KPMG

Agile or irrelevant:

Redefining resilience

2019 U.S. CEO Outlook

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On building a resilient organization

U.S. CEOs face a choice: agility or irrelevance. A majority of the 400 U.S. CEOs we surveyed for this year's CEO Outlook told us that being too slow can lead to obsolescence, a marked increase from those who thought so last year. What has changed? The answer is clear: The speed of change is only getting faster.

How best to build a resilient company? As CEOs are embarking on aggressive, mostly inorganic, growth, they need to bear in mind that resilience means being able to change at the right speed—and in such a way that the company endures. And that means building a resilient company on the foundation of innovation, and not simply doing things faster. It is crucial for resilience to comprehensively encompass all relevant areas of the organization: its technology and its people, equally.

In this year's *CEO Outlook*, CEOs and KPMG LLP leaders share their perspectives on the best way to build resilience. It is a process that often takes recalibrating timelines and expectations, understanding the opportunities and potential pitfalls of technologies, and making choices between what to disrupt and what to protect. The wrong choice in any of these areas can lead to irrelevance. We hope that you will find this report useful as you build resilient organizations.

As always, we sincerely thank the CEOs who took the time to share their views with us.

Lynne

Lynne Doughtie
KPMG U.S. Chairman and CEO

Key findings

Resilient growth: Positive outlook and tempered optimism

U.S. CEOs are more positive about the economic outlook for the next three years than all CEOs in the global survey. They are, however, cognizant of the potential threats to globalization that may hamper their growth outlooks. A majority (81 percent) plan to pursue inorganic growth, favoring strategic alliances and M&A.

Redefining resilience: The disruption dilemma

Fewer CEOs than last year (73 percent compared with 86 percent in 2018) claim that rather than waiting to be disrupted by competitors, their organizations are actively disrupting the sectors in which they operate. At the same time, 76 percent agree that their growth relies on their ability to challenge and disrupt any business norm.

Technology resilience: Realistic timeframes and more acceptance of AI

Technology is a big part of today's CEOs' agendas, with 89 percent feeling personally responsible for leading technology strategies in their organizations. Artificial intelligence (AI) has an impact on the organization and on CEOs' decision making. CEOs have become more realistic about the scope, timeframes and returns on AI implementation, but at the same time are becoming more enthusiastic about AI-driven decisions.

Technology resilience: The beginning of an integrated approach in cyber security

U.S. CEOs view cyber risk very much as part of technology risk. In fact, 44 percent of those who consider emerging or disruptive technologies as the greatest threat to their organization's growth classify cyber security risk as its cause. Another 16 percent point to cyber security risk itself as their organization's top threat. This helps align cyber with enterprise risk, which is a good sign given that fewer U.S. CEOs feel prepared for a cyberattack.

Redefining resilience: Agile or irrelevant

Agility has emerged as a critical capability. Sixty-eight percent of U.S. CEOs believe that it is a do-or-die for business—that being too slow can lead to obsolescence. Agility requires maturity in innovation processes: Sixty-three percent agree that over the next three years they need to improve their innovation processes and execution.

Customer resilience: Values-driven understanding

Seventy-seven percent of U.S. CEOs believe that they could further improve their understanding of their customers. That understanding also involves customer values, as 81 percent feel it is their personal responsibility to ensure that their organization's ESG policies reflect the values of their customers.

Workforce resilience: Balancing act in the tug of talent and technology

Talent and technology are both key to growth, and in the times of the Fourth Industrial Revolution there can be a push and pull between investing in one or the other. When asked to make a point-blank choice between investing in technology or people, more than two-thirds of executives chose technology. But that does not mean that CEOs are neglecting their workforces. Modernizing the workforce is the top strategy to help ensure that organizations are future-ready (35 percent).

> “Growth in the U.S. is not robust, but it is steady, bolstered by continuous jobs growth and gradually improving wages. When I speak to CEOs, one legitimate concern is around the expectation for how long the expansion can continue.”
>
> – Constance Hunter, KPMG Chief Economist

Resilient growth: Positive outlook and tempered optimism

U.S. CEOs express high levels of confidence about the economic outlooks for the U.S., their companies, their industries and the global economy.

“Now that the economic expansion is likely to break all previous post-World War II records in terms of length, it’s unsurprising that CEOs are feeling positive. Growth in the U.S. is not robust, but it is steady, bolstered by continuous jobs growth and gradually improving wages. When I speak to CEOs, one legitimate concern is around the expectation for how long the expansion can continue, especially as the risks to growth continue to build,” says **Constance Hunter, KPMG’s Chief Economist**.

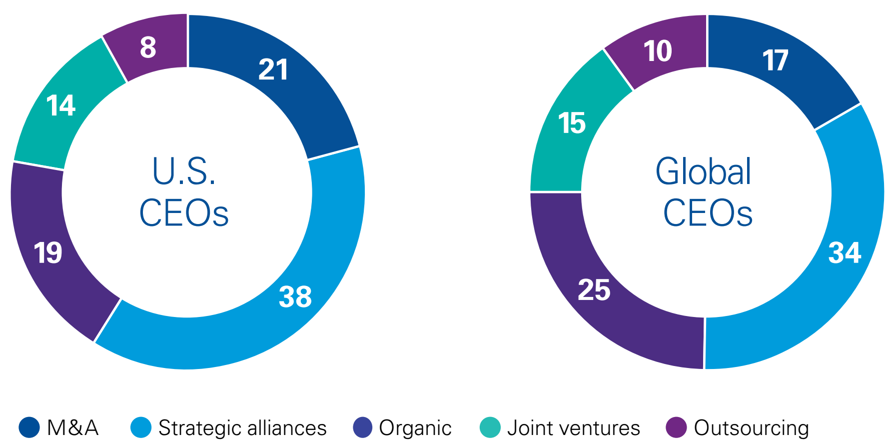
Please indicate your confidence levels in the growth prospects for the following:
(Respondents who are confident or very confident)

U.S. CEOs are committed to global expansion, more so than CEOs globally. A majority of U.S. CEOs continue to express interest in expanding to emerging markets (74 percent), with the top focus on Central and South America (33 percent). Additionally, more U.S. CEOs are prioritizing countries and regions that form part of China's Belt and Road Initiative (85 percent U.S. vs. 65 percent globally), are more likely to invest in the U.K. post-Brexit (76 percent U.S. vs. 53 percent globally) and view building their presence in emerging markets as building resiliency as a business (93 percent U.S. vs. 87 percent globally).

Their optimism is somewhat tempered by the perceived threats to globalization and the spread of protectionist policies. **Jonas Prising, Chairman and CEO of ManpowerGroup**, a leading global workforce solutions company, is cognizant of the unequal impact that current technology-driven growth has on different participants. "The Fourth Industrial Revolution is affecting a lot of people in different ways and not all of them positively," he says. "The concern around polarization, aside from the obvious downside of people not having such a good time, is that it's starting to affect politics and ideology in a way that makes the environment unpredictable and highly volatile," he says.

A majority of U.S. CEOs (81 percent) are planning to pursue inorganic growth. KPMG's **Hunter** sees the reticence to invest in organic growth (19 percent) as somewhat incongruous with the high levels of optimism about economic growth. "The only chink in the armor is this disconnect between how much CEOs say they're going to invest in R&D and innovation versus how much they think they're going to grow through M&A and strategic alliances," she says.

Which of the following strategies will be most important for achieving your organization's growth objectives over the next 3 years?



Note: Numbers do not total 100% due to rounding

The largest number of U.S. CEOs (38 percent) cite entering strategic alliances with third parties (compared with M&As being the top way to grow last year). "We continue to be in a growth market that is driven by disruption. Forming strategic alliances is allowing companies, today more than ever, to quickly innovate and enter new markets where they're not constrained by their traditional, organic growth structures," explains **S. Singh Mecker, KPMG's U.S. Leader, Alliances and Partnerships**.

Arrow Electronics, a technology services company, will launch an open lab the second half of 2019 that will serve as a test site for establishing certain standards for artificial intelligence, where the company collaborates with municipalities, agencies, businesses, universities and research institutions on issues such as street lighting, public safety and security. "You have to work with other companies and pull together information from many to have a solution that works for all. It's our core belief that technology and innovation are enablers of progress and the improvement of everyday life, and if that's really something you believe in, that means you have to be able to work with everyone," says **Michael Long, Chairman, President and CEO of Arrow Electronics**.

> As technology disrupts many industries, companies find they need to expand their talent and their products to grow.
>
> – Daniel Tiemann,
> KPMG U.S. Lead Partner,
> Deal Advisory and Strategy

But while strategic alliances are a chosen way to stay competitive, CEOs recognize that they can be tricky. Almost two-thirds (65 percent) believe that the only way for their organization to achieve the agility it needs is to increase the use of third-party partnerships. Yet the same number also admit that in the past they have reconsidered a third-party partnership that would have helped with growth because the third party did not fit well with their organization's culture and purpose.

Mecker points to three main determinants of whether an alliance will be a success or failure. The first is alignment about market opportunity and shared strategy. The second issue relates to operational execution, defining each party's role in executing the alliance's goals. Finally, the third element necessary to ensure a well-functioning alliance is around the culture. Not all cultures can unite to form a proverbial melting pot, and without agreement about reporting structures, incentives and purpose, an alliance is bound to be strained.

While challenges run across all three areas, **Mecker** believes that execution and culture are more difficult to get right. Creating a collaborative culture requires consistent definitions of success, accountability, support and rewards on both sides of an alliance partnership.

Almost half of U.S. CEOs (49 percent) describe their M&A appetite as high this year, compared with 36 percent last year. Apart from the continuing economic conditions that are ripe for M&A and joint venture activity—such as a strong economy, low interest rates and high confidence—advances in technology are driving new business models. In many cases, companies choose joint ventures or acquisitions to introduce new business models and products and to secure access to new technologies and talent. "As technology disrupts many industries, companies find they need to expand their talent and their products to grow. Companies can either hire, acquire or enter into a JV to gain the talent and technology," says **Daniel Tiemann, KPMG U.S. Lead Partner, Deal Advisory and Strategy**.

Technology, and specifically data analytics, also plays a role in the process of M&A. It is making the M&A due diligence much more precise, with data streams from across companies enabling up-to-date analysis, producing granular insights about synergies, down to a person or machine. "Data analytics allows buyers to gain new insights on assets before they acquire them, which will make them better buyers in the long run," says **Tiemann**.

Redefining resilience: The disruption dilemma

This year's findings point to what we are calling "the disruption dilemma," as CEOs' responses seem to be contradictory, showing both interest in disruption and a high dose of caution.

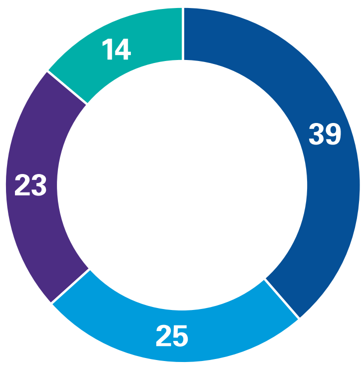
Fewer CEOs than last year (73 percent compared with 86 percent in 2018) claim that rather than waiting to be disrupted by competitors, their organizations are actively disrupting the sectors in which they operate. At the same time, 76 percent agree that their growth relies on their ability to challenge and disrupt any business norm.

If the ability to disrupt is so crucial, why are fewer CEOs than last year ready to do so? As **KPMG's Lynne Doughtie** noted in her letter, the crux lies in the ability to not only change fast but also in the right way. And some of the U.S. CEOs may have issues with the latter. As this year's survey findings show, emerging and disruptive technology is perceived as a top risk, and protecting the core business is seen as a sign of true resilience. Both of these findings may be why CEOs are inclined to take a more cautious approach to disruption this year.

Which of the following risks pose the greatest threat to your organization's growth?

Emerging/disruptive technology risk	23%	Regulatory risk	9%
Environmental/climate change risk	17%	Reputational/brand risk	5%
Cybersecurity risk	16%	Talent risk	3%
Operational risk	13%	Supply chain risk	2%
Return to territorialism	11%	Interest rate risk	2%

Please select the option that best completes the following statement: Above all, in an uncertain business climate, a truly resilient business is one that can...



For **Kathy Warden, CEO and President of Northrop Grumman**—a leading global security company—having the resilience to survive repeated, accelerating disruption is about listening and acting with agility. "You need market awareness," she explains. "If you don't see it coming, you certainly aren't going to be prepared for disruption. That requires a level of customer engagement that many companies did not need to have in the past. They absolutely need to stay closely attuned to their customers' needs in a much deeper way now."

"You also need to be able to respond very quickly," she adds. "The lead times in seeing those indicators as disruption and trying to take advantage of that disruption is accelerating. A company has to be able to adapt very quickly."

In addition, it is essential for organizations and their functions to anticipate and manage potential disruptors in order to mitigate risks and remain competitive and relevant in a world where traditionally successful business models no longer work. **Jeffrey C. LeSage, Americas Vice Chairman-Tax at KPMG** points to the impact of tax reform. "For corporate America, scrutiny of and sensitivity to tax have never been greater. U.S. tax reform, in addition to global economic and political uncertainties, government interventions and technological advances are placing greater demands on the C-suite, at a time when most companies are already struggling to meet or exceed growth expectations. Leaders face questions about tax projections, the outcomes of processes and planning, and the options regarding how their organizations can navigate in the new tax landscape – and their responses can have consequences for both regulatory and reputational risk," he says.

What does a mature innovation process look like?

It is integrated, with funding and formal links to business units and strategy solidified, the innovation portfolio tied to corporate visions, and outcomes that are both tracked and realized. A mature innovation process is also optimized, making it repeatable, scalable and pervasive (i.e., "part of the corporate DNA"). Currently, just 17 percent of companies boast an integrated or optimized innovation process, according to Benchmarking Innovation Impact 2018.[1]

1 Benchmarking Innovation Impact 2018; KPMG and IL Research

Redefining resilience: Agile or irrelevant

What bodes well for CEOs' dedication to creating resilience is how decisively they embrace agility, which has emerged as a critical capability this year.

Sixty-eight percent of U.S. CEOs believe that it is a do-or-die for business; that being too slow leads to irrelevance. It is a significant increase since last year, when just 14 percent of U.S. CEOs thought so.

"With new transformative business models and service offerings emerging to keep pace with the demands of connected consumers, companies must be more agile across their service offerings with innovation and investment decisions executed quickly," says **Carl Carande, Vice Chair, KPMG Advisory**. "Agility can be achieved via strategic alliances and joint ventures to enable rapid technology disruption in fast evolving markets."

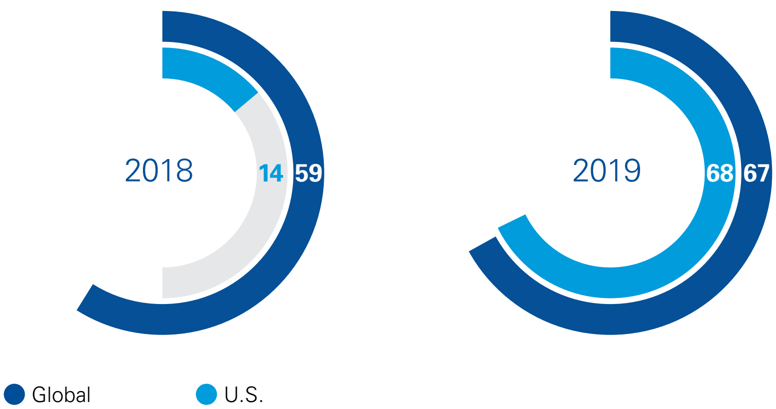
To stay ahead, **Jeffrey Simmons, CEO of Elanco Animal Health** focuses on leading indicators rather than lagging ones such as last quarter's sales or costs. "I spend hours studying the execution and the details of our business from manufacturing, through our pipeline to our sales organization, with the focus on lead indicators," he says. "I want to know: How many sales calls are currently going out, and what is their quality?"

The rate of change and its monitoring is just one of the variables of agility, which is about much more than speed and flexibility. Agility is not a characteristic of a company, but a capability that starts with reading and interpreting the signals of change, decision making about investing in a portfolio of new initiatives to create change, and democratizing innovation.

"Today, it's essential for companies to have a sophisticated sensory capability that detects signals of change in all aspects of business including technology, regulatory, political and environmental. Companies that are able to elongate their lead time—even by a fraction—have an immediate advantage in a fast-paced world. By seeing around the corner, companies can calibrate their investment portfolios, attract and retool talent, and provide a better product," according to **P. Scott Ozanus, KPMG U.S. Deputy Chairman and COO**.

Acting with agility is the new currency of business; if we are too slow, we will be bankrupt

% of CEOs who agree



"Agility requires maturity in the innovation process," points out **Mike Nolan, KPMG Vice Chair, Innovation & Enterprise Solutions**. "Without a mature innovation process that includes prioritization, governance and funding vehicles, your ability to respond to new market disruption as part of normal business activity is difficult."

A vast majority of U.S. CEOs (78 percent) believe that they have structures in place to review their business models and ensure they stay competitive in the face of disruption. However, few believe that their innovation processes are mature: Sixty-three percent agree that over the next three years they need to improve their innovation processes and execution, compared with 8 percent last year. This recognition of the need to improve innovation processes, coupled with their recognition that being too slow leads to irrelevance, proves that CEOs understand the importance of such processes for becoming and staying agile.

With revenue of over $514 billion a year, pivoting a giant like **Walmart** to digital has required significant organizational agility. **For President and CEO Doug McMillon** that sort of agility is only possible if leaders are prepared to open their minds to new ideas and commit to a process of ongoing learning.

"To stay agile today, I think we, as individuals and as a team, have got to be taking in information—being curious and reaching out and learning from people," he says. "Being a company the size of Walmart, it's important that we become lifelong learners across the entire company. We have a lot of leaders in the company—around the world—but each one of us, individually, has got to be growing and learning every day."

Technology resilience: Realsitic time frames and more acceptance of AI

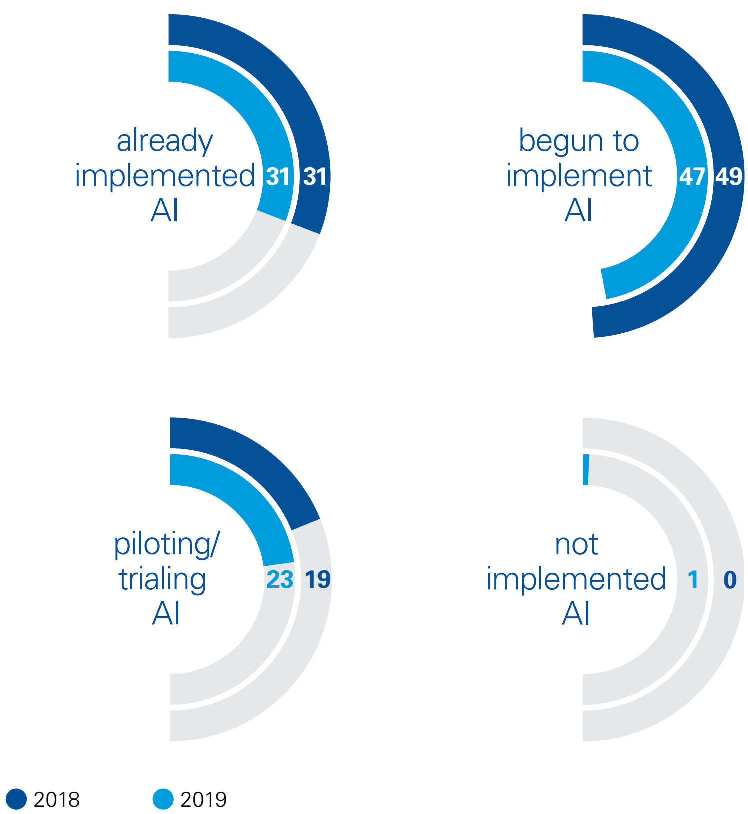
In building a resilient organization, technology is a double whammy: it is a top driver of disruption and a top risk.

No wonder then that technology is a big part of today's CEOs' agendas, with 89 percent feeling personally responsible for leading technology strategies in their organizations. Artificial intelligence (AI) is one of the most promising advanced technologies, with an impact on the organization and on the decision making by the CEO personally. This year the CEOs' thinking about AI has yielded some seemingly contradictory findings—CEOs do not seem to believe that their companies have made that much progress in terms of AI implementation since last year, and they do not expect AI projects to yield results as fast as they did in 2018. At the same time, however, they are now more likely to use AI in their decision making.

Brad Fisher, KPMG U.S. Leader of Data & Analytics and Artificial Intelligence, explains that these results illustrate the increased complexity and scope of AI implementations, and not that progress is stalling. "The majority of companies are somewhere in the middle of their AI implementation journey. As they complete initial use cases, they are identifying additional areas that AI can impact. They are not moving slower but expanding the uses of AI," he says.

And while the returns may take time, "the value in terms of being able to streamline or automate your business, or derive insights that you didn't have before or create entirely new business models means that AI is worth the wait," says **Fisher**.

Which of the following best describes your organization's application of AI in the automation of its processes today?



William Amelio, CEO of Avnet, recognized the need to transform the company's business model from a technology distributor to a technology solutions provider to support projects leveraging Internet of Things and AI. "Today we are able to guide our customers from idea through prototyping to finished product faster with less cost and complexity," he says.

In effect, what is being revealed during the implementation is that becoming truly AI-enabled is a multi-step process, which involves technology, data, rethinking business processes and workforce elements, as well as all the risk and compliance issues.

Over what time do you expect to see significant return on investment from AI?

	2018	2019
We have already achieved significant return on investment	8%	0%
In 3 years or less	62%	47%
In 3 to 5 years	28%	51%
In 5 to 10 years	2%	2%

KPMG's **Fisher** defines four key steps, starting with the experimentation and the prototyping before proceeding to a repeatable value stage, where companies are creating and utilizing data-driven insights. The third stage is about integrating AI into operations, much like a technology application, with AI running within a system. It is only at this stage that companies can start to think holistically about enterprise transformation. "AI is something that you build in a multi-step process, and not something you buy and install," he adds.

Despite the realization of the scope and complexity of AI, CEOs are more accepting of it as it relates to their own decision making than they were last year. Sixty-six percent of CEOs told us that over the last three years, they overlooked insights provided by computer-driven data analysis because they were contrary to their experience and intuition when making critical decisions, compared with 78 percent in 2018. They have thus shown that they are more inclined to incorporate data in their decision making, even though CEO-level decisions have been traditionally made using intuition and personal experience.

Frank Casal, Audit Vice Chair at KPMG US, points out that investment in advanced technologies can provide CEOs with a deeper understanding of their business, their industry and the risks they face.

Artificial intelligence, robotic process automation, data and analytics capabilities, workflow automation, cognitive technologies, natural language processing and other emerging technologies can streamline business transactions and replace labor-intensive, tedious and time-consuming tasks across the enterprise. Auditors—both inside the company and the external auditor—can also leverage these technologies and their output.

In the reinsurance industry, data-driven insight is critical, with reinsurers having to weigh up risk exposure, make accurate decisions at speed and respond to a fast-changing marketplace. For **James Bracken, CEO of reinsurer Fortitude Re**, the exponential growth of data—and the increasing connectivity of the world—is demanding new skills of CEOs. "The velocity of information flowing through the system today is significantly greater," he says. "Therefore, the ability of people to synthesize and understand that data quickly—and react to it—is probably the differentiating factor that will define those who are successful and those who are not."

While it is understandable that as AI implementations grow in scope their deadlines and returns are getting extended, the importance of being an early mover cannot be overstated. "Early movers who implement AI proactively are going to be in a much better position to expand their business, and thereby create jobs," says **Fisher**.

Ultimately, technology resilience needs to be viewed in a broad, societal context. "We are living at a crucial time in history where the impact of technology on every part of our daily life and work and every aspect of our society and economy is more acute than ever before. What the world needs is technology that benefits people and society more broadly and is trusted," said **Satya Nadella, CEO, Microsoft**. [2]

2 Microsoft Annual Report

Technology resilience: The beginning of an integrated approach in cyber security

Continuing technology-driven disruption fueled by advanced technologies, such as artificial intelligence, blockchain or cloud, creates more fertile ground for cyber security breaches and attacks. These threats require an integrated approach, embedding cyber in all technology-fueled growth decisions.

It is thus reassuring that U.S. CEOs view cyber risk very much as part of technology risk. In fact, 44 percent of those who see emerging or disruptive technology risk as the greatest threat to their organization's growth classify cyber security risk as its cause.

"CEOs are no longer looking at cyber risk as a separate topic. More and more they have it embedded into their overall change programs and are beginning to make strategic decisions with cyber risk in mind. It is no longer viewed as a standalone solution," says **Tony Buffomante, Global Co-Leader, Cyber Security Services at KPMG**. He notes that boards of directors are changing the way they perceive cyber risk. In particular, there is a movement to move the cyber risk topic out of the audit committee and into a technology committee, or, even better, a risk committee. "This helps us align cyber with enterprise risk, as it should be," says **Buffomante**.

He warns about the new threats created by technologies such as AI, and the need to protect AI from making decisions based on misinformation. While the wide-ranging promise of artificial intelligence and techniques such as deep learning is truly exciting, the technology underlying these advances is now also available to those who would use it for mischief and worse.

That's the blessing and the curse: adaptive, intelligent bots can learn to do remarkably precise and reliable work designed to illuminate or deceive. From an enterprise perspective, the questions in relation to artificial intelligence, machine learning and deep learning are around augmenting existing systems to respond to these threats and malicious software attacks in a near-automated fashion. Deep learning represents an opportunity for organizations to augment and build out security capabilities to protect, enable and sustain the business.[3]

CEOs also recognize the importance of cyber security for maintaining the reputation of their companies with their stakeholders. Companies must better position themselves to seize the opportunities arising from consumer trust agendas, which have gained priority against the backdrop of new cyber threats to both organizations and consumers who use their products.

And while more CEOs recognize the importance of cyber security, fewer feel prepared for cyberattacks, as the increased complexity of digital transformation driven by advanced technologies also increases the complexity of the potential fallout from cyberattacks. The adoption of an integrated approach to cyber risk is thus a very welcome development.

72% of U.S. CEOs agree this year that "strong cyber security is critical to engender trust with our key stakeholders," compared with 15% last year

68% of U.S. CEOs consider their companies prepared for a cyberattack this year, compared with 77% last year

3 Fighting cyber with cyber, Deep learning threats demand deep learning solutions; KPMG 2018

Workforce resilience: Balancing act in the tug of talent and technology

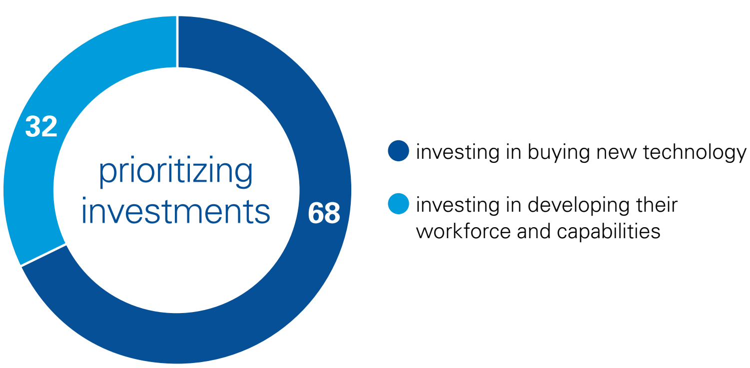
People are at the core of every organization, and their decisions and actions determine its success or failure. "If you want your business to succeed, you have to put your people first," says Darren Burton, Vice Chair Human Resources, KPMG U.S., who adds that CEOs and corporate boards have a critical role to play in workforce development.

"Workforce development is a strategic issue that calls for a strategic approach from the highest levels of any corporation," he adds. "Ultimately, it's about ensuring the right tools and programs are in place to enable a skilled, capable and engaged workforce that can support your business needs, now and into the future."

Talent and technology are both key to growth, and in the times of the Fourth Industrial Revolution there can be a push and pull between investing in one or the other. When asked to make a point-blank choice between investing in technology or people, more than two-thirds of executives chose technology. However, CEOs' attitudes about the role of technology have shifted drastically since last year. In fact, last year U.S. CEOs sounded a bit myopic, with almost four-fifths believing that technology was the only significant disruptor they faced. This year, more than three-fourths acknowledge the importance of disruptors beyond technology.

> "Workforce development is a strategic issue that calls for a strategic approach from the highest levels of any corporation."
>
> – Darren Burton,
> Vice Chair Human Resources,
> KPMG U.S.

Thinking specifically about improving your organization's resilience, which of the following investments are you prioritizing?



This openness to more factors of disruption is reflected in their attention to their workforces. For **Northrop's Warden**, technology and capabilities are critical, but people are the key ingredient in the recipe. "Both are absolutely essential, but I lean toward people," she says. "People are the source of innovation—the source for thinking that allows you to apply technology in novel ways to support the company's underlying business model. For me, investing in talent and ensuring that people's skills evolve in relevance over time is absolutely critical."

CEOs agree that modernizing the workforce is the most important strategy to ensure that their organizations are future-ready. They also believe that, overall, technology will be a job creator, and they are willing to upskill their current employees (as opposed to being split on the issue last year). A majority of CEOs are planning to upskill between 40 percent and 60 percent of their employees.

One area where U.S. CEOs are decidedly more optimistic this year is the impact of AI on jobs. Seventy-three percent believe that AI and robotics will create more jobs than they eliminate, compared with 52 percent last year. While a lot of attention has focused on the potential negative impact of automation technologies on jobs, **ManpowerGroup's Prising** believes that this detracts from what is actually important: building the skills that companies will need to succeed and drive long-term value in a digitized world. "Too much time is spent on debating the impact of job elimination and not enough time on the need for a skills revolution," he says.

To be resilient in the face of increasing digital disruption, leaders need a forward-looking strategy for building the talent profile and people skills their organization will need to prosper. "We are seeing that employers are

Which strategy are you most relying on to ensure your organization is future-ready?

Modernizing the workforce (adopting lean, intelligent automation, skills on demand)	35%
Improving customer engagement	26%
Refining how we value assets (including data)	22%
Reimagining internal functions as services	19%

73% believe that AI and robotics will create more jobs than they eliminate, compared with 52% last year finding it difficult to find the skilled talent that they need on a global basis," says **Prising**. A holistic approach that combines both strategic hiring and skills development will be critical to closing that gap. "Employers are understanding that they can build skills, they can buy skills, they can borrow skills. Many more companies are trying to upscale and rescale their workforce."

KPMG's Chief Culture Officer, Claudia Saran, believes that properly integrating technology and the human workforce not only helps a company's financial results, but also can serve to strengthen a company's culture. For example, 92 percent of U.S. CEOs state that they want their employees to feel empowered to innovate without worrying about negative consequences for them if their initiatives fail. "One of the enablers of an innovative culture is a high comfort level with disruptive technologies. Those same technologies can also be utilized to help the organization learn from its innovation efforts – both successes and failures," says **Saran**.

Elanco's Simmons ties being a purpose-driven company with having an innovative workforce. "If you work for a purpose-driven company, you are highly engaged, and you are so passionate about the work that the freedom to innovate happens naturally. Purpose-driven employees come up with a solution not because of pay or because they're trying to get promoted, but because of the purpose they pursue," he says.

How effective is your organization's existing workforce in these areas?

Net highly effective

Data scientists	81%
Emerging technology specialists	70%
Cyber security specialists	68%
Scenario- and risk-modeling specialists	61%
Evolving workforce experts	60%
Digital transformation managers	59%
Governance/ethics experts	58%
Emerging markets experts	54%
Sustainability experts	45%

Customer resilience: Values-driven understanding

If anything is certain in business, it is that understanding customer expectations—and the ability to fulfill them—will only become more important.

It is not surprising then that 77 percent of U.S. CEOs believe that they could significantly improve their understanding of their customers.

"We're reimagining what the future looks and feels like for our clients. We're going from only thinking about our clients – to also thinking like our clients. It's about getting into their mindset to better understand their needs and evolving expectations, says **Penny Pennington, Managing Partner, Edward Jones**.

KPMG's research reveals that understanding the customer includes many different facets, starting from motivation, the best channels for engagement and shopping, the impact of life events on shopping and spending, and decision making about how much customers are willing to spend. Making things tougher, these variables vary by individual customer, which is why creating the shopping experience requires precise and nuanced personalization.

"Companies are investing in the personalization of customer experience because they see it as a winning strategy," says **Julio J. Hernandez, KPMG Advisory partner and leader of the firm's Global Customer Center of Excellence and U.S. Customer Advisory practice**. However, 58 percent of CEOs say that the investments they have made in trying to personalize the customer experience have not delivered the growth benefits they were hoping for (compared with 7 percent last year). Hernandez attributes these results partly due to the increased focus on measuring and attributing the results of personalization, marketing and broader front-office investments.

Data is, of course, the key to understanding the customer and also measuring the results of marketing campaigns. KPMG's research reveals that a majority of customers (71 percent)[4] are willing to trade their data to the company for better customer experience and personalization,

77% of U.S. CEOs believe they could significantly improve their understanding of their customers

81% feel it is their personal responsibility to ensure that their organization's ESG policies reflect the values of their customers

4 Me, my life, my wallet; KPMG International Global Customer Insights, second edition

improved security, and better values and prices. At the same time, however, a majority of customers feel anxious about unauthorized tracing of their online habits by companies and other institutions and about identity theft.

"While there's a clear recognition that understanding customers is very critically important, there's also a clear mandate to make sure companies do so in an ethical and a protected way. Companies are navigating this in a very proactive manner, to fuel profitable growth," says **Hernandez**.

CEOs are also very mindful of creating values that their customers expect from today's business. Eighty-one percent feel it is their personal responsibility to ensure that their organization's ESG policies reflect the values of their customers. Meeting customers' expectations in terms of values is part of an overall value proposition of U.S. CEOs.

Companies face a choice about what types of causes to get involved in and promote, and very often such causes are tied to companies' competencies or the needs of the communities they operate in. For **Hikmet Ersek, President, CEO and Director of Western Union**, supporting education, was, in a way, a call from his customers. The number one reason that people send money via Western Union worldwide is for education. Thus, Western Union Foundation is committed to the support of global education, and it draws on strategic philanthropy and the strength of Western Union's core business assets, including cause marketing, employee engagement, shared value products and services, and advocacy.

And while many CEOs (49 percent) struggle to link growth strategy with a wider societal purpose for the organization, for **Ersek**, you can't have one without the other: "Creating shareholder value means creating everybody's value."

> "While there's a clear recognition that understanding customers is very critically important, there's also a clear mandate to make sure companies do so in an ethical and a protected way. Companies are navigating this in a very proactive manner, to fuel profitable growth."
>
> – Julio J. Hernandez, KPMG Advisory partner and leader of the firm's Global Customer Center of Excellence and U.S. Customer Advisory practice

Conclusions

Resilient growth

With U.S. CEOs committed to global expansion amid concerns about how long the current economic expansion can continue, it is crucial for organizations to attempt resilient growth. Such resilience can be attained by:

- Incorporating sustainable growth goals in their strategies, and creating value in the communities they operate in and the markets they target.
- Continued focus on internal innovation and R&D investments, especially when it comes to their core assets and services.
- When forming partnerships and merging with other companies, CEOs can help ensure that such partnerships will succeed by aligning market opportunities and shared strategy, defining each party's operational execution roles and assessing the ability to unite corporate cultures. Using data analytics tools in the process of M&A for more precise due diligence can help better understand a prospective partner.

Redefining resilience

CEOs are facing a disruption dilemma—they acknowledge that their organizations' growth relies on their ability to challenge and disrupt any business model, but are less inclined to do so than a year ago. They also understand that being too slow in business leads to irrelevance. To achieve resilience, they need to first redefine it by:

- Making agility—defined as a set of mature innovation processes—a top capability that helps ensure companies are able to respond to new market disruption as part of normal business activity and keeping the pace inside the company at least on par with the external pace of change.
- Adopting a broad view of agility that includes integration of the innovation process with funding and outcomes tracking and creating an innovation process that is repeatable, scalable and pervasive.
- Continued focus on constant review and improvement of innovation structures and creating formal innovation frameworks that incorporate the latest technologies in the process of innovation itself.

Technology resilience

Technology is a key driver of disruption and it is also the top risk. Thus, the ability to balance technology's risks and opportunities is imperative for staying competitive and engendering the trust of stakeholders. CEOs are:

- Recognizing that advanced technology implementations are a multi-step process, and the complexity, scope and timelines of such projects can be a moving target. Adjustments in implementation schedules can be caused by identifying new uses and areas that new technologies can impact.
- When possible, gaining the early mover advantage. It is key, especially with technologies such as AI. Organizations that gain this advantage will likely find themselves in a much better position to expand their business.
- Embedding cyber security in the overall change programs. Cyber security needs to be aligned with enterprise risk and not viewed as a standalone solution and also can be positioned as a competitive advantage to gain stakeholders' trust.

Workforce and customer resilience

CEOs recognize that in this technology-driven era, it all comes down to people. Creating shareholder value starts with creating value for all stakeholders. To this end, the "people first" approach should include:

- Constant modernization of the workforce, and a holistic approach that combines strategic hiring and skills development; upskilling and reskilling the current workforce to deal with technologies that might be perceived as posing a threat to their jobs; and creating a purpose-driven company in which employees become highly engaged in their work and are rewarded for their creative engagement.

Methodology

Research for KPMG's 2019 Global CEO Outlook was conducted by Forbes Insights between January and March 2019. All respondents are CEOs from organizations with at least $500 million in annual revenues. A group of 1,300 CEOs were surveyed, representing 11 countries, including Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the United Kingdom and the United States. This report focuses on the 400 responses from U.S. CEOs. Respondents come from a range of sectors, including consumer and retail, insurance, life sciences, banking, energy, manufacturing and technology.

For further information about this report and how KPMG can help your business, please contact me.

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