Now or never

2016 Global CEO Outlook

KPMG International

kpmg.com/CEOoutlook

Foreword

The amount of change we encounter on a daily basis, whether in the latest news headlines or a new technology that suddenly unleashes an unfamiliar business challenge, is remarkable. The key to managing the increasing pace, scale and scope of change is in how we react and whether we view these events with caution or with the optimism that they present us with new opportunities.

We have spoken to nearly 1,300 CEOs from many of the world's leading companies, located in 10 of the world's largest economies, to better understand their views of the forces and opportunities shaping the businesses they lead. This year we also surveyed CEOs in an additional 18 countries to assess their comparative views, the highlights of which are included in the Appendix to this report.

We set ourselves the challenge of understanding more about which strategic dilemmas CEOs are grappling with, and how they plan to respond. I am grateful to all of these CEOs for their candid and insightful responses to a very challenging set of questions.

In this year's survey, we found that while CEOs are confident in their ability to successfully transform their business, and to outperform the general economic backdrop, they also feel that the next 3 years will be critical in shaping their industry. Put simply, CEOs are telling us the time for change is "now or never".

Despite the change enveloping their organizations, and predicted global economic challenges in the coming 12 months, these corporate leaders are largely confident in their near-term prospects. In fact, they expressed greater confidence in the growth of their own company and the global economy over the next 3 years, as compared to last year.

These CEOs are also alert to many unfolding challenges and they acknowledge a growing list of top concerns, from shifting customer loyalty to technologies that are overturning traditional business models. There are also a number of additional critical issues that have emerged recently, ranging from cyber security risks to the need to master advanced data analytics.

When you add up these diverse challenges, as well as the geopolitical events impacting every continent, it's easy to label the current environment as 'uncertain'. However, the CEOs we surveyed remain optimistic.

While it's natural for seasoned, long-tenured executives to remain unruffled in the midst of uncertainty, there is another factor at play. We found that nearly half of CEOs expect their companies to be transformed into a significantly different entity within the next 3 years. To do so, they are embarking on a transformation journey, reviewing strategies, implementing their own disruptive technologies and increasing their headcounts to recruit new skill-sets.

These sentiments mirror the views I hear during my own conversations with CEOs around the world. They tell me that "The game is changing dramatically, but we know what we need to do, and we're confident that we can emerge as winners."

This attitude, and their enthusiasm to introduce innovation, is inspiring. It reminds us all at KPMG that we need to continue to match this pace of change and constantly apply innovative approaches to meet our clients' evolving needs, whether they seek advice for targeted change programs or end-to-end support for enterprise-wide transformation. I'm proud that we share our clients' spirit of confidence in the face of change, and we embrace innovation as a means to overcome uncertainty and grow in new ways.

I hope you find our 2016 Global CEO Outlook to be insightful, and I invite you to reach out to KPMG's partners and professionals to discuss your own challenges and opportunities in today's dynamic, ever-changing landscape.

John Veihmeyer
Chairman, KPMG International

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Executive summary

The force and speed with which technological innovation is moving through the economy is creating an inflection point for the business sector, say the vast majority of CEOs surveyed. So great will be the impact, that 41 percent of CEOs expect to be running significantly transformed companies in 3 years' time. That response rate is up from 29 percent of the CEOs who felt that way in last year's survey. In addition, 82 percent of those surveyed are concerned about whether their company's current products or services will be relevant to customers 3 years from now.

A significant majority of CEOs recognize the important need to foster a culture of innovation, respond quickly to technological opportunities and invest in new processes. But most CEOs recognize that they are now handling issues that they have never grappled with before.

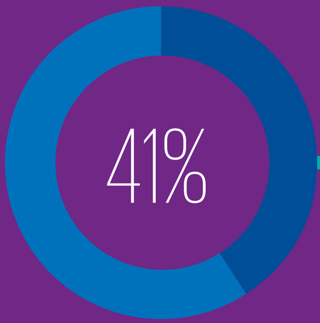
Global CEOs of the largest corporations have indicated they are prepared to handle this period of unprecedented change with realistic expectations and a healthy dose of confidence. They are increasingly optimistic that they can transform their organization to enable it to capture the opportunity that the future holds. This confidence is apparent in their hiring plans and projected top-line growth over the next 3 years.

The key findings of this year's survey are summarized in the graphic on pages 6–7.

Key findings

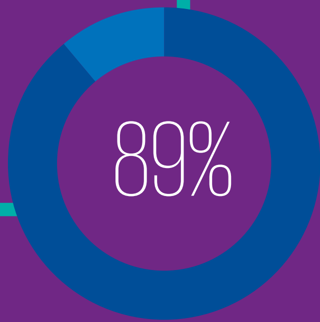
Critical change

Forty-one percent of CEOs anticipate that their company will be significantly transformed over the next 3 years. That number has risen significantly from the 2015 survey, in which 29 percent of CEOs held that opinion. According to 72 percent of CEOs, the next 3 years will be more critical for their industry than the last 50 years.



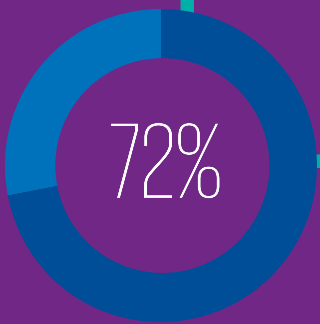
Confidence

The vast majority of CEOs feel they can succeed in transforming their company and thus are confident in future growth, with 89 percent feeling confident. This sentiment is echoed in their confidence level in the growth over the next 3 years in their home country (86 percent), their industry (85 percent) and in the global economy (80 percent).



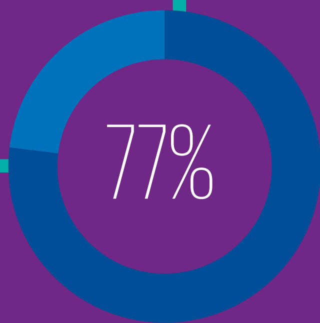
Cyber risk

Cyber security climbed the list to become the top risk over the next 3 years (30 percent). CEOs recognize there is work to be done to protect their organization, with 72 percent of CEOs not feeling fully prepared for a cyber event.



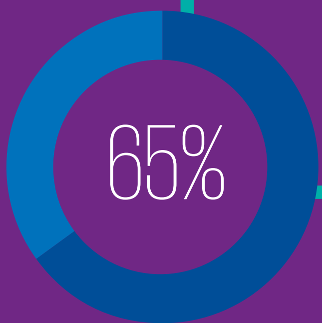
Innovation

Fostering innovation is one of the top (21 percent) strategical priorities for CEOs over the next 3 years, and a significant majority (77 percent) say it was important to specifically include innovation in their business strategy with clear targets and objectives.

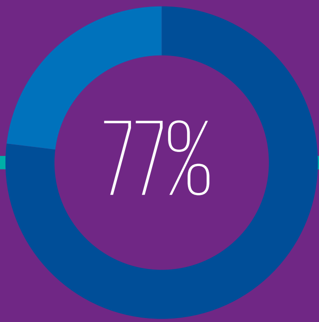


Disruption

CEOs recognize that the lines between industries are blurring. Sixty-five percent are concerned that new entrants are disrupting their business models and more than half (53 percent) of CEOs believe that their company is not disrupting their industry's business models enough.

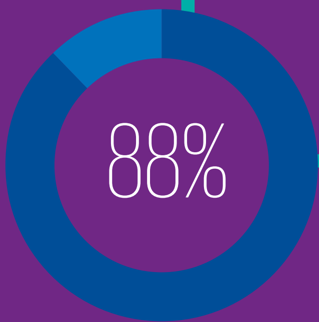


Technology
The speed of change will be exponential and fueled by technology. Seventy-seven percent of CEOs are concerned about whether their organization is keeping up with new technologies. Data and analytics will be a top area of investment over the next 3 years (25 percent).

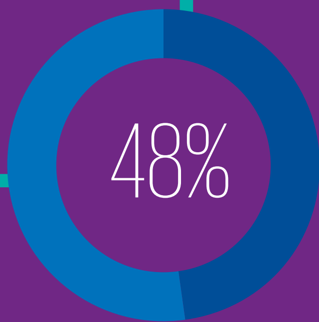


Collaboration
Collaborative growth is how 58 percent of CEOs intend to drive shareholder value for the next 3 years. Creating partnerships or collaborative arrangements with other firms is the primary type of transaction that CEOs expect to undertake (50 percent).

Customer focus
Eighty-eight percent of CEOs are concerned about the loyalty of their customers and 82 percent about the relevance of their products or services. Almost half (45 percent) feel they could better leverage digital means to connect with customers.



Annual top-line growth
Almost half (48 percent) believe their annual revenues will grow between 2 percent and 5 percent over the next 3 years.



Developing talent
Faced with significant transformation plans and rapidly advancing technology, 99 percent of CEOs report taking action to develop existing or future talent. In line with these findings, most CEOs report some level of skills gap emerging. Over 50 percent report skills gaps in key business functions. This will likely create challenges for the 96 percent of CEOs who plan to increase their headcount over the next 3 years. This is up from 78 percent in last year's survey.

Source: 2016 Global CEO Outlook, KPMG International

The next 3 years

"This period will be even more challenging, as it will take place in an environment that is still characterized by significant economic, geopolitical and regulatory uncertainty."

John Scott
Deputy Chairman
KPMG International

CEOs believe it's now or never. Globally, 72 percent of CEOs believe that the next 3 years will be more critical for their industry than the last 50 years. Change will be led by technology, connected consumers and sector convergence. These three forces will upend business models, blur lines between industries and companies, and demand a new way of thinking about business. Much of what will happen is unknowable. What is impossible today will become mainstream tomorrow.

"Only those companies and industries accepting the challenge to transform themselves will be more competitive, gain efficiency and ensure the loyalty of new digital consumers," says John Scott, Deputy Chairman, KPMG International. "This period will be even more challenging, as it will take place in an environment that is still characterized by significant economic, geopolitical and regulatory uncertainty."

With the accelerated speed of change, it is increasingly difficult to have a reliable long-term, or even medium-term, view. But waiting is not an option. "You can't wait until you have a satisfying level of clarity, because you might never get it," says Stephen G Hasty, Jr, Global Transformation Leader at KPMG International.

Stephen G Hasty, Jr
Global Transformation Leader
KPMG International

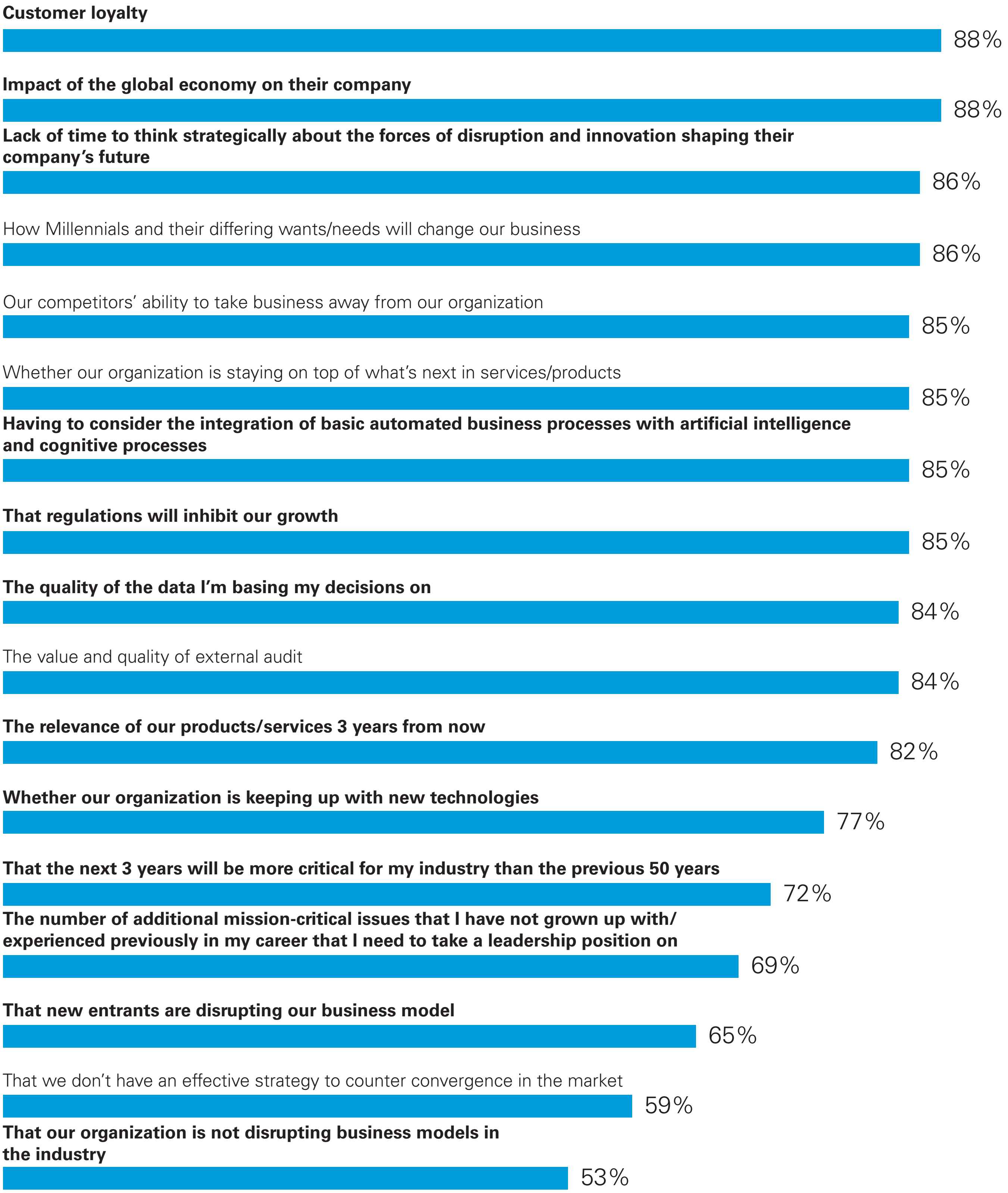
Convergence and diffusion

The lines separating industries, companies, technologies and customers are disappearing. "We are going to see far more collaboration between organizations taking place because of the need for speed and the realization that 'rent' or 'collaborate' is a viable and often preferable alternative to 'build' or 'buy,'" says Nicholas Griffin, Head of the Global Strategy Group, KPMG International. "Companies will embrace the sharing economy in the next 3 to 5 years in the way that consumers have in the past few years."

Every business must become software and digitally enabled to sharpen its competitive edge. While today's technology giants typically started off on unique technology platforms, more traditional industries now understand digital is integral to survive, let alone grow.

Nicholas Griffin
Head of the Global Strategy Group
KPMG International

Top CEO concerns*



*Bolded items in this list are primary concerns this report focuses on.

Source: 2016 Global CEO Outlook, KPMG International

CEOs believe that technological change will be one of the biggest factors impacting growth over the next 3 years, second only to economic factors. "There is this elusive pursuit of growth and it is very difficult," says Gary Burnison, CEO of Korn Ferry, the executive placement firm. "I think that CEOs have only a few levers: You can innovate or you can consolidate but you have to do anything you can to tap this borderless consumer," he says. As with many other organizations, Korn Ferry's revenue sources are shifting dramatically. "We're trying to define an entire new industry," says Burnison. "We have to re-imagine the future and maintain a mindset of 'how could we put ourselves out of business?'"

Companies are increasingly forming partnerships, alliances and joint ventures with startups and universities. Competitors may be suppliers as well as customers and all are becoming part of the innovation process. This results in a redefinition of power and responsibilities and the need for a different type of leadership. "We are evolving towards a world where what's inside the company and what's outside is not binary. This means that, as a CEO, you can't have a proprietary or protective mindset. You need to be very comfortable with ambiguity and undefined spaces," says KPMG's Isabelle Allen, Global Head of Clients and Markets.

"We are evolving towards a world where what's inside the company and what's outside is not binary. CEOs can't have a proprietary or protective mindset."

Isabelle Allen
Global Head of Clients and Markets
KPMG International

Pedro Melo
Chairman
KPMG in Brazil

It is amid such shifting realities that CEOs are setting their short- and long-term strategies and executing them. The global and national economies add headwinds, with a very low interest rate environment, high volatility and political uncertainties. No wonder then that CEOs' concerns about meeting the demands of the future continue to increase. They are anxious about all angles of disruption coming at their company and ways to pre-empt them. They are also concerned about whether they are taking the lead in disruption themselves.

"Many of the CEOs I speak with have come to the realization that the critical issues their organization faces today are in areas where they have little or no prior experience," says Pedro Melo, Chairman, KPMG in Brazil. "They are looking at alternative arrangements such as joint ventures, alliances and partnerships with other companies to respond to market changes in a timely manner."

"In the digital age the consumer has never been more interested or more informed with information on healthcare available anytime, anyplace," said GSK's Walmsley. "Our leadership approach centers on sharpening our listening skills internally and externally to ensure that we hone in on early signals and can be agile and entrepreneurial enough to shift course if necessary."

"Collaboration and partnership are integral to how we do business. We know that by working with leading scientists, academic institutions, technology specialists and in many cases, specialist NGOs, we can innovate more effectively and get drugs and products to the patients and consumers who need them faster."

Emma Walmsley
CEO, Consumer Healthcare, GSK

Regulatory concerns

Regulatory compliance, if not approached properly, can hamper transformation and growth. CEOs are fully aware of its importance. Eighty-five percent of CEOs are concerned that regulations will inhibit growth. CEOs also see regulatory risk as the second most important risk (28 percent), after cyber risk.

One such regulatory project, base erosion and profit sharing (BEPS), has done a great deal to shine a light on the risks associated with tax loopholes. The results are nothing short of transformational.

To thrive in this new environment, businesses will need a much more holistic, global view of their overall tax management over the 3-year horizon. They will need to think through their strategy in relation to tax and communicate it throughout the entire organization, to make sure that it is consistent with the overall values. Then they will have to figure out a good way to communicate that to their stakeholders.

Jane McCormick
Global Head of Tax
KPMG International

Innovation

CEOs recognize that they are operating in a new world. Sixty-nine percent are concerned about dealing with issues that they have never had to confront before in leadership positions. Interestingly, experienced CEOs are more concerned about new entrants disrupting their business models than are less experienced CEOs.

"The complexity of the issues CEOs face today and the speed with which the market requires them to respond, is putting a significant amount of pressure on the front office," says Simon Collins, Chairman, KPMG in the UK. "However, the CEOs I speak with have a real sense of optimism about the future of their organizations. They see change in the marketplace and disruptions caused by new technologies as opportunities to take market share. That said, their optimism is usually guarded by a healthy dose of realism regarding the significant amount of work required within their organizations to adapt to these changes and seize on the opportunities."

These concerns reflect CEOs' focus on the essence of the fourth industrial revolution: integration of cognitive computing and artificial intelligence. CEOs have recognized that their current skills and experience may not be enough to fully succeed in the digital world. But this is the know-how they need. "Digital Darwinism is unkind to those who wait," says Karl-Heinz Streibich, CEO of Software AG. To succeed will require taking advantage of the whole ecosystem of partners — clients, suppliers, startups or universities.

Navigating the next industrial revolution

Revolution	Year	Information
1	1784	Steam, water, mechanical production equipment
2	1870	Division of labour, electricity, mass production
3	1969	Electronics, IT, automated production
4	?	Cyber-physical systems

Market Realist

Source: World Economic Forum 2015

Simon Collins
Chairman
KPMG in the UK

"Digital Darwinism is unkind to those who wait."

Karl-Heinz Streibich
CEO
Software AG

“Because they have no experience in agribusiness, they can use totally new business models. The changes they could bring to the agricultural sector are unimaginable.”

Chunhua Chen
Former CEO
New Hope Liuhe

A watchful disruptor

Chunhua Chen, former CEO of New Hope Liuhe, an agribusiness enterprise in China, is keeping a watchful eye out for disruptors. New Hope Liuhe has been an industry disruptor itself, and has been a pioneer in the industry in many ways. For example, it is the first agribusiness in China to digitize, and its ‘Farm Development Plan’, which launched in 2013, is a service platform to help farmers. It also holds the biggest cache of agribusiness data among Chinese companies, including cultivation data from 460,000 farming units and data on 100 million pigs. This data provides valuable insight. For example, the company can immediately detect an epidemic and implement prevention mechanisms.

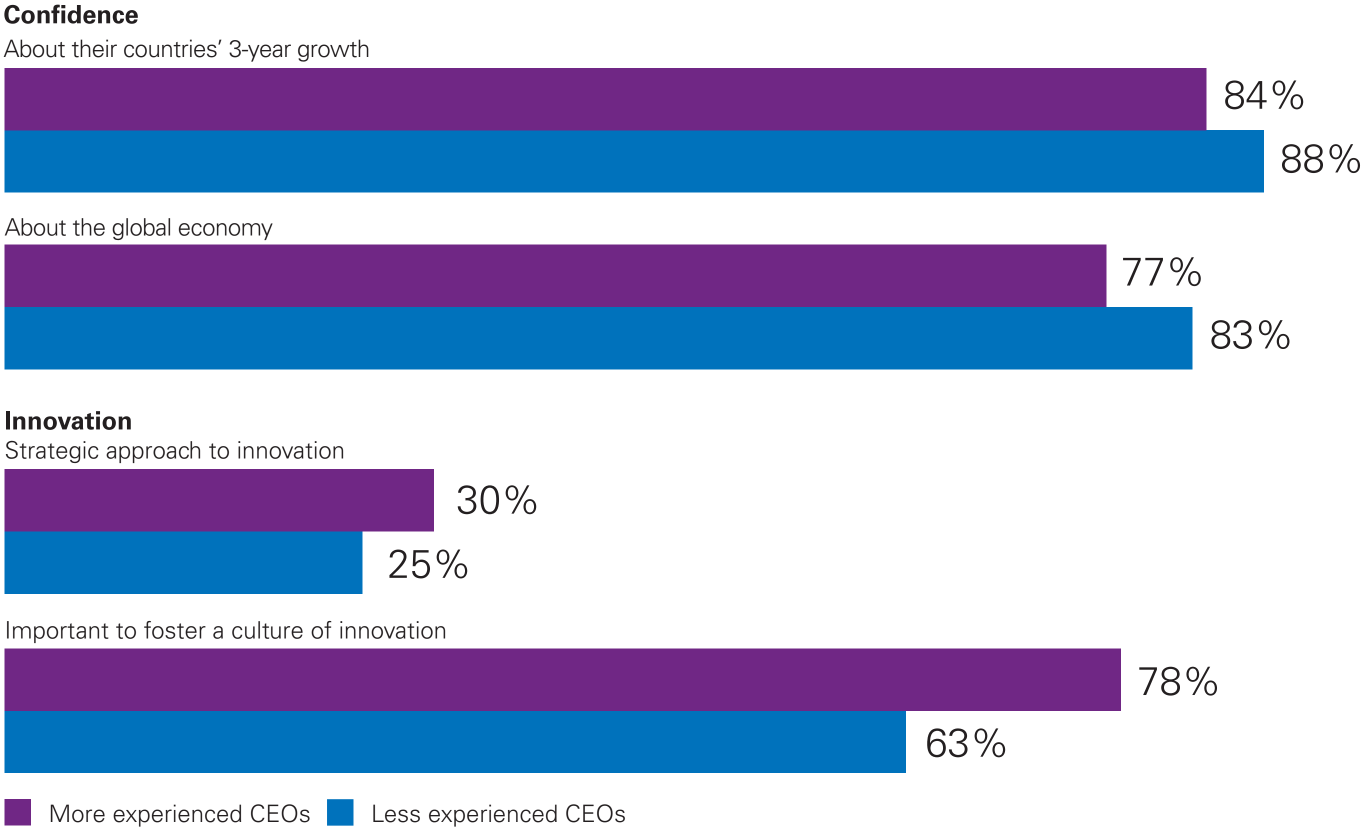
New Hope Liuhe is also the first agricultural conglomerate to provide financial services. It plans to expand into new business areas around its two core areas of cultivation and food production. Such new extensions might include raw materials trading or training and management schools.

Chen recognizes that, to stay ahead of the competition, the company needs to be vigilant. She believes that new technology and new competition will have the biggest impact on the company’s growth in the next 3 years. Fundamental changes in biotech or gene technology could disrupt the agribusiness industry. At the same time, as demand for agricultural products remains high, companies from other industries will want to enter the sector. “Because they have no experience in agribusiness, they can use totally new business models. The changes they could bring to the agricultural sector are unimaginable,” says Chen.

CEO experience matters

CEOs surveyed who have been in their roles more than 5 years, expressed slightly lower confidence in the economy than the CEOs with less than 5 years' experience. Despite this, or maybe because of it, they tend to adopt a more strategic approach to innovation.

More experienced CEOs* versus less experienced CEOs



* More experienced CEOs have been CEOs for more than 5 years.

Source: 2016 Global CEO Outlook, KPMG International

Transforming for the future

The pace of change continues to accelerate. Forty-one percent of CEOs anticipate that their company will be substantially transformed over the next 3 years. This is a significant increase over 2015 when just 29 percent of CEOs expressed this belief.

"Change has become the new normal," says KPMG's Hasty. "The world is moving so quickly today that there really is no steady state. CEOs have to be prepared to be in a continual transformation." Ability to change affects results. For 27 percent of companies that had average revenue growth of 10 percent or more over the last 3 years, fostering innovation is one of the top strategies over the next 3 years. In contrast, at companies with revenue growth under 10 percent, only 19 percent of CEOs named fostering innovation as a top strategy.

"We have seen a return to growth in Europe and continue to perform well in our emerging markets and are confident of sustaining this positive momentum into the coming year," says Vittorio Colao, CEO, Vodafone. "The recent conclusion of our transformative £19 billion investment program underpins this confidence and positions Vodafone well to capture the exciting organic growth opportunities within both fixed and mobile markets."

"CEOs are taking change by the reins and transforming their companies, rather than being buffeted by the ride," says Margaret Cowle, Transformation Leader, KPMG's Asia Pacific region.

Asia Pacific is a hotbed of change and has an interesting combination of new entrants and technology companies constantly making new markets with new business models leveraging disruptive technologies

"CEOs are taking change by the reins and transforming their companies, rather than being buffeted by the ride."

Margaret Cowle
Transformation Leader
KPMG Asia Pacific Region

and leading customer behavior. Cowle continues, "At the same time, it has some of the most traditional conglomerate models that are entrenched in old ways, and any change is like a transplant and can be rejected if the conditions are not properly managed."

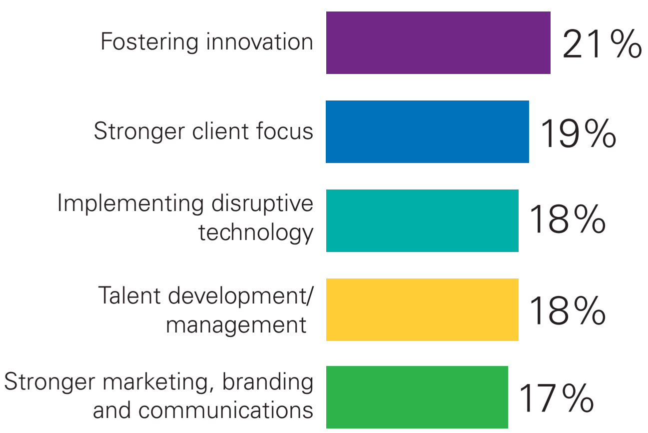
Of those CEOs who said they expected revenue growth of 10 percent or higher, a majority (51 percent) believe that their company will have transformed into a significantly different entity in the next 3 years. In contrast, only 38 percent of CEOs who expect lower revenue growth believe that their company will be transformed into a significantly different entity in the next 3 years.

"Not innovating would be our biggest risk," says Debby Blakey, CEO of Health Employees Superannuation Trust Australia (HESTA), an industry super fund for health and community services. In fact, fostering innovation is the top strategic priority for CEOs globally over the next 3 years. Technology, which can be a trigger as well as an enabler of innovation, features among the top investments CEOs are expecting to make over the next 3 years.

Nobody is safe. Gonvarri Steel Services is a 60-year-old industrial company in Spain. "The prevailing thinking was that there is no need to innovate for a company positioned between the automotive world, which innovates a lot, and steelmakers, who are the ones developing new materials," says Josu Calvo, CEO of Gonvarri Steel Services.

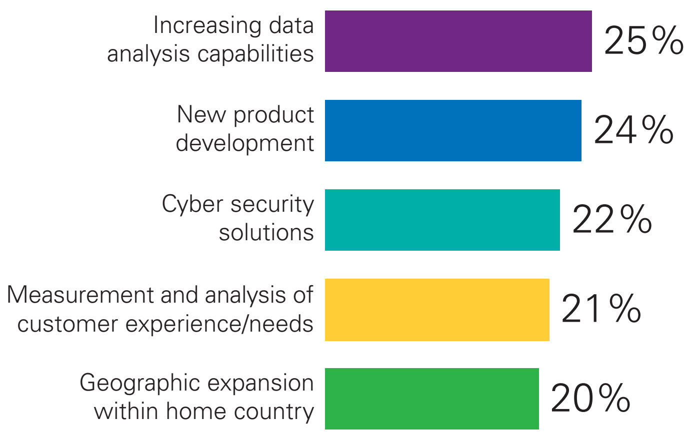
But what accounted for the company's success and longevity in the past no longer applies. "Now we intend to make a 180-degree turn," says Gonvarri's Calvo. The strategic plan for 2016–18 identifies four areas of strategic priorities, including innovation. The company intends to innovate its processes, materials and the services it provides to its customers. There are also plans to invest in venture capital to develop new ideas, internally or with another company.

Top five strategic priorities over the next 3 years



Source: 2016 Global CEO Outlook, KPMG International

Top five areas of investment over the next 3 years



Source: 2016 Global CEO Outlook, KPMG International

"The corporate playbook is being rewritten and replaced by one that takes business agility to a level we have never seen before."

Lynne Doughtie
Chairman and CEO
KPMG in the US

"Today's top business leaders understand that long-term success in this era of fast-paced technological change requires a new way of thinking and operating," said Lynne Doughtie, Chairman and CEO, KPMG in the US. "In fact, the corporate playbook is being rewritten and replaced by one that takes business agility to a level we have never seen before."

What does it take to execute change in a fast-changing environment?

Become agile. "The key element of a successful strategy for the unknown is focusing on selling a measurable return to customers in the short to medium term. The digital transformation is not an overnight event but a series of incremental steps, each delivering a concrete business advantage," says Software AG's Streibich. Agility is key, and yet today just 40 percent of organizations are highly capable of responding quickly to developments.

What is your organization doing to accelerate the execution of your strategy?

Source: 2016 Global CEO Outlook, KPMG International

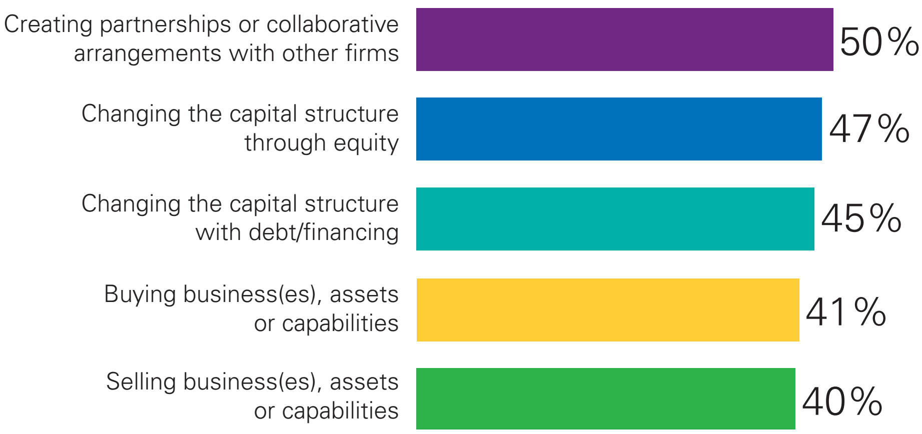
The best way to deliver faster, according to 43 percent of CEOs, is by streamlining internal processes. Software AG did just that when it adopted its own software to streamline operations and support new digital market business processes. The company introduced a 6-month product-release cycle, bringing the app economy to the enterprise. Big-bang product releases have been replaced by quick, incremental releases that reflect what customers are experiencing in the present or what they want to do to stay ahead.

BNP Paribas Wealth Management has also sped up product delivery. To be able to complete projects in 12 weeks, teams of colleagues from different departments work on projects simultaneously, and not in a linear way, with departments handing off tasks to each other. Team members are assigned to projects for two full days a week, during which they work on the project at hand only, free from the daily duties of their regular jobs. Such cross-functional development is also among the top methods of CEOs we surveyed.

Which of the following describes your development plans to drive shareholder value for the next 3 years?

Source: 2016 Global CEO Outlook, KPMG International

What forms of M&A or other significant deals do you expect to undertake in the next 3 years?



Source: 2016 Global CEO Outlook, KPMG International

> "Not innovating would be our biggest risk."

Debby Blakey
CEO
Health Employees Superannuation Trust Australia

> "In this increasingly volatile and fast-changing world, businesses need to consider alternative models beyond reliance only on organic growth."

Paul Polman
CEO
Unilever

"This is a change of our culture. Working with partners on projects is new, and it gives us a new way of understanding how to bring new solutions," says Sofia Merlo, Co-CEO of BNP Paribas Wealth Management.

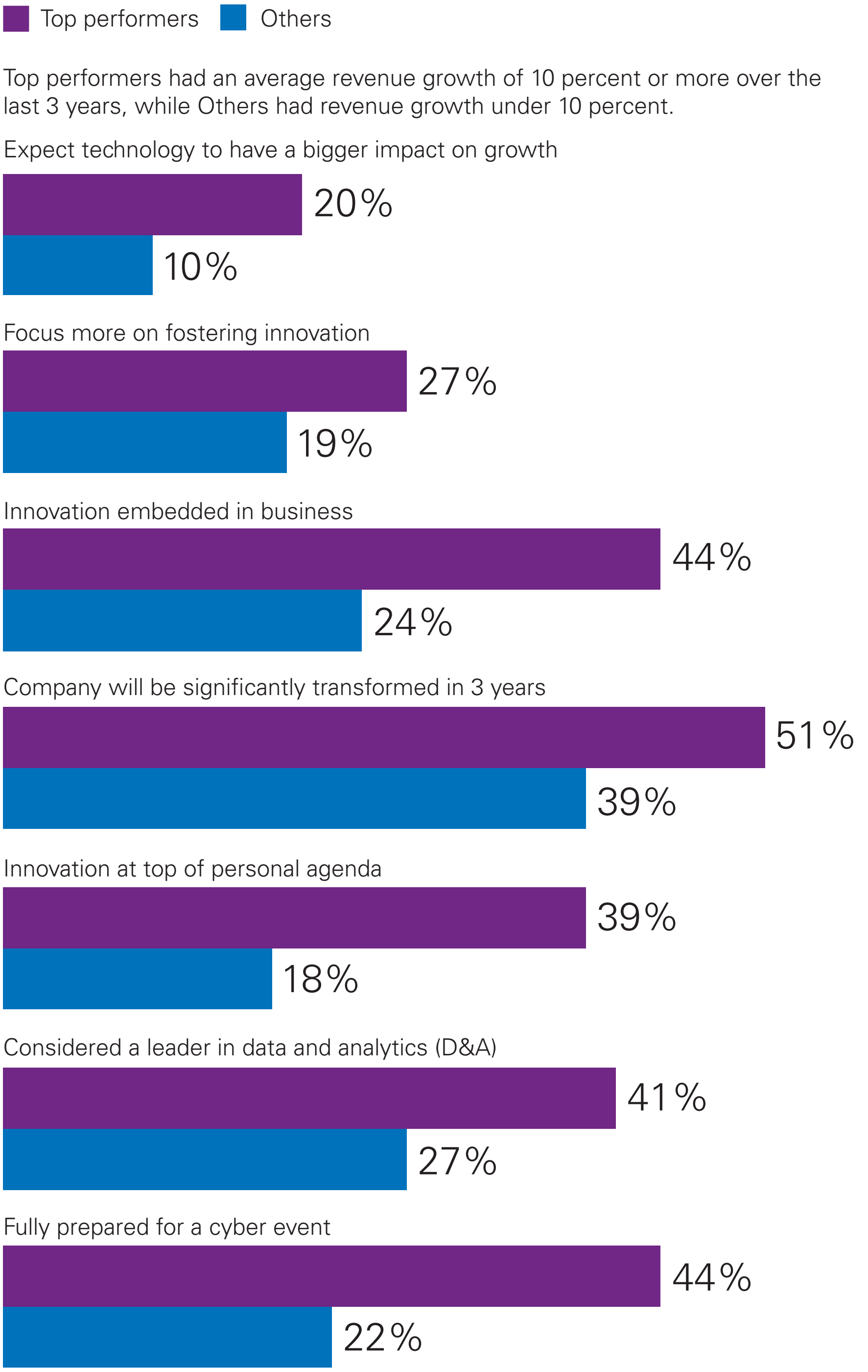
Kiran Mazumdar-Shaw, Chairman of Biocon Limited, India's leading biopharmaceutical company, says that her company's product pipeline illustrates her appetite for disruptive innovation. She has brought in renewed focus on new drug programs through a dedicated research team, unlike in the past, where some of these programs were being developed by the company's scientists in their 'spare time'.

Collaborative deals

While the regulatory hurdles of mega deals make headlines, CEOs are facing ever-increasing pressures to create real deal value. In today's 'new normal' of rapid disruption, big data and a low growth environment, the public struggles of some deals have led CEOs in our survey to shift their strategies to favor Alliances and JVs. This is particularly true among high performing firms. Collaborative deals should be part of any M&A playbook. The best playbook takes into account complexity at every turn, holistic advisors enabled with the right technology, and the ability to deliver value at deal speed. Business as usual is simply not viable.

Leif Zeirz
Global Head of Deal Advisory
KPMG International

Strategic priorities of top-performing organizations



Source: 2016 Global CEO Outlook, KPMG International

Join forces. The speed, breadth and depth of change require unique skills, cutting-edge technologies and forward-thinking minds. No one CEO or company can have all of these attributes at the same time across the whole innovation spectrum. That is why many CEOs turn to collaboration to ensure the company stays ahead in all areas. Collaboration is the top way CEOs plan to drive shareholder value over the next 3 years. Collaborative arrangements are also the top type of deal that CEOs are planning to undertake over the next 3 years.

Interestingly, the top three significant investments for CEOs who are most confident about their growth are all rooted in technology. They are increasing data analysis capability (26 percent), cognitive computing/AI (25 percent) and cyber security solutions (23 percent).

Fifteen percent of CEOs named managing their ecosystem of partners/alliances as one of their top strategic priorities over the next 3 years, and 39 percent of CEOs think they collaborate well with external parties well.

"This is going to be a new type of cooperation," says Mark A Goodburn, Global Head of Advisory, KPMG International. CEOs are expected to manage the new ecosystem: shareholders, partners, customers, communities they operate in, and regulators, explains Goodburn. While these stakeholders are not new, the depth and intensity of relationships that they have with companies will continue to increase. For instance, customers these days are often involved in co-creation of the products and services, partners can be entrusted with proprietary and sensitive information, regulators require technological changes, and communities expect high sustainability standards.

In this ecosystem of multiple variables, the traditional economic measure, GDP, is just one very important indicator for CEOs to consider, says Goodburn. Other important indicators to watch are customer expectations, ESG (environmental, social and governance) metrics, purpose, ability to innovate and cyber security preparedness.

This new type of cooperation has the added benefit of embedding innovation in the organization's DNA. KPMG's Cowle adds, "In Asia Pacific we are seeing a trend towards the development of innovation pods where cross-functional parts of the organization are 'released' from their 'day jobs' to build new products or ways of working. Extended ecosystems are also on the rise, whereby customers and third parties are brought in to co-create new business models, or change operating models with 'test and learn and fail fast' techniques."

Managing these new constituencies requires new capabilities, some of which are still a work in progress at many companies.

CEOs say their companies are highly capable at:

Source: 2016 Global CEO Outlook, KPMG International

Technology and speed

The fourth industrial revolution ushers in the era of the Internet of Things, machine learning, cognitive computing and artificial intelligence. "The industrial internet will have a much bigger impact on digitizing the world than the social or consumer phase of digitization ever had. We are still in the early stages and the who, what, how and why of the industrial internet are wide-open issues," says Software AG's Streibich.

The speed of change will be, quite literally, inhuman, as the advance of D&A and cognitive and machine learning drive forward change more quickly than humans alone could ever achieve. At the same time, CEOs are in learning mode themselves about what the new technologies mean for their business.

While the majority (63 percent) of CEOs believe they use D&A effectively, only 30 percent of them think they are a D&A leader in their industry. Interestingly, 42 percent of CEOs who expect to see growth greater than 10 percent in the next 3 years see their organization as a leader in D&A, compared to 26 percent of CEOs who expect growth at 10 percent or less.

The top uses of D&A are:

Source: 2016 Global CEO Outlook, KPMG International

According to Christian Rast, Global Head of Data & Analytics, KPMG International: "With so many strategic decisions now riding on the output of D&A, significant questions are starting to emerge about trust in the data, the analytics and the controls. As more businesses use algorithms to augment decision-making, there must be a heightened focus on trust, and it should be an integral property of D&A."

CEOs believe there is room for improvement in trusting the effectiveness (61 percent), security (60 percent) and accuracy (59 percent) of their D&A activities.

Rast adds: "Operating in increasingly complex and dynamic ecosystems, companies can derive tremendous value from ensuring trust throughout the analytics life cycle. Those who can manage trusted analytics will have greater confidence in their decision-making and trust in their customer relationships."

Mark Spears, Global Head of People and Change, KPMG International, agrees — particularly in decision-making in relation to training spend. "Measuring the value of training has long been an issue for organizations. It's rare that companies can accurately answer how effective training has been. Our survey findings suggest this is a challenge; only 40 percent of CEOs say their company is using D&A to track return on training investment. Given the scale of spending in training and the need for employees to develop and learn new skills, this has to be a priority for CEOs."

Christian Rast
Global Head of Data & Analytics
KPMG International

Mark Spears
Global Head of People and Change
KPMG International

The cognitive future

Twenty percent of CEOs indicated that cognitive is one of the top three areas they are devoting significant investment/resources to in the next 3 years. And nearly 9 in 10 (85 percent) are concerned with having to consider the integration of basic automated business processes with artificial intelligence and cognitive processes.

We are just entering the fourth industrial revolution, and the speed of change is exponential. But are we ready for it?

"It's in our nature to get fearful of what has never happened before," says Cliff Justice, Innovation and Enterprise Solutions Partner, KPMG in the US. What we are living through today is on the scale of the industrial revolution. The only difference is that then we automated muscle power and today we are automating brain power.

At call centers, for example, cognitive systems are designed to take in information just like a human brain would, from visual images, conversations, reading books or texts, and inferring intent. This enables them to perform judgment-based tasks. Some of the technologies are introducing emotional intelligence into the systems, to be able to detect the mood of a customer.

Won't that put many humans out of work?

Justice adds, "I don't buy into the doom and gloom scenario that there is going to be massive unemployment caused by artificial intelligence. Big disruptions in the past always produced new opportunities. The challenge is figuring out in advance what those opportunities are. Nobody has all the answers, but overall this is going to be positive. Cognitive computing will relieve humans of many tasks so that we will have more time to spend on innovations that are going to advance technology."

What are some of these positives?

In healthcare, the cancer diagnosis and treatment options are improving as a result of cognitive computing. Every week, hundreds of articles are being published in medical journals around the world with significant findings. No human can read that. But a cognitive system can, and it can also find correlations between different articles. This may have relevance for a patient who needs the most appropriate drug regimen.

"We are looking at cognitive systems to improve quality in the audit. With cognitive systems it is theoretically possible to cover 100 percent of the data, instead of a statistically valid sample, as is the standard today. This helps increase confidence in the capital markets," adds Justice.

But any system is only as good as the data it is being fed. Are you satisfied with the quality of data we have today?

Data quality is a fundamental issue and challenge for every company. Companies that are on standardized enterprise resource planning (ERP) systems can compile data more easily, while companies that are very fragmented may have issues. We also need to change our understanding of what constitutes data. It is no longer only a tabular structure of rows and columns that are machine readable. Eighty percent of data resides in emails, social media conversations or images — the so-called dark data. Cognitive systems can access and interpret this unstructured data, which allows for making more data-based decisions, derived from a much bigger pool of data.

"Big disruptions in the past always produced new opportunities. The challenge is figuring out in advance what those opportunities are."

Cliff Justice
Innovation and Enterprise Solutions Partner
KPMG in the US

The innovation engine

Klaus Becker
Chairman
KPMG in Germany

CEOs have clearly turned to innovation in order to address the organizational changes necessary to grow in the future.

Fostering innovation was one of the top three strategic priorities for their organizations; however, less than a quarter (23 percent) of CEOs say that innovation is at the top of their personal agenda.

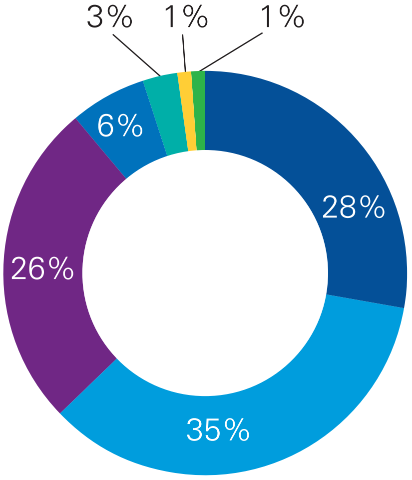
Three quarters (77 percent) said it was important to specifically include innovation in their business strategy, with clear targets and objectives. Yet, they also feel their organization has work to do in embedding innovation into their everyday operations.

Only 28 percent said their organization was highly capable in terms of fostering a culture of innovation — or 'Accelerated' (see graphic below). Thirty-five percent of CEOs said innovation was prioritized at a strategic level within their organization and embedded in everything they do — or 'Strategic'.

"The role of 'Change Agent' is now a requirement and a core skill of the modern CEO," says Klaus Becker, Chairman, KPMG in Germany. "What was once a craft skill of a select group of CEOs is now a core competency. What we are seeing in the marketplace is that most CEOs are undertaking some form of significant change or transformation within their organization. The impact of these changes to an organization's business model is requiring the CEO's time, experience and leadership."

High-growth companies were more apt to put themselves in the strategic category (45 percent), whereas companies expecting growth of under 10 percent put themselves in the accelerated category (33 percent).

Where CEOs see their company with respect to innovation



Strategic	Innovation is best described as embedded in everything you do (relentless and continual), with strategic innovation objectives, a defined approach, resources, leadership and innovation efforts that are optimized based on measures with internal and external feedback
Accelerated	Innovation is best described as regularly occurring with a defined approach, available tools, processes and resources to help you innovate in your role with some direction provided by leadership
Foundational	Innovation is best described as ad hoc, with innovation occurring on some projects or within some departments but no repeatable approach, formula or standardized tools and resources: there is room for improvement
Incubational	Innovation is best described as 'grass roots', with innovation efforts unpredictable, uncontrolled and reactive, but your organization has an eagerness to be more innovative
Departmental	Innovation occurs on a 'siloed' basis, with little cross-pollination of intellectual property and best practices
Buying vs. building in	Lack of internal resources or intellectual property requires that innovation be brought in via alliances or acquisitions
Not evident	A conscious approach to innovation is not evident and innovation is not high on the leadership agenda

Source: 2016 Global CEO Outlook, KPMG International

Is the customer always right?

> "Being customer-centric means spending more time thinking about what customers want and also about what needs they have, even if those needs aren't immediately apparent."
>
> **Steven A. Kandarian**
> CEO, MetLife

"Meeting client expectations used to mean doing exactly what the client orders, with the highest quality, rigorously meeting deadlines and in a very efficient way," says Josu Calvo, CEO of Gonvarri. But quality and timeliness alone won't do anymore. Today, customers expect constant innovation of products, multiple shopping channels — and they often want their input to be included in product design.

Pietro Salini, CEO, Salini Impregilo, adds, "New trends in the infrastructure sector, the focus on building mega-projects in mega-cities and the demand for continual improvement in ecologically sustainable processes, are all factors that push us to adapt each and every day to grasp new market opportunities."

"We are constantly exploring new possibilities with key customers. We offer them agility through co-innovation. Our customers know their businesses and industries the best, we know software the best. Together we develop differentiating and agile software solutions, fast. Pre-packaged software doesn't cut it anymore; it is too inflexible for the user," says Software AG's Streibich.

CEOs recognize that meeting customers' expectations is an ongoing effort. In fact, customer loyalty is the top concern voiced by CEOs (88 percent), with concerns about the relevance of their products and services 3 years from now not far behind (82 percent). Almost half think they are not keeping pace with meeting customer expectations or not connecting with their customers enough via digital means (45 percent for both).

KPMG's Goodburn dissuades CEOs from "hiding behind the concept of eroding customer loyalty, because it moves the blame onto the customer." In reality, lack of customer loyalty is often more about companies being too slow to understand the signals that customers are sending in data and social media, as well as the pace of adoption of new technologies. Most of the changes need to be made at the company level, not the customer level, Goodburn says.

BNP Paribas Wealth Management is keeping up by supplying its private banking clients with new technologies. The company developed apps such as Voice of Wealth, which provides understanding about market conditions, trends, reports and the bank's offerings. It is also developing a next-generation application for the younger generation of its most important clients around the world. This private app enables users to expand their knowledge of financial matters and to network with one another.

Successfully meeting customers' expectations depends on timing. "The trick of it all is having technologies ready when customers need them, not before or after," says Software AG's Streibich.

MetLife's CEO, Steven A Kandarian, subscribes to the value-driven approach. "Being customer-centric means spending more time thinking about what customers want and also about what needs they have, even if those needs aren't immediately apparent," he says.

Investing in digital solutions at MetLife depends on customer preferences, which vary by region. In the US, people are typically reluctant to purchase a complex annuity online. But in Asia, many people who are just now entering the middle class have no history of buying financial products via more traditional channels. They are leapfrogging traditional distribution channels and starting off digitally. To this end, MetLife has placed its innovation lab in Singapore.

For HESTA's Blakey, digitization allowed the fund to significantly increase the number of customer segments to include more targeted segments. The fund's ability to engage its 800,000 members via digital channels also creates cost effectiveness.

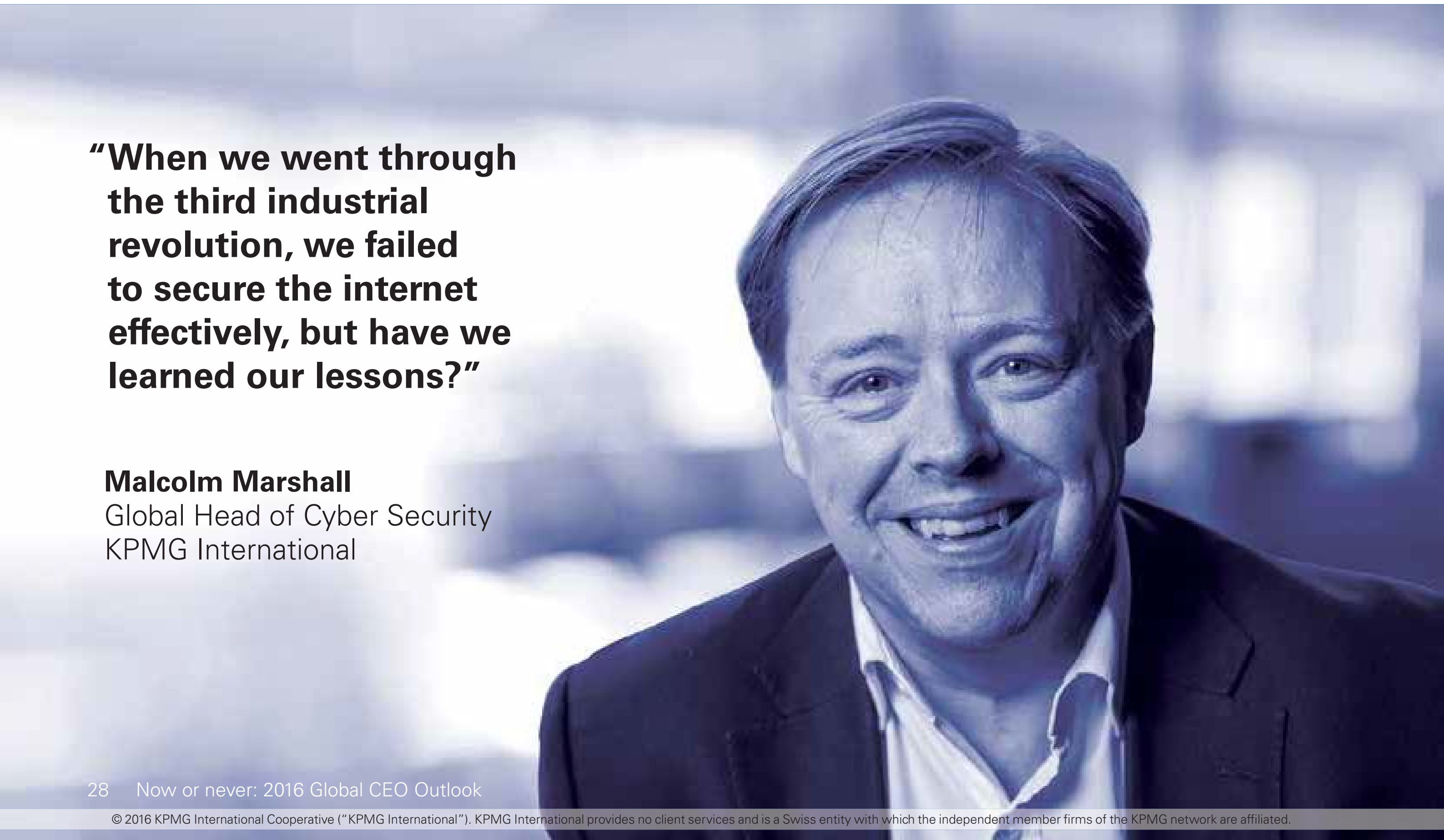
Daniel Hunter is CEO of HealthShare NSW in Australia, a state-wide provider of shared services to support delivery of patient care. He believes that in healthcare there is a need to educate the customer about what they need as opposed to what they want. "We have a needs-based customer service mentality. For example, if you spend a lot of money on hospital food, then there's a lot less money for clinical delivery," he says. The smart use of technology allowed Hunter to improve order-taking systems, keeping costs down and cutting food order delivery time from 24 hours to 3 hours.

But he is discerning in his approach to new technology solutions. "Technology was thought of as the ultimate answer, but what was the question? Today the approach is: what's the question, and is technology part of the answer?"

Cyber security for the fourth industrial revolution

“When we went through the third industrial revolution, we failed to secure the internet effectively, but have we learned our lessons?” asks Malcolm Marshall, Global Head of Cyber Security, KPMG International. The fourth industrial revolution, the age of the Internet of Things, machine learning, cognitive computing and artificial intelligence, increases the security risks exponentially.

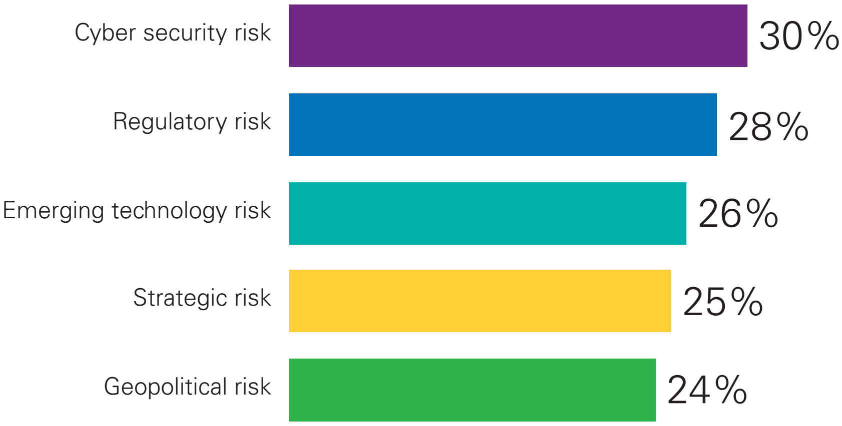
Global CEOs are beginning to learn the lessons from the third industrial revolution and they recognize the risks of the new wave of technologies. Cyber security is the top risk named by global CEOs this year (30 percent), up from the fifth highest ranked last year.



“When we went through the third industrial revolution, we failed to secure the internet effectively, but have we learned our lessons?”

Malcolm Marshall
Global Head of Cyber Security
KPMG International

What risks are you most concerned about? (Top five)



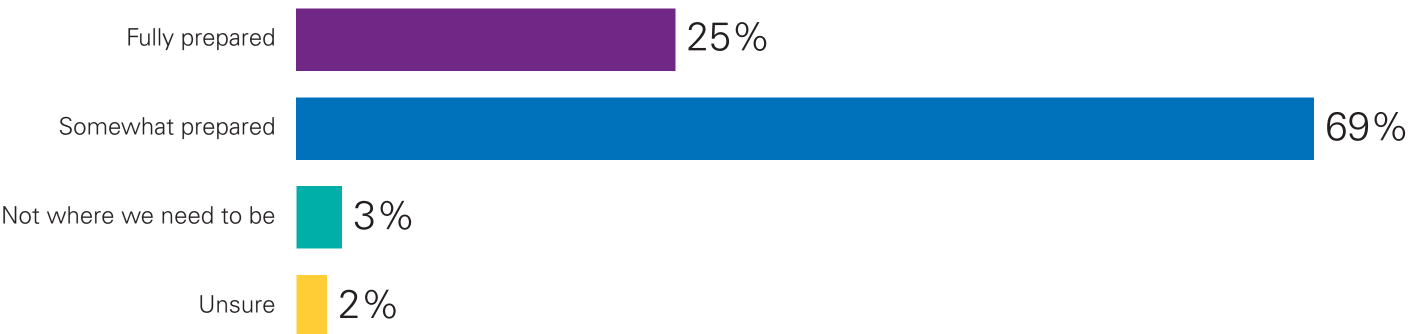
Source: 2016 Global CEO Outlook, KPMG International

But CEOs enter this new era with some trepidation. For example, 85 percent are concerned about having to consider the integration of basic automated business processes with artificial intelligence and cognitive processes.

Depending on the type of company, says Marshall, cyber security does not need to be the CEO's direct responsibility. But there needs to be somebody on the executive team who has clear responsibility for cyber security. To be able to thrive in the fourth industrial revolution, companies need mainstream cyber capabilities: people in all parts of the organization who understand cyber issues. Each major decision needs to be looked at through the cyber security lens. A business development executive should consider the security implications of an M&A deal before it gets done, to make sure that it does not expose the company to liability for data breaches or regulatory violations. Similarly, marketing executives must be aware of privacy regulations and customer preferences when using insights from data analytics for marketing campaigns.

Seventy-two percent of CEOs say they are not fully prepared for a cyber event, significantly higher than in 2015 (50 percent). In interviews, CEOs frequently said: "We are as prepared as we can be" or "You can never be fully prepared."

How prepared is your company for a cyber event?



Source: 2016 Global CEO Outlook, KPMG International

Marshall thinks this level of apprehension shows understanding of the complexity and unpredictability of cyber security. "The majority of this generation of CEOs did not get to the top of their corporations for their technology prowess, let alone their cyber security capabilities. But the CEOs we speak to increasingly understand that while they might not personally be the expert, they will be held accountable if there is a major problem. They recognize the need for senior people they trust to equip their organization to withstand the cyber test."

How to prepare? By practicing the ability to respond to cyber events. Companies need an ability to be agile and deal with the unexpected. Often organizations that can deal with the unexpected in a business sense and have more effective governance are better prepared for cyber events. Being agile enough to respond to a cyber event often depends as much on an organization's governance as their technology capability.

Cyber security is not just a cost, it is also a revenue driver. The survey reveals that cyber security is correlated with performance. More CEOs from top-performing companies believe that they are fully prepared for a cyber event.

Fully prepared for a cyber event

Source: 2016 Global CEO Outlook, KPMG International

What is the correlation between cyber security and growth? It starts with confidence. "If you have close to 100 percent confidence that your organization is able to build new digitally enabled services that have a very low risk of being compromised, you are likely to be much more ambitious in what you do," says Marshall. Different levels of confidence about cyber security are very clear in digital banking, where some banks are taking advantage of mobile banking while others are falling behind. The good news is that CEOs recognize the importance of cyber security for innovation.

Security prompts innovation in products and services

Source: 2016 Global CEO Outlook, KPMG International

Customer privacy is also an issue. Eighty-two percent of CEOs are concerned that their customers may be more worried about their privacy than their organization is. As the volume of data grows exponentially, so do the opportunities to use it. Typically, when services are free, businesses make money from the data, and the consumer becomes, in effect, a product. Customers are beginning to recognize the value of data and see it as part of a transaction. As customers better understand the amount of data that is collected on them, and how companies are using it, there is a danger they will hit back. "With CEOs recognizing the importance of privacy, we are turning a corner towards a more open and transparent approach," says Marshall.

The need for data privacy will affect business models. Some insurance companies are already using different data-driven pricing models. For example, a driver who allows their insurer to monitor data about their driving habits can pay less for insurance than the driver who does not. Some car makers are now offering their own insurance that uses the cars' built-in technology to share data for insurance.

Reassuringly, CEOs are open to sharing their vulnerabilities for the purpose of strengthening defenses. A majority (82 percent) of CEOs say they are willing to share their experiences of a privacy breach with peers.

"If they're willing to share experiences and learn collectively, the ability to manage and respond is much greater," says Marshall.

Confidence and future growth

There are signs that the European economies are picking up slightly, but the economic environment remains fragile. "CEOs need to take into consideration the potential for continued volatility and the uncertainties that come with it," says Yael Selfin, Head of Macroeconomics, KPMG in the UK. So at first blush it may come as a surprise that global CEOs are optimistic in their outlook for the next 3 years for the global economy, their national economies and their companies.

This confidence is a testimony to CEOs' resilience as leaders, and not blind optimism or unrealistic projections. "CEOs have to look ahead with confidence, and see the future and the growth of their companies," says Dr. Ventzislav Kartchev, Chief Economist, KPMG in Germany. While the confidence is high, CEOs think that the levels of growth will be tempered. The biggest group, 48 percent, expect to grow annual revenues by between 2 and 5 percent over the next 3 years. That is an overall growth roughly in line with global GDP growth.

This optimism is somewhat more subdued in the shorter term.

The balance between CEOs' confidence and realism is further confirmed by the importance they attach to the global economy, naming global economic factors as having the biggest impact (16 percent) on the growth of their companies over the next 3 years.

Of course, CEOs' prospects vary globally, depending on the economies and industries they operate in. BNP Paribas Wealth Management's Merlo, sees tailwinds ahead. The wealth pool of high net worth individuals will be growing on average by a very comfortable 6 percent, she says. On the other hand, the private banking sector in Europe will be tested over the next 3 years by increased

Prospects for growth

	Over the next 3 years	Over the next 12 months
Prospects for growth for your company	89%	84%
Confidence in your country's growth	86%	73%
Confidence about growth for your industry	85%	79%
Confidence in the growth of the global economy	80%	70%

Source: 2016 Global CEO Outlook, KPMG International

Yael Selfin
Head of Macroeconomics
KPMG in the UK

Dr. Ventzislav Kartchev
Chief Economist
KPMG in Germany

Julio Hernandez
Global Head of Customer Advisory Practice
KPMG International

financial regulations, changing banking economics due to lower interest rates and the speed of change.

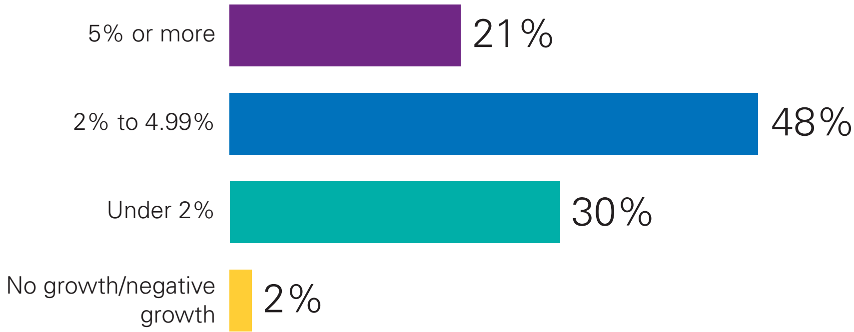
Some industries are expecting significant growth. Digitization, driven by the Internet of Things and the industrial internet, will accelerate growth in the medium to long term. Software AG is forecasting double-digit license growth for its Digital Business Platform segment this year. Biocon's Mazumdar-Shaw expects high double-digit revenue growth over the next 5 years through the company's maturing pipeline of Biosimilar drugs. The biotech industry in India is at an inflection point and will attain critical mass in the next 3 years, she says.

Similarly, Salini Impregilo's CEO sees growth in the future, coming from a link between economic outlook and investment in his sector. "The infrastructure sector is strongly linked to a country's economic development, and the forecasts for certain geographic areas and for the sector are encouraging. New infrastructure investment worldwide is seen at 8 trillion euro from now until 2020."

On the other hand, MetLife, which is being highly affected by economic growth rates, interest rates and the regulatory environment, delivers shareholder value by controlling costs or exiting less profitable businesses.

No matter the shape of the industry or economy, the disruptive forces will not subside. So CEOs need to contend with the need for action in a slow-growth economy. "Risk-averse cultures can be an issue in a world facing uncertainties," says KPMG's Kartchev. "Companies need to embrace a startup culture, where failure is accepted as part of finding the right solution."

Prospects for annual top-line growth over the next 3 years



Source: 2016 Global CEO Outlook, KPMG International

It bodes well for the future that CEOs today are not waiting out tough times. Says KPMG's Goodburn: "Whether the tide rises or falls with the economy, CEOs understand very well that they are at the helm and ultimately can determine their company's outcome."

According to KPMG's Scott: "CEOs of European companies are aware that the upcoming 12 months will see some relevant events taking place, which could have an impact on their business plans. Moreover, concerns exist around the economic slowdown in emerging economies, the monetary policy divergence and the weak economic recovery in Europe."

All told, 96 percent of CEOs expect to increase their headcount over the next 3 years, up from 78 percent last year, and 10 percent of CEOs expecting high growth say they will increase headcount by more than 25 percent over the next 3 years.

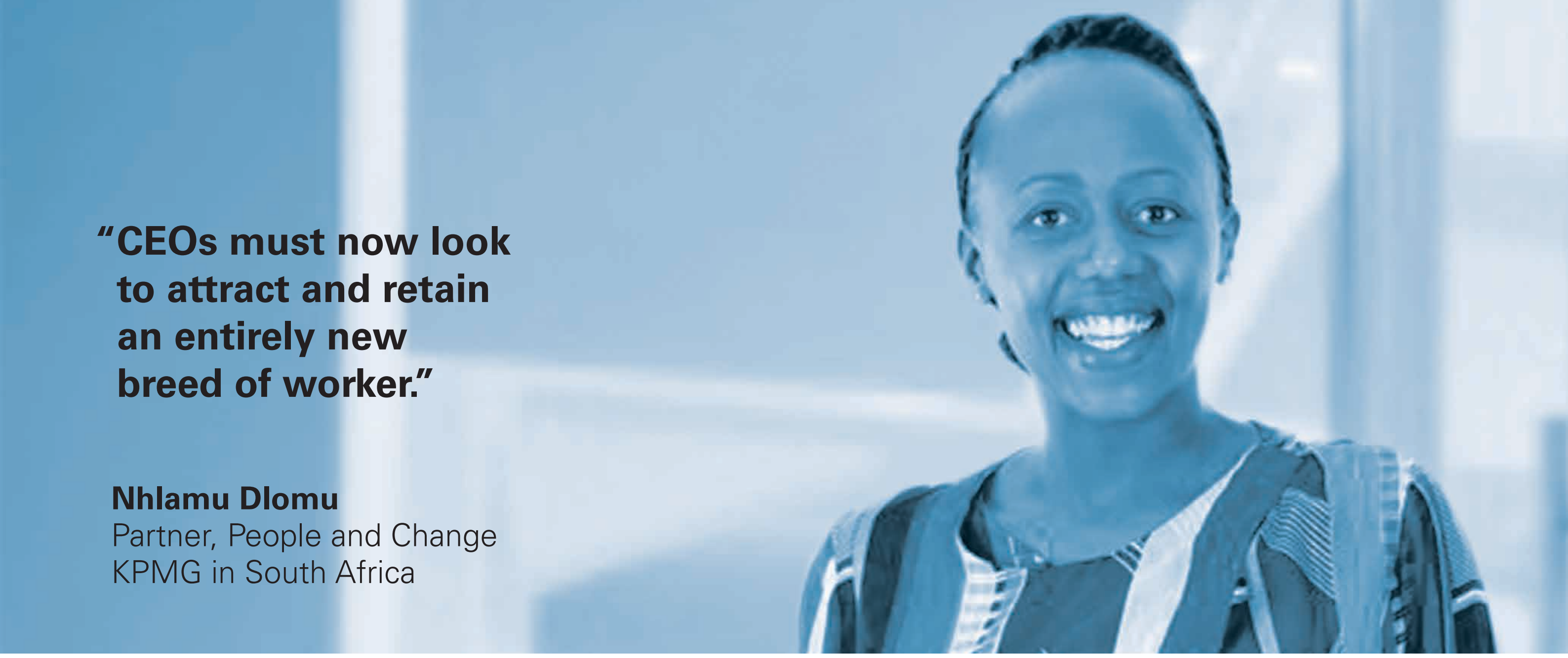
Interestingly, CEOs highlighted primary sources of future growth as coming from: new products (28 percent), new customers (26 percent), new markets (25 percent) and new channels (22 percent).

New products are the most important factor for high-growth CEOs for delivering growth: 34 percent rank this as the most important factor versus 26 percent of CEOs from companies expecting growth of less than 10 percent.

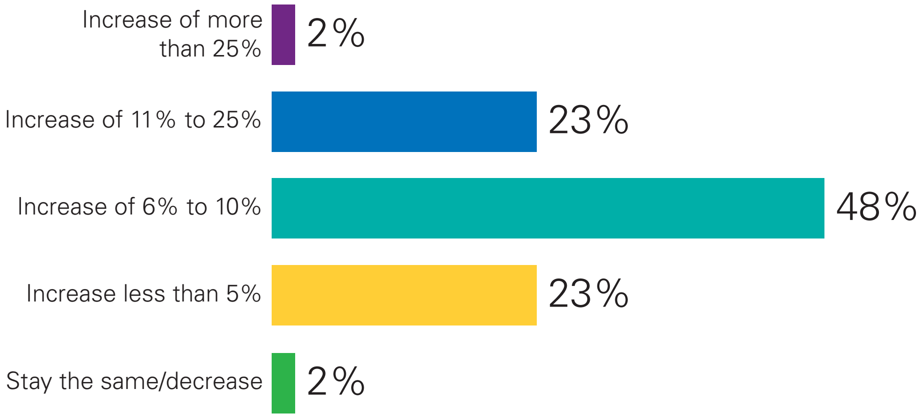
Julio Hernandez, KPMG's Global Customer Advisory Leader, thinks to win the battle for growth and the race for the customer, businesses need to understand what customers want, need

"Whether the tide rises or falls with the economy, CEOs understand very well that they are at the helm and ultimately can determine their company's outcome."

Mark A. Goodburn
Global Head of Advisory
KPMG International



Prospects for headcount growth over the next 3 years



Source: 2016 Global CEO Outlook, KPMG International

and value, as well as appreciate the value these customers generate. "Delivering well-executed and differentiated experiences requires businesses to be intentional in the experiences they design and deliver, with everyone from the front, middle and back office understanding their role in doing so," he says.

Developing talent

Faced with significant transformation plans and ever advancing technology, 99 percent of CEOs report taking action to develop existing or future talent. In line with these findings, most CEOs report some level of skills gap emerging. Over 50 percent report skills gaps in key business functions.

"CEOs must now look to attract and retain an entirely new breed of worker," says Nhlamu Dlomu, Partner, People & Change, KPMG in South Africa. "One who is accustomed to change and comfortable taking the helm on mission-critical issues that CEOs themselves may not have the time or experience to personally own."

Giving employees the chance to innovate and work in an entrepreneurial or collaborative environment is seen as the most effective way to attract new employees (37 percent said this). Non-financial incentives are seen as the best way to retain employees (39 percent said this).

Top five ways in which CEOs intend to manage their skills gaps

Source: 2016 Global CEO Outlook, KPMG International

Top growth geographies

CEOs' views of geographic growth potential have shifted since 2015. India, China and the US are seen as the most attractive foreign markets. India has taken the top spot, moving up from number five in 2015. While still among the leading markets, the US and China decreased since last year. Western Europe has also seen a significant decline in its attractiveness as a foreign market.

In which regions do you see the greatest potential for new market growth over the next 3 years? (Top five)

Source: 2016 Global CEO Outlook, KPMG International

As highlighted below, the regions showing the largest decrease in interest will be from the oil economies of the Middle East (21 percent) and Russia (21 percent) this year. Geopolitical risks in the Middle East region further add to the concerns. Japan — for which the next 3 years will be a test of whether Abenomics can put the country on a growth path — is also seeing some decrease in interest.

In which regions do you see the potential for decreasing your focus over the next 3 years? (Top five)

Source: 2016 Global CEO Outlook, KPMG International

India

This year, India tops the ranking of growth geographies according to the survey, followed by China and the US.

India is said to have received the maximum foreign direct investment in 2015, ahead of China. The country is on its second major round of economic reforms post-1991, when India in effect opened up for foreign investment, says Richard Rekhy, Chairman, KPMG in India. The country has the demographic dividend of a young population, and is the fastest-growing large economy in GDP percentage. Given this scenario, Indian CEOs are projecting higher revenue growth over the next 3 years than their global counterparts. This further substantiates the optimistic growth outlook for the economy.

India's digital infrastructure is emerging very significantly. With more than 1 billion biometric signatures, the country boasts the world's biggest biometric database. "The spread of technology is palpable; Indian Railways sells about 70 percent of its tickets online, making it one of the world's largest e-commerce websites."

Challenges do exist for the Indian economy. Low crude prices, while beneficial to the economy, might be temporary. Geopolitical tensions in the Middle East would in turn affect the inflow of remittances to India. An enabling business environment is needed to sustain India's economic recovery. While steps to improve ease of doing business have been initiated, a significant improvement is vital. "Those who navigated through the hurdles benefitted tremendously given the size of the market in India," says Rekhy.

China

Global and domestic economic uncertainty, rising costs, increasing competition and technological factors are creating a challenging environment for CEOs in China. Companies in China are fast adapting to the new landscape by driving new products, incentivizing and upskilling their workers, fostering innovation, and using new disruptive technologies to improve productivity and efficiency, and achieve strong organic growth.

This optimism over the future of China's economic growth is reflected in the survey results. The findings show that CEOs in China possess greater confidence than their global peers in the growth prospects for their home country, company, industry and the global economy over the next 12 months.

Furthermore, two-thirds of respondents in China view the country as having the highest growth potential over the next 3 years. Other regions of focus for China's CEOs are the US and ASEAN. Importantly, global respondents view China and India as the two regions with the greatest growth potential — a positive sign that appetite for foreign investment into China remains strong.

China's CEOs are justified in their optimism over their companies' growth prospects, especially as China transitions from an investment-intensive, export-led model of growth, to one driven by consumption, and more importantly, innovation. The central government recognizes the importance of innovation in transitioning into a high value-added economy, and has placed it at the very top of its "five tenets of development" for the 13th Five-Year Plan 2016–2020, whereby the government outlines its strategy for economic development, sets growth targets and launches reforms.

This policy is enabling China to emerge as a leader in innovation. Fostering innovation is the top strategic priority for China's CEOs, with almost all of the respondents agreeing that including innovation in business strategy, with clear targets and objectives, is important to drive successful innovation. Furthermore, CEOs in China have a clearer focus on innovation than their international counterparts, with nearly half of them placing innovation on the top of their personal agenda, compared to only 23 percent globally.

At the same time, Beijing has launched several initiatives to increase the productivity of China's traditional industries by leveraging the latest advances in IT, advanced manufacturing and automation technologies. Data management technologies such as cloud computing and big data analytics, as well as the Internet of Things, will enable Chinese companies to reduce operating costs, increase efficiency and better address consumers' demands. It is therefore unsurprising that survey respondents in China chose increasing data analysis capabilities and Internet of Things as top focus areas for further investment. "Several businesses in China's traditional manufacturing sector are recognizing that they could achieve greater growth by using more technology and data and analytics. This is something you definitely wouldn't have seen 5 years ago," says Honson To, Co-Chairman of KPMG China.

A number of companies are exploring new business models in China. The business models of companies like Amazon, Alibaba, Uber or its Chinese competitor Didi Kuaidi, are based on proprietary platforms, which connect customers with products or services. They can scale up fast, which is advantageous as the size of the Chinese middle class has recently overtaken that of the US, and continues to grow at a rapid rate. Furthermore, rapidly improving logistics infrastructure and the advancement of mobile technology in China — which is making goods and services more accessible than ever before — are creating a huge rural customer base for Chinese manufacturers and service providers.

And while China is transitioning to new business models, its traditional manufacturing base continues to be attractive to global CEOs. Expanding in China is one of the top paths to growth for Gonvarri Steel Services that will build four new factories in China by July 2017 in an alliance with a Chinese company.

China remains a highly attractive destination for multinational companies, based on the sheer size and purchasing power of its middle class, its physical and technological infrastructure, and its policies to support high quality growth and innovation. However, it is not easy to satisfy Chinese consumers, whose tastes are constantly changing, and who are becoming more exposed to new products and services.

As a result, many CEOs are altering their growth strategies to focus on developing new products, fostering innovation, and enhancing data analytics and disruptive technology capabilities. "It is likely that businesses can do very well in China if they have the right business model, and are innovative, disruptive and 'cool' enough to go to the consumer," says To.

"It is likely that businesses can do very well in China if they have the right business model, and are innovative, disruptive and 'cool' enough to go to the consumer."

Honson To
Co-Chairman
KPMG China

US

The United States is third to India and China as the region with the greatest potential for new growth. When comparing the US to other developing economies, KPMG in the US's Chief Economist, Constance Hunter, refers to the country as "the nicest house in a bad neighborhood, compared to its OECD neighbors." This stronger growth is illustrated by a greater rate of consumption and higher interest rates than other developed, and even some emerging, markets.

Part of the source for US growth is what economists call 'business dynamism'. Or, to use Silicon Valley parlance, failing fast. It is no surprise then that 76 percent of US CEOs (compared with 65 percent of non-US CEOs) are concerned that new entrants and competition are disrupting their business models. The US has among the highest penetration of smartphones and social media in the world and this means informed and often demanding customers armed with the megaphone of social media. US CEOs are rightfully concerned about customer satisfaction with 54 percent reporting concern that their companies are not keeping pace with their customers' needs and expectations. All this competition and customer focus makes US firms sharper and in many cases more nimble than their global counterparts.

"US CEO forecasts for headcount are in line with what our economic models are predicting," says Hunter. Global conditions are now influencing US interest rates, she says. As the rest of the developed world follows a negative interest rate policy, this will keep longer-term US rates from rising very much, even as the Fed continues gradually raising short-term rates. The stimulative effect of low rates will continue to boost growth and hiring especially over the medium term. According to the survey, 49 percent of US CEOs are planning to increase headcount by as much as 5 percent in the next 12 months alone, and 54 percent expect an increase of employment of 6–10 percent in the next 3 years.

Compared with last year, "the Federal Reserve has begun to gradually raise interest rates, and the uncertainties associated with the elections have come into focus," says Hunter. But she says there are still many advantages to investing in the US, including the most competitive workforce in the world, deep capital markets, and laws and regulations that, on balance, are business-friendly, including NAFTA and other trade agreements.

Gonvarri Steel Services will strengthen its presence in NAFTA countries, including both the US and Mexico. "It may soon be a good time to make acquisitions in Latin America, where valuations have been coming down and economic recovery may be closer," says Calvo.

The US is also recognized as the most advanced market in terms of technology. "The US is, and will remain, our biggest market," says Software AG's Streibich. "The willingness of enterprises and federal and state governments in the US to invest in new software technologies is higher than anywhere else on the globe."

Conclusions

The pace of change continues to accelerate as the fourth industrial revolution ushers in the era of machine learning, cognitive computing and artificial intelligence. The next 3 years will be critically transformative. This speed of change means that CEOs need to act now. They must also act knowingly, taking into consideration the following ideas:

Vulnerability

You are not alone. CEOs in the survey are revealing their concerns about meeting the demands of the future, facing all angles of disruption coming at their companies and finding ways to pre-empt them. It is in our nature to be fearful of what has never happened before. And much of what we are living through today is on the scale of an industrial revolution. Knowing what you don't know and admitting it shows openness and maturity.

Ecosystems

Traditional boundaries and roles no longer apply. The lines separating industries, companies, technologies and customers are disappearing. Due to the need for speed, CEOs are realizing that renting or collaborating is a viable and often preferable alternative to building or buying. As a result of these collaborations, competitors may be suppliers as well as customers. This results in a redefinition of power and responsibilities and the need for a different type of leadership. CEOs need to become comfortable with ambiguity and undefined spaces.

Agility

The speed of change is limiting visibility into the future, making short- or medium-term strategies risky. The solution is to strategize and execute change in an agile manner, to account for the unknown and unknowable. The time of once-and-done transformations is over. Today's transformation is a continuous flow of incremental steps, which allows for quick adjustments and corrections, speed to market and measurement.

Customer-centricity

With the ability to communicate with the customer via digital channels, it is crucial to listen to customers and meet their expectations. But it is equally important to discern what customers truly want. This need has to be balanced with the value these customers generate.

Trust

Trust takes on additional importance in the age of data. With so many strategic decisions now riding on the output of D&A or algorithms, there must be a heightened focus on the accuracy of data. At the same time, data needs to be utilized without violating privacy. This trust needs to be upheld throughout the whole ecosystem, including the supply chain, partners and customers.

Risk

The fourth industrial revolution, the age of the Internet of Things, machine learning, cognitive computing and artificial intelligence, increases security risks exponentially. Companies need mainstream cyber capabilities: people in all parts of the organization who understand cyber issues. Each major decision needs to be looked at through the cyber security lens.

While a majority of CEOs foresee the next few years to be challenging, with expected moderate economic growth, they are optimistic they can successfully manage through this environment. It's now or never.

Methodology and acknowledgements

The survey data published in this report is based on a survey of 1,268 chief executives from Australia, China, France, Germany, India, Italy, Japan, Spain, the UK and the US. The findings from CEOs in an 18 additional regions and countries can be found in the Appendix section of this report. Eleven key industries are represented, including automotive, banking, infrastructure, insurance, investment management, life sciences, manufacturing, retail/consumer markets, technology, and energy/utilities and telecom. Two hundred and seventy-five CEOs came from companies with revenues between US$500 million and US$999 million, 595 from companies with revenues from US$1 billion to US$9.9 billion, and 398 from companies with revenues of US$10 billion or more. Eight hundred and ninety-three CEOs came from public companies and 375 from private companies. The survey was conducted during 15 March and 29 April of 2016.

Figures may not add up to 100 percent due to rounding.

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— Sofia Merlo, Co-CEO, BNP Paribas Wealth Management, France

— Paul Polman, CEO, Unilever, UK

— Pietro Salini, CEO, Salini Impregilo, Italy

— Karl-Heinz Streibich, CEO, Software AG, Germany

— Emma Walmsley, CEO, Consumer Healthcare, GSK, UK

Appendix

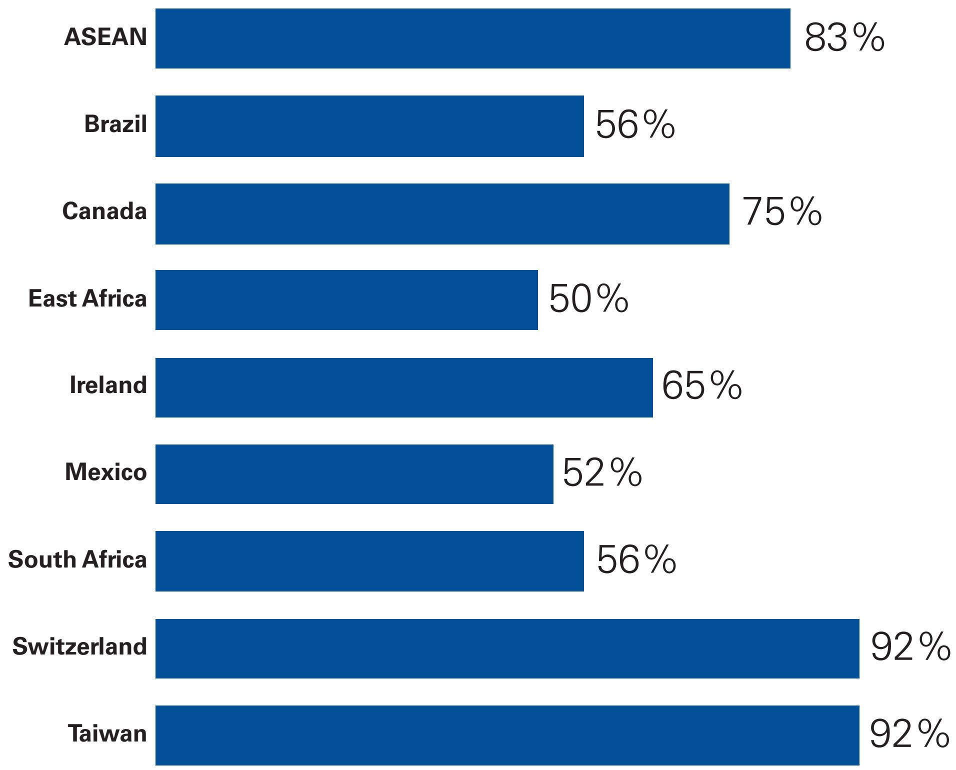
A view from selected regions and countries

In addition to the countries analyzed in the main report, CEOs in other regions and countries around the world were also surveyed.[1] Following are the highlights of how these countries and regions affect how these CEOs approach the future of their organization in terms of strategic priorities, growth, investments and risks ahead of them over the next 3 years.[2]

Critical change

Around the world, the view of the critical importance about the next 3 years varies. It is seen as the most critical by CEOs from Switzerland and Taiwan (92 percent for both) and ASEAN (83 percent). The lowest number of CEOs from East Africa (50 percent) see the next 3 years as more critical for their industry than the last 50 years. The appetite for significant transformation of their company also varies by country, with Mexican CEOs being highly transformative, and Taiwanese CEOs less transformative.

CEOs who say the next 3 years will be more critical for their industry than the previous 50 years



Source: 2016 Global CEO Outlook, KPMG International

Strategic and top investment priorities

The top three priorities for the core 10 countries' CEOs address the three main forces driving growth: innovation, technology and client focus. While these priorities are true around the world, CEOs in other regions and countries often need to pay attention to their own specific business environments when strategizing for the future. In Canada, for example, the top priority centers on ensuring effective measurement. Taiwanese CEOs, on the other hand, seem to be recognizing the importance of the business ecosystems, which are created by collaboration between different companies or research organizations.

[1] ASEAN region comprises Singapore, Malaysia, Thailand, Indonesia, Philippines and Vietnam; East Africa comprises Kenya, Uganda, Tanzania, Rwanda and Ethiopia.

[2] All data in this Appendix refers to expectations over the next 3 years.

CEOs from the core 10 countries are most likely to prioritize increasing data analysis (25 percent), new product development (24 percent) and cyber security (22 percent).

Top strategic priority for the next 3 years by region/country

ASEAN	— Stronger client focus	28%
Brazil	— Implementing disruptive technology	24%
Canada	— Ensuring key performance Indicators are fit for purpose and accurately measured	28%
East Africa	— Cyber security	26%
Ireland	— Becoming more data-driven	35%
Mexico	— Responding to short-termism/activist shareholders	26%
South Africa	— Responding effectively to regulatory change	24%
Switzerland	— Greater speed-to-market	22%
Taiwan	— Managing our ecosystem of partners/alliances	26%

Source: 2016 Global CEO Outlook, KPMG International

Once again, CEOs from around the world focus on investments that will ensure their growth in their particular countries or industries. CEOs from Brazil and Canada expect to grow by acquiring a business, capabilities or assets. CEOs from Switzerland and Taiwan, in recognition of the importance of being customer-centric, will steer their biggest investments towards measurement and analysis of customer experience and needs.

Top area of significant investment over the next 3 years by region/country

ASEAN	— New product development	43%
Brazil	— Acquisition of a business, capabilities or assets — New product development	34%
Canada	— Acquisition of a business, capabilities or assets — Cyber security solutions	30%
East Africa	— Measurement and analysis of customer experience/needs	34%
Ireland	— Business model transformation	32%
Mexico	— Geographic expansion within home country	36%
South Africa	— Geographic expansion within home country — Measurement and analysis of customer experience/needs	32%
Switzerland	— Measurement/analysis of customer experience/needs	34%
Taiwan	— Measurement/analysis of customer experience/needs	28%

Source: 2016 Global CEO Outlook, KPMG International

Top CEO concerns

CEOs from the core 10 countries are most likely to be concerned about customer loyalty and the impact of global forces (both 88 percent). The concerns of the CEOs from around the world are dependent on the maturity of their economies and businesses.

One of the measures of maturity is the quality of data, of utmost importance in a world moving towards data-based decisions. The quality of data is a top concern for CEOs from the East African countries and Mexico.

Not surprisingly, a substantial group of CEOs is concerned about keeping up with technologies and what's new in terms of products and services.

Top concerns of CEOs by region/country

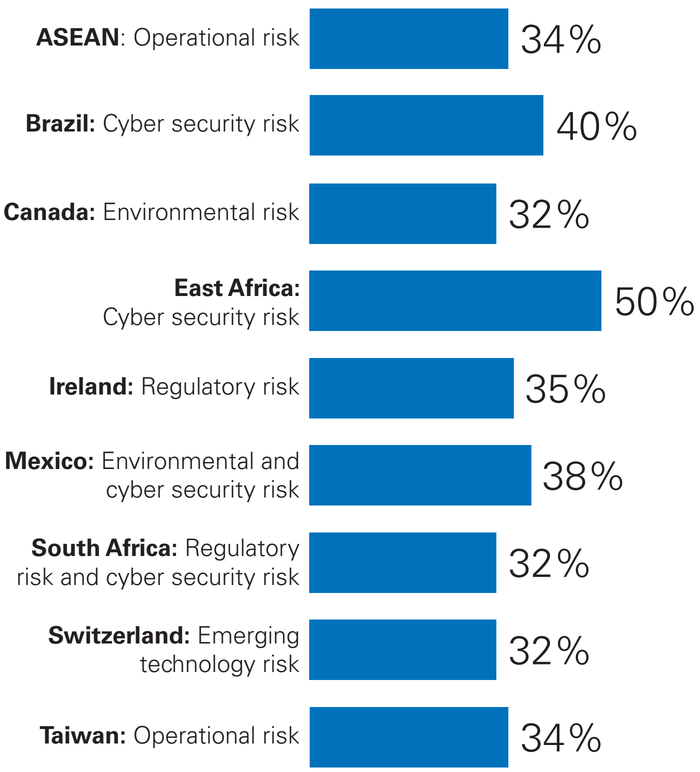
ASEAN	— The quality of the data I'm basing my decisions on — Whether our organization is staying on top of what's next in services/products
Brazil	— Regulations will inhibit our growth — The impact of global economic forces on our business — The amount of time I have to think strategically about the forces of disruption
Canada	— Whether our organization is staying on top of what's next in services/products — How Millennials and their differing wants/needs will change our business — The loyalty of our customers
East Africa	— The quality of the data I'm basing my decisions on — The impact of global economic forces on our business — Regulations will inhibit our growth
Ireland	— Having to consider the integration of artificial intelligence and cognitive processes — The quality of the data I'm basing my decisions on — The amount of time I have to think strategically about the forces of disruption
Mexico	— The quality of the data I'm basing my decisions on — The impact of global economic forces on our business — The relevance of our products/services 3 years from now
South Africa	— Whether our organization is staying on top of what's next in services/products — The loyalty of our customers
Switzerland	— The impact of global economic forces on our business — Regulations will inhibit our growth — The relevance of our products/services 3 years from now
Taiwan	— Regulations will inhibit our growth — The impact of global economic forces on our business

Cyber security and risks

For CEOs from the core 10 countries, cyber risk has moved up to the top of the list of risks they are most concerned about. Across the world, CEOs also see operational risk and regulatory risk as of top significance. Cyber risk, however, has emerged as a top risk in Brazil, East Africa, Mexico and South Africa.

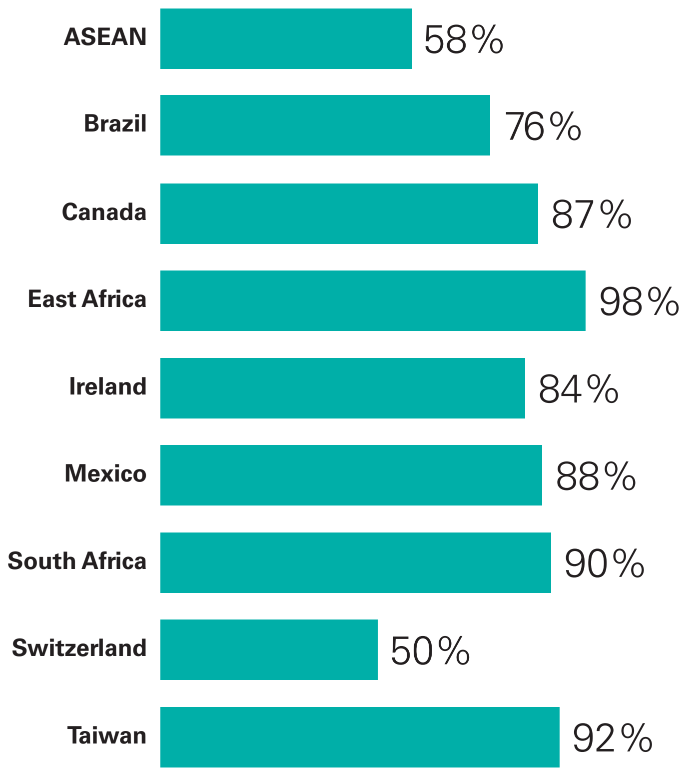
At the same time, CEOs are well aware that they have a lot of ground to make up in preparedness for cyber risk.

Top risk by region/country



Source: 2016 Global CEO Outlook, KPMG International

Not fully prepared for a cyber event



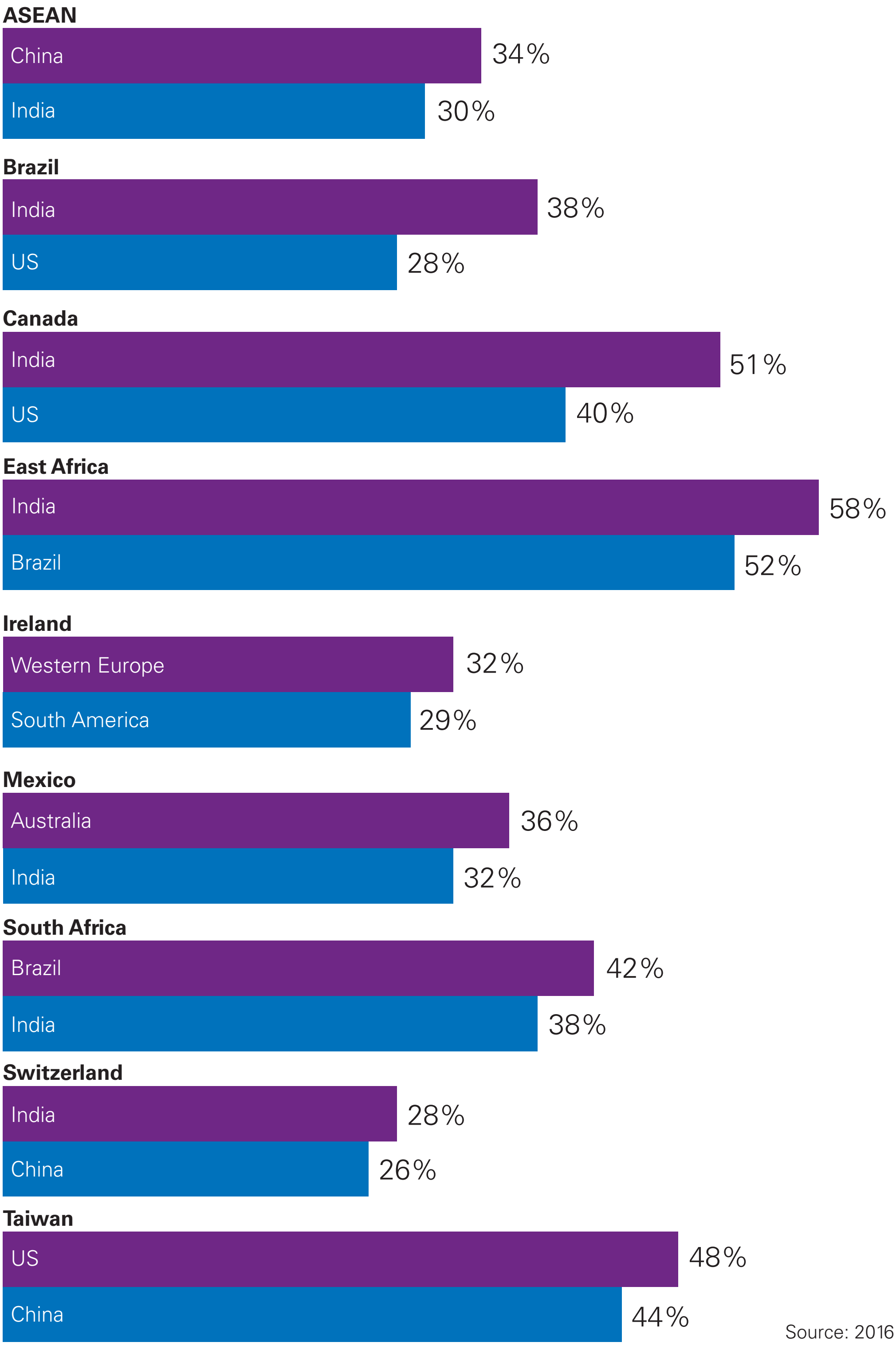
Source: 2016 Global CEO Outlook, KPMG International

Top growth geographies

While the view of growth geographies varies by location, there are several countries and regions that are viewed as growth areas by a majority of CEOs. They are India, China and the US.

These are also top growth destinations for the CEOs from the 10 core countries.

Regions/countries with the greatest potential for new market growth



Source: 2016 Global CEO Outlook, KPMG International

Confidence

The overall high levels of confidence about the growth of the global and domestic economies, as well as their company, of CEOs from the 10 core countries carry over across the world. Taiwan ranks as a top three region in terms of confidence about each of the categories.

Across the world, a vast majority of CEOs expect their headcounts to rise by more than 5 percent over the next 3 years, led by Canada (96 percent), Ireland (91 percent) and Switzerland (90 percent).

The biggest group of CEOs anticipating revenues to increase by more than 5 percent over the next 3 years are from Switzerland (32 percent), ASEAN countries (21 percent) and Canada (19 percent).

CEOs most confident about their country's growth by country/region

Source: 2016 Global CEO Outlook, KPMG International

CEOs most confident about the global economy by country/region

Source: 2016 Global CEO Outlook, KPMG International

CEOs most confident about their company's growth by country/region

Source: 2016 Global CEO Outlook, KPMG International

For further information about this report, and how KPMG can help your business, please contact me:

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