Agile or irrelevant
Redefining resilience

2019 Canadian CEO Outlook

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#CEOoutlook
Executive summary

Welcome to KPMG’s 2019 Canadian CEO Outlook, our annual review of the opportunities, issues, and headwinds driving today’s C-suite leaders. We have gathered perspectives and opinions from CEOs across the country for a uniquely Canadian view of this important moment in time. We have also drawn insights from our subject matter experts to provide a fulsome look at how domestic organizations are bracing for the changes ahead and where they align with the world.

Interestingly, both Canadian and global CEOs told us the environment, territorialism and disruptive technologies were their top three concerns. For Canadian companies, lack of consensus on environmental issues weighs heavily given our disproportionate dependence on the resource sector. And while nearly a third of our GDP is tied to exports, growing trade differences with and between Canada’s two largest trade partners raises concerns about the ongoing health of our economy. While our leaders are carefully watching how these national and geopolitical issues pan out, they are putting their focus on technology.

To that end, transformation and disruption have been recurring themes in our past CEO Outlooks. This year is no exception. CEOs within every industry are acutely aware of the new technologies, competitors, and workforce trends at their doorstep, and many are making agility and innovation their priority. Canadian CEOs are no different, although their current strategies and concerns reveal room to grow before they can lead their international peers.
A few interesting soundbites from the 2019 Canadian CEO Outlook:

**The ‘I’ word**
- **Suddenly less eager to innovate.** Only 69 percent of Canadian CEOs want to be disruptors in their market, compared to 96 percent just one year earlier.
- **Bolder than their peers.** Seventy-three percent are confident in their ability to react to disruption (Global 69 percent), and 45 percent are assured in their ability to scale up quickly (Global 32 percent).
- **Caution or complacency?** While 75 percent of Canadian CEOs want to empower a workforce culture of innovation without fear of failure, they are somewhat more reluctant to innovate than their global counterparts (Global 84 percent).

**Cyber (in)security**
- **‘When’ not ‘if’.** Fifty-four percent of Canadian leaders view cyber security as a significant risk, compared to only 7 percent in 2018, while the majority believe an attack is only a matter of time.
- **Less prepared for an attack.** Despite rising anxieties, only 59 percent of Canadian organizations feel ‘well prepared’ for a cyber attack (Global 68 percent).
- **Lagging in cyber awareness.** A majority of Canadian CEOs (64 percent) view information security as a strategic function and source of competitive advantage, but not at the rate of their Global counterparts (77 percent).

**The hybrid workforce**
- **Feeling the talent crunch.** Most Canadian organizations (63 percent) say their inability to find the workers they need is negatively impacting growth.

**Making the connections**
2019’s Canadian CEO Outlook reveals a country of big thinkers and even bigger ambitions. It also indicates that Canadian organizations are at different stages in their journey than their global peers. Chalk it up to less experience with new technologies or the cautious ‘Canadian way,’ but Canada has been slow to catch up to the new digital ‘normal.’ We are on our way, but now is no time to put our investments, workforce initiatives, and innovative strategies on cruise control.

Our thanks go to all the CEOs who gave their time and spoke so candidly about the issues they face in their roles.

Now join us as we dive deeper into the key themes from this year’s report and touch on some of the biggest issues impacting Canadian businesses.

We welcome the opportunity to discuss how your business can gain from these insights.

And when you are ready to get started, so are we.

**Let’s do this.**
**CYBER (IN)SECURITY**

- **10%** increase in certainty of cyber-attacks
  - 60% 2018
  - 50% 2019

- **47%** increase in viewing cyber as a significant cause for concern
  - 54% 2019
  - 7% 2018

**BUILDING AN ALLIANCE ECOSYSTEM**

- **14%** increase in strategic alliances as top growth strategy
  - Alliances 32% 2019
  - 18% 2018

- **11%** decrease in M&A
  - M&A 15% 2019
  - 26% 2018

**A NEW PLAYBOOK ON AGILITY**

- **73%** see a higher need to act with agility considering their short tenure

**INNOVATION DISCONNECT**

- **27%** decrease in desire to actively disrupt their sector
  - 69% 2019
  - 96% 2018

- **75%** want their employees to innovate without fear of failure

**WORKFORCE 4.0**

- **25%** increase in perceived data scientist effectiveness
  - 38% 2018
  - 63% 2019

- **17%** increase in perceived emerging technology specialist effectiveness
  - 33% 2019
  - 56% 2018

- **13%** increase in belief that AI/robotics will create more jobs than they eliminate
  - 78% 2019
  - 66% 2018

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Cyber (in)security

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Cyber security is a relentless (and growing) concern for Canadian organizations. Amid headlines of escalating attacks and the urgency to adopt new technologies, CEOs are becoming acutely aware of the virtual threats at their doorstep. For nearly two-thirds (60 percent) of CEOs, it is not a matter of ‘if’ they will have to defend their digital borders against a cyber attack, but ‘when’. This represents a 10 percent increase from the 2018 Canadian results and a noticeable uptick over the 53 percent of Global CEOs who are also bracing for the inevitable.

The fact Canadians are more anxious about cyber risks than their global peers is telling. It points to the idea that Canadian organizations are now reaching a point in their digital maturity that exposes them to cyber risks other countries like the US, UK, and China have had a head start in navigating. It also helps explain why only 59 percent of Canadian CEOs feel well prepared for a future cyber attack, a decrease of 7 percent over 2018, while 68 percent of their Global peers who have had more time to adapt to new technologies and related threats express a high degree of confidence.

**A competitive disadvantage**
With more significant cyber security concerns comes greater respect for the role of information security. A majority of Canadians (64 percent) view information security as a key strategic function and source of competitive advantage (Global 71 percent). However, there is an important distinction. In conversation with our clients, many view their investments in cyber security as less about generating tangible benefits and more about avoiding a severe competitive disadvantage in an increasingly digital landscape.

New and evolving data regulations are also keeping cyber in the spotlight. The European Union’s General Data Protection Regulation (GDPR) has brought greater scrutiny and restrictions around the use and protection of European citizen’s data, while Canada’s own Personal Information Protection and Electronic Documents Act (PIPEDA) is increasing pressure on Canadian firms to bolster their cyber defenses or face stiff financial penalties and considerable harm to their brand.

If there is an underlying story from this year’s statistics, it is that Canadian firms are closing in on their more tech-savvy competitors. And as domestic players continue to bring artificial intelligence, blockchain, ‘big data’ analytics, and other disruptive tools into their operations, they are becoming increasingly aware of the cyber threats and pitfalls that come with them.

**Aligning defenses**
Navigating those risks remains a key challenge moving forward. Yet despite confidence in their ability to protect against cyber attacks, Canadian organizations struggle to define and implement effective First and Second Lines of Defense. Security practitioners, risk managers, and regulatory bodies are not consistently aligned on the practical implementation of cyber risk oversight, and the resulting ambiguity is making it difficult to lock-in on reliable strategies.
To be sure, there is no ‘silver bullet’ for cyber security. Finding a solution (or patchwork of solutions) that fits requires Canadian CEOs to take stock of their most valuable digital assets (the ‘digital crown jewels’), analyze their specific threat landscape, and keep a constant watch on cyber trends. Only then can they direct their teams to embed the most appropriate controls, training, and emergency response to keep their data, intellectual property, and critical virtual assets under digital lock and key.

How prepared is your organization for a future cyber attack:

- **Prepared**: 59% - 69%
- **Neutral**: 27% - 14%
- **Not Prepared**: 15% - 18%

64% view information security as a strategic function and source of competitive advantage.

71% believe becoming the victim of a cyber attack is a case of ‘when’ and not ‘if’.

59% consider a strong cyber strategy as critical to engendering trust with stakeholders.

54% view cyber security as a significant cause for concern.

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Canadian CEOs have long recognized the benefits of strength in numbers. Even still, 2019’s Canadian CEO Outlook reveals a growing interest in strategic third-party alliances over organic growth and traditional partnership frameworks. Where organic growth was identified as the top growth strategy in 2018, nearly a third of this year’s respondents (32 percent) made strategic, third-party alliances their topmost approach (up 14 percent from 2018). Furthermore, 63 percent of Canadian CEOs intend to collaborate with innovative start-ups (e.g. fintechs, InsureTechs, HealthTechs, etc.) and 35 percent aim to explore partnerships with third-party data providers.

**Partnering for growth**

Canada’s growing affinity for third-party alliances may be a product of market unpredictability and the pace of innovation exceeding our ability to adopt it. Political and economic shifts make more capital intensive solutions like joint ventures or mergers and acquisitions (M&A) less appealing, while third party alliances can be launched quickly, allowing organizations to be agile and react to market demands. For these reasons, only 15 percent of Canadian CEOs are set to pursue joint ventures or M&A, while 27 percent plan to foster organic growth, and only 12 percent are considering outsourcing as a viable growth strategy.

Interest in third-party alliances may also come down to time (or lack thereof). A majority of Canadian CEOs (52 percent) recognize the only way for their organization to achieve the agility it needs is to increase the use of third-party partnerships. And surely, today’s organizations must adapt to changing technologies and innovations at speeds few can while trying to keep a business running at the same time. Therefore, the questions for CEOs become, ‘Why try to do this ourselves when specialists have already built it somewhere else? Why build from the ground up when there are proven firms with those skills and capabilities at the ready?’ With that approach in mind, we are even seeing organizations enter alliances with companies they once would have seen as competitors or threats (e.g. municipalities partnering with ride-sharing services to extend public transit, retailers partnering with logistics and distribution specialists to get their products to their customers faster, etc.).

The fact a significant majority of Canadian CEOs (60 percent) favour quality over quantity from their strategic alliances indicates that CEOs are also tempered in their approach. Gone are the shot-gun strategies of the dot-com era where companies raced to add the most logos to their alliance webpage in order to increase the valuation of their company’s IPO. Today, CEOs are more willing to wait for a good fit rather than jump at every shiny new technology, business model, or innovation that comes their way.

**Fail fast, fail often**

Not all partnerships are guaranteed to last; in fact, a good majority do not. It takes more than a great idea, lunch and a handshake to find the ideal fit. After goals have been set and contracts signed, it takes continual work from all parties to ensure the alliance is performing as expected and all teams are trained, equipped, and committed to making it work. This can require heavy lifting for organizations that do not have the resources in place to foster outside partnerships. Combine the fact that Canadians are traditionally more cautious by nature, and it is understandable that 60 percent of our
CEOs have reconsidered third-party alliances that would have helped their organization because it did not fit their purpose or culture once proper due diligence was completed.

### Defining alliances

The lion’s share of Canada’s investments in innovation are within the academic sector, whereas countries like the US favour investments in the start-up sector - where those investments can more quickly be commercialized as new products or services. And while our strategy has helped Canada lead the way in advancing artificial intelligence, automation, healthcare technology and many other innovations, it has also seen our homegrown research and ideas commercialized more quickly by others rather than being brought to market as value add offerings through companies here in Canada. Moving forward, Canadian CEOs would do well to make sure that any Canadian intellectual property borne from strategic alliances moves on to benefit their homegrown creators. Partnerships are not easy, but it is more difficult to travel alone. CEOs that benefit from strategic alliances are those who can evaluate their opportunities effectively (and objectively) from the start; embed the people, support, and resources to help their partnerships flourish; and have the commitment and risk tolerance to see them through to their full potential. No longer do CEO’s just have to decide between whether to buy or build – now they can buy, build or partner.

### Strategy to achieve growth objectives:

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<th>ORGANIC GROWTH</th>
<th>JOINT VENTURE</th>
<th>STRATEGIC ALLIANCES</th>
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<tbody>
<tr>
<td>27% (+25%)</td>
<td>15% (+15%)</td>
<td>32% (+34%)</td>
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<tr>
<td>M&amp;A</td>
<td></td>
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<td>15% (+17%)</td>
<td>12% (+10%)</td>
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<td>OUTSOURCING</td>
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60% are looking for quality over quantity when it comes to new partnerships

60% have reconsidered a third-party relationship that would have helped their organization because it didn’t fit their purpose or culture

71% view third-party relationships as the only way to achieve agility
The time for talk is over. Amid ground-shifting trends and relentless disruptions, CEOs must act quickly and decisively to steer their teams through increasingly unpredictable waters. Now is not the time to rely on old playbooks. And with the average tenure of a Canadian CEO estimated at a mere five years, 73 percent of survey respondents see a higher need for CEOs to act with agility, especially considering the short duration of the position (Global 67 percent).

Great in theory, critical in practice

‘Acting with agility’ reads well on paper, but what does it actually mean? For one, it is about more than responding to disruption with knee-jerk reactions and gut decisions. It is beyond throwing money at the next ‘big thing’. Leaders that truly ‘act with agility’ are able to read the landscape, are more inclined to research disruptions, and more focused on making ‘innovation’ a company-wide pursuit. All told, agile CEOs recognize the need to move with informed strategies, and are quick to spot and capture opportunities (ideally, before their competitors).

No CEO has all of the answers. The C-suite is better served when it embraces the diverse perspectives, beliefs, and backgrounds of its people, no matter their title. The good news is that Canadian CEOs recognize the need to draw inspiration and feedback from beyond the C-suite boardroom. Canada, as a country, has long benefited from collaborating and learning from its diverse community, and this ‘Canadian way’ is informing today’s leaders.

Creating true legacies

Canadian CEOs are less motivated to leave a personal legacy as they are with ensuring the organization thrives well past their time at the helm. As this year’s survey reveals, only 55 percent of homegrown CEOs are putting measures in place that will ensure their personal vision survives beyond their tenure, compared to 79 percent of their Global counterparts. Canadian CEOs are also more likely to engage their teams in strategic planning, with only 68 percent personally leading their organization’s tech strategy compared to 84 percent of Global CEOs who prefer greater control.

That is not to say Canadian CEOs are not interested in leaving a legacy. This year’s responses suggest they are simply more focused on moving the dial as much as possible in the relatively little time they have. To that point, a quarter of Canadian CEOs say delivering short-term growth is their top motivation (Global 22 percent), as it is viewed as a means to protect, promote, and fuel longer-term ambitions. This is a common approach among our clients, where short-term perspectives dominate throughout the investment value chain and inform crucial boardroom decisions.

Staying curious

The likes of artificial intelligence, Internet of Things (IoT), automation, and advanced data analytics are reshaping industries and business models at unprecedented speeds. As such, today’s CEOs are challenged to make a bigger impact in a shorter amount of time. Those that tackle this challenge alone or in C-suite silos risk becoming less attuned to their customers and entrenched in the ‘old ways’ of doing business.
Those that stay curious and embrace a diversity of thought, however, will be better positioned to react to the disruptions ahead in ways that will leave a more lasting impact.

The days of life-long tenures are over. With less time to make a lasting impact, CEOs must use the tools and talents around them to hit the ground running. To do so requires constant curiosity, enterprise-wide collaboration, a keen understanding of the disruptions ahead, and a team that can act (and react) beyond ‘business as usual’.

55% are putting measures in place to ensure their personal vision is realized after their tenure.

79% think if they act too slow they will be bankrupt.

73% see a higher need to act with agility considering the short tenure of the position.

81% believe the average tenure of a CEO is around five years.

22% identified short-term it is growth as their top motivation.

67% identify the average tenure of a CEO is around five years.

25% see a higher need to act with agility considering the short tenure of the position.

67% think if they act too slow they will be bankrupt.

74% identified short-term it is growth as their top motivation.
The future of work is not all about machines. CEOs must brace for the impacts of automation and artificial intelligence on their workforce, but they must also foster talent who can drive and sustain the resulting transformations.

Certainly, as intelligent machines and advanced algorithms continue to replace traditional human roles, industries will be challenged to develop teams with uniquely human skill sets that cannot be easily coded. This means data scientists who can extract the full value from an organization’s data; tech-savvy individuals who can operationalize the latest innovations; and specialists who can maintain, combine, and optimize whatever technologies their organizations come to adopt. Moreover, individuals who can collaborate, solve complex problems, and empathize with customers in ways their digital co-workers are not equipped to handle.

In short, it is not as much about bracing for the rise of the machines; but enabling the rise of the humans and creating an agile, collaborative, and digital mindset for a tech-enabled world. This explains why 44 percent of Canadian CEOs plan to upskill more than 40 percent of their workforce in digital capabilities, and why 53 percent plan to hire new skills regardless of growth prospects. The desire to adapt is also reflected in the types of talent CEOs are pursuing, with 73 percent citing confidence in emerging technology specialists and 63 percent in data scientists (up 27 percent since 2018).

Behind the curve

As future-ready as Canadian CEOs appear on paper, their ability (and perhaps eagerness) to find human talent who can drive their vision lags behind their global counterparts. One explanation is that Canadian organizations are cautiously optimistic by nature and may be taking a ‘wait and see’ approach to workforce transformation.

The gap could also be attributed to the fact that it is no small task finding and retaining the right individuals. Thanks to an aging workforce, demand and supply imbalances, skills mismatches, and other contributing factors, Canada is on track for a major technology talent shortage in the next five years. And with tech juggernauts like Amazon, Google, Uber, and others jockeying for talent on our home soil, the competition is fiercer than ever. Given these labour market conditions, it is no wonder that 63 percent of CEOs say ‘finding workers they need’ is a roadblock that is negatively impacting growth (Global 59 percent).

Sourcing from within

The demand for digitally-minded talent is clear, but are CEOs looking in the right direction? While everyone is looking beyond their office walls, there is value in looking within. It benefits Canadian CEOs to examine their current workforce to identify who may already have the skills and interest to play those future roles. And not merely those who can optimize and operationalize the latest technologies, but those who can bring human leadership traits to the table, no matter their tenure, age or background.

CEOs can also gain an advantage by building pipelines to up-and-coming and underutilized talent. This requires getting involved with students from an early point in their career development plans, establishing student sponsor
program, or opening their doors to meaningful work opportunities. It also means reaching out to organizations or associations that can connect them to highly-skilled newcomers or previously untapped sources of talent.

**Offering opportunities**

In the race for human talent, brand counts. CEOs must be able to offer the kind of career opportunities and employee experiences that are appealing to today’s talent – one where a culture of collaboration, agility, and continuous learning is driven and bolstered from the top. And where ambition and a desire to stay relevant are nurtured and leveraged to shape the organization of the future.

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**Workforce capabilities considered highly effective:**

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<th>Category</th>
<th>Percentage</th>
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<tr>
<td><strong>EMERGING TECHNOLOGY SPECIALISTS</strong></td>
<td>73%</td>
<td>74%</td>
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<tr>
<td><strong>DATA SCIENTISTS</strong></td>
<td>63%</td>
<td>83%</td>
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<tr>
<td><strong>CYBER SECURITY SPECIALISTS</strong></td>
<td>60%</td>
<td>69%</td>
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<tr>
<td><strong>DIGITAL TRANSFORMATION MANAGERS</strong></td>
<td>59%</td>
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The innovation disconnect

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Few buzzwords have invaded the C-suite like ‘innovation’. And while the word has been said often, and across many industries, it is arguable the definition has been lost in translation.

One thing remains constant, the appetite for innovation is healthy. Seventy-five percent of Canadian CEOs want their employees to innovate without fear of failure (Global 84 percent), and over two-thirds (69 percent) want to be the ones disrupting rather than disrupted. The fact these numbers are down from previous years, and below global averages, shows it is possible the meaning of innovation is being interpreted differently by different players.

Innovation from within

Make no mistake, Canadians are an innovative breed. Our leadership in the fields of artificial intelligence, blockchain, automation, and data analytics are globally recognized; and the worldwide success of homegrown companies like Shopify demonstrate we are more than capable of producing tech giants. Moreover, this year’s survey shows Canadian CEOs are waking up to the value of data in the decision-making process. Granted, 60 percent of domestic CEOs admit they have overlooked data analysis because it ran contrary to their experience (Global 63 percent), but this is a 16 percent improvement over 2018 and an indicator of changing perceptions.

In truth, innovation is very much alive and well in Canada. It may just be that the definition itself requires examination. Innovation can be less about the shiny new consumer good or breakthrough that gets a cover spot in Harvard Business Review. It can also be about the micro-innovations that make organizations better at what they do and fosters a workplace culture wherein staff at all levels have the encouragement and resources to bring new ideas to the boardroom table.

After all, it is better being the CEO of an organization where innovation is the domain of many (with proper oversight), rather than a select few.

With this perspective, the alleged ‘innovation disconnect’ between Canadian organizations and global may simply be explained by the fact Canadian CEOs are less overt about it in the marketplace, or more prone to innovating internally. Undoubtedly our clients have shown a strong desire to embed machine learning, automation tools, and more advanced data analytics within their operations. And while this may not directly translate into ‘innovative new products’ at the onset, it has innovated how they structure their operations, empower their teams, gauge their success, and stay current with their customers.

Even still, there are signs that Canadians can be doing more with the innovative tools at their disposal. The fact a majority of Canadian CEOs have overlooked data analysis is somewhat alarming, but here again, we can benefit from another perspective. Granted, ‘big data’ is a gateway to customer and market insights, but there is also real value in the small, moment-to-moment transactional data. As value-driven leaders, Canadian CEOs may prefer these byte-sized transactional insights over larger data as they can be used to make more immediate impacts and inform day-to-day micro-decisions.
The numbers do not lie, but they can be open to interpretation. In the case of Canadian CEOs, there are very real gaps to overcome when it comes to innovation. Even still, if we consider the more subtle transformations occurring within our organizations, we are closer than we appear on paper.

**Another perspective on innovation**

Disconnects or not, Canadians themselves feel as though they are moving in the right direction. Seventy-three percent tell us they are confident in their ability to stay competitive in the face of disruption, compared to 69 percent of their global peers.

This confidence notwithstanding, we must remember the bigger picture. Canadian organizations have a habit of comparing themselves to other Canadian companies, whereas a broader view of other countries (or even industries) may reveal gaps they have not considered. Similarly, there is equal value in looking to completely different sectors and markets for ideas that can be adapted to one’s own.

As well, Canadian CEOs must be careful to set the parameters for innovation based on what is feasible and sustainable within their operations. After all, granting employees the freedom to innovate without fear of failure sounds like a good sales line, but it can also lead to chaos or unnecessary risks without the right attention to market conditions, economic realities, and organizational restraints.

Disruptive times call for disruptive measures. And while we share our Canadian clients’ confidence for the days ahead, that does not mean their success is guaranteed. To match (and lead) their global peers, Canadian CEOs must determine what innovation means to their specific organization and promote an innovative mindset from the top. Moreover, they must drive incremental innovations that will lead to long-term growth, and look beyond their borders for new ideas and technologies that are making the biggest global impact.

**Expected ROI on innovation investment over the next 3 years:**

- **Digital Transformation:**
  - 84% Canadian CEOs
  - 92% Global CEOs

- **Artificial Intelligence:**
  - 61% Canadian CEOs
  - 40% Global CEOs

- **Robotic Process Automation:**
  - 29% Canadian CEOs
  - 59% Global CEOs

*12% of Canadian CEOs have already achieved returns on RPA, no Global CEOs report the same*