

MANAGING ORGANISATIONAL CHANGE IN THE CONTEXT OF ARABIAN BUSINESS CULTURE

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Abstract

This paper examines the cultural issues impacting the implementation of change programmes within complex organisations operating in the Middle East, specifically within firms operating in the Gulf Cooperation Council countries. Using a case study describing the application of strategic Balanced Scorecard within a Saudi Arabian industrial group, the authors propose that the Balanced Scorecard brings particular benefits to Gulf organisations attempting to strengthen existing management culture in response to the region's rapid social and economic change.

Western Management Methods applied in the Middle Eastern Context

The Arabian Gulf region can claim some early firsts for mankind. The first human settlements outside of Africa, the first agriculture, the first city, the first civilisation and the first international trade. But between the Bronze Age and the early 20th century, life changed very slowly for the people of the Arabian Peninsula. While scientific and cultural advances were delivered on the periphery of the region, in Constantinople and Alexandria for example, the difficult climatic conditions of the Peninsula precluded such developments (Bryson 2003, Wright 2004).

The discovery of oil reserves within the region in the 1930s began an extended period of rapid transformation of the region's economy and society. In the space of 50 years, the region transformed: from a low technology trading and agricultural society into one underpinned by oil-funded government spending on civil and energy-related infrastructure, supporting a culture dominated by entrepreneurial, family controlled business groups. Today, Saudi Arabia is the largest economy in the Gulf region and the world largest petroleum exporter, with its energy sector accounting for 90% of export earnings and 40% of GDP; the private sector accounts for 35% of GDP, in part thanks to government efforts to diversify the country's economic activities, lessening its reliance on hydrocarbons (Wikipedia, 2006).

Cultural Differences and Change

Saudi Arabia, and other Gulf countries, are regularly described as being traditional societies with stable values, that are simply different from those of Western nations (Williams 1998). Now, as they become increasingly integrated into the global economy, the countries that make up the region are being forced to change at a relatively rapid pace. Leading this change is the

Saudi Arabian private sector, perhaps by virtue of its interactions with international customers and supplier.

Private sector firms in the region are seeking out management tools developed elsewhere and attempting to apply these in a culturally sensitive manner to both support and drive the necessary organisational change. The increased adoption of “western” tools is evidenced by recent management surveys (Rigby & Bilbodeau, 2005), the growth in Middle Eastern arms of western conference organisers (www.iirme.com) and the existence of large western management consultancies in the region (e.g. McKinsey www.mckinsey.com and Accenture www.accenture.com in the UAE and KPMG www.kpmg.com in Saudi Arabia, Bahrain, Oman and the UAE etc.). Such attempts have not always worked: to explain this Bjerke and Al-Meer (1993) argue that American management theories are not applicable to Saudi Arabian managers, and question the validity of using ‘western’ management textbooks in Arab universities. Alshaya (2002) echoes this thinking, claiming his research demonstrates that “most Western management theories are not appropriate for the Saudi culture”. Jabnoun and Sedrani (2005), conclude that Total Quality Management project implementations in the United Arab Emirates have been less successful than elsewhere and attribute this to cultural characteristics of the region’s people.

Various authors’ have attempted to formalise cultural attributes and characteristics (Schwartz, 1994; Williamson, 2005), and apply these to the Middle East’s Gulf region (e.g. Williams, 1998). The Hofstede Cultural Orientation Model is perhaps the best-known framework for describing national cultural characteristics.

Hofstede Cultral Orientation Model

While there is more than one means of assessing, and so generalising about national culture, the framework proposed by Geert Hofstede is the most widely cited. In the 1960s and 70s, working as a psychologist for the IBM corporation, Hofstede conducted surveys of IBM employees in dozens of countries. This work led Hofstede to identify and label four primary dimensions of culture – Power Distance, Uncertainty Avoidance, Individualism and Masculinity. Later work, in the 1980s, led Hofstede to propose a fifth dimension, Short-termism, also known as Confusion Dynamism (Hofstede 1991).

Hofstede noted that respondents from the Arab world exhibit similar scores on all dimensions, suggesting the existence of a “universal” Arab culture. He also observed that Arab countries score relatively high on two of the dimensions of culture – Power Distance and Uncertainty Avoidance. While Hofstedes’ view of the world has critics e.g. McSweeney (2002), other researchers (identified in following sections) have confirmed Hofstede’s characterisation of the ‘Arab culture’.

This dimension characterises the disparity of authority in societal or organisational culture. In countries exhibiting high Power Distance, for example Saudi Arabia, “members of a society accept that power in institutions and organizations is distributed unequally” (Hofstede, 1984).

On the dimension of Power Distance, Arab countries score 80, with Saudi Arabia slightly lower at 73. By comparison, ‘Western’ countries score less: the USA scores 40 and Austria, the lowest scoring nation, 11.

Bjerke and Al-Meer (1993) state that this high Power Distance in Arab cultures “could be attributed to the Muslim belief about authority in Islamic societies” and that “Arab traditions recognise status hierarchy”. Muna (1980) elaborates the common perception that Saudi managers make decisions autocratically and paternalistically, as might be expected in a high Power Distance Society. He argues that, while it is an Arabian tradition to consult partners, friends and relatives, the open-door policy is actually very conditional, with only a few selected people generally consulted. Further, he proposes that consultation is often symbolic, as managers experience little opposition from their subordinates.

Within organisations, high Power Distance implies that decision-making authority is concentrated. In high Power Distance countries, individuals behave in accordance with their position in the organisational hierarchy and “respect the chain of command” (Hofstede, 1991), seldom contradicting the decisions of their leaders. People do not expect to be consulted by their superiors, rather preferring clear instructions from above. Conversely, in low Power Distance countries, the concept of equality is relatively more important, with employees more likely to question the instructions supplied by their leaders.

The dimension of Uncertainty Avoidance relates to the way people deal with life’s unknowns. It demonstrates “the degree to which members of a society feel uncomfortable with uncertainty and ambiguity, leading them to support beliefs promising certainty” (Hofstede 1984). With a score of 74, Saudi Arabia scores high on this dimension, and higher than the Arab country average of 68. Japan scores higher with 92, but in general Western countries have lower scores (USA with 46, UK with 35, Sweden with 29). Hofstede’s characterisation of Saudi Arabians as having an Uncertainty Avoidance orientation is again supported by Bjerke and Al-Meer (1993) who argue that, “Saudi managers, as Moslems and Arabs, do not tolerate persons who deviate from Islamic teachings and Arab traditions”.

Hofstede’s analysis indicates that the Arab culture, such as this can be generalised¹, exhibits a strong tendency towards the dimensions of Power Distance and Uncertainty Avoidance. Organisational leaders separate themselves from the group, and issue complete and specific directives. A consensual approach to management decision-making is not natural. The owners or senior executives make all the important, and many unimportant, decisions. Further, managers can be expected to be uncomfortable debating the future and making decisions on the basis of significant uncertainty.

Hofstede’s arguments support the views of Alshaya (2002) and Jabnoun & Sedrani (2005) noted above. But it is also clear that Saudi Arabian and other Arab firms have successfully applied many western management tools, techniques and concepts: for example accounting standards; quality techniques and strategic planning methods (Al-Ghamdi, 2005; Al-Turki & Andijani, 1997; Rigby & Bilbodeau, 2005). This suggests that the issue is not that the Western Models are necessarily inappropriate, but rather to do with how these may be applied to greatest effect. Case work by 2GC Limited within the Gulf region over several years suggests that the cultural differences are surmountable (e.g. Cobbold *et al*, 2004; Guidoum

¹ Generalisations are risky, particularly when one culture generalises about another. The risks, broadly, are that the generalisations are wrong (for example, because variations in behaviour patterns within populations can be large) or that those being generalised about take offence. The authors seek neither to be wrong nor to offend. Rather, we seek to encourage and inform debate about how best to strengthen management capabilities in an increasingly important region of the world – the Arabian Gulf and specifically Saudi Arabia.

2000, Shulver & Antarkar, 2001). This paper develops this argument, providing new evidence from two Saudi Arabian firms that have used a western-developed management tool to drive significant changes to management behaviours and decision-making practices, in support of improved organisational performance.

The Balanced Scorecard – Origins and Evolution

The limitations of financial measures as an aid to management decision-making have long been noted (Dearden 1969). In the late 1980s one Californian firm, Analog Devices, began to address these limitations by experimenting with a mix of financial and non-financial performance measures. They called the resulting set of measures their “Balanced Scorecard” (Schneiderman 1999). Later, two accountancy researchers documented this idea in the Harvard Business Review (although without crediting the original developers), introducing the idea to a much wider audience (Kaplan & Norton 1992).

Though popular, the original Balanced Scorecard was difficult to design (Butler *et al*, 1997), and had a high rate of abandonment (Malina & Selto, 2001). Various researchers attempted to address these design difficulties, and the impact of these developments have been summarised in an analysis of the evolution of Balanced Scorecard by Lawrie & Cobbold (2004). Using the terminology introduced in that paper, the case study described in this paper is based upon ‘third generation’ Balanced Scorecard structures and methods.

The third-generation Balanced Scorecard design process is demanding of managers, requiring them to debate and agree their understanding of the current situation, and make choices about areas to focus attention and decide upon how best to monitor progress. This type of design approach, and the reasons for it, are described in Lawrie *et al* (2004).

Case Study: Zamil Steel Industries and Zamil Air Conditioners

An early section of this paper referred to the family-controlled business groups that dominate the Saudi Arabian private sector. One such entity, the Zamil Group, forms the basis of this paper’s case study. The Zamil Group was founded by Sheikh Abdullah Al-Hamad Al-Zamil, born in 1897 in Onaizah, Saudi Arabia. A serial entrepreneur, he established a food and textile trading company in neighbouring Bahrain in the 1930s. Profits were used to create a Saudi Arabian real estate investment business that, in 1959, was behind the construction of the country’s tallest building. From his death in 1960, the Group was managed by his sons who, during the early 1970s, noted that Saudi Arabia was becoming increasingly industrialised and open to international trade. To capitalise on a changing economy, the second generation of Zamil’s began to assemble a series of industrial firms, through start-ups, acquisitions and via joint ventures with international firms. Their timing was astute – the country’s GDP would grow 1500% between 1971 and 1991 (Ministry of Economy and Planning, KSA). By the 1990s the Group employed 8,000 staff and was active in a wide range of industries, including steel, glass, air-conditioning, food processing, coatings, petrochemicals and packaging. In 1998 the Group created the Zamil Industrial Investment Company (ZIIC), containing the jewels of the Zamil Group businesses – steel, air-conditioning and glass. By the mid-2000s ZIIC was among the top 30 commercial concerns in Saudi Arabia with an annual turnover of SAR 2.4b (\$640m).

The early 1990s were particularly good for the Zamil Group businesses. For example, Zamil Steel Industries' (ZSI) three strategic business units (SBU), Pre-Engineered Buildings, Structural Steel and Towers & Galvanising all enjoyed record profits, earning 60% of revenues from export markets. The late 1990s saw these good times come under threat, however. Lower-cost market entrants began to put downward pressure on prices and market share in the ZIIC air conditioning, steel and glass businesses.

The young chief executive of Zamil Air Conditioners (ZAC), Mr. Abdulla Al-Zamil, a grandson of the founder, led the response at ZIIC. Educated in both Saudi Arabia and the United States, he believed that western management tools could be helpful in the Saudi management context. An early action was the implementation of Balanced Scorecard within ZAC, supported by some of the authors (Cobbold *et al*, 2004).

Similar actions were later undertaken within Zamil Steel Industries (ZSI) partially in light of the Balanced Scorecard experiences within ZAC. More generally, ZSI management concluded that the firm needed to improve its cost structure and efficiency, and in 1999 undertook internal and external analyses to help decide how this should be done. From the year 2000, the firm took on a series of business change projects, including Business Process Redesign and Enterprise Resource Planning, and from 2003, Strategic Management and Balanced Scorecard projects, the later again supported by the authors of this paper.

As with ZAC, the ZSI Balanced Scorecard project centred on a series of strategic decision-making events attended by ZSI's top dozen managers, including the CEO, the SBU general managers and corporate functional managers. This workshop-centred process was based on the third-generation Balanced Scorecard methodology and saw the managers design the various components of a 'modern' Balanced Scorecard – a Destination Statement, a Strategic Linkage Model with Activity and Outcome perspectives, and Measures and Targets.

The implementation phase was led by the ZSI Strategic Planning Manager (an author of this paper). Appointed as vice-chairman of a newly formed ZSI Corporate Balanced Scorecard Steering Committee, he was given a mandate to drive the effective usage of the newly designed Balanced Scorecard. Also on the Committee were representatives of the three SBUs, each of who is nominated by his respective SBU head for a one-year term, so as to build wider and deeper commitment to the Balanced Scorecard over time.

The Committee holds one-to-one meetings on a quarterly basis with each strategic objective owner to review the progress of the strategic objective against agreed targets. In advance of these meetings, strategic objective owners are required to complete and submit 'progress reports' on their objectives, consisting of revised objective and measure definition forms, plus additional information on objective progress. Also, strategic objective owners present their progress to ZSI executive management and the other strategic objective owners in the quarterly strategy review meetings. ZSI has adopted a recognition system, whereby the objective owners of the best two activity objectives and the best two outcome objectives are awarded certificates along with their team members each quarter. More recently, ZSI has linked the Balanced Scorecard with the budget using a pro forma income statement describing current and planned financial performance in support of four strategic objectives: 'increased sales revenues', 'reduced cost of sales', 'actively manage, control and benchmark costs' and 'increased net profitability'. The Balanced Scorecard is highly visible across the firm; for example it is displayed on the ZIIC intranet and reported in the firm's quarterly newsletter.

This commitment to implementation appears to be delivering benefits, although the financial benefits of Balanced Scorecard adoption have yet to be quantified. ZSI managers describe organisational improvements attributable to the Balanced Scorecard as including “cross-divisional communications”, “sharing of expert knowledge and experience”, “first signs of a learning organisation”, “fostering strategic thinking” and “greater transparency”.

The earlier experiences of ZAC with Balanced Scorecard were comparable, again according to the managers concerned. They describe quantifiable benefits for strategic objectives relating to ‘material cost reduction’ and ‘cost of quality’, attributed to the cost focus brought by the ZAC Balanced Scorecard. ZAC managers also describe qualitative benefits around “a greater communication among managers than 3 years before”, “a commitment to meet every quarter”, “a greater appreciation of a unified corporate goal because objective owners are independent of their respective functional areas”.

Discussion

While the Arab culture is different from the cultures of ‘western’ nations, these differences should not be overstated – using Hofstede’s model the cultural differences between western nations is comparably large. US-originating management tools are routinely applied across Europe, for example, and Arabian firms have already successfully applied many western management tools, techniques and concepts, for example accounting standards, outsourcing and enterprise resource planning systems.

The Balanced Scorecard framework design and implementation process requires certain types of engagement from management teams that are apparently counter-cultural within the Arabian context. The high Power Distance characteristic of the region would seem to have implications for the ‘quality’ of middle level management: making it more likely for middle and non-executive managers to accept a reduced sense of accountability for the achievement of organisational goals. If a superior makes all the important business decisions, the employee’s commitment to, and ownership of, the results of these decisions will necessarily be lower. Further, high Power Distance cultures make it less likely that managers are aware of the organisation’s ‘bigger picture’ beyond their area of immediate responsibility. These implications of high Power Distance may make it harder for the talents of the middle management teams to be harnessed in Arabian firms.

Similarly, the region’s tendency to Uncertainty Avoidance has implications for the quality of management decisions - this characteristic makes it less likely that managers think and plan strategically. Because strategy is about the actions required today to create a sought future, and this future is unknown, managers from high Uncertainty Avoidance countries may miss opportunities to analyse and influence outcomes, and are thus potentially less able to rapidly respond to changes in their business environment.

If these management ‘limitations’ are genuine, then the benefits of third-generation Balanced Scorecard are apparent. The process design process, with its requirement for the larger management team to debate strategic choices, contributes strongly to building of wide and deep awareness of the organisation’s strategic goals and priorities, and can contribute to the mobilisation of middle-management talent. By encouraging the allocations of strategic objectives to individual ‘owners’ from the larger management team fosters a sense of accountability. Regular review sessions at which the owner presents his progress, as practiced within ZSI, further enforce this sense of accountability. Quarterly review meetings

again enforce awareness of development across the business, while post-design communication activities, as practised by ZSI, build business awareness beyond the core management team. Finally, the development of Strategic Linkage Models, illustrating management's hypotheses about intended cause and effect relationships, helps to counter the Arab managers' apparent tendency to avoid thinking deeply about an unknown future.

Conclusion

Contrary to generalisations about the unsuitability of Western management tools in the Gulf, this paper has set out to show that the Third Generation Balanced Scorecard framework can be applied in a way that is helpful in the Arab management context, despite being apparently 'counter-cultural': for example, debating strategic choices with your superior is difficult to do if you've never been required to do it before. If the tool is counter-cultural (which is perhaps what the aforementioned Arab researchers are intimating) then implementation must be managed carefully to overcome the 'counter cultural' resistance the approach may bring. This in turn suggests that it may be that the success of the reported case relied more on the flexible and robust design process linked to Third Generation Balanced Scorecard methods, than upon any specific design element or characteristic.

The lessons here from the Zamil companies are instructive: successful implementation in Arab countries demands strong early communications about the Balanced Scorecard initiative; visible backing of the effort from the most senior manager involved; a robust design process, and the ability to ensure that subsequent performance review sessions are managed with discipline. Perhaps not surprisingly, these lessons can be (and have been) applied in other countries (to date 2GC consultants have applied these methods in over 33 countries across five continents). The difference with Arab organisations is simply one of scale: the implementation imperatives are greater, but so appear to be the benefits of effective implementation.

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