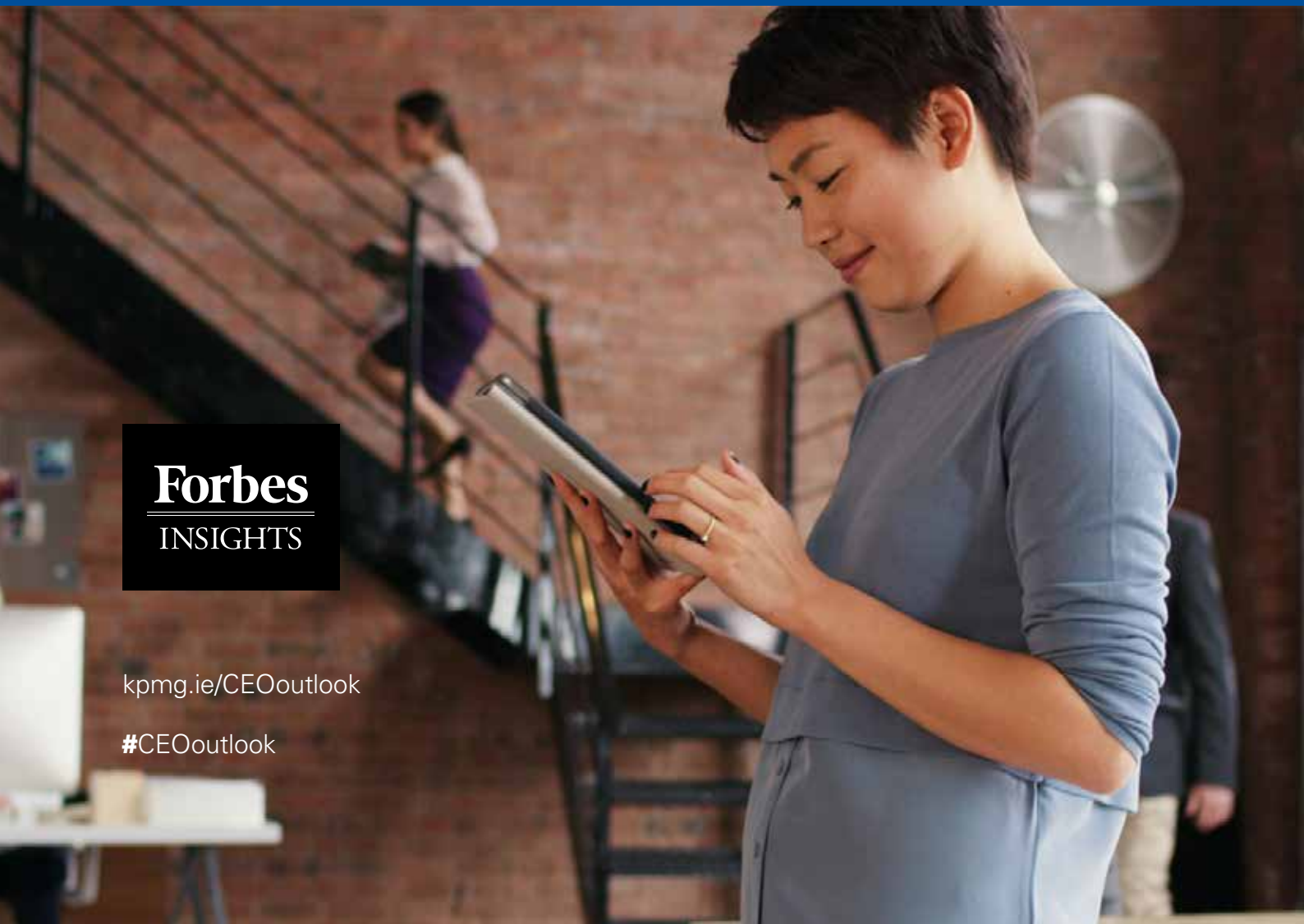
KPMG

2021 CEO Outlook

Northern Ireland



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Welcome to our sixth annual KPMG CEO Outlook

We are pleased to share with you the output of KPMG's 2021 CEO survey. This survey provides a unique insight into how leaders' priorities and their business strategies have shifted over the last 12 months and how they vary across Northern Ireland, the Republic of Ireland and internationally.

Today the confidence levels of CEOs in Northern Ireland about the outlook for their companies and the domestic economy are almost back at pre-pandemic levels. While the vast majority are confident they will succeed, they are cautious about the level of growth achievable. They are therefore projecting moderate levels of growth in their 3-year strategies. These growth strategies are underpinned by a strong appetite for M&A and other inorganic growth levers but are equally tempered by an acute awareness of operational risks including supply chain resilience, cyber security and digital disruption.

The survey highlights how the pandemic has reshaped the workplace for the foreseeable future. CEOs now recognise the need to provide employees with more flexibility and trust but they also reaffirmed the vital role of the office including to nurture business culture in organisations.

Among the many socio-economic and environmental challenges faced by CEOs over the last year, the survey highlights that stakeholders are focusing more than ever on ensuring companies are accountable for their role in tackling climate change by cutting carbon emissions and leaving a positive impact on society. The importance of the forthcoming COP26 summit in Glasgow and the need for significant Government intervention to help deliver climate solutions is reinforced by the sentiment highlighted in our report.

As we begin to emerge from a post-crisis world, we have learned many lessons over the last year and a half that will endure to make a positive and lasting contribution to our society and our economy. Like many of those surveyed, we are optimistic about the future and believe that the changes made as a result of the crisis will make businesses more competitive and resilient. We would like to thank the CEOs involved for taking the time to participate in our survey.

Seamus Hand
Managing Partner, KPMG in Ireland

Johnny Hanna
Partner in Charge, KPMG in Northern Ireland

A Northern Ireland Perspective

Tapping into the mood of Northern Ireland's business leaders is always a worthwhile exercise. They have their finger on the pulse of their companies, of the sectors they work in and can give an accurate picture of the economic landscape writes Angela McGowan of the CBI in Northern Ireland.

That's particularly so this year after 18 unparalleled months of unilateral upheaval which businesses of all sizes, all sectors and in all jurisdictions have experienced, the findings of the latest KPMG CEO Outlook are fascinating and, in many respects, comforting.

With optimism only slightly below pre-COVID levels, they have bounced back from a year ago when the COVID-19 pandemic and subsequent lockdown had left many chastened and fearful of the future for their business.

That is something which chimes with CBI members in Northern Ireland, many of whom are reporting that pent-up demand is coming through, order books are full, global supply chains are improving and there is a lot more positivity on the horizon. Encouragingly, the CEO Outlook report also paints a picture of an optimistic outlook, with Northern Ireland's leaders in particular cautiously confident about the success of their own businesses in the months ahead.

Again, our members would concur, but there are undoubtedly challenges in the current environment which need to be overcome around the flow of trade after Brexit and as the pandemic loosens its grip on the world's economy. We are hopeful they will be ironed out in the near future and that international shipping and supply pressures will ease as new fleets are commissioned.

Unsurprisingly, the climate agenda remains front and centre of CEOs' minds. It's interesting to note in the CEO Outlook report businesses, having made huge strides in addressing sustainability and climate change over the last couple of years, are turning to Government for leadership and to turbocharge their goals to reach net zero. Undoubtedly, a multi-faceted approach will be needed if the gains made in this area are to stick and be built upon in the coming years.

The future of work is also a hot topic amongst CBI members, many of whom, like those surveyed in this report, still hold value in their office space as a place to build culture and collaborate.

What is perhaps surprising in the report is how leaders' view of the office has swung so far in the last 12 months. Last year nearly three quarters of respondents in Northern Ireland were planning to downsize office space. That has fallen to just 16 percent this year, showing a marked reversal in mood.

All in all, the KPMG CEO Outlook report tells the tale of optimistic leaders in Northern Ireland, successfully managing to chart a path through one of the most difficult periods of change and transformation in a lifetime.

Such tenacity, drive and innovation sets Northern Ireland up well for a bright future.

Angela McGowan,
CBI Northern Ireland Director

2021 CEO Outlook

Northern Ireland

Contents

Key Findings

The KPMG 2021 CEO Outlook offers a unique lens on the ongoing implications of the COVID-19 pandemic and the prospects for economic recovery both in Northern Ireland, the Republic of Ireland and around the globe and draws on perspectives for the future of over 1,300 CEOs at home and abroad.

The Road to Renewal

Confidence in the global and local economies is returning to pre-pandemic levels

The NI economy	72 percent of NI CEOs surveyed are optimistic about local growth prospects – up from 44 percent in 2020
Global outlook	60 percent global of CEOs are confident about global growth over the next three years — up from 32 percent in 2020. 64 percent of NI CEOs are confident in global outlook – up from 28 percent in 2020
Risk concerns	For NI CEOs the top three risks are: cyber security, operational concerns and disruptive technology

Work & Digital Agility

The pandemic reshapes work but the office remains central

The office centre stage	Only 16 percent of NI CEOs plan to downsize their office space due to the pandemic – down significantly from 72 percent in 2020
Flexible working	44 percent of NI CEOs said that most employees in their organisation will be working remotely at least 2 or more days a week
Digital partnerships	52 percent of NI CEOs also say that new partnerships will be key in maintaining the pace of digital transformation

Purpose & Priorities

ESG reporting moves centre stage

The ESG agenda	72 percent of NI CEOs report demand from stakeholders for increased reporting on ESG matters compared with 58 percent of counterparts worldwide
The climate imperative	76 percent of NI business leaders are focused on locking in their sustainability and climate change gains made during the pandemic
Focus on COP26	84 percent of NI CEOs say that this autumn's COP26 climate summit in Glasgow will be pivotal in injecting urgency to the climate change agenda

The Road to Renewal

The road to renewal

The 2021 KPMG CEO Outlook shows that CEOs in Northern Ireland and the Republic of Ireland have become more optimistic about the future performance of their local economies, a significant change since the start of the year.

Confidence levels are now at or near pre - pandemic levels with over seven in ten (72 percent) of CEOs surveyed in the Republic of Ireland optimistic about domestic growth prospects compared to just over half (56 percent) in 2020. A similar number in Northern Ireland (72 percent) show the same enthusiasm – up from 44 percent in 2020 not quite at pre-pandemic levels but a very significant improvement.

According to Emer McGrath, Co-Head of Markets with KPMG in Ireland, "The pandemic has been a continuous test of leadership for CEOs: from helping protect the health and well-being of their employees, to making big decisions amid uncertainty, and adapting their leadership approach in a virtual environment - it has been a long and difficult road." It is testament to the resilience and underlying strength of the Irish economy that confidence levels have returned. "CEOs are facing new challenges as their organisations manage the ongoing impact of the pandemic. They're balancing the potential to drive growth and transform their business with uncertainty around the potential of an uneven global recovery and the impacts of new virus variants and vaccine inequality." From an business perspective, McGrath says the Republic is in a relatively good place "Our sectoral success lies in areas of strong global demand – pharma, tech and healthcare for example are all in robust shape given the appetite for what Ireland has to offer. However, McGrath also notes the challenges faced by hardest hit sectors. "There is no doubt that travel and tourism and other parts of the services sector will take longer to recover and a return to international travel for example will be essential for the future viability of many businesses in these sectors."

72%

72%

82%

CEO confidence in domestic economy over next three years

Meanwhile in Northern Ireland, Johnny Hanna, Partner in Charge with KPMG in Belfast says, "Northern Ireland is relatively well positioned to return to more normal patterns of business activity. Our CEOs are actively looking at growth strategies to help them get ahead of the competition while being acutely aware of that they also need to deliver on issues such as the future of work and cyber security. A big differentiator now is that businesses established here have an unfettered ability to sell into both the EU and UK markets and that's a unique benefit. However, there is a need as a matter of priority to find workable, pragmatic solutions to the challenges being experienced in particular by those importing goods from Britain."

Underpinning the positive outlook, Hanna references KPMG's own commitment to Belfast as evidenced by the significant investment by the firm earlier in the year with 200 new jobs created via the establishment of a Centre of Excellence based at the firm's Belfast offices. "CEO focus in major growth areas including cyber security, AI and digital transformation and significant client demand and market opportunities for digital consulting services made Belfast a relatively easy decision."

In terms of growth strategies, 69 percent of CEOs worldwide (84 percent in the Republic of Ireland and 68 percent in Northern Ireland) have identified inorganic methods such as joint ventures, M&A, and strategic alliances as their main post-pandemic growth strategy and just under half (44 percent) of CEOs in both the Republic and Northern Ireland have said that they are likely to undertake a major acquisition, which will have a significant impact to their organisation in the next 3 years (50 percent worldwide). Commenting on the data, Mark Collins, Head of Deal Advisory at KPMG in Ireland says, "Significant levels of available capital, together with inorganic led growth strategies, are fueling a tremendous wave of M&A in Ireland at this time. Strategic and trade concerns are competing for assets to shape, progress and accelerate their strategic objectives – particularly in the post pandemic environment where decisive and bold investment actions will be rewarded."

Shifting risks

As CEOs look to drive growth, they also face the significant task of leading companies in a time of great uncertainty, where assumptions and forecasts are subject to constant change.

With uncertainty about the post pandemic world, it is not surprising that no single risk emerged on top either globally, in the Republic of Ireland or Northern Ireland. Worldwide there is a three-way tie for threats to growth: supply chain, cyber security, and climate change. They were closely followed by disruptive technology, regulatory and operational risk. In the Republic, cyber security, emerging/disruptive technology, and supply chain issues were listed as the top three risks to growth. In Northern Ireland, the risks posed by cyber security was the most cited followed by operational issues and then a bunching of concerns tied for third place such as interest rates, reputation, and emerging/disruptive technology.

For Dani Michaux, KPMG's EMA Cyber Leader Head and Head of Cyber Security in Ireland, cyber has remained a massive threat to organisational health throughout the pandemic and she is not surprised that it remains a constant feature at the top of CEO concerns. "Some organisations have yet to realise that the landscape is shifting and the need to ensure that their cyber technology is working to the best of its ability. For example, in many cases they are deploying cloud services without exploiting their full security characteristics. They are probably a little behind in thinking due to the pace of change and they need to catch up." Michaux believes that businesses need to ask themselves if they are equipping their people with the skills and knowledge to use the technology and to be cyber aware. "Many businesses are not doing enough simulated events to train people. They need to run more simulations and to focus on resilience. The answer is preparation. Take the finance function, for example. How can it do the payroll if the finance system isn't running? What are they doing to become more resilient in that situation? Some organisations are complacent. Some are well prepared, and others have maybe not done a deep dive into the different scenarios. The more complicated the scenario the less prepared you are. If the event lasts two days, you might be prepared. If it's six weeks, you are probably not prepared."

76% 68% 58%

CEO confidence in preparedness for a cyber attack

Supply chain

The challenge pre-pandemic is that the critical role supply chains play in our everyday lives has been underestimated. Thus it's no surprise that supply chain matters have seen a marked rise in importance amongst many of our CEO respondents.

Supply chain has always been the lifeblood of so many organisations in the delivery of services and products to end customers. 56 percent of global CEOs (56 percent in Republic of Ireland and 64 percent in Northern Ireland) say that their business' supply chain has had increased stress during the pandemic.

According to KPMG partner and supply chain specialist Owen Lewis, "What the pandemic has done is seismically shifted many of the long-running demand levels that have hidden the true complexity of supply chains, and at the same time disrupted many of its core building blocks. Raw material shortages, factories closing down, driver shortages and many other systemic issues have justifiably elevated supply chain to the forefront of the CEO agenda."

Ireland is impacted in similar ways to most other countries given the globalisation of industry and reliance on major manufacturing countries dominated by China. Owen Lewis says that the supply chain relationship with the UK has obviously been adversely impacted post-Brexit "with many challenges emerging and smaller organisations re-evaluating cross-border trading due to increased costs and administrative burdens". In the context of the impact of COVID he says, "As the mass vaccination programmes help us shift from a crisis locally, we are still impacted globally, the extent of which we are yet to fully understand."

Meanwhile, from a Northern Ireland perspective, KPMG's Belfast-based tax partner Frankie Devlin says, "One of the impacts of Brexit for business in Northern Ireland has been a renewed focus on understanding all the components of the supply chain and identifying risks or costs that may not have previously been so obvious and this remains highly relevant ."

In considering whether supply chain risks can be mitigated by CEOs, Owen Lewis says that supply chain transparency and mutually beneficial relationships have long been the secret of successful supply chain strategies. "Building relationships along the supply chain where value is shared - in the way that successful organisations such as Toyota have mastered - result in loyal supply base and joint problem-solving capabilities that outpace any savings that cost stripping strategies have achieved." Whilst he believes that this alone cannot solve macroeconomic issues, it can help to reduce the impact overall, Lewis says that "Even Toyota, the world-leader in supply-chain optimisation, is suffering from the global supply shortage of micro-chips despite early visibility and stockpiling delaying this impact." According to Lewis, "Geographical supply chain diversification is the likely countermeasure that the leading organisations will consider. CEOs should look to fully understand their supply chains, ensure that they are valued in the overall relationship and have understood the risks in each of their dependent suppliers and taken appropriate mitigation strategies."

Lewis also argues that supply chain issues can't be seen in isolation from other risks. He believes that it should be no surprise that climate change is the biggest risk facing our planet and threatening all of the norms we have become accustomed to over the past decades. "Climate risk has been accelerated by the seemingly limitless globalisation of trade, based on an ability to buy anything from anywhere and at quicker and cheaper prices. We're now facing a significant global risk profile that must be addressed through changes in our global supply chain ambitions, and radical changes in consumer demand. COVID has acted as the canary to signal what we should expect if we do not act to mitigate this risk. The question is do we heed the warning"?

Work & Digital Agility

Work & Digital Agility

CEOs in both the Republic and Northern Ireland have significantly modified their plans to reduce their office footprint. Only 24 percent in the Republic of Ireland and 16 percent in Northern Ireland plan to or have already downsized as a result of the pandemic and changing working habits.

This is a significant change from attitudes at the height of the pandemic in 2020 when 88 percent of business leaders in the Republic of Ireland and 72 percent in Northern Ireland were aiming to downsize.

With people returning to places of work, and Governments increasingly looking for business to lead a return to normal, CEOs are focusing more on flexibility rather than wholesale changes to office-based work. Meanwhile, the impact of the pandemic on companies' workforces has made CEOs re-evaluate how they can maintain the sustainability of their business over the long term. This includes employee well-being, the physical workplace, travel needs and more.

According to Gary Reader, Global Head of Clients and Markets, KPMG, "The global pandemic has caused business leaders to rethink their operations and the role their employees play in the future of their business. Smart CEOs are actively engaging with their workforce and using their data more effectively to rewrite their operating model to position their business for growth."

CEOs have narrowed the gap between digital transformative objectives for their own organisations and investing in the future of work and a digitally enabled workforce. Eighty-eight percent of CEOs worldwide (76 percent in both the Republic of Ireland and Northern Ireland) are looking to increase their headcount despite the fact that a majority (60 percent worldwide and in the Republic of Ireland and 72 percent in Northern Ireland) of business leaders are prioritising investment in technology over developing their workforce's skills. It highlights that technology is vital for businesses to remain competitive, but CEOs are increasingly seeing that hiring talented people is also vital for growth.

There has been a reset in the velocity of business, in areas such as customer behaviours, and CEOs need to ensure their companies are plugged in to this new dynamic and leading the pack. CEOs are shifting toward a cloud-first mindset, with half (50 percent) of global CEOs saying that they intend to partner with a third-party cloud technology partner in the next 3 years in pursuit of their growth objectives.

In the context of digital innovation - 78 percent of CEOs surveyed worldwide (76 percent in the Republic of Ireland and 80 percent Northern Ireland) believe they must be quicker to shift investment to digital opportunities and divest businesses that face digital obsolescence. According to Paul Toner, Head of Consulting at KPMG in Ireland, CEOs can quicken the pace of change by having a clear, medium-term vision and roadmap that provides real clarity on the direction of travel, "It needs to be supported by a clearly defined near-term roadmap of opportunities with associated target outcomes that are well understood and are backed by a detailed benefit realisation strategy and plan."


76%


80%


78%

CEOs who believe they need to be quicker to invest in digital opportunities

The Future of Work

Following almost eighteen months of pandemic induced disruption to the world of work, almost two thirds (64 percent) of CEOs in the Republic of Ireland said that most employees in their organisation will be working remotely at least 2 or more days a week – which is significantly higher than their global peers (37 percent) or their counterparts in Northern Ireland (36 percent).

As employee and societal demands for workplace flexibility have evolved, around half of global CEOs (51 percent) recognise the demands created by a rapidly evolving future of work and will be looking to invest in shared office spaces to allow for increased flexibility – a figure that reduces slightly in the Republic of Ireland (44 percent) and Northern Ireland (48 percent). Meanwhile, four-in-ten (42 percent) of CEOs worldwide will rely on the strategy of hiring remote workers to revise operating and labour models to attract the best people by expanding their reach into the entire labour force. This figure rises significantly to 64 percent in the Republic of Ireland and is closer to the global norm in Northern Ireland (44 percent).

64%

36%

37%

CEOs who believe most employees will be working remotely at least 2 days a week

Reflecting on the evolution of leadership thinking on the role of the workplace, Managing Partner of KPMG in Ireland Seamus Hand says, "The office is here to stay as the focal point for the vast majority of companies. However, Irish business leaders increasingly recognise the need for greater flexibility and a strong organisational culture given the changing nature of talent acquisition and retention. Transformation of operating models will enable employers of the future to expand their reach into a wider pool of talent."

According to Seamus Hand, "CEOs are less likely to see it as necessary to downsize their physical footprint since last year as some of the challenges experienced with remote working have highlighted the value that offices bring in building culture, enabling coaching and facilitating collaboration and innovation."

Meanwhile just over one-in-four of global CEOs (28 per cent) expect to prioritise incentives and rewards for employees to retain talent - a figure that rises to 40 percent in Northern Ireland and is somewhat behind the global average in the Republic of Ireland (21 percent).

Disrupting the disrupters

CEOs recognise that digital lies at the heart of how companies can create new sources of value. While this is an opportunity, it's also a risk.

The acceleration of digital technologies means that business models that have existed for years can quickly become obsolete and irrelevant. Carl Carande, Global Head of Advisory, KPMG says, "CEOs have narrowed the gap between digital transformative objectives for their organisations and investing in the future of work and a digitally enabled workforce. Technology advancement is still vital for businesses to remain competitive, but hiring talented people is equally important." The research shows that CEOs are embracing the need to push the boundaries of their business and question long-held assumptions of what it will take to succeed in the mid- to long-term.

When we asked them what action they planned to take in pursuit of their growth objectives, two-thirds (67 percent) of business leaders worldwide said they intended to invest in disruption detection and innovation processes (36 percent in the Republic of Ireland and 48 percent in Northern Ireland). This is an essential step to enable teams to think disruptively: questioning historical assumptions and traditional mindsets and brainstorming new ideas for a vastly different market environment. And rather than waiting to be disrupted by competitors, 72 percent of CEOs worldwide say they're actively disrupting the sector in which they operate. A figure which rises to 84 percent in the Republic of Ireland and is significantly lower at 52 percent in Northern Ireland.

"The office is here to stay as the focal point for the vast majority of companies"

Seamus Hand

Managing Partner, KPMG in Ireland

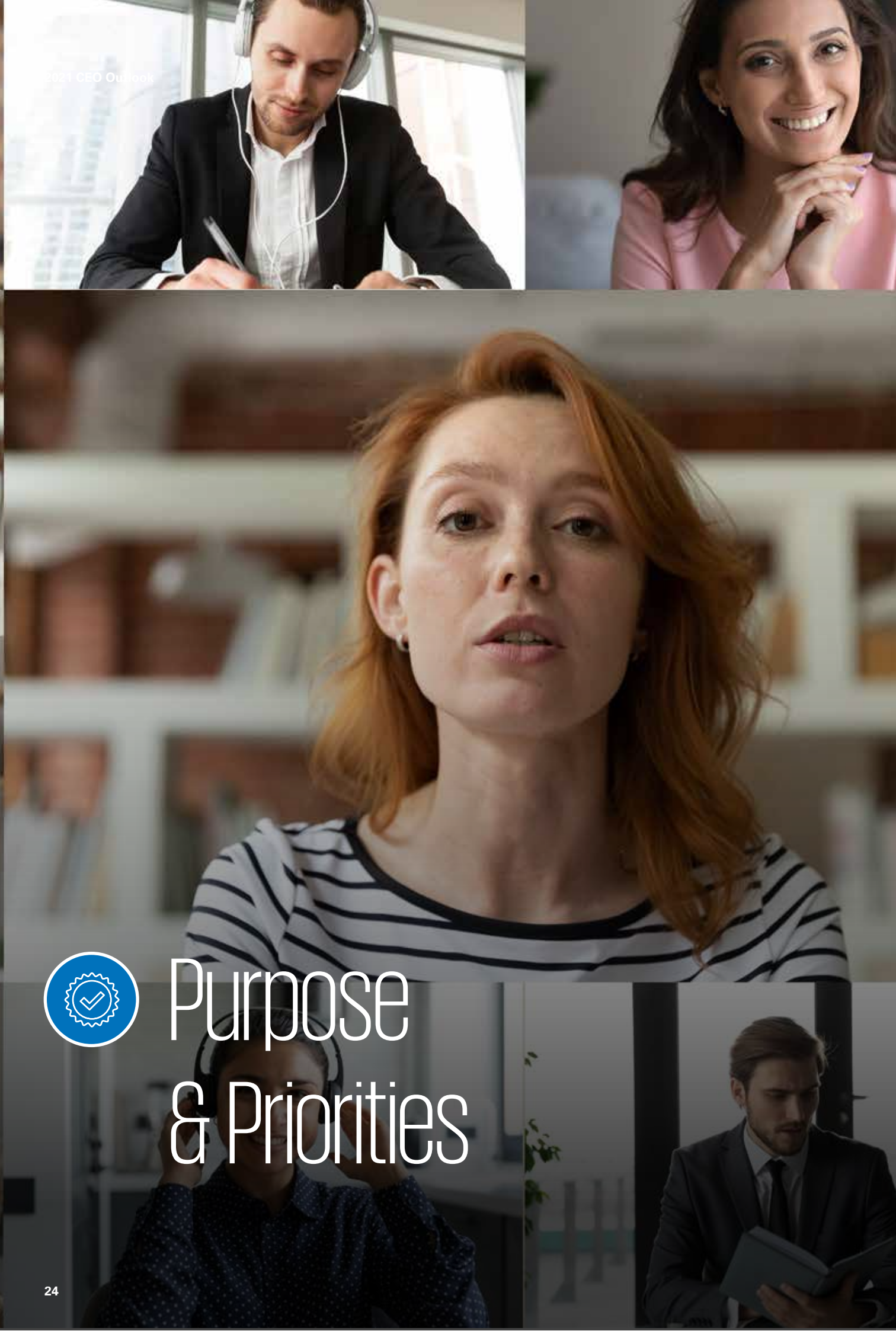
> Technology advancement is still vital... but hiring talented people is equally important

Carl Carande,
Global Head of Advisory, KPMG

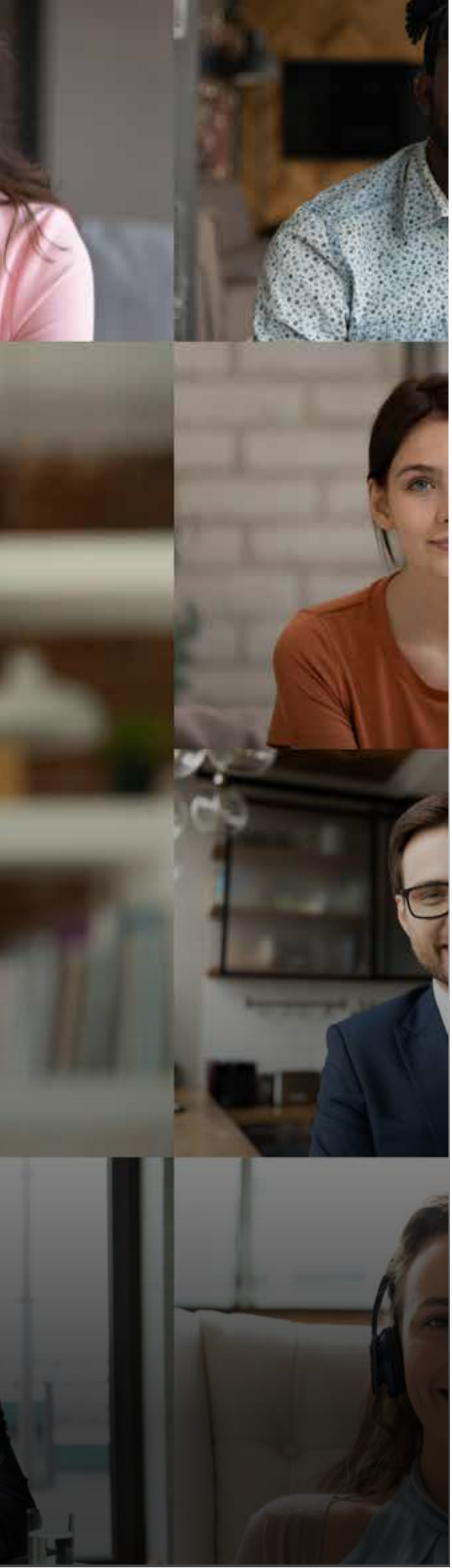
Partnering for transformation and resilience

Companies across the world are operating as part of digital ecosystems searching for ways of securing competitive advantage. While the cost of failure can be high, getting left behind can be terminal.

New relationships are constantly being explored from collaborating with partners, suppliers and even competitors to drive operational performance, to identifying new digital revenue streams and creating compelling digital customer experiences that deliver on an organisation's purpose. CEOs recognise the importance of collaboration and a fluid approach, with 70 percent of global business leaders (64 percent in the Republic of Ireland and 52 percent in Northern Ireland) saying "new partnerships will be critical to continuing our pace of digital transformation".



Purpose & Priorities



Purpose & Priorities

Today, corporate purpose is a business imperative. Key stakeholders, from customers to institutional investors, expect companies to have a positive impact on a range of areas, from driving diversity to helping protect the planet.

Corporate purpose is connected to a company's stated role in society and how they'll act in a manner that creates long-term value for society. 71 percent of global leaders feel a stronger connection to their organisation's purpose since the onset of the pandemic – a figure similar to that for the Republic of Ireland (68 percent) although it is somewhat lower in Northern Ireland (56 percent). Meanwhile, almost nine in ten (87 percent) of global CEOs recognise that purpose is central to building their brand reputation and directly linked to business performance; (64 percent in the Republic of Ireland and 84 percent in Northern Ireland).

Nearly two-thirds of global CEOs (64 percent) are committed to embedding organisational purpose into everything they do - a figure which declines slightly for both the Republic of Ireland (56 percent) and Northern Ireland (60 percent). Worldwide, business leaders are looking to invest an average of 10 percent of their global revenues toward organisational sustainability measures and programmes in order to meet the demand for corporates to build back better (7 percent revenues in the Republic of Ireland and 9 percent in Northern Ireland).

Tax issues have also climbed the priority ladder of CEOs in recent years, and the reputational, structural and financial stakes have increased. It is clear that internationally considerable change is underway to the current tax system. There is a significant body of complex legislation that has or is being introduced with more to come following the conclusion of the BEPS 2.0 discussions. Our survey indicates that approximately three quarters (77 per cent) of CEOs surveyed worldwide (64 percent in the Republic of Ireland and 72 percent in Northern Ireland) believe these changes will impact their ability to grow, but only a small minority believe it is one of the greatest threats to growth. According to Tom Woods, Head of Tax and Legal Services with KPMG in Ireland "As the Republic introduces these various new corporate tax measures, it's critically important that the changes are limited to those companies within scope, that current legislation is simplified to avoid duplication and our personal tax and employer social security regime is looked at as a means of attracting and retaining mobile talent here. There are many reasons for businesses to invest here but having a supporting tax regime will remain important."

Getting it right on ESG

The public is becoming more demanding of ambitious ESG goals. However, measurement remains a challenge and there are varying opinions on the impact of ESG on financial performance.

According to Jane Lawrie, Global Head of Corporate Affairs, KPMG "CEOs are under increasing pressure from stakeholders to deliver on ESG goals and to actively address societal issues. It's crucial in today's landscape that businesses and their leadership teams show real-world examples of their dedication to building back better."

But while CEOs believe that social and environmental priorities are key, they're less convinced about making the connection between ESG programmes and hard results. 37 percent of CEOs globally believe that their ESG programmes will improve financial performance compared with 40 percent in the Republic of Ireland and 32 percent in Northern Ireland. However, close to a quarter (24 percent) of global CEOs say ESG programmes may reduce financial performance however this rises significantly to almost half (48 percent) the Republic of Ireland and 40 percent in Northern Ireland.

CEOs may perceive their current ESG programmes to be more about compliance and risk management and that there's still much more that needs to be done before they're convinced their ESG programmes are reshaping the business and driving new growth. Secondly, CEOs feel their organisations are struggling to report on and communicate ESG performance in a way that matters to key stakeholders, such as investors. When we asked CEOs worldwide to identify the one critical challenge that was undermining their ability to communicate ESG performance to key stakeholders, the standout challenge (selected by 42 percent of respondents) was that they "struggle to tell a compelling ESG story" albeit that whilst the corresponding figure in Northern Ireland is similar at 44 percent, this falls to 28 percent in the Republic of Ireland where the bigger issue for CEOs is that ESG performance reporting within their organisation doesn't yet have the rigour of financial reporting.

28%

44%

42%

CEOs who struggle to tell a compelling ESG story

The climate imperative

Among the many socio-economic, social and environmental challenges facing the world, stakeholders are putting immense pressure on the corporate role in tackling climate change.

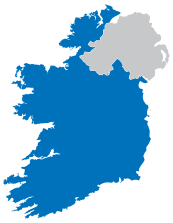
In both the Republic of Ireland (40 percent) and Northern Ireland (44 percent), a noticeably higher percentage of respondents than the global average (27 percent) are concerned that not meeting these climate change expectations will result in public market investors shying away from their organisation.

Mike Hayes, KPMG's Dublin-based Global Head of Renewables says "There is no doubt in my mind that corporates in Ireland and throughout the world are facing pressure from stakeholders. But who are those stakeholders? It's not just investors who are applying the pressure, it's employees, customers, and the whole supply chain. It's also future employees who are increasingly influenced by climate and sustainability performance in their choice of employer."

Businesses and listed corporates in particular are getting it from all sides in terms of ESG says Hayes but the part of the agenda that matters most is the climate question. "Companies face a very real and immediate financial risk if they don't address it. Investors may walk away, customers may not buy their products and services, consumer sentiment is changing rapidly, and employees want to work for companies with purpose. Companies who do not address the climate change and ESG agendas in a meaningful way are going to suffer."

This has become even more serious in the aftermath of the IPCC report and its Code Red for the Planet warning and regulators and Governments are going to force the agenda. Mike Hayes says "Businesses who don't appreciate the scale of new policies and regulations coming down the tracks run a real risk of being left out in the cold".

Meanwhile the most immediate pressure is coming from investors who are quite often managing other people's money. "They are under pressure for those people and the regulators to invest in sustainable activities. At the core of what is facing us is a massive push to redirect capital into a more sustainable business world."



40%

44%

27%

CEOs who believe failure on climate expectations will deter investors

CEOs in Ireland and worldwide indicate that a multifaceted approach will be required to address climate change. Over three quarters of leaders surveyed globally (77 percent) believe that Government stimulus is required to turbocharge their goals of reaching net zero. This figure is even higher in both the Republic of Ireland (80 percent) and in Northern Ireland (72 percent).

Mike Hayes believes that the fact that many CEOs say Government stimulus and assistance will be required to assist their organisations in reaching climate targets is highly interesting and says that "There is a clear message there that the majority of corporates believe they will not get to net zero alone." He says no one should be under any illusions about how difficult it's going to be. "The message there is that the day after you make the net zero commitment you need to wake up and ask where you go from there. What do you do next? The majority of organisations are struggling with that question. It will take years of bringing about fundamental changes to the business and way it does things in order to transition to net zero."

Speaking ahead of the COP26 climate summit in Glasgow this November, Hayes says that many of the green solutions and technologies which have emerged around the world in recent years "Are very good but are too expensive." He believes Governments are ready to accelerate the take-up of those new technologies through stimulus. "Widespread adoption will ultimately drive down the cost of the technologies and obviate the need for Government support."

However, there is a note of caution. "There is a but, and it's a very big but. It's not just about stimulus - there will also be a punitive approach. The EU is leading the way on that and serious efforts are going to be made to increase the cost of high carbon activities." According to Hayes, tax will be the main tool. "There will be direct carbon taxes and there will be a Carbon Border Adjustment Mechanism to prevent carbon leakage from cheaper imports with a higher carbon footprint. Businesses need to realise just how serious Governments are about utilising a mix of punitive measures and stimulus."

80% 72% 77%

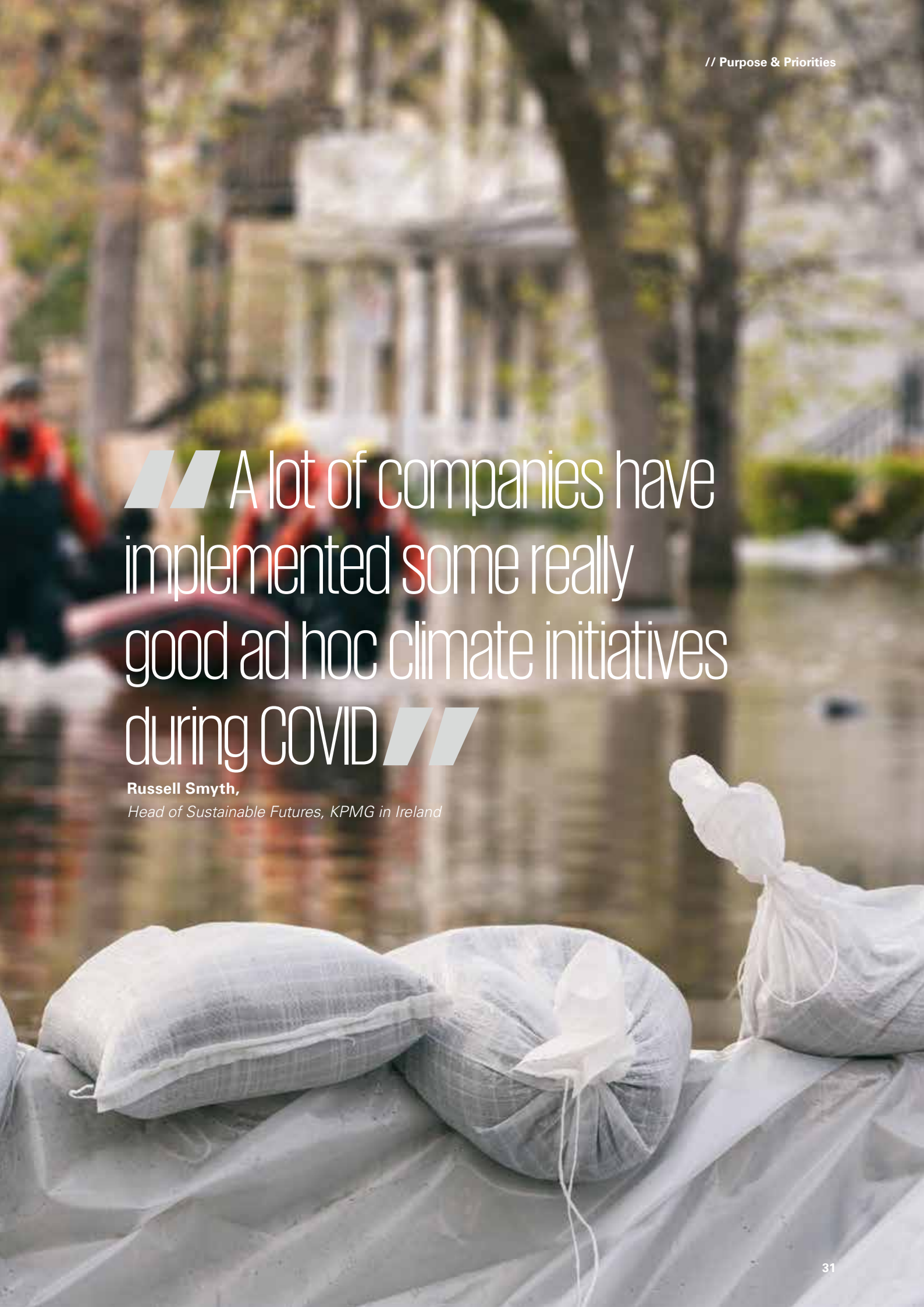
CEOs who believe Government stimulus is required to achieve net zero

84 percent of business leaders in the Republic of Ireland and 76 percent of their counterparts in Northern Ireland are focused on locking in their sustainability and climate change gains made during the pandemic.

Russell Smyth heads up KPMG's Sustainable Futures team in Ireland and isn't surprised at the outcome. "These findings are wholly consistent with our own experience on the ground with clients. These issues have moved from niche CSR activities to strategic reporting items for CEOs, and that shift is continuing to accelerate." Smyth believes that COVID highlighted the potential for unexpected major external events to disrupt businesses. "Companies with huge air miles prior to the pandemic simply stopped flying with resulting cost savings and environmental gains. COVID provided a unique test bed for accelerating and testing new ways of working and it's hard to see how we could revert completely to where we were beforehand. Furthermore, a lot of organisations will be consciously working to ensure that they don't slip back to the old ways of working."

According to Smyth, companies who wish to hold onto gains made during COVID need to know what it is they want to lock in. "They need to set out clear KPIs and metrics for those gains. A lot of companies have implemented some really good ad hoc climate initiatives during COVID. But the absence of a structured framework or programme means many of the gains made are unlikely to persist."

Creating frameworks and programmes now will help them bed down those gains and build on them in the future. However, it should be noted that gains from climate action tend predominantly to be long term in nature. "Organisations should therefore put governance structures in place to recognise long term gains. KPMG research carried out last year showed that 87 percent of executives felt pressure to deliver returns on investment inside a two year timeframe." Smyth says "If you move to a 15-year timeframe, that aligns with long term sustainability thinking and organisations with that outlook outperformed those which took a short-term view."



"A lot of companies have implemented some really good ad hoc climate initiatives during COVID"

Russell Smyth,
Head of Sustainable Futures, KPMG in Ireland

People & the societal agenda

Over the past 18 months, the world has not only become faster as a result of digital acceleration, it has also become more divisive and fractious.

In many economies, social tensions are on the rise, with a focus on addressing inequality. CEOs are cognisant of this public mood and the research shows they embrace the role that companies can play in driving total shareholder return and total societal return. Today, we see a major focus on the (S) in ESG, with 81 percent of CEOs worldwide saying, "Our response to the pandemic has caused our focus to shift toward the social component of our ESG programme" with similar responses in our market – 76 percent in the Republic of Ireland and 80 percent in Northern Ireland.

But the research also found a tension between the accountability that CEOs feel they have for driving progress on the social dimension of ESG and their ability to meet expectations in the critical area of diversity. On the one hand, a large majority of CEOs (71 percent globally and 80 percent in the Republic of Ireland and 84 percent in Norther Ireland) said they will be increasingly held personally responsible for driving progress in addressing social issues. But on the other hand, a significant number (56 percent both globally and in the Republic of Ireland and 40 percent in Northern Ireland) admitted that with public, investor and Government expectations of inclusion and diversity (I&D) rising so fast, they may struggle to meet expectations. In addition, 46 percent of CEOs globally noted the global pandemic's negative impact on women in the workplace has made it difficult to achieve their gender parity goals at a leadership level – a figure measured at 60 percent in the Republic of Ireland and 52 percent in Northern Ireland.

Driving progress on I&D within organisations is likely to require action in two areas. First, CEOs will need to actively listen to employees to understand what aspects of I&D are important to them. Secondly, they will then need to set clear and measurable targets to achieve progress against those priorities.

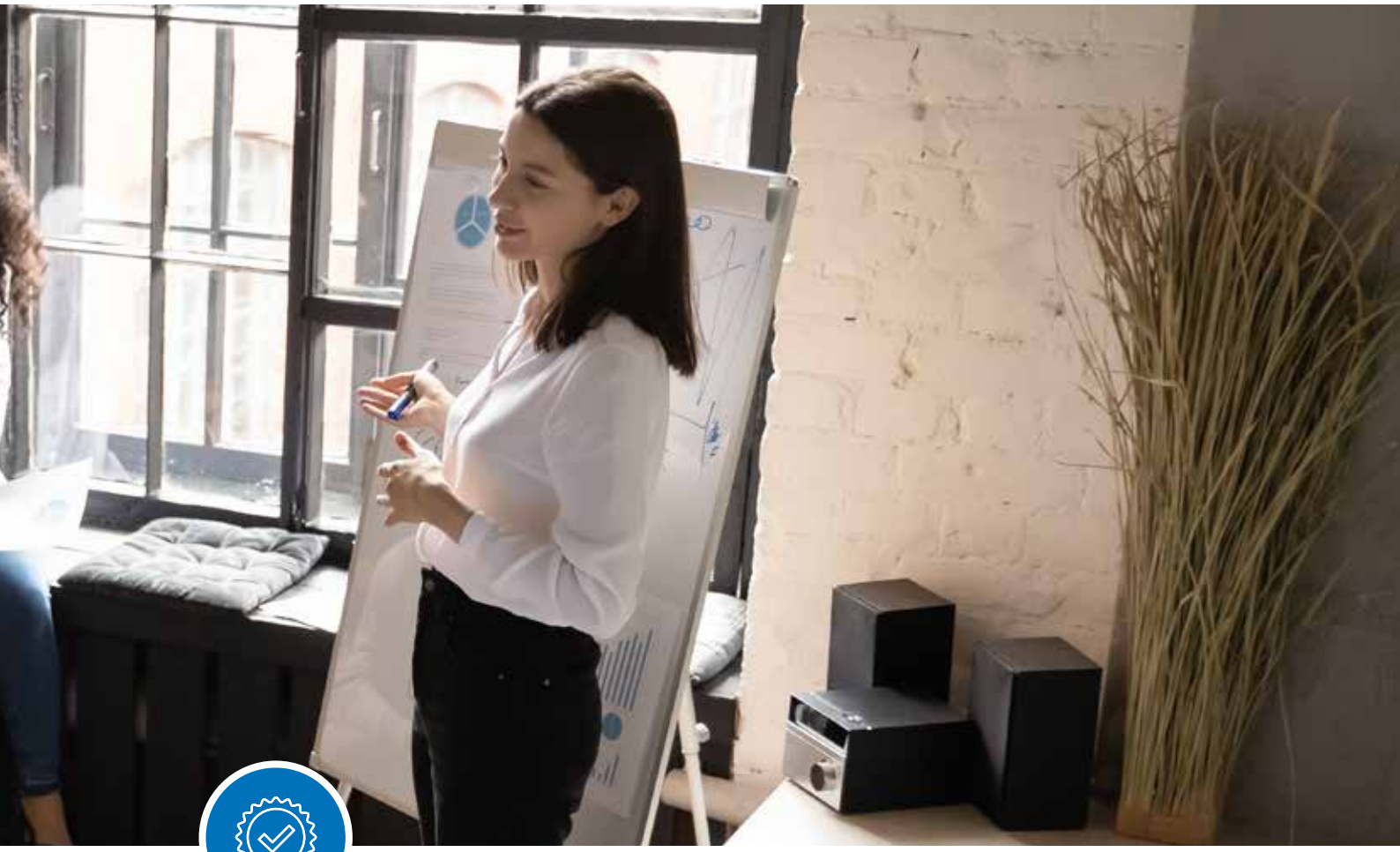
Conclusions

The Road to Renewal

Many organisations coped extremely well with the pandemic, showing resilience as they dealt with notable change, uncertainty and disruption. But resilience will also be essential to continued economic recovery. For example, it will be key to managing climate risk and other threats as well as coping with ongoing digital disruption and the opportunities in areas such as M&A. Along with specific interventions — from managing supply chain challenges to building cyber defences — CEOs will need to surround themselves with resilient people. There are two priorities. Make sure employees have the digital tools, data and skills they need to collaborate across the organisation, giving them the ability to respond quickly and creatively to emerging threats. Secondly, resilience is also about having a team of highly engaged employees motivated by opportunity, determined in the face of crises and energised by a compelling purpose.

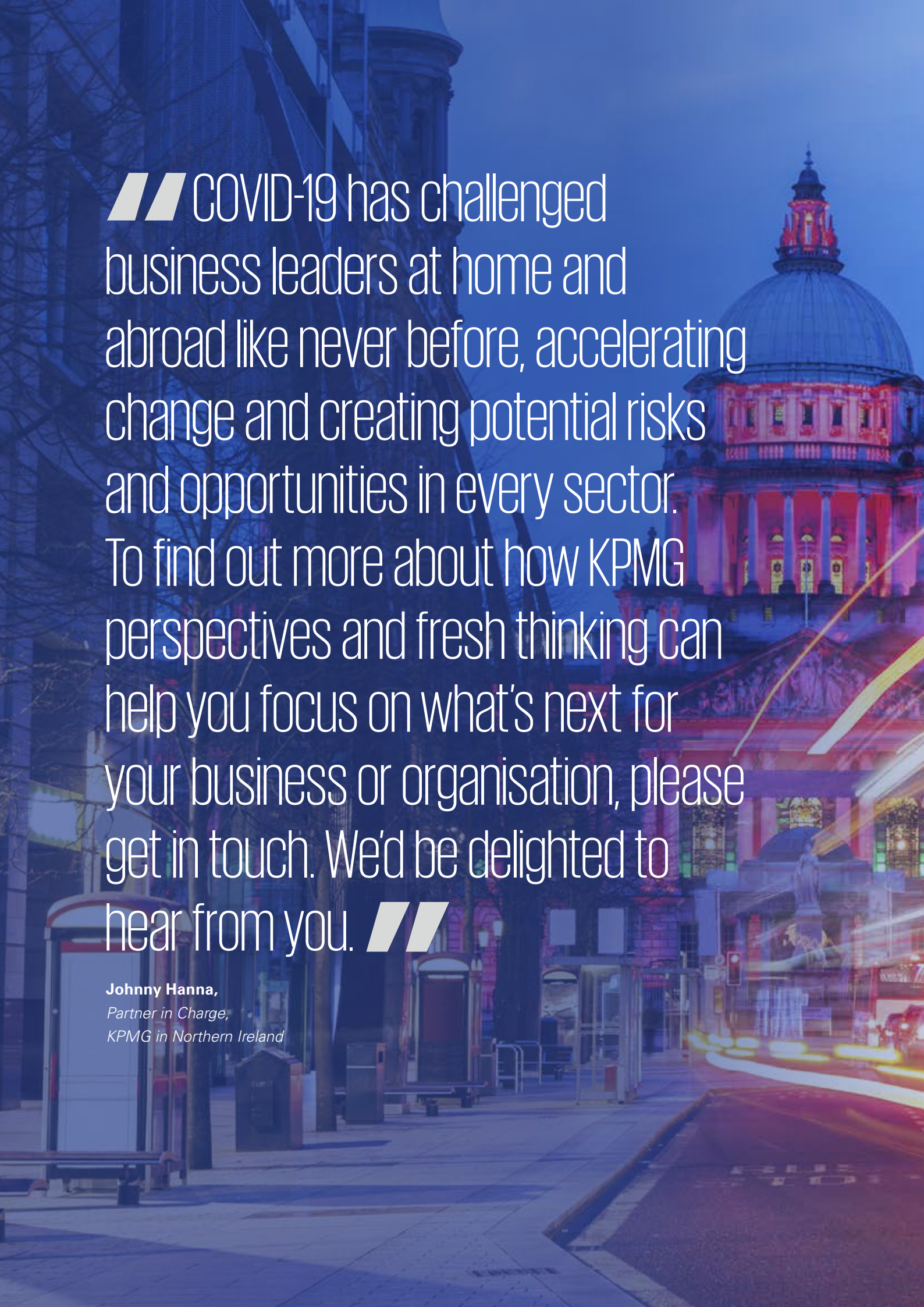
Work & Digital Agility

CEOs recognise that while the office will remain the focal point, the future of work is about more than where people are based. High-performing organisations are those that flex their technology muscles and have the ability to upskill their people. CEOs who lead collaborative decisions about the future of work deepen the extent to which employees are engaged and committed to the business. They are understandably keen to see their people return but many employees are anxious to retain the advantages of flexibility. Active listening, empathetic communications and a commitment to finding the right balance will be key.
CEOs should invest in digital skills as well as technology. This isn't simply so that their people can use these new tools, but to help foster a digital-first culture where people naturally look to integrate technology into their work.



Purpose & Priorities

CEOs remain challenged about the impact of ESG programmes with differing views on for example the financial impact and this reflects that ESG programmes serve many goals. However, they also recognise the growing demands of stakeholders. For example, they must ensure compliance with regulatory standards while leading on ESG issues such as diversity and inclusion. To help ensure ESG also drives financial growth, CEOs need to identify critical ESG investments necessary to drive long-term value, such as decarbonisation efforts. This needs to include new digital solutions to address sustainability opportunities and risks. Furthermore, they need to set out how ESG initiatives can directly drive revenue growth through opportunities for innovation. And finally, they should establish metrics and standards for reporting on ESG performance, to set the ambition level and ensure the company can communicate a compelling ESG story to investors and other stakeholders.



"COVID-19 has challenged business leaders at home and abroad like never before, accelerating change and creating potential risks and opportunities in every sector. To find out more about how KPMG perspectives and fresh thinking can help you focus on what's next for your business or organisation, please get in touch. We'd be delighted to hear from you."

Johnny Hanna,
Partner in Charge,
KPMG in Northern Ireland

Methodology and acknowledgements

The KPMG 2021 CEO Outlook provides an in-depth outlook from 1,325 chief executives of major organisations from around the world on vital themes of enterprise and economic growth.

This latest research is part of the KPMG CEO Outlook series, which offers a unique perspective on the mindset shift of global CEOs over the lifetime of the COVID-19 pandemic and looking forward to post-pandemic recovery. CEOs are drawn from companies with annual revenue over US$500 million and a third of the companies surveyed have more than US$10 billion in annual revenue, with no responses from companies under US$500 million.

The July/August 2021 survey included leaders from key markets including Australia, Canada, China, France, Germany, India, Italy, Japan, Northern Ireland, Republic of Ireland, Spain, the UK and the US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecommunications).

KPMG would like to thank all participants for their time and insights.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