

Middle East

Point of View

Published by
Deloitte & Touche (M.E.)
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Fall 2011

Beyond the comfort zone



**Roses are red,
violets are blue**
Strategic colors

**Is that a house I see
before me?**
Living in the KSA

Back to the future
100-Dollar oil revisited

Here to stay
Facing up to FATCA

Deloitte.

85 Eighty five years
in the Middle East

Fall 2011

Middle East Point of View

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mepov@deloitte.com

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"What does not kill us makes us stronger" said Nietzsche famously. This self-explanatory adage is often used in the sports world, where athletes are constantly trained and pushed beyond their comfort zone in order to make them stronger, faster, better. These days it seems as if the business and finance worlds could also benefit from a bit of Nietzschean philosophy.

As the world as we know it (or have known it for the last 10 years since 9/11) seems to be dismantling, we find ourselves having to push beyond our comfort zone. Financially, we face a double-dip recession. Politically, we face new challenges as we face new powers in the Middle East. Technologically, we face Apple without Steve Jobs. Everywhere we look for comfort, we are nudged out of our seat.

Just like the price of oil. As Mutasem Dajani, Oil and Gas partner at Deloitte in the Middle East, argues in his article *Back to the future: Where next for 100-Dollar oil?* price volatility remains the only certainty as regards the global price of oil. He adds that 100-Dollar oil is arguably becoming the pivot point for measuring the condition of the global economy.

An advantage to being out of our comfort zone is the opportunity to create and innovate, but how? Take a dip in the blue ocean it seems. In the article *What is the color of your strategy?* Firas Eid, consulting partner at Deloitte in the Middle East, differentiates between what have become known as blue and red ocean strategies. Rather than competing in overcrowded industries (red ocean strategy) real opportunities lie in creating new, uncontested market spaces (blue oceans) as a means to sustaining high performance.

Certainly don't think "outside the box" advises Mark McCord, specialist leader with Deloitte Consulting LLP, tear it up instead. In our piece reprinted with permission from the *Deloitte Review*, *Tearing up the box*, Mr. McCord explains how the paradigm of thinking outside the box can not only be restrictive, but can also end in disappointment in case of a "retreat to the box."

The clear need for innovation for business growth is at the core of these ideas and others in this issue. In his article *The growing pains of Islamic Finance*, Dawood Ahmedji, Islamic Financial Advisory Services leader at Deloitte in the Middle East, is hopeful that reforms will benefit that industry and lead to more development and innovation, which, he argues the Islamic Finance industry needs.

But is all that is new good? The Foreign Account Tax Compliance Act (FATCA) has had, at best, a cold reception at financial institutions around the globe. However, says Joe el Fadl and John Belsey, these institutions are having to face the inevitable: "FATCA is here to stay."

So whilst we keep getting nudged out of our comfort zone, it is reassuring to know that the *Middle East Point of View* continues to offer in-depth analysis of the business issues that affect us and to provide the knowledge that will help us get back into our comfort zone. To borrow another proverb, "this too shall pass."

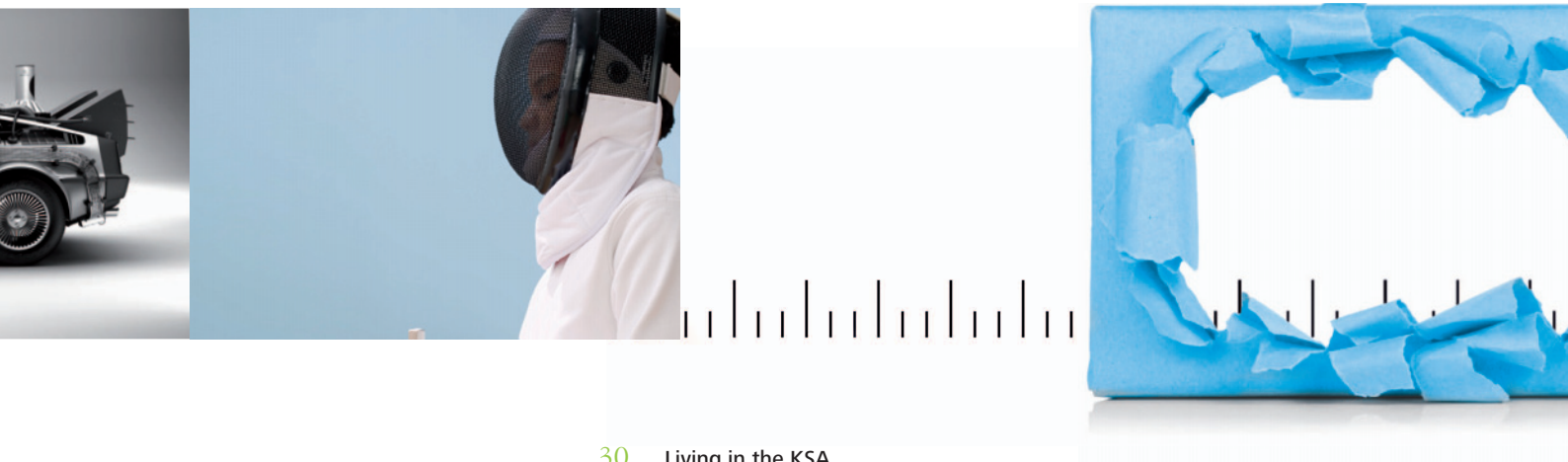
ME PoV editorial team

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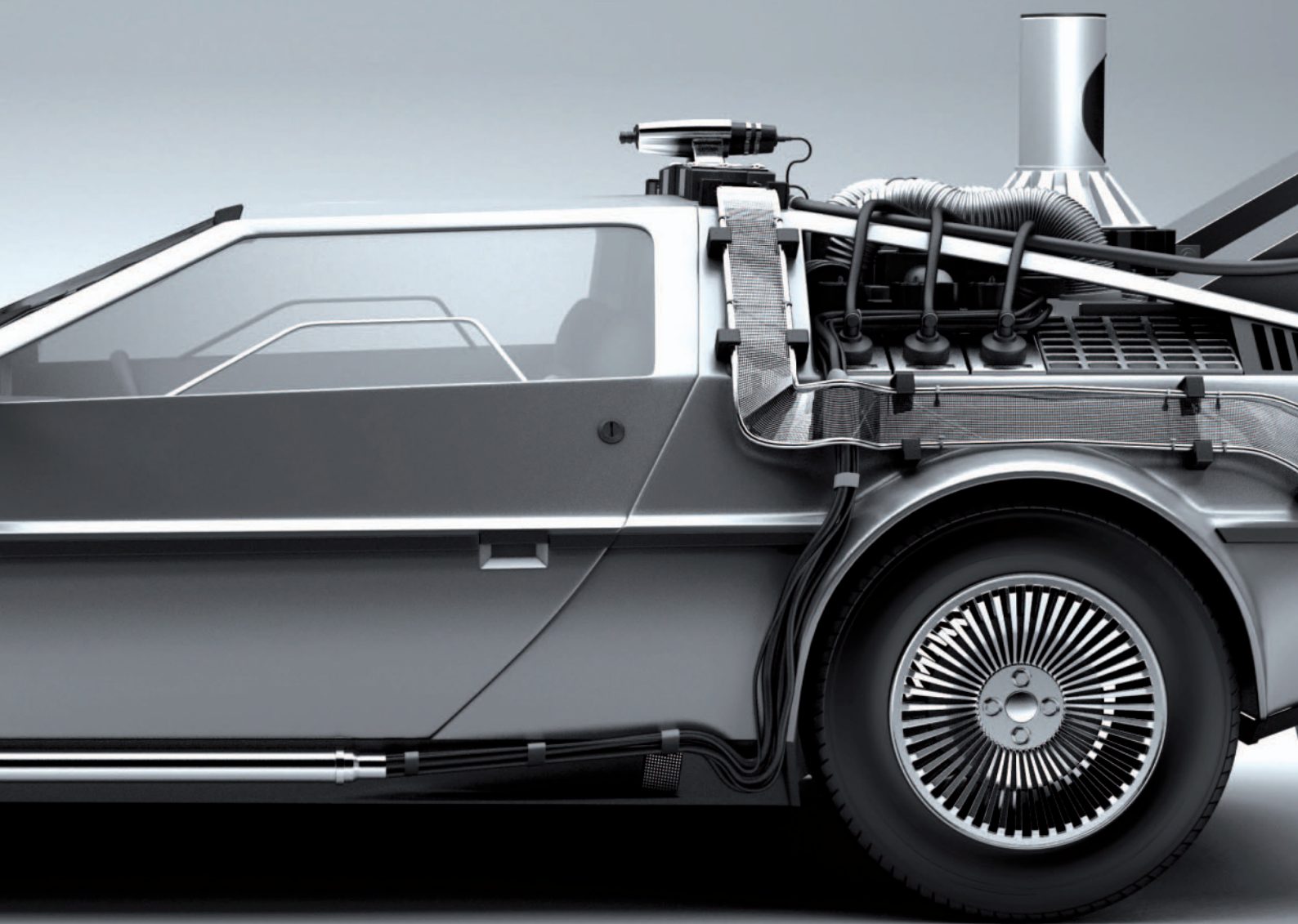
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Back to the future

Where next for 100-Dollar oil?

A look back at the last decade reveals a tremendous level of oil price instability experienced by producers, consumers and global economies alike. In the last six months alone, the price of oil has had to weather a sputtering global economic recovery, geo-political upheaval (in the wake of the Arab Spring) and uncertainty within OPEC on production rates.

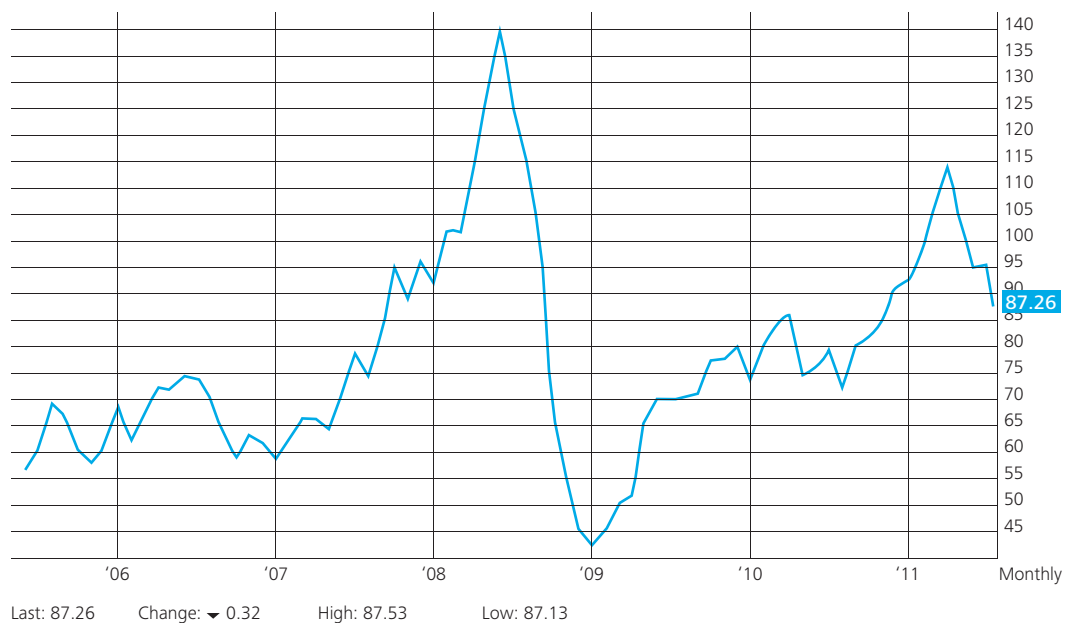
A retrospective on 100-Dollar oil reveals two things: that price volatility remains the only certainty; and that USD 100 is increasingly becoming the pivot point for measuring the condition of the global economy. Whereas in 2008, 100-Dollar oil was a way-marker on the way from rapid boom to the bursting of a speculative bubble, in 2011 it appears as an indicator of the shifting status of major producers and consumers and the complex impact of global macro-economic measures related to ongoing austerity and stimulus.

A retrospective on 100-Dollar oil reveals two things: that price volatility remains the only certainty; and that USD 100 is increasingly becoming the pivot point for measuring the condition of the global economy

A rapid rise

In January 1999 the NYMEX West Texas Intermediate (WTI) price per barrel for 30-day deliveries (a benchmark oil futures contract) traded at USD 17. Prices proceeded to double in less than two years and after seesawing steadily upwards, reached USD 50, 60, 70 and eventually USD 90 between 2005 and 2007. In January 2008, a trade was recorded at USD 100. That threshold was sustained and eventually exceeded as WTI futures picked up about USD 10 per month before reaching an 'all time high' of USD 147 on July 11th, 2008. The rapid rise in demand in emerging economies, a declining U.S. Dollar, speculative futures trading run rampant, tight spare producer capacity, a deceptively buoyant climate in many sectors and recurring geo-political tensions all contributed to what seemed like an exponential increase in the price of oil. Indeed, the bullish spirit of the time is aptly evoked when recalling how, in March 2008, Goldman Sachs proffered the now infamous 'super-spike'¹ view that U.S. GDP growth or a major supply disruption would likely send prices as high as USD 200 per barrel.

%CL+1 [10] - Light crude oil-electronic - August 2011



Source: CME Group

What goes up...

Summer 2008 not only marked the apex for crude oil prices but was also a historic watershed for the global economy as many countries began a rapid slide into recession. Wave after wave of crises in the currency, equity and debt markets broke with painful consequences for sovereign debtors. The decline in crude oil prices was even more spectacular than the preceding rise, as the NYMEX benchmark gave up over USD 100 in under six months. As the scale and impact of liquidity shortfalls, bank collapses and the global economic fallout started to show and crude consumption cutbacks and increased stockpiles took hold, traders sent the 30-day WTI contract to a 'crisis-low' of USD 32, a price level not seen since April 2004.

Back to the future

By March 2011, the price of oil had crossed the USD 100 threshold for the second time, a remarkable three-fold increase in just over two years. After factoring the impact of the situation in Libya and the ability of Saudi Arabia to cover most of the production shortfall, oil has traded close to USD 100 after briefly peaking at USD 114. Trading continued below the USD 90 range following a decline on the heels of the US credit rating downgrade in August 2011. As speculation mounts that WTI will (again) be trading at USD 100 or above, it is worth examining the factors that may impact this increase and what measures governments, producers and consumers, either individually or collectively, can take.

While oil prices are largely set by the views that traders (predominately speculators) take with respect to where oil markets will be heading – and this in itself is an area of significant debate – decisions taken by governments in the U.S., Europe, China and elsewhere in response to the economic crisis, which are themselves important market sentiment markers, will play an important role.

Global average demand for crude reached 86.6 million barrels a day in 2010, the highest level since 2007 and is set to increase by almost 2 million barrels a day each year over the next two years according to most estimates

Traditional, fundamental supply and demand indicators such as stock levels, refining demand, producer spare capacity and the GDP growth forecasts of net importer nations also help in understanding the marketplace. Looking at the last six months a number of important trends emerge:

Changing demand patterns

Global average demand for crude reached 86.6 million barrels a day in 2010³, the highest level since 2007 and is set to increase by almost 2 million barrels a day each year over the next two years according to most estimates⁴. So whatever opinions abound about the pace of economic recovery, the demand for oil continues unabated.

Importantly, demand in China and Asia remains robust. Chinese demand, which quadrupled between 1980 and 2009, and is currently estimated at almost 9.6 million barrels per day, is expected to increase by 6% within the next year. Non-OECD⁵ countries demand growth has offset OECD declines and is expected to grow from 48% of current global demand to as much as 60% by 2035⁶.

At the 158th OPEC meeting held in Ecuador in December 2010, ministers indicated that production targets would remain stable at 24.8 million barrels per day and that the increasing price of oil was not worrying

Upstream capital expenditures

The cyclical nature of capacity investment means that demand growth, price and supply reaction are not synchronous and under-investment during the lean years may only recover after demand fundamentals have been re-established. Global upstream capital expenditure (production spending), which had declined about 15% during 2009 as oil prices plummeted and the economic crisis set in, increased during 2010 by approximately USD 470 billion⁷, or about 9%.

U.S. and Chinese macro measures

While indicators of U.S. economic growth remain tenuous, the Federal Reserve has kept markets guessing in terms of a clear direction with a range of monetary supply measures being employed over the last year. This 'quantitative easing' coincided with an increase in oil prices as the USD-denominated commodity was impacted by an increase in the money supply. Bank of America's Merrill Lynch unit has estimated that an additional round of quantitative easing in 2011 in the

U.S. may increase oil prices by 6%, whilst similar measures on a global level may impact the price of oil by as much as 26%⁸.

Chinese inflation recently reached a two-year high at just over 6%. The reaction of the Chinese government to an increase in oil prices is an important indicator for oil traders who view industrial demand by the world's second largest consumer as a key barometer for the price of oil. Notably, China is expected to register economic growth of 9.6% in 2011, or approximately 30% of global growth.

OPEC production

At the 158th OPEC meeting held in Ecuador in December 2010, ministers indicated that production targets would remain stable at 24.8 million barrels per day and that the increasing price of oil was not worrying.

In his opening remarks at the 159th OPEC meeting in Vienna in July 2011, HE Mohammad Aliabadi, Acting Minister of Petroleum of the Islamic Republic of Iran and President of the conference, announced that speculative activity on the Nymex had reached record highs, that "excessive speculation in the futures markets increases volatility unrelated to fundamentals" and that "efforts by governing and regulatory bodies in the consuming countries to minimize such speculation remain imperative."

While speculation and volatility have remained high throughout the economic crisis and recovery, it was the lack of consensus among OPEC members on production

levels in that meeting that led to a sharp rise in oil prices and the subsequently announced release of strategic oil reserves by the International Energy Agency (IEA) designed to calm markets.

Whilst the specter of a deeper, prolonged recession on the back of unfolding Euro-zone and U.S. default and debt crises continues – and this has kept prices at below USD 100 – it will continue to be all hands on the global deck to counter this, with a priority on measures to induce economic growth.

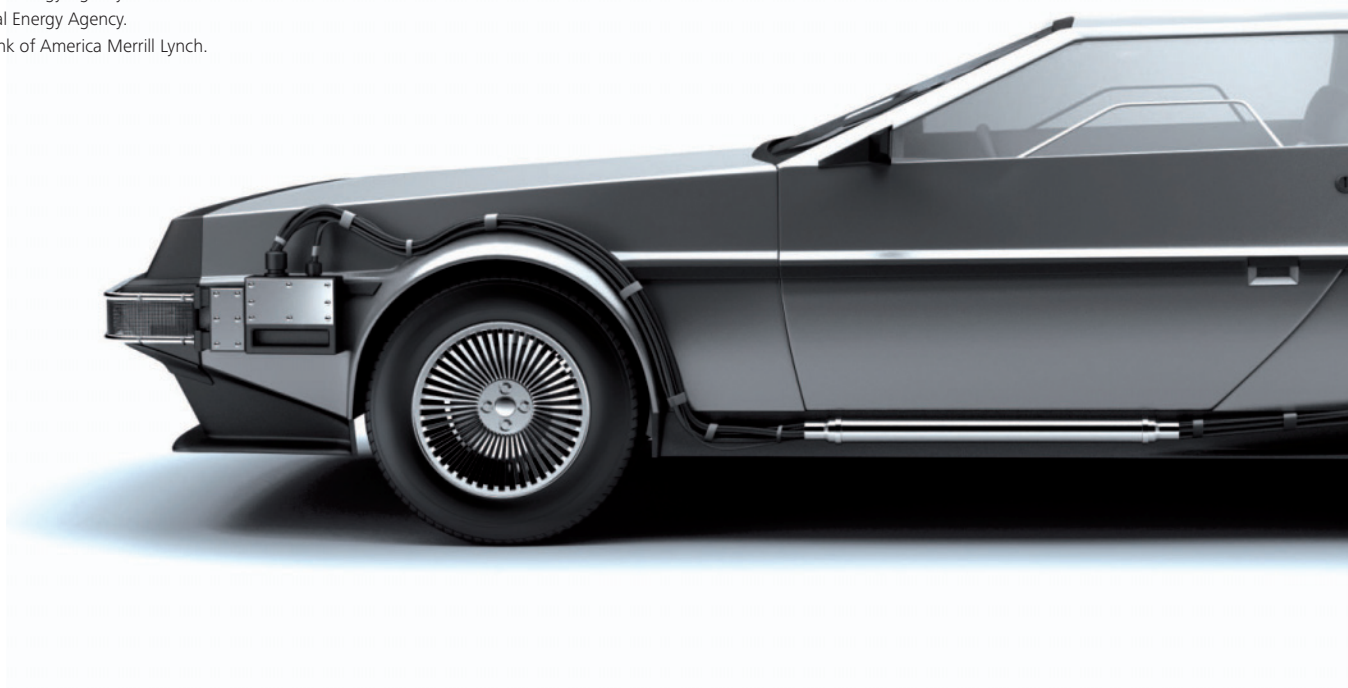
Ultimately, analysts appreciate that rising oil demand in the fastest-growing parts of the world requires the development of increasingly more expensive sources of harder-to-find oil and while an incremental increase in future production is likely, this may come as spare capacity is squeezed and prices are steadily pushed upwards beyond USD 100. Again.

by **Mutasem Dajani**, partner, Oil and Gas, Deloitte in the Middle East

Endnotes

- 1 New York Times.
- 2 Nymex price data from CME Group.
- 3 US Energy Information Administration.
- 4 JP Morgan.
- 5 Organization for Economic Cooperation and Development.
- 6 International Energy Agency.
- 7 International Energy Agency.
- 8 Reuters/ Bank of America Merrill Lynch.

Analysts appreciate that rising oil demand in the fastest-growing parts of the world requires the development of increasingly more expensive sources of harder-to-find oil





Facing up to FATCA

Since its enactment in U.S. tax law in March 2010, the Foreign Account Tax Compliance Act (FATCA) has generated significant controversy amongst financial institutions across the globe. However, despite repeated calls for its repeal, financial institutions everywhere are having to accept the inevitable: FATCA is here to stay.

Against the backdrop of growing focus on perceived tax abuse through offshore accounts, FATCA is being introduced to obtain information from foreign financial institutions on US persons with foreign accounts. FATCA will impact all Middle Eastern financial institutions and their customers. Indeed, it presents significant financial and operational risks for them which require urgent consideration.

FATCA will impact the majority of institutions operating in financial services across the globe, including those in the Middle East

Global impact

FATCA will apply to any non-U.S. financial institution that receives U.S. source payments from 1 January 1st, 2014. The provisions impose a 30% withholding tax on all income and capital payments received by the Foreign Financial Institution (FFI) from U.S. sources, unless they enter into an agreement with the Inland Revenue Service (IRS) to report specified U.S. customers.

It will be the responsibility of U.S. withholding agents that make U.S. source payments to FFIs to withhold the 30% tax on the payment made to a non-U.S. person under FATCA. This will require the U.S. entities to maintain documentation on those non-U.S. persons and also track how those persons are classified under FATCA.

The definition of FFIs that are captured by FATCA is broad and includes any non-U.S. entity that:

- Accepts deposits in the ordinary course of a banking or similar business,
- As a substantial portion of its business, holds financial assets for the account of others, or
- Is engaged (or holding itself out as being engaged) primarily in the business of investing, reinvesting, or trading in securities, partnership interests, commodities, or any interest in such securities, partnership interests, or commodities.

Therefore, the criteria include not only entities that are normally recognized as financial institutions such as banks, broker dealers and custodians, but also insurance companies, pension plans, mutual funds, hedge funds and family investment vehicles. Given this wide-ranging definition, it is clear that FATCA will impact the majority of institutions operating in financial services across the globe, including those in the Middle East.

However, the impact of FATCA does not stop at financial institutions. The new law also requires a U.S. withholding agent to withhold a tax equal to 30% on the U.S. source payment made to a non-financial foreign entity (NFFE), unless it provides certain information regarding its U.S. owners. A NFFE is defined as any foreign entity that is not an FFI.

Onerous operational and administrative provisions

There are a number of key definitions that are important to fully understand FATCA's impact. The application of FATCA to a FFI is determined by whether that FFI

receives U.S. source payments or “withholdable” payments (rather than if the FFI has US accounts). Withholdable payments are defined as:

- Any payment of interest (including any portfolio interest and original issue discount), dividends, rents, royalties, salaries, wages, annuities, licensing fees and other fixed or determinable annual or periodical (FDAP) income, gains and profits, if such payment is from sources within the United States.
- Any gross proceeds from the sale or disposition of U.S. property of a type that can produce interest or dividends.
- Interest paid by foreign branches of U.S. banks.

Furthermore, certain “passthru” payments will also be subject to FATCA from January 1st, 2015 (a passthru payment generally includes any portion of a payment that is not a withholdable payment multiplied by the entity’s so-called “passthru payment” percentage.)

The FFI will be required to obtain information to determine which of its accounts are held by U.S. persons (including U.S. citizens, U.S. dual citizens, U.S. resident, and U.S.- born), using specified U.S. indicia which are very comprehensive. For example, if the account holder has a power of attorney granted to a person with a U.S. address then that account should be investigated to prove it is not a U.S. account holder.

In order to become a participating FFI and avoid FATCA withholding on the payments it receives, the FFI will need to enter into an agreement with the IRS. In guidance released in July 2011, the IRS advised that all

The IRS advised that all agreement applications should be submitted by June 30th, 2013 so that they may be processed in time for the January 1st, 2014 implementation date

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Generally, an FFI Agreement requires a determination of its U.S. accounts, compliance with verification and due diligence procedures with respect to each account holder, annual reporting on those U.S. accounts, compliance with additional IRS reporting requests, and withholding 30% where applicable (for example, on recalcitrant account holders.)

With regard to those countries that have privacy or secrecy law and that prohibit sharing customer information with the U.S. government, FATCA rules require that the institution in question ask any U.S. customer to waive their rights under the privacy or secrecy rules so that their information can be provided to the U.S. Government. If they refuse to provide this waiver then the institution is required to close their account.

Mixed reactions

Given the wide-ranging impact of FATCA and the comprehensive information that is likely to collect for the U.S. Government, it is not surprising that U.S. senator Carl Levin has described FATCA as “a major new and positive development in the efforts to stop offshore banks from using secrecy laws to help U.S. taxpayers evade their taxes.”

However, many financial institutions have not reacted so positively and there has been significant lobbying from financial institutions and their associations and advisors with regard to the specific provisions of FATCA. This has covered a wide range of areas, but one common area of concern has been the cost of implementation for FFIs, which will require significant up-front and ongoing investment in their resources, training, processes and IT systems in order to comply with FATCA’s requirements.

In response to this pressure, the U.S. has made a number of concessions, including delaying the date of implementation by one year to January 1st, 2014. Furthermore, a number of transitional reliefs have been announced including the delay in applying withholding for certain payments until 2015. The industry has generally welcomed the concessions but continue to press for more reliefs.

On the whole, most foreign Governments have not actively participated in the lobbying effort, preparing to leave this to the private sector. However, the extra-territorial reach of FATCA has led to suggestions in some quarters that other jurisdictions may follow the U.S. footsteps and seek to introduce similar legislation in the future.

FATCA has, to date, received less publicity in the Middle East than some of the other major financial hubs around the world. However, some financial institutions have already started taking active steps to analyse the impact of FATCA and put in place mechanisms to deal with its consequences. It is expected that activity in the Middle East will only increase as the timescale until implementation decreases. Indeed, given that there are many individuals in the Middle East who have a U.S. education and/or a Green Card or a U.S. passport – and therefore may be captured by the U.S. residence and indicia rules – there is likely to be a substantial amount of work to ensure Middle Eastern FFIs are ready to meet the FATCA requirements.

Some financial institutions have already started taking active steps to analyse the impact of FATCA and put in place mechanisms to deal with its consequences

The way forward

At present, aside from the primary legislation that was passed last year and a number of notices, the IRS has not provided extensive guidance as to how the regime will operate in practice. It is anticipated that further draft regulations will be released by the end of this year.

Many financial institutions are currently reviewing the potential impact of the proposed legislation and attempting to ascertain the potential cost and resources required to enable them to comply. This has typically involved a detailed review at business-unit level to ascertain the incidence of U.S. customers and counterparties, the types of payments received from the U.S. and the current procedural and systems capabilities for identifying and documenting U.S. persons.

Following this, an implementation plan can be developed to identify and address the gaps that currently exist to enable an institution to comply with FATCA. The key to success is to ensure awareness across the affected business units, identify responsibilities and harness key stakeholders in operation, tax, compliance, systems and legal departments to review existing processes and then move to developing and executing an appropriate implementation plan.

by **Joe el Fadl**, Financial Services Industry (FSI) leader and **John Belsey**, International Tax Services and the Mergers and Acquisitions (M&A) Tax practice leader, Deloitte in the Middle East

An implementation plan can be developed to identify and address the gaps that currently exist to enable an institution to comply with FATCA



What is t of your S



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A new dimension

Over the past few decades, most strategists and corporate executives have been using a global classification of generic strategies to describe their competitive business strategies, namely, “focus strategy,” “cost leadership strategy” or “differentiation strategy.” The choice of generic strategies was mainly driven by the market, industry structure, characteristics of rivals and buyers, regulations, available resources and other factors. Each strategy is, fundamentally, a different approach to creating and sustaining competitive advantage. The common theme of all these generic strategies is how to compete in the same contested space, or what is called, “Red Ocean Strategy.”

Much of the literature previously suggested that following a mix of generic strategies could be very difficult or could compromise a firm’s competitive position. For instance, the benefits of optimizing the firm’s strategy for a particular target segment (focus) could not be gained if a firm were simultaneously serving a broad range of segments (cost leadership and differentiation.) Furthermore, achieving cost leadership and differentiation is, usually, also inconsistent, because differentiation is usually costly. Similarly, a firm that

engages in each generic strategy but fails to achieve any of them is “stuck in the middle”: it possesses no competitive advantage.

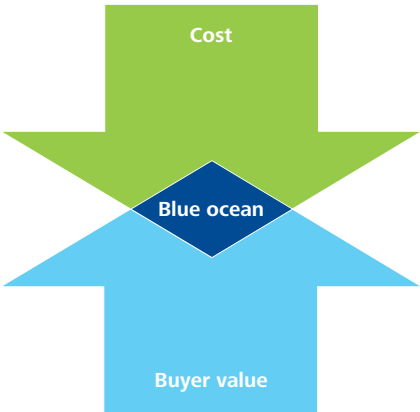
With the increasing level of globalization, rapid evolution of technology and telecommunication, increasing customer awareness and shifts in the buyer power and the fact that industries never stand still, competing in red oceans may prove to be very difficult and will yield low returns. Many studies conducted since 2001 suggest that competing in overcrowded industries is no way to sustain high performance. **The real opportunity is to create blue oceans or in other words – uncontested market spaces – and to stop competing in overcrowded industries.** Analysis of blue ocean strategies reveals that the focus is mainly on value innovation, based on increasing buyer value and reducing cost, which is a slightly different approach to the conventional generic strategies described above. The introduction of a new approach toward the development of a competitive strategy made many strategists classify their strategies as either blue or red. It also added a new dimension to the old classifications of known generic strategies.

The creators of blue oceans, in sharp contrast to companies playing by traditional rules, never use the competition as a benchmark. Instead they make it irrelevant by creating a leap in value for both buyers and the company itself.

The simultaneous pursuit of differentiation and low cost

A blue ocean is created where a company’s actions favorably affect both its cost structure and value proposition to buyers. Savings are made from eliminating and reducing the factors an industry competes in.

Buyer value is increased by raising and creating elements the industry has never offered. Over time, costs are reduced further as the scale of economies kick in, due to the high sales volumes.



So what is it all about?

In a nutshell, under blue oceans, demand is created rather than fought over. The research shows several common characteristics across strategic moves that create blue oceans. The creators of blue oceans, in sharp contrast to companies playing by traditional rules, never use the competition as a benchmark. Instead they make it irrelevant by creating a leap in value for both buyers and the company itself.

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value/cost trade-off	Break the value/cost trade-off
Align the whole system of a company’s activities with its strategic choice of differentiation or low cost.	Align the whole system of a company’s activities in pursuit of differentiation and low cost.

The above analysis should not imply that we should ignore competition. Competition matters of course, but by focusing on competition, scholars, companies and consultants have ignored two very important and far more lucrative aspects of strategy: one is to develop markets where there is little or no competition – blue oceans – and the other is to exploit and protect these blue oceans. These challenges are very different from those to which strategists have devoted most of their attention to date.

The logic behind blue ocean strategy can be illustrated as follows:

It is not about technological innovation. Blue oceans seldom result from technological innovation. Often, the underlying technology already exists and blue ocean creators link it to what buyers value. Compaq, for example, used existing technologies to create its ProSignia server that gave buyers twice the file and print capability of the mini-computer at one-third the price. Another example is the Japanese fuel-efficient automobiles, where Japanese automakers created a blue ocean in the mid-1970s with small, reliable lines of cars.

Companies don't have to venture into distant waters to create blue oceans. Most blue oceans are created from within, not beyond, the red oceans of existing industries. Consider the case of the Minivan launched in 1984 and which was a new class of automobile that was as easy to use as a car but with the space of a van. One could also consider the case of Ryanair, the budget airline which was founded within an already mature airline industry.

What is the impact?

To quantify the impact of creating blue oceans on a company's growth in revenues and profits, a study of 108 companies indicated that 86% of the launches were line extensions that were incremental improvements within the red ocean of existing market space. Yet, they accounted for 62% of total revenues and a mere 39% of total profits. The remaining 14% of the launches were aimed at creating blue oceans, which generated 38% of total revenues and 61% of total profits.

Companies don't have to venture into distant waters to create blue oceans. Most blue oceans are created from within, not beyond, the red oceans of existing industries.

Business launch	86%	14%
Revenue impact	62%	38%
Profit impact	39%	61%

A closer look at most of the companies in the Middle East region also indicate that almost all businesses are focused, to a larger degree, on red oceans, while very little effort is made to consider new competitive strategies. The dramatic imbalance in favor of red oceans can be attributed to several reasons, such as:

- 1. Corporate strategy is heavily influenced by its roots in military strategy: the language of strategy is deeply imbued with military references – “executive officers” in headquarters with the “troops” on the “front lines.”
- 2. Over-reliance on the conventional market barriers e.g. structural barriers, brand equity, etc. and overlooking the fact that most monopoly and duopoly businesses will eventually shift toward oligopoly or perfect competition.

3. The greater Penrose effect* on businesses in emerging markets.
4. Lack of resources and focus to manage research and development (R&D) and innovations by most of the domestic companies.
5. Management's focus on short-term results rather than long-term objectives and sustaining a competitive edge.

A high level profitability comparison between low-cost carriers launched in the past decade in the Middle East region and Ryanair in Europe could be a good indicator about the success of blue ocean strategies. The historical returns of the latter were by far higher than its peers, while similar businesses could not survive the competition. The understanding and proper implementation of blue ocean strategy, cost leadership, scale and effectiveness of the operating strategy, which led to redefining industry expectations, were critical factors that contributed to its healthy returns, which some domestic carriers could not achieve.

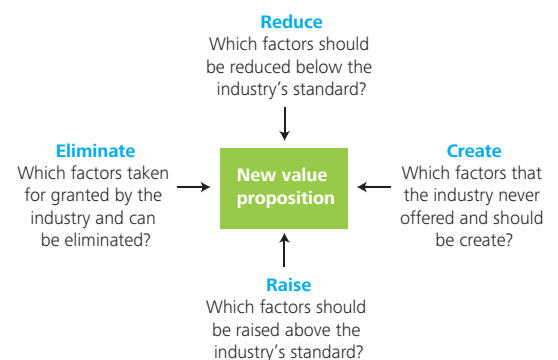
Almost all businesses are focused, to a larger degree, on red oceans, while very little effort is made to consider new competitive strategies

The strategy canvas and actions framework

The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy. It captures the current state of play in the known market space and allows for the mapping of the competition's position, the factors that the industry competes on and what customers receive currently from other rivals. Further, it allows for the mapping of the key items that influence cost and buyer values.

To reconstruct buyer value elements in crafting a new value curve, strategists can use a 'four actions' framework to break the trade-off between differentiation and low-cost and to create a new value curve. Typically there are four questions that challenge an industry's strategic logic:

- Which of the factors that the industry takes for granted should be eliminated?
- Which factors should be reduced well below the industry's standard?
- Which factors should be raised well above the industry's standard?
- Which factors should be created that the industry never offered?



* Penrose's theory stipulates that a firm will be unable to manage growth after a certain period due to the inelasticity of its management team to handle the increased complexity resulting from growth of demand.

Key challenges

As indicated earlier, the challenges with blue oceans are very different from those to which strategists have devoted most of their attention. Some of the specific challenges include:

1. Developing a new strategy canvas carefully to balance the cost and value drivers rightly. Failure to balance the two dimensions – considering the buyers' needs and preferences – may land the company in a "stuck-in-the-middle" situation.
2. The compelling need to attract customers in large volumes immediately to generate economies of scale rapidly and putting the would-be imitators at an immediate and continuing cost disadvantage. This may pose a major challenge to finance large investment and deal with higher marketability risks.
3. Getting the strategic sequence right, which starts by assessing the buyer utility, followed by price and cost review and finally the adoption process and delivering a commercially viable blue ocean idea.
4. Overcoming the organizational hurdles, which should be viewed in the context of typical issues associated with strategy implementation such as understanding the industry and market, scarcity of resources, clarity of objectives, communication gaps, etc.

Conclusion

Industries never stand still and will always experience different growth and decline cycles. Furthermore, the increasing level of globalization, fading of structural barriers and shareholders' need to sustain acceptable

The increasing level of globalization, fading of structural barriers and shareholders' need to sustain acceptable returns will eventually induce strategists at domestic companies to think of new and creative approaches and focus more on developing blue ocean strategies

returns will eventually induce strategists at domestic companies to think of new and creative approaches and focus more on developing blue ocean strategies. In the future, executives may even describe their competitive strategies using color coding: blue, red or purple!

by **Firas Eid**, Consulting partner, Deloitte in the Middle East







Family businesses Time to act

Are family businesses doomed to fail? Not necessarily, says the author, if the challenges are addressed and the right actions are taken.

Not all family-owned businesses are created equal, with striking differences as relates to industry, owner involvement, structure and perhaps most importantly, success. On the one hand are world-class businesses competing with key market players, which not only benefit the family but the community as a whole and on the other hand lay the remains of what once was a family-owned business. The wide spectrum between the two offers valuable lessons for those smart enough to learn from their experiences.

Most successful businesses in the Middle East today are, or were started as, family groups. What is interesting now in the current global economic climate is whether this success can be replicated, simply because the rules of the game have significantly changed: The economic challenges facing the world has made it more difficult for a family-owned business to obtain funding on the basis of name or reputation alone as financial institutions and other creditors are looking more into business fundamentals and cash flows. Further, over the past decade or so, the Middle East has witnessed the

profound effects of globalization and world trade arrangements which created more competitive pressures on family and other businesses. Such pressures - including reduced trade barriers, opening certain industries and economical activities to further competition and eliminating monopolies - have resulted in changing the landscape of doing business in the Middle East and made it essential for family businesses, in particular, to re-examine their business model and address related challenges.

At the outset, it is important to point out that one of the main limitations of family entities is the lack of separation of ownership from management. In today's competitive marketplace, the old approach does not necessarily work as it used to in the past. On the one hand, organizations are increasingly facing more and more challenges requiring a new set of skills to run a successful business model, which are not totally available within the family. On the other hand, such limitations are compounded when the family affairs and business matters intermix, posing significant threat to the success and survival of the organization.

Organizations are increasingly facing more and more challenges requiring a new set of skills to run a successful business model, which skills are not totally available within the family

Key issues facing a family business

The success of a family business, as in any other organization, lies in its ability to identify and address various challenges, issues and problems, some of which are outlined below:

1. Structural issues

The first set of challenges and issues facing family businesses relate to ownership and management, governance, structure and organization.

Along the same lines, and because such a practice has not been established by family entities in the past, we have seen lot of those entities now facing considerable difficulties in attracting and retaining non-family talent to co-manage (or manage) specialized businesses and functions in general, an issue that is both, significant and detrimental.

Another major issue is the lack of a proper governance framework, which negatively affects the ability of the organization to control its actions, increase the likelihood of irregularities and result in inconsistencies in the way business is conducted. This mainly pertains to the absence of one or more of the following elements – among others:

- Adequate policies, systems and procedures
- Independent directors at the Board level
- Robust financial reporting framework
- Internal audit function with appropriate reporting lines
- Proper budgeting system, including the definition of relevant Key Performance Indicators (KPIs) with related monitoring controls
- Adequate guidelines for proper succession planning

A considerable weakness also is the issue of loose structures, whence the entity (or the group of entities) lacks logical organization in terms of type of business and/or industry group. In some cases, certain activities and investments are held and controlled by the owner(s) himself (themselves), in other cases the entities are mixed up in non-compatible lines of business (technology and real estate for example), which inevitably leads to significant challenges in management, control, monitoring and accountability.

Such an issue is perhaps one of the by-products of the lack of strategic direction at the group level where entities and businesses sometimes operate in different - or in extreme cases, contradicting - directions.

2. Inherent limitations

Besides governance and other structural issues and shortfalls mentioned above, the very unique characteristics of a family business can sometimes pose other challenges and limitations, the extent of which varies significantly among organizations and depends on various factors relating to the family, internal relationships, the family member(s) controlling the business (first, second or third generation) among other issues.

At the top of the list of inherent limitations and issues, lies the potential of conflict among family members, which - needless to say - can threaten the very survival of the organization. This is more noted at times of transition to the second or third generation and is further compounded in the absence of proper governance framework and succession planning guidelines as noted above.

Some generations beyond the second or third tend to distant themselves from the organization, widely delegate management and control matters to others and focus on profit and dividend payouts

Over the years, we have noted some extreme cases, where. Brothers and sisters of the second generation going in different directions and splitting the family business among each other has become anything but a rare scene.

The other set of inherent issues is more noted in companies where control and power have been transitioned to the second or third generation. In some cases, generations beyond the second or third tend to distant themselves from the organization, widely delegate management and control matters to others and focus on profit and dividend payouts alone.

So what needs to be done?

As a direct response to the fundamental changes in the economic landscape, family organizations, today more than ever, need to rise to the challenge and address both inherent and structural problems and threats. Like any other problem, there is no magic solution that fits all. It is imperative that a gap analysis is conducted, which examines governance, organizational and legal structure and other areas. As a result, a road map is defined and priorities are set, capitalizing on the following five pillars:

Governance and structure - A proper governance framework should be set to define the guidelines and mechanism of maintaining oversight and accountability across the organization. Such framework should address all elements mentioned earlier in this paper. Within the same context, both legal and organizational structure should be considered, whereby different businesses and/or legal entities are merged or de-merged, key reporting lines and guidelines are defined, systems, policies and procedures are designed and implemented.

Separation of ownership from management - proper segregation of ownership and management is key, to meet the increasing requirements of new skill sets and to address the threats posed by intermixing family and business matters.

Talent - Good systems need to be supported by talent. As companies move towards segregating ownership and management and since it would be difficult for many organizations to fill all key positions with family members having adequate functional or industry expertise, employing non-family members in certain key positions becomes essential. The entity needs to have adequate systems and policies in place to enable it to attract, develop and retain the best employees at different levels and to give such employees a sense of belonging and security, which will positively impact the overall organizational performance.

Strategy and family affairs - Strategy and family affairs go together. The organization should define a very clear strategy with key directions. But such a strategy can be rendered useless if family affairs are not put in order. Therefore, it is essential to have an agreed-upon transparent mechanism to manage matters related to family members, their accountability, conflicts and disagreements among them, especially when transitioning from one generation to another.

Financial aspects - Not surprisingly, this is another key area. Essential to the success of family organizations is to clearly define fiscal and financial policies, including dividends and re-investment policies, sale of shares in the business among family members or to third parties and many other financial-related matters.

Proper segregation of ownership and management is key, to meet the increasing requirements of new skill sets and to address the threats posed by intermixing family and business matters

Final thoughts

Today it is very encouraging to see an increasing awareness, by owners and key personnel at family organizations, of the threats and risks facing their business. It is equally encouraging to see them taking action towards addressing such risks and dealing with the challenges. Who says a family business is inevitably destined to fail? On the contrary, success is very attainable. Family businesses own a treasure of embedded attributes not found at other corporate structures. Family values, name and heritage are of the greatest importance in the Middle East and everyone wants to leave the family legacy better than (s)he found (or founded) it.


Whether the plan is to go public, bring in new investors or it is only a matter of succession planning, addressing the risks and fixing the problems is key. It is never a tradeoff between the family and the business. As one business owner said, "economical and financial performance can always be managed in balance with emotional connections and human feelings."

by **Midhat Salha**, partner, Deloitte in Qatar

Family businesses own a treasure of embedded attributes not found at other corporate structures. Family values, name and heritage are of the greatest importance in the Middle East







Living in the KSA Is affordable housing just a mirage?

Will the Saudi Government's recent announcement to fund the construction of 500,000 new housing units solve the issue of low-income housing demand in the Kingdom? We examine the issues and the challenges faced by those seeking a roof above their heads.

According to the November 2010 census in the Saudi Gazette, the population of Saudi Arabia amounted to more than 27 million, of whom almost 70% (approximately 18.7 million) are Saudi nationals and the remaining 30% (8.4 million) non-nationals. Due to rapid economic and urban growth, over 95% of the population is settled in the major cities, resulting in some of these cities and oases having densities of more than 1,000 people per square kilometer.

Saudi Arabia's population is characterized by rapid growth and a large number of youths. This growing population supports a strong demand for residential real estate, especially at the lower end of the market, with demand primarily concentrated in the metropolitan areas. According to the Ministry of Economy and Planning, Riyadh, Jeddah and Khobar account for approximately 71% of total new housing demand and are expected to suffer from undersupply.

Most of the low-income citizens do not have sufficient financial means to own their homes, starting from the ownership of land through to securing the necessary funding to build their home

Key issues facing the average household individual

Until recently, most low-income household individuals seeking to own a house in Saudi Arabia faced challenges relating mainly to the lack of a mortgage system and facility, as well as a lack of affordable housing for low-income individuals.

1. Lack of mortgage system and facility

In the absence of a new mortgage law (which has yet to come to light) the government's Real Estate Development Fund (REDF) is the main provider of home financing. Accordingly, market demand is still suppressed by limited mortgage availability. REDF is not able to meet all the demand, which is increasing exponentially: there are more than 650,000 applications pending since end-2009, up from 450,000 in 2006.¹ This is mainly due to the obstacles faced by REDF in the collection of debts, as well as the limitation of alternative means and sources of home financing in general. This would leave an average earning household individual with no option but to rent instead of buying his own property.

2. Lack of low-income housing

Most of the low-income citizens do not have sufficient financial means to own their homes, starting from the ownership of land through to securing the necessary funding to build their home. This topic is becoming more and more complicated for low-income individuals as a result of the continued soar in land prices and the shortage of residential areas available within the zone of urban cities, in addition to the reduced supply of affordable housing which meets the capacity of low-income individuals and the continuing decline in the number of housing units provided by government agencies, as well as the lack of funding available to keep up with the demand for loans from REDF.

On the other hand, with the limited number of large-scale developers present on the Saudi market, which is dominated by small developers and contractors, the

number of ready-to-occupy units is little and once made available and ready, these units are unfortunately unaffordable to low-income individuals.

Government's announcement of substantial extra-budgetary spending

The Saudi authorities have unveiled a package of spending measures amounting to SR458 billion that is set to have a significant impact on economic performance this year and beyond. The extra-budgetary spending, announced by King Abdullah in February and March, is primarily aimed at improving living conditions, particularly for those in the lower income category.

1. Construction of new housing

The biggest single element of the spending is SR250 billion to fund the construction of 500,000 new housing units over an unspecified time period. In order to construct this number of units in a reasonable time-frame, the authorities will need to use private sector developers. In terms of providing affordable financing, REDF will have a key role to play. REDF, which provides low-cost loans to Saudis for home purchases, had its capital boosted by SR40 billion and has been instructed to speed up its loan approval process.

2. Private financing

In view of the cramped demand for housing and the scale of the government's plans, private financing will also be necessary on top of REDF's recapitalization. As such, after months of deliberation, the mortgage law might be approved before end-2011. The mortgage market is expected to reach SR86.7 billion within the next three years of the law being enacted (i.e. 4.4% of GDP).²

3. In 11 regions in the Kingdom...building 500,000 units enters into force

Today, the increased focus of the Saudi government to elevate the quality of living of its citizens will no doubt have a direct positive impact on community investment as it will increase the standard of living and create more

The Saudi authorities have unveiled a package of spending measures amounting to SR458 billion that are set to have a significant impact on economic performance this year and beyond

jobs. It will also impact the residential and retail sectors and will result in a growing number of civic facilities such as schools and hospitals and health-related activities. It will generate major long-term investment in developing new infrastructure and transport for newly-developed cities, like the need for additional airports, railways and other means of public transportation, as well as many opportunities within the private sector, which can result in numerous public-private partnerships.

In early July 2011, *Alolaa*, a Saudi news source, reported that the Minister of Housing, Dr. Shweish Al Douwaihi, had signed with H.H. Prince Turki Bin Abdullah Bin Abdulrahman (Chairman of the Board of Directors of PARSONS KSA, an engineering consultancy) a contract for the design and construction of housing units in 11 regions across the Kingdom. Affordable housing in the Kingdom may become a reality after all.

by **Walid Slim**, partner, Deloitte in the Middle East

Endnotes

- 1 Ministry of Economy and Planning.
- 2 Press reports.

The g of Isla



rowing pains Islamic Finance

Does nature trump nurture? As the Islamic Finance industry moves beyond the infancy stage of the last decade, we consider the neighborhood in which the industry has grown up to date and reflect on whether it may have contributed to the challenges, or ‘growing pains,’ namely lack of development and innovation, that the industry is experiencing today.

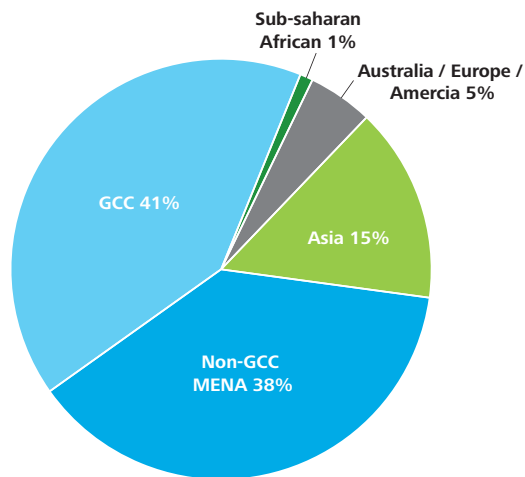
A child star

The Islamic Finance industry arguably receives a disproportionate amount of media attention relative to its size and activity, so it is often easy to forget that the advent of Islamic Finance as we know it today is a relatively new phenomenon dating back just a few decades.

The principles of Islamic Finance – its DNA so to speak – have remained unchanged since the dawn of Islam. The modern incarnation of Islamic Finance, however, has gone through a significant amount of ‘growing up’ and has done so, to a significant extent, within the environment of the financial sectors of developing economies, most notably in the Middle East.

In 2010 the Middle East North Africa (MENA) region accounted for almost 80% of total Sharia'a-compliant invested assets, with just over half of these in the Gulf Cooperation Council (GCC) countries. Consequently, the development of Islamic Finance has been impacted by the general state and stage of development of the financial sector in the Middle East.

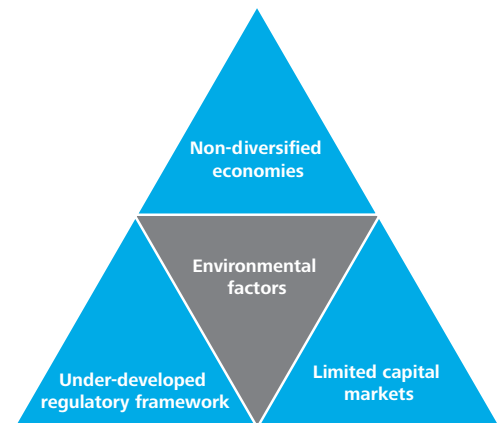
Breakdown of Islamic Finance Assets by Geographic region (2010)



Source: *The Banker* and Maris Strategies

Growing up in the GCC

The development, in recent years, of the financial sector in the GCC has been unprecedented, with the development of financial centers that have attracted global financial institutions. Despite this quantum leap in progress, there are still environmental factors that have affected development and constrained innovation and progress, of which three are highlighted below.

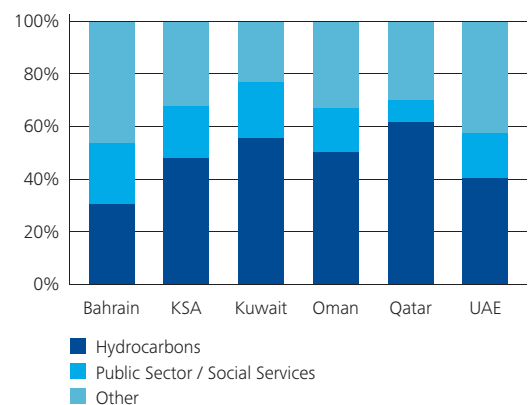


Source: Deloitte

1. Non-diversified economies – “Where can we play?”

The economies of the GCC region clearly have a strong leaning towards the hydrocarbon sector, resulting in non-diversified regional economies. As the chart below demonstrates, the hydrocarbon sector continues to be a key contributor to GDP in the region.

GCC hydrocarbon dependence (% of nominal GDP)



Source: National Authorities and Deloitte analysis

Hydrocarbon dependence, coupled with a large public sector, leads to a limitation of the areas investors and financiers can seek exposure to. When the region was awash with liquidity in the pre-financial crisis days, the Islamic Finance industry followed the general trend of participating in the asset price bubble that manifested itself in the real estate markets of the region.

With the financial crisis ending that chapter, the call for Islamic financial institutions to diversify away from real estate is not one that has an easy solution. As other sectors and industries, though present locally, lack depth and are relatively crowded out by the state and the energy sector, investors cannot help but question 'diversify into what?'

2. Underdeveloped legislative framework – “Do we have the kit?”

The regulatory frameworks of many GCC countries continue to pose considerable impediments to the development of the Islamic Finance industry. If regulatory outcomes are uncertain or if there is an absence of essential legal frameworks such as bankruptcy laws and the ability to enforce contracts, market participants will be hindered in their ability to innovate. This void is increased when considering the additional features that Sharia'a-compliant contracts and arrangements require and that are different to conventional financial arrangements.

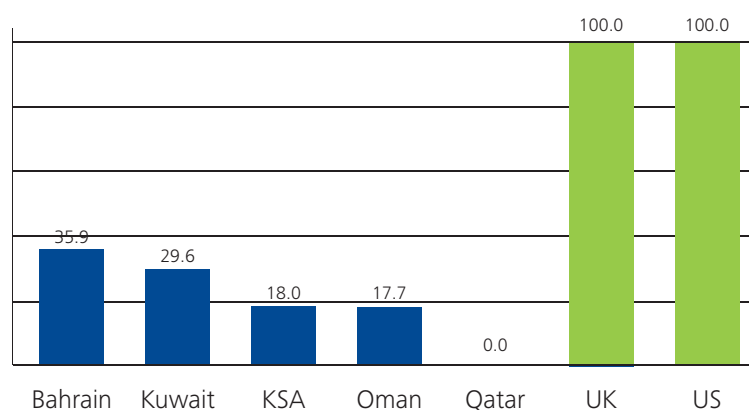
Of the 183 countries ranked in the “Doing Business” index conducted by the World Bank in 2011, only Qatar from the GCC was ranked within the top 100 as regards the enforcing of contracts.

GCC Economy	World Ranking for enforcing contracts (out of 183)
Qatar	95
Oman	104
Kuwait	114
Bahrain	117
United Arab Emirates	134
Saudi Arabia	140

Source: Doing Business 2011 Rankings, IFC and World Bank

Only in the recent past have institutions such as credit bureaus begun to emerge. Such institutions are vital for the finance sector as they enable increased operational sophistication and help companies to adequately assess risk. The following graph shows the private credit bureau coverage in the GCC and highlights the percentage of individuals and/or firms already assessed by a private credit bureau.

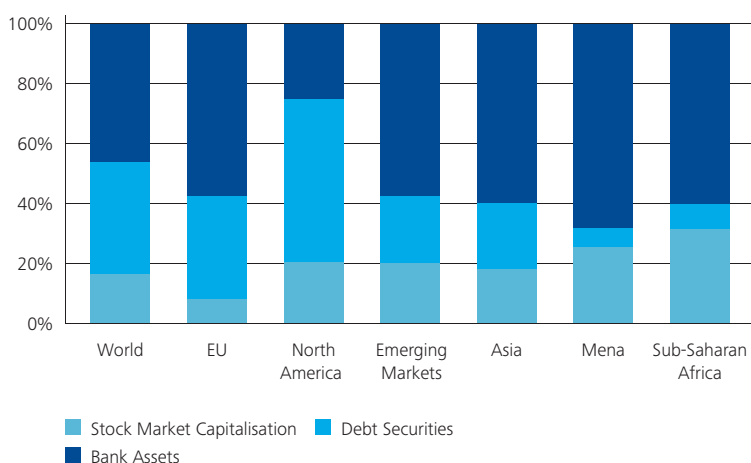
Percentage of adult population listed by a private credit bureau 2010



Source: Doing Business 2011 Rankings, IFC and World Bank

In the absence of meaningful market activity in debt capital markets, the banking sector clearly rules

Breakdown of capital markets by geographical region



Source: IMF and Deloitte Analysis

Encouragingly, the situation is continuing to improve year on year with increased coverage throughout the region and more countries enhancing their frameworks, such as the Qatari Central Bank that launched the "Qatar Credit Bureau" in March 2011.

3. Underdeveloped capital markets – "What is there to do?!"

The under-development of regional debt capital markets relative to other sources of finance has had a profound ripple effect on the Islamic Finance industry. The extent of the gap is best demonstrated by the graph on left, which shows debt securities in the MENA region accounting for approximately 6% of total capital funding sources compared to a world average of approximately 35%.

In the absence of meaningful market activity in debt capital markets, the banking sector clearly rules. The banking sector, stifled by the environmental factors illustrated, has adopted a relatively conservative approach to banking, with collateralized lending featuring heavily.

Amongst the resultant outcomes is that the human capital within the financial sector of the region adopts a particular mindset and approach, not generally conducive to innovation, which the Islamic Finance industry badly needs. Furthermore, corporate entities have limited opportunities to explore different funding sources. For example, despite all the hype surrounding Sukuk (Sharia'a-compliant bonds), there has been relatively little in the way of non-sovereign related entities issuing fixed income securities in the region.

The graph also shows that equity capital markets continue to dominate in the MENA region, even if they lack the scale and maturity of other stock markets around the world. The World Bank estimated that at the end of 2009, the combined market capitalization of all the companies listed on all the stock exchanges in the GCC, at USD 640 billion, was just one quarter of the size of the combined capitalization of companies listed on the UK stock exchange alone (USD 2,796 billion).

Impact on the Islamic Finance industry – “The company they keep”

Some of the consequences on the Islamic Finance industry being nurtured in such an environment have already been described. One of the biggest challenges facing the industry today continues to be the lack of suitable asset classes that truly meet the needs of industry participants, such as Takaful companies and fund managers. It is reasonable to conclude that a factor of why a large proportion of Sharia’a-compliant funds are currently invested on a Murabaha/Tawarruq basis between financial institutions is also due to the combination of factors highlighted.

The inference is that the lack of product innovation within the industry is significantly attributable to the environment in which it has evolved, which has limited the potential for the creation of viable Sharia’a-compliant alternatives.

Lessons from abroad – An (overseas) education

The Islamic Finance industry has already benefited from taking lessons from outside the region, with London and Luxembourg being two key conventional financial centers where much activity has taken place. Within its own fraternity, Islamic Finance has also achieved much progress in Malaysia.

In the same way that students studying abroad deepen their experience and skill sets, the Islamic Finance industry has flourished in more conducive financial and regulatory environments that have helped foster innovation and development. However, like all students, there is a time to return home and transfer newly-acquired skills to the local market.

Neighborhood regeneration

The Islamic Finance industry will benefit from reform in its home territories that address general environmental challenges. The panacea for structural challenges will differ and have different lead times to achieve. The positive outlook is that the GCC countries have acknowledged the issues hindering progress and are, encouragingly, seeking to implement measures in this regard.

The Islamic Finance industry will undoubtedly benefit as the neighborhood in which it predominantly resides experiences the fruits of such measures.

by **Dawood Ahmedji**, Islamic Financial Advisory Services leader, Deloitte in the Middle East



Tearing

Rethinking innovation in emerging markets

Growing up in rural Oklahoma, I learned to tinker with things at an early age. Boredom and time can either be a recipe for innovation or for disaster, and in my case it was a mix of both. Often, with nothing else to do in my hamlet of Sharon, Oklahoma, then a thriving metropolis of 257, I resorted to tearing up perfectly good products to see how they worked and if I could make them better.

up the box

By late 1969, I was amassing an arsenal of old machinery and electronic equipment in an effort to build my own rocket to the moon, because if NASA would not take me I was determined to go on my own. I did not go to the moon, but I did destroy a lot of equipment. Also, I never really added value to anything except my own perspective, realizing in my childlike way that the axiom of “if it isn’t broken, don’t fix it” is an archaic and restrictive mindset. Innovation often occurs when one determines that even if it isn’t broken, he/she will fix it anyway. This requires the ability to get beyond the aging strategic metaphor of “thinking outside the box.”

The paradigm of “thinking outside the box” is constrictive and can undermine innovation rather than promote it. After all, when leaders metaphorically think outside the box, two problems potentially arise. First, most are only “thinking” instead of using knowledge to generate real and sustained action and second, when challenges arise, most “out of the box” thinkers run back to the safety of their conventional ideas, thereby eroding any chance that significant innovation will occur.

This “retreat to the box” usually ends in disappointment. A new paradigm for strategic thinking is to “tear up the box” – embracing significant innovation to transform public institutions, energize companies and empower individuals. As reinforced by international competitiveness and prosperity indices developed by the World Economic Forum and the Legatum Prosperity

Index, innovation and entrepreneurship provide direct linkages to productivity, competitiveness and ultimately prosperity.¹ But for this type of innovation to occur consistently requires a radical change in mindset. Doing away with “the box” can help government, business, and organizational leaders understand both the magnitude of what needs to be done, as well as a potential strategy for doing it.

From an emerging market perspective, the real value of innovation is its ability to create prosperity. Prosperity transcends economic growth to establish social stability, educational attainment and increased quality of life, which can be crucial elements in the development of emerging markets. It also helps create a kind of virtuous cycle, creating a foothold for further economic development. While many governments in emerging markets have been slow to embrace innovative methodologies that may lead to prosperity, businesses within these markets are beginning to emerge as innovation leaders.

From a policy standpoint, many countries continue to focus on privatization, liberalization, deregulation and modernization as growth strategies. Unfortunately, according to Jean-Eric Aubert of the World Bank Institute, these policies typically do not yield the expected fruits due to their lack of sustainability, because they often fail to take into account emerging opportunities.² For instance, the privatization of aging factories does little to enhance economic growth, especially if the sector in which that factory operates

It is better to plan than to implement; planning is a safer activity, in that less risk is involved by putting strategy on paper. Implementation, however, is fraught with risk of failure, which in many emerging markets is a stigma that individuals may carry for the rest of their lives.

yields few opportunities for growth. At the same time, liberalization, deregulation and modernization only make sense if they focus on industries that actually have potential to grow the economy. This is often not the case, as governments in emerging markets typically use these strategies to either attempt to breathe life into uncompetitive industries or to embrace macroeconomic reforms that do little to identify specific economic opportunities.³ While it may be tempting to look to the leading companies of developed nations for a template, the innovation models that have buoyed the economy of developed nations around the world typically have not been directly applicable to emerging markets due to the fact that they are perceived as expensive, long-term solutions for countries that have pressing, short-term challenges. Because of this, customized and practical approaches are needed in emerging markets to spur innovation thought and action that provide near-term opportunities while laying a strategic foundation for the future.

It is time to rethink innovation in emerging markets by building on existing resources and talent to create practical actions that achieve significant and lasting results. Before outlining an approach to spur this innovation, however, it is important to explore specific constraints on innovation in countries that struggle with poverty, poor governance and cultural barriers. Metaphorically, these limiting factors can create a box in which both government and companies within emerging markets have been trapped for decades. Outside of this box there is a world of innovative opportunities that can lead to enhanced prosperity, but public and private sector leaders often miss them because of the challenges that constrict thinking and hamper innovation.

Risky Business: Weighing the costs of innovation in emerging markets

American author Martha Grimes wrote, “We don’t know who we are until we see what we can do,”⁴ which highlights the need to break with convention and take risks. In many emerging markets, risk has long been equated with negative cultural stereotypes and even personal peril. This has led to a rise in conventional thinking in which it is better to plan than to implement. After all, planning is a safer activity, in that less risk is involved by putting strategy on paper. Implementation, however, is fraught with risk of failure, which in many emerging markets is a stigma that individuals may carry for the rest of their lives. Entrepreneurship in many areas of the world is often seen as too great a risk, given the familial, cultural and legal implications of failure. In many countries, penalties for failure in business and unpayment of debts can be substantial and may include jail time as well as loss of civil liberties.⁵

Not surprisingly, this can create a mentality that stifles rather than promotes entrepreneurship and the innovation that often flows from it. Michael Raynor calls this mentality “the strategy paradox,” meaning that “the same strategies that have the highest probability of extreme success also have the highest probability of extreme failure.”⁶ The consequence of this is that the

strategies that get tried are typically those perceived to be “safe” – meaning incremental and fundamentally similar to existing strategies. In emerging markets, this concept is almost overwhelming and, without a change in cultural and mental paradigms, can make countries, and the companies that operate within them, pervasively risk averse. With little or no support network for innovation and entrepreneurship, and a strategy that does not equate innovation to prosperity, it is simply easier for countries and companies alike to gravitate toward convention. This can insulate them from the most salient kinds of business risk but can also diminish the potential rewards.

One needs only to review the statistical data in major competitiveness and prosperity reports to determine one of the major reasons why emerging markets embrace conventional thinking.⁷ Leaders in emerging markets are typically desperate for the legitimacy these reports can provide, and thus they often put into place policies that may increase the likelihood of a rise in ranking instead of those that may create long-lasting economic, social and educational change. These actions lack a strategic framework and are typically initiated solely for appearance purposes. It amounts to a sort of “convention on steroids” situation, one which is very difficult to overcome.

As prevalent as conventional thinking is among public sector officials within emerging markets, it is just as real to the owners and managers of companies. Several years ago while working in Afghanistan, I asked one of the most prolific carpet designers in the country why so many Afghan carpets were sold to Pakistani dealers who would then finish them and sell them for high prices as Pakistani carpets. His answer exemplifies the conservative business mindset in many emerging markets.

“The Afghan merchants can sell the carpets to counterparts in Pakistan and make immediate cash,” he said as we sipped tea in Andkhoy, the traditional heart of Afghanistan’s carpet industry. “If they finished them

Disruptive innovation overcomes convention by creating new products and markets that create niches for companies, in contrast to sustaining innovation in which they try to compete more effectively in existing markets – either those of competitors or their own

and sold them, they might make more money, but then they would have to access markets, develop a sales strategy, market their carpets and deal with distribution. This way, they get all their money in one day, so they can go home and have tea.”

Even so, there are dozens of emerging markets around the world in various stages of embracing innovation strategies that may generate real and lasting prosperity if they are sustained. In many of these countries, innovation is being led by private sector companies that are breaking with convention by adopting disruptive innovation. Among other characteristics, disruptive innovation overcomes convention by creating new products and markets that create niches for companies, in contrast to sustaining innovation in which they try to compete more effectively in existing markets – either those of competitors or their own. Sustaining innovation – carving out territory in the established companies’ turf – is difficult for any small company, but in emerging markets it is especially difficult due to economic, cultural and political realities. An existing company may be viewed as an institution that is working well enough, so the rationale for rocking the boat is often called into question.

Even with these difficulties, disruptive innovation can occur in emerging markets, and this innovation can lead not only to the creation of successful companies, but can also serve as a model for public officials to create synergetic and effective innovation strategies. The following are three such companies, which are radically different as to their industries and approach. However they share the common strategy of disruptive innovation, which is not only benefiting their organizations as a whole, but also the perspective of their national leaders.

Innovation can and does occur in emerging markets with remarkable effectiveness when buoyed by sound strategy and leadership

Rewriting the rules: Innovation in emerging markets

It is tempting to stereotype Silicon Valley as the comfortable, affluent template for an environment conducive to innovation – the sort of innovation profitably exported around the world. Yet innovation can and does occur in emerging markets with remarkable effectiveness when buoyed by sound strategy and leadership. As impressive as the following companies are singularly, the backstory is their impact on their country's view of innovation as a pathway to prosperity. The role that companies play in promoting innovation is clear and is highlighted by examples from around the world. What tend to go unnoticed are companies within emerging markets that find ways to innovate without the benefit of government support,

access to highly skilled labor or ready availability of financing. These companies' stories suggest that when conventional thinking is no longer an option, the results can be either cataclysmic or, in the cases that follow, profound – rewriting the rules of the game for competitors and investors alike.

Taking care of business: Softwin drives a romanian information technology surge

Since 1989, when sweeping unrest led to the deposing of dictator Nicolai Ceausescu, Romania has struggled to gain its economic footing. Its entrance into the European Union in 2007 provided it with the visibility, credibility and the institutional support it needed to gain momentum, but much of its economic growth was halted by the recent global economic crisis. The World Economic Forum's Global Competitiveness Report ranked Romania 67th out of 139 countries in 2010-2011, while the Legatum Prosperity Index ranked it as 48th out of 104 countries, a ranking that highlights Romania's increasing focus on creating a prosperous environment for its citizens.⁸ This indicates that even with its difficulties (a relatively mediocre ranking in the Global Competitiveness Report but a higher one in the Legatum Index), Romania has and continues to produce innovative companies that are increasing economic capacity as well as establishing innovation models for the future.

One such company is Softwin, founded by Florin Talpes in 1990. It began as a software development company but expanded into other verticals such as e-content solutions (1993), data security solutions (1997), e-learning solutions (1998), contact centers (2000), help desks (2001), IT consulting (2002) and solution integration (2004). Through continuous innovation and expansion of services, Softwin has become a company with global scope, having offices in six countries. It has

also brought a great deal of recognition to Romania, being listed by BusinessWeek in 2005 as one of the most prominent homegrown companies. In 2006, the Financial Times proclaimed Softwin as “one of the world’s best regarded software companies this year.”⁹

Softwin’s key strength was its CEO, who built a culture of innovation within its organization that prepared it to take advantage of emerging opportunities. Because the enabling environment for innovation was nascent in Romania, the company had to be agile – adapting to changing trends in the information and communications technology (ICT) sector and taking advantage of opportunities. Softwin’s ability to do this was enhanced by its talented and well-trained workforce, which continues to set a standard in the Romanian information technology industry.

Companies such as Softwin have powered a growing innovation mentality in Romania, a country where access to highly educated labor is plentiful. Florin Talpes is just one of the entrepreneurs spearheading the country’s drive toward prosperity, bringing government officials and international investors on board along the way. Softwin’s success has been emulated by other Romanian companies that now form an impressive cluster of ICT expertise.

Virtual reality: Rubicon emerges as a global power in Jordan

Jordan is known for its visionary leadership under King Abdullah II along with a stable business environment for accessing the lucrative Middle East and North African (MENA) market. In recent years, it has endeavored to embrace innovation as a core component of competitiveness in order to address the growing demand for knowledge-based jobs by its young and educated workforce. A byproduct of Jordan’s stable

economy and economic development strategy is that a small group of Jordanian entrepreneurs has emerged to embrace disruptive innovation, while at the same time increasing prosperity. Rubicon is one such company.

Rubicon’s CEO and founder, Randa Ayoubi, had ample opportunities to give up. Her dream of changing educational paradigms by offering multimedia learning in a stimulating environment could have ended before it started, as she had multiple doors literally and figuratively slammed in her face. In 1994 she raised \$100,000 in capital to launch her company, but it was 10 years before she was able to move beyond the nascent stage. Then, finally, in 2004 she raised the remaining capital and took her message directly to major movie studios in the United States. It took two years to convince even one studio to work with her, but eventually Ayoubi’s persistence paid off, and MGM partnered with Rubicon to do animation for the iconic Pink Panther cartoon series.¹¹ The company’s work on this series won international awards and earned it the credibility it needed to work with other major studios. Rubicon’s experience in animation was certainly a catalyst for the venture, but equally important was Ayoubi’s tenacity.

“I sometimes think they agreed to partner with us just to get rid of me,” she said in jest.

Using animation as a foundation upon which to build the rest of the business, Ayoubi then fulfilled her dream of expanding into other areas of digital content including e-learning, electronic game development and virtual reality technical training. Today, Rubicon focuses on creating high-quality animated programming by controlling the various parts of the production process from concept to finished product.

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As a small company in a country not known for innovation, Rubicon created momentum in the market by taking on small projects, building a portfolio and eventually using this experience to land large contracts

Rubicon's employees come from different walks of life, representing both religious and cultural diversity. Their common thread, according to Ayoubi, is that "they love what they do, and they do it to the best of their ability." Many ex-Rubicon employees have opened their own companies, and Ayoubi outsources smaller projects to them in an effort to assist in their growth, providing them with mentorship as John Chambers, CEO of Cisco, did for her beginning in 2004. This has contributed significantly to the prosperity of local firms, building a growing cluster of SMEs that are focusing on digital content.

Rubicon's success has expanded far beyond the country's borders, as it has licensing and merchandising agreements with several major movie studios. It has offices in Los Angeles, Dubai and Manila, providing it with global visibility.

The company's rise from a startup to a global force in the digital content industry was achieved through Ayoubi's vision and perseverance, but also because she focused on the development of a strong business plan that focused on niche verticals with the digital content industry. She also recruited and retained a high-quality workforce, empowering them with the latest technology and creating an environment where ideas

are highly valued. As a small company in a country not known for innovation, Rubicon created momentum in the market by taking on small projects, building a portfolio and eventually using this experience to land large contracts.

Rubicon is one of the companies creating a renewed focus on innovation in Jordan, dispelling the image of Jordan as a strictly agriculture and tourism-based economy, while creating momentum for innovation in other knowledge-based sectors such as medical services, pharmaceuticals, clean technology and ICT. Largely due to the success of companies such as Rubicon, the Government of Jordan has adopted a focus on the knowledge economy and is actively pursuing investments that will increase the prosperity of its citizens through the creation of high-quality jobs.

The case of the disappearing money: eTranzact Ghana Ltd.

The World Economic Forum's 2010-2011 Global Competitiveness Index ranks Ghana 114th out of 139 countries. For the same period, the Legatum Prosperity Index, which measures the relative prosperity of a country's citizens relative to nine criteria, ranks Ghana at 79th out of 104 countries, which records a modest improvement over previous years.¹² One would not necessarily expect innovation within this climate. But an emerging group of Ghanaian companies is leading a technological and service revolution that has established a model for the country and also for other emerging markets. One such company is eTranzact Ghana Ltd., which was featured in The International Trade Center's Service Pioneers: Stories of Innovative Entrepreneurship.¹³

In 2006, a group of Ghanaian entrepreneurs started eTranzact Ghana Ltd., with the purpose of building a cashless society in Africa. eTranzact offers electronic payment platforms for banks, companies and individuals in order to create a virtually cashless society. eTranzact's system, banks, merchants and individuals can transfer

cash in a number of ways, including using mobile applications for banking, telecom services, merchant services (e-billing), ordering and payment, Web-based payment, online cash collection and facilitation of export services. The company's services are customized for each of its commercial and banking clients according to their needs.

One of the larger challenges for the company, according to CEO George Babafemi, was overcoming the cultural norms of doing business by moving people from a predominantly cash society to an electronic format. Over time, it was able to overcome cultural paradigms of doing business by offering state-of-the-art services and thereby building a brand of excellence. Today, the company has branches in Cote d'Ivoire, Nigeria, South Africa, the United Kingdom and Zimbabwe and is also doing business with foreign companies that are investing on the African continent.

While Ghana has traditionally been a stable country, companies like eTranzact have galvanized the government around a platform of increasing reforms, including infrastructure upgrades and reductions in bureaucracy and regulations. This highlights the effect that companies embracing disruptive innovation techniques can have on a country as a whole, establishing an innovation model that can be copied by others.

Unwilling to wait

These companies are examples of entrepreneurs in emerging markets who have not waited for donor organizations or governments to lay the groundwork for innovation. They represent a new mentality in emerging markets, one that infuses disruptive innovation to promote productivity, competitiveness and ultimately prosperity. Hundreds of other emerging market entrepreneurs are following their examples, and if buoyed by a practical strategy and focused support, they are expected to grow rapidly into generators of jobs that promote competitiveness.

How did some companies succeed when others did not? Arguably, it was because their leaders rejected conventional notions that would focus on quick wins without providing sustainable and prosperous growth

These companies are models of innovation in emerging markets, but how did they succeed when others did not? Arguably, it was because their leaders rejected conventional notions that would focus on quick wins without providing sustainable and prosperous growth. In other words, they focused on innovation rather than convention while many of their competitors were unable to see past the obvious challenges they faced in their respective countries. These companies managed to not just survive in the chaos that is sometimes prevalent in emerging markets, but move past it to achieve success.

Conclusions from the chaos

In many respects, the leaders of companies, countries and even some international donor agencies have been trying to address persistent issues related to development using the same techniques in an attempt to find the magic bullet that leads to prosperity. They have not found it because it does not exist.

While poverty is a significant challenge for emerging markets, this does not mean they are not viable platforms for business. As C.K. Prahalad and Allan Hammond have pointed out, entrepreneurial companies both small and large are “already serving the world’s poor in ways that generate strong revenues, lead to greater operating efficiencies, and uncover new sources of innovation.”¹⁴ The key component in this success is a company’s ability to tear up the box and focus on the growth potential of these markets.

While emerging markets can appear chaotic, there are several tactics and strategies that can lead to innovation and a cycle of enhanced prosperity:

1. Do not assume. Assumptions are risky in any business venture, but this is especially true in considering emerging markets. Companies often assume that because people are poor, they do not spend money which, according to Prahalad and Hammond, is incorrect when considering aggregate purchasing power.¹⁵ Collectively, the poor do have money, and they are willing to spend it on nonessentials as well as items of need. Despite infrastructural deficiencies, technological change has in many cases made it cheaper to conduct business in most emerging markets, which increases profit potential. In many countries, reforms are now beginning to intersect with economic potential to make them attractive markets for business expansion and new investment. In eTranzact Ghana’s case, it has built a successful business model through an understanding that even those with low disposable incomes require and desire banking and financial services.

2. Find a niche (comparative advantage). Companies that are able to find a business niche in emerging markets can greatly increase their profitability. Finding such a niche requires understanding of the market, creative approaches and significant research. Quite simply, a niche in a specific emerging market may be a need or response to a dilemma that does not exist in more developed economies. The upside potential can be worth the effort. Rubicon, for instance, was able to carve out a niche in digital content that up to that point had not been explored in Jordan. This provided it with the ability to capture significant market share in a relatively short amount of time.

3. Start small and grow from there. Small companies can make a big impact in a short amount of time by focusing on niche markets, starting with small projects, and taking advantage of opportunities in which larger companies in more advanced markets are not interested. Softwin, for example, grew from a small software development company to a global ICT conglomerate in just over 20 years by focusing on innovative approaches that led to incremental milestones.

4. Focus on disruptive innovation. Companies such as Rubicon, eTranzact Ghana and Softwin focused on disruptive innovation (albeit perhaps not in the technical sense as defined by Harvard business professor Clayton Christensen)¹⁶ that allowed them to break through the assumed limitations of their geopolitical and economic circumstances by focusing on new technology and approaches. With no powerful incumbents, leapfrogging was based on technology – eTranzact Ghana bypassing conventional ways to move money and instead focusing on technology. This made them market leaders rather than followers, with the perhaps unanticipated advantage that the “box” did not exist. They were able to begin from a clean slate and use innovation as a catalyst for growth. Disruption in emerging markets differs from the strategic situation in developed markets primarily in that it can drive

success not only for companies, but also can create models that generate opportunities for the entire country – again, a type of cycle that creates its own fertile ground for further innovation and market development.

5. Build alliances with economic and social stakeholders. Collaboration is important to any business, but Rubicon proved that by building alliances with local and international stakeholders, innovation and profitability can occur more rapidly. This is especially important in emerging markets because these stakeholders play a key role in overall development and have resources that can be harnessed to embrace innovative approaches.


While many companies are still looking for conventional mechanisms by which to enter emerging markets, others have found success by embracing innovation as a growth strategy. By “tearing up the box” a growing number of companies are defining a new age for entrepreneurship and innovation in emerging markets – an age that could redefine the paradigm of development.

by **Mark McCord**, specialist leader with Deloitte Consulting LLP

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While poverty is a significant challenge for emerging markets, this does not mean they are not viable platforms for business



Corporate in the pub

Promoting a high level of accountability and transparency

Accountability and public sector corporate governance

The awakening

With 24/7 social media alerts, demanding requirements such as tighter government budgets, past scandals and legislation targeting corruption being introduced across the Gulf Cooperation Council countries and the Middle East at large, there is an increased demand for accountability. Public skepticism, combined with unprecedented transparency, is placing everyone under scrutiny like never before. The boundaries of social responsibility are rapidly expanding, challenging individuals in authority to consider the public and its agenda.

In light of the global financial crisis, much commentary in corporate governance has been concentrated on the activity of organizations deemed 'systemically' important to the economy. Yet, relatively little discourse has been directed towards corporate governance in the public sector organizations which, arguably, have as much impact on the lives of each member of society. Government departments and public bodies make choices and take decisions on a daily basis that affect all citizens – understanding how these choices and decisions are made is, therefore, a matter of significant public interest.

governance lic sector

Instituting corporate governance within public sector firms has recently begun to receive increased attention. This is particularly the case when countries are attempting to curb widespread corruption within the public sector, or when they are preparing public enterprises for privatization. In either scenario, sound corporate governance measures ensure that the public gets a fair return on its national assets.

The policy turnaround in the Arab countries followed intensifying pressure to open up their economies, attract foreign investment and eliminate red tape, corruption and other malpractices for a better standing in global indices. Such measures have been allied with other steps to tear down capital barriers and turning the Arab World into a top destination for Foreign Direct Investment.

A taboo word only a few years ago, corruption is now hitting the headlines across the Middle East with specific focus across GCC states, as the fight against financial malpractices and other offences builds up.

Departing from previous trends when corruption and related crimes went almost unnoticed and often unpunished; and perhaps reiterating their commitment to fighting global crime, such offences are now frequently and publicly reported, and high ranking Government officials are summoned for unprecedented questioning on suspected misappropriation of funds.

For example, in the United Arab Emirates, the State Auditing Court (SAC) recorded many cases involving misappropriation of federal funds and has reported that its surveillance activities have resulted in the recovery of large sums of wasted money and in curbing such malpractices where civil servants were involved in what is described as "illegal financial practices."

Similarly, in Saudi Arabia, the largest Arab economy and the world's top oil exporter, the National Commission Against Corruption was established following a royal decree.

In Kuwait, another GCC oil heavyweight, recent legislation to form a Public Authority for Integrity (PAI) was announced, an organization committed to implementing anti-corruption policies.

Public sector corporate governance – A roadmap

The topic of corporate governance has been high on the agenda in the private sector for more than a decade.

Although the private sector model of corporate governance, which tends to view shareholders as the main stakeholder group, requires some adaptation to fit the public sector, many of the underlying principles of good corporate governance would apply. In the public sector, specific user groups, those directly responsible for funding and the community at large assume a greater importance as stakeholders. However, the pivotal role of the governing board and the issues of transparency and accountability are as relevant to the public sector as they are to the private sector. Stewardship and accountability for the use of funds and assets is particularly important in the public sector.

It is becoming more important than ever to focus on Corporate Governance in the public sector to maintain faith in the system and promote better service to the public, accompanied by transparent and controlled operations.

Good institutional governance should be instilled by the development of governance systems in ministries and authorities, with the aim of focusing on enhancing the quality of public services consistent with citizen expectations, promoting compliance and conformance, with appropriate transparency and flexibility.

In this context:

- **Performance** - focuses on how governance arrangements are used to contribute to the overall performance and the quality and continuity of delivery of services or programs, and
- **Compliance and conformance** - focuses on how governance arrangements contribute to ensure meeting requirements of laws and regulations as well as community and stakeholder expectations.

As such, good public governance seeks to promote:

- **Accountability** - being answerable for decisions and having meaningful mechanisms in place to ensure adherence to all applicable laws, regulations and standards.
- **Transparency / openness** - having clear roles, responsibilities and procedures for making decisions and exercising power, and act with integrity.
- **Stewardship** - enhancing the value of entrusted public assets.
- **Efficiency** - applying the best use of resources to further the aims of the organization.
- **Leadership** - promoting an entity-wide commitment to good governance starting from the top.

A taboo word only a few years ago, corruption is now hitting the headlines across the Middle East with specific focus across GCC states, as the fight against financial malpractices and other offences builds up

To achieve the above, the public sector is in definite need for a proper corporate governance framework to be instilled.

Ethics and integrity

Governing body members (Board of Directors or equivalent), need to possess high levels of integrity and ethical behavior and should, more importantly, be seen to possess such traits. This is extremely important as they participate in organizational decision-making and assessment of business.

Furthermore, being open is part of the process of being accountable, so governing board members need to be open and accountable to stakeholders for their part in the decision-making process and avoid any conflict of interest, apparent or implied.

Equally important, there should be a strong focus on promoting an entity-wide culture of ethics and integrity by developing and maintaining a code of conduct. The code of conduct would need to be supported by a whistle-blowing hotline and a fraud control system and policy, to ensure employees are encouraged to share and vent their concerns.

Organizational structures and processes

A strong and viable organizational environment that reinforces and encourages the ethical and responsible conduct of employees should be supported by structures and processes as follows:

- Proper organizational structure including board committees such as an Audit Committee, a Human resources and remuneration committee, etc.

There should be a strong focus on promoting an entity-wide culture of ethics and integrity by developing and maintaining a code of conduct

- A Board of Directors(or equivalent,) Charters or Terms of reference defining: composition and membership including non-executive members, roles and responsibilities, authority and delegation of power, quorum of meetings and related mechanisms, skills and training needs, self-assessment and compensation.
- Board Committees Charters or Terms of reference defining: composition and membership including non-executive members, roles and responsibilities, authority and delegation of power, quorum of meetings and related mechanisms, skills and training needs and self-assessment.
- Proper segregation between the Chairman and CEO or equivalent, with clear distinction and definition of the roles of each.
- Defining the relationship of the CEO with his/her line management as well as with the Board.
- Clearly-defined delegation of authority and authority matrix supported by clear processes and conditions for such delegations across all levels of the organization.
- Detailed policies and procedures for all departments and functions, defining the roles, responsibilities and standards of operations across the organization.

The organization needs to promote a high level of reporting transparency to the public, highlighting compliance with laws and regulations as well as initiatives taken by the entity

Strong internal control structure including Risk Management and Business Continuity

Internal control

There should be an effective internal control system to provide reasonable assurance regarding the achievement of effective and efficient operations, reliability of internal and external reporting and compliance with the applicable laws, regulations and internal policies, including corporate governance policies.

Risk management including Business Continuity Management

Enterprise risk management involves understanding organizational objectives, identifying the risks associated with achieving them and assessing the likelihood and potential impact of particular risks, developing a program to address the identified risks and monitoring and evaluating the risks and the arrangements in place to address them.

Risks are likely to affect many areas such as strategy, operations, finance, technology and environment, leading to interruptions of business and/or loss of records. Consideration needs to be given to contingency plans and ensuring the availability of strong business continuity planning to cover any major interruptions in the capacity to deliver services and also quality of services.

Internal audit

The main objective of an internal audit function is to provide for a degree of internal assurance in relation to the processes and systems for ensuring the completeness, accuracy and reliability of financial and other key information. For details please refer to the Middle East Point of View | February 2011 issue "Internal audit in the public sector - The quiet revolution."

Reporting and disclosure

Regular and informative reporting, both internally and externally, is a pre-requisite for operational effectiveness. Major issues which may affect the overall performance of the organization should be brought to the attention of the board in a timely manner and all relevant information should be presented in a clear and concise way. Financial and non-financial performance and other accountability information should also be reported to the board on a regular basis.

Equally important, the organization needs to promote a high level of reporting transparency to the public, highlighting compliance with laws and regulations as well as initiatives taken by the entity.

Budgeting, financial management performance measurement

The Board should establish an annual robust budgeting process, indicating how the resources allocated will be used. Budgeting should, as far as possible, be linked to measurable objectives. This encourages a clearer vision, enables proper forward planning to take place and facilitates the best longer-term use of resources.

Additionally, relevant financial and non-financial performance measures which are as important as the financial ones, need to be established utilizing Key Performance Indicators (KPIs) which provide a useful management and accountability tool, to ensure and demonstrate the efficient and effective use of resources.

Performance measurement is to be linked to the recruitment and retention and development of suitable staff. This in turn should consider appropriate packages to attract, retain and motivate talent, although issues relating to remuneration and dismissal of staff are likely to be subject to greater external scrutiny in the public sector.

Finally, performance measurement and talent management is to be supported by appropriate training opportunities, catering to immediate job requirements and career development.

Conclusion

Fundamentally, good governance arrangements increase participation, strengthen accountability mechanisms and open channels of communication within, and across, organizations. In this way, the public sector can be more confident about delivering defined outcomes and being accountable for the way in which results are achieved.

A focus on good corporate governance can help public bodies deliver the ever more exacting performance imperatives that are expected of them, whilst at the same time meeting demanding standards of accountability. To do this, however, corporate governance must not be simply seen as a narrow compliance obligation. By adopting a more multi-dimensional approach to corporate governance, there is a greater likelihood that it can be seen as a catalyst to achieve even better performance, allowing public bodies to adapt to their vastly changed circumstances.

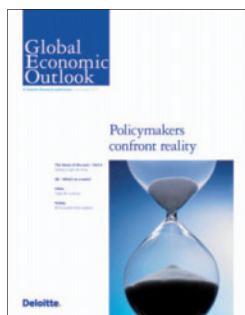
by **Rami Wadie**, principal, Enterprise Risk Services (ERS), Deloitte in the Middle East



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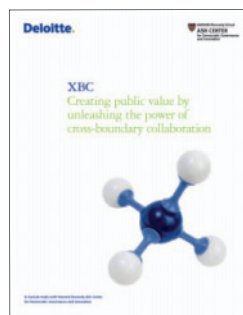
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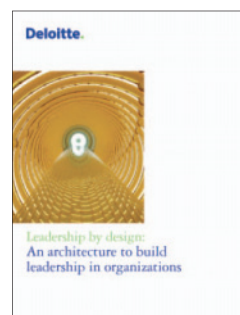
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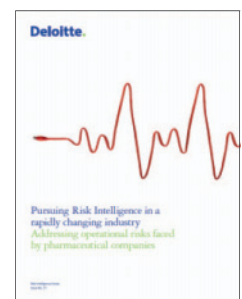
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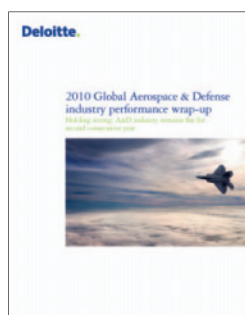
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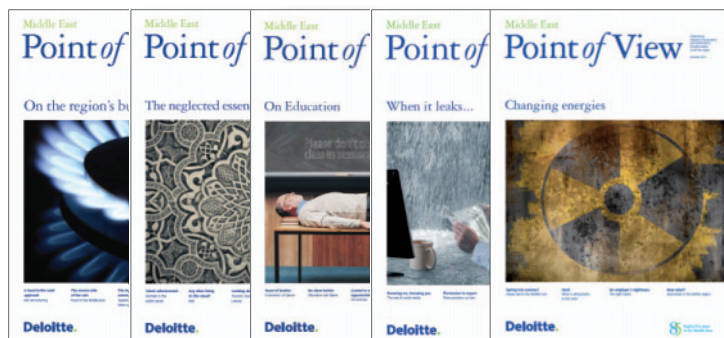
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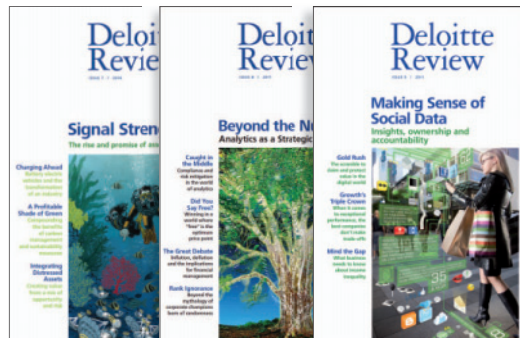


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A Middle East Point of View



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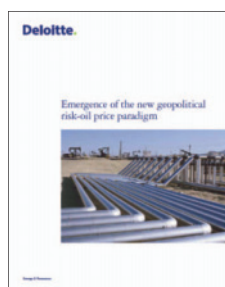


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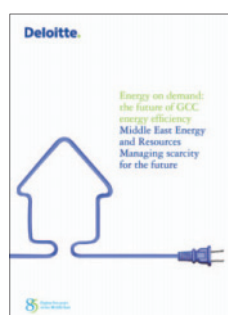
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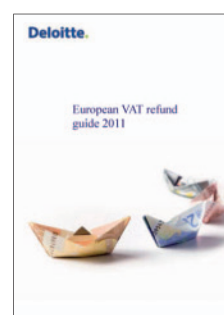
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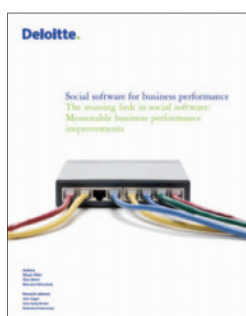
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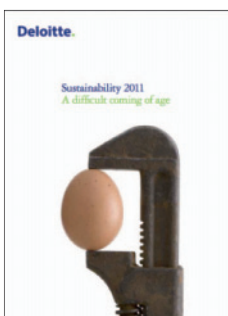
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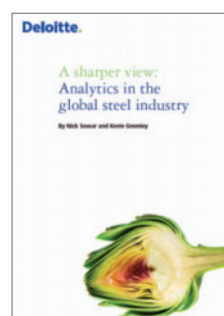
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Deloitte in the Middle East

ME Representative Office

Regional office

Gefinor Center, Block D
Clemenceau Street
P.O.Box 113-5144
Beirut, Lebanon
Phone +961 (0) 1 748 444
Fax +961 (0) 1 748 999

ME Consulting

Regional office

Arabia House
131 Phoenicia Street
P.O. Box 11-0961
Riad El-Solh, Beirut
1107 2060 Lebanon
Phone +961 (0) 1 366 844
Fax +961 (0) 1 367 738

ME Enterprise Risk Services

Regional office

Emaar Business Park
Building 1, Sheikh Zayed Road
P.O. Box 282056
Dubai, UAE
Phone +971 (0) 4 369 8999
Fax +971 (0) 4 369 8998

ME Financial Advisory Services

Regional office

DIFC, Currency House
Building 1 - Level 5
PO Box 282056
Dubai, UAE
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 323 637

ME Tax Services

Regional office

Currency House
Building 1 - Level 5
PO Box 282056
Dubai, UAE
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 323 637

The Deloitte ME Islamic Finance Knowledge Center (IFKC)

Al Zamil Tower. Government Avenue,
Manama, Kingdom of Bahrain
Phone +973 17214490 Ext 2018
Fax +973 17214550

Bahrain

Manama

Al Zamil Tower
Government Avenue
P.O.Box 421
Manama, Kingdom of Bahrain
Phone +973 (0) 17 214 490
Fax +973 (0) 17 214 550

Egypt

Cairo

95 C, Merghany Street,
Heliopolis 11341, Cairo, Egypt
Phone +20 (0) 2 2290 3278
Fax +20 (0) 2 2290 3276

Alexandria

Madinet El Sayadla
Building No 10,
Smouha, Alexandria
Phone +20 (0) 3 426 4975
Fax +20 (0) 3 426 4975

Jordan

Amman

Jabal Amman, 190, Zahran
Street, Amman, Jordan
P.O. Box 248
Amman 11118, Jordan
Phone +962 (0) 6 5502200
Fax +962 (0) 6 5502210

Kuwait

Kuwait City

Fahad Al-Salem Street
Salhia Complex
Kuwait City, Kuwait
P.O. Box 23049
Safat 13091, Kuwait
Phone +965 (0) 2243 8060
Fax +965 (0) 2245 2080

Ahmed Al-Jaber Street,
Dar Al-Awadi Complex,
7th Floor
P O Box 20174, Safat 13062
Sharq, Kuwait
Tel +965 22408844
Fax +965 22408855

Lebanon

Beirut

Arabia House,
131 Phoenicia Street
P.O. Box 11-0961
Riad El-Solh, Beirut
1107 2060 Lebanon
Phone +961 (0) 1 364 700
Fax +961 (0) 1 367 087

Oman

Muscat

MBD Area
Muscat International Center
Muscat, Sultanate of Oman
P.O. Box 258, Ruwi
Postal Code 112
Sultanate of Oman
Phone +968 (0) 2481 7775
Fax +968 (0) 2481 5581

Palestinian Territories

Ramallah

Al Mashreq, Insurance Building
P.O. Box 447
Ramallah, Palestinian
Controlled Territories
Phone +970 (0) 2 295 4714
Fax +970 (0) 2 298 4703

Qatar

Doha

Al Ahli Bank Building
Sheikh Suhaim Bin Hamad Street
P.O.Box 431, Doha, Qatar
Phone +974 (0) 4434 1112
Fax +974 (0) 4442 2131

Saudi Arabia

Deloitte & Touche Bakr

Abulkhair & Co.

Riyadh

Al-Salam Building,
Main Olaya Road
P.O. Box 213
Riyadh 11411, Saudi Arabia
Phone +966 (0) 1 463 0018
Fax +966 (0) 1 463 0865

Al Khobar

ABT Building, Al Khobar
Saudi Arabia
P.O. Box 182
Dammam 31411, Saudi Arabia
Phone +966 (0) 3 887 3937
Fax +966 (0) 3 887 3931

Jeddah

Saudi Business Center
Madinah Road
P.O. Box 442
Jeddah, 21411, Saudi Arabia
Phone +966 (0) 2 657 2725
Fax +966 (0) 2 657 2722

Syria

Damascus

9 Fardos Street
P.O. Box 12487
Damascus, Syria
Phone +963 (0) 11 221 5990
Fax +963 (0) 11 222 1878

Rawda

38 Rawda Street
P.O. Box 12487
Damascus, Syria
Phone +963 (0) 11 331 1212
Fax +963 (0) 11 332 2304

United Arab Emirates

Abu Dhabi

Al Sila Tower
Sowwah Island,
P.O. Box 990
Abu Dhabi, UAE
Phone +971 (0) 2 676 0606
Fax +971 (0) 2 676 0644

Dubai

1001 City Tower 2
Sheikh Zayed Road
P.O. Box 4254
Dubai, UAE
Phone +971 (0) 4 331 3211
Fax +971 (0) 4 331 4178

Fujairah

Al-Fujairah
Insurance Co. Building
P.O. Box 462
Fujairah, UAE
Phone +971 (0) 9 222 2320
Fax +971 (0) 9 222 5202

Ras Al-Khaimah

Ras Al-Khaimah, Insurance
Building, Al-Nakheel,
Ras Al-Khaimah UAE
P.O. Box 435
Ras Al-Khaimah, UAE
Phone +971 (0) 7 227 8892
Fax +971 (0) 6 574 1053

Sharjah

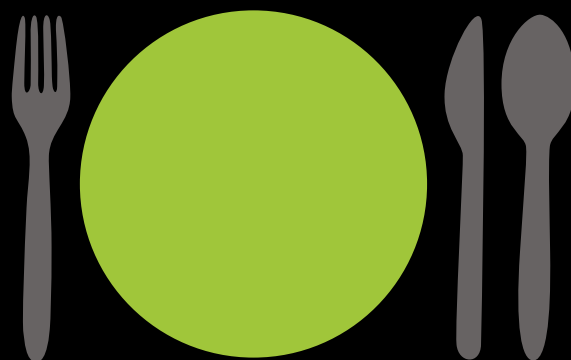
Corniche Plaza 2,
Al Buhairah Corniche
P.O. Box 5470
Sharjah, UAE
Phone +971 (0) 6 574 1052
Fax +971 (0) 6 574 1053

Yemen

Sana'a

Sana'a Trade Center Eastern
Tower, Algeria Street
P.O. Box 15655
Sana'a, Yemen
Phone +967 (0) 1 448 374
Fax +967 (0) 1 448 378

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inquiries, please contact the
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