KPMG 2023 CEO Outlook

Growth in the Era of Compound Volatility

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Overview

CEOs today are navigating a U.S. economy that has entered the age of compound volatility: the combination of disruptive risks to growth and structural changes — from sticky inflation to the energy transition to a shifting labor market — that raise the cost of doing business with little margin for error on strategy development and execution.

This year's KPMG CEO Outlook analyzed insights from more than 1,300 CEOs at large companies globally, including 400 in the United States, to evaluate how they are navigating the challenge of compound volatility.

Business leaders report they remain confident in the long-term growth prospects of the U.S. and global economies, but confidence is more subdued when it comes to the growth prospects of their companies.

CEOs are investing in long-term growth strategies, while remaining agile to take advantage of new opportunities and respond to unforeseen challenges in this environment. They are committed to investments in generative AI and ESG to grow their businesses, and they are prepared to seize transformational M&A opportunities.

They broadly recognize generative AI is a promising pathway to growth that is rapidly accelerating the rate of innovation in our economy. It is a top investment priority for their organizations, and they are mindful to engage their workforce on ethical and effective use of AI.

CEOs are maturing their ESG strategies to advance specific decarbonization, M&A, and sustainable finance efforts, expecting financial returns in the next three to five years. Moreover, failure to engage on ESG risks losing top talent and their competitive edge.

Both generative AI and ESG investments can enhance resilience and improve agility, helping CEOs lead in our more complex and fragmented global economy.

Talent and culture are more important than ever in this fast-changing business environment in which multiple organizational redesigns are the norm and workforce expectations are shifting when it comes to flexibility and purpose. CEOs must foster an ethical culture that embraces change, innovation and smart risk-taking to drive growth; invest in continuously upskilling their people; and protect them from burnout. CEOs want more workers to come into the office and will reward those who do – but need to communicate expectations clearly to build trust.

With the pace of change unrelenting, CEOs are taking bold, decisive action and embracing equity, purpose and sustainability to ensure their organizations achieve their long-term growth ambitions.

Paul Knopp
KPMG U.S. Chair and CEO

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Confidence and growth

CEOs remain optimistic, but confidence in the long-term growth prospects for their companies is subdued in light of disruptive risks and structural shifts in the economy.

CEOs see risks to growth coming from all directions, underscoring the impact of increased disruption and the challenges of navigating long-term structural change.

Structural changes abound – inflation, high cost of capital, energy transition, climate change, labor market shifts. Inflation, in particular, continues to impact strategy.

"CEOs are facing heightened uncertainty in the post-pandemic economy," says KPMG Chief Economist Diane Swonk. "There is a strong desire to be more agile, hedge against supply shocks and lean into ESG initiatives to manage through a more fragmented global economy."

The near-term risks of political uncertainty, disruptive technology, natural disasters and cyber threats add to the volatility. Twenty-eight percent of U.S. CEOs say they feel unprepared for a cyber attack—but not for lack of investment. Those who feel underprepared cite increasing threats, more sophisticated attacks and a shortage of qualified personnel as the main reasons.

More than half of CEOs predict annual growth of less than 2.5% over the next three years. Only 24% expect slightly higher growth of 2.5% to 5%.

"As CEOs navigate prolonged economic and geopolitical uncertainty, it is important to focus on what they can control and consider how they harness generative AI to rapidly conduct scenario planning and address changing market conditions or emerging risks faster and better equipped than ever before," says Carl Carande, Vice Chair of Advisory for KPMG U.S. and Global Head of Advisory.

CEOs remain confident in growth prospects of the economy, but confidence is more subdued when it comes to the growth prospects of their companies.

CEO confidence in the growth prospects of:

THEIR COMPANY	THE U.S. ECONOMY	THE GLOBAL ECONOMY
79%	84%	77%
95% in 2022		

The disruptive risks and structural changes CEOs see:

TOP RISKS posing greatest threats to growth	Geopolitics and Political Uncertainty	Emerging/ Disruptive Technology	
STRUCTURAL CHANGES impacting organizational growth	80% Cost of Living	77% Regulatory Demands	76% Disruptive Technology

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Agility is key. More than seven out of ten CEOs have already adapted their growth strategy to meet interrelated challenges and another 29% plan to shift strategies. Business leaders are turning to AI to create greater agility and manage strategic shifts.

The current economic environment means companies are more deliberate with their technology investments and expect more value from those tools in return.

Allan Thygesen | CEO, DocuSign

KPMG Tax Vice Chair Greg Engel points out that to avoid being left behind, C-suite leaders, including the chief tax officer, must work to stay ahead of the AI curve and embrace these technologies that are developing at lightning speed. "Leaders should consider adopting an alternative sourcing model, like managed services, to provide their departments with the necessary cutting-edge technology to extract value from data quickly and efficiently and simplify previously-burdensome tasks, setting both the tax department and the business up for long-term success," he says.

Another indicator of how business leaders are adding strategic value is the number of organizations primed to make an acquisition, despite higher financing costs.

"Many companies are more liquid than they have been in recent years, and they are preparing to invest this capital once they can find an asset with a compelling return," says Carande.

The overwhelming majority expect to make an acquisition in the next three years, and more than half plan to make a transformational acquisition.

"CEOs have a strong appetite to pursue M&A, but it's contingent on their confidence that market conditions are stabilizing," says Carande. "If the market finds its footing, with a potential end to rate hikes in sight and green shoots in IPO activity, we expect to see organizations restart their inorganic growth plans to help them scale and invest in the future of their businesses, whether it be investments in new technology or manufacturing capabilities closer to home."

CEOs demonstrate a high appetite for transformational growth opportunities over the next three years

CEOs are prepared to seize on transformational M&A opportunities...

54% will likely undertake acquisitions that will have a significant impact

36% will likely undertake acquisitions that will have a moderate impact

...but some require certain preconditions to be met to prioritize inorganic growth over organic growth.

35% Stable market conditions

18% Addressing the competitive landscape

18% Availability of financing

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Disruptive technology and generative AI

Investment in generative AI is a priority for CEOs, but they are wary of navigating ethical challenges and the lack of regulation.

CEOs ranked investment in generative AI as a top priority for their organizations. And the majority said they are placing more capital investment in buying new technology (57%) than developing their workforce's skills and capabilities (43%).

Twenty-one percent of CEOs expect to see a return on their generative AI investments in less than three years, and 62% believe it will take three to five years. KPMG AI and Digital Innovation Vice Chair Steve Chase advises business leaders to evaluate their opportunities by assessing workforce skills, data assets and overall readiness to pinpoint the most promising applications.

"Strategic adoption in targeted areas can optimize operations, spur innovation and strengthen competitiveness. With proper planning and execution, generative AI can transform how work gets done," he says.

When asked to identify the top benefit of implementing generative AI in their organization, CEOs cited increased profitability, new product and market growth opportunities, increased innovation and help with fraud detection and cyber attack response.

At the same time, CEOs see generative AI as a double-edged sword when it comes to cybersecurity. Eighty-five percent of U.S. CEOs say AI can help detect cyberattacks while providing new attack strategies for adversaries, playing on perennial doubts that any organization can develop an enduring defense against cyberattacks.

Eighty-one percent expressed concern that the lack of regulations for generative AI within their industry will hinder their organization's success. Ethical challenges are the most cited obstacle to successfully implementing generative AI—along with cost and technical skills—and 77% of CEOs said the degree of regulation regarding generative AI should mirror that of climate commitments.

"CEOs are increasingly aware of the ethical risks and rapidly evolving regulations tied to generative AI, and many are taking proactive steps to address them," says Chase. "A trusted AI program provides a clear road map to navigate the end-to-end AI life cycle with ethical, safe and responsible decision making. With the right governance, policies and controls, organizations can move faster and scale with confidence."

Generating growth through generative AI

72%

of CEOs say generative AI is a top investment priority despite uncertain economic conditions...

...and they expect to see returns from their investments in:

3 TO 5 YEARS	1 TO 3 YEARS
62%	21%

ESG

CEOs expect significant returns from their ESG investments and fear inaction will result in losing out on top talent.

The majority say they have fully embedded ESG into their business to create value, and most expect to see financial as well as reputational returns on their investments within the next five years. "CEOs continue to see ESG engagement—even if they don't always use the term 'ESG'—as the path to generating financial returns as they transition to a low-carbon economy," says Rob Fisher, KPMG U.S. ESG Leader. "In fact, without generating financial value, no ESG program is truly sustainable."

Over the next three years, ESG commitments are expected to have the greatest impact on building customer relationships, driving financial performance, building brand reputation and attracting the next generation of talent. "The durability of ESG engagement, as seen through the lens of CEOs during this economic cycle, shows its potential to strengthen when strategy, execution and reporting all flow together," says Fisher.

CEOs identified recruitment challenges as a significant downside of failing to meet the ESG expectations of stakeholders. They are also concerned that competitors will gain an edge, and that it would be more difficult and expensive to raise money if they fall short of ESG expectations.

"Complicated supply chains, talent shortages and a complex reporting environment are challenges, but CEOs also understand that failure to act can result in giving their competitors an edge that would be far more costly long term," says Fisher.

Part of the difficulty with implementing ESG initiatives is the breadth and depth of the task. New reporting requirements and domestic politics add to the challenge. Eight out of 10 CEOs believe they will be able to meet new reporting standards.

"Enhancing trust within an organization and among its stakeholders is paramount as businesses navigate disruption and transform amidst longer-term structural changes in our economy," says Scott Flynn, Audit Vice Chair for KPMG U.S. "Effective transformation requires buy-in from investors, employees and customers, underscoring the importance of how exactly businesses engage with AI, report financials and ESG metrics and invest in an ethical culture."

U.S. CEOs expect significant returns from ESG investments

74%

of U.S. CEOs say they have fully embedded ESG into their business as a means of value creation...

....and expect to see significant returns from their investments in:

3 TO 5 YEARS	1 TO 3 YEARS
58%	24%

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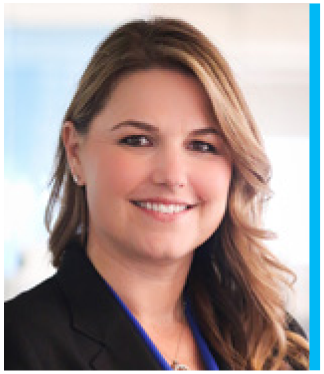
Talent and culture

CEOs are continuing to prioritize talent and culture in this fast-changing environment.

CEOs identified their employee value proposition to attract and retain talent as the top operational priority to achieve their growth objectives over the next three years.

They are leaning into their ESG strategy to appeal to the values of the next generation of talent, recognizing that corporate culture will be most influenced by employee attitudes about their company's reputation. "Organizations that walk the talk around their talent strategy, culture, values and ESG commitments can drive deeper and more meaningful connections with their employees," says Sandy Torchia, Vice Chair of Talent and Culture at KPMG.

Eighty-three percent of CEOs say their organization's success, including growth objectives, depends on having a strong ethical culture. "Red flags, early warnings, insights and answers to emerging risks will exist throughout an organization. A strong ethical culture strengthens an organization's resilience by encouraging action to address these risks, while also enhancing confidence in transformative strategies to drive growth and impact," says Flynn.



As a global workforce solutions provider, the biggest challenge we face is meeting the demands of a growing and diversifying labor force.

Janette Marx | CEO, Airswift

Nearly three-quarters of U.S. CEOs agree with the notion that a more collaborative leadership style—with shared management and operational responsibilities—enables greater success.

"It's critical for CEOs to clearly and transparently communicate their values, goals and progress, while also actively listening to their people and acting on that feedback," says Torchia.

In a marked shift from last year, nearly twice as many CEOs would like to see their office workers return to the office over the next three years, and they plan to reward those who do with favorable assignments, raises and promotions.

U.S. CEOs envision a future with more workers coming into the office and will reward those who do

In the next three years, CEOs expect corporate employees whose roles were traditionally based in office to be:

62% Back in office — 34% in 2022

34% Hybrid — 45% in 2022

4% Remote — 20% in 2022

90% say they will likely reward employees who make an effort to come into the office with favorable assignments, raises or promotions.

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Conclusion

Confidence and growth

Increased disruption and structural changes to the economy are compounding risks, requiring CEOs to move forward with long-term growth strategies, while remaining agile to take advantage of new opportunities and respond to unforeseen challenges.

ESG

CEOs are fully embracing ESG to create value, but complicated supply chains, talent shortages and a complex reporting environment are challenges. Failure to act could mean missing out on top talent and giving competitors an edge.

Disruptive tech and gen AI

Generative AI is accelerating innovation and creating new opportunities, but CEOs understand they must engage their workforce to drive ethical and effective use of the technology. With the right governance, policies and controls, organizations can move faster and scale with confidence.

Talent and culture

Talent and culture are more important than ever. CEOs must foster ethical cultures that embrace change, innovation and smart risk-taking to drive growth. Ethical cultures also improve operational resilience and accelerate transformation. CEOs want more in-person work, but return-to-office strategies cannot be one-size-fits-all – they require a deep understanding of employee dynamics and impediments.

CEOs are determined to pursue transformational growth opportunities while navigating compounding risks. By utilizing emerging technologies like generative AI and pursuing impactful M&A deals, CEOs are reimagining their business models to outpace competitors, exceed customer expectations and emerge as winners in the market.

Laura Newinski | KPMG U.S. Deputy Chair and Chief Operating Officer

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Methodology and acknowledgments

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The ninth edition of the KPMG CEO Outlook—which surveyed 1,325 CEOs between Aug. 15 and Sept. 15, 2023—provides unique insight into the mindsets, strategies and planning tactics of CEOs globally. All respondents led organizations with annual revenues exceeding $500 million, and over one-third had more than $10 billion in annual revenue. The U.S. part of the survey is composed of 400 U.S. CEOs. They came from companies with at least $500 million in revenues, with 36% representing companies with revenues of at least $10 billion and 11 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% due to rounding.

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