

Talent and corporate responsibility top the list of CEO concerns in the wake of the COVID-19 crisis

The 2020 KPMG CEO Outlook pulse survey finds the world's most senior executives are using this unparalleled moment in history to shift and enhance relationships with their employees and society at large. As businesses and governments continue assessing the long-term impact of COVID-19 and prepare for a potential second wave of lockdowns, some fundamental changes have already been solidified.

This year's study, as in previous years, provides an in-depth three-year outlook of global executives on enterprise, social issues and economic growth. It also includes new and changing questions to capture CEOs' outlooks on the evolving dynamics stemming from the COVID-19 pandemic. KPMG initially surveyed 1,300 CEOs in January and February, before many key markets were beginning to feel the full impact of the pandemic crisis. In July and August (6 July - 5 August 2020), KPMG conducted a follow-up survey of 315 chief executives across the globe to understand how CEO thinking has evolved during the crisis. In both instances, all respondents have annual revenue over US\$500M and a third of the companies surveyed have more than US\$10B in annual revenue.

This latest CEO Outlook study highlights the following trends and developments:

- **Risk:** In January, CEOs ranked talent risk behind 11 other risks to growth. However, since the start of the pandemic, talent has risen to be named as the most significant threat to their businesses ahead of supply chain and environmental risk.
- **New working reality:** Businesses are looking to change their recruitment strategies as remote working has widened their potential talent pool and companies will be downsizing their office space in the short term.
- **Businesses are more purpose-focused than before:** CEOs see that companies have a role in tackling the critical global challenges facing society. COVID-19 has accelerated the call for societal change and made CEOs re-evaluate their organizations purpose. And 79 percent say they feel a stronger emotional connection to their purpose since the crisis began.
- **Climate change efforts accelerated by COVID-19:** Most CEOs want to accelerate their climate change gains as a result of the changes made during the pandemic. Two thirds (65 percent) recognize that managing this risk will play a part in whether they keep their jobs over the next 5 years.
- **CEOs focused on digital transformation:** Business leaders are betting on major dimensions of digital transformation and a vast majority (80 percent) have seen their transformation programs accelerate during the lockdown period. Two-thirds (67 percent) of CEOs are likely to put more capital investment into technology than they are people, a figure that hasn't changed at all since the initial survey.
- **COVID-19 impact on CEOs:** Many CEOs have shared the pain of COVID-19, with more than one-third (39 percent) citing that they have had their health, or the health of one of their family, affected by COVID-19 and 56 percent changed their strategic response to the pandemic as a result.
- **Confidence in the global economy has fallen:** The COVID-19 crisis has resulted in confidence in global economic growth plummeting (36 percent) since the beginning of the year.
- **Company earnings' outlook remains positive:** Despite the economic uncertainty, a third of leaders see their company's earnings growth at more than 2.5 percent a year over the next three years.

Global Economic Outlook

The CEO Outlook survey finds that the COVID-19 crisis has resulted in confidence in global economic growth plummeting since the beginning of the year. Only 32 percent of CEOs currently feel confident in global economic growth, from the 68 percent who felt confident at the beginning of the year. Fewer than half (45 percent) feel confident in their own countries' growth prospects, which is a 32 percent decline from the January study.

However, over two-thirds (67 percent) say they feel confident in their own company's 3-year growth prospects (confidence has only dropped 17 percent since the beginning of the year). In short, CEOs are more confident in areas that they can control (their own company's fortunes) than areas where they have less control, such as the fortunes of their country or the global economy.

CEO confidence in the global, country, sector and company growth (3-year period)

	Jan-Feb 2020	July – August 2020	% drop
Growth prospects for your country	77%	45%	32%
Growth prospects for the global economy	68%	32%	36%
Growth prospects for your sector	75%	55%	20%
Growth prospects for your company	84%	67%	17%

Large companies of \$10 billion annual revenues or more are more likely to be confident in the global economy (37%), with only 27% of smaller companies (\$500 million to \$999 million) saying the same (Pulse Survey)

Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition, KPMG International.

Close to a quarter (23 percent) see their company's earnings outlook over the next 3 years either flatlining or shrinking. But over a third (35 percent) still see earnings growing at more than 2.5 percent a year over the next three years.

CEOs views on their own company growth prospects (3-year period)

	Jan 2020	Today
Earnings: 0% or negative	3%	23%
Higher than 2.5%	46%	35%

Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition, KPMG International.

Bill Thomas, Global Chairman and CEO, KPMG International, said: “The significant change in CEOs priorities over the past 6 months, is a clear indication that businesses have had to pivot at breakneck speed to deal with the challenges of the pandemic. Business leaders the world over are seeking to manage uncertainty with decisiveness. This crisis has accelerated strategies that were already in place around digitization and social responsibility. However, in other areas planning for the future is a lot harder, particularly thinking about future ways of working and problem solving. So it's perhaps no surprise that CEOs are focused on the importance of talent to sustain and grow any future business.”

COVID-19 impact on CEOs

We found that 39 percent of CEOs have had their health, or the health of one of their family, affected by COVID, and 55 percent changed their strategic response to the pandemic as a result.

Personal impact of COVID-19 on CEOs



Note: Adds to 99% because of rounding

Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition, KPMG International.

Many leaders also cut their compensation to reflect the new realities faced by many businesses. Close to two-thirds of CEOs (63 percent) have made changes to their compensation as a result of the crisis. Nearly half (46 percent) of the leaders took a reduction in their future bonus and just under a third (31 percent) opted to make a charitable donation as a part of their salary.

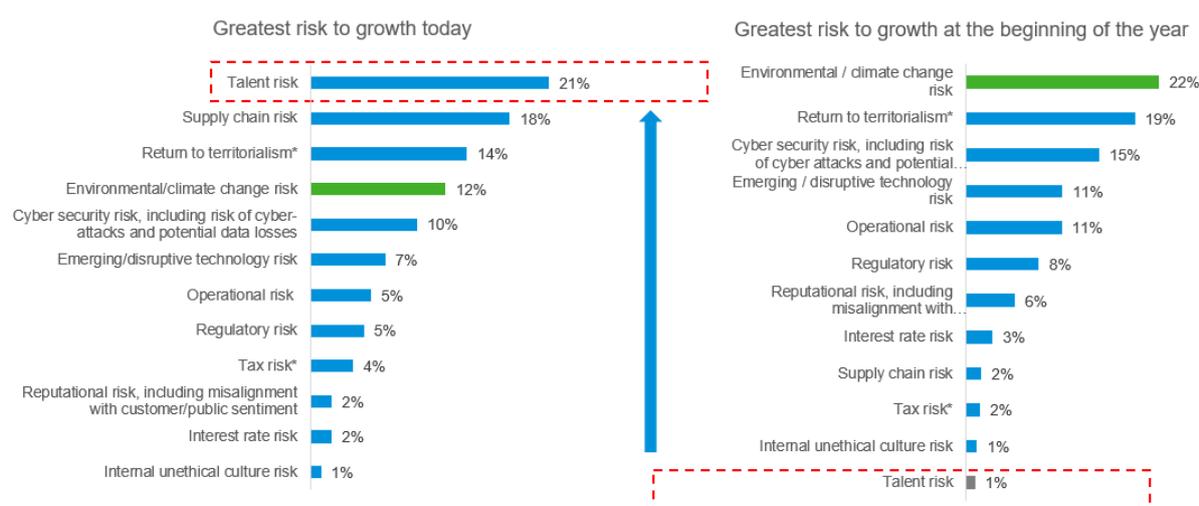
New risk paradigm as a result of COVID-19: talent and supply chain

Business leaders recognize that there have been new challenges to contend with during the lockdown period. A potential second wave of COVID-19 in their key markets would likely deepen these concerns with further adverse impact in retaining key employees, hiring talent and keeping their workforces productive.

When we asked CEOs what poses the biggest risk facing their organization over the next 3 years, they identified talent risk as the main threat, a category which encompasses recruitment & retention, overall wellbeing and health of staff members. This was the threat that CEOs were least concerned about at the beginning of the year. As a result of this pandemic, it has now risen 11 places to be the highest perceived threat to long-term growth. Over a fifth (21 percent) of the global CEOs interviewed identified talent as their main organizational threat in the next 3 years, ahead of supply chain risk (18 percent) and environmental/climate change risk (12 percent).

Supply chain concerns are also rising compared to earlier in the year, as organizations grapple with the immediate need to manage supply chain disruptions and guard against the prospects of a return to territorialism (given the potential of the pandemic to accentuate nationalistic tendencies). Over two-thirds of organizations (67 percent) have had to rethink their global supply chain approach given the disruptive impact of the pandemic.

Biggest risk to organization over a 3-year period



Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition.

Gary Reader, Global Head of Clients & Markets, KPMG International, commented: “This year’s CEO Outlook highlights that human and operational risks have been given greater priority by senior executives as a result of the pandemic. Geopolitical, tax, operational and regulatory challenges have not ceased to exist, but CEOs recognize that losing key employees and attracting specialized talent can have a critical impact on future business performance. Many leadership teams are concerned about the mental and physical wellbeing of their staff, but also recognize that unless they manage this properly, growth will likely be stunted.”

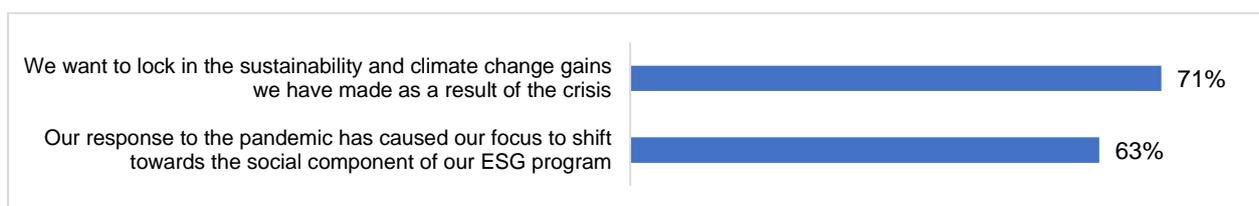
Businesses have a renewed sense of purpose and focus on diversity

Earlier this year when we initially surveyed CEOs – they saw a significant role for their organizations in tackling the critical global challenges facing society, as well as a personal responsibility themselves to address big societal issues. Two-thirds (65 percent) of CEOs surveyed in Jan-Feb said that the public is looking to businesses to fill the void on societal challenges and 76 percent agreed that they have a personal responsibility to be a leader for change on societal issues.

COVID-19 has accelerated the call for societal change and added further scrutiny from stakeholders towards businesses and their leaders. These factors have caused CEOs to question whether their current company purpose really meets the needs of stakeholders, with 79 percent also saying they have had to re-evaluate their organization’s purpose as a result of COVID-19. At the same time, the same proportion of CEOs (79 percent) say that they feel a stronger emotional connection to purpose since the crisis began, which has guided their decision-making throughout the crisis.

This has partly accelerated businesses’ efforts to address Environmental, Social and Governance (ESG) efforts. As a result of immediate pandemic pressures, they are in fact intensifying efforts – focusing on the ‘Social’ dimension of ESG. Six in ten (63 percent) of CEOs admit that the pandemic has shifted their focus towards the social component of ESG.

CEOs who agree with the following statements



Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition, KPMG International.

Nearly three quarters (71 percent) of CEOs want to accelerate their climate change gains as a result of the changes made during the pandemic – this is particularly pronounced among the largest companies globally (\$10bn+ revenues). With many companies and sectors at risk from climate change, 65 percent of CEOs recognize that managing this risk will be key to determining their success, specifically whether they can keep their jobs over the next 5 years.

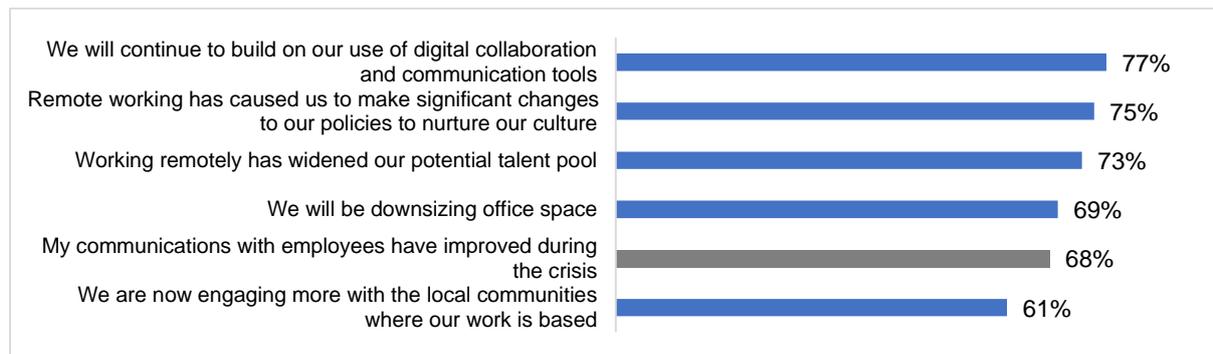
Being able to draw on a diverse spectrum of talent is critical to addressing the unique challenges of the pandemic, and CEOs are looking to strengthen their anti-discrimination approaches. Furthermore, in the wake of widespread protests following the death of George Floyd on 25 May, 81 percent of organizations will introduce new anti-racism measures – 30 percent have already done so and 51 percent plan to do so shortly. Most leaders (73 percent) are confident in their business's current anti-discrimination and anti-racism measures, and only 7 percent are prepared to concede that they lack confidence.

Jane Lawrie, Global Head of Corporate Affairs, KPMG International, said: “CEOs have responded to the COVID-19 crisis by putting even more focus on Purpose, helping to signpost to employees and stakeholders why their company exists and how it aims to contribute to the world at large. The survey shows that CEOs are prioritising efforts across the Environmental, Social and Governance (ESG) agenda as a real business imperative with Societal actions coming up alongside the Environmental plans.”

Changing workplace dynamics

Despite the physical barriers most CEOs (68 percent) feel more connected to their workforce following this pandemic and over three quarters (77 percent) of companies will continue to embrace digital collaboration and communications tools. These changes mean that three quarters (75 percent) of businesses are looking to change their recruitment strategies as remote working has widened their potential talent pool of potential employees for future positions. This development aligns with the fact that 69 percent of CEOs stated that their companies will be downsizing their office space in the short term.

CEOs who agree with the following statements



Source: 2020 KPMG CEO Outlook, COVID-19 Special Edition, KPMG International.

The data points out that the CEOs who have been personally impacted by the pandemic are more likely to have improved their communications to employees during this crisis. With three-quarters (75 percent) of personally impacted senior executives citing an improvement shaped by their personal experiences, as opposed to the 63 percent of the leaders that haven't been personally impacted that cited an improvement in their employee interactions.

To hedge against further unprecedented disruption, CEOs are betting on major dimensions of digital transformation and a vast majority (80 percent) have seen their transformation programs accelerate during the lockdown period. The biggest advance has been in the digitization of operations, where 30 percent say that progress has put them years in advance of where they would have expected to be right now.

Mark A. Goodburn, Global Head of Advisory, concluded: “Organizations are increasing their investment in digital transformation to future proof their businesses. CEOs continue to scrutinize how to digitalize operations and how technological advancements can serve as accelerators in customer experience and employee engagement. And while mergers and acquisitions are challenging in any environment, COVID has made it harder but certainly not impossible. We’re seeing that senior executives have used the crisis to refine their portfolios.”

Methodology

The 2020 KPMG CEO Outlook provides an in-depth three-year outlook of global executives on enterprise and economic growth. The survey offers a unique perspective on the mindset shift of Global CEOs since the lockdown.

KPMG initially surveyed 1,300 CEOs in January and February, before many key markets were beginning to feel the full impact of the pandemic crisis. In July/August (between 6 July to 5 August 2020), KPMG conducted a follow-up survey of 315 chief executives across the globe to understand how CEO thinking has evolved during the crisis. In both instances, a third of the companies surveyed have more than US\$10B in annual revenue.