Middle East

Point *of* View

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Spring 2012

Planning/Failing to fail/plan

It's not you, it's me
Challenges of family businesses

Beware the hash tag
Reputational risk at the mercy of a button

We've got to talk about...
Prioritizing cancer

Keep calm and carry on
So you've uncovered a fraud

Deloitte.

Eighty five years in the Middle East

Spring 2012
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Political animal, meet citizen journalist.

Almost 2,500 years ago, Aristotle advanced the view that man is, essentially, a 'political animal' – intertwined with his city-state and morally obligated to participate in the matters of the *polis*.

With the rise of social media platforms, it has become easier than ever to participate in all that is pertinent to one's existence.

As elucidated by Ceem Haidar, Middle East Public Relations leader at Deloitte, in her article *Who's trending what?*, 70 percent of respondents to a survey carried out by the Dubai School of Governance in November 2011 use social media to voice their opinions on a multitude of topics. As such, the region is "fueled with highly active web users, engaged on the various social media platforms."

But these citizen journalists, as they are now known, are not only engaged in politics according to Ms. Haidar. Companies are also at risk. "With online news and social media, a small mistake can become an international *#trending* topic within seconds," she says. "Brands are now more vulnerable than ever."

As reputational risk stands at the mercy of the 'send' button, firms should assess how prepared they are to respond to unfavorable publicity or an unsparing journalist.

Or a case of internal fraud.

There is always collateral damage caused by a case of fraud, says David Clements, Deloitte's ME Director of Forensics Services, in his article on fraud, including "loss of reputation, brand damage and reduced employee morale."

So how should companies respond is a case of fraud is detected? *Keep calm and carry on*, as the old World War II adage predicated. "The amount of time and effort it takes for management to respond, particularly in the initial weeks, is excessive and severely impacts the normal business activity of the organization," says Clements. "Initial actions," he continues, "are crucial to the eventual outcome of an investigation," but proper planning could help companies assess and take the right actions to resolve the matter successfully.

The issue of cancer is also at the forefront in this issue. It is the second time that the *Middle East Point of View* covers this issue, perhaps further elucidating the point made by Zaid A. Bitar, Deputy Director General and Head of International Development and Dr. Lena El-Malak, Senior International Development Manager at the King Hussein Cancer Foundation in Amman, Jordan, that cancer is an "issue that not only cannot be ignored but should be prioritized."

Unfortunately, maintaining healthcare on policy makers' list of priorities has become a challenge in itself as governments in the region grapple with unprecedented political and economic challenges. What is called for, they explain in their article *We've got to talk about the C-word*, is regional cooperation to ensure that solutions are crafted to make optimal use of limited available resources, both in terms of human capital and financial assets. The private sector and non-profit organizations, they say, should step in to alleviate the government's burden of providing healthcare.

It is luckily then, as enunciated by Parham Gohari and Sari Alabdulrazzak in their article on healthcare in the GCC, that more private sector investments are expected in the sector "driven by new government strategy and regulatory reforms." These investments are "aimed at enhancing and developing healthcare infrastructure and value chain."

ME PoV editorial team

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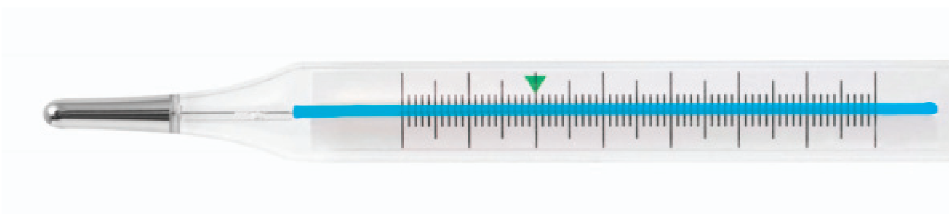


Who's trending what?

What 'reputational risk' means to companies today and how they are managing it

What the Arab Spring elucidated perhaps more than a disgruntled population, was that this population is signed in and logged on. Throughout the Middle East North Africa (MENA) region and specifically in Saudi Arabia, the United Arab Emirates (UAE) and Egypt, over 86% of active web users use social media to get news, information and advice on various issues, according to The Arab Social Media Report, issued by The Dubai School of Governance in November 2011. According to the report, 70 percent of respondents use social media to voice their opinions on a multitude of topics. As such, the region is fueled with highly active web users, engaged on the various social media platforms.

And they are not only engaged in politics. With online news and social media, a small mistake can become an international *#trending* topic within seconds. Brands are now more vulnerable than ever.

A scandal tied to a reputable company, propagated by a disgruntled ex-employee could be the next hash tag phenomenon. Companies and, in turn, brands, are constantly vulnerable to reputational risks that can arise from virtually anywhere, be it factors as diverse as product quality, social media, environmental impact, employee malpractice and outsourcing.

As a result, the realm of reputational risk is now regarded as a 'meta risk' for companies, standing at the forefront of any key strategic and operational concern for global and Middle Eastern senior executives. Reputational risk has now become a potential threat on a par with new competition, technology failures, talent issues and changing regulations.

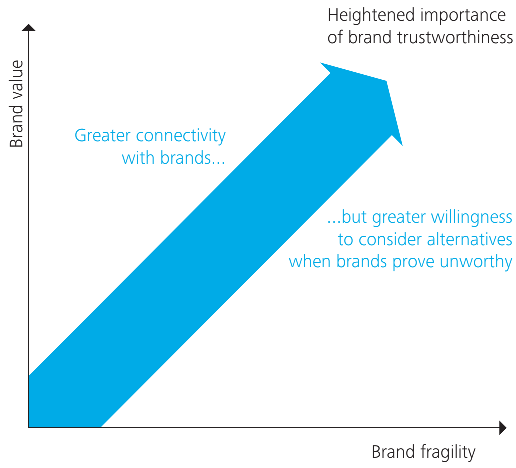
How can companies control these risks?
According to Jonathan Copulsky, Principal at Deloitte Consulting, LLP and author of *Brand Resilience: Managing Risk and Recovery in a High-Speed World*, companies need to intelligently manage the risks by playing active and consistent defense. "By any measure that we have looked at," says Copulsky, "brands are much more valuable than they have ever been before but at the same time, they are much more fragile."

Warren Buffett famously said that "it takes 20 years to build a reputation and five minutes to ruin it." But why should companies worry so much about their reputation?

How well a company's reputation is regarded by stakeholders can have an immediate and long-term impact on the organization's overall success. Consumer sales can increase or be negatively impacted by reputation. Potential talent too, can either be attracted to a firm, or repelled by it. Investments can also fluctuate, along with the corporation's ties with governmental officials in the respective county of operation.

A 'Trust Barometer' survey carried out by public relations firm Edelman's measured attitudes about the state of trust and found that "when a company is trusted, 51% of stakeholders will believe positive information about it after hearing it once or twice, compared to only 25% who will believe negative information after hearing it once or twice." On the other hand, for companies with a negative reputation, which are generally distrusted, the survey finds only 15% of stakeholders will believe positive information, versus 57% of stakeholders believing negative information after hearing it once or twice.

The brand paradox



Source: Deloitte

However, the traditional understanding of how to manage reputational risk no longer applies in today's world. Before the advent of social media, the focus remained on risk avoidance or minimizing asset losses. Today, with over half of the world's population connected to the Internet, companies need to relate enterprise reputation matters to strategic outcomes.

Companies and, in turn, brands, are constantly vulnerable to reputational risks that can arise from virtually anywhere, be it factors as diverse as product quality, social media, environmental impact, employee malpractice and outsourcing

At present, the concept has shifted from 'controlling' risk' to the notion of 'Risk Intelligence' as put by Copulsky. A corporation must ask itself which reputational risks it can potentially accept, which will pose the greatest potential impact and if it is prepared to address these reputational risks if and when they arise. A Risk Intelligent approach is a highly inclusive and multi-faceted way of operating in today's dynamic world.

Previously, risk was solely assessed in terms of impact and likelihood. Today, a third dimension of 'velocity' has been added, reflects Copulsky, whereby reputational damage can travel at lightning speeds, creating a ripple effect. With two to three Twitter accounts activated every second, 50 million tweets per day (252,000 tweets per day in the MENA region alone), 350 million Facebook users active daily (over 28 million users in MENA region) and over 80% of all companies using either channel, potential 'saboteurs', as Copulsky refers to them, are virtually everywhere.

So how do companies become 'Risk Intelligent'? First, they take a journey of self-discovery, then they analyze stakeholder and marketplace threats and opportunities and lastly, they proactively manage actions designed to protect and enhance reputation and derive value.

Steps to becoming 'Risk inteligent'

Step One: Self-discovery

Self-discovery is when an organization examines its strategies, initiatives, potential risks and operations, to ultimately locate risks to reputation. This can be carried out by the Chief Risk Officer (CRO). In the absence of such a practitioner, a specialized communications team, with a risk management function, can do the job.

> Before the advent of social media, the focus remained on risk avoidance or minimizing asset losses. Today, with over half of the world's population connected to the Internet, companies need to relate enterprise reputation matters to strategic outcomes.

To begin the journey of self-discovery, senior executives need to be approached to identify potential risks to reputation and to assess how these risks may impact their departments. They include the Chief Executive Officer (CEO), whose strategies and business deals may pose a potential threat. Next in line is the Chief Operating Officer (COO), whose role would be to assess the potential reputational impact of supply interruptions, customer dissatisfaction, media reactions and other effects of operational risks. The Chief Financial Officer (CFO) is also important, as impact on reputation can lead to adverse financial implications.

Other entities to be included in the journey of internal discovery include the head of Marketing, as it is their role to enhance reputation and the head of Human Resources, whereby risks to reputation can impact talent attraction to the firm.

Typical groups involved in Risk Intelligent enterprise management

<table>
<tr>
<td>Risk governance</td>
<td colspan="4">Board of directors:
• Foster a Risk Intelligent culture
• Ratify key components of the Enterprise Risk Management (ERM) program
• Discuss enterprise risks with executive management
• Meet with internal audit</td>
<td rowspan="3">Technology (all-pervasive):
• Provide periodic / real-time dashboards to oversee risks
• Make monitoring and reporting easier
• Support timely maintenance and preempt problems
• Facilitate risk escalations</td>
</tr>
<tr>
<td>Risk infrastructure and management</td>
<td>Executive management:
• Define the risk appetite
• Evaluate proposed strategies against risk appetite
• Provide timely risk-related information</td>
<td>Enterprise risk group:
• Aggregate risk information
• Identify and assess enterprise risks
• Monitor risks and risk response plans</td>
<td>Internal audit:
• Provide assurance on effectiveness of the ERM program
• Evaluate controls and risk response plans for significant risks</td>
<td>Risk management:
• Create a common risk framework
• Provide direction on applying framework
• Implement and manage technology systems
• Provide guidance and training</td>
</tr>
<tr>
<td>Risk ownership</td>
<td colspan="2">Business units:
• Take intelligent risks
• Identify and assess risks
• Respond to risks
• Monitor risks and report to the enterprise risk group</td>
<td colspan="2">Support functions:
• Provide guidance/support to the enterprise risk group and business units</td>
</tr>
</table>

Source: Deloitte

Once the groundwork has been laid, with potential reputational risks identified, continuous monitoring of the overall surrounding environment is vital

Step two: External identification

External Identification is the process of gathering information from stakeholders to assess potential reputational risks from an outsider's viewpoint. Gaps between the corporation's desired reputation and where it currently stands should be identified. This can be conducted through surveys or external consultants to derive unbiased useful information. With this information, potential room for improvement can be acknowledged and built upon.

Key stakeholders of reputational risk

Illustrates the key stakeholders of reputational risk that boards and C-suite executives should consider in their 360-degree approach to risk management and their potential areas of impact on the organization. These will vary according to each organization, but serve here as base for reflection.

Traders	• React fast and could initiate downhill spiral in share price
Analysts	• Question future financial results and change recommendation (buy/sell)
Shareholders	• Sell holdings and provoke fall in share price
Partners /suppliers	• Upstream, quality suppliers/subcontractors turn to others
Customers	• Downstream, clients/customers look elsewhere to fulfill needs
Staff	• Top talents can be lost to competition due to demotivation • Unable to hire needed competencies
Regulators	• Increased scrutiny leads to undue burden on all staff and stress on the organization
Investors	• Money becomes scarce for long-term project development • Cost of finance (if available) rise sharply
Rating agencies	• Place company on alert, leading to potential downgrade • Cost of finance goes up

Source: RiiЯ ltd.

Once the first two steps are thoroughly conducted (and they must be repeated frequently, as new updates always surface), a plan of action for each possible reputational risk must be put in place. What is the firm's official stance on topic X? What should the PR manager respond with when asked about topic Y? Clear instructions must be readily accessible and available to all. If this is mismanaged, the firm will end up with a crisis management situation – which can be potentially destructive.

Step three: Continuous and consistent monitoring

Once the groundwork has been laid, with potential reputational risks identified, continuous monitoring of the overall surrounding environment is vital. Informal surveys conducted amongst stakeholders, along with diligent media monitoring, will aid a corporation in identifying potential risks to reputation.

> When citizens become journalists and 'trend' the noun becomes 'to trend' the verb, companies need to stand up and take notice of who is trending what and where

For example, a negative Tweet on the firm should be flagged and staff should be alerted to stay on the lookout. Firms cannot afford to let their guard down. Yet many firms do not have the internal capacity to carry out these projects. As such, external media monitoring firms are widespread, offering online and offline scanning of news, including social media sites. They provide invaluable minute by minute updates on what is being said about a firm, or its competitors.

Conclusion

Reputational risk has gained its 'red flag' ranking in most boardrooms across the globe. Senior executives now comprehend the meta risk involved in reputational damage. As such, risk departments and CROs have been appointed within the firm to intelligently manage potential risks. In addition, it is crucial that each employee is aware of his or her role within the institution, as a powerful brand ambassador.

Once internal and external measures are taken, a firm should assess its preparedness for reputational risk, reflecting on several elements, such as: how would a firm react if a confidential e-mail made its way to the hands of an unsparing journalist? Or if an unfavorable video was made by a few employees in the company premises and uploaded onto YouTube, what would be the best way to respond?

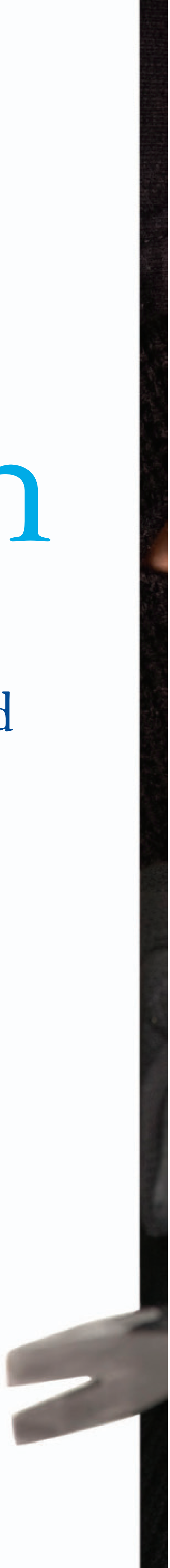
When citizens become journalists and 'trend' the noun becomes 'to trend' the verb, companies need to stand up and take notice of who is trending what and where.

by **Ceem Haidar**, Middle East Public Relations leader at Deloitte

Keep calm

You think you have discovered a fraud. What do you do?

Despite recent surveys pointing to fraud being on the increase, the discovery of a suspected fraud within any organization is not an everyday occurrence for most people and initial reactions may include shock and surprise. However, action taken in the first few hours and days after discovery will significantly impact the course and/or outcome of a full investigation and may even make it or break it.



and carry on.

Most organizations have controls in place to prevent and detect fraud being committed against them from the outside. In the banking industry in particular, external fraud is an expected occurrence and banks employ sophisticated processes and technology to prevent and detect such occurrences. The bigger problem occurs when fraud has been committed from within. Apart from the cost involved, there is always some collateral damage caused including loss of reputation, brand damage and reduced employee morale. Seniority of the suspect is also a factor, the more senior the employee, the more serious the damage.

History shows that, in the absence of any structured response plan, the amount of time and effort it takes for management to respond, particularly in the initial weeks, is excessive and severely impacts the normal business activity of the organization. When a potential fraud is first discovered, the following few hours or days can be very confusing and stressful if the organization is unprepared. In the absence of a Fraud Response Plan, experience has shown that managers handle the same problem in different ways - sometimes with disastrous consequences such as destroying the evidentiary value of information by inappropriate handling processes, inadvertently tipping off the suspect, enabling them to destroy incriminating evidence, failing to keep the matter confidential and taking inappropriate action caused by having insufficient information.

When a potential fraud is first discovered, the following few hours or days can be very confusing and stressful if the organization is unprepared

For example, in a recent fraud incident occurring in the UAE, an employee who was in charge of procurement for a certain organization also operated a supply and contracting company which had been paid in excess of Dhs 3,000,000 by his employer's company, all ordered and authorised by him. The suspect, once discovered, was dismissed but was given a month's grace period during which time he destroyed a large number of incriminating documents.

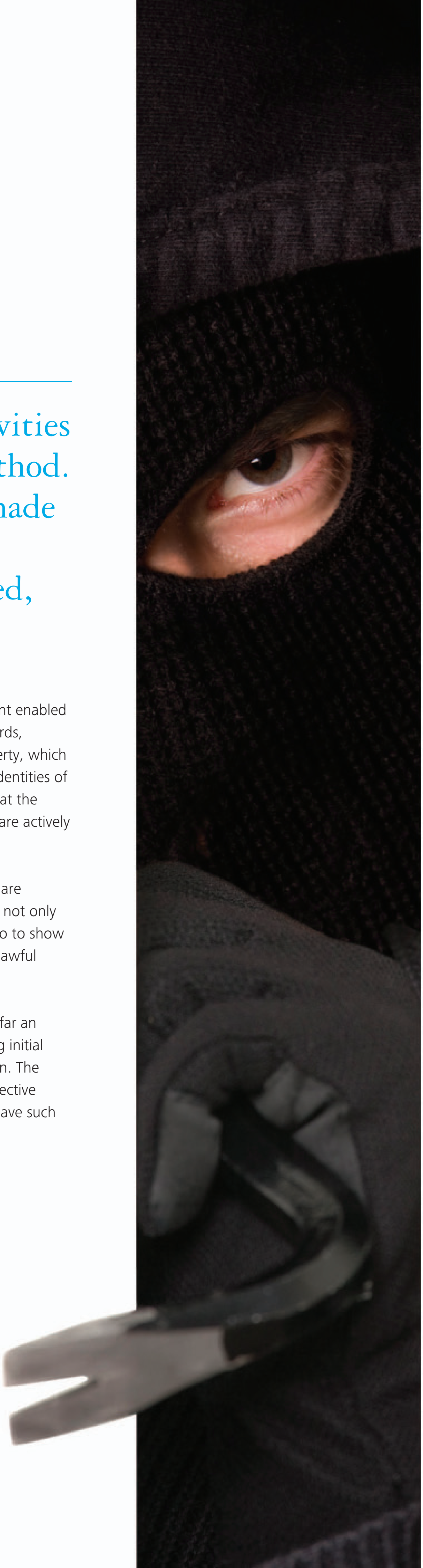
In another incident, it became widely known throughout an organization that a fraud had been uncovered. However, that particular incident, which became public knowledge, was only a small part of a much larger conspiracy between a number of employees and suppliers. By failing to keep the

Fraudsters rarely restrict their activities to only one modus operandi or method. Therefore, every effort should be made to obtain as much information as possible before anyone is questioned, confronted or interviewed.

matter confidential, the company management enabled the conspirators to destroy incriminating records, electronic data and to dispose of stolen property, which rendered any future investigation futile. The identities of the suspects were not confirmed, meaning that the company may still be employing people who are actively seeking ways to defraud it.

A Fraud Response Plan ensures that incidents are handled in a systematic and efficient manner, not only to conclude a successful investigation, but also to show that the organization acted in a prudent and lawful manner. And that it does not tolerate fraud.

The Fraud Response Plan should outline how far an individual line manager should go in collecting initial information before invoking the Response Plan. The key is to provide the line manager with an effective framework to resolve concerns, rather than leave such resolution to individual initiative.



Initial Action

It is important to remember that when fraud is first suspected, the matter may well be more serious than it may initially appear. This is because fraudsters rarely restrict their activities to only one modus operandi or method. Therefore, every effort should be made to obtain as much information as possible before anyone is questioned, confronted or interviewed. This is particularly important in organizations or business units with a close working environment, where there may be a strong temptation to simply question an employee as soon as suspicion is raised.

It is also important to be aware that larger scale frauds are often international in nature. Therefore, any fraud contingency planning must include measures for taking legal and investigative action across jurisdictions.

In addition, most frauds involve the use of a computer at some stage in the planning or execution of the fraud. This is particularly evident in today's environment, when the majority of white collar employees are allocated a computer by their employer. Business is conducted by computer and correspondence normally involves a computer through the widespread use of corporate e-mail. The pervasive involvement of the computer into most facets of corporate life means that electronic evidence is often vital to investigating corporate fraud. Obtaining that electronic piece of evidence is a specialist skill which should be discussed with your forensic specialists.

Initial actions are crucial to the eventual outcome of an investigation and, if a proper strategy is put in place and adhered to, the extent of fraudulent activity can usually be assessed and action taken to resolve the matter successfully. This usually means assimilating sufficient evidence to dismiss errant staff and to commence civil and/or criminal proceedings against those concerned in the fraud, or claims against insurers, if so desired.

It is vital that all allegations of fraud are treated seriously and that responsibility for handling fraud incidents is assigned to a senior, trusted individual or collection of individuals

Initial responsibility designation

Fraud investigation is, by necessity, a confidential task and is a sensitive matter for the vast majority of organizations. It is vital that all allegations of fraud are treated seriously and that responsibility for handling fraud incidents is assigned to a senior, trusted individual or collection of individuals. In many organizations, that responsibility is handed to a corporate security advisor, internal audit manager or risk management director. In other organizations, the responsibility is shared between members of senior management or an audit committee and the organization's human resources personnel and corporate lawyers are involved from a very early point. Fraud incident management responsibility is an important role and those chosen to administer the role must come from the appropriate legal and management level to authorise investigative actions and to co-ordinate the organization's overall response to fraud incidents.

As part of their overall fraud control plan, organizations should assign responsibility for fraud incident management to an appropriate person(s) as a precursor to adopting an incident management plan. Consideration should also be given to the appropriate level of involvement by corporate lawyers and human resource personnel.

Most frauds involve the use of a computer at some stage in the planning or execution of the fraud. This is particularly evident in today's environment, when the majority of white collar employees are allocated a computer by their employer.

Fraud Response Team

Some Fraud Response Plans only deal with situations where an employee discovers a fraud and hands it over to an investigation department to follow up. However, some frauds have impacts far beyond the remit of the investigation department to deal with (such as when the organization's liquidity is threatened). The Plan also should cater for these eventualities.

Most large organizations have formed crisis management committees to respond to major incidents (such as a fire or explosion), so it is not uncommon to take a similar approach in a Fraud Response Plan. Typically, this means forming a Fraud Incident Management Team, comprising essential members and co-opted members.

In some types of fraud, the victim may only have a few hours to take action to freeze funds which have been illicitly transferred. It is essential that contact numbers for essential service providers are established beforehand, including internal support departments, such as legal, corporate security, insurance external lawyers, police and telecommunications agencies, forensic accountants and investigators.

Receipt and initial assessment of suspicion, allegation or 'tip off'

Fraud investigations are often initiated after an allegation or a tip-off (often anonymous) is received. This will usually be sourced from inside the organization, although external tip-offs are not uncommon. Many fraud incidents are initially discovered by accident, perhaps as a result of an audit, job change or resignation. Very few frauds are discovered as part of a deliberate attempt to uncover fraud, as very few organizations implement a proactive fraud detection program.

The checklist on the right/left highlights initial actions to be taken (or not) upon the discovery of fraud or tip-off.

At the conclusion of this stage, a decision must be made as to whether the allegation or suspicion warrants investigation or is implausible or vexatious. However, this decision must be made carefully. If an allegation cannot be quickly dismissed as false, further action should be taken.

A typical Fraud Response Plan contains:
- purpose of the plan,
- policy statement,
- definition of fraud,
- roles and responsibilities including fraud response team,
- objectives including civil and criminal response,
- reporting of suspicions and collection and preservation of evidence.

As part of their overall fraud control plan, organizations should assign responsibility for fraud incident management to an appropriate person(s) as a precursor to adopting an incident management plan

by **David Clements**, director, Forensic and Dispute Services, Deloitte Corporate Finance Ltd

Checklist

Initial action checklist upon discovering a potential fraud:

1. Alert the fraud incident manager that an allegation or suspicion exists
2. Document date, time and details of initial report/discovery
3. Take notes of all observations and actions – if something is worth taking a mental note, it is worth a written note)
4. Maintain confidentiality (only inform those people who need to know about the suspected act). Unwarranted disclosure can seriously damage potential successful investigations. Do not confront the suspect.
5. Write out in full the suspected act or wrongdoing including:
   - What is alleged to have occurred
   - Who is alleged to have committed the act
   - Is the activity continuing
   - Where did it occur
   - What is the value of the loss or potential loss
   - Who knows of the activity
6. Identify all documentary and other evidence connected to the activity
   - Invoices
   - Contracts
   - Purchase orders
   - Cheques
   - Computers
   - Credit card statements
7. Obtain evidence and place in a secure area. (only where it is possible without alerting any suspects)
8. Protect evidence from damage or contamination
9. List each item individually taking note of acquisition (incl. time, date and location) and where the item was securely stored
10. Identify all potential witnesses
11. Unless electronic evidence is in the process of being destroyed do not go into the suspect/target computer systems
12. If possible, secure and/or remove suspect's access to relevant computers/systems. Do not allow IT department to examine computer
13. Consider other potential suspects and extent of fraud

Family Businesses: Addressing the challenges faced in today's environment

Family businesses are fundamental to the business landscape of the Middle East and are intrinsic to the region's economy. The challenges faced by today's family businesses are perhaps greater than ever: competing in a more turbulent environment dominated by pluralistic social values, intensified competition, a global economy and rapidly changing politics and regulation. Compounding such challenges are the complex relationships that exist between family members and the delicate balancing act required to combine family and work relationships. Moreover, there is no one rule that governs all – every family business is unique, deriving its personality from generations of family and business heritage.

So how do family businesses face up to these challenges and ensure their success and longevity?

Balancing family and business demands

An equitable balance needs to be accomplished between family demands and the needs of the business, whilst at the same time addressing the complex interaction between the two. As well as dealing with commonplace business issues, such as changes in business and technological markets and challenges from competitors, family businesses must deal with the unique psychological dimensions of having family members work together.

It is critical to understand that each of the key members of the business will have their own objectives, perspectives and goals. Working together intensifies family interactions and can exacerbate family problems such as sibling rivalry or competition between the generations. Unresolved conflicts can undermine the operation of the business, diminishing communication and trust, ultimately resulting in a detrimental effect on the business.

Key issues to be tackled include effective decision-making across the family, management and ownership issues, conflict resolution, facilitating effective ownership of the business, balancing the involvement and performance management of family members with their skill set and those required by the business whilst above all operating in the best interests of the business and family as a whole. It is important to address such sensitive issues in order for the family business to succeed.

Benefits of family business planning

Many family businesses do not have family business planning and governance frameworks in place to deal with the future strategy of their business and families. As a result there are no mechanisms in place to deal with everyday issues such as methods of ownership and policies for change, formalising family employment policies, establishing effective communication and succession planning.

Whilst the need for tighter corporate governance, that is the way in which a business is directed and controlled, is recognised, the importance of family governance remains relatively unrecognised as an essential element in governing the family and its relationship with the business. The establishment of structured planning and frameworks will not only encourage the family to articulate and examine their values, needs and goals on a regular basis, essential to the unification of the family, but also to develop their commitment to the success of the business.

An equitable balance needs to be accomplished between family demands and the needs of the business, whilst at the same time addressing the complex interaction between the two

The benefits to be obtained from doing so are immeasurable and include improved business performance, managing family relationships and expectations as well as sustaining trust and communication. To remain viable, businesses must continually grow and develop, changing and adapting to external environmental factors. Consideration of the family business governance frameworks and regular planning provide opportunities to take stock and gain perspective – something not easily done amongst the pressures of daily business activity. As the family grows and matures, planning is crucial to accommodating changing family relationships/dynamics and circumstances and keeping the family unified. Trust is vital to all organizational relationships; the establishment of a clear and fair set of rules and applying them consistently is fundamental to the building of trust amongst family members.

The planning process is also pivotal in supporting successful management succession, ownership transition, effective governance and profitable business strategies.

Overcoming the leadership challenge and transition to the next generation

Transition from one generation to the next is often one of the most problematic and least planned-for events within family businesses. All too often, family business leaders continue well beyond what is necessary or reasonable in terms of the alternatives, for fear of ceding control over the family business and, to some extent, avoiding their own mortality.

The implementation of plans, mechanisms and frameworks enable a smooth succession process, understood, accepted and agreed by all parties, effective and not damaging to either the departing or the incoming leader.

Whilst the gentle disengagement of leaders is hard to achieve, there is no reason why a staged departure cannot be achieved, with the business benefiting from their wisdom and experience but at the same time allowing the invigorating wind of change to blow. We often find leaders discover a 'third career path' where they can exercise their drive and enthusiasm, in many cases choosing the route of philanthropy as a rewarding area to focus on.

Another challenge is the introduction of junior family members into the business. Obtaining outside work experience can be invaluable and is worth considering as a prerequisite to joining the family business. This enables junior members to gain a realistic view of their skills and abilities as well as to understand the commitment required to develop a successful career. Upon joining, junior members should follow a planned training and development program, not be subject to preferential treatment and be expected to earn the respect of their fellow family members and colleagues.

So how do you establish and implement effective planning and governance frameworks?

Establishing effective planning and frameworks

The extent of the planning and governance frameworks required will depend upon a variety of factors and tends to be something that evolves over time. These factors include: size, complexity and geographical spread of the business, number of family generations involved, total number of family members and their geographical spread, whether the business has non-family executives or independent non-executive directors.

Family businesses in the early stages of establishment require significantly less complex planning structures and frameworks than those that have been running for a number of years and are already employing a number of family members. As the family grows and the business develops, this will give rise to the need for a more structured framework.

There are many elements to the family governance framework. While it is not possible to discuss all constituent parts, key components include: a family constitution, a family council and a family office.

A family constitution is essentially a route map for the family and the business and sets out statements of intent or agreements entered into by the family members in relation to the family business. It is essentially a statement of general principles, outlining the vision of the business, its core values and the family's commitment to them. It provides a documented method for reaching a family consensus on how a number of issues should be addressed, offering a practical guide as to the framework for running the business and dealing with the family business issues that have the potential to cause disputes.

A family council is an organized, self-led, self-determining group that provides a structured forum for family members to meet and discuss the current and future state of the family business and to establish policies or strategies on matters affecting the family. The family council is a way of building family support, unity, empowerment and cohesiveness through a shared vision of the family's guiding principles.

A family office provides a forum to control and consolidate the management of a family's wealth, bringing together business and personal planning to generate one global wealth management plan encompassing the family's values, aspirations and objectives. This is often administered in conjunction with a fiduciary wealth planning structure, such as a private trust company, to provide effective wealth management, succession planning and preservation of family wealth across generations.

Professional advice

Family businesses have a tendency to rely on existing family members, on the premise that they have a wealth of experience that can be drawn upon. This can often be counterproductive and restrict the ability of the business to grow and develop. The use of external professional advisors provides a new raft of skills, competences and experience, as well as independent objectivity not often found among family members.

> Family business leaders continue well beyond what is necessary or reasonable in terms of the alternatives, for fear of ceding control over the family business and, to some extent, avoiding their own mortality

A wealth of advice can be provided, covering the issues pertinent to both the business and the family itself. From a business perspective, advice can range from corporate restructuring through to international cross-border taxation and mergers and acquisitions. From a family perspective, the advice can range from establishing family governance frameworks to international taxation issues, wealth management and the structuring of both financial and non-financial assets to achieve effective succession planning and preservation of family wealth.

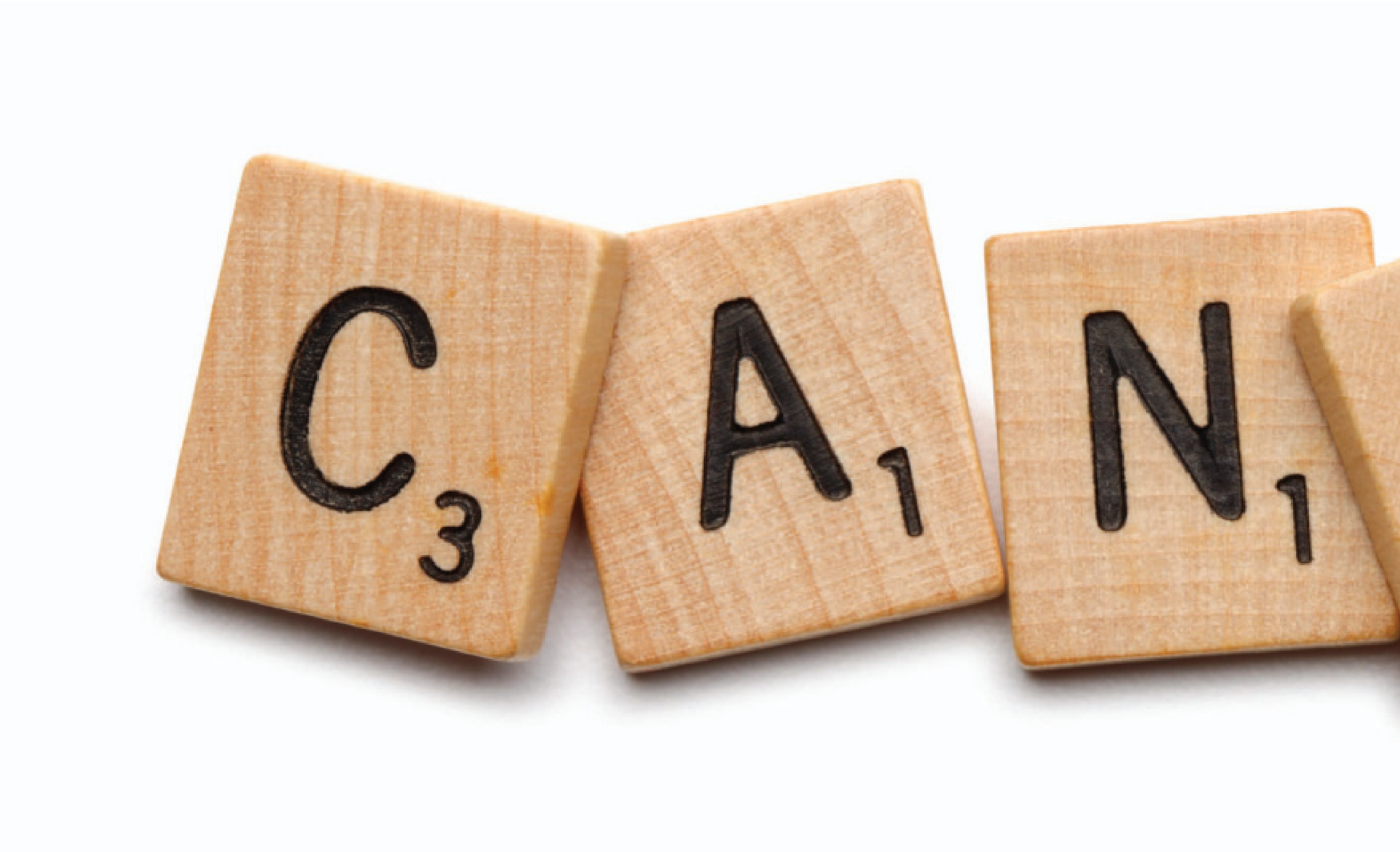
Such advice allows the business to grow and flourish as well as respond successfully to change.

On a final note, the ability of professional advisors to navigate through sensitive problem areas, both within the business and family, cannot be underestimated.

Conclusion

The global economic and political climate makes it more important than ever for family businesses to implement effective planning and governance frameworks, seeking the assistance of professional advisors, in order to ensure the success of their businesses and the preservation of family wealth across generations. As Harvey MacKay reminds us, "most people don't plan to fail, they simply fail to plan."

by **Ali Kazimi**, managing director, International Tax Services, **Ben Moore**, managing director, Financial Advisory Services, and **Paula Morris**, senior manager, International Tax Services, Deloitte in the Middle East



We've got to talk about… the C-word

Prioritizing cancer at a time when it is not a priority

Cancer, once an enigma, is now the second leading cause of death worldwide, after cardiovascular disease. It is also increasingly on the rise in the developing world, where it is rising at a faster rate than population growth. In the Middle East, in particular, cancer cases will outpace population growth by a rate of almost two to one.[1] It is an issue that not only cannot be ignored but should be prioritized.

While the rise in cancer rates outstrips population growth, there are very few cancer treatment centers in the Middle East. Healthcare systems in the region currently do not have, either the capacity to absorb this increase in the number of cancer patients, or the proper medical facilities and expertise to provide them with the treatment they need. One of the leading comprehensive cancer centers in the region has, in recent years, been forced to turn patients away due to lack of space.[2] If this is the situation today, one can only shudder at how it will develop over the years. Governments must prioritize health and take urgent action to prepare the region to shoulder the cancer burden of the next generation.

Unfortunately, maintaining healthcare on policy makers' list of priorities has become a challenge in itself as governments in the region grapple with unprecedented political and economic challenges. The situation varies from one Middle Eastern country to another, thus the response to this impending health crisis will have to be tailored to fit the varying needs, both locally and regionally. For instance, some countries in the region might have the financial resources and economic growth rates to build the infrastructure needed to absorb the rising number of cancer patients, but neither the human resources nor the expertise to provide these patients with life-saving cancer treatment. Other countries in the region might be equipped with the skilled labor force, but lack the financial resources to build the infrastructure necessary to absorb all cancer patients.

> Maintaining healthcare on policy makers' list of priorities has become a challenge in itself as governments in the region grapple with unprecedented political and economic challenges

These varying needs call for regional cooperation to ensure that solutions are crafted to make optimal use of limited available resources, both in terms of human capital and financial assets. The most effective solution may not necessarily require the construction of a comprehensive cancer treatment center in each and every Arab country. It may be more efficient to consolidate expertise in a select number of cancer centers in the region and ensure that they receive sufficient funds to become hubs for cancer patients from across the region. Medical partnerships and research must be encouraged and promoted in order to exchange expertise and enhance the capacity of healthcare providers. These efforts should all be channeled towards increasing the availability of quality life-saving treatment.

As cancer care becomes more available, the issue becomes how to ensure that patients have access to such care. It is no longer feasible to expect governments to shoulder, alone, the burden of proving healthcare to their populations. The global financial crisis has forced many governments to slash their public expenditures, sacrificing much of their budgets allocated for healthcare. This is particularly the case with tertiary level care, which is expensive and often requires a commitment of time due to the complexity of the disease being treated. Given that public healthcare is increasingly being strained by financial limitations, it is imperative that all segments of society take responsibility in order to ensure that patients have access to quality medical care.

Private sector and non-profit organizations should step in to alleviate the government's burden of providing healthcare. In the case of the private sector, this can be achieved by investing in the health sector and supporting medical centers and projects through corporate social responsibility (CSR) programs. Non-profit organizations on the other hand can become alternative providers of medical services. In Jordan, for instance, the United Relief Works Agency for Palestine Refugees (UNRWA) is the main provider of primary healthcare for Palestinian refugees registered with the agency. Another non-profit organization that provides healthcare services is the King Hussein Cancer Foundation (KHCF) and Center (KHCC). KHCC is the primary provider of cancer treatment in Jordan, while KHCF has various goodwill funds which cover either partially or fully the cost of treatment for underprivileged patients.

Insurance programs can also be effective in providing coverage for patients who require treatment and cannot afford it. KHCF's Cancer Care Program is an example of an insurance program that offers subscribers limited coverage to be treated exclusively at KHCC, upon being diagnosed with cancer, in return for a minimal annual subscription fee.

Governments must also concentrate their efforts on prevention and early detection. Research has revealed that a large proportion of non-communicable diseases (NCDs) are preventable. According to the World Health Organization (WHO), "NCDs share modifiable behavioral risk factors like tobacco use, unhealthy diet, lack of physical activity and the harmful use of alcohol, which, in turn, lead to overweight and obesity, raised blood pressure, and raised cholesterol […] Feasible and cost-effective interventions exist to reduce the burden and impact of NCDs and sustained action to prevent risk factors and improve healthcare can avert millions of preventable premature deaths".[3] For these interventions to be effective, stakeholders must cooperate to ensure that regulations are promulgated and enforced to reduce exposure to risk factors. This can be achieved through bans on smoking in public places, for example, or constraints on advertisements for so-called junk food. Together, these efforts will create an enabling environment that will encourage individuals to adopt a healthy lifestyle, thus reducing their chances of getting NCDs.

Governments must join forces with other stakeholders to devise and build the proper framework to curb the rise in NCDs in the region and to ensure that quality cancer treatment continues to be available and accessible to all patients. Building infrastructure and developing skills and expertise to provide quality medical treatment to patients in the region require advance planning and a solid investment of funds and time. It is therefore incumbent on all stakeholders to confront the rise of NCDs head-on and reprioritize healthcare in their policies and budgets. It is only by consolidating efforts today that we will be able to avert a health crisis in the near future.

Governments must join forces with other stakeholders to devise and build the proper framework to curb the rise in NCDs in the region and to ensure that quality cancer treatment continues to be available and accessible to all patients

by **Zaid A. Bitar**, Deputy Director General and Head of International Development, King Hussein Cancer Foundation, Amman, Jordan and **Dr. Lena El-Malak**, Senior International Development Manager, King Hussein Cancer Foundation, Amman, Jordan.

Endnotes

1 Economist intelligence Unit, comp. "Breakaway: The Global Burden of Cancer Challenges and Opportunities." (2009): 41-42. Print and CIA Online World Fact Book, All Country Background Data.

2 The King Hussein Cancer Center is the only center in the region accredited by the Joint Commission International as a Disease Specific Cancer Center.

3 World Health Organization (WHO) Discussion Paper, A Comprehensive Global Monitoring Framework and Voluntary Global Targets for the Prevention and Control of NCDs, 21 Dec. 2011 [available online at www.who.org].

GCC Hea

Growing investme
for private sector p

Driven by new government strategy and regulatory reforms, more investments are expected in the GCC healthcare industry, aimed at enhancing and developing healthcare infrastructure and value chain. This increase in investment will lead to a significant expansion in the healthcare sector and will create attractive opportunities for private sector participation in the industry.

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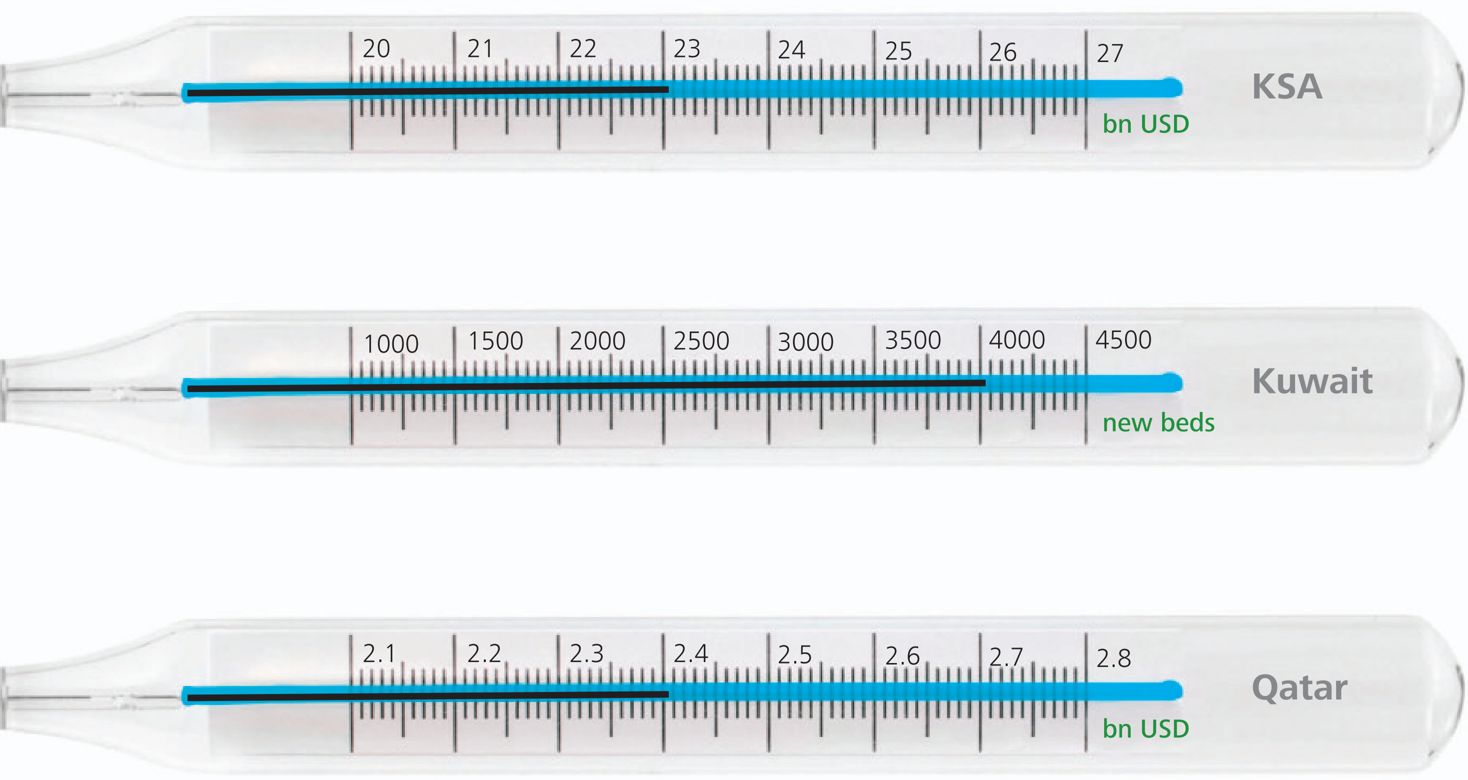


Key market drivers

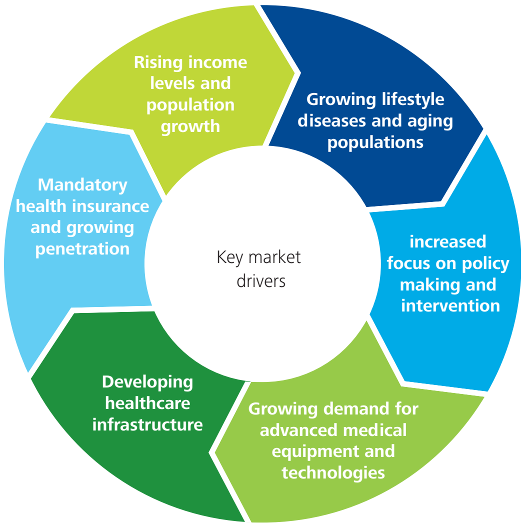
Demand for health services are affected by several key drivers, including demographic and macroeconomic factors. According to the Economic Intelligence Unit (EIU), the Gulf Cooperation Council (GCC) population reached 45 million in 2010 and is forecast to reach close to 57 million by 2015, posting a cumulative annual growth rate of 5%. The GCC population is relatively young with the vast majority of people under the age of 29. But this structure is expected to change in the next 10 years, with the over-65 age segment experiencing the fastest growth rate. This segment has a proportionally higher healthcare cost per capita associated with the treatment of diseases such as heart ailment, hypertension and diabetes.

The healthcare industry is also driven by positive growth prospects and increased purchasing power, such as those witnessed in the region. The overall income levels in the GCC region have risen substantially due to the increase in oil prices over the past few years. Income growth has outpaced population growth, resulting in faster increases of per capita income. According to the International Monetary Fund (IMF), per capita GDP in the GCC is expected to grow 5.4% over the period 2010-15, which is likely to further drive healthcare spending in the region.

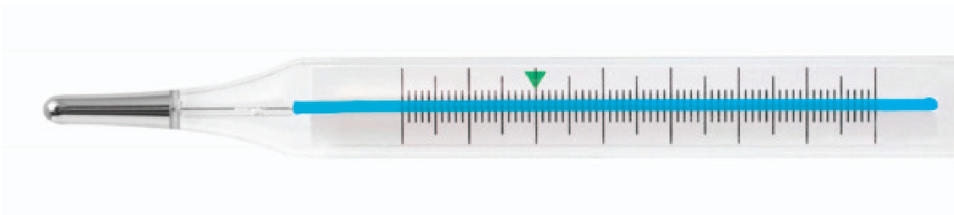
Increased urbanization and rising per capita income have also led to a more sedentary lifestyle in the GCC. This has substantially increased the prevalence of lifestyle-related diseases such as diabetes, cardiovascular ailments and cancer. According to the World Health Organization, the GCC has the highest ranking in the world in incidences of diabetes and obesity. The higher incidence of lifestyle diseases is projected to lead to an increase in per capita healthcare costs and more demand for specialized tertiary medical facilities. Additional investment and private sector participation are required to reduce the demand/supply gap.

The higher incidence of lifestyle diseases is projected to lead to an increase in per capita healthcare costs and more demand for specialized tertiary medical facilities

Key market drivers and challenges for the GCC healthcare industry



Source: Deloitte



Aided by large budgetary surpluses, the GCC governments are set to make unprecedented investments to support healthcare provision and bring the industry up to par with international standards in terms of bed capacity and the quality of healthcare services

Developing the healthcare infrastructure

GCC governments have devised strategies to boost their healthcare infrastructures. However, they continue to lag behind the developed markets in terms of standards and key indicators. Expenditure on healthcare in the GCC grew by around 14% to reach over $34 billion in 2009, of which the public sector contributed 70%. But despite a relatively high level of public spending, expenditure as a percentage of GDP stood at 3.5% only, far below that of developed economies and the world average of 10%. In addition, GCC states lag behind developed countries in bed count. The bed density in the GCC is currently at 1.8 beds per thousand, as compared with 3.1‰ in the U.S., 8.2‰ in Germany and a staggering 13.7‰ in Japan.

Aided by large budgetary surpluses, the GCC governments are set to make unprecedented investments to support healthcare provision and bring the industry up to par with international standards in terms of bed capacity and the quality of healthcare services. Such investments will require strong private sector partnerships as well as a strong private sector presence to both, sustain and capitalize, on expected demand. Promoting the industry to private players is a priority for all GCC governments, as it is clearly stated in their strategic and development plans.

Saudi Arabia

Saudi Arabia, which is the largest and one of the most developed markets for healthcare services in the region, allocated a $23 billion healthcare budget in 2012, representing the largest in the history of the Kingdom. They have also allocated a robust SAR 274 billion (USD 73 billion) for various health initiatives in their ninth Five Year Plan (2010-2014), including the construction of 121 hospitals, 700 primary healthcare centers and 400 emergency centers. The plan is to improve the bed density from the current 2.2‰ to 3.5‰ and the ratio of physicians to beds to 0.75. The Saudi government is undertaking policy reviews to create an effective regulatory framework aimed at providing the appropriate environment for increased private sector investment and expansion in medical facilities and production and distribution of medical equipment, supplies and services. Such initiatives include the promoting of mergers and acquisitions to spread private healthcare expansion, offering incentives to attract highly qualified medical professionals, addressing the shortage in qualified medical staff through education and the expansion of medical colleges and residency programs, creating partnerships with leading educational institutions to build the Kingdom's medical education capacities, designing a sophisticated healthcare system to regulate and track the increasingly complex healthcare sector and establishing a national electronic records system and business intelligence solutions to support the Kingdom's healthcare expansion. The aim of the privatization initiatives is to reduce public spending and re-focus government efforts on market regulation.

Kuwait

Kuwait is another example with plans to increase bed density from the existing 2‰ to 2.2‰ by building nine new hospitals by 2016, which will add 4,000 new beds to the market. The government is also planning major policy and regulatory reforms to increase the private sector investment in the industry. The government is also identifying specializations that the private sector can invest in to align service offering with the public sector and control competition to ensure quality services are being offered.

Promoting the industry to private players is a priority for all GCC governments, as it is clearly stated in their strategic and development plans

Qatar

Qatar's 2011–12 budget allocated QAR 8.8 billion (USD 2.4 billion) for health projects and services and the government continuously encourages the private sector to play a greater role in upgrading healthcare infrastructure. In fact, private sector participation, which stands at around 60% of total hospitals, has been steadily rising over the years and the government has recently taken a number of additional steps to further widen participation. For example, Qatar's Supreme Council of Health (SCH) plans to introduce a national health insurance scheme within the next three years under the National Health Strategy (NHS) 2011–16 to reduce dependence on public funds for healthcare. Qatar also intends to implement a pioneering e-health program across its hospitals and clinics nationwide, including the introduction of an electronic health records system. The imminent need for a comprehensive information management system will provide extensive opportunities for the private sector to contribute to its development and benefit from the flow of information it generates. Furthermore, in January 2011, the SCH approved a decree to remove all price controls on medicine in an attempt to liberalize the market and increase competition. Currently, the SCH is implementing the free pricing policy, but routine inspections on the prices are conducted to prevent any misuse of the policy. The SCH also has a new direction to promote pharmaceutical manufacturing in the country for private sector investors.

UAE

Meanwhile, leaders in the United Arab Emirates (UAE) have emphasized in their vision that all Emiratis should have access to comprehensive world-class facilities with the best quality services in early diagnosis and preventative medicine. With this core focus, mandatory insurance will be introduced to all Emiratis and non-Emiratis across the UAE (beyond Abu Dhabi), which in turn will increase consumption of healthcare services (perhaps as much as three-fold) and will help regulators identify the gaps in current services at hospitals and clinics across the emirates. The private sector will have access to better information on the market landscape, thus providing an additional platform for investment in the industry. Furthermore, the President of the UAE, Khalifa bin Zayed al Nahyan, recently issued a decree to establish a Federal Health Authority (abolishing an earlier decree). The new decision was driven by the President's interest in utilizing the allocated budget on improving and expanding the existing healthcare services and infrastructure in the country.

Specifically, the Emirate of Abu Dhabi has been working to strengthen their cooperation with internationally recognized healthcare providers with an aim to transfer knowledge and know-how to the local market. The Public-Private Partnership (PPP) model between Mubadala and Cleveland Clinic is an example of the strategic direction and importance the government of Abu Dhabi has placed on providing world-class healthcare services to its citizens. Dubai, on the other hand, has created a specialized healthcare free zone (Dubai Healthcare City) aimed at attracting internationally recognized medical service providers to set up in a 100% ownership structure.

The leadership of Dubai strongly believes that increased private sector participation is a promoter of competition that results in best in class quality service offerings. The Dubai Health Authority (DHA) has also set new initiatives aimed at positioning the industry as an international hub for medical tourism. Similarly, in April 2012, the ruler of

Sharjah, Sultan bin Mohamed Al-Qasimi, announced the establishment of the Sharjah HealthCare City (SHCC), which is also aimed at attracting international healthcare companies and private players to the emirate. It is estimated that Sharjah will require an additional 630 beds in the next five years to meet growing demand. As such, healthcare has been designated as a key focus sector for the attraction of Foreign Direct Investment into the emirate.

Good reasons to invest

The GCC healthcare market stands on the brink of major developments and double digit growth. The combined forces of regulatory and funding reforms (i.e. structural changes in service provision and recent moves towards a compulsory insurance system) and increasing demand for services through population and income growth and high incidence of disease categories make this inevitable. As the GCC governments plan for additional investments and expansions, the private sector is becoming increasingly aware of the gaps in healthcare services, not only in terms of infrastructure availability but also as quality of services. Indeed, any additional investment in the industry will require a strong private sector presence. This creates attractive opportunities for the private players to supplement the efforts of the government and devise effective strategies focused on highly differentiated services and products to cater to the unmet demand across the entire healthcare value chain.

by **Parham Gohari**, senior manager, Strategy Consulting, Deloitte Middle East and **Sari Alabdulrazzak**, manager, Strategy Consulting, Deloitte in the Middle East

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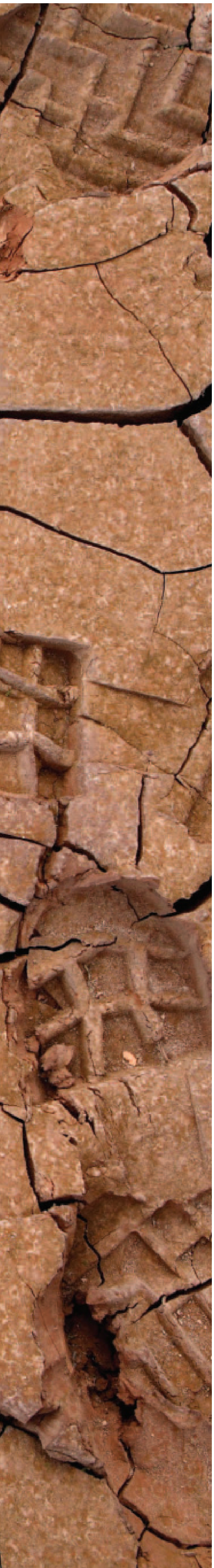

Is your corporate footprint stuck in the mud?

When Ken was asked by his CEO to attend a meeting about the company's global footprint strategy, he wasn't sure what to expect. Hadn't they just finished moving the last labor-intensive production line to Suzhou? As director of operations, Ken felt like he had a pretty good handle on how the company was doing in terms of facilities utilization – it seemed unlikely that they could squeeze more out of any of their sites.

Upon his arrival, Ken was ushered into a darkened conference room where he greeted the other members of the leadership team who were getting settled. A few moments later, the CEO welcomed them.

"I hope you had a good trip in. Today is all about learning, exploring possibilities, and generating ideas to create significant value for our company."

Ken watched as the facilitator further dimmed the lights and tapped his keyboard. Several large computer screens on the wall of the conference room glowed, showing a world map with a constellation of about 30 colored indicators. Ken recognized the locations of their manufacturing and distribution sites but noticed the headquarters, back office, contact centers, data center and R&D hubs were shown as well.

The facilitator pressed a few more buttons and a number of charts and tables popped up across the map depicting the company's financials for last year, employee headcounts, operating costs and more. The head of HR answered a few questions about talent issues in some of the back office and R&D sites.

"Let's run a few hypotheticals," the facilitator said. He double-tapped the indicator for one of the R&D sites. It blinked slowly. "What if we were to redeploy this to a market that had better industry presence, a growing base of engineering talent and also offered R&D tax credits?"

Many organizations recognize that geography is a key driver of corporate performance. Yet many maintain ineffective and inefficient footprints that can hamper talent attraction and retention, increase operating costs, overexpose them to risk and depress shareholder value.

He dragged the blinking site across the screen to a Southeast Asian country and released it. Ken immediately noticed a new column on one of the tables that showed an improvement in financial performance.

His mind raced. One of his production sites was getting hammered with an electricity rate increase that he was going to have a hard time dealing with. Ken began to realize that the company's footprint strategy hinged on much more than just the utilization of their facilities.

Why do companies get stuck?

Many organizations recognize that geography is a key driver of corporate performance. Yet many maintain ineffective and inefficient footprints that can hamper talent attraction and retention, increase operating costs, overexpose them to risk and depress shareholder value. Why do companies leave value on the table by suboptimizing their geographic deployment, and how can they better capture that benefit?

During good economic times, many companies expand rapidly and deploy enterprise assets in pursuit of singular objectives – to increase revenue, reduce costs or source new talent. In times of hardship, companies in search of immediate solutions may take an unsophisticated approach to disposing of high-cost or underperforming operations.

Fewer companies are deliberate and proactive in assessing their overall corporate footprint and the degree to which it supports and contributes to the business strategy. Geographic variables such as talent availability, operating costs, risk or tax regulations can change quickly. Mergers and acquisitions generate additional footprint complexity, often yielding overlap in some geographies and underrepresentation in others.

Yet many companies lack mechanisms to effectively evaluate and react to these changes. Some make footprint decisions at the subenterprise (e.g. business unit or regional) level. Others, through sheer inertia, continue to perform the same functions in the same geographies while the world changes around them. Still others regard footprint decisions primarily in terms of real estate rather than a more expansive view that considers the proper location for every corporate function and asset.

By enhancing "locational awareness" and evaluating the corporate footprint with a more holistic perspective, companies can more efficiently and effectively position assets and strike a balance between market access, talent availability, risk mitigation and cost containment.

Dynamic Challenges

Extraordinary events of the past few years have presented significant challenges for many companies. Though global organizations have faced location and footprint decisions for decades, these circumstances, and the continuation of longer-term business trends, have altered the cost and conditions that companies enjoyed – sometimes profoundly. Beyond these events and trends, there are traditional triggers for footprint realignment that can create more urgency around such decisions.

Disruptive events

Companies are occasionally jolted into location awareness by disruptive political, natural or economic events. Prior to the 2011 Arab Spring upheaval in the Middle East, Egypt had been considered a budding global technology destination where many global IT companies have tapped an abundant, low-cost supply of programming talent to create tens of thousands of jobs.[1] Foreign companies are undoubtedly taking a more cautious view of Egypt, and the Middle East in general, in light of the recent and predominantly unpredicted uprisings.

Escalation of drug-related violence in northern Mexico has also influenced the footprint strategy of many leading organizations. One major global retailer cancelled plans to deploy a new several hundred person back-office support center in Monterrey after a wave of crime – which was historically focused along Mexico's border with the United States – threatened to sweep through northern Mexico's hub city as well. Validating the company's concerns, conditions did subsequently deteriorate to the point that Monterrey's violence levels are as extreme as anywhere in the country.[2] Global manufacturers, who operate thousands of maquiladora facilities along Mexico's northern border, are also exercising increasing caution.[3]

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What is a "Footprint"?

A company's footprint is more than just the real estate it occupies. It includes the people it employs; customer access and speed to market it experiences; operating costs it incurs, and the risk it undertakes. Where companies locate their assets helps dictate the potential value they can achieve as an organization. This configuration of attributes – the "footprint" – includes a wide array of corporate assets such as:

- Capital
- Talent
- Machinery and equipment
- Inventory
- Contract manufacturers
- Facilities
- Intellectual property

A number of ongoing trends have dramatically impacted companies both home and abroad and are showing no signs of reversing any time soon. These trends will likely continue to influence location decisions and may require companies to anticipate the impact on their operations and therefore on their global footprint.

Other globally felt events, such as the Japan earthquake and tsunami of 2011, and recent terrorist activity in locations ranging from Mumbai to Norway, can have similar ramifications. For companies directly affected – and even those that were not – global events often serve as triggers to reevaluate location and supply chain risk within the portfolio. The aftermath of these shocks can range from companies taking a renewed organizational focus on risk mitigation strategies and contingency planning, to delaying or revisiting investment plans, or potentially to redeploying existing operations to lower-risk locations.

The economy

Possibly nothing impacts companies' global footprint decisions more than their outlook on the economy. During good economic times, companies eagerly invest in new production sites, R&D operations or other expansion initiatives. The recent global recession and concerns of a "double dip" have pushed companies to try to do more with less. Many organizations have been forced to cut costs to remain competitive throughout the turmoil. Many large-scale capital investments have been put on hold, replaced on the corporate "to-do" list by initiatives aimed at reducing real estate, labor or other costs.

While priorities often shift toward consolidation in this economic landscape, footprint optimization is equally important in good economic times as in bad. Mergers and acquisitions, for example, present an opportune time to reduce redundancy. Many companies, however, address redundancy at the business unit level, and few take the opportunity not only to review where the new combined footprint is, but also where it is not.

Forward thinking companies are constantly working to right-size their footprint and deployment of assets for both current and future economic conditions, understanding that the legacy footprint that was suitable for the last economic period is unlikely to be optimal for the next.

Going green

Increasing volatility in energy costs is another trend significantly influencing footprint decisions. When fuel prices soared late in the '00s, some companies brought manufacturing back from distant low-cost countries, while others increased their distribution capacity to get closer to customers. But the fuel effect has transcended costs, as a growing emphasis on sustainability further enhances the importance of energy in the footprint equation. Increasingly, companies are seeking to identify renewable energy sources as production inputs – not only for cost containment reasons, but for corporate social responsibility as well. This has led to the emergence of several new industrial hubs that feature hydroelectric or geothermal power. Executives in energy-intensive manufacturing industries are turning their attention to locations such as East Malaysia, where demand for developed industrial land in Sarawak has far outpaced supply; Quebec, Canada; and, although less so in the wake of the financial and natural disasters that have befallen it lately, Iceland.

Megatrends

A number of ongoing trends have dramatically impacted companies both home and abroad and are showing no signs of reversing any time soon. These trends will likely continue to influence location decisions and may require companies to anticipate the impact on their operations and therefore on their global footprint.

China's continued evolution

The decisions that led many global companies to China a decade ago cannot be automatically assumed to hold valid today. China's coastal wage rates are escalating at double-digit rates;[4] this combined with the potential risk for revaluation of the Chinese yuan has led to more companies considering other Asian candidate countries for low-cost, export-oriented manufacturing. At the same time, China is producing a massive, growing and increasingly talented pool of engineers, computer scientists and IT graduates (estimated at over 500,000 per year).[5] While many companies are exiting – or bypassing – China for low-skilled manufacturing, savvy companies are seeking to backfill those positions by growing and diversifying in-country research and development or high-tech manufacturing capabilities.

> Fewer companies are deliberate and proactive in assessing their overall corporate footprint and the degree to which it supports and contributes to the business strategy

Increasing share of demand coming from emerging markets

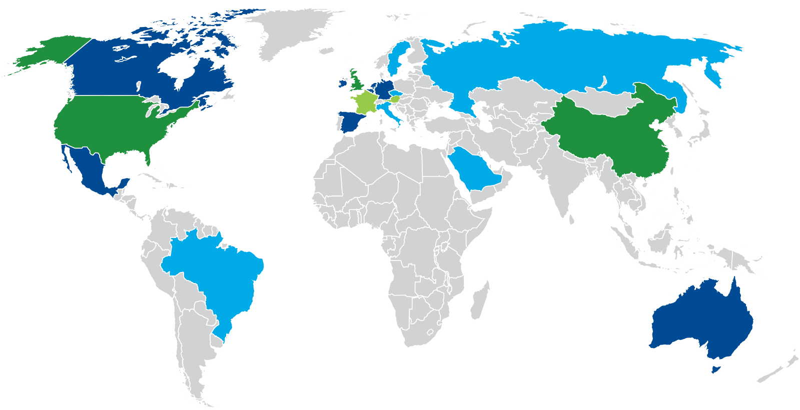
Global economics are constantly evolving, as illustrated by changes in cross-border investment. A more diverse group of countries draws foreign direct investment (FDI) each year, and emerging economies such as India, Turkey, Brazil and several Southeast Asian nations are attracting a growing share.[6] (See figure 1.) For businesses, this means the environments in which they operate – or those in which they could potentially operate – are experiencing perpetual changes in talent, technology, infrastructure and operating costs that can further increase (or in some cases, decrease) their attractiveness for future investment.

The influx of capital and jobs has helped increase consumer spending in many emerging economies. Spending power in 35 top emerging market countries grew by an average of 83 percent from 2001 to 2009, contributing to a cycle of growth and expansion that often leads to more foreign investment.[7] As demand stagnates in many developed countries and companies increasingly turn to burgeoning markets for revenue, they are positioning footprints to build market presence and brand reputation for long-term sales growth.

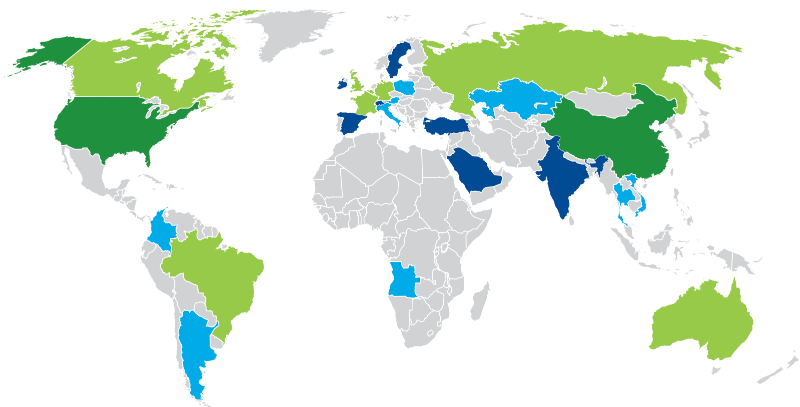
Long-term benefits of a properly aligned footprint can greatly exceed the cost of implementation

Foreign direct investment in flow

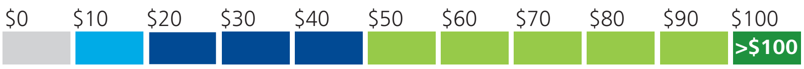
2005



2014



FDI ($US billions)



Source | Economic intelligence unit, September 2011

Skill migration and competition for talent

The specter of the Baby Boomer generation's retirement from the U.S. workforce has made media headlines for the last few years, but the aging of the workforce is not limited to the U.S. In fact, the trend is impacting countries such as Japan and Germany far more severely.[8] Though the economic recession has dampened news of it, a competition for talent to replace those exiting the workforce looms, forcing companies to be more creative about where they find skilled personnel. Similarly, these trends will likely require companies to give more thought to other talent strategies, such as utilizing mobile technology to engage professionals remotely.

Narrowing gap in educational quality

Many emerging countries have invested heavily in their education systems over the years, recognizing its value to enhance their position in the global economy. This educational development has closed the gap between top-tier developed markets and some emerging countries, such as Romania and Chile, particularly at the university level. These developments may present opportunities to get ahead of the curve by gradually shifting the work done at existing locations to the types of activities aligned with the emerging skills and education levels. For example, it is becoming more common for companies to consider R&D placement in markets that may have been more focused on low-skill manufacturing – or would not have even come to mind – 10 years ago.

Continued manufacturing automation

A long-running debate concerns the relative benefits of labor arbitrage in offshore manufacturing versus cost reduction and efficiency enhancement through automation. As technology continues to improve and arbitrage opportunities decline in many growing markets, automation is again gaining traction. This, in turn, has led to what some call the "Talent Paradox": high unemployment levels in areas with protracted shortages of skilled workers. Many companies from Cleveland to Cincinnati, for example, struggle to find R&D and innovation talent, although Ohio's unemployment rate continues to exceed 9 percent. This phenomenon is not limited to North America and Europe, but is also extending to other countries throughout the world as companies replace man-hours with kilowatt hours. For some industries and manufacturing processes, automation advancements are reshaping location and footprint decisions as companies suffer from skill and talent shortages in legacy locations.

Evolving government policy

China's recent discouragement of low-skilled manufacturing (through reduced incentives and increased legislative restrictions), an evolving immigration policy in the United States that may incorporate potentially restrictive provisions being debated in state and federal legislation, and the enactment of treaties in South America and Asia that could result in trade protections for regional economies are all policy trends that can have a profound impact on companies' existing footprint and the decisions they make for the future. Restrictive measures enacted by one country can have a ripple effect on others; Canada, whose immigration slogan is "Canada Wants You!," has used policy to welcome top-skilled talent shut out by restrictions in the United States. South American countries, particularly Brazil and Argentina, have started implementing policies to restrict some labor-intensive manufacturing imports, particularly from China, to protect a domestic industry described as "under siege" by Brazil's finance minister.[9] Other Asian countries such as Vietnam, Cambodia and Bangladesh have benefitted from China's dissuasive stance toward lower-end manufacturing. These legislative maneuvers should not be viewed in isolation, but rather should be regarded as interconnected forces.

Companies can materially improve deployment performance by enhancing their access to appropriate labor skills and leveraging cost arbitrage, as well as managing other operational costs

A potentially game-changing shift in enterprise value

Assessing the enterprise footprint and executing the recommended realignments are not small endeavors. Footprint optimization can be costly and time consuming. But companies able to do so are realizing short-term financial benefits and likely better positioning themselves for long-term success.

Aligning an enterprise footprint primarily creates value through infrastructural and operational economies of scale and flexibility. Real estate expenditure decreases and the reduction of redundant positions are fundamental value drivers; however, other geographically variable operating conditions and costs can also contribute additional ongoing value. Companies can materially improve deployment performance by enhancing their access to appropriate labor skills and leveraging cost arbitrage, as well as managing other operational costs such as taxes, utilities and logistics. The characteristics of a company's specific footprint determine the relative impact of these factors which, when balanced for both existing and new locations, are essential to realizing sustainable benefits.

Footprint optimization can be costly and time consuming. But companies able to do so are realizing short-term financial benefits and likely better positioning themselves for long-term success.

Realizing the benefits of a realigned footprint requires material investments and implementation planning. The primary investments include costs associated with exiting existing facilities, capital expenditures for new facilities, equipment relocation, employee severance and stay bonuses, relocation of key personnel, and incremental recruiting and training. The required expenditures can be significant and can reach $50 million for large-scale redeployments. In addition, detailed implementation and communications planning is essential to retain key talent and mitigate potential impacts to productivity during the transition. A detailed evaluation of organizational design and operational processes should also be utilized to provide the foundation for change and facilitate redeployment decisions. Absent this perspective, changes to the footprint may not yield the expected results.

Long-term benefits of a properly aligned footprint can greatly exceed the cost of implementation. Present value cost savings over a 10-year period can range from 5 to 25 percent, with headquarter redeployments representing the lower end and realignment of distribution operations typically nearer the upper end of the range. Deployment of shared service operations and realignment of commercial operations typically yield present value savings of 10–15 percent. Payback periods and return on investment also vary but generally are two to five years and two to five times investment levels on a present value basis, respectively. Even though a significant effort and cost are required to align a footprint, the financial and operational return to an enterprise can be sustaining, as shown in the following examples.

"One size doesn't fit all"

A leading global nutrition company has experienced rapid organic growth over the past decade, putting a strain on all facets of the business. As a result of uncoordinated growth, the company had adopted divergent footprints in key regions of the world. European operations had become highly dispersed across countries, leading to redundant people, processes and space. Conversely, its U.S. footprint had grown overly centralized in a single metropolitan area with a high cost of living, which inflated wages for skill sets that could be efficiently sourced in other lower-cost locations and exposed the company to elevated levels of business disruption risk associated with centralization in a city susceptible to natural disasters. With growth projections approaching double digits annually, the existing footprints were no longer sustainable.

With a mandate from top executives, the company set out to systematically define a configuration and locations conducive to future business growth. The solution, in this case, lay somewhere between the legacy U.S. and European models. Extracting selected functions from the countries in Europe and consolidating them in a low-cost, in-region "center of excellence" is expected to yield present value cost savings of 10–15 percent, generate returns of three to five times the costs of implementation, and create economies of scale in Europe. In the United States, deployment of a second “hub” is anticipated to reduce operating costs for the enterprise by 5 percent, yield a return of twice the cost of implementation, provide access to new talent, and offer risk diversification.

The new footprint strategy is not without obstacles; moves to the new locations will be costly, transitions are likely to be challenging to manage and key personnel may be lost in the process. However, those issues can be anticipated and mitigation plans implemented. With manageable challenges and payback periods of approximately three to five years, the implementation costs proved to be a beneficial investment for a footprint that offers a flexible, cost effective and sustainable platform to support future growth.

“Room to grow”

With an increasing number of drugs in the pipeline, this highly profitable developer and manufacturer of pharmaceuticals anticipated rapid growth that would require additional staff and facilities. As a reaction to its growth expectations and dispersed footprint, company executives sponsored an initiative to evaluate deployment options across the entire enterprise, including headquarters, R&D, manufacturing and commercial activities. The objectives of the program included not only supporting growth and the development of commercial capabilities but also reinvigorating R&D and innovation within the organization and redefining the company culture to be more collaborative.

Through a structured and disciplined process, the company developed guiding principles based on the strategic goals to evaluate potential deployment scenarios that could support consolidation and future growth. These principles, which focused on the retention and attraction of specialized highly skilled talent, and a broad financial analysis were used to analyze the trade-offs between five distinct deployment scenarios ranging from partial consolidation to full co-location of operations. The company selected a deployment scenario calling for consolidation of operations into a single location. In addition to facilitating the company’s cultural and operations goals, the deployment strategy offered present value operating cost savings of 15–20 percent, a return of approximately three times the costs of implementation, and a payback period under three years. Also as a result of broad planning, employee turnover has been minor and research collaboration has measurably increased.

Mergers and acquisitions generate additional footprint complexity, often yielding overlap in some geographies and underrepresentation in others

The way forward

Through work with a variety of leading companies supporting enterprise footprint optimization initiatives, we have identified a number of key insights, described in the accompanying table.

Do...	Don't...
Set the tone at the top Leadership buy-in and communication up front is critical to encouraging supportive contributions among key stakeholders and mitigating organizational uncertainty. Identify a senior leader to take responsibility for design and execution of changes, and clearly communicate the importance of positive participation early in the process.	**Don't wait for a crisis** When crises strike, companies tend to favor decisive action over rigorous analysis. Enterprise footprint optimization presents the opportunity to take a step back to proactively align location footprint and strategic planning to make urgent reactions to crises either unnecessary or at least more efficient.
Take a holistic view To be effective, the optimization process should consider everything from key strategic objectives, such as enterprise sustainability and market growth, to operating requirements, such as talent availability, risk management and cost containment.	**Don't undercommit** The potential for a transformative impact on the business in terms of positioning it for the future and developing a source for sustainable competitive advantage justifies the expenditure of time and resources. Insufficient leadership communication or dedication of resources could lead to transition costs without realization of the full benefit of footprint optimization.
Start with quick wins In many cases, there are immediate improvement opportunities that can start delivering benefits in less than three months. These "quick wins" not only can make the overall effort self-funding, they can help build momentum and credibility, which are essential to sustained improvement and gradual pursuit of a target footprint.	**Don't forget about tax** The intricacies of international tax law often present a prime opportunity for a footprint assessment. In fact, for some companies, the tax incentives offered by particular jurisdictions can justify the entire effort.
Consider long-term objectives A key component of enterprise footprint optimization is literally mapping the future of the organization. With that in mind, it is important to align the footprint with strategic objectives, include scenario analysis as part of the initiative to identify key factors that could impact plans, and build in footprint flexibility to quickly respond to change.	**Don't ignore change management** Integrating effective organizational design adjustments, aligning talent management and incentives with changes, and identifying and addressing the impact on corporate culture are essential to long-term success.
Challenge traditional assumptions Sophisticated tools such as advanced analytics can allow organizations to test assumptions and model profitability at a depth not previously feasible. These initiatives offer the opportunity to validate or refute standard assumptions using these resources as part of footprint modeling.	**Don't view the exercise solely as one in cost reduction.** While cost reduction is a potentially significant component, organizations that focus exclusively on that objective miss the true benefits of balancing a wide range of critical factors, from cost efficiency and operating requirements to talent availability, tax impacts and access to new markets.

Do...	Don't...
Align incentives Traditional incentive programs tend to reinforce the status quo and encourage optimization within individual functions rather than for the enterprise as a whole. To address the issue, incentives should be realigned so that managers and employees are motivated to both support changes and focus on overall margins rather than focusing on increasing performance within their particular function.	**Don't let groups opt out** There may be legitimate reasons to exclude certain groups, functions or geographies, but each group that opts out erodes the benefits of a holistic review. Many times, individual groups perceive the exercise as a threat rather than an opportunity, further emphasizing the need for strong, early and consistent communication.
Repeat as needed Plan to periodically repeat the analysis as the business environment changes and your footprint evolves. The good news is that subsequent analyses will likely take only a fraction of the time and effort that was required initially.	

For leading companies, internationalization is starting to give way to true globalization as these organizations extend their reach to all corners of the habitable world in search of new markets, resources, talent pools and cost advantages. Yet this path can be challenging to navigate as the business environment is constantly evolving, from gradual changes in costs and talent markets to political and natural events impacting economies.

Companies not focused on these dynamics can be quickly left behind, encumbered by locations that no longer suit their needs, unnecessary redundancy in their operations, elevated risk levels, and footprints that do not position them to anticipate and address change quickly. On the other hand, companies that proactively manage their global footprint can gain a competitive advantage that would be difficult to replicate, literally positioning the organization globally to achieve its strategic objectives, both in the short term and for the future.

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Endnotes

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Quality
14km
انتبه منعطف خطر
60
مخرج
Exit

On the road to quality

Pick up the business section of a newspaper or tune in to one of the many business programs on TV and there is a good chance someone somewhere will be articulating a view on the quality agenda, about organizations having sound (or poor) risk management practices or about executives effectively (or ineffectively) managing reputational issues faced by their organization.

Not unreasonably, the casual observer may be forgiven for thinking that, if the organization had delivered a quality product or service in the first place, then its executives would not now have to be spending valuable time looking backwards, revisiting past decisions and concentrating on fire-fighting risk and reputation issues – with their implied threat of serious damage to both, brand and image in the marketplace. Effective quality management would have allowed for significant available time instead, to concentrate on the organization's main goals – including the delivery of superior value to stakeholders.

As a corollary and a reasonable, but not excessive, amount of management time would then be needed to concentrate on the business of risk. Effective pursuit of the quality agenda can be regarded as an important contributory step in the successful management of potential risk and reputational damage. This is not to say that achieving quality is a panacea that will guarantee a smooth, trouble-free ride. Far from it: there are also many external threats to an organization, including physical security, counterparty and political risk and even over-the horizon risks that are presumed to be out there but have not yet been identified – all of which are outside the direct delivery orbit of a quality product or service. However, it would also be reasonable to expect an enlightened organization to have a comprehensive enterprise risk framework in place, or at minimum a business continuity plan that would anticipate and set out a blueprint for the navigation of potential threats.

Determining what quality is exactly can be challenging, as it comes in many shapes and forms and can be rather difficult to pin down in relation to an organization's goals

Nailing down quality

Whether the organization is delivering products or providing services, in order to successfully manage the quality agenda it is necessary to define what the organization and its end users perceive as quality, capture it by having an operational framework in place and then devise a plan to achieve and maintain the stated quality objectives. It is as important to ensure that all personnel within the organization are on the same wavelength when it comes to the pursuit of these objectives. Similar to the proverbial "attempting to nail jelly to a wall,"[1] determining what quality is exactly can be challenging, as it comes in many shapes and forms and can be rather difficult to pin down in relation to an organization's goals. Webster's Dictionary, for example, offers various definitions of quality, such as "a peculiar and essential character," "an inherent feature," "degree of excellence," "superiority in kind." Unfortunately, today's vocabulary has rather overworked the quality concept and applies it on a daily basis to a wide variety of situations, so we now also understand quality in the context of, for example, fathers spending quality time with their children, soccer players delivering a quality ball into the box or people who read a quality newspaper.

Preparing for the journey

Realistically, organizations are typically concerned with the quality agenda when they recognize the need to publicly demonstrate their capabilities or to improve their services, ultimately with a view to increasing their market share. Sometimes management will recognize in private that they need to do better and will voluntarily undertake a comprehensive overhaul of their existing systems and procedures. For those that procrastinate, the marketplace tends to do the job for them.

As mentioned, management should initially determine what quality means and what it stands for in terms of their products or services, with a view to determining where improvements can be made and how 'superiority in kind' can be achieved. This assessment should also take into account the marketplace perception of the offerings. Some organizations will have in place a

Quality Management System (QMS) manual to define the procedures they require in order to achieve their quality objectives, but many others will not. For those organizations that are embarking on the journey for the first time, the appointment of a focal point within the organization to take ownership of the quality project is strongly suggested. Do not underestimate the number of man-hours that will be required to complete the initial set-up. As the QMS manual builds, a number of gaps will likely become evident between policies and procedures the organization has in place and what it ultimately needs in order to achieve its quality objectives and those gaps may take time to plug and could prove expensive to implement. When a QMS manual is in place, management will want some assurance that operations are in fact being conducted in accordance with stated policy and this is where a Quality Audit department proves its worth in ensuring that procedures are being followed and expected standards are in fact being met. It is also important that the system produces documentary evidence of performance to enable effective audits to be carried out and for processes to be performed again as necessary.

Quality is not just about process, work quality or organizational issues. A quality management system can only be as effective as the people who will be responsible for maintaining it. Effective, regular training for all personnel is essential. The goal is to embed quality into the very fabric of the organization so that its pursuit becomes almost second nature. Quality can also be reflected in the way the organization is perceived, how it treats its people and what it does for the community. Sometimes, simple solutions are the most effective – for example, an employee free to report unethical or shoddy work practices to superiors without fear of retribution is a very powerful tool. For professional services firms, avoiding the wrong type of clients, acting independently at all times and hiring good quality talent might be the answer.

In conclusion

For those organizations wishing to explore the quality agenda further, there are a number of both, national and international standards bodies, such as the International Organization for Standardization (ISO), that encourage organizations to become quality certified and they provide extensive resources to support that objective. When a QMS is embedded into the organization's culture it can then be used as a foundation for developing and implementing other management systems such as an Information Security Management System (ISMS) or a Business Continuity Management System (BCMS). ISO certification in these areas is also possible.

Quality is not just about process, work quality or organizational issues. A quality management system can only be as effective as the people who will be responsible for maintaining it

It would be only fair to point out that, depending on the niche the organization is intent on building for itself in its marketplace, there is also a perfectly acceptable and legal market demand in many parts of the world for low-cost, low-quality offerings.

No doubt, the quality journey is an interesting one. The road can be bumpy but there is much scenery to admire along the way. However, beware, there is no final destination as this is a journey of continuous improvement unless, of course, quality inertia or complacency is the goal.

by **Graham Lucas**, Risk and Reputation leader, Deloitte in the Middle East

1 hint: the secret for nailing jelly to a wall is to nail the concentrated cubes, but not to mix with water – alternatively, try increasing the density of the jelly by adding more powder and less water than the recipe says

An ever-changing game plan

Iraq's business climate and the opportunities ahead

In a raw and lucrative market such as Iraq, there are definite opportunities but patience and local relationships are essential ingredients to a successful entry.

Nine years after the U.S.-led invasion, security remains the number one concern to the general public, local businesses and foreign investors. Iraq's infrastructure is still dilapidated and the economy is firmly controlled, for the most part, by the central government. Electricity shortages and an antiquated banking system continue to hinder progress in an economy that was ravaged by wars and sanctions.

To an optimist, these challenges represent opportunities that could translate into higher returns, but relationships and local partnerships are key to breaking grounds in Iraq.

In spite of all these difficulties, Iraq's economy appears to be robust. The Special Inspector General for Iraq Reconstruction "SIGIR" reported that the IMF and the Central Bank of Iraq are projecting a 12% increase in GDP in 2012. The minister of oil also reported that crude oil production just exceeded 3 million barrels per day for the first time in two decades, and, in March, the Council of Ministers approved the largest single-year budget in the country's history of USD 100 billion – of which almost one third is earmarked for infrastructure investment.

Recognizing that oil export receipts cannot keep pace with spending for reconstruction , the government of Iraq introduced new legislation in an effort to boost private sector and foreign investment. Although these changes are easing entry into Iraq's market, potential investors must keep abreast of the ever-changing company, investment and tax laws. Many of these changes are simply repeals of old restrictive laws and are meant to provide a liberal framework for investment in Iraq. In September 2003, the Collation Provisional Authority (CPA) issued Order No. 39, which repealed all existing foreign investment laws and allowed for the establishment of foreign-owned subsidiaries in Iraq. In October 2006, the Presidency Council adopted Order 39 and issued Investment Law No. 13, repealing Order No. 39 and the Arab investment Law No. 62 of 2002. In 2010, Investment Law No. 2, which is the prevailing legislation today, amended Law No. 13 of 2006 to guarantee the ownership of land by local, Arab and foreign investors for housing projects to house Iraqi nationals as well as the amendment of Statute 7, which organizes the lease rates for lands invested in the various fields.

To an optimist, these challenges represent opportunities that could translate into higher returns, but relationships and local partnerships are key to breaking grounds in Iraq

Accordingly, foreign investors have now been granted equal rights to Iraqi nationals, including the right to purchase shares and bonds of companies listed on the Iraqi Stock Exchange, the right to acquire land for housing projects, the right to lease land for up to 50 years, the right to insure their investment with any national or foreign insurance company, the right to open bank accounts in foreign currency inside and outside the country and the right of repatriation of capital and profits.

To further encourage private and foreign investment, many tax incentives were legislated, providing for exemption from taxes and fees for a period of 10 years as of the date of commencing commercial activity. These exemptions can be further extended for an additional five years upon meeting certain criteria. The tax incentives also provided for exemptions from import duties for the purpose of the investment project for up to three years as of the date of the grant of the investment license. These import duty exemptions are also extendable for the purpose of expanding, developing or modernizing the investment project for up to three years as of the date of notification to the investment authority. Imported spare parts for the same project are also exempt from duties if the value of these parts does not exceed 20% of the value of fixed assets.

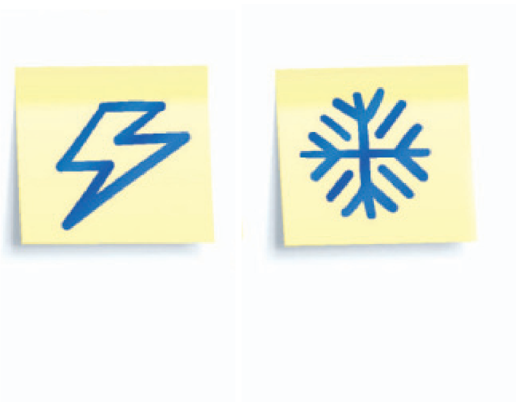
In an economy that is heavily reliant on oil revenue, these measures will supplement the reconstruction efforts and will boost Iraq's economy driving non-oil GDP up. The primary beneficiaries will be the following industry sectors: construction and construction materials, branded consumer goods, healthcare, electronics, retailing and hopefully, financial services and capital markets.

However, it should be noted that it is not enough to create facilities for international firms to enter the local market. Rules and regulations must be relaxed and all responsible ministries must work together to ensure expediency and efficiency in processing company registrations and issuing tax clearance certificates which are the initial requirements of starting a business in Iraq. Reforming the banking sector will also ease the flow of money into the country and transform it from a cash-based society into a modern and vibrant community.

Despite the challenges sometimes presented by the Iraqi business and political landscape, regional and global multinationals see huge opportunities and are flocking to the country in large numbers. They are taking many risks but are also building relationships with local partners. Many Non-Governmental Organizations (NGOs) have been working tirelessly in Iraq recognizing that reforming the system will attract foreign companies into the country. They have introduced several training programs geared towards Iraqis working in the public sector to educate them and increase their awareness in an effort to bring some kind of order.

Recognizing that oil export receipts cannot keep pace with spending for reconstruction , the government of Iraq introduced new legislation in an effort to boost private sector and foreign investment

by **Ayad Mirza**, partner, Deloitte in the Middle East



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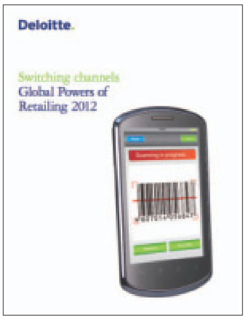

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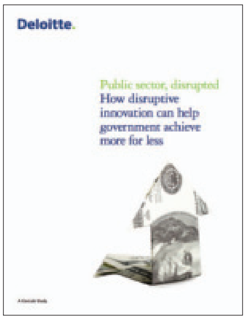

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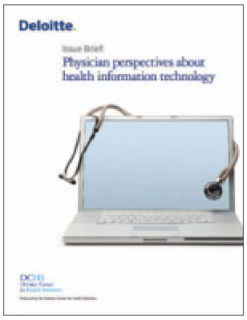

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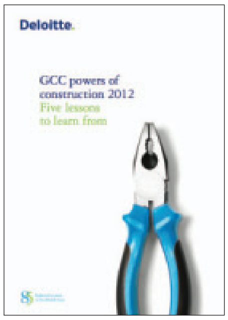

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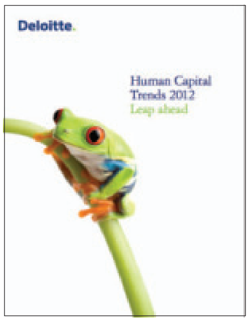

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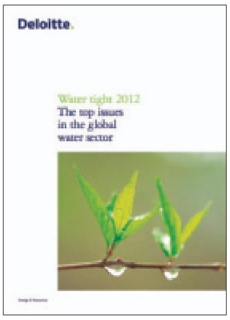

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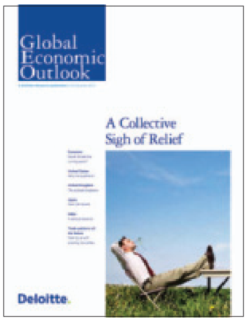

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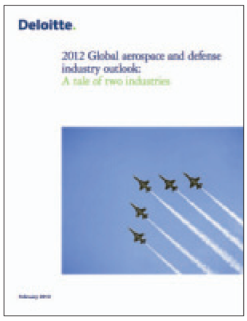

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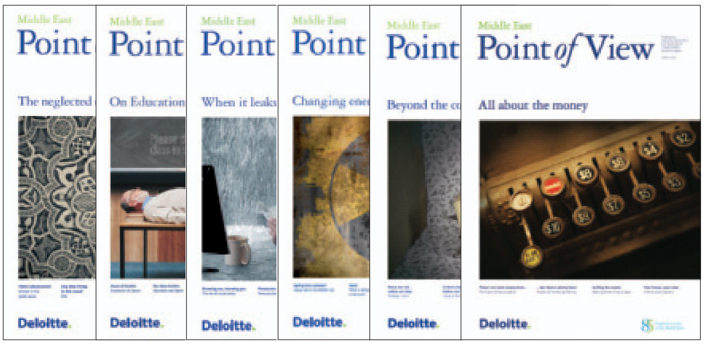

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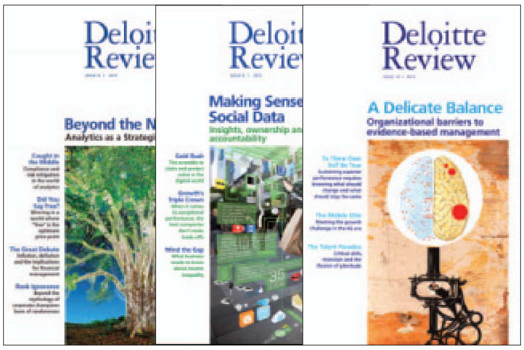

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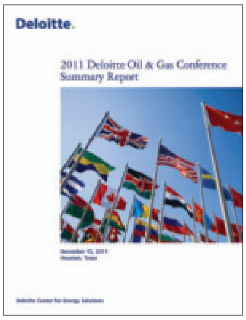

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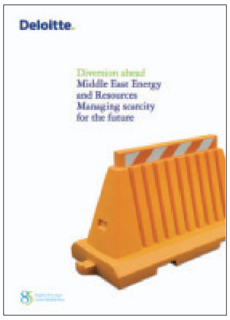

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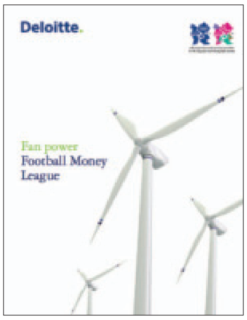

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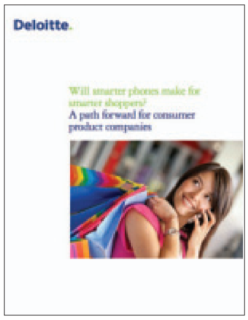

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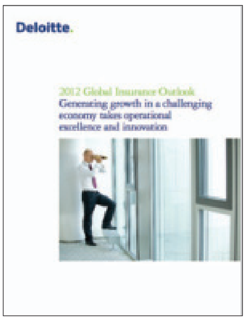

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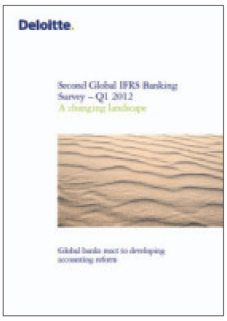

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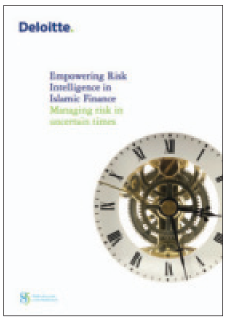

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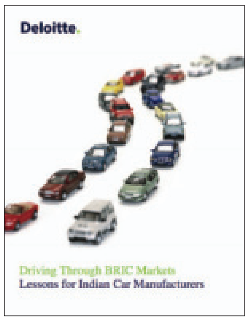

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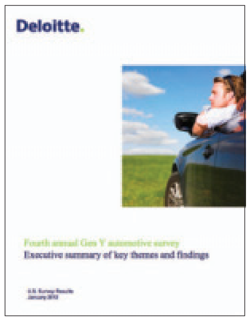

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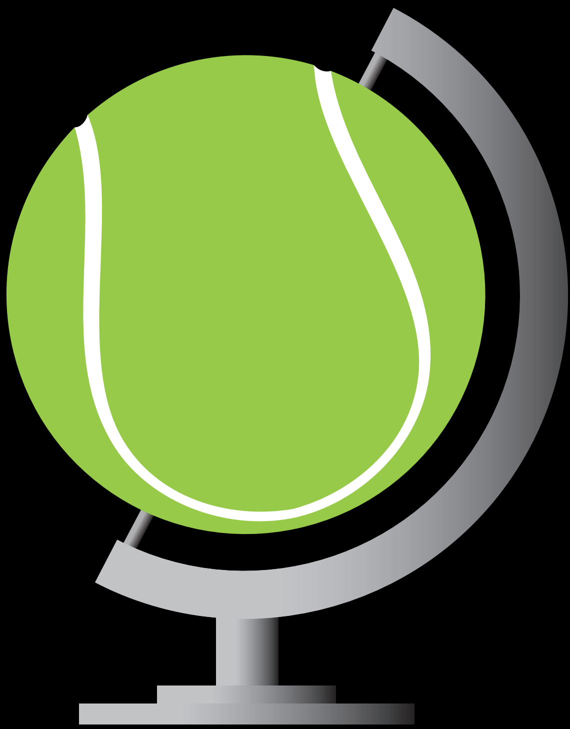

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