



UAE CEO outlook 2023

**Sustainable stewardship: juggling agility
with the long view**



November 2023
KPMG Lower Gulf

CEOs are feeling the urgency of adopting AI technology, with 56% agreeing that AI is a top investment priority.

Foreword

In the UAE, 76% of CEOs reported feeling confident about their industries' growth prospects, and 84% expect their businesses to grow by more than 2.5% over the next three years.

Facing inflation, explosive new technologies, extreme weather events and geopolitical crises on multiple fronts, almost two-thirds of CEOs in the UAE (64%) have already adapted their growth strategies over the next three years to address interrelated challenges such as global recession, climate change and artificial intelligence (AI). The majority of those who have not yet adapted their strategies are planning on doing so imminently.

These were some of the major themes that emerged this year during our annual survey of 1,325 CEOs worldwide, including more than two dozen in the UAE.

Our results found that CEOs are feeling the urgency of adopting AI technology, with 56% agreeing that AI is a top investment priority — even though the vast majority don't expect to see a significant return on their investments for three to seven years. They have also embedded ESG into their businesses as a way to create value, but again, 88% don't expect to see returns on ESG for at least three years. Despite these longer-term forecasts, the consequences are significant for companies that fail to deliver on either, the CEOs reported.

The results show that CEOs are concerned with juggling the urgent versus the important, trying not to fall behind on promising new technologies while also continuing to invest in ESG strategies that are vitally important to the long-term health of their businesses, their people and the planet. It's a tricky balance to maintain, but it's one we're committed to achieving together.



Emilio Pera
CEO, Senior Partner
KPMG Lower Gulf

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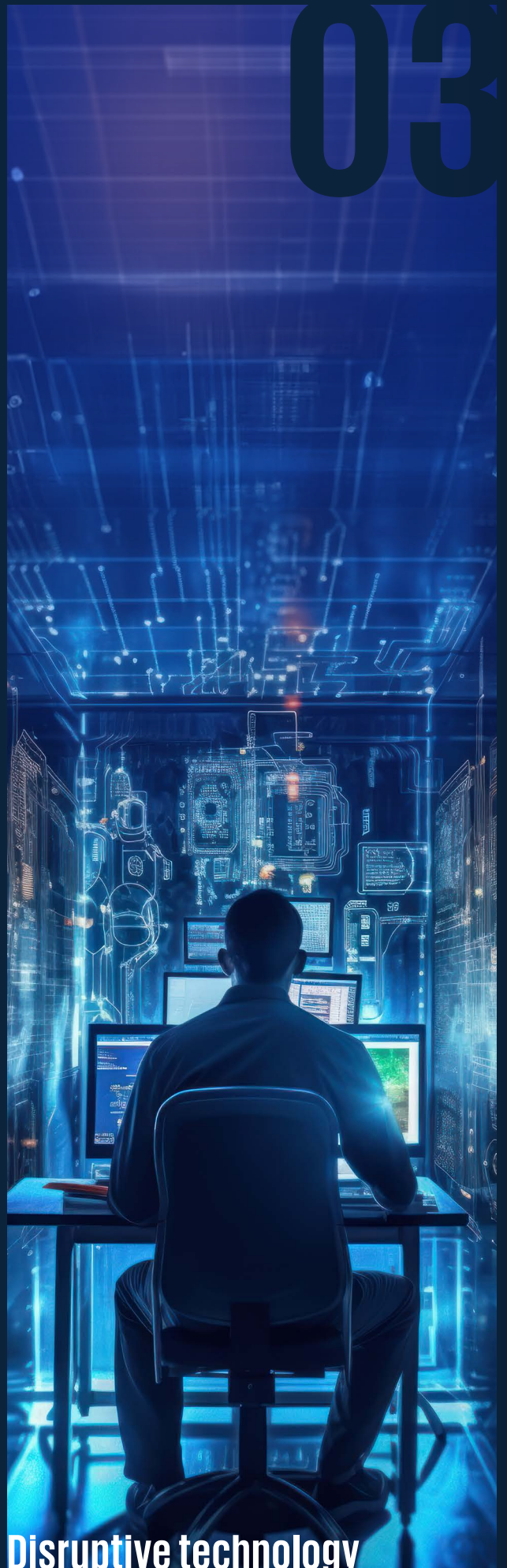
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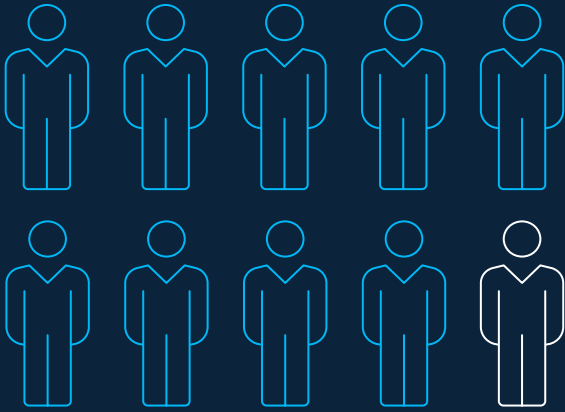
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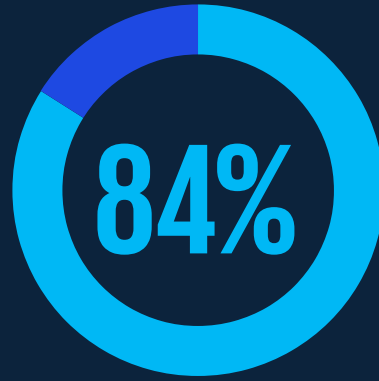
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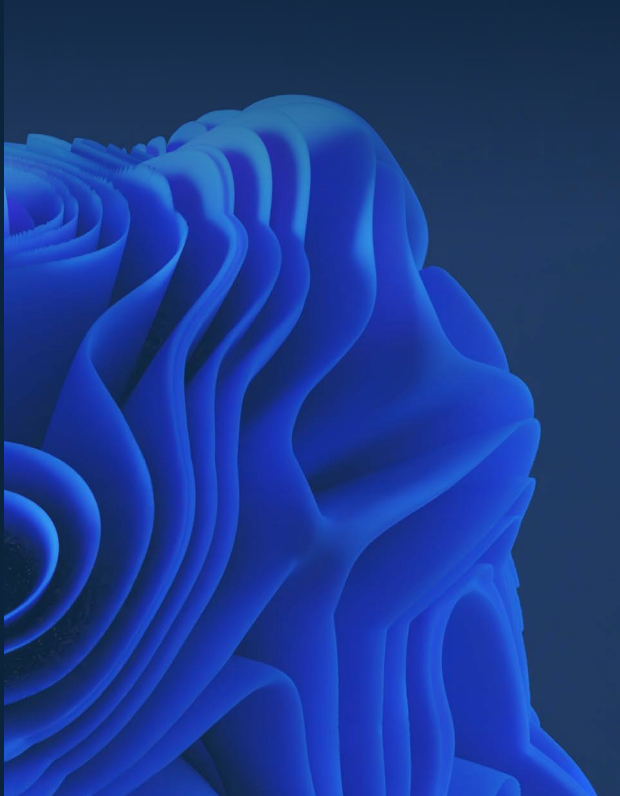


88%

of local CEOs reported increased revenue in 2023, compared to 2022 (higher than the global response of 77%)



expect their businesses to grow by more than 2.5% next year



AI takes center stage



56% of CEOs in the UAE agreed that AI is a top investment priority



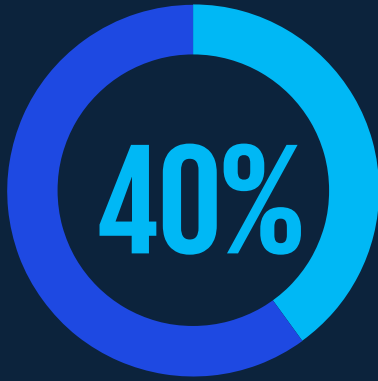
72% think it will be more than five years before these investments pay off



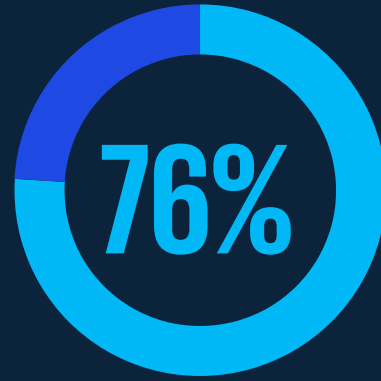
Local CEOs view AI as a way to: increase profits, detect fraud and cyberattacks, increase operational efficiency, create new products and enter new markets



CEOs are concerned about: the ethics of AI, the lack of regulation, and employee adoption



have a high M&A appetite



of CEOs in the UAE are confident about their industries' growth

Taking the long view on ESG



64% of CEOs in the UAE have fully embedded ESG in their businesses as a strategy to create value



CEOs see ESG as key to building brand reputation and attracting the next generation of talent



88% expect it will be at least three years before they see major returns on ESG investments



Local CEOs were less likely than their global counterparts to prioritize environmental concerns and pursue net-zero (35% worldwide, 24% local)

Doubling down on return to office



72% of CEOs expect employees to return to the office full-time, compared to 64% worldwide



40% of local CEOs plan to reward employees who come to the office, compared to 88% worldwide



76% of local CEOs are investing more in technology than people, compared to 54% worldwide

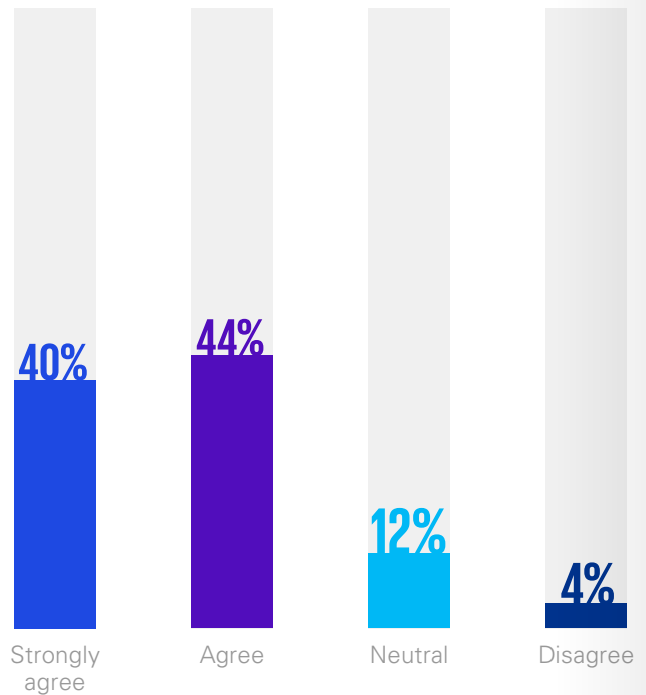
Economic outlook

CEOs in the UAE reported strong earnings and growth prospects this year. In 2023, 88% of local CEOs reported increased revenue compared to 2022, exceeding the global response rate of 77%. An impressive 84% expected their businesses to grow by more than 2.5% next year, and despite inflation and geopolitical pressures, 40% have a high M&A appetite.

More than three-quarters (76%) said they would prioritize inorganic growth even without stable market conditions as long as other factors were met, such as available financing and existence of an acceptable acquisition target. Almost three-quarters (76%) of CEOs in the UAE also expressed confidence in their industries' growth.

Local CEOs also reported feeling relatively insulated from global instability. Just 8% cited political uncertainty as the greatest threat to their organization's growth over the next three years, compared to 18% worldwide. Instead, emerging technology and environmental issues/climate change were cited as the biggest risks they faced, at 28% and 20% respectively. Cybersecurity risk was listed third at 16%.

Rising interest rates and tightening monetary policies could prolong any potential recession.



In 2023, 88% of local CEOs reported increased revenue compared to 2022.





The UAE's GDP is expected to grow around 3.5% this year, according to the International Monetary Fund.



A hub of innovation

The UAE is the second-largest economy in the Arab world, with a GDP of AED 1.62 trillion (USD 441 billion).¹ When oil was discovered in the 1950s in the UAE, the economy quickly transformed from one driven by nomadic farming, date palm cultivation and fishing, to one based on oil and gas extraction, wholesale and retail trade, and manufacturing.² In recent years, the government has pursued a comprehensive diversification program that is transforming the country once again from a traditional labor-intensive economy to one based on knowledge, technology and skilled labor. Oil exports now account for about 27.6% of GDP, as the government also invests heavily in renewable energy, aluminum products, tourism, aviation, telecommunications, and advanced and emerging technologies.³

In 2022, the government announced a new Digital Economy Strategy aimed at doubling the digital economy's contribution to the UAE's gross domestic product — from 9.7% to 19.4% —

within 10 years. The strategy includes more than 30 initiatives and programs targeting six sectors and five new growth areas.⁴ The goal is to grow the digital economy from USD 38 billion to USD 140 billion. The UAE further aims to achieve global leadership in mobile internet speed, and to leverage technological advancements such as AI to enhance government services and promote a robust digital infrastructure.⁵

Spurred by these investments, real GDP is expected to grow around 3.5% this year, according to the International Monetary Fund, with inflation down to 3% from 4.8% in 2022. Driven primarily by tourism, construction, and real estate developments, non-hydrocarbon growth is expected to exceed 4% for both 2023 and 2024.⁶ Business-friendly reforms and social initiatives have made the UAE a global investment hub. In 2022, foreign direct investment reached a record high of USD 23 billion, a 10% increase from the previous year.⁷



Disruptive technology

What do you consider the top benefit of implementing the use of generative AI in your organization?



Over half of CEOs in the UAE (56%) agreed that AI is a top investment priority. More than one-third (36%) view AI as a way to increase profits. Other main benefits cited included detecting fraud and cyberattacks, increasing operational efficiency, and opportunities to create products and enter new markets.

However, they don't expect the benefits to be immediate. Only 4% of CEOs in the UAE expect to see a return on investment in the next one to three years. A considerable majority (72%) think it will be more than five years before AI investments pay off.

The UAE has been at the forefront of leveraging generative AI technology. The country's National Strategy for Artificial Intelligence 2031 aims to transform the UAE into a world leader in AI by investing in people and industries that are key to success. The Minister of State for Artificial Intelligence, Digital Economy & Remote Work Applications Office, H.E. Omar Sultan Al Olama, is tasked with overseeing a plan to make the UAE a fast adopter of AI, generating up to AED 335 billion (USD 91 billion) in extra growth.⁸

These programs will be critical given the incredible speed with which AI is developing. More than two-thirds of local CEOs worry that AI is a double-edged sword, one that can both enhance cyber resilience and open new avenues

of attack. Only around half (48%) of CEOs in the UAE said their companies were well-prepared for a cyberattack, similar to the 53% worldwide.

While local leaders are enthusiastic about the government's goal of accelerating adoption of generative AI,⁹ they are much more concerned than their global counterparts about the ethics of AI, the costs, and employee adoption. In the UAE, 64% of CEOs listed ethics as "very challenging," compared to just 24% worldwide. 80% also said costs were a major challenge, compared to 56% worldwide, and 84% described employee adoption as "mostly" or "very" challenging. Globally that figure was just 36%.

Many respondents in the UAE (60%) also cited concerns about lack of regulation within the space. More than three-quarters agreed that lack of regulations and direction will be a barrier to their organizations' success, and 80% said the degree of regulation surrounding generative AI should mirror that of climate commitments. The government has already begun tackling this issue by appointing the UAE Artificial Intelligence and Blockchain Council to propose AI policies. The financial authorities have also released emerging technology guidelines for banks, and the Dubai International Financial Center has amended its data privacy laws to cover AI data processing.¹⁰



80% of UAE CEOs said the degree of regulation surrounding generative AI should mirror that of climate commitments.



Almost half of UAE CEOs expect to see a significant return on ESG investment in three to five years.

ESG to the fore

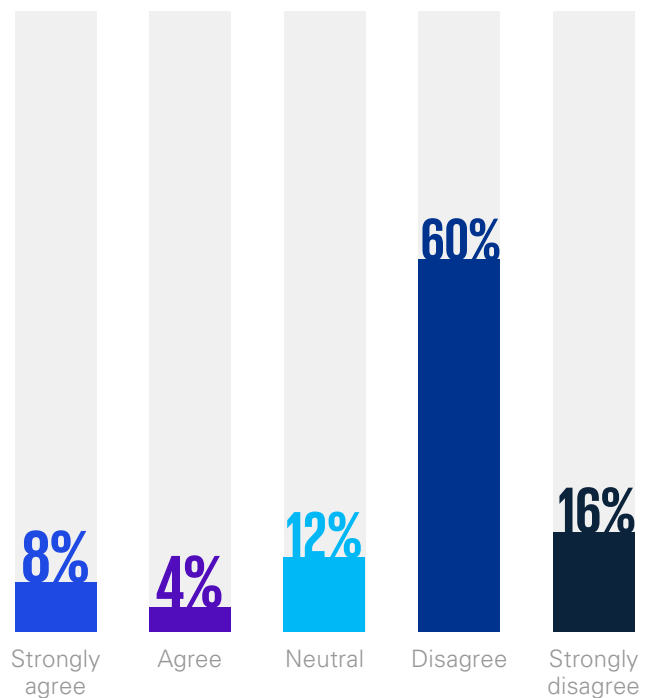
CEOs in the UAE view ESG as key to building their brand reputation and attracting new talent over the next three years; almost two-thirds of respondents (64%) have fully embedded ESG into their businesses as a strategy to create value. But the vast majority expect it will take several years for these efforts to pay off from a business perspective. Almost half (48%) expect to see a significant return on ESG investment in three to five years, while another 40% expect it will take five to seven years.

And yet these delayed timelines have not dampened CEOs' ESG efforts. Local leaders recognized serious risks involved in not meeting ESG targets: 40% of CEOs in the UAE said failing to meet ESG targets would result in higher costs and/or difficulty raising finance, compared to 25% of CEOs worldwide, and 28% worried that failing to deliver on ESG would give competitors an edge. These numbers signaled a stronger commitment to ESG than in years past. In 2022, only 20% of CEOs in the UAE viewed ESG as key to improving their firms' financial performance. Today, leaders understand that ESG and financial viability are intertwined.

However, CEOs in the UAE remain concerned about their companies' ability to adhere to reporting standards; just 28% agree that they are prepared to meet new standards, and 67% said they were not prepared to withstand stakeholder scrutiny.

When it came to ESG investments, only 24% of local CEOs were prioritizing environmental challenges and pursuing net-zero, compared to 35% of CEOs worldwide. This figure was down from 2022, when 32% of CEOs were focused on environmental transformation. The top barriers to achieving net-zero were lack of appropriate technology solutions (36%), costs of decarbonization (28%) and lack of skills and expertise (28%), the CEOs reported.

To what extent do you agree it is possible to address all your ESG priorities simultaneously?



The slip in net-zero ambitions is the result of other ESG goals moving to the forefront, particularly transparency and governance. Nevertheless, the UAE is committed to net-zero as a crucial sustainability goal. In 2021, the UAE became the first Gulf country to commit to net-zero emissions by 2050. It also plans to double investment in climate-smart agriculture and food systems in order to spur low-carbon growth and enhance food security — initiatives that will be on display at COP28, the 28th United National Climate Change Conference hosted in Dubai from 30 November to 12 December 2023.

Managing talent

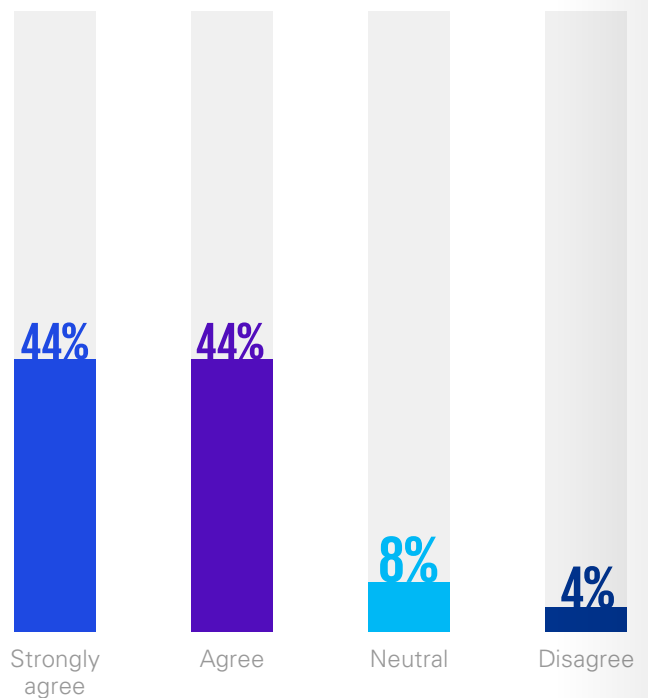
CEOs in the UAE are planning a major return to the office over the next three years. Almost three-quarters (72%) expect employees to be back in the office full-time, up from 60% last year. Only 20% envision hybrid working, compared to 27% of CEOs worldwide, while 8% plan to allow fully remote work.

And while most CEOs worldwide (88%) plan to lure employees back to the office with favorable assignments, raises and promotions, many CEOs in the UAE seem prepared to impose mandates requiring employees to return. Most local leaders (60%) said they were either neutral or not likely to reward in-person workers, implying that on-site work would simply be expected.

This insistence on a return to the office might reflect local CEOs' collaborative leadership styles: 92% of CEOs in the UAE agree that shared management and operational responsibilities lead to greater success, compared to 72% of CEOs worldwide. Facetime may be valuable for shared decision-making, but most employees have come to expect more flexibility in their work life.

Despite CEO preferences, many experts have declared the five-day office week dead.¹¹ Given that employees indicate a strong preference for hybrid work, promotions and raises could turn out to be an effective way to entice employees to give up their pandemic-era freedom after all—or indeed, CEOs might consider heeding their employees' pleas for flexibility.

Ongoing uncertainty about the future has altered how I think about succession planning.



92% of CEOs in the UAE agree that shared management and operational responsibilities lead to greater success.





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Opportunities for growth

The most successful leaders have always been visionaries, but today, imagination goes further than ever. Vision isn't reserved for tech giants trying to change the world; it is for every leader in every field grappling with the question of how to leverage technology to serve their business.

Our latest survey showed that CEOs face considerable pressure to integrate AI into their business strategies, but many are undoubtedly wary of incorporating AI just for the sake of incorporating AI. At the same time, studies show that a concerning number of employees are worried they will be replaced by algorithms.¹²

Fortunately, best practices exist for using AI to enhance human ingenuity. Machine learning represents a vast and largely unmapped terrain. The most successful businesses will be those that can strategically deploy emerging technologies to protect their digital infrastructure, improve products and services, reduce environmental impact, and maximize social benefit.

Recommendations for the future

Disruptive technology:

Embrace generative AI in a way that is ethical, makes the most sense for your business and keeps the needs of your employees and clients at the forefront.

Stay up to date with cyber-attack strategies so you and your employees do not expose the business to risk.

ESG to the fore:

Position ESG as a driver for value creation when it comes to business growth, rather than as a risk to be managed.

Stay attuned to shifting ESG regulations to help maintain your business' brand reputation and client relationships.

Focus ESG investments on areas in line with your values and those of the business.

Managing talent:

Take a long-term view when it comes to employees' desire for hybrid or remote working to ensure that talent is nurtured and supported.

Set the tone at the top. Senior leadership should make IDE a stated priority, set real targets, fund initiatives and appoint management to lead programs with clear accountability.

Vision isn't reserved for tech giants trying to change the world; it is for every leader in every field grappling with the question of how to leverage technology to serve their business.

Sources

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About KPMG Lower Gulf

For about 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 144 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,730 people, including 166 partners and directors across the UAE and Oman.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are:



Integrity: We do what is right.



Excellence: We never stop learning and improving.



Courage: We think and act boldly.



Together: We respect each other and draw strength from our differences.



For Better: We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change.

Our KPMG IMPACT initiative aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious.

Our three pillars – **exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams** – are the foundation of our firm. Over the coming decades, we commit to lending our support to the UAE's journey as it goes from strength to strength: together, for better.

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Publication name: UAE CEO outlook 2023

Publication number: 4933

Publication date: November 2023