Middle East

Point *of* View

Published by
Deloitte & Touche (M.E.)
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Fall 2012

Spring into business

Who dunnit?
Fraud: the blame game

Sink or swim
How resilient are GCC banks?

Libya
Rising from the ashes

Going for gold
Deloitte and the London Olympics

Deloitte.

Eighty five years in the Middle East

Fall 2012
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The use of the word spring to designate a season of the year is relatively recent. Before the 1500s when it was first used and as early as the 10th Century, "spring," a word of Germanic origins, was used to denote "rising up" or the beginning of something. Hence the term was later used to refer to the time of year when buds began to rise up following the snow season.

The first noted use of spring in a political and social context is in 1848, when the European revolutions sweeping the continent were dubbed as the "springtime of the people" or "spring of nations." The rest, as they say, is history.

Since then, there has been the Prague spring, the Seoul spring, the Beijing spring, the Cedar spring and now, the Arab spring. But whilst academicians are still debating whether the movements across the region are indeed worthy of the term, there is no denying that the wind of change has indeed been blowing.

What have been the effects of these movements on the business environment in the area? We asked a panel of experts to share their insights on the economy, the financial market, the future of international companies and the risks of cyber attacks, in our article *Arab spring*: *impact of the uprisings.*

We also look at Libya, which, as per figures from *The Economist*, has risen from the ashes of a 42-year dictatorship with the world's fastest growing economy. According to Ritesh Ved, Ahmed Hnesh and Rob O'Hanlon, "with the right guidance, international businesses can flourish in Libya and deliver products and services that the economy needs as it moves to the next level."

From Libya to London, which hosted epic Olympic and Paralympic events this summer. The logistics behind these events are enough to make anyone's eyes boggle. The Deloitte UK firm was proud to be part of these momentous happenings in its capacity as official services provider to the London Organizing Committee of the Olympic and Paralympic Games (LOCOG).

One of the more fascinating aspects of this collaboration, said Heather Hancock, lead London 2012 partner at Deloitte UK and lead global partner for Deloitte's Olympic relationships, was "to see Deloitte's services being delivered in some very quirky ways: like the procurement experts who found themselves working out how to acquire 55 horses of an equivalent high performance standard for the Modern Pentathlon."

The Games may be over but the work is not. From the UK we move to Brazil, where Deloitte will collaborate on the 2014 World Cup and 2016 Olympic Games. And who knows? With Qatar 2022 on the horizon, maybe our experts will have the chance to work on the first-ever World Cup to be held in the Arab world.

ME PoV editorial team

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Arab Sprin

impact of the uprisi

News reports on the 'Arab Spring' were focused on the political and social revolutions shaking the foundations of some of the largest Arab countries. Transformational changes across the region were covered from a human standpoint – as regimes toppled, crowds chanted and chaos took over the streets. However, most news cameras failed to pan left or right and shed some light on the businesses that were affected as a result of these uprisings.

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Hundreds, if not thousands of businesses throughout the Middle East were impacted, directly and indirectly, as a result of the transformative changes taking place. Companies found themselves, for the first time, without a contingency plan.

As a result, immediate, short- and long-term changes are being anticipated. The World Economic Forum *Global Competitiveness Report* for 2011-2012 highlighted that due to the turbulence that has impacted the Middle East and North Africa region over the past few years there will be a great impact on national competitiveness. The forecast is that these repercussions will worsen the competitiveness gap between the Gulf Cooperation Council economies and the rest of the region.

"We have not had serious delays or disruptions. In many cases, our people worked from home and thanks to communications and technology, we were able to deliver on our commitments. I don't mean to make this sound easy as it certainly is not and the credit really goes to our people who have demonstrated tremendous commitment and loyalty and a sense of purpose through trying times."

Omar Fahoum

Deloitte experts from across the Middle East were asked to share their first-hand experience in dealing with the unforeseen. This is what they had to say.

Omar Fahoum, chairman and chief executive of Deloitte Middle East

Q. As the chairman and chief executive of Deloitte Middle East, overseeing over 15 countries must be a great challenge in itself, even in peaceful times. However, many companies have had to formulate contingency plans on the spot to ensure business continuity. What is your take on this?

A. I don't view that we at Deloitte have had to make "contingency" plans as such as that implies a dilution of presence or even exit from the market, which certainly does not apply to us. We have been present in the region for over 85 years and are an integral part of the countries and economies we reside in. Nevertheless, the events in various countries in the region over the last 18 months have been transformative in many ways. In some cases, they were somewhat disruptive though I would say that in retrospect, not for very long periods. The primary consideration for us during that period was (and remains) the safety of our people. Fortunately, we have not had any incident. We ensure their safety and have designated responsible leaders for each group within a practice or country.

The other main consideration for Deloitte is minimizing any disruption to our client service. Naturally, this is not always within our control as clients have differing plans and arrangements that impact our service delivery capabilities. Again, and overwhelmingly, we have not had serious delays or disruptions. In many cases, our people worked from home and thanks to communications and technology, we were able to deliver on our commitments. I don't mean to make this sound easy as it certainly is not and the credit really goes to our people who have demonstrated tremendous commitment and loyalty and a sense of purpose through trying times.

Q. What about companies that do not have a regional scope or who have not been here for as long as Deloitte Middle East has? On a market by market basis, what measures have you taken as a result of the changes impacting the region and the countries in which you operate? Based on your assessment, what can you share with readers on how the firm reacted during these times?

A. I would say the biggest business challenge we face is not dealing with change but rather, dealing with "uncertainty." No matter what analyses are in place, markets and people act differently from one place to another. In our case, it was assuming an "anticipatory" posture to try and see what impact the events were likely to have on our business. These measures included continuous contact with clients and regulators and recalibrating our plans accordingly. In some cases, it was the extent, timing and pace of regulatory and legal changes affecting the business environment that proved to be beyond anyone's ability to predict or anticipate. Markets do not necessarily react or behave as we expect and I recall that in one market, at the height of street disturbances, tensions and demonstrations, we had our best month not only in revenues but surprisingly, in cash collections.

In short, our approach has been to engage our clients at all times, anticipate the impact of events on their business and ours and put measures in place to address new challenges that were inevitably coming our way.

Rob O'Hanlon, ME Audit leader, Deloitte Middle East

Q. You have represented Deloitte in South Sudan, Libya and Yemen, which are some of the countries most impacted by turmoil and instability in the past couple of years. What has your experience taught you about dealing with crisis situations? What measures did you have to take to ensure people safety and business continuity, before, during and after the uprisings?

A. In 1987 I went to join the Deloitte office in Namibia, a country that was drawing an end to a prolonged civil war. For a 22-year old professional, that environment, in the company of many experienced Deloitte colleagues, provided a wonderful learning opportunity for how to operate in challenging circumstances. Those basic lessons learned then remain at the heart of my philosophy today and can be summarized as follows:

1. Communities in all environments, no matter how challenging, are looking to be treated with respect – provided we remember that rule and abide by it we will be accepted by them.
2. We at Deloitte have skills that are often not available in troubled economies. We should never underestimate the value we are able to add. The value is magnified when clients can see us actively operating on the ground and sharing the hardships with them and not advising from afar.
3. Our young people are incredibly resourceful. If we give them guidance and freedom to innovate, a crisis situation can quickly turn into an opportunity.

In Yemen we experienced incredibly turbulent times during 2011. With the majority of our team being Yemeni, we were able to place significant reliance on their guidance as to when to slow our business down and when to speed it up, when our expatriate staff should be present and when they shouldn't and when we should be moving around Sana'a and when we shouldn't. This knowledge, combined with strong and clear leadership from our local partner, Dr. Hajar, and our Director of Audit, Imran Farooq, meant everyone was clear on what was expected of them and who they should turn to for support when times were particularly troubling.

"I would say the biggest business challenge we face is not dealing with change but rather, dealing with 'uncertainty'."

Omar Fahoum

In South Sudan we face very different challenges in the world's newest country. There, Alfred Strolla and Brad Holliday are building a practice at a rate that is outpacing the development of the country itself. While the positive mood of this new country is extremely supportive, the team deals with unusual issues every day from malaria scares to electricity shortages. Having the right infrastructure in place along with Alfred's long-standing relationships with leaders in the country has proved indispensable to enabling our people to focus on their clients and in this regard this firm is seen as a role model to many fledgling businesses. It is no wonder that despite the extremely limited infrastructure of the country (e.g. the tar roads remain rare!) the engagement index of our staff in the Juba office was amongst the highest in the recent Middle East Firm People Survey – these people thrive on a unique challenge.

> "We will proceed with a mix of caution and genuine excitement as we learn how to present ourselves in this new market that offers us so much opportunity to make a real difference in the rebirth of a proud nation."
>
> Rob O'Hanlon

In Libya we face a whole new set of challenges as we explore a market where Deloitte has never had a presence. However, already we are finding that our brand is known and respected. If we remain faithful to the values that the brand represents it is clear that the people of Libya will embrace us and provide the support we need as we aim to recruit, train and develop young Libyans in the years ahead. We will proceed with a mix of caution and genuine excitement as we learn how to present ourselves in this new market that offers us so much opportunity to make a real difference in the rebirth of a proud nation.

In all of these areas, the safety of our people is paramount and it is critical that we follow the best available guidance in this respect. Having a ME Firm Security Officer and resources he can draw on is extremely important to me personally. However, on top of those structures, we have to overlay a good dose of common sense and be ready to step back rather than take unnecessary risks. Our people are the heart of our business, if we look after them and place reliance on their integrity and ingenuity we and the challenged communities we serve can all achieve our goals regardless of the constant changes that life presents us with.

Roger Nasr, Deloitte Bahrain office managing partner

Q. Although the full results of the Arab Spring will take years to manifest, immediate repercussions have already been felt. In your viewpoint, how was Bahrain's financial capital status impacted in the Middle East as a result of the Arab Spring?

A. Unsurprisingly, the Arab Spring in general, and the unrest that erupted in March and April 2011 in Bahrain in particular, have threatened Bahrain's ambitions to maintain its position as the leading regional financial center since the 1970s. The current turmoil has given an edge to other new competing hubs in the Gulf in their bid to lure international financial institutions to their shores. Furthermore, Bahrain's financial sector, which accounts for about a quarter of the country's Gross Domestic Product, has been only slowly picking up from the global financial crisis and a regional property crash as well as the crisis faced by two regional conglomerates which affected, directly and indirectly, a large number of banks in Bahrain and the Middle East.

The impact of the crisis was mainly manifested by:

- The three international rating agencies downgrading the short- and long-term rating of Bahraini banks in 2011 and reaffirming this rating in 2012.
- The relocation of some international banks that used to have their regional headquarters in Bahrain – although in some cases this decision had been made prior to the unrest and for operational reasons only.

- The banking activity has been negatively impacted by the drop in growth in GDP to 2.2% in 2011. The economy suffered an estimated loss of USD1.5-2bn as a result of the unrest. Businesses mainly in the trade and hospitality sector suffered from the effect of a decreasing number of tourists and the cancellation of certain major events such as the Formula 1 race in 2011.
- A severe stagnation and drop in the real estate market which impacted the rental and property market and put on hold many private projects under construction. The banking sector, and specifically Islamic banks, being highly exposed to this sector, were hit hard, which affected their results due to the need for more provisions against the troubled debts and the investment portfolio.

However, the Bahrain Financial sector showed strong resilience to the crisis and started picking up from the second half of 2012, among the main reasons are the improvement of some economic indicators with GDP growing by 2.4% in the first half of 2012 as well as the accelerated and expanding government spending and projects in different sectors but specifically in affordable or subsidized housing and infrastructure (roads, bridges…). This is mainly fueled by the increasing oil and gas production capacity and prices, a sector which still represents more than 70% of government revenues. On top of that, the first tangible step regarding Bahrain receiving the promised USD10bn GCC grant over 10 years to finance housing and infrastructure projects was the signature of an agreement on 3 September 2012 stipulating that Kuwait provide its share of USD2.5bn; these funds will play an increasingly important role in driving economic growth. In particular, GCC money will help fund projects without straining public finances. In addition, GCC private investments will hopefully follow and will provide further material support to the economy. Worth noting are some of the inherent strengths of the Bahraini financial sector, which is reflected in Bahrain attracting again new international and regional financial institutions on the grounds of the main comparative advantages including a well-regulated, tax–free environment, the size and geographical location as a gate to the big Saudi market, the cheaper operating environment

> "The Bahrain Financial sector showed strong resilience to the crisis and started picking up from the second half of 2012, among the main reasons are the improvement of some economic indicators with GDP growing by 2.4%."
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> Roger Nasr

and the availability of skilled local talent and the continuous efforts of the Central Bank of Bahrain – which managed to reposition Bahrain as an Islamic finance and insurance hub and home to the main Islamic Finance Institutions – as well as being a key market for the funds industry.

The above factors, along with the efforts to ease and solve the political conflict, will help Bahrain's diversified economy and well-established financial sector to pick up quickly and resume its uptrend.

Kamel Saleh, Deloitte Egypt office managing partner

Q. As the Deloitte Egypt managing partner – the country with the largest population in the Middle East – business was surely greatly impacted. The uprisings were not just about transformational regime changes that the people were calling for, but for greater economic and social issues. What impact will these transformational changes have on the Egyptian economy in your opinion? What can the public and private sector do to move forward?

A. The fundamentals of the Egyptian economy are still sound and intact, despite the economic impact of the revolution and the turmoil that was experienced over the past twenty months.

We predict that the economy is on its way back to achieve reasonable growth rates of up to five percent fairly soon. Egypt, with a population of 85 million,

has sizable local demand for its own production. The country is still very competitive in terms of its exports and labor and energy costs. In addition, Egypt will still be able to attract tourists once stability returns.

"The fundamentals of the Egyptian economy are still sound and intact, despite the economic impact of the revolution and the turmoil that was experienced over the past twenty months."

Kamel Saleh

I believe that the new government will have to work on three main areas.

First, they must rebuild investor confidence in terms of the stability of the economic, legal and political environment.

Second, they need to act fast in addressing the biggest problem in Egypt's economy, namely, unemployment.

Third, the new government needs to carefully manage society's expectations post-revolution. Some people are expecting unrealistically quick improvements in the economic situation and the biggest danger is promising things that cannot be delivered.

Moving forward, the Egyptian people would not be in favor of further privatizations in the short-term and they would not accept any close relations between the business community and politicians. That is something that has been severely criticized in the past.

Tariq Ajmal, partner in charge of Technology Services at Deloitte Middle East

Q. In your viewpoint, is the IT infrastructure of businesses in the Arab region ready to be exposed to risk? Do you believe companies are ready and secure from an IT perspective? In general, do you see companies across the Middle East as having sufficient disaster recovery, business continuity and crisis management planning, to respond to the Arab Spring uprisings? What tips can you share with us for companies to guard their IT infrastructure from unexpected events?

A. Organizations in the Arab World, and certainly many across the globe, are exposed to various IT risks and none more serious than the cyber security risk. This was evidenced recently by successful cyber attacks in the region, which left some key organizations with their systems down and loss of data. If this can happen to mature organizations, then we can say that the majority of organizations are certainly not ready nor secured.

Unfortunately, most organizations treat security as a technical discipline. They ignore the overall security management, which is a set of continuous and integrated security processes to monitor, assess and improve the security posture of an organization. For the most part Senior Management also does not understand the security challenges and therefore provides limited support to information security functions.

One important thing that has come out as result of recent attacks is that finally cyber security has grabbed the attention of senior management. We are seeing heightened interest from the Boards, CEOs and Risk Management functions in understanding their organizational capabilities and whether they can either prevent, or at least respond, to such attacks. So hopefully, now and going forward, security will be treated as a business issue rather than just an IT issue.

As for business continuity and disaster recovery (DR), we have seen increased focus and investment in the last couple of years as evidenced from many big organizations taking a more formal approach to implementing end-to-end business continuity and disaster recovery programs and many hiring dedicated Business Communication Managers. Though, still most organizations have a long way to go to reach a stage beyond having just a documented plan mainly focusing on IT to looking at business continuity as a holistic approach incorporating people, facilities, equipment and suppliers' recovery as well as crisis management plans that are regularly tested.

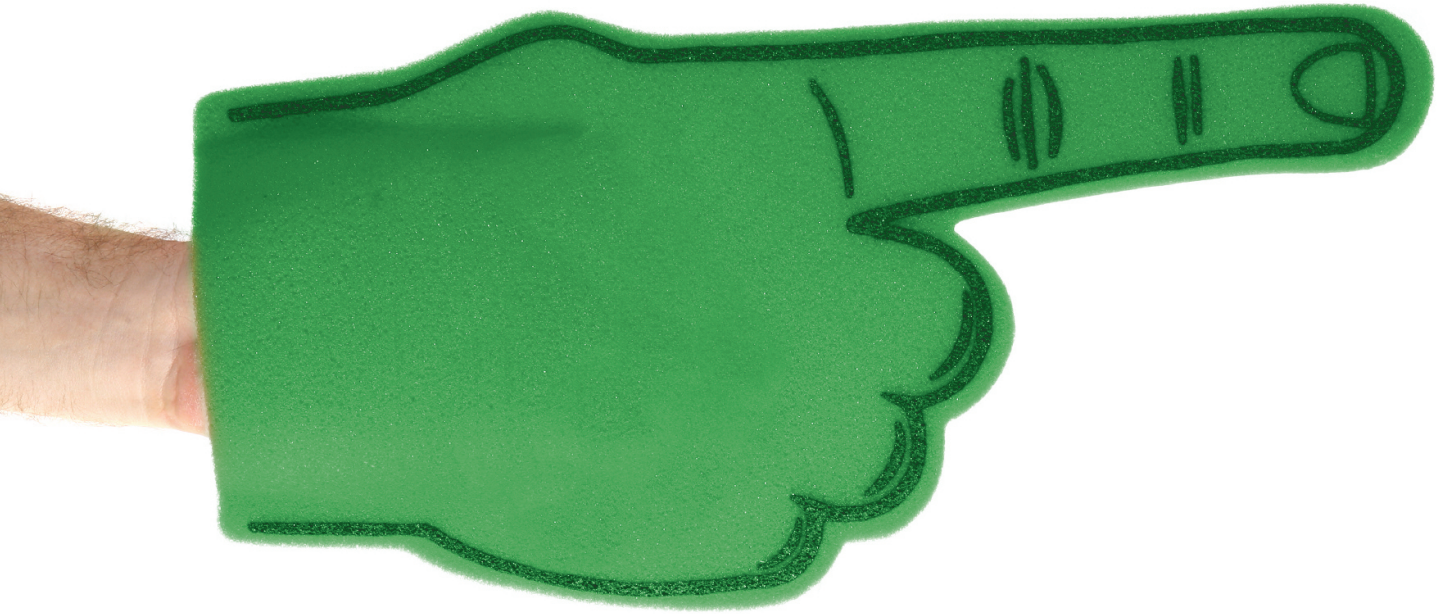
In the face of cyber attacks, business continuity and disaster recovery has already taken an immediate interest with many organizations revisiting both their crisis management plans and IT DR capabilities. This is a good starting point to ensure that even if organizations are not able to prevent cyber attacks, they are at least able to respond to such events and recover their systems quickly, thus minimizing the impact on business. Most mature organizations do have reasonable IT DR capability in the form of backups and hot/cold sites focusing on key business applications and file servers. However, in most instances end user data is not included in IT DR planning and backup is left to end users. This can expose organizations significantly as a lot of key information resides in PCs. Hence as a quick step organizations should look at this aspect and plan with users to either store all critical information on network drives, or implement automated PC backup solutions to enable speedy recovery if any of the PCs are hit by data loss.

Information Security is not one size fits all hence it is important that organizations perform a risk assessment. Only when they have fully understood their assets, the risks that threaten them and how these fit into the overall threat landscape can they determine the level of menace they need to defend against and where they draw the line to focus on limiting the impact of a successful attack. Once risk assessment has been done then, using the results, organizations should plan for governance structures to both, enhance and maintain, its preventative and detective security capabilities. This would include:

- Continuous investment in controls that protect their digital assets.
- Leveraging the threat intelligence that is available to understand the internal and external threats to the organization.
- Developing the ability to rapidly respond to an incident in order to limit any adverse impact on the organization.

> "We are seeing heightened interest from the Boards, CEOs and Risk Management functions in understanding their organizational capabilities and whether they can either prevent, or at least respond, to such attacks. So hopefully, now and going forward, security will be treated as a business issue rather than just an IT issue."
>
> Tariq Ajmal

by **Omar Fahoum,** chairman and chief executive of Deloitte Middle East, **Rob O'Hanlon,** ME Audit leader, Deloitte Middle East, **Roger Nasr,** Deloitte Bahrain office managing partner, **Kamel Saleh,** Deloitte Egypt office managing partner, and **Tariq Ajmal,** partner in charge of Technology Services at Deloitte Middle East



The blam

Companies that uncover fraud are often surprised that the incident occurred in the first place. Whether due to lax internal controls, an ineffective managerial style, or simply the code of ethics that employees adhere to (or not, in this case) when evidence of fraud is found the entire organization is severely impacted and affected.

ne game

What is of even greater consequence to the board of directors once an act of fraud has been discovered is that oftentimes, their external auditors were not the ones who discovered it. Sure enough, whether the fraudulent activity is the work of one "underhanded" employee or the great masterminding of the entire finance department, the question that almost always begs itself when the dust has settled is, "where were the auditors and why didn't they do their job right?"

Why does the finger always point to the external auditors? Should they really be blamed if fraudulent activity is not uncovered on their watch? Can responsibility solely be placed on one accounting body – in this case the external auditors – or should responsibility be shared with all the stakeholders?

Crime scene investigation: fraud

The Association of Certified Fraud Examiners 2012 *Report to the Nation* states that a typical organization loses 5% of its revenues to fraud annually. The report also states that Asset Misappropriation Schemes are the most prevalent type of occupational fraud, comprising 87% of the reported cases. Other recent surveys have concluded that restatements in financial statements have almost doubled in the past three years; equity, revenue recognition and misclassifications were the most conventional forms of these restatements.

Much like any other crime, motive and opportunity must be present in order for fraud to occur. First identified by sociologist Donald Cressey,* the "Fraud Triangle" adds one more factor to the above two: rationalization, to make up the three 'points' of the triangle. Motive in the

triangle is represented by Incentive/Pressure, which often stems from a financial need or the need to achieve goals. Opportunity exists when the person committing the fraud sees an internal control weakness and, believing that detection will not occur, begins the process of fraud and gradually becomes bolder if the initial act goes undiscovered. Finally, rationalization is the process by which the person committing the fraud justifies the act to himself, allowing him to adjust the perception of what he is doing. Rationalizations may include ruminations such as "I will pay the money back" or the more severe "they don't pay me enough for my job so I'm only taking what is rightfully mine."

Fraud is, at times, hard to detect and the best defense against its occurrence is in the strength of a company's internal controls. It is management's responsibility to implement internal controls to prevent, detect and deter fraudulent financial reporting, to ensure an adequate "tone at the top" culture and a zero-tolerance policy vis-a-vis fraud. Yet even if all of the above procedures are adequately implemented, fraud can still occur as no system is foolproof and people's behavior cannot be controlled.

Not an everyday occurrence in any organization, the uncovering of any type of fraud leads to a blame game, whereby management, auditors, regulators and fraud examiners are quick to use each other as scapegoats in order to avoid being in the line of fire themselves. But is anyone really to blame? Enter the expectation gap.

Because auditors do not examine every transaction or event that occurs in a company's fiscal year, there is no guarantee that all material misstatements, whether caused by error or fraud, will be detected

Expectation gap: who should have done what?

The auditing profession has dubbed the discrepancy between what investors expect and what auditors actually do an "expectation gap." Investors have come to expect a foolproof audit, with somewhat of a guarantee as to the non-existence – or absence – of fraud, whereas audit firms have taken it upon themselves to educate the public as to their actual role in the financial statement audit, which does not include guaranteed fraud detection. The audit report – the single most important deliverable the auditor offers – further highlights auditors' limitations in finding fraud.

Because auditors do not examine every transaction or event that occurs in a company's fiscal year, there is no guarantee that all material misstatements, whether caused by error or fraud, will be detected. Interestingly, the very nature of external auditing precludes the notion that audits are 'foolproof.' Concepts of materiality and benefit versus cost and time constraints prevent the audit of every account and every transaction conducted by the audited firm, leading auditors to make judgments and decisions dictated by a risk assessment. Consequently, fraud might remain concealed to the external auditors even if a thorough audit is conducted.

As such, closing the expectation gap requires efforts from all involved parties. Management should be held accountable for the effectiveness and reliability of their internal controls, shareholders need to concede the fact that it is neither the auditors' responsibility, nor capability, to uncover all incidents of fraud. Regulators should oversee auditors' work and ensure that all the necessary procedures to detect fraud are actually taken.

Finally, the auditors themselves should conduct their audit whilst keeping an eye out for fraudulent activity. This entails investigating further any warning signs and red flags that may appear during the course of the audit and report them in a timely manner. It also includes studying individuals' behavior, as well as assessing the environment in which they operate, for indications of fraud. When all is said and done, audit quality should remain the auditing professional's main responsibility.

To conclude

Fraud, a significant business risk, continues to be a prominent issue requiring the attention of regulators and the accounting profession alike, due to the challenges it presents. All stakeholders in an organization share the role of uncovering any warning signs and of coming up with counter measures in the event of its occurrence. Auditors, in their capacity as external investigators, should apply an attitude of professional skepticism with regards to fraud all the while steering along their primary course of ascertaining whether the financial statements of the company are stated fairly in all material respects.

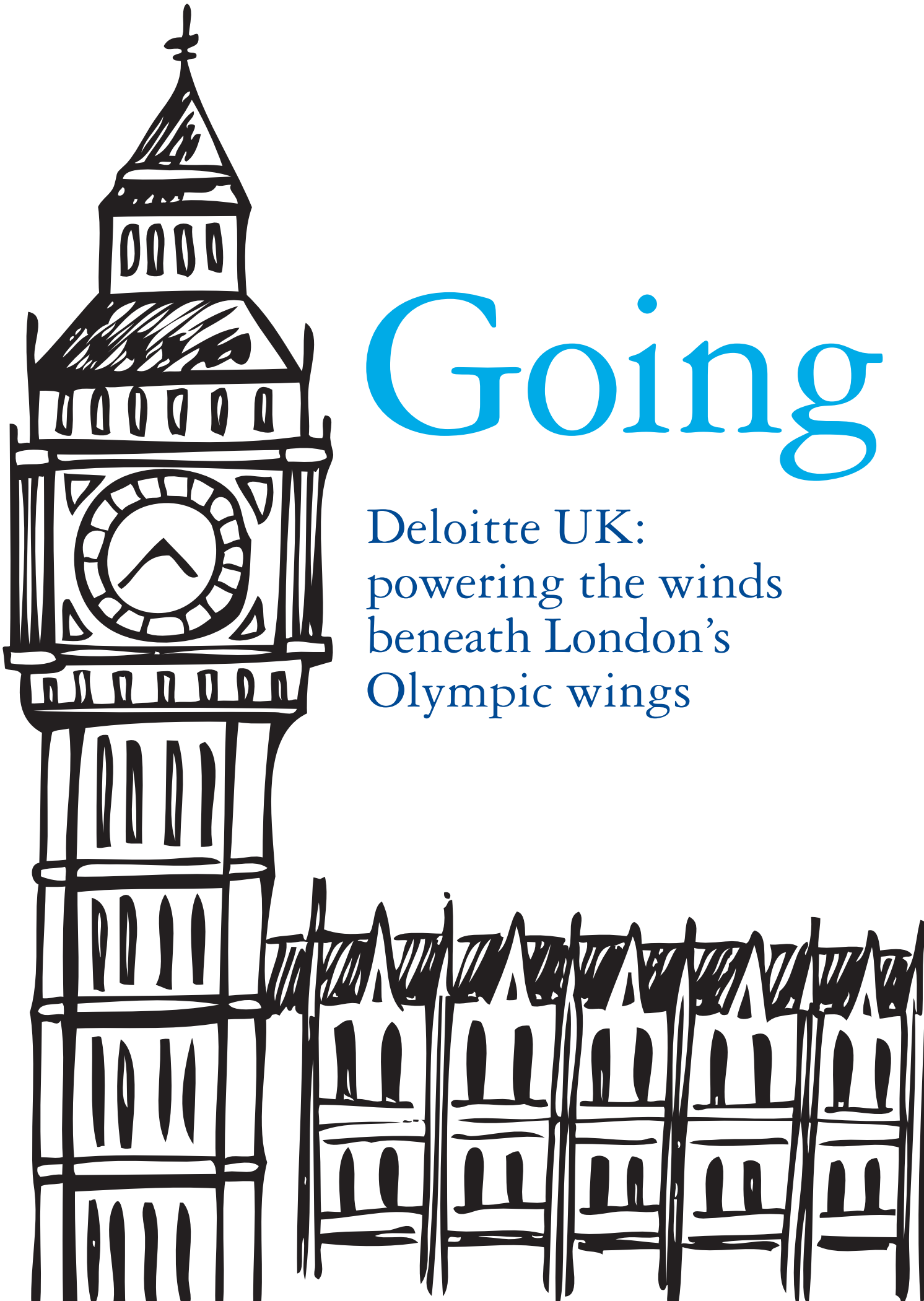
In response to the initial question posed in this article "Why does the finger almost always point to the external auditors?" the answer is not as clear-cut as it first appeared to be. The common misconception is that external auditors – the account detectives – being the external parties who "investigate" accounts, are in a key position to uncover any fraudulent activity that may occur. That may be true to some extent but the very nature of fraud is collusive, at times preventing even the most experienced auditor from uncovering its existence.

That said, the blame game will always exist so long as stakeholders attempt to protect themselves from accusations. Similarly, the expectation gap will always exist for the same reason. A well-known quote that comes to mind is: "When you point your finger at someone, you simultaneously point three fingers back at yourself." So who is to blame? Everybody and nobody.

by **Badr el Hassan,** audit principal, Deloitte Middle East

1 Donald R. Cressey (April 27, 1919 – July 21, 1987) was an American penologist, sociologist and criminologist who made innovative contributions to the study of organized crime, prisons, criminology and the sociology of criminal law.

All stakeholders in an organization share the role of uncovering any warning signs and of coming up with counter measures in the event of its occurrence



Going

Deloitte UK: powering the winds beneath London's Olympic wings

for gold

What a summer this has been. The London 2012 Olympic and Paralympic Games exceeded even the highest expectations and the outstanding performances of athletes from all over the world entertained and indeed, "inspired a generation."

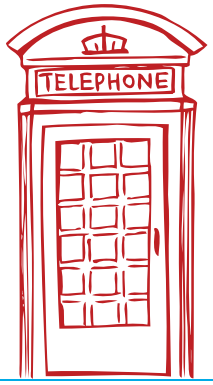
Supporting the sporting excellence was a program of such complexity that the numbers are enough to make the eyes boggle: 70,000 volunteers, 1.8 million pieces of sports equipment, 14 million meals, 10.8 million tickets, 4,700 medals – all taking place under the watchful eyes of 6,000 accredited media, in and around Olympic venues, with thousands more elsewhere in London.

London was a special place to be this summer, smiling faces filled the streets and strangers spoke to one another on the Tube. Even the weather held out, mostly. It was particularly special to know that Deloitte member firms, particularly the UK, had played such a key role in making this happen. As the official professional services provider to the London Organising Committee of the Olympic and Paralympic Games (LOCOG), over 800 partners and employees of the UK firm provided their expertise to support the delivery of the Games, including more than 130 on secondment to the organizers. In total, Deloitte UK has provided more than 750,000 hours of support towards the organization of London 2012.

More than a sponsor

It is a relationship that goes back almost a decade. Not long after the Government announced its intention to back a London bid in May 2003, one of our partners, Neil Wood, was seconded to the bid committee as Finance Director. When London was selected to host the Games, Deloitte committed a senior Partner team to support every aspect of the delivery plan, both on the physical development of the Park and its legacy uses and directly to LOCOG. In 2007, we were proud to be chosen as the first ever, official professional services provider to an Olympic and Paralympic Games.

One of our earliest advisory projects was to support the organizational design of LOCOG. Back in 2005, LOCOG consisted of a handful of people, headed by Sebastian Coe. To deliver the biggest sporting event on the planet, it soared to 200,000 people, including volunteers and contractors. This figure dropped by around one third after the Olympic Games and then again, quickly, after the Paralympic Games. It has been a hugely accelerated life-cycle, like a pop-up FTSE 100 company that had to be built and then dismantled in eight years.



Seventy-six current or former recipients of Deloitte funding competed at London 2012 and we are very proud that those athletes delivered a total of eight gold, seven silver and eight bronze medals between them

We helped design a structure that allowed LOCOG to transform continuously over its lifetime – from a small team bidding to win the Games, to a larger organization in planning mode, an operational organization delivering test events and then with the exclusive focus of putting on great Games, before finally closing down through an orderly wind-up. Deloitte UK's head of strategy, Sabri Challah, described the task as "a bit like designing a car that could travel on flat roads, rough mountainous terrain and water, all on the same journey."

One of our most visible projects was the construction program management of three temporary venues, including the Beach Volleyball venue at Horse Guards Parade and the Equestrian site at Greenwich Park. Transforming the historic heart of London into showpiece arenas for Olympic and Paralympic sport is no easy feat. In the case of Horse Guards, it was made even more difficult because access to the site had to be held back to avoid disruption to Her Majesty's Jubilee celebrations.

The team had just 36 days to build a 15,000 seat arena at Horse Guards Parade. Ordinarily a venue of this size would take 15 months to construct. This allowed a six-week window in which to construct a main centre court, two warm-up courts and six training courts, along with spectator seating for 15,000, broadcast facilities, catering and toilets. It was a truly Olympian challenge in itself but one which our team was very capable of meeting.

It has been fascinating to see Deloitte's services being delivered in some very quirky ways: like the procurement experts who found themselves working out how to acquire 55 horses of an equivalent high performance standard for the Modern Pentathlon, the consulting secondee who spent a day in a wind tunnel to weather-test the Olympic torch, or the logistics expert who was part of the team responsible for ensuring all of the Olympic medals were securely stored in the Tower of London before competition began.

Maybe our best ever return on investment

The UK firm also played a role across the Olympic family, working with the Olympic Delivery Authority, the London Legacy Development Corporation, the British Olympic Association and the British Paralympic Association (BPA). Our member firms in the US, Canada, Austria and Finland were official supporters of their respective Olympic associations. Collectively, Olympic associations supported by Deloitte won 190 medals, including 76 gold – that is more than one in four of all the gold medals won at London 2012!

However, it is our work with the BPA which has been some of our most satisfying. Back in 2007, in partnership with the BPA, Deloitte created Parasport, a website that guides people with a disability to sporting opportunities. Visitors are asked to enter details about their impairment and are provided with a list of sports that might be suitable for them. The user can then choose a sport and find local clubs that have been quality-assured to ensure a high standard of accessibility and support for disabled people is on offer.

Over 37,500 people visited the site between August 29th and September 10th, the period of the Paralympic Games. This compares with 1,400 people during the same period last year, an increase of more than 2000%. A significant majority of visitors used the 'Find a Club'

function suggesting that people have been inspired by the performances of ParalympicsGB and want to get more active. Almost 3000 sports clubs are now registered on the site and the integrity of that data is thanks to the countless hours volunteered by Deloitte people over the past five years.

At the same time as helping to create Parasport, Deloitte also signed up to a five-year partnership with SportsAid to support the disability program of the Talented Athlete Scholarship Scheme (TASS). Through the scheme, which provides financial support to athletes to help them stay in full-time education, Deloitte has awarded more than 500 bursaries to over 300 athletes.

Seventy-six current or former recipients of Deloitte funding competed at London 2012 and we are very proud that those athletes delivered a total of eight gold, seven silver and eight bronze medals between them.

Finally, in 2010 we established a new corporate cycling challenge, Deloitte Ride Across Britain. The aim of the event was to raise GBP1m for the BPA by 2013. However, we are pleased to announce that this target has been smashed 12 months early. This is great news for the BPA since it will continue to be the lead benefiting charity from the event in 2013 and so will receive a further financial boost as planning begins in earnest for Sochi and Rio.

The London 2012 Paralympic Games played out in front of packed crowds, with ear-shattering support for every athlete, British or not, winner or loser. Over 2.3 million tickets were sold for the Paralympic Games, beating the previous record set in Beijing of 1.8 million. We are tremendously proud to have played a role in creating an infrastructure around disability sport which has boosted participation, increased funding and supported the best prepared team of athletes ParalympicsGB has ever sent to the Games. The UK firm looks forward to supporting the BPA through to Sochi and beyond.

London 2012 may now be over and Rio has the privilege to call itself the Olympic city. But our work is far from over.

London 2012 may now be over and Rio has the privilege to call itself the Olympic city. But our work is far from over; some of our people will be working on the dissolution of LOCOG through to next spring, the impact of our disability sport program will be felt at several Games to come and several of our member firms will continue to develop their relationships with National Olympic Committees. However, we can reflect on an extraordinary period in our firm's history as the UK basks in the shared glow of having staged one of the most memorable Games ever.

by **Heather Hancock**, lead London 2012 partner at Deloitte UK and lead global partner for Deloitte's Olympic relationships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Sink or swim

How resilient are GCC banks compared to their western counterparts? Are there any signs of subsidence in the sector?

The global banking sector has increasingly been in the spotlight since the financial crisis, with a number of significant and unprecedented events that have questioned the very fundamentals of the industry. Bankers, regulators and rating agencies, amongst others, have been vilified for their roles in the financial turmoil by a variety of stakeholders.

The impact of the crisis, however, has been asymmetric across countries and driven by two critical factors:

- the level and type of risk underwritten by market participants; and
- the level of regulatory oversight by the authorities.

When compared to its western counterpart, the GCC banking sector significantly differs in the level of sophistication of product lines, market participants and distribution channels. The GCC banking sector is mostly involved with corporate and retail lending, while sophisticated derivatives and structured products are still a relatively new concept in this region.

Since the onset of the global financial crisis, the GCC banking sector experienced a slowdown in growth due to lower liquidity, the regional real estate crash, significant corporate restructurings and a general deterioration in market sentiment. But the sector overall fared better compared to banks in the West, reflected by the lack of major bankruptcies and government bailouts.

The weathering of the crisis so far without any major institutional failures in the region does point to many positives in the performance of GCC banks but does not immediately classify them as more resilient. There are some fundamental issues that key stakeholders need to address.

Concentration of lending books

Most GCC banks have a high proportion of corporate lending and limited retail and small to medium enterprise (SME) exposure. Within the corporate books, there is a significantly high concentration of certain cyclical industries (such as real estate, construction and hospitality) and corporate types (e.g. government, semi-government and family businesses). Some efforts are being made by Central Banks to reduce these concentrations. The UAE Central Bank, for example, recently issued guidelines on the cap of lending exposure to government and semi-government institutions. Such measures should force banks to diversify their lending books and therefore reduce risks.

Unclear provisioning adequacy levels

While several GCC banks seem sufficiently capitalized, risk concentration to certain industries, named lending (as already mentioned) and the adequacy of provisioning levels continue to pose some risks. While regional Central Banks have implemented strict provisioning rules, certain exceptions may have been provided to manage large government or semi-government exposure in the event of on-going restructurings. These risks might impact the seemingly sufficient capital levels and could run the risk of eroding capital significantly in a downside situation.

Regulatory and legal framework

Overall, the regional regulatory and legal framework needs to be improved upon to enhance and sustain the overall control and functionality of the banking sector. For instance in most countries, foreign ownership and legal enforceability of collateral is still unclear and this could hinder growth and confidence in the region as foreign interest increases.

Liquidity

In some parts of the GCC, where the banking systems grew as a result of a large offshore financial sector, many institutions were caught out by the freeze in international money markets after the collapse of Lehman Brothers. Like Kuwait's investment companies, these banks, which were reliant on wholesale funding, had grown in the boom times on the back of cheap short-term finance. Once these markets were closed, they were unable to refinance these facilities and problems ensued.

The weathering of the crisis so far without any major institutional failures in the region does point to many positives in the performance of GCC banks but does not immediately classify them as more resilient

Every cloud has a silver lining

While there are risks, there are also green pastures for stronger banks, not only to mitigate these risks, but to also capitalize on their existing robust platforms and come out as winners. There are three areas that provide strong growth opportunities to regional banks. These include:

SME lending

There are scores of SME businesses that are currently devoid of sufficient bank and working capital financing due to the cautious lending approach adopted by the banks in the wake of the financial crisis. At present, the SME sector is heavily reliant on mezzanine financiers who are themselves trying to find their footing post-crisis. Banks could look at the SME sector to tap not just a significantly booming market but also as an opportunity to diversify from concentrated lending.

Select European Banks' retreat from the GCC region

European Banks are under significant pressure by the European Banking Authority (EBA) to shore up their capital positions. Banks were required to meet a "Core Tier 1" target ratio of 9% by the end of June 2012. To meet and maintain their capital requirements, banks have chalked out plans to dispose of their non-core assets globally. For a number of global institutions, their Middle Eastern businesses are considered non-core and this is reflected in a number of trade sale processes recently announced. This provides a great opportunity for the existing regional banks to grow their lending books by acquiring from European lenders.

Consolidation and M&A activity

It is well known that the GCC banking market is heavily fragmented and requires consolidation. It was not until recently that the market had seen any real activity on the back of the merger between Emirates Bank and NBD. Since then, we have seen further consolidation in Bahrain, Oman and the UAE. Islamic institutions could kick start consolidation in the region to take advantage of economies of scale and to extend their reach. Qatar is an example where recent developments indicate the environment in the region is healthy and ready for consolidation. In February 2011, the Qatar Central Bank issued directives to conventional banks with Islamic banking operations, requiring them to stop undertaking new Islamic banking activities and to close their existing Islamic operations.

> Overall, the outlook of the GCC banking market appears positive and there are opportunities for GCC banks to pursue aggressive expansion both, within the Middle East and globally

Our view

Overall, the outlook for the GCC banking market appears positive and there are opportunities for GCC banks to pursue aggressive expansion both, within the Middle East and globally.

However, significant risks in the form of concentrated loan books and the lack of clarity around the sufficiency of loan loss provisioning require careful consideration. GCC banks could capitalize by focusing on diversification, through new product and market strategies or acquisitions. Moreover, the GCC banking sector fares well relative to its western counterpart in terms of its performance, lower complexities and growth opportunities. While we remain cautiously optimistic about the sector, one thing that is clear is that regional regulators and market participants need to act now if they want to avoid the risk of another western style banking crisis.

by **Rajeev Patel,** assistant director for Transaction & Reorganization Services, Deloitte Middle East

Libya: rising from the ashes

After nearly a year of revolutionary conflict, Libya has managed to emerge from the rubble of a 42-year dictatorship with the world's fastest growing economy.[1] (Forecasts for 2012 indicate a growth rate of 22%.) Bolstered by the highest gross domestic product (GDP) per capita in North Africa and government expenditures exceeding LD 60 billion per annum, Libya has quickly become one of the most attractive markets in the region for a wide range of goods and services.

As foreign companies evaluate the prospect of entering this potentially lucrative market, patience, a reliable partner and deep knowledge of the political and business landscape are critical assets that should accompany any impending venture.

As Libya continues to recover from the Gaddafi era, companies will inevitably run into some of the same challenges many Libyans have dealt with for years. These include, but are not limited to, frequent power outages, an antiquated banking system and the world's lowest average Internet connection speed despite a 75% improvement quarter over quarter.[2] From an operational perspective, these factors regularly sabotage the best of project management efforts and exponentially increase the amount of patience required to operate effectively.

In a culture driven by relationships however, the importance of a reliable partner with the requisite knowledge of the Libyan market cannot be understated. Finding a partner with the cultural fluency and enduring political and business relationships needed to get things done can often mean the difference between success and failure.

In a culture driven by relationships however, the importance of a reliable partner with the requisite knowledge of the Libyan market cannot be understated

Deep knowledge of the political and business landscape can also be an invaluable tool to guide any market entry strategy. While this landscape will undoubtedly shift over the coming months as the newly elected General National Congress (GNC) continues to address its legislative priorities, companies must be aware of current regulatory requirements. For example, the Libyan Ministry of Economy issued decision no. 207 for the year 2012 that outlines certain rules governing foreign participation in companies, branches and representative offices in Libya including share capital requirements, requirements to set up, etc. The decision states, inter alia, that foreign capital in a Joint Venture Company shall not exceed 49%. However, for exceptional reasons related to the nature, location or technical requirements of the activity, and by virtue of an explanatory decision by the Minister of Economy, foreign contribution may exceed 49%, but may not go beyond 60%.

Companies should also be aware of a decision related to new customs tariffs issued by the GNC's predecessor, the National Transitional Council. Decision no. 48 for the year 2011 dictates that the general rate of customs duties shall be 5%, except for certain goods that are charged higher duty rates ranging from 10% to 30%. There are certain exemptions available within this decision (e.g. certain raw materials and production supplies) but to date, a detailed customs tariff table has not yet been issued.

On the tax front, for those companies who may have already established a presence in Libya or are looking to re-enter the market, the General Director of the Tax Department had previously announced the extension of the tax-filing deadline for the financial years 2010 and

2011 (and certain payments for financial year 2012) to 31 December, 2012. In the absence of any changes to the revised deadline, companies should plan to file their tax returns by 31 December, 2012.

While many may view the inherent challenges of the current Libyan market as discouraging, companies from around the world have started to recognize the opportunities at hand. After a year of conflict and 42 years of dictatorship, Libyans are committed to helping the country realize its potential and recognize the role for foreign companies in the process. With the right guidance, international businesses can flourish in Libya and deliver products and services that the economy needs as it moves to the next level. For those who can afford to be patient, who can work with a reliable local partner and stay ahead of political and business developments, the potential rewards may be well worth the risks.

by **Ritesh Ved,** senior consultant, Assurance and Advisory, Deloitte Middle East, **Ahmed Hnesh**, manager, Accounting and Advisory, Deloitte in Libya, and **Rob O'Hanlon** ME Audit leader, Deloitte Middle East

With the right guidance, international businesses can flourish in Libya and deliver products and services that the economy needs as it moves to the next level

Endnotes

1 Growth in 2012: Which economies will grow and shrink the fastest in 2012? (2012, January 4), Retrieved September 4th, 2012, from http://www.economist.com/blogs/graphicdetail/2012/01/daily-chart

2 The State of the Internet, 1st Quarter, 2012 Report. Rep. 1st ed. Vol. 5. N.p.: Akamai Technologies, 2012. Print.

Thinking about tomorrow: capital efficiency in the GCC

One billion Dollars. Seven billion Dollars. Ten billion, 30 billion, 100 billion, 130 billion Dollars! These numbers reflect neither the GDP of any particular country nor the market capitalization of any of the world's largest corporations. They are simply examples of the value of a single capital project (1 to 7 billion Dollars) and of total project portfolios (10 to 130 billion Dollars) that have been committed to – in the past 12 months alone – by government, quasi-government and private sector entities in the Gulf Cooperation Council countries. They span industries from real estate to infrastructure to oil and gas.


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But whilst spending on some capital projects within the GCC continues to shock, only two words can ensure its sustainability. Capital. Efficiency.

The entities commissioned to carry out the projects, whether government or private, are entrusted with absolute power not only to deliver these projects, but to deliver legacies as well to their respective commissioners.

But with absolute power comes absolute responsibility, and extracting maximum value from each project or portfolio not only improves a company's Internal rate of return (IRR) or Return on investment (ROI) – it could also mean the difference between delivering 130 schools instead of100, five bridges instead of three. It could mean installing rail networks that reach more communities, delivering critical lifesaving infrastructure sooner rather than later. The importance of these capital projects and portfolios cannot, and should not, be underestimated. Because of their wide-ranging influence, they should have the complete commitment of the project owners and governments – even consultants and contractors – to maximize their value and ensure their success.

What distinguishes the GCC region from other regions is the source of funds, which are predominantly government-related and driven from oil and gas-based economies. Many projects do not therefore take into consideration financing and interest when assessing how capital efficient they can be, which could drive better business practice and capital project delivery. Many companies elsewhere in the world responsible for delivering capital projects continually consider shareholder value, driven by the need to be capital efficient because of the availability (or lack thereof) of project funding. The GCC is not different because of any reduced capital requirements for its projects, it is different primarily in that there is a perception that capital is readily accessible!

Whilst spending on some capital projects within the GCC continues to shock, only two words can ensure its sustainability. Capital. Efficiency.

As world dependency on energy and resources continues to grow, what will drive capital efficiency in the Middle East for years to come is not likely to be anything borne out of necessity but by choice. What is clear is that the same capital efficient mentality employed elsewhere around the world, if applied to this region, could reap immense efficiencies and savings.

What all of the entities that are delivering capital projects in the region have in common – in addition to having captured the attention of global businesses with their jaw-dropping capital expenditure figures – is the need to deal with the challenges resultant from very compressed timetables. For some, it may be a limited-year concession agreement during which they need to begin oil refining operations, for others, it may be a rush to provide essential infrastructure for a vast population that has both social and political implications. Therein lies the critical paradigm – in their rush to deliver these large capital projects to achieve a wide range of critical objectives, are project overseers truly maximizing value or are they leaking away billions in cash that could be used for other projects?

With billions of dollars in the balance striving to achieve the optimum balance between cost, time and quality, project owners realize now is the critical time to shift towards achieving all three in the most efficient way possible.

To be or not to be (capital efficient)?

Rushing to deliver projects may eliminate the most cost-effective procurement strategy, whether it be to progress with project design to a more advanced level to allow for more accurate tendering, or to limit private sector involvement through longer-term focused tendering (such as Public Private Partnerships) which can add up to 12 months to the procurement process. Can

we select the appropriate procurement strategy, balancing time and funding requirements and creating private sector opportunities that will diversify the economy? Or shall we simply progress with the front-end design, reducing overlap of design, construction and procurement activities, to focus more on driving expenditure into the region's local economies? The question to answer is: do we have the ability and tools to identify, quantify and maintain value throughout delivery? Simple math would indicate that achieving even a few percentage points of efficiency will undoubtedly allow for billions of dollars in savings. The answer of course is yes, but some immediate measures will have to be considered and taken before we can fully take advantage of the concept of capital efficiency.

1. Recognize the difference between strategic versus commercial projects

Many of the multi-billion dollar quasi-governmental businesses (government-related entities) that are established to operate in line with leading private sector corporations are also mandated with delivering projects that are primarily for economic diversification and development of the region's national populations. Other entities are entrusted by their respective governments with delivering major civil and social infrastructure projects because of the importance placed on timing – they serve as a safe pair of hands. The measure of value – of what makes commercial sense versus what is a strategic, longer-term objective – is of a different nature. However, once the commercial and strategic imperatives are agreed upon, the capital project delivery objective remains the same: deliver the project requirements within an accurately estimated budget, in line with the agreed timing for projected operations.

2. Defining value

What is value? Is it 'delivering within budget' – which could be achieved through measures as far-reaching as value engineering of the design or accepting reduced project quality during the course of delivery? Conversely, placing such emphasis on delivering under budget could create a culture that values predictability over true efficiency. Is value 'delivering on time' – where commercial operational revenues could vastly outweigh the additional cost of accelerating and delivering the project on time? Is it 'delivering the industry's leading technological solution' – where cost could be viewed as no object? Or is it to 'maximize local participation' for the diversification and reinforcement of the local economy – accepting that this may cost more to the bottom line and result in delays to commercial operation? The answer, of course, is not simple at a project level. At a business-level, managing projects with different objectives and maximizing value requires a committed and experienced management team with the right information at their fingertips.

> As world dependency on energy and resources continues to grow, what will drive capital efficiency in the Middle East for years to come is not likely to be anything borne out of necessity but by choice

3. Do we have the data to truly be efficient?

Many government and government-related entities have demonstrated that there is an essential need to improve discipline in terms of simple project and contract administration, which will subsequently allow for project data to be collected accurately, simply and consistently. One specific oil and gas project offered a significantly quicker return on its capital expenditure investment because it was delivered later than originally planned, inadvertently benefitting from greater commodity pricing at the time of commercial operation (in this instance, it was the cost of a barrel of oil). This is a simple example of an instance in which simply having access to commercial data and the tools to consider them when making decisions during project execution would significantly influence the project owner's capital efficiency.

Technical, commercial, financial and corporate support functions operate in silos – not by design, but because historically they have operated in this manner and they are now attempting to instill controls across this silo structure to deal with the challenges of rapidly increasing growth

4. Effective and confident decision-making

The best data in the world will not be of any value if it is not comprehensive, nor analyzed in a consistent manner that allows executive management to make the best decision for the organization for the short- and long-term. The inherent linkages between projects within a portfolio, from timing and value of funding requirements to commitment of resources and management and operation of assets, must be recognized and considered to drive decisions at a project-level that are truly capitally efficient at organization-level.

5. Commitment to overcoming technology challenges

Rigid Enterprise Resource Planning systems that have been developed over many years and designed with controls and software in mind to structure discipline, have now become the backbone of many organizations. This discipline can, at times, come at the expense of vision in an organization looking to create a dynamic project delivery system that can drive value in real time. This vision of capital project 'nirvana' could be a project delivery process that relies on everything: from using estimating, cost, planning and contract data to virtually construct projects, to even utilizing qualitative and quantitative project site data via mobile technology to drive more accurate decision-making. The vision, leadership and investment required to truly capitalize on all facets of technology to achieve the capability to conduct such analyses are sizable from a management perspective – but easily justifiable when the cost savings alone are fully appreciated and understood.

6. Overcoming a business culture legacy

Real-time capital efficiency processes can help maximize every Dollar, Dirham or Riyal, but will require a management team that thrives on being in a dynamic environment and that looks at the objectives of the overall business and each individual project in parallel and will be comfortable standing behind each decision, knowing it is in the best interests of the overall organization for the foreseeable future. It also requires having personnel with the experience and expertise to operate in an analytical and dynamic environment, supported by a top-down culture that is held accountable for the success of each decision in the long-term.

7. Creating and embedding 'challenge' to achieve value

Each capital project's business case has, within it, assumptions that attempt to balance and address commercial and wider-ranging strategic objectives for the organization. These assumptions can be viewed as a 'snapshot at a particular point in time' and should be challenged and validated throughout the delivery of the project by the organization, not just at the outset. External factors, such as the commercial environment for the organization, scope changes, delivery challenges experienced, etc. all require a revisit and refinement of the business case. This can subsequently drive a different set of decision-making, to support a revised delivery plan, to achieve a revised definition of value for the project. Each time the anticipated 'value' of the project is revisited, the project's risks (the downside impact on value) and opportunities (the upside impact on value) can be assessed and managed to achievement or resolution. This challenge creates a continual balance of risk and reward, which may drive, for example, a decision to revise the contracting strategy that was planned at the outset of the project. Therefore, value should not be viewed as a 'frozen target,' rather – through a focus on consistently driving capital efficiency – it can be a target that is continually revisited to ensure it is achieved.

8. Understand the capital efficiency implications on the entire lifecycle

A lot of the discussion around capital efficiency is focused on the deployment of capital, but one has to recognize that the actual value of the initial capital deployed is not necessarily indicative of its importance to the overall project. For example, the earlier stages in the project (such as front-end design or scope definition) have a profound impact on the project definition and detailing of the scope that will drive the cost and schedule objectives, albeit with limited capital expenditure occurring at that point in time. Similarly, with respect to management and operations of the asset, not achieving quality objectives in the interest of reducing costs during project delivery may have a huge impact on operations and maintenance costs and ultimately the valuation of the asset.

Embracing capital efficiency

The values attributed to capital projects in the Middle East are nothing short of staggering and demonstrate how capital-intensive industries in the GCC are, and will remain, for quite some time. Throughout the GCC region, organizations have not been able to grow effectively and organically, due to the immense pressure to deliver increasingly large and growing capital programs. Technical, commercial, financial and corporate support functions operate in silos – not by design, but because historically they have operated in this manner and they are now attempting to instill controls across this silo structure to deal with the challenges of rapidly increasing growth.

While anyone in executive management will agree that capital efficiency analyses needs to occur at both the project and portfolio level (across projects), the actual planning and management of large capital projects is complex in itself, with many variables and uncertainties that need to be identified, assessed, analyzed, quantified and estimated. To truly be capitally efficient requires a complete commitment by the organization to consistently collect and consider the right inputs – accurate data and metrics, appropriately from the right phase (e.g. planned costs during early design, forecast costs during execution, commercial and market data) to provide the right answers and to allow effective decision-making to be an output.

Time and again in the region, we have seen an erosion of capital project and shareholder value during the execution of these major projects. In its most simplistic form, focusing on capital efficiency and value can drive alignment across a myriad of departments and functions in organizations – when questioned as to why this is needed, the justification for change across these same departments and functions becomes easy once everyone recognizes the answer is 'it will save us lots of money'. Effectively assessing capital value and planning capital effectively creates clarity across the organization and supports decision criteria for the long-term benefit of the organization. It will more than likely provide organizations with the best possible chances of achieving their future objectives: success.

by **Rizwan Shah**, managing director,
Capital Projects Advisory, Deloitte Middle East

The price o
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is the view worth th

As companies seek ways to increase profit margins and improve overall business performance, business leaders are increasingly turning to pricing as a discipline that can boost their bottom lines. A search of publicly available data reveals a significant number of blue-chip companies that acknowledge pricing improvement as a part of their earnings success.[1, 2] Yet many seem to make little progress in driving the kind of consistent pricing discipline that yields the results they need.

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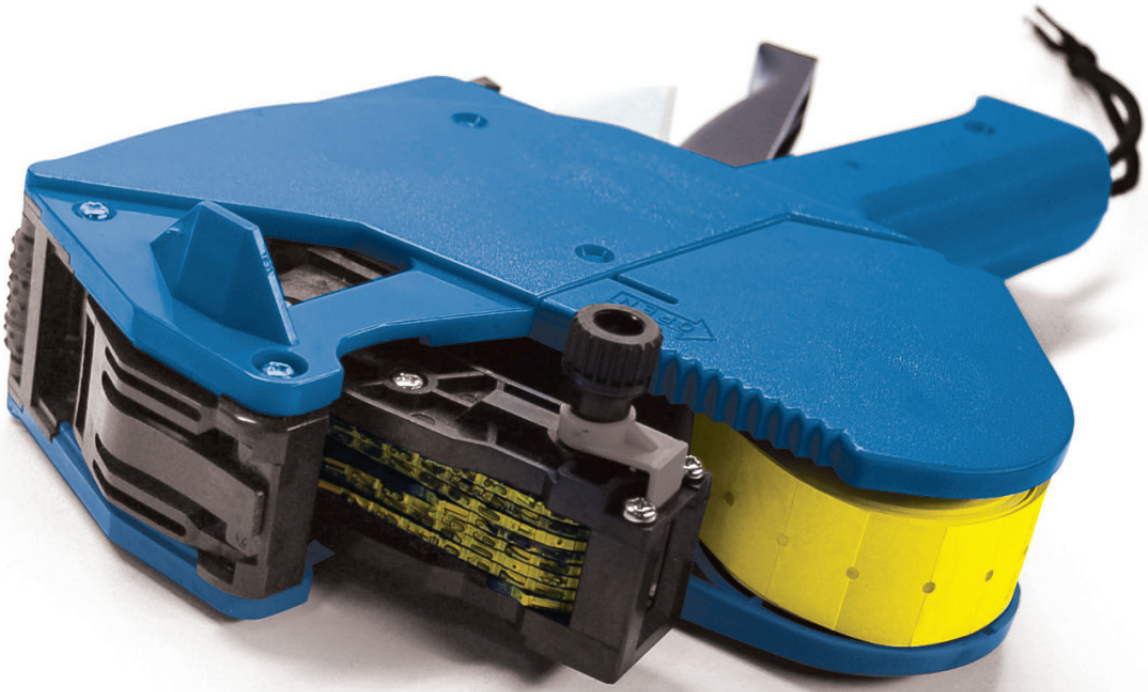


This dichotomy in the corporate world suggests several questions:

- What is the value of investing in pricing improvement? Is there a difference, attributable to pricing capabilities, between companies that expend significant effort to address pricing and those that do not?
- What does it mean to be good at pricing? Can't we just raise our prices and see if our sales force can make them stick?
- What are the risks of embracing and investing in pricing improvement and how can these be managed?

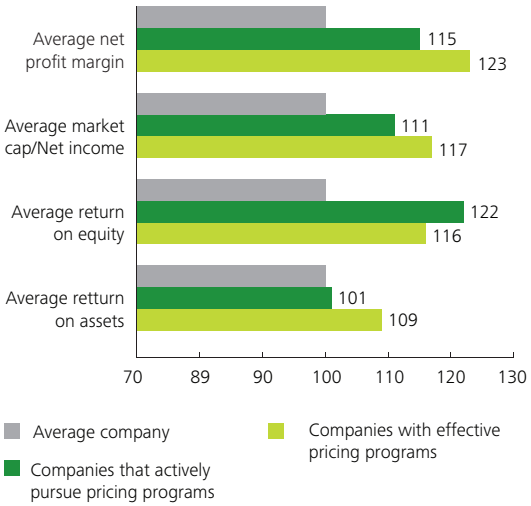
These are important questions in the face of many competing priorities and a challenging economic environment. However, a broad study of company performance and pricing reveals that, regardless of industry, geography or size, companies with effective pricing capabilities significantly outperformed industry peers across multiple financial metrics, including net margin, market valuation, return on assets and return on equity. This suggests a correlation worth exploring. Intriguingly, even the diverse population of companies studied has identifiable commonalities in the capabilities they have built. These commonalities, as well as identifiable strategies and the risks the companies faced in building pricing capabilities, are worth a closer look.

These are important questions in the face of many competing priorities and a challenging economic environment

Pricing and performance

Great companies do pricing very well. Whether these companies simply have more sophisticated pricing capabilities, or pricing prowess has bolstered their performance, the link between pricing and profitability recurs both anecdotally and in more detailed analysis. One study suggests that pricing has two to four times the potential to influence profitability relative to other business levers. Companies that actively pursue pricing as an important part of their strategy typically outperform industry peers on several financial metrics. Even companies that may not have achieved full maturity in their pricing capabilities but have placed a greater degree of importance on pricing than their peers and are actively pursuing pricing improvement benefit significantly (see figure 1).

Comparison of key financial metrics for an average company vs. companies that are pursuing pricing programs



Note: The metrics are indexed on base 100 for relative comparison

Source | Pricing Effectiveness Benchmark Study, Deloitte LLP, Deloitte Analysis

In general, then, it's not a stretch to say that pricing is an area worthy of focus – and likely worthy of developing beyond the table-stakes level. When many executives think of improving pricing, they envision being able to set more market-relevant prices for their products to drive greater volumes at higher prices, thereby increasing revenue. While price setting is an essential piece of the pricing puzzle, the overall discipline of effective price management concerns itself with managing transaction-level profitability, which requires capabilities in pricing strategy, execution, analytics and governance. The discipline also requires coordination across many functions including sales, marketing, finance, product development and customer service.

The complexity associated with this coordination is daunting, but there are a number of commonalities associated with enhanced performance in pricing. A closer look at high-performing companies suggests some useful points of consistency.

Clearly defined ownership and roles within the pricing process

Companies that exhibit effective pricing are 30 percent more likely to exhibit clearly defined ownership and accountability within the pricing process.[3] They also have pricing job roles that are clearly documented, including an executive owner who is accountable for results. Often, they have dedicated pricing organizations that help govern the process.[4] Regardless of the structure, though, leading companies included in our analysis have consistent accountability for pricing control and transaction profitability embedded in their organizations.

Without clearly defined roles, a company's accountability for pricing is limited to functional reporting lines. This root issue can manifest itself in a number of ways.

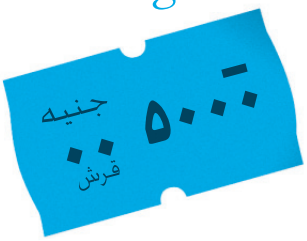
> Great companies do pricing very well. Whether these companies simply have more sophisticated pricing capabilities, or pricing prowess has bolstered their performance, the link between pricing and profitability recurs both anecdotally and in more detailed analysis

For one large publishing company, the pricing process was so fragmented that accountability was quite simply absent. While sales was responsible for the customer interface and primary negotiations, an account management team was responsible for packaging advertising opportunities, and finance set the rate card and pricing guidance. These roles may appear well defined but, upon closer review, no stakeholder was ultimately responsible for pricing and profitability at the transaction level. Even if the initial package proposal met all required pricing hurdles, sales was the sole arbiter of final pricing – and sales was measured on pure revenue, not profitability. The details of why sales assigned a price – perhaps due to value of inventory, customer segment or cost-to-serve for the proposal – were not transparent, so the set price often disappeared in the course of negotiation. Essentially, each function was attempting to optimize its own performance according to its local measures, which did not align with corporate needs.

Understanding customer cost-to-serve and using these costs to manage profitability

Companies that are pricing leaders are 26 percent better at managing true profitability.[5] They have an advanced understanding of customer and product portfolios, and efforts are directed toward growing profitable product and customer combinations. They have a full understanding of channel costs based on promotional and distribution activities. Sales personnel can use cost-to-serve in negotiations and use forward-looking analyses to drive decision-making. A large consumer goods organization serves as an example. Historically, the company measured its sales force on production of gross margin dollars. Leaders felt this provided a good balance of measuring revenue and pricing, which should correlate to profits. However, the company managed its trade spending at a local level with little governance. This essentially gave the sales force carte blanche to invest at will to ensure that it maintained and grew sales volume – a situation that resulted in wildly varying returns on the trade spend dollars. As a result of a growing disparity between gross margin growth and net profit growth, the company invested in reporting and tools that created a new level of visibility for management and for the sales force. This reporting provided visibility into the effect of trade spending on the profitability of each salesperson's book of business. With this new system and by simply redefining profitability targets instead of implementing draconian control measures, the company saw an 88 percent improvement in quarter-over-quarter profitability within a year.

Companies that underutilize pricing as a driver of profitability tend to have a limited understanding of product profitability beyond gross margin.



Companies that underutilize pricing as a driver of profitability tend to have a limited understanding of product profitability beyond gross margin

Segmenting customers based on needs and buying behavior

Companies with leading pricing practices are more likely to use segmentation techniques to fine-tune pricing. They have a full understanding of what customers value and why and include customer needs and requirements in product development decisions. They differentiate their marketing to appeal to particular dimensions of competition in each segment and they use clearly defined channel strategies that are largely driven by differences in cost-to-serve. Customer lifetime value is used effectively when making customer portfolio and relationship decisions and is input for decisions regarding segments to target or drop.

For example, a leading medical device company recently used conjoint analysis to differentiate customers by their willingness to pay for its service plan offerings. The findings from the study helped the company define

which services to include in silver, gold and platinum service plans. As a result, the company now specifically targets its service value proposition to customer segments based on their relative preference for features such as parts cost coverage, labor cost coverage, response time and uptime guarantee.

Companies with less sophisticated pricing capabilities tend to rely on different internal assumptions: they track customer needs for product development but follow only sales volume for segmentation. They often experience significant leakage of customers between channels and have no real understanding or use of cost-to-serve information to drive channel separation. They don't understand customer value well, and they base metrics largely on unit or dollar volume, not profitability. These segmentation "shortcuts" hinder effective price discrimination and, thus, profit realization.

At a global chemicals manufacturer, the marketing department employed a customer segmentation scheme comprising four segments: small, medium, large and national accounts. The customers were categorized based on their annual purchase volume alone and they received discounts commensurate with their segment. The large and national accounts received virtually all of the sales force's attention because they were the company's "best" customers. When overall company performance started to stagnate, it decided to take a closer look at customer profitability. It discovered that its biggest customers were actually its least profitable ones once cost-to-serve was included in the margin calculations. One of the biggest culprits was the shipping and handling costs incurred by the manufacturer – not because of the large volume of product they had to ship, but because of its customers' purchasing behavior. They would place relatively small orders nearly every day, and the products would be shipped as soon as the orders were received because its best customers deserved its best service.

While it seems intuitive that effective price management can lead to improved financial performance, many companies remain unable to improve their pricing capabilities

The manufacturer incurred significant expense in less-than-truckload (LTL) fees and its customers virtually eliminated its inventory carrying costs. Armed with this new view of profitability, the manufacturer traded its old volume-based segmentation scheme for a new one based on customer value and purchasing behavior and then put its best sales people on the newly-defined "best" customers.

Risky business

While it seems intuitive that effective price management can lead to improved financial performance, many companies remain unable to improve their pricing capabilities. Establishing or broadening these capabilities can be a very complex, risky and sometimes costly investment that requires specific skills and a good reserve of commitment on the part of leadership.

Changing pricing management is complex in part because pricing manifests itself in just about every function within a company. Product management, sales, marketing, finance and even operations either affect or are affected by any price change. Aligning diverse constituencies to drive a change in this system is no small feat. Organizational and process inertia can complicate things further. Specific pricing-related processes may have been in place for a long time and undoing or adjusting them would force people across all

these functions to learn a new way to do specific things or reduce the autonomy of certain stakeholders. In particular, the sales organization may view broad-based changes to pricing practices as a reduction in its influence.

> What we have observed is that proficiency in pricing is not a bolt-on capability, but one that requires a series of changes in data collection and design, as well as analytically based decision processes

Amid this complexity and inertia, the risk of making a mistake is high. It's easy to find case studies that spell out the unintended consequences of misguided pricing tactics and strategies. No one wants to tinker with something that may damage the company's bottom line.

Finally, a company's own characteristics may present many obstacles. Other priorities and initiatives may have momentum and take precedence, especially because pricing is rarely perceived as an urgent problem or opportunity. Employees may lack the capabilities needed for making the required changes. Poor data may limit visibility into transaction profitability. And of course, the company's performance or an economic downturn may limit investment resources to the point where paying for a project is impossible.

Even when these companies overcome the reluctance and inertia and embark on a program, there are the usual risks associated with any project: many stall, get overwhelmed, or lose their focus.

Quantifying the value of investing in pricing

In June 2011, Deloitte Consulting LLP and Deloitte's Global Benchmarking Center (GBC) hosted an online survey to benchmark pricing competencies, performance and investment of respondents across industries, geographies and competitive markets. This study was also designed to shed light on the relationship between company performance and effective pricing capabilities. More than 40 respondents completed the online survey and self-reported their performance.

The responses were analyzed along two dimensions. The first approach was based on developing comparison groups within the respondent set driven by the responses related to the financial performance and the effectiveness of pricing processes. The second approach was based on comparing survey respondents who represented public companies with a broader set of peers within their industry sectors.

Companies that were identified as "high performers" based on analysis of the survey responses showed a number of traits in common:

- They are more likely to understand the importance of key pricing competencies and effectively support them.
- They have a more centralized pricing function, with solid support from the top layers of management.
- They spend about as much as others on technology, but they are seeing a much higher return on their investments.
- They look beyond gross profit to measure the profitability of each transaction.
- They have a consistent focus on pricing across all phases of the economic life cycle.
- They are nearly twice as likely as low performers to have a C-level executive involved in pricing.
- They give their sales forces slightly less discretion than others when it comes to negotiating prices.
- They appear to be the leaders in adopting price management software.
- Nearly two-thirds of high performers are using a value-based pricing strategy.

Overcoming the hurdles

Of course, if it was easy, everyone would do it. What we have observed is that proficiency in pricing is not a bolt-on capability, but one that requires a series of changes in data collection and design, as well as analytically based decision processes. Moreover, organizational changes are often required to support processes based on a newly acquired arsenal of data – and more importantly, the insights derived from it.

Start by building a transaction-level fact base

Good decisions begin with a quantitative understanding of transaction profitability at the most granular level. This will be the source of truth as well as of ideas for improvement. Once an organization has built its fact base, qualitative information gathered from all pricing stakeholders should provide the fodder for hypothesis-driven analysis and opportunity identification. With this approach, the business case is built into the process of analysis. Key actions and considerations include:

- Identifying all components of a transaction that add or subtract value from the business on a marginal basis. Each component represents a lever that can be used to affect profitability. For example, costs to serve such as expedited shipping, special packaging, the cost of capital included in payment terms and technical service costs are often overlooked in traditional margin calculations. Tying these costs to specific transactions instead of aggregating them across all transactions will demonstrate the true profitability of each transaction. They can then be aggregated along any dimension – customer/product/region – to aid decision-making.
- Gathering data at the most granular level possible. More detail equals better and more flexible analysis. The cost of gathering, storing and processing these data has plummeted, so the assumptions about what was knowable back when original pricing practices were put in place are probably no longer useful.
- Being judicious with allocations. Fixed costs that are not marginally affected by the transaction should not be included in the analysis. This is an economic exercise, not a restatement of accounting performance. Therefore, costs such as corporate overhead and taxes do not need to be assigned to individual transactions; an arbitrary allocation would be misleading in pricing decisions.

> Be thorough but not overly complex in performance management design. Partial measures invite loopholes

Strengthen processes and information tools to enable rapid, fact-based decisions

The best analyses and strategies are of limited use without an efficient and effective pricing process. The ability to manage information flow, make rapid pricing decisions, escalate pricing exceptions and control market execution of pricing is critical to any effective pricing improvement. Companies can use data analytics to identify process weaknesses. If data analytics highlight a customer that is getting a discount that he doesn't qualify for, it indicates a weakness in the pricing process tied to discounting.

Characteristics of strong pricing processes include the following:

- Complete closed-loop flow of activity and information to drive continuous improvement. Pricing is, at its core, a series of judgment calls based on guidelines set according to market information and corporate objectives. In an ongoing business, market information is consistently flowing in. The process must be able to incorporate and use it on a continuous basis.
- Clearly defined, communicated and enforced roles and authority.
- A concise framework and structure for exception escalation.
- Balanced measurement of activity and outcomes.

Identify specific risk areas and the red flags that will trigger predefined response plans and actions

Pricing is a high-leverage game. Small changes in the marketplace can require significant changes to a pricing strategy. Red flags (such as margins, volume dropping below certain thresholds, rising salesperson turnover or new competitors entering the market) can alert executives to a new risk that requires corrective action. Organizations should plan in advance how they will react to potential threats – and they will arise. The escalation hierarchy for pricing exceptions should have a top strategic level within which significant structural pricing issues can be addressed quickly and effectively.

Early-warning triggers and the responses to defined scenarios will be specific to each business and its strategy. The key lesson is that pricing should be a primary consideration and weapon of response, not a reactionary afterthought.

Design compensation and incentives to promote compliance

Very few disciplines draw as direct a line between action and incentives as pricing, especially for a sales force. Pricing is often the primary lever that closes a sale. Process and governance may be able to largely control pricing compliance. But incentives that align with pricing objectives provide the structure that allows the sales force to operate with autonomy, as the touch point with the customer, without running afoul of corporate financial needs.

> Very few disciplines draw as direct a line between action and incentives as pricing, especially for a sales force. Pricing is often the primary lever that closes a sale

- Compensation and performance measurement should motivate proper use and protection of key levers in the transaction, as identified in the pricing analytics.
- Revenue and even gross-margin-based compensation plans are often insufficient to align sales behavior with corporate objectives.
- Stakeholders (in this case, the sales force in particular) should have direct influence and control over elements of performance measures.

Be thorough but not overly complex in performance management design. Partial measures invite loopholes. Complex measures invite lack of focus, which leads to the use of proxies for practical decision-making. Some companies, for example, have turned to discount rate (or "price realization") as a proxy for profitability, mainly because it is simple to understand, already captured in existing systems, and easy to measure at the transaction level. However, this metric ignores all of the costs to serve that the sales reps often use during a negotiation that ultimately affect profitability.

Keep the focus on the customer

Organizations can create value only by addressing the needs and goals of buyers. They should design pricing processes that reflect the client's perspective and make the most of the entire value chain, regardless of organizational boundaries. For example, a consumer business company sells to a retailer that finally sells to the end consumer. Thinking of profit improvement strategies for the first transaction in the value chain without understanding the ramifications on the downstream demand may suboptimize overall value created. In another setting, for large business-to-business companies, one customer may purchase

products from multiple business units, which are often managed as separate organizations with different leaders, different objectives, and different pricing metrics and strategies. As these companies begin to use data for advanced analytics that suggest increasingly sophisticated and targeted pricing changes specific to their business unit, it can be easy to lose sight of the cumulative, customer-level impact of these multiple pricing actions across BUs.

Executives contemplating an investment in pricing effectiveness often ask whether the view is worth the climb. There's no shortage of risks to mitigate and challenges to overcome, even beyond those listed here. However, with the right approach – one that focuses on developing the organizational and process aspects of pricing, improving analytics and understanding the customer – a company can direct its investment toward those efforts with the highest return.

Reprinted from Deloitte Review, issue #12 : 2012

by **Julie Meehan**, principal in the Strategy & Operations practice of Deloitte Consulting LLP., **Chuck Davenport**, senior manager in the Strategy & Operations practice of Deloitte Consulting LLP., and **Shruti R. Kahlon**, senior manager in the Strategy & Operations practice of Deloitte Consulting LLP.

The authors would like to acknowledge the contributions of **Michael Hart** of Deloitte Consulting LLP and **Matthew Herbein**, formerly of Deloitte Consulting LLP.

The key lesson is that pricing should be a primary consideration and weapon of response, not a reactionary afterthought

Endnotes

1 Global Benchmarking Center, "Pricing Effectiveness Global Benchmark Study," Deloitte Consulting LLP, August 2011.

2 Based on the 2011 Shift Index (Deloitte Development LLP) of Compustat data; Impact estimated based on the average Fortune 1000 company. <http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_tmt_2011shiftindex_111011.pdf>

3 Global Benchmarking Center, "Pricing Effectiveness Global Benchmark Study," Deloitte Consulting LLP, August 2011.

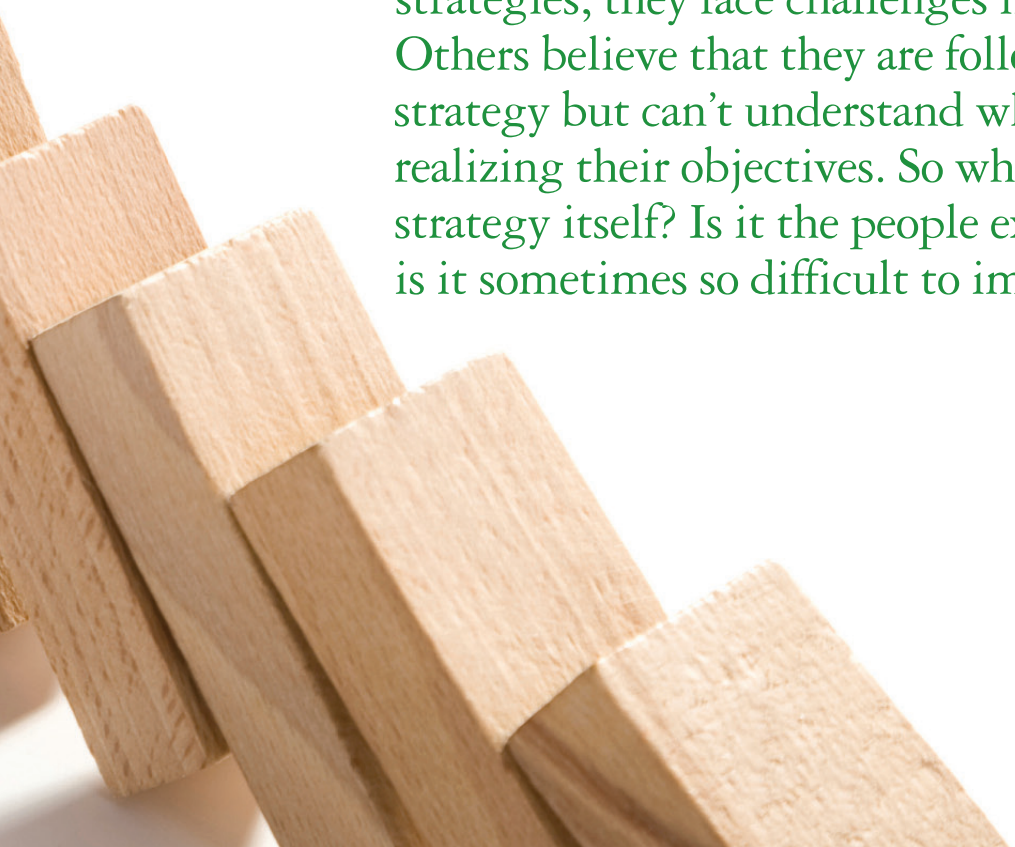
4 Ibid.

5 Ibid.

Now, where were we?

Strategy implementation challenges for public sector organizations in the Middle East

Strategy – whereby a set of initiatives to be executed within a specific duration are defined – is critical for the success of any organization, regardless of its business nature or its industry and accordingly contributes to achieving its overall vision and mission. While many organizations do have well-defined strategies, they face challenges in implementing them. Others believe that they are following a certain strategy but can't understand why they are not realizing their objectives. So what is the issue? Is it the strategy itself? Is it the people executing it? And why is it sometimes so difficult to implement a strategy?



Failing to plan = planning to fail

Any strategy has to be clear enough – with implementable actions and measurable objectives – so organizations can realistically execute it and measure their performance at it. The strategy under development also has to consider the current capabilities of the organization and any additional ones it can gain during the execution phase. It should consider the challenges that the organization might face while implementing it and therefore plan for remedial actions also.

But having a well-defined strategy does not, in and of itself, guarantee that an organization will achieve its objectives, nor that it will not face any challenges whilst implementing it. There are several challenges that any organization will face when executing a strategy. In the public sector, these challenges are even more difficult to overcome as decisions take longer and many limitations are sometimes beyond the control of the organization's leader.

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Challenge: Non-implementable strategy

A lot of government entities around the Middle East region seek external help in developing their strategies: some use consulting firms and others use experienced independent consultants. Few opt to develop their strategies using their internal resources.

Regardless of who is developing the strategy, it has to be implementable. Many entities only realize this after the fact, once they are in the execution phase. They realize that it is not possible to execute a plan – for whatever reason – and that there are many limitations they had not foreseen at the time of development. Sometimes the strategy itself is not clear, having required more detailed thought initially. In such cases, organizations end up having to hire another consulting firm to develop the same strategy but in a more detailed manner.

Solution: A strategy has to be detailed enough with timely, clear actions that can be executed with an aim to achieving measured objectives. Engaging consultants with experience in both, strategy and execution, will add clear value compared to others who have strategy experience alone.

Challenge: Lack of qualified internal resources

A common challenge that many public sector entities face in the Middle East region is the inability to find and hire qualified personnel, which is mainly due to limitations in the financial compensation in some countries and career progression in others. Government-sector employees are, perhaps unfairly, generally regarded as non-competent and inefficient, which has edged out the public sector from the race to recruit top performers.

While financial compensation may not be a challenge in some countries, it is in others. In Abu Dhabi for example, government employees are highly paid compared to employees in the private sector while it is not the same in other cities in the region. Different factors play a role in such variations, one of which is the relative percentage of the indigenous population.

Solution: A transformation is required in relation to the compensation structure of the public sector employees linked to performance metrics and an innovative model for career progression.

Challenge: Lack of qualified resources provided by vendors in some countries

Some government entities try to resolve the challenge of lacking resources and the complexity of hiring qualified personnel by sourcing open positions to vendors for a specific duration or on a periodic basis every year or two. The challenge there is the inability of some vendors to provide the right resources, on time.

Such a challenge could be the result of different factors: unrealistically low rates agreed to by the vendors at the outset (a result of winning the lowest bid as per the regulations in many countries in the region), improper planning by the vendors as to the required capacity, improper selection of vendors (which could be due to

limitations in the procurement process in some countries) and in some cases, the difficulty of mobilizing resources in certain countries due to logistical and/or environmental problems.

Looking again at the big picture, leading government organizations that develop plans for the country should encourage discussions and interactions with the private sector to ensure that their plans are well aligned with the overall plan of the country and are based on its needs.

Solution: Both Public sector organizations and the service providers should look at each other as partners who work together aiming at achieving targeted objectives, and both should help the other towards this. This requires an open discussion between the public sector and private sector organizations so strategic actions at both sides are taken to resolve such issues in the future.

Challenge: Limitations and complexity in the procurement process

In many countries in the region, there are clear limitations to the government procurement process. The trend is to award a project to the vendor with the lowest price as long as they are compliant with the regulations and technically satisfy the requirements to a good extent, which prevents the selection of the best vendor even if a budget is available.

Price is not the only limitation. Another issue is the duration from the time the Request For Proposal (RFP) is issued until the project is awarded, which in most cases takes five to eight months if not more. The range varies from one country to another and from one government organization to the other; in many cases, a government organization in a country with a bigger budget and more control over the funding process takes longer to award a contract. (In the case where the budget required for a project is less than the specified amount, then the project may be awarded within a shorter time as it comes under the authority of the organization itself, without the interference of other leading government entities.)

This trend is changing over time but much depends on the maturity of the organization and the ability of its leader to deviate from certain rules, directly or indirectly, using government procurement tricks that serve the purpose without directly deviating from the rules. Others try to engage in direct discussions with the budget approving body but in most cases this approach takes very long time (a year or more should a totally new idea be brought to the table.)

A mindset change is required here, accompanied by a transformation in the government procurement process and regulations that are very old in many countries in the Middle East

Solution: A mindset change is required here, accompanied by a transformation in the government procurement process and regulations that are very old in many countries in the Middle East.

Challenge: Budget limitations in some countries

While this is not an issue in the Gulf States to a great extent, it is a real issue in other countries within the region where projects are cancelled, postponed or even an incompetent service provider is selected due to budget constraints.

It is important to mention here that, in some cases, other factors affect the granting of a certain budget. One of these factors is leadership support for certain projects and the openness to change. An interesting and feasible project may not be given a green light if the leadership of the organization does not support the idea for whatever reason.

Another limitation is the reconciliation of an annual budget with a strategy that spans several years. This means that an organization may be granted the budget required in one certain year but not the next. Some organizations were able to resolve this issue by spreading the budget estimates across as many years as possible at the time of developing the strategy, which impacted how initiatives were proposed for execution to avoid such a scenario.

In some countries and for specific types of services, a centralized entity is responsible for controlling the budget in coordination with the ministry of finance, adding yet another layer to the approval process. (In some cases this may add a big plus as such a centralized entity ensures that a proper plan and justification are in place especially when the requesting government entity does not have enough experience in relation to the area, but in other cases it can become a showstopper).

In a few countries, performance-based budgeting was introduced as a new concept pushing government entities to better execution in order to achieve targets before granting additional resources, the government of Dubai for example started developing that few years ago.

Solution: An important action to consider here is to not forget budget limitations when developing a strategy as this will have an impact on several elements such as duration of execution, the model selected for the operation, the options selected for solutions and even the organization's capacity to provide the required human resources. This is one of the key elements that will make a strategy an implementable one.

Some governments are now implementing communication and change management programs in parallel with the core strategy development, using incentives to aid in their application

Challenge: Ineffective approaches to measuring performance

The correlation between the maturity of government organizations and understanding the importance of having a strategy is evident. But in most cases the strategy is not maintained, its execution progress either not measured at all or not effectively so.

Many organizations claim to have a department or a team that takes care of monitoring the implementation of a strategy with some variations: some have established a program management office to control and monitor the execution of major projects, some have an office of strategy management, others have a portfolio management office.

On the other hand, several government entities in the region are still developing their understanding of these concepts and accordingly, have not effectively established such units, which has impacted the execution of strategy as no proper monitoring was in place.

Many government entities around the region have issued RFPs in the last few years to establish and operate a program management office for the purpose of monitoring strategy execution, though many of these RFPs actually focused on recruiting individuals to fill positions that the organization couldn't fill itself. In some cases even, RFPs where issued to monitor the execution of a strategy that was not yet finalized or was still being developed, making it hard to recruit the right resources when there was such a lack of clear requirements.

Solution: The scope of strategy development should include developing a mechanism for proper performance management as well as a mechanism for maintaining the strategy. Moreover, the resources required to play such a role have to be available in the organization prior to starting the execution.

Challenge: Improper communication with the stakeholders and resistance to change

While having a strategy for an organization is important and acting on it is even more so, it is vital to get the buy-in from the different stakeholders who will play a role in the execution, whether directly or indirectly. Many strategies in the region fail because this factor is totally missed.

Some governments have caught on to this reality and are now implementing communication and change management programs in parallel with the core strategy development, using incentives to aid in their application.

It has also been impressive to see very few government entities involving members from other government entities or even selected individuals from the society whom they believe will prove resourceful in the development of a national strategy. This is a factor that

will give a big push to the execution of the strategy. For example, the second national e-government action plan for the Kingdom of Saudi Arabia was developed in cooperation with Yesser (the e-government program) whence from the beginning of the project an advisory group composed of key representatives from government entities, universities and the private sector was established to engage in discussions and provide feedback throughout the different phases of the project. Yesser also invited representatives from all government entities in the kingdom to attend workshops announcing the start of the project and getting feedback before finalizing the plan and launching a final version. Such engagement ensures getting the buy-in and letting the stakeholders feel that they are part of the game.

Solution: A good strategy should include stakeholders' engagement plan for the execution and a good method of developing the strategy should ensure key stakeholders are involved in developing the strategy they are required to execute.

Challenge: Strategic versus ad hoc actions

While developing a strategy, many organizations forget that regardless of how rigidly they plan, there will be ad hoc actions that they may need to take and sudden projects that they may have to execute as part of regular operations.

Keeping a balance between executing urgent operational requests and executing the strategic initiatives is very important provided that most of the activities performed are aligned with the developed strategy for the organization.

The issue arises when the count of such requests increases. For an entity to achieve its targeted objectives, it has to prioritize such requests considering clear criteria.

Solution: The strategy should not be very rigid and should allow for adding additional projects and shifting of priorities as long as this is performed based on proper analysis and considering the alignment with the general strategic direction. A good approach for developing a strategy should include in its scope, the development of a criteria that can be used for such change in the execution priority.

While developing a strategy, many organizations forget that regardless how rigidly they plan, there will be ad hoc actions that they may need to take and sudden projects that they may have to execute whilst as part of regular operations

The resolution of these challenges varies from one organization to the other and from one country to the next, although there are common characteristics. The solutions presented above are actions that will contribute, but will not necessarily resolve the issue of strategy implementation if implemented separately. Ultimately, it is the organization's leader who, despite facing some limitations in certain instances as mentioned above, plays the major role of resolving these challenges: directly or indirectly. In many cases, the approach applied in developing the strategy and considering the different factors that, together, may impact its execution in advance play a major role in eliminating or minimizing such challenges.

by **Muhannad Tayem,** partner in Consulting, Deloitte Middle East

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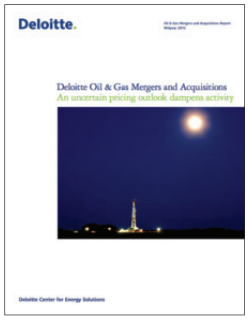

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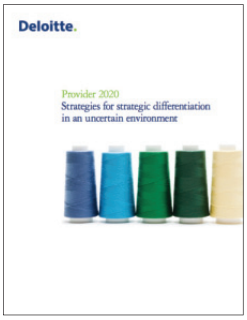

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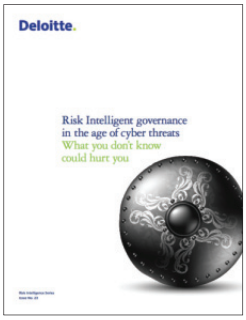

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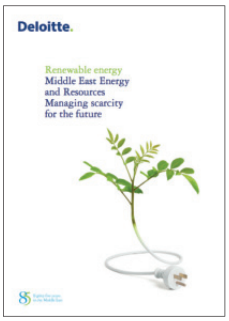

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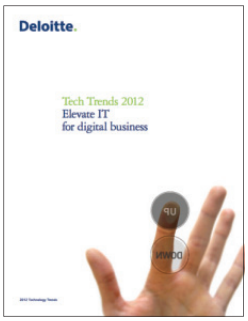

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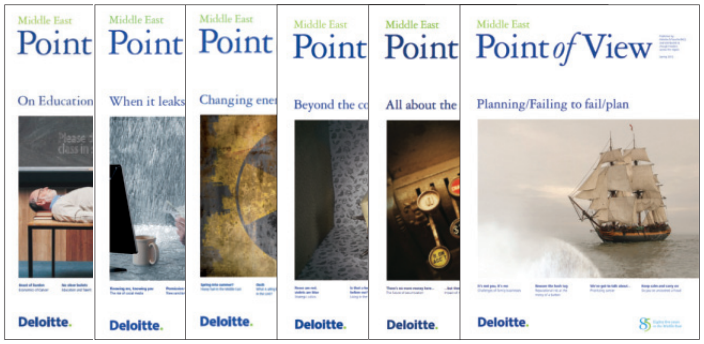

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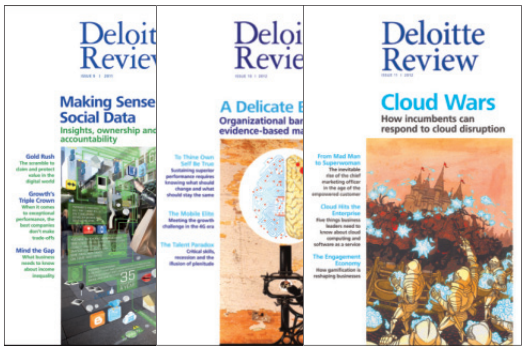

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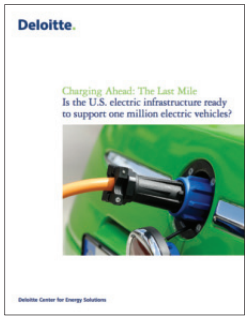

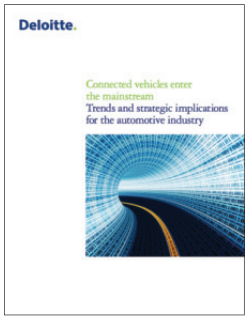

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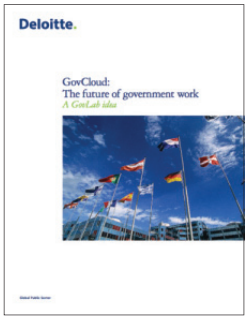

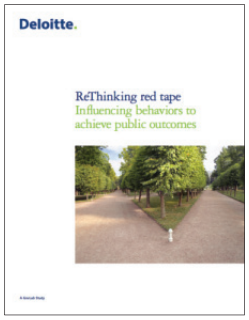

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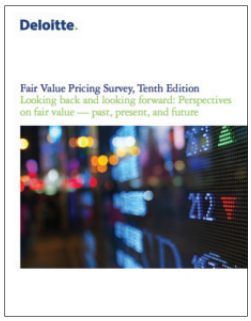

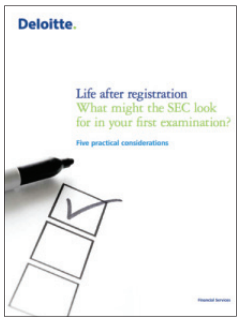

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Phone +961 (0) 1 748 444
Fax +961 (0) 1 748 999

ME Consulting
Regional office
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254 Dubai,
United Arab Emirates
Phone +971(0) 4 376 8888
Fax +971(0) 4 376 8899

ME Enterprise Risk Services
Regional office
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254 Dubai,
United Arab Emirates
Phone +971(0) 4 376 8888
Fax +971(0) 4 376 8899

ME Financial Advisory Services
Regional office
DIFC, Currency House
Building 1
P.O. Box 282056
Dubai, UAE
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

ME Tax Services
Regional office
Currency House
Building 1
P.O. Box 282056
Dubai, UAE
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

The Deloitte ME Islamic Finance Knowledge Center (IFKC)
Al Zamil Tower. Government Avenue,
Manama, Kingdom of Bahrain
Phone +973 1 721 4490 Ext 2018
Fax +973 1 721 4550

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

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

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

Iraq
Deloitte & Touche
Management Consulting W.L.L.
6 Royal City
Erbil, Iraq
Phone +964 (0) 770 694 6554

Jordan
Amman
Jabal Amman, 190, Zahran
Street, Amman, Jordan
P.O. Box 248
Amman 11118, Jordan
Phone +962 (0) 6 550 2200
Fax +962 (0) 6 550 2210

Kuwait
Deloitte & Touche Al-Fahad
Al-Wazzan & Co.
Kuwait City
Dar Al-Awadi Complex
Ahmed Al-Jaber Street, Sharq
P.O. Box 20174
Safat 13062, Kuwait
Phone +965 2240 8844
Fax +965 2240 8855

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

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

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

Qatar
Doha
Al Ahli Bank Building
Sheikh Suhaim Bin Hamad Street
P.O. Box 431, Doha, Qatar
Phone +974 (0) 4434 1112
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Saudi Arabia
Deloitte & Touche
BakrAbulkhair & Co.
Riyadh
Al-Salam Building,
Prince Turki Bin Abdullah
Al-Saud Street
Sulaimania Area
P.O. Box 213, Riyadh 11411
Phone +966 1 282 8400
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Al Khobar
ABT Building, Al Khobar
Saudi Arabia
P.O. Box 182
Dammam 31411, Saudi Arabia
Phone +966 (0) 3 887 3937
Fax +966 (0) 3 887 3931

Jeddah
Saudi Business Center
Madinah Road
P.O. Box 442
Jeddah, 21411, Saudi Arabia
Phone +966 (0) 2 657 2725
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Syria
Damascus
9 Fardos Street
P.O. Box 12487
Damascus, Syria
Phone +963 (0) 11 221 5990
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Rawda
38 Rawda Street
P.O. Box 12487
Damascus, Syria
Phone +963 (0) 11 331 1212
Fax +963 (0) 11 332 2304

United Arab Emirates
Abu Dhabi
11th Floor
Al Sila Tower
Sowwah Square
P.O. Box 990 Abu Dhabi,
United Arab Emirates
Phone +971 2 408 2424
Fax +971 2 408 2525

Dubai
Deloitte & Touche (M.E.)
Building 3, Emaar Square
Downtown Dubai
P.O. Box 4254 Dubai,
United Arab Emirates
Phone +971(0) 4 376 8888
Fax +971(0) 4 376 8899

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

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

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

Yemen
Sana'a
Sana'a Trade Center Eastern
Tower, Algeria Street
P.O. Box 15655
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