



KPMG Global CEO Outlook 2016

Mission critical transformative change: developing and acquiring innovative capability to compete in converging markets.

The outlook for Australia

June 2016

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Introduction

Responding to new entrants disrupting global markets, Australian CEOs and their global peers are increasingly focused on their innovation capability and the robustness and agility of their business models to maintain relevance and capture new market share.

With a plethora of mission critical agendas on the strategic table for Australian CEOs, including technology and digitisation, data capture and analytics, heightened customer focus and disruptive capability sourcing, leaders can benefit from observing global trends, issues and agendas.

In the **2016 KPMG Global CEO Outlook Survey**, nearly 1,300 global CEOs (including 53 from Australia) discuss the key issues and challenges they face in the next 3 years and reveal the strategies they have in place to manage them. The survey explores the perspectives of new and experienced CEOs, with tenure ranging from less than 1 year to over 15 years, across major industries, including public and private firms. This summary features the outlook for Australian CEOs in particular, including comparisons with their global peers.

While KPMG's 2015 survey revealed a strong innovation focus amongst CEOs, this year we explore innovation and disruption plans in more detail and the implications of time-critical innovation across many facets of strategic planning. The 2015 survey also revealed foreign interest in Australia as a growth opportunity and an optimistic outlook amongst Australian CEOs to defend against new entrants. This year we explored how CEOs are responding to forecasts of unprecedented change in global markets.

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“To keep up with new market entrants, emerging technologies and converging industries, CEOs need to be disruptors – but today more than half believe that they are not disrupting their industry’s business models enough.”

Ken Reid, National Managing Partner, Brand and Innovation, KPMG

Executive summary

“It’s an exciting time to be involved in transformational change with organisations being pushed to re-think their core role while at the same time re-examining their non-core elements. Survey results show that 93 percent of Australian and global leaders are placing a stronger focus on core competencies and divesting of non-core competencies (66 percent Australia and 76 percent global).”

Philip Barfield, Partner, Transformation, KPMG

The next 3 years are expected to be an era of unprecedented change and significance for businesses around the world, albeit within an economic environment of moderate growth. CEOs worldwide are increasingly optimistic that they can transform their organisations for the future, delivering transformative change through the use of advanced technology and disruptive capabilities.

With a multitude of critical issues converging at the same time for businesses, almost 70 percent of CEOs recognise a need to acquire experience outside their organisations’ core skill set, and will be looking to acquire these skills in the form of new partnerships, alliances and hiring talent. Sector convergence is one of the primary forces driving change, with 59 percent indicating concern about not having an effective strategy in place.

CEOs recognise it is time to agitate, re-think and resource for change. To keep up with new market entrants and converging industries, CEOs need to be disruptors, but today more than half believe that they are not disrupting their industry’s business

models enough. Australian CEOs are placing a higher strategic priority than their global peers on implementing disruptive technology (25 percent Australia vs. 18 percent global) and in fostering innovation (28 percent Australia vs. 21 percent global).

Perhaps the most significant change in the report this year is how the use of technology is changing how CEOs perceive risk. This year cyber risk is the highest ranked corporate risk, while in 2015 it did not reach the top five. Of considerable concern is the extent to which Australian and global organisations are concerned about data privacy and are also unprepared for a risk event.

An introspective focus is critical while observing external shifts and many CEOs are considering how their organisation will flounder or thrive in a new competitive landscape. Ninety-three percent of both Australian and global leaders are placing a stronger focus on core competencies and many plan to divest of non-core competencies (66 percent Australia and 76 percent global). Leaders are increasingly uncomfortable with their current business model, their

connection with and understanding of customers. Seventy-two percent believe that the next 3 years will be more critical for their industry evolution than the previous 50 years.

“We are in a time of transformation and it’s a positive finding that an increasing number of both global and Australian CEOs are addressing disruptive change. Global CEOs particularly have recognised the pace and nature of change but say they are still optimistic about growth prospects for their company, their industry and the global economy.”

Peter Nash, Australian Chairman, KPMG

Summary of key findings

“Australian CEOs are bullish about growth in the Australian economy and in their own industries, and see ASEAN and Japan as having the greatest potential for new market growth. At the same time, they recognise they sit at the epicenter of a multitude of key shifts that are accelerating and impacting the market and their business – disruptive technologies, the age of the consumer, constant regulatory pressures – requiring companies to move faster and with more agility than ever before. Constant and significant change is the new normal, and transformation of companies is no longer seen as execution of a strategy but rather a necessity to stay in the market.”

Margaret Cowle, Partner, Strategy, KPMG

Expected growth from new markets is mitigated by market share concerns

Expected growth for your country: next 3 years



very confident



very confident

Expected growth for your company: next 3 years



very confident



very confident

Australian business leaders are more confident in market, economic and company growth

For Australian CEOs, 89 percent are confident their industry will grow and 98 percent that their company will grow moderately in the next year. Over the next 3 years, 95 percent

of Australian CEOs are confident the Australian economy will grow. Interestingly, Australian CEOs are more confident in growth of the global economy (92 percent) than their offshore peers (80 percent) and are also far more optimistic in expected company growth over the

next 3 years (72 percent Australia very confident vs. 47 percent global).

Australian CEOs are focusing on expansion in the coming three years, both domestically (32 percent) and in terms of their facilities (30 percent) and see their own country as having the most potential for growth for their organisation over the next 3 years (51 percent) followed by ASEAN countries (45 percent) and Japan (42 percent). Australian CEOs seem to be less optimistic about growth prospects in emerging markets, with China being the most nominated country for decreasing focus over the next 3 years, followed by Russia (32 percent), Central Europe (30 percent) and India (28 percent). In contrast, globally CEOs still favour China (34 percent) and India (38 percent) as growth markets, followed closely by the US (33 percent).

While global executives expect growth will emerge from new products, Australian executives expect growth opportunities to emerge more from new customers and new markets. All see new channels as another source of growth.

“Growth is the key word for Australian companies, and Australian CEOs. Compared to their global peers they are more focused on and attuned to the need to foster innovation, leverage disruptive technologies and invest in customer experience. They recognise that success requires new ways of working across, with and through a broader network of stakeholders (customers, partners, vendors and alliances). Successful companies are turning historic ways of working on their head, leveraging these extended ecosystems, capturing new and diverse pools of talent, capabilities, styles and technologies and involving them in a systematic way in key areas to co-create new solutions, whether they be new businesses or changes to existing operating models. These ways of working are enabling and supporting the cultural change in their organisations that CEOs are looking to create.”

Margaret Cowle, Partner, Strategy, KPMG

Strategically focused to both survive and exploit significant change

Key strategies include innovation, disruptive technology and managing an ecosystem of alliances

Fostering innovation, implementing disruptive technology and managing our ecosystem of partners and alliances are the top three ranking strategic priorities for Australian businesses, to which they are devoting significant time and resources. They are also focusing on improving the relevance of reporting to investors, stronger marketing and client focus to better meet customer needs.

There are several strategic areas receiving considerably more attention from international business leaders than their Australian peers, including managing cyber security risk, becoming more data-driven, digitisation along with diversity and inclusion strategies. Geographic expansion is also a higher focus.

Tactical execution involves streamlining processes and forming new alliances

To accelerate the execution of core strategies, over half of Australian CEOs interviewed are using tactics such as streamlining internal processes, and forming new partnerships and alliances. Other tactics being implemented, to a lesser extent, include early engagement with customers during product and service development and hiring talent. Global firms are more likely than Australian firms to generate spin-offs to manage innovations, use compensation incentives, hire talent and make strategic acquisitions.

Top 3 strategic priorities, next 3 years:

Fostering innovation



Implementing disruptive technology



Managing ecosystems of partnerships/alliances



“Fostering innovation, implementing disruptive technology and managing our ecosystem of partners and alliances are the top three ranking strategic priorities for Australian businesses over the next 3 years, to which they are devoting significant time and resources.”

Ken Reid, National Managing Partner, Brand and Innovation, KPMG

Despite an accelerated approach to disruption and innovation, Australian firms need to further refine and develop specific innovation capabilities

Australian firms have a more accelerated approach to innovation than global firms

With innovation being a key strategic priority over the next 3 years for Australian firms, 45 percent of Australian firms have a more accelerated approach to innovation than global firms, agreeing they have defined tools, processes and resources to help them innovate, with leadership direction, while only 35 percent of global firms agree they have this level of innovation. An additional 17 percent of Australian firms believe they have a strategic approach to innovation, while 28 percent of global firms have this level. Meanwhile 28 percent of Australian firms and 26 percent of global firms admit having an ‘ad hoc’ approach to innovation, which is a threat to their ongoing relevance and growth potential.

Disruptive technologies are primarily being used to improve customer interactions

For Australian firms, disruptive technologies are being used to improve interactions with customers, to interact with partners/vendors, to improve product and service offerings and increase sales.

Driving successful innovation requires having appropriate assets

Key aspects to enable successful innovation from the perspective of Australian firms include ensuring innovation has a place within business strategy with clear objectives (36 percent very important), connecting in a beneficial way with universities and other research institutes (40 percent very important) and having a formal process to progress ideas. Australian firms also highly value external collaboration (75 percent).

Global firms place more value on creating an environment of risk taking

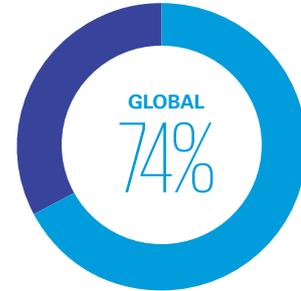
Interestingly 77 percent of global leaders and around 60 percent of Australian leaders place importance on creating an environment that encourages risk taking to foster

How important are these factors in driving successful innovation in your organisation:

Having a formal process to generate/source ideas



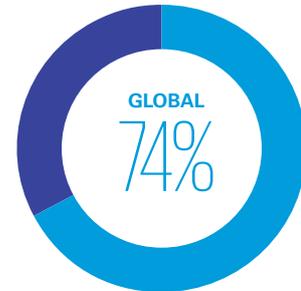
■ important



Fostering a culture of innovation



■ important



Creating an environment that encourages risk taking



■ important



innovation, while 40 percent of Australian firms state this factor is unimportant or take a neutral stance.

Australian firms rate themselves lower than global firms on all aspects of innovation capability

In terms of rating their own organisation’s innovation/disruption abilities, Australian leaders have lower self-rated capability than global firms, across all aspects explored.

These lower ratings may not reflect actual capability, but certainly reflect somewhat lower confidence levels. Meanwhile 47 percent of Australian CEOs rate themselves as highly capable in generating/sourcing ideas with 42 percent highly capable of fostering a culture of innovation.

To what extent do you agree:

Security prompts innovation in products



■ highly agree



■ highly agree

Our customers are more concerned about their privacy than our organisation is



■ highly agree



■ highly agree

Risk is a key ingredient for growth, but how much risk is enough?

The implementation of any growth or innovation strategy involves taking on an element of risk and for Australian CEOs, a small segment (9 percent) believe they are taking on too much risk. The majority (74 percent) believe they are taking on the right amount of risk, while 13 percent say they are not taking enough.

International leaders more concerned about cyber risk than Australian leaders

High amongst Australian risk concerns are geopolitical risk (34 percent), supply chain, operational, third party, and environmental risk (each at 26 percent). For global firms, cyber risk is a far greater concern (30 percent), as opposed to only 13 percent of Australian firms, along with regulatory risk (28 percent) and strategic risk (25 percent). Only 19

percent of Australian and 25 percent of global firms are fully prepared for a cyber event.

High levels of concern coupled with low preparation means cyber risk will be a greater area of focus in the coming years, with more than half of global executives and 43 percent of Australian executives accepting that mitigating cyber risk is part of their leadership role.

Security risk is prompting innovation, however it may not be enough

Eighty-three percent of Australian CEOs and 88 percent of global CEOs agree that security prompts innovation in products and services, while it isn't clear whether they are implementing such changes. Meanwhile global CEOs are much more comfortable with the degree to which mitigating cyber risk is part of their role (55 percent) versus

Australian (43 percent). Worryingly, 82 percent of global and 70 percent of Australian leaders believe their customers may be more concerned about privacy than their own organisation.

Risk
(particularly
cyber) is
concerning
leaders,
however
preparation
is a
shortfall

“Through our regular discussions with Directors, Boards are justifiably expressing high levels of concern around cyber risk, given the known lack of cyber security preparation, the introduction in 2016 of mandatory reporting of data breaches and the high risk of reputational damage, not to mention the potential for board members to be personally liable. Boards now see mitigating cyber risk as a firm part of their leadership role.”

**Sally Freeman, National Managing Partner,
Risk Consulting, KPMG**

Transactions will help companies evolve - however change will be driven by core competencies

Core competencies are the focus while firms globally plan to divest of non-core competencies

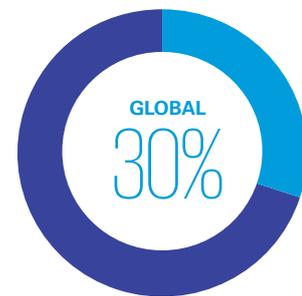
A staggering majority (93 percent Australia and global) of leaders are placing a stronger focus on core competencies and divesting of non-core competencies (66 percent Australia and 76 percent global). Meanwhile 81 percent of Australian CEOs and 87 percent of global CEOs are placing stronger focus on growing complementary competencies and on acquiring new competencies. Seventy-three percent of Australian executives expect to change focus significantly in terms of core competencies. This may reflect how their core competencies can be adapted and evolved to meet new opportunities.

Collaborative growth will be the key driver of shareholder value

Development plans by Australian CEOs to drive shareholder value for the next 3 years include collaborative growth (58 percent), organic growth (49 percent) and inorganic growth (45 percent). Transactions planned in the next 3 years include changing capital structure through equity (57 percent), partnerships and joint ventures (49 percent) and mergers (42 percent). Global organisations favour buying businesses, assets or capabilities (41 percent) far above Australian businesses (28 percent).

Transaction plans over the next 3 years:

We will be divesting of non-core competencies



We will be buying businesses, assets or capabilities



“Seventy-three percent of Australian executives expect to change focus significantly in terms of core competencies. This may reflect how their core competencies can be adapted and evolved to meet new opportunities.”

Peter Turner, Partner, Mergers & Acquisitions, KPMG

“While Australian organisations are focusing on core competencies and how they will evolve and adapt to meet changing markets, many believe their organisation will be transformed in doing so.”

**Ron Gardoll, Partner,
Transformation, KPMG**

Transformation
will occur for a
large proportion
of Australian firms
within 3 years

While organisations are focusing on core competencies and how they will evolve and adapt to meet changing markets, many believe their organisation will be transformed in doing so.

Many businesses expect to transform completely in the next 3 years

Fifty-seven percent of Australian firms and 59 percent of global firms believe they will be the same firm they are today in 3 years time, while the remainder believe they are likely to transform into a completely different entity. The adaptation of core competencies and acquisition of new complementary competencies will play key roles in organisational transformation.

Data and analytics in Australia is more marketing focused, while global firms analyse customers and manage risk

Australian firms are using data and analytics to target marketing campaigns, improve financial reporting, analyse branding on social media and to drive strategy and change. Meanwhile global firms are more focused than Australian firms on using data and analytics to analyse existing customers' needs, to aid with service, develop existing or future talent, track ROI on training spend and manage risk.

Reassuringly, Australian CEOs have higher degrees of trust than global CEOs in their firm's usage of data across all factors including accuracy, effectiveness, security, and ethical use.

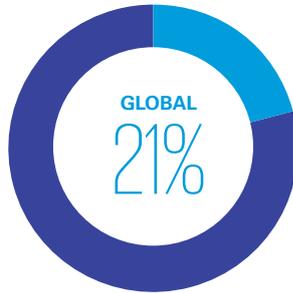
“Whilst reassuring, it is surprising that Australian CEOs have higher degrees of trust than their global counterparts given continued significant investment and frustrations in the fundamentals; especially accuracy of data and decent ROI.”

Anthony Coops, Partner, Analytics, KPMG

Both Australian and global CEOs are implementing various strategies to manage talent

Strategies to manage talent development in the next 3 years:

Focusing on engaging/retaining mature workers



Focusing on automation



Global CEOs are delivering more aggressive strategies to manage talent, including contracting labour: global 15 percent vs. Australia 9 percent; hiring away from competitors: global 17 percent vs. Australia 11 percent and increasing pay: global 18 percent vs. Australia 6 percent. Automation still remains high on the agenda for global firms, and is likely to replace at least 5 percent of the global workforce across sales, technology, marketing, engineering, finance, manufacturing and strategy functions. For R&D, manufacturing and engineering functions, likely automation intent is slightly higher for Australia.

Australian CEOs are considering outsourcing to domestic companies (21 percent Australia compared to 14 percent global), engaging/retaining mature workers (28 percent Australia vs. 21 percent global) and automation (36 percent Australia vs. 25 percent global).

“Australian CEOs are implementing various strategies to manage talent, including outsourcing to domestic companies (21 percent Australia compared to 14 percent global), engaging/retaining mature workers (28 percent Australia vs. 21 percent global) and automation (36 percent Australia vs. 25 percent global).”

Stefanie Bradley, Partner, People & Change, KPMG

“Australian executives are most concerned about retaining relevance to their customers. While staying on top of what’s next in products, services and new technologies will help, they know they need to look for innovative ways to connect with customers, drive loyalty and limit competitors’ ability to take market share.”

Kelly Owens, Partner, Customer and Growth, KPMG

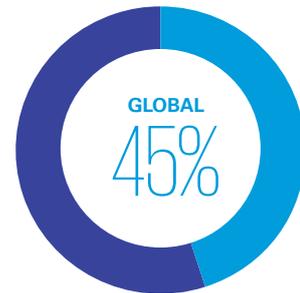
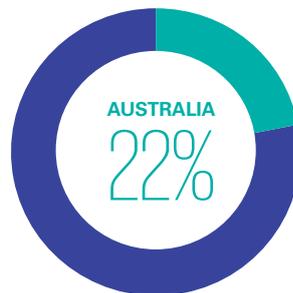
Australian CEOs concerned about customer loyalty and ongoing relevance

The vast majority of Australian executives are confident they are keeping pace with customer needs, they are disrupting, they can increase market share and are leveraging digital means to connect with customers. However there is considerable uncertainty amongst Australian CEOs, with many concerned about relevance of their products and services 3 years from now (81 percent), staying on top of what's next in products and services (81 percent), customer loyalty (79 percent), keeping current with new technology (77 percent), and competitors' ability to take business away (77 percent).

Global CEOs more concerned about customer digital connectivity and not disrupting enough

Global executives differ in sentiment to Australian CEOs in their belief that they are not leveraging digital means to connect as effectively as possible with customers (45 percent global agree versus 22 percent Australia agree). Fifty-three percent of global firms also think their organisation is not disrupting business models in the industry, while only 34 percent of Australia firms agreed with this. Fifty-one percent of global CEOs believe they cannot increase market share, while only 29 percent of Australian CEOs shared this concern.

We're not leveraging digital means to connect as effectively as possible with customers



Our organisation is not disrupting business models in the industry



Conclusions

The next 3 years will bring unprecedented change and transformation for Australian and global businesses. The catalyst for this change will be the way technology is playing an elevated role in how customers interact with businesses and CEOs' ability to swiftly furnish their firms with the skills needed to anticipate and execute the next evolution in products and services, to compete in more aggressive and spontaneous markets.

Digital suppliers, start-ups and individuals with the relevant skills set may be able to set their price

Australian firms will be hiring talent and acquiring talent across the board, meaning demand for digital suppliers, start-ups and individuals with the relevant skills set may be able to set their price. As many Australian CEOs believe they are not disrupting enough, there will be increased demand for off-the-shelf disruption enabling agencies, tools and models.

Risk mitigation activities will increase during rapid change

With swift change, risks associated with rapid forming of new partnerships, associations and patents will become an issue, with strategies needed to mitigate these risks. Cyber risk is the highest ranked corporate risk, while of considerable concern is the extent to which firms are somewhat unprepared for a risk event, as well as the issue of customers being more concerned about data privacy than organisations. Rapid change will require increased emphasis on regulatory rigour and due diligence.

Larger markets and industries will splinter as firms shed non-core competencies

Markets will evolve and merge, and as firms shed non-core competencies we will see some splintering of larger markets and industries into smaller fragments, which may be swept up by new SME players taking advantage of these opportunities. Australian CEOs anticipate greater growth in new customers and markets over products and we expect more companies to look at fulfilling smaller tasks, actions and components within commercial processes. While businesses set up to service modules of customer need, some will expand vertically or horizontally to take on end-to-end or parallel modules.

Transformation will occur in the next 3 years – now is the time to plan and execute strategies

New competitors/disruptors, current competitors, technology and geopolitical factors are cited as being the four greatest impacts on company growth for Australian CEOs. While Australian organisations focus on core competencies and how they will evolve and adapt to meet changing markets, many organisations will transform and new players will emerge.

As global firms leverage more aggressive strategies than Australian firms to tackle innovation and evolving talent needs, Australian firms can learn from global counterparts but should not delay in forming their own disruptive growth plans.

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