KPMG 2022 CEO Outlook – UK

Growth strategies in turbulent times

KPMG in the UK

Contents

Finding opportunity in uncertainty

Business leaders in the UK are predicting and preparing for an imminent recession. Many are having to make hard choices now to help their businesses weather the volatile conditions they face, with some telling us they are cutting back on important areas such as investing in their workforce and making their business more sustainable.

Political uncertainty and changing regulation remain the biggest risks to growth for business leaders and could have a subsequent knock-on effect on their confidence to invest in future. Yet it is positive to see that most of them do see light at the end of the tunnel, have already taken action and feel positive about a future economic recovery.

Jon Holt
Chief Executive
KPMG in the UK

The 2022 CEO Outlook draws on the perspectives of 1,325 global CEOs across 11 important markets to provide insight into their three-year outlook on the business and economic landscapes. The UK edition draws on the responses of 150 UK CEOs.

Four key themes emerge from this year's CEO Outlook:

Economic outlook

CEOs have prepared their businesses for more economic turbulence in the short-term and are confident in longer-term growth prospects.

Prepared for a recession

81% of UK CEOs (86%, global) expect a recession in the next 12 months. 62% (58%, global) believe that the recession will be mild and short. And 71% (76%, global) say they have plans in place to deal with it.

But optimism in growth remains

Despite geopolitical and economic challenges, CEOs are confident in the growth prospects for the global economy over the next three years (79%, UK; 71%, full global sample).

Geopolitics impacting strategy

74% of UK CEOs (81%, global) have adjusted or plan to adjust their risk management procedures considering geopolitical risk. 75% have diversified or plan to diversify their supply chain.

Technology

CEOs are directing their digital investments to areas of their business that will drive growth, and recognise that partnerships will be vital to success.

Emerging tech top growth risk

Emerging technology is among CEOs' (UK and global) top three most pressing concerns. And across our full global sample, it's the number one risk to growth over the next three years.

Focusing investment on growth

66% of UK CEOs (70%, global) say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

Cyber as a strategic function

The cyber environment is evolving quickly – 70% of UK CEOs (77%, global) see information security as a strategic function and as a potential source of competitive advantage.

Talent

CEOs are focused on building strong employee value propositions to tackle skills shortages, but may pause recruitment in the short-term.

Talent a top operational priority

An employee value proposition (EVP) that attracts and retains the necessary talent is joint top of CEOs' (UK and global) operational priorities for growth over the next three years.

Recession drives short-term freezes

43% of UK CEOs (39%, global) say they've already implemented a recruitment freeze. And 39% (35%, global) plan to do so in the next six months.

A return to the office

62% of UK CEOs (65%, global) say in-office will be the most common working arrangement over the next three years. 37% (28%, global) envision a hybrid working environment.

ESG

CEOs are balancing the need to build resilient and transparent ESG plans with the possibility of having to reconsider their plans due to economic pressures.

ESG records under scrutiny

84% of UK CEOs (69%, global) see stakeholder demand for increased transparency on ESG issues up a significant extent. 67% (72%, global) believe that stakeholder scrutiny will continue to accelerate.

ESG delivers business benefits

39% of UK CEOs (45%, global) say their ESG programmes improve financial performance. 19% of UK CEOs say the improvement is significant, compared to 6% in 2021.

A focus on the 'S'

Social issues are in the spotlight. 63% of UK CEOs (68%, global) say that progress on diversity and inclusion has moved too slowly. 65% (73%, global) believe scrutiny of IDE performance will continue to increase over the next three years.

Economic outlook

CEOs prepared for a short recession

When the survey was conducted in July and August 2022, nearly nine out of 10 (86%) global CEOs believed there would be a recession over the next 12 months. While they were a little more optimistic, UK CEOs agreed – with 81% expecting a recession.

However, 62% of UK CEOs believe that the recession will be mild and short. And 71% say they have plans in place to deal with it. They were also confident in global economic resilience: 75% of UK CEOs say they're confident in the resilience of the global economy over the next six months, with a similar proportion (74%) confident in the UK economy.

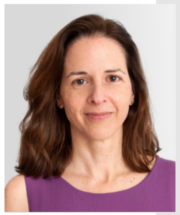
UK CEOs may be confident they can navigate turbulent times ahead, but they're also realistic about the challenges they'll face.

Over two-thirds (69%) believe it will make it even harder to rebound post-pandemic, and 63% believe it will disrupt anticipated growth over the next three years. They also recognise that a recession could have a significant impact on anticipated earnings, with 70% saying earnings could be impacted by more than 5% over the next 12 months.

When asked what steps they've taken, or plan to take in the next six months, to prepare for a possible recession, global CEOs said the top three measures include: focusing on boosting productivity (50%), managing costs (43%) and reconsidering digital transformation strategies (40%). The top three steps for UK CEOs are: implementing a hiring freeze (43%), reducing profit margins (40%) and transferring overseas operations locally or in-house (38%).

81%

expect a recession in the next 12 months



"The UK economy is facing significant headwinds at the moment, with domestic uncertainties added to an already taxing environment of high inflation and a weakening global demand. While we expect the economy to already be in recession, which would last for at least the second half of this year, its severity and duration will depend to a large extent on energy supply this winter and the new government's fiscal plan."

Yael Selfin
Chief Economist
KPMG in the UK

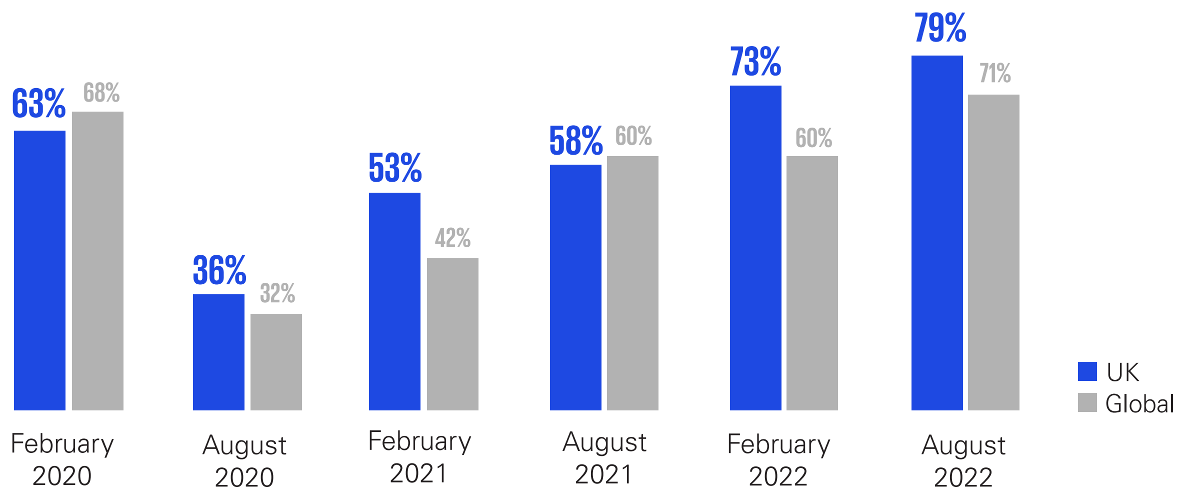
But they remain optimistic about growth

Despite their immediate concerns about a recession, CEOs remain confident in the prospects for global growth over the next three years. Across all global respondents, 71% are confident in the growth prospects for the global economy. That's up from 60% in early 2022.

The picture is similar when looking at the responses of UK CEOs. Almost four-fifths (79%) are confident in the prospects for the global economy over the next three years.

UK CEOs also remain positive about the growth prospects of the UK over the next three years – 75% have positive expectations for the UK economy. That is, however, down from 2021, when 83% were confident in the growth prospects of the UK over the next three years.

Growth prospects for the global economy over the next three years



Source: KPMG 2022 CEO Outlook

79% are confident in the prospects for the global economy over the next three years

75% are confident in the prospects for the UK economy over the next three years

Top risks today and over next three years

The most pressing concern for UK CEOs today is, unsurprisingly, the economy – rising interest rates, inflation and the anticipated recession (17%). They also remain concerned about pandemic fatigue and continued uncertainty (13%), as well as the risk posed by emerging and disruptive technology (also 13%).

Looking ahead over the next three years, political uncertainty (13%) is the biggest concern among UK CEOs. Also high on the list of risks to growth are regulatory concerns (10%) and having an internal unethical culture (10%).

Top risks to growth over the next three years

1. Political uncertainty
2. Regulatory concerns; internal unethical culture
3. Interest rates
4. Reputational risk; return to territorialism
5. Emerging/disruptive technology

Source: KPMG 2022 CEO Outlook

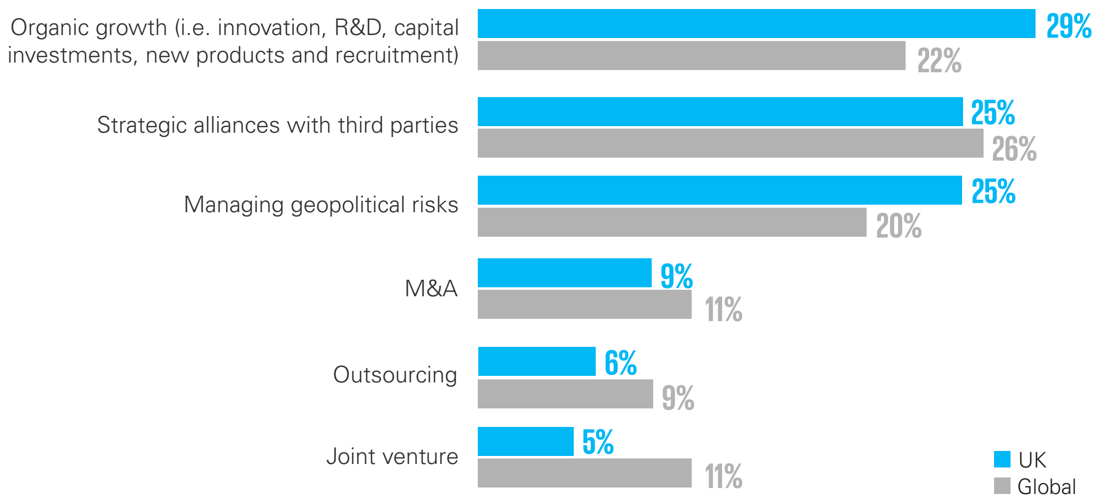
How to achieve growth

As they set out to achieve their organisations' growth objectives over the next three years, UK CEOs will be placing a significant emphasis on organic growth – for example, through innovation, R&D, new products and recruitment. That was top of the list of most important strategies for achieving growth (29%), followed by strategic alliances with third parties and managing geopolitical risks (both 25%).

74%

have adjusted or plan to adjust their risk management procedures considering geopolitical risk

Strategies important for achieving growth objectives over the next three years



Source: KPMG 2022 CEO Outlook

Managing geopolitical risk

CEOs indicate that geopolitical uncertainties will continue to impact their strategies and supply chains. Many UK CEOs have already taken steps to adjust their strategies in response to geopolitical challenges, or plan to do so in the next six months. Almost three quarters (74%) have adjusted or plan to adjust their risk management procedures considering geopolitical risk. And 76% have diversified or plan to diversify their supply chain.

With geopolitics a key agenda item in 2022, CEOs need to be knowledgeable on the subject and on how to navigate the risks. It's important to make a geopolitical risk assessment part of their overall strategy.

Still an appetite for M&A

The global appetite for M&A over the next three years remains strong despite CEOs' economic concerns. Almost half of global CEOs (47%) say they have a high appetite and are likely to undertake acquisitions that will have a significant impact on their overall organisation. A further 38% say their M&A appetite is moderate.

In the UK, 37% of CEOs say they have a high, and 52% a moderate, appetite for M&A. That appetite has risen since the beginning of the year, when 18% of UK CEOs said it was high and 30% moderate.

With higher interest rates and borrowing costs, rapid innovation will be key to staying competitive. Deal makers may be taking a much sharper pencil to the numbers and focusing on value creation to unlock and track deal value, every step of the way.

Tax in the public eye

Three quarters (75%) of global CEOs – and a similar proportion of UK CEOs (73%) – say there's a strong link between the public's trust in their business and how their tax approach aligns to organisational values. What's more, 73% (71% in the UK) say their organisation is feeling heightened pressure to increase public reporting of global tax contributions.

Tackling supply chain issues

The pandemic moved the supply chain onto the boardroom agenda. And geopolitical uncertainty has kept it there.

UK CEOs say their top strategy for mitigating supply chain issues over the next three years is monitoring deeper into their supply chain to better anticipate any potential problems (28%). Those issues may be operational or they may be associated with decarbonisation and the wider ESG agenda.

A similar proportion (27%) of UK CEOs say their top strategy to address supply chain issues is diversifying their supply chains. Onshoring to provide greater resilience is given as the top strategy by 18% of UK CEOs.

"The pandemic and the events in Europe have shown us how interconnected we are as a world. To me, geopolitical issues are the number one risk. I think we all need to build optimised and resilient supply chains"

TV Narendran
Chief Executive Officer and Managing Director
Tata Steel

Technology

Emerging technology a top growth risk

CEOs are keeping technology risk front of mind. It's among the top three most pressing concerns for UK CEOs and their global counterparts. And advancing digitisation and connectivity across the business is identified as the top operational priority for achieving growth by UK CEOs – alongside using the employee value proposition to attract and retain talent, and increasing measures to adapt to geopolitical issues (all 28%).

This continued focus on digital transformation may be driven by an increase in flexible working arrangements and heightened awareness of cyber security threats, exacerbated by geopolitical uncertainty.

61%

say they have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status

The most pressing concerns today

For UK CEOs

1. Economic factors
2. Pandemic fatigue or continued uncertainty/restrictions; emerging/disruptive technology
3. Regulatory concerns

For CEOs across our global sample

1. Pandemic fatigue or continued uncertainty/restrictions
2. Economic factors
3. Emerging/disruptive technology

Source: KPMG 2022 CEO Outlook

"We have always been confident in our technology and innovations, but in our conversations with clients, we realised they needed more than just products — they needed integrated, value-adding capabilities to help advance their own digital transformations."

Takahito Tokita
CEO
Fujitsu Limited

Is a recession putting digital on pause?

The anticipated recession may be pushing businesses to reconsider their strategies. Over a third (36%) of UK CEOs have already paused or reduced their digital transformation strategies, and the same proportion are planning to do so in the next six months. CEOs in other regions are even more likely to have reconsidered their short-term strategy.

There's a recognition that digital investment needs to be prioritised in those areas that help drive growth. Two-thirds (66%) of UK CEOs – and a similar proportion across our global response (70%) – say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

In uncertain times, it's critical that businesses focus their digital investments on impactful and measurable value-creation opportunities that best support their strategic goals.

Partnerships will be critical to digital success

Few organisations can succeed on their own – certainly not when it comes to the pace of digital change. Gaining a competitive edge will require organisations to build partner ecosystems. Two-thirds of UK CEOs (and 71% of our global sample) say new partnerships will be critical to continuing their pace of digital transformation.

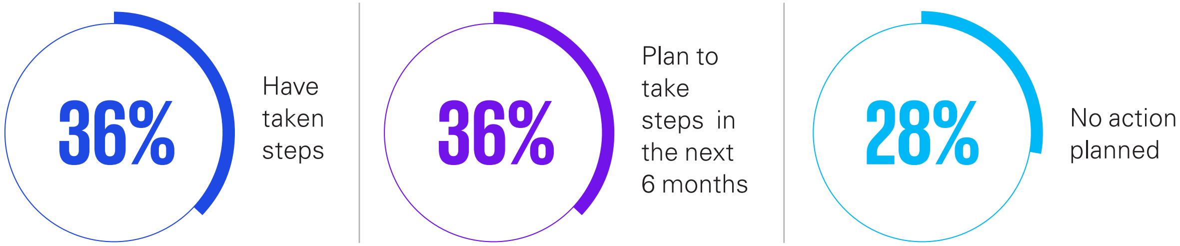
CEOs also see building strategic alliances with third parties as a key strategy in helping them reach their growth objectives over the next three years.

It has become increasingly important for businesses to partner with companies (such as start-ups, fintech and more) that offer them access to the latest tech and skills, and bring agility and resilience. The challenge for CEOs is to identify the right partners and establish connected ecosystems.

66%

say they need to be quicker to shift investment to digital opportunities and divest where they face digital obsolescence

Have UK CEOs taken steps to pause or reduce digital transformation strategies to prepare for a recession?



Source: KPMG 2022 CEO Outlook

Digital transformation needs people

CEOs were offered a binary choice: are they investing more in technology or in their workforce's skills and capabilities? CEOs continue to lean towards capital investments in technology, but the gap is narrowing. In 2020, 65% of UK CEOs said they'd prioritise technology. In 2022, it's 54%. It's a trend matched by the full global sample.

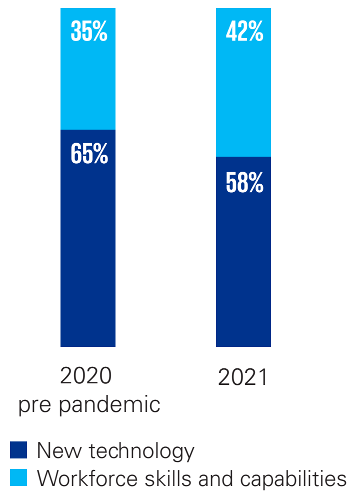
Having accelerated their digital transformations, businesses now need employees with the skills to get the most from their new tools. There's a symbiotic relationship between people and technology. The tech enables people to work more effectively. But it takes people to develop the technology in the first place and get the best from it.

When asked what's holding back their business transformation, 53% of UK CEOs say having the people skills for strategic and operational rollout. Moreover, 61% agree that continuing to drive digital transformation at a rapid pace is critical to their competition for talent and customers.

53%

say their business transformation is being held back by not having the people skills

Technology investments are the priority, but the gap is narrowing



Source: KPMG 2022 CEO Outlook

"Understandably, economic uncertainty has given CEOs pause for thought on their digital investments. But if they're not doing the disrupting, they'll be disrupted. So, how can they press ahead? Having the right skills is key. Digital technology is nothing without the people who implement and operate it. That doesn't mean rushing into hiring data scientists, coders or cybersecurity specialists. Firms need to take a step back and work out what they're recruiting for."

Ian West
Head of Alliances and TMT Sector
KPMG in the UK

Cyber: from risk to strategic function

Global CEOs ranked cyber security as the biggest threat to growth over the next three years when asked in 2021. It was ranked joint second by UK CEOs. It doesn't make it into the top two this year – with UK CEOs focused on political and regulatory uncertainty – but it's still a key focus. And that's in part driven by the greater focus on the political climate. Over two-thirds (67%) of UK CEOs say geopolitical uncertainty is raising concerns of a cyberattack in their organisation.

There is also a recognition among 71% of UK CEOs that a strong cyber strategy is critical to engendering trust with key stakeholders. And that goes beyond securing their own systems. Two thirds (66%) say protecting their partner ecosystem and supply chain is just as important as building their own cyber defences.

But cyber isn't just perceived as important for risk management. Some 70% of UK CEOs say their organisation views information security as a strategic function and as a potential source of competitive advantage.

Cybersecurity is absolutely one of the biggest risks for our industry as we face the future. We manage our risks well, but like any organisation our data is a target. Privacy breaches and scams are threats, and cybercriminals are increasingly sophisticated, but that is the nature of the digital financial landscape. We must continue to adapt, prepare and respond.

Alexis George
Chief Executive Officer
AMP

67%

say geopolitical uncertainty is raising concerns of a cyberattack in their organisation

71%

say that a strong cyber strategy is critical to engendering trust with key stakeholders

70%

view their organisations' information security as a strategic function and as a potential source of competitive advantage

Talent

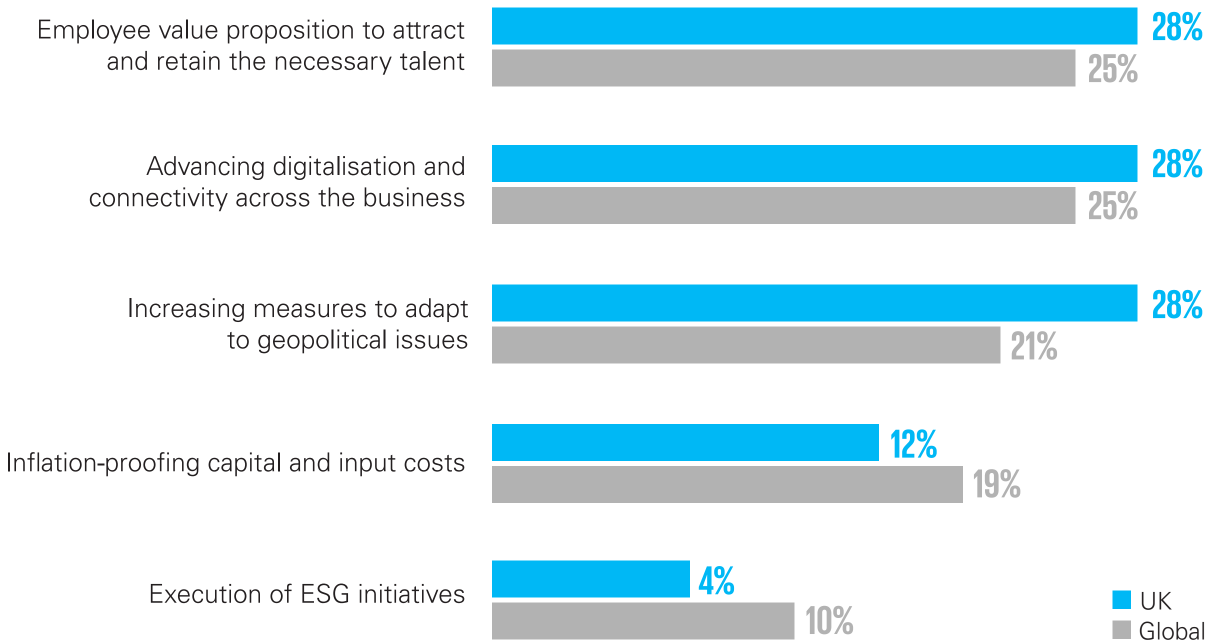
Talent a top operational priority

Geopolitical issues and emerging tech are high on the agenda for CEOs. But organisations also continue to face a war for talent. That's no doubt why having an employee value proposition (EVP) that attracts and retains talent is top of their operational priorities for growth over the next three years, alongside advancing digitisation and connectivity, and adapting to geopolitical issues.

So, how can businesses differentiate themselves when it comes to attracting and retaining talent? Organisations that can demonstrate their corporate purpose and have a strong record on ESG could have an edge.

Asked what the major downside was of failing to meet stakeholder expectations on ESG, UK CEOs gave recruitment challenges as their top answer (27%). And almost three-quarters (74%) say that corporate purpose will be important to strengthening employee engagement and their EVP.

Top operational priorities to achieve growth objectives over the next three years



Source: KPMG 2022 CEO Outlook

Headcount expected to increase over longer term

There's still currently a strong demand for talent. But a recession could see the labour market cool.

As they adjust their strategy to prepare for the impact of recession, over two-fifths (43%) of UK CEOs say they've already implemented a recruitment freeze. And a similar proportion (39%) plan to do so in the next six months. It's a similar picture across our full global sample, with 39% having implemented a freeze and 35% planning to do so.

Moreover, four-fifths (80%) of CEOs – across our UK and full global sample – have considered or will consider downsizing their employee base in the next six months.

But there's a more positive long-term view. Almost four-fifths (79%) of UK CEOs – and the same proportion across the full global sample – expect their organisation's headcount to increase over the next three years.

80%

have considered or will consider downsizing their employee base in the next six months

43%

say they've already implemented a recruitment freeze

79%

expect their organisation's headcount to increase over the next three years

"We have had an opportunity to really focus on our employees — to be more open and honest about subjects including mental health and wellbeing. We've invested in training our people, pushing for change and updating skills to match our new innovations, digital service portfolio and changing customer needs. We want our people to move with us. The skills our team needs today have seen a significant shift versus our original plans. That's because the challenges facing global business, and the pace of change and transformation, have rapidly increased."

Nicola Downing
Chief Executive Officer
Ricoh Europe

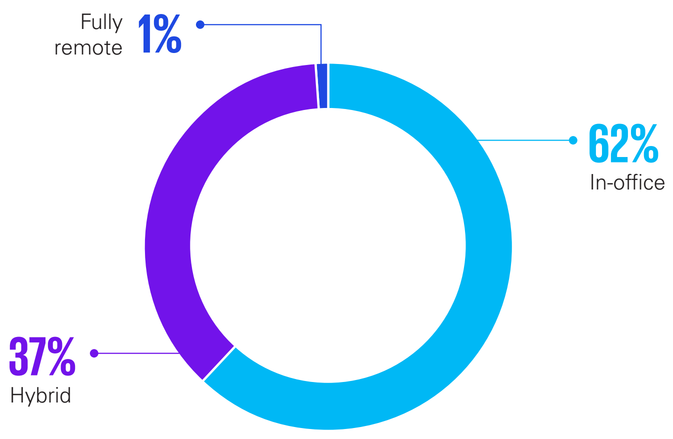
A return to the office

The pandemic brought with it a move to remote working as employees were forced to work from home. And the expectation has been that we'd now move to a hybrid model of work.

Asked about the impact of hybrid working on their businesses over the past two years, a significantly higher proportion of CEOs see it as having a positive than a negative effect. For example, 42% say it's had a positive impact on productivity, compared to just 7% who say it has been negative.

But many CEOs appear to favour a more traditional office-based set up. More than three-fifths (62%) of UK CEOs and a higher proportion across our full global sample (65%) envision that in the next three years, in-office will be the most common working arrangement for employees who were traditionally office-based. That said almost two-fifths (37%) of UK CEOs envision a hybrid working environment – so way ahead of expectations across our global sample (28%). Just 1% expect fully remote working (7%, global).

Expectations of the working environment over the next three years



Source: KPMG 2022 CEO Outlook

"Many CEOs would like to see their people back in the office full time. That's not what most of their employees want, and talented people are leaving, even 'destination' businesses, to get flexibility. Employers shouldn't look at this as an absolute in-office versus remote challenge. Hybrid enables them to give employees some elements of the flexibility they want, whilst also delivering the face time senior leaders seek. The answer is to find a model that delivers the best overall productivity and retention, measure this and adjust going forwards."

Mel Newton
Partner, People Consulting Practice
KPMG in the UK

ESG

Demand for greater transparency

There's a strong recognition among UK CEOs that their progress on ESG is under greater scrutiny. More than four-fifths (84%) of UK CEOs see stakeholder demand for increased reporting and transparency on ESG issues up a significant extent. That compares to 69% across our global sample. And it's a significant increase on last year's finding, when 65% said demand had increased significantly.

That scrutiny is only set to increase, with over two-thirds (67%) of UK CEOs believing that stakeholder scrutiny of ESG issues – such as gender equality and climate impacts – will continue to accelerate.

But CEOs face challenges in communicating their ESG performance to their stakeholders. Top among these is struggling to tell a compelling story (42%). They also face scepticism about greenwashing of ESG performance disclosures (17%), and struggle from the lack of a global framework for measuring and disclosing ESG performance (16%).

To help them meet demands for greater transparency, CEOs are looking to external expertise. Almost two-thirds (63%) say they expect to rely on external assurance of their ESG data.

Recognition of the benefits

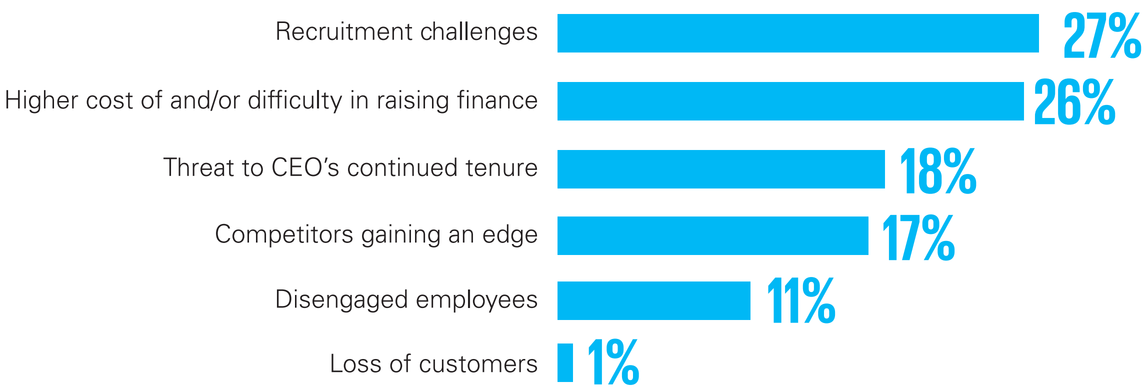
It's not just stakeholder pressure that's keeping ESG in the spotlight. ESG has gone from being nice-to-have to being integral to long-term financial success. CEOs increasingly understand that businesses embracing ESG are best able to secure talent, strengthen their employee value proposition, attract loyal customers and raise capital.

Over three-fifths (62%) of UK CEOs agree that major global ESG challenges – such as income inequality and climate change – are a threat to their company's long-term growth and value.

When asked to rate the impact of their ESG performance on their financial performance, almost two-fifths (39%) said it improved financial performance – with half of those saying the improvement was significant. Just 4% said it reduces financial performance.

There are major potential downsides to failing to meet stakeholders' ESG expectations. UK CEOs are particularly concerned about facing recruitment challenges and difficulty in raising finance – as well as the threat to their own tenure if they don't have a strong ESG record. They rank some way ahead of concerns over losing customers.

The downside of failing to meet ESG expectations



Source: KPMG 2022 CEO Outlook

Key drivers of ESG investment

Investments for ESG are forthcoming. Almost three-fifths (59%) of UK CEOs say they will be looking to invest at least 6% of revenue in programmes that enable their organisation to become more sustainable. It's a similar picture across the full global sample (62%). It's also encouraging that 67% of UK CEOs (74% across the full global sample) see their digital and ESG strategic investments as being inextricably linked.

There are multiple factors driving organisations' ESG strategies over the next three years. Top of these, for UK CEOs and our full global sample is taking a more proactive approach to societal issues, such as an increased investment in a living wage, human rights and a just transition (33%, UK; 34%, global). But other factors also rank highly, with 29% of CEOs selecting 'increasing measurement and governance to build a more robust and transparent approach to ESG' as the key driver, and 26% 'delivering on an actionable inclusion, diversity and equity strategy to address equity in leadership'.

Challenges to delivering ESG

The biggest challenges UK CEOs are facing in delivering their ESG strategies are changing regulations and other pressing global economic matters. With concerns over regulation high, there's a clear need for greater alignment around ESG requirements across businesses, government and regulators.

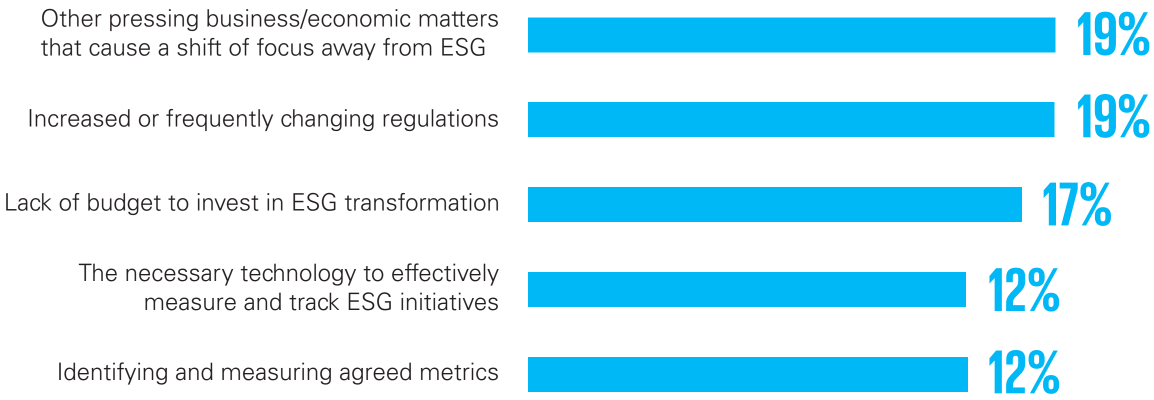
67%

see their digital and ESG strategic investments as being inextricably linked

59%

say they'll be looking to invest at least 6% of revenue in sustainability programmes

Top 5 challenges to delivering ESG strategy over the next three years



Source: KPMG 2022 CEO Outlook

Recession putting ESG on pause?

As CEOs strive to maintain optimism and take steps to insulate their businesses from a recession, indicators point to ESG progress suffering as a result. It's not alone. CEOs are reassessing initiatives in many areas of their businesses, including digital transformation and staffing.

As economic uncertainty continues, 42% of UK CEOs are pausing or reconsidering their existing or planned ESG efforts over the next six months, and 35% have already done so. It's a trend matched in our full global sample, where the respective figures are 50% and 34%.

But, with ESG becoming an intrinsic business imperative, business leaders who deprioritise their ESG commitments and hunker down for the short term face an uphill battle over the longer term.

"CEOs are having to balance the need to build resilient and transparent ESG plans with mitigating the potential impact of a global recession on their businesses. But, now is not the time to put off to tomorrow that which should be urgently progressed today. Businesses that see through effective ESG investments to realise transformative growth will have the upper-hand as economies strengthen. For example, the European energy crisis would not be as deep or as prevalent now, if only leaders invested earlier to reduce demand (by investing in energy efficiency) and in increased security of supply (by investing in renewables). Delaying key E, S, and G efforts could make businesses more reactive in the future rather than help them lead the way with greater transparency, resilience and sustainability. Now is the time for leaders to 'hold their nerve' in doing what's right over the long-term."

John McCalla-Leacy
Global and UK Head of ESG
KPMG International and KPMG in the UK

42% are pausing or reconsidering their existing or planned ESG efforts over the next six months

35% say they have already done so

Barriers to delivering net zero

The UK government has set a target to reach net zero by 2050. Achieving that means doubling down on decarbonisation and other climate initiatives, not putting them on pause.

But CEOs face a number of challenges in achieving their climate ambitions. Among the top barriers to hitting net zero, UK CEOs cite lack of appropriate technology solutions (23%), lack of internal governance (22%), and lack of skills and expertise to implement solutions (21%). So, it's clear that digital transformation, workforce strategy and ESG all need to be aligned.

It's also critical that CEOs have a clear view of the sustainability of their whole business – and that extends beyond their own operations to those of their partners and suppliers too.

The complexity of decarbonising supply chains (29%) is ranked by UK CEOs (and our full global sample – 28%) as the top barrier to achieving net zero. Of course, having supply chain visibility extends beyond climate considerations – it's also vital to tackling social issues, such as modern slavery, and promoting diversity and inclusion.

Bankinter CEO Maria Dolores Dancausa believes it's the financial sector's responsibility to help facilitate positive and sustainable transformation. She argues that transitions to more decarbonised business models give banks a wider range of opportunities, "from the possibility of funding projects that accelerate this dynamic to marketing investment products based on these types of assets".

"High fossil fuel prices make it even more important to double down on net zero. In the short-term there's likely to be some trade-offs to deliver energy security. But with costs of fossil fuels rising, it makes even more sense to invest in green energy."

Simon Virley
Head of Energy and Natural Resources
KPMG in the UK

The financial sector should walk hand-in-hand with companies that are transforming toward more decarbonised business models, and play a role that goes far beyond merely financing the greenest sectors."

María Dolores Dancausa
Chief Executive Officer
Bankinter

Quickening the pace on diversity

Since the pandemic, a growing emphasis has been put on the 'S', the social aspects, of ESG. That's borne out in our survey response, with UK CEOs ranking being more proactive on societal issues (like the living wage and a just climate transition) top among the key drivers to accelerating ESG (33%).

There's also a recognition that the pace of change needs to pick up. Over two-thirds (68%) of CEOs from our full global sample and a similar proportion among our UK CEOs (63%) say that progress on diversity and inclusion has moved too slowly. And almost three-quarters (73%; 65% of UK CEOs) believe scrutiny of inclusion, diversity and equity (IDE) will continue to increase over the next three years.

Awareness is key, and CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. Moving forward, it's important to normalize IDE within companies to avoid fatigue. Any plans need to be intentional and focused on what's possible within their market and business.

Diverse teams are also higher performing — but often only in environments of psychological safety. Over three-quarters (77%; 76% of UK CEOs) say they have a responsibility to drive greater social mobility in their organisations. That's about how organisations are structured and how people are invited into them.

You must focus on recruiting properly to make sure there is a great match with the individual values of a person coming into your culture. Having that match also impacts inclusion, diversity and equality.

Bill McDermott
Chief Executive Officer
ServiceNow

63%

say that progress on diversity and inclusion has moved too slowly

76%

say they have a responsibility to drive greater social mobility in their organisations

Exploring opportunities for growth

Technology

- **Bring your people and technology together:** Organisations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.
- **Work with partners to drive value:** With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise.
- **View cyber security as a strategic function:** Increasingly, cyber is no longer seen as only an IT issue; it's a fundamental business operation imperative. The exponential increase in cyber attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

Talent

- **Experiment with ways of working:** It's important for CEOs to develop working structures that suit their people. It's time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.
- **Tell your ESG story:** A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. It's important for CEOs to articulate for stakeholders the steps they're taking to address ESG in their organisations.
- **Build, don't follow:** Organisations and their employees are changing, and leaders need to reinvent the enterprise workforce. The old talent management playbooks are out of date, and the challenge is that there aren't new ones to replace them — yet. The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

ESG

- **Recognise ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs increasingly agree that ESG programmes improve financial performance, which includes being able to secure talent, strengthen the employee value proposition, attract loyal customers and raise capital.
- **Invest in real-time technologies:** CEOs should monitor deeper into their supply chain (i.e. at the third and fourth levels). Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to identify where ESG-related issues exist and improve visibility across the entire value chain.
- **Take the lead on IDE:** CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It's important to normalise and create a culture of IDE across the organisation to attract and retain new employees.

Methodology and acknowledgments

About the report

The 8th edition of the KPMG CEO Outlook, conducted with 1,325 CEOs (150 CEOs from the UK) between 12 July and 24 August 2022, provides a unique insight into the mindset, strategies and planning tactics of CEOs.

All respondents have annual revenues over US$500 million and a third of the companies surveyed have more than US$10 billion in annual revenue.

The survey included leaders from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: some figures may not add up to 100% due to rounding.

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