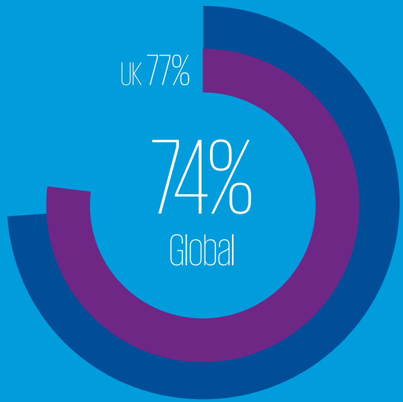
UK CEO Outlook 2017

Disrupt and grow

June 2017

Headlines from the KPMG Global CEO Outlook 2017

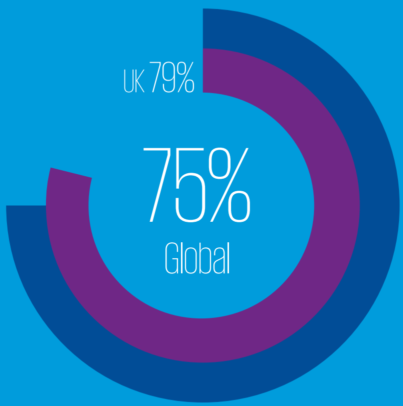
see disruption as an opportunity



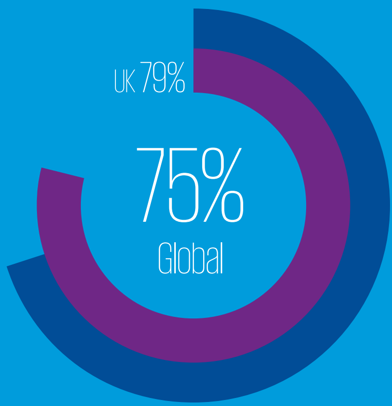
want their business to be the disrupter

say the uncertainty of today's political landscape now has greater impact

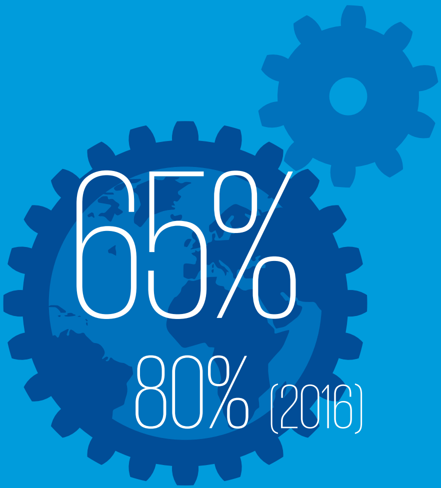
are reassessing their global footprint in line with the changing pace of globalism and protectionism



are spending more time scenario planning



are now more open to new influences and collaborations



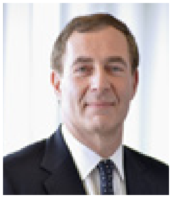
CEOs remain confident in the outlook for the global economy over the next three years, but this has dipped since 2016

US CEOs appear the most confident overall in their outlook for global economic growth in the next three years

Reputation and brand risk is now a top three factor that CEOs expect will impact their business growth over the next three years

Table of contents

Foreword



Simon Collins
Chairman and Senior Partner, KPMG in the UK

Listening to the views of CEOs is a great way to check the pulse of corporate UK: what's worrying our business leaders, how is the market changing and what are they doing about it?

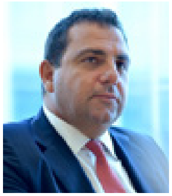
Each year, we speak to nearly 1,300 CEOs as part of the KPMG Global CEO Outlook Study, including a cohort of around 150 from the UK, who lead many of the world's largest and most complex businesses. Our 2017 report points to a complex world in which CEOs are trying to make sense of change.

Last year, they told us that transformation and cyber risk were the big opportunity and risk, but in only 12 months, we've seen a dramatic shift in their thinking.

In this report, we take a look at the headline shifts and a closer look at the issues raised by the UK's CEO community, examining how current and imminent change have impacted their outlook for the future, the factors that are highest on their agenda and those that are driving their business decisions. We also look at how CEOs are managing the topical issue of disruption.

The study gives a window into how CEOs are adapting their own roles to lead in this very real world of constant change, and adapting their businesses in order to try and stay ahead.

As I talk to CEOs, it is clear that they are markedly different to the cynical caricature sometimes painted in the public eye: remote figures focused on profit, rather than the good of their customers and broader society. My experience is that most CEOs are driven by the success of their company, their people and the impact they have on the communities they work within. There is a passion to make a positive difference.



Bill Michael
Chairman and Senior Partner Elect, KPMG in the UK

In an increasingly complex environment, CEOs need to be multi-dimensional figures, who can think beyond the bottom line. The UK has become increasingly hostile to business recently, and business leaders now need to be adept and sophisticated in protecting their brands from the resulting reputational risks.

As a CEO, the organisation you lead is more vulnerable – from social media, geopolitical change or cyber – and you have a broader set of responsibilities to shoulder.

And it feels to me as if CEOs are struggling to adapt to this new environment. In conversations with them, "disruption" is one word I hear again and again, whether that be seen as a threat or an opportunity. In reality it's not binary: it's both a threat from a cyber-attack or a customer complaint going viral, and an opportunity from a new technology or partnership. The CEO's role in these circumstances is to keep sight of what the organisation is trying to be. From a clear understanding of an organisation's purpose and value, some clarity should emerge.

But to be in that position, CEOs must be open to a new and much broader range of perspectives. For me, that means encouraging a diversity of talent to look at things through multiple lenses. And just when you think you've got it right, think again - get another perspective.

We are seeing a new kind of CEO emerging – someone that embraces disruption, uses their emotional intelligence and is sufficiently agile to respond to a changing market. This report explores these, and other characteristics that CEOs need in some combination to be successful.

As I move into my new role leading KPMG in the UK, I am keenly aware of this diverse range of challenges. I am looking forward to working with you to address the challenges and explore the opportunities in the months and years ahead.

Characteristics of a CEO

Today's CEO has to grasp a range of issues that were not previously on the boardroom agenda. From geopolitics to new technologies and cyber risk, they must understand these shifting dynamics - and then interpret their impact on their own businesses and on the wider marketplace.

With this in mind, it is not surprising that the role of the CEO has changed. And as they take more personal responsibility for these new issues, they are constantly looking to develop and learn the skills they need to manage their growing remit, to foresee the consequences of disruption and the opportunities it brings.

Although disruption is becoming the norm for many UK businesses, it is unsettling. As public and consumer trust continues to fall, the CEO must provide clarity and assurance to more stakeholders than ever before.

As the chief executive looks to do this, emotional intelligence is key – for 38% of them, this is as important as their technical skills.

The research identified three distinct CEO character types - the 'Positive Disruptor', the 'High EQ CEO' and the 'Investor CEO'. Many will identify with a blend of these - they drive their decisions and determine the culture within their respective firms, and can make one business thrive against another.

> **"The CEO community is rich with change-makers. Ambitious and dynamic, they see opportunity in disruption."**

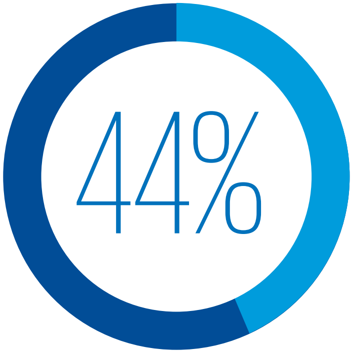
Simon Collins
Chairman and Senior Partner
KPMG in the UK

"The tenure of a CEO has significantly decreased over recent years. Gone are the days when a chief executive would lead an organisation for 30 years. Now they must constantly reinvent themselves and learn, not only through new experiences, but also through failure."

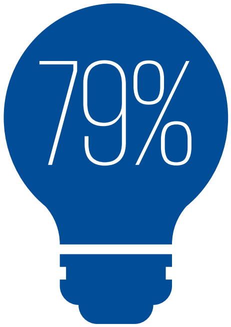
Paul Martin
Partner and Head of Retail
KPMG in the UK

"Previously, a CEO could get away with focusing the majority of their effort on just one group of stakeholders – their shareholders. Today, there is a new imperative. A CEO must consider multiple stakeholders, each of whom has the power to significantly impact the performance of their business and its future prospects. The CEOs best able to balance the competing demands of multiple stakeholders, are the ones most likely to lead their organisation to success in the future."

Alex Holt
Global Chair, Media & Telecommunications and Partner
KPMG in the UK



believe that understanding their personality and its limitations has been crucial to their success (52% globally)



have been on a course or studied for a qualification in order to disrupt their role in the past 12 months (68% globally)

Positive Disruptors have a 'care and dare' mentality. They care deeply about their business – and they dare to do things differently.

Paul Martin
Partner and Head of Retail
KPMG in the UK

Positive Disruptor

Highly ambitious
Driving efficiencies
Driven
Embracing disruptive technologies
Agile models of business transformation
Nimble
Focused
An insatiable appetite to disrupt
Investment in innovation

High EQ

Communicative
Interpret market signals
Accessible
Customer-centric
Embracing disruption with innovation
Recruiting
Engender trust
Transparent
Innovation-led transformation

Since the financial crisis, banks have been focused on rebuilding trust in their complete stakeholder group – staff, customers and regulators. It is difficult for people in banks to be proud of working in an industry that is viewed negatively, and it is up to the CEO to rebuild that confidence, engaging both their workforce and trust externally.

Michelle Hinchliffe
Partner and Head of Banking
KPMG in the UK

"Being a CEO is less about revenues and leading from the front, but more about bringing teams together and acting as a catalyst to achieve better, faster results."

Chris Stirling
Global Chair, Life Sciences and Partner
KPMG in the UK

The Investor

Financially-astute
Global operators
Multi-area focus
Embracing cyber as an opportunity
Expanding into new markets
Investing significantly
Executors

"With a great understanding of the core financials, the Investor CEO knows how to achieve the right mix from an organic and inorganic perspective. They know how much to invest in innovation at the core, while at the same time identifying and executing the best deals in the marketplace in line with the strategic plan."

Alex Holt
Global Chair, Media & Telecommunications and Partner
KPMG in the UK

The Positive Disruptor is twice as likely to invest significantly in innovation than their peers (41% vs. 22%)

High EQ CEOs are much more likely to be pursuing customer-focused transformation than their peers (63% vs. 52%)

The Investor CEO sees expansion into new geographical markets as a priority in comparison to their peers (45% vs. 19%)

The UK context

What sets the UK CEO apart from his or her foreign counterparts? In many respects they are remarkably similar, with over 40 of the bosses running FTSE100 firms coming from outside the UK. Yet it is hard to think of chief executives in many other major economies who have had to deal with the same level of uncertainty the British company chief executive has had to put up with in recent times. That has bred resilience in UK CEOs.

June's surprise election result and the uncertainty surrounding the shape and agenda of the new government, has added to the sense that geopolitics has firmly elbowed its way into the CEO's agenda. The obvious challenge has, and continues to be, Brexit – both its importance for virtually every organisation in Britain, and its sheer complexity. Chief executives in the UK then have to deal with second-order effects: the weakening of the pound after the EU referendum and the subsequent rise in input costs to near-record rates, market volatility, regulatory uncertainty, or the risk of losing their foreign-born workforce.

This vacuum of certainty, where settled government policy and benign economic conditions once stood, is merely the broader context for the UK CEO. And that is notwithstanding on-going scrutiny from the all-important investor community, who analyse these leaders' every corporate move, gauging their success on response to (and anticipation of) five core areas that apply to every sector:

- Talent and people
- Innovation
- Regulation
- Customer-centricity
- Risk and trust

"Businesses are keen to engage with the government and broader society. This willingness is there, but there is still a hangover from past misdemeanours, and I don't think that feeling is completely reciprocated right now. That is a huge frustration to CEOs that I talk to."

Simon Collins
Chairman and Senior Partner
KPMG in the UK

"Many of the big global companies are looking to disrupt themselves and have set up venture arms to help them think and operate differently."

Liz Claydon
Partner and Head of
Consumer Markets
KPMG in the UK

KPMG

Karen Briggs
Partner and Head of Brexit
KPMG in the UK

Given they have had to go on a geopolitics crash course lately, you might think UK CEOs are more anxious about the issue than their international peers. So why does the survey suggest the opposite? Frankly, I think it has a lot to do with battle-hardened familiarity.

Few of us, CEO or not, relish uncertainty. Being concerned doesn't mean you have to be nervous: leaders accept they cannot control everything and focus on where they can influence events, and even find opportunities emerging from disruption.

That's why I am so pleased to see UK CEOs ahead of the international pack when it comes to scenario planning. The challenges UK businesses face in less than two years are immense, complex and remain unknown in many respects. That's why early impact assessments and scenario planning allow CEOs to stride towards the future with that bit more confidence. Corporate Britain has a lot further to go however - I still sense that some CEOs have yet to grasp the full, multi-dimensional implications of Brexit.

More disruptor type CEOs expect a positive effect from Brexit on conducting R&D in the UK (43% vs. 29% of wider UK sample)

of UK CEOs now spend more time scenario planning

Talent and people

Investment shortfall threatens progress

If the business environment is changing in the UK, then people inside business need to change just as quickly. On the basis of the survey, UK CEOs seem to realise the urgency in equipping themselves with the right tools, and their organisations with the right people. But only up to a point.

First, the good news. UK CEOs confirmed they were investing time to improve their own knowledge of the new pressures facing their business, such as cyber security. Almost 80% had attended a course within the last 12 months to help them meet the challenges of their role.

UK CEOs also anticipate spending nearly double on recruiting over the next three years. They are placing more emphasis on the millennial generation, and the different way in which they will impact on (and interact with) the workplace.

Encouragingly, more UK CEOs seem to understand the need to demonstrate high emotional intelligence. Almost four in five said creating an empathetic organisation and generating higher earnings worked hand in hand, although they were some way behind their Chinese counterparts, 95% of whom saw that connection.

Despite these areas of progress, leaders must realise that investment in people should extend to the entire organisation if disruptive forces are to be managed. 42% stated they had no plans to invest in new workforce training over the next three years, except to maintain current business needs. Closing the book on new staff training while future growth is uncertain may seem sensible, but it risks jeopardising future opportunities.

And while trust, culture and values are high on the UK CEO agenda, they are not as high as in other countries.

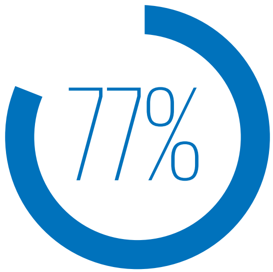
Diversity and culture are not only important within an organisation - a growing number of clients assess suppliers on their practices at the earliest stage of the tender process. It is clear from our discussions with CEOs that driving a consistent culture is easier in some sectors than others.

"Disruptive forces like Brexit, or advancements in technology, give companies a chance to rethink the workforce, and a way to approach developments such as the Apprenticeship Levy in a new light."

Karen Briggs
Partner and Head of Brexit
KPMG in the UK

"Companies will need to think differently and act differently to stay relevant. We are seeing many companies taking a top down approach, by undertaking major leadership development programmes across their organisations as well as grassroots training. As the workforce changes, the leaders must evolve with them."

Andy Cox
Partner and Head of Energy, KPMG in the UK



Recruitment will be CEOs' top area of investment over the next three years, with 77% saying they will invest highly in people (75% global)

Innovation

CEOs are more farsighted, but are they investing enough?

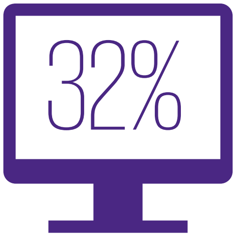
Are UK CEOs more farsighted in assessing threats? According to the survey they are twice as likely to see new market entrants as a bigger disruptive threat to their business model than existing competitors. Perhaps that is why they are increasingly drawn to start-ups as a source of insight and partnership opportunities.

While most CEOs do not expect new technological innovations to disrupt their sector in the next three years, they are assessing recent advances such as artificial intelligence and understanding how best to use these within their businesses. CEOs say they will continue to invest highly in innovations such as cognitive technologies in the future, though for the moment at least, most anticipate a headcount increase across middle management.

As UK CEOs invested in data analytics over the past year, it is clear the need for robust data is greater than ever in their efforts to stay competitive. But they are not doing all they can to embrace technology - as many as one in four UK CEOs say they're concerned they are not making the most of digital means to connect with their customers as effectively as possible.

Some sectors have been slower to adapt to disruption. For example, lower investment in innovation and in people has meant that the construction industry has been one of the last to embrace the technological revolution. And in lower-margin sectors such as retail, the challenge for CEOs is to prioritise the advances that will really help them compete with disruptors, and to accept that there will be areas in which they aim to match, rather than better their peers.

of High EQ CEOs are pursuing innovation-led transformation as a route to growth (vs. 52% of the rest of the sample)



of UK CEOs are worried about emerging technology risk, making this a top three concern after operational and brand/reputational risk

"The disruptor is most prevalent within the technology space. Due to the fast pace of the sector, they are less focused on empathy and emotion, but most concerned that customers like their product because it is innovative and the price is right."

Tudor Aw
Partner and Head of Technology
KPMG in the UK

"There are real concerns in the investment management and insurance sectors that new technology will leave the industry behind, and that new entrants have the innovative edge, unencumbered by the legacy systems and poor data that established players must wrestle with."

Phil Smart
Partner and Head of Insurance & Investment Management
KPMG in the UK

Regulation

Clearing a higher hurdle

UK businesses are used to the increasing burden of regulation. Some may hope Britain's departure from the EU and the new Trump administration may herald reduced regulation, but UK CEOs largely accept greater regulation is here to stay. The survey shows they are less concerned than other CEOs globally that regulation will impact the growth of their businesses.

With sectors such as financial services being disrupted by new entrants who might be less regulated, the need to innovate through this disruption is greater than ever. Even in the more lightly regulated industries, things are gathering pace.

In retail, UK CEOs are concerned they are not doing enough to be regulation-ready for the EU's forthcoming General Data Protection Regulation (GDPR) – despite increased online interaction with consumers. Within infrastructure, CEOs report clients driving best practice and forcing these behaviours down the supply chain.

As the markets shift, the regulators shift to retain oversight. When the utilities industry was first regulated, the focus was setting the right price for consumers. Fast-forward three decades and the regulators now play an active role in blocking monopolies and driving customer service.

As regulators deepen their oversight, some CEOs worry that red tape is being rolled out to reinstate broken trust in the government and the media. Within organisations themselves, chief executives are frustrated at the mounting pressure facing their in-house governance teams – pressure that can come at the price of strategic opportunity.

"Leading up to the crisis, financial services lost sight of its purpose, and part of its rehabilitation has been finding this again in a changing world. Having clarity around why you exist and what you do is a key starting point for businesses, and critical to the culture they want to engender."

Bill Michael
Chairman and Senior Partner Elect
KPMG in the UK

"In the heavily regulated pharmaceutical and medical advisory industry, CEOs are constantly mindful of regulation. They need to ensure their companies have the right culture in place and the necessary layers of compliance to keep patients, customers and their companies safe."

Chris Stirling
Global Chair, Life Sciences and Partner
KPMG in the UK

of UK CEOs invested highly in regulation over the last year, and this is set to continue

of UK CEOs are currently pursuing regulatory-induced transformation (vs. 40% global)

Customer-centricity

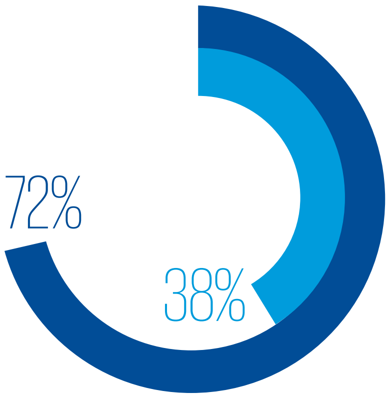
Aligning the CEO and the business to serve

UK CEOs rightly identify a growing need to get closer to their customers, and much of their investment aims to do exactly that. For example, nearly half of those we spoke to have aligned their middle and back-office processes to create a more customer-centric front office. They perhaps realise that organisations which poorly serve their customers run a far greater risk of having disruptors with the technology to transform customer experience, nipping at their heels.

Take retail, a sector that was traditionally led by CEOs with a ‘command and control’ approach. As the industry has evolved and the organisation has had to get closer to the consumer and to champion their needs, so too have organisations needed a more collaborative leader with a ‘walk the floor’ mentality. In sectors that have traditionally suffered from lower levels of customer service, a CEO’s ability to demonstrate higher emotional intelligence can transform the customer experience.

Elsewhere, many firms who employ subcontractors have introduced shared incentive schemes, to drive quality at every stage of the product and customer journey.

As brand and customer experience prompt the emotional connection that underpins so many of our purchasing decisions, those businesses that can match consistently high service with a good handle on corporate social responsibility, have a clear competitive advantage in an increasingly scrutinised marketplace. The question CEOs must ask themselves is “how can I employ brand as a strategic tool?”



72% of UK CEOs say they can confidently articulate how they create value for customers

38% believe their employees can articulate their value proposition to the customer in the same clear way

> **“There has been a realisation of the importance of an organisation’s purpose and values, but both are meaningless unless the CEO is really leading from the front. Businesses understand the relevance of this in determining their success and how they attract people – the younger generations coming into the workforce are seeking organisations that lead with this agenda. And that can only start with the CEO.”**

Andy Cox
Partner and Head of Energy
KPMG in the UK

> **“Looking at the utilities sector, regulators are increasingly frustrated with certain parts of the industry, that there isn’t enough customer focus, and so are ‘turning the thumbscrews’ on those businesses to become more customer facing.”**

Richard Threlfall
Partner and Head of Infrastructure, Building & Construction
KPMG in the UK

Risk and trust

Fortifying defences on a new frontline

With reputational risk coming from multiple angles, the CEO needs to work harder than ever to defend the brand on their watch. As they repeatedly dust themselves down from economic downturn, market volatility or PR scrapes, it is no wonder that for 71% of UK CEOs, building trust among external stakeholders has risen to become a top-three business priority.

Cyber resilience is a key concern for UK CEOs, and many say that human capital is their greatest challenge when tackling this issue within their organisation. However, while the majority are comfortable that managing cyber risk is part of their leadership role, some are concerned that they need to do more to combat cyber fatigue within their organisation.

If UK CEOs polled in this survey are right, then the public's trust in UK business continues to fall. How can they turn this perception around? Part of CEOs' response must be to demonstrate they themselves define success as being far more than just generating returns. Protecting the brand today is about showing they have taken on a broader responsibility for their customers, employees, society and the environment.

59%

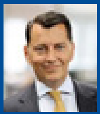
of UK CEOs believe they are fully prepared for a cyber event – a significant increase on 19% in 2016

"Government and public scepticism towards business means that reputational damage can have a much larger effect today than it did in the past, impacting the market value of the company and the sustainability of the business. Boards are much more sensitive to the attitudes of all their stakeholders: customers, media, analysts, not just shareholders."

Howard Coates
Director
KPMG Makinson Cowell

"With cyber, you will never be safe. It's always going to be a red flashing light. We wouldn't have a board meeting where it isn't discussed; there wouldn't be an executive meeting where it isn't discussed. We are paranoid – and rightly so."

Mark Wilson
Group CEO, Aviva PLC



Nicholas Griffin
Global Head, Global Strategy Group and Partner
KPMG in the UK

The combination of sustained geopolitical volatility, sector convergence and new technologies, will continue to disrupt markets and organisational models for the foreseeable future. Growth and competitiveness are under attack for the vast majority of organisations. CEOs should be asking 'how do we disrupt our own model before someone else does it to us?'

Diversity of ideas will be key to successfully navigating a course. Different backgrounds help people to imagine different futures, and to plan alternative scenarios that challenge current practice. That also means going outside your organisation and industry to complement in-house capabilities and thinking.

In conclusion

Your challenge might be cyber, Brexit, technology change or recruiting millennials - we are all grappling with some form of disruption right now. The good news is that more than two thirds of UK CEOs in the survey are embracing the new environment as an opportunity.

We believe there are clear steps that today's CEO can take to respond to the changing business environment, and throughout this report, KPMG experts have offered perspectives on the new challenges and how CEOs can tackle them. Do you and your organisation have the necessary tools and insight to thrive in this more complex environment?

– Can you clearly articulate what your organisation's value and purpose is today, and will be in five years' time?

– Are you drawing on a diverse range of perspectives to both identify disruptive forces and help deal with them?

– Do you have the right balance between leadership development and workforce training?

– Are you sufficiently focused on innovation to meet the challenge from new disruptors?

– Have you fortified your organisation against new threats and planned possible responses to our uncertain geopolitical environment?

For example, KPMG is working with global organisations across several sectors to understand the impact of technological innovation and changing consumer expectations in the mobility ecosystem. From automotive engineers to finance directors, the team has helped clients rethink their business models, understand the marketplace and position themselves to take advantage of the opportunities.

Finding those opportunities takes insight, experience and challenge. The debate is how to disrupt and grow – we welcome the opportunity to have that conversation with you.

"Our ecosystem is changing, and you have to step back to understand it, before you embrace it: always seek a different perspective, a fresh opinion, a new idea. And just when you think you've got it right, think again. Get another perspective."

Bill Michael
Chairman and Senior Partner Elect
KPMG in the UK

kpmg.com/uk