



TAMPERE UNIVERSITY OF TECHNOLOGY

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**COMPETITIVE PROJECT BUSINESSES IN THE MIDDLE EAST:  
OPPORTUNITIES AND OBSTACLES**

Master of Science Thesis

Prof. Miia Martinsuo has been appointed as the examiner at the Faculty of Business and Technology Management on April 4<sup>th</sup>, 2012.

# ABSTRACT

TAMPERE UNIVERSITY OF TECHNOLOGY

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In today's highly-competitive global market, the key to success and survival of any business is to sustain its current market share as much as it can and also try to expand its presence into new regions. Businesses might already or in the near future face saturated markets in their current operating regions which means they need to seek new opportunities in newer markets. This is evident especially now in the 21<sup>st</sup> century when the world is witnessing the new 'global markets'. In globalized market, the key to success of a business is to become international. In other words, operating locally in few limited regions could endanger the position of an enterprise. This raises the need for further studies by companies in order to evaluate new markets and try to expand their activities into those newly-identified regions.

The thesis introduces the Middle East region as an appropriate target market for international firms and mentions the opportunities and challenges that this region offers for foreign investments. Opportunities that the thesis has concluded shortly can be described as: vast resources of oil, gas and minerals, access to the international routes such as body of waters, enjoying one of the best air and ship transportations in the world, huge amount of disposable money with people, young and increasing population, tendency to consumption and luxury, huge reserves of money with the governments, home to many internationally well-known banks. However, challenges of entering the region can be summarized as lacking a positive image worldwide, violence and instability, low level of education and literacy, high rate of unemployment, low labor productivity, water shortage, weak institutional structure and nutrition and health issues.

The objective of this thesis is to determine whether or not the Middle East region provides a profitable market for the businesses all around the world to enter and invest in this region. The research conducts an analysis of the opportunities and challenges that an investment business might face when entering this market.

## PREFACE

Hereby, I would like to appreciate Prof. Miia Martinsuo who supervised the process of writing this thesis and the one who helped me choose the topic and also kindly provided me with helpful instructions and guidance. Without her instructions, choosing the topic, proceeding the work, finding appropriate and relevant research literature would be almost impossible. I also would like to express my gratitude to the two angels, my kind father and lovely mother, who supported me emotionally and financially over these two years of my study in Finland; when I was thousands of miles away from home.

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Seyedfarhad Mirghiasimoradi

Tampere, April 2012

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## ABBREVIATIONS AND NOTATION

|        |  |
|--------|--|
| OPEC   | Organization of Petrol Exporting Countries         |
| BRIC   | Brazil, Russia, India, China                       |
| MENA   | the Middle East and North Africa                   |
| MNE    | Multi National Enterprise                          |
| FDI    | Foreign Direct Investment                          |
| UNCTAD | United Nations Conference on Trade And Development |
| M&A    | Mergers & Acquisitions                             |
| IAEA   | International Atomic Energy Agency                 |
| TCF    | Trillions of Cubic Foot                            |

# 1. INTRODUCTION

## 1.1. Research Background

In today's business world, the nature of the activities of organizations is changing and in fact the organizations are switching from domestic or local organizations toward global ones. Firms across the world have realized that globalization is a reality that creates unlimited opportunities while bringing competition and challenges as well. Saturated domestic markets, tough regulations and high level of bureaucracy in the existing local market, high taxes, limited access to or the shortage of the *factors of production* and firm's desire to expand beyond the borders of its current market are amongst many other factors that stimulate a firm to think about expanding its trade into foreign markets. Also the attractions of the foreign market such as low labor cost, cheaper raw materials and resources, less governmental regulations as well as privileges offered by the host country's lawmaking bodies are the incentives that stimulate a company to start thinking about the investment in those new and favorable markets.

These all point to the fact that nowadays, firms are shifting their operations from local markets toward international and global markets. According to Abbas (2000), many organizations, such as Exxon and GM, have been engaged in cross-border activities and functions for several decades. Furthermore, Newlands & Hooper (2009), which have studied this trend from economic perspective, believe that a nation's economic success depends on its companies' and firms' ability to develop their business ties and do business in the international arena. They believe in "growing globalization" which has been in effect for last several years. In the growing globalization, as they put it, a good comprehension of international business theories and how they can be applied to make the development of MNCs play an important role.

Also Aswathappa (2010) is of the similar opinion and believes that nowadays nearly all business firms, both large and small ones, show interest in expanding their businesses across the globe. This expansion may involve in the purchase of raw material from foreign suppliers, assembling products from components made in several countries or selling goods or services to the customers in the foreign country's market. Moreover, Drucker (2007) states that all businesses must make their competitiveness global and they have to set strategies to attain this goal. No institution, would it be a production factory like an automaker or a service company like a university or hospital, can hope to survive, let alone to succeed, unless it adapts its operations to the standards set by the leaders in its field, any place in the world which means all organizations must follow

global trade rules and regulations. This is because of the increasing trend towards a borderless business world characterized by disappearing or substantially diminishing barriers to cross-border business.

In fact, the reason why business globalization gains importance is that the environment in which a local business is operating is quite different than the one a global firm is operating (Dlabay et al., 2010). These differences demand additional actions and considerations of the firm managers. Table 1 demonstrates some differences between domestic and international business environments.

*Table 1. The domestic and international business environments are significantly different and necessitate different types of managerial policies (Dlabay et al., 2010).*

| <b>Contributing Factors</b> | <b>Domestic Business Environment</b>       | <b>International Business Environment</b> |
|-----------------------------|--|---|
| <b>Culture</b>              | Single dominant culture                    | Multiple cultures                         |
| <b>Currency</b>             | Single currency                            | Multiple currencies                       |
| <b>Government</b>           | Single dominant government                 | Multiple governments                      |
| <b>Infrastructure</b>       | Well-developed infrastructure              | Multiple infrastructures                  |
| <b>Language</b>             | Single dominant language                   | Multiple languages                        |
| <b>Location</b>             | Single dominant business regulatory system | Multiple business regulatory systems      |
| <b>Time zones</b>           | Limited time zones                         | Multiple time zones                       |

As Table 1 shows, domestic and global businesses differ in a variety of characteristics. These differences point to the fact that a global firm cannot be managed the way a domestic or local firm is managed. Policies, decision makings, long-term strategies differ to a great extent.

All above-mentioned facts indicate that:

1. Today 'going international' is inevitable and in fact it is the key to the survival and the promotion of businesses. In other words, global business is becoming such widespread across the globe that no business can ignore it.



2. The way managers run a global business must differ than the way they would run a domestic firm before. Therefore, it is the business managers' task to adopt appropriate policies and prepare their firms in a way that they can easily embrace this phenomenon without much trouble

Thus, the concept of business globalization has to be understood properly by managers so that they could adopt appropriate policies to extend their presence into global arena but before that, they need to have a clear understanding of what 'global business' means. As a matter of fact, like many other concepts and terms, there are as many definitions for the term 'business globalization' as the number of intellectuals and gurus in the field of marketing and business management. For instance, Abbas (2000) quotes Edwin Artzt, chairman and CEO of Procter & Gamble, as saying that the definition of the globalization of their business is as follows:

*" Globalization has special meaning within Procter & Gamble. It means that we will continue to change from a United States-based business into a truly world company. A company that thinks of everything it does, in terms of the entire world"*

His definition of globalization is based on strategic perspectives of a leading American company. Nevertheless, there are other definitions for this term. As another example, Yadong (1999) defines business globalization as ...

*"The process by which a multinational enterprise (MNE) enters and invests in a target foreign country in pursuit of the MNE's strategic objective"*

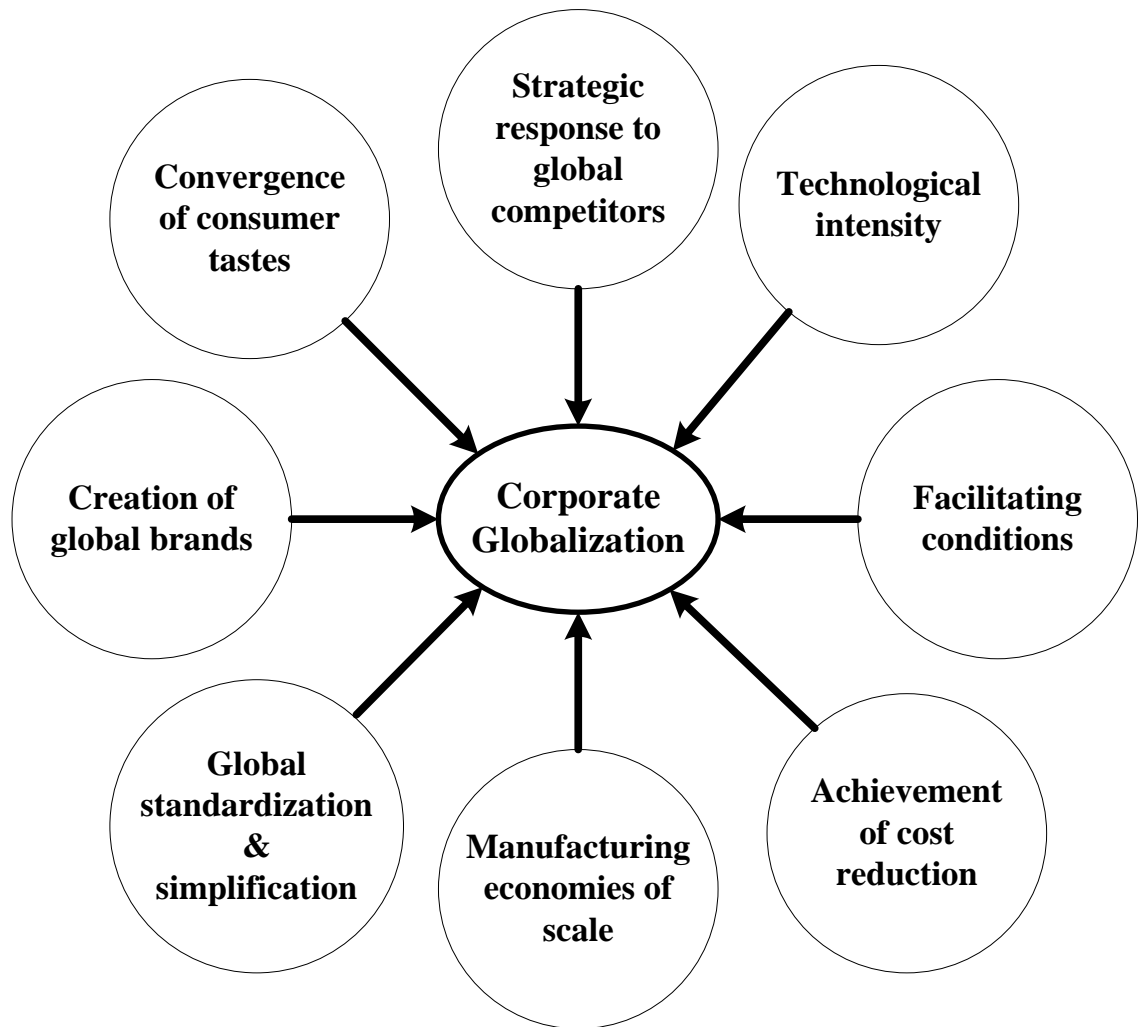
Globalization of businesses has changed the way firms do business nowadays and in fact this change in the business methods is unstoppable as Cherunilam (2007) states. He argues that the problem that firms usually feel when facing the phenomenon of globalization of businesses is that they do not know how they can deal with it, how to make the most of it and how to take advantage of the benefits and profits that it offers. There is an important issue here in the concept of globalization which says the globalization of a business does not mean that all businesses have to operate globally and expand their presence internationally. However it means that companies must learn how to survive and maintain their position in the global competition. This means that the global competition will definitely affect all the businesses around the world and local businesses are not safe unless they learn how to react to this phenomenon in order to survive.

Now that the concept of globalization has been explained, a very important question arises which is: Why a corporate would tend to operate globally? In other words, what are the main reasons that stimulate the companies to enter into the global market?

Robin & Grazia (1996) suggest the following reasons behind a company's expansion into global market:

- Worldwide convergence (homogenization) of consumer tastes. This happens due to the fact that change in the tastes of the customers is to some extent supply-led; emergence of new innovations and inventions in technology and products and services is the driver behind the change in the consumer behavior.
- Emergence of global brands such as Marlboro and Coca Cola increased the concentration of consumers on some limited dominant brands. This led to product differentiation barriers to entry, and hence allowed the achievement of major advertising and marketing economies.
- Simplification and standardization of products and services. Too complex and technical products and services gave their place to new more user-friendly ones which enabled more firms to enter the global market. Before, not every firm had enough capabilities and competencies to enter the global market competition due to the dominant presence of complex offerings which were hard to compete with.
- Manufacturing economics of scale. The production of standard products for world markets permitted significant manufacturing economies of scale which were not available to the national producer.
- Achievement of cost reductions. The scale advantages mentioned above permitted major cost reductions which could in turn achieve important price advantages for the global competitor.
- Facilitating conditions, such as the revolutions in transport, telecommunications and information technology, 'world shrinking' technologies, radically reducing the time and cost of communication and travel between the geographically distant subsidiaries of a multinational company.
- Technological intensity. The increase in the pace of innovation and growing trend in research and development costs meant that, in industries like aircraft production, the supply of standard products to world markets permitted the spreading of these types of initial fixed costs across greater volumes, for example by Boeing and the European Airbus Consortium.
- Strategic response to global competitors. This occurs when a company responds to global competitors by globalizing itself. It fits with the observed tendency for imitative behavior under conditions of oligopoly, including international oligopoly, The international car industry provides a good example for this item.

Figure 1 summarizes all the above-mentioned reasons.



*Figure 1. The reasons why companies move toward globalization (Robin & Grazia, 1996).*

It is worth mentioning that a company does not necessarily need to have *all* these reasons simultaneously to enter global market but sometimes few of them might stimulate it to start contemplating entering the global market. Having introduced the concept of globalization of businesses and why firms tend to move toward it, the next step is to elaborate on the problems and challenges a company might face when going global.

## **1.2. Problems Identified**

The concept of market globalization or the expansion of businesses into global market has been discussed and then the reasons why enterprises are interested in going global were explained in the previous section. However, on their way to expand globally, some enterprises fail to make the right decision.

Recently, because of the current financial problems and the global economy downturn which affected the world economy to a great extent, the future might not seem to be as promising as it would be expected before. What can be seen now is that the major economic powers in the West are struggling with the serious financial crises and try to get out of this situation by any means they can. Italy, Ireland, Greece, Spain, France and Portugal are examples of such countries. Also, the currency crisis within the Euro zone has been a challenge over the last months. All these factors lead to the fact that businesses in the Europe might not have a very good future and perhaps they might face serious challenges if they don't find appropriate policies enabling them to sustain in the market.

The solution to this problem may lie beyond the borders of Europe. In other words, businesses might find their survival in finding new opportunities overseas. Foreign appropriate markets may be the key to the survival of these enterprises. Therefore, these businesses need to get out of their shell and try to be *globalized* since the future is probably not in West but in other parts of the world.

However, wherever there is the talk of foreign market, the first thing that comes to the minds of businessmen and businesswomen is the term "BRIC". This acronym stands for the countries "Brazil, Russia, India and China". According to United Nation (UN) Population and Vital Statistics Report (January, 2010), total population of these four countries is more than 2.883 billion which accounts for 41% of the world whole population. These countries provide a very good potential for any company interested in the expansion into new markets. They offer cheap labor force and they also have very good demand in terms of customers. Moreover, they have plenty of natural resources which make it easy for foreigners to invest and run their businesses there.

All in all, these four countries seem to be the perfect markets for the businesses and the future in these countries seems to be highly promising. However, these countries have their own challenges as well. Jain (2006) names some of the key challenges of BRIC countries as:

- Economic challenges: although the GDP figures of BRIC countries seem to be promising, their GDP per capita is quite low compared to other emerging economies. In economics, GDP per capita is more significant than the GDP itself
- Social challenges: a good perception and image of any country is very important in terms of current and long-term trade investments from international corporations. FDI Confidence Index is in a poor position when compared to other emerging economies. Only India's FDI Confidence Index has grown up and the rest of BRIC has gawn down or have just remained unchanged

- In terms of Corruption Percentage Index (CPI), BRIC nations have the low scores (and high rankings) which is considered a drawback to the international business

These challenges when joined by individual challenges (e.g. poverty) show that the countries are not the utopia as they would be considered before. Especially when compared to other regions in the world which offer even better investment circumstance such as the Middle East. As opposed to what many enterprises might think about the future of their business, there is another region which could provide not only similar but also even more promising future when compared to the BRIC.

This region might have been ignored by businesses due to some reasons but it still provides an extraordinary capacity for the global businesses. This region is called “The Middle East”. It is rarely witnessed that western companies, especially European ones, and especially Finnish companies show interest in investing in the Middle East region. They mostly tend to have their money be injected in other parts of the world, e.g. BRIC, than being spent in this *unknown* region.

Although Fischer & Rodrik (1993) have a completely negative perspective about investment in this region, thanks to the ample natural resources existing in this region, the economy of Middle East has been booming over the past years. Oil, gas, minerals, petrochemical and construction industries provide an ideal market for those who seek new opportunities across the globe. Thanks to the so-called ‘petrodollars’, the welfare of the people in this region has been rapidly increasing and there can be found a lot of potentials for businesses. William Fisher (1978) estimates the major world oilfields as Table 2.

*Table 2 Major world oilfields (excluding the USSR). Adopted from Fisher (1978).*

|                     | <b>Year of discovery</b> | <b>Cumulative production to 1975/6 ('000 million barrels)</b> | <b>Reserves ('000 million barrels)</b> | <b>Years of production at 1975 levels</b> |
|---------------------|--------------------------|---|--|---|
| <b>Saudi Arabia</b> |                          |   | <b>149</b>                             | <b>58</b>                                 |
| Ghawar              | <b>1948</b>              | <b>12</b>   |  |   |
| Safaniya            | <b>1951</b>              | <b>3</b>  |  |   |
| Abqaiq              | <b>1940</b>              | <b>5</b>  |  |   |
| <b>Iran</b>         |                          |   | <b>65</b>                              | <b>33</b>                                 |
| Agha Jari           | <b>1938</b>              | <b>6</b>  |  |   |
| Gach                |                          |   |  |   |
| Saran               | <b>1928</b>              | <b>4</b>  |  |   |
| Marun               | <b>1964</b>              | <b>2</b>  |  |   |
| Bibi                |                          |   |  |   |
| Hakimeh             | <b>1961</b>              | <b>1</b>  |  |   |
| Ahwaz               | <b>1958</b>              | <b>2</b>  |  |   |
| <b>Kuwait</b>       |                          |   | <b>68</b>                              | <b>100</b>                                |
| Burgan              | <b>1931</b>              | <b>10</b>   |  |   |
| <b>Iraq</b>         |                          |   | <b>34</b>                              | <b>42</b>                                 |
| Kirkuk              | <b>1929</b>              | <b>7</b>  |  |   |
| Rumaila             | <b>1953</b>              | <b>2</b>  |  |   |
| <b>Libya</b>        |                          |   | <b>26</b>                              | <b>48</b>                                 |
| Sarir               | <b>1961</b>              | <b>1</b>  |  |   |

As can be understood from the table above, world's major oilfields are located in the Middle East region. This vast amount of oil reserves has prospered the economy of the countries in this region and in fact has enabled them to earn huge revenues from these energy resources. The consequence of this huge oilfields is that near to 40% of the oil produced in the world, comes from this region and this is while the total population of this region accounts for only 3.3% of the world whole population (William Fisher, 1978). Table 3 demonstrates the revenues of oil-rich countries in the Middle East region.

Table 3. Oil revenues to Middle East governments (US \$ million). Adopted from Fisher (1978).

|                     | 1960 | 1965 | 1970 | 1973 | 1975/6 |
|---------------------|------|------|------|------|--------|
| <b>Saudi Arabia</b> | 310  | 655  | 1200 | 7200 | 27000  |
| <b>Iran</b>         | 247  | 534  | 1093 | 5600 | 20500  |
| <b>Kuwait</b>       | 425  | 671  | 895  | 2800 | 7500   |
| <b>Iraq</b>         | 210  | 375  | 521  | 1900 | 8000   |
| <b>Abu Dhabi</b>    | -    | 33   | 233  | 1200 | 5500   |
| <b>Qatar</b>        | 60   | 69   | 122  | 600  | 1700   |
| <b>Libya</b>        | -    | 371  | 1295 | 3000 | 6000   |

All these facts and figures about Middle East point to the reality that there is tremendous amount of money in that region which is an invaluable source of income for western companies. This *ocean of money* in the region could be looked at as an incentive for foreigners to try to assess the existing potentials in the countries located in the region.

Thus,

*The objective of this thesis is to clarify the economic situation of Middle East and whether or not this region can provide an appropriate base for the implementation of project businesses by foreign firms.*

In other words, the thesis will try to answer to the following questions:

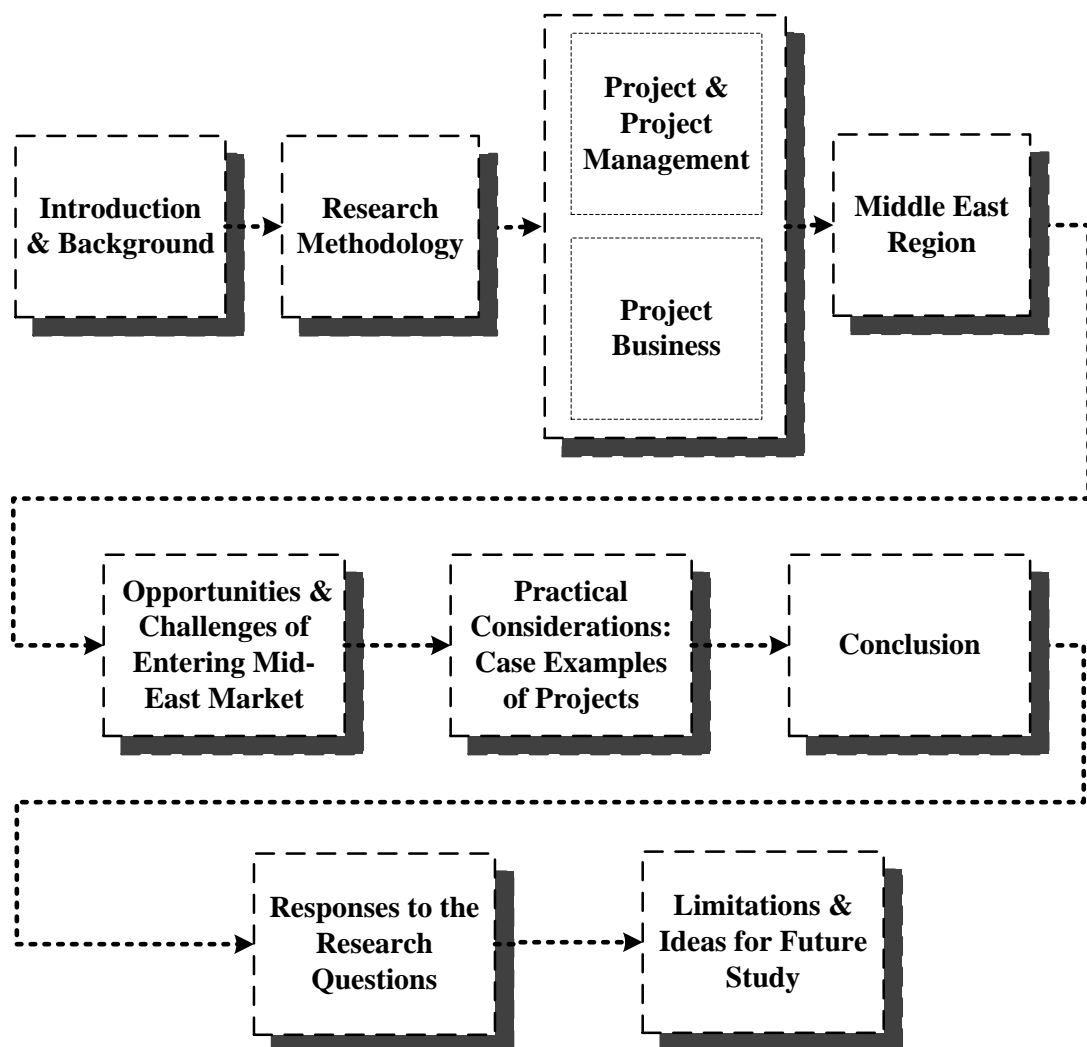
- What kinds of features distinguish the Middle East region from other parts of the world that make it attractive for foreign companies to come and invest in the region?
- What are the business opportunities in this region?
- What obstacles and challenges do foreign firms face when entering this region's market?

### 1.3. Thesis Scope and Structure

The thesis will first provide the reader with appropriate knowledge about business projects and important aspects of implementation of a project business in a new environment. Project businesses will be discussed from various perspectives and viewpoints. Then it will introduce the Middle East as one of the favorable target

markets in the world and will present the business opportunities and challenges that already exist in the region. Later on, to support the claims and also to provide the practical evidence, some case examples of the business projects implemented in the region, successfully or unsuccessfully, will be presented.

In the end, the thesis will conclude by summarizing the business opportunities and challenges already existing in the region and will provide the answer to the questions asked in the beginning of the thesis. The final section will be introducing the limitations of the research and also the future studies that can be conducted to complete and expand the knowledge in this specific area. Figure 2 demonstrates the structure of the thesis.



*Figure 2. The structure of the thesis.*



As Figure 2 depicts, the research will include 9 consequent phases which overall cover 7 chapters; each of which has its own sub-headings and sections. Next chapter will elaborate on the methodology used in the thesis entitled 'Research Methodology'.

## 2. RESEARCH METHODOLOGY

Kumar (2008) defines research as “an intensive and purposeful search for knowledge and understanding of social and physical phenomena”. Based on this definition, he argues that the aim of research is to establish a fact, theory or a principle which should be done is a systematic and scientific method. Research is usually done on a specific and pre-determined topic and demands scientific investigation of various sources in order to attain the goal of the research.

The following characteristics can be drawn from the definition that Kumar (2008) provides for research.

- Research is a systematic inquiry for knowledge
- Research is conducted within a specific field of knowledge and it is done under a pre-determined topic or subject
- Establishment of principles or facts is the ultimate goal of a research
- What is usually done in research is that the existing knowledge is studied in order to advance and develop it further and establish new body of knowledge based on it

### 2.1. Types of Research

According to Kumar (2008), research has different types and methods which could be mentioned as follows:

#### *Descriptive vs. Analytical*

Descriptive research involves surveys and searching for facts and realities by using various kinds of enquiries. The major task of this type of research is to explain the status quo or the current state of affairs as they already exist. Another term which is used interchangeably for descriptive research is *ex-post* fact research. The important characteristic of this type of research is that the researcher has no control over different variables existing in the study and the only thing he does is to report them and nothing more. On the other hand, analytical research is based on the fact that the researcher should study the existing knowledge and facts and analyze them in order to draw a conclusion out of it.

***Applied vs. Fundamental***

Applied (basic or pure) research is conducted with the aim of finding a solution to a problem or crisis that the society is facing at the moment. This is while fundamental research, which is also called action research, mainly deals with the generation and creation of a new body of knowledge and facts. The result of this type of research could be a formulation of a theory. Everybody is familiar with the Einstein's equation:  $E = MC^2$

***Quantitative vs. Qualitative***

Quantitative research, as the name implies, involves measuring of quantity or amount of some variables whereas qualitative research is conducted based on the quality of things and there is no direct sign of measurement in this research.

***Conceptual vs. Empirical***

As the name implies, conceptual research includes conceptual ideas and facts and is mostly favored by thinkers and philosophers to develop their ideas. However, empirical research is based on physical experience.

***Experimental vs. Non-Experimental***

Experimental research deals with dependent and independent variables and in fact imposes some changes on independent ones to see their effect on the related dependent variables. It is important to notice that in this research, the environment is under the control of researcher. However, Non-Experimental research involves the measurement of present amount or level of the independent variable in question.

**2.2. Research Methodology Used in the Thesis**

This thesis has not been written for a specific business firm (unlike many other theses) and in fact investigates a general problem already existing in business world and tries to suggest a solution that could be generalized and utilized by a wide range of businesses. In other words, interviews, data collection, questionnaire surveys and observation which are typical in many of the firm-specific theses, are not applicable here.

The source that has been used in this thesis is literature such as books, articles, papers, journals and reliable websites. Also reports from governmental entities, which were

valid and their authenticity is proven, are other sources that have been used to develop the concept. Thus, this is a literature-based thesis and based on what was mentioned before about different types of researches, it could be fit into the following categories (Table 4).

*Table 4. Research methodology used in this thesis.*

|                          |              | <b>Methodology Used in the Thesis</b> |                  |   |
|--------------------------|--------------|---------------------------------------|------------------|---|
| <b>Types of Research</b> | Descriptive  |                                       | Analytical       | ✓ |
|                          | Applied      | ✓                                     | Fundamental      |   |
|                          | Quantitative |                                       | Qualitative      | ✓ |
|                          | Conceptual   |                                       | Empirical        | ✓ |
|                          | Experimental |                                       | Non-Experimental | ✓ |

As discussed in previous section, research methodologies can be classified into 5 different categories: descriptive or analytical, applied or fundamental, quantitative or qualitative, conceptual or empirical and experimental or non-experimental. As Table 4 above shows, this thesis follows analytical, applied, qualitative, empirical and non-experimental methods. In other words, the building blocks of the thesis are literatures and the existing materials such as books and articles and because the thesis is not written for a specific firm, interviews and surveys are irrelevant here. In fact, it has been tried to go through the available literature relating to the topic and field of research and then by following a disciplined process, the final conclusions and results of the thesis be drawn. Next chapter will review the literature used as the base of the thesis and will provide the reader with necessary knowledge to follow up the next chapters and the results of the work.

## 3. PROJECT AND PROJECT MANAGEMENT

### 3.1. Background

Chiu (2011) believes that the origin of project management is commonly attributed to the ancient mega projects such as construction of pyramids in Egypt, Great Wall of China or Persepolis in Persia. Each of these projects lies amongst the greatest and most complex projects of human history that have been accomplished with high quality and the use of massive human labor. When a project manager visits the mysterious city of Achaemenid Empire of ancient Persia and spots the artistic designs of ancient architects will undoubtedly be amazed that how these mega structures have been constructed over 2,500 years ago with such a unique quality that despite the destructive wars of Alexandria and other occupiers and also other natural disasters such as earthquake and flood still are remembered as the wonders of ancient world's architecture.

Also the pyramids of ancient Egypt, for example, still stand in well-preserved form and maintain their impressive attention to detail after centuries. When examining such historical masterpieces, one notices that building such glorious and complex structures must have required knowledge of planning, organization and technology that allowed the builders to complete the project at hand. The process must have involved some effective implementation of the resources pertaining to drafting and designing. It goes without saying that overseeing the execution of such glorious structures has formed the basis of modern project management (Chiu, 2011).

“Project management” was not generally used as a term until 1950s, although its concept and practice stretch far back into history (Chiu, 2011). The great architectural projects of the ancient world and other magnificent structural accomplishments throughout human history provide evidence pointing to earlier forms of project management.

Thus, ancient civilizations practiced the “science” of project management. Although project management did not yet claim a technical definition during those ancient projects, in practice the ancient builders understood and carried out the principles of project management. This history of building practices progressed alongside the development of other professions like architecture, medicine, economics, mathematics and theoretical science. All of these have their own well-documented histories.

Because the term “project management” is not prevalent in ancient texts, the world of project management has been more elusive than these other professions. It has been

subject to less historical investigation than one would imagine. As a result, there is a perceived gap between previous and contemporary understandings of project management. Thus, the need to bridge the gap between the previous and current understandings has motivated a broad range of investigations into this field (Chiu, 2011).

Artto et al. (2011) state that moving to the contemporary time from ancient times, for instance in 15th to 17th century, project managers appealed to new concepts of engineering science in running their big projects and their major focus was on completing the projects on time (or in time). Their role in running the projects were no longer just come up with the initial drafts of the structures and leaving the project afterwards but the new trend demanded them to act as supervisors, purchasers, organizers and paymasters.

Furthermore, with the time advancement, the complexity of running such big projects increased and new entities emerged beside the original ones responsible for the commence of the projects. From now on, various contributing factors in managing complex projects emerged which were quite different than the initial designers and planners of the projects and were not fit in the organizational chart of the projects. In other words, new engineering and architecture entities appeared as a non-separable part of the projects. Table 5 illustrates the evolution of projects throughout human history.

*Table 5. The development of project business associated with historical project examples (Artto et al., 2011).*

| <b>Historical projects</b>  | <b>View of project and teachings from the perspective of the development of project business</b>   |
|---|--|
| Pyramid and infrastructure projects   | Creating – project management of construction coordination   |
| International Viking projects (9 <sup>th</sup> -11 <sup>th</sup> centuries) and other war-related projects  | Conquering – advancement, project management on a strategic, tactical and operational level  |
| Large technical and commercial construction projects in the 16 <sup>th</sup> -18 <sup>th</sup> centuries, involving contractual systems between parties | Problem solving – striving for a better solution; using problem solving from a business perspective, making activity more effective by collaborating in networks of companies            |
| Projects related to technological development, e.g. the development of the telegraph and telephone systems  | Developing – implementing a change that strongly affects the business content and procedure of a project (e.g. changing a product, goal, market mechanism and organization or procedure) |

As can be understood from the table above, the evolution of project businesses occurred through four major stages: creating, conquering, problem solving and developing. In

other words, the nature of projects changed from ancient mega structures (e.g. pyramids of Egypt) followed by war-related projects and then came the large technical and commercial construction projects in 16th-18th centuries and lastly the technology-related projects such as telegraph and telephone systems.

### 3.2. Project: Definition and Characteristics

It is important to recognize the difference between a project and the “business as usual” of an organization. Lack of clarity as to what a project actually is can lead to a lot of friction and frustration. One frequently used definition of a project is: “A project is a time and cost constrained operation to realize a set of defined deliverables up to quality standards and requirement.” (Hedeman et al., 2009). Another definition that they present is that ...

*... A project is a temporary organization that is created for the purpose of delivering one or more business products according to an agreed business case.*

A temporary organization entails staff temporarily being given a different set of responsibilities and authority. Line management has to delegate certain responsibilities and authority to the project organization, otherwise a project organization cannot function properly. Business products are products that provide added value for the customer. A business case is a justification for initiating a delivering of a product. (Hedeman et al., 2009). In a business case, the anticipated benefits and estimated costs for the project are recorded, as well as the time over which the benefits will be realized.

One of the most important reasons for working with projects is that the desired results simply cannot be achieved, or can be achieved only with difficulty, within the existing line organization. Hedeman et al. (2009) state that the existing (corporate) structures and processes are primarily geared toward efficiency and are much less suited to dealing quickly and properly with change. The project organization is temporary. In other words, it has been created for the duration of the project and differs in that respect from the line organization. Unsurprisingly, the style and the nature of projects differ from the line activities.

Working with projects is a good way of safeguarding support for and commitment to use the end result as early as possible by involving the different stakeholders in the initiation and delivery of the project. In this regard, projects have become an indispensable way of implementing changes within organizations.

According to Aryana Institute for Project Management (AIPM), a project is a set of activities which through a prepared plan, has targeted a long future but its implementation and materialization is coupled with risk and uncertainty. This set of

activities or operations which have been named as “project” differ than the ordinary activities and behavior of the organization. Table 6 illustrates these differences.

*Table 6. Projects vs. business as usual operations in an organization, adopted from AIPM website.*

| <b>Projects</b>       | <b>Ordinary Activities</b> |
|-----------------------|----------------------------|
| Unique                | Repetitive                 |
| Short Lifetime        | Perpetual                  |
| Revolutionary Changes | Improving Changes          |
| Lack of Balance       | Balance                    |
| Non-Balanced Goals    | Balanced Goals             |
| Temporary Resources   | Stable Resources           |
| Flexibility           | Durability                 |
| Effectiveness         | Efficiency                 |
| Targets               | Roles                      |
| Risk and Uncertainty  | Experiences                |

These distinctions can be classified into following major groups:

- The environment in which the ordinary operations of an organization are being done is stable and uniform whereas the project environment is flexible and can be changed and shaken out.
- A project always means a change from the status quo – sometimes a minor one, but sometimes also a major one – and this creates resistance to the change. A temporary project organization provides a good way of developing and safeguarding support for and commitment to use the end result early in the development stage by involving the different stakeholders in the initiation and implementation of the project. In this way, a broad-based grounding in the line organizations involved is assured at an early stage.
- “Business-as-usual” operations of an organization progress gradually due to repetition and continuation and their efficiency will be increased over time but in a



project, in which there is no previous experiences, project team is much more effective and useful in reaching the targets.

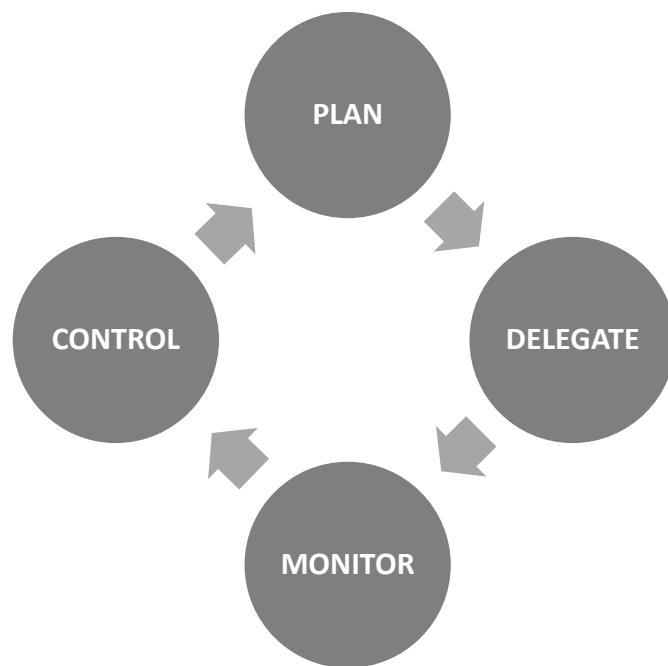
- **Temporary:** this is a distinguishing feature of projects. Projects have a defined start and end date. The project finishes as soon as the pre-agreed products and/or services have been delivered and handed over to the customer.
- In ordinary activities of an organization, the roles of individuals have been defined beforehand and they are already clear and few new roles or responsibilities are assigned to them whereas the project team is target-oriented and this makes the individuals play various roles.
- **Cross-functional:** a project has an organization specially set up for this purpose. What characterizes a project organization is that it comprises the different competencies and roles required for the project. This renders the project organization effective. In this regard, it does matter whether the team members come from the same line organizations or different ones.
- Projects bear risk and there is usually no previous experience, that is why achieving the goals is not guaranteed but in daily operations of an organization, due to the existence of previous experience, uncertainty and risk have been considerably reduced.
- **Unique:** every project is different because every change is different. The result to be produced is different or there are different objectives. Different people are involved in the project organization, there are different stakeholders or the context is different. No two projects are the same.
- **Uncertainty:** all the specified characteristics of projects result in uncertainty. They can produce both opportunities and threats. There is no getting around this, but it is an inextricable fact with which projects are faced. In this regard, projects are often much more risk-laden than normal activities and risk management is an indispensable component of project management.

All these differences indicate similarity and proportion between projects with the specifications of a century whose characteristics is high speed of changes. The high speed of changes causes lack of balance, being temporary, risk and uncertainty. In this situation, the ordinary performance of an organization does not meet the needs and wants of this century and necessitates a new approach and method which is the very project management perspective. The speed of changes, essentially, reminds us of time limitation i.e. there no more time left. In this time constraint, other resource limitations will appear: money, human resources, facilities and other possible limitations in

resources. This situation clearly necessitates the definition of project in doing day-to-day operations of an organization.

### 3.3. Project Management and Life Cycle

Project management, according to Hedeman et al. (2009), is planning, delegating, monitoring and controlling all aspects of a project and motivating all parties involved to achieve the project's objectives within the agreed targets pertaining to time, costs, quality, scope, benefits and risks (Figure 3).



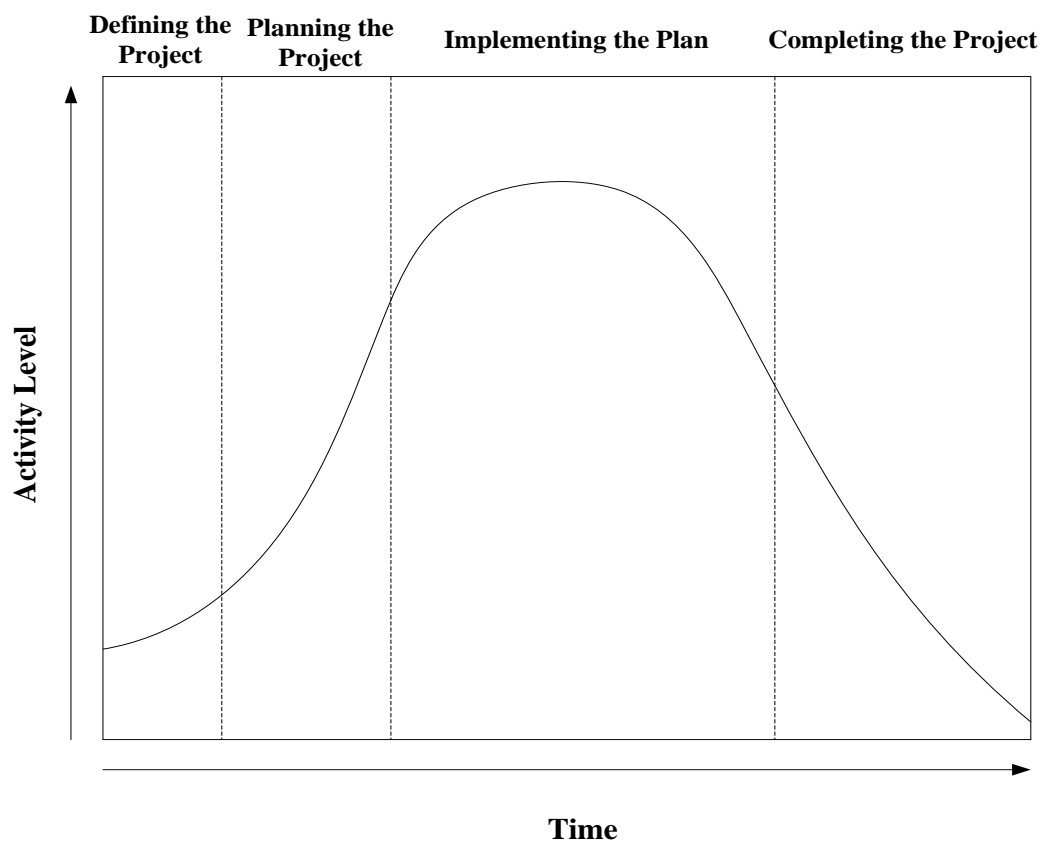
*Figure 3. Project management cycle.*

The goal of project management is to control all specialist work in such a way that the desired output of the project is produced. This can only be done when it is a matter of collective effort. Consequently, project management is a duty borne by all those involved, from the different members of the project board and the project management to the team managers (Hedeman et al., 2009).

Haynes (2002) also states that in project management, all the resources necessary to complete a project are brought together and optimized in order to successfully finish it. He mentions these resources as skills, talents and cooperative effort of a team involved in the project as well as physical and tangible resources such as facilities, tools and equipment. Also other intangible requirements of the projects are information, systems, techniques and money.

One of the key characteristics to be considered in project management is the concept of 'project life cycle'. Each project includes four different phases from its beginning up until its end each of which needs different types of skills of the project manager to be successfully accomplished. These four phases, as Haynes (2002) states are as follows:

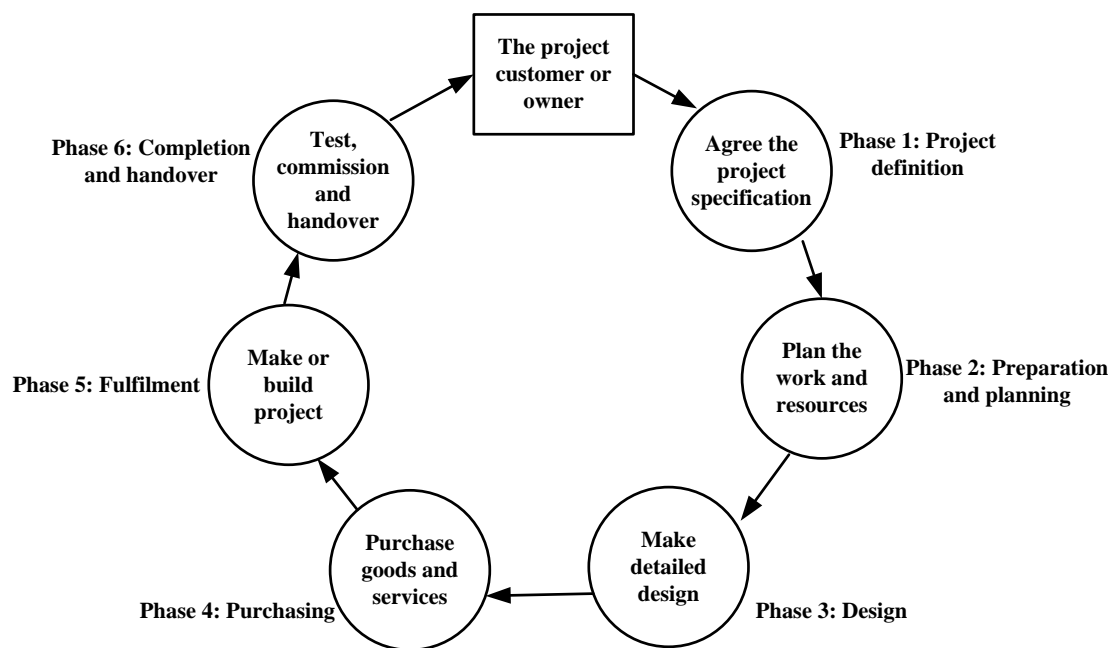
- Conceiving and defining the project in the first place
- Planning and scheduling the project in which the timetable is set
- Running the project practically
- Completing and assessing the project to get feedback for later improvements (Figure 4)



*Figure 4. Typical activity levels during the phases of a project's life (Haynes, 2002)*

As figure 4 shows, the activity level grows dramatically from the first phase and reaches its height during the implementation phase and then decreases to zero more smoothly when compared to the first two phases. This definition of the project management phases is quite simple and in fact divides the phases in the least possible number. However, other gurus in project management field might split it even in more phases. In other words, there is not a universal consensus on the project management phases. Lock (2007) for example puts these phases as follows.

- Phase 1: project definition
- Phase 2: preparation and planning
- Phase 3: design
- Phase 4: purchasing
- Phase 5: fulfillment
- Phase 6: completion and handover (Figure 5)

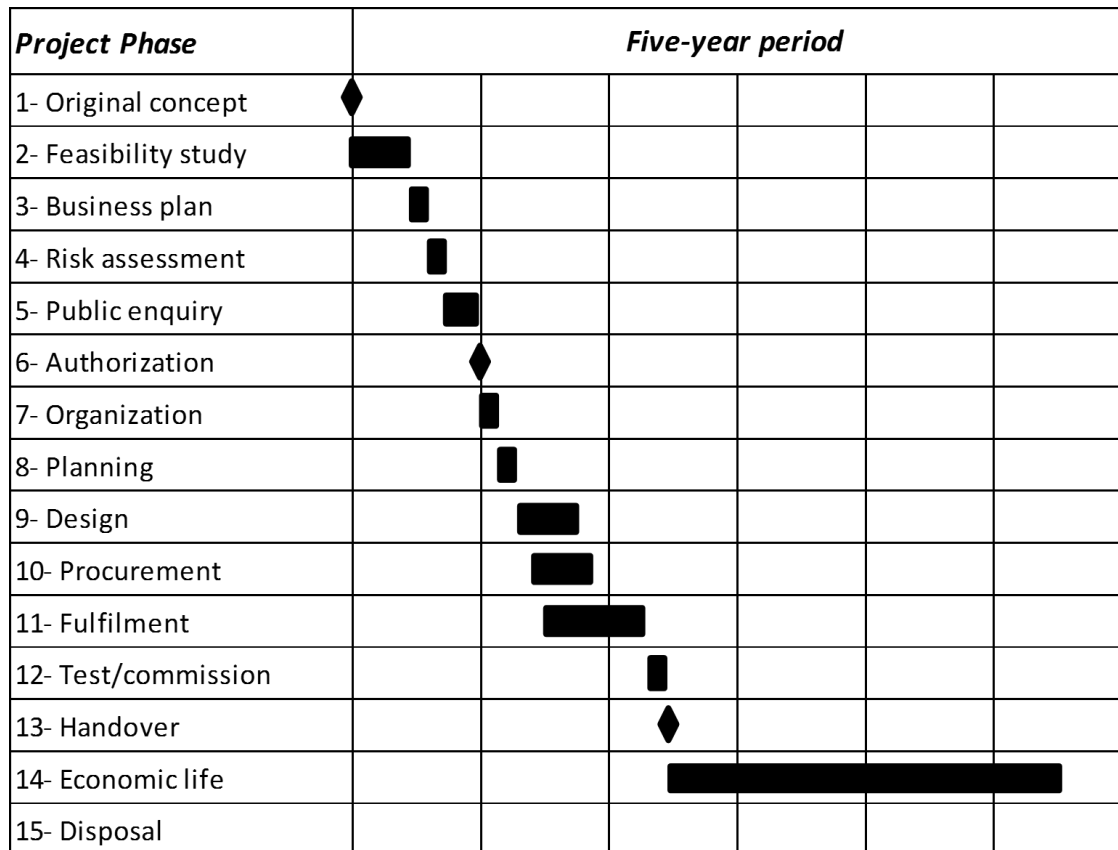


*Figure 5. Project life cycle (Lock, 2007)*

As can be understood, Lock (2007) classifies the life cycle into 6 various steps. He mentions that these steps are applicable for simple projects. More complicated projects have even more phases to be considered. Figure 6 demonstrates a capital project that involves many stakeholders and public interests. It demonstrates a Gantt chart which sets out the different phases of a large capital project as against of the total life history schedule.

All projects start as a concept i.e. the organization recognizes that there is a need for a project and then the top management develops an idea to justify the further investigation about the project. Steps 1 to 4, according to Lock (2007) comprise this period of decision making. The result of these initial four phases should be the proposals and the business plans relating the project and its justification. Phase 5 represents the projects that gain significance in the public eye among the society. These projects usually have important impacts on the environment or the society so they might face enquiry which in turn might delay the implementation and the progress of the project. Phase 6 indicates

that all agreements have been reached, permissions needed have been granted and most importantly the required fund has been allocated so the project can practically begin. When the project has been authorized, the organization has to be in the right place. Phases 7 and 8 represent this start-up period of the projects.



*Figure 6. More comprehensive view of a project life history (Lock, 2007)*

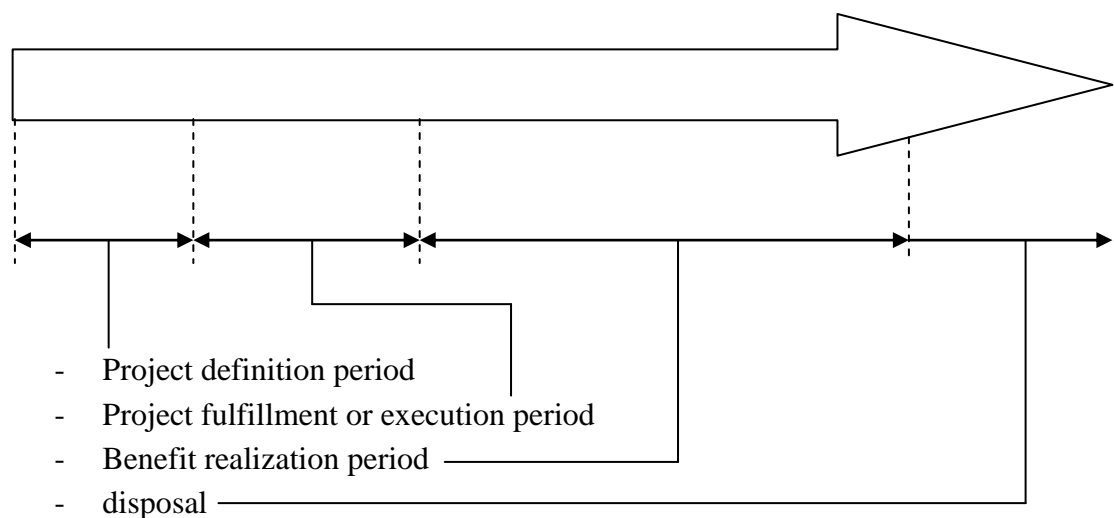
### 3.4. Factors for Project Success or Failure

A project is considered successful by its manager if it finishes on time, meets its pre-determined performance and it is within its budgeted cost. These three factors i.e. cost, performance and time are called the parameters of success for a project. However, all projects do not end up in success due to many reasons. These projects fail to meet the success factors and do not meet the customer satisfaction. Lock (2007) mentions some shortcomings during the initial phases of a project which leads to the failure of that project. The shortcomings are as follows:

- The magnitude or the significance of the project is not properly understood by its managers
- Technical requirements are not clearly outlined

- Estimates such as cost, timescale or benefits are too optimistic
- Risk assessment is not valued enough
- The intended strategy is inappropriate
- Cash flow and monetary issues are not taken care of sufficiently
- Stakeholders, their interests and concerns are not addressed appropriately
- Motivation and ambition of the executors of the project is ignored
- Insufficient thought is given to how all the managers and workpeople affected by the project will be motivated to adapt to the changes expected of them
- Approval to proceed with the project is given for political or personal reasons without enough consideration to the business plan

There are of course some indexes that can determine whether a project will end up in failure or success before any actual work begins. Figure 7 demonstrates perceptions of success or failure throughout the entire life of a project. As can be understood from the figure, the entire project life has been divided into four main periods to ease determining the failure or the success of the project. These four periods are project definition period, project fulfillment or execution period, benefit realization period and disposal time.



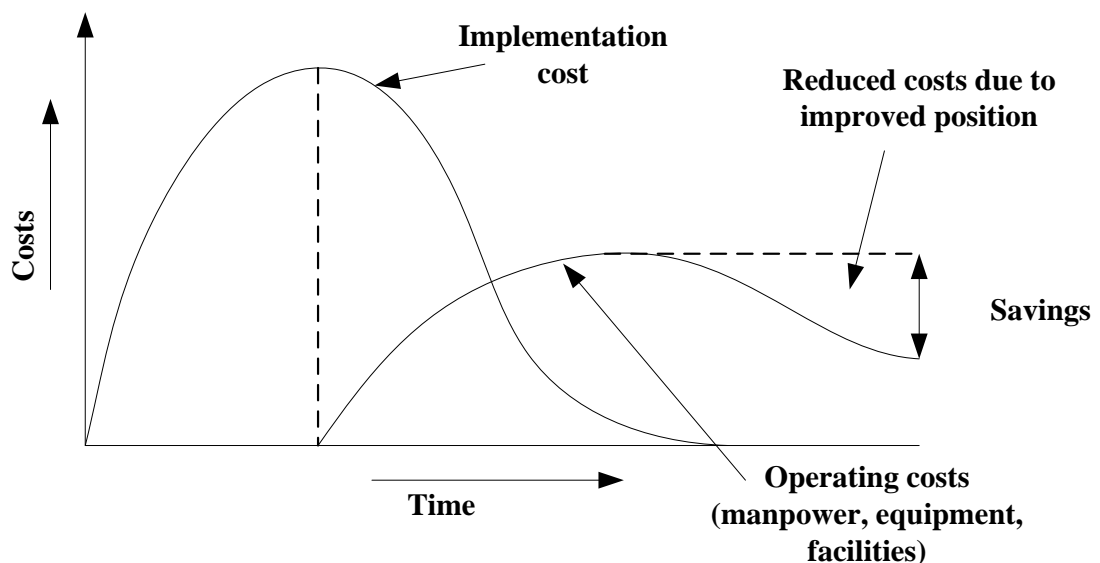
*Figure 7. Perceptions of success or failure during a project life history (Lock, 2007)*

However, even if there is no motivation for profit maybe based on past experiences, monetary and financial issues must be taken care of quite seriously. Financial management is the key to the success of any project and in case budgeting is not controlled properly, the project is highly doomed to the failure. Lack of enough attention to the monetary aspects of the project might lead to the abandonment of the project midway when the people responsible run out of money. This means that all the expenses and effort which have been done so far, are written off.

As mentioned above, one of the key factors which determines the profitability of a project is the financial part. A project is said to be successful if it is profitable for the contractor otherwise, at least for the contractor, it is a failure. Thus, financial management is vital. Kerzner (2009) classifies the costs incurred during a project implementation into two main categories:

- Operating or recurring costs
- Implementation or non-recurring costs

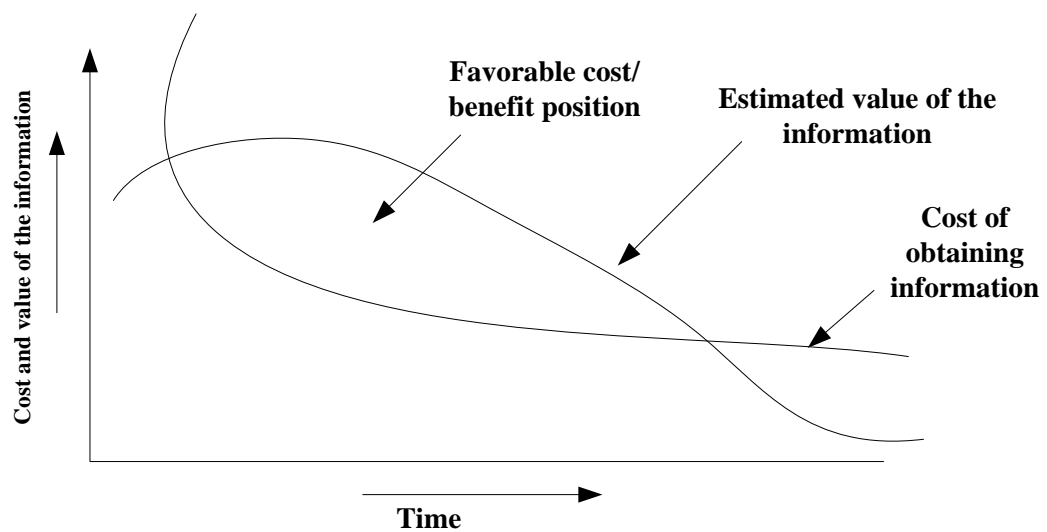
Operating costs are those related to the daily operations which recur on a day-to-day basis throughout the entire project such as manpower costs. However, there are implementation costs which as the name suggests, occur only in the beginning of the project during the implementation phase. These costs are one-time expenses such as construction of a new facility or building, purchasing computer hardware. If a project is financially healthy, the relationship between these two costs over time should look like in Figure 8.



*Figure 8. System costs in a financially-healthy project (Kerzner, 2009)*

As shown in the figure above, a typical profitable project usually starts with a sharp growth in the implementation cost in the beginning and after some time when this cost reaches its peak, it starts its decline until it reaches to zero after some while. Operating costs start at the time when the implementation costs are at their height and show a smooth increase in the beginning and while the project proceeds, it decreases slowly so that we can even have savings if the planning and management are done well. This profitable system will result in the cost-benefit analysis as shown in Figure 9. Once an

estimation of the total expense of a project is determined, a cost-benefit analysis of the project must be performed to see whether the value of the information obtained from the system exceeds the cost of obtaining the information. This analysis is usually part of a feasibility study.



*Figure 9. Cost-benefit analysis of a successful project (Kerzner, 2009)*

Figure 9 suggests that a successful project in terms of financial perspective usually has a declining cost of obtaining information over time. This means in the beginning, as the project is quite new and the same or similar project has not been accomplished before, the cost of obtaining data will be high. However, as time goes by, many things will be learned and the project will follow smoother pattern. This indicates that the cost of obtaining information will become low over time. Now that the concept of project and also project management have been discussed, the concept of project business and the way it is implemented in today's competitive world gains significance which demands an investigation into it. Next chapter will discuss the concept of project business.



## 4 PROJECT BUSINESS

### 4.1. Background

Nowadays, projects are becoming the key to the growth, profitability and survival of the firms in an increasingly competitive and global business environment. Consultancy organizations, film makers, defense contractors, civil engineering companies, oil and gas producers, advertising agencies, and manufacturers of trains, aerospace and telecoms systems are all project businesses. In other words, the significance of project business is increasing nowadays. Recently, not only the public organizations, but private companies are actively involved in the project business.

Project business, as defined by Artto & Wikström (2005) in Artto & Kujala (2008) can be described as follows:

*“Project business is the part of business that relates directly or indirectly to projects, with the purpose of achieving objectives of a firm or several firms.”*

What is important in this definition is that project business is about multiple projects and multiple firms. In fact, both projects and firms are organizational entities that are key players in the business context. Due to its multi-facet aspect, project business is known to have a framework which needs to be considered in terms of management decisions (Table 7).

*Table 7. Framework for a project business: 4 management areas (Artto & Kujala, 2008)*

|               | One firm                           | Many firms                       |
|---------------|------------------------------------|----------------------------------|
| One project   | Management of a project            | Management of a project network  |
| Many projects | Management of a project-based firm | Management of a business network |

As Table 7 shows, four distinguished areas in project business management are:

- One firm manages only one project
- Many firms cooperatively manage one big project
- One firm manages several projects
- Several projects are being managed by several firms simultaneously

Management of a project is a field that has been well addressed by researchers and academics throughout the life of project management. Artto & Kujala (2008) state that single project management consists of a wide range of knowledge including: project integration management, scope management, schedule management, cost management, resource and personnel management, communication management, risk management, procurement management and quality management.

Project-based firm, on the other hand, deals with two types of projects: external production or customer delivery type projects and internal development or capital investment projects. Projects in this case are considered as firm's business vehicle and managing such a firm is based on supplier firm's ability to sell and deliver projects to its customers (Cova et al., 2002 in Artto & Kujala, 2008), management of innovation (Gann & Salter, 2000 in Artto & Kujala, 2008) and development programs (Pellegrinelli et al., 2007 in Artto & Kujala, 2008). Table 8 shows the characteristics of project business field in more detail. Management of a project network, however, includes several firms from various fields of expertise and with different core competence which are operating cooperatively together in a single project.

A project network is a temporary endeavor which consists of several phases each of which is different in nature (Morris & Hough, 1987; Slevin & Pinto, 1987 in Artto & Kujala, 2008). And finally the business network that has players who have aims that are synergic and at the same time there is room for partnership and collaboration (Davis, 2006; Arroyo & Walker, 2008; Davis & Walker, 2008 in Artto & Kujala, 2008). It is also possible that the interests of the players in the business network are conflicting and contradicting which causes adversity, competition and rivalry among the actors.

Table 8. Characteristics of the four areas in the project business (Artto &amp; Kujala, 2008)

|  | <b>Management of a project</b>                                      | <b>Management of a project-based firm</b>   | <b>Management of a project</b>   | <b>Management of a business network</b>  |
|--|---|---|--|--|
| <b>Unit of analysis</b>                | Management of a single project effectively in its environment       | Management of a firm and its multiple projects as a whole   | Management of a project as an enterprise through managing multiple firms participating in the project  | Management of a network of actors and their relationships in an open and competitive business marketplace        |
| <b>Management object</b>               | A project   | A firm  | A project as a multi-firm network  | A network of firms and their relationships   |
| <b>Managerial challenge</b>            | How to deliver the project on time, in budget and to specification? | How to ensure that projects support the strategy and business objectives of the firm, and how to allocate the firm's scarce resources to projects?  | How to manage the project enterprise by creating a contractual arrangement that enhances goal alignment and coordination across multiple firms participating to the project? | How to maintain efficiency and innovativeness in the network, and how to position the firm in the value network? |
| <b>Measure of success</b>              | Meeting of predefined project goals                                 | Achievement of short-term and long-term business objectives of the firm   | Meeting of people's goals with simultaneous achievement of expectations and business objectives of the firms participating in the project                                    | Competitiveness and capability of individual firms and networks to create and implement new projects             |
| <b>Main actors and decision makers</b> | Project manager   | Business unit manager   | Owner  | Focal firms in the business network  |
| <b>Existing body of knowledge</b>      | Project and program management, temporary organizations             | Project portfolio management, project-based operations, make-to-order manufacturing, project sales and marketing, project-based innovation in firms | Procurement and supply chain management, systems integration   | Industrial networks, partnerships, alliances, joint ventures and value networks                                  |
| <b>Significant contingency factors</b> | Project uniqueness, novelty, technology, complexity and pace        | Discontinuity, interdependence between projects, market and technological uncertainty   | Participating firms, asymmetry of their objectives, interests and identities   | Norms and culture, institutional issues, governance schemes, relationship between firms and role stability       |

## 4.2. Stakeholders in Projects

A project 'stakeholder' is an individual or an entity outside of the project that has an interest or stake in the project (Westland, 2007). As an example, a financial manager in a company is a stakeholder because he or she wants to learn how the monetary and financial aspects of the project are going on. Or the CEO of a company is a key stakeholder as he or she would like to know if the project is meeting the vision and mission of his/her company and what are the possible challenges and impediments on the way to accomplish the project. In other words, the stakeholders include a broad range of figures and entities such as: customers, suppliers, contributors, project sponsors, managers and sometimes local citizens when the project includes work which is related to the public (Lewis, 2000).

Customer is simply someone who is the user of the project deliverables. In some cases the customer is the entity who has ordered the project and will pay for it as in the case of construction of building, home or road. The sponsor, on the other hand, is the entity or individual who practically orders the project to be done in the first place. This person could be the customer (as explained before) but it also might be the third person in the project implementation phase. An example of a sponsor could be a marketing director who orders that a new product be developed. Sponsor has a heavy responsibility in the project implementation and project management as he has to guarantee that the project is properly financed, the schedule is acceptable and that the executing team has enough resources to achieve the anticipated result of the project.

Another key figure in the project management, which is a very important stakeholder, is the project manager. He is the one who has the responsibility to ensure that the project is finished on time within its determined budget and at desired performance. Also he has to watch if the project is done within its scope. Other stakeholders, as Artto et al. (2011) state, are as follows:

- **Project organization:** is usually formed by entities involved in the project. It has structure, responsibilities and procedures and it comprises a project team, a steering committee, customers and possibly the suppliers
- **Project team:** is a group of people who collaboratively work to undertake the project and make it achieve its objectives. This project team is in fact part of the project organization and its duty is to accomplish the project based on what has been agreed upon with managers
- **Organization unit of the company making the project:** is the department of the organization or company to which the project is related, at least in part

- **User:** these stakeholders are the ones who utilize the final result of the project and might be different than customers
- **Buyer:** is applicable when there is an outside customer who has to pay for the project as opposed to ‘customer’ which is an internal stakeholder
- **Sponsor or project owner:** is used in the case of an internal project and is the stakeholder who is responsible for financing the project

A project could have other possible stakeholders as Artto et al. (2011) mention. These stakeholders are suppliers and service providers, officials and authorities, financiers, media, other target groups, competitors, people participating in the project and society in a broader sense. However, Freeman et al. (2007) believe in an even broader range of stakeholders as shown in Figure 10. This broader range creates more stakes to the firm as shown in Table 9.

*Table 9. Stakes of key stakeholders (Freeman et al., 2007)*

|   |  |
|---|--|
| <b>Corporate customers:</b> high users of products                              | <b>Families:</b> low users of product, no substitute           |
| <b>Employees:</b> jobs and job security   | <b>Consumer organization #1:</b> effects of product on elderly |
| <b>Customers:</b> pension benefits  | <b>Consumer organization #2:</b> safety of products            |
| <b>Shareholders:</b> growth and income balance as well as stock price stability | <b>Republicans:</b> high users of special products             |
| <b>Democrats:</b> high users of special products                                |  |

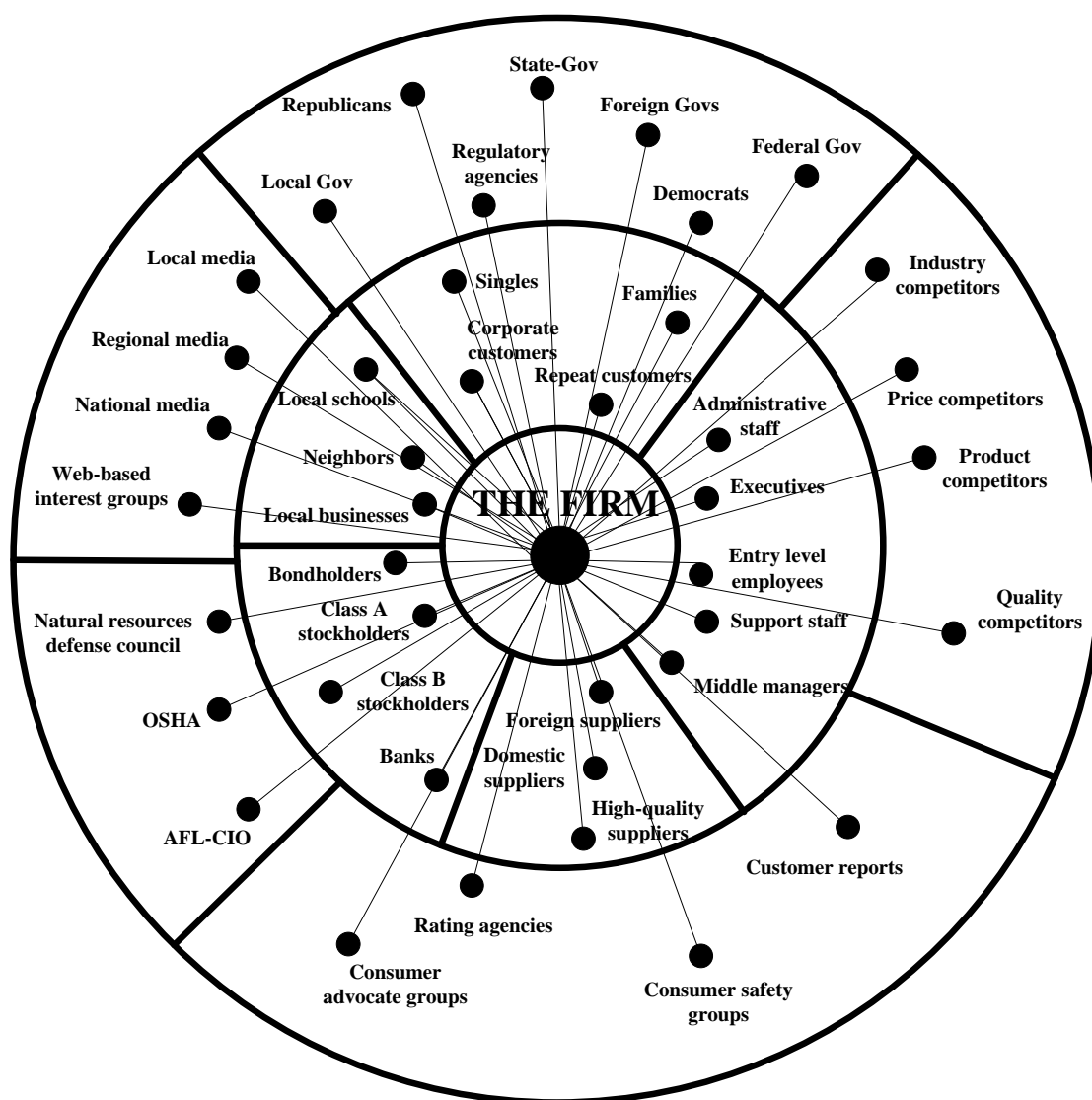


Figure 10. Specific stakeholder map for a typical company (Freeman et al., 2007)

This example shows only an imaginary company in the United States of America with its stakeholders. As we can see, all political parties in the US have interest in this firm and are considered as key stakeholders. As can be understood from the figure, the stakeholders of a firm doing a project are quite context-specific, i.e. depending on the environment that a firm is operating in, the stakeholders vary. A firm operating in a society has different stakeholders in terms of number and nature than the other firm that operates in another environment.

### 4.3. Management of Stakeholders

Bourne (2009) introduces a five-step methodology called ‘stakeholder circle’ which facilitates the management of relationships between stakeholders in a project business.

This methodology, according to Bourne (2009), is based on the concept that “an activity can only exist with the informed consent of its stakeholder community, and that managing the relationships between this community and the activity will increase the chances of success”. Here the stakeholders community are the entities that may have any sort of impact on the outcome of the activity either positively or negatively. The stakeholder circle is then a flexible approach in the management of project stakeholders that can be adjusted to deal with the changes in stakeholder community membership and their influence through the entire life of the activity. The five steps of the methodology are as follows:

1. Identification of all stakeholders
2. Prioritization of the stakeholders to find out which one is more important and which is less
3. Visualization of the stakeholders to obtain the big picture of the stakeholder community
4. Establishment of an efficient communication among the stakeholders and engagement in the activities of the project through this communication channel
5. Monitoring the effect of the engagement

All the above-mentioned steps, if done properly, can ensure the success of the project and the activities within it. Organizations could also use software to follow the steps in stakeholder circle methodology throughout the entire implementation of the project activities. Using a software can assist the organization in these ways (Bourne, 2009):

- It helps maintain the history of stakeholders relationship management
- It simplifies information-gathering about the stakeholders and their attitude to the work of the organization
- It enables more effective monitoring and measurement of communication effectiveness
- By gathering data, it supports predictive risks and stakeholder analysis

As for the software, there are a number of options available to support the process. Either using a template such as in MS Word or using a spreadsheet which enables calculations and production of graphics such as SWS or finally a database (SIMS) which can support complex data collection, sophisticated reporting and analysis. The aim of choosing a software is to ease the process of implementing stakeholder circle methodology which in turn helps managing the project more efficiently and more effectively. Thus, having approved and accepted the methodology by senior management, the next step is to employ a software to support the decisions to be made throughout the process.

#### 4.4. The International Perspective to Project Business

Nowadays, projects play a very vital role in the international business (Gunter & Bonaccorsi, 1996; Hadjikhani, 1996 in Skaates & Tikkanen, 2002). There is no surprise that project management has received so much attention in recent years. Johnson & Turner (2009) believe that the firms nowadays are shifting from a pure domestic environment to the one which has a higher scale of internationalization. In other words, firms are becoming global and they are operating internationally. Although this process might seem sensible, it has its own challenges. These challenges can be divided into two main categories. First, the firm can act passively in embracing such a change. But this approach seems to be inefficient because it is almost impossible to remain isolated and survive in such a highly competitive environment. The second is the fact that the firm opts for the policy which is against the first one i.e. it decides to embrace this globalization process and becomes part of it.

When a firm chooses to go international in the business market, it has to follow the strategy which fits in the international environment. As Johnson & Turner (2009) state, the essence of international strategy is that a firm must deal with the consequences of international diversity and this international diversity is driven by the following factors:

- The globalization of markets
- Firms following customers
- The desire to overcome limitations of the home market
- Taking advantage of the differences between countries and regions where they are going to operate based on culture, regulation and specific economic factors

The process of internationalization of firm strategy has some steps which must be followed perfectly. These steps can be mentioned as:

1. The extension of the firm geographically out of the borders of the region where it is currently operating
2. The increasing penetration of the MNEs in current host economies
3. Integration of the international activities of the firm (Johnson & Turner, 2009)

The first element requires the firm to move outwards and break the geographical borders of its current country. At this phase, the firm needs to deal with a more diverse spread of its competitive conditions when compared to its previous conditions. The second element is about establishing a greater and more visible presence in the areas and regions where the firm is already operating. A firm, in this regard, cannot be considered as an international entity unless its presence in the current market is quite visible by the stakeholders. In other words, to become international, the firm has to first be strong locally. A firm can do this in many ways. One of the most efficient ways of



achieving this target is to perform activities that can add value to its current offerings. Other way of doing it is to extend the target group which means that the firm needs to find more and more groups of customers within the regions that it is already working. Finding these new target groups and trying to meet their needs and demands, can help the firm establish a stronger presence in the current market and pave the way to become international.

The third part, on the other hand, demands a firm to coordinate and integrate all its overseas activities to ensure its competitive presence and to secure its market share. Firms can achieve this goal by taking advantage of or exploiting the opportunities they find in the environment they are active. It could also be done by creating an atmosphere within the organization that facilitates the transfer of knowledge obtained in a certain region to other parts of the organization. In other words, the management of such an organization must create an organization with a high level of efficiency in learning and transferring of knowledge throughout the entire organization. Organizational behavior skills and organizational learning methods are key in creating such an efficient atmosphere.

Aswathappa (2010), on the other hand, states that internationalization of a business has four dimensions which needed to be constructed before the firm intends to go international. These four elements are the infrastructure or building blocks of business globalization and can be categorized as follows as shown in Figure 11.

- Internationalization of market presence
- Globalization of supply chain
- Globalization of capital base
- Globalization of corporate mindset

What essentially happens in the process of globalization is that the economy is integrated among the countries across the globe. This can ease the process of internationalization of firms. The process of globalization has been so widely used recently that the term ‘global village’ has been used highly commonly. However, this term does not mean that there exists a complete fusion among all the countries in the world but it essentially means economic integration but not political one. Table 10 demonstrates some IT companies with their regional presence as well as their international one. These are the most well-known IT companies around the world.

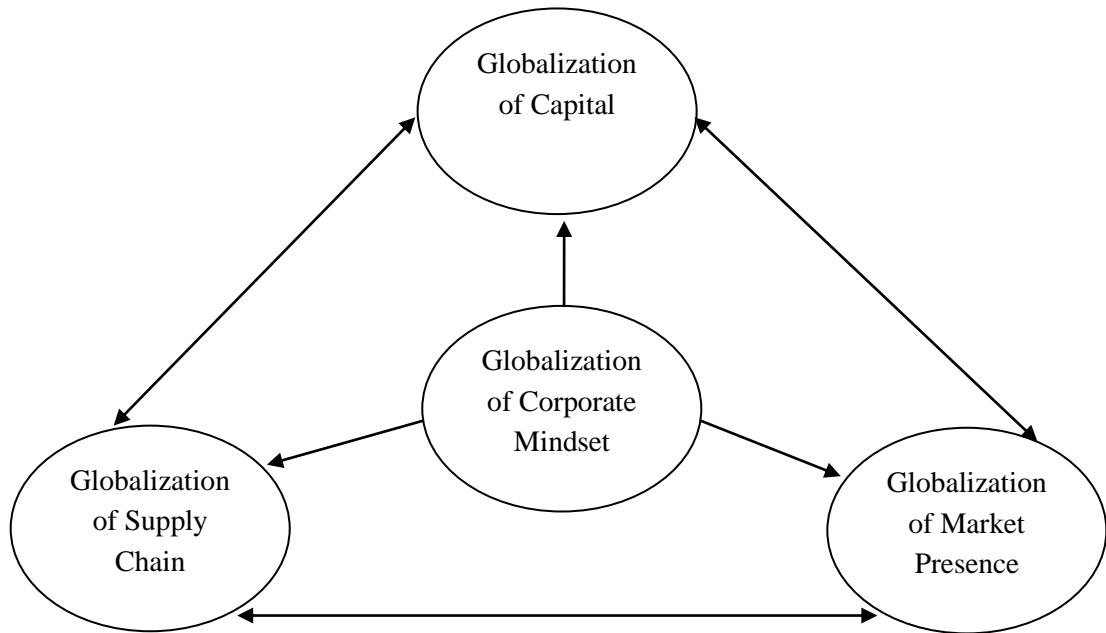


Figure 11. Assessing corporate globality (Aswathappa, 2010).

Table 10. World view (percentage regional distribution of IT sales for selected companies in 1993 (Aswathappa, 2010).

|                         | North America | Europe | Asia |
|-------------------------|---------------|--------|------|
| <b>IBM</b>              | 41            | 33     | 16   |
| <b>Fujitsu</b>          | 6             | 26     | 65   |
| <b>HP</b>               | 51            | 34     | 9    |
| <b>NEC</b>              | 6             | 4      | 88   |
| <b>Compaq</b>           | 45            | 38     | 5    |
| <b>Canon</b>            | 30            | 29     | 37   |
| <b>Sun Microsystems</b> | 51            | 24     | 25   |
| <b>NTT</b>              | 0             | 0      | 100  |
| <b>Microsoft</b>        | 56            | 30     | 9    |

## 4.5. Earlier Empirical Research on International Project Business

Dewar (2011) believes that all projects have some general issues which must be taken care of when they are implemented. Some of these issues are as follows:

- **Completion risk:** possibility that the project will not be finished on time, on budget or based on pre-determined specifications
- **Delay risk:** some factors affect the length of the project and cause it not to be finished in due time. These factors include strength and experience of the contractors, the length of the estimated construction period, availability and accessibility of project resources and supplies, the risk of not receiving permits, exposure to labor problems and political obstacles.
- **Cost overruns:** due to a lot of reasons, through the implementation of a project, new unpredicted orders might be placed and these new orders causes the project cost more than it was initially estimated
- **Technology risk:** technological problems happening during the project life cycle might delay the completion of some phases of project and hence result in lower performance and reduced operational cash flows
- **Off-take (revenue) risk:** some projects might not simply end in profit, i.e. their revenue might underpin their cash flow
- **Operating risk:** the cost of operating a project might exceed its budgeted forecasts, the facility and equipment might not perform at the level which is expected from them and the operation of the project might be interrupted by the acts or omissions of labor force
- **Supply risk:** each project must have a guaranteed supply of feedstock, fuel and other necessary resources at a cost that does not significantly exceed the projected figures
- **Currency risk:** due to the dynamic nature of currencies, the value of profit earned from a project is highly at the risk of devaluation. An efficient management of currency is vital to secure the money earned
- **Financing risk:** due to any possible reason, the sponsor of a project might stop funding the project or he/she might reduce it

- **Political risk:** may happen as a result of the host government actions which can have a negative impact on the progress of the project

Previous international projects represent practical challenges that project management faced throughout the entire project implementation.

#### **4.5.1. Case example 1: Botnia S.A.**

Aaltonen et al. (2008) mentions Botnia S.A.'s cellulose pulp mill investment in Fray Bentos is the largest industrial investment in the history of Uruguay. Argentina and Uruguay are bordered by a river called Uruguay River. Due to environmental significance of this river and also the economic benefits that it brings along in terms of tourism industry, active groups such as Argentinian Citizens Environmental Assembly of Gualeguaychù (CEAG) oppose these kinds of new industrial investments. The project initiated by choosing the right place in South America and as a result, Fray Bentos was chosen as the project venue.

To minimize the project risks, top management adopted some wise approaches to run the project. These measures included: choosing a local CEO for the company (from Uruguay), choosing local companies as subcontractors, choosing the technologies that were efficient in company's other projects and finally using the most environmentally-friendly technology to minimize the environmental impacts of the project. Everything seemed to go on very well but as soon as the construction started, things changed.

Active groups in Argentina such as CEAG began to oppose the project. They arranged protest and even managed to persuade the political authorities of Argentina to support ceasing the project. Some protests were arranged in front of the Finnish embassy in Argentina. As time went by, the conflict escalated between the two sides. The issue was taken to the governmental level and later on, Argentinian government filed charges against the government of Uruguay in international court of Hague. Even financial stakeholders were involved so that the World Bank's International Finance Corporation (IFC) issued an statement that the project uses appropriate technology and never harms the environment of the region. The international court was not convinced by the reasons provided by Argentinian government and allowed the project be in progress.

Nevertheless, the environmental groups in Argentine were relentless and tried to opt for any measures they could such as blocking the roads. Even Argentinian government began imposing sanctions on Uruguay such as not allowing the tourists to travel from Argentine to Uruguay and vice versa. Also export and transportation of wood from Argentine to Uruguay was banned. Also financial parties such as the Dutch bank ING went into action and announced that they would not support the project anymore. The

pressure continued but at the same time the project management would not quit. All these conflicts ended in the start-up of the project in late 2007 with almost three years of delay (from February 2005). The pulp mill finally began its operation in late 2007.

This case shows that stakeholders have highly significant role in the implementation of the project and they can have an extremely negative impact on the progress of the project. Aaltonen et al. (2008) summarizes three main strategies that were used by opponents which could be considered as project 'obstacles' in this case. These obstacles are as follows:

- **Power:**
  - Opponents lobby financial stakeholders and sponsors to persuade them to cut their fund
  - Opponents lobby governmental and legislation authorities to persuade them to pass laws to prevent the project implementation
  - Opponents impose sanctions to put the project into trouble
  - Opponents build networks with other stakeholders, either local or international, to stop the project
  
- **Legitimacy:**
  - Opponents support the government's actions fully in international arena
  - Opponents actively seek national and international political support
  - Opponents take advantage of the project to reach their own benefits
  - Opponents raise public awareness to attract support for their purposes
  - Opponents can impose boycotts on the undesirable entities and figures
  - Opponents use accusations of parties involved in the project
  
- **Urgency:**
  - Opponents attempt to organize events such as protest to highlight and exaggerate the urgency of the project
  - Opponents try to attract national and international media attention
  - Opponents threaten the involved stakeholders

#### **4.5.2. Case example 2: Influencer (adopted from Aaltonen & Sivonen (2008))**

As a company who undertakes several projects simultaneously, Influencer outsources a major part of its projects but the head quarter of the company is in charge of managing and coordinating all the projects being done simultaneously. A new customer places an order in a new country in which Influencer did not have any previous experience beforehand. The company of course favored some experience in similar regions and it

thought the situation would be more or less the same in this new region. It dispatched a start-up team to investigate the market and business situation of in that region. Because the team was fully aware that launching a project in a new region would be challenging, it started to gather data and useful information from different stakeholders involved in the business marketing.

After the initial investigations it became evident that there is a major problem in getting permission from and establishing relationships with authorities is quite challenging. The problem was that implementing such a project would need many more permission from the authorities as when compared to the previous experiences and the relationship with national and regional authorities to gain these permissions would need a lot of effort. In fact, the environment seemed to be quite invisible and unclear in terms of bureaucracy.

Thus, the policy that company adopted was to gather knowledge actively about local operational practices, norms, rules and invisible guidelines while trying to establish links and communication channels with local stakeholders. Influencer had taken lessons from its previous experiences in which the public had opposed the projects by demonstrations and public movements. Therefore, it took proactive and informative measures to avoid these oppositions. It held informative and consulting meetings with local residents and land owners and also the local authorities just to put their mind at ease about their project.

Based on what was said in this case example, the challenge that the company faced was about establishing communication channels with local stakeholders and also the high level of bureaucracy in getting permission from the authorities about the project. To tackle this problem, influencer studied the target market and gained knowledge about the situation and then by holding informative meetings with stakeholders, took the situation under its control.

### **4.5.3. Case example 3: Isolator (adopted from Aaltonen & Sivonen (2008))**

A Chinese company, which has been Isolator's customer since long time ago, places an order to the company and demands a project to be done. Although Isolator had worked in China before, it started an in-depth risk analysis in the market. Risk analysis delivered several risks needed to be carefully and cautiously taken care of. Isolator tried to handle the risks by several actions: first, handing over some of the project responsibilities to its subsidiary and second, hiring some local contractors to do some parts of the project. But six month after the initiation of the project a major challenge emerged: one of the subsidiaries of Isolator, Fabricator, built a new temporary plant near its permanent plant to ease and facilitate the manufacturing process of its equipment. This posed some trouble for the company as the exhaust fumes were not

properly cleaned and the process of their cleaning were not fully under control. This caused local figures to start opposition against these ill-smelling odors. Opposing people finally contacted authorities and this led to the closure of the plant for over one and a half months.

Isolator began lobbying to prevent further unfavorable consequences but it finally realized that it would better stay away from the ongoing conflict and leave it to its customers to resolve it because Isolator was not familiar with the local procedures, strength of the resistance and the officials to be contacted. After customer began negotiating with authorities, they allowed the plant to re-start its operation.

Although Isolator in this case example had previous experience in China, it had never experience of fabrication there and their risk analysis did not cover it. They did not evaluate the stakeholders enough and they were of the belief that if any new incident occurs, other actors in the network would resolve it. To resolve the situation they decided to diminish their involvement to the local environment and instead give more freedom to other stakeholders (local customers) to become more involved in handling such problems.

#### **4.6. Summary**

International business represents more variety and wider perspective when compared to the domestic or local firms. When it comes to operating internationally or globally, the entire nation are involved and due to the magnitude of the job, more risks and challenges are expected. An international firm, wants it or not, is part of this big trade stream and in order to survive in this competitive environment, it has to cope with the challenges and suit within this global environment.

Survival in this market requires that the firm lessens the threat of international deficits and this is not achieved unless the environment and its operation is seriously studied and considered. International business as a field of activity plays a key role in the general welfare of the society in which a productive and efficient production or service sector enables the nation to export more and this is a very good sign for the health of the economy. This is one of many reasons that even governments support the businesses in many ways to attain the goals they have set when entering the international environment.

Based on the benefits that corporates achieve by globalization, they start seeking new lucrative opportunities all over the world and scanning the globe in search of new business potentials will become a major activity for them. There exist numerous business opportunities in each region of the world and taking advantage of them could

promote the firm. Different countries offer different potentials for foreign investors and all of them struggle to attract as many investors as they can.

North America, South America, Europe, Africa, Asia and Australia each offer special business attractions for foreigners to go and invest there but some regions present unique potentials which distinguish them from other ones. The Middle East region is one of them which enjoys unique opportunities in terms of business and trade activities. This region could be a favorite target if studied seriously and its potentials are discovered carefully. The following sections will give an in-depth insight about this region and will introduce it in more details hoping to unveil real image of the area and motivate the businesses who are aiming to enter international markets to investigate investment opportunities in the region. As well as opportunities, challenges of operating there will be presented which will provide a very helpful guide for international firms seeking to expand more.



## **5 CHARACTERISTICS OF THE MIDDLE EAST REGION**

It cannot be denied that nowadays the Middle East is the dominant term in many of the seminars, conferences, meetings and political and economic debates around the world and the importance of this region is unquestionable. Economic, political, strategic, geographic and geopolitical situation of this region distinguishes it from other parts of the world. The importance of this region is so high that it has attracted the attention of a wide range of intellectuals from across the globe and has persuaded them into studying it in more details.

No part of the world, as Kort (2007) claims, plays more critical role in developing of human civilization than the Middle East. In fact, this region has a unique position in the world because it is located in the intersection of three important continents: Asia, Europe and Africa (Kort, 2007). Due to these reasons and also many other facts, the Middle East region has gained such a critical role in the world that a lot of researches and studies have been done on this part of the planet all of them aiming at highlighting the importance of this area. However, before conducting any research about this region, one has to have an understanding about where exactly the Middle East is located and what is meant by the Middle East when someone speaks about it.

### **5.1. Where Is the Middle East?**

As mentioned above, although the term ‘Middle East’ is extensively used, it is not yet clear what exactly is meant by the term “the Middle East” by the individuals who use it. In other words, there is not yet a universal agreement or consensus on the definition of this term and what areas and counties it covers but it is clear that it was an American naval historian, named A. T. Mahan, who first coined the term ‘the Middle East’ in 1902 in a discussion about the Great Britain strategy in Iran against the widespread presence of the Russians and also the implementation of a railway project from Germany to Baghdad (Beaumont, 1976). By the Middle East, he meant the region located above the Persian Gulf; a region for which the terms ‘the Far East’ and ‘the Near East’ are inadequate.

According to Ismael et al. (1991), the Middle East covers an area between southwest Asia and the eastern Mediterranean. He argues that there is no definite geographical

borders for the Middle East and the only distinctive characteristics of this region are religion and culture. In other words, the Middle East can be distinguished from Europe by religion, from the Far East by culture and from the central Asia by geography. Because of this, as Ismael et al. (1991) points out, the Middle East along with the term 'Near East', has never applied to a specific region or group of people or countries. In other words, its meaning has been determined more in terms of politics than geography.

Furthermore, Kort (2007) states that, historically the definition of the Middle East and what countries belong to it has changed over time and this reflects the fact that there is no consensus over it even today. In his book of 'The handbook of east Asia', he uses two broad criteria when referring to the Middle East: the first one is the proximity to the 'Fertile Crescent' and the Persian Gulf. Based on this definition, the Middle East includes sixteen countries: Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, Turkey, the United Arab Emirates and Yemen as well as semi-independent Palestinian Authority. Figure 12 demonstrates the Middle East region and the countries in it as presented by Kort (2007).

Ewan & Liam Anderson (2009) argue that there are several contributing factors that distinguish the Middle East from other parts of the world. The first, they argue, is that Islam is the dominating religion in the area and the majority of people are Muslim. The second characteristics of this region, as Ewan & Liam Anderson (2009) believe it, is that at one time in the past history, the major part of the Middle East were under the rule of the Turkish sultans or the Ottomans. Third is the fact that this area is located at the meeting point of three important continents i.e. Africa, Asia and Europe. Although, these characteristics might, at the first glance, seem to be attributed to the Middle East only, they are not exclusively Middle Eastern.

Islam is not only practiced in this region but we see even some faraway countries like Malaysia and Indonesia and also some other countries like Morocco and Algeria have faith in Islam. Also Ottomans ruled over other countries out of this region for instance Balkan Peninsula and also Danube valley. In fact, the reasons why the Middle East has gained such importance in the world, has varied. First, Arabs and Turks threatened the strongholds of Hindus and Christians in Asia and Europe respectively and then, the majority of the trade between Asia and Europe was done in the past, would pass via the Silk Road which would connect the Asia to the Europe. But nowadays, the importance of the Middle East to the world is even much more than ever before and essentially vast resources of oil as well as an invaluable shipment route (i.e. Suez Canal) have considerably distinguished the Middle East from other parts of the planet (Ewan & Liam Anderson, 2009).

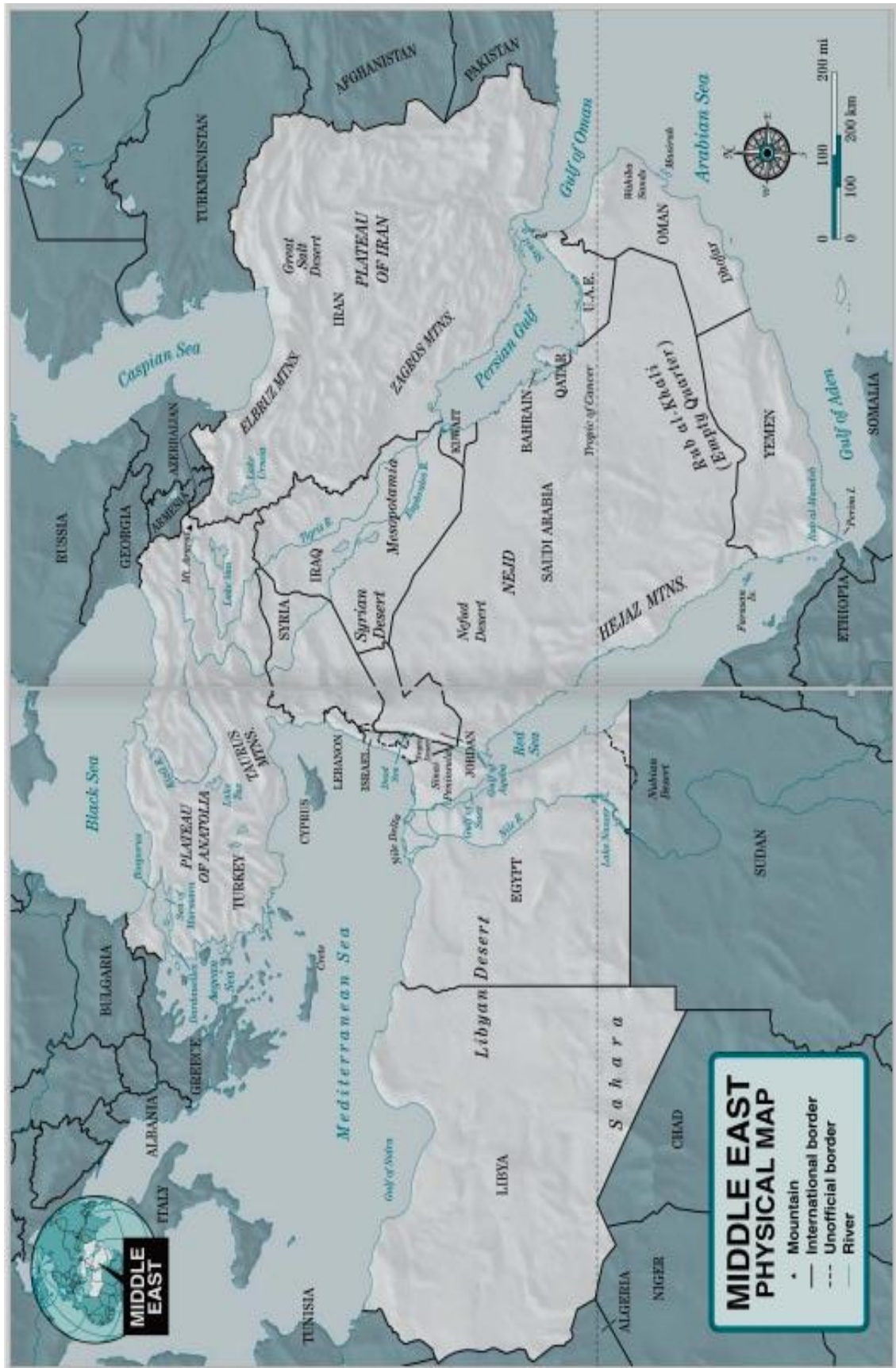


Figure 12. The Middle East region (Kort, 2007).

## 5.2. History

Understanding the background of a nation or region is the key to the success in or at least one of the important prerequisites of any interaction with those people. It holds true for establishment of business and commercial relationships too. Knowing the history of the target market for business owners can help them establish better and more efficient links with business entities within that region. The Middle East is not an exception in this regard. Establishing and developing commercial relationships with the Middle Eastern businesses can be done more efficiently if the foreign firms have a better understanding of the background of the people in that region.

History of the Middle East is so important that the leading intellectuals and scholars like Saul Friedman (1929 - 2010) could not underestimate it. Amongst all the gurus in this field, Friedman (2006) highlights the importance of the Middle East history before entering into any negotiations with people in that region of the world; be it political, economic, social or any other type of negotiation. He mentions some reasons which highlight the significance of understanding the history of this region before going into any interaction with countries in this region. Table 11 summarizes the reasons why one must become acquainted with the history of the Middle East.

*Table 11. Why study the Middle East history? (Friedman, 2006).*

| <b>Significance Of Understanding The History Before Establishing Any Relationship With Middle Eastern Countries</b> |   |
|---|---|
| The Middle East was the birthplace of Western Civilization  | The Middle East is the seedbed of ancient civilization. Domestication of animals, organized agriculture, urbanization, metallurgy, pottery, the wheel, the natural sciences, astrology and astronomy, writing, literature and mythology, political and legal institutions, philosophy and religion all occurred in this region. |
| The Middle East was the cradle of three principal religions   | Fifteen million Jews, two billion Christians, one billion Muslims find the origins of their religion in the Middle East.  |
| The Middle East is a region of great cities: Cairo, Jerusalem, Istanbul, Tehran                                     | Religious and urban diversity is highly visible in the region. A tourist in Jerusalem can walk from the Church of Holy Sepulchre to the Western Wall then to the Mosque of Umar within a few moments.   |

|  |   |
|--|---|
| The Middle East is the storehouse of natural resources           | Huge resources of minerals such as copper, zinc, lead, nickel, magnesium exist there. Algeria, rich in uranium, exports natural gas to Italy and France. Morocco rich in cobalt and manganese, Iran full of oil and gas, manganese, Turkey rich in tobacco and chromium. Most importantly, the Middle East contains 60 percent of the world's oil resources.  |
| The Middle East is of great strategic importance to world powers | Alexander the Great, Darius the great, Romans and Parthians, Napoleon and Ottomans understood this vital region as a bridge connecting the three continents together (Asia, Africa and Europe). Disputes in recent century between Arabs and Israel, the Persian Gulf War, wars in Iran, Iraq, Lebanon and Syria all indicate the significance of this region |

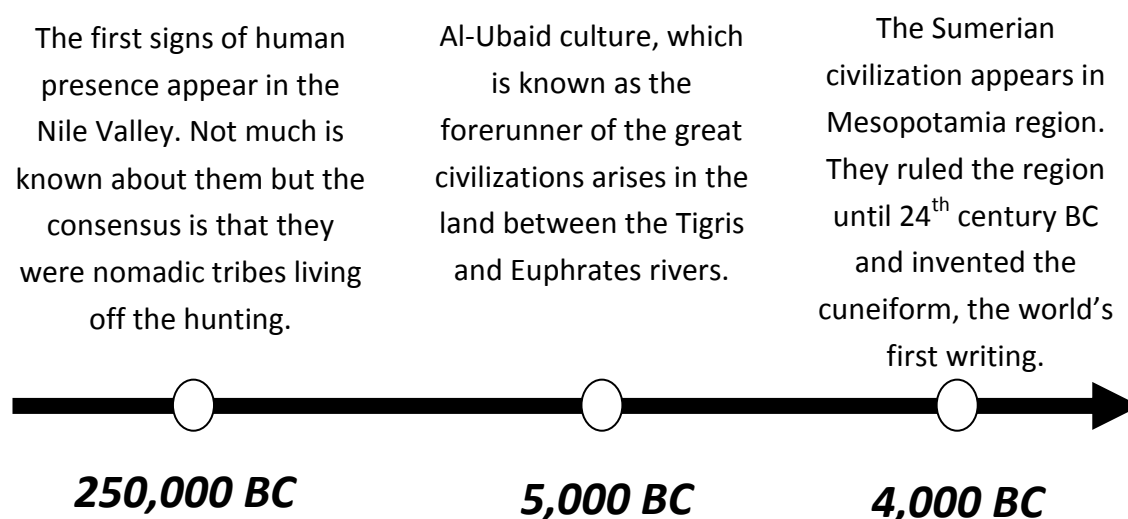
As Table 11 above shows, the region is so significant in terms of history and this long history has been so connected to the contemporary events that understanding the culture of people and communicating them without any knowledge this valuable background makes it very hard for a foreigner to succeed in establishing a new link with people in this area of the world. Thus, a brief history of the Middle East seems to be necessary to be included in this thesis to provide the reader with enough understanding of what it is like doing business with the Middle Easterns. Obviously, it is not only the Middle East whose history gains importance when entering it; every region of the world needs to be understood historically and its background has to be digested beforehand. The background of Europe, Americas, Africa, middle and eastern Asia would also need to be known completely before initializing any type of interaction and communication with them but the Middle East gains the upper hand in this regard due the above-mentioned reasons.

### 5.3. The Middle East: Old Times

The Middle East within its borders, as it is defined nowadays, is home to the five out of the Seven Wonders of the Ancient World (Ham, 2009). Mesopotamia (which is now called Iraq) was the cradle of civilization. Damascus (the capital city of Syria today), Byblos (Lebanon), Jericho (Israel and the Palestinian territories) and Erbil (located in Iraq today) are all believed to be the oldest cities in human history. It was here in the Middle East that three great religions i.e. Islam, Christianity, and Judaism were born.

As Ham (2009) points out, in 8500 BC, the first attempts to grow plants by human being and as a result developing the agriculture occurred somewhere in the West Bank

of Jordan. Due to dry climate and water shortage, they resided around the water sources. These people learned to include wild cereals to their daily diet and attempted to grow them to enable them to survive the hunger. Later, in the coming centuries, these populations spread out toward Mesopotamia where they were able to find fertile soil for their agricultural activities. Figure 13 shows the timeline of the Middle East from 250,000 BC to 4,000 BC.



*Figure 13. The timeline of the Middle East region (Ham, 2009).*

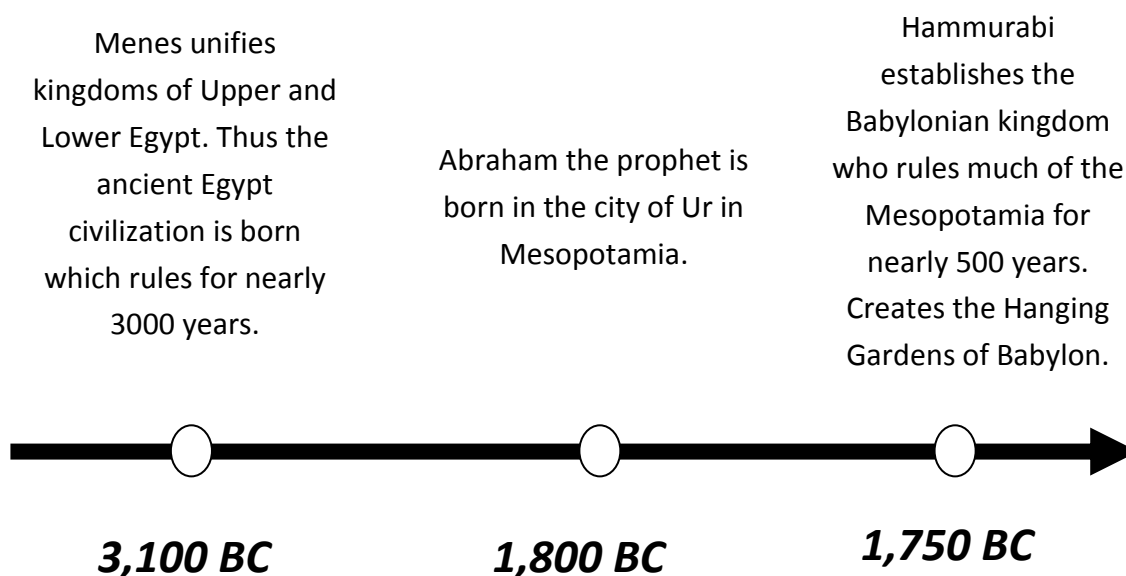
As shown in the Figure 4, in the 6<sup>th</sup> century BC, a civilization appeared in Mesopotamia called 'Al-Ubaid'. This culture replaced by the Sumerians who were the people who built the first cities and developed agriculture and river-borne trade. The Sumerians also invented the first writing known to the human which is called 'cuneiform' which basically symbolized by pictographs and later took the shape of alphabets on which the modern writing is based.

As Ham (2009) points out, in 3,100 BC in another part of the region, two kingdoms of Upper and Lower Egypt unified under the name of Menes and formed the Pharaonic rule in the Nile Valley. Table 12 shows the empires of the region over the centuries.

*Table 12. The Middle Eastern empires through the centuries (Ham, 2009).*

| <b>Empire</b>      | <b>Time Period</b>                   | <b>Summary</b>   |
|--------------------|--------------------------------------|--|
| <b>SUMERIANS</b>   | 4000-2350 BC                         | Mesopotamia's first great civilization developed advanced irrigation systems, agriculture, surplus food, and the first known writing |
| <b>EGYPTIANS</b>   | 3100-400 BC                          | Pharaonic dynasties, developed arts, the pyramids and royal tombs. Their distinguished feature was the aesthetic of the architecture |
| <b>BABYLONIANS</b> | 1750-1180 BC                         | Further developed the cuneiform script and were the first to codify laws to use them in the governing their territory                |
| <b>ASSYRIANS</b>   | 1600-609 BC                          | Developed modern banking systems and accounting  |
| <b>PERSIANS</b>    | 6 <sup>th</sup> – 4 <sup>th</sup> BC | Began by Cyrus the Great and ruled from India to the Aegean Sea and built Persepolis   |
| <b>OTTOMANS</b>    | 1300 – 1918 AD                       | The last of the empires to rule the majority of the Middle East. They governed from Iraq to North Africa before their collapse.      |

As can be noticed from the Table 6, over the 6000 years - beginning from 4000 BC and ending at the 20<sup>th</sup> century AD - six great empires ruled the region; each of which played a highly significant role, not only in the development of the Middle East culture and civilization but also the life of all human beings living all around the world. Perhaps without these empires and the impacts they had on the human civilization, we would never reach the level of modernity as we witness nowadays. The timeline from 3100 BC up to 1750 BC, as shown in Figure 14, demonstrates the events occurred during the 1350 years beginning with the unification of kingdoms of Egypt and ends with the demise of Babylonian kingdom.

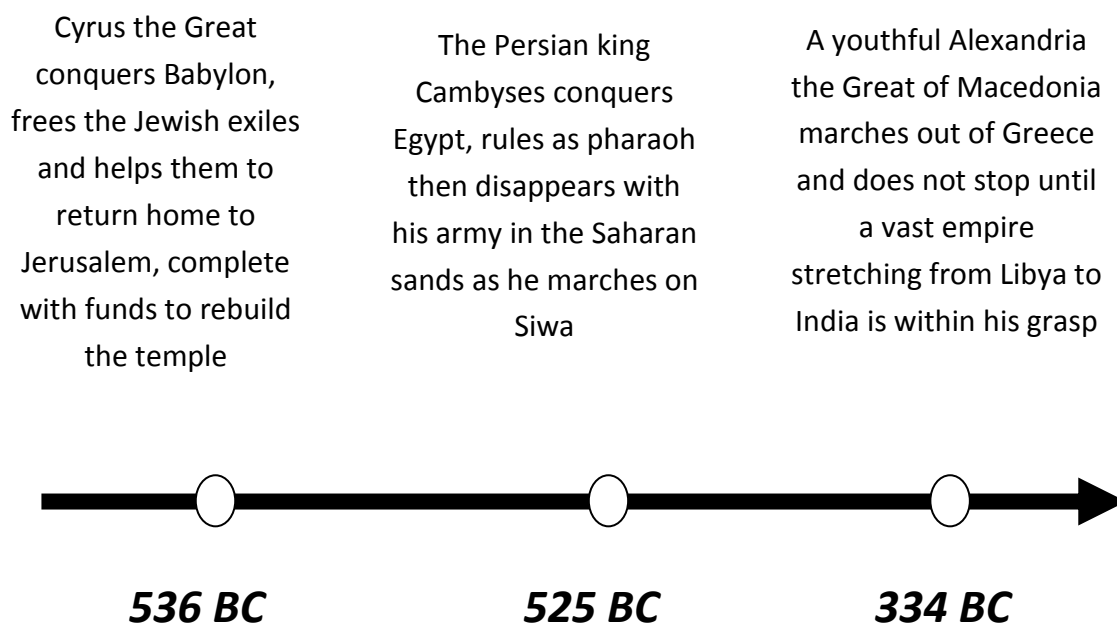


*Figure 14. The timeline between the rise of Egypt civilization and the collapse of Babylonian kingdom in the Middle East region (Ham, 2009).*

Studying the history of the Middle East this detailed would require hundreds of books published in this field and is definitely beyond the scope and purpose of this thesis. However the aim of this section is to provide a brief history of the region to make sure the reader understands its background and the way its people think and the way they would live in the past and the breakthroughs they have had in the past. As mentioned before, not for the case of the Middle East but with any nation in any part of the planet, communicating would require an initial understanding of the background of that region's people. Understanding this background will result in a more efficient interaction with that nation and will ease entering into any type of deal with those people; be it political, social or economic.

Thus, instead of going into detailed explanation of the history of the Middle East, it seems wiser to settle for just a brief timeline of it in order to accomplish the mission of presenting the history of the Middle East to the reader. Figures 15 and 16 below provide a summary of the history of this region. These two figures summarize the history from 536 BC up until the 19<sup>th</sup> century.





*Figure 15. From the Cyrus the Great to the Alexandria the Great (Ham, 2009).*

Having introduced the timeline of the Middle East from old ages all the way through the 19<sup>th</sup> century, the next phase in presenting the history of this region will be a summary or timeline of the contemporary history in which a snapshot of the events from the beginning of 20<sup>th</sup> century up until recent years will be presented.

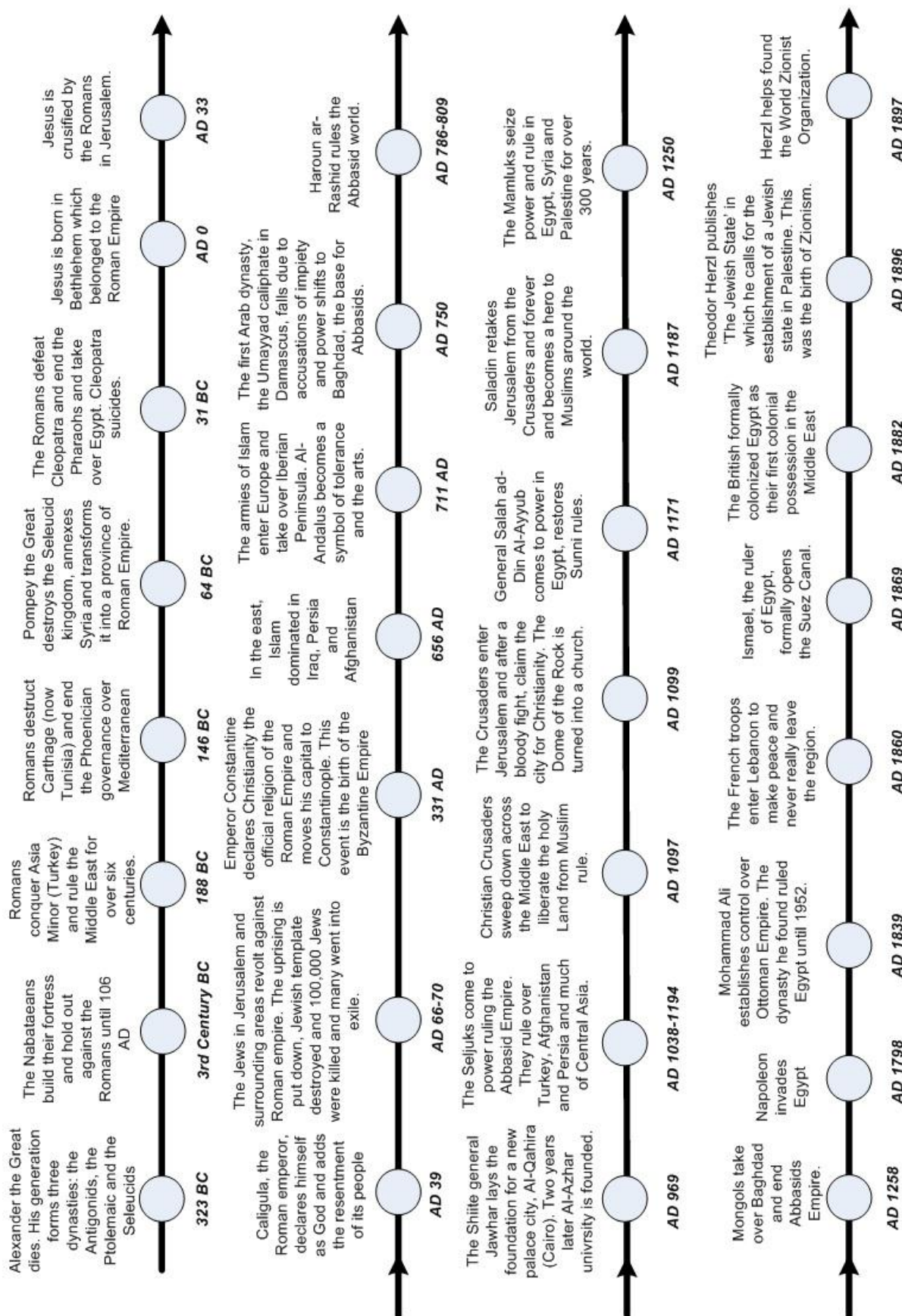


Figure 16. The Middle East history: from 323 BC to the late 19<sup>th</sup> century (Ham, 2009).

Again, going into details will be beyond the scope of this thesis so it has been tried to avoid too detailed information and show only a brief timeline of important event during these two centuries.

#### **5.4. The Middle East: Contemporary Era**

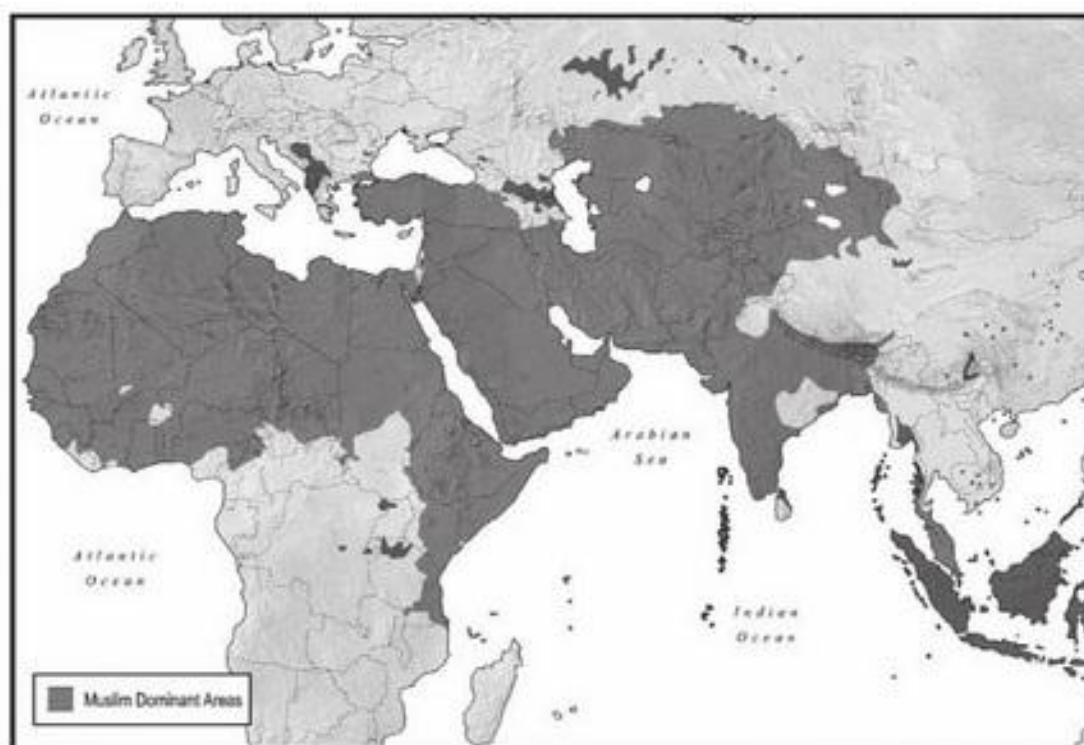
William James Durant (1885 – 1981) – also known as Will Durant, the American writer, historian and philosopher – in his book of ‘The Lessons of History’ on the importance of studying the history and its impact on the development of human civilization writes:

*“Civilization is not inherited; it has to be learned and earned by each generation anew; if the transmission should be interrupted for one century, civilization would die, and we should be savages again.”*

This quote by one of the greatest historians of all time highlights the need for studying the history in order to keep the civilization of mankind developing. This phenomenon gains even more importance in recent decades in which the new and highly competitive discipline is ruling over the world. Everyone who ignores this fact will be unable to survive from now on. That is why understanding the history – the Middle East in this case – will be of great value.

According to Kamrava (2011), the Middle East homes some of the world’s earliest and greatest civilizations and the region is the cradle of three great widespread religions: Judaism, Christianity and Islam. The Middle East, in this sense, offers a rich background of mankind life and traditions. Simultaneously, the political history of the region, both classic and contemporary, has been coupled with the rise and fall of great powers, domination of colonies, emerging or the birth of new countries and also unequal competition to achieve more political and economic development by nations located there. The impacts of these developments for the Middle East have been discussed especially since the early decades of the 20<sup>th</sup> century.

One of the key players in this development, as Kamrava (2011) states, is Islam. Now practiced by over 1.5 billion people around the world spreading from the West Africa all over to the Southeast Asia (Stewart, 2008), Islam has shaped politics and society in the regions where it is more dominant, especially the Middle East. Figure 17 depicts the Muslim countries of the world and their extension as it exists today.



*Figure 17. The land of Islam (Stewart, 2008).*

Kamrava (2011) argues that even over the periods of time in history, when political authority in the Muslim lands did not practically exist, Islam used to be a significant social tool for the unity of the nations. The Ottomans perfectly controlled a major part of the Middle East during their rule but failed to efficiently rule over the faraway parts of their sovereign.

Although the downfall of the Ottomans at the onset of the twentieth century made some parts of the Ottoman-dominated lands hilarious, it resulted in the beginning of entry of the Europeans into the Middle East in the early 1920s as colonialist powers which lasted until the late 1970s. The circumstances under which their colony took place fundamentally differed than the circumstances of Ottomans era. Nevertheless, the relationship between the colonialists and the colonies remained largely the same (Kamrava, 2011).

The years of 1940s followed by the emergence of independent states in the Middle East and this trend lasted until 1950s and this phenomenon essentially changed power equations and the foundations of relationship between the state and society relationship in the Middle East countries. These newly-established states saw themselves in a competitive international environment in which they had to cope with rapid rate of economic and industrial growth and at the same time meet the nationalist ambitions of their own people (Kamrava, 2011).

Based on what was mentioned above, the contemporary history of the Middle East, as Ham (2009) states, can be summarized as follows:

- The first world war breaks out in 1914 in which the Ottomans side with Germany
- More than one million Armenians are killed in Turkey by the Ottomans in 1915, the genocide which Turkey has always denied.
- The French and the British empires divide the Arab lands between themselves in 1916
- In the following year, the British empire promises a national home for the Jewish people in Palestine
- Colonial rule in 1922 is legitimized in the Middle East by the League of Nations during which Syria and Lebanon is granted to the French and Palestine and Iraq to the British
- In 1923, two people come to power: Ataturk in Turkey and Reza Khan in Iran. Both follow almost the similar pattern in governing their countries. They aim at modernizing their countries in a western style
- The Jewish immigrate to Palestine from all around the world during 1920s and 1930s which triggers the anger of Arabs
- More than six million Jews are killed during the World War II. An act that prompts the urgency of formation of a Jewish state
- In 1961 Iraqi Kurds, launch a military opposition for an independent Kurdistan. This becomes an excuse for Saddam Hussein to take hostile measure against them in the following years
- Egypt launches a military war game in 1967 which stimulates Israel. The result is the Six-Day War between Arabs and Israel in which Israel claims much of the West Bank, Sinai desert, the Golan Heights and the Gaza Strip
- Around the year 1970, three men come to power: Saddam Hussein in Iraq, Yasser Arafat in Palestine and Hafez al-Assad in Syria
- Egypt launches a surprise attack on Israel in 1973 and makes some initial gains but in the end this is Israel who attacks back and not only push them back but also takes over some new land from Egypt
- In 1977 Anwar Sadat, the Egyptian president, visits Israel. This act followed by the expel of Egypt from Arab league although Sadat is hailed around the world
- Two years later Anwar Sadat signs a peace agreement with Israel's prime minister which according to it, Egypt withdraws from Sinai desert and Egypt recognizes the existence of Israel. In the same year, Islamic revolution takes place in Iran in which the Shah of Iran leaves the country and Ayatollah Khomeini leads the country in the years coming

- An eight-year long war takes place between Iran and Iraq breaking out in 1980. Hundreds of thousands of people, including civilians, are killed and in fact this war becomes one of the history's most pointless wars
- The year 1980 coincides with Israeli invasion against Lebanon during which the massacres of Sabra and Shatila takes place. Three years later, Israel leaves the region
- The democratic Turkey is founded after some coups in 1983. The new constitution stipulates that the Turkish military remains the real power in the country
- The third millennium commences with the second Palestinian intifada and Hafez al-Assad dies in Syria and his son, Bashar becomes the new president
- The US-led war against Iraq breaks out in 2003. In December of the same year, Saddam Hussein, the leader of Iraq is captured and later hanged
- In 2004 evidences that prove the torture of Iraqis by US military leaks out and US loses its reputation in the region
- Yasser Arafat, the leader of Palestine, dies in 2005
- In 2006, Hezbollah captures two Israeli soldiers and then Israel launches a 33-day-long war against Lebanon. Hezbollah is known as the winner of that war

As the timeline above demonstrates, the Middle East has conceived a lot of incidents throughout the history both classic and modern and in fact very few other regions in the world could be found who are as critical as the Middle East is. By studying the modern history of the region, one can conclude that throughout the 20th and into the 21st century, the region has experienced both periods of relative peace and tolerance and periods of conflict and war. Now that the history of the Middle East, both ancient and modern, have been discussed above, the next necessary step is to get acquainted with the demographics of the region e.g., the way people live there, what they believe in and what languages they speak. Next section will cover the demographics of the Middle East.

## **5.5. The Middle East: Demographics**

The era that we are living in represents a significant revolution that is based on the information and this information revolution is dramatically changing the businesses into a new format. Nowadays, knowledge has turned into the unquestionable prerequisite of all business assets without which all businesses are doomed to failure. However information lies amongst the most under-appreciated and ignored business resources (William, 1994). Demographic information amongst all the information under discussion, which feeds critical information to the businesses, is often ignored. Drucker (1980) states that, "In the 20<sup>th</sup> century, it is sheer folly to disregard demographics".

This triggers the need for further studies to acquire more information on the demographic characteristics of the target society; the one who businesses are aiming to enter. In other words, marketing people are in dire need to have a big picture of the nation they are willing to do the business with and in fact a thorough demographic survey can answer the following questions as William (1994) points out:

- What are the potentials hidden in the target market?
- Who are the potential and actual customers and where do they reside?
- What are the major changes that take place amongst households, families and lifestyles?
- How the income distribution changes in various strata of that society?
- What are the booming and declining markets?
- What are the specifications of customers for a special category of products or services?
- What are the believes, customs, traditions and lifestyle of the customers that must be taken into consideration when entering the target market?

Demographic studies provide the answers to such fundamental questions and that is why marketers are continuously challenged to be well informed of the demographic developments.

Demographic studies, as mentioned above, have been developing so fast and have gained so much attention that have enabled the researchers to address a wide range of problems in other words, the range of problems that demographers can address continue to widen and this means the scope of this field has been expanding rapidly. Kinter (1997) is of the opinion that the following fields represent the problems that a demographic survey can address:

1. ***State and local government applications:*** Government divisions in different countries (these divisions could be states such as the U.S.A, provinces such as Iran, emirate such as United Arab Emirates or U.A.E. or county in some other countries) have different projects planned in their agenda which need to be implemented. These plans need budget from the central government to be launched. One of the key factors that governments allocate the budget to such projects is based on the demographic data of that government division. For example, funding needed to maintain health services in a county is heavily tied to population of that county. Also the housing aid allocated to each province within a country is related to the demographic data of that area. Other likely resources that trigger the need for demographic data are: to calculate the key rates and important indexes needed for the service delivery, public health, accessibility to the hospitals and other health facilities; to forecast future demands and to certify compliance with particular legal mandates.

2. ***Business applications:*** Firstly, retail and marketing businesses always try to link their offerings (products or services) to customers who have specific needs and wants. These needs have been diversified at the same time as lifestyles and households have diversified. Secondly, human resource departments within the corporate pose another need for demographic study. Business managers are in constant need for the information who reflects the makeup and changing structure of their personnel to be able to make the decisions who well fit their staff rather than the decisions who are incongruous with the human resource characteristics. And finally the third application is to provide information or advice, to broaden business managers' perspective or even to be a catalyst for organizational changes. Therefore, the reason behind the businesses' seeking demographic information could be summarized into four major categories which are: acquiring marketing and retailing data, human resource planning, handling strategic business issues and finally serving as outside advisor.

Now that the significance of demographic studies has been discussed above and its applications were highlighted, it is time to conduct a study on the demographics of the Middle East to provide population-related information for businesses intending to market in that region. As a matter of fact, modern demographic data for countries of the Middle East are often inadequate or unreliable or both (Beaumont et al., 1976). At the end of 1973 there were still four states which had never conducted a national census, this is while only in Turkey and Egypt there had been a census before.

Several factors account for the general paucity of statistical information. There is the practical problem of census taking where a high proportion of the population is nomadic, as in the Arabian Peninsula. Political factors are also contributing in this regard. In Lebanon, for example, a census would doubtless reveal radical changes in the delicate balance between Christians and Muslims. There is also much discussion as to the accuracy of figures for Palestinian refugees. In Saudi Arabia the census of 1962/1963 apparently revealed that a population of 3.9 million compared with previous estimates of up to seven million, and has remained unpublished. The true figure is certainly almost always below eight million (Beaumont et al., 1976).

Even allowing for some inaccuracies in vital statistics, it is clear that birth rates are generally high. In the last fifty years they have fluctuated but not increased markedly, though there has been a sharp decline in infant deaths before the age of one year. Gross reproduction rates are around 2.8 to 3.4 and there is so far no evidence of fertility decline (Clarke, 1972). Two countries with lower birth rates are Israel and Lebanon, both with substantial non-Muslim populations. Young and universal marriages of women, together with virtues of matrimony were traditionally among the reasons for high rate of birth in the region (Clarke & Fisher, 1972).



According to Beaumont et al. (1976), the persistence of high birth rates can be attributed to a number of factors, not all of them which apply throughout the region. Only in recent years have family planning programs been officially adopted by Egypt (since 1962), Jordan (since 1970) and Turkey (since 1964). Even in these countries there is great difficulty in persuading Muslims, particularly the less educated, that contraception is compatible with the teachings of Islam, and so far only an educated minority have benefited. Most Islamic leaders agree that there is no real religious objection, but resistance is strong among the people. In some areas children may actually be regarded as an economic asset, for cotton picking for example. With some countries committed to population control, and others giving family allowances, an increasing measure of demographic individuality is becoming evident. Equally striking are contrasts within individual states arising from differences in social, religious, and economic status. Fertility rates for uneducated city Christians and Muslims in Lebanon for example, were found to be 4.14 and 7.35 respectively and for educated Christians and Muslims 3.44 and 5.56 respectively (Yaukey, 1970).

On the other hand, mortality was high in the Middle East in the past. Today, however, death rates include some of the lowest as well as some of the highest in the world. Mortality statistics are notoriously underestimated and the true levels may be higher both on account of the prevalence of disease and as a result of periodic natural disasters and war. Countries with low death rates tend to be those with small youthful populations, most of whom have access to good health facilities, like Israel and Kuwait, while death rates remain high where large dispersed populations have not felt the impact of medical services. The trend throughout the century has been for death rates to decline and in most countries they are continuing to fall. Indeed, even in countries with relatively mortality, remarkable reductions are already evident in the towns where better housing and sanitation and medical care are available and city death rates may be as much as half those of rural areas. In other respects too, we with fertility, average figures tend to obscure important regional contrasts in mortality (Beaumont et al., 1976).

The decline in death rates during the past thirty or forty years has been the chief cause of rapid population increase. The death rate throughout the region was generally over 25 per thousand in the 1920s. It is now around 17 in North Africa and 16 in Southwest Asia, and could eventually fall as low as 11 per thousand (Durand, 1967).

Another important issue which needs to be studied in this region, beside population, birth and death rates, is the age structure of the nations within the Middle East. As Beaumont et al. (1976) states, with declining death rates and high birth dates, the population of the Middle East are growing rapidly. Between 1950 and 1960 the average annual increase was 2.5 percent whereas today it has risen to 2.8 percent. Every state is growing at rates in excess of the world average, while annual increases of three percent and above are among the highest in the world. In all the largest states the annual

increment is due to natural increase but in some of the smaller states, immigration accounts for some of the increase. Moreover, one characteristic of rapidly increasing populations is their youthful age structure. Age structure is important in developing countries because it indicates the ratio of dependent groups to the active population, and it also determines future population growth rates. With the exception of Israel's Jews population, these display very broad bases associated with extreme youth, with over 40 per cent commonly under the age of 15, indicating a vast potential for future population expansion. The proportions aged 65 and over on the other hand are very small, around three to six percent. Overall there are often as many economically inactive persons as active in the population. Most countries also show a slight dominance of males in all but the highest age groups, possibly due in part to under-registration of females, and mortality associated with frequent pregnancies. Age-sex pyramids for foreign groups in Kuwait and other Persian Gulf states, however, reveal the classic form of an immigrant community in which male migrants form the majority (United Nations report on the Middle East demographics, 1969). Figure 18 below illustrates the age structure of the Middle East region.

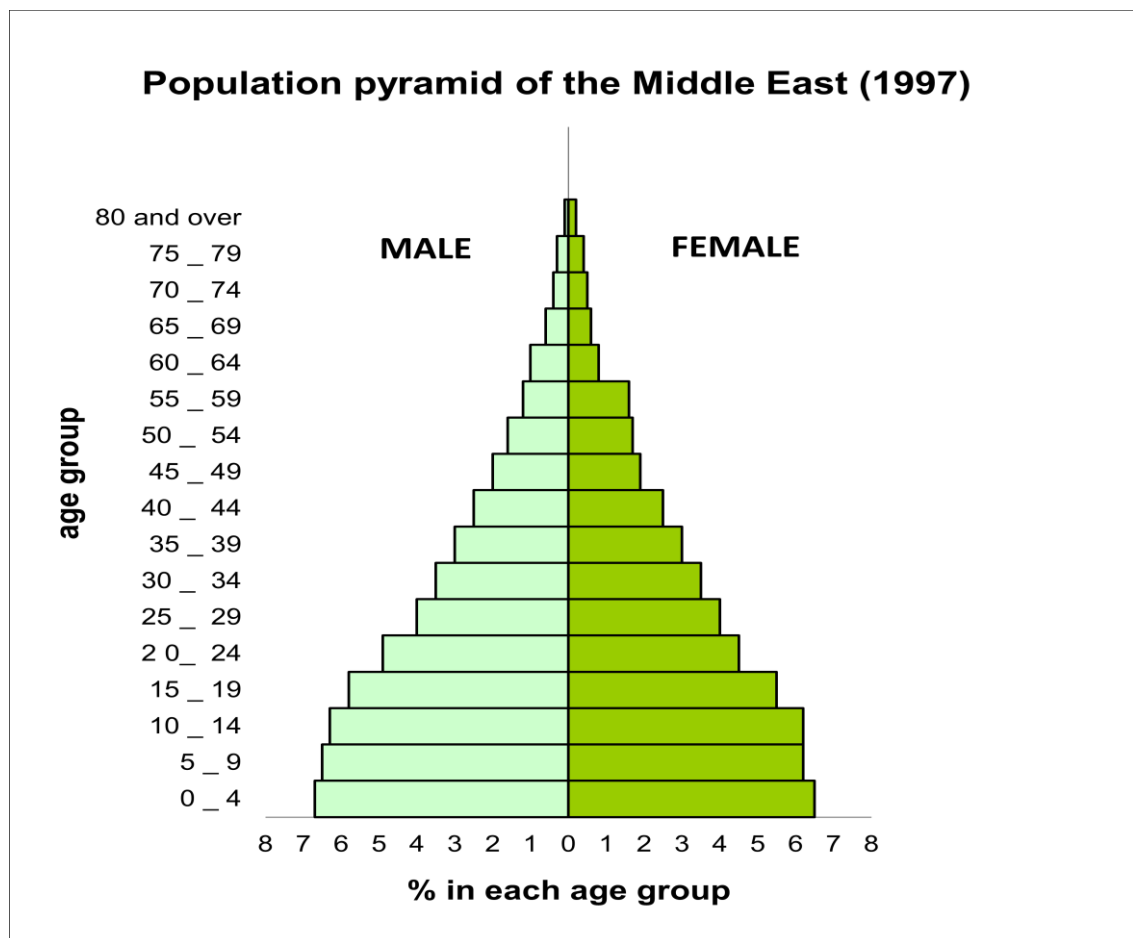


Figure 18. The general age structure of the Middle East region (Sirageldin, 2003).

As Figure above shows, the population of the region is mostly dominated by the youth and old people constitute for a small percentage of the total population. This reflects the fact that within years to come, the current young or children will account for the majority of the population. This will trigger new needs for these people and also will provide favorable opportunities for those who intend to start doing business in this region.

Although this region has shown a rapid growth in its population over the past years and the extrapolation of the population trend proves that this process even will be continuing in the future, its remains overall one of the densely populated in the world (Beaumont et al., 1976). The chief explanation is the large arid and semi-arid land and the more limited areas of high altitude unsuitable for permanent settlement. The Middle East has an average density of 17 persons per  $km^2$  (United Nations, 1970). Table 13 gives average densities for some of the Middle Eastern countries.

*Table 13. Population density (United Nations FAO, 1971).*

|              | <b>Population Density Per <math>km^2</math></b> | <b>Agricultural Population Number (millions)</b> | <b>Agricultural Population Percent</b> |
|--------------|---|--|--|
| EGYPT        | 33.3  | 18.2   | 55                                     |
| LIBYA        | 1.1   | 0.8  | 43                                     |
| SAUDI ARABIA | 3.6   | 3.2  | 60                                     |
| KUWAIT       | 44.4  | 0.6  | 1                                      |
| TURKEY       | 45.1  | 24.0   | 69                                     |
| BAHRAIN      | 359.5   | -  | -                                      |
| QATAR        | 4.5   | -  | -                                      |
| UAE          | 2.2   | -  | -                                      |
| IRAQ         | 21.7  | 4.5  | 47                                     |
| SYRIA        | 34.0  | 2.9  | 49                                     |
| IRAN         | 18.0  | 13.3   | 46                                     |

If nomadic populations are excluded from the agricultural populations, densities increase, particularly for Saudi Arabia. The highest densities belong to the Nile Valley and delta where entire rural population record over 800 persons per  $km^2$ . Every country, however, displays considerable contrasts in population density; even Turkey which has less obvious signs of sparsely populated regions has notably the availability of water account for these contrasts, but historical factors may sometimes be responsible. Also it is worth mentioning that apart from the large areas of uninhabited semi-arid land, the sudden changes in density are a notable feature, reflecting the rain shadow effect of some of the mountain ranges, and the margin between irrigated lands and desert particularly along the Nile valley and delta. It should be noted that the population distribution of the region has never been static. In certain regions the frontiers between the desert and the sown has migrated in response to political and economic change. Today, modern technology and the needs of national security have again stimulated desert colonization in southern Israel. Of far more significance, however, are a number of large dams and barrages recently constructed in Turkey, Syria, Iraq and Iran which have brought large irrigated areas under the plough. Similarly, some impressive schemes of desert reclamation are being carried out in western Egypt and Libya and Saudi Arabia, the result of which will be sustain larger numbers of people in formerly under populated regions. In a number of states an important feature of recent years has also been the slow re-advance of cultivation in areas of dry farming (Smith, 1970).

The population of the Middle East is thus increasing rapidly. It is also undergoing structural changes at least as radical as those of any other developing region of comparable size. The nomadic population of the region is experiencing considerable pressures to reside in a determined place, both indirectly and by the direct action of governments. Two third of the population in the region are still village dwellers, but the proportion is slowly falling because of higher natural increase in the town and rural-urban migrations. Important qualitative changes in the population are also occurring which generally receive far too little recognition. In recent years, great progress has been made in providing schools and educational services of all kinds but a high proportion of adults, particularly females, remain illiterate, and even among children rapid population increases have sometimes offset extensive school building program. In all the larger countries, universities are well developed, though vocational training is sometimes inadequate. Growing numbers of students study abroad and do not return to their countries, thus constituting a serious 'brain drain' (George, 1973).

Table 14 well demonstrates the difference between the population growth of the Middle East countries and that of the world average. As can easily be understood from the table, the Middle East countries, on average, have a considerable higher rate of population growth when compared to that of the world average. This higher rate can be considered

as a proof to the fact that there are attractive opportunities in the region and the potentials for the foreign investment is very high.

*Table 14. The population growth; a comparison between the world average and the Mid-East countries (source: World Bank data).*

| <b>Population Growth</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| World                    | 1.23        | 1.21        | 1.19        | 1.17        | 1.17        | 1.16        | 1.16        | 1.15        | 1.14        |
| Bahrain                  | -0.07       | 0.79        | 3.73        | 7.60        | 11.29       | 13.18       | 12.82       | 10.56       | 7.59        |
| Egypt, Arab Rep.         | 1.85        | 1.87        | 1.87        | 1.85        | 1.82        | 1.80        | 1.78        | 1.76        | 1.75        |
| Iran, Islamic Rep.       | 1.35        | 1.26        | 1.21        | 1.21        | 1.21        | 1.20        | 1.19        | 1.17        | 1.14        |
| Iraq                     | 2.57        | 2.57        | 2.57        | 2.57        | 3.02        | 3.02        | 3.02        | 3.02        | 3.02        |
| Israel                   | 2.01        | 1.81        | 1.77        | 1.76        | 1.77        | 1.78        | 1.78        | 2.39        | 1.84        |
| Jordan                   | 2.42        | 2.47        | 2.41        | 2.27        | 2.29        | 2.23        | 2.18        | 2.19        | 2.21        |
| Kuwait                   | 2.95        | 2.72        | 2.91        | 3.35        | 3.79        | 4.02        | 4.02        | 3.77        | 3.36        |
| Lebanon                  | 1.71        | 1.71        | 1.58        | 1.35        | 1.11        | 0.91        | 0.77        | 0.72        | 0.73        |
| Libya                    | 1.91        | 1.95        | 2.00        | 2.05        | 2.13        | 2.17        | 2.08        | 1.82        | 1.47        |
| Oman                     | 1.03        | 1.43        | 1.80        | 2.13        | 2.48        | 2.79        | 2.92        | 2.81        | 2.56        |
| Qatar                    | 2.62        | 4.59        | 9.01        | 13.80       | 17.53       | 18.59       | 16.97       | 13.50       | 9.60        |
| Saudi Arabia             | 3.71        | 3.98        | 3.86        | 3.50        | 3.11        | 2.80        | 2.56        | 2.43        | 2.36        |
| Syrian Arab Republic     | 3.09        | 3.11        | 2.94        | 2.66        | 2.04        | 2.04        | 2.04        | 2.04        | 2.04        |
| Turkey                   | 1.39        | 1.36        | 1.34        | 1.34        | 1.34        | 1.34        | 1.32        | 1.29        | 1.25        |
| United Arab Emirates     | 3.29        | 4.40        | 7.29        | 10.66       | 13.61       | 14.78       | 13.82       | 11.15       | 7.93        |
| West Bank and Gaza       | 3.48        | 3.48        | 3.48        | 3.48        | 3.48        | 3.48        | 2.71        | 2.65        | 2.66        |
| Yemen, Rep.              | 3.05        | 3.07        | 3.07        | 3.06        | 3.05        | 3.05        | 3.05        | 3.05        | 3.06        |

Figures 19 and 20 show the above-mentioned population growth trend. As can be seen, the average growth rate of population during the years beginning in 2002 and ending in 2010 is relatively higher in the Middle East when compared to that of the world. Also the annual increase in the population for the same period of time follows the same pattern indicating that even the annual population growth of the Middle East countries stands higher than that of the world average. (World Bank data, 2010.)

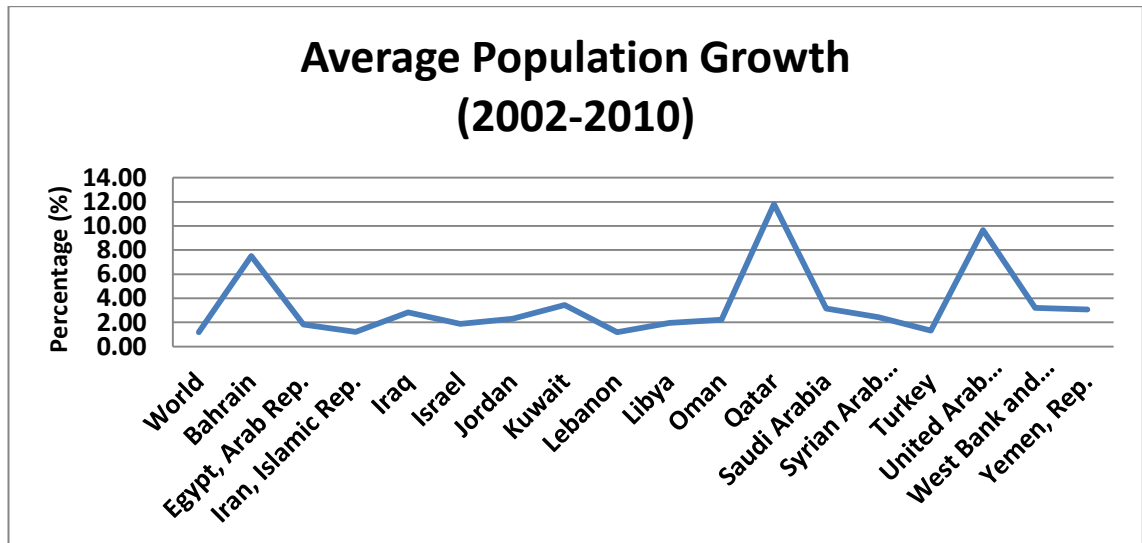


Figure 19. Average growth rate of population: world vs. the Middle East countries  
(Adopted from the World Bank data website)

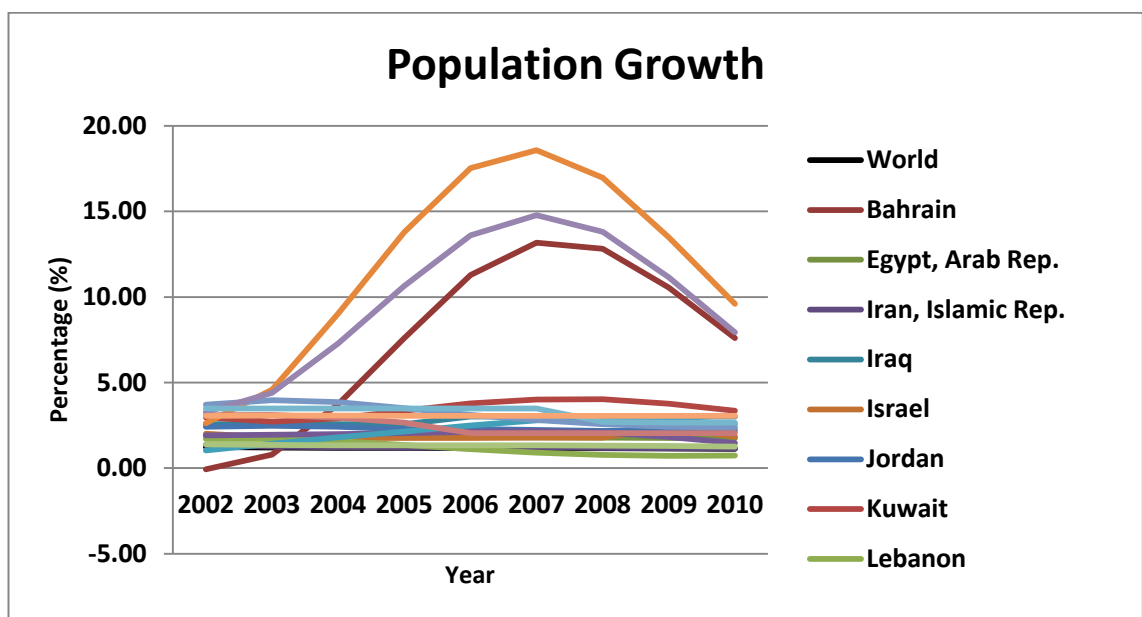


Figure 20. Population growth for the years 2002-2010 (Adopted from the World Bank data website)

This growth rate has led the region population stand at almost 450 millions in 2010 which accounts for near to 6.5 percent of the world total population.

## 5.6. Summary

Based on what was mentioned before, huge amount of natural resources such as gas, oil and minerals as well as the rate of population growth being over the world average has created a very attractive ground in the Middle East region for foreigners to come and invest in the region. The demographics show that the majority of the population in the region is younger generation which is affluent. This reveals the fact that sectors such as mobile telephony, food companies and banks as well as to energy, infrastructure and commodities are highly demanded in the region.

The demographics studies also show the rise of a new, more affluent middle class and the development of new technology for trading, research and information. North Africa and the Middle East, according to some demographic experts, have a larger middle class already than India. Oatar already enjoys one of the highest per capita incomes in the world and thanks to its vast reserves of natural gas is creating a rapidly growing demand for luxury goods. According to Smith (2010), MSCI's index for the 26 FMs, excluding Saudi Arabia, that it lists in its benchmark rose by 3.20% in the three-month period to late August. By late August, FMs had risen 2.55% as against a fall of 5.63% for the BRICs and a negative 1.96% for the EMs. In the case of Saudi Arabia and the GCC countries, MSCI's index for foreign investors showed a rise of 0.75% for the three-month period, and of 1.30% since January, a performance that outstripped that of many developed countries, especially given the sovereign debt crisis in Europe.

Furthermore, Smith (2010) states that MSCI's Arabian Markets index, which excludes Saudi Arabia but includes Jordan, Lebanon, Tunisia, Egypt and Morocco, was even better, rising by 2.94% in the three months to late August and by an impressive 3.51% since January. Within the region, asset managers and brokers are now looking to set up their own funds for MENA, aimed at foreign investors as well as those closer to home.

All these facts and figures reveal the appropriateness of the investment in the region which indicates that for foreigners there is a good potential of profitability and investment within the region. Main target businesses could be energy sector due to the vast resources of energy in the region but the population growth which leads to the younger generation combined with huge disposable money has created attractive market for luxury goods as well as other consumer goods.

## 6 THE MIDDLE EAST: A BUSINESS PERSPECTIVE

### 6.1. Business Opportunities and Challenges in the Mid-East Region

A closer look at the commerce of the countries in The Middle East reveals that this is a region which consists of an impressive and perhaps dismaying array of political systems, social structures, religions, cultures, economies and commercial and industrial priorities. On the other hand, this is a region where nations and people are linked not only by geographic proximity and history, but also by a tradition of trading practices. Other distinguishing aspects of people's lives in this region are similarity of resources and aspirations. (Campbell, 2008)

In much of the region, there is an abundance of particular natural resources and it is this abundance which has attracted the interests of international commerce. A review of selected countries of the region suggests their potentials and opportunities. This section will look at some challenges and also the opportunities in the region which must be considered before entering the region for the investment purposes. Kavoossi (2000) summarizes some of the strengths or opportunities and also weaknesses or challenges of the region. Following, first the opportunities are listed:

- The Middle East favors a geo-economic location in the world. It means that almost two thirds of the world oil and gas are located in the region. This specification is unique in the world and no other region in the world has such significance. Major powerful countries in the region are Iran, Saudi Arabia, Kuwait and the United Arab Emirates (UAE)
- The region takes advantage of access to the international waters via major ports. Also air transportation is highly significant in the region due to the existence of major airports and best airlines in the world serving in the region such as Emirate Airlines, Qatar Airlines, Aeroflot, Austrian Airlines, Air France, All Nippon Airways (ANA), British Airways, KLM Royal Dutch Airlines, Lufthansa German Airlines, Swissair and Alitalia
- Presence of the Persian Gulf in the region; the most recognized body of water in the world



- Thanks to petro-dollars, there is the highest household disposable income in the region in the developing world
- The region enjoys a highly world-class professional and business sector which are mostly within the global standards
- The region is home to many well-known international banks
- Many other international and highly significant entities are based in the region such as Islamic Development Bank, OPEC, Economic Cooperation Organization (ECO), Organization of Arab Petroleum-Exporting Countries (OAPEC)
- The Middle East favors strategic location, particularly suited to the European Union, given flight times and time-zone differentials. Also multinational corporations positioned in the Persian Gulf are able to operate south and west around the Mediterranean Sea, North Africa and Asia
- Other distinguished features of the Middle East region are the important ports in the Persian Gulf. Continuous stream of vessels from and to the Persian Gulf carry cargos such as automobiles, farm and construction equipment, steel, coal, grain and many types of liquid and dry bulk commodities. In 1992, the United Arab Emirates alone handled foreign commercial imports worth \$17 billion. Most of the ports are modern and equipped with the latest and state-of-the-art technologies along with skilled and experienced personnel
- Supportive external environment along with the terms-of-trade (which is the ratio of export to import prices) gains have prepared a very good ground for the FDI. Also higher oil production in recent years in order to meet the ever-increasing global demand has turned the oil-exporting countries into a very lucrative market
- Investor confidence has improved to a great extent and that is because of clear and easy regulations, enhanced market liquidity and electronic trading systems

Paul & Kapoor (1966) add even more strengths to the list above:

- **Goods and services market:** Thanks to energy resources in the region, the economy of the states in this region is highly dependent on oil and gas and this has increased the dependency of the nations of the region on import of non-oil products. This dependency on non-oil product is a golden opportunity for international firms to investigate the situation in the region. Agricultural, textile and clothing sectors offer unique opportunities for organizations from outside of the region. This has been even further facilitated by the regulations of region's

states as they have slashed the tariff and lifted non-tariff barriers in these segments

- **Agricultural exports:** rapid population growth and financial pressures has limited the capacity of the states in the region to expand domestic agricultural subsidies. This has created a high demand for agricultural products such as wheat, sugar and frozen meat. Thus, the import of these agricultural products is high and on the other hand, the need for processed foods is growing and this means that processed food industry also offers a very good potential in the region
- **Minerals and energy:** again due to abundant natural energy resources in the area, heavy investments have been done on oil and gas sector. As industries usually do not work independently and different industry sectors have to work together to meet the needs of one specific industry, there are a lot of ‘industrial clusters’ in the region. These clusters range from machinery, consultancy, construction, training, mineral to financial and other service industries
- **Services:** excellent opportunities also exist for service sector such as building infrastructure, education, tourism, construction, mining and business services. Indian IT industry is now enjoying these opportunities because of its proximity to the region and also the low-cost labor that it offers to the industries
- **Capital markets:** many Middle Eastern states have been recently emphasizing financial sector reforms such as banks and capital markets to encourage the mobilization of funds from domestic and local markets into foreign and mostly western markets to minimize the associated risks of accumulating the entire capital in just one place

Fawzy (2002) compares the import and export level in different parts of the world one of which is MENA. As can be seen in Figure 21, in case of MENA, the level of imports exceeds the amount of export which is a good sign that the economies of the region are more import-based than export-based. This characteristic is a suitable platform for foreign businesses

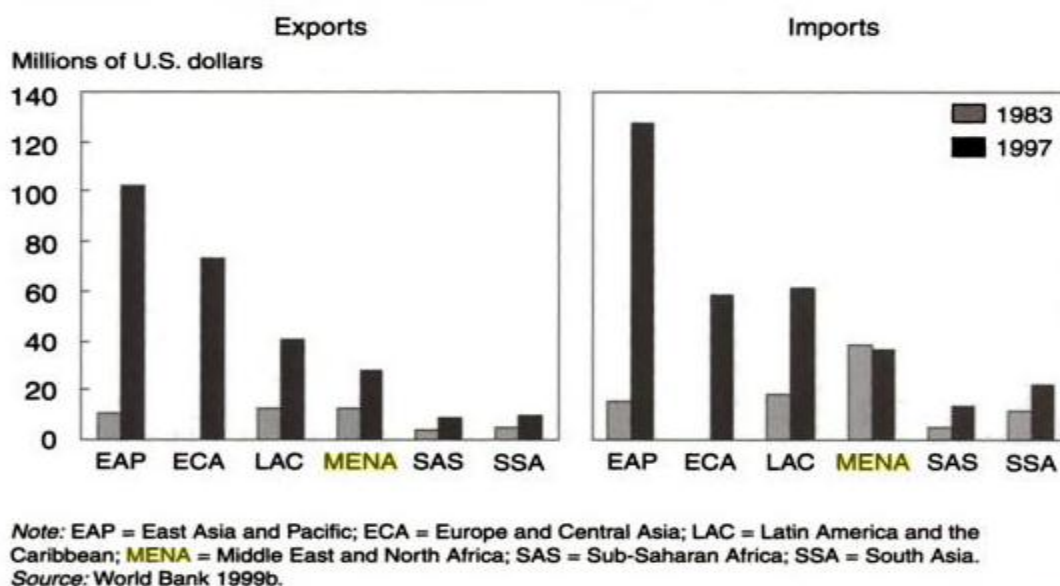


Figure 21. Exports and imports of commercial services (Fawzy, 2002).

It goes without saying that listing all potentials and strengths of the region needs a lot more than what just mentioned above and is definitely way beyond the scope of the thesis. The aim is only to give the reader a picture of what the Middle East is in reality and to make him familiar with the region. Based on what was mentioned before, it has to be said that for sure there is no ideal place on earth for investment which secures the funds at 100% guarantee. Every region has its own benefits and shortcomings. Thus, the next step would be a brief introduction of region's shortcomings and weaknesses which can be considered as obstacles for foreigners' involvement in investment in the region.

The challenges of doing business in the region is highly country-specific which means countries in the region differ in terms of problems and impediments that they create for international firms but here are some general weaknesses that can be attributed to almost all of the states in the region as Kavooosi (2000) lists them:

- The Middle East suffers from lacking a positive business image in the world and generally the region is known as a place in which there is a high degree of economic mismanagement
- Although the region enjoys a high level of transportation infrastructure as mentioned above, it still is not enough. Business expansion and new markets need even more transportation infrastructure
- The other thing which is related to image of the region in the mindset of foreigners is the issue of violence and instability. Of course there have been violence and wars in the region and still are, but it cannot be generalized to the entire region. There are countries within the region that are amongst the most

stable states in the world such as Qatar and Kuwait. This reputation for turbulence and instability is a major obstacle in foreign investment process

- Nowadays in the world, education and literacy play a significant role in the development of a country. These factors are also important in making a good or bad image of a country. The more percentage of educated people in a country, the better image of that country will exist in the minds of people. What the Middle East suffers in this regard is deficiencies in higher education. Generally, the level of higher education in the region is low and in some areas there is a high percentage of illiteracy in the society
- Because of political struggles which have always played vital role in the economic development of countries, economic situation of the region has not been as much as is expected. Although some countries are having a very high level of living standards but there is still a general stagnation and economic deterioration especially since late 1980s due to the political games
- Another important factor is the population growth rate. This element, on one hand, could be considered as an advantage as a growing population means growing demands and needs of the people which in turn means more market demand and business opportunities. On the other hand, if not treated properly, the population growth could be seen as a problem because a high rate of population growth without appropriate infrastructure means a higher rate of unemployment which has its own negative consequences

Devlin (2010) highlights other weaknesses which have been listed below:

- One of the main indices representing the development of a country is the labor productivity of that country. The more productive the labor force is, the better development that country can achieve. As for the Middle East, this index is relatively low compared to other parts of the world and this index has even been decreasing over the past years. Workers in East Asia and the Pacific nearly doubled labor productivity levels over the period of 10 years (1996-2006). Latin America and the Caribbean have increased it by 7% whereas the Middle East workers have done poorly. Productivity per worker was at or above 120% of US levels in 1980 and in the years after that, they declined it so that in 2005 the figure stood at 40% or less
- Although the region takes advantage of vast resources of oil, gas and minerals, it suffers from lack of enough water. The Middle East as a whole has the lowest level of per capita fresh water availability in the world. This has caused a problem which is related to the agricultural land index in the world which says

the agricultural land as a percentage of total land area stood at 23% in 2003-5 which is well below the world average of 35%

- Another characteristic of the Middle Eastern countries is the low level of capital accumulation. Both physical capital (plants, machinery and equipment) and human capital (skills and expertise given to the labor force through education and training) are at low level which is a symptom and the cause of underdevelopment
- In terms of nutrition and health, the Middle East does not possess a very good image in the world. Uncontrolled, unplanned and not-well-taken-care-of growth of population in the region has caused large segments of the population suffer from protein-energy malnutrition and lack of access to drinking water. This has caused to a relatively high level of infant mortality which is ten times higher than the developed countries. Also rates of infections and diseases such tuberculosis, malaria remain relatively high
- Weak institutional structure is another negative element in the region. Factors such as regulatory quality, voice and accountability are low in the countries of the region when compared to other areas of the world. Institutional corruption is almost visible almost everywhere and governments appear to be not too concerned about it. Also dramatically uneven distribution of income and thus high poverty is quite visible as shown in Figure 22.

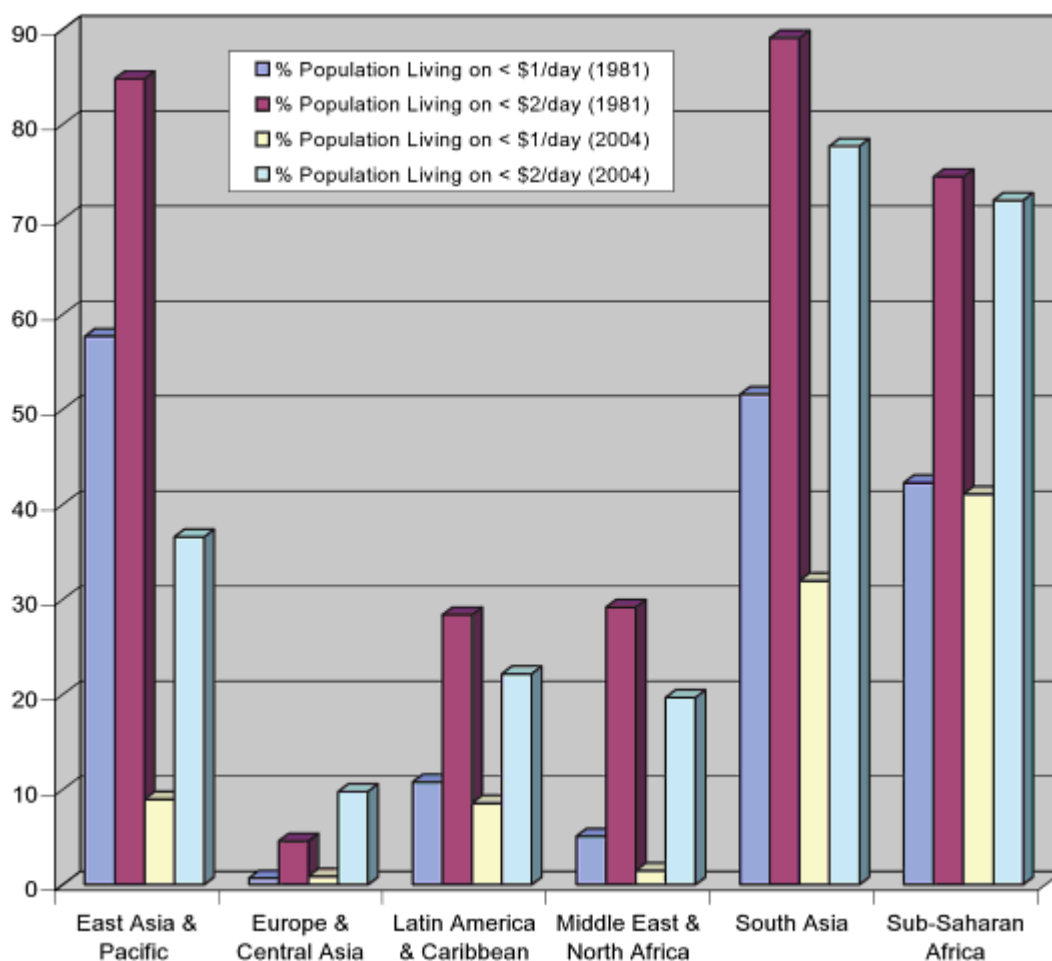


Figure 22. Poverty level in different parts of the world (Devlin, 2010).

As Figure 22 shows, although poverty level in the region is quite low compared to some other parts of the globe such as South Asia and Sub-Saharan Africa, it still is relatively high so that almost 20% of the population in 2004 would live on an income less than 2\$/day.

## 6.2. Market Situation in the Middle East for Project Business: Case Examples

According to UNCTAD World Investment Report (2007), in 2006 FDI inflows to the 14 economies of South West Asia increased by 44%, to \$60 billion which was unprecedented. Privatization of different service sectors continued in 2006, and there were good improvements in the general business atmosphere. The region's strong economic position has encouraged investors from abroad, and high oil prices have been another strong reason to attract more amounts of FDI in oil and gas and also in other related manufacturing industries. Some significant M&As and the privatization of financial services made Turkey the largest recipient in South West Asia, with inflows of

\$20 billion. Saudi Arabia was the second largest with \$18 billion (an increase of 51% over its 2005 levels), followed by the United Arab Emirates, where the free zones attracted a significant share of its FDI inflows. Services remained the dominant sector for FDI in South West Asia, a major proportion of which went to financial services as a result of privatization and liberalization policies of a number of countries in the region. Banks and other financial institutes enjoyed this situation a lot.

There were also several important deals in the telecommunications industries in Jordan. Efforts by the Persian Gulf countries to diversify their production activities beyond oil-related activities succeeded in attracting greater FDI flows into the manufacturing sector. FDI outflows from South West Asia rose by 5% to reach a new high of \$14 billion in 2006, as a result of the high oil prices and the surpluses of the oil-producing countries. Kuwait accounted for the biggest share (89%) of the region's total outward FDI, mainly in the telecommunications industry. Again, according to World Investment Report 2007 by UNCTAD, the value of cross-border M&As by firms from the region totalled \$32 billion, 67% of which involved firms from the United Arab Emirates, the second largest investor from South West Asia.

These promising figures show that the region enjoys a favorable investment environment for foreigners and has been able to attract such considerable amounts of FDI. However, entering the region as a foreign investor is not totally risk-free. It has its own challenges as well. Case examples below demonstrate the challenges of investment in the region by big enterprises.

### **6.2.1. Case example 1: Bushehr Nuclear Power Plant (Iran) – Adopted from Cordesman & Al-Rodhan (2006)**

Bushehr nuclear power plant construction started in the 1970s by Germans in Iran. It was bombed during the war between Iraq and Iran. The new reactor then started to be built by Russians and will be able to use some 90 tons of Russian-supplied enriched uranium. The chronology of building this power plant is as follows:

- **November 1974:** Iran signed an agreement to buy two 1,200 megawatt reactors from Germans
- **August 1975:** construction commences
- **May 1977:** the two reactors were 33% complete
- **April 1979:** the two reactors were 50% complete
- **May 1979:** the two reactors were 77% complete
- **June 1979:** German contractor halts its operation because Iran failed to pay its \$450 million debt. The contractor hands over the control of the project to Iranian side because Iran refused to extend the work permits of the German workers in

Iran. The project was now worth \$5 billion and one of the reactors was 85% complete

- **1979:** Islamic revolution in Iran takes place and this halts the continuation of the construction. The German company refuses to continue and leaves Iran
- **1983:** International Atomic Energy Agency (IAEA) dispatches its inspectors to Iran to visit the site and later it announced it agreed on the co-operation with Iran to terminate the project
- **1990:** Iran begins talks with then Soviet Union about the construction of the plant
- **2002:** political pressure increases from the side of the United States to halt the construction of the power plant. US announces that Iran is aiming to build nuclear weapons in these sites
- **2003:** Iran offers full co-operation with the West and stipulates that there is no intention for building nuclear weapons. It proposes formal negotiations to assure the safety and health of the project and its full commitment and co-operation with international entities responsible for atomic energy
- **2003:** IAEA increases its pressure on Iran and its head says Iran failed to report certain nuclear materials and activities and also says that Iran has breached laws in its project
- **2004:** pressure still is increasing on Iran. IAEA director accuses Iran of not co-operating with international figures. In the same year, Iran removes the seals on the centrifuges and resumes the construction process
- **2005:** Iran offers a formal proposal to IAEA in which it states its full commitment not to pursue weapons of mass destruction.

In the years following the year 2005, political game continues from both sides and the project is yet to be completed although all the contractors have promised to terminate it much earlier. The result is a semi-constructed power plant which still cannot operate and needs a lot of additional engineering from the contractors to be completed and implemented officially.

In this case example, the major issue in the implementation of a project is political aspect of the project. By changing a regime in 1979 in Iran, almost everything changes overnight and politics plays the key role in the project. On one hand, international authorities announce that the power plant is targeted to build nuclear weapons and on the other hand the authorities in Iran has stated several times that this power plant is going to be one a civil energy reactor without any military intentions. The result of all these conflicts is millions of dollars spent so far but no practical outcome achieved. Thus, in projects like this, political game must be taken into consideration. All other aspects of such a project have been handled easily including financial, technical, human



resource and project resources but with all these aspects done, the project is still incomplete which means in this example, politics gains the upper hand.

### **6.2.2. Case example 2: South Pars Offshore Natural Gas Field in Iran – Adopted from ‘Doing business and investing in Iran Guide, 2009’**

South Pars is Iran’s largest natural gas field and is being developed in 28 phases aiming at supplying gas for domestic consumption in Iran, injecting gas into oil fields and export purposes. Geologically this gas field is an extension of Qatar’s 900-Tcf (Trillion cubic foot) North Field and in fact it is a joint gas field between Iran and Qatar which both utilize it. Current estimates say that the gas field contains 280 Tcf or more of natural gas and a large fraction of it is recoverable. It also contains 17 billion barrels of liquids.

South Pars is Iran’s largest project and so far has attracted over \$15 billion in investment but development of the project has been delayed over time due to several reasons. These reasons range from technical ones (such as high levels of mercaptans, foul-smelling sulfur compounds in the gas), contractual and business formalities related to the implementation of the project with foreign contractors (such as controversy over buy-back arrangements) and also political reasons. In this project, political issues play a very key role because the USA imposes a lot of sanctions on Iran which means that this country has the right to buy and utilize only non-US technology. This is a very big damage to the project as most LNG plants around the globe use the processes developed by US companies.

The whole project, during its entire implementation, was done by several companies such as Statoil, Eni and Petropars, LG Engineering and Construction Corp was delayed several times throughout the project but finally completed after several years behind the schedule. It is estimated that the gas obtained from this gas field can earn Iran an average of \$11 billion per annum over 30 years but there is another challenge here. Iran will face stiff competition selling the product given the fact that many other LNG suppliers (such as Oman, Qatar, the UAE) are already strong players in the market, having much of the Far East market under their own control.

### **6.2.3. Case example 3: Iran's Energy deal with China National Offshore Oil Corporation (CNOOC) – Adopted from Ilias (2010).**

China's National Offshore Oil Corporation (CNOOC) was supposed to sign a contract with Iranian partner worth \$16 billion in February 2008. This contract targeted to develop Iran's North Pars gas field and also at the same time to construct a Liquid Natural Gas (LNG) plant. Although the project was supposed to initiate on February 27<sup>th</sup>, 2008, the start of the project was delayed for some unclear reasons. Some analysts are of the opinion that China delayed the contract due to the international reactions towards Iran's nuclear energy program development and was hesitant to finalize the deal. China's fear was that due to the international sanctions on Iran and whoever works with this country as business partner China itself would go under similar sanctions and suffer from international political pressure. Again here, political pressure from international figures, such as United Nations, had a significant impact on the project.

Although the state-owned National Iranian Oil Company (NIOC) and CNOOC signed a memorandum of understanding in December 2006 for the project under which CNOOC would purchase 10 million metric tons per annum of LNG for 25 years, the project itself would never be signed afterwards. In this case, China withdrew from the contract because of US pressures on China's pursuit of the deal with Iran. Consequently, the contract failed and China began searching for alternative suppliers such as Qatar and Australia.

## **6.3. Practical Considerations**

Foreign firms often mistakenly think that doing business in the Middle East region is outside of the law and regulations and most of the times they lack sufficient knowledge about the legal and administrative system in the region they aim to enter and start their business. Often, some contracts fail to conform to the legal and governmental regulations but the foreign companies ignore this fact but later they realize that the contract has been cancelled by the government bodies. Thus, a thorough knowledge of the legal environment is a must for foreign firms.

These rules and regulations are totally different from one country to another, i.e. there is no universal rule for doing business in ALL the countries within the region and the regulations are country-specific. To clarify the situation Kuwait has been chosen as an instance and some of foreign business laws in that country will be discussed as follows. The information about doing business in Kuwait has been adopted from "Kuwait Investment and Business Guide, published by USA International Business Publications in 2007".

It goes without saying that a bid has usually a general procedure which is common all over the world including calling for bids, assessment of the bids and bidders, choosing the winner and finalizing the contract. But below some other important characteristics will be shortly discussed. Some of these steps are as follows:

- Call for tender is issued in the public media and/or transmitted to the bidders as well
- Commercial & Trade Committee (CTC): is a board consisting of at least three people appointed by ministry of commerce. These figures are in charge of technical authenticity of the bids
- Quality assessment of bidders: evaluation of bidders' capability in fulfilling their commitments
- Technical-commercial assessment of bidders: is a process in which the specifications, standards, efficiency, durability and other technical-commercial capabilities of the bidders takes place and the accepted bids are chosen
- Financial assessment: a process in which the most suitable price is chosen amongst all the bids at hand
- Form assessment: a process in which the authenticity of the documentations, signatures and other specifications are verified
- Having chosen the best candidate and verifying the documentations and all other necessary prerequisites of the project, the contract is signed between the bidder and the host region
- In most cases, foreign firms sign contracts under which a local agent undertakes to import all of the project's products in which the agent normally pays thorough letters of credit. In effect, this type of contract gives the agent a local monopoly over importation of such products and in the beginning shifts the possibility of success to the agent. This means that the foreign party has little control over the prices and also the project processes. Thus, it is important that foreign entities first properly investigate the local agent's credentials and get local legal advice on the terms of the agreement
- Most foreign firms insist on "sponsorship contracts" in which a local entity provides logistical assistance to the foreign firm. This type of contract cannot be registered in legal system and what happens in reality is that the local sponsor gives the application form for agency registration to the foreign company to fill in. This form requires basic information and when filled out, functions as an agency contract but with terms not covered by the law
- For both legal and practical reasons, choosing local partner or agent is vital to the project. It is highly important that the authenticity of the local agent be verified beforehand

- All the procurements worth more than KD 5,000 has to be done via Central Tenders Committee of the government and no private firm or entity is legally viable to undertake such a procurement
- Termination of a commercial agreement must be taken into consideration carefully. In this case, the terms mentioned in the contract, are highly important and must be written according to the laws of the judiciary system otherwise, the government will not be considering any violations

The above-mentioned steps are a shortlist of what really happens in reality when a foreign investment is going to be take place in a new region. Again, as mentioned before, this process is valid in Kuwait and it might be completely different in other countries of the region. Of course, the entire process is very comprehensive and detailed but amongst them all, only a few have been chosen to just give the reader a sense of how a typical project is done.

## **7 CONCLUSION**

### **7.1. Responses to the Research Questions**

Foreign Direct Investment (FDI) is a key factor for the lives of millions of workers, families and communities in the developing world. It is also crucial for policymakers in both developing and developed countries as their decisions on this important issue impact the economy of their own nation. Moreover, FDI is known as a field which has a highly proportionate relationship with economic growth and it serves as a very important factor for states in terms of political power and economic power as well. However, these benefits of FDI do not come for free. Governments have to create a stable, peaceful and calm environment so that this environment could attract the attention of investors. Business does not grow and prosper in turmoil and instability. A foreign direct investor is always seeking lucrative opportunities in a new target market and is reluctant to hear about the challenges of doing business in that region.

Every region in the world, as a target market, offers opportunities and challenges as well. This serves right in the case of the Middle East area. This thesis has challenges and opportunities of investment in the Middle East region as its findings as listed in the Table 16. As can be noticed from the table, there are a number of both challenges and opportunities currently in the region and an investor has to take them all into account when considering the investment in the region. In other words, before doing a business, an international firm has to do a thorough risk analysis by considering all these challenges and opportunities and then if appropriate - according to the firm's business specifications – enter the region. In other words, there is no definite “Yes” or “No” answer to this question: ‘Is the Middle East region a competitive place to invest in?’, but the answer to this question depends on a lot of factors such as the nature of the business, the specifications of the firm intending to enter the region, the political situation of the region and the status quo of the time the question is asked. Business is dynamic not static and the political situation of the world is changing all the time thus, the answer to the above-mentioned question varies from one time to another and also from one case to another.

Nowadays many countries in the world have switched to absorption of foreign investments due to insufficient internal resources. Foreign Direct Investment (FDI), which is the focus of this thesis, is a type of investment which is performed in another country aiming at gaining profit from the business activities by taking advantage of the facilities and benefits that the host country provides for foreign investors. Research has

proved that Foreign Direct Investment, done in any form or for any reason, has significant positive effects on the macroeconomic indices of the host country such as reduction in interest rate, reduction in currency exchange rates, increase in economic growth, increase in tax revenues of the government, reduction in the debts of the government, improvement in income distribution, technology transfer, job creation, expansion of export and reduction in import.

Because of all these benefits that FDI brings with itself, a great number of firms have decided to move from their local markets towards international markets and enter global economy. This process has even speeded up during past years due to the ever-increasing competition in the business world. The process of globalization and the emergence of the concepts such as 'global village' have further intensified this competition. As a result, today the key to survival of a firm is to go international. Bearing this reality in mind, firms from all over the world have started struggling to seek new target markets so that they can enter and run a profitable business there.

BRIC countries have been one of the most favorite targets for international firms and the research reveals that during past years these countries have absorbed a huge number of international firms. This has enabled them to expand their economy. However, BRIC countries are not the only favorable places on earth. There are other profitable markets in the world as well which have been neglected to a great extent. The Middle East region is one of them.

The Middle East region offers some golden opportunities which are unique only to this region. Beside these unique opportunities, it has some investment risks or challenges as well. This thesis has tried to address the opportunities and challenges of entering the Middle East market and doing business there. The thesis has provided answers to the following questions which have been shortlisted in Table 15:

- What kinds of features distinguish the Middle East region from other parts of the world that make it attractive for foreign companies to come and invest in the region?
- What are the business opportunities in this region?
- What obstacles and challenges do foreign firms face when entering this region's market?

*Table 15. Summary of business opportunities and challenges in the Middle East region*

| <b>Opportunities</b>   | <b>Challenges</b>  |
|--|--|
| Possessing vast resources of oil and gas   | Lacking a positive business image in the world   |
| Having access to international waters  | Current transportation system does not support the business expansion and emerging markets in the region |
| The Persian Gulf, the most recognized body of water is located in the region                                 | There is an image of violence and instability about the region worldwide                                 |
| World's best airlines operate in the region  | Low level of education and literacy  |
| A high level of disposable income in a large percentage of the population                                    | Economic development of the region is not as much as would be expected due to political instability      |
| Highly world-class and professional business sector already operate there                                    | Population growth has not been managed efficiently and effectively                                       |
| Home to many international well-known banks  | High rate of unemployment in the region  |
| Many international significant entities are based in the region: OPEC, GCC, ECO                              | Labor productivity index is low as compared to other parts of the globe                                  |
| Strategic location suited to EU e.g. flights, time zones, access to North Africa, Mediterranean Sea and Asia | The region lacks enough water for both irrigation and drinking purposes                                  |
| Presence of important ports in the Persian Gulf eases the continuous stream of vessels                       | Low level of capital accumulation (equipment and human capital) by the region's states                   |
| Increasing measures of region's states to support international business                                     | Nutrition and health are not in a good state   |

|   |  |
|---|--|
| Clear and easy regulations, enhanced market liquidity and electronic trading systems are becoming more common | Weak institutional structure   |
| Goods and services industries are still limping due to high dependence on oil and gas revenues                | Too much bureaucracy and corruption especially in gov't sectors                                    |
| High demand for agricultural products as the region lacks appropriate lands for farming                       | High influence of politics in business decisions in the region                                     |
| High potential for all the industries involved in energy industry cluster                                     | High level of competition among the countries in the region due to similar advantages they possess |
| Excellent opportunities for service industry such as tourism and education                                    |  |
| Ever-increasing capital outflow to ensure the security and safety of capital                                  |  |
| Imports level are higher compared to exports  |  |

Table 15 summarizes the general opportunities and challenges on the way of foreign business to enter this region. Of course these factors represent a holistic perspective about the status quo of the region. The fact is that for each business, depending on its specifications, these factors alter i.e. the factors are case-specific. For example, suffering from dry lands with not enough access to healthy water, might be an issue for some businesses (e.g. agricultural sectors) but for another businesses such as IT companies this characteristic may not be a big issue. Thus, these findings provide a general guideline for foreign firms when they aim at entering into business in the Middle East area and it is quite obvious that in each specific case, the firm has to conduct a thorough and comprehensive study in order to analyze the situation and make the final decision. Risk management study is one of the most important and highly-recommended measures which is suggested in these situations.

Although the thesis has answered to the above questions, there is still room for further studies in this regard which can be developed in the future research.



## **7.2. Limitations and Ideas for Future Research**

Findings of this thesis were the challenges and opportunities of doing business in the Middle East region but other problems in this regard are suggested to be addressed in future research. One field of research could be how to overcome these existing challenges? They range from political to geographical and each of them could be resolved in a sensible manner. Moreover, there are some measures that can be taken to ease the process of investment more than before. These are the measures that can only be done by governments such as regulations. In other words, how governments can facilitate the investment process and prepare the appropriate business infrastructure for FDI so that foreigners would be interested in investing?

Also another suggested field of study is how to make the most of the existing opportunities and how to further develop the existing ones in order to create an even more attractive environment? Business environment is dynamic and opportunities change over time thus, trying to preserve the opportunities and even develop them could be a very interesting field for future research.

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