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How could Strategic CSR have helped Dubai World and then Dubai from collapsing?

Dr. Michael Hopkins, Chair, MHC International Ltd, www.mhcinternational.com, December 13 2009

Dubai's stock market fell by 6% on Monday 7 Dec and again on 8 Dec … Dubai's finance minister said the government would not sell any assets to help the emirate's investment vehicle, Dubai World, meet its debts. [BBC, Dec 7th 2009] Emirate's mistakes could fill a 'fool's guide' on how not to preserve its reputation [Andrew England, Financial Times, Dec 12 2009]

Introduction

Strategic CSR[1] goes much, much, further than purely philanthropy. In fact, it is mystifying how the concept and practice of CSR which aims to provide a strategic model for business can be so confused with charity[2]. I have often argued that CSR (or CR as is common in the USA) is a powerful tool to create profits while ensuring a sustainable and responsible business model[3].

My frustration with the superficial concerns of company responsibility was well illustrated by the collapse of Enron, Parmalat, WorldCom and, more recently, Lehman Brothers. However, our efforts to convince Lehman Brothers were rebuffed as, indeed, were my own efforts to convince Dubai World, a recent near disaster, to adopt a more powerful strategic CSR model for their business than what they actually did in practice.

It so happens that I have been a frequent visitor to the Gulf, and to Dubai in particular, to promote the idea of strategic Corporate Social Responsibility, including discussions with Dubai World at the heart of the current storm. There I met with, the Secretary General of Dubai World several times during 2008. The company had been rattled by the US refusal to allow it to take a controlling share in US ports. The fear in the US was that terrorism could then enter through the back door with Gulf Arabs in charge. On closer inspection, that fear is totally groundless since Dubai is much more exposed to potential terrorism having, for instance, a land border with Saudi Arabia and a short

[1] See Michael Hopkins' Monthly Feature of October 2009 http://www.mhcinternational.com/corporate-social-responsibility/publications/csr-strategy.html)

[2] See Michael Hopkins http://www.mhcinternational.com/corporate-social-responsibility/publications/corporations-should-abandon-philanthropy-and-concentrate-on-csr.html

[3] see, for example, Michael Hopkins: 'The Planetary Bargain; CSR Matters, Earthscan, London & New York, 2003.

expanse of sea between its coast and Iran, and therefore highly reliant on the goodwill of the USA to protect it. The sale, nevertheless, didn't go through.

I had also initiated the Arabia CSR awards in Dubai[4] to encourage current, and future, applicants to adopt a fully-fledged CSR strategy that would help them achieve higher rankings in the awards while, at the same time, giving them the impetus to action a greatly improved business model.

Dubai World

Dubai World is Dubai's flag bearer in global investments. As a quasi Government owned holding company of nine major sub-divisions it operates a highly diversified spectrum of industrial segments and plays a major role in the emirate's rapid economic growth.

Dubai World's investment spans four strategic growth area: Transport & Logistics, Drydocks & Maritime, Urban Development and Investment & Financial Services. Its portfolio comprises some of the world's best known companies and a number of outstanding projects: these include **DP World**, one of the largest marine terminal operators in the world; **Drydocks World** & **Dubai Maritime City** designed to turn Dubai into a major ship-building and maritime hub; **Economic Zones World** which operates several duty free zones around the world, including **Jafza** and **TechnoPark** in Dubai; and **Nakheel** the property developer behind iconic projects such as **The Palm Islands** and **The World** among others.

The company's business strategy is driven by a combination of, they say, 'pragmatic acquisitions and prudent investments, designed to deliver real, measurable results to all its stakeholders'. As one of the world's largest corporations, Dubai World states on its website that it[5]:

> 'embodies a commitment to work practices that are in harmony with corporate goals and environmental conservation and social responsibility … Dubai World's commitment to corporate social responsibility is reflected in its various social campaigns in education, healthcare, environment, employee welfare and the society in which it operates.'

To explore the application of the CSR strategic concept further let's look at that part of **Dubai World** where the problems were highest – the construction sector. There **Dubai**

[4] http://arabiacsrawards.com accessed Dec 3 2009

[5] http://www.dubaiworld.ae/en/About%20Us/Index.html accessed Dec 9 2009

World's interest is in its sub-holding known as Nakheel which, in turn according to its website[6], is 'the world's largest privately held real estate company' and the developer of the Palm islands - Palm Jumeirah, Palm Deira, and Palm Jebel Ali all in Dubai and all visible from space. In 2008, **Nakheel** reported that it had a portfolio in excess of two billion square feet of land with a value of developments it estimated to be around US $80 billion.

Nakheel and CSR

In its 2008 submission to the Arabia CSR awards, **Nakheel** wrote that it had set CSR (without defining what it meant by CSR) as the 'foundation of its approach to business'. and 'since our inception, the aspirations of our CSR program have become more ambitious and significant achievements have followed.' These were listed as:

- appointed senior management personnel that are highly experienced in CSR and committed to leading and inspiring our people in this area
- created and implemented robust and high quality CSR management processes that are benchmarked against international best practice (eg **Nakheel'**s Sustainability Ideals and Occupational Health and Safety and Environmental Management system certifications).
- implemented many specific tangible CSR initiatives – both at the corporate level (eg the AED 500 Million Blue Communities initiative; United Nations University) and project level (eg wastewater capture and reuse at many of our master planned residential communities - such as Palm Jumeirah).

They noted that their key CSR achievements to date were:

1. Sustainability Baseline Assessment Report and a Strategic Sustainability Framework: a strategic action plan that set out a series of prioritized actions to significantly accelerate **Nakheel'**s CSR performance.

2. Corporate Division and Project Sustainability Action Plans: documents that assign accountability and timeframes to the specific CSR actions for all **Nakheel** functional groups. In 2007, a total of 18 Sustainability Action Plans were prepared containing 950 actions.

[6] http://www.dubaiworld.ae/en/Our%20Portfolio/Urban%20Development/bu_nakheel_ar.html accessed Dec 7 2009

3. **Nakheel** Green Office Operational Guidelines: required all corporate and project offices to be designed and operated in a manner that reduced their ongoing environmental impact.

4. A Sustainability Department to develop and manage the implementation of **Nakheel'**s overall CSR program.

5. A Senior General Manager appointed to Sustainability, Safety, Health & Environment to provide day-to-day leadership for **Nakheel**'s sustainability program.

6. A Sustainability Champions Forum which has a monthly meeting to bring together the 11 sustainability managers and officers across the company to discuss sustainability progress, share best practice information and promote professional development in sustainability.

7. A Sustainability Awareness Training Package that aimed to educate and inspire its people and encourage innovative approaches to sustainability across their corporate divisions and projects.

Nakheel Planned CSR actions in 2008 were:

- to develop sustainability key performance indicators to lead and measure CSR performance.

- Sustainability Action Plans that required corporate divisions and projects to prepare comprehensive plans containing actions that deliver outcomes against the sustainability key performance indicators (eg % of Nakheel offices with a Green Office Program in place).

- to incorporate sustainability considerations into individual's performance agreements: introduce all staff to Nakheel's culture of sustainability through an induction and ongoing awareness programs with personal financial incentives for delivering sustainability outcomes.

- A comprehensive engagement and ongoing dialogue with its partners and key stakeholders: recognizing that (1) CSR success is partially dependent on the skills, capacity and commitment of its supply chain; and (2) the importance of understanding and addressing the expectations and concerns of key stakeholders including its people, customers, regulators, NGOs, and government organizations.

Finally, Nakheel stated that it had achieved tangible results to date, had the know-how, passion, commitment and drive to ensure it is recognized as an industry leader in CSR, and claimed that its CSR performance 'is vital to our future success'.

What could Nakheel have done better and how would that have prevented their near collapse?

It does seem, reading the above, that many of the elements of a CSR strategy were followed. So where did they fail? Five areas were problematical. First, the issue of transparency in operations. It is clear that despite stating the need to carry out all sorts of dialogue, when the crunch time came the company shut up like a clam. When transparency was needed in discussions with stakeholders, especially their foreign creditors, all that was forthcoming was the announcement of a postponement for six months of repaying interest payments to its creditors. This led to worries right across the world that the sovereign funds of UAE would not, as previously, assumed, support Dubai World, including its most indebted holding - Nakheel. The fear was that this would trigger a domino effect right through emerging markets.

Second, an over-emphasis on sustainability without a clear definition implied that what they really meant was looking at environmental impacts of its construction projects and not very much more.

Third, the lack of a clear understanding of CSR led to a fuzzy interpretation of CSR that resulted in mainly giving funds to charitable projects without analyzing their sustainability and bottom line impacts.

Fourth the limited and vague list of key stakeholders ignored most of the key ones – creditors, directors, managers, rulers, media. In particular, the well-known abuse of workers from the Indian sub-continent seemed not to be a concern.

Fifth, the increasingly fragile economic conditions that a transparent stakeholder dialogue would have revealed were largely brushed under the carpet due to the implicit assumption[7] that Sheikh Mohammed, the Prime Minister of UAE and Ruler of Dubai, would guarantee any promise made to potential real estate buyers[8]. Such is the power of unquestioned hearsay about royalty in the Gulf this assumption was readily accepted.

[7] Andrew England in Abu Dhabi and Simeon Kerr in Dubai 'Abu Dhabi will not see 'small brother' fail' BBC November 27 2009

[8] I had heard that myself when negotiating to buy a property in Dubai Marina some 5 years ago and the marketing story ran that 'residency would be assured to foreigners who would have the same property rights as locals.' When asked to see the copy of the law guaranteeing that, it was not forthcoming, nor was my investment!

Since the full scale of Dubai's huge debt mountain hit home late last year, many investors who had sunk billions of dollars into the emirate's extravagant projects turned their heads to the UAE's capital in Abu Dhabi for reassurance. For years, as Dubai built one grandiose scheme after another there was the assumption – unwritten but widely believed – that Abu Dhabi would be on hand to pick up the pieces should the Dubai Emirate's bubble burst.

While Dubai has grabbed the headlines, Abu Dhabi is the undisputed financial heavyweight. Yet all the UAE's seven emirates enjoy – and pride themselves on – a large degree of autonomy, while Abu Dhabi has no legal liability to support its poorer neighbours. Ultimately, though, there is consensus that Abu Dhabi will not see Dubai fail.

CSR is defined as 'treating your key stakeholders in a responsible manner'. It is only conjecture that a fully-fledged CSR stakeholder analysis and dialogue coupled with transparency, would have prevented the almost collapse of **Dubai World** that shook the world's stock markets and left Dubai's reputation as a financial powerhouse in tatters.

However, my dialogue with **Dubai World** led me to believe that CSR was a minor issue, buried away in a small building in its compliance department in a less than glamorous industrial estate some miles away from glittering Dubai and the equally mesmerizing Dubai Financial Centre. The latter location, was where all the serious business was carried out. CSR, and the allocations for the odd miscellaneous charity, could be unearthed from time to time. Sustainability, the more obvious treatment of environmental issues had, and has, a more prominent role in the greening of **Dubai World**.

Certainly, CSR advocates can blame themselves that they do not have such an easily digestible concept as greening and global warming to back up their ideas. The less digestible, more invisible social and economic concepts such as branding, productivity, poverty, worker exploitation, corruption, greed, dialogue, openness, … are heavier to implement and easier to avoid. Yet therein lies the rumblings of eventual collapse.

How could this be avoided? Of course, the CSR points made here are mainly conjecture since a greatly improved CSR stakeholder dialogue within Dubai World and **Nakheel,** in particular, may not have been able to stand in the way of the roller-coaster of heady investment and the ponzi scheme of apartment. In that scheme, foreigners and locals could put 10% of the price down before a brick had been laid, with further 10% deposits at regular intervals. Reports of Saudi investors buying dozens of

appartments at a time, selling them in the face of rising prices and using the profits to purchase even more properties were legendary. One didn't have to look far to see literally hundreds of 'luxury' appartment buildings being constructed in Dubai to realize it all looked very strange indeed.

A serious reflection on the bubble economy being constructed, with a close analysis of the risks involved that was then open to discussion with stakeholders was not forthcoming. Yet, a full-fledged CSR stakeholder analysis, could well have shaken the bubble, reduced its size and brought wiser heads to the fore.

Let us look at what I suspect was happening among the key stakeholders of **Nakheel** before and after the bubble. Chart 1 lists a key stakeholders of **Nakheel** and places them in a chart where the vertical axis represents the power of the stakeholder in the company, while the horizontal axis represents the impact of each stakeholder on **Nakheel's** bottom line. The graphs have been created by the author and an in-depth stakeholder dialogue would, no doubt, have led to more precision.

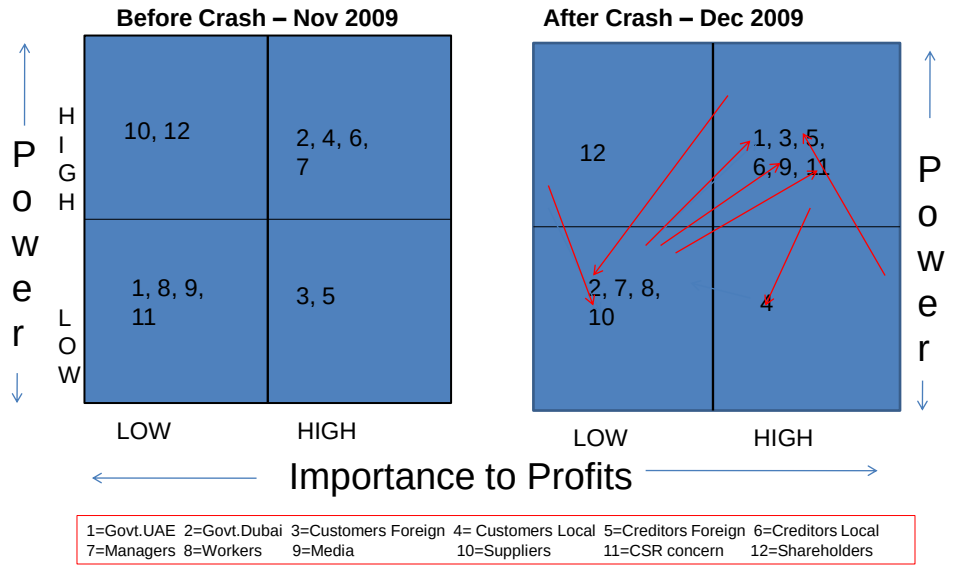
Chart 1: Stakeholder Diagram for Nakheel of Dubai World



I have chosen 11 key stakeholders for **Nakheel**. Note that, as above, Nakheel considered 'their people, customers, regulators, NGOs, and government organizations'. I subsume regulators under Government while splitting up the two different influences of the national Government – the UAE – and the local Government Dubai. The UAE is dominated by fabulously rich Abu Dhabi and the family there while Dubai is dominated by their powerful family….headed by Sheikh Mohamed. Note that I haven't included

NGOs directly but subsume them under 'media'. I have also, unusually, split up foreign and domestic (including other Gulf countries such as Saudi Arabia who invested heavily in the Dubai property boom) creditors.

Chart 2: Stakeholder Map – Before and After



The before and after schematic in Chart 2 makes interesting, if not a little complicated, reading. CSR (No.11) has gone from low power and importance to the high segment because there will be increased calls for legislation while an improved strategy would be to state, voluntarily, exactly what CSR initiatives will be done to reduce pressure – obvious actions are more transparency, better treatment of workers, improved risk and reputation analysis. Note, too, the rise in prominence of local creditors (6) and Government especially Abu Dhabi (1) which before had been assumed to intervene if problems occurred but had low influence and importance.

Could such a stakeholder map and the associated proper dialogues have helped prevent the collapse? Possibly. But that would have assumed that some of the tough decisions on stakeholders and dialogue with the powerful ruling families would have been implemented and the discussion made more transparent. Should **Nakheel** survive we could expect to see many changes. At time of writing the other parts of **Dubai World** that contain its ports, airports, hotels, financial services etc. are likely to survive simply because they have enough assets.

Conclusion

Clearly, only lip service was ever paid to CSR and a property boom was allowed (as in other parts of the world) to get completely out of control. It is probable that Dubai World followed the same CSR steps as Nakheel but these are not revealed. The property collapse that caused the problems for Nakheel and then its holding company Dubai World are there to see today. I am not happy that my advice to Dubai World to run workshops for its staff on a full-fledged CSR strategy was ignored, since saying 'I told you so' gives me no satisfaction. But, perhaps some of the lessons learned from Nakheel will lead to CSR to be taken more seriously in Nakheel (if it survives), Dubai World and further afield in the Gulf from now on. There is true concern in large companies across the Gulf about doing the 'right thing' and helping disadvantaged people. But these companies must build upon their initial CSR attempts that have emphasized non-sustainable philanthropy and included, in dialogue, only a few stakeholders with little power. As Nakheel demonstrated, this limited CSR is not going to help resolve company problems in the near future. What they now need to do is to adopt a full-fledged CSR strategy that encompasses all key stakeholders and make their deliberations transparent and public.

[Thanks to Ivor Hopkins for comments and suggestions on an earlier draft]