

HOSPITALITY, FRIENDSHIP, SUCCESS — DEVELOPING BUSINESS RELATIONSHIPS

LISA VERDON AND MYRIAM SIFTAR

At the crossroads of Europe, Asia and Africa, the Middle East and North Africa (MENA) is a diverse mix of modern and traditional societies, which use advanced sophisticated technology and biblical methods side by side. The region is a cradle of civilization and the birthplace of the world's great monotheistic religions. However, despite general awareness of the area's long and rich history, many in the West are unfamiliar with particular customs and methods of conducting business, many of which are intimately tied to past traditions. Yet, while trying to keep their traditions, MENA countries are at last beginning to fully embrace free-market principles.

These evolving regional changes create many opportunities for outside businesses. But capturing these opportunities is challenging and can be frustrating when one does not understand or appreciate the expectations, behaviors and attitudes of potential business partners.

Therefore, in order to develop and sustain effective business relationships, it is important to understand how those free-market principles have been and are being adopted in the local context. A basic understanding of local customs and of the services and guidance of specialist trade organizations with a thorough knowledge of the region can be invaluable.

Economic overview of the Arab world: a time of change and expansion

MENA countries are a mix of modern developed free-market economies, older "command" style systems, and variations in between. There is great demand for imported industrial goods, ranging from small handheld consumer items and household appliances to larger industrial equipment for development projects. The region has more than 320 million consumers, of whom 60% are under the age of 25. To address the social, political and economic pressures that arise from such a young population, countries in the region are embracing the global economy, joining the World Trade Organization, signing international trade

agreements, and embarking on ambitious projects to diversify their economies.

The United States has encouraged and benefited from progressive economic programs in the region by, for example, signing free trade agreements (FTAs) with Bahrain, Jordan and Morocco. The United States is working on FTAs with Egypt, Oman and the United Arab Emirates. Arab countries once viewed by the United States as adversaries, such as Libya, are now normalizing diplomatic relations and are starting to become strong economic partners with the United States. The European Union is engaged in similar efforts in the region.

Collectively, regional purchasing power is strong, especially among the petroleum-exporting nations that obviously benefit from higher oil prices. There is a preference for US brands; in 2005, the United States alone exported \$36 billion of goods and services to the region, according to *U.S.-Arab Tradeline* (September-October 2005). There is also an increase in demand for American educational, medical and language translation services.

Following the events of September 11, 2001, the region's private sector experienced a significant increase in local investment as money was repatriated from the West, particularly from the United States. The increased availability of funds and the recognition of the need to address development and modernization have resulted in a boom in mega-infrastructure projects, thus increasing demand for construction and engineering products and services.

Aside from the obvious sectors — petrochemicals, oil and gas — the region has other strong sectors such as financial services (Bahrain, Kuwait and the United Arab Emirates). As an example of the diversification and development taking place, Saudi Arabia plans to build a major financial district in Riyadh. Several countries, including Egypt and Jordan, are engaged in privatization programs as another means to boost economic performance and modernization. Concomitant with the move into the global economy, information technology is another booming sector in the Middle East,

and opportunities exist to establish the networks and infrastructure necessary to provide internet access and connectivity across the region.

World views and business conduct: contrast and comparison

Generally, in the West, one's world view is based on the concepts of "guilt" versus "innocence." These concepts originate at least as far back as ancient Rome, which announced the principle that no one was above the law, not even Caesar. Thus, for Westerners the world is split into those who obey the law — the innocent — and those who break the law — the guilty — regardless of rank or privilege. In the Middle East, the world view is based on ideas of "honor" versus "shame." For business to flourish, one should recognize that the way we live our lives and the way we interact with others are unconsciously conditioned by our respective world views.

In the West, businesses strive to do the "right" — legal — thing. Companies will often seek counsel's advice to ensure that business practices conform to corporate, securities, contract, environmental, and other regulations and laws. Notwithstanding some current initiatives, Western business does not expect to look beyond legal parameters for guidance on its activities or relationships.

In the Middle East, business people will often implicitly focus on honor and shame. To be honorable means to gain power and prestige and to be a noble representative of your tribe or family. Consequently, while business in the Middle East meets legal requirements, it is also heavily influenced by and will often conform to the unstated mores of honor and shame.

In the West, entrepreneurs can be motivated by many things, such as dreams of financial success or a passion for some particular product or service. For example, Anita Roddick, founder of The Body Shop, was initially motivated by her interest in organic products. Regardless of motivation, an entrepreneur who has acted legally is not "shamed" if a business fails.

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In the Middle East, entrepreneurs may have similar motivations and passions. Business failure often results in humiliation, however, and thus shame for the individual and his or her family. Consequently, many businesses that would be acceptable risks from a Western view are not started for fear of failure and the resulting humiliation and shame. Therefore, an enterprise will often only be created if there is some degree of certainty that the venture will succeed. Similarly, a transaction may well occur only if the principals can be certain of success. This degree of certainty exists when a businessperson either already has a prestigious position in society or has otherwise established, through tribal or other affiliation, the personal contacts necessary for business success. Thus, personal relationships have an importance in the Middle East beyond which a Westerner may be accustomed.

Public sector influence: the brightest and the best

People in many MENA countries prefer to work in the public sector. Salaries, benefits and vacation schedules are often more attractive than in the private sector, and job security is assured. In addition, many MENA countries are monarchies. Much pride and prestige are attached to public sector positions, as they are viewed as part of the royal household. Thus, working for the government is viewed as honorable, as it is service to the ruling family. Consequently, much effort is expended to secure public sector positions. Hence, what we in the West would regard negatively — as favoritism or nepotism — is viewed as the laudable pursuit of an individual's and a family's honor. Therefore, in the Middle East, family ties and family tribal names carry a significance of which it is important to be aware.

Traditionally, a government's role in the Middle East is to create jobs for its citizens and supporters. Therefore, in many countries foreign workers fill private-sector jobs, while the public sector is the preserve of citizens, regardless of status. However, there is a trend, especially in the Gulf Cooperation Council member countries, to encourage citizens to seek private-sector jobs. The terms *Saudiization*, *Kuwaitization* and so on are becoming familiar. For example, a new Kuwaiti law requires private companies to hire Kuwaiti workers in order to receive public contracts.

Despite these recent programs encouraging citizens into the private sector, the

demand for expatriates remains high in many countries. For example, in Kuwait approximately 86% of Kuwaiti citizens work in the public sector, while only about 8% work in the private sector. Moreover, non-Kuwaitis fill 90% of the private-sector jobs, and foreign workers outnumber Kuwaitis by three to one, according to the Kuwaiti Ministry of Planning (June 30, 2005).

Many countries are engaged in reform aiming to encourage private sector investment and growth. In Jordan, King Abdullah II has launched a very progressive five-year economic plan designed to complement extensive political reforms. The plan includes privatizing state assets, building on free trade agreements with the United States and Europe, promoting liberal investment legislation and drafting a comprehensive socio-economic transformation plan.

Consequently, one should always be mindful that although governments are encouraging more private-sector dynamism, a successful transaction in the Middle East may still require involvement of a ministry, department or official that one may not otherwise anticipate as being necessarily connected to the business at hand.

Patience in relationship building: the key to success

In the West, personal relationships are an important part of business success. In the free market, however, price conveys much information and is often the ultimate determinant of whether or not a transaction goes forward. In the Middle East, the personal relationship between business people generally remains as important as price, and in more traditional environments personal relationships may be significantly more important than price in determining whether or not a deal occurs and with whom it occurs.

Hospitality: the first cup

Hospitality is a hallmark of Muslim and Middle Eastern tradition, so be prepared to share meals and social time with business partners from the Middle East. It is said that if you want to develop a relationship with an Arab, be prepared to drink lots of coffee and tea. Although this is a generalization and oversimplification, in the Middle East it is honorable to be hospitable. It is best not to refuse anything offered, as refusal may deeply offend a Middle Eastern host. For example, when drinking coffee, it is wise to accept two cups in anticipation of being offered the third. Traditionally, the first cup of coffee represents

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an offer of peace, or *salam*. The second cup represents friendship, or *sadiq*. The third represents loyalty and protection, or *saif*, meaning *the sword*. With the third cup, your host shows acceptance of your honor and loyalty to him.

Getting to friendship, trust and yes: the second cup

In Middle Eastern business practice, friendship is most important, as it generally forms the basis for trust. Friendship is also important for business in the West. However, Westerners often try to keep friendship separate from business as our affiliations can be viewed as fraternization or as being part of the “good ol’ boy network.” In the MENA region, friendship is a crucial element in building a business relationship. A Middle Easterner will take a long time to develop a friendship, and when this is done in the region, offers of coffee, tea and food are important expressions of generosity during meetings or personal interactions.

Potential business partners may spend considerable time discussing family and other “personal” matters during meetings, which a Westerner may find disconcerting.

Arabs enjoy talking about family because they are very proud of their spouses and children. While we in the West are equally proud, we are unlikely to focus on these personal matters during business meetings. Similarly, Westerners are accustomed to try to keep to a schedule and an agenda. A conversation in the Middle East may be more informational and personal, with substantive business discussed at the end while wrapping up a meeting.

In the West, often we engage in business luncheons and dinners in order to gauge the trustworthiness and reliability of our partners. We expect promises to be executed in a timely manner. We can become impatient or “pushy” if action is not taken within the agreed time frame or if it is not at all. We judge people based upon how hard they work or on their work ethic. Often we will value work ethic over status. In contrast, in the Middle East, a friend will ask many favors, but will not blame you if nothing is done. The friend wants to know that one has at least tried. Thus, in the Middle East, custom remains that one never says, “I cannot do it.” Instead one states, “I will try, *insha’Allah*.” To openly refuse to do something for a friend, or acknowledge

that one cannot do it, or even worse, that one does not have the time to do it, this is most dishonorable.

Note: The Arabic expression, *insha’Allah*, which means *if God willing*. This is often said after someone, especially a Muslim, makes a commitment whose outcome he or she believes rests not within oneself, but with God. This is often used to pardon one from an unanticipated or undesirable outcome.

Sustained success: the third cup

Once the friendship is built and trust established, barriers to commitment and active business transactions might remain. How do you get the commitment you need to do the deal? Patience, perseverance and time are essential.

Modern Middle Eastern countries, including Saudi Arabia, have adopted many of the business methods and styles of the West. However, significant differences remain. It is important that both sides understand each other in order to avoid potential pitfalls and misunderstandings. Considerable time may be spent exchanging courtesies, and several visits may be needed to secure business.

In the United States, risk taking is highly valued. Appointments are often scheduled

well ahead of time, meeting deadlines is crucial, and following through on written and spoken agreements is expected. Lengthy formal agreements and contracts are often required to formalize a transaction, and legal counsel can become an integral part of the negotiation process. Similarly, the head of an organization does not necessarily do budgeting. In contrast, meetings in the Middle East are often not scheduled ahead of time. A Western visitor may have to arrive in country before a meeting is set. On average, Middle Easterners are risk averse — failure is dishonorable — and what is “committed to” verbally may not always be what is actually done. Statements may be made to maintain honor and may not be reliable from a Western perspective. In order to get a solid commitment, one that will lead to a deal, it is vital to understand the hierarchy of the organization one is dealing with and where and how your contact fits into that structure.

Legal systems

Islamic law, as set forth in the Shari’a, is used as the basis for the regulatory, legal and juridical structure in many MENA countries. Shari’a will apply to a greater or lesser extent depending on the specific country. For example, Saudi Arabian business and banking practices are heavily influenced by Shari’a, while Jordan is codifying its commercial laws along more clearly Western lines. Therefore, once one

has an agreement for transaction, one will need special advice in both reducing the business agreement to a written format and understanding how and when the document may be enforced and exactly what enforcement means.

Building and rebuilding relationships and the region

The “War on Terrorism,” the invasion of Iraq, and American domestic politics have intensified friction between the Middle East and the United States. The effect on business relationships is most clearly seen in the recent Dubai World Ports controversy, sanctions on aid flows to the Palestinian Authority, and provisions in the Patriot Act that leave Middle Easterners visiting the United States feeling they are automatically suspect. Despite these and similar actions, the Arab world remains one of America’s best customers. The estimated sale of US goods to MENA countries is expected to reach US\$26.7 billion by the end of 2006, an increase of 38% from 2005.

The mission of specialist trade organizations such as the Joint Middle East American Trade Center and others is to maintain existing relationships, as well as develop new relationships, between Americans and Middle Easterners at a time when, paradoxically, we are seeing a great decline in people-to-people connections — and when Middle Eastern governments are making determined efforts to

embrace both free-market principles and the global economy.

The less we understand each other’s cultures, the greater the chance for minor acts or omissions to be interpreted as conscious insults or slights. In 1981, there were more than 10,000 Saudis studying in US colleges and universities. By 2005, that number had dropped to 3,035. Over 60% of the Arab population is aged 25 years or younger, and many young Arabs are looking to Europe and Asia for higher education. The long-term effects of this can be devastating. Overall, the Middle East and United States, as do Islam and democracy, share much in common. The Arabs want to do business with their American counterparts, but are frustrated by the lack of interest from the United States, especially from American small to medium-sized enterprises (SMEs). In contrast, US SMEs view the MENA region as enigmatic, if not impossible, or as a dangerous place in which to do business.

The challenges of creating functioning, free-market economies in a traditional society should not be underestimated. Middle Eastern governments and societies are changing, but at a cautious pace. Leaders and governments want to allow a natural balance between long-standing tribal values and modern ideas to emerge. Middle Eastern countries want to modernize without necessarily westernizing. Understanding and respecting this, as well as learning a little Arabic, will certainly help you reach that third cup of coffee. **G**

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