

# Managing change

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Executive Summary

There are 6 countries in the GCC namely: -Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE) which is a community of nations that have pooled together for economic prosperity. This venture goes beyond their common economy driver which is oil, over time they have branched out to other sectors like banking which opens up to various economic segments inclusive of SMEs and Real Estate Development. The economic crisis of 2008-2009 that greatly impacted the global financial market had its implications on the six economies but with strategic planning

and improvising, these nations have grown to become economic hubs. These achievements however, have been coupled with various drawbacks but with the application of economic theories with an illustration of the Contingency Theory such hurdles are to be tackled. The study provides recommendations on the various aspects that require adjusting for the economies to thrive even more.

## Introduction

With the onset of the financial crisis within the past decade, the financial markets in the Gulf region have undergone various changes and institutions and business entities have adopted new market strategies to counter the implications of the crisis. The Cooperation Council for the Arab States of the Gulf countries (GCC) - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates (UAE) are keen to improve their economic competitiveness in the international market.

From the early 1970s to the early 1980s the GCC member countries made significant developments in the financial front. The financial institutions were beneficiaries of the lucrative returns brought about by the abundant oil revenue. At the time up to the 1990s, the primary focus of the institutions was on short-term lending trade, building and construction and manufacturing. With the 1990s came global financial integration that entailed the carrying out of economic restructurings especially due to the effects of the Gulf war. Technological novelty and new market strategies centred on consumer-based services were adopted. Following the Gulf war was a variation of loan problems in banks across nations affected by it. The financial set-up of the GCC has overtime faced a number of challenges

that revolve around the augmented role of the private sector in the financial market, the high demand for new financial services and the aspect of global participation. Efficiency and productivity are therefore a principal concern in this modern age.

#### Structure of the GCC Financial Sector

The countries in the GCC have links with banks that are expansively branched out. Banks have good capitalization and are financially strong like in the case of Saudi Arabia where range is at a 70% GDE market share. As of 1995, the gulf region boasted 9 banks all of which surpassed a \$5 billion mark with assets totalling to over \$10 billion each. Up to the 1970s, most of the banks in GCC countries were branches of multinational banks but as of today where ownership of private banks is prime.

#### Demographics

The 6 GCC constitute nations are multi-ethnic and multi-cultural countries with expatriates making up three chief nationality groups, namely: Asians, Arabs and Westerners. The non-nationals make up one-thirds of the entire GCC population with the UAE taking up the larger portion (82%) and Oman the lower distribution of 27%, (ETC 2012). This distinctive distribution pattern has shaped the travel patterns in the region, the GCC national fragment has the greatest prospects, (Malhorta 2012).

Over the past decade, the GCC countries have recorded a tremendous population growth surpassing 13 million which was at an estimated count of 49. 8 million in 2013 and with the flourishing economy in the gulf region, it calls for the hiring of expatriate labours. The growth rates of the population forecast are standardizing though the growth rate in the region is way

beyond the aggregate global value of 1. 2%. Between 2010 and 2015 the percentage was pictured at 2. 3% which is a 0. 2% decline from the preceding 5 years, (Emirates247 2012). Deductively the UAE is expected to have the greatest growth rate of 18. 2% in this time span. Saudi Arabia has the largest share of nationals totalling to 67% of the entire population.

### Economy

The year 2008 saw the establishment of the GCC's common market and 2 years later it was followed by the propositions of a common currency which were later on shelved. It was also during this period that the global economy faced a downturn but providentially for the GCC, there was the oil resource in the region. The oil reserves in the gulf region are largely located in Saudi Arabia, making her the most prominent member of the GCC, (BBC 2012). As of 2012, GCC nations had 5. 8% aggregate GDP progression resulting from export overturns and with the low population density in the six countries, the average income per capita makes them the wealthiest countries globally. The Qatar Financial Centre released a report in 2013 that showed a 6% growth in the number of wealthy individuals in the UAE (Emirates247 2012).

### Contingency Theory

Corporate strategies are contingency based since the success of the methods employed depends on whether there is agreement between the environmental and operational variables. The contingency theory is therefore founded on organizational aspects, environmental influences and the strategic corporate response (Ginsberg & Venkatraman 1985, p. 421-434). The necessity of grasping the market concept is key in shaping the market orientation of a firm. It entails identifying the market or customer needs in

the market. Identification of such deficits is followed by diffusion of clientele and competitor related market intelligence (Jayachandran & Bearden 2005, p. 24-41). When an entity is swift in manipulating the market concepts has a greater success rate than the competition. Such information should be relayed across all divisions of the company to ensure effective performance. It is all about seeking opportunities and seizing them (Narver & Slater 1990, p. 20-35).

Following the economic crisis of the past decade, the GCC banking institutions and other industries inclusive of tourism and real estate, have evidently adopted the Contingency Theory with regard to their operations and future planning. The Banking and Real estate segments discussed below are a depiction of the implementation of this theory.

### Banking Trends

The banking segment in the GCC has its concentration on corporate lending but with technological developments, the emphasis has shifted to deployment of Automated Teller Machines (ATMs), internet banking and contact centres. 81% questioned respondents in the Accenture Survey relayed that: improving their distribution channels is key in attaining their 2015 targets. Incorporation of innovative banking mechanisms is a worthwhile undertaking because more of their clients are adopting modern communication systems and devices. In comparison to Europe, the GCC has a higher commercial banking asset to GDP proportion of 116%. The demand for ATMs is also fuelled by this proportion which means that the number of branches to population ratio gives a low density figure. Internet and mobile technology are the channels that most banks are planning to venture into to

capture a larger customer base. Mobile technology is deductively the most proficient technology in the market. Business intelligence (Bi) is yet another proficient creation that is intended to assess risks and customer analytics. Cloud computing is also in the agenda of many banks. The target market is the technology savvy clientele which is a growing base. The various developments also present challenges that include: increased customer anticipations of information channelling, they expect shorter wait times for service delivery, there is a fall in customer loyalty due to the simplicity in switching banks and demand for premium services by clients (GCC 2015 Banking Survey).

The international regulatory framework for banking procedures is fast evolving and shrewd in protecting the clientele. The dynamic nature of the framework especially after the economic downfall of 2008-2009, it poses a challenge for banks in the gulf region to adjust. The Saudi Arabian Monetary Authority (SAMA) was instrumental in the protection of the Saudi economy from the turmoil of 2008-2009 and has continued to do so by opening communication channels between banks in the GCC region. Banks are assuming risk management protocols which is a reaction from the Basel Capital Accord stipulations that require banks to instrument risk-based pricing, advance risk reporting and mature a proficient risk assessment and modelling plan (GCC 2015 Banking Survey).

Shortage of skills is an issue facing the banking industry in the GCC region. The region has its own set of stipulations regarding compulsory hiring of locals and a detached expatriate populace provides unprecedented challenges to the banks. A solution to this is talent management being

incorporated in the company programmes. Talent management caters for special skills that are crucial especially when the bank ventures into new territory like attending to SMEs (Kern & Steffen, 2012).

### Strategic Choice Theory

Creation of strategies within the corporate world requires a focus on the strategic choice theory. The necessity of the theory results from the fact that the theory describes the role that leaders of an organization or various leading groups or sections play in influencing an organization's choice making that occur in a dynamic and political process (Negandhi, 2003, p. 218-219). The theory begins with a consideration of other available forces from the external environment that possesses the capability of affecting the employment relationship. The importance of focusing on the changing external environment and its impacts on an organization employees help the businesses to work in addressing the changing employees concerns.

Changing external environment influences and entices employers to make changes in their respective competitive business strategies (Irgens, 2011, pg. 169). While making the adjustments, a variety of options considered undergo a process of filtration as well as constraining to enhance them to become consistent with the values, beliefs as and philosophies that are held by decision makers. In respect to GCC banking, the focus on the changing environment need to incorporate all the new and essential concepts as well as trends both beneficial and non-beneficial affecting the banking industry. That serves as an indication that the management needs to focus on effective strategies that consider the impact of the external environment on the internal operations of the business so as to make sure that business



operations remain intact as employees changes are accommodated in the business.

#### GCC Response to Strategic Choice Theory

As a result of the changing trends in the banking industry on the global concept, GCC and other financial institutions are continuously positioning themselves strategically to avoid a situation where the external environment affects the internal environment as a surprise. One of significant adjustment in GCC that signifies adjustment to strategic choice is evidenced through the change of banking operations from wholesale banking approach towards consumer banking (Jinjisoshiki, 2011). The introduction of new technology in the banking system that comprise of the use of Automated Teller Machines (ATM's), internet banking as well as mobile banking influenced the manner of the bank operations and it responded through adopting the new technology. However, much requires to be done in respect to addressing the issue of employees' shortage affecting the banks operations in the seven regions. Strategic choice theory calls for an approach towards understanding how the changing external environment influences employers to make adjustments in their respective competitive choices. It is apparent that GCC is experiencing shortage of skills resulting from the policies that requires compulsory locals (Osman, 2014). Consequently, new-comers employment to the region presents a variety of challenges to the bank resulting from cultural differences of the new comers and the locals. That serves as an indication that more is required for the bank to stay in line with the strategic concept the theory posits. Investing on current technology that requires fewer workforces may prove a necessary attribute and strategic positioning. In

essence, strategic choice theory focus on the need for organizations to understand and react accordingly to the external changes that continuously keeps evolving and affects organizations relations as well as processes (Buiter, 2008, p. 7). The relative importance for the organization or the environment response to the change may vary over time, but a consideration for change in respect to the change experienced is necessary.

#### Outbound Travel Market

GCC countries comprise 60% of outbound travels from the Middle East of which they contribute by three-quarters of the international expenditure of the entire region. Recent economic advancement trends and political stability have brought about an increased demand for outbound travel (Dubai Office 2014). The 2009 statistics reveal that Saudi Arabia had 6 million outbound journeys with the United Arab Emirates trailing behind with 5 million. The year that followed translated a 1 million increase in such arrivals for Saudi Arabia. As of 2012, the most momentous markets were: Saudi Arabia (47%), UAE (31%) and Kuwait (22%) that totalled up 11. 5 million arrivals (DTZ 2014).

These numbers are strategically achieved with the UAE ensuring that it provides tailored travels that stem from demands by previous visitors. Tourists expect to visit the same destinations but gather a varied form of experience. Such benefits are offered at a premium price that the visitors readily pay. Such endeavours have brought significant market growth for the following economies: Kuwait, United Arab Emirates and Qatar (UNWTO 2013).

#### GCC Real Estate Market

Real estate developers in the gulf region face a several challenges that are rooted in the elation proliferated by government-backed petrodollars and the absence of regulation of regional property markets. These occurrences resulted in the creation of a very attractive market to real estate developers which set in motion the freehold parameter in GCC nations. What this meant is that the developers were at liberty to have ownership in entirety of the buildings they constructed and the land they sat on. The outcome of this over the next 5 years after 2003 was the tenfold rise in Foreign Direct Investments (FDIs). With the 2008 folding of the global financial markets came the end of the era. Real estate funding became increasingly difficult afterwards with the fall in demand and investor confidence. Prospective projects were halted and with the decline of property values, it was impossible for investors to sell completed projects. All exit strategies pointed to losses. The effects of the major real estate downfall have recently started to stabilize with nations like Qatar and UAE looking at better prospects. The impact in Saudi Arabia and Oman was swiftly intercepted with countermeasures. In Kuwait, it was an entirely different environment since the capital was late to the real estate market dash due to political disagreements and consequently the effects were minimal. In light of these happenings, the real estate market in the Gulf Cooperative Council nations is still at the foundational level (Dr. Plate et al. 2013, p. 4-15).

The future for this market has positive forecasts (from economic and socio-demographic pointers). This is also in light of economic reports that have named the GCC countries as the wealthiest in the global front with GDP proportions that outdo the international conjectures. The region attracts

investment from foreign partners who were especially hit by the downfall of the Euro and the Arab Spring. The real estate market is an avenue for recovery and has received sustenance through regulatory adjustments in various fronts that include mortgaging.

#### Economic Conditions

As a consequence of the previous market failure, developers are under close scrutiny by investor. Factors like experience and competences come into question, the competition is very stiff especially with the increase in demanding clients. How the developers adjust to pressure from the international front and their accessibility to land banks play a major role in the contract signing process.

There is a diverse outlook of the real estate market in the GCC since developers have to keenly evaluate each segment. Regional occasions like the Arab spring have a retreating effect on real estate investments. The demographics of the area reveal a lucrative market for small to midsize developments this is also in light of the measured government spending. Housing projects are at the forefront in the GCC capital. Before the crisis period, investors put a great focus on luxury projects but post the crisis especially with the cautious investors, investments are downsized. Although oversupply is now the main disquiet, in Qatar and Dubai where the retail spending is high due to the flourishing outbound travel market, the forecasts are good. Qatar also has significant market schemes organized with an estimated 1 million square miles of land set aside for retail purposes. With such patterns and the oversupply matter, the capital has a vantage in property management (Dr. Plate et al. 2013, p. 4-15).

Investors and tenants, following the 2008 industry downfall are demanding developments that are line with the global regulations. For this condition to be attained, local contractors are teaming up with international developers so that they can meet the international regulations. For start-up businesses in the contractor business, such an undertaking may be too costly and they may decide to forego it. Such a move however, has lasting implications on the practise. Since the industry downfall was mainly felt in the gulf region, multinational companies based in Europe and the US are taking up jobs in the GCC region as consultants which is mainly because investors rely on such partnerships to undertake major commercial and residential construction projects. The firms are taking advantage of this occurrence. The firms cover a portion of the project in areas such as architecture or master planning and the local entities get the rest. The international players also have the advantage of providing integrated services to their clients, services in the nature of asset management through the course of operations. In a bid to raise sophistication and proficient levels, non-construction services are also at the epitome of service delivery with services like cost estimation and viability studies (Hassler 2011, p. 13-21).

#### Solution

Land banks access is phenomenal in the real estate industry in the GCC. This follows the fact that land expenditures add up to 60% of the entire project cost which is a contrast to the international rates that are aggregately below 40% of the entire cost of the project. This pushes the developers to land banks (since the government controls the supply). These are extenuation measures that contractors have to undertake.

## SME Prospects

Small and medium enterprises in the gulf region are a major backer of the GDP. An enquiry done by the World Bank in 99 countries globally shows that SMEs are the hub of employment creation (Ayyagari & Maksimovic, 2011). It is therefore crucial for world economies to pave way for their market entry and growth. With regard to formal enterprises, SMEs form the greater share of between 80%-90% and offer up to 40% of employment creation. In the informal segment, the proportions are unaccounted for because many go unregistered; this may happen for tax evasion reasons. In the Middle East region, they account for up to 16% of the total employment recorded. The gulf region has the lowest number of informal businesses which means that the potential of SMEs is at its lowest state. In Saudi Arabia, the said entities make up 79% of all businesses. As for the UAE, there appears to be a poise between microenterprises and SMEs. GCC nations are evidently dominated by major corporates which can be attributed to the oil and gas resources that require such magnitudes (World Bank 2012).

The role of the state in the success of SMEs is the provision of an enabling environment to conduct business. Banks on the other front provide financial intermediation. With the recent economic trends and political recovery in the Gulf region, the limited financial access that SMEs have is bound to get worse. According to the World Bank Report of 2011, the Gulf region has the lowest utilization of bank loans. With only 20% of SMEs in the region having a credit line and the average stake of loans to SMEs at 8%, the entities are in need of an intermediary. Also bank lending tendencies are inclined towards corporate clients with the preference to use liquidity to finance government

deficit on loans. The opportunities to secure venture capital for SMEs are thus slim (World Bank 2012).

The trend varies in the GCC nation of Saudi Arabia where the access potential for funds is above 86%.

### Gender Disparities

Female SME owners are at a disadvantage though the variations change with countries. Be it access to loans or the approval possibilities, it is an uphill task for one to be a woman and own an SME establishment. This is also in light of the steep requirements laid out by banks for women to get loans. An example of such is in stringent requests for collateral (Nasr & Sahar 2011). Socio-cultural tendencies limit the flexibility with which women can access financial institutions. Thus their chances of receiving funding are reduced to informal means such as grants or loans from family members (Pearce 2010).

### Recommendations

For growth and profitability to be achieved by the GCC institutions, various alterations have to be implemented. Below is an outline of the recommendations:

Ensure that the corporate targets are congruent to the operating model. The primary objective in this case is getting a working and unique operating model because it is such a model that outlines the governance and structural mechanisms of the firm. It also defines the number of employees and their distribution across the organization's assortment of ingenuities. The operating structure for a bank should include a client management and marketing segment that handles the brand and clientele positioning, the Distribution Channels and Front Office that handles the issue of

disseminating services whether it is through a single channel or diverse ones for the various customer classifications, the third segment is Back-office factories and it is a classification of the production line of the company whether it is assembly or manufacturing and finally the Group Function that defines the governance model adopted by the firm.

Incorporate patron analytics with prognostic analytics aptitudes.

Fortify supply channels and adopt technological pathways to create new ones. The new ones aid in capturing the tech-savvy clientele.

Adopt talent management in company programs. This is an effective tool in retaining employees who have special skills.

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Appendix:

Prospective 2015 Investments Locally and Internationally

Source: GCC 2015 Banking Survey