



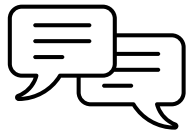
The Board's Journey through COVID-19: How Middle East Boardrooms are Adapting to New Realities

THE BOARD'S JOURNEY THROUGH COVID-19:

How Middle East Boardrooms are Adapting to New Realities

Hawkamah and Diligent conducted a survey to explore how GCC boards handled decision-making during the community lockdowns that placed a lot of businesses and organisations under stress. Key findings include:

Leadership Communications



86%

of boards had constant contact between their board members during the lockdown.



82%

of boards were also in constant contact with the executives.



55%

received some sort of communication from shareholders related to changing investor expectations.



71%

reported that the lockdown did not have any impact to board operations.

Crisis Readiness

Executives were more prepared to deal with the crisis than the board.

✓ 58%

of respondents felt that the executives were ready to navigate through the pandemic.



But for boards, only

42%

were ready to lead at this time.



22%

thought that the risk committees were capable of dealing with the pandemic.



42%

of respondents highlighted that the policies and procedures for company operations were flexible enough to respond to the pandemic, and



42%

thought that the control environment was flexible and agile.



34%

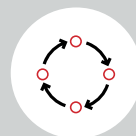
thought that communications to shareholders were adequate, compared to 48% stating that stakeholder communications were adequate.

Reassessing Board's Priorities

In trying to operate in the "new normal," our respondents identified top board priorities once the crisis brought about by the pandemic subsides and becomes more manageable:



1. Review company's business model



2. Review business continuity lessons learned



3. Ensure that the workplace is safe and is in compliance



4. Stabilise company's financial position

1. Understanding the Business Impacts of Covid-19 on the Middle East

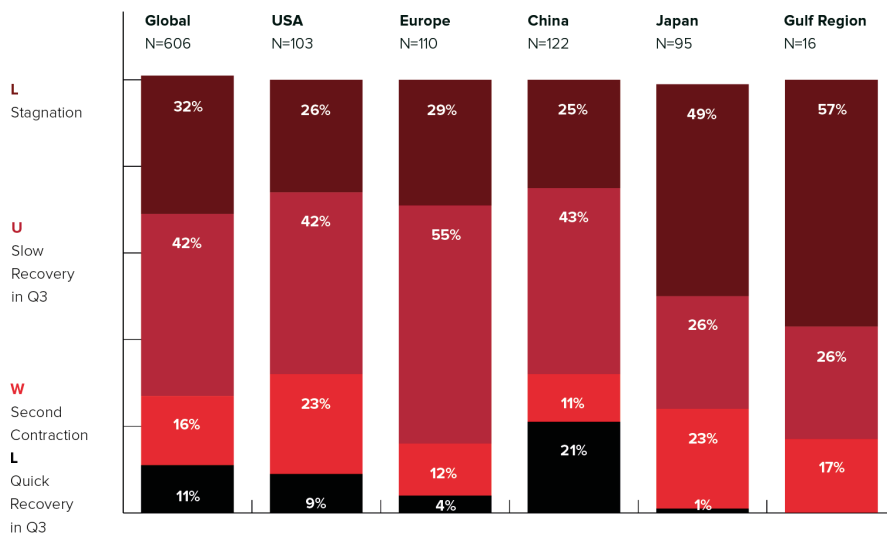
The 2019 pandemic ravaged economies and societies, and particularly affected the companies of the region. Initial COVID-19 cases were first reported from the United Arab Emirates around late January 2020 and quickly spread in the region around April 2020. Most countries introduced community lockdown directives in an attempt to control the spread of the virus.

In response, organisations had to immediately activate their business continuity plans and deployed 'work from home' measures to minimise any potential impact to the business. Companies with international operations had to quickly liaise with their headquarters or regional offices, while regional companies had to figure out modalities to respond to government directives.

Not surprisingly, COVID-19 is bringing severe economic costs to the region. The International Monetary Fund (IMF) estimates that growth in the Middle East and North Africa (MENA) region might fall to -4.2% for oil exporting countries and -0.7% for oil importing countries in 2020¹. MENA countries responded rapidly to mitigate the economic consequences of the crisis on the private sectors and households and keep the financial market functioning. On average, 2.7% of GDP was allocated to fiscal measures, while 3.4% of GDP (over USD 47 billion) in liquidity injection was activated by Central Banks across the region during the first weeks of the crisis².

In May 2020, several MENA countries began to gradually relax lockdown measures and started planning to open up their economies and societies. A new normal with social distancing, face masks and flexible work hours are being widely implemented. However, a recent survey of CEOs conducted by the Conference Board on their expectations of economic recovery highlight a pessimistic view of the Gulf region with about 57% predicting economic stagnation in the near future.³

The Shape of Economic Recovery According to CEOs



With this backdrop, Hawkamah Institute initiated a survey in July 2020 of its constituents, comprising mostly of directors and company secretaries, to explore how regional boards handled decision-making during the pandemic. The survey explored the perception of these directors and company secretaries on how their companies and organisations responded to the crisis. With the aim of trying to identify good practice, this report reflects on some of the lessons learned for regional boards under stress.

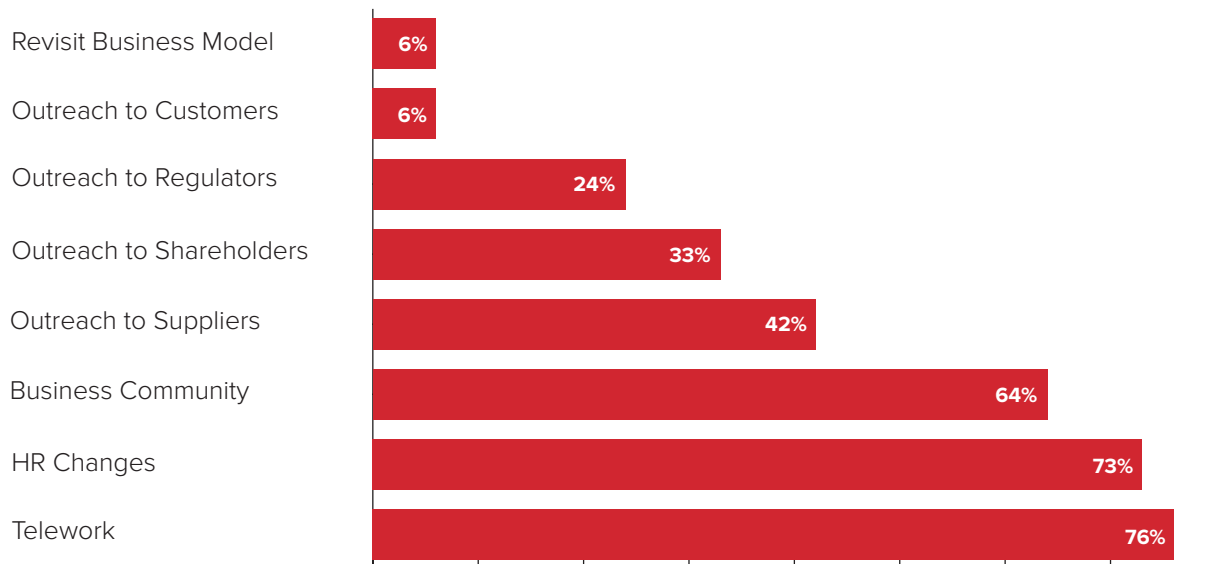
1. MF, Regional Economic Outlook - Middle East and Central Asia, April 2020.
 2. OECD, COVID-19 crisis response in MENA countries, June 2020.
 3. The Conference Board, C-Suite Challenge, July 2020

2. Regional Companies Initially Prioritised Business Continuity

As governments started to implement aggressive approaches to combat the virus, companies had to implement business continuity protocols as well as critically review their human resource requirements. Most of the survey respondents reported that their organisations implemented teleworking into the operations, conducted a thorough review of the company's human resources requirements given the slowdown of business, and generally implemented business continuity plans.

42% of the respondents reached out to suppliers to re-negotiate terms of engagement, while 33% reported reaching out to shareholders, 24% to regulators, and 6% to customers. Another 6% of the respondents also mentioned a revisiting of their company's business model and focused their efforts at business resilience.

Measures Introduced During the Lockdown



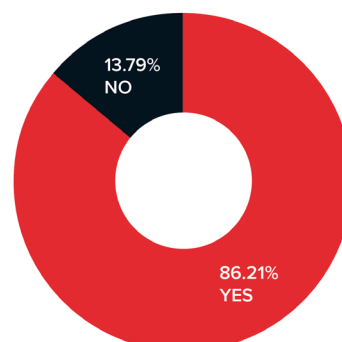
3. Board Communications During Times of Social Distancing

Amongst Board Members

During times of undue stress—especially like this one—where a great deal of uncertainty had to be taken into consideration in business decision-making, boards had to work closely together as a group to fulfill their fiduciary duties. They need to be accessible and stay on top of what is going on with the business.

86% of respondents reported that their board members were in close contact during the community lockdown, as businesses went under economic stress.

Is Your Board in Contact During the Lockdown?

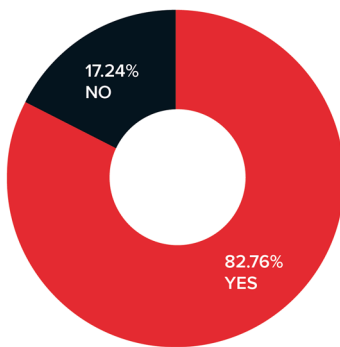


Boards and Executives

Boards keeping in close touch with executives especially during times of crisis is a good corporate governance practice. Boards have a unique fiduciary responsibility in overseeing the company, and during times of crisis there may be instances where executives have to make emergency decisions that may impact the company's priorities which are typically set by the board. Staying abreast of company developments, while not necessarily micromanaging unless the situation calls for it, is a balancing act that boards need to make during times of crisis.

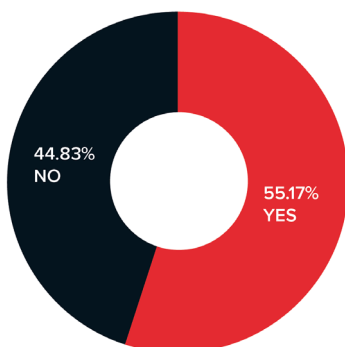
83% of respondents liaised actively with executives during the height of closures.

Is Your Board Liaising Actively with Executives During the Lockdown?



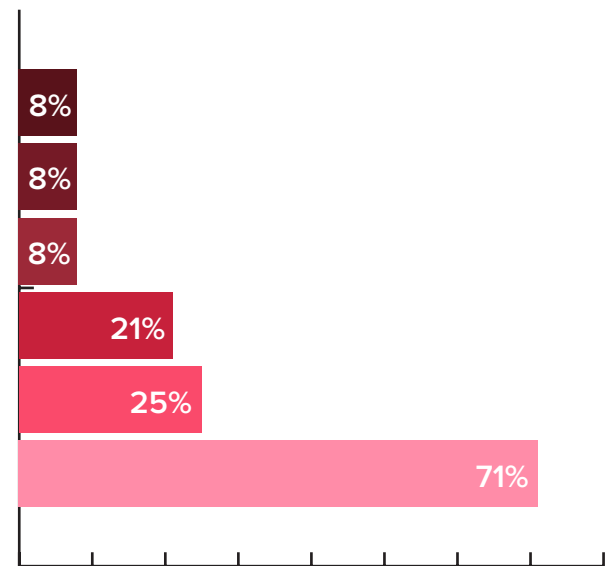
The board also has a responsibility to get in touch with key stakeholders, particularly the regulators and shareholders of the company. 55% of respondents mentioned that they received some form of communication from shareholders on changes in investor expectations in light of the lockdown and their implications to the business.

Has the Board received any communication from shareholders on any changes in investor expectations?



71% of respondents noted that the lockdown did not have any immediate impact on board operations. Interestingly, 25% of respondents noted some challenges with board's access to executives and 20% of respondents cited insufficient scenarios were provided to the board for proper decision-making.

What Was the Impact of the Lockdown to Board Operations?

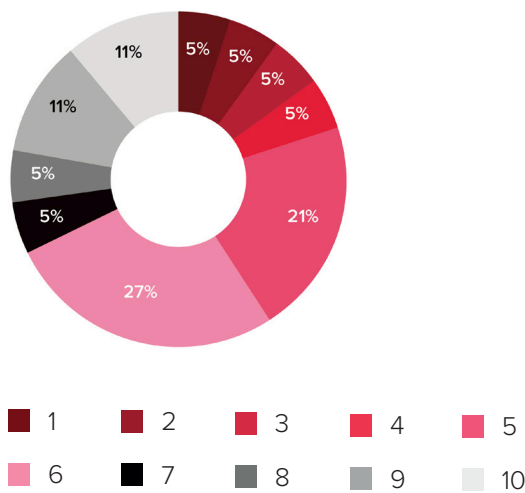


- Insufficient board engagement by executives
- Inability to get all board members together to make a decision
- Lack of virtual conferencing capabilities
- Insufficient scenarios provided to the board for proper decision-making
- Lack of adequate access to executives
- No impact

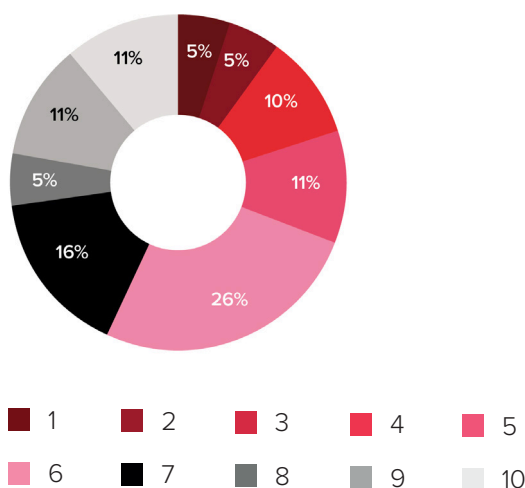
4. Assessing Crisis Response

For this survey, we asked respondents to assess their perceptions on the quality of various indicators as they observed their organisation. They were asked to rate 1 as the worst and 10 as the best. We tried to capture the extent of responses through the spectrum, and assumed that a rating of seven and above show a more positive observation on the quality of each indicator.

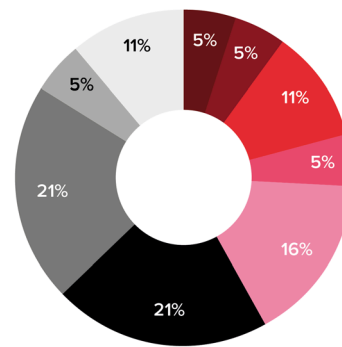
Respondents were asked of their perception on board level risk oversight prior to the pandemic. 32% reported that boards were at least at 7 out of 10 in their perceived quality of the board's risk oversight prior to the pandemic.



Once the pandemic occurred, 42% of the respondents said their board was at least at 7 out of 10 preparedness level to deal with this pandemic.

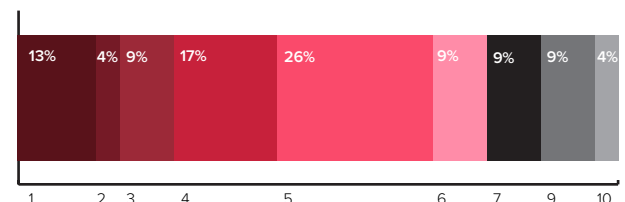


An interesting 58% of respondents assessed their executives at least at 7 out of 10 preparedness to deal with this pandemic. The general perception is that the executives were more prepared than the board.



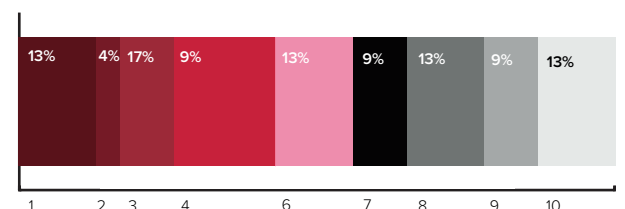
Those that had risk committees, 22% felt that their risk committee had at least a 7 out of 10 effectiveness in dealing with the pandemic.

Effectiveness of the board's risk committee (if one exists) dealing with the pandemic.



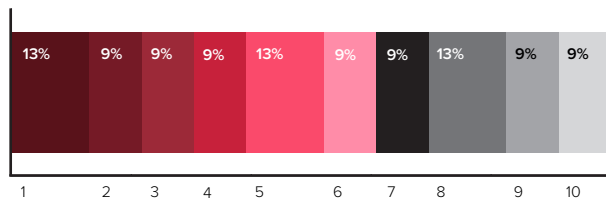
44% of respondents assessed the quality and flexibility of their company plans, policies and procedures at least at 7 out of 10 conducive to respond to the uncertainties that the pandemic brought to company operations.

Quality and flexibility of company plans, policies and procedures conducive to respond to the pandemic.



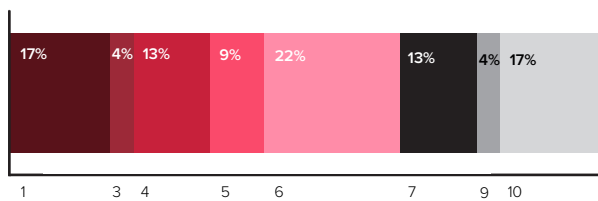
40% of respondents assessed the effectiveness of the company's controls at least at 7 out of 10, resulting to an agile response to deal with the pandemic.

Effectiveness of the company's internal controls resulting in an agile response to deal with the pandemic.



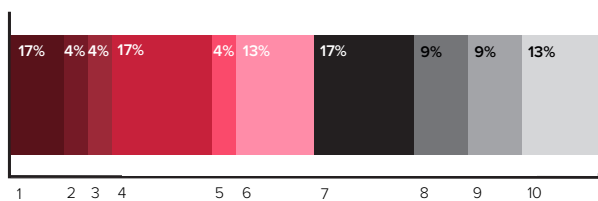
On the company's communication to its shareholders during the lockdown, 34% assessed the quality of communication to at least 7 out of 10.

Effectiveness of the company's internal controls resulting in an agile response to deal with the pandemic.



... while 48% of respondents assessed the communication of the company to its stakeholders to at least a 7 out of 10.

Communication of the company to it's stakeholders.



5. Key Takeaways

Some of the key takeaways from the results of the survey are as follows:

Technology and board meetings – Those organisations that initially invested in board meeting technology found it easier to meet and collaborate virtually than those that followed a more traditional paper-based approach of board meetings. The greater the exposure that board members had in utilising their iPads, the easier it was for the company secretary to push information into the board portal for better board decision-making.

During times of crisis, the **trusting relationship between board and executives** are tested. The board has to be reassured that executives are doing all that is necessary to mitigate any potential risks that the organisation is facing, and this can be effectively done through constant contact and communication between the board and the executives. The relationship between the Chairman and the CEO is key.

Crisis communication good practices call for **stakeholder and shareholder communication** to be an ongoing concern of the Board. As executives try to battle the crisis head-on and put out fires, the Board must make sure that the external relationships of the organisation are intact and fully informed to the extent possible.

More Resources



Watch

Watch the video in Arabic: Introducing Governance Cloud



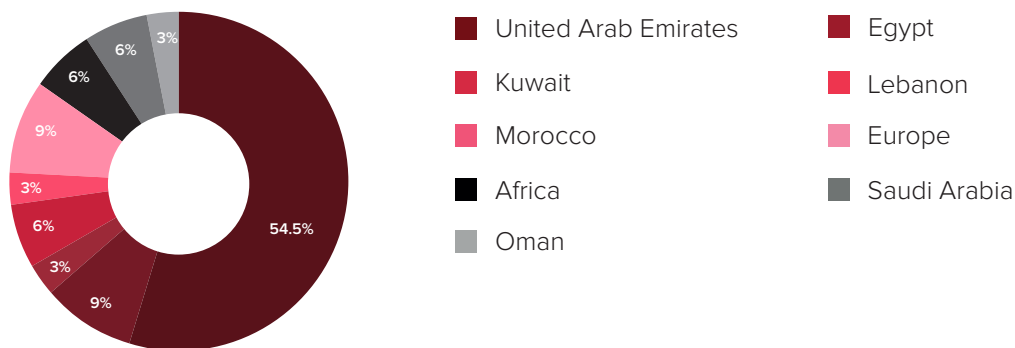
6. Appendix

In July 2020, Hawkamah Institute issued a 4-part online survey to directors and company secretaries that have gone through its director development and certified board secretary program.

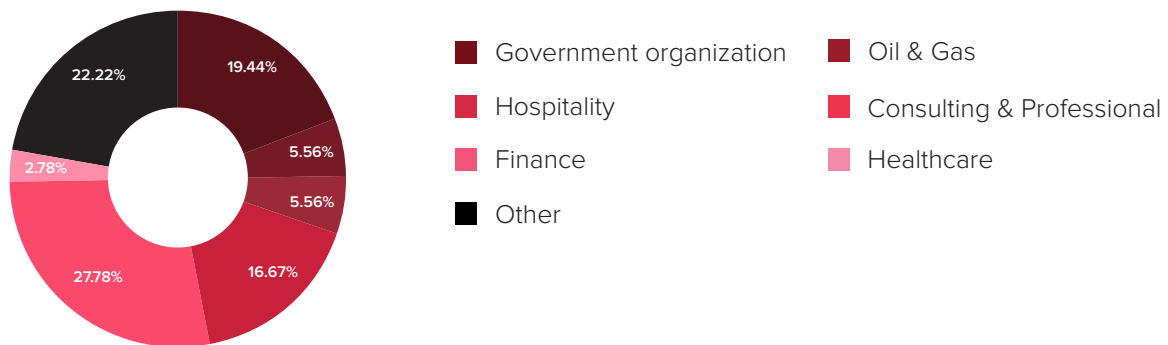
The survey focused on: (1) measures introduced during the lockdown; (2) impact on board operations; (3) assessment on board and company responses; and (4) priorities moving forward.

Hawkamah Institute received 43 responses, a majority of which are based in the United Arab Emirates. The top three sectors represented include - government (20%), financial services (28%) and consulting and professional services (17%). A majority of the respondents sit on at least a four-member board.

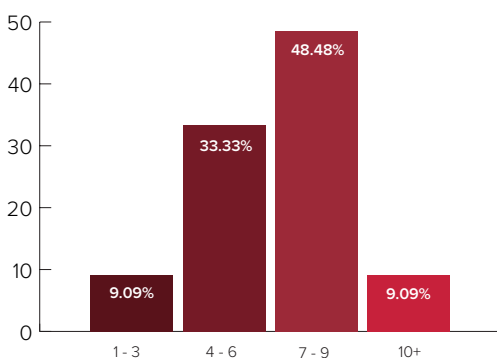
Geographic Distribution of Respondents



Industries Represented by Respondents



Number of Board Members on the Board





Diligent is the pioneer in modern governance. Our trusted, cloud-based applications streamline the day-to-day work of board management and committees, support secure collaboration, manage subsidiary and entity data, and deliver insights that empower company leaders to make better decisions in today's complex landscape. With the largest global network of corporate directors and executives, Diligent is relied on by more than 19,000 organisations and 700,000 leaders in over 90 countries.

Hawkamah, Institute for Corporate Governance in the Middle East, works with governments, regulators, companies, boards, and other corporate governance stakeholders to push for better corporate governance practices in the region.

Diligent Corporation
Emirates Towers, Level 41, Sheikh Zayed Road, Dubai
P.O. Box 31303, UAE
T: +971 4 319 9905 | W: diligent.com

Hawkamah, The Institute for Corporate Governance Ltd.
Level 14, The Gate, Dubai International Financial Center
P.O. Box 506767, Dubai, United Arab Emirates
T: +971 4 362 2551 | F +971 4 362 2475 | W: hawkamah.org