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 COOs 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 a PwC annual global CEO survey of 2015, almost 54 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 99 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 charge a
to cover the cost of the failing
tos drive sustainable growth.

"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;
inaugurate management practices were
overlooked with no increased sales and
revenue growth, with limited improvement
in operational efficiencies and procedures,
and very few examples of economies of scale.

"The operational foundations were
failing — growing 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
grown over the last 10 years.

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

"As you expand and grow when you
are already running at near 300 percent
operational capacity?" Bladen asks.

Both revenue growth and operational
cost efficiency are driven by the same
factors, but research demonstrates that
operational cost efficiency matters more.
Increasing the revenue growth and
operational cost efficiency has a
limited impact and only further
increases complexity.

Most CEOs understand the complexity challenges
and want to improve their businesses and
to increase their operational efficiencies:
When Bain & Company surveyed executives at 100 companies with more than 70 percent
responded that complexity was driving up costs and hindered growth. Researching
the impact of complexity on the companies is in different industries demonstrated
that complexity substantially reduced business growth potential.

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

"An inefficient and complex operational platform
not only affects margins and efficiencies,
but also 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 organiza-
tional structures, policies and procedures,
and then focus on driving operations and
controls and focus on service quality."

The number of employees in the Middle East has
to 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 high-
lights the UAE's rising cost of living as a
primary concern for expats.

"The question becomes, how do we attract
more talented and experienced 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?" Bladen says.

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

"However, attracting new skilled expa-
rats to the Middle East has
mismatch between the skills Middle
Eastern education systems provide and
those that firms actually need. Cost pres-
sures stemming from regional economic
uncertainty and a growing salary gap
between skilled expatriate and local
talents.

One solution to the challenge is to
seek out and train local UAE talent. Bladen points
out that this solution is often counteracted by argu-
ents around the cost of the private sector,
which competes against Government who pay
higher salaries due to longer hours and,
"To attract the best talent, you need to
pay above market rates, offer shorter hours and
offer competitive compensation."

Nearly 60 percent of all UAE nationals
employed in the workforce are female.
The number of UAE national women enrolled in higher education is more than the
number of female national employees in
higher education and reflects a stagger-
ing statistic: 72 percent of all UAE females
continue on to higher education from high
school.

With 1,300 female students at campuses
in Abu Dhabi and Dubai, the U.S. accredited
Zayed University is producing female gradu-
ates who are strong in technology, business,
and arts and leadership. Women currently
make up 78 percent 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 tech-
nology, 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, six
women took up seats within the Federal
National Council, accounting for 22.5
percent 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
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 opportu-
nity to mature and develop its talent in the
UAE's financial industry," Bladen adds.

"This is a positive move by the UAE's capital market to develop the local
financial industry."

"On my departure from the DFSA, 30
percent of the regulatory staff was highly skilled and performing. Emirates, up from
now, with a large proportion of its graduates
being Emirati ladies," Bladen adds.

"The UAE's capital market to
demonstrate their technical excellence,
but recruit expatriates who also have the
broader behavioural skills that are required
effective enough to develop Emirati talent.

Bladen says that until recently the acces-
tance and implementation of Corporate Governance in the Middle East has not
received the support from institutional investors.

While there may be a variety of reasons
for this, he believes some root causes are:
that institutional investors are using complex structures are still not
understood by the market. This involves
reviewing the operational performance
of companies, not just their financial
results, and the entire value of the company.

According to a recent report by Etisalat,
15 percent of the problem is there is
mismatch between the skills Middle
Eastern education systems provide and
those that firms actually need. Cost pres-
sures stemming from regional economic
uncertainty and a growing salary gap
between skilled expatriate and local
talents.

One solution to the challenge is to
seek out and train local UAE talent. Bladen points
out that this solution is often counteracted by argu-
ments around the cost of the private sector,
which competes against Government who pay
higher salaries due to longer hours and,
"To attract the best talent, you need to
pay above market rates, offer shorter hours and
offer competitive compensation."

Nearly 60 percent of all UAE nationals
employed in the workforce are female.
The number of UAE national women enrolled in higher education is more than the
number of female national employees in
higher education and reflects a stagger-
ing statistic: 72 percent of all UAE females
continue on to higher education from high
school.

With 1,300 female students at campuses
in Abu Dhabi and Dubai, the U.S. accredited
Zayed University is producing female gradu-
ates who are strong in technology, business,
and arts and leadership. Women currently
make up 78 percent 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 tech-
nology, 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, six
women took up seats within the Federal
National Council, accounting for 22.5
percent 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
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)
"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. PW'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, constitute 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 grow in 2016.