THE HAWKAMAH JOURNAL

Boards navigating crisis
Interviews with Sandra Guerra, HE Mohammed Sharaf and Brendan Nelson

Investor views on crisis management and resilience
Interviews with Sabine Lochmann, Robert Walker and an article by Sophie L'Helias et al

Regulator's perspective on crisis
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A JOURNAL ON CORPORATE GOVERNANCE & LEADERSHIP

ISSUE 16

FOREWORD

Dear Reader,

The year 2020 has been characterized as *Annus Horribilis* as governments, businesses and people around the world have had to grapple with the Covid-19 pandemic which upended daily life and sent shockwaves through the global economy.

Crisis and disruptions are unfortunate elements of business reality, and it is crucial that companies prepare for, and manage, challenging times. This 16th issue of the Hawkamah Journal focuses on how companies and their boards can navigate crisis. This issue explores the topic through interviews with prominent board members and executives representing the perspectives of companies, investors and regulators. There are two main themes that come out of these interviews.

The first is that good governance practices and effective boards play a crucial role in both crisis preparedness and crisis response. Pre-crisis, strong boards take a long-term view of the business and ensure that management regularly reviews, updates, and practices all aspects of crisis planning. During crisis, effective boards will be clear on how they will be organized and take the lead in efforts to restore the confidence of stakeholders.

The second theme relates to the importance of stakeholders in times of crisis. In challenging times, organizations need the support of both internal and external stakeholders – including employees, shareholders, customers, suppliers and the wider community - and the resilience of businesses is dependent on the goodwill they have built with their key stakeholders pre-crisis.

I wish you a stimulating read.

Dr Ahmad Bin Hassan Al Shaikh
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DECEMBER 2020

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SANDRA GUERRA

Sandra Guerra has, since 1995, been one of the architects of modern international corporate governance, having co-founded and led Brazil's pathbreaking Instituto Brasileiro de Governança Corporativa (IBGC). She has served on corporate boards and been a CEO or executive at multinational companies and now leads Better Governance, a consultancy aimed at directors. Her book The Black Box of Corporate Governance is forthcoming in English. In October 2017 Sandra joined the board of Vale, one of the largest mining companies in the world, as one of two independent directors. Fifteen months later, on January 25 2019, a tailings dam at the iron ore mine just east of Brumadinho, in the Brazilian state of Minas Gerais, suffered a catastrophic collapse. The resulting mudflow killed some 270 people, most of them Vale employees and family members. The disaster was an existential one for the company, as Vale faced sudden, daunting, regulatory, reputational, financial, and operational consequences. Hawkamah advisory board co-chair **Stephen Davis** *interviewed Sandra about what it has been like to navigate such disruption as an independent director.*

Q: Vale faced an existential crisis in 2019 with the collapse of the Brumadinho dam. Because directors are as human as the rest of us, maybe you can describe what it was like for you as an independent director of Vale to hear the news? What do you remember?

I will never forget. It was a holiday in Sao Paulo, as it was the anniversary of the city, and I was buying tickets to watch a movie with friends when I received a news alert from a radio station on my phone mentioning Vale. When I listened to the message, I said "No, this is not possible". I went to watch the news on TV and even considered if this could have been some sort of an attack, because otherwise I could not understand how this would have been possible with all the information I had received on the management of the company's dams. I was astonished, overwhelmed.

Back then I was serving on the board's Governance, Compliance, and Risk Committee and we were following up every month on the implementation of a new risk model. As part of that, we were regularly reviewing the top risks facing Vale. Moreover, since I had joined the board in October 2017, I had only observed the company making progress on its risk model, risk methodology, and risk management—and these were significant improvements, by the way. In my first month on the board I had a meeting accompanied by the other new independent director, Isabella Saboya, with the then three executives responsible for hundreds of structures (dams included) in all operations across the world. And we learned the many improvements made since the previous dam collapse in 2015. So at that moment, for me, this incident did not match with the progress reports I had continually received as a director, especially as there had been many board sessions dedicated to implement risk management improvements and initiatives with no restrictions whatsoever on expenses related to security enhancements – on the contrary, the board would monitor that such expenses were being made according to the plan.

The very same day, some hours later, we were trying to put a board meeting together, but because it was the end of summer holidays, many of the directors were travelling, some in remote places, so it was a bit difficult to find everyone. But we finally managed to hold a meeting in the afternoon. As it happens, the CEO was flying back from Davos—he had been on board the plane when the incident occurred—so we quickly held a second meeting the same day when the CEO arrived.

There are different stages of psychological response to crisis—denial is one of the first stages—and at the very first hours our minds were possibly still in the denial phase. Meetings on digital platforms were not so usual as they are now in the Covid 19 pandemic, so we were having a meeting via conference call. One director was on the road with a very bad signal, another one was near a waterfall in a very remote place, others in similar difficult circumstances. And on top of that, we were all trying to understand what was happening. In the first two days we had several meetings like this one, until we were all finally able to find means to get back to Rio, where Vale is headquartered.

Once we got there, present as the situation was unfolding, it was very different. We went to the crisis room which had been set up by the management, and later on this very Sunday we took a number of decisions such as suspension of dividend payments, suspension of variable compensation, and creation of (initially) two extraordinary independent committees: Investigation, and Support and Recovery. In an abyssal crisis like this one, eye-to-eye understanding is essential.

But the very presence of the board at that point in time was not only required to take decisions. Support for management was also very important. Commitment to excellence was historically something that was very strong in the company culture, and management was always very proud of Vale. So facing such a situation was more than just dealing with a crisis. Executives were very touched, very shaken, lots of colleagues were dead. The tension and sadness was palpable. It was imperative to maintain calm and help management cope with the immediate effects of the dam collapse and put together an enormous crisis management structure.

Q: So your role at the board at this stage was also to reassure management?

Reassure, comfort, and offer support and advice: that was what the entire board was focusing on. Be there for the managers. The situation was unimaginable. There are no words that could describe the drama and gravity that management was facing. We went to the crisis room to support each of the executives and employees, and we told them that we would be working with them for any need the company might have. And this was what happened for many days. The board was there, almost full time, responding to several requests and deciding about different circumstances arising from the situation. The board had daily, full-day meetings, going home or to the hotel for the many that did not live in

Rio, and then coming back the following day.

In 2019, we had 46 board meetings. Most of these took place between 25th of January, the day of the incident, and the end of April. After that we started to have a more regular board schedule, but still having extra meetings to cope with all the decisions and activities necessary.

A couple of weeks after that first weekend, we appointed a third independent special board committee, Dam Safety, comprised of three independent dam experts. With that, the structure to enable the board to respond appropriately as events unfolded was fully in place. In a matter of less than 20 days we created three committees and hired nine independent committee members– three for each committee. Even before the launch of all three committees, on Sunday February 3, two members of the Support and Reparation Committee flew to Brumadinho to monitor actions and directly assess the situation for the board. The international search firm hired to support the selection of the committee members said to us that the job done in this time frame represented a record in the history of their company.

And we had to act fast as the board had to deal with numerous difficult situations. From approving actions to facing decisions of Brazilian courts to freeze significant company's assets, to monitoring the preliminary agreements, not mentioning the approve of special funds for emergency initiatives and donations. And these are only few examples.

One of the most critical moments was when the board of directors received a recommendation signed by federal and state authorities to dismiss Vale's CEO, Executive Director of Ferrous and Coal, and two other executives. The board accepted their offered resignations on that very same day. So now the board had to replace the CEO and the director of the main business unit of the company and make other changes to form a new management team.

The interim CEO was later confirmed in the position. At the end of the process, in the same year, the management team ended up composed of five new executives (new in the company or in new positions) out of a team of 11. It was a totally renewed C-suite. Besides reacting to the circumstances, the new team led changes in company culture and created a pivotal moment in safety management.

Q: I'm wondering about the risk plans the board had designed before the crisis. Did they prove to be helpful or did you have to go beyond them?

Beyond. We had policies on crisis management but this was no regular crisis. This was an unprecedented situation with no comparable case in mining history, at least considering the human implications. Management hired a high-level international consultancy right after the dam collapse to ensure better crisis management practices, and the consultants were there working with management full time.

Vale then created a separate organizational structure to deal with the crisis, with a single top executive leading other executives assigned to each area of crisis management. Altogether we had 400 people involved in the new crisis management structure. Later in the year the crisis structure was converted into a permanent special directorship for recovery and development reporting to the CEO and acting on all response fronts.

Q: It sounds as if the crisis prompted some permanent changes in governance at Vale.

Yes. Following the rupture of the dam in Brumadinho, the board decided to intensify the risk agenda further and optimize the structure linked to the board. As a result, the board is currently comprised of more members with mining or industry-related experience, expertise in sustainability, and background in governance, plus a third independent director.

Two of the three extraordinary independent consulting committees established – one for support and reparation and the other for investigation - concluded their work and were discontinued this year. The third one, Dam Safety, will be maintained until 2021.

The board also created an audit committee, which already had been planned prior to Brumadinho, but not implemented because of US SEC regulations which require all audit committee members to be independent board members. We had then had only two independent members, which would not have been sufficient. We engaged with the SEC on this and finally received a waiver in December 2018. But because of the Brumadinho crisis we postponed implementation to March 2020 to focus on responses to the dam collapse. The new audit committee assists the board in supervising internal audit activities, among other duties.

Around the same time, we also created a chief compliance officer role, who reports directly to the board, continually interacting with the audit committee, with a degree of autonomy and independence from the other management executive structures of the company. The CCO oversees the whistleblower channel, and the internal audit and integrity department. Prior to Brumadinho, we had had the 'anti-money laundering and corruption' unit reporting to the legal function while the whistleblowing channel and internal audit reported to the board. Now we have built this one function to oversee all three elements reporting directly to the board.

Another thing that changed was that the board started to engage directly with investors on ESG topics. As an independent director I was involved in many of such engagement opportunities starting in the October following the crisis, when I participated in a meeting with around 12 global ESG investor representatives in London, where we had the opportunity of covering board initiatives related to Brumadinho reparation, the culture transformation project, and risk management improvements. Following this initiative, I started to have one-on-one meetings with investors, supported by Vale's investor relations function. After each such conversation I reported back to the board, which directors found very useful.

A further change was not directly linked to Brumadinho, but I would say that the new context facilitated it: in July this year the board created a nomination committee—independent from the board itself— with a majority of independent members and reputable names and backgrounds. Two seasoned board chairs from prominent companies were selected and, alongside the Vale board chair, now form the nomination committee. They are working to propose improvements related to the structure, size, and skills of the board, as these are essential to define nominees to the 2021 annual meeting of shareholders. The independent members of the nomination committee talked to all the board directors, received external board evaluation reports, and they have commissioned outside consultants to map competencies against needs related to strategic goals. They also engaged with investors to seek their views on what they would like to see on the board. At the end of this process, the nomination committee will propose a new board composition, then enroll a headhunter to search for candidates who will be submitted to the approval of the board and later nominated for shareholder election at the AGM in April 2021.

The board also approved changes in the management team, with the creation of another position in the C-suite, which was an executive officer for safety and operational excellence. A very seasoned professional was hired with his remuneration entirely linked to safety and operational excellence factors, not to company financial or operational results.

Q: That's a lot of change for the company. Do you think Vale found it especially important to have independent directors in the boardroom when addressing the crisis?

Yes, and I can tell you that the value that independence played was shown and had a particular role in the process of making a start at regaining stakeholder confidence. For example, before issuing its new rating, a credit rating agency asked to talk to the board's then two independent directors (currently there are three). The common decision between board and management was that both of us independents should have the meeting without management representatives, so the agency would be sure to hear candidly the vision of the independents in the board. The agency decided to maintain the credit rating. I'm far from saying that this meeting was the reason for it. But I believe that this frank conversation with independents provided the credit agency a better understanding of the work of the board and how directors were overseeing management initiatives. This possibly increased the agency's confidence that Vale was taking the right steps and that the financial situation that was being shown publicly was solid and accurate.

Q: Did minority shareholders play a role in the wake of the crisis? Were they in touch with the company? Did you as an independent director have to field inquiries or how did that work?

Yes, I was the independent director who met with the shareholders. I had meetings with all shareholders who asked for one, always organized by the investor relations function. These meetings included large and influential stakeholders focused on ESG and most of them were signatories of the PRI. These meetings have been very useful and the ESG fund representatives were very constructive. The conversations were very amicable. I reported on all investor engagements to the full board. Dialogues provided insight and an external perspective of committed owners, which is very valid as an input for the board.

The minority shareholders that have a focused ESG agenda and have significant stakes in Vale, who have known the company for many years, were very active and very supportive—since the beginning of the crisis, including when the company had to replace 11 executives and when there were all sorts of rumors—including of possible arrests. We received letters from investors supporting Vale, acknowledging the problem occurred but expressing their view that the company was taking the correct actions and that they had confidence in Vale's management. That was very, very meaningful at that very difficult moment. And let me add a human touch to that. One letter from an investor was signed by a fund executive who had relatives among the victims of the dam collapse. Even with this personal involvement, the executive still wrote the letter supporting Vale.

Q: That's very powerful.

Indeed, very powerful. Even under this dramatic personal situation, he was able to maintain objectivity and express confidence in the company's actions at that moment. That was very meaningful to all at Vale.

Q: Having that vote of confidence from investors came at a very critical moment to the company.

Absolutely, because at that point in time there was no voice supporting Vale, or at least giving it the benefit of the doubt.

Q: What was it then that brought this investor to defy this trend and send a letter of support?

Because they knew the company for many years, they saw what was actually being done.

Q: It sounds like they were also supportive because there had been an effort on the part of the board to maintain a close relationship with this investor.

Prior to Brumadinho, the company always interacted with this investor. I also had many conversations with it before. That investor was close to the company and knew it very well.

Q: In effect, you were banking goodwill, investing time and effort on the part of the board to maintain good relationships with minority shareholders, and in the wake of this crisis that effort really paid off.

Absolutely.

Q: Perhaps this is one of the lessons of navigating a crisis: that you need to identify key stakeholders—before anything happens—and make sure that there is goodwill, because you may have to draw on it in the event of a crisis.

Yes. And engagements were not only with shareholders. The board also started to interact with other stakeholders and to gather information on how stakeholders saw the company. For example, the board sustainability committee, after the most critical time had passed, went to visit communities located near the company railways. Talks were informal, free-flowing conversations with these communities. They talked, committee members just listened and brought back to the board a new perspective and the vision of the important communities around our operations. Nothing surpasses a direct contact like that.

And for me personally, after the incident, I participated in conversations with victims' families. Although a very difficult experience, it was very important for me as a director to have a real touch with this contact. I will never forget a father, who had lost a daughter whose body has still not been found. For ten minutes, he just kept holding my hand, crying and talking. There are no presentation slides which can give you this perception, and with this perception, an even stronger sense of the responsibility I have as a board director.

Q: So Vale ramped up stakeholder engagement after the crisis?

Vale was very unequivocal about its commitment towards the integral reparation of Brumadinho and the construction of a safety-oriented culture. The company is improving a lot its active listening competence. Emphatic listening. A culture transformation project was undertaken in the middle of last year to understand the existing culture, to set new standards, and generate adherence. This is a very robust project, involving everyone in the company. The board has participated in several meetings and workshops and has been constantly assessing progress through direct interaction and reviewing cultural indicators. Elements such as better listening, working together, sharing problems, being proactive in highlighting points of concern with openness, are among the ones being developed. Part of what the project aims to achieve is to make the company better able to listen, and to enable different teams to do things together, as opposed to individually or in isolated silos. The idea is to create a culture of working together, not to be concerned or ashamed to share problems. For that purpose, the company has created mechanisms for employees to share problems candidly in order to solve them.

Q: Do you think that changes the board put into place in the wake of the crisis have helped to restore confidence in Vale from the stakeholder point of view and the investor point of view?

Regaining confidence is a long process. In terms of shareholders, we are making good progress. Investors acknowledge the improvements that the company is undertaking. In terms of society as whole, we are just starting. There is a long

way to go, but people in Vale are determined to pursue the objective of transforming the company into the safest mining company in the world and to making the necessary changes. The statement repeated many times by Vale's CEO—"We will never forget Brumadinho"—expresses genuinely what is in the heart of Vale's management and board.

Q: Having experienced what you have, what would you recommend to another company for ways to anticipate or prepare for a crisis?

Having a crisis management policy and plan, which you review regularly, helps, because then you have the methodology, the people in place, and know who will do what.

But it depends on the crisis, and in a crisis this big and this profound, this will not be enough. So I think the board has to exercise in depth their dual role of monitoring and advising management in a very proactive and present manner. In the monitoring role, it's having a chronic unease – exercising perpetual skepticism, assuming that the worst may happen and that things may not be working. The board's attitude should be one of facing the immediate problems raised by the crisis situation and at the same time reviewing and searching for processes and initiatives for improvement over the long run. In the advice role, the board should be as committed and close to management as possible without interfering with management responsibilities. Even the most experienced and seasoned executives would not be totally prepared to face the immediate impact of a crisis such as Brumadinho. More distant from the heat of the operations, the board can ensure a detached view and give support and advice to executives, even by challenging some of their proposed actions, but doing this with generosity and an emphatic manner.

The great challenge is that the whole scene of a crisis is contaminated with tension and uncertainty. So hiring external advisors – including ones focused on culture and behavior - could help in the more dramatic moments. This is because of the important emotional element that is not often acknowledged in the business environment. Crisis situations like this lead to executives getting ill. The concerns, the responsibilities, the daily battle to overcome surmounting problems, working for long hours without break or rest. And also, all this taking place in an environment of external distrust, rumors, and misinformation. Every single day there is a feeling of having swords over heads.
So being on the board during a crisis is not only about monitoring, but about support. I used to say during the crisis that our decisions always seemed to be about the lesser of evils – always very difficult choices with uncertain outcomes having to be taken under extreme time pressure. It is a unique experience in life, one that changes you forever.

Q: It sounds to me as if you are a different board director today than you were before the crisis.

It is a life changing situation and maybe I'm another person, not just a different director, because the experience was really profound. I don't see people remaining the same after something like this unless they are in denial.

Q: It seems that you have come away from the crisis with the lesson, first, that directors need to be alert to skeptics and open to criticism of the company. Secondly, that a board needs to build goodwill among key stakeholders, including investors. And thirdly, that directors must remember the people who are affected by the company and who are relying on you as an independent director to be their eyes, ears, and their voice in the boardroom.

Absolutely. And I would say that a crisis like this helps independent directors to propose discussions in the boardroom which might have been much more difficult to bring to the table beforehand.

INTERVIEW WITH
H.E. DR. MOHAMMED SHARAF

HE Dr Mohammed Sharaf is the former Group CEO of DP World and Assistant Foreign Minister of Economic and Trade Affairs at the United Arab Emirates Ministry of Foreign Affairs and International Cooperation.

Dr Mohammed spoke with **Alec Aaltonen** *about his experiences in navigating crisis as a CEO and board member in various types of organizations ranging from listed companies to family-owned businesses.*

Q: As the world is grappling with the effects of the Covid 19 pandemic, this issue of the Journal focuses on how companies and their boards can navigate crisis in general, not just the pandemic – could you share some of your experiences with crisis?

Let me start with the financial crisis of 2008, when I was on the corporate side. Unlike today's pandemic, which has an impact across the board, the financial crisis was sector-focused, particularly on the financial and real estate sectors, and the problem for the economies was one of liquidity.

I believe DP World was the first Dubai company to go global, and we had plans for the short term, the medium term and the long term. We had secured financing for 10 years and 30 years, whereas many other companies in Dubai at the time were looking to secure one-year financing. And when the crisis hit, we were still standing tall, unlike most other companies.

This is not to say that we were not negatively impacted. The financial crisis led to an economic downturn which obviously affected us greatly. I think the major difference was that we had taken a long-term view, which recognized that trade is cyclical in nature. We had not predicted or specifically planned for a global financial crisis, but we had predicted that there would be downturns and had planned accordingly.

Q: What was the role of the board during the financial crisis? Did the board become more hands on? Were there more board meetings, for example?

I think the board's involvement was the same as before the crisis, but it's role in focusing on the long-term became even more important. We wanted to avoid knee jerk reactions such as laying off people and cutting costs. Instead our focus was on creating efficiencies, and we achieved some USD 30 million through this, rather than through massive lay offs. We had to let some people go, but this was a fairly limited number and we tried our very best to hold on the long-term staff whom we had trained and invested in.

The board's role was also to keep the company disciplined. Due to the downturn, there were many attractive valuations and the role of the board was to keep the company focused on the long-term rather than be side-tracked by these opportunities which were not directly linked with the long-term vision. We also knew that this was the time to invest and we did acquire some assets which were aligned with our strategy. Some of them we had been looking at prior to the crisis but had turned down due to the then high valuations. For example, one asset was valued at USD 1.4 billion USD prior to the crisis which we had felt was too much, but in the downturn, we were able to acquire it for USD 400 million.

Q: So preparation for a crisis actually helped the business to grow?

Yes, businesses do not grow on a linear curve. We knew there would be some crises along the way. We knew all businesses have rainy days. And there was significant upside for companies that had prepared for rainy days.

Q: How important were the independent directors in this?

They had a massive impact. Four out of our eight directors were independent. These independent directors were all experienced board members in listed companies, particularly in international listed companies, and their perspectives and insights had a significant effect on the company. They were asking the right questions. Of course, sometimes members of management in companies feel that their boards' questions can be annoying, but in the process of providing answers to the board, the management has to go through a reflection process themselves. This is the value of having experienced independent members on your boards and I saw the benefit they bring to the company.

Q: What role did the shareholders play during this crisis?

As a listed company, we did regular roadshows with investors. My team and I would sit down with all our big shareholders. These were one on one meetings lasting for hours and they were largely testing us and the company on if we actually knew what we were doing. What I quickly learned from these meetings was that I needed to have 100 percent conviction on the matters I presented to them. We were really scrutinized and challenged, and I remember them being specifically skeptical because they perceived Dubai as only presenting good news. So whenever we showed them the numbers and the progress we had made, we would remind them that these were the points they had challenged us on. Transparency and dialogue, in addition to bottom line results, are vital for gaining shareholder confidence.

But I think this is only possible when you have transparency between the board and management. Quite often you see companies where the management are hiding the negative news from the board. To tackle this, having the right management team helps, but you also need a board that asks the right questions and requests for relevant information, and this is another area where having experienced independent board members can play a positive role.

Q: Let us turn to the current crisis, the 2020 pandemic, you are now involved in different set ups?

Yes, I'm no longer at DP World. I currently sit on the boards of a UAE-based listed company and a large family business and I serve as an advisor to other family-owned groups.

Q: In terms of the listed company, could you describe your experiences on the responses to the pandemic?

This is an insurance company, which was doing quite well in the early days of the pandemic. For example, there were no traffic accidents because nobody was out on roads due to the lockdown. People generally also avoided going to the hospitals. But this crisis was a new situation for everyone in the company and I can't say our planning for a crisis had been very robust. But this was also a company in which the management was new.

In terms of the board, there was some initial confusion, as was the case in many other companies, on having board meetings, whether we should postpone the meetings until meetings were allowed, but we quickly moved to virtual board meetings.

I would say that the board played an important part in scenario planning during this crisis, particularly as there were a lot of uncertainties in how things would evolve. We were stress testing management plans, guiding them to prepare for what-if situations and provide us with impact analysis of such situations. For example, we asked them to prepare for a scenario where the authorities would not cover the testing or the treatment of Covid patients.

Q: How about in the family-owned companies?

I'm not quite sure how to put it. As you know, family-businesses here are conglomerates consisting of numerous businesses operating across a number of sectors. Perhaps the only way to describe the situation is to say that the majority of these subsidiaries or companies were not prepared. I'm not talking about being prepared for a pandemic, but being prepared for a crisis in general.

Q: Why was this case?

Good question. I think there is a perception that the family, as the owner, will act as the reserve. And yes, in most cases the families will have the resources to bail out the companies, but the issue is the lack of planning for a rainy day. You see the management of many of these companies spending every penny they have without thinking about rainy days, which are inevitable. And now you have a lot of businesses blaming Covid, without blaming themselves for not preparing for challenging times.

I think we also have a problem with incentive systems, not just for family groups here but also for all types of companies globally. At the moment, incentive systems are mostly focused on the individual, which encourages individualistic thinking.

The role of the family or the board should be to guide the businesses, ensuring that the management have systems and policies in place for managing crises. Not pandemics specifically, but all types of crises, including cyberattacks.

Q: Do you think having independent directors on the boards of family businesses would make a difference? That they would be better prepared for rainy days?

Generally speaking, family businesses tend to have their own culture. They run their businesses in a manner they always have done - like families.

And many of them did not foresee the new world order and they have been hit by this. And we also have pre-pandemic examples of such family groups here which were mismanaged and not prepared for downturns and went through considerable challenges.

The value of having independent directors is that they can bring their knowledge of the outside world to the family business, that they can bring the best practices to the business. And this is not only applicable to family businesses but to listed companies as well. The insiders are often too busy on the day to day matters to focus on the developments in the outside world, and this is the value of independent directors, as they bring a different set of eyes.

Q: What are the lessons learned from these crises for companies and their boards?

When you are involved in any business, whether listed or not, you are not responsible for yourself, but you are morally responsible for the people and communities who work for you and you need to take this responsibility seriously. And if you take this responsibility seriously, your behavior will change automatically. Wrong decisions happen in the business world all the time, but if you take this responsibility seriously, you will ensure that every decision you make is properly assessed and scrutinized.

So, for example, in a company where I serve as an independent director, it is evident that the family and the board know that they have a responsibility for the employees and their families – we are responsible for 10,000 people. In other words, no decision is taken lightly.

Unfortunately, boards and CEOs in many businesses often only think of themselves. This is partly explained by the remuneration practices I touched upon earlier. If a CEO is given share options at 1 dollar, his task is to take the share price to 2 dollars. They are incentivized to think of themselves. And I think this is wrong, their pay package should be linked to what have they delivered for the company. And the delivery of the bottom line is a result of the organization working together, not just the CEO. If you want to set up the right culture, remuneration is a powerful tool and you need to have compensations structures in place to reward people across the organization for their part in the attainment of the company's strategy.

So when you talk about governance, it is not only about doing a, b c. But it is about the culture of the organization, about the behaviors of the board, CEO, the senior management team and employees, with all of them working towards the long-term sustainability of the company. When these are in place, companies are well placed to be prepared for crises and to manage them.

INTERVIEW WITH BRENDAN NELSON

Brendan Nelson, a member of the BP board and the Chairman of its audit committee, knows a thing or two about dealing with crises from a board position. He was a partner at KPMG in the U.K., a member of the U.K. board and Vice Chairman until his retirement in 2010. At KPMG International, he was a Global Chairman, banking, and Global Chairman, financial services, sector not known for their tranquility.

After retiring from KPMG, he joined the board of Royal Bank of Scotland ("RBS") in April 2010 as Chairman of the Audit Committee, shortly after the world's largest bank failure led to the nationalization of the banking group by the U.K. Government, a position he held until December 2018. In September 2010, he joined the board of BP, also as Chairman of the Audit Committee, six months after the "Deepwater Horizon" industrial disaster. Both at RBS and at BP, he has had to deal with the aftermath of these crises, which took many years to resolve, and left a lasting impact.

Mr. Nelson talks to **Frank Dangeard** *about the way BP and the BP board has dealt with the Covid-19 crisis. Mr. Nelson is speaking in his personal capacity.*

Q: How did BP react to the Covid-19 crisis?

There was an interesting juxtaposition between the pandemic and the strategic journey BP was on. This double challenge meant that the executives and indeed the board and its committees had an enormous amount of work in order to respond to the pandemic and continue to develop the strategy. Indeed we had a Capital Markets event planned for September, and whilst the direction of travel towards net zero by 2050 had been clearly stated before the start of the pandemic, the details of the strategy still needed to be fleshed out.

This period has been an extraordinary reflection on how organization like BP, that puts safety front and central of everything they do, has been able to respond. At BP, safety is paramount and that includes, of course, the safety of our people. So the first challenge was a people challenge: our installations across the world needed to continue to operate, but in doing so the safety of our people was paramount. This is what BP does. It can face many challenges, and the organization has an exceptional ability to respond to the unexpected. Our people are trained and our processes are well developed to deal with those when they arise.

The pandemic restricted access to a large number of our office based workers, with different locations having to respond to different local rules and on-the-ground realities. Overall, the adaptation was very seamless. The board was meeting on a weekly basis during that period, to review our response to the pandemic, the issues arising and management's plans to deal with them. There were really no serious operational issues, our critical operational centers were functioning, and payments were made and collections continued. We sent internal audit in, to check that key controls were in place, for example in our large energy trading operations. Trading from home worked really well, as it did in most banks with large capital market businesses, thanks to technology, with appropriate oversight being maintained.

Q: So what comes next? Has BP defined its post-Covid way of working?

This crisis is a remarkable experience in terms of understanding how an organization can continue to function when very severe limitations are imposed on conventional ways of working. BP is not unique in that case, but has managed well. Indeed this poses the question of what we return to, what is the new norm. A hybrid model? Is the office, as we knew it a thing of the past? I don't think BP – or for that matter anybody – has yet determined what it might be but it would appear that some consensus is building around a hybrid model. Whilst we all recognize that remote working has enabled us to maintain our operational capabilities, it is also clear that we are losing out in not having people get together. But it is difficult to measure exactly what we are missing out on and by how much. We also know that the longer the health crisis is with us, this will require continuing support for the health and wellbeing of our staff.

Q: BP has in its DNA the ability to face up to challenges. But nobody was truly prepared for Covid-19. What was different in this crisis and what lessons is BP drawing from its response to the pandemic?

These are great questions, but I don't think we have the answers yet. However, it is clear to me that the constant testing of business continuity procedures and crisis management processes helped us enormously. One example that comes to mind is the hurricane that swept through Houston a few years ago. We have a large campus in Houston and a number of buildings were flooded. We had to immediately engage our disaster recovery and business continuity plans. Remote working was implemented as well as alternative sites and back-up facilities went live. Covid-19 is a different crisis, but the plans that had been implemented in Houston were immediately applicable.

But we don't know yet what the learnings will be from the pandemic. BP is good at looking back and asking itself if everything worked as it should have worked, if there wasn't anything that emerged that it didn't have a plan for, and if the procedures it had in place were capable of dealing with the challenges. Nothing at this stage has come up that could lead us to think that there was anything of any significance that wasn't capable of being addressed with our existing plans and procedures. But there will undoubtedly be areas where the pandemic will lead us to revise our plans and improve our procedures. In addition, whilst the next crisis will not be the same, that's for sure, responding to a pandemic scenario will certainly be at the forefront of our minds.

Q: In that context, how did the key players interact?

Bear in mind that there was a new management team in place. They were faced shortly after having been appointed with the need to handle a pandemic and at the same time to flesh out a strategy. We all quickly realized that we were dealing with a crisis on a global scale, and that a regular dialogue between the board and the executive was essential. So we moved almost immediately to weekly board meetings. These meetings added to the workload of management. They were well prepared and led to detailed discussions on our response, our priorities, but also for example the health of the ecosystem – how our supply chains of partners, suppliers and service providers was dealing with the crisis. It may sound boring, but no major disruptions were noted because of failures on the part of a critical supplier or partner. In addition, of course, the committees were meeting as needed. I had regular discussions with the CFO and the head of Internal Audit, for example. And of course the Chairman was in frequent contact with the management. Clearly an action packed few months!

Q: Communication in a time of crisis is key. Internally, BP conducted, of course, regular "keeping connected" sessions with colleagues and the internal communications function was busy throughout. But what about external communications?

As regards the external market we announced in June that we had revised our long-term price assumptions in response to, among other things, the energy transition and COVID-19. This would lead to impairments and write offs of our oil and gas properties and intangible assets, which we took at the half year. Both our half and third quarter announcement gave additional information about the impact of the pandemic on our business. In addition our half year announcement gave an update on our new strategy in advance of the capital markets event which was held in September where we set out a new investor proposition.

Q: What did the pandemic change at BP?

We had already decided to reduce our fossil fuels footprint and to invest more in low carbon businesses, so the pandemic didn't change our direction of travel. What it did do was to bring into sharper focus the speed of change. Our strong belief is that the world will move faster towards a net-zero environment. In a post-Covid world, we want BP to set a standard in that transition and actually be in a leading position to provide the world with low carbon energy options. We characterize this by saying BP has changed from an 'International Oil Company' to an 'Integrated Energy Company.

Q: Do you think boards should make it criteria for selection of directors that some of them have crisis management experience?

Boards must have a mixture of talent. We have directors on the BP board who have gone through difficult and challenging times during their careers, and their experience is invaluable. So, expertise in crisis management is not the reason why I would select a board member, but a varied experience including handing crisis, yes, that is important for a board to have.

Q: And to conclude, do you think there will be outcomes of the pandemic in terms of governance?

Many companies have excellent risk management processes, but outside the financial sector the governance of risk is not necessarily as developed. However this is changing and the gap is narrowing. A different question is whether 'crisis committees' should be established also, say on an ad-hoc basis. This clearly will be dependent on the scale and impact of the crisis and also to some extent if it is idiosyncratic or existential. Both BP and RBS have used board crisis committees in the past and no doubt will continue to do so should the circumstances warrant it. The important issue is that the Board's responsibilities are not mitigated through the use of such a committee.

FROM INTERNATIONAL OIL COMPANY TO INTEGRATED ENERGY COMPANY: BP SETS OUT STRATEGY FOR DECADE OF DELIVERY TOWARDS NET ZERO AMBITION

PRESS RELEASE - AUGUST 04, 2020

bp today introduces a new strategy that will reshape its business as it pivots from being an international oil company focused on producing resources to an integrated energy company focused on delivering solutions for customers.

Within 10 years, bp aims to have increased its annual low carbon investment 10-fold to around $5 billion a year, building out an integrated portfolio of low carbon technologies, including renewables, bioenergy and early positions in hydrogen and CCUS. By 2030, bp aims to have developed around 50GW of net renewable generating capacity – a 20-fold increase from 2019 – and to have doubled its consumer interactions to 20 million a day.

Over the same period, bp's oil and gas production is expected to reduce by at least one million barrels of oil equivalent a day, or 40%, from 2019 levels. Its remaining hydrocarbon portfolio is expected to be more cost and carbon resilient.

By 2030, bp aims for emissions from its operations and those associated with the carbon in its upstream oil and gas production (addressed by Aim 1 and Aim 2 of bp's net zero ambition) to be lower by 30-35% and 35-40% respectively.

bp also today sets out a new financial frame to support a fundamental shift in how it allocates capital, towards low carbon and other energy transition activities. The combination of strategy and financial frame is designed to provide a coherent and compelling investor proposition – introducing a balance between committed distributions, profitable growth and sustainable value – and create long-term value for bp's stakeholders.

As part of the investor proposition, bp's board has introduced a new distribution policy, with two elements:

- the dividend reset to a resilient level of 5.25 cents per share per quarter, and intended to remain fixed at this level, subject to the board's decision each quarter, supplemented by

- a commitment to return at least 60% of surplus cash to shareholders through share buybacks, once bp's balance sheet has been deleveraged and subject to maintaining a strong investment grade credit rating.

"Energy markets are fundamentally changing, shifting towards low carbon, driven by societal expectations, technology and changes in consumer preferences. And in these transforming markets, bp can compete and create value, based on our skills, experience and relationships. We are confident that the decisions we have taken and the strategy we are setting out today are right for bp, for our shareholders, and for wider society."

Helge Lund, chairman

INTERVIEW WITH
SABINE LOCHMANN

Sabine Lochmann is the Chair and Group CEO of Vigeo Eiris (V.E), which is a leading global provider of Environmental, Social and Governance (ESG) research, data and assessments. She joined V.E. after nearly 30 years' experience working within major international organizations in France, Europe and the United States. Sabine has multidisciplinary experience having undertaken a range of legal, operational and general management roles throughout her career. Sabine spoke with Hawkamah advisory board member **Sophie L'Hélias** *about how her experiences with dealing with crisis.*

Q: What are your experiences with crises? Could you describe the crisis?

Before we move to the ongoing COVID-19 crisis, I would like to start by highlighting two of my past experiences with crises.

The first was with a French engineering company. That company had been highly successful in the 1970s and 1980s, operating around the world, including the Middle East, in major projects in energy, oil and gas, and services. But in the 1990s, after the oil crisis, they were in bad shape. Their business model was not working anymore, and they were at a competitive disadvantage compared to some of the more global engineering companies. The company's hundreds of very talented engineers had to deal with significant cuts in budgets and projects, and the company was not able to regain its market position. And unfortunately, this was also the time when companies were very hierarchical and not very client centric, so it was also struggling to regain trust with its clients. By the late 1990s, the company was facing bankruptcy.

The solution to this situation was actually formulated by a group of employees working at Serete. We sat down to discuss whether we wanted to leave and let the company go bankrupt or whether we could bring something to senior management that could help.

We didn't have any managerial experience, but we had the will to support a global effort to find solutions to tackle the crisis. We proposed that the board create a foundation for the company that would give the engineers a sense of purpose. This purpose helped them regain confidence, which in turn helped them stand out in the market, engage with clients and win requests for proposals. This foundation really changed the company and it also engaged its clients, which helped it survive. The business still exists today, although it was later acquired by Jacobs Engineering, with whom the whole project resonated.

The second example of a crisis I was involved in was a plant closure at a different company directly affecting some 400 employees, as well as the community around it. The plant was in a rural area where it had a central role supporting the community for over 40 years. It was a really tough project to lead as you can imagine the impact this closure would have on the employees, their families, and the small town itself. But the closure also had an impact on the company's clients as it was halting the manufacture of a product that was used by hospitals and surgeons. We knew that due to technological developments in surgeries, the demand for these products would deteriorate and that there would be no need to manufacture them at such scale.

First, we needed to work with our employees and help them understand the rationale for the decision, which was very difficult for those who had a close association with the product as well as certain pride for its recognition and brand power. Second, we needed to work with the community, not only to re-position the employees, but also in terms of selling the plant to recreate jobs in the community and replace the source of revenue. These were our goals, and it took us more than 3 years to successfully deal with them.

Based on these experiences, crisis management "taught" me three things. First, you need to have a clear sense of purpose when managing crises. In the case of the plant closure, the purpose was to generate and recreate value. If you don't have a clear purpose, you get lost because you are dealing with complex issues. And at the level of the crisis management team you need this sense of purpose because you need to have a dream or a positive vision that pulls people together to get where you have to go.

Second, teamwork. You can't deal with a complex crisis if you don't have a team around you to make things happen. You really can't do anything without them, and you need to ensure that the team is at the heart of the response to the crisis and, more importantly, learning from them and from the different stakeholders we were interacting with.

Third, interact with your stakeholders, both internal and external. You need to listen to them, explain the situation to them, understand them and see how their input could be of value in managing the crisis. And beyond everything else, you need to manage fear. Fears such as what we will be losing as a community, what will we be losing in tax revenue, and what we will be losing in terms of the businesses surrounding the plant including the subcontractors. Beyond the "site closure" crisis, this "lesson learned" is relevant for all crisis to be managed.

Communication and relationship management are therefore essential to manage these fears, which must, as far as possible, be anticipated and managed "cold". It is also for this reason that the team that is going to lead the project must be diversified in terms of expertise and experience, it must also know how to use experts while having put in place a very structured and visible decision-making process.

Q: This is really interesting, and before we move on to your response to the ongoing COVID-19 crisis, I would like to discuss preparation and how they helped you manage the current crisis?

If we go back to January 2020 when we were at the Davos Forum and we were discussing the top three risks facing the world, it is interesting that despite the fact that we were getting reports on what was starting to happen, a pandemic was not among the top three risks.

It is also worth noting that given the scale of the pandemic, we could not do a copy-and-paste type of response to manage this crisis, which is still killing and sickening people around the world. We still don't know the full economic, social and political impact of COVID-19 and it is a crisis that all companies, all boards, all executives, and all employees have to live with.

For me, it is important that companies have business continuity plans (BCP) in place. This is something that I learnt while at Johnson & Johnson, where BCP was part of the roadmap for all general managers, managing directors, basically anyone who was in charge of a P&L or a business. All senior managers at this level went through two days of BCP training annually. This equipped the top management with knowledge of the process as well as the tools to help them react quickly to crisis situations.

But you need more than just the top level - training on recovery plans needs to be cascaded to all levels in organizations because you need alignment. BCP is one of the best things you can have in order to be prepared for a crisis so companies should give BCP more visibility and provide training widely.

Q: Who took leadership during the crisis? Was it you as the CEO, the Board or the shareholder?

This is an important point. From the BCP perspective, you need to know who does what. In order for BCP to work, it needs to be structured. It is really about the process and you need to have a steering committee involving the relevant people: those who can make decisions and those who advise. You need to have these two components. And then you need to have a fast track decision-making process. If you don't have it, you are at risk.

I kept BCP as part of my toolkit after I left Johnson & Johnson. It was something I put in place when I joined BPI Group as a CEO and it proved to be valuable in dealing with two separate crises there.

An important part of BCP at V.E was to put in place a clear governance framework. Supporting the steering committee, you need subcommittees and you need to map out their responsibilities. To do this, we used the RACI model - Responsibility, Accountability, Communication, Information. We also have a decision grid at the executive committee, country director level and senior management levels.

This is the backbone that helps us be agile. Agility is paramount because a crisis provokes bottlenecks and reveals how well your company is organized and managed.

Q: And how did you engage with your stakeholders?

We provided a full report on our COVID-19 response to them at the April 2020 Annual General Meeting.

Employee engagement has been fundamental, and communication is an important element in BCP. You need to ensure that everyone in-house is informed. The worst scenario is where fear is spreading throughout the company.

Same goes for the clients. As soon as we made the decision to activate our BCP worldwide in March, we made sure everyone could work from home. We also needed to inform our clients and demonstrate to them that we were continuing to conduct our business with a high level of professionalism and a high level of security despite moving to a remote work model.

We put out Covid-19 controversy assessment reports – not only to measure the impact of what was done by almost 8,000 companies within V.E's universe, but also to give comfort to our clients that we were monitoring and dealing with the situation and its potential impact on companies' actions.

In the first month, we were very keen on contacting our key stakeholders at the client level to assure them we were continuing to provide them with our services.

Another measure we took was the ISO 9001 audit, which we do on an annual basis and that we wanted to do this year as well. The purpose was to give transparency worldwide and to show that we are moving through the crisis and that we manage it whilst maintaining our client and employee centricity.

This last point is important because V.E is composed of people and IT. If we have no capacity to manage the data through IT or no people to make it happen, we cannot deliver. This audit is something we plan to use, not only to assess where we stand and where we can improve, but also for our employees to provide a kind of backbone to see where we stand. The same goes for our clients.

The average V.E employee is quite young. In addition, we have 30 different nationalities in our organization so cultural intelligence (CQ) is very important. And during these Covid-19 times, you really need to balance between Intellectual Quotient (IQ), Emotional Quotient (EQ) and Cultural Quotient (CQ).

When you are moving through crises, you also need to step back and reflect. Sit with your people and ask, “What did we learn in the past few weeks or the last month?” “Is this something we could inject into our normal practices or use to reinforce the BCP or the decision-making process?” It is a continuous process, but it is also a way to recognize what we have done well. Recognizing the efforts and the people is very important because you need to re-energize your team.

Crisis creates a lot of frustration and stress, and you need to have some buffers or spaces where you can reflect in order to learn, to recognize or just say, “I’m fed up”. This is important because in such situations you are like a pressure cooker that needs a release and without such a release the pressure cooker can explode. Our responsibility as executives is to manage the pressure.

Q: And how is the situation now?

We stopped the BCP mode in the summer of 2020. But in November, given the second and third waves of Covid infections, particularly around Europe, we decided to re-enter the BCP mode.

What this means is that we have an executive committee call every morning, we have a call with all the country directors at least once a week, and twice a month we hold meetings with employee representatives across the different countries such as France, Chile, Morocco and Italy.

In addition, we have what we call "Share an Insight" which is a remarkable way to communicate with our people, and we do this on a bi-monthly basis. We share with our people things such as where we stand on the business, on the business continuity plan, on the innovation, on the digital onboarding of new talents, etc. We also listen to them and one of the executive directors gives a 30-minute presentation. Then employees can ask questions and get those questions answered. When we do not have enough time to answer all the questions, we have written questions and answers.

Finally, we conduct a social survey every two months, and we receive confidential responses from approximately 80% of employees. This allows us to identify problems, which are then reviewed at executive committee level. This is also reported to our mother company to improve and align us on the critical measures we are enforcing to manage the situation, with a strong focus on well-being and on the mental health.

Q: Is this social survey something you are looking to make permanent in the organization?

I think the survey is really great. There are some standard questions from one survey to another for comparability reasons, but there is also the qualitative insights part, which requires analysis of hundreds of responses.

The data and the insights are really rich, and it has been a critical success factor in managing this crisis. Accurate data allows us to assess and compare. But as we are not past the Covid crisis, we will need to continue the surveys. The day it will end, we will use the surveys to regularly assess the homework-based policy, the "door open policy", even with remote coffee, and the communication on the different projects structuring the agenda of the yearly roadmap.

Q: This is really interesting and thank you for sharing your insights on managing crises. In terms of the companies V.E assesses, have you witnessed differences on their preparedness levels and how well they have managed to respond to the crisis?

Yes, we assess companies on a variety of criteria including whether they have BCP in place or not. And as our recent study shows, companies that had BCP in place have really stood out during the crisis.

But I think a wider point is that companies with good ESG practices tend to be more resilient.

"Resilience" is a word that is used more and more today but I think we are at the very early stages of understanding what it really means. I think we are at the very beginning in areas such as measuring and putting in place frameworks to actually build a new economy, as well as a sustainable society and way of living. But engaging with your stakeholders, such as our employees, is an important element. As an ESG assessment provider, we need to walk the talk.

INTERVIEW WITH

ROBERT WALKER

Robert Walker is Managing Director and Global Co-Head of Asset Stewardship at State Street Global Advisors (SSGA), one of the largest institutional investors in the world and a significant minority shareholder in GCC public companies. SSGA also manages capital on behalf of clients such as sovereign wealth funds in the Gulf region. SSGA's 12-person stewardship team has a global influence on governance standards and expectations, including in times of disruption.

Robert spoke with Hawkamah advisory board co-chair **Stephen Davis** *about how SSGA acts to strengthen portfolio companies as they face crisis.*

Q: Let's start by getting some background under our belt. What is the current size of SSGA's assets under management and how does the stewardship team operate?

It's about USD 3.15 trillion, of which USD 9.6 billion is in the MENA/GCC region.

My team, the stewardship team, owns the right to vote at SGGA and that creates a lot of simplicity in terms of how we conduct ourselves from the engagement and voting point of view. It's much easier to have a clear line between the two. So if we come out saying that we are going to do something on climate or on diversity or on executive remuneration, I don't have to go to the portfolio manager and ask, "Is it OK if I vote against that?"

But what we have been doing is bringing the different investment teams together to better understand their views and educate them on our stewardship policies. For example, our Active Quant Equity team have developed their own model for how they look at ESG. What I have been doing is saying, "Look, you have a number that tells you the ESG characteristics of a company, but I have a different perspective because I speak to the chairman of that company. The insights I get from that meeting may clarify your position, but for those companies you hold that rank relatively poorly on ESG metrics, our Stewardship program which is focused on engagement and voting can add value to your investment process.

Further, SSGA developed the “R-Factor”—an ESG analytics system—as a foundation upon which different investment teams can base their ESG research. And what we are starting to see through the R-Factor is the way in which we can really engage with companies on ESG issues in a consistent way and then give companies the opportunity to improve their ESG disclosure and create a momentum effect.

Q: It’s important to note that your stewardship team has ownership of the voting, whereas in other shops each fund manager may vote differently. Many people in the market fail to appreciate that there are very different models of stewardship.

The benefit of our model is that we have very experienced people who have been doing this for a long time. Every year we select three industry sectors to examine and we explore ESG insights and communicate them to investors and clients. Then we have the thematic approach where we focus on global ESG issues which we think are impacting businesses on a five-year time scale – for e.g. climate change, gender diversity and culture. And because we are voting all holdings through a single channel, clients who give us assets to manage understand that they are essentially signing up to our stewardship policies.

This means that when we speak to companies, we have got that weight behind us. I can tell you that when I joined State Street three years ago, I was quite surprised by the amount of stewardship work that we do. The reality is that in Europe last year we engaged with most of the largest oil and gas companies that we hold. I and my team met with every single chair of those companies. We talked to them about climate change, we pushed them. Companies know that when we come to meet with them, we are prepared. Engagement is at the core of what we do. We have to understand the ESG characteristics of the portfolio companies that we own.

Q: Let’s talk now about when disruption affects companies in which you invest. How does SSGA apply stewardship at companies facing the pandemic or, more generally, existential crisis, particularly in MENA or the GCC region?

I don’t think there is a regional bias here. When COVID-19 hit, the first thing we did was to consider how we want to support our portfolio companies. So we put out guidance to boards, telling them that we are here to support you in the short to medium term and assuring them that we realize for now that you need to put a priority on your employees and wider stakeholders.

We have done 150 COVID-related engagements with companies in the last six months. And they all are saying the same thing: we have had to focus more on our employees—but we haven’t necessarily got the metrics to measure that. I mean, how do you best define materiality of human capital? So there’s a definite data challenge there. That’s why SASB [Sustainability Accounting Standards Board] is re-focusing its attention on human capital.

On top of that, we have got the racial diversity element coming in as well. And we all know and see the evidence that companies that are more diverse, in gender and racial perspectives, outperform.

If you look at the GCC, we see markets beginning to wake up to the gender portion of that. Every single one of the long-term economic development plans of GCC states–Saudi Arabia, UAE– will have a sentence somewhere saying we need to increase the penetration of women in the economy. So that is clear. It’s because they all realize that their future economic success is linked to more women coming into workforce. McKinsey did a study showing that if the GCC increased the penetration of women in the economy to 50%, you would create more than 800 billion in new GDP. And if you look at Saudi Arabia, it has more women graduating

from university than men. If they don't create opportunities for them, they are going to leave. Not immediately, but they are well-educated, they can leave. Even when I was in the Middle East two years ago speaking to sovereign funds, they were all talking about this.

I remember visiting a sovereign wealth fund to discuss climate change and I can tell you that of the 30 people in the room 90% were women. These were future leaders of the fund, and they were asking questions and they were plugged in. So I think change is happening, and this is driven by the economic rationale, which again feeds into our program – which is value, not values.

Everything we do from the stewardship perspective is rooted in economic value. Because our job, my job, is to push companies to improve their ESG characteristics to create long-term value for our clients. In order to do that, I need to be able to demonstrate that by focusing on issues such as diversity, board accountability, or corporate governance, for example we are going to reduce risk across the portfolio.

Q: Is it right to infer, then, that SSGA believes that a company would be wise to ensure diversity in crisis decision making?

Yes. I think there is clear evidence now and we proved this in the US with the "Fearless Girl" campaign where we identified this issue. Why do we have all these US companies that do not have a woman on the board? We didn't just go to companies and say, "Women are 50% of the population, why is there this gap?" We actually got the academic evidence, the broker research, to show that companies that have women on boards have a better return on equity than those that do not.

We started pushing companies to respond. We wrote guidance to help companies understand the issue. We then said, "Look, we will work with you on this issue but if you don't engage with us and sell us a plan on how you will address the issue, we will vote against management." And over the last two years, I think we identified 1,463 companies that didn't have one woman on the board and 54% of these companies have now added a woman to their boards.

Of course, we look at a range of issues such as the quality of governance, which includes diversity, as well as environmental and social factors. At the beginning of this year we wrote to companies in our main indices, but not yet to MENA companies.

We probably need to give MENA companies a bit more time. One of the reasons we wanted to understand the state of play in gender diversity in the GCC in 2018 was because Saudi Arabia was joining the MSCI and FTSE emerging market indices in 2019. And because of that we would have more exposure to those companies. But we recognized that we just can't stomp into these places and say, "You need to add more women to your boards immediately or otherwise we will vote against". We have to give them time and we did that in the US. We engaged with US companies for a little while before saying that we will vote against.

I expect we will update our GCC paper next year and then we might look up whether or not it's the right time to implement our voting policy for MENA. It's difficult and there may be a data challenge there, but this is certainly something that is on our radar.

Q: Might you expect the pandemic to accelerate SSGA's engagement on ESG?

The pandemic has highlighted the significance of traditional social issues such as labor practices and employee health and safety. And I think it is fair to say that the identification of Human Capital Management metrics is now a persistent challenge for companies.

That's why our R-Factor model is so powerful. It helps us identify companies doing the right thing on environmental and social factors. And we want to work with companies that aren't doing that. And if they don't want to change or offer plans to change, then we can say, "We see it as a risk that you are not doing it, we think other companies in the sector are doing it and thereby benefiting from lower risk profile. Therefore, if you're not listening to us, we are going to use our vote."

Q: Whom do you typically want to engage with: Management or the board of directors?

We typically speak to the board. We also have companies that approach us, because of their R-Factor score or because we voted against them on an issue. But mainly it is the board of directors. Interestingly, our fundamentals teams mainly talks to management. There are situations where the fundamentals team organizes a meeting with a company, where they meet with the CEO—and the stewardship team joins these meetings. And when we, the stewardship team, organize a meeting with the same company, we meet with the chair—and the fundamentals team joins in.

Q: Is there something from the pandemic that you have learned as an investor in respect to stewardship? Questions you might ask which you might not have asked before?

I think the biggest thing to come out of the pandemic is the ability of our stewardship program to be flexible. We set out our priorities in the beginning of the year: the sectors we will look at and our themes. Then COVID came, and all of a sudden these long-term ESG issues are relevant. But they are not as relevant as this company needs urgent capital. And yes, we are going to have to vote on a shareholder resolution or think about compensation – not this year, but next year – as a lot of companies will be coming and saying to us, "Our CEO is a good guy, we are going to have think about how we pay him because last year COVID happened and he is not going to meet his targets but we don't want him to go."

So the pandemic has definitely focused our attention on the liquidity of the business, its capital position and, especially, the rise of social issues. We might say to companies, "You haven't been thinking about your employees, but now their well-being should be one of your business priorities – they are working from home and what are the implications for productivity? Every company now acknowledges that no one is going to return to the office five days a week. There will probably need to be a balance of two or three days. So the rise of social issues is here to stay and I think that we can expect companies to disclose more information on human capital and how they are managing their employees. But also the wider benefits you are providing to your employees, because people are not just working for salaries anymore and, if they are increasingly working from home, they are looking at wider benefits. So there is a potential competitive advantage for companies if they can demonstrate their appeal. But again, there is a data challenge and we are looking to SASB and other frameworks to help provide the KPIs to measure that.

Q: Do you expect that SSGA will be changing its perspectives on executive remuneration at portfolio companies in the context of the pandemic?

I don't think it has changed our perspectives, but I think it's more that we are we are being upfront. We put out some guidance recently on COVID-19 and compensation where we are telling companies what we expect from them. What we don't want to see is companies laying off employees because of COVID but then on the other hand handing executives the same bonuses and awards.

All companies are going through some pain, with some sectors being more exposed to COVID. Of course, some companies will need to change their performance metrics given the new reality we live in. But I think that's got to be measured and companies need to think about the reputation risk of thinking that it is business as usual when some of their employees have been furloughed or laid off.

So we are certainly being more flexible. But that flexibility is not a signal to companies that they can do whatever they want. It is more that we want to support our portfolio companies, and we will do that, but we are supporting them where they are doing things that are appropriate and sensible, and aligned with the experiences of the wider workforce.

Q: Would you say there has been a shift in what you are expecting from companies in terms of risk management for a crisis? In terms of stewardship, what will you be asking of companies?

In the COVID guidance that we put out in March 2020, we were quite clear that we wanted companies to be more upfront with us on how COVID has changed the risk profile of the business – whether it's the supply chain, their employees, their need for capital in some cases. And we have seen a lot of companies that have been talking about de-centralizing their supply chain after years of trying to centralize it, which led to a lot of problems with COVID. So we are asking companies to engage with us on that. Many companies have responded and, where appropriate, we have supported them.

The issue even comes up around leadership succession. We have seen some senior executives getting COVID, and in some stark cases, dying. Have companies thought about that enough? What happens if a few senior executives get COVID and are out – can we cope with that?

Q: So you are trying to figure out, in a way, what risk management for an existential crisis might work best?

The problem is that – a little bit like with corporate governance – you are fighting the last crisis. Whenever there is a new governance code, usually this is to prevent what happened previously from happening again. It's very hard to be forward looking. But of course you want companies, as much as possible, to put in place processes that allow them to react.

I know people have talked about the possibility of pandemics, but it was still something that was not foreseen. We will learn lessons from it, we will engage companies and build those lessons into our engagement. We will need to support our portfolio companies in the short to medium terms, but also to remind them that we have not forgotten about other issues such climate change and board accountability. We are still talking to companies about those issues, but we are recognizing that companies need to focus on safeguarding the business.

Q: In terms of engagement with MENA or GCC companies, you did an intensive consultation or engagement with them in 2018. Are expecting to do another one in 2021?

Yes, we will update it next year in order to see what has changed. In 2018, we did our own research and put together a report. In 2021, what we want to do is to repeat that exercise and maybe also survey some of our key partners in the GCC to see what their expectations are.

We put out a report last year on how sovereign funds are approaching ESG and one of the things that came out of it was how important governance of portfolio companies is for these funds. When they are thinking about ESG, the most important factor for them was corporate governance. I presume this is because most countries have governance codes, stock exchanges are now thinking about this, and governance is measurable in the sense that when something goes wrong, you can see it in the share price fairly quickly. We have Wirecard as a recent example of this and we are now asking ourselves questions again such as how relevant is an audit to the financial health of a business and does it actually do what it says it's going to do.

We run our own corporate governance screens. For instance, a few years ago we created our own high-level European governance screen which was essentially based on all the European markets and allowing us to create a set of high-level principles and then codifying that.

We ended up with a really nice view on what European governance looks like. So when we are talking with a French company, we can tell them that their governance might be good for a French company, but not as good against European

companies. I expected companies to be quite negative on this. But what was really interesting is that companies were very positive in their response. This was because we were essentially saying to them, "Here's the playbook, here's what we think that matters" and this allowed companies to say, "We are actually better than many other companies". And that may mean that they will get less pressure from investors, because they are meeting expectations.

Q: Drilling down on the point that regions move at a different pace, would SSGA's stewardship approach to GCC companies have a different character from your approach to North American or European companies?

Yes, it would have to, because we have to understand the characteristics of the market. We have to look at where can we push on meaningful matters. I think diversity is one, because there has been a shift in momentum. And then we have to look at the characteristics of the market, and not just go in and vote against everything. We are taking companies with us on a journey, and we want to be voting in a meaningful way.

Q: If a GCC company has SSGA on its shareholder register, or wants to have SSGA on its register, whom would they would contact to understand more about State Street's stewardship expectations? Is there an open door?

Yes, our asset stewardship webpage has all our voting policies, our engagement policies, our sector approach, R-Factor, and now, more recently, our first annual climate review. It is all there. And of course, interested parties can reach out to me or our stewardship team to have a conversation.

One of the things I realized when I joined State Street was that I needed to spend more time with our institutional clients. It is not enough to vote and engage and write a stewardship report. I need to go out and explain to them what we have done on their behalf and why this matters to them and to hear what they have to say. I can tell you that climate change and diversity are at the top of the agenda for all of clients.

The level of interest in ESG now is significant but this is where it comes back to data. I think companies want to disclose more ESG KPIs to help investors understand what they are doing in that space. But a limiting factor is confusion about what they should disclose. Last year we were getting to a tipping point toward consensus where we had SASB and TCFD [Taskforce on Climate-related Financial Disclosures] poised to become global frameworks. This year, I feel we may have taken a step back. Now we have the big auditors coming up with their own ESG frameworks and other frameworks are coming in too. The whole point of SASB and TCFD was materiality – what are the critical KPIs for each sector? If I as an investor understand those KPIs, then I can engage with a company on how they are mitigating risk. If now we are saying, yes, there is SASB but there are also lots of other frameworks, then as an investor, I don't know how useful that is. And for a company getting bombarded daily by requests for data, I don't know how useful that is. We need some kind of standardization of ESG frameworks, a bit like the financial reporting rules, which enable comparison between companies.

Q: You have brought us back full circle. Do I understand correctly that in your view a strong performance by a company on ESG metrics brings you comfort that it can navigate disruption better?

Yes, I think that is a reasonable assumption. But maybe because I'm a corporate governance person, I might lean more towards governance and say that governance scores give me more comfort. This is because if the governance score is good, then the environmental and social factors will get taken care of. But yes, SSGA's view is that companies that are thinking about ESG and linking it to their long-term strategy should do well over the longer term.

CLIMATE RISK MANAGEMENT

This international survey, conducted by a team of researchers at the Ira M. Millstein Center for Global Markets and Corporate Ownership at Columbia Law School and experts at LeaderXXchange, seeks to understand how—if at all—institutional investors and board directors incorporate climate-related issues in their investment decision making and their oversight responsibilities, respectively. It is the first international survey of its kind targeting both investors and directors in Europe and North America to probe their responses on climate risk management using two tracks aggregated in a single survey.

You can find the full report on our findings here. These findings are relevant to companies around the world because the issues global investors are concerned about could affect their investments worldwide – including the GCC.

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As COVID-19 continues to wreak havoc on families, communities and businesses worldwide, the early warning metaphor of the canary in the coal mine comes vividly to mind.

The impact of a global pandemic was well documented long before COVID-19 suddenly hit. Also known was what was required to reduce the risk of the occurrence of a pandemic and mitigate its impact. Why then, were so few prepared? Medical historians, epidemiologists and many other experts had raised the alarm alerting us to prepare for a destructive global pandemic.

If anything, the global pandemic is an illustration of the havoc that awaits the world as increasingly changing weather patterns destroy its biodiversity, bring droughts, floods, fires and disease. As with pandemics, many don't view climate change as a collective challenge we need to tackle together.

The canary in the coal mine is telling us that there is an urgency for businesses and their investors to take action on climate. Changes in the global climate are already having profound impacts on business operations, governance, and organizational management around the world. Boards of directors are searching for ways to account for these changes as they help guide their organizations, and investors are increasingly concerned about how these changes might impact their portfolios.

According to some, climate change is "on the top of investors' 2020 sustainability agendas for engaging with boards of the companies they invest in."2 A key component of this competency, likely to be a significant question of corporate governance in the coming years, is climate risk management. Companies, investors, regulators, and other key market players must all be part of the conversation around how climate risks should be managed, disclosed, and incorporated into business strategy.

About the survey

One of our goals in conducting the survey was to understand and assess how environmental, social, and governance (ESG) issues impact investment and boardroom decisions. The survey collected data on a broad range of topics, including demographic information of respondents and their views on:

- materiality of climate change issues
- extent of training on climate change issues
- disclosure of climate risks
- climate risk management and board oversight
- engagement and proxy voting on climate-related issues

The survey was conducted over three months in Summer 2019, during which the Millstein Center and LeaderXXchange each contacted relevant organizations within their networks to help disseminate the survey to directors and investors globally. Both organizations also invited individual investors and directors within their networks to anonymously complete the survey. Most respondents were based in Europe and North America.

Demographics of Survey Respondents

— There were more than 130 respondents: approximately 40% directors and 60% investors from Europe (including UK) and North America.

— A high level of disclosure by respondents provided excellent demographic insights: over 90% of respondents shared their age and gender. The survey responses also exhibited near gender parity with 53% female respondents, as well as a broad age distribution with 19% of respondents under 35 years of age, 34% of respondents between 35 and 50 years of age, 33% of respondents between 50 and 65 years of age, and 11% older than 65 year of age.

— A diverse range of investor roles is represented among the survey respondents: from analysts, ESG specialists, governance / engagement specialists, and portfolio managers to Chief Investment Officers.

— There is also a broad range of director roles and committees represented in the survey respondents: from Board Chairs and Lead Independent Directors, to members of the audit, risk, compensation, nominating, and/or governance, and CSR/sustainability committees.

Key Findings

Views of Investors and Directors on the Materiality of Climate Change Issues

— Responses suggest that both investors and directors believe climate change issues are material, with more than 60% of directors and 70% of investors indicating that climate risk is already impacting their business today.

— According to survey respondents, the main reasons for incorporating climate risks into strategy and investment decision making are that doing so: (i) helps identify business and investment opportunities, (ii) helps manage risk, and (iii) is the right thing to do.

Views of Investors and Directors on Training on Climate Change Issues

— A majority of both investors and directors developed expertise on climate change by following current events and news reports in the media, reviewing publications by scientists and think tanks, and reading company CSR or annual reports. However, more so than directors, investors also turned to sell-side reports and reports from ESG rating agencies as their preferred source of information.

— The results show that investors and directors obtain their knowledge and expertise through both internal and external sources. Not surprisingly, investors were more heterogeneous than directors in the variety of means through which they receive information about climate change (including internal trainings organized by their investment firms and external trainings).

Views of Investors and Directors on Climate Disclosure

— Very few respondents considered climate risk reporting to be more important or much more important than financial reporting.

— Investors seem to find more value in receiving climate-related disclosure than directors. Moreover, they appeared less receptive to boilerplate climate change disclosure, preferring that companies explain why climate change is material and how it affects their business operations, quantify its impacts, and disclose specific targets they set themselves.

— The TCFD (Task Force on Climate-related Financial Disclosures) recommendations are gaining traction among investors: more than 50% of investor respondents in both North America and Europe are already asking companies to follow them.

Views of Directors on Climate Risk Management and Board Oversight

— Climate appears to be an important topic for boards as well, with more than 40% of director respondents indicating climate-related topics are discussed annually by the Board, while 30% of directors indicated they are discussed quarterly. Moreover, nearly 30% of director respondents believe boards need to have a non-executive director with climate expertise.

— Our survey supports LeaderXXchange prior findings that the board receives climate-related information primarily from the head of CSR/ Sustainability, to a lesser extent from the General Counsel/Corporate Secretary, and almost never from Investor Relations. Approximately a quarter of directors indicated that no one reports to the board on climate- related topics.

— According to director respondents, investor engagement on climate-related issues takes place primarily at the CEO level and Investor Relations level. This finding is also in line with prior LeaderXXchange findings showing that engagement does not take place on the CFO level. More than 20% of directors indicate that engagement also takes place at the board level, mainly with the lead independent director.

Views of Investors on Stewardship

— The survey suggests a shift in investor interest on climate topics. Investor respondents said that engagement with companies on climate topics is increasingly done not only by ESG or investor engagement specialists, but also by mainstream portfolio managers and analysts.

— Even the Chief Investment Officers of asset managers and asset owners (such as pension funds) have begun to engage companies, suggesting the importance of climate topics for the investment industry.

— Investor respondents communicate the importance of climate-risk issues with their portfolio companies in various ways, mainly by (i) engaging with management, (ii) submitting or supporting shareholder proposals and/or voting against management, and (iii) engaging board directors in a dialogue. Almost 65% of investor respondents indicated they engage directly with board directors.

Variation by Age and Gender

— Our survey suggests that interest in climate-related issues is correlated to age: the younger the respondent, the greater the interest in climate-related issues.

— Our survey results support findings of other academic research studies that suggest that women are more engaged on climate-related issues than men. However, the gender gap narrows as respondents get younger, particularly under the age of 35.

— The younger the directors, the higher their expectations in terms of corporate disclosure on climate-related issues according to our survey findings. Younger directors appear to prefer standardized and mandatory reporting on climate, would like to have climate risks

and opportunities incorporated in an integrated report, and believe that companies should conduct a climate scenario analysis.

— Our survey also identified a gender gap in terms of corporate disclosure on climate-related issues, with female directors expressing higher expectations for climate disclosure as compared to their male peers.

— On the investor side, however, the gender gap appears to be smaller or even nonexistent. One potential explanation is the relatively larger proportion of young respondents among male investor respondents. As younger investors tend to be more engaged in climate-related issues (across the board), gender effects seem to abate substantially for this group.

Variation by Region

— Our survey suggests the interest in climate-related issues is dependent on the region. Investors in Europe seem to have a higher interest in climate-related issues.

— When comparing the findings on the regional level, we find that European investors have higher expectations than North American investors in terms of corporate disclosure on climate-related issues. They more strongly prefer standardized and mandatory reporting on climate as well as integrated reports showing both climate risk and opportunities, and they believe that companies should conduct a climate scenario analysis.

Conclusion

This global survey of directors and investors by LeaderXXchange and the Millstein Center supports prior research findings by LeaderXXchange and others that there are several demographic and regional differences in directors' and investors' expectations around climate-related issues and disclosure. Generally speaking, younger respondents, European respondents, and female respondents appear to have greater interest in climate issues and/ or expectations for corporate disclosure. The survey also provides insights into how boards and companies are engaging on climate issues internally and externally. We believe that these findings deepen our understanding of how directors and investors take climate- related issues into account in their boardroom and investment decision making, respectively, and how their views may differ across demographic and regional groups.

We hope to be able to augment this survey in the months and years ahead to consider how investor and director views are evolving, particularly with the onset of the worldwide COVID-19 pandemic (which has spawned a lively debate about whether to accelerate or rein in the reconsideration of stakeholder governance).

Acknowledgements

We thank the LeaderXXchange Investor-Director ESG Working Group members for their contributions to the survey. Led by Sophie L'Hélias and Nina Hodzic, the Group was comprised of Investor members Matt Christensen, Natacha Dimitrijevic, Sonia Fasolo, Michael Herskovich, Lee Qian; and Director members Isabelle Azemard, Florence von Erb, Eliane Rouyer-Chevalier, Diane de Saint Victor, and Ulrike Steinhorst.

Note: The results presented above represent a selection of findings based on observational survey data. They do not represent a comprehensive discussion of the survey results, and it can also not be excluded that they are at least partly the result of decisions by LeaderXXchange and the Millstein Center in designing and evaluating the survey. Lastly, due to the open nature of the survey, the representativeness of the sample of survey participants is not guaranteed.

H.E. PROF. AHMED ABDULRAHMAN AL-MELHEM

H.E. Prof. Ahmed Abdulrahman Al-Melhem is the Managing Director and Chairman of the Capital Market Authority Board of Commissioners, Kuwait.

He spoke with Hawkamah CEO **Dr Ashraf Gamal** about the steps taken by the Authority in dealing with the crisis stemming from the Covid 19 pandemic.

Q: Before we begin, could you please give an overview of the Capital Markets Authority of Kuwait and the companies and institutions that the Authority regulates.

The Capital Markets Authority of Kuwait was established by law No 7/2010 as an independent entity and a legal person. This is based on the desire of the political leadership to achieve a qualitative shift for the national economy and to develop the infrastructure for the capital market system in a way that makes Kuwait an attractive environment for capital and investment, and a financial center that is in line with expectations in diversifying national income sources, controlling the rhythm and balance of the market and regulating the activities of securities. In November 2015, the Authority launched its new executive regulations of the aforementioned law, which was considered the largest legislative and regulatory work in the history of Kuwait. It consisted of 1665 articles combining all the provisions and rules governing the capital markets and securities activity.

The Authority is administered by a board of commissioners consisting of five full-time members and it seeks, through its executive body, to provide a supervisory system that supports an attractive and competitive investment environment based on the principles of justice, transparency, and integrity, in line with the best international practices. All licensed persons, registered persons and listed companies are subject to the Authority's control.

Q: As a Chairman of the CMA of Kuwait, how do you see the impact of Covid -19 on the market?

The economic or financial crisis is measured by severe reductions in the state's macroeconomic situation, particularly in a decline in gross domestic product (GDP). And in a country such as Kuwait, which relies on one major source of income, the fall in oil prices for sustained periods will lead to a reduction in the state budget, resulting in decreased government spending on which a large part of the private sector depends. The private sector may therefore face a decline in revenues and asset values, leading to a potential deficit in meeting their obligations or debt issued to finance their operations, which may in turn reduce their credit rating, thereby increasing the cost of borrowing. The effects of these crises may extend to the social and consumer spheres brought by the inability of companies to pay their employees' salaries, distribute profits to their shareholders and result in high unemployment rates.

With regard to the current crisis of the new Covid-19 pandemic, it has had a significant impact on the global economy, with the International Monetary Fund predicting a 3% decline in global GDP during the year, and the global economic downturn during this period has led to a sharp drop in oil demand, which has resulted in a sharp decline in prices around the world, reflected on the domestic economy, for example when comparing the asset values of companies listed on the Kuwait Stock Exchange for the second quarter of 2020 we see a decrease of 4% compared to the same period in 2019.

Q: How is the Authority preparing for crises generally? What is the role of the Board of Commissioners in these preparations?

Since its inception, the Authority has been fully aware that the financial market is very sensitive to any news or crises. It has therefore worked hard to plan and deal proactively with any such situation. And for the past years, it has prepared to deal with any negative impact on the financial market, despite the difficulty of predicting the timing of crises and their repercussions but preparing for the consequences that may result from their occurrence contributes to reducing their impact on the financial market and its clients.

In this regard, and prior to the Covid 19 pandemic, the Board of Commissioners in the Authority realized the importance of having a clear policy for the Authority on how to deal with disasters and crises in a way that guarantees business continuity according to the best practices, and accordingly, the Board issued number of Resolutions regarding the formation of permanent crisis-related committees. The most prominent of these is the Risk Management Committee, which is concerned with managing the Authority's operational risks, identifying them, classifying them, analyzing their causes, and working to avoid them or confront them or limit their effects. The Business Continuity Management Committee was also formed to ensure business continuity and vital services as well as to ensure that the internal capacity of the Authority is built to manage the emergency, crisis and disaster system. Furthermore, the Committee against The Typical Risks Expected in Securities Activity was formed to address risks that lead to the destabilization of the market, the stock exchange and clearing.

In addition to the above-mentioned committees, the organizational structure of the Authority comprises units whose functions include evaluating and developing risk management policies and building crisis forecasting indicators that may hit stock markets and develop alternatives and solutions to address such crises if they occur.

It should be noted that during the Covid 19 Pandemic, the Board of Commissioners continued to hold its meetings either remotely using means of technology or through physical presence at the Authority's headquarters.

We should also highlight that as part of the Authority's efforts to deal with the Covid 19 pandemic and to mitigate its effects on the stock market, many decisions have been issued under these exceptional circumstances to ensure the continuation of trading operations in the Kuwaiti financial market system, to ensure the rights of all interested parties, investors, and traders, and to support of one of the most important economic facilities in the country.

Q: When the Authority develops a plan to deal with a crisis, how can it monitor that the set plan is being implemented accurately? What is the mechanism for reviewing and modifying the details of the plan if necessary?

Each committee, unit or function in the Authority dealing with crises has a policy and procedure manual. This is regularly followed up electronically in a manner that ensures the achievement of objectives and contributes to the follow-up and evaluation of the work. Periodic reports are also presented to the Executive Director for immediate actions, and they may be submitted to the Board of Commissioners in accordance with the procedures and powers. In other words, we have in place a system of continuous follow-up and evaluation by the Board and executive management of the Authority. And in cases of emergency, the Board of Commissioners convenes on an exceptional and emergency basis to discuss and take critical and immediate decisions based on the recommendations by the concerned committees or the concerned unit/ function to address and solve any emerging circumstances.

Q: In the case of the Covid-19 pandemic, how do we compare the degree and readiness plan of the authority to the magnitude of this crisis? What are the most important lessons learned for the future for you and other capital market authorities in the region?

There is no doubt that the crisis of the Covid-19 pandemic was met with varied global preparedness and this created different effects on world economies. While we have seen its negative impact in the collapse of several global stock exchanges, we have also seen monetary and financial policies that have largely succeeded in absorbing the sharp decline in a number of other markets in accordance with pre-planned plans and the activation of contingency plans that have contributed significantly to the absorption of the effects of the crisis.

The financial markets were greatly affected by the precautionary measures imposed by the health authorities and directly impacted the economy as a whole. We believe that the success of any plan prepared by the capital markets bodies to deal with a crisis must be consistent with the contingency plans adopted by governments and include stimulus packages and fiscal and monetary policies.

In Kuwait, we believe that through adoption of prudent governance and policy rules, as well as its proactive plans and immediate and critical decisions, the Authority was ready to face the crisis. The proof of this are the steps taken by the Authority following the government announcement on 12 March of the measures to curb the spread of the coronavirus. On the same day, an emergency meeting was held between the CMA, Kuwait Boursa Kuwait Company (BKC) and Kuwait Clearing Company (KCC) to discuss stopping trading on the stock exchange on the same date and to assess the situation regarding its return.

The Authority also reached out to MSCI and FSTE to discuss the steps for each of the Authority, KSE and the KCC towards re-opening trading on the stock exchange.

They praised us for the communication and the steps taken by the CMA, BKC and the KCC towards resuming trading, as well as those concerned with protecting the financial market from any negative effects that may result from the suspension of trading. These give an indication of the soundness of the actions taken by the CMA to ensure the safety of capital and to safeguard the rights of investors with the testimony of international financial institutions.

The Board of Commissioners also held an emergency meeting on Friday, 13 March 2020 where the board adopted a business continuity plan to ensure the continuity of business and the safety of employees of the Authority, BKC and KCC. Following this, the decision was taken to resume trading on Sunday 15 March.

Despite the period of disruption, the Authority continued to provide its services: issuing legislative amendments, renewing licenses and registrations, and approving listings on the stock exchange.

The Authority also addressed all companies under its control of their need to confirm and implement business continuity plans as stipulated in the Executive Regulations of the Authority.

In summary, the crisis of the Covid-19 pandemic has confirmed that crisis management requires prior preparation through clear contingency plans, ensuring smooth execution and speedy decision-making. This is what regulatory financial bodies and central banks must work on in the future, drawing on the lessons they have learned from the pandemic. And this is certainly what the CMA will also work on by assessing its experience in dealing with the current crisis conditions and continuing to develop its plans for any future crises.

Q: During the Covid-19 pandemic, who took the lead in dealing with the crisis: was it the Board of Commissioners? The chairman of the board? The CEO? What are the most important lessons and tips related to leadership during crises that you would like to share with readers?

The Authority, which is represented by the Board of Commissioners, the Executive Director, Heads of Sectors, Directors of Departments and staff. And they all had a significant footprint in all decisions taken by the Board of Commissioners during this crisis. And as this crisis has required quick decision making in many situations, the Board of Commissioners authorized the Chairman and the Executive Director (who are the same person) to decide on urgent matters.

Although the work of most government agencies in Kuwait was disrupted between 12 March and 29 June, the CMA continued to perform its duties and provide its services through a comprehensive electronic platform, which allowed its employees to work remotely in accordance with the highest practices of data protection security.

We appreciate and take pride in our cadres working in the CMA, as well as the cooperation of the entities such as the BKC and the KCC and all those who are engaged under the provisions of the Authority's law, who also acted in accordance with the emergency plans. We value their spirit of responsibility and care to perform all the work entrusted to these entities without any disruption or negative impact.

In the light of the experience gained during the current crisis, we see the importance of investing in the human element as a top priority for development in the performance of the financial regulatory bodies, as the CMA is proud to have a selection of staff within its human cadres with a variety of competencies, academic backgrounds, and practical experience.

Q: Has the roles and responsibilities between the different parties changed during the crisis?

The Authority cooperates with many other government agencies such as the Central Bank, Ministry of Commerce and Industry, and the Financial Investigation Unit under agreements of understanding with those entities. And the success of any plan prepared by the capital markets to deal with crisis is subject to being part of a wider set of plans adopted by the Government.

Accordingly, we see that the superiority of crisis management in a number of global financial markets was not a result of coincidence, and it was not only the superiority of the supervisory authority in those markets, but also required cooperation with other government agencies, and to achieve the goals of integration in the activation of emergency plans developed to counter the negative economic effects.

We commend the government's efforts during the crisis, as the Kuwaiti government has not failed to grasp the economic effects of the pandemic along with the effects of the other crisis. The Council of Ministers initiated the formation of the "Supreme Steering Committee for Economic Stimulus" to lay down the incentive pillars for the local economy, and the Council of Ministers has also formed a Working Group to study the negative effects of the exceptional measures taken by the government to limit the spread of the coronavirus.

Q: Who are the most important stakeholders that have been in regular contact with the Authority? What were the expectations of those external parties? Based on the CMA's experience, what advice would you give to other institutions on how to communicate with stakeholders during crises?

The CMA and its scope of work are linked to stakeholders and we are keen to always communicate with them, and we are aware that the success and interaction of stakeholders with the Authority is the success of the capital market system as a whole.

The authority communicates with the BKC and the KCC on an ongoing basis as they are essential partners in the achievements of the Kuwaiti financial market system. Their desires converge with the Authority to achieve a leap for the national economy through the State of Kuwait's promotions in global financial rankings and indicators and attracting capitals and investments.

The Authority also communicates with the companies listed on the stock exchange and the authorized persons who practice securities activities, as well as the persons registered with the Authority who hold the registered positions, the external Sharia audit offices, and the auditors, who are key stakeholders in the capital market system. The Authority also exchanges points of views and looking into suggestions submitted by them in a way that contributes to achieving the general interest of the financial market. CMA has always welcomed any meetings or gatherings proposed by stakeholders or dealers in the financial market in which opinions and views are exchanged.

The Authority continuously consults the opinions of stakeholders in the amendments, additions and updates that it intends to introduce on its legislation, which contributes to the exchange of views and enriches any future instructions, controls or conditions that may be legislated.

It should be noted that during the pandemic, the channels of communication between the Authority and stakeholders were not affected, as the Authority was keen to overcome any difficulties in communication despite the challenging circumstances stemming from partial and total lockdowns. The CMA has established

an integrated electronic platform to deliver services to those subject to its control, ranging from applications for licenses and registration, applications for listings to acting as a window of correspondence with those addressed by the provisions of law to ensure that communication with them is facilitated.

Later in the crisis, the Authority announced the expansion of its operations to ensure the activation of oversight and law enforcement in order to protect customers and resuming to conduct of the necessary investigations, and adjudicate disciplinary accountability and other essential roles assigned to it.

In regards to the investor and the general public, the Authority was keen to communicate with them during the crisis and inform them of the measures taken by the CMA. These were published on CMA's website as well as on social media accounts informing investors and the general public of its continued provision of its services during the period of disruption and the mechanism for utilizing services through the electronic platform. The Authority also broadcasted awareness messages to the public on a daily basis through social media platforms, and is still doing so.

In this regard, the Authority's pre-pandemic preparation for electronic infrastructure enabled it to continue to provide its services effectively, achieve the highest levels of communication with stakeholders and enhance its presence with the public during these exceptional times.

Q: Crises, such as wars and the global financial crisis, have forced the world to reconsider the way institutions operate, in your opinion, what will be the impact of the Covid-19 pandemic on governance in companies and countries?

The challenges and consequences brought by the Covid-19 crisis will cast a shadow on companies on how they apply governance rules in the coming period and prepare them for future crises. It may require them to intensify and review some practices. For example, we see the importance of companies identifying and managing all kinds, most notably liquidity risks and the search for financing solutions and alternatives, as well as the need to review the policy of salaries and rewards under the pandemic, and reduce costs.

Since disclosure and transparency are an important factor in instilling confidence in the financial market in a way that preserves its stability, companies must strengthen disclosure tools, especially in crisis conditions, and develop their technical aspect in line with the practices and requirements of regulators.

On the organizational and administrative level, it has become necessary for companies to strengthen both the management structures of both the Board of Directors and the executive management in order to achieve the diversity required to cope with the new needs resulting from the crisis. It is necessary to increase the number of board meetings in response to the rapid pace of actions and the immediate and exceptional decisions they require appropriate for the business continuity. In the light of the change in the business performance system and the adoption of electronic systems by most companies to provide their services, we believe that the idea of holding general assemblies of companies electronically and enabling shareholders to vote remotely at general assembly meetings should be adopted because it has become a fundamental need under the current circumstances and the conditions imposed by the crisis.

We believe that in the coming period, companies must review and evaluate their internal systems in light of the latest developments and outcomes of the crisis, and continue to develop electronic systems and services, empowering their staff and training them to work according to the development of those systems and services, and enhancing the ability to deal with variables and crises in accordance with the best rules and approaches of modern management and within the framework of good governance.

In terms of the impact of the pandemic on countries, it is possible to see governments adopting new legislation for the economy, whether in its content, regulatory or incentive. And for capital market authorities, we emphasize the need to review the governance rules imposed by the bodies and assess their impact during the crisis period, and to not hesitate to impose more of them in the precautionary measures in case of any future crises. It is also the responsibility of the regulators in the capital markets to put in place controls that will assess the financial solvency of companies and the mechanism for maintaining the rights of shareholders and investors in order not to be a victim of weak management.

In the end, the goal is the protection for investors and the sustainability of companies' success in dealing with crises in accordance with best practices. We also see that the regulatory authorities take the initiative in adopting legislation that would rectify the effects of crises in order to achieve financial stability and guarantee the rights of the investor, which is what the Authority has done through its participation in issuing the bankruptcy law with the relevant authorities - a sophisticated law aimed at enabling companies to restructure themselves in order to avoid bankruptcy, which was approved by the legislative authority in the State of Kuwait represented by the National Assembly in its closing session on September 29, 2020, and accordingly, "Law No. 71 of 2020 promulgating Bankruptcy Law "dated October 21, 2020

Q: What is your advice to companies and Capital Market Authorities in light of the pandemic so far?

We believe that it is necessary to study the effects of the pandemic and focus in the coming period on diagnosing the situation in the financial market in the light of the economic consequences, and then assess the actions taken and work to develop them in the event of weaknesses that need to be reviewed and adjusted. The capital market authority should not lose sight of the importance of communicating with stakeholders in the coming period in the event of a desire to impose new obligations on them based on the resulting diagnosis and evaluation of the situation. And finally, cooperation between different regulatory bodies and stakeholders is the way to achieve the desired objectives and balance, which will ultimately be in the public interest of all.

With regard to companies, we recommend that we continue to work on the review and modernization of internal regulations and policies in light of the consequences of the crisis, especially in terms of risk and liquidity response, as well as disclosure tools and the development of an electronic infrastructure by companies, while enabling their staff to work according to this development as mentioned.

We also want to take this opportunity to thank you for this interview and wish you continued success.

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The challenge of governance often relates to transiting the principle into practice

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PUBLISHED BY HAWKAMAH INSTITUTE FOR CORPORATE GOVERNANCE