Adjusting to the new normal

Inside the minds of Middle East CEOs

pwc

pwc.com/meceosurvey

Contents

Introduction

This is the 21st time we have collated the views of business leaders across the world in our Annual Global CEO survey.

From the results of over 1,200 international CEOs, including over 50 in the Middle East, it's clear that the past year has demanded an immense balancing act from regional CEOs. This group of business leaders has contended with lacklustre oil prices, looming local and regional geopolitical threats, and the urgent need for regional corporate reform.

The region is also rapidly evolving in the wake of shifting global trends, including the march towards clean energy and the rise of competitively priced US shale oil. In particular, it has been a landmark year of change for the Arabian Gulf's largest economy, Saudi Arabia. Also, businesses operating across the region have had to face the challenges created from the Qatar political crisis and economic situation. What's more, the ongoing international mega trends of globalisation and technological advances are transforming lives and businesses in the region, there is a marked rise in terrorism and cyber crime, and the entire world is facing the mega challenge of carefully priming its corporates for tech and automation developments that are evolving at breakneck speed.

Given this mixed bag, it comes as no surprise that our survey responses are often paradoxical. Our regional CEOs are positive about global and regional growth, yet they are often hesitant about their own corporate growth; they welcome technology but at the same time fear cyber crime; they are rapidly working towards transparent workplaces, yet they are still weaning themselves off inflexible and strict work patterns.

Most of all, this survey proves that the region is at a critical juncture as it surveys the enormous opportunities and risks inherent in globalisation and technology. The plunging oil price – while now improved at around $60 per barrel – placed considerable strain on public purses and company profits in recent times. This brought into sharp relief the potential future of the region when demand for fossil fuels eventually dwindles. And it is this fact, among others, that has caused CEOs and governments to get philosophical about their own growth. How to prepare for a future where companies are fully accountable? How to run a cost-effective and efficient business that can stand on its own two feet come what may?

While it is an unsettling period, it could also, if managed effectively, be the prelude to a new and more sustainable golden age for the Middle East.

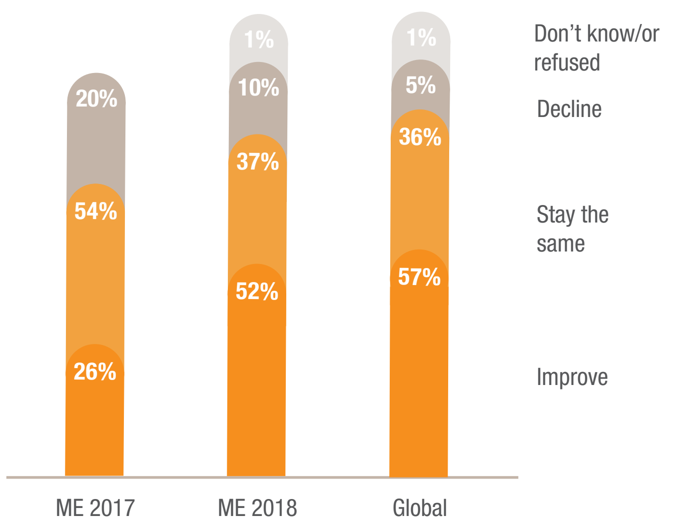
Middle Eastern companies have weathered many a storm, including the 2009 crash, the Arab Spring and ongoing regional conflict, now CEOs say it's time to take this proven resilience and determination and fast-track the region to the future.

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 what comes next.

It's the world, but not as we know it

We saw an overwhelming positivity from our Middle East CEOs with regards to global economic growth. 52% of respondents in the region said the global economy is set to 'improve', compared to just 26% last year. Whilst this is a steep increase, and shows optimism from our CEOs, this places the region on par with the global average.

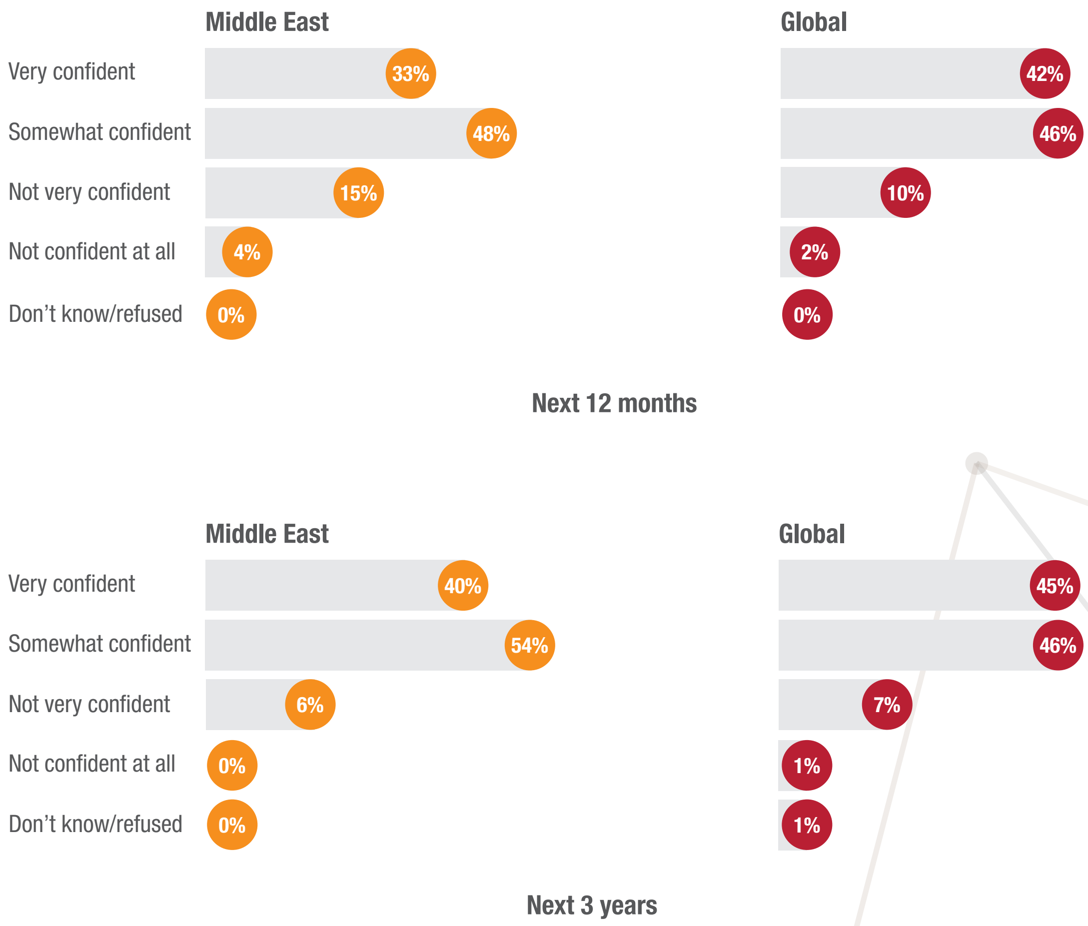
Do you believe global economic growth will improve, stay the same, or decline over the next 12 months?



However companies were less bullish about their own future revenue growth prospects. 81% of respondents were ‘confident’ that their company would grow over the next 12 months, down from 88% last year. This figure is also downbeat compared to this year’s global average (88%). What we can see is that, this lack of confidence resonates into plans for cost reduction and faltering expectations for organic growth, especially when compared to responses from the rest of the world.

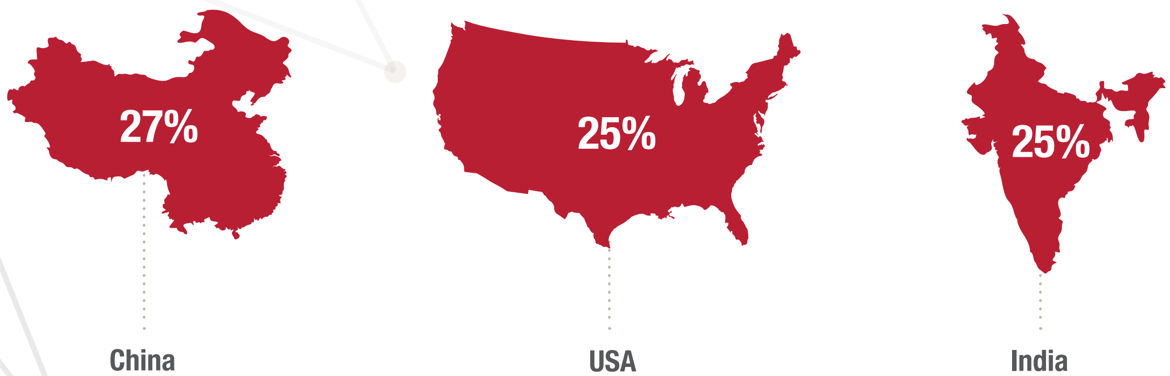
> ***81% of respondents were ‘confident’ that their company would grow over the next 12 months***

How confident are you about your company’s prospects for revenue growth over the next 12 months and next 3 years?



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

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



Still, in a burst of optimism towards the future, over half of Middle East respondents said they were looking at a 'new strategic alliance or joint venture', compared to 49% of respondents globally.

Taking all this together suggests that many businesses in the region have readjusted their expectations for the business based on a 'new normal' economic environment, where a more balanced oil price and lower regional economic growth has shaped a tempered and cautious business environment. Still, the fact that some businesses are considering JVs shows a willingness to expand into new markets or skillsets in an increasingly globalised and connected world.

When we look at the Global Top 10* geographic markets CEOs are turning to for growth, China takes the lead, followed by the US and India. These results are not surprising given the fact that the US is the world's largest economy, China is a major buyer of regional commodities and India remains a close trading partner and ready supplier of skilled and unskilled labour to the Middle East.

According to the survey results, 85% of regional CEOs are mindful of the fact the world is moving towards 'multiple economic models', compared to just 60% of CEOs globally. This bias is likely borne of the region's diversity of trading partners – CEOs are mindful of rapidly changing and divergent economic models in the many countries it deals with, from East to West.

*Global Top 10: USA, China, Germany, UK, India, Japan, France, Brazil, Canada, Russia

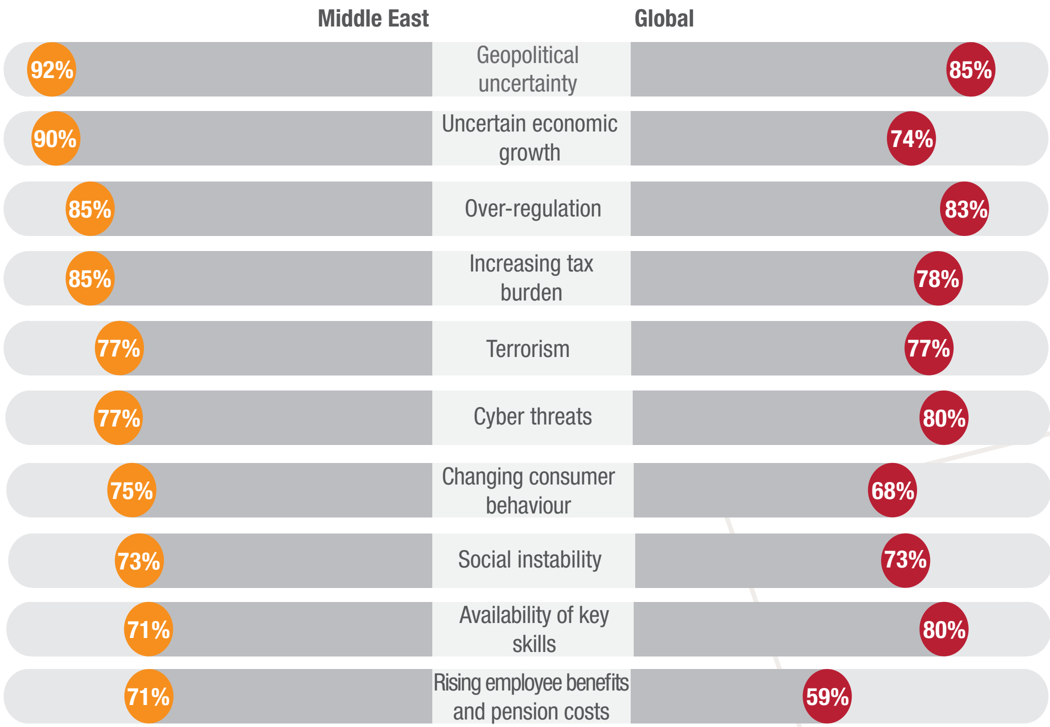
With recent diplomatic spats and regional tensions, there was a slight increase in the number of bosses who are concerned with geopolitical uncertainty (92%), compared with last year (90%). The region's CEOs are also increasingly concerned about 'tax burdens', as the UAE and Saudi Arabia introduced 5% VAT for first time in January this year. 85% of CEOs were concerned about tax, compared to 74% the year before. What's more, the region has seen 'stealth taxes' emerge through different channels as local governments steadily shave away subsidies as part of their economic reformation strategies.

CEOs cited cyber crime as a major concern on the back of a slew of regional high-profile malware and viruses in the last few years. 77% of CEOs said they feared cyber threats compared to 66% last year. What's more, 71% of CEOs said they feared 'rising benefits and pension costs' as regional states are now carrying less of the financial burden for private employees.

Despite the deep rooted threats that world connectivity brings, 'globalisation' remains a bright spot for Middle East leaders. Regional CEOs are overwhelmingly positive about globalisation and the benefits it brings. 62% said globalisation 'brings universal connectivity', 52% said it 'improves the ease of moving capital, people and goods' and 25% said it 'improves universal access to basic infrastructure and services'. The Middle East had the highest response rate for 'universal connectivity' globally; this view is shaped in part by the region's strategic location at the centre of the world and the success of its dynamic transportation companies.

Considering the following threats to your organisations growth prospects, how concerned are you about the following?

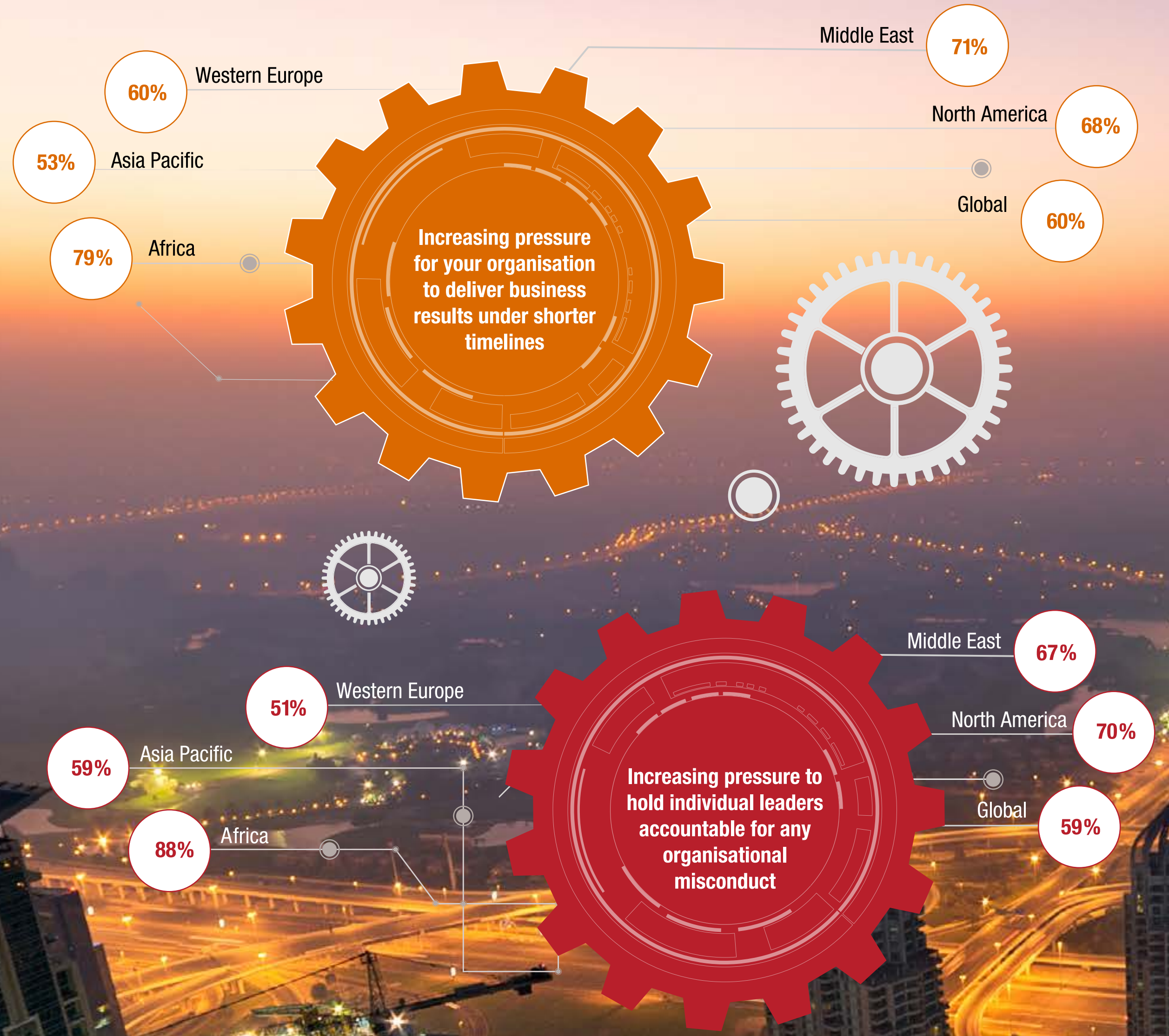
Respondents who stated 'Extremely concerned' or 'Somewhat concerned'



Trust and tenure in tense times

Against a backdrop of high hopes for globalisation, CEO optimism is more tempered when it comes to home soils, specifically, the reform agenda in the Middle East. From this, stems a pressure to follow procedure and put in place corporate governance systems. Concurrently, lower oil prices have placed a strain on governments and businesses, resulting in the need to diversify income and drive cost efficiency. Given above, it's not surprising that 71% of regional CEOs said there is 'increasing pressure for your organisation to deliver business results under shorter timelines', compared to 60% of CEOs globally. And 67% of regional CEOS said there is 'increasing pressure to hold individual leaders accountable for any organisational misconduct', compared to 59% per cent globally.

To what extent do you agree or disagree that you are currently experiencing the following challenges?
Respondents who stated 'Strongly Agree' or 'Agree'



The desire to build a strong and transparent workforce is also evident in the results. 81% of CEOs said they are working to create transparency in their organisation's values, compared to 73% globally. Regional CEOs are also working towards transparency around 'employee contributions to the overall business results', with 77% saying this was a focus compared to 61% globally. These results reflect the regional agenda around transparency and the desire to attract foreign investment.

The issue of transparency is also a factor in regional customer strategies. 58% of Middle East CEOs said they are creating transparency around their organisation's business strategy for a customer audience. There was also another nod to cyber security concerns as 62% of regional CEOs said they would be investing more heavily in customer cyber protections measures, compared to just 50% globally.

> ***79% of our CEOs are conscious that changes in customer behaviours will be a disruption to their business over the next five years compared to 68% globally***

To what extent is your organisation using the following strategies and tactics to build trust with its customers?

Respondents who stated 'To a large extent'

Middle East		Global
62%	Investing more heavily in cyber security protection	47%
58%	Creating transparency about aspects of your organisation's business strategy	50%
48%	Helping to promote diversity and inclusion	44%
48%	Collaborating with educators and policy makers to improve the employability of future workers	29%
46%	Contributing to philanthropic activities	34%

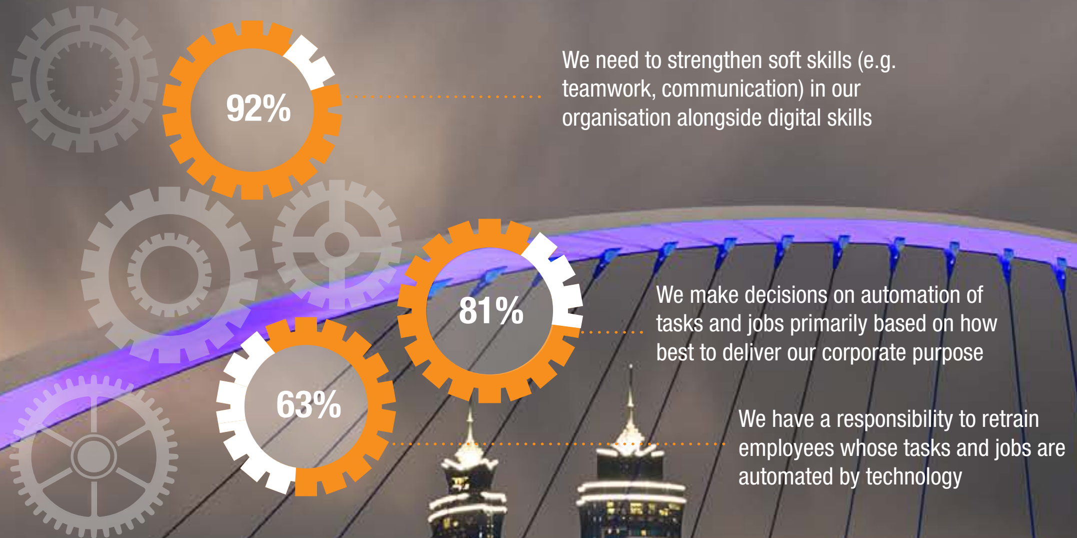
The race for digital innovation and talent

With respect to the next 12 months, our CEOs are fairly pessimistic on the issue of recruitment. A third of regional CEOs said that they expect headcount to 'decrease' in the next 12 months, which is the highest figure globally. This number is likely driven by CEOs cutting back staff in a cost efficiency drive. Corroborating this point, only 76% of Middle East CEOs said that headcount would decrease due to 'automation', compared 80% globally.

The future of the workforce looms large on the minds of regional CEOs. 92% of regional CEOs said they needed to strengthen their firm's soft skills, alongside digital communication skills, compared to 91% globally. 63% of Middle East CEOs said they have a responsibility to 'retrain employees whose tasks and jobs are automated by technology', compared to 67% globally.

Thinking about your people strategy for the digital age, how strongly do you agree or disagree with the following statements?
Respondents who stated 'Strongly Agree' or 'Agree'

Middle East



When it comes to hiring digital skills only 62% of CEOs were concerned about ‘availability’, compared to 76% globally. Paradoxically, 51% of regional CEOs said they found it ‘somewhat difficult’ or ‘very difficult’ to recruit digital talent. The region’s workforce is young and extremely tech-savvy – perhaps this is why CEOs are not unduly concerned about talent levels in the region – yet when it comes to getting these individuals through the office doors the figures suggest there may still be work to be done.

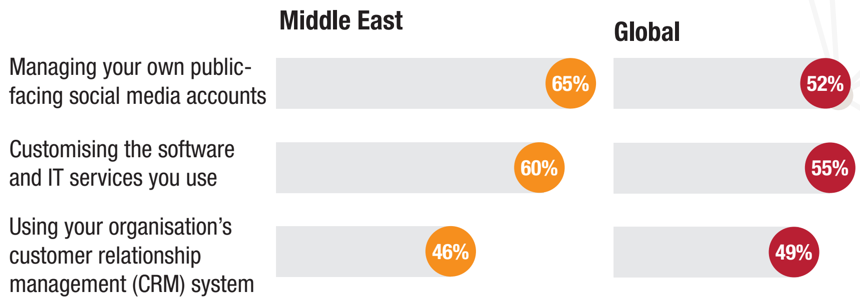
Despite its keen digital agenda, the region is still steeped in conservative work practices. Just 19% of Middle East CEOs said they were implementing new flexible ways of working, such as remote working, compared to 35% of CEOs globally. Only 2% of regional CEOs are changing employees dress codes, compared to 19% globally.

The region has historically fostered a conservative approach to employment, where the management system is markedly hierarchal and authoritarian. The arrival of international tech firms with local offices, such as the likes of Apple and Google, is driving a slow shift towards more modern and flexible office practices. For example, 42% of regional CEOs said they are ‘modernising the working environment by rolling out digital tools and collaborative environments’, similar to 44% of global CEOs.

In a nod to high digital awareness levels across the region, 65% of CEOs said managing public-facing social media accounts is a priority, compared to 55% globally. These figures reflect the region’s high social media and smart phone penetration rates. The Arab Spring of 2011 still looms large as a symbol of the transformative power of social media in the region. Regional brands take social media very seriously because it’s a popular customer touch point.

The region’s bosses also demonstrate a personal affinity for technology. 60% of regional CEOs want to ‘customise the software and IT services they use’, compared to 52% of global CEOs.

Beyond engaging with functional experts, are you doing any of the following activities to develop your personal digital skills?



> ***65% of CEOs said managing public-facing social media accounts is a priority, compared to 55% globally***

Embracing the new normal

The region’s social and economic reform agenda is moving at an unprecedented pace. There has been more change afoot in the last year than in the entire previous decade. Sweeping reforms across the board have potential to make the Middle East a better place to do business and attract foreign investment. The boom days are over and it’s now time to adjust to the new normal, where oil prices are balanced and managers are accountable for company performance and managing cost pressures.

While the survey results suggest CEO confidence is down in the short term, it’s a logical reaction to seismic change and a new pressure on accountability.

The region is now pushing hard to cement its organisational values and there remains an unrelenting focus on ethics and corporate governance. It is this growing appetite for forming accountable and transparent structures from the ground up that will prime the region for global success as it embarks on a new post-oil era.

Contacts

Hani Ashkar

Middle East Senior Partner
E: hani.ashkar@pwc.com

Stephen Anderson

Middle East Clients & Markets Leader
E: stephen.x.anderson@pwc.com

pwc.com/meceosurvey