

Boards Under Stress

1. Executive Summary

Hawkamah launched its Board Under Stress survey in July 2020 to explore how regional boards handled decision-making during the community lock downs introduced around the region that placed a lot of businesses and organizations under stress.

Key takeaways include:

Communications

- 86% of boards were in constant contact during the lockdown
- 82% of the boards were also in constant contact with the executives
- 55% received some sort of communication from shareholders related to changing investor expectations as a result of the lockdown
- However, 71% reported that the lockdown did not have any impact to board operations

Readiness

- 47% of respondents felt that the executives were more ready to deal with the pandemic, compared to only 35% for the boards.
- Only 22% thought that the risk committees were capable of dealing with the pandemic
- 44% of the respondents highlighted that the policies, procedures for company operations were flexible enough to respond to the pandemic, and 42% thought that the control environment was flexible and agile.
- 34% thought that communication to shareholders were adequate, compared to 48% thinking that stakeholder communications were adequate.

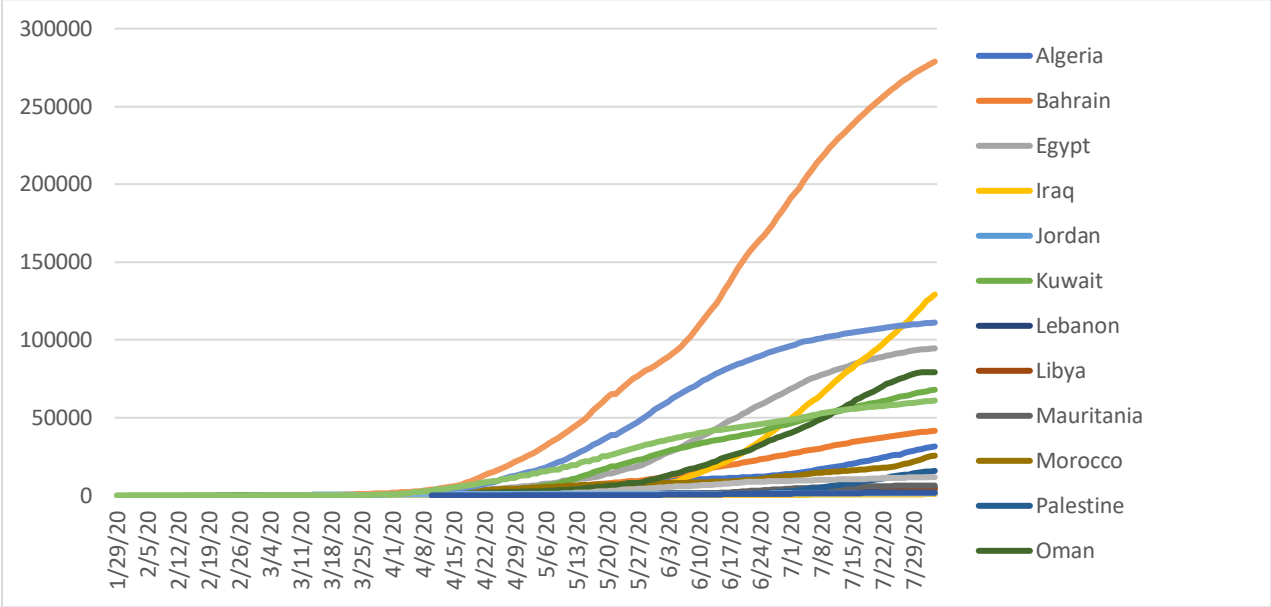
New Normal

In trying to deal with the “new normal,” Hawkamah Institute asked respondents to identify the top three board priorities once the crisis brought about by the pandemic subsides and becomes more manageable. Respondents identified two items in close third, as such below are the top four priorities:

1. Review of the company’s business model
2. Review business continuity lessons learned
3. Ensure that the workplace is safe and is in compliance
4. Stabilize the company’s financial position

2. Context

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



Source: World Health Organization www.who.org

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

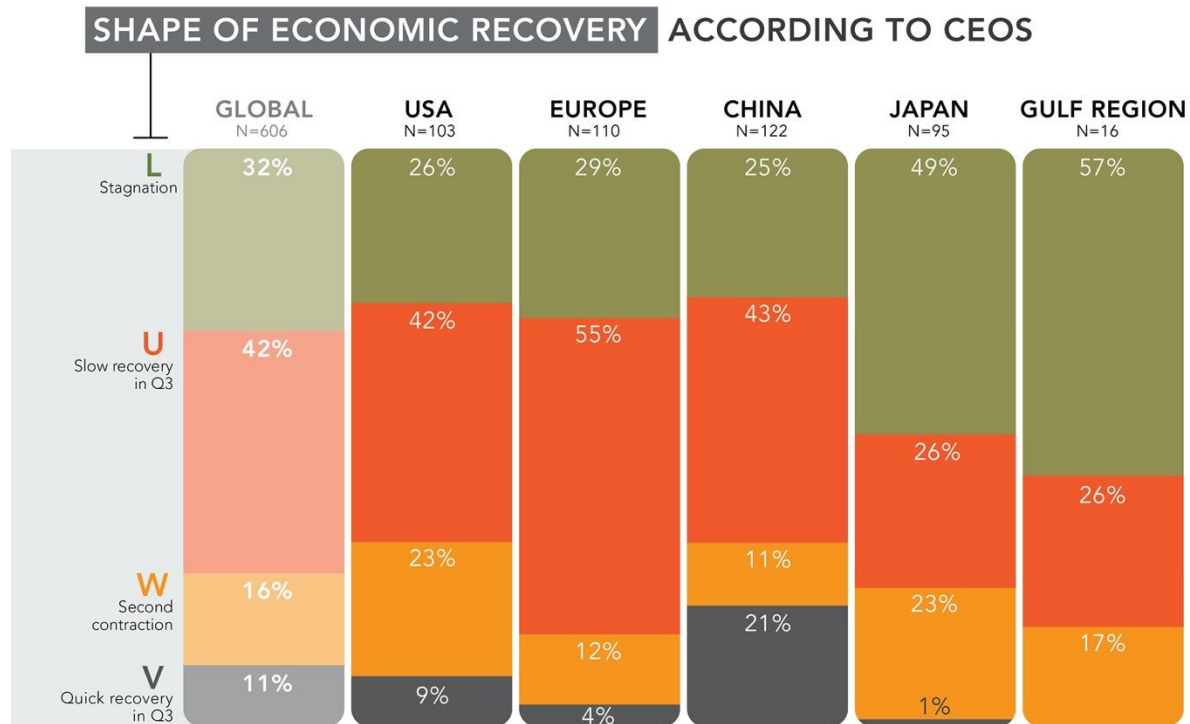
Not surprisingly, COVID 19 is bringing severe economic costs to the region. The International Monetary Fund (IMF) estimates that growth in the Middle East and North Africa (MENA) region might fall to -4.2% for oil exporting countries and -0.7% for oil importing countries in 2020.¹ MENA countries responded rapidly to mitigate the economic consequences of the crisis on the private sectors and households and keep the financial market functioning. On average, 2.7% of GDP was allocated to fiscal measures, while 3.4% of GDP (over USD 47 billion) in liquidity injection was activated by Central Banks across the region during the first weeks of the crisis.²

In May 2020, several MENA countries began to gradually relax lockdown measures and started planning to open up their economies and societies. A new normal with social distancing, face masks and flexible work hours are being widely implemented. However, a recent survey of

¹ IMF, Regional Economic Outlook - Middle East and Central Asia, April 2020.

² OECD, COVID-19 crisis response in MENA countries, June 2020.

CEOs conducted by the Conference Board on their expectations of economic recovery highlight a pessimistic view of the Gulf region with about 57% predicting economic stagnation in the near future.³



www.conference-board.org/covid-19
 © 2020 The Conference Board, Inc.
 Source: The Conference Board, C-Suite Challenge™, July 2020

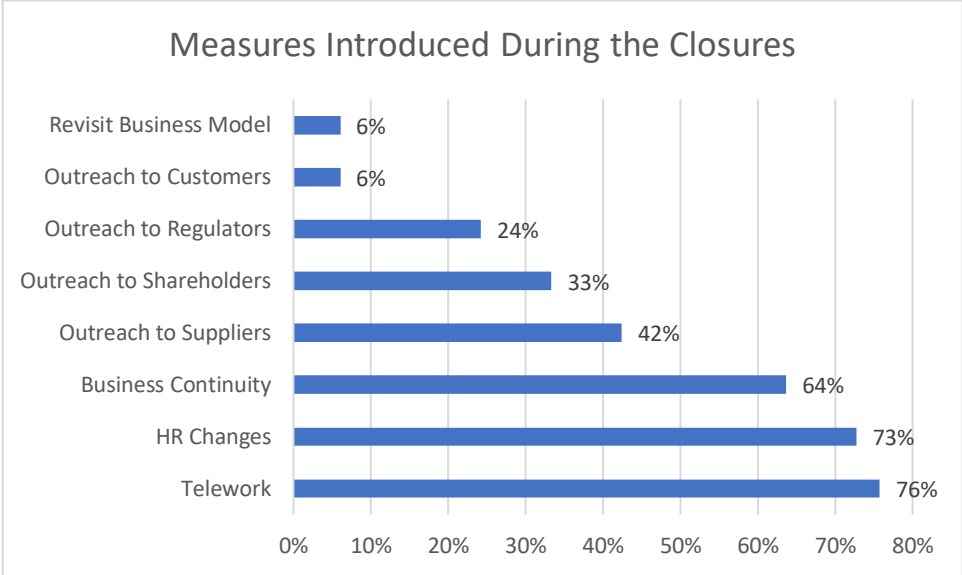
With this backdrop, Hawkamah Institute initiated a survey in July 2020 of its constituents, comprising mostly of directors and company secretaries, to explore how regional boards handled decision-making during the pandemic. The survey explored the perception of these directors and company secretaries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

3. Regional Companies Initially Prioritized Business Continuity

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

³ The Conference Board, C-Suite Challenge, July 2020

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

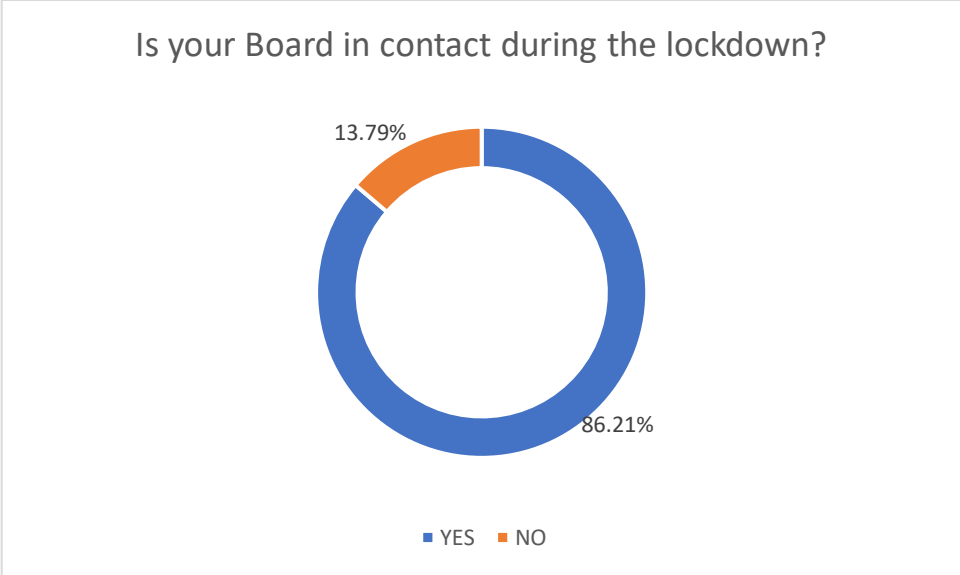


4. Board Communications during times of social distancing

Amongst board

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

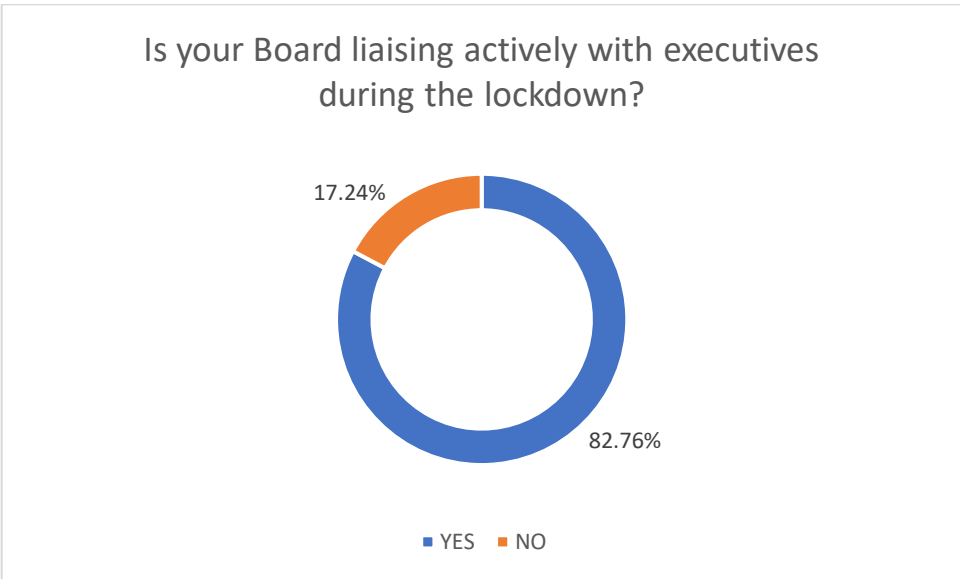
86% of respondents reported that their Board was in close contact during the community lockdown, as businesses went under economic stress.



Boards and Executives

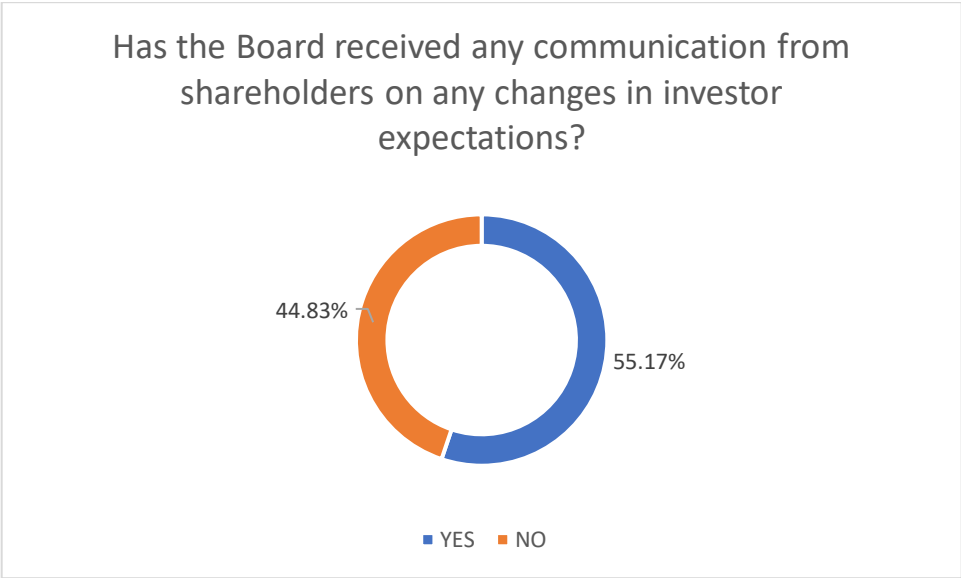
Boards keeping in close touch with executives especially during times of crisis is a good corporate governance practice. Boards have a unique fiduciary responsibility in overseeing the company, and during times of crisis there may be instances where executives have to make emergency decisions that may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

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

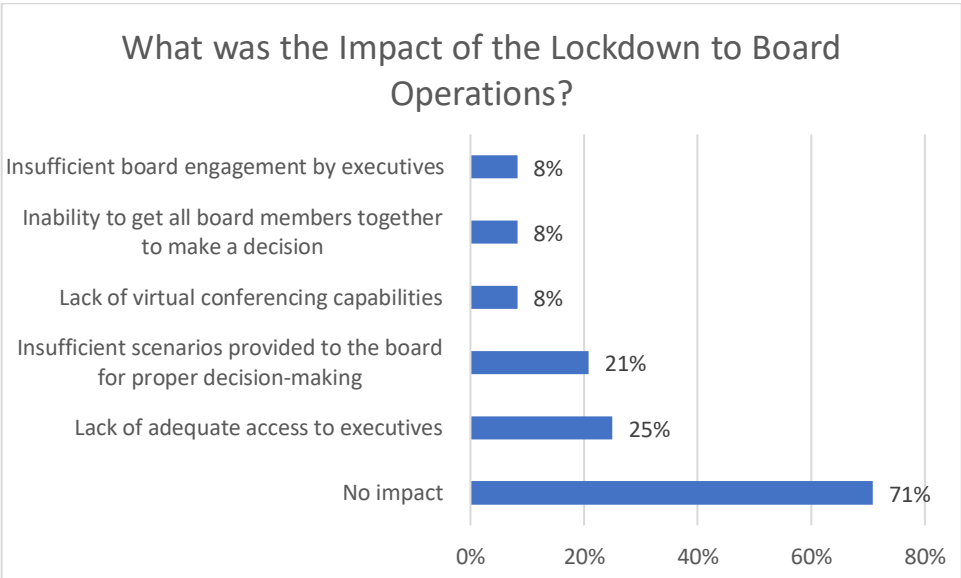


The board also has a responsibility to get in touch with key stakeholders, particularly the regulators and shareholders of the company. 55% of respondents mentioned that they

received some form of communication from shareholders on changes in investor expectations in light of the lockdown and their implications to the business.



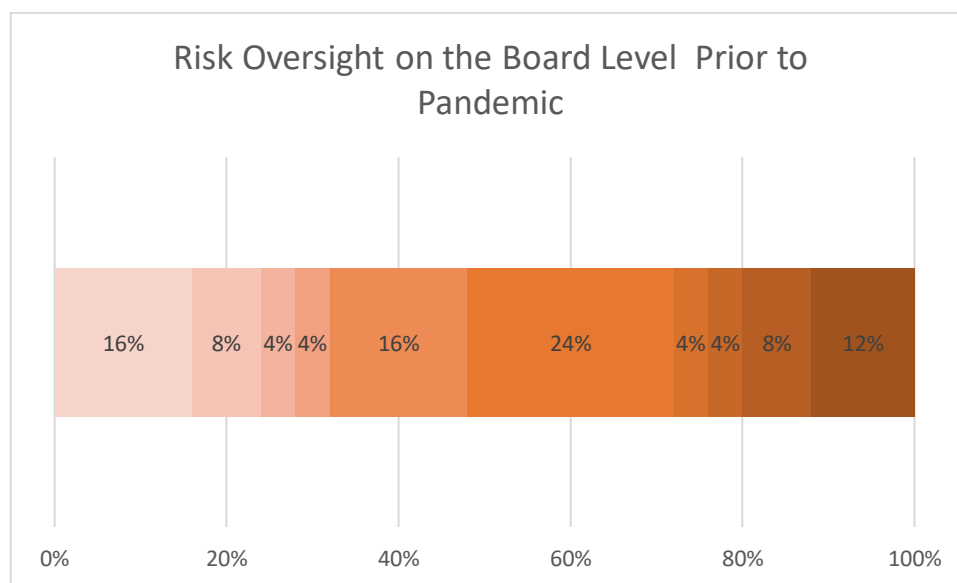
71% of respondents noted that the lockdown did not have any immediate impact on board operations, however an interesting one in four respondents noted some challenges on board access to executives and one in five respondents cited insufficient scenarios were provided to the board for proper decision-making.



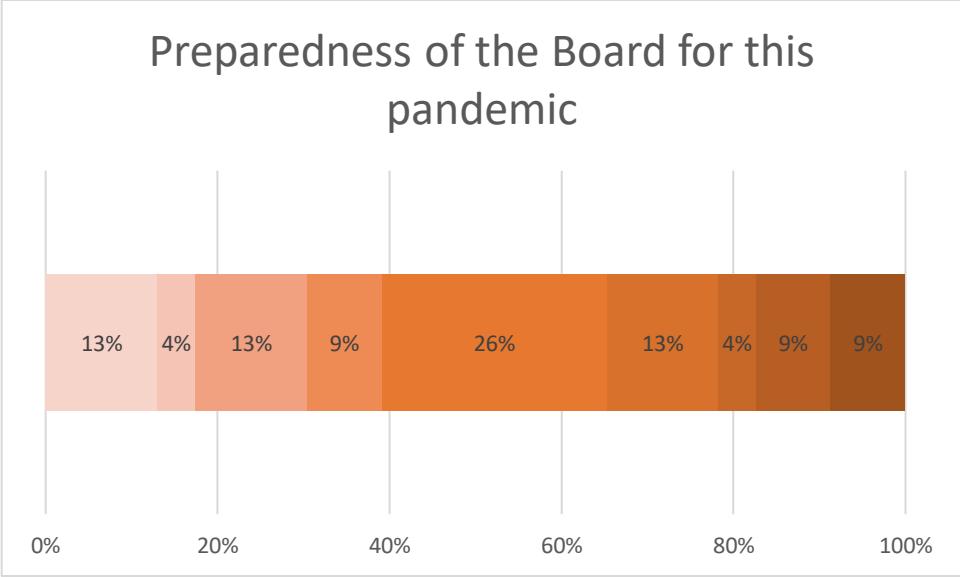
5. Assessing Crisis Response

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

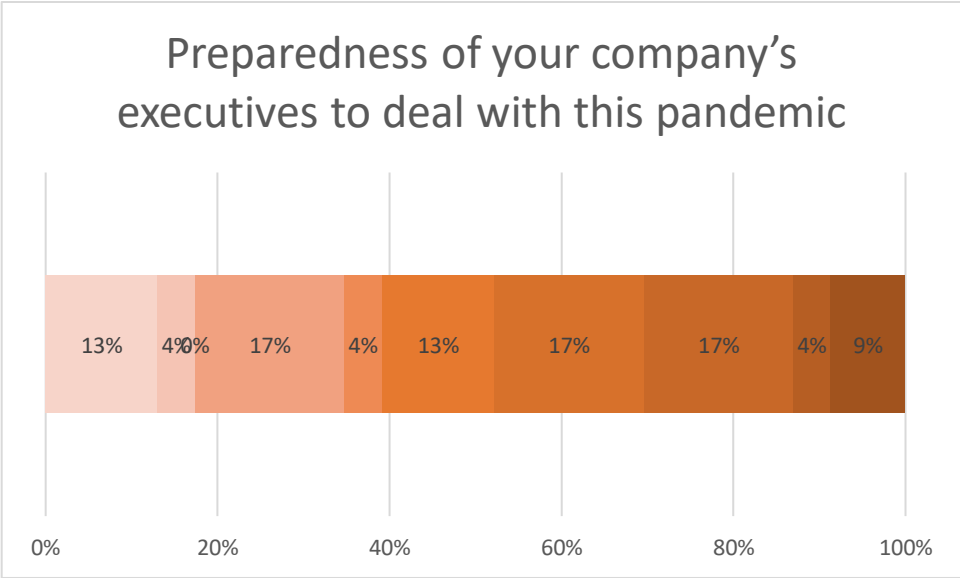
Respondents were asked their perception on board level risk oversight prior to the pandemic. 28% of respondents reported that boards were at least at a 7 out of 10 in in their perceived quality of the board's risk oversight prior to the pandemic.



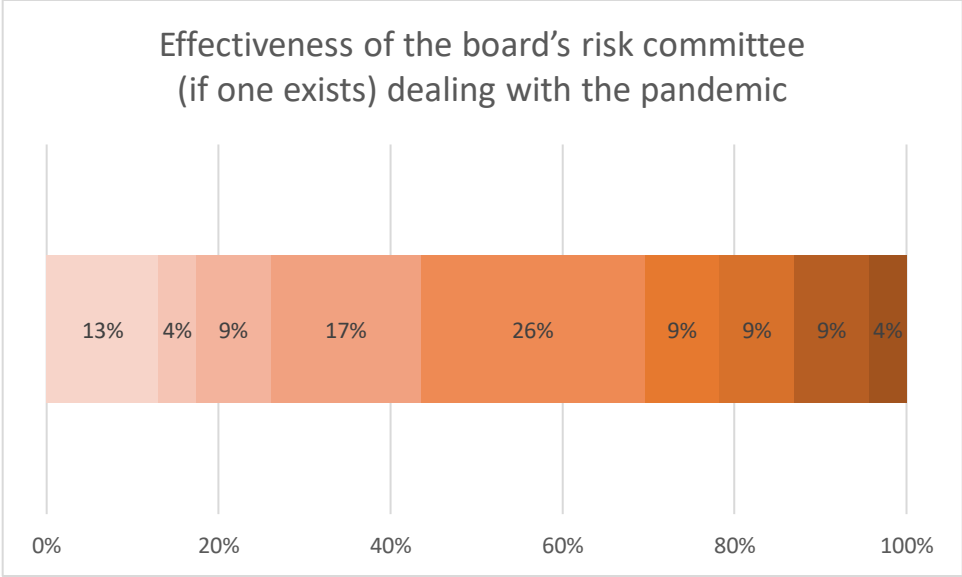
Once the pandemic occurred, 35% of the respondents assessed that their board were at least at 7 out of 10 preparedness to deal with this pandemic.



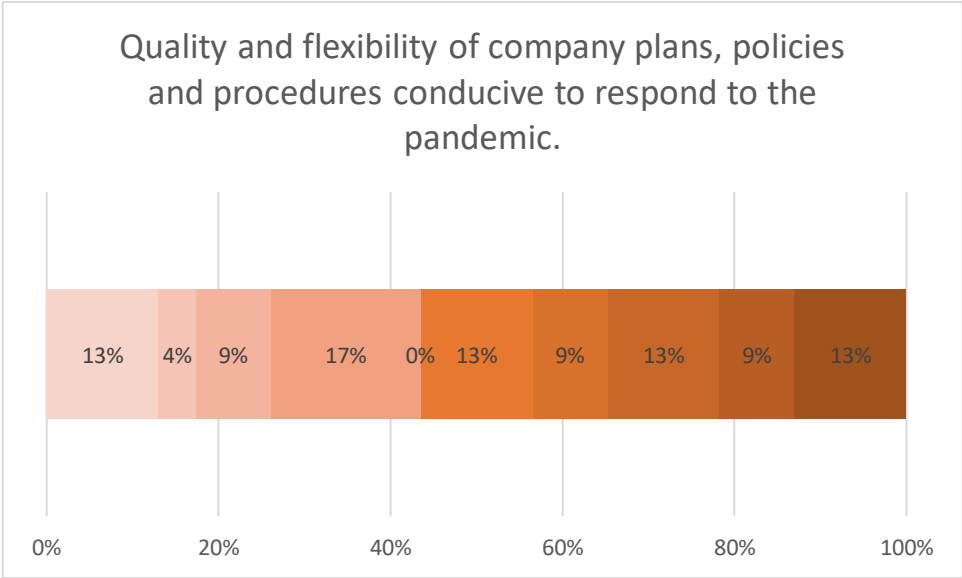
An interesting 47% of the respondents assessed that the executives were at least at 7 out of 10 preparedness to deal with this pandemic. The general perception is that the executives were more prepared than the board.



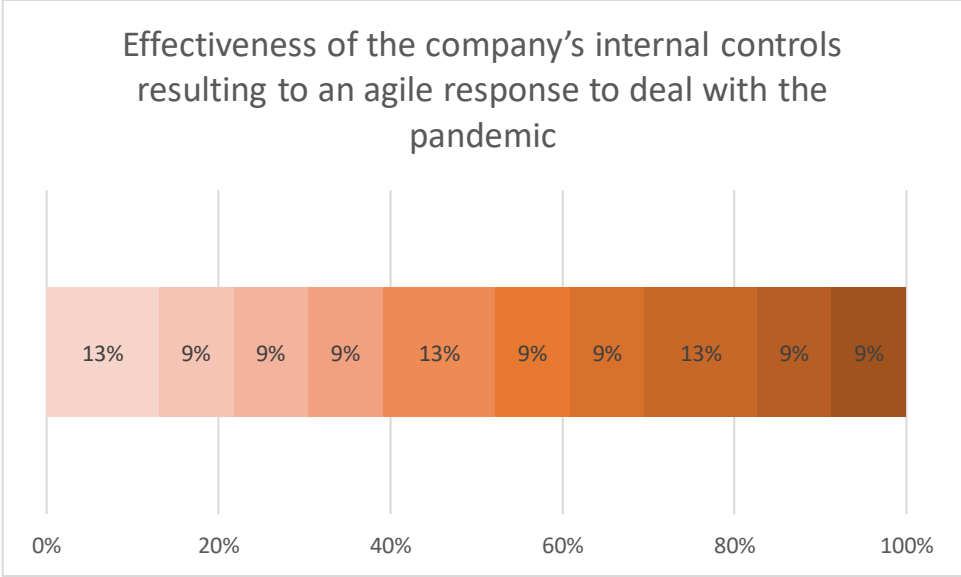
Those that had risk committees, 22% felt that their risk committee had at least a 7 out of 10 effectiveness in dealing with the pandemic.



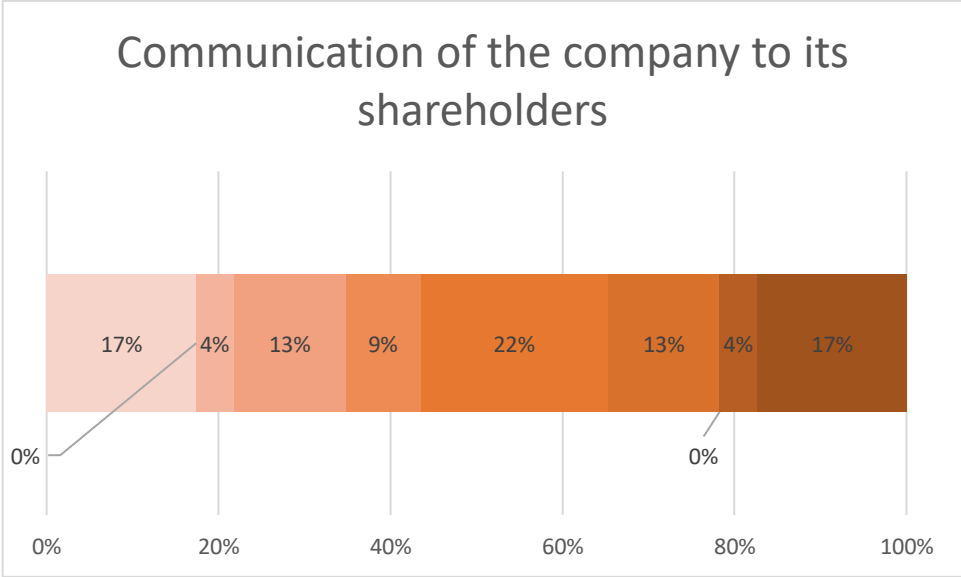
44% of respondents assessed the quality and flexibility of their company plans, policies and procedures at least at 7 out of 10 conducive to respond to the uncertainties that the pandemic brought to company operations.



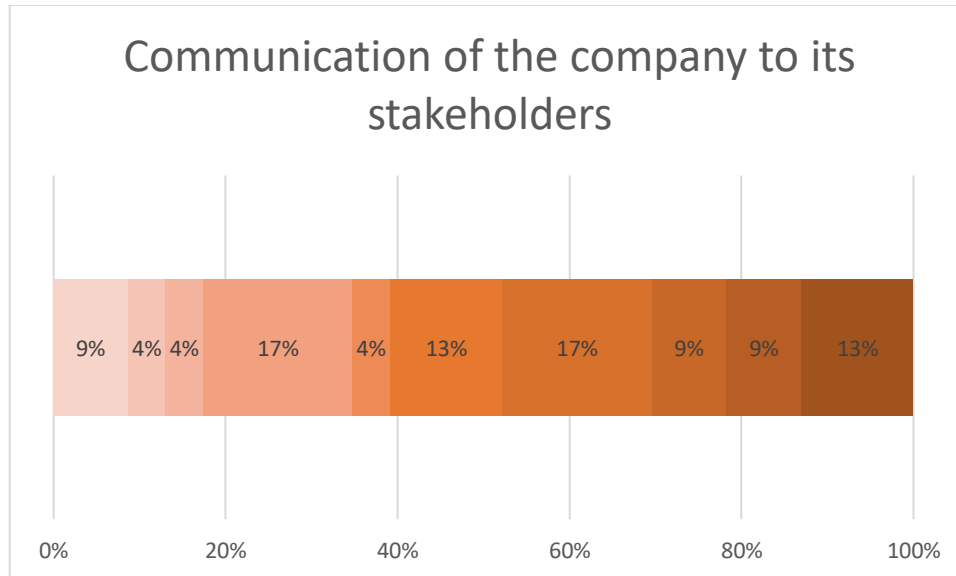
40% of respondents assessed the effectiveness of the company's controls at least at 7 out of 10, resulting to an agile response to deal with the pandemic.



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



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



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

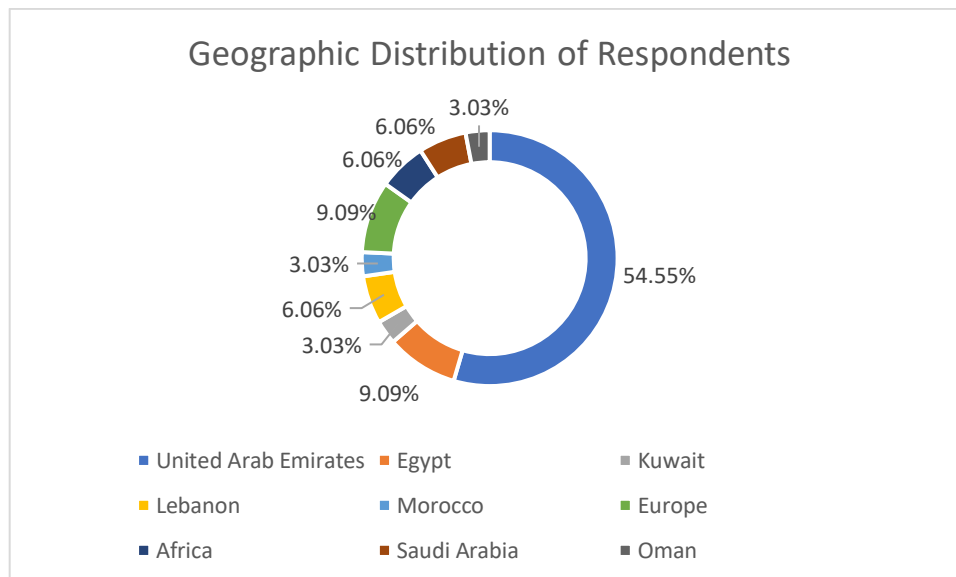
- **Technology and board meetings** – Those that initially invested in board meeting technology found it easier to meet virtually than those that followed a more traditional approach of board meetings. The greater the exposure that board members had in utilizing their Ipads, the easier it was for the company secretary to push information into the board portal for better board decision-making.
- During times of crisis, the **trusting relationship between board and executives** are tested. The board has to be reassured that executives are doing all that is necessary to mitigate any potential risks that the organization is facing, and this can be effectively done through constant contact and communication between the board and the executives. The relationship between the Chairman and the CEO is key.
- Crisis communication good practices call for **stakeholder and shareholder communication to be an ongoing concern of the Board**. As executives try to battle the crisis head-on and put out fires, the Board has to make sure that the external relationships of the organization are in tact and fully informed to the extent possible.

Appendix 1: Methodology

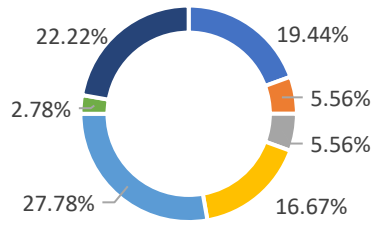
Hawkamah Institute issued a 4-part online survey to directors and company secretaries that have gone through its director development and certified board secretary program.

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

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



Industries Represented by Respondents



- Government organization
- Oil & Gas
- Hospitality
- Consulting & Professional Services
- Finance
- Healthcare
- Other

Number of Board Members in the Board

