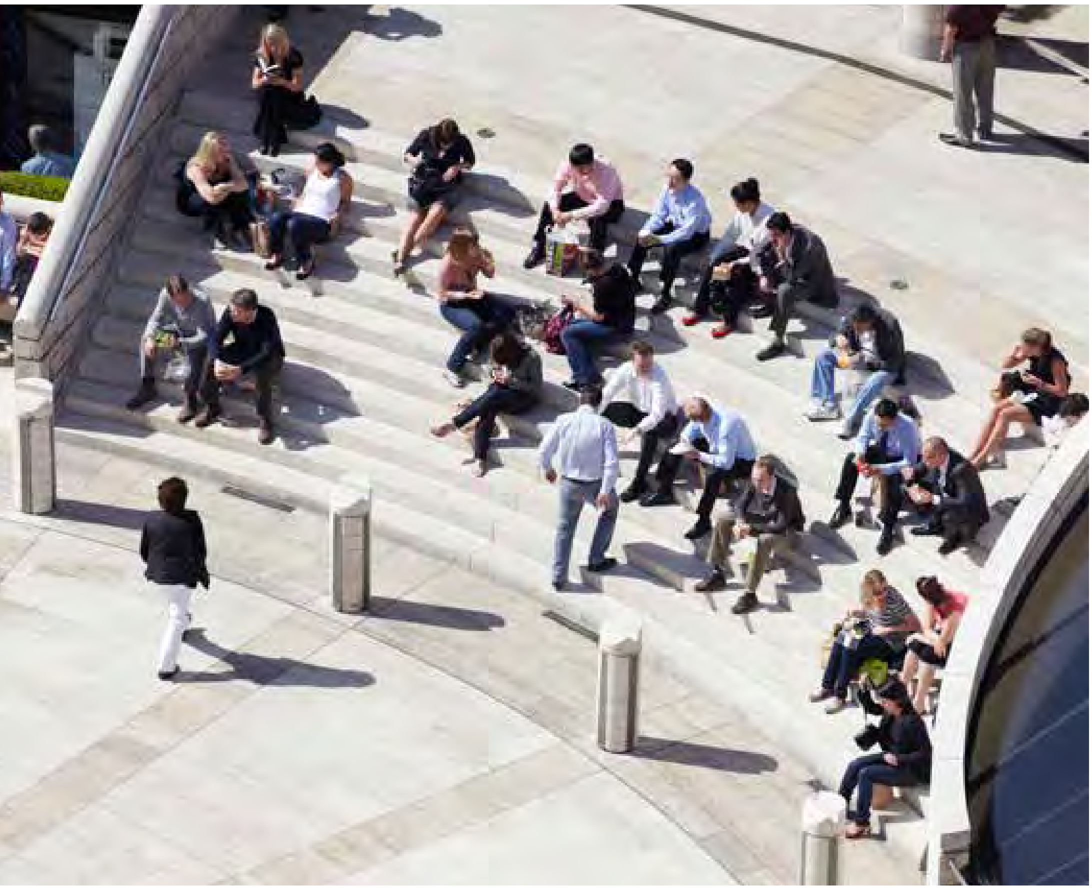
PwC Middle East CEO Survey 2014

Fit for the future

Building on today's optimism to prepare for tomorrow



66%

of Middle East CEOs are very confident about their company's growth prospects
see page 4

77%

of Middle East CEOs expect to increase their headcount next year
see page 14

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Foreword

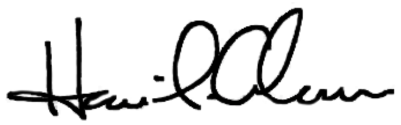
The Middle East economic future looks bright both in the short term and longer term according to our 17th Annual CEO Survey. For this latest edition, we sought the opinion of 51 Middle East CEOs, and their answers suggest a continued and growing sense of optimism about business in the region and the prospects of their own companies.

To achieve this success however, the CEOs we talked to acknowledge that their business strategies, and sometimes even business models, need to evolve in order to meet the needs of a rapidly changing society. CEOs identified four important issues they must consider in order to build companies that are fit for the future: developing and maximising the potential of tomorrow's workforce; creating new value in a technology-driven world; understanding the demands of a new type of consumer; and running a company in a region where climate change and resource scarcity is a very real business risk.

In this report we explore the details that inform CEOs current business optimism, and we analyse the perennial corporate issues of taxation, economic crime and the role of government. We also explore just how the region's companies can innovate and develop new products, services and approaches to navigate an exciting yet uncertain tomorrow.

Some of the responses we received from the CEO Survey came as a surprise – notably the very bullish optimism expressed by CEOs regarding their own company's economic growth prospects. We're also intrigued to see if technology will drive change and innovation in the Middle East to the degree that most global CEOs seem to think it will affect their operations.

So, as we present this Middle East take on the global Annual CEO Survey, we're keen to hear from you about how our findings match your expectations for the near future.



Hani Ashkar
PwC Middle East Senior Partner

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Overview

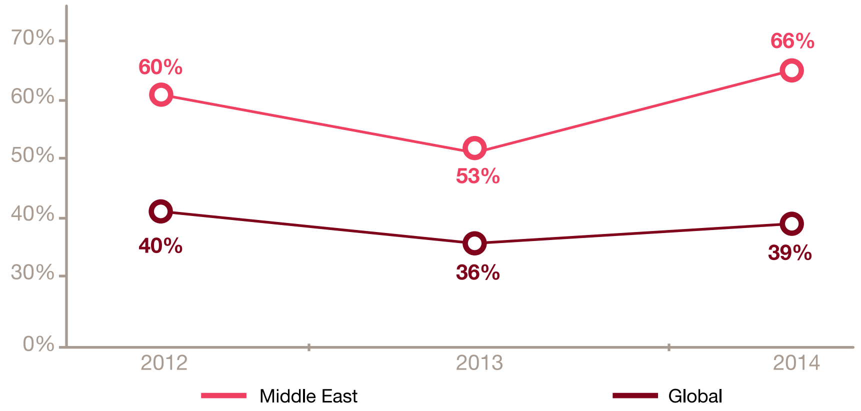
Middle East CEOs lead the way amongst their global peers in being upbeat about the economic future. That's the very encouraging headline from the 2014 PwC Middle East CEO Survey. After a long period of just getting by, CEOs in the region are now looking ahead enthusiastically to sustained economic growth over the next 12 months. At the same time, they are making plans for a future that will offer opportunities to those leaders who are prepared to innovate and embrace technology-driven change.

49% of the Middle East CEOs surveyed anticipate an improvement in the global economy over the next 12 months – a marked increase on the 22% who expressed the same optimism last year. A surprising 96% (compared to 85% globally) say they are somewhat or very confident of experiencing revenue growth in the next 12 months. Of those, 66% say they are "very confident" of growth. Compare that to the global mood where just 39% expressed such high levels of confidence.

There remains a marked difference in the optimism voiced by those CEOs in the GCC and those in the Levant.

Figure 1 Short-term growth prospects

Percentage of Middle East CEOs stating they are 'very confident' about their company's revenue growth prospects over the next 12 months



What's driving this confidence? One element could be a growing sense among CEOs that, having weathered a few years of political and economic uncertainty driven by the Arab Spring, the immediate future looks more stable. Those same CEOs are well versed in dealing with periods of change and upheaval and so are confident that they can do well when things are looking up.

There are also concrete examples CEOs can cite for their optimism, not least the accelerating pace at which mega projects and infrastructure development, particularly in Gulf Council Countries (GCC), is picking up. Indeed, it should be stressed that, based on our conversations with business leaders, there remains a marked difference in the optimism voiced by those CEOs in the GCC and those in the Levant.

As a whole, Middle East business leaders are also confident about their companies' long-term revenue growth (Figure 2). An emphatic 98% (compared to 92% globally) are somewhat or very confident of growth over the next three years – a level only matched globally by their counterparts in Australia. Of that 98%, 64% are in the "very confident" camp, an impressive statement when you consider that, globally, just 46% display the same optimism.

The outlook of Middle East CEOs has improved noticeably from one year ago. In 2013, 53% of regional CEOs said they were very confident about their companies' short-term growth prospects (Figure 1). Renewed faith in the stability of the region aside, CEOs take heart in the fact that, as the global economy comes back to life, the demand for Middle East hydrocarbons will increase again. They also see that some of the Middle Eastern business hubs like Dubai, are bouncing back and they are encouraged by new infrastructure investment in others like Saudi Arabia and Qatar.

Figure 2 Long-term growth prospects

Percentage of CEOs stating they are 'very confident' about their company's revenue growth prospects over the next three years

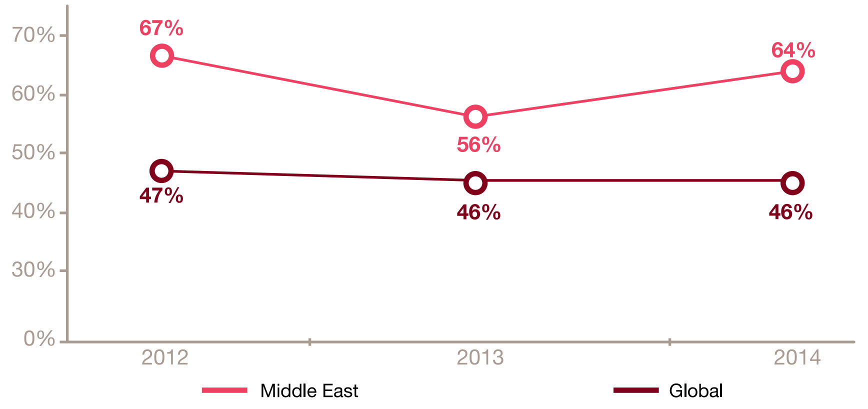
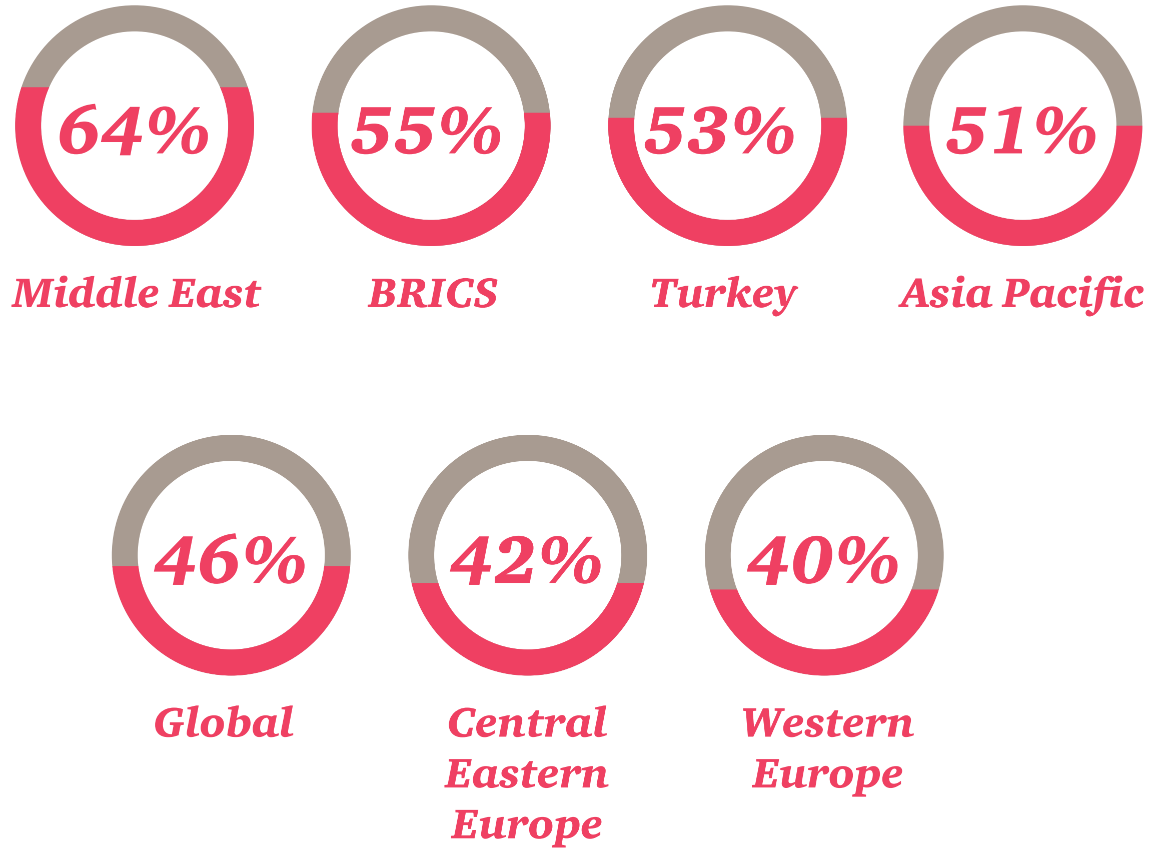


Figure 3 Revenue growth - Confidence levels around the world



% of CEOs "very confident"

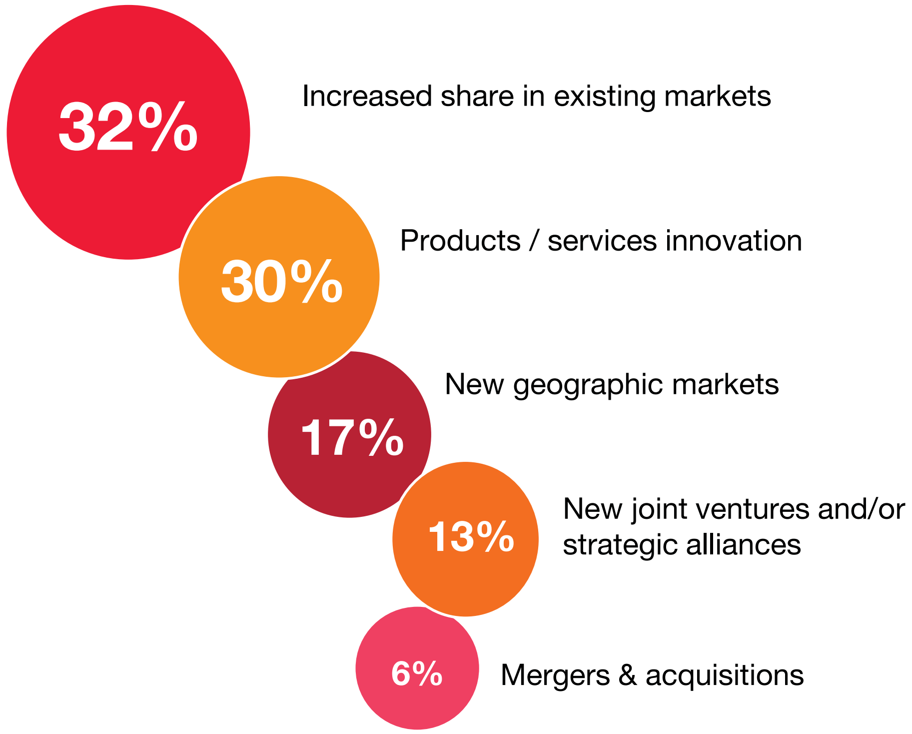
Finding growth in a rebalancing global economy

New business growth opportunities

Globally, 35% of CEOs believe innovation in new products and services will be the main driver of business growth for their companies over the coming 12 months. The situation is a little different in the Middle East where just 30% of CEOs share that point of view (though that's a big jump from last year when just 9% were prepared to put their faith in new products and services). Instead, regional CEOs see the quick wins coming from increasing their share of business in existing markets.

It's not all about inward investment though. 17% of Middle East CEOs (compared to 14% globally) are looking to new geographic markets for growth while 13% (compared to 9% globally) see the potential in new joint ventures or strategic alliances. Indeed, there seems to be a growing commitment from GCC companies to explore strategic partnerships to help win bigger contracts, improve pricing and take new products to market.

Figure 4 Of these potential opportunities for business growth, which one is the main opportunity to grow your business in the next 12 months?



Building business close to home

For most regional CEOs, the best opportunity for business growth remains close to home, especially now that potential economic hubs like Dubai, Qatar and Saudi Arabia are on the rise once again.

When asked to name the countries most important for their company's growth in the next 12 months, 53% of Middle East CEOs named Saudi Arabia, 49% UAE and 30% Qatar.

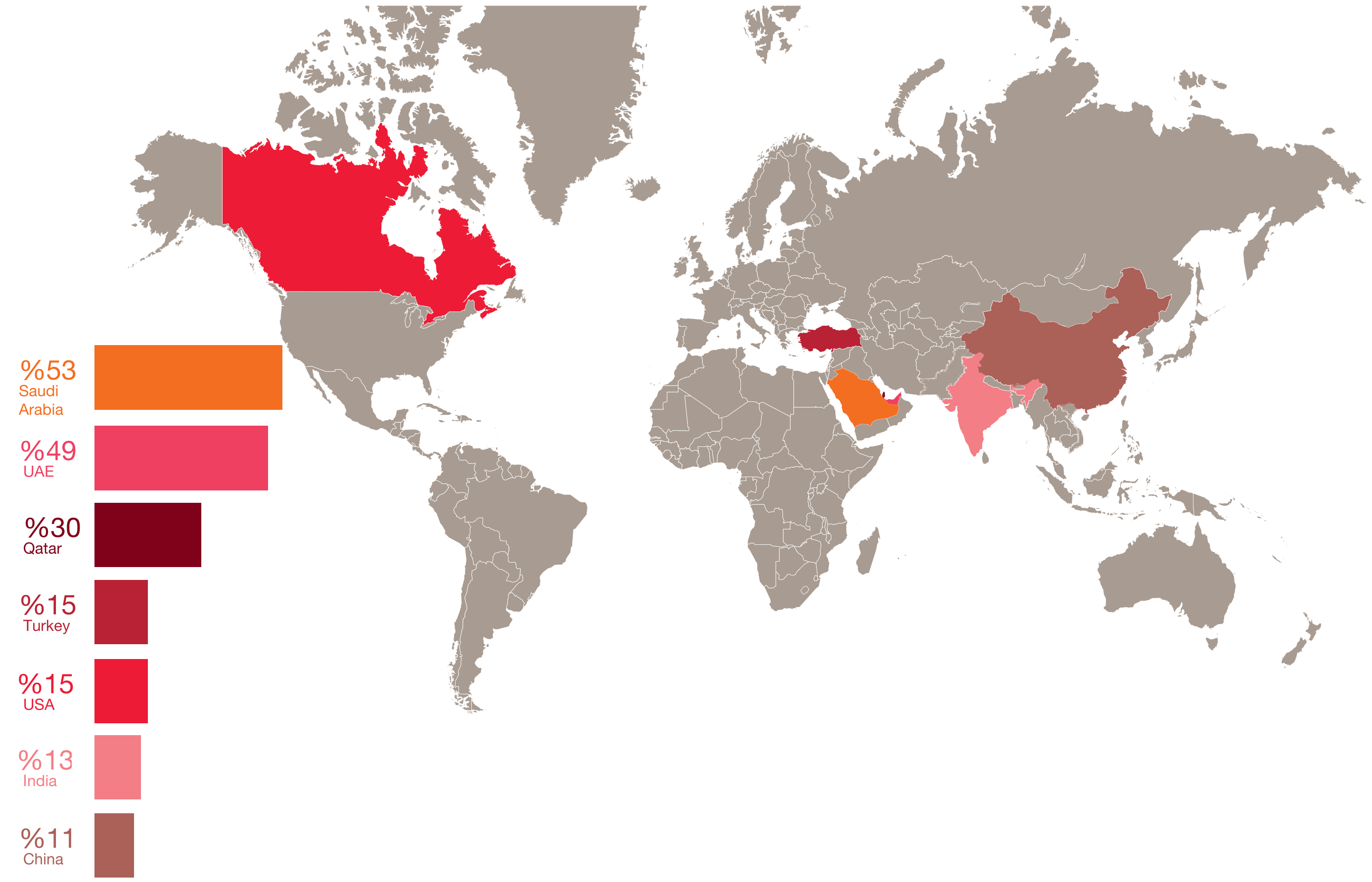
The countries deemed most important outside of the Middle East were Turkey (15%), the United States (15%), India (13%) and China (11%).

Of those Middle East CEOs planning M&A, joint ventures or strategic alliances 81% (up from 73% last year) said that activity also would take place within the Middle East.

Looking ahead over the next three to five years, we asked Middle East CEOs to consider high growth markets for their companies beyond the BRICS economies of Brazil, Russia, India, China and South Africa. Once again they identified the most growth opportunities being close to home with Saudi Arabia (55%), UAE (38%) and Qatar (23%) dominating their focus. The fourth most promising area of growth for regional CEOs is other countries in the Middle East (21%).

> *"It's not going to be about a BRIC in a wall. It's going to be about many such BRICS in the wall and continued and sustainable growth."*
>
> Arif Naqvi, Founder and Group Chief Executive
> The Abraaj Group

Figure 5 Which countries are most important for your company's growth in the next 12 months?



Barriers to business growth

Middle East CEOs hold a more upbeat view of economic growth than the “glass is half empty” consensus of their global peers but risks do remain.

The CEOs we talked to identified three potential economic and policy threats to business growth in 2014. The biggest was a lack of stability in capital markets according to 72% of the executives surveyed. A majority, 70% also expressed concern about Governments’ response to fiscal deficit and debt burden, while 66% cited the threat of a slowdown in high-growth markets.

Indeed a general area for concern for Middle East CEOs is the sense that global companies are turning back to advanced economies for growth rather than taking a risk on emerging or high-growth markets. On a global level more CEOs indicated they would look to the US, Germany and the UK for growing their business than any other economies (Figure 7).

Figure 6 How concerned are you about the following potential economic and policy threats to your organisation?

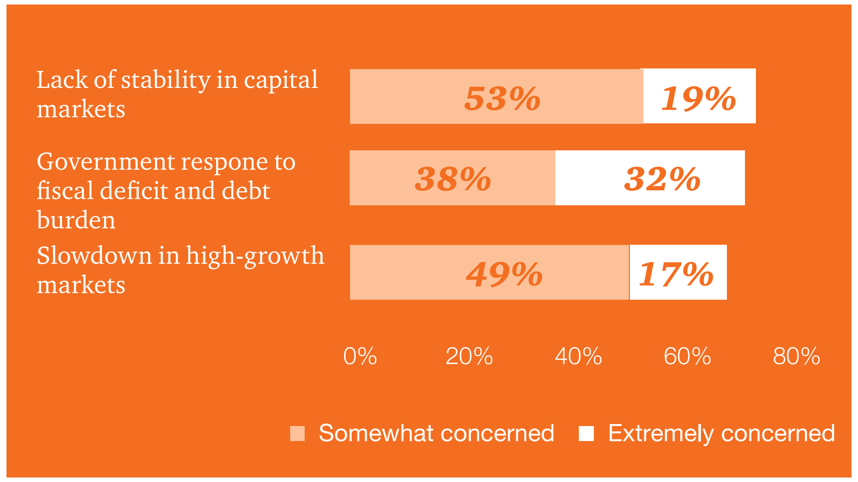
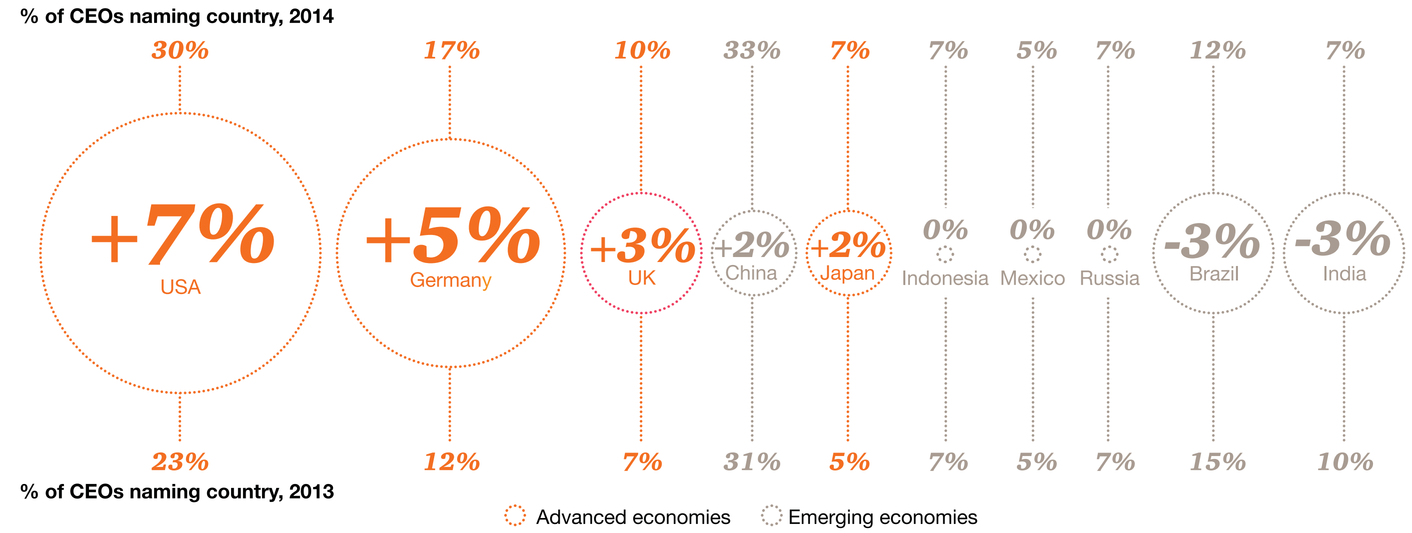


Figure 7 **Global CEOs are turning back to certain advanced economies for growth**

Q: Which three countries, excluding the country in which you are based, do you consider most important for your overall growth prospects over the next 12 months?



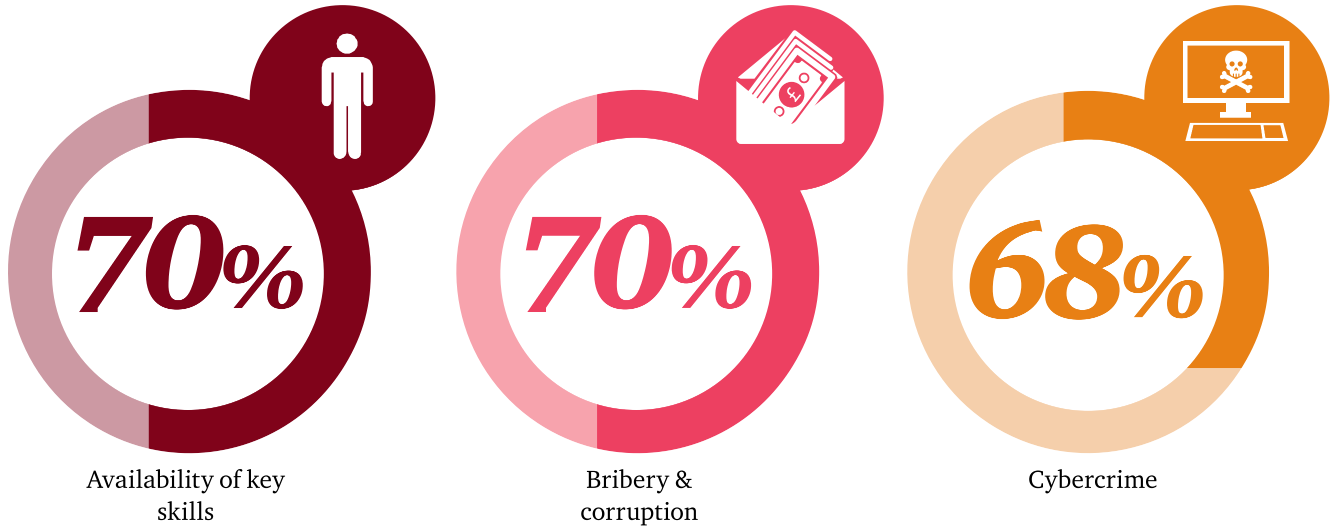
Base: All respondents (2014=1,344; 2013=1,330)
Source: PwC 17th Annual Global CEO Survey

Integrity and compliance risks

In a globally-connected marketplace all companies face a growing threat from the most prevalent integrity risk. Chief amongst these are risks related to bribery, corruption and cybercrime. In PwC’s new Global Economic Crime survey, 53% of respondents listed bribery and corruption as the greatest future risk of doing business worldwide.

Concerns in the Middle East are higher still. 70% of regional CEOs considered bribery and corruption a business threat. Organisations fear the severe negative publicity that surround these threats that can strike unexpectedly. That’s why many companies are investing heavily in corporate compliance and ensuring their business processes, sales, marketing, distribution and logistics, expense reimbursement, tax compliance, and facilities operations are set up to address these specific risks.

Figure 8 How concerned are you about the following potential business threats to your organisation?

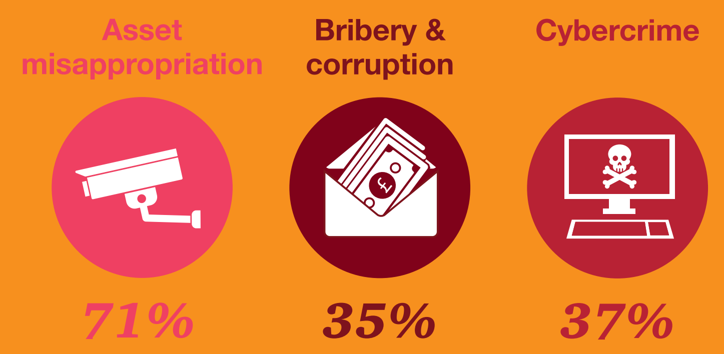


In the Middle East cybercrime is now the second most reported economic crime threat according to our new Middle East Economic Crime Survey. By way of example, the survey notes how, in 2012, two of the region’s largest organisations were reported to have been subject to cyber-attacks, which affected tens of thousands of individual computers and caused widespread disruption and millions of dollars of direct and indirect financial loss.

Middle Eastern CEO’s are right to be concerned, 68% cite cyber threats, including a lack of data security, a key business risk. An era of increasing macro-political tensions, and high economic growth, coupled with a relatively nascent understanding of issues leading to something of a ‘perfect storm’ in this area.

Most commonly reported types of economic crime in the Middle East

Asset misappropriation remains by far the most commonly reported type of economic crime followed by cybercrime and bribery and corruption.



Source: PwC Middle East Economic Crime Survey 2014

The Middle East view on Taxes

According to PwC's 2014 Paying Taxes report, the Middle East region has the lowest Total Tax Rate in the world.

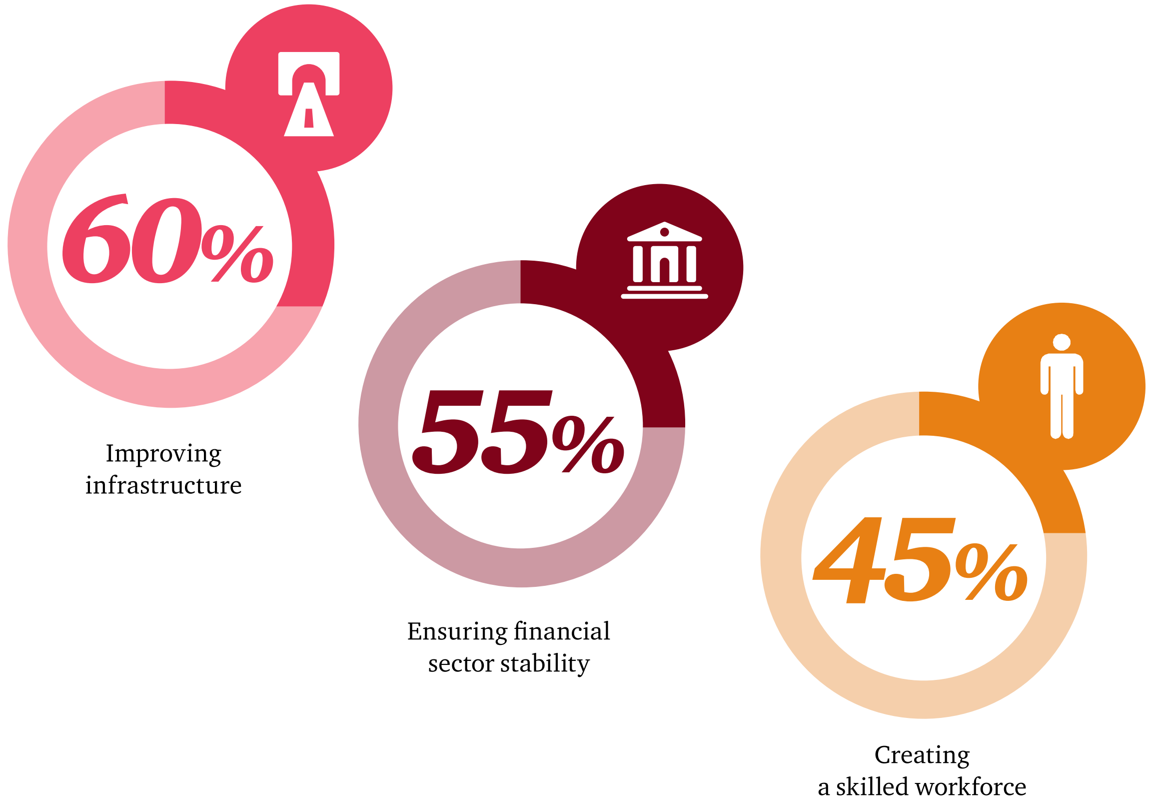
Nevertheless, 81% of Middle East CEOs said it was important to pay their "fair share" of tax (compared to 75% globally). Nearly three quarters of them (74%) agreed that multinationals should be required to publish revenues, profits and taxes paid for each territory where they operate. 68% agreed that the current international tax system has not changed to reflect how multinational corporations operate today and is in need of reform.

That said, CEOs acknowledge that any tax reform will affect their business and investment decisions - 60% agreed that government tax policy and the competitiveness of local tax regimes were key factors in their organisation's decisions about where to operate.

The role of Government

Sovereign Governments continue to play an important hands-on role in Middle East business. Fostering and maintaining a good relationship with Government is often key to a company's success when operating in the Middle East. For the most part regional CEOs think Middle East Governments are doing a credible job in creating a climate for business growth. 60% of the CEOs noted that improving infrastructure was a priority of the Government in the country they operate.

Figure 9 Thinking about the role of the Government in relation to a number of outcomes, which three areas should be the Government's priorities?



There was a similar response when CEOs were asked about their Government's actions to ensure financial sector stability and access to affordable capital, were 57% of CEOs thought their Government had achieved this.

However, when it comes to regulation and policy setting, 62% were somewhat or very concerned about the effect over-regulation was having on their business. Moving forward, 74% of CEOs said that making sure regulations are clear and designed for the long term will have the greatest impact in the country where they were based.

CEOs also expressed their desire for Middle East Governments to address potential economic and policy threats to regional businesses. They cited instability in capital markets, the Government response to fiscal deficit and a potential slowdown in high-growth markets as the top three issues requiring Government's attention.

Transforming Business

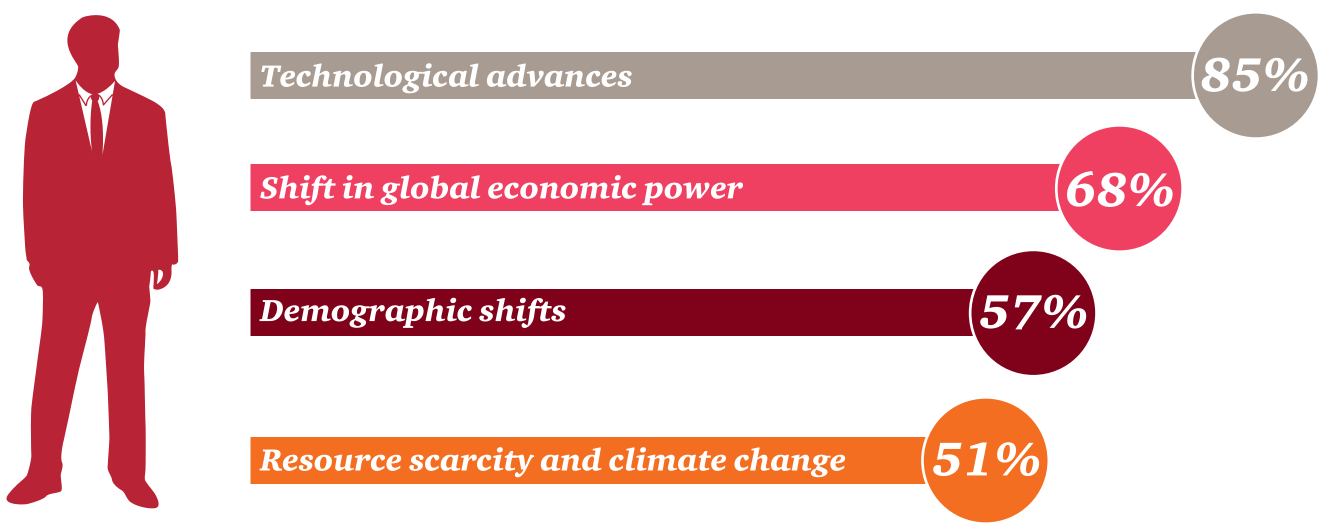
Understanding global trends

Our world is changing and evolving at a rapid pace and the Middle East is no exception. Regional CEOs identified four major global trends that look set to transform their business over the next five years. Over 80% told us that technological advances such as the online economy, social media, mobile devices and big data would have a major impact. 68% identified a shift in global economic power, 57% highlighted demographic shifts while 51% also pointed to the effect resource scarcity and climate change will have on the region and the world.

While technology certainly is influencing long term business planning, perhaps the most pressing immediate concern for CEOs in the region is developing and retaining a workforce capable of helping their companies punch their weight both against local competitors but also on a global stage. At the same time, while global CEOs in general have climate change and resource scarcity on their long term radar, the business risks and opportunities for Middle East CEOs are more immediate.

Figure 10 **Middle East CEOs identified four transformative global trends**

Q: Which of the following global trends do you believe will transform your business the most over the next 5 years? (Top four trends CEOs named)



Developing tomorrow's workforce

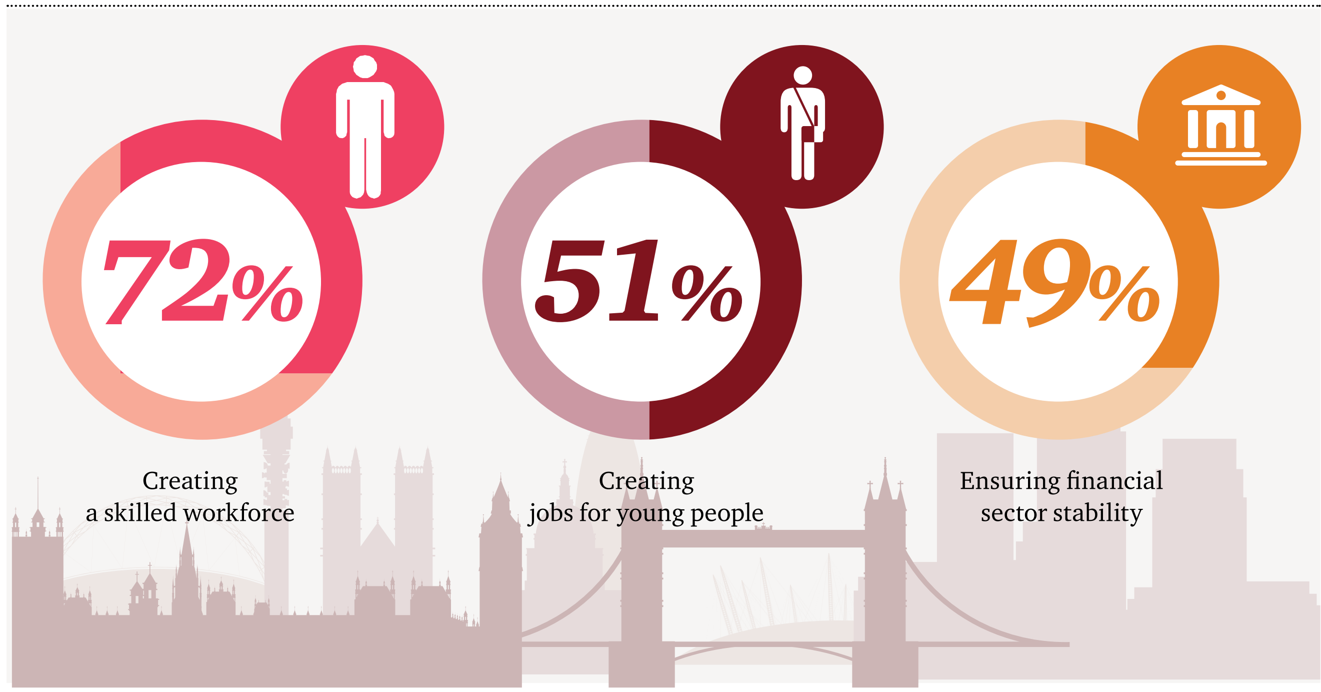
Creating a robust organisational structure that will prepare the company for the future is key for Middle East CEOs. Creating a scalable and skilled workforce will be particularly important.

The raw materials for economic success already exist in the Middle East. The region is home to a young and growing population; indeed, more than half of the region's population is under 24 years of age. However, the Middle East faces the critical challenge of creating 80 million jobs by 2020[1]. At the heart of the problem is youth unemployment - a quarter of young people in the region lack jobs. The situation is harder for females - twice as many women as men are looking for work across the region.

Each year the direct opportunity cost of youth unemployment to the region is estimated at $40-50 billion, according to the recent study PwC conducted on behalf of the Arab Thought Foundation titled "Enabling job creating in the Arab World". Not surprisingly, Middle East CEOs put a premium on developing skills and talent in the workforce. 70% expressed concern about the current availability of key skills and 72% put creating a skilled workforce as the top priority for business over next three years. The next most important consideration was creating jobs for young people aged 16 – 24.

Figure 11

Q: Which, if any of these national outcomes is your organisation focusing on as a priority over the next 3 years?



Education is a key issue. The Arab Thought Foundation study argued that the region's education system needs to play a stronger role in producing people in sufficient quantities to enhance the economy as well as teaching the 'soft skills' that employers in the region say they value above traditional academic skills.

The study also stressed the importance of encouraging a culture of entrepreneurship as well as tackling the ongoing issue that youth in the region (notably in GCC countries) often are unwilling to take many of the jobs already available in lower-paid economic sectors, such as the service sector. Neither are they prepared to move regions or countries to find work.

[1] Arab Thought Foundation

The talent pool is a perennial concern for CEOs but one that sometimes takes a back seat to the daily necessities of running a business. Yet investing in talent is much easier in periods of economic growth and prosperity than when companies are purely focused on survival. In this new period of optimism 77% of Middle East CEOs expect to increase headcount over the next 12 months. That's the highest figure of any region in the world (the same as last year) and far above the global average of 50%.

On the other hand, only 6% of Middle East CEOs plan to cut their workforce over the next 12 months even though 66% are concerned about rising labour costs in high growth markets. This is most notable in the UAE, Saudi Arabia and Qatar where the war for talent is increasing and employers are finding it increasingly difficult to attract and retain qualified employees. That talent crunch will only intensify as Europe's economy starts to grow again.

The need to encourage gender diversity was also noted by CEOs. Nearly 95% of Middle East executives said that improving diversity and inclusion across the workforce, and at board level, was important for their business. That's an impressive commitment and more than any other global region.

Figure 12 Middle East CEOs mark the highest figure when asked about increasing headcount

Q: What do you expect to happen to the headcount in your company over the next 12 months?

"The biggest challenge today, which can also be seen as an opportunity, is the fact that in our region we have a huge youth bulge with over 50% of the population under 24. That presents an opportunity because you have a seemingly very buoyant and young consumer base.

However, the challenge comes because the youth are not properly being engaged in the economic opportunities in the region and that is a big problem because that links directly to macro-economic instability.

And in my opinion, that is the biggest risk for the growth of the economies in the region. Youth unemployment causes economic instability and dampens the flow of goods, services and trade generally between the Arab world and the rest of the globe."

Badr Jafar, Managing Director of Crescent Group

The takeaway

Education and training remains the key to creating a skilled regional workforce but a cultural shift also is necessary for Middle East youth to fulfil their true potential in powering the region's economic growth.

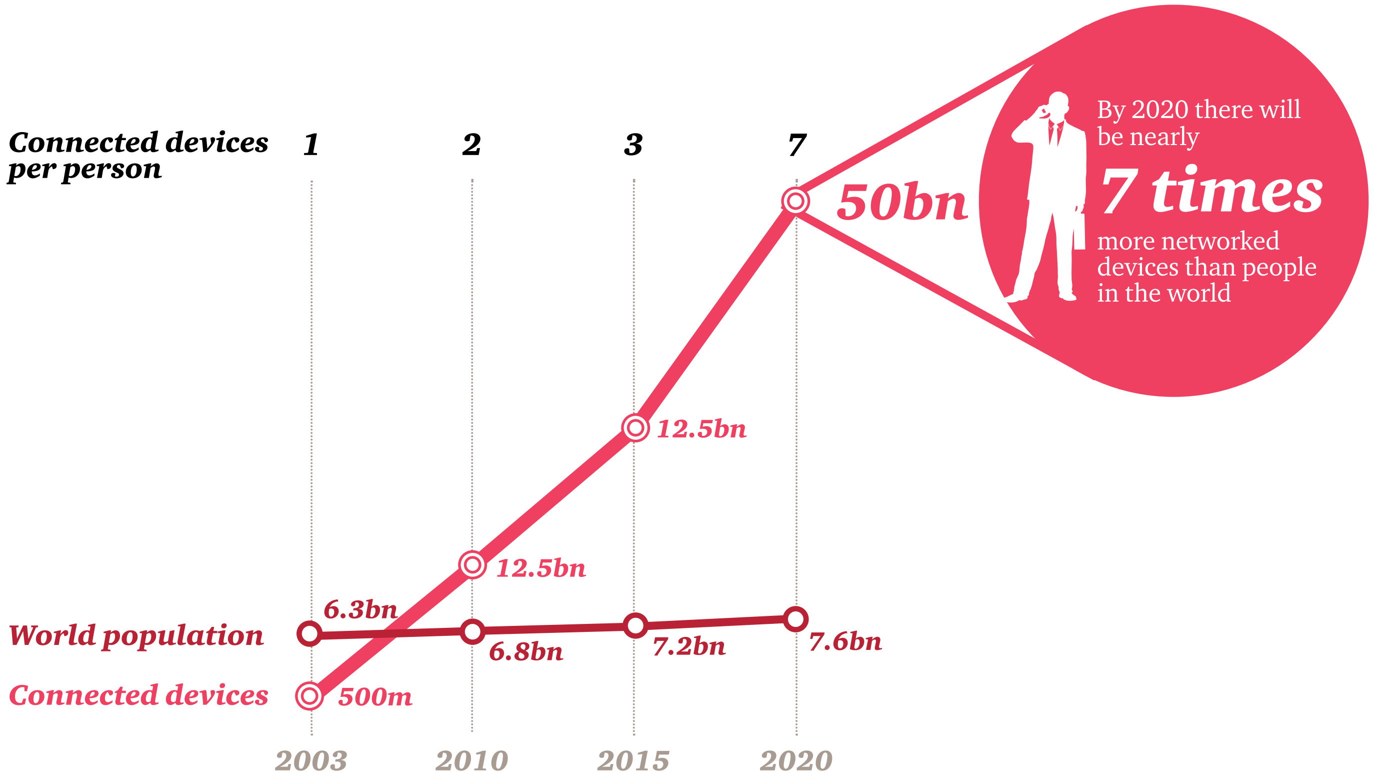
Creating value in new ways

25 years after the invention of the World Wide Web and the birth of a digital economy, technology is the disruptive business factor that both inspires and worries CEOs all over the world. In the Middle East 60% of CEOs told us they were preparing to invest in technology over the next five years.

In this year's survey 30% of Middle East CEOs said innovation around products and services would provide the main opportunity to grow their business over the next 12 months (second only to increasing their share of existing markets). Many of those products will be shaped by a combination of new technologies and investments in the form of industrial automation, cloud computing, enhanced Enterprise Resource Planning (ERP) systems, customer experience innovations, Big Data and the growth of connected devices - the so-called Internet of Things (IoT). Not surprisingly then, Middle East executives are also interested in organising better for innovation whether it be organisational roles, leadership support, investments or processes.

One interesting recent trend in the Middle East relates to the use of production automation. More and more companies are investing in cutting edge technologies such as precision laser equipment and advanced Computer Numerical Control (CNC) machines. At the same time, companies are speeding up their adoption of next generation enterprise systems that use online and cloud versions.

Figure 13 The number of connected devices is increasing dramatically



Source: Cisco Internet Business Solutions Group

The oil and gas industry is exploring using Big Data and IoT devices to maximise upstream exploration and production. Other nascent technologies like 3D printing could yet play a part in key regional issues like water desalination and also in creating new mini-manufacturing hubs for global and regional consumer goods and industrial services companies.

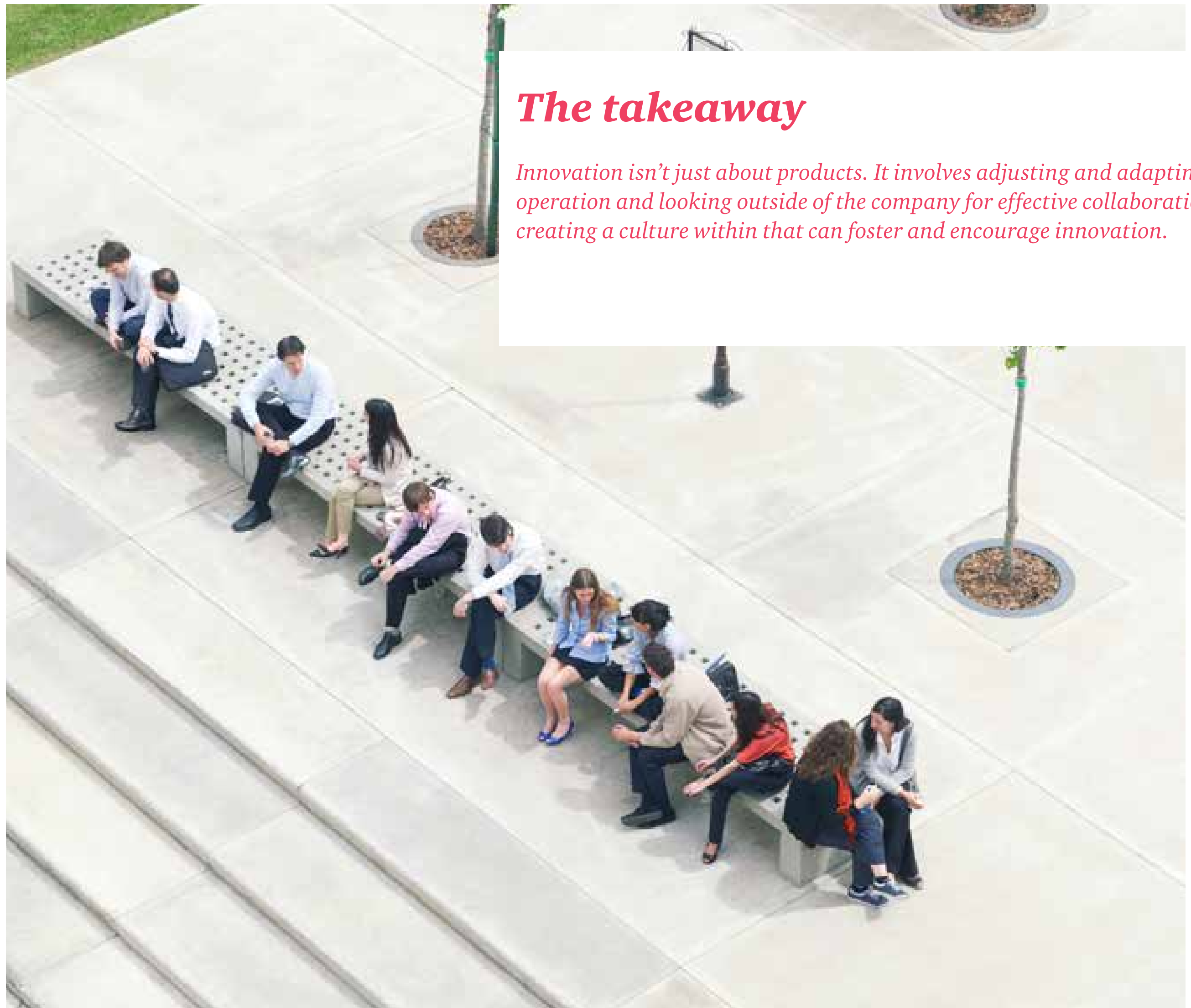
Mobile connectivity combined with social media, meanwhile, will continue to transform the way Middle East companies look to reach their consumers through marketing and communication, especially in a region where mobile phone penetration far exceeds fixed line connectivity. The combination will also help increase collaboration and innovation to make existing companies more agile and to launch new competitors. Already, mobile applications are spreading to education, health, and banking.

More Middle East companies are beginning to adopt "open innovation" - an approach to joint development with partners, suppliers, customers and universities - partly to seek new ideas and in part to share the investment risks.

40% of Middle East CEOs told us they had entered into a new strategic alliance/joint venture over the last 12 months and in the coming year 51% (compared to 44% globally) are planning to do so. More than 80% said their targets for collaboration would come from within the Middle East.

This approach to collaborative innovation has also made its way to the start-up segment. Today entrepreneurs throughout the region use social media to connect with one another and collaborate on start-up initiatives as well as using the technology to access new consumer markets and conduct important market research. The next five years will see that disruptive collaboration grow dramatically.

The Middle East is also seeing an uptick in technology-based entrepreneurship. Several venture capital firms are beginning to invest regularly in tech start-ups, and places such as Amman (Jordan) are beginning to make a name for themselves as regional tech hotbeds.



The takeaway

Innovation isn't just about products. It involves adjusting and adapting your entire operation and looking outside of the company for effective collaboration as well as creating a culture within that can foster and encourage innovation.

The demands of a new type of customer

Customer growth and retention strategies are equally as important to Middle East CEOs as technology and innovation. Perhaps that's because in tomorrow's world they will be impossible to separate.

Trying to forecast what the future looks like for any business is notoriously difficult, yet in the Middle East and other regions of high economic growth demographic shifts offer some indication about how future customers will act and behave.

Customers in high growth and developing markets are much younger - the average age is just 26 - than those in the world's advanced economies. What's more these customers are more technologically sophisticated than ever before and, moving forward, they will have greater access to information about products, services and corporate reputations than companies have been used to dealing with.

Over the last decade companies all over the world have come to understand the power that social media can have over their brands and their corporate reputation. Just as customers today are likely to recommend a product or service to their friends through social networks so they are just as likely to complain about faulty goods and bad service online. The potential viral nature of connected social media communities escalates the risks for companies that aren't listening to what this new breed of customers are saying.

Many global companies now invest a good deal of time and effort to demonstrate business transparency and build trust. Indeed, 68% of Middle East CEOs report that customer and client confidence in their companies has improved in the last five years. Still, most Middle East CEOs understand that relationship is only as strong as its weakest link - 60% said they were concerned about the lack of trust in business as a potential threat to their organisation.

"Trend to spend is maximum between the ages of 25 and 40. They peak at 40. Guess what the average age of the OECD countries is? 40. You can see trend tapering off in the consumer products and demand side in OECD countries and increasing in global growth markets. That has enormous ramifications for companies that are engaged in this sector."

Arif Naqvi, Founder and Group Chief Executive
The Abraaj Group

Hybrid leadership

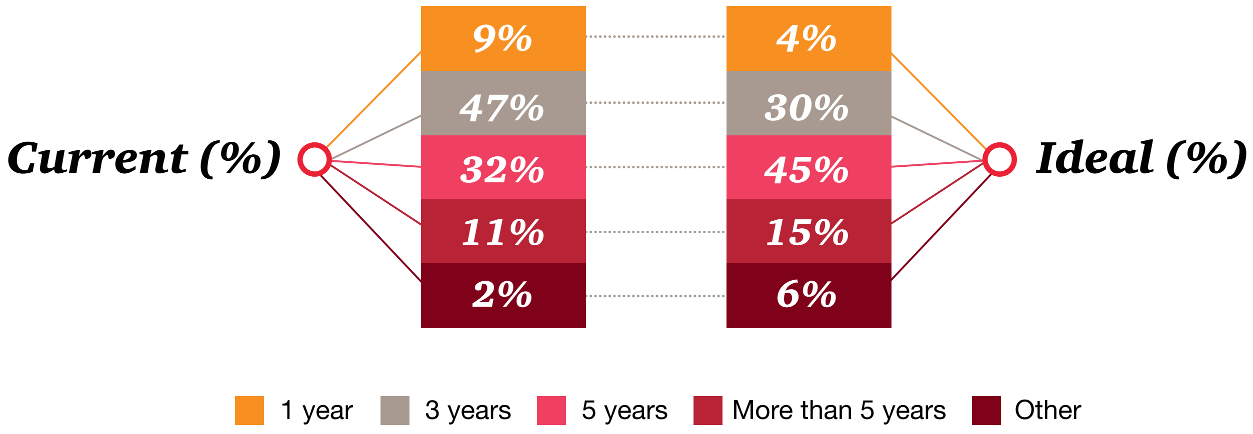
The overriding theme that emerges from this year's CEO Survey is that CEOs see the need to capitalise on short-term growth while also taking a long view on the investment and changes needed to prepare for an exciting but uncertain future. To succeed at both CEOs need to adopt a hybrid form of leadership and have the dexterity to employ multiple planning horizons.

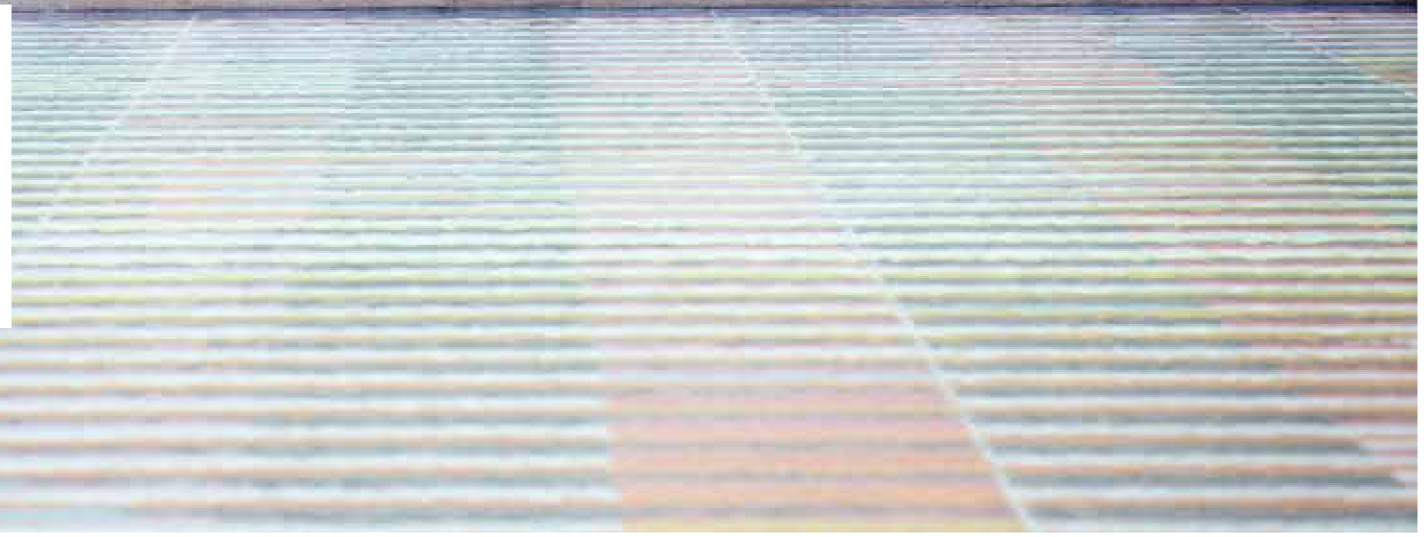
That's easier said than done as Middle East CEOs can attest. While nearly half (47%) told us that they currently operate on a three-year planning horizon, when we asked what their ideal planning horizon would be 45% said they'd like to be looking five years ahead.

Figure 14 Many CEOs want to change their planning horizon

Q: What is your current planning horizon?

Q: Ideally, what would you like your planning horizon to be?





The takeaway

CEOs need to embrace the fact that a new, younger, type of consumer is emerging – a digital native with expectations about products, customer service and trust very different from just 10 years ago.

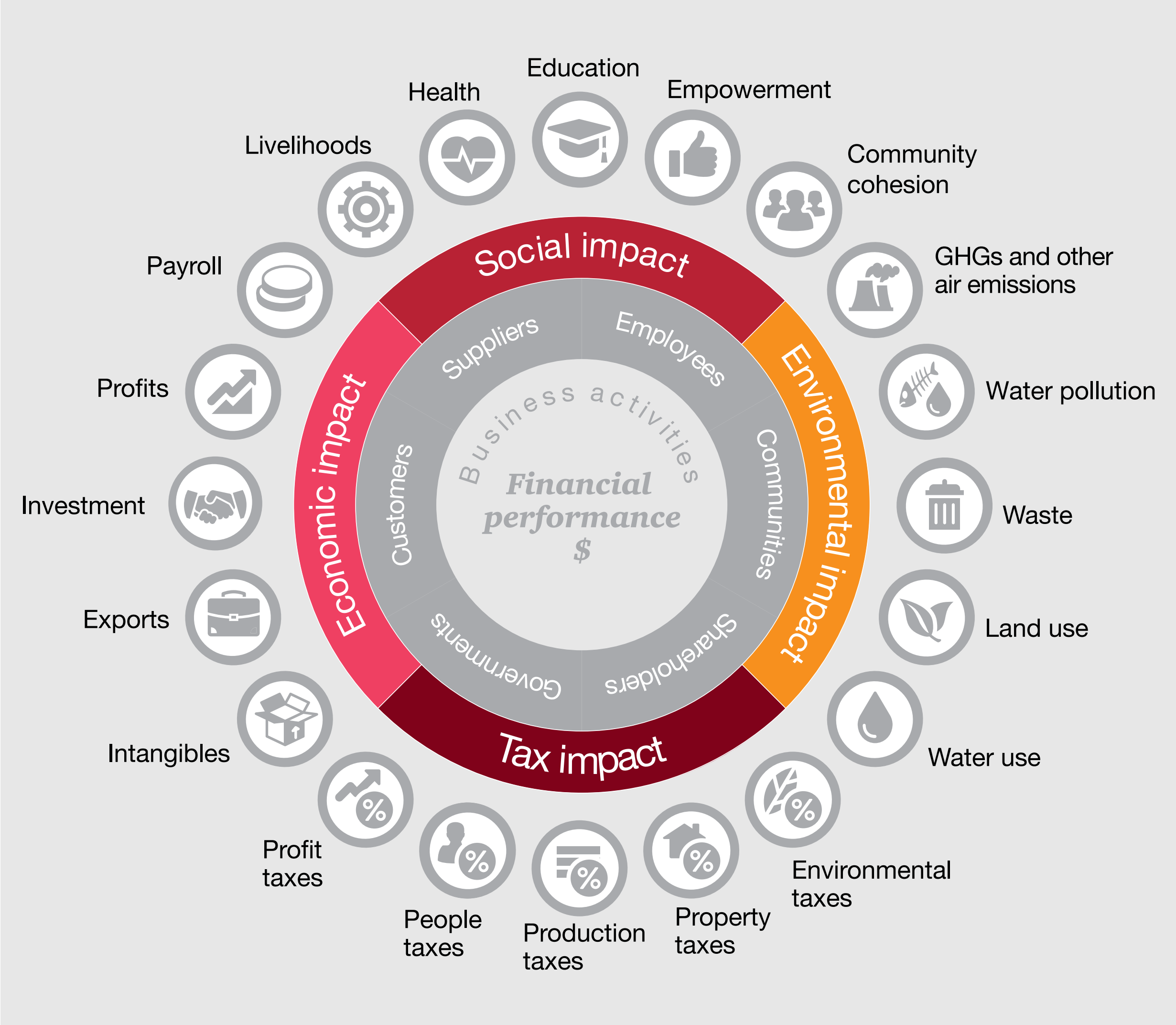
Measuring total impact

Becoming fit for the future means more than simply exploring new routes to market. Increasingly companies realise they need to measure their total impact as a business on the societies they depend on for new customers and the planet they depend on for the resources they need to make their products.

With investors and strategists starting to place real value on the cost of so-called natural capital, and in a region that faces real challenges when it comes to accessing natural resources like fresh water, it is not surprising that 83% of Middle East CEOs agreed or agreed strongly that it was important for business to measure and try to reduce its environmental footprint.

Exactly the same percentage of Middle East CEOs also agreed that satisfying societal needs beyond those of investors, customers and employees, and protecting the interests of future generations, is important to their business. More than four fifths (85%) of Middle East CEOs said that measuring and reporting total (non-financial) impacts will contribute to the long-term success of their business.

Figure 15 Measuring an organisation's total impact helps to show the best route forward



Source: PwC

The takeaway

The realities of resource scarcity will be a business risk for many companies but also a business opportunity in a region that will succeed economically through the necessity of adapting.

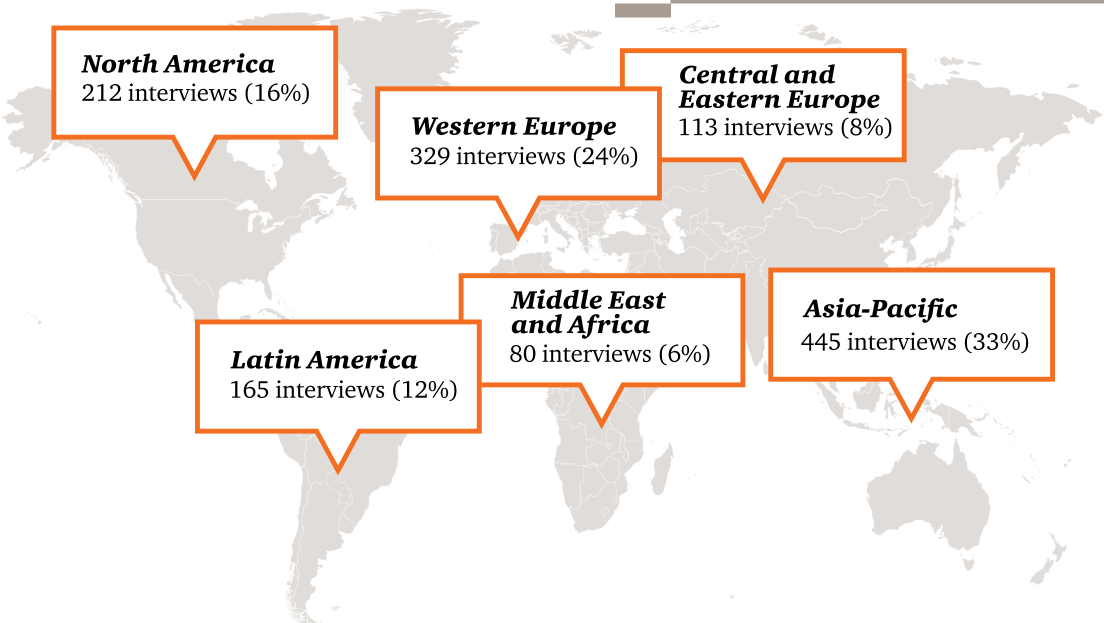
> ***"I think that to stand a chance of ensuring prosperity for their companies, business leaders today have to think more broadly and think beyond profits and the bottom line and move towards the triple bottom line thinking: how their business is affecting not just profits, but also the people (the social impact), and the planet."***
>
> Badr Jafar, Managing Director of Crescent Group

Research methodology and key contacts

In our global survey we conducted 1,344 quantitative interviews with CEOs in 68 countries worldwide, inclduing 51 Middle East CEOs from eight countries in the region. The selection of our sample on the percentage of the total GDP of countries included in the survey, to ensure CEOs' views are fairly represented across all major countries and regions of the world. The interviews were also spread across a range of industries. Further details, by region and industry, are available on request. Fifty-four percent of the interviews were conducted by telephone; 38% online; and 8% by post. All quantitative interviews were conducted on a confidential basis.

***1,344* interviews completed in 2013 across *68* countries between 9 September and 6 December 2013**

***2,162* members of the Global PwC CEO Panel were invited to participate via the online survey, contributing to the total online responses.**



The lower threshold for inclusion in the top 10 countries (by GDP) was 500 employees or revenues of more than $50 million. The threshold for inclusion in the next 20 countries was companies with more than 100 employees or revenues of more than $10 million.

- 44% of companies had revenues of $1 billion or more.
- 35% of companies had revenues of over $100 million up to $1 billion.
- 18% of companies had revenues of up to $100 million.
- 46% of companies were privately owned, while 50% were listed on at least one stock exchange.

To better understand CEOs' perspectives for 2014, we also conducted in-depth interviews with 34 CEOs from six continents over the fourth quarter of 2013. Their interviews are quoted in this report and more extensive extracts can be found on our website at www.pwc.com/ceosurvey, where you can explore responses by sector and location. PwC's extensive network of experts and specialists has provided input into the analysis of the survey. Our experts span many countries and industries.

Note: Not all figures add up to 100%, due to rounding of percentages and exclusion of 'neither/nor' and 'don't know' responses.

For further information on the survey content, please contact:

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