# Leading from the centre

## 2018 Global CEO Outlook: UK

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#CEOoutlook

# Foreword

For our fourth annual Global CEO Outlook report, we reached out to 1,300 CEOs of large companies around the world, including more than 150 based here in the UK.

The results from these conversations showed just what a dynamic and complex set of issues chief executives face in 2018. The findings also exposed some important differences in the ways UK CEOs are approaching the challenges and opportunities ahead.

Broadly, it seems the mood among CEOs around the world is positive. Two thirds are confident about the outlook for the global economy, even more are backing their own companies' growth prospects and the vast majority are embracing the opportunities brought by disruption rather than fearing it.

But their optimism is tempered this year by some significant headwinds. These include customers' rapidly evolving expectations, the threat from cyber, and geopolitical volatility. The latter is now hitting the boardroom with force and over half cite a 'return to territorialism' as the No.1 threat to growth.

For CEOs in the UK, this fear of greater political volatility and a less open economic order is even more pronounced – perhaps unsurprisingly as Brexit approaches – and it continues to weigh on their confidence. As a result, revenue forecasts given by UK CEOs for the next three years follow this more bearish trend.

These pressures aren't likely to ease any time soon and, in any case, there is little CEOs can do to alter these forces. Instead, they are rightly focusing on growth.

What comes out of this survey for me, and especially in the UK numbers, is the way CEOs are taking greater personal accountability. For example, two-thirds say they are personally prepared to lead their organisation through radical transformation despite pressure from boards to deliver immediate results. They are pursuing partnerships to make themselves more agile. And they are personally leading the organisations' digital charge.

The most successful CEOs are doing this by being embedded at the heart of their organisations: leading from the centre. From here the chief executive can be in touch with every part of the organisation and show greater agility, resourcefulness and realism – maximising the chances of success in the transformation journey ahead.

Our thanks to all the CEOs who gave their time and spoke so candidly about the issues they face. I look forward to continuing the conversation with you.

**Bill Michael**
**Chairman, KPMG in the UK**

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# Key findings

## Growth headwinds

### The strategic issues CEOs face in the pursuit of growth

— **Geopolitics hits the boardroom**
**55%** of global CEOs cite ‘a return to territorialism’ as their number one threat to growth

**64%** in the UK

— **Cyber certainty**
**49%** of global CEOs say that becoming the victim of a cyber-attack is a case of “when”, not “if”

**39%** in the UK

— **Changing customer expectations**
**25%** of global CEOs believe they are not meeting customer expectations of a personalised experience

**30%** in the UK

## Realistic growth

### Optimism tempered by pragmatism

— **Optimistic macro-economic outlook**
**67%** of global CEOs are confident in the global economy and 74% have confidence in their domestic economies

UK CEOs are more confident about the global economic outlook (77%) but less optimistic about their home market (65%)

— **A healthy dose of pragmatism**
**55%** of global CEOs predict cautious revenue growth of less than 2%

This was **61%** in the UK. Despite that, more UK CEOs are hiring new skills for the future (also 61% versus 48% globally)

## Digital gets personal

**CEOs take personal ownership of driving digital transformation and trust**

- **Owning transformation**
  **71%** of global CEOs are personally ready to lead a radical organisational transformation

  **67%** in the UK

- **CEO as data protector**
  **59%** of global CEOs see protecting customer data as a critical personal responsibility

  **40%** in the UK

- **Unrealistic expectations**
  **51%** of global CEOs feel their board has unreasonable expectations of ROI from digital transformation

  **72%** in the UK

- **AI seen to create more jobs than it eliminates**
  **62%** of global CEOs expect AI to create more jobs than it destroys

  **71%** in the UK

## Instinct over data

**CEOs say agility and intuition are key to turning digital disruption into opportunity**

- **Digital disruption as an opportunity**
  **95%** of both global and UK CEOs see disruption as more of an opportunity than a threat, 30 percentage points higher than in 2017

- **Agility is key**
  **59%** of global CEOs say agility is the new currency of business

  **79%** in the UK

- **Intuition over data**
  **67%** of global and UK CEOs have put their own intuition over data driven insights in the past three years

# Growth headwinds

> Geopolitical changes are forcing companies to rethink their business models.
>
> **Sanjay Thakkar**
> Head of Deal Advisory
> KPMG in the UK

In our 2017 Global CEO Outlook, we found chief executives excited about the future: they saw technology-driven change as an opportunity to disrupt their business. That optimism continues in 2018, with CEOs showing faith in the economic environment, both nationally and globally, to grow their business.

However, CEOs' optimism is tempered by greater anxiety about existential threats. They are having to manage their exposure to three strong headwinds: geopolitical volatility, cyber security risk, and changing customer expectations.

## Geopolitics hits the boardroom

After many years of widespread international consensus on globalisation, the potential withdrawal from trade agreements by some developed countries, the UK's decision to exit the EU and the proposed application of tariffs by the US and China show that barriers to an open global economic order are now on the rise.

For **Dan Schulman, CEO of electronic payments company PayPal**, this return to more of a protectionist environment compels business leaders to respond. "During these times of profound political and economic change, business leaders cannot sit on the sidelines and watch," he says. "We need to be a force for change, and draw on our missions and our values to make a difference – and we need to partner across the public and private sectors to address the economic pain points."

In fact, CEOs rank a return to 'territorialism' as their number one risk to growth in 2018. The sentiment is particularly pronounced in the UK, where 64% of CEOs identified it as their biggest worry regarding growth. The result represents a stark change from 2017 when operational risk was ranked as the top threat, yet this ranks as only their sixth greatest concern this year.

### Chart 1: Threats to growth: the risk landscape

| Rank | Global CEOs | Rank | UK CEOs |
|---|---|---|---|
| 1 | Return to territorialism | 1 | Return to territorialism |
| 2 | Cyber security risk | 2 | Environmental/climate change risk |
| 3 | Emerging/disruptive technology risk | 3 | Emerging/disruptive technology risk |
| 4 | Environmental/climate change risk | 4 | Cyber security risk |
| 5 | Operational risk | 5 | Brand risk |

Source: 2018 Global CEO Outlook, KPMG International

"We need to be a force for change, and draw on our missions and our values to make a difference."

**Dan Schulman**
CEO
PayPal

For **Ken Allen, CEO of logistics company DHL Express**, it is about being prepared for political events while remaining impartial. "We try to be very non-political," he says. "People have decided on Brexit – now, our job is to understand what the new rules and regulations are. We need to be right on top of it and prepared to move as soon as those new things are put in place."

Sanjay Thakkar, Head of Deal Advisory for KPMG in the UK says geopolitics is already reshaping discussion in the boardroom: "Geopolitical changes are forcing companies to rethink their business models," he says. "Take Brexit, which is acting as an accelerant to challenge the way we do business, where we do business, how we do business."

## CEOs play a critical role in tax risk

A renewed focus on national tax policies is one significant impact of an increasingly closed approach to trade. As they manage the implications of political shifts and changes, CEOs also need to be attuned to how public sentiment about corporate tax behaviour is changing. "If you're a global business, you need to understand how societal expectations are developing in different countries, and also try to look forward because tax risk has a long tail," says Jane McCormick, KPMG's Global Head of Tax.

"You have to anticipate how society will be thinking in the future. You also have to find a way of engaging in the discussion about the formulation of policy with government. At the moment, the voice of business is not being heard in that discussion."

When we asked CEOs who they thought was responsible for oversight of tax risk, 46% named the CFO, 29% the chair of the audit committee and 25% laid responsibility at their own door.

While CEOs will of course remain heavily reliant on their organisations' specialists to monitor tax risk, the perceived correlation between tax and reputational risk means that they will need to take more responsibility in the future.

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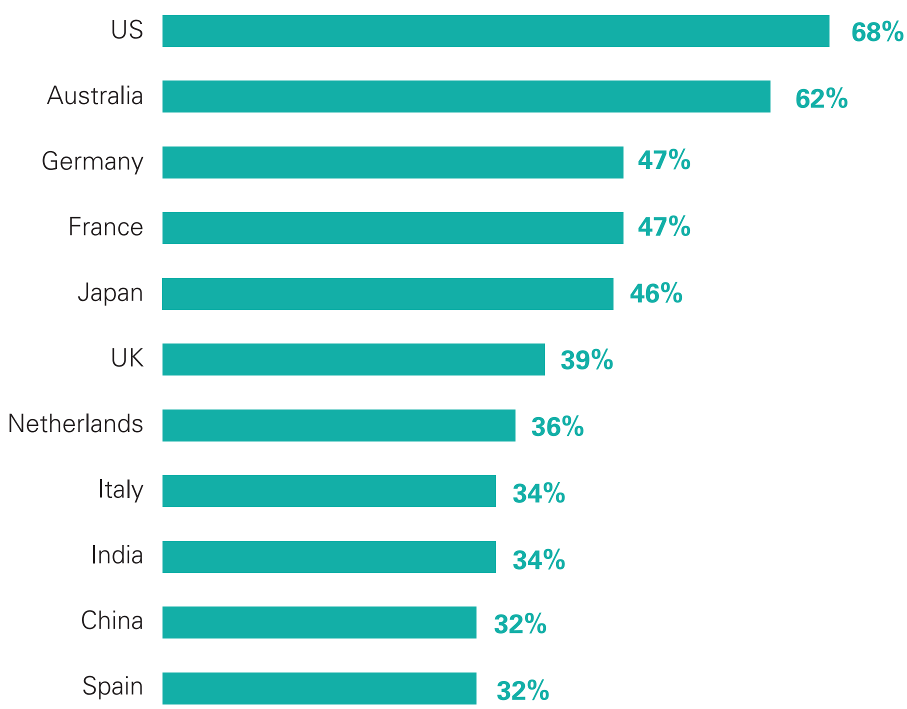
**Ken Allen**
CEO
DHL Express

Digital innovation might offer greater connectivity, but it also brings increased vulnerability.

**Chart 2: Proportion who agree that "a cyber attack is now a question of 'when' not 'if'" (by country)**




Source: 2018 Global CEO Outlook, KPMG International

## Cyber certainty

Digital innovation might offer greater connectivity, but it also brings increased vulnerability. Half of all CEOs (49%) say that a cyber attack is now just a case of 'when', rather than 'if', although UK CEOs seem less worried with a more modest 39% agreeing that an attack is inevitable.

For Bia Bedri, Partner, KPMG in the UK's Cyber Security practice, the challenge of cyber security will only increase as businesses innovate and embrace new technologies. "The reality is that it is very difficult to be 'fully' prepared for a cyber event. In part, this is because the nature of the threat and the risk vectors are continuously evolving and cyber attackers are constantly adapting.

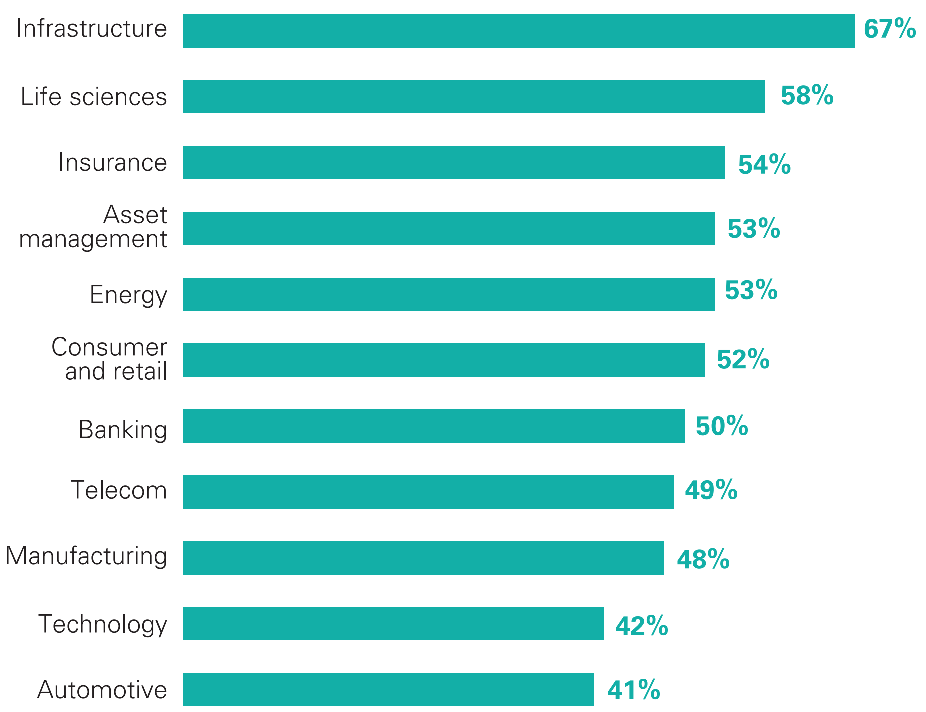
"At the same time, the introduction, development and adoption of new technologies, business models and supply chain also lead to new and unexpected cyber risks. A robust cyber strategy, education and investment to embed agile and sustainable capabilities across the business can equip you to manage innovation, new technologies and changing cyber risks - security is integral to your business and not an add-on."

There is an apparent paradox among UK CEOs on cyber: a much higher proportion of CEOs in the UK believe a strong cyber strategy is critical to engendering trust (74% versus 55% globally). Yet not only do they think an attack is less likely, they are also less prepared to deal with it than they were last year, or than their global peers are today (39% of UK CEOs say they are well-prepared for a cyber attack this year versus 59% who said they were fully prepared last year, and compared to 51% of global CEOs today).

They are also less confident that their organisations could identify new cyber threats (41% of UK CEOs versus 60% globally).

Only 39 percent of UK CEOs say they are well-prepared for a cyber attack compared to 51 percent globally.

### Chart 3: How well prepared is your sector for a cyber attack? (global results)




Source: 2018 Global CEO Outlook, KPMG International

## The digital economy adds complexity and opportunity to tax

Digitisation infiltrates all aspects of the way we do business today and tax is no exception as policymakers grapple with how to square the complexities of the digital economy with traditional ways of taxing business.

"The digital economy requires us to build a new normal around how we tax complex international businesses," says Michelle Quest, Head of Tax, Pensions and Legal Services at KPMG in the UK. "It challenges traditional views of how and where value is created as well as how to quantify it and it will take time to build an international consensus on how we tax new business models."

At the same time, technology is changing tax reporting, both for finance teams and tax authorities. Over time, digitisation should help taxpayers make sure they are compliant around the globe. Quest sees these challenges as two sides of the same coin: "Boards need a clear understanding of how the digital economy affects their business model and alters the fundamental value of their business. And technology will also change how businesses report for tax. Businesses need to embrace these developments and ensure they are managing the potential risks as well as maximising the opportunities that digital provides."

## Changing customer expectations

To drive long-term growth, organisations need to appeal to future consumers and recognise that customers now demand end-to-end services, delivered in a connected way.

For **Hikmet Ersek, CEO of Western Union** it is about listening to the voice of the customer and adapting technology to meet their needs. "I think the trick of being successful in innovation is being successful in technology. It's not sitting in the corner office having an idea about technology. It's really about listening to the customer and adapting that technology to their needs, you need to listen to the voice of the customer to be successful."

According to the survey, 25% of global CEOs believe they are not meeting customer expectations of a personalised experience. In the UK, that proportion is 30%. Furthermore, 44% of UK CEOs say the investments they have made in trying to personalise the customer experience have not delivered the growth benefits they

"I think the trick of being successful in innovation is being successful in technology."

**Hikmet Ersek**
CEO
Western Union

were hoping for. This compared to 29% of global CEOs.

Adrian Clamp, who heads KPMG's Customer Advisory practice in the UK, says the product, the pricing and the delivery schedule all have to be personalised to the customer. "That's what can then deliver a return on investment."

Today a customer will have a positive experience online with one retailer and expect the same smooth interaction with their travel agent, bank or insurer afterwards, and doing that in a way that is personalised requires data, says Clamp.

"My advice is to invest in data and analytics that tell you about the motivations, life stages, interests and behaviours of customers. Put insight inside the innovation of new products and services. Use it to determine how to personalise experience".

Millennials – born in the 1980s, 1990s and early 2000s – are the key demographic with changing expectations. They have significant spending power and are engaging with organisations and brands in new ways. "Millennials tend to show much less brand loyalty and shop around," says Clamp." They don't trust big brands as much as previous generations but instead seek social proof points. They look for influencers."

It appears, from the survey, that many CEOs are concerned their businesses are not keeping up with this demand. Asked about the key challenges of meeting Millennials' needs, 45% of global CEOs say their organisation struggles to understand how the needs of this generation differ from those of older customers. In the UK that proportion rises to 48%.

## Taking a multi-generational approach

As important as the Millennial cohort is becoming, business also needs to anticipate the different demands of all their customers.

"Naturally stage of life and income levels are primary factors in driving both online and offline shopping habits," says Liz Claydon, Head of Consumer Markets at KPMG in the UK. "Generation X consumers, many of whom are more established in their careers and may be building homes, are likely buying more consumer goods than the younger Millennials. What's more a substantial proportion of wealth is concentrated in the older generations which means Baby Boomers have more disposable income than their younger counterparts"

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> **Adrian Clamp**
> Head of Customer Advisory
> KPMG in the UK

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# Realistic growth

“We’ve seen the confidence of UK CEOs decline since 2016 and that’s likely to be related to uncertainty around our future relationship with Europe.”

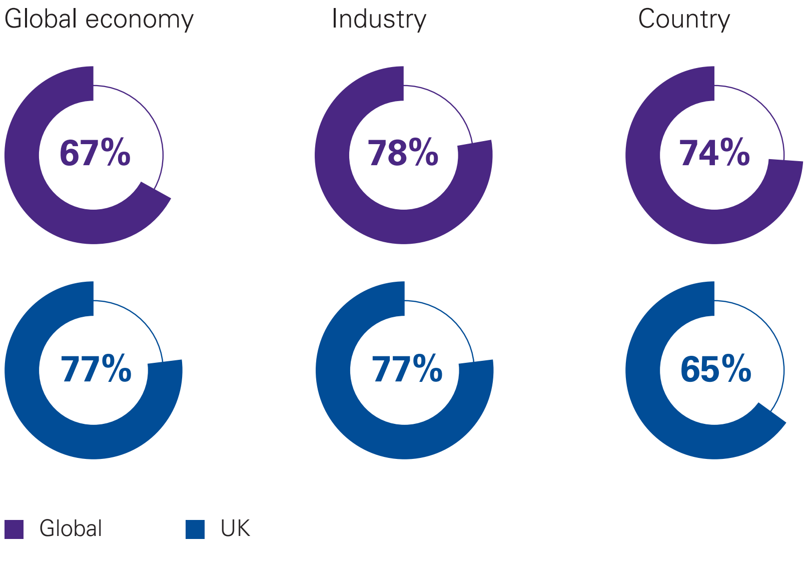
**Yael Selfin**
Chief Economist
KPMG in the UK

CEOs appear to be generally optimistic about the outlook for growth at the macro level.

With many major economies experiencing a period of synchronised growth, it is no surprise that 67% of CEOs around the world are either confident or very confident about the global economy. Their expectation of growth in their own industries is also up – increasing by nine percentage points on last year to 78%.

However, this is not necessarily translating into confidence at the national level – alongside the UK, we also saw a drop off in Germany, Spain and Italy. Notably, UK CEOs are more bullish about the global economy (77%) but less optimistic about their domestic economy, at 65%. That number has dropped steadily from 80% in 2016 and 76% last year.

**Chart 4: How confident are you in the following over the next three years?**

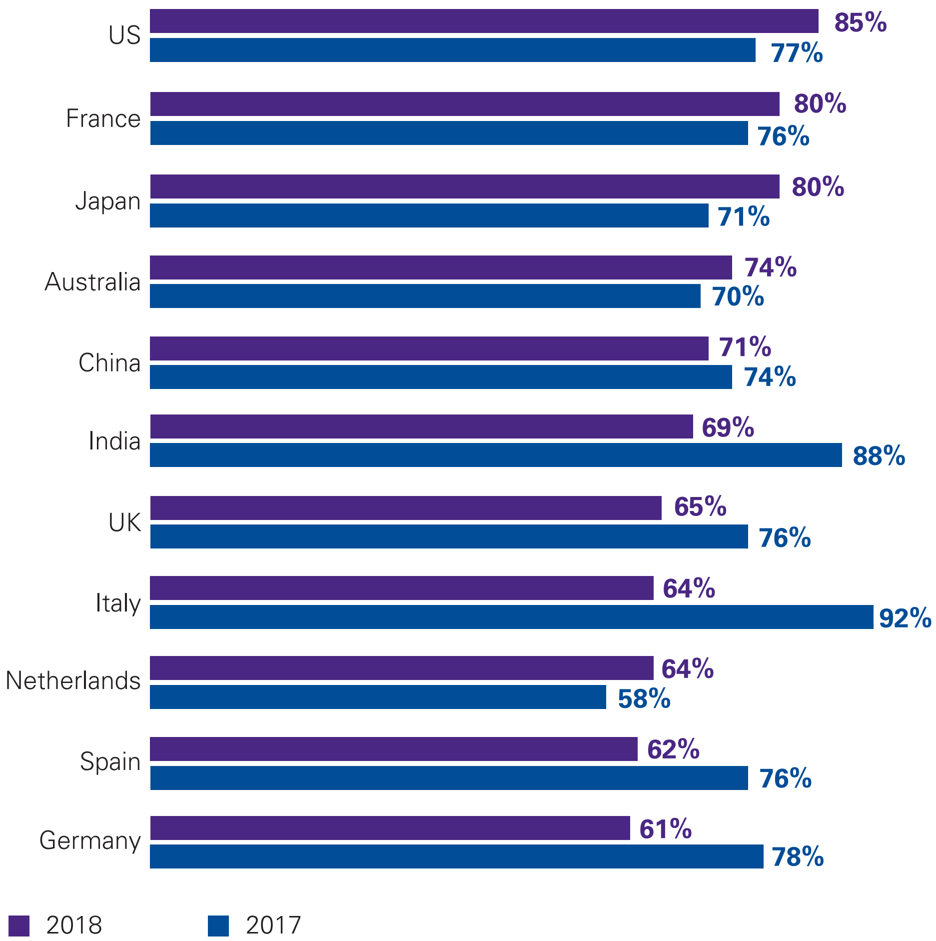



Source: 2018 Global CEO Outlook, KPMG International

> The future is what it is. The only question is: Are you strong enough and resilient enough and quick enough to be able to react to it?

**Saker Nusseibeh**
CEO
Hermes Investment Management

**Chart 5: Global CEOs' confidence in their own country's three year growth prospects, 2017 vs 2018 (by country)**




Source: 2018 Global CEO Outlook, KPMG International

## A healthy dose of pragmatism

At the revenue level, the majority of CEOs (55%) expect conservative topline growth of less than 2% and UK CEOs are even more cautious: 61% predict revenue growth of less than 2% over the next three years.

"We've seen the confidence of UK CEOs decline really since 2016 and that's likely to be related to uncertainty around our future relationship with Europe and the related fall in the pound," says Yael Selfin, Chief Economist at KPMG in the UK. "We don't expect a major improvement in confidence until the uncertainty dissipates further. UK CEOs' expectations of slightly lower revenue growth than their global peers could continue given expectations for weaker economic growth."

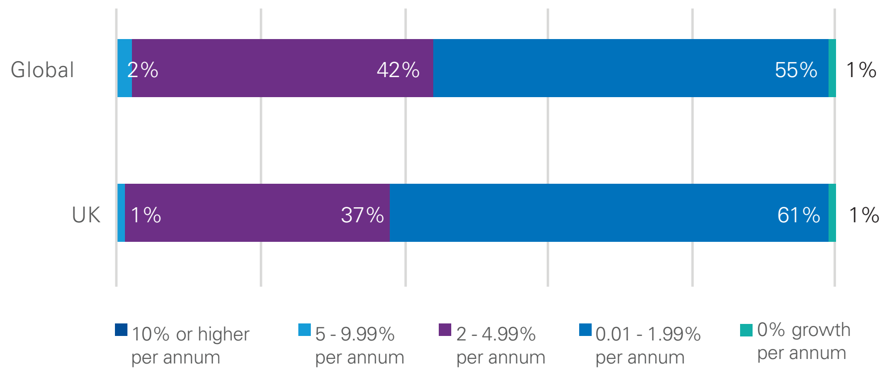
Despite the headwinds, **Saker Nusseibeh, CEO of Hermes Investment Management**, says it's important for CEOs not to get too caught up in factors beyond their control: "It's right to worry about the future but looking too far ahead just does not work," he says. "The future is what it is. The only question is: Are you strong enough and resilient enough and quick enough to be able to react to it?"

## Growing digital pains

Caution may also reflect the difficulties CEOs are having in driving growth from new digital business models.

"The CEOs we're advising have realised that top-line revenue growth is no longer the most important measure of success in the digital era," says Mark A. Goodburn, Global Head of Advisory at KPMG. "They are focused on how they can achieve better profitability: investing in technology and their people and looking at different business models. These CEOs recognise that success is achieved with a stronger products and services portfolio."

## Chart 6: Outlook for annual topline revenue growth over the next three years




Source: 2018 Global CEO Outlook, KPMG International

61 percent of UK CEOs predict revenue growth of less than 2 percent over the next three years.

> We have to be a better company, not just a bigger company, and it's better through the eyes of the receiver.

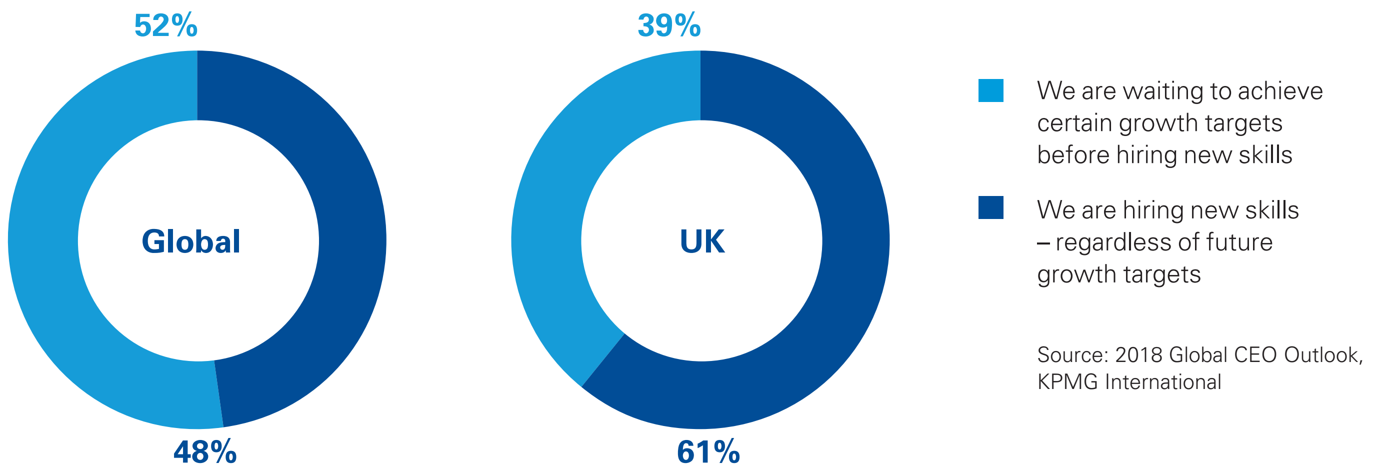
**Miles Roberts**
Group Chief Executive
DS Smith Plc

**Miles Roberts, Group Chief Executive of UK-based international packaging business DS Smith Plc,** agrees that it's important to strive for growth, but growth has to come in the right way. "We have to be a better company, not just a bigger company, and it's better through the eyes of the receiver, how they feel we are a more responsible company and earning the right to be a larger company. That's what we're working on. Those hurdles are only going to increase for all of us."

## Hiring cautiously

CEOs' hiring plans also reflect their pragmatism over future growth. Only 37% expect their workforce to grow by more than 6% over the next three years – a 10 point fall since 2017.

## Chart 7: Approach to recruiting new skills




Source: 2018 Global CEO Outlook, KPMG International

They are also relatively cautious about hiring new skills before they have hit growth targets. By contrast, UK CEOs appear to be more proactive in hiring with an eye on the future. Sixty one percent said they were recruiting irrespective of growth targets compared with the same view in 48% of their global peers.

The rate at which technology is evolving adds complexity to decisions around how organisations are hiring: CEOs need to achieve the right balance of re-skilling the existing workforce and adding fresh talent – even as the implications of new technologies remain uncertain.

"Our customers are having to reinvent their existing business models using digital technology, so they may be automating and applying artificial intelligence to their traditional solutions," explains UK-based **Duncan Tait, Senior Executive Vice President at Japan's Fujitsu**.

## Driving growth: strategic alliances to the fore

So how are CEOs planning to boost the top line? Only 28% say they see organic growth – whether that be through R&D, product innovation or recruitment – as the primary route. The other 72% are more focused on strategic alliances, M&A, joint ventures and outsourcing.

And of those alternative routes, a third of both UK and global CEOs said strategic alliances with third parties were the most important strategy over the next three years.

"Large organisations are seeking to partner with start-ups to help drive disruption," says Sanjay Thakkar, UK Head of Deal Advisory at KPMG in the UK. "They do that because through these partnerships they get agility, flexibility, and above all optionality. It ensures they don't bet the house on one particular technology – many would rather be fast followers than pioneers."

UK CEOs are particularly focused on working with third parties in pursuit of growth, with 61% planning to

"We invest in growth businesses and younger businesses outside the main dynamic of our company, and then once they have reached a certain scale, we bring them in house and try and merge the two cultures together and keep the best of both worlds."

**Stephen Glancey**
CEO
C&C Group

collaborate with innovative start-ups versus 53% among their global peers. Indeed, 70% of UK CEOs agree that the only way they can achieve the agility they need is through partnerships (compared to just over half of global CEOs).

**Stephen Glancey, CEO of Irish and UK-based drinks manufacturer and distributor C&C Group**, explains how they leverage strategic alliances to remain agile; "We invest in growth businesses and younger businesses outside the main dynamic of our company, and then once they have reached a certain scale, we bring them in house and try and merge the two cultures together and keep the best of both worlds".

One of the less obvious – but no less important – ingredients to a successful alliance is cultural fit.

"Culture is vital, and becomes ever more so the deeper the partnership," says KPMG's Thakkar. "If you're talking about two companies coming together in a full blown joint venture it can make the difference between success and failure."

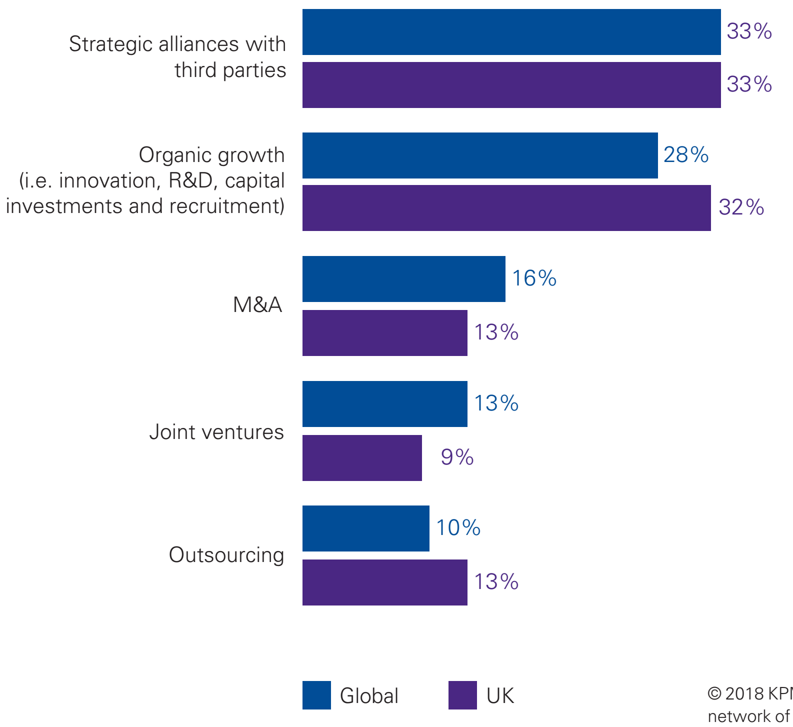
That seems to be a message resonating with UK CEOs. Seventy percent said they had reconsidered a third-party partnership in the past because their prospective partner was not a good 'fit'. That compares with just less than half of their global counterparts.

M&A ranks far lower among all CEOs as a stated route to growth with only 16% citing it as their most important growth strategy. Yet 51% of CEOs globally do have a moderate appetite for M&A activity, and 27% rate their appetite as high.

As to where they might expand, emerging markets remain a clear focus.

Seventy percent are prioritising less developed geographies and of that group, a third point to Latin America as the priority emerging market. "Central and South America are becoming more attractive with a very big market there getting wealthier," says Gary Reader, Global Head of Clients and Markets at KPMG. "Let's not forget about Africa either: a continent rich in natural resources and with an age demographic that presents some great growth opportunities."

## Chart 8: The most important strategies to drive growth over the next 3 years




Source: 2018 Global CEO Outlook, KPMG International

While only 16 percent of global CEOs cite M&A as their most important growth strategy, more than a quarter indicate a high appetite for M&A in the next three years.

# Digital gets personal

CEOs are taking personal ownership to drive digital transformation.

CEOs are becoming far more optimistic about the benefits that digital disruption offers. In fact, the number who agreed it was "more of an opportunity than a threat" has jumped 30 percentage points since last year to 95% in 2018.

CEOs are determined to seize the competitive edge disruption presents; over half of CEOs (54%) say they are actively disrupting the sector in which they operate, rather than waiting to be disrupted by competitors.

To win this race, CEOs are taking close personal ownership and driving digital transformation. They are embracing technologies such as artificial intelligence and the Internet of Things and assuming personal responsibility around issues such as data protection to preserve trust. And, as automation and AI reconfigure the workforce, CEOs are looking at how to prepare their people for the impact of smart machines.

KPMG's Goodburn, welcomes these developments: "More and more of the CEOs I speak to are telling me, 'I am personally leading our digital charge'. That says to me, 'I'm creative, adaptive and agile, and prepared to transform my business to be successful in a digital world'."

As your services change to deliver what your customer wants, your workforce will change to understand the technology platforms that you're delivering the service on...

**Nick Ogden**
CEO
ClearBank

"Today, business is technology and everything we do has technology threaded through it."

**Susan Story**
President and CEO
American Water

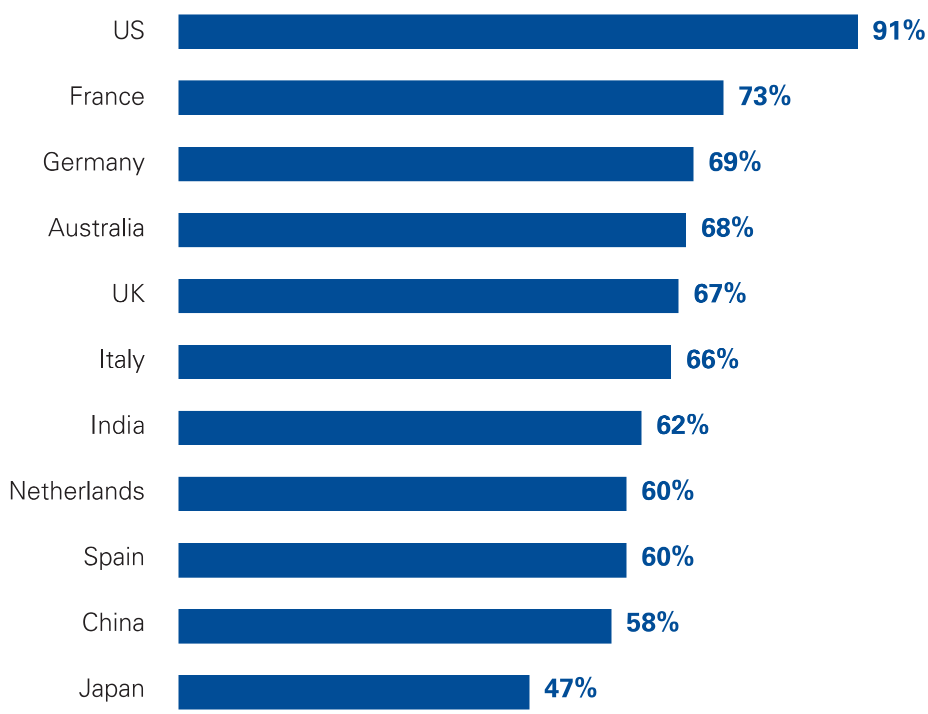
**Susan Story, President and CEO at American Water**, says CEOs' focus on transformation reflects the fact that business and technology are now intertwined. "In the old days, you had business and then you laid technology on top of it. Today, business is technology and everything we do has technology threaded through it. How you most effectively and efficiently do that is what distinguishes companies that are digitally transformed from those companies that aren't."

## Owning transformation

In the digital age, CEOs are prepared to lead their organisation through a radical transformation in operating model: an average of 71% say this.

For **Nick Ogden, CEO of the UK challenger bank ClearBank**, business and technology are now intimately intertwined. "As your services change to deliver what your customer wants, your workforce will change to understand the technology platforms that you're delivering the service on. And if you do that correctly, the whole innovation process will run through, and you'll stay either current or ahead of the game."

### Chart 9: How prepared are CEOs to personally lead a radical transformation of their operating models? (by country)




Source: 2018 Global CEO Outlook, KPMG International

“Business leaders need to rethink their innovation equation.”

**Steven Hill**
Global Head of Innovation
KPMG International

## Keeping up with expectations

As well as acting as champions of change, CEOs are under the spotlight in terms of delivering results on technology investments – and expectations can be challenging. UK CEOs seem to feel the weight of that expectation even more than global peers: 72%, (compared with 51% of global CEOs) say that their board of directors has an unreasonable expectation of returns on digital transformation investments. And 86% (versus 65% of global CEOs) say that the lead times to achieve significant progress on digital transformation often seem overwhelming.

Setting clear expectations will be critical as CEOs recognise that a degree of patience is required. Seven in 10 UK CEOs (69%) expect to see significant ROI from digital transformation within one to three years, while only 21% expect returns within 12 months. This is a longer timeframe than their global peers, where 29% expect to see a return within 12 months.

Steve Hill, KPMG’s Global Head of Innovation, believes that leaders need to challenge ROI conventions by fundamentally rethinking how they view digital investments and how returns are measured. “Business leaders should rethink their innovation equation,” he says. “You can’t look at investments and returns in the way you did in the past. First, you will only get marginal benefits if you just digitise an existing process – leading organisations rethink analogue system workflow at a minimum and the entire business model in many cases.”

“The challenge for both incumbents and new entrants is how you transition to new models in a highly regulated and political environment.”

**Paul Massara**
CEO
Electron

**Paul Massara, CEO of UK-based Electron**, a company that provides blockchain solutions to the energy sector, agrees that digital innovation is top of mind for today's business leaders. "Nearly every industry is being disrupted by technology of some sort and the energy industry is no exception – battery storage, AI, electric vehicles and blockchain are just some," he says. "The challenge for both incumbents and new entrants is how you transition to new models in a highly regulated and political environment. My money would still be on the new entrants but any new models need to be grounded in the reality of the market rules."

In terms of the return on investments in artificial intelligence, Traci Gusher of KPMG's Data & Analytics Center of Excellence says a combination of quantitative and qualitative measures are needed to measure the benefits of AI. "It's a bit short-sighted to focus solely on quantitative metrics. Some of the qualitative measures we've looked at are things like general competitive advantage.

"So, while you may not see a direct benefit of putting investment dollars into AI for your supply chain, you're going to lose competitive advantage over time if you're not using it.

"Another measure is around attracting high-performing talent. The most attractive talent wants to be part of an innovative culture where cutting-edge approaches and technologies are being implemented."

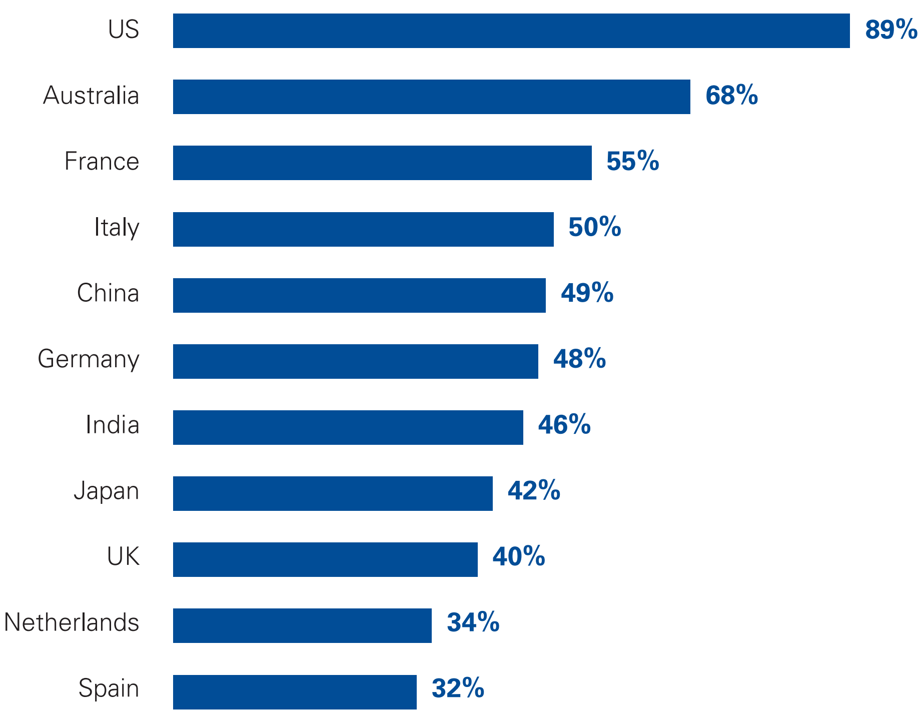
## CEO as data protector

CEOs recognise that customer data could be their most valuable asset, transforming their ability to personalise products and services. But CEOs need to appreciate that it also carries risks, says Mark Thompson, Global Privacy Advisory Lead at KPMG in the UK.

"Having customers' personal information is an amazing asset that can deliver new insights and offer companies a competitive advantage. However, as we've seen recently, it can also prove very dangerous if they forget that data is a liability, as well

> "Data can prove very dangerous if companies forget that it's a liability as well as an asset."
>
> **Mark Thompson**
> Global Privacy Advisory Lead
> KPMG in the UK

### Chart 10: Proportion of CEOs who say "protecting customer data is one of my most important priorities" (by country)




Source: 2018 Global CEO Outlook, KPMG International

Only 40 percent of CEOs in the UK see the protection of customer data as their personal responsibility.

as an asset. It's up to boards to strike a balance between these competing forces."

Globally, 59% of CEOs agree that "protecting customers' data is one of my most important responsibilities", yet in the UK that figure falls to 40%.

## Robots manufacture jobs

As well as driving digital transformation and protecting customer data, CEOs are reconfiguring their workforces for a future where smart machines and talented people work together.

"Humans will continue to do jobs in high-touch segments such as the arts, social enterprises and entertainment, selling and marketing, where humans pull on people's heartstrings," says **Masayoshi Son, Chairman of Japanese conglomerate SoftBank Group Corp**. "But I believe that almost all blue-collar workers will be replaced by 'metal-collar' workers. By that, I mean robots equipped with intelligence and super-intelligence. They are no longer robots without brains, as they were in the past – they have become smart-robots."

There is considerable disquiet about the potential negative impact of automation and AI, with employees understandably anxious about the impact on jobs. Many CEOs take a more positive view of the long-term implications, with 62% globally and 71% in the UK saying AI will create more jobs than it destroys over the next three years.

"I think the history of the world has proven that technology doesn't cost jobs at the end of the day," says DHL Express' **CEO Ken Allen**. "Uber is creating jobs. Airbnb is creating jobs."

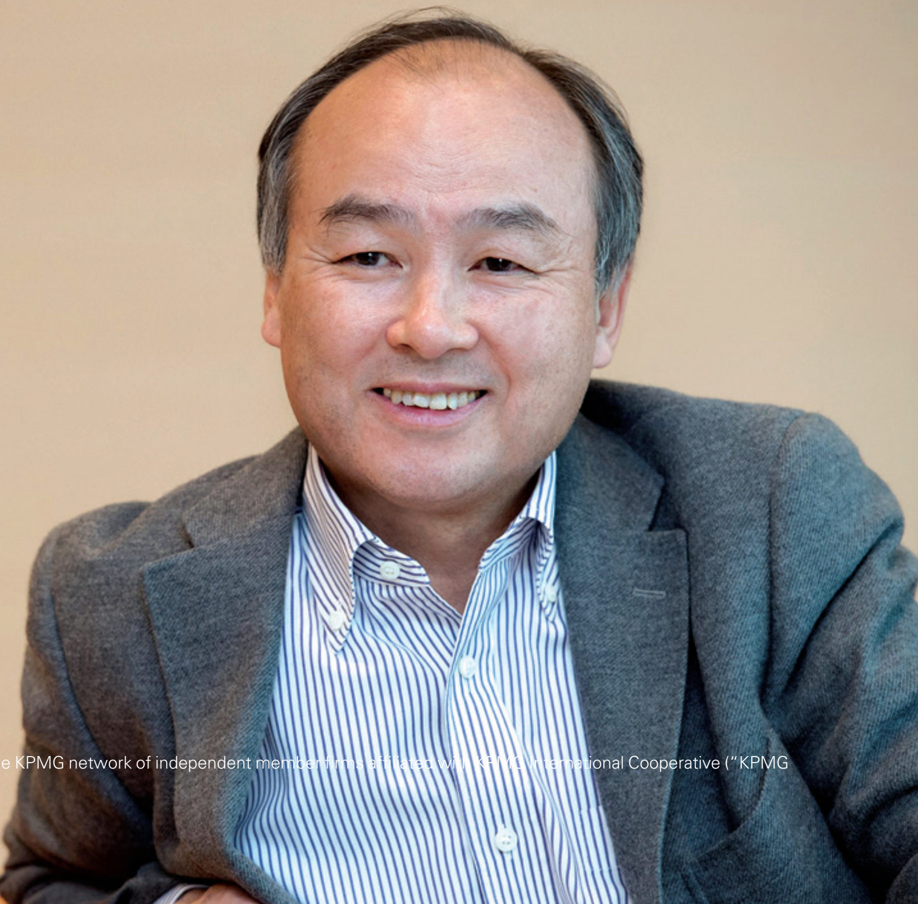
## Refocusing the workforce

According to **The Dow Chemical Company's former Chairman and CEO, Andrew Liveris**, the business world is in the midst of a significant disruption to the workforce. "We're in the 1918 equivalent of industrialisation and we are at the tipping point where we're redefining work and what the future job will look like."

Positive or negative, AI demands that business communicate the implications of new technologies to people and the

“I believe that almost all blue-collar workers will be replaced by 'metal-collar' workers.”

**Masayoshi Son**
Chairman and CEO
SoftBank Group Corp



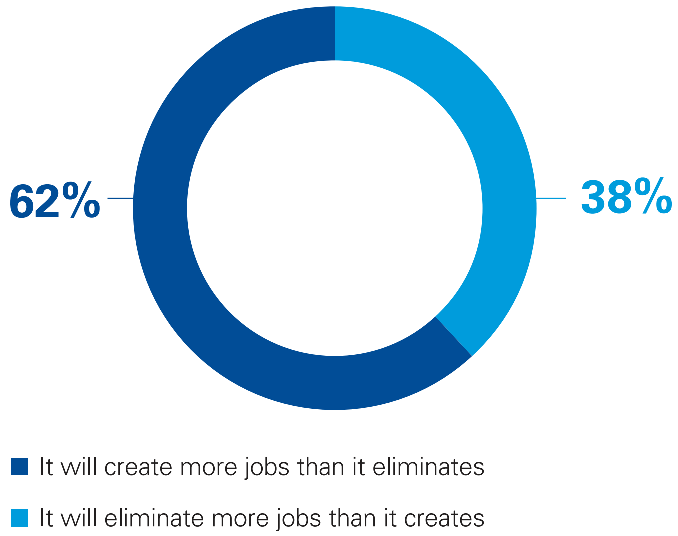
> Business leaders need to arm the workforce for a new 'machine age' of artificial intelligence and increasing automation.

**Duncan Tait**
SEVP, Head of Americas and EMEIA
Fujitsu

need for them to reinvent and develop themselves.

"Business leaders need to arm the workforce for a new 'machine age' of artificial intelligence and increasing automation," says Fujitsu's **Tait**. "We have to face up to the fact that AI and automation will have a significant impact on the way we work – so let's redevelop our workforce."

**Chart 11: What is the most likely impact of AI and robotics technologies on your workforce?**




Source: 2018 Global CEO Outlook, KPMG International

As well as driving digital transformation and protecting customer data, CEOs are reconfiguring their workforces for a future where smart machines and talented people work together.

# Instinct over data

During this latest wave of technological disruption, boardrooms have been much more aware of the need to respond with agility, but that's about more than speed.

**David Rowlands**
Head of Consulting
KPMG in the UK

With customer demands changing continually, and the technology landscape in a constant state of flux, CEOs now see agility as the most important characteristic required by businesses.

But the quest for ever-greater agility does not mean they simply have to embrace data and intelligent technologies wholesale at the expense of human qualities. CEOs are also bringing their own intelligence to bear, combining their experience and intuition with data-driven, predictive intelligence to spot new growth opportunities.

## Agility

In a digital economy, where new technologies are constantly reshaping industries and business models, the ability to innovate quickly is a strategic imperative. UK CEOs feel this more strongly than their global counterparts: 79% agree that they need to act with agility to survive – 20 points ahead of their global peers – and as mentioned previously, over two thirds in the UK see partnerships as the way of achieving that agility.

"During this wave of technological disruption, boardrooms have been much more aware of the need to respond with agility, but that's about more than speed," says David Rowlands, Head of Consulting at KPMG in the UK. "It's as much about identifying where innovation burns brightest and – if that's outside the organisation – establishing partnerships with third parties to harness this energy."

### Chart 12: Top five barriers to extracting value from third-party networks

| | |
|---|---|
| 1 | Challenges measuring ROI from third-party partnerships |
| 2 | Difficulty sharing data securely with third parties |
| 3 | Concerns about sharing commercially sensitive data |
| 4 | Procurement processes are lengthy and complex |
| 5 | Legacy IT systems are incompatible with nimble approaches by startups |

Source: 2018 Global CEO Outlook, KPMG International

## Build the ecosystem

To get more agile and put digital innovation on a fast track, organisations are aggressively building their 'eco-systems' of third-party partners. More than half of organisations (53%), for instance, will set up accelerator or incubator programmes for startups.

But simply having a startup-friendly ecosystem is no guarantee of success. CEOs need to focus on gaining value from them and ensure that cultural barriers and concerns about data sharing don't limit the success of innovative ideas.

For Dow Chemical's **Liveris**, the innovation process is a mix of freedom and collaboration with customers. "I think if you're going to move a consumer on digital speed, you can't govern and control every last thing. We'll build something to a minimal viable product – maybe 60% completion – and then co-create with a customer so we can bring value to them much faster."

## Intuition

Data and analytics have changed how CEOs and the rest of the C-suite make business decisions. And they continue to get more sophisticated: AI that draws on deep learning techniques, for example, will transform predictive analytics.

“If you're going to move a consumer on digital speed, you can't govern and control every last thing.”

**Andrew Liveris**
Former Chairman and CEO
The Dow Chemical Company

Yet CEOs have not lost contact with their own intuition, experience and judgment. In our survey, 67% of CEOs – both globally and in the UK – say they have overlooked the insights provided by data and analytics (or computer-driven) models because they contradicted their own experience or intuition.

Steve Hill, KPMG's Global Head of Innovation, likens this to being behind the wheel of a racing car. "There's a mountain of technical data – brake pressure, angles of steering input – all coming at once. At some point, experience kicks in and, if necessary, overrides all the other signals."

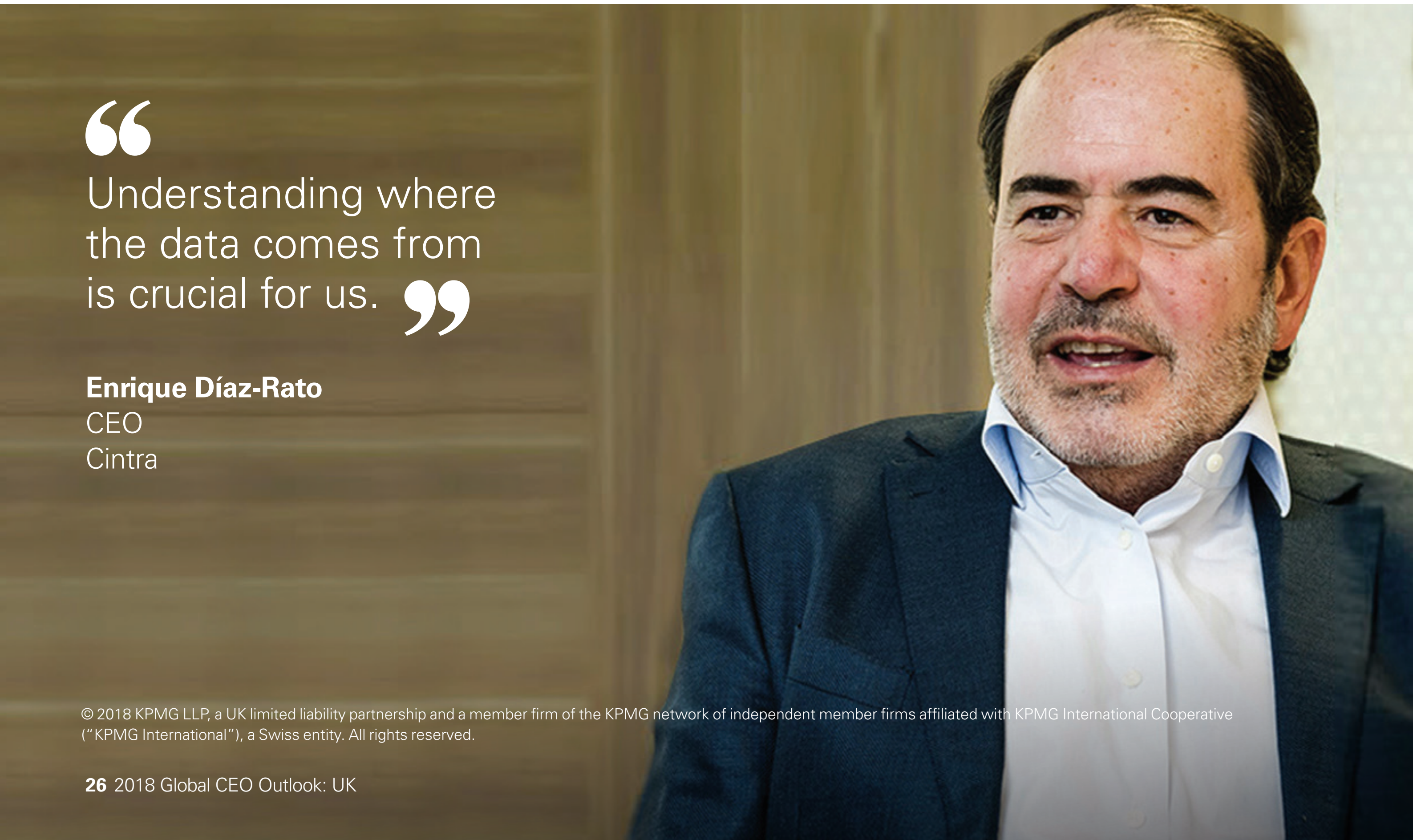
37% of UK CEOs (against 32% globally) plan to increase their use of predictive analytics in the future and 53% (against 37% globally) say they will increase their use of unstructured data.

There is a caveat, says Dale Williams, Head of KPMG's Operations Consulting practice in the UK. "The difference between CEOs' stated intent to use predictive analytics and what we see in reality is quite stark in the UK. Most businesses are either in 'try-it-out' mode or lack the real confidence to trust the insights generated by the data. And in my experience, companies can also be paralysed by the belief that they lack the data to start this journey."

CEOs also show some scepticism about the accuracy of predictive data. Over half (51%) of global CEOs and 71% of UK CEOs say they are less confident about the accuracy of predictive analytics than historic data. They want to understand where the data that informs predictive models has come from and whether it can be trusted.

"Understanding where the data comes from is crucial for us," says **Enrique Díaz-Rato, CEO of global transportation infrastructure company Cintra**. "We have seen exciting insights that would be powerful provided they were representative of our overall customer base, but they weren't. You get fascinated by the degree of granularity you get from customers' behavior from a certain app, but the question is, are the users of this app representative of the whole population a project is serving? You can be driven to wrong conclusions if you just follow the data blindly."

According to **Patricia Kampling, CEO of Alliant Energy**, the best approach is a blend of old and new techniques. "It is important to focus on the data that helps decision-making or reveals trends, and not get overwhelmed with the quantity. It's also very important to go beyond the data and realise that nothing is more valuable than having constant communications with employees, customers and technology partners. My decision-making is a combination of data-driven information, input from many and decades of experience."



"Understanding where the data comes from is crucial for us."

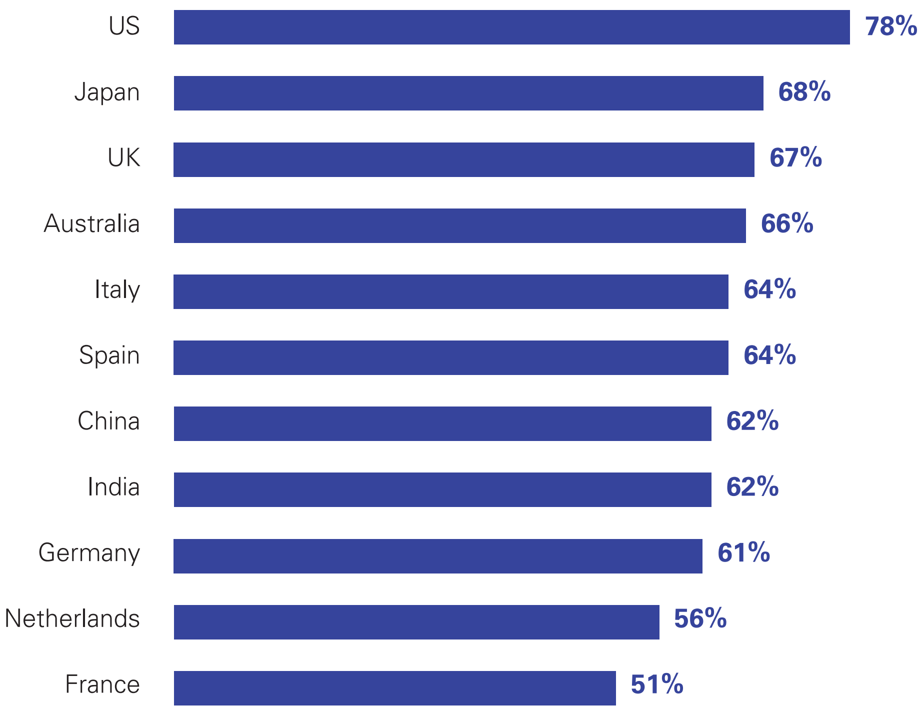
**Enrique Díaz-Rato**
CEO
Cintra

> My decision-making is a combination of data-driven information, input from many and decades of experience.

**Patricia Kampling**
CEO
Alliant Energy

In the past three years, 67 percent of global CEOs say they have overlooked the insights provided by data and analytics models because the data contradicted their intuition.

**Chart 13: Proportion of CEOs who say they have overlooked data-driven insights in favour of their own experience or intuition (by country)**




Source: 2018 Global CEO Outlook, KPMG International

> A CEO might find the opinions of a business reporter interesting and useful, but they may not trust it as much as they would the direct word-of-mouth of one of their customers.

**Traci Gusher**
Principal
KPMG Data & Analytics Center of Excellence

## The social media CEO

We asked CEOs which data sources they trusted to make strategic decisions and perhaps surprisingly, social media emerged as easily the most trusted source. For example, 42% of CEOs say they have very strong trust in social media, but only 12% say the same for open data from government agencies.

KPMG's Gusher is not surprised at this. "Social media is information that is coming direct from the customer," she says. "A CEO might find the opinions of a business reporter interesting and useful, but they may not trust it as much as they would the direct word of mouth of one of their customers.

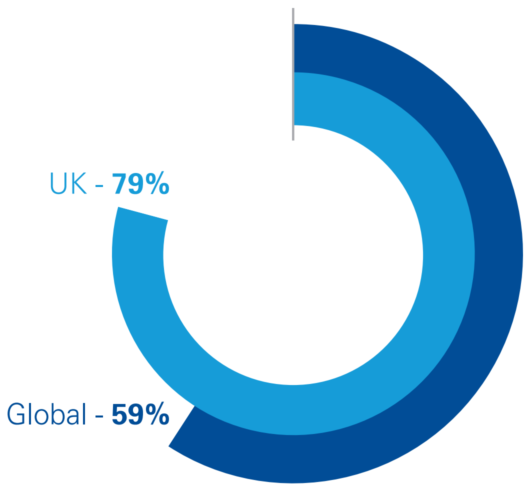
"If I'm an airline CEO, for example, I'm going to listen closely to people posting feedback about customer service on our Twitter feed. If I get 2,000 tweets that are direct quotes from my customers that say they're annoyed about how difficult it is to get an on-time plane, that's something I can't deny."

### Chart 14: Ranking of trusted sources of insight

| | |
|---|---|
| 1 | Social media |
| | Traditional media |
| | Independent secondary information providers |
| | Open data from government agencies |
| | Government-commissioned research |

Source: 2018 Global CEO Outlook, KPMG International

### Chart 15: Proportion of CEOs who agree that agility is the new currency of business




Source: 2018 Global CEO Outlook, KPMG International

# Conclusions

## Growth headwinds

CEOs operate in a connected world where events can quickly snowball and the risk agenda is constantly changing. A wait-and-see approach to these issues is not an option. CEOs will need to play a leading role in cyber security, particularly in terms of vulnerabilities in their extended ecosystem of suppliers and partners.

For CEOs in the UK, geopolitics is already on the agenda. They and their board now need to understand the full implications of this risk for their finance, business and operating models and for the future growth of their business.

To maximize growth, they also need to be in tune with generational shifts. Tomorrow's critical consumer cohort, Millennials, will expect organisations to understand their priorities and values. CEOs play an essential role in pivoting their organisations to the consumers of tomorrow.

## Driving realistic growth

CEOs are confident about global and industry growth prospects, however that does not mean they are setting aggressive revenue targets. In fact, they are playing a patient game – particularly in the UK – predicting pragmatic rather than bullish growth. CEOs recognise that in a digital age, their organisations still depend on traditional revenue streams. As they look to replace them with new growth engines, they recognise that traditional sources will decline and need to be replaced.

CEOs play a critical role in driving business model innovation and growth by challenging the status quo in their organisations to stimulate new thinking and shift the innovation equation.

## Making digital a personal crusade

As they look to drive growth in a digital age, CEOs are leading the transformation agenda. But to ensure their long-term digital strategy does not get derailed by pressure to deliver short-term results, they must manage the expectations of key stakeholders. Working with boards and other stakeholders, they can map different scenarios for the future of the business and set new key performance indicators.

Making the most of their customer data will be a critical element of their growth strategies, and with the public's trust in institutions waning, CEOs need to take personal responsibility for safeguarding data. Their employees will also be looking to CEOs for leadership in a world where AI and automation will replace both manual and more specialised roles. It will fall to CEOs to initiate a candid and compelling conversation with employees about what the future holds.

## Putting instinct over data

In an environment where customer demands are constantly rising, new technologies are emerging and new competitive threats are surfacing, acting with agility is the dominant currency of business. To achieve agility and move at digital speed, many are investing in innovation networks and collaborations with startups and UK organisations are at the vanguard of this movement. However, many across the world are failing to see results from those investments. In creating valuable partnerships, UK CEOs now need to go beyond their successes in making sure the cultural fit is right, and also overcome barriers such as accurately measuring ROI from the venture, or how to share data with third parties.

Agility is also about being able to spot new opportunities. Effectively using sophisticated data and analytics — including predictive and prescriptive analytics — will be crucial. High-performing CEOs will be those who can marry their experience and intuition with data-driven insight.

With CEOs still prizing intuition over data-driven fact, leaders need to work with their insight teams to ensure that data and analytics efforts are focused on the most valuable opportunities and that the new forms of data that underpin their models can be trusted.

# Methodology and acknowledgments

The survey data published in this report is based on a survey of 1,300 chief executive officers (CEOs) in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The survey was conducted between 22 January and 27 February 2018.

The CEOs operate in 11 key industries: asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecom.

Of the 1,300 CEOs, 314 came from companies with revenues between US$500 million and US$999 million; 546 from companies with revenues between US$1 billion and US$9.9 billion; and 440 from companies with revenues of US$10 billion or more.

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— Andrew Liveris, former Chairman and CEO, The Dow Chemical Company, US

— Paul Massara, CEO, Electron, UK

— Saker Nusseibeh, CEO, Hermes Investment Management, UK

— Nick Ogden, CEO, ClearBank, UK

— Miles Roberts, Group Chief Executive, DS Smith Plc, UK

— Dan Schulman, CEO, PayPal, US

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— Susan Story, President and CEO, American Water, US

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