



Agile or irrelevant

Redefining resilience
2019 UK CEO Outlook

KPMG in the UK

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Foreword

Agile or irrelevant Redefining resilience



Bill Michael
Chairman and Senior Partner
KPMG in the UK

These are testing times for CEOs in the UK.

Brexit is making it hard for many to make any substantive decisions about their business, particularly in investment. At the same time, disruption from emerging technology, climate change and fragile geopolitical and trade conditions create a complex backdrop.

Yet the picture I see of UK CEOs in this, our fifth CEO Outlook survey, is one of resilience and positivity. Not only are CEOs dealing with disruption, they're embracing it. Agility has become the new currency of business and CEOs are optimistic about both their own organisation and the UK's future prospects.

Of the 150 CEOs we spoke to in the UK, 93% see tech disruption as more of an opportunity than a threat and just over half told us their companies were actively disrupting their own sector.

Yet chief executives know they don't have all the answers. UK CEOs, more than any other group in the global survey, are creating new eco-systems – establishing incubators, collaborating with start-ups and selling via third-party platforms to give themselves flexibility and speed.

The desire to build a stronger culture of innovation within their organisation is equally important. One of the most compelling findings in this year's report shows a disconnect between the culture of innovation CEOs aspire to, and the one they have in place today. The UK is already one of the world's innovation hot-spots – so imagine what could be achieved if innovation was truly embedded within businesses and this gap was bridged?

CEOs recognise that the expectations of them are changing fast and they need to continually evolve their organisations – indeed transform – to survive. The agility, resilience and readiness to challenge the status quo shown throughout this report shows us they are more than up to this.

I want to thank all of the CEOs who gave up their time to talk about the opportunities and challenges they face.

We welcome the opportunity to continue the conversation.

“Not only are CEOs dealing with disruption, they're embracing it.”

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Methodology and
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For our fifth global CEO Outlook report, we surveyed 1,300 CEOs in 11 countries over January and February this year to understand their views on today's big business issues.

One hundred and fifty of those CEOs were in the UK. This report examines their particular views, attitudes and actions and shows how UK CEOs stack up against their global counterparts.

Source for all data unless otherwise stated: 2019 Global CEO Outlook, KPMG International.

Key findings from UK CEOs



Seeking resilience in a disrupted age

Confidence in the global economy is falling and disruption is mounting



- **A conflicting global outlook**
87% of UK CEOs are confident in the UK's growth prospects over the next three years, up 22 percentage points from 2018 – yet UK CEOs are less confident about the wider global economy, down from 77% in 2018 to just 43% this year

#1

- **Dynamic risk landscape**
Emerging disruptive technology rises up the risk agenda, from third in 2018 to the number one risk this year

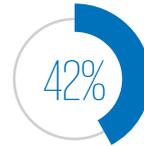


- **Disruptor or disrupted?**
Today, 59% of CEOs say that rather than waiting to be disrupted, their organisation is actively disrupting its sector, up from 44% in 2018

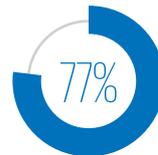


Leading in uncertain times

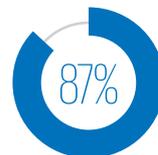
CEOs take personal ownership of driving digital transformation



- **New routes to growth**
42% rank strategic alliances with third parties as their most important strategy for growth – the highest globally – and up from 33% in 2018



- **Building an innovation culture within**
77% say they want a culture where it is accepted that errors and mistakes are part of the innovation process, but only 57% say that culture is in place



- **C-suite reboot**
87% are actively transforming their leadership team to build resilience



Changing from within

To master resilience, CEOs need to drive an organisation-wide digital reinvention



- **Tech-enabled workforce**
55% (44% globally) of CEOs plan to upskill more than half of their entire workforce, but only 33% prioritise workforce investments over technology investments



- **Digital is not an add on**
17% of organisations have already implemented AI to automate some of their processes, up from 3% in 2018



- **Connected enterprise**
87% agree, compared to 79% of Global CEOs, they are responsible for ensuring a connection between front, middle and back office in a way their predecessors were not

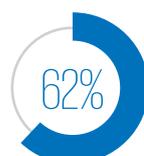


- **Cyber resilience**
66% agree their organisation is well prepared for a future cyber-attack, up from 38% in 2018; and 52% of CEOs agree it is a 'when' not 'if' situation

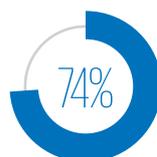


The evolution of the CEO

Resilient CEOs need to be agile, adaptive and willing to challenge the status quo



- **Less time to do more**
62% say that with an average CEO tenure of five years, the need to act with agility has increased



- **The learning CEO**
74% say they had a significant misstep early in their careers that they were able to overcome

01

Seeking resilience in a disrupted age

Despite the political uncertainty around them, UK CEOs are surprisingly upbeat about the domestic economy. Increasingly, their mission is to control disruption in all its forms – particularly to manage the impact of emerging technologies. Our survey suggests they are embracing the challenge.

A conflicting global outlook

With a direct view of conditions on the ground, a CEO's view of the economy provides a useful snapshot of a country's future prospects. So it feels significant that despite continuing uncertainty over Brexit, this year our survey shows CEOs in a surprisingly optimistic mood about the UK's growth prospects over the next three years – after falling for the previous three.

Yael Selfin, Chief Economist at KPMG in the UK, agrees that despite respondents pointing to confidence edging up since the start of the year we are currently living through an unprecedented period of flux.

"Agility and resilience are extremely valuable right now," she says. "Businesses need to be prepared to act whenever there's a sharp change of direction."

Brian McBride, former Chairman of online fashion retailer ASOS, says the effects of Brexit are clearly holding back consumer confidence and the ability of companies to plan, but he is upbeat about the wider corporate picture. "In the main, companies' earnings and revenues are in reasonable shape and the underlying health of UK business isn't bad.

"It's the complete planning vacuum created by Brexit that's holding us back. Once we get certainty back into the system, I think you'll see confidence take off."

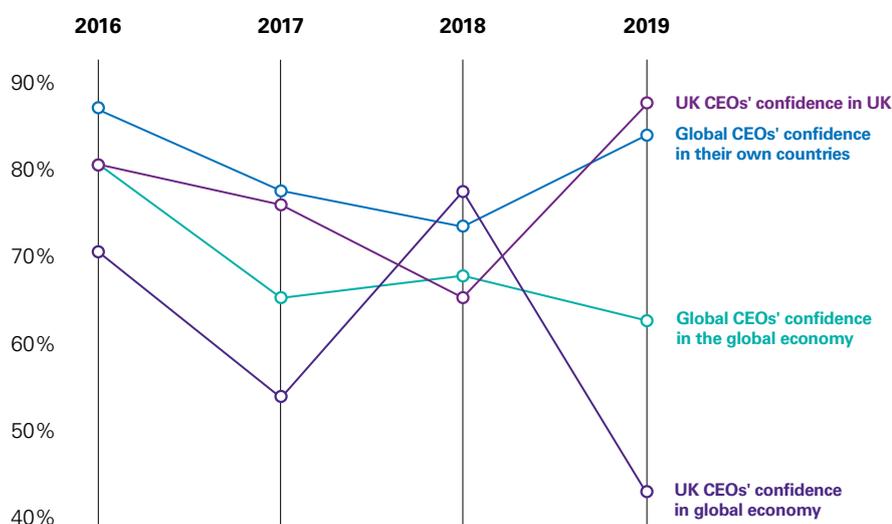
In contrast to positivity around the UK, confidence in the global economy over the next three years is plummeting among both UK CEOs and those in most of the countries taking part in KPMG's Global CEO Outlook survey (see chart 2).

87%

of UK CEOs have confidence in the UK's prospects over the next three years (versus 65% in 2018)

Chart 1: Confidence in the domestic economy has revived sharply among UK CEOs

% of UK and global CEOs who are confident about the prospects for the UK and global economies over the next three years



“Clearly Brexit has made our clients think harder about where their future sources of growth are coming from.

We’re an international business: we want people who’ve got an international outlook who speak different languages. Brexit may make it more difficult to bring in those capabilities.”

Louise Ainsworth

CEO EMEA, Kantar, Media Division



While US CEOs were more confident about the global economy than last year (along with Italian, Dutch and Spanish CEOs), our survey pointed to a marked loss of confidence from CEOs in seven of the 11 countries surveyed. That result tallies with a range of economic indicators showing a broad loss of momentum across the global economy.

Despite these concerns about a potential slowdown, Gary Reader, KPMG’s Global Head of Clients and

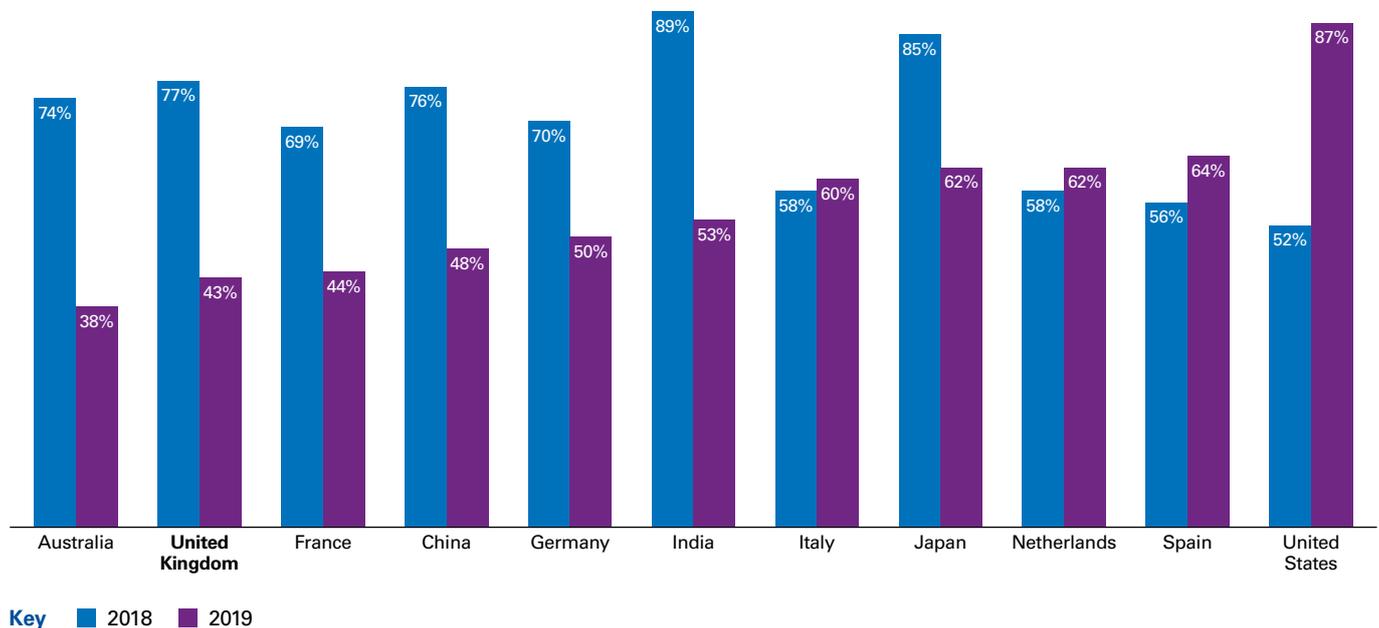
Markets, says it has not tempered the desire, or pressure, to grow. “Leaders are reprogramming and retooling their organisations to not only withstand any economic or geopolitical challenge, but to seize on disruption and find ways to continue to grow. This means having a clear view of early indicators and warning signals.”

↓ 34 percentage points

Fall in UK CEOs’ confidence in the global economy since 2018

Chart 2: Confidence in the global economy is falling in most countries

% of CEOs who are confident about prospects for the global economy in the next three years



Brexit: Living with uncertainty

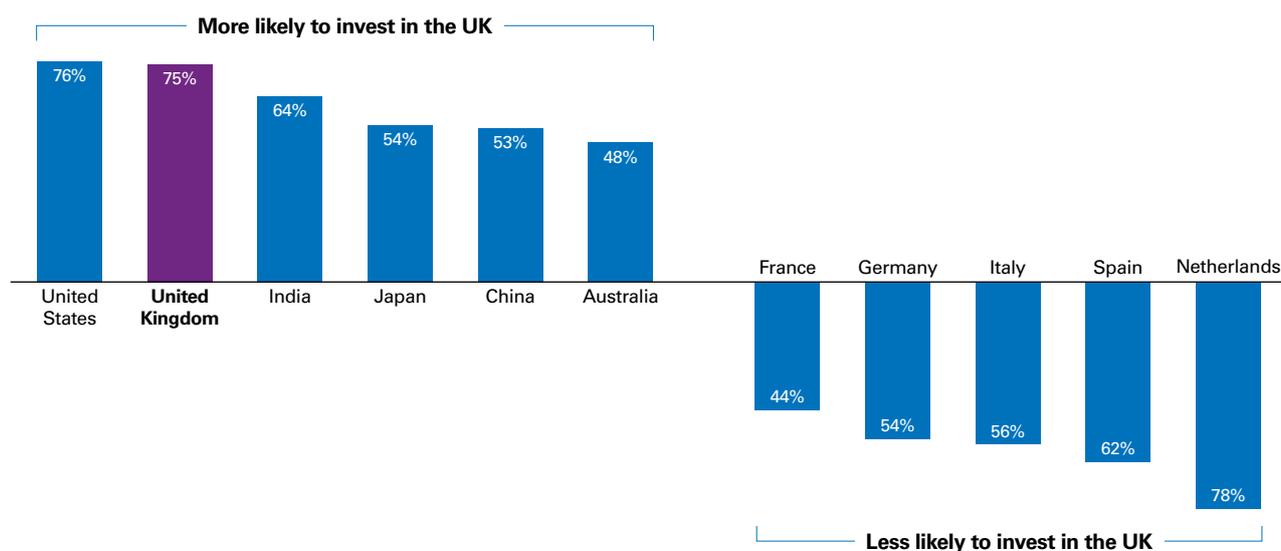
Brexit's end state remains unclear, yet despite almost three years of uncertainty, our survey shows that a significant proportion of global CEOs still view the UK as an attractive investment destination. Chief executives from China and Japan – the world's second and

third biggest economies – are on average more likely to invest in the UK post Brexit, while CEOs from the US (the UK's top foreign investor) are even more likely to invest in the UK than UK CEOs themselves.

Looking towards Europe, the picture is less positive with CEOs across all the European countries surveyed saying they are now less likely to invest in the United Kingdom.

Chart 3: Appetite among global CEOs to invest in post-Brexit UK falls the closer they are to the UK

How likely are you to invest in the UK, post Brexit?



“ Whatever happens on Brexit, the old consensus has been swept away. Instability in our politics, and uncertainty for business, is the new normal. It will be up to companies to fill the void and lead the debate on how we create a new, sustainable path to growth in this country. ”

James Stewart
Head of Brexit,
KPMG in the UK

“ There is obviously a huge amount of uncertainty in the UK about how things are going to work out with Brexit. I'm getting a little more concerned that when things do get resolved there might be some economic bad news stored up that we haven't anticipated. ”

Tim Harris
Deputy Group Chief
Executive and Group Finance
Director, Royal London

“ The uncertainty of Brexit has obviously not been helpful, but you can only put investment on hold for so long. At some point people say, 'okay, we need to just get on anyway'. People find a way of coping with uncertainty. It seems very difficult at the time and we just want this to stop, but after a period it becomes the new normal. ”

Matthew Wright
UK Managing Director, Ørsted

“Anybody that is seeing climate change as a risk hasn't really understood climate change. It's not risk, it's a reality, and you can't deal with this risk in the same way you might cyber.

Every business is going to have to be sustainable and base their business strategy around it and if they can't do that, sooner or later they won't exist.”

Matthew Wright
UK Managing Director, Ørsted



Technology, climate and politics dominate risk radar

CEOs face an external risk landscape that is more dynamic than at any time in recent corporate history. However, as in 2018, this year the same big three issues dominate the risk radars of both UK and global CEOs: risk of emerging technology, climate change and a return to territorialism.

Watching the evolution of climate change in the minds of UK CEOs has been particularly interesting. Two years ago not one UK CEO identified it as their top risk to growth. As chart 4 shows, it has clearly now established itself on the leadership agenda.

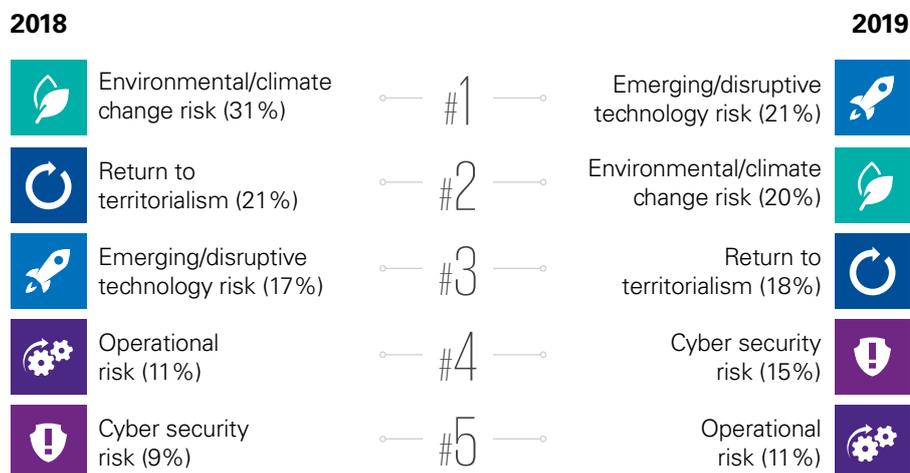
In fact, we found that 71 percent of CEOs believe their organisation's growth will depend on their ability to navigate the shift to a low-carbon, clean-technology economy – not only benefitting society, but unlocking growth by creating new markets and making operations more efficient.

Tom Brown, KPMG's Global Head of Asset Management, says CEOs' new-found focus on the environment brings them into line with the increasing focus of the investor community on environmental, social and governance (ESG) risks, including climate change.

27%
of UK CEOs are most motivated by driving short-term growth (versus 22% among global CEOs)

Chart 4: Tech risk replaces climate change as CEOs' No. 1 risk

Which of the following risks pose the greatest threat to your organisation's growth?



Brown says CEOs need to consider specifically how their organisations respond to climate change and disclose information on environmental risks and exposures. “For investors, climate risk is a big factor in decision-making. They will move away from asset classes and companies that they think are at risk.”

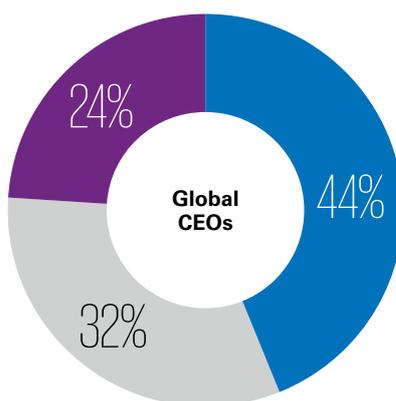
Meanwhile, UK CEOs’ concerns over geopolitics remain elevated with the fear of a return to territorialism in our top three for the second year running. Brexit dominates those concerns, as chart 5 shows, and even global CEOs expressed greater concern around the UK’s exit from the EU than US-Chinese trade tensions.

Yael Selfin says the worry for CEOs and their organisations is how far away we could still be from having that clearer picture of the UK’s eventual settlement with Europe.

“Businesses need to factor in that the process of leaving the EU could take longer than they expected, with a long lag before they would have visibility of the future shape of relations between the UK and its major trading partners,” says Selfin. “My worry is that business investment will be postponed for too long as they wait for more clarity and that could significantly harm the UK economy.”

Chart 5: Brexit is the top geo-political concern for global CEOs

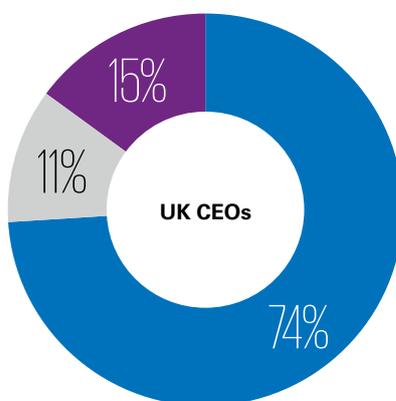
You mentioned that a return to territorialism poses the greatest threat to growth. Which of the following are you most concerned about?



Key

- Brexit
- US China trade negotiations
- The rise of political parties with protectionist policies

... and overwhelmingly so for UK CEOs



“ I think some companies today are probably still in denial. I think there's lots of disruption to come, and I think that organisations have to embrace new technologies, new methods, artificial intelligence, machine learning.

You have to understand the customer much better to be able to actually give the customer what they want, how they want it and when they want it.”

Brian McBride
Former Chairman, ASOS



Disruptor or disrupted?

Disruption is a double-edged sword. CEOs recognise disruption has become an intrinsic part of their growth strategy. Over 90% told us this year, like last, that it represented more of an opportunity than a threat for them – consolidating the surge of positivity around disruption seen in last years’ survey. CEOs are not only dealing with disruption, they are embracing it.

At the same time, CEOs are only too well aware that new digital entrants – and traditional rivals with new digital capabilities – pose a major disruptive threat.

Their objective is to control disruption somehow, whether by disrupting their own business or the markets in which they operate. Three in five UK CEOs told us they are disrupting their sector.

“It is always better to be ahead of change and disruption rather than fighting it off,” says Louise Ainsworth, CEO EMEA at Kantar, Media Division.

To achieve change, we also found UK CEOs more willing than their global counterparts to shake things up: 77% say driving growth relies on the ability to challenge the way things have always been done, while for 65% of them (and for 67% of their global counterparts) agility was the new currency of business.

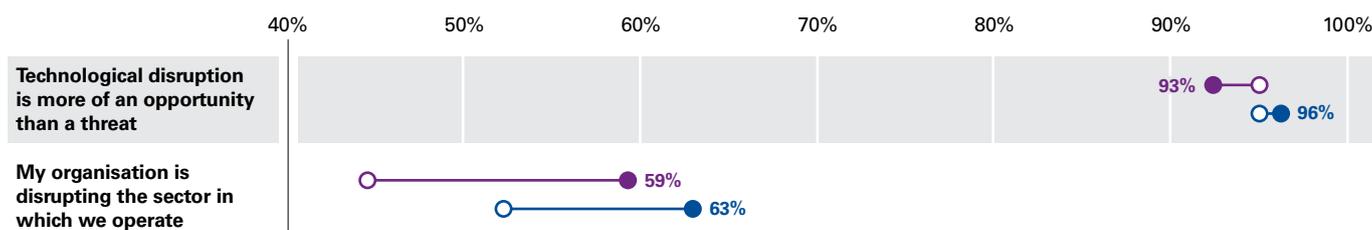
Disruption goes much broader than just digital however.

Organisations that can better articulate their story, connect with customers and reflect customers’ values will increasingly hold the advantage. Right across the economy, companies are disrupting markets by pursuing a more ethical and sustainable approach to business.

Melanie Richards, Deputy Chair at KPMG in the UK, says modern leaders need to anchor their corporate strategy and culture within a social context that is becoming more important to employees, customers, government and investors. “It’s clear that organisations who put sustainability and inclusion at the heart of their corporate strategies are reaping the rewards in terms of competitive advantage. This trend is only set to intensify.”

Chart 6: UK CEOs are embracing disruption and putting it into practice

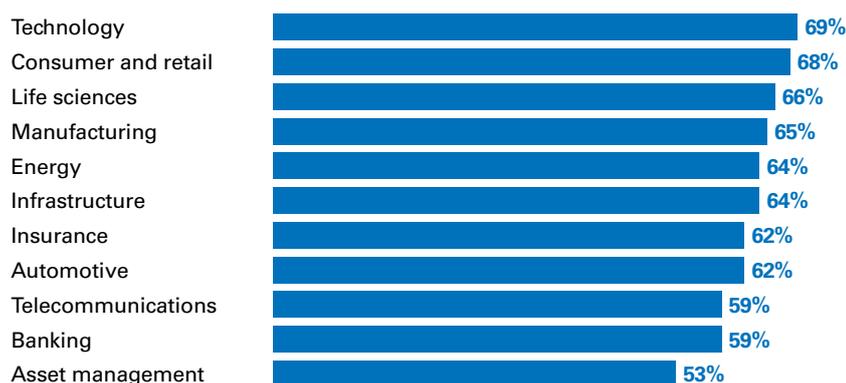
% who agree with the following statements



Key United Kingdom ○ 2018 ● 2019
Global ○ 2018 ● 2019

Chart 7: Globally tech and consumer-facing firms are most bullish on disruption

% of CEOs globally who believe their organisation is actively disrupting its sector rather than waiting to be disrupted (by sector.)



Danish firm Ørsted is a good example of a company disrupting its own business model. Several years ago, the leadership of what was then Danish Oil and Natural Gas (DONG Energy) took the decision to sell all its oil and gas assets and become a pure renewable energy provider, changing its name to Ørsted in the process (after 18th century scientist Hans Christian Ørsted).

“You're either the disruptor or the disrupted,” says Matthew Wright, the firm’s UK Managing Director. “Even for a business that is disrupting, the key is not to succumb to a kind of incumbent mindset that somehow you have the secret sauce and it’s never going to change.”

And he says it was Ørsted’s radical decision to change its business model that has given it both the societal purpose that is so attractive to customers and employees, and also the strategic purpose that helps drive the firm forward.

“You're not having to weigh different things, different priorities,” he says. “It's really interesting how powerful that purpose is and how actually simple it makes the business.”

Our survey found that half of UK CEOs (51%) agree that they need to look beyond financial growth alone to achieve long-term sustainable success – up 11 points on last year. At the same time, they remain under intense pressure to deliver now, with 27% saying their principal motivation is delivering short-term growth (the highest proportion globally).

Tim Harris, Deputy Group Chief Executive and Group Finance Director at life insurance and pension provider Royal London, says investor pressure is ensuring that a closer focus on environmental, social and governance (ESG) issues is here to stay.

“We are getting far more deliberate in the way we're approaching the ESG agenda,” says Harris. “I would anticipate this trend increasing quite significantly over the course of next year.”

Over seven in 10 CEOs in the UK say it is their personal responsibility to ensure their ESG policies reflect the values of their customers. However 45% admit that linking their growth strategy to a wider societal purpose is a struggle (an improvement on 50% last year, and broadly in line with CEOs globally).

Radical change is inevitable but CEOs are rising to the challenge

Nicholas Griffin,
Global Head of KPMG’s Global Strategy Group

Much of the hype in the dotcom era never materialised. This time around it’s proving to be different. The promises of digital are starting to have a material impact on the way in which companies do business.

Leaders I work with across a wide array of industries are starting to realise the potential of technologies including machine learning, AI, cloud and robotics. That is leading to greater agility, especially in their speed of decision making and execution. Innovation is now being driven by a perpetual stream of data and analytics, collected from customers, operations and supply chains.

Over the next three years, I expect to see a big increase in data sharing and collaboration across ecosystems, and that will move the complex issues of privacy, security and trust front and centre for CEOs.

Reputations will be broken for those who fall short, and not just in B2C which has attracted the lion’s share of interest from regulators, governments and the press so far. Organisational resilience as a competency is about to become far more complicated ... and important.

02

Leading in uncertain times

UK chief executives are acutely aware they need to continually challenge their business models and adapt organisations to keep pace with disruption ... and to disrupt others.

But how are they going about the task?

New routes to growth

Over the past three years of this survey, we've seen a clear shift in growth strategies from organic to inorganic. And within that move towards inorganic growth one of the most striking trends in this year's report was the enthusiasm to forge strategic alliances.

In fact, UK chief execs are more enthusiastic about strategic alliances than CEOs from any other country surveyed and now rank it as their most important strategy to drive growth (above organic, M&A, joint ventures and others).

Nicola Longfield, Head of Corporates Deal Advisory at KPMG in the UK, says that digital transformation is driving many alliances and partnerships.

"Strategic alliances are also being used where regulators might otherwise block a deal on the grounds of market concentration," she says.

"They can bring significant value, with lower costs and shared risk."

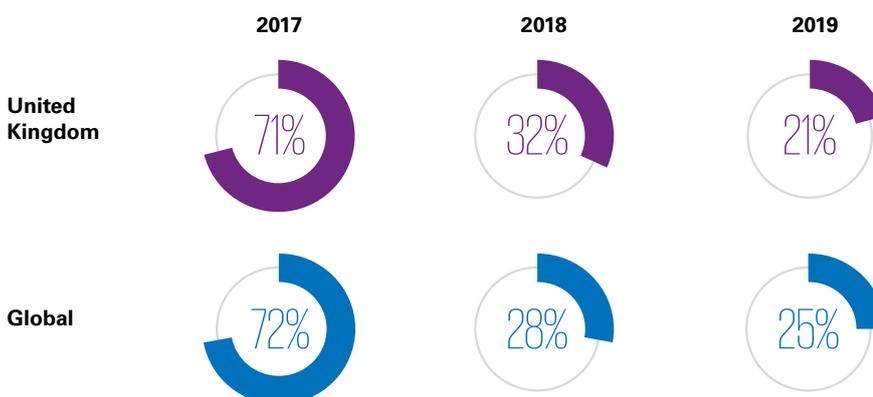
42%
of UK CEOs say strategic alliances are their most important growth strategy (vs. 34% for CEOs globally and 33% in the UK in 2018)

“We spent a lot of time thinking about what really makes a true value business and each time we found the same characteristics: every one has an insurgent mission, breathtakingly low prices, and a very, very distinct view on what they do ... and what they don't.”

Tristia Harrison
CEO, TalkTalk

Chart 8: Organic growth is losing favour among CEOs

% of CEOs who see organic growth as their principal growth strategy



(Options: M&A; organic growth; joint venture; strategic alliances with third parties; outsourcing)

Another important strand to the rise of strategic alliances is that we are likely to see a greater reliance on ecosystems to deliver growth and create optionality, says Nicholas Griffin, Head of KPMG's Global Strategy Group. "CEOs realise that in many cases they need to pursue multiple options where they lack capability or need to set a pace that internal innovation engines cannot deliver."

We found UK CEOs had the highest appetite for setting up accelerators and incubators and over two thirds said they would undertake some sort of corporate venturing. They were also far keener than global CEOs to collaborate with start-ups and use third-party platforms as a sales channel.

"Only five, six years ago everybody tried to do it by themselves and that has changed," says Claudio Gienal, CEO for UK and Ireland at AXA, which now has its own incubator programme, an investment fund and a scouting system to scan for ideas. "Things can be done four, five, six times faster today than they used to be done and having that capability often requires a different team, a different culture."

KPMG's Nicholas Griffin says the need to drive innovation faster is going to see organisations augment the traditional 'make and buy' model with a 'rent and collaborate' approach. "It's one that will require a different set of competencies," he says. "Moving to a strategic partnerships model is not straightforward.

"Fundamentally it is about collaboration which requires new and more dynamic ways of working than keeping things entirely in-house. Collaborating in ecosystems through strategic partnerships has implications for financial, business and operating models."

M&A remains popular (as chart 10 shows), not least as a way for CEOs to transform digital capabilities quickly and build resilience as a result. Almost half those we surveyed in the UK (47%) said

their main motive to merge with, or acquire, another company was to transform their business model faster than would otherwise be possible. Eliminating competitors and increasing market share are the next two biggest motivations.

"M&A is a powerful tool in any CEO's armoury," says KPMG's Nicola Longfield. "A lot of organisations will acquire, rather than develop a disruptive technology or digital platform. Speed is a strong driver."

Chart 9: UK CEOs are quicker to team up with third parties

Does your organisation intend to undertake any of the following actions over the next 3 years to help in pursuing your growth objectives?

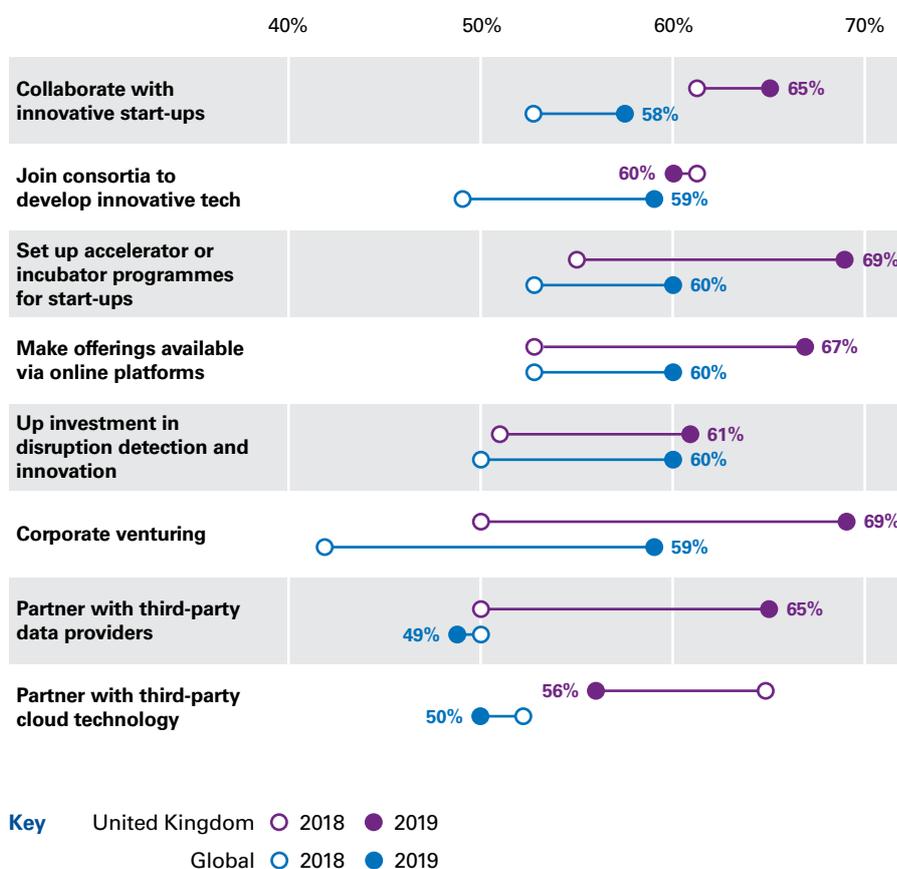
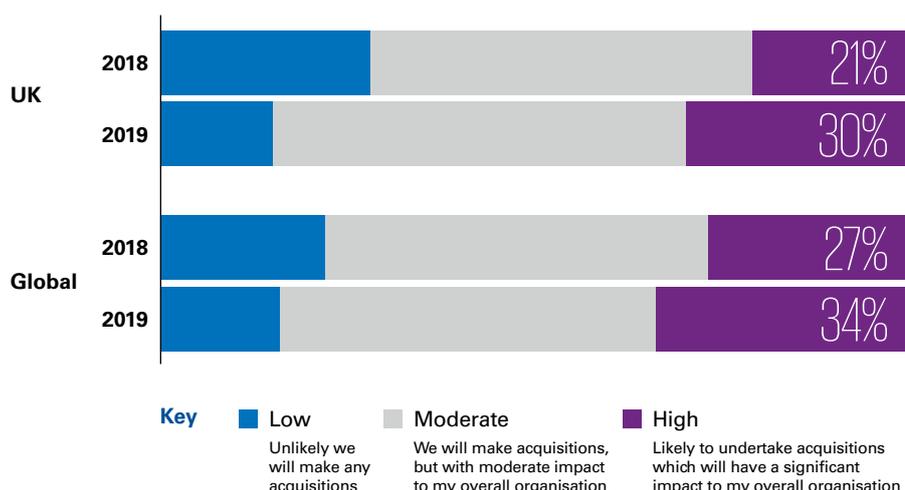


Chart 10: UK CEOs' appetite for M&A is growing

Over the next three years, how would you describe your organisation's M&A appetite?



Three ways to ensure a successful integration after a deal

Leadership teams need to apply three basic tests to any inorganic activity to maximise the chances of success:



1. Culture, culture, culture

People and culture often appear as top challenges. Too many organisations take the easy way out on culture, for example appointing co-heads to a unit to avoid offending one side or avoiding the tough decisions and actions early on.

Strong and visible leadership, that is aligned on culture, vision and strategy is critical to set the foundation for the future business. Understanding how to tap into the emotional side of change, using e.g. symbolism can be a very powerful leadership tool.



2. Understand the execution challenges

What might be the big hurdles to achieving post-deal synergies? How do you retain the best people from the business being bought? What might be the implications for either brand?

A deal provides a great catalyst for change. Leaders who can really tap into this event to mobilise rapid, transformational change can get ahead of the competition.



3. Be crystal clear about expected returns

Deals provide exceptional opportunities for leaders to create or destroy value. Examining every option through a value creation lens in the earliest stages increases the chances of success.

A mega merger may make you a hero to shareholders, but the risks may outweigh this and a strategic alliance, for example, may be the smart move. Analysing your options on a risk adjusted basis is the key.

“It’s vital you are very clear on what your business does and does not do. We found just the act of clearing the decks around our strategic purpose has been incredibly helpful for our people.

So often, people’s disenchantment within an organisation goes back to a confusion about ‘where are we going?’, ‘what are we doing?’ or ‘what do we stand for?’. You just can’t reiterate that message enough as CEO.”

Tristia Harrison
CEO, TalkTalk



The march to emerging markets

CEOs are telling us that expanding the footprint of their organisation remains a vital tool in building resilience and tapping into faster growth, despite CEOs’ growing scepticism around prospects for the global economy over the next three years.

Emerging markets is the top priority for 66% of CEOs who are looking to grow beyond the United Kingdom (compared to 57% looking towards emerging markets in 2018).

“It isn’t a new phenomenon that the emerging world is growing faster than the developed,” says Louise Ainsworth of Kantar, Media Division. “What has changed is the risk profile and the fact that risks are increasing in some developed markets relative to some emerging markets.”

¹ <https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019>

While the IMF has said it expects growth in emerging markets to moderate slightly this year before ticking up to 4.9% in 2020, it estimates that advanced economies will grow at less than half the rate of emerging markets this year and slow further to 1.7% in 2020¹.

Given that backdrop, UK CEOs are looking towards emerging markets to protect growth: 86% say they are building a presence there to become more resilient.

The leap into emerging markets doesn’t have to be a big one

David Slater, Director, International Trade, KPMG in the UK

UK CEOs seem to really be buying into the emerging markets (EM) story this year, and that makes sense with uncertainty at home and weaker growth in many mature markets. Our survey shows UK CEO interest in EM is up this year, from 57% in 2018 to 66%, with Latin America and Eastern Europe particular targets.

My first piece of advice to CEOs looking in this direction is always to look – and look again – before leaping. Mistakes tend to come when research is patchy and there’s been no cold, hard, detached assessment of the risks and rewards. Groupthink takes over, and leadership aren’t sufficiently honest about both the size of the prize, and their ability to take it.

Daunting as it may be, businesses don’t have to start with a blank sheet of paper. There’s nothing wrong using the competition as a model if they are doing a good job. Strategic alliances and joint ventures is another important avenue: not only to spread the risk but also to tap into a local partner’s know-how.

Building an innovation culture within

UK CEOs might be leading the pack when it comes to partnering with other organisations to maximise growth, agility and innovation, but organisations will struggle to react to rapid changes in customer demand or technological disruption if they are not creative and innovative themselves.

If that is the case, then CEOs in the UK – like their counterparts abroad – still have work to do. Our research found a disconnect between the culture that CEOs aspire to have and the culture they have today: 77% say they want employees to innovate without fear, but only 57% say that corporate culture is already in place.

“It’s very difficult to bottle innovation,” says Lisa Heneghan, Chief Digital Officer at KPMG in the UK. “Most employees are so focused just on the pressure of executing business as usual and renewing their business that they don’t have the headspace. Putting in a framework for innovation can turn the dial”

Royal London’s Tim Harris says aspiring to have a ‘consequences-free’ culture around innovation is one thing. Making it a reality is another. “Businesses talk a good game about failing fast and being tolerant of failure. But I’m not sure how many businesses are putting the theory into practice.

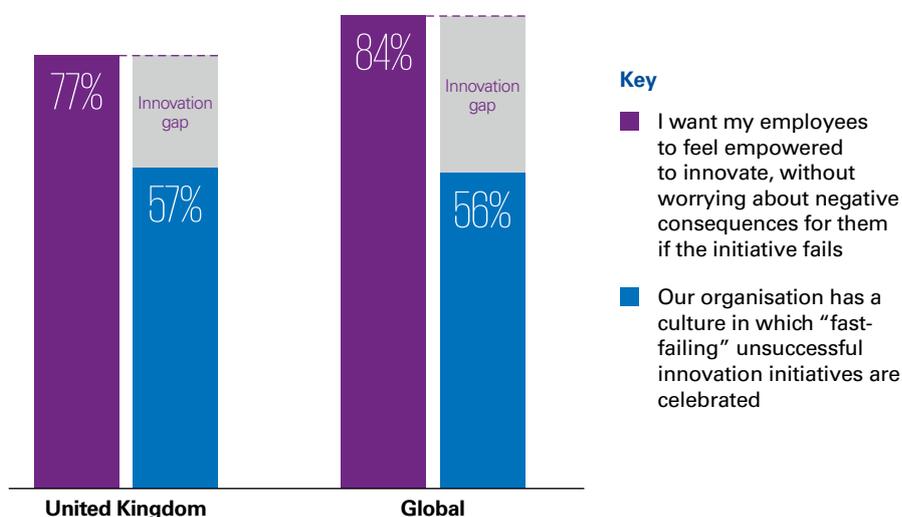
“The market is not tolerant of even small failures. You’ve only got to see how the share prices of some of the world’s biggest tech firms have been punished for glitches and product hiccups.”

Just over half of the CEOs in the UK (52%) say they need to improve the way they innovate. That is the lowest rate across the 11 countries surveyed. By contrast, 80% of Dutch CEOs see a need to improve their innovation processes and execution.

52%
of UK CEOs said they needed to improve how they innovated (the lowest rate globally)

Chart 11: CEOs want to foster innovation but have to work harder on culture first

To what extent do you agree with the following statements?



“ In order to be resilient, a company has to have the right leadership and one with the right mindset. Building the right culture and organisational structure are crucial.”

Henadi Al-Saleh
Chairperson, Agility



Time for a C-suite reboot

As disruption in all its forms is increasingly reshaping organisations, it is no surprise that disruption is also reshaping leadership teams. Already in most major organisations, CFOs and CMOs have been joined by a new generation of direct reports to the CEO – from chief analytics to chief digital officers. However, while CEOs have added more firepower to their leadership teams, they are not stopping there.

One response is to introduce greater diversity into the leadership group – one that not only introduces different skills and experiences but that better reflects a business’s customers and employees.

“We need to make sure our teams reflect the diverse society we’re trying to build an understanding of,” says Louise Ainsworth at Kantar, Media Division. “It’s not just important for our employees and a nice thing to do. It’s really important for the business.”

Melanie Richards says the speed at which organisations are now evolving means CEOs now need to seek views from a much broader group of people with a wider range of skills. “The days of the ‘hero CEO’ who had all the answers are long gone. Leaders still have a responsibility to set the agenda of their organisation of course,

but there is a recognition now that seeking counsel from a wider group of advisers points to strength, rather than weakness.”

Eighty seven percent of UK CEOs are actively transforming their leadership team to build resilience (3% more than global CEOs), our study found.

CEOs are looking for leaders who can work across the organisation. Once they have defined their central priorities – whether that be changing their business model right through to redesigning operations – the question is whether the current crop have the profiles and skills to deliver.

In the short term, that could entail looking again at how C-suite performance is measured. In the longer term, they may need to completely re-assess how they are developing the next generation of talent.

87%

of UK CEOs are actively transforming their leadership team

“Trust is now a huge driver of value”

The issue of consumers' trust in brands is having a direct impact on the top and bottom line. A culture of trust also extends within the business, say corporate leaders.

“The lack of trust in the status quo is extraordinary and I think consumers are genuinely looking for organisations they can trust. Even just five years ago, ‘trust’ was the kind of thing the business community paid lip service to. Now it matters every single day and it can break you. For businesses that can get it right though, there’s a huge opportunity out there.

Think about the fundamentally different way consumer brands are marketing today: Just saying ‘my washing powder washes whiter’ doesn’t work anymore. You’ve got to connect, have a conversation, show integrity.”

Tristia Harrison
CEO, TalkTalk

“Trust is enormously important.

We try to think of ourselves as a business that people are glad exists, and we do genuinely believe we’re here to create a better future. To be trusted, that sentiment has to be legitimate. It has to be authentic.”

Matthew Wright
UK Managing Director, Ørsted

“The issue of trust has been one of the most interesting developments we’ve observed in consumers globally over the past few years. Our clients now have to be very cognizant of the way attitudes are changing, how they’re connecting to those audiences and how they use people’s data.

Trust is a huge driver of value for businesses today, but can be lost overnight.”

Louise Ainsworth
CEO EMEA, Kantar, Media Division

“Every organisation needs a culture where people trust and respect each other because having that base allows people to try out things; to make mistakes knowing that everybody has got his or her back if things fall apart. That is the key lever to innovation.

Treating everybody with respect and trusting everybody to do the right thing. If our people can do those two things, they are more than welcome.”

Claudio Gienal
CEO, AXA, UK & Ireland

03

Changing from within

CEOs face a daunting challenge to reinvent their organisations for the digital age. They have workforces that need a fundamental reboot of skills – just like their leadership teams. They need to embed tech across the organisation, build enterprises in which the whole business is connected and safeguard their reputation from cyber threats and other risks.

Creating a tech-enabled workforce

A quiet revolution is underway in the workplace that will change all our lives in the next two decades.

Despite employers complaining of skills shortages across a number of sectors as UK unemployment dips to a four decade low, it's estimated by the OECD that 14% of jobs could disappear in the next 15-20 years as companies automate. Another 32% are likely to change radically, it says².

Governments and civil society around the world are grappling with the ramifications as artificial intelligence, robotic automation and machine learning destroys some jobs and creates others.

But while they debate, organisations are creating facts on the ground with everyday decisions about how, when and where to automate: what should remain human-led; and how skilled employees and smart machines should work together.

For now, our survey suggests CEOs are still testing the waters and holding off decisive moves that would change the balance between tech and people.

Forty three percent expect to grow headcount by 6% or more in the next three years (versus 36% among global CEOs), though for 55% of UK CEOs hiring at that rate is contingent on hitting growth targets.

"It's a balance," says AXA's Gienal, "but at the end of the day it's always people first. There is technology you can buy, but people you can't."

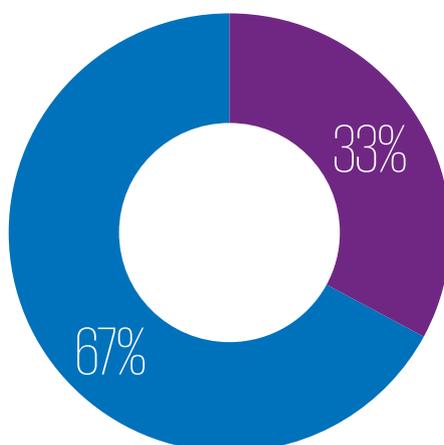
However, is it possible to glimpse a different story when we look at the way CEOs are striking a balance between investing in people and tech? Only a third of UK CEOs told us they were prioritising capital investments to help develop people's skills and capabilities versus two thirds prioritising more capital investment in new technology. It was a similar picture globally.

34%

of UK CEOs believe AI and robotics will eliminate more jobs than they create (up from 29% in 2018)

Chart 12: UK CEOs plan to spend more on tech than training

Which of the following investments are you prioritising to improve your organisation's resilience?



Key

- More capital investment in developing our workforce's skills and capabilities
- More capital investment in buying new technology

² <http://www.oecd.org/employment/future-of-work>

“It’s a challenge to make sure everybody in our business embraces new technologies. I’m not talking about bleeding-edge fintech. I’m talking about technologies including the cloud and data analytics that can make a fundamental difference to the efficiency and effectiveness of our organisation.”

Tim Harris

Deputy Group Chief Executive and Group Finance Director, Royal London



Only a third of CEOs (34%) told us that AI and robotics would destroy more jobs than they created, but Lisa Heneghan, Chief Digital Officer at KPMG in the UK, thinks that is likely to increase as companies seek to drive through the cost-saving benefits of technology: “We’re seeing plenty of experimentation around digital, but ultimately a CEO’s or CFO’s decision to invest in tech will be based on ROI, which will mean optimising the role of people in the process.”

Whatever the final tally of jobs created or destroyed, the big workforce challenge for employers and employees will be equipping people with the skills needed to operate in an era where digital technology is sewn into the fabric of our personal and professional lives.

UK CEOs appear more committed to that task than their global peers. We found that 55% plan to provide half or more of their current workforce with skills such as the use of advanced data visualisation and coding over the next three years. The level among CEOs globally was 44%.

Our research also shows that globally, CEOs who are transforming their leadership teams tend to be those who have more ambitious plans to upskill the whole workforce. These are the CEOs providing their organisations with a head-start in the digital age as a result.

Jonas Prising, Chairman and CEO of global workforce solutions company ManpowerGroup, says the focus should not only be on the technology. “We believe the major impact of technology is going to be to augment human capability provided you have the skills necessary to take advantage of it.

“In my view, too much time is spent debating the impact of job elimination and not enough time focusing on the need for a skills revolution; where we can upskill and reskill the workforce, both at a company level, and at a country level.”

85%
of UK CEOs are more confident about using cloud technologies

Landing new tech is a hearts and minds exercise

Kate Holt, People Consulting Partner, KPMG in the UK

Effective upskilling is more than just equipping people to use new technology. You need to win people’s hearts and minds to convince them that although technology is going to change their role, that’s a good thing. It’s about showing people how technology can help them do their jobs. That desire to incorporate technology into the way they work has to come from the employees themselves.

I find that in most cases however that organisations are failing to commit sufficiently to the task. That means organisations are failing to change perceptions and that in turn is holding back the adoption of vital new technologies.

Technology: Digital can't be an add on

Twenty years' ago, organisations were racing to develop a 'dotcom strategy', yet in most cases the hype failed to match reality. Does developing a distinct digital strategy in 2019 carry the same risk?

"Organisations shouldn't have a separate digital strategy," says Lisa Heneghan. "It should be an integral part of everything you do. Whether it's your customer strategy, people strategy or production strategy, they all have to intrinsically recognise that the world is now digital."

CEOs seem to understand the distinction and are getting far closer to the digital transformation of their organisations. Our study reveals that four in five CEOs (81%) are personally leading on technology strategy (just below 84% of CEOs globally).

Our results show growing confidence among UK CEOs around the use of technology and more optimism around the speed at which they will see a return on technology investments. "That's really important," adds Lisa Heneghan. "You can't maintain momentum of digital transformation unless you start to show some real value within the business."

On artificial intelligence (AI), we found that UK and global organisations were still in their infancy when it came to using AI to automate. However, the increase in uptake has been so significant in the UK that more CEOs here than globally say they have used AI to automate some processes. A further 24% of UK CEOs said their organisations were still at a pilot stage on AI, while 59% had implemented AI to a limited extent.

"CEOs and shareholders are at last starting to realise the promises of digital," says KPMG's Nicholas Griffin. "It is fundamentally changing the proposition in terms of functionality, service, personalisation and community building. Customer relationships have a much higher risk of disintermediation and disruption. Automated decision making is kicking in while productivity and scaling benefits are rising in tandem."

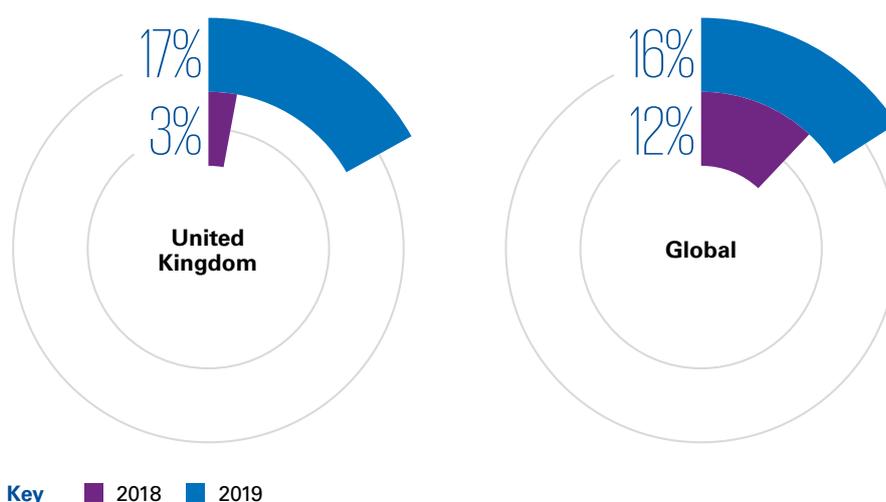
We also found that UK CEOs are handling the pressures of delivering technological transformation better than before. Whereas last year 86% said they felt overwhelmed by the pressure to show significant progress on transformation, this year that level had dropped to 62% (less than the 68% of global CEOs who expressed that emotion).

We found CEOs more optimistic about when they might see a pay back on the tech investment they had put in (chart 14). Seventy one percent believe they'll see a return in one to three years, versus 61% of CEOs globally.

We also recorded a rise in CEOs saying they were more confident about the cloud than at any time in the last three years. However, there is still a reticence to commit fully, with half still concerned at the prospect of migrating all their business data there.

Chart 13: Adoption of AI in UK firms leaps almost six-fold

% of CEOs who said "we have already implemented AI to automate some of our processes"



“Everybody dreams of the next unicorn but I think it’s the day-to-day innovation that’s just as important. Everyone in the organisation should have the right and the ability to innovate in the things they do, every day.”

Claudio Gienal
CEO, AXA, UK & Ireland



Connected enterprise

There’s barely a major organisation out there that doesn’t have a stated desire to ‘put the customer at the centre of everything we do’. But how many achieve it? For large, complex businesses increasing value to customers while delivering a meaningful return can be challenging.

The key to creating a stronger customer and brand experience, agreed 73% of UK CEOs, is to make sure the middle office (areas like Logistics and Production) and the back office (HR, Finance and IT) are properly connected with the front.

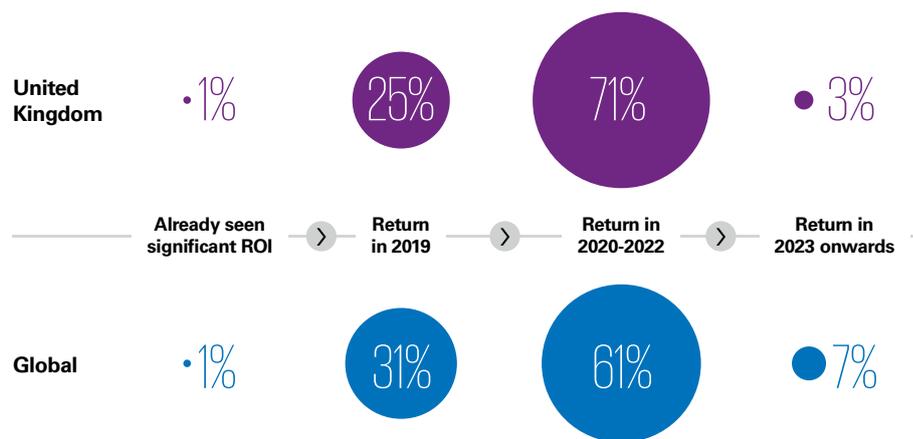
The ‘connectivity conundrum’ is a pressure today’s CEOs believe has grown in recent years. Eighty eight percent said they had a greater responsibility to connect front, middle and back in a way their predecessors did not (globally the figure was 79%).

But is it working? Almost half the UK CEOs surveyed (45%) say the investments they have made in personalising the customer experience have not delivered the growth benefits they were hoping for (while 47% said it had).

Adrian Clamp, Global Head of Customer Advisory Practice at KPMG, believes that the CEO’s personal intervention is key to realising a customer-centric organisation, where

Chart 14: UK CEOs are slightly more optimistic about seeing a return on tech in the next 3 years

Over what time period do you expect to see significant return on investment from digital transformation?



a better customer and employee experience drives profitable business outcomes. “Shifting the enterprise to focus on the customer will fail if you end up with a collection of uncoordinated efforts taking place within different silos” he says. “You need alignment across the organisation – a connected enterprise approach – to meet customer expectations, improve business performance and achieve profitable growth. It’s the CEO who brings this holistic thinking and drives that consistency across the organisation.”

And as the enterprise becomes part of a wider connected ecosystem and the ability to integrate digital innovation helps unlock long-term growth, so the threat from cyber-attacks increases. Cyber-attacks cost the global economy an estimated \$450 billion a year³.

Significantly more UK CEOs this year than last say they feel well prepared for an attack.

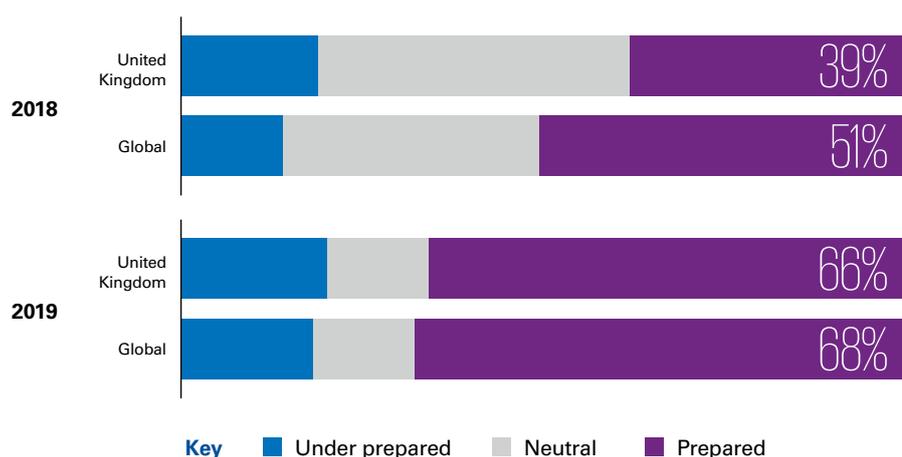
³ <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/staying-ahead-cyber-crime>

And for Bia Bedri, Cyber Security Partner at KPMG in the UK, their greater confidence is well placed. “Many businesses have made significant investment building their cyber capabilities, and clearly some are reaping the benefit. That said, the speed at which businesses, consumers and adversaries are

adopting new technology means the threat will remain a moving target. Managing cyber risk in an agile environment and complex ecosystem requires a culture shift of business and security professionals to effectively collaborate from the outset to deliver security by design.”

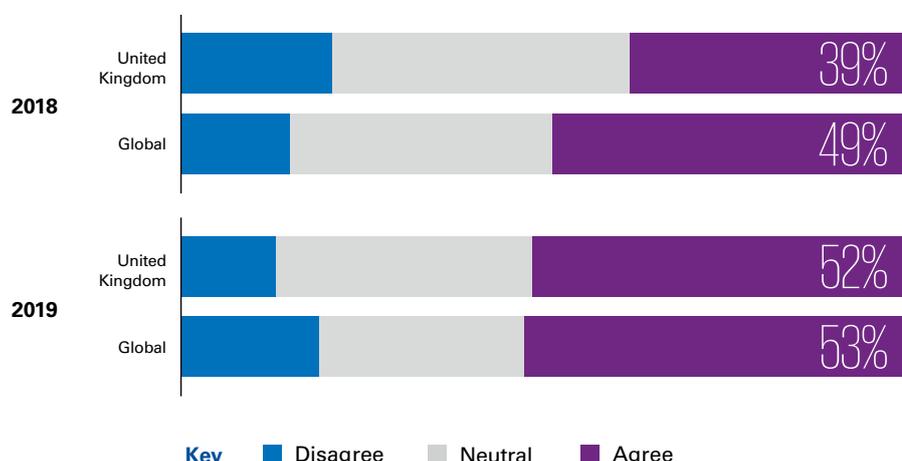
Chart 15: More UK CEOs are feeling prepared for a cyber attack

How well prepared is your organisation for a future cyber attack?



... but it's increasingly a question of 'when' not 'if' in CEOs' minds

Proportion who agree that “becoming the victim of a cyber attack is now a case of ‘when’ not ‘if’”



CEOs will have to be brave in adopting the cloud

Lisa Heneghan, Chief Digital Officer, KPMG in the UK

It's great to see CEOs starting to recognise and realise the benefits of the cloud and it's easy to see why. Cloud is a core foundation for any kind of automation or digital transformation.

I'm seeing more and more organisations starting to move their core applications and associated data to the cloud as they become more confident in increased security and greater rigour around cloud management.

At the same time, we increasingly see a hybrid cloud approach, as high-profile breaches by hackers have understandably spooked CEOs around the extent they move to the cloud.

Ultimately, it should fall to the CEO to balance these risks with the opportunities. However, as cloud adoption gathers pace and companies ask not “should I be on the cloud?” but “how can I speed up our migration to the cloud?” they will have to recognise that cloud is becoming a critical pre-requisite to achieving an agile business.

04

The evolution of the CEO

This report shows how much the role of CEO has changed over the past decade. Chief executives today have to be more agile in reacting to a more dynamic marketplace, show greater resilience to a wider spectrum of pressures and be ready to constantly challenge the status quo.

Less time to do more

In reality, today's CEO has less time to bring in new ideas, correct early missteps or leave a legacy (interestingly, we found that 83% of UK CEOs are putting in place measures to ensure their personal vision is realised after they leave).

The view among 70% of UK chief executives is that today's CEOs are in post for around five years and that this is less time than when their career began.

62%

of UK CEOs say they need to act with greater agility because of shortening tenures

"The tenure of the CEO has been reducing over the past 10 years and it's going to reduce further – probably to between three and five years," says former ASOS Chairman Brian McBride. "What we're seeing is the demise – almost the disappearance – of the old fashioned big personality ... and in their place the rise of somebody with different values and behaviours."

It is not just the lifespan of major listed companies that has more than halved in recent decades, but CEO tenures too. It is partly down to the shortening of business cycles says KPMG's Nicholas Griffin. "I can remember strategy being talked about as a seven year timeline; you'd make your choices, invest, execute and show patience to see it through. These days I think strategies are constantly being updated with a major overhaul every two to three years."

The learning CEO

Being chief executive is a constant learning experience. Kantar's Louise Ainsworth says it is vital for CEOs to adopt a growth mindset when they assume the role. "Nobody is ever perfect and no organisation is ever perfect. It's only when you are open and recognise where the gap might be that you can bring in resources to train, gain experience and build capabilities."

In our survey, 74% of UK CEOs admitted to having made a significant misstep early in their careers that they subsequently overcame.

Matthew Wright from Ørsted says he would have plenty of advice for his former self. "First, recognise if you are in a business that is not challenging itself enough. It's very easy to do ... but sooner or later you're like King Canute – trying to hold back the tide.

"Spend more time with your head up looking at the bigger picture for your sector and what the macro-level changes are at a planetary scale frankly, as well as sectoral.

"I would also say to myself: 'being a disruptor, rather than being disrupted, is so much more fun'"

“Many of the pressures facing a CEO are more significant than five or 10 years ago because of that focus on trust and transparency. Whether you like it or not, as CEO you are the public face and you can't hide away – particularly if there are reputational issues at stake. The question is then whether CEOs are shying away from making those brave calls exactly because of greater scrutiny.”

Tristia Harrison
CEO, TalkTalk

“One of the first things I learned is that I don't have to have a view on everything. So I try just to focus on the things that matter to the business.

The second piece is making sure I have the right team around me. That's probably the biggest lever: making sure I have people around who are better than me in those particular, specialist disciplines.”

Claudio Gienal
CEO, AXA, UK and Ireland

In summary

Chief executives are confronting an era of unprecedented change and economic uncertainty. Despite this, the picture presented in KPMG's 2019 UK CEO Outlook is one of surprising optimism. This group is not only confident about the UK's prospects; CEOs are also plotting new routes to growth by disrupting both their markets and their own organisations.

They will need agility in an increasingly unfamiliar world and as they face questions like:



How do I link our growth to a wider societal purpose? And what are the financial and reputational costs if I don't?



How can I anchor our business sufficiently to plan and invest over the medium term with so much political, technological and environmental uncertainty around?



How are we equipping our workforce with the tools for a digital era? And have we won the hearts and minds of employees to ensure our investments in technology are a success?



Are we innovating enough internally? What steps should we take to foster a more creative and innovative culture?



How do we build the necessary ecosystem of partnerships, investments and acquisitions to give us the optionality we need to remain relevant and maximise opportunities?



Does my leadership team give me not only the breadth of skills and experience I now need, but does it also reflect the consumers and societies we are seeking to understand?

A new kind of CEO is emerging who can answer these questions. They have less time and fewer certainties to work with, but are more ready to challenge conventional wisdom and inject new urgency into the search for solutions. For their organisations, these are the CEOs redefining resilience.

Methodology and acknowledgments

The survey data published in this report is based on a survey of 1,300 CEOs in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. One hundred and fifty of them were CEOs running companies in the UK.

The survey was conducted between 8 January and 20 February 2019.

The CEOs operate in 11 key industries: asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications.

Of the 1,300 CEOs, 310 came from companies with revenues between US\$500 million and US\$999 million; 543 from companies with revenues between US\$1 billion and US\$9.9 billion; and 447 from companies with revenues of US\$10 billion or more.

KPMG would like to thank the following for their contribution:

- **Louise Ainsworth**
CEO, EMEA, Kantar, Media Division
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CEO, AXA, UK & Ireland
- **Tim Harris**
Deputy Group Chief Executive and Group Finance Director, Royal London
- **Tristia Harrison**
CEO, TalkTalk
- **Brian McBride**
Former Chairman, ASOS
- **Matthew Wright**
Managing Director, UK, Ørsted

KPMG contributors:

Bill Michael

Chairman and Senior Partner,
KPMG in the UK

Melanie Richards

Partner and Deputy Chair,
KPMG in the UK

Bia Bedri

Partner, Cyber Security,
KPMG in the UK

Tom Brown

Global Head of Asset
Management, KPMG
International

Adrian Clamp

Partner and Head of Customer
Advisory, KPMG in the UK

Nicholas Griffin

Global Head of KPMG's Global
Strategy Group

Lisa Heneghan

Partner and Chief Digital Officer,
KPMG in the UK

Kate Holt

People Consulting Partner,
KPMG in the UK

Nicola Longfield

Head of Corporates Deal
Advisory, KPMG in the UK

Gary Reader

Global Head of Clients and
Markets, KPMG International

Yael Selfin

Chief Economist,
KPMG in the UK

David Slater

Director, International Trade,
KPMG in the UK

James Stewart

Partner and Head of Brexit,
KPMG in the UK



For further information about this report and how KPMG can help your business, please contact ukceooutlook@kpmg.co.uk

kpmg.co.uk/ceooutlook2019



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