KPMG 2020 CEO Outlook

COVID-19 edition

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#CEOoutlook **Let's do this.**

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Executive summary

I am pleased to introduce KPMG's 2020 Canadian CEO Outlook, our annual exploration of the opportunities, challenges, and trends dominating boardrooms across the country. In this year's report, we've combined feedback from two global surveys; a pre-pandemic study (conducted in January/February of this year) and a more recent COVID-19 Pulse Survey (conducted in July/August of this year) to capture CEOs' plans and perspectives during one of the most transformative years on the books.

Canadian CEOs are not alone in navigating the challenges of COVID-19. Neither are they unique in their efforts to adapt to the "new reality" that comes next. That's why we've drawn on findings from KPMG's Global CEO study and insights from our Canadian industry specialists to gain a richer view of the Canadian business community.

To say this year has been a game-changer would be an understatement. Yet despite the considerable challenges in their path, KPMG's report finds domestic leaders moving forward with a sense of confidence, resilience, and persistence that has come to define our way of doing business. In the report ahead, we examine how 2020's obstacles have accelerated digital transformations across the board, and spotlight how Canadian CEOs are leveraging technology more than ever to drive growth, manage digital workforces, and position themselves to thrive in a post-pandemic world.

Now may be a moment for change, but it doesn't mean it is a time to lose sight of our values. Promisingly, this year's report finds many Canadian CEOs holding true to their environmental, social, and community-building objectives. It also reveals many to be leading their organizations with purpose, even if that means taking a fresh look at the principles and goals that define their organization.

More than ever, it's agility and a sense of purpose that will win the day. Join us as we look at how Canada's C-suite leaders are transforming in the time of COVID-19 and carving their space in the new reality to come.

Growth & digital

POST-COVID-19

84%

confident in growth of their company over the next three years

67%

48%
45%

confident in growth of national economy

32%
32%

confident in growth of global economy

Top risks to growth during COVID-19

- Environmental/climate risk
- Return to territorialism
- Emerging/disruptive technology risk
- Talent risk

POST-COVID-19

16%
30%

felt they sharply accelerated digitization of operations and creation of next-gen operating models

Digital workforce

POST-COVID-19

84%

(up 13% since January)

placing more capital investment in buying new technology

67%

VS.

POST-COVID-19

16%

(down 13% since January)

placing more capital investment in developing workforce's skills and capabilities

33%

Talent biggest emerging risk for CEOs in Canada and abroad

PRE-COVID-19	POST-COVID-19 TIED FOR
#10	#3

PRE-COVID-19	POST-COVID-19
#12	#1

Leading with purpose

PRE-COVID-19

63%
54%

said their organizational objective was to embed their purpose into everything they do to create long-term value for stakeholders

POST-COVID-19

56%

felt their corporate purpose gave them a clear framework for making COVID-19 related decisions

77%

POST-COVID-19

76%

felt they need to re-evaluate their corporate purpose as a result of COVID-19

79%

POST-COVID-19

64%
63%

said the pandemic has shifted their focus to the social component of ESG

KPMG

Growth in a digitally accelerated economy

Stephanie Terrill, Business Unit Leader, Management Consulting, KPMG in Canada

In a year marked by historic disruptions and business upheavals, KPMG's 2020 CEO Outlook offers an encouraging view of Canada's business leaders. While our CEOs have faced similar pandemic challenges as their global cohorts, feedback from our nationwide CEO study and COVID-19 Pulse Survey reveal a degree of optimism and resiliency among homegrown leaders led by accelerated digital transformations and adherence to Canadian values.

This sense of confidence is found throughout our survey results. In our COVID-19 Pulse Survey, for example, 84 percent of Canadian CEOs are confident in the growth of their company over the next three years, compared to 85 percent who said the same during our pre-pandemic survey. Nearly half (48 percent) express optimism for the Canadian economy, however these numbers are down considerably from the 77 percent of respondents who expressed greater optimism prior to the pandemic.

Nevertheless, the Canadian optimism persists, particularly when compared to global peers. Across the board, global CEOs express less confidence for company and corporate growth in our COVID-19 Pulse Survey. What's more, the variances between KPMG's pre-pandemic and COVID-19 Pulse Survey are more pronounced.

That Canada appears more optimistic than their global peers is one of the more interesting findings from our 2020 studies. And while this may simply reflect the same cautious optimism that has defined the Canadian business community in our previous years' studies, heightened confidence can also be attributed to an overall sense of confidence related to how Canada fared throughout the COVID-19 pandemic, and its slow but promising move towards economic recovery.

> **Canadian CEOs have seen all levels of government work with citizens and the business community to flatten the curve. That, and the fact that we went into this situation with a relatively strong financial backbone, has created confidence in our economy's ability to bounce back.**
>
> **Stephanie Terrill**
> Business Unit Leader, Management Consulting, KPMG in Canada

Confidence in company growth

PRE-COVID-19	POST-COVID-19
85%	84%
85%	67%

Pedal to the floor

COVID-19 has moved digital transformation from a "nice to have" to a business imperative. Many Canadian organizations were well on their way toward digital enablement before the pandemic, but the need to manage a hybrid workforce, unlock efficiencies, lower operating costs, and cater to online customers has made "digital transformation" all but necessary for survival.

The sprint towards digital is picking up speed. Ninety-two percent of Canadian CEOs have fast-tracked their transformation to meet COVID-19 challenges, and 76 percent believe that investing in disruptive tools (e.g., automation, artificial intelligence (AI), cloud, etc.) is critical to unlocking long-term growth. Moreover, many of the actions being taken to achieve growth over the next three years include the pursuit of digital solutions and innovative partnerships.

92% of Canadian CEOs have fast-tracked their transformation to meet COVID-19 challenges

80%

> **There's no question that the pandemic has accelerated digital transformations. Typically, the adoption of new technologies and systems sat at the CIO table, but now it's front and centre among CEOs and leadership teams in the executive boardroom.**
>
> **Stephanie Terrill**
> Business Unit Leader,
> Management Consulting,
> KPMG in Canada

Evidence of the business community's digital transformation is mounting. By and large, the transformation is being driven by a growing need for organizations to rethink how they deliver products and services in an era where handshakes and face-to-face interactions are being eclipsed by virtual interactions and digital transactions. In response, 80 percent of Canadian CEOs intend to build upon their use of digital collaboration and communication tools, while 84 percent of Canadian CEOs plan to prioritize their technology investments to meet growth and transformation objectives. Those objectives include providing goods and services to their customers, enabling enhanced decision making, and using tech to unlock stronger productivity and efficiencies among their operations to reset their cost base and absorb the shock of the pandemic within their revenue lines.

Certainly, the appetite for digitally-enabled growth is on the rise, and it's bridging the digital maturity gap between Canadian business leaders and their global peers. But with only 16 percent of Canadian CEOs feeling that they've "made years of progress" in digitizing their operations in the last few months compared to 30 percent of Global who said the same, the digital maturity gap is hard to ignore.

Not that this gap is new. Traditionally, Canadian organizations have been a little slower than their global peers when it comes to embracing emerging technology. Now, it's likely we're seeing a community in the midst of catching up, and leveraging the country's educated and tech-savvy workforce to help bridge the gap.

Bumps in the road

Growth may be on the minds of Canadian CEOs, but so are the barriers in their path.

Top risks to growth noted by CEOs

PRE-COVID-19	POST-COVID-19
#1 Environmental/climate risk	#1 Environmental/climate risk **Tied for #1**
#2 Cyber security risk	#1 Return to territorialism **Tied for #1**
#3 Return to territorialism	#3 Emerging/disruptive technology risk **Tied for #3**
#4 Emerging/disruptive technology risk	#3 Talent risk **Tied for #3**
#5 Operational risk **Tied for #5**	#5 Cyber security risk **Tied for #5**
#5 Interest rate risk **Tied for #5**	#5 Regulatory risk **Tied for #5**
#5 Regulatory risk **Tied for #5**	#5 Supply chain risk **Tied for #5**

PRE-COVID-19	POST-COVID-19
#1 Environmental/climate risk	#1 Talent risk
#2 Return to territorialism	#2 Environmental/climate risk
#3 Cyber security risk	#3 Supply chain risk
#4 Emerging/disruptive technology risk **Tied for #4**	#4 Return to territorialism
#4 Operational risk **Tied for #4**	#5 Cyber security risk

Cyber security is among the leading perceived risks to growth. The near-overnight shift to remote working and hybrid workforces forced many organizations to make split decisions and investments to keep their people productive and safe in their respective remote offices. This meant moving faster on tech initiatives than many CEOs were likely comfortable doing, and accepting a higher degree of risk when it comes to sharing data and access to key systems beyond their office walls. It's no surprise, then, that less than half of Canadians (47 percent) feel well prepared for a cyber attack, which is down 12 percent from 2019.

Mounting territorialism is also giving CEOs pause. Countries – and even individual jurisdictions – are prone to focusing inwards and seeking greater self-reliance in difficult times, and their responses to the pandemic are no exception. Natural as these reactions may be, territorialism creates a risk to global economies over time; particularly, when it comes to the integrity of our global supply chains, trade agreements, and all the other interdependencies we've come to rely on. Not to mention, for a country that thrives on being a major export partner, Canada does not benefit from territorial attitudes over the long run.

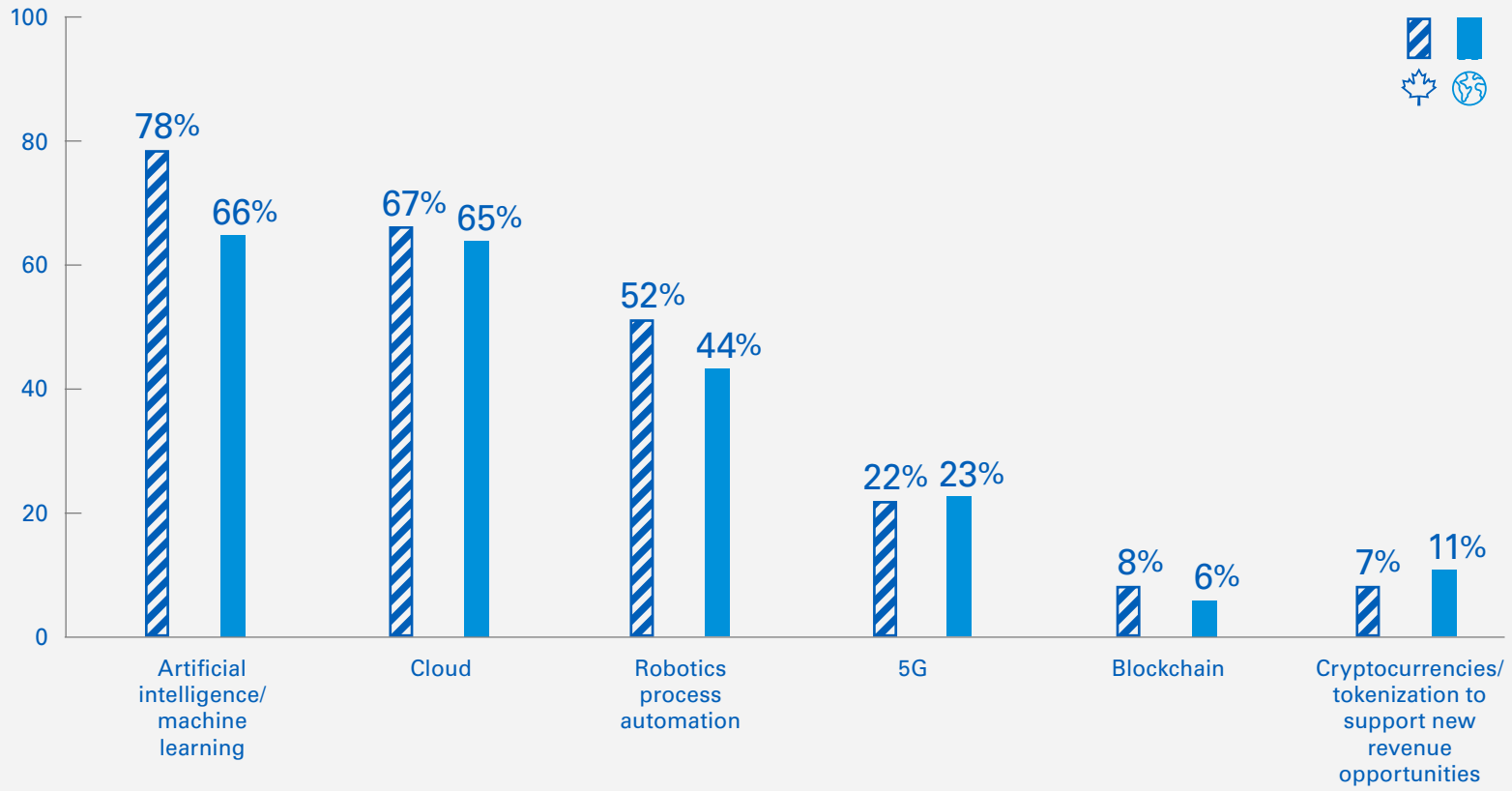
These aren't the only risks on CEOs' radars. Like their global counterparts, Canadian CEOs say their growth is vulnerable to talent shortages, environmental and climate risks, supply chain disruptions, and industry regulations – challenges which have existed for years and, in some cases, been exacerbated by COVID-19.

Pushing forward

Anxieties may be high, but optimism and resilience are not in short supply. And as Canadian CEOs leverage tech and talent to stay the course, it's important to continue drawing insights from the pandemic to rethink operations, challenge long-running assumptions, and lock-in successful changes so as to position themselves to thrive in the new reality.

In January, KPMG asked Canadian CEOs to share their top priorities when it came to technology investments. As the responses show, many were already focused on bring advanced collaboration, communication, and productivity tools into their environments prior to the pandemic.

Technology investments pre-COVID-19



Harnessing the power of a digitally enabled workforce

Doron Melnick
Partner and Interim National Leader, People & Change Services, KPMG in Canada

Armughan Ahmad
President and Canadian Managing Partner, Digital, KPMG in Canada

There's no going back to the way we worked. At least, not for the foreseeable future. As the impacts of the pandemic take shape, it's becoming clear that the shift toward remote work and hybrid teams is less of a temporary fix and more indicative of the new reality.

To say it was a quick shift would be an understatement. In the span of weeks, if not days, organizations of every stripe were forced to abandon traditional office models and ramp up to a digital workforce. This meant equipping staff to work from home, securing remote access to workplace systems, and implementing new processes and technologies to protect and manage staff who remained active on the front lines.

Some growing pains aside, KPMG's 2020 Canadian CEO Outlook indicates that domestic business leaders are preparing to make "hybrid teams" and work-from-home (WFH) arrangements their new post-pandemic reality. Specifically, our COVID-19 Pulse Survey indicates that 84 percent are making capital investments in new technologies that will drive stronger efficiencies and productivity, which represents a 12 percent uptick from January 2020's pre-COVID-19 study.

It's interesting to note that fewer global CEOs (67 percent) share the same intentions for tech investments and are striking more of a balance when it comes to investment in reskilling employees (33 percent vs. 16 percent in Canada). The survey did not uncover the reason for the difference, but past KPMG research (see "Canada's Digital Future" series in 2019) found that Canadian organizations tend to adopt a "fast follower" approach to emerging technology, so there may be some catching up to do.

And Canadian businesses are indeed planning to do just that. As our Pulse Survey highlights, 80 percent of Canadian CEOs see the WFH revolution as an opportunity to build upon their use of digital collaboration and communication tools, while 60 percent say their efforts to augment their human talent with automation and artificial intelligence (AI) capabilities have significantly accelerated in recent months.

Cart before the horse

Investments in workforce tech are on the rise, but the same cannot be said for employee training and upskilling. According to our Pulse Survey, while 84 percent of Canadian CEOs are intent on acquiring new technologies, only 16 percent of Canadian CEOs plan to place more capital investment in developing their workforce skills and capabilities.

There could be a few possible reasons. In a contracting economy, workers are less likely to leave their current employer, so organizations have less of an imperative to invest in learning as a means of retaining talent. Cost pressures may have reduced spend on training. Managers have learned that they can get more out of their training budgets because remote learning is much less costly to deliver than traditional classroom-based learning. And, inferring from the survey results, organizations need to invest to obtain new technology and data stores before they can train their people to use them.

Regardless of the reason, we caution CEOs against curtailing investment in learning, at a time that so much change is happening. In working with our clients, we often find gaps in capabilities for the digital age, when speed and agility matter. CEOs recognize they need to lean more on technology and innovation, but it's possible they do not have the internal skills to undertake (and maintain) this complex transformation. And while organizations may be experiencing "change fatigue," unfortunately the imperative for change will not go away.

To that end, business leaders are encouraged to invest in talent – both internally and in the market – so that the organization gains the know-how and mental resilience to live in a world of continuous tech-enabled evolution.

> **I'm a strong believer that technology is the enabler and humans are the transformers. Therefore, we need our Canadian leaders to invest in both. We should take advantage of this opportunity to upskill and reskill our people, providing them with the skills they need to thrive in the new reality. This includes both digital and technical skills, in addition to learning that hones more creative disciplines and EQ-related skills.**
>
> **Armughan Ahmad**
> President and Canadian Managing Partner, Digital, KPMG in Canada

Tech vs. talent investment

84% (up 13% since January) placing more capital investment in buying new technology — 67%

vs.

16% (down 13% since January) placing more capital investment in developing workforce's skills and capabilities — 33%

Recruitment and retention

The challenges of sourcing and retaining talent have intensified as a result of the pandemic. Talent began 2020 as the 10th most pressing emerging risk to company growth in our pre-COVID study, but now ranks as the third-most risk for Canadian CEOs. Global peers appear even more anxious about sourcing talent during the pandemic, with international respondents citing it as their number one risk (up from 12th in January 2020).

More than ever, investment in "soft-skills" development – at all levels – is vitally important to creating the kind of work environment that encourages speed and agility.

Doron Melnick
Partner and Interim National Leader, People & Change Services, KPMG in Canada

76% of Canadian CEOs agree that the shift to remote work has widened their potential talent pool

73%

No doubt, health and safety guidelines have turned long-standing talent management strategies on their head. HR professionals are tasked with exploring new ways to engage, recruit, and onboard individuals in a world with pervasive WFH. On the upside, the shift towards remote workforce solutions is opening doors for Canadian and Global employers. In addition to broadening their potential talent base, the demand for workplace transformation has created opportunities for talent development.

Similarly, managers now find themselves in need of the tools and skillsets to effectively oversee a remote workforce. That includes the means to track productivity from afar, conduct difficult conversations online, keep hybrid teams connected, and identify and address the mental health risks that can arise in prolonged WFH arrangements. More than ever, investment in "soft-skills" development – at all levels – is vitally important to creating the kind of work environment that encourages speed and agility.

Permission to fail

Building a digital workforce is as much about leveraging technology and talent as it is about building a culture that encourages innovation. To that end, our pre-COVID-19 survey showed that 85 percent of Canadian CEOs are aligned with the idea that building a workplace culture in which employees feel more empowered to take risks without fear of failure is important to their sustainability. Additionally, almost a third (30 percent) indicated that "fast-failing" unsuccessful initiatives should be, in fact, celebrated as necessary steps towards success. This perspective is consistent with research conducted by Amy Edmondson, a professor of leadership at Harvard Business School, who cites psychological safety as a key factor for innovation.

Looking more closely at barriers to innovation culture, organizations struggle to internally attract their top people into roles for delivery of tech-enabled change. Employees often see project roles as risky, in contrast to the comparative job security of operational roles. And yet, employees who participate in such projects gain a deep understanding of future ways of working, thereby readying themselves for future leadership roles. Understanding this, CEOs have an opportunity to shape high-potential talent development programs to include planned rotations into digital project roles, with assurances that those employees will return to an operations role afterwards, should they want one.

> **The leaders we speak to are pleased with the sense of urgency and speed with which their organizations have adapted. But they worry about how their people will cope over the longer term. Resilience is a hot topic.**
>
> **Doron Melnick**,
> Partner and Interim National Leader, People & Change Services, KPMG in Canada

Designing the new reality

The pandemic has demonstrated that many Canadians can work from home productively. Still, there is value in addressing both the physical, mental, and social factors that play a role in designing our "new reality" so as to position organizations well for the new world of work.

Not everyone takes to WFH situations as easily as their peers, which means strategies for the new reality must ensure all remote team members feel supported, connected, and "seen" in their day-to-day activities.

With 60 percent of Canadian CEOs considering a reduction in office space (69 percent globally), it is also time to re-think the physical workspace. While the pandemic remains a reality of our everyday lives, a reduction in space may seem like an enticing financial proposition, however, it is important that we don't let the pendulum swing too far in that direction before considering the implications to team dynamics. Face-to-face interactions and connections remain vital for mental health, culture and innovation. As we look to design our post-pandemic reality, leaders should promote positive employee experience through flexible workspaces.

To protect the employee experience, CEOs are listening to their people to understand what they need and mobilize the changes; continued engagement will be imperative moving forward. While some workers will be happy with permanent WFH arrangements, many will look for options to work onsite for at least a portion of the week. The physical space should support the reasons that people want to be onsite – for example, important team meetings; collaborative problem solving; challenging conversations; and others. And in the short- to medium-term, office design should facilitate physical distancing. Taken together, these responses add up to a flexible office configuration. Indeed, some of our clients are considering office retrofits for activity-based work.

Now is the time for Canadian CEOs to take stock of their workplace and engage employees to design both a physical and virtual new reality that works for all.

The pandemic's impact on the world of work

80% said the pandemic motivated them to build on the use of digital collaboration and communication tools
77%

72% said the pandemic has caused them to make significant changes to policies to nurture culture
75%

76% said the pandemic has widened their potential talent pool
72%

60% said as a result of the pandemic, they are reducing office space
69%

Leading with purpose

Mary Lou Maher, Canadian Managing Partner, Quality & Risk Management, KPMG in Canada, Global Head of Inclusion & Diversity

It's one thing to steer the ship. It's another to lead with purpose. And in a year rife with environmental disasters, historic social movements, and global health threats, CEOs are more challenged than ever to keep their organizations intact while staying true to their values and long-term ambitions.

To lead with purpose is to let an organization's purpose guide the way. And indeed, in times like these, those principals and over-arching missions can play a crucial role in informing decisions that impact an organization's people, markets, and society as a whole.

Canadian CEOs understand the value of leading with purpose. In our pre-COVID-19 study, nearly two-thirds (63 percent) of business leaders said their organization's objective is to embed their purpose into everything they do to generate long-term value for stakeholders. Yet while a commitment to long-term business objectives and environmental, social, and governance (ESG) goals remains, KPMG's Pulse Survey shows that 76 percent have felt the need to re-evaluate their corporate purpose statement in light of COVID-19.

> **An organization's purpose is fundamental to its ability to act in ways that make positive and sustainable impacts on their operations, workforce, and communities at large. For some leaders, the pandemic may have emphasized the need to clearly define their purpose so it can serve as a guiding light for leading with integrity.**
>
> **Mary Lou Maher**
> Canadian Managing Partner, Quality & Risk Management, KPMG in Canada, Global Head of Inclusion & Diversity

Leading with integrity

PRE-COVID-19
76%
76%
of Canadian CEOs agree they need to be a leader for change on societal issues

PRE-COVID-19
63%
67%
believe they need to personally uphold the stated purpose of their organization to attract and retain employees

PRE-COVID-19
71%
65%
agree that "If I don't personally reflect the values of my customers in the public domain, they will not reward my organization with their business."

Taking the long view

Promisingly, while 2020 has put many short-term obstacles in their paths, Canadian leaders remain committed to pursuing longer-term strategies concerning business growth.

Seventy-seven percent of respondents agree that focusing on long-term value creation is the way to deliver better financial returns in both the short- and long-term. Seventy-five percent agree with the idea that stakeholders, particularly large institutional investors, are increasingly prepared to sacrifice short-term results if a clear long-term value strategy is in place.

76%

of Canadian CEOs hope to lock-in the sustainability and climate change gains they've made due to the COVID-19 pandemic

71%

> **Our CEOs recognize that now is not the time to let their Canadian values fall astray. More importantly, they understand that meaningful corporate citizenship, ethical business practices, and impactful community collaborations are key to shaping a post-pandemic Canada that we can all be proud of.**
>
> **Mary Lou Maher**
> Canadian Managing Partner, Quality & Risk Management, KPMG in Canada, Global Head of Inclusion & Diversity

Canadian CEOs are also staying true to their long-term environmental, social, and ESG goals. Eighty-one percent believe ESG factors will be critical to driving long-term growth. Over the last several years, we have seen climate change and environmental risk move from the bottom of CEOs' risk agendas (number 14 in 2017) to the very top in the last two years. The pandemic has now shone a light on areas where we need to place significantly more focus moving forward. In our Pulse Survey, nearly two-thirds (64 percent) of CEOs said the pandemic has shifted their focus to the "social" element of the ESG equation. Moreover, 72 percent of business leaders believe their growth will significantly depend on how well the organization can prioritize ethical decision making.

And stakeholders are putting pressure on CEOs to make commitments and take action. Ninety-eight percent of Canadian CEOs in our Pulse Survey said they feel influenced to a "moderate" or "very significant" extent by their stakeholders to stay the course on ESG initiatives. What's more, of the 58 percent who feel that stakeholder demand was "significant" to "very significant," almost half (45 percent) say the pressure comes from Institutional investors, a quarter (25 percent) feel the pressure from regulators, and fewer respondents cite their employees and customers.

Unwavering on inclusion and diversity

Many Canadian CEOs have been focusing on building a more diverse and inclusive workforce for a long time. Prior to the pandemic, 68 percent of CEOs told KPMG that the scrutiny of their organization's diversity performance would continue to increase over the next three years, while 60 percent recognized a need to build greater understanding and awareness of diversity based on disability. Still, a majority of Canadian leaders are aware there is still a lot of work to be done in this regard.

Purpose-driven advantages

The data offers several compelling reasons why the lion's share of Canadian CEOs lead with purpose, yet it's important to discuss how they are putting words to action. Here again, the strategies for a purpose-driven approach can differ. For a small majority (28 percent), leading with purpose is driven by how the organization communicates its performance to its investors and other stakeholders, while slightly less (23 percent) say it's in how the organization trains and enables learning opportunities for their employees. Elsewhere, 17 percent of Canadian CEOs say their purpose-driven approach is led by how they allocate capital, and 15 percent say it's reflected in how they recruit people and assess employee performance (15 percent).

Their motivations may vary, but the intent is clear: Canadian CEOs remain committed to courageously leading with purpose despite obstacles in their immediate future. And though the pandemic has inspired many to re-think or fine-tune that purpose, there is a shared understanding that deep-rooted values, ESG principals, and long-standing goals will help steer them through.

Leading with purpose in a crisis

80% said their corporate purpose has helped them understand what they need to do to meet the needs of stakeholders
77%

60% said their corporate purpose dictated their approach to pandemic response with stakeholders
65%

76% said they have to re-evaluate their corporate purpose as a result of COVID-19
79%

56% said their corporate purpose provides a clear framework for making quick and effective COVID-19 related decisions
77%

72% said they feel a stronger emotional connection to their corporate purpose since the pandemic began
79%

52% said they are using their corporate purpose to help drive action in addressing needs of stakeholders
66%

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