

TECH LIKE AN EGYPTIAN CAIRO'S CHARGE TO
BECOME THE NEXT TECHNOLOGY FRONTIER

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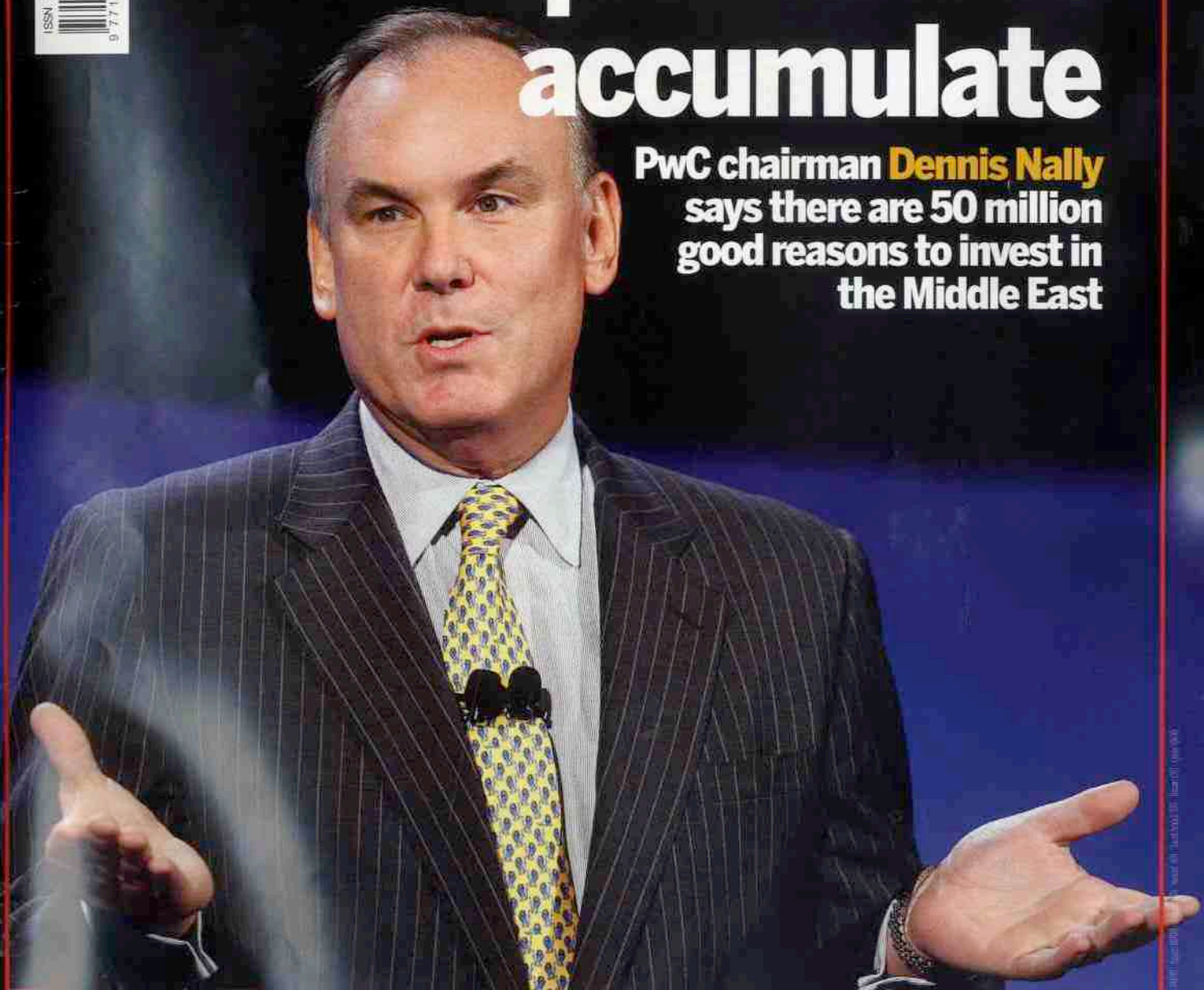
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Business



Speculate to accumulate

PwC chairman **Dennis Nally**
says there are 50 million
good reasons to invest in
the Middle East



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As the head of one of the world's biggest financial services firms, PwC chairman Dennis Nally says the Middle East is a treasure trove of possibilities. How will he begin?

Accounting for change

Tepid growth in traditional economies has pushed the world's second biggest professional services firm to spend \$50m on boosting its regional operations. PwC chairman Dennis Nally says the Middle East is a treasure trove of possibilities.

BY ED ATTWOOD

AN ACCOUNTANT'S JOB — IN MARKED OPPOSITION TO that of a public relations consultant — is to keep his client out of the headlines. As a result, when stories about the major accountancy firms themselves hit the newsstands, it's often when something has gone badly wrong. Take Arthur Andersen, for example. As one of the 'Big Five' accountancy giants, the firm was forced to cease practising after being found guilty of criminal charges relating to the collapse of Enron, one of the world's biggest corporate scandals.

And as the recession has cast a shadow over the world of corporate finance, another massive player, Ernst & Young was in December last year sued by New York prosecutors due to its work with the now-defunct Lehman Brothers. Elsewhere, KPMG has been sued by Fannie Mae for malpractice, and its German branch was also investigated in connection with the Siemens bribery scandal in 2007.





In short, if you're hearing nothing about these firms, then they're probably doing a pretty good job. While PricewaterhouseCoopers (PwC), itself formed from the merger of Price Waterhouse and Coopers & Lybrand in 1998, hasn't been immune to accusations of impropriety, it does seem to be interested in a bit of regional publicity. Why? In global terms, a shift away from traditional markets means renewed focus on emerging economies, with the Middle East playing a vital part in that role.

In fact, PwC — which posted over \$26bn in revenues in 2010, sitting just a sliver behind the world's biggest professional services player, Deloitte Touche Tohmatsu — has been quietly focusing on the Middle East over the last eighteen months as it bids to rebuild its practice here. Chairman Dennis Nally, a PwC veteran having joined the firm's Detroit office way back in 1972, sees the region as one of PwC's most strategic markets in terms of future growth.

"Looking at our growth figures for the first six months of this year, we're on a June 30-year-end, our growth is up 46 percent over the prior year," he says. "So it's a very substantial, and we're certainly moving forward in a very aggressive way in attracting talent to the region."

The recent push has seen PwC add over 30 partners and almost 250 new staff, after the region came under the purview of the company's British division in 2009. In May last year, a British newspaper reported that PwC had poached as many as 40 partners from regional rival Ernst & Young, although both companies declined to comment further. But attracting talent is one of Nally's favoured phrases, and his stated goal is for PwC to overtake Ernst &

"We're certainly moving forward in a very aggressive way in attracting talent to the region"

Future economic powerhouses

The contenders	Estimated overtaking dates based on GDP at PPPs	Estimated overtaking dates based on GDP at MERs
E7 vs G7	2017	2032
China vs US	2018	2032
India vs Japan	2011	2028
Russia vs Germany	2014	2042
Brazil vs UK	2013	2023
Mexico vs France	2028	2046
Indonesia vs Italy	2030	2039
Turkey vs Canada	2020	2035

Source: PwC model estimates (see Table 3 in full report for all estimated E7 vs G7 overtaking dates up to 2050)

“We aim to be the number one practice in the Middle East in the next three years, and we’re very much committed to that goal”

Young on the top of the Middle East professional services tree within the next 36 months or so. Such an aggressive move, however, has not come cheap.

“I’d estimate [the investment] to be in the order of magnitude of between \$40m and \$50m — that would roughly be my guess,” Nally says. “It’s a substantial investment, but as I’m sure you can imagine, it’s all about resources in our business. It’s about how you attract and develop talent. We aim to be the number one practice in the Middle East in the next three years, and we’re very much committed to that goal.”

In terms of targets, Nally cites Saudi Arabia as one of PwC’s top markets, with over 260 consultants now employed in its four offices in the kingdom.

“Clearly we see big opportunities in Jordan and Egypt as well,” he adds. “It is a diverse market and most of the markets in the Middle East are experiencing good growth, and we see that across the board as an opportunity for the firm to service some clients.”

Other than those markets, PwC also has a presence in all the GCC states, as well as offices in Iraq, Lebanon, Libya and the Palestinian Authority. Nally is also keen to stress that consulting will play a big part in the future



▲ The credit crunch has caused many Americans to sit tight on the earnings.

of its Middle East business, despite assumptions from some quarters that it had abandoned this segment in recent years. In the first half of 2010, he points out, PwC’s consulting practice in the region grew by an impressive 60 percent.

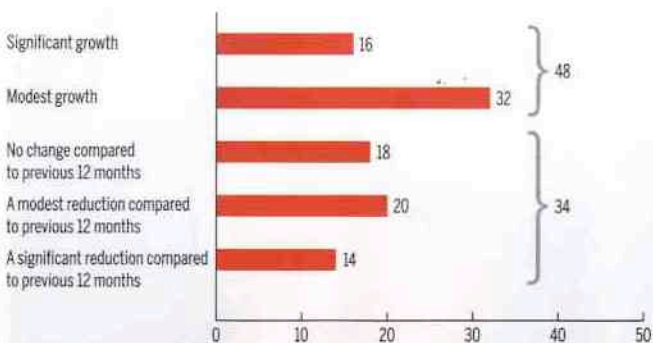
“That’s a little bit of a misnomer in a sense, in that we sold our consulting business to IBM several years ago, that we were actually out of the consulting business,” he says. “But we actually did retain a fairly significant part of our consulting business, and that is continuing to offer us significant opportunities for growth as companies continue to diversify and look for the types of services

that we can provide.”

But the key lesson that both capital markets and private firms should take from the crisis, the chairman says, is that corporate governance and stronger transparency are vital for future success. In the Middle East, as elsewhere in the world, opaque accountability has led to disaster. The ongoing dispute between Saudi Arabia’s Saad Group and Algosabi Group, involving as much as \$22bn in debt, has left a number of financial houses heavily exposed. And in Dubai, jeweller Damas International was reprimanded by the emirate’s regulator in March for failing to exercise proper governance after allowing unauthor-

Slow but sure

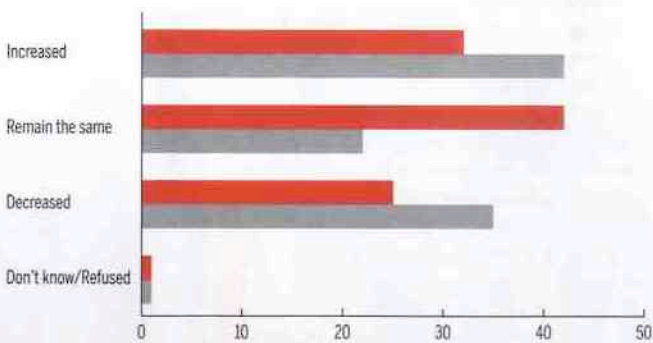
A surprisingly large number of companies have seen demand for their offerings increase during the past 12 months



Source: PwC Family Business Survey 2010/11

Profit report

Operating profits and capital expenditure are down from earlier levels



Source: PwC Family Business Survey 2010/11

ised transactions to the firm's founders.

Nally is keen not to single out the Middle East specifically as an area of concern for global investors, however.

"I wouldn't describe it as a problem, I just think it's different — in different parts of the world, governance practices and transparency issues have evolved over time," he says. "What the recession demonstrates to me is how really globally connected these markets really are. And the one lesson learned out of this... is that as you think about how one market competes in the global marketplace, there is a need to be really competitive in terms of being able to attract the capital from various investors. Or else they are going to fall behind and investors are going to look elsewhere to deploy that capital."

Recent research from PwC claims that over 80 percent of Middle East businesses are owned or run by families. Data from a worldwide report showed that a majority of family firms had seen demand for their offerings increase in the past twelve months, and that well over half had a positive outlook for the future. But in this region, especially given the travails of some family businesses, and the headaches that has caused for some of the big financial houses that have exposures to those firms, there has been concern over transparency.

"We do a lot of work with a number of the family businesses in the Middle East, and I don't think, just by definition that if you're privately held, that's a negative," says Nally. "I think it does get back to, though, the extent that certain family or privately held businesses are looking to stand and grow, and they're

going to be looking for outside capital."

The PwC chairman adds that with family firms, again, it all boils down to the degrees of transparency and governance that surround that kind of investment. If governance is seen to improve, then investors will be more willing to engage in the region. Of course, some family-owned firms may well decide to remain with the model that may have served them well for centuries. But those that are looking to expand outside the region, or list, are certainly on notice.

"That's what an outside investor is going to be looking for," Nally says. "It's more in the issue of how companies continue to evolve and meet the needs of investors, and that

will be one of the real challenges that exists for privately held companies."

As a frequent attendee at economic summits, Nally is often called upon to give his views on the changing face of global financial affairs. Like many others, he is convinced that a fundamental shift of economic power from west to east is currently taking place.

"You look at where the growth is today, you look at where the growth is forecast to come from in the next several years," Nally says. "You look at the demographics of many of those countries. You can clearly see the shift that's taking place, and I think it's a permanent shift."

Perhaps the chairman's biggest task right

► PwC Chairman Dennis Nally sees growth potential in countries such as Turkey, Nigeria, Vietnam and Mexico.



now, then, is how to switch PwC's focus from its old traditional heartlands into the emerging markets. Right now, around 20 percent of PwC's revenues hail from those faster-growing economies, but Nally says that he is hoping to double that figure over the next five years.

"That would be one of the biggest challenges that we have in front of us," he explains. "It's a massive shift, in terms of deploying resources, how we help our clients really deal with the significant opportunities that come from the rebalancing of the economic climate."

Outside the BRIC nations, Nally singles out the significant growth potential in Mexico, Indonesia and Turkey over the medium term, while on a longer timeframe, Vietnam, Nigeria and certain parts of Africa are also set to play a heightened role in the global economic picture. That assessment is born out by PwC's latest research, from early January, which predicts that seven of the top emerging economies (the E7) will overtake their G7 counterparts by 2018 (see box). And in the US, the chairman says that the picture is certainly looking more encouraging that it was a year ago.

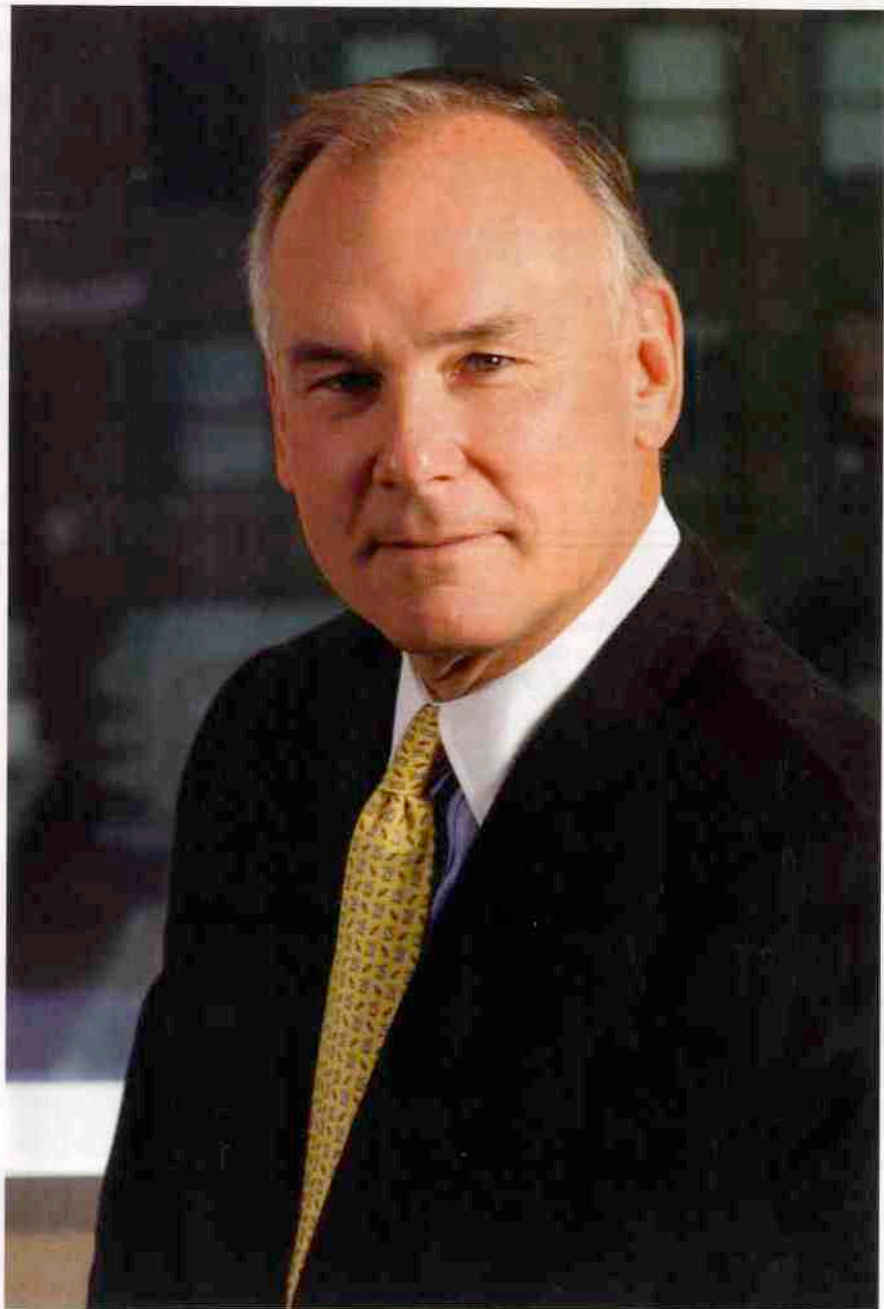
"We're looking at what would otherwise be referred to as slow growth. Economists in the US are looking at real GDP growth of 3-3.5 percent over the next 18-24 months," Nally says. "I think that's realistic. But I still think that unemployment levels are at all time highs and although we saw some positive statistics come out in December, I think they are going to remain at those higher levels for the next several years and I think that's the reality."

Unemployment figures — especially non-farm payrolls — in the US are being eagerly examined for evidence of renewed recovery. But Nally believes that the loss of jobs due to the recession won't happen overnight.

"Corporates have learnt to do more with less and there's been a fundamental restructuring of jobs. Therefore certain individuals that may not necessarily have the skills to get back into the job market in the near term," he adds. "That's the reality, so there needs to be retraining and retooling of the workforce and so that's an area that's getting a lot of attention by the new administration in Washington."

Another key change that the US economy will have to deal with are new trends in consumer spending. The credit crunch has dissuaded many Americans to sit tight on the earnings, in a move away from the profligacy of the pre-2007 era.

"Savings are probably at an all-time high from everything we can tell, which contin-



▲ Nally's task is to switch PwC's focus from its old traditional heartlands into the emerging markets.

ues to point to conservatism on the part of the consumer base, which is a big component of the US economy," Nally says. "So I think it's going to be a slower recovery than some have indicated or have hoped for, but then on the other hand, I think it's going to be steady as you go."

On the other hand, the chairman believes that there is also some strong news emanating from the world's biggest economy, especially

given the significant merger and acquisition (M&A) activity in the US during January.

"Corporate balance sheets are probably in the best shape they've been in for years, there's certainly an awful lot of cash on balance sheets that will allow those companies to be able to make investments. That M&A activity is largely due to the fact that the business community is feeling better about its prospects and I think that's all encouraging." ■