

Growing Pains



Insights from 1,300 CEOs around the world reveal cautious optimism in economic outlook

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The dawn of the Industrial Revolution 4.0 is upon us and business leaders around the world are seeing this technology-driven change as a momentous opportunity to be the disruptor and take their businesses to the next level.

That optimism is reflected in KPMG's latest edition of the '2018 Global CEO Outlook: Growing pains' report, which sees 90 per cent of the business leaders around the world feeling confident about their company's growth prospect in the next 3 years. Similarly, the outlook appears bright for CEOs in ASEAN as 88 per cent shared the sentiments with their global counterparts.

However, that optimism is married with a healthy dose of realism as 55 per cent of CEOs are predicting a cautious revenue growth of less than 2 per cent in that same period of time (77 per cent in ASEAN). CEOs are recognizing that to grow in this digital era, they need to manage the ever-shifting field of complex business challenges.

Their pragmatism is also reflected in their hiring plans as 52 per cent of CEOs say they will not hire new skills until growth targets are met. Only 37 per cent predict headcount growth of more than 6 per cent over the next 3 years.

Our survey notes that the rate at which technology is evolving adds complexity to decisions around hiring strategy, as CEOs need to achieve the right balance of reskilling the existing workforce and adding fresh talent, even as the implications of new technologies remain uncertain.

Cyber Danger

Based on the survey this year, which gathered insights from 1,300 CEOs around the world, the risk landscape of 2018 has shown some significant difference compared to the previous year. A return to territorialism has dislodged operational risk as the main concern for CEO this year, with the latter dropping to fifth.

Cyber attacks are damaging to businesses, as evidenced by the estimated USD4 billion of financial and economic losses recorded from the WannaCry ransomware attack. Aside from financial losses, cyber attacks could also endanger lives when actions are targeted to compromise key infrastructures such as hospitals and airports, which are entities heavily reliant on computer systems to operate appropriately.

Chart 1: The risk landscape (2015 to 2018 comparison)

2018	2017	2016	2015
1 Return to territorialism	Operational	Cyber security	Operational risk
2 Cyber security risk	Emerging technology	Regulatory	Regulatory risk
3 Emerging/disruptive technology risk	Reputational/brand	Emerging technology	Strategic risk
4 Environmental/climate change risk	Strategic	Strategic	Supply chain risk
5 Operational risk	Cyber security	Geopolitical	Third-party risk

Source: Global CEO Outlook, KPMG International

However, the main change to note is the rise of cyber security risk, which was fifth last year, to being the second highest perceived threat to growth in 2018. This clearly shows that cyber security is becoming a topic for discussion at the Board level.

Our survey found that about half of the CEOs (49 per cent) believe a cyber attack is a case of 'when' instead of 'if'. As technology continues to evolve and change, it will concurrently create more loopholes for cyber criminals to take advantage of. The challenge many CEOs are facing today is the ability to constantly be ahead of cyber criminals, especially as hackers become increasingly sophisticated.

In the past, hackers operate as lone wolves with their own personal agendas. Today, cyber criminals have remodelled themselves and are now operating more akin to a business, offering cybercrime as a service. Cybercrime is now seen as a lucrative business with people with a range of skillsets working together towards monetary gains through illicit means.

Faced with that reality, business leaders would do well to improve the robustness of their organization's defences. However, only half of CEOs (51 per cent) believe they are well prepared for a cyber attack. This clearly shows there is much room for improvement, and fast. Smart leaders are the ones making cyber preparedness a board priority,

stress-testing the resilience of their system and people to withstand an attack.

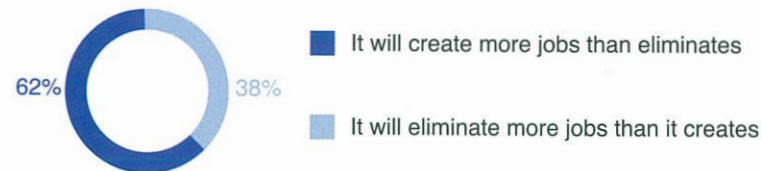
Digital gets personal

Globally, CEOs remain excited about the sweeping changes that technology brings. A vast majority (95 per cent) see technological disruption as more of an opportunity than a threat; 54 per cent of CEOs are actively disrupting the sector in which they operate, rather than waiting to be disrupted by competitors.

To win the digital race, 71 per cent of CEOs say they are personally ready to lead a radical organizational transformation. They are embracing the likes of artificial intelligence (AI) and the Internet of Things (IoT) to reshape their businesses. It is a far cry from the past where businesses used to be the foundation where technology was later laid onto it. Today, both technology and business are tightly intertwined.

With technology now at the forefront of businesses, there is a growing unease amongst employees on the negative impact of automation and AI on jobs. However, 62 per cent of the global CEOs are confident that AI and robotics technologies will create more jobs than it eliminates. It is the responsibility of business leaders to realign their current workforce and provide avenues for their employees to upskill, so they are prepared for the machine age, as it will have a significant impact on the way we work.

Chart 2 : CEOs' views on the most likely impact of AI and robotics technologies on their workforce



Source : 2018 Global CEO Outlook, KPMG International

The obligation to protect data and earn the public's trust also gets the personal treatment with 59 per cent of CEOs taking this on as a personal responsibility. The public outcry over the Cambridge Analytica scandal has served as an impetus for CEOs to prioritize customer data protection. In this digital age, data protection is highly important and sensitive to every individual. If customers' trust is compromised by misuse of data or a breach, the consequences for the company can be severe.

Beyond acting as protectors of data and champions of change, CEOs are also under pressure to deliver results on technological investments. Over half (51 per cent) of CEOs say their board of directors has an unreasonable expectation of returns on digital transformation investments.

Setting clear expectations will be critical as CEOs recognize that a certain degree of patience is required. In the survey, 65 per cent of CEOs say that the lead time to achieve significant progress on transformation can seem overwhelming.

Technology is here to stay, and its role in driving business growth is undeniable. Thus, business leaders need to challenge the return of investment conventions by fundamentally rethinking how they view digital investments and how they are measured. They must take a long term view on technology investing and do away with measuring returns and investments based on past templates.

Generational shifts

Millennials will form a huge part of the consumer markets of the future. They represent significant spending power, and KPMG's survey notes that millennials engage with organizations and brands in novel ways and businesses need to make sure they are in sync.

The survey finds that many CEOs are concerned that their businesses are not keeping up with millennial needs as 45 per cent say their organization struggles to understand how the needs of this generation differ from those of older customers. Over a third (38 per cent) believe they need to reposition their brand to appease and appeal to millennials. Additionally, the role of technology

plays in meeting ever-changing wants and needs across generations is also critical.

The companies that will bridge this generational divide are the ones that will listen, think about what their corporate and brand values are, and ask if they are aligned with the values of Millennials and future cohorts.

Instinct over data

Data and analytics have altered how CEOs and the rest of the C-suite make business decisions, and it is continuing to progress to a more sophisticated level. Artificial Intelligence that draws on deep learning techniques, for example, will transform predictive analytics.

Interesting enough, KPMG's survey found that CEOs still cling to the importance of their own intuition; in the past 3 years, 67 per cent say they have chosen to ignore the insights provided by data and analytics models or computer-driven models because they contradicted their own experience or intuition.

They have also shown a healthy scepticism about data. Over half (51 per cent) say they are less confident about the accuracy of predictive analytics than historic data. CEOs want to understand where the data that inform predictive models derive from and whether it can be trusted.

In contrast, CEOs appear to place a high degree of trust in data and information from social media sources. Our survey revealed that 42 per cent of CEOs say they have a very strong trust in social media,

Chart 3 : Ranking of trusted sources of insight



Source : 2018 Global CEO Outlook, KPMG International

but only 12 per cent say the same for open data from government agencies.

In conclusion, CEOs of today operate in a connected world where events can quickly snowball and the risk agenda is constantly changing. A wait-and-see approach to these issues is not an option. CEOs should harness the headwinds of change to steer their organizations to growth. The smart business leaders recognise that geopolitical uncertainty, disruption and cyber threats are their new

normal. The best ones are those who look for the opportunities this creates, changing their systems, and in some cases their entire business.

This is KPMG's fourth annual Global CEO Outlook study, and it's clear that driving growth in 2018 and beyond will require CEOs to combine resourcefulness and realism in equal measure.

Go to www.kpmg.com/CEOOutlook for more details.

Global female leaders' outlook

In a separate study involving almost 700 female leaders across 42 countries, KPMG found that female leaders are technology-savvy as well as data-driven and well prepared to drive growth and profitability for companies seeking to master the digital transformation successfully. They are also confident about growth expectations and have a realistic view of what can be achieved.

Here are the key findings from the survey:



Source : Global Female Leaders Outlook 2018