



KPMG 2020 CEO Outlook: COVID-19 Special Edition



Asia Pacific

Foreword



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The current pandemic, unlike earlier economic crises, is simultaneously hammering economies and societies all around the globe. Companies in the Asia Pacific region (*ASPAC for short) have been facing challenges far greater than those of earlier regional epidemics like SARS (Severe Acute Respiratory Syndrome). The current disease has hit them not only directly, but also via a severe downturn in all their major markets for both goods and services.

The response of the ASPAC CEOs that KPMG surveyed were very much in line with those of chief executives around the world.

As in other countries and jurisdictions, they displayed greater confidence in the growth prospects of their companies than in their countries, and much more confidence in their countries or jurisdictions than in the world as a whole.

On the other hand, perceptions of various categories of risk in ASPAC differed somewhat from those of CEOs in the rest of the world. ASPAC CEOs are more wary of cybersecurity risks and slightly less concerned about supply chain risk and talent risk than their counterparts elsewhere: Cyber Security was ranked the 3rd most important risk by ASPAC CEOs whereas Global CEOs only ranked it 5th most important.

As in other global regions, chief executives in ASPAC are taking active measures to strengthen recovery and prepare themselves for a much-altered world. Even more than elsewhere, they report that they have changed their strategies for addressing the business challenges of the pandemic as a result of their own personal experiences of COVID-19.

ASPAC CEOs are using the crisis as an opportunity to accelerate changes that were already in progress before the pandemic began. Like their counterparts elsewhere, the overwhelming majority want to lock in the sustainability and climate-change gains they have made as a result of the crisis. An important question is to what extent companies have been able to continue digitizing their operations and creating a next-generation operating model, creating new

business models and revenue streams, creating a seamless digital customer experience, and creating a new workforce model of people augmented by automation and artificial intelligence. Most chief executives of companies in ASPAC agree that progress in all four of these major areas of enterprise digital transformation has been sharply accelerated, putting them years ahead of where they had expected to be by now. Most have also had to rethink their supply chain approach to become more agile in meeting changing customer needs and to become more robust in the event of natural world disasters.

Both globally and in the ASPAC region, CEOs report that a key factor influencing crisis decision-making has been their enterprise's purpose. The great majority state that their purpose has played a key role in providing a clear framework for making quick and effective decisions, that they feel a closer emotional link to their purpose since the crisis began, and that their purpose has helped them understand how they can meet stakeholder needs. Crucially, most say they have had to re-evaluate their purpose as a result of COVID-19.

This KPMG survey demonstrates the realism and resilience of corporate decision-makers in ASPAC, who are adapting to one of the most difficult situations they will have encountered in their lives with strategies designed not merely to achieve survival but also to be in alignment with long-term technological and economic trends, as well as with global social and environmental goals.

*Countries and jurisdictions included in the Asia Pacific region for this report: Australia, China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

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Asia Pacific insights: Executive summary

Purpose

Companies are focusing more on their purpose, which is evolving

Even though only a third of ASPAC CEOs have had their own health, or that of their extended family, directly harmed by the COVID-19 virus, almost all of their companies have been negatively affected in some way, necessitating a strong response. Four out of five chief executives of companies in the Asia Pacific region say they feel a stronger emotional connection to their firm's purpose, while 84 percent say that this purpose provides a clear framework for making quick and effective COVID-19-related decisions.

Environmental, social and governance factors increase in importance

Over two-thirds of CEOs in Asia Pacific say they want to lock in the sustainability and climate change gains made as a result of the crisis, and a similar proportion report that their focus has shifted towards the social component of their environmental, social and governance program. Nearly three-quarters of ASPAC CEOs expect that managing climate-related risks will be a key factor in keeping their jobs over the next five years.



Asia Pacific insights: Executive summary

Prosperity

CEOs in Asia Pacific are more confident in their companies than in the global economy

While only 23 percent of ASPAC CEOs express strong or moderate confidence in global growth over the next three years, 46 percent are confident or very confident of the prospects for their national economy since the beginning of the year and 63 percent show similar confidence in their own company's prospects.

This is similar to perceptions of CEOs elsewhere in the world, and suggests CEOs are more confident in their ability to adapt their company's strategy and operations to the current situation than they are in the growth prospects of the wider economy, which remains highly unpredictable.

Earnings growth expectations over the next three years are positive

Three-quarters of chief executives of firms in Asia Pacific expect their firm's earnings growth to be positive over the next three years, with 42 percent forecasting that their earnings will rise by up to 2.5 percent and 28 percent of respondents saying their company's income will rise by between 2.5 and 5 percent. Only 13 percent expected their firm's earnings to fall, while another 13 percent forecast zero growth in income. These figures are largely in line with earnings forecasts of CEOs in the rest of the world.

Talent perceived to be the greatest risk

As Asia Pacific businesses gear up to meet the challenge of technological and social change, the greatest risk is perceived to be talent risk as reported by 18 percent of CEOs in the region. This is followed by supply chain risk (14 percent) and a return to territorialism (13 percent). More than seven in ten ASPAC CEOs have had to re-evaluate their supply chain approach; the two most important reasons, each reported by 27 percent of CEOs, are the need to become more agile in response to changing customer needs and the need to become more robust in the event of natural world disasters.



Asia Pacific insights: Executive summary

Priorities

ASPAC CEOs report an acceleration in digitization

The pandemic has provided opportunity as well as threat. Nearly half of Asia Pacific CEOs — 46 percent, a much higher proportion than the 30 percent worldwide — report that progress in the digitization of operations and the creation of a next-generation operating model have sharply accelerated as a result of the pandemic, putting the enterprise years ahead of where it had expected to be. A majority also say that they were months or years in advance of their previous expectation with regard to progress in the creation of new digital business models and revenue streams, the creation of a seamless digital customer experience and the creation of a new workforce model.

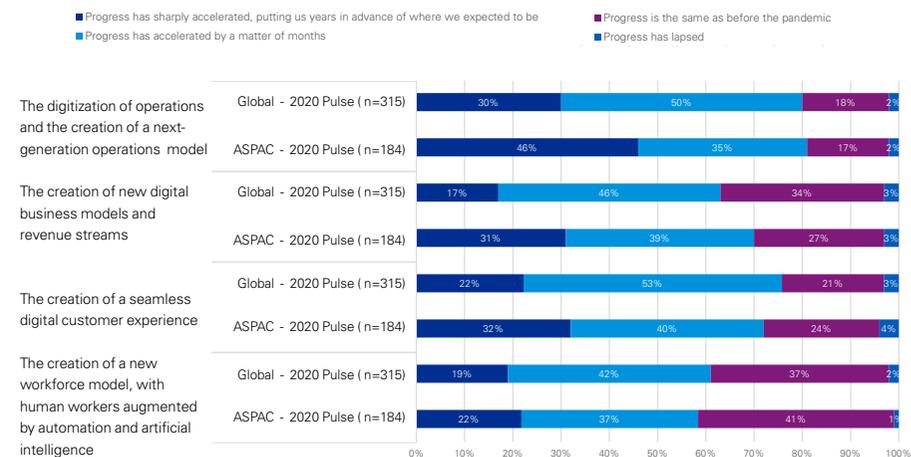
More focus on investment in skills in ASPAC than in the rest of the world

The previously-mentioned prioritization of talent risk means that ASPAC CEOs have a strong need for skilled workers. While three out of five ASPAC CEOs say they will place more capital investment in buying new technology and digitization, with the other two investing more in developing skills and capabilities of their workforce, this is a less marked preference for technology over skills investment than in the rest of the world.

The majority of businesses in the Asia Pacific region report that they have made changes to the way they work as a result of the pandemic. Three-quarters of ASPAC CEOs report that they are downsizing office space, as more of their staff are working from home, and over two-thirds say that this remote working has widened their potential talent pool. Far from damaging social relationships at work, COVID-19

appears to have provided an opportunity to make things better: 77 percent of ASPAC CEOs say that their communications with employees have improved, 72 percent state that remote working has caused them to make significant changes to their policies to nurture their culture, and 72 percent report that they are now engaging more with the local communities where their work is based.

Chart 1: Impact the pandemic has had on progress across areas of enterprise digital transformation





Purpose

With profound consequences for people's health and livelihoods — as well as the future of companies and industries — the pandemic has presented CEOs worldwide with the greatest possible test of their leadership abilities and personal resilience. Chief executives of the world's largest organizations are using this unparalleled moment in history to lead with increased purpose and impact, both societal and economic. They are leading with empathy and humanity as they prioritize talent and corporate responsibility, finding opportunity amid a fall in global economic confidence, and rewiring their businesses for tomorrow's new reality.

While in earlier crises the problems faced by companies have varied greatly from one region of the world to another, this time the challenges of a pandemic are eliciting broadly similar responses from CEOs worldwide. Chief executives of firms in Asia Pacific countries and territories (ASPAC, for short, including Australia, China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Vietnam in this report) are also focusing on adjusting to this new reality in similar ways to those of their counterparts elsewhere around the globe.

A renewed sense of purpose

Purpose has become a central pillar for CEOs worldwide. The same overall proportion of ASPAC as of global CEOs — 79 percent — reported feeling a stronger emotional connection to their company's purpose since the onset of the COVID-19 crisis, while an even higher proportion (38 percent, compared to 29 percent globally) said they "agreed strongly" that this was the case. Although 73 percent of chief executives in ASPAC said that their purpose had helped them understand what they needed to do to meet the needs of their stakeholders (employees, communities, customers, partners and investors) and more particularly, 72 percent said their purpose dictated their approach to pandemic response with shareholders, 76 percent nevertheless reported they had had to re-evaluate that purpose as a result of COVID-19 to better address stakeholder needs. This result suggests that while companies were to some extent prepared for an unexpected shock, demonstrating foresight and resilience, they are also displaying a necessary and welcome adaptability.



COVID-19 led to some change in strategy for ASPAC CEOs

This increasingly personal and emotional connection to purpose during the pandemic reflects the fact that CEOs face similar health and family challenges as do their communities. Well over a third of chief executives worldwide (39 percent) have had their health, or the health of one of their family, affected by COVID-19. A slightly smaller proportion of ASPAC CEOs, 34 percent, reported that they or a member of their extended family had had their health affected by the pandemic.

The pandemic will be remembered by many as a defining moment for this generation. CEOs all over the world are clearly determined to learn from the pandemic and their own personal experience to recalibrate and make not only the best-informed decisions, but also the most authentic ones. Although they were not quite so severe as in the rest of the world, the personal experiences of COVID-19 nevertheless had a marginally greater strategic effect on chief executives in ASPAC countries, with 63 percent (compared with 55 percent globally) reporting that it had led them to change their strategy to some degree.

Standing up for equality

At the beginning of the year, we found that CEOs all over the world were increasingly prepared to personally lead the way in tackling society's major challenges, with a number of CEOs looking to strengthen their anti-discrimination approaches. In the wake of widespread protests following the death of George Floyd on 25 May, concern over racial injustice has become an issue in Asia and Australasia as well. While Asia Pacific has a different history from that of the United States, it is nonetheless the most culturally and ethnically diverse region in the world, with a legacy of social frictions that require similar awareness and sensitivity.

Although 77 percent of ASPAC CEOs (compared to 73 percent of CEOs worldwide) say they are confident or very confident of their business's current anti-discrimination and anti-black racism measures, a large minority (32 percent) reported that they had publicly declared new such measures, and a further 61 percent said they were planning to do so in the near future. Of the measures already taken, 73 percent of ASPAC chief executives stated that they had used performance management, and 39 percent had used allyship training, while only 18 percent had conducted individual training to manage unconscious bias.

“ For leaders, there's a greater obligation to be more visible, empathetic, and engaged, because you need to show you understand the impact on everybody's life. ”

Alison Rose
Group CEO
NatWest Group



“As a result of the pandemic, human and operational risks have been given greater priority this year by senior executives.”

John Teer
Chief Operating Officer and
Head of Clients & Markets
KPMG Asia Pacific

These trends are also reflected in ASPAC, where 19 percent of CEOs say that talent risk poses the greatest threat to their organization's growth over the next three years, higher than any other risk. Not far behind are supply chain risk (14 percent), a return to territorialism (14 percent) and cybersecurity risk (12 percent).

Chart 3: Prioritizing of investments as CEOs think about their major strategic objectives as they respond to the crisis and prepare for the new reality



Prosperity



“ Any resistance in our clients' mindsets to moving to the cloud or the next generation of digital solutions has largely, if not entirely, evaporated. ”

Steve Hasker
President and CEO
Thomas Reuters

The survey found that the COVID-19 crisis has shaken CEO confidence in global economic growth. This difference in confidence levels is reflected in the responses from CEOs in ASPAC, with 40 percent of them less confident about the prospects for global growth over the next three years compared to the beginning of 2020, 27 percent of them less confident about their country's growth over that period, and only 17 percent lacking confidence in their own company's three-year outlook.

Accelerating digital growth

As we saw earlier, CEOs everywhere are more confident in their own businesses' growth prospects over the coming three years. In part, this is because they have greater control over the levers that will determine this. One of the most critical levers they can control here, and a major growth driver, is digital acceleration. With commerce increasingly taking place online because of factors such as physical distancing, companies are having to rethink what customers want and how to deliver. We found that 75 percent of global CEOs say the pandemic has accelerated the creation of a seamless digital customer experience, with over one in five (22 percent) of those saying progress “has sharply accelerated, putting us years in advance of where we expected to be.”

This accelerated effect is even greater in ASPAC, where 32 percent said that they were now years ahead of where they had expected to be in terms of a seamless digital customer experience.

The challenge for organizations is to focus efforts and investment on the areas that are capable of generating the most long-term value, while avoiding those areas that might just prove to be a short-term reaction to the pandemic. When we asked CEOs all over the world to name the greatest challenge they have faced in accelerating digital transformation, the biggest issue was “lack of insight into future operational scenarios.” Companies need to understand whether a COVID-related change — such as shifting customer behaviors — is evidence of a permanent trend that is emerging rather than just a temporary effect of the pandemic.

ASPAC CEOs were aligned with their global counterparts in identifying the greatest challenge they face in accelerating digital transformation as lack of insight into future operational scenarios, such as new ways of working, which was reported by 33 percent of CEOs in both Asia Pacific and the world as a whole. The second-greatest challenge, reported by 19 percent of ASPAC chief executives (compared to 17 percent of CEOs globally), is moving from pilot and experimental to scaled development. The proportion of CEOs in the region identifying their main challenge as “difficulty making quick technology-related decisions” was 15 percent — below the 19 percent for the world as a whole, 14 percent of ASPAC CEOs identified “lack of skills and capability in IT organization” (13 percent globally), while a further 12 percent of chief executives in Asia Pacific (11 percent in all countries surveyed) were most concerned about their lack of a coherent view on key technology trends on which to act.



Talent risk poses a significant threat

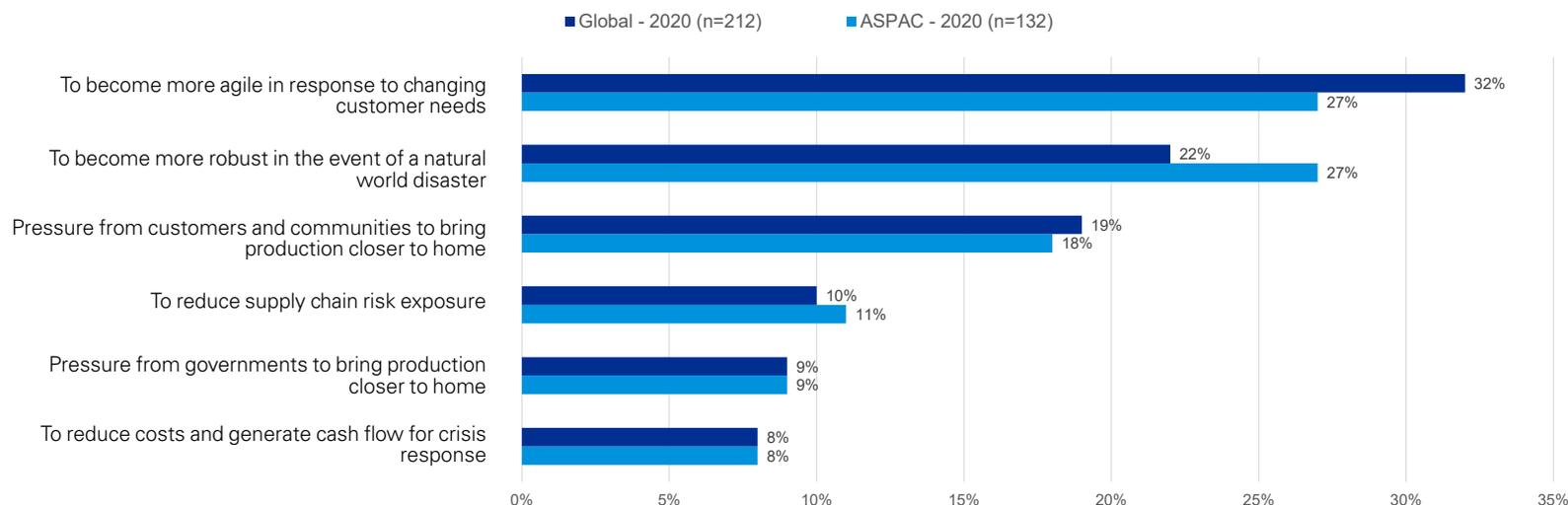
As they plan their path to long-term growth, global business leaders recognize that there have been new challenges to contend with during the lockdown. Potential multiple waves of COVID-19 in their key markets would likely deepen these concerns, with further adverse consequences in terms of retaining key employees, hiring talent and keeping their workforces productive.

Since the start of the pandemic, talent risk has risen to be named as the most significant threat to businesses around the world ahead of supply chain risk, the threat of a return to territorialism and environmental risk.

Supply chain is a significant risk

Supply chain risk has accelerated up the agenda of companies everywhere from its ninth-placed position at the beginning of the year — it now occupies second place as a major strategic threat. Even before COVID-19, supply chain risk was in the spotlight as a result of increasing volatility, be it trade tensions or extreme climate-driven events. However, the pandemic has brought this issue into even sharper relief, as organizations around the world desperately sought to maintain supply chain continuity in the midst of worldwide lockdowns. Building resilient, flexible supply chains — ones that can withstand shocks and offer the agility to pivot to new opportunities — will be critical for organizations to drive growth and build a competitive advantage post-COVID.

Chart 2: Primary reason for CEOs rethinking their supply chain approach



Priorities



“ ESG has always been the core of any business we are involved in. On the 'social' side, we feel there is much more that needs to be done in areas such as gender parity. ”

Sandro Salsano
President
Salsano Group

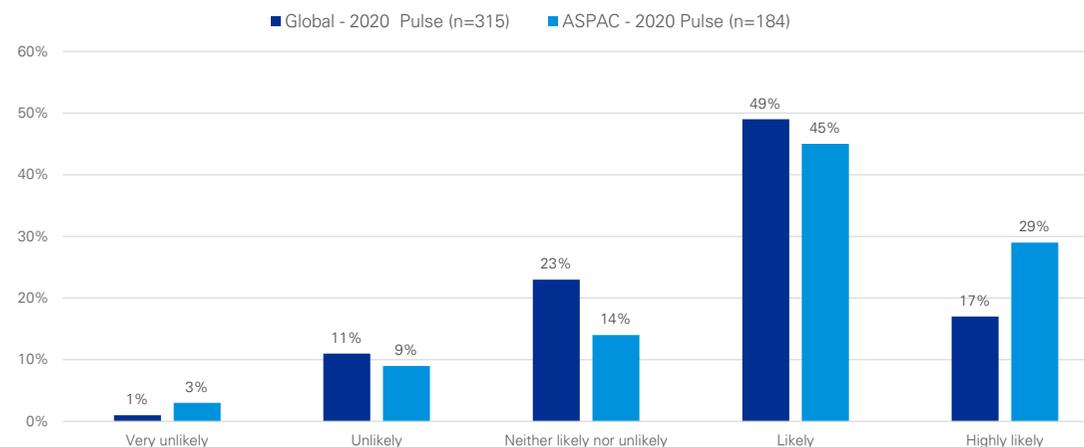
The pandemic has created what will be a career-defining economic challenge for most CEOs in the world. Given the scale of that challenge, many were worried that chief executives would be forced to relegate the importance of environment, social and governance (ESG) themes. However, our research shows that CEOs are still very much engaged with this issue, and in particular the 'S' of ESG.

Close to two-thirds (63 percent) of global CEOs said that their response to the pandemic has caused their focus to shift to the social component of their ESG program. Similarly, in Asia Pacific, the proportion is 66 percent.

That is not to say that CEOs are being deflected from the 'E' of ESG. Chief executives are more than aware that climate change also creates a significant economic and humanitarian threat over the coming decades and there is a need to rebuild organizations in a way that supports a new and sustainable economy. The seriousness with which they take the issue of climate change is reflected in the fact that many believe managing climate-related risks is key to their own job security and long-term legacy.

When we asked CEOs whether it was likely that managing climate-related risks will be a key factor in them keeping their job over the next five years, close to two-thirds of global CEOs felt it was indeed likely. This proportion is significantly higher — nearly three-quarters of CEOs — in ASPAC countries and territories, demonstrating that this is definitely not just a “Western” preoccupation.

Chart 4: Likelihood that managing climate-related risks will be a key factor in CEOs keeping their jobs over the next 5 years





Future of work

COVID-19 has effectively forced many organizations to experiment radically with how work is done. For many organizations, virtual working kicked in literally overnight. With the pandemic transforming the world of work, 75 percent of ASPAC CEOs say they will continue to build on their use of digital and communication tools (compared to 77 percent in the world as a whole), while 69 percent of Asia Pacific chief executives (73 percent globally) felt that working remotely had widened their potential talent pool.

However, with advances in analytics, artificial intelligence, process automation and the Internet of Things, the organization of the future will look very different: flatter, digitized and with a very different talent profile, potentially made up of fewer people with distinct new skills. CEOs everywhere will need to make some difficult people decisions and prioritize investment — focusing on bold and ambitious digital-transformation moves.

Globally, two-thirds (67 percent) say they are likely to put their capital investment into technology versus developing their workforce's skills and capabilities (33 percent). Interestingly, this balance hasn't changed at all since the initial survey at the beginning of this year. In ASPAC, the focus is somewhat more in favor of investing in the skills and capabilities of the workforce than is the case for CEOs in the world as a whole (40 percent of CEOs, compared to 33 percent globally) and less in favor of investing in buying new technology and digitization (60 percent, compared to 67 percent for CEOs worldwide), though the latter still predominates in absolute numbers.

Customer-centric supply chain

In terms of the future operating model, supply chains have also been hard hit. However, CEOs worldwide are using this opportunity to ask how their supply chain can become a competitive advantage in the new reality that emerges. When we asked CEOs all over the world to say what was driving this supply chain re-evaluation, the top-ranked reason was to “become more agile in response to changing customer needs”, and “pressure from governments to bring production closer to home” was second from bottom (see Chart 7).

An even higher proportion of CEOs in ASPAC (73 percent) say they have had to rethink their global supply chain approach compared to those in the world as a whole. The two top-ranked primary reasons for re-thinking their supply chain approach were “to become more agile in response to changing customer needs” and “to become more robust in the event of a natural world disaster”, both reported by 27 percent of chief executives in the region. “Pressure from governments to bring production closer to home” ranked joint-bottom at 9 percent in both ASPAC and the world as a whole, while pressure from customers and communities to bring production closer to home” was cited by 18 percent of CEOs in ASPAC and 19 percent globally.

“ Defining a clear strategy for the future of work will be critical, with a focus not only on the digital technologies required, but also on strengthening internal trust, leading with empathy, re-inventing relationships with employees, managing diverse blended workforces and workplaces, supported by a clear purpose and values to ensure that employees remain motivated and ready to join the CEO on this journey. ”

Nhlamu Dlomu
Global Head of People
KPMG International



Reflections for the new reality

Purpose

While the pandemic has given companies the opportunity to demonstrate how they can make a real difference to society, scrutiny of corporate actions has also never been stronger. To maintain and build on the trust of employees, customers and communities, CEOs must demonstrate that their organization's purpose is meaningful, relevant and makes a difference. For some, this will mean moving from generic purpose statements to more specific and measurable approaches. Carefully listening to different stakeholders, and encouraging dialogue, will be an important element of making adjustments and managing any trade-offs that need to be met between different stakeholders. The pandemic has shown the power of purpose. However, it must be integrated into the fabric of the organization in order to succeed and the CEO must lead from the front to ensure it actually delivers.

Prosperity

With digital acceleration shaping the future of industries, organizations will need a deep understanding of how customer behavior will shift and how to meet these emerging demands. Data-driven insight — and scenario modelling — will be critical to understand what major shifts are likely to emerge. Pre-pandemic, the major challenge to many organizations' digital transformation was the burden and complexity of legacy IT and a continued struggle to manage their data effectively. These challenges have not gone away and organizations will need to focus on cybersecurity IT transformation, across organizational silos drawing on cloud technologies and agile techniques. This is the time for organizations to reflect on their talent base and build a robust foundation of digital skills.

Priorities

Leaders need to ensure that we do not slip back from climate gains made as a result of the pandemic and instead build the foundations of a sustainable, green economy into the future. Companies can learn from how resilient (or not) their operating models proved to be during the crisis, to understand what areas would need strengthening to withstand environmental or climate challenges. With consumers increasingly focused on purpose-driven brands and sustainable products and services, companies are adapting their product and service portfolios in an effort to exceed those needs. At the same time, investors are increasingly focused on organizations' ESG performance, with a particular emphasis on the 'E' of climate risk. The pandemic has been a major crisis with huge humanitarian implications, but it has also been a time where sustainable and socially responsible companies have come into their own. Organizations that are building robust ESG reporting programs — along with resilient and flexible supply chains and a talent strategy that focuses on the people and skills needed for a more agile and virtual future — will be well positioned.



In summary

In a time of great uncertainty, CEOs are having to make important decisions with long-term consequences. They are having to do their utmost to protect their people while facing massive economic pressure that could potentially threaten the future of their business. And they are having to reconsider their entire supply chain approach, at a time when movement of goods and people is restricted. As they answer those questions, and look to build a successful future, it is very clear from the research — as well as discussions with leading chief executives — that they are using purpose to guide their decisions. In the midst of both an economic and humanitarian crisis, they are putting people first: their employees, their customers and society as a whole. The COVID-19 crisis is redefining what good corporate leadership looks like.



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