



Critical success factors for tomorrow's business leaders

Perspectives from the Gulf

About the series

This report is the first in a series of Critical Success Factor reports which will consider the critical issues faced by tomorrow's business leaders in key regions worldwide. It follows a Critical Success Factor summit hosted by Chartered Accountants Worldwide in Dubai, bringing together some of the leading CEOs, CFOs and business leaders from major national and international organisations in the Gulf. As Chartered Accountants and leaders in their field, they are able to provide a unique perspective on the critical business and financial issues faced by tomorrow's business leaders. Their experience and insight will be invaluable to those interested in addressing these challenges.

Further Critical Success Factor summits will be held in 2015, looking at the opportunities and challenges in some of the world's established financial centres as well as new and emerging markets. For information please visit www.charteredaccountantsworldwide.com

Contents

Introduction	5
1. Executive summary	6
2. Growth	8
‘Business beyond oil’ – an emerging global powerhouse	8
Case study Pearl Initiative	
Influencing and improving corporate accountability and transparency	10
Political and economic stability	11
Case study National Bank of Abu Dhabi	
Technology and banking for the unbanked	12
Financing growth	13
Sustainability and integrated reporting	13
3. Leadership	14
Professionalisation	14
Data	15
Corporate governance and transparency	15
Case study Majid al Futtaim	
Good governance in family business	16
Entrepreneurship	17
Changing role of the CFO	17
4. Talent	18
Talent attraction and retention	18
Educating and nurturing talent	18
Case study United Arab Emirates	
Nationalisation and the Chartered Accountancy profession	19
Diversity and the rise of women in the workplace	20
Case study Lubna Olayan	
A female role model from Saudi Arabia	21
5. About	22
Chartered Accountants Worldwide	22
The author	23

Introduction

The World Economic Forum predicts 75m new entrants into the Middle East and North Africa (MENA) workforce by 2020, an unprecedented growth that has the potential to expand the service sector, develop infrastructure and grow an independent, nationally sustained consumer market.

Yet to ensure the region can become an economic powerhouse between the West and East, it is vital that leaders in accountancy, finance and business develop strategies that will address the unique challenges faced by MENA.

On 18 September 2014, CEOs and CFOs from leading organisations across the MENA region met at a summit convened by Chartered Accountants Worldwide to identify these challenges. This report outlines the outcomes of this meeting. It identifies three critical issues: growth, leadership and talent and provides recommendations to address these challenges.

While discussions covered the MENA region as a whole, there was a specific focus on the Gulf countries, which is reflected in the examples used in this report.

Executive summary

Growth

Diversification is a critical issue for the region. To develop a sustainable model for business MENA must reduce its dependency on oil and build strong, broader-based local economies. The creation of larger free trade zones, the further harmonisation of laws and regulations, the increase of labour mobility and the commitment to greater transparency and corporate governance will be critical for success.

Despite being cash rich, Gulf nations are not seeing sufficient wealth remain in the region for investment. Creating a stronger financial system and increasing the focus on good governance and transparency are key to secure growth and inward investment.

Leadership

In the Gulf, 80% of non-oil businesses are family-run, a model that could risk the region's economic future. More than US\$ 1 trillion in assets in the region is expected to be handed over by the second generation within the next 10 years, yet globally only 15% of family-run businesses survive to the third generation. Professionalisation through increased emphasis on best-practice corporate governance and transparency is critical.

A related issue is the changing role of the CFO in the region. The speed of change, the impact of technology and the integration of decision-making and data availability have transformed the CFO role. As a result, the business and professional development for those who aspire to lead and manage companies will become ever more important.



Talent

Businesses must prioritise the development of home-grown talent as part of their long-term investment strategies. Youth unemployment as well as a shortage of skills is expected to increase. Labour mobility will help here but education remains at the heart of the debate.

Empowering more females across the workforce will also benefit the region hugely. In Gulf economies, such an increase would enable a higher rate of nationals to lead future businesses which will assist long-term thinking and social and economic sustainability.



Growth

'Business beyond oil' – an emerging global powerhouse

As economic power is shifting from West to East there are opportunities for the region emerging as a powerhouse in its own right. Daren Warner, CFO at International Bank of Qatar, said:

'The key now is to focus on a sustainable model acknowledging a future of business beyond oil. The region needs to create robust financial systems and focus on the interdependent issues of good governance and transparency to provide the foundations for strong capital markets as well as facilitating growth.'

Currently, although the Gulf nations in particular are cash rich, not enough of that cash remains in the region available for investment. Additionally, there is not sufficient foreign investment to sustain the growth necessary to ensure long-term employment and prosperity.

As family businesses professionalise, many are likely to look for additional funding and will consider changes in ownership structures. Currently such businesses often consider IPOs outside the region with deeper and more mature capital markets.

There are positive signs of change. An example is the recent reclassification of the UAE economy from 'frontier' to 'emerging market' by MSCI and S&P. Increasingly, global fund managers will now be looking at the UAE and the region.

Steve Walters, CFO of Vodafone Qatar, described the opportunities for the profession as follows:

'CFOs will increasingly need to focus on managing the expectations of more diverse and professionally demanding stakeholders. With the increased complexity of the role of CFOs and their teams, the Chartered Accountant profession will play an increasingly important role in ensuring successful professionalisation of companies. Ensuring that there is an appropriate pipeline of high-quality local talent into the profession will be key.'

There is no question that the region has the opportunity to create a sustainable model acknowledging a future of business beyond oil. The participants encourage focusing on creating a stronger financial system, and an increasing focus on the interdependent issues of good governance and transparency. Growth is unlikely to be accomplished without increasingly enforced financial regulation, education and encouragement around governance and transparency.



Case study

Pearl Initiative – Influencing and improving corporate accountability and transparency¹

The Pearl Initiative is a not-for-profit, business-to-business organisation working across the Gulf region to influence and improve corporate accountability and transparency.

The board members, all leading business leaders, are role models for others. Its activities create a positive force. They include roundtables on topics such as good governance and anti-bribery and corruption; research reports and case study publications, and partnerships with the United Nations and with HRH The Prince of Wales' Accounting for Sustainability Project.

Pearl Initiative Executive Director Imelda Dunlop commented:

'... there are a substantial number of local companies that have been involved in what we are doing and are now implementing ethics and governance programs. We focus on family firms to help them with the transition across the generations. We have also had an impact on speaking openly about sensitive topics like corruption which helps the dialogue on how to find solutions.'

¹ From information supplied by the Pearl Initiative.

Political and economic stability

Businesses are affected by the global economic situation and regional political uncertainties. As in other parts of the world, MENA real estate prices on the whole have grown faster than wages. In some cases, these have been inflated by 'hot money' – ie, cash generated from dubious practices – and real estate has been a targeted area of interest for those seeking to launder money. However, the participants also noted that in recent years, due to stricter economic crime legislation and enforcement, the money laundering situation has improved.

Summit participants also acknowledged that, due to the interdependency between political and economic stability, regional upheaval is likely to continue to impact economic and financial performance. As business leaders, they recommended strengthening economic ties by increasing the opportunity for labour mobility both within and outside the region.

One of the issues that impacts stability is the fact that the oil-rich countries in the region are developing and diversifying – but at different speeds. This, combined with political issues, creates an overall non-cohesive market. Declan Hayes, Managing Director of Deloitte Corporate Finance Limited commented:

'Although laudable efforts have been made, for example by the GCC, businesses would benefit from further harmonisation of laws and regulations in order to enable free trade.'

Anis Sadek, Office Managing Partner of Deloitte in Dubai urged a holistic approach:

'It's important to look at the region as a whole. Countries like Lebanon, Syria, Jordan and Egypt have a large number of young people who may, in certain countries, lack quality education, but are ambitious and willing to travel. These young people can contribute hugely if we view the region as a whole rather than as unconnected countries. If Middle East labour markets can be made more flexible, this region can become an economic force in its own right.'

Summit participants supported projects underway to aid the diversification of the various economies towards service and knowledge areas.

It was also recognised that there are opportunities for less-developed countries in the region to make use of new technologies and the experiences of the more advanced economies to leapfrog. For example, mobile telephony, together with education, will be an invaluable tool to empower the unbanked.



Case study

National Bank of Abu Dhabi –

Technology and banking for the unbanked²

Back in 2006, The National Bank of Abu Dhabi (NBAD), a mainly government-owned bank, reconsidered the plight of the lower paid members of society, often expat men supporting a family in their home countries. At that time, almost half of the population was unbanked. Issues like late or no payment of salaries for labourers were raised by Human Rights Watch.

NBAD developed a new 'Ratibi' card system, which allowed previously unbanked groups to receive their salary on this debit card and send money home safely and legally through simple mobile phone technology. Many banks now offer similar systems and the government has been able to enforce strict compliance for construction companies to provide a digital trail proving salaries are transferred on time.

² Dubai Chamber of Commerce and The National (Abu Dhabi).



Financing growth

As the region matures there is likely to be more demand for capital. Currently the lack of trust caused by insufficiently enforced financial regulation, governance and transparency means only limited foreign investment is entering the region and substantial capital is leaving, being invested in better-regulated markets. The issues around financial regulation and corporate governance and transparency, will affect growth. As family businesses professionalise they will require a well-regulated financial market. Stock exchanges throughout the region would benefit, and these exchanges in turn would benefit all businesses looking to finance growth while minimising the cost of capital.

Sustainability and integrated reporting

No successful long-term development can occur without taking into account the long-term sustainability of the businesses and the societies they serve. Current government initiatives, such as the focus on renewable energies in the Gulf countries, are useful. Currently the region seems to be behind more mature economies when it comes to measuring and reporting wider issues through integrated reporting, but some governmental organisations are taking the lead in this area. For example, the Abu Dhabi Sustainability Group has successfully motivated governmental organisations as well as privately-owned companies to get involved in measuring and reporting sustainability issues.



Leadership

Professionalisation

We see that the trend towards the professionalisation of business globally is particularly important locally. The backbone of regional businesses are family-run businesses where there is a strong need for increased professionalisation, specifically in finance and accounting matters. In the Gulf, family businesses are estimated to earn around 80% of all non-oil GDP. Almost three quarters of these are currently managed and owned by the second generation and hence US\$ 1 trillion in assets is expected to be handed over to the third generation within the next 10 years.

Global statistics show that only 15% of family businesses survive to the third generation. The summit leaders do not see any specific regional reasons why the numbers would be more promising in the Middle East. They see an increased interest in and understanding of governance issues from these businesses, and would encourage further professionalisation. This would require greater emphasis to be placed on the values of transparency and accountability, while building robust governance structures for such businesses. Professionalisation in the region should also mean an increased effort of the Chartered Accountants Worldwide membership bodies and similar organisations to work with regulators to help build more vigorous frameworks in the region and create good corporate governance practices.

Data

Business leaders face an increasingly complex, technology-driven world. The demand for quality data on which to base good business decisions is crucial. Yet in many countries in the region such data – or correct data – is not easily available from public sources. As a result, successful business leaders often have to obtain their own relevant data, in order to create an important competitive advantage, identify opportunities and trends and to enhance risk management. By providing more and higher quality public data, governments would be able to level the playing field for businesses, facilitating the efforts of start-up companies and entrepreneurs and the environment for investment.

Corporate governance and transparency

Chartered Accountants Worldwide business leaders believe that foreign investors will remain wary about investing in the region due to a lack of transparency which causes a lack of trust. Better transparency and corporate governance will encourage the innovation, investment and ownership that will bring future success. As elsewhere in the world, companies face the challenge of creating consistent cultures and behaviours among their staff. Of particular importance is the need to increase understanding of business risks, as well as ethics and cultural dimensions.

Case study

Majid al Futtaim³ – Good governance in family business

Majid al Futtaim is a family-run business with an annual turnover of US\$ 6.23bn. Mr Majid al Futtaim founded the company in 1992 and opened its first shopping mall in 1995. The core business involves managing and developing shopping malls and hypermarkets and now spans 12 operating countries within MENA and The Commonwealth of Independent States (CIS). Today, 250m people annually experience Majid al Futtaim each year, which has been regarded as a regional benchmark for good governance practice.

Already in the late 1990s, the founder executed a clear vision to separate ownership and management. Where possible, international best practice was followed, which resulted in the businesses adopting the principles of the UK's Combined Code for Corporate Governance in most instances, but allowing for flexibility to adjust to local needs.

The organisational structure is dynamic. In its current form, the three major subsidiaries are autonomous in their operational decision-making to allow for industry-specific expertise and flexibility. A holding company, owning all three subsidiaries, is responsible for the overall interest of the group and holds the treasury function.

The board of directors of the holding company consists of one family member, two executive and four non-executive directors. The roles and responsibilities of the chairman, the board of directors and the CEOs have been clearly defined. Each subsidiary has its own high-calibre board consisting of the holding CEO and the holding chief compliance officer, as well as the CEO of the respective company and a number of non-executive board members who are experts in the respective industry in which the subsidiary works.

The strong reputation of the group and its well-communicated governance structures have made it a sought-after employer in the region. Both high calibre board members and executive leaders were attracted by the sound governance structures of the group. It also helped in obtaining trust from banks, and facilitating a good credit record and related beneficial cost of capital. The solid governance structures and related business growth have attracted partners for joint ventures and other commercial opportunities. The checks and balances have also helped to limit their risk exposure through optimising their risk management and decision making processes.

³ From Tharawat Family Business Forum and the Pearl Initiative publication, *Good Governance in Family Firms*.



Entrepreneurship

Future jobs and economic advancement will be served by more entrepreneurial activities. Currently, government organisations constitute a large part of the economies in the region. While the summit participants do see entrepreneurial activities within some of these, they would encourage more initiatives to develop and foster home-grown entrepreneurship through the private sector.

Changing role of the CFO

A number of factors are changing the role of the CFO in the region. Technology has changed the speed of business, and changes in risk management, reputational protection, and a changing financial landscape is changing the role of the CFO. In addition, in the region the generational handover of family businesses will further impact the role of the CFO. The CFO and the general role of the accounting profession needs to adapt and change into the business leadership role seen in more mature economies. Umar Saleem, CFO from DEPA in Dubai, expressed it as follows: 'In my team, Chartered Accountants already stand out. As we evolve, their skill to analyse, do detail, look at issues in depth combined with the ability to look at the business and commercial aspects and take a wider perspective will become increasingly important.'



Talent

Talent attraction and retention

Talent attraction and retention is expected to remain high on the agenda. There is no doubt that this is a key and complex issue that needs to be addressed. Anis Sadek, Managing Partner of Deloitte Dubai commented:

'The region as a whole is likely to face increasing youth unemployment combined with pockets of talent scarcity. In addition, the oil-rich nations of the GCC need to find ways to ensure the local population is ready to lead tomorrow's economies. Addressing these complex issues will require ease of labour mobility, improvements in education and vocational training throughout the region, policy harmonisation and improvements in transparency, governance and financial regulation and reporting.'

Educating and nurturing talent

Education is at the heart of talent management. Summit participants encouraged governments to enhance educational systems throughout the region and urged companies to take a long-term perspective when it comes to supporting education and nurturing future talent. Of specific importance is strengthening financial frameworks and the financial environment to ensure a vigorous economy with the support of the Chartered Accountancy profession throughout the region, which will increasingly rely on home-grown skills.

Participants recognise that Chartered Accountants Worldwide MENA members, as business leaders, need to prioritise nurturing home grown talent to ensure there are financially skilled leaders ready to take on their roles in future. As the importance of quality reporting, transparency, governance and risk management is increasingly recognised, the profession that delivers these skills will also be of increasing importance. Edward Quinlan, retired EY country manager for the UAE, commented:

'It is key for the economic welfare of the region to train top quality local talent for the Chartered Accountancy profession. By choosing this career local nationals are contributing to the future of their countries, and fulfilling a civic duty.'



Case study

United Arab Emirates⁴

Nationalisation and the Chartered Accountancy profession

In many parts of the world the accountancy profession is one of the most sought-after professions for young bright graduates. This is not the case in the Gulf Region of the Middle East. Of the estimated 225,000 Emiratis in the workforce, 90% work for government-owned organisations. Only a small pool of Emiratis work in the private sector, and since banks have a mandatory quota of 40% nationalisation in the workforce, competition for talented young nationals is fierce. But that does not seem to be the only reason. Mohammad Zamani, the first to graduate from ICAEW's Emiratisation Scholarship Scheme, explained:

'Our families have a big influence on what profession we choose. It is hard to explain to them that it is worthwhile to work for an accounting organisation for double the hours and less pay than I would earn in a government organisation.'

Traditionally, accountants are expatriates and lack the status that professionals have in other parts of the world. This is reflected in many of the traditional CFO roles. These roles are changing as the region starts to implement best practices in risk management, M&As and IPOs. These new CFOs are often still newly recruited from the West.

⁴ From summit participants and ongoing academic research by Dr J. Vinke, American University of Sharjah



Amanda Line, PwC Partner heading the company's MENA Training Academy, said:

'It's mainly the expat graduates from the subcontinent that choose accounting as a major at university. Students that are Arab nationals will have the same ambitions to be CEOs, but often do not see the CFO role as a route to get there.'

Diversity and the rise of women in the workplace

The summit discussed the benefit to the region from greater gender equality and the opportunity for more women in the workforce which would benefit all countries. In the Gulf countries a higher number of women in the workforce will also mean an increase in the percentage of nationals there, which is important to create long-term sustainable leadership. In other countries, an increase in women in the workforce is likely to have a positive impact on GDP and economic stability.

In many countries women are now receiving a good education and often outperform their male counterparts. Marcus Freeman, CFO of Chalhoub Group, a leading family-owned business, highlighted the group's experience in Saudi Arabia:

'There are now more female graduates than males, and labour laws are being adjusted. Our group has recruited and trained over 1,500 Saudi females in the last 18 months for our operations in the Kingdom, mainly as staff in stores. In the wider perspective, the entry of women in the workplace will no doubt be an important contributor to 'beyond oil' economic development, much of which will take place in the service sector.'

Summit participants agreed that the rise of women in the workforce is inevitable and will be beneficial. For example, in the UAE, 73% of Emirati women plan to set up their own business. Engaging them early and providing opportunities will benefit the economies and businesses long term.



Case study

Lubna Olayan

A female role model from Saudi Arabia⁵

Lubna Olayan, who runs the large Olayan Financing Company, joined the family business in 1983 at a time when there were very few females in business. She has been vocal about women at work in Saudi Arabia. In 2004 she was the first female keynote speaker addressing a mixed gender conference in the Kingdom, calling for a society where:

'Any Saudi citizen, irrespective of gender, who is serious about finding employment, can find a job in the field for which he or she is best qualified, leading to a thriving middle class in which all Saudi citizens, residents or visitors to the country feel safe and can live in an atmosphere where mutual respect and tolerance exist among all, regardless of their social class, religion or gender.'

⁵ Forbes – Most Powerful Arab Women

About

Chartered Accountants Worldwide

Chartered Accountants Worldwide brings together the leading institutes of Chartered Accountants from around the world to support, develop and promote the vital role that Chartered Accountants play throughout the global economy.

Connecting hundreds of thousands of members and students, we:

- promote the commitment of our global membership to the highest standards of professional and ethical practice;
- create greater opportunities globally for those seeking to become or develop as Chartered Accountants – and those looking to train or employ them; and
- share expertise and innovation to maintain Chartered Accountancy's position as the preeminent qualification for those in accountancy, finance and business.

Together, we're committed to ensuring that our members continue to stand apart – defining excellence throughout their career, throughout the world.



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The author

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