Talent pool Bladen believes companies need to wake up to the potential of young, ambitious Emirati women.

THE CHALLENGES FACING CEOs IN THE MIDDLE EAST

JAN BLADEN, THE FORMER EXECUTIVE ADVISOR AND PROGRAMME LEAD TO THE ABU DHABI GLOBAL MARKET, AND FOUNDING COO OF THE DUBAI FINANCIAL SERVICES AUTHORITY, EXAMINES THE CHALLENGES FACED BY CEOS IN THE MIDDLE EAST INCLUDING CULTURAL BARRIERS, TALENT SHORTAGES AND CORPORATE GOVERNANCE

The role of chief executives and business leaders in the Middle East is becoming more complicated and challenging.

That's the view of Jan Bladen, founding chief operating officer of the Dubai Financial Services Authority, who believes that unlocking growth and shareholder value will be one of the key roles for CEOs over the next decade.

Bladen has just completed the successful establishment of Abu Dhabi's new International Financial Centre, ADGM, which he led, reporting directly to the chairman and board of directors.

Within 12 months, and under his leadership, ADGM defined its initial strategy and business plan, identified its initial target markets, mapped out the group's structures and operating models, recruited over 40 senior people into key positions, including the CEOs of the Regulatory Authority and Registrar, and produced a world class legislative and legal system based on Common Law.

Previously, he spent 10 years supporting the establishment of the Dubai International Financial Centre (DIFC) as the founding chief operating officer of the DFSA.

Having spent more than half his life in the Middle East, Bladen's wealth of expertise and knowledge of the region has given him insights into the challenges facing CEOs as they guide their organisations to profitability and shareholder value.

According to PwC's annual global CEO survey of 2015, almost 44 percent of CEOs in the Middle East said that they are 'very confident' their company's revenues will grow in the next year. This is the drop of over a third from the 2014 figure of 69 percent.

Bladen points to regional instability, the arrival of international competition and dropping oil revenues as external factors that most organisations in the region are now facing. However these risks, while real, are mostly beyond the influence of a typical CEO.

Ambitious CEOs are able to take charge of their organisation's destiny in other key areas however, tackling growth and value inhibitors and challenges to generate long-term growth and sustainable Shareholder Value.

"For most organisations in the region, these may be broken down into four specific areas," says Bladen.

"The first is operational constraints and relates to how we run our organisations. The second is the realities of attracting and retaining human talent. The third is the limitations of our current corporate governance practices, while the fourth is based on certain cultural implications which may hinder the further growth of family businesses and state owned enterprises.

"The GCC's historical high runaway growth from 2000–2007 was not accompanied by the strengthening of operational management practices. Quite the opposite; inadequate management practices were overloaded with ever increasing sales and revenue growth, with limited improvement in operational policies and procedure, and very few examples of economies of scale.

"The operational foundations were groaning and creaking under the strain and pressures, and our service quality levels plummeted."

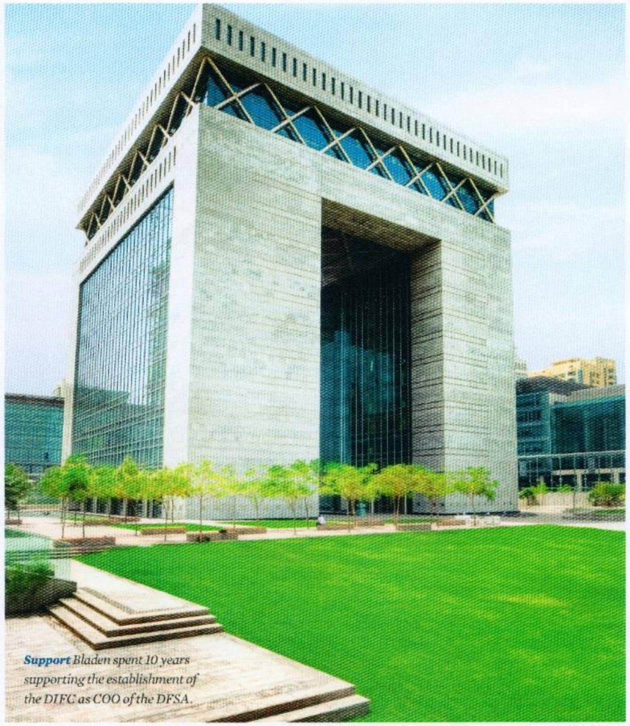
Bladen points out the majority of GCC businesses' operating models remain relatively unchanged, while revenues have again grown over the last 10 years.

"As a result, many state owned enterprises and family businesses may now feel that they have reached an operational glass ceiling?" he adds.

"How do you expand and grow when you are already running at near 100 percent operational capacity?"

Both revenue growth and operational cost efficiency drive shareholder value, but research demonstrates that operational cost efficiency matters more. Increasing the revenue without fixing the efficiency issues has a limited impact and only further increases complexity.

Most CEOs recognise complexity hurts their businesses and tends to increase costs. When Bain & Company surveyed executives at 960 companies globally, nearly 70 percent responded that complexity was driving up costs and hindering growth. Researching the impact of complexity on 110 companies in 17 different industries demonstrated that complexity substantially reduced business growth potential.



Support *Bladen spent 10 years supporting the establishment of the DIFC as COO of the DFSA.*

"An inefficient and complex operational platform not only affects margins and efficiencies, but directly impacts your customer experience," Bladen adds.

"Addressing the operational cost issues first allows you to fix these inefficiencies and then leverage the full potential of revenue growth. So the regional opportunities for operational improvement are therefore not difficult to grasp: cut complexity and keeping things simple, streamline organisational structures, policies and procedures, ruthlessly remove redundant activities and controls and focus on service quality."

Bladen says the number one under-utilised commodity of the UAE is local talent.

"Talent is one of the most important drivers of a successful business," he claims.

"However attracting new skilled expatriate employees to the Middle East has become more challenging as the constant geopolitical news creates an adverse image of the region, while retaining current employees in the face of the UAE's rising cost of living is an additional challenge for any ambitious CEO who wants to drive revenue growth and shareholder value."

HSBC's 2014 Annual Expat Survey highlights the UAE's rising cost of living as a primary concern for expats.

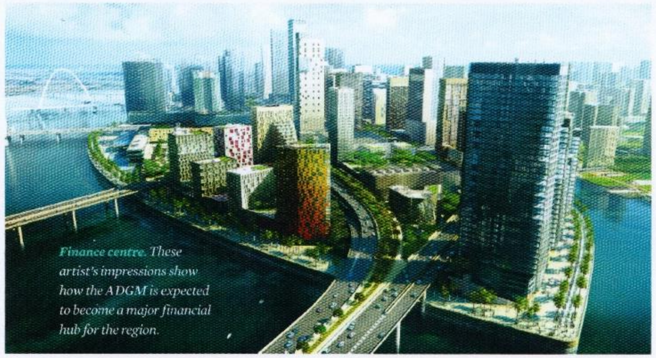
"The question becomes, how do we attract much needed talent to the region, or in other words, how do we pay above market rates, and beyond set budgets, for scarce and important talent that won't join otherwise?"

Youth unemployment across the region averages 25 per cent and in some countries is much higher. Young educated Middle Eastern candidates are struggling to find jobs and there is a high level of unemployment in some of the major regional economies.

According to a recent article by Egon Zehnder, part of the problem is there is a mismatch between the skills Middle Eastern education systems provide and those that firms actually need. Cost pressures stemming from regional economic uncertainty and dropping oil prices add to this knowledge gap if educational budgets are trimmed.

70 percent

The number of executives that believe complexity is driving up costs.



Finance centre. *These artist's impressions show how the ADGM is expected to become a major financial hub for the region.*

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One solution to the challenge is to seek-out and train local UAE talent. Bladen points out this solution is often countered by arguments around the cost of the private sector competing against Government who pay above market rates, offer shorter hours and longer holidays to local talent.

Nearly 50 per cent of all UAE nationals employed in the workforce are female. The number of UAE national women enrolled in higher education is 24 per cent more than the number of UAE national men enrolled in higher education and reflects a staggering statistic: 77 per cent of UAE females continue on to higher education from high school.

With 3,200 female students at campuses in Abu Dhabi and Dubai, the US accredited Zayed University is producing female graduates who are strong in technology, business, the arts and leadership. Women currently make up 75 per cent of the student body at the national university in Al-Ain.

Women graduates in the UAE can be found working in government, engineering, science, health care, media, computer technology, law, commerce, and the oil industry. Four UAE cabinet ministers are women and women form two-thirds of government sector workers. In October 2008, the first female judge was sworn in. In 2006, nine women took up seats within the Federal National Council, accounting for 22.5 per cent of the Council's membership.

"Any CEO worth his weight in salt should already be thinking of how to ensure that his organisation reaps the benefits of this pool of young, ambitious, Emirati female talent," says Bladen.

"In 2006, in my position as founding chief operating officer of the Dubai Financial Services Authority, the DFSA launched its Tomorrow's Regulatory Leaders (TRL) programme. We had recognised the opportunity to make a contribution towards the UAE's Emiratisation initiative while, more importantly, investing in developing our own pool of young Emiratis to become leaders in the financial and regulatory sector."

That programme is now recognised as a leading example of successful private sector Emiratisation.

"On my departure from the DFSA, 30 per cent of the regulatory staff was highly skilled and performing Emiratis, up from none, with a large proportion of its graduates being Emirati ladies," Bladen adds.

"CEOs must recognise emiratisation as a positive solution by creating your own development programs to produce your own pool of future expertise and talent. This also requires you to focus on hiring the right expatriate managers and experts for knowledge-transfer. Your recruiters need to assess not just their technical expertise, but recruit expatriates who also have the broader behavioural skill sets required to effectively develop Emirati talent."

Bladen says that until recently the acceptance and implementation of Corporate Governance in the Middle East has not received strong support from institutional investors and private shareholders.

While there may be a variety of reasons for this, he believes some root causes are: The fact the majority of larger organisations are either family or state owned; capital markets remain relatively underdeveloped; liquidity and financing requirements were easily available from banks and; a disclosure adverse culture where shareholders have been reluctant to publicise operational and financial aspects of their enterprises, which has contributed to a general acceptance of the lack of transparency.

"Consequently the region has not been on the radar of major international investors," he says.

"ATTRACTING NEW SKILLED EXPATRIATE EMPLOYEES TO THE MIDDLE EAST HAS BECOME MORE CHALLENGING."

The need to attract foreign direct investment, lower the cost of capital, strengthen operational performance and improve access to capital drove the first surge of corporate governance awareness in the Middle East some ten years ago.

That awareness was led primarily by countries with little or no petrochemical resources and therefore requiring substantial access to international funds for the development of their infrastructure. The first corporate governance surge was also accompanied by the issuance of national corporate governance codes, with no less than eleven corporate governance codes introduced in the Middle East between 2005 and 2009. This was further supplemented with the launch of numerous Institutes of Directors and Hawkamah, the Institute of Corporate Governance based in DIFC

"The fact that businesses which lacked good corporate governance practices faced higher funding costs and limited access to capital markets compelled a handful of local companies to adopt some form of corporate governance reforms," says Bladen.

"Unfortunately, despite these efforts, the first surge failed. The region's perceived lack of transparency and accountability restricted FDI inflow and limited potential international partnerships. The persistence of widespread and deep rooted mal-governance continued to be counterproductive and may have led to situations where corruption became widespread, and the state and its agencies, subject to capture."

Transparency International's Corruption Perceptions Index ranks 177 countries on a scale from highly corrupt to very clean, based on how corrupt their public sector seems to be. The 2013 Report lists no less than five Arab countries in the bottom ten. PwC's 2014 Global Economic Crime Survey states 21 per cent of Middle East companies have been the victims of some form of economic crime.

It's easy to conclude Middle Eastern corporate governance reforms are far from complete and there remains a lot that needs to be done to improve the attractiveness of the region for foreign investors.

Many reliable studies produced over the last few years demonstrate investors are willing to pay a substantial premium for well governed organisations, simply because they are better managed and generate a higher return.

Bladen says the Middle East represents a substantial source of untapped corporate wealth for any investor brave enough to cautiously and selectively buy-in early and catalyse the evolution of good governance.

"The opportunity is clear and visionary companies across the region are challenged to adopt corporate governance practices as a strategic and competitive advantage in their search for growth and profitability," he says.

The presence of a large number of state-owned and family businesses in the Middle East is characterised by ownership concentrations. Over 90 per cent of companies in the region are family owned, generate approximately 80 per cent of the region's GDP, constitutes 75 per cent of the private sector economic activity and employ 70 per cent of the labour force in the GCC.

"While the family-owned structure results in greater control, it creates challenges as the business passes from one generation to another, and faces hurdles in the form of increased competition from big multinationals entering the region," says Bladen.

"We can observe the second, current, wave of corporate governance is now being driven by the need for family-owned businesses to diversify their boards, improve strategy and decision making to counter increased competition from global organisations entering the Middle East."

Bladen concludes by saying the development of good governance will have two final, substantial impacts in the region, contributing towards political stability as our countries climb the Corruption Index and improve their cleanliness, and contributing towards the creation of employment in the region, further driving political and social stability along with economic growth.

44 percent

The number of CEOs that are 'very confident' revenues will growin 2016.