Strategic adaptation to environmental jolts: an analysis of corporate resilience in the property development sector in Dubai

Virginia Bodolica* and Martin Spraggon
American University of Sharjah,
School of Business Administration,
P.O. Box 26666, Sharjah, UAE
Email: virginia.bodolica@hec.ca
Email: martin.spraggon-hernandez@hec.ca
*Corresponding author

Anam Shahid
PricewaterhouseCoopers,
Dubai, UAE
Email: anam.merchant@pwc.com

Abstract: This paper contributes to the literature on the contingent nature of strategic adaptation to environmental jolts in the context of the real estate industry in UAE. We selected the representative case of Emaar Properties to estimate how the evolving dynamics in the UAE real estate sector over the 2000–2015 period affect the exercise of managerial discretion and the development of corporate resilience. The emphasis was placed on two external discontinuities, namely the 2008–2009 financial crisis and the 2013 announcement of Dubai as the host city of World Expo 2020. By altering its portfolio of investments across countries and industry segments, the company mitigated the impact of the global recession and benefited from the market improvement triggered by the World Expo 2020 news. The strategic choices of the top management reflect how, in times of environmental turbulence, Emaar was geared toward achieving tighter external alignment to balance its risks and opportunities.

Keywords: strategic adaptation; environmental discontinuity; financial crisis; real estate industry; United Arab Emirates.


Biographical notes: Virginia Bodolica, PhD, is a Professor of Strategy and Governance at the American University of Sharjah, UAE. Her research interests are related to corporate governance, mergers and acquisitions, family businesses in emerging economies, executive compensation and board of directors’ dynamics. Among other journals, she has published in the Academy of Management Annals, Strategic Organization, Strategic Management Journal, Journal of Business Research, and Journal of Business Ethics.

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1 Introduction

Strategic management scholars have long been interested in the role that the external macro-environment plays in shaping the behaviour and actions of corporate leaders (Ferrero-Ferrero et al., 2015; Wilson and Eilertsen, 2010). It is generally agreed in the literature that firm success is driven by an organisation’s ability to achieve an optimal fit between the strategies it pursues and its external environment. The recent financial crisis that brought about dramatic consequences for various sectors of the global economy has put the topic of strategic adaptation to environmental jolts back to the forefront of practitioners’ discourse and researchers’ agenda (Abebe, 2012; Hausman and Johnston, 2014). Changing external circumstances pose significant challenges to organisations and the way they respond to these dynamic realities influences their performance and sustainability in the long run. Many studies show that alterations in firm strategies and structure typically occur as a result of decision-makers’ efforts to increase resilience and obtain a tighter alignment with the evolving environmental conditions (Goll and Rasheed, 2011; Sternad, 2012).

Much scholarly attention has been channelled toward uncovering the most effective strategies used by corporations to survive during a time of crisis and in the post-recessionary period (Williamson and Zeng, 2009; Zuo et al., 2015). Along with these research endeavours gradually came the realisation that the success of an organisational response to environmental turbulence is contingent upon a set of internal and external factors. Scholars started to call for more investigation into the context-specific view of effectiveness of strategic adaptation that acknowledges a firm’s interrelatedness with its industrial, economic, socio-cultural and regulatory environments (Aguilera et al., 2008; Dowell et al., 2011). Over the past years, several studies have been conducted to grasp how senior managers align their company to changing external dynamics, principally in developed nations such as the United States of America (USA) (Ferrero-Ferrero et al., 2015), Australia (Zuo et al., 2015) and Western European countries (Archibugi et al., 2013; Essen et al., 2013). Although the contextual embeddedness of strategic decision-making is widely recognised today, the empirical evidence on players originating from emerging markets, such as the United Arab Emirates (UAE), remains scarce.
The UAE is an intriguing Arab nation that has rapidly achieved an impressive international standing by employing the surplus of wealth from oil-based operations for building a sustainable knowledge- and innovation-driven economy (Spraggon and Bodolica, 2014). In the 2015–2016 Global Competitiveness Report, the country is ranked 17th (ahead of Belgium, Luxembourg and Australia) out of 140 benchmarked countries, occupying 2nd place worldwide for the quality of overall infrastructure (World Economic Forum, 2015). Dubai, one of the most popular Emirates composing the UAE federation, known for its futuristic property developments and state-of-the-art infrastructure, continues to make headlines in the business press for its vertiginous transformation into a global financial centre, trade hub and a privileged tourist destination in the world. The 2008–2009 economic crisis had severe effects, particularly for the real estate industry of Dubai due to its significant exposure to deflated property prices (Cooper, 2010). Surprisingly, the way Dubai’s real estate corporations navigated the turbulent environment did not attract sufficient scholarly attention. We are aware of only one study on crisis implications for the construction sector in UAE (Al-Malkawi and Pillai, 2013), which highlighted the aggregated effect on six industry players rather than the strategies used to cope with market upheaval.

In this paper, we seek to contribute to the development of context-dependent knowledge on organisational adaptation to environmental jolts by analysing the strategic variability of one major player in the UAE real estate sector over the period of its existence. In particular, we focus on the representative case of Emaar Properties to examine the effectiveness of top management response to two recent external discontinuities, namely the 2008–2009 financial downturn and the 2013 announcement of Dubai as the host city of World Expo 2020. Consistent with the contingency view of strategic adaptation, the case of Emaar Properties demonstrates that the successful alignment of a company with its environment is dependent upon many situational and contextual factors. This case study can be used for illustrating how the external conditions in the macro-environment affect the exercise of managerial discretion and the development of corporate resilience.

2 Literature review

The literature on strategic adaptation concentrates primarily on the recent economic crisis and the most successful organisational strategies to overcome it. In a survey of 190 practitioners conducted in 2009, Wilson and Eilertsen (2010) uncovered the multiple benefits of strategic planning during the global credit crunch. Companies that relied on this process as a guide for managerial decision-making displayed a better ability of response and preparedness to the crisis, pursued growth and investment opportunities rather than defensive strategies, and exhibited a higher level of confidence regarding the future outlook in terms of revenue growth. According to Williamson and Zeng (2009), the ability of emerging market firms to adopt a value for money strategies, which focus on cost innovation rather than cost reduction, allowed them to achieve their growth objectives and re-emerge stronger from the market mayhem.

Using a sample of US publicly listed corporations over the 2002–2008 period, Ferrero-Ferrero et al. (2015) examined the impact of the financial turmoil on the effectiveness of executive decisions. In line with the resource dependence theory, the authors found that managers with greater connections to the external environment are
more likely to take actions that lead to the enhancement of firm performance. Large emerging markets, such as China and India, were shown to contribute to the strategic adaptation of developed nations’ companies during the period of economic recession (Enderwick, 2009). The strategy of emerging market entry was advocated for six main purposes, including cost-cutting, understanding new business sectors, accessing scarce resources, evaluating changing market realities, learning from new experiences, and improving strategic response in front of new and more diversified competitors.

In an empirical study that reports a positive association between organisational outcomes and executives’ attention focus on external factors, including competition, customers and technology, Abebe (2012) concluded that the success of strategic decision-making is dependent upon the specific industry environment in which a firm operates. For instance, based on empirical data gathered through interviews with 35 senior managers, Zuo et al. (2015) showed that large construction corporations in Australia were not significantly affected by the global downturn, although the adverse financial impacts are expected over the few coming years. As a way to respond to the economic slowdown, Australian construction companies opted for strategies of concentration, to focus back on the core business, and retention of skilled personnel, to enhance firm ability to navigate effectively through market turbulence.

Many scholars assessed crisis-induced changes in the corporate governance structure that are required to sustain firm performance. Srivastava (2015) demonstrated that, during the period of financial distress, the performance of 164 publicly traded companies in India was positively affected by the presence of CEO-chairperson duality and executive chairperson, a smaller board of directors, and a larger proportion of insiders on the board. Challenging the robustness of agency prescriptions in unsteady market circumstances for a large sample of 1197 listed firms across 26 European nations, Essen et al. (2013) provided strong support for the contingency view of corporate governance. In times of crisis, some commonly praised governance devices (i.e., independent directors, performance-based pay, and separated CEO and chairperson roles) were shown to be detrimental to firm performance due to their over-monitoring effects that constrain managerial discretion and ability to adjust effectively to changing external realities. The authors concluded that good governance is not universal but rather contingent upon a set of firm-specific factors and environmental conditions.

Some studies maintain that the strategic response to unstable business cycles is subject to several organisational contingencies, such as size, age and innovative propensity (Latham, 2009; Archibugi et al., 2013). In an analysis of 137 software executives, Latham (2009) reported that larger, well-established firms were more defensive in their efforts to improve performance during the recession by focusing on cost reducing strategies, while smaller start-ups relied on those business activities that directly influence revenue generation. According to Archibugi et al. (2013), fast growing young companies in Britain were more likely to pursue innovative investments during significant economic upheaval than older firms. Moreover, explorative activities of new product development and new market penetration were identified as the most effective strategies to cope with business uncertainties brought by the crisis.

Other investigations focus on contextual contingencies to advance our knowledge on the relationship between strategy making and external environment. Sternad (2012) analysed the strategic reaction to the global turmoil of 257 senior executives in Austrian and Slovenian printing, machinery construction and travel agencies’ industries. Reporting significant differences in the adoption of external and internal proactive
strategies (e.g., diversification and investment) and external retrenchment strategies (e.g., divestment and rationalisation) between the two nations, the researcher established that a complex interplay of country-specific factors, such as business environment, regulatory framework and cultural characteristics, affect the strategic orientation of top management teams. The most common crisis adaptation strategy used in both countries was external and proactive in nature, unveiling decision-makers’ preference for new customer acquisition and creation of new market opportunities rather than for rationalisation of business operations. Yet, despite an increasing number of contingency studies in the field, the empirical evidence on some national and industrial contexts, such as the real estate sector in the UAE, remains limited (Al-Malkawi and Pillai, 2013).

3 Method

To contribute to the literature on the contingent nature of strategic adaptation to environmental jolts, we analyse the case of Emaar Properties from the year of its establishment till the end of 2015. The extant paucity of empirical research on situation-induced variations in strategies deployed by UAE corporations warrants the adoption of a case study methodology (Bodolica et al., 2015). Taking into account the contextual specificities of the phenomenon under investigation, this qualitative research method allows understanding intricate organisational actions and events that cannot be accessed via quantitative techniques. According to Patton (2002), a single case study design is recommended when the selected case can reveal rich insights into the study context and is representative of situations that occurred in that context over a period of time. Being the largest listed developer in UAE, the Dubai-based Emaar Properties was retained as a representative case to elucidate typical strategic dilemmas that managers in UAE construction companies face when operating in dynamic and uncertain environments.

To secure the robustness of our data analyses and findings, we applied the standard procedures of case-based research advocated by Yin (2009). This case draws to the company website, financial statements, business press, industry reports, stock market releases, newspaper articles, publicly available credit ratings and analysts’ opinions, and extracts from published interviews and speeches delivered by the chairman of Emaar. Our reliance on this broad variety of secondary sources of information is consistent with data triangulation. By requiring three different researchers to be actively involved in all the stages of data gathering, analysis and interpretation process, we were able to achieve investigator triangulation. Initially, data were analysed by each researcher independently – a procedure that involved assigning textual codes based on the meanings that emerged from prevalent patterns. Then, individual perspectives were compared in group meetings and any uncovered discrepancy was eliminated through re-evaluation to secure consistency and reliability of our findings (Bodolica et al., 2015). This systematic research process resulted in the identification of two major external discontinuities that are pertinent to our case of Emaar’s strategic adaptation, namely the 2008–2009 economic crisis and the 2013 announcement of Dubai as the host city of World Expo 2020.

This case study was designed primarily to provide readers with enhanced opportunities for evaluating how decision-makers in rapidly developing emerging markets behave under the condition of significant environmental turbulence. In particular,
the case offers the possibility to assess the effectiveness of managerial response and adjustment to evolving external circumstances in a specific organisational, industrial and regulatory setting (Bodolica and Spraggon, 2009). In the following sections, we begin by providing relevant information on the context of the real estate industry in Dubai and proceed with the description of the background of Emaar Properties’ case.

3.1 Real estate industry in Dubai

The real estate and construction sector in Dubai experienced multiple trend changes where a variety of local and global dynamics have fuelled the growth, boom, downfall and recovery of the industry and its major players (e.g., Union Properties, Nakheel, Damac, Emaar, Deyaar). The period of continuous growth in commercial and residential property developments that commenced in the mid-1990s culminated in the year 2007 when both customer demand and property prices reached their highest level. Researchers generally agree that the real estate boom in Dubai can be attributed to the following interrelated factors (Renaud, 2012; Al-Malkawi and Pillai, 2013; Spraggon and Bodolica, 2014):

- the significant growth in global liquidity between 2002 and 2007 along with low interest rates and higher asset valuation, allowed companies across different industries to increase debt financing
- the continuous rise in commodity prices, particularly oil, increased the purchasing power of the local population, providing sufficient capital to diversify the UAE economy into other sectors in order to reduce its dependence on the oil-based industry
- the tax-free status of UAE attracted an impressive number of foreign labour force into the country, boosting demand for residential and commercial property needed to accommodate this significant surge in resident population.
- in 2002, the government of Dubai enabled expatriates to take legal ownership of designated properties, leading to an influx of capital and investors willing to take advantage of these freehold ownership rights
- given the overall peak in the UAE economy, coupled with an exponential development of infrastructure and creation of free trade zones, property investments became appealing to local and foreign citizens due to the high liquidity of these assets
- the UAE’s dirham peg to the US dollar that generally supports currency stability provided incentive but also protection to invest in high risk bearing assets.

With such a favourable economic, fiscal and demographic macro-environment, the property sector witnessed an exponential appreciation in value, with new villas alone experiencing a price increase of 226% over the 2003–2007 period. When rental prices followed this trend with a rise of almost 30%, Dubai was listed as one of the cities with an overheating real estate market (Yanos, 2008). From the beginning of 2007 till mid-2008 prices soared by 80% (McGinley, 2011), while this increase corresponded to 40% during 2008 alone (Walayat, 2009). Many local developers were incentivised to
enter the market with new, ultra-luxury projects that became popular with many world celebrities and very high net worth expatriates from Russia, India and Pakistan.

But this spectacular growth soon came crashing down when the global financial industry collapsed, taking with it the real estate sector in many regions of the world. The market sentiment in Dubai changed and property prices saw a drop of 8% in the last quarter of 2008, which accelerated into the first quarter of 2009 with value depreciation estimated by specialists at approximately 7% per month (Walayat, 2009). The over-leveraged borrowing, construction boom and global investments were geared to mark Dubai as the world’s centre for finance, tourism and trade. However, with this property market bust, which saw over 450 construction projects being abandoned, the stock market crashed more than 75% evaporating any material gains of the previous years (Cooper, 2010). The biggest publicly listed developers in UAE experienced a significant decline in their activity, leverage, liquidity and profitability positions in the aftermath of the financial crisis (Al-Malkawi and Pillai, 2013). Amongst those feeling the heat of the declining industry was Emaar, one of the largest property developers in the Arab world that lost over $1.1 billion in asset value and reported a $0.7 billion loss in the last quarter of 2008 (Kerr, 2009).

3.2 Emaar properties: company overview

Emaar Properties is a Dubai-based real estate company, founded in 1997, with its core emphasis on the development of high-end residential and commercial establishments. During the first decade of its existence Emaar witnessed a vertiginous growth, delivering many iconic projects in the local market such as The Dubai Mall (retail), Armani Hotel (hospitality) and Emirates Hills (residential). A gem to the property developer’s portfolio is Burj Khalifa, which was crowned as the tallest man-made structure in the world at its inauguration in early 2010. Emaar’s chairman, H.E. Mohamed Alabbar, envisions the company to ‘shape the future’ by providing differentiated real estate solutions across lifestyle, retail, leisure and commercial segments. To get access to additional sources of capital and sustain its growth ambitions, Emaar went public on Dubai Financial Market in mid-2000. The greatest proportion of ownership stakes is retained by local and foreign investors, with the remaining 30% of shares being held by the Investment Corporation of Dubai, a sovereign wealth fund owned by the Dubai Government.

The continuously escalating demand for property in the pre-2008 period allowed Emaar to effectively leverage capital and investments to ride the booming real estate wave in Dubai. The company started expanding its operations both beyond local boundaries (often by collaborating with foreign partners) and across different industry segments to become the largest publicly traded developer by market capitalisation in the Middle East. Among its successful foreign projects are King Abdullah Economic City in Saudi Arabia, Cairo Gate and Address Hotels and Resorts in Egypt, Novotel Hotel in India, Samarah Dead Sea Resort in Jordan, and Tuscan Valley Houses in Turkey (Emaar Timeline, 2016). Despite its initial focus on residential developments, Emaar Properties currently includes under its corporate umbrella 11 subsidiaries, which can be clustered into four major segments (see Table 1):

1. **real estate**: local and international subsidiaries that develop and provide a variety of projects, ranging from fully integrated residential communities to commercial properties with fitted offices and boutique cafes
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2 retail: entities responsible for shopping malls, residential community centres and leisure attractions that focus on conceptualising and delivering superior retail opportunities and unprecedented entertainment experiences

3 hospitality: subsidiaries that oversee hotels and resorts, golf establishments, serviced apartments, lifestyle dining and clubs built and managed by Emaar and those developed and operated under the partnership with the fashion brand Giorgio Armani

4 non-core businesses: various operations that provide support to the core real estate business such as finance, investments, technologies, industrial products and community management.

To serve as a driving force behind Dubai’s transformation into a futuristic city and a coveted tourist destination on the world’s map (Spraggon and Bodolica, 2014), Emaar enjoyed the constant support from the ruler of Dubai and secured privileged relationships with major financial institutions and business entities in the emirate. Besides the political stability of the country (Salem and Baum, 2016), it has also benefitted from the rich knowledge base, years of experience and vast connections of people who stepped into the company’s key leadership roles. Emaar’s board of directors is composed of 10 high-profile individuals (eight of whom are non-executive members) having an impressive track record of achievements in a variety of industries in the UAE (see Table 2). So far, the company has delivered on its promises of shaping the property sector in Dubai, distinguishing itself in the local market not only with the volume and size but also the quality of its megaprojects (The Economist, 2015).

Table 1 Group structure

<table>
<thead>
<tr>
<th>Emaar Properties PJSC</th>
<th>Real estate</th>
<th>Retail</th>
<th>Hospitality</th>
<th>Non-core businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Emaar Dubai LLC (All Dubai Property Developments, Emaar District Cooling LLC, The Valet LLC, Emrill Services LLC and Burj Khalifa)</td>
<td>• Emaar Malls Group PJSC (All Dubai Property Developments, Emaar District Cooling LLC, The Valet LLC, Emrill Services LLC and Burj Khalifa)</td>
<td>• Emaar Hospitality Group LLC (The Address Hotels and Resorts, Rove Hotels, Emaar Lifestyle Dining, Nuran LLC, Vida Hotels and Resorts, Emaar Serviced Apartment Management LLC, Emaar Leisure Group LLC and Emaar International Hospitality LLC))</td>
<td>• Emaar Investment Holding LLC (Turner International and Hamptons Arabia)</td>
<td>• Emaar Community Management LLC</td>
</tr>
<tr>
<td>• Emaar International LLC (legal entities operating in Saudi Arabia, Jordan, Syria, Lebanon, Egypt, India, Morocco, Iraq, Turkey, Pakistan, USA and Canada)</td>
<td>• Emaar Entertainment LLC (Dubai Aquarium and Underwater Zoo, SEGA Republic, Dubai Ice Rink, KidZania® and Reel Cinemas)</td>
<td>• Emaar Hotels and Resorts LLC (Armani Hotels &amp; Resorts)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2  Board of directors

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Full name</th>
<th>Position</th>
<th>Status</th>
<th>Joined in</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>H.E. Mohamed Ali Rashed Al abbar</td>
<td>Chairman</td>
<td>Executive</td>
<td>1997</td>
</tr>
<tr>
<td>2</td>
<td>Mr. Hussain Ahmad Dhaen Al Qemzi</td>
<td>Vice chairman</td>
<td>Non-Executive</td>
<td>1997</td>
</tr>
<tr>
<td>3</td>
<td>Mr. Ahmad Thani Rashed Al Matrooshi</td>
<td>Managing Director</td>
<td>Executive</td>
<td>2005</td>
</tr>
<tr>
<td>4</td>
<td>Mr. Ahmed Bin Jamal Bin Hassan Jawa</td>
<td>Director</td>
<td>Non-Executive</td>
<td>1997</td>
</tr>
<tr>
<td>5</td>
<td>Mr. Abdul Rahman Hareb Rashed Al Hareb</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2012</td>
</tr>
<tr>
<td>6</td>
<td>Mr. Abdullah Saeed Bin Majed Belyoahah</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2012</td>
</tr>
<tr>
<td>7</td>
<td>Mr. Arif Obaid Saeed Al Dehail</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2012</td>
</tr>
<tr>
<td>8</td>
<td>Mr. Jamal Majid Bin Theniyah</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2012</td>
</tr>
<tr>
<td>9</td>
<td>Mr. Marwan Abedin</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2012</td>
</tr>
<tr>
<td>10</td>
<td>Mr. Jamal Hamed Al Marri</td>
<td>Director</td>
<td>Non-Executive</td>
<td>2013</td>
</tr>
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4 Findings

4.1 Emaar feels the real estate pinch

The positive market outlook in 2007 earned Emaar an A3 rating from Moody’s, symbolising a solid market share, conservative capital structure and strong brand name in the UAE, despite its heavy dependence on a single market (Moody’s Investor Service, 2007). Yet, as the property bubble burst in late 2008, with rapidly dropping prices and investments, Emaar experienced the collapse of the industry like any other player. The company felt the pinch with several projects being stalled, delayed or removed to hold back on the excess supply in the market. To maintain its reputation among clients and address the growing concerns of defaults, Emaar started reimbursing investors on delayed projects with 12-month credit vouchers, which could be used to pay for a new Emaar property or add to an existing one (Delmar-Morgan, 2009). By mid-2009, Emaar’s credit rating underwent review leading to a downgrade from A3 to Baa1 (Moody’s Investor Service, 2009).

Following a reassessment of its portfolio to rationalise prior investments, Emaar sold its holding in Hamptons Group’s (a property broker and real estate consultant) operations in Europe and Asia at a loss of US$10 million, along with its equity stake in Raffles Campus Ltd. (an education business in Singapore, Hong Kong and Vietnam) at an approximate loss of US$3.7 million (Sharif, 2010). By the end of the first quarter of 2010, the company’s rating had been further reduced to B1 grade based on the high supply of residential units and incapacity to collect settlements, both of which were triggering price reduction in the market (Moody’s Investor Service, 2010). S&P also downgraded Emaar’s rating from BB+ to BB, stating that despite the Dubai Government’s significant ownership interest in the company, it was unlikely that Emaar would receive any “extra-ordinary” assistance or support if it underwent a restructuring or sought a standstill on its payments (Bloomberg, 2010).
In early 2009, in an effort to mitigate the impacts of the real estate crash and get access to income-yielding assets, Emaar bought the US$122 million debt of Golden Ace Ltd., a Singapore-based retailer with a controlling interest in Royal Sporting House (RSH) (Bloomberg, 2009). The acquisition resulted in Emaar owning 61.3% of voting rights in RSH, which is a majority shareholder in over 90 international retail brands, such as Zara, Mango, Pull and Bear, and Ted Baker. Thus, Emaar strengthened its proposition in the retail segment by diversifying its portfolio of investments to reduce dependence on residential projects. This strategy allowed Emaar to fare better in the crisis than its major industry rivals, Dubai Properties and Nakheel Properties, which chose concentration over diversification and had a much more aggressive debt exposure (The Economist, 2015).

Later in 2009, Emaar had engaged in a merger proposition with Dubai Holding, a large conglomerate owned by the ruler of Dubai, which would have led to industry consolidation (Giuffrida, 2009). Although the merger could have brought cost savings, stronger financial position and more control on the supply of real estate units in the local market, it would have also burdened the company with the excessive debt taken by Dubai Holding and its subsidiaries. Some analysts saw Emaar’s withdrawal as protection of shareholder value and confidence because the merger would have increased the government stake to 48% reducing share value, while others viewed it as a safety measure to secure Emaar’s assets from being used as collateral to pay off the debt of Dubai Holding (England and Kerr, 2009). These considerations would have exposed Emaar to the risk of drastic stock price movement and significant retraction of investments. As a result of the merger talks being called off, Emaar’s stock price improved by 4% and Deutsche Bank and Credit Suisse upgraded the company’s investor rating (Egbert, 2009).

Amidst this downturn, the tallest building in the world was inaugurated and its height of 828 m was revealed in an exemplary opening ceremony. On the day of its inauguration, the property was renamed from ‘Burj Dubai’ to ‘Burj Khalifa’, as a symbol of gratitude to the ruler of Abu Dhabi for the bailout of Dubai World during the financial crisis. Despite reports of the building having 90% of its space sold, 2011 witnessed Burj Khalifa’s occupancy rate to be less than 10%. Critics took this development with mixed reviews, with some considering it as a wasted investment opportunity, while others referred to it as a ‘style statement’, an ‘icon’ and the ‘only one in the world’ (Shah, 2010).

4.2 Turbulence in international operations

International subsidiaries of Emaar Properties were also going through turbulent times. The US operations saw a write down of US$0.25 billion in 2008 and filed for bankruptcy protection (Kerr, 2009), while Algeria offices were shut down with US$20 billion worth of signed projects being abandoned (Kasolowsky, 2009). Emaar also pulled away from a US$373 million project awarded to Saudi BinLadin Group to develop the Red Sea port in Saudi Arabia, which was to form a key part of the King Abdullah Economic City Development (Reynolds, 2009). Egypt saw its Sheikh Khalifa Bin Zayed City project worth US$100 million stalled with the political unrest in the country (Hamdan, 2011). The launch of The Address hotels and resorts in France, Indonesia, Egypt and Morocco was delayed from its expected date due to the lack of funds and change in company’s strategic focus, which moved it further away from the hospitality industry (Birchall, 2012).
Among all its international operations, Emaar was highly exposed to its investment in the joint venture with MGF Developments in India, as losses of US$4.5 million were reported for the fiscal year 2010–2011 (The Economic Times, 2011). The joint venture had a planned initial public offering issue, but it was silenced as the market collapsed. This issue was expected to generate sufficient proceeds to alleviate Emaar MGF’s dramatic debt burden of over US$1.2 billion (Karmali, 2009). The slowdown in the real estate sector also led to a delayed delivery for the Commonwealth Games Village Project in Delhi, which resulted in Emaar MGF being fined US$20 million in December 2010 (Davids, 2011). A spur in the market was created when Emaar appointed Standard Chartered to value the joint venture to estimate the potential for additional equity investment. This was met with severe industry criticism as speculations were made that Emaar would sell its stake to recover the US$353.9 million worth of loans.

Despite the significant risk and vulnerabilities, Emaar Properties continued to view its joint venture in India as a major component of its strategic long-term growth plan (Scott, 2011; Nandy, 2011). In order to streamline its operations, Emaar MGF shifted its focus from residential, commercial and hospitality developments to residential projects exclusively by stalling several partnership agreements with hotel chains and groups. Among these was: the collaboration with Accor Hotels to build budget hotels in India with developments worth US$300 million (Financial Chronicle, 2010); the joint venture with Whitbread, owner of Premier Inn budget hotel brands, to invest US$600 million in 80 Premier Inn hotels (McGinley, 2010); and the development of the Marriott Hotel along with a consortium of developers and investors (Nandy, 2011). Yet, this strategic reorganisation did not stabilise the venture, which proved unable to acquire scale due to mounting concerns over the quality of its projects and repeated failed attempts in going public. The end of this ‘Indian trouble for Emaar’ (Karmali, 2009) finally occurred in April 2016, when Emaar announced the withdrawal from its decade-old joint venture with MGF Developments via a demerger scheme (Nandy, 2016).

4.3 Rebounding market sentiment

As the global and regional economy entered in its recovery phase, the UAE real estate industry regained strength in 2011. Although property transactions were low compared to previous years, the last quarter of 2010 showed some improvement. Reports from Cluttons and Asteco (property advisory firms) stated that mid-market and poor quality projects were suffering from downward price shocks, while luxurious lifestyle developments remained at their regular levels without any significant price impact (Brass, 2011). Customer demand was also evolving from price and affordability factors to location, amenities and facilities that came along. Emaar’s luxurious residential development, Emirates Hills, was among those selling at a premium with a starting price of over US$3.8 million (McGinley, 2011). The plot offerings in Emirates Hills were different from those provided by smaller local competitors as build quality, access to amenities, value-added facilities and brand recognition had an impact on the property prices.

With the rebounding market sentiment and the delivery of unique lifestyle-oriented properties came the amelioration in Emaar’s overall market standing and asset valuation made by international security analysts and credit rating agencies. For instance, Deutsche Bank maintained its ‘buy’ recommendation for Emaar’s stock on the basis of superior quality, cheap valuation, reasonable leverage and strong sources of income.
(Fattah, 2011). This positive assessment was further accompanied with an upgraded rating by Moody’s from B1 to Ba3 in light of improved liquidity with better collections on sale of units, diversification of portfolio both geographically and within business segments, and optimistic market response to Emaar’s Sukuk (i.e., bond) issue (Moody’s Investor Service, 2011; Basit, 2011).

Consolidating its business activities in key markets was crucial for Emaar in order to utilise its capital investments effectively, while maintaining its brand perception as a luxurious and quality-driven developer. Several joint ventures and collaborations were launched or previously shelved projects were restarted. Among the first to restart was King Abdullah Economic City in Saudi Arabia. The Saudi government lent Emaar’s subsidiary in the country a loan worth US$1.33 billion to reinitiate the construction of the project and finance the associated infrastructure and operational costs (El-Shenawi, 2011). Emaar launched Emaar Square, a US$500 million mix development in Turkey, with a consortium arrangement with HSBC, Standard Chartered and Emirates NBD. Emaar’s chairman cited this project to be part of the company’s long-term strategic goal to establish its presence in the UAE as well as other emerging markets (Churchill, 2012). Another key development was the launch of two flagship projects in Egypt: Cairo Gate – a US$800 million lifestyle and entertainment complex to be built in collaboration with Al Futtaim (a UAE-based family-owned conglomerate operating primarily in the retail sector), and Emaar Square – a mixed development project featuring The Address Hotels in Uptown Cairo (Yousef, 2012).

Apart from pursuing international expansion, other major projects were started within the domestic arena. As part of its long-term vision, the ruler of Dubai launched a multi-billion dollar city project, which would house residential and commercial units, family theme parks, world’s largest shopping mall and a park bigger than the Hyde Park in London. Capitalising on this opportunity, Emaar entered into a joint venture agreement with Dubai Holding at the end of 2012 to initiate the development of Mohammed Bin Rashid City (MBR City), which would host residential, commercial, retail and leisure facilities for its residents (McGinley, 2012). Following the announcement of the biggest mall in MBR City, the expansion plan for its flagship mall development, Dubai Mall, was released, which would trigger the entrance of several international fashion brands to the country. Given the capacity of Dubai to attract foreign tourists due to its central geographic location, this expansion would be critical for maintaining Emaar’s position in the retail sector (Deulgaonkar, 2012).

4.4 Renewed expectations with World Expo 2020

Consistent with the ruler’s vision of transforming the emirate into the most coveted place on earth to be commended for its diversified economy, futuristic lifestyle and rich culture (Spraggon and Bodolica, 2014), Dubai won the right to host the World Expo to be held in 2020. Dubai’s theme “Connecting Minds, Creating the Future” focused on three key elements of innovation and communication, namely sustainability, mobility and opportunity, each of which forms a unique platform for the global community to meet, share and discuss. With the expo coming to Dubai, it would be the first global exhibition to be held in a Middle Eastern country, re-emphasising the theme of people’s connectivity and integration into a global community (Expo 2020 Theme, 2016).

As Dubai emerged winner against its competitors (i.e., Yekaterinburg, Izmir and Sao Paulo), celebrations erupted with Burj Khalifa being lit up with fireworks within
minutes of the final results being announced on 28 November, 2013. The Dubai Financial Market appreciated by 1.6%, with Emaar Properties witnessing an increase in share price of 3.2% and share appreciation of other listed companies (e.g., Mashreq) reaching as high as 6.9% (Al Sayegh and Kassem, 2013). According to analysts, this win would benefit the emirate’s financial, construction and tourism industries, along with putting UAE on the MSCI Emerging Market Index. World Expo 2020 is expected to contribute 2% to Dubai’s GDP, create 277,000 additional jobs and receive over 25 million visitors during the event’s period of six months (El Gazzar, 2013).

The chairman of Emaar Properties, Mohammad Alabbar, congratulated the residents on winning the expo stating that “UAE’s successful bid to host the World Expo 2020 is a powerful statement on Dubai’s positive and inspiring leadership, and a testament to its enormous capabilities” (Emirates 24/7, 2013). By the end of 2013, Emaar’s stock rose to a five-year high with the price increasing more than two folds to AED 7.74 (US$2.09) compared to AED 3.77 (US$1.02) at the start of the year, while the last quarter witnessed a 3% increase in share price (see Figure 1). With UAE being listed on the MCSI Emerging Markets Index, international clients and investors are expected to start placing capital into Emaar’s assets and stocks due to the investment value proposition and the financial strength that the stock offers (Khan, 2013). Furthermore, Emaar banned aggressive property agents from selling off-plan developments (i.e., properties which have been contracted but not yet built) to prevent speculative pricing and execute a customer sale only after a project’s completion (Scott, 2013).

A few days following the announcement, Emaar signed a deal with Dubai World Central to develop a project close to the expo site, which will host residential villas, a golf course, a shopping mall and a number of hotels (El Gazzar, 2013). Several other projects were launched post Expo 2020 win to capitalise on the emirate’s sources of distinctiveness, such as central geographic location, state-of-the-art infrastructure and cosmopolitan resident population. Among these projects are serviced residences complementing the Dubai Mall expansion, a multi-platform Opera and adjacent District (UAE Government News, 2014), the Dubai Hills Estate in a joint venture with Meraas Holding, the Dubai Creek Harbor in collaboration with Dubai Holding (Sophia, 2015), and a luxury residential tower in Marina district offering a view on the 210-metre ‘Dubai Eye’ (the largest Ferris Wheel in the world) (Deulgaonkar, 2016). Consistent with its ambition of constantly beating its prior records and reaching new heights, Emaar has recently announced its plan to deliver before Expo 2020 another spectacular landmark – ‘The Tower’ skyscraper that would rise slightly higher than Burj Khalifa (Parasie, 2016).

To prevent the negative effects of the maturing property market in the UAE, Emaar’s top management has recently shifted its emphasis to other strategic areas. Owing to the specific nature of customer demand in the market, one of the key priorities became the strengthening of its shopping malls and hospitality businesses that could secure a steady stream of revenue for the company (Gulf News, 2016). By the end of 2014, Emaar Malls Group started trading its shares on the Dubai Financial Market, with the purpose of allowing Emaar Properties to retain its market share in the retail segment (Agniew, 2014). With regard to its core business, Emaar altered its value proposition from a mere property development to more comprehensive real estate solutions focusing on professional project management, timeliness of project delivery and improved customer service (Sophia, 2015).
Figure 1  Stock price movement between January 2008 and December 2015 (in AED) (see online version for colours)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>15.85</td>
<td>5.01</td>
<td>4.26</td>
<td>3.62</td>
<td>3.83</td>
<td>7.74</td>
<td>12.00</td>
<td>8.39</td>
</tr>
<tr>
<td>Low</td>
<td>1.89</td>
<td>1.79</td>
<td>2.77</td>
<td>2.29</td>
<td>2.41</td>
<td>3.77</td>
<td>5.90</td>
<td>4.88</td>
</tr>
</tbody>
</table>


5 Conclusion: future outlook for Emaar

With the global economy still recovering from the dramatic consequences of the financial crisis, UAE’s construction market fares well with the recent win of Dubai to host the World Expo 2020. Over the past years, the local government has been more cautious by putting in place several control measures to avoid another property bubble. Among these preventative initiatives are the tighter scrutiny of real estate agents by regulatory authorities, longer periods of visa validity for foreign property investors, more flexible debt repayment arrangements for industry customers and stricter corporate governance laws to improve information transparency and accountability of publicly listed corporations (Al-Malkawi and Pillai, 2013). Being the largest publicly traded real estate company in the country and region, Emaar has proven its ability to both adjust its strategies to changing external circumstances and influence the market sentiment of the property sector in the UAE.

The case of Emaar Properties contributes to the growing body of literature on the context-dependent nature of strategic adaptation to environmental jolts (Abebe, 2012; Sternad, 2012). The company has experienced a spectacular growth from its inception till the beginning of 2008, capitalising on the real estate boom in Dubai. Its leadership has been successful in mitigating the impact of the 2008–2009 global recession and property crash in the local market. In the context of an industry largely dominated by government-owned real estate entities, which have historical records of excessive debt, Emaar minimised its collaborative undertakings with local partners as a safety net to reduce its exposure to financial leverage. By diversifying geographical concentration via emerging markets’ entry and shifting emphasis from residential projects to retail, hospitality and commercial operations, Emaar has managed to balance its business risks and opportunities.
With the World Expo 2020 win, Emaar re-embarked on its journey of long-term growth through innovative property developments (such as smart cities) to become one of the most admired companies in the Middle East. Commenting on the 11% increase in net profit achieved in 2015, Emaar’s chairman noted that the group’s “businesses benefited from the positive performance of Dubai’s economy with the core sectors of retail, hospitality, tourism and aviation setting impressive milestones in 2015” (Gulf News, 2016). So far, its strategy of sustainable growth that focuses on efficiency maximisation, resource optimisation, diversification of operations, premium assets’ development and long-term value creation for stakeholders, allowed Emaar to address market challenges and opportunities effectively. The company has regained its financial strength (see Table 3), but the question remains as to whether it will be able to maintain this improvement given the high-risk high-return opportunities that await. In light of the rapidly evolving industry dynamics, Emaar needs to outpace extant market conditions and outline its domestic and international strategies for the coming years.

**Table 3** Financial snapshot (in million AED)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Dec-08</th>
<th>Dec-09</th>
<th>Dec-10</th>
<th>Dec-11</th>
<th>Dec-12</th>
<th>Dec-13</th>
<th>Dec-14</th>
<th>Dec-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>16,015</td>
<td>8,413</td>
<td>12,150</td>
<td>8,112</td>
<td>8,240</td>
<td>10,328</td>
<td>9,893</td>
<td>13,661</td>
</tr>
<tr>
<td>Domestic revenue</td>
<td>13,926</td>
<td>7,776</td>
<td>11,178</td>
<td>6,684</td>
<td>6,765</td>
<td>9,052</td>
<td>7,862</td>
<td>10,881</td>
</tr>
<tr>
<td>International revenue</td>
<td>2,089</td>
<td>637</td>
<td>972</td>
<td>1,428</td>
<td>1,475</td>
<td>1,276</td>
<td>2,031</td>
<td>2,780</td>
</tr>
<tr>
<td>Gross profit</td>
<td>6,811</td>
<td>4,099</td>
<td>4,547</td>
<td>4,236</td>
<td>4,179</td>
<td>5,149</td>
<td>5,904</td>
<td>7,263</td>
</tr>
<tr>
<td>Net profit</td>
<td>3,080</td>
<td>2,897</td>
<td>2,477</td>
<td>1,918</td>
<td>2,107</td>
<td>2,541</td>
<td>3,686</td>
<td>4,589</td>
</tr>
<tr>
<td>Return on assets</td>
<td>5.1%</td>
<td>0.45%</td>
<td>4%</td>
<td>3.2%</td>
<td>3.4%</td>
<td>3.9%</td>
<td>5%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Return on equity</td>
<td>8.4%</td>
<td>1%</td>
<td>7.9%</td>
<td>6.1%</td>
<td>6.4%</td>
<td>7.3%</td>
<td>10.3%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>66%</td>
<td>122%</td>
<td>99.7%</td>
<td>90.1%</td>
<td>86.3%</td>
<td>86.9%</td>
<td>108%</td>
<td>89.8%</td>
</tr>
</tbody>
</table>


Within the local arena, the key preoccupation in the short term should be the satisfaction of the increasingly sophisticated demand due to an altered customer sentiment from price to value proposition. With the impending World Expo to take place in Dubai, Emaar could merely continue with its strategy of setting and beating ambitious targets for corporate growth. With returning demands and growing margins in the residential property segment, the company has the option to reconsider its recent emphasis on commercial developments and retail operations. To counter the detrimental effects of heightened competition from government-owned real estate firms, Emaar could contribute to industry consolidation by merging with another large-size local firm. Yet, for the period following the completion of the World Expo in 2020, Emaar is seriously challenged in its ability to make accurate industry forecasts that would enable its executives to implement proactive strategies to align with new trends and client demands.
With regard to an international strategy that aims to reduce Emaar’s dependence on the UAE market, the company’s current aspiration is to duplicate its proceeds originating from foreign operations. In the past two years, international projects accounted for 20% of the total revenue of the group, representing a slight increase from the percentage achieved in 2013 (see Table 3). Yet, some industry critics argue that replicating local success in international markets would be difficult for Emaar due to global competition, political instability in many countries of the region and lack of foreign government support similar to that enjoyed in the local context (The Economist, 2015). In a recent empirical study of eight commercial real estate markets in the Middle East, Salem and Baum (2016) demonstrated that the most important country-specific factor that explains the flow of foreign direct investments in the property sector is the stability of the political environment.

Over the years of Emaar’s existence, its top management established an exemplary case of strategic variability in a continuous effort to adapt the organisation to significant discontinuities in its external environment. Nevertheless, will Emaar be able to sustain its momentum in the domestic market in the post-Expo 2020 period? Furthermore, will it succeed in the ambition of replicating Dubai’s model in international markets? The uncertainty that awaits Emaar Properties in the near future calls for renewed managerial efforts of strategic adaptation for effectively riding the forthcoming wave of change.

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