Against the background of an ever-changing business environment, CEOs of the China-headquartered companies surveyed are overwhelmingly confident in the country’s growth outlook over the short- and medium-term – a far more upbeat view compared to their global peers. This confidence is mirrored in respondents’ assessments of the growth prospects in their respective industries and indeed their own companies over the same time horizons. This sentiment translates into higher expectations of top-line growth – 46 percent of China CEOs predicted 5 percent or greater growth over the next three years compared with 21 percent of global respondents. And almost two times as many China CEOs (40 percent) plan to increase headcount by more than 5 percent over the next 12 months than the global average (22 percent). Another area where Chinese CEOs are leading is gender diversity: one quarter of China CEO respondents were female compared with 8 percent globally. While 37 percent of China respondents experienced more than 10 percent revenue growth over the last three years, only 6 percent are forecasting a similar level of top-line growth over the next three years, reflecting the effects of the transition to a “new normal” of economic growth in China.

This year’s Global CEO Outlook report had 1,268 respondents globally with 129 from China representing both public and private companies from a number of industrial sectors – from manufacturing and automotive to life sciences and financial services. Despite operating in different industries, one common theme emerged from the responses of China CEOs surveyed: Innovation will be a crucial driver of growth over the next three years.
Prioritising innovation

One of the key findings from the CEO Outlook is that nearly half of the China respondents place “fostering innovation” as one of the top three strategic priorities for their companies over the next three years – compared to a figure of just 21 percent worldwide. 47 percent of China CEOs said they have placed innovation at the top of their personal agendas – compared to 23 percent for all CEO Outlook respondents.

These results are not surprising: in a rapidly evolving and vibrant market like China, CEOs need to think about innovating and adapting their business models to ensure their products and services are attractive to a growing consumer market. At 29 percent, “stronger client focus (or to better meet customer needs)” was the second-highest ranked strategic priority after “fostering innovation”, which was selected by 43 percent of China respondents. 72 percent of CEOs in our survey embrace the emergence of disruptive technologies as a means to improve efficiencies and increase productivity, while 68 percent use disruptive technologies to develop better products and service offerings. This is consistent with but higher than the global average. Further illustrating the point, 51 percent of the CEOs in China rate “new products” as the most important source of growth over the next three years as compared with 28 percent of all respondents.

Top strategic priorities for China’s CEOs over the next three years

1. Fostering innovation
2. Stronger client focus
3. Talent development/management
4. Implementing disruptive technology
5. Digitisation of the business

“A staggering 92 percent of China respondents believe it is important to include innovation in their business strategy, and almost half of China CEOs said they have placed innovation at the top of their personal agendas.”

1 The CEO Outlook explained that a “disruptive technology” is something that creates a new market and value network and eventually disrupts the existing market and value network, thereby displacing established market leaders.

Source: KPMG Global CEO Outlook 2016 Report
This helps to underscore how, as China transitions from an investment-intensive, export-led model of growth to one driven by consumption and innovation, consumption is assuming an increasingly important role in generating new business opportunities in China. And this is no longer restricted to China’s metropolises.

Improvements in logistics services and infrastructure as well as the advancement of mobile technology which is facilitating the boom of e-commerce – and making goods and services more accessible than ever before – are creating a huge rural customer base for Chinese manufacturers and service providers.

These results are also resoundingly consistent with the recently-released 13th Five-Year Plan where innovation is identified as one of five new tenets of China’s economic and social development around which policies will be designed and implemented during 2016-2020.

"Rapidly improving logistics infrastructure and the advancement of mobile technology which is facilitating the boom of e-commerce – and making goods and services more accessible than ever before – are creating a huge rural customer base for Chinese manufacturers and service providers."

**How do China’s CEOs approach innovation in their organisations**

![Graph showing how CEOs approach innovation](image)

Source: KPMG Global CEO Outlook 2016 Report
Leveraging data and technology

As explained in China Outlook 2016, a recent publication by KPMG’s Global China Practice, innovation will not only be important to propel the development of emerging high value-added sectors, but also to help traditional sectors and basic manufacturing move up the value chain. Through the use of disruptive technologies such as cloud computing, the Internet of Things, smart industrial robotics, Data & Analytics and enhanced automation, Chinese companies will not only be able to respond to the changes brought by China’s economic restructuring, but will also be able to capture new business opportunities derived from it.

How Chinese organisations use Data & Analytics

- 67% To drive process and cost efficiency
- 52% To manage risk
- 50% To develop new products and services
- 50% Analyse our existing customers (their needs, value, profitability, loyalty)
- 48% To predict/manage skills shortages
- 48% To drive strategy and change
- 46% To monitor the market
- 43% To analyse how our products are used
- 43% To find new customers
- 40% To improve financial reporting

Source: KPMG Global CEO Outlook 2016 Report

The promotion of innovation is further supported by China’s ‘Made in China 2025’ and ‘Internet Plus’ plans, which reveal the government’s intention to leverage the latest technological advances to reduce companies’ operating costs, increase efficiency and better address changes in consumer demand to increase the country’s overall productivity and competitiveness.

Given these forces, it is unsurprising that survey respondents in China chose “new product development,” “increasing data analysis capabilities,” and “Internet of Things, machine-to-machine technology, Industrial internet or other aspects of technology” as the top three focus areas for further investment in the next three years. Also, when asked about the likelihood that automation will replace at least 5 percent of the workforce within the next three years, the CEO Outlook results suggest that the technology sector would be the most likely affected, followed by manufacturing, engineering and R&D.

“Through the use of disruptive technologies such as cloud computing, the Internet of Things, smart industrial robotics, Data & Analytics and enhanced automation, Chinese companies will be able to not only respond to the changes brought by China’s economic restructuring, but will also be able to capture business opportunities derived from it.”
Forging new partnerships

“New markets” was ranked as the second highest source of growth after “new products.” The survey results suggest that China CEOs will focus on the domestic market (68 percent), followed by ASEAN (37 percent) and the United States (33 percent) as markets with the greatest potential for growth.

According to the results of our survey, 53 percent of CEOs in China said they would pursue new partnerships and alliances to accelerate the execution of business strategy – a significantly higher percentage than for peers in other countries. And, while 86 percent of China CEO respondents are planning to drive shareholder value over the next three years through organic growth, 74 percent of them plan to do so through collaborative growth – which is much more than respondents from other regions – while only 32 percent are looking at inorganic growth.

This is not to say that M&A is losing relevance as a channel through which Chinese companies acquire expertise, technology and high-quality products that allow them to move up the value chain and respond to China’s evolving consumption trends. When asked what forms of M&A or other significant deals they expect to undertake in the next three years, 43 percent of China-based CEOs said they would buy businesses, assets or capabilities from other firms, while 55 percent said they would create partnerships, joint ventures, or collaborative arrangements with other firms. These figures are largely similar to those of their peers in other countries.

These results indicate that Chinese companies are becoming much more aware of the benefits of “partnering” to drive growth and capture business opportunities, thus confirming our predictions in China Outlook 2016.

Forms of M&A or other significant deals that China’s CEOs expect to undertake in the next 3 years

According to the survey results, 53 percent of CEOs in China would pursue new partnerships and alliances to accelerate the execution of the business strategy – a significantly higher number than their peers in other regions.

We have seen numerous examples of Chinese and foreign companies partnering to enter overseas markets. This is in line with a new paradigm of international cooperation which the Chinese government is advancing through its “Belt and Road”, “International Production Capacity Cooperation” and “Third-country Market Cooperation” initiatives. China is looking to bring together the comparative advantages of its industries and companies, with those of foreign countries and companies, in order to complement each other. In this way, it is hoped that Chinese and foreign companies will be able to expand to and operate in new markets more easily, and that global productivity will be increased by better matching the supply and demand for investment, products and services in these markets.

Source: KPMG Global CEO Outlook 2016 Report
Government initiatives are also likely to be a key catalyst in driving forward new alliances between Chinese and foreign companies in China’s domestic market. As China continues developing and transitioning towards an advanced economy, there will be a need for foreign technology, knowhow and capital in order to address changing consumer demands, tackle environmental and food safety challenges, increase the productivity and competitiveness of traditional sectors, and participate in the provision of social infrastructure projects including in the healthcare and education sectors. As such, we expect to see increased receptiveness toward inward Foreign Direct Investment, including through measures to improve the investment environment and enhance investor confidence, strengthen the legal system for foreign investment, and lower the threshold for foreign investment and encourage foreign companies to invest in sectors which are important to China’s social and economic development.

In the near term, however, CEOs in China do recognise that not all is plain sailing. Survey respondents identified “emerging technology risk” and “strategic risk” as the risks they are most concerned about. While China CEOs generally share the same concerns as their international counterparts, “not leveraging digital means to connect to our customers as effectively as possible” and “not keeping pace with our customers’ needs and expectations” were two areas where they registered higher levels of concern. Between 20 percent and 27 percent of China CEO respondents believe there is a significant need to develop talent across all key functions surveyed.\(^3\) While this is much higher than the global average, the figures have improved markedly relative to 2015 (when the range was between 37 percent and 44 percent). Compared to their global peers, more China CEOs also see a significant need to develop talent in strategic priority areas of cyber, Data & Analytics, digital, innovation, and Corporate Social Responsibility. This is undoubtedly why 24 percent of the China CEOs surveyed rank “talent development/management” as one of their top three strategic priorities over the next three years.

While there are indeed hurdles to overcome, confidence remains high among China respondents. With the right growth strategy in place – coupled with heightened risk awareness and a willingness to innovate – we expect that CEOs in China can deliver on this optimism and thrive in this fast evolving economy.

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Survey respondents highlighted emerging technology and strategic risks among their top concerns, while worries over whether or not their company’s products or services will in fact be relevant three years from now weigh heavily.

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\(^3\) Sales force, technology, marketing, engineering, finance, manufacturing/operations, research and development, strategy

Source: KPMG Global CEO Outlook 2016 Report
About KPMG China

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm’s appointment by some of China’s most prestigious companies.

Today, KPMG China has around 10,000 professionals working in 17 offices: Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG’s Global China Practice (GCP)

KPMG’s Global China Practice (GCP) helps Chinese companies invest overseas and multinational companies enter or expand in the China market. Local China Practice teams are stationed in key regions for global investment, especially in countries and regions along the ‘Belt and Road’. The GCP team comprises experienced investment advisors and professionals providing a wide range of professional services across all industries, who are well-versed in Chinese language, culture and business concepts. These experts serve as the ‘bridge’ connecting KPMG’s Chinese clients with the local project teams: they help Chinese companies navigate the local business climate, overcome cultural differences, and enhance communications. GCP’s research centre conducts in-depth research into foreign direct investment (FDI) and outward direct investment (ODI) trends. The resulting analysis provides real insights and solutions, by assessing fast-paced market trends in the context of specific client scenarios. By integrating KPMG’s international resource base, GCP allows companies to bridge information ‘gaps’, helping them communicate with others around the world. GCP’s approach fosters mutual understanding, and helps Chinese and overseas companies cooperate effectively overseas, as well as assisting multinationals to successfully invest in China. In this way, GCP helps both domestic and foreign companies grow and achieve real results.

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