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Global CEO confidence returns to pre-pandemic levels; launching aggressive M&A plans to capture market opportunities

The KPMG 2021 CEO Outlook finds that CEOs of the world's largest businesses are increasingly confident about the economic recovery despite the Delta variant slowing down the 'return to normal'. As a result, C-suite leaders expect aggressive growth through acquisitions and other inorganic methods.

The CEO Outlook asked global executives to provide insight into their 3-year outlook on their businesses and the economic landscape. The research also includes questions to capture CEOs' sentiments on the evolving dynamics stemming from the COVID-19 pandemic, offering a lens into how they plan to adapt their strategies to the changing business landscape.

Over 1,300 global CEOs from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the UK and the US) were surveyed from 29 June – 6 August 2021. All respondents have annual revenues greater than US$500M and a third of the companies surveyed have more than US$10B in annual revenue.

This latest CEO Outlook study unveils several key findings about global leaders' economic outlooks, investment decisions and the rise of ESG on the CEO agenda, including:

- **Confidence in the global economy has returned to pre-pandemic levels:** 60 percent of global CEOs are confident about the growth prospects of the global economy over the next 3 years, a meaningful increase from 32 percent this time last year.
- **Senior executives identify inorganic methods as the main growth strategy:** Seven out of ten (69 percent) have identified inorganic methods such as joint ventures, M&A, and strategic alliances as their organization's main post-pandemic growth strategy.
- **M&A plans accelerated in search for growth:** Business leaders are looking at making acquisitions with 87 percent stating that they plan to make deals in the next 3 years.
- **Corporate purpose:** Corporate purpose is driving 74 percent of CEOs to take action in addressing the needs of their stakeholders (customers, employees, investors and communities).
- **A significant uptick in investment to meet ESG goals:** 30 percent of global CEOs are looking to invest more than 10 percent of their global revenues toward sustainability measures and programs.
- **Digital and ESG investments intrinsically linked to ESG:** Digital agility and meeting ESG goals are vital for growth, as a result, 75 percent of global CEOs are saying that their digital and ESG investment are inextricably linked.
- **Business leaders looking at government to meet net-zero targets:** 77 percent of leaders believe that government stimulus is required to turbocharge their goals of reaching net zero.
- **Corporates shifting, but not downsizing real estate portfolios:** Only 21 percent of CEOs plan to downsize or have already downsized their physical footprint or office space, which is a steep decline from August 2020, when 69 percent of CEOs said they plan to downsize or have already downsized.

- **Environmental and operational risks identified as challenges for growth:** When looking at risks for growth over 3 years, senior executives identified three areas they equally see as top risks: supply chain, cyber security and climate change.
- **CEOs concerned about tax reforms:** 77 percent of CEOs believe that the proposed global minimum tax regime is of "significant concern" to their organization's goals on growth.

Bill Thomas, Global Chairman & CEO, KPMG, said: "Despite the continued uncertainty around the pandemic, CEOs are increasingly confident that the global economy is coming back strong. This confidence has put leadership in an aggressive growth stance. While inorganic growth strategies are a priority, CEOs are also looking to expand organically and continue to assess the future of work to ensure they can attract top talent.

"If there is a positive to come out of the past 18 months, it is that CEOs are increasingly putting ESG at the heart of their recovery and long-term growth strategies. The unfolding climate and societal crises have made it clear that we need to change our ways and work together. I'm encouraged about what the future holds because business leaders are acknowledging that they need to be the drivers of positive change, supporting measures to tackle environmental dangers, as well as societal challenges — from gender and race, to equity and social mobility."

CEOs optimistic about global economic recovery

Despite the Delta variant of COVID-19 adversely impacting the 'return to normal' — Global CEOs are confident about the growth prospects of the global economy over the next 3 years. CEOs' confidence levels in the global economy have returned to pre-pandemic levels of 2019.

Global CEO outlook on growth prospects of the global economy

	August 2021	Jan/Feb 2021	August 2020	2019
Confident	60%	42%	32%	62%

A vast majority (87 percent) of CEOs are confident about their organization's growth prospects over the next 3 years; seven out of ten (69 percent) have identified inorganic methods such as joint ventures, M&A, and strategic alliances as their organization's main post-pandemic growth strategy. Global leaders have shifted from crisis mode to betting on growth through investments, which has led to a heightened appetite for deal-making.

Leaders of multinational corporations are now looking to make acquisitions. The research finds that 87 percent of senior executives stated that they are seeking out deals to make in the next 3 years. Whereas half (50 percent) of CEOs said that they are likely to undertake a major acquisition, which will transform their organizations. Many businesses have now successfully navigated the peak of the COVID-19 pandemic and are now looking to expand operations and acquire complementary assets.

Eighty-eight percent (88 percent) of CEOs are looking to increase their headcount, but despite this, a majority (60 percent) of business leaders are prioritizing investment in technology over developing their workforce's skills.

Carl Carande, Global Head of Advisory, KPMG, said: "CEOs have narrowed the gap between digital transformative objectives for their organizations and investing in the future of work and a digitally enabled workforce. Technology advancement is still vital for businesses to remain competitive, but hiring talented people is equally important."

ESG investment set to increase as businesses look to 'build back better'

Today, consumers and employees alike care about what the companies they associate with stand for. Purpose is connected to a company's stated role in society and how they'll act in a manner that creates long-term value for societies and the planet in a sustainable manner. Corporate purpose has become the guiding framework for business decisions, driving 74% of CEOs to take action in addressing the needs of their stakeholders (customers, employees, investors and communities). Thus, global executives will be looking to invest in business transformation, which helps them become more sustainable and transform their operating models in search of growth.

Many multinationals have cut their carbon emissions during the pandemic, due to travel restrictions and remote working, but many leaders want to lock in these sustainability gains and have announced ambitious net-zero targets. A third of (33 percent) of leaders recognize that not reaching climate goals will reduce competitive advantage and impact their bottom line.

Most CEOs (77 percent) believe that government stimulus is required to turbocharge their goals of reaching net-zero and three-quarters (75 percent) believe that COP26 will be a pivotal moment to inject urgency to the climate change agenda.

Jane Lawrie, Global Head of Corporate Affairs, KPMG said: "CEOs are under increasing pressure from stakeholders to deliver on ESG goals and to actively address societal issues. With COVID-19 magnifying the importance of a sustainable recovery and COP26 convening in November, companies' societal roles are under greater scrutiny than ever before. It's crucial in today's landscape that businesses and their leadership teams show real-world examples of their dedication to building back better."

However, corporations are tackling many socio-economic, social and environmental challenges facing the communities that they operate in. The pandemic has heightened consumers' willingness to call out unsustainable business practices and put pressure on corporations to 'build back better'. Nearly six out of ten (58 percent) CEOs are seeing increased demands from stakeholders — such as investors, regulators and customers — for increased reporting and transparency on ESG issues.

Stakeholders are demanding CEOs deliver on both areas. In the post-pandemic era, successful CEOs will be those that can connect their ESG goals with digital agility — and three-quarters (75 percent) of global CEOs are on the right track, saying that their digital and ESG investments are inextricably linked.

As a result, three in ten (30 percent) senior executives are looking to invest more than 10 percent of their companies' revenues on ESG initiatives over the next 3 years.

Against this backdrop, telling a compelling ESG story has become more important for leaders, but the research finds that 42 percent of CEOs are struggling to articulate a compelling ESG proposition to their stakeholders. The public is demanding ever more ambitious ESG goals. Today's early digital adopters have carved out competitive advantage — but if organizations neglect their purpose and ESG goals, they risk eroding customer loyalty and becoming targets of governments, regulators, the media and the public.

Larry Bradley, Global Head of Audit, KPMG, said: "CEOs are under increasing pressure to describe how climate change is impacting their business strategies and their financial reporting. Furthermore, the rapidly evolving ESG reporting and standards landscape can certainly be challenging to navigate. Accessing the right talent, building processes and related controls, harnessing data extraction technology, and developing governance structures to properly capture and disclose ESG data is where they can both build trust and gain a competitive edge."

Supply chain, climate change and cyber risk are biggest challenges for growth

While corporates continue to navigate the economic and employee safety concerns during the pandemic, they are increasingly focused on other risks. The vaccine rollout in major markets has brought some light to the end of the tunnel, despite the Delta variant impacting the 'return to normal'.

One of the biggest challenges for many businesses has been the pressure that the pandemic has put on supply chains. Many markets still face supply shortages, but geopolitical developments have also played a role in this development. Now senior executives are spending time on building resilient supply chains with more than half (56 percent) of global CEOs in 2021 saying that their business' supply chain has been under increased stress during the pandemic.

Global CEOs ranked supply chain risk among the top three challenges to growth. C-suite leaders also identified cyber security and climate change as the other two challenges facing their businesses.

The data highlights that CEOs in sectors that produce goods, such as consumer and retail, manufacturing and automotive, have noted supply chain risk as their main threat to growth. Whereas leaders in the financial services, technology and telecommunications sectors are most concerned with cyber security as these businesses move towards more agile models and defending against a more sophisticated army of cyber criminals becomes challenging with large portions of staff still working remotely.

Energy and infrastructure senior executives have stated climate change risk as the biggest threat to their growth. With increased pressure from governments and stakeholders to cut carbon emissions, the leaders are in a race against time to transition their operations to become more environmentally friendly.

It's noteworthy that in this year's CEO Outlook, regulatory risk has climbed up the agenda. This highlights those senior executives recognize that corporations may face new regulations following the pandemic and increased demands on ESG reporting posed by regulators.

Biggest risks to growth over the next 3 years

2021 CEO Outlook (July/Aug 2021)		2020 CEO Outlook pulse (July/Aug 2020)	
Risk to growth	**Rank**	**Risk to growth**	**Rank**
Cyber security risk	#1	Talent risk	#1
Environmental / climate change risk	#1	Supply chain	#2
Supply chain risk	#1	Return to territorialism	#3
Emerging / disruptive technology risk	#2	Environmental / climate change risk	#4
Regulatory risk	#2	Cyber security risk	#5
Operational risk	#2	Emerging / disruptive technology risk)	#6

Global tax reforms a significant concern for CEOs

Global executives recognize that to fund the economic recovery, there is a likelihood that many governments will look to increase tax income to help. The risk to multinationals is that differing and urgent domestic needs and timelines can lead to unilateral regulation and new tax rules, giving rise to increased complexity, uncertainty and potential double-taxation and disputes for multinationals, which, in-turn could hinder their long-term growth and investment strategies. The research indicates that CEOs recognize this risk, with three-in-four (75%) global executives noting that they believe the pressure that the pandemic has put on public finances has increased the urgency for multilateral cooperation on the global tax system. While recent developments provide some hope for multilateral cooperation, including the historic agreement by 130 countries on 1 July 2021 as to a framework for the reform of international tax rules, this also brings about new challenges for CEOs.

One such challenge is around the proposed global minimum tax regime, which registers high on the CEO agenda and is something that they are monitoring closely, with 77% of CEOs agreeing this tax regime is of “significant concern” to their organization’s goals on growth, even though implementation and full understanding as to the extent of the impacts may not be realized for several years.

All of these findings underscore the increasing focus on tax matters in the public realm, and CEOs are acutely aware of this trend, with a strong majority (74%) of global executives reporting a recognition that there is a strong link between the public’s trust in their businesses and how their tax approach aligns with their organization’s values. As businesses aim to ‘build back better’, the research shows that 69% of CEOs are feeling increased pressure to report publicly their tax contributions as a part of their broader ESG agenda and commitments to demonstrating their organization’s contribution to wider society.

David Linke, Global Head of Tax and Legal, KPMG, said: “We have watched tax issues climb the priority ladder of CEOs in recent years, and with the breadth and depth of change coming to tax systems globally, the reputational, structural and financial stakes have never been higher.

“The latest survey findings make clear that business leaders fully recognize the need for regulatory reform, but to achieve a system that works across borders and provides greater transparency, there needs to be stronger collaboration and effective engagement. Tax issues aren’t just about financial obligations. The majority of CEOs say they’re feeling the pressure to be more public about their tax contributions. There’s clearly work to be done, but reforms offer a golden opportunity for C-suite leadership to clearly demonstrate what they’re doing to make a positive impact on society.”

<u>CEOs are shying away from making wholesale changes to the work environment</u>

A surprising development is that only 21 percent of CEOs plan to or have already downsized their physical footprint or office space as a result of the pandemic and changing working habits. This is a steep decline from the survey results in 2020, conducted during the height of the COVID-19 crisis, where seven out of -ten (69 percent) said that they were planning to downsize their organization's physical footprint.

This doesn’t mean that global executives aren’t embracing a new way of working and more flexible working conditions for their employees. Over a third (37 percent) of CEOs said that their organization will have most employees working remotely at least two or more days a week. Furthermore, there has been an increase in the appetite to provide shared office space for employees to collaborate.

Half (51 percent) of respondents said that they will be looking to invest in shared office spaces to allow for increased flexibility. This is a significant uptick from the January/February’s pulse survey, where only 14 percent of global executives noted that they were investing in shared office space.

Companies are also looking to attract a wider pool of talent by hiring workers who work remotely. Four out of -ten (42 percent) CEOs will rely on the strategy of hiring remote workers to revise operating and labor models to attract the best talent. With the anticipation of growth, the war on talent means that there is an increased appetite (28 percent, up from 10 percent in January/February’s pulse survey) to prioritize incentives and rewards for employees to retain talent.

Impact of pandemic on CEOs organization in 3 years

	Today	Jan/Feb 2021	+/ - %
Majority of employees working remotely at least 2 or more days a week	37%	30%	**+7%**
Hiring talent that works predominantly remotely	42%	21%	**+21%**
Investing in shared office spaces to allow employees to work more flexibly	51%	14%	**+37%**

About KPMG's CEO Outlook

The KPMG CEO Outlook provides an in-depth 3-year outlook from thousands of global executives on enterprise and economic growth.

The KPMG 2021 CEO Outlook asked 1,325 CEOs from among the world's most influential companies to provide their 3-year outlook on the economic and business landscape, as well the impact that the on-going COVID-19 pandemic will have on the future of their organizations. All respondents have annual revenue over US$500M and a third of the companies surveyed have more than US$10B in annual revenue.

The survey was conducted June 29 – August 6 and included leaders from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, UK and US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications). NOTE: some figures may not add up to 100 percent due to rounding.

The survey includes qualitative interviews with CEOs of: Edward Jones, Greater Toronto Airports Authority, Mitsubishi UFJ Financial Group and Snowflake.

To view additional information about the survey please visit home.kpmg/CEOoutlook. You can also follow @KPMG on LinkedIn and Twitter for updates and the conversation with #CEOoutlook.

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