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# An essential cultural approach to successful market entry in Arabian Gulf states

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## Why this paper?

The author of this paper has lived permanently in the United Arab Emirates (specifically in Dubai) for 19 years. He has witnessed dramatic growth and economic expansion but also the occasional downturns caused by global financial headwinds which no country can escape.

What he has also seen is an influx of foreign companies seeking to enter the markets of the Arabian Gulf Cooperation Council states (the “GCC”) as their domestic markets suffer turmoil or as they simply see the GCC as a new and profitable market for their services.

Unfortunately, for many of these companies their efforts ended in failure, often with significant expenses incurred along the way.

This paper will explore the reasons for such failures in terms of **business** and **social** cultural understanding and explain what steps foreign companies who wish to expand into the GCC should follow in order to succeed.

## About the author

The author of this paper has 34 years’ experience across all forms of insurance, including health insurance, in many countries. His last 10 years have been specifically focused on health system financing in developing countries in the Middle East and Africa. The author’s work has included working for a “Big 4” advisory firm, Dubai government (where he was a leading figure in the development and implementation of the Health Insurance Law) and providing *pro bono* advice to other regulators in the Middle East and Africa. He has also provided advisory and consulting services in health system financing and regulation to clients of global consulting companies.

During his 19 years in the Middle East he has developed an extensive network of both government and commercial contacts which he uses to support companies seeking to enter the GCC market.

## Limitations on scope

This paper focuses primarily on the countries that form the Arabian Gulf Cooperation Council (GCC) and covers the challenges that foreign companies face in their market entry strategies from a perspective of simply not understanding local markets, local business influences and local business culture. But it also provides advice on how to overcome these challenges.

## Accreditation

All views expressed and statements made in this paper (unless otherwise specifically referenced) are those of its author.

## A brief introduction

### What is the Arabian Gulf Cooperation Council?

The full English name is Cooperation Council for the Arab States of the Gulf (CCASG), also referred to as the Arabian Gulf Cooperation Council (AGCC). It was established on 26 May 1981. All six GCC or Gulf countries have part or all of their coastline on the Arabian Gulf which is the body of water which lies between the Arabian Peninsula and Iran. It is mainly a body which discusses matters of mutual interest such as trade, economy and sometimes geopolitical economics. There has been intermittent discussion about creating a single currency and a more formal “union” but nothing has ever followed such discussions.

The first thing to know is that is polite to use the term Arabian and not Persian Gulf when doing business in the region.

### Why are companies so interested in GCC markets?

Firstly, there is wealth in these countries, some of which still have ample oil or natural gas reserves while others offer international business hubs. Investment, both internal and foreign direct investment, is significant with continuing infrastructure projects. GCC countries tend to outperform other countries in terms of GDP growth.

Secondly, location and international transport make most major global markets from London to Singapore accessible within 8 hours.

Thirdly, whilst not tax-free jurisdictions, lack of personal income tax and low or no corporation tax also make GCC countries attractive to individuals and companies. But it should be borne in mind that Oman has introduced income tax for certain high earning foreigners, that GCC countries generally may begin to raise corporation tax to the 15% level required by OECD and that most countries levy other forms of indirect “taxes” such as government fees, road tolls, VAT, housing fees and others.

Fourthly, safety and security play a large part in individual choice to live in GCC countries. Security cameras are ubiquitous and crime rates extremely low. People are quite comfortable leaving their mobile phones in a bar to visit the bathroom knowing it will still be there when they return. However, some would say that this comes at a price, the price being acceptance of living in an autocracy with little say in affairs of state.

### Why have so many failed?

There are many reasons for failed market entry attempts which include a lack of understanding of local business ownership structures, cross-holdings, family owned conglomerates and sovereign wealth fund investments and influence.

In addition, a lack of understanding of local business models, business licensing and the benefits of a physical presence in-country are contributing factors as well as unrealistic expectations of success and the lack of necessary financing for market entry support. Many attempts are made without sufficient market research of both potential buyers as well as competitors.

Foreign companies often expect quick results but do not understand the slowness of the decision-making process in the region, influenced by management structures, fear amongst expatriate managers of losing an employment visa and the many holiday “seasons” due to the population coming from countries of diverse religions.

The author has also seen companies promoting their products or services without sufficient “localisation” meaning that the product or service should be adapted to satisfy local market needs, account for local market dynamics and regulations and, importantly, that any data supporting the efficacy of the offering should be local data where possible. Stating that “this worked well in the USA or in Singapore” will be detrimental to your case.

Another reason for failure is simply having little or no understanding of local cultural norms including simple things such as getting a name right! Gender culture can also be important. For instance, some local women will not shake hands with a man. Equally, not underestimating the increasingly important role of women in business can be catastrophic. Women play increasingly important roles in commerce and government in most GCC states. It is also important to note that there can be significant diversity across the separate GCC states when it comes to cultural norms, both business and social.

In terms of language, having no knowledge whatsoever of Arabic can be an obstacle. You do not need to be fluent or even proficient but knowing and using just some basic greetings will go a long way to help you, even though the response to your greeting in Arabic may come in English! Understanding that almost every local business leader was probably educated at one or more of the best USA, UK or European universities should also be borne in mind.

Finally, the foreign companies which succeed are the ones who make sure they address all of the above. To do so they will need local support and must be prepared to pay for it whether that be by way of a retainer fee, a success fee or some other form of remuneration to their local supporter.

## Understanding ownership structures

One reason for failed market entry attempts is that companies try to seek out potential clients without fully understanding who is the ultimate owner of a particular entity or what cross-shareholdings and other partnerships may be in place. Companies therefore often waste time talking to people who are not the ultimate decision makers. It is essential that market entrants fully understand who exactly they should be pursuing in terms of discussions.

### Sovereign wealth funds

Each country will have at least one sovereign wealth fund (SWF). In the UAE, the Emirate of Dubai has SWFs under the control of the ruling Al Maktoum family whilst the Emirate of Abu Dhabi has several SWFs controlled by different members of the Al Nahyan ruling family. The main SWF in KSA is the Public Investment Fund (PIF). These SWFs invest both locally and globally in a multitude of sectors including industry, shipping, aviation, sport, technology and healthcare.

Decision-making and strategy of commercial entities owned by SWFs is often influenced by the owners of the SWF who may have interests in linked entities, for example a SWF may own hospitals and healthcare technology companies who would be suppliers to the hospitals.

### Conglomerates

Some GCC countries have significant “family offices” which invest in multiple commercial sectors. In UAE for instance, it would not be unusual to find a “family” owning businesses in automobiles, insurance, construction, healthcare and real estate sectors. Similar to SWFs, businesses owned by family offices can be influential in decision-making and strategy of the businesses they own.

## Business models, regulations and licensing

### Physical presence

To do business with an entity based in the GCC do you need to have a physical presence? This is one question often ignored by companies seeking market entry. The general answer is, no. But it can depend upon with what sort of entity you are trying to engage. For example, KSA requires that any company which wishes to transact with government entities has a regional headquarters based in the country. Many other governments require a physical presence in country. The rules vary and need to be checked.

Regarding contracting with GCC commercial entities there is generally no requirement for the foreign company to have a physical presence but failing to do so can be seen as not having serious intent.

## Market regulation

As shown in one of the case studies, local regulation of certain commercial sectors can be a show-stopper. Spending time and money on chasing partnerships can end in failure if it transpires that what you are offering falls short of regulatory requirements. This is particularly the case in healthcare.

It is therefore essential to have someone on the ground who is familiar with such regulatory restrictions who can advise on the extent to which these may block your venture or otherwise advise what you need to do to satisfy them.

## Business licensing

If you do need (or prefer) to have a local presence there are many different options to establish an entity on the ground. However, these vary significantly between countries and the list below is indicative only with not all options being available in all countries.

- Economic Free Zone (EFZ) business

UAE is probably the leader in this area. Establishing a business in an EFZ provides 100% foreign ownership. Technically an EFZ registered company can only transact business with other EFZ companies. However, this has been difficult to enforce to the extent that the Emirate of Dubai recently removed this restriction. The disadvantage of being registered in an EFZ (unless registered in an EFZ such as Jebel Ali Free Zone which specialises in logistics, transportation and warehousing or in Dubai Healthcare City) is that the company can be seen as “hollow” with no real on the ground presence. Many EFZs allow for virtual offices, PO Box facilities and group telephone answering facilities which reinforce the image of the foreign owned company not “really” being present in the country.

- Branch office

A foreign company can apply to open a branch office. This has the advantage of not requiring a GCC national as a shareholder. However, it does require the branch office to be “real” and adequately staffed.

- Onshore registered and licensed business

Depending upon the country, a foreign company can open a permanent establishment with a local business license. Most countries insist on a local national being a shareholder and also restrict shareholdings of the foreign company to 49% (although this can vary by commercial sector and by country).

However, some countries allow 100% foreign ownership for some activities (although retaining the requirement for a local “agent” to sign legal documents. Management consultancy in the UAE is one such example.

## Remote or virtual worker options

The Emirate of Dubai some 3 years ago introduced a residence visa for employees of foreign companies which themselves have no physical entity in-country. This allows an overseas company to send an employee to live and work in Dubai on a “remote worker” basis. Currently, this visa is annually renewable but allows for a potential market entrant to have someone based in the country on a legal basis allowing them to rent property, open bank accounts, obtain a driving license and access other activities of normal daily living. However, note that to apply for such a visa the employee will have to show evidence of health insurance with a locally licensed insurer and meet minimum salary requirements.

## Expectations and financing

Apart from other aspects mentioned in this paper, many market entrants fail because of false expectations of success and insufficient budget to finance their market entry.

### Expectations

Expectations can be high in terms of both success and speed to securing contracts. However, experience has shown that expectations are often unrealistic and take little account of competitor offerings or the time required for prospects to make decisions. More on this can be found in the section below on decision-making cycles.

### **Financing**

Quite often, a market entrant gives little consideration to formulating a budget to support its market entry initiative. This budget must take account of expected number of visits for employees visiting the region, flight and hotel costs, other travel and subsistence costs, any payments to “on the ground” employees as well as a fair remuneration to in-country support provided by third party introducers of prospects.

## **Market research and data availability**

### **Insufficient market research**

Some market entrants undertake insufficient market research. This could be in areas such as laws and regulations that apply to their product or service, the competitive landscape or the demand for their product or service. Such research is more reliably conducted by in-country resources who are familiar with navigating government websites, have direct access to people able to provide clarity where needed and who have direct local market knowledge.

### **Availability and reliability of data**

Where market entrants do undertake research, they should understand that the availability and reliability of data in the region is patchy and often out of date and online research often produces misleading results. Local, in-country resources are better placed to obtain more reliable data through their own connections.

### **Regulation of products or services**

In some cases, market entrants have invested time and money on business introductions in relation to their products or services and then find that there are regulations which effectively prevent them from introducing such products or services to the local market.

## **Decision making cycles**

Decisions can often take months and sometimes over a year to be reached. Market entrants need to understand the reasons for this in order to manage their expectations and impact on budget. There are two main reasons for this lengthy decision-making cycle described below.

### **Management structures**

Depending upon specific country, management structures can have a significant effect upon how quickly decisions are made. If we take the UAE, the majority of senior management positions are held by expatriate workers who rely on continued employment to retain their residence visa. Loss of employment could impact their ability to remain in the country. As a consequence, senior managers and decision-makers are reluctant to take unilateral decisions and instead will either pass the responsibility to a colleague or seek a “consensus” approach where the blame for any wrong decision can be spread and mitigated to a degree.

On the other hand, in KSA, most senior managers are KSA nationals who do not have this loss of visa problem if they make wrong decisions. This is why decision-making in KSA can be much quicker than in UAE.

### **Holiday season**

In countries where a “consensus” approach to decision-making is the norm, it requires the group involved in the decision process to all be available at the same time. In many GCC countries, workers and managers come from diverse countries and ethnicities, observing holidays often linked to the faith of their home country. This means that, unlike, for example in the United Kingdom where holidays generally follow Christian festivals and

national events, in GCC countries expatriates and nationals can be celebrating a multitude of different holidays and festivals throughout the year. This means that there is almost always someone in the decision-making process who is unavailable. Add to this the Summer “exodus” as many expatriates escape to their home countries or other destinations to escape scorching heat and you have a situation where decisions are frequently deferred until “after Eid” or “after the Summer” or “after the Christmas holidays”.

Market entrants should be aware of the impact of the holiday “season” not only upon decisions being reached but also upon accessibility to decision makers in terms of availability for meetings at various times of the year.

## Cultural aspects

### Language

As mentioned earlier, it is not necessary to be fluent or proficient in Arabic, but knowing and using a few simple greetings shows a degree of respect as well as conveying a recognition that you are trying to do business in a country where the national language is Arabic. More than likely, even if you do greet someone in Arabic, do not be surprised if they respond in English!

### Get the name right!

This may seem obvious, but so often foreigners pronounce Arabic names incorrectly or confuse given names with family names. Also be prepared to hear Muslims being addressed not only by their formal name but also by a familial linkage. For example, someone named Mohammed Al... might also be referred to as Abu Maryam which simply means “father of Maryam” (his daughter).

In terms of address, it is also very common to use “Mr” or “Miss” followed by first or given name. So be prepared to be addressed as “Mr John” and not as “Mr Smith” and adopt the same practice when addressing others.

When addressing high level government officials who adopt the title “His or Her Excellency” address them as “Your excellency” unless invited to do otherwise.

### Gender aspects

There is a misconception that women in the region are treated as second-class citizens. Whilst this may have been the case in some countries a long time ago it is certainly not the case today. In KSA there have been many advances including allowing women to drive although some cultural norms such as a female requiring a male family chaperone do continue in some households.

Also do not misinterpret wearing of the “niqab” (a face covering that reveals only the eyes, predominant in KSA but also found in Kuwait and UAE) as a sign of subjugation. Many women are happy to adopt this voluntarily to preserve their own modesty.

When greeting an Arab female DO NOT as a male thrust out your hand. Women make a personal choice on whether or not to shake hands with a male. Some will and some prefer not to do so. If a woman offers you her hand you can accept it. Otherwise simply place your hand across your chest as a greeting.

The role of women in high-ranking positions continues to advance with many countries promoting females, particularly in government, so do not underestimate the status of a woman just because she is a woman.

### Diversity across the region

All of the above should be understood in the context that not all GCC countries have the same business and social cultural norms. Take time to understand how these differ between each of the six GCC states. Bear in mind also that differences may exist within one country between urban and rural communities.

## The role of The Consilient Consultancy in advising foreign companies on their approach to market

With 19 years as a permanent resident in Dubai and having worked across the region and beyond, the author of this paper has built an extensive network of connections in both commercial and government sectors, particularly across insurance and healthcare sectors.

He has provided introductions to companies from the United States, United Kingdom, Luxemburg, South Africa, France and Singapore. Yet he has learned that introductions alone are not enough. What Consilient now offers is “education” before “introduction”. Essentially, we help you prepare your market entry proposition ensuring that all of the possible reasons for failure are addressed and minimised as well as informing you on your approach in terms of the business and social cultural norms described in this paper.

- Robin Ali