Growing pains

2018 Canadian CEO Outlook

KPMG in Canada

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Foreword

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Canadian CEOs are confident. Canada's economy is performing strongly. Our companies are relatively well capitalized and most organizations feel like they are making positive progress in their efforts to transform for the future.

Our 2018 Canadian CEO Outlook survey finds that most Canadian CEOs expect to achieve some growth this year. Organic activity will be a key driver but CEOs continue to look for opportunities to super-charge their transformation programs with smart acquisitions and partnerships to maintain scale and relevancy in world markets. They expect to see significant returns from their transformation efforts within the next three years.

Are these views realistic? Our report examines whether Canadian CEOs are overconfident on these fronts given today's rapidly changing and disruptive global business environment.

Canadian respondents were also universally more bullish on most growth measures than their global peers. We examine whether this outlook is warranted or if they are being too insular and not stretching far enough to truly compete on a global stage.

The data also indicates that CEOs are aware of potential future risks. Trust in data and analytics is low; 76 percent of Canadian CEOs have ignored the results of their analytics because it went against what their gut was telling them. Concerns about cyber security are (understandably) high; 50 percent of our decision-makers believe a cyber attack is a question of 'when' not 'if'. Skills and capability gaps continue to cause concern.

In this year's survey, the major themes and opportunities facing Canadian organizations and their decision-makers are: growth expectations and their concerns about the current business environment; organizational transformation efforts and the shift towards a digital workforce; CEOs appetites for M&A and third-party relationships; and the impact of technology on customer decision making and relationships.

Our Canadian practice leaders have analyzed the data and provided their insights and advice based on extensive experience working with leading Canadian and global companies, making this year's report a valuable resource for Canadian CEOs, decision-makers, board members and investors.

On behalf of all of us at KPMG, I would like to thank the CEOs that participated in our survey.

To learn more please contact any of the subject matter experts listed in this report.

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94% expect growth in the Canadian economy

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30% Organic

26% M&A

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Transforming for the future

96% are disrupting their sector and view disruption as an opportunity

84% are personally prepared to lead major transformations

86% expect significant returns on digital transformation

98% are piloting or have already implemented AI for specific processes

Top 3 benefits of AI

Improve data analytics

Improve data governance

Improve customer experience

Threats to growth

50% believe cyber attacks are a case of 'when' not 'if'

86% are confident in their cyber defences

76% have overlooked data analytics insights due to historical experience

Top 3 threats

Cyber security

Emerging/ disruptive technologies

Operational risk

Delivering the customer experience

90% believe personalizing the customer experience has delivered growth

80% feel they are meeting or exceeding customer expectations for a personalized experience

Top 3 Generation Y challenges

Adapting sales and distribution models

Appointing senior leaders that can better relate

Understanding how their needs differ from older customers

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Going for growth

Canadian CEOs are confident about future growth and they are pulling multiple levers to achieve it.

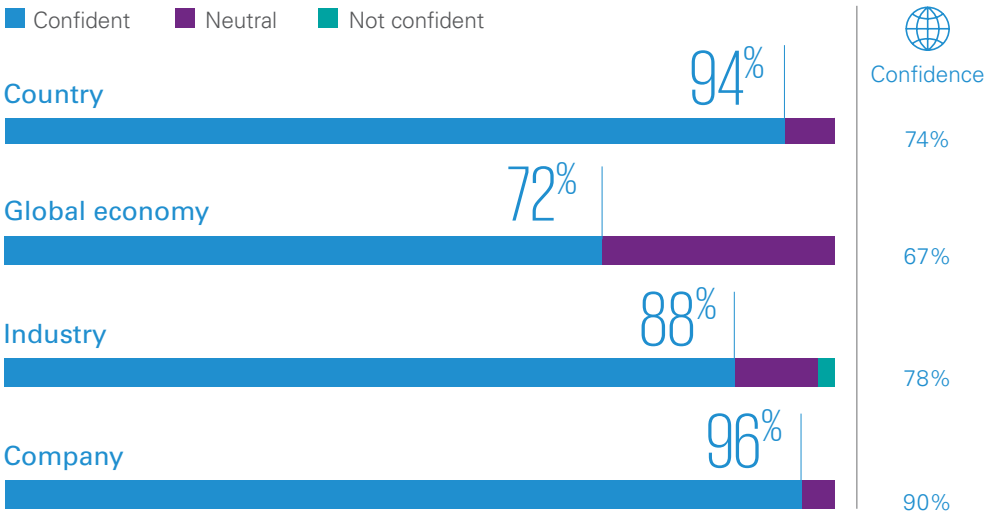
Confidence is up in Canadian boardrooms. In fact, Canadian CEOs almost unanimously believe they can grow their business over the next three years. Ninety-four percent say, going forward, growth should be easier to achieve.

This level of confidence is not surprising. Most expect the Canadian economy to enjoy stable growth, fueled by immigration, rising disposable incomes and intergenerational wealth transfers. Canada's active participation in global trade agreements, combined with our proximity to the US, should create exciting opportunities for Canadian companies.

For the most part, Canadian organizations enjoyed strong earnings and profits over the past few years. Most are now sitting on significant capital and are looking for opportunities to put their money to work catalyzing growth.

"Confidence is up in Canadian boardrooms. In fact, Canadian CEOs almost unanimously believe they can grow their business over the next three years."

Level of confidence for growth



Some will clearly be investing in organic growth, attempting to drive new and sustainable growth through innovation, research and development (R&D), capital investment and increased headcount. The shift to automation, cloud services and the adoption of more sophisticated analytics (topics covered in other chapters of this report) will also help grow the bottom line.

However, most CEOs say they are looking outside of the organization for new opportunities. Indeed, 60 percent of our respondents say their growth will be driven by some form of inorganic growth – mergers and acquisitions (M&A), strategic partnerships or joint venture (JV).

Clearly, activity in the M&A market is about to rise significantly. Eighty-two percent of Canadian CEOs say they will certainly conduct an acquisition over the next three years. More than a third of those expect the acquisition to have a 'significant impact' on their overall organization, suggesting some deals will be sizable.

They will also be transformative. Canadian CEOs said their primary motivation for conducting acquisitions is a desire to speed up the pace of business model transformation. They are also hoping to diversify the business and speed the adoption of new technologies.

Strategies to achieve growth objectives

30%

Organic growth
(i.e. innovation, R&d, capital investments and recruitment)

28%

26%

M&A

16%

18%

Strategic alliances with third parties

33%

16%

Joint ventures

13%

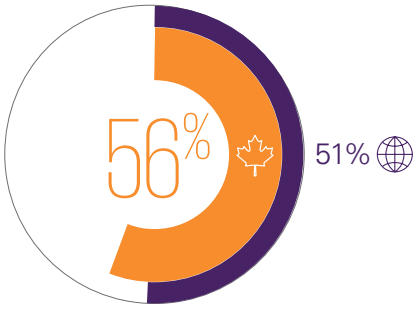
10%

Outsourcing

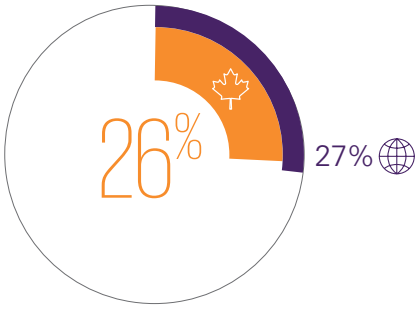
10%

"The fact that Canadian CEOs are bullish about growth and looking outward for investment opportunities is promising. What will be interesting is how international investors respond."

Appetite for M&A



Moderate: We will make acquisitions, but with moderate impact to my overall organization



High: Likely to undertake acquisitions which will have a significant impact to my overall organization

If successful, this should drive a new wave of growth as businesses start to uncover and then exploit new and unexpected opportunities.

The fact that Canadian CEOs are bullish about growth and looking outward for investment opportunities is promising. What will be interesting is how international investors respond. Canadian CEOs aren't the only ones that think Canada offers strong opportunities for growth. There are many strategic and financial investors seeking a foothold in Canada. Simply put, if you've been running your company well, you should expect someone else may want a piece of the action.

In order to remain competitive, Canadian CEOs should invest into organic growth and internal transformation; consider partnerships and JVs; rethink their operating models and use of outsourced providers; and seek out M&A opportunities that help them transform their enterprise. They should also remember to keep looking over their shoulder. The next disruptor could come from anywhere.

Primary drivers for M&A

54%

Transform our business model faster than organic growth will deliver

43%

51%

Take advantage of favorable valuations

43%

41%

Reduce costs through synergies/ economies of scale

44%

41%

Diversify the business

35%

37%

On-board new digital technology/ innovation

30%

27%

Eliminate a direct competitor

40%

24%

Increase market share

37%

24%

Use cheap financing before interest rates rise

29%

*All statistics result from the 2018 Canadian CEO Outlook survey

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Balancing opportunity with risk

Canadian companies will be taking on new challenges in the coming years: new markets, new acquisitions, new market segments, new technologies and new customer demands will all create massive opportunities – and significant risk. Are Canadian CEOs ready?

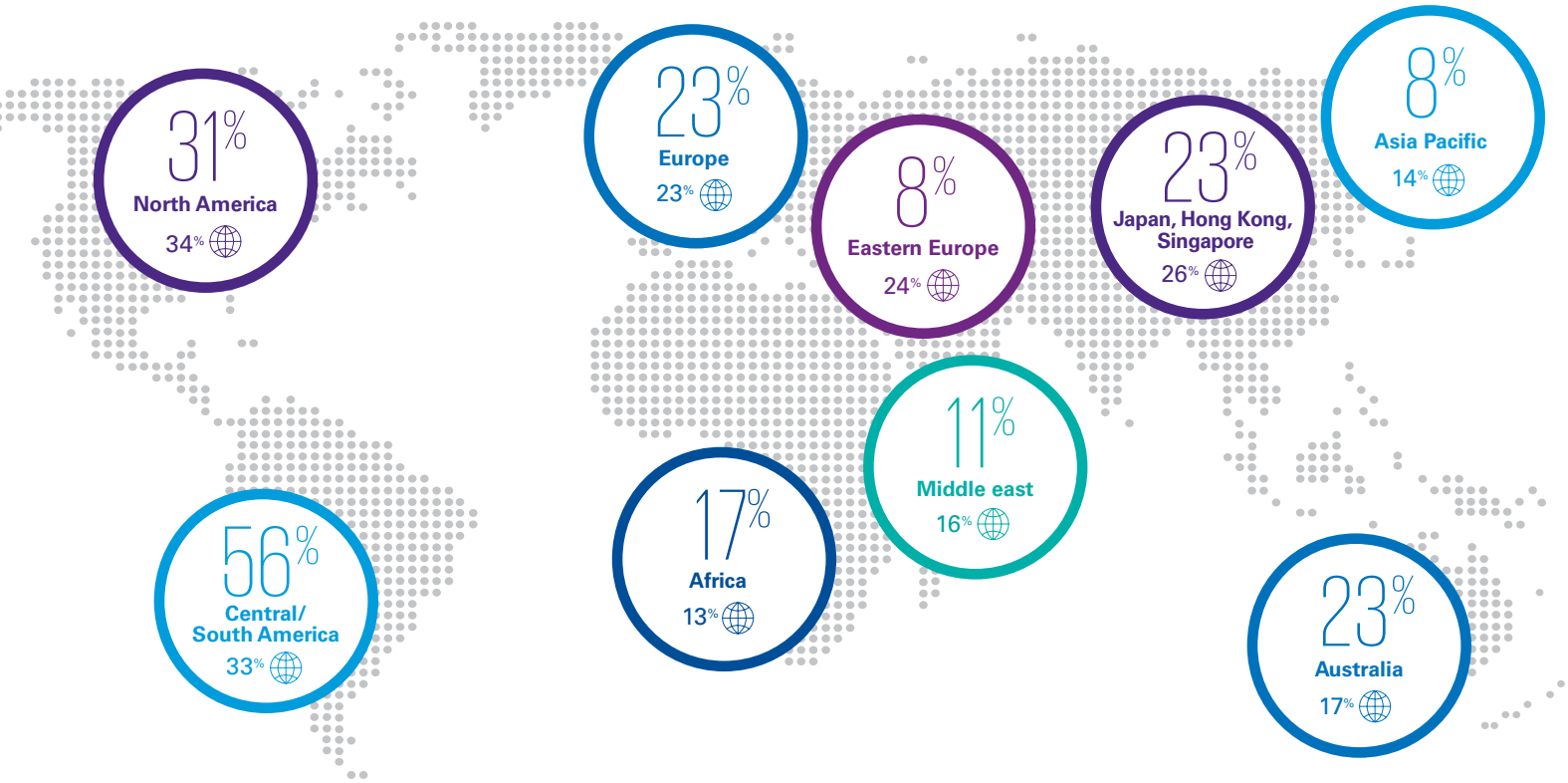
"What is leveling the playing field is that it's not just the emerging markets that carry geopolitical risk these days; so, too, do many developed markets."

According to our survey, Canadian CEOs will be busy over the next few years. As noted in our previous chapter, many will be wrapped up trying to integrate new acquisitions and deliver organic growth at home. But a significant number of them will also be looking to break into or expand in foreign markets in order to drive above-average growth.

Our survey shows that Canadian CEOs are particularly focused on the emerging markets – 72 percent of our respondents said they would prioritize expansion into emerging markets over developed markets – and Central and South America in particular. In fact, 56 percent of those CEOs who prioritized the emerging markets also said their top priority region would be Central and South America.

This is probably not surprising. Most of the big Canadian banks already have a strong presence in these markets which facilitates the flow of capital and revenues between the North and South and adds a level of confidence for investors. Canadian companies, particularly in the resources sector, are already fairly familiar with the Central and South American regions and have developed a reasonable network of contacts and contracts. While there is still much progress to be made – many of the traditionally riskier markets in the region have made great strides in creating personal and financial security for citizens and foreign investors. Particularly in some of the smaller markets, geopolitical stability has strengthened, thereby creating a much more attractive risk/reward equation. It only

Market growth over next 3 years



makes sense that Canadian companies make the most of their existing advantages in this region.

What is leveling the playing field is that it's not just the emerging markets that carry geopolitical risk these days; so, too, do many developed markets. Perhaps indicative of the trade saber-rattling around NAFTA, Canadian CEOs suggest they are also exploring plans for expansion into other developed markets. Interestingly, Europe, Japan, Hong Kong, Singapore, and Australia all drew an equal amount of attention from our CEOs.

The challenge with executing a market entry strategy in any new market, of course, is understanding the local context. And that has become much more difficult as geopolitical risk rises. Countries that were once loyal trading partners are raising new tariffs, almost overnight. Nationalistic parties are gaining popularity in developed and emerging markets. Tax regimes are changing (even here at home). The need for CEOs to have a global perspective – supported by rigorous due diligence, robust controls, tailored local entry strategies and exceptional risk management – has never been higher.

While it may not be every CEOs primary growth strategy, our survey suggests that Canadian companies will also be engaging in partnerships, strategic alliances and outsourcing agreements in order to drive their growth objectives. This, of course, raises the level of concern around a number of risks – cyber security and disruptive technology among them. In a digital, data-driven, customer-first business environment, no company can risk taking a relaxed approach to either of these two risks.

"According to our survey, 84 percent of Canadian CEOs believe they are ready to lead their organization through a radical transformation of its operating model to maintain competitiveness."

Are Canadian CEOs ready to manage the multiple opportunities and risks that growth will bring? They certainly think so. According to our survey, 84 percent of Canadian CEOs believe they are ready to lead their organization through a radical transformation of its operating model to maintain competitiveness.

The challenge is that you don't know what you don't know. So our advice is simple – continue to seek insights into your business, markets and capabilities while considering all the different scenarios that may arise. And, if you think you are not yet fully ready, here are five tips to help you balance opportunity with risk:

1. **Broaden your risk visibility.** You can no longer protect your company by focusing purely on operational risks. Take time to assess – and then plan for – the risk of potential changes in the geopolitical environment, technological disruption and the rapidly changing models to source human capital, both at home and overseas. These factors are relevant for every CEO today.
2. **Don't lose sight of your operations.** While expanding into new markets and segments is exciting, make sure you continuously focus on improving your core operations and delighting your existing customers. Operational risks are more common than CEOs want to believe but can yield significant returns if managed properly. Today, the customer experience is directly tied to the effectiveness of the operations.
3. **Develop your people strategy.** Changing the business model, entering into new markets and adopting new technologies requires a significant change in workforce capabilities and the way in which your future workforce wants to engage with your business. Don't wait until it is too late to start updating your workforce and people strategies.
4. **Be smart but also be bold.** Make sure your risk management and governance frameworks are robust and practical enough to manage key risks. But don't allow them to create barriers to growth, innovation and partnerships for the organization.
5. **Keep embracing change.** The more CEOs understand and participate in the change going on around them, the more comfortable they will be with managing the risks. Canadian CEOs should continue to push their organizations for change and transformation, and continue to explore the risk environment.

Canadian CEOs have big plans for growth and there are many reasons to believe they will be successful in achieving it. Growth brings with it inherent risks and, ultimately, it is the CEO that must identify, manage and contain the risks associated with his or her growth plan. Bringing a balanced perspective to the growth and risk equation should be a top priority for any CEO as new markets and opportunities emerge.

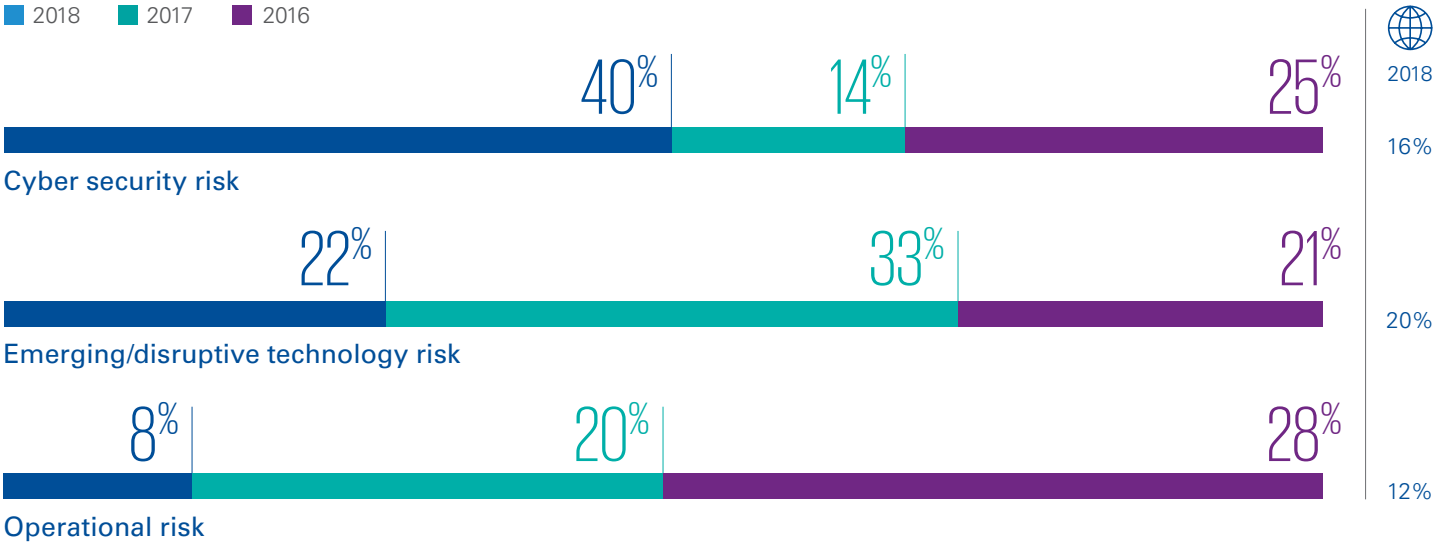
Getting in front of geopolitical risk

Today's geopolitical environment is nothing like what we've seen in the past. And the traditional approaches to identifying, monitoring and managing geopolitical risks are no longer enough for today's companies. In *The CEO as Chief Geopolitical Officer*, a recent report by KPMG International, the authors suggest three proactive ideas to help companies get in front of today's geopolitical risk.

- **Appoint a chief geopolitical officer (CGO):** A CGO is a member of the senior leadership team with single-point accountability for managing the impact of politics on the company's business interests. They work closely with functional experts (particularly government/public affairs teams) and other executive portfolios (particularly strategy and risk) to maintain a whole-of-company view.
- **Conduct a geopolitical stress test:** Getting a handle on current levels of activity and exposure to geopolitical developments is an important building block, especially if this hasn't been a subject of active thought for CEOs. One way to do this is to conduct a geopolitical stress test on the strategy and planned initiatives.
- **Implement a geopolitical forecasting and monitoring solution:** Don't simply rely on mass media for information; invest in specialized geopolitical forecasting and monitoring capabilities. It can be tempting to feel covered on the basis of easy and costless access to news coverage and analysis. However, it is precisely the 24/7 news cycle and the over-abundance of current affairs coverage and commentary that makes it more important to be discerning.

FULL REPORT

Greatest threats to growth



*All statistics result from the 2018 Canadian CEO Outlook survey

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Transforming for the future

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CEOs are saying all the right things about transformation and disruption, but are they going far enough or being bold enough to ensure their organizations are the disruptor as opposed to being disrupted?

Canadian CEOs are overwhelmingly optimistic about change. The vast majority – 96 percent – say they view technological disruption as more of an opportunity than a threat; in the same survey last year, just 74 percent of CEOs were as positive about disruption. Intense competition facilitated by emerging technologies and platforms have created the imperative for CEOs to embrace change. Only 4 percent currently think they are struggling to keep pace with the rate of technological innovation in their sector.

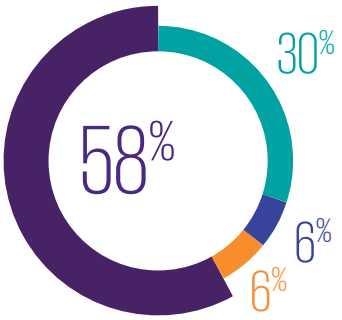
Our survey suggests that Canadian companies don't just feel they are embracing disruption, they feel they are creating it. And they are much more likely to consider themselves disruptors than their global peers. Ninety-six percent of Canadian CEOs say – rather than waiting to be disrupted by their competitors – they are actively disrupting the sector in which they operate. Compared to the 54 percent of non-Canadian companies that said the same, this data would suggest our companies should be world-leading. That being said, CEOs may be increasing their focus on incremental innovation as opposed to business model innovation which will ultimately help future proof an organization against being disrupted.

Canadian CEOs also seem remarkably confident about their transformation efforts and journey. Most feel they understand how to calculate the expected return on investment (ROI) from their overall digital transformation programs, and the vast majority expect to start seeing returns from their investments in digital transformation within the next three years.

Being able to calculate and then work towards a clear ROI on transformation is critical to managing investment and costs. But CEOs and their Boards also need to recognize that innovation, disruption and transformation all require some risk taking and a willingness to fail.

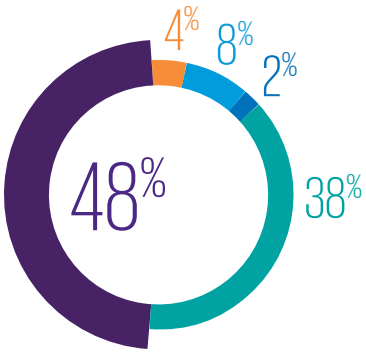
Understanding return on investment

My firm's overall digital transformation program



- Very strong understanding
- Strong understanding
- Neutral
- Poor understanding

Timeframe to see significant return on investment



- Within 12 months
- In 1- 3 years
- In 3 – 5 years
- Already achieved significant ROI
- Unsure

I recently explored this data with Graham Cunliffe, Senior Vice President of Business Affairs and Operations for FingerFoods Studios, a Vancouver-based technology 'problem solver' and a KPMG Canada strategic alliance partner. Like me, Cunliffe worried there may be a 'gap' in the definition of disruption in the Canadian marketplace.

"For me, disruption is about fundamentally changing the way you approach challenges and opportunities within your business," he said. "You need to be comfortable knowing some ideas will fail and – when they do – you learn everything you possibly can from that experience. At the end of the day, if you really want to be disruptive, you need to invest in order to realize results with exponential value."

While some failures in innovation might be acceptable in the drive to transform, failures in the 'business as usual' operations of an enterprise are not. And herein lies a key challenge for many CEOs: how to transform at speed without disrupting normal operations. More than a quarter of Canadian CEOs say they are already struggling to run parallel processes to transform the digital and non-digital aspects of their business.

96%

Agree that rather than waiting to be disrupted by competitors, my organization is actively disrupting the sector in which we operate

54%

In order to drive innovation, organizations need to create separate teams which are cross functional and bring a diverse and different skillset from what we are used to today. Organizations need to do differently and think differently around the objectives and performance measures for innovation, which are different from normal operations.

On the one hand, organizations can't just leave their business as usual operations stagnant; they need to continuously raise their game and improve their existing business. At the same time, they also need to be driving long-term innovation and transformation within their organizations, and the two skill sets are not necessarily the same. Creating the right sets of capabilities – and ensuring they are collaborating together on the bigger picture – will be a difficult challenge for many CEOs as they work towards transforming the enterprise. Technology is not a 'one-time' event and innovation never stops so companies that continually work to push the boundaries in these areas are poised to win the transformation race.

4%

My organization is struggling to keep pace with the rate of technological innovation in our sector

36%

"In order to drive innovation, organizations need to create separate teams which are cross functional and bring a diverse and different skillset from what we are used to today."

Navigating digital disruption

Digital disruption is revolutionizing how Canadians live, work and interact with one another. Rapid advancements in technology over the past few years have significantly changed our economy and opened the floodgates for new industries and new competitors to re-shape the Canadian marketplace.

This 'new normal' has created new expectations from both Canadian consumers and organizations. Businesses are now expected to be faster, more informed and more nimble than ever before. While this new standard of service delivery seems like a daunting task for CEOs, the opportunities are immense.

To help navigate the complexities of digital disruption, we explored this topic with key innovators from Canada's public and private sectors in a recent article series:

1. **Cleve Pohl**, Applications Sales Manager at Oracle, talks about using automation and artificial intelligence to streamline corporate and business functions
2. **Girish Ganesan**, VP of Enterprise HR Solutions at TD Bank, discusses the impact of automation, machine learning and other emerging technologies on the future of work
3. **Alex Benay**, CIO for the Government of Canada, discusses his plans to disrupt the way the government buys and uses technology
4. **Kevin Peesker**, President of Microsoft Canada, offers his insights on disrupting your business from the frontlines of Microsoft Canada's own transformation journey
5. **Martin Joyce**, National Human & Social Services Lead, KPMG in Canada, looks at ways governments are leveraging digital transformation in human and social service delivery
6. **Lydia Lee**, National Digital Health Lead, KPMG in Canada, determines how to improve patient care through transparency, connectivity and collaboration.

True digital disruption is a continuous evolution. It has the ability to deal with uncertainty and respond quickly to change. It helps ensure an organization is ready to leverage opportunities for innovation and disruption – wherever they may be.

ARTICLE SERIES

26%

We are struggling to run parallel processes to transform the digital and non-digital aspects of the business

30%

*All statistics result from the 2018 Canadian CEO Outlook survey

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The connected customer and modern social contract

52%

List adapting sales and distribution models as the top challenge in meeting the needs of Generation Y

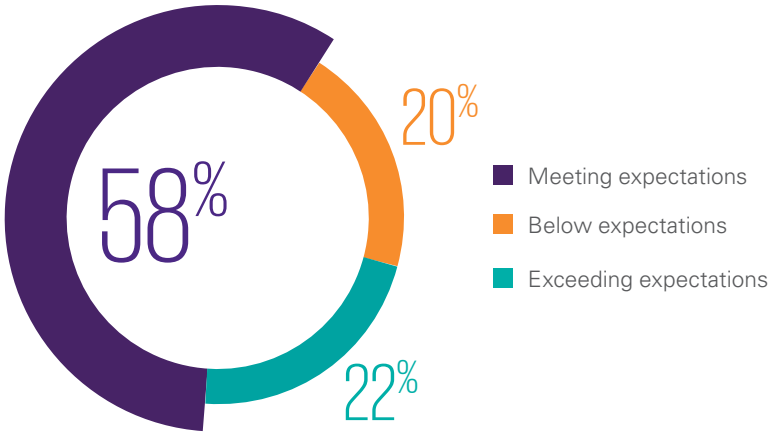
42%

In an era where all Canadians are connected more than ever, it is not surprising that companies are investing substantial time and resources into becoming more customer-centric. But when does customer centricity become 'unsettling'?

In this year's survey, we asked Canadian CEOs how they think their organizations are doing in the area of 'personalization'. Four of five said they believe they are meeting or exceeding customers' expectations for a personalized experience. Just one in ten CEOs said they were disappointed about the value they achieved from previous investments in personalization.

I suspect this overwhelmingly positive self-assessment is based on success being realized from invesments made in 'Digital Era' technologies, (mobile, social, web, analytics, cloud). With these, Canadian corporations have been able to move from a 'Push' model of customer engagement (not personalized) to a 'Pull' model (personalized). The next chasm to cross in the progression of personalization will be the 'Predictive' model. It is at this point when the ultimate intimacy of personalization can be tailored down to the individual. To achieve this, Canadian corporations will need to invest in and operationalize 'exponential technologies' (AI, cognitive, blockchain, among others). While the possibilities of this are tantalizing to Canadian companies, it must be approached with caution. Personalization can quickly move from the positive realm of *'this company knows me and presents me with what matters'* to *'this company*

Customer expectations for personalization



knows way too much and is pestering'. Or worse still, *'this company has my data and lost it or sold it'*. Without a clear and equitable value exchange between data giver and taker, this modern version of a social contract will be broken and difficult for Canadian corporations to earn back.

So what else did we learn is on the minds of Canadian CEOs in this year's survey? Well, the years 1982 to 2004 and the cohort of Millennials (Generation Y) that were born in that time sure are. Specifically, our data shows that Canadian CEOs are worried current sales models, distribution models and brands may not work with this generation. What's more daunting is their concern that current leadership and decision-makers aren't able to truly connect with or attract Generation Y with existing digital offerings.

From my perspective, there is significant reason to worry. We live in an era when a 22 year old has never experienced a day without the Internet; a 15 year old has lived their entire life with Facebook, Twitter and Instagram as their communication platform; and, a 10 year old today does not know a time when smartphones and tablets were not glued to their hands. So are customers more connected? Of course they are. But what is more striking is how connected the next generation of major purchasers will be.

While seismic generational shifts are nothing new, today's CEOs are faced with a magnitude, pace and diversity of change that is at a peak never imagined. That said, they also have a level of scale and sophistication of data and analytics, which, if used properly, could be the difference between success and failure. Used improperly, however, and the modern social contract will break – *along with reputations*.

Ultimately, this year's survey shows that Canadian companies are making strong progress on their customer agenda. Now is the time to accelerate and enter the exponential era. Proceed with caution, deliver more value than you get, focus on the unique needs of Generation Y and the modern social contract should remain intact.

44%

List appointing leaders that can better relate as the top challenge in meeting the needs of Generation Y

45%

From push to pull to predict

Push (where we've been): A world in which customer focus meant developing and distributing products and services based on the assumed or created needs of broadly defined customer segments.

Pull (where we are): In an age of digitization, companies are increasingly able to refine and verify their understanding of what customers want, and then personalize products, channels and new ways to engage.

Predict (where we need to go): An evolving era in which the most advanced companies take steps to understand and analyze a sophisticated array of customer information so they can anticipate and meet customers' needs when, or even before, customers know what they want.

Source: Me, My Life, My Wallet, kpmg.com/consumerinsights

*All statistics result from the 2018 Canadian CEO Outlook survey

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Predictive analytics, it works

Data analytics is a major function of any modern business. Regardless of industry, companies need data to evaluate their operations and plan future growth, making data analytics and advanced techniques, like predictive analytics, an essential business tool.

Canadian CEOs recognize the value that predictive analytics delivers to their decision-making process. In fact, almost every meeting we attend with Canadian CEOs inevitably turns to the subject of predictive analytics and new opportunities for it to deliver more.

There is a reason CEOs want to talk to us about predictive analytics; it's because they know it is the key to vastly improved decision-making.

However, what can Canadian CEOs do to enhance their data analytics capabilities and improve decision-making? Here are five ideas based on our experience working with leading organizations in the US and Canada:

1. **Understand what predictive can do for you.** Take a more aggressive approach to exploring predictive analytics and spend time talking to advisors, startups, incubators, and service providers about what they are seeing in the market. Assess where predictive analytics and insights might improve your business value and begin testing as soon as possible.
2. **Embed analytics into your culture.** Develop a practical and strategic roadmap for digitization and analytics. Find ways to encourage employees to integrate analytics into their work processes. Remove data siloes and scale up analytics successes. Move the predictive analytics team down the hall from the executive suite to provide immediate, unfiltered access to insights.
3. **Focus on small yet reliable data sets.** Massive data sets are great, but a lot of valuable insights can also be uncovered from small, high quality data sets. Instead of spending all your time and resources on gathering as much data as possible, start exploring what data could be telling you and then focus your efforts on finding and curating the right data to support deeper insights.

"There is a reason CEOs want to talk to us about predictive analytics; it's because they know it is the key to vastly improved decision-making."

4. **Grow your in-house capabilities.** Consider what new capabilities your organization will need in order to effectively operate in a data and analytics-enabled environment. Develop both transitional capabilities as well as core capabilities to facilitate transformation and continuous improvement. Reassess your capability requirements frequently.
5. **Test your models thoroughly.** Nobody is suggesting you hand all decision-making over to the machines without first testing them using historic data sets and real-life scenarios. The higher the risk potential, the more testing should be conducted before going live. Assign ownership of the algorithm to an individual to ensure it continues to operate as expected.
6. **Operationalize predictive analytics into everyday decision making.** One-time proof of concepts and insights generation are a good place to start, but often such initiatives end after the initial buzz. Have a strategy and an execution plan to evolve concepts and pilots into production grade, prediction driven, intelligent automation systems. Direct your architecture design towards application programming interfaces (API), micro-services and containers in a platform environment which will allow your organization to snap decision and workflow modules together, Lego style, to rapidly build and deploy intelligent applications.
7. **Don't forget the data foundation.** Predictions are only as good as the data fed into models during both the design and operational phases. The need for good data is much greater now than ever before and your organization needs to have a robust enterprise data strategy in order to deploy intelligent automation at scale. Firms that recognize the value of good data as a key enabler and take appropriate action, will leap ahead of their peers.

As a continuously evolving field, data analytics enables companies to understand their clientele, operations, and market more deeply by spotting trends, understanding the performance of products/services, and their market position. Successful businesses are those that leverage and push the boundaries of analytics to attain reliable, predictive insights, unleashing opportunities for operational performance, risk management, and improved customer experience.

For example, energy businesses are using predictive analytics to launch maintenance requests using live data. In the retail sector, predictive analytics is being used to identify the best locations for future stores and reimagine in-store customer experience. Financial services businesses take advantage of predictive analytics by helping compliance officers create new models for managing risk.

Companies that use predictive analytics win far more often. According to a report from the Society of Actuaries, healthcare businesses that use predictive analytics save around 15 percent on their annual budgets and can attain savings of over 25 percent over a 5 year period.[1, 2] For instance, healthcare organizations deploying predictive analytics in their operations have reduced hospital readmissions, forecasted usage, improved their supply chain, managed staff more efficiently, and offered better care at a lower price.

Over the past few years, many companies have adopted systems that utilize predictive analytics to save energy costs. By automatically adjusting lighting or temperature, businesses can save over 90 percent of their energy costs.

We have a prediction: within the next three years, all corporate decision-making will be influenced, in some way or another, by predictive analytics.

"The need for good data is much greater now than ever before and your organization needs to have a robust enterprise data strategy in order to deploy intelligent automation at scale."

[1] Society of Actuaries February 2017 Report, "Predictive Analytics in Healthcare Trend Forecast."

[2] Lego is a registered trademark of the Lego Corporation.

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Creating the workforce of the future

You can't transform the organization without also transforming the workforce. It may be time to rethink the people strategy.

Based on the data in this survey, it seems clear that Canadian organizations are in the midst of massive change. New technologies, new business models, new acquisitions and new markets will all have a significant impact on the organization and on employees. There may be profound uncertainty about the future, but one thing is for sure – the way people work will certainly change.

For one, the skills and capabilities required of employees will evolve as more and more routine and manual tasks are automated, enabling employees to focus on higher-value activities and decisions.

Automation will certainly impact the nature of work – displacing 'tasks' and whole parts of jobs, making some obsolete, and introducing new roles and capabilities not previously imagined. Two-thirds of Canadian CEOs believe AI and robotics will actually create more jobs than it eliminates.

Certainly robots/robotics are and will continue to be ubiquitous in the workplace. And that means today's employees will need to get better at working with them. New skills, capabilities, mindsets and specialties will be required.

Already, Canadian CEOs are reporting gaps in some of the capabilities they expect to need most in the future. Just 36 percent of CEOs think their scenario and risk modeling specialists are highly effective; 30 percent rank their emerging markets experts as highly effective; and just 38 percent think their digital transformation managers and data scientists are operating at a high level of effectiveness.

While many Canadian CEOs clearly recognize their workforce will need to change, our data suggests they are taking a remarkably cautious approach to hiring new skills. Indeed, just 26 percent of Canadian CEOs said they plan to staff up ahead of demand; 74 percent said they are content to wait until they have achieved certain growth targets.

66%

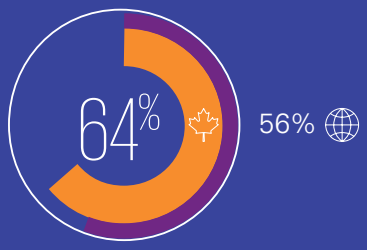
AI and robotics will create more jobs than it eliminates

62%

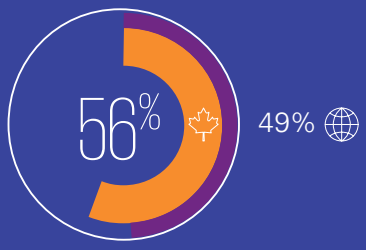
Workforce capabilities for future growth

Canada
Global

Emerging technology specialists

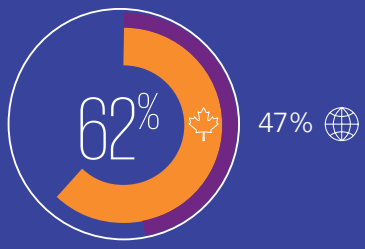


Highly important

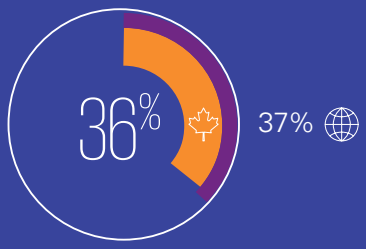


Existing workforce highly effective

Scenario- and risk-modeling specialists

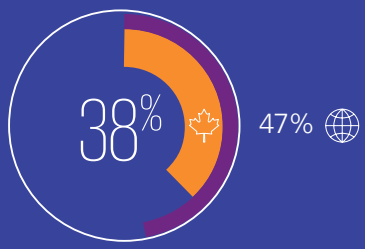


Highly important



Existing workforce highly effective

Digital transformation managers



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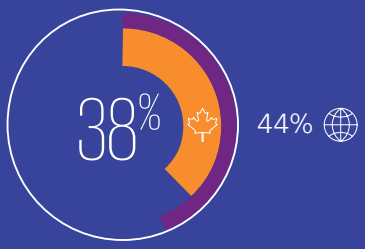
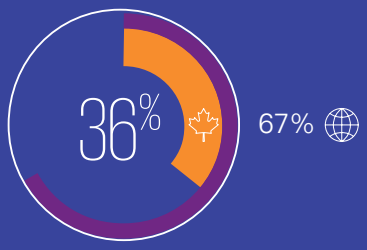
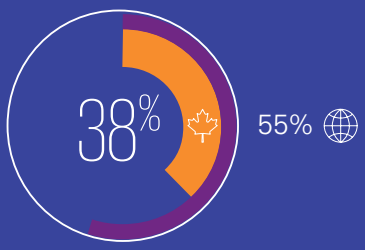


Existing workforce highly effective

Data scientists



Highly important



Existing workforce highly effective

"Philip Tetlock, a noted thought leader on forecasting, believes our ability to predict the future is now down to two years, the shortest time horizon in history."

26%

We are hiring new skills – regardless of future growth targets

48%

There are a number of problems with a wait-and-see approach to talent capability development. The first is one of supply and demand. We live in a global skills marketplace and foreign players are looking to attract new talent wherever they find it (48 percent of non-Canadian respondents said they would be hiring key skills ahead of growth).

The second problem with waiting is one of integration and adoption. Transforming the workforce isn't just about bringing in new people with new skills. It's also about adopting a mindset of transformation, innovation, resilience and being open to new ways of working, leading and growing. This workforce shift will depend on the introduction of new capabilities and perspectives alongside invaluable institutional knowledge. And we are not just talking about digital capabilities and skills. According to the World Economic Forum, by 2020 creativity will become one of the top three skills workers will need to succeed in the workforce. Why creativity? With the overwhelming amount of emerging technologies, ways of working, products, and services, the workforce of the future will need creativity and agility to harness the benefits of this change.

Another problem relates to the sustainability of our Canadian ecosystem. If we want our country to continue to be a great place for companies to grow, we need to encourage the development and training of key skills. And that means corporate Canada needs to continue hiring, training and developing the upcoming workforce (i.e. graduates and specialists that are being generated by our fantastic universities, colleges and schools across the country).

Philip Tetlock, a noted thought leader on forecasting, believes our ability to predict the future is now down to two years, the shortest time horizon in history. Therefore, organizations pursuing transformation programs will require an agile workforce shaping approach, a process that defines future organizational choices around the unique value proposition of their company.

Canadian CEOs and their leadership teams will face a lot of choices over the coming years. But, ultimately, it may be the ones they make about their workforce that have the greatest influence on the future. It's time to rethink the people strategy.

A glimpse into the HR function of the future

We believe that – within five years – the HR function will transform to become the architect of human performance. They will shape the workforce, blending human and digital assets together enabling the enterprise to build the key capabilities required to achieve competitive advantage in a world of digital disruption. They will also guide organizations in becoming 'decidedly' human in its values, culture, brand, capabilities and experiences.

In the HR function of the future, we envision a 'call to action' for HR professionals focused on achieving mastery across five emerging 'archetypes' of HR characteristics and capabilities:

- **The futurist:** Sees into the future and reverse-engineers strategies to shape the future
- **The shifter:** Shifts the culture of the organization to fully embrace agility, empathy and resilience
- **The shaper:** Understands the talent landscape and shapes the talent mosaic of the future
- **The modeler:** Masters data and analytics to help the organization differentiate and innovate
- **The transformer:** Transforms the HR function and the organization as a whole.

A number of unique and pivotal capabilities will be required to advance these archetypes, and many businesses will value these skills as competitive advantage. Various entities have been looking closely at what key capabilities will be critical in the future:

- **Trans-disciplinary:** Knowledge and ability to understand concepts across various business functions/ disciplines
- **Cognitive synthesis:** Managing information from various sources and formats to maximize cognitive function and leverage it to support the business (i.e. AI, learning)
- **Design mindset:** Developing tasks and work processes for desired outcomes – in other words, exploring different possibilities and creating an outcome that benefits the end user
- **Social intelligence:** Connecting to others in a deep and direct way, sensing and stimulating reactions and desired interactions to drive collaboration with larger groups of people in different settings
- **Cross cultural competency:** Operating in different cultural settings to support a truly globally connected environment
- **New media literacy:** Critically assessing and developing content that uses new media forms and leverages media for persuasive communication
- **Virtual collaboration:** Working productively, driving engagement and demonstrating presence as a virtual team member.

74%

We are waiting to achieve certain growth targets before hiring new skills

52%

*All statistics result from the 2018 Canadian CEO Outlook survey

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Getting value from the ecosystem

Canadian CEOs have high expectations for growth, but they don't seem to expect much from their strategic partnerships and third-party relationships. What's holding Canadian companies back from getting value from partnerships?

Given Canada's reputation for collaboration, it seems somewhat strange that Canadian CEOs have such low expectations when it comes to business partnerships and strategic alliances.

Consider this: just 18 percent of Canadian CEOs believe strategic alliances with third parties will allow them to achieve their growth objectives, compared to 33 percent of companies globally. When asked what actions they would take to drive growth, less than a third of Canadian CEOs said they would partner with third-party data providers or innovative startups (compared to more than 50 percent of the global respondent pool).

What is more surprising is that Canadian CEOs don't seem to think they are missing much by avoiding collaboration and partnerships. Two-thirds of our respondents said they believe they could achieve the agility they need without using third-party partnerships; just a quarter of global were as confident. And more than three-quarters said they believed they could still compete by focusing on the organic 'build' approach rather than through third-party partnerships (compared to just a third globally).

Canadian CEOs understand the value of partnering with third-parties, innovation startups, vendors, customers and even competitors. The problem is their experience to date has often been lackluster and disappointing. Most struggled to gain the anticipated value from their tie-ups in the past; many are now unwilling to hang their growth forecasts (or their remuneration) on the success of their partnerships with outside parties.

18%

Are relying on strategic alliances with third-parties to achieve growth

33%

While this sentiment may be somewhat justified, it doesn't change the fact that partnerships can deliver significant value in today's business environment. Partnerships can catalyze an organization's innovation process; they can help add much-needed capabilities and skills during times of transition and growth; they can serve as a testing ground for new ideas and models before they are adopted into the wider organization; they can help change organizational ways of working and introduce new capabilities; and they can help organizations get closer to their customers.

Why do Canadian companies seem to struggle getting value from third-party relationships? In part, it is because we tend to approach these types of relationships from a transactional perspective rather than a strategic collaborative one. For whatever reason, Canadian alliances and partnerships are often founded on the strength of the contract terms and conditions rather than on a vision for a mutually beneficial outcome. What that means is – from the very start – the partners are in a constant state of conflict.

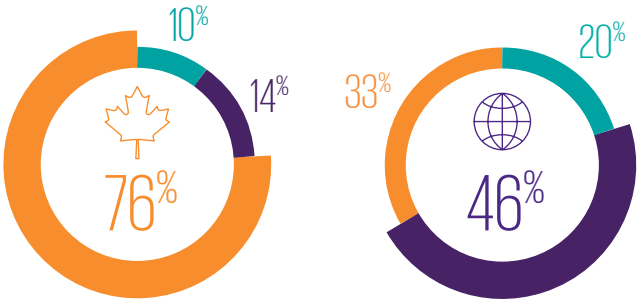
In other markets (the US in particular) the more successful companies are those that develop their relationships on a deep desire to help each other succeed. They want to invest time and resources into improving the relationship. They take the time to understand and align to the other party's goals and vision. They view contract terms and conditions as a legal necessity rather than a founding constitution.

It is not surprising, therefore, that Canadian CEOs were more than twice as likely as their global peers to say they had, in the past, ended a third-party relationship that would have driven growth because they didn't feel the third party was a good fit for their culture and purpose. Companies in other jurisdictions likely spend more time assessing the cultural and strategic fit before they enter into partnership agreements.

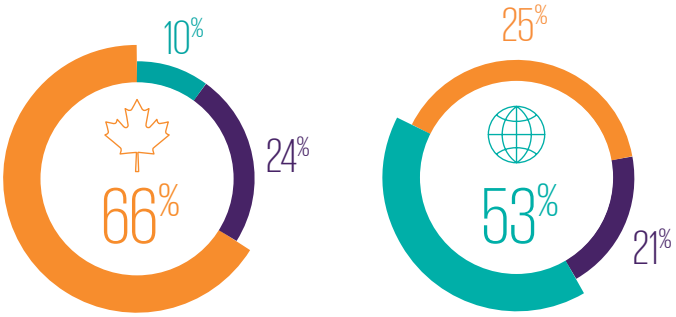
"Canadian alliances and partnerships are often founded on the strength of the contract terms and conditions rather than on a vision for a mutually beneficial outcome."

Investing in third-party relationships

Disagree Agree Neutral



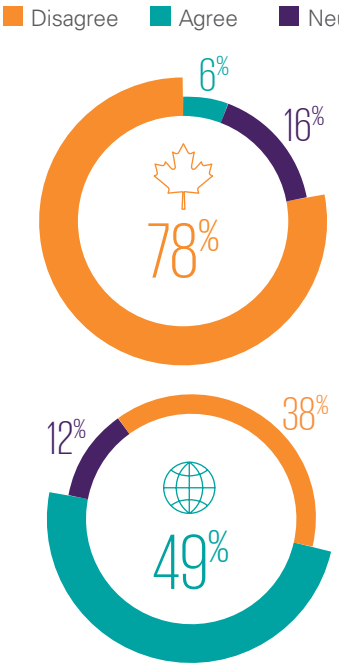
If we focus too much on an organic 'build' approach to growth at the expense of increasing third-party partnerships, I think our organization will struggle to compete in the future.



The only way for our organization to achieve the agility it needs is to increase the use of third-party partnerships.

"If you think the data is far too sensitive to share outside of the organization, don't share it. Knowing what to share and with whom is key to managing the third-party relationship."

Finding the right fit



In the past, we have reconsidered a third-party partnership that would have helped with growth because the third party did not fit well with our organization's culture and purpose

That being said, Canadian CEOs do have plenty of very reasonable concerns about third-party relationships. The biggest difficulty, according to our respondents, is sharing data (particularly their commercially-sensitive data) securely with their partners. And frankly, it should be a prime concern – for all parties in the relationship. Again, terms and conditions will only go so far in protecting the partnership's data; all parties will need to work closely and collaboratively to achieve the right levels of data security.

And, remember, if you think the data is far too sensitive to share outside of the organization, don't share it. Knowing what to share and with whom is key to managing the third-party relationship and understanding the cyber security of your own company, and that of your potential partner, is critical before sharing information.

Our results also show a high level of experience regarding the challenges of engaging with smaller, nimbler startups. One-in-six CEOs admitted their own legacy IT systems posed the greatest barrier to extracting value from their third-party relationships. An equal number said their procurement process was too rigid, lengthy and complex to make partnerships work.

Canadian CEOs, their business development leaders and their procurement departments need to recognize that different partners will have different levels of experience when striking agreements. The goal should be to help smaller partners navigate the process and secure a good agreement based on business value rather than simply pushing them down to the lowest cost.

While our data suggests Canadian CEOs have little appetite for partnerships and alliances right now, I believe that – with the right approach and a few successful engagements – partnerships will quickly become a key growth strategy in the Canadian market for us to compete globally. Those that start refining their approach and building their relationships now will be well placed to capitalize when the right partners and right opportunities emerge.

Managing third-party risk in the digital age

In today's digital business environment, companies need to be able to entrust the protection of sensitive data to external partners. Yet, as technology continues to re-define corporate relationships, it is also re-shaping our approach to third-party risk management. Here are five keys to managing third party risk in the digital age:

1. **Understand where you stand:** Understanding your current risk posture and the controls already in place to shore your defenses is critical. Remember, managing your external risks starts with understanding your internal capabilities and standards.
2. **Set the right expectations:** Ensure potential partners are willing (and able) to rise to your same expectations. The best risk management approaches are developed in partnership with relevant third parties.
3. **Work collaboratively:** Help foster the right capabilities within third-party vendors that might not be mature enough to uphold a partner's standards. This will help influence the development of secure and sustainable partnerships.
4. **Expanding the network:** Don't forget to account for your partners' network of service providers. Consider how technological safeguards such as virtual machine introspection might help manage every second of your data's journey.
5. **Keep the crown jewels on-site:** If the risks of making specific types of data available to third-parties or a cloud-based platform are too great, then do not make the data available.

There is nothing simple about managing risk in the age of disruption. But, by taking these five steps, CEOs can start to develop the kind of trust they need in order to make their third-party relationships deliver value.

FULL ARTICLE

Barriers to extracting value from third-parties

26%

Difficulty sharing data securely with third parties

22%

22%

Challenges measuring ROI from third-party partnerships

23%

20%

Concerns about sharing commercially sensitive data

21%

16%

Our legacy IT systems are incompatible with nimble approaches by start-ups such as cloud-based systems

15%

16%

Our procurement processes are lengthy and complex

18%

*All statistics result from the 2018 Canadian CEO Outlook survey

Our insights

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It is familiar advice, but it continues to ring true: without risk, there is no reward. Our *Rethink Risk* article series covers a wide range of risk management topics designed to spark conversations in boardrooms across the country and help turn risk into opportunity.

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The *2018 edition of Taxation of Cross-Border Mergers and Acquisitions* features information about current rules for 60 countries and/or jurisdictions, and describes possible tax implications for structuring and financing a merger or an acquisition.

QR code

How it works with Apple:

1. Open camera app
2. Point camera at QR code
3. Box will appear with link to QR code destination

How it works with Google:

1. Long press the hold button
2. Press Google Lens icon in bottom right corner of screen
3. Point camera at QR code and press QR image on your phone
4. A link will appear

How it works with Samsung:

1. Download Optical Reader app (or any QR code app)
2. Point camera at QR code
3. A link will appear

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