Disrupt and grow

2017 Canadian CEO Outlook

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Foreword

Welcome to KPMG in Canada's annual KPMG CEO Outlook, which provides deep insights into the opportunities and challenges faced by nearly 1,300 CEOs from around the world, including 51 Canadian CEOs. This is the second year that we've brought this survey to Canada and the results provide an interesting perspective on the Canadian landscape and how the CEOs we surveyed plan to lead their business through a period of profound change and opportunities.

The 2017 CEO Outlook "*Disrupt and grow*" shows that disruption is top of mind for Canadian CEOs. Digitization is today's number one focus area, rising from sixth place last year.

From a global perspective, Canadian CEOs confidence in the global economic outlook has dipped considerably from last year, yet most are confident about Canada's economic growth and the growth of their own company in the next three years.

While this sounds promising, the contrasts that exist from their global counterparts suggest that Canadian CEOs may want to think about their business through a global lens to ensure they are focused on the priorities, investments and growth opportunities to continue to move forward. There is an abundance of opportunity for Canadian business and we can be at the forefront of our rapidly changing business environment.

On behalf of KPMG in Canada, I would like to thank every one of the CEOs who took the time to respond to this survey and share their perspective. We welcome the opportunity to discuss these insights with you so that you can help your organization "disrupt and grow."

Elio Luongo
Chief Executive Officer and Senior Partner,
KPMG in Canada

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Executive summary

The drivers of change are clear. Economic turbulence, geopolitical instability and massive business disruption are moving at a pace faster than ever before. Together, these forces are compelling CEOs to think in fresh ways about the disruptive forces impacting their businesses. In the face of new challenges and uncertainties, it is becoming clear that the time to "disrupt and grow" is now.

The 2017 CEO Outlook report highlights that Canadian CEOs recognize the importance of disruption and view it as an opportunity, not a threat, for their business. Rather than waiting to be disrupted by competitors, Canadian CEOs say they are taking active steps to disrupt within their own sectors.

However, given today's complex and rapidly changing environment, Canada's C-suite will need to do things differently when thinking about transformation.

Not only must today's CEOs expand the breadth of skills and expertise needed to lead their organizations, but they must also stimulate innovation, oversee new types of customer relationships, manage heightened reputational risks and make bold decisions about their investments in technology. CEOs will need to set an ambitious and agile path forward and review and reprioritize investments so they are not left behind.

Over the next three years, the top strategic priorities for Canadian CEOs are business digitization, limiting brand risk, improving speed to market, strengthening client focus and becoming more data driven. CEOs are also aiming to increase penetration in existing markets, vertically integrate their supply chains and focus on innovation.

To execute on these growth priorities, CEOs plan to scale up their business operations and processes, engage in mergers and acquisitions, and drive large-scale business transformation.

This year's report also indicates that while Canada's CEOs recognize the importance of innovation and investment in technology, they are hesitant to make further investments until they have a clearer understanding of how to do so successfully.

Amidst the challenges, there are many positive signs. Canada's CEOs are confident that their companies will experience top-line growth over the next three years, despite concerns that inflation, interest rates and tax rates will rise in the same time period. They are confident in the growth of Canada's economy as a whole, however, over the last year they've become somewhat cautious as it relates to potential effects of the global economy. In fact, a high majority of CEOs are recruiting individuals with a different skill set and perspective to help them better understand geopolitical risk. Similarly, they are spending a significant amount of time on scenario planning to mitigate the risks.

What's clear from this year's report is that Canadian CEOs are preparing their companies to meet the challenges of the future. We hope this outlook sheds light on the possible paths forward through increased focus on the pursuit of innovation, business disruption and embracing transformation. In doing so, Canada will be able to take better advantage of opportunities in an increasingly digital world.

Key Canadian findings

Disruption as an opportunity

75%

Three-quarters of Canada's CEOs see disruption as an opportunity, not a threat, for their business

86%

More than eight in 10 say they are not waiting to be disrupted by competitors; instead, their business is actively disrupting its sector

Three risks climb the agenda

1st

Up from 5th in 2016

Interest rate risk has risen in importance for CEOs during the past year to become the top risk they face today (out of 16 in total), rising from fifth place since last year

2nd & 3rd

Up from 6th in 2016

Emerging technology risk and conduct risk (fraud) now take the second and third places, rising from a shared sixth place since last year

Heightened uncertainty

CEO confidence in the global economic outlook has dipped considerably from last year: 43 percent of Canada's CEOs are now confident about global economic growth during the next three years – down from 81 percent in 2016

On the flip side, most Canadian CEOs (75 percent) are confident about Canada's economic growth, while 82 percent believe their own company will grow in the next three years

55 percent of Canadian CEOs are confident in their own industry's growth in the next three years, although there has been a notable dip since 2016

CEOs remain Canada-centric

41%

To achieve growth, 41 percent of Canadian CEOs deem increasing penetration into existing markets as a high priority, with another 49 percent citing it as somewhat of a priority

31%

When it comes to growth opportunities, 31 percent of Canada's CEOs are focusing on the Canadian market, 24 percent see growth opportunities in the US and 63 percent are focusing on Central and South America

A focused approach to geopolitical risk

86%

To better understand geopolitical risk, 86 percent of Canada's CEOs are recruiting new skills and specialists into their management teams

84%

Similarly, 84 percent are spending more time on scenario planning as a result of an uncertain geopolitical climate

Strategic balance

Business digitization

The strategic priorities of Canada's CEOs have shifted since 2016. Business digitization is today's number one focus rising from sixth place last year. Limiting brand risk in an age of transparency rose from fourth place to tie at first place in 2017.

Greater speed to market

Greater speed to market came in as the second top priority, while three others tied for third place – stronger client focus, talent development and becoming more data driven.

Mergers and acquisitions

To execute on these strategies, three-quarters of Canada's CEOs (77 percent) are scaling up their business operations and processes, 39 percent are engaging in mergers and acquisitions, 35 percent are focused on large-scale business model transformation and 6 percent are pursuing collaborative partnerships.

Responding to customer needs

More than three-quarters (78 percent) of Canada's CEOs feel they have a growing responsibility to represent the best interests of their customers

However, in building customer relationships they face challenges targeting growth segments in existing markets, targeting Millennials who want to interact with their brands in different ways and maintaining/building their customer bases due to disruptive competitors

Intuition and analytics in understanding the customer

75% Most Canadian CEOs say they are effective at sensing market signals

65% Yet ongoing success relies on good-quality data and more than half are concerned about the integrity of the data they are basing decisions on

Barriers to implementing new technology

Over the past 12 months, 39 percent of Canada's CEOs have made significant investments in the Internet of Things, 29 percent have made significant investments in blockchain and 27 percent have invested heavily in data analytics tools

Despite this trend, implementation barriers still exist – including a lack of internal knowledge (25 percent), implementation complexity (18 percent) and the lack of a long-term strategy (18 percent)

The biggest technology-related challenges of Canadian CEOs include piloting emerging technologies, making optimal use of data analytics and predictive technologies, and trusting the quality of their data

A perception of improved cyber resilience

Canada's CEOs clearly believe they are making progress in their management of cyber events, which this year has dropped to number nine in the list of top risks CEOs face

Overall, CEOs feel fully prepared for customer data threats or attacks on their equipment or software, they are less prepared for distributed denial of service attacks, social media hacking and employee led data breaches

Headcount still growing apace

A majority of Canada's CEOs (86 percent) say that headcount is likely to remain the same over the next 12 months.

Over the next three years, 80 percent expect headcount to rise by up to 5 percent, while 16 percent are anticipating an increase of up to 25 percent. This may explain why 91 percent of Canadian CEOs plan to increase their budgets for recruiting in the next three years.

Canada's CEOs also expect cognitive technologies to impact their headcount over the next three years.

The evolution of the CEO

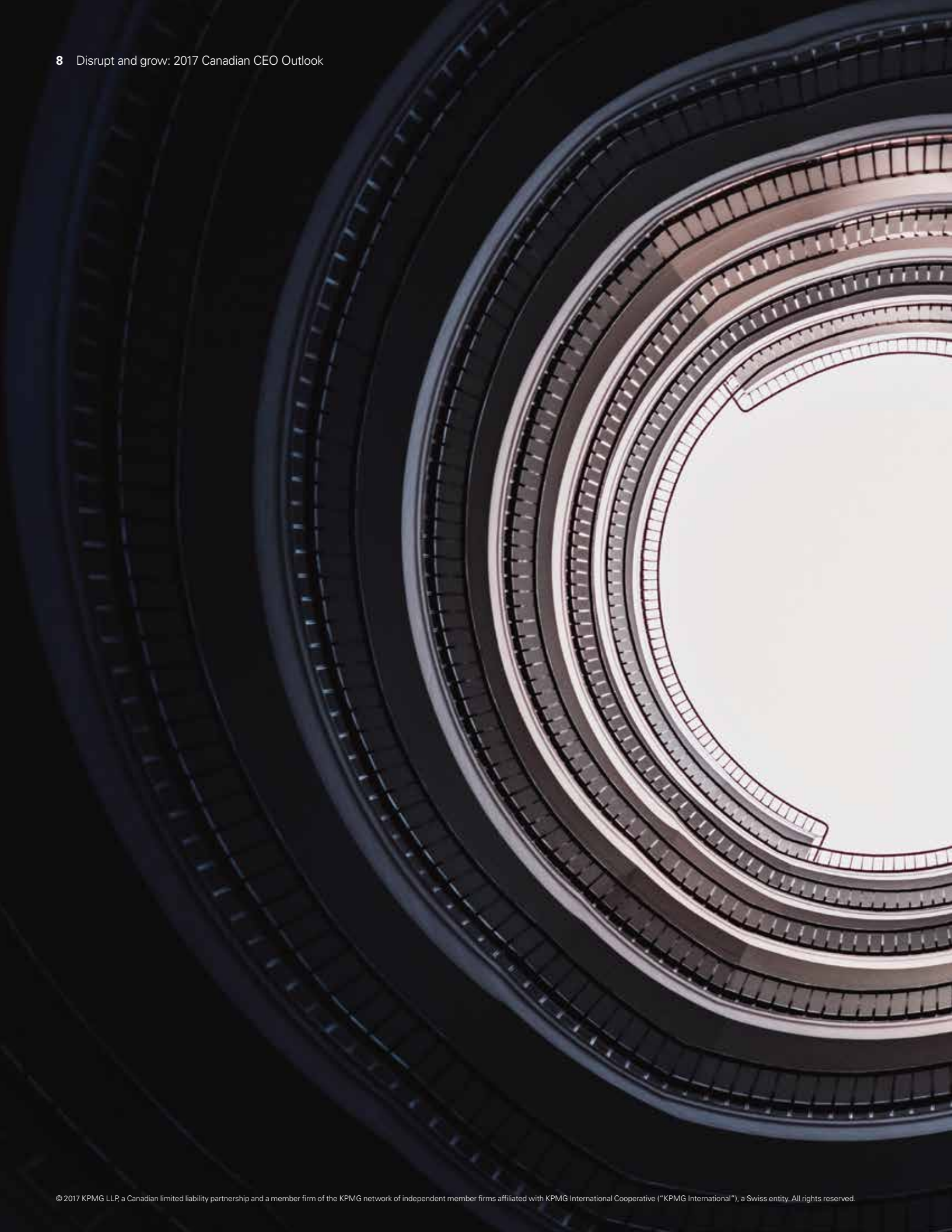
75% Canadian CEOs say they are now more open to new influences and collaborations than at any other point in their careers

71% Canadian CEOs are also evolving their skills to better lead the business. Over seven in 10 have taken training or a new qualification in the past 12 months

Trust in a time of disruption

80% Over three-quarters of Canadian CEOs say their organization is placing greater emphasis on trust, values and culture to sustain its long-term future

75% 75 percent say their shareholders/board place equal importance on long- and short-term performance objectives, while almost seven in ten correlate being a more empathetic organization with higher earnings



Disruption is an opportunity

Canada's CEOs are no strangers to the disruptive forces that have been shifting business dynamics in recent years. Digital technologies have vastly altered customer expectations, spawned unconventional market entrants and blurred industry lines across virtually every sector of the economy.

Rather than waiting to be disrupted by competitors, however, a full 86 percent of Canada's CEOs say they are actively disrupting the sectors in which they operate, while 75 percent say they see technological disruption as more of an opportunity than a threat.

To take advantage of this opportunity, Canadian CEOs cited four ways they plan to execute on their strategies: 77 percent say they will scale up their business operations and processes, 39 percent plan to engage in mergers and acquisitions (M&A), 35 percent will focus on large-scale business model transformation and 6 percent plan to pursue collaborative partnerships and joint ventures.

Laying the groundwork for change

To succeed in these efforts, the nation's businesses will need to undergo a period of intense change. Consider their plans to scale up business operations and processes, for instance:

"Before companies can scale up, they need to simplify and standardize their data, processes and systems," explains Gavin Lubbe, Partner at KPMG in Canada. "Disruption is about fundamentally transforming the way in which you interact with customers and you can't do that if you lay a foundation for growth on disconnected work processes and archaic system architectures. To become customer-centric, achieve IT automation or adopt technologies like cognitive and machine learning, companies can't simply upgrade their existing operations and processes. Instead, they must reimagine their underlying system architectures and business models."

Similar cautions apply to companies considering M&A as a growth strategy. Public markets at a high, deal activity and valuations are strong and there is fierce competition for assets. This is particularly the case for assets that could be considered disruptive or game changing.

"Warren Buffett once said: 'Price is what you pay; value is what you get.' That is particularly salient today where companies need to carefully consider how they are going to realize value post-deal especially if synergies are incorporated in their valuation model," says Neil Blair, National Leader, Corporate Finance at KPMG in Canada.

To avoid missteps, companies must do more than engage in financial and legal due diligence. They must also think through their cost realization strategies post-close. "It helps to have a point person or advisor who can help you through the integration phase," Blair continues. "Given the strong valuations that are being seen in the market, to remain competitive, companies and private equity are increasingly assessing opportunities for cost realization and potential add on acquisitions earlier in a transaction process and sometimes even before a Letter of Intent is submitted."

When it comes to large-scale business transformation, Canadian CEOs are considering a number of business model options – with 53 percent focused on agile (a methodology to deliver change programs at speed) and 49 percent pursuing customer-focused transformation.

Here too, however, there are pitfalls to avoid. For instance, CEOs can't drive transformative change by simply assigning responsibilities. Instead, they need to create capacity for internal teams to execute against the plan. At the same time, they must be prepared to embrace innovative technologies to drive transformation – not only among front-line staff but at the executive level as well. Canada's C-suite must lead by example if they hope to use these tools to leapfrog the competition.

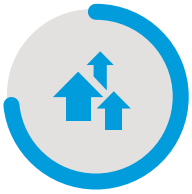
"This is a real opportunity for Canadian companies because we have the capacity to move faster than market behemoths," asserts Stephanie Terrill, National Leader, Financial Management at KPMG in Canada. "If we can get that execution right and be more agile, we can make a real mark on the global stage."

Yet, this requires CEOs to keep their ears to the ground. Often, companies engaged in large-scale transformation become too internally focused, which could prevent them from responding to shifting market dynamics. To mitigate this risk, they must have a mechanism to determine if employees are truly supporting organizational change efforts and if customers are buying into the new vision.

Last, but not least, a higher percentage of organizations may want to focus on collaborative partnerships and joint ventures. "As industries converge and digital players enter unexpected business verticals, companies that fail to pursue strategic partnerships will increasingly struggle to reach their potential," says Rob Brouwer, Vice Chair, KPMG in Canada.

In entering these alliances, companies should begin by assessing where they may have gaps in adapting to shifting market realities, and then identifying potential partners who can fill those gaps. "As Elio Luongo, CEO at KPMG in Canada, often says, disruption today is not so much about the big eating the small as it is about the fast eating the slow," explains Benjie Thomas, National

How CEOs plan to execute on their strategies



77%

Scaling up our own business operations and processes

Global 72%

39%

Merger and/or acquisition

Global 21%

35%

Large scale business model transformation

Global 33%

6%

Collaborative partnerships/ joint ventures

Global 31%

Managing Partner, Advisory Services at KPMG in Canada. "The right alliances can help you move more quickly in the market and drive growth without making a significant capital investment."

The key, however, is finding the right partnerships – those that drive value for all parties. That means ensuring the partners share the same value systems and cultures. "Organizations should also create clear targets for success," Thomas continues. "Successful partnerships regularly assess if they are realizing the intended benefits – whether that's earning incremental revenue, strengthening market recognition and brand awareness, or something else."

Redrawing the horizon

In this report, KPMG in Canada explores the many challenges Canada's CEOs face as they disrupt and grow in a changing landscape. It is also worth noting that, in the context of this year's research, success is not defined purely by the ability to displace rivals and claim market share. CEOs tell us they want to improve trust in business, foster innovation, strengthen customer relationships and create a more sustainable future for their organizations. For them, disruption is a positive goal.

"Disruption today is not so much about the big eating the small as it is about the fast eating the slow,"

Elio Luongo, Chief Executive Officer and Senior Partner, KPMG in Canada

Growth amid uncertainty

According to Canada's CEOs, growth expectations for the next three years are mostly positive. While only 43 percent of CEOs are confident the global economy will grow, 75 percent say Canada's economy will grow and 55 percent anticipate growth in their own industry. Significantly, a full 82 percent of Canadian CEOs expect their own companies to grow during that time.

While the top-line growth outlook has declined since last year – with growth forecasts hovering just under two percent, compared to between 2 and 5 percent last year – optimism remains. That said, some economic factors may affect these growth forecasts, including the relatively new US administration and Brexit, as well as the fact that most global economies continue to see sluggish growth.

Although the majority of Canadian CEOs indicated optimism about the US administration's impact on their own company growth, that sentiment was shared at a time when executives may have held a more positive perspective about the intertwining of the two economies – a sentiment that may have shifted in recent months in the wake of the US administration's stated plans to renegotiate NAFTA.

Either way, US fiscal and trade policies continue to drive a measure of economic uncertainty. For instance, in the next three years, 96 percent of Canadian CEOs believe tax rates will rise, 90 percent say inflation will rise and 80 percent expect interest rates to rise. "Currently, personal debt is at its highest and mortgage rates are incredibly low. Should interest rates rise, this could impact all aspects of the economy – including real estate and housing affordability. It could even create a wealth effect, resulting in reduced consumer spending and lagging consumer confidence," says Willy Kruh, Global and Canadian Chair, Consumer Markets, KPMG International.

Similar uncertainty may arise following Brexit. Although the majority of Canadian CEOs see little impact regarding Britain's exit from the EU when it comes to conducting research and development and locating headquarters or operations in the UK, some sectors saw more of a negative

Level of confidence for growth in next 3 years

Global 77%

Global 65%

Global 69%

Global 83%

impact. This is especially true among financial services organizations, which may need to relocate headquarters if London ceases to be the gateway to Europe. Barriers between the EU and UK may also present challenges to Canadian policymakers with respect to international agreements, mobility and investor confidence. Most significantly, Brexit and US policy directions herald a move towards greater nationalism – underscoring the corporate imperative to prepare for increased geopolitical disruption.

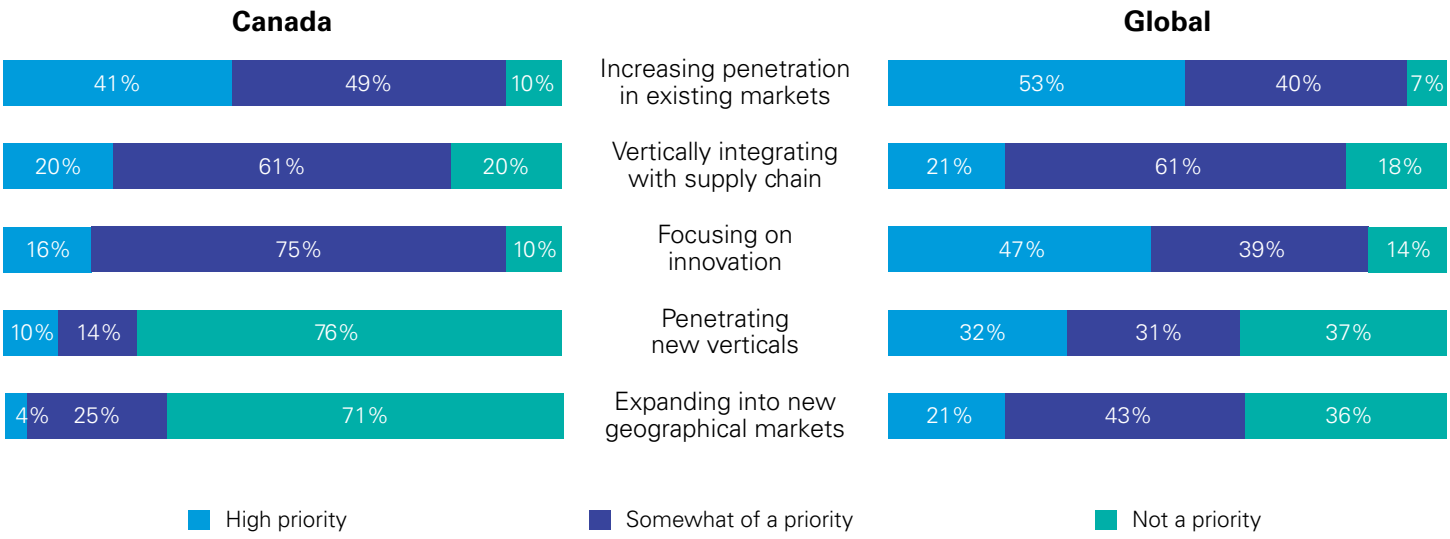
Notably, Canadian CEOs appear to be taking these issues to heart. Eighty-six percent say they are recruiting new skills/specialists into their management teams to better understand geopolitical risk (compared to 69 percent of global CEOs), while 84 percent are spending much more time on scenario planning as a result of an uncertain geopolitical climate.

The focus on scenario planning only stands to sharpen given the exceptionally rapid pace of change at both the macroeconomic and geopolitical levels. As enterprise risk rises, scenario planning promises to help organizations more effectively keep pace with the rapid-scale change that now characterizes both domestic and global markets.

Innovation remains a priority for CEOs

Despite the steps Canada's CEOs are taking to manage these mounting risk exposures, this year's research suggests that recent trends are already influencing operating decisions. Rather than expanding into new geographical markets or penetrating new verticals, 44 percent of the nation's chief executives say increasing penetration in existing markets is a high priority, with another 49 percent identifying it as somewhat of a priority. Similarly, 61 percent of both Canadian and global CEOs consider vertical supply chain integration somewhat of a priority.

Priorities for growth in next three years



When it comes to growth opportunities over the next three years, Canadian CEOs also see the benefit of staying closer to home – with 31 percent planning to further exploit the Canadian market, 24 percent casting their eyes towards the US and 63 percent expanding their focus to Central and South America.

Yet this measured approach does not negate CEOs' stated ambitions around disruption, as innovation is seen as coming in as a priority for Canadian CEOs.

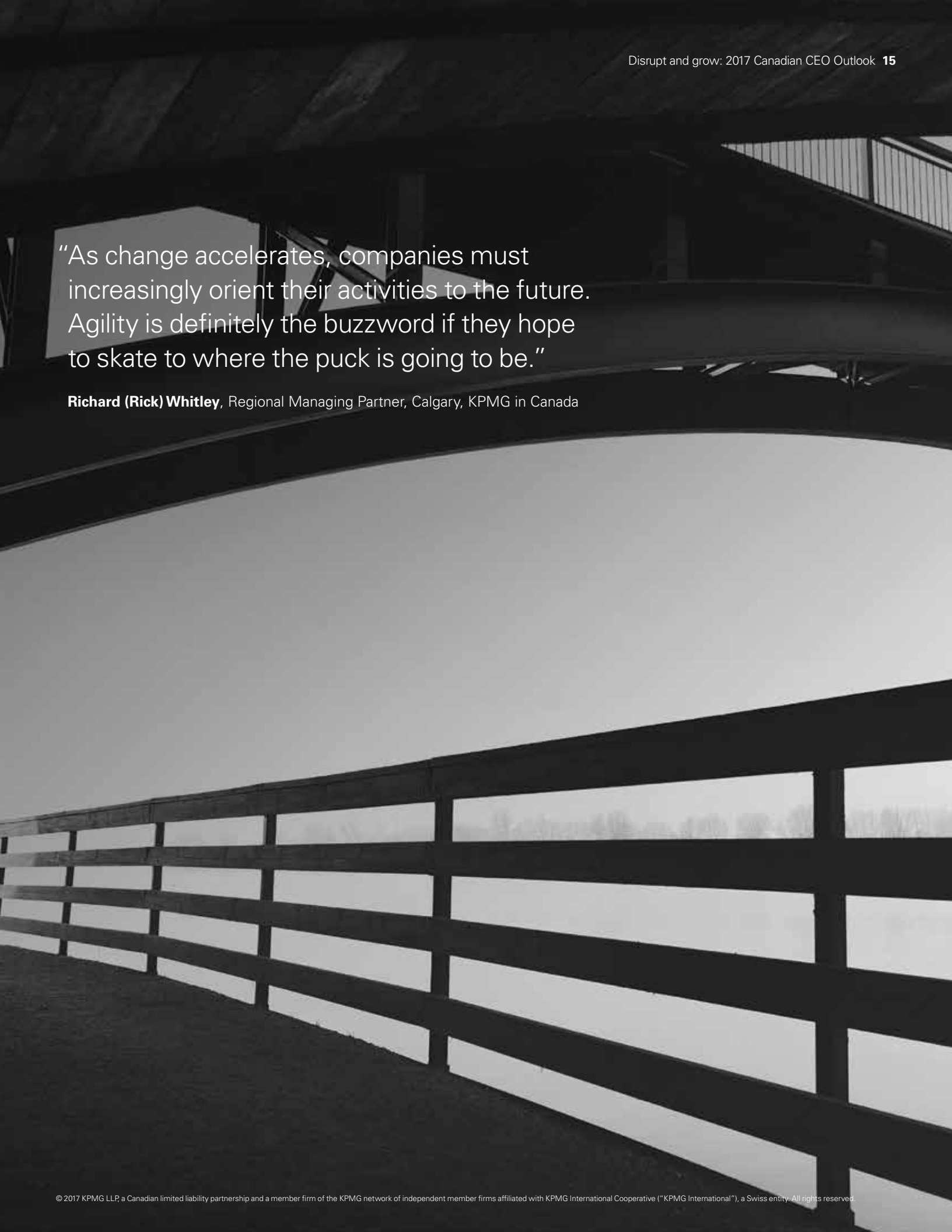
Of course, innovation means different things to different people, which is why it helps to begin by defining it.

"I think of innovation in three buckets," Thomas says. "First, how do you operate and can you create operational efficiency through disruption or innovation? Second, can you improve or enhance sales channels through innovation? Third, can you open up completely new sales channels through innovation?"

To support these various forms of innovation, Canada's executives are pursuing a range of strategic initiatives – including business digitization/technology transformation, greater speed to market and becoming more data driven. At the same time, CEOs, and the stakeholders they are accountable to, are looking for a return on invested capital in innovation. Given how fast things are changing, a more diverse growth strategy is needed more now, than in the past.

"If interest and tax rates are expected to increase, this could potentially dampen economic growth – leading to a more conservative approach, less interest in penetrating new verticals, lower investment and greater caution. This means CEOs are looking for novel and safer approaches to innovation and finding ways to disrupt while at the same time not betting the farm," explains Jonathan Kallner, National Managing Partner, Clients & Markets at KPMG in Canada.

That stance may shift in the near term given the incredible rate at which new technology is being introduced and the unprepared nature of many monolithic businesses. The majority of Canadian CEOs understand that digital disruption has the power to transcend geographic boundaries and vastly alter traditional industry delineations. This creates a rising call to pursue new forms of innovation and transformation in the years ahead.



"As change accelerates, companies must increasingly orient their activities to the future. Agility is definitely the buzzword if they hope to skate to where the puck is going to be."

Richard (Rick) Whitley, Regional Managing Partner, Calgary, KPMG in Canada

Risks and priorities

As uncertainty increases, Canadian businesses are reassessing their key risks. While environmental risk and operational risk were considered top concerns among Canadian executives in 2016, they did not even rank among their top five risks for 2017.

In fact, amid geopolitical volatility, interest rate risk now tops the agendas of Canadian CEOs, followed by emerging technology risk, conduct risk (fraud) and reputational/brand risk.

These risks are actually interconnected, according to Terrill. "The rapid transformation of emerging technologies is placing greater power in the hands of people outside of organizations – including customers, investors and special interest groups," she explains. "This makes it almost impossible for organizations to control the messages being shared about their brand."

As CEOs redefine their key risks, their strategic priorities are shifting accordingly. In fact, in the next three years, 27 percent of Canadian CEOs plan to digitize their business or engage in technology transformation, 27 percent are focusing on limiting brand risk in an age of transparency and 25 percent intend to achieve greater speed to market.

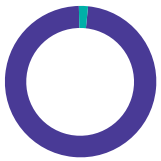
In their bid to become disruptors and drive innovation, Canada's CEOs also plan to adopt a stronger client focus, improve talent development and management, and become more data-driven (all at 24 percent).

Given the ambition of these strategies, one result from this year's survey seems anomalous: 98 percent of Canadian CEOs say that, three years from now, they will largely be the same company they are today. This is in contrast to the 2016 results whereby 74 percent of Canadian CEOs said the same.

"These results likely need some context," says Rick Whitley. "It may be that it is presumed that three years is too short a timeframe to effect the type of changes CEOs are prioritizing, they likely need a runway of at least five."

Expectations for transformation

Looking at the next three years...



Canada

2% we are likely to be transformed into a significantly different entity (26% 2016)

98% we will be largely the same firm we are today (74% 2016)

Global

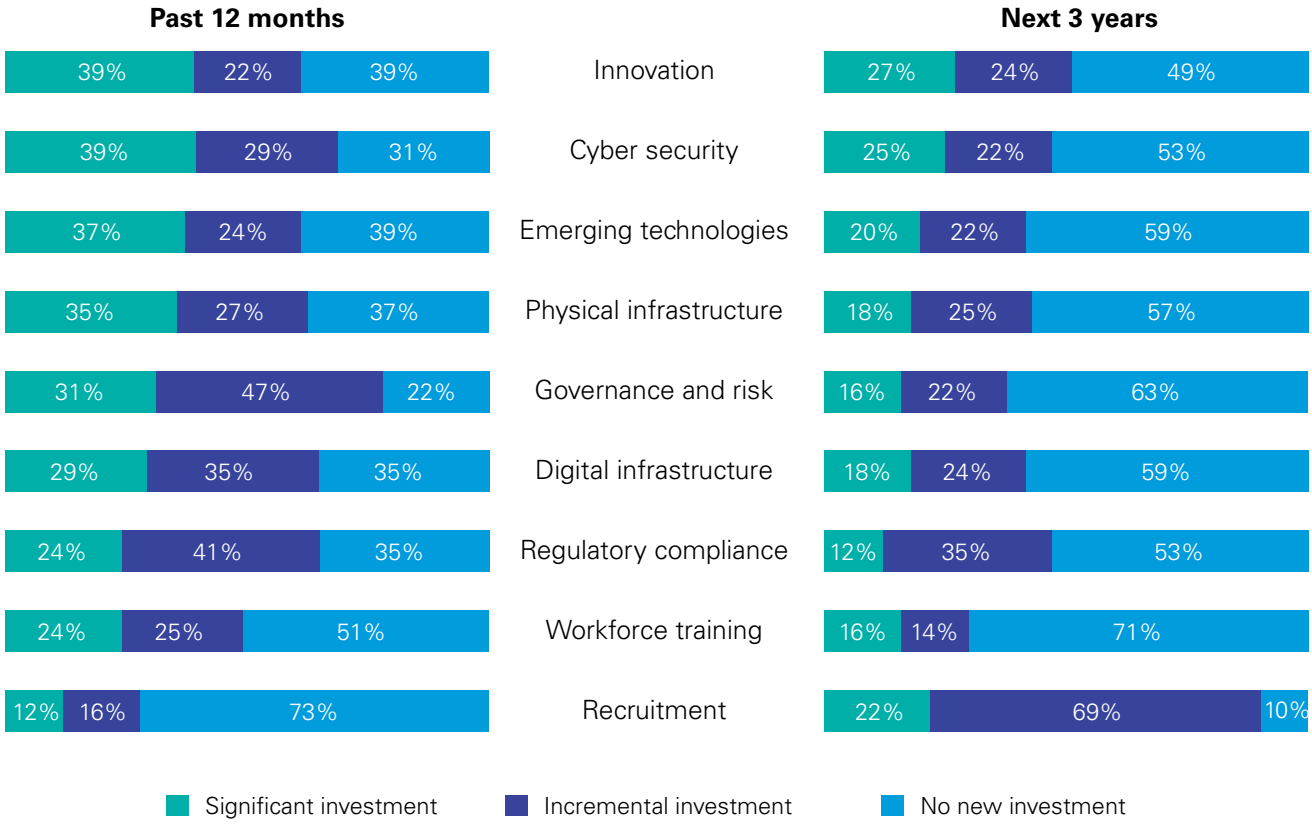
26% we are likely to be transformed into a significantly different entity (41% 2016)

74% we will be largely the same firm we are today (59% 2016)

Eyes on the prize

In the meantime, Canada's CEOs may be focusing on areas where they can realize more immediate returns. In the past 12 months, many Canadian CEOs have made significant investments in innovation, cyber security and emerging technologies and cited recruitment as the area that will attract the most additional dollars over the next three years.

Level of investment



"Boards of directors should be pressing management around these issues. Fostering innovation has to start as a board-level initiative."

John Armstrong, National Industry Lead, Financial Services, KPMG in Canada

Similarly, when asked about prioritization of their investment objectives over the past 12 months, 65 percent of Canadian CEOs said their objective was to improve bottom-line growth, 50 percent were aiming to strengthen organizational resilience and 46 percent were focused on increasing productivity. While they were less focused on objectives, such as disrupting competitors, creating new products and services, and transforming business and operating models over the past 12 months, they will likely need to prioritize these objectives going forward in light of their stated goals for the next three years.

To balance their immediate goals with their future objectives, CEOs may want to focus half their effort on running business as usual and the other half on addressing disruption.

To make this work, however, they must gain an intimate understanding of the competitive landscape by studying global trends – not only in their own industry, but in adjacent industries. As the boundaries of industry definitions blur, organizations must widen their definition of competitors to avoid being blindsided.

"CEOs should be looking at disruption through a global lens. Disruption can come from a similar company from another country or new domestic competitors, including start-ups entering and, in some cases, redefining an industry. The relatively insular business environment – which may have protected us in the past – will not protect us in the future," asserts John Armstrong.

Using technology to enhance the customer experience

In recent years, it has become clear that the world's most successful companies are those capable of constantly evolving in response to continually shifting customer expectations. Organizations that fail to keep pace could find themselves seriously disadvantaged.

Are Canadian companies on that path? Perhaps, and this creates opportunities for those CEOs and companies that are embracing technology to enhance the customer experience. Only 14 percent of Canadian CEOs say incentives for senior managers are linked to customer satisfaction metrics, compared to 38 percent globally. Only 12 percent always evaluate new investments or ventures for their impact on the customer, compared to 44 percent globally. And changing customer needs is ranked number eight on the list of Canadian CEO risks versus seventh by global CEOs.

Part of the challenge may stem from making technology investment commitments. The majority of Canadian CEOs say they have made significant investments in the Internet of Things (IoT), blockchain and D&A tools over the past year.

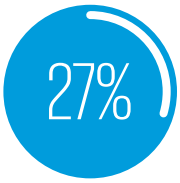
That means the time is now ripe to consider reviewing and potentially reprioritizing technology investments. Blockchain, for instance, has the potential to eliminate intermediaries

Global 70%

As CEO, I feel a growing responsibility to represent the best interests of my customers

Global 66%

We are able to confidently articulate how we create value for our customers

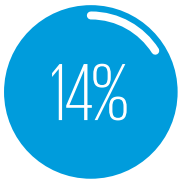


Global 55%

We have aligned our middle and back offices processes to reflect a more customer centric approach to our front office operations

Global 49%

Every employee in our organization is able to articulate our value proposition to the customer in the same clear way



Global 38%

Incentives for senior managers are linked to customer satisfaction metrics

Global 40%

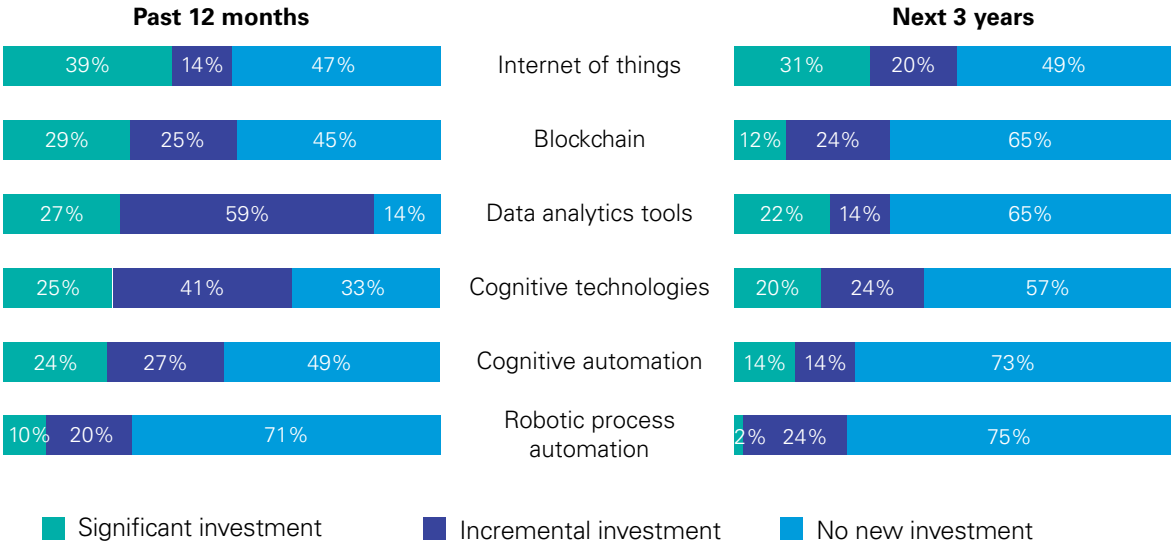
Any new investment change or venture is always evaluated for its impact on the customer

Global 44%

My organization struggles to evaluate the return on investment from customer focused programs

Global 45%

The depth of our customer insight is hindered by a lack of quality customer data



in a whole host of industries, allowing companies to operate in a more decentralized – and customer-centric – fashion. While financial services organizations are currently exploring its applications, other industries appear to be standing by, perhaps because they do not fully understand the technology and its potential benefits.

Similarly, investment in robotic process automation (RPA) should also be a priority. Unlike some of the more experimental technologies, such as cognitive and artificial intelligence (AI), RPA is much closer to becoming mainstream.

For its part, AI has the potential to vastly alter customer service interactions while eliminating duplicative costs. The Canadian government hopes to make the country a leading centre of excellence to drive through its $125 million investment to help fund AI research hubs in Toronto, Montreal and Edmonton.

Source : *http://www.budget.gc.ca/2017/docs/plan/chap-01-en.html?=undefined&wbdisable=true*

"Before organizations can leverage D&A to derive meaningful insights about their customers, employees and competitors, they must close the talent gap for engineers, data scientists and data analysts."

Silvia Montefiore, National Managing Partner, Enablement Leader, KPMG in Canada

Despite these potential payoffs, Canadian CEOs cite a range of barriers to implementing new technologies. Twenty-five percent say their biggest barrier is a lack of internal skills and knowledge, 18 percent point to the complexity of implementation, another 18 percent cite a lack of long-term strategy and 14 percent blame cultural barriers.

While these barriers may be valid, they have the potential to put companies at a severe competitive disadvantage. "Canadian companies must continue to invest in mobile technologies, robotics, cognitive and D&A," said Kruh. "Companies that don't may struggle with workforce transformation and the evolution of production."

Already, the risk is real. Twenty-seven percent of Canadian CEOs say they face difficulty targeting growth segments and demographic groups in their home market, 18 percent face challenges targeting Millennials who want to interact with brands in different ways and 16 percent are looking for new ways to maintain or build their customer base in the face of disruptive competitors.

To counter these issues, companies must begin to overcome their technology-related challenges. According to 33 percent of Canadian CEOs, emerging technology is one of their top risks – an increase of 12 percent over last year – with organizations challenged to pilot emerging technologies, make optimal use of D&A and predictive technologies, and trust the quality of their own data. In fact, 69 percent of Canadian CEOs are concerned that they do not have the sensory capabilities and innovative processes to respond to rapid disruption, while 65 percent are concerned about the integrity of the data on which they're basing decisions.

To realize the opportunities of an increasingly digital world – and continue to meet spiralling customer expectations – companies must improve data collection and leverage data for insights. This requires more rigorous management systems and processes and governance systems, as well as the attraction and retention of people with the necessary analytical skills. It also requires on ongoing commitment to invest in the technologies that are driving change – from RPA and automation to cognitive computing and machine learning.

The scoop on cyber

Thirty-seven percent of Canadian CEOs and 42 percent of global CEOs say they are fully prepared for a cyber event – up from 13 percent and 25 percent respectively in 2016

What does "fully prepared" mean? It could refer to the strength of a company's cyber policies and procedures, its involvement in real-time simulations or the manner in which it protects its most critical data. It likely does not mean that companies will escape unscathed in the event of a cyber breach. Nor does it suggest equivalent levels of protection for the diverse types of cyber events.

In fact, while Canadian CEOs feel fully prepared for customer data threats or attacks on their equipment or software, they are more leery of distributed denial of service attacks, social media hacking and employee-led data breaches.

The latter statistic in particular seems wise, given the role employees play in maintaining a cyber secure culture. Global CEOs acknowledge this, with 47 percent indicating that human capital is their biggest challenge in tackling cyber security. In Canada, only 8 percent of CEOs agree – despite their concern around employee-led breaches.

So while the numbers seem positive, a closer look suggests there is more work to be done, particularly as the sophistication of cyber criminals mounts. "Every day, Canadian organizations face thousands of attempted intrusions into their infrastructures. Even organizations – like banks – that are at the forefront of cyber security must continuously evolve if they hope to keep up with increasingly sophisticated attacks," says Yassir Bellout, National Leader, Cyber Security and Incident Response, Advisory Services.

78%

We see investment in cyber security as an opportunity to find revenue streams and innovate, rather than as an overhead cost

Global 71%

71%

I am personally comfortable with the degree to which mitigating cyber risk is now part of my leadership role

Global 72%

10%

Data sovereignty is a growing board-level issue

Global 41%

8%

We need to be smarter in tracking the impact of our investment in cyber security

Global 42%

8%

Human capital is the biggest challenge in tackling cyber security for my organization

Global 47%

Culture, people and the role of trust

In an environment characterized by rampant competition, geopolitical uncertainty, technological disruption and an imperative to innovate, companies are in search of strategies to differentiate themselves. While by no means the only solution, attracting and retaining the right talent can go a long way towards helping them achieve that aim.

CEOs understand this. Access to talent is considered their top barrier to growth (up from third place last year), followed by changing customer expectations, reputational/brand risk and global economic factors. This likely explains why, in the next three years, their primary investment will be in the area of recruitment. Talent risk is also moving up CEO agendas – rising from eighth place last year to sixth in 2017.

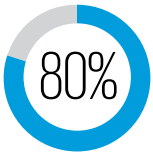
"Talent risks revolve around more than attraction and retention," explains Soula Courlas, National Leader, People and Change at KPMG in Canada. "People are demanding more challenging work, while requesting greater balance and flexibility at the same time. They expect more personal, technology-driven employee experiences and career enrichment opportunities. And they want to work for organizations whose culture and values align with their own."

Notably, this is creating a quandary for organizations eager to attract the talent of the future. Where digital employers excel at fostering a culture of innovation that is low on process, legacy companies frequently struggle to enable collaboration, encourage experimentation and reward risk-taking. "Innovation is clearly changing the way we work, says Kallner. To keep pace, organizations will not only need the tools, skills and experience, but must imbed a culture of innovation, and invest in new technologies and embrace employee development, moving innovation up the c-suite priority lists."

"To ensure people remain agile, responsive and relevant to the various markets they serve, CEOs must prioritize continuous learning, development and competency. That's especially true in an age where skills requirements for roles evolve constantly and knowledge workers are in huge demand. CEOs must partner with human resources (HR) executives to create working environments that appeal to this new breed," says Silvia Montefiore, National Managing Partner, Enablement Leader at KPMG in Canada.

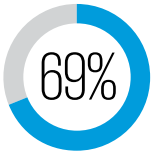
Beyond recruitment and training, it would also behoove executives to focus on retention, especially in light of US plans to make the US more attractive. "If the US gets this policy right, we could see a brain drain of highly-skilled, highly-talented professionals leaving Canada to move south. This would represent a significant loss for Canadian organizations as these people typically drive innovation and create wealth," explains Elio Luongo, Chief Executive Officer at KPMG in Canada.

This is true even though Canadian CEOs are less likely than their global counterparts to increase their headcounts in the coming year. In the next 12 months, 86 percent of CEOs expect their headcounts to remain the same. Conversely, in three years' time, 80 percent of Canadian CEOs say headcount will rise by up to 5 percent; 48 percent of global CEOs say the same.



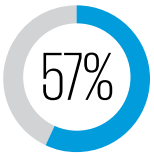
Our organization is placing greater importance on trust, values and culture to sustain its long-term future

Global 74%



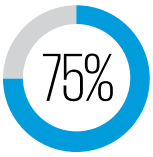
We correlate being a more empathetic organization with higher earnings

Global 72%



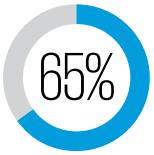
A culture of short termism has had a negative impact on our long-term strategic objectives

Global 54%



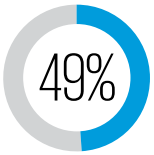
Our shareholders/board place equal importance on long-term and short-term performance objectives

Global 73%



We see our objective to become more socially responsible as incompatible with short-term performance objectives

Global 61%



My organization has a track record of successfully balancing both short terms financial goals and long term growth plans

Global 75%

"As the nature of work changes, it makes sense for headcount to remain flat. With greater reliance on cognitive technologies, AI, robotics and automation, organizations likely won't need more people – just different people with new skills and knowledge," says Montefiore.

Statistics bear this out. According to survey responses, cognitive technologies are most likely to impact headcounts in HR departments, on the production/service floor and among middle management. Similar trends hold true at the global level.

As a result of these trends, the HR function is likely to be impacted in two ways. First, as new technologies change the nature of work, AI capabilities enable more shared service functions and D&A provides insight into employee needs, HR staff will gain greater access to the best ideas and solutions – driving organizational performance and enhancing transparency.

Second, the way in which HR managers support the business will also shift as human talent is integrated with digital talent. "The key in this regard will be maintaining the human connection in a digital world. Organizations will need to focus more on developing a clearly-articulated value proposition that creates an employee experience aligned with corporate culture and values," Courlas adds.

Notably, 80 percent of Canadian CEOs are already addressing this issue by placing greater emphasis on trust, values and culture as a way to sustain their long-term future. Empathy, social responsibility and a balance between short-term gains and long-term performance objectives are typifying this shift – and gaining greater buy-in not only from employees, but from the board and shareholders as well.

Fostering this type of culture, however, takes more than an aspirational vision. It requires a clear tone from the top.

As Peter Drucker said, "Culture eats strategy for breakfast", and I believe that to be true. Values must start at the board level and inform CEO selection and accountabilities, then trickle down from there," says Brouwer.

To make this vision a reality, then, strong leadership is required. To be sure, Canadian CEOs possess ample skills, experience and business acumen. Where they may be falling short, however, is in understanding their own strengths and weaknesses. This is a role that Canadian boards must embrace as they evaluate CEO performance and succession.

"To lead into the future, CEOs must have the ability to engage Millennials in their vision and purpose. Without solid interpersonal skills, emotional intelligence and self-awareness, they will struggle to capture hearts and minds," says Armstrong.

Conclusion

In a world characterized by geopolitical volatility, economic uncertainty and business disruption, Canada's CEOs are working to find a solid balance between addressing current risks and evolving into the future. In many ways, they are succeeding.

Despite concerns about global economic growth, Canadian executives remain optimistic about the prospects for Canada's economy and their own companies. That may be because they are focusing on the things they can change, rather than lamenting about the things they can't.

Disruption is a perfect case in point. Rather than waiting for competitors to disrupt them, Canadian CEOs are taking active steps to become the disruptors in their industries. To be sure, the road is a long one – organizations cannot expect to shift direction and transform into new entities overnight. They are, however, laying the groundwork for that transformation by scaling up their own business operations and processes, engaging in mergers and acquisitions, and pursuing large-scale business model transformation.

While geopolitical risk may be subduing their operating decisions – impelling them to keep expansion closer to home – they remain focused on innovation, digitization and greater speed to market for the years to come. Many plan to maintain their investments in new products and services, emerging technologies and cyber security over the next three years, while most intend to increase investment in recruitment – reflecting a clear understanding that future success hinges on the strength of their people. Similarly, the nation's CEOs clearly understand the imperative of fostering greater trust, values and empathy to meet spiralling stakeholder expectations.

Yet, there is still room for improvement as Canadian CEOs continue to build their foundation for sustainable growth. Going forward, a higher percentage of Canada's CEOs may want to consider the benefits of collaborative partnerships and joint ventures. Investments in new technologies – including the Internet of Things, blockchain, D&A and RPA – may need to increase if executives hope to meet the aggressive targets they've set for themselves. A heightened focus on retention – rather than simply on recruitment – will also be necessary to keep the talent they attract. And Canadian executives must increasingly be willing to pursue personal improvement as well by strengthening their emotional intelligence and gaining a better understanding of their strengths and weaknesses.

The time to disrupt and grow is now. As the role of the CEO becomes more complex over time, the executives best poised for success will be those who seize today's opportunities.

Methodology

This survey includes perspectives from 51 Canadian CEOs and is part of a study of KPMG member firms around the globe including nearly 1,300 international CEOs

A majority of the Canadian CEOs who responded (90 percent) represent publicly-owned companies, with 41 percent reporting revenues between $500 million and $999 million, 33 percent reporting revenues between $1 billion and $9.99 billion and 25 percent reporting revenues in excess of $10 billion. Of the respondents, 53 percent have held their position for five years or less and 58 percent have been with their company for more than six years.

The study represents CEOs of companies from a wide range of industries, the top three being financial services, energy and retail/consumer markets. CEOs from the manufacturing, automotive, telecom, technology, life sciences and infrastructure sectors were also represented.

Contact us

advisory@kpmg.ca

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