Key takeaways – CG workshop no. 17
"Crypto, Clean Energy and the Next Era of Modernization in the GCC"

- Crypto, clean energy and large family businesses are all vital for the GCC's strategy to remain relevant in the emerging new geopolitical order, as well as ensure a stable and prosperous future for itself.
- Crypto is emerging as a viable alternative or supplement to "fiat" currencies, particularly the US dollar. Clean energy has been identified by the GCC as a key element of its growth strategy and plans to reduce its economic dependence on fossil fuels. Large family businesses play a central role in the way GCC economies function and addressing the governance, succession and modernization challenges they face is critical for GCC's long-term future.
- After the introduction of the GENIUS Act in the US, crypto is back in vogue; the total market cap of crypto currencies now exceeds US$4 trillion.
- Originally meant to be a peer-to-peer network, only 1% of crypto transactions today are peer-to-peer while 99% are done through accounts registered with platforms such as Binance, Ethereum and Coinbase.
- Platforms are not immune to hacking or fraud. Total stolen crypto value peaked at US$3.7 billion in 2022 while the total no. of hacks reached a record of 300+ in 2024 (from less than 50 in 2018).
- Data reveals that crypto / bitcoin has a high correlation with US equities, is not a good hedge against inflation and is more volatile than US equities.
- Crypto technology offers some clear advantages over traditional payment modes – it is faster (minutes vs. days), more transparent, secure, less costly, private and more inclusive (those who do not have bank accounts can use this mode to move funds across borders). However, its high return potential as an investment is still questionable.
- Trading volumes are extraordinarily high in crypto, signaling continued dominance of speculation as opposed to conventional investing.
- Crypto market remains largely outside mainstream banking system and therefore presents limited systemic risk.
- Widespread losses for speculators are likely in the coming years, as a multitude of currencies and platforms will fail or consolidate.
- Non-dollar oil trading, using both conventional and digital / crypto payments, is expected to become commonplace in the coming years.
- 137 countries are exploring Central Bank Digital Currencies (CBDCs); of these 49 are at the pilot stage and 3 have fully launched a digital currency.
- Crypto is here to stay – it is already a mainstay for both domestic and international payments and transfers.
- While crypto has performed well as an investment over the past 5-10 years, it remains highly speculative as its underlying value and advantages are still in question.
- US policy is to encourage domestic development of crypto for businesses, individuals and investors, but to protect the status of the US dollar as the world's reserve currency and its dominance in global trade.
- On the other hand, China wants to restrict crypto to the state and institutional level.

- The GCC has rightly embraced digital currency for all applications, while ensuring appropriate regulatory oversight. It will likely play an important role in its future development.
- US and China are two great powers that are going in completely opposite directions regarding clean energy.
- China is now the undisputed world leader in clean energy from technology to manufacturing to control of the supply chain, projected to account for 50% of all clean energy capacity in the world by 2030.
- The GCC is responsible for 4.6% of the world's greenhouse gas emissions, which is only 28% less than the EU.
- Clean energy penetration in the GCC remains very low but is growing exponentially. Renewables currently account for 2.8-3% of total generation capacity (vs. Brazil which is leading the world with 50% of its total energy coming from renewables).
- GCC needs to invest massively in renewables and climate adaptation efforts in order to address climate risk. It needs to cooperate with both the US and China on energy and climate change.
- Large family-owned businesses continue to dominate economic activity throughout the GCC, accounting for 60% of overall GDP, 80% of non-oil GDP and 80% of the labor force.
- The continued long-term growth and dynamism of the GCC economies and stock markets depends significantly on these large family businesses; do they have effective governance structures and succession plans in place?
- Lack of public listing of large businesses and low free float of those listed are not helping attract foreign investors to the GCC.
- In the last 20 years when the GDP of the GCC economies has tripled, the key stock indices have declined. This is most extraordinary.
- According to a 2025 study of large family businesses in the GCC, fewer than 20% have a comprehensive succession plan in place and only 16% have a formal governance structure.
- 80% of GCC family businesses are in the process of transitioning to 2^{nd} or 3^{rd} generation; studies show that only about 12% of the businesses survive into the third generation.
- Public listing of family-owned businesses, separation of management and ownership, putting professional management in place and allowing major global institutions to hold significant stakes are the key to ensuring long term sustainable growth of these businesses into the third and fourth generation.
- Family businesses can take the following measures to survive generational shift:
    - Map ownership clearly – maintain an updated shareholder register and percentage ownership of all family members
    - Use holding company structures to consolidate assets and avoid fragmented ownership
    - Shari'ah law regarding inheritance and wills should be complied with as it is relevant in the GCC region
    - Align GCC entities with overseas subsidiaries especially where international banks or regulators are involved
    - Have a family constitution – mission, values, rules on employment of family members, dividend policy, conflict resolution mechanism, etc.

- Have a shareholders' agreement regarding pre-emption rights, voting thresholds, family vs. non-family roles
- Create a family council to have regular meetings of shareholders/heirs to resolve issues outside the boardroom
- Have at least 2 or 3 external professionals as independent board members and grant them veto power on audit and risk matters
- Create a written succession plan via family constitution or shareholder agreement
- Name successors early – specify interim and permanent leadership in case of sudden loss of a patriarch
- Staggered transition – give the next generation leaders operational roles before full control
- Mandate executive education for aspiring family members through reputable universities
- Put in place financial and risk controls – e.g. an independent audit committee, whistle blowing and compliance hotline to protect against fraud and malpractices, a board-approved debt policy and related-party lending rules, a comprehensive enterprise risk management framework
- There should be clear separation between ownership and management – family members can sit on the board whereas executive roles should be based on merit and qualifications
- There should be the same recruitment and promotion criteria for family and non-family members; pay outsiders competitively including bonuses and stock options
- Performance KPIs should be measured against industry benchmarks not family considerations
- An internal mediation committee can be formed made up of family elders and an independent facilitator for conflict resolution
- Regional / international arbitration centers may be used for arbitration if needed
- There should be clear buy-out mechanism and valuation methods for heirs who want liquidity instead of business involvement and control
- Arrange periodic third-party reviews of governance and compliance
- Have proactive engagement with the regulators
- Have a crisis communication plan in case of governance failure to handle media, banks, state agencies, regulators

Key takeaways – CG workshop no. 16
"Banks in an Era of Transformative Technological and Geopolitical Change"

- Wherever data is available in abundance, Artificial Intelligence (AI) can be used to generate insights.
- AI offers a host of new opportunities but also carries substantial risks. According to Jensen Huang, CEO of Nvidia: "AI will be the most transformative technology of the 21st century. It will affect every industry and every aspect of our lives." However, Stephen Hawking warns: "Success in creating AI could be the biggest event in the history of our civilization. But it also could be the last – unless we learn how to avoid the risk."
- Research surveys show that the common people are more skeptical than experts about AI, especially regarding jobs. However, both the experts and the public agree that the government should play a very active role in regulating AI.
- Over-reliance by some people on AI and under-reliance by others will create a sharply divided world. In particular, the impact of generative AI apps on kids who are growing up using the likes of ChatGPT is concerning.
- The social aspects of AI use are equally important; "deepfake" AI technology is already being used by criminals to recreate children's voices to make their parents believe that they have been abducted, and demand ransom.
- The adoption rate of GenAI has so far been at least as fast as that of computers and the Internet. However, a larger percentage uses AI outside of work than to enhance their productivity at work.
- The experience so far with ChatGPT and the like is that the accuracy of responses varies, and it is risky to trust it blindly. One should never be afraid to push back and have their own judgment, unaffected by AI answers.
- The greatest value creation potential of AI is in the high-tech sector, followed by banking. Pharma, education and telecom sectors come next. Within banking, corporate and retail banking can create the most value from AI.
- A hyper-personalized customer experience is now possible with the help of AI (e.g. advising mass segment clients on tailored investment solutions), creating significant brand loyalty.
- McKinsey estimates that in the GCC countries, AI could create as much as US$150 billion in value, or the equivalent of 9% of the combined GDP of the region.
- At the organizational level, banks are integrating AI for risk management, fraud detection and customer experience. According to a survey, more than 75% of bank leaders are involved in AI-driven transformation projects while 50% report having formal AI adoption roadmaps.
- 65% of banking professionals are already using AI-powered tools for tasks such as summarizing reports, drafting emails and making presentations. 40% are using AI assistants for meeting transcripts, research and customer insights. AI is also commonly used to automate workflows, improve forecasting and analyze financial models.
- Leading AI apps for business include Copilot, Gemini and Einstein, and for personal use ChatGPT, Gamma, Claude and NotebookLM. ChatGPT is by far the most widely used.
- The most commonly cited impediments to adopting AI in banking are regulation, copyrights, errors and fraud.
- Capturing value from digital transformation requires a fundamental rewiring of how an organization operates. Critical enterprise capabilities include:

  - A business-led digital road map
  - Talent with the right skills
  - Fit-for-purpose operating model
  - Technology that is easy for teams to use
  - Data that is continually enriched and easily accessible across the enterprise
  - Adoption and scaling of digital solutions
- Key elements required for successful implementation of an enterprise AI project include:
  - Having an overall AI strategy and roadmap, but initially focusing on high-impact use cases that demonstrate substantial value
  - Involving the most knowledgeable internal data experts in the core team from the start
  - Building a robust talent pool which includes external hires of data scientists and AI experts but also reskilling of existing staff
  - Developing techno-functional roles, i.e. banking specialists who also understand AI and digital strategy
- Since the 2008 financial crisis, economic inequality in the West has worsened (the top 1% of the Americans have more wealth than the bottom 90%), leading to a rise in populist movements and social division, exacerbated by the explosion in social media use.
- Meanwhile, China has continued its rise as a credible rival to the US globally, and its advances in manufacturing and social indices now match its technological prowess.
- On a Purchasing Power Parity (PPP) basis, BRICS and other emerging countries now represent a larger share of the global economy than the US, EU and Japan combined. China now only depends on OECD countries for one-third of its global trade volume.
- In the face of this global geopolitical transformation, Donald Trump has emerged as a populist leader determined to contain China, defend and enhance the US's technological lead and reassert control over key natural resources globally.
- It is important, in the face of daily rhetoric coming from the White House, to differentiate between the "Signal" and the "Noise". The former reflects real belief and worldview, and the latter is just a tactic to rally supporters, dominate the media and intimidate rivals. One should pay attention to Signals and ignore the Noise.
- The Signals from President Trump include:
  - US supremacy (but not hegemony)
  - Lower taxes
  - Minimal involvement in wars
  - Executive power grab
  - Minimal government interference in business (light-touch regulation)
- The Noise coming from President Trump includes:
  - Immigration / deportation
  - Culture wars
  - Middle East policy hardline
- His close relationship with GCC leaders will most likely continue, but partly because of his policies, the oil price will likely remain under pressure for the foreseeable future.
- Demand for natural gas, however, has been turbo-charged by the Ukraine war and AI and will continue to remain robust for years if not decades to come, regardless of advances in renewable energy.

Key takeaways – CG workshop no. 15
"Risk Management for the Board of Directors and Conduct Risk"

- The cases of First Republic Bank and Silicon Valley Bank seem to suggest that banks are still taking too much liquidity and interest rate risks. A small increase in interest rates can significantly reduce the value of the mortgage portfolio and/or investment securities resulting in wiping out the equity.
- A bank can be solvent on paper, profitable, have high quality loan book and cheap deposits, and yet fail due to severely mismatched assets vs. liabilities. Over-reliance on short term deposits to finance long term assets can be fatal for a bank in an economic downturn or a financial crisis.
- Social media and digitalization have enabled a fundamental change by providing the reason (bad news, fake news or rumor) and the ability to depositors to move their funds from one bank to another in seconds. Not just genuine bad performance but even a rumor or fake news can trigger withdrawals in billions of dollars, leading to a bank run situation.
- Even a regulatory intervention, if it comes too late or is seen as too little, cannot help a bank in crisis. A US$ 30 billion cash infusion into the First Republic Bank could not save it from collapsing.
- Audit firms and rating agencies have consistently failed to reflect the deteriorating financial health of their clients in their reports before the event (it took a mere two weeks from a clean audit report to bank failure in case of Silicon Valley Bank). Depositors and shareholders are therefore on their own to safeguard their funds/investments and cannot rely on auditors, rating agencies or even regulators.
- In matters involving laws, regulations or ethics, it is preferable that one does not go near the line, let alone cross it.
- 'Doing the right thing' is paramount, even though one may feel alone at times and against the herd / trend.
- Recognizing our own weaknesses can itself become a source of strength.
- Banks' boards have to be more alert and assertive in setting the banks' risk appetite, and making sure the management (CEO, CFO, CRO in particular) abide by those risk limits. CEOs are by definition ambitious and therefore will always seek more risk in search of higher returns; it is the job of the directors collectively to monitor and control those ambitions.
- Ambition is one thing; hubris and arrogance is another. If one feels that the rules do not apply to them, they will eventually be in for a rude awakening.

Key takeaways – CG workshop no. 14
"A Refresher on Fiduciary Duties and AI & Corporate Governance"

- Fiduciary responsibility manifests itself clearly in the case of partnerships. According to a landmark US court case, "Joint adventurers owe to one another the duty of the finest loyalty. Many forms of conduct permissible in a workday world for those acting at arm's length are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the marketplace. Not honesty alone, but the punctilio of an honor the most sensitive is then the standard of behavior." This ruling laid the foundation for modern thinking about corporate governance. The ruling has traveled far beyond the US's borders and has found its way into some other countries' judicial rulings as well.

- A Board member does not represent a major or controlling shareholder (although he/she may have been appointed by them) but represents ALL shareholders.

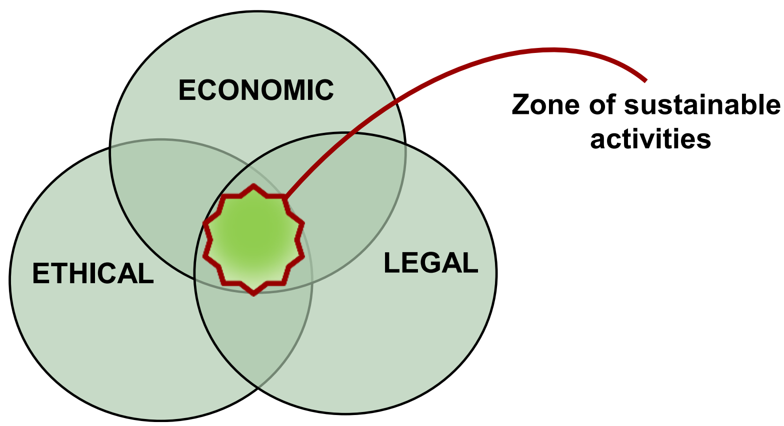
- Fiduciary duty is to the organization and its shareholders.

- There are three components of fiduciary duty:
  - Duty of care
    - exercise due diligence
    - do your homework
    - be attentive during meetings; commit your time
    - prohibition against acting uninformed; ask questions; do not agree on something without understanding it
  - Duty of (undivided) loyalty
    - put the company's interests first, ahead of your own; avoid conflict of interest and when unavoidable, declare it
    - corporate opportunity belongs to the corporation – not to the individual who sees the opportunity
    - fair dealings in transactions with the company
  - Duty of candor
    - Transparency
    - full disclosure of potential conflicts of interest
    - prohibition of insider trading
    - material facts and plans must be disclosed in public statements in a timely manner

- Directors must act on an informed basis, in good faith and in the best interests of the corporation and its shareholders.

- When the company is put up for sale, the Board has a duty to sell to the highest bidder.

- The triple lens framework below suggests that a Board member should approve an activity only if it makes economic sense, does not violate the law and is ethically defensible.



- With the advent of Artificial Intelligence (AI) there are new models emerging and new corporate governance issues arising. For example, the Open AI governance model which combines not-for-profit and for-profit structures raises the question, to whom does the not-for-profit entity Board owe its fiduciary duty (if at all)? The public? Humanity at large? What are the indicators to confirm that the Board is fulfilling its fiduciary duty towards the public/humanity at large?

Key takeaways – CG workshop no. 13
"Customer Centricity"

- To become a customer-centric company (vs. product-centric) the sales process should be transformed from a hard sell to a consultative sell.

- Companies can establish customer councils comprising of highly motivated and key customers, and this platform can become a source of collaborative product development; "we help customers plan their IT future, and they help us plan ours."

- Customer-centric businesses do five things:
    - They understand their customers in great depth and thoroughly understand the value the company offers to them;
    - Their business strategies and practices are aligned with the long term needs of their customers;
    - Their employees have been selected, trained and incentivized to put the customer at the heart of all that they do;
    - They measure success based on customer metrics; and
    - The company benefits when customers succeed (alignment of interests with the customers)

- Pursuing customer centricity makes economic sense when customers are willing to pay for high levels of customer service, products are commodities and service is needed for differentiation, and customer centricity is a unique competency in the competitive market.

- In a survey 84% of global executives reported that innovation was extremely important to their growth strategies… but a staggering 94% were dissatisfied with their organizations' innovation performance!

- Despite the big data revolution, innovation is still painfully hit-or-miss. Why?

- Most of the customer data that companies create is structured to show correlations, but not necessarily causation. Correlations are nice for understanding your customers, but they don't tell you what "job" your customer is trying "to get done" with your product.

- When we buy a product we are in fact "hiring" it to help us do a "job". If the job is done well, we tend to hire it again the next time. If the job is done badly we "fire" the product and look for an alternative. This is called the "jobs-to-be-done" theory.

- Successful innovators identify poorly performed jobs in customers' lives, and then design products, experiences and processes around those jobs.

- "Job" is shorthand for what an individual really seeks to accomplish in a given circumstance.

- Jobs are never simply about function – they have powerful social and emotional dimensions.

- Of the more than 20,000 new products evaluated by Nielsen's "Breakthrough Innovation" report, only 92 had sales of more than US$50 million in year one and sustained sales in year two. On the surface the list of hits might seem random but they do have one thing in common. According to Nielsen, every one of them nailed a poorly performed and very specific job to be done.

- To identify a job to be done, a company should ask these questions:
  - Do you have a job that needs to be done?
  - Where do you see non-consumption?
  - What workarounds have people invented?
  - What tasks do people want to avoid?
  - What surprising uses have customers invented for existing products?

- The final piece of the "Jobs" puzzle is processes – how the company integrates across functions to support the job to be done.

Key takeaways – CG workshop no. 12
"Timely Detection of Red Flags in Cases of Financial Fraud and Cyber Security"

- An investor or an analyst should be alert to possible red flags in the financials of a company and not take things at face value. Some of the more common red flags indicating possible fraud are as follows:
  - Lower interest income vs. competitors as a percentage of the cash on the balance sheet, indicating overstated cash balance
  - Large overdrafts / short term debt facilities in the presence of sizeable cash on the balance sheet
  - Unrealistically high profit margins vs. competitors that cannot be attributed to a superior business model or a competitive advantage (such as a unique software)
  - Excessively over-priced acquisitions
  - Acquisition of related parties at high multiples (especially if the related party status is not fully disclosed)
  - Understated liabilities, including undisclosed off-balance sheet financings
  - Use of complicated structures
  - Presence of unusual and innovative items in financial statements (e.g. customer relationships as an asset on the balance sheet)
  - Excessively over-paid Board members
  - Independent directors whose independence is questionable / who are conflicted
  - Excessive share selling by insiders

- Several factors can contribute to a financial / accounting fraud, including poor internal governance (e.g. absence of or an ineffective audit committee, a passive Board, etc.), a regulator protective of market players, an incompetent or relaxed auditor, financial analysts not sufficiently critical, market frenzy leading to an accepting attitude, etc.

- Income is an opinion; cash flow is fact.

- A clean audit is a must, but it is not enough!

- To mitigate the risks of cyber security a company needs to be fully prepared:
  - Keep crisis management procedures up to date
  - Rehearse crisis incidents
  - Upgrade equipment for detailed logging
  - Make a priority out of upgrading infrastructure
  - Make crisis expectation part of the company culture

- Management or Board cannot delegate the responsibility for important business issues just because they sound like "technology issues".

- IT Security is a risk management issue, with a cost-benefit tradeoff. However, there will always be risks and exposures to manage (many of them human).

- People are often the weakest link in a security chain.

Key takeaways – CG workshop no. 11
"Whistleblowing, Responsibilities to the Customer and the Purpose of the Corporation"

- To avoid a situation where an employee is forced to blow the whistle, listen to what your people are saying; if you don't take their concerns seriously, they will.

- Make sure your whistle-blowing policy doesn't just deal with "How to blow the whistle" and "Whistle-blower protections", but also with what should happen after the whistle has been blown.

- Don't just rely on having a thorough whistle-blowing policy; create a culture that encourages choosing the right course of action and reward such behavior.

- If an allegation comes in over the whistle-blowing "line" that, if true, could have serious consequences, then think twice before having the inside team investigate it. If the allegation is serious, the inside team may have a difficult time being truly independent.

- It is only human nature to try to cover up in order to save oneself ("if we accept there was an internal control weakness it means repercussions for everyone – so denial is better"). Hence there may be a very good reason to have an external party conduct an investigation.

- A Board member has a fiduciary duty towards the institution and its shareholders/stakeholders, which means a duty of care, candor and loyalty.

- Duty of care demands of a Board member to:
    - Always be prepared
    - Do your homework
    - Read your Board package
    - Be alert
    - Ask questions
    - Attend all meetings, in person and in spirit
    - Do not act while uninformed / unconvinced

- Duty of candor requires:
    - Always be honest – with your Board, shareholders and regulator
    - Make full disclosure
    - Remember that bad news travels faster than good news

- Duty of loyalty means:
    - Always put the interest of the organization ahead of your own
    - No self-dealing
    - Any related party transactions must be fully disclosed, done at arm's length and approved by disinterested (non-conflicted) directors
    - Avoid to the greatest extent possible any conflicts of interest
    - Remember that shareholders' trust has to be earned (and retained) by the Board

- There are obligations towards the customer, such as:
    - Truth in labeling your product
    - Truth in advertising
    - Prohibition of selling harmful products
    - Fraud prohibitions

- In an age of hyper media presence ethical considerations are no longer an option but a must, in order to sustain long term reputation, relationships and business.

- Pressures to deceive are pervasive, and we need to be prepared to be confronted by difficult moral decisions.

- Given the global populist mood and demonization of big business it is likely that new grounds will be broken regarding business's responsibilities towards customers.

- Businesses, and especially financial institutions, need to regain the lost trust of the society by going beyond the normal call of duty. Fulfilling merely the legal responsibilities is no longer enough.

- Remember the triple lens; only those activities should be undertaken that pass through all three lenses - economically profitable, legally allowed and ethically defensible.

- The Business Roundtable, an influential group of the largest US companies, has come up with a stakeholder (vs. shareholder) focused purpose of the corporation. It calls for companies to serve all the stakeholders by delivering:
    - Value to customers
    - Investing in employees
    - Dealing fairly with suppliers
    - Supporting the communities in which companies operate
    - Protecting the environment; and
    - Generating long term value for shareholders

- Both the shareholder and the stakeholder centric models converge in the long term:
    - Can you consistently create shareholder value without taking good care of your customers?
    - Can you abuse your employees and still create long-term shareholder value?
    - Can you continue to harm the environment or show apathy towards the community you do business in and avoid adverse consequences?

- Because of short term pressures it becomes critically important to consciously look at the world through the stakeholder lens, rather than the shareholder-only lens.

Key takeaways – CG workshop no. 10
"The Fraud Triangle, M&A Structuring, Strategy and Disruption"

- Highly successful people are susceptible to violate the trust posed in them when they:
  - …conceive of themselves as having a problem which is non-shareable (pressure)
  - …are aware that this problem can be secretly resolved by violating the position of financial trust (opportunity)
  - …are able to justify their behavior to themselves using various excuses (rationalization)

- According to the academic Cressey the three factors (pressure, opportunity and rationalization) must be present at the same time in order for an ordinary person to commit fraud.

- The pressure to be seen as successful and to match the success of the peer group is a strong motivator to contemplate wrongdoing.

- If a person thinks that he can abuse his position of trust to solve his financial problem with a low perceived risk of getting caught, he is more likely to commit fraud. Weak controls and a weak governance environment therefore increase the chance of wrongdoing.

- Majority of high-profile fraudsters are first time offenders who do not view themselves as criminals but honest people who are caught in bad circumstances. They justify the crime to their conscience through various excuses (e.g. I was only borrowing the money; I was underpaid and I was entitled to this amount; I had to do it for my family, etc.).

- What can a board do to pre-empt such fraudulent behavior? What are some early signals?
  - Watch the CEO and senior executives if they are living beyond their means;
  - Watch for unbearable pressure created by unrealistic KPIs;
  - Adopt best in class governance practices, even beyond what is required by the regulator;
  - Look for rationalizing attitudes, e.g. "I deserve more", "I am grossly underpaid", "My employer is always taking advantage of me"

- In a merger / acquisition situation it is important to align the interests of both sets of shareholders.

- Share swap is a common method to combine entities in a merger situation vs. cash in an acquisition scenario.

- In a cash transaction the buyer (acquirer) has to take all the possible down-side risk while in a share swap both the parties take risk on the performance post-merger.

- Successful M&As are typically always based on cost synergies (which are controllable); it is not advisable to price transactions based on revenue synergies (which are not controllable and highly uncertain).

- Mergers are like a pot of gold which is only accessible if both the sets of shareholders come together and divide it between them in a fair manner. If one party demands unrealistic pricing or tries to take undue advantage it does not work for either party.

- Failure to detect paradigm shifts in the business environment and tweaking strategy accordingly may lead to loss of market share or even bankruptcy.

- Look for disruptive technologies within your line of business; disrupt yourself before others disrupt you.

- Understand your own business, sources of profitability and vulnerabilities to disruptions such as Fintech innovations.

- Partnering up with innovators may be an effective way to cope in the emerging business environment.

- Since customer expectations are primarily driving disruption, it is crucial to remain close to customers and anticipate what they want.

Key takeaways – CG workshop no. 9
"Culture, Compensation Design and Conduct Risk – How Interconnected Are They?"

- Key Performance Indicators (KPIs) are a result of the strategic planning exercise. KPIs should always map to strategic objectives of the company.

- It is best to keep the KPIs simple, to the extent possible.

- A person should be held accountable only for factors that are within his/her control. If the cause and effect relationship is not well established it is counterproductive to include the factor in their KPIs.

- To choose the right KPIs three criteria must be kept in mind:
    - Alignment with strategy
    - Measurability
    - Linkage to value

- Three common problems while designing performance measurement systems are:
    - Controllability
    - Alignment (of all stakeholders' interests)
    - Interdependency (team performance vs. an individual's contribution)

- Compliance with legal and regulatory requirements is a pre-requisite and cannot be compromised, no matter how good the financial performance may be.

- Reputational damage as a consequence of misconduct is far more serious than financial loss (e.g. due to penalties and fines). It does not make good business sense for companies to take this risk.

- Non-financial considerations relating to conduct should be integrated in a balanced way to performance assessment and compensation.

- Compensation policies and procedures should be transparent, consistent and fair in order to promote clear expectations and accountability for conduct.

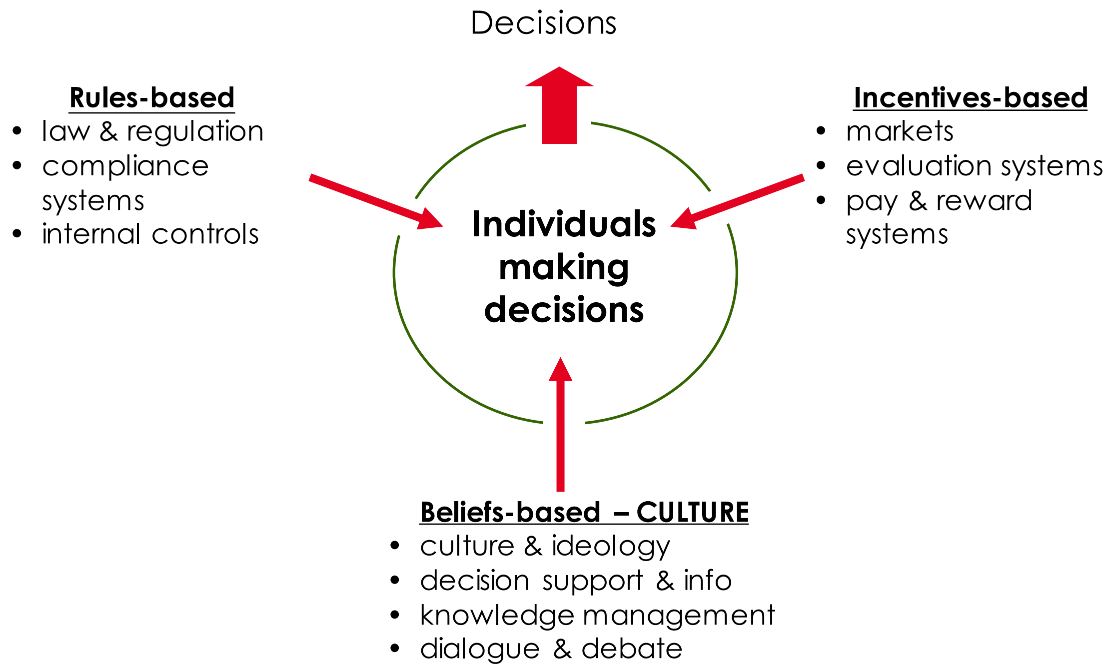
- The consequences of misconduct risk may take years to materialize; companies should structure the compensation incentives to account for this long timeframe (e.g. through clawback).

- Sound governance, robust risk management frameworks and adequate involvement by control functions including human resources in compensation design and decision-making are critical to the effectiveness of compensation incentives in addressing misconduct risk.

- The ultimate responsibility for ensuring accountability for misconduct lies with the Board of directors. The Board should oversee and senior management should implement a compensation system designed to promote ethical behavior.

- Make it explicit to the employees what values / behavior / culture you expect of them.

- How leaders shape behavior? The following diagram explains the dynamics:



Key takeaways – CG workshop no. 8
"How Independent are Independent Directors?"

- Independence is essentially a state of mind, but the importance of structures and incentives cannot be ignored. If an independent director is paid in equity then his independence can be compromised.
- If a person is an independent director on the parent company's Board he may be nominated as independent director for its subsidiary's Board, but not its associates. Nevertheless, it is not a clear-cut situation.
- When a CEO nominates his father's best friend as Chairman of the company or his own best friend, he may not be breaching any law or regulation but the nominees may not be considered as truly independent.
- Regulators may need to place a ceiling on the number of years a person can remain as an independent Board member of a company. To be more effective companies may use a search firm to look for independent directors.
- Independent directors should not be afraid of asking tough questions especially when there is a whiff of self-dealing or when the CEO's or CFO's actions raise questions about their duty of loyalty.
- It is important to design the CEO's performance incentives (Key Performance Indicators) correctly and carefully in order to elicit the kind of behavior that the Board wants to encourage. People do what you pay them to do.
- To be effective on a Board the independent director needs to build rapport and form alliances with other Board members (remember Warren Buffet's quote – 'Boards are 50% business enterprises and 50% social clubs').
- The job of an independent director becomes more difficult if other directors are conflicted or do not fully appreciate what is going on (due to lack of understanding of the business).
- The independent director should reassess whether he/she wants to remain in the Board in certain situations, e.g. overly defensive CEO while the other Board members are overly protective or accept management viewpoint unquestioningly.
- An independent director must be clear in his mind about his reasons to join a Board, what he is willing to do and what he is not willing to do.
- Regulators may consider taking a more proactive role to increase the effectiveness of independent directors.

- Diversity of opinions, backgrounds and perspectives on a Board is a very welcome thing and should always be encouraged.

- Board members must remember their duties of candor, care and loyalty – always make full disclosures, always be informed, always put the company's interest first.

- When a company becomes insolvent or approaches the "zone of insolvency" the directors need to prioritize the creditors' interests ahead of the shareholders'.

- Boards can rely on the management for facts, but they are entitled to question the management's judgment.

Key takeaways – CG workshop no. 7
"Shareholder Engagement – How to Tackle Shareholder Activism?"

- As a director, regardless of who nominated you or how you got elected, your fiduciary duty is to the company and all its shareholders.
- When the interest of one group of shareholders conflicts with those of another, the directors are to look after the interest of the company.
- Conflicted directors must abstain from voting on related-party transactions.
- Shareholder activism is a trend that is not going away.
- Board composition is one of many considerations when determining your vulnerability to activist attacks. A weak board, with unsophisticated members, is more likely to be seen as vulnerable and beatable.
- Social media makes it easier to reach a large number of shareholders to win a proxy fight.
- Successful performance, both operating and financial, is your best defense.
- Credibility with shareholders is not gained overnight. Long-term shareholder engagement is an absolute must if your shareholders are to be expected to support you in a crunch.
- Investor relations is now a board job. Active shareholder and stakeholder engagement is the responsibility of the board.
- Board relationships with management must become more transparent.
- Entrenched boards are vulnerable and not sustainable.
- Create shareholder value, or risk being thrown out.
- Trust is a key ingredient – and cannot be won during a crisis.
- Listen to your shareholders; if your strategy is not working, you may need to change course and / or bring in new blood.
- Boards should ask advisors to notify them of potential conflicts. While such conflicts may be unavoidable, boards should be vigilant about identifying and managing conflicts.
- When your regulator does not regulate you…regulate yourself. This is one of the many important roles of the board.

Key takeaways – CG workshop no. 6
"Robust Regulatory Compliance in Today's Increasingly Complex and Demanding Environment"

- Bank boards have multiple constituents, and multiple lenses through which to view the world…shareholders, customers, staff and the public, to name the most obvious ones. In times of crisis, regulators will focus on protecting the public, and financial stability will be paramount.

- Banks and their boards must consider three aspects of every decision they make – economic, legal and ethical. Regulators will hold them to the highest standards of each.

- There are always gaps between what goes on in the boardroom and the reality in the field. When the gap becomes a full-fledged "disconnect", boards can and will get in trouble.

- Boards have a responsibility to gauge the extent to which their directives are being ignored, or worse, disregarded, in the field. This is more difficult in large organizations.

- Boards need to be on the constant look out for "Red Flags". When board members see such red flags, or when they "smell a rat", "niceties" need to take a back seat. Board members need to be relentless in seeking and getting answers to their questions.

- According to Warren Buffet the boards are 50% "Business Entities" and 50% "Social Clubs". When you see violations of senior management's duties of candor, care or loyalty, the "Social Club" aspect of the board needs to take a back seat.

- Best corporate governance practices might be a necessary condition to make boards great, but it is certainly not sufficient. The key is not structural, it is social. Board members have to be comfortable with each other socially and develop a chemistry among themselves in order to function as a board effectively.

- While banks are by no means expected to run the clients' business, they really cannot afford to look the other way if they become aware of fraudulent activities.

- To build an effective board:
    - Create a climate of trust and candor – board members should be comfortable sharing difficult information with each other.
    - Foster a culture of open dissent – board members should have the capacity and willingness to challenge one another's assumptions and beliefs without losing respect for each other.
    - Utilize a fluid portfolio of roles – no one should be pigeon-holed to their respective role only; people should be allowed the freedom to question about areas outside of their domain.
    - Ensure individual accountability.
    - Evaluate the board's performance.

- Lessons from the ex-CFO of Enron (in his own words):
    - It is easy to justify unethical, materially misleading behavior by saying, 'I'm following the rules.'
    - If I could sum it up in one word, I would use the word 'loophole'. My title should not have been 'Chief Financial Officer'; it should have been 'Chief Loophole Officer'.
    - Very often, executives and directors don't see the problem with their decisions – they rationalize.
    - Finally, I thought, '[The deals have] been approved. I don't have to think about it.'
    - When I was at Enron, it never even dawned upon me that I might be committing fraud.

Key takeaways – CG workshop no. 5
"Business Strategy, Ethics, Employee Behavior and Corporate Culture"

- The Board has a duty to ask questions even when it comes to technical issues such as accounting treatment. Incorrect reporting of financial results can create a crisis for the organization especially if it is publicly listed.
- Do not combine high operating leverage with high financial leverage; it reduces the margin of error and can potentially lead to bankruptcy if market conditions turn negative.
- Organizations can improve the behavior of their employees by clearly defining and communicating institutional values and training.
- Since people follow their leaders it is important that proper tone is set at the top, starting from the Board. The importance of role models cannot be over-emphasized.
- One has to be careful with slippery slopes – incremental steps into decline and decadence. It is important to draw the line early and remain steadfast.
- Organizations should invest in training. It gives people a chance to rehearse and be prepared for situations involving tough ethical choices.
- Assign responsibility and hold people accountable. Make it clear what is expected of each member of the team.
- Encourage a vigorous and candid debate during the decision making process; a healthy debate will always lead to a better outcome.
- Culture cannot be bought or hired; it can only be created. Use incentive mechanism to reward good behavior and discourage unwanted behavior.
- Be sensitive to the type of work environment and culture you create. Happy employees are more loyal and productive.
- Key Performance Indicators (KPIs) should never be developed in a vacuum but should be set as a result of a serious strategic planning exercise, with the buy-in of the entire organization and especially heads of departments.
- Incentives matter. If your value expectations are not reflected in the incentive mechanism (KPIs) for your employees they will behave in line with the latter.
- Pre-crisis planning is essential to prepare the organization for a crisis situation; the management should know when to shift from business as usual to crisis mode.

Key takeaways – CG workshop no. 4
"The Board's Responsibilities for Oversight and Proper Disclosure"

- The Board of Directors of a financial institution has a fundamental duty of care, candor and loyalty. The Board should challenge the management, question the experts on their assumptions (common sense check) and be careful in their public announcements in order not to mislead the investors and the general public.

- An active media in the digital age has put new pressures on institutions; they are expected to comply with the standards of tomorrow, not of today or yesterday.

- Make sure you agree with the minutes of the meeting, and if you don't support a decision then have your disagreement documented in the minutes.

- Spend quality time in dispensation of your duties as a Board member. High impact boards spend an average of 40 days a year on being actively engaged vs. 19 days for low/moderate impact boards.

Key takeaways – CG workshop no. 3
"The Board's Oversight Role with High Powered CEO and When Things Get Technical"

- A high-powered CEO requires a strong, independent and vigilant board. While such CEO is deserving of respect and deference, no one should be offered imperial treatment. The Board must be just as vigilant and engaged as it would be with an ordinary CEO. Additionally, if you have a super star CEO, make sure you have a super star Board as well.

- A lead director should take ownership of Board process and pay particular attention to hard and soft conflicts of interest.

- Should a CEO also be a member of the Board? Preferably yes but the key point is, how he is perceived by the management when he is part of the Board vs. when he is not.

- Boards (especially of listed institutions) should ensure that CEO compensation packages are well understood and well communicated in order to avoid a public backlash later on.

- Compensation plan should neither be too simple nor too complex. It should be designed primarily to motivate future performance. Compensation criteria must be within the control of the person being compensated.

- Board Members do not represent a segment of shareholders; they represent the interests of all shareholders and they must behave as such. Conflicted directors must be careful to disclose their conflicts and abstain from self-dealing.

- Committees play an important role in the governance function – the Board needs to ensure that they are properly staffed, have adequate resources, and that they are fulfilling their duties effectively.

- Bank culture is greatly influenced by the actions of the Board, particularly through its role in setting performance targets and incentives. People do what you pay them to do.

- Good organizations establish an internally consistent and mutually reinforcing set of People, Culture and Incentives. Alignment in these areas does not replace the need for adequate oversight and direction, but increases the likelihood that individuals will act in a desirable manner, consistent with the organization's core values.

- Only the Board can and should set the organization's risk appetite and impose limits; such limits should not be changed "on-demand" or without appropriate analysis and thoughtful understanding of risks.

- Beware of these common red flags: (a) The slippery slope (first, a large leveraged bet, then, a small increase in risk limits, then, more increases in risk limits). (b) Excessive pride. (c) Absence of checks and balances. (d) Change in accounting treatment. (e) Unheard voices of doubt.

- Accounting rules leave room for judgment and managerial discretion. The Board and its committees need to be involved in exercising this judgment. Board and/or its audit committee should question the external auditors without management presence.

- Audit committee members have a particular duty to be thoroughly informed and to ask many questions, particularly when asked to approve technically challenging accounting treatments.

- One should remember the following accounting lesson: Financial statements are where companies go to hide their "rats". If there are no signs of rats, there are a few. If you smell a rat, the ship is infested. If you see a rat, the ship is sinking!

- A Board Member must understand the implications of a decision he/she is voting on. If he doesn't understand he should not vote on it.

- A Board Member should spend time to understand the key issues, ask questions, rely on his/her instincts, go against the tide and speak his/her mind.

- There is no shame in asking questions. If a Board operates in an environment where the Chairman or the CEO shames the Board Members for asking questions, such Chairman/CEO should be asked to leave.

- A well-defined process to arrive at a Board decision is the best insurance policy for a successful Board. The legal system will judge you on the soundness of the process you undertook.
- Being fully informed requires active engagement, following up on red flags, understanding and challenging assumptions, and ensuring the Board is constantly on high alert.

- The best insurance against crossing the ethical divide is a roomful of sceptics. CEOs must actively encourage dissent among senior managers by creating decision-making processes, reporting relationships and incentives that encourage opposing viewpoints.

- Compliance with legal standards and regulatory requirements is critically important, but it is not sufficient – Boards are increasingly being judged on the ethical standards of tomorrow, not of yesterday and not even of today. The Board and its committees need to exercise their judgment and careful oversight. Do not view a successful audit or approval from external legal counsel as an endorsement of the soundness of your financial practices.

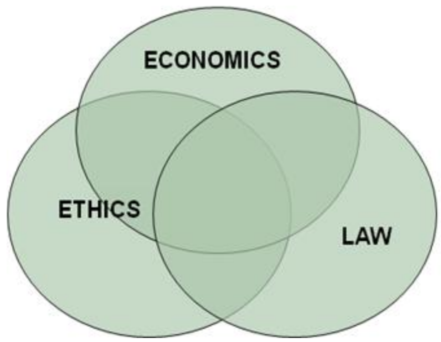
- When your regulator doesn't regulate you, regulate yourself.

- A sound value system, strong independent voices on the board, and a vigorous idea exchange among the Board Members and their advisers are the best guarantee of sound decision-making.

Key takeaways – CG workshop no. 1 & 2
"Corporate Governance – To Whom Do We Owe Responsibility and the Nature of This Responsibility"

- Directors and CEOs have a fiduciary duty to their investors, customers, employees and the general public, which demands loyalty, care and candor of the highest order.

- Business owners need to carefully consider three dimensions before making any decision – Economic, Legal and Ethical. They can no longer afford to ignore the ethical dimension, which has gained increasing importance in recent times with innovation outstripping law, higher technical complexity leading to grey areas and the rise of media power.



- The above is true for all businesses but even more so in case of Islamic banks that have to fulfill the additional requirements of Shari'a compliance and governance.

- The Board is the nerve center of corporate governance – but it isn't alone. It can and should be supported by internal and external governance centers such as internal audit and compliance.

- Board members should be prepared to give their judgment on matters which may not be black or white. Exercising sound judgment while fulfilling the duties of loyalty, care and candor is the best protection for board members and senior management.

- Board members should:
    - be serious about their role as director
    - do their homework prior to the meetings
    - pay attention in the meetings
    - not be afraid to ask a lot of questions, especially the "what if" questions
    - have the courage to go against group dynamics
    - get a consultant if assistance is needed on technical matters
    - disclose any real or perceived conflicts of interest and abstain from self-dealing (in Bahrain the Commercial Company Law addresses this matter extensively), and
    - be ready to own up the decisions instead of shifting the responsibility to other members or committees

- Every board – even of controlled companies – needs strong independent directors

- It is not only proper to ask questions and disagree with others in a board meeting, it is a must for better understanding of key issues and exercising sound judgment.

- Exercising sound judgment while fulfilling the duties of loyalty, care and candor is the best protection for board members and senior management.