KPMG 2022 CEO Outlook

Growth strategies in turbulent times

KPMG Australia

kpmg.com/au/CEOoutlook

Contents

03 Finding opportunity in uncertainty

07 Economic outlook

11 Technology

15 Talent

18 Environmental, social and governance (ESG)

23 Conclusion

25 Methodology and acknowledgements

Finding opportunity in uncertainty

Tested by enormous challenges in quick succession — a global pandemic, inflationary pressures and geopolitical tensions — it's encouraging that CEOs, surveyed in our 2022 CEO Outlook, were confident in their companies' resilience and relatively optimistic in their own growth prospects.

While it's unsurprising the economic climate is now a top concern for business leaders, over these past few years, they've learned to navigate the unpredictable, realigning their workforces, untangling supply chain disruptions and adapting to geopolitical and economic impacts. As the possibility of recession looms, many are already prepared with a deep focus on planning and agility. And some see opportunities through this fog of uncertainty brought on by the promise of technology, talent and ESG.

Bill Thomas
Global Chairman and CEO
KPMG

The 2022 CEO Outlook draws on the perspectives of 1,325 global CEOs across 11 markets to provide insight into their 3-year outlook on the business and economic landscapes. The survey also reveals shifts in strategy and viewpoints from the KPMG CEO Outlook Pulse Survey, conducted ahead of the Russian government's invasion of Ukraine.

Unless otherwise indicated, throughout this report, "we", "KPMG", "us" and "our" refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

Foreword

Each year, KPMG's annual survey of over 1,300 CEOs across 11 countries – including 50 from Australia – gives insight into the current issues facing, and the mindset of, business leaders.

This year is no different – but there is a clear difference in mood among our participants. The gathering storm clouds over the global economy have had an impact on the normally upbeat view of CEOs.

The majority, including those from Australia, see a global downturn, a short and relatively mild recession, in the next 6-12 months. This is the first time in the survey's 8 year history that a downturn has been predicted.

Survey participants see this impacting in several ways – firstly to the bottom line where many see a hit to earnings of 10 percent or more. Secondly it will make it difficult for many businesses to rebound quickly from the ongoing pandemic-related disruption to their operations, and so hinder a return to growth.

Most respondents said they had taken steps to prepare for a mild recession, either by implementing or planning a recruitment freeze, which is noteworthy, given that talent shortages have been the story of the last two years. Many said they were considering downsizing their workforce, while more than 80 percent were planning, over the next 6 months, to raise their prices in order to cover costs.

The more positive news however, is that a large majority are still confident of a return to growth over the 3-year horizons assessed by the survey.

At KPMG, we believe Australia is better placed than most countries, and so the probability of a recession here is lower than elsewhere, but there is still a risk that domestic demand contracts, rather than just grows at a slower pace. We still have to see how households respond to the high inflation and interest rate environment.

Andrew Yates
Chief Executive Officer
KPMG

Unless otherwise indicated, throughout this report, "we", "KPMG", "us" and "our" refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International or to one or more of these firms or to KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

So far, they have held up better than consumers in other countries, but the full impact of higher mortgage costs has yet to be felt. The extent to which businesses follow through with their capital expenditure plans and the return of international students and tourists will also be important factors in boosting economic growth.

In terms of the most immediate problem facing them – apart from the economy - Australian CEOs' top answer was continued covid fatigue and ongoing restrictions (18 percent), followed by supply chain and reputational risks. Over the next three years, the biggest threat to growth concerned operational issues and emerging disruptive technologies.

One notable, though not surprising finding, was that ESG initiatives may have to be paused if the downturn does eventuate. But this is just a hiatus - the survey makes clear that ESG is now central to business operations with most seeing their digital and ESG strategic investments as inextricably linked.

Around three-quarters of Australian CEOs, a higher proportion than their global counterparts, said that they were already seeing demand for increased reporting and transparency on ESG issues from stakeholders including investors, regulators employees and customers. And 78 percent believed stakeholder scrutiny in this area this would accelerate over the next 3 years.

Over half of Australian leaders, however, admitted they struggled to communicate their ESG performance to stakeholders effectively. One key reason could be that only 28 percent (45 percent global) said their ESG programs currently led to improved financial performance.

But encouragingly, Australian CEOs are ahead of the global pack on their use of company purpose, thinking on inclusion and diversity, and the benefits of gender equity, the survey found.

For purpose, more Australian CEOs than global ranked it as important in shaping and driving action in several key areas, including: strengthening employee engagement; driving financial performance; building customer relationships; brand; and shaping capital allocation, alliances/partnerships and M&A strategy (at least 70 percent in each).

The issues of Inclusion, diversity & equity (IDE) and gender equity also found resonance locally. Three-quarters of Australian leaders believed IDE had moved too slowly in the business world, and that more gender equity in their C-suite would help achieve the company's growth ambitions. It is true though that other recent surveys have shown there is still a long way to go for good intentions to translate into action in terms of gender diversity and C-suite roles.

Digital transformation was another key issue. A large majority of leaders said they had an aggressive digital investment agenda designed to get first-mover advantage, but the same percentages of respondents also warned they had to address burnout from accelerated digital transformation over last 2 years before continuing their transformation journeys.

It is clear from the findings that digital transformations are a people issue as much as technology, and companies must be careful to take everyone with them before continuing on the journey.

There is much to be encouraged about, but also much food for thought in the survey findings. Please call your KPMG contact to discuss any of the issues raised in the study.

Four key themes emerge from this year's CEO Outlook:

Economic outlook

CEOs are ready and prepared to weather current geopolitical and economic challenges while still anticipating long-term global growth.

Optimism in growth remains

Despite geopolitical and economic challenges, global economic confidence over the next 3 years has rebounded from early 2022, rising to 71 percent.

Preparing for a recession

Eighty-six percent of CEOs believe a recession over the next 12 months will happen, but 58 percent feel it will be mild and short and 76 percent have plans in place to deal with it.

Managing geopolitics

Geopolitical uncertainties will likely continue to impact strategies, with 81 percent of CEOs adjusting or planning to adjust their risk management procedures.

Technology

CEOs are directing digital investment to areas of their business that drive growth, with an emphasis on partnerships and preparedness.

Emerging tech top growth risk

Disruptive technology has emerged as the number one risk to organisational growth.

Staying on the right track

More than ever, investment should be tied to growth and 70 percent of CEOs say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

Cyber as a strategic function

The cyber environment is evolving quickly — and 77 percent see information security as a strategic function and a potential source of competitive advantage.

Talent

CEOs are changing how they support and attract talent, and their efforts are buoyed by a focus on their people and experimenting with ways of working.

Talent a top operational priority

In the long term, the employee value proposition to attract and retain the necessary talent is tied as the top operational priority to achieving 3-year growth objectives.

Recession driving short-term freezes

In the short term, 39 percent of CEOs have implemented a hiring freeze, and 46 percent are considering downsizing their employee base over the next 6 months.

Fostering a spirit of experimentation

Remote working has had a positive impact on hiring, collaboration and productivity over the past 2 years, but 65 percent of CEOs see in-office as the go-to office environment over the next 3 years.

ESG

CEOs are balancing the need to build resilient and transparent ESG plans with the possibility of having to pause or reconsider their approaches.

Accelerating ESG expectations

CEOs increasingly agree that ESG programs improve financial performance, sitting at 45 percent, up from 37 percent 1 year ago.

ESG impact on supply chains

CEOs increasingly see reporting and transparency as important to their ESG goals — and this includes insight into their broader supply chain.

Diversity ramping up progress

Global businesses are seeing major focus put on the social aspect of ESG: 68 percent of CEOs believe progress on inclusion, diversity and equity (IDE) has moved too slowly in the business world, and 73 percent believe scrutiny of IDE performance will continue to increase over the next 3 years.

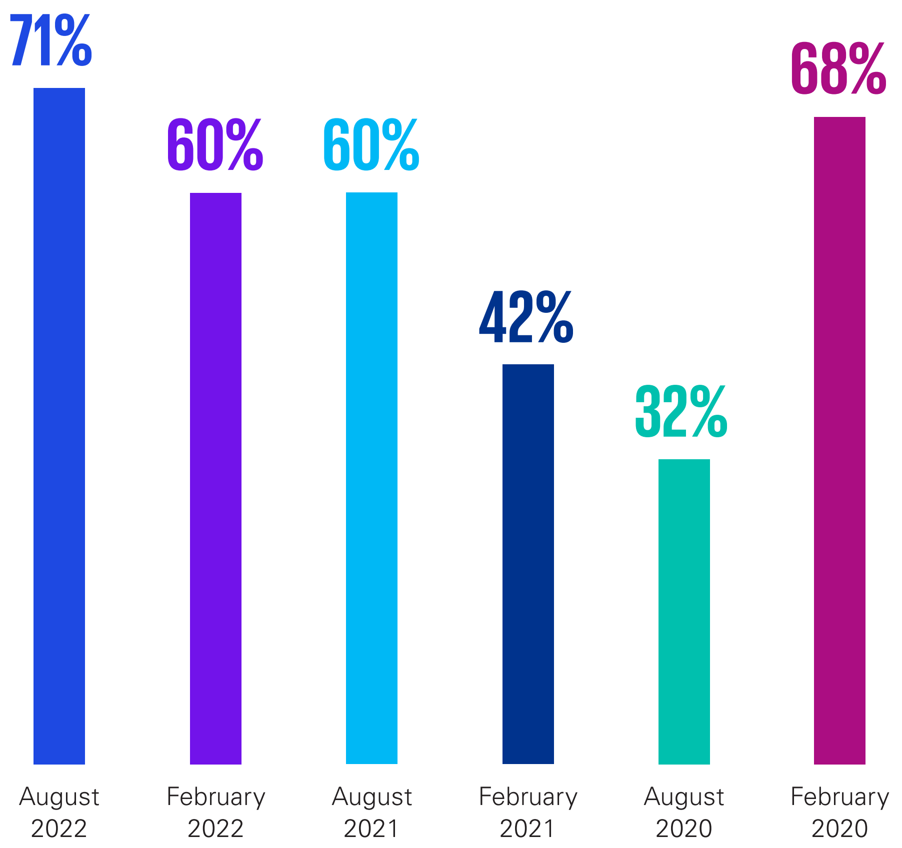
Economic outlook

Optimism in long-term growth remains

The KPMG 2022 CEO Outlook surveyed global CEOs on their 3-year outlook on the business and economic landscapes. Despite geopolitical and economic challenges, global economic confidence over the next 3 years has rebounded from early 2022, rising to 71 percent.

As companies continue to navigate the changing landscape resulting from the COVID-19 pandemic, 85 percent of global CEOs report positive growth expectations in 2022; steady from earlier this year and down slightly from 2021 (87 percent).

Growth prospects for the global economy over the next 3 years



Source: KPMG 2022 CEO Outlook

CEOs anticipate a recession — but they're prepared

While confidence is up over the next 3 years, CEOs anticipate challenges in the shorter term. Nearly nine out of 10 (86 percent) CEOs believe a recession will happen over the next 12 months, but three out of five (58 percent) feel it will be mild and short and 76 percent have plans in place to deal with it. In spite of short-term recession fears, the increased confidence CEOs have for the longer term indicates they feel well prepared to navigate their businesses through turbulent times. In fact, when asked about their confidence in the resiliency of the global economy over the next 6 months — a period likely to be fraught with uncertainty and constant change — 73 percent still had a positive outlook, up 13 percentage points from February 2022.

While CEOs may be resilient, they're also realistic about the challenges ahead. Seventy-three percent of CEOs believe a recession will upend anticipated growth over the next 3 years, and three-quarters (75 percent) also believe a recession will make post-pandemic recovery harder. Seventy-one percent of CEOs predict a recession will impact company earnings by up to 10 percent over the next 12 months.

Compared to 2019 and 2020, CEOs are better prepared to weather short-term challenges with resiliency measures in place, while still anticipating long-term growth. The top three steps include: boosting productivity (50 percent), managing costs (43 percent) and reconsidering digital transformation strategies (40 percent).

Top risks looking toward

Pandemic fatigue and economic factors — including the threat of rising interest rates and inflation — top the list of most pressing concerns for CEOs today at 15 percent and 14 percent, respectively. As we look to the next 3 years, risks are more interconnected than ever. Emerging technology (not seen in the top five last year) rises in rank as the top risk and greatest threat to organisational growth. Operational, regulatory and reputational concerns also jumped into the top five.

86%
believe there will be a recession in the next 12 months

58%
say any anticipated recession will be mild and short

Risks to growth over the next 3 years

August 2022

1. Emerging/disruptive technology
2. Operational issues
3. Regulatory concerns
4. Environmental/climate change
5. Reputational risk

February 2022

1. Cyber security
2. Regulatory concerns
3. Tax
4. Emerging/disruptive technology
5. Supply chain

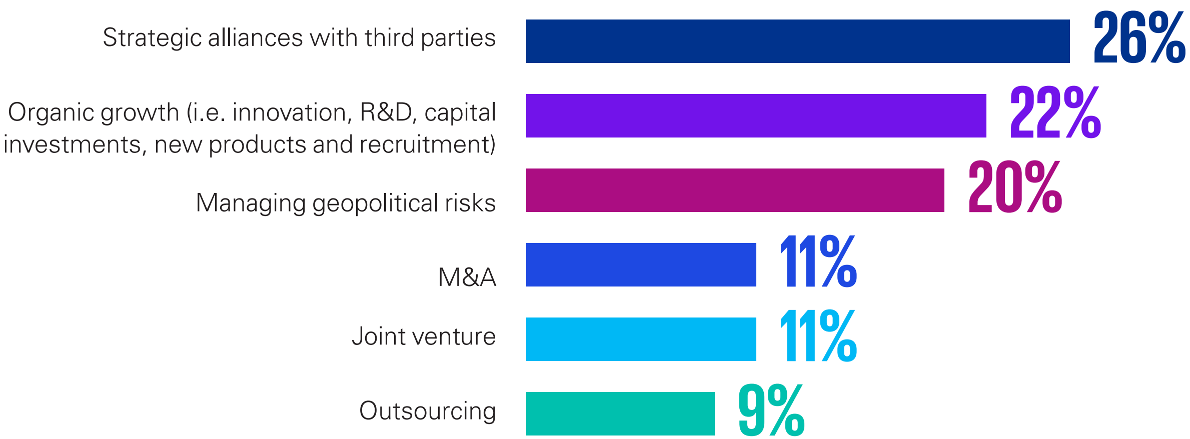
Source: KPMG 2022 CEO Outlook

Managing geopolitical risk

Strategic alliances (26 percent), organic growth (22 percent) and managing geopolitical risks (20 percent) top the list of the most important strategies for achieving organisational growth objectives over the next 3 years.

CEOs indicate that geopolitical uncertainties will continue to impact their strategies and supply chains over the next 3 years. In fact, 81 percent of CEOs have adjusted or plan to adjust their risk management procedures considering geopolitical risk, and 21 percent of CEOs will be increasing measures to adapt to geopolitical issues to achieve their growth objectives. With geopolitics a key agenda item in 2022, CEOs need to be knowledgeable on the subject and how to navigate the risks. It's important to make a geopolitical risk assessment part of their overall strategy.

Strategies important for achieving growth objectives over the next 3 years



Source: KPMG 2022 CEO Outlook

"The pandemic and the events in Europe have shown us how interconnected we are as a world. To me, geopolitical issues are the number one risk. I think we all need to build optimised and resilient supply chains."

TV Narendran
Chief Executive Officer and Managing Director
Tata Steel

One of the key learnings from the last year for TV Narendran, CEO and Managing Director of Tata Steel, has been the importance of building supply chain resilience, brought to the forefront of the business agenda following the pandemic and geopolitical uncertainties. "The pandemic and the events in Europe have shown us how interconnected we are as a world," he says. "To me, geopolitical issues are the number one risk. I think we all need to build optimised and resilient supply chains." Although a resilient supply chain may not be the most cost efficient, he believes disruption and change can bring opportunity. "There are opportunities to rethink business models and operating models, as well as build the necessary green infrastructure."

Increasing M&A appetite

Over the next 3 years, M&A appetite remains high despite economic concerns. Forty-seven percent of CEOs have high appetite, and 38 percent moderate, a significant shift from 23 percent high appetite in early 2022. With higher interest rates and borrowing costs, rapid innovation will be key to staying competitive. Deal makers may be taking a much sharper pencil to the numbers and focus on value creation to unlock and track deal value, every step of the way.

> "The combination of uncertainty, delays and price fluctuations is forcing some executives to significantly shift their priorities and pivot their business models, in an attempt to maintain their growth and confidence as they enter an incredibly challenging period."

Regina Mayor
Global Head of Clients and Markets
KPMG

Digital transformation in uncertainty

Emerging technology lands as top growth risk

CEOs are keeping technology risk front of mind in the short and long term. Disruptive technology has emerged as the top risk and greatest threat to organisational growth over the next 3 years. And while pandemic fatigue and economic factors like rising interest rates and inflation are top of mind over the next 6 months, emerging and disruptive technology is a close third. In the face of these risks, CEOs continue to prioritize digital investment — with 72 percent agreeing they have an aggressive digital investment strategy, intended to secure first-mover or fast-follower status.

Furthermore, advancing digitalisation and connectivity across the business is tied (with attracting and retaining talent) as the top operational priority to achieve growth over the next 3 years. This focus on digital transformation may be driven by increasingly flexible working arrangements and heightened awareness of cyber security threats, exacerbated by geopolitical uncertainty.

At Fujitsu Limited, CEO Takahito Tokita is on a mission to transform the organisation from a traditional IT company into a purpose-driven digital experience organisation. "We have always been confident in our technology and innovations, but in our conversations with clients, we realized they needed more than just products — they needed integrated, value-adding capabilities to help advance their own digital transformations. I said that we would change from an IT to digital experience company to meet that demand and reflect a sense of urgency that we are not going to be a company that just follows old traditions."

Staying on the right track

The anticipated recession may be pushing business to reconsider their strategies over the short term. Four out of five CEOs note that their businesses are pausing or reducing their digital transformation strategies to prepare for the anticipated recession (40 percent have paused or reduced, and 37 percent plan to pause or reduce over the next 6 months). In fact, 70 percent say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

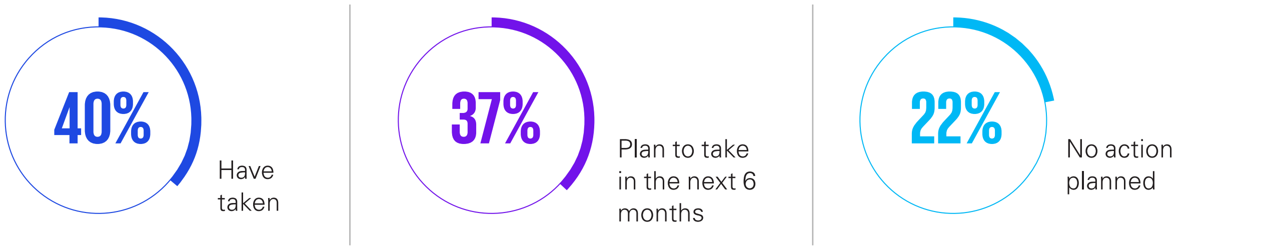
Digital transformation has become more expensive in recent years, so more than ever, investment should be prioritised in those areas that help drive growth — and potentially slowed or reconsidered on efforts that may be considered non-critical. In uncertain times, it's imperative businesses focus their digital investments on impactful, and measurable, value creation opportunities most able to support their strategic goals.

Bringing people and technology together

CEOs continue to narrow the gap between their digital transformation objectives and investing in their workforce. CEOs were offered a binary choice: whether they were placing more capital investment in new technology (56 percent) or developing their workforce's skills and capabilities (44 percent). This gap has narrowed from 2021, when 60 percent prioritised technology investment over workforce-related investments (40 percent).

As businesses have implemented their digital tools, their attention has shifted to adoption, engagement and change management in order to support their people working in a very different world. To drive their growth, CEOs may be looking to make their existing people more productive through transformation.

Have CEOs taken steps to pause or reduce digital transformation strategies to prepare for a recession?



Source: KPMG 2022 CEO Outlook

"We have always been confident in our technology and innovations, but in our conversations with clients, we realised they needed more than just products — they needed integrated, value-adding capabilities to help advance their own digital transformations."

Takahito Tokita
CEO
Fujitsu Limited

Building successful partnerships

Few organisations can succeed on their own. Businesses rely on their ecosystems, as building successful partnerships can help a company deliver a competitive edge. Increasingly, CEOs view partnerships as an important means to continue the pace of their digital transformation (71 percent, compared to 59 percent in February 2022). CEOs also say building strategic alliances with third parties is the most important strategy to help them reach their growth objectives over the next 3 years. It has become more important for businesses to partner with companies (e.g. start-ups, fintech and more) that can help them, bringing agility and resilience to growth. To bring everything together and drive a successful transformation, CEOs need the right partners — and the ability to connect it all.

> **"It's no surprise that more than half of CEOs responded that they are placing more capital investment in buying new technology. These investments include an emphasis on cyber security culture, which CEOs say is just as important as building technological controls as fears of a cyber attack grow as a result of geopolitical uncertainty."**
>
> **Carl Carande**
> Global Head of Advisory
> KPMG

Cyber as a strategic function

While other risks may now feature as top concerns for global CEOs, the cyber environment is evolving quickly and 77 percent see information security as a strategic function and a potential competitive advantage. Geopolitical uncertainty is increasing worries over corporate cyber attacks for many CEOs (73 percent) compared to previous years (61 percent in 2021). In fact, three out of four CEOs (76 percent) say that protecting their partner ecosystem and supply chain is just as important as building their own organisation's cyber defences.

Growing experience of the challenges of cyber security is also giving CEOs a clearer picture of how prepared — or underprepared — they may be. More CEOs recognise they're underprepared for a cyber attack, with 24 percent admitting so in 2022, compared to 13 percent in 2021; this year, 56 percent say they're prepared, about level with last year. And nearly three-quarters (72 percent) say their organisation has a plan in place to deal with a ransomware attack, compared to 65 percent in 2021. The rapid increase in cyber attacks, coupled with the increasing difficulty of detecting attacks on time, calls for automation and innovation in dealing with cyber incidents.

Alexis George, CEO of AMP, acknowledges that cyber security risk is increasing as AMP grows its digital capabilities. "Cyber security is absolutely one of the biggest risks for our industry as we face the future. We manage our risks well, but like any organisation our data is a target. Privacy breaches and scams are threats, and cyber criminals are increasingly sophisticated, but that is the nature of the digital financial landscape. We must continue to adapt, prepare and respond."

> **"Cyber security is absolutely one of the biggest risks for our industry as we face the future. We manage our risks well, but like any organisation our data is a target. Privacy breaches and scams are threats, and cyber criminals are increasingly sophisticated, but that is the nature of the digital financial landscape. We must continue to adapt, prepare and respond."**

Alexis George
Chief Executive Officer
AMP

Fostering workforce resilience

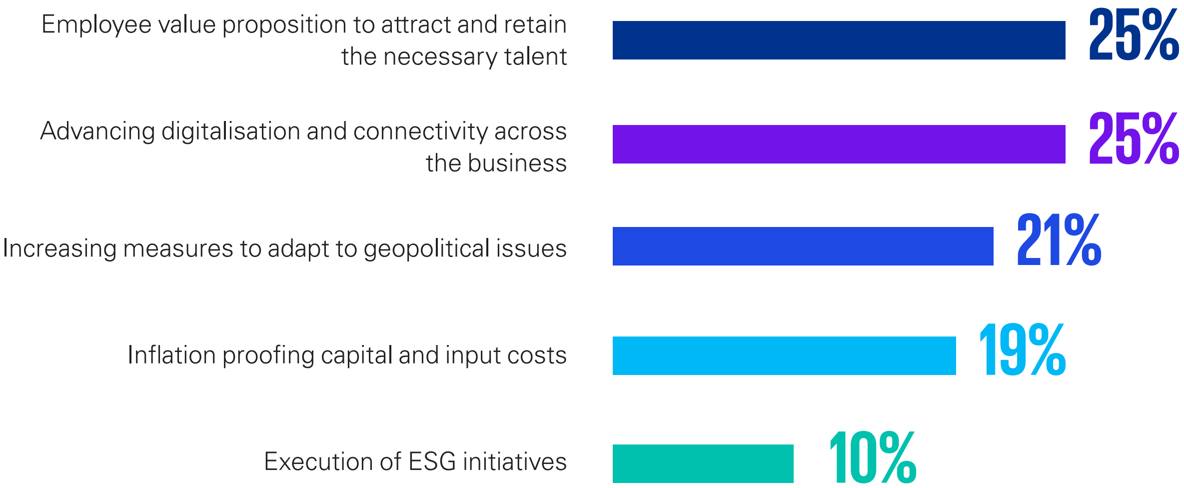
Talent a top operational priority

How CEOs support and attract talent is changing because of the challenging global economy and CEOs' growth goals. The employee value proposition to attract and retain the necessary talent is tied as the top operational priority to achieving 3-year growth objectives (25 percent, up from 19 percent in 2021). As well, two-thirds of CEOs (71 percent) agree the ability to retain talent with the pressures of inflation/rising cost of living are top of mind, as are the long-term impacts to organisations from the pandemic and geopolitical tensions.

A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. Of the CEOs that mentioned they were seeing significant demand for greater ESG transparency and reporting, 26 percent noted the biggest demand was coming from employees and new hires. They also note that one of the primary downsides to not meeting ESG expectations is recruitment challenges (22 percent), right behind the ability to raise financing.

Nicola Downing, CEO of Ricoh Europe, says having the right people with the best skills is integral to Ricoh's vision and strategy for the future. "We have had an opportunity to really focus on our employees — to be more open and honest about subjects including mental health and wellbeing. We've invested in training our people, pushing for change and updating skills to match our new innovations, digital service portfolio and changing customer needs. We want our people to move with us. The skills our team needs today have seen a significant shift versus our original plans. That's because the challenges facing global business, and the pace of change and transformation, have rapidly increased."

Top operational priorities to achieve growth objectives over the next 3 years



Source: KPMG 2022 CEO Outlook

Recession driving talent freezes

With a recession looming, there's a significant short-term emphasis on hiring freezes and headcount reductions: 39 percent of CEOs have already implemented a hiring freeze, and 46 percent are considering downsizing their workforce over the next 6 months. But when CEOs take a longer-term view, 79 percent expect their organisation's headcount to increase over the next 3 years, and CEOs are still investing in their existing workforce, with half currently focused on boosting productivity

Preparing for an anticipated recession

75%

have implemented or plan to implement a hiring freeze in the next 6 months

80%

have considered or will consider downsizing their employee base in the next 6 month

Source: KPMG 2022 CEO Outlook

"We have had an opportunity to really focus on our employees — to be more open and honest about subjects including mental health and wellbeing. We've invested in training our people, pushing for change and updating skills to match our new innovations, digital service portfolio and changing customer needs. We want our people to move with us."

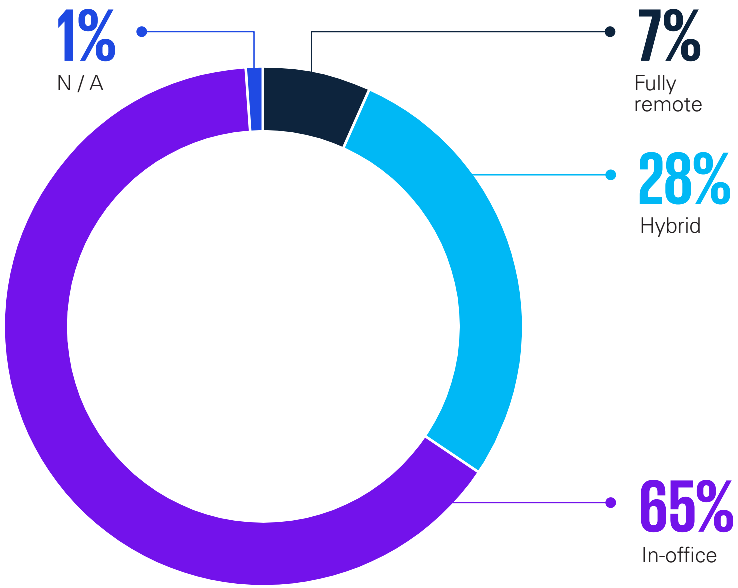
Nicola Downing
Chief Executive Officer
Ricoh Europe

Fostering a spirit of experimentation

Hybrid/remote working has had a positive impact on hiring, collaboration and productivity over the past 2 years. However, many multinational organisations are launching return-to-office plans to usher in a "return to normal", and 65 percent of CEOs envision in-office as the go-to office environment in 3 years' time (with 28 percent saying hybrid and 7 percent fully remote). Employee expectations when it comes to remote work are evolving, so it's important for CEOs to develop a better working structure that suits their people in what is still an emerging area.

Even if the supply-demand side of labor shifts in favor of businesses (giving managers more scope to insist on being in-office), CEOs need to make sure their people have purposeful interactions. How do CEOs define what an optimal structure looks like? Now is the time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.

Ideal working environment over the next 3 years



Source: KPMG 2022 CEO Outlook

Great ESG expectations

Accelerating ESG's impact

Global CEOs see the importance of ESG initiatives on their businesses, especially when questioned about ESG's impact on improving financial performance, driving growth and meeting stakeholder expectations. And this year's survey shows a marked jump in demand from stakeholders — such as customers and investors — for increased transparency.

CEOs increasingly agree that ESG programs improve financial performance, sitting at 45 percent, an increase from 37 percent 1 year ago. When asked where CEOs see corporate purpose having the greatest impact over the next 3 years, driving financial performance is in the top spot with 73 percent. CEOs increasingly understand that businesses embracing ESG are best able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital. ESG has gone from a nice-to-have to integral to long-term financial success.

— **69 percent** see stakeholder demand for increased reporting and transparency on ESG issues up a significant extent (up from 58 percent in August 2021)

— **72 percent** of CEOs believe stakeholder scrutiny on ESG will continue to accelerate (up from 62 percent in August 2021)

— **17 percent** of CEOs indicate stakeholder skepticism around greenwashing is increasing (up from 8 percent in August 2021)

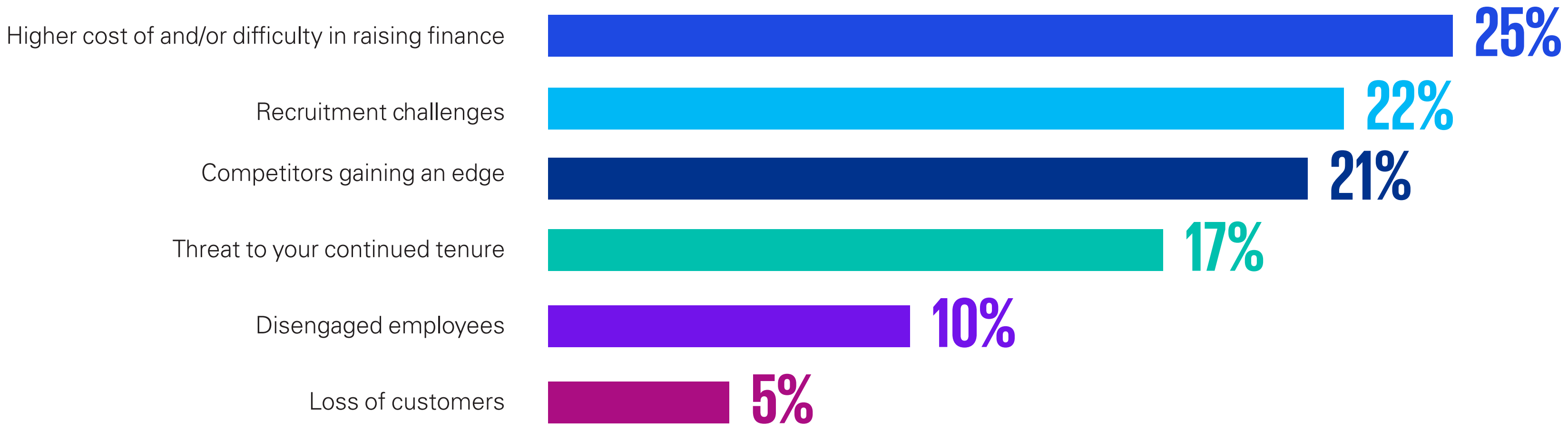
Changing regulations and other pressing global economic matters are CEOs' biggest challenges in delivering their ESG strategies. CEOs are also increasingly aware there is a lack of an accepted global framework for measuring and disclosing ESG performance (14 percent, up from 7 percent in August 2021). While regulation concerns remain high, this may highlight how global governments and regulators need to work together to align around ESG requirements.

— **Investments are forthcoming:** Sixty-two percent of CEOs say they will be looking to invest at least 6 percent of revenue in programs that enable their organisation to become more sustainable. What's more, 74 percent agree that their organisation's digital and ESG strategic investments are inextricably linked.

— **Key drivers:** Global CEOs find it difficult to pick just one key driver when it comes to accelerating their companies' ESG strategies: proactivity on social issues (34 percent), more transparency (26 percent), inclusion, diversity and equity (IDE) strategy (21 percent) and net-zero strategy (19 percent). This shows there's a growing consensus that they all matter.

— **Articulating their story:** The biggest challenge for CEOs in communicating their ESG performance to stakeholders is the struggle to articulate a compelling ESG story, which more than one-third (38 percent) say their organisations face (down from 42 percent in August 2021).

The downside of failing to meet ESG expectations



Source: KPMG 2022 CEO Outlook

> **As CEOs take steps to insulate their businesses from an upcoming recession, ESG efforts are coming under increasing financial pressure. The CEO Outlook confirms that ESG has become an intrinsic business imperative, impacting financial resilience, growth and stakeholder expectations.**

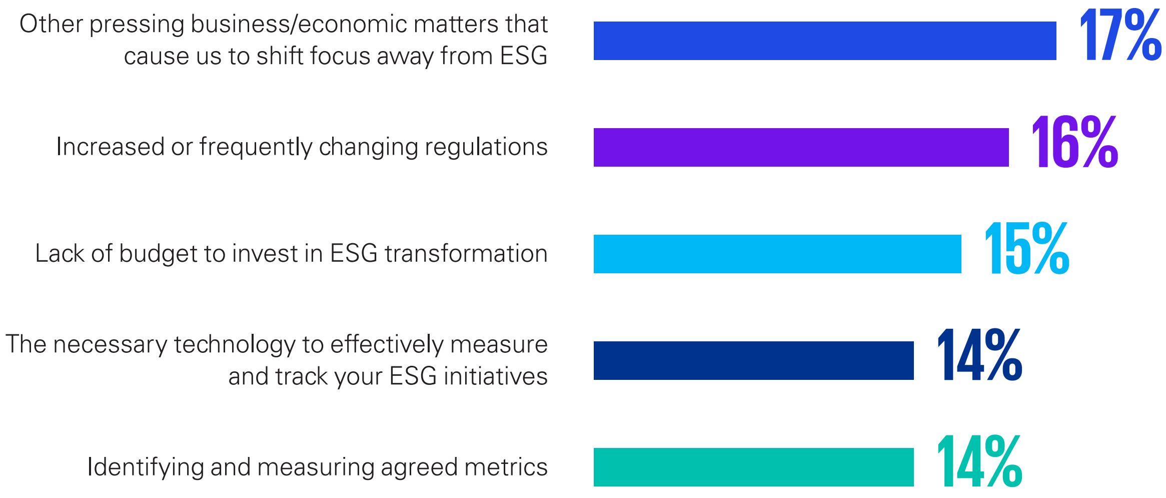
Jane Lawrie
Global Head of Corporate Affairs
KPMG

A likely recession's impact on ESG

As CEOs strive to maintain optimism and take steps to insulate their businesses from an upcoming recession, indicators point to ESG progress suffering as a result, following the trend of CEOs reassessing initiatives in many areas of the business (e.g. transformation and staffing). As economic uncertainty continues, 50 percent are pausing or reconsidering their existing or planned ESG efforts over the next 6 months, and 34 percent have already done so.

ESG has become an intrinsic business imperative. Delaying key ESG efforts could make businesses more reactive in the future rather than help them lead the way with greater transparency, resilience and sustainability.

Top 5 challenges in delivering ESG strategy over the next 3 years



Source: KPMG 2022 CEO Outlook

79% of CEOs agree achieving gender equality in their C-suite will help them meet their growth ambitions

74% of CEOs agree that their organisation's digital and ESG strategic investments are inextricably linked

The ESG shadow cast by the supply chain

It's critical for CEOs to understand how sustainable their entire business really is. CEOs increasingly see reporting and transparency as important to their ESG goals — and this includes insight into their broader supply chain. Our survey shows that nearly half of CEOs (47 percent) plan to diversify their supply chains in the next 6 months in response to geopolitical challenges. What's more, the number one strategy CEOs are considering to mitigate supply chain issues is to monitor deeper into their supply chain (i.e. at the third and fourth levels) to better anticipate problems. Why? Because the environmental, sustainability and human-rights practices of their partners and suppliers may impact their business and reputation.

Among the many challenges, decarbonizing the supply chain is a significant hurdle for companies looking to achieve net zero. Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to improve visibility across the entire value chain. They will likely have a more accurate understanding of how products and materials flow through the network and where issues are in the supply chain, so they can move from mere strategic intent to real tangible outcomes.

CEOs are also making the link to digital transformation: 74 percent say their organisations' digital and ESG strategic investments are inextricably linked. With CEOs increasingly accountable to their supply chains and reporting to broader stakeholders, their success is dependent on their digital systems. Where does the business source their raw materials? Do they know their suppliers' human-rights records? Multinational organisations need to focus more broadly on ESG — and into all the shadows cast by the organisation.

Bankinter CEO Maria Dolores Dancausa believes it's the financial sector's responsibility to help facilitate positive and sustainable transformation. "The financial sector should walk hand-in-hand with companies that are transforming toward more decarbonised business models, and play a role that goes far beyond merely financing the greenest sectors." She argues that these transitions give banks a wider range of opportunities, "from the possibility of funding projects that accelerate this dynamic to marketing investment products based on these types of assets".

> **We should walk hand-in-hand with companies that are transforming toward more decarbonised business models, and play a role that goes far beyond merely financing green sectors.**

Maria Dolores Dancausa
Chief Executive Officer
Bankinter

Diversity ramping up progress

Global businesses are seeing major focus put on the social aspect of ESG. While there's broad alignment on IDE, there is growing concern around the pace of progress. Sixty-eight percent of CEOs believe that progress on IDE has moved too slowly in the business world (up from 52 percent in February 2022), and 73 percent believe scrutiny of IDE performance will continue to increase over the next 3 years.

Awareness is key, and CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. Moving forward, it's important to normalise IDE within companies to avoid fatigue Any plans need to be intentional and focused on what's possible within their market and business.

Diverse teams are also higher performing — but often only in environments of psychological safety. Seventy-seven percent of CEOs say they have a responsibility to drive greater social mobility in their organisations, which involves how you invite everyone into and structure your organisation.

It requires that businesses invest in their people in a new way.

For Bill McDermott, CEO of ServiceNow, ensuring that corporate purpose is both an effective and symbiotic method for business growth means making sure employees' personal values align with those of the company. "You must focus on recruiting properly to make sure there is a great match with the individual values of a person coming into your culture. Having that match also impacts diversity, equity and inclusion."

"You must focus on recruiting properly to make sure there is a great match with the individual values of a person coming into your culture. Having that match also impacts diversity, equity and inclusion."

Bill McDermott
Chief Executive Officer
ServiceNow

Exploring opportunities for growth

Technology

- **Bring your people and technology together:** Organisations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.
- **Work with partners to drive value:** With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise.
- **Get closer to customers:** Orchestrating compelling customer experiences requires companies to begin with the customer and work backwards, taking an outside-in perspective to reverse-engineer and shape what the experience should be; then, they should adopt an inside-out view to define how the experience should be delivered.
- **View cyber security as a strategic function:** Increasingly, cyber is no longer seen as only an IT issue; it's a fundamental business operation imperative. The exponential increase in cyber attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

Talent

- **Experiment with ways of working:** As organisations launch return-to-office plans, it's important for CEOs to develop working structures that suit their people. It's time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.
- **Tell your ESG story:** A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. And with many CEOs saying they're struggling to tell a compelling ESG story, it's important for CEOs to articulate for stakeholders the steps they're taking to address ESG in their organisations.
- **Build, don't follow:** Organisations and their employees are changing and leaders need to reinvent the enterprise workforce. The old talent management playbooks are out of date, and the challenge is that there aren't new ones to replace them — yet. The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

ESG

- **Recognise ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs increasingly agree that ESG programs improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.
- **Invest in real-time technologies:** CEOs should monitor deeper into their supply chain (i.e. at the third and fourth levels). Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to identify where issues exist and improve visibility across the entire value chain.
- **Take the lead on IDE:** CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It's important to normalise and create a culture of IDE across the organisation to attract and retain new employees.
- **Build strong connections among functions:** Resilient organisations have well-connected internal teams, so for example, the finance function is aware of what the ESG teams are doing.

Methodology and acknowledgments

About KPMG's CEO Outlook

The 8th edition of KPMG CEO Outlook, conducted with 1,325 CEOs between 12 July and 24 August 2022, provides unique insight into the mindset, strategies and planning tactics of CEOs not only comparable to pre-pandemic to today, but also from KPMG's CEO Pulse Survey conducted with 500 CEOs between 12 January and 9 February 2022, before the Russian government's invasion of Ukraine.

All respondents have annual revenues over US$500M and a third of the companies surveyed have more than US$10B in annual revenue. The survey included leaders from 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecommunications).

NOTE: some figures may not add up to 100 percent due to rounding.

KPMG would like to thank the following for their contributions:

- Maria Dolores Dancausa, Chief Executive Officer, Bankinter
- Nicola Downing, Chief Executive Officer, Ricoh Europe
- Alexis George, Chief Executive Officer, AMP
- Bill McDermott, Chief Executive Officer, ServiceNow
- TV Narendran, Chief Executive Officer and Managing Director, Tata Steel
- Takahito Tokita, CEO, Fujitsu Limited

For further information about this report and how KPMG can help your business, please contact **CEOoutlook@kpmg.com.au**

KPMG.com.au

October 2022 960902035FIRM.