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It's a cultural thing

By Dana El-Baltaji

January, 2009. A few months ago, I conducted a small experiment. I sent out emails and faxes to over ten companies in the GCC, asking the investor relations officers to reply with information on their disclosure policies. I wanted to see how many would send me what is widely regarded as public information. I got exactly one response, and it was the wrong one. The officer sent me his company's brochure. The experiment was a total failure.

But it proved something that I and many business journalists already know: companies in the GCC, especially private and government-owned corporations, are not forthcoming about their company details. This can include anything from earnings statements, to information on layoffs, new hires, or, as I discovered, their guidelines on what data – if any – to make public.

As a business journalist, all I need are numbers and the occasional interview to write my story. Without them, I'll have to rely on rumors, outdated information or one of the press releases that flood my inbox to write on the UAE's companies. Or if I'm lucky, I can rely on a friend who's willing to leak information about her company in exchange for a free dinner (seriously).

But getting a hold of figures is a problem. And while some say it's only a transparency issue, I disagree. It's also a censorship issue, albeit an indirect one: companies' lack of transparency means they don't need the government to censor business news, because the necessary information isn't available in the first place.

Journalists, then, rely on rumors. And as one PR executive at Nakheel told me a few years ago, local companies don't respond to rumors.

In fact, local companies respond to very little. They have a culture of keeping quiet about big news, including arrests, layoffs and the cancellation of major property developments. But there's only so much negative news they can hold back from the public, especially now during the financial crisis, when the "Dubai dream" appears to be frying in its own oil.

A culture of keeping quiet

Secrecy isn't just a corporate phenomenon; it's a national one. Many Emiratis don't like to talk about their companies, their families, their society or their culture. They keep information to themselves across the board, which is why many expatriates living in the UAE know very little about their host country.

I decided, then, to look into the issue of national identity, and how it can lead to a lack of transparency in the corporate world. My research began with a meeting with Aisha Sultan, an Emirati writer and columnist, and part-time manager of political programs on Dubai TV.

Frankly, she caught me off guard. I was expecting to meet a woman who didn't really want to talk about Emirati society, but felt she needed to. I was ready to coax her into talking, and warm up with small talk. Instead, Sultan, told me where to sit, positioned by dictaphone and told me to get rolling. She had grocery shopping to do, and she had a lot to say. "Let's begin," she said.

Sultan agreed to meet me to discuss the challenges the UAE is facing with its national identity. She also agreed to explain why, in spite of being one of the most visible cities on Earth, Dubai refuses to discuss societal, corporate and governmental issues in public.

"Our problem," she explained, "is that our heads are stuck in the tribes, and our bodies are in the state. We don't know who we are." In the UAE, the challenges Emiratis face in determining their national identity is a basic one, a struggle to reconcile tribal and federal identities. Many Emiratis still identify with their tribe, and not with the state, causing more complications when determining what defines the UAE's national identity. Interestingly, even among themselves, Emiratis do not reveal too much information about their families, businesses or their personal lives.

The national identity issues are further compounded by the presence of millions of foreigners in their country; according to reports, the UAE is made up of roughly 90 percent foreigners, although some government estimates are between 80-85 percent. Either way, Emiratis are a minority. And like most minorities, they tend to self-segregate and are increasingly worried about keeping their traditions and customs alive.

More importantly, however, the lopsided demographics have led Emiratis to feel at risk of losing their power over their nation. Consequently, they are not forthcoming about the UAE's real population, and the government's websites have outdated, and some say, inaccurate statistics about the nation.

"We don't say anything," Sultan adds. "We don't talk about anything, and anyone who does is silenced immediately. It can be about something trivial, but because it has something to do with Emiratis, it's not ok to talk about it. Even if it's business."

Not surprisingly, Emiratis' unwillingness to disclose information about themselves has translated into being overprotective of data and figures. It's a culture evident in corporations and the local government.

Disclose at your peril

Under current Emirati law, public companies must disclose their annual (and sometimes quarterly) results. In the future, they will also be obliged to publish their corporate governance practices.

Private companies, however, don't need to be forthcoming, especially the multi-billion dollar, headline grabbing variety. Why? Because in the UAE, there are two types of big, local businesses: family companies, and government-owned corporations. They rely on their own credit to finance their deals and operational costs. Therefore, they have no obligation to disclose their financial dealings, how they practice corporate governance and whether they had a profitable year because they don't need our money.

In fact, it's their right to be as opaque as their tinted car windows. As one businessman — who wished to remain anonymous — told me at the World Economic Forum (WEF) in Sharm El Sheikh, 2008:"It's my business. No one can tell me how to run my business."

The result of this approach is twofold. Professor Ludo Van der Heyden, a specialist on family businesses at INSEAD, a leading business school in France, explains: "It is difficult for people outside the [family] system to get in. Firstly, [outsiders] don't understand the system, and secondly, they're not invited in.

"One of the key principals in good governance is to have a good level of transparency and clarity," he adds. "But what is clear to the family is not clear to outsiders. And they don't want to be clear to outsiders."

Consequently, private corporations, both family and government owned, are regarded with suspicion. And, not surprisingly, journalists can only assume that the corporations' accounting books must read like best-selling fiction.

But Nabil Al Yousuf, executive president of the Dubai School of Government, has another explanation: "I think that the fact that we don't have a tax regime means many companies are not asked to disclose their financials. Actually, this enforces that culture of being completely closed when it comes to information. There is this fear that if we disclose too much information we will be asked to pay taxes, or we will be asked to contribute... So we just keep our numbers to ourselves as much as possible."

But it isn't just the numbers businesses are secretive about. They don't reveal layoffs, arrests, deals, and how the corporations are run. And in the UAE, suspicions are further compounded with the power only a handful of families have in companies throughout the nation. There are some chairmen, like Emaar's Mohamed Ali Alabbar, who are on the board of over 20 companies.

In the UAE, corporations do business with people they know, like family members. Multi-million dollar deals are agreed over cups of coffee and handshakes. According to the businessman I spoke to at the WEF, it's how business is done in the region: "The local culture and the social norms are big factors here; businessmen cannot simply ignore them because they do not exist in the West."

"We do business a certain way in the GCC; we have always conducted business this way, and there is no need to change it. Especially when you consider how few of us locals are working in the GCC. If I want to do business, I am bound to do business with a family member or an old friend. It's not only because it is the way we have always done things in Dubai, but also because there are so few of us. It's bound to happen."

Blurring the line

The insular Emirati commercial elite have also done extensive business with the government. They helped the federation build the UAE from scratch, forming long-lasting business ties and friendships with rulers and ministers. Ultimately, such close relationships blur the lines between the government and corporations, which is a point of contention for Aisha Sultan : "Why is the government and the corporate world so intertwined in the Emirates?" she asked. "Where in the world is this acceptable? Doesn't this vagueness cause a conflict of interests?"

Indeed it does. Interestingly, the UAE government agrees. In the first week of December 2008, it released a law forbidding government ministers from conducting "professional work, commercial, financial or any trade deal with the federal government or local governments while on duty," the official news agency WAM reported.

The law doesn't do much to separate the state from the corporate world, but it's a start.

Unfortunately, it's a slow and late start. Ever since the real estate bubble burst in Dubai in September 2008, and soon after the arrests of Zack Shahin, former-CEO of Deyaar, Saad Abdul Razak, the CEO of Dubai Islamic Bank and Rifaat Othmani, the former VP for finance structure at Dubai Islamic Bank, investor confidence in Dubai's and the UAE's offerings plummeted. Ultimately, there are factors in the way business has always been conducted in the nation that need to change in order to restore investor confidence.

As credit dries up around the globe, investors in Dubai no longer trust the seemingly wild ambitions that local companies have for the nation's future. And while local, private and government owned corporations might not need investor cash to stay afloat, Emirati businesses *do* need consumers to buy their products, tourists to fill their malls and hotel suites, and mental investments in their "vision" to sustain their image as an oasis of growth.

And because the Emirates was successful in attracting thousands of foreign investors who are used to dealing with companies that disclose their financial and corporate details willingly, it needs to give them what they want: an understanding of how local companies operate and how they are financed.

Assuming the worst

Local companies' lack of transparency has resulted in negative reports in the media that may blow market realities out of proportion, like news of dramatic drops in property prices in 'hot' locations like The Palm, Jumeriah. As many journalists know, one negative report — baseless or otherwise— will instigate others, until finally enough negative press is written about a subject to shake investor confidence further, leading to more losses.

The irony is that because the UAE's biggest companies are family and government owned, and because they are funded by federal and private capital, and (typical of family and government businesses in the region) have relied very little on credit, many companies in the Emirates have been relatively unaffected by the credit crunch.

In fact, according to Professor Ludo Van der Heyden, the credit crisis has exposed the strengths of family businesses: "The first reason is that families don't like credit. They like equity. They don't like heavy borrowing. They don't have much debt," he explains. "Secondly, family businesses like to understand what they are investing in, so they don't like these financial instruments that are in trouble today. So, I think that private firms and family firms will come out of the crisis just fine."

This isn't to suggest that the UAE economy will remain unharmed by the credit crisis. What it does suggest, however, is that if companies were more forthcoming about their facts and figures, and investors had more confidence in the nation's businesses and developments, the Emirates would not be losing as many investors as it is today. They'd know that the nation's corporations have strong foundations, and that, in spite of the world economic meltdown, the UAE won't go under.

Ultimately, what it all boils down to is transparency and accountability, and the perception that corporations in the UAE don't respect the two. Without public disclosure of information, whether it be financial or managerial, journalists and the public are likely to assume the worst of any corporation. Who wouldn't?

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