

Updates on Corporate Governance in the Middle East – April 2023

We know that effective corporate governance is essential, not only for the success of a business but also for a powerful economic system. We believe that corporate governance is a vital element to invest in and take seriously, both in terms of the regulations put in place and how companies are managed.

In this article, we'll draw on our experience across the region and provide updates on regulatory changes to detail how corporate governance can be implemented successfully.

Our goal is to provide you with insight that you can use to build strong businesses and protect yourself from potential foreseeable risks.

We're passionate about leading the way with corporate governance in the Middle East – let's explore this together!

Introduction to Corporate Governance in the Middle East

We've all heard about the importance of good corporate governance for running a successful business, but how are companies in the Middle East region doing when it comes to corporate governance?

The answer is that recognition of the benefits of good corporate governance has been developing rapidly in this part of the world, and

many companies have overcome barriers and improved corporate governance practices. In fact, studies demonstrate that corporate governance measures have a beneficial influence on firm performance in this region.

Studies showing positive impact of CG on firm performance

For example, a recent report from the World Bank demonstrated that for firms in the Middle East and North Africa (MENA) region, corporate governance practices are positively associated with profitability and market valuations. The report also found that corporate governance practices are associated with a reduction in agency costs and debt financing. Furthermore, the study confirmed that corporate governance practices in the MENA region are associated with higher levels of efficiency and more stringent oversight.

Other studies have highlighted similar findings. A study conducted by researchers at King Saud University found that an increase in corporate governance practices is associated with an increase in shareholder returns. Additionally, the study revealed that firms with stronger corporate governance practices tend to be more transparent and accountable, leading to increased investor confidence and improved stock performance.

These findings highlight the importance of corporate governance for the region. By understanding the [benefits of corporate governance](#), companies in the region can ensure that their businesses are properly managed and that investors have a say in the decision-making process.

Corporate cases demonstrating the positive impact of CG on firm performance

There are many cases of successful corporate governance in the Middle East which bear testament to the positive impact it can have on businesses.

One example is the case of Dubai Holding, a leading investment company in the region. In 2018, the company launched a new corporate governance framework, establishing a clear and unified set of principles and practices across its portfolio of businesses. The framework was designed to ensure transparency and accountability in decision-making and strengthen the company's commitment to corporate governance.

Another example is the case of Dubai-based multinational Emirates NBD, which has a strong focus on corporate governance. The bank has implemented comprehensive corporate governance policies and procedures, including setting out rules and guidelines for its board of directors, executive management, and employees. They also have a whistleblowing policy in place to protect employees and shareholders from any potential wrongdoing.

These are just examples that demonstrate the potential that good corporate governance can have in the Middle East.

With so many updates happening in the corporate governance space within the Middle East, it's easy to feel lost or overwhelmed.

Corporate Governance Trends

We know that the topic of corporate governance in the Middle East is constantly evolving, so we want to take a closer look at some of the major trends that have been developing in recent years.

One of the biggest trends in the region is the adoption of international corporate governance standards. By implementing international standards, firms in the Middle East are able to increase their transparency and accountability, allowing them to access capital markets more easily and build trust with investors.

Many countries in the region have also been focusing on improving their corporate governance legislation and developing new regulations. For example, Saudi Arabia has seen a surge in corporate governance initiatives over the last few years, and is now at the forefront of corporate governance reform in the Middle East.

Another trend is the increasing focus on independent boards of directors. Many firms are now appointing independent directors to their boards in order to strengthen corporate governance practices and ensure more efficient decision making.

We're also seeing companies in the Middle East increasing their use of technology to improve corporate governance. Technology such as corporate governance software, cloud computing, and artificial intelligence are being used to strengthen internal processes and ensure compliance with regulations.

These are just a few of the trends we're seeing in the corporate governance space across the Middle East. Contact us if you would like more information.

Regulatory frameworks & trends in the region

The business landscape in the Middle East has rapidly evolved over the past few years, with multiple regulatory and legislative acts transforming corporate governance across the region.

In April 2022, the Dubai International Financial Center (DIFC), Abu Dhabi Global Market (ADGM), and Financial Action Task Force (FATF) all released new regulations to help streamline decision-making frameworks and procedures across the region.

In March 2023, the Dubai Financial Services Authority (DFSA) announced a new set of corporate governance regulations for regulated entities in DIFC to ensure high standards of corporate governance were maintained. The regulations provided updates on conflicts of interest management, board diversity, board composition, and executive remuneration.

Likewise, in January 2023 the Capital Market Authority (CMA) in KSA released new rules for companies seeking to list on Tadawul as part of its commitment to strengthen investor confidence and attract foreign investments. These regulations establish standards for corporate governance practices including board roles and responsibilities, shareholder rights protection, periodic reporting obligations, risk management measures and internal control framework.

The implementation of these regulations has had a positive impact on corporate governance practices.

Overall, the introduction of corporate governance regulations in the Middle East has helped to promote sound governance practices, enhance transparency, and safeguard investors' interests. However, there is still more progress to be made and corporate governance in the region continues to evolve.

Companies impacted by changing regulations

One example of a company impacted by corporate governance regulations in the Middle East is Etisalat. In 2020, the company's board of directors published its Corporate Governance Report, highlighting its commitment to implementing the highest standards of corporate governance. The report outlined the company's corporate governance framework, which included various principles such as enhanced transparency, independent directors, and appropriate disclosure.

In 2021, the company had to update its corporate governance framework to comply with changes in the regulatory environment. This included a review of the board composition and implementation of a new risk management framework. Etisalat also implemented a new remuneration system in line with changes to the regional regulations, and created a new code of conduct for its board members.

Similarly, Abu Dhabi's Mubadala Investment Company has adopted stringent corporate governance standards following the 2017 Abu Dhabi Global Market Corporate Governance Code. The company implemented the code's principle-based approach to corporate governance and adopted an internal remuneration system for its directors and executive officers. Mubadala also updated its risk management framework, adopted strict policies for protecting confidential information, and implemented a whistleblowing policy.

The region's corporate governance landscape is continuously evolving and companies must remain up to date with the latest developments in order to maintain their competitive advantage.

ESG Investing on the Rise in the Middle East

We've noticed an increasing interest in ESG-related investing within the Middle East. Private clients in the region are not only in the position to benefit from investing with an eye

towards sustainability, but it has become a necessity for businesses seeking out additional financing.

For instance, in 2021, the Abu Dhabi Securities Exchange (ADX) announced that it had listed the region's first ESG-focused ETF, the ADX ESG 20 Index Fund. The ETF is designed to measure the performance of companies that meet certain ESG criteria, such as sustainability practices and corporate governance standards. This is a major step forward for the Middle East, as it marks the first time investors can seek returns from ESG-focused investments from within the region.

In addition, the United Arab Emirates (UAE) recently published its 2021 Sustainability Bond Framework, which outlines the regulatory requirements that a company needs to satisfy to issue a sustainability bond. This framework allows companies to finance sustainable projects and initiatives, such as renewable energy projects and water conservation efforts, while also giving investors an opportunity to make ESG-focused investments.

These are just a few snippets of how the region has been moving towards incorporating sustainability into corporate governance frameworks and making investments in ESG-focused projects more accessible. As more companies and investors become aware of the benefits of ESG-related initiatives, we expect the demand for such investments to increase in the Middle East.

Over the past year, we have seen a number of major developments that illustrate how the Middle East is at an inflection point when it comes to ESG practices and interests:

- The Public Investment Fund (PIF) of Saudi Arabia recently announced a 100-year dollar-denominated bond offering. This marks the first of its kind and speaks to the increasing sophistication with which government organizations are looking at long-term investments and returns.
- Investors in Kuwait are now able to benefit from ESG funds, as the Capital Markets Authority (CMA) authorized Islamic funds that focus on environmental, social, and governance principles.
- We've also seen environmental initiatives like Saudi Arabia's newly established \$500 million waste recycling enterprise as part of their Vision 2030 strategy, which is a telling sign that regional companies are beginning to recognize both social responsibility and its potential impact on profits.
- Beyond traditional investments, regulatory requirements have been adopted in several Gulf Cooperation Council (GCC) countries requiring companies to disclose information on their ESG practices. This further highlights both society's interest in sustainability measures as well as enforcement of these efforts.

It's clear that for businesses across the region, making progress towards more sustainable practices is here to stay. In order for them to remain competitive amidst this cultural shift, leveraging ESG principles may be key in considering future financial opportunities.

Challenges & Opportunities for Business in Region

Compared to the rest of the world, many businesses in the Middle East face unique challenges, as well as opportunities for growth. From domestic and international competition, to an ever-changing landscape of regulatory framework and governance, understanding these challenges is key to success in this dynamic region.

Some of the major challenges facing businesses in the Middle East include:

1. Environmental, Social and Governance (ESG) risks such as climate change or human rights violations that can have a negative impact on business operations
2. Difficulty accessing new markets due to limited infrastructure
3. Long-term sustainability hampered by weak corporate governance practices

It's not all doom and gloom though; for competitive companies this presents a real opportunity for growth. By implementing more stringent corporate governance practices, implementing technologies that increase efficiency, and diversifying into new markets businesses can position themselves for long-term success in the region.

Conclusion

Corporate governance in the Middle East is evolving to meet the needs of today's dynamic business environment. Corporate governance is a critical part of any successful business and can have a positive impact if done effectively. At MEIoD, we're proud to have helped over 500 businesses in the Middle East with their corporate governance needs. Our team has the expertise and experience to provide sound advice and support with corporate governance implementation, regulatory changes, ESG adoption and more. We strive to stay ahead of the ever-changing corporate landscape and to be a reliable resource for those looking to stay up-to-date on the latest news and best practices. Our team is dedicated to helping business owners navigate the evolving world of corporate governance and come out ahead. We strive to create value for our clients by providing the insights and analysis needed for tackling the challenges and taking advantage of the opportunities available in the Middle East.

About the Author:



Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

Since 2012, as Founder and Board Member, Maali has driven change and excellence across a number of leading organisations.