Global executives are deeply divided on the outlook for the global business environment.
We released this year’s Views from the C-Suite in late June 2016 at our annual CEO Retreat in Warsaw. From our perspective, there could not have been a more appropriate occasion. The theme of this year’s retreat was “Runaway World! Leading in a Time of Extreme Global Upheaval”—a phrase that perfectly captures the convulsive global change reflected in the results of our study.

The most striking element of this year’s study is just how deeply divided global business executives are on the majority of the issues governing the short-term business and strategic environment outlook. From China’s economic outlook to the future sway of populist political parties in liberal democracies, and from the prospects of ratifying the Trans-Pacific Partnership (TPP) to whether emerging markets will stage a comeback to lead global growth, there is no consensus among executives on where the global operating environment is headed in the next 12 months.

In fact, this year marks a point at which divergent assumptions and expectations are almost certainly foreordaining vastly different corporate goals and strategies across companies. The outcome of these decisions means that we may have entered into a period that could lead to a massive corporate shakeout, with big winners and losers. In short, business leaders are placing big bets on a future about which they are increasingly uncertain. Their success will depend on the degree to which their actions are genuinely strategic.

It has often been a truism in the past, but in today’s volatile global environment, it is more important than ever for business leaders to anticipate and plan for the full range of issues shaping their futures. Studies such as this one are invaluable raw intelligence to help inform that action.

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

- **Global business executives are deeply divided on the outlook for the global environment in the year ahead.** On the majority of key potential global developments for the coming year, global CXOs are split 50-50 in their outlook—a result that holds across regions and sectors. Such a deep divide, and the uncertainty it reflects, could explain why some businesses appear to be delaying new investment and slowing planned expansion as they carefully monitor the operating environment. At the same time, divergent expectations across different companies may be leading them to adopt opposing strategies. If companies place big bets on conflicting sides of these potential developments, dramatic winners and losers could emerge in the coming months and years.

- **Technology, which presents some of the greatest opportunities and challenges in the business environment, is at the front of global C-suite leaders’ minds.** The top overall challenge is rising cybersecurity risks. And from a business operations perspective, executives believe that the adoption of new technologies such as cloud computing, big data, and mobile technologies will largely determine future success or failure. Technological innovation, intellectual property protection, and R&D investments are also critical considerations for business leaders this year.

- **Leaders in the global C-suite believe the ability to control costs will be a crucial source of differentiation.** Business model efficiency is among the issues at the top of their list of both opportunities and challenges. Within this issue, executives identify reducing costs as the top opportunity while simultaneously highlighting rising costs as the foremost challenge. The cost and availability of capital is also a top-of-mind issue for global executives in terms of both challenges and opportunities. Those companies that see the low cost of capital and other reduced costs as supporting the improvement of their business model may have a competitive advantage over those that face rising costs.

- **Executives believe that expanding globalization is the top opportunity in the external environment.** Given continued weak global trade growth, this view suggests that global executives may be less focused on traditional merchandise trade, and more focused on the expansion of international investment and services. This potentially signals the next wave of 21st-century globalization, as companies embrace more localized strategies in critical markets. And while the economies of traditional emerging market engines of growth such as China and Brazil continue to slow, global executives may be confident that new ones, from India to Indonesia, will soon come online.

- **The global C-suite is especially bullish on the future of the United States over the next decade.** An overwhelming 80 percent of global executives believe that the United States will maintain its global lead in innovation, and 74 percent are confident that the US economic trajectory will be strong through 2026. However, they will be watching very carefully the November 2016 presidential election as a sign of what is to come: more than four out of five global executives believe that the election will be important in determining US economic performance over the next 10 years.

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

Our annual Views from the C-Suite study reflects the collective judgment of 400 C-level executives and board members from around the world on both the opportunities and the challenges in the global business operating environment (see Appendix: About the Study on page 24). The survey behind the study is organized into three sections. The first asks executives to determine the likelihood of a variety of discrete potential global developments. The second focuses on business operations, which we define as a firm’s internal processes, people, and systems. The third focuses on the external environment, which we define as economic, political, social, and other external developments that affect businesses. We asked global executives about the opportunities and the challenges they face in both of these areas. Because the time frame of the majority of the questions put to the executives is just 12 months, this study focuses on the constellation of immediate issues absorbing the C-suite’s attention.

This year’s Views from the C-Suite survey was conducted in April 2016. In the headlines at the time—and certainly on the minds of C-suite executives—were, among other things, the leaked “Panama Papers,” the International Monetary Fund’s decision to lower its global growth forecast for 2016 from 3.4 to 3.2 percent, the swelling debate on the economic implications of a potential Brexit, and the continued appeal of Donald Trump and Bernie Sanders in the US presidential primary elections. Other major global events in April included the impending impeachment of Brazilian president Dilma Rousseff, the arrest by Belgian police of the man believed to have played a major role in the Brussels and Paris terrorist attacks, and the failure of OPEC to agree on a production cap. It was clearly a volatile time in the global operating environment, with many competing priorities on the minds of C-suite executives we surveyed.

Assessing the Likelihood of Global Developments

We asked global business executives to evaluate the likelihood of 10 different potential developments that could affect the global business operating environment over the next 12 months, and we found that global executives are deeply divided in their outlook. Six of the 10 possible global developments resulted in a nearly dead-even split (within the margin of error) on the likelihood that they would occur in the next 12 months. In contrast to last year’s results, in which global executives’ judgment was conclusive for all 10 developments, this year’s results reflect the uncertainty of the international environment.

Such a dramatic split in outlook suggests that businesses may act with caution in the year ahead, delaying new investment or planned expansions and carefully monitoring developments. For instance, Moody’s recently estimated that the US nonfinancial firms it rates are sitting on about $1.7 trillion in reserves, up 1.8 percent from the previous year. Despite this overall uncertainty, there are elements on which executives are more positive, suggesting some cautious optimism. For instance, global executives believe that terrorism is unlikely to increase further in the next 12 months and that the internal pressures in Europe are likely to decrease in the coming year.

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3 The margin of error is ±4.9 percentage points.

We begin by presenting the development that garnered the strongest level of agreement among executives on whether or not it is likely to occur, and we end with the one where opinion is the most divided. Accompanying figures illustrate the distribution across each response on a scale from 1 (certain not to happen) to 10 (certain to happen). The graphs are color-coded red to represent an unfavorable outcome for the global business operating environment, and green to represent a favorable outcome.

**Terrorist attacks are likely to decrease**

Executives are most aligned on their assessment of the likelihood of terrorist attacks around the world: 59 percent believe an increase in terrorist attacks is unlikely (see figure 1). This is a notable departure from last year, when 82 percent of executives believed an increase in terrorist attacks to be likely. In other words, the percentage of executives concerned about increasing terrorist attacks is just half (41 percent) what it was last year. Perhaps executives believe that after terrorist attacks in Nigeria, Syria, Pakistan, France, Belgium, and elsewhere over the past year, the world has turned a corner in the offense-defense balance against such events.

**Figure 1**

**The number of terrorist attacks around the world will increase**

![Bar chart showing 59% unlikely and 41% likely]

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite

**The European Union will likely begin to strengthen**

In a similarly optimistic vein, 57 percent of executives believe that political, economic, and social pressures in the European Union (EU) are likely to decrease over the next 12 months (see figure 2 on page 4). This sentiment is strongest in the Americas, where 64 percent of respondents hold this view, compared to 52 percent in Europe and 53 percent in Asia. The weaker response from European executives is not surprising given the ongoing migration crisis, the rise of political extremism in the region, and the Brexit vote in the United Kingdom. Overall, however, respondents may feel encouraged by somewhat stronger economic growth, competitive euro exchange rates, and the European Central Bank (ECB) commitment to monetary policy stimulus.
Central banks will likely end negative interest rates and quantitative easing

A slim majority—56 percent—of executives believe that central banks in the main developed markets will normalize monetary policy in the next 12 months (see figure 3). Fully 72 percent of executives in last year’s survey believed that the ECB’s quantitative easing program would successfully revive the eurozone economy. While the jury may still be out on that outcome, it is clear that the US Federal Reserve has begun to restore normal monetary policies. A slight edge in favor of the optimistic camp may reflect confidence that the Federal Reserve will continue raising interest rates in the second half of 2016, and that the ECB and Bank of Japan may then follow suit, thus harmonizing global monetary policy.
**Economic and financial volatility will probably lessen**

Fifty-five percent of executives believe that economic and financial volatility will be lower in the coming 12 months than over the past year (see figure 4). This is in marked contrast to last year’s survey, in which 82 percent of respondents thought financial volatility would increase over the coming 12-month period. Respondents from the Americas are less confident than the global average this year: only 48 percent believe economic and financial volatility will not increase over the next year. This may be due to the six-month high in US market volatility since August 2015, triggered in part by continued declining oil prices, uncertainty over Federal Reserve monetary policy plans, and China’s currency devaluation and stock market volatility.

**Figure 4**

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

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Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite

**Territorial tensions between China and its neighbors are a wild card**

Fifty-four percent of survey respondents agree that maritime tensions between China and its neighbors will decrease (see figure 5 on page 6). Executives based in the Americas are the most optimistic, with 57 percent predicting a decrease in territorial disputes. Perhaps they believe the US “pivot” to Asia—the centerpiece of the Obama administration’s foreign policy—will deter China from making more assertive territorial claims. In contrast, Asian executives are split exactly 50-50 on whether territorial tensions will decrease in the next 12 months.
The global economic growth outlook is uncertain

Executives’ outlook on the global economy reflects a slight edge, at 52 percent, for the camp that expects global growth will not slow dramatically (see figure 6). The 52-48 split likely reflects looming concern over issues such as the US Federal Reserve’s plan to increase interest rates, China’s economic outlook, global oil prices, and key emerging market prospects. Views vary, however, depending on the sector executives work in. For example, 58 percent of service-sector executives believe global economic growth is unlikely to slow, while 58 percent of executives in the IT industry hold the opposite view. One possible reason for the different interpretations: China and other major economies are opening their service sectors to global competition, while concerns about data privacy, security, and control are raising the specter of greater protectionism in the IT sector.

Figure 5
Tensions will decrease between China and its neighbors over territorial disputes in the South and East China Seas

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite

Figure 6
Global economic growth will slow dramatically

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite
The Trans-Pacific Partnership (TPP) is as likely as not to be ratified

The global C-suite is uncertain whether the TPP will enter into force, with just 52 percent of executives believing that it will be ratified in the next 12 months (see figure 7). Executives from the Americas are the most confident that the TPP will be ratified, at 55 percent. This is somewhat surprising given the harsh criticism of the TPP by major US presidential candidates. Executives may expect, however, that despite sour public rhetoric, latent congressional support exists to ratify the TPP during the lame-duck session after the November elections and before the new members of Congress take office in January 2017.

Figure 7
The Trans-Pacific Partnership (TPP) will be ratified by all of its member countries in the next 12 months

China’s economic growth outlook is uncertain

Executives across all regions are evenly split on their expectations for the Chinese economy (see figure 8 on page 8). Although this suggests profound uncertainty regarding China’s short-term economic outlook, the results are more optimistic than those from last year. In 2015, fully 77 percent of global executives thought it was likely that China’s economic growth rate would slow to below 6 percent. Global executives’ somewhat more positive outlook in 2016 may possibly be explained by China’s resilience and agility in the face of challenges to economic performance and financial-sector stability. The uncertainty this year is likely due to lingering concerns surrounding China’s attempted shift from investment and manufacturing toward consumption and services, as well as its foreign exchange rate and equity market policies.
Opinion is mixed on the growing appeal of populist leaders and extremist political parties

The executives we surveyed are evenly split on whether populist leaders and extremist political parties will continue to gain support in major democracies (see figure 9). In the past year, the world has seen the increasing influence of populist movements on the far left in Spain and Greece, and on the far right in France, Austria, and Italy. In the United States, two of the last three presidential candidates to remain in the race espouse populist ideologies. The conventional wisdom had suggested that such populist leaders and extremist parties would ultimately reach an upper threshold of support—well below the level required to take actual power. However, the fact that populist parties now rule in several European countries, including Greece and Hungary, as well as the growing global popularity of what previously were regarded as “fringe” candidates has called this wisdom into question, which may explain the divided opinion in the global C-suite on the outlook for populism and extremism.

**Figure 8**
China’s economic growth rate will slow to below 6 percent, down from its 2015 level of 6.9 percent

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Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite

**Figure 9**
Populist leaders and extremist political parties will continue to gain support in democracies around the world

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Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite
Emerging markets may—or may not—stage a comeback

Global executives are split 50-50 on whether emerging markets are likely to lead global growth and investment in the next 12 months (see figure 10). In last year’s survey, 77 percent of executives thought emerging markets would stage a comeback. The regional divide on this question is noteworthy: 56 percent of respondents in the Americas think a comeback is likely, while 56 percent of those in Asia do not. This is not entirely surprising, as Asian economies are more exposed than their counterparts in other regions to a slowing China. At the same time, the US economy continues to gradually gain strength, and the forecast for many Latin America economies has trended more positive in recent months.

Figure 10
Emerging markets will stage a comeback in leading global growth and investment

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite
Costs are of foremost concern for executives on both sides of the business model efficiency equation.
Opportunities and Challenges in Business Operations

What about the opportunities and challenges that global executives face in the ways they run their businesses? Two business-operations issues in particular are front and center for executives: the efficiency of their business models and their skill at adopting new technologies. Both topics are among the top challenges and the top opportunities identified by global executives (see figures 11 and 12 on page 12). It is not just that executives in some regions or sectors have a competitive advantage in these areas, though. Rather, the nature of these two business operations issues is not clear-cut, as more than 45 percent of the executives who point to each of these as a top challenge also say it is a top opportunity. These are perennial issues for the C-suite. The same two business-operations issues—business-model efficiency improvements and technological innovation and adoption—also topped the list of operational opportunities in the 2015 Views from the C-Suite.

Business model efficiency: opportunity and challenge

Global executives cite improving business model efficiency as the top-ranked business operations opportunity, while declining business model efficiency is their third most important challenge. Costs are of foremost concern for executives on both sides of the business model efficiency equation.

Business leaders across two of the three regions and sectors point to reducing costs as one of their top two opportunities to make their business model more efficient. The exceptions are executives in Europe, who are more focused on improving key business activities and customer relationships, and those in the IT sector, for whom improvement in key business activities and the use of key partnerships are most important.5

The global C-suite also sees rising costs as the top challenge associated with declining business model efficiency. One cost that may be on executives’ minds is energy, since global oil prices have been steadily rising from their rock-bottom level in early 2016. Other major challenges in this space are the underperformance of key resources—particularly for executives in the Americas and in the IT sector—and a weakening of key business activities.6 These underperformance challenges may be related to the anemic economic performance of major markets and of the broader global economy (see Opportunities and Challenges in the External Environment on page 18).

Technology adoption: opportunity and challenge

Business leaders cite difficulty in adopting new technologies as their second greatest operational challenge in the next 12 months—while ranking successful adoption of those

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5 Key business activities include production, platform leveraging, and services provision, among others. Key partnerships include those with buyers, suppliers, or other strategic allies.

6 Key resources include physical, intellectual, human, and financial resources, among others.
### Business operations opportunities

<table>
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<th>Opportunity</th>
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<tr>
<td>Improving business model efficiency</td>
<td>38%</td>
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<tr>
<td>Successful innovation</td>
<td>38%</td>
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<tr>
<td>Improving strategy execution</td>
<td>37%</td>
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<tr>
<td>Successful adoption of new technologies</td>
<td>36%</td>
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<tr>
<td>Enhancing level of cybersecurity</td>
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<tr>
<td>Better management of human resources</td>
<td>27%</td>
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<tr>
<td>Better practices in governance, risk management, and compliance</td>
<td>24%</td>
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<tr>
<td>Improving supply chain management</td>
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<tr>
<td>Enhancing reputation and brand management</td>
<td>23%</td>
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<tr>
<td>New mergers and acquisitions</td>
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Note: Percentages represent executives who selected each topic as a top-three business operations opportunity.

Source: A.T. Kearney 2016 Views from the C-Suite

### Business operations challenges

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<th>Challenge</th>
<th>Percent</th>
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<tr>
<td>Rising cybersecurity risks</td>
<td>40%</td>
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<tr>
<td>Difficulty in adopting new technologies</td>
<td>37%</td>
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<tr>
<td>Declining business model efficiency</td>
<td>35%</td>
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<td>Worsening strategy execution</td>
<td>31%</td>
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<tr>
<td>Difficulty in innovating</td>
<td>31%</td>
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<td>Poorer practices in governance, risk management, and compliance</td>
<td>30%</td>
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<td>Problematic mergers and acquisitions</td>
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<tr>
<td>Worsening management of human resources</td>
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Note: Percentages represent executives who selected each topic as a top-three business operations challenge.

Source: A.T. Kearney 2016 Views from the C-Suite
technologies as the fourth greatest opportunity. What specific technologies? Cloud computing, big data/predictive analytics, and mobile technology. The C-suite is more positive about the effects of adopting cloud computing and big data/predictive analytics, while executives view mobile technology as a mixed proposition (see figure 13). Given that cybersecurity risks top the list of business operations challenges (see page 14), the explanation for this lukewarm attitude toward mobile technology might be the difficulty of keeping mobile applications secure from cyberattack. There are also challenges associated with big data (particularly in terms of keeping customer data secure) and cloud computing (for example, service quality and interoperability). But global executives seem to think the opportunities associated with these technologies—such as harnessing predictive analytics to better target and serve customers and outsourcing storage and other business services to the cloud—outweigh these challenges.

The primacy of these three technology areas is consistent across executives in most regions and industries. One exception is that Asian executives rank biotechnology, rather than mobile technology, as their third most important technological adoption opportunity. In addition, both Asian and IT executives see embedded sensors and the Internet of Things (IoT) as among their top challenges in technological adoption. In the case of IT executives, more than 40 percent identify this as their greatest challenge in the next 12 months.

Successful innovation: opportunity

After improving business model efficiency, the second-highest-ranking business operations opportunity is successful innovation. This may suggest that CXOs are taking to heart the Harvard Business Review study that found that at the most innovative companies, senior executives have a direct role in creating an innovation process. Technology tops the list of opportunities within the innovation category, highlighting its increasing importance in shaping how business is conducted. Unsurprisingly, it is executives in the IT sector (61 percent) and those in the industry sector (59 percent) who identify technological innovation as their

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greatest innovation opportunity in the next 12 months. In contrast, leaders in the services sector point to business model innovation as their top innovation opportunity.

**Better strategy execution: opportunity**

In the view of the C-suite, the third largest business operations opportunity is improved strategy execution. A large plurality of global executives (42 percent) identify greater agility and adaptability to changing market conditions as the top opportunity within strategy execution. Asian executives, however, see rewarding innovation and teamwork in performance metrics as their top opportunity to improve strategy execution.

Toyota President Akio Toyoda recently highlighted the importance of agility at a financial results press conference, saying “We are prepared for our circumstances to change this year, and as such, we have already worked hard to strengthen our competitiveness and build a robust financial foundation. Rather than simply reacting to events as they occur, we must always be ready to overcome any circumstances and face up to the changes ahead without wavering from our core goals.”

**Rising cybersecurity risks: challenge**

According to global business leaders, the top business operations risk overall is cybersecurity. Given the high-profile cyberattacks that companies in a variety of sectors and markets have suffered in recent years, it is unsurprising that 40 percent of business executives cite cybersecurity as one of their top three challenges. As we highlighted in our report *Global Trends 2015-2025: Divergence, Disruption, and Innovation*, cyber insecurity is likely to grow in the coming years as more devices are connected to the Internet and businesses potentially get caught in the crossfire of escalating cyber warfare between governments.

Craig Hinkley, CEO of web applications security firm WhiteHat, said at the March 2016 RSA Conference on cybersecurity, “It’s to a point now where ...everything is monetized through the web. I think the importance [of cybersecurity] is becoming so relevant to the boards because they understand if there’s a breach, then they are not just dealing with the financial implications now. It’s the IP, it’s the brand, and it has real monetary impact on the financials of the company.”

Among the executives who point to cybersecurity risks as a major challenge, their biggest focus is on employee cybersecurity training and awareness. This is true across all sectors and regions, with executives in the industry sector particularly focused on employee training. Other cybersecurity challenges arise from the loss of business continuity due to an attack (with executives in IT and in Europe ranking this above all others) and weak cyber defense systems.

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Technology tops the list of opportunities within the innovation category, highlighting its increasing importance in shaping how business is conducted.
A.T. Kearney is conducting a multiyear research initiative and national dialogue, called “America@250,” to explore different potential futures that may define the United States when it celebrates the 250th anniversary of its independence in 2026. America@250 is based on our assessment that the United States has reached an historic crossroads and its future is highly uncertain, with both abundant opportunities but also mounting challenges ahead.

America@250 is a conversation that seeks the opinions of leaders from around the world. As part of the 2016 Views from the C-Suite survey, we asked global business executives about their outlook on the future of the United States over the next 10 years. The results indicate that the global C-suite is overall very bullish about America’s prospects, although executives do see some potential clouds on the horizon.

An overwhelming 74 percent of global executives believe that the US economy will remain strong over the next 10 years, a result that held true across all regions and sectors (see figure A). Executives based in the Americas are more bullish, with 78 percent being somewhat or very confident in a strong US economic trajectory through 2026, while those in Europe are somewhat less optimistic, at only 69 percent.

A striking 80 percent of global executives see the United States maintaining its global lead in innovation over the next 10 years. This is true across all sectors, although executives in the IT and industry sectors hold this view more strongly than those in the services sector. Interestingly, executives based in Asia are somewhat less likely to believe (continues on page 17)

**Figure A**

**Almost three-quarters of executives are confident in the US economic trajectory**

How confident are you that the United States will have a strong long-term economic trajectory over the next 10 years?

Percent

![Pie chart showing confidence levels](chart.png)

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points. Source: A.T. Kearney 2016 Views from the C-Suite
that America’s innovation lead will remain unrivaled, with only 75 percent of this view.

But a positive outcome is not assured, and global executives do see a big wild card on the horizon: they are keeping a close eye on this year’s US presidential elections. Eighty-three percent of executives believe that the 2016 US presidential election will be somewhat or very important in determining the economic performance of the United States through 2026 (see figure B). When examining the views of only those executives who are confident in America’s economic trajectory, the results are even more overwhelming: a staggering 91 percent believe the 2016 election will be important in setting the country’s future trajectory.

It appears that global executives also see great-power politics of the 19th and 20th centuries making a comeback in the modern era. Specifically, 69 percent of executives expect economic and political relations between the United States and its key allies in the European Union to grow closer over the coming decade, while 56 percent of executives say that a military conflict between the United States and another major power—such as China or Russia—is likely between now and 2026. Strikingly, 62 percent of executives based in Asia express this view, compared to just 53 percent in both Europe and the Americas. Such a resurgence in great-power politics would have dramatic implications for the trajectory of globalization and the global business operating environment.

For more information on America@250, please see www.americat250.com.

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**Figure B**

**Executives see this year’s election as important in setting the country’s trajectory to 2026**

How important will the outcome of the 2016 US presidential election be in determining the economic performance of the country over the next 10 years?

Percent

- Very important: 39%
- Somewhat important: 43%
- No opinion: 22%
- Somewhat unimportant: 12%
- Very unimportant: 3%

Notes: Numbers may not resolve due to rounding. The margin of error is ±4.9 percentage points.
Source: A.T. Kearney 2016 Views from the C-Suite
Opportunities and Challenges in the External Environment

More than one-third of executives identify cost and availability of capital as a key challenge or a key opportunity in the external environment over the next 12 months. Another topic executives find important is expanding globalization, which almost 40 percent name as one of their top three external opportunities (see figures 14 and 15 on page 19). While this seemingly contradicts some of the top challenges executives identify in the external environment—for example, weak macroeconomic performance and the potential deterioration of tax and regulatory policies—it may actually signal that the C-suite is counting on expanding globalization to provide growth in new markets in the face of these macroeconomic and policy challenges.

Cost and availability of capital: opportunity and challenge

High cost or low availability of capital is the top challenge in the external environment, while low cost or high availability of capital is the third-highest ranking opportunity. In fact, 40 percent of those who identify capital as a key opportunity also point to it as a key challenge. This is unsurprising since the world’s main central banks have all used unconventional monetary policy since the Global Financial Crisis. Additionally, monetary policies are increasingly diverging. For instance, the ECB pushed its benchmark interest rate down to 0.0 percent in March 2016 to stimulate economic activity, while Brazil’s central bank has been holding its benchmark rate steady at 14.25 percent since July 2015 in an effort to combat inflation. And even where rates are low, banks and other financial institutions may not be willing to lend, affecting the availability of capital.

Not all executives who are concerned about the cost and availability of capital agree on what they would like to do with it. On the one hand, executives who cite the cost or availability of capital as a top opportunity are focused on using it to invest in R&D, new markets, and increased marketing budgets. On the other hand, those who point to the cost or availability of capital as a challenge are concerned about the inability to invest sufficiently in internal projects, R&D, and employee compensation. R&D is the only type of investment that makes the top three on both lists, highlighting its importance to the C-suite. The primacy of R&D makes sense given the importance of continued innovation to remain competitive, despite the dearth of private sector investment globally in recent years.

Expanding globalization: opportunity

Global executives say expanding globalization is the top external opportunity. In particular, the C-suite points to international intellectual property (IP) protection, business process outsourcing, and sourcing from foreign markets as key opportunities stemming from greater
Figure 14
Expanding globalization is executives’ top external opportunity, despite weak global macroeconomic performance

External environment opportunities
Percent

<table>
<thead>
<tr>
<th>Top-ranked opportunity</th>
<th>Expanding globalization</th>
<th>Favorable competitive landscape</th>
<th>Low cost or high availability of capital</th>
<th>Positive technological disruption in your industry</th>
<th>Stable geopolitical environment</th>
<th>High availability or low cost of natural resources</th>
<th>Favorable changes in consumer preferences</th>
<th>Advantageous size or talent of the labor force</th>
<th>Improved regulatory and tax policies</th>
<th>Strong macroeconomic performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>38%</td>
<td>36%</td>
<td>35%</td>
<td>30%</td>
<td>28%</td>
<td>28%</td>
<td>28%</td>
<td>27%</td>
<td>26%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Note: Percentages represent executives who selected each topic as a top-three external environment opportunity.
Source: A.T. Kearney 2016 Views from the C-Suite

Figure 15
Capital cost and availability tops executives’ list of external challenges, followed by issues influenced by government policy

External environment challenges
Percent

<table>
<thead>
<tr>
<th>Top-ranked challenge</th>
<th>High cost or low availability of capital</th>
<th>Weak macroeconomic performance</th>
<th>Worsening regulatory and tax policies</th>
<th>Unfavorable changes in consumer preferences</th>
<th>Unfavorable competitive landscape</th>
<th>Disadvantageous size or talent of the labor force</th>
<th>Unstable geopolitical environment</th>
<th>Low availability or high cost of natural resources</th>
<th>Negative technological disruption in your industry</th>
<th>Diminishing globalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>36%</td>
<td>34%</td>
<td>32%</td>
<td>31%</td>
<td>31%</td>
<td>30%</td>
<td>29%</td>
<td>27%</td>
<td>26%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Note: Percentages represent executives who selected each topic as a top-three external environment challenge.
Source: A.T. Kearney 2016 Views from the C-Suite
globalization. Significantly, only the last of these three is related to international trade in goods, which in years past has been used as a proxy for globalization and is now waning as a share of global GDP. Global executives’ interest in IP protection and business process outsourcing, however, may presage the next wave of 21st-century globalization, in which merchandise trade takes a backseat to foreign direct investment (FDI) and trade in services. The Trans-Pacific Partnership (TPP) anticipates this next wave by including provisions for IP protection and trade in services. In fact, the TPP may be driving some of the survey results, as executives in Asia and those in the services sector are the only groups that point to new trade agreements as a top globalization opportunity.

The next wave of 21st-century globalization may see merchandise trade take a backseat to FDI and trade in services.

The global C-suite focus on globalization in spite of slower trade growth is also consistent with the findings of the 2016 A.T. Kearney Foreign Direct Investment Confidence Index, in which more than 70 percent of executives said that they plan to increase FDI in the next three years. General Electric CEO Jeff Immelt recently announced a new globalization strategy that embodies many of these issues. Pointing to the prospect of higher protectionism and growing governmental dysfunctionality, Immelt said, “With globalization, it is time for a bold pivot. GE has $80 billion of revenue outside the US, so global growth is critical to our success.... Going forward: We will localize. In the future, sustainable growth will require a local capability inside a global footprint.... A localization strategy can’t be shut down by protectionist politics.”10 One example of such a localized strategy is Netflix’s recent announcement that it will make an original, local-language streaming series in India based on a best-selling Indian novel.

Favorable competitive landscape: opportunity

The second highest-ranked external opportunity is what global executives regard as a favorable competitive landscape. This is somewhat related to the opportunity of expanding globalization, as one of the top aspects of a favorable competitive landscape is viable new markets. This is particularly true for executives based in Europe and in Asia. Corporations that have successfully entered new markets are enjoying relative success. For instance, UK-based retailer New Look has expanded aggressively in emerging markets such as China and beat the 2015 profit and sales results of many of its more domestically focused competitors as a result.11

Other competitive landscape aspects executives see as opportunities are strong growth in the market for their product or service and rising market share vis-à-vis competitors. Notably, more than 50 percent of IT executives point to strong growth in the market for their product or service as a top opportunity, signaling likely growth in the IT industry as it reaches new customers in markets around the world.

Weak macroeconomic performance: challenge

Executives point to weak macroeconomic performance as the second most important challenge in the external environment, just behind the cost and availability of capital. In particular, executives around the world highlight economic challenges in East Asia (including China), North America, and Western Europe. This should come as no surprise given that these are the three largest regions within the global economy, and all three continue to suffer from economic growth well below their output potential. Examining the survey responses at the regional level, however, reveals that the C-suite is in fact most worried about the economic performance of markets that are closest to home.

The notable exception is that weak economic performance of China/East Asia is front-of-mind for executives no matter where they are based. This concern is consistent with the 50-50 split on whether Chinese economic growth will slip below 6 percent in the next 12 months (see China’s economic growth outlook is uncertain on page 7). Nevertheless, multinational corporations remain interested in the Chinese market. For the fourth year in a row, China ranked second in the 2016 A.T. Kearney Foreign Direct Investment Confidence Index, and the US-China Business Council reports that 90 percent of American companies say that growth prospects in China are as good or better than in other emerging markets.12

Worsening regulatory and tax policies: challenge

Global executives point to worsening regulatory and tax policies as their third most important challenge in the external environment over the next 12 months. Unsurprisingly, corporate tax rates and incentives are the top concern within this topic. With growing popular and political scrutiny of corporate tax minimization practices, this issue will likely continue to preoccupy the global C-suite in the months and years ahead.

Labor regulations are another policy that is creating key challenges for global corporations—particularly for executives in the industry sector. This may be a result of the rapid rise in the use of industrial robots, which grew 89 percent in the five years to 2014, creating new alternatives to traditional labor in the industry sector. Taxes and regulations on international trade are also a top concern of the global C-suite. It is not difficult to understand why, given the protectionist rhetoric emanating from many major markets around the world, including the United States, the United Kingdom, and other countries throughout Europe. If any of this political talk is actually translated into action, it also risks sparking counter-protectionist measures from countries such as China. This risk may help explain why companies are increasingly turning to FDI and services trade, rather than merchandise trade, to harness the opportunities of expanding globalization.

Business Implications

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

- **Uncertainty in the outlook could create a corporate shakeout.** The profound uncertainty about the direction of most key global developments means that companies are likely placing bets on both sides of the ledger. Still others may sit on the fence until the outlook is clearer. As events unfold in the coming months and years, this means that some companies will be winners while others will be losers. If companies place big bets in one direction or the other, the coming global corporate shakeout could be profound. For instance, if the Chinese economy implodes, companies that are heavily exposed to the Chinese market could suffer large losses. And companies whose leadership assumes that populism will remain on the campaign trail and will not end up affecting policies throughout Europe and the United States could face costly regulations if they are wrong. The best-positioned companies will be those that prepare for multiple contingencies, utilizing scenario planning or some other future-oriented strategic tools.

- **It is important to get technology right.** It is increasingly important that companies adopt the right technologies for their business and then invest sufficiently in their implementation to foster success. At the same time, mitigating the potential downsides of technology will be imperative. Global executives understand the importance of training employees to reduce cybersecurity risks, but employee engagement and awareness is crucial in any technology adoption process. It will also be important for the C-suite to look beyond the hype, opting to strategically implement only those technologies that align with their company’s business model and strategy.

- **Globalization should be pursued carefully.** While global executives see great opportunity in expanding globalization, they should proceed with caution. Growth markets exist in all regions of the world, but so too do rising nationalist sentiments and protectionist policies. Related to this is the rise in geopolitical tensions between major powers in recent years. Geopolitical tensions have already impeded the operations of multinational corporations in large markets such as Russia, and more could follow suit in the coming months and years. Global business executives should be mindful of these risks as they seek opportunities abroad. One potential mitigation strategy is to pursue localization—in terms of both production and branding—in select markets so that companies are viewed as local players and are less vulnerable to potential disruptions in international supply chains.

- **Agility in strategy execution is more important than ever.** Many global executives point to agility in strategy execution in the face of changing market conditions as a key opportunity in the coming 12 months, but even more of the C-suite should be paying attention to this issue. The macroeconomic performance of major economies around the world continues to be weak and volatile, and global executives point to challenges in worsening regulatory and tax policies. In this constantly shifting external environment, the ability of companies to adapt nimbly to new opportunities and challenges will be a crucial driver of business success or failure.
About the Global Business Policy Council

A.T. Kearney’s Global Business Policy Council, established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through strategic advisory services, regular publications, and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that shape business and government around the globe.

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Appendix: About the Study

The 2016 *Views from the C-Suite* study uses primary data from a proprietary survey administered to 400 senior executives of the world’s leading corporations. The survey was conducted in April 2016.

Respondents include C-level executives and board members. About 25 percent of respondents are CEOs and about 20 percent are board members; the remaining 55 percent are other C-level executives. All companies participating in the survey have annual revenues of $500 million or more.

The participating companies are headquartered in 25 different countries in all regions of the world. For the purposes of reporting survey results, respondents are aggregated into three regions: Americas, Asia (which also includes a few respondents from Africa), and Europe. About 40 percent of respondents are based in the Americas, and about 30 percent each work in Asia and in Europe.

Survey respondents also represent a wide array of sectors, which we have grouped into three mega-sectors: industry (primary goods, aerospace and defense, infrastructure and construction, telecommunications and utilities, heavy industry, and light industry), services (transportation, healthcare and pharmaceuticals, wholesale and retail, financial services, and nonfinancial services), and information technology (IT). Executives at service-sector firms account for 44 percent of the survey respondents, 33 percent work at industry-sector firms, and 17 percent at IT firms.

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

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.