TOP 10 GCC CONSULTANTS

The growth of permanently based professional staff among leading advisory firms in the region has grown at 20 per cent per annum over the past three years. The industry is experiencing a solidification of a select group of management consulting firms with large teams of professional staff who are residents within the GCC region. Leading consultancy firms in the GCC all have professional teams with more than 20 members and as a group, are increasing their share of the total market. ANJU GOVIL spoke to some of the major consultancies in the region to understand their responses to this changing scenario.

Firms that have successfully positioned themselves as preferred advisors are enjoying significant growth with the establishment – for the first time in the Middle East – of an indigenous market of management consultants.

Simultaneously, clients increasingly expect resident expert resources to avoid the additional expenses created by advisors travelling to the region. A recent study by Middle East Strategy Advisors (MESA) reckons that the market in 2005 for all management consultants – resident and non-resident – in the GCC was $700 million. This figure is inclusive of infotech, operations, strategy, outsourcing and human resource consultants. The figure, though small by global standards, is remarkable considering that until the current oil boom, not many companies were spending anything at all on consultancy.

Although the changing face of international consulting combined with local developments is contributing to several dynamics, the primary requirement for business consultants is to maintain objectivity and that is possible by being outsiders. The legal structure of companies and of the country does not really affect given the nature of the business. "However, regulation is a key input for strategy. If regulation is not stable, then strategy is not stable either," clarifies Mark Eaton, managing director, Middle East, Hay Group.

It could also be argued that the starting point is less about regulation and more about the transformation that is happening in each of the sectors. "Consulting is much less about processes and operations. It is about transformation, privatisation and competition," says Karim Sabbagh, vice-president, Booz Allen Hamilton.

Within the region, the signing of free trade agreements (FTAs) has meant that the region is getting increasingly tied up with the American economy. Bahrain signed an FTA with the US in 2005 while Oman, UAE, Qatar and Kuwait are on the threshold of signing one. "Post FTAs, the whole region would need to pull its act together in order to exploit the promised competitive advantages," maintains Jawad Habib, senior partner, Jawad Habib & Co.

The GCC region, exploiting the advantage of being smaller, more cohesive and sharing the same language and business ethics is working towards an economic union. Over time, this economic region would broaden the mindset for every company in the region. It is these transformations and their pace that is keeping management consultants busy.

At the heart of this transformation is the evolving relationship between consultants and their clients. Executives are realising the importance of working with advisors in a collaborative relationship to generate the most value.

For instance, today, Saudi Arabia, Qatar, Bahrain, the UAE, and Jordan all are dereg-

Top 10 Firm Discipline Prioritisation

	HR	IT Management	Operations	Restructuring	Strategy	Transaction Support
Booz Allen & Hamilton		2nd		3rd	1st	
Deloitte & Touche	1st	2nd	3rd			
DiamondCluster		1st	2nd		3rd	
E&Y	3rd				2nd	1st
Hay Group	1st		2nd	3rd		
Jawad Habib	2nd	3rd				1st
KPMG		1st		3rd		2nd
McKinsey			3rd	2nd	1st	
MESA				1st	2nd	3rd
PWC	3rd		2nd			1st

Source: MESA Analysis

ulated markets and Qatar is in the process of defining its policies. "While similar changes in the West took 20-30 years to take effect, here we are doing them on a fast-track basis," says Sabbagh. Further, countries such as Jordan are asking these questions at the national level while others at the corporate level.

At the national level, the existing high potential sectors – tourism, financial services, transport, healthcare, education – as well as the emerging ones have to be pre-empted. The size and complexity of the problems being tackled by growing organisations in the GCC region implies that independent freelancers can not generally provide a comprehensive solution.

"The value add is also different – being able to take the best the world has to offer in terms of best practices across industries and functional areas and being able to customise it will be the key," says Sabbagh. His company was involved in the transformation of Saudi Telecom where it started with 24,000 employees, no option to rightsize in the beginning and a huge debt of $4.8 billion (SR18 billion). "There is no recipe book and your starting base in terms of knowledge in the Middle East is very limited," says Sabbagh. "Say, we want to advise on e-health services, but there is no track record for that in this region."

MESA is focused on tailoring solutions to the regional market. "Companies must be realistic about what works here subject to the region's values, culture and development level," says Glen Osmond, managing partner, MESA. This approach is based on the premise of unique regional requirements.

The first one has its origins in global separation between the audit function of accounting firms and their consulting businesses.

The main GCC audit firms maintain a strong association with diverse business advisory services and play a major role in the management consulting market. These include Deloitte & Touche, E&Y, Jawad Habib, KPMG, and PWC. Not everyone agrees. "Increasingly, we are seeing the largest professional firms being thoughtful about which services they will and will not provide to companies they do not audit – specifi-

MIDDLE EAST STRATEGY ADVISORS

Glen Osmond, managing partner MESA.

With increasing complexity of business operations and processes consultants are no more outsiders. Middle East Strategy Advisors (MESA) works with its clients on strategic and highly sensitive projects that require extensive access to sensitive information that is most often not available to the public.

Corporate governance is a combination of defining transparent principles for how the shareholders participate, board operates, company functions and what the linkages are between these groups.

As a result, advisors which are able to address the entire organisation covering all stakeholders are best suited for consulting on corporate governance. Our experience with local business leaders is that they are often involved in many different industries and are unlikely to be a long term veteran in the particular industry under discussion.

An implication of this is that recommendations must be summarised well and appeal to a common sense approach.

As the region continues its dramatic growth it is only natural that regional companies match this with organisations of increasing size and complexity. Couple this growth with public markets which require accurate forecasting of economic performance and it is easy to understand why managers need increasing access to quality information.

The quality of 'advice' is not always easy to value and purchasing strategic advisory services can be a tricky proposition. A positive move for GCC business leaders is an increasing emphasis matching the advisors fees with the results generated.

Clients are extremely cost conscious. The link that was historically missing was between what tangible value an advisor creates and the fees that are charged.

Demand for advisors who generate tangible value will likely increase as management and shareholders become more accustomed to using consultants.

DIAMONDCLUSTER

Maarten de Wit, vice-president, DiamondCluster.

If corporate governance is not aspired to, then business decision-making gets a little twisted and the value of rational advice becomes that much less. Clients do come to us for advise on corporate governance, but it is more on their internal operating model rather than the structures they are deploying with regard to interactions with regulators and shareholders. We are not, at this point, specifically designing governance models. What we do is organisational effectiveness advising organisations on how to design themselves to better reach its market and client's needs.

Up until quite a short time ago, the regional industry was very protected. Some sectors such as utilities are still protected. But Telco is liberalising very quickly and financial services is perhaps more advanced already. This opens up a whole new set of challenges for most of our customers as they have to start competing with companies who are best of the class in their area.

Regional companies will have to upgrade their entire organisations in order to be effective. And this is where we step in to help companies to extract efficiencies and value from their market and opportunities. Helping us is wide availability of information, its organisation and its flow allowing even new entrants in the industry to do in-depth analysis. Another favourable trend for strategy consultancy is higher fee levels in the Middle East than in other parts of the world. This is mainly due to the shortage of skills within the region making it imperative for companies like ours to fly in quite a bit of expertise from Europe. These resources have a premium attached to them. It is a case of demand and supply interaction.

For volume business, however, the competition changes with the Indian subcontinent offering sophisticated service at very reasonable prices.

In the UAE, our hub for the region, we now have 67 people and support staff to help consultants. We believe, that our consultancy base can easily reach 200 in Dubai. This is an ambitious goal and requires a bit of differentiation from our side and also probably entering into newer industries.

BOSTON CONSULTING GROUP

Throughout the GCC, the group considers Dubai and Abu Dhabi to be advantageous because of their prospective client pools and ability to provide high-quality living for the 20 BCG staff currently working in the UAE. Low-cost energy, abundant capital and land, and visionary leadership were also identified as regional strengths. According to Momin, a gap exists in the Middle East for consultants, who are urgently required to train local staff. The challenge is to increase the number of national employees in the workforce.

Zafar Momin, vice-president and director, BCG.

As well as staff development, BCG will focus on tailoring best practices to the region, rather than simply apply industry logic. BCG has identified local laws and regulations as challenging areas. Momin forecasts its implementation of benchmarks will have a positive impact on the region and provide a reference for local companies interested in comparing themselves to their global competitors. "To give an example, China is more labour-intensive, but they can afford to be because the manpower is cheap," he says. "Japan or Germany on the other hand, maintain a leaner workforce, so are a much more realistic competitor for this region, and therefore set a useful benchmark."

Working mainly with the private sector, BCG will advise clients wishing to expand globally as to how they can best tap business opportunities, particularly in the subcontinent and Asia, and also acquire talent. Eventually, Momin predicts there will be a convergence in the region. "GCC countries in different stages of development will in the future be forced to learn from one another," he says. "The region will be stronger if it acts as a union and this will occur as a result of economic rationalisation."

BOOZ ALLEN HAMILTON

Discussion about governance should be part of an operating model. That operating model should be the modus operandi to help institutions meet their objectives and the governance should be able to allow this to happen in the best way possible. At the end of the day, corporate governance is tied to three things – clear definitions of the aspirations of the shareholders; an operating model to implement these aspirations, and an incentive mechanism in place for everyone in the organisation.

Karim Sabbagh, vice-president, BAH.

For effective implementation of corporate governance models, the handshake between the executive layer and the supervisory layer is very important. We are coming to grips with this and the region has been very receptive. However, we have to be careful not to zero in on governance too soon. You have to start with a strategy for a sector and governance would follow. Bahrain opened up the telecom sector in a year vs. more aggressive liberalisation in KSA and a more conservative approach in the UAE. Each country has its idiosyncrasies as does each sector in each country.

This leads us to the other interesting area that is going to surface very quickly – internal audit. We are already getting increased enquiries from financial clients. Here again, taking the classical route of internal audit would mean that you are in the business of controlling and compliance. But because we are moving into the zone where numbers of externalities are increasing exponentially, a much more fundamental issue is risk management. It has to become the bread and butter of how we think.

Key to success for us is to get the roadmap out of the door very quickly and let fine tuning come up as you progress. We have in excess of 150 consultants and believe that future success would depend on how quickly we can build up talent committed to this part of the world. Most important would be to gauge the client interest and bring best practices to each engagement.

cally, to enable the company to have 'auditor choice' in the future," says Sami Ali Al Amri, managing partner, business advisory solutions, Middle East, E&Y.

Others question the availability of a local benchmark. "We have to copy the processes that have been successfully followed in the more matured western economies. It is always cheaper to copy than to reinvent the wheel," says Habib, offering yet another approach.

"Adoption of western practices is the only way as there are no local standards," concurs Vijay Malhotra, senior partner & CEO, UAE & Oman, KPMG. Bahrain, he argues, used to adopt best practices from Egypt or Jordan, but those practices have not kept pace with today's demands. There is also the question of reliability of locally available data.

Additionally, globalising markets offer a strong pull for best practices into the region. DP World buying P&O implies that it is no more local business with special rules. Also, the deal would lead to merger of the new 25 ports with 28 existing ports, creating fresh challenges for managing these companies and achieving synergies. This management situation is independent of Dubai and follows the normal law of business integration.

Another example is Tecom that has just bought a 35 per cent stake in Telecom Tunisia. Adding further complexities are the externalities that have now become significant.The regional economies started with a situation of short-term focus and limited externalities. "We are moving to a scenario with very many externalities and a comprehensive policy structure," confirms Sabbagh. For instance, competition that an erstwhile monopoly Etisalat faces is not only in terms of new players, but also the new regulatory framework they have to be governed by.

There are some issues in terms of transparency, governance and separation of government from private business to guarantee free trade. At the same time, it is this closeness of government and business that have made business so successful and governments relatively efficient. "While it took the West decades to modernise the government or administrative functions, it has been achieved here in little time," says Robert A. Ziegler, principal – director, AT Kearney.

Again, different countries in the region have different constraints. Saudi Arabia, which accounts for 60 per cent of the entire market in the Middle East, is planning to implement infrastructure projects in excess of $350 billion. As this investment percolates down to various companies, consultancy business will boom automatically. But these projects, lacking a clear vision on sourcing manpower required to fulfil the deliverables, themselves have issues. “The current visa status does not reflect a clear vision and we don’t have access to best resources,” laments Omar Bitar, managing partner, business advisory solutions, Middle East, E&Y. Consulting companies follow the liberalisation wave around the world.

Overall, HR consulting is expected to witness slow growth. “You don’t have too many companies with thousands of employees spread across multiple subsidiaries located worldwide,” says Dr Dirk Buchta, vice-president – managing director, AT Kearney. HR consulting, compared to the international market, is underdeveloped because companies are either in growth mode or qualified employees are in short supply.

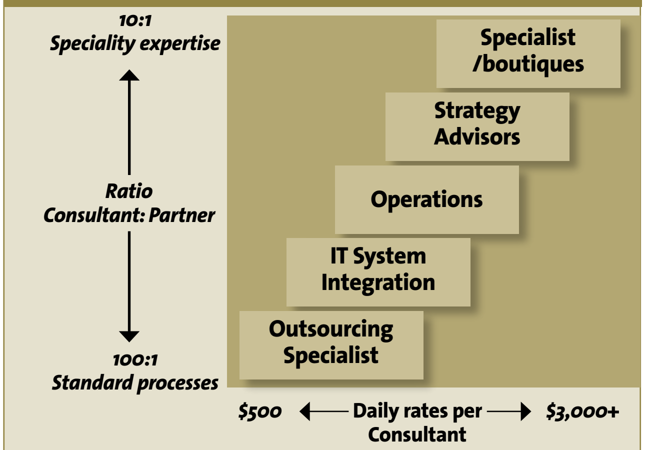
The region needs people. Hence, executive search and even the mid-level management is expected to go strong. Auditing is poised for medium growth as economic laws are being revised and the introduction of competition law, it is expected, would improve things. Listing at DIFC has made audit mandatory, but due to tax regime and laws, auditing continues to be rather simple.

Living up to the quoted portrayal of the Middle East as a ‘graveyard for consultants,’ there are still some major firms retreating with reductions in their permanent professional staff, such as Accenture. One reason for that could be that most firms are now operating specialised divisions as part of the company itself, limiting the scope for independent consultancies. Most IT companies, for instance, have their own IT divisions – eg. Emirates airlines has Mercato, Mashreqbank has Mindscape.

Moreover, when it comes to processes and realising efficiencies, companies in Dubai are already quite good, overall clouding the prospects for general business consulting. “[The] high value segment promises a lot of growth as Dubai converts into a service and industrial economy doing foreign direct investment and needing due diligence in target countries,” says Dr Buchta.

“The other speciality firms that are currently fast growing include boutiques and we anticipate over the coming years that these firms will increase in prominence,” says Osmond. The different service offerings imply that relative rankings amongst the top management consultants may not be entirely representative. Adding to the confusion is the fact that a firm’s global reputation may not translate directly into similar quality from the staff available in the GCC. Additionally, a pricing feature in the GCC market is the relatively frequent practice of ‘Lump Sum Turn Key’ (LSTK) style agreements. As managers become more accustomed to consultants and develop mutually beneficial relationships, LSTKs frequently roll over to pay per day or off-take arrangements. According to the MESA report, the rates can range from approximately $500 per day for a more lower cost IT oriented

Management Consulting Fee Structure



Source: Consulting Information Services, LLC; market analysis

HAY GROUP

In spite of increasing complexity of business operations and processes we are not aware of any legal constraints in the nature of the work that we do. There haven’t been any issues so far. It is true that the fairly embryonic nature of the legislative structure and lack of absolute clarity makes corporate governance more complicated. We do some work on corporate governance here, but the issue in this market is very closely linked to the legislative framework.

With an increasing number of start-ups in the region, managing people to ensure organisational effectiveness would be increasingly important in coming days.

Almost all our clients are today bemoaning the scarcity of talented resources. Key shortages are in HR and marketing activities, as well as in availability of quality nationals to take senior management position. With companies keen to mature, consolidate and go public, strategy and organisational inputs would also be in great demand. There has definitely been a shift in emphasis towards the structuring of long-term incentives, bonuses and ensuring staff retention mainly due to talent scarcity.

There are a lot of issues in the ME especially in rating performance fairly and systematically. The other critical issue here is the hesitancy to culturally differentiate on performance or confront under-performance.

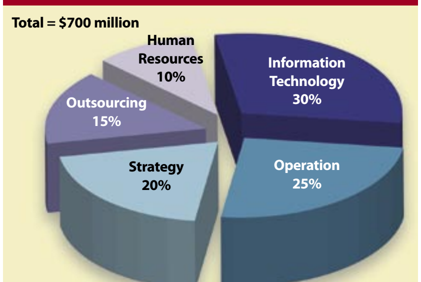
In the last eight to nine years that we have had an office here we have grown from $1 million in revenues to $5 million. In the next two years we hope to grow by 25-50 per cent and maybe double our business in the next five years. The greatest challenge now is to establish satellite offices in the region.

Mark Eaton, managing director, Middle East, Hay Group.

integration and to over $3,000 per day for the more strategic and speciality services. The increase in fees is driven by the value added through the services and the requirement to leverage more senior time with relevant and international experience.

Speciality consultants are service providers who leverage a core functional area such as HR or IT. These advisors often provide strategy services and use these studies to create a beachhead for their specific field of expertise. Booz Allen and DiamondCluster both have strong global IT franchises, but also offer considerable strategy services in the region.

Management consulting 2005 market in the GCC



Source: MESA Analysis

Another classification, according to MESA report, is pure strategy advisors – with setting a firm's strategy as their core business. After developing a company or government strategy these firms will often pursue on implementation assignments. Examples include, McKinsey and MESA.

Generally speaking, pricing depends on the level of maturity of the ME market and how it has reacted to types of services available. At one extreme are the family-owned businesses starting to look at corporatising. These companies, dealing with succession issues, are very price sensitive and the selection of a consultancy company is based 90 per cent on price.

At the other extreme is the government sector looking at transformation of existing government structure and, to a larger extent, privatisation. This segment is more inclined to using consultants and the selection is based purely on a technical basis.

"Somewhere in the middle are public shareholding companies. These include

AT KEARNEY

Dr Dirk Buchta, vice-president and managing director, AT Kearney.

As family-owned businesses go public, buy into companies internationally, they need to buy into international governance rules or they can't make business. Dubai has focused on real state, but it is a cyclical industry. So, adding more cycles to the economy can ensure that it grows smoothly.

That makes diversification a big topic implying opening new industries that are not here yet, especially the industrial kind. Opening more free zones is not enough any more. They need to be focused on an industry for only then will suppliers and partners group around that industry. Now is the time when Dubai has to think in what specific area it wants to build its own industry. For instance, Dubai Aerospeace Enterprise is one such decision.

The challenge would then be to get industries who would like to sell to the world market out of Dubai. Dubal with its global customers is a success model. This should be replicated in other segments. These companies would create a footprint within the region and outside leading to diversification and internationalisation.

Lack of complication and regulation is one of the main attractions of Dubai and that is why companies come here. Over-regulation sometimes drives the companies away in other markets. However, a little more regulation in Dubai in terms of competitive law would make sense by breaking down monopolies. As for margins in this business, with increasing complexity of services and solutions offered we are moving towards a differentiation based on content and not price.

ERNST & YOUNG – MIDDLE EAST

Omar Bitar, managing partner, business advisory solutions, E&Y.

Organisations are less sophisticated and so is the infrastructure required for effective implementation of corporate governance.

There has long been a distinct expectation gap between the reasonable assurance provided by an audit and the expectations and desires of some investors relative to corporate governance and fraud detection. Besides, the speed of getting there is different in all regional countries. This is a very unique part of the world. Dynamics of differences amongst Gulf countries is not as quiet as it should be. There is no way we can eliminate fraud, but in my opinion, the tendency for fraud in this region is not higher than in other parts of the world.

New policies, processes marking the period of change might create a reasonable rate of fraud than earlier. But regional markets will learn as they grow.

In a knowledge-based economy such as many countries in the Middle East, every business segment would require specialised competencies to assist them in achieving their strategic objectives. Moving forward, our key focus is to aggressively strengthen our global organisation around common methodologies and processes and better deploy our people to serve our clients around the world. Although government accounts for 30-40 per cent of the spending on consultants except, perhaps, in the IT sector there is going to be a tendency for more specialisation in each sector and industry that we serve.

The area of business would also determine the margins. Low margin activities include ERP implementation and transformation of family-owned businesses.

Strategy, on the other hand, is a high cost, high margin business at the high end of consultancy services. The billing difference is large enough to compensate consultants for high cost of skilled resources.

The second constraint could emerge from the government's ability to effectively manage the boom – prolong the expansion phase and manage the downside of the cycle in a smooth and effective way. Otherwise the growing economies could create a sudden impact that could hit all of us. Let's not forget that all sectors and their successes are interconnected across the region.

banks which are far more sophisticated and willing to pay the best price for the best resources," says Bitar of E&Y. These companies are experienced consultant buyers and know the landscape well.

Agreeing on price can be an even more elusive discussion, as local prices fluctuate both above and below international benchmarks. Some of these fluctuations are explained by access to extreme low-cost consultants and strong regional preference for brands.

Mismatching expectations on cost are also frequently created by different views of what is required to resolve issues or provide advice (work scope) between client and advisors. Overall, the size of the market determines the fees. "In the upper end, the regional market is more lucrative than European, while at the lower end it is near the Asian level and lower than the European," says Habib.

The urgency for companies to realise results is causing them to take serious note of those advisors who prove they can deliver successfully. This means that clients are increasingly interested in advisors that add value and are less focused on the cheapest price.

The overall objective of all, however, is to grow to a certain minimum level of significance, being able to retain and attract key people. This is, incidentally, also the top level to which the strategy consultancy companies can grow. In any case, one firm can not work for two rivals in the same industry creating a natural limit for the number of things that consulting company can do beyond this, there is limited impetus for further consolidation in strategic consulting business.

Essentially, these companies have to figure out the minimum growth rate that they need in order to survive and the potential coverage areas. "Besides, if you grow too large you spend way too much time managing the company than interacting with your clients," says Eaton.

It is already a sizeable market. However, when viewed against international comparisons, there is significant room for growth with the potential to double this volume in the next four years. ■

KPMG

Vijay Malhotra, senior partner & CEO, UAE & Oman, KPMG.

Our clients in the region very much want advisory services from a one- stop-shop, mainly because of continuity, familiarity and relationships. People are not as sophisticated as they are in the West and they don't like change. All this, however, has kept us in the business.

For instance, valuation of companies is related to corporate governance, but is also very much related to the business side. Regulation would start biting the companies soon as Central Banks get a lot more tighter. They don't want to be seen as a country associated with any wrongdoing or unethical issues.

Meanwhile, increasing sophistication, new products and services have got us in to specialist business beyond just auditing. Going forward, the advisory services most sought-after would be related to corporate finance including mergers, acquisitions, IPOs, valuation, due diligence and audit.

Last year we grew 50 per cent in the UAE in terms of overall top line and this year we hope to grow 35 per cent. We see this trend continuing year-on-year for the next three years. Today we have around 500 people between UAE and Oman and by September, 2008, we reckon the number will increase to 750.

Our biggest challenge is from where we are going to find 250 people as all the traditional markets that we hired from are getting very competitive. Even the West is doing much better than it did in the recent past. It is not only attracting and retaining them, but taking care of attrition as well. All our attrition rates have gone through the roof, particularly, among the big four. They are 20 per cent where they should not be more than 15 per cent. In dull markets, attrition is not an issue. Also, the fees in this region are very competitive. It is, essentially, a high-cost low-fee scenario. Getting people from outside increases our costs and hence our margins are lower. Finally, the challenge for us is to manage risks. We are pretty unregulated in the sense that there are no institutions or industry bodies as in most countries. It is a pretty open society for us than it would be in parts of the world.

JAWAD HABIB

JawadHabib, senior partner, Jawad Habib & Co.

Although the region already has a very good legislative structure and is constantly evolving, there is still a long way to go before it meets the international standards and specifications. The spread of awareness of what value consultants add is evident from the fact that most of our clients are local.

Unfortunately, the region is not ready yet to implement a clear corporate governance strategy. One of the biggest shortfalls of this region is that the majority of the private enterprise is first generation or, at best, second generation. They are not ready to migrate from a one-man show to a corporate show. Issues and limitations of family businesses are numerous and they can be resolved only through going public.

Our economies suffer from disefficiencies and we need to rely on value change management to address the issue.

One of the issues limiting the growth of small and medium -sized companies is the lack of any system to effectively utilise information. Considering all this, the most sought-after skills would particularly be needed in the areas of transaction support. The other important requirement would be in the area of strategy with the small and medium-sized companies undergoing cultural adoption to emerge as regional mega business entities. The good news is that the government of Bahrain has announced various initiatives to formulate strategies in the field of labour and education and other regions would soon follow suit.

So far, major international firms have grown through mergers and acquisitions and we can see a trend closer to home as well. We have taken over companies in Qatar and Oman and are negotiating with others in the region for a possible take over. We have also entered into a joint venture with a company in Jordan. I believe that other companies are also following suit. The only limitation here is that client needs have to grow to a critical size to make it viable for us.