to build scale in a more effective way and I think that's going to be a key part—but not the only part—of the efficiency drive."

Craig Meller, CEO of AMP, a finance firm based in Australia, says the world appears to be going through the most significant productivity improvement since the Industrial Revolution and that is weighing on revenue growth. "Whilst most people are delivering good volume growth, you're having to pay that back to a much more empowered consumer, and therefore, the sort of leverage that you get into bottom line growth from a relatively muted top-line growth comes through driving efficiency at the same time as driving volume." Meller shares the view of many other CEOs on whether the question is growth or efficiency. "You've got to be ambidextrous."

The most critical challenges CEOs expect to face over the next three years

Strategic priorities over the next three years



Source: 2015 KPMG CEO Outlook, May 2015

The KPMG survey uncovered a dichotomy in CEOs' assessment of their growth strategies. Despite identifying themselves as aggressive in terms of growth, more than half of US CEOs believe they are not taking enough risks in their growth strategies, while most CEOs outside of the US felt they were taking the right amount of risk. Some of this may be explained by a cultural perception of risk, says Sai Venkateshwaran, KPMG Partner and Head of Accounting Advisory Services in India. "Some of this may be explained by a CEO's vantage point rather than a cultural affinity for risk."

"To a CEO in the US, for instance, something that appears risky might not appear risky at all to a CEO in India, who operates in a vastly different environment," he says. "On the other hand, something that might be considered as having higher risk to a CEO in Asia, such as operating in highly regulated markets like the US, may be considered business as usual to a CEO in North America," he says.

There are several factors that can affect a company's ability to take new risks and therefore their growth strategies, says Venkateshwaran. "The size of the company, the maturity of the organization, its structure and the financial resources available—all of these influence an organization's ability to take risks."

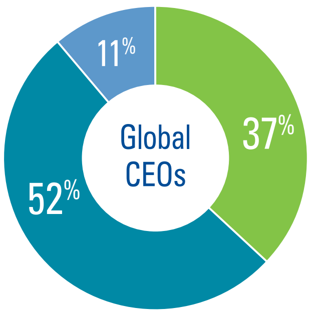
Whenever a CEO looks at growth opportunities, it involves taking risks; however, they must take calculated risks, says Venkateshwaran. CEOs must find a way to assess which of these risks are worth the potential rewards.

"The fact that we have very aggressive growth strategies in the US, but 54 percent of CEOs think they are not taking enough risk, raises the question: Do we have sophisticated enough risk management processes?" asks Mike Nolan, KPMG's Global Head of Risk Consulting. Strategies have to be evaluated through a risk lens, and the risk lens should be equal to the growth lens. A CEO's job is to grow. "If you haven't polished up your risk management processes to a level of sophistication that allows you to assess your risk appetite, it's almost impossible to answer the question, 'Am I taking too much or too little risk with my growth strategy?'" says Nolan.

In a highly competitive global market, aggressive growth strategies often mean increased risk. It is important that boards and management are on the same page when they set goals for the organization, especially when those goals are more aggressive. "Ensuring the organization and its board have a clear view of its risk profile, and that this is accurately communicated to investors, is an important aspect of a company's governance, risk and controls strategy," says William O'Mara, KPMG's Global Head of Audit. ●

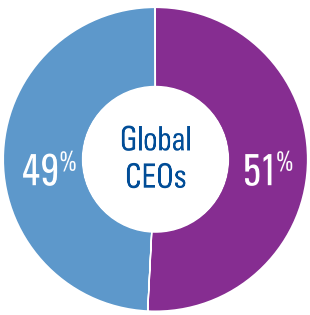
How would you categorize your overall growth strategy?

- Very aggressive
- Moderately aggressive
- Moderately conservative



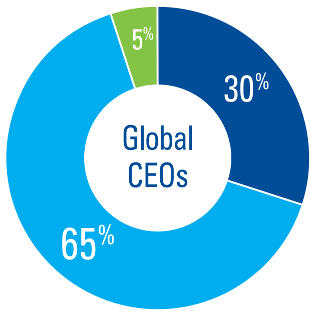
Which is the more important focus for your company's well-being over the next three years?

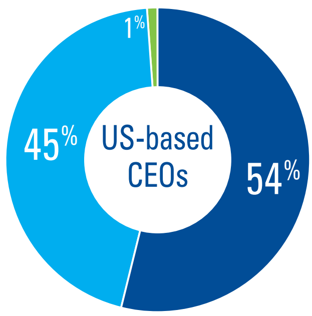
- Operational efficiencies
- Growth



Which statement describes your risk profile as it relates to your growth strategy?

- Not enough risk
- Right amount of risk
- Too much risk





Source: 2015 KPMG CEO Outlook, May 2015

Which of the following are you devoting significant capital to in the next three years?

Geographic expansion outside the home country	47%
Advertising and marketing	39%
New product development	37%
Geographic expansion within home country	34%

Source: 2015 KPMG CEO Outlook, May 2015

Geographic expansion

Geographic expansion is a top strategic priority for CEOs, along with developing new growth strategies and a stronger client focus. While a third view domestic expansion as very important, it is expansion abroad that will attract by far the biggest amount of capital in the next three years. Two-thirds of CEOs expect foreign revenues to be greater in three years than they are now.

In a global economy where opportunities are cross-border, geographic expansion is a key priority for CEOs, explains John Scott, Deputy Chairman of KPMG International. "Business leaders must have an international strategy that seizes the best chances for growth in the key markets and takes into account the deep economic, digital and regulatory transformation that is underway on a global scale," he says. "It is also vital to have an effective financial plan and to set up strategic local alliances to adapt the business to the local regulation, risks and potential. International growth also has an impact on the business at an operational level, so companies need to be flexible and quick at adapting to change and complexity."

Companies have been expanding abroad for decades, but there appears to be a significant shift in strategy for multinationals to a more focused approach to globalizing. Ten years ago there was a lot more of "we need to be everywhere," says Nicholas Griffin, KPMG's Head of the Global Strategy Group. "Now, firms are selecting markets where they believe they have the best opportunity to achieve their financial and strategic goals. There is a more cohesive and better thought-through story than previously was the case at many companies. International strategy now gets far more scrutiny from management and analysts and any top management team worth its salt has more ideas than available resources and so CEOs are prioritizing by materiality and criticality."

"Business models tend to be more local than operating models because they need to fit with market and customer needs. Operating models are increasingly global wherever possible to drive consistency, control and scale benefits. The next frontier is that as operating models become more modular and agile, it will create the option to move them physically closer to the local business models."

Collaborative ecosystems represent a more profound shift in the way organizations are globalizing. "Rather than build in-house, end-to-end solutions, which can be high risk and high cost, companies are increasingly starting to establish multiple relationships with other companies in order to access markets and increase penetration more rapidly. Such collaboration also has the benefit of making it easier to pivot and change direction as market conditions change, potentially to another technology partner," Griffin points out.

Conversations with CEOs reveal very different international strategies, based on current international exposure and appetite for risk taking. The industry they are in, and especially its global regulatory aspect, also plays a major role in the decision-making process about where and how to expand.

For Stryker, a medical technology company, which currently derives 70 percent of sales from the US market, globalization is a significant part of its growth strategy. To increase its share of the European market, the company has changed its organizational structure, and now manages its US and Western Europe markets as one division. In emerging markets as well, Stryker has room to grow. Today, just 8 percent of its revenue comes from emerging markets versus an industry average of 12 percent. China, where the company runs separate premium- and low-priced products businesses, is its largest emerging market.

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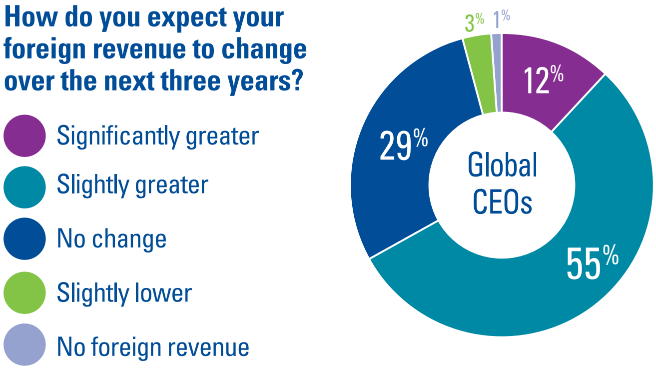
How do you expect your foreign revenue to change over the next three years?



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> —Nicholas Griffin, Head of the Global Strategy Group, KPMG

Geographic expansion *(continued)*

The majority of companies surveyed by KPMG are, of course, already present in major markets around the globe. Prologis, for example, is already present in markets that represent three-quarters of the world's GDP. "There's no need to go chasing growth beyond that," says Hamid R. Moghadam, CEO of Prologis, an industrial real estate company. While not expanding the number of foreign markets, Prologis is deepening its presence in its key international markets. The company follows a dual international strategy. In mature markets it helps increase the efficiency of its clients' supply chains, and in emerging countries, it builds new infrastructure. "Both are good businesses," he says.

Principal Financial Group, a global financial investment firm, expanded internationally in the late 1990s. Since then its international business has grown from about a billion dollars in assets under management to over US$100 billion, and now represents almost a quarter of the company's earnings. "We see the opportunity to continue to grow internationally, incrementally faster than here in the US," says Larry D. Zimpleman, Principal's CEO.

Principal's international growth strategy is focused on ten countries in emerging markets in Latin America and Asia that together cover half the world's population. Zimpleman's philosophy on international expansion: "When you go to other markets, you have to have a humbleness about you. The idea of trying to build yourself to become a brand name in a market like China is a very ambitious and expensive one. On the other hand, establishing a joint venture with one of the leading companies in a market gives us an opportunity to gain real scale very quickly. The trade-off is that it's not under a single Principal Financial Group. That's a price we're willing to pay."

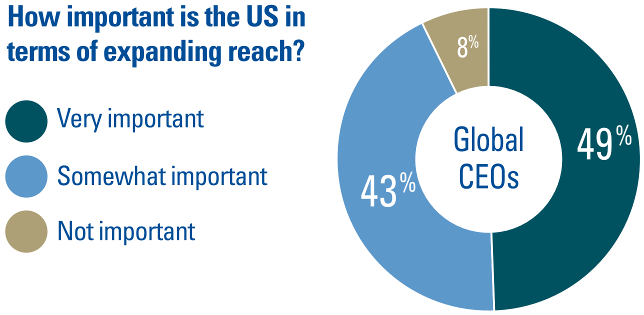
For AMP, international strategy is dictated by geography. "From where we sit in Australia, we get a very different view of the world from most of the other OECD countries, because we're a long way away from Europe and the Americas, but we're very close to Asia," explains Meller. "Our mindset has been very simple: Let's go where the money is, and let's go where the money's going to be."

The money is currently in Japan, and it's going to be in China, he explains. "We've been building our presence very slowly in China since 1997. AMP started discussions with China Life, the largest life insurance and pension company in China just before the financial crisis and at the beginning of this year took a 19.99 percent stake in China Life's pension company. AMP's investment was limited by regulators, but Meller expects China to continue opening up. "Australia is in a preferred position compared to most other countries around the world because of the free trade agreement that we just struck with China," he believes. "That's going to open the opportunity for further investment opportunities."

Despite the economic promise of emerging markets, the US continues to be the top priority for many global companies.

"I think that will continue to be the case for all sorts of reasons," says KPMG's Robinson. One reason: There has been a productivity slowdown over a 40 year period across all European countries, but not in the US, he says. Another reason: the US came through the banking crisis much better than the European economies. On top of that, "the US is still the most vibrant, innovative economy on the planet, with plenty of people and they have high incomes per capita," he says. ●

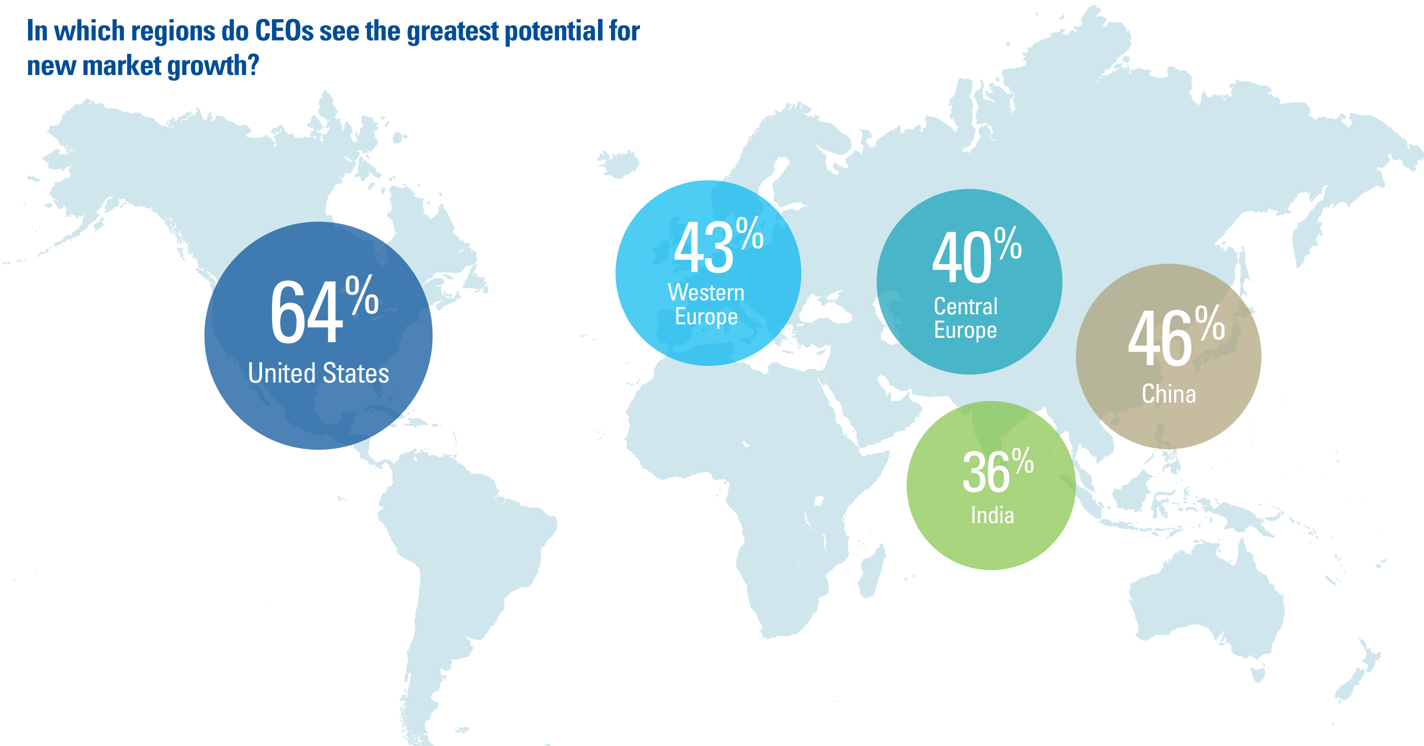
How important is the US in terms of expanding reach?



Source: 2015 KPMG CEO Outlook, May 2015

> "When you go to other markets, you have to have a humbleness about you. The idea of trying to build yourself to become a brand name in a market like China is a very ambitious and expensive one."
>
> —Larry Zimpleman, CEO, Principal Financial Group

In which regions do CEOs see the greatest potential for new market growth?



Source: 2015 KPMG CEO Outlook, May 2015

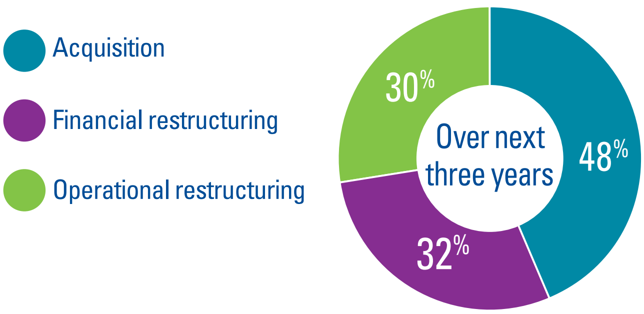
Inorganic growth rises in importance

Organic growth will remain a primary focus for companies—with six in ten CEOs saying they will continue to grow their existing business from within. But a growing number see an acquisition in their future.

After the post-recession years spent on cost-cutting—and in many cases, having squeezed a lot of costs out of their business—CEOs are finding it tougher to rely solely on organic growth models. Organic growth based on efficiency is eked out via pricing and volume, and it is highly driven by the consumer. And in today's economy, the consumer isn't always showing up.

For Ilene Gordon, Chairman, President and CEO of Ingredion, a manufacturer and distributor of ingredients for the food and medical industries, acquisitions are an opportunity to create a transformative global team. "One of our keys to success in acquisitions is that we have been able to retain entire executive leadership teams from the companies we acquire, as we want the people and their ideas as much as the products and new technologies," she says. "It's very important not to have everybody think the same way. Going forward, we will be looking at other acquisitions that are consistent with our strategy and add shareholder value," says Gordon.

How do you plan to change your organization's capital structure?

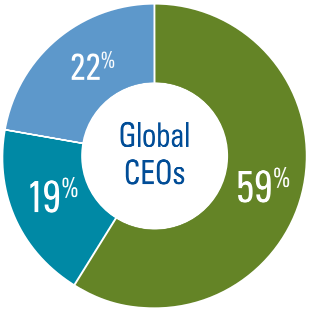


Source: 2015 KPMG CEO Outlook, May 2015

In a people business like asset management, Dobson from Schroders views every acquisition as an expansion of the team—and a way to enhance the organic growth Schroders prefers. The firm took the unusual step of making significant acquisitions two years ago in the UK and in the US, he says, but only after a long courtship. Each deal came after the management team could identify a strong cultural affinity between the two companies. "We were convinced that these were unusual opportunities to accelerate organic growth in areas that are strategically important to us." ●

Organic vs. inorganic growth over the next three years

- Mostly organic
- Mostly inorganic
- Even split



Source: 2015 KPMG CEO Outlook, May 2015

Reasons for taking more risks with acquisitions

Confidence in structure of deal terms	54%
Confidence in economy	52%
Deal value realized post-integration	52%

Source: 2015 KPMG CEO Outlook, May 2015

INORGANIC GROWTH SET TO RISE

Q&A with Leif Zierz, Global Head of Deal Advisory

In recent years, organic growth has been a focus for companies; do you see a strong appetite now for acquisitions?

We have been through a period where there has been significant cost-cutting and straightforward organic expansion. But inorganic growth is already a key focus for many companies, with deal values and volumes returning to pre-crisis levels. With half of CEOs indicating they plan to grow their companies through acquisition, we expect to see this trend continue.

With attention turning back to acquisitions as a growth strategy, how has thinking about M&A evolved in recent years?

Companies are under more pressure than ever before to deliver better, lasting results for their stakeholders—be it through buying, selling, fixing, partnering or raising funds. Transformative engagements are taking place in an increasingly complex deal environment, with an overwhelming volume of unstructured data to review and cross-border deals becoming the norm. This, along with an increase in confidence in growth prospects, has resulted in a more offensive mindset in boardrooms when it comes to acquisitions, leading companies to pay a premium for targets that meet their selection criteria.

As more CEOs consider inorganic growth for their company, do you see a growing appetite for risk?

Volatility is the new normal. Increasingly, investors are continuing to deliver in this environment against growth imperatives, which cannot be sustained through cost-cutting and organic activity alone. This is especially true in more mature markets, like the US and Western Europe, with favorable credit markets. Inorganic growth is often the only, or easier, option to enter emerging markets like China and India. As a result, we are seeing more companies move away from the risk aversion behaviors embraced immediately after the financial crisis.

Transformations taking shape

Four out of ten CEOs express some doubt about the sustainability of their current business model yet seven out of ten expect to be the same firm three years from now. The question is: Can a firm fix its business model incrementally without transforming the entire organization?

"Companies need to—and most do—relentlessly evolve their business models in view of the constantly changing business environment, including competitive pressures, disruptive technologies and changing consumer demands," says Steven Hasty, KPMG's Global Head of Transformation.

KPMG's Scott points out that the global economy is undergoing a deep transformation. "You just need to open up the newspapers to see that we are living in an era of constant change," he says. "Technology disruption, increasing regulatory pressure and cybercrime are making headlines. Business leaders feel that they need to continuously review their business model in order not to fall behind." In this context, CEOs need to understand that business transformation requires more than innovation and technology. It means embracing continuous change from the inside of the organization as well as great flexibility.

The pace and magnitude of market disruption and convergence is forcing companies to develop transformational strategies focused on financial, business and operating model change, says KPMG's Griffin. "Tactical change or incremental strategy is often insufficient to position the company to defend its market positions or take advantage of major new opportunities," he explains. "What will it take to be a winner in three years' time? If the answer is not 'continue doing what we are doing and make minor adjustments,' then a transformation might be necessary. Transformations can be painful, but not as painful as a slow decline."

How comfortable are you with your current business model?

44% Somewhat concerned

Source: 2015 KPMG CEO Outlook, May 2015

> "Maintaining status quo, while incredibly comfortable, is the most risky thing you can do in today's world."
>
> —Mark A. Goodburn, Global Head of Advisory, KPMG

"Maintaining status quo, while incredibly comfortable, is the most risky thing you can do in today's world," states KPMG's Goodburn. "If you were starting a company today, do you want to be embracing technological change? Do you want to be embracing data? Do you want to be embracing analytics? Do you want to be embracing the demographic shifts that are going on in the world?," he asks. "Innovative leaders are answering 'yes' to all of these questions and more and not shying away from the disruptors on the horizon. Going forward, transformation ultimately becomes a synonym for management."

CEOs today do not have the luxury of thinking in terms of decades, points out Goodburn. "CEOs have started to think 'I've got to either disrupt myself, or I will be disrupted within two years, three years, five years,'" he says. "You have to ask yourself: 'Are you moving as fast as the disruptors? Are you moving as fast as your customers' expectations? Are you moving as fast, or faster than your competitors?,'" he says. And embracing change piecemeal is not always the best approach. "You can't say, 'I'll take care of my cyber risks and then I'll worry about my customer experience later. Then, when I get that done, I'll worry about my innovation.' You've got to manage them all at the same time," he says.

For Michel Combes, CEO of Alcatel-Lucent, the restructuring that rescued the company from the edge of bankruptcy a few years ago was not nearly as profound as the transformation the telecom equipment maker faces in the coming years. "We are at the edge of so many changes: Big Data, AI, robotics and the connectivity brought by high-speed broadband," he says. "It's clear that the way we operate our company is going to change and that will impact not only the way we organize ourselves but also the way we deliver services to customers."

Alcatel-Lucent is in an ideal position to benefit from the millions of apps, billions of users and trillions of things that IDC predicts will be communicating with each other over networks—networks that will require the kind of equipment and services that Alcatel-Lucent provides.

Looking at the next three years, how would you describe the kind of company you will lead?

29% We'll be a different entity

Source: 2015 KPMG CEO Outlook, May 2015

"We will get the benefit of this digital transition but we also have to do our own digital transformation," Combes explains. "We are moving to a more software-led industry through the virtualization of the network. We are experiencing in network equipment what was experienced in the IT industry a few years ago: A complete change from hardware to software, from products to services, from selling to service providers, who are our main customers today to a much more diverse portfolio of customers."

Combes sees a future where Alcatel-Lucent will deliver Network-as-a-service, as software and storage are delivered on a consumption model now. "As you start to do that, you see your business model has to change completely," he says. "This transformation will affect everything from how the company attracts talent to how it reignites innovation in a more open ecosystem to how it embraces disruption from within," says Combes.

Transformation priorities will vary based on industry-specific business pressures, notes Hasty. The most highly regulated industries, healthcare and financial services, are undergoing regulatory-based transformations. Their aim is not only to achieve higher efficiencies when complying with regulatory issues, but to drive value from how they approach it. The oil industry is regrouping and transforming to deal with the low oil prices. Consumer goods companies are focusing on how to use digital technologies to better attract and retain customers. ●

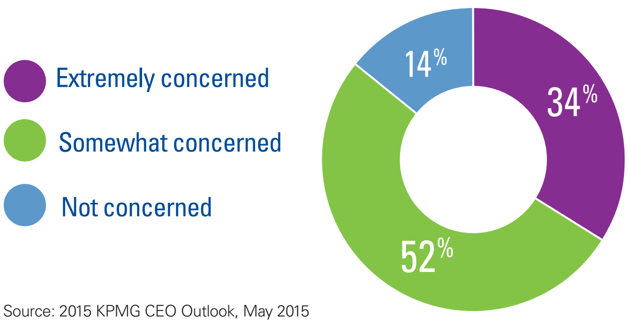
"It's clear that the way we operate our company is going to change and that will impact not only the way we organize ourselves but also the way we deliver services to customers."

—Michel Combes, CEO of Alcatel-Lucent

Driving loyalty through innovation

A vast majority (86 percent) of CEOs are concerned about their customer loyalty. Yet, many young successful companies don't have traditional marketing departments, nor do they use traditional advertising, explains Edo Lindgreen Roos, KPMG's Partner in the IT Advisory Practice. "Instead, they are using data to build a 360° profile of the customer to further sell and cross-sell. The data are also being used to experiment and adjust offerings, both of which require a high degree of innovation and agility. These companies are innovative, agile and embed analytics in their every fiber and as a result are extremely customer facing." A global retailer, for example, has placed sensors throughout its stores that connect to customers' smart phones. The customer is tracked as they progress through the labyrinth of shopping alleys through to the check-out, and this information is helping to optimize the in-store customer experience.

How concerned are you about your customer's loyalty?



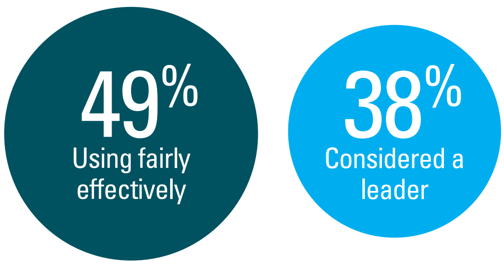
Source: 2015 KPMG CEO Outlook, May 2015

Many firms have not fully tapped the wealth of unstructured data, either, says Goodburn. Until recently, external data were hard to get and often unreliable. But now, "It's amazing to see how much you can figure out from the outside of a company as opposed to from the inside of the company, and how blind you can be sometimes when you're only looking inside out," he points out.

"Suppose we are going to launch a new product," he says. "The minute we launch it, we shouldn't be relying solely on any internal data anymore. The valuable data is, 'What are social networks saying about the product? What are our customers talking about? Do they like the packaging? Is the price too high? Is it hard to get? Is it backlogged? Is it readily available? If one store is out, where can I go get it?'"

CEOs across all industries are working harder to meet their customers' demand. For Graybar's Mazzarella this means delivering what her customers need to succeed in meeting their own customer and business commitments. To start with, this requires understanding how Graybar's customers want to do business. For example, as customers adopt additive manufacturing and 3-D printing technology, they may prefer to download a component to produce in a field location, instead of checking availability of stock in Graybar's inventory. The company realizes this customer expectation may lead Graybar to work differently with its suppliers, and possibly require a completely different logistical platform. "Daunting stuff, and that's what makes it exciting," says Mazzarella. "We see this transformation only accelerating over the next three years."

How effective is your company using D&A to improve performance?



Are you becoming a more data-driven organization?

47% said this needs improvement

Source: 2015 KPMG CEO Outlook, May 2015

Data and analytics could lead to more profound changes in the future. Alcatel-Lucent, for example, uses data to deliver services to its customers but Combes envisions a change in the company's operating model that will more fully leverage D&A. "Now we are selling switches to our customers but if we begin renting this capability, D&A will be useful to scale up and down depending on time of day or network traffic," he says. "It might have a huge impact for us in terms of delivering our own services and even more when we migrate to a software-based business."

Top three barriers to innovation:

1) Rapidly changing customer dynamics

2) Unsure of which technologies will deliver the greatest return

3) Budget constraints

Transformation is dependent on innovation. Ingredion's Gordon aims to transform to offer her customers the new generation of food ingredients—GMO-free or gluten-free, for example—they are asking for. Innovation is a tool for executing this strategy. To this end, Ingredion has rebranded its two-dozen or so R&D and product development centers around the world, with 350 scientists, into idea labs. Ingredion uses these idea labs to stay focused on unmet market trends and give customers new consumer-centric ways to create innovative, profitable products. "We make sure that we have the right data and consumer trends from our customers in addition to our own research to make sure that we understand what's around the corner," says Gordon.

Steven Hill, KPMG's Global Head of Innovation and Investments, says it is necessary for most companies, and not just IT companies, to develop such innovation centers. This is due to the rapidly accelerating marketplace, and the increasing importance of developing sensing mechanisms to identify signals of change and strategies to address the change. "To achieve this requires a new approach, and the creation of specific work environments with dedicated resources focusing on what's happening around the corner and inventive ways to solve those potential challenges," he says. This is exactly the philosophy that guided Ingredion's Gordon to set up the idea labs. "You need to make sure that people understand that innovation is a key part of the growth," she says.

While innovation labs can take many shapes, and be either physical locations or virtual networks, it is crucial that they are measured differently than ongoing operations. "With innovation, you are often trying to find out what you don't know, and that requires trial and error, and iteration," says Hill. "Metrics and incentives need to reflect that."

Technology is both a trigger for—and an enabler of—transformation. "I look at us as one of the disruptors. We're redefining the way software is built and consumed," says Red Hat's CEO. "Part of the need for ongoing transformation is because of firms like Red Hat, disrupting the markets."

For Alcatel-Lucent, transformation means migrating from what was previously a siloed innovation process toward an open innovation ecosystem that draws on talents both internally and through partnerships. "We need to move from incremental innovation to the kind of disruptive innovation that will give us a real competitive edge over the next few years," he says. "If you remain in an incremental innovation type of mindset, you will die." ●

"I look at us as one of the disruptors. We're redefining the way software is built and consumed. Part of the need for ongoing transformation is because of firms like Red Hat, disrupting the markets."

—Jim Whitehurst, CEO of Red Hat

EFFECTIVE USE OF D&A

Q&A with Christian Rast, KPMG's Global Head of Data & Analytics

In the context of transformation, how strategically are CEOs viewing the application of D&A across the enterprise?

Today's CEOs are looking at how to apply D&A to develop new growth, manage risk and reduce costs. However, most of them still need to transcend individual projects toward an overarching enterprise-wide D&A strategy. Businesses undergoing transformation have a unique opportunity to embed an enterprise-wide D&A strategy and leverage D&A across functions of growth, risk and cost. During these decisive times of change, CEOs view D&A as a strategic way to gain an edge over the competition as well as expand their operational footprints. While CEOs have demonstrated proficiency in their D&A adoption, there's still considerable opportunity for executives to deepen their D&A application throughout their operations and be positioned as an industry leader—not just simply keeping pace with the competition.

Which board-level issues do CEOs see D&A being able to address?

CEOs are beginning to see the possibilities for D&A across multiple business-critical functions, including finance, HR, risk, supply chain, maintenance and forecasting, among others. Our experience suggests that some organizations are already making good progress driving value from their insights, but often only in certain circumstances. The retail sector, for example, tends to demonstrate amazing sophistication when it comes to focusing on their customers. Banks often shine when using D&A to look at risk. And a host of other sectors seem to understand how to achieve value from their insights when trying to improve productivity. There are significantly more opportunities with an integrated, 360° approach to analytics, whereby CEOs can examine their business from any angle and use these insights to ensure better decision-making and long-term, sustainable value.

What are the key challenges that CEOs report their organizations are grappling with when it comes to using D&A effectively?

Today's CEOs understand the strategic opportunity that D&A presents. Where they continue to struggle is two-fold. First, developing and implementing a focused D&A strategy—from start to execution. And second, determining what data to collect and how to turn it into value. CEOs need more than a plan. They need an execution strategy to follow through on their D&A visions and reap the greatest benefits from their D&A applications.

Risk and regulation continue to be challenging

Global economic growth and the regulatory environment are the two issues that have the biggest impact on their companies, say CEOs, particularly those based in the US. "The more intense a regulatory environment, the more CEOs have to think of other ways to grow business, because the cost of regulation is increasing and eating into profits," says Jim Low, KPMG's Global Leader for Regulatory Change.

Issues that have the biggest impact on their company today	
Global economic growth	54%
Regulatory environment	45%
Disruptive technology	34%
Geopolitical risks	32%
Currency rate volatility	30%

Source: 2015 KPMG CEO Outlook, May 2015

CEOs report increased regulation across every single type of industry. In some cases the practices stay the same, and companies do not need to change their manufacturing or other processes to comply, but the level of reporting has increased. In other cases, such as rapidly evolving rules around data transmission and storage, multinationals must staff large compliance and government outreach teams to decipher a confusing array of country-by-country regulations and decide which ones to follow when there are conflicts. Some are choosing to outsource instead.

Kevin A. Lobo, CEO of Stryker, a medical technology company based in the US, sees the regulatory environment as presenting his company with both threats and opportunities, with the scale tipping toward the opportunities side. Among the negatives are the amount of paperwork related to compliance, or the standards for clinical trials, which he thinks can be higher than necessary. In some cases, the costs of regulations may be too high to warrant an entry into a foreign market. For example, in China, Stryker is in talks with regulators to not have to do local clinical trials in China for all of the new products, on which the company has ample international trial data.

Lobo approaches the regulatory environment in healthcare from a big-picture perspective, noting that every health system in the world is struggling with issues of access and affordability, and regulators want to make sure that life-sciences companies supply the best products at the lowest cost. "Raising of the bar is a good thing. Our products have to demonstrate innovation and value," he says.

Vasudeva, chairman of Hindustan Petroleum, notes that a major challenge for the company is the large investment required to augment capacities of the refineries and upgrade facilities to meet the mandated auto fuel quality standards. if she were to ask her government to focus on only one issue, the topmost is infrastructure. "This is crucial for companies such as ours and indeed for the country as a whole. I feel positive about the government's intent and actions to address this issue," she says.

If Michael Dobson, CEO of Schroders, could ask regulators to address one thing, it would be simplifying and coordinating regulation. "There's an overwhelming amount of regulation coming out in many countries," he says. "Some is complementary. Some is conflicting," he adds. "Too much regulation can not only have a negative effect on growth but there is also the danger of unintended consequences of, for example, increasing costs on firms and customers and reducing competition."

The consequences could be much greater for CEOs going forward, says KPMG's Venkateshwaran. "The regulatory landscape across geographies is changing drastically," he says. "With tax regulation, for example, where revenue authorities across jurisdictions are moving towards increased transparency and greater demonstration of substance, the relative benefits that a company had in choosing between geographies could go away." Regulation around cyber security could potentially change the commercial and technical dynamics of a global business, as well. The regulatory focus around defense and industrial protection affects where a company can operate. "It's no longer about meeting regulations to continue operations," he points out. "These are things that could actually change the economics of doing business in certain places." ●

Risks most concerned about	
Operational risk	47%
Regulatory risk	36%
Strategic risk	36%
Supply chain risk	26%
Third-party risk	23%
Information security risk/cyber	20%

Source: 2015 KPMG CEO Outlook, May 2015

Regulations are a top area of concern for CEOs

Corporate tax	28%
Environmental regulation	18%
Corporate financial reporting	17%
Trade regulation	14%
Labor regulation	14%
Privacy regulations	9%

Source: 2015 KPMG CEO Outlook, May 2015

CEOs CHALLENGED WITH PREPARING THEIR ORGANIZATIONS FOR BEPS

Manal Corwin, Head of Global BEPS Network at KPMG

What major developments do you expect in the next one to two years in international taxation?

It's clear that the Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting (BEPS) project will significantly impact the international tax landscape. CEOs and their executives and boards at multinationals will be challenged with preparing for and shaping their organization's responses to the following initiatives and trends:

- **A call for greater transparency.** Action 13 of the OECD's BEPS project will require that multinationals report information on all of their operations on a country-by-country basis and share that information with the governments of every jurisdiction in which they operate.
- **Additional substance requirements.** Revised transfer pricing guidelines will necessitate additional substance to justify the allocation of profit to risk and capital.
- **Increasing pressure on source country taxation.** It's likely that more subjective standards for taxing the business activities of non-resident companies will emerge from the OECD consensus as well as unilateral actions.
- **Increased compliance costs, controversies and disputes between taxing authorities.** This development will result from the scope of changes that will be taking place and the clash of politically motivated unilateral actions to address BEPS.
- **Possible improvements in mutual procedure agreement processes.** This will hinge on the extent to which a critical mass of countries adopt mandatory binding arbitration and the effectiveness of the planned global forum on MAP in improving compliance with and accountability for proposed best practices.

Cyber: The most unpredictable risk

Half of the CEOs in our survey report they are not fully prepared for a cyber event. Yet, cyber security was named by 20 percent of respondents as one of the top five risks—right behind the related issues of third-party and supply chain risks. For technology firms, information security edged out all other risks as the most pressing threat.

How prepared are you for a cyber event?

Not fully prepared	50%

"Any CEO who really understands risk knows that cyber is possibly the most unpredictable risk there is," says Malcolm Marshall, KPMG's Global Head of Cyber Security. "It's more unpredictable than a flood or tornado."

Many CEOs may believe they are well prepared for a cyber event because they have invested so heavily in detecting and preventing an attack, says Greg Bell, KPMG's US Cyber Leader. "You still have to demonstrate due care on prevention," he says, "But until recently, there has been too much attention focused on prevention and not enough on protection and response."

According to Marshall, "Cyber is an enterprise and operational risk that has a habit of also hitting reputations hard. I think most customers and investors are willing to forgive a company that suffers a cyber-security incident, they recognize that perfection is a difficult goal to achieve." However, they are much less tolerant of a poor response. Failure to act decisively when customer, investor and staff interests are at the heart of the matter, can cost a business a fortune, and, for senior executives, their jobs. "Companies under stress from a cyber incident are like families under stress—the strong ones come together and those that aren't, can fall to pieces under the pressure," he adds.

Following a breach, CEOs can't focus on operations because they're distracted by the blowback, says Bell. Or, worse, they may have to stop part of their operations while they try to redress or remediate the cyber issue. And then they're dealt with an aftermath of complicated regulatory impacts and lawsuits.

The nature of cyber breaches is changing, noted Marshall. "Historically organizations have prepared against data disclosure and breaches of confidentiality," says Marshall. "Data breaches may be serious, but they don't threaten lives. Industrial control systems are another matter. We have manufacturing processes, such as a steel mills, factories and pipelines controlled by computer systems that are relatively out-of-date and therefore more vulnerable to attack," he says. "Essentially, we are living through a cyber arms race and what we are seeing is that the bad guys are continuing to innovate. The good guys need to outrun that innovation."

What's more, with so much manufacturing outsourced to third parties, many companies are far more vulnerable than they realize to corporate and state-level espionage and intellectual property theft. Even where companies are aware of breaches that don't involve personal data, they are often reluctant—or prohibited by law enforcement—to disclose the extent of their losses, says Bell.

However, some of the most profound changes include turning cyber preparedness into a competitive advantage rather than a cost, building security into new products and services at the design stage and realizing that cyber security is not simply an IT issue.

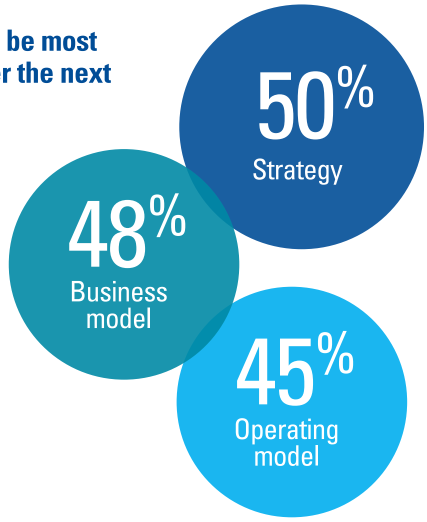
According to Marshall, "The most innovative companies have recognized that cyber security is a customer experience and revenue opportunity, not just a risk that needs to be managed."

Strategy and management

The pressure on CEOs to deliver results is as intense as it has ever been and more so in those markets where growth is slow, says Griffin of KPMG. "Consequently, we have seen a shift to focusing on important implementation issues much earlier in the strategy development process," he says. CEOs in our survey report that now and in the near future, they will be focusing on execution much more than in the previous year.

The choice between strategy and execution isn't really a choice, says KPMG's Cowle. "It isn't 'how much should we be focusing on one or the other?' but more about 'how do we accelerate the development of strategy and then the execution?,'" she says. "There are a number of ways to accomplish this, concepts such as iterative development cycles, minimum viable offers and design thinking. Merging innovative concepts into traditional environments and bringing customers earlier into the development cycle as well as co-creating and operating a 'fail fast, fail cheap' mantra are all ways to accelerate the strategy-to-execution cycle."

What areas will be most transformed over the next three years?



Source: 2015 KPMG CEO Outlook, May 2015

In fact, understanding the complexities and interdependencies in the journey from strategy to results is a higher priority than previously in many industries, particularly those faced with disruption and convergence, explains Griffin. "Strategy for those players has rapidly become less linear and predictable."

"Around the world we are witnessing a series of structural shifts taking place in the composition and interaction of markets," says Griffin. The nature of the changes taking place would suggest that the shift is not cyclical or short-lived. Financial, business and operating models are evolving at an increased pace in many industries—even in mature industries such as power, utilities and manufacturing. "Is Tesla a car manufacturing company or a power storage player?," asks Griffin. "To what degree do FedEx and UPS consider Uber a threat, or is it perhaps a potential partner for collaboration?"

Driving these changes are several key forces. Convergence between industries is one of them. "Financial services, telecoms, technology and media, consumer goods, healthcare, retailers and industrial manufacturers are now all playing in each other's markets and the lines between them will increasingly blur," says Griffin. The automotive industry, for example, is a major convergence point for multiple industries because it offers scale, disintermediation and new business model opportunities in national and international markets.

One of the consequences of convergence and the forces behind it is that the life-cycle of financial, business and operating models is shortened as competitive advantage erodes more rapidly, says Griffin. "Innovation and agility become more critical, but, significantly in a converging world, so do competencies in collaboration," he says. "In this era it is far more challenging to create and control the multiple technologies that enable winning models. Collaboration ecosystems and the ability to construct and operate them will be one of the essential competencies of winning organizations and successful strategies over the next three years and into the foreseeable future." ●

THE POWER OF ALLIANCES
Q&A with Singh Mecker, KPMG's Global Alliance Leader

Today's CEOs are focused on fueling aggressive growth. How does this influence their approach to alliances?

Seven or eight years ago, CEOs were in a cost-preservation mode, rarely focused on new markets or new products. Today's CEO is about moving faster than the competition and delivering smarter solutions. No one organization can constantly deliver that in today's fast-changing environment. They have to partner with third parties that complement their core capabilities—this is mission critical.

When are alliances a better choice than an internal build or an acquisition?

While alliances are typically a better proposition than an organic build, they are not a replacement for organizational capabilities. Alliances differentiate an organization's core capabilities, and can lead to acquisitions. Alliance can help reduce the risk of a potential acquisition, as the two organizations figure out how to work together.

What are the key reasons partnerships/alliances succeed?

Two essential reasons:

1) very strong strategic alignment between the two organizations and a clear definition of success.
2) very strong alignment of culture and values; common view on joint customer success, how to measure success and the value of the partnership.

Early on, companies need to discuss their respective roles and how to align at the strategic level.

Where do alliances sit on the CEO's agenda?

Today's CEO is focused on the growth agenda and establishing their organization as a market leader. In today's rapid rate of change, they realize that they can't do it all by themselves.

Business leaders have to consider multiple issues such as globalization, disruptive technologies (e.g. cloud, big data, mobile and social) as well as the impact of regulatory change. To be a market leader, they need to deliver highly differentiated solutions to solve for the needs of their customers. Today, more than ever, these solutions require bringing together multiple players working together in an ecosystem to deliver to customer needs. The CEO should be saying: How do I create and manage an ecosystem and be seen as an orchestrator of end-to-end solutions for my customers?

The CEO needs to look at alliances as a strategic component of the business and a core component of business strategy, not a tactical set of relationships around the edges. Finally, as CEOs and organizations increasingly focus on innovation, alliance partners—often viewed as market innovators and sources for ideas—can also be the source of additional insight into what's happening in the market.

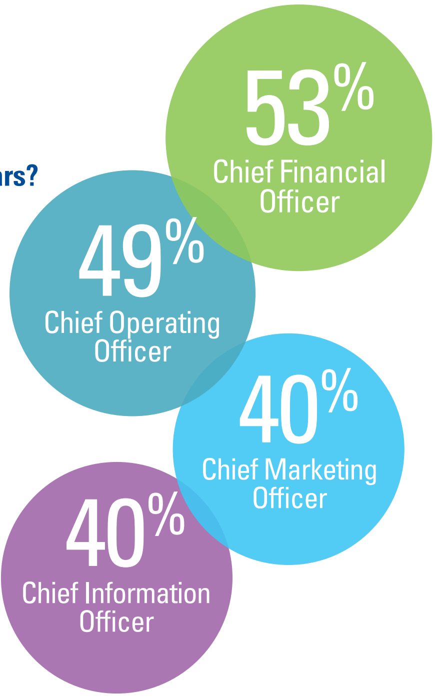
CFO tagged as gaining most clout in C-suite

CFO is the function that will gain the most importance in the next three years, according to more than half of global CEOs. KPMG's O'Mara attributes the growing role of the CFO to the increased importance of how organizations manage their financial risk and internal controls. He links risk management to aggressive financial growth strategies, plans for geographic expansion, and anxieties over new competitors. "Indications of the raising appetite for risk could create a volatile operating environment if executives don't simultaneously implement appropriate controls over their processes and financial reporting," says O'Mara

Apart from focusing on risk, CFOs have also been taking an enterprise-wide responsibility over growth, including areas that have not traditionally been the purview of the financial function. KPMG's Chase notes that customer experience, as it relates to the overall growth strategy, can be found on the CFO's agenda these days.

Companies are looking to strategically transform their business and implement initiatives that cut across the functions, says KPMG's Hasty. This puts the CFO in a pretty strategic place because it is the one function that has visibility across the whole enterprise. ●

Which C-level functions will become more important to your organization over the next three years?



Source: 2015 KPMG CEO Outlook, May 2015

Conclusion

Looking out on the next three years, CEOs plan to focus on more aggressive growth strategies, while their confidence about the growth of the economy and their own companies has waned since last year. They will continue to be heavily impacted by the still uncertain global economic growth and the regulatory environment. Setting the course for growth in this tough new environment will require new strategies, new tools and new thinking:

Growth needs to be carefully calibrated with risk taking. The fact that CEOs describe their strategies as aggressive, and at the same time state they are not taking enough risks as it relates to growth, points to the lack of sophisticated risk-management practices. There may be more room for growth once such processes are put in place.

Consumer demand needs to drive transformations. Customer loyalty is top of CEOs' mind. Since last year, CEOs have become much more concerned about new entrants disrupting their business models. The main effect these new entrants have had on all companies is how they connect with customers. As a result, companies from all industries need to stay competitive by upgrading their connectivity with customers, even if their products or services stay the same.

Regulations need to be approached as a potential for competitive advantage. Growth and the intensity of regulatory environment are correlated. While last year it was regulatory that was ranked as the most impactful issue on business, this year, CEOs view global economic growth and regulations as the top two issues, underscoring the correlation between the two areas. The importance of regulatory is now having a pan-industry effect, as CEOs from many industries report increased compliance requirements.

The pressure on CEOs to deliver results is intensifying. Secular changes in many industries mean business leaders must evolve or transform business models to stay relevant. No one has the luxury of thinking in terms of decades. CEOs must find ways to accelerate implementation much earlier in the strategy development process.

Methodology

The survey data published in this report are based on a survey of 1,276 chief executives from Australia, China, France, Germany, India, Italy, Japan, Spain, the UK and the US. Nine key industries are represented, including automotive, banking, insurance, investment management, healthcare, technology, retail/ consumer markets and energy/ utilities. Three hundred forty seven CEOs came from companies with revenues between US$500 million and US$999 million, 626 from companies with revenues from US$1 billion to US$9.9 billion, and 303 from companies with revenues of US$10 billion or more. Eight hundred thirty CEOs came from public companies and 446 from private companies. The survey was conducted between April 22 and May 26, 2015.

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