



KPMG 2020 CEO Outlook: Covid-19 Special Edition

**Saudi Arabia
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Foreword



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The global pandemic has redefined leadership

The Covid-19 pandemic has presented challenges to CEOs that few considered at the beginning of the year. Leaders are making decisions and taking on roles that require them to dynamically rethink their duty to their organization, and their organization's duty in the world.

Every person, business and country has somehow been impacted by this crisis, and all are at different stages. Saudi Arabia reported its first coronavirus infection in early March. Soon after, a nationwide curfew was implemented and travel restrictions began to be enforced. In a visceral image of the severity of the global crisis, the annual hajj pilgrimage to Mecca was limited to around 1,000 Saudi residents, a sharp difference from the millions usually in attendance.

In an effort to bring some clarity to the complex world we find ourselves in, KPMG surveyed hundreds of CEOs from many of the world's largest companies, first in January and then again in July and August. Our questions were aimed at determining their confidence in the future, understanding how their priorities have changed, and examining how their organizations are approaching this once-in-a-generation crisis.

Not surprisingly, the CEOs are less confident about global economic growth than they were at the beginning of the year. But growth projections and output measurements don't tell the whole story. Corporate leaders have had to recalibrate their priorities and many have focused on what matters most—the health and well-being of their people and the societies their businesses serve.

Considering the state of the global economy and how their priorities have changed – in addition to changing consumer behavior – CEOs are accelerating organizational change to meet the demands of an evolving marketplace. This change has targeted digitalization agendas and talent pipelines in material ways.

Underlining all of these approaches is a renewed focus on corporate purpose. Leaders, often impacted by their personal experience with the pandemic, are revamping their organization's purpose to fit today's needs and in turn are increasingly turning to purpose when making difficult decisions.

The task is tall for everyone. I would like to thank all the business leaders we talked to for taking the time to participate. With their help, we've uncovered some important trends and insights in this report that we hope you will find just as interesting as we do.

Thank you for the trust you have put in KPMG, and look forward to your feedback on our findings of this CEO Outlook.

Contents

4

Key findings

6

Purpose

10

Prosperity

18

Priorities

22

Reflections for the new reality

23

Methodology and acknowledgments

Key findings

Talent and a new working reality

Businesses are looking to change their recruitment strategies as remote working has widened their potential talent pool. While Saudi Arabia-based companies may have difficulty attracting people to move to the Kingdom during the pandemic, remote work offers alternatives for foreign talent. Companies worldwide are considering downsizing office space in line with the long-term extension of remote work and in an effort to cut costs.

Shifting risk agenda

Since the start of the pandemic, 'Talent risk' has risen to be named as the most significant threat to business growth ahead of 'Supply chain risk' and a 'Return to territorialism'. Import-intensive industries in Saudi Arabia, like food and petrochemicals, have proved resilient to global trade disruptions but are likely to future-proof their supply chains in response to the pandemic.

A return to purpose and focus on ESG

The pandemic has increased scrutiny to business practices. As a result, CEOs have re-evaluated their organization's purpose and have shifted the focus of their ESG agenda to the 'S', or 'social', component. CEOs in the Kingdom, who already see investor interest in ESG performance, are likely to boost transparency and reporting in the area.

Digital acceleration

Business leaders are betting on major dimensions of digital transformation and the majority have seen this accelerate during the lockdown. However, the pandemic has seen an uptick of cyberattacks, which has increased awareness and investment into cybersecurity.

Purpose

In the midst of a health and humanitarian crisis, CEOs are focused on creating trusted, purposeful organizations that address critical societal challenges.

● A renewed sense of purpose

At the beginning of the year, 77 percent of CEOs said the primary objective of their organization was purpose or societal driven, and today 79 percent say they feel a stronger emotional connection to their organization's purpose since the crisis began.

● From empathy to action

30 percent of CEOs have had their health, or the health of one of their family, affected by Covid-19, and 55 percent changed their strategic response to the pandemic as a result.

● Standing up for equality

In early 2020, 65 percent said the public is looking to businesses to step up on societal challenges.

Prosperity

As well as crisis response, CEOs are positioning their businesses for long-term growth and prosperity.

● Growing in adversity

Today, around one-third of the surveyed CEOs say they are less confident now about prospects for long-term global economic growth than they were at the start of the year.

● Accelerating digital growth

80 percent of the respondents say the pandemic has accelerated digital transformation, with the biggest advance in digital operations, where 30 percent say progress has put them years ahead of where they would have expected to be right now.

● The talent premium

'Talent risk' rises 11 places since the beginning of the year to be the number 1 threat to long-term growth.

Priorities

CEOs are doubling down on transformation priorities to build the capabilities needed to win in the post-Covid future.

● Future of work

77 percent say they will continue to build on the digital collaboration and communication tools that are being used as a result of the pandemic, and 73 percent believe remote working has widened their available talent pool.

● Customer-centric supply chain

67 percent say they have had to rethink their global supply chain approach given the disruptive impact of the pandemic, driven by the desire to become more agile in response to changing customer needs

● Leaning in to Environmental and Social Governance (ESG)

71 percent say they want to lock in climate change gains made as a result of the pandemic, with 65 percent saying managing climate-related risks will play a part in whether they keep their jobs or not over the next five years.

Purpose

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With profound consequences for people's health and livelihoods – as well as the future of companies and industries – the pandemic has presented CEOs with the greatest possible test of their leadership abilities and personal resilience. Chief executives of the world's largest organizations are using this unparalleled moment in history to lead with increased purpose and impact, both societal and economic. They are leading with empathy and humanity as they prioritize talent and corporate responsibility, finding opportunity amid a fall in global economic confidence, and rewiring their businesses for tomorrow's new reality.

A renewed sense of purpose

At the beginning of the year, CEOs' attitudes towards their organization's purpose was swinging in the direction of their stakeholders, rather than their shareholders. In a January survey, 56% of Saudi Arabia-based CEOs said their organization's overall objective is to build long-term value for stakeholders, compared to only 22% stating that economic returns to shareholders defined their objective. Furthermore, 22% said improving society and the public interest is their organization's objective.

This sentiment has set the tone for a global re-focusing on purpose in light of the Covid-19 pandemic. Seventy-nine percent of global CEOs say they feel a stronger emotional connection to their corporate purpose since the crisis began. At the same time, however, the massive disruptive impact of the pandemic has caused many CEOs to question whether their current purpose really meets the needs of stakeholders. In fact, 79 percent say they have had to re-evaluate their purpose as a result of Covid-19. Carefully listening to different stakeholders and encouraging dialogue will be an important element of this re-evaluation, particularly if it becomes clear the current purpose needs to be adjusted to better meet the needs of a stakeholder group.

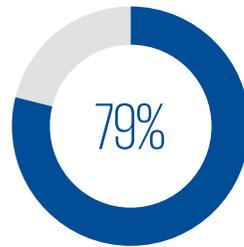
The necessity of stakeholder dialogue during the pandemic may be no more evident than in the relationship between regulators and the private sector. In formulating its business continuity plan (BCP), the Saudi Arabian Monetary Authority (SAMA) paid close attention to the Covid-19 action plans set forth by Saudi financial institutions. One area of importance was digital banking channels, which can be utilized to decrease physical interactions. Resultingly, SAMA promoted the usage of digital banking channels and allowed payment service providers (PSPs) to raise the monthly top-up ceiling limit for e-wallets.



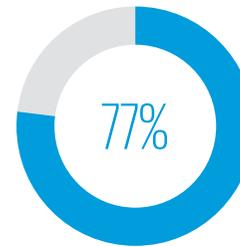
Saudi Investment Bank's (SAIB) CEO, Faisal Al Omran, noted the accelerated uptake of digital banking channels, saying "Banks were already progressing in this space before the pandemic, though what we previously believed to be a 3 year timeline has now become 6-12 months. Whether banks will be able to execute their digital strategies depends on their agility."

Enhanced dialogue also played a big role in helping the real economy. "Banks have quickly extended loan terms, rescheduled them, and issued new loans. This was testament to the close cooperation between banks, regulators, and financial institutions that we have in the Kingdom," SAIB's Al-Omran said.

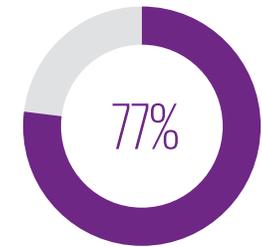
Chart 1: In light of the pandemic, global CEOs believe purpose is more powerful and relevant than ever



I feel a stronger emotional connection to our purpose since the crisis began



Our purpose has helped us understand what we need to do to meet the needs of stakeholders: employees, communities, customers, partners and investors



Purpose provides a clear framework for making quick and effective Covid-19 related decisions

People-focused organizational change

Imbedded within the global shift in sentiment towards purpose is a trend in Saudi Arabia that hones in on people. When instilling a purpose-driven approach, the need to recruit people and assess employee performance was cited as the top area of prioritization among Saudi Arabia-based CEOs. When asked the same question, global CEOs cited communication to investors and stakeholders as the top area. In the same vein, 18% of Saudi Arabia-based CEOs saw attracting top talent as a key benefit of a purpose-driven approach – more than double the global CEO figure.

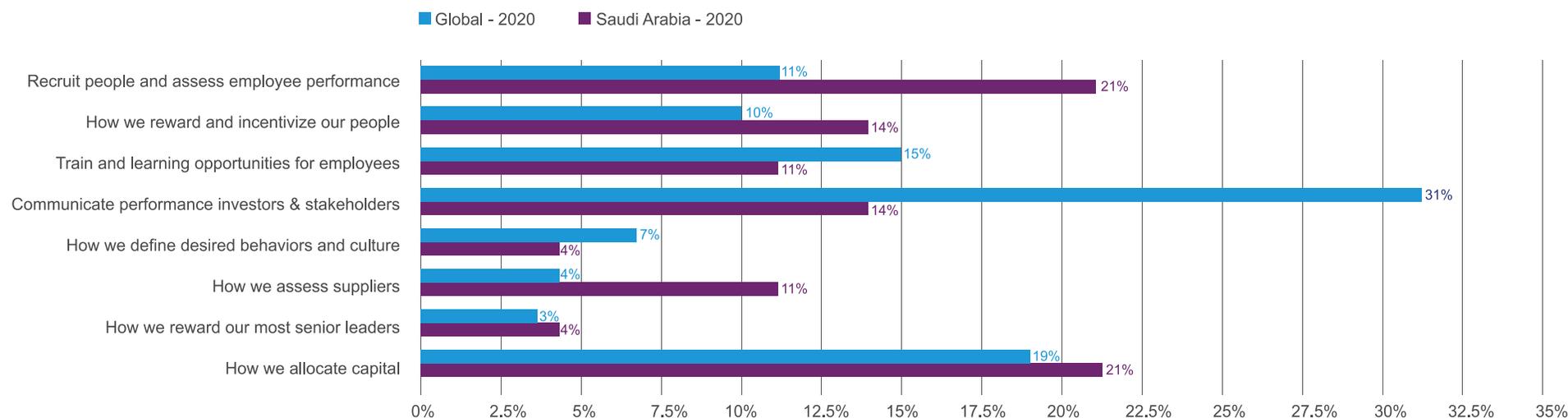


What we believed to be a 3 year timeline of digital transformation quickly became 6-12 months.

Faisal Al Omran
CEO
Saudi Investment Bank (SAIB)

Chart 2: Saudi Arabia-based CEOs see people as central to purpose

As you look to embed purpose in the fabric of your organization which one of the following areas are you going to prioritize over the next 3 years to instill a purpose driven approach



From empathy to action

This increasingly personal and emotional connection to purpose during the pandemic reflects that CEOs face similar health and family challenges as their communities. In fact, well over a third of surveyed global CEOs (39%) have had their health, or the health of one of their family, affected by Covid-19. This personal impact translated into action: 70% of CEOs now feel a stronger connection to their purpose since the onset of the pandemic.

A strong empathetic response by CEOs to the pandemic is rooted in both a sense of responsibility and a belief that it will positively impact growth. Indeed, in a survey of Saudi Arabia-based CEOs, 70% believe their organization’s growth will significantly depend on how well they prioritize ethical decision-making.

CEOs are clearly determined to make not only the best-informed decisions, but also the most authentic ones. Among global CEOs who were personally affected by the health implications of the crisis, only 4 percent made no change to their approach to the pandemic. In all, 55 percent changed their strategic response, either completely or to some degree. Another 40 percent, while not changing their strategy, did pay more attention to the human aspect of the pandemic.



For Nahdi Medical Company, one of the Kingdom largest chain of retail pharmacies, purpose has always guided its decisions. “Embracing purpose does not happen overnight, it is something we have embedded in our DNA from the start and cascaded to all layers of our organization,” Nahdi’s CEO Yasser Joharji said.

“Being in the pharmaceutical sector, this brings an extra responsibility as our customers rely on us for their health and safety,” Joharji said. “With that aim in mind, we plan our footprint as a combination of bricks-and-mortar and digital channels – we consider these to be complimentary. Our stores have always remained open, which was in itself a factor of support to the greater society, and part of the Ministry of Health’s national plan to handle the pandemic.”

Nahdi also had to re-purpose its operations to safeguard its customers against supply shortages. “Part of our purpose is to provide for people’s health and safety, so we made sure to double our stock for chronic diseases and other treatments, thus preventing any panic that may result due to unavailability or accessibility,” Joharji added. “For those in need, we mobilized our entire workforce to provide a safe last mile delivery, reaching out to customers in the most remotely located areas of the country.”

70% of Saudi Arabia-based CEOs say there is still a huge amount to do to build gender diversity on boards

Standing up for society

At the beginning of the year, we found CEOs were increasingly prepared to personally lead the way in tackling society’s major challenges. In Saudi Arabia, 78% of CEOs said they had a personal responsibility to be a ‘leader for change on societal issues’. Reflecting Saudi Arabia’s young and increasingly conscious society, 76% of Saudi Arabia-based CEOs felt millennial and Generation Z consumers expect new standards of sustainability from corporations, compared with 67% of global CEOs. CEOs in Saudi Arabia and around the world cited climate change, usage of personal data for financial gain, and gender equality as the three global challenges from which they felt the most pressure for action from their stakeholders. Gender equality is an area of acute concern for Saudi Arabia-based CEOs – nearly half of those surveyed felt pressure for action, compared to around a third of global CEOs.

A societal issue that has resonated among Saudi CEOs is gender equality. Seventy percent of Saudi Arabia-based CEOs say there is a huge amount to do to build gender diversity on boards.

Reflecting this sentiment among Saudi CEOs, KPMG has made a concerted effort to advance women in the workplace. Kholoud Mousa, Head of Inclusion and Diversity for KPMG in Saudi Arabia heads up the effort in the Kingdom and was the first female partner of a Big 4 firm in Saudi Arabia to be appointed. “One of the priority objectives in our diversity and inclusion strategy is supporting female’s advancement,” she said. “The percentage of female representation at KPMG has steadily increased over the last three years”. We positively experience the impact this strategy has on the growth of the firm, and on the range of new business opportunities that are created by female colleagues in leadership positions.”



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Yasser Joharji
CEO
Nahdi Medical Company

Prosperity

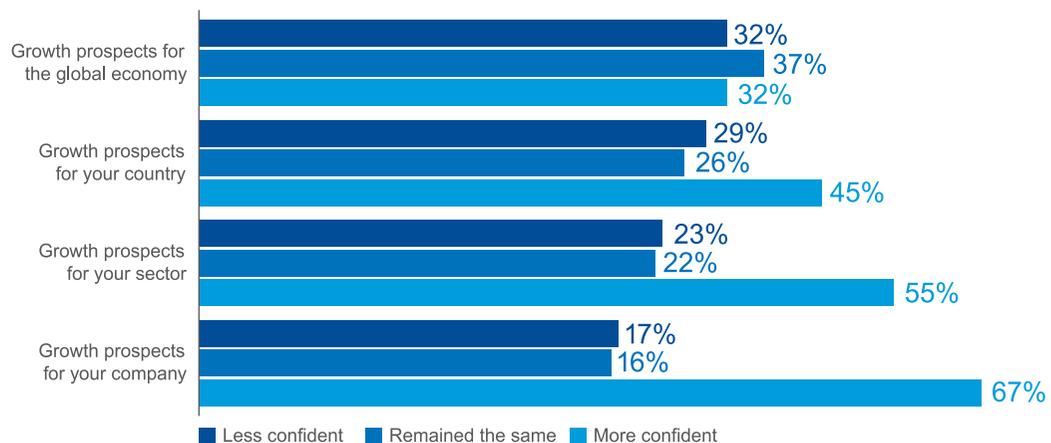
88%
of Saudi Arabia-
based CEOs see
technological
disruption as an
opportunity rather
than a threat

Future growth prospects

The survey finds the Covid-19 crisis has shaken CEO confidence in global economic growth. Today, 32% say they are less confident now about prospects for global growth over the next 3 years than they were at the start of the year. However, this loss of confidence is not as dramatic when CEOs consider what the future holds for their own companies, with only 17% less confident today. They are clearly more confident in mastering their own company's fortunes, where they have more control and levers of influence.

In Saudi Arabia, lenders are predicting this year's sharp economic downturn to be followed by growth in 2021. In June, the IMF projected Saudi Arabia's GDP to shrink by 6.8% this year but to grow by 3.1% next year. Their 2021 growth projection made in June is slightly higher than projections made in April.¹

Chart 3: Global CEO's confidence in global, country, sector and company growth over the next 3-years, compared to the beginning of the year



¹ <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOupdateJune2020>



We are now going to places where cash was the only option – we are digitalizing cash-only places.

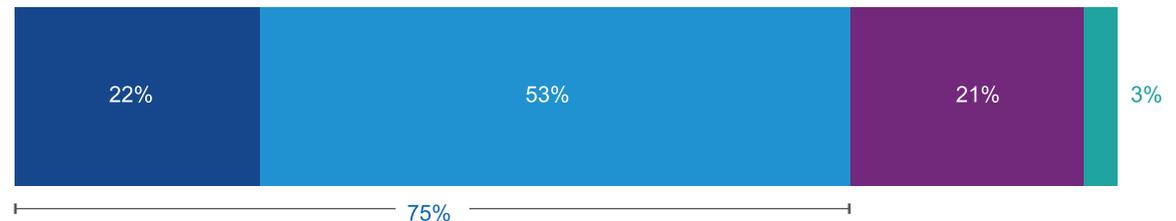
Esam AlNahdi
CEO
Hala

Accelerating digital growth

As we saw earlier, CEOs are more confident in their own businesses' growth prospects over the coming 3 years. One of the most critical levers they can control here, and a major growth driver, is digital acceleration. Indeed, 88% of CEOs in the Kingdom view technological disruption as an opportunity rather than a threat.

Cloud computing is dominating the CEO's technology agenda in Saudi Arabia and globally. Ninety-eight percent of Saudi Arabia-based CEOs and 93% of global CEOs are increasing investment into cloud during 2020 according to a beginning-of-year survey. Following cloud, artificial intelligence, robotic process automation, and 5G are the technologies that will see the most increase in investment this year, according to CEOs in Saudi Arabia. The government of Saudi Arabia re-affirmed the importance of cloud computing in their journey towards digital transformation, and recently approved the "cloud-first policy."

Chart 4: Top tech areas for investment in Saudi Arabia this year

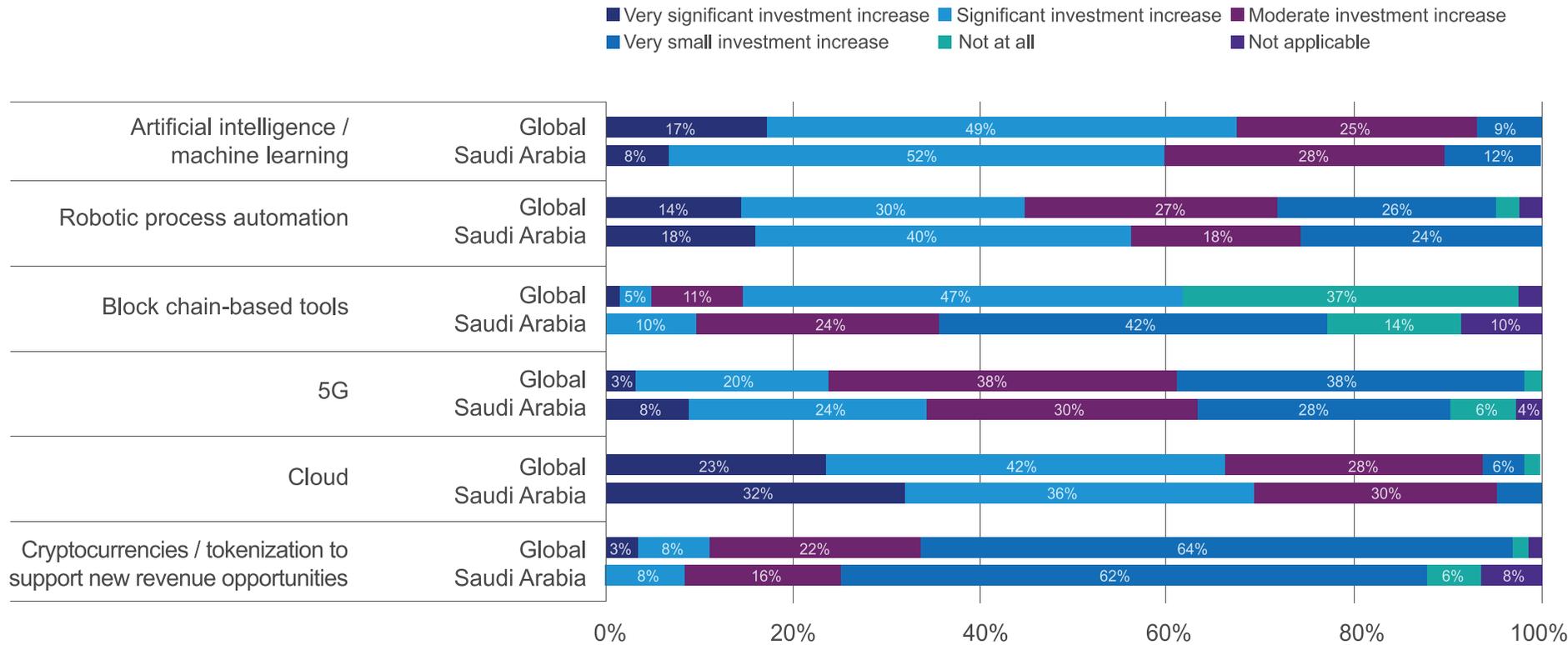


- Progress has sharply accelerated, putting us years in advance of where we expected to be
- Progress has accelerated by a matter of months
- Progress is the same as before the pandemic
- Progress has lapsed

The pace of technological adoption has quickened this year as organizations react to the new working reality. Eighty-one percent of global CEOs think the digitalization of operations has significantly accelerated since the onset of the pandemic.

Hala, one of the first fintech companies in the Kingdom to be fully regulated by SAMA, has seen an uptake in business among SMEs that are out of the scope of traditional banks. "We are now going to places where cash was the only option – we are digitalizing cash-only places," Hala's CEO Esam Alnahdi said.

Chart 5: To what extent do you plan to increase investment in the following technologies over the next 12 months?



The pandemic – as well as the government’s response – has created demand and new opportunities for fintechs like Hala. “Since the outbreak of Covid-19, we have rebundled our service offering to cater for the new normal focusing on providing solutions to businesses supporting their digital transformation,” AINahdi said. “As the government speeds up its focus on creating a cashless society – one which is also more hygienic and transparent – demand for our services has skyrocketed.”

The banking sector, already ahead of much of the economy in its digital transformation push, saw many more of its customers turn to digital channels. Faisal Alsaggaf, CEO of National Commercial Bank (NCB), said “Throughout the lockdown and thereafter, NCB has seen unprecedented adoption of digital banking: year-to-date, mobile banking users increased 34%, point-of-sale banking purchases were up 76%, and electronic commerce purchases were up 236%. Digital product sales are now above 60% of total sales.”



With commerce increasingly taking place online because of factors such as physical distancing, companies are having to rethink what customers want and how to deliver. We found that 75 percent of CEOs say the pandemic has accelerated the creation of a seamless digital customer experience. Similarly, and as companies search for new revenue opportunities during a time of weak growth, 64% of global CEOs say the creation of new digital revenue streams has advanced during the pandemic.

For Fawaz AlHokair Group, lockdowns have required a fundamental rethink of their business operations. The retail conglomerate had previously relied heavily on its bricks-and-mortar stores, but ramped up its e-commerce operations soon after the onset of the pandemic. “Online sales have doubled between March and August, for which we pivoted many internal resources to ramp up our capacities,” AlHokair’s CEO Marwan Moukarzel said. “In fact, there was no e-commerce team prior to the pandemic for which we also recruited externally.”

In the long run, Moukarzel is still bullish on its physical presence in Saudi Arabia. “While e-commerce speaks to the consumer’s convenience, shopping – especially fashion – remains a way of entertainment in the Middle East, so having a bricks-and-mortar presence remains important,” he said.

We learned some important lessons and first and foremost about having the right people in our teams. Upgrading and maintaining employee quality, preparing to do more with less, is now much more a priority. We learned the value of good communication, both with customers and with our people: when you take care of your people, they will take care of you when it is needed.

77% of global CEOs will continue to build on their use of digital collaboration and communication tools

In the immediate response to Covid-19, healthcare systems around the world were under pressure to deal with the influx of infected patients while balancing to continue the provision of regular care. Emmeline Roodenburg, Head of Healthcare at KPMG in Saudi Arabia emphasizes the advancement of digital strategies among healthcare leaders. “Due to a push from the government, quick action from healthcare providers – including startups – and a pull from consumers, the digital agenda has achieved more in five months than many deemed possible in five years’ time.”

“Virtual care has taken a flight and across the care continuum, from primary care and extended care to hospital care, we see digitization as number one on the agenda of healthcare leaders in the Kingdom. Whereas the healthcare sector is generally slower in IT adoption than other industries, Covid-19 has achieved a great deal of catchup for the sector.”



In fact, there was no e-commerce team prior to the pandemic for which we also recruited externally.

Marwan Moukarzel
CEO
Fawaz Alhokair Group

In this light, she considers the Kingdom's Health Transformation Agenda: "Patients become more empowered customers, and subsequently patient engagement and satisfaction will be prioritized. How health systems will be able to deal with privacy, data governance and cybersecurity is vital to the next level of health technology implementation."

Saudi Arabia's prior investments into cloud computing seem to have paid dividends during the pandemic. As seen in the survey prior to the onset of the Covid-19 pandemic, CEOs in the Kingdom were keen on investing in cloud this year, as they have been for several years prior. This means technology budgets – specifically those related to remote working technologies – at many Saudi Arabian companies did not have to be increased as much as in countries where cloud computing hasn't been given such a priority.

Mazhar Hussain, Senior Director Digital at KPMG in Saudi Arabia indicates that for the past few years prior to Covid-19 the Kingdom has seen the early sparks of digital disruption. "The foundational elements of cloud strategy and data management were bubbling away. But with Covid-19 the spark turned into a full digital ignition. That has been evident by the transformational shift in mindsets and the move to accelerate capabilities in automation, AI, cloud, digital product development and digital leadership capabilities. The Kingdom is now firmly on the trajectory to rapid digitalization."

The challenge for organizations is to focus efforts and investment on the areas that are capable of generating the most long-term value, while avoiding those areas that might just prove to be a short-term reaction to the pandemic. When we asked global CEOs to name the greatest challenge they have faced in accelerating digital transformation, the biggest issue was 'lack of insight into future operational scenarios'. Companies need to understand whether a Covid-related change – such as shifting customer behaviors – is evidence of a permanent trend emerging rather than just a temporary effect of the pandemic.

Shifting risks

As they plan their path to long-term growth, business leaders recognize there have been new challenges to contend with during the pandemic. A potential second wave of Covid-19 at home or in their key markets would likely deepen these concerns, with further adverse consequences in terms of retaining key employees, hiring talent and keeping their workforces productive.

In January, global CEOs ranked talent risk behind 11 other risks to growth. However, since the start of the pandemic, talent risk has risen to be named as the most significant threat to their businesses ahead of supply chain, the threat of a return to territorialism and environmental risk. This risk could be particularly acute in Saudi Arabia, where the expatriate workforce is large. If the pandemic is prolonged, key workers may be unwilling to relocate to a new country and skilled contractors will have continued trouble traveling to worksites.

For TASNEE, a chemicals company that operates one of the Kingdom's largest industrial complexes, maintaining its operations while ensuring the safety of its employees proved a tricky task. "Our biggest problem for the first 2-3 months was managing shifts in our chemical plant," TASNEE CEO Mutlaq Al-Morished said. "If one operator tested positive for Covid-19 then we would have to take the entire shift out for two weeks."

Companies like TASNEE felt the pandemic's risk to their people and operations much more acutely than organizations that were able to send all their people home to work remotely.



However, TASNEE's problems were eased as testing capabilities eventually came up to speed. Al-Morished said that with rapid tests now readily available, "workforce availability is no longer a problem because in the case of a positive test we can test entire shifts of operators instead of quarantining them."

Ravaged by the pandemic, supply chains became a focus for CEOs working to get their businesses back on track. This focus was reflected in our survey, which saw supply chain risk rise to be the second-most cited threat to growth.

CEOs in Saudi Arabia had reason to worry about their supply chains at the onset of the pandemic – the Kingdom is highly dependent on food imports and its downstream oil industry depends on a wide array of imported inputs. However, both sectors managed the disruption. Saudi Arabia's heavy investments into food security softened the blow to global food supply chains, and the Ministry of Environment, Food, and Water stated its food security strategy had succeeded in surpassing the disturbance brought on by the pandemic.² The energy sector was also well-prepared, with Aramco stating its supply chains were uninterrupted.³

TASNEE, which depends heavily on imported materials for its products, also saw its supply chains pass the test. "Our supply chains have, amazingly, worked well throughout the pandemic. The government was helpful in making sure ports remained operational, so we were able to import raw materials and export products without interruption," Mutlaq Al-Morished said.

Building resilient, flexible supply chains – ones that can withstand shocks and offer the agility to pivot to new opportunities – will be critical for organizations to drive growth and build a competitive advantage post-pandemic. This will be particularly important in a world where CEOs are aware increasing territorialism – which is their third-placed risk today – could make the transfer of goods both more difficult and more costly.

While cybersecurity risk lowered relative to other threats to growth in our survey, in absolute terms it has likely become a bigger concern for businesses since the onset of the pandemic. The number of vulnerabilities in most organizations' operations has increased with remote work. CEOs must resist the urge to direct budget cuts towards preventative cyber measures and note the sharp increase in global cybercrime as a reason to keep advancing their cyber defenses.

Ton Diemont, Head of Cybersecurity for KPMG in Saudi Arabia, added that the digital acceleration brings additional challenges to organization that extend well beyond building safe and secure remote working conditions. "Confidentiality, integrity and availability are the three core principles that executives need to consider when implementing their new and accelerated digital strategies, along with their operational cyberresilience. Protective, detective and responsive cybersecurity measures should be part of any discussion about digital transformation."

² <https://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2100794>

³ <https://www.reuters.com/article/us-health-coronavirus-saudi-aramco/aramco-says-operations-supply-chains-uninterrupted-despite-coronavirus-idUSKBN22G1HF>

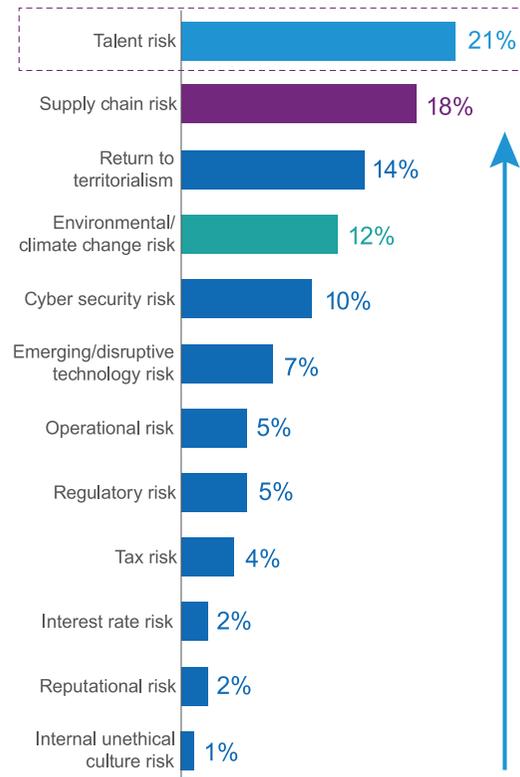


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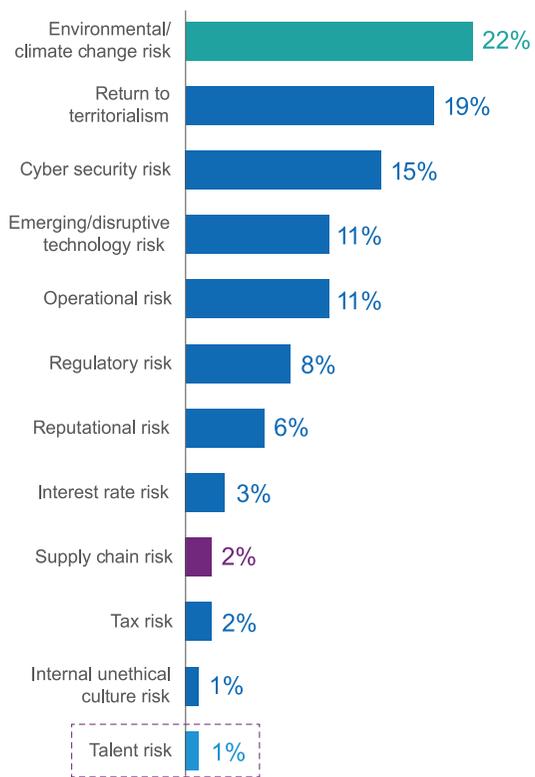
Mutlaq Al-Morished
CEO
TASNEE

Chart 6: Changing threats to growth

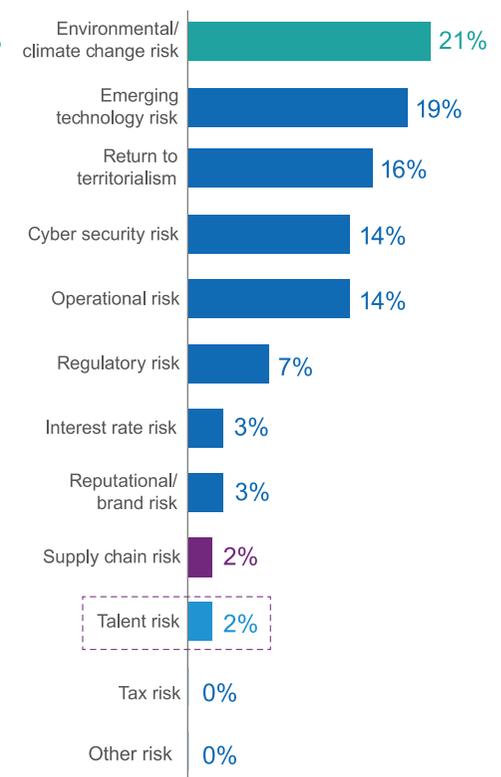
Greatest risk to growth today (July/Aug 2020)



Greatest risk to growth at the beginning of the year (Jan/Feb 2020)



Greatest risk to growth (2019)



“ The pandemic has transformed how leaders view and respond to risks, resetting their priorities and, in many cases, growth trajectories. Business, financial and risk models designed for the pre-pandemic environment are transforming; leaders who were concerned with talent retention are now required to focus more on mental health and future readiness of talent. New categories of business and financial risks require clear and agile thinking.



Muhammad Tariq
Head of Audit
KPMG in Saudi Arabia

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Retaining and nurturing exceptional performers while attracting specialized talent at the same time, has grown in significance more than ever and has become an absolute necessity for achieving success moving forward.



Fuad Chapra
Head of Private Enterprise
KPMG in Saudi Arabia

68% of global CEOs said their communications with employees have improved during the crisis.

Fuad Chapra, Head of Private Enterprise at KPMG in Saudi Arabia points out that the emergence of talent risk, as the greatest risk to growth today, will require companies to challenge the status quo and reassess their strategic priorities. “Talent risk has moved to the forefront of many CEOs’ minds. Retaining and nurturing exceptional performers while attracting specialized talent at the same time, has grown in significance more than ever and has become an absolute necessity for achieving success moving forward,” he said. “Without having the right people in place, any organization in the current digital era will face major challenges in evolving its business model to match with the accelerating changes in the marketplace and its clients’ needs”.

“It also comes as no surprise that the second highest risk for growth was supply chain risk as there was major turbulence in this space during the pandemic. We’ve witnessed quite a few companies successfully augment their strategies to hedge against supply chain risk in the face of the pandemic. Yet there are many companies still addressing the challenge of how to make their supply chain robust and agile to be able to better cope with such crisis in the future.”

Faisal Al-Omran, SAIB’s CEO, commented on the changing talent profile demanded by banks. “At SAIB, we have learned to be agile and we have invested in our UX and CX capabilities,” he said. “Access to talent is evolving, and I expect numerous jobs to be created in the Saudi banking sector – with vast opportunities for Saudis to develop these skills as well as a need for banks to tap into experts abroad through digital platforms.”

With advances in analytics, artificial intelligence, process automation, and the Internet of Things accelerating, the organization of the future will look very different: flatter, digitized and with a very different talent profile, potentially made up of fewer people with distinct new skills. CEOs will need to make some difficult people decisions and prioritize investment. Today, we find CEOs are focused on bold and ambitious digital transformation moves. After the onset of the pandemic, when we asked global CEOs whether they are putting more investment into technology or people, 67% said they are placing more capital investment in buying new technology, with only 33% saying developing their workforce’s skills and capabilities is receiving more investment.

Priorities



In surveys conducted before the Covid-19 pandemic, CEOs consistently indicated investment into ESG initiatives was not only the 'right' thing to do; it is also prudent from a business standpoint. Now, that sentiment is actually being put to the test.



Ebrahim Baeshen
Office Managing Partner
Jeddah, KPMG in Saudi Arabia

Leaning in to ESG

The pandemic has created what will be a career-defining economic challenge for most CEOs. Given the scale of that challenge and the budgetary pressures CEOs are facing, many were worried chief executives would be forced to relegate the importance of environment, social and governance (ESG) themes. However, our research shows CEOs are still very much engaged with this issue, particularly in Saudi Arabia. Seventy-two percent of Saudi Arabia-based CEO see significant demand from stakeholders for increased reporting and transparency on ESG issues.

Interestingly, 70% of CEOs in the Kingdom saw the most demand for ESG reporting from institutional investors and regulators, compared with only 30% from employees and customers. This calculus bodes well for ESG agendas during a time of budgetary belt-tightening, as many CEOs see ESG as an investment prerequisite or a regulatory requirement.

In particular, CEOs are focusing on the 'S' aspects of their ESG programs. Close to 63% of global CEOs said their response to the pandemic has caused their focus to shift to the social component of their ESG program. This effort is becoming more localized as well – 62% of CEOs are now engaging more with local communities where their work is based.

That is not to say CEOs are being deflected from the 'E' of ESG either. Sentiment had already been moving in the direction of climate action in Saudi Arabia – 84% of CEOs in 2020 saw their organization's growth as determined by shifting to low-carbon, clean technologies compared to 50% in 2019. Covid-19 may quicken this shift, with 71% of global CEOs say they want to lock in climate change gains that have been realized during the pandemic.

The seriousness with which many CEOs take the issue of climate change is reflected in the fact many believe managing climate-related risks is key to their own job security and long-term legacy. When we asked CEOs whether it was likely managing climate-related risks will be a key factor in them keeping their job over the next five years, close to two-thirds felt it was indeed likely.



Ebrahim Baeshen, Office Managing Partner at the Jeddah office of KPMG in Saudi Arabia sees the continued focus on ESG initiatives as a positive sign for growth coming out of the pandemic. “In surveys conducted before the Covid-19 pandemic, CEOs consistently indicated investment into ESG initiatives was not only the ‘right’ thing to do; it is also prudent from a business standpoint,” he said. “Now, that sentiment is actually being put to the test, and CEOs are standing by their ESG programs at a time when other lines of their budgets are being put on the chopping block.”

Future of work

Covid-19 has forced many CEOs to rapidly implement remote working operations. The longevity of the pandemic uncertain, organizations are prepared for remote work to continue for the foreseeable future. Seventy-seven percent of global CEOs say they will continue to build on their current use of digital collaboration and communication tools. As organizations iron out the initial difficulties of remote work, many are finding their ability to communicate and collaborate unchanged, or even improved, from pre-pandemic conditions. Indeed, 68% of global CEOs said their communications with employees have improved during the crisis.

There are other unexpected benefits to the new working reality. Seventy-three percent of global CEOs believe remote working has widened their available talent pool. For a country like Saudi Arabia, which attracts highly-skilled labor from around the world, remote working – or the option to work remotely part-time – may prove an effective way to lure workers to positions in Saudi firms. Grappling with

In the medium- to long-term, many expect remote work to be a driver of cost savings. While initially expensive, long-term adoption of remote or hybrid-remote working schemes will allow companies to downsize their physical office space. In our survey, the sentiment was clear: 70% of global CEOs plan to downsize their offices space in the near future.

At NCB, the future of work is dynamic. “We definitely see a future where we will have more staff working from home, at least part-time,” NCB’s CEO Faisal Alsaggaf said. “We have initiated a work-from-home pilot in some key areas, which we believe will pave the way for an improved staff value proposition and enable reductions in premises operating expenses over time.”

While moving employees online is one task, trickier can be the recruitment and onboarding process. “New staff were recruited during the lockdown and digital interviews are now a component of our recruiting strategy,” Alsaggaf said about NCB’s strategy for new employees. “Our training has been revolutionized by digital processes – since March we have successfully delivered all our training programs digitally.”



We definitely see a future where we will have more staff working from home, at least part-time.

Faisal Alsaggaf

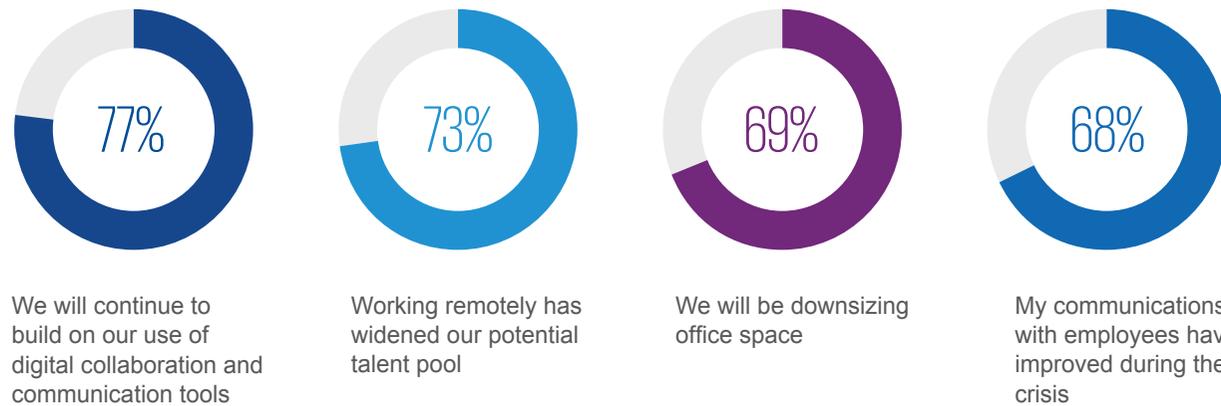
CEO
National Commercial Bank (NCB)

“ Organizations see the cost benefits of reducing physical office space and employees no longer want to waste time commuting to work – both will lead to the widespread emergence of remote-hybrid working.



Islam Al Bayaa
Head of Advisory
KPMG in Saudi Arabia

Chart 7: Global CEOs see the pandemic as an opportunity to rethink the way we work and communicate



Islam Al Bayaa, Head of Advisory at KPMG in Saudi Arabia thinks many of the efficiency and cost benefits of remote work will be here to stay. “In the digitalized world in which we live, many features of the modern workplace were outdated and inefficient. When life transitions back to ‘normal,’ don’t expect the office place to follow it. Organizations see the cost benefits of reducing physical office space and employees no longer want to waste time commuting to work – both elements that will lead to the widespread emergence of a remote-hybrid future of work.”

Customer-centric supply chain

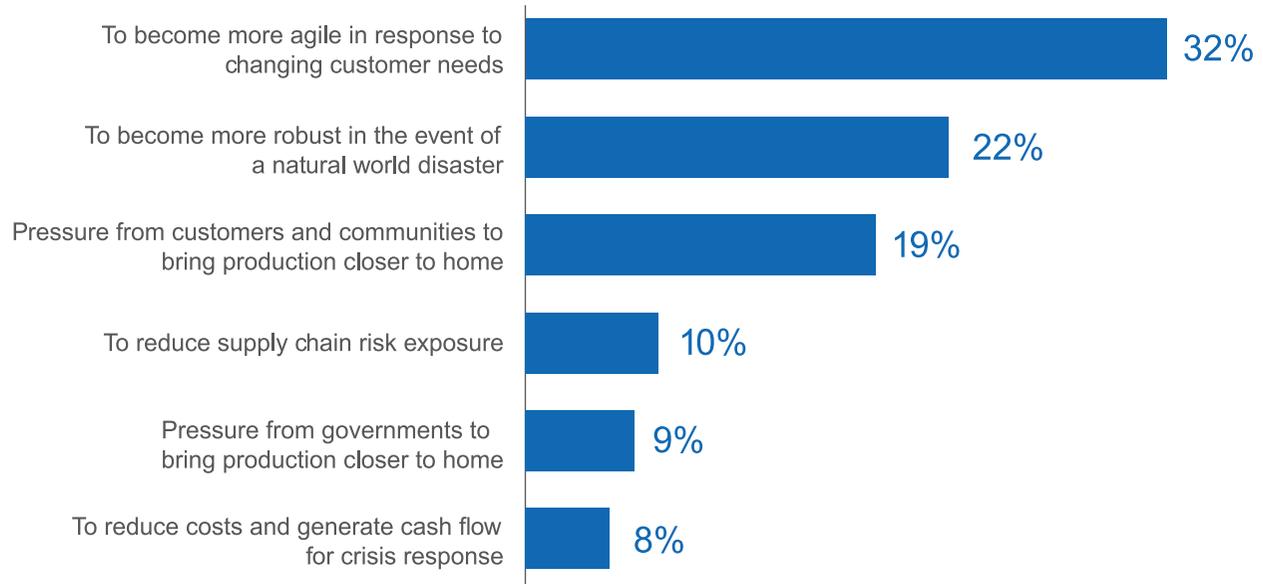
Supply chains were hard hit by pandemic-related disruptions, but indicators are showing global trade is rebounding more quickly than many expected. By June, trade had recovered about half of its losses for the year, according to calculations by the Kiel Institute for the World Economy – a pace far quicker than trade’s recovery after the 2008 financial crisis.⁴

However, as trade volumes climb their way back to pre-pandemic levels, the supply chains that dictate trade are returning in different form. With 67% of global CEOs saying they are rethinking their global supply chain, questions are being asked about how this rethink can become a competitive advantage in the new reality that emerges. When we asked global CEOs to say what was driving this supply chain re-evaluation, the top-ranked reason was to ‘become more agile in response to changing customer needs’.

⁴ <https://www.wsj.com/articles/globaltradereturns-faster-than-expected-11600594200>

An overriding element of any supply chain re-think is localization. According to the UN Conference on Trade and Development's new report on global investment, global FDI flows will decrease by up to 40% in 2020 and up to 10% in 2021.⁵ Multinationals are working to make their value chains less fragmented by reshoring production, and many are cutting back on riskier projects around the world.

Chart 8: Reasons global CEOs are rethinking their supply chains



Outside of localizing, many companies, particularly those with complex supply chains, were likely focused on continuity issues and managing ongoing uncertainty and disruptions. As they look to the future, a number of areas are expected to become critical: stripping complexity and cost out of supply chains, building end-to-end visibility, investing in automation and other advanced technologies, and building agility into the network of suppliers and partners.

⁵ https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf

Reflections for the new reality

Purpose

While the pandemic has given companies the opportunity to demonstrate how they can make a real difference to society, scrutiny of corporate actions has also never been stronger. To maintain and build on the trust of employees, customers and communities, CEOs must demonstrate their organization's purpose is meaningful, relevant and makes a difference. For some, this will mean moving from generic purpose statements to more specific and measurable approaches. Others must localize their efforts to meet the needs of their communities. For all, purpose must be integrated into the fabric of the organization in order to succeed and the CEO must lead from the front to ensure it actually delivers.

Prosperity

With digital acceleration shaping the future of industries, organizations must use data to determine how customer behavior will shift and how to meet these emerging demands. Internally, organizations need to capitalize on the benefits of remote work while safeguarding their operations against increased cyberattacks. The pre-pandemic challenges of legacy IT systems and data utilization have not gone away, and need to be addressed by a focus on IT transformation across organizational silos, drawing on cloud technologies and agile techniques. This may be the time for organizations to reflect on their talent base and build a robust foundation of digital skills.

Priorities

As global trade returns to strength, CEOs need to ensure that resilience is baked into the supply chains of the future through localization and prizing agility when building a network of suppliers. With elements of remote work here to stay, CEOs must identify and capitalize on the cost saving and collaboration benefits, and keep the health of their employees in mind. As organizations iron out the initial difficulties of remote work, many are finding a new future of work in a hybrid model. Leaders have indicated that their ESG programs will not see the chopping block when the world emerges from the pandemic. Organizations that are building robust ESG reporting programs should be well positioned and will see the benefits in their communities.

Methodology and acknowledgments

The KPMG 2020 CEO Outlook Covid-19 Special Edition offers a lens on evolving attitudes as the pandemic has unfolded. We initially surveyed 1,300 CEOs in January and February, before many key markets were beginning to feel the full impact of lockdowns. Then, in July and early August, we conducted a follow-up survey of 315 CEOs to understand how thinking has evolved.

In both instances, all respondents have annual revenue over US\$500M and a third of the companies surveyed have more than US\$10B in annual revenue, with no responses from companies under US\$500M. The respondents work in 11 key industry sectors; asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications. Some figures may not add up to 100 percent due to rounding.

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