KPMG 2022 CEO Outlook: Asia Pacific

KPMG Asia Pacific

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Foreword

A survey of 1,325 business leaders worldwide - including 180 in Asia Pacific (ASPAC) - for the KPMG 2022 CEO Outlook found that although CEOs in the region do not share the expectation of their counterparts elsewhere of a recession in the near future, they have nevertheless been taking precautions to protect and develop their businesses which should enable them to maintain healthy revenue growth in the longer term. This despite reporting that they are far less prepared for a recession.

While not quite as confident as their counterparts elsewhere, business leaders in Asia Pacific trust in the resilience of the global economy and almost all of them expect their company's income to grow over the next three years. As if to underline this confidence, more than nine out of ten corporations in the region say they are planning to make acquisitions during this period.

What is the basis of this confidence in such challenging times? CEOs in this region are clearly not waiting on events but are actively seeking to defend themselves against geopolitical risk, while also working to build their businesses in the long term. The long-term growth potential for the region is possibly a contributory factor as well.

In the short term, ASPAC companies have taken, or plan to take, strong measures: bringing overseas operations back home or in-house, diversifying supply chains, reconsidering investment decisions, freezing hires, and even downsizing workforces.

At the same time, corporations in the region are looking to develop in the longer term as they seek to hire specialized talent, manage the post-COVID return to the office, strive to meet the demands of society for better ESG performance, and adapt to — and take best advantage of — new technology.

Instead of back-pedaling on ESG in response to the new dangers, ASPAC CEOs are reporting that stakeholder pressure on them to improve ESG performance is accelerating and that they are responding by making more efforts to meet ESG targets.

Similarly, while many businesses have paused hiring temporarily, the overwhelming majority are preparing to take on more talent over the next three years.

While there is some evidence of "digital burnout" in the region, CEOs are concerned about emerging and disruptive technologies and are investing heavily in technology, even though they may pause briefly to reconsider precisely which technology to adopt and whom to work with on it.

The challenge for companies in the Asia Pacific region, as in the rest of the world, is to coordinate short-term defensive tactics during the current period of heightened geopolitical and economic risk with longer-term strategies to overcome talent, technology, and other challenges to build resilient and profitable businesses. To do this, business leaders need to be sensitive and responsive to new, often unexpected, threats and opportunities, while also facing the future with calm foresight.

I recognize these elements in my discussions with CEOs in the region, and trust that this report can help you understand the perspectives of other business leaders in our region so that you can be better prepared to navigate the complex challenges of this persistently risk-filled world.

Honson To
Chairman
KPMG Asia Pacific and KPMG China

Four key themes emerge from this year's CEO Outlook:

1. Economic outlook

ASPAC CEOs have mixed feelings towards the global economy - they do not anticipate a recession, but are also less confident of growth prospects

No slowing down

Only 26 percent of ASPAC CEOs believe a recession over the next 12 months will happen, as compared to 88 percent of their global counterparts.

Optimism in growth

Despite geopolitical and economic challenges, global economic confidence stands relatively high at 64 percent.

M&A as a key tool for growth

92 percent of ASPAC firms will make acquisitions over the next three years, notably higher than the 85 percent globally.

2. Talent

Retaining high-quality talent remains a major priority for business leaders in ASPAC, as in the rest of the world.

Recession driving short-term freezes

38 percent of ASPAC companies (and 39 percent of global companies) have implemented a hiring freeze, and 44 percent (35 percent globally) were planning to do so in the next six months.

Return to the office?

Remote working has had a positive impact on hiring, collaboration and productivity over the past 2 years, but 62 percent of CEOs see in-office as the preferred work style over the next 3 years.

3. ESG

CEOs in ASPAC are cognizant of their companies' responsibilities towards climate and society, and are seeking to balance their ESG commitments among multiple stakeholders.

Connecting ESG to the bottom line

Only 39 percent of CEOs agree that ESG programs improve financial performance.

Remaining accountable to stakeholders

More than two-thirds of ASPAC CEOs report greater attention from stakeholders regarding ESG assessment and accounting.

4. Technology

ASPAC firms are committed to digital transformation - two-thirds of ASPAC CEOs say that their digital transformation strategy will have an impact on their organization in the next three years.

Emerging tech top growth risk

Disruptive technology has been perceived to be a major risk to organizational growth.

Staying on the right track

More than ever, investment should be tied to growth, and 63 percent of CEOs say they need to be quicker to shift investment to digital opportunities and divest in those areas where they face digital obsolescence.

Economic outlook

ASPAC CEOs, unlike their global counterparts, are not expecting another recession

In September 2022, we asked executives how confident they were in the resilience of the global economy in the next six months, their country, their industry and their company, given expectations of a recession.

26% just over a quarter of ASPAC CEOs are expecting a recession, compared with …

86% of CEOs worldwide.

64% of ASPAC CEOs express confidence in the resilience of the global economy, while …

73% of their global counterparts share a similar sentiment.

69% of ASPAC firms are confident in their own country's resilience.

70% of ASPAC CEOs perceived their own industry to be resilient.

68% of ASPAC leaders are confident in the short-term resilience of their own companies.

This is notably more downbeat than their global counterparts, who registered confidence levels of 76 percent, 80 percent and 79 percent respectively.

Bullish on revenue and income growth

In 2022, 56 percent of Asia Pacific CEOs reported that their organization's revenues in the most recent fiscal year had increased over the previous year, while 27 percent said that it had decreased.

In the longer term, almost all companies in the Asia Pacific region, as in the rest of the world, expect positive income growth over the next three years, with ASPAC more bullish than the rest.

When asked what percentage of their anticipated earnings could be impacted by a recession in the next 12 months, business leaders in the Asia Pacific region forecast an average of 12.2 percent of earnings. In the longer term, 69 percent of ASPAC CEOs say that a recession would upend their anticipated growth over the next three years.

ASPAC's key growth strategies

22% Strategic alliances with third parties

12% Joint ventures

6% Outsourcing

Expected income growth: ASPAC vs Rest of the world

Expecting income growth up to just under 2.5%:

30% of ASPAC CEOs vs **42%** of CEOs worldwide

Expecting income growth of between 2.5% and just under 5%:

49% of ASPAC CEOs vs **28%** of CEOs worldwide

"While it's unsurprising the economic climate is now a top concern for business leaders, over these past few years, they've learned to navigate the unpredictable, realigning their workforces, untangling supply chain disruptions and adapting to geopolitical and economic impacts. As the possibility of recession looms, many are already prepared with a deep focus on planning and agility. And some see opportunities through this fog of uncertainty brought on by the promise of technology, talent and ESG."

Bill Thomas
Global Chairman and CEO
KPMG

M&A as a key tool for growth

92 percent of ASPAC firms will make acquisitions over the next three years, notably higher than the 85 percent globally – another indication that ASPAC companies are somewhat more optimistic.

In a similar vein:

19 percent of ASPAC business leaders say that M&A will be the most important strategy for achieving their organization's growth objectives over the next three years, higher than the 11 percent of global CEOs who said so.

Alternative approaches to M&A

12% Joint ventures will be the most important strategy for reaching their growth objectives

22% Strategic third-party alliances

6% Outsourcing

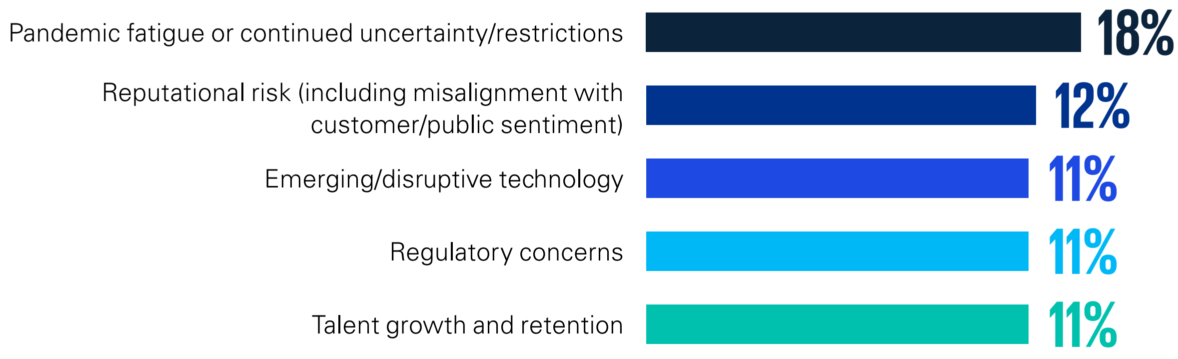
"The combination of uncertainty, delays and price fluctuations is forcing some executives to significantly shift their priorities and pivot their business models, in an attempt to maintain their growth and confidence as they enter an incredibly challenging period."

Regina Mayor
Global Head of Clients and Markets
KPMG

Risk factors

Firms in the Asia Pacific region identified these as the top five risk factors affecting their current performance:

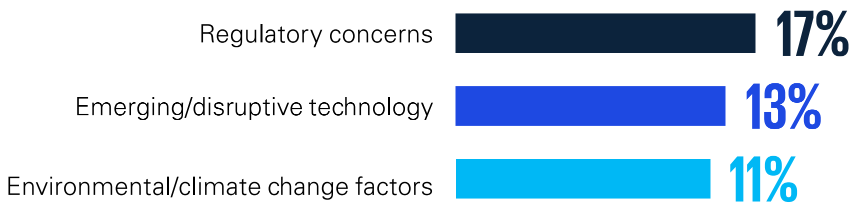
Current risks



A noted difference between Asia Pacific and global firms is in the evaluation of economic risk: while 14 percent of global CEOs said their most pressing concern were factors such as interest rates, inflation and anticipated recession, only 8 percent of ASPAC CEOs shared the same concern.

A slightly different picture emerges when ASPAC CEOs look further ahead at their longer-term performance:

Longer-term risks



Other threat factors identified by ASPAC firms (all in single-digit percentages) include: cyber security, political uncertainty, a return to territorialism, interest rates, supply chain constraints, reputational risk, operational issues, internal unethical culture; and, jointly at the bottom, talent and tax.

CEOs in ASPAC are taking protective action in the face of global uncertainty

The geopolitical instability has led to ASPAC firms to take up a more conservative stance vis-à-vis international operations.

69% of ASPAC CEOs have already discontinued their working relationship with Russia

44% of business leaders in the Asia Pacific region have adjusted their risk management procedures in light of geopolitical risk

36% are planning to do so in the next six months

31% of ASPAC businesses have transferred overseas operations locally or brought them back in-house

46% are planning to do so in the next six months

48% of ASPAC firms have diversified their supply chains in response to geopolitical challenges

36% are preparing to do so in the next six months

"The pandemic and the events in Europe have shown us how interconnected we are as a world. To me, geopolitical issues are the number one risk. I think we all need to build optimized and resilient supply chains."

TV Narendran
Chief Executive Officer
Tata Steel

The deteriorating international environment is also affecting investment decisions. Already 41 percent of ASPAC CEOs (and 47 percent of global CEOs) report that they have reconsidered their investment strategies in response to geopolitical challenges, while 33 percent (and 38 percent globally) will do so in the next six months.

Talent

Importance of retaining talent

Attracting and retaining high-quality talent remains a key priority for business leaders in ASPAC, as in the rest of the world. However, the majority of ASPAC CEOs are devoting investment towards new technology. Inflation and the looming short recession are prompting many to implement a temporary freeze on hiring; some firms are also downsizing their labor force.

Investing in workforce

33%

of ASPAC CEOs are placing more investment in developing their workforce's skills and capabilities

67%

percent of ASPAC CEOs are placing more capital investment in buying new technology

Downsizing and hiring freezes

38% of ASPAC firms have implemented a hiring freeze

44% were planning to do so in the next six months

28% had considered downsizing their employee base

48% are planning to consider downsizing in the next six months

Nevertheless, in the longer term, firms everywhere expect to hire more than fire. Over the next three years, only a negligible 1 percent of companies in the Asia Pacific region (as opposed to a non-negligible 9 percent of enterprises worldwide) expect any decrease in their headcount, while 14 percent (12 percent globally) expect it to stay the same and 85 percent (79 percent worldwide) expect a net increase, though mostly by less than 5 percent.

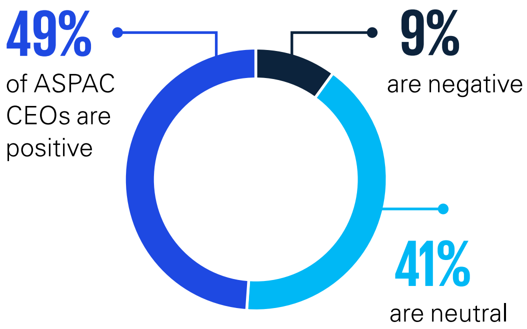
Hybrid/remote working

Company leaders in ASPAC have noted a positive impact that hybrid/remote working has had on hiring, retention and morale over the past two years.

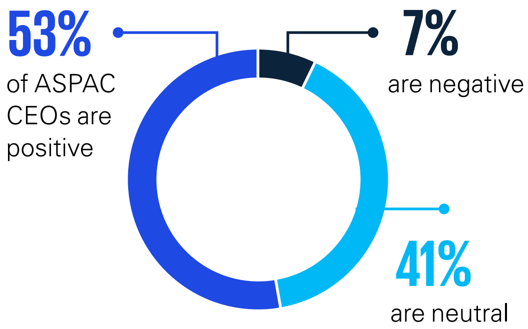
We have had an opportunity to really focus on our employees — to be more open and honest about subjects including mental health and wellbeing. We've invested in training our people, pushing for change and updating skills to match our new innovations, digital service portfolio and changing customer needs. We want our people to move with us.

Nicola Downing
Chief Executive Officer
Ricoh Europe

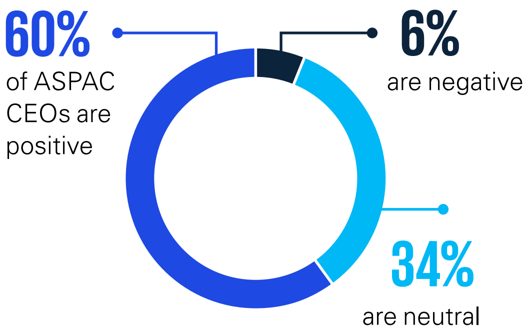
Effect of hybrid/remote working on hiring



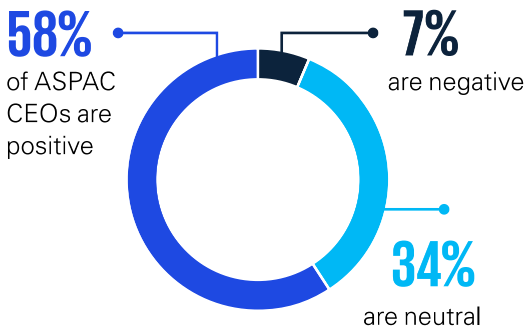
Effect of hybrid/remote working on retention



Effect of hybrid/remote working on morale



Effect of hybrid/remote working on collaboration and innovation



Despite the largely positive experience of hybrid/remote working, ASPAC companies appear to be preparing for the majority of their staff to return to the office, and for hybrid working to persist only in a minority of cases.

Not a single firm in the Asia Pacific region says that it expects it to be fully remote in three years' time; in the world as a whole, 7 percent of firms do expect this. At the same time, 62 percent of ASPAC CEOs (65 percent of global respondents) expect that employees will work in-office, while 38 percent (28 percent globally) expect working to be hybrid.

ESG

ASPAC executives less bullish than others about the ESG impact on financial performance

ASPAC CEOs recognise the importance of ESG initiatives on their businesses, especially with regards improving financial performance, driving growth and meeting stakeholder expectations. At the same time, most of them are feeling the pressure of an increasing public perception that it is up to corporations to deliver, as confidence and trust in governments decline.temporary freeze on hiring; some firms are also downsizing their labor force.

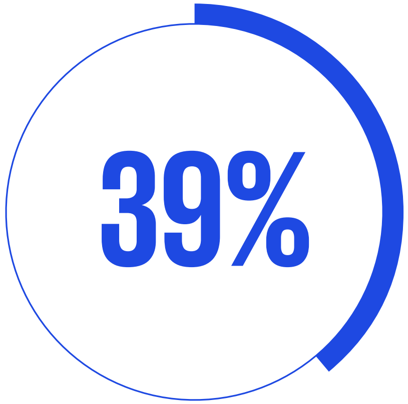
70% of ASPAC CEOs say that fulfilling their ESG strategy and commitments will have an impact on their organization over the next three years

73% of them agree that major ESG challenges such as income inequality and climate change are a threat to their company

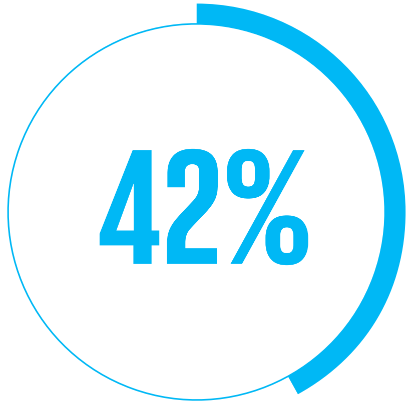
63% agree that the public is looking to businesses to stand in the gap for societal challenges such as inclusion, diversity, equality, climate change or social justice

61% agree that corporations would be suited to help governments find solutions to pressing global challenges with stronger government support

However, companies are not unanimous in assessing the effect of ESG initiatives on their bottom line.



of ASPAC business leaders state that their company's ESG performance improved its financial performance



however, said that it reduced financial performance—far more than the 17 percent of CEOs worldwide who perceived a negative effect

As CEOs take steps to insulate their businesses from an upcoming recession, ESG efforts are coming under increasing financial pressure. The CEO Outlook confirms that ESG has become an intrinsic business imperative, impacting financial resilience, growth and stakeholder expectations.

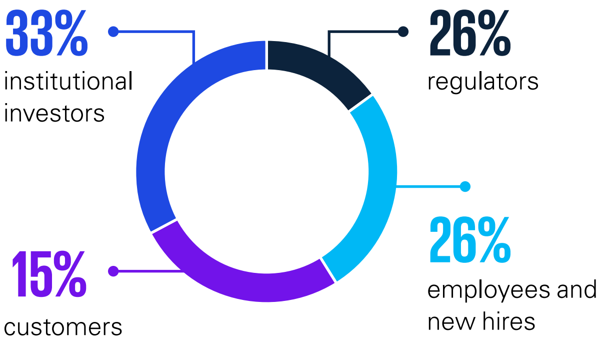
Jane Lawrie
Global Head of Corporate Affairs
KPMG

Regardless of the bottom line, do business leaders agree that they have a responsibility to drive greater social mobility? Almost the same proportion of those in ASPAC (78 percent) and the world as a whole (77 percent) say they do. Again, this represents a fall-off since the earlier KPMG CEO Outlook survey, which showed 90 percent of those surveyed in the Asia Pacific region and 91 percent of those surveyed across the world agreeing that they have this responsibility.

Another factor possibly leading companies to re-evaluate their ESG stance is the worsening international situation. 72 percent of ASPAC leaders (comparable to 74 percent of those worldwide) say that geopolitics have affected their ESG plans/strategies.

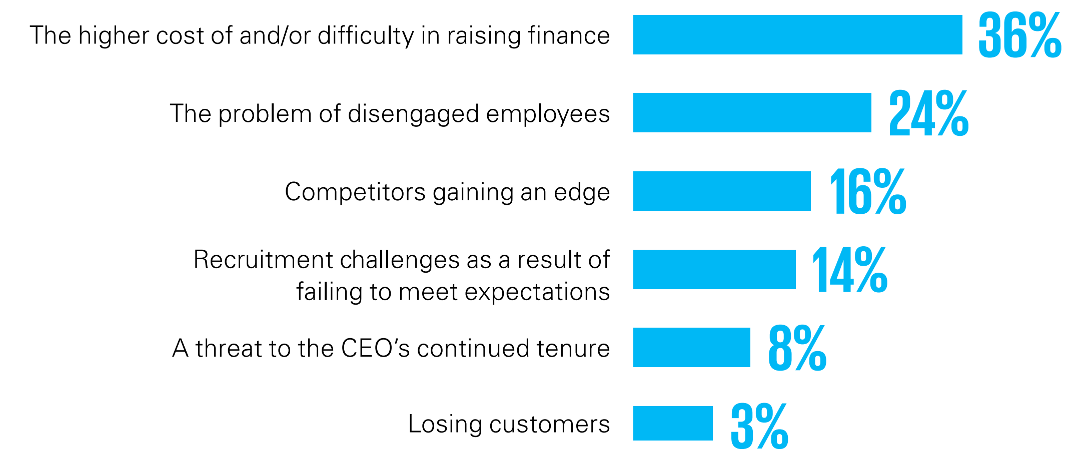
Remaining accountable to stakeholders on ESG reporting

69 percent of ASPAC CEOs are seeing a significant demand today from stakeholders for increased reporting and transparency on ESG issues.



55 percent- of ASPAC CEOs agree that stakeholder scrutiny of their performance on ESG issues—such as employee diversity, gender equity and climate impacts—will continue to accelerate, compared to a much higher proportion of 72 percent of CEOs worldwide. Even so, companies cannot afford to ignore stakeholder opinion or defy scrutiny, and ASPAC CEOs identified six downsides of failing to meet stakeholder expectations regarding ESG, as well as five key challenges in reporting ESG performance:

Downsides to failing to meet stakeholders' ESG expectations:



Key challenges in reporting ESG performance:

As a result of this increased scrutiny, 73 percent of ASPAC CEOs (much higher than the global figure of 52 percent) expect to rely increasingly on the external assurance of their ESG data to meet stakeholder/investor expectations around consistent and robust sustainability reporting.

Technology

ASPAC CEOs, as with their global counterparts, value digital transformation

Despite the accelerated pace of digital transformation, companies all over the world appear from our survey to be coping well, while taking seriously the challenges involved. A majority of business leaders polled in the Asia Pacific region say that their organization already has an aggressive digital investment strategy, intended to secure first-mover or fast-follower status. This claim is aligned with the importance given to digital transformation strategies in ensuring business success.

Enterprises' digital transformation strategies are also driven by risk aversion, though technology is not at the top of the list of dangers. For many ASPAC CEOs, deciding on the right technology is holding back progress on their business transformation, suggesting that there is a widespread need for more preparatory research and due diligence in adopting new technology. In this regard, forging new partnerships will be critical to continuing companies' rapid pace of digital transformation.

66%

of ASPAC CEOs say that their organization already has an aggressive digital investment strategy.

73%

say that a digital transformation strategy will have an impact on their organization in the next three years.

26%

that advancing digitization and connectivity across their business will be their top operational priority in the next three years.

57%

say that continuing to drive digital transformation at a rapid pace is critical to their competition for talent and customers

63%

say they need to be quicker to shift investment to digital opportunities, and divest out of areas where they face digital obsolescence

11%

say their most pressing concern today is emerging/ disruptive technology

13%

predict that emerging/ disruptive technology will pose the greatest threat to their organization's growth over the next three years

We have always been confident in our technology and innovations, but in our conversations with clients, we realized they needed more than just products — they needed integrated, value-adding capabilities to help advance their own digital transformations.

Takahito Tokita
CEO
Fujitsu Limited

65%

of ASPAC CEOs say they need to address burnout from accelerated digital transformation over the past two years

64%

of ASPAC CEOs say that deciding on the right technology is holding back progress on their business transformation

54%

agree that new partnerships will be critical to continuing their pace of digital transformation

Exploring opportunities for growth

Technology

- **Bring your people and technology together:** Organizations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.
- **Work with partners to drive value:** With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise.
- **Get closer to customers:** Orchestrating compelling customer experiences requires companies to begin with the customer and work backwards, taking an outside-in perspective to reverse-engineer and shape what the experience should be; then, they should adopt an inside-out view to define how the experience should be delivered.
- **View cyber security as a strategic function:** Increasingly, cyber is no longer seen as only an IT issue; it's a fundamental business operation imperative. The exponential increase in cyber attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

Talent

- **Experiment with ways of working:** As organizations launch return-to-office plans, it's important for CEOs to develop working structures that suit their people. It's time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.
- **Tell your ESG story:** A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent. And with many CEOs saying they're struggling to tell a compelling ESG story, it's important for CEOs to articulate for stakeholders the steps they're taking to address ESG in their organizations.
- **Build, don't follow:** Organizations and their employees are changing and leaders need to reinvent the enterprise workforce. The old talent management playbooks are out of date, and the challenge is that there aren't new ones to replace them — yet. The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

ESG

- **Recognize ESG's impact on financial performance:** ESG has become integral to long-term financial success. CEOs increasingly agree that ESG programs improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.
- **Invest in real-time technologies:** CEOs should monitor deeper into their supply chain (i.e. at the third and fourth levels). Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to identify where issues exist and improve visibility across the entire value chain.
- **Take the lead on IDE:** CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It's important to normalize and create a culture of IDE across the organization to attract and retain new employees.
- **Build strong connections among functions:** Resilient organizations have well-connected internal teams, so for example, the finance function is aware of what the ESG teams are doing.

Methodology and acknowledgements

The KPMG 2022 CEO Outlook: Asiac Pacific, based on a survey of 1,325 CEOs worldwide, including 180 from ASPAC, provides unique insight into the mindset, strategies and planning tactics of CEOs that shows the extent to which ASPAC companies concur with their counterparts in the rest of the world—and how they differ—as well as recording changes since our the relatively stable period before the pandemic and the Russian invasion of Ukraine.

All companies surveyed have annual revenues over US$500M and a third of them worldwide and over two-fifths in ASPAC have more than US$10B in annual revenue. Changes in attitudes and actions over the year as a whole are traced by comparing the results of the Outlook survey with those recorded in the Pulse survey conducted in early February with 500 firms worldwide, including 160 in the Asia Pacific region.

NOTE: some figures may not add up to 100 percent due to rounding.

KPMG would like to thank the following for their contributions:

- TV Narendran, Chief Executive Officer and Managing Director, Tata Steel
- Takahito Tokita, CEO, Fujitsu Limited
- Nicola Downing, Chief Executive Officer, Ricoh Europe

For further information about this report and how KPMG can help your business, please contact **CEOoutlook@kpmg.com.**

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Publication date: February 2023