CASE STUDY

Deloitte: The complexities of diligence in the Middle East

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While mergers and acquisitions and the due diligence process in the Middle East can be less efficient than in Europe, that analysis is often too simplistic.

Indeed, at the top end of the company scale there is a lot more similarity in the process between deals done in the UK, Germany and France and in the UAE and Saudi Arabia.

"We have some large, world-class businesses in this region and the due diligence that we do for them, and the level of sophistication that we can actually apply to our analysis, is similar to what we do for clients in the European or UK markets," says Declan Hayes, a transaction services partner at Deloitte.

Differing Standards

He adds, however, that once "we start moving down into the smaller businesses, their financials or management accounts are generally not of a standard where you can go in and do the level of detailed work you would like or that you would ordinarily expect."

Part of the problem is that the Middle East lacks an institution such as Companies House in the UK, which is a valuable store of historic financial information on companies. "No organization in the region has responsibility for companies filing their financial statements, which means there is no proper comparable tracking of companies' finances. A lot of 'information' is anecdotal," says Hayes.

Such an information gap, together with a lack of sophistication and focus on detail in financial management among smaller companies, can mean that due diligence takes longer. "If it takes on average one month in Europe, it could take up to two months in this region," says Hayes.

Another factor impacting the speed of dealmaking and due diligence in the Middle East is the prevalence of family-owned businesses, which can mean that striking agreements on valuation, for instance, is challenging, too. "Part of this is cultural," says Hayes. "Many owners have originally made their money through trading, so it is instinctive to push for the highest price possible."

He adds, however, that this is changing, and that increasingly "there is a greater likelihood of transaction negotiations being properly structured from the non-binding offer stage."

Improving With Technology

What's more, Hayes says that due diligence practices and processes in the Middle East are evolving, maturing and improving, with new technology helping provide greater efficiency and security.

This, he says, is important, not least because the data security risk has increased.

"Historically, before virtual data rooms, you would typically have a physical file room and a limited number of people with access, all working alongside each other and face to face. As such, it was unusual to have leaks. Now, you can have multiple teams working in multiple locations at multiple times around the world. The number of eyes on the deal data has increased substantially."

To manage this, he adds that is critical to use the best technology and strongest virtual data room providers. "It's safer for us."

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