KPMG Kuwait CEO Outlook 2022–23

Turning the tide

June 2023
kpmg.com/kw

Foreword

Welcome to the KPMG Kuwait CEO Outlook 2022–23: Turning the tide. This is the second edition of the KPMG Kuwait CEO Outlook, first published in November 2021.

The past years were turbulent to say the least. To stay afloat after back-to-back catastrophic events and the resulting uncertainty, businesses needed to be resilient to the challenges and confident in their approach.

We originally set out to release this publication in 2022 but, in doing so, realized that the narratives of 2022 and 2023 are inextricably linked. It only made sense that we took our time and presented a rather comprehensive picture of Kuwait CEOs' business plans and their outlooks on the country's economic landscape.

Through this report, we witnessed CEO's confidence rise more, fall less. We observed cybersecurity fall out of the key risks, and saw emerging technology climb to the top. But the main highlight of this report remains that three-fourths of the CEOs surveyed do not anticipate a recession. Yet, the majority of them are not denying that a potential event would inhibit their anticipated organizational earnings and make it difficult for them to rebound from the pandemic.

In light of recent events, CEOs are more focused on adapting to geopolitical issues and fast-tracking digitization and connectivity across businesses. They recognize that their ability to hire and retain talent will become all the more important and foresee in-office as the choice of work environment in the three-year horizon.

The CEOs are not losing sight of major global ESG challenges that pose as barriers in attaining their company's growth objectives, and also realize that they may soon have a bigger role to play when it comes to addressing societal challenges.

While it is imminent from our survey that CEOs have their growth agendas laid out, almost all of them said they would not hold back if they had to divest a profitable business segment that was damaging their reputation.

This year's report is more than numbers; it is about CEOs show of heart and strength of character to find opportunity in uncertainties, which is evident in the results.

We have compiled the insights based on the perspectives of 1325 CEOs, including 25 from Kuwait.

To localize this report further, we also interviewed Raed Jawad Bukhamseen, Vice Chairman and Chief Executive Officer, KIB, Eng. Maziad Alharbi, Chief Executive Officer, stc, Ali H. Khalil, Chief Executive Officer, Markaz, S.N. Ramachandran, Group Chief Financial Officer, Fouad Alghanim Group, and Mazen Hawwa, Vice Chairman and Group Chief Executive Officer, United Real Estate Co. to understand their outlook on how some of these findings apply to Kuwait.

I am sincerely thankful to them for taking the time to participate in our publication and everyone else who helped put this report together.

I am hopeful that the publication will support some of your decisions and help you see the clearer picture in all the others.

I encourage you to read it and share your thoughts with us.

Dr. Rasheed Al-Qenae
Managing Partner
KPMG in Kuwait

Contents

Finding opportunity in uncertainty

Four key themes emerge from this report

Economic outlook

CEOs are on top of current challenges and foresee long-term growth despite new and pre-existing risks.

Optimism in growth remains

Unmarked by global challenges, the economic confidence of CEOs in the country increased to 100% in 2022, compared to 2021's 80%.

Recession an implausible prospect

Seven out of ten CEOs believe a recession will not happen in the next 12 months; but should it hit, 28% have plans in place to tackle it while 24% feel its impact will be mild and short.

Managing geopolitics

Geopolitical uncertainties will likely continue to impact strategies, with 68% of the CEOs having already adjusted their risk management procedures or are planning to over the next six months (28%).

Technology

CEOs in Kuwait are readjusting their focus on digital investment opportunities that promote growth and addressing the burnout resulting from accelerated digital transformation in the past two years.

Emerging tech top growth risk

Disruptive technology emerged as the biggest risk to organizational growth in 2022.

Investing where it matters

Nearly 92% of the CEOs recognize the need to be swift in identifying and shifting to investment in digital opportunities rather than spending capital on areas of digital obsolescence.

Cyber as a strategic function

Owing to the rapid changes in the cyber environment and upheaval in emerging tech, CEOs (100%) see information security as a strategic function and a potent competitive edge.

Talent

Kuwait CEOs realize the importance of talent and are striving to evolve their employee value proposition and the ability to attract and retain key workforce amid inflation pressures/cost of living.

Talent a top operational priority

The need for recruiting and maintaining key talent is underpinned by the demand for increasing measures to adapt to geopolitical issues and advancing digitization and connectivity across businesses to achieve the three-year growth objectives.

Recession driving short-term freezes

In preparation of the anticipated recession, 28% of the CEOs have a hiring freezing in place with another 52% planning it within the next six months.

Fostering a spirit of experimentation

About 60% of the CEOs see in-office as the preferred working environment for the next three years despite hybrid/remote work's positive impact on collaboration, innovation, and employee retention, hiring and morale.

ESG

CEOs are balancing the need to build resilient and transparent ESG plans with the possibility of having to pause or reconsider their approaches.

Slowdown in ESG expectations

The percentage of CEOs leaning toward non-ESG programs to improve their organizations' financial performance saw a slight increase to touch 84% in 2022, compared to the 80% in 2021.

ESG impact on supply chains

Kuwait CEOs increasingly see reporting and transparency as important to their ESG goals — and this includes insight into their broader supply chain.

Diversity ramping up progress

Businesses are seeing major focus put on the social aspect of ESG: 72% of the CEOs believe progress on inclusion, diversity and equity (IDE) has been up to speed, with 68% agreeing that scrutiny of organizations' diversity performance will keep increasing over the next three years.

© 2023 KPMG Advisory W.L.L., a Kuwait limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Raed Jawad Bukhamseen

Vice Chairman and Chief Executive Officer, KIB

Mr. Raed Bukhamseen has more than 20 years of an extensive and broad-ranging experience in the banking, real estate and investment sectors both in Kuwait and in the GCC countries. He is presently serving as the Vice Chairman of the Board of Directors and the Chief Executive Officer of KIB.

Mr. Bukhamseen also holds the position of Chairman of Arab Investment Company (AIC). Throughout his career, has held key leadership posts at several pioneering companies in Kuwait and the Middle East, such as being a Board Member of Bukhamseen Group Holding Company, Boursa Kuwait, The Shared Electronic Banking Company (KNET), Warba Insurance Company, Egyptian Gulf Bank in Egypt, Layan Real Estate Company in Dubai, Souk Al-Salmiah Real Estate Company and Credit One Kuwait Holding Company.

Mr. Bukhamseen earned a Bachelor of Business Administration from Boston University, United States in 1999; He has also continued to pursue a path of self-enrichment through executive programs in investment and banking at some of the world's most renowned institutions.

Nearly 30% of the CEOs believe that the impact of a global recession on Kuwait will be mild and short. What are your views? What has been the impact of the global slowdown on Kuwait's economy?

Thank you for giving me the opportunity to share my insights on the current economic situation in Kuwait. I believe the understanding that the impact of the global recession on Kuwait will be minimal has some basis, given the unique strengths and resilience of our economy.

However, the question of how Kuwait might be impacted by global economic slowdowns, both past and forthcoming, is indeed a significant one. Like all others, our economy is integrated into the global financial system, making us susceptible to worldwide economic trends.

Kuwait's economy primarily depends on oil revenues, which account for most of our national income with efforts to diversify the income through other channels.

Therefore, fluctuations in the global economy and oil prices are crucial to our economic performance. In addition, while there have been discussions around economic diversification, we acknowledge that significant strides in this area are yet to be made.

Nevertheless, Kuwait's economy has consistently demonstrated resilience in the face of these economic challenges which is a testament to the strength and robustness of our financial sector.

This resilience is significantly attributed to the sound and precautious measures of the Central Bank of Kuwait and other regulatory bodies. These strategies have helped us navigate past slowdowns and prepared us with robust financial buffers for potential future challenges.

As the CEO of a leading Islamic Bank in Kuwait, I believe we have a critical role to play in bolstering our economy amidst these global trends. We are committed to supporting our customers during these times, ensuring the availability of financial services, and enhancing our digital capabilities to provide a seamless banking experience.
In conclusion, while global slowdowns might impact our economy, the effects are cushioned by several factors, including Kuwait's ample financial buffers, low unemployment rates, and the prudent policies of our Central Bank.

We remain alert to the challenges that lie ahead but are confident in our ability to navigate them effectively.

As sustainability takes on increasing global significance, Kuwait aims to position itself as a financial and trade hub by incorporating sustainable finance principles into its banking industry.

Our report finds that the appetite for M&A is moderate to high for majority of the CEOs in Kuwait. The CEOs believe mergers can help them stay afloat in the current competitive landscape. What are your views? Do you think M&A is the way for Kuwaiti businesses?

Merger and Acquisition (M&A) activity can be a strategic approach for some businesses in Kuwait, especially given the current competitive landscape. In addition, M&A can offer various benefits that help companies stay afloat and thrive in challenging economic times.

For example, they provide opportunities to access new markets and customers, unlock cost savings and efficiency gains, and promote innovation by sharing expertise and knowledge. Furthermore, M&A can lead to synergies that result in cost savings and efficiency gains.

By combining resources, businesses can eliminate redundancies, streamline operations, and leverage shared capabilities. This can lead to significant cost reductions and improved profitability.

That being said, the success of M&A as a strategic move heavily depends on careful planning, thorough due diligence, and effective post-merger integration.

It's also important to remember that while M&A can provide growth opportunities, it also comes with risks, including cultural clashes, integration challenges, and the potential loss of key talent.

In conclusion, while M&A is undoubtedly a strategic tool that businesses in Kuwait can leverage to maintain competitiveness and growth, it's not a one-size-fits-all solution.

The suitability of M&A depends on various factors, such as the nature of the business, the sector it operates in, and its specific circumstances and strategic goals. A careful and strategic assessment is required to determine if M&A is optimal for a particular business.

The latest guidelines by the Central Bank of Kuwait on ESG have positive intentions toward promoting sustainable funding in Kuwait. What do you think the future of sustainable finance looks like in the country?

The future of sustainable finance in Kuwait is poised for further growth and development.

As sustainability takes on increasing global significance, Kuwait aims to position itself as a financial and trade hub by incorporating sustainable finance principles into its banking industry.

This aligns with the country's national development plan, adapted to the United Nations Sustainable Development Goals (SDGs), and seeks to drive sustainable economic growth. The Kuwaiti government has prioritized sustainability and implemented various policies, including the New Kuwait Vision 2035, which committed to reducing greenhouse gas emissions by 20% by 2035. ESG investing, which considers environmental, social, and governance factors, has gained momentum as an investment strategy.

As a result, ESG investors are increasingly seeking companies that demonstrate a solid commitment to sustainability. In addition, technological advancements have made it easier for investors to access sustainable investments through new platforms and tools designed to identify and invest in sustainable companies.

The growth of sustainable finance in Kuwait is a positive development for the country. It helps reduce Kuwait's environmental impact and creates new jobs and opportunities.

Moreover, the Kuwaiti government's commitment to sustainability has paved the way for the financial sector to respond accordingly. As an Islamic bank in Kuwait, we, at KIB, share this commitment to sustainability.

We have recently published our first sustainability report and are heavily investing in technology to enhance our sustainable finance initiatives. In addition, we are dedicated to aligning with the Central Bank of Kuwait's guidelines and ensuring that our operations and offerings promote sustainable funding.

Above all, KIB has been working tirelessly to raise awareness on ESG through internal initiatives and external activities and reporting. These efforts have culminated in KIB participating in the United Nations Global Compact, becoming the first bank in Kuwait to have acceded to the United Nations Charter.

Overall, with the implementation of the Central Bank of Kuwait's guidelines and the global emphasis on sustainable finance, the future of sustainable finance in Kuwait looks promising.

The banking industry is expected to continue integrating ESG considerations into strategies, risk management frameworks and product offerings. By doing so, we contribute toward building a more sustainable and resilient financial sector in Kuwait, aligning with our collective vision for a sustainable future.

Nearly 80% of our respondents prioritize investing in technology over investing in the workforce. What are your views? How to create a delicate balance between both aspects of an organization?

Investing in both technology and the workforce is essential for the success and growth of an organization. While technology enables efficiency, innovation and competitive advantage, the workforce is the driving force behind the implementation and utilization of technology.

Therefore, creating a delicate balance between investing in technology and investing in the workforce is vital to ensure optimal organizational performance and sustainable growth. While technology investments can enhance productivity, streamline processes and enable automation, they allow organizations to leverage data analytics, artificial intelligence and digital platforms to improve operational efficiency and customer experience.

However, investing solely in technology without considering the development and empowerment of the workforce can lead to the underutilization of technology and missed opportunities for innovation.

Therefore, organizations should prioritize investing in the necessary training and upskilling of employees to leverage and adapt to technological advancements effectively.

We, at KIB, believe investing in the workforce fosters employee engagement, satisfaction and retention. Employees are the key drivers of organizational success, and their skills, knowledge and creativity are valuable assets.

Therefore, we align technology investments with the organization's overall strategy and objectives, and determine how technology can support and enhance the workforce's capabilities to achieve organizational goals effectively.

We also conduct regular assessments to identify the organization's specific technological needs and skill gaps. This assessment is also considering the evolving market trends and customer expectations.

Lastly, we implement effective change management practices to ensure a smooth transition when introducing new technologies, involve employees in the decision-making process and provide clear communication regarding technology investments' purpose, benefits and impact.

In conclusion, investing in technology and the workforce should be viewed as complementary strategies rather than competing priorities.

Organizations can create a delicate balance by aligning technology investments with the needs and capabilities of the workforce, investing in employee development, fostering collaboration, and continuously evaluating and improving the impact of technology on organizational performance.

Organizations can achieve sustainable growth, innovation and competitive advantage in today's dynamic business environment by effectively leveraging technology and the workforce.

Economic outlook

Optimism in long-term growth remains

Notwithstanding the overarching challenges presented by business and economic landscapes in the country, CEOs' confidence in growth prospects on a country level remains unchanged (100%).

They are familiar of the hurdles stemming from factors, such as rising interest rates, inflation and an expected recession, which are more unique to rest of the world, resulting in a slight decline in global economic confidence (4%) to reach 60%.

Compared to the findings in the KPMG 2021 Kuwait CEO Outlook, the overall confidence of CEOs in terms of growth on company and sector levels dipped by 8% and 4%, respectively, to reach 92% in 2022.

CEOs feel a recession is unlikely

While CEOs foresee challenges in the shorter term, the majority of them (72%) believe that a recession is unlikely in the next 12 months.

The remaining of them are not overlooking the likelihood of a recession, with 28% saying that they have robust plans in place to counter it.

Should a recession occur, 24% expect the impact to be mild and short. Nearly 72% feel a potential recession will upend anticipated growth over the next three years — 88% of which predict it to impact earnings by up to 10% over the next 12 months.

However, CEOs are well-prepared and have resiliency measures in place to weather short-term challenges. The top three steps include: boosting productivity (72%), diversifying supply chain (52%) and reconsidering digital transformation strategies (44%).

CEOs (64%) believe a recession may get in the way of post-pandemic recovery but are confident of long-term growth and their ability to navigate their businesses through turbulent times.

This conviction was indicative of their confidence in the resilience of their company, industry, country and the global economy in the next six months, which was ahead of rest of the world.

72%

of the CEOs believe a recession will not be there in the next 12 months.

64%

of the CEOs say any anticipated recession will not be mild and short.

© 2023 KPMG Advisory W.L.L., a Kuwait limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Top risks looking forward

As we look at the next three-year forecast, risks appear to be more interconnected than ever.

Emerging/disruptive technology (20%) climbed three spots to be greatest threat to organizational growth, followed by climate change (16%) which remained the second biggest. Compared to 2021's 80%, more CEOs (88%) said they were well-prepared for a cyber-attack.

This was evident in our survey as cybersecurity was pushed out of the top five threats by new concerns in interest rates (12%), internal unethical culture (12%) and reputational risk (8%).

Reputational risk, including misalignment with customer/public sentiment (32%) and pandemic fatigue or continued uncertainty/restrictions (24%) topped the list of CEOs' most-pressing concerns.

88%

of the CEOs say they are well-prepared for a cyber-attack.

Top risks to growth over the next three years in comparision to 2021

	2022-23	2021
Emerging/Disruptive Technology	01	04
Environmental/ climate change	02	02
Regulatory concerns	03	05
Reputational Risk	04	06
Supply Chain	05	03
Cybersecurity	06	01

Source: KPMG CEO Outlook 2022-2023

In spite of economic uncertainties, CEOs confidence is still upbeat for M&A driven growth. Corporate are expected to focus on long term value creation to unlock and track value.

Appetite remains strong from private equity with good levels of dry powder, although macro considerations, resilient sustainable business models and high performing management teams remain the driving factors for investment.

Ankul Aggarwal
Partner – Head of Deal Advisory
KPMG in Kuwait

Managing geopolitical risk

CEOs were less affected by geopolitical uncertainties that are impacting the strategies and supply chains of global CEOs and will continue to over the next three years.

To achieve the organizational growth objectives over the next three years, the bigger priorities for CEOs in the country are forming strategic alliances (28%), attaining organic growth (24%) and outsourcing (20%).

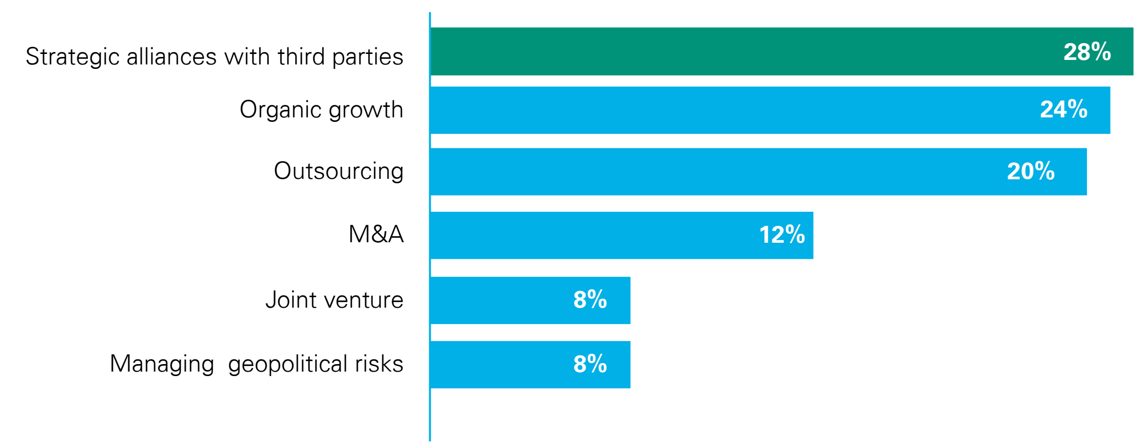
However, they are not undermining the potential roadblocks that may eventualize due to looming geopolitical risks.

That is why 96% of them are planning to or have already adjusted their risk management procedures taking into account such risks.

Additionally, 28% of the CEOs said that increasing measures to adapt to geopolitical issues will be their top operational priority to achieve growth objectives over the next three years. With geopolitics looking to govern how some of the risks will shape in future, CEOs in the country see it as one of the key agenda items for 2022–2023.

They need to be knowledgeable on the subject and how they can navigate the risks while ensuring that geopolitical risk assessment is embedded into their overall strategy.

Strategies important for achieving growth objectives over the next three years



Increasing M&A appetite

The M&A appetite over the next the years primarily ranged from moderate (52%) to high (44%) despite high economic concerns in surging interest rates and borrowing costs.

CEOs agree that, in the next three years, corporate purpose will have the biggest impact on shaping their capital allocation, partnerships, alliances and M&A strategy (88%) — second after building customer relationships (92%).

Given the volatility of the market, it is anticipated that VC investments will remain suppressed globally, along with an increased prevalence of down rounds.

M&A activity may witness a surge in the near horizon but it will be greatly dependent on whether or not companies are able to attract investors' attention.

CEOs in the country recognize that rapid innovation will be critical to staying competitive.

In light of that, deal makers may be taking a much sharper pencil to the numbers and focusing on value creation to unlock and track deal value, every step of the way.

Eng. Maziad Alharbi

Chief Executive Officer, stc

Eng. Maziad Bin Nasser Alharbi was appointed as the Chief Executive Officer of Kuwait Telecommunications Company (stc) effective on 2019, where he played a major role in building a distinct strategy that contributed to the company's transformation from a traditional telecommunications service company to the expansion of the business solutions and digitization services. Maziad Alharbi acquired a well-versed and diversified leadership, managerial, as well as technical expertise and capabilities in several areas.

More than 70% of the CEOs in Kuwait believe that a global recession will have a mild impact on their business. What are your views? How confident are you about the growth opportunities at stc?

As a digital pioneer and telecom leader, **stc** has strongly maintained its growth trajectory by seizing lucrative opportunities supported by its cost optimization program that the Company has been following since 2019.

These opportunities have come in the form of strategic acquisitions, early investments in key attributes that will sustainably support the operational side of the business, as well as the introduction of new-to-market concepts. Amid the current challenging economic conditions, **stc** has been taking proactive measures to solidify its corporate strategy and business model.

By prioritizing a flexible operating model that can quickly adapt to market fluctuations, **stc** is well-equipped to weather any potential crisis and maintain sustainable growth over the long term.

Driven by our corporate strategy, which aims to expand our presence in the B2B sector, we acquired QualityNet in 2019 and, more recently, E-Portal Holding Company and its subsidiaries to offer a wider range of Information and Communications Technology (ICT) solutions. These strategic acquisitions have assisted us in diversifying our revenue streams beyond traditional telecom services.

Furthermore, the strong results of our top-line over the past several years demonstrate our keenness to exceed customers' expectations and create value for our shareholders. Through our redefined and refined business model, we have successfully established a strong footprint on a global scale as an enabler of digital transformation, further reinforcing our position as a leader in the local and international telecom markets.

In terms of growth opportunities, we are focusing on the ICT field, which comes as a core aspect of our current corporate strategy. Having said that, we are positioning **stc** as the market leader in integrated connectivity and advanced Information Technology (IT) services.

This cuts across critical areas such as cloud and data centers, cybersecurity, Internet of Things (IoT), managed networks, and system integration. We provide critical ICT services to Kuwait's leading entities within the private and public sectors. On the consumer front, we continue to focus on fully digitizing the customer journey across our various channels and touchpoints. Furthermore, we are actively building and bundling digital adjacencies through our core portfolio to offer our customers a comprehensive suite of digital solutions.

Our survey finds that disruptive technologies have emerged as the biggest risk to organizational growth in 2022. What is your take on this?

The emergence of disruptive technologies has had a transformative effect on various industries, with the onset of the pandemic further accelerating the global adoption of digital transformation and digitization strategies.

In recent years, we have witnessed the proliferation of several groundbreaking technologies that have had a profound impact on our industry.

Technologies such as eSIM, digital payment, IoT, low-orbit satellite broadband, and many others have played key roles in the evolution of our industry.

The telecom industry is continually evolving, and it is crucial for businesses and employees to adapt to the changing landscape to remain relevant and competitive.

Disruption is an inevitable occurrence that is bound to happen and, while it cannot be avoided, organizations can take proactive steps to anticipate and mitigate its impact. Corporations that tried to resist innovative disruptions have suffered the harsh consequences of that resistance.

Our approach at stc is to embrace innovation and foster a culture of adaptability that can navigate disruptive forces and even turn them into opportunities for growth and transformation.

The Company is also making substantial investments toward the digital upskilling its workforce and forging strategic partnerships with digital natives.

These initiatives are aimed at enabling us to create innovative digital products and integrate them with our existing services.

In 2022, **stc** managed to record its highest revenue since inception. This was attributed to several factors, one of which included our early investment in building a strong and sustainable network infrastructure that could seamlessly support the technology, solutions, and innovative products that we aimed to introduce and deliver to our growing customer base.

Our growth was also supported by the integrated technical solutions provided by our ICT, ISP and business solutions subsidiaries, especially following the recent excessive demand on integrated business solutions.

These developments, among others, were part of a strategic plan we had set out looking ahead at the different shifts and trends that may impact our market in the long run. Additionally, we actively explore innovative ways to incorporate emerging technologies and new-to-market concepts into our overarching technology strategy.

The chatbots and other AI-enabled technologies (including the stc Bot) have reduced human interactions. However, they have also made a lot of roles redundant. What do you think the future workforce looks like in the telecom industry?

We are currently living in a rapidly evolving digital era, which is often referred to as the Fourth Industrial Revolution or Industry 4.0.
This pivotal shift in history is characterized by the integrations of technologies such as artificial intelligence, IoT, robotics, blockchain, cloud computing, among other technologies that will indefinitely have a significant impact on various industries and sectors across the globe.

A new era of transformation has begun where corporates and governments are more focused than ever on adopting sophisticated technologies and new business strategies that will maintain their competitive positions.

In the telecom sector, technology has played a significant role in transforming the industry and, at certain times, replacing human jobs. Many routine tasks such as customer service, billing and network maintenance can now be done with minimal human intervention.

This has led to the reduction of human jobs in these areas. At the same time, the introduction of new technologies has also created new job opportunities in areas such as software development, data analytics and cybersecurity, requiring new skills and expertise.

The telecom industry is continually evolving, and it is crucial for businesses and employees to adapt to the changing landscape to remain relevant and competitive.

Overall, while technology has led to job losses in some areas of the telecom sector, it has also created new jobs and opportunities, making it a double-edged sword.

An example of this shift would be how introducing the **stc** bot assisted us in improving our customer service by making our response time faster, more precise and cost-efficient.
AI-enabled technologies will help automate processes and tasks that have, unfortunately, made some roles redundant.

However, the implementation of these technologies will lead to increased productivity and higher operational capacities.

The benefits of the artificial intelligence (AI) employed in the IoT surpass those of data share and collection to affect the bottom line of telecom operators by increasing corporate efficiency, raising the level of automation and helping those companies deliver better customer service.

The potential for IoT technology and AI-based solutions to be used in nearly all daily operations and decrease companies' operational costs, has contributed to the global trend toward the utilization of these services.

All the CEOs we interviewed agreed that cyber and information technology is a strategic function of their organization and provides a potent competitive edge. Do you agree with this statement? How is stc keeping cyber at the heart of its operations?

Cyber and information technology have become strategic functions of organizations due to their critical role in enabling businesses to operate efficiently, securely and effectively in the digital age.

In today's business environment, technology is central to the way organizations operate and compete. Information technology supports critical business functions such as

communication, data management and analysis, and provides a platform for innovation and digital transformation.

Effective cybersecurity measures provide the means to protect organizations from potential cyber threats, such as data breaches and cyber-attacks, which can cause significant damage to reputation, finances and operations. Implementing effective IT and cybersecurity provides a potent competitive edge by enabling organizations to differentiate themselves from their competitors.

For example, businesses that use data analytics to gain insights into customer behavior and preferences can create personalized customer experiences, leading to increased customer satisfaction and loyalty.

Organizations that implement innovative technologies, such as cloud computing and automation, can improve their operational efficiency, reduce costs, and improve their time-to-market for products and services.

The demand for cybersecurity is growing globally and in Kuwait at a CAGR of 5.7%. Cybersecurity is a fundamental element of our ICT strategy, and our recent acquisition of E-portal has enabled us to broaden our range of cyber products and gain a competitive advantage in the market. We are currently involved in several ongoing cybersecurity projects with notable clients in the Kuwaiti market.

One of stc's sustainability goals (advancing digital opportunities) helps businesses reduce their environmental impacts through digitization opportunities. Can you speak about this initiative and give us a few examples of how stc uses digitization as a tool to drive sustainability?

Digitization has the potential to drive sustainability by enabling organizations to reduce their environmental impact and operate in more sustainable ways. The technologies available today can highly assist in bridging the gap between the immediate requirement for energy independence and long-term realization of just green transition.

With the increasing awareness about the importance of sustainability, organizations are adopting digital technologies to reduce their carbon footprint, energy consumption and waste production. Digitization also enables remote work, reducing employee commuting and office energy consumption.

Additionally, digital technologies can help optimize energy use in buildings, track and trace products and materials throughout their lifecycle, and monitor supply chains for sustainability risks and opportunities.

With digitization, organizations can track their carbon footprint and identify areas where they can reduce emissions.

Digital transformation in uncertainty

Emerging technology lands as top growth risk

CEOs are keeping technology risk front of mind in the short and long term. Disruptive/emerging technology has emerged as the top risk and greatest threat to organizational growth over the next three years.

And while reputational risk (32%) and pandemic fatigue (24%) are top of mind over the next six months, regulatory and talent-related concerns are tied at third.

In the face of these risks, CEOs in the country continue to prioritize digital investment — with 92% agreeing they need to be quicker to shift investment to digital opportunities and divest in areas where they face digital obsolescence.

Owing to the rapid digitalization over the past two years, there is an increasing need among 88% of the CEOs to address the burnout resulting from it.

Continuing along the same lines is a relatively less percentage of CEOs (64%) who feel continuing to drive digital transformation at a rapid pace is critical to their competition for talent and customers.

Furthermore, advancing digitalization and connectivity across the business (28%) was tied with increasing measures to adapt to geopolitical issues as the top operational priority to achieve growth over the next three years.

This focus on digital transformation may be driven by increasingly flexible working arrangements and heightened awareness of cybersecurity threats, exacerbated by geopolitical uncertainty.

Investing where it matters

Kuwait CEOs are taking adequate measures to prepare for the anticipated recession, which only 20% of them consider likely.

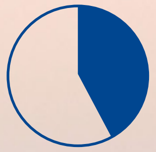
Nearly 92% of the CEOs stated that their businesses have already paused/reduced their digital transformation strategies or are considering to over the next six months to prepare for the anticipated recession.

There was a sense of urgency to move away from areas of digital obsolescence and add more speed to investment in digital opportunities for 92% of them.

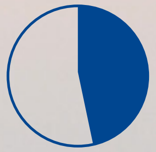
Digital transformation has become more expensive in recent years so, more than ever, investment should be prioritized in areas that help drive growth — and potentially slowed or reconsidered on efforts that may be considered non-critical.

In uncertain times, it is imperative that businesses focus their digital investments on impactful and measurable, value-creation opportunities most suitable to support their strategic goals.

Have CEOs taken steps to pause or reduce digital transformation strategies to prepare for a recession?



44%
Have taken an action



48%
Plan to take in the next six months

Source: KPMG CEO Outlook 2022-2023

Bringing people and technology together

CEOs continue to narrow the gap between their digital transformation objectives and investing in their workforce.

They were offered a binary choice: whether they were placing more capital investment in new technology (72%) or developing their workforce's skills and capabilities (28%).

This gap has narrowed from 2021, when 80% prioritized technology investment over workforce-related investments (20%).

As businesses have implemented their digital tools, their attention has shifted to adoption, engagement and change management in order to support their people working in a very different world.

To drive their growth, CEOs may be looking to make their existing people more productive through transformation.

Building successful partnerships

Few organizations can succeed on their own. Businesses rely on their ecosystems as building successful partnerships can help a company deliver a competitive edge.

CEOs view partnerships as important means to continue the pace of their digital transformation, however, this stands at 84% today, compared to 96% in 2021.

The majority of them view building crucial alliances with third parties as the most important strategy to help them reach their growth objectives over the next three years.

It has become more important for businesses to partner with companies (e.g. start-ups, fintech and more) that can help them, bringing agility and resilience to growth.

To bring everything together and drive a successful transformation, CEOs need the right partners — and the ability to connect it all.

As the tax ecosystem continues to evolve globally and locally, tax leaders are constantly adapting to the regulatory and technological advancements in the ecosystem. Changes such as increased focus on transparency, use of technology by tax authorities, tax data management and continued evolution of Base Erosion and Profit Sharing (BEPS) are a few of the many that are keeping tax leaders on their toes.

The tax transparency movement that began in 2010 fed a growing appetite for tax fairness and transparency. Today, corporations have obligations beyond their bottom lines to make positive contributions toward the communities they operate in.

With the changing tax landscape and legislation, the challenge for tax leaders today is unique. They need to strike the right balance between finding skilled workforce and adopting key tax technologies.

Zubair Patel
Partner – Head of Tax
KPMG in Kuwait

Cyber as a strategic function

The cyber environment is evolving quickly. Nearly 100% of the CEOs see information security as a strategic function and a potential competitive advantage.

While cybersecurity may not be a top risk to organizational growth in the country, the presence of geopolitical uncertainty is increasing worries over corporate cyber-attacks for many CEOs (96%).

In fact, nine out of ten CEOs say that protecting their partner ecosystem and supply chain is just as important as building their own organization's cyber defenses.

Growing experience of the challenges of cybersecurity is also giving CEOs a clearer picture of how prepared — or underprepared — they may be.

In Kuwait, more CEOs recognize they are more prepared for a cyber-attack, with 88% admitting so in 2022.

The remaining feel they are at the same level of preparedness as they were last year.

Furthermore, the percentage of CEOs who said their organizations had plans in place to deal with a ransomware attack rose steeply to reach 96%, compared to 72% in 2021.

The rapid increase in cyber-attacks, coupled with the increasing difficulty of detecting attacks on time, calls for automation and innovation in dealing with cyber incidents.

100%

of the CEOs see information security as a strategic function.

96%

of the CEOs say they have plans in place to deal with ransomware attacks.

Post the COVID-19 pandemic, Kuwait saw a surge in digital infrastructure, with businesses adapting to digitization to a certain extent. However, as we progress, breakthrough technologies such as blockchain, mixed reality, biometrics, hyperconnected systems, and artificial intelligence will shape the future.

Our report highlights that CEOs are well-prepared for a cyber-attack today. But, as we move toward complex technological advancements, we will see new security, privacy, and ethical challenges, which might raise fundamental questions about our trust in the digital ecosystem.

Therefore, CEOs must position cybersecurity as a strategic function and have plans in place for the next 1–3 years to treat cybersecurity as a thread that runs throughout their organization.

Majid Makki
Partner – Head of Management Consulting
KPMG in Kuwait

Ali H. Khalil

Chief Executive Officer, Markaz

Mr. Ali H. Khalil has more than 33 years of experience working in Kuwait, the US and France. Prior to taking up the role of Markaz's CEOs, he was the Chief Operating Officer of the organization from 2010 to 2020 and oversaw both Asset Management and the Investment Banking activities, as well as their underlying activities. Mr. Khalil holds an MBA degree from INSEAD in France, and a M.Sc., and a B.Sc. in Industrial Engineering from Texas A&M University, USA.

As per our findings, CEOs in Kuwait believe that emerging/disruptive technology is the biggest risk to growth for businesses in the three-year horizon. What are your views? Do you feel disruptive technologies such as artificial intelligence are a risk to growth?

Although there is a significant risk, especially for conventional and static business models — both for business growth and sustainability — it is also a unique opportunity for growth and differentiation depending on the company readiness, agility of the business model and strategy, and country-level policies; mainly, how adept it is at incorporating new technology into its operations.

In my view, the sources of risk are making incorrect technological bets, acquiring technology that is incompatible with the company's internal resources, or choosing technology that is inadequately suited to the client's needs.

This can cause lengthy delays and exhaustion, which might result in failures. Companies often embark on an over-ambitious program without considering the internal upskilling required, especially when it comes to staff training programs to thoroughly prepare the teams.

The adoption of artificial intelligence is eminent in our industry. Most asset managers have integrated Robo advisory, enabling them to scale up the business and enhance and standardize quality.

As new disruptive technologies become more frequent, the challenge is constantly reviewing and realigning the strategy with such technologies to capture new and relevant trends. Companies with a solid and dynamic strategy with business models capable of adapting to and adopting new technologies are best fit to mitigate such risks.

Strategic alliances emerged as one of the key pillars for CEOs in the three-year forecast. Do you think strategic alliances play a critical role in the current business ecosystem in Kuwait?

Strategic alliances have been a cornerstone of Markaz's business model and a critical strategic enabler since its founding 50 years ago. We continue to develop our core strengths in our field of expertise and leverage them through strategic alliances. This reinforces Markaz's leading position across the three strategic pillars: product and services manufacturing, wealth management, and distribution and operating model, which are the backbone of our growth strategy.

Collaborating with others allows us to undertake more significant transactions or execute complex mandates. It benefits the business as a whole because it will enable us to scale our operations, improve the quality of our offerings, and lower our execution and concentration risk. It also serves our operating model well, as strategic alliances are a great source of knowledge sharing, a means of importing global best practices into our operations, and a valuable benchmarking tool.

From a Product Manufacturing perspective, Markaz built legacy investment programs across various markets and asset classes over the years. This is demonstrated by Markaz's leadership in its US and Europe real estate investment program, with decade-long partnerships with leading sector-focused developers and operators. In addition, we were regional pioneers in launching a private equity program more than 25 years ago by establishing strategic alliances with leading fund managers.

Regarding Wealth Management and Distribution, we have partnerships with leading financial institutions to distribute our products to a broader client base. We continuously seek to grow these relationships and expand our client reach beyond Kuwait through the 'strategic alliances' approach.

In investment banking, we closely collaborate with banks and other investment companies to underwrite and execute larger, more sophisticated equity and debt capital markets mandates.

Recently, our Wealth Management division transitioned to an open platform. As a result of our collaboration with top-tier investment managers, we can now diversify our offering to cover different asset classes, such as private equities and private debt.

As Kuwait relies more on private-public sector collaboration for soft and hard infrastructure projects, the financial and technical capabilities required will be sizeable and beyond the capabilities of a single entity. We will see broader strategic alliances between developers, financial institutions, and technical partners locally and internationally, ultimately serving the overall growth of Kuwait as a nation.

When asked where they were putting their capital investments, 72% of the CEOs in our survey said that they benefit more from investing in new technology than in workforce development (28%). What are your views on this?

I firmly believe they go hand in hand. Adopting new technology will only succeed if the workforce is appropriately trained to work with it. In my years, I have witnessed many occasions where implementing and working with new technologies failed or were endlessly delayed because the assigned staff needed to be properly trained. It is important to invest in new technologies and equally important to invest in staff; otherwise, the overall value of the investment made will be substantially impaired. Adopting new technologies within a healthy and modern operational framework is a key differentiator in making such a technology a growth enabler rather than a risk.

Taking ChatGPT as an example, it can be considered as a threat or an opportunity, depending on whether the individual develops the right skills to best leverage the tool.

I expect our expenditure on new technology to become the center of our attention as our industries undergo substantial development. We are in a race for digitization across all sectors.

Time is of the essence, and it would be more effective to recruit fresh talents who are trained and capable of being immediately operational. However, this may not always be possible in a tight talent market, and hence staff development becomes the safer and more favored route.

Our survey finds that CEOs believe businesses embracing ESG has a greater chance to secure talent, strengthen employee value propositions, attract loyal customers, and raise capital. What is the trend you see in Kuwait? Is ESG becoming part of boardroom discussions?

Today, leading businesses in Kuwait place more emphasis on ESG, particularly following the Kuwait National Development Plan (KNDP) themes and the ESG guidelines announced by Boursa Kuwait.

Additionally, we have seen a significant step by the Kuwait Investment Authority (KIA) in adhering to being 100% compliant with the ESG standards. This trend encourages companies to adopt ESG values conducive to a higher quality of work while being socially and environmentally responsible.

ESG in Kuwait is evolving and becoming part of boardroom discussions, with board members motivating corporates to embed ESG into their goals and practices.

ESG is about the long-term survival of individuals, companies, societies, economies and countries. Accordingly, at Markaz, integrating ESG principles into investment decisions improves risk-adjusted returns over the course of an economic cycle. ESG, in our opinion, is essential to fostering customer loyalty and marketplace excellence. Integrating social and environmental concerns in business operations and interactions with stakeholders enables us to balance between adhering to ESG standards and fulfilling the needs of clients and stakeholders.

We maintain a robust corporate governance framework by applying ESG principles across our institution, and we are confident of the advantages such an effort will bring to Markaz and society at large.

Our CSR strategy at Markaz focuses on three key pillars: building human capacity, aligning our business environment with the principles of sustainable development, and promoting good governance in the business environment.

Although digital transformation became a buzzword in the early days of the COVID-19 pandemic, our survey finds that CEOs in Kuwait are becoming more cautious in terms of spending money on digital transformation in preparation for a global recession. What are your thoughts? Does the cost involved in implementing digital transformation outset the benefits?

I believe that digital transformation is not merely a buzzword; but a fundamental conviction that a company needs to automate its processes and client experience to provide high-quality services efficiently and accurately. However, the main issue is choosing the right digitization platforms, fast enough to adopt, and estimating the time to obsolescence.

Moreover, digitization requires high upfront costs and capex and adversely impacts margins. It is also imperative to realize that digital transformation is not a destination but an ongoing journey and should not be looked at as a one-off investment.

A key approach is to break this journey down into smaller value-additive projects, properly prioritized while considering the nature of the transformation project, the success and efficiency of implementation, and the readiness of the organization to accept the change.

Businesses may find it difficult to assess the ROI considering the lag between the costs incurred and the benefits associated with it.

For the implementation to succeed, we should adequately assess the project's requirements, goals, and associated risks by formulating a clear and detailed road map from the onset.

Moreover, digital transformation should certainly not be a response to current economic conditions but rather viewed as an integral part of the long-term strategy to ensure competitiveness and resilience.

Fostering workforce resilience

Talent a top operational priority

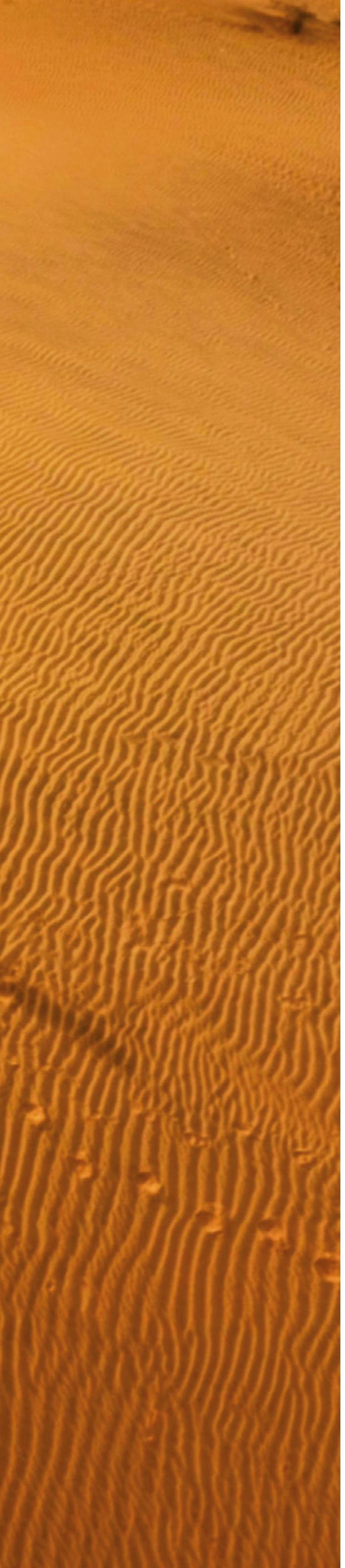
How CEOs support and attract talent is changing because of the challenging economy and their own growth goals. The employee value proposition to attract and retain necessary talent is one of the top operational priorities for achieving three-year growth objectives (16%, up from 12% in 2021).

In fact, 88% of the CEOs agree that the ability to retain talent with the pressures of inflation/rising cost of living are top of mind, as are the long-term impacts to organizations from the ability to evolve employee value proposition further and the capital available for new investments.

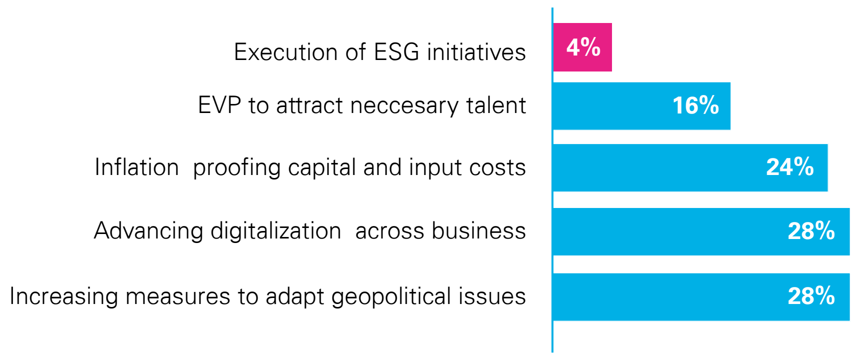
A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent.

Of the Kuwait CEOs who mentioned they were seeing significant demand for greater ESG transparency and reporting, 38% noted the biggest demand was coming from institutional investors, followed by regulators, employees and new hires (25%).

As a result, some of the primary downsides to not meeting ESG expectations were disengaged employees (20%) and recruitment challenges (12%).



Top operational priorities to achieve growth objectives over the next three years



Source: KPMG CEO Outlook 2022-2023

Recession driving talent freezes

Despite a recession being seemingly unlikely, there is a significant short-term emphasis on hiring freezes and headcount reductions: 28% of the CEOs in Kuwait have already implemented a hiring freeze, and 52% are considering downsizing their workforce over the next six months.

But when CEOs in the country take a long-term view, 96% expect their organization's headcount to increase over the next three years.

The CEOs are still investing in their existing workforce, with 72% already focusing on boost productivity and 24% planning to do so in the next six months.

80%

of the CEOs have implemented or plan to implement a hiring freeze in the next six months.

56%

of the CEOs have considered or will consider downsizing their employee base in the next six months

Fostering a spirit of experimentation

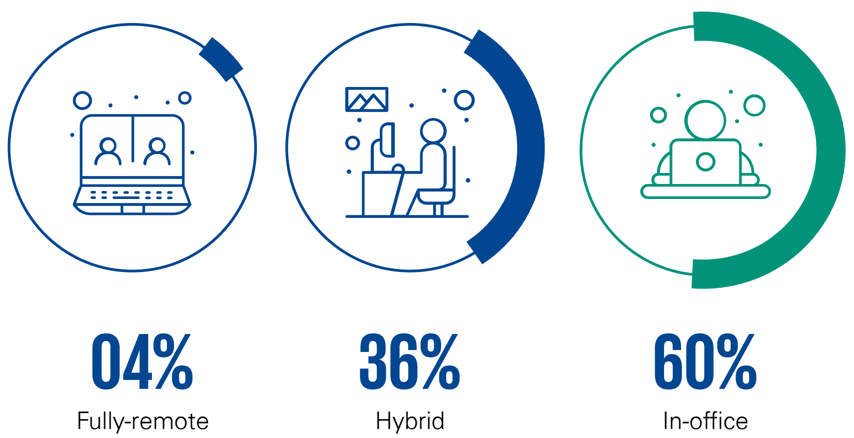
Hybrid/remote working has had a positive impact on collaboration and innovation, along with employee retention/hiring and morale, in the past two years.

However, many multinational organizations are launching return-to-office plans to usher in a 'return to normal'. This is evident in 60% of the CEOs who envision in-office as the go-to office environment in three years' time (with 36% saying hybrid and 4% fully remote).

Employee expectations when it comes to remote work are evolving, so it is important for CEOs to develop a better working structure that suits their people in what is still an emerging area. Even if the supply-demand side of labor shifts in favor of businesses (giving managers more scope to insist on being in-office), CEOs need to make sure their people have purposeful interactions.

How do CEOs define what an optimal structure looks like? Now is the time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.

Ideal working environment over the next three years



Source: KPMG CEO Outlook 2022-2023

In modern times, the success of a business cannot be measured just by its financial performance alone as social and environmental performance has become equally important.

CEOs cannot push the ESG agenda as a tick-box activity anymore and must have a plan of action for a sustainable future. Businesses must have people at the center of their business strategy; CEOs must collaborate with People Managers to implement Inclusion, Diversity, and Equity (IDE) action plans throughout the organization and foster a culture of openness and transparency.

KPMG's Impact Plan sets out the commitments we are making on our journey to become a better business and reaffirms our commitment to the United Nations (UN) Global Compact Principles and the UN Sustainable Development Goals.

Karen Watts
Partner – Head of Corporate Reporting
KPMG in Kuwait

S.N. Ramachandran

Group Chief Financial Officer, Fouad Alghanim Group

S.N. Ramachandran is the Group Chief Financial Officer of Fouad Alghanim & Sons Group of Companies, a conglomerate. He is associated with the Group for more than 15 years, with an extensive overall financial experience in Kuwait for more than 30 years.

Before joining the group he had worked for 15 years in India with in a very reputed and well known leading business group. He oversees the Group's Key Financial Strategies, Treasury, M&A, Investors' relations, banking aspects, with all their underlying activities including Finance & Accounting, Internal Audit, Financial Management etc. He is also acting as a Member of Board and Advisory Committees in GCC entities operating in Healthcare and Manufacturing sectors.

Our findings state that more than 70% of the CEOs in Kuwait are confident that challenges related to a global recession will not impact Kuwait's economy? What are your views?

The year 2022 was a year of shock — both economically and geopolitically — that dramatically changed the mood of investors globally, regionally and in Kuwait.

The war in Ukraine sparked turbulence in commodity markets, and the global economy was struck with the biggest surge in inflation in decades, forcing central banks to raise interest rates to control it.

Despite these challenges, the latest International Monetary Fund (IMF) forecasts as well as the World Bank report peg Kuwait's GDP growth rate to 8% in 2022, the highest growth among all the GCC countries (except Saudi Arabia), on the back of high oil prices and large reserve funds.

Considering these indicators, I do not expect that a global recession will impact Kuwait's economy significantly, except for supply chain disruptions and increased lead times of materials by major original equipment manufacturers (OEMs). Such disruptions would cause delays in Power and Oil Sector projects, resulting in erroneous project cost estimates and impacting margins significantly.

As businesses in Kuwait continue to grow across sectors and geographies, what role will mergers and acquisitions (M&A) play in this growth curve?

> **I expect 2023 will be an exciting time for M&A, with transformation and transactions at the forefront of value creation strategies.**

But with recessionary fears continuing to be top of mind for dealmakers, all eyes will be focused as to when the US Federal Reserve will signal an end to interest rate hikes.

I believe this will act as a catalyst for greater stability and certainty, leading to an upswing in M&A, notably among the private sectors.

As business leaders seek to surmount the varying challenges, M&A and particularly portfolio optimization will be key in helping them reposition their businesses, bolster growth and achieve sustained outcomes over the long term.

Your organization has a diverse set of portfolios. How do you think digital transformation across the organization helps?

Digital transformation is inevitable and critical to business success, be it in terms of protection against competition from disruptors, prevention and mitigation of cyber-attacks or hiring and retention of top employees.

Digital transformation puts technology at the core of business strategy. This approach can reduce operating expenses, help overcome inefficiencies, and even change the course of a business.

With a unified model across business and technology, it is easier to achieve future ambitions. IT also helps in achieving a cost-optimization strategy through the synergies within the group companies, i.e., centralization of resources.

At the same time, technology disruptors like AI have to be studied and carefully cultivated to maximize the benefits of such technologies.

To what extent have new ways of work, such as remote work, impacted the operational priorities and/or goals? Do you think finding the right way of work will be a top priority in 2023?

The construction sector is used to cyclical downturns, but the speed and strength with which the COVID-19 pandemic struck was unprecedented.

Apart from project delays, the delays in awarding new contracts, and the delays from supply chain disruptions, employee and subcontractor labor health was a core concern, and there are practical challenges around social distancing on construction sites. We resolved such challenges by adopting the guidelines issued by the local and regional governments and abiding by those rules.

In the post COVID-19 era, we are reshaping our strategy to invest proportionately in order to eradicate the risks related to remote work and the apprehension across the workforce pertaining to job security and productivity.

Post the COVID-19 pandemic, availability of skilled and talented managers has been severely impacted which resulted in increased cost of labor. This increases the challenge of continuous skill training of personnel which will be part of our growth strategy.

CEOs in Kuwait believe that strategic alliances, organic growth, and managing geopolitical risks are the top 3 strategic areas of growth. What are your thoughts? Where do you see growth opportunities for your organization?

Our business demands political stability in the region as significant resources are invested in projects for longer terms.

Hence, I place significant emphasis on the management of geopolitical risks, followed by strategic partnerships as the most important strategies for organizational growth and, lastly, business expansion — be it organic or through acquisitions.

Geopolitical uncertainties have indeed impacted corporate strategies and we expect it to affect the supply chain, and onboarding and retention of skilled talent, among other aspects.

In fact, like us, many key players adjusted their risk management procedures to achieve their growth objectives.

Great ESG expectations

Accelerating ESG's impact

CEOs see the importance of ESG initiatives on their businesses, especially when questioned about ESG's impact on improving financial performance, driving growth and meeting stakeholder expectations.

And this year's survey shows a marked jump in demand from stakeholders — such as customers and investors — for increased transparency.

CEOs stance on the impact of their company's ESG programs on financial performance remained unchanged as 56% of them continue to feel that ESG initiatives reduce their financial performance — same as 2021.

CEOs continue to agree that ESG programs improve financial performance (16%), despite the sag from 20% last year.

When asked where they saw corporate purpose having the greatest impact over the next three years, driving financial performance was among the top outcomes with 80%.

It ranked third after building customer relationships (92%), shaping capital allocation, partnerships, alliances and M&A strategy (88%) and driving shareholder return (84%).

CEOs are increasingly understanding that businesses embracing ESG are best able to secure talent, strengthen employee value proposition, attract loyal customers and raise capital.

ESG has gone from a nice-to-have to being integral to long-term financial success.

64% of the CEOs see stakeholder demand for increased reporting and transparency on ESG issues, down from 76% in 2021.

56% of the CEOs believe stakeholder scrutiny on ESG will continue to accelerate, declining from 64% in 2021.

12% of the CEOs indicate stakeholder skepticism around greenwashing is increasing (up from 4% in 2021).

CEOs stated that ESG performance reporting within their organization lacks the of rigor of their financial reporting and cited it as the biggest challenge in delivering their ESG strategies (40%).

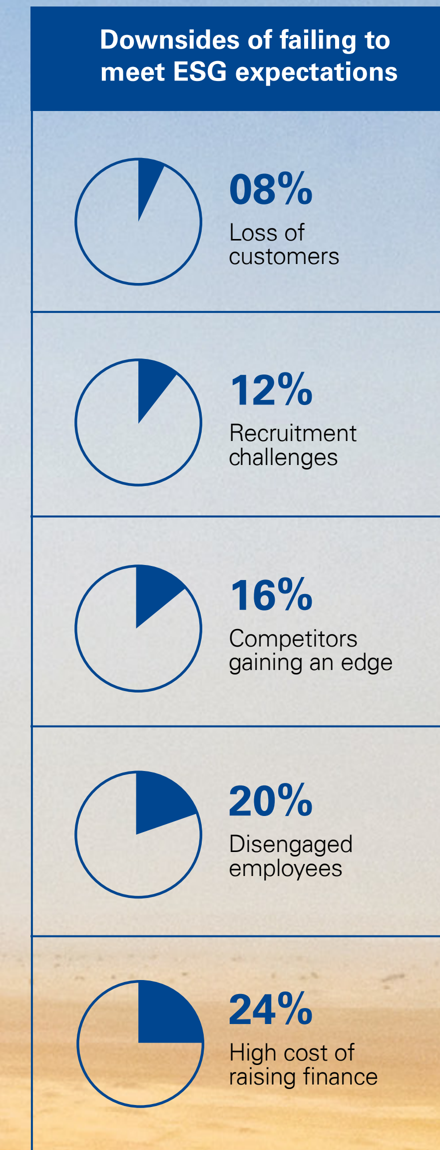
They are also increasingly aware of the lack of an accepted global framework for measuring and disclosing ESG performance (8%), but are struggling more to articulate a compelling ESG story (28%).

While regulation concerns remain high, this may highlight how global governments and regulators need to work together to align around ESG requirements.

Investments are forthcoming: 56% of the CEOs say they will be looking to invest at least 6% of their revenue in programs that enable their organization to become more sustainable.

Key drivers: CEOs find it difficult to pick just one key driver when it comes to accelerating their companies' ESG strategies: proactivity on social issues (44%), delivering on an actionable IDE strategy to address equity in leadership (28%), increasing measurement and governance to build a more robust and transparent approach to ESG (20%) and implementing a net-zero strategy (8%). This shows there is a growing consensus that they all matter.

Need for rigor: The biggest challenge for CEOs in communicating their ESG performance to stakeholders is the lack of similar rigor as financial reporting in ESG performance reporting withing their organizations (40%).



Source: KPMG CEO Outlook 2022-2023

A likely recession's impact on ESG

As CEOs strive to maintain optimism and take steps to insulate their businesses from an upcoming recession, indicators point to ESG progress suffering as a result, following the trend of CEOs reassessing initiatives in many areas of the business (e.g. transformation and staffing).

As economic uncertainty continues, 56% are planning on pausing/reconsidering their existing ESG efforts over the next six months, with 24% having already done so.

ESG has become an intrinsic business imperative. Delaying key ESG efforts could make businesses more reactive in the future rather than helping them lead the way with greater transparency, resilience and sustainability.

Top challenges in delivering ESG strategy over the next three years

01 Lack of budget to invest in ESG transformation

02 Identifying and measuring agreed metrices

03 Increased or frequently changing regulation

04 Faliure to create value from ESG investments

05 Perception of failing behind competitors

06 Lack of necessary technology to effectively measure and track ESG initaitives

Source: KPMG CEO Outlook 2022-2023

76%

of the CEOs agree achieving gender equality in their C-suite will help them meet their growth ambitions.

80%

of the CEOs agree that their organization's digital and ESG strategic investments are inextricably linked.

Developments such as regulatory pressures, disruptions in the financial markets, and customer preferences are compelling many organizations in the sector to integrate ESG into their ecosystem.

The latest guidelines by the Central Bank of Kuwait (CBK) on sustainable finance encourage banks to focus on green financing. The guidelines indicates that innovative products and services supporting ESG issues will be prioritized for testing within its Regulatory Sandbox. The new guidelines are a welcome sign in Kuwait and support the country's commitment to achieve net-zero by 2060.

We see the impact of the new guidelines as CEOs are keen to understand the overall effect of ESG on their business and how they can create a roadmap to facilitate ESG transformation within their organization.

Bhavesh Gandhi
Partner – Head of Financial Services
KPMG in Kuwait

The ESG shadow cast by the supply chain

It is critical for CEOs to understand how sustainable their entire business really is. CEOs increasingly see reporting and transparency as important to their ESG goals — and this includes insight into their broader supply chain.

Our survey shows that nearly a fourth of the CEOs (28%) plan to diversify their supply chains in the next six months in response to geopolitical challenges, with more than half having already done so.

What's more, the number one strategy CEOs are considering to mitigate supply chain issues is monitoring deeper into their supply chain (i.e. at the third and fourth levels) to better anticipate problems.

Why? Because the environmental, sustainability and human-rights practices of their partners and suppliers may impact their business and reputation.

This strategy is at par with the need to diversify sources of input by adding new locations of inputs to make supply chains more resilient (28%).

Among the many challenges, decarbonizing the supply chain is a significant hurdle for companies looking to achieve net zero.

Supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to improve visibility across the entire value chain.

They will likely have a more accurate understanding of how products and materials flow through the network and where issues are in the supply chain, so they can move from mere strategic intent to real tangible outcomes.

CEOs are also making the link to digital transformation: 80% say their organizations' digital and ESG strategic investments are inextricably linked.

With CEOs increasingly accountable to their supply chains and reporting to broader stakeholders, their success is dependent on their digital systems.

Where does the business source their raw materials from? Do they know their suppliers' human-rights records?

Multinational organizations need to focus more broadly on ESG — and into all the shadows cast by the organization.

Diversity ramping up progress

Businesses are seeing major focus put on the social aspect of ESG. There is broad alignment on IDE as 72% of the CEOs believe that progress on IDE has been up to speed in the business world.

The majority (68%) also anticipate that scrutiny of IDE performance will continue to go up over the next three years.

Awareness is key, and CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead.

Moving forward, it is important to normalize IDE within companies to avoid fatigue. Any plans need to be intentional and focused on what is possible within their market and business.

Diverse teams are also higher performing — but often only in environments of psychological safety.

Nearly 88% of the CEOs say they have a responsibility to drive greater social mobility in their organizations, which involves how you invite everyone into and structure your organization.

It requires that businesses invest in their people in a new way.

Mazen Issam Hawwa

Vice Chairman & Group CEO, United Real Estate Co.

Mr. Hawwa joined URC as Group Chief Executive Officer in 2020. Mr. Hawwa has been a member of the senior management team of KIPCO Group where he has spent more than 20 years. He also serves on the board of Burgan Bank and other several KIPCO operating subsidiaries.

As part of KIPCO Group's strategy, Mr. Hawwa has been involved in various operating companies providing thought leadership and advice on strategic directives, planning and governance. Mr. Hawwa is an alumni of Harvard Business School, HEC Paris and the Lebanese American University.

There is an increased focus on ESG across the GCC region. CEOs are increasingly incorporating reporting and transparency into their ESG goals. How do you think such measures will impact the financial performance of an organization?

The connection between ESG and financial performance might seem difficult. However, reports showed that it could have an indirect impact on operational costs, stock prices, risk and credit ratings, and competitive advantage. Environmental, social, and governance (ESG) considerations are becoming increasingly prevalent in investment choices throughout the world. The growing importance of a company's ESG performance, driven by investors, consumers, the workforce, and regulators, has heightened the focus of senior executives and put ESG at the top of the corporate agenda.

Regulators worldwide are becoming more active in ESG by setting mandatory disclosure requirements to drive comparability and improve transparency for investors who may use it to evaluate potential investments based on their operational activities. In Kuwait, while ESG regulations are still not mandatory, we highly appreciate Boursa Kuwait's initiatives and drive in this space. Kuwait Boursa has made significant progress in its efforts to promoting Corporate Sustainability by joining the Sustainable Stock Exchanges (SSE) initiative in late 2017, led by the United Nations. This membership provides Boursa Kuwait with a platform to exchange experiences and knowledge, fostering collaboration and playing a vital role to upgrade the ESG ecosystem within capital markets and stakeholders.

Expanding upon that initiative, Boursa Kuwait has recently developed and published an extensive guide to inspire all capital market players to embark on their journey into the ESG universe. This guide aims to educate them about the various reporting methods and their significance, the evolving landscape of Corporate Sustainability, and the specific areas that should be addressed in all reports. By familiarizing ourselves with these important aspects, all institutions can enhance transparency and make notable progress in ESG endeavors.

Providing transparency into ESG practices is no longer an option, but a necessity for large companies to remain competitive and relevant in today's business landscape. By moving beyond compliance and focusing on ESG risk management and performance improvement, companies can unlock significant value for all their stakeholders, and ensure long-term success. We believe that integrating ESG considerations into our practices and activities, will enable URC to further strengthen our customer's experience, offer us resilience to the everchanging marketplace conditions and position us toward driving and impacting the ESG development agenda.

Inflation-proofing investments has emerged as one of the top priorities for CEOs to achieve organizational growth in the next 1–3 years. What are your views?

Real estate is a tangible asset, it has a physical presence and value. Such assets provide investors with a sense of security and stability. Thus, as a leading real estate developer, our priorities continue to be creating value for our shareholders, building sustainable communities, and delivering high-quality projects and products.

In the real estate world, inflation can act as an appreciation hedge for property values. As the general price level rises, real estate value may also increase. This is because properties are tangible assets, and their prices may rise to keep pace with inflation. In this sense, real estate can be seen as a store of value.

Looking ahead, I am optimistic about the Kuwaiti market as it actively seeks to create new business sectors within the economy.

However, the relationship between inflation and property values is not always straightforward. Factors such as the COVID-19 pandemic, Russia's conflict with Ukraine, and the resulting disruptions have made it likely that inflation will be higher.

One potential impact of inflation on property values is that it can lead to an increase in real estate prices. When the general price level rises, the cost of building materials, labor, and land acquisition tends to go up as well. This can result in higher construction costs for new properties, which can indirectly impact the value of existing properties. Additionally, if inflation is accompanied by economic growth and increased demand for real estate, property values may rise further.

Generally, the real estate sector is often considered flexible and has historically shown resilience. This is mainly due to its ability to adapt to changing market conditions and demand, along with its capacity to withstand and recover from various economic downturns or crises.

Local demographic factors such as population growth and age distribution can also impact how inflation impacts property value within a specific area or country. Changes in demographics can drive demand for different types of properties, influence property prices, and affect rental markets. For instance, an aging population may lead to increased demand for retirement communities or assisted living facilities. Similarly, population growth in urban areas can drive demand for residential and commercial properties.

In terms of Kuwait, population has a relatively young age structure, with a significant proportion of the population being under the age of 30. Kuwait has experienced rapid population growth and has a high fertility rate, contributing to a relatively young population overall.

Going a step further, demographic data helps us select the most suitable locations for real estate development. By analyzing factors such as population growth, income levels, employment opportunities, and lifestyle preferences, we can identify areas with high growth potential and demand.

Kuwait is often interested in pursuing projects that can contribute to the enhancement of its economy. This thirst for projects stems from the desire to stimulate economic growth and attract investments.

Looking ahead, I am optimistic about the Kuwaiti market as it actively seeks to create new business sectors within the economy. The country's mission to diversify the economy recognizes the value of projects and properties and, consequently, has instituted schemes to provide support to encourage the growth of the real estate sector.

Furthermore, through these laws, the government also aims to encourage the private sector to contribute and take part in the growth.

We will constantly seek new investment opportunities that increase our value before our shareholders and investors, and enhance the country's economy.

Our results indicate that organic growth (growth through R&D and Innovation) is among the top strategic pillars for achieving organizational growth. What are your thoughts? How do you imbibe the culture of innovation at URC?

Growth through R&D and innovation is essential for fostering economic progress, driving competitiveness, and addressing societal needs. It involves investing in research, translating knowledge into practical applications, and fostering a culture of creativity and problem-solving. By leveraging innovation, organizations and countries can achieve sustained growth, create new opportunities, and tackle complex challenges.

Innovation in the real estate sector, often involves leveraging technology to improve operations, enhance user experiences, and streamline processes. This can include the adoption of digital platforms and tools for property management, online property listings, virtual property tours, smart home systems, energy-efficient solutions, or the use of artificial intelligence and data analytics for market analysis and decision-making.

A solid example of adapting advanced technologies in our projects, is Hessah Towers and Byout Hessah, the residential components within 'Hessah District', where all units feature a full array of automated amenities for an elevated connected living experience. Residents of Hessah Towers and Byout Hessah will enjoy a fully automated home via a cutting-edge smart home technology, bringing convenience, comfort, security, autonomy, and enjoyment to their own modern lifestyles. Additionally, the residential district's use of Fiber to the Home (FTTH) technology makes its buildings the smartest IOT-enabled buildings in the State of Kuwait.

We have also recently announced the development and implementation of a single digital platform that serves as a centralized tool for managing various aspects of tenant operations within our properties. This online platform aims to enhance convenience, communication, and efficiency for both tenants and the company.

Innovation in the real estate sector also focuses on sustainability and environmental considerations. This includes the development and integration of green building practices. Moreover, innovations in sustainable real estate aim to create healthier and more efficient living and working spaces.

The walkable nature of Hessah District's design, connecting all commercial and residential sectors, developed by URC, via internal pathways, makes it simple and easy to make time for health checks and specialist appointments, to shop and dine without having to rush, and to fully commit to all work-related projects without missing out on important family time.

It's a district designed to keep you on your feet, active, and full of life; a design that supports sustainable living and that takes better care of the natural environment.

By embracing innovation, we are improving operational efficiency, enhancing sustainability, offering one-of-a-kind projects and unique customer experiences, and adapting to changing market dynamics. It enables us to explore new opportunities, create value, and stay competitive in an evolving landscape.

80% of the CEOs surveyed agree that achieving gender equality in the C-suite will help them meet their growth ambitions. What are your views? How critical is gender equality for your organization?

Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world. By promoting gender equality, companies can help build a positive image to attract a larger pool of talent.

Nowadays, job seekers believe that a diverse workforce is an important factor when evaluating companies and job offers. In order for any company or business to succeed, they have to take into consideration the mindset of the youth and marginalized groups, especially women.

We believe that businesses that actively support diversity and equality overall tend to make more inclusive business decisions and, ultimately, achieve more growth as people from different genders tend to approach the same thing with a different mindset. While ensuring more women's participation in the workforce and especially leadership, companies are attracting a diversified set of talent, skills and strengths which will help in collaborating and working more effectively. It will also lead to a more creative environment for co-workers, which will help in problem-solving and lead to new innovations that will improve business performance.

At URC, we are committed to equality, fairness, and respect. Diversity and equality sit at the heart of the many initiatives

we have in place across the company as we recognize the benefits that empowering women brings to every business. As a Vice Chairman & Group Chief Executive Officer of URC, I continually see how gender diverse teams achieve better results.

At the end of 2022, women comprised 38% of professional employees and 32% of URC's total workforce, up from 25% in 2019. Today, women sit at the very top of our management team with two female board members, 24% of managerial positions, and more than 40% of our new hires. I am proud to work for an organization that is agile and more gender-balanced.

URC partnered with the United Nations (UN) to promote Women's Empowerment Principles (WEPs) which aims to promote the adoption of real and sustainable policies on various topics related to recruitment, retention and leadership and complements the vision of URC to promote diverse and equal work environment.

This comes in line with the support and guidance of Sheikha Bibi Nasser Sabah Al-Ahmad Al-Sabah, URC's Chairperson, to promote inclusion, youth empowerment and inspiring work environment for all women.

Exploring opportunities for growth

Technology

Bring your people and technology together

Organizations have invested so much in digital transformation that they need to make sure people adopt these technologies and use them to their full potential.

Work with partners to drive value

With CEOs increasingly interested in partnerships, identifying, integrating and managing third parties effectively can help increase speed to market, reduce costs, mitigate risks and supplement capability gaps in delivering the customer promise.

Get closer to customers

Orchestrating compelling customer experiences requires companies to begin with the customer and work backward, taking an outside-in perspective to reverse-engineer and shape what the experience should be; then, they should adopt an inside-out view to define how the experience should be delivered.

View cybersecurity as a strategic function

Increasingly, cyber is no longer seen as only an IT issue; it's a fundamental business operation imperative. The exponential increase in cyber-attacks, coupled with the difficulty of detecting an attack in a timely manner, calls for automation and innovation in dealing with cyber incidents.

Talent

Experiment with ways of working

As organizations launch return-to-office plans, it is important for CEOs to develop working structures that suit their people. It is time to experiment and see what works best. Active listening, empathetic communications and a commitment to finding the right balance over the long term will be key.

Tell your ESG story

A business's ESG approach is increasingly seen as a differentiator when it comes to attracting and retaining talent.

And with many CEOs saying they are struggling to tell a compelling ESG story, it is important for CEOs to articulate for stakeholders the steps they are taking to address ESG in their organizations.

Build, not follow

Organizations and their employees are changing and leaders need to reinvent the enterprise workforce. The old talent management playbooks are out of date, and the challenge is that there are not many new ones to replace them — yet.

The way forward involves strategies that include reinventing the workforce, focusing on the social side of ESG, leveraging analytics and designing a nurturing experience.

ESG

Recognize ESG's impact on financial performance

ESG is not yet a driver of financial success as the CEOs continue to be of the opinion that such initiatives reduce financial performance instead of improving it.

Invest in real-time technologies

CEOs should monitor deeper into their supply chain (i.e. at the third and fourth levels). Global supply chain leaders are starting to double down on investing in technology — including real-time, end-to-end analytics — to identify where issues exist and improve visibility across the entire value chain.

Take the lead on IDE

CEOs can play a powerful role in helping lead and drive the IDE agenda in the years ahead. It is important to normalize and create a culture of IDE across the organization to attract and retain new employees.

Build strong connections among functions

Resilient organizations have well-connected internal teams, so for example, the finance function is aware of what the ESG teams are doing.

© 2023 KPMG Advisory W.L.L., a Kuwait limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Endnotes

Methodology

This edition of the KPMG Kuwait CEO Outlook, conducted with 1,325 CEOs between 12 July and 24 August 2022, provides unique insight into the mindset, strategies and planning tactics of CEOs not only comparable to pre-pandemic to today, but also from KPMG's CEO Pulse Survey conducted with 500 CEOs between 12 January and 9 February 2022, before the Russian government's invasion of Ukraine.

All respondents have annual revenues over US$500M and a third of the companies surveyed have more than US$10B in annual revenue.

The survey included leaders from 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the UK, and the US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications).

NOTE: Some figures may not add up to 100% due to rounding.

About KPMG in Kuwait

KPMG in Kuwait operates through its member firms KPMG Al-Qenae & Partners and KPMG Advisory W.L.L., providing a full range of audit, tax, and advisory services to a portfolio of clients, including major corporations, government institutions, public sector agencies, and not-for-profit organizations.

With over 200 employees and 10 partners based in Kuwait, we form part of a regional network of 21 countries and territories in the Middle East, South Asia and Caspian (MESAC) region with 30+ offices and more than 10,000 employees and partners.

We are also part of a global network of KPMG firms operating in 143 countries and territories with more than 265,000 partners and employees (as of FY22) working in member firms worldwide, drawing on global industry insights to complement our strong local knowledge.

Acknowledgements

Danah AlJasem and Munif Hallal from stc

Aleem Ullah Azim and Imran Malhi from Fouad Alghanim Group

Nasser Al-Qallaf, Salem Al-Khalaqi, and Ayah Joudeh from United Real Estate Co.

Mr. Mohamed Said EL Saka and Marwa Marafie from KIB

Ankul Aggarwal, Majid Makki, Ali Abbas, Salman Bin Khalid, Sujan Sivasubramaniam, Ayesha Akthar, Amlan Suryabanshi, Farah Asad, Jamila Al-Dakny and Shashi Shankar Ghosh from KPMG in Kuwait.

Contacts

Dr. Rasheed Al-Qenae
Managing Partner
KPMG in Kuwait

ralqenae@kpmg.com

Safi Al-Mutawa
Senior Partner
KPMG in Kuwait

salmutawa@kpmg.com

Zubair Patel
Partner – Head of Tax
KPMG in Kuwait

zpatel@kpmg.com

Aref Judeh
Partner – Audit
KPMG in Kuwait

arefjudeh@kpmg.com

Fahim Bashir
Partner – Tax
KPMG in Kuwait

fbashir@kpmg.com

Bhavesh Gandhi
Partner – Head of Financial Services
KPMG in Kuwait

bgandhi@kpmg.com

Ankul Aggarwal
Partner – Head of Deal Advisory
KPMG in Kuwait

ankulaggarwal@kpmg.com

Majid Makki
Partner – Head of Management Consulting
KPMG in Kuwait

mmakki@kpmg.com

Saif Shawer
Partner – Audit
KPMG in Kuwait

saifshawer@kpmg.com

Essam Ahmed
Director – Accounting Advisory Services
KPMG in Kuwait

essamahmed@kpmg.com

Ali Abbas
Director – Internal Audit
KPMG in Kuwait

aliabbas@kpmg.com

kpmg.com/kw