Leading in 21st Century ASEAN

KPMG CEO Outlook 2017

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Foreword

It is my pleasure to share with you the KPMG 2017 CEO Outlook report. Our study has gained quite a following among business leaders, providing a look inside the minds of the world's top CEOs. The results of our survey offer a timely measure of their attitudes, priorities, and concerns regarding business growth over the next 3 years.

'Leading in 21st Century ASEAN: 2017 CEO Outlook' is a special insight into the top-of-mind issues for CEOs in ASEAN. In our conversations with CEOs in the region this year, it was clear that business leaders are looking to be the disruptor in their industry by harnessing technology, digital investments, and by challenging their own role to better lead their businesses. There is a strong focus on core strengths, but at the same time, innovation remains a key priority.

This year's survey has shone the light on an intriguing mix of concern and confidence among ASEAN CEOs. Comparing our results in ASEAN with the rest of the world, we can see a greater confidence among ASEAN business leaders that could translate into an economically positive year for the region.

In this survey summary, we have presented the responses and opinions of ASEAN CEOs, while offering comparisons with their global peers. We hope that these insights from your peers and competitors can spur forthright and creative ideas that help you to challenge stasis and embrace change.

Ong Pang Thye
Managing Partner
KPMG Singapore

Executive summary

In the 2017 Global CEO Outlook, 1261 CEOs from around the world, including ASEAN, discussed their unique challenges and opportunities with us. What we heard from CEOs in ASEAN make us believe that there is muted confidence in the global and national economy and optimism about their organization's prospects in the light of some geopolitical uncertainty. This marks a shift in mindset among CEOs from the past year.

In 2016, we saw CEOs recognizing the developments in the world of business and politics as more critical for their industry than the last 50 years and preparing to make transformative changes in their organizations. This year, the emphasis is more on the urgency to disrupt their industry before other players in their sector force them to keep up or give up.

Our survey reveals some strong trends among ASEAN CEOs:

- ASEAN CEOs believe that greater digital investments will offer more opportunities to find competitive advantage in an uncertain geopolitical environment.
- **Speed-to-market and innovation** are high strategic priorities for CEOs in ASEAN. Both are dependent on a clearly-articulated digitization strategy whose benefits can go beyond cost savings to greater efficiency in **faster decision-making and strengthening customer relationships**.
- It may be impossible to fully prepare for unknown cyber threats, but **strengthening cyber security** remains an ongoing journey for ASEAN CEOs wanting to protect their brand reputation.
- There is a **heightened perception of geopolitical risk** among CEOs. In ASEAN, understanding the implications of geopolitics and keeping up with geopolitical trends/disruptions, such as election outcomes, international conflict, or terrorism is now a top concern for CEOs.
- A higher percentage of **CEOs in ASEAN is more open to acknowledging personal challenges** and working toward disrupting their own roles than among Global CEOs, by focusing on upgrading their own skills. For many, disruption is as much a personal challenge as an organizational one.

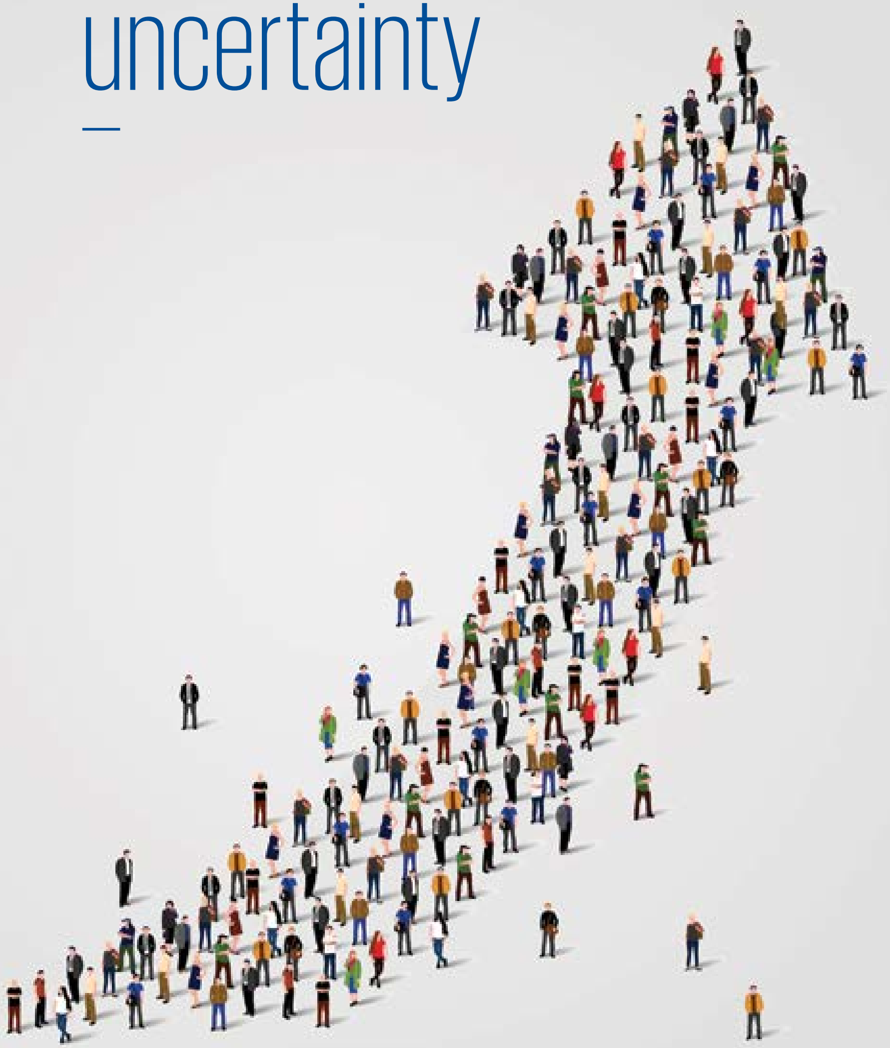
Introduction

In the last 30 years, ASEAN has seen strong growth driven by its exports, younger demographics, and growing middle-class wealth. But in 2017, forecasting anything on ASEAN is difficult despite the basic factors of economic growth, such as population growth and urbanization continuing to be big trends.

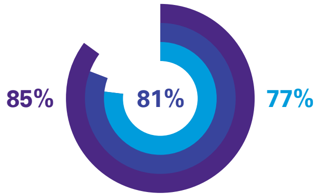
Looking toward ASEAN is only logical for businesses. The region has a population of around **634 million people** and is the third-largest combined market in Asia, with emerging Southeast Asian economies growing at approximately 5%-7%. However, juggling the many demands of an increasingly complex stakeholder universe – from consumers to politicians, regulators to society at large – requires an in-depth understanding of the economic and regional political issues in ASEAN.

Within the context of an increasingly unpredictable environment, organizational success has never been more fragile. In this publication, we attempt to bridge some of the knowledge gaps that may exist about lowering the odds of businesses being marooned by rapidly shifting tides of change.

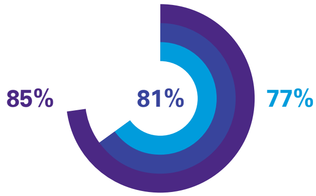
Growth amid heightened uncertainty



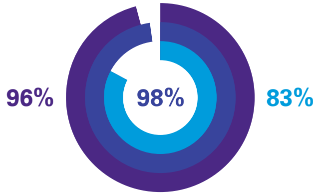
ECONOMIC OUTLOOK AND BUSINESS CONFIDENCE



CEO confidence in the growth prospects for their **individual countries** over the next 3 years



CEO confidence in the growth prospects for the **global economy** over the next 3 years



CEO confidence in the growth prospects of their **company** over the next 3 years

● Singapore ● ASEAN ● Global

ECONOMIC GROWTH

The past year has been a time of wrenching change, creating an uncertain economic and political environment, which in turn has tempered growth expectations among business leaders. But the uncertainty that the current geopolitical situation has prompted can be used to effectively drive future success, both strategic and operational. In the midst of growing uncertainty about the economy, geopolitics, and technology, CEOs are prepared to disrupt or challenge themselves and their businesses to achieve future success.

Our surveyed CEOs made this clear:

- In 2017, 6 out of 10 ASEAN CEOs are confident about global economic growth over the next three years. This is a big shift in mood from 2016 when 8 out of 10 ASEAN CEOs were confident in the global economy.
- At the country level too, ASEAN CEOs' confidence in three-year growth prospects has fallen from last year, by 4%. Uniquely, in Singapore, CEOs are not only more confident (85%) in the country's growth prospects than their global and ASEAN peers but also in comparison to last year (63%). As covered in the point above, there is less certainty surrounding global economic growth over the next 12 months, with only 55% of ASEAN CEOs feeling positive about it.
- Focusing closely on the day-to-day realities of ASEAN CEOs, we see almost all (98%) describing themselves as confident in their company's growth prospects over the next 3 years, with more than half saying that they are very confident. This is in sharp contrast to their global peers, of whom only 69% expressed confidence in their own industry's growth prospects this year – down from 85% in 2016.

Most ASEAN CEOs are largely optimistic about longer term global growth trends, but they understand the importance of retaining operational flexibility and adapting their portfolio mix to changing market conditions. Though confident that they have created businesses that can successfully execute in the short term, business leaders in ASEAN worry about building one that has the resilience and vitality to thrive in the longer term.

BUSINESS GROWTH

ASEAN CEOs are choosing to focus on existing markets. When it came to building new markets, they chose places closer to home with Australia (50%), Asia Pacific (44%), and Central Asia (40%) being cited as **the top three priority markets.**

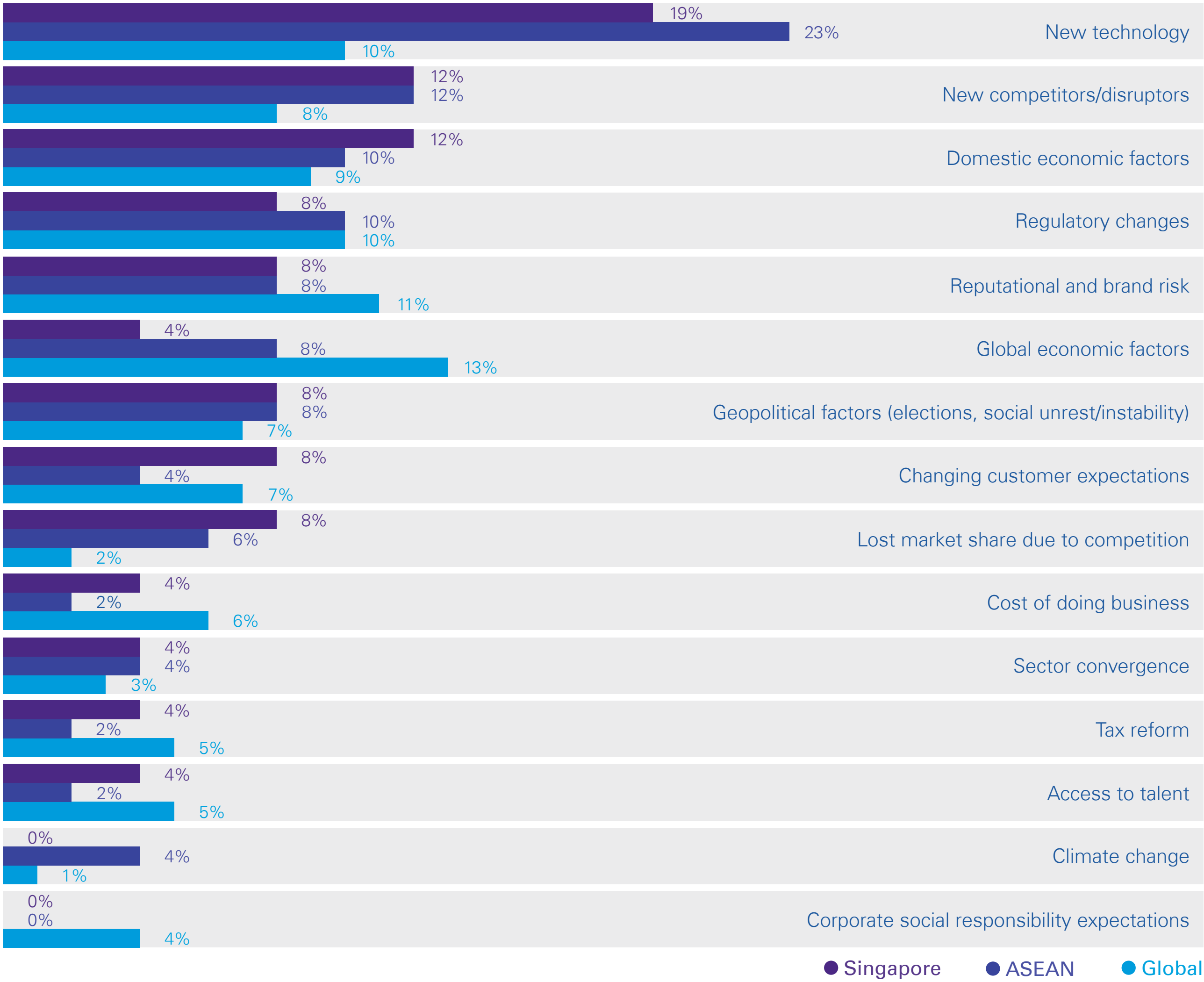
Growth for ASEAN economies is typically driven by exports recovery, with domestic demand factors including private consumption remaining uneven across markets. We think that consumer spending in the region will remain healthy and exports recovery can be expected to boost employment and wage growth. During the past two years, despite **an economic recovery** in some regions, unemployment rates in ASEAN have risen, highlighting that GDP growth has yet to translate into greater job creation for the region. 9 of 10 ASEAN CEOs, however, expressed confidence in **increasing their organization's headcount by up to 10%** over the next 3 years. When compared with last year's 73%, this year's optimism raises the possibility that ASEAN's slow wage growth and unemployment may improve in the next three years.

This optimism is further reflected in 62% percent of ASEAN CEOs (compared to only 41% of global CEOs) being confident that they will achieve **2%-5% top-line growth** over the same time period. In Singapore, this number is even higher at 70% CEOs with a similar outlook about top-line growth.

One of the most significant developments this past year has been the 2016 United States (US) Presidential election and Britain's exit from the European Union (EU). Half of ASEAN CEOs surveyed asserted that the election of **President Trump will affect the global economy negatively** – a view that is shared by only 24% of their global counterparts – but have a positive effect on the growth prospects of their company and their industry. ASEAN CEOs largely perceive the impact of Brexit to be neutral – although 56% expect that Britain's exit from the EU will have positive effects on conducting research and development (R&D) in the United Kingdom (UK) for their companies.

Within this context, one of the most important questions that business leaders in ASEAN are facing today is: how can CEOs build organizations that deliver sterling results today and at the same time, have the ability to evolve rapidly enough to remain relevant tomorrow?

FACTORS THAT CEOs EXPECT WILL HAVE THE BIGGEST IMPACT ON COMPANY GROWTH OVER THE NEXT 3 YEARS



Disruption is an opportunity

The biggest theme across issues and priorities this year is CEOs viewing disruption as an opportunity rather than a threat. They see it as the trigger that can transform business models, develop new products and services, and reshape industries.

This resonates in a few of our key data points:

- **98% of ASEAN CEOs view disruption as an opportunity, not a threat.**
- **83% say their business is aiming to be the disruptor in their industry.**
- 63% of ASEAN CEOs strongly agree (and this is 50% higher than their global peers) that they expect **major disruption in their industries in the coming three years as a result of technological innovation.**

- A majority chose to respond ambiguously (neither agree nor disagree) on whether **disruption in their industry will weaken and/ or eliminate some of the traditional leaders.**
- Almost half (48%) of ASEAN CEOs (and their global peers) are **certain that the impact of disruption on their organization will most likely be situational**, affecting some functions only, rather than impacting the whole business.

In all our conversations, we found ASEAN CEOs reiterating that in a hyper-dynamic, hyper-competitive environment, businesses either move forward or stagnate – there is little choice.

But there was less certainty about how to implement any or all of this to their businesses most effectively.

In conversation with KPMG in the Philippines

Emmanuel P. Bonoan
Vice-chairman, Chief Operating Officer and Head of Markets
KPMG in the Philippines

What are the factors driving optimism or concern among CEOs in the Philippines?

The Philippines has strong macro-economic fundamentals in place, robust domestic consumption, and a promise of increased government spending. However, this is slightly tempered by geo-political issues as well as a slow-down of household spending due to rising inflation, induced by the recovery in world fuel and commodity prices and peso depreciation.

What are the regional/domestic considerations that could impact businesses and what should companies do?

Businesses operating in ASEAN or looking to enter the region must have an ASEAN strategy to capitalize on economic integration. The more mature companies in the Philippines are already leveraging digital technology, given that more than half of the population here are internet users. For local companies, the focus should now be on expanding regionally, whether through their products or their supply-chain.

Where are some of the growth opportunities in the Philippines?

Information Technology and Business Process Management (IT-BPM) has emerged as the Philippines' most dynamic industry. These companies are quick to adapt to evolving technology. The industry is also embracing the strategy of positioning the country as a technology-enabled hub, with up-scaling of IT skills and advocating for a strategic science, technology, engineering, and mathematics (STEM) policy framework as supportive measures.

FinTech – there is still a large portion of the population that are unbanked. There is a growing market of FinTech companies in the Philippines that offers accessible and efficient financial services for the unbanked.

Telemedicine – Access to healthcare is a challenge for the Philippines given that it is an archipelago. The use of technology to provide quality healthcare is being advocated but there are constraints due to a weak IT Infrastructure and policy framework.

THE STRUGGLE TO KEEP UP WITH EMERGING TECHNOLOGIES

71% of ASEAN CEOs agree that they are struggling to keep pace with the rate of technological advancement in their industry, significantly more than their global peers (37%).

CEOs across ASEAN cite the top 3 barriers to implementing new technology as:

1. Complexity of implementation
2. Risk and security concerns
3. Legacy systems

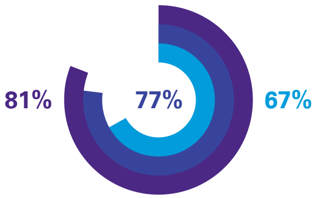
Benchmarking themselves against the technology use of competitors is another big challenge, along with attracting new strategic talent. In the next 3 years, ASEAN CEOs are committed to investing (45% more than global CEOs) in robotic process automation, cognitive tech/automation, IoT, and data analytics. They also expect emerging cognitive technology (robotic process automation, cognitive computing, and cognitive automation) to **impact their company's headcount** in the next 3 years, with IT (87%), sales (83%) and middle management (81%) witnessing the most increase.

This is not surprising, since the convergence of emerging technologies and innovations, such as driverless cars, 3D printing, and blockchain, is widely expected to accelerate in pace as virtual reality, augmented reality, and other digital technologies become more mainstream. Traditional sectorial lines are blurring and new business models, unique customer value propositions and market leaders are being created as business and society are being reshaped by technologies.

For example, **tax process automation**, which was once thought of as a disruptive trend and is now almost the norm, enabling tax professionals to move away from monotonous manual tasks and toward the role of strategic advisors. As more and more countries launch initiatives and legislation to curb corporate tax evasion and increase tax transparency, multinational tax departments are using tax technology to achieve compliance. Using new and dynamic developments in data analytics, tax professionals are able to predict and analyze patterns and keep track of ever-evolving regulations.

In the **Oil and Gas sector**, the impact of Electric Vehicles (EVs) has been brought forward with various government announcements on eliminating petrol cars by 2040. We can expect that this technology will impact customer experience at retail sites as well as medium-term strategic planning. In fact, there is tremendous scope for technology changing the face of the Energy and Natural Resources as a sector – from upstream exploration and production to trading, transport, distribution, and retail.

Yet, identifying which emerging technologies will create an impact in a particular industry or sector is not easy. Some technologies gain traction quite quickly, while others catch on only over long periods of time, sometimes taking decades before achieving any success. Because of this uncertainty in timing, it is critical for CEOs and other C-suite to continuously revitalize their strategy, review their business models and offerings, and thoughtfully consider how technological changes can impact their businesses' value propositions.



Majority expect tax rates to increase in the next three years

- Singapore
- ASEAN
- Global

"The swift adoption of new technologies by Indonesia's highly adaptive middle class is likely to change the pattern of consumption, thereby challenging CEOs to rethink their business model and operations. Greater digital investments offer CEOs and their companies more opportunities to find competitive advantage in an increasingly uncertain environment. Comparing our results across ASEAN with the rest of the world, we see a greater confidence among ASEAN business leaders that should translate into an economically positive year for the region."

Tohana Widjaja, Managing Partner,
KPMG in Indonesia

THE 21st CENTURY ENTERPRISE EMERGES

Disruption presents CEOs with an opportunity to reshape their business and with such major technological and business model changes for enterprises, it is no longer sufficient to rely on incremental innovations. Companies need to transform themselves into 21st century enterprises, from front to back office, by tapping on leading innovations as enablers. (See figure on right)

PILLARS OF THE 21st CENTURY ENTERPRISE:

- **Everything-as-a-Service** [services vs. products, process-as-a-service]: A 21st century enterprise is agile, lean, and highly scalable; subscribes to services instead of expanding internal functions and infrastructure.

- **Changing nature and value of assets** [data-as-asset, intellectual property, shared assets, networks, and alliances]: Non-traditional assets, such as data, alliances, networks and agility are tapped to create value. Data collected in the regular course of business transactions is shared and monetized.

- **Workforce of the future** [automation and segmentation, talent gaps, contingent workforce, collaboration]: Leverages digital labor and has access to global talent on demand, through platforms and alternative employment models.

- **Customer engagement** [personalization, customization, co-creation, and collaboration]: Customer-centric, recognizes that the best customer experience is conceived of, designed and iterated by the customers themselves.

Workforce of the future
Automation & segmentation, talent gaps, contingent workforce, collaboration

Customer engagement
Personalization, customisation, co-creation & collaboration

Everything as a service
Services vs. products, subscribing to what you need, Process-as-a-service

Changing nature & value of assets
Data-as-an-asset, intellectual property, shared assets, networks and alliances

ENABLERS

- Blockchain
- The API economy
- Mobile economy
- Internet of things
- 3D printing
- Cloud
- Drones
- Data & analytics
- AI/cognitive automation
- Augmented & virtual reality
- Platform business model
- Cyber
- Consumerization of B2B
- Enterprise technology

Source: KPMG 2017

COLLABORATING WITH A WIDER ECOSYSTEM

ASEAN CEOs are committed to investing in robotic process automation, cognitive tech/ automation, IoT, and data analytics. This lines up perfectly with findings from our 2016 global survey of technology business leaders, a majority of whom had identified IoT, robotics, and artificial intelligence/ cognitive as the top technologies that will drive business transformation across all industries over the next 3 years.

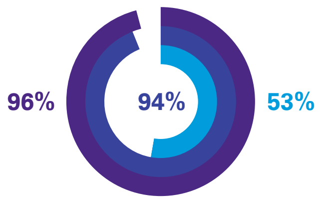
One of the foremost challenges for ASEAN CEOs has been the misalignment between front-office and back-office transformation. In the last few years, we at KPMG have witnessed disruption in our client engagements, mainly in the areas of mobile, digital marketing, and customer analytics. We found that back office processes and systems were often not designed to support the current pace of innovation.

In the next few years, these trends will cascade into disruption at the enterprise operations level, where the mid- to back-office will be transformed by innovation, omni-channels, and digital labor. The scope of digitization will only accelerate. CEOs seeking to stay relevant can look at leveraging the solutions that creative and innovative start-ups are offering to address certain existing business problems. More importantly, instead of working in isolation, collaborating with the wider ecosystem to bring about integrated value delivery will be imperative.

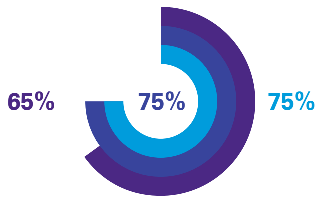
"Disruption will most likely come from advances in cyber and technology. Businesses must intensify their preparations to adapt to these changes. Growth through disruption must go hand-in-hand with stronger cyber security, data privacy, and IT infrastructure to fully realize its gains."

Roberto G. Manabat, Chairman and Chief Executive Officer, KPMG in the Philippines

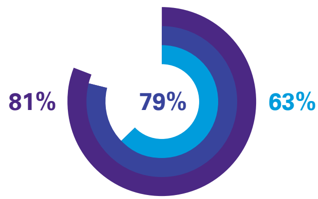
AREAS IN WHICH CEOs EXPECT TO INVEST IN THE NEXT 3 YEARS



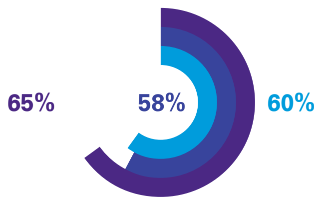
Innovation, including new products/ services and ways of doing business



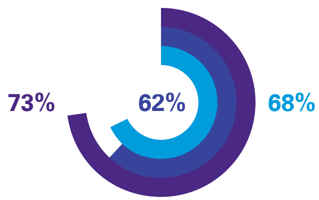
Recruitment



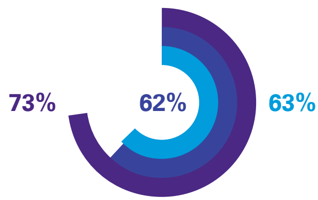
Workforce training



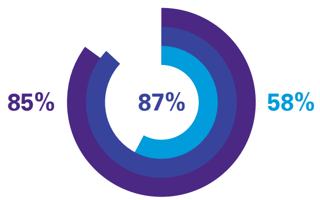
Regulatory compliance



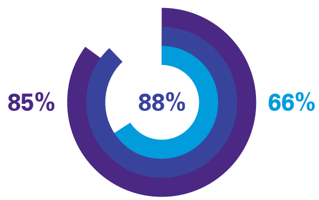
Digital infrastructure



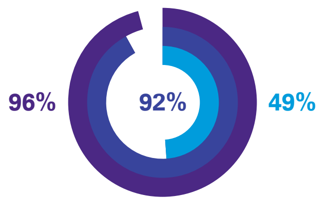
Physical infrastructure



Governance and risk



Cyber security



Emerging technologies

● Singapore ● ASEAN ● Global

In conversation with KPMG in Malaysia

Datuk Johan Idris
Managing Partner
KPMG in Malaysia

What are the factors driving optimism or concern among CEOs in your country?

Malaysia's local economy grew 5.8% in the second quarter of 2017, mainly due to the recovery momentum in external demand as well as a boost in private investment supported by the rollout of infrastructure projects and capacity building. Government-led policies have also enabled business momentum to remain upbeat.

How prepared are businesses in your country for a cyber event?

I think companies in Malaysia are aware of the risks in cyber space. As they transition their business onto the digital platform there is a conscious decision to bring this matter to Board agenda discussions. However, having an idea of a subject matter and being completely prepared for it are two separate issues. Companies should not to be complacent when it comes to cyber security. Cyber risk, if unmitigated, becomes an operational and a regulatory issue very fast – a breach can seriously undermine customer confidence and damage brand reputation.

What are your views on technology and disruption in the next few years?

Technology will continue to play a critical role in whether a business survives in the long run. Market dynamics have changed as companies utilize Internet of Things (IoT), and customers adapt to new IoT-enabled services and products.

Based on our research, there are six big bets for disruptive technology: Digital labor, omnichannel, internet of services, journey to the cloud, software development at the speed of business, and next-gen IT operating model. These disruptors need to be strategically managed via innovation.

Industries across the board will be disrupted, which essentially means that the traditional playbook is obsolete. To thrive in this setting will require companies to adopt a sound strategy with a balance of innovation, opportunity and risk. Ultimately, business leaders should master the skill to anticipate tomorrow's trends and be able to deliver solutions of the future today.

ASEAN CEOs rank their top risk concerns in 2017

Interesting shuffle among top risk priorities from 2016 to 2017

Shifting priorities: Top concerns for ASEAN CEOs

Reputational and brand risk has risen in importance while cyber security has fallen

	2016	2017
1	Strategic	Operational
2	Cyber security	Emerging technology
3	Operational	Reputational and brand risk

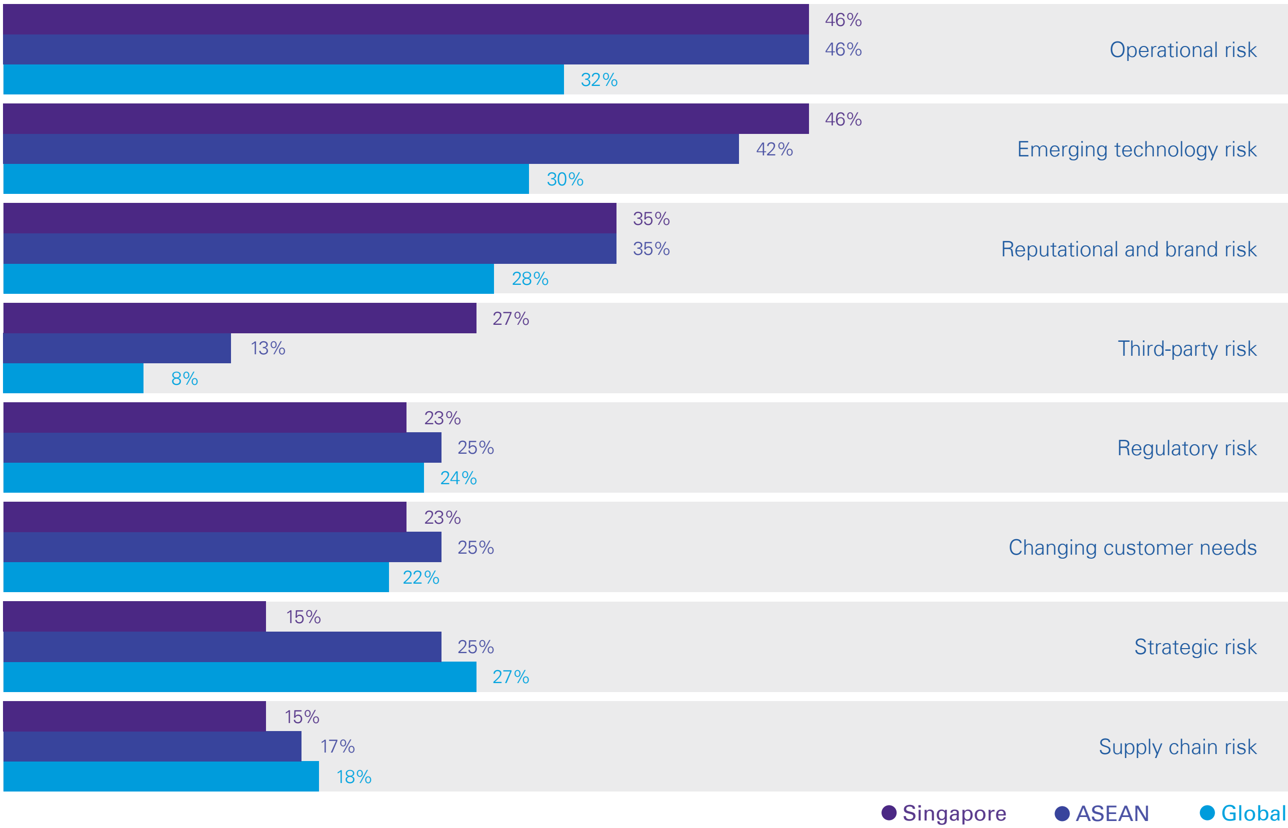
Reputational risk climbs the agenda, but operations still the No. 1 concern for ASEAN CEOs

A striking change in this year's survey finding is the rise in the number of ASEAN CEOs who cited reputational and brand risk as a top concern. This year, reputational and brand risk is the third most important risk (out of 16 in total). In 2016, it did not feature in the top 10.

ASEAN CEOs across sectors acknowledged that they need a strong brand image to attract and retain customer loyalty, business partners, investors, and talent to compete and win. CEOs are acutely aware that everything they or their companies do is now taking place in a more transparent environment than ever before. Whether an operational glitch, the impact of social media, or the risk of a damaging hacker attack on their systems or data – one mistake can overshadow a lifetime of good service. For a majority of CEOs in ASEAN, a formal and proactive reputation and brand management process or inculcating a risk-focused culture remains elusive until there is a crisis at hand.

It comes as no surprise then, that reputational damage arising from an incident or event is viewed by ASEAN CEOs to have the **second highest potential impact on growth** out of 16 other risk factors.

TOP RISK CONCERNS IN 2017



things CEOs can do to better manage reputational and brand risk

- The board, the C-suite, and the CEO need to be on the same page about reputational and brand risk being a critical element in the success of their organization, which requires active management.
- Recognize the dangers of reputational issues moving at the speed of light in our 24/7 world of digital, social media, mobile, and big data. In doing so, CEOs open the discussion to institute mechanisms that monitor brand image. The challenge is to have solutions that are technologically appropriate, flexible, and suitable for this era.
- Robust strategies for risk assessment need to be instituted. It is impossible to comb through each and every risk at all times. What organizations need is to have a strategy framework that can fine-tune the assessment for risk in order to identify the sensitive issues of the moment and calibrate accordingly.

In conversation with KPMG in Singapore

Ong Pang Thye
Managing Partner
KPMG Singapore

What are the factors driving optimism or concern among CEOs in Singapore?

After some years of caution, we are now seeing an economic uptick that is driving optimism in Singapore. In 2017-18, Singapore's economic growth is expected to be quite strong with an overall GDP increase of 2%-4%. The manufacturing sector, especially electronics, semiconductor, and specialty chemicals manufacturing, are expected to drive overall economic activity.

Some CEOs with whom I have spoken, raised concern over expected increases in interest rates, which could mean a higher cost of capital. However, any rate increase is expected to be gradual and not expected to pose longer term issues.

What are the regional/domestic risk concerns that could impact businesses and what should companies do?

In our view, key risks to overall growth include regional geopolitical uncertainty and the possibility of the current bull run in global stocks and bonds coming to an end. As more Singapore companies invest in digital technologies, we expect to see a rise in new opportunities for competitive advantage. Our view is that technology will create new customer experiences and business models, drive operational and cost efficiencies and enable companies the ability to reach customers outside our geographical boundary. Because of this, the key risk that companies cannot ignore is that of disruption to their business or sector by competitors who may be regional or international players. They should therefore take a more holistic view to who their competitors are and from where new competition may originate. This could be companies from different markets or even unrelated sectors which are converging.

Where are some of the growth opportunities in Singapore?

Singapore is a mature, high-cost economy. As a result, Singapore-based manufacturers have been moving away from land- and labor-intensive to more capital-intensive, niche sectors such as artificial intelligence, robotics and IT. Services-related manufacturing activities, such as chip design, delivery of IT services, and innovative solutions are also becoming increasingly important.

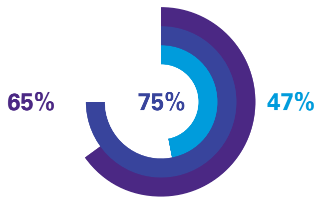
Technology-related sectors remain a key focus area for Singapore's future growth. Singapore has seen extremely promising developments in FinTech, particularly in technologies such as blockchain and AI/big data. Given that Singapore has a skilled workforce, companies here are in a position to best leverage technology enablers for greater competitive advantage. No longer is technology only deployed to drive greater efficiencies and productivity. Rather, by complementing it with the rising intellectual ability of our workforce, we should see ever bigger, bolder and more creative business models originating in Singapore and selling to the world.

High-profile attacks make cyber threat a top operational risk

As digital service channels have expanded, the sophistication of cyber attacks has seen a marked uptick. There were 1,800 reported website defacements in Singapore in 2016. More malicious attacks, such as Ransomware, were reported 19 times last year, up from only two cases the year before – and this is in spite of the usual under-reporting of such cases.

Yet cyber security, which ranked as a top risk among CEOs in 2016 has dropped off the shortlist of risk concerns this year. In KPMG's 2017 CEO Outlook, almost half of ASEAN CEOs (46%) surveyed said that they feel adequately prepared for a cyber event – up from 30% in 2016. Considering the high-profile nature of some recent cyber attacks and the catastrophic damage that they can cause, it is surprising that cyber risk appears so low on the risk list – after coming in second last year.

To some extent, this could be due to CEOs' confidence in the progress that their businesses have made in cyber-risk management. But in our conversations with senior management, we often find that appreciation for cyber risk at the board



CEOs find human capital is the biggest challenge in tackling cyber security for their company.

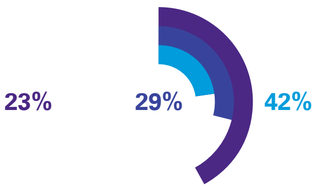
and C-suite levels is lower in Asia than it is in many Western countries. It is possible that CEOs have been lulled into a false sense of security in the large investments they may have made to bolster cyber resilience.

- 94% of ASEAN CEOs see investment in cyber as an opportunity to find new revenue streams and to innovate, rather than view it as an overhead cost.
- 88% plan high investments in cyber security over the next three years, but only 19% say they feel the need to become smarter in tracking the impact of their investments in this field.
- 75% of ASEAN CEOs believe human capital is the biggest challenge in tackling cyber security.

While it is true that significant investments have been made in cyber security, this does not necessarily translate into resilience. In fact, cyber security experts have stressed that there is no silver bullet in cyber security, no single system that can fix everything.

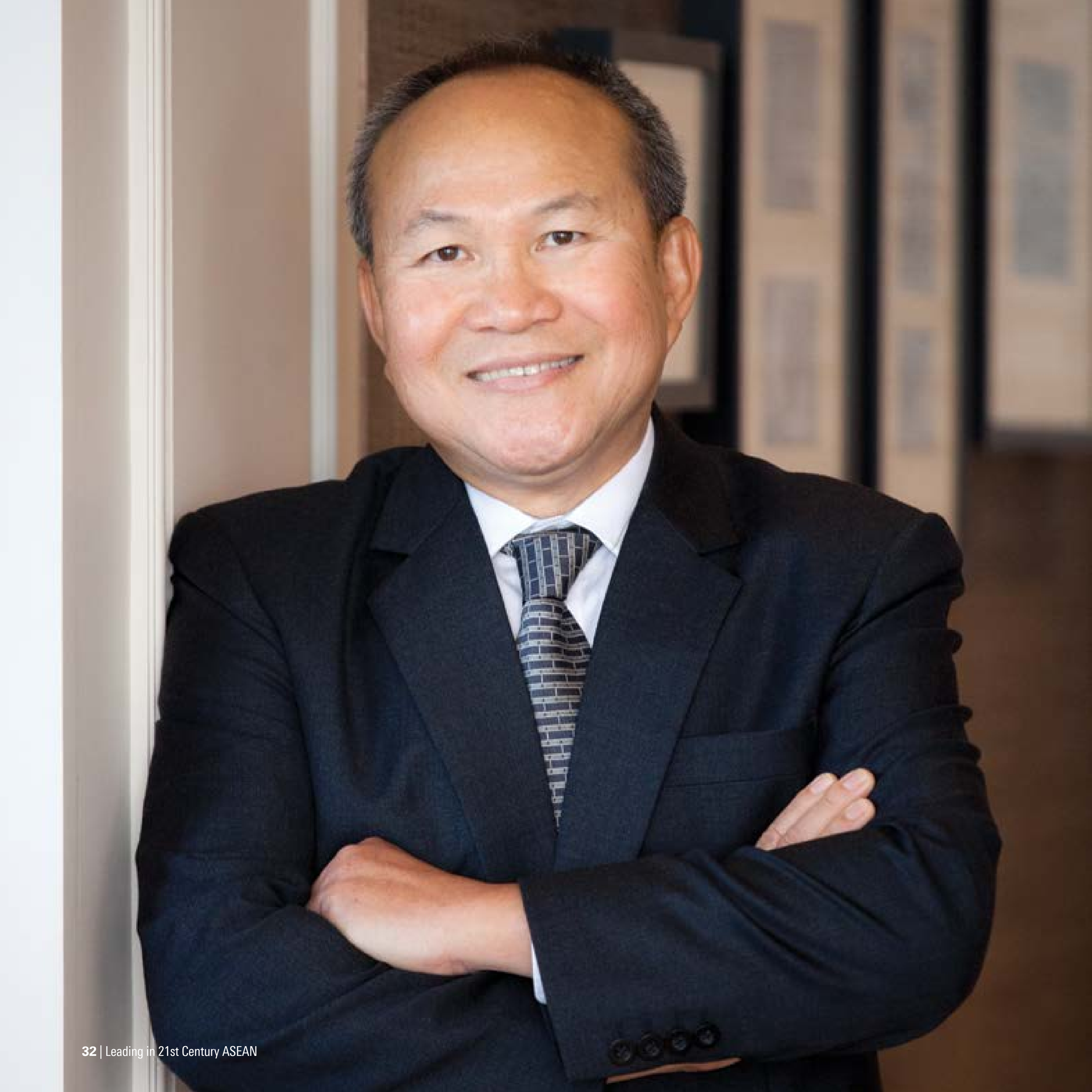
> "It's interesting that cyber security, which CEOs ranked as the top risk in 2016, has this year fallen to fifth place; CEOs clearly believe they are making progress in their management of cyber. However, ransomware attacks the likes of WannaCry and Petya reinforces the need for business leaders to remain vigilant and avoid complacency when it comes to governance in cyber space. We operate in a digital world today where breaches can happen anytime. Complacency will only increase the risks across the business, often with lasting impacts."

Datuk Johan Idris, Managing Partner,
KPMG in Malaysia



CEOs who agree they must do more to combat cyber security 'fatigue' within their company

- Singapore
- ASEAN
- Global



In conversation with KPMG in Thailand

Winid Silamongkol
Chief Executive Officer
KPMG in Thailand, Myanmar and Laos

How is Thailand preparing itself to become more competitive in today's business environment?
'Thailand 4.0' is the government's strategy to help Thailand overcome several economic challenges by using new growth engines and eventually moving from a production-based to a service-based economy. The strategy includes moving from producing commodities to innovative products, emphasizing on technology, creativity, and innovation in certain new industries, which are collectively called the 'New S-Curve', such as robotics, aviation and logistics, biofuels and biochemical, digital industry, and medical hub. This will allow Thailand to be more competitive and agile in the era of business disruption. Foreign investors will also see Thailand taking measures to position itself as an investment hub for the region.

What are some of the disruptive changes you have seen as a result of Thailand 4.0?
The 'Thailand 4.0' initiative puts the digital economy at the top of our economic growth agenda, creating significant new multi-sector opportunities through major infrastructure investment, such as the plan to bring more than 40,000 villages into the ecosystem through expansion of broadband networks. This, in turn, is driving innovation in the private sector where we see significant investment in new technologies. This is particularly prevalent in the banking sector, where a standardized quick response (QR) code payment mechanism has been introduced recently. This allows users to pay for daily purchases with their smartphones from a shop purchase to street food and taxi fare – aligning services with customer lifestyle needs, while also helping to drive Thailand toward a cashless society.

How can businesses in Thailand prepare themselves for the rapid changes in business environment and the recent emergence of disruptive technologies?
A lot of companies are realizing the need to change in order to adapt to the future, especially when it comes to new disruptive technologies. The most important consideration is that the implementation of these disruptive technologies needs to align with and complement their overall business strategy. Businesses should consider what value can be delivered to their customers through these new technologies.

things CEOs can do to better manage cyber risk

Considering the scale of recent cyber attacks and the extent of damage that was caused, business leaders need to go one step further and take responsibility for cyber security. To be resilient and cyber-smart, companies will need to instill security awareness into everyday culture and ensure that their people, processes, and technology are all strategically focused on cyber risk and appropriate solutions.

- Gain a deeper understanding of cyber risks and cyber warfare. Business leaders have to move their organizations away from the traditional cyber defensive posture, which only blocks known cyber threats and attack vectors, in order to respond to the constantly evolving technology risk landscape. The way forward is through an in-depth understanding of the different types of cyber attacks, the business systems that are most at risk, and the importance of an organization-wide approach to cyber security.

- Develop the company's ability to draft, strategize and develop a cyber risk mitigation strategy. CEOs, along with their technology and cyber risk C-suite, need to ensure that this is an enterprise-wide strategy, that is clearly communicated, and effectively identifies and responds to the ever-evolving cyber security risks and needs. This strategy must also include the appropriate legal and compliance steps that need to be taken when responding to cyber attacks and reporting cyber attacks to law enforcement.

- Narrow the potentially widening cyber risk gap between C-suite and their IT function. There is a cyber dimension to all of the top risks – whether in strategic risk or operational, emerging technology or reputational risk, thus making compartmentalisation within the technology department completely redundant.

CEO priorities for growth over the next three years

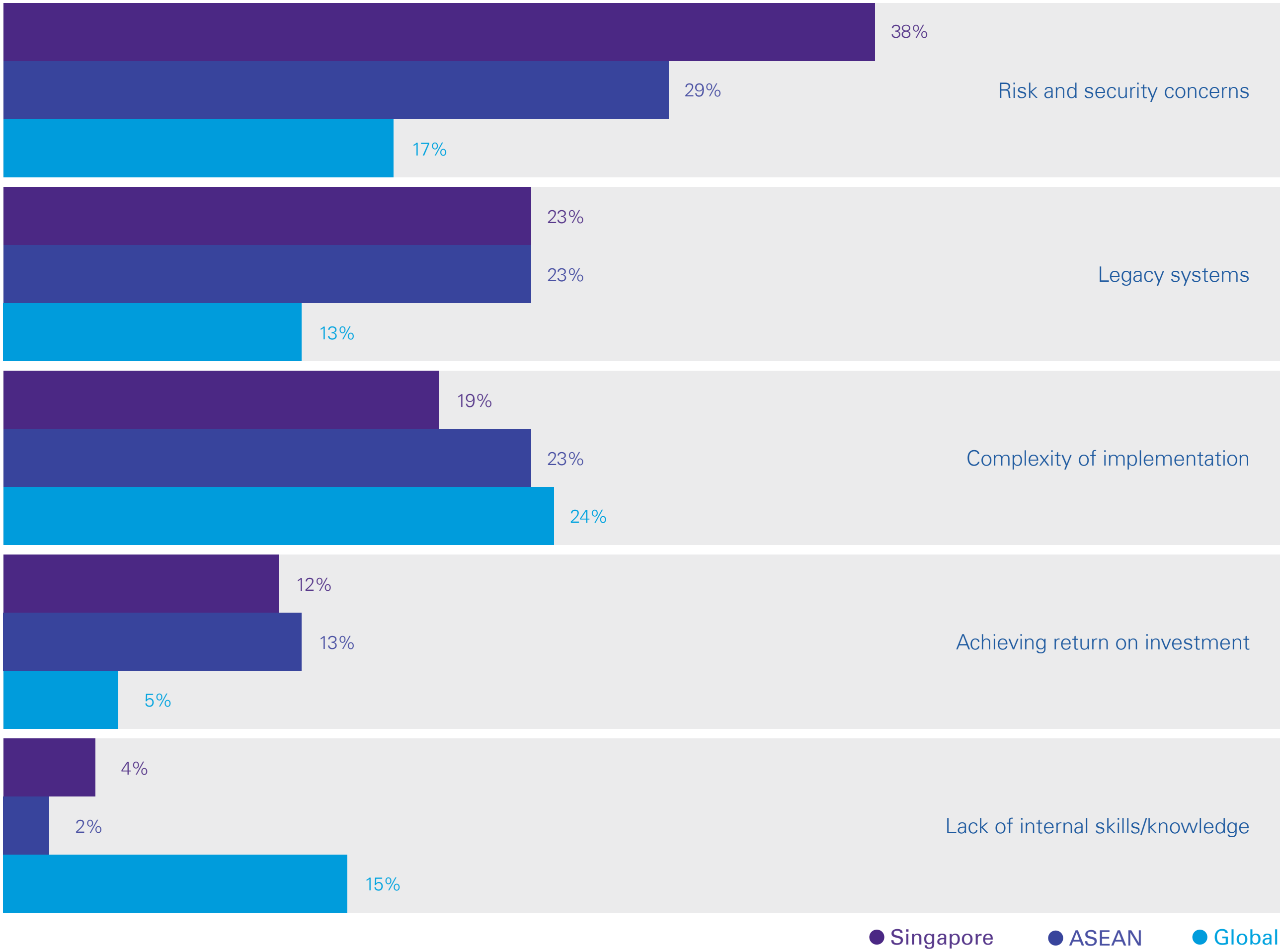
CEOs across the globe are toning down their prospects for the years ahead. Many are expressing a desire to renew their core strengths and this requires a careful balancing act among a number of seemingly competing priorities. For example, 90% of ASEAN CEOs (85% in Singapore) are unsure about how to address the concern of having to pass increased costs on to their customers due to increased inflation. But this focus on the core business does not contradict their stated desire to be disruptors.

More than half of ASEAN CEOs say that innovation in new products, services, and ways of doing business is still their main order of business. Traditional challenges of retaining customer loyalty, keeping products and services relevant, and developing existing talent while making room for a new and younger demographic will continue to be important. As a backdrop to these priorities, a majority of all CEOs surveyed in 2017 say that bottom-line growth is their primary objective for investment.

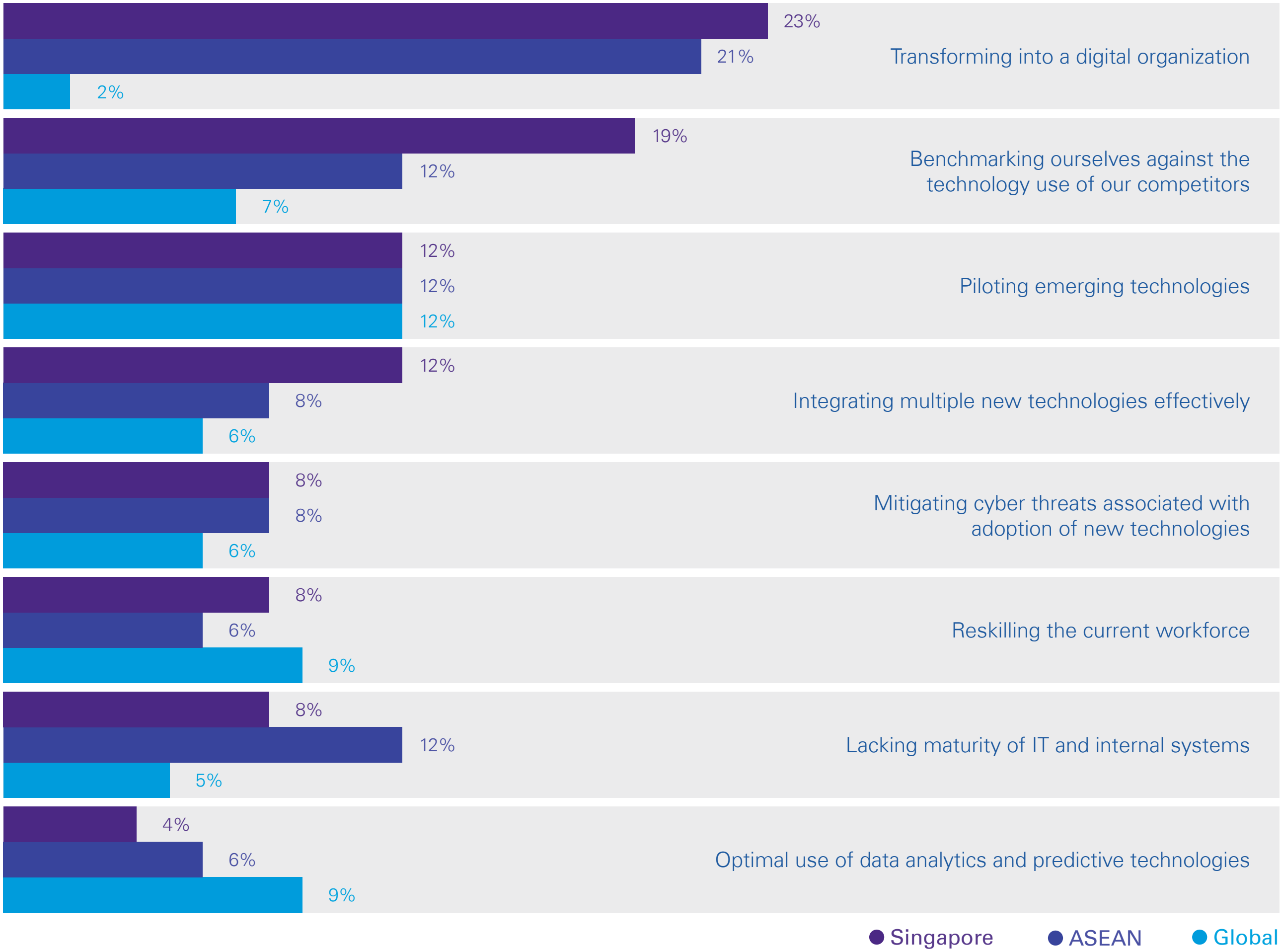
A majority of ASEAN and Singapore CEOs feel that vertically integrating with supply chain is a high priority, with companies here leaning more toward large-scale business transformation (21% more than Global).

So how do ASEAN CEOs plan to execute their strategy for growth in each of these areas? In Southeast Asia, the focus is squarely on organic growth.

CYBER RISK AND SECURITY THE BIGGEST BARRIER TO IMPLEMENTING NEW TECHNOLOGIES OVER THE NEXT 3 YEARS



THE BIGGEST TECHNOLOGY-RELATED CHALLENGES FOR CEOs OVER THE NEXT 3 YEARS



INVESTMENT PRIORITIES AND CUSTOMER CHALLENGES ON THE ROAD TO SELF-DISRUPTION

On the road to self-disruption, CEOs across ASEAN experience a host of obstacles that constrain their ability to transform, innovate, and disrupt their markets. For example, getting closer to their customer remains a preoccupation for most ASEAN CEOs.

In 2017, their biggest customer challenges are around targeting and building the business among customers and demographic groups in their home markets. To this end, we see a higher percentage of Singapore companies committed to investing in digital infrastructure (6% more than ASEAN, 8% more than global CEOs). While in ASEAN, 81% of CEOs had high investment plans on risk and governance.

CEOs in ASEAN are largely confident of their understanding of customer needs and believe that they are effectively sensing market signals. But they all acknowledge, without reservations, that ongoing success will rely on access to good quality data. Our findings are consistent with that sentiment – 67% of ASEAN CEOs say that the depth of their customer insight is hindered by a lack of quality data, expressing concern about the integrity of the data on which they are basing important business decisions. CEOs in ASEAN agree (22% more than global CEOs) that low customer data quality is affecting their customer relationships, their return on investment, and the need to represent their customers.

At the same time, businesses in ASEAN are using analytics (30% more than global CEOs) to predict skill shortage, build capabilities/processes, and sense market signals.

As a result, four categories gained more attention from ASEAN and Singapore CEOs when it came to investment objectives:

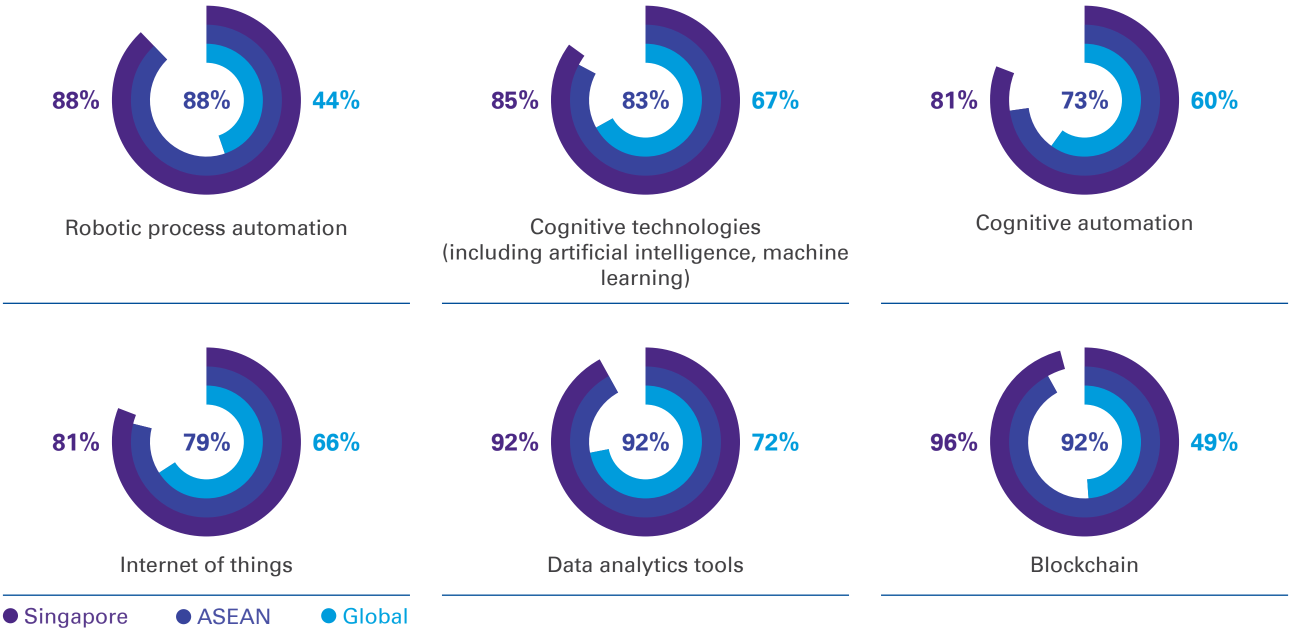
- Improving bottomline growth (87%)
- Improving customer engagement (87%)
- Strengthening organizational resilience (78%)
- Increasing productivity (73%)

In every industry that has been changed by disruption, the net effect has always been total market growth often through new market discovery for established businesses as well as for new enterprises. But in most industries, it is the new enterprises that have created the majority share of new market and new wealth. In 2017, none of the CEOs we surveyed disagreed that to build adaptable and innovative companies, they need to proactively challenge and change the assumptions that underlie their business models.

There are several keys to the successful navigation of this growth path.

- First, recognize that established players have more time at hand than they believe but it requires them to see beyond their current customers.
- Second, find new customers who are eager to be served by a disruptive phenomenon. This can happen in many ways; there is no one formula. CEO intuition, in-depth knowledge of new and existing markets, and sometimes, plain luck can all play a part.
- Finally, build an organization that is capable of serving these new customers. It is essential for companies to give up the usual methods of dealing with an established market/s and to let new customers dictate the business model by which they can be profitably served.

CEOs ARE PLANNING HIGH LEVELS OF INVESTMENT IN EMERGING TECHNOLOGIES OVER THE NEXT 3 YEARS



In conversation with KPMG in Vietnam

Warrick Cleine
Chairman and Chief Executive Officer
KPMG in Vietnam

What are the factors driving optimism or concern among CEOs in Vietnam?

Vietnam has enjoyed remarkable economic progress, especially in the three decades following the central government's implementation the 'Reform' programs. Vietnam is pursuing a more ambitious form of economic integration to achieve greater prosperity and competitiveness, through increasingly established business networks and trade relationships. Much of its recent growth has also been generated by an expanding labor force and the shift of workers from agriculture to manufacturing and services.

However, completing the integration process and building competitiveness is a long-term project. Vietnam still needs to address productivity challenges to compete against neighboring countries for market opportunities and multinational operations while managing public debt, which is more than 50% of GDP, and a lagging institutional framework.

How is disruptive technology changing the business landscape of your country?

Being among ASEAN's less developed countries, Vietnam and Cambodia have an enormous appetite for new technology. For example, mobile penetration rates in Vietnam and Cambodia went from less than 5% to more than 70% in less than a decade. Not long ago, Vietnamese customers relied on 'personal bankers' to help them with their day-to-day monetary transactions. People walked into a bank branch where they conducted basic banking with human tellers who knew their names, or managers who knew about their families and fiscal histories. With the proliferation of automated teller machines (ATMs), online banking, and other automated services customers now do their banking whenever they want, from wherever they want, making it unnecessary for anyone to set foot in a brick-and-mortar branch for anything but the most complicated of transactions. And now, most transactions can be completed online, and the rate of mobile banking is accelerating.

Mobile internet, big data, the Internet of Things (IoT), automation of knowledge work, and Cloud technology are reshaping the country's economic development and business priorities. Companies in Vietnam are adopting and planning for digital strategies, although the level of investment and integration varies across sizes of operation and sector. We estimate that the influx of new, automated technologies is likely to cause some disruption in the labor market, starting with lower and middle tiered labor within an organization. Technology will also redefine the future workforce for specific skills, such as creative thinking, innovation and problem solving where set rules and protocol may not always provide an answer or address a specific problem.

How prepared are businesses in your country when it comes to cybersecurity?

In recent years, incidents of cybercrime reported in Vietnam and Cambodia have been growing for consumers and businesses alike. Entities ranging from major aviation operators and online retailers to financial services providers have been hacked, resulting in the theft of personal data of millions of consumers. The threats of cybercrime to brand reputation is real and cybersecurity is now a key board level issue. Cybersecurity has yet to be incorporated into all types of operations and regarded as an ongoing investment and priority, especially among SMEs. Vietnam is now defining a national cybersecurity agenda based on an analysis of cyber threats and weaknesses in current policy frameworks, which may include new policies and governance structures for addressing cybercrime.

things CEOs can do to improve customer engagement

In every industry that has been changed by disruption, the net effect has always been total market growth often through new market discovery for established businesses as well as for new enterprises. But in most industries, it is the new enterprises that have created the majority share of new market and new wealth. In 2017, none of the CEOs we surveyed disagreed that to build adaptable and innovative companies, they need to proactively challenge and change the assumptions that underlie their business models.

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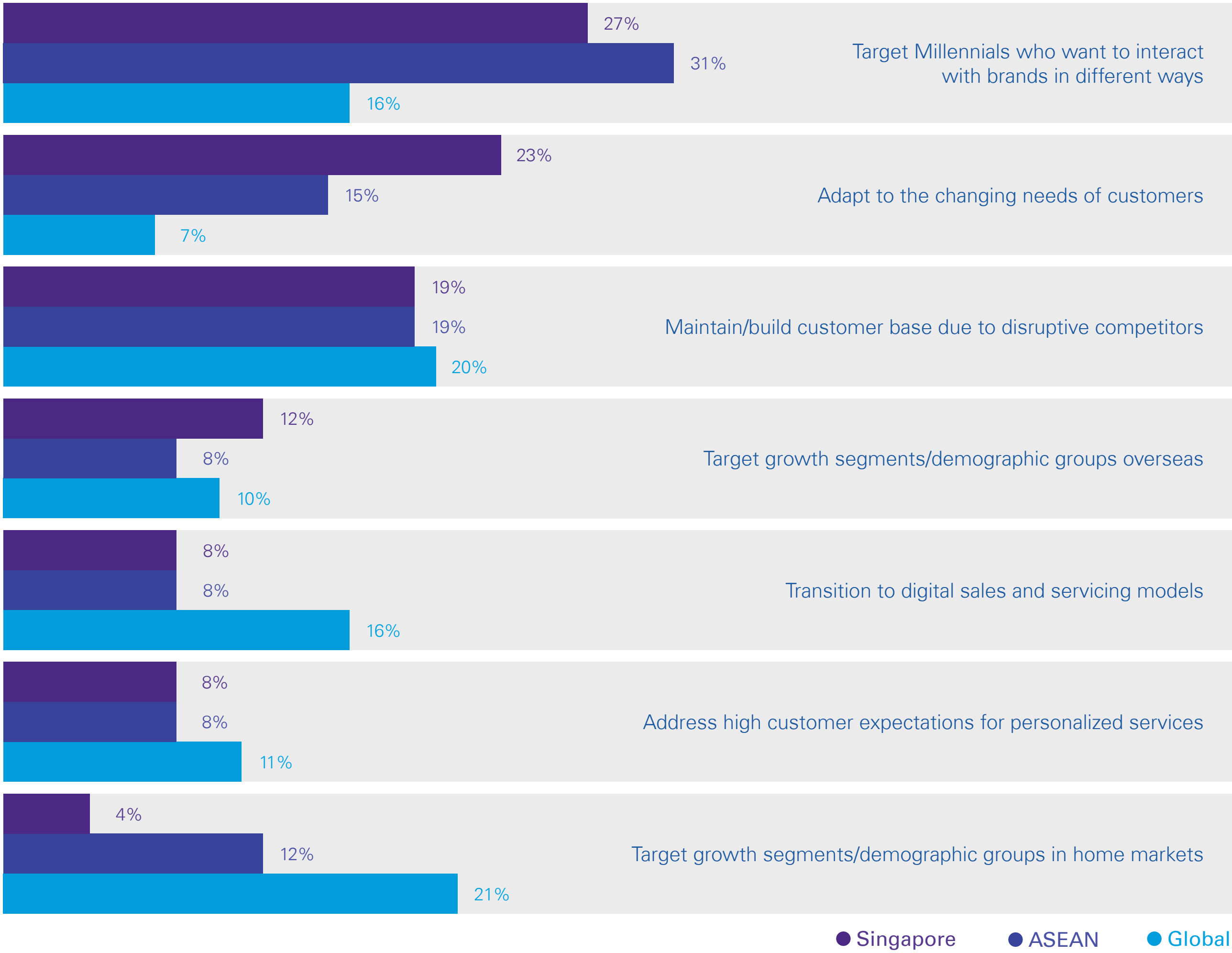
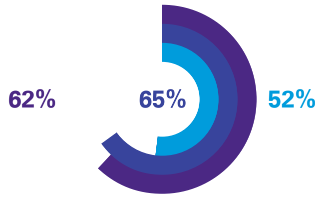
CEOs SAY THE BIGGEST CHALLENGES TO CUSTOMER RELATIONSHIPS IS THEIR INABILITY TO...

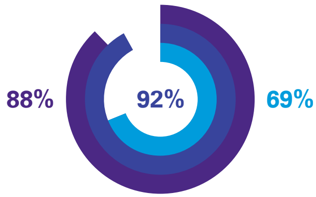


Geopolitical uncertainty and regulatory changes threatening company growth

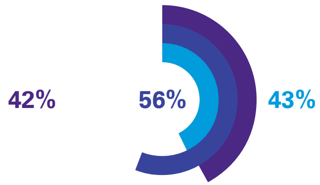
- Singapore
- ASEAN
- Global



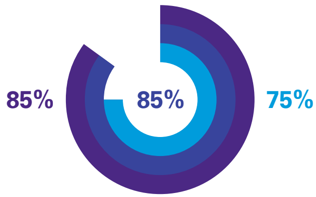
Majority of CEOs expect tax rates to increase in the next 3 years.



CEOs recruiting new skills/specialists into the management team to better understand geopolitical risk.



CEOs reassessing global footprint as a result of the changing pace of globalization and protectionism.



CEOs spending much more time on scenario planning as a result of an uncertain geopolitical climate.

How can CEOs create successful businesses here when there are surprises at every bend in the road? There is a consensus among business leaders about the need to address the risks and overarching political trends that are affecting regulation and policy. This is particularly relevant for ASEAN, which offers enormous opportunities but also poses a range of political risks for businesses and investors. An understanding of these risks, their transmission mechanisms, and how to manage them are critical to commercial success in the region.

CEOs in ASEAN are acutely aware of the new strategic/operational challenges they may face in the years ahead, following the political events of last year.

- Almost all CEOs (92%) surveyed across ASEAN are now recruiting new skills/specialists into the management team to better understand geopolitical risk. With a majority of business leaders expecting an increase in international flow of labor, ideas, capital, and trade in ASEAN, no one disagreed that this was the need of the hour.
- 65% of them indicated that the uncertainty of the current political landscape has had a greater impact on their organization than they had witnessed in many years.
- Understandably, a similar number also said that they are reassessing their global footprint as a result and planning to invest more on scenario planning as a result of the uncertain geopolitical climate.

In the 14 months between our previous CEO Outlook in 2016 and this one, the world has become a more complex place. Brexit and the US presidential election are only two examples of how world politics affected the world of business. More than half of ASEAN CEOs believe the election of President Trump will have a negative effect on the global economy, a view shared by only 24 percent globally, but have a positive effect on their company's growth. The impact of Brexit had largely neutral responses, with the only exception of 56% ASEAN CEOs viewing Britain's exit from the EU a positive effect for conducting R&D in the UK.

On the effect of regulation, 77% of ASEAN CEOs and 81% of Singapore CEOs said they were pessimistic on the chances of tax reductions, expecting marked increases over the next three years.

In our interviews, CEOs in ASEAN pointed to the sheer volume of regulatory changes witnessed in the last two years alone, including those triggered by certain geopolitical events. They are also dealing with increasing uncertainty about regulator requirements, shifting timelines, and transnational inconsistencies. These have also put pressure on the infrastructure of companies, as resources are being directed toward regulatory requirements instead of meeting business and customer needs.

In conversation with KPMG in Indonesia

Tohana Widjaja
Managing Partner
KPMG in Indonesia

There has been a lot of talk about the great growth potential for Indonesia this decade. What are the factors driving this optimism and how should companies entering the Indonesian market be prepared?

Strategically located between the Indian and Pacific Oceans, Indonesia is the largest country in Southeast Asia. It is rich in natural resources and agriculture products. With its growing young population and a large middle class with rising levels of disposable income, it also has the biggest consumption base in Southeast Asia. However, investors should properly prepare themselves before entering this culturally rich and geographically wide spread country. Appropriate knowledge about the local tax and regulatory environment as well as local culture is a key factor for success in this market.

Where are some of the growth opportunities in Indonesia?

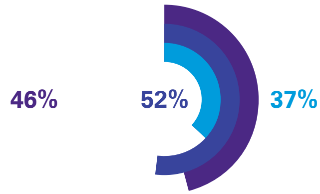
Indonesia's rising middle class and large domestic consumption base will continue to play an important role in the country's growth, with consumer-related sectors such as food and beverage, information and communication, banking/finance, insurance and retailers, benefitting most.

In major cities, the swift adoption of new technologies by a highly adaptive middle class is likely to change the pattern of consumption, thereby forcing business owners to rethink their business model and operations. In the smaller cities and rural areas, an extensive and effective distribution channel will open doors to the growing consumption base.

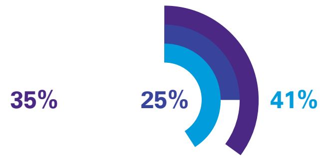
What are the 2-3 key concerns of Indonesian CEOs? What should they do to be prepared?

Indonesian CEOs (just like their global and ASEAN counterparts) are most concerned with reputational and brand risk. Second, with the rising numbers of technology innovations, data has become a valuable commodity because knowledge enables sound decisions. Data integrity on the other hand is a challenge to overcome. Third, transparency in conducting business is imperative for all companies. Building integrity and improving how the company is perceived will not be easy. CEOs will need to be agile in facing transformation and disruption. They need to be flexible enough to adapt at a moment's notice yet firm enough to still steer the wheel to reach the destination.

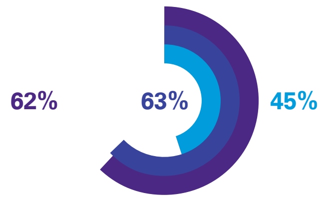
CEOs are challenging their own role



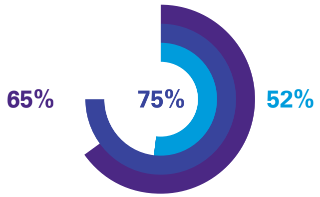
CEOs concerned about the number of additional mission-critical issues that they have not experienced previously but need to take a leadership position on.



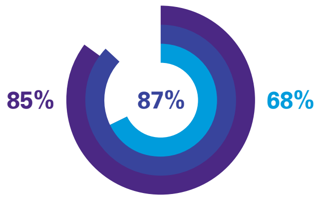
CEOs agree they don't need to understand the technical side of business in order to do the job well.



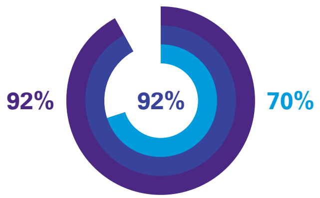
CEOs agree emotional intelligence is just as important as technical skills.



CEOs agree that understanding their own personalities and limitations have been crucial to success.



CEOs who have been on a course or studied for a qualification in the past 12 months in order to disrupt/challenge their role.



CEOs more open to new influences and new collaborations than at any other point in their career.

In our conversations with business leaders who run some of the region's largest organizations, what came up time and again is that CEOs are dealing with a number of critical business issues in which they do not have any prior experience – in business and sometimes, in life. There are certain themes common in these conversations – what does it mean to lead in a time of upheaval, how does one remain a good leader and continue to master personal challenges, and how does a CEO make all the right decisions under extreme uncertainty.

For many, disruption is as much a personal challenge as an organizational one. For example, CEOs are now considering different ways of working.

- 91% of ASEAN CEOs (compared to 70% globally) said they are more open to new influences and collaborations than at any other point in their career, acknowledging the extraordinary new challenges that today's leaders face. Almost all CEOs we spoke with felt the need to reimagine their roles and learn how to fulfill them.
- 9 out of 10 CEOs in ASEAN (8 in Singapore) have taken training or a new qualification in the last 12 months.
- 63% of CEOs in ASEAN (compared to 45% globally) acknowledged their emotional intelligence is just as important as their technical skills.
- A large majority (75%) agreed that understanding the limitations of their own personality has been crucial to their success in their position as a CEO.

● Singapore ● ASEAN ● Global

things CEOs can do to prepare for a new era of leadership

Leadership cannot be compartmentalized into essential competences. This is particularly true in today's complex economic, social and political environment. But in our conversations with CEOs, certain themes have emerged which, for many, have prompted a reexamination of fundamental assumptions about how CEOs can lead more effectively.

- Break out of the silos of a corporate business leader or a CEO in the public or social sector. CEOs today need to engage and collaborate across the commercial, governmental, and non-governmental sectors. For example, issues such as infrastructure, education, energy or the environment are too complex and interrelated to be dealt with in isolation. Being able to view the world in multiple ways enables CEOs to manage the immediacy of changes while being able to spot the inflection points that signal long-term trend breaks.

- Understand that "decision fatigue" is real. The implication of "decision fatigue", which is now backed by extensive research in psychology and neuroscience, is that trying to make too many decisions at once diminishes the ability to make good decisions entirely.

- Make lifelong learning a priority in the CEO agenda. But seamless lifelong learning needs to balance the emphasis on "hard" skills, such as technical, analytics, and data science with the soft skills such as collaboration, empathy, and purpose.

Conclusion

The future is no longer an extrapolation of the past. The large emerging economies, such as China, India, and ASEAN have overtaken Western economies as engines of global growth.

The business and leadership landscape is evolving — new technologies have given birth to new industries, new communication networks, and new markets. Global politics is changing the face of society at ever-shorter intervals. On their own, any of these developments can irrevocably affect organizations and the people who lead them. Cumulatively, these forces are creating a new context for leadership.

About the survey

The survey covers 1,261 CEOs and 11 key industry sectors (automotive, banking, infrastructure, insurance, investment management, life sciences, manufacturing, retail/consumer markets, technology, energy/utilities and telecom).

Almost half of the companies (total of 52) surveyed in ASEAN nations (Singapore, Malaysia, Indonesia, Thailand, Philippines, and Vietnam) have more than US$10 billion in annual revenue, with no responses from companies under US$500 million. The survey was conducted between 21 February and 11 August 2017.

[i] According to the inaugural Singapore Cyber Landscape report[i] released by Cybersecurity Agency of Singapore (CSA).

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