ATKearney
Global Business Policy Council

2017 Views from the C-Suite

An Annual Survey of Global Business Executives

Adapting to Disruption

Technology and political risk are the top concerns of executives as they shift their business strategies to succeed in a new global reality.

Our *Views from the C-Suite* study last year centered around the deep divisions in executives' assessments of the global landscape. It was a time of profound uncertainty in the C-suite around the world. This year, however, global executives appear to have awakened to the challenges and opportunities they face in today's operating environment, and there is general agreement about what is likely to happen in the year ahead and how companies should proceed.

One of the most striking elements of this year's *Views from the C-Suite* is the alignment of executives on the issues governing the short-term business and strategic environment outlook. From the specter of increased economic and financial volatility to the rising threat of cyberattacks, and from the decline in international trade to the positive impact of technology on productivity, there is clear consensus among executives on the direction of the global operating environment in the next 12 months.

The degree to which technology and political risk permeate this year's results is also striking. These two issues are clearly front of mind for global business executives. Technology is seen as a key opportunity for business growth, as well as a challenge that needs to be met in the coming 12 months. At the same time, global executives are paying more attention to government actions and identifying risks stemming from geopolitical tensions and domestic regulatory and tax policy changes. These two issues converge in governments' regulation of technology and in cybersecurity, the global C-suite's top concern in this year's survey.

Ultimately, these results indicate that executives' agility is more important than ever before. They need to be able to respond strategically to fast-moving and complex geopolitical, technological, and economic developments. Global executives appear to be placing greater importance on employing strategic foresight techniques and developing adaptive business models to assist in this effort. In today's operating environment, such strategic thinking provides necessary perspective that will improve executives' ability to anticipate and plan for both short- and long-term challenges and opportunities.

Erik R. Peterson
Managing Director, Global Business Policy Council
Partner, A.T. Kearney

Executive Summary

- **The veil of uncertainty has lifted.** There is strong agreement among global executives on all 10 of the potential global developments included in this year's survey. This consensus stands in stark contrast to last year's anomalous results in which executives were split evenly on the likelihood that six of the 10 developments would occur. This year's results indicate that the global C-suite anticipates both positive and negative global developments over the next 12 months. But the consensus in both directions signals that the veil of uncertainty that clouded business decision-making over the past 12 months has lifted.

- **Technology is a double-edged sword.** Global executives' focus on technology in terms of both business operations and its effect on the external environment is strong, continuing a multiyear trend.[1] The C-suite sees technology as a complex proposition that offers both opportunities and challenges. Cybersecurity is particularly front of mind. Executives point to increasing cyberattacks as the most likely global development in the next 12 months, and cybersecurity is the top operational challenge for the global C-suite. Technology adoption presents both challenges and opportunities in business operations. And executives see a positive technological disruption in their sector as one of the top external environment opportunities.

- **Political risk is the all-too-visible hand.** Global executives anticipate that populist politicians will gain more ground in countries around the world and that Brexit will continue to heighten tensions within Europe. Although global executives anticipate that geopolitical tensions between great powers are likely to decrease over the next 12 months, they also point to an unstable geopolitical environment as the top external challenge. A close second is worsening regulatory and tax policies—among global executives' top external challenges for the second year in a row. These results suggest that the all-too-visible hand of political risk is increasingly driving economic outcomes and business decisions.

- **Business strategy is adapting to a new era of globalization.** Global executives point to several aspects of the globalized economy and business environment that are at risk from rising populism and protectionism. A strong majority of the global C-suite believes, however, that business strategies based on globalization are still viable. In order to succeed, almost all executives say that they are shifting their supply chains and international footprints. A majority are also paying more attention to government policies and engaging more in government relations in the current global environment. And almost all the executives we surveyed say that they are utilizing strategic foresight tools—particularly scenario planning—to assess future risks.

[1] Business operations are defined in the survey as a firm's internal processes, people, and systems. The external environment refers to economic, political, social, and other external developments that affect businesses.

Introduction

Our annual *Views from the C-Suite* study reflects the collective judgment of 400 C-level executives and board members from around the world on both the opportunities and the challenges in the global business operating environment (see Appendix: About the Study). This study is based upon results from a survey that is organized into four sections. The first asks executives to determine the likelihood of a variety of discrete potential global developments. The second focuses on business operations, which we define as a firm's internal processes, people, and systems. The third concentrates on the external environment, which we define as economic, political, social, and other external developments that affect businesses. For both business operations and the external environment, we ask global executives about the opportunities and the challenges they face. Finally, we include a topical thematic section. This year, we asked executives about globalization trends and how they affect business strategy. Because the time frame of most of the questions put to the executives is just 12 months, this study emphasizes the constellation of immediate issues absorbing the C-suite's attention.

This year's *Views from the C-Suite* survey was conducted in April 2017. In the headlines at the time—and certainly on the minds of C-suite executives—were, among other things, Emmanuel Macron and Marine Le Pen advancing out of the first round of France's presidential election, the official kickoff of Brexit negotiations once UK Prime Minister Theresa May triggered the Article 50 process, the publication of US President Donald Trump's tax reform proposal outline, the increasingly violent anti-regime protests in Venezuela, and the fallout from former South Korean President Park Geun-hye's corruption conviction and the forthcoming presidential election there. Other major global events in April included North Korea's ballistic missile tests, Turkish voters narrowly approving a new constitution giving President Recep Tayyip Erdogan more powers, Standard & Poor's cutting South Africa's sovereign debt rating to junk status, China launching its first domestically made aircraft carrier, and Tesla overtaking Ford Motor Company in market capitalization. It was a volatile time in the global operating environment, with many competing priorities on the minds of the C-suite executives we surveyed.

Assessing the Likelihood of Global Developments

We asked global business executives to evaluate the likelihood of 10 different potential developments that could affect the global business operating environment over the next 12 months. There was clear consensus among the executives regarding the likelihood that all 10 of the possible global developments would occur in the next 12 months. This agreement stands in stark contrast to last year's results, when global executives were split over the likelihood of the majority of the selected events.

Such a dramatic shift from collective ambiguity to general agreement on the global outlook suggests that some of the political and economic confusion that has afflicted the global operating environment over the past 12 months has abated. There are other indications that uncertainty has diminished as well. Most notably, the Chicago Board Options Exchange Volatility Index (VIX), which reflects market expectations of volatility for the next 30 days, has declined since early 2016 and closed at a 23-year low in May 2017. It makes sense that the outlook is clearer now given events of the past year. The resolution of several key elections, such as those in the United States and the United Kingdom, likely helps to clear the uncertainty that clouded executives' global outlook last year. Increased certainty is not necessarily a positive signal for the global operating environment, however. Global executives are collectively confident that we will see some negative developments—such as rising support for populism and increased economic volatility—in the next 12 months.

Eighty-five percent of executives believe that **cyberattacks will become more frequent and costly.**

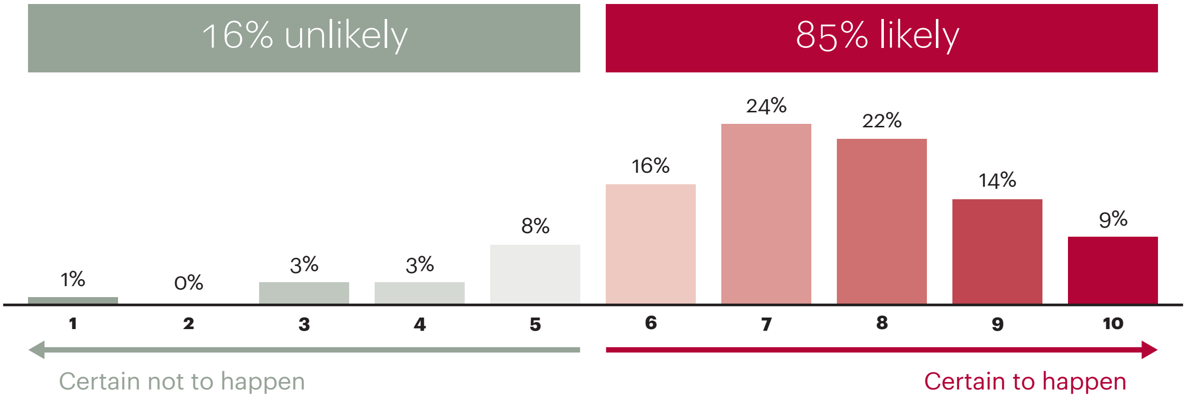
We begin by presenting the development that elicited the strongest agreement among executives on the likelihood of its occurrence, and we end with the one for which opinion is the most divided. Accompanying figures illustrate the distribution of responses for each question on a scale from 1 (certain not to happen) to 10 (certain to happen). The graphs are color-coded red to represent an unfavorable outcome for the global business operating environment, and green to represent a favorable outcome.

Cyberattacks will become more frequent and costly

Executives are most aligned on their assessment of the threat posed by cyberattacks (see figure 1 on page 4), with 85 percent of them of the belief that cyberattacks will become more frequent and costly. This forecast was validated shortly after the survey. One of the largest global cyberattacks ever recorded occurred in May 2017, affecting more than 300,000 devices in more than 150 countries. One of the most notable institutions affected was the UK National Health Service, preventing hospitals across the United Kingdom from admitting new patients and compromising personally identifiable information. Even before this historic incident, cyberattacks had already accelerated dramatically over the past year. Yahoo, for instance, reported in 2016 that it had suffered a data breach that compromised more than 1 billion accounts. And the distributed denial-of-service (DDoS) attack in October 2016 against the domain name service (DNS) provider Dyn blocked access to major websites in the United States for several hours, including the websites

Figure 1

Cyberattacks against companies and governments will become more frequent and costly



Note: Numbers may not resolve due to rounding.
Source: A.T. Kearney 2017 Views from the C-Suite

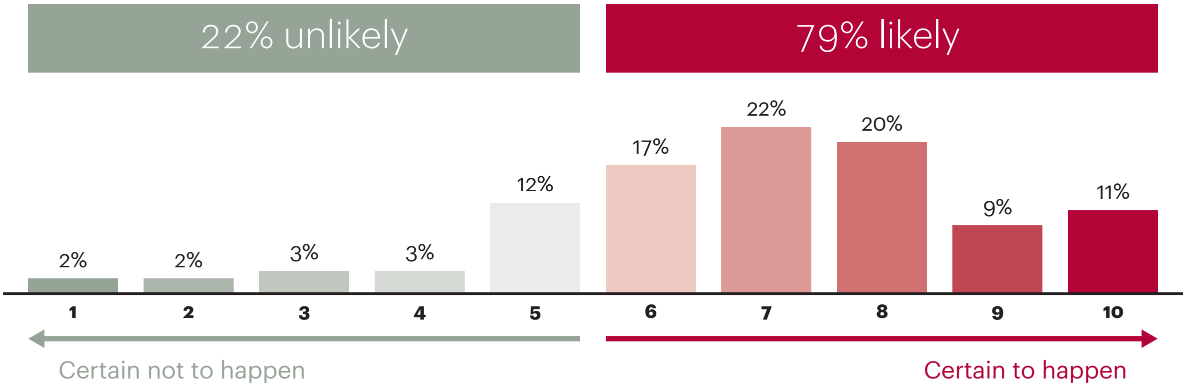
of Twitter, PayPal, Amazon, Netflix, Spotify, and the New York Times. Ransomware attacks have grown especially problematic. In 2016, global ransomware attacks alone were up 167 percent from the prior year. Such attacks show no sign of slowing, as hackers develop increasingly sophisticated viruses and phishing mechanisms, and businesses struggle to keep up their defenses.

The economic and political fallout from Brexit will grow

An overwhelming 79 percent of executives believe that British withdrawal from the European Union (EU) will heighten political and socioeconomic pressures in both the United Kingdom and the EU over the next 12 months (see figure 2). This strong consensus is particularly notable because last year—before the Brexit referendum—almost 60 percent of the global C-suite

Figure 2

Brexit will heighten political, economic, and social pressures in the United Kingdom and the rest of the European Union



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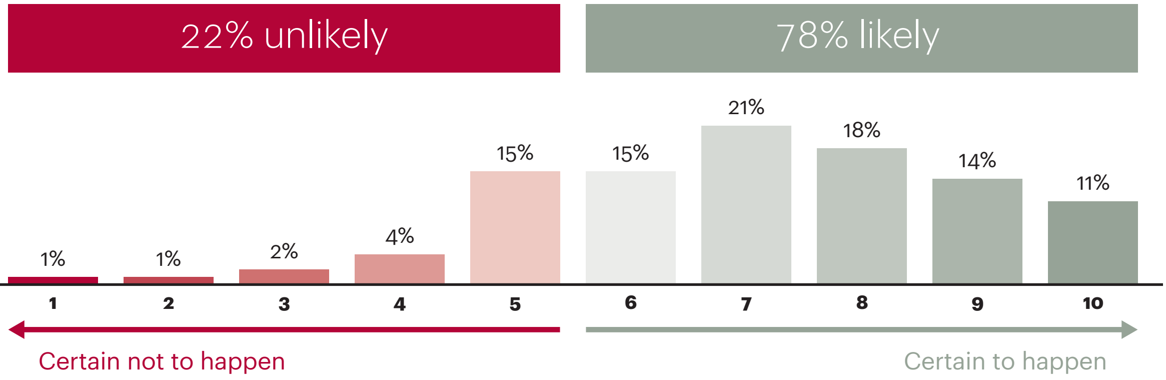
thought that tensions within Europe would decrease over the coming 12 months. Brexit was clearly a surprise to global executives, but such tensions have become increasingly evident in recent months. Divisions between the Remain and Leave camps, for instance, continue to polarize British society, and the recent UK general election highlighted the lingering disputes over the nature of Brexit and the levels of inclusivity and inequality in British society. Rhetoric between UK and EU negotiators has also escalated, as EU negotiators insist that the United Kingdom pay its debts to the EU before negotiations can begin in earnest. European officials have proposed new regulations targeting the UK financial sector by making it more difficult for it to operate in the EU. Failure to reach an agreement in the short two-year time frame for negotiations, or at least a transitional agreement while negotiators work out more complicated issues, could lead to severe economic and political repercussions, for instance reimposing a hard border between Ireland and Northern Ireland or having the United Kingdom default to World Trade Organization (WTO) rules of trade with the EU.

Technological innovation will increase global productivity growth

Continuing technological innovations will lead to greater global productivity growth, according to 78 percent of global C-suite executives (see figure 3). Advances in artificial intelligence (AI), automation, distributed computing, robotics, biotechnology, and other fields have long promised to increase global productivity. Yet despite such innovations, the global economy has witnessed persistently low productivity growth in recent years. The International Monetary Fund (IMF) estimates that productivity growth in advanced economies dropped to 0.3 percent over the past decade, from a pre-global financial crisis average of about 1 percent. A commonly cited reason for this tepid growth is that cutting-edge innovations have not moved beyond the technology sector to impact the productivity of other sectors. Executives' optimism about technology-driven productivity growth may thus signal that these technologies are finally set to impact other fields. The increasing sophistication of AI has helped dramatically reduce the number of man-hours needed to sort through financial litigation and regulatory compliance. Robotics are also rapidly reshaping manufacturing. In China, where there were only 49 industrial robots per 10,000 employees in 2015, sales of

Figure 3
Technological innovation and adoption will spark higher global productivity growth



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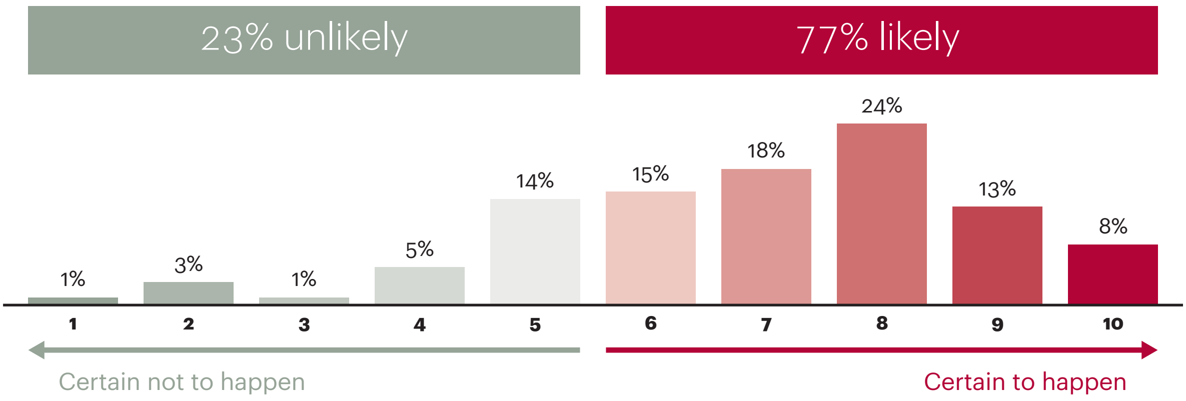
Source: A.T. Kearney 2017 Views from the C-Suite

industrial robots are expected to more than double by 2019, helping to bring China's industrial robot use closer in line with that of world leaders such as South Korea (531) and Singapore (398).

Populism in democracies around the world will continue to grow

More than three-quarters of executives believe that populist politics in global democracies will continue to gain strength over the next year (see figure 4). This sentiment stands in contrast with the response to the same question in 2016, when executives were evenly split on the likelihood of this trend continuing. This change in perception is likely a product of the series of populist electoral successes in 2016, including the elections of US President Donald Trump and Philippine President Rodrigo Duterte, and the success of the Leave campaign in the Brexit referendum. And while populist politicians Geert Wilders and Marine Le Pen failed to win a majority in the Dutch and French elections, respectively, both expanded their share of the electoral vote and succeeded in moving their countries' political discourse in a populist, nationalist, or extremist direction. These polls made clear the strength of populist ideologies and highlighted the underlying socioeconomic and political challenges driving politics today. Such results suggest that there remains fertile ground for populist candidates to make further electoral gains.

Figure 4
Populist leaders and extremist political parties will continue to gain support in democracies around the world

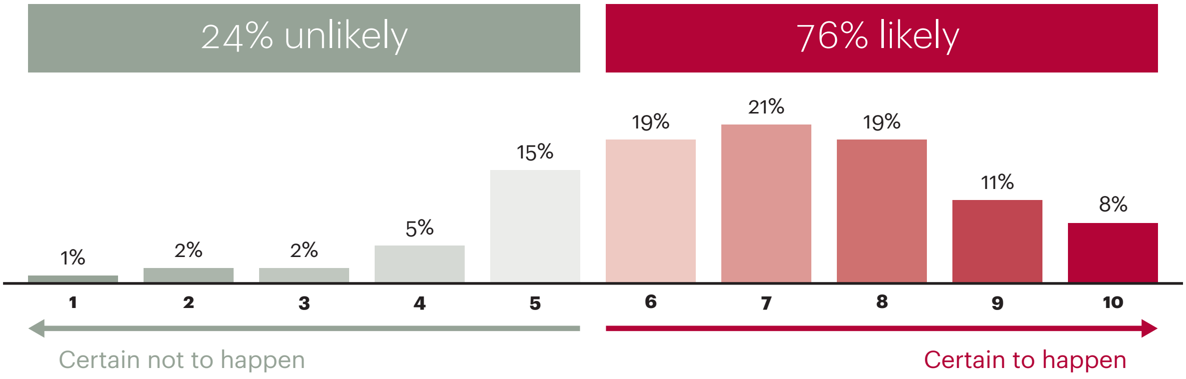


Note: Numbers may not resolve due to rounding.
Source: A.T. Kearney 2017 Views from the C-Suite

Economic and financial volatility will increase over the next year

The global C-suite is quite certain—with 76 percent of executives agreeing—that economic and financial volatility will be higher in the next 12 months than in the past year (see figure 5 on page 7). This response contrasts with last year's results, when 55 percent believed that economic volatility would not increase over the coming year. Executives' pessimistic attitudes on economic and financial volatility are likely due, in part, to the growing success of populist political positions such as protectionism and other anti-open-market policies that are harmful to economic growth. In addition, the loosening of global monetary policy in major economies will increase borrowing costs for companies and emerging market governments that have

Figure 5
Economic and financial volatility will be higher in the next 12 months than in the past 12 months



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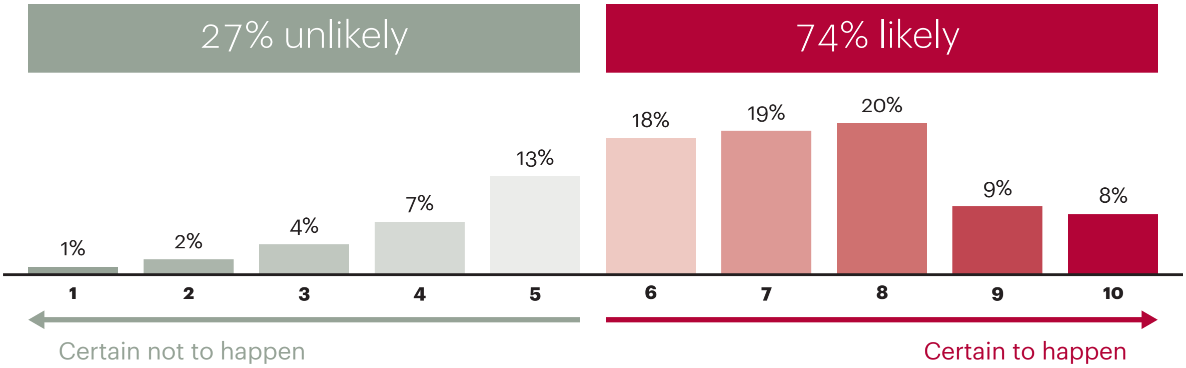
grown used to years of cheap capital. This trend could yield some financing challenges and volatility in the markets.

Global trade will decline due to increased protectionism

About three-fourths of executives agree that global trade will decline as a result of rising protectionism (see figure 6). This agreement likely reflects, in part, the current reality on the ground. Global trade in goods has declined in recent years, after reaching a historical peak in 2014. Weak global economic growth is one reason for the global decline in trade of goods, but so too are government policies that are increasingly imposing barriers to cross-border trade. The prospect of further electoral success for populist politicians and the increasing protectionist rhetoric among governments in many parts of the world likely influenced executives' pessimism

Figure 6
Global trade and other cross-border flows will decline as a result of increased protectionism



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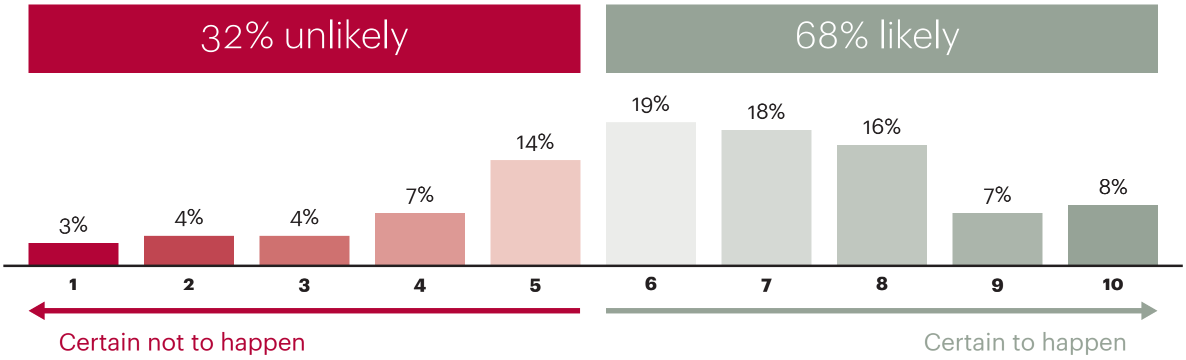
Source: A.T. Kearney 2017 Views from the C-Suite

on trade. Nonetheless, there is significant momentum to strike free trade agreements and reduce trade barriers in the Asia-Pacific, which could help to counteract increasing protectionism in other parts of the world.

India's economic growth is expected to be higher than China's

Executives are bullish on India's growth prospects, with 68 percent forecasting that India will overtake China to become the world's fastest-growing major economy in the next 12 months (see figure 7). Such optimism on India's growth prospects seems merited on the basis of Prime Minister Narendra Modi's economic reforms. Though Modi's demonetization efforts led to a cash crunch at the end of 2016, there are signs that the reform has achieved one of its goals: bringing more Indians into the financial system. The government has also successfully passed a reform to replace varying internal taxes between Indian states with a broader national goods and services tax, although implementation challenges loom. The focus on the manufacturing sector to expand employment and boost economic growth is promising, as are government efforts to attract foreign direct investment. Such efforts appear to be paying off, as India continued to rise in the rankings of *The 2017 A.T. Kearney Foreign Direct Investment Confidence Index*. China remains a dynamic economy with strong annual growth rates, but that growth is slowly declining as the Chinese population ages and grows wealthier. It is unsurprising, then, that executives see India as the more dynamic economy.

Figure 7
India will outpace China as the world's fastest-growing major economy



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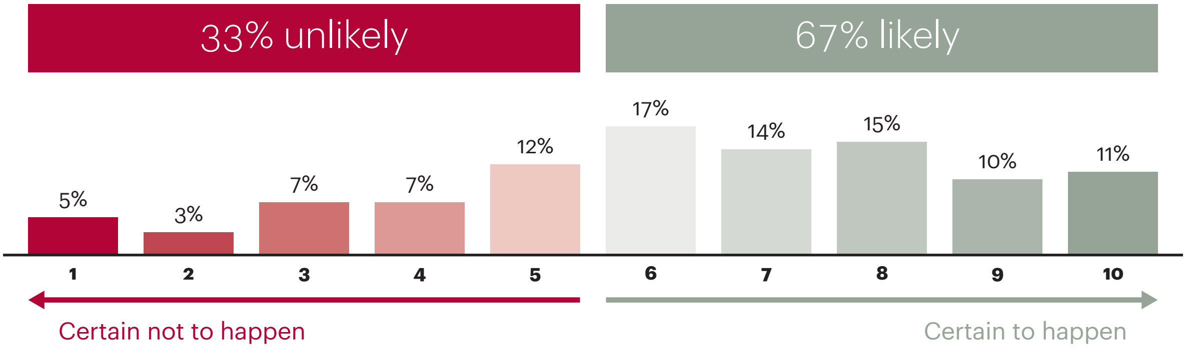
Source: A.T. Kearney 2017 Views from the C-Suite

President Trump's policies may support US economic growth

A majority of executives—67 percent—believe that President Donald Trump's policy decisions will do more good than harm to the American economy (see figure 8 on page 9). Indeed, after Donald Trump's election as president, stock indices and business confidence indices soared. President Trump's pro-business rhetoric and promises of deregulation, lower taxes, and greater infrastructure spending have been particularly welcomed by the business community. The Trump administration has already issued executive orders guiding federal agencies to reduce the number of regulations they produce, but its infrastructure and tax reform agenda are moving

Figure 8
US President Donald Trump's policies will do more good than harm to the American economy



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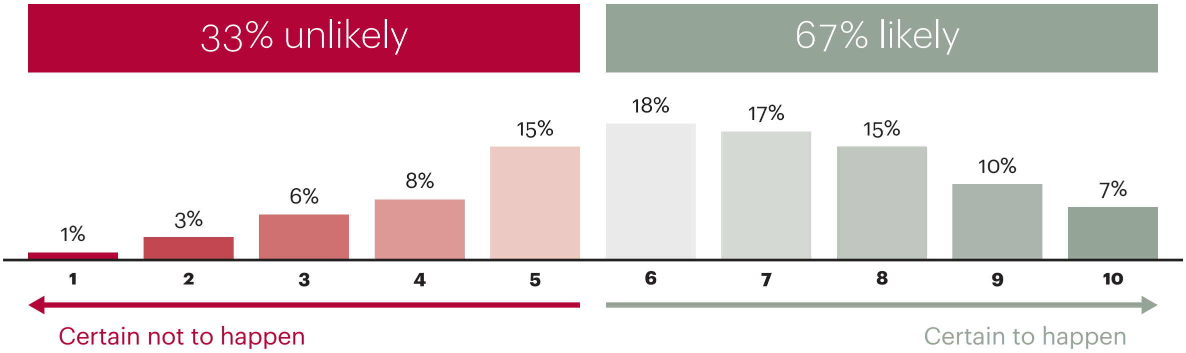
slowly. Such policies, if and when they are implemented, would likely stimulate economic growth. However, President Trump's protectionist rhetoric may also lead to greater barriers to free trade that could push in the opposite direction. The global C-suite remains optimistic that the pro-growth elements of President Trump's agenda will materialize, though, and that the aggregate effect of his policies will be positive for US economic growth.

Global commodity prices will remain low

Two-thirds of the global C-suite believes that commodity prices will continue to remain depressed over the next year (see figure 9). The Council agrees, having forecast that oil prices will not top $60 per barrel this year in our *2017 Year-Ahead Predictions*. More broadly, years of oversupply of mineral resources such as aluminum, zinc, copper, steel, oil, and natural gas have put significant downward pressure on commodity prices. Copper prices, for example,

Figure 9
Global commodity prices will remain at the current low levels



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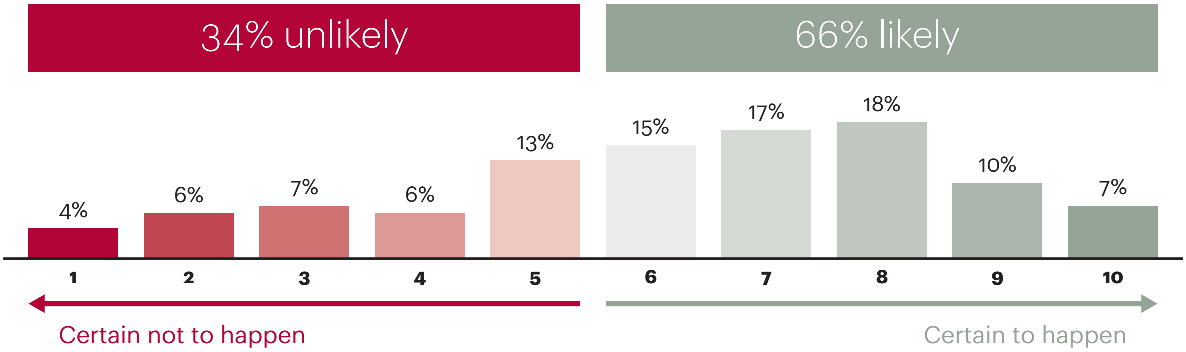
remain about 40 percent below their all-time high of approximately $4.50 per pound in 2010. An important driver of the decreasing demand for such resources is slowing economic growth and reduced infrastructure investment in China. Though many commodity markets are slowly rebalancing as supply decreases and demand picks up in markets that have returned to growth, many commodities remain oversupplied and such market rebalancing can take years to resolve.

Geopolitical tensions may decrease

There was least consensus in executives' outlook for geopolitical tensions between the United States, Russia, and China. Nonetheless, 66 percent of executives believe that geopolitical tensions between the three countries will decrease in the next 12 months (see figure 10). Such positivity about relations between the three countries likely stems from US President Trump's transactional, non-confrontational approach with Russia and China. The president has long argued that the United States can work with Russia on a range of mutual interests, including the fight against the Islamic State in Syria. And the seemingly friendly and successful meeting between Chinese President Xi Jinping and US President Donald Trump in early April provided the basis for optimism in that bilateral relationship as well. The two countries recently announced progress on resolving some longstanding trade disputes, and President Trump declined to label China a currency manipulator. But numerous tension points remain, which may explain why there was more disagreement on this global development than any other. In the United States, growing hostility toward Russian meddling in the US election has made cooperation between the two countries more difficult, and China's recalcitrance to rein in North Korea and expansionism in the South China Sea may strain ties between the United States and China. Furthermore, China's increasing diplomatic and economic engagements in Central Asia—traditionally seen by Russia as its sphere of influence—may increase tensions between the two countries.

Figure 10
Geopolitical tensions between the United States, Russia, and China will decrease



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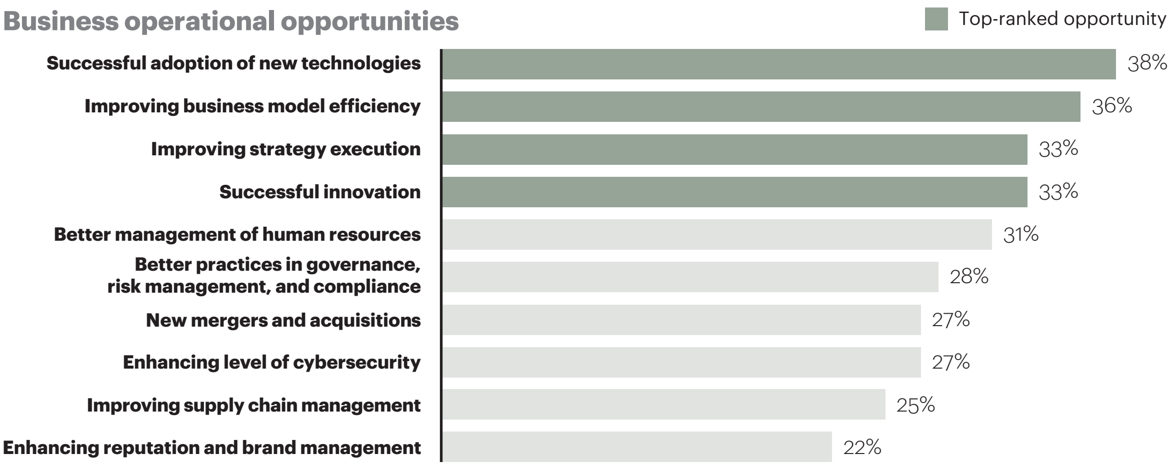
Global executives' focus on technology in terms of both business operations and its effect on the external environment is strong, continuing a multiyear trend.

Opportunities and Challenges in Business Operations

What about the operational opportunities and challenges that global executives face? Three business-operations issues are front and center for executives: the efficiency of their business models, their skill at adopting new technologies, and their ability to innovate. These topics are among the top challenges and the top opportunities identified by global executives (see figures 11 and 12). They are also perennial priorities for the C-suite, topping the list of operational

Figure 11

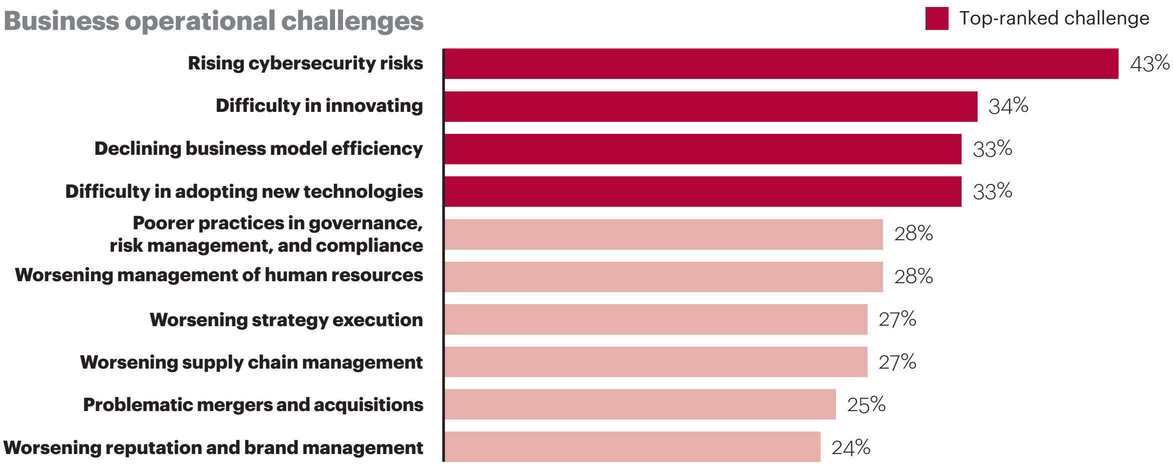
The greatest opportunities are in technology and innovation, as well as improving business models and strategy



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2017 Views from the C-Suite

Figure 12

Cybersecurity tops the list of operational challenges again, followed by innovation, business models, and technology



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Source: A.T. Kearney 2017 Views from the C-Suite

opportunities or challenges in the *2016 Views from the C-Suite*. By far the most important challenge that executives believe they face is rising cybersecurity risks, which tops the list of business operations challenges for the second year in a row. Improving strategy execution is the only business operations issue that the global C-suite ranks as a top opportunity and does not also see as a top challenge.

Rising cybersecurity risks: challenge

Global business leaders believe that the top business operations risk is cybersecurity. Given the high-profile cyberattacks that companies in a variety of sectors and markets have suffered in recent years, it is unsurprising that 43 percent of business executives cite cybersecurity as one of their top challenges, up from an already high 40 percent in 2016. Cyber insecurity is likely to grow in the coming years as more devices are connected to the Internet and businesses potentially get caught in the crossfire of escalating cyber warfare between governments. WannaCry, the world's biggest ransomware cyberattack that was just conducted in May, crippled hospitals, universities, businesses, and other organizations using leaked cyber exploits from the US National Security Agency (NSA), exposing fresh vulnerabilities in institutions' cyber defenses.

38% of executives who see cybersecurity as a top challenge point to weak defense systems as a key concern

Highlighting the rising threat and ubiquity of cyber risks, Nate Fick, CEO of cybersecurity and operations firm Endgame, has argued that "cyber risk is an enterprise risk" and advised that executives "incorporate it into an overall enterprise risk management framework, and make a value-based decision on where... [they] should spend." Among the executives who point to cybersecurity risks as a major challenge, their biggest focus is on weak cyber defenses, both in terms of hardware and software. These vulnerabilities were clear in the recent WannaCry attack.

Executives concerned about cybersecurity also report two pressing challenges related to the people who manage technology rather than the technology itself. Specifically, global executives point to recruiting and retaining qualified IT talent as a major problem. In fact, among executives based in the Americas and those in the industry sector, the effort to recruit and retain talent is seen as an even more significant challenge than having weak cyber defense systems.[2] The other people challenge is broader—namely, overall employee cybersecurity training and awareness. Employees can provide hackers with access to company hardware and software by failing to adequately secure their devices or clicking on malicious links. Cybersecurity experts consistently point to employee training as a key cyber vulnerability. Michael Bruemmer, vice president of data breach resolution for Experian, a global information services firm, recently commented, "a simple employee mistake or act of negligence is driving many breaches. Unfortunately, companies continue to experience the consequences of employees either falling victim to cyberattacks or exposing information inadvertently." Global executives' recognition of this risk is, therefore, encouraging.

[2] The executives we surveyed work at firms in three different sectors: industry (primary goods, aerospace and defense, infrastructure and construction, telecommunications and utilities, heavy industry, and light industry), services (transportation, healthcare and pharmaceuticals, wholesale and retail, financial services, and nonfinancial services—excluding information technology), and information technology (IT) (including hardware, software, and IT-related services).

Technology adoption: opportunity and challenge

Business leaders cite the benefits to be gained by adopting new technologies as their greatest operational opportunity in the next 12 months—while ranking successful adoption of these technologies as tied for the third-greatest challenge. Technology adoption was also highlighted by the global C-suite as among their top operational opportunities and challenges last year, and executives are consistent this year in the set of technologies on which they are most focused: cloud computing, big data/predictive analytics, and mobile technology. The C-suite is more positive about the opportunities associated with adopting cloud computing, with 41 percent viewing it as a top opportunity and only 36 percent seeing it as a challenge. Executives see both promise and difficulty in the adoption of mobile technologies, with 36 percent of executives listing it as a top challenge and 36 percent seeing it as a top opportunity. By contrast, executives are more concerned about the adoption of big data and predictive analytic technologies, as 49 percent of executives view the adoption of such technologies as a significant challenge, compared to 42 percent who cite it as an opportunity.

Three business-operations issues are front and center for executives: the efficiency of their business models, their skill at adopting new technologies, and their ability to innovate.

Why might executives be more pessimistic about the adoption of big data than cloud computing or mobile technology? In part, this negativity may reflect the fact that many companies today are often overwhelmed with data. It is estimated that 2.5 exabytes of data are produced every day, equivalent to 250,000 US Libraries of Congress. Such overwhelming flows of data make it difficult to identify the key insights that can provide a business advantage. There are also challenges associated with mobile technology, such as keeping customers' data secure, and with cloud computing, such as service quality and interoperability. But global executives seem to think the opportunities associated with these technologies—including outsourcing storage and other business services to the cloud—at least balance if not outweigh these challenges.

Although big data, mobile technology, and cloud computing are consistently the top technologies on the minds of global executives, biotechnology is rising in importance. Asian executives view biotechnologies as the second-most-difficult technology adoption challenge, behind big data/predictive analytics. Furthermore, this is the second year in which Asian executives listed biotechnology among their top three technological opportunities and challenges. Executives in the IT sector also point to biotechnology as a top challenge, while industry sector executives identify it as among their top opportunities associated with technology adoption. The recent, rapid development of applications for CRISPR-Cas9 and other emerging biotechnologies may be driving this C-suite interest. Another technology to monitor in the coming years is the Internet of Things (IoT), as 33 percent of industry sector executives who say successful adoption of new technology is a top opportunity view IoT as a primary source of that opportunity.

Business model efficiency: opportunity and challenge

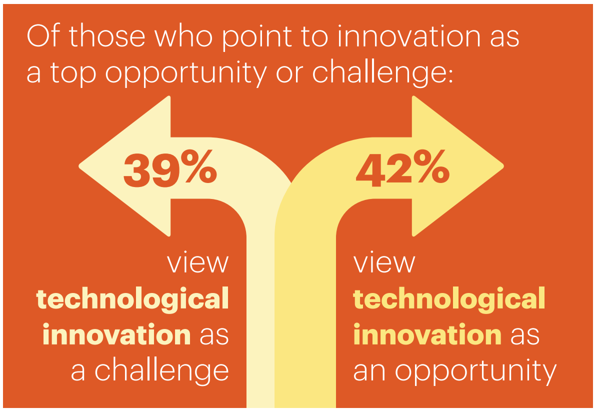
Global executives cite improved business model efficiency as the second-highest-ranked business operations opportunity, while declining business model efficiency is tied for their third-most-important challenge. Those executives seeing opportunity in improved efficiency view better customer relationships and improved revenue streams as factors in their optimism, and executives who are concerned about declining business model efficiency are most apprehensive about diminished revenue streams and rising costs.

Improved customer relationships represent the top opportunity overall for business model efficiency improvement. The level of C-suite attention to this area is relatively constant from last year's study while their other priorities from 2016 fell in importance this year, indicating that executives still see gains to be made in improving customer relationships. This confidence may be related to the technology adoption opportunity, as data analytics and other new innovations allow businesses to better understand their clients, increasing customer retention and driving sales growth. Executives in Europe and Asia, as well as those in the industry and IT sectors, in particular see improved customer relationships as a significant business opportunity.

For those focused on the challenge presented by declining business model efficiency, rising costs are of particular concern for executives in the Americas and those in the services and industry sectors. This apprehension could reflect the impact of rising input prices as global economic growth and inflation rates finally pick up. European executives, by contrast, are most concerned with less profitable customer segments as a source of declining business model efficiency. And those based in Asia and in the IT sector are more concerned with diminished revenue streams.

Innovation: opportunity and challenge

After rising cybersecurity risks, the second-highest-ranking business operations challenge is difficulty in innovating. Successful innovation, however, is tied as the third-highest-ranked business operations opportunity. Technology tops the list of both opportunities and challenges within the innovation category, highlighting its increasing importance in shaping how business is conducted in today's economy—on both the positive and negative sides of the ledger.



The overwhelming focus on technological innovation as an opportunity holds true across executives from all regions. Predictably, executives in the IT sector (44 percent) and those in the industry sector (45 percent) identify technological innovation as among their greatest innovation opportunities in the next 12 months. In contrast, leaders in the services sector (37 percent) point to business model innovation as their top innovation opportunity. More broadly, innovating in terms of a new product or service and in marketing also rise to the top of the global C-suite's opportunities. Technology and marketing innovations may go together in some instances, as companies are increasingly using technology in new and innovative ways in their marketing strategies.

Technological innovation is the greatest innovation challenge for executives in the industry sector and those based in Europe. In the case of the industry sector, this concern is likely due to the rapid development of artificial intelligence, robotics, analytics, and other technologies with applications in industry, making it more difficult for a company to stay at the cutting edge. Executives in the services sector, by contrast, report that product and service innovation is their most significant challenge. This difference may reflect ongoing difficulties that those in the services industry, particularly those in retail, transportation, and financial services, face as a result of new entrants with innovative business models and services.

Executives see continued gains to be had from efforts to **better execute on their firms' strategies.**

Better strategy execution: opportunity

In the view of the global C-suite, improving strategy execution is tied as the third-highest business operations opportunity over the next 12 months. Strategy execution was also among the top business operations opportunities in last year's *Views from the C-Suite*, suggesting that executives see continued gains to be had from efforts to better execute on their firms' strategies.

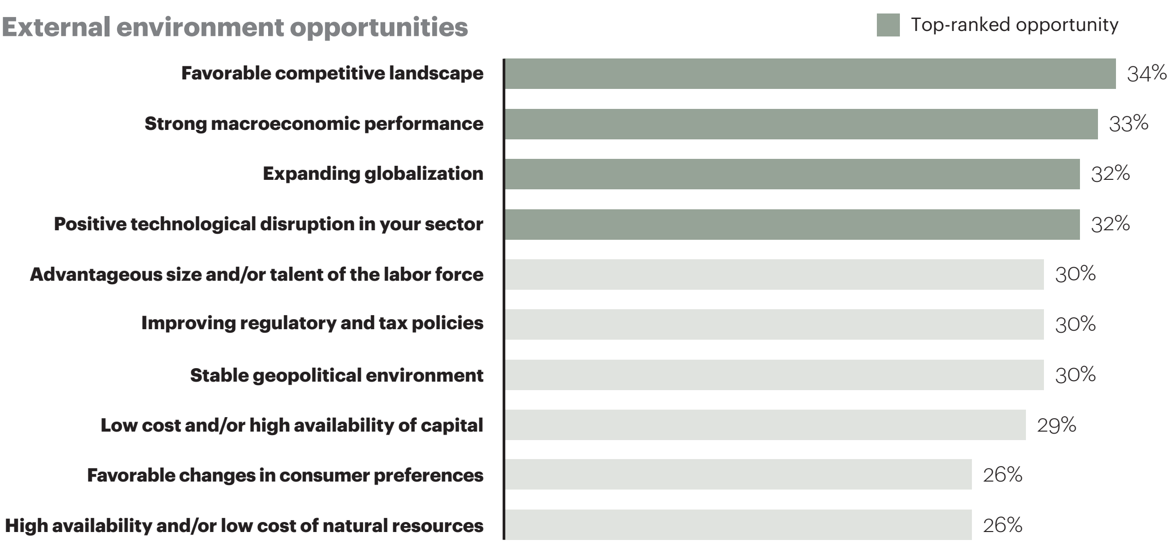
The two most-cited reasons for opportunities to improve strategy execution relate to internal processes at the outset: strong business unit alignment with strategic objectives and solid translation of strategy into business objectives. Alaska Airlines CEO Bradley Tilden recently highlighted the importance of strong business unit alignment: "When an airline fails, it's usually not some exotic financial factor. Rather, it's usually an alignment issue: people don't share the same goals and are not on the same page. We spend millions of dollars on technical training, but we don't always share operational strategy. Getting everyone aligned, especially in a unionized environment, is difficult to achieve."

The third-most-cited opportunity to improve strategy execution is agility to execute strategy while adapting to changing market conditions. This was also among the C-suite's top identified opportunities last year, and it has arguably grown even more important because of recent events, such as India's surprise demonetization effort, the United States withdrawing from the Trans-Pacific Partnership (TPP), and rising terrorist attacks in Western Europe. Political and economic instability and volatility—along with increasingly rapid technological change—create the need for even more agility in strategy execution.

Opportunities and Challenges in the External Environment

The most dramatic change in the external environment this year, according to C-suite executives, is global macroeconomic performance. The global economy was among executives' top perceived external challenges last year, but it shifted to become one of their top external opportunities this year. Expanding globalization also continues to be one of global executives' top external opportunities (see figure 13). This finding may be somewhat surprising given the rise of populism, nationalism, and protectionism in many markets around the world, but it likely reflects the fact that most of our respondents' companies are already highly globalized. Executives also appear to be paying increased attention to political risks. An unstable geo-political environment is the foremost challenge that the global C-suite foresees in the external environment over the next 12 months, followed by worsening regulatory and tax policies (see figure 14 on page 17).

Figure 13
A favorable competitive landscape and strong macroeconomic performance top executives' external opportunities



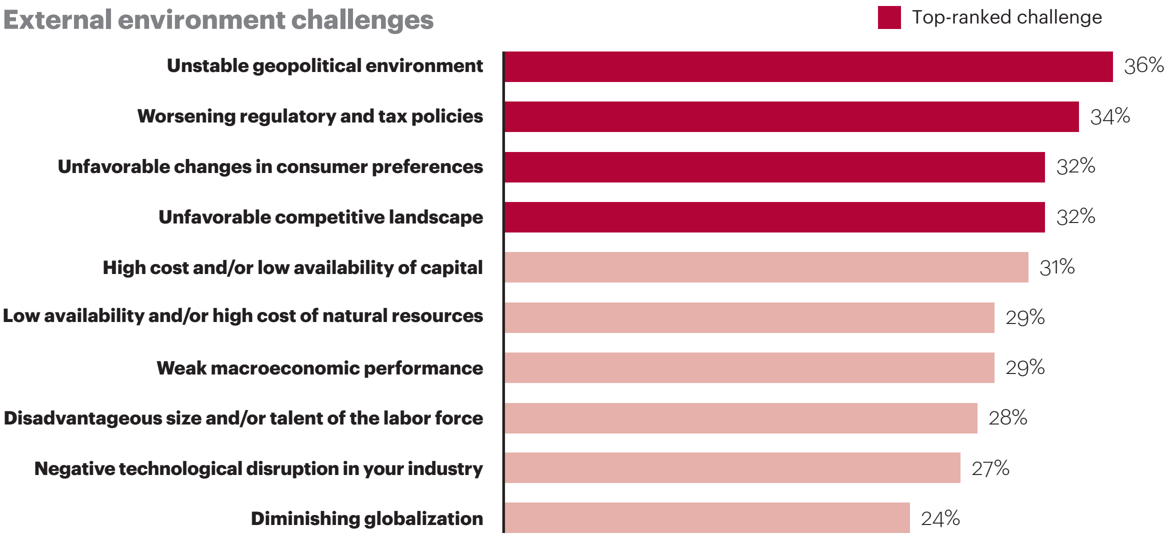
Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2017 Views from the C-Suite

Unstable geopolitical environment: challenge

The highest-rated issue in the external environment is the challenge of unstable geopolitics, with 36 percent of global executives citing it as a top challenge. This is a significant increase from the 29 percent who pointed to geopolitics as a top challenge last year. It is not difficult to understand why it has risen to the forefront this year. The two most notable elections of the past year—the Brexit referendum and Donald Trump's victory in the US presidential election—have both increased the risk of geopolitical tensions rising in the near term. Questions are rising about the sustainability of the EU and the durability of the Iranian nuclear deal, even as violent

Figure 14

Political risk drives the top two external challenges, followed by consumer changes and the competitive landscape



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2017 Views from the C-Suite

conflict continues in parts of the Middle East and North Africa and the North Korean government is becoming increasingly bellicose.

Geopolitics is increasingly being discussed as a driver of business decisions and outcomes. For instance, WPP CEO Sir Martin Sorrell wrote in *The Economist*, “A great flock of geopolitical grey swans (known unknowns) clouds the horizon, draining confidence.” And Procter & Gamble CFO Jon Moeller recently cited the “very geopolitically and geoeconomically volatile” global environment as part of the reason that the company’s quarterly revenue disappointed the markets.

Executives see a wide range of geopolitical challenges, but the top three issues are an escalation in refugee or migration crises, an escalation in armed conflicts, and heightened transnational threats such as terrorism, piracy, and crime. The particular geopolitical challenge that concerns executives depends on both the location of their headquarters and their sector. Executives based in the Americas and those in the services sector, for example, point to a less stable international treaty system as their top geopolitical challenge. This concern may be a result of US President Donald Trump withdrawing from the TPP, as the agreement included a variety of “21st-century provisions” governing cross-border services trade. Executives based in Europe and those in the industry sector were the only groups to include international sanctions on key markets among their top three geopolitical challenges. They likely were referring to Russia and Iran, as there are uncertainties about the future of sanctions on those markets and both are important to European firms and those in the energy and petrochemicals industries.

Worsening regulatory and tax policies: challenge

Worsening regulatory and tax policies is the second-most-cited external challenge, with 34 percent of global executives concerned about this trend (up from 32 percent last year). It is notable that the top two external environment challenges stem from political risk—commonly defined as the risk that an investment's returns could suffer as a result of political changes or instability in a country. The "all-too-visible hand" of political risk is clearly weighing on the global business outlook, as argued in the Council's *Global Economic Outlook 2017-2021*.

While executives across most sectors point to regulatory and tax policies as a top challenge, there are stark differences across regions. The C-suite based in the Americas is significantly more concerned about worsening tax and regulatory policies than are its counterparts in Europe and Asia. This difference is somewhat surprising given that the largest market within the Americas is the United States, where President Trump came into office promising to lower corporate tax rates and slash business regulations. Perhaps this political rhetoric has just served to heighten Americas-based executives' focus on regulatory and tax policy issues. Alternatively, it is possible that the administration's lack of significant progress on these measures in its first 100 days has diminished executives' near-term expectations for President Trump's ambitious pro-business agenda. And of course, some of the proposed regulatory and tax changes being discussed in the United States—including most notably the border tax adjustment (BTA)—could have negative implications for companies both inside and outside the country.

The top two external environment challenges—geopolitics and regulations—stem from **political risk**.

Within the worsening regulatory and tax policies challenge, global executives point to three policies in particular that are of top concern: corporate tax rates and incentives, labor regulations, and product safety standards. Executives based in Asia, however, identify the primary policy challenge as taxes and regulations on international trade. This divergent focus among Asian executives could reflect the fact that the Asia Pacific is currently the most dynamic region in the world with respect to international trade agreements. Although the United States withdrawing from the TPP dealt a blow to regional trade integration, the other 11 members are now seeking ways to move forward with the agreement. Separately, negotiations to finalize the Regional Comprehensive Economic Partnership (RCEP) are continuing as well. There would be winners and losers from either of these agreements, but the current uncertainty associated with both of them could be driving Asia-based executives' focus on international trade policy as a challenge.

Unfavorable changes in consumer preferences: challenge

The final clear-cut challenge that the global C-suite sees in the external environment is unfavorable changes in consumer preferences. Almost one-third of executives point to this issue as a top challenge, across all sectors and most regions. European executives are the most concerned about consumer preferences, followed by those based in Asia.

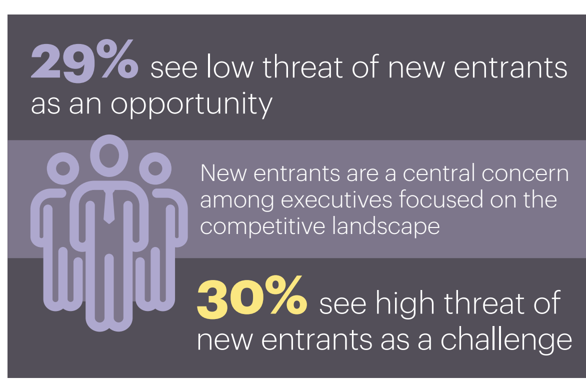
Falling purchasing power is by far the most prevalent consumer preferences issue, with 41 percent of executives who cite unfavorable consumer preference changes as a top challenge saying that this is the most important aspect within this category. This is likely due to slowing global wage growth in recent years, with the International Labour Organization reporting it declined from 2.5 percent in 2012 to just 1.7 percent in 2015. European executives are particularly concerned about this trend, which is hardly surprising following multiple years of lackluster economic growth there. Relatedly, the fragmentation of consumer markets is another key consumer preference challenge. This concern is likely also driven by recent macroeconomic trends—namely, rising economic inequality within countries, including key consumer markets such as the United States, China, and many large EU members.

Consumers' growing preference for sustainable and/or socially conscious products and services represents another top challenge within this area for the global C-suite. As Volvo CEO Håkan Samuelsson remarked at a recent UN conference, "Consumers are demanding more sustainable transport, not just in terms of reduced emissions but also in terms of materials in the vehicle…A sustainable approach is not only the right thing to do, but it makes sound commercial sense." While some businesses may be able to tailor traditional products and services to match these new preferences, the rise of "peak stuff" consumerism—marked by a shift in consumer values and preferences for buying fewer physical goods, and driven in part by environmental concerns—could create ongoing challenges for many companies.

Competitive landscape: opportunity and challenge

The competitive landscape is front of mind for the global C-suite. However, executives' views on the competitive landscape are mixed, with 34 percent seeing it as favorable and therefore a top opportunity, and 32 percent perceiving it as unfavorable and therefore a top challenge. These figures are largely in line with last year's results, when 36 percent of executives saw a favorable competitive landscape as a top opportunity and 31 percent pointed to an unfavorable competitive landscape as a top challenge.

While executives in the industry sector view the competitive landscape as most unfavorable, it is a top external opportunity for executives across all three sectors in our survey. Also of note is the fact that executives at companies that are less globalized tend to be more focused on challenges and opportunities associated with the competitive landscape than do their more globalized peers. This difference could reflect more localized firms' focus on growing market share rather than a globalized strategy of growing market size.



Those seeing the competitive landscape as an opportunity point to having a differentiated product as a key source of that opportunity, and those who are more pessimistic about the competitive landscape identify weak market growth for their product or service as a major challenge. There is one area of overlap, however. New entrants appear as both an opportunity and a challenge within this area, as executives point to a low threat of new entrants as an important opportunity and a high threat of new entrants as a significant challenge. There are, however, important differences by sector. Industry sector executives see a low threat of new entrants as an opportunity, while IT sector executives point to a high threat of new entrants as a key challenge in this area. The jury is out among services sector executives, though, with both sides of this coin rising to a top-three issue. This divergence likely reflects the more dynamic nature of the IT sector, in which new business models and companies have been known to rise quickly and disrupt current players.

Strong macroeconomic performance: opportunity

One-third of executives point to strong macroeconomic performance as a top opportunity, making it the second-highest-ranked external opportunity. This is a notable contrast to last year, when strong macroeconomic performance was tied for last place in terms of external environment opportunities and weak macroeconomic performance was a top external challenge for the global C-suite. This change confirms the findings of *The 2017 A.T. Kearney Foreign Direct Investment Confidence Index*, in which 60 percent of global investors said that they were more optimistic about the global economic outlook than they were last year. The global business community is clearly bullish on the global economy now, which could create a virtuous cycle in which unlocking pent-up business investment drives additional gains in economic growth. In its most recent World Economic Outlook, the IMF is similarly optimistic. It forecasts that global economic growth will strengthen from 3.1 percent in 2016 to 3.5 percent this year and 3.6 percent next year.

Optimism is not evenly spread around the world, however. The global C-suite reported that they are most bullish about opportunities stemming from strong macroeconomic performance in North America, followed by Western Europe and Latin America. The interest in the North American economy holds across executives from all regions and sectors, and likely reflects the global business community's expectations that the US economy is finally emerging from its post-global financial crisis funk and that US President Donald Trump's pro-business policies will unlock additional economic growth. The interest in opportunities in Western Europe is similarly widespread, likely as a result of the EU economy seemingly solidifying its recovery in recent months.

The C-suite optimism for Latin America is more surprising, as it has been a laggard among emerging market regions in terms of economic growth in recent years. However, its economic woes appear to have bottomed out. In fact, the IMF forecasts that Latin America will make the largest gain in growth differential between 2016 and 2017. This projection may be based, in part, on the recent trend of pro-business candidates winning elections across the region, as their reform agendas begin to shift the trajectory of the Latin American business environment toward more liberal, open economic policies. Notably, executives based in the Americas and Europe are driving the interest in seeking opportunities in Latin America. Executives based in Asia instead point to China and East Asia as among their top three regions for macroeconomic performance driving business opportunities (along with Western Europe and North America).

Positive technological disruption in sector: opportunity

Almost one-third of global executives point to a positive technological disruption in their sector as a top opportunity. This enthusiasm may seem counterintuitive given that "disruption" often has a negative connotation because it disturbs the status quo. However, this confident outlook on the nature of technological disruption for businesses around the world suggests that global executives may see the end of the status quo as an opportunity for their businesses.

47% of executives

who see technological disruption as an opportunity believe their company is well positioned to respond or adapt

These positive business implications of technological disruption are consistent with the global C-suite's view of being relatively well-positioned to respond or adapt to a disruptive technology as the top opportunity by far within this category. This choice was higher than the others by eight percentage points or more across executives in all sectors, suggesting that C-suite executives see their businesses as being agile and therefore resilient in the face of technological disruption.

In addition, many executives who see a positive technological disruption in their industry as a top opportunity also see their businesses as playing the role of disruptor. When asked to identify the key source of this opportunity, about one-third point to launching a new service and another approximately one-third point to launching a new business model that disrupts their sector. Ian Narev, Managing Director and CEO of Commonwealth Bank of Australia, emphasized this focus on innovation in a speech last year: "If we don't innovate successfully we're toast. Not we'll lose a bit of profit, we'll lose a few customers—we're toast."

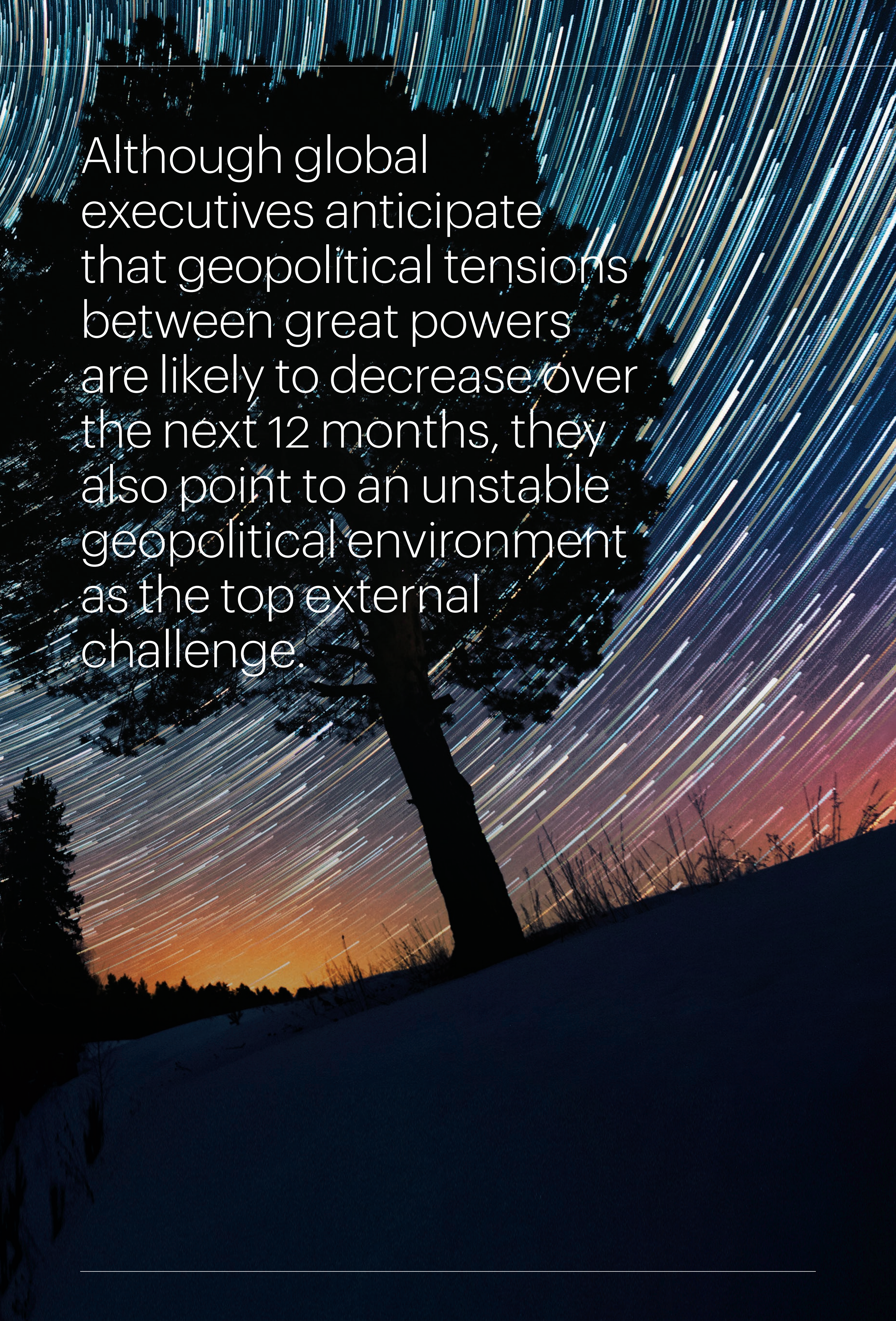
Expanding globalization: opportunity

Expanding globalization continues to be seen as an important opportunity by global executives, ranking third among external environment opportunities this year. The strength of this opportunity, however, is waning. Only 32 percent of global executives point to expanding globalization as one of their top external opportunities this year, down from 38 percent last year. This decrease could be related to the rising challenge that global executives see from an unstable geopolitical environment and worsening regulatory and tax policies, as both of these factors affect the rate of globalization's expansion.

Optimism about the continued opportunities from expanding globalization is strongest among executives who consider their businesses to be very globalized in terms of their supply chain, operational footprint, and revenue. It is only moderate for executives at somewhat globalized firms, and few executives at un-globalized firms see expanding globalization as an opportunity. These responses suggest that executives may believe that businesses that are already globalized have a competitive advantage in this environment. GE CEO Jeff Immelt recently emphasized the importance of globalization and highlighted the advantage that large, globalized firms have in the current environment: "Our strategy is based on connected localization. Our advancement requires building capability on the ground in fast-growing global markets. We earn our right to compete by investing, operating, and building relationships in the countries where we do business."

There is little consensus among the global C-suite, however, on the specific opportunities globalization presents. Executives point to a variety of reasons for their business optimism about expanding globalization, with executives in the Americas citing international intellectual property protection, European executives pointing to accessing international capital, and Asian executives emphasizing outsourcing business processes.

Both of global executives' top two sources of expanding globalization opportunities overall, though, are related to economic drivers rather than government policies—selling into foreign markets and outsourcing business processes. These two leading choices highlight the disconnect between persistent cross-border economic linkages and languishing government-driven multilateral trade and investment deals in the current geopolitical environment.



Although global executives anticipate that geopolitical tensions between great powers are likely to decrease over the next 12 months, they also point to an unstable geopolitical environment as the top external challenge.

Globalization Trends and Business Strategy

The growing trend of populism and its creation of an increasingly "islandized" global economy were noticeably front of mind for global business executives at the Council's annual CEO Retreat last year. Since then, global events have generated significant public discussion and debate about rising populism and the decline of globally integrated markets. This survey gives us new insight into how the global C-suite views these phenomena today and how these issues may be changing companies' business models and strategies. We found that while global executives are paying more attention to politics than they did in the recent past, they believe that globalized business strategies remain viable. They are, however, adjusting their strategies for pursuing globalization in the current environment and are utilizing a variety of strategic foresight methodologies to manage risks. In effect, this may mean that globalization is now being defined somewhat differently from how it was understood a decade ago.

Fully 69 percent of global C-suite executives reported that government policies have a greater influence on their companies' overall decision-making in the current political and economic environment than they did in the past few years. This finding holds true among executives across regions, sectors, and globalized statuses. However, government policies appear to have the greatest influence on executives' business decisions at companies based in Asia, in the IT sector, and at companies that are currently somewhat globalized.

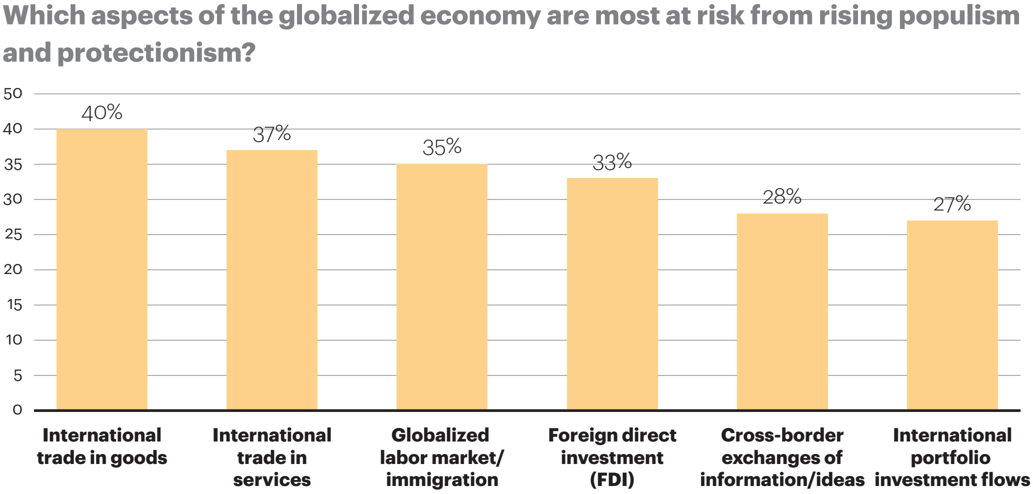
Global executives indicate that the greatest threats from rising populism and protectionism are to international trade in goods (40 percent) and services (37 percent) (see figure 15 on page 25). This finding is hardly surprising given that the WTO recorded the highest level of new trade-restrictive measures during the review period ending in May 2016, and the overall stock of such measures increased by almost 17 percent in October 2016 compared to the previous year. Coupled with the lack of new, large trade agreements—including the apparent demise of the much-anticipated TPP—these protectionist measures have contributed to a weakening global trade environment. World trade grew just 1.3 percent in 2016. While the WTO forecasts that it will strengthen to 2.4 percent in 2017, it warns that it could grow only 1.8 percent in a worst-case scenario.

After trade, the global C-suite sees the globalized labor market and immigration as the most at-risk aspect of the globalized economy. The United Nations Population Division estimates that international migration fell in both absolute terms and as a share of the global population in the 2010–2015 period. It is likely to continue to decrease as a result of rising anti-immigrant sentiment in countries that are traditionally home to such migrants, including the United States, United Kingdom, and Australia. A less globalized labor market could raise labor costs for businesses as they increasingly compete for workers in key markets.

Despite this risk to cross-border flows, a strong majority (62 percent) of global executives believe that business strategies based on globalization are more viable in the current political

Figure 15

Executives point to trade—for both goods and services—as most at risk in the current global environment



Note: Numbers do not add up to 100 because respondents could select up to two choices.

Source: A.T. Kearney 2017 Views from the C-Suite

and economic environment than they have been in the past few years. This sentiment is strongest among executives at firms based in the Americas, those in the IT sector, and those who consider their firms to be very globalized.

This does not mean that executives are simply maintaining their current business operations and strategies. More than 90 percent of the C-suite executives we surveyed are making or are considering making changes in their supply chains and international footprints due to the current political and economic environment. This near unanimity in the need to adjust tactics and strategies is dramatic, highlighting the profound changes currently under way in the global economy and business environment.

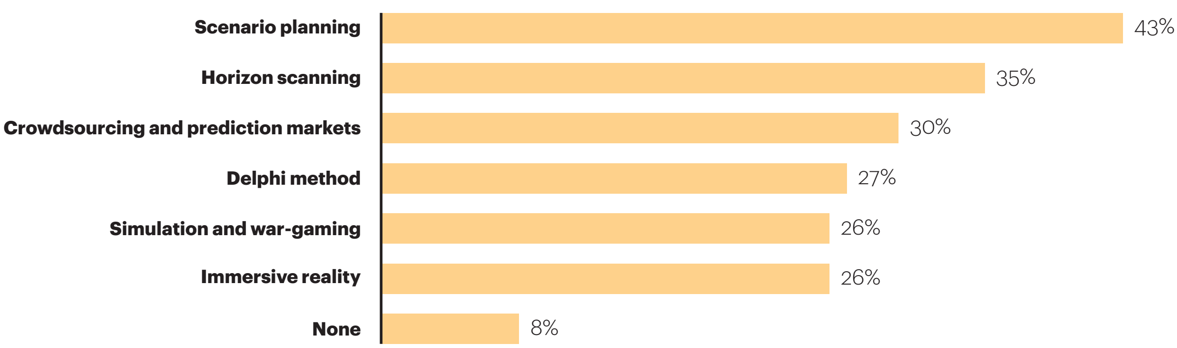
In both supply chain and international footprint shifts, there is less focus on the location of production or operations. Instead, executives are concentrating on changing their suppliers in order to reorganize their supply chains, with 41 percent putting greater reliance on internal suppliers and 38 percent relying more on external suppliers. And in terms of their overall international footprint, global executives are shifting the markets in which they make their sales—although once again there is divergence in executives' strategies. Slightly more than one-third of global executives identify greater reliance on sales in each of home-country markets, foreign markets in which their company has a presence, and export markets.

The current political and economic environment is also motivating two-thirds of the global C-suite to place a greater emphasis on public relations and government relations. Executives at companies based in Asia are most focused on these efforts, with fully 75 percent of them prioritizing community and government relations more now than they have in the past few years. Executives at companies that are very globalized share this focus, with 70 percent of them reporting the same. While much of the attention, then, has focused on populism in the United States and Western Europe, business executives see it as a truly global phenomenon.

Finally, in the current economic and political environment, almost all global executives report that they are utilizing strategic foresight—the systematic management of future uncertainty to inform strategy—to manage risk. Incorporating these tools into their strategic planning processes enables the C-suite to better assess the future of the global external operating environment. The most popular tool by far is scenario planning, with 43 percent of executives reporting that their company uses it (see figure 16). The other two most prevalent strategic foresight tools are horizon scanning (35 percent) and crowdsourcing and prediction markets (30 percent). Such tools are becoming increasingly vital to achieving a better understanding of current dynamics in the external environment and narrowing the range of strategic uncertainties in the future.

Figure 16
Almost all executives use some type of strategic foresight tool to manage risks

What strategic planning tools is your company utilizing to assess the future?



Note: Numbers do not add up to 100 because respondents could select up to two choices.
Source: A.T. Kearney 2017 Views from the C-Suite

Business Implications

The specific implications of these views from the C-Suite will vary based on the sector, geographic footprint, and strategy of each company. However, there are several broad business priorities that C-suite executives and other decision-makers will want to keep in mind in the coming 12 months:

- **Improve cybersecurity defenses and protocols.** While many aspects of technology adoption and disruption provide business with opportunities and challenges, executives' most crucial priority over the next year should be improving their firms' cybersecurity. Recent cyberattacks have demonstrated the increasing effectiveness of hackers' strikes. And as the C-suite is only too aware, such attacks are likely to increase in frequency in the next 12 months. Delaying any hardware or software investments that would bolster a business's cyber defenses could prove very costly in the near to medium term. Just as important—if not more so—is the imperative for executives to invest in cybersecurity training for all employees and to model good cyber behavior within the C-suite.
- **Actively monitor political risks.** The global C-suite is clearly attuned to the risk that geopolitics, domestic policy, and regulatory developments pose to their businesses. But effectively managing these political risks requires more than just awareness. Executives should invest in active political risk monitoring and government relations capabilities in key markets in order to mitigate the risks from otherwise potentially surprising policy developments and to help shape business-friendly government policies.
- **Utilize strategic foresight to stay ahead of the curve.** Many of the global trends and developments that executives now see clearly had their antecedents more than a year ago. Those executives who were able to spot these emerging trends correctly before their peers are now better positioned to succeed in the current global operating environment. Incorporating strategic foresight methodologies into a company's strategic planning process enables executives to stake out differentiated, market-winning strategic positions.
- **Assess globalization strategy.** Global executives agree on the need to shift their globalization strategies in the current environment, but not on the way in which they should shift. The appropriate strategy will depend on how geopolitical tensions and anti-globalization trends affect each company's unique international footprint, supply chain, and business model. Executives will need to consider their options thoroughly in order to mitigate current and future risks in this new era of globalization.

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About the Global Business Policy Council

The Global Business Policy Council is a specialized foresight and strategic analysis unit within A.T. Kearney. Since its first CEO Retreat in 1992, the Council has been a strategic service for the world's top executives, government officials, and business-minded thought leaders. Through public-facing thought leadership, exclusive global forums, and advisory services, the Council helps to decipher sweeping geopolitical, economic, social, and technological changes and their effects on the global business environment. The Council is dedicated to providing immediate impact and growing advantage by helping CEOs and government leaders anticipate and plan for the future.

Appendix

The *2017 Views from the C-Suite* study uses primary data from a proprietary survey administered to 400 senior executives of the world's leading corporations. The survey was conducted in April 2017.

Respondents include C-level executives and board members. About 27 percent of respondents are CEOs and about 18 percent are board members; the remaining 55 percent are other C-level executives. All companies participating in the survey have annual revenues of $500 million or more.

The participating companies are headquartered in 23 different countries in all regions of the world. For the purposes of reporting survey results, respondents are aggregated into three regions: Americas, Asia (which also includes a few respondents from Africa), and Europe. About 40 percent of respondents are based in the Americas, and about 30 percent each are at corporations headquartered in Asia and in Europe.

Survey respondents also represent a wide array of sectors, which we have grouped into three mega-sectors: industry (primary goods, aerospace and defense, infrastructure and construction, telecommunications and utilities, heavy industry, and light industry), services (transportation, healthcare and pharmaceuticals, wholesale and retail, financial services, and nonfinancial services—excluding IT), and IT (including hardware, software, and IT-related services). Executives at services-sector firms account for 47 percent of the survey respondents, industry-sector firms represent 28 percent, 19 percent work at IT firms, and the remaining approximately 6 percent identify as "other."

For past editions of *Views from the C-Suite*, please go to:

www.atkearney.com/gbpc/views-from-the-c-suite.

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