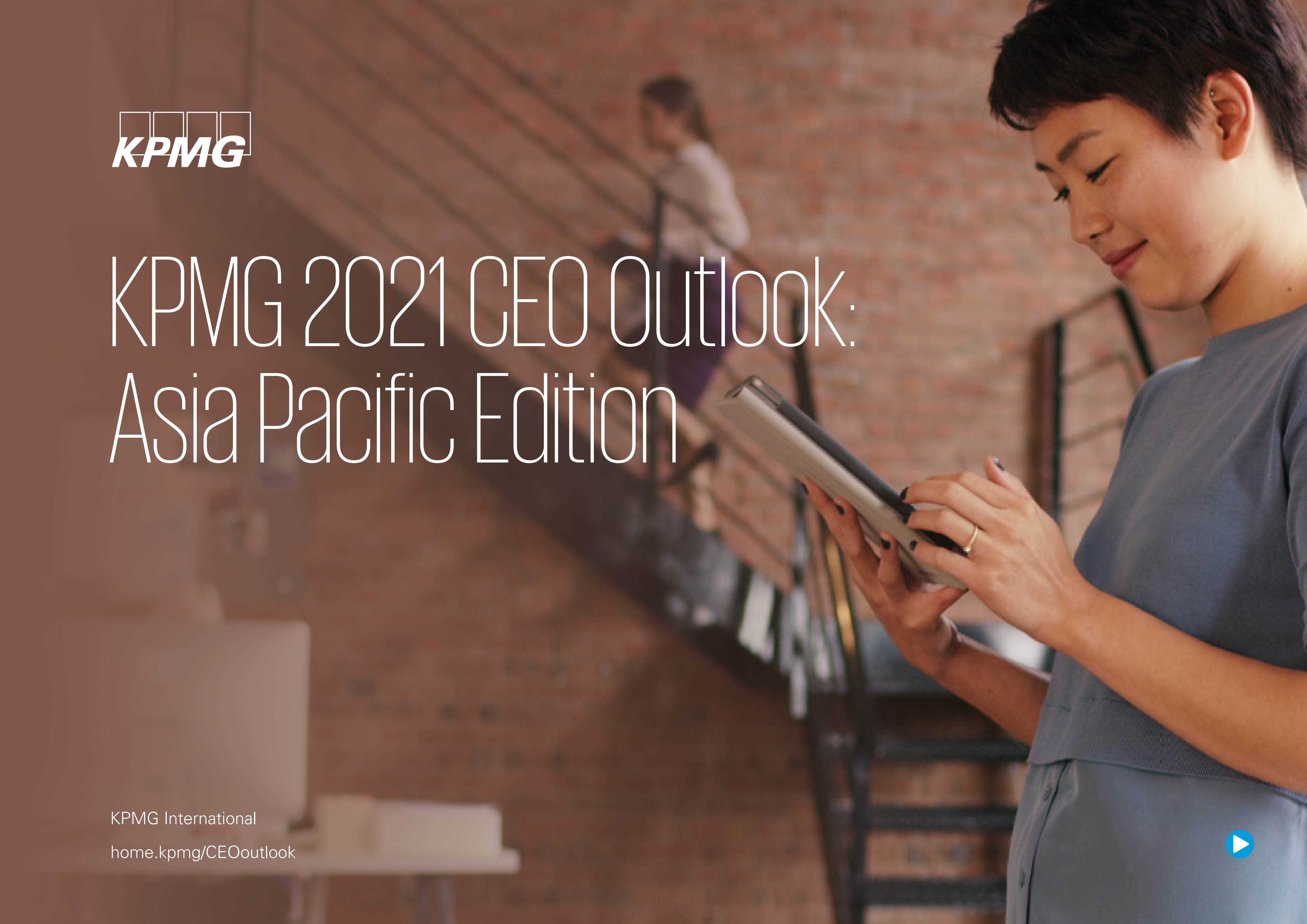

KPMG 2021 CEO Outlook: Asia Pacific Edition

KPMG International

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Foreword

Honson To
Chairman, KPMG Asia Pacific and KPMG China

Business leaders focus on preparedness

Over the past year, Chief Executive Officers (CEOs) across Asia Pacific (ASPAC) have weathered the pandemic while modernizing the way they do business. For many, this has meant adjusting how they employ their workforce and building sustainability into their medium-term plans.

To better understand how they have done this and how they are preparing for an uncertain future, we surveyed 475 business leaders across the region and 1,325 globally for the KPMG 2021 CEO Outlook.

We found that while their confidence has recovered to pre-pandemic levels, they are keen to apply the lessons of the crisis to the growth strategies of the organizations they manage — especially in pursuing the environmental, social and governance goals that are so important to their stakeholders.

Unlike earlier epidemics, COVID-19 has impacted every country. Therefore, we might expect survey responses from ASPAC CEOs to resemble those from elsewhere in the world, and largely they do. However, there are notable differences.

Asia Pacific business leaders appear more confident than they were last year, and more confident than their counterparts in other regions. While 87 percent of CEOs around the world said they were confident in their company's growth prospects over the next three years, 90 percent of ASPAC CEOs voiced confidence in their businesses. In Asia Pacific, 86 percent were confident in the prospects of their sectors, compared to 77 percent globally. And 86 percent of Asia Pacific respondents showed confidence in their countries, compared to 82 percent globally.

ASPAC CEOs also seem better prepared to fend off cyber attacks. However, having suffered more than others from supply chain stress during the pandemic, they are more concerned about its corresponding risk than their counterparts in the rest of the world.

The Asia Pacific region is the most diverse in terms of cultures, population sizes, levels of development and income per head, and this can be seen in the survey's wide dispersion of responses. This emphasizes the need to consider the special factors at work in each market, while simultaneously taking stock of common features that facilitate the sharing of experiences and of best practices across borders.

As our economies recover from the pandemic, we must adapt to new realities and uncertainties if our companies are to survive and thrive. ASPAC corporations are showing the way in identifying and sizing up risks and opportunities. They now must outline strategies tailored to their specific circumstances — and to a changed world. Shortages caused by the pandemic have given new prominence to sectors such as healthcare and transportation, while undermining the hospitality sector, among others. The world of work has been transformed and may never completely return to where it was before 2020.

Meeting these challenges requires creativity, innovation, a readiness to listen and learn, and close collaboration with business partners and even competitors. The regulatory powers of government have grown during the pandemic. Corporations may not have welcomed this, but they now must learn how to make the best use of this change by strengthening compliance and seeking government support for investment in both physical and human capital.

I hope you will find something valuable in this report that will help you enhance your preparedness for the world to come. You are welcome to discuss any and all of these issues with us.

ASPAC insights: Executive summary

Confidence

Business leaders are more confident than before
More CEOs in the Asia Pacific region are confident in the growth prospects for their country, industry and company in 2021 than they were in 2020, and in significantly higher percentages compared to the rest of the world.

Companies are adopting new ways of working post-COVID-19
Fewer business leaders in ASPAC seem to be planning to downsize than last year. Many are preparing shared office spaces and hiring employees who can work remotely, while continuing to hold senior meetings online.

Trust

CEOs are responding positively to increased stakeholder demands for ESG transparency
Asia Pacific business leaders are experiencing pressure from stakeholders for greater transparency in reporting on ESG issues. Four out of five want to lock in the sustainability and climate change gains they have made as a result of the crisis.

ASPAC firms need to nurture a productive workforce
More ASPAC CEOs this year will prioritize rewarding and incentivizing their workforce. Many of them see significant benefits in diversity and inclusiveness, and 71 percent of them agree that they have a responsibility to reskill laid-off workers or place them in new roles.

Preparedness

Supply chain stresses in the region have prompted companies to reinforce their supply chain operations
Two-thirds of company leaders in the Asia Pacific region reported that their supply chains have been under increasing stress over the past year and a half. They will therefore be taking a variety of measures to increase flexibility and resilience.

ASPAC businesses appear better prepared than others against cyber attacks
The proportion of ASPAC companies that say they are well-prepared against cyber attacks shot up from 52 percent last year to 71 percent in 2021. This is now well above the global figure. Three-quarters of Asia Pacific businesses now say they are prepared to fight off a ransomware attack.

Companies in the region show a greater tendency than others to invest in technology rather than skills
While nearly half of ASPAC CEOs see digital training as a key success factor, a greater majority in the region (and more than global CEOs) report that they are investing more in new technology than in developing their workforces' skills and abilities.

CEOs are concerned that global tax reforms may limit corporate growth
Four out of five chief executives of companies in the Asia Pacific region agree that the international tax system needs to be reformed, but nearly as many fear that global tax reform will harm their companies' growth prospects.

Contents

ASPAC business confidence rebounded in 2021

Businesses in the Asia Pacific region were much more confident in the future than they were in 2020, and somewhat more confident than those in the rest of the world. While the COVID-19 pandemic continued to pose serious problems for governments and businesses, the global economy started to recover from the deep recession of 2020. Mass vaccination programs changed expectations in major economies, while the world of work transformed to enable firms to continue doing business with some or all of their employees staying home.

Economic growth forecasts now point upwards, and expectations among business leaders were more positive than they were in the dark days at the beginning of the pandemic. As in the rest of the world, ASPAC CEOs' confidence regarding the prospects of their country, industry and company recovered to 2019 levels. However, expectations for global growth were even more pessimistic than they were at the onset of the crisis. This could be because earlier predictions of a "V-shaped recovery" proved overly optimistic as COVID-19 developed new variants, employees showed reluctance to return to their workplaces, and supply bottlenecks developed.

While the proportion of CEOs in the Asia Pacific region that expressed confidence in prospects for the global economy fell from 68 percent in 2020 to 58 percent in 2021 (and globally from 68 to 60 percent during that time), confidence in their own country rose from 73 to 86 percent (76 to 82 percent globally). So too did confidence in their industry, which rose from 78 to 86 percent (75 to 77 percent globally), and in their company's expected performance, which grew from 84 to 90 percent (85 to 87 percent globally).

Divergences among countries

These figures mask wide divergences among countries in the ASPAC region. Confidence in the world economy over the next three years varied from only 34 per cent of CEOs in New Zealand to 72 percent in Singapore. All CEOs responding in Korea, Malaysia and the Philippines were confident in the prospects for their countries, industries, and companies and figures for the other countries were in the range .These intra-regional differences stem from a variety of factors. COVID-19 exacted a greater toll in some countries than in others, while supply chain stresses resulting from lockdowns and travel bans had widely unequal impacts.[1]

[1] In viewing these ranges, it is important to note that sample sizes differ significantly among countries in the region. For example, there were 125 respondents in China and 100 in Japan, while there were only five each in Cambodia and Thailand. Also, the ASPAC regional average is skewed to the extent that the number of respondents in a country is not proportional to the size of its economy or population.

"With the world economy facing continuing uncertainties, businesses in Asia Pacific cannot rely on a rising tide lifting all boats. Rather, they should identify and zero in on their core competencies and competitive advantages while adapting to sea changes in global markets. It's encouraging that CEOs in the region are more confident in the growth prospects of their industries and their firms than their counterparts in the rest of the world. They also appear to be more prepared to fend off emerging threats such as cybercrime and supply chain bottlenecks."

John Teer
Chief Operating Officer and Head of Clients & Markets,
KPMG Asia Pacific

What will be the impact of this expected economic and corporate growth on employment?

Expectations of changes in ASPAC firms' headcounts matched those globally, with the greatest proportion seeing an increase of less than 5 percent (55 percent in ASPAC, 56 percent globally). However, there was a wide divergence among ASPAC countries. China, at 62 percent, was close to the regional average, contrary to Australia and Japan, which had only 44 percent and 49 percent of CEOs respectively saying their headcount will increase by up to 5 percent, and Thailand where that figure rose to 80 percent.

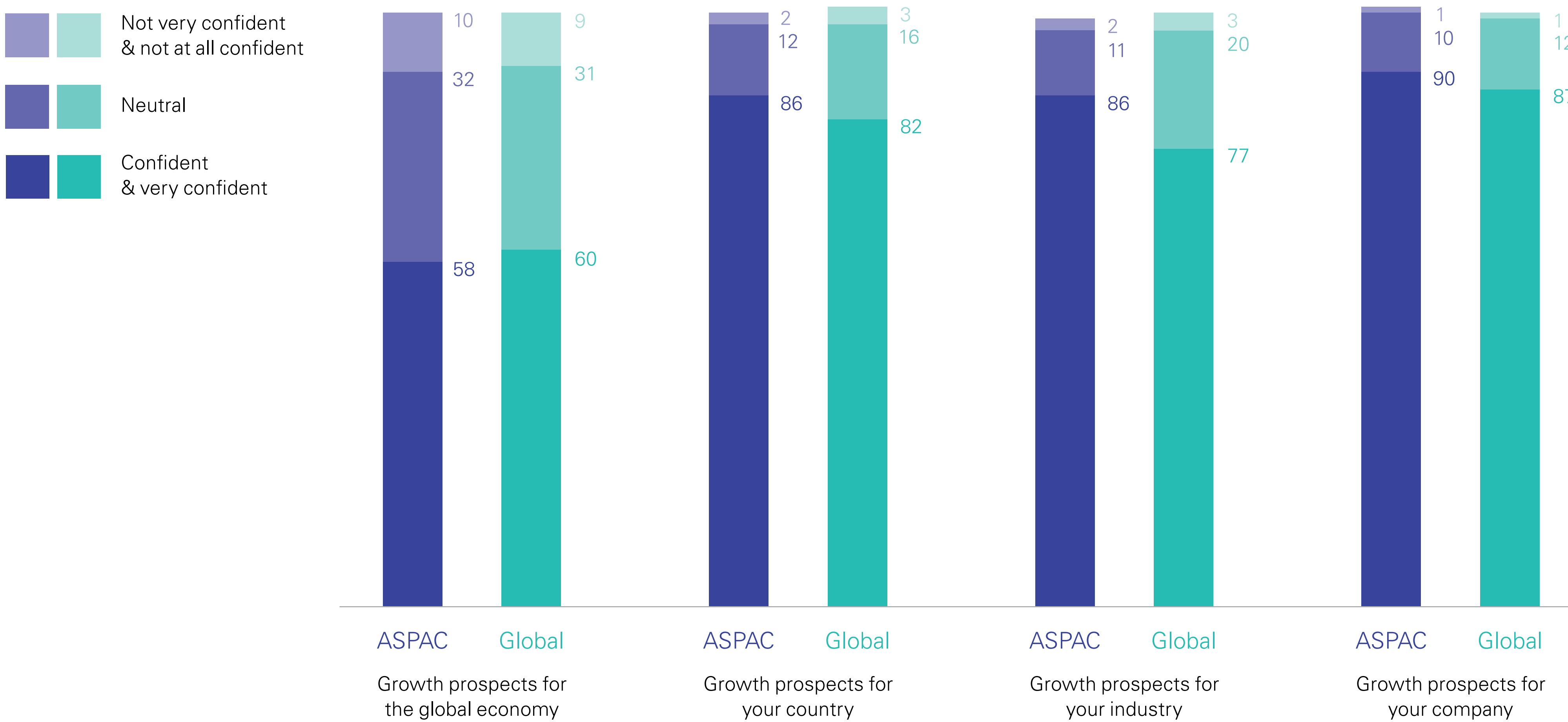
Meanwhile, 27 percent of CEOs in both ASPAC and the wider world forecast economic growth of 6 to 10 percent.

Inflation not a top concern

CEOs in ASPAC were unworried about inflation risk, with only 11 percent saying that they would focus on inflation-proofing capital and input costs. Just 2 percent were concerned that interest rates (which tend to rise with inflation) posed the greatest threat to their organization's growth.

While confidence was high, it's important to remember that different factors affected some countries more than others, and this looks likely to be a global theme for some time.

CEO confidence in the global, country and company growth over the next three years



Hybrid working emerged as a new pattern of operation

ASPAC CEOs scaled back their plans to move to remote working, but they still retained a focus on flexibility. In 2020, three-quarters of CEOs in ASPAC said they would downsize office space. In 2021, only 18 percent said they will downsize their organizations' physical footprints over the next three years.

Although not all enterprises could permit working from home, since they may require the use of capital equipment such as manufacturing machinery, a significant share of companies that can allow remote working fitted it into their operations to various degrees. The result was hybrid working, which involved some combination of working from home and working or meeting together in the office. Employees could commute to work for less than a full working week and spend the rest of the time working remotely. This amounted to a sea of change in the pattern of work, building on pre-pandemic practices such as flexitime for a select few employees, to hybrid working for many, or even most, workers in a firm.

Just over a third (34 percent) of business leaders in the Asia Pacific region said they will have a majority of employees working remotely for at least two days a week over the next three years, while 38 percent said they will look to hire talent that works predominantly remotely, confirming that the "new normal" will include an element of hybrid working. A strong sign that this pattern will continue is that 41 percent of business leaders in the Asia Pacific region now said they will look at shared office spaces to allow employees to work more flexibly

Senior leadership meetings to stay remote

Another sign that the pandemic brought about a lasting change in business connectivity and employment practices was that 65 percent of ASPAC CEOs said they will look to ensure that a large proportion of their senior leadership meetings were conducted remotely. Additionally, 57 percent said they will look to focus on a culture and policies that foster a better work-life balance for their employees. This contrasts with the global picture, as only 45 percent of CEOs worldwide made a similar commitment to enhancing the work-life balance.

Engagement

CEOs in the region were asked to identify the key factors that ensure employees are engaged, motivated, and productive in a world in which hybrid work becomes increasingly common. By far, the largest response, at 49 percent, was "investing in digital training, development and upskilling to ensure employees' skills remain future-focused." This was followed by "focusing on employees' mental health and well-being" at 41 percent. (The responses to this question are not mutually exclusive and do not add to 100 percent.) In joint third place at 37 percent were "listening to and acting on employees' ideas, perspectives and needs" and "having a strong voice on the big issues that matter, e.g. climate change, racism, or rising inequality."

As CEOs and other employees head back to the office, it's likely that hybrid working will be here to stay for the foreseeable future.

How ASPAC CEOs expect working patterns to change in their companies:

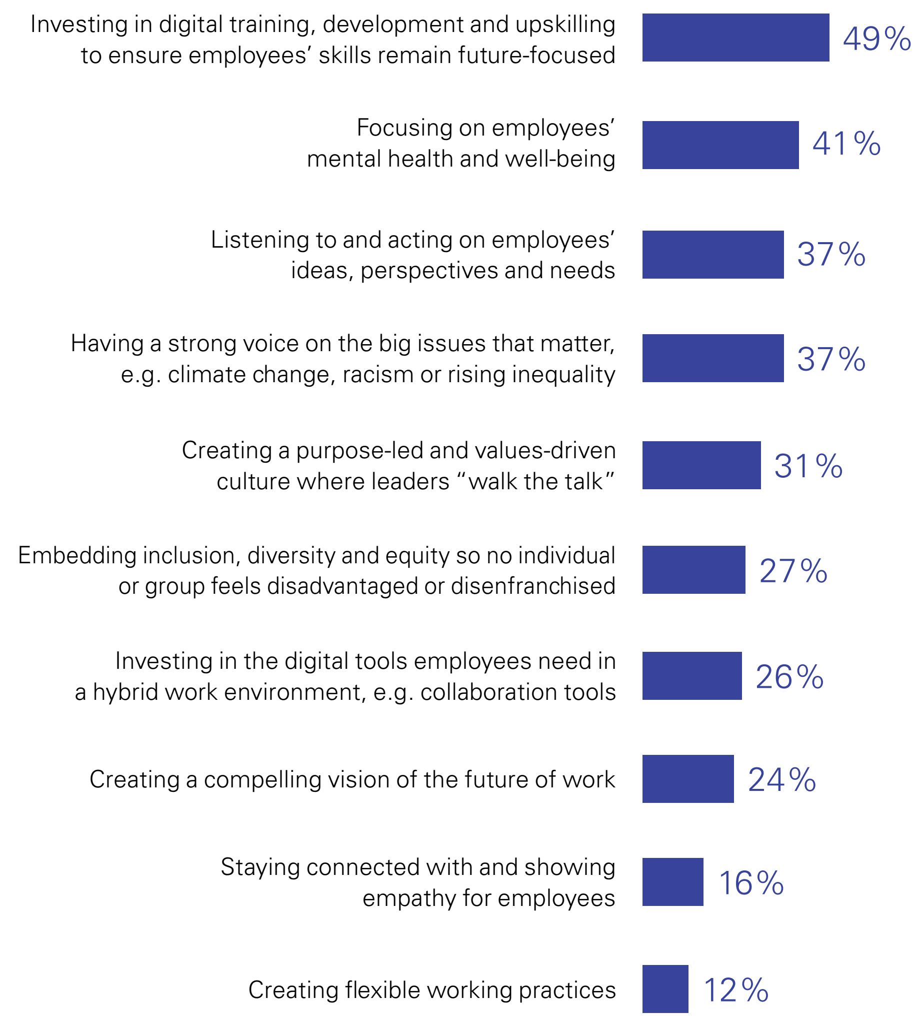
- A large minority of firms will have employees working remotely at least two days a week.
- Many companies will hire talent that works predominantly remotely.
- Shared office spaces will increasingly accommodate hybrid working.
- Most senior leadership meetings will probably be held remotely.

All companies in the region will have to become adept at:

- Responding to demands from existing employees and new hires for remote or hybrid working.
- Providing workspaces with facilities such as programmable hot desks.
- Adopting and honing the technology and skills needed to optimize online meetings.
- Providing management training to enable decision-makers to organize effective hybrid working.
- Working in an environment in which at least some of their business partners will operate remotely.
- Investing more in risk management to facilitate preparation for a range of threats.

ASPAC CEOs identification of the impact the COVID-19 pandemic will have on them in three years

ASPAC CEOs identified these key success factors to ensure employees are engaged, motivated and productive in a world where hybrid work is increasingly common



ASPAC CEOs responded to greater pressure for ESG transparency

In 2021, most ASPAC CEOs (79 percent) said they wanted to lock in the sustainability and climate change gains they made because of the crisis. Furthermore, 85 percent agreed that their response to the pandemic had caused their focus to shift toward the social component of environmental, social and governance (ESG) policies.

More business leaders in the Asia Pacific region (71 percent) agreed that major global challenges such as inequality and climate change were a threat to their companies' long-term growth and value compared to the previous year (65 percent). They said that the public is looking to businesses to fill the void on social challenges (from 63 to 66 percent). However, they also felt that large corporations have the resources to help governments find solutions to global challenges (from 65 to 79 percent). A majority (68 percent) said that stakeholder scrutiny of their performance on social issues will continue to accelerate, with 74 percent believing that CEOs will be held personally responsible for driving progress in addressing social issues.

Most ASPAC CEOs (70 percent) saw demand from stakeholders for reporting and transparency on ESG issues increasing to a significant or very significant extent. They saw the greatest pressure coming from institutional investors, identified by 57 percent of those surveyed, a leap from only 42 percent in 2020. A similar increase occurred in those pointing to regulators as posing the greatest pressure, from 22 percent in 2020 to 31 percent in 2021. Since last year, the share of those naming employees and new hires as exerting the greatest pressure has fallen from 15 to 5 percent, and customers from 20 percent to a mere 7 percent.

As in other areas, there was a great range of variation across the region. Institutional investors were seen as exerting the strongest pressure for ESG transparency by 45 percent of CEOs in Singapore and 55 percent of CEOs in New Zealand, compared to 86 percent in Korea and 100 percent in the Philippines. While regulators were perceived as the primary enforcers of ESG transparency, no CEOs in Cambodia and the Philippines and 40 to 43 percent in Australia, China and Malaysia felt this way.

Employees were not as concerned

Employees and new hires were not the primary source of ESG transparency pressure in any of the firms represented in the survey in Australia, Indonesia, Korea and Malaysia. This is contrary to Thailand and Cambodia at 60 percent and 75 percent, respectively. And all CEOs in Cambodia, Korea, Malaysia, Thailand and Vietnam reported that customers were not the primary enforcers of ESG transparency in their countries, whereas 14 percent of those in Japan and Indonesia said they were.

Failing to meet the expectations of shareholders could, said respondents, lead to challenges in accessing capital markets; let competitors gain an edge; cause problems with disengaged employees and recruitment; and even threaten their own continued tenure.

On the other hand, CEOs in ASPAC were more pessimistic about the impact of ESG programs on their financial performance than executives in the rest of the world. A third of those in ASPAC (34 percent) said it reduces their financial performance, compared to only 24 percent globally. Such pessimism in the ASPAC region ranged from 18 percent of respondents in Australia and China to 60 percent in Cambodia and Thailand and 70 percent in the Philippines.

A higher share of CEOs in ASPAC (64 percent) than in the world as a whole (55 percent) said they expect to rely increasingly on external assurance of their ESG data to meet stakeholder/investor expectations around consistent and robust sustainability reporting.

Communication breakdown

Even if their ESG performance was good, CEOs faced challenges in communicating this to stakeholders because they struggled to articulate a compelling ESG story or to meet the ESG reporting needs of different investors and other stakeholders. Internal ESG performance reporting also wasn't as rigorous as financial reporting, as there was not an accepted framework for measuring ESG performance, and stakeholders often saw ESG performance reports as mere "green-washing."

“Companies should adopt strategies to meet demands from institutional investors and government regulators for greater ESG transparency, while also ensuring continued profitability. Fulfilling these objectives will not be easy, but is essential for enterprises to flourish in the 21st century. While a third of companies in the Asia Pacific region are already saying that they benefit financially from good ESG performance, it is worrying that another third report that they lose financially from it. We also need to address the wide variation among countries in the region and the importance they attach to ESG. For example, countries whose CEOs agree they want to lock in recent sustainability gains vary from 60 to 100 percent. And there's great divergence among countries on how much stakeholder demand exists for greater ESG transparency, ranging from 49 to 100 percent of their CEOs who feel such pressure.”

Ken Reid
Head of Advisory, KPMG Asia Pacific

ESG affecting CEO pay

While a third of ASPAC CEOs had their pay based against ESG goals and targets, fewer than one in five agreed that this should be the case. Where this happens, it mainly affects the annual bonus, then long-term incentives and, least commonly, base salary.

A slightly higher proportion (33 percent) of CEOs in ASPAC countries said their pay is based against ESG goals and targets than did CEOs worldwide (30 percent). However, there was enormous variation across the ASPAC region — from Korea, where all respondents said their pay was shaped in this way, to Malaysia, the Philippines, Thailand and Vietnam, which said that none of it was. There was less divergence between ASPAC (18 percent) and the world as a whole (16 percent) in the proportion agreeing that their pay should be based partly on ESG goals and targets. Thailand, where none of the executives who responded wanted such a link, and Cambodia, where 40 percent did, occupied the extreme ends of the spectrum.

There was a difference in how these incentives applied to executive pay. In China, Cambodia, Indonesia, Korea, Malaysia, Taiwan and Vietnam, no CEOs reported that ESG was linked to base salary, while 33 percent of CEOs in Japan and 40 percent in Singapore said it was. Similarly, whereas all CEOs in Indonesia, Korea and Taiwan reported a link between ESG and the annual bonus, no CEOs in Cambodia, the Philippines and Vietnam did. There was not a link to long-term incentive plans in Indonesia, Korea, Malaysia, New Zealand, the Philippines and Vietnam, while such a link was reported by 40 percent of CEOs in Singapore, 50 percent of CEOs in Australia and Japan, and by all CEOs in Cambodia.

Unclear direction on ESG performance

ASPAC CEOs were split evenly into three schools on the question of how their companies' ESG performance affected financial performance. One-third said it improves financial performance. One-third said it reduces it. The remaining third assessed its effects as neutral or negligible.

Government assistance

An overwhelming majority in ASPAC wanted governments to act urgently on climate change and turbocharge climate-related investment. They also wanted to see their own organizations' digital and ESG strategic investments inextricably linked.

As ESG will likely continue to be important for companies in the region and globally, how it's intertwined with the aforementioned factors may only become clearer in the years to come.

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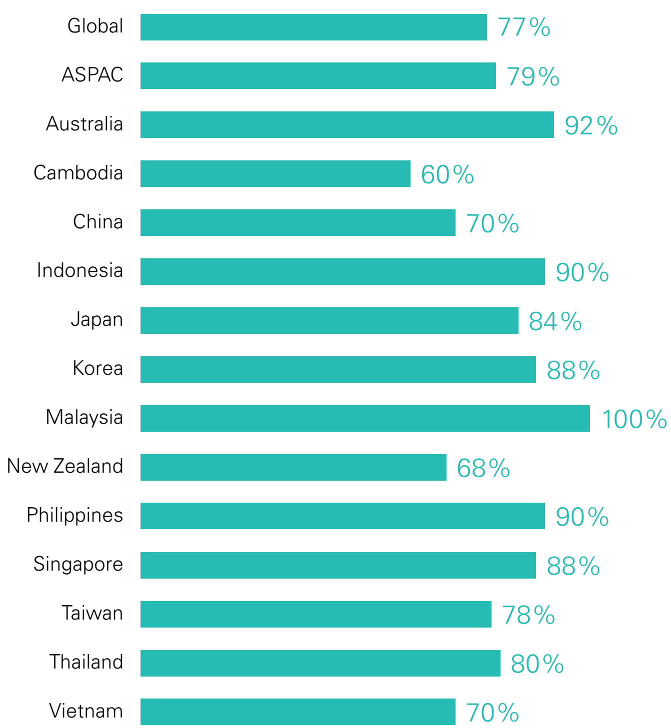
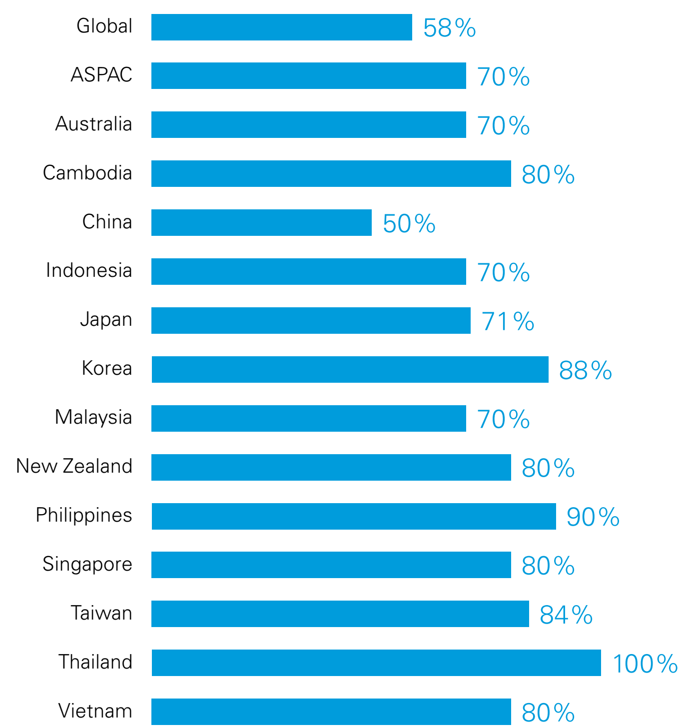
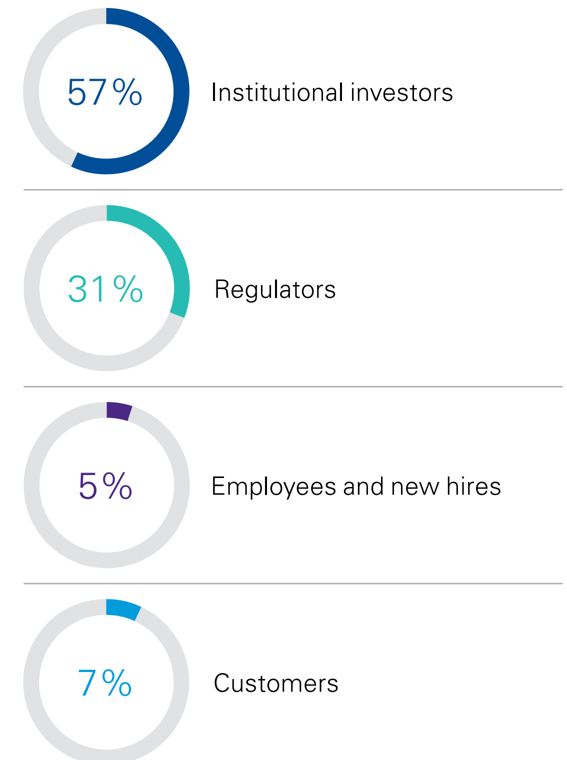
Proportion of CEOs agreeing or agreeing strongly that they want to lock in the sustainability and climate change gains they made as a result of the crisis



Proportion of CEOs seeing significant or very significant demand from stakeholders for increased reporting and transparency on ESG issues today



ASPAC CEOs' perceptions of the biggest demand and pressure for greater ESG transparency and reporting



ASPAC firms nurtured a productive workforce

Recruiting, developing and retaining talent was a key challenge as companies emerged from the COVID-19 pandemic. Major structural changes, not all of them foreseen or foreseeable, required businesses to change direction. In some cases, this could mean switching from one manufacturing sector to another. These structural shifts resulted in sectoral labor shortages and skill mismatches.

Corporations that suddenly moved to remote working had to consider the extent to which they could return to their previous modus operandi and how far, and in what ways, they needed to adapt to hybrid working. Looking ahead, they may consider in-sourcing and vertical integration to avoid supply chain risk, as well as looking at adding new capacity, and therefore new talent.

How can companies nurture talent in this rapidly changing economic and social climate?

Respondents were asked a variety of questions to reveal how they intended to motivate their employees and provide an enabling environment in which those workers could develop and become more productive.

Over the previous year, there was more than a doubling (from 15 to 36 percent) of the proportion of ASPAC CEOs reporting that they would prioritize rewarding and incentivizing their people to install a purpose-driven approach (outdoing a global increase from 10 to 28 percent simultaneously).

Attracting talent

When ASPAC CEOs were asked what they thought was the greatest benefit of being a diverse and inclusive organization, the largest response, at 41 percent (near to 2020's 42 percent), was that it helped attract Generation Z and Millennial talent. This contrasted with the global response of only 29 percent in 2021 (down from 40 percent in 2020). In 2021, only 11 percent of ASPAC CEOs thought that the greatest benefit was that it maximizes employee potential and engagement, down from 14 percent in 2020.

Going digital

When looking at ASPAC companies' digital transformation strategies in 2021, we found that 77 percent agreed that the accelerated pace of digital transformation through the pandemic would not be sustainable without first addressing burnout among their workforce.

Responsibility for former employees

The study looked more widely at how employers acknowledge and fulfill a wider responsibility to society by helping employees find work after leaving their companies. In 2021, 71 percent of ASPAC CEOs agreed that they have some or a significant responsibility to help with the reskilling or placement in new roles of laid-off workers. This was a far higher proportion than the 58 percent reported globally. However, there was a wide gamut of opinion across the ASPAC region, ranging from only 50 percent in Malaysia and 52 percent in China to 88 percent in Korea, 90 percent in New Zealand and 92 percent in Singapore and Taiwan.

ESG

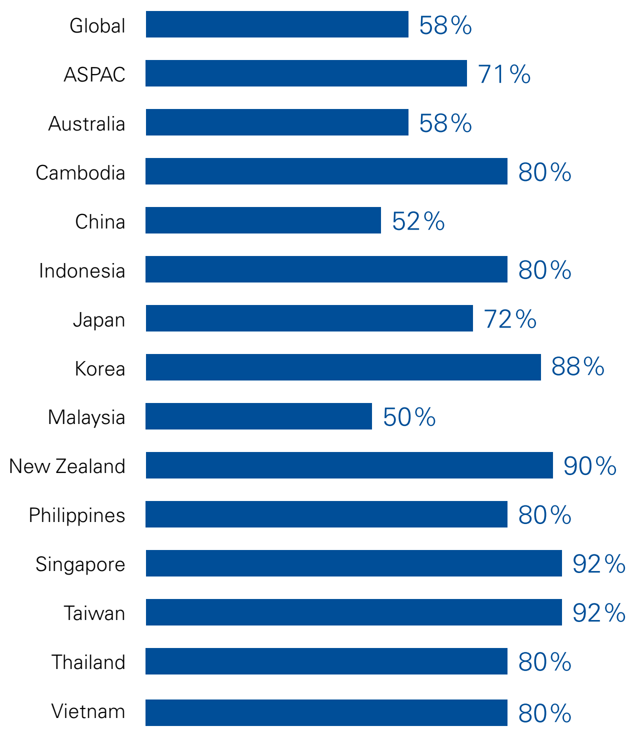
In investigating attitudes toward ESG during the crisis, it emerged that the great majority of CEOs in the Asia Pacific region (85 percent) said the pandemic has caused them to shift toward the social component of their ESG program.

While companies throughout the region felt a responsibility to both new and former employees, trends such as digital transformation and hybrid working continued to pose challenges and opportunities.

> ❝ ASPAC companies should continue to focus more on the needs of their workers, and also invest more in skills training and retraining to help deal with the chronic skills mismatches and supply bottlenecks that are affecting industries worldwide. It's great to see that 71 percent of CEOs in the region accept responsibility for helping with this, significantly outpacing the global response of only 58 percent worldwide. ❞

Ivana Arlianto
Head of People, Performance & Culture, KPMG Asia Pacific

Proportion of respondent CEOs agreeing that their organization would have some responsibility or significant responsibility to help laid-off workers with reskilling or placement in new roles



Businesses addressed supply chain risk after a hard year

Risk perceptions shifted in ASPAC countries, with CEOs here no longer viewing environmental and climate change issues as the main risks. In the previous year, 28 percent of respondents identified these as the primary risks, but in 2021 CEOs were more focused on supply chain risk.

ASPAC's focus on supply chains was in stark contrast to the global perception, where only 12 percent of CEOs worldwide identified it as the greatest threat to their organizations' growth in 2021. That compared to 20 percent of ASPAC CEOs, but there were of course huge country-by-country differences in this perception. In Malaysia and Indonesia, only 10 percent of CEOs said supply chain risk was the greatest threat, compared to 60 percent in Thailand.

A higher proportion of CEOs in ASPAC countries (66 percent) reported that their supply chains had been under increasing stress over the past 18 months than did global CEOs (56 percent). This stress was geographically diverse. Thailand had only 60 percent of its CEOs say they had experienced such stress, compared to 62 percent in both Japan and New Zealand, and all (100 percent) of the respondents in Cambodia and Malaysia.

Plan of action

To mitigate this risk over the next three years, 36 percent of these companies said they will monitor their supply chains more closely to spot problems. Additionally, 34 percent said they will diversify to new input sources to increase resilience; 18 percent said they will onshore more inputs; and the remaining 12 percent said they will adopt strategic measures like hedging and longer-term contracts. Neighboring countries viewed these solutions quite differently. For example, while 60 percent of firms in Cambodia and 57 percent of those in the Philippines said they will add new input sources, none of those in Thailand and Vietnam did so.

Risks of less concern

A smaller proportion of ASPAC CEOs pointed to reputation/brand and tax risks (6 percent in each case) then did their counterparts worldwide (10 percent in each case). However, the tax-risk perception rose in ASPAC from 2 percent last year. It will be worth watching to see if this increases further in the coming year as governments seek to pay for the debt they incurred in 2020–2021 as they cushioned their economies against the blow of COVID-19.

Talent risk not a major threat, but one of many other lesser ones

Given the labor shortages that sprung up in the pandemic's wake, it was heartening to see that only 1 percent of CEOs in the Asia Pacific region identified talent risk as the greatest threat to their organizations' growth in 2021 — edging down from 2 percent in 2020. However, this doesn't mean that they didn't face recruitment and retention challenges. It's more likely that many found and implemented solutions to overcome these obstacles.

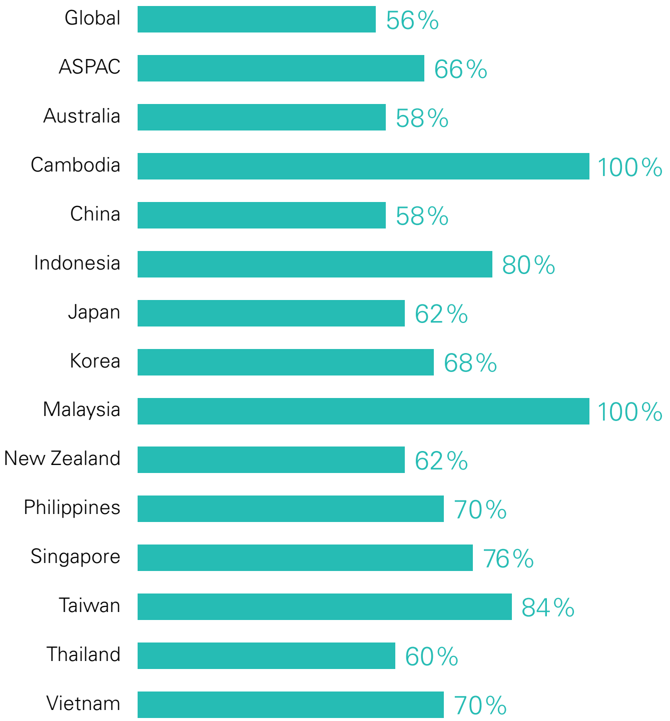
Similarly, there was a drastic reduction in the proportion of ASPAC CEOs who said that environmental/climate change risk was the greatest threat to their companies (from 28 to 11 percent). But it's unlikely that those surveyed expected this huge global challenge to disappear. Rather, it's probable that they felt more confident in their own efforts to solve and mitigate it.

The recent trade wars and other splinter tendencies in various parts of the world were less of an issue in 2021. It was encouraging to see a reduction in the proportion of ASPAC CEOs (from 12 percent to 4 percent from 2020 to 2021) who believed the primary threat was a return to territorialism.

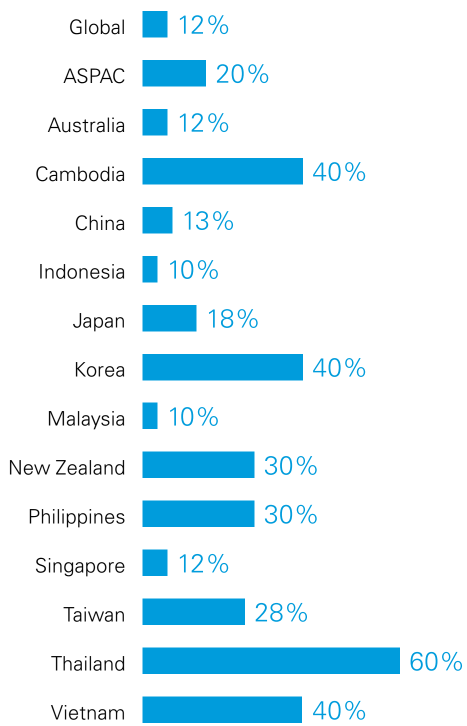
❝ The supply chain vulnerabilities revealed by the pandemic will not fade overnight even after COVID-19 has been brought under control. Organizations in the Asia Pacific region need to invest in active measures to build robust, flexible, and resilient supply chains. Supply chain risk is now at the top of the list of perceived threats to growth in Asia Pacific. This perception is based on experience, as two-thirds of the companies polled already had supply chain stresses in the previous 18 months. This is being confirmed as critical choke points such as shortages, bottlenecks, and massive price increases now increasingly result from the rapid bounce back in demand as economies recover, and not so much from lockdowns and travel bans. Enterprises should protect themselves by exploring new digital technologies and developing supply chain strategies that foster greater resilience while enabling improved responsiveness and flexibility to respond to dynamic customer requirements. This will ensure they are less vulnerable to future supply chain shocks from any type of situation, whether a health crisis, geopolitical event, economic growth spurts, or weather disasters. ❞

Peter Liddell
Global Lead, Operations Center of Excellence, KPMG Australia

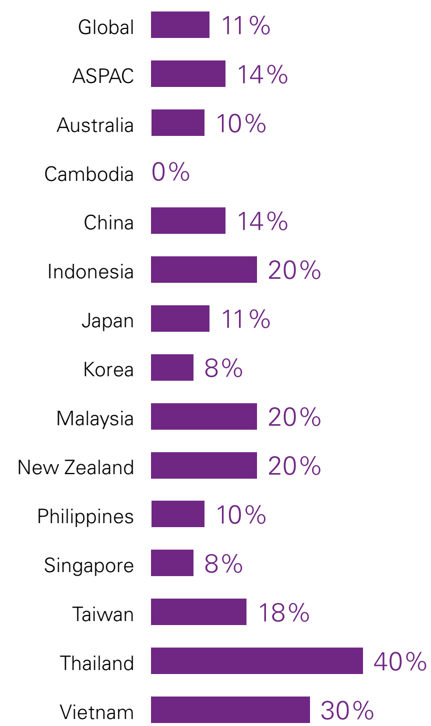
Proportion of CEOs reporting that their supply chain had been under increasing stress over the previous 18 months



Proportion of CEOs identifying supply chain risk as the greatest threat to their organization's growth



Proportion of CEOs identifying their top operational priority to achieve their growth objectives over the next three years as being reconfiguring their supply chains to provide greater resiliency and more consistent access to the necessary inputs for their operations



Strategies that ASPAC CEOs will use to mitigate supply chain risk over the next three years

ASPAC companies appeared better prepared against cyber attacks

Cyber attacks, though not new, emerged as an important threat during the pandemic. As a reliance on online retailing, banking and meetings increased, so did cyber threats. Building on the ransomware attacks in earlier years, cyber criminals exploited the vulnerabilities that mushroomed in an expanding digital ecosystem.

Companies in the Asia Pacific region and globally expressed concern about cyber security risks, while simultaneously affirming that they were preparing defenses against them. However, it was unclear whether CEOs' perceptions are driven by an easing of attacks or by increased confidence in their own mitigation efforts.

When asked which risk posed the greatest threat to their organization's growth, 16 percent of ASPAC CEOs identified cyber security risk, one percentage point lower than in 2020. The global proportion also fell over this period, from 15 to 12 percent.

An equal proportion of CEOs globally and in ASPAC (16 percent) identified cyber security resiliency as their top operational priority to achieve their growth objectives in the next three years. The relatively low priority allocated to cyber risk may reflect confidence in the security preparations companies have made rather than an underestimation of the danger.

ASPAC companies better defended

Companies in the region may have been better defended against cyber attacks than their counterparts elsewhere. The proportion of global CEOs reporting that their companies were well-prepared or very well-prepared to fend off a cyber attack edged down from 59 percent in 2020 to 58 percent in 2021 (with a marked switch from "very well-prepared" to just "well-prepared"). Responses to the same question among ASPAC CEOs shot up from 52 to 71 percent in the same period.

Some countries in the region seemed better prepared than others, and the range extended from China at 44 percent to 100 percent in Indonesia. A concentration of countries (Cambodia, Malaysia, New Zealand, the Philippines, Singapore, Thailand, Taiwan and Vietnam) were between 80 and 90 percent.

More specifically, 75 percent of ASPAC CEOs said they had plans to address a ransomware attack if faced with one, compared to 65 percent in the world as a whole. This suggested that companies had put in place robust cyber defenses and that headline-hitting cross-border ransomware attacks prompted the development of strategies for handling negotiations with online blackmailers. Whether or not this was actually the case, these are measures that all companies should implement.

Digital risks

Companies needed to think more broadly about digital risks, which includes more than cyber attacks. Service disruptions from tech failures and reputational damage arising from data privacy issues were also identified as risks.

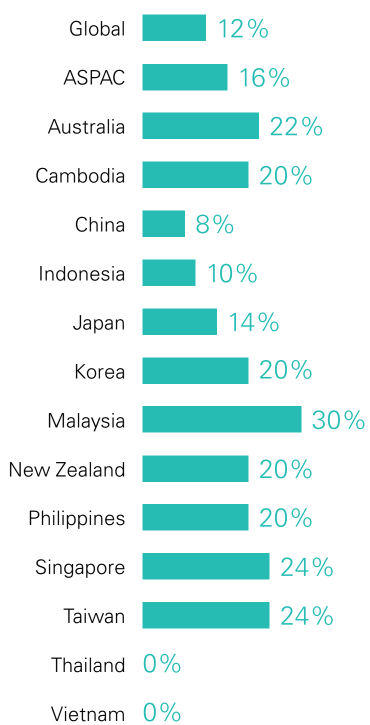
When asked what steps they intended to take to build digital resilience over the next three years, 51 percent of ASPAC CEOs (and 46 percent of global CEOs) said they would strengthen governance around operational resilience and their ability to recover from a major incident. Meanwhile, 43 percent of ASPAC (40 percent globally) said they would invest to develop secure and resilient cloud-based technology infrastructures.

Upskilling

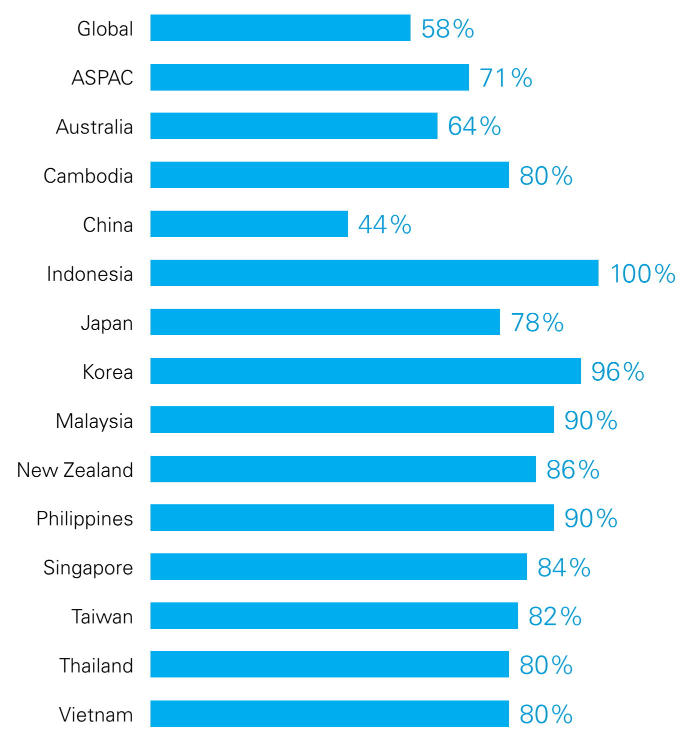
It was notable that 40 percent of business leaders in the Asia Pacific region (and 46 percent worldwide) said they would improve skills in cyber security and other areas of technology risk. This corresponded to the 35 percent of ASPAC CEOs (42 percent globally) that said they would establish strong digital and cyber risk cultures in their organizations.

A good defense system coupled with well-trained employees in cyber security best practices would greatly help companies combat cyber threats.

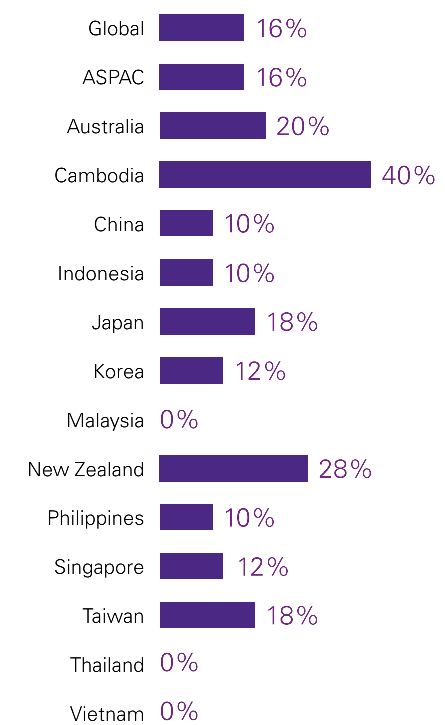
Proportion of CEOs reporting that cyber security risk poses the greatest threat to their organization's growth



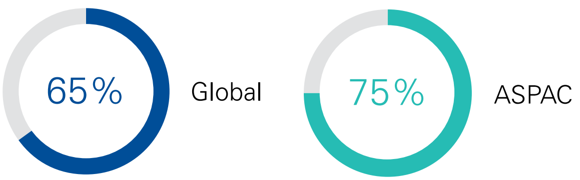
Proportion of CEOs reporting that they are well-prepared or very well-prepared for a future cyber attack



Proportion of CEOs identifying cyber security resiliency as their top operational priority to achieve their growth objectives over the next three years



Agree or strongly agree that I have a plan to address a ransomware attack if faced with one



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ASPAC companies invested in technology over skills

Corporate digital transformation necessitates major investment in new technology, but equipment is useless in untrained hands. That is why it is essential to invest simultaneously in education and training. Analysis of past economic growth suggests that investment in human capital has been as productive as investment in physical capital.

There are contradictory signs in the survey regarding the extent to which top executives in Asia Pacific corporations have addressed this challenge. When asked about the key factors to ensure employees are engaged, motivated, and productive in a world in which hybrid work is increasingly common, the highest proportion of ASPAC CEOs (49 percent, compared to 43 percent globally) identified "investing in digital training, development and upskilling to ensure employees' skills remain future-focused." A lower proportion (26 percent, compared to 25 percent globally) responded that the key factor was "investing in the digital tools employees need in a hybrid work environment, e.g. collaboration tools." This balance of responses suggests companies were ready to invest more in skills than in technology. However, other areas of the survey suggest that this is not necessarily so.

Looking ahead

In considering areas to focus on over the next three years to install a purpose-driven approach, 8 percent of ASPAC CEOs said that they would prioritize training and learning for employees. This was a fall of 5 percentage points from the 13 percent who said this in 2020. The percentage had also fallen with global business leaders, with less than 12 percent prioritizing this, down from 15 percent a year earlier.

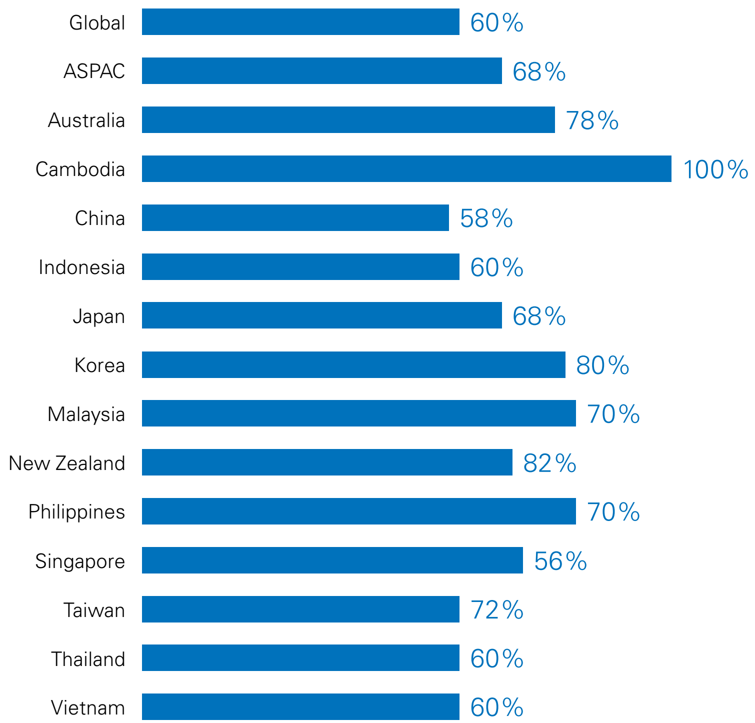
New technology takes precedence

A greater majority of ASPAC CEOs compared to those globally (68 percent and 60 percent, respectively) reported that they were placing more capital investment in buying new technology than in developing their workforces' skills and capabilities. Moreover, ASPAC and the rest of the world appeared to be going in opposite directions. The ASPAC proportion rose from 64 percent in 2020, while the global proportion fell from 67 percent in 2020. As in other areas, there was colossal variation across the region. In Cambodia, all (100 percent) of respondents said they would implement this as a priority, while in Singapore the proportion was 56 percent.

It may be that business leaders in the Asia Pacific region were satisfied that they had already put in place all the training that was needed to make the best use of the new technology that they had invested in. Or perhaps they rushed to reequip in the short term and would deal with retraining needs as they arose. In which case, the executives would be wise to recall the response of 76 percent of ASPAC CEOs in 2021, who agreed that the accelerated pace of digital transformation during the pandemic would not be sustainable without first addressing burnout among the workforce. It is better to combine the installation and commissioning of new equipment with simultaneous training than to wait to arrange it when forced to because of operational bottlenecks and employee stress.

As technology takes center stage, we will have to wait and see if this leads to an eventual lack of human talent in the region.

Organizations placing more capital investment in buying new technology than in developing their workforces' skills and capabilities



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Global tax reforms raised concerns about their potential impact on corporate growth

Governments everywhere had to spend vast amounts of money to keep economies afloat while production and distribution ground to a halt during the lockdowns and travel bans that defined the onset of the COVID-19 pandemic. While increased government indebtedness resulting from budget deficits had been relatively manageable because of low global interest rates, it was clear that taxpayers would eventually have to pay at least some of the bill.

Prior to COVID-19, countries demanded that multinational corporations pay taxes in the jurisdictions where they operated instead of adopting evasive strategies, such as basing themselves in low-tax jurisdictions. A global tax reform to put in place a minimum tax rate and enforce local taxation now dominates the news.

Global tax reform – impacts

Businesses in ASPAC were conscious of the need for governments to fund overspends resulting from the pandemic, but were concerned that global tax reforms may harm their companies. An overwhelming majority (81 percent, compared to 75 percent globally) of ASPAC CEOs agreed that the pressure of the pandemic on public finances had increased the urgency of multilateral cooperation on reforming the global tax system. A similar proportion (78 percent, compared to 77 percent globally) also agreed that the proposed global minimum tax regime is of significant concern to their organizational growth objectives.

Although ASPAC was largely in line with the rest of the world regarding concerns over global tax reform, country-by-country responses varied from 60 to 90 percent of those polled. CEOs reported that the proposed global minimum tax regime was of significant concern to their organizations' goals for growth. The results were 60 percent in Thailand; 68 percent in New Zealand; 74 percent in China; 80 percent in Cambodia, Indonesia, the Philippines, Singapore and Vietnam; 82 percent in Japan; 88 percent in Korea; and 90 percent in Malaysia.

The prospect of increased taxation due to new arrangements did not seem to worry ASPAC executives unduly. Although most companies in the region had concerns that a new global tax regime would hurt their bottom line, only 6 percent (up from 2 percent in 2020) marked tax risk as posing the greatest threat to their organizations' growth. This was below the global figure of 10 percent.

Even more than in the rest of the world, companies in the Asia Pacific region must respond to public pressures for more tax transparency. A whopping 74 percent of them felt mounting pressure to increase public reporting of their global tax contributions, compared to 68 percent worldwide. Within ASPAC, this response ranged from 60 percent in Cambodia to 100 percent in Thailand.

Building public trust

Corporations were aware of the need to build public trust by keeping to their tax commitments. When asked to what extent they agreed that there was a strong link between the public's trust in their business and how their tax approach was aligned with their organizational values, 80 percent of ASPAC CEOs (and 74 percent of global CEOs) said they agreed or strongly agreed.

CEOs were likely to be worried about any new global tax reform, as this would affect both their growth and public image.

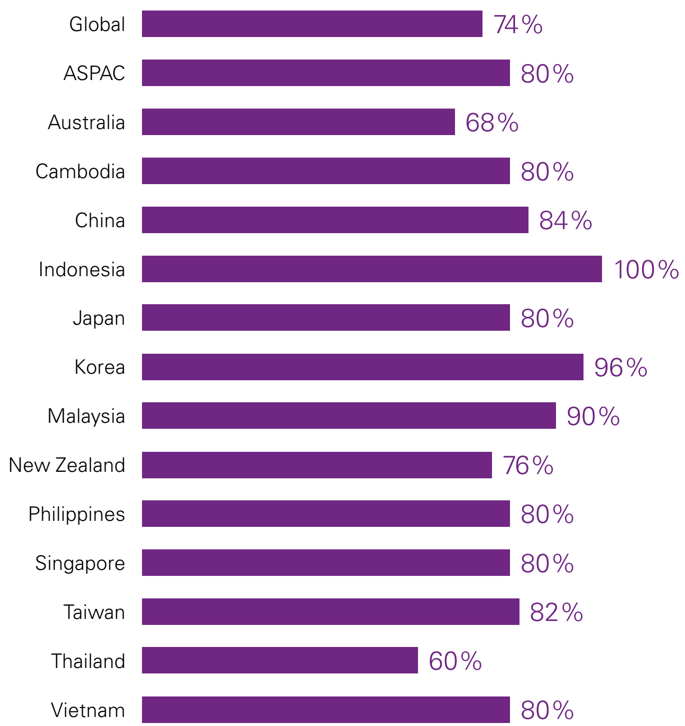
Most companies in the Asia Pacific region:

- Don't see tax risk as the greatest threat to their growth.
- Feel greater pressure to increase public reporting of their tax contributions.
- See a strong link between public trust in their business and how their tax approach matches their corporate values.
- Agree that the pandemic has increased the urgency of global tax reform.
- Worry that global tax reform will harm their company's growth.

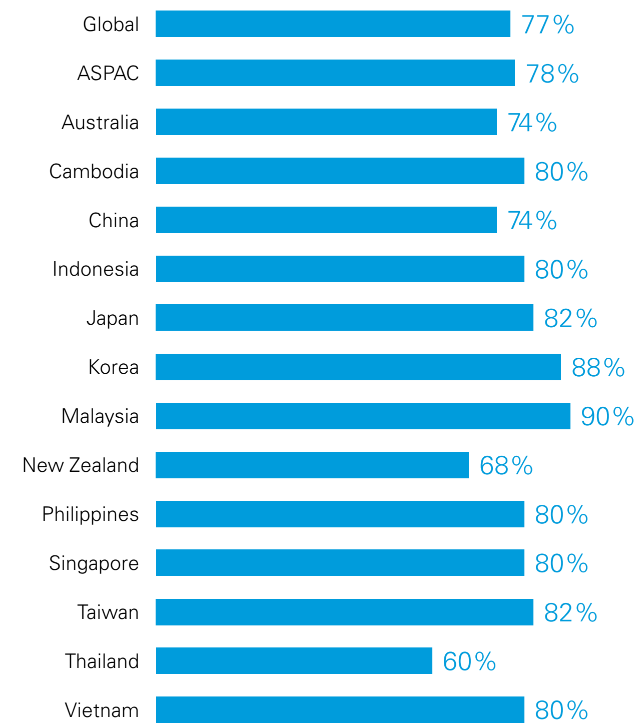
They should shape up by:

- Following closely and participating in discussions to reform the global tax system.
- Making full preparations to strengthen compliance with the new rules.
- Arranging due diligence to estimate the impact of new tax rates and rules on their company.
- Restructuring their business operations to survive the new tax regime while complying with it.
- Using the changes as an opportunity to increase the transparency of their tax reporting worldwide.

Proportion of CEOs agreeing or strongly agreeing that the pressure the pandemic has put on public finances has increased the urgency of multilateral cooperation on the global tax system



Proportion of CEOs agreeing or strongly agreeing that the proposed global minimum tax regime is of significant concern to their organization's goals on growth



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