



2017 Global CEO Outlook

The outlook for Australia

Disruption and growth: how constant change, even in uncertain times, is becoming increasingly necessary for business success.

Introduction

Amongst Australian CEOs and their global peers, there is a growing belief that the world is more unpredictable today than at any time in history. However, today is also seen as a period of significant opportunity.

Geopolitical and economic uncertainty is driving CEOs to think in fresh ways about the disruptive forces impacting their businesses. Many are turning to innovation as a key method of dealing with constant disruption. This increased uncertainty is also resulting in a stronger focus on growth, on putting the needs of customers front and centre, and staying on top of regulatory changes and cyber security.

In the 2017 Global CEO Outlook, close to 1,300 CEOs from around the world, including many from Australia, discussed these challenges and opportunities. Their answers provide a unique insight into what they are doing today to ensure their companies, and themselves, can manage these challenges, and what they will focus on in the coming years.

In the 2016 survey, the primary focus was on CEOs making transformative change in their company. This year, the emphasis is more on the urgency to 'disrupt and grow' – as new challenges and uncertainties impact the global business landscape.

This survey summary looks closely at the responses made by Australian CEOs, while offering comparisons with their global peers.

Contents

02	Introduction
04	Executive Summary
05	Heightened uncertainty
06	Economic growth
08	Summary of key findings
09	The evolution of the CEO
10	Disruption as an opportunity
12	Strategic balance
14	Headcounts on the rise
15	Battle for talent in cognitive revolution
16	Reputation still matters
17	Trust in a time of disruption
18	Intuition and analytics in understanding customer
20	Cyber risks – an increasing concern
22	Conclusions
24	Contact us

“This year, we see the CEO looking to be a disruptor, not the disrupted, harnessing uncertainty by challenging their own role to better lead their business to success. CEOs are focusing on core strengths, but at the same time innovation and disruption remain key priorities for the future.”

Gary Wingrove, CEO, KPMG Australia

Executive summary

The past year has seen new waves of uncertainty – both economic and geopolitical – impact businesses in Australia and around the globe. This has resulted in CEOs taking a closer look at the disruptive forces affecting their businesses.

This is not surprising. Geopolitical factors were thought to have the second biggest impact on business growth (after regulatory changes) to Australian CEOs (17 percent, compared to 7 percent global), with global economic factors coming in third (15 percent, compared to 13 percent global).

Heightened uncertainty

These new challenges may be profound, but they are also offering significant opportunities as CEOs look to 'disrupt and grow' their business. They can effectively drive future success by proactively responding to uncertainty.

Mitigating this uncertainty is also prompting CEOs to boost their awareness of the challenges, both strategic and operational, that their business and industry face.

This is especially relevant as 65 percent of global CEOs (down from 80 percent in 2016), while still being positive about their business, its prospects, and the economy they operate in, are less confident in the global economic forecast for the next 3 years. Of those Australian CEOs surveyed, 43 percent were less optimistic – down from 93 percent in 2016.

Overall, while this shows a slight decline since last year's survey, these results still point to a strongly optimistic mindset amongst CEOs.

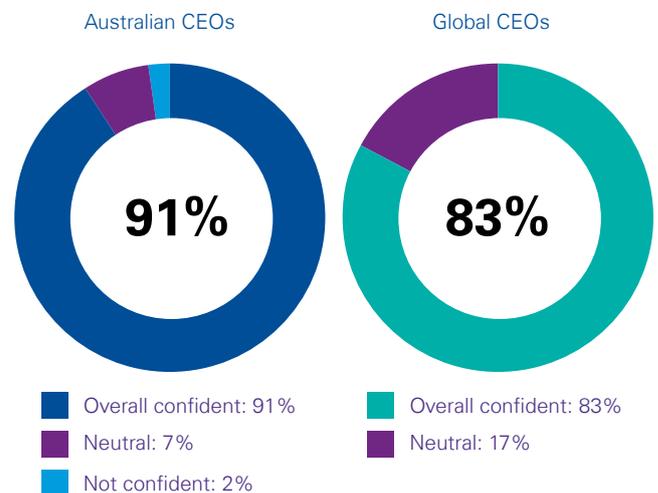
Australian CEO's, in particular, remain confident about their own company growth – more so than their global peers. Eighty-five percent were confident of their company's growth during the next year, and 91 percent were optimistic about growth over 3 years.

“While there is heightened political uncertainty around the world, we remain optimistic about the longer term global growth trends. We retain operational flexibility and can adapt the portfolio mix to changing market conditions.”

**Nicholas Moore, CEO,
Macquarie Group**

Business growth over next 3 years

How confident are CEOs about their company growth prospects?



“The study reveals a heightened perception of geopolitical risk in Australia in 2017. To date, the market has had trouble pricing geopolitical disruptions. Binary outcomes such as a won or lost election, the start or cessation of international conflict, or success or failure of terrorist attacks have seen higher volatility in the market. Understanding the social implications of political and military events has proven too difficult to accurately predict how they translate into changes of economic behaviour.”

Brendan Rynne, Partner, KPMG Economics



Economic growth

With Australian CEOs becoming increasingly cautious about Global, National and Industry growth, it is not surprising that they will continue to build new markets closer to home; with Australia (44 percent), Asia Pacific (43 percent), and Central Asia (40 percent) noted as the top three priority markets. Japan rated lowest with 7 percent.

Ninety-one percent of Australian CEOs expressed confidence in increasing their organisation's headcount by up to 10 percent in the next 1 to 3 years. Contrast this with 2016, where only 47 percent of CEOs expected to increase their number of employees that year. This cautious optimism highlights both the desire of Australian CEOs to get ahead of the curve by investing in their people and skills, and raises the possibility that Australia's relatively stagnant wage growth may improve in the next 3 years.

This optimism is further reflected in 70 percent of Australian CEOs (and 41 percent of global CEOs) being confident that they will achieve 2 to 5 percent top line growth during the same time.

Perhaps the most significant area of uncertainty this past year, and potentially moving forward, has been the 2016 US Presidential election and the decision for Britain to exit the European Union (EU). Nearly half of Australian CEOs believe the election of President Trump will have a negative effect on the global economy, a view shared by only 24 percent globally.

The impact of Brexit had largely neutral responses – although 37 percent believe the exit will have a negative impact on inbound investment in the UK, and 39 percent say it will have adverse effects on hiring new talent in the UK. With both countries being amongst Australia's top 10 two-way trading partners, it is clear why Australian CEOs are cautious over such political uncertainty – 76 percent of whom are spending more time on scenario planning.

This uncertainty is leading many to see disruption is a simple fact of life. Rather than being a negative, they see an opportunity to transform their business models, become more innovative, and re-shape their business to become even more successful.

Many CEOs are looking at what can keep their businesses competitive and response-ready, as well as what they personally can do to meet these challenges. Many surveyed stated they are not only exploring new influences and ideas, but are actively looking to develop new competencies and skills – turning uncertainty into opportunity.

Summary of key findings

“In this time of disruption, it’s clear that businesses are focusing on technology to help them improve their bottom line (77 percent) and strengthen organisational resilience (71 percent). Over the next 3 years, 81 percent stated they would be investing in Digital Infrastructure and Cyber Security, followed by Physical Infrastructure at 78 percent. ”

John Somerville, National Managing Partner, Advisory, KPMG



The evolution of the CEO

“New technology is exacerbating peoples already demanding lives. So, empathy is critical for senior leaders to enable their employees to be more efficient and productive. I want to ensure my team and my clients are not overwhelmed. They need to have a sense of wellbeing and balance to thrive in the complex environment, but to also have a rich and full life with their families.”

Steve Worrall, Managing Director, Microsoft

Meeting new challenges also means focusing on the skills needed to do so, and whether the CEOs role needs to evolve. Personal disruption is becoming as important as organisational.

This evolution, however, is not reflected in gender. The clear majority of CEOs are still male (94 percent of Australian CEOs against 97 percent global) with a strong background in finance (most CEOs also state that they are most likely to handover their role to the CFO).

Conversely, there is a growing acceptance of change within the role.

On a global level, 65 percent of CEOs state that they are actively evolving their roles, with 70 percent saying they are now more open to new influences and collaborations than at any other point in their career. Ninety-one percent of Australian CEOs felt the same.

The need to better lead their business is driving CEOs to improve skills and personal abilities; with 69 percent of Australian CEOs (against 68 percent of global CEOs) saying they have taken training or received a new qualification in the past year. Ninety-one percent of Australian CEOs (70 percent global) state that they proactively seek new influences

and collaborations, and are willing to disrupt their own role to gain a leading edge for their business.

These positive attitudes to change are also necessary as 54 percent of Australian CEOs (34 percent of global CEOs) state that they are grappling with mission-critical issues that they haven't previously experienced.

Being change-ready is increasingly essential, and this is reflected in the growing perception that CEOs also need a high level of Emotional Intelligence (EQ) to better ensure their business succeeds. Sixty-one percent of Australian CEOs (45 percent of global CEOs) rate EQ higher than technical knowledge.



Disruption as an opportunity

Business can no longer rest on past successes. Increasingly, CEOs are seeing that they must challenge conventions and champion change.

This was reflected in our survey with more than six in 10 CEOs seeing disruption as an opportunity, not a threat, for their business. Three in four Australian CEOs (72 percent) aim to be disruptors in their own industry (74 percent globally).

For each region, industry, and business, there is a different reason why disruption is being embraced. Whether from political turmoil, or more increasingly, from technology-driven change; disruption – and the uncertainty it brings – is now a global concern.

This is driving innovation as a top strategic priority for CEOs to create value and keep their business moving forward. Fifty-five percent of Australian CEOs are investing heavily into innovation over the next year and expect to ramp this up (63 percent) over the next 3 years. This is understandable as 74 percent of Australian CEOs now expect technological innovations to disrupt their industry by 2020 (compared to 43 percent of global CEOs).

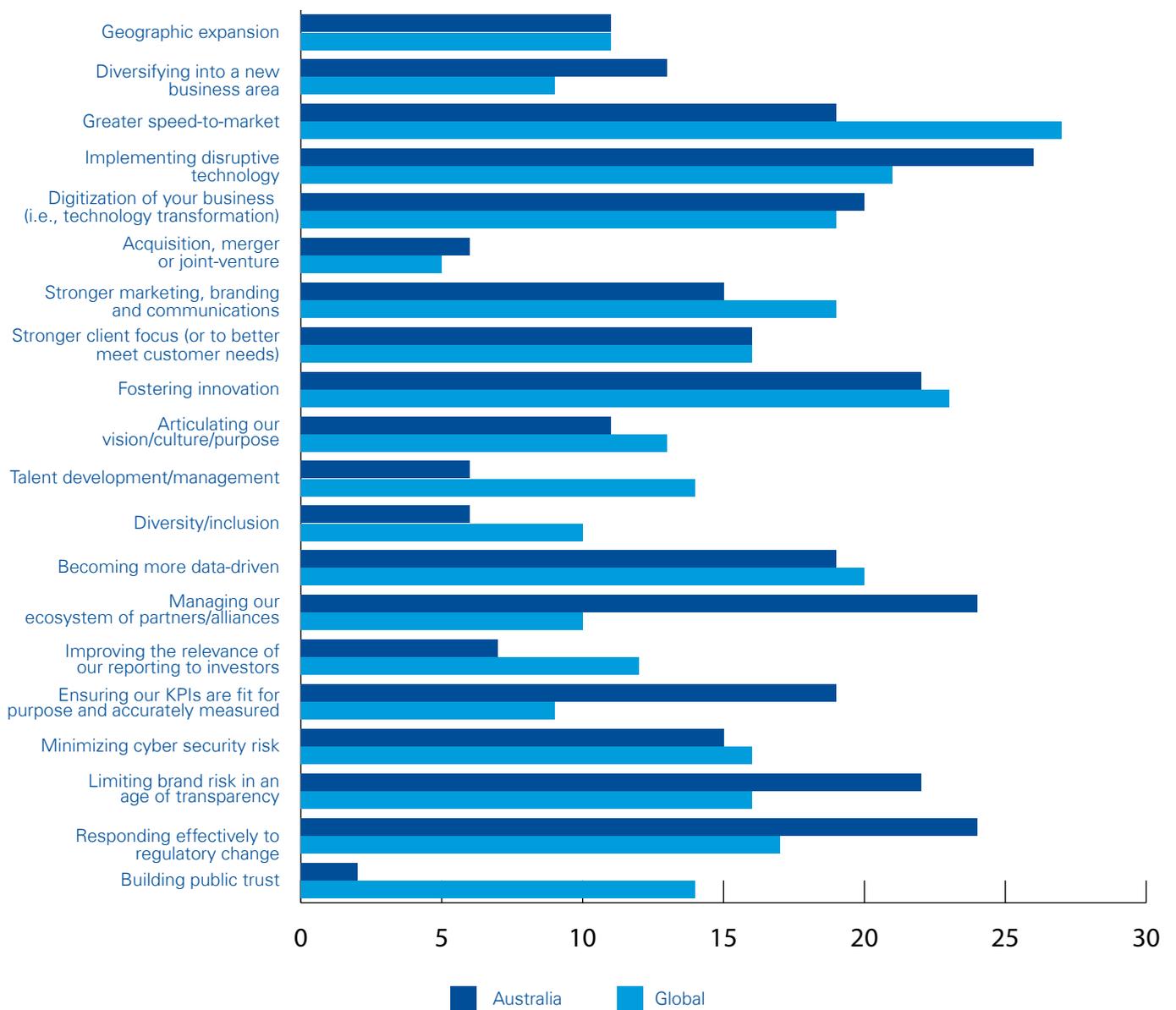
And just under half (43 percent) are pursuing an ‘Innovation-led’ business model transformation as a route to growth. The same amount believes that ‘adopting new technologies’ is the likely top cause for transformation in their companies (against 31 percent of global CEOs).

This is a clear indication why implementing disruptive technology (the Internet of Things, 96 percent in 2016/17, and 89 percent over next 3 years, and Data Analytics, 93 percent in 2016/17 and the next 3 years) is the number one strategic priority for 26 percent of Australian CEOs.

Most also see emerging cognitive technology as leading to increases in head count in most areas of their business over the next 3 years. Eighty percent expect to increase their investment in this technology in the next 3 years (compared with 60 percent of global CEOs).

On a further optimistic note, 69 percent of Australian CEOs are actively up-skilling themselves to disrupt/challenge their own roles. This can only help CEOs confront what they (26 percent) see as their biggest challenge to building and maintaining their customer base – disruptive competitors.

CEOs nominate their top three strategic priorities for the next 3 years





Strategic balance

“We need to focus on our own growth strategy – which is what we can control and influence. Staying true to our customers and what they need – constantly re-defining our business model and leveraging technology to create improvements and new opportunities.”

Georgette Nicholas, CEO, Genworth

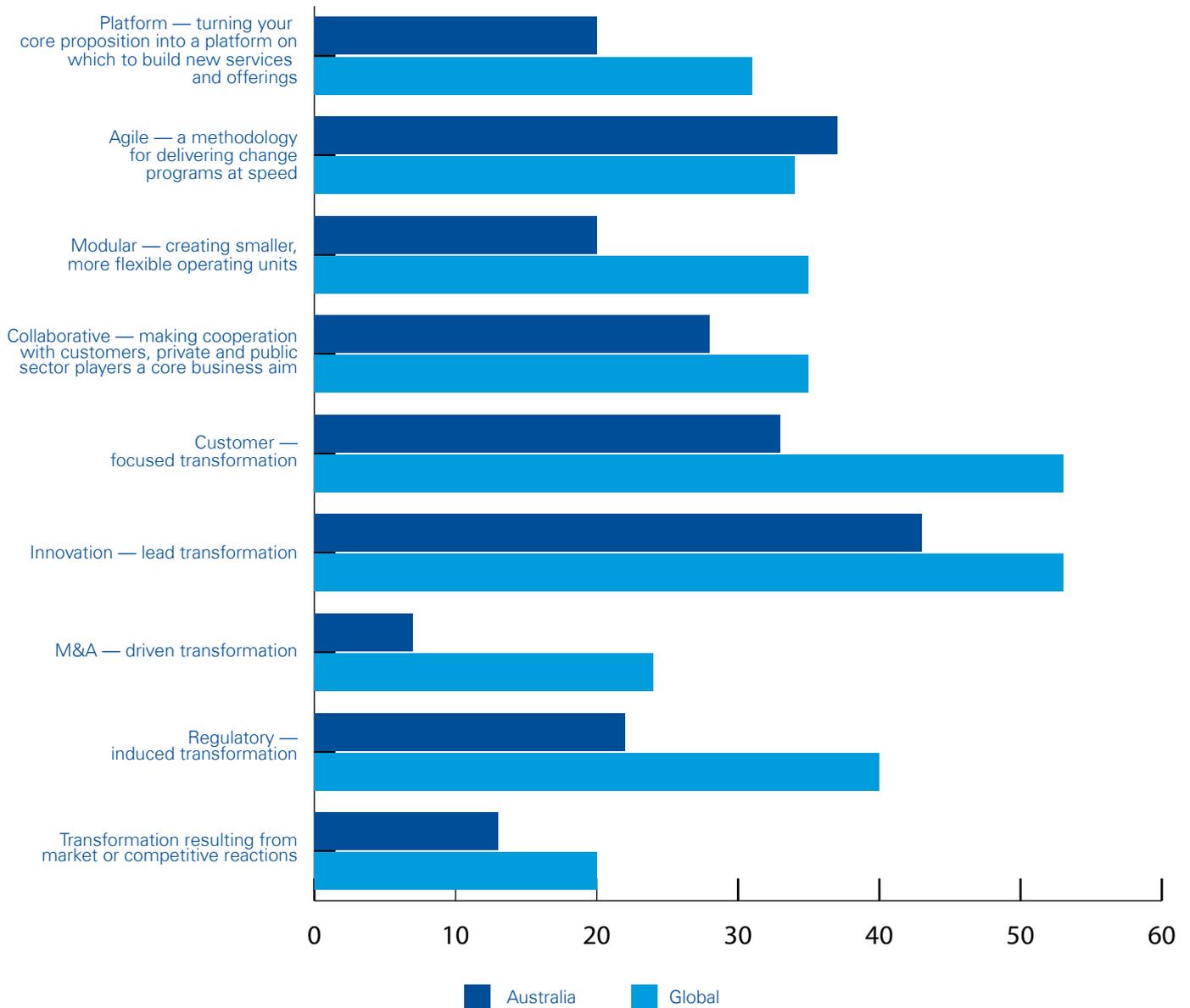
In addition to seeing disruption as an opportunity, over half of global CEOs (53 percent) are looking to prepare for uncertainty in the coming years by strengthening their business in established markets. Sixty-seven percent of Australian CEOs are making it a top priority for growth – while 56 percent are also looking at targeting new industry-specific groups (verticals).

This is closely followed by 47 percent of global CEOs placing a strong focus on innovation – in new products, services and ways of doing business. Forty-six percent of Australian CEOs are investing in the same.

“CEOs no longer have the luxury of ignoring technology. It is now mission-critical to every business. This doesn’t mean a CEO must become an expert, but they must understand how technology enables new business models; drives new and improved customer outcomes, engagement and experience; and optimises operational performance.”

**Margaret Cowle, Partner in Charge,
Global Strategy Group, KPMG**

Business models transformations being pursued by CEOs



This push towards an 'innovation-led' business model is reflected in the 43 percent of Australian CEOs who are leveraging the latest technology to drive customer growth. Australian CEOs were also more confident than global CEOs that they were disrupting business models in their industry with 31 percent versus 19 percent.

Forty-three percent are 'adopting new technologies (compared to 31 percent of global CEOs) while 26 percent are 'implementing disruptive technology' as their number one strategic priority.

This raises the question of whether CEOs feel such disruption will transform their business in the next 3

years. Australian CEOs were almost evenly split (57 percent believing they would stay the same, while 43 percent believe they will transform into a significantly different entity).

Global CEOs were more set on staying the same (74 percent versus 26 percent).



Headcounts on the rise

Within the next 3 years, as geopolitical and economic challenges continue, and in expectation of potential growth, global CEOs are set to increase their headcount. Their optimism, however, is less than in the previous year. In 2016, 73 percent believed that the number of their employees would increase by 6 percent in the near future. Today, only 43 percent expect such growth.

Australian CEOs are bucking this trend, with 91 percent expecting to increase their staff by up to 10 percent.

Much of this recruitment will be around skilled, specialised talent.

Since 2016, 52 percent of global CEOs stated that they have invested heavily in recruitment. This is set to rise, with 75 percent of global CEOs indicating they will be investing heavily in workforce recruitment over the next 3 years.

“Technology will have a huge impact on workplaces in the future. We’ll see humans and machines collaborate, manual tasks become automated, people freed to focus on innovation, and the development of a global talent marketplace. This presents a massive challenge for CEOs and other business leaders in being able to identify and attract the right skills to fulfil business strategies in the future. Adaptability, employee engagement, workplace culture and new styles of leadership will all be part of the mix needed to effectively manage the dynamic and complex changes in the years ahead.”

Stefanie Bradley, Partner in Charge, People & Change, KPMG



Battle for talent in cognitive revolution

A solid understanding of technology is increasingly important when it comes to effective disruption and innovation. CEOs in 2017 are more confident in their understanding of new technologies than they were in 2016.

To stay on top of developments, however, business needs individuals with specific knowledge and expertise. Competition for such highly skilled talent is, understandably, intense and expensive.

This is resulting in a closer look at embedding cognitive technologies.

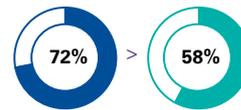
A popular view is that this will reduce managerial headcount, although, 58 percent of global CEOs believe it will increase headcount across several key roles. Australian CEOs expect slight or significant growth to headcount in most areas within their business over the next 3 years.

When it comes to investing in cognitive technology, Australian (80 percent) and Japanese CEOs are the most proactive. Globally, only 60 percent are investing in this area.

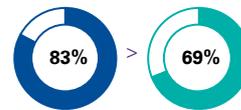
CEOs that expect increases in headcount over next 3 years as a result of cognitive technology

Australia V's Global

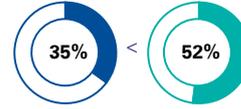
Sales



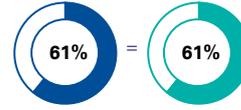
IT



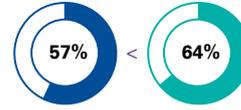
Human Resources



Research and Development

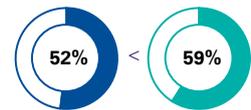


Middle management

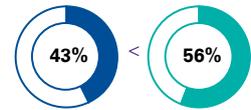


Australia V's Global

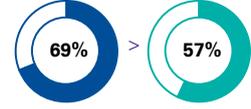
Marketing and Communications



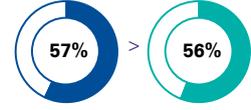
Finance



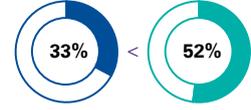
Customer service



Production/service floor



Senior management



“As a technology driven company, we see emerging technologies such as IoT and AI as an opportunity for either developing customer capability solutions or productivity improvements. We would expect their significance to grow over coming years.”

Glynn Phillips, Chief Executive Officer, BAE Systems Australia

“There will be a significant increase in Artificial Intelligence advice in the future. Creating harmony between humans and machines will be where value is created.”

Craig Meller, CEO, AMP



Reputation still matters

As disruption impacts global industries, public opinion will be divided on the cause, with businesses potentially taking a lion's share of the blame. Reputational and brand risk is one of the top three most important risks global CEOs face today (out of 16 in total). This issue did not even feature within the top 10 in 2016.

For Australian CEOs, this has risen in importance in the past year and is now seen as one of today's top five most important risks. This aligns with global CEOs, who see reputational damage as the second highest potential impact on growth over the next 3 years.

“In this age of social media and corporate distrust, managing reputational risk is becoming an ever-increasing necessity for CEOs – not just a ‘nice to do’. A negative reputation, whether justified or not, can adversely impact your business, your revenue, and even endanger your position. Now that consumers have the tools, the information, and the motivation to bring a reputation into question within seconds, it’s vital for CEOs to closely look at their business values and how they can build, and sustain, trust.”

**Sally Freeman, Partner in Charge,
Risk Consulting, KPMG**



Intuition and analytics in understanding customer

Businesses are placing greater importance on protecting the best interests of their customers. A sentiment expressed by 89 percent of Australian CEOs (compared with 70 percent of global CEOs). Going forward, their focus is on building stronger relationships with customers, protecting their brand, and increasing penetration into their primary markets.

This was reflected in 96 percent of Australian CEOs (64 percent global) feeling they are effective at sensing market signals; being able to understand – at a highly intuitive level – their customer’s needs and wants.

Transforming towards such a customer-focused business model, however, is only being actively pursued by 33 percent of Australian CEOs and 53 percent globally.

That 83 percent of Australian CEOs believe that they (and that 63 percent of their employees) can confidently articulate how they

create value for customer, may explain this reluctance to create a customer-first model.

More commonly pursued by Australian CEO’s (at 43 percent) was an ‘Innovation-led’ business model transformation; highlighting an improved confidence about staying on top of new products and services. Today, only 69 percent of Australian CEOs (45 percent of global) say they are concerned about whether they are staying on top of new products and services, compared with 81 percent in 2016.

The biggest customer challenge that most Australian CEOs (26 percent) cited, was building a customer base due to disruptive competitors. Though only 35 percent of Australian CEOs (a significant drop from 2016’s 77 percent) felt concerned about competitors taking their customers (compared with 41 percent of global CEOs).

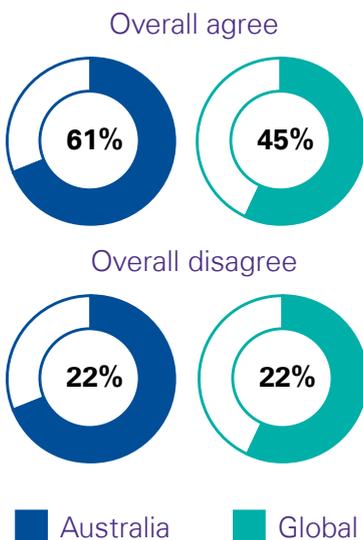
Australian CEOs were more focused on how Changing Customer Expectations will impact their commercial performance – rating it as the fifth most significant impact on business growth (out of 15 factors).

A greater issue is the quality of data they receive and how this will impact their ongoing success. Sixty-one percent of Australian CEOs (45 percent globally) were concerned that the quality of their data hindered their ability to access deep customer insights. Concerns by 59 percent of Australian CEOs and 56 percent of global CEOs were also expressed regarding the integrity of the data they base decisions on.

“People want physical, mental and financial wellbeing – they are all interrelated. We have a holistic approach with our customers. Building trust is also critical – we need to offer good products and advice that are focused on customers and their needs.”

Simon Swanson, CEO, ClearView

CEOs: The depth of our customer insight is hindered by a lack of quality customer data.



“Customers today are better informed, better connected and more demanding than ever. Keeping abreast of the latest consumer trends, customer expectations and changes in digital technologies can be incredibly challenging. But, ultimately, CEOs need to be able to navigate through these complexities and find new ways of creating value for their customers and drive profitable growth for their business.”

Paul Howes, Partner, Customer, Brand and Marketing Advisory, KPMG



Cyber risks - an increasing concern

“Juniper Research estimates that cybercrime will cost business over US\$2.1 trillion by 2019. Literally, no business is safe from cyber-attacks. It doesn’t matter where you are, or what industry you’re in, the potential of an attack isn’t an ‘if’ but a ‘when’. CEOs need to learn about cyber. And this means finding both the most relevant training programs and the time to take them. There is no other choice.”

Gordon Archibald, Partner, Cyber Security, KPMG

“Cyber is a major focus. Our data is vital to us – we need to secure our data and protect our customers. We all have vulnerabilities. So, we need to continually review our systems, our processes and educate our people.”

Georgette Nicholas, CEO, Genworth

Cyber threats continue to be a major concern for global, and Australian, CEOs.

Eighty percent rate it as a high investment priority area and amongst the top five risks to their business.

CEOs, however, are clearly more confident in their ability to manage cyber threats through the controls and systems now in place. Now, ‘cyber risk’ has dropped to number five in the list of top risk concerns for 2017 (in 2016 it was number one). Six in 10 also regard human resources as their top challenge in managing their organisation’s cyber security.

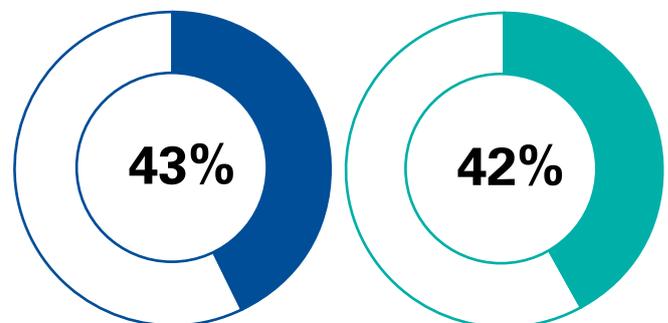
For the overwhelming majority of Australian CEOs (94 percent), mitigating cyber risk is considered a core part of their role, and yet, only 43 percent of Australian CEOs (and 42 percent of global CEOs) believe they are adequately prepared for a cyber event. On a positive note, this is an improvement over the 19 percent who believed they were prepared in 2016.

Overall, the importance of investing in cyber security, is clear. Up to 71 percent of global CEOs (and 59 percent of Australian CEOs) see investment in cyber security as an opportunity to innovate and find new revenue streams. Additionally, 69 percent of Australian CEOs believe additional security prompts innovation in their products and services.

CEOs who believe they are fully prepared for a cyber event.

Australian CEOs

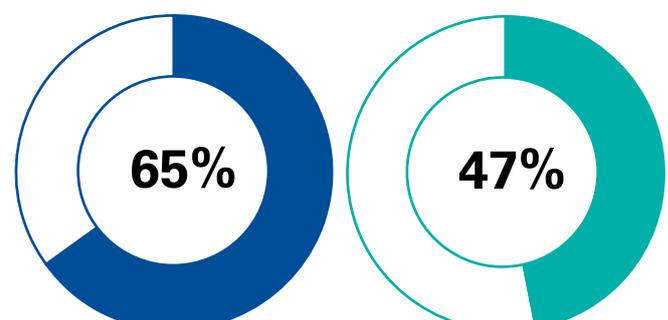
Global CEOs



CEOs who say human capital is the biggest challenge in tackling cyber security

Australian CEOs

Global CEOs



Conclusions

Even during this time of uncertainty and disruption, Australian CEOs remain optimistic about the Australian economy overall, and more so, about the future potential of their businesses

The drive for innovation, in particular, is growing. As is recognising value in disruption. Both within their business and in their market. Through such disruption they are building a basis for a stronger business. And preparing themselves for when they can safely enter new markets.

Such moves are resulting in a strong need to secure the best people to help extract positive results from new technologies. Technologies that may, in the long term, significantly change the workforce. However, in the near term, headcounts will rise as more people are recruited to better drive these changes.

The challenges ahead are also prompting CEOs to rethink their own personal qualities and skills. Many are being as disruptive about their own abilities as they are with their business; literally developing new methods of doing better business in our time of uncertainty.

This also relates closely to the work they're doing to minimise risks to their business's reputation, while also building long-term trust – for long-term success.

Yes, these are times of uncertainty. And the role of CEO will remain, if not become more, complicated and difficult. This challenge, however, has clearly been taken up by Australian CEOs – who are demonstrating an ability to embrace change while approaching new ideas with enthusiasm.

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