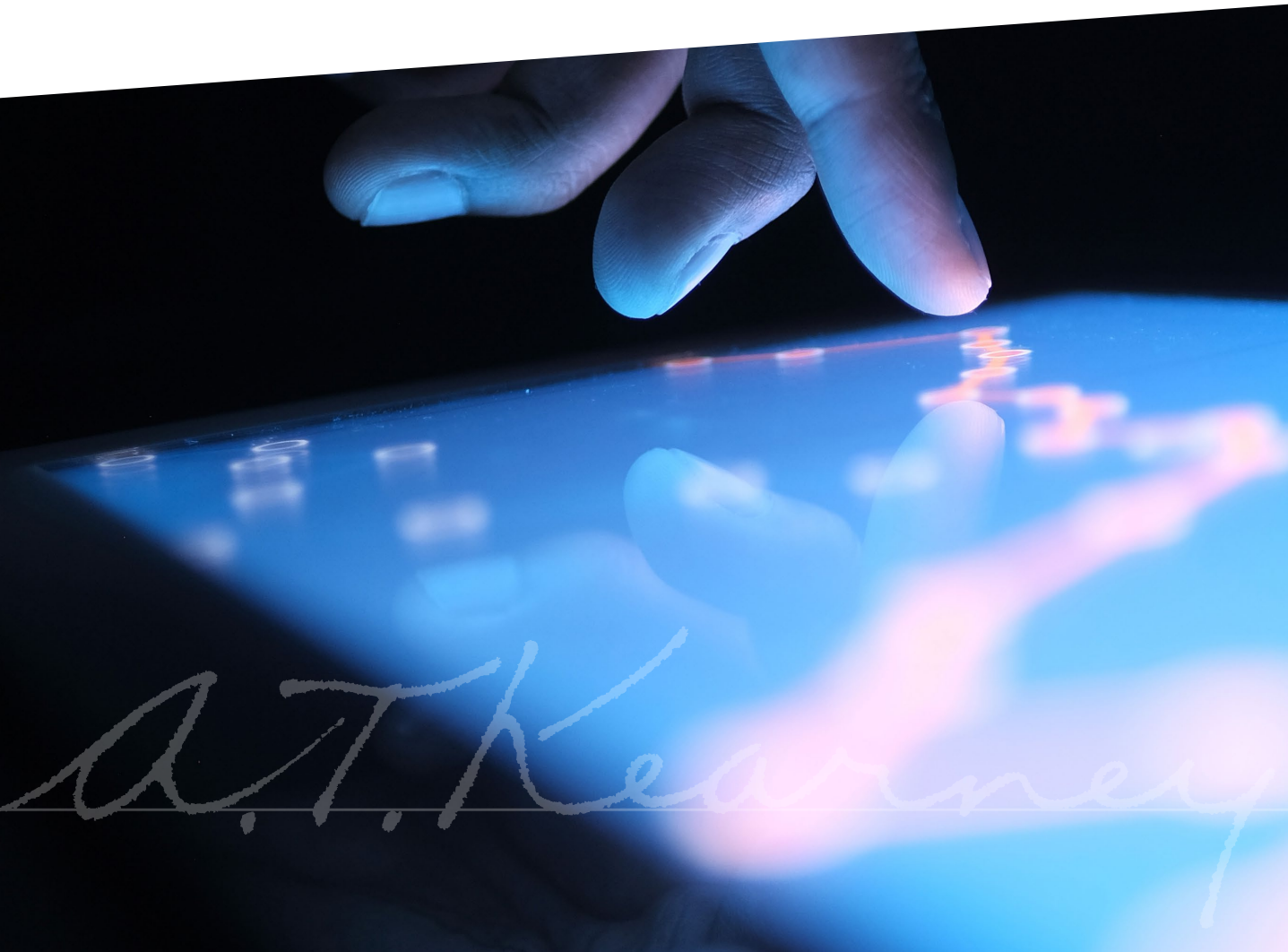
ATKearney
Global Business Policy Council

Maintaining the Human Connection in an Age of AI

2019 Views from the C-Suite
An Annual Survey of Global Business Executives

In an era defined by shifting globalization patterns and wider application of artificial intelligence and other emerging technologies, relationship management is more important than ever.



We are pleased to provide our latest annual snapshot of the perceptions of business leaders across the world regarding their circumstances. To be sure, executives today have a tremendous amount of issues to consider. Renewed geopolitical tensions, social shifts, and malaise that are translating into the rise of nationalism and populism, uncertain macroeconomic trajectories, and constant disruptions from innovations in technology are all transforming the external operating environment in which companies must maneuver.

In last year's *Views from the C-Suite*, executives pointed to a weakening global economy as one of their most profound external challenges. Most were bearish about the economic outlook in North America, and almost two-thirds indicated that they believed globalization would lose steam over the following 12 months. This year, as the headlines regarding the imposition of tariff and non-tariff barriers loom large, executives' perspectives are considerably different. Now, they are seeing new opportunities in a global environment increasingly characterized by regionalization and localization of trade and supply chains.

It comes as little surprise that executives continue to focus on the impact of technology innovation. In previous years, they have pointed to the importance of big data and advances in the predictive and prescriptive analytics that leverage streams of data. This year, progress in both artificial intelligence and the emergence of machine learning are front and center in their thinking.

There are limits to the impact of technology, however, despite the ongoing significance of these innovations. Our results this year show that executives are focused on workforce issues and that they are putting renewed emphasis on the "wetware"—the human—dimension of their operations. In addition to preferring face-to-face interactions for recruitment and training, executives tell us they need a workforce skilled in management, innovation, and creativity—skills that no robot can (yet) provide. This reaffirmation of the importance of developing and managing relationships suggests a back-to-the-basics approach.

In a shifting global landscape marked by new patterns in globalization and emerging technologies, executives worldwide see the management of relationships in the year ahead as more important than ever.

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

Executive Summary

- **The business operating environment is shifting toward multi-localism ...** Executives see multi-localism—the preference for local communities, industries, products, cultures, and customs—as presenting both opportunities and challenges. They anticipate that changing consumer preferences will play a more important role in shaping markets, especially as more consumers favor local, sustainable, and personalized products and services. Executives also expect cities and their increasingly influential mayors to play a more central role in addressing policy issues, and they therefore see a crucial need to engage with city-level stakeholders. Furthermore, in an age of rising protectionism and uncertainty with respect to the momentum of globalization, executives are worried about the challenges posed by the possibility of greater regulatory and tax restrictions on cross-border trade. In the coming year, they expect new regulatory restrictions on various dimensions of technology, including cross-border digital commerce.

  ... and executive confidence is growing that technology will help them navigate the changing landscape. Past *Views from the C-Suite* surveys have underlined executives' concern about the intensification of technological disruption and the rise of cyberthreats. Although those concerns persist, the results this year reflect a growing confidence among executives in their abilities to harness technology to gain a competitive edge. Nearly half of executives now view successful adoption of new technology as a major opportunity. And the vast majority of these respondents report having either started or completed deployment of the technology they believe holds the most promise for their company. Above all, they anticipate that AI will be at the forefront of technology adoption.

- **Yet executives are getting back to the basics—to re-emphasizing the importance of workforces in their operations.** Despite the mounting prevalence of technology in business, more executives see the importance of managing relationships both internally and externally as crucial to their success. Cultivating relationships with consumers represents a leading opportunity for executives focused on business model efficiency. Likewise, cultivating relationships with suppliers is essential for those executives focused on supply chain management. Our results show a strong emphasis on face-to-face interviews and in-person trainings, which executives indicate are far preferable to online or electronic equivalents in talent management. In addition, we find that the skills executives identify as being the most scarce in the talent pool—technology, creativity, and leadership—are the very same skills that they anticipate will be most important to their companies over the next five years and beyond. In turn, the perceived scarcity of interpersonal skills may amplify the demand for AI endowed with emotional intelligence. And these challenges will be complicated by a heightened competition for talent—a striking 91 percent of respondents expect that their workforce will remain the same size or even grow in the next five years. All this suggests executives believe that effective talent management will be vital.

Introduction

Our annual *Views from the C-Suite* reflects the collective judgment of almost 450 C-level executives and board members from around the world on both the opportunities and the challenges they see in the global business operating environment over the course of the next 12 months (see Appendix: About the Study on the inside back cover).

This survey—and this report—are organized in four sections. The first asks executives to assess the likelihood of a variety of discrete potential global developments. The second focuses on the external environment, which we define as the economic, political, social, technological, and other external forces that affect all businesses. The third concentrates on business operations, which we define as a firm's internal processes, people, and systems. For both external environment and business operations, we ask global executives about the opportunities and the challenges they face. Finally, we include a section devoted to a specific theme relevant to business. This year, prompted by the results of last year's survey and by discussions with executives at our 2018 CEO Retreat, we decided to focus on questions regarding talent management. The time horizon of most questions is just 12 months, providing a snapshot of executives' short-term outlooks.

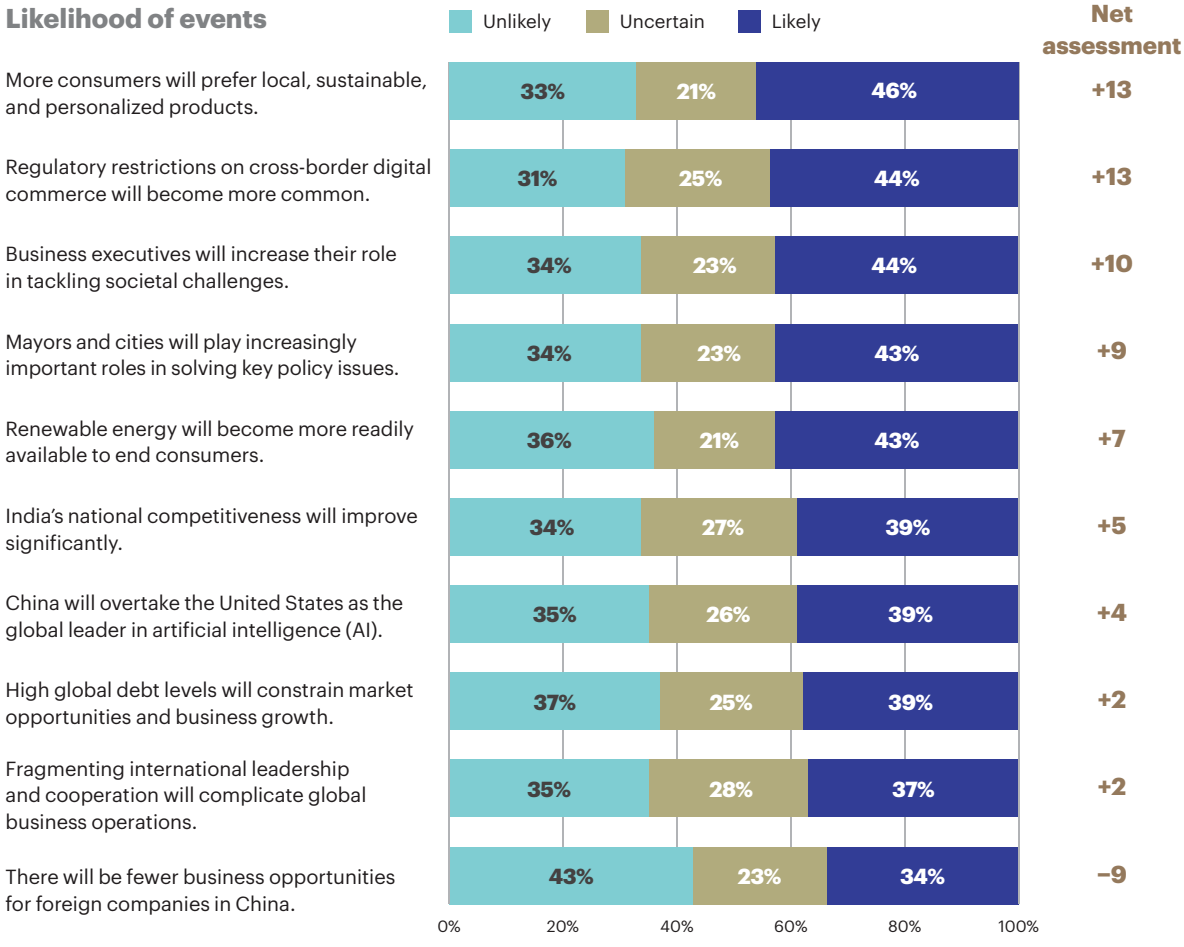
This year's *Views from the C-Suite* survey was conducted in March and April 2019. A variety of important developments were in the headlines at the time. In business news, Saudi Aramco disclosed a $111 billion profit for 2018, ride hailing company Lyft experienced a disappointing initial public offering (IPO), the merger talks between German bank juggernauts Deutsche Bank and Commerzbank were unfolding, Facebook's struggles with public backlash and government scrutiny over consumer privacy were front-page news, and the acquisition of payment company Worldpay by FIS for $43 billion was announced—creating one of the world's biggest payment services providers. In the external environment, trade tensions between the United States and China appeared to be in a lull, the 29 March Brexit date passed without resolution as negotiations between the United Kingdom and the EU were extended, Turkish President Recep Tayyip Erdogan's party was defeated in local elections, the Mueller probe into US President Donald Trump came to a close, the Indian parliamentary elections were unfolding, Italy joined China's Belt and Road Initiative, and demonstrations against Algeria's President Abdelaziz Bouteflika led to his stepping down after nearly 20 years. These and other developments set the context for the responses from the C-suite executives we surveyed.

Global Developments: Rising Localism Amid Global Uncertainty

Each year, we ask executives to assess the likelihood of a variety of discrete potential global developments in the year ahead. Last year, executives were in broad agreement. They expected China to play a more dominant role in leading globalization, but they also anticipated that globalization would decline overall as more countries raised protectionist barriers to the cross-border flow of goods, services, capital, and intellectual capital. They also strongly anticipated that artificial intelligence (AI) would be a game-changer for economic growth and competitiveness, but they predicted this rise in AI would take place alongside an expansion of data privacy regulations inspired by the EU's General Data Protection Regulation (GDPR). As we discuss below, these themes of shifting globalization and the ascendance of AI and technology are even more pronounced in the 2019 survey results.

This year, survey responses reflect an even stronger emphasis in the global C-suite on changes in local markets—from consumers to communities to local government officials to local institutions. Nearly half of respondents believe **more consumers will prefer local, sustainable, and personalized products** (see figure 1). This reflects the escalating pressures facing

Figure 1
Executives anticipate further shifts toward localism in the year ahead



Note: Numbers may not add to 100 because of rounding. Developments are listed in declining order of the net assessment (likely to unlikely).
Source: A.T. Kearney 2019 Views from the C-Suite

multinationals and the broader retreat over the past decade from the rapid globalization of the years prior to the Great Recession. It also validates the thesis of the Global Business Policy Council's special report last year: a variety of economic, political, social, and technological forces have undermined the pace of globalization and generated an age of multi-localism—a period characterized by heightened preferences for local communities, industries, products, cultures, and customs.

In addition, this growing emphasis on local markets explains why executives anticipate that **the role of mayors and cities in solving key policy issues will increase** in the year ahead. With many national governments around the world in a state of dysfunction, decision-making power is devolving to the local level—and arguably, mayors are the leading problem-solvers of the 21st century. For example, since President Trump pulled the United States out of the Paris Agreement, the mayors of more than 400 US cities have signed onto the Climate Mayors movement, maintaining their cities' climate change commitments. This broad consensus among executives on the rising role of cities and mayors was also reflected in the results of the Council's 2019 Foreign Direct Investment Confidence Index, which revealed that two-thirds of companies are engaging more with city-level stakeholders than they did in the past.

As political leadership decentralizes, expectations are that companies will assume a more significant role as agents of broader social change. Executives anticipate that **their role in tackling societal challenges will expand**—suggesting they believe corporate social responsibility is shifting from an optional activity to a central requirement for successful corporate leadership. This consensus also tracks with discussions at our 2018 CEO Retreat, where executives agreed that companies need to improve their social license to operate, help shape the policy environment in the local markets in which they work, and address the challenges posed by climate change if they intend to remain competitive.

On the outlook for globalization, executives' perceptions were far less pronounced. There was clear uncertainty among executives about whether **fragmentation of international leadership and cooperation will complicate global business operations**. The regionalization of trade relationships is accelerating, as evidenced by growth of regional blocs and organizations such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Asian Infrastructure Investment Bank, which are displacing traditional multilateral organizations, including the World Trade Organization and the International Monetary Fund, the World Bank Group, and the regional development banks. The effects of this transformation on the operating environment have not yet become apparent, the results suggest, creating multiple challenges for corporate strategists.

46% of executives expect that more consumers will prefer local, sustainable, and personalized products.

The rise of digital nationalism and more challenges to the free flow of information across borders are fueling additional uncertainty. According to the survey, the global C-suite strongly expects that **regulatory barriers on cross-border digital commerce will become more common in the future**. This expectation clearly tracks with recent events. Political leaders in the United States and Europe have ramped up calls for antitrust actions against major global technology companies and launched various initiatives on digital taxation. The United States and China are seeking to carve out their own digital spheres of influence, China and Russia are demanding "Internet sovereignty," and the GDPR is imposing strict

rules on the international transmission of personal data in the European Union. In addition, several African countries have recently implemented Internet shutdowns amid elections—demonstrating how governments can seek to assert control of the digital environment. Such developments are understandably keeping global executives on their toes. As we discuss below, they see tremendous opportunity in new technologies. But clouds are forming on the digital horizon, and the precise nature of the future digital landscape remains unclear.

> Executives need to pursue both technological solutions and a back-to-basics approach of managing workforces if they want to succeed.

The jury was still out among executives when asked whether **China will overtake the United States as the global leader in AI**. The United States is widely perceived as the leader in the global AI race. In February 2019, the White House issued an executive order entitled "Maintaining American Leadership in Artificial Intelligence," which calls for federal agencies to prioritize AI investments. China, however, is rapidly catching up. Beijing is expanding its scientific investments and has developed a Next Generation Artificial Intelligence Development Plan, which calls for China to lead the world in AI by 2030. Although the race is tightening, it is unlikely to yield a definitive winner in the next year.

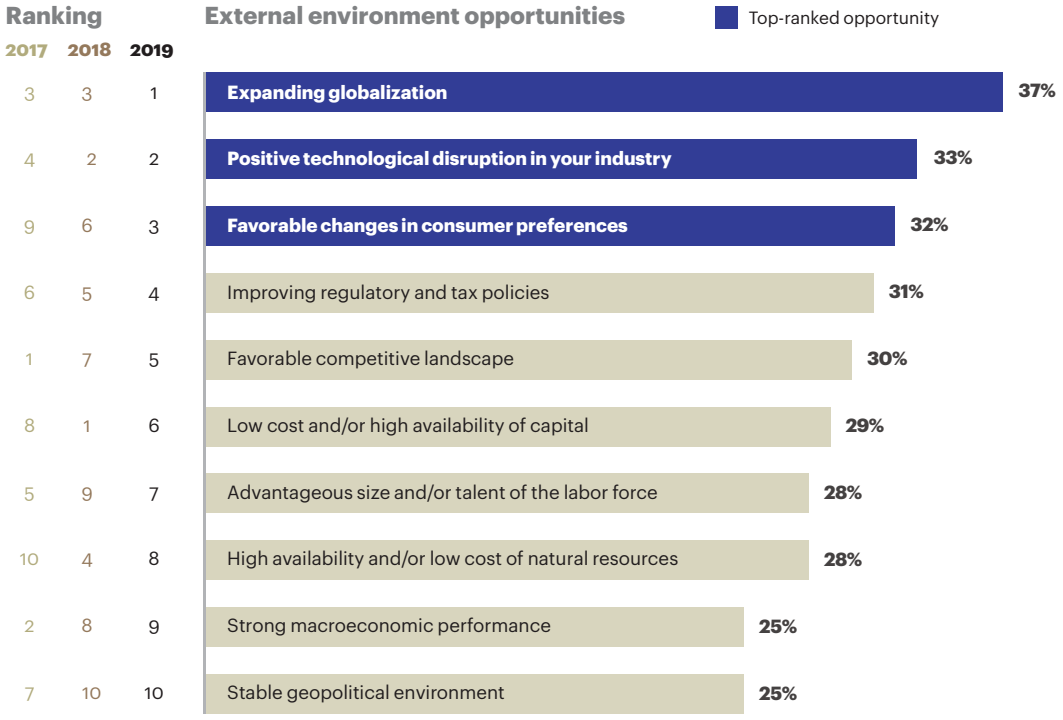
Each of these executive reactions reinforces the notion that localism and global uncertainty are spreading. This theme and related issues that emerge throughout our survey suggest that executives need to pursue a combination of both technological solutions and a back-to-basics approach of managing workforces if they want to succeed.

External Environment: Shifting Patterns of Globalization

Executives point to **expanding globalization** as their most significant opportunity when they assess the external environment, which we define as economic, political, social, technological, and other external forces that affect all businesses (see figure 2 on page 6). While such a reaction might seem counterintuitive in the current environment of trade tension, this point of view is likely the result of the opportunities associated with bilateral and regional agreements rather than larger-scale global deals. Recent agreements include the Comprehensive and Progressive Trans-Pacific Partnership, the EU–Japan trade agreement, and the pending United States–Mexico–Canada Agreement. Executives are likely seeking ways to capitalize on and adapt to these regional agreements by adjusting their global footprint. They increasingly see opportunities in a transformed external environment defined by local and regional—rather than global—dynamics.

Figure 2

Executives see expanding globalization and positive technological disruption as leading opportunities



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2019 Views from the C-Suite

Ongoing shifts in **consumer preferences** and consumption patterns is another area that executives regard as both a major opportunity and a top challenge (see figure 3 on page 7). Regardless of whether a company is confident in its ability to capitalize on emerging trends among consumers, executives agree that regional and local preferences matter now more than ever before. More specifically, there is broad agreement that consumer preferences are shifting toward sustainable and socially conscious products. Executives in Europe and the Americas see this development as an important opportunity, suggesting they have confidence in their abilities to leverage sustainability issues. In contrast, executives in Asia regard these issues as a leading challenge. They see greater opportunities to capitalize in the shift among consumers toward omnichannel, e-commerce, and mobile commerce. This point of view reflects the significant dynamism transforming the Asia Pacific region, where e-commerce sales continue to rise rapidly.

Concerns about more onerous **regulatory and tax policies**—identified by C-suite respondents as the leading challenge in the external environment—are especially focused on roadblocks to international trade. Across all regions, executives see taxes and regulations on international trade as the leading regulatory challenge they will have to confront in the year ahead—a reflection of their expectations of rising protectionism. This anticipation is unsurprising given that over the past year, the United States imposed sweeping tariffs on steel and aluminum imports, and trade tensions between Washington and Beijing have flared, leading to higher tariffs on bilateral trade. In addition, there is growing apprehension about environmental regulations, particularly in Europe. This concern likely reflects a more aggressive push

by governments on the continent to achieve sustainability goals as well as the growing consumer emphasis on sustainable products.

Against this backdrop, the C-suite view is that the macroeconomic outlook is weakening, with the expectation of strong macroeconomic performance falling to the ninth-place external opportunity, down from second place just two years ago. Executives specifically cite **high cost and low availability of capital** as a top challenge in the year ahead. Despite the continued low interest rate environment, they are likely uneasy about sluggish global economic growth, which may adversely affect potential revenue pipelines and have additional knock-on effects on capital availability. These dynamics underscore executives' view that the next 12 months will be marked by the uncertain momentum of globalization and a larger role for local and regional players.

Top external opportunities

1. Expanding globalization
2. Positive technological disruption
3. Favorable changes in consumer preferences

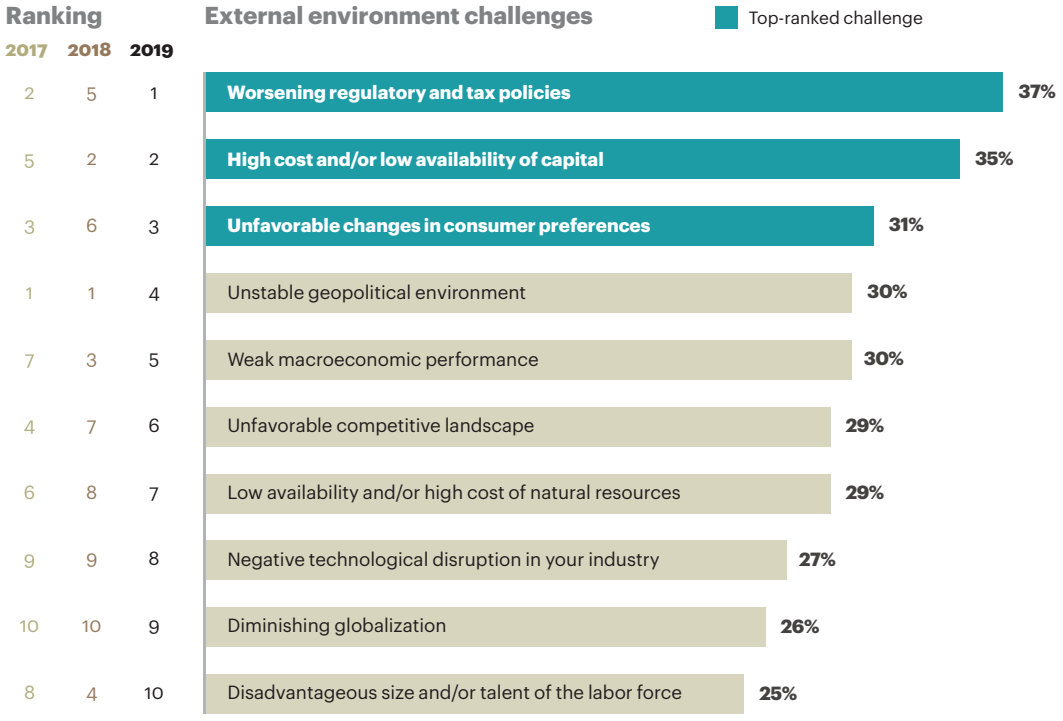
Top external challenges

1. Worsening regulatory and tax policies
2. High cost, low availability of capital
3. Unfavorable changes in consumer preferences

The second most important opportunity that executives highlight is **positive technological disruption**. They are particularly confident in their ability to leverage disruptive technologies to launch new products, especially in Europe and Asia, and to mitigate the effects of competing disruptive technology, particularly in the Americas. At the same time, global executives continue to downplay potential challenges associated with negative technological disruption in their

Figure 3

Pressing external challenges include regulatory and tax policies, capital cost and availability, and consumer preferences



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Source: A.T. Kearney 2019 Views from the C-Suite

industries. In an uncertain operating environment, these results suggest they believe that becoming disruptors themselves will give them a competitive advantage.

Although executives are aware of the broader shifts in the external environment, blind spots remain. Namely, executives are growing more sanguine about geopolitics. Potential risks caused by **instability in the geopolitical environment** dropped six points to fourth place this year after ranking as the number one challenge for the past two years of our survey. This shift is likely a result of the specific time frame during which our survey was in the field. US–China trade tensions appeared to be waning at that time, and the original Brexit deadline came and went without any major conclusions or new disruptions—perhaps creating the appearance of a reprieve from geopolitical upheaval. But both of these issues, alongside renewed tensions between the great powers, heated rhetoric between the United States and Iran, and the continued success of populist and nationalist political parties around the world, suggest that geopolitical risk remains high.

Business Operations: Growing Optimism About Technology

In business operations, which we define as a firm's internal processes, people, and systems, technology is once again front of mind. Successful **adoption of new technologies** remains the leading opportunity for the third consecutive year—and by a wide margin (see figure 4). This

Figure 4
Executives point to technology adoption as their top operations opportunity by a wide margin

Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2019 Views from the C-Suite

opportunity rose by a full 12 points from last year, reaching its highest level (49 percent) in the history of our survey. Although difficulty in adopting new technologies is also viewed as a challenge, the share of executives emphasizing the downsides of new technologies has remained relatively stable over the past four years. This consistency means a net increase in the confidence executives place in their ability to adopt and harness emerging technologies overall. And executives are translating this confidence into action. Of those that see top opportunities in technology adoption, 80 percent have either completed or started the process of deploying an emerging technology across their company. Furthermore, a striking 32 percent say they have already deployed and mastered an emerging technology across their company. And among emerging technologies, business leaders see the greatest opportunities in artificial intelligence and machine learning (AI/ML).

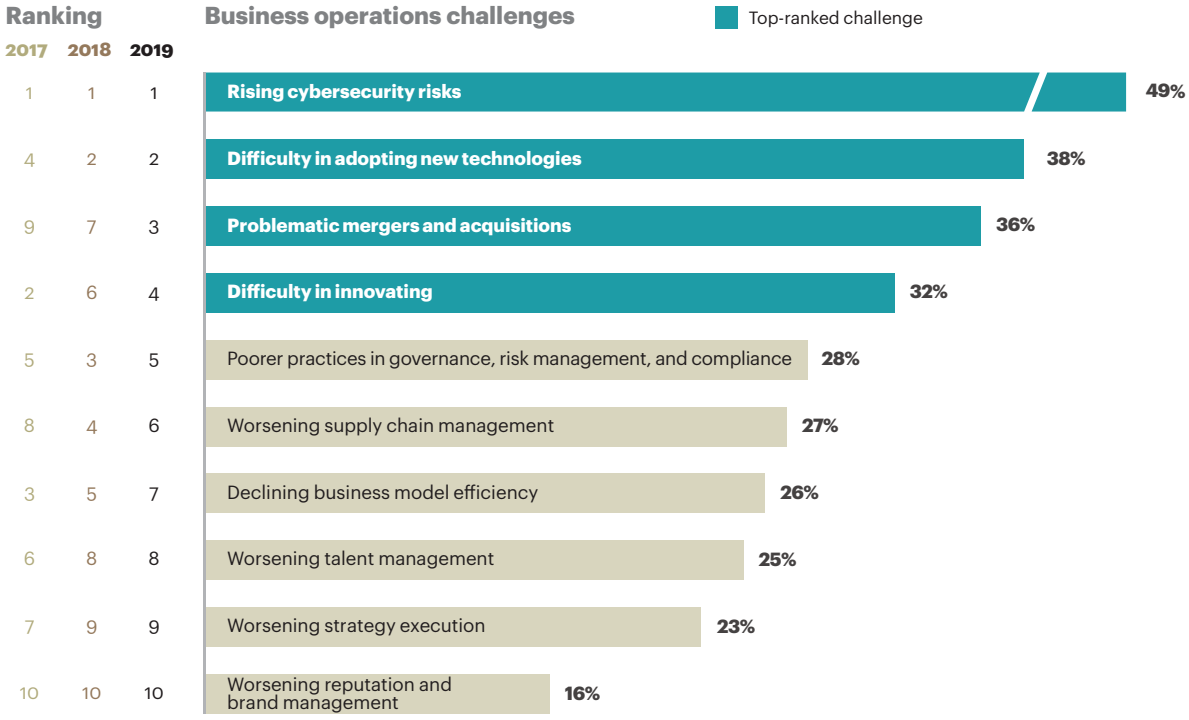
Executives are broadly aligned across all regions and sectors in their views that AI/ML will shape their success or failure in the year ahead. A striking 50 percent of executives who see technology adoption as a leading opportunity selected AI/ML as their top opportunity, up from just 27 percent last year. Similarly, those who see adoption as a leading challenge also singled out AI/ML disproportionately as the most important technology to their company in the year ahead, with 43 percent selecting it, up from just 26 percent last year. This emphasis on AI comes at the expense of prioritizing other technologies. Big data is falling rapidly as both a leading opportunity and challenge, suggesting that executives have developed sufficient big data capabilities and are now seeking to leverage them through AI/ML. In addition, the Internet of Things and cloud computing emerge as opportunities in the year ahead. Augmented and virtual reality are also increasingly perceived as opportunities, particularly in Asia and in Europe as well as in the services sector.

The rising technology-related challenge, consistent with previous *Views from the C-Suite* reports, is **cybersecurity** (see figure 5 on page 10). For the fourth consecutive year, executives point to cybersecurity as their leading operational challenge. And the intensity of this threat keeps growing. The share of executives most concerned about cybersecurity risks has steadily risen every year of our survey—from 40 percent in 2016 to 49 percent this year. This emphasis on threats relating to cybersecurity also aligns with related findings in last year's survey, in which 85 percent of executives indicated their company had been the victim of a cyberattack in recent years. Moreover, it reflects the fact that digital connectivity in business—even with successful adoption of new technologies—comes with serious downside risks.

When it comes to cyberattacks, executives are most worried about loss of business continuity, insufficient employee cybersecurity training or awareness, and recruitment and retention of IT and cyber-defense talent. Concerns about employee training have risen steadily each of the past three years of our survey, underscoring the importance of talent management in cybersecurity. And without an appropriate strategy, these risks could intensify. For the second consecutive year,

Figure 5

Executives see cybersecurity and difficulties in adopting new technologies as leading challenges



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2019 Views from the C-Suite

the lack of a fully implemented cyber-defense strategy remains a conspicuous blind spot among executives; only 33 percent who see cybersecurity as a leading challenge have fully developed and implemented such a plan. Cyberattacks pose very real threats, and the development and implementation of a comprehensive cyber defense strategy clearly need to become top priorities.

Aside from technology, the global C-suite identifies **problematic mergers and acquisitions** (M&A) as one of the top three challenges, with this issue rising to its highest level in the history of our survey. Executives are particularly worried about difficulties in cultural workforce integration, a concern likely linked to the surge of M&A activity in recent years. According to the United Nations Conference on Trade and Development (UNCTAD), cross-border M&A reached $822 billion in 2018—a 19 percent increase over the previous year. Concerns are particularly acute in Asia, where nearly half of executives identify workforce integration as a leading challenge. This apprehension likely points to difficulties associated with workforce management in an operating environment with intensifying pressures to localize, including the need to hire and train local employees to gain consumer trust and market access.

Talent management challenges are further reflected in executives' growing concerns surrounding **difficulty in innovating**, particularly with respect to technology. Our survey results show that the skills required for innovation—including creativity and problem solving—are becoming more difficult to find. While executives are more confident that they can adopt new technologies, they are far less confident about building a workforce that can leverage these innovations.

Executives also see competitive advantage in successfully handling relationships in areas beyond talent management. Improving customer relationships achieves its biggest

Top operational opportunities

1. Successful adoption of new technologies
2. Improving strategy execution
3. Improving business model efficiency
4. Successful supply chain management

Top operational challenges

1. Rising cybersecurity risks
2. Difficulty in adoption new technologies
3. Problematic mergers and acquisitions
4. Difficulty in innovating

year-on-year jump as an opportunity related to **improving business model efficiency**. The emphasis on developing these relationships is particularly strong among executives in the Americas and Asia as well as among those in the services sector. In Europe, executives are more focused on investment in key resources, including human resources. Similarly, executives across all regions that see opportunities in supply chain management identify the importance of managing relationships with suppliers as crucial to their success in the year ahead—an area of focus that has steadily risen as a priority over the past three years. Each of these findings suggests that personal interactions remain central to commercial success—even as technology continues to reshape business operations.

Uncertainty surrounding the pace of globalization is also evident in executives' perspectives on the operational environment. The importance of **improving supply chain management** continues to rise steadily, moving from the ninth-ranked opportunity in 2017 to the fourth position this year. The era of rising cross-border protectionism is likely leading executives to place a greater emphasis on improving supply chain resiliency. Indeed, building a supply chain that pivots is of paramount importance in a volatile and uncertain external environment. And the fact that executives have ranked new M&A as the least likely opportunity for the second year in a row may be a signal that the recent uptick in cross-border acquisition could slow.

Given this array of changes in business operations—from shifting globalization to new emerging technologies—it is understandable that executives across all regions and sectors continue to identify **improving strategy execution** as a leading operational opportunity. Strategy execution has ranked among the top four operational opportunities every year of our survey. Executives place great emphasis on the importance of agility to execute strategy while adapting to changing market conditions, once again showing that they value the ability to respond quickly and effectively to unforeseen events. Strategic foresight tools, including scenario planning, crowd sourcing, and war gaming, can help organizations identify blind spots and develop agile strategies to better anticipate and plan for the future.

Talent Management: Front and Center

In the 2018 *Views from the C-Suite*, we pointed to talent management as a potential blind spot. While executives identified the disadvantageous size or talent of the labor force as a top external environment challenge last year, they did not consider talent management as a priority in business operations. These findings, in addition to discussions with executives at our 2018 CEO Retreat and in various boardrooms, led us to do a deeper dive into talent management in our 2019 survey.

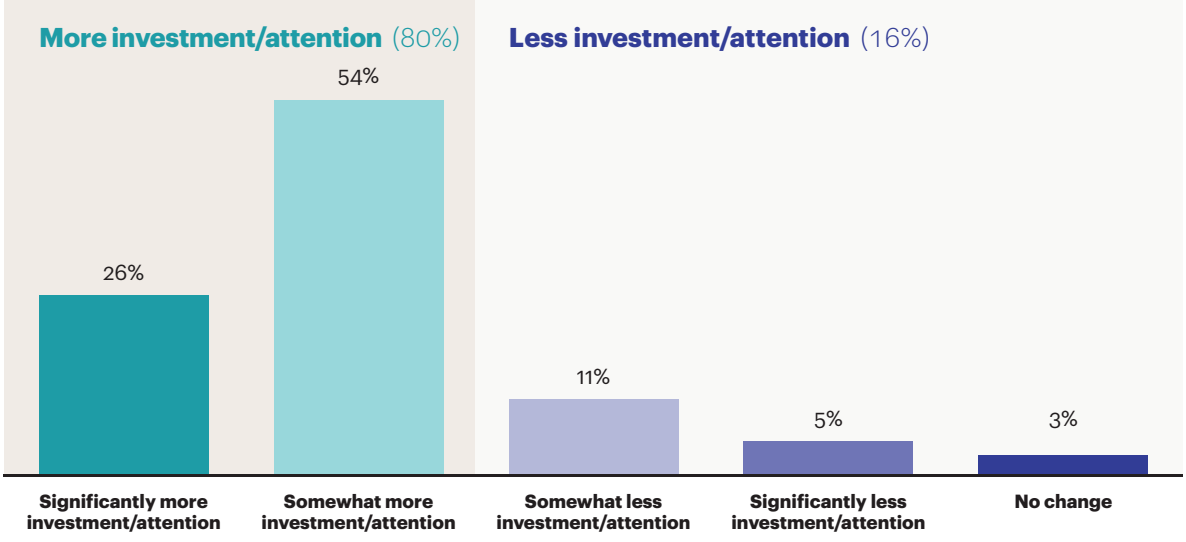
Our results come with some surprises. Executives have been investing more in talent management in recent years and are emphasizing the importance of skills in both technology and non-technology areas. And, contrary to many economic analyses, they do not foresee a reduction in workforce size as a result of technological displacement—at least not in the next five years.

A significant majority of executives indicate that in the past two years, they have increased their investment in or attention to talent management. A quarter of them say they now invest significantly more (see figure 6). This emphasis on talent management appears to have bolstered their confidence in their ability to recruit and retain talent. Nearly two-thirds of executives report that their company is able to find the talent it needs, and 57 percent say they are able to retain the talent they need. In fact, the results indicate that executives in Asia represent the only regional segment that finds it difficult to retain talent. It is noteworthy that executives' optimism on talent retention is eight points lower than it is for recruitment, suggesting that finding new talent is easier than keeping it.

Figure 6

The vast majority of companies invest more in talent management now than they did two years ago

How has your company's level of investment in or attention to talent management overall changed in the past two years?



Note: Numbers may not resolve because of rounding.
Source: A.T. Kearney 2019 Views from the C-Suite

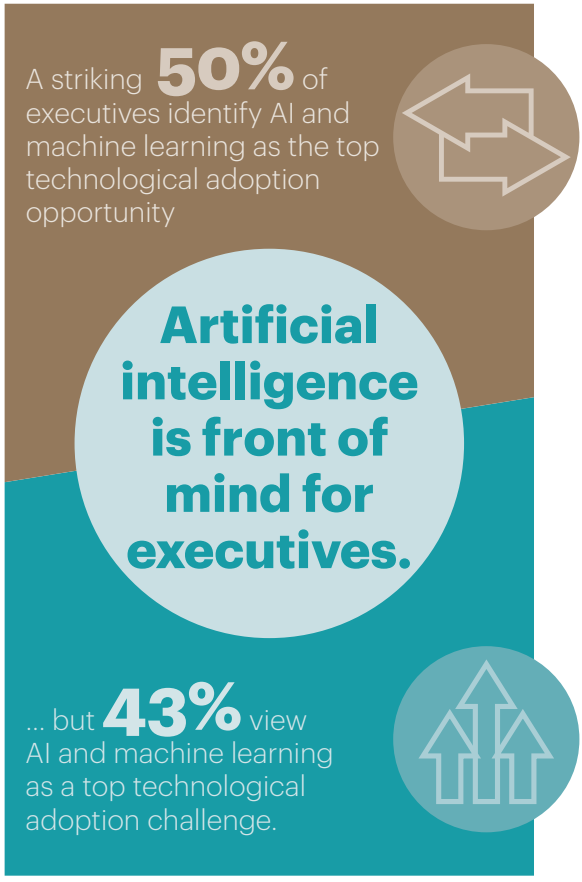
Despite advances in technology to identify and interview candidates, executives across all regions and sectors still put a premium on the personal touch when it comes to talent management. For recruiting and screening new talent, executives overwhelmingly prioritize the use of face-to-face interviews (40 percent) over any other method. The second most-preferred method is through LinkedIn (32 percent). In terms of the training methods companies use, in-person instruction ranks at the top (53 percent), while virtual and online training ranks last (39 percent). Human interaction and personal connections, therefore, remain a priority.

Relatedly, a striking 85 percent of executives indicate that their company's diversity goals affect talent management practices or outcomes.[1] And two-thirds state that these efforts have a moderate to significant effect on talent management, with the strongest effect seen by European executives (73 percent). In contrast, the impact of diversity goals is the weakest in Asia, where

[1] Diversity refers to characteristics such as gender, ethnicity, race, age, and socioeconomic status.

39 percent of executives say that company diversity goals have limited to no effect on talent management practices or outcomes. Nevertheless, the fact that 97 percent of global executives report that their company has established diversity goals shows how prevalent such measures have become in talent management around the world.

As part of their increased investment in and attention to talent management, nearly half of executives focus on recruiting and hiring top talent—the highest-rated response across all regions and sectors. Developing the skills of existing talent and training new talent are second- and third-order priorities globally. But executives in the IT sector point to career development as a leading priority rather than training new talent, revealing a greater emphasis on talent retention than on recruitment in this sector. Similarly, IT companies differ from others when it comes to the employees on which they focus their talent management efforts, with a plurality of IT executives saying they concentrate on high performers. Comparatively, the leading response among executives overall is "all employees"—which may be an egalitarian approach but also suggests a lack of focus. This IT emphasis on performance may explain why executives in this industry experience the greatest ease in employee retention (66 percent compared with 57 percent of industry-sector firms and just 53 percent of services-sector firms).



Higher retention rates are important because they translate into significant talent management cost savings. Executives cannot expect new employees to be fully trained when they start work. In fact, 81 percent of executives indicate that new talent typically requires moderate to significant training as part of the onboarding process. This result holds across regions and sectors, but executives based in the Americas (83 percent) and those in the IT sector (86 percent) see a particularly acute need to invest in training new employees. As the Council has highlighted before, there are significant opportunities to bring in talent with more advanced skills by establishing partnerships with educational institutions aimed at training students for specific jobs at "partner" companies after graduation.

However, C-suite optimism about recruitment and retention may soon be tested. The same skills that executives label as the most difficult to find in the talent pool—technical and technological, creativity and innovation, and leadership and management—are the very same skills that they anticipate will become more important over the next five years as a result of technological changes (see figure 7 on page 14). This emphasis on non-technological skills reveals that executives recognize the differentiating role of creativity, leadership, and related traits in an age of increasing automation and AI. The overriding message here is clear: Strong executive skills will be required to navigate technological changes and shepherd diverse workforces into the future. And this perceived scarcity of interpersonal skills such as

leadership and management suggests that the demand to develop AI endowed with emotional intelligence could grow stronger.

These challenges to talent management will be exacerbated by the fact that the vast majority (91 percent) of executives anticipate that the size of their workforce will remain constant or even grow over the next five years as a result of changes in technology (see figure 8 on page 15). This expectation stands in stark contrast to dire predictions that machines and algorithms will soon displace huge numbers of workers. Our results suggest that executives see such concerns as overinflated—at least in the short term. At the same time, our survey suggests that the competition to attract and retain skilled workers will intensify as the labor market tightens.

91% of executives say technological change will not reduce the size of their workforce in the next five years.

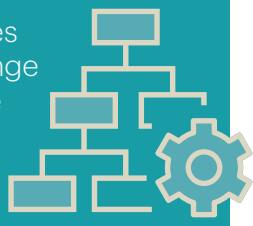
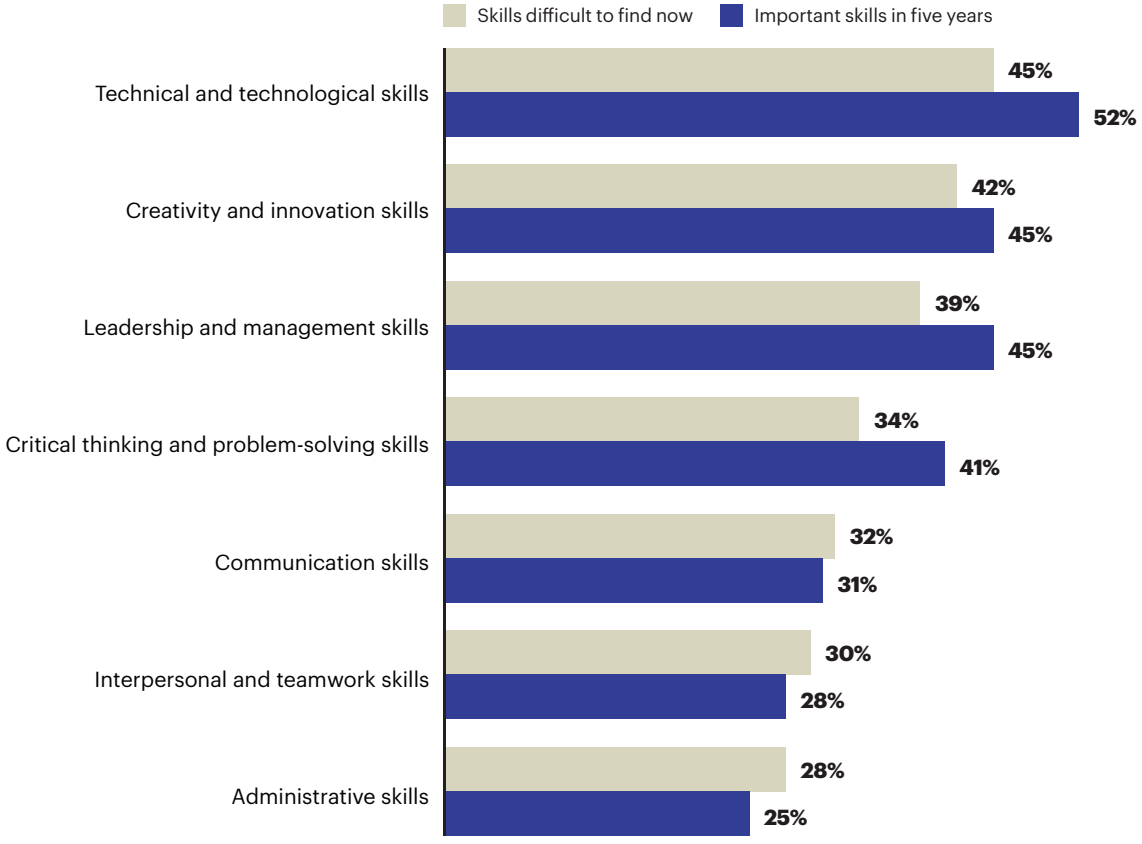


Figure 7

The skills gap will grow wider as a result of changes in technology

What type of skills does your company have the most difficulty finding in the talent pool? What type of skills will become more important to your company as a result of technological changes in the next five years?



Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2019 Views from the C-Suite

Figure 8

Executives do not anticipate workforce displacement as a result of technological changes in the next five years

How will your company's workforce needs change as a result of technological changes in the next five years?

Note: Numbers may not resolve because of rounding.
Source: A.T. Kearney 2019 Views from the C-Suite

Conclusion and Key Takeaways

As executives prepare for the year ahead, they see a rapidly changing landscape. Consumer preferences for local and sustainable goods and the rising importance of mayors and cities in an environment of growing protectionism underpin broader global shifts away from traditional globalization. Although striking technological advances, particularly in the field of AI, are a source of confidence for executives, companies remain worryingly vulnerable to cybersecurity threats. And in the midst of these dramatic changes to the global and operational landscape, it is an emphasis on relationships that emerges as a leading takeaway in our *2019 Views from the C-Suite*. Strong relationships with consumers and suppliers as well as efforts to prioritize talent management are more important than ever in the digital era.

While the specific business implications from this survey will vary based on each company's sector, geographic footprint, and strategy, several priorities emerge for the global C-suite in the coming 12 months:

- **Recalibrate strategies for multi-localism.** A confluence of forces—from rising cross-border regulations and friction to changing consumer preferences and the emergence of new technologies—all suggest the need for a new operating paradigm: multi-localism. Executives must reassess their core markets and recalibrate their global footprint and value chain to succeed in an environment that is being shaped by local conditions and preferences. They must become more attuned to the local conditions in which they operate—and how they might be shifting. Such assessments can generate new business insights and strategies tailored to these markets.
- **Respond to shifting consumer preferences.** Growing consumer preference for local, sustainable, and personalized products is evident throughout our survey. These changes point, in part, to demographic shifts and the need for companies to adapt to the preferences of new generational cohorts. To focus on Millennials (born between 1981 and 1996) and Generation Z (born between 1997 and 2016), companies must adjust their product mix and marketing campaigns to appeal better to these younger generations. Both of these

generational cohorts are digitally savvy and display an acute concern for social tolerance and the environment. Executives should, therefore, intensify their product design for omnichannel e-commerce and greater diversity and sustainability.

- **Define priorities in talent management.** Although executives have dedicated more resources to talent management in recent years, our survey results indicate tendencies to emphasize recruitment over retention and a failure to identify specific groups of employees to prioritize in their retention efforts (most executives, in fact, selected "all employees"). As the competition for talent intensifies, executives must assess their companies' present and future talent management needs and work to achieve them. These efforts may include partnerships with educational institutions to improve the talent pipeline, more targeted and personalized recruitment strategies, more tailored training programs, and retention efforts that concentrate on a specific subset of their talent, such as high performers.
- **Develop realistic AI expectations.** Executives assign great importance to AI and appreciate the significant business opportunities it engenders. But as with many emerging technologies, although AI development holds great promise to remake important business processes, its game-changing potential may not be fully realized for years to come. Executives should work with their technology teams to set reasonable expectations for the benefits that AI can bring to their company in the next year—and where investments may pay off in the longer term.
- **Actively manage geopolitical risk.** This year, geopolitical risk fell from the top external challenge in the previous two years of our survey to fourth place. And executives this year are divided as to whether fragmenting international leadership and cooperation will complicate global business operations. These sentiments reflect a worrying blind spot given the ominous threat of conflict in the Middle East and elsewhere, the escalation of trade tensions between the United States and China, and other developments that threaten to destabilize the geopolitical environment. In the end, executives have no choice but to account for geopolitical risk in their planning and identify potential mitigating actions, especially with regard to cross-border operations.

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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 *2019 Views from the C-Suite* study uses primary data from a proprietary survey administered to almost 450 senior executives of the world's leading corporations. The survey was conducted in March and April 2019.

Respondents include C-level executives and board members. About 50 percent are CEOs, and about 48 percent are other C-suite executives; the remaining 2 percent are board members. All participating companies have annual revenues of $500 million or more.

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

Respondents also work in 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 about 47 percent of the respondents; industry-sector firms represent 34 percent; 18 percent work at IT firms; and the remaining approximately 1 percent identify as "other."

For past editions of *Views from the C-Suite*, please go to **www.atkearney.com/web/global-business-policy-council/views-from-the-c-suite/past-editions**.

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