

The CEO Imperative: Why agility and adaptability are key in Asia-Pacific

EY CEO Outlook Pulse Survey
ey.com/CEOOutlook-AsiaPacific
October 2022

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The EY CEO Outlook Pulse – October 2022 survey finds Asia-Pacific CEOs ramping up their investments to weather challenging times ahead.

Ongoing geopolitical challenges, including pandemic-related issues and US-China tensions, have Asia-Pacific executives navigating a persistently complex business environment. In response, the 210 Asia-Pacific CEOs surveyed in this edition of the CEO Imperative Series are adapting their strategic investment plans, reconfiguring supply chains and relocating operational assets to stay ahead of the disruption. Meanwhile, transactions continue to play a key role in corporate strategies as CEOs look to M&A to strengthen future growth prospects.

Through the results of the EY CEO Outlook Pulse - October 2022 survey, EY teams explore how Asia-Pacific executives are responding to the macro uncertainties dominating the business landscape in 2022, and how they plan to position themselves for future growth.

In brief

- ▶ Pandemic-related issues and geopolitical tensions are the critical risks dominating CEO decision-making in Asia-Pacific.
 - ▶ Supply chain and sustainability rise up the list of priorities as CEOs look to guard against changing market dynamics.
 - ▶ Despite economic headwinds, CEOs plan to increase capital investment across all areas of the business, including strategic M&A to strengthen growth prospects.
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1 Geopolitical concerns drive shifts in strategic investment

Ongoing pandemic-related issues, geopolitical uncertainty and climate change rank as key challenges for Asia-Pacific CEOs.



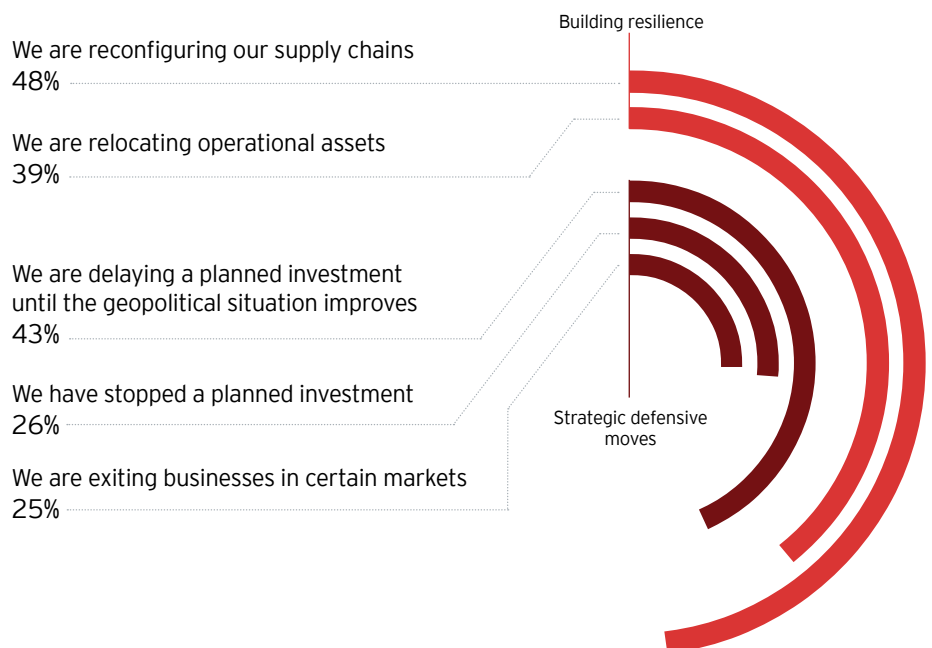
At the beginning of the year, the [EY 2022 CEO Outlook Survey](#) reported that Asia-Pacific CEOs were less concerned than their global peers about geopolitical and trade tensions. The confluence and impact of pandemic-related disruptions, growing US-China tensions and the war in Ukraine has caused sentiment to shift, with 38% (vs. 35% globally) seeing a further increase in geopolitical tensions as the second greatest risk to the growth of their business.

Geopolitical challenges cause CEOs to shift gears on strategic investments

The vast majority of CEOs (95%) have adapted their strategic investment plans because of geopolitical challenges. Geopolitical crises both near and far see companies reconsidering their global operations and footprint, with 48% reconfiguring supply chains and 39% relocating operational assets. Forty-three percent say they are delaying planned investments until the geopolitical situation improves.

Q As a result of geopolitical challenges, have you made any of the following alterations to your strategic investment plans?

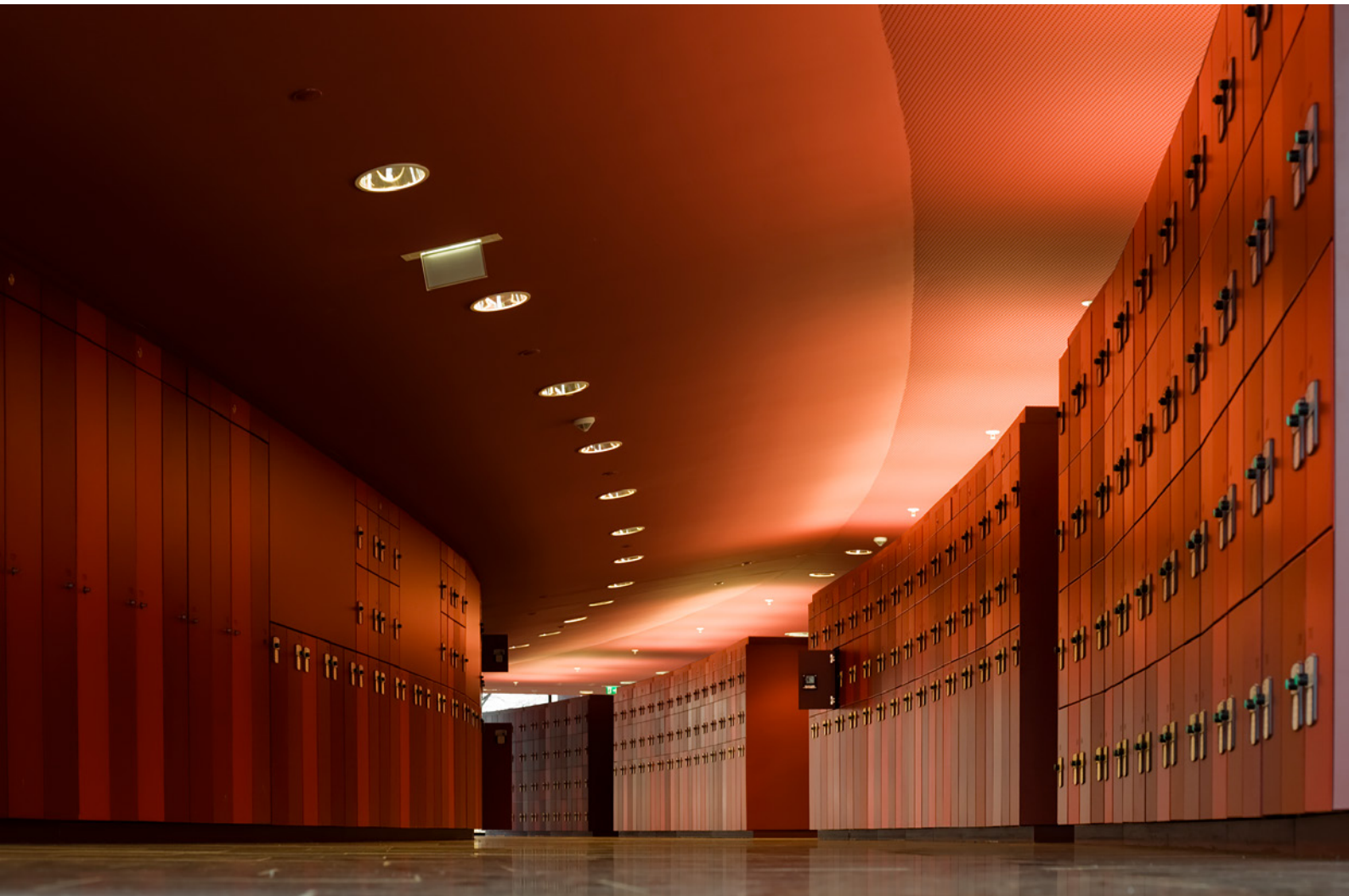
(5% of respondents chose "No")



[Recent EY Geostrategic Business Group analysis](#) suggests that two key uncertainties will serve as the primary drivers of the future global operating environment: 1) geopolitical relations, characterized either by loose alliances or distinct blocs; and 2) economic policy decisions that favor either nationalist competition or internationalist liberalization. Recent years have seen these uncertainties play out acutely in Asia-Pacific, particularly with respect to the politicization of technology.

Experience of EY teams with clients suggests that many CEOs are now building risk radar teams to continuously monitor geopolitical tensions. These teams are sourcing and analyzing terabytes of data so that they can be at the forefront of the next crisis rather than behind it. As one CEO EY teams work with remarked, it costs a lot more money to be late in responding once the crisis has occurred.

As geopolitical uncertainties continue to dominate the CEO agenda, businesses can negate the impact on growth by conducting regular assessments of how political risk developments will affect current strategy, as well as proactively include political risks analysis in M&A, market entry and exit, and international footprint decisions.



Supply chain and inflation sharpen focus on sustainability

CEOs look to guard against changing market dynamics.

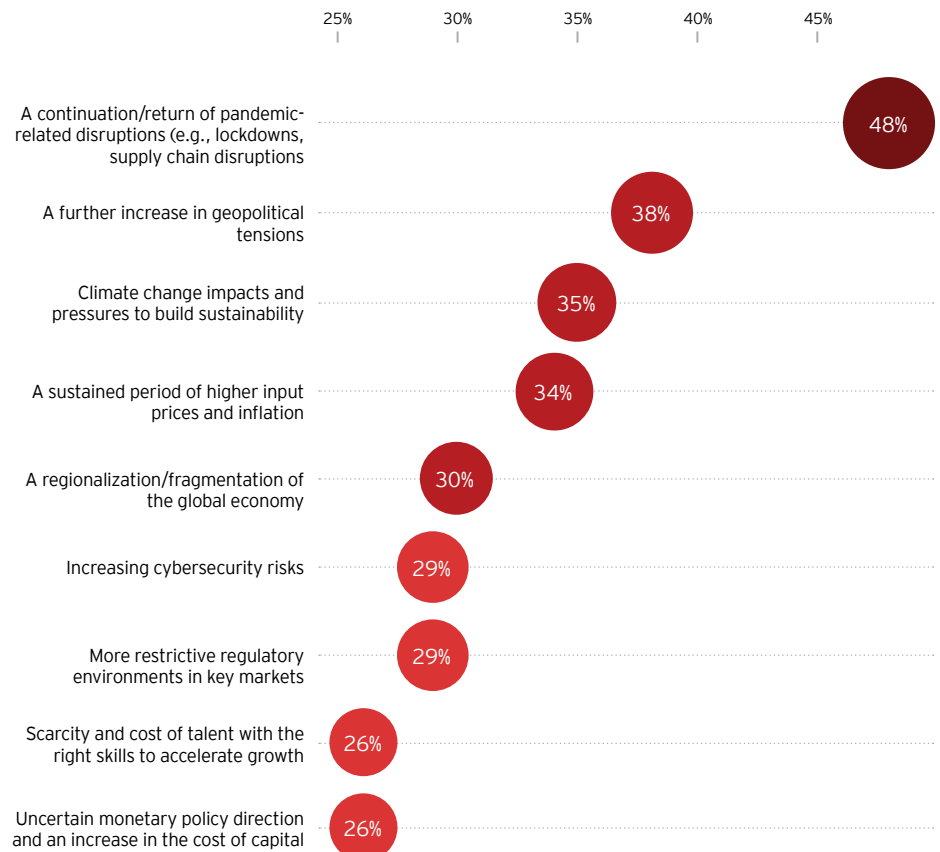


In Asia-Pacific, nearly half of CEOs (48%) identify a continuation or return of COVID-19-related disruption - including new lockdowns and supply chain pressures - as the greatest risk to their business, versus 41% in Europe and 43% in the Americas. Further, roughly 37% of Asia-Pacific CEOs cite ongoing pandemic-related issues as the main driver in the changes they're making to their strategic investments. This is unsurprising given the impact China's zero-COVID policy has had on supply chains in and out of Mainland China.

Higher input prices and inflation also have CEOs concerned, with 68% agreeing that inflation will negatively impact their companies' financial performance and growth. In fact, 20% of CEOs consider inflation as the single biggest threat to their companies' revenue and margins. Geopolitical tensions (38%) and climate change (35%) also feature prominently as critical risks to business growth.

Q Which of the following do you consider to be the greatest risks to the growth of your business?

Asia-Pacific respondents.
Respondents selected up to top three priorities



The combination of ongoing pandemic-related disruptions, rising inflation, geopolitical tensions and climate change has resulted in a perfect storm of high-impact risks for CEOs, but has also created opportunities for long-term value creation.

Asia-Pacific CEOs look to rebalance and shorten supply chains

While [supply chain reconfiguration has long been a priority for Asia-Pacific CEOs](#), the macro-economic and geopolitical woes that the world has faced in the past six months have brought this issue to the forefront, making it an imperative rather than a nice to have. Fragmented, linear supply chains don't provide the necessary visibility to mitigate risk or the flexibility to pivot when disruption occurs.

Organizations have started to reimagine their supply chains to be shorter and more localized. Further, they are diversifying their suppliers to reduce reliance on any one vendor. Additionally, footprint optimization and operational asset relocation remain high priorities as a practical response to geopolitical tensions, climate impacts and pandemic-related disruptions across the Asia-Pacific region. Many large North American manufacturers have started to rebalance their supply chains to the Southern US and Northern Mexico from their facilities in the Asia-Pacific region. Even companies headquartered in Asia-Pacific are increasing investments in Southeast Asia and North America to keep pace with the shift toward shortened supply chains.

Some Asia-Pacific companies are also considering market clusters based on jurisdiction, similar demand characteristics and supply sources. Market clusters offer the flexibility for multiple locations for management, places them in proximity to markets, and presents a talent model that supports greater mobility and location choice.

Customer pressure sees companies up the ante on sustainability

As concern grows over climate change, stakeholders are looking to businesses to deliver solutions. This pressure is being felt acutely in Asia-Pacific, with 42% of Asia-Pacific CEOs (versus 35% in Americas and 39% in Europe) indicating that building sustainability as a core aspect of all products and services is their most important strategic priority over the next six months.

New regulations and policies, both in Asia-Pacific and abroad, are adding to this pressure. Asia-Pacific ESG policies have doubled in the past five years, translating into ESG disclosures across most Asia-Pacific markets. Consequently, more CEOs are reimagining their organizations toward concrete and practical ESG measures that can both help supply chain resilience by protecting energy spend and improve reputational impact.

Asia-Pacific companies look within to build ESG capabilities

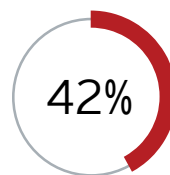
The increasing impacts of climate change and stakeholder pressure on ESG issues has Asia-Pacific CEOs considering both the risks and opportunities. However, despite the ESG focus, only a minority (13%) see ESG as the primary driver for upcoming M&A activity, indicating a reliance on in-house teams to build and strengthen their ESG capabilities. Asia-Pacific companies can accelerate their progress by acquiring the ESG skills they need to fill the gaps in their current capabilities. They could also consider strategic acquisitions that help attain more green capabilities in manufacturing to reduce their carbon footprint so that they can gain carbon credits rather than having to buy carbon offsets, which is likely to become a much bigger issue in the coming years.

Navigating the sustainable growth trilemma

Smarter pricing, while also maintaining growth has become a key challenge in this complex macro environment. Supply chain issues, inflation and climate-related risks are all adding pressure to the bottom line. Along with ESG, the two other priorities for the CEOs are innovative pricing to improve profitability (36%) and new working models to attract and retain talent (33%). To deliver value, the talent they need to attract and retain must be the right talent, which in today's turbulent environment comes with its own cost pressure.

Companies will have to balance passing on costs to customers with preserving margins through efficiency efforts. This may involve investing in digital technologies, such as robotic process automation (RPA) to automate repetitive tasks, freeing up resources (and budget) to hire talent with the right skills, as well as invest in sustainability initiatives that differentiate the organization from its competitors.

ESG as a value driver



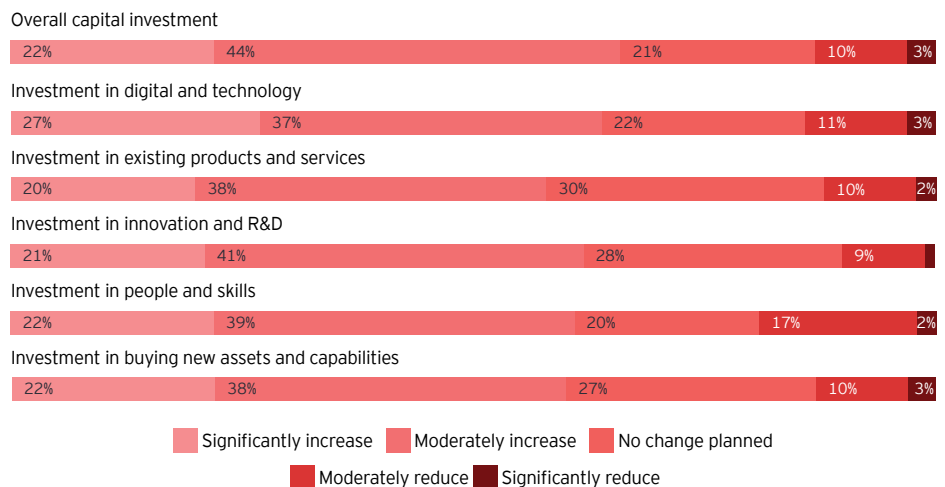
42% of Asia-Pacific CEOs cite building sustainability/ESG into the core of their products and services as their most important strategic priority over the next six months.

Investing to mitigate risk and drive transformation

JVs and alliances gain importance as Asia-Pacific CEOs look to increase agility.

Despite the geopolitical and economic headwinds, CEOs are not holding back on their investment plans, with a significant majority (66%) intending to increase capital investment over the next six months, versus only 13% who plan to reduce. Asia-Pacific is the fastest growing region in the world, and CEOs recognize they need to strengthen their investments if they are to remain competitive in the face of rapidly changing market dynamics.

Q How will your capital investments in the following change, if at all, in the next six months?



M&A intentions remain broadly positive

Deal intentions among Asia-Pacific CEOs also remain broadly positive, with half (50%) of respondents planning to pursue an acquisition in the next year (in line with the [10-year average of 48%](#)).

While the majority of CEOs plan to pursue some type of transaction over the next 12 months, 42% of respondents expect to be active on all fronts – acquisition and divestiture as well as joint ventures (JVs) or strategic alliances.

JVs and strategic alliances have grown in importance as companies look to become more agile based on the experience of the pandemic and elevated economic and geopolitical uncertainty. The advantage JVs and alliances offer is the ability to enter a business without the risk of full ownership. More companies in Asia-Pacific are using this technique to test the water, especially for new technology, new markets and new products that have adjacency with their own products. They are also using these types of deals to test the cultural compatibility before committing to 100% ownership.

The primary drivers behind their transaction intentions largely reflect their strategic focus.

Q What would be the primary driver for your next planned transaction, including acquisitions, divestments, joint ventures, strategic alliances and other significant investments?

Asia-Pacific respondents.
 Respondents selected up to top three priorities.
 The percentages are prorated to 100%.



The experience EY teams have had with clients suggests that Asia-Pacific companies are seeking to enter a new business where they see high growth potential but may not have the expertise. Through M&A, they are trying to create a new business platform into which they can fold more acquisitions. These types of deals require investment, especially in technology to create scale around the back office and infrastructure so that they can then pursue the next level of [transformative dealmaking](#).

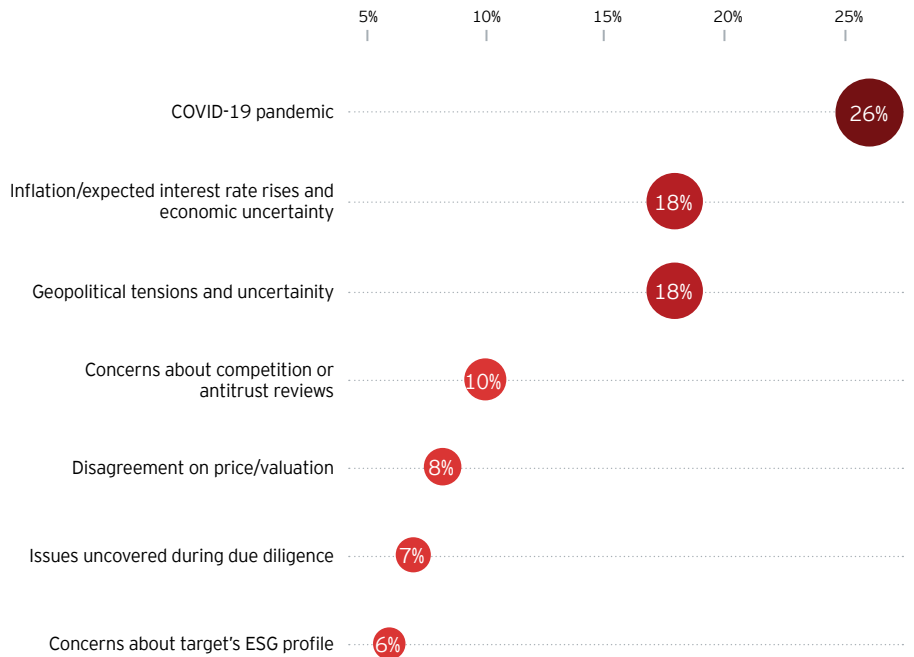
Asia-Pacific CEOs proceed with caution in turbulent times

While Asia-Pacific CEOs see transactions and alliances as critical tools to quickly access the operational capabilities, talent and scale needed to transform their businesses and position themselves for future growth, they are being much more disciplined in the deals they pursue.

The vast majority (93%) of companies have either failed to complete or canceled a planned transaction. While the primary risks to growth – the fallout from the pandemic, geopolitical tensions, and inflationary pressures and economic uncertainty – appear to be at the heart of these go or no-go decisions, the level of caution also demonstrates that Asia-Pacific companies have bolstered their due diligence processes to better filter out unsuitable acquisitions. CEOs have become much more selective in choosing the right deal and are focused on assessing value throughout the deal process to ensure they are ultimately paying the right price.

Q Have you failed to complete or canceled a planned acquisition in the past 12 months? If so, what is the primary reason?

Asia-Pacific respondents.
7% of respondents had not failed to complete or canceled a planned acquisition in the past 12 months.



Now is the time to reimagine strategies

As pandemic disruption and geopolitical tensions continue to loom large in Asia-Pacific, CEOs need to remain focused on the unique set of opportunities and challenges in the region and adjust their strategies accordingly.

Leading companies recognize the importance of a more local approach and are diversifying their risk exposure by re-orienting their investments, focusing on value for customers and moving supply chains closer to home. At the same time, they are strengthening their ESG capabilities by reimaging both the up- and downstream value chain.

The high degree of complexity, combined with rapid pace of change in Asia-Pacific, requires CEOs to review their assumptions around structure, disruption and competition through a new lens. Now is a critical time for Asia-Pacific CEOs to re-examine their strategies and focus on boosting optionality, agility and sustainability to create optimal conditions for long-term value reation.

Summary

Asia-Pacific CEOs are staying focused on the future in the face of increasing macro uncertainty. Whether through buying, building or partnering, they are making prudent investments that create long-term sustainable value.

About the study

The *EY 2022 CEO Outlook Survey* aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation. It is a regular pulse survey of CEOs from large companies around the world, conducted by Longitude Research Limited, a Financial Times company.

In August 2022, Longitude surveyed on behalf of the global EY organization a panel of 760 CEOs in 10 countries and across six industries. It includes 210 CEOs from Asia-Pacific region representing the following industries: advanced manufacturing and mobility, consumer products and retail, energy and resources, financial services, health sciences and wellness, technology, media and telecoms.

- ▶ Surveyed companies' annual global revenues were as follows: less than US\$500m (20%), US\$500m-US\$999.9m (20%), US\$1b-US\$4.9b (30%) and greater than US\$5b (30%).
- ▶ The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future.
For more insights in this series, visit ey.com/en_gl/ceo.

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EYG no. 009247-22Gbl

2209-4093016

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