

GOVERNANCE IN *focus*



Forum Outcome Report

Governance in Focus: Boosting Competitiveness in a New Business Paradigm

25 April, 2018

King Abdullah Petroleum Studies and Research Center (KAPSARC)
Riyadh, Kingdom of Saudi Arabia

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Thank you to Alissa Amico for her contribution to this report.

Pearl Initiative

Tel: +971 6 515 4605

Fax: +971 6 515 4066

enquiries@pearlinitiative.org

www.pearlinitiative.org

@PearlInitiative



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Foreword

Amin H. Nasser, President and Chief Executive Officer, Saudi Aramco



Amin H. Nasser
President and Chief
Executive Officer,
Saudi Aramco

On behalf of Saudi Aramco, it was a pleasure to hold the Governance in Focus forum. We are proud to have partnered with the Pearl Initiative in co-hosting this timely event.

As markets around the world continue to evolve, the competitive pressures on companies are also rising. Against this backdrop, effective governance plays a key role in enhancing a company's performance, reputation and broader business resilience. Indeed, the basic principles of corporate governance – including high standards for ethical conduct, sound accounting practices, accountability, effectiveness and efficiency, equity and inclusiveness, and more broadly, the rule of law – are important considerations for any company.

At Saudi Aramco, good governance has been an integral part of our business model since the very beginning 80 years ago. Today, we have formal structures and processes in place that extend to all parts of our operations, enabling us to effectively monitor both our progress and our performance, while ensuring compliance. For us, good governance has translated into a wide range of practical benefits, including shareholder confidence, a solid reputation, a cost position among the lowest in our industry, a top safety record, and high overall performance.

This forum was held with the intention to satisfy one of the most critical corporate needs in our region, designed to provide companies of all sizes and in all industries with access to the latest information and insights on ways to improve governance. I trust you will find the discussions held at the forum and shared in this report to be extremely worthwhile for your organization.

Badr Jafar, Founder, Pearl Initiative and Chief Executive Officer, Crescent Enterprises



Badr Jafar
Founder, Pearl
Initiative and Chief
Executive Officer,
Crescent Enterprises

It was a pleasure to welcome guests from around the world to the Governance in Focus: Boosting Competitiveness in a New Business Paradigm Forum – the first to be jointly hosted by Saudi Aramco and the Pearl Initiative.

The Pearl Initiative was established in 2010 by the gulf's private sector with a clear vision: A thriving economy in the gulf region underpinned by a private sector that embraces good governance as a pillar of sustainable growth. Eight years on, our global business environment is undergoing a paradigm shift. The resultant impact this evolution is having on the gulf region's private sector continues to increase in significance. Now, more than ever, we need multi-stakeholder models that boost business resilience and ensure sustainable economic growth across generations.

Good corporate governance is increasingly being recognised as a cornerstone of economic competitiveness, with global expectations of ethical and sustainable business practices becoming mainstream. Corporate and institutional culture is inspired from the top, which is why leaders from both private and public organizations across the region must embrace the central role corporate governance plays in supporting growth, innovation and job creation in the gulf region and beyond.

The topics discussed at this forum explored ideas and issues relevant to this overarching theme. Internationalization, diversification and technological disruption simultaneously create opportunities and challenges for the government, private, and philanthropic sectors working to address how to positively harness these shifts. The Pearl Initiative's strategic partnership with Saudi Aramco provides the organization with a unique opportunity to scale the implementation of its programs and enhance the value generation to its partnership network and the wider business community.

Thank you sincerely to everyone who joined us; we hope that you find the discussions insightful and meaningful to your own organizations, and that we continue to work together to realize the business case for creating a corporate culture of transparency and accountability in the gulf region.



Executive Summary

Global and Regional Context

Good corporate governance is a cornerstone of business competitiveness for family-owned, state-owned and listed companies.

Public and private businesses today in the gulf region firmly believe in the value of good governance not only to support corporate performance, but also to create social value and assure long-term sustainability. In the new economic era in the region, there is a strengthened need to align governance practices to create a level playing field, allowing the state to develop national champions while fostering the creation of, and innovation by private enterprises.

Private and public companies alike face several common challenges such as internationalization, integration in global value chains and employment creation that merit collaboration between private and public leaders. At the same time, governance challenges faced by state-owned and private companies, as well as by non-profit organizations, differ in some important respects. While private business is concerned with its sustainability beyond first- or second-generation founders, government enterprises are focused on ensuring that their governance models allow them to operate sustainably and independently from the state. Non-profit organizations in the region, whose role is of growing importance, are equally aware that their reputational capital is intricately linked to the effectiveness and transparency of their governance.

The emerging socio-economic priorities in the region require governance models that are capable of supporting the transition of state-owned enterprises to private ownership or to financial independence from the state, the transition of family-owned firms to the next generation of owners, and the growth of small companies to robust entities capable of competing internationally.

Forum Objective

Recognizing the importance of addressing these priorities in the gulf region, the Pearl Initiative and Saudi Aramco co-hosted the Governance in Focus forum under the patronage of H.E. Khalid A. Al-Falih, Minister of Energy, Industry, and Mineral Resources and Chairman of Saudi Arabian Oil Company (Saudi Aramco). The forum brought together 350 global business, government and philanthropy leaders to discuss the role of governance in this new global business paradigm.



Master of Ceremonies, Ammar Siddiqui, opening the forum.

The ultimate objective of the forum was to discuss how to create innovative governance frameworks suitable for the government, private and philanthropic sectors, allowing the three sectors to collaborate effectively towards common social and economic objectives critical to future prosperity.

Setting the Scene

The underlying theme of the forum was highlighted in the introductory message of Badr Jafar, Founder of Pearl Initiative and Chief Executive Officer of Crescent Enterprises. Badr Jafar emphasized that the region is on the cusp of change that will cut across all sectors of the economy and that will require a significant adaptation of governance models to facilitate public-private collaboration, increase private sector participation in the economy and foster entrepreneurship. The Pearl Initiative, Saudi Aramco and their partners hope to deliver local, culture-sensitive solutions to make firms and economies more resilient and competitive.

Amin H. Nasser, President and Chief Executive Officer, Saudi Aramco, in his welcome address, highlighted that good governance is about values and requires leadership. The leadership of large organizations such as Saudi Aramco is important to continually raise the standards of corporate governance, and the leadership within companies is essential to making governance an integral part of both what a company does and how it does it. Amin H. Nasser emphasized that this applies to all companies including micro, small and medium-sized enterprises and family firms.

H.E. Khalid Al-Falih set the tone for the forum in the keynote address, observing the growing role of the private sector within the economy which is reflected in national visions such as Saudi Vision 2030. The growth of the private sector and development of world-class economic engines in the gulf region will depend upon the private sector reducing its reliance on government expenditures and on achieving true global competitiveness. To achieve this strong corporate governance is fundamental.

The Minister laid down a collective challenge at the beginning of the forum: To commit ourselves to making this region the undisputed global benchmark for good governance by 2030.



Badr Jafar presenting to Amin H. Nasser a token of appreciation of the partnership between Saudi Aramco and the Pearl Initiative with H.E. Khalid Al-Falih on the stage.

Main Themes Discussed

1. Leadership and Cultural Change

A company's leadership must be committed to implementing good governance, adopted as a means to facilitate good business and not viewed as a burden.

Corporate governance means a total change of culture. Positive changes are being witnessed in the region, for example, in the extent to which information is now shared by listed companies about CEO remuneration, and independent directors are increasingly appointed to boards. To support and embed the culture, it is important to reward ethical behavior, integrity and respect, and link compensation of the leadership to the vision and sustainability of the company. Such a culture of fair employment and strong corporate governance attracts the talent that is necessary today to establish a sustainable successful business.

2. Innovation

Governance frameworks must not stifle innovation. The pace of change and innovation is very fast, and for companies to succeed in the current business environment, governance structures must adapt to ensure them the freedom to innovate. Some companies are decentralizing to enable the company to be innovative and to respond quickly to local markets. Many companies are adopting a degree of 'anti-governance' where individuals are given licence to innovate in a less structured environment and the attitude to entrepreneurial failure is less negative. This type of change in corporate culture has been challenging in the region where relationships between boards, management and employees tend to be more formalized.

3. Technology is Changing Everything

The "fourth industrial revolution" represents both an immense opportunity and risk for all organizations, from national champions to small companies. Regulation in the region over fast-moving technology firms is evolving and companies often self-regulate, guided by their values and community expectations. Cybersecurity is a key risk and one which must be addressed through companies' approach to governance.

The region has been at the forefront of technological innovation, embracing the benefits of new technologies and creating strong demand. The supply, however, from the region is limited. Governance models are needed that allow countries and state-owned assets, and all their derivatives to contribute to creating more supply in the system.

4. Trust and Transparency

Corporate governance is the backbone of any enterprise and it is fundamental to building trust. Not only is trust a two-way street between the government and private sectors, regulators must gain the trust of the companies they regulate.

In a fast-changing business environment, companies must communicate in an open and authentic way to build the trust and transparency necessary for businesses to advance.

5. Impact of Regulatory Changes

The introduction of corporate governance regulations by central banks and securities regulators has positively impacted investor confidence. There is a focus now by some regulators to be innovative and work collaboratively with companies to find regulatory

solutions that understand new industries and do not limit innovation.

6. State-Owned Enterprises and National Champions

In the gulf region, the state remains a dominant force in the economy, benefiting from oil and gas export revenues and in turn distributing them to citizens directly and indirectly in the form of public sector jobs, subsidized goods or services, investments in specific sectors such as healthcare, education or accumulating them through sovereign savings. State-owned enterprises are also clients of the private sector and, in some sectors, are competitors of private sector firms. Good corporate governance is key to reconciling their complex and diverging interests. One aspect emphasized globally and, in the region, is the importance for state-owned enterprises to have independent directors on their board.

7. Public-Private Collaboration

New, multi-stakeholder models of governance need collaboration between public and private sectors to address both social and economic priorities. Healthy collaboration will be conducive to private sector growth, leaving space for the private sector to operate on a level playing field with the public sector, including state-owned enterprises. The government needs to be a trusted



*Hamid Jafar, H.E. Khalid Al-Falih,
H.E. Dr Hamad Sulaiman A. Al-Bazai and
Sheikh Fahim Al Qasimi (from right to left).*

and reliable partner of the private sector and, at the same time, the private sector adopting good corporate governance will foster the trust of government partners.

8. Family-Owned Firms

Strong governance is particularly important in family-owned firms. With 85% of non-oil GDP in the region generated by family firms and an estimated one trillion US dollars being transferred to the next generation in

the coming five to ten years, effectively managing the transition is critical. Family firms tend to be focused on longevity, an important aspect of building sustainable businesses.

9. Institutional Investment

The role of institutional investors in promoting good corporate governance and enhancing investor stewardship is becoming increasingly important in the region.

Institutional investors looking to enter the gulf markets expect clearly communicated information about the company. There has been a shift in the marketplace from short-term thinking to long-term time horizons. Investors are interested in companies with diverse boards with a global focus, and which have clear values that are concerned with environmental and social issues as well as financial performance.

Whilst there is a role for regulators to set minimum standards, the exchanges, regulators, companies and investors must work collaboratively to support companies to manage their risks through environmental, social and governance perspectives.

10. Governance and Philanthropy

Following the introduction of laws facilitating the registration of non-profit organizations in the region, the number of foundations (and consequently, the size of the sector) has seen immense growth. Philanthropic organizations and their stakeholders recognize the value of enhancing governance structures in building credibility and trust with the donors and the public. Impact evaluation, beyond simply measuring the principal outputs achieved by philanthropic programs, is a key area that organizations within the ecosystem are looking to address.

11. Micro, Small and Medium-Sized Enterprises (MSMEs)

MSMEs account for 80–90% of all registered companies in the region; however, their contribution to the region's GDP remains low. While governments have supported the growth of MSMEs by, for example, establishing national SME institutions and adopting policies to increase access to financing, survival rates have not dramatically improved. Large family- and state-owned firms in the region have a responsibility to promote MSMEs through their procurement systems and by supporting entrepreneurship activities.

To ensure business sustainability there must be a balance between the need for innovation with the requirements for more structured governance processes.

Recommendations

Distinguished speakers and delegates convened at this forum to share their unique insight on the trends and issues impacting the gulf region. There is a firm commitment to strong governance frameworks. It was identified that there are several specific areas where enhanced governance standards and new approaches to governance have the potential to significantly influence the gulf region's socio-economic growth.

H.E. Khalid Al-Falih, Minister of Energy, Industry and Mineral Resources, Saudi Arabia and Chairman, Saudi Arabian Oil Company (Saudi Aramco) laid down a collective challenge to commit to making the gulf region the undisputed global benchmark for good governance by 2030. Recommendations and actions emanating from the forum are an initial response to this call for action.

- Public-private collaborations have the potential to transform the gulf region. Whether through joint ventures or public-private partnerships, these new models of collaboration which have the capacity to create new cities, build critical transportation infrastructure or launch new sectors, will require new and innovative mechanisms of governance.

H.E. Khalid Al-Falih highlighted there is little guidance in the public domain for these complex hybrid structures, particularly considering they are uniquely customized in different jurisdictions and domains.

Action: Explore the governance models for collaboration and partnerships between the public and private sectors and develop guidelines for these complex hybrid structures, taking advantage of international examples and relating it to the unique characteristics of the gulf region.

- The technology sector is an important part of any economy in creating growth, jobs and meeting the ever-increasing digital demand of business and consumers. There is significant and growing investment in the gulf region's technology sector and commitment to support regional technology firms. A key part of the success of fast-growing technology firms is to find a suitable approach to governance tailored to their strategic objectives.

New technologies continue to disrupt all aspects of business. In order to cope with this disruption, companies must adapt and leverage the new opportunities, such as artificial intelligence, the utilization of data to accelerate business as well as to protect against risks potentially created by this disruption. It is a challenge for governments and companies to keep pace with change and adopt governance frameworks that create a corporate culture capable of responding to these competing pressures.

Action: Explore the current practices of technology companies, the expectations of technology investors, and the global best practices to provide a basis for a region-specific response to the needs of technology companies and investors in the gulf region. Resources such as guidelines and standards for investors and technology companies should be developed and available.

Action: Examine the ways in which digitization is affecting corporate governance frameworks and their implementation now, and in the future, to inform the continuous development of effective governance frameworks that can adapt to the changing business environment.

- In the gulf region there have been significant changes in the regulatory framework for foreign direct and portfolio investment to attract foreign institutional capital to the region. Global and national policymakers are stimulating investment by large private and sovereign institutional investors to provide sustainable long-term finance for the corporate sector and to fund national priorities such as infrastructure.

Institutional investors promote good governance to protect their assets and to encourage corporate responsibility and long-term value creation. There is a role for active institutional investors to work together with regulators, exchanges and companies to continue to enhance corporate governance and expand investment in the gulf region.

Action: Enhance trust between institutional investors and gulf companies by exploring the factors influencing global investors' decisions to invest in the gulf region and other emerging markets.

- Embedded in the culture of the Islamic world, philanthropy is recognized as one of the three pillars of socio-economic growth in the region, together with the government and private sectors. The philanthropic and non-profit ecosystem in the gulf

region is increasingly looking to adopt governance practices designed to support their organizations to reach their objectives, understand their impact and ultimately increase the effectiveness of giving.

Creating governance frameworks must continue to be driven by those within the ecosystem to enable it to be regionally and culturally applicable. Foundations, companies and non-profit organizations in the gulf region are becoming more aware of the value of governance in enhancing the effectiveness of their programs and activities, however regional best practices have yet to be established.

Action: Establish platforms for philanthropic and non-profit organizations to share their governance best practices, challenges and solutions.

- Corporate governance is not only relevant for large blue-chip companies. It is crucial for the growth and competitiveness of micro, small and medium-sized enterprises (MSMEs) which are fundamental within any economy for job creation, innovation and sustainable growth. Governance models for MSMEs must be tailored for smaller organizations to draw upon the benefits of the structure created by good governance without limiting the creativity and agility of the business or limiting the resources available to invest in the core businesses.

There has been significant investment in fostering a business environment supportive of MSMEs in the gulf region including regulatory changes, funding, capacity building and efforts to increase opportunities to contract with large organizations. National SME authorities, sovereign wealth funds (SWFs), state-owned enterprises (SOEs) and large private companies including family firms, all have a responsibility to support this segment of the business community.

Action: Develop corporate governance guidelines for micro, small and medium-sized enterprises (MSMEs) in the gulf region that build on regional and international best practices and are flexible to adapt to companies of different sectors and sizes.

Action: Examine the current relationships between SOEs, SWFs and large companies with MSMEs and how to establish governance models for these relationships that enhance the business opportunities and support for MSMEs to build strong resilient businesses.

The Pearl Initiative and its partners are committed to ensuring the insight and knowledge shared at the event is translated into action. The recommendations will inform our programs and partnerships to support collaborative initiatives to address these priorities.

Under the Patronage of:



H.E. Khalid A. Al-Falih

Minister of Energy, Industry and Mineral Resources, Saudi Arabia and
Chairman of the Board of Directors, Saudi Arabian Oil Company (Saudi Aramco)

Introductory Message

Corporate Governance: The Foundation of Corporate Sustainability

Badr Jafar, Founder, Pearl Initiative and Chief Executive Officer, Crescent Enterprises

The region is on the cusp of change that will cut across all sectors of the economy and that will have material impact on the lives of our citizens. Visionary national agendas such as Saudi Vision 2030 and UAE Vision 2021 aspire to create an environment conducive to economic prosperity and social cohesion for all.

Today in the gulf region, we are at a pivotal moment in our own history. Our quest is less about the wealth of nations but rather the health of nations. The health of our nations and economies is predicated on strong governance frameworks and it is this inextricable link between governance and the health of our organizations today that will be key to unlocking the vitality promised by our shared vision for tomorrow. If we get it right, we will witness a veritable economic renaissance.

“Perennially operating from the periphery, the private sector has been elevated to critical partner status in facing the great social economic challenges of our time and securing the future health of our economies. No longer a bystander, the private sector has become the solution.”

Private wealth in our region alone has surged to 8 trillion dollars and will hit 12 trillion dollars by 2021. With 85% of the gulf region’s non-oil GDP generated by family businesses, we expect to see a generational transfer of wealth of over 1 trillion dollars over the next decade. In safeguarding the resilience of the passage of this vast economic value, strong corporate governance shall be vital. Once seen as an addition of value to traditional corporate structures, good governance is now a permanent fixture forming the bedrock of business competitiveness and sustainability. And this is not the sole domain of blue-chip multinationals. In fact, our region’s SMEs and start-ups can arguably benefit the most from governance principles and frameworks, facilitating more rapid and steady growth than they otherwise could. As engines of our job markets this subject matter is particularly important given that gulf SMEs currently contribute a relatively low 20% of GDP compared to an OECD average of 55%, so in other words, plenty of upside.

The fourth industrial revolution that is upon us adds another dimension to these discussions. Technological change has always been a double-edged sword. With



Badr Jafar addressing the audience during the introductory message.

youth unemployment across the MENA region already hitting 40% and with 85% of jobs that will exist in 2030 yet to be invented, our challenge as we strive to transition to a knowledge economy will be to harness this technology to inclusively serve humanity and our habitat. And that is also fundamentally a governance challenge.

The discourse of the health of capital and its custodial institutions would not be complete without a look at philanthropic capital. With between 250 billion dollars to 1 trillion dollars a year in Zakat and Sadaqa every year, we have an immense responsibility and opportunity to optimize the impact of the third sector. Again, robust governance frameworks are required to secure its successful evolution to greater prevalence so as to ensure its accountability to its beneficiaries and of course the wider stakeholder community.

“We aim to collectively design self-renewing models of collaborative governance that will ensure the vitality of the region’s economies and societies for the years to come.”

It is a unique opportunity to convene this meeting in Saudi Arabia, as the Kingdom embarks upon one of the deepest transformations our region has witnessed. It is important to recognize that at the heart of change in Saudi is a focus on governance. Headlines aside, the trend lines shaped by gender equality, youth inclusion,

economic diversification and embracing the arts in the local economy will positively transform this great country and the region as a whole. We all have a role to play in realizing this heroic vision and for the collective good of our institutions and societies.

Some thoughts to contemplate as we strive to transition from dialogue to action:

- **Authentic collaboration.** Each of us has an important role to play in creating a level playing field upon which economic reforms can flourish. However, it is far too common for us to be working in our own silos. Realizing our shared vision for healthy, inclusive and diversified economies will be a futile exercise in the absence of intensely focused cross-sectoral collaboration to drive the vital infrastructure and job opportunities that our citizens rely upon.
- **Leadership.** Relying on governance without strong leadership or vice versa is like trying to clap with one hand. Leadership without governance risks complacency and corruption. Furthermore, governance without leadership risks atrophy, bureaucracy and indifference. Therefore, our boards and management need to live the value systems that they champion each and every day.
- **Start early.** Our students and budding entrepreneurs have much more at stake in these decisions and actions than many of us do. Very soon they will be the ones that benefit or the ones that will have to pay heavily, and the least that we can do as responsible leaders is stand up and own what we did to make our world and their birthright a more sustainable place socially, economically and ecologically.
- **Earn trust.** Trust is the foundational principle that binds all of our relationships, and unlike reputation that is based on an aggregate of past experiences, trust is a forward-facing metric of stakeholder expectation and which is increasingly considered the most valuable commodity in the workplace. And the prize on offer is more than a social contract to operate, it is true value creation.

Nobody has all the answers. These collaborative discussions can help us to develop the right locally relevant and culturally sensitive solutions for our region and bring about the resolve that we need to facilitate the positive change that we seek, and not just for some but for all.

Welcome Address

Saudi Aramco: From Regional to Global – Leadership in Governance

Amin H. Nasser, President and Chief Executive Officer, Saudi Aramco



Amin H. Nasser addressing the audience during the welcome address.

For Saudi Aramco, global from its establishment more than eight decades ago, international standards of governance have always been an integral part of what and how it does things. Its approach to corporate governance has continued to evolve as it has gone from several shareholders before 1980 to just one currently.

Throughout its history, Saudi Aramco has been consistently engaged in benchmarking its performance to maintain and strengthen its industry leadership position. For example, since 2015, its accounts have been prepared in accordance with International Financial Reporting Standards and it produces a publicly available annual review on company operations and achievements.

“Our challenge is maintaining the right balance of control, compliance and performance. For a company like Saudi Aramco, it is critical that corporate governance structure does not become top-heavy. If the chain of command and control becomes too long for a large organization like Saudi Aramco, the business will become sluggish and resistant to change.”

On Saudi Aramco’s board, the only working Saudi Aramco executive is Amin H. Nasser and the robustness of its board is further enhanced by the presence of non-Saudi directors. It maintains independent auditing practices, its board audit committee ensures the reliability of its accounting and reporting as well as the integrity of its our financial statements; and the board’s

ethics committee holds the organization to the highest ethical standards.

Saudi Aramco anchors everything it does to its five corporate values: excellence, safety, accountability, integrity and citizenship. Illustrating some of the ways in which these values are implemented, Nasser described its enterprise risk management system, introduced many years ago to identify and mitigate key corporate risks. Saudi Aramco also has a world-class system that provides the CEO a real-time dashboard showing corporate key performance indicators to readily see the health of its business.

“Ultimately good governance provides a foundation for better performance and an enhanced reputation for any company of any size.”

The creation of shareholder value has been, and will continue to be, important at Saudi Aramco; however, its focus extends to customers, suppliers, government organizations, the community, and of course also the employees. Localization is an important initiative and through its IKTV program, Saudi Aramco is working to significantly increase the number of goods and services procured domestically to about 70% by the end of 2021. Beyond improving supply chain reliability, this will help further industrialize the Kingdom, diversify the domestic economy and create jobs.

Citizenship is a key priority for Saudi Aramco. In line with Vision 2030, Saudi Aramco is promoting entrepreneurship and job-rich small to medium

enterprises. For this purpose, Saudi Aramco also created Wa'ed, a 200 million dollar program to fund start-ups along with providing the necessary training for these start-ups. This multi-stakeholder approach is essential to our sustained success.

Looking forward, whilst Saudi Aramco has well-developed corporate governance practices, it has absolutely no intention of standing still.

Micro, small and medium-sized enterprises, as well as family-owned firms, also benefit from practicing good corporate governance. Indeed, key principles such as following the law, ethical conduct, sound accounting practices, and protecting one's investment are as important to small firms as they are to bigger companies. It is perhaps even more important as, after all, smaller companies face a unique set of challenges during down cycle and smaller companies cannot typically afford elaborate governance monitoring systems.

Good governance is fundamentally about values; starting with the individuals through to teams, and ultimately across the entire enterprise. This means the actions of one individual can have a huge impact on the company's reputation, performance and the bottom line.

Saudi Aramco, like all companies, knows that it is not perfect, and realizes that it can further improve on its governance practices and its execution as well as holding a broader responsibility to help others, especially in the Kingdom. This was the motivation behind co-hosting this important event with the Pearl Initiative. Good governance is key for every company that wants to thrive during this dynamic time and why Saudi Aramco will continue to strive to raise the bar even higher for ourselves in the years and decades to come.

Keynote Address

Governance in Strategic Sectors: Impact on National Competitiveness

H.E. Khalid Al-Falih, Minister of Energy, Industry and Mineral Resources, Saudi Arabia and Chairman, Saudi Arabian Oil Company (Saudi Aramco)

The size of the global economy has reached 80 trillion dollars and comprises a complex network of interdependent sectors, cross-border linkages of trade and investment, and supply chains that encircle our planet. Today an ever-growing number of increasingly diverse companies dominate the landscape, although governments and intergovernmental agencies still play an essential role through policy and regulatory frameworks, as well as through government-owned enterprises engaged in commerce. In such a complex, competitive and challenging environment, how do companies reconcile divergent interests, avoid bad decision-making, minimize the risk of systems and process failures before they take place and still succeed day in and day out? The clear answer is corporate governance.

“Good governance is not a nice-to-have luxury but a ‘must-have’ prerequisite for any company or social enterprise for sustained success and for the maintenance of the social license to operate.”

Now for us in the Kingdom, those stakes are particularly high because of the growing importance of the private sector in our economy. In fact, we are betting everything on the private sector. Saudi Vision 2030 sets a target of expanding its contribution from 40% of GDP at present to 65% by 2030. When you consider that Saudi Arabia’s GDP itself is targeted to more than double by 2030 then the true scale of the task ahead becomes even more apparent.

Clearly, we need to build greater capacity and capability in the private sector in light of increasingly bold aspirations. These aspirations include developing local companies into regional leaders, national champions becoming global front runners, unlocking new sectors through our sovereign wealth fund – the Public Investment Fund, growing and opening our capital markets for international investors and unleashing massive latent potential in such sectors as logistics, retail, tourism, mining, advanced manufacturing, technologies of the fourth industrial revolution, and services from finance to healthcare and education.

Strong private sector growth and the development of world-class economic engines are conditional on two principles. First, delinking the activities of the private



H.E. Khalid A Al-Falih presenting the keynote address.

sector from over reliance on government expenditures and instead relying on standalone commercial potential; and second, achieving true global competitiveness. The ability to compete locally, regionally and internationally will require strong governance from Saudi regional companies, large and small.

There are many large well-run companies in our region that we could be truly proud of and the fantastic governance standards they set. But we should acknowledge that some in the region exhibit significant gaps in governance and performance, recognize that there is still room for improvement, and recall some of the high-profile, and indeed very tragic, failures in the region which were consistently and invariably underpinned by poor governance.

When it comes to smaller private companies, there is also a fair bit of catching up to do and with rapid growth in the private sector the need for sound governance will become even more acute. Micro, small and medium-sized enterprises (MSMEs) and family-owned businesses are indispensable. In advanced economies, they are at the heart of economic growth and employment creation and the data proving the criticality of MSMEs to international economies is overwhelming. The debate is not about whether they should be promoted but rather how to raise them to greater heights. In fact, Saudi Vision 2030 calls for the contribution of SMEs to national GDP to grow from 20% at present to 35% by 2030.

The basic principles of corporate governance are just as important, or even more important, to the MSMEs and family-owned businesses as they are to large companies. Without good governance, these smaller firms not only open the door to poor performance and corruption but also put their very survival at risk.

“Governance does not live in a set of bylaws or on a poster of corporate values. Instead good governance exists on a higher plane.”

Publicly owned enterprises, on the other hand, face their own set of challenges and vulnerabilities, and also require strong, sound governance. The continuing strength and commercial success of some state-owned companies like Saudi Aramco does demonstrate that good governance also means good business for such leading firms, provided the right governance structure and processes are in place.

We also need to consider the unique interests of public-private partnerships that share risks and utilize resources from the public side as well as the private entities. While best practices exist for governance of either private or public sector organizations, there is little guidance in the public domain for the complex hybrid structures of public-private partnerships (PPP), particularly considering they are uniquely customized in different jurisdictions and domains. Saudi Arabia’s movement towards the PPP model will introduce a new set of challenges.

Efficient governance is not about one size fitting all needs but there are a number of essential principles that must be incorporated in any corporate governance approach.

- First, full accountability to shareholders, employees, customers, and other stakeholders.
- Second, complete transparency and the courage to be candid and forthright.
- Third, a system of oversight and control that assigns clear roles and responsibilities to appropriate parties including strong and independent board oversight.
- Fourth, compliance with both the intent and the letter of the laws and regulations of the jurisdictions where a company operates.
- Fifth, a commitment to support the interests and aspirations of public stakeholders including the protection of the environment, the wise use of natural resources, and adherence to societal values.

The private sector is the key to the region’s future prosperity and to creating economic growth and employment. The businesses in our region need to grow; they need to become more globally competitive

and succeed beyond our own national and regional markets and that means that all classes of companies must embrace the imperative of competitive, best-in-class corporate governance.

Challenge

I would like to lay down a collective challenge to all of us, which is to commit ourselves to making this region the undisputed global benchmark for good governance by 2030.

Recommendations

- Build on the work of the Pearl Initiative and best practices globally to create a manual for use by the commission Monsha’at for SMEs in the Kingdom as well as promoting good governance in start-ups.
- Focus on the increasing importance of public-private partnerships (PPP) to create guidelines for these complex hybrid structures, taking advantage of work done in other parts of the world and relating it to the unique characteristics of the region.

Plenary Panel Theme I. Public-Private Dialogue on Governance

In view of economic and socio-economic challenges in the region, what governance models can facilitate the private and public sectors to effectively collaborate, and under what conditions?

Moderator

Speakers



John Deferios
Emerging Markets
Editor, CNNMoney



**H.E. Ahmed Ali Al
Sayegh**
Chairman, Abu
Dhabi Global Market



**H.E. Dr. Hamad
Sulaiman
Al-Bazai**
Vice Minister of Finance
of Saudi Arabia



Alain Bejjani
Chief Executive
Officer, Majid Al
Futtaim Holding



**Rick
Haythornthwaite**
Chairman Mastercard
& Centrica, Advisory
Partner, Moelis & Co.



Lubna S. Olayan
Chief Executive
Officer and Deputy
Chairman, Olayan
Financing Company

The goal of the opening plenary was to understand how the state and private enterprises can work together to develop governance frameworks that promote robust competition, social capital creation, and enhanced productivity.

Government spending is very important as the engine for growth in a country like Saudi Arabia. To support sustainable financial resources and a strong fiscal position, H.E. Dr. Hamad Sulaiman A. Al-Bazai stated that the ministry is applying governance practices with a strong focus on transparency, now publishing quarterly reports on its budget and on the fiscal balance program. This change is key to ensuring those who deal with the government know the government's intentions, what it is looking for and trying to achieve.

Over the past decade significant progress in the regulation of listed companies has been realized,



Moderator John Deferios introducing the session with panellists H.E. Dr. Hamad Al-Bazai, H.E. Ahmed Al Sayegh, Alain Bejjani, Rick Haythornthwaite and Lubna Olayan (from left to right).

including recent revisions of corporate governance codes (for example in Saudi Arabia and Oman) and of corporate laws (for example, in the UAE and Kuwait). Lubna Olayan shared that investors in the Saudi market are comforted by the guidelines issued by the Saudi Capital Markets Authority (CMA) and their role in monitoring companies. Companies' reporting requirements and supervision of the companies' governance adopted by the boards has built investor confidence.

"It is important to have humility and for corporate governance to be underlined by the desire to change and learn."

H.E. Ahmed Ali Al Sayegh

Abu Dhabi Global Market (ADGM), established 3 years ago, has invested in establishing corporate governance best practices for its participating companies, striving to ensure clarity and application of the rules. H.E. Ahmed Ali Al Sayegh, the Chairman of the ADGM, highlighted that it is important not to stifle innovation which can occur if the rules are not tailor-made to each segment. Trust is a two-way street, and for an international financial hub like ADGM, consulting with the industry is imperative to gaining the trust of its participants. His Excellency recommended that to respond to the Minister's call to be recognized as a corporate governance leader, we need to listen, be humble and experiment a little.

"Corporate governance is more than only monitoring, it is also about being responsible for choosing the right leadership, the right tools and the right processes. It is important that governance should not become bureaucratic, it should not be taken for granted and importantly it is a continuous journey."

Lubna Olayan

ADGM is focused on fintech where many companies require regulatory hand-holding and are vastly different from well-established banks that are well-versed in this field. ADGM established a Regulatory Lab (Reglab) where companies can test their products in a regulated environment and ADGM can work collaboratively to find regulatory solutions for these companies. His Excellency stressed the need for regulators to learn from the companies they seek to attract and regulate. There is a risk that conventional regulators will take too long to understand new industries and require alternative responses such as the guidelines on cryptocurrency that ADGM is developing.

Lubna Olayan also emphasized the importance of trust. Corporate governance is the backbone of any enterprise



Alain Bejjani in discussion with John Defterios during the panel titled 'Public-Private Dialogue on Governance'.

and it is important to build trust.

We are seeing tremendous change in the private sector. Lubna Olayan highlighted that many family businesses have gone public such as Zamil Group, and many others are contemplating going public. Often there is even more need for good governance in family businesses where often it is seen that the founder establishes the business, the second generation builds it and the third generation destroys it. Another issue faced by family-owned firms is that there are a limited number of shareholders as conflict between shareholders it is likely to be more intense.

Enabling the sustainability of the company is a part of good governance and family businesses tend to be focused on longevity. It is important for the compensation of the leadership to be linked to the vision and the sustainability of the company as leadership is accountable for making decisions now that will impact the company in 5 to 10 years. Family businesses are very conscious about this and do not have to worry about their share price, make decisions for the long term, and are often ready to take a risk. Lubna Olayan shared her view that family businesses are very capable of working with the government to take whatever role is given to them, particularly in this environment of open dialogue between the government and the private sector.

"Increasingly in this dynamic, fast-changing world, we are thinking about ecosystems in which competitiveness relies upon a healthy ecosystem."

Rick Haythornthwaite

Rick Haythornthwaite discussed the need to consider the entire ecosystem. A healthy ecosystem depends on factors relating to its many elements. These elements include (1) governments that regulate to incentivize

transparency, competitiveness, and innovation; (2) major corporations that have deepened their belief that innovation is key to driving out revenues and cutting costs; and (3) a disruptor community that has taken on a recognition that they are not only disrupting for the present but have a responsibility to address the evolving role of business in society. If the ecosystem is operating in this way and there is at least some alignment of purpose and values, then there is a foundation for good governance, and the rules and bylaws follow.

When considering how Saudi Arabia becomes the vanguard of good governance by 2030, Rick Haythornthwaite recommended that one element to consider is how does the regulation of an ecosystem apply in a way that is truly value-based and collaborative across every boundary.

Alain Bejjani shared his perspective that governance is not just about structures; it is a set of principles that are very basic and simple. Fundamentally, and what makes it so daunting, is that it is about independence; bringing someone into your most intimate space. He suggested that we cannot have governance unless there is a separation of ownership and management, and the right step in a family-owned business is to move from the first generation to professional management. Alain Bejjani suggested that the key role of an owner is to appoint the board and the audit committee. In his view, in this region, the role of the shareholder or owner is

undervalued, and the role of management overvalued. Being a shareholder, an owner has a full-time job especially in family-owned businesses and it requires dedication to this role for the business to flourish.

Lubna Olayan suggested that whilst it worked very well for Majid Al Futtaim, the approach can differ for different companies and if based on meritocracy a family member can run the business. Further, family members have a key responsibility to educate future shareholders, so they can monitor and ensure the business is very well-run.

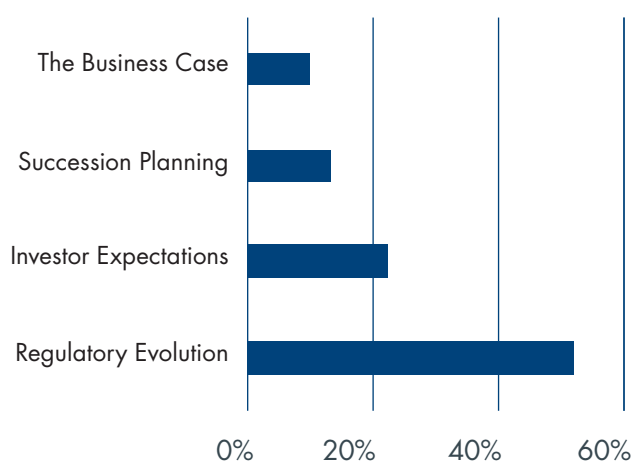
Alain Bejjani, speaking about Majid Al Futtaim Holding's investment in Saudi Arabia, shared that from a foreign direct investor's perspective, there is clarity about where Saudi is going. Governance has a significant role to play not just in building the foundations but making sure the involvement of the private sector is done properly, ensuring this results in the government competing with the private sector. There is a big opportunity to unleash the private sector, be it the Saudi companies or the regional and global private sector which are being invited to come into Saudi Arabia.

"Government has a big role to play at certain junctures in the history of some countries... to ignite a new reality."

Alain Bejjani

Interactive Voting Results

Which of the following factors is MOST LIKELY to positively impact the implementation of governance frameworks in the gulf region?



Plenary Panel Theme II. Governance for Diversification: Supporting National Champions

What is the role of national champions in helping to diversify economies in the gulf region, and what governance frameworks are needed to support this objective?

Moderator

Speakers



Saad Al Matrafi
Bureau Chief –
Riyadh, Al Arabiya



H.E. Dr. Khaled Al-Sultan
Former Rector,
King Fahd University
of Petroleum and
Minerals



Yousef Al-Benyan
Vice Chairman and
Chief Executive
Officer, SABIC



Jamal Fakhro
Managing Partner,
KPMG and First
Deputy Chairman,
Shura Council,
Bahrain



Joaquim Levy
Managing Director
and Chief Financial
Officer, The World
Bank Group

Economic diversification is one of the key policy objectives of governments in the gulf region and the need to stimulate activities in non-natural resource sectors to achieve sustainable economic development is reflected in the national development visions such as Saudi Vision 2030, the Vision 2020 of Oman, and the Vision 2021 of the United Arab Emirates.

In the gulf region, the state remains a dominant force in the economy, benefiting from oil and gas export revenues and in turn distributing them to citizens directly and indirectly in the form of public sector jobs, subsidized goods or services, investments in specific sectors such as healthcare, education or accumulating them through sovereign savings. As such, governments in the gulf region are important economic actors as direct clients of the private sector in terms of, for instance, strategic infrastructure projects.

The objective of this session was to consider how governments can foster national private and public champions that can drive growth domestically and internationally, and how effective corporate governance structures can underpin the development of these champions.

National champions, especially companies in the hydrocarbon and petrochemicals industry, have a



H.E. Dr. Khaled Al-Sultan addressing the audience with the distinguished panellists, Yousef Al-Benyan, Jamal Fakhro, Joaquim Levy (from left to right) and the moderator Saad AlMatrafi (left).

significant role to play beyond their own business. H.E. Dr. Khaled Al-Sultan described that they have contributed significantly to employment and human resources development, instigated growth through their demand for goods and services, and are extremely important for setting the right standards for suppliers and service providers, particularly as some of the SMEs and other companies that operate in the Kingdom need

that standard to be elevated. With the local content initiative, this has become more important as there will be increasingly more purchases of goods and services from within the Kingdom. National champions are expected to be the role models for other companies regarding good governance where we expect more transparency and accountability in these companies.

His Excellency emphasized that while there are commonalities in all systems of governance such as accountability and transparency, governance is impacted by the country, the history of the country, and the environment in which it operates. For example, in the US and UK, governance is shareholder-centric, in Germany it is more stakeholder-centric, in Japan it is more about business relationships, and in India there is more of a focus on family businesses.

His Excellency also highlighted that governance is very important to minimize corruption and set standards for sustainability, and minimize failures but governance will never be a guarantee the growth of a company or prevention of failures altogether. Governance has shades of grey rather than being black and white.



Yousef Al-Benyan reflecting on the governance model adopted at SABIC.

Yousef Al-Benyan, Vice Chairman and CEO of SABIC, which is recognized as a global leader in corporate governance, highlighted that its partners and vendors have been the real catalysts for SABIC in achieving high standards of corporate governance.

Based on his experience both in Saudi Arabia and globally he described that the main issue lies within change management and the approach to governance, as opposed to it being a systems issue. Like sustainability, governance is not a CSR initiative but is good business and can bring value for shareholders. Like safety within organizations, governance has an impact on people, on society and assets and requires full compliance.

It is important to have the right system in place and a

leadership that possesses a high level of integrity and commitment to successfully implement good governance practices. Selecting the right partners is also important, where successful joint ventures bring together partners that have chemistry in their values and culture.

The number of foreign investors in SABIC shares has increased over the past couple of years due to SABIC's ability to demonstrate it has the highest standards of governance that extends to its subsidiaries and related parties, not only fully-owned or partially-owned and minority stake companies.

"There will always be a chance that there will be a failure... the idea behind governance is to minimize the chance of failure and provide the right bedrock for companies to grow and have the right culture."

H.E. Dr. Khaled Al-Sultan

H.E. Dr. Khaled Al-Sultan and Yousef Al-Benyan noted that governance should not be viewed as a burden but as a means to facilitate further good business.

Jamal Fakhro emphasized that the most important element is leadership. Secondly, corporate governance means a total change of the culture of an organization. As an example of the change in culture already seen is the sharing of information by listed companies about the remuneration of the CEO and senior management which previously would have been withheld. Similarly, in light of the reliance on independent directors, telling a major shareholder that they cannot be a director would have been rejected 10 years ago but is now the norm.

"It is important to ensure that the governance model is agile enough and can adapt with the business for if this is not achieved there is a risk that the system will be rigid, and that people will try to bypass it."

Yousef Abdullah Al-Benyan

It is important and possible to change the mindset through communication. Jamal Fakhro highlighted that now we teach corporate governance at universities, through training courses, and using social media so this message can reach every stakeholder in the business that will need to understand this. He emphasized the need to continue to push for change and communicate what a business can achieve by adopting good governance.

Reinforcing the impact of communication, Jamal Fakhro also highlighted the importance of regulation. Bahrain, for example, is introducing a corporate governance

code that will be applicable to publicly listed and private companies which would not have been possible without laying the groundwork with people, shareholders and family to understand and accept such regulation.

"The leadership of the organization, whether family, government or publicly listed, must believe in the change associated with introducing corporate governance in an organization, otherwise this change will not take place."

Jamal Fakhro

Based on the World Bank's experience promoting governance reform of state-owned enterprises in developing countries, Joaquim Levy noted that there has been a change in the expectation of investors and stakeholders everywhere. With consideration to the international experience, he emphasized the importance of independent boards, particularly in the case of state-owned entities. A differentiation might arise whereby the objectives of the state are not compatible with the ultimate strength of the company creating an important role for independent board members. It is important for independent board members to represent the interests of

minority shareholders. This is particularly applicable to domestic investors that understand the subtleties of the workings of these companies though he acknowledged that it is sometimes very difficult to mobilize the savings of domestic investors.

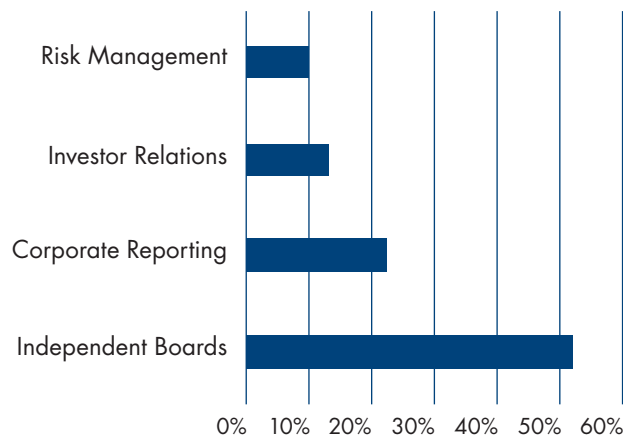
"In a country like Saudi Arabia that is in a way getting into a new social contract with its population through Saudi Vision 2030, it is very important that governance becomes a core value in this project."

Joaquim Levy

Finally, Yousef Al-Benyan emphasized the need to build a culture that rewards ethical behaviour, integrity and respect. He referred to research done by the World Economic Forum which shows that people are looking for employers not based on what they pay but based on whether they match their values system. Establishing a sustainable successful business is achieved through people and the right talent. The right talent will not come to you if they fear that they will not be protected and this is not just from a safety perspective but from a corporate governance and fair employment point of view.

Interactive Audience Voting Results

To achieve regional and global aspirations, gulf businesses can benefit from stronger governance frameworks. Which of the following measures is MOST LIKELY to make the most difference to competitiveness?



Plenary Panel Theme III. Governance in a Digital World: Creative Disruption and New Technologies

What is the impact of new technologies as governance enablers, and what challenges do they represent for boards and C-suites in terms of industry changes and emerging risks?

Moderator

Speakers



Fadi Ghandour
Co-Founder, Aramex
and Executive
Chairman, Wamda
Group



Tony Bates
Chief Executive
Officer,
Growth Equity, Social
Capital



**Karl Magnus
Olsson**
Co-Founder, Careem



**Abdulrahman
Tarabzouni**
Chief Executive
Officer and
Managing Director,
STV



will.i.am
Founder and Chief
Executive Officer,
i.am+



will.i.am addressing the audience with panellists Abdulrahman Tarabzouni, Tony Bates and Magnus Olsson (from left to right).

The technological progress that has propelled the 'Fourth Industrial Revolution' represents both an immense opportunity and a risk for global and regional economies.

This panel, led by Fadi Ghandour, addressed how digital disruption is changing the need for, and impact of, governance that is affecting the business and

governments around the globe and the region.

will.i.am commenced the discussions highlighting that the development of artificial intelligence (AI) is going to change the world in the next 10 years. will.i.am compared today with the start of the industrial revolution in 1918 where the changes and developments taking place in 2018 will transform the world by 2030.

He also emphasized the need to engage and educate young people with the tools that will help them to change tomorrow. They need to learn robotics, computer science, mathematics and engineering so they understand how to 'use their phones' rather than just being glued to platforms making organizations such as Facebook, Google, Amazon and Apple more powerful with data.

"In governance, vision is important because if you don't have vision in governance then you are governing the way you did yesterday."

will.i.am

Tony Bates described the three waves of the technology transformation -- the internet wave which changed the way people access information; the mobile wave which provided access to information in a seamless, useful way; and we are now seeing the third wave facilitated by the development of AI. The great companies that paved the way are all mission-based, increasingly using data to first understand what is important to their business and how they can accelerate that.

"There is a lot of self-governance which is a practice that companies must attest to not just because it is important to the customers companies serve but, if we want to keep this advancing forward, this notion of trust and transparency has to continue to be built."

Tony Bates

At the root of what the most powerful companies in the world do is not just that they are technologists or technology and engineering companies, rather they understand the power of data and optimize their business models to exploit that data. We are moving to a world of not who you know but what you know.

One of the most important areas that investors focus on is cybersecurity. It must be navigated as we move through these transformations and people are going to have to innovate on this just like they innovate on other services.

Tony Bates emphasized that we are still at the beginning of the AI evolution. It is important to just embrace that and get ahead of it, establish a governance model that will allow the entrepreneurs to thrive and not hold them back because the winners in the future will be the ones that do that.

The challenge is the pace of change, innovation and adoption is very fast. It means that we can have a tremendous impact on the world, but to put comprehensive structures in place ahead of time would end up slowing innovation.

This is going to be an ongoing balance of innovation and, to some degree, versus governance. By not being a bit more forward thinking, however, it will slow down organizations at some point. We have moved from a world of 'build it and they will come, and we will figure out the business model' to a totally different world where it is no longer acceptable to say I did not know, or it was a mistake, or I was too young. So we will see that shift and it is a necessary shift but it has to be balanced. If we steer back too far the other way, the innovation will slow down.

"It is really hard to govern what you don't understand."

Abdulrahman Tarabzouni

Abdulrahman Tarabzouni described many companies are encouraging innovation by having some form of anti-governance or self-governance. Examples such as Google's 20% time¹, Facebook's labs and Amazon's Lab126² carve out a way to allow people to innovate, have a licence not to be governed by the organization's KPIs, governance models and authority matrices as they are static and fixed and cannot be relied upon to run the business and make new plans. This type of approach allows the organization to bring people into the organization who can help it to cope with disruption, to self-govern and produce, and be effective members of the organization.



Panel moderator, Fadi Ghandour, engaging the panellists and audience.

¹ Employees at Google are encouraged to spend 20% of their time working on what they think will most benefit Google, empowering them to be more creative.

² Amazon Lab 126 is an inventive San Francisco Bay Area research and development company that designs and engineers high-profile consumer electronic devices.

There has to be a balance between governance and anti-governance. Given that this economy and the region are predominantly government-led and many national assets are government-owned, it is somewhat of a challenge to find the right way to make these engines become innovative, to allow some form of self-governance, and to allow executives to go out and make bets and fail. A lot of investors say failure is great and want to encourage a culture of failure, however in the region, this is not commonly embraced.

Abdulrahman Tarabzouni also highlighted that this region has a very strong digital demand however the digital supply is weak. Governance models are needed that allow countries and state-owned assets, and all their derivatives to contribute to creating more supply in the system.

Magnus Olsson, the Co-Founder of Careem described

“You have to figure out the areas where you are really protecting something. Data is at the core of that – there you need to have very strong governance and very strong controls, and the government will play a role in that space as well to protect its citizens and residents. But at the same time, you cannot stifle innovation and technology so you need to empower, decentralize and allow for this innovation to happen.”

Magnus Olsson

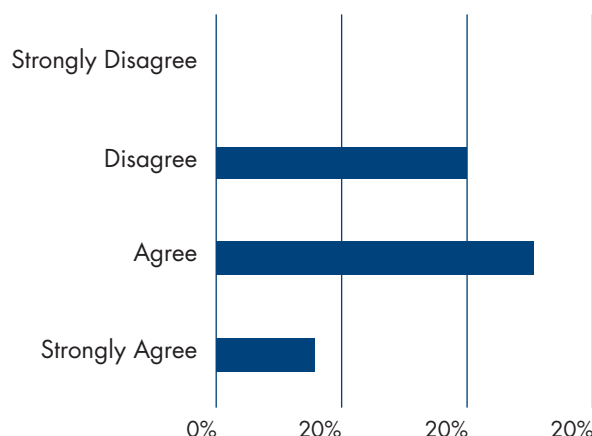
Careem’s approach to governance. Given a recent data breach faced by the company, it was clear to them that, in line with their values, they had to tell people of the data breach regardless of whether it was a regulatory requirement in the countries they operate. Careem, as a leading tech company in the region, shoulders the responsibility of showing the way, not only in cybersecurity, but in other dimensions when it comes to governance for example in addressing fiscal security and safety by doing background checks on drivers when this is not otherwise required.

Tony Bates emphasized that it is an important part of governance that companies have to be very transparent and open, and do their best to communicate in an open, authentic way. In his view, it is something we are starting to see not only in Silicon Valley but also with the fast-growing companies, and is something that must continue as it is an issue of trust.

Specifically regarding governance and technology, Magnus Olsson supported the other speakers in emphasizing the need to strike the right balance. He believes Careem is successful because it is ‘super local’. How it wins against its competitors in each market is different as each city is different and therefore it is critical to Careem to empower local teams to innovate locally, to have local innovation and to move fast. He acknowledged this may not comfortable from a governance perspective to decentralize and let people ‘run fast’ but it has to be done to compete in this world of technology.

Interactive Audience Voting Results

Existing governance standards in the tech sector pose a RISK to the gulf region’s business community.



Plenary Panel Theme IV. Governance for Long-Term Value Creation: ESG and Social Capital

How can institutional investment be effectively mobilized for long-term value creation in the region and what governance frameworks need to be encouraged by the regulators to attract such capital?

Moderator

Speakers



Alissa Amico
Managing Director,
GOVERN



**H.E. Dr. Shaikha
Al Maskari**
Chairperson, Al
Maskari Holding



**Eng. Khalid Al
Hussan**
Chief Executive
Officer, The Saudi
Stock Exchange
(Tadawul)



Valerie Haertel
Global Head of
Investor Relations,
BNY Mellon



Sammy Kayello
Chairman & Chief
Executive Officer,
MENA, Morgan
Stanley

The introduction of good governance rules by central banks and securities regulators in the region started approximately a decade ago and primarily targeted improving the quality and the integrity of domestic governance structures and practices. The changes currently being implemented to the governance frameworks for listed companies across the region are aimed at aligning national laws and regulations with international standards to attract major institutional investors to the region. For example, in 2015 the Saudi Capital Market Authority introduced a regime for qualified institutional investors which would allow, for the first time, foreign investors to invest directly in the listed companies in the Kingdom³.

In Saudi Arabia, 90% of the market is owned by institutional investors (of which less than 5% by foreign investors), though 90% of the trading is done by retail investors. Domestic institutional investors – most of which are sovereign – are already significant shareholders in capital markets in Saudi Arabia and in the gulf region. Sovereign investors play a dominant role in gulf countries where they are estimated to hold over half of the overall

³ The QFI requirements have been subsequently further reviewed and relaxed in order to encourage a broader range of investors to the local capital market.

⁴ GOVERN (2016) *the Role of MENA Institutional Investors in Corporate Governance*, Paris, France.



Eng. Khalid Al Hussan addressing the audience alongside distinguished panellists H.E. Dr. Shaikha Al Maskari, Valerie Haertel and Sammy Kayello (from left to right) and moderator Alissa Amico (left).

value. Nine of the ten largest institutional investors in the region are sovereign, either in the form of investment holding companies, state-owned enterprises, or social security funds⁴.

Khalid Al Hussan, CEO of Tadawul, the Saudi Stock Exchange, discussed that good governance practices require the collaboration of all stakeholders. The role of the exchange, in conjunction with the regulators, is two-fold: first to put in place an effective operational and regulatory framework that helps all market participants, and second, to monitor and enforce compliance by

market participants. This is a continuous effort by any exchange which seeks to adopt new regulations and new practices to make its platform competitive for international and local investors.

“Good governance practices will make your company, your exchange, your capital market as well as your economy an attractive platform for all types of investors, local or international.”

Khalid Al Hussan

As an emerging market today, Tadawul seeks to achieve developed market status in the future and to do that it has to adopt international practices. For a long time, it has been a closed exchange; the whole region has been closed to international issuers’ participation which is no longer the case. It is the role of the exchange to elevate their standards together with the regulators and in the capital markets, as well as to drive listed companies to understand how corporate governance contributes to their attractiveness, to their continuation and to their growth.



Sammy Kayello sharing his perspective during the panel discussion.

Khalid Al Hussan drew attention to the Environment, Social and Governance (ESG) indices outperforming other indices providing a good indication of how Saudi corporates applying these practices, particularly those listed in the capital market, have helped the entire ecosystem to grow.

Sammy Kayello shared that JP Morgan is working steadily with the international investor community to make the investment case for Saudi and that this is not a challenging case to make. There is a lot of potential in Saudi Arabia, and the utilization rate of the return that is available in Saudi Arabia has not been fully captured. The uptake is approximately 5% however that number and percentage participation from the global community may increase exponentially.

For Saudi Arabia, the work that the CMA, Tadawul and a handful of companies, government or otherwise, over the last three to four years with the financial community and the investors in the world at large, has paid dividends. They have been moving to adopt measures in the regulatory code that will satisfy investors, understanding what motivates and concerns them.

“Companies that have robust relationships between management and the board, that are accessible and open to their shareholders, [whose] management... demonstrate [to] shareholders that they are worthy custodians of the capital they are going to take, they are going to use it wisely, generate a very attractive return for them over the long term not the short term, are companies that will succeed in attracting investors and will outperform.”

Sammy Kayello

Kayello emphasized that companies with boards that are diverse and are, in the main, independent, representative, experienced and help the management in setting the corporate strategy, the capital allocation, and incentivize good behavior; companies that are meritocratic, have succession plans, good risk frameworks that incorporate legal, operational risk and cybersecurity risk – these are companies that will win. These companies will succeed in attracting investors to join this part of the world.

“From a leadership perspective, companies must have a core set of values, a strong moral compass that resonates globally and resonates with younger generations who are looking for more than just financial performance when they are looking at companies in which to invest. Similarly, sovereign wealth funds are looking for the right values in companies they are invested in because companies that are concerned with their environment and social issues, as well as financial performance, will be the ones that can thrive and survive and compete most effectively over a long period of time.”

Valerie Haertel

Valerie Haertel emphasized that it is important to investors for companies to have a diverse board. Diversity has come a long way globally and the reason why is that it makes sense, it is good business and it also makes a difference financially. Investors look for signs that the company is forward thinking and has the right composition on the board to bring fresh ideas in terms of backgrounds and skill sets and geography (where the

individuals are from), and ethnicity. This brings a rich perspective to the conversations at that board level.

There has been a shift in the marketplace from shorter term thinking to longer term time horizons. The pendulum is shifting to really be focused on the long term. Valerie Haertel shared that a company's actions with respect to climate change was one of the top two issues for investors in US companies this year. Finally, how a company communicates and connects with its investors is very important. Investors expect honesty and transparency, and to have enough information about the company to provide the appropriate valuation and compare the company to others. Information about a company must be clear and readily available and companies must adopt a process for regularly gathering feedback from the investor community and responding to it.



Delegates participating in the interactive audience voting conducted at the end of each panel discussion.

H.E. Dr. Shaikha Al Maskari shared that for her, corporate governance is essentially human values which become identified with our countries and our cities. Good governance is a catalyst for successfully attracting foreign investment as has been seen in places such as Singapore.

Good governance is not the monopoly of the western world and western banking institutions.

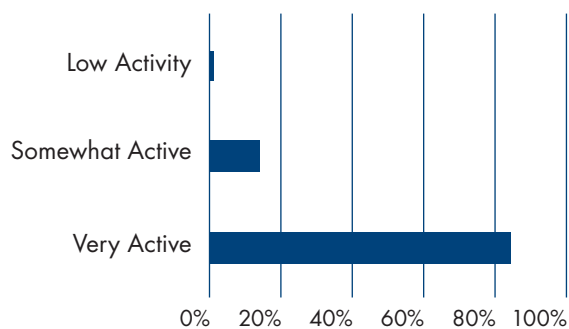
H.E. Dr. Shaikha Al Maskari

Most of the corporations and financial institutions in the region started as family-owned organizations. Reflecting on the recent trend of the region's family organizations going public, it's an interesting development for the national oil companies to list on the stock exchange. It is the oil companies that have adopted the best corporate governance practices in the region where it has become a part of the culture of these organizations.

Finally, Khalid Al Hussan reflected that investing in a company is only one element. Looking at how a company manages its risks through an environmental, social and governance perspective is what creates the long-term value for these investors. Whilst exchanges and regulators could help set minimum standards and protections, it is a must-be mindset for investors.

Interactive Audience Voting Results

How active should gulf businesses be in generating social impact in the region?



Workshop 1. From Grant Makers to Change Makers: Governance Models for Philanthropy

Has governance of the philanthropic sector kept pace with its growth in the region and stakeholder expectations of its accountability and transparency?

Moderator

Speakers



Dr. Natasha Matic
Chief Strategy
Officer, King Khalid
Foundation



Mohammed Al Shoshan
Former Manager, Public
Relations Operations
Department, Saudi
Aramco



Florence Bulte
Head of Sustainable
Engagement,
Chalhoub Group



May Taibah
General Manager,
Nafisa Shams
Academy

The gulf corporate culture has always embedded philanthropic concepts within it, such as *zakat*, and other corporate practices such as *waqf* which are structures unique to the Islamic world. Until recently the institutionalization of giving in the form of family corporate and government foundations in the formal philanthropic sector has been slower to develop in the gulf region.



Speakers Mohammed Al Shoshan, May Taibah and Florence Bulte in discussion with the audience and facilitator Dr Natasha Matic.

Following the introduction of laws facilitating the registration of non-profit organizations in the region, the number of foundations (and consequently, the size of the sector) has seen immense growth with the establishment of foundations such as Dubai Cares, the Abdulla Al Ghurair

Foundation, the MiSK Foundation, and others. A number of prominent businessmen in the region have also made commitments to transfer a large portion of their corporate wealth to charitable foundations established in their name.

"75% of foundations in Saudi Arabia fund and execute their own programs due to the lack of trust in the capacity of non-profit organizations."

Dr. Natasha Matic

Indeed, the importance of the philanthropic sector in supporting national development objectives, such as better-quality education and women's integration in national economies, has been acknowledged by policymakers within national development strategies. For instance, the Saudi Vision 2030 emphasizes the important role of the philanthropic sector in achieving national economic and social objectives.

There are clear benefits to adopting corporate governance in the philanthropic sector, including underlining the clarity of objectives and mechanisms to attain them, the ability to retain talent and provide long-term sustainability through succession planning, enhanced decision-making at the level of the executive and the governance organ(s),



Mohammed Al Shoshan discussing the transformation of Saudi Aramco's corporate social responsibility initiatives.

stronger and better-quality oversight of the executives and employees, and better accountability towards the various stakeholders.

In its work over the past several years, the Pearl Initiative has recognized that appropriate governance practices are as critical in the philanthropic sector as in any other sector. This practical workshop featuring leading regional and global philanthropic organizations, focused on exploring their governance models and discussed how best practices can be most efficiently disseminated to maximize their impact. The workshop saw the launch of the Pearl Initiative's **"State of Governance in Philanthropy - Gulf Region"** report prepared with the support of the Bill & Melinda Gates Foundation and in collaboration with the King Khalid Foundation.

"While sustainable programs accounted for only 20% of the company's philanthropic budget 3 years ago, they now account for 80% of the entire budget."

Mohammed Al Shoshan

Philanthropic organizations have to build their credibility and prove their relevance in order to attract attention and trust from their stakeholders. With strong governance structures in place, donors in the region will have more confidence in supporting non-profit organizations.

Philanthropic organizations recognize the need to continue building capacity at the level of boards as the key governance and oversight organ. Further independence of boards would be useful as is already happening in private sector companies across the region. For example, the Nafisa Shams Academy, a social enterprise aimed at supporting the employment of Saudi women, represented

at the workshop by May Taibah, General Manager, has introduced a formal board with a documented mandate.

Impact evaluation, beyond simply measuring the principal outputs achieved by philanthropic programs, was identified as another key area for improvement in the ecosystem. Impact evaluations are especially critical in the region considering the overall lack of confidence and trust in the ecosystem. The inability to be effectively reporting on impact further exacerbates this lack of trust. As a result, large companies tend to 'internalize' their corporate social responsibility and philanthropic activities.

Impact evaluations need to be tied to broader international and regional benchmarks and linked to the community ecosystems where philanthropic organizations operate. The consensus was that impact assessments should be subject to external audit requirements where possible and that an accredited streamlined reporting system is needed to support this objective.

On the other hand, donors have a crucial role to play in enhancing the way in which impact is measured and reported.

"As donors, we have a responsibility to know what we want out of our giving and communicate it in a way that is effective and beneficial to our stakeholders."

Florence Bulte

As Head of Sustainable Engagement at Chalhoub Group, a regional luxury company, Florence Bulte stressed the need for donors to be more strategic in their giving. She highlighted that Chalhoub Group's philanthropic activities are informed by the UN Sustainable Development Goals with a focus on education and the environment.

Mohammed Al Shoshan noted that the Saudi Aramco has revolutionized its approach to philanthropy and social capital building by targeting its activities away from pure charity towards funding sustainable programs. This was done in order to allow Saudi Aramco, as the donor, to observe and monitor the achievement of tangible impact and develop the capacity of the organizations with which it engages.

Going forward, the ecosystem has much to gain from cross-sector partnerships and collaboration. Creating partnerships that are less about transaction and more about collaboration not only enhance the effectiveness of programs, but also build the capacity of the sector.

Workshop 2. Driving MSME Competitiveness in a Vibrant Marketplace

What governance frameworks can governments and the private sector adopt in order to better integrate MSMEs in the region's economies?

Moderator

Speakers



Sheikh Fahim bin Sultan Al Qasimi
Partner, AQ&P



Khalid Al Khudair
Founder and Chief Executive Officer, Glowork



Shaikha Abdulla AlFadhel
Director of Small and Medium Enterprises Development Department, Ministry of Industry, Trade and Tourism, Bahrain



Marwan Mohammed Al-Suwaidi
Director of Finance, Khalifa Fund for Enterprise Development



Samir M. Suleymanov
Head, Strategic Initiatives Unit, The World Bank Group



Bilal Ballout
Co-Founder and Chief Executive Officer, Baklawa Made Better (BMB)



Speakers Samir Suleymanov, Marwan Al-Suwaidi, Shaikha AlFadhel, Khalid Al Khudair and Bilal Ballout (from left to right) discussing questions raised by the workshop participants.

Small and medium-sized enterprises are often cited as the backbone of the gulf region economies, relied on as a critical source of employment, innovative ideas, and social capital. However, MSMEs face signifi-

cant challenges related to scaling, both globally and, more significantly, in the gulf region. Although they account for approximately 80-90% of all registered companies in the region, their contribution to the GDP remains low - approx-



Facilitator Sheikh Fahim Al Qasimi engaging the speakers and the workshop participants in a vibrant discussion.

imately 30% in the MENA region. Their contribution to private sector employment is 20% to 50% and in the gulf region specifically, the contribution of SMEs to employment is currently estimated at 17 million and is expected to reach 20 million by 2020.

Over the past five years, governments in the gulf region have sought to create an ecosystem to support the growth of SMEs by establishing institutional support frameworks such as Dubai SME, the Kuwait National Fund, and Monsha'at in Saudi Arabia; adopting policy measures to facilitate better access to finance through crowdfunding platforms, easier access to credit, and other alternatives; and introducing a more flexible framework for bankruptcy and introducing laws to facilitate the formation of companies (such as one-stop shops and bankruptcy laws). Participants acknowledged however that despite this the survival of SMEs has not improved dramatically.

"We wouldn't have had investment come into my organization without good corporate governance."

Khalid Al Khudair

MSMEs in the gulf region face a number of challenges, the most prominent of which is access to finance, as indeed is the case in the wider Middle East region. It is estimated that only 2% of total bank lending across the gulf goes to SMEs⁵. Banks are reluctant to lend, or they may charge a higher risk premium or demand high collateral requirements from SMEs, because of the perceived credit risk associated with information asymmetries and lack of collateral⁶. Participants concurred that good governance practices in MSMEs facilitate the raising of capital especially in companies where their leadership and succession planning is clear.

The objective of this workshop was to discuss these challenges and explore how good governance practices can underpin the sustainability and growth of the MSME sector in the gulf region.

One reason MSMEs have limited capacity to introduce good governance practices is the lack of relevant experience by entrepreneurs who are launching start-ups. In particular, most SMEs do not have formalized boards with the necessary expertise, and often do not address the issue of succession planning.

Both Shaikha AlFadhel and Marwan Al Suwaidi discussed that special definitions of corporate governance must be developed to suit MSMEs to ensure their survival and subsequent growth.

"The trick is not to overburden start-ups with governance rules that they may not immediately need."

Samir Suleymanov

Bilal Ballout emphasized that no single set of rules can be applied to govern MSMEs, nor can MSMEs be compelled to institute corporate governance at early stages. Despite the diversity of the MSME sector, broad and malleable rules are necessary in the initial stages for an MSME's long-term sustainable growth.

Large family- and state-owned firms have a responsibility for the promotion of MSMEs in their ecosystem, not only by structuring transparent procurement systems, but by actively supporting entrepreneurship activities. For example, Saudi Aramco launched the StartUp Lab incubator targeting innovative technology companies in early stages of the development process and require incubation to help develop proofs of concept and to facilitate further funding opportunities.

Sheikh Fahim Al Qasimi concluded the workshop by referring to the first board meeting of the East India Company, held on the docks of the Thames River in London. He asked attendees to ponder whether they would rather have invested in the business and stayed 'on shore' or boarded the ship and led it to its destination as 'captains'. This parallel provided food for thought as attendees and panellists considered the fragile balance of leadership and the need for innovation with the requirements for more structured governance processes to ensure business sustainability.

5. Arabia Inc. (2016) *How big is the SME ecosystem in the Gulf?* November 8, 2016.

6. International Monetary Fund (2014). *Regional Economic Outlook, Middle East and Central Asia*, October. Washington, DC.

Concluding Remarks from the Executive Director



The discussion at this forum was forward looking. Rapid changes in technology together with the changing economic, sociological and political dynamics taking place globally, means the future will look fundamentally different to the present. This will impact every part of our society, including the role that the private sector will play. Governance frameworks must continue to evolve through a collaborative effort by the government and the private sector to find an approach that instills trust and confidence in times of change and uncertainty, whilst encouraging the innovation and adaptability which are critical for success. Finding this balance is the key to the prosperity of the gulf region for it is a balanced approach that is fundamental to creating an ecosystem that will inspire people, companies and governments to invest in the region, be innovative and grow in a sustainable way, hence creating value for all stakeholders in our communities.

It was inspiring to be able to bring this important global debate to Riyadh. Thank you to Saudi Aramco and their committed team for the opportunity to work together to host this unique event, thank you to the speakers and the delegates for being a part of this discussion, thank you to our media partner Al Arabiya and our transport partner Careem and thank you to the Pearl Initiative's Board of Governors and partners without whom our work would not be possible.

The ideas, challenges, opportunities and actions presented at the forum are shared in this report to be disseminated, debated and acted upon and we look forward to taking action together at this important time of change in the region.

A handwritten signature in black ink, appearing to read 'Carla Koffel'.

Carla Koffel | Executive Director | Pearl Initiative

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As of June 2018





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