

Opinion

A 21st century model based on principles, not rules

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Organisations must adapt their governance approach to retain a good reputation in the face of increasingly pervasive scrutiny, especially in the rules-based GCC

“Tick-the-box’ and rules-based approaches to governance are no longer adequate for any organisation - be it a government, a publicly-traded or privately-owned corporation, a state-owned entity, a multi-lateral institution or a charity. The success of every organisation increasingly correlates directly to its reputation among its stakeholders. In order to remain in good standing, an organisation needs to transform its approach to governance to one based on transparency, accountability, evidence of effectiveness and adaptability - what we call ‘principles-based’ governance.

This need for principles-based governance is fuelled by the pervasive public scrutiny of organisations, a trend that will only increase with advances in social media and technology. There are precious few remaining “dark corners” in which any organisation can operate. The manner in which government acts and business is transacted has been, and will be, transformed. Every organisation’s approach to governance, increasingly, will determine the organisation’s value.



Looked at through a traditional business lens, a country with poor governance is likely to experience ‘capital flight’ to jurisdictions with better governance. Indeed, good governance is often a pre-requisite for participating in international markets. A company in which investors lack confidence in the quality of disclosure and reporting standards is likely to struggle to secure needed financing.

A central purpose of governance is to ensure that those in power are accountable to those whose interests they represent. A principles-based governance framework helps ensure open and effective communication to investors and other stakeholders. This safeguards an organisation’s reputation, and can avert the organisation’s failure.

Many organisations already profess that their good reputations are what attract and retain their best employees. Organisations that implement principles-based governance frameworks are able to set, and monitor, the standards of governance for themselves, their subsidiaries and portfolio companies, and to raise the standards of governance in the sectors in which they operate. This fosters trust within, and of, the organisation. A principles-based governance framework will also generate evidence of effectiveness to quell controversy, and be highly adaptable to respond quickly to emerging risks, and deliver in challenging environments.

Principles-based governance goes far beyond mechanics such as board composition and the frequency of committee meetings. It encompasses risk management, business lines and strategies, board effectiveness, compliance, and engagement with the full range of stakeholder groups. Governance must be woven through every aspect of an organisation, including its culture, people and its public face.

When governance is applied as a box-ticking exercise in the current environment it often fails. Regulation in the GCC remains rules-based. As a result, organisations often approach governance as a process of complying strictly with rules rather than considering governance from a wider stakeholder-based perspective. This is a high risk approach. Instead, organisations need to instil governance principles that embody the spirit of the rules. In other words, the principles should inform efforts to comply with the rules so that compliance is about satisfying the spirit of the underlying regulatory objective, not merely the letter.

It is with this ambition in mind that we became a partner company of the Pearl Initiative. The Pearl Initiative is a UN-backed not-for-profit organisation working across the Gulf region to influence and improve corporate accountability and transparency. Our hope is that, by working with the Pearl Initiative’s growing network of business leaders, we can make a contribution towards the adoption by the regional business community of appropriate standards in areas such as corporate governance, anti-corruption, codes of conduct, integrity and reporting. Principles-based governance serves as a flexible guide for companies to set the appropriate practices and controls that are generated from within, without simply deferring to formal regulations, law or codes. This leads to an enhanced reputation for the organisation in the wider stakeholder group, and will go a long way to ensuring success.

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