Growing the top line: Organizing to win in the Saudi operating environment

A roadmap to launching and organizing for breakout revenue and
a sustained market advantage in the Kingdom of Saudi Arabia

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Introduction

Saudi Arabia is hot. With 6.8% GDP growth in 2011 it is no wonder why Boards across America are asking their executive teams: “Why the heck aren’t we selling in the Middle East?” The answer of one CEO summarizes the typical reason why: “We aren’t in Saudi Arabia because we don’t know the first thing about that part of the world nor do we have the talent who can go and figure it out.” True, knowledge of Saudi and the talent needed to establish an operation there are hard to come by. However this seemingly impossible job can be made easier if the effort is broken down into smaller jobs that are each more manageable. Though the effort will still be difficult and costly, the chance of success can be dramatically improved if a company incorporates into it’s plans, the eleven areas of advice presented in this article.

A vision for operating in Saudi

How does one arrive at a vision for operating in Saudi? The first step is to dispel misconceptions and acknowledge the realities of what is necessary to establish a business base in the Kingdom. Band wagonning, wildcatting, flying-in and flying-out, and international carpet bagging are short-cut strategies for getting into the market that invariably get discussed. Experienced executives who have built and operated in the Kingdom will tell you that operations based on these approaches are all very likely to result in abrupt and embarrassing failures.

Companies with a more strategic approach can grow their top lines in Saudi by doing the three things that American companies tend to do well. First, by systematically analyzing opportunities and understanding what is necessary to convert opportunities into revenue. Second, by organizing themselves better with careful attention to leadership, corporate formation, and partnering choices. Third, by applying innovation and by aiming to answer the totality of needs and not cherry-picking the parts of the contracts that are easy and more recognizable.

A fact-based, reality-acknowledging Saudi market strategy is the foundation for building a high performing Saudi operation. To create such a strategy one needs a great deal of information and invariably, the tools, the people and the processes necessary to gather the information for one's self. Then by aligning operations with the mission, objectives and operating principles found in one's well formulated strategy, the chances of success in the Saudi marketplace will be surprisingly high and double-digit top-line revenue growth a very achievable annual target.

Understanding the Challenges in the Kingdom

When contemplating an entry into Saudi Arabia, the fear of the unknown and the fear of failure loom large for most executive teams. These fears can be crippling if the executives in charge have no direct experience in the Middle East or have no immediate knowledge of what works and what doesn't work in emerging market settings. Anger is equally harmful. Anger about a lack of top-line revenue growth in the U.S. will irreparably handicap any Saudi market entry effort if left unchecked. Both fear and anger must be dealt with before formulating one's Saudi plan. Here is why.

The studies of Learner & Keltner[1] have shown that fearful people tend to make pessimistic risk estimates and make risk-averse choices, whereas angry people tend to make optimistic risk estimates and make risk-seeking choices (Note: Board members who continually ask where is revenue growth tend to be angry, whereas chief executives who don't have an answer tend to be fearful). The plan to deal with start-up risk - the risk associated with launching a new operation - and foreign market operating risk - the risk associated with doing business in the Saudi market - needs to be broadly-supported starting at the very top where estimates and choices not second guessed. The aim must be for no dissention in the home office leadership ranks least there be a repeat one of Napoleon's fatal mistakes: attempting to battle on two fronts with a resource-constrained army far away from home. Unless fear and anger are replaced by fact and broad based support is secured, the on-the-ground management team will find themselves in an untenable position. On the one selling front they will be constantly re-selling their plans to home office leadership in order to maintain support. On the other selling front, they will struggle with finding the right messages and mixes of marketing and selling as needed to win new customers. Management teams who must "selling on two fronts" never exist for very long in Saudi.

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[1] "Fear, anger, and risk," Lerner J.S., Keltner D., 2001. Department of Social and Decision Sciences, Carnegie Mellon University,

What do the most seasoned and experienced executives say are the challenges that must be overcome in Saudi Arabia? Of the many hundreds of different views we have gathered, five types of challenge account for over 90% of the answers:

- choosing the right market entry strategy,
- getting the organization structure right,
- creating an effective operation,
- managing the launch, and
- managing business growth

Below is a summary table of the top nine challenges mentioned and the collective recommendations of many highly capable c-level executives who have succeeded and failed in getting their Saudi operations up an running. What then follows is a highlight discussion of each of the keys to success, with specific recommendations on the options that a company may consider as it formulates its plan.

Challenges and Keys to Success Summary

	Market Entry Strategy	Development Strategy	Operating Strategy	Managing the Launch	Managing Growth
Challenges	• Weak understanding of the market opportunity, leading to a poor strategic choices and misconstrued plans • Convincing others that bandwagon-ing, wildcatting, international carpet bagging and other shortsighted approaches will fail	• Misconceptions about the purpose of the venture result in trying replicate US or other national norms • Weak understanding of the options for development result in poor formation choices and a too narrow business model	• Inexperienced teams often make fatal operating mistakes based on a flawed understanding of local conditions • Misperception that a local partner will solve all operating problems and will do so at their own expense	• Insufficient support, planning or commitment results in the Saudi team having to sell on two fronts • Failure to establish early on, personal relationships with GCC-based partners, suppliers and customers	• Finding sufficiently acculturated sources of assistance to deal with Saudi roadblocks effectively • Maintain risk management and good governance procedures after comfort sets in
Key to organizing and winning in the Saudi Marketplace	• Obtain accurate and current market data • Commit to measuring the market • Commit to making strategic decisions based on facts, not fear or anger	• Understand the Saudi law and its flexibility • Broaden one's business model • Recognize reality when forming Saudi partnerships • Make winners want to join the venture	• Have experienced "operators" on the team from the day 1 • Build the right kind of partnerships for the situation at hand • Own the business, don't try to outsource what is your core	• Deal with misconceptions and trouble-makers quickly • Use initial marketing and selling efforts to fine tune the business design • Produce a 100-day plan that focuses the team on delivering measureable results	• Leverage the common ground you share with your competitors • Implement a loose-tight governance model balancing control with the need for local autonomy • Require the Saudi unit to hit standard performance targets

Begin by knowing, not guessing

Market data – the kinds necessary to make informed investment and operating decisions - is a valuable commodity in any emerging market, and especially difficult to come by in the Kingdom. Secondary studies and off-the-shelf reports have their place, as do the opinions and analysis of advisors. However, studies of successful ventures in the Kingdom indicate that their development teams made it a priority to continuously gather their own primary market research as a foundation for their decision-making and board-based support building. It might be surprising to some, but Saudi Arabia has been the site of some of the most sophisticated primary B2B research programs in recent years. Programs that were initiated by the top tier of Saudi national firms in order to gain a variety of powerful competitive advantages. According to many executives who commissioned such research efforts, especially valuable were the studies of competitors and the studies of what caused other businesses to fail. The future winners weren't gamblers – they didn't guess about the market, their strategy or the competitive landscape – they knew the market and could detail appropriate market data to support their choices when the various strategy decision points were reached.

Options to consider:

- Unless already on staff, hire an individual expert in *industrial* or *business* market research (not *consumer* research) with a combination of experience in your industry and knowledge of Saudi Arabia to direct market research and opportunity analysis efforts.
- Imbed your own strategy or future operating people from day 1 not only for direct market exposure but also for building personal relationships to access market intelligence down the road.
- Do not focus on measuring the size, scale and volume of the opportunities. Focus instead on learning how others have turned opportunities into revenue. Study the competition and their successes and failures (hint: majority of Saudi venture failures are a result of getting their partnering, legal set-up, initial brand positioning or key-man staffing wrong).

Understand the Saudi law and its flexibility

President Lincoln was once asked a question "what is the best mode of obtaining a thorough knowledge of the law?" His answer serves the Saudi market entry strategist and planner well: "The mode is very simple, though laborious, and tedious. It is only to get the books, and read, and study them carefully. Work, work, work is the main thing."

Consider this example. One American investment services firm set it sights on launching in Saudi Arabia. It hired advisors who prescribed a formation path based on obtaining a Capital Market's Authority (CMA) license. In an effort to reduce start-up expenses, the American firm limited its legal research and hired a management consultant to prepare the application; re-purposing materials from a previous client effort.

Unfortunate for this firm, the previous work was designed for a much more substantial banking operation, and the application that was submitted did not reflect the limited service scope that had been the objective. This led to a conflict with the CMA and after 18 months of failed negotiation to reset expectations and its direction, the firm felt compelled to abandon its Saudi entry plans. Had this firm put two more weeks of effort into studying the law and engaging with some of the 70 others would had submitted CMA applications, it would have in all likelihood understood that to achieve its particular business objectives, a far-more-simple licensing or a consultancy registration would have been a more appropriate formation option.

Options to consider:

- Most of the vital laws and regulations for establishing and operating different businesses in Saudi Arabia are in English, accessible and written in plain language. Get copies; read the law; understand the law.
- Hire a competent lawyer and invest the time necessary to work side-by-side with them to identify and evaluate various formation arrangements. Learn what flexibility exists in the Saudi law.
- Engage with other business executives who have failed or are failing at establishing a comparable venture in the Kingdom. Learn from their efforts with commercial registrars, licensors, regulators, and national customers. Learn what assumptions they made they caused them to head down the wrong path.

Act quickly to deal with misconceptions and troublemakers

Market data and knowledge of the law are important, but they can't prevent unpleasant and wasteful backtracking caused by misinformed individuals and alarmists who will not let go of their fear or anger. For instance, there is almost always someone with the mindset that the new Saudi business unit is there to solely serve or fill gaps in a US domestic business. "We had a great product, a superior sales strategy, a growing track record, but no vocal home office champion who understood the opportunity," one global consulting manager recalled. Understanding the Saudi venture as a new enterprise; with many similarities to the existing business but still very different and very much requiring its own unique organization and policies is key. Without adequate resources and unwavering home office support revenue targets will be missed, and in this case a $15 million per annum consulting services operation failed to materialize as it should have.

Options to consider:

- Share new opportunity information and insights constantly, detailing as much as possible the associated revenues, costs and upfront investments required to pursue new opportunities.

- Be precise in what resources must be committed in order for the operation to achieve the prescribed targets. Update this resource requirements list no less than quarterly
- Produce results. Nothing quells dissention about whether or not a company will succeed in Saudi quicker than delivering results that exceeds expectations.

Expand one's revenue model to increase attractiveness and reduce time to revenue

The Law of Requisite Variety originates in the field of cybernetics and systems theory. Outside of those areas it also has applications to many fields of human endeavor, including economics and business. There are many different formulations of this law, but one of the simplest non-technical ones is: "only variety can cope with variety" [2]

For the business strategist this simply means that a flexible revenue model with many options and products for serving market demand is better able to thrive in markets where demand is varied and multifaceted. A business that can only serve customers one way and is tightly optimized for one set of customer conditions might be more efficient whilst those conditions prevail but will fail totally should those conditions change. One Saudi aviation industry CEO reflected: "The key to our quick success in the Kingdom was the quick rethinking of our business scope when we understood that charter operations could not generate the cash flow we needed to justify our existence. It was the broadening of our scope to include all forms of aviation services that made us unique in the market and profitable." In the Saudi marketplace, customer conditions are not the same as they are in many other markets they are more complicated, highly variable and change frequently. As a general rule, those businesses entering Saudi Arabia with a flexible revenue models tend to perform better.

Options to consider:

- Consider carefully how your product or service fits within a larger demand or customer setting, and be prepared to bolt on additional services or features in order to capture the blue chip contracts.
- Analyze carefully your existing product mix and their sales cycles. Add to the mix those parallel products and services with different sales cycles so to both smoothen out cash flows and accelerate the time to "first sale."
- Form a consortium with complementary product and service providers to increase the number of customer types and customer situations your company is able to address. Use the strength of a team to penetrate where few players compete.

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[2] A better formulation of Ashbey's Law is "the variety in the control system must be equal to or larger than the variety of the perturbations in order to achieve control". In plain language again: this mean a flexible system with many different types of solutions is better able to solve many different types of problems.

Recognize that doing and knowing are not the same thing

Consider the insight of one defense and security industry CEO. After two years of preparations, his Saudi venture reached the point of contracting for its first major project; a project that would place a large number of executives, managers, and subcontractors on the ground. Many managers were surprised new hires were being recruited to join the team with little to no direct industry experience. What he said to his team was as follows: "Knowing what business is like in Saudi Arabia like we do, is not the same as doing business in the Kingdom." Doing business in the Kingdom, especially during the first operating year, typically involves an uncomfortable amount of multi-tasking with organization building on the one side and exhausting efforts to build brand recognition on the other. The scale of effort required cannot be estimated in a work plan. The Gulf lives on personal relationships and establishing personal relationships with senior leaders of partners, suppliers and customers involves senior executive time in Saudi measured in months, not weeks or days. The chances of a successful launch will be substantially improved if a firm hires an executive team who has done this start-up job in an emerging market before, even if this means hiring a number of key individuals from outside of the organization and even from outside the industry to work along side you.

Options to consider:

- Seek out an experienced expatriate with start-up experience to play a key advisor/implementer role in the launch for the first 18 to 24 months.
- Though the temptation is great, avoid sending salespeople in the double duty of salesperson and start-up general manager as this tends to result in an emphasis on only one dimension of the necessary organization building.
- Secure local resources with transferable knowledge and expertise. Find successful individuals, local firms, or local families to participate in measureable ways to the start-up effort.

Perfect partners don't exist

Perfect partners don't exist. Perfect conditions exist for a limited time in which partnerships express themselves best. In Saudi Arabia, the success rate for JVs and alliances is – like the rest of the world - on a par with that for mergers and acquisitions- and not very good. [3] Saudi-International partnership success remains elusive for most companies because they do not pay enough attention to launch planning and start-up execution, and establishing their respective contributions to the enterprise.

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[3] Both representative and anecdotal research suggests that globally between 51% and 53% of joint ventures succeed (succeed = both partners recover their capital and make returns greater than the cost of capital over the invested period). In Saudi, anecdotal evidence collected over a 5-year period suggests the success rate is lower because of weak partnering strategies and JV plans.

Consider this example. Many in the retail, hospitality and leisure industries use highly structured approaches for international distribution. One international brand owner was thrilled to have found a local firm they thought would be an ideal Saudi market entry partner. The Saudi business had multiple global brand distributorships to their credit and the Saudi executive team made an impressive presentation on the new Saudi opportunity. Their answers to the lengthy questionnaire were detailed and demonstrated an uncommon degree of market understanding and perception. Seeing just the vision of a bright future and not wanting to spend much time on the ground in Saudi, a deal was signed without a much further validation effort. The venture failed miserably. What should have been uncovered through on-the-ground validations was that this management team had been so talented that everyone wanted them as a partner. They had signed deals with more than 40 other international brands covering nearly 15 countries. Though excellent, educated, experienced and insightful, the Saudi executive was about to be stretched hopelessly thin and their sources of growth capital were inadequate. Failure was predictable. Empirical studies by the London Business School have show the propensity towards securing the perfect Saudi business partner is directly correlated with one's perception regarding the complexity of the regulations (fear) and one's perceptions of the start-up and operating costs (another fear). Referencing the previous points raised: if a company overcomes these fears through research, innovations and smart hiring, the fasciation with finding a Saudi partner will reduce dramatically. Bottom line: choose one's partners strategically and not emotionally out of fear or anger.

Options to consider:

- Select different Saudi partners for different clients, opportunities and geographies – allowing performance over the first and second years to determine which partner works best with your company and unique situation.
- Formulate a partnership agreement that also pays attention to how decision-making will work, the required targets in key areas, and how performance will be measured. At minimum, include in the partnership agreement needs to be specific about how strategy decisions, performance management, capital allocation, marketing mix (including pricing) and operations (including tailoring of policies) will occur. If an operating agreement is included in the partnership agreement, obtain agreement from all three parties: both equity owners and the executive team in charge.
- When someone raises an objection to the amount being spent on due diligence, ask them to estimate what would be the cost of failure. See which costs more and choose accordingly.
- Ask the potential partner to identify recent ventures or partnerships with non-Saudi businesses aimed at entering the Saudi marketplace and speak with the foreign partners to understand how things went. If none are available, proceed cautiously (if at all).
- Repeat the same reference check on your self. Note the result and act accordingly.

Get ready, fire!, aim

The launch phase begins with the decision to register in Saudi (or in the case of a Saudi-International partnership, with the signing of a memorandum of understanding and continues through the first 100 days). During this period, it is critical to convene a team dedicated to understanding risks and working through uncertainties quickly. Investigating, analyzing, organizing, and planning are the common activities we expect to see emphasized. However, unlike many other marketplaces, the task of learning how to organize and operate in the Saudi environment will become that much easier if a company commences marketing and selling early on. The timing however needs to be right. It is not *fire*, *ready*, *aim*. Getting *ready* is imperative. But once company has done its homework, do not waste time thinking through and forming contingencies for every single risk – plan to roll with the punches while reaching for your goals in the 100-day plan.

There are three reasons why after getting *ready*, *firing* before *aiming* is the preferable path. First, the process of marketing and selling generates difficult-to-obtain customer motivation and preference data that may in all likelihood alter one's plans for organization and structure. Second, the process of proposing – especially where pre-qualification is necessary – will generate valuable insight into necessary back office management and compliance functions that must be maintained, as well as generating a valuable focus on what is critical for aligning one's products and services to fit local requirements. Third, the sooner marketing and selling commences the sooner the company will achieve important new market entry milestones, like brand awareness and positive attitude towards the company and the potential of engaging it with contracts.

Options to consider:

- Write a comprehensive and aggressive 100-day plan which notes week by week milestones for all of the key back-of-house and front-of-house activities, where organizers organize and business development do what they do: market and sell.
- Do not "fire" before you are "ready". An ill-conceived marketing and awareness building effort will relegate a new entrant to a very-difficult-to-escape market position.
- Decide on a temporary structure or on two structures: The first one to launch the operation and get the business to a cash positive position, and the second one to growth the business once an initial revenue and customer targets have been achieved.
- Precision in marketing and selling is not as important as marketing and selling in general, so long as one's initial marketing and selling efforts are not ill conceived.

Make winners want to work on the venture

The top performing US companies in Saudi Arabia have all recognized that weak leadership on the ground is an unacceptable risk. A high-quality leadership team is what will organize better, juggle priorities more effectively, and pitch the company more convincingly than their competitors. If there is a winner in charge, more winners will want to join, and the chances of success will be significantly enhanced. A motivational leader is especially important as the stresses of a national rollout unfold and as the organization begins to grow at what most will feel is an uncomfortable pace. It is the strong, roll-up-your-sleeves, relationship-building leader that will keep the venture focused and headed the right direction. Conversely, if the launch and venture in Saudi is treated as a dumping ground for post-retirement executives, the problem managers or just the gung-ho-but-clueless, no amount of expense spent on planning, legal set-up or market positioning will secure the venture's survival.

For Saudi, personnel considerations cannot be underestimated. Two types of leaders must be involved: those who bring with them the full support and trust of the senior-most home office ranks and those who have the distinctive skills that the new Saudi venture needs. If this exists in a single person, know that you are starting off with a superior and uncommon advantage. When considering who is best to lead the on-the-ground efforts, understand that the job entails five basic challenges. First, to build and maintain strategic alignment with all entities involved. Second, create a governance system for all to follow. Third, manage the resource and economic interdependencies between the HQ and the Saudi operation. And fourth, build a cohesive, high-performing team whose first job it is to be successful in the Kingdom. Fifth, build company awareness and a positive impression by strong, appropriately messaged and continuous networking with potential Saudi customers.

Options to consider:

- Find a winner who has managed a successful emerging market operation before, is excited about the Saudi prospects, and is willing to commit several years with the firm in the Kingdom. Pay this person handsomely and put them in charge.
- Give the winner a fair degree of latitude in creating the employment terms and conditions they need to attract the high-powered team they need to implement the agreed-upon strategy and organization.
- If you think the top start-up job in the Kingdom can be accomplished by a strong business development executive that everyone likes, think again.

Outsourcing has its limits

Most foreign firms entering Saudi Arabia will outsource certain aspects of their operations – legal, accounting, tax and audit functions are commonly outsourced. Most foreign firms also take outsourcing too far, believing that core business operations can be handed off to local partners, thereby reducing the start-up cash requirements and the amount of capital at risk. Outsourcing the business and development strategy, outsourcing brand awareness building, key hiring, culture building and all three commercial functions – sales, marketing and distribution – do not often make good operating sense. Outsourcing to the extreme has the effect of turning the US company into a passive financial sponsor. One American JV executive once commented: "We hired consultants to tell us what we should do, then hired consultants to tell us how to do it, then hired consultants to do it for us. We weren't learning how to operate our joint venture in Saudi, we were learning how to hire and fire consultants." Passive participants in Saudi Arabia do not thrive, let alone survive the dynamic Saudi operating environment. It is important that in this effort to expand into Saudi Arabia, the majority of operating responsibility and the conduct of daily operations should be vested in individuals from within the organization.

Options to consider:

- Set a minimum target of 51% of operations to be the responsibility of full time staff.
- Limit outsourcing to back office functions – legal, accounting, tax, audit, IT, facilities management and the like – but still know the requirements by having a strong in-house COO to manage.
- If the ratio of your consultants to your employees is more than 4:1, just stop.

Know your competition; take them out for a drink

A Pepsi executive and a Coke executive were sitting at a juice bar discussing Saudi market dynamics... The start of a bad joke? No. For those experienced in emerging market operations, the idea of befriending one's competition is an obvious best practice. To those who have not run operations in Saudi the idea of having one's General Manager go out to dinner on a weekly basis with competitor's General Managers - exchanging insights and discussing operating problems – leaves them traumatized. What drives competing executives-on-the-ground to work closely together is the fact that in the vast majority of emergency situations, the home office is a hindrance to the solving the problem. Home offices do have valuable standards, systems, procedures and people that work well for the market they were designed for, namely the home market, which we can all appreciate is hardly like the Saudi market. Only other in-country GMs have the shared perspectives and can on a moment's notice ask the right questions that will help generate a practical solution. To come to grips with this reality, what home office executives overseeing such operations need to acknowledge is that the home office-based solutions cannot solve the problem, and situations that might be solved quickly can instead cascade into very damaging disasters were it not for the help of a competitor's management.

Options to consider:

- Know that these exchanges will occur, so rather than impose harsh rules and force the practice into grey management areas, permit such dialogues and learn from them.
- Help the on-the-ground executive team by establishing alternative sources of genuinely competent assistance, like a retained Board of Advisors comprised of experts in emerging market operations.
- Saudi is a tough place for new entrants to operate and you will need all the help you can get, even if that means asking a competitor for help. Adjust one's thinking to reflect this reality.

Manage risk and performance - appropriately, continuously and diligently

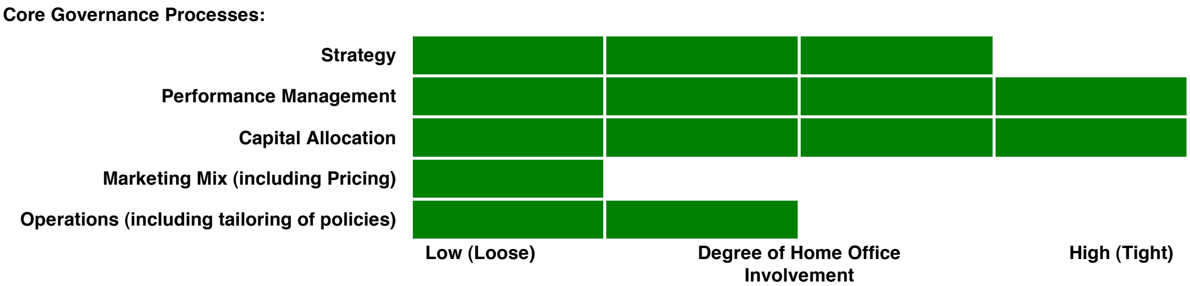
During the launch phase, discussion of risk is a daily event. Following the launch, good governance practice tends to wane and by the second year anniversary if revenue is headed the right direction, it is often shocking how much autonomy is afforded Saudi management teams. This is often how good management teams get into trouble in Saudi. Consider the example. One blue chip American industry conglomerate had made all the right launch moves and had succeeded in building an enviable operation in the Kingdom. When confronted with lagging US sales, several bold breakout initiatives were proposed by the Saudi business unit. Owing to their past successes, the Saudi team was given *cart blanch* and normal capital allocation evaluations were not followed. Instead of moving cautiously, commitments were made without a proper understanding and analysis of the new opportunities and the evolving regulatory landscape. Not only are they likely to loose all of the $60 million they invested but their missteps caused the core Saudi operation's revenue to drop by 35%. Saudi operations need to be managed according to a known process and need to be held accountable with what is frequently called a loose-tight governance approach.

In a loose-tight approach[4], the right balance between maintaining enough control and giving in-country management enough autonomy is achieved by identifying the most important governance and performance areas and formally defining what degree of involvement and what degree of authority will be in each area. The use of authority matrices is common in Saudi, but only after home office management or Boards have grown frustrated with what they view as the independent gun-slinging nature of their in-country executives. It is better instead to develop a good governance approach early on, and avoid the confusion when time would be better spent growing the business.

As the chart that follows suggests, it is most important for the home office to be actively involved in the areas that are critical to protecting shareholder interests – in managing performance and in allocating capital.

[4] Bamford, Ernst, Fubili "Launching a world-class joint venture" Harvard Business Review, 2004.

A Loose-Tight Governance Approach



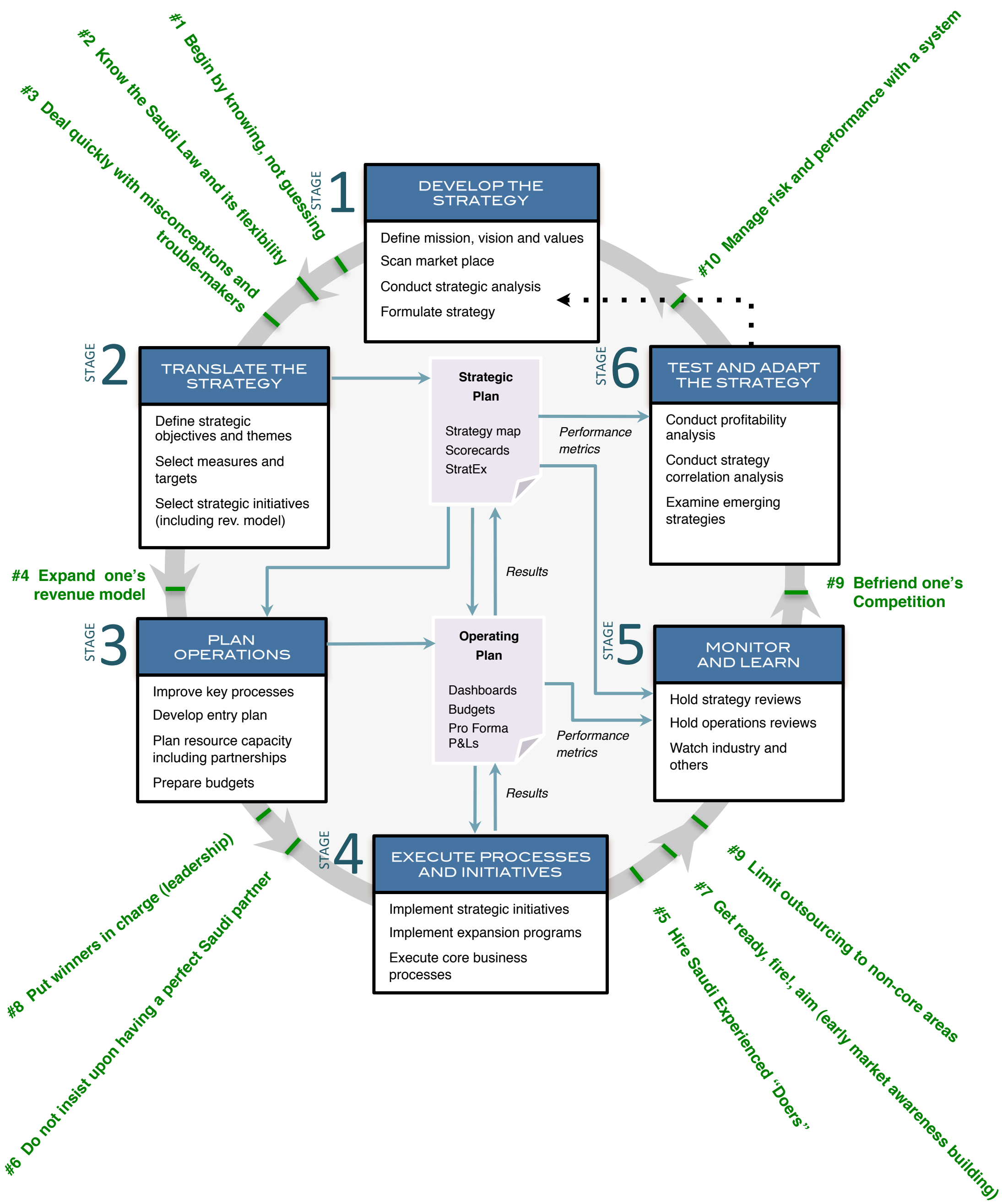
Planning for risk management and good governance and paying lip-service to the principles, will not stop the unexpected from happening. Drafting an exceptional partnership agreement will not provide a reasonable chance of success for both partners. Hire the best industrial researcher, start-up executive and seasoned expatriate will also not give a company a better than average chance of success in Saudi. Still more is necessary.

When all the sophisticated *strategy*, *management, legal and banker speak* is striped away, what matters in the end are results. This is obvious enough but what many businesses miss is the fact the results depend on performance and performance depends on the quality of management processes and management plans. Without a management system that puts plans into action and maintains the efficacy of strategic principles, success in Saudi will elude most new entrants. In plain words: preparing well must be paired with managing well if we are to win in the Saudi operating environment.

If there is such a thing as a formula for success in emerging market operations, I believe it lies in the region of *the union of a rapidly-cycled closed loop management system with an emphasis on the continual evaluation of strategic and environmental factors through a combination of risk management and basic principles of growth management*. Confused? Let me simplify. You need three things. First you need a plan. Second, you need management resources and a management philosophy. Third you need a management system. This paper has presented thoughts on what should be included in both your plan and in your management philosophy. The last part of the formula is a system for implementing one's plan and staying true to one's philosophy. Let's talk about this system.

A "closed loop management system" is a management system where strategy, planning, operations and performance management are linked together in a continuously repeating cycle. Closed loop systems are superior to the open management systems where strategy seems to forever be disconnected from operations and performance management. (See the diagram on the following page). A "rapidly-cycled closed loop management system" is a management system where the rate at which one completes a full loop (Stages 1 to 6, and back to Stage 1 again) per year is greater than the rate at which one might complete a full loop in other less-dynamic markets. In plain words: you need to go faster around the loop in Saudi. The management philosophy I have suggested in this paper is one that emphasizes preparedness, quality of information and resources, attention to strategy format and attention to risk. I have also suggested that rather than being emotional – i.e. letting fear or anger rule the debate – one needs objective analysis and a winning attitude to drive the effort (i.e. desirable self-confidence in one's leaders, teammates and corporate capability). These are the areas I believe deserve emphasis in the Saudi operating context. Lastly, I am saying that to produce results a system to continuously manage and adapt to the rapidly evolving marketplace is necessary.

Illustration of a Closed-loop Management System
with emphasis points for winning in the Saudi operating environment



Options to consider:

- Implement a loose-tight governance approach and allow governance procedures to evolve that both protect shareholder interests while also giving management the latitude it needs to build an organization and an operation that can handle the stresses of Saudi market operations.
- Streamline decision-making such that the keys to commercial success in the Kingdom are squarely in the hands of those put in charge of the operation.
- Use detailed management, technical and financial authority matrices to make the rules clear to all and then follow them.
- Complete the effort by implementing a closed loop management system with an appropriate emphasis on dealing with the dynamics of Saudi Arabia (market intelligence, planning, quality of resources and risk management)

Conclusion

Entering Saudi is complex and demanding. Research shows that it is often as resource intensive as penetrating any of the BRICs (Brazil, Russia, India and China) and equally fraught with seemingly impossible challenges. Experienced international operators manage to do it well, but even they can fall victim to classic errors in operations. Those that succeed in Saudi over the long term maintain a focus on managing risk and paying close attention to performance. When a potential new entrant understands that getting the strategy right, preparing and equipping the new organization, and aggressively managing the launch, the rewards can be enormous.

As it is often shared around the dinner table when experienced Saudi GMs welcome a new GM into the fold: "*Plan well, get your launch right, and put a good management system in place quickly. The rest will take care of itself.*"

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