
MANAGEMENT PROJECT

CLIENT NAME: BALFOUR BEATTY RAIL

THE IMPORTANCE OF RELATIONSHIP DEVELOPMENT IN THE GCC REGION

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INTRODUCTION

The noun 'Relationship', is defined by Collins English Dictionary (2012) as

1. *the state of being connected or related*
2. *association by blood or marriage; kinship*
3. *the mutual dealings, connections, or feelings that exist between two parties, countries, people, etc. a business relationship*

You can see from the above definition that there are several inferences that can be developed out of this single word. But is a relationship easily discernible? Are its dimensions opaque or transparent? Can it be easily contrasted simply by looking at it? Can it be evolved, grown, diminished, or separated? These are questions, if they are faced, they could make a simple word like 'relationship' look vague, abstract, and sometimes utterly confusing. In fact, discerning the intricate and delicate web of relationships is an art that requires not just looking at it from a single dimension but comprehending it through an experience in its entirety.

Our client M/s Balfour Beatty Rail, UK (from now on as BBR) has chosen us as a three member team for our MBA company-based management project. Our aim is to analyse the importance of relationships in the Arab World, and analyse its critical dimensions. Currently, BBR's culture, environment, organisational periphery, and business algorithms are different than what the Arab World requires as a pre-requisite for any business activity in the region. These pre-requisites are certain forms of relationships that are not easily understood in Western cultures. The region, as we have witnessed through our research, does accept Western ideas, concepts of development, and innovation but not at all at the expense of relationships (Hutchings and Weir, 2006). We felt very early in the project that these relationships, which are embedded in the socio-political and socio-cultural aspects of the region are seldom understood or even accepted by Western organisations and its people, normally resulting in bitter experiences of the region (Little, 2004).

We also believe that BBR also has all the capabilities, competencies, legacy, and attributes that can help it be a winner in this region. But winning in the GCC market requires more than just competencies, abilities, or strengths (Kurian et al., 2012a). In our opinion the major *ceteris paribus* quotient of success within the region is about discerning and articulating the underlying relationships of the region (Hutchings and Weir, 2006), and so along with BBR's competencies, resources, and presence the organisation needs to understand, accept, emulate, and develop viable relationships in the region. Our research identifies and analyses these elusive, opaque cultural aspects in the backdrop of evaluating the current and future rail infrastructure business development opportunities that have

erupted in the region since 2006 and weaves together an argument for BBR's immediate and long-term presence in the region along with the essential elements that should go with it.

ABSTRACT

This document is divided in several parts. In the *first* section, we would look at the GCC region and conduct a PEST analysis for the individual countries in the region that currently constitute the GCC, along with our perspective on the results that we have obtained. In the *second* section, we will analyse the history, importance, general advantages, and the current need for railways in the region. We will also combine the data obtained from the first section with the data in the second section and present the scenarios for the region in the near future. In the *third* section, we will analyse the various aspects of the GCC economies and highlight their inherent dimensions in relation to rail infrastructure projects. In the *fourth* section, we will detail the current and future business opportunities that BBR can expect to explore in the region, and we would also list the overall rail infrastructure projects that we think would be of interest to BBR.

Having done that, we will then analyse, from a theoretical perspective, the critical stages that organisations usually should go through in order to establish their presence in any region and the implications for them. And finally, we will give an in-depth analysis of the most important part of the exercise; the development of **WASTA** or the unique regional relationships that bind their society, culture, and also business. We will explain why BBR needs to understand, accept, emulate, and develop WASTA.

We will then analyse the pertinent implications that our research delivers and use it in a innovative manner to suggest business development models through strategies, while justifying our perspectives on the theoretical expositions that we had previously detailed. Here we will firstly, explain the implication for leadership attributes that are relevant in the GCC region. Secondly we will explore how to convert BBR's available competencies and the inherent need of the region into an advantageous Blue Ocean Strategy and finally, we will explain the implications for forming strategic alliances in the region. Having detailed the implications we will include our research on the socio-cultural and communications dimensions of the region

Last but not least, we will provide another 20-30 year scenario for the region, which showcases the unique elements that are under play in the region, which we believe will

help the region develop into the most powerful economy in the world. Through this, we will try and establish critical reasons why BBR as an organisation should plan, not just for being present in the region for the medium term, but also get ready for the longest haul.

In the Annexure part, we have provided detailed explanations of the relevant theory, interviews, miscellaneous data on the reports, and the original article on WASTA (Hutchings and Weir, 2006)(with permissions) that we used above.

With this report, we hope that our work will come handy during BBR's journey into the Arab World.

Thank you.

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GCC



FIGURE 1: LOGO OF GCC. SOURCE: WIKIPEDIA (2012B)

GCC is the abbreviation of The Cooperation Council for the Arab States of the Gulf, also known as the Gulf Cooperation Council. The GCC is a political and economic union of the Arab states namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates (Wikipedia, 2012b). The objectives of the GCC are to foster scientific and technical progress in the economies, to formulate similar progressive regulations in the finance, trade, customs, tourism, legislation, and administration, setting up a unified military (Peninsula Shield Force), encouraging cooperation of the private sector, increasing cultural ties, and establishing a common currency. (Wikipedia, 2012b, Manda, 2011, Nambiar, 2012, Davis and Hayashi, 2007).

RAILWAYS IN GCC

BRIEF HISTORY OF RAILWAYS IN GCC REGION

Railways played an important part in the development of the middle-eastern region in the late nineteenth century. Harik (1972) notes that the revolution in communications in the Middle East started in the second part of the nineteenth century with the introduction of the railway, first in Egypt and then later on in Turkey, Syria, and Arabia. The first railways within the present GCC region was the Hejaz Railway (1,300km in length), which ran from the border of Syria to Medina in Saudi Arabia. It was a part of the Ottoman railway network and was built to extend the line from Istanbul beyond Syria to the holy city of Mecca (Saudi Arabia), mainly to establish a route for the destination of the Hajj annual pilgrimage and to facilitate the transportation of Ottoman military forces in the Arabian state. The railway was then seen as an instrument for suppression of Arab identity and was made the target of attacks by local Arab tribes, who later made the operation of the rail line unsuccessful (Landau, 1971, Nicholson, 2005, Lawrence, 1920). After the outbreak of World War I, rails projects were abandoned (Maunsell, 1908, Nicholson, 2005).

Over several decades, during the later part of 20th century, several nations in the Middle East saw the importance of railways as critical infrastructure model and expanded their rail transport networks significantly. But, unfortunately, none of the GCC nations embraced railways as a prominent mode of transport, either for passenger or cargo movement. The GCC nations main dependence for cargo and freight was, up till a few years ago, purely on road transport and shipping (Manda, 2011, Kolars and Malin, 1970, Gourvish, 2010).

GENERAL ADVANTAGES OF RAIL TRANSPORT

Authors of the Frost & Sullivan report (Manda, 2011), '*Strategic Insight on the GCC Rail Sector*', argue that on average, a freight train carries 1,000 tonnes or more, an equivalent of 50 truckloads. In an article by MEED (Fenton, 2011) it is mentioned that Rail uses about 60-80 per cent less energy per kilometre than road transport and result in 80 per cent lesser CO₂ emissions, compared to road transport. It is relatively congestion free and is centrally controlled, which offers better safety (9 times than road), reliability (minimal effects of climate, weather, or terrain), higher speeds, reduced noise (25 times less), space (up to 10-20 times more capacity for passenger traffic) types of transit than road and finally, it is at least 30 per cent cheaper to maintain and run than road transport (Manda, 2011, Arnold et al., 2004, Harris and Winston, 1983, Vleck, 1997).

Other existing transport options like air and sea are not practical enough in the future for several reasons including transporting bulk quantities such as cement, mineral ores, metals, chemicals etc. which industries these countries are now investing into and promoting (Tomlinson, 2008, Manda, 2011). Passenger transportation services are also limited to either road or the costlier mode, air. Passengers are compelled to use air travel even to travel shorter distances that would normally be just about few hours of travel by rail (Saidi, 2012). This resulting costs and inefficiencies have forced the leadership in the region to actively participate in expanding rail networks and associated transport options (Looney and Hamad, 2004).

ANALYSING THE NEED FOR RAIL INFRASTRUCTURE IN GCC

Sona Nambiar (2012), in her report "*GCC Rail Projects: Locomotives of growth*". July 2012 ed. Of Zawya.com and ConstructArabia.com noted that population growth (expected growth to 49.4 million by 2016) coupled with the need to support increasing freight movements were the main reason for rail transport specific investment in the region. Other country-specific reasons provided were; assisting tourism in Oman, goods and

services and passengers in UAE, freight/mining and passengers in Saudi Arabia, preparation for the football World Cup in Qatar, city traffic and connectivity to Saudi Arabia and Iraq in Kuwait (2012).

Our research too, shows that these are the usually publicised reasons for the renewed investments in rail transport but we believe there are various other pertinent and common short-term, medium-term, and long-term strategic planning objectives that has rather forced these governments to act. We will now provide the specific reasons that have been highlighted in our research:

ONE FOR MOTHER NATURE: The Islamic Law '*hima*' enshrined more than more than 2000 years ago for the purpose of land conservation extends today to the seas as well. Here an extensive rail infrastructure network in the region would reduce the traffic burden on both the Red Sea and the Persian Gulf (the sea area inside the Strait of Hormuz) and help the governments protect critical marine habitats in the region including several hundred species of Coral, Mangroves, Sea grass, the world's most important Turtle breeding grounds, Dugong hot spots, Shark hot spots, and several thousand other species of marine creatures and endangered land animals. –Source: Kennedy Warne; "*The Seas of Arabia*": National Geographic, March 2012
Surprisingly none of the infrastructure reports suggested these critical things.

FIRSTLY, the need for securing food and water resources pales all reasons for planning rail infrastructures (Arabstats-UNDP-POGAR, 2008). The region completely depends on food imported from Asia and Africa (Sulser et al., 2011, Allouche, 2011). Food and water shortages have in the past brought the region to the brink of economic collapse and actual war (Sadler and Magnan, 2011, Davis and Hayashi, 2007, Starr, 1991), for example Iraqi invasion of Kuwait in the early 1990's (Starr, 1991). Infrastructure support for the economy through rail will not only reduce the energy burden on the economy, but also free up resources that can be used extending support to the establishment of food processing units on an industrial scale and water desalination plants springing up in throughout the region.

SECONDLY, GCC nations have registered significant surpluses in their budgets to the tune of US \$ 1.6 trillion (Adelman, 2004, Nambiar, 2012) due to high oil prices over-time giving them ample financial power to finance such rail projects.

THIRDLY, coupled with the second point above, recessionary times are the best periods during which these nations can command lower bid prices from project bidders, taking

advantage of the bidders desperate need for business opportunities (Kurian et al., 2012d). Our interviewees too confirmed price competitiveness being the most important criteria for winning rail contracts (Kurian et al., 2012b, Kurian et al., 2012a, Kurian et al., 2012d).

FOURTH, socio-political and civil unrest in all neighbouring countries like Iraq, Libya, Egypt, Lebanon, Sudan, Syria, and Iran (Aday et al., 2012) have kept GCC nations on the highest alert for the past decade. Internally too, to prevent incidents like Arab Springs from happening within their countries, these nations are promoting large scale infrastructure projects and social welfare programs that would help the region relieve some of the tensions arising out of unemployment and poverty faced by the youth population (Reilly, 2011, Aday et al., 2012, Mabon, 2012). Investment into the manufacturing and mining sectors have started showing very promising (Fenton, 2011) results in helping these regional governments to relieve unemployment issues and the consequences arising out of them. Rail infrastructure would not only help bulk transport for mineral and ores, but also can be used to transport military and related equipment within the region in the most efficient ways (CHEN and CHEN, 2005).

In 2011, Frank Anderson- President of the Middle East Policy Council remarked, *“Now, it may turn out in the long run ... (10 years)... that it (Bahraini civil unrest) may actually have stimulated the members of the GCC to do some serious long-term military planning and coordination”*. (Anderson, 2011)

But there is one more reason that has forced the GCC members to find an alternative and that is the *Iranian threat over the Strait of Hormuz*. This fifth reason needs as elaborate explanation, not just because of its important to the GCC, but also to the entire world:

IRANIAN THREAT & THE STRAIT OF HORMUZ – WORLDS MOST CRUCIAL CHOKEPOINT

The Strait of Hormuz is described as the world’s most crucial chokepoint as it the only sea entry and exit point for the Arabian Gulf world energy trade. A ‘fifth’ of the oil consumed by the world flows through the strait on "daily" basis (Al-Kaabi, 2012, Mabon, 2012). International Energy Agency (IEA) projects the global demand for oil to increase from 87mbpd in 2010 to 99mbpd by 2035 increasing the importance of the strait as the energy lifeline of the world. While Oman and UAE have alternative maritime ports in the Gulf of Oman and Saudi Arabia has alternative ports on the Red Sea, Iraq, Kuwait, Qatar, and Bahrain however have no alternatives other than to use the Strait of Hormuz (Al-Kaabi, 2012). Currently, the approximate global share of oil exported from the strait is; U.S.



FIGURE 2: STRAIT OF HORMUZ. SOURCE: GOOGLE MAPS

(22%), Europe (30%), the Asian market comprising Japan, South Korea, India, and China (75 %), and Australia (14%) (Al-Kaabi, 2012).

Iran has frequently threatened several times in the past 50 years to disrupt oil flow through the Strait of Hormuz, through the use of military and underwater mines. While the possibility of Iran doing so is very minimal to non-existent (Al-Kaabi, 2012), an actual attempt would however remove

almost a quarter of the world's oil from the market and potentially result in loss of billions of dollars *every single day* the strait remains closed or disrupted (Al-Kaabi, 2012). We can safely assume that the GCC nations would seriously want to find alternatives to such a scenario.

The critical issues above along coupled with issues of the development of trade and transport within the region, has prompted the GCC nations to actively support investments for placing several rail infrastructure development projects in the region. We will now analyse the PEST environment of the region, followed by in-depth scenarios that we have developed studying both the above reasons and the PEST environment analyses of the region. Then we would explore the current business opportunities existing in the region and also suggest some of the future rail projects that are currently under design and planning considerations.

MEDIUM TERM SCENARIO FOR RAIL INFRASTRUCTURE

Rail transport options in the region, have and will prove to a better option compared to other forms of transport in the region, for not only for providing critical support to manage freight through alternative ports, but to manage the border and internal security and getting military traffic ready for operation in the shortest possible time, which the Chinese government has proved with their efficient rail networks (CHEN and CHEN, 2005).

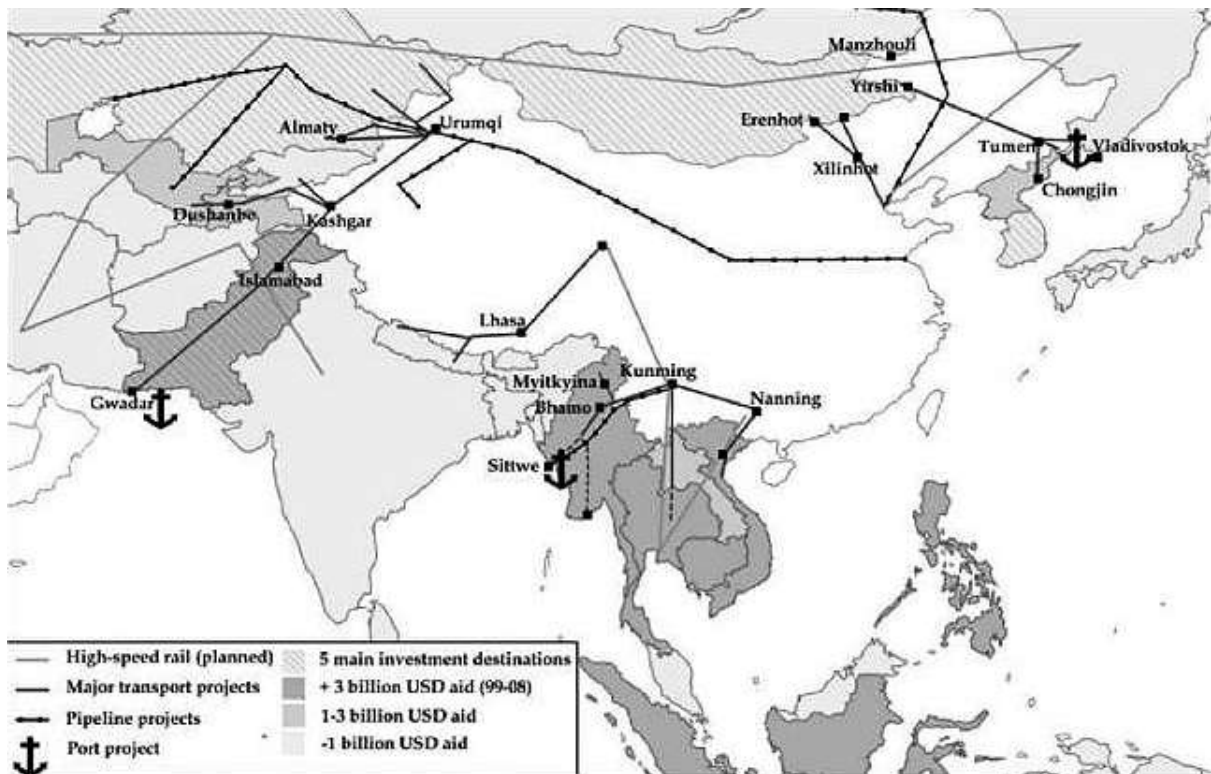
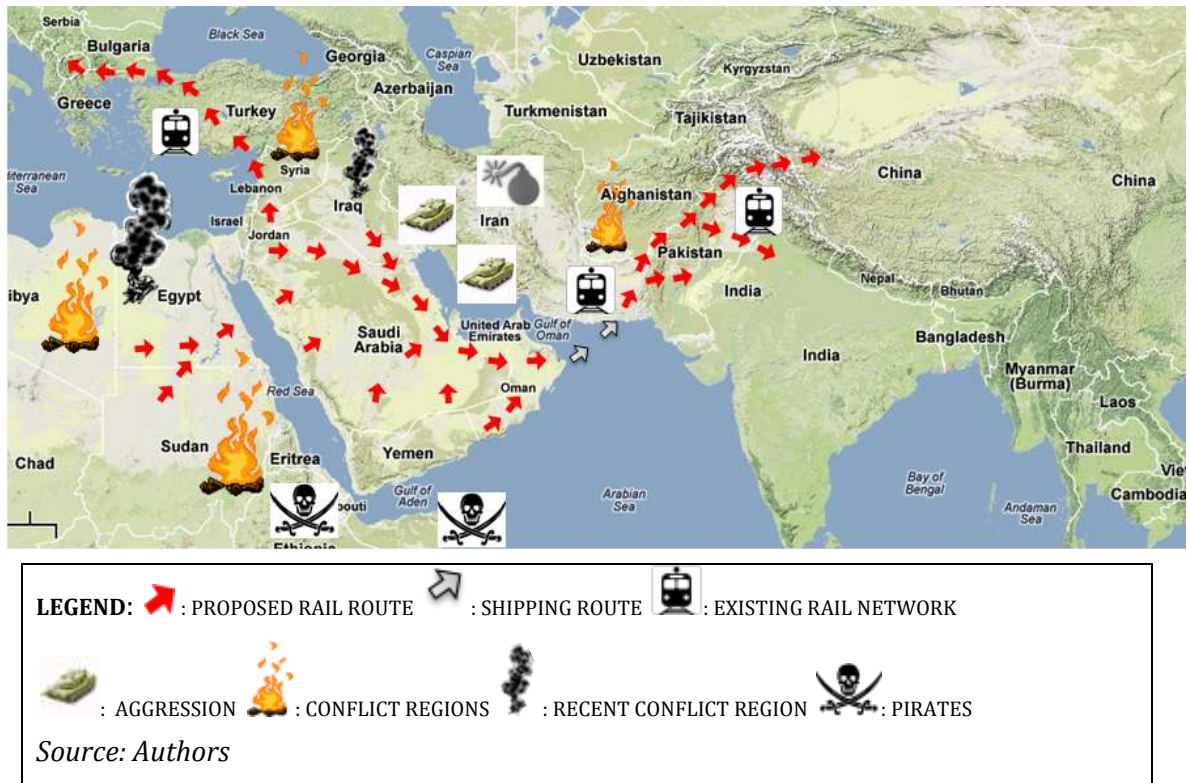


FIGURE 3: CHINA TRANSPORT PLAN. SOURCE: (HOLSLAG, 2010)

In another article namely; *“China’s Roads to Influence”*, author Jonathan Holslag (Holslag, 2010) describes China’s current transport plan (shown above) for the region, which the country has already started putting into place. The Map above shows rail lines that have been planned close to the Oman border in Gwadar port. This will now give all GCC nations a chance to totally circumvent the need to use the contentious Strait of Hormuz for transport and to join the transport route currently being set for the Asian region, in a much faster and efficient manner.

So as a result of all the factors listed above, we researched the current planning and route development for rail in the region and this confirms our scenarios as well. The map below

is a conceptual route developing due to all the reasons stated above in the immediate future.



Traditionally, the GCC countries have relied on inland routes through other middle-eastern regions for accessing or giving access to markets of Asia and Europe, and Americas. The shape of the route above is the result of building scenarios based on the past events, events that are currently under play in the region, and events that may further escalate in the region in the future and also in addition to noticing the need of the GCC countries political establishment to sustain growth in the region, fulfil the needs of their society and economies in an more energy efficient manner.

According to Nambiar (Nambiar, 2012), construction has started (planned till year 2030) within the border regions of each nation and would converge with other rail networks in the GCC region, and ultimately join with other international rail networks in the outer EU-MENA region (Šakalys and Palšaitis, 2006), extending till China in the east (Holslag, 2010, Bhattacharyay, 2010), Russia in the North (Bhattacharyay, 2010, Holslag, 2010, Šakalys and Palšaitis, 2006), Africa and other South-East nations (Bhattacharyay, 2010, Meng and Wang, 2011) and Europe in the North-West (Fenton, 2010, Šakalys and Palšaitis, 2006, Transport, 2005).

GCC PEST ANALYSIS

PEST analysis is embedded in economic theory as a powerful method for improving business performance. Its development is attributed to Francis Aguilar, a Professor Emeritus at Harvard Business School, who in the 1960's developed it as a practical, effective system for scanning the business environments. *The central premise of PEST analysis is that apparently small changes in the economy can have a profound impact on individual businesses* (Carruthers, 2009).

The frameworks' designed for analysing macro-environmental factors to conduct strategic analysis or market research. The analysis and framework can provide an overview of the different environmental factors that an organisation has to take into consideration to understand market growth or decline, business position, potential, and direction for operations and it can be before the organisation starts the marketing process. This should be a continuous process and should feed all aspects of product or service planning (Chapman, 2012). Below we have provided country specific data that we think constitutes the most important PEST factors for the country as well as the region.

SAUDI ARABIA

Saudi Arabia's government is a monarchy with a consultative council and council of ministers. The executive branch is made up of the chief of state, the head of government, and the prime minister, all being represented by king Abdallah Bin Abd Al-Aziz Al Saud. The constitution is based on the Holy Qur'an, which is the constitution itself, while governance is according to Islamic law. The judicial branch is the supreme council of justice and these Islamic courts are based on Islamic law(CIA.org, 2012a, UNDP, 2011)

The country's climate is a dry desert climate with high temperature extremes with humidity along the coastal lines. The country boasts abundance of natural resources like Petroleum, natural gas, iron ore, gold, and copper. The land is not suitable for agriculture and demand for food is met through imports. *Source: (UNDP, 2011)*

KEY CHALLENGES

The key challenges currently faced by the Kingdom are heavy reliance on the oil sector: 80% of public revenues, 45% of GDP, and 90% of earnings are derived through the export of crude oil. Unemployment among local population is stated to be high (14.4% - 2005 figures). 50% of the population is very young with 30% unemployment (2005/06) among the youth. Female employment is also low at 19% (2010). Illiteracy is also higher for

women (28.9%) than for men (11.1%) and the top-most priority for the monarchy is social empowerment through education and industrialization. *Source: (UNDP, 2011)*

CURRENT DEVELOPMENTS

Currently there is massive push towards education and employment generation through a process called 'Saudiization'(Dr Adel et al., 2005, Looney and Hamad, 2004, Looney, 2004, Viola, 1986) i.e. shifting employment opportunities from foreign migrants who constitute up to 58% of total workforce, developing a knowledge-based economy. The country is striving to increase the share of private sector-generated GDP, improve local participation in administration. Resource scarcity is a clear priority wherein considerable efforts are being made for energy conservation projects, developing renewable energy sources, and water conservation due to non-existent groundwater sources, pollution, and climate risks. *Source: (UNDP, 2011)*

UAE

UNDP notes that UAE is the most strategic geographical location to the east of the Arab world for the purpose of security and stability of the Arab world. The city of Abu Dhabi is the capital of the State. United Arab Emirates (UAE), is a federation of seven independent states of Abu Dhabi, Dubai, Sharjah, Ajman, Al Fujayrah, Ra's al Khaymah, and Umm al Quwayn. 80 per cent of the population is expatriate (UNDP, 2008). Political parties are not permitted in UAE wherein the Supreme Council appoints the cabinet ministers led by the Prime Ministers. The executive Branch is headed by Sheikh Khalifa bin Zayed Al-Nahyan, who is the Chief of State/ President and Emir of Abu Dhabi, followed by Sheikh Mohammed bin Rashid Al Maktoum who is the Prime Minister/ Vice President of UAE and Emir of Dubai. Under the constitution, which is composed of governing bodies, it is neither a constitutional monarchy nor a republic. The rulers of seven monarchies retain absolute power within their emirates, and choose one of their family members to be the president. The judiciary is the Union Supreme Court and judges are appointed by the president.

The climate of UAE is dry desert type of climate with high temperature extremes and humidity along the coastal lines, with over 85% humidity in summer months and a pleasant, comfortable winter season. Petroleum and natural gas are the main natural resources that the region boasts of. Substantial oil revenue in recent years supported the implementation of structural reform programme including the drive towards economic diversification. As a result of these efforts, the oil sector direct contribution to GDP reduced from 60 per cent in the 1980s, to 27 per cent in 2005. Most food is imported in

the region. Literacy rate is very high, esp. among 15- 24 year olds up to 99 per cent. The number of females in tertiary education is double the number of males. *Source: (UNDP, 2008)*

KEY CHALLENGES

Key challenges identified are; to diversify economy away from oil revenue, protect economy from regional instability. About 80% of the country's active labour force consists of expatriate workers and so there is considerable effort being put in to increase share of local population in labour market and increase women's participation in economy. Other challenges include; reducing risk in investments in financial services, infrastructure, and real estate (since the real estate crash of 2009, more than 400 construction projects worth over US\$300 billion have been suspended or cancelled (July 2011)). Resource scarcity is clear concern and also a priority in the form of energy conservation, renewable energy, and water conservation *Source: (UNDP, 2008).*

CURRENT DEVELOPMENTS

The UAE government is aggressively pursuing "Emiratisation" (Mashood et al., 2009, Adam, 2009, Khondker and Institute, 2009, Al-Ali, 2008) due to the country's dependency on foreign labour, which requires businesses to hire native workers at the expense of foreign labour. UAE is pushing towards a single GCC currency to strengthen the banking sector and also reduce dependence on oil as energy source. There are programs being developed to introduce economic diversification measures away from Dubai to other emirates with large-volume fiscal resources currently being spent on infrastructure and education. The confederation is actively pursuing investments in desalination water plants to convert sea water to potable water *Source: (UNDP, 2008).*

OMAN

The Sultanate of Oman is a monarchy. The chief of state and government is a hereditary Sultan, currently Qaboos bin Said Al Said, is the head of state, who also serves as the Prime Minister and presides over the Council of Ministers. Islamic Shari'a traditions of the Ibadi School make up the Legal system and codification of law. Judicial matters are administered by the Ministry of Legal Affairs and the Sultan makes all judicial appointments. The final appellate court is the Supreme Court, which is also charged with standardizing legal principles. Shari'a Courts have jurisdiction over matters of personal status and family law.

The climate of Oman is Dry desert climate and hot and humid along the coast. Natural Resources are petroleum, copper, asbestos, some marble, limestone, chromium, gypsum, and natural gas *Source: (POGAR, 2011)*

KEY CHALLENGES

The country currently faces security and succession issues. Other challenges identified are depletion of non-renewable ground water which puts a definite constraint on food production and ensuring investments that are adequate in order to develop global supply chain networks *Source: (POGAR, 2011).*

CURRENT DEVELOPMENTS

The Sultanate of Oman is aggressively pursuing "Omanisation"(Mashood et al., 2009, Viola, 1986). The country's location is key to any future development within the GCC nations. Its military experience and prowess gives strength to all GCC nations. Oman is developing economic diversification strategy to sustain growth with growing pressure on oil and gas sectors, and to promote new industrial hubs like ports, developing mineral production, agriculture, and protecting fisheries sector, increasing share of private sector-generated GDP, improving local participation and administration, tackling resource scarcity is a clear priority through energy conservation, renewable energy, and water conservation programs. *Source: (moneoman.gov.om, 2011)*

QATAR

The government of Qatar is a monarchy, with Amir HAMAD bin Khalifa Al Thani acting as the chief of state, head of government, prime minister. The constitution is a mixed legal system of civil law and Islamic law (in family and personal matters) and the judiciary is an advisory council or *Majlis al-Shura*, the supreme judiciary council. They are run through administrative and constitutional Courts appointed by the monarch.

The climate of Qatar is arid; mild, pleasant winters with very hot and humid summers. The terrain is mostly flat and barren desert covered with loose sand and gravel. Petroleum, natural gas, fish are the natural resources. *Source: (CIA.org, 2012d, POGAR, 2012)*

KEY CHALLENGES

The country has limited natural freshwater resources and an increasing dependence on large-scale desalination facilities. The economy has hit hard by the global economic downturn and is currently seeking to create a turnaround for its financial services sector.

Their majority population is young constituting 65% of the population and the need for employment opportunities currently lay in the hands of people from other nationalities. Qatar relies heavily on the oil sector constituting 80% of public revenues, 45% of GDP, and 90% of earnings Source: (POGAR, 2012, CIA.org, 2012d)

CURRENT DEVELOPMENTS

Qatar is seeking to diversify from liquefied natural gas, crude oil production and refining, to ammonia, fertilizers, petrochemicals, steel reinforcing bars, cement, and commercial ship repair industries. The country wants to mitigate fresh water challenges for private and industrial usage with constant focus on water desalination plants, and improve agriculture by promoting innovations in these sectors. It is seeking an increased share of private sector-generated GDP which improves local participation and administration. Resource scarcity is a clear priority along with energy conservation, renewable energy, and water conservation. Source: (POGAR, 2012, CIA.org, 2012d)

BAHRAIN

The government of Bahrain is a constitutional monarchy with King Sheik Hamad bin Isa bin Salman al-Khalifa heading the executive branch. The constitution is led by prime minister appointed by the monarch. Prime Minister Khalifa bin Salman al-Khalifa. The judiciary has high civil appeals court based on Islamic law and English common law. Political parties are banned in Bahrain though other political societies are allowed.

Bahrain is one of the most densely populated countries in the Middle East. About 89% of the population lives in the two principal cities of Manama and Al Muharraq. The terrain is described as a low desert plain, with the climate slightly hot and humid. Oil, natural gas, fish, pearls are the natural resources and most food is imported. The country has an advanced manufacturing sector and one of the most advanced Educational systems in the world. Source: (CIA.org, 2012b, UNDP, 2012, 2012)

KEY CHALLENGES

About 30% population is other nationals. The key challenges are political instability and dissent, the financial services sector is in huge trouble with several banks declaring bankruptcy. The government's policies on dual Bahraini nationality offer for Sunni GCC members, and naturalization remain controversial. Source: (CIA.org, 2012b, UNDP, 2012)

CURRENT DEVELOPMENTS

Bahrain is seeking a turnaround in its financial sector and with agriculture constituting less than 1% of GDP most food is imported, the country faces severe food and water shortages from time to time. The country, unlike other GCC states does not depend on oil for revenues, manufacturing, however is just 12.2% of GDP, financial services firms constitute 15.7 %, transport and communications constitute 8.9%, real estate is 7.8%, and government services 10.4%.

The country has been noted for its mature legal system, highly trained work force, a modern, well-developed infrastructure, a stable government that is friendly to private enterprise allowing investors to earn and take home profits. Bahrain has invested its oil revenues in developing an advanced educational system. Literacy rates are currently among the highest in the region.

Source: (CIA.org, 2012b, UNDP, 2012)

KUWAIT

We did not find any unique issue for Kuwait as the country faces the same kind of challenges as the rest of the countries. The constitutional setup follows monarchy kind of rule. The country has ample oil and natural gas reserves but is very slow and indecisive in implementing any large scale projects except for military purposes (CIA.org, 2012c, Arabstats-UNDP-POGAR, 2008). There no 'reliable' data sources that we could access or assess for this country, and most of the data that we did manage to collect conflicted each other.

ANALYSING THE CRITICAL ISSUES OF PEST ENVIRONMENTS

After we conducted the PEST analysis, we compared the results that pertained to the importance of developing relationships and arrived at some very surprising results. All the six nations had striking similarities; their government structure, constitution, judiciary, education, climate, national challenges, needs, and even future development initiatives looked strikingly similar (CIA.org, 2012a). The key macroeconomic institutions like banks, infrastructure companies etc. are also owned and headed by the royals and their families themselves, making this region behave more like corporations run by Oligarchs with shareholders' interest than governmental objective (Wikipedia.org, 2012a).

TABLE 1: COUNTRY NAME AND TYPE OF GOVERNMENT. SOURCE:(WIKIPEDIA, 2012)

Flag	Common name	Official name (English)	Official name (Arabic)	Type of government
	Bahrain	Kingdom of Bahrain	Mamlakat al-Bahrayn	Constitutional Monarchy
	Kuwait	State of Kuwait	Dawlat al-Kuwayt	Constitutional Monarchy
	Oman	Sultanate of Oman	Saltanat 'Umān	Absolute Monarchy
	Qatar	State of Qatar	Dawlat Qaṭar	Absolute Monarchy
	Saudi Arabia	Kingdom of Saudi Arabia	al-Mamlaka al-'Arabiyya as-Su'ūdiyya	Absolute Monarchy
	United Arab Emirates	State of the United Arab Emirates	Dawlat al-Imārāt al-'Arabiyyah al-Muttaḥidah	Federal Monarchy (elective de jure, hereditary de facto)

The Arab society is Patrilineal (Joseph, 1996), which means that inheritances are passed down through the males. And so all the six countries are headed by male monarchs and none are parliamentary democracies. The royal families dominate the political system, control most of the important posts and have an involvement and presence at all levels of government (Raphaeli, 2003, Michels, 1966). The countries are assumed to "belong" to the royal members, meaning the lines between state assets and the personal wealth of royals are absolutely blurred (Bolbol, 1998, Kuran, 2011, Peterson, 2001).

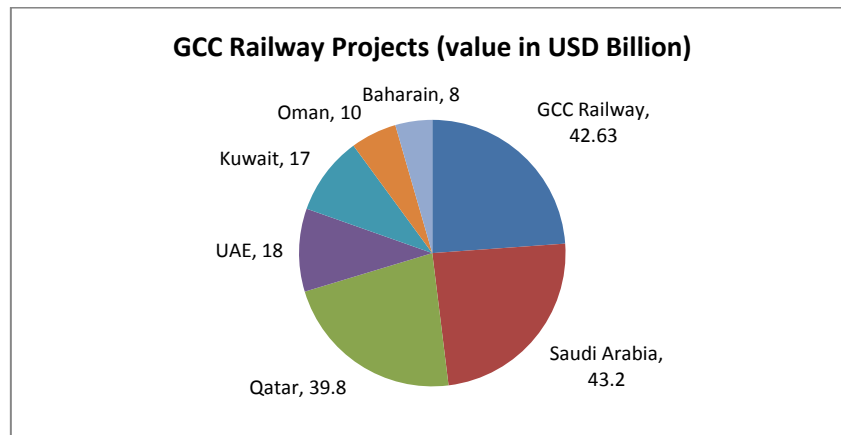
The entire governance system functions more as *Corporations* (Wikipedia.org, 2012a) (Michels, 1966) with royal lineage (Raphaeli, 2003). In an article published in Forbes.com, "The Middle East's 40 Largest Public Companies", author Paul Maidment writes: "Much of the corporate wealth in the region is concentrated in royal or government hands, often one in the same" (Maidment, 2007).

Western organisations and their people are accustomed towards democratic processes of thought and actions and often mistake the above references as undesirable, but in fact the entire system of constitution, monarchies, oligarchies, has evolved through history and give Sunni societies specific advantages in the region.

P. K. Hitti in his book (Hitti, 1996), "The Arabs: a short history", states that the *clan organisation is the basis of Bedouin society and consequently all Arabs* (Patai, 2002)– *Every tent represents a family; members of one encampment constitute a clan. A number of kindred clans grouped together make a tribe. All members of the same clan consider each other as of one blood submit to the authority of but one chief- the senior member of the clan.*

CURRENT BUSINESS OPPORTUNITIES

TOTAL RAILWAY PROJECTS IN GCC



Sona Nambiar (Nambiar, 2012) in an article; “GCC rail projects: Locomotives of growth”, suggests that on a conservative estimate, USD 149 billion worth or more (our estimates show this amount to be more than USD 200 billion) of rail projects are being planned and executed through various projects in the GCC region. (Fenton, 2012, Nambiar, 2012, Davis and Hayashi, 2007, Manda, 2011).

Arash Aghdam, director of rail and transit for the Middle East and North Africa at Parsons Brinckerhoff mentioned in an interview with ZAWYA that:

“The initial push for all rail projects in the Middle East is movement of the economy through freight. The second aim is to move people and making connections faster and easier,” Source:(Nambiar, 2012)

As per Arash Aghdam, director of rail and transit for the Middle East and North Africa at Parsons Brinckerhoff, the current estimated value of actual GCC rail projects apart from the internal rail projects of each country are given in the table below (Nambiar, 2012)

LIST OF OVERALL PROJECTS

PROJECT	COST	COMPLETION (Proposed)
COUNTRY: SAUDI ARABIA		
Riyadh Light Rail project	\$3 billion	2016
Saudi Landbridge Rail	\$7 billion	2015
Jubail Railway	\$500 million	2015
KAFD monorail	\$241 million	Q4 2013

KIA Railway station	\$800 million	Q2 2014
Al Ahsa	\$93 million	2014
Haramain High Speed Rail	\$11 billion	Q1 2015
Jeddah Monorail	\$5.6 billion	N.A.
Mecca Metro	\$5.3 billion	N.A.
Saudi-Bahrain Rail Link	\$4.5 billion	N.A.

COUNTRY: UAE

Etihad Rail	\$11 billion	2017-18
Abu Dhabi LRT	N.A.	2018
Abu Dhabi Metro	N.A.	2020
Dubai Metro Al Sufouh	\$1.1 billion	2014

COUNTRY: BAHRAIN

Rapid Transport Network - Ph.1	\$2 billion	2016
Rapid Transport Network - Ph.2	\$3.9 billion	2022
Rapid Transport Network - Ph.3	\$2.9 billion	2030

COUNTRY: KUWAIT

Metro RTS	\$7 billion	2020
National Rail	\$10 billion	2017

COUNTRY: OMAN

Oman Railway	\$10 billion	2018
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COUNTRY: QATAR

Doha Metro	\$3 billion	2020
Lusail Light Rail	\$1.8 billion	Q2 2016
Qatar Railway	\$37 billion	2020

Source: Zawya July, 2012(Nambiar, 2012)

As for the main GCC Rail, construction is expected to commence in 2013 or 2014, to be completed by 2017 (proposed). A GCC Railway Authority has been formed to oversee the overall implementation of the project and coordination with the GCC member states.

As per Arash Agdham: *“The technology is not new **but all the governments want the best. Providing public comfort is very important and has to be borne in mind when designing the***

LRT and metros. It is very important to **consider the local conditions**,”. He further added: “The timeframe is unknown but the mandate is huge. It is an interesting time to observe the development of the strategies. **The clients are informed and ambitious. They would like to receive the best that they can get and they should. We need a system that is looks good in 10 years time and is sustainable in 20 years to come.**” (Nambiar, 2012).

We will now list the country specific projects that have emerged in our research. It should be noted within the past 3 months of our research, some these projects have been tendered.

COUNTRY SPECIFIC CURRENT PROJECTS

SAUDI ARABIA

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	SA	Riyadh Light Rail (Riyadh Metro or Monorail Project)	6 Lines		175 km, 36 Stations	3 Billion
2	SA	Saudi Landbridge Rail (East West Railway) MAIN PROJECT	Jeddah Islamic Port (via Makkah)	Riyadh (Al Sharquiyah)	1135 km	7.5 Billion
3	SA	<i>Saudi Landbridge Rail (East West Railway) - A part of main project</i>	Riyadh	Dammam (via Haradah, and Hofuf)	450 km	
4	SA	<i>Saudi Landbridge Rail (East West Railway) - B part of main project</i>	Dammam	Jubail to Al Sharquiah	115 km	
5	SA	<i>The Makkah Madinah Rail Link (MMRL) Project part of Landbridge Project</i>	Jeddah	Makkah	444 km	
6	SA	<i>The Makkah Madinah Rail Link (MMRL) Project part of Landbridge Project</i>	Jeddah	Medina	126 km	
7	SA	Jubail Railway	Ras Al Khair	Dammam	85 km	177 Million
8	SA	Jubail Railway	Dammam	Jubail	125 km	323 Million
9	SA	KAFD Monorail (King Abdullah Financial District - INNOVIA Monorail System)		Riyadh	3.6 Km	241 Million
10	SA	Al Ahsa Railway		Passenger - Khrees, Cargo - Khoraj Area	105 km	93.46 Million
11	SA	Haramain High Speed Rail	Medina	Mecca	450 km	9.4 Billion
12	SA	Jeddah Monorail - Light Rail Transit System	Within city project		NA	3.7 Billion
13	SA	Saudi - Baharain Link	SA	Baharain		4.5 Billion
14	SA	CTW 100 - North South Railway - NSR	Ras Al Khair	Az Zabirah Mines via Hail	552 km	5.3 Billion
15	SA	CTW 110 - North South Railway - NSR			83 km	
16	SA	CTW 200 - North South Railway - NSR	Al Baithaa	AlNafoud	457 km	
17	SA	CTW 300 - North South Railway - NSR	AlNafoud	AlJalamid, AlHaditha, and AlBesaitaa	782 km	
18	SA	CTW 400 - North South Railway - NSR	Al Baithaa	Riyadh at King Khaled International Airport	480 km	
19	SA	CTW 410 - SAR Project (North South Railway - NSR)			47 km	
20	SA	Riyadh to Jordan Border (extn of North South Rail Project)	Riyadh	Hudaitha	610 km	

UAE

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	UAE	Etihad Rail	Ruwais	Ghweifat (Silah)	137 km	11 Billion
2	UAE	Etihad Rail	Liwa Junction	Al Ain	190 km	
3	UAE	Etihad Rail	Railway Integration and Systems - signalling,			
4	UAE	Abu Dhabi LRT			131 km	7 Billion
5	UAE	Abu Dhabi Metro				

BAHRAIN

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	Bah	Rapid Transport Network (3 Phases)	Blue Line Jufair - Northern City Budaiya Brown Line - Manama - Bahrain Uni. - Bahrain Circle		184 km	8 Billion

QATAR

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	Qat	Doha Metro				3 Billion
2	Qat	Lusail Light Rail				1.8 Billion
3	Qat	Qatar Railway				35 Billion

KUWAIT

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	Kuw	The Kuwait Metropolitan Rapid Transit System Project (KMRT)	Line 1 (Southern Metropolitan Area)	Line 1 (City Centre, Main Uni.) 23.7km, Line 2 - 21	171 km	7 Billion
2	Kuw	GCC - Saudi Kuwait National Railroad (KNRR) Network	Kuwait City - Al Nawaseeb - Al Abdali - Kuwait Airport - Al Shuaiba - Al Bubiyan Port		505 km	10 Billion

OMAN

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
2	Oman	National Freight and Passenger Railway	1) Khatmat Malah & Buraimi (north)	1) Duqm & Salalah (SE, South)		10 Billion
3	Oman	National Freight and Passenger Railway	Al Ain Buraimi	Sohar	136 km	
4	Oman	National Freight and Passenger Railway	Sohar	Khatmat Malah - Fujairah (UAE)	58 km	
5	Oman	National Freight and Passenger Railway	Sohar	Muscat	242 km	
6	Oman	National Freight and Passenger Railway	Muscat	Duqm	486 km	
7	Oman	National Freight and Passenger Railway	Duqm (Dhofar) - Thumrait	Salalah (Dhofar)	841 km	
8	Oman	National Freight and Passenger Railway	Kuwait	Muscat to Salalah Dhofar to Oman Yemen Border		
9	Oman	Muscat International Airport Development Project				
10	Oman	Salalah International Airport Development Project (Dhofar)				
11	Oman	GCC Sub Routes	Buraimi		27 km	
12	Oman	GCC Sub Routes	Sohar Industrial Port		8 km	
13	Oman	GCC Sub Routes	Muscat International Airport		8 km	

S. No.	Country	Project Name	From	To	Capacity	Project Value (\$) Estimated
1	SA	Badr Metro	NA	NA	NA	NA
2	SA	Yanbu Metro	NA	NA	NA	NA
3	SA	Thuwal Metro	NA	NA	NA	NA
4	SA	Yanbu to Jeddah to Khamis Mushayt Riyadh to Taif to Khamis Mushayt	NA	NA	3500 Km	NA

We now technically analyse whether in fact, in these recessionary times, GCC has the capacity or the willingness to invest in large scale infrastructure projects.

ANALYSING THE ECONOMIC POTENTIAL OF GCC

ANALYSING THE GDP

A Gross Domestic Product (GDP) of the country is the "*the market value of all officially recognized final goods and services produced within a country in a given period*" (Marshall, 2009). GDP measures the financial value of final goods and services, i.e. "*those that are bought by the final user—produced in a country in a given period of time*". It calculates the output produced within the periphery of a country. Another measure is the Gross National product (GNP) that sums up the total output of the residents of a country. So output of the foreign firm would be included in the country where it is located. GDP excludes unpaid work and wear and tear on the machinery, buildings (capital stock) etc. that are used in generating the output, primarily defining depreciation. If depreciation is subtracted from GDP, the result is the Net Domestic Product. The International Monetary Fund lists three approaches to GDP i.e. the production approach which calculates and adds the "value added" at every phase of production, the expenditure approach that sums up the price of acquiring by final users, and the income approach which sums the incomes generated by production (Baumol and Blinder, 2011).

Usually the main concern in front of a government is whether it's total output of goods and services is increasing or decreasing. GDP is pulled together at current, or nominal prices, it would not be possible to evaluate GDP in one period of time to another without fine-tuning for inflation. To arrive at "real" GDP, its nominal value must be altered to capture price variations so that governments can assess if the rate of output has increased or decreased due to increase / decrease in production or due to price increases. Price deflator (statistical tool) is utilized to amend GDP from nominal to constant prices. GDP provides information regarding the size of the economy and how an economy is performing.

Here pertaining to project, the report published by the Qatar National Bank (QNB) "*GCC Economic Insight 2012*" (QNB, 2012) and several other reports (IMF, 2012a, Arabstats-UNDP-POGAR, 2008) specify that the GDP of GCC countries has almost increased four times since 2001 and is projected to reach US \$ 1.5 trillion in 2013, mainly on account of oil and natural gas rent received by the countries except Bahrain. This assuming an average Brent oil prices (*Light Crude Oil used for production of petrol and middle distillates*) of US \$ 108 per barrel in 2012-2013. However, governments are putting their efforts to diversify the economy into non-oil sectors. The GCC region is expected to drive non-oil

industrial growth to the tune of approximately 9% mainly in manufacturing (petrochemicals, fertilizers, metals in Qatar, and Saudi Arabia), and construction. Services sector will continue to attract substantial level of public expenditure (majorly, government and financial services), and is expected to account for 36% of nominal GDP by 2013 based on bank's estimates. While this is good news, the population of the region is expected to grow to approximately 50 million by 2013, and this has forced the governments to implement measures to fulfil employment needs of the growing young population, while still being able to attract foreign workers to this region. See Figure 4 below. The graphs narrate the key economic indicators of GDP, population growth, Net Budget Balance, and Inflation within the GCC nations (IMF, 2012a, Arabstats-UNDP-POGAR, 2008, QNB, 2012)

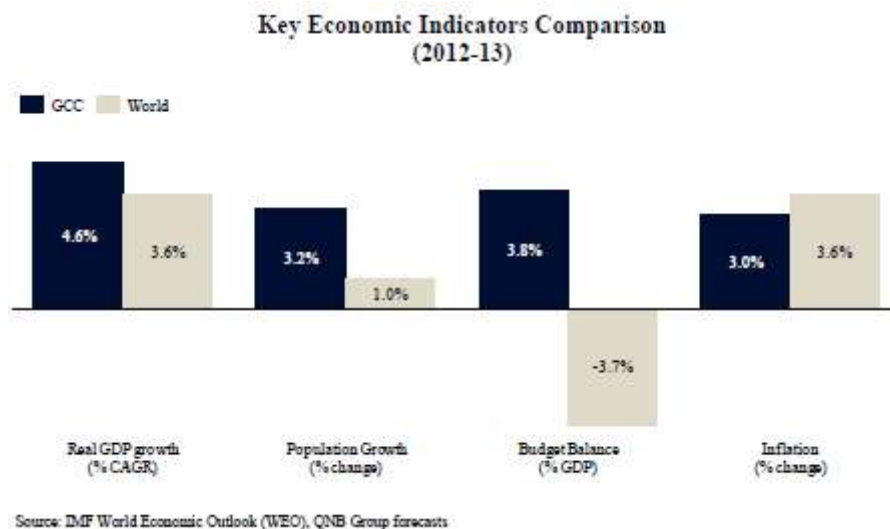
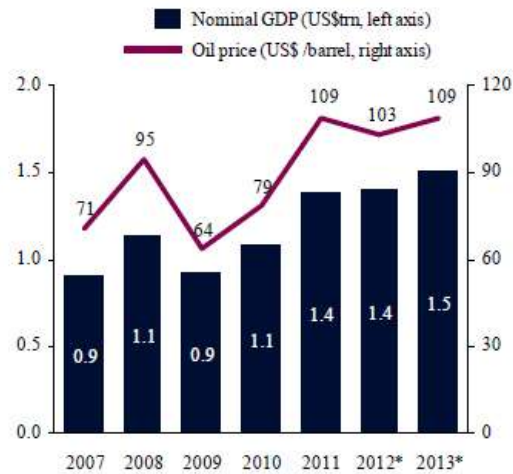
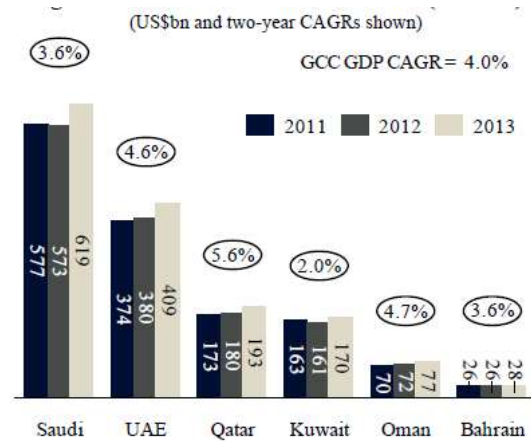


FIGURE 4: GCC ECONOMIC INSIGHT 2012, REPORT BY QATAR NATIONAL BANK (QNB, 2012)

According to "GCC Economic Insight 2012" report, the growth story has been promising and in future, has to be maintained by investments in sectors that facilitate long term sustainability, but investments demand regular revenue for smooth execution of projects. In this regards the region is blessed with income from the hydrocarbon sector, which is apparent in observed increases in the region's nominal GDP following the trend of oil price increases (see Figure 5. and 6. below). Compounded Annual Growth rate (CAGR) in the above and subsequent graphs refer to the cumulative year-on-year growth rate over a period of time, however it is generally associated with rate of growth of an investment over a fixed duration of time (Source: *investopedia.com*) (QNB, 2012).



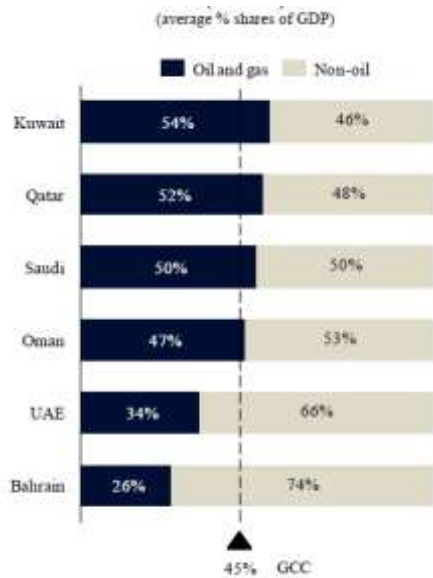
Source: National statistical authorities, *QNB Group estimates and forecasts



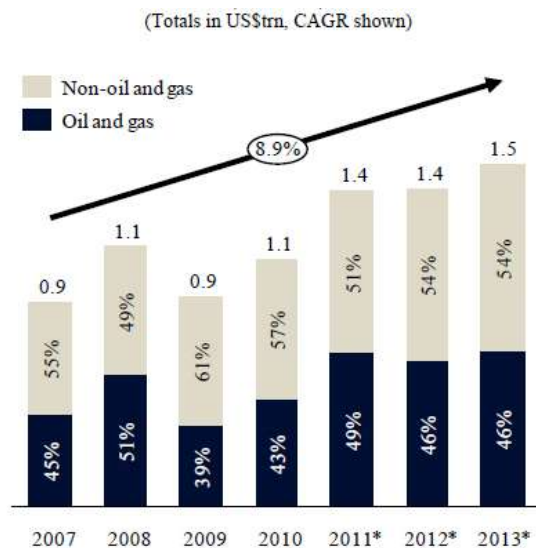
Source: QNB Group estimates and forecasts

FIGURE 5: GCC NOMINAL GDP AND OIL PRICES (2007 - 13) & FIGURE 6: GCC NOMINAL GDP FORECASTS (2011 -13), (QNB, 2012)

The overall income of the region has increased from 40% during the period 2002-06 to 45% during the period 2007-11. This is due to increase in energy prices with growth in non-oil sectors as well, ranging from 46% in Kuwait to 74% in Bahrain (see Figure 7. below), and is expected to be approximately 50% to 55% in 2012 - 2013 at GCC level (see Figure 8. below), (QNB, 2012).



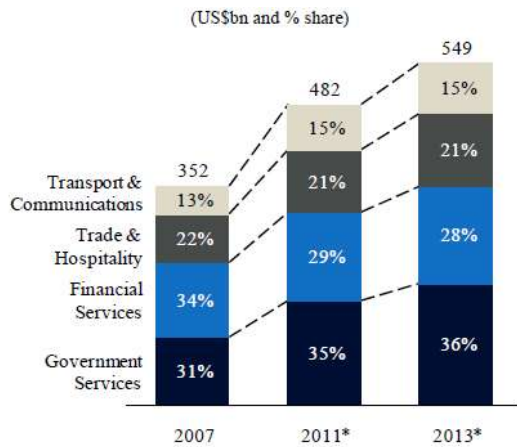
Source: National statistical authorities



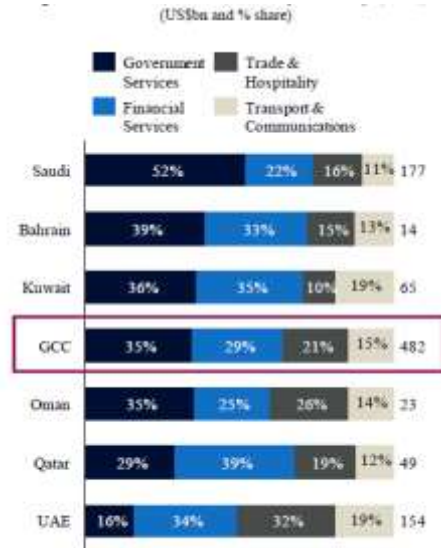
Source: National statistical authorities, *QNB Group estimates and forecasts

FIGURE 7: GCC NOMINAL GDP BY MAIN ECONOMIC SECTORS BY COUNTRY (2007-11), (QNB, 2012) & FIGURE 8: BREAKDOWN OF GCC NOMINAL GDP BY SECTOR (2007-13), (QNB, 2012)

Government services now forms the largest constituent of the services sector, and is likely to exceed Financial services sector in the coming years (QNB, 2012)(see Figure 9 and 10 below)



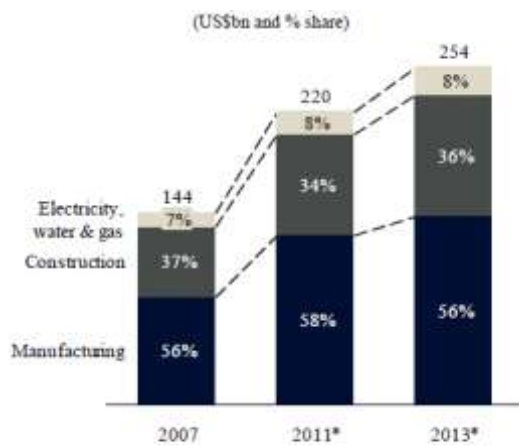
Source: National statistical authorities, *QNB Group estimates and forecasts



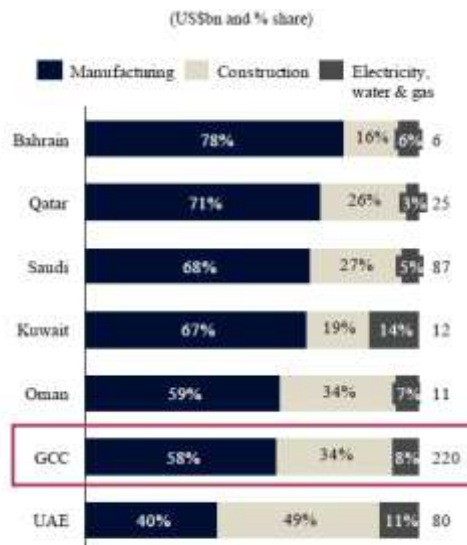
Source: National statistical authorities and QNB Group estimates

FIGURE 9: GCC SERVICES SECTOR NOMINAL GDP (QNB, 2012) & FIGURE 10: GCC SERVICES SECTOR BY COUNTRY 2011(QNB, 2012)

Non-oil industries are expected to be a big contributor to the overall GDP of the region, wherein manufacturing has increased approximately 7% during the period 2007 to 2011, and governments continue to diversify and control hydrocarbon resources by investing heavily in manufacturing sector, both at country and GCC level (see Figure 11 and 12 below). The non-oil private sector for the GCC region as a whole is expected to grow by ~ 6% in 2012 and by ~ 8% in 2013, which is primarily reliant on high levels of government spending, as a result of low government debt levels and large built up reserves (QNB, 2012).



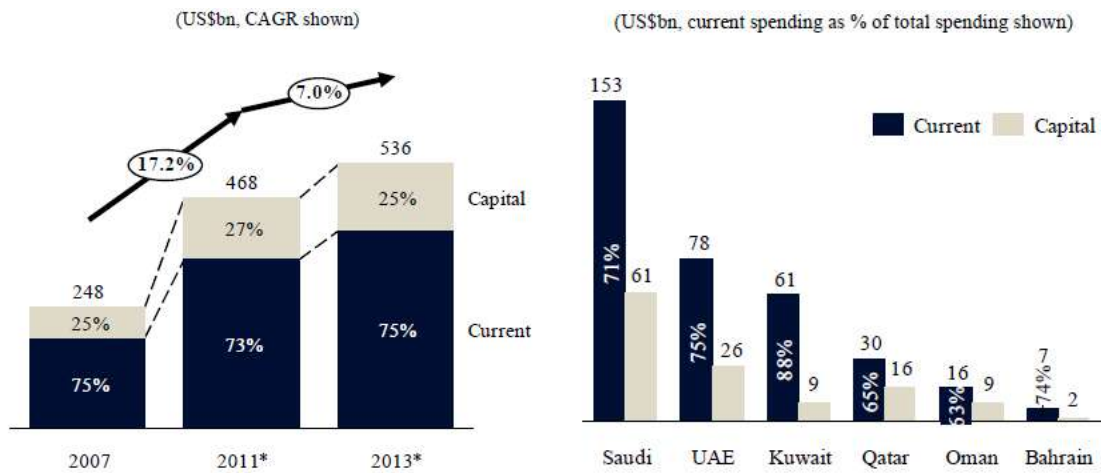
Source: National statistical authorities, *QNB Group estimates and forecasts



Source: National statistical authorities and QNB Group estimates

FIGURE 11: GCC NON-OIL INDUSTRY NOMINAL GDP (2007-13) & FIGURE 12: GCC NON-OIL INDUSTRY BY COUNTRY 2011(QNB, 2012)

Non-oil proceeds are generated majorly from investment income, and taxes or other fees, however the overall expenditure levels in the current context seemed to be increasing at a rate which is higher than the rate of increase in net income. As GCC nations prepare to shed their reliance on oil sector, and build the required infrastructure for non-oil growth big infrastructure projects like the GCC rail network would require high levels of capital expenditure in the future (See Figure 13 and 14 below) (QNB, 2012).



Source: National ministries, QNB Group estimates and forecasts

Source: QNB Group estimates

FIGURE 13: GCC GOVERNMENT EXPENDITURES (QNB, 2012) FIGURE 14: GOVERNMENT EXPENDITURE 2011(QNB, 2012)

GCC BALANCE OF PAYMENTS

Balance of payments (BoP) represents of all the financial dealings between a nation and the rest of the world. These dealings encompass costs for a nations exports and imports of goods & services, financial capital, and financial transfers. The BoP financial records sum up international business operations for a definite period, typically a year, and are restated in a particular currency, classically the domestic currency for the country concerned. Sources of income for the country, such as exports, are documented as positive or surplus items. Utilization of finance for imports or to investments in foreign countries are documented as negative or deficit items (Baumol and Blinder, 2011).

As per "GCC Economic Insight 2012" report (QNB, 2012), GCC's BoP account is positive mainly due to large chunk of inflows due to hydrocarbon exports (3/4th of the total exports), showing an overall surplus across, this then flows into private and state level investments abroad (See Figure 15 to 18 below). It interesting to note that GCC's trade surplus is the largest in the world, and is forecasted to average US \$ 493 billion in 2012-2013. This also showcases their ease of capacity to handle and invest in major infrastructural projects on sustained level for several years (QNB, 2012).

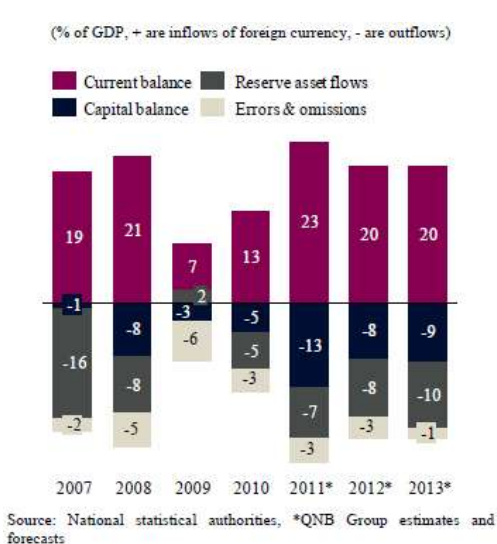


FIGURE 15: GCC BALANCE OF PAYMENTS(QNB, 2012)



FIGURE 16: CURRENT ACCOUNT CONSTITUENTS (QNB, 2012)

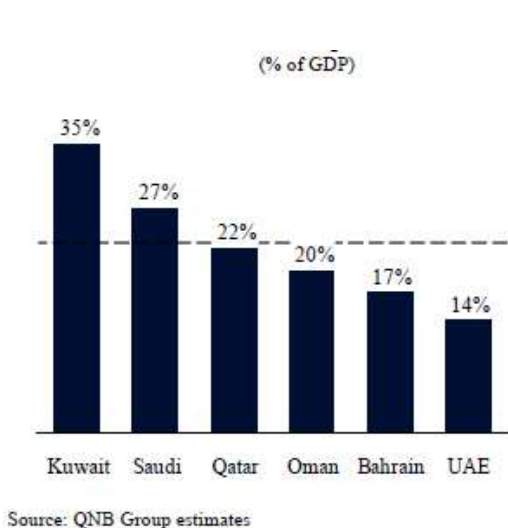


FIGURE 17: GCC CURRENT A/C SURPLUSES (2011)(QNB, 2012)

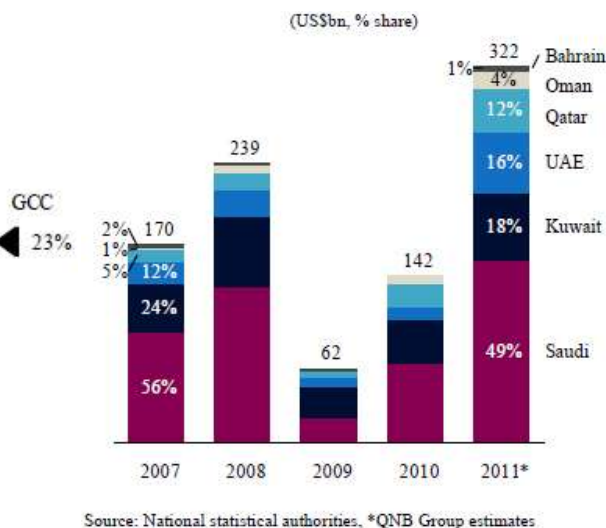


FIGURE 18: SHARE OF GCC CURRENT A/C SURPLUS (2007-11)(QNB, 2012)

As per the QNB report "GCC Economic Insight 2012" The role of foreign companies can be seen when you look at non-physical deficits of the GCC region which is mainly income balance on account of cross border payments of corporate profits and investment income, and foreign companies especially in hydrocarbon sector repatriate their profits to their respective countries (see Figure 19. below).

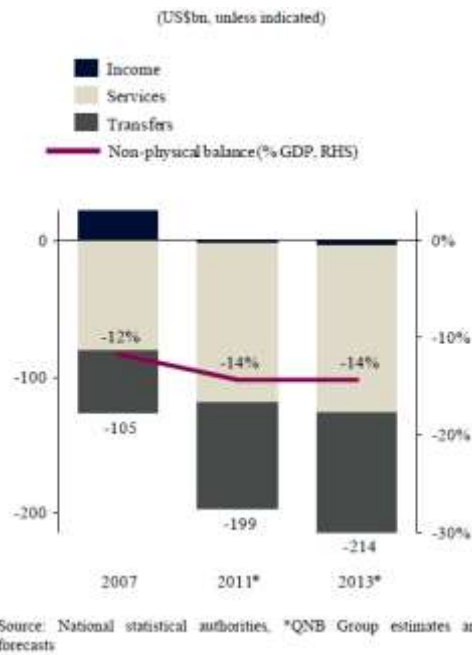


FIGURE 19. NON PHYSICAL BALANCES (2007-2013), (QNB, 2012)

INFLATION

Inflation is the pace at which the universal price level of goods and services increase, and, consequently, the purchasing power decreases. Central banks across the world try to prevent sustained periods of inflation, as well as deflation, in order to keep a check on the overall price levels, and purchasing power (Investopedia, Downloaded on 24 Aug 2010). Consumer price index (CPI) gauges the variations in the price level of consumer goods and services procured by households (Barro and Grossman, 2008).

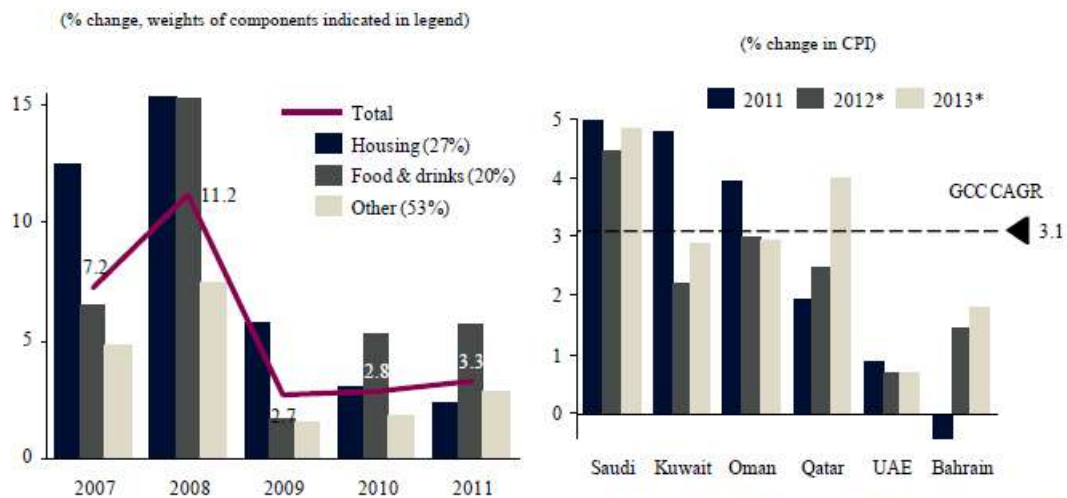
As per "*GCC Economic Insight 2012*", (QNB, 2012) Consumer price index inflation in the GCC has been impacted by slump in their housing markets (real estate bubble burst in 2008-2009), with some sign of recovery in 2011 offset by decline in rents from the peak of 2008 (Bahrain -12.4%, Qatar -4.8%, UAE -2.4% in 2011). GCC inflation is well above the global average of 4.5%, which has a direct correlation with global and domestic demand for oil as it directly impacts even the domestic transportation of food, which has led to higher food prices, in the wake of weaker US dollar (See Figure 20. to 22. below).

(% weight in regional CPI basket)

Sector	Weight
Housing	26.8%
Food and drink	20.3%
Transport and communications	17.2%
Furniture	8.9%
Clothing	8.6%
Miscellaneous ³¹	19.2%

Source: National statistical authorities and QNB Group analysis

FIGURE 20. GCC CPI WEIGHTS BY SECTOR, (QNB, 2012)



Source: National statistical authorities and QNB Group analysis

Source: National statistical authorities and QNB Group analysis, *QNB Group forecasts

FIGURE 21. GCC CPI WEIGHTS BY SECTOR & FIGURE 22. INFLATION BY COUNTRY (2011-13), (QNB, 2012)

DESCRIPTION OF THE MARKET STRUCTURE

The 6 countries within the GCC nation converge on various macro-economic indicators. The six nations in a combined effort are aiming to establish upper and lower limits on: Inflation, Short-Term Interest Rates, Foreign Exchange Reserves, Fiscal Deficits, And Public Debt to GDP Ratios. However, the thing that stands out is the fact that the financial markets in each of the countries is at different stages of development. The nominal anchor for the monetary policy is provided by the dollar for all the GCC nations, with the exception of Kuwait, that has a basket of currencies. Monetary policy and liquidity and credit management in the countries is controlled through the interest rates, reserve requirements, loan-to-deposit ratios, and other prudential norms (Espinoza et al., 2011). The financial sector is dominated by commercial banks, specialized banks, non-banking financial institutions. (Espinoza et al., 2011)

GCC: structure of the banking sector.
Sources: authors' calculations.

Country	No. of banks	Market share to total assets (in percent)			
		Domestic banks	Foreign banks	Share in total GCC bank assets	Assets/GDP
Bahrain ^a	30	45	55	6	304
Kuwait	17	90	10	13	90
Oman	17	90	10	3	68
Qatar	16	90	10	10	110
Saudi Arabia	17	98	2	32	72
U.A.E.	52	78	22	36	151

^a Retail banks only. In addition Bahrain has a wholesale banking system with assets of \$450 billion of which \$50 billion are domestic assets.

FIGURE 23. GCC STRUCTURE OF THE BANKING SECTOR, (ESPINOZA ET AL., 2011)

VOLUME OF CAPITAL FLOWS

Banking sector in the GCC mainly relies on private bank deposits, and lending, and has only a small share of foreign assets and liabilities. Looking at the banking sector closely the author found that Saudi Arabia's banking sector is most closed, where only 8.6% of liabilities originate abroad, while Oman, and U.A.E. are relatively open with approximately 22% liabilities originating abroad, and Bahrain with the most open banking with 47% liabilities originating abroad (see Figure 24. below (Espinoza et al., 2011)).

GCC: loans, deposits and foreign assets and liabilities.
Sources: Authors' calculations and IMF World Economic Outlook.

GCC banks—deposits and loans, 2008 (in percent)			
	Loans to GDP	Deposits to GDP	Loan to deposit
Bahrain ^a	80.9	61.1	132.4
Kuwait	56.3	58.3	96.5
Oman	42.8	30.9	138.8
Qatar	47.0	54.4	86.4
Saudi Arabia	40.7	46.9	86.9
United Arab Emirates	76.2	90.8	83.9

GCC banks—foreign assets and liabilities, 2008 (in percent)		
	Foreign assets/total assets	Foreign liabilities/total liabilities
Bahrain ^a	53.4	47.0
Kuwait	22.4	14.5
Oman	17.1	15.0
Qatar	24.7	22.2
Saudi Arabia	11.8	8.6
U.A.E.	15.4	22.6

^a Retail banks only.

FIGURE 24. GCC LOANS, DEPOSITS, AND FOREIGN ASSETS AND LIABILITIES

Mergers and acquisitions in the GCC based on the development of the financial sector, banking sector, and opening up of the Telecommunications sector, and Kuwait, Saudi Arabia, and UAE lead the pack in this category (see Figure 25. below) (Espinoza et al., 2011).

GCC: cumulative mergers and acquisitions in the financial sector, 2003–09.
 Source: Dealogic analytics on mergers and acquisitions in the financial sector.

Acquirer/target country	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	U.A.E.	Inter GCC investments
(In millions of U.S. dollars)							
Bahrain		395.8	155.5	200.8	0.0	0.1	752.2
Kuwait	422.0		18.3	21.8	12,536.6	86.7	13,085.4
Oman	0.0	0.0		199.6	0.0	0.0	199.6
Qatar	5.8	4249.2	322.7		0.0	820.7	5398.5
Saudi Arabia	0.0	957.2	451.3	0.0		3364.2	4772.8
U.A.E.	1141.9	118.4	427.6	0.0	485.9		2173.8
Total GCC	1569.8	5720.7	1375.5	422.2	13,022.5	4271.8	26,382.4

FIGURE 25. GCC CUMULATIVE MERGERS AND ACQUISITIONS IN THE FINANCIAL SECTOR, 2003-2009,(ESPINOZA ET AL., 2011)

ANALYSIS OF PRICE DATA

Williams et.al suggest that interest rates across countries within the GCC region function at a pace at which the interest rate differential opportunities cannot be used to make large arbitrage gains. With the exception of Bahrain, all the other countries being pegged to the US dollar, the GCC interbank rates do not vary. However, these rates might be impacted by other reasons, such as liquidity, monetary conditions, capital flows which gives rise to country and currency risks (Espinoza et al., 2011).

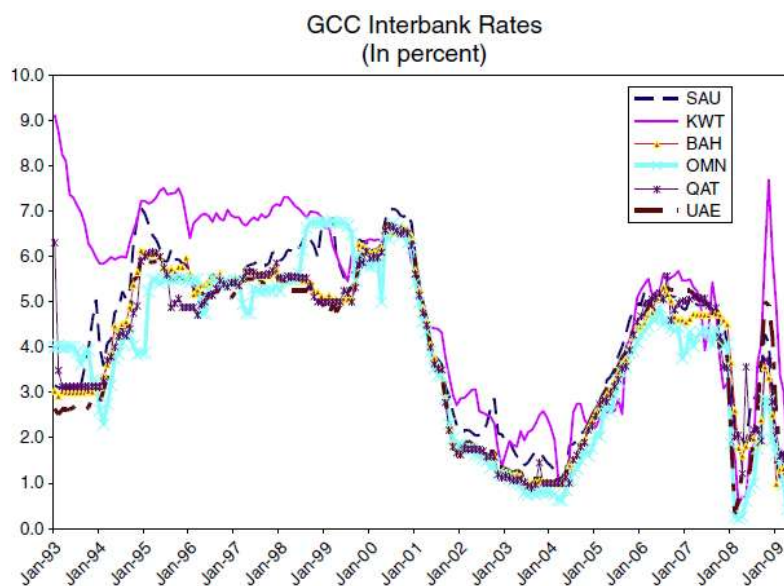


FIGURE 26. GCC INTERBANK RATES, SOURCE : SAUDI ARABIAN MONETARY AUTHORITY (SAMA), THREE MONTH INTER-BANK RATES, (ESPINOZA ET AL., 2011)

This is evident from the fact that stock prices of different equities covered in the report as the cross listed prices generally tend to progress very close to each other, with small arbitrage opportunities (see blue trend lines in graphs in *Figure 27. below*) (Espinoza et al., 2011).

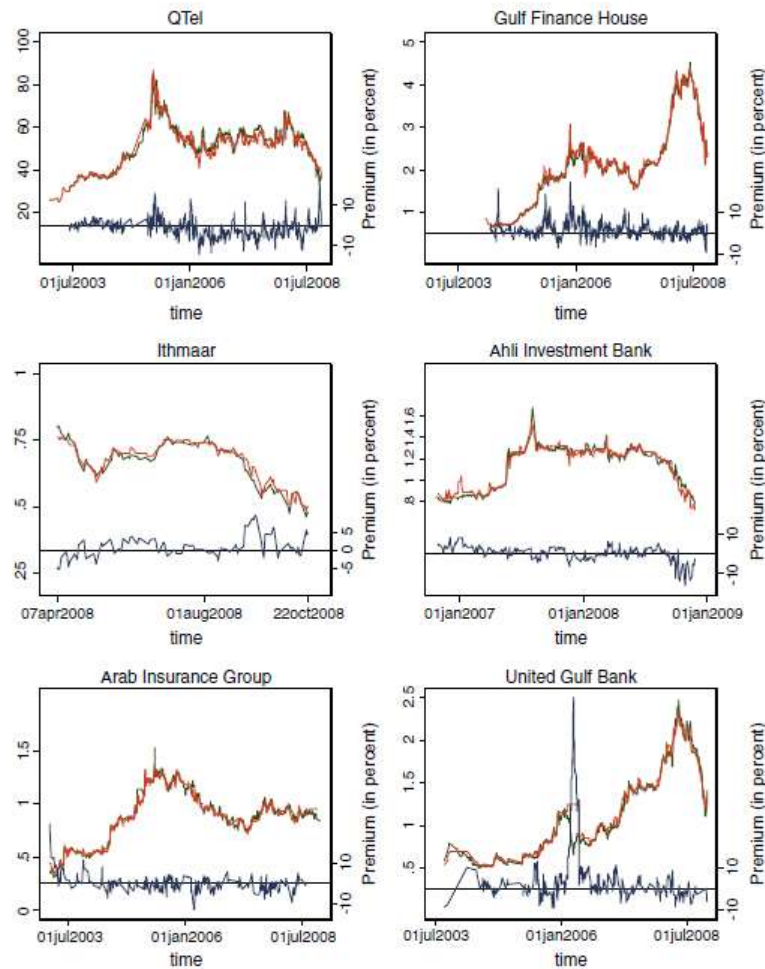


FIGURE 27. SELECTED CROSS LISTED STOCKS IN THE GCC, LOWER BLUE LINE INDICATING "ARBITRAGE OPPORTUNITY", (ESPINOZA ET AL., 2011)

The average size of arbitrage opportunities in GCC is 2% to 4%, which is lower than the average arbitrage opportunity in the other markets like Hong Kong, Singapore, and the Caribbean. However, the capital markets in GCC are less efficient than western markets when it comes to removing the arbitrage opportunities around the mark of 1% (*see Figure 28. below*). In our opinion relationship with arbitration agents and consultants in the GCC region could help a business take advantage of raw material prices existing in different international markets based on their sourcing needs (Espinoza et al., 2011).

Arbitrage opportunities—summary statistics.

Source: Authors' calculations. The arbitrage opportunity is the percent difference between the prices of the cross-listed securities in the two stock markets.

	Mean	Standard dev.	10% percentile	90% percentile
Qatar–Abu-Dhabi	4.6	3.1	1.0	8.8
Qatar Telecom (QTel)	4.6	3.1	1.0	8.8
Bahrain–Kuwait (avg)	2.8	2.6	0.4	5.9
Gulf Finance House (GFH)	2.6	2.6	0.3	5.7
Ithmaar	2.4	2.2	0.3	5.5
Ahli United Bank	2.6	2.6	0.3	5.2
Arab Insurance Group	2.7	2.8	0.4	5.5
United Gulf Bank (UGB)	3.4	2.9	0.5	7.7
Germany–UK				
Gulf Finance House (GFH)	3.3	3.9	0.2	8.1
Bahrain–UK				
Gulf Finance House (GFH)	6.8	6.6	1.1	17.0
Kuwait–UK				
Gulf Finance House (GFH)	7.4	7.1	0.9	18.1
Brazil–Argentina	1.1	1.0	0.1	2.4
Petrobras	1.1	1.0	0.1	2.4
Trinidad and To.–Jamaica (avg)	6.6	5.8	0.9	13.0
Trinidad and To.–Barbados (avg)	5.2	4.1	0.9	10.3
Hong Kong–Singapore (avg)	6.2	5.4	1.0	13.1
France–Germany (avg)	1.2	1.2	0.1	2.6

FIGURE 28. SELECTED CROSS LISTED STOCKS IN THE GCC, LOWER BLUE LINE INDICATING "ARBITRAGE OPPORTUNITY", (ESPINOZA ET AL., 2011)

For GCC equity listing for which the authors found the cross listings in London and Frankfurt, there exists significant arbitrage opportunities (*see Figure 29. below*) (Espinoza et al., 2011).

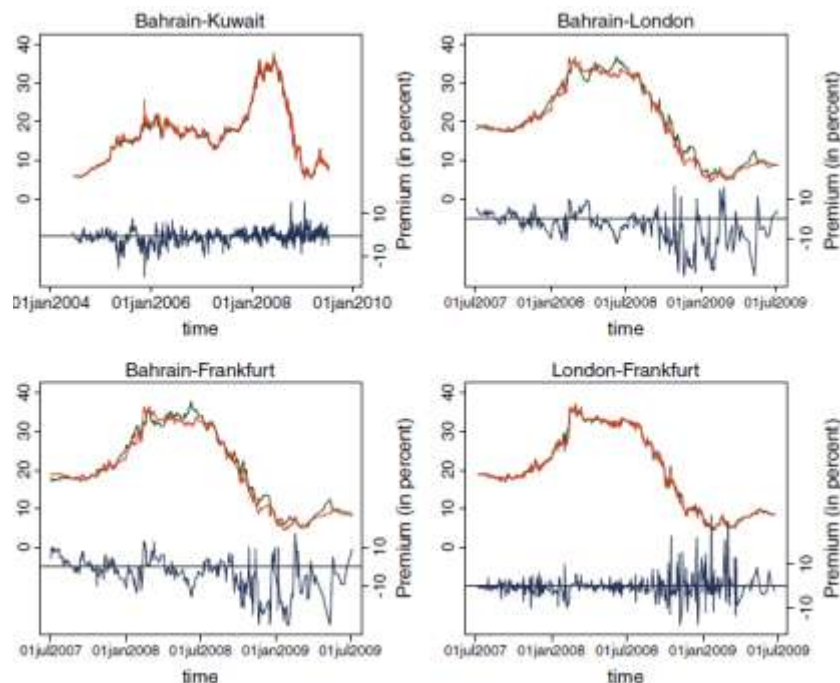


FIGURE 29. GULF FINANCE HOUSE CROSS LISTINGS, LOWER BLUE LINE INDICATING "ARBITRAGE OPPORTUNITY", (ESPINOZA ET AL., 2011)

FOREIGN DIRECT INVESTMENT IN GCC

Purchasing power parity is a method to evaluate the comparative value of currencies. It forecasts the quantity of modification required to be made to an exchange rate among countries so that the exchange rate is equal to or at par with each currency's purchasing power. The aim of the exercise is to arrive at the amount of money required to procure the same goods and services in two different countries, and use the information to arrive at the foreign exchange rate (Balassa, 1964). Investopedia defines exchange rate as "*The price of one country's currency expressed in another country's currency*" (INVESTOPEDIA, 2012).

Foreign direct investment (FDI) is referred to any investment that is made directly into production in a nation by a firm situated in some other nation. This is generally undertaken by firms in order to expand or grow by acquiring a firm in another nation or by increasing the magnitude of operations of an existing business in another country. FDI could have varying motivations for firms ranging from access to cheap labour, favourable incentives offered on investments such as tax exemptions. FDI is an active investment method in comparison to portfolio investment in the securities of another country such as stocks and bonds (Froot, 1993).

As per the UNCTAD "*World Investment Report 2012*" post the sub-prime crisis in 2008 and global financial crisis, and due to delays or cancellation in large projects the foreign direct investment (FDI) inflows in GCC has declined from 69% in 2010 to 35% in 2011, mainly on account of 42% decline in Saudi Arabia's case to \$16 billion in 2011 (See Table 1. & 2. below). However, with the increase in income from oil exports mainly due to increase in price per barrel the FDI outflows from the GCC nations has improved post 2010 (UNCTAD, 2012).

FDI inflows (millions of dollars)						
	2006	2007	2008	2009	2010	2011
Saudi Arabia	\$17,140	\$22,821	\$38,151	\$32,100	\$28,105	\$16,400
UAE	\$12,806	\$14,187	\$13,724	\$4,003	\$5,500	\$7,679
Oman	\$1,597	\$3,332	\$2,952	\$1,508	\$1,142	\$788
Qatar	\$3,500	\$4,700	\$3,779	\$8,125	\$4,670	(\$87)
Kuwait	\$121	\$112	(\$6)	\$1,114	\$319	\$399
Bahrain	\$2,915	\$1,756	\$1,794	\$257	\$156	\$781
Total GCC	\$38,079	\$46,908	\$60,394	\$47,107	\$39,892	\$25,960

The above Table 1. is based on data published in report UNCTAD "*World Investment Report 2012*"

Annex Tables, Annex Table I.1 FDI flows, by region and economy, 2006-2011 (Millions of dollars), pages 169-

FDI outflows (millions of dollars)						
	2006	2007	2008	2009	2010	2011
Saudi Arabia	(\$39)	(\$135)	\$3,498	\$2,177	\$3,907	\$3,442
UAE	\$10,892	\$14,568	\$15,820	\$2,723	\$2,015	\$2,178
Oman	\$276	(\$36)	\$585	\$109	\$1,012	\$572
Qatar	\$127	\$5,160	\$3,658	\$3,215	\$1,863	\$6,027
Kuwait	\$8,211	\$9,784	\$9,091	\$8,582	\$5,065	\$8,711
Bahrain	\$980	\$1,669	\$1,620	(\$1,791)	\$334	\$894
Total GCC	\$20,447	\$31,010	\$34,272	\$15,015	\$14,196	\$21,824

The above Table 2. is based on data published in report UNCTAD "World Investment Report 2012"

Annex Tables, Annex Table I.1 FDI flows, by region and economy, 2006-2011 (Millions of dollars), pages 169-172

The six GCC nations signed an economic agreement to boost non-oil sector activity, by encouraging private sector, including foreign investors, to be actively involved in the change which is visible is stock data from Oman, Qatar, and Saudi Arabia, that services accounted for 59% of FDI inflows, 27% from manufacturing, and 14% in oil and gas upstream industry (which has restrictions on FDI participation) see Figure 30. Below, as per the UNCTAD "World Investment Report 2012":

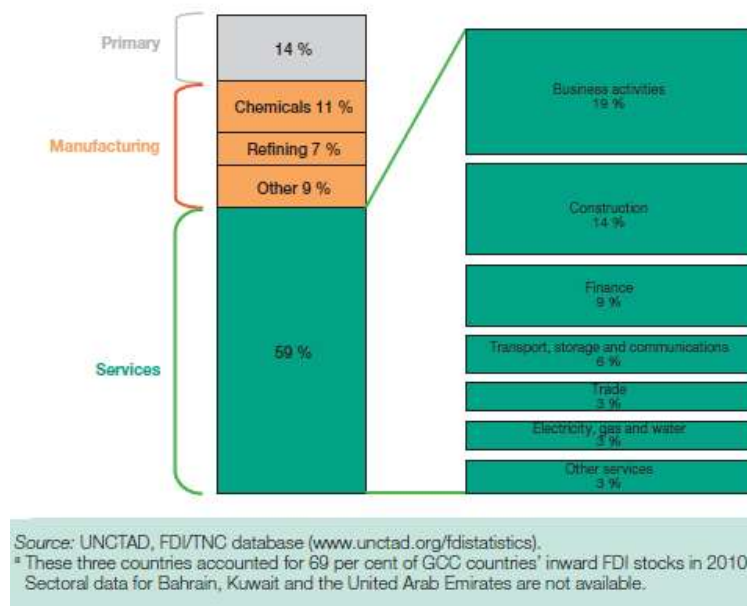


FIGURE 30. ACCUMULATED INWARD FDI STOCK IN OMAN, QATAR, AND SAUDI ARABIA BY SECTOR IN 2010, (UNCTAD, 2012)

As per the UNCTAD "World Investment Report 2012" Even though the dependence on income from oil has not contracted substantially, the GCC countries today face common challenges, and the scale of diversification planned for non-oil sector will require co-ordination, and co-operation of the private, and public sector and participation in investments. This will continue to provide the impetus for investment opportunities for

Transnational Corporations (TNCs). TNCs contribution to FDI flows in 2011 was more due to cross-border acquisitions, and increased amount of cash reserves in foreign affiliates, and this build could well fuel future FDI flows (UNCTAD, 2012).

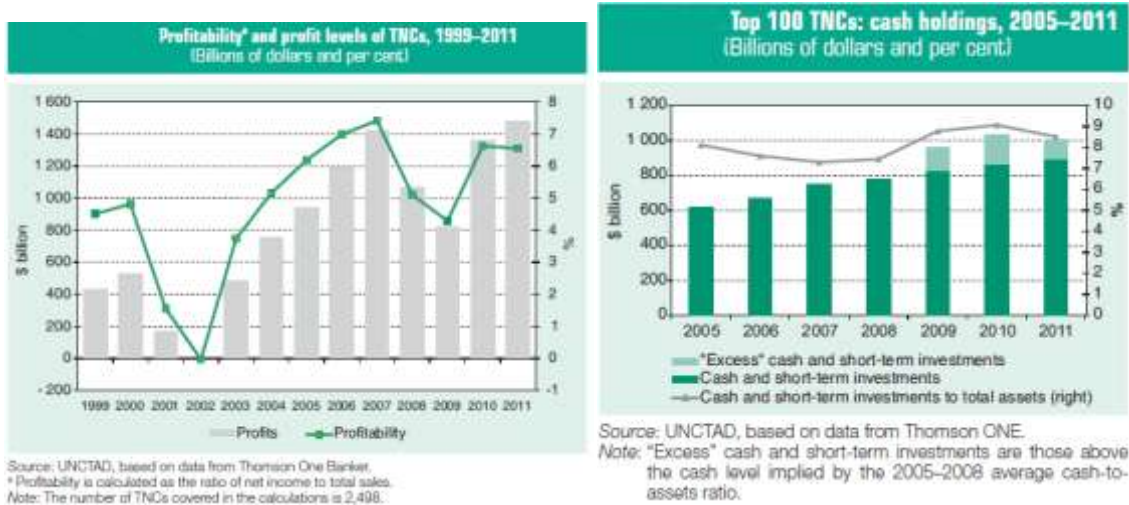


FIGURE 31. PROFITABILITY AND PROFIT LEVELS OF TNCs & FIGURE 32. TOP 100 TNCs CASH HOLDINGS, 2005-2011 (BILLIONS OF \$ & %), (UNCTAD, MARCH 2012)

As per the UNCTAD "World Investment Report 2012" Potential Index for FDI flows in an economy there are four key economic determinants of the attractiveness of an economy for investors i.e. attractiveness of the market, availability of low cost labour and skills, natural resources, and enabling infrastructure like transport infrastructure for FDI (see Figure 33. below) (UNCTAD, 2012).

MEASURING FDI POTENTIAL – FDI DETERMINANTS AND PROXY INDICATORS

Market attractiveness	<ul style="list-style-type: none"> • Size of the market (GDP (purchasing power parity)) • Spending power (per capita GDP (purchasing power parity)) • Growth potential of the market (real GDP growth rate)
Availability of low-cost labour and skills	<ul style="list-style-type: none"> • Unit labour cost (hourly compensation and labour productivity) • Size of manufacturing workforce (existing skill base)
Presence of natural resources	<ul style="list-style-type: none"> • Exploitation of resources (value of fuels and ores exports) • Agricultural potential (availability of arable land)
Enabling infrastructure	<ul style="list-style-type: none"> • Transport infrastructure <ul style="list-style-type: none"> - (road density: km of road per 100 km² of land area) - (percentage of paved roads in total) - (rail lines total route-km) - (liner shipping connectivity index) • Energy infrastructure <ul style="list-style-type: none"> - (electric power consumption) • Telecom infrastructure <ul style="list-style-type: none"> - (telephone lines/100 inhabitants) - (mobile cellular subscriptions/100 inhabitants) - (fixed-broadband Internet subscribers/100 inhabitants)

Source: UNCTAD.

FIGURE 33. MEASURING FDI POTENTIAL - FDI DETERMINANTS AND PROXY INDICATORS, (UNCTAD, MARCH 2012)

As per the report "Neighbourly Investments" (Mohieldin, 2008), highlights that increase in oil revenues has enabled the GCC nations to cut down on public debt, and build Sovereign Wealth Funds (SWFs), and other state controlled investment institutions.

Major investors				
Sovereign wealth funds (SWFs) maintained by Gulf Cooperation Council states account for more than 40 percent of the assets of all such funds.				
Country	Fund	Assets (billion dollars)	Inception	Rank
United Arab Emirates (UAE)	Abu Dhabi Investment Authority	875	1976	1
Saudi Arabia	SAMA Foreign Holdings	365.2	1990	3
Kuwait	Kuwait Investment Authority	264.4	1953	6
Qatar	Qatar Investment Authority	60	2003	12
UAE - Abu Dhabi	Mubadala Development Company	10	2002	29
Bahrain	Mumtalakat Holding Company	10	2006	30
Saudi Arabia	Public Investment Fund	5.3	2008	32
Oman	State General Reserve Fund	2.0	1980	39
UAE - Ras Al Khaimah	RAK Investment Authority	1.2	2005	40
Gulf Cooperation Council SWF assets		1,593.1		
Percentage of total global SWF assets				41.6

Source: Sovereign Wealth Fund Institute, August 2008.
 Note: The United Arab Emirates, Kuwait, Qatar, and Bahrain are member countries in the International Working Group of Sovereign Wealth Funds; Saudi Arabia and Oman are permanent observers.

FIGURE 34. MAJOR INVESTORS IN GCC SOVEREIGN WEALTH FUNDS, (MOHIELDIN, 2008)

LABOUR MARKET

Baldwin Edwards, of London School of Economics, published a report: "*Labor immigration and labor markets in the GCC countries: National patterns and trends*" (Edwards, 2011), wherein percentage of foreign immigrants is quite high in all the GCC nations (see Figure 35. below).

Surprisingly, in contrast to other reports (Arabstats-UNDP-POGAR, 2008, UNDP, 2011), Saudi Arabia seems, in comparison to other GCC states, to be much more efficient and effective in providing employment opportunities to its citizens. The need for '*Nationalization*' policies is due to lower percentage of local national in employment in the GCC as indicative in the Figure 36. below for the period 2005-2008 (Edwards, 2011).

Table 2. Native and foreign components of GCC labour forces, 1975–2008 (000s)

		1975	1985	1990	1999	2008 ^a	% female in 2008
Saudi Arabia	Nationals	1,027	1,440	1,934	3,173	4,173	16
	Foreigners	773	2,662	2,878	4,003	4,282	14
	Total	1,800	4,102	4,812	7,176	8,455	15
	% foreigners	42.9	64.9	59.8	55.8	50.6	
Kuwait	Nationals	92	126	118	221	351	46
	Foreigners	213	544	731	1,005	1,742	23
	Total	305	670	849	1,226	2,093	27
	% foreigners	69.8	81.2	86.1	82.0	83.2	
Bahrain	Nationals	46	73	127	113	139	33
	Foreigners	30	101	132	194	458	17
	Total	76	174	259	307	597	20
	% foreigners	39.5	58.0	51.0	63.2	76.7	
Oman	Nationals	137	167	189	312	276	n.d.
	Foreigners	71	300	442	503	809	n.d.
	Total	208	467	631	815	1,169	n.d.
	% foreigners	34.1	64.2	70.0	61.7	74.6	
Qatar	Nationals	13	18	21	36	72	36
	Foreigners	54	156	230	244	1,193	8
	Total	67	174	251	280	1,265	10
	% foreigners	80.6	89.7	91.6	87.1	94.3	
UAE	Nationals	45	72	96	124	455	22
	Foreigners	252	612	805	1,165	2,588	13
	Total	297	684	901	1,289	3,043	14
	% foreigners	84.8	89.5	89.3	90.4	85.0	
TOTALS	Nationals	1,360	1,896	2,485	3,979	5,466	
	Foreigners	1,393	4,375	5,218	7,114	11,072	
	Total	2,753	6,271	7,703	11,093	16,538	
	% foreigners	50.6	69.8	67.7	64.1	66.9	

Sources: Winckler (2010); national statistical datasets (see appendix).

^a 2009 data for Kuwait; 2010 data for Bahrain (employed only); 2006 data for UAE female rates.

FIGURE 35. NATIVE AND FOREIGN COMPONENTS OF GCC LABOUR FORCE , 1975 TO 2008 (000S), (BALDWIN-EDWARDS, 2011)

	2005	2006	2007	2008
Bahrain	33	32	30	28
Kuwait	18	17	16	17
Oman	32	30	28	25
Qatar	7	6	7	6
Saudi Arabia	n.d.	46	46	47
UAE	8	8	8	n.d.

Source: Dito (2010: 77–82).

FIGURE 36. PROPORTION OF NATIONALS IN EMPLOYMENT IN THE GCC, 2005-2008(%), (BALDWIN-EDWARDS, 2011)

However, as the author drilled a little deeper into the employment data, he found that percentage of foreign employees was even higher when looking at the percentage of total employment by economic sector, as the percentage of local nationals employed was quite low e.g. in Bahrain, Kuwait approximately 80% of workers in the economic sectors defined in the table below were foreign workers in 2009, this number was as high as 85% in UAE, and 94% in Qatar, with the only exception of Saudi Arabia at 53% (Edwards, 2011).

Economic sector	Bahrain ^b		Kuwait		Qatar		Saudi Arabia		UAE ^c	
	% of total employment	% foreign workers	% of total employment	% foreign workers	% of total employment	% foreign workers	% of total employment	% foreign workers	% of total employment	% foreign workers
Agriculture and fishing	1.2	46.5	1.8	99.2	1.6	100.0	3.8	66.1	3.8	91.8
Mining and quarrying	-----	-----	0.3	26.5	5.0	91.8	1.3	8.5	2.0	80.8
Manufacturing	17.2	75.1	5.6	92.6	8.6	99.2	6.5	76.2	7.7	93.9
Electricity, gas and water	-----	-----	0.6	17.1	0.5	66.6	1.0	27.3	1.1	77.3
Construction	32.8	89.8	8.1	95.2	44.3	99.8	12.8	91.0	12.3	94.7
Wholesale and retail	17.9	81.6	15.3	96.4	11.0	99.4	16.6	79.8	15.4	93.9
Hotels and restaurants	6.6	89.1	-----	-----	2.0	99.9	2.8	89.0	4.0	95.7
Transport, storage etc.	3.8	55.5	3.2	87.0	4.4	97.0	4.4	38.9	8.2	88.2
Financial services	4.3	41.0	5.1	83.0	1.2	82.2	1.1	17.5	3.2	82.4
Real estate etc.	0.8	70.2	-----	-----	3.7	97.8	3.8	58.4	6.9	90.0
Public administration/defence	-----	-----	-----	-----	5.1	43.6	18.7	1.9	12.7	44.9
Education	-----	-----	-----	-----	2.5	63.2	11.0	7.1	4.3	73.2
Health and social work	-----	-----	-----	-----	2.4	83.1	4.3	36.4	2.5	85.0
Other community/social services	4.5	60.2	42.8	72.4	1.3	85.4	2.0	60.0	2.7	85.0
Households with employed persons	9.1	87.9	-----	-----	6.4	100.0	9.8	99.6	13.1	94.8
Other economic activity	1.8	60.0	17.1	90.5	0.2	98.5	0.1	85.6	0.1	85.0
	100.0	-----	100.0	-----	100.0	-----	100.0	-----	100.0	-----
Total employment (000s)	382.3	306.6	2,093.2	1,741.7	1,262.3	1,191.4	8,017.3	4,260.6	3,043.0	2,588.0
<i>% foreign workers (all sectors)</i>		<i>80.2</i>		<i>83.2</i>		<i>94.4</i>		<i>53.1</i>		<i>85.0</i>

Source: Own calculations from national data.

^a 2008 data for Bahrain and Saudi Arabia.

^b Data for Bahrain are incomplete, since total employment for 2008 is recorded elsewhere as 467,000.

^c No actual data supplied by the UAE, only % by sector; % foreign workers calculated by imputation.

FIGURE 37. TOTAL AND FOREIGN EMPLOYMENT BY ECONOMIC SECTOR IN THE GCC, 2009, BY % OF EMPLOYMENT AND FOREIGN WORKER PROPORTION, (BALDWIN-EDWARDS, 2011)

Now the focus is on 'Nationalization' of the GCC labor markets, and terms like 'Omanization', and 'Saudiization' point us to general policy objective across the GCC of reducing on foreign workers and replacing them with native labour power. *Figure 38. below* summarizes some of the policies in this direction e.g. quotas for employment of local nationals especially in the public sector (Baldwin-Edwards, 2011). However in our opinion in the context of support for 'Nationalization' policies, will hamper GCC countries, global competitiveness basis the quotas and forced employment opportunities provided by the government to their citizens. It would be interesting to see the same philosophies of 'Nationalization' opportunities for local people through indirect means like education, provision of skills, and these countries in our view would have to find a balance between direct employment protection programs, and much superior indirect adaptation programs, wherein local talent is taught the requisite skills to adapt within competitive environments. (Heifetz and Laurie, 1997)

- A. Policies aiming to reduce the demand for immigrant labour**
1. Raising costs of hiring foreign workers (B, K, O)
 2. Closing of employment in specific sectors or professions (all GCC)
 3. Ceiling of proportion of foreign workers in company (SA, K, UAE)
 4. Tax on non-diversity of nationalities (i.e. ≥ 30 per cent any nationality) (UAE)
 5. Reducing labour-intensive projects in the public sector (K)
 6. Preferential award of government contracts to private companies satisfying nationalization quota objectives (O)
- B. Policies aiming to reduce the supply of immigrant labour**
1. Health insurance paid by migrant worker (K, SA, UAE)
 2. Degree validation fee (UAE)
 3. Direct tax on migrant workers (SA)
 4. Restrictions on visa issuance (B, SA)
 5. Deportation of irregular migrants (all GCC)
- C. Policies aiming to increase the demand for indigenous labour**
1. State subsidy (up to 50 per cent) of private sector pay for native worker (SA)
 2. Quotas for natives in public/private employment (SA, K, UAE, Q)
 3. Development of economic sectors for nationals' employment (B, SA, Q, UAE)
 4. Directing new labour market entrants to the private sector (all GCC)
 5. Promoting study and training in technology and medicine (all GCC)
- D. Policies aiming to reduce the supply of indigenous labour**
1. Discouragement of female labour market participation (B, SA)
 2. Family planning measures, to lower the fertility rate (O)
- E. Policies aiming to reduce local/immigrant wage disparities**
1. Reform/near-abandonment of the *kafala* system (O, B)
 2. Taxes on hiring migrant workers (B, K, O)
 3. Subsidies for hiring of indigenous workers (SA)

Source: Own compilation, multiple sources

FIGURE 38. AN OVERVIEW OF LABOR MARKET STRATEGIES FOR 'NATIONALIZATION' PROGRAMS, (BALDWIN-EDWARDS, 2011)

FINANCIAL REGULATIONS

Infrastructure development leads to economic growth, and requires heavy investments from nations. The role of Islamic finance in Infrastructure development is growing by the day, especially in the Middle East North Africa (MENA) region. Business in the GCC like the rest of the world is carried out by individual traders, partnerships, and companies or firms. However that is where the similarity ends, and most of the business institutions function under a rather different philosophy of doing business, and corporate governance. This section would look at the corporate governance of Islamic Financial Institutions (IFIs) by the principals of Islamic Shari'a Law. Shari'a in simple words means "*pathway to be*

followed". Garas and Pierce in their article "Shari'a supervision of Islamic financial institutions" (Garas and Pierce, 2010) state that the definition of Shari'a law has evolved over time which has been studied by various Shari'a scholars, and the below mentioned definition focuses particularly to institutions as:

"the preventive, remedial and complementary process of control, review and analysis of all the IFI's activities, products, contracts and transactions starting from the incorporation of the IFI onwards to ensure compliance with Islamic Shari'a for the purposes of generating legitimate profits (halal) and improving in the IFI's performance": (Garas and Pierce, 2010)

The above definition covers four key activities of Shari'a supervision:

1. *Revising the articles of association and all internal policies*
2. *Issuing of religious decisions ('fatwas'), prior to release of products to public ensure their compliance with Shari'a*
3. *Reviewing new products and contracts during their execution to ensure their compliance with Shari'a*
4. *Reporting Shari'a opinion to related parties*

(Garas and Pierce, 2010)

The elements of the Shari'a governance is based on ability of Shari'a scholars to understand and interpret Shari'a principles to others to conduct Shari'a compliant business. These scholars provide their approval to Islamic Financial Institution's (IFI's) activities, and the approval is essential for any contract to move forward.

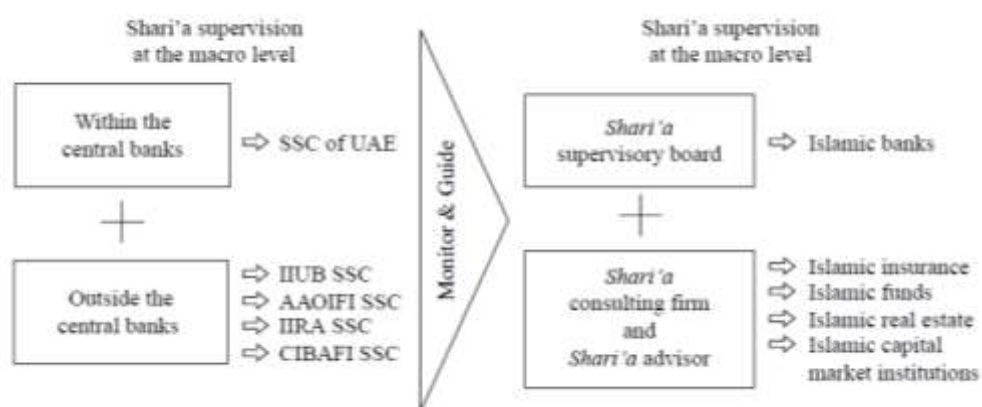


FIGURE 39. THE TYPES OF SHARI'A SUPERVISION AT MACRO AND MICRO LEVELS, (GARAS N.S., APRIL 2010)

A Shari'a advisor's role as defined in the article (Garas and Pierce, 2010): "issuing fatwas according to one Shari'a scholar's discretion with neither standardization nor relation to other Shari'a scholars" For example in Bahrain Sakana Real Estate Company, TAMEER

company, and several IFIs have *Shari'a* advisors, however their *fatwas* could be rejected by SSBs (Garas and Pierce, 2010).

SSB FUNCTIONS

- issuance of *fatwas* and decisions before executing transactions
- approving new products, contracts, and services
- auditing the procedures of implementing new products in collaboration with *Shari'a* internal auditors
- Auditing the financial statements at the year end
- Approving the distribution of net income between shareholders and investment account holders
- Finding *Shari'a* compliant solutions during the implementation of contracts
- Explaining the way of calculating the due *Zakat*, 2.5% of individual's annual wealth donated for charity as *almsgiving*
- Guiding the management in allocating the non-*Shari'a* income for charitable purposes
- Conducting workshops and lectures for management and clients

(Garas and Pierce, 2010)

TAX STRUCTURE

As per the article "*Middle East tax structuring and opportunities revealed*" (Cole et al., 2010) all the GCC nations have a corporate tax system, however the tax rates are below the global average of approximately 27%. Some of the states offer tax exemptions, however majority of these exemptions are reserved for the citizens of the region. Taxation is primarily charged on a residence basis, and key tax exemptions are decided based on separate criteria, which is not generally available for foreign investors. Bahrain is the only exception which broadly speaking has little or no taxation outside the hydrocarbon sector (Cole et al., 2010).

The article (Cole et al., 2010) argue Free Zones within the GCC are being set up to encourage foreign investment and in an attempt to promote certain industries. The two main advantages to the foreign companies are custom duty exemptions, tax holidays, and above all 100% foreign ownership, which is largely restricted in GCC region. Treaty Networks (Cole et al., 2010)- the Direct Taxation Treaty (DTT) network is not as extensive as Europe and America, however it is an area where a lot of changes are taking place for example as per the PKF's "*Kuwait Tax Guide 2012*" (April 2012) Kuwait is a signatory of the Arab Tax Treaty and the GCC Joint Agreement, which allow for avoidance of double taxation in most of the areas within the GCC, and other comprehensive double taxation treaties are available with many countries such as U.K., China, France, Germany, Italy,

Turkey, Jordan etc. Kuwait also has limited double taxation agreements in terms of income generated from international sea and/or air transport with several countries.

ZAKAT (ALMS & TAX)

As per the Deloitte report: "*GCC powers of construction 2010, Building the future and growing stronger*" (Deloitte, 2010) local firms based out of Saudi Arabia, or are subject to nominal religious tax 'Zakat' (alms giving). Similar to other nations in the GCC region, Saudi Arabia charge corporate income tax on foreign companies. In case a foreign firm decides to enter into a joint venture with a Saudi firm, only the share of taxable earnings attributable to the non-Saudi firm would be subject to 20% corporate income tax in addition to the 5% withholding tax applicable on the distribution of dividends to the non-resident shareholder, while the Saudi partner firm in this case would be liable to 'zakat', at fixed-rate tax of 2.5% "*levied on the higher of taxable income or what is sometime referred to as the "balance sheet" basis*". Balance sheet basis computations comprise of shareholder equity plus long term liabilities less fixed assets. Tax returns must be submitted within 120 days of the year end. In case the taxable income before expenses is in excess of SR (Saudi Rial) 1 million, the tax return has to be qualified by a licensed qualified accountant.

PUBLIC -PRIVATE PARTNERSHIP (PPP) MODEL

Infrastructure development for any nation is a long term objective, which has sound economic, social reasoning as its base. Governments across the world have experience in planning for long term projects, however governments within the GCC region, with limited Railway Industry are looking for partnerships to be able to tap into expertise of corporations outside the GCC in the spheres of infrastructure planning, technology, engineering etc. The story is similar if you move to other industries like the hydrocarbon sector, waste management, energy, power and water desalination plants.

Hodge et al. (2011) in the book: "*International Handbook on Public-Private Partnerships*" draw out the main categories of partnerships that are exist in the modern day PPP model:

1. Institutional co-operation for joint production and risk sharing
2. Long term infrastructure contracts (LTICs), wherein the stress is to deliver on the requirement of outputs in long term legal contracts (as demonstrated by UK PFI - Private Finance Initiative)
3. Public policy networks
4. Civil society and community development
5. Urban renewal and downtown economic development

LTIC type of "PPP project generally involves the design, construction, financing, and maintenance of public infrastructure or a public facility by the private sector under a long term contract." (Hodge et al., 2011)(pp.7). PPP projects need to be evaluated on various parameters, however in a nutshell what is important is to review the impact of the project on government, business firms taking part in it, and its impact on society & community (See Figure 40. below) (Hodge et al., 2011).

Goals	Stakeholders		
	A Government	B Business	C Citizens/ community
1. Political/ governance	+ / -	+ / -	+ / -
2. Economic/ financial	+ / -	+ / -	+ / -
3. Social	+ / -	+ / -	+ / -

FIGURE 40. CONCEPTUAL FRAMEWORK FOR EVALUATING PPPS, (HODGE ET AL., 2011)

"LTIC-type PPPs will continue to promise advantages to governments and those groups that are part of the PPP industry. And in the face of new market instabilities and our continuing search for economic growth in increasingly uncertain times, PPPs will continue to put forward as an appropriate method for the delivery of public infrastructure projects and programs." (Hodge et al., 2011)

FINANCE IN INFRASTRUCTURE PROJECTS

As per the article *"The Essential Elements of and Issues in Project Finance"*, R. Lartey (Lartey, 2011) suggests that there are three main decisions connected to the project finance. First, is an investment decision linking an industrial asset (includes infrastructure projects as well) to the project. Second, it involves creation of a legally autonomous entity to be the owner of the asset, as a consequence of which this denote a form of off-balance sheet finance i.e. the project asset and liabilities, do not come into view on the sponsor's balance sheet when the number of sponsor's is more than one. Third, is the financing decision relating to non-recourse debt in such a manner that the debt can be prearranged without recourse to sponsors for the reason that of legal independence on the part of the project company. This permits the lenders (the capital providers) a claim on the project assets, and cash flows without apprehension for the sponsor's financial state or for pre-existing demand on their assets. In relation to financing big infrastructure and capital intensive projects the period of 1980's witnessed governments moving away from using their own resources to unconventional sources of financing projects.

The banking industry also plays a vital role in project finance. But any project borrowing supported by a single bank could pose a restraint, and risk to the project. This is mainly due to the fact the banks have to finance these long term loans using short term deposits, which could hamper the capacity of a bank to continuously support a project. The author (Lartey, 2011), states that for infrastructure projects, most of the project finance would involve a syndicate of banks, so that the risk is collective borne by the lenders. Lartey(2011) illustrates the main differences in corporate finance and project finance to bring out the relevance and applicability of the two (see Figure 41. below) (Lartey, 2011).

Dimension	Corporate finance	Project finance
Financing vehicle	Multi-purpose organization	Single-purpose entity
Type of capital	Permanent - an indefinite time horizon for equity	Finite - time horizon matches life of project
Dividend policy and reinvestment decisions	Corporate management makes decisions autonomous from investors and creditors	Fixed dividend policy - immediate payout; no reinvestment allowed
Capital investment decisions	Opaque to creditors	Highly transparent to creditors
Financial structures	Easily duplicated; common forms	Highly-tailored structures which cannot generally be re-used
Transaction costs for financing	Low costs due to competition from providers, routinized mechanisms and short turnaround time	Relatively higher costs due to documentation and longer gestation period
Size of financings	Flexible	Might require critical mass to cover high transaction costs
Basis for credit evaluation	Overall financial health of corporate entity; focus on balance sheet and cashflow	Technical and economic feasibility; focus on project's assets, cash flow and contractual arrangements
Cost of capital	Relatively lower	Relatively higher
Investor/lender base	Typically broader participation; deep secondary markets	Typically smaller group; limited secondary markets

FIGURE 41. CORPORATE FINANCE VS. PROJECT FINANCE, (LARTEY, 2011)

In his report, "*The Essential Elements of and Issues in Project Finance*", author Lartey (2011) says that the project finance is a way for a sponsor to secure off balance sheet

financing, and the real benefit of the project finance can be seen in the risk being spread over a group of interested participants. This, at the same allows execution of really large projects. Moreover, securitization of assets, range from traditional methods of mortgages, pledges, debentures which require some sort of collateral to new tangible and intangible forms of security endowed with by the borrowers. The main stakeholders in project finance are:

- Government
- Sponsors or Equity providers
- Nonrecourse Debt providers
- Operators
- Construction/Engineering Consultants
- Design and planning consultants
- Equipment suppliers
- Social and environmental impact assessment consultants
- Affected communities

The author, as a word of caution adds, that project finance face higher costs of setup or services, long-term debt (reduces the liquidity of project's debt), long development period, incorrect demand estimation, and delays due to government policy changes and approvals. The set up of infrastructure costs is very high, and generally the end user of such facilities is not willing to pay the requisite price. The transaction costs are quite high, as the information or updates on the project are necessary in repeated intervals, and involves high level of monitoring and contract based agreements. The yields of the projects could also be impacted by the long duration of time taken by financial and legal consultants to structure the finance for the project. Even if an organization is able to overcome the above hurdles, there remains the conflict of interest, where the interest of the private investors is in profits, while the governments is ultimately interested in national security, the end benefit to the people of the nation. In today's global scenario it is important to get the requisite social, and environmental impact assessment done before, and during the project, which only increases the cost of the project (Lartey, 2011).

RISKS IN PROJECT FINANCE

The main role of the project finance is to share the overall risk, while private investors share it with a motivation for a high rate of return, the government is concerned with how much of the risk it is able to pass on to the other participants through hedging or contracting agreements. The web of risk is much more complex as each of the involved party is aiming to optimize risk by transferring it to someone else (Lartey, 2011).

The main risks that need to be assessed prior to investing in a project are the revenue risk (governments can allocate projects on differential revenue basis), financial risk (risks associated with changes in inflation), political risk (policy changes, changes in tax rules), construction risk (cost and schedule overrun), operational risk (issues relating to maintenance, management, facility maintenance, escalation in costs), legal risk (changes in law), developmental risk (bidding requirements, planning, mobilization of funds), technical risk (engineering and design failures, quality checks), environmental risk, and natural hazards (Lartey, 2011).

BBR faces foreign exchange risk, country risk, political risk, while local companies in the GCC could face competition from BBR in the future. Both BBR and local companies face economic exposure wherein the cash flows of both the parties could get impacted. BBR could look at possible monetary impacts of country specific investment's currency devaluing or revaluing, changes in GCC's monetary and fiscal policy as it can alter the expected returns and perceived relative value of financial assets, which in turn could alter exchange rates. Here it is extremely important to assess the political risk in terms of government interference and secondly, political events that could hamper the business (Lartey, 2011).

Political Risk - *"that uncertainty stemming from unanticipated and unexpected acts of governments or the organizations which may cause loss to the firm"* (Theodorou, 1993).

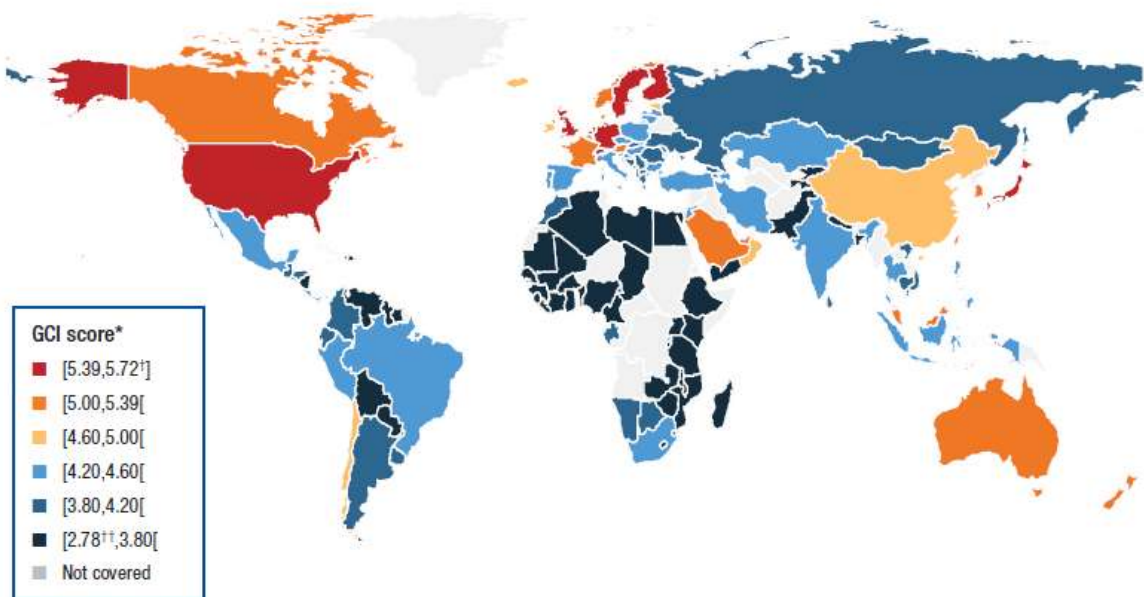


FIGURE 42. COMPETITIVENESS FROM ABOVE: THE GCI HEAT MAP, WHEREIN GCC REGION ARE PERFORMING STRONGLY, (SCHWAB KLAUS, AUGUST 2012)

Global Competitiveness Index (GCI) 2012-2013 rankings out of 144 countries and 2011-2012 comparisons (SCHWAB KLAUS, AUGUST 2012)

	GCI Rank	
	2012-2013	2011-12
Saudi Arabia	18	17
U.A.E.	24	27
Qatar	11	14
Oman	32	32
Kuwait	37	34
Bahrain	35	37

Please note: We have provided the Risk Scoring Tables in ANNEXURE III

We will now proceed with examining the case for Balfour Beatty Rail and analyse through theoretical frameworks what it would take for this organisation to successfully internationalise (by self) into the GCC regions, if they ever wish to do so.

DECIDING INTERNATIONALISATION REQUIREMENTS FOR BALFOUR BEATTY RAIL

ABOUT BALFOUR BEATTY RAIL

Balfour Beatty Rail (BBR) is headquartered in Atlanta, U.S., and is a division of Balfour Beatty Plc. UK. It is an international rail engineering, design, and construction company for public and private railroad markets. BBR's engineering and design division covers the initial stages of rail infrastructure feasibility, construction design (preliminary to detailed design) for permanent way, overhead line, traction power supply, electrical, and mechanical design, followed by testing and commissioning support (Wikipedia, 2012a, BBR, 2012).

BBR's knowledge base and customer focus enables it to provide sound sustainable support structure to its clients for maintenance, and infrastructure asset performance for better operational efficiency using Ultrasonic Rail Flaw Testing, Track Geometry, Infrastructure Gauging, infrastructure applications such as Points Condition Monitoring, and software solutions such as DataMap™ and AssetView™ that provide data analysis to drive 'predict and prevent' based maintenance. Company's install and implementation division covers the project management throughout the various life cycle stages of construction (Wikipedia, 2012a, BBR, 2012).

SWOT ANALYSIS FOR BALFOUR BEATTY RAIL

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for **Strengths, Weaknesses, Opportunities, and Threats** (Friesner, 2010, Humphrey, 2004). SWOT frameworks are used for a variety of reasons, from actual business planning, strategic planning, competitor evaluation, marketing, and research reports. In larger business or project planning process the framework is widely recognized method for gathering, structuring, presenting and reviewing extensive planning data (Humphrey, 2011, Piercy and Giles, 1989). The key to a successful SWOT analysis is to realise that it is subjective, the organisation should try and be realistic about the analysis and they should realistically distinguish between the present state of the organization, and where it is headed towards in future, without bias. Grey areas, complexity, and over analysis should be avoided (Piercy and Giles, 1989, Friesner, 2010).

Here, for the purpose of conducting a SWOT analysis, we required ample data from BBR, but BBR deemed it unnecessary in the context of this research. However, we felt it necessary to at least include a section on SWOT, specifically tailored to companies like BBR from a perspective of being operational in GCC markets, which could be used as a guide in future, if required as follows:

STRENGTHS *would comprise:*

- Strong leadership, management cover, and succession
- Strong financial reserves and likely returns are expected
- Unique human capital resources owned by the organisation
- Strong Upward and Backward integration
- Strong industry linkages with prominent companies and local firms
- Strong community support
- Strong support from local governments and organisations
- Low cost of operations
- Effective control over prices of raw materials and cost
- Industry leader in innovation
- Industry leader in technological aspects
- Accreditations, qualifications, certifications

WEAKNESS are perceived, in addition to the opposite of above factors and the following factors, all of which cannot be remedied of short periods of time

- No presence in the GCC region
- Weak linkages in the industry
- If the firm finds it difficult to secure financial commitments
- Company faces cash-drain
- Lack of morale and commitment in the organisation
- Reputation of the firm is negative in the target market
- New/Weak/Inexperienced partnerships and joint ventures
- Weak supply chain networks or hedging capabilities
- The quality of portfolio of offerings are undifferentiated or inferior to competition
- Location attributes drive down cost efficiencies

OPPORTUNITIES and threats are external factors wherein opportunity could be identified as:

- Developing political linkages
- Prospective mergers, acquisitions, JV's or other strategic alliances in future
- Ease in securing capital
- Financial stability, liquidity, and Cash Flow
- An international market segment that suits the positioning and proposal of the company
- Market developments
- Contractors, Supply Chain, distribution, partnerships
- Information and research
- New USP's
- Competitors' vulnerabilities

- Industry or Manufacturing trends
- Technology development and innovation
- Global influences, raw material price fluctuations
- Supply contracts, hedged sourcing, and stability
- Market data shows the exit or ineffectiveness of competitors or any vacuum created by the entry and exit of other entities (Govindarajan and Kopalle, 2006) in the region or market that enables organisation to take advantage of the situation.
- Weather and terrain influences
- Geographical, export, import
- Tactics: eg, surprise, major contracts

THREAT could be elaborated on several attributes such as (Piercy and Giles, 1989, Friesner, 2010)

- Political conditions and considerations, regional instability, change in leadership
- Change of government or monarch
- Loss of key staff
- Political Bias
- Legislative and Regulatory changes
- Economic conditions- home and abroad
- Vital contracts and partners
- Tender specifications
- Price and cost efficiencies that erode the strategic plans of the organisation
- Sub-contractor bankruptcies
- Competitor intentions
- Sustaining internal capabilities
- Weather and Terrain effects
- Logistics and Supply Chain vulnerabilities
- Environmental effects and compliance
- Technological developments
- The existence or entry of existing competition or new ones in the market
- Whether any of the competitors have developed/introduced, any product or service that enables them to leapfrog competition (Schumpeter and Backhaus, 2003),
- Whether competitors have superior access to key decision makers, operations and supply chain networks, contractors and sub-contractors, raw materials, human resources etc (Sawhney et al., 2011).

Now we would analyse the concepts of internationalization along with explaining why a firm needs to clearly assess the real business it is into.

INTERNATIONALIZATION, MARKET PRESENCE, & BUSINESS MODEL

In *"The Theory of the Business"* developed by Peter Drucker (Drucker, 1994), he examines that in troubled times *"what to do"* is increasingly becoming the central challenge for organisations, where big companies that have enjoyed long-term success, the superstars of yesteryears find themselves stagnating and frustrated. The assumptions on which the organizations were built in the past, the algorithms of success, sometimes get embedded in

their conscience as the only way forward. He explains that this is a worldwide phenomenon and where these crises develop *“not through things being done poorly, or from wrong things being done, instead it is that the right things are being done – but fruitlessly”* (Drucker, 1994).

Drucker emphasizes that the *“real assumptions should be about markets, but about identifying customers and competitors and their values and behaviours, about technology and its dynamics, about a company’s strengths and weaknesses, in effect, about what a company gets paid for”* (Drucker, 1994).

THE 1ST STAGE: RECOGNISING “WHO WE ARE”

In a book titled *“What They Don’t Teach You at Harvard Business School”* author M.H. McCormack (McCormack, 1986) cites a classic case:

The former chairman of Rolex, Late Andre Heiniger was having lunch with the author, when an acquaintance greeted Andre and casually asked him how his ‘watch’ business was doing. Heiniger simply smiled and replied, “I haven’t the slightest idea”. Seeing his acquaintance smiling, Heiniger retorted, “No, Rolex is not in the watch business. Rolex is in the luxury, in the status business” (McCormack, 1986).

If then Rolex is in the luxury and status business, the very definition of its competition and markets changes dramatically, in this case its competition becomes *“not other watch manufacturers but other status symbols providers, such as gold pens, rings, jewels, being a member of prestigious social clubs, the acquisition of a higher priced car, and so on”* (e Sá et al., 2011). Here our suggestion is that, if a firm assess what its business really is, it can devise and innovative upon ways that would reduce the time, effort, and mandate required to satisfy the needs of the customers, endear them, and win in the market place.

There are different ways of approaching foreign markets and the inherent investments that would have to go with them. BBR has not currently established its full presence in the market even though the latest information provided to us was that the BB part of DUTCO BB joint venture has currently taken form of BBR in the region, which constitutes BB construction group morphing itself into BB Rail (Kurian et al., 2012d). If this type of morphing has any specific advantage over competition, operations, resource management, knowledge of railways, and industry specific administration, we do not know. But this we contend would not constitute a real presence for BBR in the region because the inherent knowledge and character of BBR cannot be morphed in totality overnight by simply wishing so on paper or in person.

In the groundbreaking article, *"The Work of Leadership"*, authors Ronald A. Heifetz and Donald L. Laurie (1997) argue that it is critical in order for an organisation to survive and thrive in new business environments that leaders should mobilize their own organizational people and help them to adapt their behaviour to those environments. In the same manner that leaders reach their positions of authority by virtue of their competence, they too should allow their people to do the same. Adaptive change can be distressing for people when they take on new roles, new relationships, new values, new behaviours, and new approaches to work but in general, before an organisation takes on these challenges many of these people/employees are ambivalent about the efforts and sacrifices required of them. For the authors, in their experience, leaders have to break a longstanding behaviour pattern of providing solutions. The solutions should come from the *"collective intelligence of employees at all levels"*, where they *"use one another as resources, often across boundaries, and learn their way to those solutions"* (Heifetz and Laurie, 1997). Doing so, would destroy complacency and challenge *"the way we do business"* (Adams, 1991, Drucker, 1994) and *"help others distinguish immutable values from historical practices that must go"* (Heifetz and Laurie, 1997).

Of course, current management teams from other parent owned companies present in the region can help BBR in adapting to the region in a speedier manner, but in order to prove real presence, BBR would have to prove that it has 'effectively' answered certain pertinent questions about what the company represents, its strategic outlook, internationalisation, local competitiveness, cultural adaptability, human resource planning, and effective relationships management; a few of which we have presented below.

When a firm starts with a proposition for exploring market and business opportunities, the firm needs to know exactly what the focussed **'path'** of the business should be (*we deferred calling it 'mission' due the redundancy of the term since Richard Rumelt's coining of mindless mission and vision statements as mere fluff (Rumelt, 2011)*). Defining the path vaguely or in terms of money, to obtain profits, or to grow; is absolutely worthless (Knights and Mueller, 2004, e Sá et al., 2011). With a clear definition of the elements; the essence of its future actions can be readily communicated and grasped by the people who need to build the path based on the strategy.

We do not mind risking our reputations by suggesting here that BBR probably should not classify their business as being in the Railways infrastructure business but in the *business of providing efficient transportation solutions through Inter-Consortium-Inter-Industry-Inter-Government relationships* and hence, the reason for the title our research project. It

has to be noted that within the GCC region, *Firstly*, no single entity ever gets an entire project on their own as it is always a consortium consisting of different market players that join together to compete in a bid or tender, win the bid and complete the assigned project. *Secondly*, *winning players are usually those who are very well known within the government* (see section on 'WASTA') *and who maintain very close relationships within and outside the industry* (Hutchings and Weir, 2006, Manda, 2011). *Thirdly*, the contracts are always executed and implemented through local sub-contracting companies, all pointing towards this being the relationship management business and not merely juggling with British technical expertise in railways (Kurian, 2012, Kurian et al., 2012a, Kurian et al., 2012c, Kurian et al., 2012d). After having established a well-defined and focused path to follow, an organisation needs to answer **how** it is going to achieve that path. We will now provide alternative theoretical perspectives on strategy to ascertain why and how organisations should define their organisational paths in international markets.

THE 2ND STAGE: EXPLORING STRATEGY OPTIONS

Researchers and leaders agree that it is acting upon the unique abilities and comprehensive knowledge that a firm has about self and its environment and how it uses that unique knowledge to carve out a successful existence within a given environment (Authors' perspective). But the everlasting debate is the key question of what actually constitutes a strategy (Markides, 2004).

Costas Markides (Markides, 2004), in his article "*What is strategy and how do you know if you have one?*", argues that if a company contends to place an effective strategy before it starts exploring, it is imperative that they define their organisational parameters, namely by asking as Markides states: "*Who will be its targeted customers and who it will not target?, What products or services it will offer its chosen customers and what it will not offer them?, and How it will go about achieving all this, what activities it will perform and what activities it will not perform?*" (Markides, 2004).

Our second theoretical perspective uses three main elements with an additional dimension on globalization. In an article '*From Levitt to the global age*' by Jorge e Sa', Fa'tima Olaño, and Magda Pereira (e Sá et al., 2011), the authors revisit Theodore Levitt's proposition on strategy (Levitt, 1993) and his perspective of globalisation preceding what he deemed was the death of the multinational corporation (Levitt, 1993). Herein, E Sa' et al. suggest that organisation should define the following dimensions:

1. Detailing the exact product or technology on offer (Burgers et al., 2008) but by carefully observing that the same product can be based on several alternative technologies.
2. Defining the need it serves for the targeted client (Burgers et al., 2008), and thereby introducing innovations if required to fulfil those needs.
3. Defining the clients themselves, based on Hanan's perspective (Hanan, 1974) that by carefully defining the customer or client, the practice of thereof, would not just make it more specific, precise targeting, but also create a company which is more responsive to the client's needs.

A final, fourth element is added to the above dimensions (e Sá et al., 2011) namely; *Globalisation*, based on the location of the client i.e. by gathering specific knowledge about the *Geographical area*, *Distributions channels* and *Time* dimensions in which the company would operate in the region.

THE 3RD STAGE: INTERNATIONALISATION & THE NEED FOR LOCAL PRESENCE

International trade and investment, it seems, under the strain of global recession has swung like a pendulum back to Adam Smith's '*Absolute cost Advantage*' theory (Ingham, 2004). International firms are facing the cost equation irrespective of their expertise or comparative advantage, the competition has further intensified due to loss of opportunities elsewhere. In one of our interviews it was noted BBR recently quoted a price in a tender that was almost double the price quoted by other consortiums (Kurian et al., 2012d). We might advise, that a solution would be to quote a price that beats the competition next time, but we wish, it could have been as simple as that.

In our view, the situation that BBR faced/s developed not due to their misjudgement about cost and risk structures but due to their relationships within the region and their relative absence from the region. For understanding this we would have to look at the theory of internationalisation of the firm proposed by researchers, Jan Johanson and Jan-Erik Vahlne in the Department of Business Studies at Uppsala University, Sweden. Their model has been the result of over 30 years of painstaking business network research based on empirical observations since the mid-1970's (Johanson and Vahlne, 2009). Their empirical observations have contradicted the established economics and normative international business literature of the time that argued '*firms choose the optimal mode for entering a market by analyzing their costs and risks based on market characteristics and taking into consideration their own resources*' - e.g. (Hood and Young, 1979) (Johanson and Vahlne,

1977). The theory provides us with a better understanding of the situation and explains why it is important for firms like BBR to be in a position where they should not act distantly and have first-hand experience of analysing the available opportunities to make efficient investment decisions on ground. The theory focuses on a firm's gradual entry into foreign markets (internationalisation) where the firm has relative psychic distance but wants to incrementally increase commitments in those markets; explained as a process of going from 'outsidership' (the quality of maintaining market presence from a distance or outside the periphery of a country) towards 'insidership' (that is the quality of presence within the market).

The same authors, in their revised 2009 edition, *'The Uppsala internationalization process model revisited: from liability of foreignness to liability of outsidership'*, argue that insidership is a much preferred state for a firm seeking internationalisation and that, maintaining distance from the market places firms at a severe disadvantage compared to firms that are fully present in the market – *"and so by the same token there is a liability of outsidership"* (Johanson and Vahlne, 2009). Basing their arguments on empirical observations of firms in international markets, the authors explain the usual process for the *establishment chain* (Johanson and Vahlne, 1977); firms first start with ad hoc exporting measures through deals with intermediaries or agents, after a certain progress is attained firms replace their agents with their own sales organization, and when even further growth happens, firms establish manufacturing operations in the market to overcome the trade barriers. As a consequence firms change, basically by learning from their experience of *"operations, current activities in foreign markets, and through the commitment decisions in the foreign market"* (Johanson and Vahlne, 1977).

The major dimensional aspects of internationalisation are: Creating lasting relationships with important key stakeholders along with building trust, with greater commitment to partners, and to accumulate knowledge over time (*language, culture, customs, etc.*) and thus to make a firm competitive. Developing relationships was seen as being very important, even though activities took long periods of time to develop and were susceptible to failure.

By developing relationships, firms get engaged in business relationships with other firms and because these latter organisations also form their own relationships, the former firm becomes a part of a wider business network. These webs of connected relationships are labelled as *business networks*. Networks help firms expand their knowledge of the market, and being part of a wider network, where they are indirectly engaged in a knowledge

creation exercise that extends far beyond their own abilities. These advantages would not accrue to firms if they were to act at a distance from the market (Johanson and Vahlne, 2009).

The authors studied the effects of forming alliances and partnerships with incumbent firms. They suggest that forming alliances was better than none, even while having associated risks with trust and commitment issues. Once that is established, in a network, a firm can start exchanges that allow them to acquire knowledge about *inherent relationships, others partners, resources, needs, capabilities, strategies, and other relationships beyond what is feasible as a lone entity*. Partners are indirectly a source of relevant business information about their other partners and more distant actors who could be the key decision makers in an economy or in the network. Networks helps in uncovering the important actors in the market and to establish relationships with those actors faster than would be possible from a position of *outsidership* (Johanson and Vahlne, 2009). At least we found one reason that defeats the functionality of ‘Skyping’.

Lastly, on the issue of exploring business opportunities, they suggest, that learning and commitment are strongly related to identifying and exploiting business opportunity but *opportunity-seekers* (Johanson and Vahlne, 2009) should concentrate on what ‘they’ know, what their own people learn rather than on what others say. A firm should *be in a position to focus its own internal resources for the privileged knowledge rather than relying on news from other entities* (Johanson and Vahlne, 2009).

THE 4TH STAGE: MARCHING INTO THE BATTLE GROUND

In “The Five Major Elements Of Strategy”, authors Donald Hambrick & James Fredrickson (2005) argue that if a business must have a strategy, then the strategy must necessarily have parts. These parts provide answers to five questions: **Arenas**; *that explain where will the business be active*, **Vehicles**; *that explain how will the business get there*, **Differentiators**; *that explain how the business will win in the market-place among the competitors*, **Staging**; *that explains what will be the speed and sequence of moves*, and finally **Economic logic** *that explains how will the business obtain greater returns on its investments* (Hambrick and Fredrickson, 2005)

ARENAS

“This is the most fundamental choice among strategists, about where the business will be active”. It is important to categorise as much as possible, about the *“product categories, market segments, geographic areas, and core technologies, as well as the value-adding*

stages” (e.g., product design, manufacturing, selling, servicing, and distribution) the business intends to take on. *“In choosing arenas, the strategist needs to indicate not only where the business will be active, but also how much emphasis will be placed on each”* (Hambrick and Fredrickson, 2005).

VEHICLES

Beyond arenas, the strategist needs to decide how to get to the chosen arenas. *“Vehicles here mean the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage”*. If the company has decided to *“expand their product range or reach, are they going to accomplish that by relying on organic, internal product development, or are there other vehicles—such as joint ventures or acquisitions”* (Hambrick and Fredrickson, 2005)—or that offer a better means for achieving our broadened scope? If the company is committed to international expansion, what should be their primary modes, or vehicles—*greenfield startups, local acquisitions, licensing, or joint ventures*? There can be considerable uncertainty in deciding vehicles but that uncertainty may vary immensely depending on the way the entry is made for example *licensing technologies from other firm or by acquisitions*. Authors reiterate, *“Failure to define the vehicles can result in delays, increased costs, or the entry itself being stalled”* (Hambrick and Fredrickson, 2005).

Hambrick and Fredrickson (2005), note that research shows that companies that use ad hoc measures without an over-arching logical algorithm, will be at a severe disadvantage compared with companies that have such coherence.

DIFFERENTIATORS

Differentiators define how the firm will win in the marketplace. Differentiators require leaders to make up-front, conscious choices about *“which weapons will be assembled, honed, and deployed to beat competitors in the fight for customers, revenues, and profits”*(2005). Differentiators include unique *propositions, branding, advertising, marketing, media management, and Public Relations*. The authors argue that *“having the best combination of differentiators confers a tremendous marketplace advantage”*. This can happen only when companies use deliberate choices, without which they usually lose in the intended markets (Hambrick and Fredrickson, 2005).

Differentiators should be unique and should create an image of *“wantability”*. Propositions *“should be consistent with the firm's resources and capabilities, and, of course, highly valued in the arenas the company has targeted”* (Hambrick and Fredrickson, 2005).

STAGING

The above three choices constitute *the substance of a strategy* but this substance cries out for the speed and sequence of *major moves to take in order to heighten the likelihood of success* (2005). Staging decisions include (in order of priority); **resources** of funding, staffing, asset layouts. The second is **urgency**, meaning to take advantage of the available opportunity of an window of opportunity (Kurian et al., 2012a). A third factor is the achievement of **credibility** among stakeholders. A fourth factor, but not the last, is the pursuit of **early wins**, meaning achieving doable objectives with finesse first and then taking other challenges (Hambrick and Fredrickson, 2005).

ECONOMIC LOGIC

Every strategy should have a clear idea of how profits will be generated that are above the firm's cost of capital. Revenues that are above costs soon get eroded by competition (Green and Scotchmer, 1995). Hambrick and Fredrickson (2005) advice that customers pay higher prices for products in only exceptional circumstances like luxury products, and also that costs will be lower than competition only in exceptional circumstances. The idea is to create circumstances where either the customers are '*willing*' to pay higher prices or the company finds '*innovative means*' to lower costs. These concepts should be rooted in an organisation's fundamental and enduring capabilities.

However, there is something missing still; all the above information could be ample enough to initiate action, arriving at the destination, and establishing presence. But in the Arab region it does leave a vacuum in understanding the key to securing and exploiting business opportunities. So we researched further, talked to local organisations and regional experts and discovered a unique relationship factor that is unlike any other relationship factor known to the Western business world, which determines the success and failure of ventures within the region. This element, to us, is also the biggest *ceteris paribus* quotient for success. It is the power of '*Wasta*' (Cunningham and Sarayrah, 1993, Weir, 2001, Demirbag et al., 2003, Hutchings and Weir, 2006, Weir, 2003).

THE 5TH STAGE: WINNING THROUGH THE UNIQUE POWER OF WASTA

Among Western businesses, the emphasis is on the immediate transaction itself, the focus is heavily placed on *“getting the deal done as fast as possible”*, where relationships or friendships are developed later as a separate function to the business transaction (Hutchings and Weir, 2006). But the rules in the Arab World are exactly the opposite. The basic rule of business here is to establish a relationship first, build connections, and *“only actually come to the heart of the intended business at a later meeting”* (Cunningham and Sarayrah, 1993). Though this process is very time-consuming, once a relationship has been established, *“the verbal contracts are absolute and an individual’s word is his/her bond and failure to meet verbally agreed obligations will certainly lead to a termination of a business relationship”* (Hutchings and Weir, 2006).

Wasta involves the *“exercise of power, influence, and information-sharing through social and politico-business networks”* (Hutchings and Weir, 2006). Western business people see *wasta* through the positive connotations of networking and negative connotations of *corruption, portraying nepotism, cronyism, and corruption* (Hutchings and Weir, 2006), but this should not be taken as the real meaning of *Wasta*. In fact, it is *“literally defined as Arabic for connections or pull and may be utilised as a form of intercession or mediation”* (Hutchings and Weir, 2006).

Wasta as mediation binds families and communities for peace and well-being in a hostile environment and this is believed to benefit society as a whole. Additionally, *intercessory wasta* involves a protagonist intervening on behalf of a client to obtain an advantage for the client. When there are many seekers of the same benefit, *“aspirants with the strongest wastas are usually successful”* (Cunningham and Sarayrah, 1993). For example, in its relation to bidding for projects, Western administrators usually negotiate with only one organisation at a time after initial quotes have been received, but in the Arab World the deal winner will usually be the one with the strongest *wasta* connections (Cunningham and Sarayrah, 1993, Hutchings and Weir, 2006).

BUILDING TRUST

“Relations of trust between business partners are paramount to successful business transactions in the Arab World. Trust is associated with the importance of one’s word over legal documents. Trust in the Arab World is rooted in Islam and faith in God” -(Hutchings and Weir, 2006). Westerners have hard time reconciling with such agreements, as the

majority rely on formal agreements and legally-prepared and signed contracts. The authors (Hutchings and Weir, 2006) argue that using legal or juridical constraint to regulate traditional forms of networking, usually fail because they are intrinsically “*tied to trust, social structures, and family connections*” (Weir, 2003).

When trust has been established, *one’s word* (notice the unique language itself) can be taken in business transactions. Verbal accords do not signify weak agreements, they hold real value in the Arab World, for, to go *against one’s given word is to lose face and trust* (Demirbag et al., 2003). In businesses, Consultation or *Shura* type of mediation is central to business relationship in the Arab World. This also means that consultation gives the right to appeal decisions and put matters in terms of one’s own benefit (Demirbag et al., 2003).

UNDERSTANDING FAVOURS FROM A CULTURAL PERSPECTIVE

“*Exchange of gifts and personal visits to meet people is steeped in tradition, and is tied to wasta. This notion of favours is generally regarded as having negative connotations, where it often puzzles or offends Western managers*” (Cunningham and Sarayrah, 1993). This should not be construed as an attempt to influence the judgement of a recipient but should be interpreted merely as a mark of respect (Cunningham and Sarayrah, 1993) among people. Gifts and personal visits should be seen as similar to branding in the West, as a tool to reserve a “*share of a person’s mind*” (Wheeler, 2009). But the authors also noted that in difficult economic times, the search for a wasta “solution” intensifies (Hutchings and Weir, 2006).

IMPLICATIONS OF WASTA

So the idea that business development happens (everywhere) only through formal business relationships, participating in bids, showcasing brand equity of the company, or participating in trade fairs is a myth, a purely western corporatized view, and does not hold true with Arab societies, even if they might accommodate westernised views of conducting business (Hutchings and Weir, 2006). Maintaining distance and formalizing relationships through placid business-centric interactions is highly undesirable in this region. For example, getting public relation officers (PRO) or agents to interact with partners, officials, administrators (Kurian et al., 2012d), or key decision can be viewed as an insult, an unnecessary relapse of trust and respect, a forcing of classical Alderian *inferiority complex* (Adler, 1927) onto culturally sensitive people without really intending to do so. Such measures could lead to increasing the psychic distance (Johanson and

Vahlne, 2009) and alienation of organisations and its people (Okruhlik, 2004, Hutchings and Weir, 2006, 2006).

A thorough education on family-run businesses needs special attention here and organisations need to train their international managers how to manage what may not be directly acknowledged or discussed. One of the key issues identified by researchers and practitioners alike was intercultural effectiveness of international managers through *Cross-Cultural Training (CCT)* (Hutchings and Weir, 2006). *Organisations should avoid placing all their efforts on the product/service delivery and invest in cultivating strong wasta in the region* (Hutchings and Weir, 2006, Cunningham and Sarayrah, 1993). In this context *“there is no substitute for achieving a good reputation for honest dealing. Indeed, any inference relating to such topics as “corruption” may be very bitterly resented”*. The successful international manager is one who recognises this pre-existing state and who works slowly but surely towards gaining the trust of his/her Arab counterparts (Cunningham and Sarayrah, 1993, Demirbag et al., 2003, Hutchings and Weir, 2006).

Considerations of status are especially important in the Arab World and one must not force the pace too early. All this should be seen in addition to professionalism and set global business standards and not in a vacuum. Also, reputations once lost, even inadvertently, will not be recovered easily if at all (notice similarity to the concept of ‘Ira’ discussed below) (Weir, 2001, Demirbag et al., 2003, Hutchings and Weir, 2006).

“As the great military strategist Von Clausewitz famously observed “time spent on reconnaissance is seldom wasted” and this recommendation is exceedingly relevant for the region. It is imperative to arrive early, stay late, to be available for socialisation and to make it clear that one is available for repeat visits. The best way of securing opportunities is to be there and to give off the appropriate signals that one is available for the long haul and that one’s organisation has made commitments to that effect and to be prepared to ask seemingly “dumb” questions about Who is Who and to Whom they are connected”. Source: (Hutchings and Weir, 2006)(pp. 285)

LOYALTY GETS PAID IN GOLD

“The Saudi BinLaden Group was founded in 1931 by Mohammed bin Laden. Mohammed bin Laden's enormous financial success was ascribed to a shrewd business sense, fealty to Saudi Arabia's rulers, reliability and a willingness to offer the lowest bid on construction contracts. As the “royal builder,” he forged close relationships with the royal family, particularly with Prince Faisal of Saudi Arabia. In

1964, Prince Faisal began rebuilding the kingdom after the wasteful excesses of the Saud era and despite the rising oil wealth, the kingdom was in severe financial distress. King Faisal accepted Mohammed bin Laden's offer of financial assistance to support the national economy and as a reward, King Faisal issued a royal decree awarding all future construction projects to bin Laden's construction company -SBG. Source: (Wikipedia.org, 2012b, Jacquard, 2002)

P. Mohamed Ali is a Non-resident Indian businessman and is the founder and Managing Director of Galfar Engineering and Contracting Co. He is currently ranked as the ninth richest Indian in the Gulf region by Arabian Business.com. He started his career in Oman as a teacher. Recognizing his talents and contribution to the welfare and education to society, the Oman Government awarded him "Civil Order Grade Three" award. Source: (Wikipedia.org, 2012c)

OTHERS GET THE BOOT

Some instances are simply unfortunate and act as reminders for political prudence. A report published online by arabianbusiness.com (McGinley, 2012) reports that a Saudi billionaire cancelled with impunity, several billion worth of contracts of multiple firms hailing from Russia:

*“Saudi tycoon Mubarak Swaikat has canceled a number of multi-million dollar oil and gas contracts with around 20 Russian companies, in protest at the Moscow government’s support for Assad’s regime in Syria, according to reports at the weekend. Saudi tycoon Mubarak Swaikat said he made the decision to cancel the petrochemical contracts without any pressure from the kingdom’s authorities and as a show of support for those fighting in Syria, the Kuwaiti news site Al Aan reported on Saturday. “This is the least that I can do to support our brothers in Syria,” Mubarak was quoted as saying. “The Saudi government and society have already given a shining example of selflessness and donations to make their Syrian brethren happy and support them in their time of need,” he was quoted as saying by the website. **Riyadh and Moscow have clashed over the ongoing fighting in Syria and in March Saudi officials hit back at Russian allegations the kingdom was “supporting terrorism in Syria”.** Source: (McGinley, 2012)*

IMPLICATIONS FOR BUSINESS DEVELOPMENT AND THE INHERENT MODELS

“The wise leave the road and find the way; the unwise cling to the way and lose the road”- an ancient Chinese proverb from, “The Book of Leadership and Strategy” compiled and written by Thomas Cleary (Cleary, 1992)

There are simply two options for Balfour Beatty Rail. One is to remotely access the region through a combination of available alliances and Balfour Beatty Group subsidiaries and win random projects by quoting the lowest cost in tenders. The other is to create its own projects with the active support of the governments over the long-term by developing local presence in the region and initiate blue ocean competencies. Now we will develop the latter option below.

THE QUESTION OF LEADERSHIP

“Chairpersons and CEO’s play golf, while Monarchs, Kings, and Queens compare Thoroughbreds at play” – Authors.

Developing key relationships among key people and organisations within this industry pertains directly to the leadership in organisations. The Arab Society was built on the basis of an individual’s unbiased commitment to his clan, his clan’s unbiased commitment to his tribe, and the tribe’s unbiased commitment to *one Chief- the senior member of the clan* (Hitti, 1996). The Arab psyche has been, since millennia, moulded to depend on the wisdom and strength of their leaders. They expect the same from other leaders too irrespective of their place of origin. Decisive leaders with a good sense of direction, wasta, and commitment towards communities are highly respected and preferred over other types of leaders. Our research shows that leaders hailing from UK and US are preferred over leaders hailing from other nationalities due to the relevant historical connections with the region.

The leadership function, as our research and interviews prove, cannot be delegated to organisational people or senior teams, and certainly not to the infamous public relations officers in the region. Delegation of key leadership functions means a weak leadership in the Arab World (*seen from a historical context, this means a leader who himself does not know the way and who will lead them to doom and death in the unforgiving desert environment (Hitti, 1996)*). Additionally, organisational people are expected to emulate the practices of their leaders. Meaning, the tone of relationships, cultural leanings, and

communications are to be set, not by in-house posters, emails, or contextual textbooks but purely by the leaders themselves, in person. The Chinese, whose *Quanxi* is the local equivalent of *Wasta* (Hutchings and Weir, 2006), have a famous proverb: “When people are influenced by their rulers, they follow what the rulers do, not what they say” ancient Chinese proverb (Cleary, 1992).

CREATING BLUE OCEANS

In the multiple award winning book “*Blue Ocean Strategy*” authors W. Chan Kim & Renée Mauborgne (Kim and Mauborgne, 2005, Kim and Mauborgne, 2012) argue that companies today, engage in head-to-head competition for sustained, profitable growth through traditional understandings of competitive advantage, market share, and differentiation. This results in a bloody “*red ocean*” (2005) of competitors fighting over predetermined market share and profits. The authors offer several alternative paths to circumvent such situations. A full exposition of the theory and its inherent frameworks has been provided in Appendix I.

CONTRASTING RED OCEAN VS BLUE OCEAN

Figure 43 below demonstrates the difference between Red Oceans and Blue Oceans. The emphasis is on changing the characteristics of the offerings so that they transform their presence from red-oceans to blue oceans.

Red Ocean vs Blue Ocean

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation <i>or</i> low cost	Align the whole system of a firm's activities in pursuit of differentiation <i>and</i> low cost

FIGURE 43: SOURCE:(KIM AND MAUBORGNE, 2012)

IMPLICATIONS

Wasta clearly is one of the best ways to circumvent competition. Current news reports (Mallet, 2012) point to this fact clearly and especially indicating rail contracts (Mallet,

2012). *Wasta* is not just a formality but it provides an effective and efficient means to circumvent competition and also reduce the time and cost associated with business establishment and development.

Relationships need not be so direct as well. We noted within our research that rail infrastructure projects provide mass employment opportunities at several levels. Meaning, that they also have trickle down effects on local communities at both micro and macro-economic levels. The GCC region is currently plagued by high unemployment among its youth population, which is set to grow in the coming decades. This is forcing local communities and so governments too, to promote concepts like “*Saudisation, Emritization, and Omanisation*” that we had explored in our PEST analyses. This means that companies, that provide better employment and welfare opportunities for the local communities, especially the youth, will not only develop better relations with those communities along with their support (Porter and Kramer, 2011), but also benefit from the extended support of their governments too, when needed.

Our interviews clearly confirm this, with claims, that in the future, governments would be ready to provide several key incentives and underlying unprecedented support to firms that support their objectives in the region. Both the above points relate to what Kim and Mauborgne termed as “value innovation”, i.e. creating powerful leaps in value for both the firm and its buyers and what Porter and Kramer (2011) stressed as “*Creating Shared Value*” among communities. According to Porter and Kramer (2011), “*shared value*” involves creating economic value in a way that also creates value for society by addressing its needs and challenges. The authors remark that the concept is often misunderstood and taken as a form of social responsibility, philanthropy, or even sustainability, which it is not. A clear exposition of the concept is implied.

A prime example of a successful combination of *Wasta, Blue oceans through shared value systems, and the consequent business success* in the Arab World, is that of the Bechtel Corporation of USA. Though the initial investment in time and capital to implement such practices and to further develop the supporting clusters was considerable, the return it got from conducting its business in the prescribed format, was a greater than expected return in economic value, long-term business viability, with broader strategic benefits for all participants including the entire GCC region itself. The latter benefit, over a period, converts to a recurring cycle of growth and prosperity.

Additionally, these same teams of local employees, their communities, and other consultants can help their companies in generating the “*privileged knowledge*” in markets

that Johanson and Vahlne (2009) mentioned earlier. In relation to BBR, these networks can help identify operations and supply chain networks that would help reduce its associated costs and risks significantly and finally lead to a lower bid price in tenders too. This lethal combination is not just lucrative but also the most viable business option in future.

Once strong relationships are established with key players in the region, support functions like sourcing of capital resources, finances, energy resources, raw materials, and human resources can be centrally handled with the help of command and control centres established by the key themselves. The implications here are, first the sourcing strategy can be affected in smaller time spans with multiple efficiencies, the success of the outcomes is assured, the costs of both procurements and operations are greatly reduced, and finally the risks associated with operating as an independent organisation can be effectively brought under control.

The latter point also aligns with groundbreaking project management process known as the "*Rapid Results Initiatives - project planning process*", that explains how "*project teams execute their tasks flawlessly, on time and under budget, and yet the overall project fails to deliver the intended results*" (Matta and Ashkenas, 2003). This process was proven to mitigate large scale project risks namely; "*execution risks*": risks that the designated activities won't be carried out properly, "*white space risks*"; that some required activities won't be identified in advance, leaving gaps in the project plan, and finally the "*integration risks*"; that the disparate activities won't come together at the end (Matta and Ashkenas, 2003).

As far as bidding for rail infrastructure projects in the region is concerned, the pattern observed by us (as a matter of local as well) was that companies, depending on their specific advantages and portfolios form a consortium under a single umbrella organisation headed by a leading local firm (usually owned by any prominent royal family member). Here too, the importance of effective relationships is highlighted. Firms with weaker *wasta's* have no other option than to join consortiums that do not represent the interest of key people within the economy and vice versa. So once a consortium is formed it can then formally bid for rail contracts.

Now we will explore the implications of forming regional alliances.

FORMING STRATEGIC ALLIANCES

In their article, "*Strategic Alliances: Choose your partners*", Keith Brouthers, Lance Brouthers and Timothy J. Wilkinson argue that managers of firms looking for alliances often forget the importance of conducting long range planning and warn that strategic alliances are risky business where foreign entrant might simply be required for gaining technical competence by the local firm (Brouthers et al., 1995).

In terms of the Arab World, strategic alliances will determine the success of BBR in the region. Implications are for establishing relationships with companies that are highly appreciated and supported by the government or the monarchy.

OTHER KEY CHARACTERISTICS TO LOOK IN COMPANIES ARE AS FOLLOWS:

1. Partners can leverage their specific competitive advantage
2. All members should feel the need for cooperation
3. The potential for making a real contribution are present
4. Partners are willing to give to and take from one another
5. The management is competent, and when the top management within the partner firms can be cordial and focused towards common goals
6. Goal assessment is very important; a successful alliance must be based on compatible goals
7. Alliances must at the start provide for a clear distribution of risks

(Brouthers et al., 1995)

IN CHOOSING STRATEGIC ALLIANCES, THE AUTHORS SUGGEST KEEPING FOUR CONSIDERATIONS AS PRIME:

COMPLEMENTARY SKILLS

Complementary skills include an examination of skills, technologies, markets, the partner's experience, capabilities, potential for making a real contribution, and the willingness to give to one another in equal measure. (Randall, 1989, Brouthers et al., 1995, Clarke and Brennan, 1988).

COOPERATIVE CULTURES

Cooperative alliance cultures can become especially difficult to maintain between firms originating in different countries. The most important aspect is the respect for cultures among alliances. This needs a buy-in at all levels of the organization or company, and if this becomes difficult, the authors suggest that it should be enforced aggressively. Peer

relationships between the top management of partners should be well established even before the alliance starts. (Brouthers et al., 1995).

Birkinshaw, Hamel, & Mol detail the dangers of indulging too much in cooperative cultures and other niceties, where one firm may inadvertently relinquish its unique core technology, ability, or knowledge to the other firm. Here gate-keeping is highly recommended (Birkinshaw et al., 2008).

COMPATIBLE GOALS

Here, the company should evaluate the goals for each partner and understand how each other's goals and objectives will effect will affect their success in future and also understand the boundaries and the limits that each should not cross. Alliances that are simply set up for gaining access to the partner's core competencies, merely extinguishes the trust among members and sends a wrong signal about the company to the market (Brouthers et al., 1995).

COMMENSURATE LEVELS OF RISK

Every venture, small or big has risks. Though different in nature, risks exist in different forms in alliances and ventures. If nothing is at risk there is less of an incentive to stay together (Lynch, 1990). Sharing the risks reduces the overall level of risk in the alliance, this involves both financial as well as risks of competition, and intelligence sharing. Distributing risks is the hallmarks of a good strategic alliance (Brouthers et al., 1995). Also acknowledging of mutual dependency helps build a cordial relationship and strengthens a strategic alliance (Brouthers et al., 1995).

UNDERSTANDING OTHER ESSENTIAL ASPECTS

UNDERSTANDING THE SOCIETY AND ITS CULTURE

Organisations wanting to effectuate their presence in the region also have to develop traits that are aligned to the culture of the region. There are several instances where cultural orientation has helped corporations to achieve tremendous success in the region, like the Bechtel Corporation of USA, responsible for conceptualizing (Hori, 1990), convincing the King of Saudi Arabia (Hori, 1990), and finally executing the World's largest civil engineering project - the Jubail Industrial City project (Engstrom and Hejji, 1982) and they have never looked back. They are now involved in the Khalifa Port and Khalifa Industrial Zone Abu Dhabi (Kizad) in Abu Dhabi, noted to be one of the world's largest combined port and industrial zone in the world (Davidson, 2009).

On the other hand, misaligned cultural value systems of Western organisation accustomed to dry relationships (Little, 2004) often create mammoth failures. This is illustrated in a book *"The Kingdom and Ike"*, written by Nathan J. Citino (Little, 2004) with his compelling account of the clash of cultures between multinational oil executives and local oil workers in the Saudi desert during the Eisenhower years.

"ARAMCO, with Washington's blessing, embraced a paternalistic "welfare capitalism" during the early 1950s to counteract rising anti-American sentiment among the disgruntled labor force in Saudi Arabia's Eastern Province. Unfazed by the firm's offer of more vocational education and better health care, Palestinian immigrants and native Shi'ite oil workers complained that ARAMCO's managers "treated the Saudis the same way they treated blacks in America," proclaimed their solidarity with the pan-Arab cause, and launched a week-long strike in October 1953, - necessitating major political and military intervention in the affairs of the company and the region".

This is not to say that organisations from outside the region have not had their share of the grievances in the region. But our point is exactly that, in the absence of an understanding of cultural and communication patterns of a region, actions and activities solely meant to reap efficient returns above the cost of capital, might instead lead to regional alienation, conflict, and confrontation, and finally loss of opportunity in the region. If a firm, like BBR, seeks *insidership* in the GCC region, it should conduct research and training for its management on specific *Arab cultural and communication patterns* (Feghali, 1997), mainly on three themes, namely: (a) *BASIC CULTURAL VALUES*, (b) *LANGUAGE and VERBAL COMMUNICATION* (c) *NONVERBAL AND PARALINGUISTIC PATTERNS* (Feghali, 1997, Adler and Gundersen, 2008). Now we shall discuss these in detail.

PRIMER ON CULTURAL COMMUNICATION PATTERNS

Ellen Feghali's (1997) article "*Arab cultural communication patterns*" is an excellent primer on cultural communication patterns in the Arab world (with an additional emphasis on understanding the term 'Arab' (pp. 346-350)). In the book titled, "*International Dimensions of Organisational Behavior*", author Nancy Adler (Adler and Gundersen, 2008) provides a few examples:

"A British boss asked a new, young American employee if he would like to have an early lunch at 11 A.M. each day. The employee answered, "Yeah, that would be great!" The boss, hearing the word yeah instead of the word yes, assumed that the employee was rude, ill-mannered, and disrespectful. He then cancelled his offer saying, "With that kind of attitude, you may as well forget about lunch!"- (pp. 71)

"A Japanese host talked with his American guest late into the night at the host's house and suddenly asked with apparent embarrassment whether he could sleep with his guest in the same room. The startled American interpreted it as an act of sexual advancement. The American later understood that in Japanese tradition it is the greatest honour given to a guest, meaning trusting someone with your life while you slept by his side"- (pp 91-92)

We now list the socio-cultural characteristics of the Arab world.

BASIC CULTURAL VALUES

The different *subtle* societal values considered prevalent in Arab societies are *Endurance, Rectitude, Loyalty, Dignity, Generosity, Courage, Self-respect, Pride, Rivalry and Revenge*. These get displayed in very subtle manners and are not evident immediately. And the most commonly mentioned (displayed) values in society are (a) *COLLECTIVISM*, (b) *HOSPITALITY*, and (c) *HONOR* (Feghali, 1997).

COLLECTIVISM

Communal cohesion is most desired. While western societies portray self-reliance and "*individualistic approach to life, Arab societies project loyalty to one's extended family and close community networks as being more important than individual needs and goals*" (Nydell, 2006, Masliyah, 1999). Within this approach, respect for elders takes prominence as contrasted with peer-orientation in western societies. In contrast to individual character or achievement in western societies, family background and social class is the

determining factors for personal status in Arab societies (Nydell, 2006). Behaviours which enhance social relations are crucial.

HOSPITALITY

Arabs are taught *hospitality* very early on in life and is considered a highly desirable trait. '*Zakat*' (Zysow, 2005, Murtuza and Ghazanfar, 1998) or alms giving was born out of hospitality. *Prestige* however, is manifest in one's making few visits to others, while receiving many. Greetings, visitations, and gift-giving between people are highly appreciated. *Main source:* (Feghali, 1997)

HONOR

Honor or '*ird*' as it is locally known, is one of the most important values that Arab societies project and protect within their communities, especially women, who are expected to conduct themselves properly and maintain a chaste reputation (Weisfeld, 1990). *Main source:* (Feghali, 1997)

LANGUAGE AND VERBAL COMMUNICATION

The role of language in Arab World is to act as a "*veil over the reality of the culture in which it is used, involving an agreement of its users about what there is to be seen and how it should be seen*" (Kim, 2002) The noted characteristics of Arabic language are: A) *Multiple forms of Arabic* are spoken within the region; B) *Codeswitching*; representing a switch between various known languages (*Arabic, French, English* etc.) and finally; (c) *The communicative style* among people.

Please note: In order to remain within the context of this study, we will only elaborate only on the Communicative styles and Nonverbal and Paralinguistic patterns prevalent in the Arab World.

COMMUNICATIVE STYLE

There are common features of communicative style in the Arabic society which may conflict with styles of other language speakers and include: *Repetition, Indirectness, Elaborateness, And Effectiveness* are explained here. *Main source:* (Feghali, 1997)

REPETITION

Researchers often witnessed repeated reiterations of formulas and the swearing of oaths was very high. Pious formulas include "*inshallah*" meaning "if God wills it", "*el hamdulillah*" meaning "Thanks be to God", and "*sm 'allah*" meaning "In the name of God" (Feghali,

1997). Arabs have been noted to use proverbs and preceded ritualistic phrases to praise others. So repetition is at the very heart of the language and discourse (Feghali, 1997).

INDIRECTNESS

During conversations Arab speakers often conceal their desired wants, needs, or goals. This is often mistaken as deviousness by westerners but it should not be seen in that manner as it is a measure of courtesy and face-saving, with no connection to truthfulness. (Feghali, 1997).

The “*let’s get down to business*” style of westerners often creates disagreements. The tactic of shouting, table-banging, loss of temper, or display of annoyance is considered a serious mistake and *avoidance of confrontation is a precondition of any successful business*. For example, the author notes that “*once an Arab is angered and his pride aroused, he becomes immovable*” (Feghali, 1997).

ELABORATENESS

Elaborateness refers to rich and expressive language. Such a style is often used to establish credibility of the speaker in order not to be misunderstood by the listener. While Westerners use short sentences to express themselves, (Samovar et al., 2009). Using short expressions with Arabs often creates distrust about the speaker (Patai, 2002).

AFFECTIVENESS

The fourth characteristic of Arabic communicative style relates to organizational patterns and “*the presentation of ideas and arguments wherein Arabs use persuasion type of speech.*” (Feghali, 1997) In its totality, to avoid confrontations and negative stereotyping at any levels, Arab speech should be analysed through the context (e.g. codeswitching from Arabic to other languages like French, or English). Main source: (Feghali, 1997).

NONVERBAL AND PARALINGUISTIC PATTERNS

Feghali (Feghali, 1997) cites various sources to explain Arab nonverbal communications such as: *GESTURES, TOUCH, INTERPERSONAL DISTANCE, ATTITUDE TOWARD TIME, AND PARALINGUISTIC’S*.

GESTURES

There are considerable differences of gestures between Arabs and Westerners, and added to the interpretations of gestures of both is also highly skewed and “*subtle physical*

differences that amount to great semantic variations” (Feghali, 1997). We recommend that readers interested in exploring this should solicit the help of consultants.

EYE CONTACT

While members of Arab communities selectively utilize a predominantly indirect verbal style, they interact with a direct body orientation. Direct eye contact between same-sex communicators for extended periods is quite usual while lowering gaze signals *“submission, expected of religious persons with strangers of the opposite sex or politeness in children being chastised”* (Safadi and Valentine, 2009)(pp. 279).

TOUCH

Arab societies have been commonly accepted as “contact” cultures. People tend to stand close together and touch frequently. Touching in Arab societies “replaces” the bowing and handshaking rituals of other societies. Public display of intimacy between men and women *“is strictly forbidden by the Arab social code, including holding hands or linking arms or any gesture of affection such as kissing or prolonged touching”*. Both Arab and Westerners maintain considerable distance (around 5 feet) with strangers, but for Arabs, proximity with acquaintances and friend’s usual narrows down to around 2 feet for Arabs. Main Source: (Feghali, 1997)

ATTITUDE TOWARDS TIME

Describing her personal experiences in her book; *“The Saudis: Inside the desert kingdom”*, Sandra Mackey (2002) writes that many departmental decisions are usually delayed. This is usually out of an Arab’s concern (the fear of losing pride) for a decision to be wrong.

“In my work at the Ministry of Planning, projects would be in limbo for weeks, waiting for decisions to come from Saudi officials. And then suddenly work that should have taken a month at a reasonable pace had to be completed within a week. Time after time I saw decisions made in government and in business that had predictable consequences - (Mackey, 2002) (pp. 129)(Feghali, 1997)

Arab societies do not adhere to schedules, clocks or calendars. Time provides merely a reference point, and simultaneous involvements are common. The importance of *maintaining pride and face is related to bureaucratic gridlock and problems associated with long-range planning* (Zaharna, 1995, Feghali, 1997). One may find that bureaucracies are often unusually cumbersome and unresponsive. Local managers meeting a person at a

predefined appointment usually accept phone calls, interruptions and extended visits from others (Safadi and Valentine, 2009).

PARALINGUISTIC

Paralinguistic's-or vocalizations define how something is said. In Arab societies it is defined on the lines of *volume and rate of speech, intonation, use of silence, and the role of smell* (Samovar et al., 2009) (further reading is requested). Feghali (1997) noted that Arabs tend to speak fast and loudly usually at a decibel level that is considered aggressive, objectionable and even obnoxious by Western standards. In reality however *loudness* connotes *strength* and *sincerity*, while a *soft tone* implies *weakness* or even *deviousness*" (Feghali, 1997). Sometimes, Arabs information-seeking questions in English might sound accusing. (Safadi and Valentine, 2009).

In conclusion, we will leave you with certain scenarios that we think are the most probable in the region if the trends continue to grow into the long term. Also the section below gives the good reasons to stay invested in the region over the long term.

REASONS TO STAY INVESTED IN THE LONG TERM

While it is fine to note all the current developments in the region related to rail infrastructure, our research shows that the firms that are able to maintain their presence beyond the short-term will be the ones who would reap the real gold in the region. Looking at the report above, it is easy and natural to relate only to current business opportunities in the region. And we do not doubt it at all. The data above clearly shows how prospective and lucrative the markets remain presently. But Rail infrastructure investment currently totalling close to US \$ 200 billion or more represents just 14-15% value of total investments planned in the interim period of 5-10 years (see our report "Analysing the Economic Potential of GCC"), meaning that a gigantic amount has been allocated for developing other sectors of the economy too. Noticing this trend and the volume of total investments in the region, we paused and asked ourselves, "*Why are these massive investments being planned?*" "*For what rational logic are these regions investing so heavily on all sectors?*" "*What are the factors governing such investments?*" So we researched other sectors as well and their cumulative effect within the economies. We came to realise that these governments are actually planning, not only for the immediate

future, but also for periods beyond the 20-30 year period. This we believe and what our research clearly points towards is that the economies of GCC want to ***become the leading global hub for services, manufacturing, and allied services industry in the future, similar or probably multiple times better than all the emerging economies of the world including China and India.***

We will now present our scenario for the future, that we have come to believe is consistent with the data that we have gathered while conducting our research. But first we will analyse the basis of our mammoth implications.

UNIQUE FACTORS THAT WOULD MAKE GCC THE POWERHOUSE OF THE FUTURE

THE FIRST FACTOR

The first factor is the region's unique political landscape. One has to be reminded again that the constitutional leaders are not democratic institutions but self-appointed monarchs and their own bloodlines. This is unimaginable in the Western world, where either democracies or their capitalist variants operate even with Royals in the foreground. The advantage of their political situation is that, there is a single command and control mechanism at play in each country. Each of these countries has similar religions, aspirations, goals, challenges and also very similar revenue sources. So taking unified investment decisions, without multiple interferences that other democracies provide, is not only desirable, but also efficient and fast, *ceteris paribus*. The governmental institutions and other public institutions are not answerable to divergent democratically elected groups or parties but to the monarchs, wherein these institutions (indistinguishable from private or public institutions) act like giant corporations performing on the parameters set by the monarchs, and trained and focussed for fulfilling shareholder objectives similar to Western corporations.

In the recent past, several attempts have been made by powers unknown to bring the Arab World under the rule of democratic governance, but we contend that such democratic political environments do not fit this region. Instead, the regional leaders should continually improve the governance model while adding more value for their local communities and provide their citizens with other effective means for participation in the development of the region.

Different to other political leaders in the region, these leaders have not been a complacent lot. On the contrary, several of them have proved time and again, their phenomenal

leadership traits and capacity for producing repetitive business successes both within their regional periphery and around the globe. In terms of the results, they have in the shortest span of time (around 30-40 years) evolved from being nomadic dwellers to the richest people on earth. Several of them have established (rather entrenched) their business interests in several parts of the developed and developing economies, meaning they not only generate trillion-dollar revenues from their country's macro and micro economic institutions, but also from the global empires they have partaken in, constituted themselves, or established through their agencies. They have proved, time and again, to be the real trendsetters in terms of innovation as well, Dubai being the prime example (Weinberger, 1994) and also the passion for successful growth in several business sectors around the world, let alone within their constituencies.

In an interview with Fortune magazine writer Barney Gimble, Tom Pritzker, chairman of the Global Hyatt hotel company, remarked:

"These guys (the region and its leaders) are very important to our growth and stability (Global economy), because at their core they are simpatico to our values and approach to life. They are smart, sophisticated, and well trained - they could just as well be working at Goldman Sachs or Blackstone."(Gimbel, 2007)

THE SECOND FACTOR

The second factor relates to the fundamental constituents of an economy; the land, labour, and capital of a country. Here the land belongs to the country (with certain deliberate loopholes for increasing FDI in their countries), the laws governing the ownership of property is directly managed by the monarchs.

The natural resources of a country are its treasures and simply extracting them and exporting them constitutes a huge loss to governments everywhere. For them in-turn importing the by-products or products produced from raw materials they had exported constitutes short-sightedness, as they end up paying several times the revenue reaped from exports or concessions. These countries have recognised these pitfalls and have since several decades reinvested their revenues into building the required infrastructure and relevant industry to manufacture, grow, and maintain these specific resources through banks, mammoth industrial units, and supply chain logistics companies. Few excellent examples being SABIC (KSA), STC (KSA), Nakheel (UAE), Samba Financial Group of Saudi Arabia, National Bank of Kuwait, the Jubail Industrial City and Complex I & II, and the upcoming 417 square kilometre Khalifa Industrial Zone, to name a few big ones in the vast corporate ocean of these regions.

Coming to labour, there are very few nations on earth where the population of foreign labour and expatriates actually outnumber the local population 60:40. For these countries this is an advantage (Mueller, 1996, Wernerfelt, 1984, Weir, 2003) labour here is cheaper (compared to labour resources in the Western World), efficient, skilled, persevering, and hard-wearing (relative to their capacity for working in extreme climatic conditions for an equal or greater number of hours).

THE THIRD CONSTITUENT

The third constituent, capital (with an emphasis on monetary elements), is directly or indirectly managed by multiple institutions belonging to the state or the monarchs, royals, and their bloodlines. This effectively means that the monetary supply, inflow, and outflow of capital can effectively be controlled, albeit certain minimal constraints set by local religious regulations, the Islamic Laws. Additionally, we noted earlier that these countries are still dependent on revenues generated by their natural resources of oil, natural gas, minerals, and metals, which suggest that they still are rentier states. But that is fast changing. But being a rentier state dependent on energy resources also means that their capital inflows far outweigh their capital outflows (relational), making the entire set-up a very lucrative proposition considering that the region currently supplies 40% of all oil and natural gas requirements of the globe. For example, Kuwait's economy grew at a mind-numbing 485% in 1970's and 80's (IMF, 2012b).

THE FOURTH FACTOR

The fourth factor is the land resources that these countries currently own and share among themselves (the lack of country to country borders (CIA.org, 2012a)). Contrasted to countries like Japan, Korea, India, China, these countries are gifted with massive tracts of uninhabited land endowments with only very little population density even in their metropolitan regions, meaning they still own large untapped reserves of land that can be used for various industrial purposes. Khaldoon Khalifa al Mubarak, who runs the government-owned investment company Mubadala Development in Abu Dhabi, mentioned to fortune Magazine reporter Barney Gimbel (Gimbel, 2007);

"We move fast,"... "Think about it: How many places in the world can you say, 'I'm going to establish an airline,' and boom, two years later you have 21 planes and 37 destinations? How many places in the world can you say, 'I need 15,000 hotel rooms,' and boom, you have 100 new hotels in the works? How many places can you say, 'I want world-class hospitals, universities, and museums,' and boom, the Sorbonne, Cleveland Clinic, Guggenheim, and Louvre are on the way?" The other states are no

different. The entire region is noted to be the richest in the world, in terms of the per capita income. Source: CNN Money online, 2007 (Gimbel, 2007)

THE FIFTH FACTOR

The fifth factor is the chronic lack of drinking water in the region (Arabstats-UNDP-POGAR, 2008, CIA.org, 2012a), but that, we contend will soon become an advantage for these countries. All GCC nations had started investing in water desalination plants long before any other country thought it necessary to invest upon. And if we take these investments as a measure of competitive advantage owing to gap in time (or years) before anyone else invested into such an industry at such a scale (Porter, 1985, Porter and Millar, 1985, OLIVER, 1997, Wernerfelt, 1984), we have in front of us, countries that are years ahead of others in their competitiveness to produce and become the global leaders for supply of portable and drinking water, especially when they already have decades of experience in global operations and supply chains to handle liquid/fluid resources like oil and natural gas supplies (water having the same properties). Imagine for a moment if someone finds a way for transforming water into gas and then converting that gas back into water. Then add to that knowledge, GCC countries existing knowledge of global operations and supply chain networks. The implications are at least beyond our comprehension, but worry not, as the regional rulers are spending billions of their oil revenues doing just that, while others simply ignore the growing scarcity of water and mock these countries dilemma.

Clark et al. (2010) provide an interesting quote in their research article: *"The structure of ambient water, Molecular Physics: An International Journal at the Interface Between Chemistry and Physics": "The unusual properties of water continue to haunt us in developing a unified understanding of the physical behaviour of common, everyday liquids. D. H. Lawrence's quote "Water is H₂O, hydrogen two parts, and oxygen one. But there is also a third thing, that makes it water. And no one knows what that is, (I believe God knows)" emphasizes a primal view of the centrality of water to life, at least as we know it on earth."*(Clark et al., 2010)

The region has also seen some the best educational standards been set, for example Bahrain has one of the best educational institutions and standards in the world (Weinberger, 1994), followed by Qatar, UAE and others. They have also started to liberalise their communities from religious constraints, meaning they are slowly introducing sizeable population of females into the skilled and educated workforce, further strengthening their economies. Others factors are their common religions,

customs, history, lineage, and traditions (and many more factors) that gives this part of the world several unique features and advantages.

Caspar Weinberger (1994), Forbes Writer, writes about what he personally witnessed in the GCC region: *“As in Saudi Arabia, the U.A.E.'s economy has traditionally been based on oil and gas, but they now account for only about a third of GDP. We...were struck by their extraordinary, rapid development as well as by their rulers' foresight, which is promoting the expansion of the nonoil economy. Abu Dhabi, which has more than 100 years of oil reserves, is also developing other aspects of its economy. It has been most successful in attracting both light and heavy industry...The U.A.E. is noted for its open economy and liberal trade policies. There are virtually no restrictions on imports and no foreign exchange controls, and there is an average tariff of only 1%. Imports and exports combined totaled more than the U.A.E.'s GDP in 1990. Nonpetroleum exports are increasing steadily as the government encourages diversification to lessen dependence on oil...There is no personal taxation, and most businesses are not taxed. Both the federal and local governments in the Emirates spend large amounts of money on schools to maintain a trained and educated work force, with primary, secondary and university schooling provided free of charge...It is difficult to overemphasize the remarkable development of the Emirates. Less than 40 years ago the region was virtually nomadic, except for the small economy based on pearl fisheries...Americans unfamiliar with business opportunities in the Gulf region, especially in the Emirates and Bahrain, should learn more about the extraordinary success many American and foreign companies now enjoy under a climate singularly hospitable to profitable investment.”* – Source: LANDS OF OPPORTUNITY. By: Weinberger, Caspar W. Forbes. 6/20/1994, Vol. 153 Issue 13, p33-33.

The reader should notice the fact that if the governments need to establish and mature entire industrial empires including cities, complexes, and townships, they have to be supported by the inclusion of residences for people, educational and medical facilities, entertainment complexes, water and food resources and supply networks. So, in order to prove to ourselves such grand plans, we simply studied the entire spectrum of investments across the regions and in what proportions they were being invested upon. The data we found confirmed our views that these governments are not just planning for the short term but only for the future beyond several decades, *with confirmed possibility of becoming the economic powerhouses of the future* which includes them becoming the global manufacturing and services hub of the world and where **billions of people from all over the world will constitute the workforce through high-speed rail networks.**

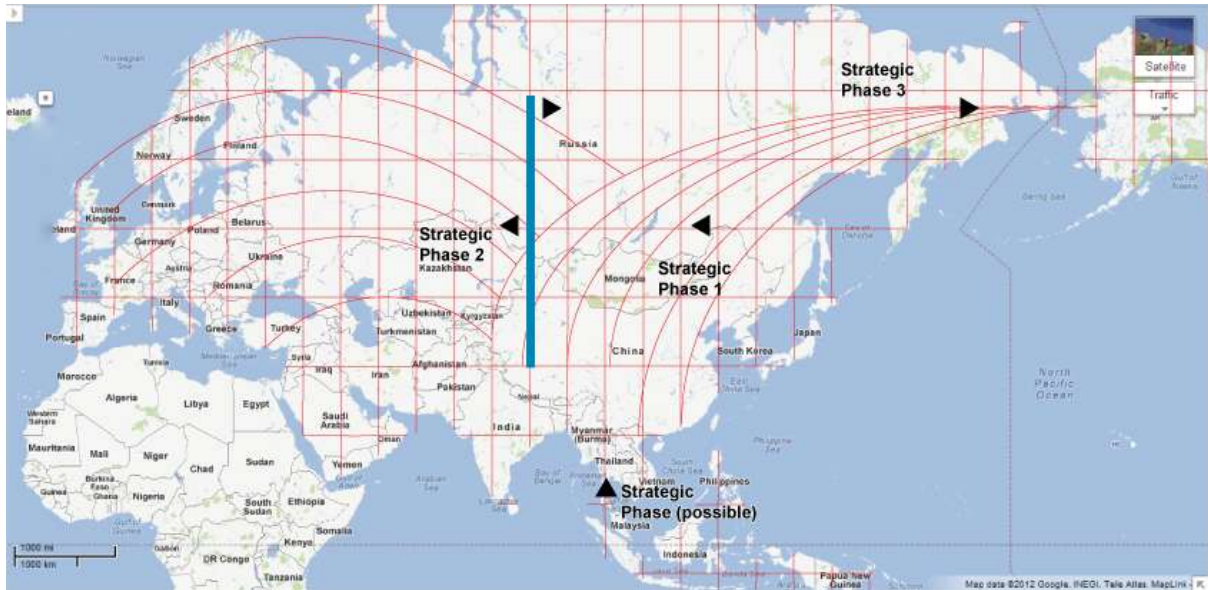
Having detailed the above factors, we will now list some of the current emerging trends that would act as proof to our words.

CONNECTING THE PRESENT TO THE FUTURE

The first sector is of course the one that is closer to our hearts and dearly researched rail infrastructure projects. Once these networks are established, these countries would be able to take full advantage of the rail networks including reducing the energy burden on their economies (*meaning more cash in the pockets*), establishing faster more efficient networks for trade, not only within the region but also to Europe, Asia, and ultimately with the Americas.



FIGURE 44: CLOCKWISE FROM TOP; SOME OF THE PROPOSED GCC RAIL NETWORKS, SAUDI ARABIA RAIL, UAE RAIL, AND OMAN RAIL NETWORKS



Global Rail networks of the future. *Source:* Authors

Secondly, the industrial complexes like the Khalifa Port and Khalifa Industrial Zone Abu Dhabi (Kizad) in Abu Dhabi, noted to be one of the world’s largest combined port and industrial zone developments, and several of them are springing up in the entire region (Davidson, 2009). These industrial units would be able to service industries and economies not just within the region but other regions too.

The table below is the lists of current projects that are underway in the region and these are just the beginning.

Sabah Al Ahmad Future City Project (Kuwait). Budget: \$ 27,000,000,000
Clean Fuels Project: Mina Abdullah (Kuwait) Budget: \$18,000,000,000
Al Khiran Residential City Project (Kuwait) Budget: \$20,000,000,000
Kingdom City Development Project (Saudi Arabia). Budget: \$27,000,000,000
Kingdom Tower Project (Saudi Arabia) Budget: \$30,000,000,000
Jubail Petrochemicals Complex Project (Saudi Arabia) Budget: \$ 20,000,000,000
Pearl GTL Project (Qatar). Budget: \$19,000,000,000
Masdar Carbon-Free City Development Project (Abu Dhabi). Budget: \$22,000,000,000
Saadiyat Island Development Project (Abu Dhabi) Budget: \$27,000,000,000
Capital District Development Project (Abu Dhabi) Budget: \$40,000,000,000
Yas Island Development Project (Abu Dhabi): \$40,000,000,000
Nuclear Power Plant Project-1 (Abu Dhabi) Budget \$40,000,000,000
Al-Raha Beach Complex Development Project (Abu Dhabi) Budget: \$150,000,000,000

Jumeirah Gardens Mixed-use Development Project (Dubai) Budget: \$95,000,000,000

Khazzan & Makarem Gas Fields Development Project (Oman) Budget: \$15,000,000,000

Source: (Editorial_staff, 2012a, Editorial_staff, 2012b)

Thirdly, all GCC nations are investing heavily in education, research and development, Water desalination plants, and various other sectors with a view to strengthen their communities to take part in the economic development within and outside the region. These countries already have strong financial services sector and world leading financial institutions that are world class in nature (Abdelal et al., 2008, Akkizidis and Khandelwal, 2008). Moreover, regional banks are regulated by Islamic banking rules and regulations that provision several financial incentives for regional, local businesses, and citizens. These sectors combined, could provide several support services without the need for external support or for cushioning risks associated with mega-projects (Akkizidis and Khandelwal, 2008). For allied information, we suggest that readers access the amazing futuristic article related to this topic, namely; *"Where oil-rich nations are placing their bets"* written by Rawi Abdelal, Ayesha Khan, and Tarun Khanna, published by Harvard Business Review, 2008 (pp 86, 119-128). Reference: (Abdelal et al., 2008)

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ANNEXURE I

THE THEORETICAL FRAMEWORKS

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STRATEGY

There are no clear and concise definitions of strategy itself, but researchers and leaders agree that it is acting upon the unique abilities and comprehensive knowledge that a firm has about self and its environment and how it uses them to compete for leadership in the marketplace with other firms or interacts with its stakeholders within a given environment. Sometimes the games can be played with such brilliance that even the need for strategy get circumvented. - Authors' perspective

BLUE OCEAN STRATEGY BY W. CHAN KIM & RENÉE MAUBORGNE

Companies today, engage in head-to-head competition for sustained, profitable growth through traditional understandings of competitive advantage, market share, and differentiation. This results in a bloody “red ocean” (2005) of competitors fighting over predetermined market share and profits. This strategy is increasingly unlikely to create profitable growth in the future

INTRODUCTION

W. Chan Kim is the Boston Consulting Group Professor of Strategy and International Management at Insead in Fontainebleau, France. Renée Mauborgne is the Insead Distinguished Fellow and a professor of strategy and management at Insead. W. Chan Kim and Renée Mauborgne had co-authored a book titled, ‘Blue Ocean Strategy’ (Kim and Mauborgne, 2005). It is a business strategy book of The Blue Ocean Strategy Institute at INSEAD. The authors believe that high growth and profits in an organization can be generated by creating new demand in uncontested market space, i.e. a “Blue Ocean”, and is different from the traditional model of competition where all organizations compete head-to-head with others in the quest to gain *existing customers in an existing industry*.

Kim and Mauborgne (2005) argue that tomorrow’s leading companies will succeed not by battling competitors, but by creating “blue oceans” of uncontested market space ripe for growth. This they have termed as “value innovation”, i.e. creating powerful leaps in value

for both the firm and its buyers. Doing so renders firms circumvent the situation of undesirable competition, make the competition irrelevant and unleash new demand and customers for their products and services. Blue Ocean Strategy thus provides a systematic approach to making the competition irrelevant.

Blue Ocean Strategy highlights the six principles that every company can use to successfully formulate and execute blue ocean strategies. The six principles show how to reconstruct market boundaries, focus on the big picture, reach beyond existing demand, get the strategic sequence right, overcome organizational hurdles, and build execution into strategy (Kim and Mauborgne, 2005).

Kim and Mauborgne recommend that companies should offer customers a leap in value while streamlining costs, with the result that profitability soars with growth, making brand equity a lasting scheme for decades. The logic is to be *counterintuitive*, where technology innovation, though important, is not the key or to link technology to what buyers value and prefer. Apple Computers is an excellent example of such strategy. Steve Jobs once quoted:

"It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them. "Our belief was that if we kept putting great products in front of customers, they would continue to open their wallets." Steve Jobs, BusinessWeek, May 25 1998 (Ramos, 2012)

The internal environment of an organization creates blue oceans, not beyond, the red oceans of existing industries. The authors suggest that companies should reduce their costs while offering customers more value. An excellent example of this is the *Cirque du Soleil* ("Circus of the Sun") is a Canadian entertainment company, offering a mix of circus arts and street entertainment. They omitted costly elements of traditional circus, such as animal acts and aisle concessions and reduced their cost structure which then enabled them to provide elements in the acts that appealed to their audiences (Berry et al., 2006)—*such as themes, original scores, and enchanting sets* (Kim and Mauborgne, 2005), all of which change year to year. By offering the best of circus and theater, Cirque created a market space that, as yet, has no name—and no equals (Berry et al., 2006).

BLUE OCEAN STRATEGY TOOLS, FRAMEWORKS AND METHODOLOGIES

[Please note: The following tools, frameworks, and methodologies have been directly accessed via the website: http://www.blueoceanstrategy.com/abo/bos_tools.html. All text within this section relates to our personal interpretation of the tools, frameworks, and

methodologies presented on the website, though every effort has been made to retain the exact nature of the theory. The differences relate to the application of the tools and frameworks to the project objectives.]

The great thing about the Blue Ocean strategy and the authors' work is that unlike other strategy tools and frameworks, the authors help decode the pattern and principles behind blue oceans, while providing analytical frameworks and tools to act on the decoded knowledge.

THE FRAMEWORKS

FRAMEWORK 1: VALUE INNOVATION

Figure 1. shows the value innovation framework, considered the cornerstone of blue ocean strategy. The steps shown is the framework, help organisations to decide the method of introducing new products, wherein they should simultaneous pursue differentiation and low cost.

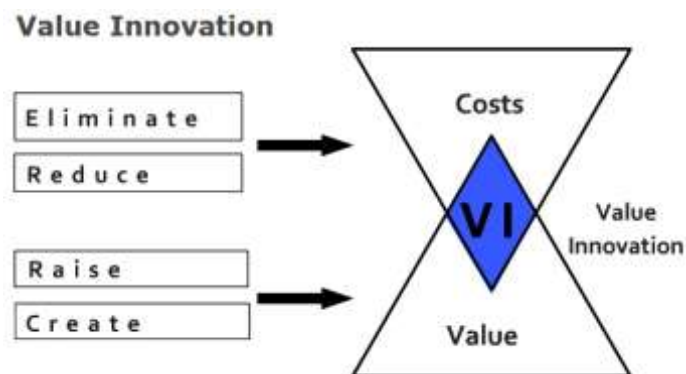


FIGURE 45. SOURCE:(KIM AND MAUBORGNE, 2012)

Value is derived from the product or service's utility without its price, and because value to the company is generated from the product or service's price minus its cost, value innovation is achieved only when the whole system of utility, price and cost is aligned (Kim and Mauborgne, 2005).

In order to estimate and derive genuine value propositions among offerings, four relevant questions to be answered are (Kim and Mauborgne, 2012)

- *What factors can be eliminated that the industry has taken for granted?*
- *What factors can be reduced well below the industry's standard?*
- *What factors can be raised well above the industry's standard?*
- *What factors can be created that the industry has never offered?*

Completing the questions are a challenging task, it drives companies to rigorously question every factor the industry competes on, and surprisingly, *making them discover the range of implicit assumptions they make unconsciously in competing.*

FRAMEWORK 2: CONTRASTING RED OCEAN VS BLUE OCEAN

Figure 2 below demonstrates the difference between Red Oceans and Blue Oceans. The emphasis is on changing the characteristics of the offerings so that they transform their presence from red-oceans to blue oceans.

Red Ocean vs Blue Ocean

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost	Align the whole system of a firm's activities in pursuit of differentiation and low cost

FIGURE 46. SOURCE:(KIM AND MAUBORGNE, 2012)

FRAMEWORK 3: STRATEGY CANVAS

Figure 3 portrays the strategy canvas. This framework captures a current state of play in a known market space, to help understanding, where the competition is currently investing and the factors that the industry competes. *It also propels an organisation to action by reorienting its focus from competitors to alternatives and from customers to noncustomers of the industry (2012).*

Strategy Canvas

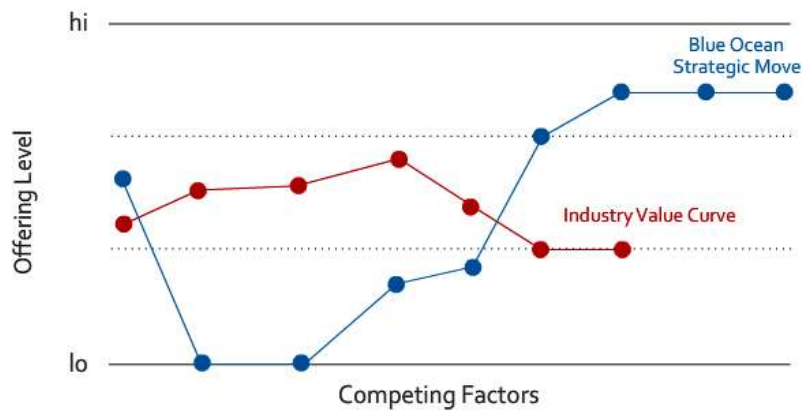


FIGURE 47. SOURCE:(KIM AND MAUBORGNE, 2012)

PIONEER-MIGRATOR-SETTLER MAP

A useful exercise for a corporate management team pursuing profitable growth is to plot the company's current and planned portfolios on the pioneer-migrator-settler (PMS) map. Here, as in the diagram, *settlers* are defined as the me-too businesses, *migrators* are business offerings better than most in the marketplace, and a company's *pioneers* are the businesses that offer unprecedented value. These are the blue ocean strategies, the most powerful sources of profitable growth and the only ones with a mass following of customers.

The company can be defined as having a low growth trajectory if the current portfolio and the planned offerings consist mainly of Settlers. This then is largely confined to red oceans (marked by red dots and need to be pushed for value innovation. Settlers might be profitable and still making money, but might have fallen into the trap of competitive *benchmarking, imitation, and intense price competition* (Kim and Mauborgne, 2012).

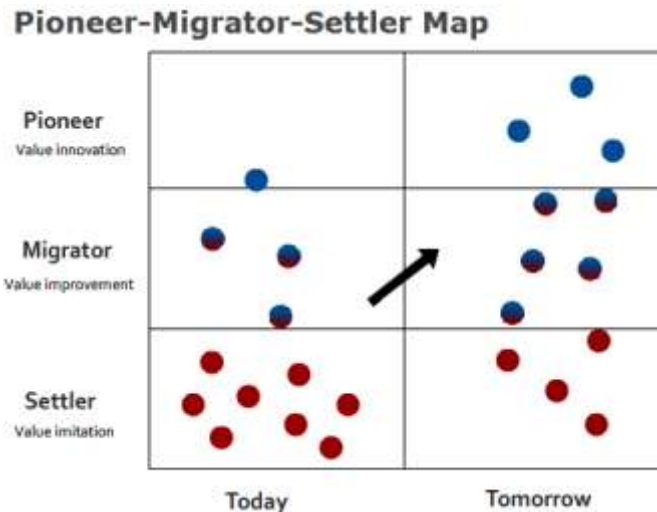


FIGURE 48. SOURCE:(KIM AND MAUBORGNE, 2012)

Similarly, reasonable growth can be expected if current and planned offerings consist of a lot of *migrators*. The company is not exploiting its potential for growth, and risks are marginalized by the company that value-innovates. This diagram helps organisations to see beyond today's performance. Organisations need to shift the balance of their future portfolio toward pioneers, a path to profitable growth.

BUYER EXPERIENCE CYCLE / BUYER UTILITY MAP

The buyer utility map outlines all the levers companies can pull to deliver utility to buyers as well as the different experiences buyers can have of a product or service and let managers identify the full range of utility propositions for a product or service.

Here the buyer's experience is usually broken down into a cycle of six distinct stages, running more or less sequentially from purchase to disposal. Each stage encompasses a wide variety of specific experiences.

Buyer Experience Cycle / Buyer Utility Map

The Six Stages of the Buyer Experience Cycle

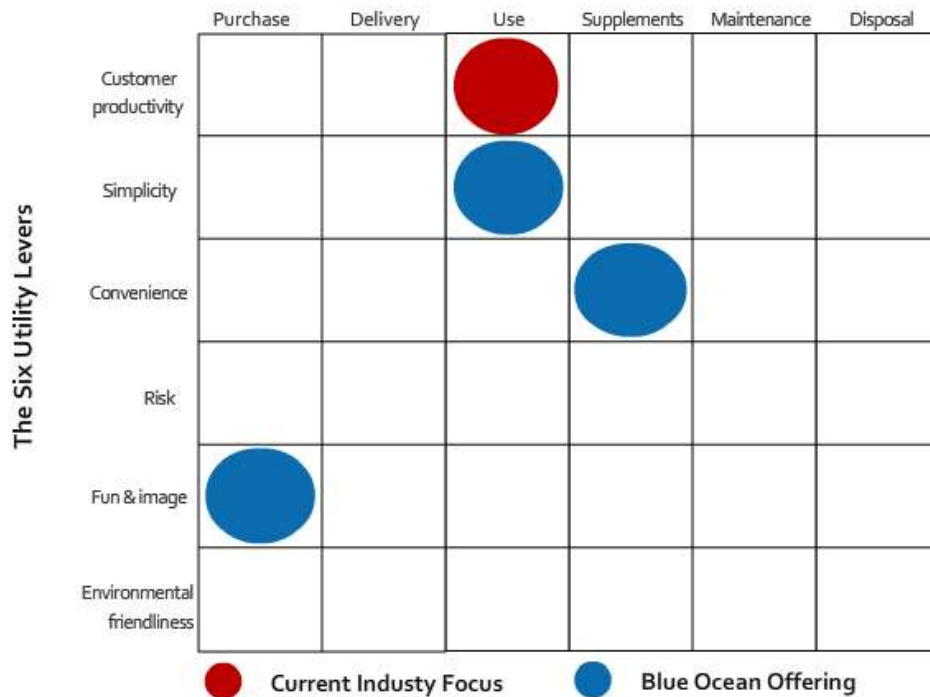


FIGURE 49. SOURCE: (KIM AND MAUBORGNE, 2012)

The six utility levers cutting across the stages of the buyer’s experience are what the authors call the *levers of utility* – the ways in which companies unlock utility for their customers. Simplicity, fun and image, and environmental friendliness need little explanation, nor does the idea that a product could reduce a buyer’s financial or physical risks. The most commonly used lever but the least obvious is that of *customer productivity*. ***Here there can be an innovation to increase productivity by helping them do things faster, better, or in different ways (2005).*** Infrastructure companies are not different to this rule, the sole purpose of installing a billion dollar infrastructure is to help the economic factors of production do things more efficiently than before.

3 TIERS OF NONCUSTOMERS

Traditionally, increases in market share were derived from retaining and expanding the existing customer base. But companies compete to embrace customer preferences, they often risk creating too-small target markets. Here authors suggest that companies need to take a reverse course. Instead of concentrating on customers, they need to look to ***noncustomers***. They need to build on powerful commonalities in what buyers value. Such initiative help companies access customers beyond their traditionally segmented markets and reach for newer customers or non-customers that did not exist before. Here again

infrastructure companies need to relook at their role of just installing capacities for existing customers and embrace ideas that cover non-customers too. Infrastructure companies need to deepen their understanding of the universe of noncustomers.

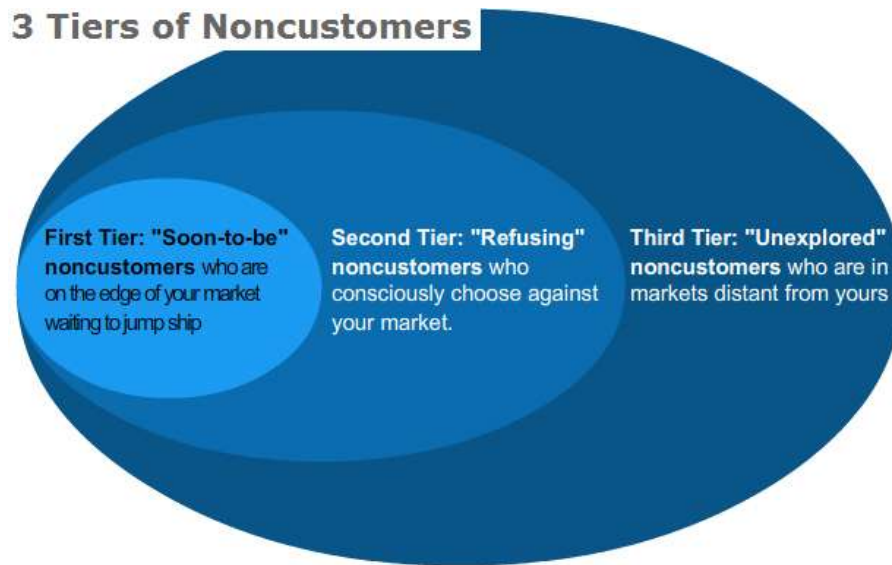


FIGURE 50. SOURCE:(KIM AND MAUBORGNE, 2012)

There are three different tiers of non-customers as defined by the blue ocean strategy.

The first type; differ in their relative distance from the market.

1. They are closest to the market
2. They are buyers who minimally purchase an industry's offering out of necessity but are *mentally noncustomers of the industry*
3. Wait to jump ship and leave the industry as soon as the opportunity presents itself
4. However, if offered a leap in value, not only would they stay, their frequency of purchases would multiply too, unlocking the enormous latent demand.

The second tier refuse to use the industry's offerings.

- These are buyers who have seen the industry's offerings as an option to fulfill their needs but have voted against them.

The third tier is farthest from the market.

- They are noncustomers who have never thought of the market's offerings as an option. By focusing on key commonalities across these noncustomers and existing customers, companies can understand how to pull them into their new market.

SEQUENCE OF BLUE OCEAN STRATEGY

Figure 10 helps organisations to build their blue ocean strategy in the sequence of buyer utility, price, cost, and adoption. The chart is a way to ascertain whether the company has

got the strategic sequence right or it needs to rethink on the issues (provided by figure 11. below).

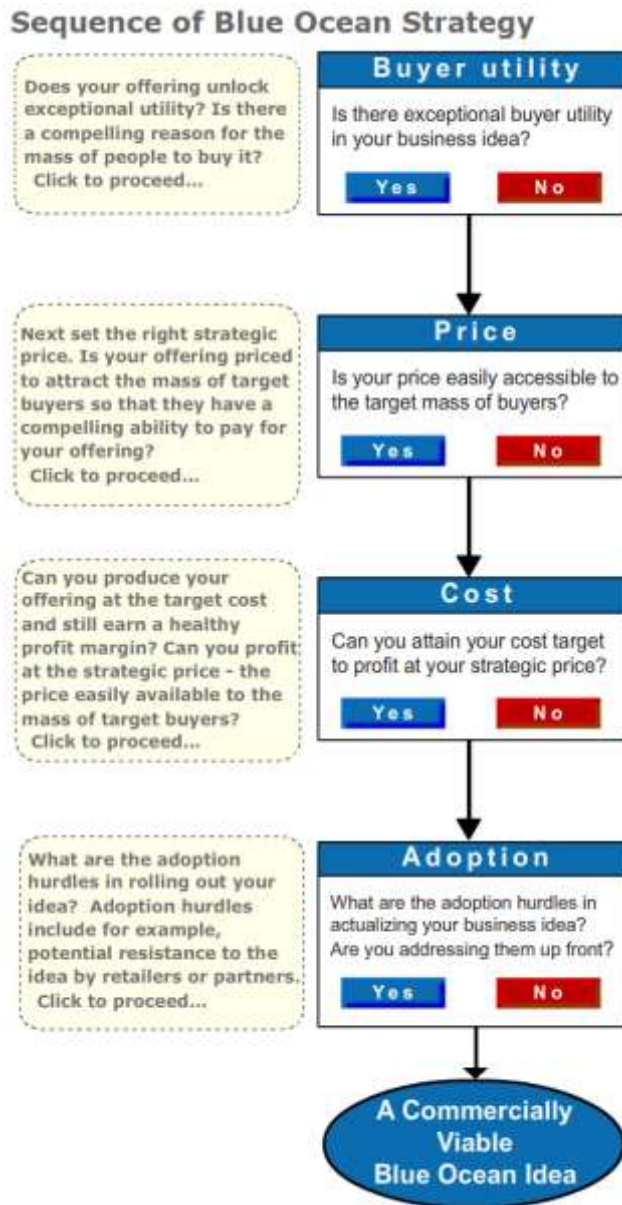


FIGURE 51. SOURCE:(KIM AND MAUBORGNE, 2012)



FIGURE 52. SOURCE:(KIM AND MAUBORGNE, 2012)

4 HURDLES TO EXECUTION

Even if a company has developed a blue ocean strategy, it must execute it. But there are often problems in the form of hurdles that the company needs to overcome in order to overcome the challenge of execution. The four hurdles are given in Figure 9 below. Once these hurdles are crossed, blue oceans truly become a reality.

4 Hurdles to Execution

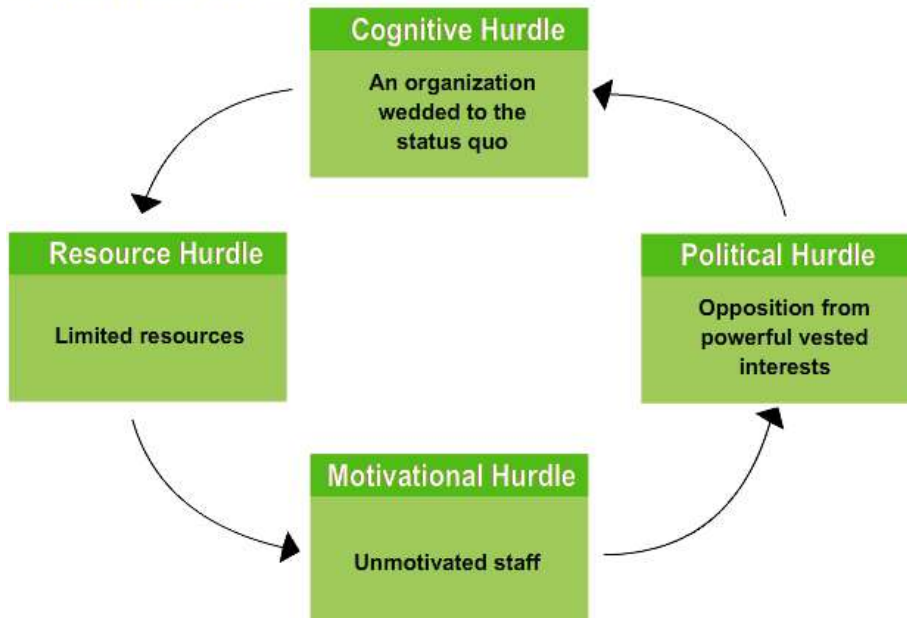


FIGURE 53. SOURCE:(KIM AND MAUBORGNE, 2012)

1. **The cognitive hurdle:** this entails making employees realise the need for to understand the organisations objective for blue ocean and make them collectively achieve the objective
2. **Limited resources.** Many companies find resources in short supply and this should be tackled on an immediate basis.

3. **Motivation:** Motivate key players to move fast and tenaciously
4. **Politics:** The need to understand and tackle the overt and covert nature of organisations in an effective manner.

THREE PRINCIPLES OF FAIR PROCESS

The figure 10 below details an extension of the strategy by including certain principles of Fair Process. These principles are necessary for the organisation, if it needs an internal organisation change and employee initiative towards the application and execution of the strategy. There are three mutually reinforcing elements that define fair process: **engagement, explanation, and clarity of expectation.**



FIGURE 54. SOURCE:(KIM AND MAUBORGNE, 2012)

CONVENTIONAL WISDOM VS. TIPPING POINT LEADERSHIP

Conventionally, organizational change rests on transforming the mass by the leadership, moving the mass, requiring steep resources and long timeframes. *Tipping point leadership*, by contrast, suggests an alternative course for leaders to initiate. The focus is towards transforming the **extremes: the people, acts, and activities** that exercise a disproportionate influence on performance. By transforming the extremes, the authors suggest, leaders are able to instill the strategy within members of the organisation, change the core of the organisation faster, and that too at lower costs.



PEST AND SWOT ANALYSIS

Before an organisation makes plans for market entry or for diversification (e.g. portfolio, product, or international), certain strategic analysis of the business environment is considered important, the most common being like PEST and SWOT analysis (Aware, 2012). The former being an analysis of Political, Economic, Social, and Technological environments and the latter being an analysis about the specific strengths, weakness, opportunities, and threats for a given proposition, investment, idea, or product (Chapman, 2012b)

PEST ANALYSIS

PEST analysis is embedded in economic theory as a powerful method for improving business performance. Its development is attributed to Francis Aguilar, a Professor Emeritus at Harvard Business School, who in the 1960's developed it as a practical, effective system for scanning the business environment. *The central premise of PEST analysis is that apparently small changes in the economy can have a profound impact on individual businesses* (Carruthers, 2009).

The frameworks' designed for analysing macro-environmental factors to conduct strategic analysis or market research. The analysis and framework can provide an overview of the different environmental factors that an organisation has to take into consideration to

understand market growth or decline, business position, potential, and direction for operations and it can be before the organisation starts the marketing process. This should be a continuous process and should feed all aspects of product or service planning (Chapman, 2012a).

POLITICAL FACTORS (Chapman, 2012a): The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. The company must consider issues such as:

- Political linkages and effects
- Government term and change
- Government policies
- Funding, grants and initiatives
- Home market lobbying/pressure groups
- Trading policies, country linkages
- International pressure groups
- Wars and conflicts
- Regulatory bodies and processes
- Future legislation
- International legislation
- Ecological/environmental issues
- Other identifiable factors

ECONOMIC FACTORS (Chapman, 2012a): Marketers need to consider the state of a trading economy in the short and long-terms. This is especially true when planning for international marketing. The company must consider issues such as:

- Specific industry factors
- Customer/end-user drivers
- Overseas economies and trends
- Interest and exchange rates
- International trade/monetary issues
- Home economy situation
- Home economy trends
- Market and trade cycles
- Market routes and distribution trends
- General taxation issues
- Taxation specific to product/services
- Other identifiable factors

SOCIO-CULTURAL FACTORS (Chapman, 2012a): The social and cultural influences on business vary from country to country. The company must consider issues such as:

- Demographics
- Media views
- Ethical issues

- Ethnic/religious factors
- Employability factors
- Major events and influences
- Advertising and publicity
- Consumer attitudes and opinions
- Law changes affecting social factors
- Brand, company, technology image
- Client contract management patterns

TECHNOLOGICAL FACTORS (Chapman, 2012a): Technology is vital for competitive advantage, and is a major driver of globalization. The company must consider issues such as:

- Innovation awareness, potential and trends
- Competing technology development
- Technology access, licensing, patents
- Consumer buying mechanisms/technology
- Associated/dependent technologies
- Maturity of technology
- Manufacturing maturity and capacity
- Technology legislation
- Information and communications
- Intellectual property issues
- Research funding
- Global communications

SWOT ANALYSIS

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for **Strengths, Weaknesses, Opportunities, and Threats**. Information about the origins and inventors of SWOT is not clear. There are a number of contrasting, if not contradictory views on the origin of SWOT.

Tim Friesner(2010), states that Stanford University's Albert Humphrey led a research project in the 1960s-1970s based upon the United States' Fortune 500 wherein SWOT was attributed to his '*Stakeholders Concept and SWOT Analysis*' (Humphrey, 2011) although the crediting to Humphrey as the creator of SWOT cannot be supported. SWOT analysis provides a good framework for reviewing strategy, position, and direction of a company or business proposition, or an idea. (Friesner, 2010)

SWOT frameworks are used for business planning, strategic planning, competitor evaluation, marketing, business and product development and research reports. In larger

business or project planning process the framework is widely recognized method for gathering, structuring, presenting and reviewing extensive planning data.

The key to a successful SWOT analysis is to realise that it is subjective, the organisation should try and be realistic about the analysis and they should realistically distinguish between the present state of the organization, and where it is headed towards in future, without bias. Grey areas, complexity, and over analysis should be avoided (Piercy and Giles, 1989)

SWOT IS AN ACRONYM FOR STRENGTHS, WEAKNESS, OPPORTUNITIES, AND THREATS.

STRENGTH could be elaborated as (Piercy and Giles, 1989, Friesner, 2010)

- Philosophy and values of the organisation
- Organisation's current USP's (unique selling points)
- Cultural, attitudinal, behavioural attributes
- Accreditations, qualifications, certifications
- Current financial reserves, likely returns expected by the organisation
- Leadership, management cover, succession
- Resources, Assets, People owned by the organisation
- Price, value, quality processes and procedures maintained by the organisation
- New, innovative products or services that distinguish it from competitors
- Technological capabilities: Processes, systems, IT, communications
- The marketing expertise inherent in the organisation. E.g. reach, distribution, awareness
- Whether the location attributes of the organisation are strategically positive
- Other value-additions that the firm can distinguish upon competitors.

WEAKNESS could be elaborated as (Piercy and Giles, 1989, Friesner, 2010)

- Financial capabilities and capacities are weak
- Cash flow, start-up cash-drain
- Morale, commitment, leadership
- A certain lack of marketing expertise
- Management cover, succession
- Partnerships, JV's
- Continuity, supply chain robustness
- Location attributes that drive down cost efficiencies or strategic positioning of the firm
- The quality of portfolio of offerings are undifferentiated or inferior to competition
- Processes and systems, etc
- Gaps in capabilities
- Reliability of data, plan predictability
- Accreditations, etc
- Timescales, deadlines and pressures
- Reputation, presence and reach of the firm is negative in the target market

OPPORTUNITIES and threats are external factors wherein opportunity could be identified as (Piercy and Giles, 1989, Friesner, 2010):

- Political linkages
- Prospective mergers, acquisitions, JV's or other strategic alliances in future
- Financial stability, liquidity, and Cash Flow
- An international market that suits the positioning and proposal of the company
- Market developments
- Contractors, Supply Chain, distribution, partnerships
- Information and research
- New USP's
- Competitors' vulnerabilities
- Industry or Manufacturing trends
- Technology development and innovation
- Global influences, raw material price fluctuations
- Supply contracts, hedged sourcing, and stability
- New markets, vertical, horizontal
- Market data shows the exit or ineffectiveness of competitors or any vacuum created by the entry and exit of other entities (Govindarajan and Kopalle, 2006) in the region or market that enables organisation to take advantage of the situation.
- Weather and terrain influences
- Geographical, export, import
- Tactics: eg, surprise, major contracts

THREAT could be elaborated on several attributes such as (Piercy and Giles, 1989, Friesner, 2010)

- Political conditions and considerations, regional instability, change in leadership
- Sustainable financial backing
- Legislative and Regulatory effects
- Political Bias
- Economic conditions- home and abroad
- Vital contracts and partners
- Tender specifications
- Price and cost efficiencies that erode the strategic plans of the organisation
- Insurmountable weaknesses
- Loss of key staff
- Competitor intentions
- Sustaining internal capabilities
- Weather and Terrain effects
- Logistics and Supply Chain vulnerabilities
- Environmental effects and compliance
- Technological developments
- The existence or entry of existing competition or new ones in the market
- Whether any of the competitors have developed/introduced, any product or service that enables them to leapfrog competition (Schumpeter and Backhaus, 2003),
- Whether competitors have superior access to key decision makers, operations and supply chain networks, contractors and sub-contractors, raw materials, human resources etc (Sawhney et al., 2011).

COMMUNICATIONS AND SKILLS FRAMEWORKS

In the article 'Leading Change: *Why Transformation Efforts Fail*', the editor of the article notes that guiding change (in an organisation) may be the ultimate test of a leader - no business survives over the long term if it can't reinvent itself. But, human nature being what it is, fundamental change is often resisted mightily by the people it most affects: those in the trenches of the business. Thus, leading change is both essential and incredibly difficult. – Editor's Note, (Kotter, 2007)

The need for change arises in every organisation. The need might arise under various different circumstances, due to the reasons commanded by time itself, competition, the changing landscape of the market, change in values, desires, tastes, etc. The list could be endless but there is something very common about the process of organisational change and that is, it never happens without a struggle or resistance. Resistance to change is probably a natural human tendency and to make that tendency weaken and take another form of a positive attribute, leaders of organisations need to handle change in a very articulate manner.

Kotter (2007) notes that efforts to change organisations have all gone under many banners: *total quality management, reengineering, rightsizing, restructuring, cultural change, and turnaround. But, in almost every case, the basic goal has been the same: to make fundamental changes in how business is conducted in order to help cope with a new, more challenging market environment.*

LEADING CHANGE BY JOHN P. KOTTER

In his definitive work (as suggested by the editor of the article), the article 'Leading Change: *Why Transformation Efforts Fail*', John P. Kotter (2007) outlines eight critical success factors for an organisation to accept change as a positive attribute. He also cautions the reader of the dangers of committing change onto an organisation in an arbitrary fashion, wherein the results could be devastating. There is a need to manage change in phases. Introducing change helps people to adapt to the change rather than adjust to it, increasing the chances of unprecedented failure.

The eight critical success factors for affecting change are:

1. Establishing a Sense of Urgency

2. Forming a Powerful Guiding Coalition
3. Creating a Vision
4. Communicating the Vision
5. Empowering Others to Act on the Vision
6. Planning for and Creating Short-Term Wins
7. Consolidating Improvements and Producing Still More Change
8. Institutionalizing New Approaches

ESTABLISHING A SENSE OF URGENCY

The need for change and the success of such efforts first comes when the organisational leaders look hard at a company's competitive situation, market position, technological trends, and financial performance. If the performance of the company drops while facing such situations, good leaders take the difficult decision to introduce change within the organisation. Getting a transformation program started requires the aggressive cooperation of many individuals. Without motivation, people won't help, and the effort goes nowhere.

Change, by definition, requires creating a new system, which demands leadership. If the target is the entire company, the CEO is key and the target is a division, the division manager is key. If the people driving change do not have good leadership qualities, change can become a *huge challenge*.

Kotter argues that in the few the most successful cases he witnessed, a group has manufactured a crisis. Manufacturing crises can look unduly risky, it is equal to playing too safe: Kotter argues that *when the urgency rate is not pumped up enough, the transformation process cannot succeed, and the long-term future of the organization is put in jeopardy (Kotter, 2007)*.

FORMING A POWERFUL GUIDING COALITION

Major renewal programs are often started by very few people. With success on the cards, the leadership coalition grows and grows over time. Achieving this coalition early is very important and a buy-in of the top leadership is important too. In the most successful cases, the coalition is always pretty powerful -- in terms of titles, information and expertise, reputations, and relationships. Without such supports, major change programs would fail.

Combined with a high sense of urgency within the managerial ranks helps enormously in forming an effective coalition. As a caution, leaders should not undervalue the importance of this type of coalition and be open to take anyone with the required skill and knowledge

of the situation as the coalition leader, be it even a *'key line manager'*. Without an forceful and committed coalition, the opposition gathers strength and stops the change.

CREATING A VISION

The guiding coalition should develop a picture of the future that is relatively easy to communicate and appeals to customers, stockholders, and employees. A vision clarifies the direction in which an organization needs to move, and slowly after refining the vision, it should be replaced with a strong strategy.

Without a vision, efforts to change a company can easily dissolve into a list of confusing and incompatible projects that can take the organization in the wrong direction or nowhere at all. According to Kotter, in failed transformations, there are plenty of plans, directives, and programs but no vision.

COMMUNICATING THE VISION

The key to communicating a vision for change is to develop communication that is communicated well and understood well too. Without a clear communication, few people would understand the new approach and the result could be plain cynicism and no belief in the belief in the communication.

Transformation is impossible unless hundreds or thousands of people are willing to help, often to the point of making short-term sacrifices. If the sacrifices include job losses successful visions usually include new growth possibilities and the commitment to treat fairly anyone who is laid off. Kotter argues that communication comes in both words and deeds, and the latter are often the most powerful form. Nothing undermines change more than behavior by important individuals that is inconsistent with their words.

EMPOWERING OTHERS TO ACT ON THE VISION

The effect of good communication is that a guiding coalition empowers others to take action. But communication is never sufficient by itself and requires the removal of obstacles. Even after employees understand and want to take action, they stymied by obstacles created by the opposition.

Sometimes the obstacle is the organizational structure, sometimes compensation or performance-appraisal systems make people act in their own self interest and in worst cases, bosses refuse to change putting undue pressure on subordinates not to embrace the change.

Often managers pay lip service to the process and fail to encourage people, reward the unconventional ideas or even personally threatened by all the change. Sometimes, the leader fails to stop such action fearing to lose a talented executive. The net result is always disastrous. and the whole effort collapses.

People and situations posing as obstacles should be confronted and removed. Action is essential, both to empower others and to maintain the credibility of the change effort as a whole.

PLANNING FOR AND CREATING SHORT-TERM WINS

Real transformation takes time. So it is important to recognize and celebrate short-term wins and celebrate. This also helps in evangelizing people with compelling evidence and take their buy-in. Short-term win could include anything, successful new product introductions, an upward shift in market share, improvement in productivity, or higher customer satisfaction rating.

Managers should not get tied with long-term planning, but actively try and create short-terms wins, look for ways to obtain clear performance improvements, establish goals in the yearly planning system, achieve the objectives, and reward the people involved with recognition, promotions, with even money. This boosts the credibility of the renewal process.

CONSOLIDATING IMPROVEMENTS AND PRODUCING STILL MORE CHANGE

Transformations may take several months and years. An effect of short-term wins is the possibility of managers being tempted to declare victory with the first clear performance improvement. While celebrating is fine, declaring victory can be catastrophic. Changes should be allowed to sink into a company's culture, which might take several years. Until then business would remain fragile and vulnerable to fall back into failure.

The urgency level should be intense enough to guide the coalition with ample power and vision. But celebrating premature victory celebration kills that momentum, creating an environment that reverses back into the past.

Instead of declaring victory, leaders should use the credibility afforded by short term wins to march forward for bigger wins. They should go after systems and structures that are not consistent with the transformation vision and confronted them. They should pay attention to who is promoted, hired, and how people are developed. They should include new

reengineering projects that are even bigger in scope than the initial ones and understand that renewal efforts take years to take effect.

INSTITUTIONALIZING NEW APPROACHES

Once final victory is deservedly won and declared, an effort should be made to record the process and place it as a learning experience for future leaders. Creating a environment of life-long learners would help the organization to innovate into the future and manage change better.

LITERATURE ON STRATEGIC ALLIANCES

PUBLIC PRIVATE PARTNERSHIPS MODELS FOR THE GCC

INTRODUCTION TO PPP MODEL

Public-private partnership (PPP) is a government service or private business venture, which is funded and operated through a partnership of government and one or more private sector companies. These schemes have different names and are sometimes referred to as PPP, P3 or P3 (Wikipedia, 2012). This model of investment involves a contract between a public sector authority, mainly Governmental and a private party. The private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. There are other types of PPP, wherein the cost of using the service is borne exclusively by the users.

In other types (notably the private finance initiative), the capital investment is provided by the private entity through a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government (Wikipedia, 2012). Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects related to the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, revenue subsidies, including tax

breaks or by providing guaranteed annual revenues for a fixed period, to make it more attractive to the private investors to take part in the operations of the project (Fenton, 2011).

PPP project contract, usually guarantee and secure the cash flows, making PPP projects prime candidates for project financing. For example, a hospital building could be financed and constructed by a private developer and then leased to the hospital authority, wherein the private developer then simply acts as the landlord providing housekeeping and other non-medical services while the hospital itself provides medical services (Wikipedia, 2012).

GROWTH OF NEW COLLABORATIVE BUSINESS MODEL - PUBLIC PRIVATE PARTNERSHIPS (PPP) IN INFRASTRUCTURE

- a. What prompted it - governments facing challenges to meet the demand for infrastructure services
- b. Availability of additional funding as against traditional sources of funding
- c. Limited capacity of public sector to successfully implement large infrastructure projects
- d. Alternative to implement, operate, and management of a project based on expertise of each partner
- e. Way in / approach to advanced technology and innovation
- f. Aim is to efficiently allocate resources, diversify risk, share responsibilities and rewards
- g. Postpones immediate spending by government
- h. Borrowing costs
- i. better project structure and design

KEY VARIABLES

- j. Ownership of Capital Assets
- k. Responsibility for investment
- l. Assumption of risks
- m. Duration of contract

TYPES OF PPP MODELS

- n. Supply and management contracts
- o. Turnkey contracts (traditional public sector procurement for infrastructure facilities)
- p. Affermage / Lease
- q. Concessions / subsidy
- r. Private Ownership

- s. Private Finance Initiative (PFI) - Here the private sector is responsible for design, construction, operation and at times public sector purchases infrastructure services from private sector via a long-term agreement, where the asset ownership is transferred to public sector after an agreed period. For the purpose of obtaining financing of the project, the contracted company might establish a Special Purpose Vehicle (SPV).

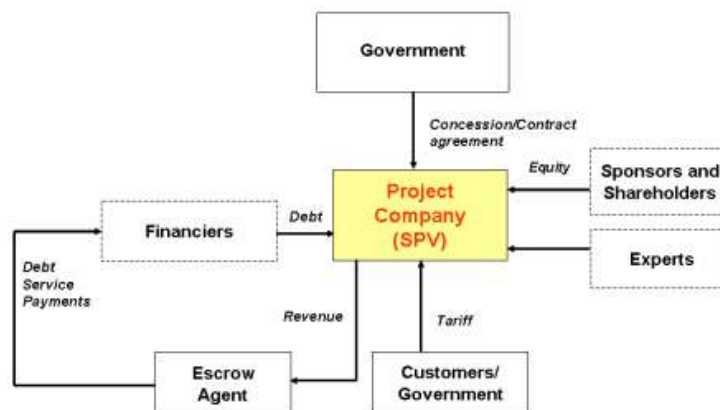
The idea of a "special purpose vehicle" (SPV) (usually, through a private sector consortium) is to develop, build, maintain and operate the asset for the contracted period. If the Government has invested in the project, the government is allotted (not always) an equity share in the SPV. (Fenton, 2011). The consortium usually consists of a building contractor, a maintenance company, and bank lender(s). The SPV signs the contract with the government (Wikipedia, 2012).

CLASSIFICATION OF PPP MODELS

Broad category	Main variants	Ownership of capital assets	Responsibility of investment	Assumption of risk	Duration of contract (years)
Supply and management contract	Outsourcing	Public	Public	Public	1-3
	Maintenance management	Public	Public/Private	Private/Public	3-5
	Operational management	Public	Public	Public	3-5
Turnkey		Public	Public	Private/Public	1-3
Affermage/Lease	Affermage	Public	Public	Private/Public	5-20
	Lease	Public	Public	Private/Public	5-20
Concessions	Franchise	Public/Private	Private/Public	Private/Public	3-10
	BOT**	Public/Public	Private/Public	Private/Public	15-30
Private ownership of assets and PFI type	BOO/DBFO	Private	Private	Private	Indefinite
	PFI***	Private/Public	Private	Private/Public	10-20
	Divestiture	Private	Private	Private	Indefinite

* Build-Lease-Transfer (BLT) is a variant.

2. Structure of PPP Model



3. Why governments might opt for this model
 - a. To hold interest in strategic assets
 - b. Address political sensitivity and fulfil social obligations
 - c. Ensure commercial viability of the project
 - d. Provide confidence to lenders
 - e. Protect public interest

IMPORTANT FACTORS

- Legal and regulatory environment
- Government policy
- Agreement of main objectives of the project by all participants
 - a. prove project is the best option to get the infra service need
 - b. project can help government achieve their objectives as well
 - c. If PPP is a viable implementation / procurement option
- PPP process in the country - administrative, legal and regulatory requirements
- Map out the PPP process for each country
- Identify tasks to be completed at each stage
- Define tasks and procedures
- List of approvals required, and criteria for approvals

PRIVATE SECTOR'S MOTIVATIONS

- Financial capacity - whether investment is feasible or not, funding, ROI, cost recovery pricing, possibility of more funding if required
- Technical capacity - relevant previous experience
- Security of private investment
- Government policy continuity
- Political Risk
- Duration of the project
- Administrative and regulatory processes – timescale

In an article by leading consultancy firms A.T. Kearney, "Private Public Partnerships have Merit in the GCC" (2010). The article states that as per their research investments via the PPP model in the GCC have the potential to create a win-win situation for all the stakeholders i.e. citizens, asset owners, and operators and that it could unlock value worth AED 10 to 20 billion.

STAKEHOLDER THEORY

The use of the word stakeholder originated in 1960's at Stanford Research Institute (SRI), and the research at SRI drew from the concepts that were developed in the planning department of Lockheed, which were further developed through the work of Igor Ansoff and Robert Stewart. Ansoff in his book "*Corporate Strategy*" 1965 described the importance of identifying the critical stakeholders, while the history of corporate planning integrated only a limited role of the stakeholders in the development of corporate strategy.

The early idea of stakeholder was not inclined in the direction of continued existence or survival of the firm. Famous economist Freeman wrote about "*Stakeholder Theory of Modern Corporation*" wherein, the main pretext of managerial capitalism is that in return for having command over the firm, the managers pursue the interest of shareholders. However, this idea is plagued by the *principal-agent problem* where managers tend to work for their own interests. However central to this is the question i.e. in whose interest and benefit should the modern corporation be governed?

From a legal point of view the firm has limited liability for its actions, that managers have a legal obligation to work in the interest of the shareholders. The legal system has evolved to give certain rights to employees, suppliers, customers, local communities, shareholders and management, which makes it interesting to ask, 'In whose interest should the firm be managed?' What makes this interesting is the fact that economics assumes efficient markets where some "invisible hand" regulates it automatically. However in real life, there are externalities, free rider problems, moral hazards, and the problems of monopoly power.

Note that stakeholder models are based on the fact that in "*America shareholders have a big say in running the enterprises they own; workers...have much less influence*". However in Europe, it's the managers who are given the freedom to run the companies as per their will. SRI views the support of all the stakeholders as vital to the success of the firm. The stakeholder approach's purpose was to provide a single strategic framework which is flexible enough to incorporate changes in the business environment so that managers do not have to look for newer strategic ideas. In other words it provided the much needed relief to move away or break away from the circle which starts with identification of changes in the business environment, followed by framing of the new strategic problem, and then to devise a new strategic model to address the problem.

Therefore, it is viewed as a strategic management process rather than a strategic planning process which aims at predicting the future. Stakeholder management process is aimed at setting a new direction for a business, while surviving changing business environment, not just with the view of maximising existing productivity.

Contrasting Models of the Corporation: Input-Output Model

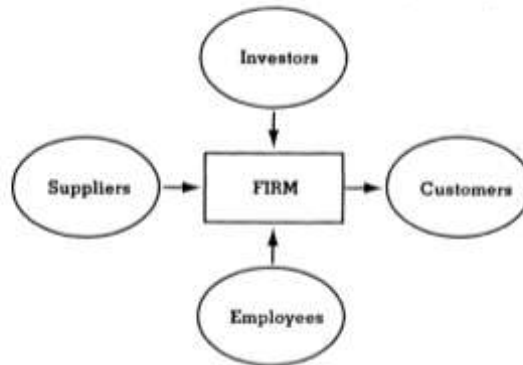


Figure 1. A Stakeholder Model of the Corporation

Contrasting Models of the Corporation: The Stakeholder Model



Figure 2. A Stakeholder Model of the Corporation

POLITICAL IDEOLOGY

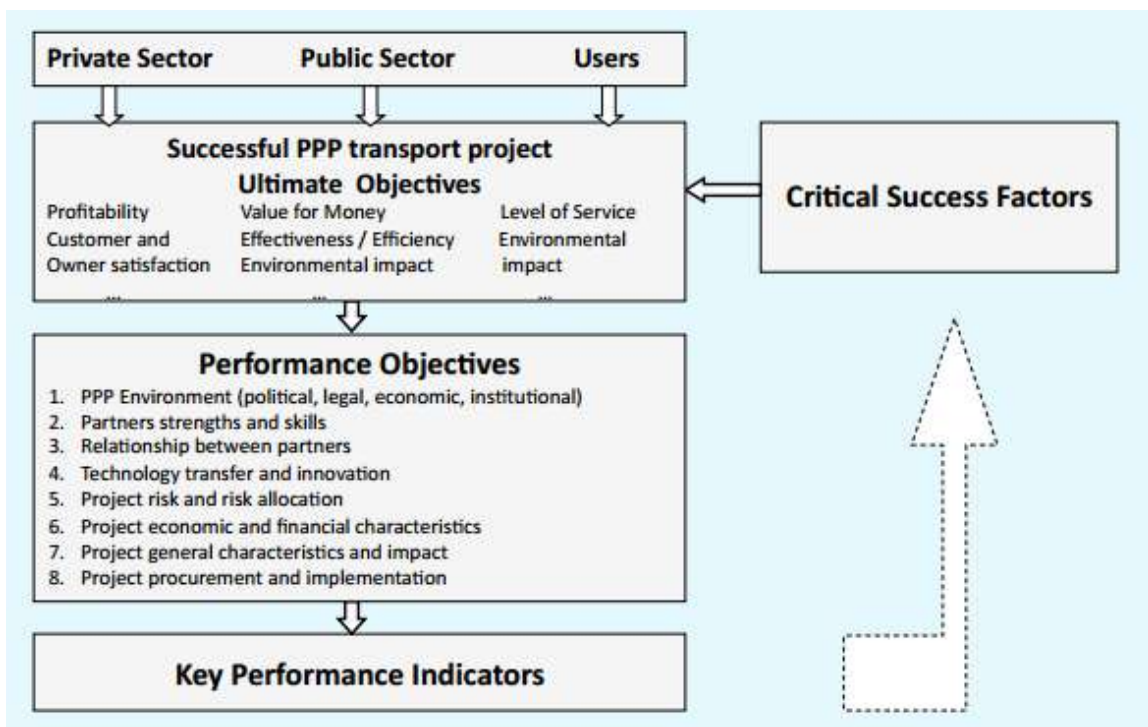
Mark J. Roe of Harvard Law Schools argued that in several nations privately owned family businesses would like to keep more earnings within the family. This goes against the concept of distributing wealth among shareholders and further such institutions use political links for favourable policies to prolong their existence.

Anti-shareholder organisations aim at reducing the profitability in monopoly industries, where capital investments would not be affected as politics would keep the competitive rate of return at manageable levels. However, in case there is a decline in the shareholder

returns below the risk adjusted rate, the nation would experience a decline in savings, capital will start moving out of the nations that still support shareholders and vice-versa.

To illustrate this with an example, let us consider the case of failure of hostile takeovers in Germany (until the Vodafone takeover in 2000) where politicians took side of the employees that campaigned to stop these takeovers and as result firms had to substantially cut back their planned restructuring. As an example, the conservative German chancellor mentioning the steel industry, said that he was "deeply concerned", and asked the firms to "live up to their social responsibilities".

DECISION MAKING CRITERIA



EXAMPLE: STAKEHOLDERS FOR KINGDOM TOWER, JEDDAH, SAUDI ARABIA

PROJECT: Kingdom Tower, with a height of over 1,000 meters, will begin construction imminently in Jeddah, Saudi Arabia, part of Kingdom City plan. 2nd Phase - Infrastructure Development, 3rd Phase not disclosed.

PROJECT DESIGNER: Chicago Based architect Adam Smith + Gordon Gill (AS+GG) Architecture, www.smithgill.com

DEVELOPMENT OF TOWER: Managed by Emaar Properties

STRUCTURAL ENGINEERING FIRM: Langan and Thornton Tomasetti based out of New York, USA would be responsible for geotechnical engineering, ground level site work - transportation engineering and parking. The geotechnical investigation (soil testing) that took place in 2008.

BUILDING SERVICES ENGINEERING CONSULTANTS : Environmental Systems Design, Inc. provides mechanical, electrical, plumbing, fire protection, life safety, and technology engineering, in addition to sustainability consulting services in partnership with AS+GG

INVESTMENT COMPANY: Kingdom Holding Company

CHAIRMAN: HRH Prince Alwaleed Bin Talal Bin Abdulaziz Alsaud (holds 95% of the shares)

THE COMPANY HAS INTERESTS IN - Walt Disney, Pepsico, Kodak, Apple, Hewlett Packard, Motorola, Time Warner, Newscorp, and Citigroup, as well as real estate in London through its Songbird Estates division

Mr. Talal Al Maiman, Executive Director, Development and Domestic Investments, a board member of Kingdom Holding Company and a board member of Jeddah Economic Company

JEDDAH ECONOMIC COMPANY is a closed joint stock company (PJSC) formed in 2009 as a financial entity for Kingdom Tower and City. It is made up primarily of financiers (stakeholders) Kingdom Holding Company (33.35%), Abrar Holding Company (33.35%), which is owned by Samauah Bakhsh, and businessman Abdulrahman Hassan Sharbatly (16.67%), as well as the tower's own contractor, Saudi Binladin Group (16.63%).

The Economist, the business journal found large new skyscrapers to be a negative economic indicator, with several incidences of new tallest buildings being finished and opening into a bad economy, as they generally start during a financial boom when money is easy and investment is strong, but do not finish until the bubble has burst

BANKS

- Standard Chartered Bank which has invested a lot of money in the Saudi Bin-Ladin Group
- Citigroup - Citi Investment Research & Analysis
- Jarmo Kotilaine, chief economist at Jeddah-based National Commercial Bank

ASSOCIATED PROJECTS

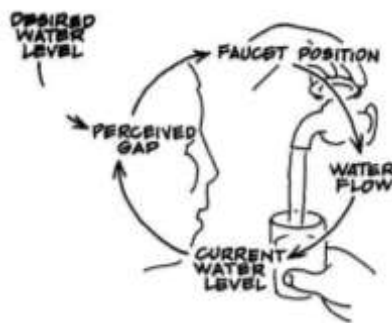
- US\$7.2 billion (SR27.1 billion) new airport terminal under construction at King Abdulaziz (Jeddah) International Airport

OTHER CONTRACTORS THAT HAD BID FOR THIS PROJECT

Besix Group (Belgian Six Construct), which constructed the Burj Khalifa, was previously considered for the contract, but did not win, partially because SBG invested in Jeddah Economic Company (JEC),[29] contributing SR1.5 billion (US\$400 million) towards the development of the project,[30] and holding a 16.6 percent stake in Jeddah Economic Company.[31] Besix admitted in 2010 that they expected Binladin Group to win the contract.

Five contractors were invited to offer proposals for the Kingdom Tower and a short list of three firms submitted final offers for the tower construction. The Saudi Bin Laden Group (SBG) whose offer was the most attractive in terms of price, quality and schedule was chosen for the project.

LEARNING ORGANISATION AND TRANSFORMATIONAL LEADERSHIP



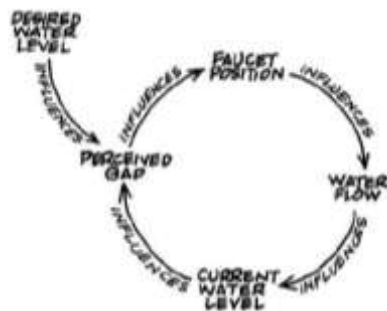
Peter Senge (1990) in his book *'The Fifth Discipline'* popularized the concept of the *'learning organization'*, wherein learning organizations were a source of competitive advantage. He created a design for firms where people extend their capability to perform to create the results they wish, where new and unreserved models of thinking are encouraged, where

group ambition is set free, and where people are learning how to learn together. In his book, He describes mental models as deep-rooted suppositions, generalizations, or imagery that impacts how we comprehend the world and how we take action. This is possible if a team can get together for a conversation, leave behind assumptions, and endeavour to think together and for an organization to be a learning organization it has to adopt this a discipline of a lifelong learner always seeking ways to master the ways, understanding how teams work, what makes them not work.

He states that the integrating the five disciplines is not an easy task as it needs a shift of mind (metanoia = meta 'above or beyond', noia from the root 'nous' of mind). He explains

the limitations in the way we see things with a very simple but very effective example of filling a glass of water. He further explains that every time we go to fill a glass of water we watch the level of water rising, we monitor the gap between the level and our goal, as the water reaches the desired level we adjust the faucet position to slow the flow of water, until it is turned off when the glass is full.

He elaborates that we operate with five variables: our desired water level, the glass's current water level, the gap between the two, the faucet position, and the water flow. These variables are organized in a circle or loop which is called the 'feedback mechanism process'.



Here he describes the feedback mechanism to be more than good or bad feedback, as a system as a reciprocal flow of influence.

He builds this concept with the reinforcing circle wherein even a small effort could lead to growth, such as a positive word of mouth could lead to sales, which could lead to satisfied customers, who will further spread the good word citing the example of the rise of sales by positive word of mouth for Volkswagen in 1950s. However, in my opinion it could go either way, for example the run on the Northern Rock bank in U.K. led to a sharp decline in customer confidence and deposits.

He further states that leaders that attempt to bring about organizational change face resistance, however they should look for hidden balancing or stabilizing processes (filling the glass with water, or hiring workforce to manage work or growth, borrowing cash for short-term to meet the operational needs etc.), not in reinforcing loops (push for growth) and manage delays in the system.

This means that leaders should not push for growth, however should remove the factors limiting growth by understanding the system, structure and pattern of behavior and act on symptoms of problems to fix them in a fundamental manner and not with a quick fix solution. He identifies that it is important to see the forest and the trees.

It is not easy to transform a company used to command and control leadership mechanism to being a learning organization and it is a time-consuming process. This is described as 'getting on to the balcony' in the article "*The Work of Leadership*" by Ronald et al. (1997) as the ability to see patterns as if on a balcony and refrain from becoming a prisoner of the

system, move back and forth between the field of play and the balcony, see context of change or create one, provide strengths of the past and what the employees need to achieve going ahead, identify struggles over values and power, curtail patterns of work avoidance, watch for functional and dysfunctional reactions to change with an example of Magic Johnson being able to play whilst keeping the complete game situation in mind, as if he stood in a balcony above the playing field.



Coad and Anthony (1998), in their article "*Transformational Leadership and learning orientation*" describe that predominantly there leaders in an organization may be performance focused or learning focused. The employee in an organization are focused either towards performance or learning to gain positive evaluations or increasing their competence respectively. Leadership has a quite a big influence in setting the culture of the organization to be performance driven or to be a learning organization, correlating the former with transactional leadership and the latter with transformational leadership. Rooke and Torbert, in their article "*7 Transformations of Leadership*" argue that leaders who take on introspection in order to understand their own action logic, and how it can be changed transform their own potential, but also of their companies and further expands as the seven ways of leading as an opportunist, diplomat, expert, achiever, individualist, strategist, and as an alchemist. Rich proved to be such a transformational leader for Harley with focus on people and non-people issues, and soon realized that organizational learning was essential for the company to move into future, and for this he involved people from all levels.

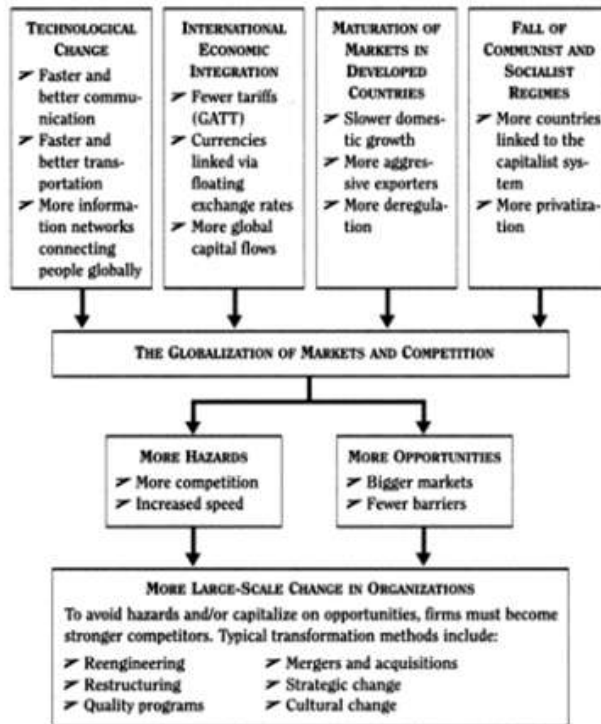
Collins (2001), in his article "*Level 5 Leadership*" describe the dual personality traits 'modest and willful', 'shy and fearless' as key ingredients of Level 5 leadership that can transform a good company into a great one.

He explain these traits as Yin and Yang of Level 5 where the leader achieve great results to transform the company but is not boastful of his/her actions, has an unending reserve of strong will to tackle any level of difficulty with sheer determination rather than charisma, leads by example to set high standards to be the best and has the ability to develop successors, gives credit to people, factors, luck at the time of success, and takes responsibility of poor results. The most important learning for me the focus has to shift from the outside, to improve the inside, the product, and exceeding expectations of the consumer.

At this point I realized it was important to look beyond the good points, about transformation of companies and look at what are the common mistakes that could lead to unsuccessful attempt at transforming a company. John Kotter in his famous book Leading Change lists the eight mistakes to transformation that could have serious consequences i.e.

1. Allowing too much complacency
2. Failing to create a sufficiently powerful guiding coalition - Rich was able to involve the Union leaders and members in the process of turnaround, which is something remarkable, as we have always heard stories where there are rifts and disagreement between the management of a company and union. But, this showed his unique ability to cut across all sections of people.
3. Understanding the power of vision - even though Joint Vision was not a grand success at Harley, it had sown the seeds of change, and was relentless to achieve it, which was later realized with Business Process
4. Under communicating the vision by a factor of 10 (or 100 or even 1000)
5. Permitting obstacles to block the new vision
6. Failing to create short-term wins
7. Declaring victory too soon
8. Neglecting to anchor changes firmly in the corporate culture

Kotter says that all these point could have real consequences such as that people might not fully believe or support the new vision which could mean that the new strategy is not implemented well, he says that the acquisitions should be executed very carefully as they generally do not achieve the anticipated synergies, re-engineering is a time consuming and capital intensive process, downsizing will not always lead to cost control in the long run, and quality programs have a chance of failing. He further, summarizes the Economic and Social Factors that drive the need for change in organizations (see picture below).



ACTIVITY BASED COST ANALYSIS: (COOPER AND KAPLAN, 1991)

Activity Based Costing (ABC) is an accounting method that classifies the activities that a corporation executes, and then allocates indirect costs to products. It identifies logical associations between costs, activities and products, and allocates indirect costs to products with this added logic than traditional methods. This in turn helps a firm to better assess the profitability of products as it incorporates all costs.

Turney, in his article "*Activity Based Costing - An Emerging Foundation for Performance Management*" (1990) looks at the evolution of ABC as a performance technique and its adoption by corporations. The events that set off the search for new accounting technique to measure performance dates back to the period between 1984-1987 when a lot of Japanese companies had been successful in entering Western countries like Toyota, and were starting to challenge the domestic companies in their own game due to ground breaking management systems like just-in-time material flow system, incessant drive to keep looking for ways to improve ("Kaizen" philosophy) and so on.

Western manufacturing firms were looking to improve their financial governance processes to better assess the profitability of their products as against an entire product line. Harvard Business Review journals of 1987 were talking about ABC and the impact

that it could have on the business. A lot of large consulting firms adopted this technique in the late 80's and early 90's, with the first commercially available software for ABC in 1990. ABC had the potential to bring out:

1. do away with the product cross subsidies inbuilt in old cost accounting methods
2. make known the sources of losses that were liable for decrease in profitability
3. act as a means for verdict impacting profitability

It took almost 20 years for this practice to be part of the mainstream techniques available and used by the corporations, and has gone through the usual life cycle of maturity, adoption, and business application of a technology (see graph below).



The period 1991-1995 saw a lot of critics arguing that ABC ignored the customer in the entire process or was not aligned to theory of constraints, nor could it give short term impacts on operating cost, inventory and throughput, which was mainly due to the fact that very few people understood the system and its aim fully. The interest in the technique was lost also due to advent of newer techniques like enterprise resource planning (ERP), business process reengineering, and balanced scorecard. Due to lack of complete knowledge about the technique the companies had built complex systems that were difficult to maintain.

With the passage of time and growing knowledge about ABC the period 1995 to 2000 saw a reversal of trend and the use of the technique spread to administration, sales, marketing, R & D, supply chain, logistics. The period of 2000 to 2006 saw an uptick in the use and adoption of the technique.

Gartner group estimates 20% to 50% of global 1000 companies using the technique, while a survey by Business Finance in 2004 showed that 37% of companies with revenues over

1 billion dollars had internal ABC programs. The period from 2006 to 2010 has seen its real application in the big-data age of today for example a large telecom company used SAS Profitability Management system to create income statements for each of 21 million clients using rates derived from the system. The data mining and statistical analysis from this data opened the firm's eyes to the real drivers of profitability.

Contribution Summary for Customer KingPalmer
For Year 2006

	Credit Products		Deposit Products		Revolving Credit Products
	Secured/Mortgages	Unsecured	Recurring	Term	Credit Cards
Total Interest Income	16,533	6,429	-	-	3,513
Total Interest Expense	-	-	1,831	4,700	-
Net Interest Income	16,533	6,429	(1,831)	(4,700)	3,513
Net Funds	(197)	(82)	(74)	(74)	(68)
Total Non Interest Income	115	-	7,322	-	1,406
Provision for Losses	197	82	74	74	68
Direct Product	-	-	2,267	-	-
Relationship Management	192	185	3,067	81	817
Sales and Marketing Effort	180	152	-	-	64
Servicing Effort	-	-	2,800	-	-
Net Contribution	15,902	5,927	(2,791)	(4,929)	4,102

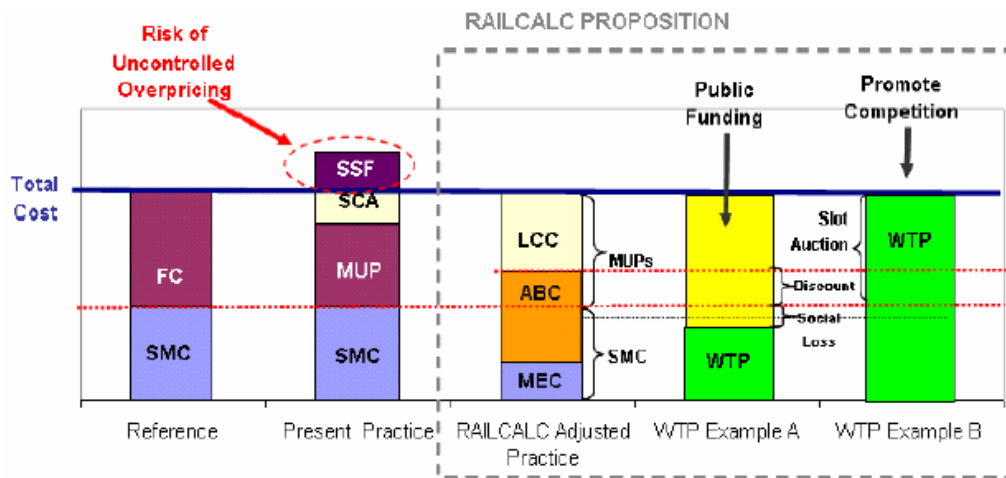
Figure 4: Customer income statement.

Gillman in his article "Freight Accompli" (2008-2009) elaborates how South Africa's Transnet Freight Rail (TFR), railway freight service provider, which moves around 180 million tonnes of goods over 17000km of track each year developed network activity-based costing system (NBAC) from scratch and were awarded CIMA Financial Management award for it.

The system used operational data from invoicing system and used it to allocate costs to smaller sections of the network, which are combined and used for rate determination, which then are used for costing services like consignment movement between Johannesburg and Cape Town. Macario and Marques in their discussion paper for European Commission, Directorate general for Energy and Transport "RailCalc Calculation of Charges for the use of Rail Infrastructure" (2007) say that the future infrastructure cost accounting framework should be able to supply information for setting charges, allow cost and revenue comparison by market segments to point out which services to focus internal business activities to get rid of unnecessary costs, improve cost efficiency, and reach high value market segments.

Secondly, it should allow external decision making to determine the level of public funding / subsidies required for long term projects. The paper further, states the use of ABC as a pragmatic approach - "an approach to pricing based on forward-looking incremental costs"

to use ABC information to improve efficiency, and to decide which products to develop and which activities to use (see graph below).



In this context, the adoption of ABC systems in railways, as per the RAILCALC proposition illustrated in the diagram, may be considered as a pragmatic approach to setup a basis for forward-looking incremental cost based charging system. This

MIND MAPPING: (DAVIES, 2011), (GOLDBERG, 2004)

The key to stakeholder mapping and relationships in the corporate office space is the knowledge and awareness of the culture that the stakeholders belong to and the related sensitivities. Davies in his article "*Concept mapping, mind mapping, and argument mapping - what are the differences and do they matter*" (2010) defines mind mapping as 'visual, non-linear representations of ideas and their relationships' (Biktimirov and Nilson 2006) depicted by way of system of linked and related concepts.

The main objective of mind mapping is to promote natural and impulsive thinking while creating a mind map, and to find creative associations between ideas. Mind mapping techniques date back to 1974 (Buzan) which used line thickness, colours, pictures, and diagrams to support understanding and recollection. This technique due to its free form could be used for identifying internal stakeholders within an organization, competitor analysis, industry level value-chain analysis, to not only look at existing players, but also think of who may become competitors tomorrow.

The tool could be used to determine alternative routes as a consequence of various actions to build an impact analysis. At this juncture one of the team member remarked that this

could well be the cornerstone for scenario planning. Scenario planning is a strategic tool, so we started to look at any possible connection of scenario planning and mind mapping and then we thought this is exactly what mind mapping could mean, finding links where others might not have looked which could help us find the right formula for one of a kind of proposition. Let's see if we had indeed found gold or not. Higgins in his article "Innovate or Evaporate: Creative Techniques for Strategists" argue that an organization could achieve strategic competitive advantage by way of differentiation or relatively low cost, and the way to achieve either of them required innovation which is dependent on creative problem solving techniques.

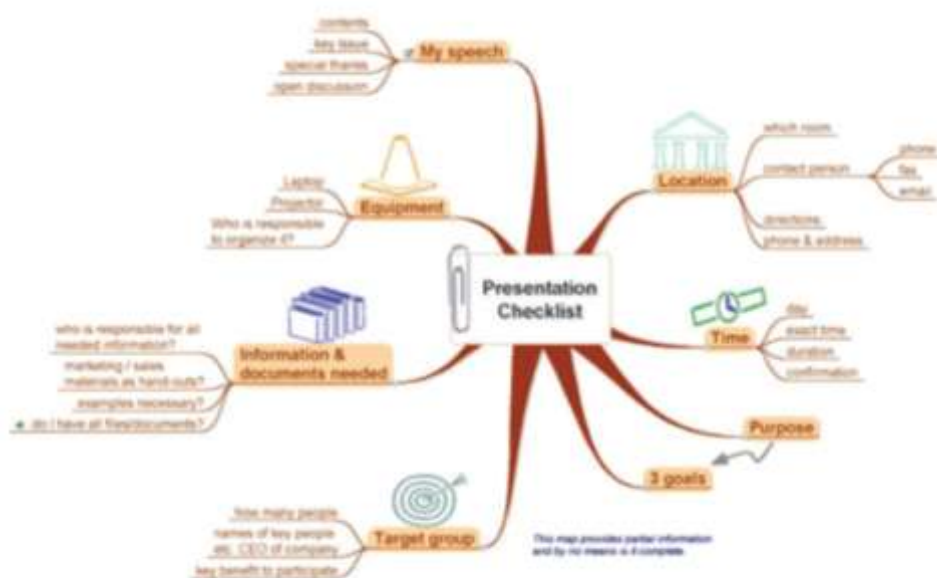


Fig. 1 A Mind Map ("Mind Maps Made With Mind Mapping Tool")

The article goes on to describe the seven ways to put together a corporate strategy : brainstorming, storyboarding, mind mapping, excursion, checklists, morphological analysis and lotus blossom. Lotus blossom technique is very handy in creating strategic scenarios , while mind mapping starts with noting down the problem, object, issue as the central theme for bringing out major aspects of the problem and draw out aspects that could form part of the solution and then look for inter-relations, what they mean to the central problem area, critique it, and set out new directions. We feel a combination of mind mapping and scenario planning could well provide a unique tool for market development.

Lotus blossom like mind mapping revolves around a central core idea, which could be expanded by using other ideas (petals of a lotus blossom). The article emphasizes that

strategy formulation and creative thinking would be key to innovation and future sustenance and survival.

STRATEGIC ALLIANCES: CHOOSE YOUR PARTNERS BY KEITH D. BROUTHERS, LANCE ELIOT BROUTHERS AND TIMOTHY J. WILKINSON

In their article, '*Strategic Alliances*': Choose your partners, Keith D. Brouthers, Lance Eliot Brouthers and Timothy J. Wilkinson argue that managers of firms looking for alliances as a part of their need for diversification, business development, and market share, often forget the importance of conducting long range planning. But, the authors warn that strategic alliances are risky; they are dangerous ventures that can harm unwary participants because potential partners may be a lot better (or worse) than the company at the strategic alliance 'game' (Brouthers et al., 1995).

Before pledging for alliances, companies should match the real resource shortages with the time available at hand. If shortages cannot be filled by the company itself, then the company should look for complementary skills, cooperative cultures, compatible goals, with commensurate risk levels. If the assessments do not necessitate such shortages, strategic alliances should be avoided.

IN FINDING A PARTNER WITH COMPLEMENTARY SKILLS, THE COMPANY SHOULD LOOK FOR:

8. All members of the alliance should feel the need for cooperation
9. When the Experience, capabilities and potential for making a real contribution are present
10. The partners are willing to give to and take from one another.
11. When the partners can leverage their specific competitive advantage
12. When there is symmetry in size and internal working environments
13. When the management is competent, and when the top management within the partner firms can be cordial and focused towards common goals
14. Goal assessment is very important; a successful alliance must be based on compatible goals.
15. Alliances must at the start provide for a clear distribution of risks

RISKS

Risks in alliances act as incentives. Levels of risk should be commensurate between partners, where both can share financial and competitive risks. This then helps reduce the overall risks.

MANAGEMENT

The authors assert that these alliances can only work from the top down, with substantial delegation to management teams, and where gate-keeping is still needed even if there is near total ethics and business compatibility. In an ideal situation strategic goals converge, and competitive goals diverge. One-sided alliances are more likely to fail as are counter-productive competitive goals.

When should strategic alliances be chosen? The answer to this question could be extensive, with many variations and much detail. Our analysis will be limited to four considerations, which we labelled The Four Cs of Strategic

ACCORDING TO THE FOUR CS, STRATEGIC ALLIANCES SHOULD BE UTILIZED WHEN:

- COMPLEMENTARY SKILLS are offered by the partners;
- COOPERATIVE CULTURES exist between the firms;
- The firms have COMPATIBLE GOALS
- COMMENSURATE LEVELS of risk are involved

COMPLEMENTARY SKILLS

Having complementary skills is the most important aspect for creating a thriving strategic alliance. The basis of review should include an examination of skills, technologies, and markets but firms should also consider the partner's experience, capabilities, potential for making a real contribution, and the willingness to give to one another in equal measure. They must also be willing to depend on each other. Complementary skills make an important contribution to the success of a strategic alliance (Randall, 1989, Brouthers et al., 1995, Clarke and Brennan, 1988).

COOPERATIVE CULTURES

Cooperative alliance cultures can become especially difficult to maintain between firms originating in different countries. The most important aspect of international alliances is the respect for cultures among alliances. While forming an alliance, a revitalized corporate culture is the key (1990). It is important to incorporate and indoctrinate innovative cultural aspects of the alliance partners onto each other and make redundant, aspects that form hindrance to the alliance to function cooperatively. This needs a buy-in at all levels of the organization or company, be it the top management or labour in a company. While poor human chemistry and abrasive, unpleasant management styles cannot be remedied;

they can be avoided. All strengths of an alliance become weak if the participants cannot get along. The success of an alliance heavily depends on accepting the cultural aspects of the relationship and compatibility should be enforced aggressively (Brouthers et al., 1995).

Symmetry among member firms is key to the success of the alliance. The key is what we call *'smart symmetry'*. For example, when Hamel, Doz, and Prahalad (1989) asked a *senior executive in a Japanese electronics company about the perception that Japanese companies learn more from their foreign partners than vice versa.*

'Our Western partners approach us with the attitude of teachers', he told the researchers. 'We are quite happy with this, because we have the attitude of students' (Hamel et al., 1989).

The same symmetry should be in the size of firms, pooled financial resources, and the internal working environment of the firms. Mutual trust among members is highly desirable as well and is created when complementary management styles simplify working contacts between operation staffs. Peer relationships between the top management of partners should be well established even before the alliance starts function on the ground level. If the size of the firms are dissimilar, cooperation becomes that more important. Alliances depend also depend heavily on delegation from the top management. Once delegated, a learning process occurs and this helps speed the process of cooperation amongst members of different cultures.

But one should note the dangers of indulging too much in cooperative cultures and other niceties, where one firm may inadvertently relinquish its unique core technology, ability, or knowledge to the other firm. Thus, while cooperative culture is a prerequisite for a successful strategic alliance, gate-keeping is still required (Birkinshaw et al., 2008).

COMPATIBLE GOALS

Setting strategic goals is important for an alliance to work. The company should evaluate the goals for each partner and understand how each other's goals and objectives will effect will affect their success in future. It is also important to understand the boundaries and the limits the each should not cross. Alliances that are simply set up for gaining access to the partner's core competencies, merely extinguishes the trust among members and sends a wrong signal about the company to the market.

Clarity of focus is very important. Ambiguous goals, fuzzy directions, and uncoordinated activities are the primary causes of failure of cooperative ventures (Lynch, 1990).

COMMENSURATE LEVELS OF RISK

Every venture, small or big has risks. Though different in nature, risks exist in different forms in alliances and ventures. If nothing is at risk there is less of an incentive to stay together (Lynch, 1990). It is always better to acknowledge inherent risks associated with alliances and keep measures to control those risks in order to reap maximum benefit for all members than just a few. Sharing the risks reduces the overall level of risk in the alliance, this involves both financial as well as risks of competition, and intelligence sharing. Distributing risks is the hallmark of a good strategic alliance (Brouthers et al., 1995). Also acknowledging of mutual dependency helps build a cordial relationship and strengthens a strategic alliance.

LITERATURE ON STRATEGIC ALLIANCES

RESOURCE AND RISK MANAGEMENT IN THE STRATEGIC ALLIANCE MAKING PROCESS BY T. K. DAS AND BING-SHENG TENG

In *Strategic alliances: choose your partners* (Brouthers et al., 1995), we discussed how every venture, small or big has risks and how if nothing is at risk there is less of an incentive to stay together in an alliance (Lynch, 1990). But it is always better to acknowledge inherent risks associated with alliances and keep measures to control those risks in order to reap maximum benefit for all members than just a few. We will now detail what constitute risks in international ventures and briefly detail the measures that companies could take to acknowledge and control those risks.

Strategic alliances emphasise on certain cooperative arrangement between organizations (Das and Teng, 1998), wherein virtually all kinds of inter-firm arrangements can be called strategic alliances (Borys and Jemison, 1989). Joint ventures, equity investment, licensing, joint R & D arrangement, technology swap, buyer-supplier relationship, etc. are some of the popular types of alliances (Lei et al., 1997). Among these alliances there are two certain elements that companies either fear about or are most concerned about, i.e. the resources and the risk involved in the alliances. While resources will be used to obtain maximum returns from the alliance, they would also be very concerned about the risks they are exposed to (Ring and Van de Ven, 1992).

Major resources needed in alliances are, financial, technological, physical, and managerial.

For companies, it is important to understand both these issues while making plans to enter into an alliance (Zaheer and Venkatraman, 1995). Further the issue of trust is related to the level of resources availability and usage and the level of risk perceived by the alliance.(Zaheer and Venkatraman, 1995)

INTRODUCTION

An alliance is simply a process of seeking complementary resources of other firms. i.e. getting access to resources in a faster and cheaper manner (Lei et al., 1997). Financial, technological, physical, and managerial resources are the four basic categories of firm-specific resources which are significant in strategic alliances. It is the firm-specific resources, both intangible and tangible that lead to a firm's competitive advantage (Barney, 1991). Intangible resources include brand names, technology, skilled personnel, machinery, capital, etc and tangible resources include physical assets and financial assets. Reputation (Grant, 2010, Hofer and Schendel, 1978). The resources that are contributed by the partners of an international joint venture are usually the following: technology, local knowledge, marketing skill, government suasion, marketing, management competence, research and development, financial resources, functional expertise, independent facilities, physical location, and also inputs like raw material and components, knowledge, distribution, and loan capital (Blodgett, 1991, Chi, 1994, Lyles and Reger, 1993)

But the resources that a firm contributes constitute the key dimensions in understanding the firms orientations and objectives in prospective alliances For example, those who contribute financial resource would be more concerned with return on their investment, while those who provide technological resource such as patents, are likely to worry about securing that technology (Kogut and Zander, 1992, Chi, 1994). If that is not the case, the alliance member does not really consider its contribution as its core competition, meaning if the resources of a firm are not its competitive advantage, it is not worthwhile and is sometimes detrimental to others firms in an alliance (Hamel et al., 1989, Kogut and Zander, 1992)

RISKS IN ALLIANCES: RELATIONAL & PERFORMANCE BASED

Risk is a significant factor in strategic management, since strategic decision making is inevitably concerned with assessing odds for successful performance (Baird & Thomas,

1985; March & Shapira, 1987). According to Thompson (1967), the control of uncertainties and risks in one's environment forms the essence of management. Several studies propose sharing and controlling of risk (Kogut, 1988) as important justifications for joining strategic alliances.

RELATIONAL RISK

While economic theory assumes that decision makers always try to maximize their utility, that is, the firms are supposed to pursue their self-interests (Gulati, 1995). But it would be a serious problem if one partner firm does not commit itself to cooperation and the notion of "relational risk" reflects this concern. Shirking, distorting information, stealing the partner's skills, clients and personnel are just some examples of guileful self interest seeking and reflect opportunistic behavior, giving birth to the relational risk among alliances.

If such behavior is perceptual it can be mitigated by creating and having trust among members of the alliance (Ring & Van de Ven, 1992), but caution should be maintained through detailed contractual clauses, stringent control mechanisms, shared equity ownership, to curb the tendency for exploitation by alliance members.

PERFORMANCE RISK

If the strategic objective of an alliance may be jeopardized, it is referred as a performance risk. Factors such as incompetence of partners constituting R & D risk, international risk, commercial risk, and corporate risk are the sources of performance risk. Forging strategic alliances often mitigates the degree of performance risk faced by individual firms and thus the need to forge alliances, allowing multiple firms to share the total cost and risk associated with venture.

It would be better to understand that both relational and performance risks are measured by the perceptions of the partners, and directly impacts the decision makers' risk behavior (Sitkin and Weingart, 1995). Both risks are interrelated even while the higher risk is taking into consideration by firms (Das and Teng, 1996), but it is important to understand that reduction of one type of risk often results in increased exposure to the other type of risk (Miller, 1992).

STRATEGIC ALLIANCE MAKING ORIENTATIONS

Theorists suggest dividing the process of risk analysis in strategic alliances into several stages (Devlin and Bleackley, 1988, Das and Teng, 1998) such as:

- Negotiation, commitments, and executions (Ring and Van de Ven, 1992)
- (1) the decision to form an alliance; (2) the choice of an alliance partner; and (3) the planned management of the alliance (Devlin and Bleackley, 1988)

The common theme in this analysis is the orientation of each partner in approaching the prospective alliance, for example, one partner may be oriented toward controlling the venture, while the other partner's orientation could be about securing its technology. Understanding the strategic orientations and intentions of alliance members becomes crucial to a firm's success (Hitt et al., 1995).

FINANCIAL RESOURCE

After the global market collapse of 2008, securing loans and finances simply on proposals and prospects have become extremely difficult. In terms of the objectives and orientation of alliances, western firms have been seen to be different than firms from other countries. According to Hamel, Doz, and Prahalad (Hamel et al., 1989), Western companies often enter an alliance to avoid investment, i.e., to seek financial resource from others and relying mostly on financial institutions to provide the same. We have identified some probabilities:

- A) In strategic alliances, if a firm were to provide the investment, the firm's orientation as observed was to control the alliance, wherein the investing partner wants to make sure that the use of financial resource is appropriate (Das and Teng, 1998) and be in position to overrule the strategic decision by the partner/s (Root, 1988). And for those who take an equity position in another firm, it often means putting their people onto the other partner's board of directors as a way to monitor and control its activity.

Additionally, if relational risk is significant and the possibility of opportunistic behavior is high, the investing partner would like to have the other partner put in a certain amount of investment also. Herein, equity investment by both partners helps align their interests, deterring opportunistic behavior (Gulati, 1995). In this sense, an equity share is "substantial" when it can serve both as incentive-generator and hostages for the partners.

B) If the partner contributes financial resource but is concerned about high performance risks, the orientation of the investing partner would be to ensure that the venture will be a profitable investment. Profitability then, becomes the priority in the alliance making process. In many cases, equity investment is situation-specific and so is hard to recover in full (Parkhe, 1991).

Overall the specific objective in both the above cases would be to incorporate exit provisions in the contract, (Das and Teng, 1996), specifying that one member has the obligation to sell and the other member has the right to buy the venture (using specific pricing formulas), in case the alliance has to be terminated. This help to reduce its investment risk (Bleeke and Ernst, 1995). Additionally, Exit provisions help to improve the overall profitability picture of the investment,

TECHNOLOGICAL RESOURCE

Technology refers to the key productive resource of a firm and firms usually safeguard their expertise through the patent system. Strategic alliances take advantage of this exclusivity in an alliance (Das and Teng, 1998). Firms possessing the resource may want assistance in other needed resources, thus requiring alliance partnerships for capital or distribution channels. The authors also (Das and Teng, 1996) point out that in an alliance, the firm does not guarantee 'free transfer of technology', but a planned access to technology, or the sale of technology through licensing.

The orientation of the firm, providing the technological resource, in an alliance would be to safeguard its technological know-how, as history points out that other members might gain that knowledge and sometimes become direct competitors of the firm (Osborn and Baughn, 1990). One of the safeguards a firm can rely on is to seek strong patent safeguards and should allow partners in an alliance to access only patented technologies (Das and Teng, 1998).

PHYSICAL RESOURCE

Physical resource, though they do not provide competitive advantage to the firm are an indispensable part of a value chain (Das and Teng, 1998). For example, raw materials and distribution channels are not always available at a desired price, due to inefficiencies in the market. Securing such resources provides a good reason to form a strategic alliance (Chi, 1994).

For firms providing such resources the orientation is usually towards stability with partners. And the real threat comes from opportunistic behavior and cheating by alliance partners. Creating conditions for sustained collaboration becomes the priority for the firm. The way to create such conditions is to embed the partners deeply in an alliance and mitigate circumstances leading to opportunism(Provan, 1994). Das and Teng (1996) suggest increasing duration of the alliance so that the partners would tend to be more responsible. A second suggested approach would be to formalize the relationship but this may not be always possible because of short-term contracts and here they should be interested in providing for recurrent contracts among partners.

MANAGERIAL RESOURCE

Planning, operations, marketing, and human resource management constitute managerial resources. Managerial resource is the skills and knowledge that the firm possesses and is broader and vague is its concept. The main resource are the key people in the firm and their specific knowledge. Such firms look to establish their managerial authority in an alliance and devote their time and resources on overall managerial issues (Das and Teng, 1998, Mueller, 1996) and that parenting (Goold and Campbell, 1998) hierarchical authority is a key mechanism for interacting with alliances.

The objective of such firms should be to secure its most important personnel, put their key people in important positions within the alliance and exercise authority directly over the alliance. The firms should guard its key personnel from being recruited by the partner.

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ANNEXURE II

RISK FACTORS AS PER BBR'S SCORING SHEET

We profiled each country in the GCC for the relevant risk associated with those countries. This was done knowing that prior to entering a new market it is important to measure market related risks and BBR the target country's vulnerabilities. Our risk profile included the following parameter:

1. Political Risk
2. Travel/Security Risk
3. Medical Risk
4. Natural Disasters
5. Health and Safety standards
6. Corruption
7. Legal
8. Territory fit and market opportunity

SUMMARY OF COUNTRY SCORES BASED ON ABOVE PARAMETERS:

S.NO.	COUNTRY	DATE OF SCORE	WEIGHTED COUNTRY SCORE (/100)	CONFIDENCE IN COUNTRY SCORE
1	Saudi Arabia	17-Jul-12	63	85%
2	Baharain	17-Jul-12	52	84%
3	Kuwait	17-Jul-12	55	85%
4	Oman	17-Jul-12	54	85%
5	UAE	17-Jul-12	62	85%
6	Qatar	17-Jul-12	71	85%

BASIS OF COUNTRY SCORING

Political Risk	Graded Score (10 = Good)	Travel/Security Risk	Graded Score (10 = Good 0= Bad)
Low Risk	10	Insignificant Travel Risk - iSOS	10 to 9
Medium-Low Risk	8	Low Travel Risk - iSOS	8 to 7
Medium Risk	6	Medium Travel Risk - iSOS	6 to 5
Medium-High Risk	4	High Travel Risk - iSOS	4 to 3
High Risk	2	Extreme Travel Risk - iSOS	2 to 1
Very High Risk	0		

Medical Risk	Graded Score (10 = Good 0= Bad)	Natural Disasters	Graded Score (10 = Good 0= Bad)
Insignificant Medical Risk - iSOS	10 to 9	No recent history of disasters, country infrastructure & Systems well prepared for	10 to 6
Low Medical Risk - iSOS	8 to 7	No recent history of disasters, country infrastructure still developing.	5 to 1
Medium Medical Risk - iSOS	6 to 5	Recent history of natural disasters.	0
High Medical Risk - iSOS	4 to 3		
Extreme Medical Risk - iSOS	2 to 1		

Zero Harm	Graded Score (10 = Good 0= Bad)	Corruption	Graded Score (10 = Good 0= Bad)
No Health & Safety (H&S) risks identified that require specific mitigation / leading international H&S standards. Compliance with Zero Harm best practice.	10	Country - As per Corruption Perception Index	10 to 0
Standard H&S risks identified that BB has significant experience of mitigating and managing successfully / BB staff only will be working on the project.	9 to 6	Tender - Prevalence of corrupt practices likely to be encountered with client and/or partner organisation or through project delivery	10 to 0
Non-standard H&S risks identified that BB has prior experience in managing. / Local labour force that can be trained to BB standards / JV or other partner provides own staff but BB work with previously and standard meets BB.	5 to 2		
Non-standard H&S risks anticipated / JV or other partner provides own trained staff but not to BB standards	1 to 0		

Legal - Property Ownership & Debt Recovery	Graded Score (10 = Good 0= Bad)	Industrial Relations	Graded Score (10 = Good 0= Bad)
Open economic system allowing 100% foreign ownership of property and business, transparent legal processes in place to support debt recovery and protect BB interests.	10 to 8	Labour force not unionised or unions weak and little evidence of previous industrial unrest.	10 to 6
Legal processes opaque and evidence of difficulty recovering debt and/or protect foreign interests.	7 to 4	Unions present with some history of unrest but no particular opposition to PFI or foreign investment.	5 to 2
State and/ or local organisation required to be part of JV and other legal constraints on ownership,	3 to 1	Unions present and opposition to PFI or foreign companies. Evidence of previous civil unrest.	1 to 0
State and/ or local organisation required to be part of JV and other legal constraints on ownership AND ALSO Legal processes opaque and evidence of difficulty recovering debt and/or protect foreign	0		

Territory Fit	Graded Score (10 = Good 0= Bad)	Market Opportunity	Graded Score (10 = Good 0= Bad)
Tender is in one of our target markets and is aligned with our business strategy. This is in a territory where other parts of BBRail are operating.	10 to 8	Multiple target projects providing a long term programme of major / minor opportunities where we can be competitive and profitable. Clear sight of	10 to 8
Tender is in a new territory to BBRail but known to BB Plc.	7 to 3	More limited number of available target projects. May be question marks on available funding for projects in the market.	7 to 3
Tender is in a new territory to BB Plc.	2 to 0	Single one off project limited or no scope for further work	2 to 0

THE TABLES BELOW REPRESENT SCORING FOR EACH COUNTRY:

SAUDI ARABIA COUNTRY SCORING:

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia	Saudi Arabia
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	6	7		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	5	6		0	80%	medium' overall country risk increases to extreme risk for north caucasus
3	Medical Risk	Availability of adequate healthcare	3	6	5		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	1	1		0	90%	calculated as 1-(139/173)= 1.15%
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	7	8		0	80%	Source from US CIA reports (https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html) InternationalSOS/UN and research on internet.
6.1	Corruption	Prevalence of corruption & bribery	3	4	3		0	90%	calculated as 1-(143/182)= 21%
6.2	Corruption1	Prevalence of corruption & bribery	3	6	5		0	80%	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	3	3		0	90%	http://www.heritage.org/index/country/saudi-arabia DB rankings: registering property (1), protecting investors (17), enforcing contracts (138); average rank = 52%
8	Industrial Relations	Prevalence of unions & labour unrest	3	5	4		0	80%	http://www.heritage.org/index/country/saudi-arabia
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	6	7		0	80%	new territory, major contracts through known incumbents only
10	Market Opportunity	Scope and size of market opportunity	5	10	14		0	80%	major contracts through known incumbents only
Total			38	59	63	0	0	85%	

BAHRAIN COUNTRY SCORING

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain	Bahrain
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	4	5		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	6	7		0	80%	0
3	Medical Risk	Availability of adequate healthcare	3	6	5		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	1	1		0	80%	Formula (1-(169/173)) - 169 Rank out of 173
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	7	8		0	90%	Economic and Institutional Reforms in the Arab Gulf Countries, Pg 14, 7th Pillar - Labor Market Efficiency - , rank 28 out of 139
6.1	Corruption	Prevalence of corruption & bribery	3	5	4		0	80%	Assumed to be the same as Kuwait and Oman as data NA in CPI report
6.2	Corruption1	Prevalence of corruption & bribery	3	NA	NO VALUE		0	80%	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	3	3		0	90%	Same as Kuwait and Oman as data NA
8	Industrial Relations	Prevalence of unions & labour unrest	3	6	5		0	80%	Wikipedia - Human Development Index 2010 Country Ranking Formula (1-42/187)
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	4	5		0	80%	UAET team's opinion based on limited BBR experience in the market
10	Market Opportunity	Scope and size of market opportunity	5	7	10		0	80%	There are major proposed projects in the region, however tough competition also exists
Total			38	49	52	0	0	84%	

KUWAIT COUNTRY SCORING

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	Kuwait	Kuwait	Kuwait	Kuwait	Kuwait	Kuwait
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	8	9		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	7	8		0	80%	0
3	Medical Risk	Availability of adequate healthcare	3	6	5		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	3	2		0	80%	World Economic Forum - Global Competitiveness Report - 2010-2011, Formula based on country ranking (1-(135/173))
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	5	6		0	90%	Economic and Institutional Reforms in the Arab Gulf Countries, Pg 14, 7th Pillar - Labor Market Efficiency - rank 64 out of 139
6.1	Corruption	Prevalence of corruption & bribery	3	5	4		0	90%	Ranking Based Formula from data at the transparency.com website (1-(54/182))
6.2	Corruption1	Prevalence of corruption & bribery	3	NA	NO VALUE		0	NA	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	3	3		0	90%	Ranking based formula on doingbusiness.com, (1-(71/182))
8	Industrial Relations	Prevalence of unions & labour unrest	3	5	4		0	80%	Wikipedia - Human Development Index 2010 Country Ranking plus our Formula (1-63/187)
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	4	5		0	80%	UAET team's opinion based on limited BBR experience in the market as per news articles on projects in the country
10	Market Opportunity	Scope and size of market opportunity	5	7	10		0	80%	There are major proposed projects in the region, however tough competition also exists
Total			38	53	55	0	0	85%	

OMAN COUNTRY SCORING

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	Oman	Oman	Oman	Oman	Oman	Oman
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	6	7		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	7	8		0	80%	0
3	Medical Risk	Availability of adequate healthcare	3	6	5		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	2	1		0	80%	World Economic Forum - Global Competitiveness Report - 2010-2011, Formula based on country ranking (1-(154/173))
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	6	7		0	90%	World Economic Forum - Global Competitiveness Report - 2010-2011, 7th Pillar - Labor Market Efficiency - 4.7 out of 7 (pg 264 of report), rank 36 out of 139
6.1	Corruption	Prevalence of corruption & bribery	3	5	4		0	90%	Ranking Based Formula from data at the transparency.com website (1-(50/182))
6.2	Corruption1	Prevalence of corruption & bribery	3	NA	NO VALUE		0	NA	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	3	3		0	90%	Ranking based formula on doingbusiness.com, (1-(53/182))
8	Industrial Relations	Prevalence of unions & labour unrest	3	5	4		0	80%	Wikipedia - Human Development Index 2010 Country Ranking plus our Formula (1-90/187)
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	4	5		0	80%	UAET team's opinion based on limited BBR experience in the market as per news articles on projects in the country
10	Market Opportunity	Scope and size of market opportunity	5	7	10		0	80%	There are major proposed projects in the region, however tough competition also exists
Total			38	51	54	0	0	85%	

UAE COUNTRY SCORING

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	UAE	UAE	UAE	UAE	UAE	UAE
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	6	7		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	8	9		0	80%	0
3	Medical Risk	Availability of adequate healthcare	3	6	5		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	8	5		0	80%	0
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	4	5		0	90%	50% drop in UAE on site fatalities in 2009 compared to 2008 http://www.meed.com/supplements/2010/quality-in-construction/uae-taking-the-lead-on-construction-site-safety/3006550.article
6.1	Corruption	Prevalence of corruption & bribery	3	7	6		0	90%	0
6.2	Corruption1	Prevalence of corruption & bribery	3	NA	NO VALUE		0	NA	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	6	5		0	90%	The credit bureau, Emcredit, started collecting information on the repayment pattern of individual borrowers as well as firms in February 2007. This has allowed better supervision of the debt level of banks and borrowers.
8	Industrial Relations	Prevalence of unions & labour unrest	3	7	6		0	80%	http://www.arabianbusiness.com/uae-considers-trade-unions-122916.html
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	3	3		0	80%	0
10	Market Opportunity	Scope and size of market opportunity	5	8	11		0	80%	0
Total			38	63	62	0	0	85%	

QATAR COUNTRY SCORING

S.NO	CATEGORY	CATEGORY MEASURE	WEIGHTING AS GIVEN BY BBR	Qatar					
				COUNTRY SCORE TO BE ASSIGNED BY THE USER	WEIGHTED COUNTRY SPECIFIC SCORE	PROJECT SPECIFIC COUNTRY SCORE	WEIGHTED PROJECT SCORE	CONFIDENCE IN ASSIGNED SCORE %	KEY COMMENT
1	Political Risk	Government Stability & Civil Unrest	4	8	9		0	90%	0
2	Travel/Security Risk	Evidence of terrorism or kidnap	4	8	9		0	80%	0
3	Medical Risk	Availability of adequate healthcare	3	8	7		0	90%	0
4	Natural Disasters	Prevalence of disasters and ability of infrastructure to cope with these	2	10	6		0	80%	0
5	Zero Harm	Do countries comply with leading Health & Safety standards	4	5	6		0	90%	There are laws in the country that tackles safety issues, but the problem is that these laws are not implemented properly. Strict penalty laws are the best way to make sure people comply with safety rules.
6.1	Corruption	Prevalence of corruption & bribery	3	7	6		0	90%	0
6.2	Corruption1	Prevalence of corruption & bribery	3	NA	NO VALUE		0	NA	0
7	Legal - Property Ownership & Debt Recovery	Ability to own property or business and transparency and effectiveness of legal system to support debt recovery.	3	7	6		0	90%	0
8	Industrial Relations	Prevalence of unions & labour unrest	3	7	6		0	80%	0
9	Territory Fit	Distinction as to whether this is a target market, an existing BBR market or is new territory to BB Plc	4	4	5		0	80%	0
10	Market Opportunity	Scope and size of market opportunity	5	8	11		0	80%	0
Total			38	72	71	0	0	85%	

ANNEXURE III: INTERVIEWS

DATE: 23rd July, 2012

TELEPHONIC INTERVIEW WITH ADMIR NOCAJ, BUSINESS DEVELOPMENT
MANAGER, EU-MENA REGION.

1. WHAT MARKETS ARE ALLOCATED TO BB RAIL UK? – JAKE RUDHAM

JAKE Rudham: *“There are no markets, as such, allocated to us. We can participate in any region where we find our competence can contribute in contracts. There no functions allocated to BB Rail as well.”*

2. WHICH ACCORDING TO YOU ARE THE MAIN MARKETS IN THE GCC?

Saudi Arabia, Qatar, Abu Dhabi, Oman

3. WHAT ARE YOUR SOURCES OF INFORMATION?

- Our main sources of information are MEED and information gathered by the parent owned companies like PB and DUTCO BB. There are no specific BB Rails personnel tasked with collecting information on this region.

- We also collect information from organisations like UKTI in UK

4. WHAT IS YOUR REGIONAL MANAGEMENT STRATEGY?

- We are currently having issues where we are conflicted-out with BB owned firms like Parsons Brinkerhoff and are finding ways to develop contracts in places where we are not in conflict with PB or other BB owned businesses. Examples of execution are Track Works and Electromechanical.

- Regional management strategy is to rely on Parsons Brinkerhoff and DUTCO BB for assisting in choosing contracts and alliances. The company depends heavily on the intelligence provided by both PB and DUTCO BB.

- Regional management is currently handled by DUTCO BB.

5. ARE YOU WILLING TO GO FOR TIER 1/2/3 CONTRACTS?

- We are not interested in sub contracts but as time progresses we might decide on that.

6. DO YOU CURRENTLY HAVE ANY ALLIANCES IN THE REGION?

- Yes. We were associated with Abdullah A. M. Al-Khodari Sons Company (SA), and for future projects Saudi Oger Group, Al-Rajhi Consortium (on a project-by-project basis) with whom BBR has good relation would be suitable partners.

7. WHAT OPPORTUNITIES ARE LOOKING FOR?

- The company is currently looking for civil rail construction works in the region and depends on sub-contracts. In coming years there will be an effort to get into the design, Supply, technology, communications contracts of the rail industry. The final stage would be to get access to comprehensive packages.

- We are looking for turn- key packages, design, supply, supervision, test&commissioning for Metros and LRT.
- Mainline work
- Jubail Refineries construction work
- There are several opportunities in client representation contacts.
- There has been a delay in Abu Dhabi Project allocation
- We are waiting for information on Oman

8. HOW ARE CONTRACTUAL AGREEMENTS SIGNED?

- Several GCC countries have gentlemen business agreements rather than binding agreements. Contracts are decided verbally than on paper.

9. WHAT IS THEIR PROCUREMENT STRATEGY, AND DO YOU SEE ANY CHALLENGES IN GCC REGION?

- Each country has different practices, and SA has lowest price criteria, technical evolution, special requests, track, electro mechanical works,

10. HUMAN RESOURCES

- It is a challenge and the technical workforce in the region is recruited from Malaysia, India, Pakistan, and they employ local people in SA. Local Islamic Court and laws are used, and they suffer due to these rules

11. DO YOU HAVE LINKS WITH BANKS IN THE GCC REGION?

- No. We shall look into it.

12. WHAT KIND OF CONTRACTS ARE YOU LOOKING FOR IN THE REGION?

- We are looking for ways to develop contracts in places where we are not in conflict with PB or other BB owned businesses.

13. WHAT ARE THE MARKET BARRIERS?

- We are conflicted out in Qatar
- Major market barriers are: Terrain, Climate, Resources.
- Price and cost of products are much higher than competition
- Regulation Barrier is the Islamic Rules governing business (personal perception)
- Internal Coordination with team
- PB might block information due to its contractual obligations

14. HAVE YOU IDENTIFIED THE RISKS IN THE REGION?

- The major risks in construction in the region is posed by the terrain and climate of the region. Tunnel boring machines, for example, are hired on a project-to-project basis. These

machines often fail to operate under high temperatures, making the cost of operations unviable or unprofitable.

- Sand poses problems on a different level. The blowing sand enters machines and tracks, making maintenance to construction machines a costly affair.

- Some coastal regions have multiple problems related to corrosion and failure.

- If above costs are not factored into the contracts, then the bid could very easily turn into an unprofitable operation.

15. INNOVATIONS THAT BB RAIL CAN OFFER?

- BB Rail can offer several industry leading innovations that other companies can find difficult to match.

- BB has got centres of excellence in UK and Germany. The centre for excellence in UK deals with innovations in track products, manufacture, supply, and maintenance, while centre for excellence in Germany provides several innovations related to railway products and services in a comprehensive manner

DATE: 29th July, 2012

TELEPHONIC INTERVIEW WITH ARASH AGHDAM, DIRECTOR OF RAIL AND
TRANSIT, PARSONS BRINCKERHOFF, MENA REGION

GENERAL INTRODUCTION ABOUT PARSONS BRINCKERHOFF IN THE GCC REGION?

- PB has been in the region for 40 years, with primary focus of business in early design, and program management, rail - front end planning, consulting and has grown from being a 50m enterprise to 114m
- The industry is divided into two main dimensions (1) Power and Water (2) Infrastructure - rail, transport, airport (non power).
- Oil companies, contractors, ministries

WHAT HAVE BEEN THE BENEFITS FOR BB RAIL AND PB POST - MERGER WITH THE BALFOUR BEATTY GROUP AND WHICH ARE THE AREAS THAT BB RAIL AND PB CAN WORK FOR MUTUAL BENEFIT IN THE FUTURE?

- PB has 13000 staff and international presence which could be combined with BB Rail for future work (contracts).
- However, PB is not fully aware of BBR's strategy in the GCC region, and the partnership has another dimension of conflict of interest, which has to be kept in mind while discussing implementation / execution, areas of conflict.
- At the same time there is a certain degree of compatibility which can be complemented / extended by one group to another especially in design (including feasibility), and build multidisciplinary projects (benefit from JV).

- There is a difference in the way RFP (request for proposals) are handled in UK, and how the same is handled in GCC, as you have to give weight to the culture in GCC not just the price.
- Big Gap how PB as a consultant sees a contract and how construction companies see it, as there are other soft skill issues with contract of respect, trust that PB has been able to build with years and years of presence to understand project management from the client's point of view.

WHICH ARE THE IMPORTANT CONTRACTS THAT BBR NEEDS TO DEVELOP IN THE REGION?

- The first and foremost are all the ministries like Ministry of Transport, Ministry of Finance, and ministry created companies as money is not the main issue, but the important point is to increase efficiency through private companies
- Agencies that represent railway, and the quasi-private companies
- As BBR is not hunting any projects directly they could look at being Tier 2 / Tier 3 contractor
- Additionally, BBR could look at establishing relationships with local contractors, suppliers
- BBR is conflicted out with PB in Qatar

WHICH ARE THE GOVERNING BODIES FOR DEVELOPING RAIL INFRASTRUCTURE IN THE REGION?

Private Companies, Quasi Private Companies e.g. Saudi Rail Company

WHAT ARE THE BUSINESS OPPORTUNITIES IN THE REGION FOR BB RAIL? TIER 1 / TIER 2 / TIER 3

- It is not possible to get the contracts directly through the government, and rail contracts are divided into various parts such as track, signaling, mechanical, rolling stock, construction etc. and government has nominated some of the major consortiums such as Bombardier, Siemens,
- Local presence in the region is KEY to understanding the business environment and tapping into opportunities
- Tier 1 is the Infrastructure Contractor who is the front runner for the project excluding the early stage consultant, and it would be difficult to get contracts as Tier 1 operator
- Time is of key importance as most of the major projects would be awarded in the coming few years (don't miss the bus), and the probable markets for rail projects in GCC is UAE, SA, Kuwait, Oman, and especially in high technology complex metro systems where BBR could provide expertise to a consortium members

CAN BB RAIL SEEK VIABLE JV OR PARTNERSHIPS WITHIN THE REGION?

- The first thing is to understand pricing and secondly, most importantly is the perception of risk, and knowing the price of the project at the time of bidding and that the final price could be different for
- Understand how to mitigate risk specific to this region example risk of staffing
- PB in Middle East faces the same issues as perception of US, UK management about risk is different and senior management feels that it cannot mitigate risk, which

increases the price at estimation stage, and if the European office is unable to assess risk, then it cannot price the bid properly. Local knowledge is Key.

- Another dimension to this is that the profit margin in some projects might be low
- The key to this is that local companies act as mediators in the process

WHAT WERE THE KEY SUCCESS FACTORS FOR PB IN THE REGION? FOR EXAMPLE THE RABIGH POWER PLANT CONTRACT IN SAUDI ARABIA.

- Define who is the client, what clients want, and understand client's requirements
- Local presence - understanding culture and aligning your processes to understand client's perception of VALUE, and what VALUE they pay for, and the important point here is that the focus should be on perception of client not BBR
- The client does not define price, so it is important to take feed from the market while pricing (and understand perception of risk)
- Rail projects are complicated and Price is KEY
- Rail construction, valuation, variations, or claims is based on government's effort to source at rock bottom prices
- Escalations are awarded if the project is big project (volume) or based on name of participant (consortium or local player)

DATE: 01st August 2012

TELEPHONIC INTERVIEW WITH GRAHAM CALDWELL, OPERATIONS & BID
MANAGER FOR CTW 100 PROJECT, BALFOUR BEATTY RAIL,

GENERAL INTRODUCTION ABOUT YOUR ROLE IN THE REGION

- Graham has a degree in civil engineering and 23 years of experience with 16 years of experience with BBR, and is currently responsible for tendering in Saudi Arabia

CAN YOU DETAIL YOUR EXPERIENCE OF THE REGIONAL PROJECTS?

- Graham was involved with bidding for SAR CTW 110 project in Saudi Arabia (Al Jubail) for 110 km track, where 13 parties participated in the bid, and BBR was part of one of the few consortiums that met the prequalification / passed the 80% commercial criteria for bidding. BBR was the leading partner, Kier of UK was another partner, and Al Khadouri was the local partner. The bidding process was quite time consuming and last a few months from Sep 2011 to Jan 2012. However at the time the bid winner was disclosed BBR's consortium was the last in the pack, as the price was very high almost 50% higher than the bid winner,

WHAT IS THE IMPORTANCE OF OPERATIONS IN BIDDING?

- The CTW 110 project bid from BBR's consortium was unable to match competition's low price mainly due to perception and pricing of risk in the bid, and sourcing strategy which meant BBR was sourcing material at a higher price and hence pricing the bid higher. Based on this experience BBR decided not to bid for CTW 120 project.

WHAT ARE THE IMPORTANT FACTORS IN PREPARING FOR A BID?

- Key factors while bidding in a new international market was understanding the bidding process, secondly the local JV partner, make up of BBR's team, and whether the goals of all parties are aligned or not and as per his experience of the CTW 110 bid the way each party managed risk was very different, and BBR took a conservative view. After all the 5 parties who had the 80% commercial criteria were called for an open meeting at SAR's office and all the bids were opened in front of them, where each party could look at each other's bid. Saudi Bin Ladin group won the project with lowest price. Malcolm Lorimer (ex-director), was responsible to meeting the local clients, local contractors, players to establish ties in the region.

WHICH ARE THE KEY DEPARTMENTS THAT GET INVOLVED TO PREPARE A BID?

- The key departments are estimating & tendering, procurement, operations, resourcing, Finance (price, currency valuations etc.) HR, and the overall size of the core team working on a bid is usually 3-4 employees.

IS THE INFORMATION GIVEN OUT IN INVITATION OF BID CLEAR?

- Specification outlined in the invitation to bid is clear for example in case of ballast, the size and quality expected in the CTW 110 project was very clear, however BBR could not have priced as cheap as local players as the quality of ballast demanded in the bid was available 100's of kilometers away as none of the sources (quarries) met the specifications. Pricing of CTW 110, 120, 130 projects is quite technical and specific, and the BBR's JV with Kier and Al Khadouri did not work out that well, and it is upto BBR to decide to have Kier as a JV partner or not in the future, as Al Khadouri was very supportive during the entire bidding process. The key issues remain low tech solution, strategy, risk and treatment of risk, and if the JV can get a better price without Kier or not.

WHAT CAN BE DONE TO UNDERSTAND THE MARKET AND CLIENT EXPECTATION BETTER?

Kindly provide your perspective on the projects mentioned below:

SAUDI ARABIA

- The North-South Rail Project (early 2011): 1,486 km Project connecting Al Hadeetha (Northwest corner) to Riyadh and the Eastern port cities Ras-Al-Zour and Jubail (Key port and processing centers). Mining transport phosphate and bauxite mineral ores from Jelamaid (northern region) to Ras al-Zour (Eastern processing center)
- Saudi Land Bridge Project: 950 km line linking Dammam with Jeddah via Riyadh. Transport cargo and containers from Jeddah (western region) to Riyadh and other industrial cities located in the east. This project will *not* be on BOT basis, but via Private Investment Fund (PIF) on the NS Rail Project (*see above*).
- The Haramain High speed Rail project: 444 km Project Airport Link. Linking Makkah and Madinah. Passenger transport project for pilgrims and travellers from main airport in Jeddah.
- What are the other projects, operations, and maintenance contracts that BBR can bid for?

UAE

Eithad Railway Projects (Formerly known as the Union Railway Company)

- 137 Km Ruwais to Ghweifat (or see Silah in *Google Maps*) (linked project for Saudi Arabia to Silah)
- 190 Km Liwa junction to Al-Ain (Oman to Al Ain connectivity)
- Railway integration and systems Projects: Signalling, communication, commissioning works
- Dubai Metro Project maintenance projects or additional services.
- Proposed high speed rail link between Abu Dhabi and Dubai (proposed till Sharjah),
- Abu Dhabi Metro Project
- Any other industrial or Urban rail projects in UAE
- Map below: Abu Dhabi to the western port city of Ruwais expanded until Khor Fakkan (east coast) and also to Al Ain (Oman border), finally integrating into the GCC Railway Network.

OMAN

The supreme committee for town planning (SCTP) is introducing projects worth \$11 bn rail, divided into 3 phases as part of Oman's National Rail Network (ONR)

- Metro Rail in Muscat
- 3 PHASE PROJECTS
 - 1st phase: 230 km line from Sohar to Muscat
 - 2nd phase: 560 km line from Muscat to Duqm
 - 3rd phase: 500 km Line from Duqm to Salalah

Also Note: UKTI identified ONR as a good opportunity for UK firms. It is mandatory for foreign consultancy firms to partner with local entities (suitably qualified) for design and engineering, project management

QATAR

Projects proposal for BBR in conflict with PB

- Doha metro: Civil works and project management consultancy
- Lusail light-rail transit: Enabling works, tunnelling contracts, and rolling stock deals

KUWAIT

Kuwait metro, national railway pending since 2007

Kuwait is also not actively progressing on either the Metro Projects (*though expression of interest has been provided in March, 2012*) or its National Railway Network (which is eventually going to be part of the GCC Rail Network).