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KPMG 2023 CEO Outlook – UK

Focus on tech, people and purpose

KPMG in the UK

Overview

UK CEOs' plans for future growth are being shaped by the ongoing cost of living crisis and concerns over geopolitics and political uncertainty – political uncertainty ranks as UK CEOs' top threat to growth over the next three years.

But despite that, they're feeling more confident in the prospects for their businesses over the next three years than they were 12 months ago. Over three-quarters (77%) are confident in the growth prospects for their own company, compared to 73% in 2022.

So, how will CEOs drive that growth? And what are their priorities over the next three years?

Two clear operational priorities: digital and talent

There are two clear operational priorities for UK CEOs: advancing digitisation and connectivity across their business and strengthening the employee value proposition. That's born from a recognition that emerging tech – and, in particular, generative AI – will help unlock efficiencies and new opportunities. Implementing that tech is going to impact the way we work and the skills we need.

ESG shoots back up the agenda

The next three years aren't just about digital transformation though. ESG is a top agenda item for UK CEOs of large businesses. They rank climate change as the second biggest threat to growth – it was outside the top 5 last year. CEOs will embed ESG across their businesses, making it business as usual for everyone.

A next-gen CEO for next-gen UK

CEOs recognise the importance of corporate purpose to attracting next-gen talent and establishing a lasting legacy. They recognise that as government action is limited, the public is looking to business to step up to address societal challenges. And many are willing to take a stand on contentious issues.

A more collaborative CEO

The next-gen CEO is also rethinking their approach to leadership. They're looking to work more collaboratively with other members of the C-suite to drive more effective change. Almost three-quarters of CEOs agree a collaborative leadership style enables greater success. That's driven by a recognition that we're going to see fundamental changes to how we work. Over half say micro-level decision-making is needed given how quickly the world is changing.

Traditional views on working practices prevail

When it comes to the debate around hybrid working, more traditional views prevail. The majority of CEOs favour a return to the office and say they'll reward those who make the effort to return. That view is likely to be challenged by the need to attract next-gen employees who want greater flexibility. We'll see CEOs re-evaluating the employee value proposition so that it's fit for an AI-enabled workforce.

Jon Holt
Chief Executive
KPMG in the UK

"We know that what CEOs really want is certainty to support long-term business planning. And to stay ahead and build a stable business for the future, most are chasing that competitive edge for their firms and their clients, including better digitisation.

Gen AI won't be a passing fad

Don't let FOMO drive your investment in generative AI. That doesn't mean don't invest. Think through how it could disrupt your business model and be the one driving change.

Ian West, Head of Alliances and Head of Technology, Media and Telecoms Sector, KPMG in the UK

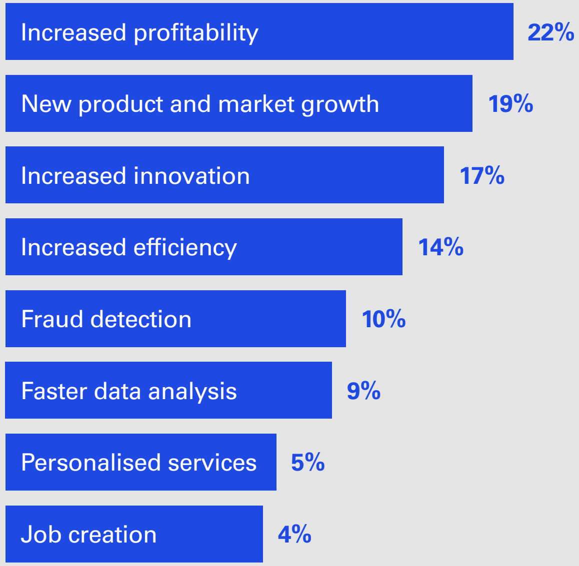
Generative AI has transcended the hype to become a top investment priority for CEOs. We'll see investment ramp up quickly as organisations look towards gen AI to drive profitability, growth and innovation.

71%

agree that despite ongoing economic uncertainty, gen AI is a top investment priority

AI and machine learning are considered the most important technologies for helping businesses achieve their short-term ambitions over the next three years, according to our Global Tech Report. CEOs are committing to Gen AI over the longer-term and estimate that their investments will pay off in three to five years.

CEOs will invest in Gen AI to drive profitability and market growth



Source: KPMG CEO Outlook 2023, What do you consider the top benefit of implementing generative AI in your organisation?

We need pro-business governance of AI

CEOs want surety over the use of AI. Over half say lack of regulation will be a barrier to implementing gen AI. And two-thirds think that the degree of that regulation should mirror that for climate commitments.

They also see cost and questions around ethics as challenges to implementing gen AI.

There's a fine line to walk here. Regulations and governance need to be pro-business if the UK is going to punch above its weight and become a leader in gen AI.

Don't wait for all the regulatory and ethical questions to be answered though. Get going with a proof of concept. That doesn't have to mean a huge investment. It's about running hackathons to build out use cases with suppliers, customers and employees.

When it comes to emerging tech, your big tech spend should be going on getting the groundwork in place. The number 1 ambition for cloud is supporting the operation of emerging tech, according to our Global Tech Report. And UK CEO's see advancing digitisation and connectivity across the business as their top operational priority for achieving their growth objectives.

The results you get using Gen AI are only as good as the data you put in. That means having consistent systems and processes, and making use of cloud, so you don't have to spend all your time on collecting, cleaning and curating data. With the foundations in place, AI will deliver leaps forward in employee and customer experience.

63% of CEOs say **ethics** present a challenge to gen AI

63% of CEOs say **cost** presents a challenge to gen AI

#1

Advancing digitisation and connectivity across the business is CEOs' top operational priority for achieving their growth objectives

Get started with gen AI

- Don't wait for regulations – get started now
- Arrange a session to explore the possibilities of AI
- Identify use cases that support your business objectives and deliver process efficiencies
- Run hackathons with suppliers, employees, clients and tech experts to deliver fast and qualify that the tools you create are valued and will be used
- Prioritise getting the foundations in place and building an agile tech platform
- Consider alignment with your company values – just because you can do it, should you? Is it the right thing for your organisation?

We'll see a next-gen employee value proposition

To attract and retain the next generation of talent, CEOs need to demonstrate a strong sense of corporate purpose. They'll also need to challenge some long-held beliefs around time in the office, as they build a next-gen employee value proposition.

Kate Holt, Partner, People Consulting, KPMG in the UK

60% of CEOs are **willing to take a stand on politically contentious issues**, even if the Board is concerned about the risks

71% of CEOs **would divest a profitable part of their business** if it was damaging their organisation's reputation

How we work is changing. CEOs and CPOs need to get together and work out what new roles and skills they need in the workforce as tasks are automated and augmented by AI. They need to start plugging the skills gaps around net zero, AI and business transformation.

Attracting and retaining the necessary talent will mean rethinking the employee value proposition (EVP). It's no surprise then that UK CEOs place this as a top operational priority to achieve growth objectives over the next three years. In fact, it comes only behind advancing digitisation and connectivity across the business.

What does your EVP need to look like? To determine that, you need to understand the next-gen employee.

For baby boomers, there was a recognition that long hours and hard work led to career success and consequently comfortable living conditions and retirement. For the next-gen growing up in a less reliable world, this connection is not so obvious. Many are looking for alternative paths, with more job role satisfaction that aligns to their values, and more flexibility to enjoy better work-life balance.

CEOs need to demonstrate purpose

That means CEOs need to demonstrate purpose and how their values align with those of next-gen talent.

It's reassuring then that the majority of CEOs recognise they have a part to play in building employee trust by demonstrating personal integrity.

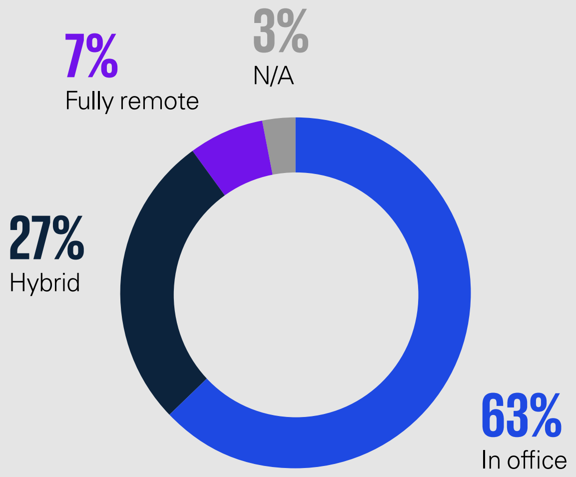
But CEOs aren't entirely in kilter with their employees.

It pays to go into the office

Following the pandemic, we said there'll be no return to how we worked before; we're entering a new era of hybrid working. It seems that many CEOs don't agree. What we're actually seeing is a slide back to pre-pandemic thinking.

In line with our 2022 findings, over three-fifths of CEOs say that corporate employees whose roles were traditionally office-based will be back in the office within three years.

Back to the office



Source: KPMG CEO Outlook 2023, In three years' time, how do you envision the working environment for corporate employees whose roles were traditionally based in-office?

And those that do return will find themselves at an advantage – the vast majority of CEOs say they're likely to reward employees who make an effort to come into the office with favourable assignments, raises or promotions.

There are strong reasons to have people back in the office – not least, training new starters and helping them develop both a social and business network. But we learnt during the pandemic that great results can be achieved with a remote workforce. And employers who offer hybrid options will find it easier to attract and retain scarce talent. The recruitment markets in some regions that are rich in digital skills mean businesses have no choice but to offer remote work.

So, while CEOs are keen to have employees back in the office and within sight, the next-gen CEO may need to be more flexible in their thinking – especially if they want to attract the next-gen employee who considers work to be just one of a number of important aspects of their life.

83%
say they're likely to reward employees who make an effort to come into the office with favourable assignments, raises or promotions

Review and renew your workforce strategy

- Get into the detail and collaborate closely with your CPO or HR Director
- Build a view together of the skills you'll need in five and ten years – and review it regularly
- Challenge your views on ways of working – do you need people in the office? What makes most sense for different roles and sourcing the best talent?
- Be clear on your organisation's purpose and demonstrate your commitment to it

The winners of tomorrow will be the ones that invest in ESG today

The companies that win in the next ten years will be the ones that make the right investment in ESG in the next two to three years.

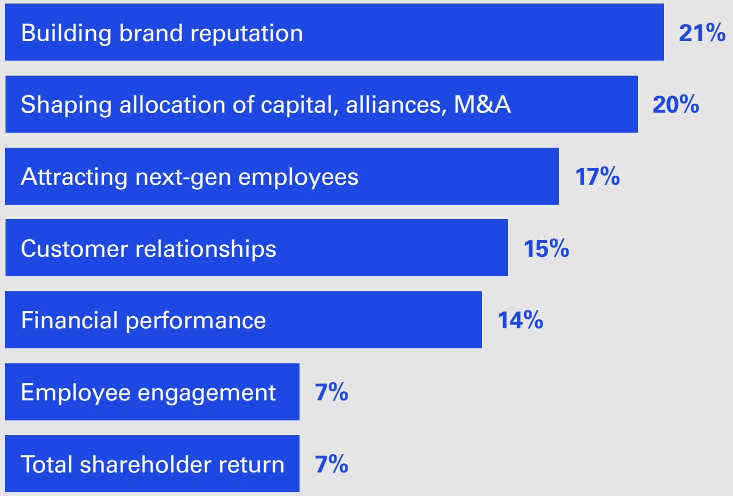
Richard Andrews, Head of Environmental, Social and Governance, KPMG in the UK

CEOs don't expect to see an immediate return on their ESG investments – none said they'd achieve a significant ROI within a year. The majority (59%) expect to achieve significant returns in three to five years.

But while ESG investments might not bring huge returns today, not investing could already be losing you market share.

Take sustainable products. Consumers want them – a KPMG survey of over 2,000 UK adults found that two-thirds try to seek out green or sustainable options for some of the products and services they buy. And that means more and more companies are providing them. As these products become more common, they're no longer a differentiator. You need to be selling them just to stay in the game.

ESG: think of your brand reputation



Source: KPMG CEO Outlook 2023, Where do you see your ESG strategy having the greatest impact over the next three years?

Of course, your ESG investments aren't just driven by financial returns. There are wider reasons and potential benefits for pursuing ESG targets. Chief among those for UK CEOs is building brand reputation.

CEOs are also aware that their ESG strategy will have a huge impact on shaping their approach to capital allocation, alliances, and mergers and acquisitions. They're thinking through where they spend their money and who they get into bed with. Why? Because having a strong ESG record is fast becoming a prerequisite to doing business. And you don't want to be associated with any business with a questionable track record.

It's not cost that's holding back ESG

What's holding ESG programmes back? It's not cost. In fact, CEOs place that bottom of the list of issues. The biggest problem is a lack of skills – so understanding what skills are needed and where to find them needs to be a priority.

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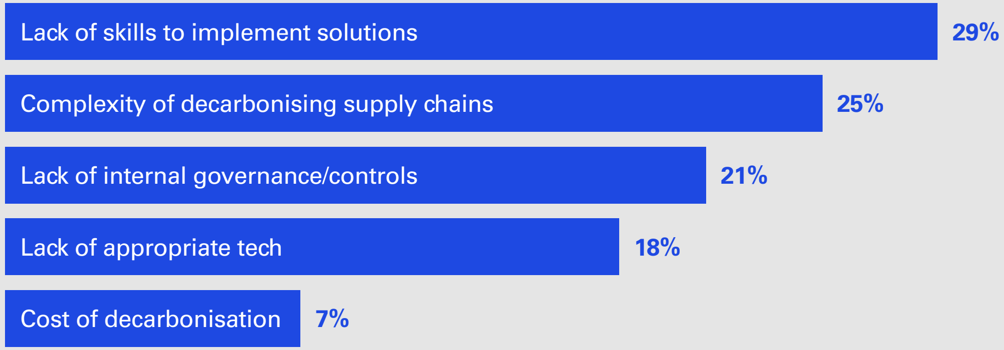
barrier to achieving net zero ambitions is lack of skills to implement solutions

Invest in skills to accelerate your ESG strategy



Source: KPMG CEO Outlook 2023, What do you believe is the greatest barrier to achieving net zero or similar climate ambitions for your organisation?

CEOs will continue to prioritise the 'E' of ESG

UK CEOs are focusing their ESG investments on addressing environmental challenges – almost two-fifths said this was the element of ESG that they're prioritising. That adds up given the airtime given to environmental issues – and that CEOs see climate change as the biggest risk to growth over the next three years, behind only geopolitics and political uncertainty.

The need to act on climate change is certainly pressing. Organisations need to have shifted the dial significantly over the next three years if they're going to hit 2050 targets.

#2

biggest risk to growth over the next three years is climate change

But CEOs aren't losing sight of other ESG priority areas. Almost three-quarters agree that achieving gender equity in the C-suite will help them meet growth ambitions. Even more (84%) agree that as leaders they have a responsibility to drive greater social mobility. There's also a recognition that things need to move faster – 69% agree that progress on diversity and inclusion has moved too slowly.

While CEOs may prioritise their climate programmes, they shouldn't lose sight of the intersectionality between the E, S and G. This is vital to achieving a just energy transition.

Keep up-to-speed with regulatory change

On one hand, over three-quarters (77%) of UK CEOs say they have the capability and capacity to meet ESG reporting standards. On the other, 59% say they aren't prepared to withstand scrutiny of their ESG strategies.

While organisations may be on top of today's requirements, there are new reporting requirements on the horizon. And we're working with many companies to help ensure they're ready. This isn't a once and done. It's something that organisations need to be constantly reviewing.

59%

of UK CEOs aren't prepared to withstand scrutiny from stakeholders of their ESG strategies

Embed ESG across your firm

- Work through your ESG strategy in the short, medium and long term – considering both the must do areas to maintain permission to trade and those that will provide positive differentiation and competitive advantage
- Embed ESG as business as usual across both divisional and functional teams to support and align with the work of your dedicated ESG teams
- Take a holistic view across the different components of E, S and G – how do the different priorities fit together? Consider dependencies and unintended consequences of your activity
- Identify where you need to add technology, skills, capacity and scalability
- Identify the regulatory and infrastructure drivers, including more immediate reporting requirements and the ability to provide confidence in ESG commitments

About the KPMG 2023 CEO Outlook

The ninth edition of the KPMG CEO Outlook, conducted with 1,325 CEOs between 15 August and 15 September 2023, provides unique insight into the mindset, strategies and planning tactics of CEOs.

All respondents have annual revenues over US$500 million and a third of the companies surveyed have more than US$10 billion in annual revenue. The survey included leaders from 11 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).

Our UK analysis is based on responses from 150 UK CEOs.

NOTE: Some figures may not add up to 100% due to rounding.

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