KPMG

Now or never

2016 CEO Outlook: a perspective for Brexit and beyond

Global change: a UK perspective

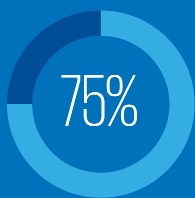
KPMG's 2016 Global CEO Outlook survey reveals that nearly half of all CEOs expect their organisation to be transformed within three years. But it is in the UK, perhaps, where this sense of imminent change is at its most intense, with our additional post-referendum survey of 100 UK CEOs showing that many businesses are cautiously planning for the impact of Brexit. Here, KPMG experts analyse these trends and provide a UK perspective to help CEOs prepare their organisation for this time of dramatic change.

How does your business compare?

KPMG's 2016 Global CEO Outlook, and recent post-referendum survey of 100 UK CEOs, provide an insight into business leaders' expectations for business growth, the challenges they face and their strategies for organisational success over the next three years. Here are some of the key highlights

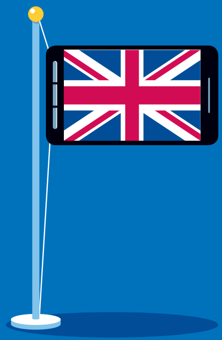
Growth & innovation

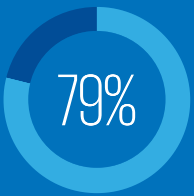
86% of UK CEOs feel confident about global economic growth prospects over the next three years.



Business confidence

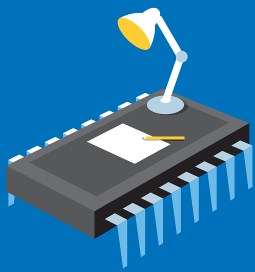
The majority of UK CEOs (75%) have maintained confidence in the wake of the Brexit vote. However, uncertainty over future trading relationships is a source of concern, with many considering moving parts of their business out of the UK.

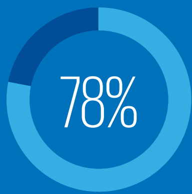




Customer connection

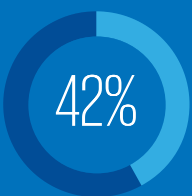
Harnessing digital technology to connect with customers is a major concern: 79% of UK CEOs surveyed say that they are not making the most of this opportunity.





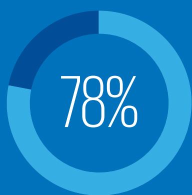
Cognitive automation

The integration of artificial intelligence into basic business processes is being considered by 78% of UK CEOs.



M&A and capital/financing

42% of UK CEOs expect to merge in the next three years, while 43% plan to sell business assets or capabilities.



Business intelligence

The quality of business data upon which to base decisions was a source of concern for 78% of UK CEOs.

Why it's now or never

CEOs are facing an extraordinary combination of change factors. Simon Collins, Chairman and Senior Partner, KPMG in the UK, explains why adapting business structures and articulating your vision is crucial to future success

Results from our *2016 Global CEO Outlook* survey, as well as our post-referendum survey of UK CEOs, show that while leaders are confident about the country's short and long term prospects, they are well aware of the tectonic changes reshaping business.

Many expect to cope with more change in the next three years than they or their predecessors experienced in the previous 50. Seasoned executives have always had to deal with events like stock market recessions, oil market shocks and political instability, but not all at the same time and, given the global integration of markets and trade, not with such a bewildering array of interrelated consequences.

And, although CEOs and their teams are yet to see how the UK government will protect business interests once Brexit negotiations begin in the second quarter of 2017, the referendum result has only served to intensify the importance of the coming years – not just for UK CEOs, but for many around the world.

Don't predict, prepare

Instead of looking for ways to respond to individual events, CEOs are transforming their organisations to make them more shock-proof – to essentially make them more agile and responsive.

And it's not just in business, either. A senior British politician told me recently that the department he ran in government had sometimes thousands of people trying to predict the shape of the next crisis – an almost impossible task. So he transformed the organisation to one in which relatively few people tried to predict the future, and a far larger group trained the organisation to be sufficiently agile and responsive to withstand a whole range of crises.

CEOs still confident

Despite all this change, what strikes me is that CEOs are always slightly more confident about their own organisation than they are about business generally – which is exactly what you want from a CEO.

Data from our post-referendum survey of UK CEOs shows that, in the short term (the next year) and the medium term (the next three years), the majority are confident about the future growth of the country, the global economy and their own businesses. But many are cautiously planning for the impact of Brexit, with a large number also taking the sensible precaution of considering relocating operations or headquarters. Moreover, more than half believe the UK's ability to do business will be hindered after leaving the EU.

So, CEOs are well aware of the changes in their operating environment – both Brexit-related and more widely – and of the need to transform their business accordingly. Almost half of the UK CEOs in the *2016 Global CEO Outlook* survey sample (44%, against a global average of 41%) anticipate that their company will be significantly transformed over the next three years, which is a far higher proportion than was seen in the 2015 survey.

New look, new partners

One of the primary motivations for transformation is to make companies more responsive, which requires executives to think differently about the scale of their organisations. From talking to CEOs and looking at the results of our surveys, I can see that leaders envisage managing an organisation made up of more external partners and providers than before. Here, a business becomes more like a number of jigsaw pieces rather than the vertically integrated, monolithic structure that companies have built over the past few decades.

It's important that management teams don't allow these transformation efforts to turn their company from one big monolith into another big monolith, as that is unlikely to spell success.

The other big issue with transformation is that it spells more change for employees who already feel overwhelmed. The most successful CEOs of the next five years will be those who believe passionately in their vision, and can articulate just as passionately how their company should get there, and how each employee can play a role. Customers, investors and employees will appreciate and reward the person who helps them navigate this new world.

Change is imminent: Are you ready?

Sector convergence is one of the fundamental forces shaping business. So don't let your corporate strategy gather dust – keep transforming, says Nicholas Griffin, Head of the KPMG Global Strategy Group, KPMG in the UK

In KPMG's *2016 Global CEO Outlook*, one theme stood out: imminent change. The outcome of the Brexit referendum only made this more significant for the UK's CEOs. A day after the referendum, a poll by KPMG showed that 80% of organisations didn't have a Brexit response committee in place.

There is a lot of work to be done to formulate a response to Brexit and, beyond that, to understand and respond to the fundamental forces that all organisations must now operate with.

The longer term: sector convergence

Chief among these forces is sector convergence, the blurring of lines that mark traditional industry boundaries. Even 10 years ago, the business world would have found it hard to comprehend that a search engine – Google – would soon be entering the automotive industry.

Technological disruption is at the heart of this, speeding up the process of turning ideas into new products, services or business models. The lifespan of business models is shrinking, as is the time to generate a return on investment.

Sector convergence also leads to concerns about customer loyalty. Technology gives customers more choice and an expectation that the players in an industry will keep improving their offer to suit them.

UK CEOs understand the need to connect with customers: 24% of those surveyed for the *2016 Global CEO Outlook* said their priority for the next three years is stronger marketing, branding and communications, against a 17% global average. For 22% of UK CEOs surveyed, technology transformation is also a high priority, far higher than the 16% global average.

Don't let strategies gather dust: transform

Sector convergence requires a more comprehensive response than better marketing and new technology. Again, UK CEOs are very aware of this, with 25% expecting their business to be transformed into a significantly different entity over the next few years.

It's not that managers must battle with change. They should encourage the whole organisation to continuously seek ways to respond to technological disruption, and the sector convergence and shifting customer loyalty it underpins. Corporate strategy should be in constant evolution: a dynamic construct, rather than a document that is periodically revisited.

From "build or buy" to "rent or collaborate"

For years, the prevailing logic has been "build or buy" as organisations develop capabilities. However, sector convergence, cloud, and data science are driving a "rent or collaborate" approach in which organisations can scale technology and workforce based on demand. The explosion of start-ups and smaller firms providing such services means we are going to see a greater number of alliances. Indeed, alliance portfolio management is going to be an important competence.

Managers should, however, go further. Innovation is the ability to forecast the future and position the organisation's financial, business and operating models. It now requires managers to think about how they evolve their market position, their propositions and their channels.

This is where the ideas of agility and innovation collide, because changes in the operating model require changes to core business processes, to operational infrastructure and technology, to governance structure and risk controls, to people and culture, and, lastly, to measures and incentives.

We are likely to see CEOs take far more active interest in the day-to-day running of these models in what are the early days of a prolonged structural shift in markets. For UK CEOs, the Brexit referendum result adds another layer of uncertainty. Volatility may encourage people to pause. But for executive teams already gearing up to transform their company it's a chance to think radically about their strategic options.

Informing a better conversation

Digital has transformed business processes and is influencing customer engagement, too. CEOs must ensure their people and processes are sufficiently agile to capitalise, says Adrian Clamp, Head of Customer Advisory, KPMG in the UK

Many UK CEOs know that making good decisions on digital technology is one of the most important tasks they face over the next few years.

In KPMG's recent post-referendum survey of UK CEOs, 80% said they were worried about their organisation keeping up with new technologies.

Only five years ago, the idea of digital seemed to require companies to act like a start-up or go out of business. But things have changed rapidly and CEOs now see digital technologies and the digitisation of their organisation as just good business.

This stops digital being seen as a promising project incubated in one part of the organisation. Instead, it informs a better conversation between a business and its customers. It should be used to engage customers and create value for them in new ways, and will ultimately require a wholesale transformation of the company.

But digital technology hasn't just up-ended corporate activity, it's changing customer behaviour, too. It's now easier for customers to compare products and services, and switch from one supplier to another, especially via a mobile device.

UK CEOs recognise this: 86% of those that participated in our post-Brexit referendum survey said they were concerned about customer loyalty, while 77% said they worry about the relevance of their products or services three years from now.

Digital disruptors

Although some CEOs are more comfortable with technology than others, all senior executives should understand the four mainstream technologies that are impacting businesses right now.

First is mobile technology. The staggering growth in mobile phone use over the past five years has dwarfed that of the personal computer. Mobile is now the preferred channel of many consumers, with business customers (consumers in their own right, of course) not far behind. These days, 80% of transactions with government are on mobile,while 70% of banking is conducted via mobile.

Next is cloud computing. Organisations can now buy computing power for a fraction of the price it used to be. Many are moving their technology estate onto the cloud because it helps them respond more quickly to change. It's more cost effective, too.

Third is social media. Social networks have grown at an exponential pace and can significantly help or harm a brand in a matter of days.

The fourth technology is data analytics. The mass of digital data that organisations and consumers create every day, and the computing power to analyse it, is revolutionising commercial activity, especially in the ability to personalise customer interactions at scale.

Understanding big data

Many executives view big data as a vast lake of information that they could gain valuable insight from if they employed the right experts. However, it's more helpful to see data as a fast-moving river outside the door. Data passes by a business every single day. So, if someone's on your website, what do they want? Who are they? What do they need?

Organisations that combine data from inside the company and outside, including social media, to provide personalised interactions will be far more likely to win the loyalty of customers, and so carve out a competitive advantage.

Digital technology touches every part of an organisation's operations and customer interactions. CEOs must ensure the whole organisation – people, processes and infrastructure – is sufficiently agile to take advantage. Multidisciplinary teams should be able to test new ideas and move on if they don't work, or scale them up if they do. And, crucially, they need to be able to do this sustainably – not as a "stretch role" but given the time and resources to make constant change a career.

Ideas to drive innovation

Shamus Rae, Partner, Head of Innovation and Investments, KPMG in the UK, describes new ways to cultivate innovation, and the three technologies that will underpin change in the business world

UK CEOs are keen to invest in growth and innovation, but should keep three things in mind as they seek a healthy return on these investments.

First, they need to lay out exactly where they think the company will be in three years. Too many organisations start these transformations without sufficient detail.

Management teams should then think about the data they'll need to understand their marketplace and differentiate themselves from competitors. Then they need to collect that data.

Finally, a CEO has to consider their management team and decide whether they have the right talent to implement the strategy.

Collaborative growth

With the amount of change that will happen over the next few years, CEOs will need a sustainable pipeline of new ideas. Traditionally, organisations have relied on internal R&D departments. Given the level of change they face, organisations will have to look beyond the permanent workforce.

To this end, CEOs are keen on collaborative growth, forming partnerships with customers, suppliers, universities and start-ups in their own industry. In our *2016 Global CEO Outlook* survey, 66% of UK CEOs say this type of collaboration is somewhat important or very important to them.

The fintech sector in London's Shoreditch, for example, is fast becoming the place where big financial services firms in nearby Canary Wharf and the City of London look to for new ideas.

Innovating in constant change

Almost half of UK CEOs surveyed for the *2016 Global CEO Outlook* expect their organisation to be significantly transformed over the next three years, a far higher proportion than was seen in 2015.

These big change management projects, coupled with the unpredictability of the business world, can dampen employee morale, so CEOs need to think hard about how to engage staff, and source and act on the best ideas. One way is to crowdsource ideas from employees on anything from a new product to making processes more efficient. When faced with bankruptcy, one hospital in the USA, for example, asked its employees for cost-saving ideas. They received so many good ideas from staff, the hospital kept running and jobs were saved.

Beyond crowdsourcing, some companies are becoming project-based organisations. Rather than a classic organisational structure, where someone works in a particular team, employees work with one group on one project and then move on to work on a completely different problem.

Technologies to watch

Finally, so much of this change in the business world is underpinned by new technology. There are three emerging technologies that CEOs should focus on: blockchain, cognitive automation, and bots.

Blockchain may be known as the technology behind Bitcoin, but it will have an impact on far more than financial services. It can help manage supply chains, track goods across national borders and manage a company's asset register, for example.

Cognitive automation can make sense of the vast amounts of big data now available to companies. IBM's Watson, for example, can look at 800 million pages of information in one second. It can take your company data, industry data and specialist data and differentiate it in a way to best suit your services.

Bots are virtual agents that help customers with basic service requests such as online meter readings. But it won't be long before business bots are sitting in the C-suite analysing market share and third party data to help drive your business strategies forward.

CEOs will benefit hugely over the next few years by ensuring their company can innovate while managing all this change, and using technology wisely to do so.

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Learn more

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CEOs are facing an extraordinary combination of change factors

Here's your strategic guide to success

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