



Volume 1

THE COMPANY'S INTEGRITY FRAMEWORK

THE BUSINESS INTEGRITY PRACTICES SERIES



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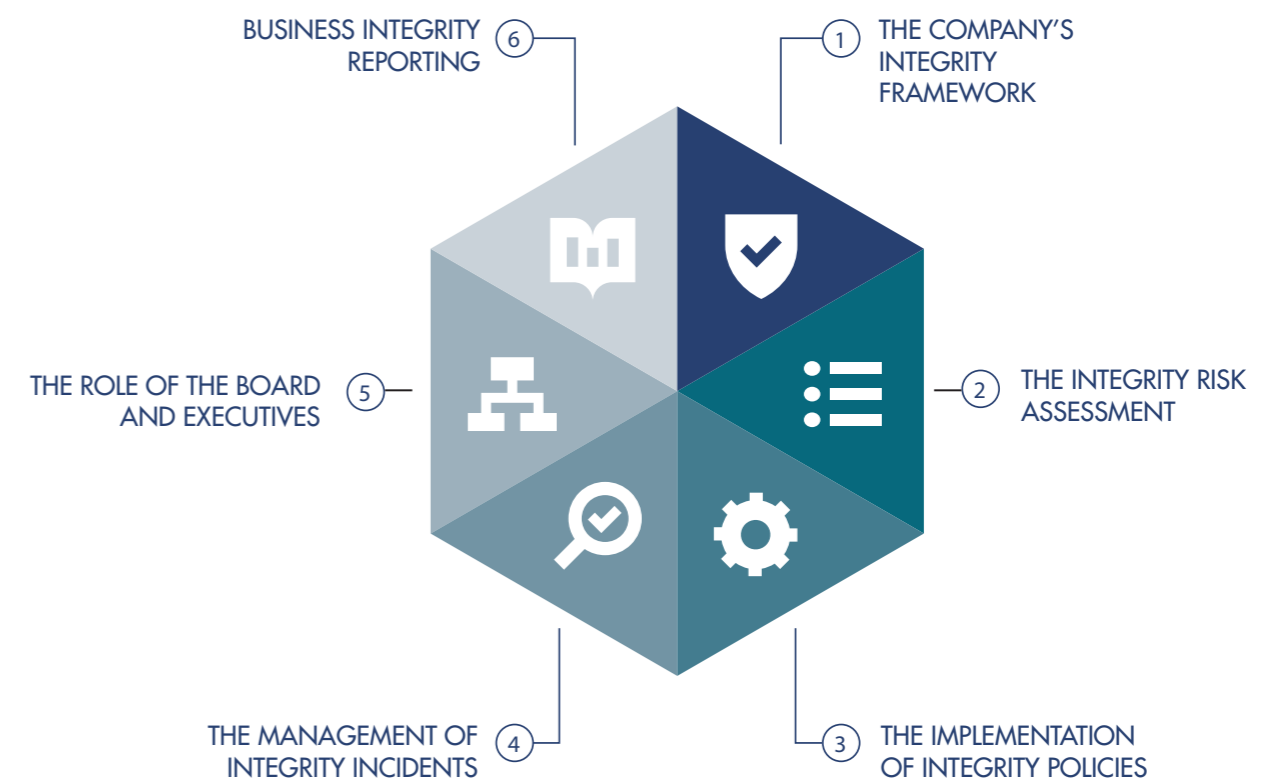
SERIES OVERVIEW

In today's ever evolving business environment, organisations are faced with many challenges that could lead to significant financial and reputational losses due to breaches in business integrity. Organisations are increasingly considering the advantages of implementing effective integrity frameworks that play a significant role in the prevention, detection, mitigation and response to such circumstances. Demonstrating a commitment to promote integrity can create opportunities for organisations looking to expand their business as investors and partners often look to invest in and work with organisations that are effectively implementing robust integrity practices.

The Gulf Integrity Indicator was developed by the Pearl Initiative with the support of the Siemens Integrity Initiative. It has been developed to promote business integrity best practices among Private Sector organisations operating in the Gulf Region. The ultimate objective is to showcase leading organisations from across the region and highlight the benefits for business to adopt robust integrity practices.

The Gulf Integrity Indicator aims to provide a comprehensive, yet straightforward framework for companies to measure their performance relative to international benchmarks and regional best practices. Organisations can use this benchmark to consider measures to further improve their organisation's integrity practices. The indicator describes six pillars of integrity best practices. It utilises a methodology combining qualitative and quantitative factors, designed to apply to a diverse range of companies.

The Gulf Integrity Indicator focusses on six pillars of integrity best practices:



The Pearl Initiative has launched the Business Integrity Practices series. With a focus on the tools that can be utilised under each pillar, the series is designed to present clear and concise guidance for implementing better integrity practices. Every company is different and will develop and implement integrity practices in a way that best suits their individual business. This series is intended to share information about best practices and to be a means to facilitate discussion within and among organisations about how to further develop and implement better practices. The series is developed in collaboration with knowledge partners, who are experts in their respective fields.



The Company's Integrity Framework

1. INTRODUCTION

The drive to develop and implement corporate integrity has never been greater. As companies in the Gulf Region increasingly seek international partners, investors and expansion opportunities, it has become critical for those companies to have systems in place that can adapt to changing circumstances and facilitate growth whilst mitigating risks.

Instituting good integrity practices is a key part of companies' efforts to strengthen their corporate governance practices. Integrity practices are vital for effective business operations – instilling accountability at all levels of the organisation, ensuring appropriate transparency internally and externally, generating evidence of the effectiveness of systems of good practices and adapting as circumstances change.

2. THE MAIN DRIVERS FOR ESTABLISHING A CORPORATE INTEGRITY FRAMEWORK

There are many good reasons for companies to institute and maintain corporate integrity. An effective integrity framework allows a company to proactively manage its relationships with stakeholders on key issues of governance – showing themselves to have strong ethics and effective business practices. An integrity framework can also act as a shield – defending a company against poor practices and the resulting losses as well as regulatory impositions.

Companies have a wide range of stakeholders, whose interests must all be effectively managed. Each of these stakeholders will look at a company's integrity framework for different reasons, each of which should be taken into account.



FINANCE PROVIDERS

Debt finance providers and equity investors, both local and international, will be more attracted to a company that can demonstrate it is well managed. An integrity framework can help give these stakeholders comfort. By reducing the risk profile of the company, it will help to reduce debt finance costs and limit any risk-related 'haircut' on its share price.



SHAREHOLDERS' INTERESTS

Existing shareholders have an interest in their portfolio companies performing well, based on a stable and transparent integrity framework. For family businesses, this desire is increased, both to ensure that the value of the company is maintained and that the family's stature is not tarnished.



MEDIA

The media is taking an increasingly active role in assessing companies and their practices. A good integrity framework should enable a company to swiftly and accurately respond to any concerns that may arise.



EMPLOYEES

Employees, particularly young generations, expect companies to operate ethically. They seek companies that inspire confidence. An integrity framework is one element that can assist in attracting and retaining good quality staff.



SUPPLIERS/CUSTOMERS

Good practices are often a requirement from customers and suppliers during the due diligence phase, prior to establishing a business relationship. In some instances, this is done to protect themselves from associating with suspicious and questionable companies.



REGULATORS

Regulators are becoming more active in seeking to recourse against bad actors, whether companies or their employees. An integrity framework can help a company to push back the risk of regulatory action, to identify misconduct where it arises and to give confidence to regulators that any misconduct is dealt with swiftly.

An integrity framework also allows companies to address their business needs, particularly as the scope of their operations changes over time.

When rapidly scaling up a business and expanding into new markets, an integrity framework provides a baseline for assessing and addressing emerging risks.

By establishing an integrity framework for its initial business, a company can consider whether its new activities present new risks that need to be managed through the integrity framework or by undertaking other steps.

Businesses that have an integrity framework can use it to demonstrate they are at the forefront of good business practices. By becoming a champion for good practices, a company can distinguish itself from its competitors and appeal to customers and investors.

3. PRINCIPLES UNDERPINNING AN INTEGRITY FRAMEWORK

An integrity framework should embody four key principles of good corporate governance: accountability, transparency, evidence of effectiveness and adaptability. A company should assess how it can best ensure these principles are apparent in its framework, in a way that is appropriate for the company and its business.

ACCOUNTABILITY

A company's integrity framework must enable accountability to be exerted at all levels of an organisation. This allows companies to identify and reward good conduct and to address poor conduct.

TRANSPARENCY

Whilst not breaching commercial confidentiality, a company should be transparent about the extent of its integrity framework and its implementation. By reflecting honestly on the quality of an integrity framework, internal and external stakeholders will gain confidence in the company and appropriate enhancements can be made where shortcomings are identified.



INTEGRITY FRAMEWORK

EVIDENCE OF EFFECTIVENESS

An integrity framework should be tested and evidence of its effectiveness obtained. Reasoned decisions can then be made about the level of additional activities a company can reasonably undertake within its' risk appetite, or where existing risks need to be managed.

ADAPTABILITY

A corporate integrity framework needs to adapt to changing circumstances, to be flexible to accommodate new areas of business. It also needs to be self-reinforcing, such that any shortcomings are addressed.

4. SIX LINKED PILLARS OF PRACTICE

Instilling values of corporate integrity across a business requires more than simply drafting and publishing policies and procedures. It requires buy-in at all levels of an organisation, from the chairman, the board, senior and middle management and to the operations. This requires ongoing conversations with staff who understand the importance of good business practices to good operational and financial performance.



BUSINESS INTEGRITY REPORTING

Businesses require effective record keeping to understand their operations. This also helps allow for breaches of integrity to be identified and investigated. Establishing a company's integrity also requires good transparency externally. For example, regulators expect companies to keep and retain records that properly set out transactions that have been undertaken, and investors expect to see and understand the way a target company establishes its integrity. A company therefore needs a clear understanding of its own integrity framework so that it can be carried out and presented to the outside world.



ROLE OF THE BOARD AND EXECUTIVE MANAGEMENT

Establishing a "tone from the top" that does not accept integrity related misconduct is a vital part of ensuring that staff at all levels of the company understand and carry out the expectations that apply to them. The steps that the board and executive management take when concerns are raised are equally important in reinforcing the importance of integrity. The board and executive management may require specific support – through training, the establishment of an audit or integrity committee, or external advisors, to be able to carry out this element of their function.



MANAGEMENT OF INTEGRITY INCIDENTS

Establishing internal reporting mechanisms that allow for concerns to be raised is a vital part of avoiding, detecting and dealing with integrity breaches. This helps to establish internal transparency, so that the board and appropriate staff monitoring integrity are aware of the risks facing a company. Reporting mechanisms include in person through line managers, or through confidential online and telephone hotlines.



There are six principal linked pillars of practice that should be expected in a company's system of integrity. However, each company will need to set up its corporate integrity framework in a way that is appropriate for its business. The specific framework will need to take into account the stakeholders of the company, the jurisdictions where it operates (and legal regimes that it is subject to) and any specific requirements or expectations in its industry. Small enterprises may feel that they can set up an appropriate system of integrity themselves, at least while their focus is on growing their business. Many larger companies refer to external advisors for support and expertise in developing these six pillars in a way that works for their complex operations.



INTEGRITY FRAMEWORK

This is the policies and procedures that set out the rules staff are expected to comply with. Frequently these are placed under an overarching code of ethics that all staff must abide by. That is commonly supported by specific policies on bribery and corruption, misappropriation of assets and conflicts of interest and procedures designed to stop or detect those misdeeds such as financial procedures on recording and claiming expense payments.



INTEGRITY RISK ASSESSMENT

In order to effectively address integrity issues, a company must fully understand the extent of the risks that are presented to it. That understanding should be critically considered when a company expands into new areas of business or markets, to ensure the understanding of risk is still appropriate. Some companies employ dedicated staff to carry out risk assessments on an ongoing basis, while others use external advisors.



IMPLEMENTATION OF INTEGRITY POLICIES

Integrity frameworks are only effective when implemented by all members of an organisation. To ensure this happens, companies can deploy several tools, including the policies and procedures that form the integrity framework, training, random testing and screening of implementation. While implementation is the responsibility of all staff, specific teams such as legal, finance and audit have a key role to play in oversight and ensuring accountability.

ABOUT THE PEARL INITIATIVE

OUR PURPOSE


Fostering a Corporate Culture of Accountability and Transparency in the Gulf Region

Founded in 2010, the Pearl Initiative works across the Gulf Region to improve corporate accountability and transparency. It is a regionally-focused growing network of business leaders committed to driving joint action, exhibiting positive leadership and sharing knowledge and experience, in order to support the regional business and student community towards implementing higher standards.

STRATEGIC PARTNERSHIPS

- Established in cooperation with the United Nations Office for Partnerships
- Strategic partnership with the United Nations Global Compact

KEY CHARACTERISTICS

-  Gulf Region Focus
-  Competitiveness Drive
-  Non-Profit Independent Organisation
-  Created by Gulf Business, for Gulf Business

APPROACH

 Programmes and Research	 Events and Workshops	 University Collaborations	 Resource Centre
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KEY TOPICS OF INTEREST

 Corporate Governance 360	 Anti-Corruption Best Practices	 Diversity in Business Leadership	 Corporate Reporting Best Practices	 Ethical Leadership Development
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KEY ACHIEVEMENTS*

13 Regional Insight Reports	272 High-Level Regional and International Speakers	6,574 University Students Reached Through Our Workshops and Case Study Competitions
30 Universities Engaged Across the Gulf Region	96 Events and Workshops Across the Gulf Region	6,802 Business Leader Participants in Our Forums

*approximate as of February 2018

OUR PARTNER COMPANIES (As of January 2018)



