

20th CEO Survey, Middle East report

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Confidence and courage through change



88%

of CEOs in the region are confident about their company's prospects for revenue growth over the next 12 months

No. 1

strategic priority for Middle East CEOs to capitalise on new opportunities is digital and technology capabilities

74%

of CEOs in the region think data privacy and ethics will impact negatively on stakeholder trust levels in the next five years

Introduction

This is the 20th time PwC has canvassed the views of business leaders across the world in its Annual Global CEO survey; this year's landmark survey examined the views of over 1,300 international CEOs, including over 50 in the Middle East.

In the last two decades, globalisation and technological advances have transformed how and where we live and work, the balance of global economic power has shifted east, and the world is facing the enormous challenge of combatting resource scarcity. The impacts of these megatrends have created new risks and significant opportunities.

Many businesses have unquestionably benefited from globalisation – more trade, more connectivity, and greater freedom of movement have led to improved productivity and new opportunities, and companies in the Middle East have benefited from these developments as much as those elsewhere. But the world is at a crossroads now, and this year's survey proves that some CEOs recognise that. As one Middle East based CEO expressed, over the next twenty

years “globalisation is a given, yet social unrest may disrupt societies worldwide.” This is borne by the political upheavals of the last twelve months, and there could be more to come. As one UK CEO asked, “Are we facing a backlash now? Are we seeing protectionism come back, or not? Let's see what happens in America, as well as in Germany and in France, where there are big elections in the next year.”

CEOs in our region have been coping with the consequences of conflict for far longer than most of their peers; some organisations in the region have lagged behind in their adoption of digital technology, and megatrends like climate change, urbanisation and resource scarcity have a disproportionate social and economic impact on this part of the world. And oil prices remain low. It all adds up to a uniquely challenging prospect for those operating in the region. That said, companies in the Middle East are both successful and ambitious, and have built profitable competitive businesses which have continued to thrive even in troubled times. They have the resilience and determination to continue to do so again.

In this report we focus specifically on the results from the Middle East, to explore the issues that concern its business leaders, and canvass their views about the future.

Middle East CEO confidence returning...



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...but risks and concerns still remain



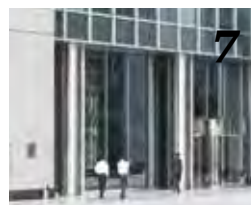
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Prioritising digital, innovation and talent



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What will change? Everything



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Confidence and courage through change



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Middle East CEO confidence returning...

CEOs in the Middle East are positive about the prospects for their businesses. 38% of respondents in the region are very confident about their company's prospects over the next 12 months (the same as the global average), compared to 34% when we asked the same question last year. As many as 60% have the same degree of confidence over the next three years – by far the highest of any region, and 9% ahead of the global average. Likewise 30% were somewhat confident when asked this question last year, but this has risen to 34% this year. This confidence also resonates into plans for the workforce: 56% of the region's respondents expect to increase their headcount over the next year, against an average of 52% globally.

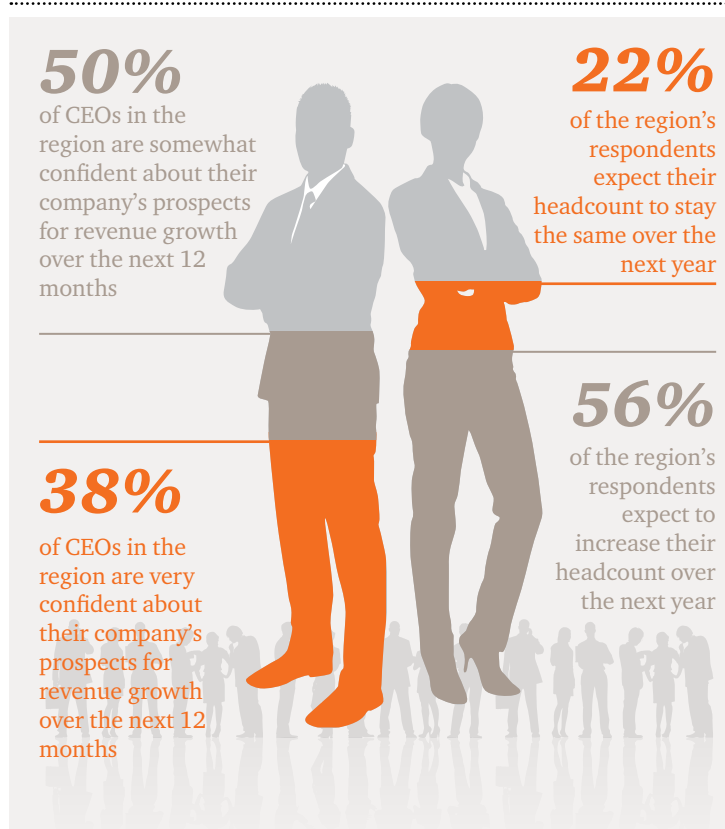
“Compared to 12 months ago a level of business confidence has returned. Although oil prices remain depressed there is more relative certainty in the economic outlook. This is encouraging businesses to again refocus on the growth agenda alongside continued attention to cost and efficiency”

Stephen Anderson
Clients & Markets Leader
PwC Middle East

Figure 1: Regional CEOs confident about their business prospects

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

Q: Do you expect headcount at your company to increase, decrease or stay the same over the next 12 months?





When it comes to translating that confidence into business plans, respondents in the Middle East have a somewhat different agenda to those in other regions.

As you will see in Figure 2, Middle East CEOs are less likely to be looking for organic growth (74% against an average of 79%, and 92% in North America); they're more likely to be looking for strategic partnerships; more likely to plan cost reduction activities; less likely to explore collaborating with entrepreneurs (equal lowest with Asia Pacific at 22% against 34% in North America and 39% in Western Europe); but much more likely to be looking to exit a business or market (considerably the highest percentage at 30%, against an average of 15%).

Taking all this together suggests that many businesses in the region are playing a cautious hand, avoiding more speculative new ventures and refocusing on core capabilities, but securing growth by working with tried and tested partners.

Figure 2: Organic growth and cost reduction are the top two activities Middle East CEOs are planning to drive corporate growth or profitability

Q: Which of the following activities, if any, are you planning in the coming 12 months in order to drive corporate growth or profitability?



“Divestments are high on the agenda of CEOs in the Middle East region because as economic conditions become more challenging and banks become more selective about lending, there is an increasing emphasis on efficient allocation of capital. This in turn focuses attention and scrutiny on businesses that are peripheral or non core to the long term vision of a business group. A contributory factor is the generational change that is taking place in most family businesses which is resulting in more pragmatism and less emotional attachment to businesses that were built up or bolted on historically but have now become marginal.”

Nitin Khanna
Corporate Finance Leader
PwC Middle East

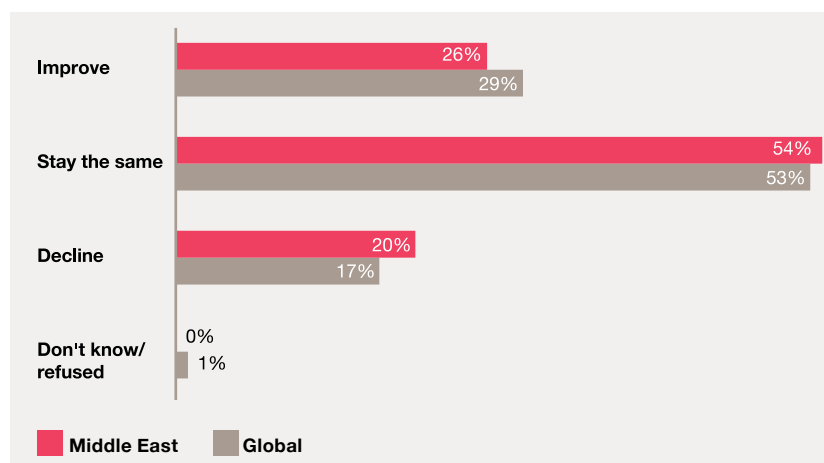
...but risks and concerns still remain

The region's CEOs may be positive about their own prospects, but they are rather less so about the global economy: only 26% believe we will see global growth in the next year, equal lowest with North America, and lower than the global average of 29%. More CEOs in the region expect an actual decline in global growth than in any other region (20%).

That said, our own interactions with business leaders in the region suggest that many believe the second half of 2016 was the low point for the global economy and we will now start to see a more sustained recovery.

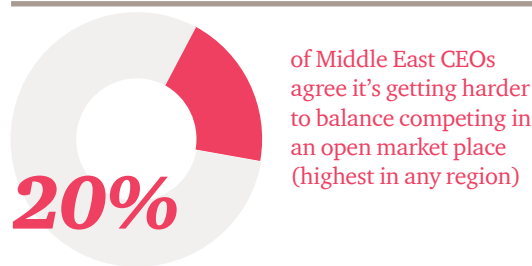
Figure 3: Middle East CEOs slightly more pessimistic than Global CEOs when asked about global economic growth

Q: Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?





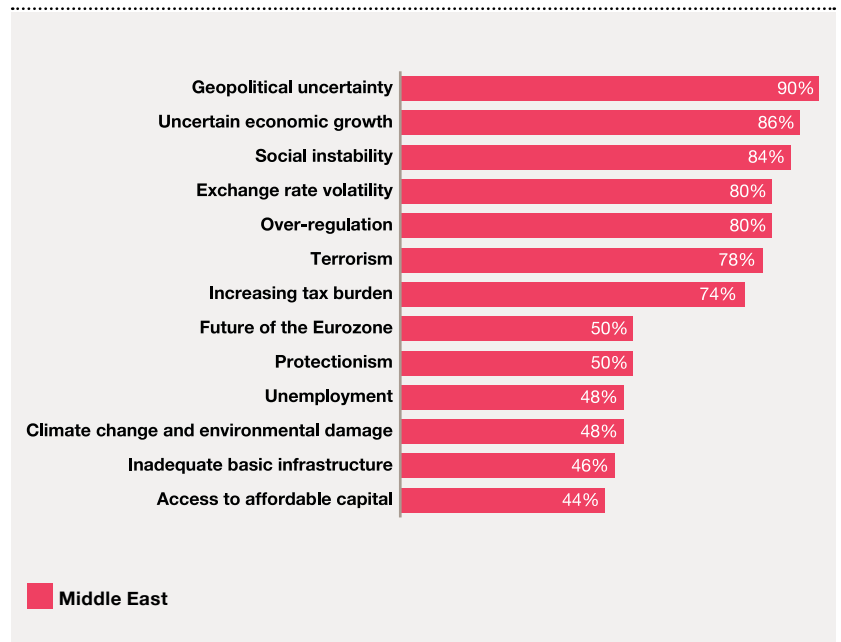
With the Middle East still facing its own economic and political challenges, respondents in the region are much more concerned about geopolitical uncertainty than the global average - it tops the list of external concerns at 90%, compared to a global average of 74%. The next on the list for the region are uncertain economic growth (86%) and social instability (84%, compared to an average of 68%). At the same time, 20% of Middle Eastern CEOs agree strongly that it's getting harder to balance competing in an open global marketplace with trends toward more closed national policies – the highest in any region and 5% ahead of the global average.



CEOs in the region are being relatively cautious about the economies they are looking to for growth, outside of their own, in the short term. The top targets are Saudi Arabia, the US, the UAE, and China. In other words, Middle Eastern companies are looking for growth locally, as much as – or even in preference to – globally. The US is high on the list because it's not only a huge market, but much easier to export to than emerging regions like Africa. Egypt was also ranked highly. Whilst it still faces significant economic and political challenges despite some recent progress, in the long term its huge and expanding demographics will undoubtedly make it an important regional player, and companies already operating there tend to be very positive about its prospects.

Figure 4 Geopolitical and economic uncertainty are top concerns for Middle East CEOs

Q: How concerned are you about the following economic, policy, social and environmental threats to your organisation's growth prospects?



In terms of business risks, respondents in the region worry most about changes in consumer behaviour (74%), the availability of key skills (72%), and the speed of technological change (70%). The top three globally are the same, though skills comes top, and changing behaviour third. The emphasis on consumer behaviour in the Middle East may be due to the high proportion of franchise-based businesses in the region, especially in consumer sectors like retail and fashion. The franchise model operates uniquely in the region, and whilst profitable and successful, at times franchisee's management over online shopping and social media platforms can be limited. This can lead to a delayed response in market trends or consumer tastes.

Perhaps surprisingly, CEOs in the region are less worried about volatile commodity prices than the global average - 55% versus 58%. But is this confidence overstated?

Prioritising digital, innovation and talent

The strategic priorities for CEOs in the region are digital and technological capabilities (22%), innovation (14%), human capital (12%), and funding for growth (10%). The findings for CEOs as a whole are innovation (23%), digital capabilities and human capital (both 15%), and competitive advantage and customer experience (both 10%). Funding for growth only scores 4% globally.

The higher score for funding growth in the region here may reflect the higher proportion of family and privately owned firms in the Middle East: these businesses can find it harder to access significant capital from banks or the capital markets.

It is certainly encouraging that digital tops the list locally, since it has long been a concern that companies in the region haven't been allocating enough resources or time to digital technology. The prominence of innovation is also positive, given that the Middle East has traditionally been a trading region, and has tended to 'import' the innovations developed elsewhere.

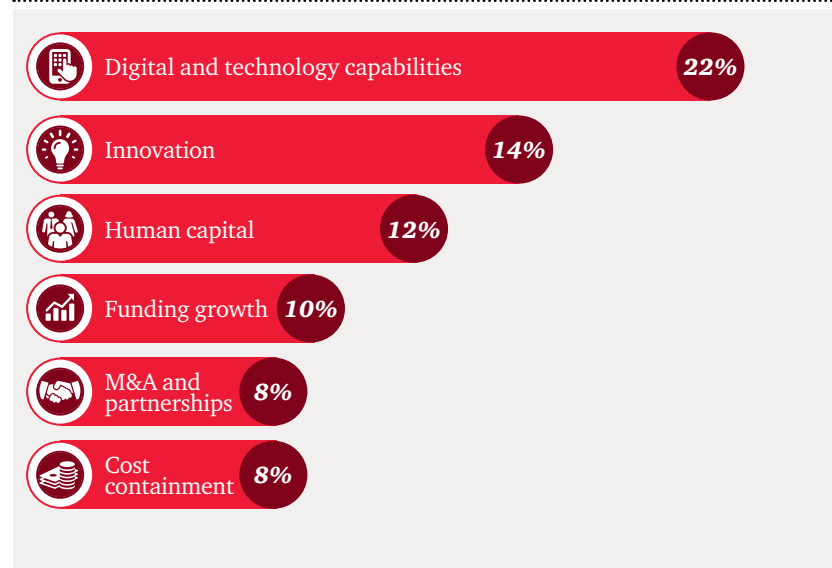
"When comparing the global and regional results of the survey, it is encouraging to see the digital agenda high on our CEOs priorities and we are seeing an accelerating demand for "digital transformation" across all industry sectors within the region. However it is vital that we look at digital and data together and not just "digital" as a silo. Transformation is not about technology, it is about behavioural and cultural change and to be truly successful we need to adapt, disrupt, transform and disappear"

Steve Plimsoll

Chief Digital & Data Officer
PwC Middle East

Figure 5: CEOs in the region are focusing on Digital & Technology

Q: Given the business environment you're in, which one of the following do you most want to strengthen in order to capitalise on new opportunities?



What will change? Everything

“Big data, artificial intelligence, quantum computing, gene therapy, robotics will reshape every aspect of life as we know it today. Communication, social interaction, employment, commerce, wellbeing, entertainment will be transformed in many ways that are not even imaginable today.”

CEO, Middle East

“An increasingly digitally-enabled landscape is emerging in the region. The fact that digital and technology rank high on the agenda of our regional business leaders is very encouraging - however the key here is to find the right balance between technology and skills”

Hani Ashkar

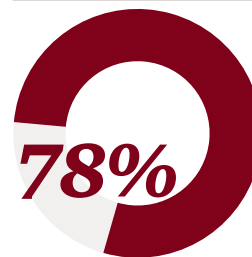
Middle East Senior Partner
PwC

Technology: Rising to the challenge

Technology is changing the shape of business – not just what companies sell, but how and where they sell it, how they run their operations internally, and how they find, manage and communicate with their staff. Every organisation is going to be transformed by technology, it’s just a question of how quickly, and how much. In other words, technology is crucial for all companies, not just tech businesses or those in directly related sectors – as one Middle East CEO observed, in the next two decades, “connectivity and automation are both likely to increase exponentially. Virtual reality will play a significant role in everyday life. Food and water scarcity will become a growing concern. Almost all industries will be significantly disrupted, and I expect very few aspects of today’s world to remain unchanged.” Or, as another CEO in the region put it, when asked what is likely to change: “Everything”.

The opportunities are vast, but the risks can be equally significant, not least the risk of doing nothing. 30% of the region’s CEOs believe that technology has completely reshaped competition in their industry in the last five years – the highest of any region, and ahead of the global average of 20%. Looking forward, 28% expect their markets to be reshaped by tech over the next five years, which is again ahead of the global average of 23%.

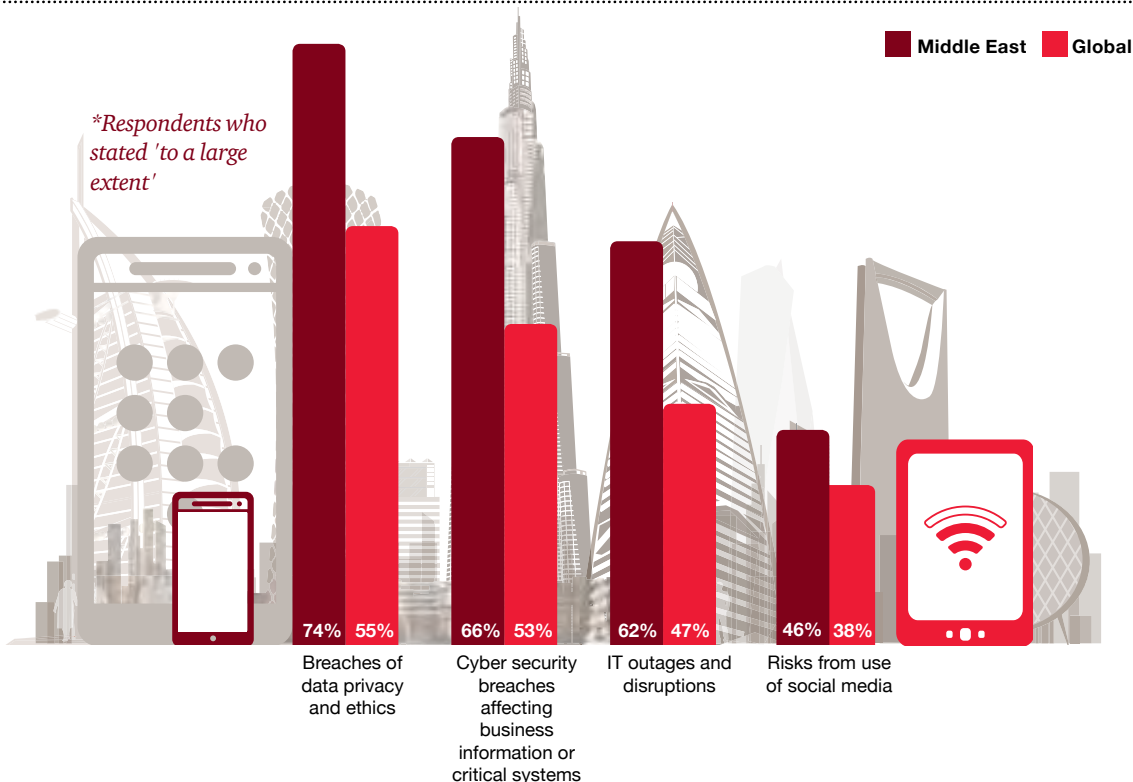
Technology is also directly related to another key theme of this year’s survey: trust. Twenty years ago, trust was not as high on the business radar as it is today. Back then, only 29% of global CEOs thought an erosion in public trust of the corporate sector posed a serious threat to growth, but this year, 69% of global CEOs told us that it’s harder now than it ever has been for businesses to gain and keep trust. This number is even higher in the region, at 78%. And the single most important factor here is digital technology.



of the region’s CEOs believe that it’s harder now than it ever has been for businesses to gain and keep trust

Figure 6: Top threat to trust for Middle East CEOs is likely to be data privacy and ethics breaches

Q: To what extent do you think the following areas will impact negatively on stakeholder trust levels in your industry in the next five years?



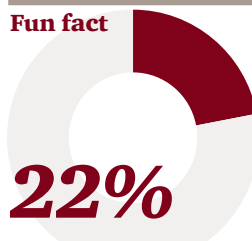
All CEO respondents agree to a large extent that the biggest threat to stakeholder trust in their business is the risk of breaches in data privacy and ethics, but concern in the Middle East is significantly ahead of any other region - 74% versus an average of 55%. A similar pattern repeats in terms of the impact of most of the other technology-related risks, with the region showing higher levels of concern about cyber security breaches (66% against 53%), IT disruptions (62% versus 47%), and risks from social media (46% versus 38%). From our previous reports about digital technology and cyber security in the region¹, even our very large companies have tended to lag their global peers in this area, so it is very positive to see that these issues are now so high up the list of corporate priorities.

Indeed, there is now a significant momentum behind the take-up of digital technology across the region, and CEOs see this as not just a risk but a clear opportunity: 64% of all respondents believe that the way their business manages data will be a differentiating factor in the future, but the figure for the Middle East is

“Anything that can be digitised will be digitised. New technology and the rate of change are increasing. It is difficult to predict even short term changes. Hence we need to be very open minded about technological changes and its disruption of business dynamics”

CEO, Middle East

Fun fact



of Middle East CEOs are active gamers, versus 11% globally

much higher and at 84%, easily outstrips all other regions. Though achieving that competitive advantage demands highly resilient systems, which are constantly updated to address emerging threats. In that context, it’s also reassuring that 66% of Middle Eastern respondents are today, actively addressing cyber security issues (versus an average of 52%), 66% are addressing IT outages (versus 55%), and 58% breaches in data privacy and ethics (53%).

Before we leave the technology issue, it’s significant – and extremely interesting – that as individuals, Middle Eastern CEOs are as active digitally as their global peers, and in some cases much more so. They’re ahead of the average in terms of consuming digital media in preference to print (76% versus 69%), and in believing they have strong personal digital skills (66% versus 55%). The difference is even more marked when it comes to use of social media (56% versus 43%), and playfully, being an active gamer (22% versus 11%), where the region’s business leaders are way out in front.

¹Middle East Information Security Survey 2016 - A false sense of security?

²Middle East Economic Crime Survey 2016 - Adjusting the Lens on Economic Crime in the Arab World



76%

of Middle East CEOs say they now use technology to improve their employees' well-being



Talent: Converging with technology

One theme that's been emerging over the last few years of the global survey is the gradual convergence of the technology and talent agendas. According to Forrester Research, Artificial Intelligence, machine learning, and robotics will replace about 7% of US jobs by 2025². One Middle East CEO tends to agree and commented, "almost all menial, repetitive, and clearly structured jobs will be replaced by new technology." As this trend gathers pace, companies are reshaping their workforces and individual roles are changing. And although respondents in the Middle East are generally positive about the outlook for employment in the next year, of the 22% who expect to cut jobs, 73% say that will be to some extent due to increased levels of automation. Encouragingly 86% of respondents in the region say they have changed their people strategy to reflect the skills and employment structures they need for the future (the global average is 78% here).

The region's passion for digital comes through in this part of the survey too, with 76% of Middle Eastern CEOs saying they now use technology to improve their employees' well-being, such as flexible working and innovative office environments (as against an average of 63%), and 62% are using digital in learning and development.

That said, the skills all CEOs really want are those that machines cannot really replicate - at least for the time being. Global CEOs ascribe the highest importance to problem-solving (98%), adaptability (96%), collaboration (96%), leadership (95%), and creativity and innovation (92%), with digital skills coming eighth at 79%. The scores for the Middle East are even higher - 100% value problem-solving and leadership, and 98% adaptability, collaboration, and creativity and innovation. Digital skills scored as highly as 92%. This is another testament to the fact that Middle East CEOs are truly focused on increasing their digital capabilities to feed into a larger digital agenda.

However, it remains tough to attract the best - 72% of those in the region find it hard to hire people with the right leadership skills, 65% struggle to find creativity and innovation, and 65% say finding emotional intelligence is a challenge.

All CEOs want a workforce that's agile and well rounded - better able to adapt to the changing world, and find new opportunities in those changes. CEOs also recognise that the human element is as important as it's ever been - indeed perhaps more so, in an increasingly virtual world.

Confidence and courage through change

At a time where the only certainty is more uncertainty, companies will have to be more agile and more adaptable than ever before if they are to survive and thrive. Businesses in the region are tough, determined and ambitious, and have proved their resilience in times of change. If anyone can succeed in the 'new normal', they surely can. The survey shows that CEOs are cautious about the direction their businesses will take in the next few years, but they're approaching the future with confidence and courage.

With this in mind, it is immensely encouraging to see so many of the region's CEOs stepping up to the challenge of digital technology, and seizing the possibilities it offers. Whilst more action is needed here, progress is definitely underway.

The future is an exciting one but not without risk. With confidence and courage our CEOs will play a vital role in the transformation of our region.

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