

Enhancing Gulf Business Competitiveness

The current state of corporate governance within Micro,
Small and Medium Enterprises in the Gulf Region



ACKNOWLEDGEMENTS

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MESSAGE FROM THE FOUNDER



Micro, Small and Medium Enterprises are the backbone of society, imperative to the business community - the largest employer in the region - and are often the innovators that drive competition and economic growth. They are an integral part of our community and must be given the support they need to allow them to achieve their full potential.

Unfortunately, we often see MSMEs with an excellent value proposition fail, not necessarily due to a lack of ambition or effort but rather the lack of structure that would allow them to be more competitive and resilient towards everyday operational challenges they inherently face. Corporate governance structures would not only help business owners focus on driving the growth of their business but also overcome key challenges such as acquiring funding, managing overdependence, effectively managing time and getting the most of their workforce.

This report is the culmination of the first year of a three-year programme run by the Pearl Initiative exploring corporate governance in an MSME context in a bid to strengthen the foundations of the Gulf-based MSME community. The purpose is to empower businesses to build effective structures that can help them become more efficient. Ultimately, these practices will enhance the sustainability of the business community in the Gulf Region. The report explores the current state of governance within the MSME community in an effort to inspire positive change that will assist businesses in overcoming the challenges that could inevitably lead to failure.

Effective corporate governance, based on values of accountability and transparency, makes sound business sense. Supporting MSMEs is fundamental to fostering future competitive economic growth, spurring job creation and enhancing sustainable development across the Gulf Region and beyond.

Badr Jafar
Founder of the Pearl Initiative



PEARL INITIATIVE CORPORATE GOVERNANCE IN MSME PROGRAMME PARTNERS

This programme was launched and continues to deliver on its objectives through the commitment and financial support of our programme partners. Their acknowledgement of the importance of MSMEs and their dedication to seeing a strong economy built around MSMEs has proved to be integral to this programme and its continued success.

“



“SMEs constitute the backbone of the region's economy and play an instrumental role in generating employment. As a founding partner of the Pearl Initiative, we are proud to support their MSME programme, which will enhance competitiveness and unlock new opportunities for growth within this crucial sector of the economy. At Crescent Enterprises, we are also strong advocates of corporate governance, which offers several benefits to MSMEs in terms of long-term business sustainability. The programme will enable MSMEs to adopt such practices early on in their business journeys, increase the value of their businesses and thereby inspire positive action across the region's entrepreneurs.”

Ravi Kumar
Executive Director and Chair of the Sustainability Committee at Crescent Enterprises

“



“When we began as a start-up 10 years ago, we went through the various challenges that entrepreneurs face. Back then, corporate governance was not as widely understood and was still in its infancy in the region. Looking back at our journey, we realise the significant difference corporate governance could have made to our business, had there been such a supportive, awareness-building initiative at that stage, it would have enhanced our growth curve faster and perhaps further. We encourage all MSMEs to engage with the various interactive workshops and panels planned by Pearl Initiative and to collectively discuss actionable and sustainable solutions to develop the region's Private Sector.”

Bilal Ballout
Founder and Managing Partner

MESSAGE FROM THE EXECUTIVE DIRECTOR



Micro, Small and Medium Enterprises (MSMEs) are a critical part of the Gulf Region's economy and essential to the future development of the region. They represent over 90% of the registered companies in the Gulf Region and are currently a primary focus, acknowledging the important role of the Private Sector in expanding economies and creating jobs.

At the Pearl Initiative, we have seen that companies which incorporate good corporate governance practices into the way in which they do business, reap the rewards. It directly adds value to the organisation, opens up opportunities for greater investment, assists companies to identify and mitigate their risks and gain a competitive advantage over others irrespective of their sector or size. Based on this premise, we regularly meet business leaders from MSMEs across all sectors in the Gulf Region seeking to understand their ambitions, the challenges they face and to explore ways in which corporate governance practices can add value to their businesses in a very practical way.

Through the research we have conducted, the results of which are presented in this report, we have sought to better understand how the MSME community in all countries of the Gulf Region are currently implementing governance practices in their businesses, what they want to achieve over the next few years and what challenges are holding them back to better understand to what extent investing in better governance practices could support their success now and into the future.

One of the most important aspects of smaller businesses is their innovation, enthusiasm and ability to be nimble in response to changing markets, trends and environments. Any approach to corporate governance must complement the goals and personality of each organisation and not restrict the creative spirit and adaptability of these organisations. There is no magic solution, however, this report seeks to highlight that there are simple ways to drive positive change. The implementation of cost-effective and practical governance practices will see the company be more agile and resilient, hence allowing MSME leadership to focus on what matters – improving their product/service and growing their business.

We strongly believe in the importance of a strong MSME community across the Gulf Region and are keen to see it thrive in a way that benefits the entire region's economy. We hope this report, together with the tools, guides and resources that the Pearl Initiative will develop in response to the findings, will be a valuable contribution to the discussion and information available to MSMEs and those that do business with, and support, MSMEs in the Gulf Region.

Carla Koffel
Executive Director of the Pearl Initiative

WHAT IS CORPORATE GOVERNANCE?

Corporate governance is the system of rules, practices and processes by which a business is directed, managed and controlled. It involves balancing the interests and requirements of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.

Enhancing Gulf Business Competitiveness

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EXECUTIVE SUMMARY

Much of the Gulf Region's business is carried out by Micro, Small and Medium Enterprises (MSMEs), and it is recognised that the SME sector is likely to provide the majority of future economic growth and job creation. This is reflected in an increased focus on the need to support the MSME community to grow through initiatives such as encouraging entrepreneurship and investment funds designed specifically for MSMEs.

As smaller companies have limited resources and many urgent competing business needs, corporate governance practices can sometimes be pushed down the priority ladder by MSMEs. MSMEs can sometimes be unaware how critical good corporate governance is to the success of their business. This means that many MSMEs can miss out on opportunities to secure finance, reduce risk and increase the value of their business, which good corporate governance can provide.

Pearl Initiative is looking to enhance the competitiveness of MSMEs in the Gulf Region by providing a locally tailored MSME-appropriate approach to corporate governance that is robust, flexible and simple to adopt, and complements the work of other organisations who support MSMEs.

Approach

As part of this study, the Pearl Initiative conducted an extensive 20-minute online survey in English and in Arabic completed by over 1,000 representatives of MSMEs throughout the Gulf Region. Data was also collected through a series of focus group meetings, workshops and one-to-one discussions providing a wide range of quantitative and qualitative data on the goals and ambitions, challenges being faced, and current state of governance within the MSME community in the Gulf Region.

Informed by the above, this report explores the current state of governance practices adopted by Gulf-based:



Micro Enterprises



Small Enterprises



Medium Enterprises



KEY FINDINGS

It is evident that the MSME community in the Gulf Region have started to embark on establishing good governance practices within their organisations. In many areas, the true value from good governance is yet to be seen.

MSMEs ARE LOOKING TO RAISE CAPITAL AND EXPAND TALENT BASE

75% of MSMEs are looking to raise capital of some sort over the next 1–2 years and 75% of MSME have plans to attract talent and/or grow geographically over the next 1–2 years.

CHALLENGES

Absence of talent and experienced staff was reported to be the biggest issue the MSME community faces; with the highest number of respondents indicating that this was one of their top 3 challenges. Shortly after came the absence of cash/liquidity and current negative economic conditions.

CURRENT GOVERNANCE PRACTICES

Deriving Value from a Board

* 59% of MSMEs have established a board to help govern and direct their business; However, 71% of MSMEs have placed their CEO as the head of the Board who takes most of the key decisions across the business.

Developing an Effective Short-, Medium- and Long-Term Strategy

* 57% have a documented strategy. Business reputation, financial performance, ethics and social responsibility are the three most crucial elements when developing business and operational strategies.

Transparency

* 61% consider that decision makers receive accurate, timely and consistent information.

An Environment that Fosters Effective Decision Making

* 79% agree that decision-making parameters are clearly defined in their organisation with 42% confirming that a formal Delegation of Authority is in place. However only about 12% of MSMEs audit the execution of the Delegation of Authority.

Managing People and Talent

* Only 34% of the MSME community have defined formal Key Performance Indicators to evaluate employee performance against.

Risk, Controls and Audit

* On average about 50% of the MSME community have established formal governance-related documents within their business. However, the number drops to about 30% considering how many implement these documents and even less for those who audit the implementation of these documents.

RECOMMENDATIONS

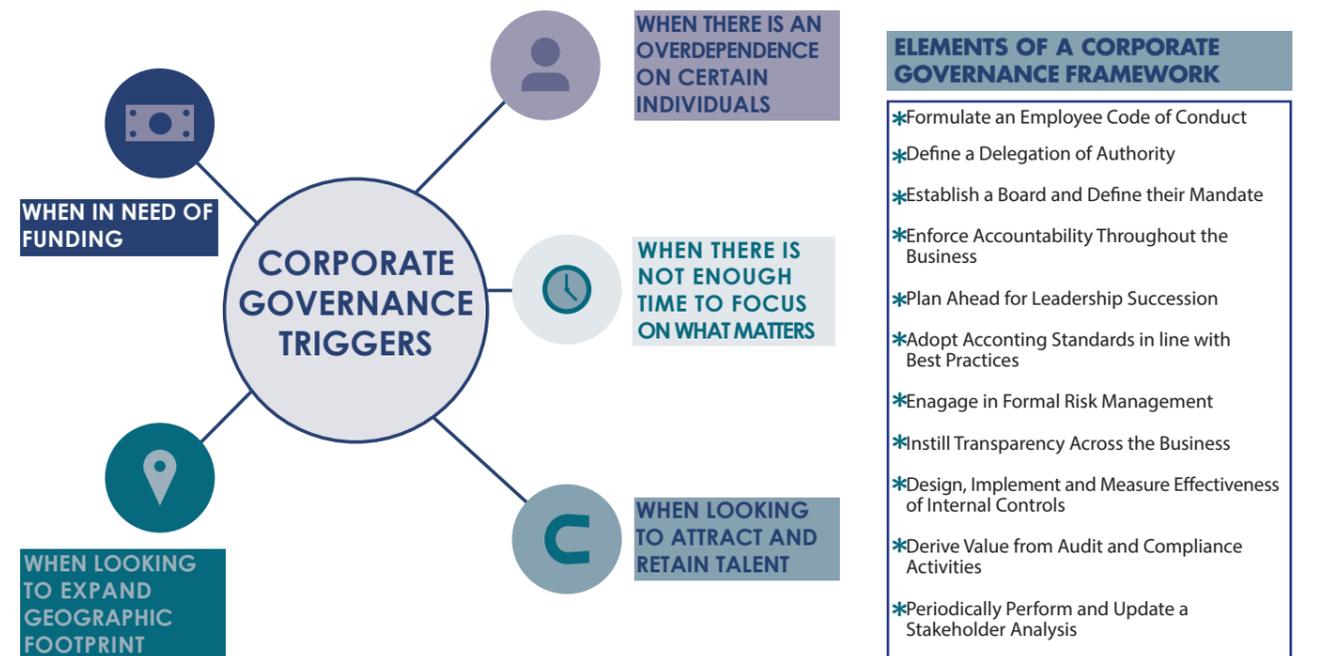
Corporate governance is a system of rules, practices and processes that help business leadership direct and control their business in an efficient and effective manner. Corporate governance by no means replaces innovation, people, and ultimately a good product or service. However, it can play an important part to help business leaders overcome common problems and challenges they face throughout the lifetime of a business.

When implemented effectively, it provides the leadership (owners, senior management and shareholders) with a platform on which to make sure that their business is operating in an effective and efficient manner, in line with their expectations.

Corporate governance however should not be looked at as a stand-alone undertaking – rather, it is a series of capability areas that collectively add more value to the business in places where and when it is needed the most. The impact of a lot of the challenges businesses of all sizes face can be reduced through the adoption of some of these capabilities.

It is recommended that MSMEs address some of the gaps in the implementation of effective governance practices by developing and adopting practical governance capabilities which can be expanded as needed to meet their evolving business needs. However, the implementation of governance does not have to be a comprehensive, costly and timely effort – rather, the MSME can simply evaluate their own goals and adopt governance capabilities that will have a direct and positive impact to achieving those goals.

When adopting corporate governance capabilities, there is no 'one size fits all'. Each business needs to consider their own specific environment, the challenges they face, and the business objectives they are looking to achieve. In doing so, they can determine which capabilities to prioritise under the corporate governance umbrella and how best to leverage these capabilities to support their business in a cost-effective manner.



UNDERSTANDING THE MSME COMMUNITY

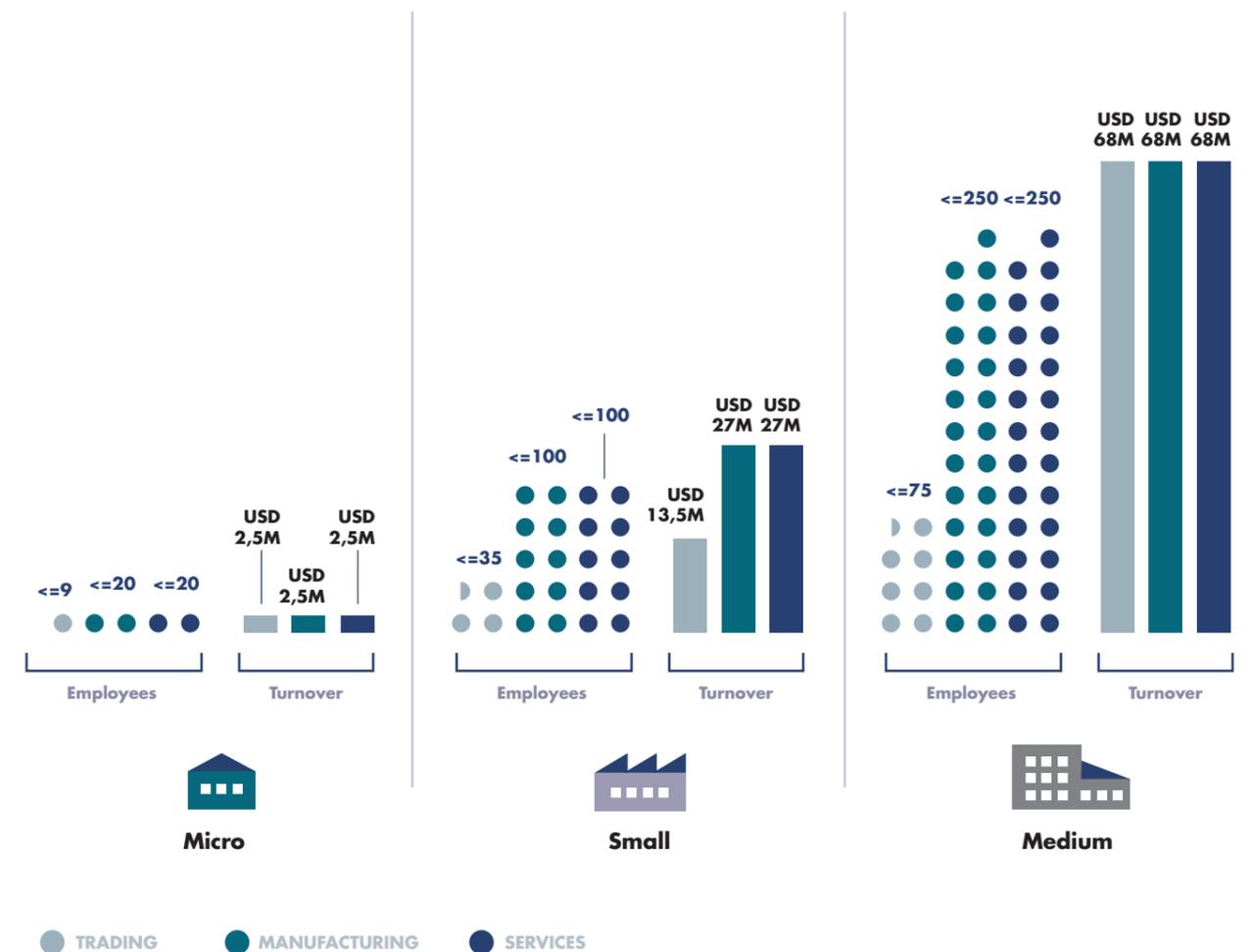
- DEFINITION OF A MICRO, SMALL OR MEDIUM ENTERPRISE (MSME)
- THE BIGGEST CHALLENGE: NEED FOR FUNDING
- SHORT- AND MEDIUM-TERM PROSPECTS: PLANNING FOR GROWTH

DEFINITION OF A MICRO, SMALL OR MEDIUM ENTERPRISE (MSME)

The micro, small and medium enterprise community is a key driver for economic growth and a healthy Gross Domestic Product (GDP). It is the primary source of entrepreneurship, innovation and employment that enables the economy to achieve success.

While many different definitions exist for this report, an MSME is defined as any business which meets the thresholds of employee headcount and turnover, based on the sector to which it belongs.

The table below illustrates the MSME definition used for this report.



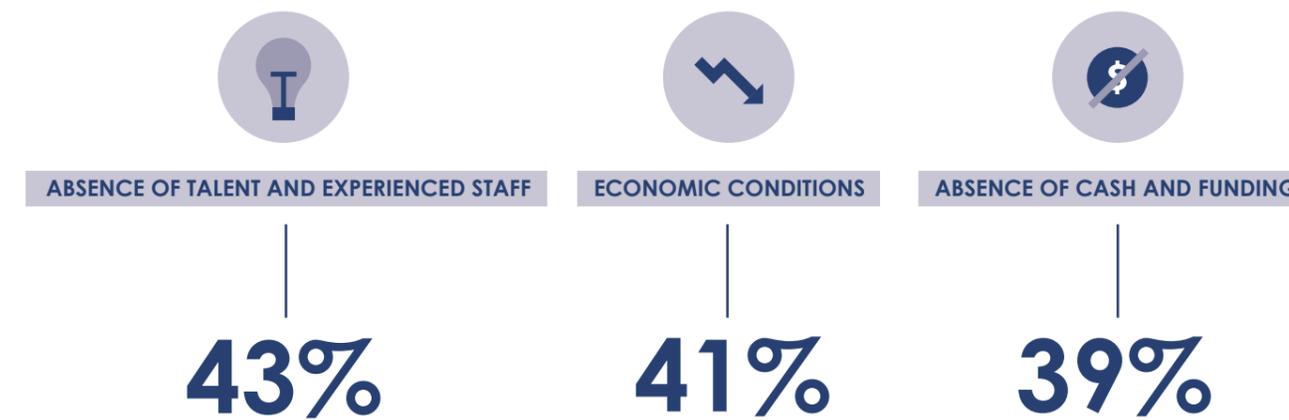
THE BIGGEST CHALLENGE: NEED FOR FUNDING

The need for capital is the MSME community's biggest challenge with 71% looking to acquire some form of funding over the next 1–2 years. This becomes an issue when considering the region's economic challenges and negative outlook, and has adverse effects on the ability to raise funding.

KEY FINDINGS

- * Only 29% of respondents have indicated they have **sufficient capital to achieve their business objectives** over the next 1–2 years. From those that are seeking funding, 38% are seeking capital from new investors, 27% from existing investors and a quarter from other sources such as banks, financial institutions and grants.
- * Majority of the MSME community felt that the **absence of cash, current liquidity constraints and negative economic conditions** were some of the top challenges and concerns they face in achieving their short and long-term plans and objectives.

TOP CHALLENGES MSMEs FACE



SHORT- AND MEDIUM-TERM PROSPECTS: PLANNING FOR GROWTH

Even given the challenges MSMEs have in finding funding, the MSME community is still focused on growth. In fact, over three quarters of the MSMEs who contributed to the Pearl Initiative survey indicated that despite the current financial and economic challenges within the region, they still have plans to grow (both in terms of geographic footprint and increase in number of employees).

KEY FINDINGS

- * With 76% of MSMEs **looking to grow over the next 1–2 years**, the challenges they face in achieving their targets and ambitions will be put to the test, especially when considering that many of the challenges they face are dependent on conditions outside the control of the business (i.e. economic conditions).
- * **Absence of talent and experienced staff was reported to be the other major issue** the MSME community faces, with 43% of respondents indicating that this was one of their top 3 challenges.



TOP 3 CHALLENGES BY COUNTRY



CORPORATE GOVERNANCE PRACTICES IN ACTION

- DERIVING VALUE FROM A BOARD
- AN ENVIRONMENT THAT FOSTERS EFFECTIVE DECISION MAKING
- DEVELOPING AN EFFECTIVE SHORT-, MEDIUM- AND LONG-TERM STRATEGY
- MANAGING PEOPLE AND TALENT
- TRANSPARENCY AND FLOW OF INFORMATION
- RISK, CONTROLS AND AUDIT



DERIVING VALUE FROM A BOARD

“

Working with many entrepreneurs, we see them deriving a lot of value from a well-constructed and managed Advisory Board. The right Advisory Board helps entrepreneurs address issues and blind spots, which helps them accelerate their growth and proactively navigate past challenges that come their way.

Noor Shawwa, Managing Director, Endeavor UAE

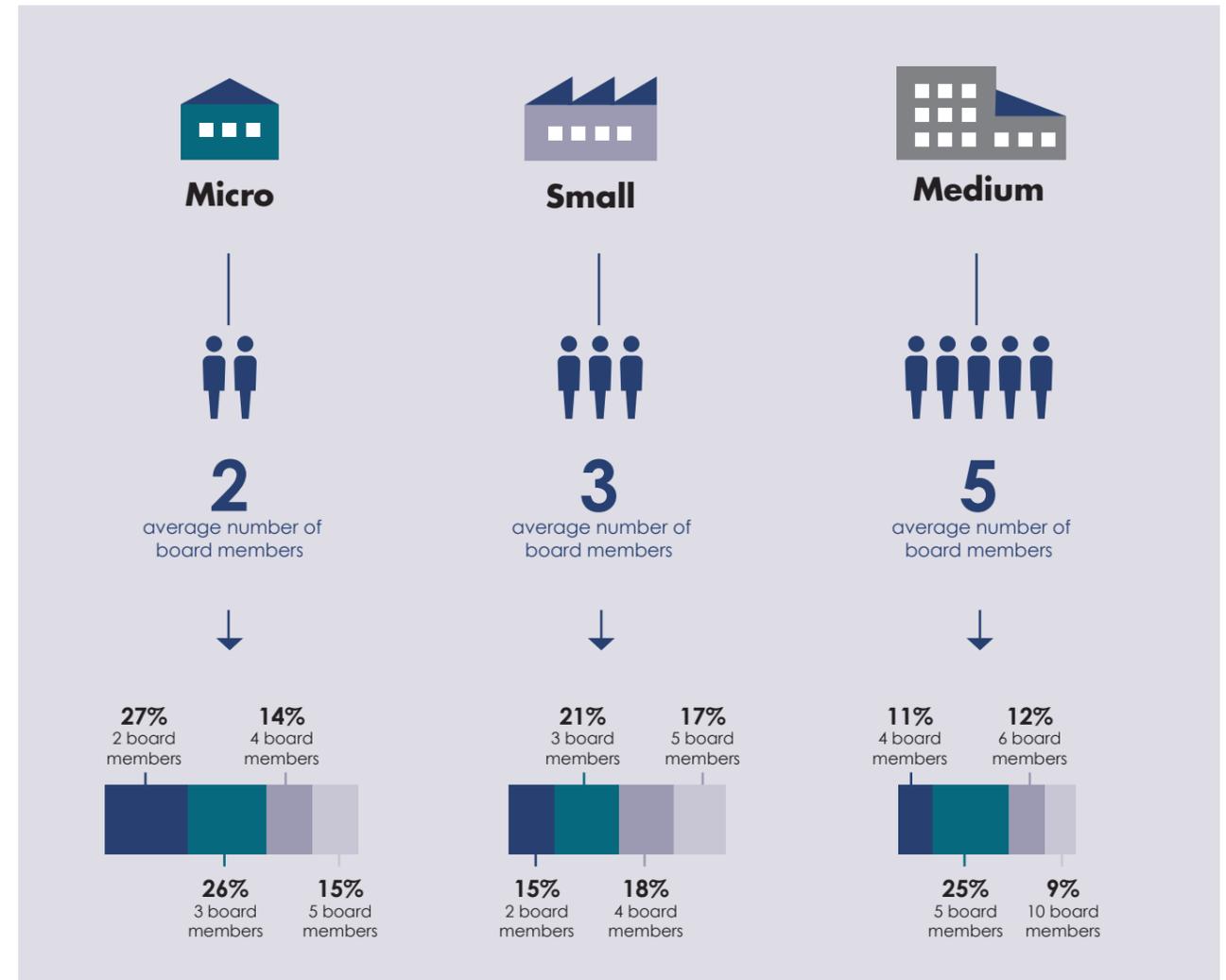
The Board is a key body within a business that can influence governance. Members of a board are initially appointed by owners/shareholders and by other board members at a later time as a means of getting additional support for their roles as the business grows. While the Board exists to represent shareholders of the MSME, their key value proposition is in the support they provide to management in the form of insight, strategic direction and, most importantly, access to business opportunities.

While some organisations nominate board members with decision-making authority to help drive business strategy, others establish Advisory Boards that simply provide subject matter expertise to decisions makers. While the latter is less effective, both types of board can act as a support platform to help enhance competitiveness and resilience across a business.

KEY FINDINGS

- * **Approximately 40% of the MSMEs have established a formal board** to represent and support their business. While 14% have established Advisory Boards, almost 46% have neither.
- * **Size of the organisation had a direct correlation with the presence of a board.** While only 40% of organisations with fewer than 9 individuals had a board in place, 80% of respondents representing organisations with over 250 employees indicated a board was in place.
- * **Boards are primarily driven and/or chaired by the CEO or managing partner** of the MSMEs rather than an independent individual.
- * From the MSMEs that have a board, **most have 5 individuals that sit on the Board.** Qatar and Oman however have an average of only 3 members. Most boards convene 4 times a year.
- * A large portion of MSMEs (60%) have **at least 1 family member on their board.**
- * **Approximately three quarters have at least one independent board member** who was neither a family member nor part of the business management.

Correlation between company size and number of board members



35%

HAVE NO WOMEN ON THE BOARD, 18% HAVE ONLY 1 AND 28% HAVE 2 WOMEN

29%

OF MSME BOARDS DO NOT HAVE AN INDEPENDENT BOARD MEMBER

71%

OF CEOs ARE ALSO THE CHAIRMAN OF THE BOARD



“

Building a business from the ground up is difficult, it was important for me to make sure I hired the right people into the organisation and provided transparency of information and decision-making processes across the board, allowing a culture of trust and inclusion from the beginning. This allowed me to make more accurate decisions faster within the day-to-day challenges of running a business.

Ryan Aldrin, Managing Partner, Kickstart Studio

AN ENVIRONMENT THAT FOSTERS EFFECTIVE DECISION MAKING

The ability to make effective decisions is a crucial element associated within the success of any enterprise. Effective decisions are often made when the decision maker takes a decision based on objective and accurate information from the right people within and outside the organisation.

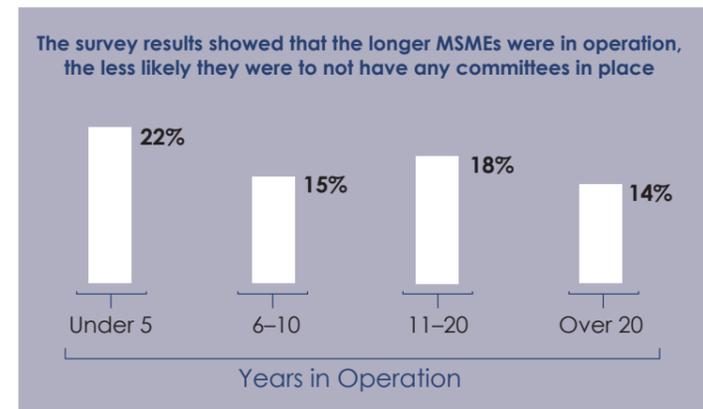
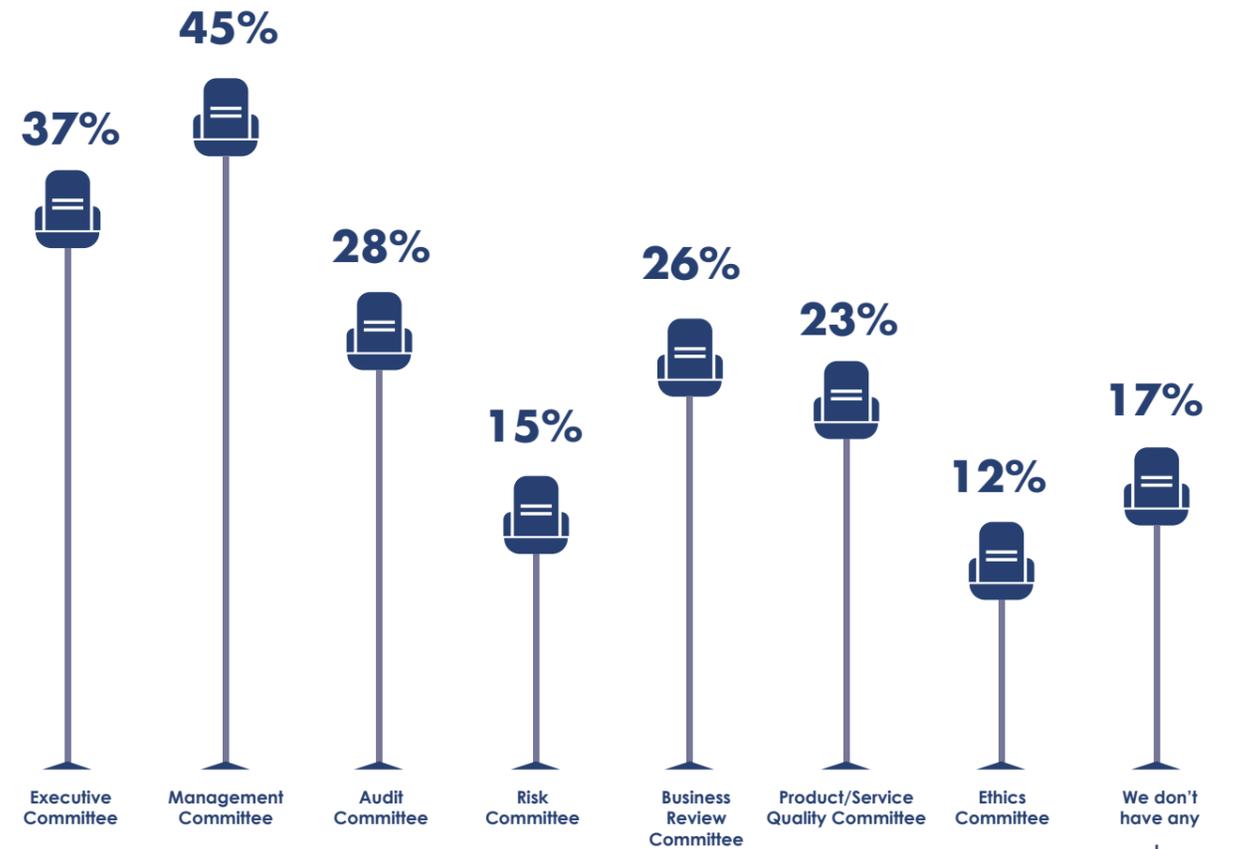
In the MSME community the authority to make most decisions within an organisation is often centralised with a small number of senior individuals and while key documents such as a Delegation of Authority exist, however, they are not often audited. Other stakeholders, such as independent managers and family members, may contribute to the various operational decisions within the organisation; however, very few allow key decisions to be made outside of a small circle of senior leadership and business owners. This may result in overdependence on specific individuals having to make decisions which can often be the source of bottlenecks within the business.

KEY FINDINGS

- * Regionally, MSMEs perceive that the decision-making authority and parameters in MSMEs are clearly defined and consistently applied.
- * By and large the MSME community feels that **decision makers receive accurate**, timely and consistent information.
- * More than half the respondents indicated that **they do not have a documented Delegation of Authority** in place within their business; for those that have this in place, for only 42% the Delegation of Authority was considered to be 'implemented' and only approximately 1 in 10 audit its correct implementation.
- * **Management and executive committees are the primary task forces** established to facilitate the decision making in the MSME community; however, 17% have indicated that they have no committees established within their business.

In the Gulf Region over 70% of MSMEs capture audit reports, business plans, and financial metrics. Lesser emphasis is placed on other areas such as anti-corruption/fraud and risk management when making decisions.

Commonly formed subcommittees



42%

HAVE A **DOCUMENTED DELEGATION OF AUTHORITY**, HOWEVER ONLY 13% AUDIT ITS CORRECT IMPLEMENTATION

59%

OF CEOs, MANAGING PARTNERS, OR EQUIVALENT **TAKE MOST OF THE KEY OPERATIONAL AND STRATEGIC DECISIONS**

79%

CONSIDER THAT THE DECISION MAKING **AUTHORITY IS CLEARLY DEFINED**

DEVELOPING AN EFFECTIVE SHORT-, MEDIUM- AND LONG-TERM STRATEGY



A common misconception is that Corporate Governance is only relevant to big companies. However, a corporate governance framework should focus on policies, procedures, principles and risk-related protocols that help a business in setting its strategy. It should include guidance on how a company sets its strategy as well as the organisation's tone and culture!

Jamal Fakhro, Managing Partner, KPMG in Bahrain

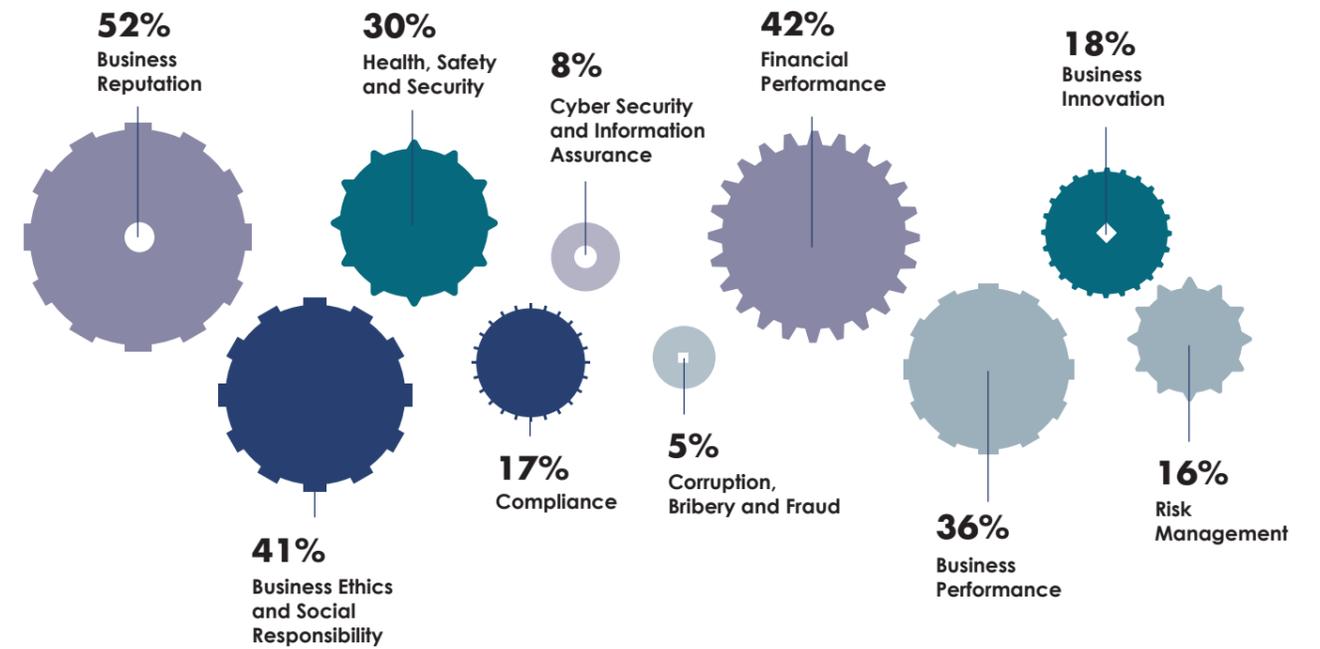
Developing a formal business strategy and a subsequent execution plan is a key driver to setting expectations on how a business will operate and in which direction it is expected to go. The strategy is crucial to facilitate alignment of expectations between stakeholders on the goals and direction of the business.

The majority of MSMEs are aware of the importance of developing short-, medium- and long-term strategies to drive their business success. However, while most develop a series of formal documents in this area, only a few measure tangible performance against these strategies.

KEY FINDINGS

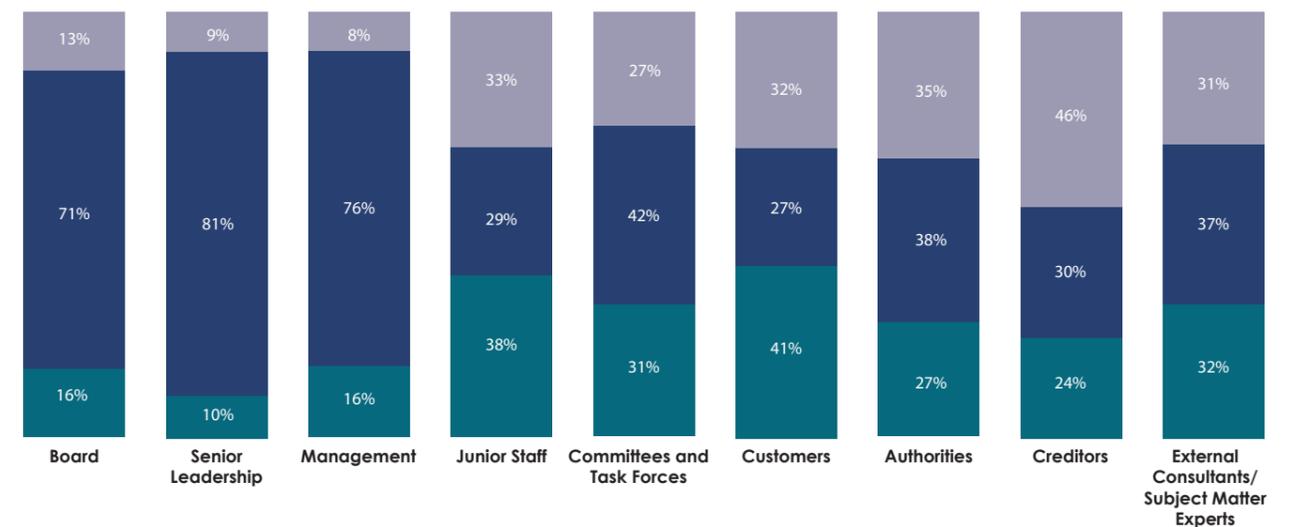
- * **Business reputation, financial performance, ethics and social responsibility** are the three most crucial elements when developing business and operational strategies.
- * While a little under half of the MSMEs have indicated that their direction, vision/mission, and/or their strategies have been formally documented, only a very small number (less than 15%) indicated that they **audit the effectiveness of their direction, vision/mission and strategies.**

Issues considered to be one of the top 3 considerations when developing business and operational strategies



Stakeholder involvement in strategy formulation

● Provides input only ● Provides input and is included in the decision making ● Neither/Not sure



57%

HAVE A **DOCUMENTED COMPANY STRATEGY**, HOWEVER, LESS THAN 15% AUDIT IT

46%

HAVE ESTABLISHED A FORMAL **VISION AND MISSION STATEMENT**



MANAGING PEOPLE AND TALENT

“

Corporate governance is vital – for start-ups and SMEs, it could mean the difference between success and failure. Effective corporate governance will not only render your organisation more attractive to the right talent, but also help you retain and derive long-term value from that talent, ultimately helping your business succeed.

Najla Al Midfa, General Manager, Sharjah Entrepreneurship Center (SHERAA)

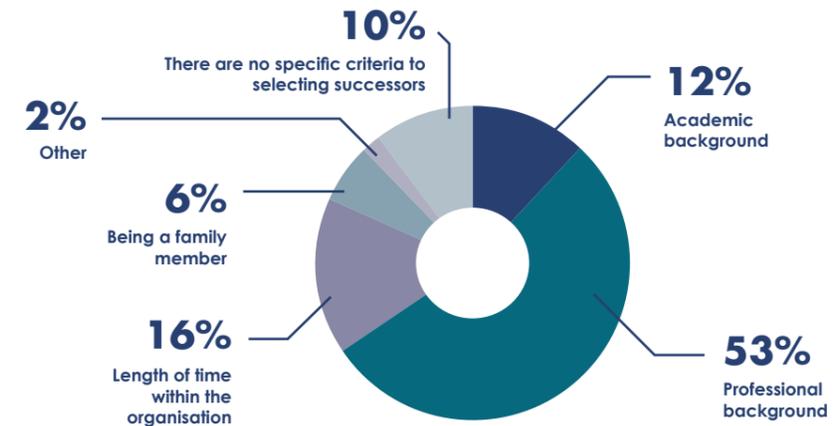
Managing business stakeholders (staff, owners, clients, authorities, suppliers, etc.) is a critical component of corporate governance that can often result in differentiating between a successful business and an unsuccessful, and hence unattractive, business.

A key component of managing such stakeholders is in the clear definition of roles, formal capturing of expectations, and continual management of relationships. While the MSME community has acknowledged the importance of managing stakeholders and attracting talent to the business, a little under half are yet to formalise any type of roles and responsibilities for the individuals within their business and even fewer include stakeholders within the decision-making process.

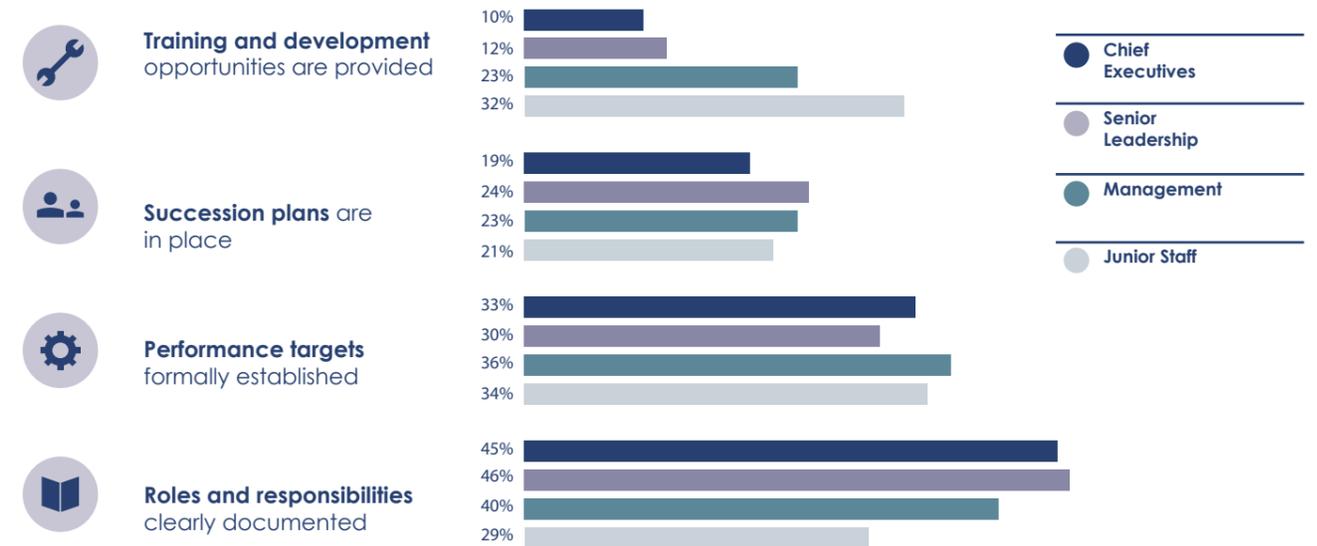
KEY FINDINGS

- * Regionally, 43% of the MSME community **identified the absence of talent and experienced staff** was at the top of the list of challenges they face. This issue was most notable in Kuwait where the number increased to 51%.
- * Roles and responsibilities are clearly documented primarily for the board (approximately 60%) and chief executives and senior leadership (approximately 45%).
- * Training and development is offered to junior staff and management rather than more senior individuals.
- * Only 34% of respondents within the MSME community acknowledged to have **defined formal Key Performance Indicators** to evaluate employee performance against.
- * Approximately a third of the MSME community have documented **succession plans in place**.
- * At a regional level, close to three quarters consider that successors **receive clear guidance and support** for their future roles.
- * Half agree that one's **professional background is the most important criteria** when evaluating successors to senior positions while the other half focus on other areas such as academic background, length of time with the business or being a family member.

Most important factors when evaluating successors for key positions



Managing different levels of employees within the MSME community



35%
LOOKING TO ATTRACT TALENT AND RECRUIT STAFF

33%

HAVE SUCCESSION PLANS IN PLACE

43%

HAVE DOCUMENTED REMUNERATION STRUCTURES

36%

HAVE FORMAL INDIVIDUAL PERFORMANCE MANAGEMENT PROGRAMMES IN PLACE

61%

CAPTURE STAFF FEEDBACK



TRANSPARENCY AND FLOW OF INFORMATION

“

Transparency stands at the heart of building trust within the organisation and with its external stakeholders as well. In the context of SMEs, transparency leads to better decision-making within the organisation as trust empowers employees to become more engaged, better informed and assume more ownership of processes and projects. This in turn reduces risks associated with information asymmetries within the organisation, reduces decision-making blind spots, enhances planning and execution efficiencies and re-engineers efforts towards achieving the organisation's goals.

Fause Ersheid,
Senior Corporate Governance
Analyst & Researcher,
Abu Dhabi Center for
Corporate Governance

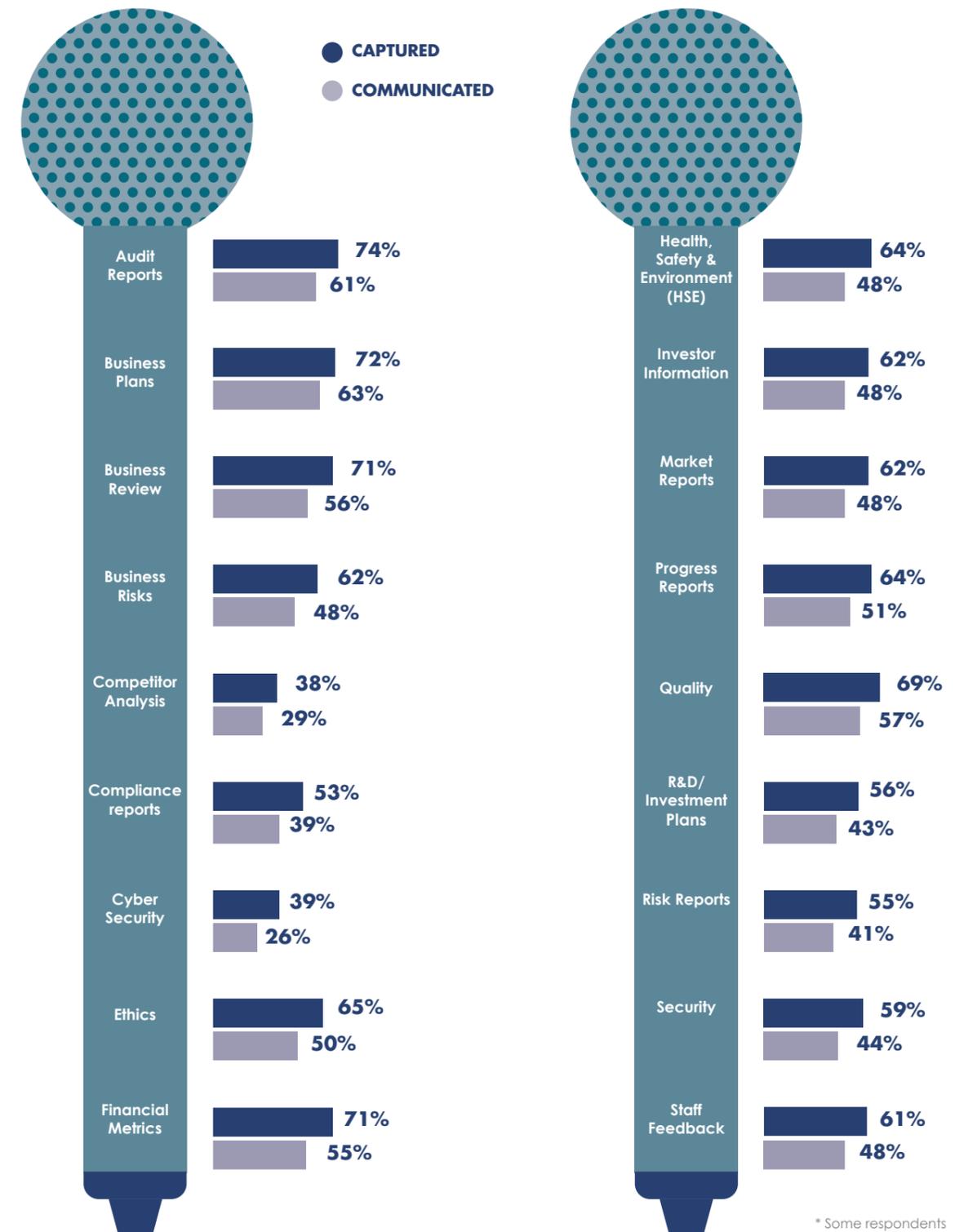
Maintaining an environment where accurate information is captured and made available to qualified decision makers is crucial in driving success.

However, while there seems to be a positive environment where specific documents and information are captured by the MSME community, the number that actually communicate such reports and information transparently across the business (i.e. to employees, management, customers, suppliers. etc.) drops significantly.

KEY FINDINGS

- * Regionally, the company direction, financial reporting and Delegation of Authority are the most documented with about 60% agreeing that **the information they receive is consistent, accurate and timely.**
- * It was identified that from the 43% of MSMEs that documented their remuneration-related policies, **less than a third communicated such information to their employees.**

Information flow within the business



61%

PERCEIVE THAT INFORMATION THAT IS COMMUNICATED IS **ACCURATE, TIMELY AND CONSISTENT.**

* Some respondents indicated that such documents were both captured and communicated.

RISK, CONTROLS AND AUDIT



At SABIC, our management approach to ethical conduct is to adhere to our corporate governance structures, policies, and processes in the most transparent manner possible. The most senior executives and governing bodies set a tone of compliance and ethical conduct from the top. Our Management Team works in tandem with other governance functions to ensure that we detect current problems at the earliest stage possible and that we adequately position the business to overcome potential future risks.

Laurie Gallagher,
Chief Compliance Counsel, SABIC

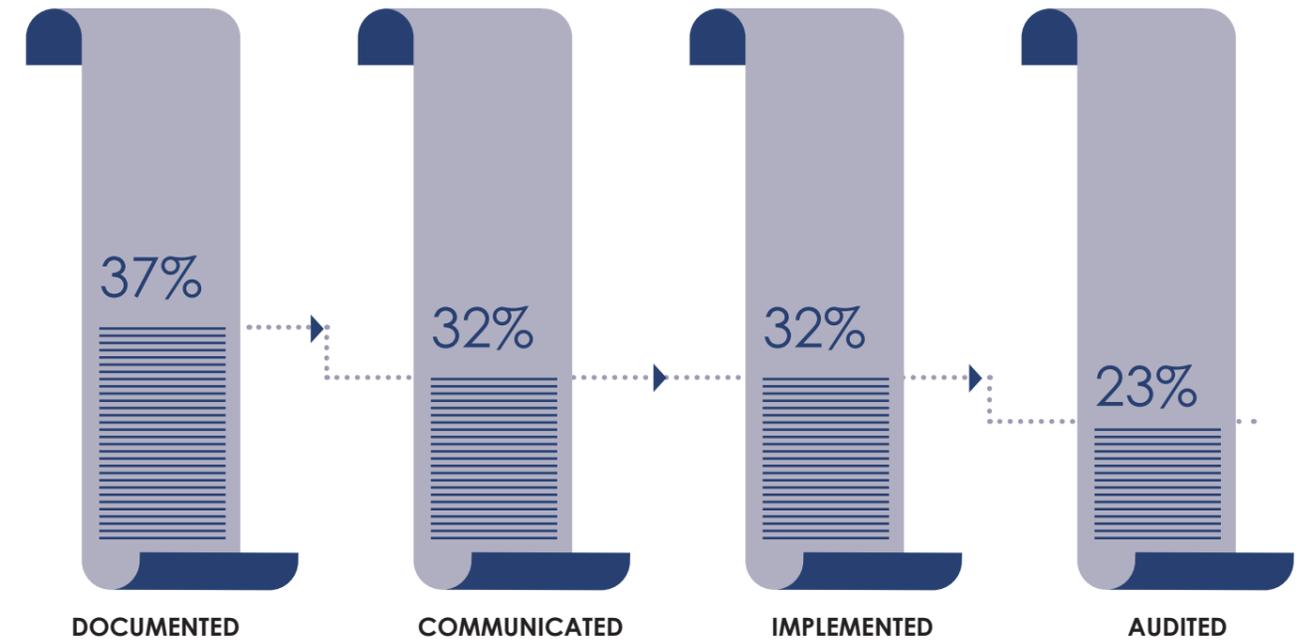
Risk, controls and audit activities collectively exist to provide decision makers and management with an early warning mechanism to predict and prepare for challenges that may arise and respond to any inefficiencies within the business. When implemented effectively, risk, control and audit activities will drive continual improvement of the business and enhance performance.

These activities however should not be looked at as a policing function that exists to identify mistakes that specific individuals have made. In fact, when implemented correctly, risk, controls and audit will often help the MSME deliver its strategy and act as an early warning mechanism for the challenges they may face.

KEY FINDINGS

- * 61% of MSMEs have an external audit, **only 28% of MSMEs reported to have established a formal audit committee** to help drive continual improvement opportunities and lead the way in overcoming inefficient and incorrect business practices.
- * Less than 40% of respondents claimed that their business **has documented internal controls for financial and operational practices** within their business; from this, a very small number (only about 20%) indicated that they actually audit their practices.
- * 15% of MSMEs reported to have established **a formal risk committee**. Further, only a third claimed to have a documented and formal methodology on how risks are identified and managed.
- * Less than half of MSMEs **document their accounting controls**.

Current state of financial and operational control documentation within the MSME community



74%

GENERATE AUDIT REPORTS

55%

GENERATE RISK REPORTS

46%

HAVE DOCUMENTED ACCOUNTING PRACTICES IN PLACE



CONCLUSION



CONCLUSION

Corporate governance is often viewed as a set of capabilities that are intended only for larger businesses or restrictive obligations that are required only after a regulatory or contractual requirement arises. Hence, corporate governance is looked at as a reactive response to external pressure, rather than a proactive capability to help drive success even at the MSME level.

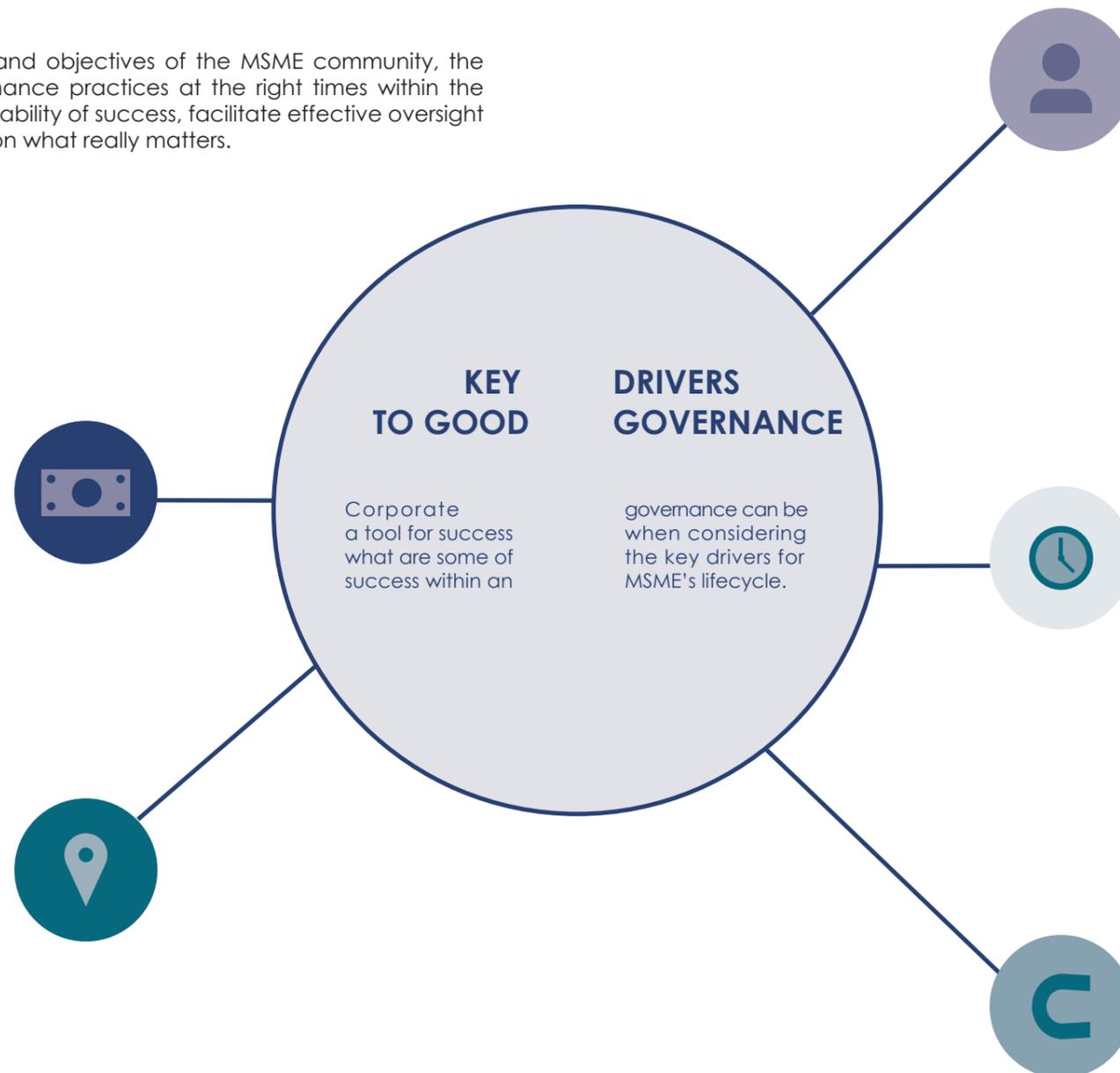
However, when considering some of the key challenges and objectives of the MSME community, the adoption of cost-effective and efficient corporate governance practices at the right times within the MSME's lifecycle will greatly improve and enhance the probability of success, facilitate effective oversight of the business and allow owners/business leaders to focus on what really matters.

WHEN IN NEED OF FUNDING

- * Effective corporate governance is imperative when looking to acquire funding from external parties (especially financial institutions).
- * Corporate governance will provide the funder with the assurance they need that the business is structured in an effective manner, thereby reducing the risk associated with lending and/or providing capital.
- * Furthermore, with this increase in assurance, the MSME will likely benefit from a reduction on premiums due to the reduced level of risk.

WHEN LOOKING TO EXPAND GEOGRAPHIC FOOTPRINT

- * In response to the clear message coming from the MSME community on their plans to grow geographically comes the need and risks associated with engaging with the businesses stakeholders that are often separated by geographic boundaries – yet need to be entrusted to deliver success.
- * However, without effective governance practices, the management of these stakeholders and the mitigation of risks associated with entrusting them to represent the MSME will be hindered and often left to chance.



WHEN THERE IS AN OVERDEPENDENCE ON CERTAIN INDIVIDUALS

- * Individuals within the MSME will have to perform multiple roles to achieve the business objectives. However, an overdependence on specific individuals can lead to risks that delay decisions, lead to missed opportunities, bottleneck critical actions, and even impact the overall quality of delivery.
- * The implementation of practical governance capabilities across the business will not only reduce such overdependence, but will do so without having to sacrifice the ability to control and oversee the development and execution of the business strategy.

WHEN THERE IS NOT ENOUGH TIME TO FOCUS ON WHAT MATTERS

- * The nature of MSMEs will see owners and business leadership working harder and allocating longer hours for the MSME to become successful. This however will inherently require that management and owners of MSMEs do not have the time to focus on things that matter, rather, allocating the majority of their time addressing granular operational details.
- * This will inherently lead to not only bottlenecks within the business, but require owners and business leaders to sacrifice their own time, work-life balance as well as their other professional aspirations/entrepreneurial ventures.
- * Corporate governance (when structured effectively) will provide a level of assurance to owners that decisions are being made within approved parameters and hence give them the time needed to focus on what matters.

WHEN LOOKING TO ATTRACT AND RETAIN TALENT

- * One of the top challenges highlighted by MSMEs within the Gulf Region is in the ability to attract and retain talent. With a predominately expat workforce within the Gulf Region and a relatively high staff turnover, attracting the right talent to the business and then retaining it to get a return on the investment placed to train and prepare them is crucial.
- * The right talent however will often look for growth opportunity, transparency and structure as it would provide them with an environment where they can succeed and grow.
- * Corporate governance can provide this structure and balance which would render the business more attractive to talent.



ELEMENTS WITHIN A GOVERNANCE FRAMEWORK

A governance framework can define expectations on how the business needs to operate and align stakeholders on the direction the business is taking. The following table illustrates a mapping between some of the key elements of a governance framework and indicates which triggers within the MSME lifecycle they will help support.

ELEMENTS OF A GOVERNANCE FRAMEWORK



FORMULATE AN EMPLOYEE CODE OF CONDUCT

A formal Employee Code of Conduct can help employees, staff and stakeholders understand what is expected of them in their representation of the business.



DEFINE A DELEGATION OF AUTHORITY

A Delegation of Authority can provide clear parameters on what decisions individuals are authorised to make within the area of responsibility, and when additional stakeholders need to be involved.



ESTABLISH A BOARD AND DEFINE THEIR MANDATE

The existence of a board that comprises of independent individuals to represent shareholders can provide the business with strategic direction, objective advice and support in opening doors and creating opportunities.



ENFORCE ACCOUNTABILITY THROUGHOUT THE BUSINESS

Accountability can provide assurance that individuals (or the business) are evaluated on clearly defined performance objectives, and hence understand what it requires for them to grow and where their priorities should lie.



PLAN AHEAD FOR LEADERSHIP SUCCESSION

Succession planning can help identify and develop new leaders to replace old leaders when they leave the business. This becomes most crucial when the business has its roots as a family owned business that is now looking to pass on the reins to the next generation.



ADOPT ACCOUNTING STANDARDS IN-LINE WITH BEST PRACTICES

Accounting standards are guidelines that provide assurance to stakeholders (shareholders, owners, lenders, regulatory bodies, etc.) that the financial records produced by the business are accurate.



ENGAGE IN FORMAL RISK MANAGEMENT

Risk Management can provide decision makers with clear and consistent information on the internal and external challenges their business faces allowing them to prioritise where they should focus efforts and allocate resources to enhance resilience.



INSTIL TRANSPARENCY ACROSS THE BUSINESS

Transparency can help those affected by decisions to know not only the basic facts and figures behind the decision but also the mechanisms and processes leading to the decision.



DESIGN, IMPLEMENT AND MEASURE EFFECTIVENESS OF INTERNAL CONTROLS

Internal controls can mitigate risks and help drive scalability within the business through the enforcement of documented, approved and measured operating practices applied across the business.



DERIVE VALUE FROM AUDIT AND COMPLIANCE ACTIVITIES

Audit and compliance activities can help drive continual improvement and provide the business with external and impartial views on key areas that require management attention.



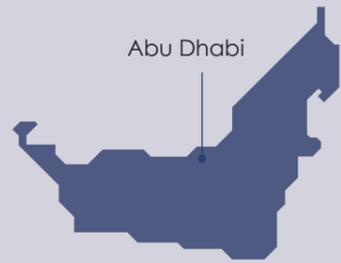
PERIODICALLY PERFORM AND UPDATE A STAKEHOLDER ANALYSIS

Understanding the internal and external individuals and being able to effectively capture and address their expectations and associated challenges will help the MSME perform better.



COUNTRY-SPECIFIC INSIGHTS





UNITED ARAB EMIRATES

How many MSMEs have a board

59%

Number of People on the Board

6.58

Is the CEO and Chairman the same person?



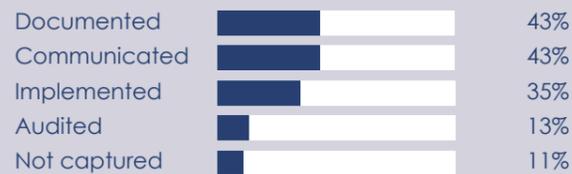
Overview of challenges in the country

41%	Absence of cash and funding
39%	Absence of talent and experienced staff
38%	Economic conditions and negative outlook
35%	Overly saturated competitive environment
28%	Unsupportive regulatory environment
11%	Internal bureaucracy and misalignment of strategy
9%	Inadequate supply chain, raw materials, service providers
7%	Inadequate infrastructure to promote growth
2%	Other

Number of Women on the Board

1.75

DOA in place vs. implemented vs. audited



Risk report vs. audit reports vs internal controls



KINGDOM OF SAUDI ARABIA

How many MSMEs have a board

61%

Number of People on the Board

7.16

Is the CEO and Chairman the same person?



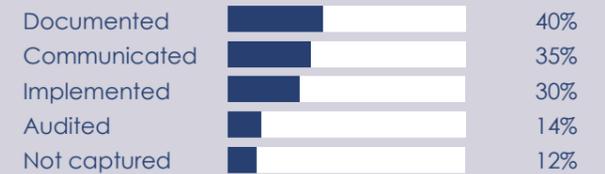
Overview of challenges in the country

49%	Absence of cash and funding
43%	Absence of talent and experienced staff
37%	Economic conditions and negative outlook
35%	Overly saturated competitive environment
27%	Unsupportive regulatory environment
19%	Internal bureaucracy and misalignment of strategy
9%	Inadequate supply chain, raw materials, service providers
8%	Inadequate infrastructure to promote growth
2%	Other

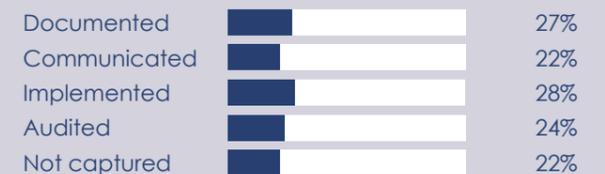
Number of Women on the Board

1.90

DOA in place vs. implemented vs. audited



Risk report vs. audit reports vs internal controls





OMAN

How many MSMEs have a board

43%

Number of People on the Board

6.02

Is the CEO and Chairman the same person?



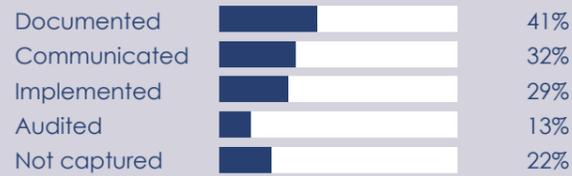
Overview of challenges in the country

51%	Absence of cash and funding
48%	Absence of talent and experienced staff
37%	Economic conditions and negative outlook
33%	Overly saturated competitive environment
24%	Unsupportive regulatory environment
22%	Internal bureaucracy and misalignment of strategy
14%	Inadequate supply chain, raw materials, service providers
9%	Inadequate infrastructure to promote growth
7%	Other

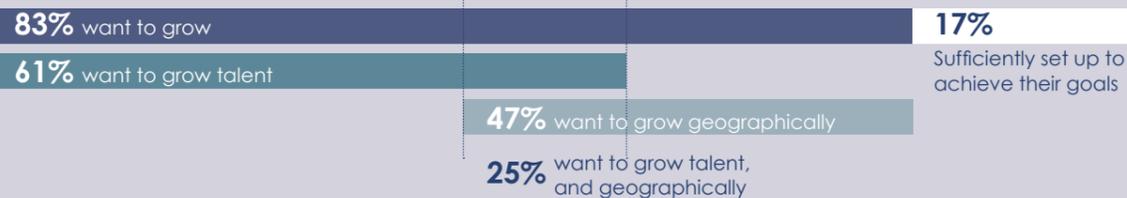
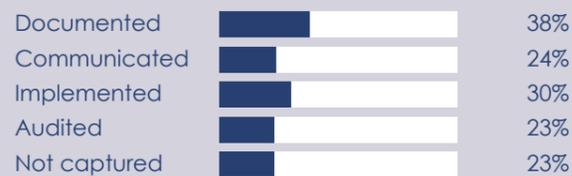
Number of Women on the Board

1.93

DOA in place vs. implemented vs. audited



Risk report vs. audit reports vs internal controls



BAHRAIN

How many MSMEs have a board

66%

Number of People on the Board

9.65

Is the CEO and Chairman the same person?



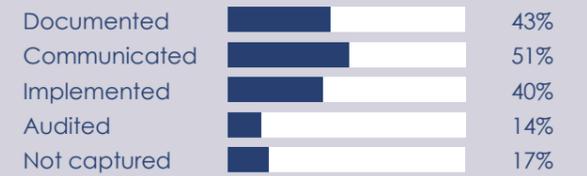
Overview of challenges in the country

60%	Absence of cash and funding
40%	Absence of talent and experienced staff
37%	Economic conditions and negative outlook
31%	Overly saturated competitive environment
23%	Unsupportive regulatory environment
9%	Internal bureaucracy and misalignment of strategy
9%	Inadequate supply chain, raw materials, service providers
6%	Inadequate infrastructure to promote growth
3%	Other

Number of Women on the Board

2.04

DOA in place vs. implemented vs. audited



Risk report vs. audit reports vs internal controls





How many MSMEs have a board

57%

Number of People on the Board

9.11

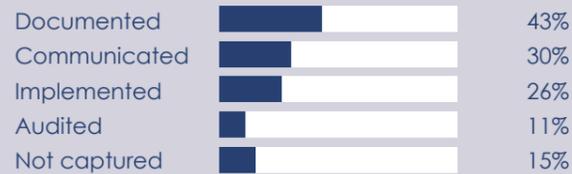
Number of Women on the Board

1.46

Is the CEO and Chairman the same person?

63% YES 37% NO

DOA in place vs. implemented vs. audited



Overview of challenges in country

51%	Absence of cash and funding
38%	Absence of talent and experienced staff
28%	Economic conditions and negative outlook
26%	Overly saturated competitive environment
21%	Unsupportive regulatory environment
20%	Internal bureaucracy and misalignment of strategy
13%	Inadequate supply chain, raw materials, service providers
7%	Inadequate infrastructure to promote growth
3%	Other

Risk report vs. audit reports vs internal controls



How many MSMEs have a board

62%

Number of People on the Board

6.32

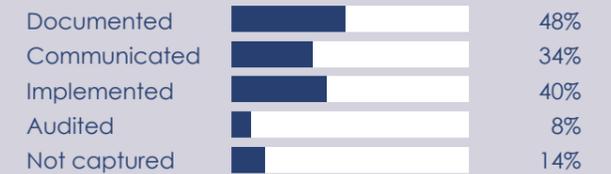
Number of Women on the Board

1.23

Is the CEO and Chairman the same person?

65% YES 35% NO

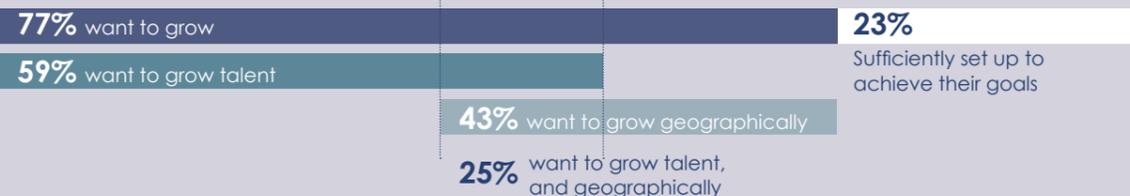
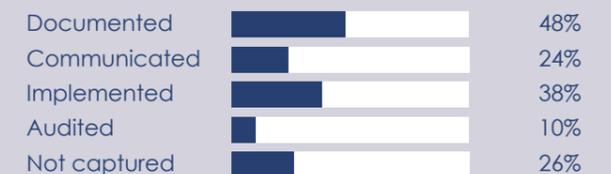
DOA in place vs. implemented vs. audited



Overview of challenges in the country

48%	Absence of cash and funding
44%	Absence of talent and experienced staff
44%	Economic conditions and negative outlook
34%	Overly saturated competitive environment
18%	Unsupportive regulatory environment
16%	Internal bureaucracy and misalignment of strategy
6%	Inadequate supply chain, raw materials, service providers
4%	Inadequate infrastructure to promote growth
2%	Other

Risk report vs. audit reports vs internal controls



RESEARCH METHODOLOGY



RESEARCH METHODOLOGY

The research for this report was carried out in four phases;

1. Desktop Research

The first phase was extensive desktop research on the views and perspectives of MSMEs with relation to corporate governance capabilities, benefits, and challenges. This included internet and database searches for articles, previous research and other publicly available information.

2. Independent Regional Survey

The second phase of the research was an extensive 20-minute online survey in English and in Arabic with over 1,000 respondents representing MSMEs in the Gulf Region. The survey was conducted between June and July 2017. Programme collaborator networks, corporate partners and well-networked individuals in each of the countries assisted in sending out the survey questionnaire to their networks and to help ensure a high response rate.

About the Survey Participants

The research targeted individuals holding senior/ownership positions in MSMEs across multiple sectors and industries. The geographic scope of the research was the entire Gulf Region. We collected a total of 1,001 fully completed questionnaires.

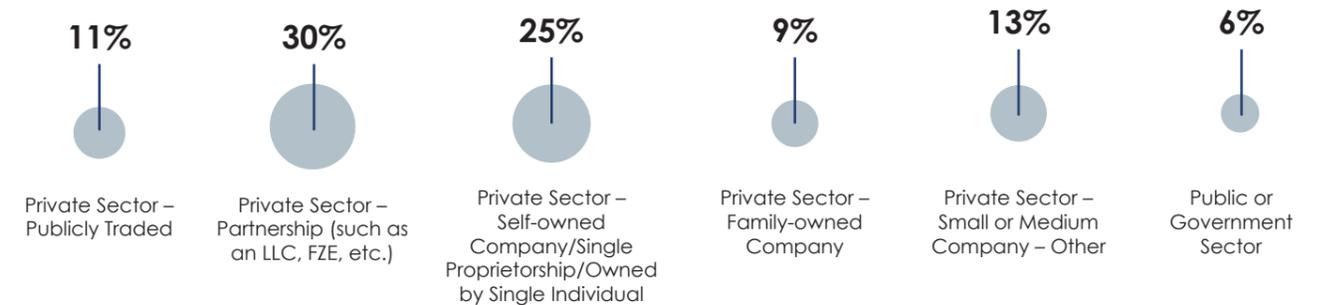
3. Collaboration Partners

The final phase including sharing information with our collaboration partners to collectively analyse and process data that was captured in order to develop the conclusions and list of recommendations outlined within this report.

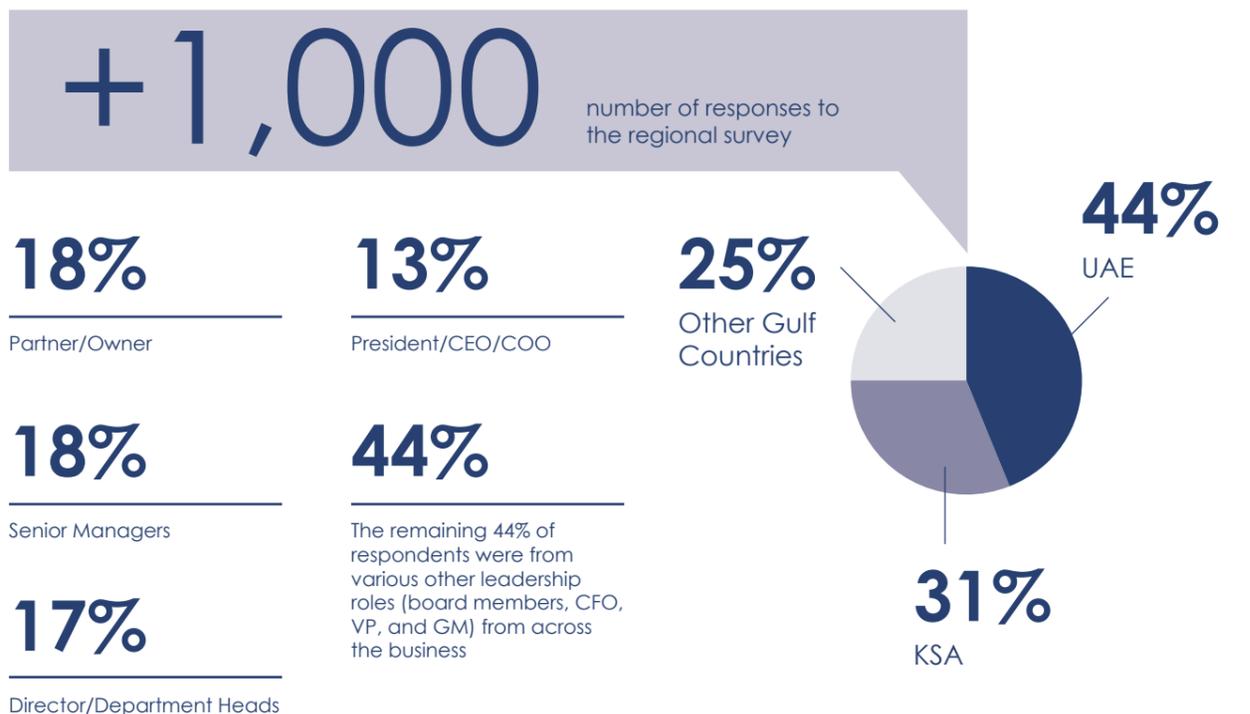
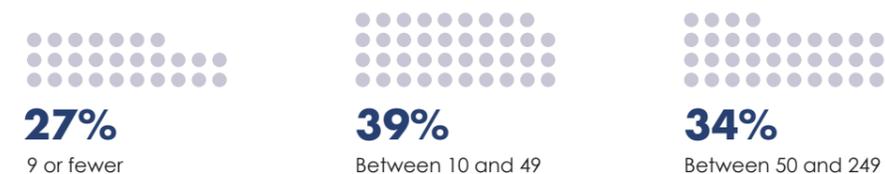
4. Focus Group Meetings and Workshops

We met with people in leadership positions from MSMEs across the region and discussed some of the specific challenges they are facing and how corporate governance capabilities have/will help them in their efforts to achieve their objectives.

Sector/industry distribution of the survey



Overview of organisation sizes (No. of employees)



ABOUT THE PEARL INITIATIVE



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*

*approximate as of January 2018

11 REGIONAL INSIGHT REPORTS	246 HIGH-LEVEL REGIONAL AND INTERNATIONAL SPEAKERS	6,564 UNIVERSITY STUDENTS REACHED THROUGH OUR WORKSHOPS AND CASE STUDY COMPETITIONS
30 UNIVERSITIES ENGAGED ACROSS THE GULF REGION	94 EVENTS AND WORKSHOPS ACROSS THE GULF REGION	6,752 BUSINESS LEADER PARTICIPANTS IN OUR FORUMS

“
The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.”

www.icaew.com

Our Corporate Governance 360 Initiative

Corporate governance is a system of rules, practices and processes by which a company is directed and controlled with the aim to act in the best interest of all its stakeholders. These include shareholders, management, customers, suppliers, investors, government and the community. This leads to long-term thinking, better risk management, better decision making and better reputation to set up a company for long-term success. At a macro level, sustainable, well-governed businesses lead to value and job creation, economic growth and stability.

The Pearl Initiative runs multiple programmes that aim to enhance corporate governance practices across the Private Sector in the Gulf Region.

The Corporate Governance for MSME Programme

Micro, Small and Medium Enterprises (MSMEs) account for over 90 per cent of all registered companies throughout the Gulf Region. According to industry projections, this sector is anticipated to provide the bulk of the economic growth and job creation in both the short and long-term.

The Pearl Initiative works to empower the MSME community in the Gulf Region to be as competitive and resilient as possible through the introduction of cost-effective and practical corporate governance capabilities. Establishing these effective capabilities will facilitate geographical expansion, help attract and retain talent, and increase long-term access to funding thereby addressing several of a company's key business challenges hindering growth and competitiveness.

COLLABORATION PARTNERS

OUR PROGRAMME COLLABORATOR NETWORK

This programme is currently delivered through extensive collaboration with organisations that share the Pearl Initiative commitment to support and empower the MSME community across the Gulf Region. Specifically, the following organisations within the region have granted Pearl Initiative direct access to the MSMEs they support and provided subject matter expertise to help drive the success of this programme.



*as of January 2018

PEARL INITIATIVE PARTNER COMPANIES



