PwC Australia's 25th CEO Survey

Onwards and upwards:

The most important problems Australia's CEOs are solving for growth today and tomorrow

Our latest annual survey shows CEOs in Australia have underlying confidence in growth, despite concerns about the risks posed by cybersecurity threats, ongoing COVID-19 impacts and climate change.

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PwC Australia's Annual CEO Survey is a unique barometer of business sentiment. For 25 years now, we have asked Australia's CEOs across every sector about their perspectives on the market and risks to growth.

While COVID-19's health and economic challenges remain uncertain, in our latest survey, CEOs of Australia's biggest companies have shown they have underlying confidence in economic and business growth.

However, they have highlighted three threats that could damage their companies' reputations and impact sales: cybersecurity, climate change and skills shortages.

As leaders, we need to find new ways to solve these important problems in order to build trust and deliver sustained outcomes - not only for our companies but for our broader communities. At PwC, we call this The New Equation.

We hope the insights in this report help shed light on the key challenges facing your businesses and communities, and where your opportunities for growth lie.

Tom Seymour
CEO, PwC Australia

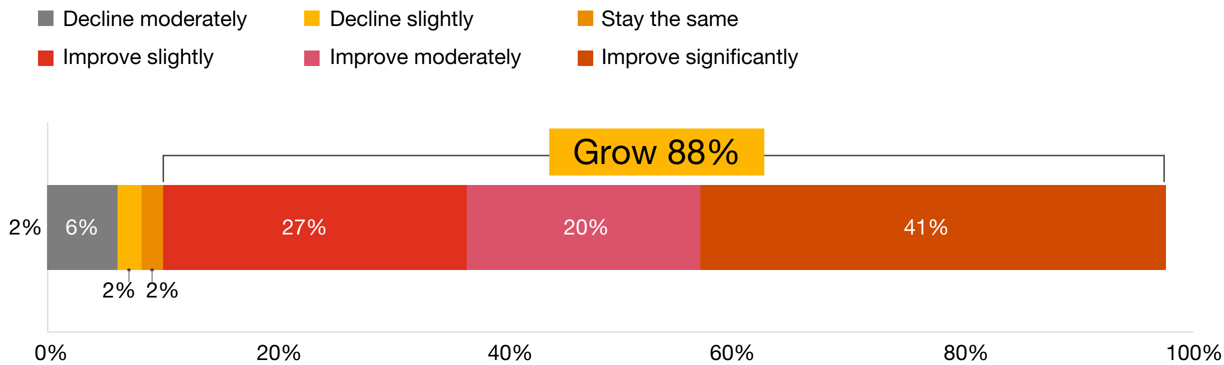
PwC Australia's 25th CEO Survey finds business leaders are broadly optimistic about growth in 2022

By Jeremy Thorpe
Partner, Consulting, Government & Public Sector

Australia's CEOs are positive about economic growth both globally and locally in 2022 despite the potential for ongoing turbulence resulting from the COVID-19 pandemic, such as the recent productivity hit from the Omicron wave.

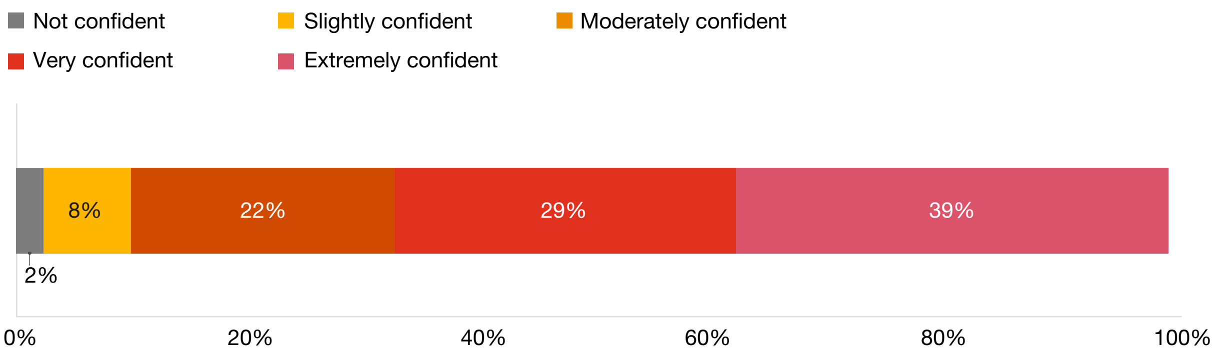
Business leaders who participated in PwC Australia's 25th CEO Survey during the survey period (October - November 2021) felt they were in a strong position and were taking a medium-term view, with 88% of CEOs expecting growth in the Australian economy throughout 2022 and 98% confident in their company's revenue growth prospects over that time.

Question:
How do you believe economic growth (i.e. gross domestic product) will change, if at all, over the next 12 months in Australia?



Source: PwC Australia's 25th CEO Survey

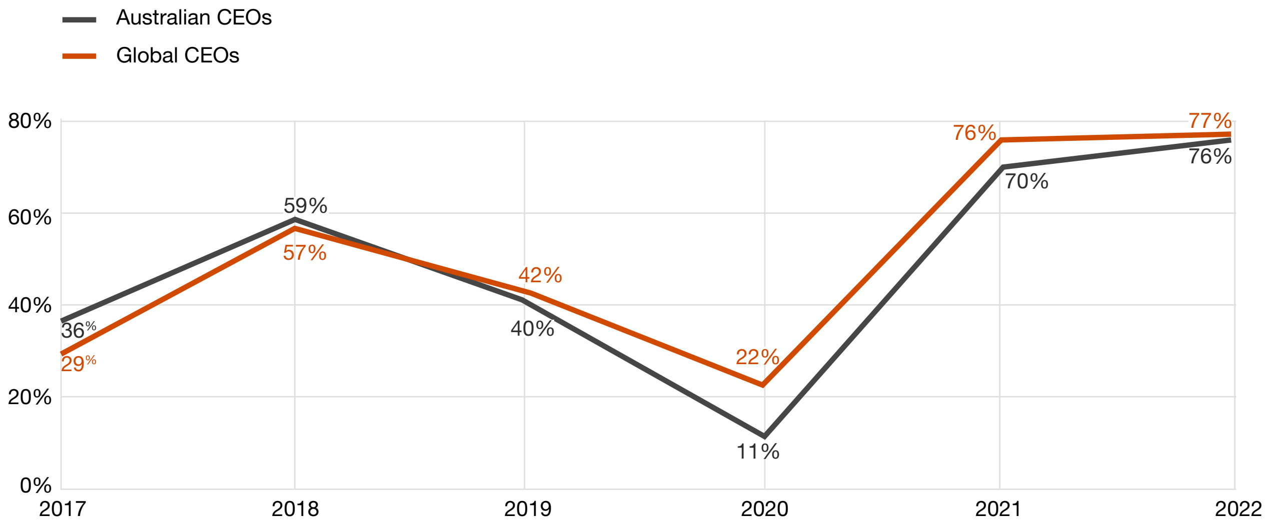
Question:
How confident are you about your company's prospect for revenue growth over the next 12 months?



Source: PwC Australia's 25th CEO Survey

Confidence by Australia's CEOs in the global economy was higher than it was pre-COVID-19, with 76% of those surveyed expecting economic growth globally in 2022 compared to just 11% when surveyed in the months before the pandemic.

Global economic growth prospects - Australia vs Global CEOs - past 5 years



Source: PwC Australia's 25th CEO Survey

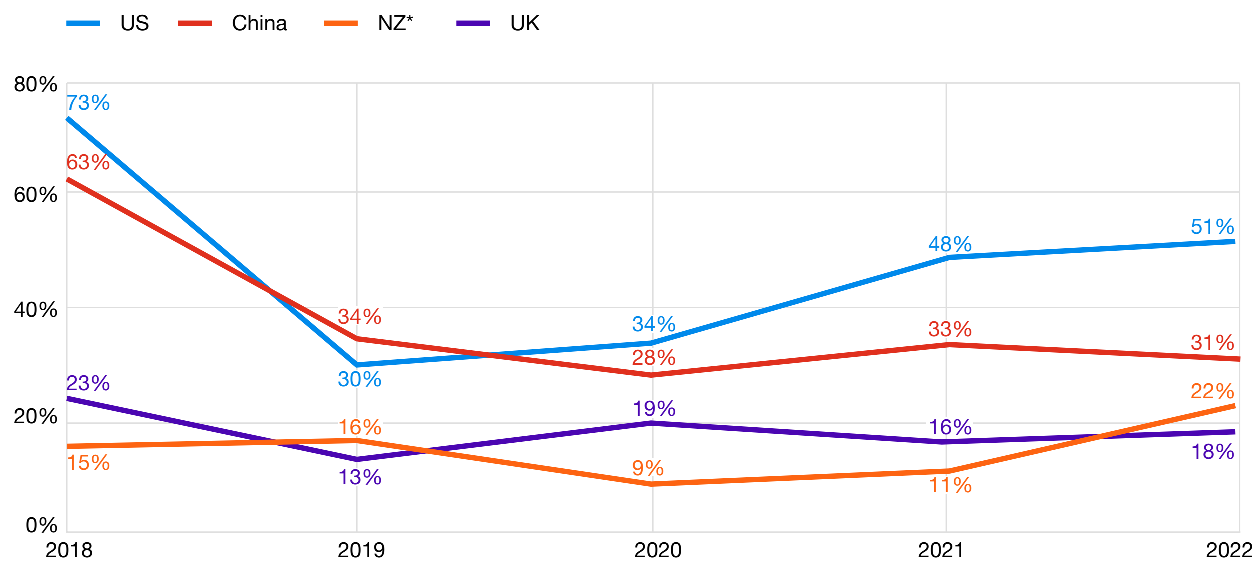
It remains to be seen how the pandemic's impacts will play out but Australian and global prospects remain relatively strong as a result of mass vaccination programs, although countries with low vaccination rates, such as those in Africa, may pose an ongoing global risk.

US extends lead as biggest growth market for trade

Yet again, our CEO Survey shows local business leaders look to the US as a priority growth market. The US has extended its lead over China as our most important trade partner.

This trend first emerged after the Trump administration cut corporate taxes to stimulate the US economy, and the US-China trade dispute. Stepping into this void, Australian companies saw the value of supplying raw materials for infrastructure, infrastructure services and financing to the US. These non-mining related areas are growth opportunities for local companies.

Countries you consider most important to your company's revenue growth in the next 12 months



*2020 NZ figures combined with Singapore

Source: PwC Australia's 25th CEO Survey

Meanwhile, the percentage of CEOs surveyed who see opportunities to grow revenue in New Zealand markets has doubled since the prior year. As doing business globally became more challenging recently, New Zealand and UK markets can provide a level of ease and comfort in terms of culture, linguistics and investment ties.

At the same time, Australia is becoming more important to the Asia-Pacific region as a trade partner. While the US and China remain the top two regions (44% and 36%, respectively) according to CEOs in the Asia-Pacific, Australia has leapt from eighth place last year to third, increasing from 10% to 18%. For CEOs in China, 24% of respondents saw Australia as a key growth market, just behind the US with 29%.

Inflation pressures from supply chain disruptions and labour shortages

From a risk perspective, the year ahead is set to be one of continued disruption.

Current issues with supply chains didn't happen at the start of the pandemic. What we're seeing now as a result of a resurgence in the pandemic are broader supply chain issues.

Where previously these were caused by international disturbances, we're now experiencing a relatively short-term labour shortage, rather than a classic skills shortage within supply chains.

Although delays to supply chains will have the most impact in the first quarter of 2022, these could continue all year as some industries will take longer to recover. In addition, domestic and international freight costs are high, and some countries have higher than expected inflation.

In particular, Australia's freight costs from China are 2.5 times higher than before the pandemic, due to an imbalance of trade. This pressure will ease as consumers shift away from buying things for their homes to services (e.g. dining out).

As a result, we have a two-track economy: while increasing supply chain costs are causing economic volatility and inflation in some areas, if you're not in a business that relies on overseas labour, freight or imports, inflation is less likely to be an issue.

However, we're now starting to see broader industries with price rises as the supply chain issues affect the economy as a whole, and as wages have started to increase more broadly.

Inflation within the 2-3% band is not a problem domestically, and it's what the Reserve Bank of Australia (RBA) wants. We've been conditioned to say inflation below 2% is great, whereas the RBA would say that's too low. Inflation consistently in this band should mean higher wages but also that the economy is ticking along quite nicely. It's only if you've got inflation at 4% that you have a serious problem.

Skilled workers moving both ways as borders reopen

The reopening of Australia's borders is both a threat and an opportunity for CEOs.

While skilled workers will be able to travel to Australia and fill some local labour market shortages, after two years of travel restrictions, people want to travel overseas. So I think we'll have a movement of people both ways. The Government's priorities are skills and foreign students, but my prediction is that we're also going to have skilled Australians leaving in the short term.

Federal election creates uncertainty

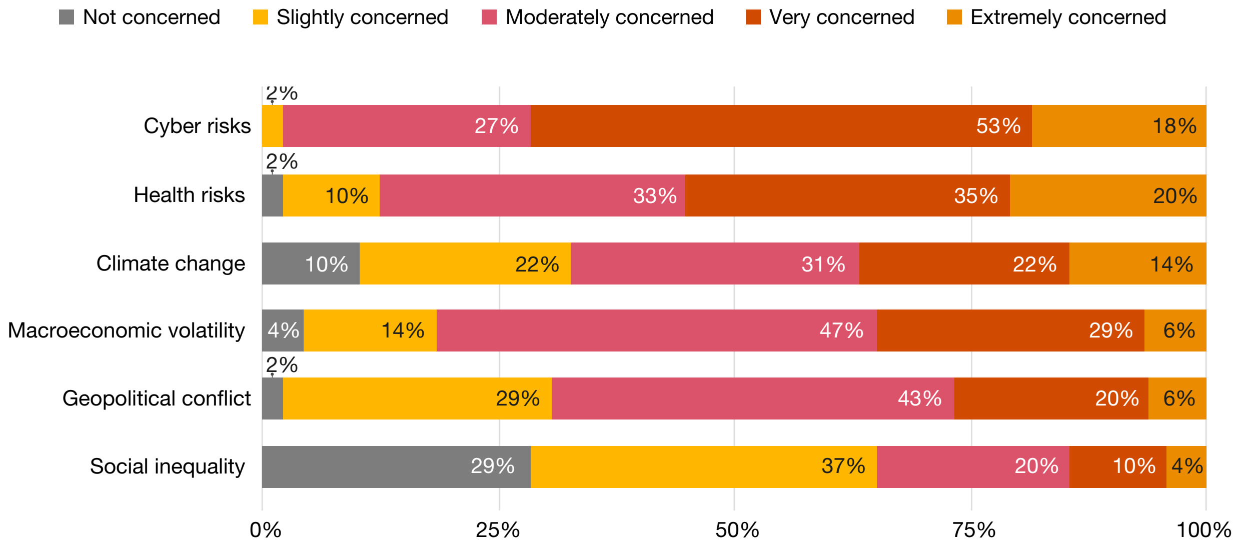
In addition to the economic risks from COVID-19, supply chains and labour shortages, being an election year also adds a degree of turbulence.

The risk in a federal election period is further instability; business is unsure about future tax arrangements or what support will look like. This creates a degree of turmoil and potentially another six months where business feels less secure.

Economic volatility not the biggest concern

Despite the economic uncertainty, CEOs were less worried about the impact of macroeconomic volatility on business growth than they were about cyber, health (including COVID-19 and its impact on the labour market) and climate change risks.

Question:
How concerned are you about the following global threats negatively impacting your company over the next 12 months?



Source: PwC Australia's 25th CEO Survey

Business investment needs to ramp up

What I hope for in 2022 is a pivot away from Government spending, investment into new houses and the massive consumer spending that got us through earlier COVID-19 impacts, towards a pick-up in business investment.

During the past two years, businesses did what they needed to do and pivoted to digital but going forward, investment has been held back. What we need to see now is investment by business to ramp up.

The positive economic outlook from CEOs is a good sign that despite the possibility of ongoing pandemic impacts, business leaders are looking ahead and seeing the opportunity to invest and grow.

Cybersecurity risks outrank COVID-19 as Australia's top threat to business growth in PwC Australia's 25th CEO Survey

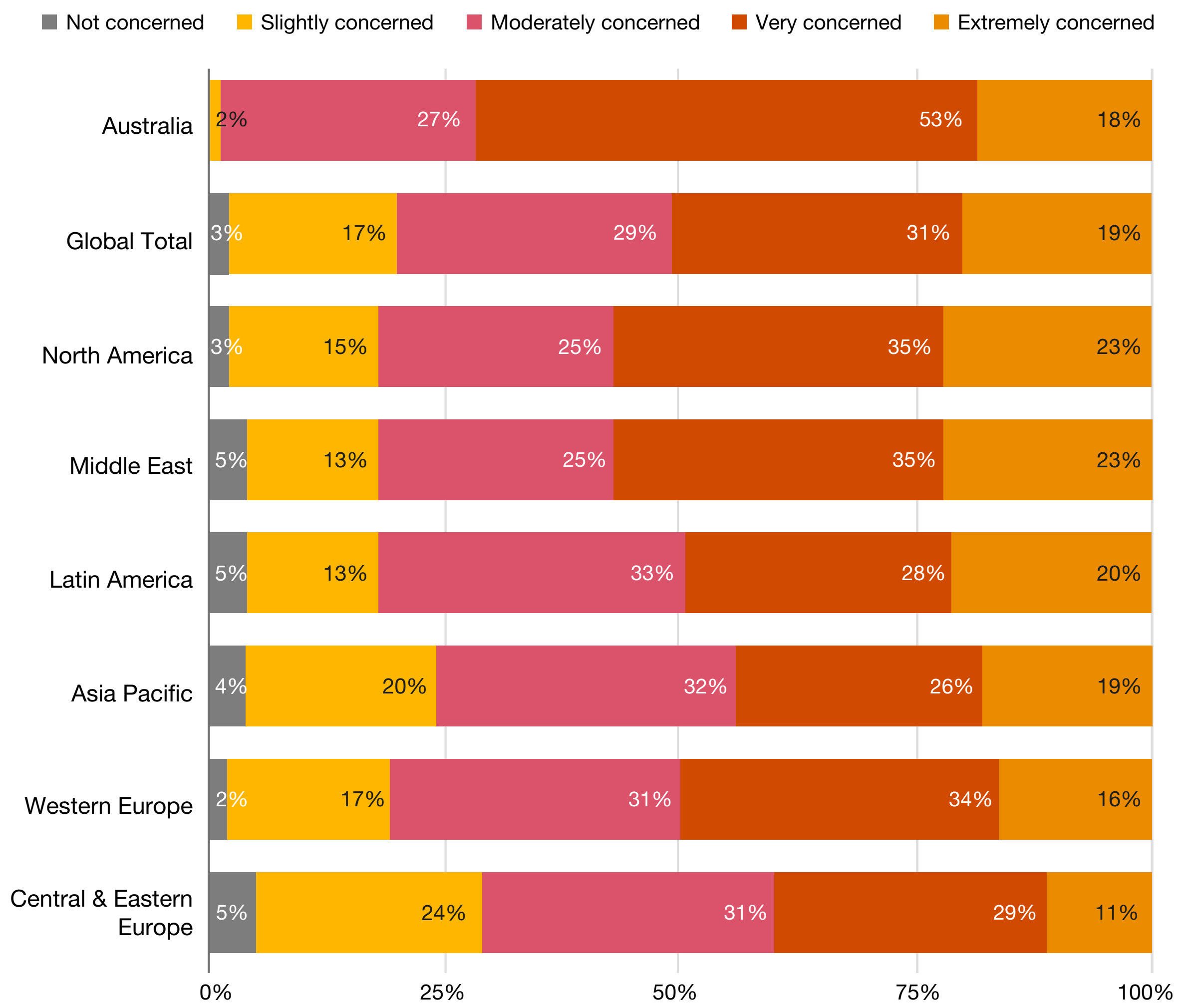
By Rick Crethar,
Chief Risk Officer and Cyber & Digital Trust Leader, PwC Australia

Australia's business leaders rate concerns about cybersecurity risks in 2022 even higher than COVID-19 pandemic impacts, economic volatility or climate change, according to PwC Australia's 25th CEO Survey. The survey was conducted in October and November 2021, with COVID-19 and related health risks high on CEOs' minds, yet they were still 16 percentage points more 'very' and 'extremely' concerned about cyber risks.

In fact, cybersecurity risk is a key point of difference between Australian and global leaders. Of the more than 4,400 CEOs worldwide who responded to PwC's Global CEO Survey, only 50% were concerned about cybersecurity risk (compared to 71% of CEOs in Australia).

Australia's CEOs are also more concerned that cyber risks could affect their ability to sell products and services (67% compared to 60% of their global peers).

Concerns about cybersecurity risk to company growth in next 12 months



Source: PwC Australia's 25th CEO Survey

So why are CEOs so concerned about cybersecurity impacting their businesses?

Cybersecurity attacks could cost Australian companies billions

2021 was the worst year on record for cybersecurity with the Australian Cyber Security Centre reporting a 13% increase in attacks YOY[1], a trend likely to continue in 2022. PwC's economics team predicts these attacks could cost Australian businesses around $10 billion annually. State-sponsored threats are top of mind for CEOs. Our Digital Trust Insights Survey indicated that 69% of Australian executives were expecting an increase in state-sponsored attacks on critical infrastructure.

Another reason for this deep level of local concern is that, relative to their global counterparts, Australian CEOs have historically under-invested in this space, leading to a lack of confidence that they have the right capabilities to defend themselves against attacks.

For example, Australia's recent legislative focus has been on protecting critical infrastructure, a strategic move that has already taken place in the US and the UK. Increasing regulations together with the pace of change in the digital economy has heightened concerns for CEOs, executives and C-suites alike.

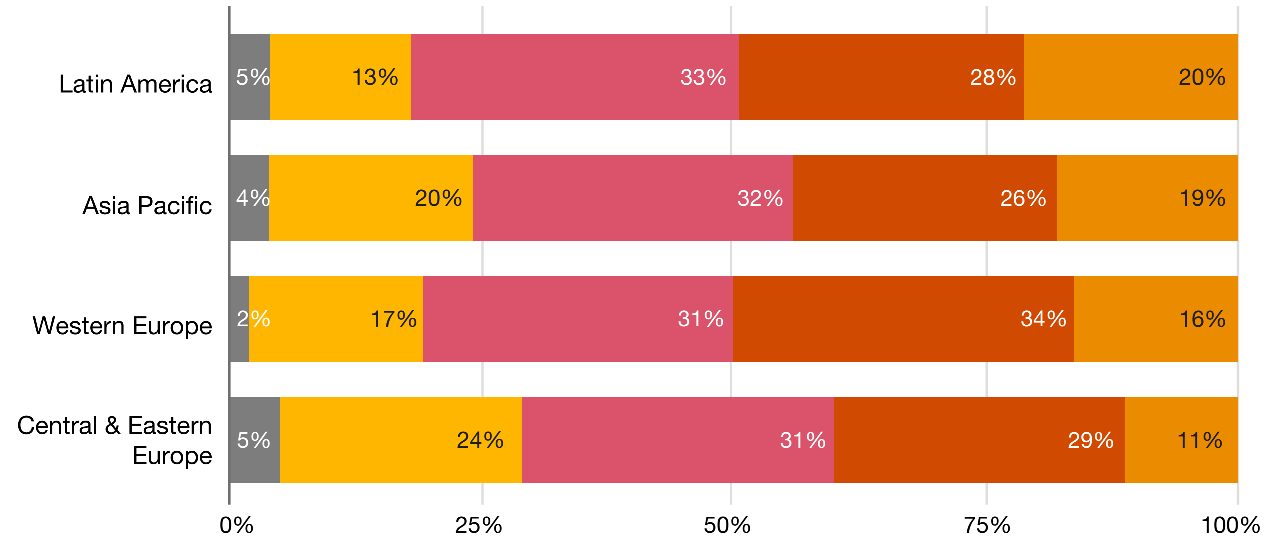
The biggest question CEOs are now asking themselves is: "Is our business too big to secure?" However, businesses don't work in isolation. Today's interconnectivity means cybersecurity involves a business's entire ecosystem, including supply chains.

Protecting supply chains in your ecosystem

This year, Australia's CEOs are more concerned about vulnerabilities within their supply chains and business partners. This is compared to the previous year, with 60% of Australian executives believing third- and fourth-party threats will affect their industry in the next 12 months, and 54% stating this would have a 'significantly negative' or 'negative' impact on their organisation.[2] Additionally, businesses today operate through an integrated network of supply chains which increases the complexity of detecting an attack, and makes each link in that chain vulnerable to attack. Some of the highest profile cybersecurity breaches in recent years targeted supply chain software, where embedded malware had widespread impact.

Not only is the rate of cyber attacks on businesses increasing, cyber criminals are also broadening their reach. If you look back 10 years, criminals primarily targeted financial services, now we're seeing significant risk in the utilities sector and for payroll systems.

Question:
Which key factors are having the greatest impact in shaping your cybersecurity strategy?



Source: PwC Australia's 25th CEO Survey

Protecting businesses and their supply chains requires expertise, with CEOs increasingly recognising a shortage of talent as an important factor in shaping their cybersecurity strategies.

Talent and skills are just part of the solution

To attract and retain skilled talent, CEOs will need to invest in training, and focus on building a cyber savvy workforce in the year ahead.

The ongoing pandemic plus shortages of cyber talent, combined with predicted people movements as travel returns to normal, means CEOs need to focus on solutions including upskilling both their specialist cyber team and their general workforce to ensure both make good security decisions.

Simplifying processes via automation also relieves pressure on cybersecurity teams.

The digital ecosystem opens opportunities for global talent sharing, while flexible working arrangements can help to attract the best talent worldwide.

There is also an increasing need for diversity, for example only 20% of global cyber security teams are women and this falls to 10% in Asia. Programs like PwC's Here to Stay campaign are designed to encourage women to build careers and remain within the industry across their working lives.

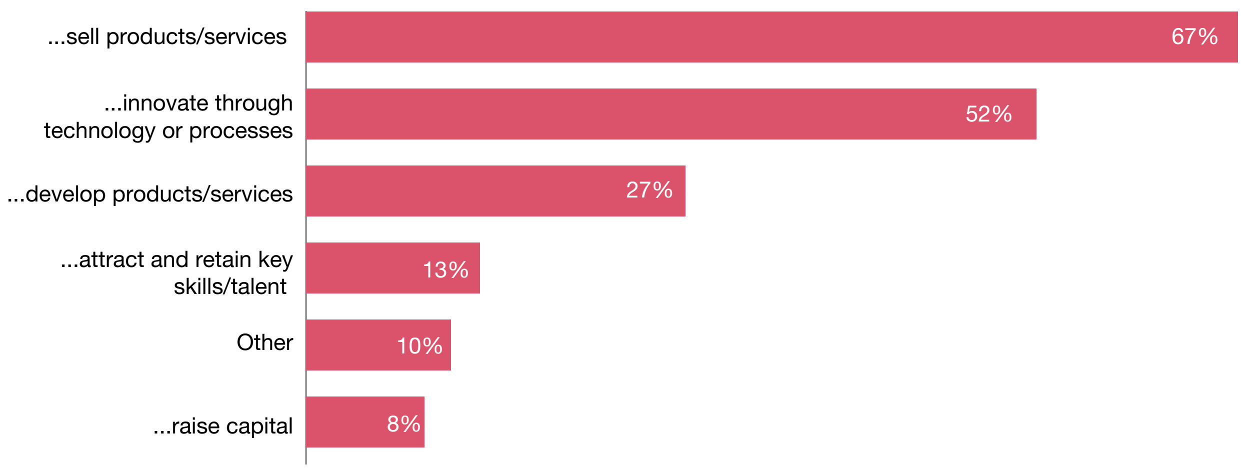
Cybersecurity should be seen as an investment in business growth

While cybersecurity has traditionally been seen as a cost to business, given the potential impact that a cyber incident can cause to businesses, focusing on cyber resilience should be regarded as an investment. This investment is an opportunity to build greater trust with customers and therefore supporting top-line business growth.

Australia CEOs who participated in the survey were not only concerned that cyber attacks would inhibit their ability to sell products or services, they were also worried that this risk would impact their ability to innovate through technology and processes, or affect their ability to develop new products and services.

Greater cybersecurity awareness helps protect a business's reputation, reduces risks and allows decision makers to focus on future opportunities.

How do you anticipate your company could be impacted by cyber risks including hacking, surveillance, disinformation over the next 12 months? It could inhibit our company's ability to...



Source: PwC Australia's 25th CEO Survey

PwC Australia's 25th CEO Survey reveals a deep level of awareness and concern about cybersecurity risks to business. Reducing this risk will mean working together as a community of solvers. I am already seeing a positive shift in the mindset of business leaders who are beginning to view cybersecurity as an enabler that builds trust with clients and within the ecosystem of products, services, customers and clients that enables growth.

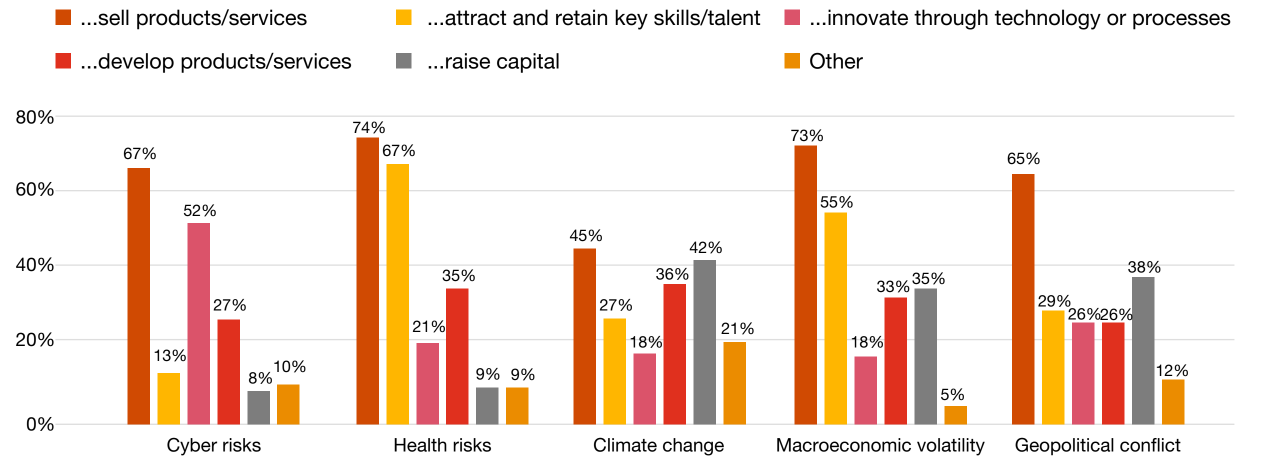
PwC Australia's CEO Survey shows CEOs are concerned about attracting and retaining key skills

By Dr Ben Hamer
Lead, Future of Work, PwC Australia
and
Catherine Walsh,
Head of People & Culture, PwC Australia

Australian companies are in a war for talent. Investment in attracting, retraining and upskilling employees needs to be a top priority for CEOs.

PwC Australia's 25th CEO Survey reveals many local CEOs are focused on near-term skills shortages. Two- thirds were concerned about the impact of COVID-19 and health-related risks on attracting and retaining talent - which is more than their global counterparts.[3]

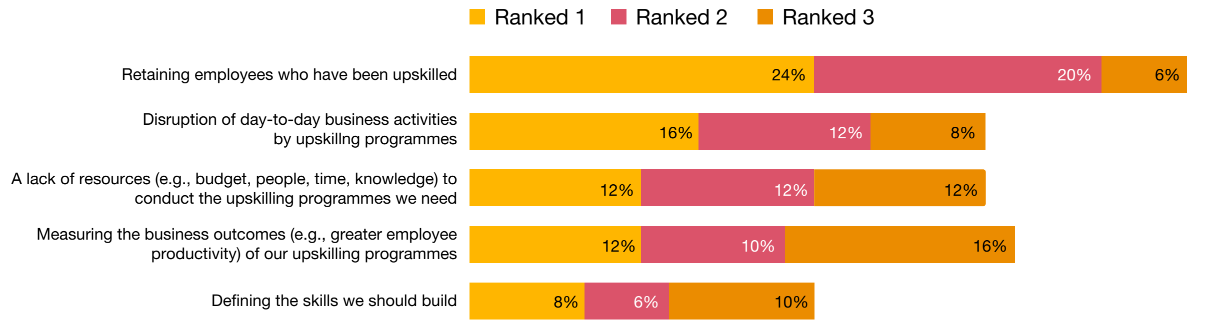
Question:
How do you anticipate your company could be impacted by risks to business growth over the next 12 months? It could inhibit....



Source: PwC Australia's 25th CEO Survey

Meanwhile, 44% of those surveyed named retaining skilled employees as their first or second upskilling challenge, compared to 26% in last year's CEO Survey.

Question:
Top 5 greatest challenges CEOs' companies currently face in their upskilling efforts



Source: PwC Australia's 25th CEO Survey

On the other hand, nearly half of Australia's top executives have no plans to re-imagine their employee value proposition - how they look to attract and retain talent.[4]

These fears are understandable. CEOs are staring down the barrel of The Great Resignation, with 38% of Australian workers planning to leave their organisation in the next 12 months. Rather than seeing the war for talent as a risk, it's a massive opportunity for companies to position themselves as an employer of choice right now.

So how do employers attract the best talent and boost retention?

Less talk, more action

Gone are the days of debating the pros and cons of upskilling your staff. The conversation has moved on, and the talent pool will, too, if you don't invest in your people. From a macro-systems perspective, if we were to invest in closing the skills gap in Australia, we would see the creation of 200,000 jobs and a 5.9% uplift in gross domestic product. At an organisational level, the question is no longer: What if I invest in my people and then they leave? Instead, invest so that they have a reason to stay or want to come back.

There is also something more circumstantial at play. After a challenging couple of years, a lot of people feel overworked and overwhelmed and they want to feel valued by an organisation that invests in them. The Great Resignation will see people attracted to those organisations that upskill their people.

Build, buy, borrow or bot

Nearly a quarter (24%) of Australia's CEOs surveyed said one of the top three upskilling challenges was defining which skills to build. We recommend taking a triage approach that looks to the future. Start by asking: Where is our organisation headed? And what key capabilities do we need to get there?

Then, when you've properly understood this, consider where you can source those skills, including:

- **Build:** Where the aptitude and potential already exists in-house, you can invest in upskilling your staff.
- **Buy:** Where to spend to acquire new skills in the talent marketplace.
- **Borrow:** Think contractors, specialists and niche capabilities. Best used as a temporary fix.
- **Bot:** PwC estimates that 45% of work activities can be automated, making it an increasingly viable option for supplying skills and capabilities.

Map your talent

While almost 40% of employees plan to move on in the next 12 months, the flipside is that more than half say they're staying put for five years or more. But which camp do your high performers sit in?

It's important to have a handle on talent management and succession planning, and this means knowing your 'star players'. Create a map of your high performers within the organisation and use it to design your retention strategies. Invest more heavily in high-performing employees because talent attracts talent, and nothing says: 'Work with us!' like an organisation jam-packed with the very best people.

Drive growth but make it considered

Our survey found that Australia's CEOs are more optimistic about economic growth than their overseas counterparts[5], and that, overall, Australia's business leaders were focused on top-line growth.

Your employees are your greatest asset, and many workers are feeling burnt out. It's been a tough couple of years and some employees have only ever worked for their current employer under pandemic circumstances. Any organisation that pushes an aggressive growth agenda with a burnt-out, lower-tenured workforce can expect to see higher staff turnover.

PwC Australia faces the same challenges currently being experienced by business leaders - how to retain and upskill employees to meet future needs while maintaining our focus on the wellbeing of our people.

We've approached these problems by undertaking a complete review of all aspects of our People Value Proposition (PVP). This has established an aligned approach across the firm on key areas of focus. The key pillars of the PVP are: careers and development; workplace belonging and wellbeing; enhanced tech and workplace experiences; and reward and recognition.

One of those key areas of focus is taking a more flexible approach to traditional work practices - from adaptable working-from-home arrangements, to our 'Together Anywhere' program that acknowledges that our people, separated from family and friends for so long, want to travel within Australia and overseas.

As a community of solvers, we want to ensure our people have the skills needed to meet the challenges of our human-led, tech-powered future. We recognise that skills needed today may be different from those needed to solve tomorrow's important issues. To meet this upskilling need, we have designed new learning experiences for our people that bring together self development, connection to community, enhanced problem solving and cyber and tech enablement. We have also invested in our Skilled Service hub - a world class digital delivery centre - in Adelaide, to build key skills while partnering with universities and experts to build amazing career pathways.

But what else can you do to invest in your workers?

Accept that some employees will leave

It's a fact of life, and that's okay. There needs to be a change in mindset when it comes to retention. We can expect employees to change jobs every two to three years. Our 'What workers want report' shows that 79% of employees who plan to change jobs in the next 12 months currently feel engaged and trusted. Resignation is not a sign of dissatisfaction. Employees will seek change even if they're happy in their job. Accept that some upskilled employees will walk out the door – and invest in them anyway. Because the good ones might come back to you with more experience and expertise.

Invest in your middle managers

Business leaders invest a lot in graduate programs and senior leaders, but not so much the cohort who have the highest touchpoint and insight into teams - middle managers. With new ways of working focused around team dynamics, we can no longer just assume middle managers will learn critical skills on the job. We need to develop targeted programs to help them optimise team performance, drive a wellbeing agenda, lead through ambiguity, and play the role of coach and mentor.

Value your employees

Above all else, being an employer of choice is good for the bottom line. (Every dollar an organisation invests in staff wellbeing, for instance, brings a $2.30 return on productivity.) And in the current environment, you can't afford not to. Aside from attracting talent and retaining staff, sometimes the most compelling reason for investing in your people is because it's the right thing to do.

PwC Australia's 25th CEO Survey show most CEOs see climate change as a threat to business growth

By Liza Maimone
Chief Operating Officer and ESG Executive, PwC Australia

Post-COP26, climate change is being discussed with urgency at the most senior levels of business. Finally, CEOs in Australia have realised climate change poses threats to their business growth not just in the long term, but now.

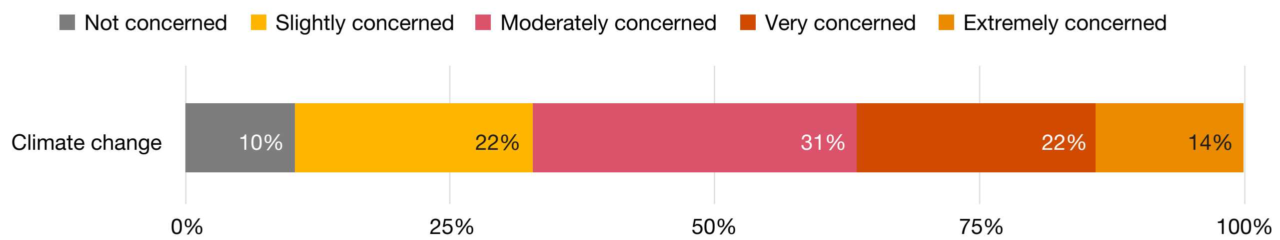
Certainly I'm more optimistic than I've ever been about the ability of Australia's CEOs to make meaningful progress on environmental, social and governance (ESG) matters, and I've been in this game for 27 years.

Yet the results of PwC Australia's 25th CEO Survey show that not all CEOs share the same sense of urgency about the climate change risks to their business and future growth prospects, or see the opportunity to use climate change action as a driver for future growth.

The survey was conducted in October and November 2021, during the period that included the Glasgow COP26 Climate Change summit, with responses from 50 CEOs of Australia's largest companies.

While about a third of surveyed CEOs are 'very' or 'extremely' concerned about the impact of climate change to their company's growth in the next 12 months, at the other end of the scale, another third are only 'slightly concerned' or 'not concerned' at all.

Question:
How concerned are you about the following global threats negatively impacting your company over the next 12 months?



Source: PwC Australia's 25th CEO Survey

Meanwhile, three-quarters of survey respondents say their company has either committed to emissions reduction targets or are working towards them - leaving behind one-quarter who haven't yet started. Few of these commitments are aligned with the Science Based Targets initiative, and there is a general lack of detail around short-term plans and targets to underpin this ambition.

This tallies with what I'm seeing in the marketplace, where the ESG maturity spectrum is broad. It can vary from industry to industry, and some business leaders are still making the mental shift from climate change risk being a longer-term issue for their company to one that requires short-term attention.

Even for those who have committed to climate-related targets, not all are far-reaching and comprehensive and there is variation between what has been committed and what will be required to achieve global objectives of abating climate change.

For instance, companies can make differing levels of commitments that cover some but not all greenhouse gas (GHG) emissions attributable to their company's operations. For example, many net zero commitments relate to Scope 1 and Scope 2 emissions, but fail to address Scope 3 emissions:

- Scope 1 - direct emissions from sources owned or controlled by the company
- Scope 2 - indirect emissions from the use of purchased energy; or
- Scope 3 - addressing indirect emissions across the entire value chain and outside of the organisation's direct control.

As companies set climate-related targets, it would be good to see more CEOs taking a system-wide approach where everyone, from suppliers to customers, works together to achieve sustained outcomes. In my view, this will be an imperative.

> So what's driving the focus on climate-related targets? And why the shift in perception from a long-term problem only, to an immediate challenge for 2022?

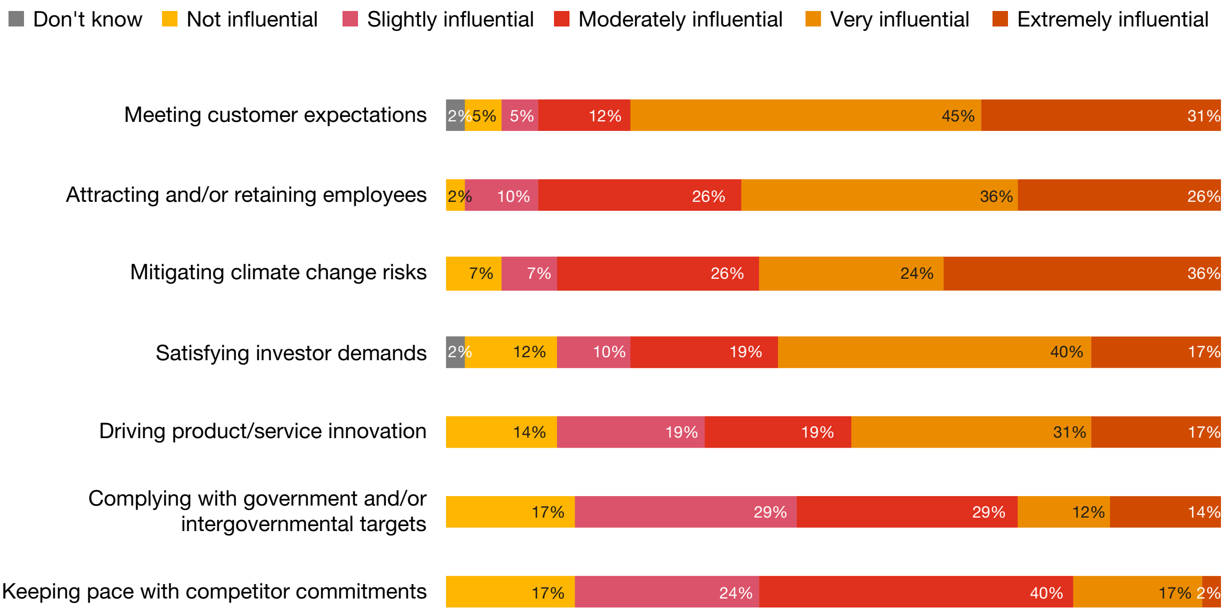
Customer and employee expectations drive commitments to climate-related emissions reduction commitments targets

The move to making a net-zero commitment is not driven purely out of doing the right thing for the planet. Among those who are committed to targets, CEOs say the most influential factors were to satisfy the expectations of their customers and employees who may choose to go elsewhere if a company doesn't take its climate impact seriously.

Investor demands also feature as a significant influential factor - and I expect that throughout 2022 this will continue to weigh into business decisions for leaders as markets increase the cost of capital for non-ESG business.

Put simply, it's a matter of trust. Who do customers, employees and investors trust to do their part in tackling the climate crisis?

Question:
How influential are the following factors behind your company's carbon-neutral and/or net-zero commitments?



Source: PwC Australia's 25th CEO Survey

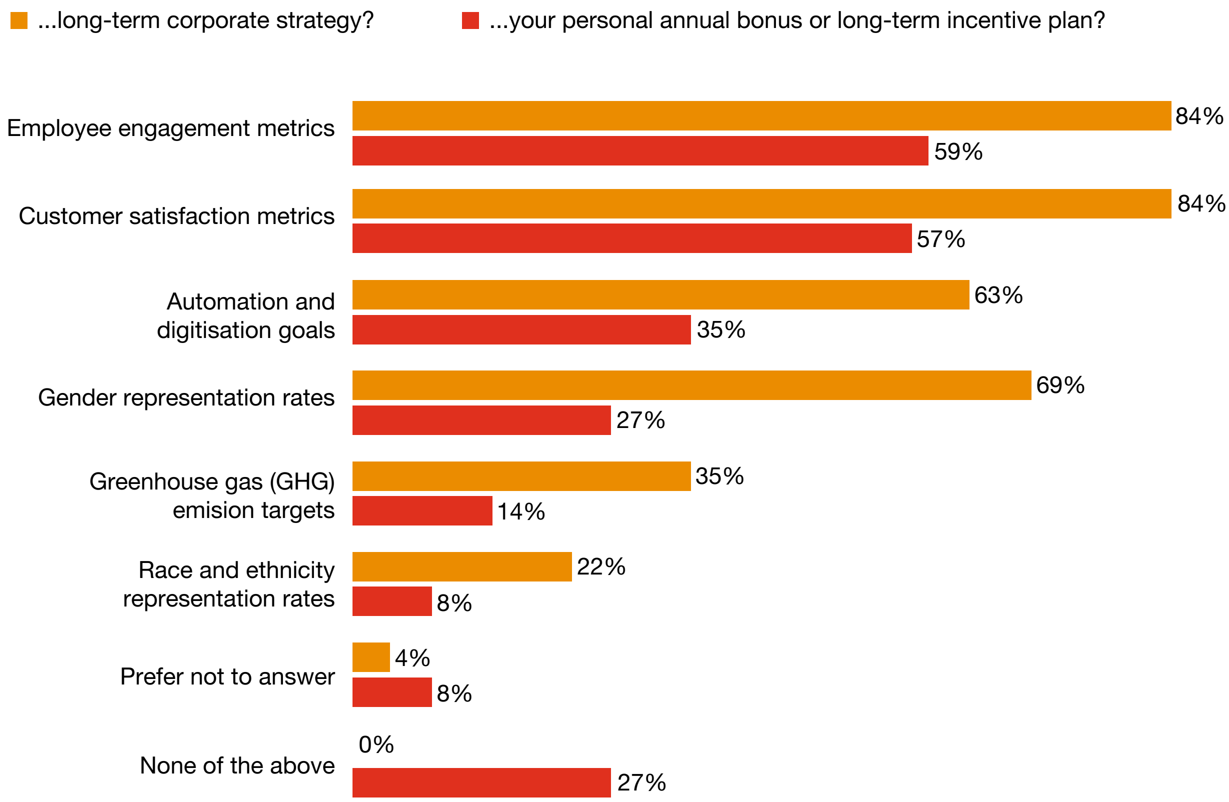
More accountability required for ESG and climate-related outcomes

Trust requires accountability - not only explaining what you intend to do, but also ensuring you can be held accountable for delivering on it.

Our CEO Survey shows Australia's large corporations still have a way to go to improve their accountability around climate change and ESG outcomes more broadly.

While 35% of Australia's CEOs surveyed said GHG emissions targets were part of their company's long-term strategy, only 14% of these CEOs had GHG emissions targets in their personal bonus or remuneration plans, slightly above their global peers at 11%.

Question:
Are the following non-financial related outcomes included in your companys.....



Source: PwC Australia's 25th CEO Survey

Boards and remuneration committees need to link executive remuneration to ESG and climate-related outcomes to ensure pay is aligned with purpose, something many big names are getting behind.

This means establishing internal and external targets, as well as 'signpost' targets to track achievement along the way.

From risk to opportunity: time to rethink how we see the climate crisis

Given only 35% of survey respondents include climate-related targets in their long-term corporate strategy, there is a lot of scope for organisations to think differently about climate risk - and see it as an opportunity within the ESG spectrum for long-term value creation and sustained outcomes.

How do you do this? With disruptive and transformative change. Embed ESG into your core strategy, operating products, services and culture – including enhanced ESG reporting and building a purpose around ESG – in order to deliver on your targets.

Practically speaking:

- embed ESG into your purpose
- identify core ESG objectives and set targets
- for climate change, set science-based targets to underpin net zero commitment
- incorporate ESG strategy into operations and processes
- provide transparent reporting and commentary on progress
- link ESG objectives to remuneration and incentives
- embed an ESG mindset across the business and use this to boost your employer value proposition, and
- support customers and suppliers in their ESG maturity and advocate on ESG issues.

I'm looking forward to a busy year ahead as I work with the community of solvers at PwC to help CEOs and their companies along their climate change and ESG journeys.

Given most CEOs are moderately to extremely concerned about climate risk, I expect that even those who saw it as a problem for 'one day in the future' will recognise that the time to act is now - or else they'll be left behind.

Endnotes

1 ACSC Annual Cyber Threat Report 2020-21

2 https://www.pwc.com.au/digitalpulse/digital-trust-insights-2021-the-need-for-cyber-resilience.html

3 PwC Australia's 25th CEO Survey found 55% of Australia's CEOs are concerned economic volatility is impacting workforces, compared with 46% globally. While 67% of Australian CEOs believe health risks are affecting workforces, compared to 61% globally.

4 What workers want

5 PwC Australia's 25th CEO Survey found 88% of Australia's CEOs expect growth in the Australian economy, and only 77% expect growth in the global economy.

Explore more
www.pwc.com.au/ceo-survey
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