CEO Outlook: Saudi Arabia

Gearing up for growth and governance in 2023

June 2023

KPMG Professional Services

Contents

Finding opportunity in uncertainty

Tested by enormous challenges in quick succession — a global pandemic, inflationary pressures, and geopolitical tensions — it is encouraging that the CEOs surveyed for our CEO Outlook were confident in their companies' resilience and relatively optimistic about their own growth prospects.

CEOs have learned to navigate the unpredictable by realigning their workforces, untangling supply chain disruptions, and adapting to geopolitical and economic impacts over the last three years. As the possibility of recession looms, many are already prepared with a deep focus on planning and agility. Some see opportunities through this fog of uncertainty brought on by the promise of harnessing better technology, talent, and ESG.

Our global CEO Outlook draws on the perspectives of 1,325 CEOs from around the world — including 50 based in Saudi Arabia — to provide insight into their outlook on the global business and economic landscape over the next three years.

Dr Abdullah Hamad Al Fozan
Chairman & CEO
KPMG Professional Services

Four key themes emerged

Economic outlook

While prepared to weather short-term geopolitical and economic challenges, CEOs still anticipate long-term global growth.

Optimism for global growth

Despite geopolitical and economic challenges, confidence in global economic growth over the next three years has rebounded from early 2022 to 71 percent. In Saudi Arabia, confidence in global growth is at 60 percent, while confidence in the Kingdom's own growth prospects over the next three years is at 74 percent.

Global versus local economic outlook

Nine out of ten CEOs globally believe a recession will occur over the next year, but most of them think it will be mild and short. In Saudi Arabia, on the other hand, only 20 percent of CEOs foresee a recession. Unlike 76 percent of their counterparts around the world, only a third of CEOs in Saudi Arabia are actively preparing their business for this expected contraction.

Managing geopolitical uncertainty

As geopolitical uncertainties are likely to continue impacting strategies, 86 percent of CEOs in Saudi Arabia are adjusting or planning to adjust their risk management procedures, a figure slightly higher than their global peers.

Technology

CEOs are directing digital investment to areas of their businesses that drive growth, with an emphasis on partnerships and preparedness.

Emerging technology cited as top growth risk

Disruptive technology has emerged as the number one risk to organizational growth in both Saudi Arabia and around the world, said respondents. This was closely followed by cybersecurity risks.

Staying on the right track

At the same time, business leaders realize that growth can only be achieved through investment, which is why 80 percent of CEOs in Saudi Arabia and 70 percent around the world are eager to invest in digital innovation where possible and divest in areas where they face digital obsolescence.

Cyber as a strategic function

The cyber environment is also evolving quickly. Four out of five CEOs in Saudi Arabia and 77 percent of global CEOs now see information security as a strategic function and a potential source of competitive advantage.

Talent

CEOs are also changing how they support and attract talent through a newfound focus on their people and experimenting with different ways of working.

Talent is a top priority

When it came to operational priorities for achieving their three-year growth targets, CEOs in Saudi Arabia placed the highest emphasis on advancing digitization, whereas CEOs elsewhere stressed talent acquisition and retention.

No dent in long-term optimism

68 percent of CEOs in Saudi Arabia and 79 percent globally are expecting their headcount to increase over the next three years. Focused on boosting productivity, both are also keen on investing in their existing workforce.

Fostering a spirit of experimentation

The office remains the ideal work environment for 74 percent of CEOs in Saudi Arabia over the next three years, even if remote working has also improved hiring, collaboration, and productivity over the past two years. This is slightly higher than their global peers, 65 percent of whom predict the office will still hold primacy three years from now.

ESG

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

Accelerating ESG expectations

CEOs in Saudi Arabia are not fully convinced that ESG programs improve financial performance, with only 40 percent showing confidence in their efficacy, down from 60 percent a year ago. In contrast, 35 percent of global CEOs see ESG programs as beneficial to financial performance, up from 37 percent.

The ESG shadow cast by the supply chain

CEOs in Saudi Arabia and around the world report that stakeholders in their businesses increasingly see reporting and transparency as important to their ESG goals. This also applies to transparency in their broader supply chains.

Diversity key to progress

The social aspect of ESG is also taking increasing precedence for business leaders from Saudi Arabia and around the world. Almost half of CEOs in Saudi Arabia and 68 percent globally believe that progress on inclusion, diversity, and equity (IDE) has moved too slowly in the business world. For those in Saudi Arabia, 84 percent believe that scrutiny of IDE performance will continue to increase over the next three years, compared to 73 percent globally.

Economic outlook

Optimism in long-term growth still robust

The KPMG CEO Outlook surveyed global CEOs on their three-year outlook for the business and economic landscape in their countries and around the world. In Saudi Arabia, economic confidence rebounded from early 2022, up to 60 percent. Globally, it rose to 71 percent, proof that in the post-pandemic era, other challenges have not yet exerted the same effect on executives.

If somewhat less rosy than their counterparts around the world, executive expectations in Saudi Arabia were still robust. In our survey, 74 percent of CEOs reported positive growth expectations, down from the previous year's even more buoyant figure of 90 percent. Expectations among global CEOs remained steady throughout 2022, if less than 2021, before inflation and the war in Ukraine had fully shown their teeth.

Despite these new headwinds, global growth expectations have not only reached but surpassed pre-pandemic levels for the first time.

"The significant demand we are seeing from international investors looking to tap into this exciting growth potential is a testament to our success to date and points to a bright future. As part of our ambition to create a global financial hub to connect investors around the world with opportunities in the MENA region, we are building our business and adding new revenue streams by investing in new products, services, and infrastructure."

Khalid Al Hussan
CEO, Saudi Tadawul Group

The private sector, of course, is far from the only optimistic player in Saudi Arabia. As the government embarks on a series of massive investments in housing, IT, green energy, agriculture, transport, and air connectivity, not to mention historic investments in small and medium-sized enterprises (SMEs) and widespread upskilling for youth, the reasons for strategic long-term optimism are many.

CEOs anticipate a recession — but they are prepared

Around the world, 86 percent of CEOs expect a recession within the next year. Fortunately, 56 percent think it will be short and mild and more than three quarters of executives around the world have plans in place to deal with a global contraction.

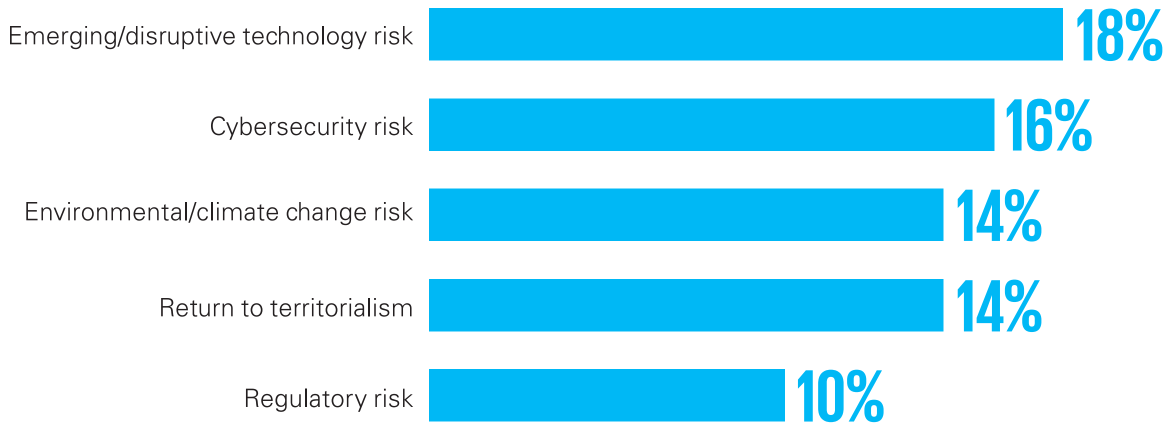
Unlike much of the data, this contrasts strongly with respondents in Saudi Arabia, where only 20 percent of CEOs think a recession will occur within the next year. Unsurprisingly, only 30 percent of them have plans in place to deal with such a turn of events. If anything, this is likely because the mood in the Kingdom contrasts strongly with that of the rest of the world. Saudi Arabia and the GCC have greatly benefited from the higher energy prices this year. As real GDP growth recorded at a robust 8.7 percent in 2022—the highest of the G20 economies—it is no wonder that fears of recession are far less pronounced in the Kingdom.[1]

Yet whatever occurs in the coming months, CEOs around the world are still confident they can steer their firms through the troubled waters of high inflation, uncertain energy costs, and mounting geopolitical tensions. Indeed, 73 percent of global CEOs said they still have a positive outlook for the next six months, a figure that exceeds even that of CEOs in Saudi Arabia (68 percent).

While resilient, CEOs are also realistic about the challenges ahead. 63 percent in Saudi Arabia and 73 percent globally still predict a recession will upend growth by 2025. Nearly three-quarters

20% of CEOs in Saudi Arabia believe there will be a recession in the next twelve months, as opposed to 86 percent of global CEOs.

Risks to growth over the next three years



[1] General Authority for Statistics (31 January 2023): https://www.stats.gov.sa/en/news/453.

of global CEOs and 70 percent of those in the Kingdom believe a recession will make post-pandemic recovery harder, not to mention impact their earnings by up to 10 percent over the next twelve months.

Yet if one thing is certain, it is that CEOs are better prepared to weather short-term challenges than they were two years ago thanks to new resiliency measures. In Saudi Arabia, CEOs said they were focused on boosting productivity (60 percent), managing costs (28 percent), and reconsidering digital transformation strategies (46 percent). Among global CEOs, they want to boost productivity (50 percent), manage costs (43 percent), and reconsider digital transformation strategies (40 percent).

Leading risks

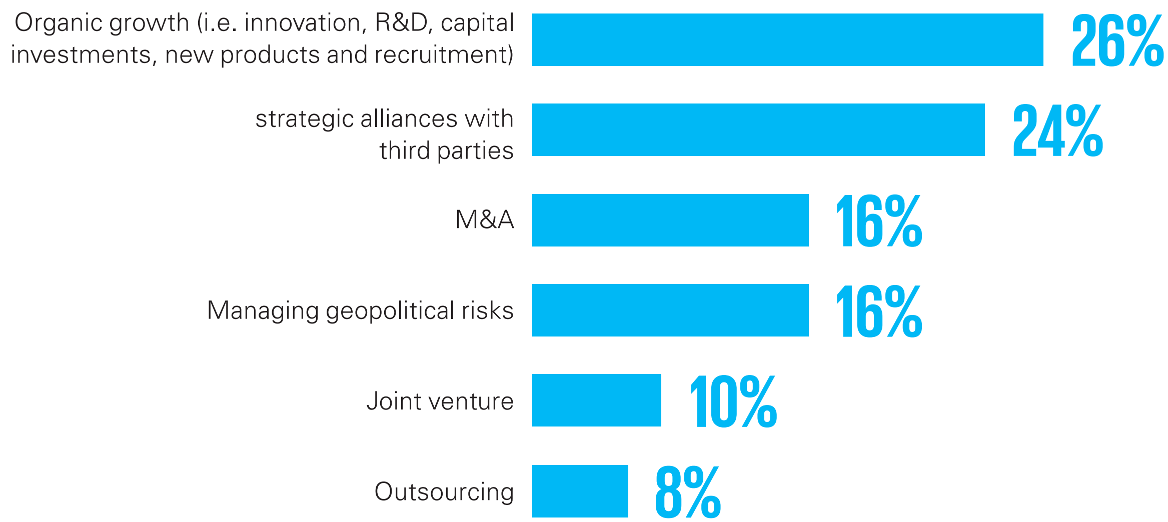
Given the global ambiguity of the times, it should come as no surprise that pandemic fatigue and economic uncertainty (inflation, rising interest rates) were the two largest concerns for CEOs in Saudi Arabia and around the world in our latest survey. These broader "authorless" fears were closely followed by two man-made ones: reputational risk and regulatory concern. It is difficult to plan for the future when you don't know what is legally expected of you. After these, Saudi-based executives named emerging technologies, cybersecurity risks, environmental challenges, and territorialism as the greatest threats to business.

Among global CEOs, fears of emerging technology and reputational risk followed by pandemic fatigue and broader economic uncertainties, followed by operational and regulatory concerns. The message here seems to be clear. If things like inflation are beyond any single company or even country's control, the regulatory environment doesn't need to be. Thankfully, this is actionable intelligence for policymakers paying attention.

Managing geopolitical risk

Though nimbler than political actors, business leaders have a limited number of ways of responding to forces outside of their control. For those in Saudi Arabia, the three most important strategies cited for achieving organizational growth over the next three years were organic growth (26 percent), strategic alliances (24 percent), and managing geopolitical risks (16 percent). For global CEOs, the emphasis was on strategic alliances (26 percent), organic growth (22 percent), and managing geopolitical risks (20 percent).

Strategies important for achieving growth objectives over the next three years



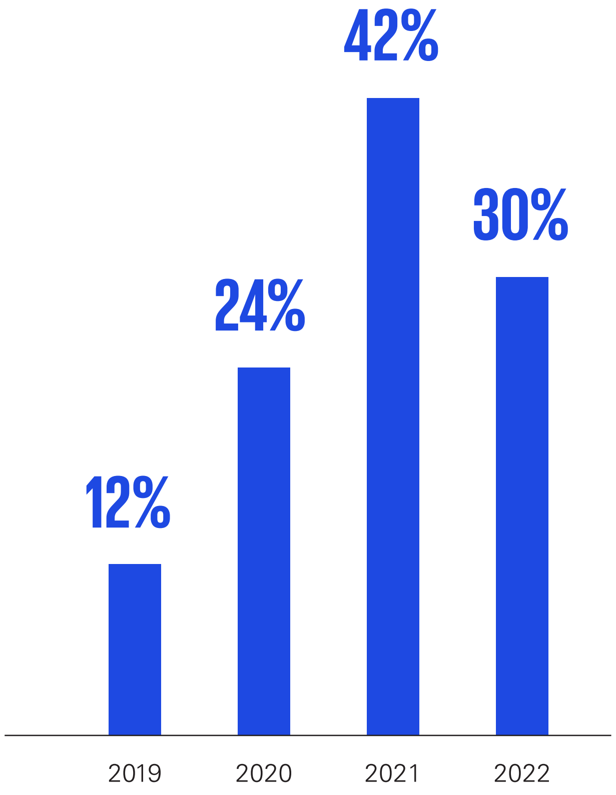
Whatever their response to these challenges, CEOs everywhere expect geopolitical uncertainties to continue to impact their strategies and supply chains through 2025. In addition to 86 percent of CEOs in Saudi Arabia, 81 percent of global CEOs have adjusted or plan to adjust their risk management procedures to account for geopolitical risk. Moreover, 26 percent of CEOs in Saudi Arabia and 21 percent globally say they will do more to adapt to geopolitical issues to achieve their growth objectives.

Dominating agendas as it has this past year, CEOs need to hone their knowledge of geopolitical risks. One way of doing this is by making geopolitical risk assessments part of their overall strategy.

Persistent appetites for M&A

Due to broader economic concerns, high appetites for mergers and acquisitions through 2025 have slightly decreased by 12 percent among CEOs in Saudi Arabia, from 42 percent to 30 percent today. This does not mean CEOs are no longer bullish; 54 percent of Saudi Arabia-based CEOs still have a moderate appetite for mergers and acquisitions. Yet with higher interest rates and borrowing costs on most companies' horizons, CEOs are envisioning other more innovative ways of staying competitive, too.

CEOs in Saudi Arabia that expressed high appetite for M&A



"Although IPO performance in Saudi Arabia was strong in 2022, the question remains whether the global economic outlook and lower GDP forecasts and liquidity - due to higher interest rate - will impact expected listings for 2023 despite the pipeline of large government-backed and private company listings."

Sharukh Dumasia
Head of Deals

Digital transformation in times of uncertainty

Emerging technology cited as top growth risk

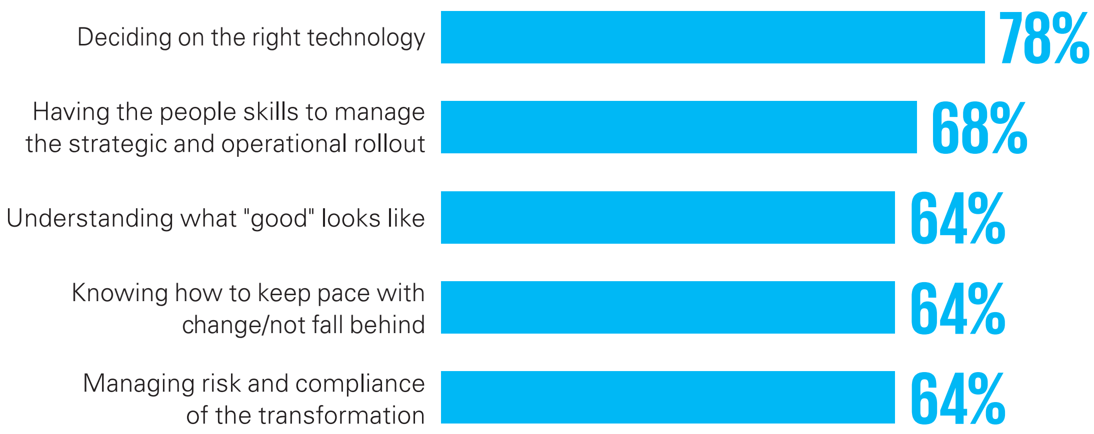
In line with the very definition of the term, CEOs in Saudi Arabia and around the world are wary of the risks of disruptive technologies, which they cite as a leading risk to their organizational growth along with pandemic fatigue and rising interest rates and inflation. In the face of these risks, CEOs everywhere are prioritizing their businesses' digital transformations. For example, nearly three-quarters of respondents in Saudi Arabia cite an aggressive digital investment strategy intended to secure first-mover or fast-follower status.

In Saudi Arabia, companies have a close ally in the government, which is just as dedicated as they are to digital transformation. In November 2022, Saudi Arabia was ranked third by the World Bank's global GovTech Maturity Index for 2022.[2] Saudi Arabia's public sector has been working around the clock to implement a wide range of e-government services in recent years to reduce red tape and render public services faster, better, and more efficient.

While CEOs in Saudi Arabia are committed to advancing digitalization and connectivity, business leaders elsewhere remain focused on attracting and retaining talent as their top operational priority for growth through 2025.

In addition to boosting output and staving off competition, these digital investments also raise awareness about cybersecurity threats, especially those exacerbated by geopolitical uncertainty.

According to CEOs in Saudi Arabia, which of the following is holding back progress on business transformation?



[2] Saudi Arabia's digital government advances ranked 3rd globally by the World Bank (arabnews.com).

Staying on the right track

If CEOs in Saudi Arabia and around the world have clear long-term aims and purposes, they also understand that the possibility of recession forces them to consider certain short-term strategies. Looking ahead, many are also divesting from areas where they face digital obsolescence.

As digital transformation grows more expensive than ever, CEOs everywhere are prioritizing those areas that help drive growth and reconsidering others that they deem non-critical. In uncertain times, businesses must refocus their digital investments on the most impactful and measurable value creation opportunities.

Bringing people and technology together

Whatever CEOs' short-term fears, the trend toward digital upskilling in the Kingdom is clear. On the one hand, CEOs in Saudi Arabia are increasingly investing in their workforce. When offered a choice whether to place more capital investment in new technology (56 percent) or develop their workforce's skills and capabilities (44 percent), the gap in favor of technology was cut in half between 2021 and 2022, from 24 to merely twelve points.

On the other hand, the Saudi government is strongly investing in human capital, too. Global CEOs are taking similar steps to boost human capital and digitalization, too, with half of all CEOs surveyed citing 'advancing digitalization and connectivity' or improving the 'employee value proposition' as their number one operational priority for achieving their growth objectives through 2025.

Building successful partnerships

Few organizations can succeed on their own. Indeed, businesses rely on vibrant ecosystems to help them build and harness successful partnerships that are able to deliver a competitive edge. This is why CEOs in Saudi Arabia increasingly view partnerships as key to continuing their digital transformation (68 percent), a figure remarkably close to the global figure. They also say that building strategic alliances with third parties is the most important strategy to reaching their growth objectives through 2025.

> **"In times of such widespread technological disruption and cyber insecurity, CEOs are embracing the need to invest in new technologies. Keeping one's company cyber-safe is far from a luxury; it's a stone-cold necessity. Realizing this, CEOs are prioritizing technological solutions more every day."**

Robert Ptaszynski
Head of Digital & Innovation

This is part of a larger emphasis on ecosystem enablement across the broader Saudi economy. As the Kingdom looks to boost its private sector output to 65% of GDP by 2030, the government is taking unprecedented steps to encourage and guarantee loans to SMEs, facilitate VC funding, encourage more innovative business creation, and upskill a new generation of Saudi men and women in AI, IoT, and other emerging technologies and sectors.

Strategic cyber solutions

While other risks figure prominently, 80 percent of CEOs in the Kingdom and 77 percent globally now see information security as a strategic function and potential competitive advantage. With geopolitical uncertainty and cyber-attacks against companies and governments on the rise, three quarters of CEOs everywhere say that protecting their ecosystem and supply chain is just as important as building their own cyber defenses.

Growing experience in cybersecurity is also giving CEOs a clearer picture of how prepared they may or may not be. Recognizing their shortcomings, only slightly more than half worldwide say they are prepared for such an attack. In Saudi Arabia, however, 76 percent of CEOs say their organization has plans to deal with a ransomware attack, compared to 62 percent last year. The rapid increase in cyber-attacks, coupled with the increasing difficulty of detecting attacks on time, calls for greater automation and innovation in dealing with such incidents. These are areas where knowledge-sharing and ecosystem-wide collaboration will come in handy.

76%

of CEOs in Saudi Arabia say their organization has plans to deal with a ransomware attack compared to a previous 62 percent.

“We recognize the importance of cybersecurity as a strategic function and a potential source of competitive advantage. Considering cyberspace is constantly evolving and facing new threats and challenges, we adopt a risk-based approach to cybersecurity that aligns with the Kingdom’s cybersecurity strategy and our business objectives and priorities. We also see cybersecurity as a business enabler that allows us to innovate and grow in a safe and reliable cyberspace.”

Othman Al-Ghamdi
CEO, PetroRabigh

Fostering workforce resilience

Talent: a top operational priority

The manner in which CEOs attract and retain talent changes with the fortunes of the global economy, not to mention each leader's individual growth goals. Among CEOs in Saudi Arabia, attracting and retaining talent has increased as a top operational priority (14 percent, up from 6 percent last year). When it comes to finding the right people, three-out-of-five CEOs in Saudi Arabia and 71 percent globally cite inflation and geopolitical tensions as key hinderers to finding them.

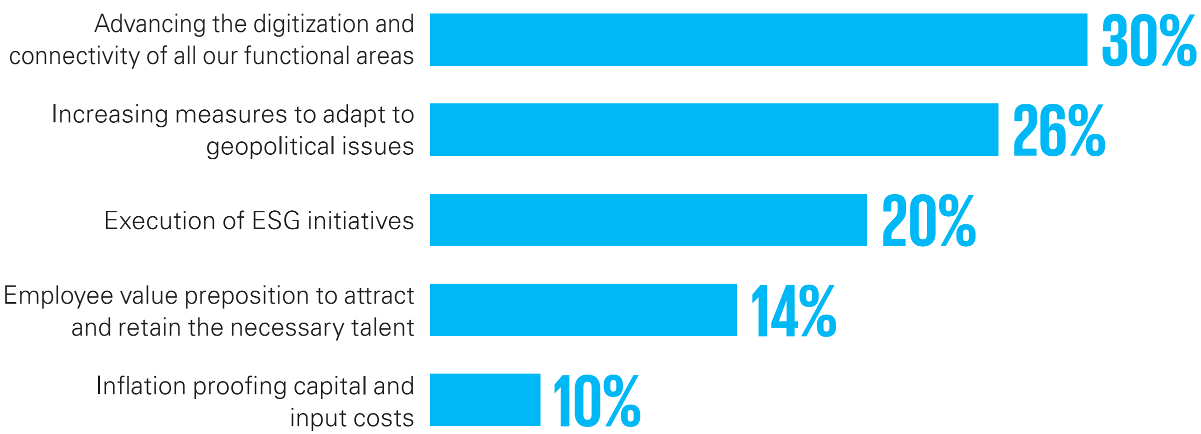
Given broader global trends veering strongly toward sustainability, it should come as little surprise that businesses' ESG approaches are increasingly important to attracting and retaining talent and satisfying stakeholders. Among global CEOs, respondents noticed a greater demand for ESG transparency and reporting from institutional investors (34 percent). Among CEOs in Saudi Arabia, 26 percent cited employees and new hires as the most concerned with the company's ESG practices.

Despite what the critics may say, meeting ambitious ESG targets is never straightforward. Among those who struggle to meet their own, the biggest challenge for global CEOs was more pressing economic concerns (17 percent), uncertain regulations (16 percent), and lack of budget (15 percent). Among CEOs in Saudi Arabia who have trouble, the biggest challenges were a lack of necessary technology to measure and track initiatives (22 percent), identifying and measuring key metrics (20 percent), and a failure to create value from ESG investments (14 percent).

Increased headcount over the long-term

With fear of a recession looming, many respondents did stress a significant short-term emphasis on hiring freezes and headcount reductions: 42 percent of the Kingdom's CEOs and 39 percent of global CEOs have already implemented a hiring freeze, while another 32 percent of CEOs in Saudi Arabia and 46 percent of global ones are considering further downsizes in the next six months. Over the long-term, however, CEOs are more sanguine, with 68 percent in Saudi Arabia and 79 percent globally still expecting their headcount to increase over the next three years. Focused on boosting productivity, both are also keen on investing in their existing workforce.

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

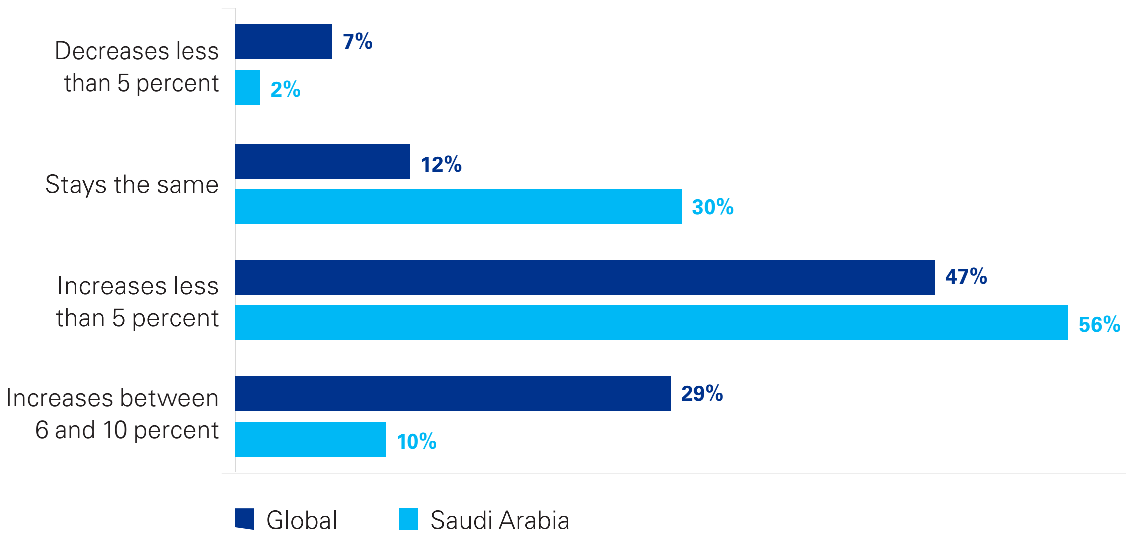


Fostering a spirit of experimentation

Whatever the current headwinds, hybrid and remote working have had a positive impact on hiring, collaboration and productivity over the past two years. Interestingly, 26 percent of CEOs in Saudi Arabia and 28 percent of global ones chose hybrid. Unlike global CEOs, 7 percent of whom listed going fully remote, no one in the Kingdom foresees this option. Still, employee expectations have greatly evolved in recent years, and CEOs the world over must develop the working structures that best suit their people.

Even if the balance between the supply and demand of labor shifts in favor of management, allowing CEOs to determine physical arrangements, companies still need to ensure that employees have meaningful interactions. How might 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 will be key to determining the best long-term fit for each company.

How do you expect your organization's headcount will change over the next three years?



"flyadeal is expecting to increase its staffing by over 50% in 2023, driven through significant growth in flights facilitated by new aircraft arrivals and in line with the large increase in travel demand we are seeing. With the economic growth of the Kingdom, there is increasing competition for talent. flyadeal's appeal to current and future employees is an opportunity to work in an exciting industry, a modern progressive organization and culture with a focus on development, growth, diversity and inclusion for its people."

Con Korfiatis
CEO, flyadeal

Accelerating impact of ESG

ESG to secure talent

Global CEOs see the importance of ESG initiatives for their businesses, especially when questioned about their impact on improving financial performance, driving growth, and meeting stakeholder expectations. Not surprisingly, this year's survey shows a marked jump in demand from stakeholders such as customers and investors for increased transparency.

In the Kingdom, however, the belief that ESG programs improve financial performance fell from 48 percent to 40 percent. This contrasts with the global trend, which saw an overall increase in the same metric. Asked where they see corporate purpose having the greatest impact over the next three years, 78 percent of CEOs in Saudi Arabia cited driving financial performance, compared to 73 percent of global CEOs.

Still, the broader trend is clear. CEOs increasingly understand that businesses who embrace ESG are better able to secure talent, strengthen employee value proposition, attract loyal customers, and raise capital. ESG has gone from a friendly accoutrement to a long-term ethical necessity for success.

Stakeholders such as investors, regulators and customers also continue to hold firms to a high standard of transparency on ESG-related issues. In Saudi Arabia, 70 percent of CEOs reported a significant stakeholder demand for transparency and increased reporting on ESG-related issues, compared to 60 percent of global CEOs. In another key metric, 52 percent of CEOs in Saudi Arabia and 72 percent of global ones believe stakeholder scrutiny on ESG issues will continue to accelerate.

Changing regulations and globally shifting economic sands are further challenges for CEOs trying to deliver ambitious ESG strategies. This is why CEOs would like to see an accepted global framework for measuring and disclosing ESG performance. The high concern around uncertain regulations suggests that governments, firms, and global regulators should work together to align on ESG requirements.

The desire to invest sustainably is clear and present

Thirty-four percent of CEOs in Saudi Arabia and 62 percent of global executives say they are interested in investing at least 6 percent of revenue in programs that enable their organization to become more sustainable.

34%

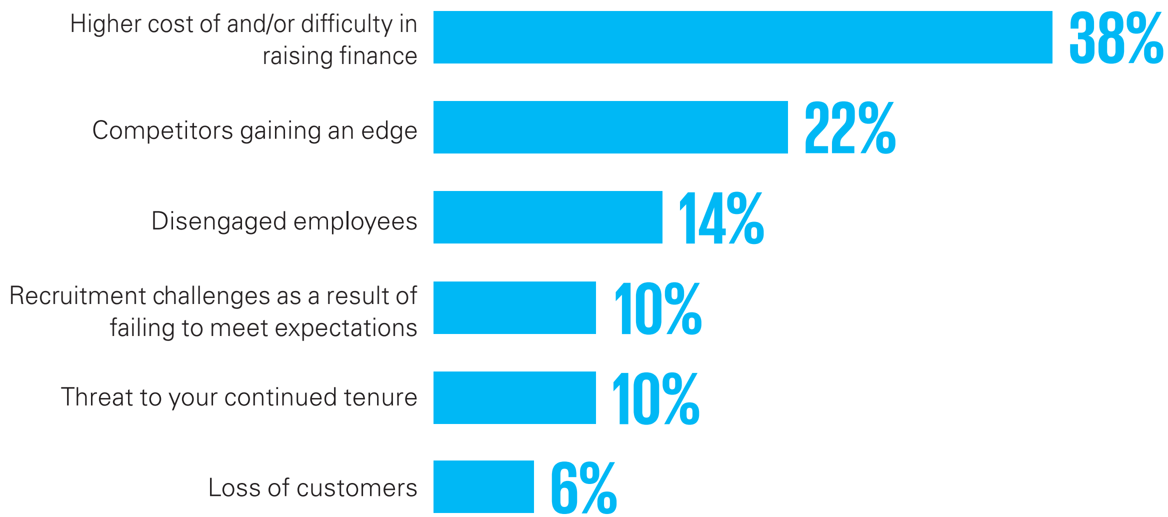
of CEOs in Saudi Arabia are looking to invest at least 6 percent of revenue in sustainability related programs.

Fortunately, Saudi Arabia's broader commitment to sustainability and green energy are creating an environment where it is easier for firms to meet their various ESG targets. For one, the Saudi Green Initiative (SGI) has established a number of rigorous sustainable targets that are vastly boosting investments in renewables across the country. Among the Kingdom's SGI targets, its goal of having 50 percent of its power come from renewables by 2030 and achieving net zero by 2060 are merely the two most ambitious. As the number of wind farms and other renewable projects continues to expand, the knock-off effects of this ecosystem enabling will only grow.

Key drivers: CEOs in Saudi Arabia have varying opinions on how to achieve their ESG goals. Almost half believe that proactivity on social issues is the key driver, while 22 percent favor an IDE strategy, 20 percent prefer a net-zero strategy, and 10 percent favor transparency as the key driver. Whatever their preferred solution, this suggests an unstated consensus that there are various efficient ways to achieve their targets.

Telling their story: 32 percent of CEOs in Saudi Arabia say their biggest challenge in communicating their ESG performance to stakeholders lies in articulating a compelling ESG story.

The downside of failing to meet ESG expectations



> **The non-financial performance and disclosures are a reflection of the business resilience. Despite the variety in standards and regulations related to the ESG, investors and asset managers are increasingly considering it as a key component in their evaluation matrix. Organizations with a deep understanding and consideration of ESG have better ability to achieve yield growth, financial results, and stakeholder retention.**

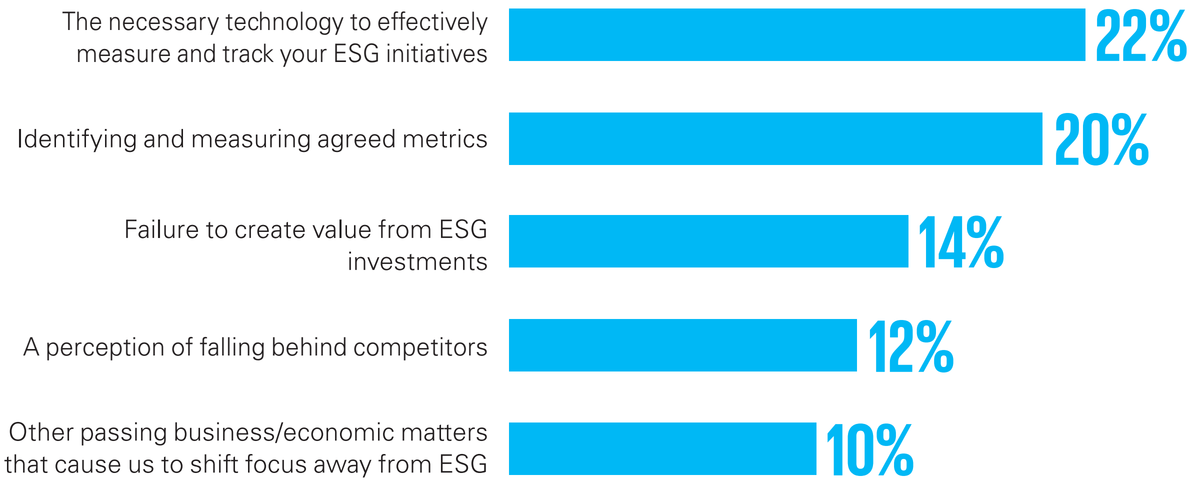
Fadi Al-Shihabi
Head of ESG and Sustainability

Economic outlook impacts ESG direction

As CEOs take steps to insulate their businesses from a possible recession, indicators suggest that progress on ESG suffers as fears of a broader contraction grow stronger. Amidst ongoing economic uncertainty, almost half of CEOs in Saudi Arabia and half of those around the world are pausing or reconsidering their existing or planned ESG efforts over the next six months. Moreover, a third of Saudi Arabia-based and global CEOs have already done so.

However, delaying key ESG efforts can make businesses more reactive when they should be leading the way to greater transparency, resilience, and sustainability. As a boon to better growth and smarter development, companies must not abandon ESG when the global economy most needs it.

Top 5 challenges in delivering ESG strategy over the next three years



68% of CEOs agree achieving gender equity in their in their C-suite will help them meet their growth ambitions.

74% of CEOs agree that their organization's digital and ESG strategic investments are inextricably linked.

The ESG shadow cast by the supply chain

It is critical that CEOs understand how sustainable their businesses really are, which is why reporting and transparency are key ESG initiatives— including when applied to broader supply chains. Our survey shows that 44 percent of CEOs in Saudi Arabia and 47 percent globally plan to diversify their supply chains in the next six months in response to geopolitical challenges. What's more, their top priority is deep monitoring into supply chains to better anticipate problems to ensure the environmental, sustainability, and human-rights practices of their partners and suppliers do not negatively impact their business or reputation.

Among the many challenges facing companies, decarbonizing the supply chain is a significant hurdle on the path to achieving net zero. That is why global supply chain leaders are doubling down on investing in technology — including real-time, end-to-end analytics — to improve visibility across the entire value chain. This will give them a far more accurate understanding of how products and materials flow through the network so they can move from strategic intent to tangible outcomes.

CEOs are also embarking on digital transformation, with 74 percent of local CEOs and 74 percent of global ones saying 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 more dependent on robust digital systems than ever. Where do their partners source raw materials? Do they know their suppliers' human rights records? Multinational organizations need to focus more broadly on ESG, even if it means peeking behind the curtains.

“Utilizing technology and data to optimize supply chain operations can be a solution to geopolitical challenges. By employing advanced analytics and automation tools, companies can gain greater visibility and control over their supply chains, which can help them make more informed decisions and reduce risks. From the first mile till the last mile, partnering with local suppliers and logistics providers can also reduce dependence on a single source of supply and help build a diversified and resilient supply chain.”

Mohammad Al-Razaz
CEO, OTO

CEO integrity

A CEO's willingness to take actions that demonstrate personal integrity also affects a company's reputation. In Saudi Arabia, 54 percent of CEOs reported a willingness to take a stand on a politically contentious issue even if the board might not approve. Among global CEOs, the figure reached 48 percent, demonstrating that both local and global CEOs care about integrity.

Moreover, 58 percent of CEOs in Saudi Arabia are willing to divest a profitable part of their business if it damages the company's reputation, compared to 56 percent of global CEOs. In the long run, both understand, honesty pays.

The organizational impact of remote work

The overall impact of hybrid and remote work on organizations varies in Saudi Arabia. In the past two years, 54 percent of respondents in the Kingdom reported that investment in workplace technology has had the highest positive impact. Another 50 percent reported that collaboration and innovation had a significant impact, followed by employee morale at 42 percent.

Taufiq Bahambain, CEO at Al-Murjan Holding said: "Hybrid work surely brings challenges – devices and virtual systems need to be compatible, there needs to be trust and commitment in the organization and people have different preferences and ways of doing – however in some sectors we see improvement in productivity because of it; activities that require uninterrupted intellectual work, strategic reflections or planning, for example. It also allows more flexibility and work/life balance for our people and thus widens the talent pool and enhances the attraction of new talent."

Among global respondents, 49 percent reported that collaboration and innovation had the highest positive impact, followed by investment in workplace technology (48 percent) and hiring tied with productivity (44 percent).

"Managing a holding means leading at a strategic level and allowing for executives of the entities to take their own decisions set within the approved and agreed governance framework and strategy of the group. In other words, it is about providing the appropriate level of empowerment to the entities under the holding and making them accountable at the same time. This provides me the opportunity to focus more on a wide spectrum of strategic matters which includes our corporate social responsibility towards our communities. In order to build a sustainable business, CEO integrity is indeed very important, and includes also building a culture of likeminded, corporate-responsible leaders within the group."

Taufiq Bahamdain
CEO, Al-Murjan Group Holding

Diversity key to progress

Global businesses are also experiencing a major focus on the social aspect of ESG. If there is broad alignment on IDE, however, there is also a growing concern around the pace of progress. Two-thirds of of CEOs believe that progress on IDE has moved too slowly in the business world, up from slightly above half in February 2022, while 73 percent believe that scrutiny over IDE performance will continue to increase over the next three years.

Since awareness is key, CEOs still play a powerful role in helping drive the IDE agenda. Moving forward, it is important to normalize IDE within companies to avoid progress fatigue. Plans must be clear-cut and focused on what's possible within their respective business and market.

Business leaders also reported that diverse teams are higher performing, though much more so in psychological safe environments. 84 percent of CEOs in Saudi Arabia and 77 percent of global CEOs also say they have a responsibility to drive greater social mobility within their organizations, which suggests that businesses around the world are investing in their teams in new and transformative ways.

In any case, Saudi Arabia has shown some of the most impressive progress on workplace gender inclusion nearly anywhere in the world. As a report by Saudi Arabia's Monsha'at recently showed, 45 percent of SMEs in the Kingdom are now run by a woman. This is a tremendous jump from 2017, when only 22 percent of small businesses in Saudi Arabia were led by a woman.[4] As thousands more graduate each year with degrees in the most competitive fields, the number and percentage of Saudi women in critical positions will only grow all the more through 2025.

I have personally pledged that 40 percent of our leadership roles within the organization will be filled by women by 2025. A diverse workforce not only continues to provide development opportunities for our people, it also ensures we have a considered and holistic depth and breadth of experience to provide international-level experiences for our consumers and all our stakeholders.

Alison Rehill-Erguven
CEO, Cenomi Centers

[3] SME MONITOR Monsha'at Quarterly Report Q1 2022 (Monshaat Q1 2022 -.pdf).

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 backwards, taking an outside-in perspective to reverse-engineer and shape what the experience should be before adopting an inside-out view to define how the experience should be delivered.
- **View cybersecurity as a strategic function:** Cyber is no longer seen as merely 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's important for CEOs to develop working structures that suit their people. It's time to experiment and see what works best. Active listening, empathetic communication, 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're struggling to tell a compelling ESG story, it's important for CEOs to articulate for stakeholders the steps they're taking to address ESG within their organizations.
- **Build, don't 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 aren't 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 has become integral to long-term financial success. CEOs increasingly agree that ESG programs improve financial performance, which includes being able to secure talent, strengthen employee value proposition, attract loyal customers, and raise capital.
- **Invest in real-time technologies:** CEOs should monitor deeper into their supply chain, i.e., at the third and fourth levels. That's why 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 drive the IDE agenda in the years ahead. It's 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. For example, the finance team must be aware of what the ESG teams are doing.

Methodology and acknowledgments

About KPMG's CEO Outlook

This edition of KPMG CEO Outlook was conducted with 1,325 CEOs – including 50 CEOs from Saudi Arabia – between 12 July and 24 August 2022. It provides unique insight into the mindset, strategies, and planning tactics of CEOs that are comparable to both pre-pandemic studies.

All respondents in Saudi Arabia have annual revenues over US$500 million, and 40 percent of the companies surveyed have more than US$10 billion in annual revenue. Of those surveyed, 70 percent were executives from publicly traded companies and 30 percent from privately held ones. Of the 20 percent who work in the energy sector – of which 70 percent are in oil and gas - whereas another 20 percent work in infrastructure. The rest were in manufacturing, automotive, consumer and retail, banking, insurance, asset management, telecom, technology, and life sciences.

NOTE: some figures may not add up to 100 percent due to rounding.

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