Media Release

CEOs in Singapore still confident on their organisation's growth prospects but lower expectations on revenue growth

- *Uncertainty is creating a threat to growth*
- *A third of Singapore CEOs view offshore M&A as the most strategic growth driver*
- *Singapore poised to reap opportunities from the Belt & Road Initiative as trusted partner of China and global players*
- *A more open culture needed to drive innovation*

SINGAPORE, 3 June 2019 – Amid rising disruption and heightened US-China trade tensions, 92 percent of Chief Executive Officers (CEOs) in Singapore are still confident about the growth prospects of their companies, according to KPMG's *Agile or irrelevant - 2019 Global CEO Outlook: Singapore Edition*. However, confidence in the global economy has dropped to 64 percent (77 percent in 2018), and only 28 percent of CEOs here expect a revenue growth of 2 percent and above.

In contrast, 94 percent of global CEOs are bullish about their company's prospects and 62 percent feel the same way about the global economy. 46 percent expect a revenue growth of 2 percent and above.

Commenting on the prospects for revenue growth of Singapore companies, **Ong Pang Thye, Managing Partner, KPMG in Singapore** says: "There are expectations that the quantum of growth for companies in Singapore are lower as compared to global peers because trade is the key driver of growth for Singapore. The initial rounds of uncertainty from the trade tensions have dampened Singapore CEOs' confidence in the global economy and their expectations of top-line growth."

In the medium term horizon, however, the trade tensions could result in a significant number of US, China and other multi-national corporations increasing their presence in ASEAN. Singapore could therefore become an even more attractive regional or global headquarters as compared to its traditional Asia Pacific rivals, Hong Kong and Shanghai.

Mr. Ong adds, "The trade tensions could well represent a turning point for companies to shift some components of their supply chain towards ASEAN, creating increased demand and a knock on positive effect on growth for Singapore companies with ASEAN presence. If companies are agile enough to seize this window of opportunity, they will capture the growth that they seek."

Uncertainty is creating a threat to growth

Indeed, the escalating US-China trade tensions have created new business risks that are translating into operational risks for companies.

Not surprisingly, operational risks emerged as the top threat to growth for Singapore and ASEAN CEOs this year.

Companies are now concerned if they can sustain their operations in their current form and would need to consider multiple scenarios to address the uncertainty.

Other major risks cited by Singapore CEOs this year include cyber security risk, emerging technology risk, territorialism (protectionism) and environmental risk.

In the area of cyber security, over two-thirds of global CEOs (69 percent) indicated that a strong cyber security strategy is critical to driving trust with their key stakeholders. CEOs who have made their organisations more cyber resilient are also more focused on disrupting their industry. These cyber resilient CEOs are projecting stronger revenue growth (over 2 percent or more) over the next 3 years.

Along with these risks, the need for Singapore companies to align their tax function to support corporate strategy has emerged as the most important performance metric for the tax department.

32 percent of Singapore CEOs understand the mandate to do so, and highlighted that taxation is no longer limited to management by the finance and tax team. Boards should place a stronger emphasis on taxation as part of their corporate governance framework. This ensures that corporations are paying the right level of taxes in jurisdictions that they operate in to avoid unnecessary reputational damage.

M&A is key driver of growth for companies to build size and scale quickly

32 percent of Singapore CEOs cite M&A as the most important strategy for achieving their organisations' growth objectives over the next 3 years. This is almost double compared to CEOs globally (at 17 percent).

67 percent of Singapore CEOs say that taking advantage of favourable valuations is the primary driver for this M&A appetite, compared to 39 percent globally. With a small domestic market where there is a need to scale up through inorganic growth in ASEAN and other global markets, we see M&A being the key driver of growth. Singapore companies could be looking to take advantage of the favourable valuations to speed up their M&A plans.

Emerging markets targeted for geographical expansion; Belt & Road Initiative viewed as a significant growth opportunity

In terms of where growth will come from and the strategies that CEOs are using to build resilience, 63 percent of global CEOs are targeting the emerging markets for geographical expansion in the next 3 years, with the Belt & Road Initiative (BRI) at the forefront of their ambitions.

The BRI is giving rise to more cooperation opportunities between Chinese and foreign firms in emerging markets, and not only in infrastructure investment but across a wider range of sectors, including financial services, logistics, trade and even digital technologies. This type of cooperation can help unlock the socio-economic development potential of host countries, while allowing Chinese and foreign firms to access new market opportunities, achieve synergies and manage risks.

Mr. Ong says, “China knows that they need to work on the BRI projects with an additional partner, and Singapore is beginning to fill that role from a position of trust and skill. Firstly, Singapore has a longer history of working with China and other global infrastructure players and is often viewed as a skilled partner in negotiation. Secondly, Singapore has a developed legal system and is favoured as a mediation and arbitration hub for cross-border disputes. Singapore companies and private equity funds should recognise the enormous opportunities the BRI present and tap on these to take themselves to the next level of growth.”

The innovation disconnect

Globally, a majority of CEOs (84 percent) believe a “fast-fail” culture is required in today’s marketplace, in which lessons from failures are learned quickly. Yet, only 56 percent say that kind of culture is in place in their organisation. Eight out of 10 CEOs (84 percent) are looking to change the makeup of their leadership teams to disrupt the status quo.

This disconnect in innovation is even greater for Singapore organisations. While 92 percent of CEOs said they want their employees to feel empowered to innovate without worrying about the possibility of negative consequences, only 40 percent said their organisation currently has a culture where “fast-failing” innovation is celebrated.

Mr Ong concludes, “Companies in Singapore need to adopt a more open culture where team work is valued, people are respected for their new ideas, and failure in innovation initiatives is looked upon more positively. These will form the catalyst for innovation. CEOs who want to lead beyond a 5-year tenure would need to rewrite their rulebooks and reinvent their digital strategy to succeed.”

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Note to editors

About KPMG’s Global CEO Outlook

Now in its fifth year, the KPMG Global CEO Outlook provides an in-depth three-year outlook from thousands of global executives on enterprise and economic growth. Each year the report builds upon answers from previous surveys to help ensure a consistent year-over-year view of the global economy. It also includes new and changing questions to capture CEOs’ outlook on trending topics in the market.

The 2019 survey covers 1,300 CEOs in 11 key markets (Australia, China, France, Germany, India, Italy, Japan, Netherlands, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications). In addition, a number of CEOs of Singapore companies across different industries were also surveyed.

A third of the companies surveyed have more than US$10B in annual revenue, with no responses from companies under US$500M. The survey was conducted between 8 January and 20 February 2019. NOTE: some figures may not add up to 100 percent due to rounding.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. With 200,000 people in the network working together to deliver value in 154 countries and territories, we offer a globally-consistent standard of service based on professional capabilities, industry insight and local knowledge.

In the ASEAN region, KPMG member firms operate across all 10 countries. Our industry focus helps KPMG firms' professionals develop a rich understanding of clients' businesses and the insight, skills and resources required to address industry-specific issues and opportunities.

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