

Interview

Emerging Trends in Europe and the Middle East

An Interview with Mark Otty,
Chairman, Ernst & Young U.K. and
Managing Partner, Northern Europe, Middle East, India, and Africa, Ernst & Young



Mark Otty

EDITORS' NOTE Mark Otty joined Ernst & Young as an audit trainee in his native South Africa in 1988, after graduating from Witwatersrand University with degrees in accounting and commerce. Otty moved to corporate finance, and spent a year working with the firm in Canada. He returned to South Africa in 1995, when he was made a partner. Otty held leadership roles in both the corporate finance and management consulting practices, before being promoted to Deputy Chairman South Africa. He moved to London in 2001, and held a number of leadership roles before being elected as the youngest ever Chairman in 2006.

COMPANY BRIEF Ernst & Young (www.ey.com), a global leader in professional services, is committed to enhancing the public's trust in professional services firms and in the quality of financial reporting through the pursuit of the highest levels of integrity, quality, and professionalism. Its 130,000 people in 140 countries provide a range of sophisticated services centered on its core competencies of auditing, accounting, tax, and transactions.

How does your international experience condition you as a leader to lead Ernst & Young [EY] in your region?

Having lived and worked in emerging markets, I have an appreciation for how they work. That's really helpful as the emerging markets become more important on the global stage.

Emerging markets move incredibly quickly. Decisions are made fast. There's a real entrepreneurial flair in many of the emerging markets and so having grown up in that sort of environment, you become very familiar and comfortable with that style of working.

In many of the emerging markets, relationships are really important. That's something that was part of my upbringing. I try to spend time understanding what it is that motivates people. When you come out of one cultural environment and get put into another, you're forced to take time to understand people there. That creates a natural tendency to try to understand why people do what they do. Having lived and worked in different countries, I've come to appreciate the power of diversity. If you spend all your life in one market, there is a natural tendency to look for people around you who are the same as you. When you've had the discomfort of being dropped into different markets, you learn the power of diversity in teams, and diversity in groups of people.

You oversee a region spanning across Europe in the west, Africa in the south, the Middle East, and India to the east. What are some of the top trends you see and how are they affecting the allocation of capital?

At a very basic level, what we've seen over a number of years is that the developed world has been acquiring either natural resources or manufactured output from the developing world. We're seeing a significant flow of funds stemming from the acquisition of oil from the Middle East by the Western world.

What is rapidly becoming apparent is the scale of capital that is moving through these purchases. We believe that, today, in the Middle East there is probably \$2.5 trillion in capital sitting in the hands of sovereign wealth funds or wealthy individuals. The question is, how fast is that going to continue to grow? Based on the economic projections I've seen, which peg oil at \$50 a barrel for the next four years, that fund base will double – to just over \$5 trillion over four years. And as we all know, oil is sitting at \$100 a barrel today. So there is significant potential growth in capital.

But we're also seeing a shift in the way that that capital is being used. Whereas in the past, a significant portion of that capital went into U.S. Treasury instruments, over the past six months to a year, we've seen an increasing appetite for the acquisition of significant stakes in what I

would call typical Western corporate. So what started with a flow of capital is now increasingly translating into a shift in economic ownership.

What are the implications for the wider global business community, and especially Ernst & Young clients?

It creates different opportunities and challenges for different parts of the market. For example, for private equity or banks, it presents an alternative source of funds. But over the long term, it suggests that there is a significant shift taking place in the balance of power. For many corporates that have typically had a view of the domestic market in the developed world, there is a recognition that we need to be cognizant of the extent of change taking place and we need to make sure that we are tapping into global markets.

What are common misconceptions about emerging markets in the Middle East?

The first thing is that people don't appreciate the scale and the strength of that market. For example, there has been an awful lot of excitement over the past six months about the acquisition of equity shares in U.S. or European banks. Based on the numbers I've seen, \$84 billion has been invested from sovereign wealth funds into Western corporations over the past six months, and that's just the high-profile deals. If there is roughly \$2 trillion to \$2.5 trillion sitting in those funds today, then that's just a drop in the ocean. I don't think people recognize the significance of the scale of capital that exists in markets like the Middle East, China, and Singapore. It is enormous.

This seems to be the part of the cycle where protectionist forces take root and align themselves against foreign investment.

Yes. I think that is probably bred out of uncertainty and insecurity, particularly when there is, in many cases, a government link to the funds. So people are naturally questioning their long-term plans and ambitions.

Will those protectionist forces or economic forces ultimately prevail?

We need to have open markets and we need to create the freedom within the markets that allows for mobility of capital. I'm sure that we will see a greater level of transparency in the funds as a result. It's a bit like the private equity industry, where it evolved and people recognized that they were having a bigger and bigger impact on the economy. As a consequence they became more transparent with their objectives

and their plans. And I'm sure there will be greater transparency from the bulk of the sovereign wealth funds.

How is Ernst & Young set up to help clients navigate this market transformation?

The reality is that you have this environment of cross-border acquisitions, consolidations, and capital flows, so we realized the need to create an organization that mirrors the activities of our clients and one that is truly globally integrated. That's why we created areas like the ones that I lead, which is Northern Europe, the Middle East, India, and Africa. We will make the best use of the resources that we have throughout these areas to meet the needs and opportunities of our clients. We are investing significantly in emerging markets with the result that in a place like the Middle East we have 45 percent market share there today.

We have tremendous depth and breadth as well as capacity on the playing field in the Middle East. We understand the market. We've got strong relationships with the key players. So as connections start to emerge between those key players in the Middle East and corporate entities in the developed world, we know these people: We have strong relationships and we understand how they work. So we can support our clients not only by providing them with an understanding of what's going on in the marketplace, but by actually making the connections and supporting them.

Ernst & Young has a tremendous presence in the private equity playing field. Are you looking to develop the same kind of presence with sovereign wealth funds? Is the offering different?

The offering is slightly different. First of all, the relationship is really important. And second, if there's a key difference, it's the speed at which these funds move. So what we've seen, in a very public way, over the course of the past six months is actually fairly typical of the way that these funds move. They don't take weeks of negotiation or extended periods of due diligence. They have the capacity and the confidence to move very quickly. So we, as an organization, need to be able to move at the pace that they want to move.

Do you think the industrial, developed markets are prepared for the challenge that will come from countries such as India?

All of us need to better appreciate the extent of rebalancing that is taking place. One area where developed countries could better prepare is in understanding emerging markets' desire and appetite to transact with other emerging markets. A very good example of this is that China is investing enormous amounts in Africa. It reflects the country's willingness to take a long-term view. It's leaders recognize that they desperately need things like minerals – iron ore is a great example – to continue to generate the growth in their economy that they need. Strong relationships have been formed between the emerging markets, often to the exclusion of the developed markets. I don't see any of the Western markets investing in Africa today at anything like the scale of China's investments. You have to ask, what is the long-term consequence of that?

The Western world really needs to get in

on the act, because otherwise there is a danger that the opportunity will pass. Whether it's driven by democracy or corporate reporting, we have a much greater tendency to focus on short-term decisions, whereas some of these emerging markets are thinking much more about the long term. We have to look at the potential power that exists.

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What does the rise of emerging markets mean, from a sustainability perspective, in terms of environmental responsibility?

It represents an enormous challenge for us as a world. As I engage with business leaders and government leaders in places like India, I can understand why they say that poverty is their number-one priority. It's not the environment. But the world simply cannot cope with a level of emissions that matches the Western world on a per person basis. So I believe that as a Western society, we've got to invest, we've got to show real leadership, we've got to show real responsibility, and we've got to engage with the developing markets in a way that clearly shows that we're supporting them and we're responding to multiple priorities.

The way we do that as consumers and individuals is to take responsibility for the environmental consequences of our actions. As leaders, the way we show our leadership is through providing solutions to developing countries that allow them to continue to expand their economies in more sustainable ways.

How much can we count on corporate leadership to meet these challenges?

We have to be able to count on corporate leadership. There are a number of dimensions to that. The first one is that we've got to help our consumers understand the true cost of what it is they're buying from us. We need to think about how we're pricing in the cost of the environmental consequence of what we're selling. The second part is that we, as corporations, have an opportunity to engage with a lot of people who are ultimately consumers. What I'm doing with our people is trying to provide

an understanding that allows them to make responsible decisions that impact their day-to-day lives. And, at the same time, we as an organization are taking steps that will help us reduce our emissions and the environmental consequences of what we do.

Are your corporate clients expressing an awareness that this dialogue is moving from one of social responsibility to one of profitability?

Absolutely. Certainly here in the U.K., and in places like Scandinavia, most corporations would say that this is one of the items at the top of their business agendas. There is a real interest in understanding what is going on here and in talking about how the business community can respond to what is a very big challenge.

How is EY set up to service clients who are pushing forward in this arena?

There are a number of key elements. One is focused on providing the information that allows people to make better informed decisions. Another would be helping our clients to make decisions around their supply chains, around how they develop the products that they take to market, and understanding the key environmental costs of what they're doing. We are very involved in supporting what I would call "green activities" in the market. Alternative energy would be a good example. We're supporting private equity funds that are specifically focused on investing in organizations that have a particular green focus. The traditional services that we provide are becoming particularly relevant in this sort of debate. So as companies look to work together to reduce the environmental impact of their production, or their business models in general, we're able to help them develop those models and solutions.

You ran the London Marathon in 3:12. That kind of time must require a disciplined workout regimen.

Not really. I often joke about relying on muscle memory these days. I try not to have a regimented regime, but whenever I can grab a moment, I go out and have a run. If there's a routine, it's hitting the roads early in the morning. I've always got a pair of trainers with me.

You were recently voted Most Inspirational Leader by your own people in the Best Companies To Work For index, which is featured in the *Sunday Times*. How do you inspire people?

I don't know that I have any method. At the end of the day, it comes down to engaging with our people, sharing with them my passion for what we do and why I believe what we do is important, as well as trying to create opportunities for them to realize their potential. We have wonderful people at EY. I think many of them join our organization because they feel it's a way of accelerating their own personal development. So I focus on finding a way to help that really enhances that opportunity to develop as a person, and I recognize that everybody is truly different. I appreciate diversity and encourage it, and recognize that different people make different contributions. On some level, it's also about demonstrating passion, demonstrating energy and enthusiasm, and being positive about what we do and why we do it. I don't think there's any science to it. ●