

Middle Eastern CEOs rethink their businesses

Virtual gathering with CEOs from various industry sectors in the Middle East, hosted by Egon Zehnder's Dubai office

Leadership skills are in heavy demand in the Middle East amid the uncertainty caused by the COVID-19 pandemic, regional CEOs told Egon Zehnder in a recent call. "This is a wake-up call for real leadership," summarizes one CEO. Now is an opportunity for leaders to grow closer to their people and offer reassurance. "We need to adapt and manage uncertainty in a world where everything changes and what was true yesterday is no longer true today," says one senior executive.

CEOs' first priority is to ensure employee and customer safety. One CEO has decided to delegate so that measures can be quickly introduced "without having to align with 200 people for something to be executed".

The second priority is how to deal with staff costs and strike a balance between guaranteeing an organization's future and considering its shareholders, adds one leader. This is especially pertinent in a region where the state only exceptionally steps in to pay employees and "share our pain".

Cash is still king

All CEOs repeated one clear message, namely that "cash is king". For one hospitality group CEO, this has meant letting go of half of his employees. "It's a tough decision but we can't maintain the workforce for 18-36 months before we see a recovery." The group is focusing on securing cash flow and managing potential losses.

Retail SMEs have been badly hit, with forecasts predicting 40-50% people will be wiped out in the next three to four months. One retail CEO says they are categorizing people as either critical or non-critical "so we don't let go of top talent". In business terms, he has decided "to let go of unprofitable business – it's the natural way of things". Certain retail categories such as "home" are still operating at 50% of normal business levels

online, as people are motivated to carry out “do-it-yourself” while at home. However, there is no demand for other categories, including fashion, “it’s discretionary and people don’t want to think about it”. He predicts it will take at least 12 months before the fashion sector recovers.

Positive shock

For some sectors, the corona crisis has come as a “positive shock”. One CEO has experienced a surge in online grocery orders and increased traffic in stores. “Customers rushed to super- and hypermarkets to stock up. This is especially true for a region that has witnessed war as people worried they couldn’t buy enough food for their families. We couldn’t keep up with demand with staff restocking shelves twelve times a day and shoppers sometimes buying stock even before it hit the shelves.”

At the same time, his employees are feeling a renewed sense of purpose as front-line workers, helping providing the community with daily necessities. “As a leader, I went to the front line, wearing gloves and a mask to let our front-liners know that they’re serving the community and that the government won’t forget this moment.”

Banks feel the pinch

The region’s banks, however, have been suffering. “As everyone has said, cash is king and we had a liquidity crisis at the end of March, with banks struggling to fund themselves,” says the CEO of one Dubai-based bank. An injection of liquidity from the Central Bank and a liquidity restructuring guarantee scheme proved to be a lifeline, although it remains unclear how precisely the liquidity scheme will work.

In addition, the CEO admits to a “mismatch between clients’ expectations and what we’re actually allowed to deliver”. Dubai was already facing a challenging economic situation prior to COVID-19 so it’s difficult to assess which companies were already struggling beforehand to comply with Central Bank guidelines to focus on otherwise healthy companies.

What does the future hold?

As for the future, CEOs are undecided when business will return to normal. One predicts that consumption will return to normal levels once a vaccine or cure has been developed, adding, “We need to think optimistically because otherwise, with all of this gloomy news, we’ll make worse decisions.”

For some sectors and in the most pessimistic scenario, it may take up to 36 months to recover. A services sector CEO says “For next year, I’m looking at about half my volume. The question is, are we able to build our business to be profitable at half the volume?”

The expectation is a 12-13% drop in overall GDP, similar to after the two World Wars.
“The morale of the workforce is important as it’s going to be a long run.”

Clearly now is the time to restructure, as the CEOs rethink their businesses. “We need to think about which businesses will continue, which will change completely and what we need to change to be equipped for the future,” concludes one participating CEO.

For more information, contact:



Golnaz Bahmanyar
Dubai
golnaz.bahmanyar@egonzehnder.com



Imran Saleem
Dubai
imran.saleem@egonzehnder.com

Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

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