



2020 China CEO Outlook



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Key Findings



Economic Outlook

The COVID-19 pandemic has had a significant impact on the global economy, with CEOs' confidence in global and domestic economies declining. Compared to CEOs in other countries, China CEOs have a relatively more stable and confident outlook on their domestic economy and businesses.



Core Risk

Talent risk has become a major problem for companies in various countries after the pandemic. Retaining key staff and attracting professional talent has a significant impact on future business performance. Supply chain and cyber security risks are also among the key areas of concern cited by China CEOs.



Supply Chain

Three-quarters of China CEOs said they would be re-evaluating their global supply chains. Key supply chain management considerations include having a more agile response to changing customer needs, improved supply chain resilience to natural disasters, and proximity to customers. Only 9% of global CEOs said they would consider moving their supply chain back locally due to pressure from their governments.



Digital Transformation

A majority of China CEOs believe the pandemic has greatly accelerated their companies' digital transformation (55%), significantly higher than the number of global CEOs (30%). China CEOs are particularly interested in emerging technologies such as artificial intelligence and cloud computing.



New Working Reality

The pandemic has also changed the way we work. Four-fifths of China CEOs said they would reduce their office space in the future, higher than the global average of 69%. At the same time, 85% said remote working has also expanded their potential talent pool, and 75% of China CEOs said they have had improved communication with their employees during the pandemic.



Purpose

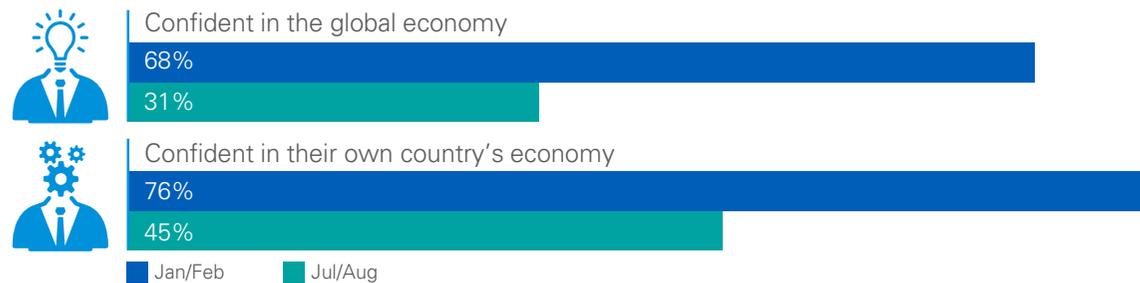
As a result of the pandemic, CEOs are paying more attention to the disclosure of ESG information and CSR issues involving their companies.



China CEOs remain confident about the country's growth outlook

Due to the global spread of the pandemic, CEO confidence in global economic growth has fallen sharply since the beginning of 2020. According to KPMG's 2020 Global CEO Outlook initial survey in January/February, 68% of CEOs around the world were optimistic about global economic growth, while 76% were optimistic about their own countries' economic growth. This is down to 31% and 45%, respectively, in our follow-up survey in July/August.

Chart 1: Global CEO growth prospects for the economy, %



Source: KPMG Analysis

Thanks to stringent quarantine measures, the epidemic was effectively controlled in China, and China was the first country in the world impacted by the pandemic to resume work and production. Due to this, China CEOs have formed different views on global and domestic economic growth prospects. In the January/February survey, about two-thirds of China CEOs were positive about the outlook for both global and Chinese growth. But in the July/August survey, the proportion of China CEOs still confident in global economic growth dropped to 10%, while more than half of China CEOs remained optimistic about China's economy.

Chart 2: China CEO growth prospects for the economy, %



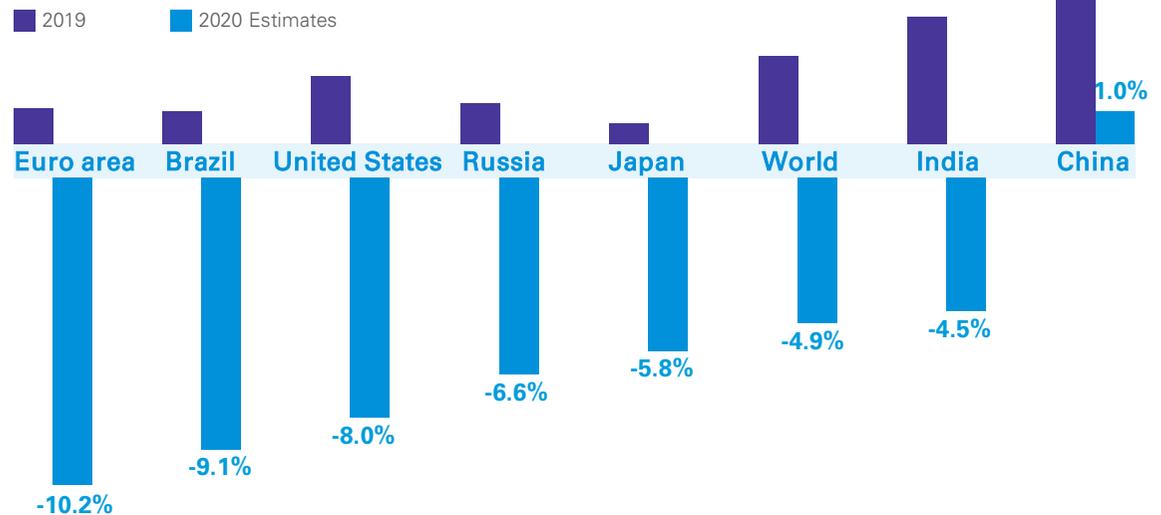
Source: KPMG Analysis



Comparing the results of the two surveys, COVID-19 has had a significant impact on the economies of all countries surveyed, with CEOs' confidence in both the global economy and their own economies declining. However, China CEOs have a relatively stable and confident view of their domestic economy.

According to findings from the World Trade Organization (WTO), the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF), the quarantine measures have impacted the global consumer and service industries; the improvement of prevention and control standards for workplace safety and health conditions have also affected productivity; the uncertainty of the pandemic duration and a potentially prolonged lockdown will also put more pressure on emerging economies and further impact the global supply chains. The WTO predicts that global trade will decline by 13-32% in 2020. Global foreign direct investment is also under great pressure. UNCTAD forecasts a drop of up to 40% during 2020. In the June update of World Economic Outlook, the IMF cut its global growth forecast for 2020 by 1.9 percentage points to -4.9%, China is likely to become the only major economy that will achieve positive economic growth this year¹.

Chart 3: IMF GDP growth forecast for major economies, %



Source: IMF World Economic Outlook June update, KPMG Analysis

In terms of growth prospects for their own companies, the views of China CEOs have been relatively stable since the onset of the pandemic. 60% of China CEOs remain confident, down 12 percentage points from the January/February survey and are more optimistic than the global average, which is down -17%.

¹ Data sources: 'Trade forecast press conference', WTO, April 2020, https://www.wto.org/english/news_e/spra_e/spra303_e.htm
 'World Investment Report 2020', UNCTAD, June 2020, https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf
 'World Economic Outlook' June update, June 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

Talent risk, supply chain risk emerge as major challenges for companies after pandemic

Due to the pandemic, enterprise production and business models have changed, and the main risks and challenges that they are addressing have changed significantly. In our January/February survey, climate change, emerging technologies, and brand reputation were the main risks that China CEOs identified as affecting corporate growth. In our July/August survey, CEOs in China believe that the main risks faced by enterprises were talent risk (25%) and supply chain risk (25%). In addition, with increasing geopolitical uncertainty, CEOs believe that the return of territorialism will have a greater impact on their business operations (15%).

Table 1: Risks and challenges faced by CEOs

Jan – Feb (China CEOs)	Jul – Aug (China CEOs)	Jul – Aug (Global CEOs)
Environmental/climate change risk	Talent risk	Talent risk
Emerging technology risk	Supply chain risk	Supply chain risk
Reputational risk	Cyber security risk	Return to territorialism risk
Cyber security risk	Return to territorialism risk	Environmental/climate change risk
Talent risk	Operational risk	Cyber security risk
Regulatory risk	Tax risk	Emerging technology risk
Return to territorialism risk	Ethical culture risk	Operational risk
Ethical culture risk	Emerging technology risk	Regulatory risk
Operational risk	Environmental/climate change risk	Tax risk
Supply chain risk	Regulatory risk	Interest rate risk
Interest rate risk	Interest rate risk	Reputational risk
Tax risk	Reputational risk	Ethical culture risk

Source: KPMG Analysis



Comparing the results of the two surveys, CEOs indicated that talent risk will become a major issue, recognizing that losing key employees and attracting specialized talent may have a critical impact on future business performance. Many leaders are concerned about the mental and physical well-being of their employees and know that growth will likely be stagnant if talent issues are not properly addressed. Companies need to develop targeted talent management strategies and detailed operational plans to maintain long-term sustainable growth, such as improving the compliance for remote work, ensuring the availability of office equipment and resources, and establishing efficient communication mechanisms with employees.

It is worth noting that our two surveys also show that China CEOs see cyber security risks as a critical challenge for their operations, including the risk of cyber-attacks and potential data loss. With the rapid development of information technology, digital transformation has become a priority for all companies. As a core component of the digital economy, data is the new engine of economic transformation and development. Due to these developments, companies must be able to appropriately store and manage sensitive information such as personal data and confidential business information, the leaking of which has the potential to cause heavy losses to both individuals and enterprises. Protecting data security, reducing data security risks, and building a rational and effective enterprise data governance system is an increasingly important issue for company management.

In July 2020, KPMG and AliResearch published a joint study on data governance based on their respective industry experiences and insights as well as interviews with academics and industry players². The report points out that enterprise data governance needs to be integrated into an organisation's strategy at the highest levels of management. Focus areas include establishing systematic mechanisms, processes and methods; clarifying the scope and distribution of corporate data, breaking down data barriers to achieve consolidated data management; data sharing for communication and efficient data operations; and building a three-pronged data security defence to achieve closed-cycle control and unlock value of data.

²Data Governance, KPMG, AliResearch, July 2020, <https://home.kpmg/cn/zh/home/insights/2020/07/data-governance.html>

Three-quarters of China CEOs are rethinking their global supply chain approach

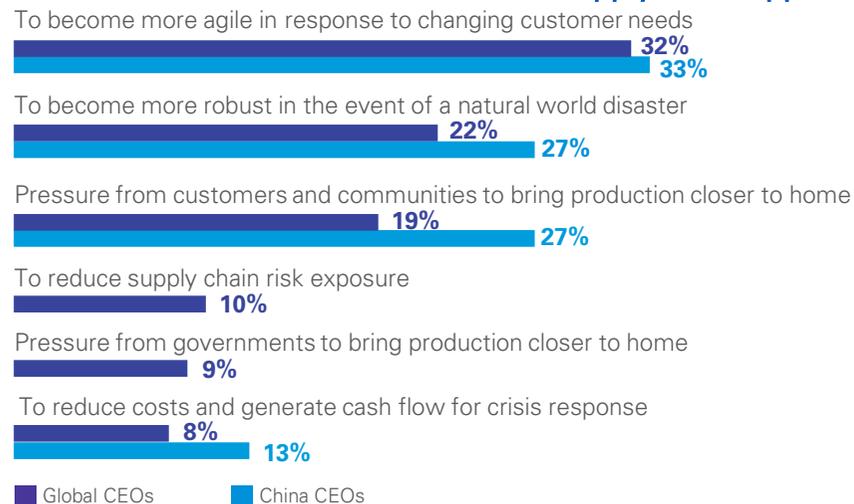
Many companies and countries are aware of the importance of supply chain stability amid the ongoing pandemic. The July/August survey showed that 18% of global CEOs and 25% of China CEOs ranked supply chain risk as the main risk factor their companies will face in the aftermath of COVID-19. With heightened geopolitical adverse scenarios, 75% of China CEOs said they would need to rethink their global supply chain approach. The top three reasons given for this were: to become more agile in response to changing customer needs (33%), to become more resilient in the event of a natural disaster (27%), and to bring production closer to home in line with customer and community expectations (27%). This reasoning is consistent across the viewpoints of global CEOs.

Chart 4: CEOs who are rethinking their supply chain approach, %



Source: KPMG Analysis

Chart 5: Main reasons CEOs to rethink supply chain approach, %



Source: KPMG Analysis



Addressing supply chain issues is a concern, and one that will take concerted effort to address. While some governments are proposing to subsidize companies to relocate production back to their home countries, reshoring operations is a complex process, and it costs money and time to reshape a highly specified global supply chain. Our survey data also shows that only 9% of global CEOs would repatriate their companies' operation in response to government pressure.

China has the largest consumer market in the world. Although supply chains have been impacted by the pandemic, demand is recovering more slowly than supply. As quarantine measures are gradually reduced, economic growth continues to improve, and consumer confidence is also rebounding. We believe that the recovery of consumer demand is expected to be the spotlight of China economy in the second half of 2020, and that domestic consumption will be a major pillar in stabilizing China's economic growth. Meanwhile, the government will continue to promote the development of new infrastructure and the digital economy in urban clusters and their hub cities, further unleashing the potential of China's growing consumer market. The broad depth of the market and the large base of consumers highlights that China is an attractive market for MNCs.

The pandemic accelerated digital transformation

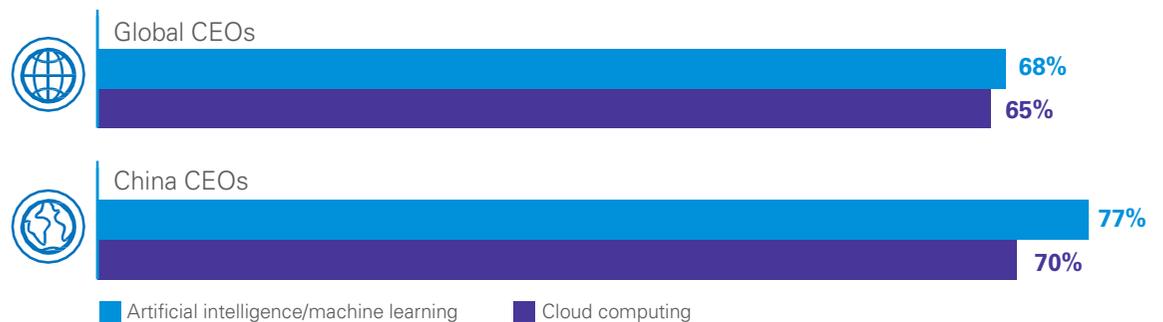
In our January/February survey, 75% of China CEOs said they have already begun to explore and leverage potential emerging technologies, 4 percentage points higher than global CEOs; and China CEOs generally agree that they will step up investment in AI and cloud computing.

Chart 6: CEOs leveraging emerging technologies, %

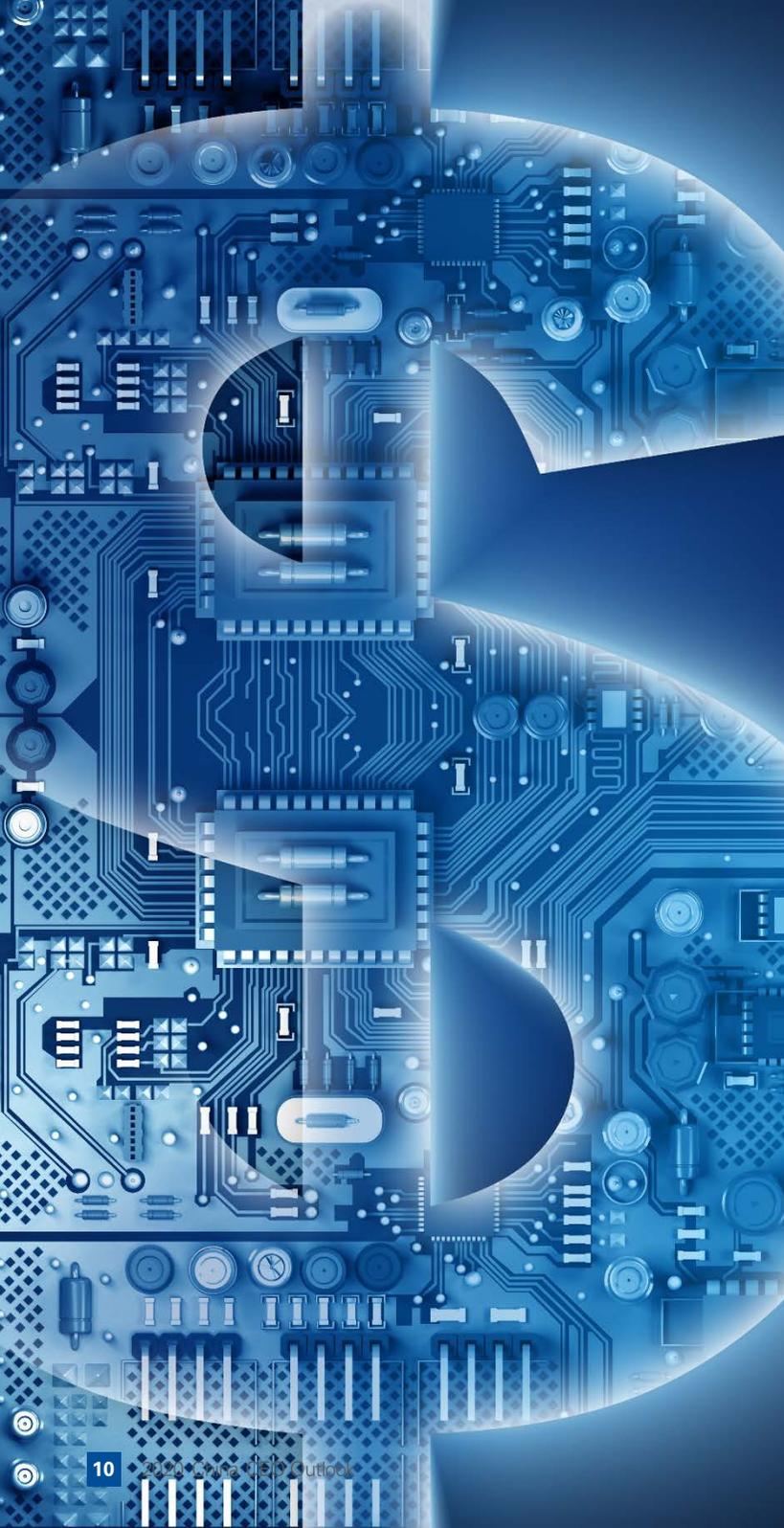


Source: KPMG Analysis

Chart 7: China CEOs are increasing investment in artificial intelligence and cloud computing, %

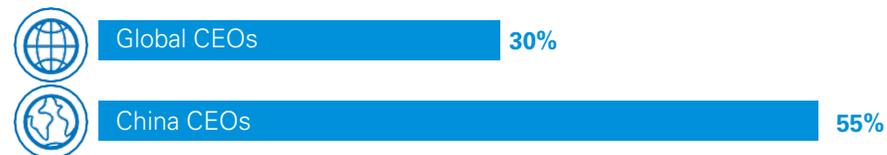


Source: KPMG Analysis



In our July/August survey, 55% of China CEOs believe that the pandemic has sharply accelerated their company's transition to digital operations, in contrast to 30% of global average.

Chart 8: China CEOs believe the pandemic has sharply accelerated the transformation to digital operations, %



Source: KPMG Analysis

The digital economy has grown exponentially in China in recent years, and the digital transformation is impacting various industries, especially financial services, healthcare, consumer goods and manufacturing. Accelerated by the pandemic, the tremendous importance of technology is becoming more and more apparent, and technology companies have been given great opportunities for development. Internet healthcare is growing rapidly, with unprecedented attention paid to e-health applications, online diagnosis and treatment, and online pharmacies. The growth in demand for online products and distribution services has accelerated the trend of integration, collaboration, and platformisation of the retail supply chain. Digital and remote intelligence services are actively used by the manufacturing industry.

In the foreseeable future, enterprises will face various innovation-related challenges as they accelerate their digital transformation and aim to enhance the customer's digital experience. Companies will need to be able to understand future operating scenarios and how to replicate technology on a large scale in different markets to unlock value and improve their core competencies.

New working reality in the post-pandemic environment

With centralised workplaces having been affected by the pandemic, 80% of China CEOs in our July/August survey say they would downsize their office space in the future, which was 11 percentage points higher than the global average (69%). At the same time, 85% of China CEOs say that remote working has also expanded their company's potential talent pool; and three quarters (75%) of China CEOs say that their communication with employees has improved during the pandemic. In addition, 85% of China CEOs also said that their companies have established a deeper connection with the communities in which they operate as a result.

Chart 9: The impact of the pandemic on new working realities, %



Source: KPMG Analysis



With continuous technology development, organizational structure and the way how we work have also undergone dramatic changes. For example, innovation is shifting from that is driven by large companies to decentralized and collaborative models; the rigid R&D process is switching to flexible interconnected offices; and business operation is changing from stable-ongoing to fast-changing and is facing new competition by rivals from other fields. These new processes are driving further evolution of organizations.

The pandemic has accelerated a transition to the virtual office model. This reinforces the need for companies to integrate digital strategy into their business continuity plans. Companies need to adopt more flexible measures to protect and train talents, and secure business operations. This also requires companies to transition more of their traditional HR functions to digital to increase productivity and improve employee experiences. Adopting a flexible and resilient approach to workforce management is essential in coming years.

Pandemic drives CEOs' focus on corporate purpose and ESG-related issues

According to our July/August survey, the pandemic has prompted China CEOs to re-evaluate their corporate purpose, 90% of CEOs said they have felt a stronger emotional connection with their companies since the crisis began, significantly higher than 79% of global CEOs. Also, 90% of CEOs said they will do more to meet the needs of employees, communities, partners, investors, and other stakeholders. This indicator is also significantly higher than global average of 77%.

Chart 10: Corporate purpose amid the pandemic, %

I feel a stronger emotional connection to our purpose since the crisis began



Our purpose has helped us understand what we need to do to meet the needs of stakeholders: employees, communities, customers, partners and investors



Source: KPMG Analysis

On ESG-related issues³, our January/February survey shows that 43% of China CEOs believe there is a need for greater disclosure of ESG information, which still falls short of the global average of 62%.

Chart 11: To what extent CEOs see demand from stakeholders for increased reporting and transparency on ESG issues, %



Source: KPMG Analysis

³ ESG, the environmental, social and governance (ESG) system, including information disclosure, evaluation ratings and investment guidelines, is the foundation of socially responsible investment and a key part of the green financial system.

However, in our July/August survey, we found that, due to the pandemic, 70% of China CEOs have shifted more of their attention to the social components of ESG, significantly higher than global level of 63%. In addition, 60% of Chinese CEOs want to maintain the improvements in sustainability they have made during the crisis.

Chart 12: China CEOs are paying more attention to the social component of ESG as a result of the pandemic, %



Source: KPMG Analysis

With the ongoing liberalisation of capital markets in China, there is an increased focus on the ESG disclosures of listed companies. At the same time, many more financial institutions and enterprises in China are also taking ESG into considerations when organising their business. Against the backdrop of an increasing societal focus on sustainable development, strengthening ESG disclosures is an unavoidable and necessary requirement for enterprises. In China's 13th Five-Year Plan (2016-2020), the government has explicitly called for greater environmental governance, leading to the issuance of new and revised environmental protection laws, regulations, and management norms at the national, provincial, and local levels. Chinese enterprises need to continuously improve their ESG disclosures and management to enhance social trust and contribute to China's sustainable economic development.

About the Survey

The KPMG 2020 CEO Outlook provides an in-depth 3-year outlook from thousands of global executives on enterprise and economic growth. The survey offers a unique perspective on the mindset shift of Global CEOs since the lockdown.

KPMG initially surveyed 1,300 CEOs in January and February, including 50 from China, before many key markets were beginning to feel the full impact of the pandemic crisis. In July and August (between 6 July to 5 August 2020), KPMG conducted a follow-up survey of 315 chief executives across the globe, including 20 from China, to understand how CEO thinking has evolved during the crisis. In both instances, all respondents have annual revenue over US\$500M and a third of the companies surveyed have more than US\$10B in annual revenue, with no responses from companies under US\$500M.

The January/February survey included leaders from 11 key 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). The recently conducted pulse survey included CEOs across the industries mentioned above and from eight key markets (Australia, Canada, China, France, Italy, Japan, UK and US). NOTE: Some figures may not add up to 100 percent due to rounding.

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