



Agile or irrelevant

Redefining resilience

2019 Global CEO Outlook

KPMG International



kpmg.com/CEOoutlook



Foreword

A successful CEO is an agile CEO.

One of the most compelling findings in this year's Global CEO Outlook is that over two-thirds of chief executive officers believe that agility is the new currency of business. If they fail to adapt to a constantly changing world, their business will become irrelevant. This is a stark choice.

This focus on agility is also redefining what we mean by resilience. In the past, it was about battering down the hatches in the face of short-term headwinds. Organizations looked to defend their positions and use scale to maintain competitive advantage.

The social, economic and technological headwinds we have seen emerge in recent years are no longer short term. While CEOs continue to see exciting growth opportunities, they are set against a complex, volatile and increasingly uncertain environment. To be resilient, organizations need to be comfortable disrupting their business models if they want to continue to grow. This is what we mean by being agile.

In this, our fifth annual Global CEO Outlook, we spoke to 1,300 CEOs in some of the world's largest organizations to discuss how they are confronting long-held market orthodoxies and assumptions that govern decision-making.

We would like to thank all the CEOs who gave their time and spoke so freely about the opportunities and challenges they face. As I meet with CEOs, I am struck by the passion, enthusiasm and belief they have in the future of their organizations. We hope that this report brings you insights, ideas and different perspectives from around the world.

If you would like to talk about any of the issues in this year's Global CEO Outlook, we would welcome the opportunity to do so.



Bill Thomas
Chairman
KPMG International



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Confidence in the global economy is falling — and disruption is mounting

- **Dynamic risk landscape**
Climate change rises up the risk agenda, from fourth in 2018 to the number one risk this year
- **Conflicting global outlook**
In four major economies — Australia, the UK, France and China — less than half of CEOs are confident in growth prospects for the global economy
- **New competitive age**
Today, 63 percent of CEOs say that rather than waiting to be disrupted, their organization is actively disrupting its sector, up from 54 percent in 2018

Changing from within

To master resilience, CEOs need to drive an organization-wide digital reinvention

- **Cyber resilience**
In 2019, 69 percent of CEOs say that a strong cyber strategy is critical to building trust with key stakeholders, up from 55 percent in 2018
- **Workforce 4.0**
44 percent of CEOs plan to upskill more than half of their entire workforce, but less than a third (32 percent) prioritize workforce investments over technology investments
- **Technology 4.0**
Only 16 percent of organizations have already implemented AI in the automation of some of their processes

Leading in uncertain times

To be resilient, CEOs must apply constant pressure to change and adapt

- **Agile or irrelevant**
67 percent of CEOs say that acting with agility is the new currency of business and being too slow risks bankruptcy; up from 59 percent in 2018
- **The innovation disconnect**
84 percent of CEOs say they want a culture where it is accepted that errors and mistakes are part of the innovation process, but only 56 percent say that culture is in place
- **C-suite reboot**
84 percent are actively transforming their leadership team to build resilience

The evolution of the CEO

Resilient CEOs need to be agile, adaptive and willing to challenge the status quo

- **A new playbook**
67 percent say that the need to act with agility has increased as the average tenure of a CEO is decreasing
- **Evolving mindsets**
74 percent say they had a significant misstep early in their careers that they were able to overcome



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In our 2018 Global CEO Outlook, we found chief executives to be optimistic about the future and their own organization's growth prospects. We also discovered growing anxiety about existential threats, from geopolitical volatility to cyber security. In 2019, we find that this growing anxiety has coalesced into significant concern about the uncertainty and volatility of today's business environment. Today, CEOs are increasingly focused on building the organizational resilience needed to master disruption and maintain momentum.

To be resilient, **Kathy Warden, CEO and President of Northrop Grumman** — a leading global security company — believes that CEOs need to consider a range of capabilities, from deep market awareness to agility. "I believe that we're going to see the lifespan of companies continue to decline," she says. "So, what do companies need to do? The first area is market awareness. If you don't see a disruption coming, you aren't going to be prepared for it. Second — is being able to respond very quickly, because the lead time to take advantage of a disruption is also accelerating and you have to adapt at speed. The final element is the ability to figure out how to monetize technology. Digital companies use technology in ways that more traditional businesses don't even think about."

This dynamic resilience is needed to master the significant challenges that face them. First, CEOs face a range of big-ticket risks — climate change, disruptive technology and economic nationalism. Second, while they are very confident in relation to their own businesses, confidence in the global economy is markedly weaker. While 94 percent are confident in their own business's growth prospects, only 62 percent feel the same way about the global economy. Third, business models that have lasted for decades are now under increasing threat as a result of digital disruption, and CEOs must disrupt the traditional business models that are entrenched in their organizations, driving new digital revenue streams.

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Kathy Warden
CEO and President
Northrop Grumman Corporation



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A key focus for me is the evolving regulatory and policy landscape. It's a really difficult thing to get your arms around because, at the end of the day, it changes.”

James Bracken

CEO
Fortitude Re



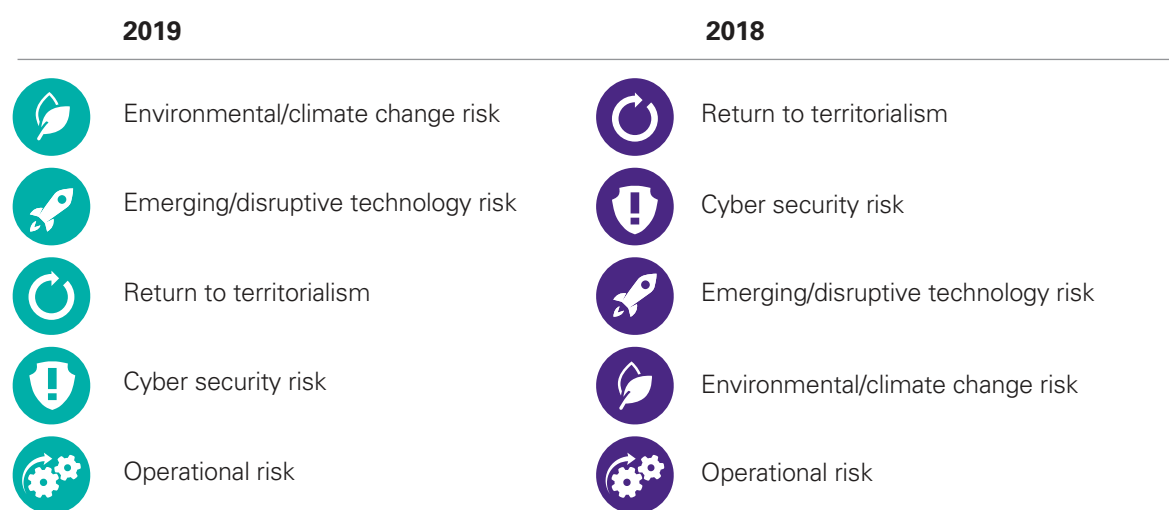
Dynamic risk landscape

CEOs have to understand and cope with an increasingly unpredictable and fast-changing array of risks. Concerns over environmental degradation, the disruption caused by new technologies and increasing geopolitical tensions are creating new levels of uncertainty for leaders as they look to meet or exceed their growth targets.

To lead an appropriate and strategic response, chief executives need to understand how risks are connected and ensure their boards and leadership teams are engaged. For **James Bracken, CEO of Fortitude Re** — a re-insurer — it also means that leaders must embrace and understand what are highly complex, multi-dimensional issues. “A key focus for me is the evolving regulatory and policy landscape,” he explains. “It’s a really difficult thing to get your arms around because, at the end of the day, it changes. I think the ability to navigate these issues over longer term — that 5-year plus time horizon is extremely challenging.”

In 2019, environmental and climate change tops the risk agenda, climbing from its fourth-placed position in 2018. This is closely followed by disruptive technology risk and the threats posed by a return to territorialism.

Chart 1: Threats to growth



Source: 2019 Global CEO Outlook, KPMG International.

Tom Brown, Global Head of Asset Management, KPMG International, sees climate risk topping the agenda as a welcome sign that CEO and investor views are coming closer together. “Asset managers and investors have long recognized that climate change is a major financial risk,” he says. “For investors, climate risk and other sustainability factors are a big consideration in decision-making. They will move away from asset classes that they think are at risk. One area that CEOs need to think about is disclosures — meeting stakeholders’ demands for corporate reporting that provides meaningful information on climate risks that have a financial implication.”

As they look to manage this risk, CEOs’ attentions are turning to energy transition, and the need to move the world away from a reliance on fossil fuels. Over three-quarters of CEOs (76 percent) say that their organization’s growth will depend on their ability to navigate the shift to a low-carbon, clean-technology economy.

For **Markus Tacke, CEO of Siemens Gamesa**, a world leader in renewable energy, he sees lots to be optimistic about the future. “Generally we see growth opportunities, especially in the renewables and wind industry. While the prognosis of the world economy seems to have greater downside risk than upside, the current fundamental of our industry gives us every reason to have an optimistic outlook.”

As well as sustainable business practices being of value to society, they can also unlock growth and transform performance. Sustainable approaches can create opportunities for new products and services and can also improve the efficiency of how the organization manages its resources and operations.

Conflicting global outlook

This year there is evidence of plummeting confidence levels in the global economy in many countries:

- In four major economies, less than half of CEOs are confident in the global economy — Australia (38 percent), the UK (43 percent), France (44 percent) and China (48 percent).
- While the US is an outlier, rising from 52 percent to 87 percent of CEOs confident in the global economy, other countries have seen pronounced confidence drops since last year. For example, Australia and India show the greatest decrease in confidence, dropping 36 percentage points this year.

Gary Reader, Global Head of Clients and Markets, KPMG International, sees that CEOs are concerned about a potential slowdown in the global economy over a 3-year horizon, but this has not tempered the pressure on them or their desire to grow. “Leaders are reprogramming and retooling their organizations to not only withstand any economic or geopolitical challenge, but to seize on disruption and find ways to continue to grow,” he says. “This means having a clear view of early indicators and warning signals. Progressive companies with ambitious goals are working through various scenarios, using technology to their advantage and ensuring response plans are in place. It is a new kind of resilience — one that incorporates agility and targets growth.”

Tax risk in the spotlight

Governments are making unilateral legislative changes and countries are also collaborating to tackle issues such as base erosion and profit shifting. At the same time, organizations face increasing public pressure for greater tax transparency, and must therefore manage the threat of controversy and reputational risk. However, this year’s research raises questions about whether CEOs are putting enough focus on tax risk in terms of how they assess their tax function.

When we asked CEOs to identify the most important performance metric for their organization’s tax function, we found a stronger emphasis on efficiency than on risk. Top of the list was that the tax function “effectively manages its department’s resources.” In contrast, that “tax risks are managed appropriately in line with organizational values and objectives” came in as the sixth-ranked priority.

“Focusing on tax risk as a key performance indicator for the tax function is going to be increasingly important,” says Jane McCormick, Global Head of Tax, KPMG International. “This could include, for example, measuring the effectiveness of tax risk controls or assessing how the organization is perceived by the public in terms of its tax affairs.”



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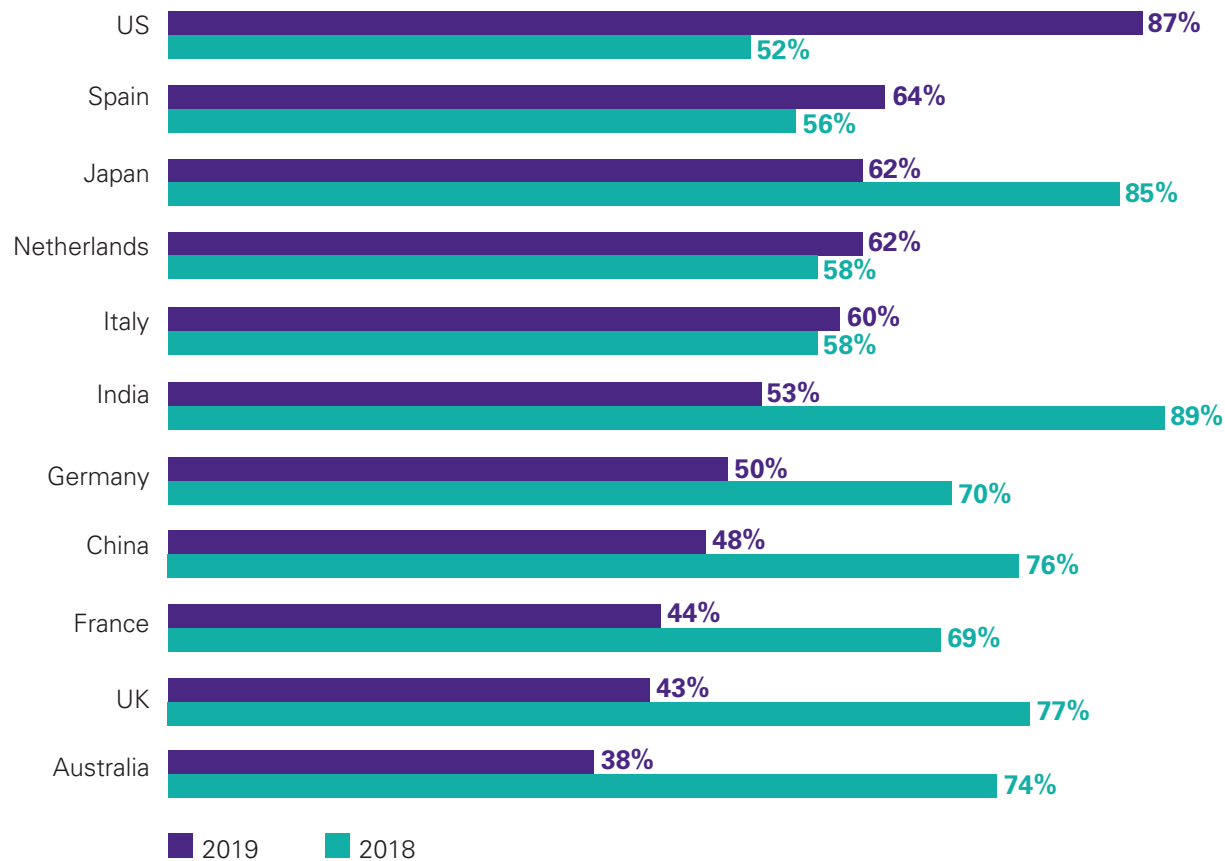
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Australia and India show the greatest decrease in confidence, dropping
36 percentage points this year.

Chart 2: Confidence in the global economy's 3-year growth prospects, by country



Source: 2019 Global CEO Outlook, KPMG International.



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Driving resilient growth: emerging markets and China's 'Belt and Road' Initiative

In terms of where growth will come from, and the strategies that CEOs are using to build resilience, emerging markets are a critical factor. Overall, 63 percent of CEOs said their first priority for geographical expansion over the next 3 years is emerging markets, compared to the 36 percent who are prioritizing developed markets. Growing their global footprint is seen as a key to resilience, with a significant majority of CEOs — 87 percent — saying that they are building the company's presence in emerging markets to become more resilient as a business.

"As companies look for ways to continue to grow, we find they are turning, or rather returning to focus on emerging markets," says Andrew Thompson, ASPAC Head of Private Equity and Singapore Head of Deal Advisory, KPMG in Singapore. "CEOs are looking past the day-to-day geopolitical issues and seeing the long-term opportunities in emerging markets, especially in Asia Pacific, as critical to the future of their businesses. Regions such as ASEAN with a population base of around 800 million people and rapidly rising middle class consumption, alongside China and India are the powerhouses of future global growth."

The China-initiated 'Belt and Road' Initiative is also front of mind for a majority of CEOs, with close to two-thirds of them — 65 percent — telling us that when expanding to emerging markets, they are prioritizing countries and regions that form part of the Initiative.

"More and more CEOs are taking a close look at the impact of the 'Belt and Road' Initiative on their growth plans and market expansion strategies," says Vaughn Barber, Global Chair, KPMG Global China Practice. "This is giving rise to more cooperation opportunities between Chinese and foreign firms in emerging markets along the 'Belt and Road', and not only in infrastructure investment but across a wider range of sectors, including financial services, logistics, trade and even digital technologies. This type of cooperation can help unlock the socioeconomic development potential of host countries, while allowing Chinese and foreign firms to access new market opportunities, achieve synergies and manage risks."

New competitive age

Complacency can be fatal in today's dynamic markets. Business models that have lasted for decades are now under increasing threat as a result of digital disruption. Large, traditional companies face not only the threat of new digital entrants, but also traditional competitors that have established a new digital edge.

Mark A. Goodburn, Global Head of Advisory, KPMG International, believes that leadership teams must recognize that embracing uncertainty and having the courage to make bold decisions is the new normal. "CEOs are writing a new chapter in organizational resilience — one that focuses on agility and growth," he says. "They must be prepared to address the central beliefs and cultures that have shaped their companies and industries over many years, repositioning their operating model and revisiting how the organization creates value."

Resilience requires companies go on the offensive — disrupting their own legacy strategies and business models. A significant majority of CEOs — 71 percent — said that their company's growth relies on their ability to challenge and disrupt any business norm.

According to Hitoshi Akimoto, Chief Digital Officer, KPMG in Japan, "In the digital age, you cannot stand

still. If you want to find and drive new and significant digital revenue streams, you need to make a departure from the past. This means asking hard questions about the company. For example, do you still want to just sell products, or do you want to sell outcomes and experiences?"

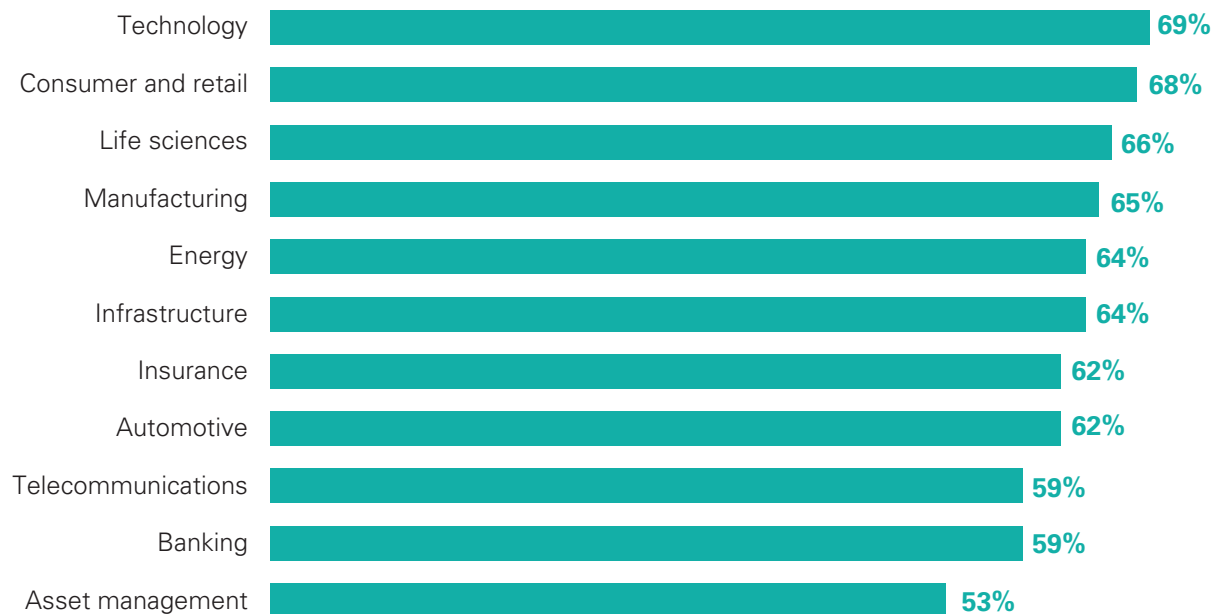
We also saw a significant increase in CEOs saying that their company is actively disrupting their sector, rather than waiting to be disrupted. In 2018, 54 percent said they were on the disruptive front foot, but in 2019, this had increased to 63 percent. Established technology companies are having to make bold moves in response to significant advances in IT architecture, from mobility to cognitive computing, to ensure they stay ahead of fast-moving competition.

“

In the digital age, you cannot stand still. ”

Hitoshi Akimoto
Chief Digital Officer
KPMG in Japan

Chart 3: CEOs who believe that rather than waiting to be disrupted by competitors, their organization is actively disrupting its own sector, by sector



Source: 2019 Global CEO Outlook, KPMG International.



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To build a resilient enterprise that capitalizes on disruption, CEOs must put their organizations under pressure to change and adapt continually. They must create and sustain a culture of innovation, drive enterprise agility by creating a streamlined, customer-focused operating model, and assess whether their current leadership team has the mindset and capabilities to deliver the CEO's priorities.

The innovation disconnect

Organizations must have a culture that nurtures innovation and creativity to thrive in an age of unpredictable, high-impact change. Without this, they will struggle to adapt quickly to technological disruption, changing customer demands and shifting internal perspectives on how the organization creates value.

However, we found a significant disconnect in terms of innovation. While 84 percent of CEOs said they want their employees to feel empowered to innovate without worrying about the possibility of negative consequences, only 56 percent said their organization currently has a culture where 'failing fast' innovation is celebrated.

Fiona Grandi, National Managing Partner for Innovation & Enterprise Solutions, KPMG in the US, believes that 'failing fast' is actually about 'learning fast', and that it is a necessary element of the iterative innovation process. "Learning fast is about the ability to pivot," she says. "Rather than concluding the innovation goal was wrong, try to re-calibrate how you achieve that goal based on signals such as a shifting industry or economic indicator, the emergence of a new technology or competitor. To understand these signals, consider drawing upon the input of your alliances, clients, customers, industry consortium and even competitors. Also, assess third-party research or derive value from proprietary data. Organizations should invest as much in understanding that ecosystem or network as they do in understanding their customer."

Whether companies have a culture that encourages 'failing fast' varies by sector. In life sciences, where R&D is critical, over two-thirds of CEOs (67 percent) say they do have a culture where it is accepted that errors are an ongoing part of the experimentation process.

Chart 4: CEOs who say their organization has a culture in which 'failing fast' unsuccessful innovation initiatives are celebrated, by sector



Source: 2019 Global CEO Outlook, KPMG International.



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Creating an innovation culture where employees feel empowered to try out new ideas is challenging to deliver and sustain. Grandi believes that CEOs play a critical role in making innovation part of the fabric of the organization.

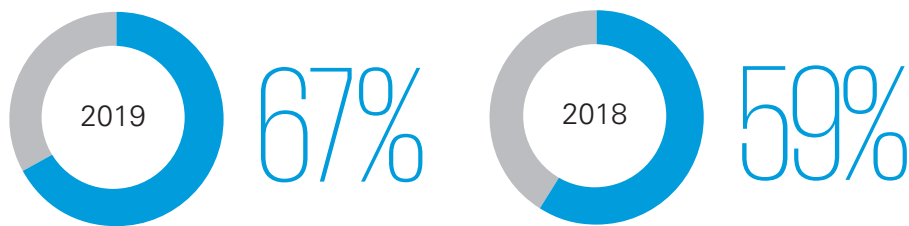
“Companies that innovate well have a CEO who develops and promotes an innovation strategy,” she explains. “It can’t simply be a buzzword, but rather integrated into all levels and verticals within their organization, from the top down *and* bottom up. That means tying innovation goals and strategy directly into personal performance metrics for all leaders. The other critical area is having diversity in leadership — both diversity of thought and team structure — to encourage a variety of styles of innovative thinking and execution.”

Agile or irrelevant

Large, established organizations — which are built to drive an advantage from scale — are finding that smaller, more agile players have a competitive edge. As industries such as financial services have seen, disruptors are targeting key elements of the value chain, such as fintechs’ moves into the payments industry. At the same time, customer needs are changing fast and advanced technologies continue to evolve. To respond, companies need to fundamentally change how they work. This means being more customer-centric, increasing the speed of innovation and collaborating across organizational boundaries.

Chart 5: Agility a key focus

CEOs who say that “acting with agility is the new currency of business; if we’re too slow we will be bankrupt”.



Source: 2019 Global CEO Outlook, KPMG International.



Companies that innovate well have a CEO who develops and promotes an innovation strategy.”

Fiona Grandi

National Managing Partner for Innovation & Enterprise Solutions
KPMG in the US

The need for speed: M&A and agility

M&A will play a key role in how organizations respond to disruption with agility and the need for business model innovation. As organizations look to quickly build digital capabilities, acquiring innovative digital companies becomes a key part of their M&A strategy.

Overall, we found that 84 percent of organizations have a moderate or high M&A appetite for the next 3 years. This includes over one-third (34 percent) with a high appetite, up from 27 percent in 2018. When asked what was driving said appetite for M&A, we found that “transforming our business model faster than organic growth will deliver” emerged as number one.



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CEOs recognize the danger of being too slow and cumbersome in a fast-moving age. Over two-thirds (67 percent) believe that acting with agility is the new currency of business and that if they are too slow they will become irrelevant. This is up 8 percentage points since last year and signals the need for a change of mindset.

Implementing agile approaches at an individual project level is relatively straightforward, but one-off initiatives will not have an enterprise-wide impact; this requires a fundamental rethink of the company's operating model. By combining advanced technologies — such as the cloud — with operating redesign, CEOs can build customer-focused, connected enterprises.



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Connected enterprise: CEOs take the lead

For many organizations, agility is very difficult to achieve because of a fragmented IT infrastructure and a lack of alignment between front, middle and back office functions. The constraints of legacy IT, and the lack of collaboration across organizational silos, make it impossible for organizations to be nimble and responsive to changes in their environment.

CEOs are taking personal responsibility for greater cross-functional alignment. Seventy-nine percent said that they were responsible for overseeing this alignment in a way that their predecessors were not.

Miriam Hernandez-Kakol, Global Head of Customer and Operations Practice, KPMG International, believes that the CEO's personal intervention is key to realizing a customer-centric organization, where a better customer and employee experience drives profitable business outcomes. "Shifting the enterprise to focus on the customer will fail if you end up with a collection of uncoordinated efforts taking place within different silos," she says. "You need alignment across the organization — a connected enterprise approach — to meet customer expectations, improve business performance and achieve profitable growth."

Cloud-based solutions will be key to addressing fragmented digital infrastructures, made up of a range of bespoke, on premise computing infrastructure. The cloud offers scaled capabilities and advanced technologies that can transform how work used to be conducted via legacy IT. CEOs are embracing these technologies wholeheartedly. Seventy-nine percent said that they were more confident today about increasing their organization's use of cloud technologies than at any point in the last 3 years.

This reinforces the CEO's increasingly prominent role in technology strategy. In this year's research, 84 percent of CEOs said that they are personally leading the technology strategy of their organization.

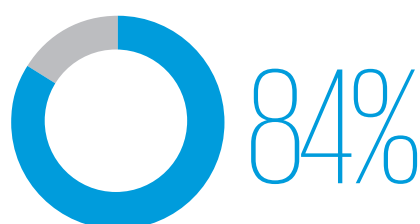
C-suite reboot

C-level roles have already changed significantly over recent years as CEOs respond to new demands. The established direct reports of the CEO — such as the CFO and CMO — have been joined by new C-suite capabilities, from Chief Analytics Officers to Chief Digital Officers. However, while CEOs have added more firepower to their leadership teams, they are not stopping there.

"In order to be resilient, a company has to have the right leadership and one with the right mindset," said **Henadi Al-Saleh, Chairperson, Agility**, a Kuwait-based international logistics company. "Building the right culture and organizational structure are crucial."

Eighty-four percent of CEOs said that they are actively transforming their leadership team to build resilience. Interestingly, a link emerges between this finding and those CEOs who have ambitious plans to upskill their workforce as a whole. In companies where CEOs have ambitious plans to upskill more than 51 percent of their workforce, 86 percent of CEOs also plan to transform their leadership teams. But in organizations where upskilling is limited to less than 40 percent of the workforce, the number of CEOs planning to transform their top teams drops to 75 percent.

Chart 6: CEOs that are transforming their leadership teams to strengthen resilience



Source: 2019 Global CEO Outlook, KPMG International.

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In order to be resilient, a company has to have the right leadership and one with the right mindset.”

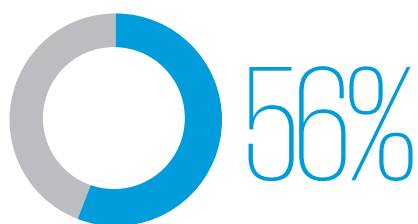
Henadi Al-Saleh
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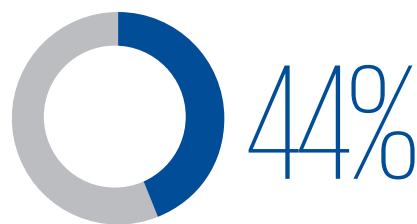
To tackle today’s connected and complex enterprise issues, CEOs need leaders who are able to collaborate across the organization, rather than being limited to their narrow areas of responsibility and expertise. They also seek different skill sets and profiles, such as experience in digital transformation.

To drive this C-suite reboot, CEOs need to define their cross-enterprise priorities, from business model innovation to operating model redesign. With a clear picture of their priorities, they can assess whether the current set of functional leaders have the right profiles and capabilities to deliver. This will also mean re-assessing how they measure the performance of C-suite reports and defining effective career development for the next generation of executive talent.

Chart 7: CEOs planning to upskill their workforce in new digital capabilities over the next 3 years



Upskilling 1% to 50% of the workforce



Upskilling 51% or more of the workforce

Source: 2019 Global CEO Outlook, KPMG International.



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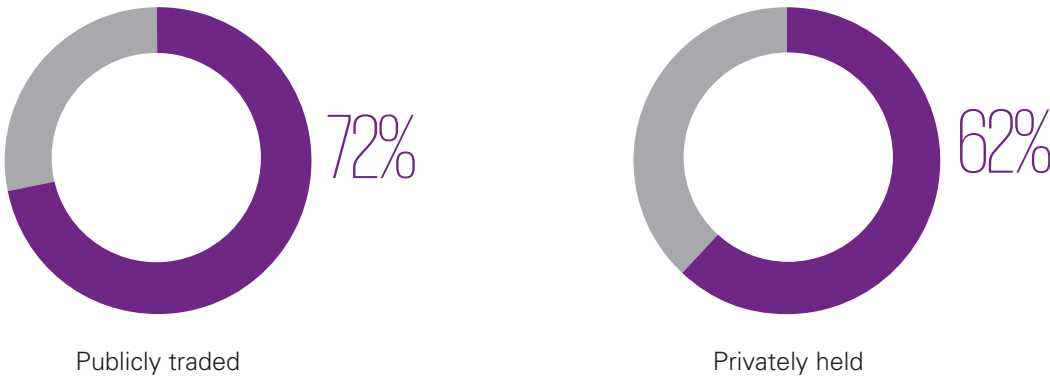
To master resilience, CEOs need to drive an organization-wide digital reinvention. This means building cyber resilience so that concerns over security threats do not derail digital innovation. And it means masterminding a fundamental reboot of skills and technology, accelerating the adoption of advanced technologies and undertaking wholesale upskilling of the workforce.

Cyber resilience

The ability to integrate digital innovation is key to unlocking long-term growth. However, concerns over cyber security can impede those ambitions. Organizations need to ensure that these threats do not undermine digital's growth potential.

Sixty-eight percent of CEOs say their organization is prepared for a future cyber attack (51 percent in 2018). Interestingly, publicly traded companies feel more prepared for a possible attack versus those that are privately held.

Chart 8: Overall preparedness for a future cyber attack



Source: 2019 Global CEO Outlook, KPMG International.

With cyber resilience key to unlocking growth, CEOs are clear that effective cyber security is much more than a defensive or mitigating capability. We found that 71 percent of CEOs say that their organization sees information security as a strategic function and a source of competitive advantage.

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Katherine Robins, Cyber Security Partner, KPMG Australia, outlines how strategic advantage can fall to companies that out-perform their competitors in terms of transparency and quality of incident response. “For consumers, the value of your data is front of mind,” she says. “If an organization is more transparent about how they handle data and privacy — even to the extent of how they handle incidents such as a breach — their brand will be differentiated and they will enjoy greater consumer trust.”



One of the hardest things about cyber security is that if it's going well, you don't hear about it. ”

Katherine Robins

Partner
Cyber Security
KPMG Australia

This sentiment is supported by the research. Over two-thirds of CEOs — 69 percent — say that a strong cyber security strategy is critical to driving trust with key stakeholders. This has climbed 14 percent since 2018.

Those CEOs who have made their organizations more cyber resilient are also more focused on disrupting their industry.¹ These cyber resilient CEOs are projecting 2 percent revenue growth or higher over the next 3 years (52 percent compared to 45 percent of all CEOs).

CEOs play a key role in driving the right culture for cyber resilience from the very top. This means having a deep understanding of the risks facing the organization and putting in place the communications and education programs necessary to ensure that security practices are ingrained in day-to-day business operations. “You're only as strong as the weakest link,” says Robins. “You need a culture where cyber security is everyone's challenge, which is particularly true in large organizations. There's no point training up to 50 all-star cyber security professionals, when everybody else may be doing risky things that could compromise the organization.”

CEOs need to ensure that they are investing enough financial resources in building cyber resilience. However, understanding what is ‘enough’ is difficult given the challenges of assessing ROI. “One of the hardest things about cyber security is that if it's going well, you don't hear about it,” says Robins. “It's like paying for health or house insurance. You never want to use it, but when you do need it, you're really glad you've got it. You need to ensure the investment is there to continue to adapt and renew your approach to cyber security.”



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¹ Cyber resilient CEOs feel their organization views information security as a strategic function and as a potential source of competitive advantage, they are well prepared for a future cyber attack and have highly effective cyber security specialists as part of their workforce.

Workforce 4.0

Disruptive technologies — from artificial intelligence to virtual reality — have the potential to transform the world of work. Many roles and skills are becoming outdated or evolving in our machine age. This is affecting many blue-collar jobs, but all jobs could be affected, and even highly skilled roles are not immune.

This seismic shift poses wider questions for society and governments. For companies and their leaders, it means that the skills that companies need, and the ways employees learn and progress in their careers, are being transformed. CEOs are having to embrace a new way of thinking about talent, workforce strategy, and the need for upskilling.

CEOs recognize that this trend is accelerating and requires them to focus. Four in ten (44 percent) are intending to upskill more than half of their current workforce in new digital capabilities over the next 3 years.

Kate Holt, People Consulting Partner, KPMG in the UK, sees effective upskilling as more than just equipping people to use new technologies. “Much of the technology that’s being deployed today is very intuitive, because there’s much more emphasis on the user interface and usability,” she says. “The issue is more around people understanding what’s in it for them — how that technology can help you do your job and whether you have the desire to want to change your behaviors to incorporate the use of technology. You need to win over people’s hearts and minds to accept that while technology is going to change their role, that’s a good thing. In most cases, organizations are not taking an adequate or appropriately funded approach when it comes to that communication and the change awareness needed to drive adoption.”

However, we also asked CEOs how they are prioritizing their capital investments and we see a tension between the workforce changes they know they need to make and the investments that are required in their technology. Specifically, we asked whether they are putting more capital into developing people’s skills or in buying new technology. The majority — 68 percent — said that they are placing more capital investment in buying new technology.

“To stay agile today we have got to be taking in information, reaching out and learning from people that we might not ordinarily be seeing,” said **Doug McMillon, President and CEO, 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.”



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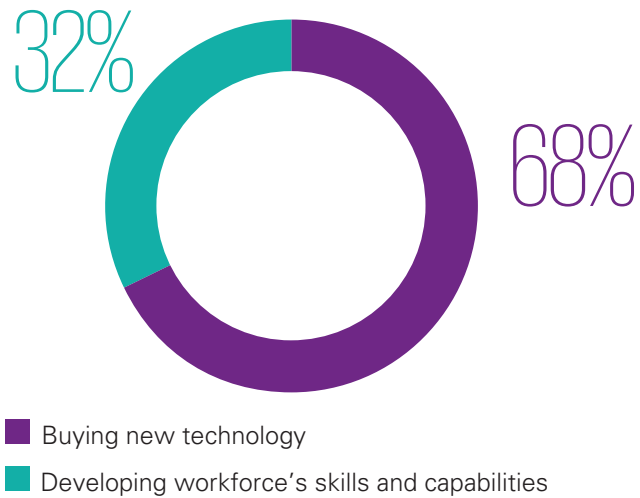


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Chart 9: Investing in new technology vs. workforce upskilling



Source: 2019 Global CEO Outlook, KPMG International.

“ You need to win over people’s hearts and minds to accept that while technology is going to change their role, that’s a good thing. ”

Kate Holt
People Consulting Partner
KPMG in the UK

Jonas Prising, Chairman and CEO of global workforce solutions company ManpowerGroup, points out the focus should not only be on the technology. “We believe the major impact of technology is going to be to augment human capability provided you have the skills necessary to take advantage of it,” he says. “In my view, too much time is spent debating the impact of job elimination and not enough time focusing on the need for a skills revolution; where we can upskill and reskill the workforce, both at a company level, and at a country level.”

Nearly six in ten CEOs (59 percent) said it’s challenging to find the workers they need. And tellingly, modernizing their workforce was the top strategy CEOs selected for how they are ensuring their organization is future ready.

“ We believe the major impact of technology is going to be to augment human capability provided you have the skills necessary to take advantage of it. ”

Jonas Prising
Chairman and CEO
ManpowerGroup





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Today's organizations need to be fast-learning and fast-moving entities that adapt quickly from a technology point of view but also from a people point of view.”

Markus Tacke
CEO
Siemens Gamesa



Markus Tacke, CEO of Siemens Gamesa, believes that companies need to balance their investment in people and technology if they are to create agile organizations with a culture of continuous learning. “Today's organizations need to be fast-learning and fast-moving entities that adapt quickly from a technology point of view but also from a people point of view,” he says. “Capabilities that were quite valuable 10 years ago remain reliable but need to be complemented with other capabilities. So, investing in both in a balanced way is what companies need to do.”

16 percent of CEOs said that they have already implemented artificial intelligence to automate their processes.

Masaaki Tsuya, Global CEO of Bridgestone — the world's largest tire and rubber company — feels that people are the eventual driver of success, but that belief has to be balanced against the urgent need to invest in new technologies. “Progress is impossible without people,” he says. “Everything, ultimately, comes down to people. But we can't invest in our future without delivering profits. Our businesses are changing due to unprecedented changes in technology, including the Internet of Things and artificial intelligence. Unless we deal with that properly, we will not make those profits and we would lose. Therefore, it is important to strike a balance between people and technology.”

If they are to deliver on their upskilling pledges, CEOs need to give strategic backing and allocate adequate resources to the learning and development of their employees. CEOs can also play a key role in ensuring that there is effective governance for learning and development, ensuring that upskilling initiatives are not fragmented, and that resources and investment are focused on areas where they will have greatest impact.

Alignment between the CEO and Chief Human Resources Officer on people strategy is also critical, but Holt believes there is still a disconnect in many organizations. “Some HR teams are too reactive,” she says. “Forward-thinking HR teams are involving themselves in workforce shaping, recognizing how roles are being affected by technologies such as robotics. This will mean changes to everything from your training strategy to your recruitment strategy, but you need to start off with the impact of technology on the workforce, the roles you have currently, and the roles you'll need going forward.”



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Progress is impossible without people.”

Masaaki Tsuya

Global CEO
Bridgestone



Technology 4.0

AI-based technologies and their applications, from intelligent automation to voice recognition, offer an opportunity to transform organizational performance. They can be used to unearth insights from huge repositories of structured and unstructured data, improving the speed and quality of decision-making. Or they execute processes and tasks that used to be undertaken by employees — something they can do with significant speed and accuracy, leaving humans free to tackle higher-value tasks.

However, our research shows that most organizations have still not applied artificial intelligence in the automation of their processes. Only 16 percent of CEOs said that they have already implemented artificial intelligence to automate their processes, with close to a third — 31 percent — still at pilot stage and around half — 53 percent — undertaking limited implementation.

Driving artificial intelligence at enterprise scale presents significant challenges that are different from mainstream IT delivery. Many organizations face a shortage of relevant skills, with specialists in high demand. Organizational resistance may be pronounced, with employees worried about the implications of artificial intelligence adoption for their roles.

“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.”² said **Satya Nadella, CEO, Microsoft**.

² Microsoft Annual Report 2018

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The contribution that CEOs are expected to make to the growth and development of their companies is changing. Leaders need to be agile — adjusting their actions to respond quickly to changing customer needs, shifting technology innovations and the pace of change of competing firms. They also need to keep themselves open to new ideas so that they can challenge entrenched management and organizational thinking.

A new playbook

Resilience in today's dynamic marketplace is about the ability to constantly evolve and adapt to fast-paced change. This requires CEOs to react with agility to changing customer needs and also focus effort where it will have the most significant impact.

This need is given added urgency because CEOs feel they have less time to make an impact than previous generations of executives. We asked CEOs whether they agreed or not that tenure today for chief executives averages out at around 5 years. Close to three-quarters — 74 percent — felt that it did, and that this was shorter than when they first began their careers. This view is aligned with recent research, which shows that the median tenure for CEOs at large-cap, S&P 500 companies was 5 years at the end of 2017 and had declined since 2013.³

Over two-thirds of CEOs — 67 percent — said that this 5-year average tenure means there is more urgency to act with agility.

Evolving mindsets

To drive innovation and change, CEOs need to be prepared to take their organizations in entirely new directions. This will require a leadership mindset where CEOs are prepared to question long-held assumptions and beliefs — challenging the status quo if this is holding back progress. This research suggests three qualities that will be critical for generating new ideas and driving radical change: maintaining close customer connections, balancing data-driven insight with intuition and experience to anticipate customers' needs, and building emotional resilience.

First, leaders need to be closely connected to their customers, maintaining a dialogue and understanding their changing values and needs. For example, CEOs recognize that customers want to know where leaders stand on societal issues. Some 71 percent said that they feel it is their personal responsibility to ensure that the organization's environmental, social and governance (ESG) policies reflect the values of their customers. And 55 percent said their organizations must look beyond purely financial growth if we are to achieve long-term, sustainable success.

Second, they need to balance data-driven insight into customer needs and requirements with their own expertise and intuition. We found that 71 percent (67 percent in 2018) of CEOs say they have disregarded data-driven insights because they were contrary to their own experience or intuition. To get value out of increasingly sophisticated analytics, CEOs need to ensure they can trust the findings in front of them, particularly if that insight has not been produced by a human, but by an algorithm. Building a framework of checks and balances is crucial. That involves making sure algorithms are not relying on biased information and that diligent quality control measures are in place. In this way CEOs can be comfortable basing actions and decisions on data insights even if they do not understand how an algorithm works, because they trust the quality of those models.

Third, they need to create an environment where the willingness to change is recognized as a strength, not a weakness. Many CEOs have built the emotional resilience to recover from a failure. Close to three-quarters — 74 percent — said that they had a significant misstep early in their career — such as launching a venture that ultimately proved unsuccessful — but that they were able to learn from their experiences.

74 percent said that they had a significant misstep early in their career.

³ Equilar research, featured in "CEO Tenure Rates," *Harvard Law School Forum on Corporate Governance and Financial Regulation*, February 12, 2018.



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➤ Uncharted waters

CEOs face an increasingly uncertain and volatile business environment. To manage highly complex risks, they need to build a complete and nuanced picture of how risks are inter-connected and ensure their leadership teams are engaged in designing a response. With rising concern about a potential slowdown in the global economy, chief executives need to ensure their early warning systems are in place and have worked through different scenarios so that they are on the front-foot should a slowdown occur. And with business models that have lasted for decades under increasing threat from digital disruption, CEOs need to disrupt their own legacy strategy and business models, challenging the long-held beliefs that have governed their companies and sectors for many years.

➤ Leading in uncertain times

CEOs need to build resilience within their organizations by driving change; this will involve the careful management of tensions within the business. While encouraging innovation through acceptance of productive failure, they must also foster a disciplined approach that sacrifices nothing in terms of quality. This will entail examining the capabilities of their leadership teams and addressing weaknesses.

They must lead a fundamental transformation of their operating models, building an agile, customer-focused and *connected* enterprise by combining advanced technologies with operating redesign.

➤ Changing from within

CEOs must also drive an organization-wide digital reinvention, building cyber resilience and masterminding a fundamental reboot of technology and an upskilling of the workforce. CEOs need to nurture a deep understanding of the cyber security risks facing the organization, and put in place programs necessary to ensure that security best practice is part of the DNA of their businesses.

To drive this ambitious remodeling of both systems and personnel, CEOs must give their learning and development teams the strategic backing and resources required. They also need to put in place effective governance so that resources and investment are focused on areas where they will have greatest impact. Finally, they need to lead their organization's AI strategies in terms of how, where and when these new technologies can be deployed to optimal effect.

➤ The evolution of the CEO

The modern CEO needs to accept and embrace the fact that they have more to do and less time to do it in. They need to become internal disruptors of their own businesses, challenging management dogma and entrenched practices. They will need to forge stronger links with their customers, accepting the need to anticipate their requirements through insights gleaned from data-driven analysis. They must also create an environment where new ideas can be tested without prejudice and in which willingness to change is recognized as a strength, not a weakness.



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In summary:

CEOs are confronting an era of unprecedented change and economic uncertainty. With uncharted waters ahead, they are determined to build the resilience required to ensure their organizations emerge even stronger in the future. In the face of an unpredictable business environment, they are injecting a new urgency into the evolution of their own organizations, challenging accepted practice and outdated attitudes, all in the name of growth.



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The survey data published in this report is based on a survey of 1,300 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 8 January and 20 February 2019.

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

Of the 1,300 CEOs, 310 came from companies with revenues between US\$500 million and US\$999 million; 543 from companies with revenues between US\$1 billion and US\$9.9 billion; and 447 from companies with revenues of US\$10 billion or more.

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For further information about this report and how KPMG can help your business, please contact **CEOoutlook@kpmg.com**.

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