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23rd CEO Survey – Middle East findings

CEOs turn to efficiency and upskilling to counter uncertainty



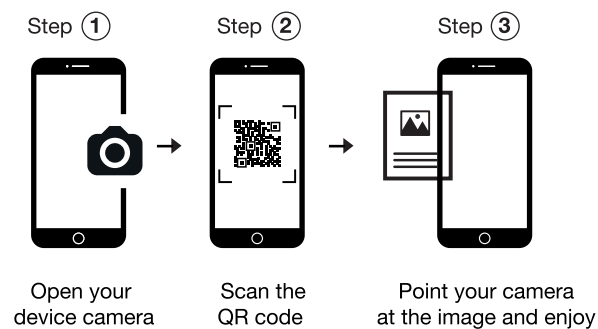
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Foreword

CEOs in the Middle East are surrounded by uncertainty. Whether it's geopolitical, economic or technological; business leaders are navigating this instability and overcoming obstacles through efficiency, talent and technology, making way for new opportunities for growth.

Uncertainty can be a segue for reduced headcount, decreased investment and overall timidity when it comes to growth opportunities. But CEOs in the Middle East do not shy away, looking instead to adapt to create sustainability and growth for the future.

Our CEOs recognise that transformation will require an investment in people - moving beyond reduction and using upskilling to improve efficiency and enhance the working experience. Of course, business on its own cannot solve the challenge of new skills. This will require the concerted effort of all stakeholders - educators, governments, technology providers and the business community to ensure that employees have the right skills for the changing nature of work.

Upskilling will in turn create new opportunities for business leaders in the region, as they take advantage of new technologies and reimagine what is possible. Technologies that leverage big data - including artificial intelligence (AI), robotics and the internet of things (IoT) - are also forcing companies to balance the need for privacy and security along with the promise that these technologies provide.

The private sector's implementation of these innovations is outpacing the development of regulatory systems and standards to mitigate their risks. However, if those boundaries are drawn too tightly, they inhibit cross-border data flows, the effectiveness of cybersecurity and, simply put, investment and innovation.

CEOs in the region are also starting to incorporate more sustainable business practices. Many organisations are rethinking the vulnerability of their operations and considering the potential for new products and services. However, our region is lagging behind our counterparts in other parts of the world in this area. With only a third of CEOs actively thinking about a 'greener' economy, it is clear that we have a lot of work to do. Societal expectations for how business should engage with climate issues are increasing. With countries around the region actively seeking to reduce dependence on non-renewable resources, it is time for the business community to step up and incorporate sustainability into their strategic plans.

In navigating uncertainty, CEOs should remain optimistic; investing in skills, implementing new technologies and capitalising on efficiencies to create new opportunities. When it comes to the most pressing topics confronting CEOs in the region, one thing is clear: collaboration is key. The business community needs to come together and make a commitment on how best to take each of these forward, finding culturally relevant solutions to problems pressing business leaders everywhere.



Hani Ashkar

Middle East Senior Partner
PwC Middle East

Overview

In late 2019, we surveyed CEOs from across the Middle East to understand their views on what is driving future growth across the region, where the untapped opportunities lie and the role business leaders will ultimately play in helping to create a sustainable and prosperous economy for all.

It's fair to say that CEOs in the Middle East continue to be cautious, amid all the economic and geopolitical uncertainty. More than half of our respondents believe that economic growth will slow in 2020, compared to just 38% last year, making them slightly more pessimistic than their global counterparts.

Yet despite the prevailing mood of caution, a majority of the region's CEOs remain generally positive about their own businesses' short and medium term prospects. 66% are confident about their company's revenue growth in the next year, with 74% more confident about the next three years.

Our CEOs' guarded optimism is not unfounded, but deeply rooted in their experience of navigating uncertainty and seizing the opportunities masked within.



Four Key themes emerged:



Uncertainty drives CEOs to seek efficiencies and new opportunities

Nine out of 10 business leaders in the region are worried about geopolitical uncertainty this year. 77% of Middle East CEOs plan to make operational efficiencies over the next 12 months to improve performance. Despite the uncertainty, however, 47% expect their companies to enter new markets in 2020 with CEOs particularly excited about both Saudi Arabia and Egypt.

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There is an urgent need for upskilling

80% of our respondents this year said a shortage of skills in the workforce was a potential threat to their organisation's growth prospects, up from 70% last year. CEOs increasingly recognise that they must maximise the potential of their existing staff through upskilling programmes (70%). Our 'GCC Hopes and Fears' survey further demonstrates that there is also great demand for upskilling from employees in the region.

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Digital transformation must be balanced by security

The response of our CEOs to technological change reflects both increasing global awareness of the need to manage the privacy and cybersecurity risks of technology and a regional background in which the requirement to cope with geopolitical instability features prominently in business planning. Understandably, therefore, the proportion of Middle East CEOs who identify rising tensions as a key factor shaping their cybersecurity strategy is almost double the global survey average.

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Companies work on getting leaner but not greener - yet

Companies throughout the region are steadily adapting to the realities of a lower rate of economic growth. In this context, corporate sustainability in the region is focused on building leaner, more efficient and nimble businesses to withstand a downturn and be ready to exploit any opportunities on the horizon. Yet mention sustainability in the context of climate change and our CEOs appear underprepared.

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“ For many of our CEOs, the drive for efficiency is as much about getting in shape to seize future opportunities as surviving current difficult market conditions.





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Uncertainty drives CEOs to seek efficiencies and new opportunities

Middle East CEOs continue to face economic, geopolitical, social and environmental challenges. Here we look at their main concerns, how leaders plan to tackle the uncertainty they face and where they see opportunities:



Uncertainty

Nine out of ten business leaders in the region are worried about geopolitical uncertainty this year, up from 83% last year, and markedly higher than the global survey average of 72%. Furthermore, 57% of Middle East CEOs cite geopolitical uncertainty as a threat to their organisation's growth prospects, almost double the global average of 30% and higher than any other region.

Against this volatile geopolitical backdrop, 87% of our CEOs also cite uncertain economic growth as a major concern. Around half see it as a threat to their company's prospects, compared with a global average of 34%. Compounding these worries, the introduction of VAT by the Gulf Cooperation Council (GCC) in 2018 has prompted speculation that additional levies may follow. Higher tax burdens were cited by 79% of Middle East respondents as a significant threat to their organisations, compared with 55% last year.

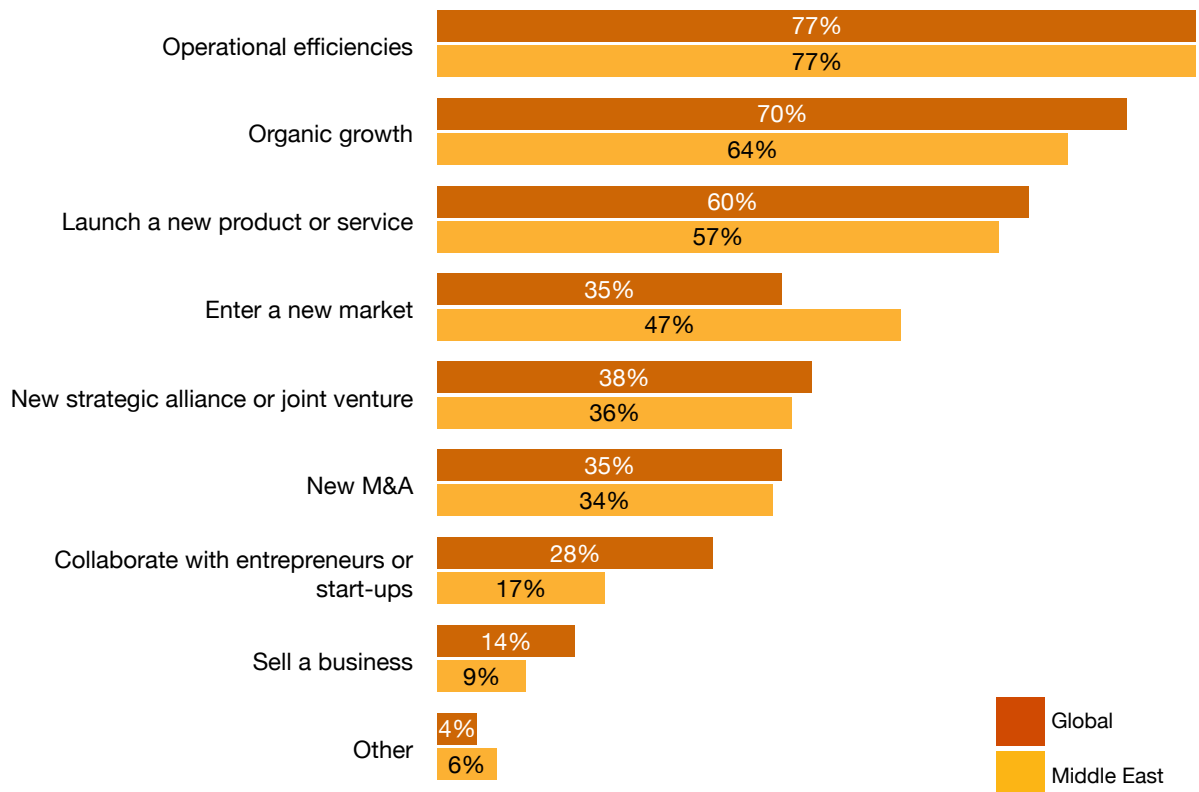
Operational efficiencies

77% of Middle East CEOs (the same proportion as worldwide) plan to make operational efficiencies over the next 12 months to improve performance, up from 68% last year. Yet only 23% of regional CEOs expect to make further headcount reductions in 2020, compared with 43% in 2019, while 47% intend to hire more employees in the next 12 months, a slightly higher proportion than in our previous survey. This nuanced picture suggests that for many of our CEOs, the drive for efficiency is as much about getting in shape to seize future opportunities as surviving current difficult market conditions. Sustainability is the focus not rash cost cutting.



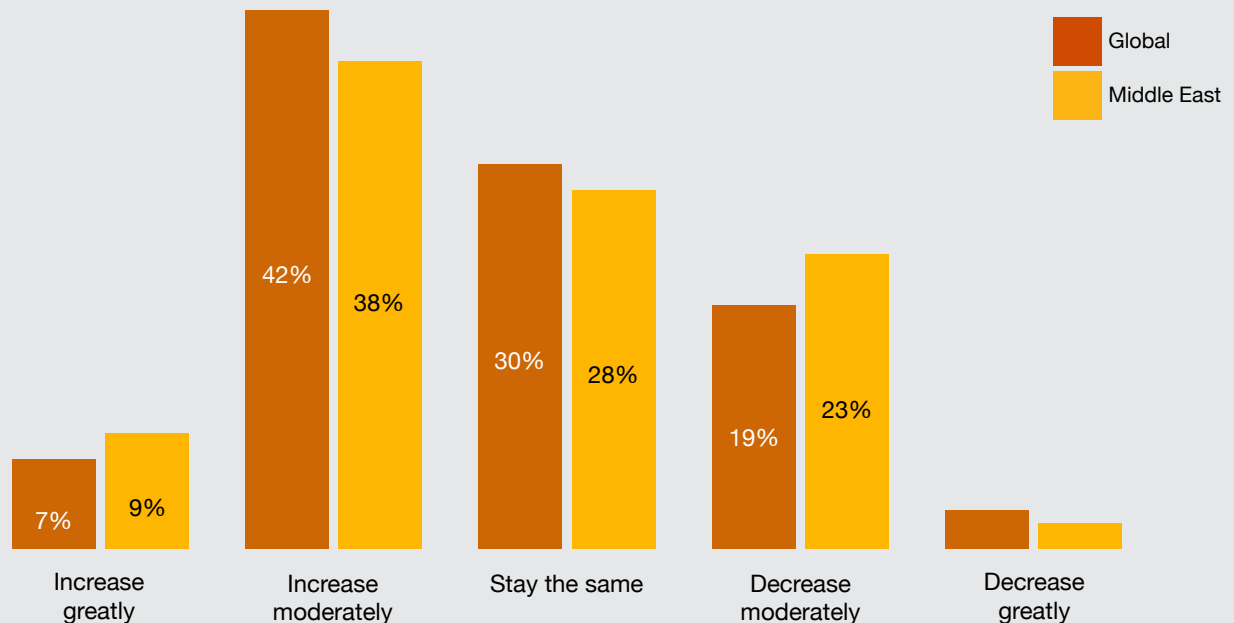
Question

Which of the following activities, if any, are you planning in the next 12 months in order to drive revenue growth?



Question

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




Seeking opportunities

One indication that Middle East business leaders are seeking new opportunities for investment and growth, despite uncertainty, is that 47% expect their companies to enter a new market in 2020, notably higher than the global survey average of 35%. Saudi Arabia ranked first as the most important growth market for Middle East CEOs in the next year, followed by Egypt, the US and China.

75% of our CEOs regard changing consumer behaviour as a business threat, about the same proportion as last year (79%). Yet the dramatic shift online across the Middle East is also an opportunity that opens up rich rewards for the winners. A young, digitally-savvy generation of consumers, who routinely conduct a large proportion of their transactions online, has rapidly emerged across the region. This group represents a golden opportunity for retailers that adapt swiftly to new shopping habits, as well as a grave threat to those that lag behind.

Overall, our CEOs are responding to two main sets of challenges. Firstly, they need to create new business models that integrate digital channels into their existing physical outlets, thereby meeting customer demand for a seamless experience, from shop-floor level to online device. Secondly, they need to become more agile and drive efficiencies across their organisations to succeed in the “new normal” environment of single-digit economic growth, making them better placed to compete at home and abroad.

In this regard, the slowdown in headcount reductions between 2018 and 2019 suggests that Middle East CEOs increasingly recognise that to be fit for the future, they must maximise the potential of their existing staff.



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There is an urgent need for upskilling

Here lies a major concern for Middle East CEOs: 80% of our respondents this year said a shortage of skills in the workforce was a potential threat to their organisation's growth prospects, up from 70% last year. It is striking in this respect that only 23% of our CEOs believe that greater cooperation between governments and businesses is leading to more movement of skilled labour between markets, down from 33% in 2015.

Across the region, upskilling has become a critical priority due in part to the rapid digitalisation of business systems and consumer markets; 70% of our CEOs see upskilling as a means to improve their employees' knowledge of technology and its potential implications, compared with 65% globally. They stand to benefit from a virtuous circle where a more tech-enabled workforce means more cost-efficient business processes and improved customer insights through analytics, this in turn leads to a better culture and employee experience, and therefore better long-term growth prospects.

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An even more important prize for the region as a whole is the potential of upskilling to unleash citizen-led innovation on a corporate and national scale. This goal is reflected, for instance, in Saudi Arabia's 'Saudi Vision 2030' plan. Most urgently, upskilling – which is not limited to digital knowledge – is crucial to tackling high youth unemployment in many Middle East countries and improving career prospects for women in the workforce.

The encouraging news from a forthcoming PwC survey of workplace attitudes in Saudi Arabia and the UAE is that most workers do not fear automation and new technologies and 96% of adults are keen to learn new skills to improve their future employability. There is also mounting evidence that Middle East business leaders are not just talking about the need for upskilling, but putting their words into action, with 91% saying their upskilling programmes will improve growth prospects.



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Read more on our GCC Hopes and Fears survey:

Workers want to be ready for the digital job market, fear of automation remains a major concern for those getting fewest opportunities to upskill.

- 75% of people in the GCC seem to think robots will steal their jobs, but those being upskilled are least worried
- 63% of women in the GCC are worried that new technology will make their job redundant versus 35% of men
- 86% of respondents in the GCC think technology will improve their job prospects and only 3% think it will make no difference

At PwC, we are committing USD 3 billion to upskilling. This will primarily be invested in training our people, and in technologies to support our clients and communities. 'New World. New Skills.' (NwNs), our global programme, will help millions of people around the world improve their understanding, skills and knowledge for the digital world.

Overall, our CEOs are in line or slightly ahead of their international peers in terms of the progress they have made with upskilling. Almost two-thirds of Middle East CEOs say they are putting training programmes in place to develop a mix of soft, technical and digital skills, compared with 54% globally. Meanwhile, 70% report that they are improving their workers' and managers' knowledge of technology and its business potential, and more than half are collaborating with academic and government institutions to develop the skills needed for the future.

Yet our CEOs are launching these initiatives from a starting point that is behind their international competitors, who have been dealing with these challenges for longer. This may explain why the proportion of Middle East CEOs who cite disruption of day-to-day business activities as the greatest challenge to their upskilling efforts is three times greater than the global average. But around the world, upskilling is a work in progress, with much of the heavy lifting still to be done.



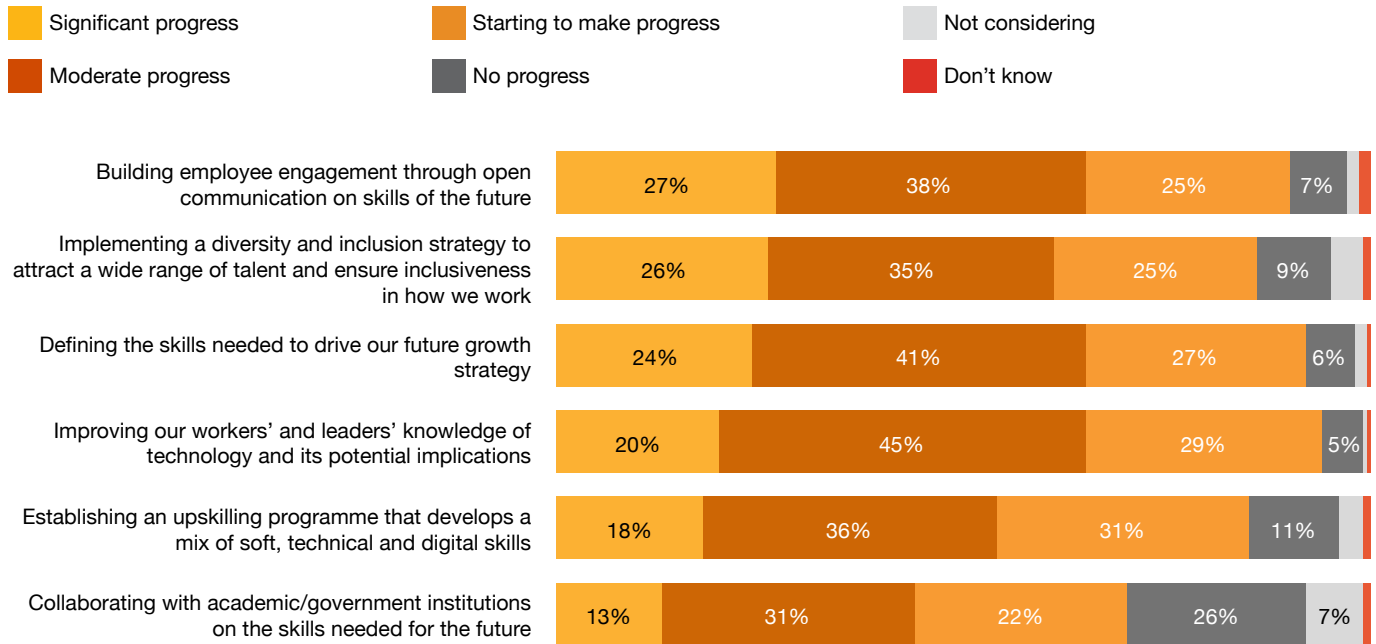
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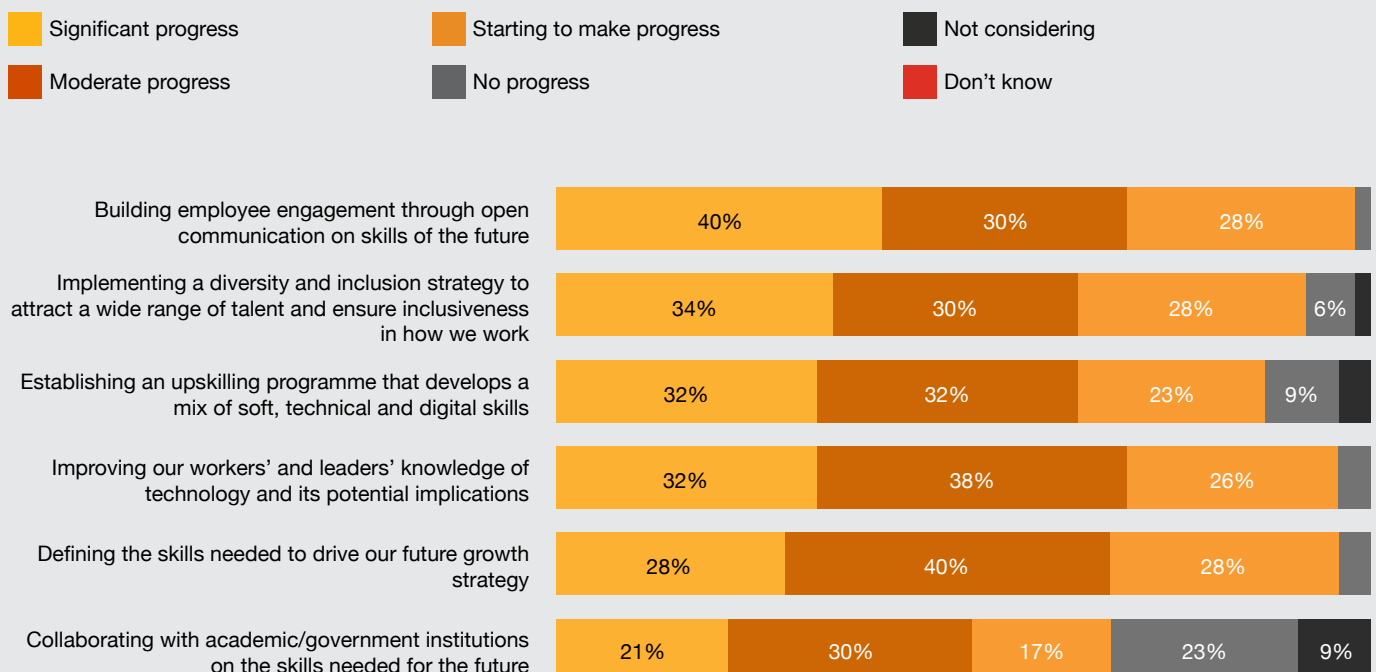
Question

How much progress has your organisation made in the following areas related to upskilling?

Global



Middle East





“ Young people in the Middle East, as in other regions, are digitally-savvy and connected. They share the same priorities and anxieties as people everywhere – not least in worrying about privacy and data protection.





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Digital transformation must be balanced by security

The response of our CEOs to technological change reflects both increasing global awareness of the need to manage the privacy and cybersecurity risks of technology and a regional background in which the requirement to cope with geopolitical instability features prominently in business planning. Understandably, therefore, the proportion of Middle East CEOs who identify rising tensions as a key factor shaping their cybersecurity strategy is almost double the global survey average.

The region's business leaders are also notably more concerned than their peers worldwide about a shortage of cybersecurity talent within their organisations; 47% of Middle East CEOs say a skills shortage in this area influences their strategy, compared with a survey average of 38%. This shortage is especially alarming given that too many Middle East companies lag behind their global competitors regarding the management of cyber threats. For example, PwC's 2018 Global State of Information Security survey found that only 31% of Middle East respondents had an overall data security strategy, compared with 58% in the rest of the world.

47%

of Middle East CEOs say a skills shortage in this area influences their strategy, compared with a survey average of 38%



These pronounced geopolitical security concerns exist in an increasingly online, data-driven business environment, which in many respects is converging with the rest of the world. Young people in the Middle East, as in other regions, are digitally-savvy and connected. They share the same priorities and anxieties as people everywhere – not least in worrying about privacy and data protection.

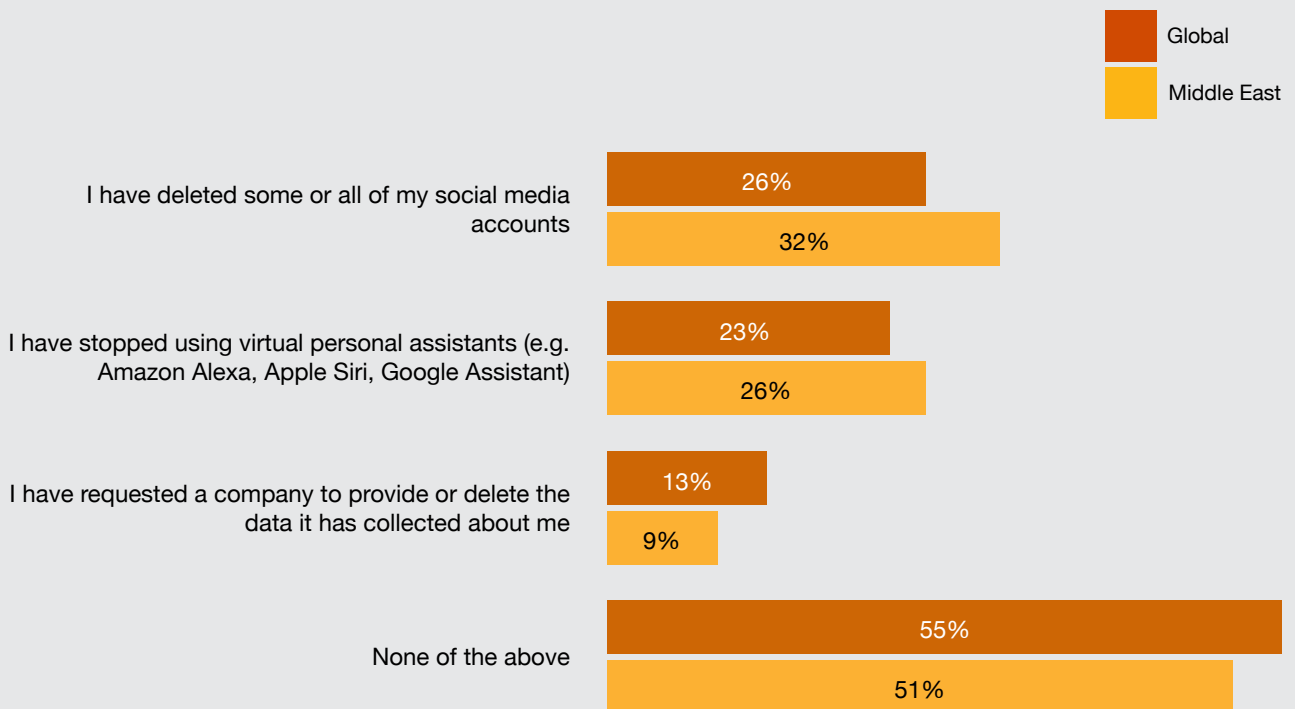
When it comes to data privacy, the priorities of Middle East CEOs are broadly in line with their global peers. For example, 51% of our regional business leaders say their cybersecurity strategy is shaped by growing public concern about data privacy.

Middle East and global CEOs list the same technologies in the same order as important areas for collaboration between business and government to build trust in society: cybersecurity, digital privacy, artificial intelligence and fifth generation (5G) networks.

Overall, the region’s business leaders are embracing the promise of new technology with caution. Opportunities beckon, but especially in a Middle East context, CEOs realise the need for rigorous defences against security threats and data leaks.

Question

Have you taken any of the following actions regarding your own personal digital behaviour over the past 12 months?





“ Opportunities beckon, but especially in a Middle East context, CEOs realise the need for rigorous defences against security threats and data leaks.





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Companies work on getting leaner but not greener - yet

As the survey results show, Middle East CEOs share many of the same preoccupations as their international peers. Companies throughout the region are steadily adapting to lower rates of economic growth. In this context, corporate sustainability is about building leaner, more efficient and nimble businesses to withstand a downturn and be ready to exploit any opportunities on the horizon.

Yet mention sustainability in the context of climate change and our CEOs appear strikingly underprepared compared with the overall survey. Just over one-third of CEOs confirm that their organisation has assessed the potential risks of adapting to a “greener” economy, such as carbon regulation. In the rest of the world, nearly twice as many CEOs are introducing climate risk assessments. Similarly, only 32% of Middle East CEOs say their organisation has assessed potential physical risks associated with future climate events such as warming temperatures, rising sea levels and damage to infrastructure.





After all, the GCC brings together states with abundant solar-energy resources and governments with the financial reserves and declared commitment to make major investments in the energy transition.

The discrepancy between the Middle East and the overall survey is intriguing since governments in oil-producing states across the region are publicly determined to reduce economic dependence on non-renewable resources. However, our CEOs' responses do not necessarily indicate complacency in the face of climate change. As the rapid digitalisation of the region's corporate landscape illustrates, Middle East companies have proved they can adapt at speed when the need becomes sufficiently urgent.

They also have a commercial incentive to become "greener". Almost two-thirds of Middle East CEOs – the same percentage as their global peers – believe climate-change initiatives will lead to significant new product and service opportunities for their organisations. In addition, 70% say their company's response to climate change will boost their reputations with key stakeholders, including employees.

This optimism may be well founded. After all, the GCC brings together states with abundant solar-energy resources and governments with the financial reserves and declared commitment to make major investments in the energy transition.

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Conclusion: Despite risks, there are reasons to be optimistic



Across the Middle East, our CEOs are continuing to make the transition to a lower growth environment, in increasingly uncertain market conditions. They are consequently focused on operational efficiencies to enable long-term, sustainable profitable growth when the outlook improves.

What sets the region's CEOs apart from most of the global survey is that they must also keep a close eye on rising geopolitical tensions in the region, which increased further in early 2020. This context helps explain business leaders' focus on cybersecurity, as well as heightened awareness of threats to data privacy.

Yet overall, our CEOs' justified anxiety about the immediate term is balanced by a more positive outlook when they look further towards the future. In Saudi Arabia and Egypt especially, there is measured optimism that regulatory and market reforms will help boost investment and deal-making opportunities. Meanwhile, there is a region-wide focus on upskilling to drive digital transformation, which in turn will enable better products and services and improve job prospects for the local workforce, including young people and women.

Thriving in this scenario requires our CEOs to be both resilient and highly adaptive, particularly in relation to rapidly changing consumer behaviour. Over the coming year, Middle East business leaders will hope that continuing geopolitical tensions do not puncture fragile investor confidence. In this regard, Saudi Aramco's successful \$25.6 billion IPO in December – the world's largest – ushered in the new decade on an encouraging note.

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