Rising to the Challenge

2018 Views from the C-Suite
An Annual Survey of Global Business Executives

Executives assume a broader leadership role amid geopolitical tensions, technological disruption, and economic uncertainty.
When we introduced *Views from the C-Suite* three years ago, we aimed to capture the aggregate knowledge of global executives about the broad array of issues they face every day. Technology—both the positives and negatives—and geopolitics have consistently been front of mind in recent years. However, this annual view from the C-suite is revealing not only in terms of the opportunities and challenges that executives see, but also those they do not see.

For example, we noticed a disconnect in executives’ outlook last year. They were very concerned about geopolitical instability, but at the same time, they were bullish about the macroeconomic outlook. At the time, we disagreed with this sanguine assessment that geopolitical tensions would not affect the global economy. And this contradiction appears to have been reconciled in this year’s results. There is growing doubt among the global C-suite that strong macroeconomic performance can coexist with rocky geopolitics. In fact, executives now point to a weakening global economy as one of the most profound challenges in the external environment in which they operate. And most are bearish about the economic outlook in North America, current strong US economic performance notwithstanding.

The results this year are less clear when it comes to the future course of globalization. Although almost two-thirds of executives believe globalization will decline over the next 12 months, fewer than one in four point to diminishing globalization as a top external challenge. Whether that is because they have a strategy to adjust to declining globalization or simply do not believe it will affect their business remains to be seen.

Cybersecurity risks are at the top of the list for the third year in a row when it comes to concerns regarding executives’ business operations. Given the continued prominence of this topic in our survey, we dedicate a section of this year’s report to what executives are thinking—and what they are doing—about cybersecurity risks. While an overwhelming majority of companies have experienced cyber breaches in recent years, our results indicate that most have not yet fully implemented cyber defense plans. This gap is troubling—especially as cybersecurity risks grow in complexity and scope.

The global C-suite no doubt has a great deal on its agenda, not least of which is improving the ability of companies to execute agile strategies. This agility will be more important in a world marked by geopolitical instability, uncertain macroeconomic prospects, diminishing globalization, and rising cybersecurity risks.

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

- **Expanding corporate leadership expectations.** As people around the world lose faith in their government leaders’ ability to affect necessary change, they are looking to business leaders to play a larger role. More than two-thirds of executives believe they will be expected to take on a more significant role in societal issues in the coming year. This responsibility is at once an enormous opportunity for companies to reshape the capitalist system in a more inclusive way and a tremendous challenge for them to pursue broader societal objectives in a way that simultaneously improves their commercial success.

- **The long shadow of geopolitics.** For the second consecutive year, geopolitical instability is the most significant external challenge identified by the global executives we surveyed. No surprise. The imposition of tariffs, the intensification of sanctions, the rise of populism, and growing doubts about the resilience of the international framework for trade and investment all cast a shadow on positive short-term prospects for the global economy.

- **Dramatic shifts in the global economy.** Executives this year indicate they have shifted their expectations regarding the global economic outlook and the major forces in globalization. On one hand, optimism for continued growth in the global economy has waned. In particular, respondents point to weak macroeconomic performance in North America as a top challenge. On the other, executives suggest that they expect China will play a more dominant role in leading globalization.

- **Technology cuts both ways.** For the third consecutive year, executives point to technology as a top source of both opportunities and challenges. A plurality express confidence in their capacity to adopt and leverage new technologies—such as big data, cloud computing, and artificial intelligence—as well as their preparedness to adapt to the disruption that these new technologies will bring.

- **Looming cyber threats.** More than 85 percent of executives say their company has been the victim of a cyberattack in recent years. Yet fewer than four in 10 have fully developed and implemented a cyber defense strategy. While executives have identified cybersecurity risk as their top operational challenge in each of our past three surveys—and are acutely aware of the operational and reputational damage such attacks can incur—there is a lack of consensus on how best to respond. The fog may be starting to lift, though, as the companies that are most advanced in their cyber defenses place greater emphasis on the human resources dimensions of cybersecurity.

- **Whistling past the graveyard.** Challenges related to risk management rise to their highest levels ever in this year’s survey. This concern appears well-founded, as our results also reveal an array of potential blind spots facing the global C-suite. Executives continue to assign low probability to extreme weather events affecting their businesses, despite a sizable uptick in such events and their impact on business operations in recent years. Supply chain management also remains a low priority among executives, despite the significant shift occurring from globalization to localization strategies in procurement and supply chain management. And human resources ranks low on operational issues, despite broad agreement that recruiting and retaining a talented labor force is a substantial challenge to companies the world over.
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 over the course of the next 12 months (see Appendix: About the Study on the inside back cover). This report is based on results from a survey that is organized into 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 economic, political, social, and other external developments that affect businesses. The third concentrates on business operations, which we define as a firm’s internal processes, people, and systems. For both the external environment and business operations, we ask global executives about both the opportunities and the challenges they face. Finally, we include a topical thematic section. This year, we asked executives about their cybersecurity strategy, as this topic has consistently ranked as a top challenge among executives in past iterations of this survey. Because the time frame of most of the questions put to the executives is 12 months, this study emphasizes the constellation of issues absorbing the C-suite’s immediate attention.

This year’s *Views from the C-Suite* survey was conducted in June 2018. A variety of developments were in the headlines at the time. In the external environment, we saw the escalation of trade tensions between the United States and China, US plans to enact steel and aluminum tariffs on Canada, Mexico, and the European Union, the formation of a euro-skeptic government in Italy, a tense G7 summit that highlighted growing differences between the United States and its partners, the Singapore summit between US President Trump and North Korean leader Kim Jong-un, the end of the female driving ban and other important reforms in Saudi Arabia, and President Recep Tayyip Erdogan’s electoral victory in Turkey. In business news, Microsoft purchased online community GitHub for $7.5 billion, Audi chief executive Rupert Stadler was arrested as part of the company’s ongoing diesel scandal, Comcast and Disney competed to acquire 21st Century Fox, Starbucks shut down its US stores for an afternoon for anti-racial bias training, leading emerging market investor group Abraaj filed for provisional liquidation, and UK-based Dixons Carphone disclosed it had been hit by a massive cyberattack in which nearly 6 million credit card records were exposed. These developments were surely among the many competing priorities on the minds of the C-suite executives we surveyed.
Assessing the likelihood of global developments

Global Volatility Ahead

There is strong consensus among the global C-suite regarding all 10 of the potential developments we asked them to assess (see figure 1). From the rising dangers of fake news campaigns to the likelihood of a hard Brexit, executives see increased risks in the coming year. While executives also predict significant upsides, particularly those arising from artificial intelligence (AI) and the strengthening economic potential of Asia-Pacific markets, the overall outlook is sobering. Most notably, executives expect a shift away from globalization and toward increased protectionism and mercantilism—particularly as trade tensions between key markets continue to rise.

The development eliciting the highest level of agreement among executives, importantly, is that China will play a more dominant leadership role in globalization initiatives. This result clearly reflects Beijing’s rising political, economic, and military profile. In the context of a worsening trade conflict with the United States, Beijing’s rhetoric has shifted toward more unequivocal support for multilateralism and free trade. At the Shanghai Cooperation Organization summit in June 2018, for instance, Chinese President Xi Jinping urged the international community to “maintain the

Figure 1
Executives predict significant changes in the global environment

Likelihood of events

- China will play a more dominant role in leading globalization initiatives.
- Artificial intelligence (AI) will be a game-changer for economic growth and competitiveness.
- Corporate leaders will increasingly be expected to play leading roles in society beyond narrow corporate interests.
- The EU’s new General Data Protection Regulation (GDPR) will inspire other countries to expand data privacy regulations.
- Globalization will decline as more countries put up protectionist barriers.
- Global 500 companies will be increasingly vulnerable to targeted fake news campaigns.
- The larger emerging markets (BRICS) will be less attractive investment targets due to economic growth challenges.
- Extreme weather events will act as a drag on economic growth.
- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will strengthen national competitiveness for its 11 signatories.
- The United Kingdom will have a “hard Brexit” from the EU.

Note: Numbers may not add to 100 because of rounding. BRICS markets include Brazil, Russia, India, China, and South Africa.
Source: A.T. Kearney 2018 Views from the C-Suite

View online: bit.ly/2018-Views-C-Suite
rules of the World Trade Organization, support the multilateral trade system and build an open
global economy.” China is pushing for an expeditious conclusion of the Regional
Comprehensive Economic Partnership (RCEP) free trade agreement, while its Belt and Road
Initiative infrastructure projects are increasing political and economic linkages between China
and Europe, Africa, and the rest of Asia.¹

Executives also strongly agree on the tremendous opportunities in digitization and technological
innovation. A full 71 percent expect **AI to have transformative effects for economic growth
and competitiveness**. This finding is unsurprising, as AI is already present in digital assistants,
predictive analytics software, self-driving cars, and innovative applications of machine learning
across a broad spectrum of areas, including industrial robotics and engineering. The adoption of
AI, however, is still at an embryonic stage across organizations, and its game-changing potential
may not be fully realized for years. Executives, then, may be overly optimistic about a rapid
deployment of the technology over the next 12 months.

Executives anticipate greater popular demand to expand the nature and scope of their leadership
as well. Fully 69 percent expect that **corporate leaders will increasingly be expected to play
leading roles in society beyond the narrow business interests of their companies**. These results
are consistent with the 2018 Edelman Trust Barometer, which shows that citizens expect business
leaders to be proactive about social change and that employees are looking to CEOs for guidance
on broader social issues. The growing number of socially conscious investors who see environ-
mental, social, and governance issues as criteria for investing are further evidence of this trend.
And each of these findings track with the Council’s view that corporate social responsibility
is being transformed from an optional activity often in the domain of corporate image
enhancement to a more central requirement for successful corporate stewardship. In a
period of geopolitical instability, it appears that it will fall on executives to demonstrate
the viability and sustainability of the capitalist economic model in the face of rising populism
and nationalism.

As global data flows expand exponentially, concerns about cybersecurity and data privacy are
rising in tandem. Government regulations are starting to catch up, with implications for global
businesses. The EU’s General Data Protection Regulation (GDPR) came into force in May, imposing
some of the world’s most restrictive requirements for individual data privacy. Almost seven
in 10 executives believe **countries will expand data privacy regulations, drawing inspiration
from the GDPR**. The ability of the EU to project regulatory influence beyond its borders—the
so-called Brussels effect—will be amplified as the EU continues to expand and diversify its
trade relationships, prompting other countries to harmonize regulations. As the EU takes on this
role and China continues to lead in globalization initiatives, it appears that Washington is ceding
its global leadership role to other powers, creating a more volatile and uncertain operating
environment for companies.

This uncertainty and fractured leadership likely contribute to the assessment by 65 percent
of executives that **globalization will decline over the next 12 months**. This trend away from
globalization and toward a more “islandized” world has been under way for years, amid growing
levels of nationalism, protectionism, and parochialism. One reason for this pessimism about

¹ The signatories of RCEP are Australia, Brunei, China, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Myanmar, the Philippines,
Singapore, South Korea, New Zealand, Thailand, and Vietnam.

View online: bit.ly/2018-Views-C-Suite
globalization may be the restrictions on the activities of foreign players operating in China, which suggest that the Chinese economy is much less liberalized than Beijing’s rhetoric would indicate. However, there is no doubt that the primary reason for this sentiment is that the United States has shifted over the past two years from being a champion of globalization and free trade to an unabashed critic of multilateral norms and agreements. Despite strong warnings from the business community, including the US Chamber of Commerce, about the destructive effects of protectionist policies on global operations, the Trump administration gives no indication of changing either its declaratory or actual policy. Instead, it has imposed tariffs on Chinese exports as well as on many of its close allies. Retaliatory protectionist barriers have since led to additional constraints on cross-border trade flows and rising concerns about the outbreak of a full-scale trade war.

Almost two-thirds of the C-suite are expecting that Global 500 companies will become more vulnerable to targeted fake news campaigns. False information is being disseminated through social media farther and faster, stoking confusion and distrust and blurring the line between fiction and reality. Fake news attacks have already affected prominent companies. Dishonest rumors of buyouts, for example, manipulated Fitbit’s share price, and fake reports that the CEO of Pepsi opposed Trump supporters resulted in flash boycotts of the company’s products. In Kenya, network operator Safaricom was flooded with a barrage of fake promotional offers, and in South Korea, the annual damage caused by fake news reached almost 2 percent of GDP.

More broadly, executives do not see much reason for economic optimism in emerging markets. Almost two-thirds of executives believe economic growth challenges will stifle investment levels in the BRICS markets. Given the high-profile corruption scandals in major emerging markets—most notably, South Africa and Brazil—this result is not very surprising. These deterrents are compounded by favorable tax policies and tightening monetary policy in developed countries, which are diverting capital flows from emerging and frontier markets. The results of the 2018 A.T. Kearney Foreign Direct Investment Confidence Index confirm this trend, showing that emerging markets accounted for the lowest share of top markets for foreign direct investment since the Index was launched in 1998.

Executives also identify the business impact of climate change as a risk, with 63 percent of the global C-suite indicating that extreme weather is a risk to economic growth over the next 12 months. However, 16 percent disagree—the highest “unlikely” response in our survey—saying that extreme weather is unlikely to act as a drag on economic growth. This finding points to a blind spot for some boardrooms, as there is ample evidence that the risks are already present. In 2018, wildfires and floods have decimated livelihoods and resources from California to India and China. And at $320 billion, the estimated cost of extreme weather events in 2017 exceeded that of all prior years, according to the World Meteorological Organization. As the frequency and intensity of climate events continue to increase, business leaders will be compelled by economic necessity to implement strategies that mitigate climate-related risks and disruptions.

A bright spot in the global economy, though, is the push toward economic liberalization and trade integration in Asia. The ongoing effort to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) serves as an example of this trend. A majority of executives expect that the CPTPP will improve the national competitiveness of its 11 country signatories. Given the rising strength and importance of the Indo-Pacific region, this optimism surrounding the economic benefits points to positive C-suite expectations for opportunities in the broader Asia region.

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2 BRICS markets include Brazil, Russia, India, China, and South Africa.

3 The signatories of the CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.
In contrast, the negative outlook for globalization is reflected in the expectation among 61 percent of executives that the United Kingdom will leave the EU without a trade relationship in place. This level of consensus about the likelihood of a “hard Brexit” reflects executives’ concerns surrounding the slow pace of progress in negotiations between UK and EU leaders. Without trade arrangements in place by March 29, 2019, considerable supply chain and cross-border trade disruptions are likely. Bank of America and JP Morgan are among a growing number of companies with cross-border operations that have started to relocate staff and operations to mainland Europe amid heightened regulatory uncertainty. Other companies, including pharmaceutical giants Novartis and Sanofi, have escalated stockpiling and warehousing activities to mitigate potential supply chain disruptions.

Opportunities and challenges in the external environment

Geopolitical risk dominates

Executives are broadly aligned on the top external challenges they will face in the next 12 months, including an unstable geopolitical environment, rising capital costs, weaker macroeconomic growth, and talent gaps in the labor force. They are somewhat more divided, however, on the areas of opportunity. In fact, executives are evenly split on top external opportunities, with minimal differentiation across most of the response options (see figure 2).

Figure 2
The low cost of capital and positive technological disruption top executives’ external opportunities

<table>
<thead>
<tr>
<th>Ranking</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>External environment opportunities</th>
<th>Top-ranked opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>Low cost and/or high availability of capital</td>
<td>34%</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>Positive technological disruption in your industry</td>
<td>33%</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>Expanding globalization</td>
<td>31%</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>10</td>
<td>4</td>
<td>High availability and/or low cost of natural resources</td>
<td>31%</td>
</tr>
<tr>
<td>9</td>
<td>9</td>
<td>6</td>
<td>5</td>
<td>Improving regulatory and tax policies</td>
<td>31%</td>
</tr>
<tr>
<td>7</td>
<td>9</td>
<td>9</td>
<td>6</td>
<td>Favorable changes in consumer preferences</td>
<td>30%</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>Favorable competitive landscape</td>
<td>30%</td>
</tr>
<tr>
<td>10</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>Strong macroeconomic performance</td>
<td>29%</td>
</tr>
<tr>
<td>8</td>
<td>5</td>
<td>9</td>
<td>9</td>
<td>Advantageous size and/or talent of the labor force</td>
<td>28%</td>
</tr>
<tr>
<td>5</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>Stable geopolitical environment</td>
<td>26%</td>
</tr>
</tbody>
</table>

Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2018 Views from the C-Suite
The strongest consensus in the global C-suite is that the geopolitical landscape poses a far greater challenge than opportunity. While executives expressed similar levels of concern about instability in the geopolitical environment in 2017, the nature and implications of these challenges are shifting. There is a growing unease among executives about the threat posed by less stable global governance and rising populism in key markets. As the United States pulls back from its role as leader of the international political and economic architecture, China, the EU, and others are trying to pick up the mantle. But a substantial global governance leadership void remains. The result is a weakening of the normative effect of the international rules of the game by which businesses have operated in recent decades, creating a more uncertain external environment.

Also notable this year is that, for the first time, executives seem to have reached the conclusion that ongoing geopolitical tensions cannot continue to coexist with strong economic growth. Weakening macroeconomic performance is regarded as a top challenge this year, after having been regarded as a top opportunity last year (see figure 3).

**Figure 3**

**Geopolitics, capital costs, weak macroeconomic performance, and talent gaps**

<table>
<thead>
<tr>
<th>Top external challenges</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstable geopolitical environment</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>High cost and/or low availability of capital</td>
<td>1</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Weak macroeconomic performance</td>
<td>2</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Disadvantageous size and/or talent of the labor force</td>
<td>6</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Worsening regulatory and tax policies</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Unfavorable changes in consumer preferences</td>
<td>4</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Unfavorable competitive landscape</td>
<td>5</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Low availability and/or high cost of natural resources</td>
<td>8</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Negative technological disruption in your industry</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Diminishing globalization</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: Numbers do not add up to 100 because respondents could select up to three choices.

Source: A.T. Kearney 2018 Views from the C-Suite
This change represents a dramatic shift in executive sentiment regarding the global economy over a short time period, which appears to be driven by concerns about the North American economy in particular. By a wide margin, business leaders across all regions and industries view North America as the most likely looming economic trouble spot. Such results likely reflect growing concerns surrounding the threat of a full-blown trade war between the United States and China, NAFTA renegotiations, and various domestic political risks.

Signaling the uncertainty facing businesses in the external environment, executives are evenly split on the cost and availability of capital over the next 12 months. Around one-third believe low costs will prevail and capital will be plentiful, but another third believe we are entering a high-cost environment with less capital at hand. Executives in the Americas and those in industry are most optimistic about low costs, while those in Asia and in the services sector expect higher costs. The outcome will have an outsized impact on levels of investment in new markets and in R&D for new products. As discussed in our 2018 Foreign Direct Investment Confidence Index, the tightening of capital could be bad news for emerging markets as investors concentrate their spending on developed markets, which are perceived as being more safe.

Business leaders across all industries view North America as the most likely economic trouble spot.

Executives are more strongly aligned, however, in their beliefs that their companies are sufficiently prepared to adapt to ongoing technological disruptions. They foresee opportunities to become disruptors themselves, either through launching new business models or products in their respective sectors. Yet this disruption is fueling a growing labor force challenge. Employer needs are changing, and there is a reported dearth of skilled workers capable of filling open positions, particularly for IT companies. Employers across the globe are struggling to attract applicants to open positions and keep up with the rising salary demands of existing skilled employees.

Finally, this year’s survey reveals a blind spot in the C-suite. Executives believe that trade protectionism will cause globalization to decline over the next 12 months. At the same time, however, the challenge of diminished globalization ranks at the bottom of executive concerns, even among organizations that self-identify as being very globalized. In fact, protectionist policies are part of a larger issue that requires greater C-suite attention. As we have highlighted elsewhere, multi-localism—characterized by the preference for local communities, industries, products, cultures, and customs—is the new reality to which businesses must adjust. And in the age of multi-localism, the business strategy in which companies focus on achieving growth through globally integrated value chains and mass-market products is increasingly under pressure. While this strategy has dominated since the globalization wave of the early 1990s, companies must now shift their strategies to adapt to this new age of multi-localism.

An unstable geopolitical environment is the top challenge

Concerns surrounding the unstable geopolitical environment have increased in recent years, driven by a range of issues from escalating trade tensions and rising protectionism to the implications of international sanctions in key markets. Executives ranked unstable geopolitics
as their seventh highest challenge in 2016, but it jumped to the top position in 2017 and remains in the highest spot this year. The specific areas of geopolitical concern, however, have shifted since last year. Whereas a year ago the primary focus was on refugee crises, transnational threats, and the escalation of armed conflict, the focus this year is on international sanctions, less stable international treaty systems and global governance, and rising populism in key markets. Executives in the Americas are most concerned about the overall state of global governance, likely a reflection of the more aggressive rhetoric and trade policies emanating from Washington. While executives in Asia share this concern, they cite escalating territorial disputes as the top challenge. This view is understandable given the mounting territorial tensions in the South China Sea and elsewhere. In Europe, the top challenge centers on sanctions imposed on key markets, an area likely top-of-mind given US withdrawal from the Joint Comprehensive Plan of Action nuclear deal with Iran just weeks before the survey was administered as well as continued sanctions on Russia over its 2014 annexation of Crimea.

**The economic outlook is particularly challenging in North America**

Last year, executives pointed to strong macroeconomic performance as a top opportunity, particularly in North America. This year, their outlook is the opposite. Weaker macroeconomic performance, particularly in North America, is now viewed by the global C-suite as a serious external challenge rather than an opportunity. For the Canadian economy, concerns about looming housing bubbles, an underperforming manufacturing sector, and tensions with the United States may be driving this pessimistic outlook. And while the economy in the United States has maintained its strong economic growth trajectory, fueled in recent months by increased government spending and corporate tax cuts, risks to continued growth are rising. In addition to concerns about the looming threat of a wider US–China trade confrontation, expectations that the Federal Reserve will continue to raise interest rates through the next year have some economists predicting a recession in 2020. Executives seem to agree that the economic expansion that started in mid-2009 will soon come to an end. East Asia and Latin America tie for second place among executives concerned about macroeconomic performance, but both fall 15 percentage points behind their counterparts in North America.

**Finding the right talent is a rising challenge**

The C-suite is facing a growing challenge with respect to finding the talent they need. This challenge rose from eighth last year to tie for third, reflecting mounting difficulties in attracting and maintaining the workers that companies require. This concern may be due in part to the global labor market reaching a tipping point, in which decades of expansion are coming to an end. Labor force participation rates are declining while the number of working age adults stagnates, resulting in a fracturing of the labor market. Moreover, for the third consecutive year, executives are most concerned that the labor force lacks the necessary skills for open positions.
New technologies are spurring even greater demand for the scarce workers with science, technology, engineering, and math backgrounds. As a result, many companies are now investing directly in training and education programs and partnering with educational institutions to train workers to meet their needs. These labor challenges, however, are further compounded by the current business cycle, as the global economy continues to expand and unemployment levels continue to drop. In competing for scarce labor resources, executives are finding it imperative to provide higher compensation and better benefits to retain employees.

**Executives are split on the effect of capital costs on business**

Executives are fairly equally divided regarding potential changes to the cost and availability of capital over the next 12 months. About one-third anticipate higher cost and lower availability, and a similar number expect lower cost and higher availability. This split likely reflects conflicting interpretations of the future implications of rising interest rates. There is every indication that the US Federal Reserve will continue to raise rates over the next year, increasing the cost of capital. But interest rates are still comparatively low relative to historic norms. While other major central banks, including the European Central Bank and Bank of Japan, remain less hawkish, the Fed’s moves ensure that capital costs in at least some markets will rise. Indeed, emerging markets are already under significant financial stress. Executives on both sides of the debate agree that the cost and availability of capital will impact their levels of investment, specifically in new markets and in R&D. Among executives who anticipate higher capital availability, the emphasis on investments in new markets is particularly acute in Europe and Asia. Similarly, concerns about being unable to invest in new markets have risen steadily for those who see a tightening of capital availability, especially in Asia.

**The C-suite is bullish about technological disruption**

For the second consecutive year, executives see positive technological disruption in their industry as a top external environment opportunity. Business leaders recognize, in particular, the opportunity for technology to create new business models and products that could disrupt their sectors, reflecting the view that new technologies will help foster innovative ways to do business. A striking 41 percent of executives anticipate being well-positioned to respond or adapt to disruptive technology in the year ahead. This view is particularly noteworthy in Asia, where 51 percent of executives cited this area as a top strength (compared to 40 percent in the Americas and just 32 percent in Europe). Indeed, several countries in Asia are investing heavily in disruptive technologies, including AI, advanced robotics, and 5G connectivity. Beijing is leading the way with heavy government R&D investments as it seeks an edge in its global technology competition with the United States.
Opportunities and challenges in business operations

Emphasis on Technology Adoption and Innovation

Making the best use of technology in business operations is clearly on the minds of the global C-suite. Adopting new technologies is the only issue area that emerges as both a top opportunity and a top challenge in business operations. For the third consecutive year, innovation, business model efficiency, and strategy execution round out the other top areas of opportunity that executives identify in the next 12 months (see figure 4).

Figure 4

New technologies, business model efficiency, and innovation are top opportunities for business operations

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Operational environment opportunities</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Successful adoption of new technologies</td>
<td>1</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Successful innovation</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Improving business model efficiency</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Improving strategy execution</td>
<td>4</td>
<td>4</td>
<td>3</td>
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Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2018 Views from the C-Suite

Also for the third consecutive year, cybersecurity tops the list of challenges for business operations by a considerable margin (see figure 5 on page 12). The scale of cyberattacks over the past year demonstrates that no person, company, or country is safe from such threats. It is therefore unsurprising that the share of executives citing cybersecurity as the greatest challenge has grown steadily from 40 percent in 2016 to 44 percent in 2018. It is surprising, however, that relatively few executives have a fully developed and implemented cyber defense strategy, despite being more worried about loss of business continuity and inadequate employee training in this area (see next section).
Business leaders also see new challenges related to poorer practices in governance, risk management, and compliance—the first time this issue has been among the top operational challenges in Views from the C-Suite. This concern appears well-founded, as our results reveal an array of potential blind spots for the global C-suite. Executives continue to assign low probability to extreme weather affecting their businesses, despite a sizable uptick in such events in recent years. Supply chain management also remains a middling priority among executives, despite the significant shift occurring from globalization to localization strategies. And the results of this survey suggest that the C-suite must collectively address poorly developed—or not developed—cyber defense strategies more seriously.

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Another potential blind spot in business operations is human resources management, which has consistently ranked low as both an opportunity or a challenge in recent years—despite widespread labor shortages and executives seeing the labor force talent gap as a top challenge in the external environment. A recent study found that the global talent shortage could lead to more than 82 million unfilled jobs and $8.5 trillion

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**Top operational opportunities**
- Successful adoption of new technologies
- Successful innovation
- Improving business model efficiency
- Improving strategy execution

**Top operational challenges**
- Rising cybersecurity risks
- Difficulty in adopting new technologies
- Governance, risk management, compliance

Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2018 Views from the C-Suite
The risks associated with cybersecurity are growing

Global executives view rising cybersecurity risks as the top operational challenge for the third consecutive year, and this challenge continues to grow in scope (see next section for more detail). This year, 44 percent of executives ranked cybersecurity as a top challenge, up from 43 percent in 2017 and 40 percent 2016. Half of the respondents in Europe share this perspective, the largest share of any region. The first EU-wide legally binding legislation on cybersecurity, known as the Directive on Security of Network and Information Systems, went into effect in May—shortly before this survey—and may have raised the visibility of the issue for business leaders in the region. The hacking of elections and the infamous September 2017 Equifax breach in the United States, which exposed sensitive information such as the social security numbers of nearly 148 million people, were likely front of mind, as 30 percent of executives highlight protecting consumer data as a key cybersecurity challenge. The public backlash against a company when such a breach occurs can be costly and difficult to ignore. Cyber breaches not only expose businesses to immense financial vulnerabilities, but also open the door to challenges in reputation and brand management.

Risk management and compliance challenges move to the forefront

For the first time in Views from the C-Suite, a significant share of executives point to poorer practices in governance, risk management, and compliance as a top challenge. Issues surrounding risk identification and management have risen considerably higher over the past year, which is likely an indication of growing concerns about the stability of the operating environment. The ongoing auditing crisis may also be raising concerns in boardrooms about compliance processes and standards. But the specific manifestation of this challenge varies by geography and sector. Almost half of executives in Asia rank compliance processes with laws in home or foreign markets as a top challenge, which may be a reflection of the rapid international expansion by Asian businesses, particularly those driven by China’s Belt and Road Initiative. Executives based in Europe and those in the services sector instead point to the identification of risks themselves as a key challenge in this area. In contrast, executives in industry and those based in the Americas see the analysis of and response to risks as more challenging.

Adopting new technologies presents both opportunities and challenges

Business leaders rank their companies’ difficulty in adopting new technologies as the second greatest challenge over the next year, yet they also view successful adoption of new technologies
Adopting new technologies is a central concern among executives.

37% see successful adoption of new technologies as an opportunity.

38% see difficulty in adopting new technologies as a challenge.

as the top opportunity for business operations. Adoption of new technologies is a perennial issue for executives in this survey. Overall, results were consistent across regions and industries, with two exceptions. European executives see greater challenges associated with technology adoption than their peers in other regions. And executives in the IT sector are, unsurprisingly, more optimistic about the opportunities associated with new technologies than executives in the services and industry sectors. Big data and predictive analytics ranks highly as both an opportunity and a challenge, as does AI. These results suggest that executives anticipate continued rapid advancements in these technologies but are not yet certain as to how they will affect their businesses. As in recent years, executives also point to cloud computing as a key opportunity in technology adoption. And for the first time this year, embedded sensors and the Internet of Things rises to a top challenge in this area. Given these devices’ connections to the Internet and their often-lax security protocols, executives may be waking up to their importance in cybersecurity.

Executives are more optimistic about the outcomes of innovation

Executives are cautiously optimistic about successful innovation within their companies as an opportunity over the next 12 months. Innovation was viewed as both a challenge and opportunity in 2017, whereas this year, innovation stands out as a leading opportunity. The share of business leaders viewing innovation as an opportunity, however, has declined by 7 points to 35 percent. This shift in attitudes on both sides of the ledger could indicate that the dizzying list of emerging technologies like blockchain, quantum computing, and augmented reality are simultaneously seen as exciting new tools for businesses and as having the potential to upend traditional business models. Nevertheless, executives view technology as providing the greatest innovation opportunity by a large margin, especially among executives in Asia and—unsurprisingly—the IT sector. Such leapfrogging innovation is notable in China, home to the powerful BAT triumvirate (Baidu, Alibaba, and Tencent); Indonesia, on pace to become the largest digital economy in Southeast Asia; and India, where a growing share of its 1.3 billion people are active in the country’s rapidly scaling digital economy. Executives also see opportunities to capitalize on other areas of innovation beyond technology. Business process innovation is a focus of many executives, particularly those in the services sector. And product and service innovation is seen as a key opportunity in this area as well, particularly for executives in Europe.

Business model efficiency improvements remain a top opportunity

More than one-third of executives point to business model efficiency as a top operational opportunity, holding relatively steady from last year. But executives no longer see business model efficiency as a top challenge, suggesting these concerns have subsided since last year in the minds of the C-suite. Executives in the Americas stand out as most attuned to this opportunity. And while more than two-thirds of both IT and services sector executives point to business model efficiency as a top opportunity, far fewer industry executives say the same. In the Americas, signs
of optimism could be linked to recently reduced corporate tax rates and strong market growth. And optimism about improving efficiency in IT and services could be related to these sectors’ more central roles in the 21st-century economy. Reduced costs and improvement in key business activities emerge as the top opportunities for overall business model efficiency. Investing in key resources, including physical, human, intellectual, and financial, also emerged as a related opportunity for business model efficiency, particularly in Europe.

Agility in strategy execution is of utmost importance

The ability to execute a strategy and respond quickly to unforeseen events is front and center in this year’s analysis. The global C-suite sees continued opportunities to improve strategy execution, an area that is routinely ranked among the top opportunities by executives in our annual Views from the C-Suite survey. Executives across all regions and sectors perceive this opportunity similarly, reflecting that effective strategic operations are a precondition for global business success. Notably, nearly half of executives see agility in executing company strategy while adapting to changing market conditions as the top opportunity in this area, followed by strong understanding of strategic objectives by management and strong business unit alignment with strategic objectives. The fact that strategic agility is ranked so highly by respondents is likely linked to growing geopolitical and macroeconomic uncertainty. As the global C-suite comes to terms with what we have argued is a new age of multi-localism, the agility to shift and tailor business strategies for each market in which a company operates will become ever more important for profitability and growth.

Cybersecurity strategy

Insufficient Focus and Coordination Raises Cyber Risks

Cybersecurity risks have been the top challenge for the C-suite in each of the past three years. To better understand this challenge and how executives are addressing it, we dedicated a section of this year’s survey to cybersecurity. Strikingly, more than 85 percent of executives say their company has experienced a cyberattack in the past three years. Given the great emphasis that executives place on technology capabilities in their business operations, the frequency and scope of these attacks pose a massive challenge.

Cyberattacks vary in the data they target and the business activities they disrupt. About one-third of executives say their companies have experienced a cyberattack that compromised customer privacy, and a similar number point to compromised business operations. A slightly smaller share—28 percent—say the
company’s intellectual property and employee privacy were compromised in cyberattacks. By far, the most often cited material effect of cyberattacks is the resultant reputational damage to the company. And the second strongest material effect is increased personnel and expert consultant costs.

Almost two-thirds of executives indicate that recent cyber breaches were identified and resolved within six months, and a striking 39 percent say identification and resolution happened within one month. Despite these quick responses to cyberattacks, our survey reveals that a great deal of work remains for the C-suite in this crucial area.

Worryingly, only 39 percent of executives indicate they have fully developed and implemented a cyber defense strategy (see figure 6). A similar share—37 percent—indicate that their company has yet to complete a cyber defense strategy, let alone implement it. And the remaining 24 percent of executives say their company has developed such a strategy but has yet to fully implement it. Given the high stakes—and that executives have long identified cybersecurity as a top challenge for their businesses—this is a glaring vulnerability.

The benefits of developing and implementing a cybersecurity plan are clear. Companies that have done so have disproportionate success in both avoiding cyber breaches and quickly identifying and resolving those that do occur. In fact, 47 percent of executives with a fully implemented cyber defense plan were able to identify and resolve cyber breaches within one month—compared to just 26 percent without a complete strategy. Similarly, 18 percent of executives with a fully implemented cyber defense strategy indicated no cyber breaches over the last three years, while only 6 percent of those with a partially developed or not-yet-developed plan reported the same. The compromised systems also appear to shift depending of the level of cybersecurity strategy implementation. Organizations without a fully developed
plan disproportionally indicated that employee safety was compromised (28 percent) because of cyber breaches, compared to just 17 percent of organizations with a fully implemented plan. Those companies with a plan implemented are most likely to have customer privacy targeted, but this area is also the most commonly identified target of cyberattacks overall.

Executives are split on how best to mitigate cybersecurity risks. Solutions ranging from employee training programs and cyber insurance to monitoring and auditing capabilities all received similar scores in our survey (see figure 7). But the areas of focus reported by companies with fully developed and implemented cybersecurity strategies provide clues as to best practices. Companies with fully implemented strategies disproportionately focus on the role of their employees as a critical line of cyber defense. Recruitment and retention of high-skilled IT and cyber defense employees as well as employee training programs topped the list of priority actions taken by organizations with fully implemented cyber strategies. Among organizations yet to complete a cyber defense strategy, these actions rank near the bottom. Instead, these companies place a greater emphasis on proactive monitoring and auditing capabilities and software.

Figure 7
Consensus is lacking in the C-suite on top cyber mitigation strategies

What steps is your company taking to mitigate the risks of a cyberattack?

- Employee training programs: 32%
- Comprehensive information security strategy: 31%
- Recruitment of high-skilled IT employees: 31%
- Cybersecurity behavioral analytics: 31%
- Terms and conditions in contracts: 30%
- Proactive monitoring and auditing capabilities: 29%
- Advanced multi-factor authentication tech: 29%
- Cyber insurance: 29%
- Robust cyber incident response and recovery plan: 28%
- Participation in cybersecurity industry consortium: 27%
- Hiring outside consultants and experts: 27%
- Engagement with government security agencies: 22%

Note: Numbers do not add up to 100 because respondents could select up to three choices.
Source: A.T. Kearney 2018 Views from the C-Suite
Related to these findings, we see a difference in the way companies assign responsibility for cyber risk mitigation. In organizations with a fully implemented cyber defense strategy, 32 percent of executives indicate that the chief information security officer (CISO) has this responsibility, and 24 percent indicate that the chief information officer (CIO) takes on this role. In contrast, just 16 percent of executives without a fully developed strategy assign these responsibilities to a CISO or CIO. Instead, they are more likely to assign cybersecurity work to those who may have competing priorities or lack specialized expertise in this area, such as chief operating officers, chief financial officers, and department directors.

These results suggest that companies with a fully implemented cyber strategy are better staffed and prepared for cyberattacks. Given the consistent and growing concern among executives about rising cybersecurity threats—and the implications for their operations and reputation—it is striking that such a gap in strategic preparations remains.

The C-suite has long been concerned about cybersecurity. They cannot afford further delay in implementing coordinated defenses.

Cybersecurity is not just a challenge for individual companies. It is a transnational issue that cuts across all businesses, regardless of their sector or geographic location. While this shared threat suggests that cooperation and collaboration in addressing the challenge would be beneficial, executives appear to have yet another blind spot in this area. The C-suite is evenly split on nearly all the different steps they can take to mitigate the risks of a cyberattack, but engagement with government security agencies ranks dead last (see figure 7 on page 17). The reasons for this lack of government engagement likely vary from skepticism about the government’s capabilities to a distrust of sharing consumer data and company practices. Similarly, participation in a cybersecurity industry consortium is also near the bottom of mitigating actions. This low level of engagement suggests an opportunity for greater collaboration and coordination within the private sector and between the public and private sectors on the shared challenges presented by cybersecurity.

Business Implications

The C-suite faces a variety of challenges associated with shifts in the external environment. But there are also opportunities—particularly for companies with visionary leadership and agile strategies. Overall, the current environment provides executives with the opportunity to rise to meet the various challenges that their companies—and broader society—face. While the specific business implications from this survey will vary based on the sector, geographic footprint, and strategy of each company, several priorities emerge for the global C-suite in the coming 12 months:
• **Embrace an agile strategy.** Executives are aligned on the global developments they anticipate in the coming months—from a greater international leadership role played by China to the rise of fake news to the game-changing potential of AI. Each of these developments marks a significant change in the global operating environment and comes with associated risks and opportunities. Strategic agility, which executives have identified as a top operational opportunity, is becoming even more crucial in this rapidly changing world. Strategic foresight tools, from scenario planning to crowd sourcing and war gaming, can help organizations identify blind spots, anticipate changes on the horizon, and prepare for the future.

• **Develop and implement a cybersecurity strategy.** The advantages of fully developing and implementing a cybersecurity strategy are wide-ranging, benefiting employees, customers, and the company’s bottom-line. Despite strong consensus on the scope and importance of the cyber threat among executives, agreement on best practices is lacking. Executives should explore opportunities for cooperation and collaboration on cyber defense through industry consortia as well as through public-private sector partnerships.

• **Prioritize investments in human resources.** Executives are broadly aligned on the challenges posed by the size and talent levels of the global workforce, but they continue to deprioritize management of human resources as an operational opportunity. This situation is not sustainable. The war for skilled talent is likely to continue for the foreseeable future and may grow more challenging as decades of labor market expansion come to an end. Given the difficulties executives anticipate in recruiting and retaining the employees they need, putting a skilled human resources team in place, improving compensation and benefits for existing talent, offering employee training programs, and ensuring opportunities for career advancement should all be top priorities.

• **Broaden leadership role.** Almost seven in 10 executives indicate that corporate leaders will increasingly be expected to play leading roles in society—beyond narrow corporate interests—in the year ahead. Corporate social responsibility has rapidly evolved from an optional exercise with potential ancillary benefits to a requirement for sustainable business growth in an age of multi-localism. Leadership from the private sector will be essential to overcome many global governance challenges. Providing a compelling defense of international rules-based capitalism, tackling climate change, and reducing inequality will not only create a more stable global operating environment but also will improve long-term business growth prospects.
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 2018 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 June 2018.

Respondents include C-level executives and board members. One-third of respondents are CEOs, and 17 percent are board members; the remaining approximately 50 percent are other C-level executives. 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: Americas, Asia (which also includes a few respondents from Africa), and Europe. About 40 percent are based in the Americas, and corporations headquartered in Asia and in Europe each represent about 30 percent.

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—including IT), and IT (including hardware, software, and IT-related services). Executives at services-sector firms account for about 40 percent of respondents, about 35 percent represent industry-sector firms, about 20 percent work at IT firms, and the remaining respondents identify as “other.”

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.