2009

GCC BOARD DIRECTORS INSTITUTE

Building Better Boards

A review of board effectiveness in the Gulf

Produced by McKinsey and Company on behalf of the GCC Board Directors Institute.

This is a group photo of the attendees from the third workshop of the GCC Board Directors Institute, hosted by Emirates NBD in Bab Al Shams, Dubai – April 2008.

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FOREWORD

There has never been a more opportune time to talk about board effectiveness in the Gulf Co-operation Council (GCC) region (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The unprecedented challenges and opportunities facing the region highlight needs for strong corporate governance and, in particular, the importance of effective boards.

The GCC Board Directors Institute (BDI) was established in 2007 as a not-for-profit initiative with the goal of improving board effectiveness in the region. The Institute's primary objective is to make a positive impact on the economies and societies of the region by promoting professional directorship and raising the level of board effectiveness. BDI has four main focus areas:

- Develop the capabilities of senior GCC board members who will then act as role models for other directors;
- Create a regional network of board members by facilitating networking between regional board members, professional advisors, senior executives and regulatory experts;
- Disseminate high quality governance knowledge by developing proprietary regional board governance content and sharing best practices;
- Move corporate governance higher on the region's agenda and build greater awareness of the importance of corporate and board governance.

At the core of the BDI development programmes is the Senior Director Workshop where board members discuss current issues and challenges that boards in the GCC are facing. The board members that have attended workshops so far sit on more than 100 boards across the region, including the boards of: Emirates NBD, DUBAL, Emaar, SABIC, Saudi Aramco, Saudi Telecom, Savola, Samba, Investcorp, KPC, NBK, Batelco and Gulf Air.

BDI has been created in close collaboration with five leading regional corporations: Emirates NBD, Investcorp, SABIC, Saudi Aramco and Zain; and four leading advisory firms: Allen & Overy, Heidrick & Struggles, McKinsey & Company and PricewaterhouseCoopers. It is also supported by regional regulators including: the Central Bank of Bahrain, the Capital Market Authorities of Saudi Arabia and Oman, Securities and Commodities Authority of UAE and Qatar Financial Centre Regulatory Authority.

In producing BDI's first report on board effectiveness in the region, the authors combined analyses of the "hard facts" – the structure of boards in the GCC today – with a survey of board member opinions on the various dimensions of effectiveness. This provides a unique overview of the previously closed world of the GCC boardroom.

The opportunity to improve board effectiveness identified by BDI's founders was confirmed by the report's findings. There is a strong consensus that boards in the region are capable of becoming much more effective than they currently are – 85 per cent of the respondents agreed or strongly agreed that boards in the GCC had the scope to achieve greater effectiveness. This report explores some of the barriers to greater effectiveness and suggests ways in which to overcome them.

We hope that you will enjoy the report and we look forward to your involvement in the ongoing efforts that BDI is making to improve the effectiveness of boards in the region.

GCC BDI BOARD OF GOVERNORS

Abdullatif Al-Othman	Saudi Aramco
H.E. Ahmed Al Tayer	Emirates NBD
Ayman Haddad	Heidrick & Struggles
Gary Long	Investcorp
Khalid Garousha	Allen & Overy
Laurent Nordin	McKinsey & Company
Michael Stevenson	PricewaterhouseCoopers
Mutlaq Al-Morished	SABIC
Dr. Saad Al-Barrak	ZAIN

EXECUTIVE SUMMARY

THE IMPORTANCE OF BOARD EFFECTIVENESS IN THE GCC

The economies of the GCC countries are developing at an unprecedented pace. Both foreign and local investments are growing swiftly and the connectedness between the region's markets and global markets is increasing rapidly — all this against a backdrop of increased global uncertainty.

The capital markets of the region are experiencing steady development, with an increasing number of government and family-owned businesses looking to become publicly-traded.

In this investment climate, boards are under greater scrutiny and face new pressures to perform. They also face business challenges for which there is no training, especially given that the ambition of some regional companies is without precedent. Considering the amount of wealth being created in the region (even with hydrocarbon prices off their peaks of early 2008), the importance for boards to act as stewards of the region's future prosperity is paramount.

The increased personal and collective risk and responsibility further reinforce the need for boards to perform their duties effectively.

THE PURPOSE OF THIS REPORT

BDI has in this report provided a perspective for board members, investors, advisors and governments on the overall level of board effectiveness today, as well as the opportunities for improving and overcoming the barriers preventing these opportunities from being realized.

Starting with an assessment of common practices of board composition, structure and processes, BDI's research team studied the top 200 publicly-listed companies in the GCC through annual reports and other publicly available information. It quickly became apparent that the disclosure and transparency levels of most of these companies was low compared to standards observed in Europe, the US or Asia. There was a need to go deeper.

The BDI team surveyed board members to understand the current state of affairs regarding board effectiveness. More than 100 of the most prominent chairmen and board members in the region responded with informative views and perspectives, which shed new light on the issues at hand.

KEY FINDINGS

Improving board composition and developing the capabilities of directors are the two most critical levers in transforming board effectiveness. The research revealed agreement among board members that formal training is a vital ingredient in improving the ability of corporate boards to engage on the right topics with management. In particular, board member awareness of the dynamics of their industries, specific functional challenges facing their businesses (for example, the management of talent in a very competitive market) and awareness of core governance principles were all cited as areas of needed focus.

Board members also struggle because they do not have enough time to dedicate to their board roles. Many of the surveyed directors hold numerous board and executive positions, which leave them overextended and unable to dedicate sufficient time to all of their board responsibilities.

Furthermore, **the majority of board members surveyed recognized a lack of international expertise in GCC board rooms.** There is an almost universal agreement that the presence of more board members from outside the GCC would add significant value. Currently, less than 3 per cent of those serving on GCC boards are from outside the region. Attracting talented directors, especially non-nationals, may require boards, particularly in Saudi Arabia and Kuwait, to review their remuneration packages. Today, these packages are far lower than European averages and lower than the averages of other GCC countries such as Qatar, UAE and Bahrain.

It is common wisdom that roles and accountabilities of directors need to be clearly defined and split from those of management and shareholders. **In the GCC, issues are also raised about the roles of directors in representing all shareholders, without unduly focusing on the shareholder who nominated them.** Based on global consensus of best practices, independent directors should exceed 50 per cent of the board. Although data on the independence of directors in the region is scarce, BDI survey respondents estimate the share of independent directors to be less than 45 per cent in the region.

When it comes to the structure of GCC boards, one of the main issues observed in the region is the limited use of board committees. Effective boards in the rest of the world typically make use of specialized committees to enable the board to focus its time on critical topics. In the GCC, many companies do not maintain what are the most common committees in other regions: audit, remuneration and nomination.

One of the more common practices of boards in the region is the use of the executive committee of the board consisting of a subset of board members. Typically, this committee is convened when there is a board composed of more than nine members and, according to survey participants, it often fulfils many of the regular tasks of the board. The presence of this committee may be an effective reaction to an unwieldy board, or potentially to less productive board members, but it is not a long-term solution to the challenges at hand.

There is a strong consensus that corporate boards need to spend more time on their core roles. A high percentage of directors expressed a strong desire to spend more time discussing strategy, risk and talent management. Board members attending BDI workshops have described their experiences with annual board sessions set in a remote location on the long-term strategy of the company as very positive. On risk management, there is a widely held view that the board should establish a clear profile of the major risks facing the company and their impact on cash-flows. On talent management, a clear succession plan for top management is considered by the majority of board members as essential – even though many companies do not do it systematically. Valuable time and resources are wasted when many routine approvals are sent to the board, as this could be better handled by management. Therefore, it is important for boards to separate and clarify what the approval limits for the board and management are.

A frequently cited enabler of board effectiveness is the improvement of board meeting dynamics, which many board members cited as a current hurdle to reaching more effective and efficient board decisions. Board members also agree that improvement is needed around the quality of information provided to the board, the level of preparation of board members, and the overall level of engagement in board meetings. Specifically, the majority of board members surveyed want to receive more preparatory information on company strategy, as well as organization and industry trends. It is the role of the chairman of the board to ensure all board members are actively engaged in meetings and they voice their opinions clearly as part of their duties to protect the interests of all stakeholders.

A formalized evaluation process for GCC boards is largely absent even though the overwhelming majority of respondents believe instituting such a process would be a critical step in helping improve board performance. A majority of those surveyed believe board evaluation needs to focus both on the performance of the board as a team, and the performance of individual directors.

CONCLUSIONS AND RECOMMENDATIONS

In summary, we see ten priority improvement areas for boards in the region.

1. Focus the attention of board members by reducing the number of boards on which individual directors serve.
2. Invest substantially in the development of board members, especially newer ones.
3. Attract international board members to bring complementary skills and experiences to the boardroom.
4. Clarify from day one the roles of all groups involved with the governance of the company (including the board, management and the wider shareholder and stakeholder communities).
5. Appoint strong core committees on each board (audit, nomination, remuneration) and ensure their mandate is clear and composition is appropriate.
6. Revisit the need for and the role of the executive committee of the board.
7. Spend more time in the board agenda on strategy, talent and risk management.
8. Re-think approval limits of management to lighten the burden on the board to approve relatively small transactions.
9. Ensure all board members are actively engaged in meetings through the role of the chairman.
10. Put in place an evaluation process for the board as a whole and, in time, for individual members.








INTRODUCTION: THE INCREASING IMPORTANCE OF BOARD EFFECTIVENESS IN THE GCC

There are, in our view, three main drivers of increasing importance of board effectiveness in the GCC. These are: the unprecedented growth in the region; changes to the structure of corporate ownership; and finally, increasing participation of regional companies in global markets.

"While board effectiveness has always been important for performance and for the interest of shareholders, it has perhaps never been more important than right here, right now."

Abdallah S. Jum'ah
President, Director and CEO,
Saudi Aramco

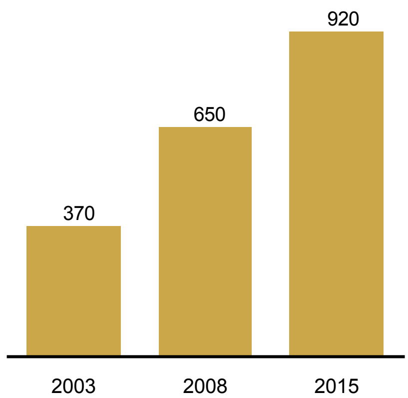
UNPRECEDENTED GROWTH OF THE REGION

Nominal GDP in the region doubled from US$333 billion in 2001 to US$702 billion in 2007. Forecasts for 2008 put aggregate GDP at over US$970 billion. Had the GCC countries been a single economy in 2006, their total economic output would have made them the 16th largest economy in the world, up from 19th a decade earlier. Despite the looming global slowdown, relatively speaking, the region will likely continue to outpace the growth of the majority of the developed world in the decade to come.

The region's growth is reflected in a massive increase in the number of required board directors in the region. It is estimated that there will be almost 1,000 public companies in the region by 2015, which means there will be more than 10,000 board members – nearly double the amount today (this number excludes directors in family-owned businesses, not-for-profit and government companies).

Exhibit 1 – The number of board members doubles in the next 7 years

Estimated number of publicly-listed companies and directors



Estimated number of directors	**2,600**	**4,700**	**10,000**

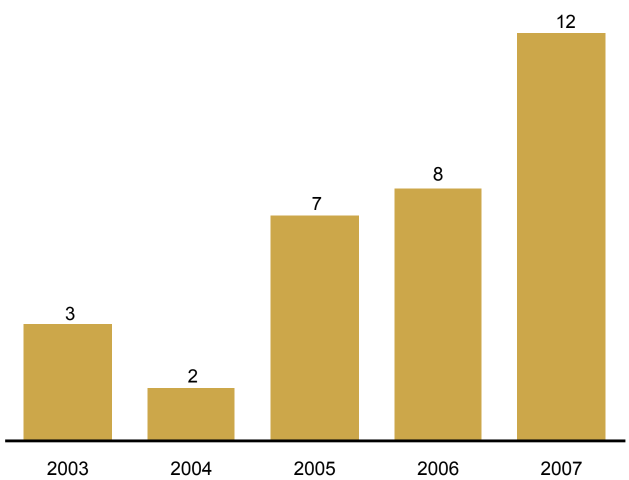
Source: GCC Board Directors Institute, Zawya 2008

CHANGES TO THE STRUCTURE OF CORPORATE OWNERSHIP

Against the backdrop of rapid growth is the profound change taking place in the structure of ownership in most sectors in the region. GCC capital markets have experienced rapid growth, driven by the increased value of existing equity and the creation of significant new equity as a number of government-owned and private joint-stock companies have become publicly-traded corporations. The total value of Initial Public Offerings (IPOs) in 2007 was US$12 billion – a 50 per cent increase over the previous year and a more than 600 per cent increase since 2004.

Exhibit 2 – Increasing IPOs in the region

IPO offerings in the GCC, $ Billion



Source: GCC Board Directors Institute

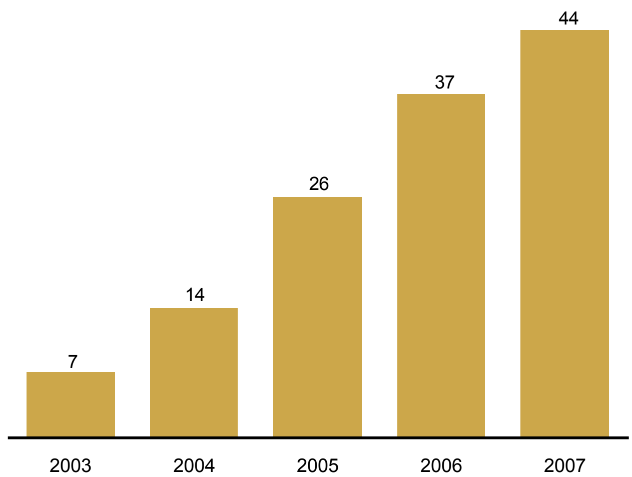
Although market capitalizations have declined recently in line with the fall in global equities, the trend of companies to tap equity markets for capital is likely to continue, especially if access to debt financing is constrained.

The regulators of capital markets are stepping up their efforts to introduce standards of governance for boards of companies that trade on their exchanges – Saudi Arabia, Oman and the UAE have all published new codes of governance based on global best practices. The efforts of regulators to improve transparency and the overseeing of corporate activities is only likely to increase given recent high-profile corporate scandals in the region.

Beyond regional markets, local enterprises are also attracting significant capital flows from outside the region. Foreign direct investment (FDI) in the GCC also jumped to US$44 billion in 2007, up from US$37 billion in 2006 and US$14 billion in 2004. A large share of this FDI are joint ventures between global Fortune 500 companies and resource-endowed local players. While the global situation has cast doubt on the timing of a number of projects, many are still advancing rapidly.

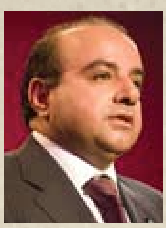
Exhibit 3 – Increasing FDI in the region

FDI inflows into GCC, $ Billion



Source: GCC Board Directors Institute

Foreign capital brings with it a higher level of scrutiny and joint ventures, in particular, specific strains on the effectiveness of directors nominated by the venture partners – who may in some areas have conflicting objectives.



"Effective corporate governance will improve performance, thus benefiting all stakeholders and ultimately serving the public interest. Companies with commitment to corporate governance are stronger and have a greater record of achievement."

Dr. Saad Al-Barrak
Deputy Chairman and Managing Director, Zain

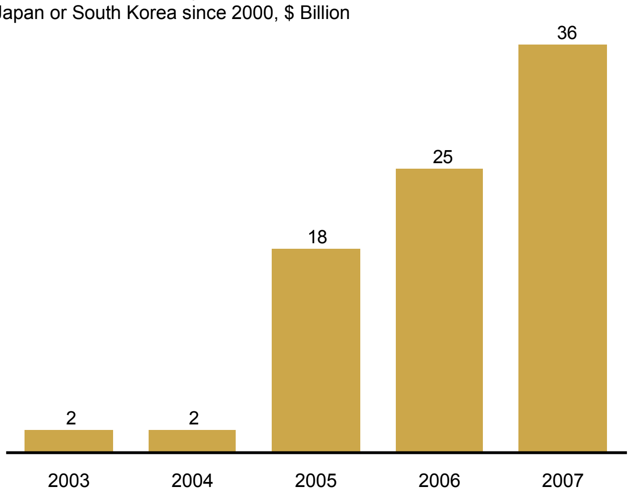
INCREASING EXPOSURE TO GLOBAL MARKETS

Capital-rich GCC companies and sovereign wealth funds are increasingly investing abroad. From 2000 to 2007, GCC companies made more than 250 acquisitions in the US, UK, Europe, Japan and South Korea with a total value of more than US$36 billion in 2007. This was up from US$25 billion in 2006 and US$1.6 billion in 2004. With access to capital on a global basis deeply constrained, we are likely to see more active investments from the GCC into developed economies. These investments are also increasingly skewing towards active investments rather than portfolio allocations.

Exhibit 4 – Increase in GCC investments abroad

Expansion into developed markets

Over 250 acquisitions by GCC based companies in US, Europe, Japan or South Korea since 2000, $ Billion



Source: GCC Board Directors Institute

Investments of GCC companies overseas bring public scrutiny and, increasingly, GCC-based directors serving on the boards of US or EU companies are personally exposed to risks of litigation.

Given the current and projected future global hydrocarbon prices, the amount of available wealth for investment in the region is set to increase even further. At US$50 per barrel, it is estimated that the region will accumulate over US$4.4 trillion by 2020.

The boards of directors of the investment authorities, funds and government-backed companies have a critical role to play in the effective stewardship of this capital – in order to build the foundation of the region's economic future once the resource wealth diminishes.

The combination of growth, new ownership structures and exposure to global markets brings a new level of importance to the effectiveness of regional boards. Beyond the potential to capitalize effectively on opportunities, the increased scrutiny that boards and individual directors will need to endure thrusts the importance of board effectiveness to the forefront.

"Savvy investors worldwide are paying a premium for good governance and effective boards. Sustaining the economic viability of our region can only be achieved through good governance and effective, involved and well experienced boards."

Abdullatif Al-Othman
Senior Vice President, Finance, Saudi Aramco

In some ways, the GCC is in an unusual position. While research has shown that in developed economies many of the reforms related to corporate governance have been approved following corporate governance failures (the Sarbanes-Oxley reforms, enacted by the United States in 2002, are a notable example), the GCC faces a different challenge – to improve the effectiveness of boards and upgrade the skills of directors in the face of unprecedented opportunities.

APPROACH: HOW WE LOOK AT BOARD EFFECTIVENESS

BOARD GOVERNANCE FRAMEWORK

BDI has produced this report in the hope of making a meaningful contribution to the public dialogue on improving board effectiveness and professional directorship in the region. The report is based on a framework of board effectiveness consisting of six "levers". This framework, illustrated in Exhibit 5, has been developed through BDI's work with more than 100 boards in the region. The levers, which follow, were individually explored through a combination of analysis and opinion surveys and interviews with senior directors in the region.

1. **Board composition and directors' capabilities:** diversity, skill mix, board member capabilities and development.
2. **Director roles and accountabilities:** individual and collective roles of board members (including the roles versus management) and the nature of responsibility of board members to the full range of stakeholders.
3. **Board structure:** selection of committees, their roles and operating processes.
4. **Delivery against core roles of the board:** the board's involvement in strategy, risk management, performance management, talent management and managing the expectations of capital markets.
5. **Effective board dynamics:** board member preparation, engagement in discussions as well as the effectiveness of the board's overall decision-making and follow-up processes.
6. **Overall effectiveness and renewal:** board evaluation and renewal to improve effectiveness.

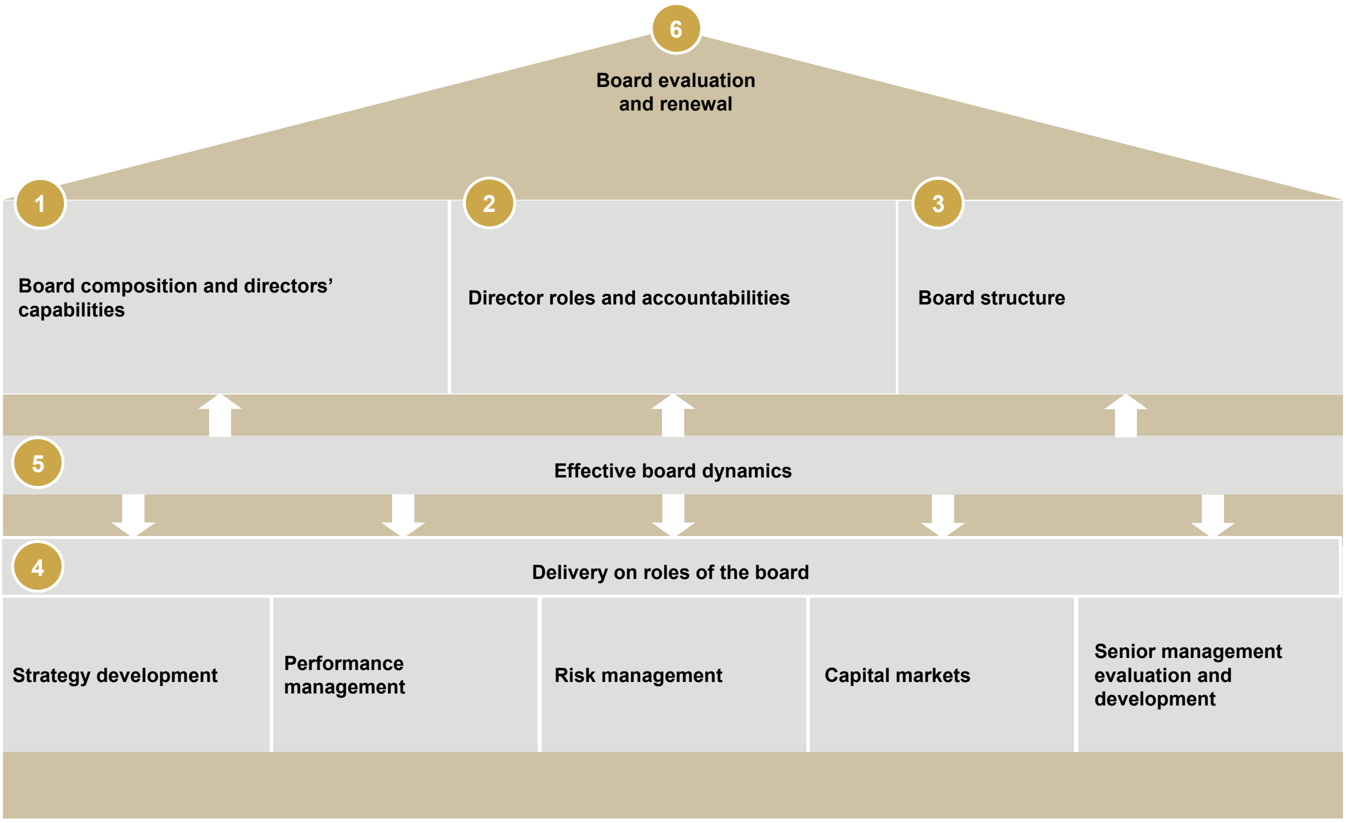
METHODOLOGY

This report is based on three types of research. The first type was external research of board practices in the top 200 publicly-listed companies in the GCC countries: the Kingdom of Saudi Arabia (68 companies), the United Arab Emirates (54 companies), Kuwait (36 companies), Qatar (28 companies), Bahrain (8 companies) and Oman (6 companies). Annual reports and company websites were used as the source of information.

The second type of research was a board effectiveness survey completed by more than 100 board members in the GCC, 20 per cent of whom were chairmen, 5 per cent vice chairmen, and 75 per cent board members. The sample was based on all GCC countries with varying degrees of participation: Saudi Arabia (45 per cent), the United Arab Emirates (29 per cent), Bahrain (14 per cent), Kuwait (10 per cent), Qatar (1 per cent) and Oman (1 per cent).

In the third research approach, more than 20 interviews were conducted with prominent board members and chairmen.

Exhibit 5 – The BDI board effectiveness framework



Source: GCC Board Directors Institute

TRANSPARENCY AND DISCLOSURE

During the review of the publicly-listed companies in the GCC, the BDI team looked at publicly available information, including annual reports and company websites.

Low levels of information disclosure made it difficult to build this profile. For example, only 27 per cent of the companies reviewed disclosed the number of board meetings they held per year. Yet in a similar study, 100 per cent of European and US companies disclosed this data. This lack of information posed a significant challenge for the study.

To overcome this challenge, the BDI team launched an initiative to establish contact with investor relations or equivalent functions, focusing more concentratedly on the top 100 companies in the sample to obtain the missing information directly.

Despite direct contact with the companies, only 10 per cent of those contacted replied with additional information, while others either declined to disclose information, or were unable to disclose it within a reasonable timeframe. Many ignored the request completely. Exhibit 6 provides a comparison of levels of disclosure across various areas.

Disclosure requirements for public companies vary across the region – in emerging codes of governance (including the Saudi Arabian and Omani Codes of Governance), however, a majority of these items (e.g., number of non-executive directors, frequency of board and committee meetings) are listed as either good practice or required practice to disclose.

Based on the current low levels of disclosure, much of what we know about boards in the region reflects the opinions of directors. The BDI team surveyed board members in the region, collecting over 100 responses – including senior directors, chairmen of public companies and executive directors. The survey was helpful in collecting some of the missing facts on board structure and practices (e.g., number of independent directors on the board), and providing a perspective on current levels of board effectiveness and potential for improvement in the region.

A third and very valuable source of information and insight for this research was the interviews and discussions the BDI team had with the 45 board members who attended BDI workshops, in addition to one-on-one interviews with a sample of more than 20 other board members from the region. Many of these interviews are available for BDI members on the BDI website, www.gccbdi.org.

"With reference to our conversation today and your email below, please note that almost all the information that you are asking for is confidential. Therefore, I regret that we won't be able to answer to your questionnaire."

Example of reply to BDI information request

Exhibit 6 – Level of disclosure in GCC companies compared to Europe and to regulatory requirements of regional established codes of governance

	Per cent of companies providing this information		Required to disclose	
Information	**GCC**	**Europe**	**Saudi Arabia**	**Oman**
Number of directors on the board	94	100	✓	✓
Directors' remuneration	81	80	✓	✓
Number of board committees	75	100	✓	✓
Value of the fixed board director remuneration	59	83	✓	✓
Main executive position of board members	55	100		
Average no. of directors on committees	52	100	✓	✓
Other positions held by board members	32	97		
Frequency of board meetings	27	100		✓
Frequency of committee meetings	27	93		✓
List of committee members	22	99	✓	✓
Number of non-executive directors	13	100	✓	✓
Duration of directors' appointment	11	88		
Number of independent directors	10	100	✓	✓
Committee meetings attendance rate	10	83		✓
Board meetings attendance rate	8	86		✓
Start and end of tenure	8	82		✓
Existence of a self evaluation process	1	61		
Company shares held for each director	1	64		
Directors' age	1	72		
Instrument for remunerating directors	1	78		✓

Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

1. BOARD COMPOSITION AND DIRECTORS' CAPABILITIES

For the purpose of this report, we define board composition as a mix of knowledge and expertise, diversity of perspectives and backgrounds and availability to serve on the board.

Heidrick & Struggles, one of BDI's founding content partners, has been tracking the evolution of boards across Europe since 1999. In the beginning, adherence to widely-recognized best practices (including proportion of independent directors, gender and national diversity, disclosure of information, and proper use of board committees) was, at best, uneven. By 2007, there had been substantial progress across all European countries, with some notable "turnaround cases," including Portugal, where the rate of disclosure of directors' information (age, tenure and shares held) increased from 30 per cent of companies in 2003 to more than 80 per cent in 2007, to cite one example.

The Portugal case demonstrates the potential for rapid improvement in board governance standards and effectiveness of composition.

"Board assignments are not huge privileges but rather huge responsibilities that need to be taken seriously."

Abdulla M. Al Zamil
Director and COO, Zamil Industrial Investment Company

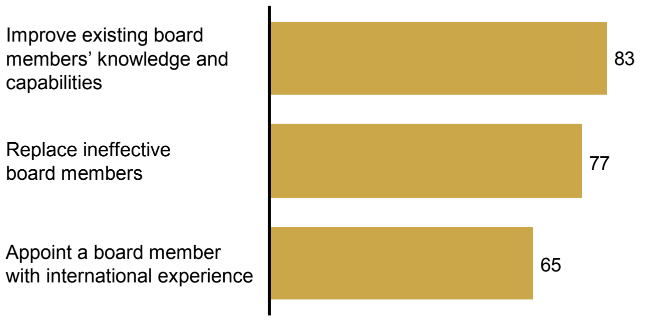
In the BDI survey, having the appropriate board composition has been highlighted by GCC board members as the single most important lever for improving board effectiveness.

In particular, board members feel that board composition can be significantly enhanced by taking three distinct actions:

- Improving knowledge and expertise available within the board.
- Ensuring board members can spend more time on matters of importance for the board.
- Including additional international expertise in the form of directors from outside the region.

Exhibit 7 – Assessment of strong impact on board effectiveness

Per cent of respondents who agree or strongly agree, n = 106



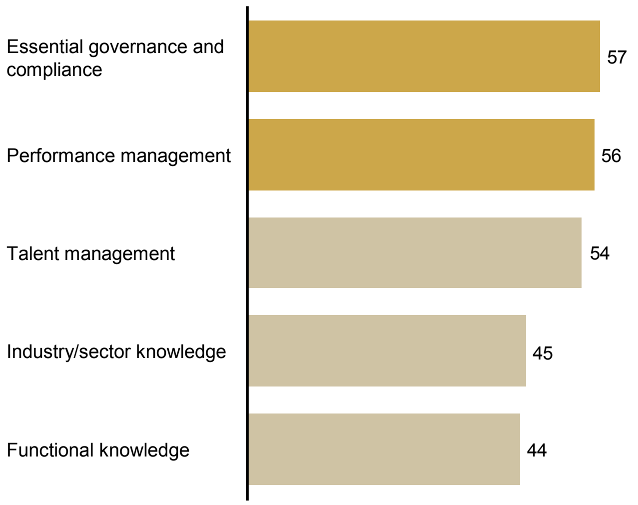
Source: GCC Board Directors Institute – 2008 survey

IMPROVING KNOWLEDGE AND EXPERTISE

According to the board members surveyed, the three main areas of expertise that should be further strengthened within boards in the GCC include essential governance and compliance, and both talent and performance management.

Exhibit 8 – Areas of expertise to be strengthened on the GCC boards

Percentage of directors who want to see more of this expertise on their boards, n = 106



Source: GCC Board Directors Institute – 2008 survey

As shown in Exhibit 8, three out of every five board members surveyed believed that core governance expertise within GCC boards could be improved by having more knowledge about topics such as board members' nomination processes, trends in board and management remuneration as well as about disclosure and transparency. Over half of the board members surveyed would like to see more talent management expertise within the board – meaning a greater understanding and knowledge of topics related to the selection, development, retention and succession planning of the top management team. Finally, nearly half of the board members surveyed said there should be greater knowledge of industry trends. Boards need to ensure that they have expert members in core industrial business areas in order to challenge management proposals and annual operating plans.

Some of the most effective ways to import more of these areas of expertise into the boardroom would be through better access to benchmarks and best practices, more formal training and development of board members, and greater opportunities to network with peers and share experiences. There is broad agreement amongst board members that new appointees to boards should attend an orientation programme to familiarize themselves with the details of the company and industry, their role as a board member and board procedures. In addition, board members feel the need to keep abreast of industry trends through management presentations, analyst reports, and industry periodicals.

"Gone are the days when membership to a board was based on family and social status. Selection to board membership should be objective, based on experience in the relevant business and specific qualification to fill a need gap in the board formation."

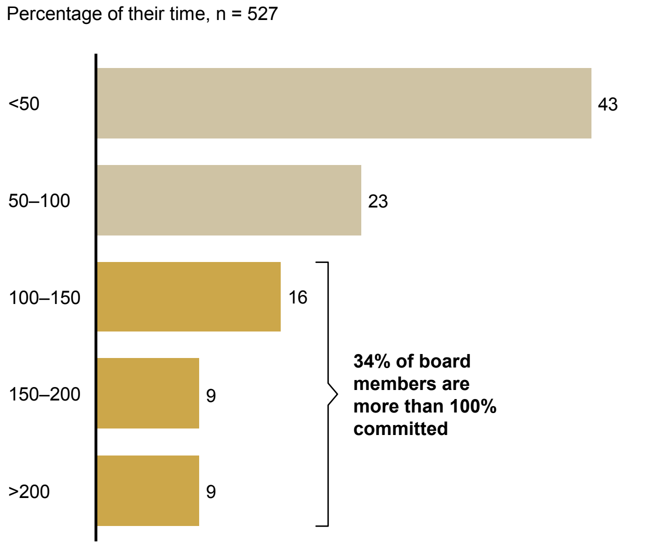
Abdulhadi A. Shayif
Director, Saudi Railways Organization,
Saudi Holland Bank

IMPROVING COMMITMENT AND AVAILABILITY

Ensuring that board members have time to carry out their responsibilities will also help improve board effectiveness, according to the BDI survey. One-third of the GCC board members surveyed held five or more board and executive positions. Assuming a board membership mandate requires 5 per cent of a member's time, while a chairman's role requires 20 per cent and an executive role at least 80 per cent, one-third of the GCC board members BDI surveyed had a time commitment of higher than 100 per cent. Many widely accepted codes of governance require directors to ensure their availability to serve on boards (for example, the UK Combined Code forbids a director to be a board member of more than one FTSE 100 company).

Some countries in the region have begun to enact regulations limiting the number of board seats that directors can sit on (for example, Saudi Capital Market Authority Code of Corporate Governance states that a board member "Shall not act as a member of the board of directors of more than five joint stock companies at the same time").

Exhibit 9 – Time committed to board membership*



* Assuming a board membership mandate requires 5% of a member's time, while a chairman's role requires 20% and an executive role at least 80%
Source: GCC Board Directors Institute – 2008 survey

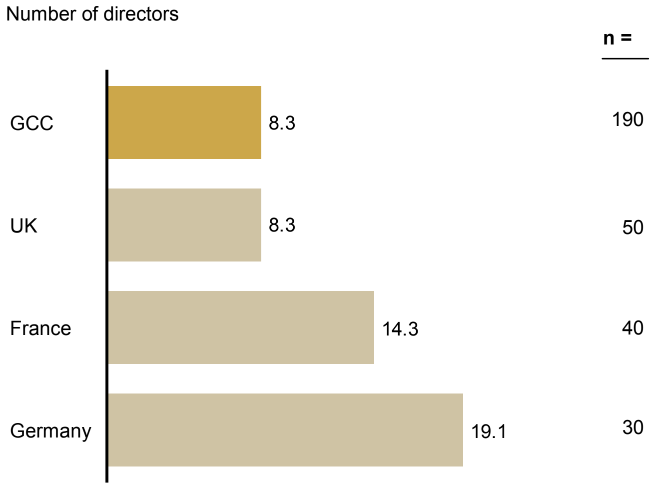
BRINGING INTERNATIONAL EXPERTISE

The majority of board members are GCC nationals – only 3 per cent are from outside the GCC and women account for only 1 per cent of the board members in the GCC. Although many GCC-national board directors have substantial global experience, over 60 per cent of survey respondents said that appointing directors from outside the region to GCC boards would add substantial value. Those companies with non-GCC directors on their boards believe these directors add significant value. With many companies deriving a growing share of value from expansion into new markets, the composition of the board should roughly reflect this regional diversity.

The average GCC board consists of 8 board members which is, for example, lower than the number of board members on many boards in Europe. Given the smaller board size there may be room to increase the representation of directors with international experience on the GCC boards.

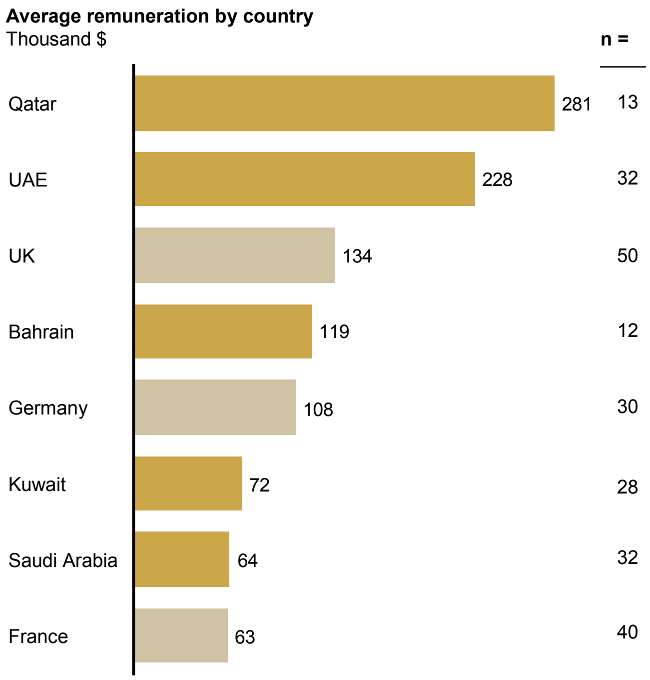
One of the potential issues to address in attracting both international and local talent into the boardroom is the current level of remuneration for boards in some GCC countries. In Saudi Arabia and Kuwait, for example, average remuneration is lower than European benchmarks.

Exhibit 10 – Average board size



Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

Exhibit 11 – Remuneration of GCC board members



Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

2. DIRECTOR ROLES AND ACCOUNTABILITIES

If the role of the board and directors is to deal with "the whole" of the company, including its long-term focus and determining what its priorities are, the role of executive directors is to deal with "the parts" – implementing the policies and priorities of the board, and acting as the bridge between board and management. Non-executive directors in companies objectively judge corporate affairs and help to challenge, question and monitor management.

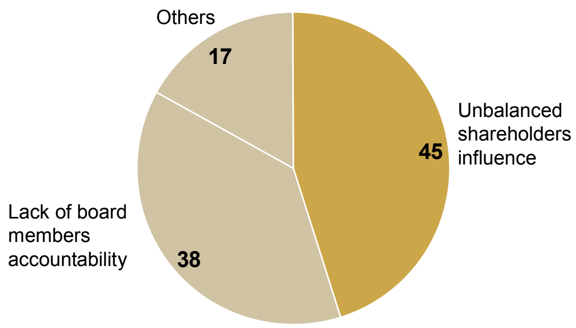
When probed for the real barriers in defining effective roles and accountabilities of the board, 45 per cent of the issues identified by survey respondents were related to either too much or too little involvement of shareholders in the board's decision-making process. Clearly, there is work to be done in getting the balance right between roles of board members and majority shareholders.

"The board should make sure that minorities' interests are adequately protected. One way to do this is to ensure that all related-party transactions are on an arm's-length basis and that such transactions are fully disclosed."

Mutlaq Al-Morished
Vice President, Corporate Finance, SABIC

Exhibit 12 – Barriers to effective definition of board roles and responsibilities

Per cent, n = 29



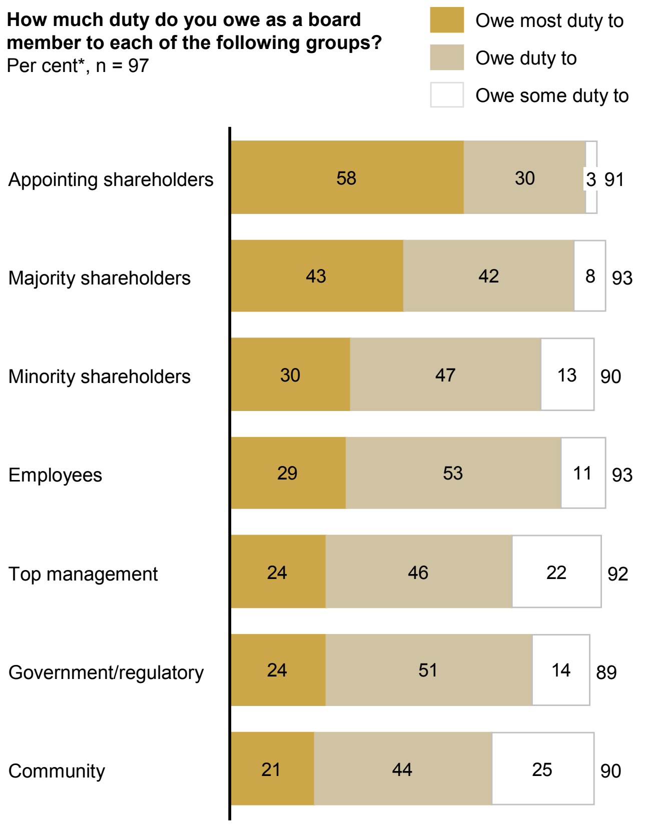
Source: GCC Board Directors Institute – 2008 survey

BALANCING RESPONSIBILITY TOWARDS STAKEHOLDERS

In order to balance shareholder influence, board members need to discharge the same level of duty to all stakeholders in the company, including minority shareholders.

The survey results showed that although board members are balanced in their overall responsibility to all stakeholders, when asked whom they owe most responsibility to, it was found that they have a noticeable bias towards majority shareholders and the shareholders they represent on the board. Exhibit 13 shows that although 89-93 per cent of board members confirmed some level of accountability to all stakeholders, that level of accountability varied from one stakeholder to another. For example, 58 per cent of board members surveyed believe they owe their primary responsibility to the shareholders who appointed them. This in comparison with only 21-24 per cent who believe they owe the same level of responsibility to other stakeholders (government, regulatory authority, top management, and the community in which the company exists).

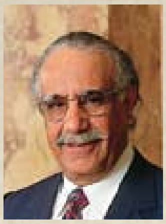
Exhibit 13 – Level of board members responsibility towards stakeholders



* Respondents who answered “Owe little duty to” and “Owe no duty to” are not shown
Source: GCC Board Directors Institute – 2008 survey

INDEPENDENT BOARD MEMBERS

According to survey respondents (since full disclosure of data directly from companies was not possible), the GCC has a lower-than-average number of independent board members when compared to other jurisdictions. An independent board member is defined here as a board member who has no family ties with senior employees, directors or advisors, has no material business relationship – either personally or through his company in the last three years— has no cross directorships or significant links with other directors, has not been company auditor in the last five years and has been on the board for less than nine years.



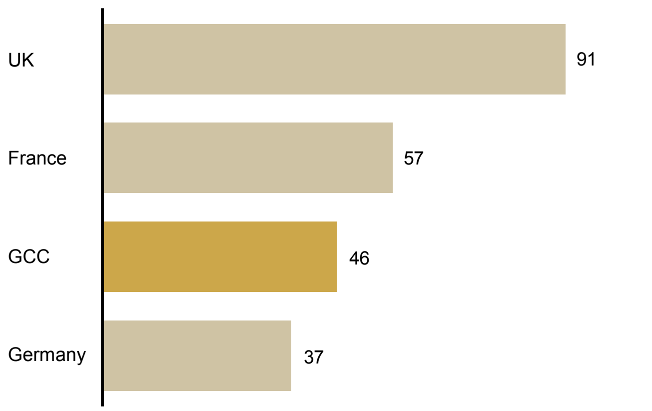
“Independent directors are extremely important for board effectiveness and for ensuring representation of all shareholders, and with all but one member of our board being independent, we feel we are showing the way on this issue.”

H.E. Abdul-Rahman Salim Al-Ateeqi
Chairman, Investcorp

In the UK, 91 per cent of board members are independent, compared to 57 per cent in France, and 46 per cent in the GCC. Consensus best-practice (according to OECD, UK Combined Code, Sarbanes-Oxley and others) is for more than 50 per cent of the board to be independent, especially in larger companies.

Exhibit 14 – Average number of independent board members

Per cent, for GCC n = 78, for UK n = 50, for France n=40, for Germany n=30

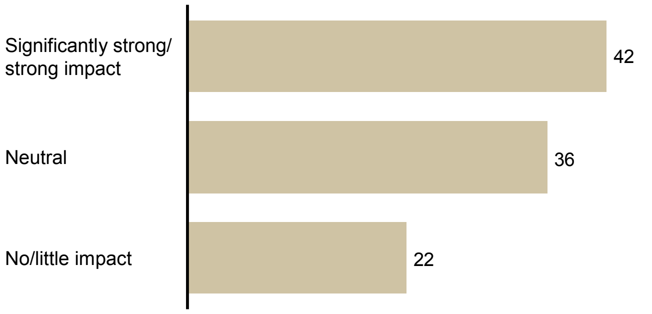


Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

When asked about their perspectives on increasing the number of independent board members, 42 per cent agreed that this would have a significant impact on improving board effectiveness – there is clearly no standing consensus on the importance of more independent directors in the region.

Exhibit 15 – Assessed impact of increasing the number of independent board members

Per cent, n = 102

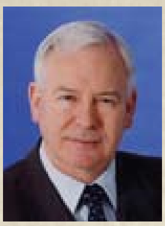


Source: GCC Board Directors Institute – 2008 survey

DIVISION OF ROLES BETWEEN BOARD AND MANAGEMENT

In contrast to perceived relationships with shareholders, 68 per cent of board members surveyed believe that the relationship between the board and management is perceived to be clear and well-defined. This is helped by the fact that 84 per cent of boards have the roles of chairman and CEO split between two persons and 73 per cent of the members of these boards believe the (non-executive) chairman is not overly involved in day-to-day company operations.

There is, however, a significant minority of directors surveyed who did cite issues between the board and management – leading to the conclusion that for some boards this is an issue that still needs to be addressed.

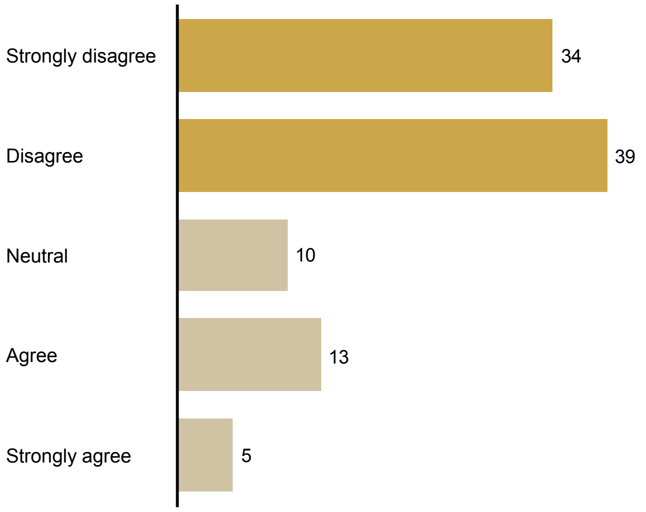


"When the Board has debated strategy and approved it, it is the job of management to go out and deliver, and for the board to hold the executive management accountable for that delivery."

Sir John Parker
Director and Vice Chairman, DP World
Chairman, National Grid

Exhibit 16 – Assessment that the chairman plays an active role in the day-to-day operations of the company

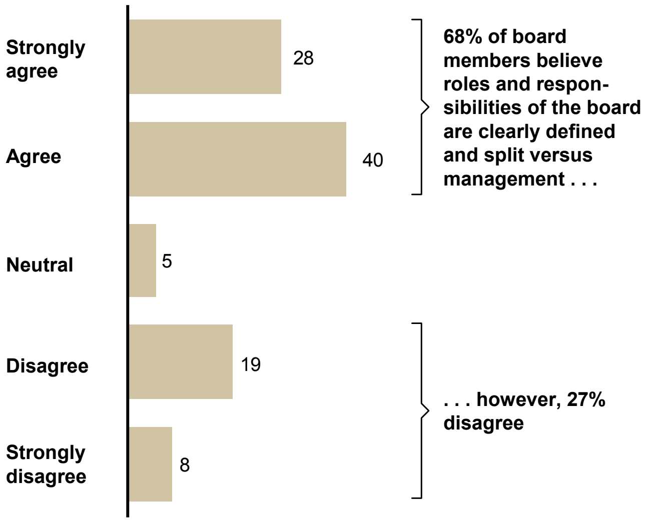
Per cent, n = 88



Source: GCC Board Directors Institute – 2008 survey

Exhibit 17 – Division of roles and responsibilities between board and management

Per cent, n = 104



Source: GCC Board Directors Institute – 2008 survey

"You either manage or you supervise. Therefore, if you're involved in the day to day management then you can no longer claim that you are doing the best you can as a supervisor."

H.E. Dr. Muhammad S. Al-Jasser
Vice Governor, Saudi Arabian Monetary Agency

3. BOARD STRUCTURE

Boards form committees to operate more efficiently. This has the benefit of reducing the prospect of problems associated with board members' conflicts of interest. Several well-regarded codes of governance (including the UK Combined Code, OECD Principles of Corporate Governance, IIF Code of Corporate Governance) recommend the formation of three major committees: audit, remuneration and nomination (although the last two are often combined into one committee). Interestingly, the existence of an executive committee of the Board is quite common in GCC countries. This is a rather unusual phenomenon – our research indicates limited use of this committee in Europe, although it is more common in the US.

THE MOST COMMON COMMITTEES

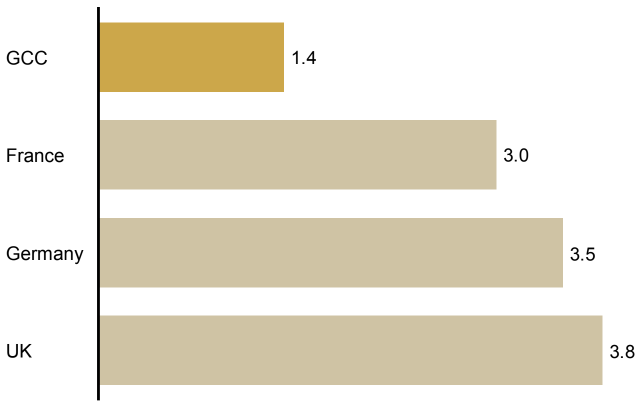
The audit committee is a critical part of any modern board. Formed of independent non-executive directors, the committee is charged with reviewing the audited accounts of the company, recommending to the board the approval of appointment or dismissal of the external auditor and often overseeing the internal audit function. The remuneration committee is generally comprised of a majority of independent directors and sets compensation for board members and senior management. The nomination committee is responsible for coordinating the search and appointment of new board members and senior members of management, in coordination with the chairman of the board, as well as providing induction to new directors and continuous training for all board members.

Committees in Europe meet on average between 13 and 18 times per year – typically more frequently than full board meetings. The norm is for the committee to deliberate and recommend a set of actions, which require formal approval/ratification from the entire board.

Committees are less prevalent in the GCC than in other geographies. The average number of committees is 1.4, compared with 3 in France, 3.5 in Germany and 3.8 in the UK.

Exhibit 18 – Average number of committees in the GCC versus European boards

For GCC n = 162, for France n = 40, for Germany n = 30, for UK n = 50



Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

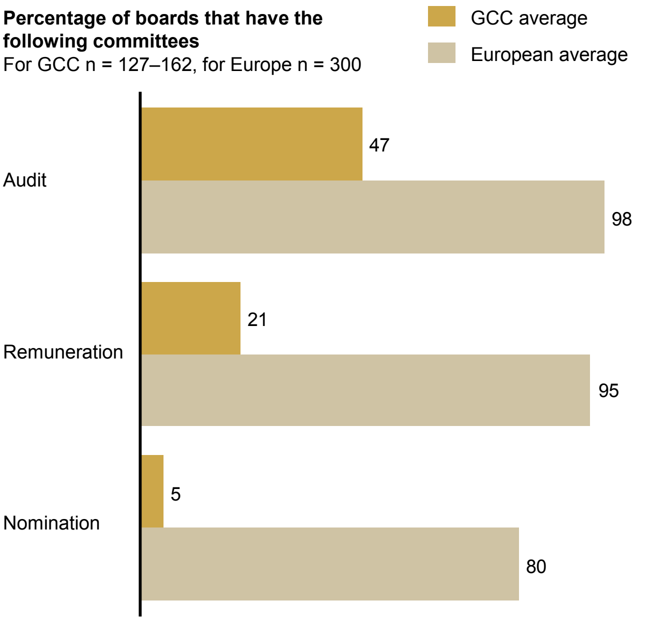
The median frequency of board meetings in the region is six times per year, with a range of four to 12. Attendance rates are not widely reported – only 16 of the top 200 companies reported attendance of an average 82 per cent.

"Most board members are not specialists. Therefore, committees such as the audit and research and development committees are the bridge between management and board."

Dr. Abdulrahman A. Al Zamil
Chairman, Zamil Group Holding Company
Zamil Industrial Investment Company

Audit, remuneration and nomination committees are less common on GCC boards. BDI's research, which was focused on publicly-traded companies, found that fewer than 50 per cent of boards in the region have a separate audit committee, 21 per cent have a remuneration committee and just 5 per cent have a nomination committee. Committees are typically composed of four board members, who meet about five times per year. The research found that the responsibilities of these committees are most probably handled by the full board.

Exhibit 19 – Use of typical committees

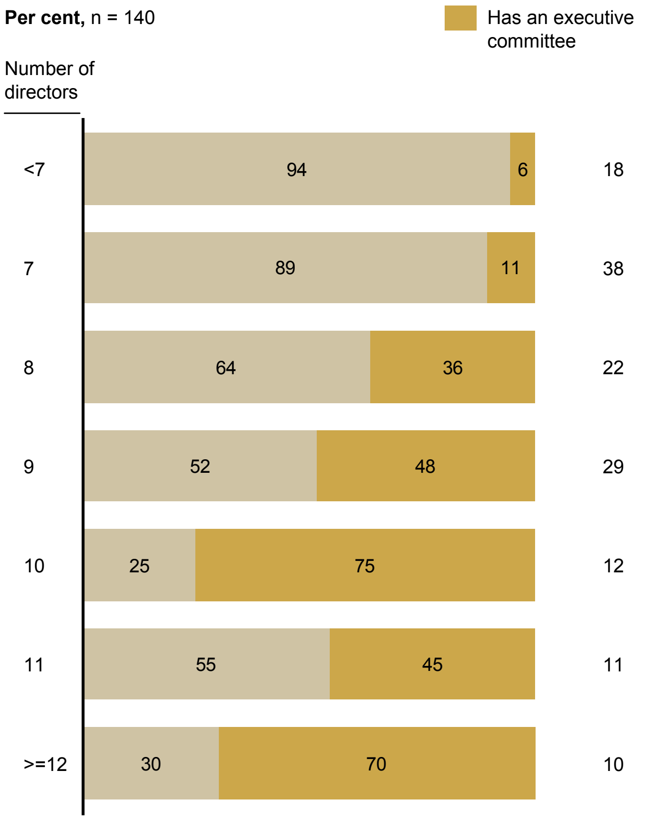


Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

EXECUTIVE COMMITTEE

The executive committee is most common in GCC boards with 10 or more members (65 per cent of boards have this committee). Smaller boards (7 or less) typically do not feature this committee.

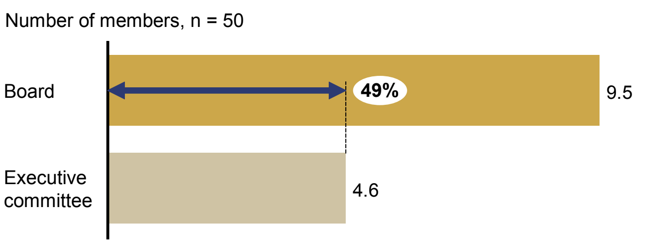
Exhibit 20 – Boards with executive committees



Source: GCC Board Directors Institute – 2008 survey

The executive committee is generally constituted of half of the board members.

Exhibit 21 – Board members in the executive committee



Source: GCC Board Directors Institute – 2008 survey

According to 68 per cent of the board members surveyed, the executive committee in GCC boards has a high level of authority and acts on behalf of the board on major decisions.

Our interviews with board members revealed that the core duties of executive committees include making urgent or emergency decisions on behalf of the board (between board meetings). There is, however, a worrying tendency, which was described by board members, for the executive committee to take so many decisions unilaterally that the full board becomes something of a formality. This finding is consistent with the opinion that there are a number of less engaged board members on many of the larger boards – finding the means to engage these board members (or potentially to replace them) rather than "work around them" is a priority for many boards in the region.

OTHER COMMITTEES

Other committees are becoming more common for prioritising specific topics. In Europe these include CSR (Corporate Social Responsibility), HSE (Health, Safety and Environment), Finance, Information Technology, Personnel, Technical and Strategy committees. In the GCC, we have observed the existence of Risk, Asset and Liabilities Management as well as Governance committees.

"A committee can concentrate on a subject, and give time for the board to focus on the company's strategy and overall goals."

Abdullah M. Al-Issa
Chairman, AMIAS Holding
Director, SABIC

4. DELIVERY ON ROLES OF THE BOARD

Beyond a board's fiduciary obligations, we see five core roles for a board in adding value to a company. These are to:

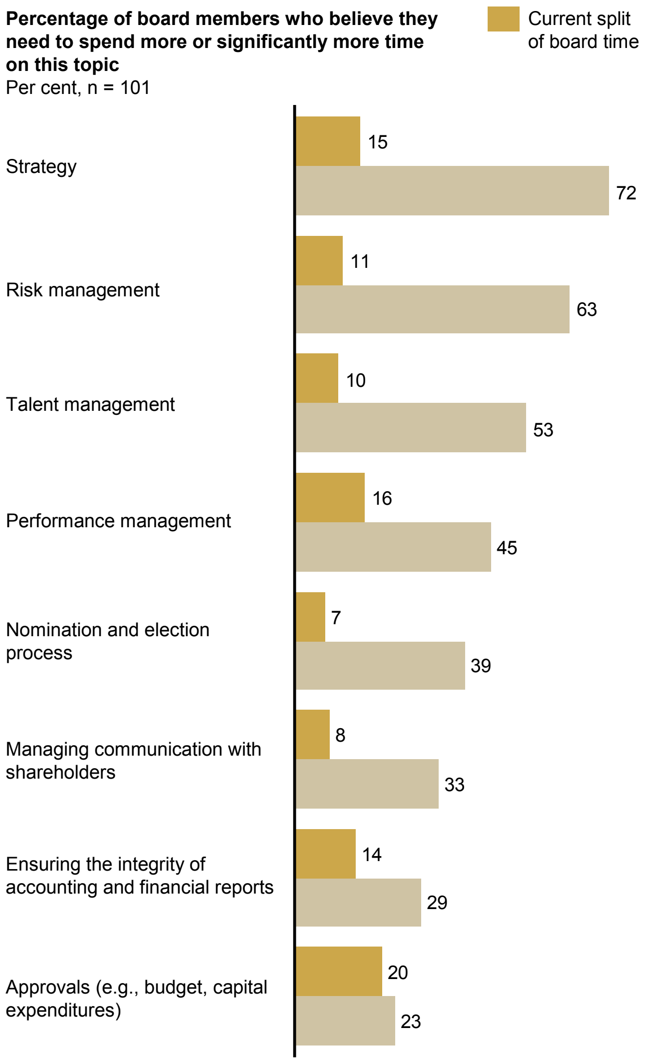
- Review and challenge corporate strategy;
- Monitor corporate performance and health;
- Manage key risk factors facing the company;
- Understand what capital markets expect of the company;
- Review and plan succession of senior management and support their development.

According to the BDI survey, board members would like to spend more time on specific topics, and improve the way these discussions are prepared and conducted. The most important of these areas is strategy development, risk and talent management.

While a number of other topics were cited by board members as meriting more attention, the lowest priority was spending more time on approvals, including budget and capital expenditures.

Our research showed that approvals consume 20 per cent of the board's time, while risk management and talent management each come in at 10 per cent. Strategy accounts for less than 20 per cent.

Exhibit 22 – Desired split of board time versus current split



Source: GCC Board Directors Institute – 2008 survey

CONTRIBUTING TO CORPORATE STRATEGY

Three-quarters of board members surveyed believe they need to spend substantially more "quality time" on defining and reviewing corporate strategy.

Best-in-class boards play an active role in the shaping of a company's strategy. Based on a thorough understanding of industry fundamentals and opportunities, the board can challenge management to develop a compelling vision and strategy for the company that is a sufficient "stretch" for management to achieve while remaining grounded in reality.

Once the strategy is clear, the board can continue to be actively involved through monitoring strategic milestones and continuous "course correction" as the company navigates its markets.

BDI research demonstrates that a dedicated session on strategy – typically a 1-2 day session in a remote location – can enhance a board's productivity and effectiveness. By deliberately separating this session from core board duties, a better forum for discussion and debate is created.

"The discussion in the board room must go beyond financials because shareholder value does not only stop at numbers. It goes beyond that."

Abdulla M. Al Zamil
Director and COO, Zamil Industrial Investment Company

MONITORING CORPORATE PERFORMANCE AND HEALTH

Boards have historically looked primarily at financial indicators of corporate performance, mainly focused on outcomes such as share price, profitability and cash flow. Leading boards probe management for deeper information to understand the drivers of these outcomes – the real drivers of shareholder value. Topics such as market share, unit costs, and reliability are just some of the more important metrics for boards to review regularly. Actively benchmarking these drivers against industry peers and best-performing internal assets or branches can yield greater insights in terms of opportunities to improve performance.

More recently, we see increasing interest by boards to look beyond these performance indicators and better understand the "health" of the company. Understanding indicators on employee motivation and turnover, environmental sustainability and perception of the corporation amongst influential stakeholders, to list just a few, are becoming increasingly important factors in determining the long term viability of the company. Empirical evidence has shown a strong correlation between the health of a company and its long-term performance.

MANAGING KEY RISK FACTORS

Sixty-three per cent of board members also cited the desire to spend more time on risk management. GCC boards need to ensure that they have a clear view of the major risks facing the company as well as their cash-flow implications. Many board members who attended BDI sessions indicated that although risk management is discussed during board meetings, the level of transparency regarding the magnitude of risks and their potential impact on company cash flows could be improved substantially.

In a recent poll, only two out of 33 CFOs in the GCC said that they believed organizations in the region manage risk effectively. While most companies do have some form of risk management / measurement in place, they need to ensure that they have complete transparency over the risks that a corporation could face and the impact that those risks could have on its cash flows. Not having such a comprehensive risk policy often leaves them vulnerable to a number of pitfalls:

- Over-focusing on specific risks (e.g., operational risk vs. commodity risk);
- Over-insuring or excessive hedging of risks not taking into account aggregate exposures and aggregate cash needs;
- Missing upside opportunities as a result of passing risks on to suppliers and customers in situations where the company itself would be a better "natural risk owner".

The board's role with regard to risk management would typically involve challenging management to come up with a complete and well-thought-through list prioritising each risk and laying out a clear mitigation plan for those that are likely to have the greatest impact. To take a holistic view, this register or list of risks should include extreme event risk, continuous risk including commodity risk, decision risk including investment decisions, with each of them demanding a different mitigation plan.

"Board members have to set strategy, growth plans, and mitigate risks. These are the issues that they have to focus on."

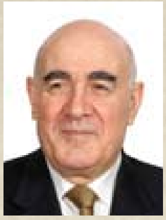
Sheikh Khaled Bin Zayed Al Nehayan
Chairman, Bin Zayed Group

UNDERSTANDING THE EXPECTATIONS OF CAPITAL MARKETS

A board's understanding of the expectations that capital markets have of a company is increasingly critical. For example, deconstructing the share price of the company into the component driven by current performance and the component reflecting the market's expectations of future growth can yield some fascinating insights and also act as a strong "litmus test" for the company's growth plans. This relatively simple exercise should be conducted on a regular basis and be used as a foundation for one of the core conversations between boards and management.

Even businesses that are not listed will still need an appreciation of capital markets; companies are increasingly turning to debt markets for long-term financing and, in many cases, have plans (or obligations) to list subsidiaries when expanding into new markets (as seen most recently in the telecom industry in the GCC).

The board has an increasingly direct role in some instances to engage in dialogue with institution investors (this role is sometimes limited to the chairman but increasingly involves all directors). As we have seen earlier in this report, transparency and disclosure (and investor relations in general) are still very nascent concepts in the region and boards should be mindful of the need for them to develop further as companies increasingly seek to attract global investors.



"The recent financial crisis will put pressure on GCC boards to be more responsive to market expectations. Otherwise, they are likely to be shunned by investors who learnt the hard way the pitfalls of accepting "spectacular results" at face value."

Ibrahim Dabdoub
Chief Executive Officer, National Bank of Kuwait

SUCCESSION PLANNING AND SENIOR MANAGEMENT DEVELOPMENT

Fifty-three per cent of board members identified the need to devote more time to talent management. In relation to managing the talent of the company, a sound succession plan for top management positions should be devised and implemented. Board members can play a valuable role in the mentoring and coaching of senior managers – some of the senior chairmen we interviewed explained that they evaluated individual board members on the level of contact the members had over the past year with the top executives of the company.

Historically, most boards have focused on the hiring (and firing) of the CEO and left the appointment of the remainder of management to him (or her). More recently, boards are finding that succession planning for the CEO and for the senior officers of the company is a critical topic to engage on.

In the region, the rapid growth of many companies puts a strain on management – both in terms of availability of executives and on their development for new challenges. Boards increasingly need to take an active role in ensuring a solid succession and development plan is in place for all pivotal positions – and to understand the overall supply/demand balance of leaders in the company given the strategy and growth plans.

When it comes to CEO succession itself, there are multiple models that companies follow. Being well versed in the alternatives and planning 3-5 years out at a minimum is an essential responsibility of the board – often championed by the board nomination committee.

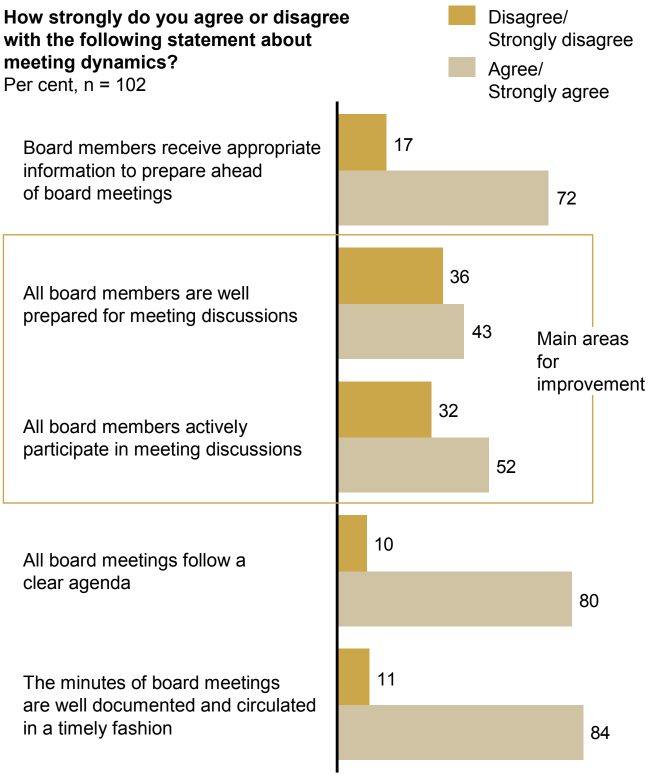
5. EFFECTIVE BOARD DYNAMICS

The focus so far in this report has been more on the "hard" factors related to board performance. Surveyed board members universally agreed that although these factors are important to improve boardroom performance, they are not sufficient to drive it. Another critical aspect of boardroom performance, albeit one that is difficult to measure or manage, is the "soft" dynamics of how board members interact with each other.

Some outcomes of board dynamics were analysed in the survey along the following dimensions. We reviewed the degree to which:

- Board members receive proper preparation material;
- Board members prepare for discussions;
- All members are engaged in discussions;
- The meeting follows a clear agenda;
- An effective decision-making (and conflict management) process is used;
- Meeting minutes are well-documented and circulated in a timely manner.

Exhibit 23 – Evaluation of board effectiveness across the six elements of meeting dynamics



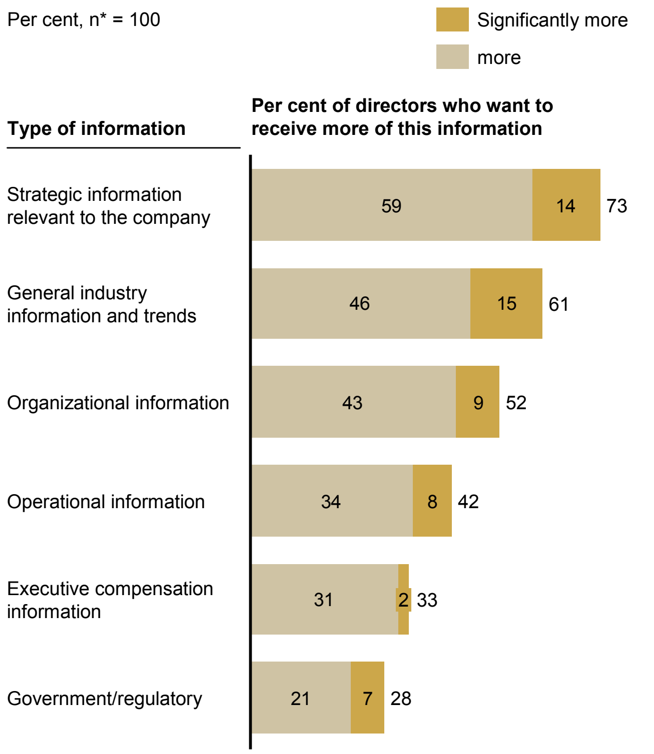
Source: GCC Board Directors Institute – 2008 survey

LEVEL OF PREPARATION

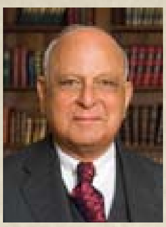
The general sense among survey respondents is that preparation and active engagement in discussions are the main areas in need of improvement within GCC boards.

Although more than 70 per cent of GCC board members surveyed generally agreed that they receive adequate preparation material, the majority of them believe the information in this material needs improvement. Of specific concern were the areas of strategic information, industry information and organizational information – more than 60 per cent of board members want to receive more information on these topics.

Exhibit 24 – Types of information board members want to receive more of



* Respondents who answered "same as current", "less", or "significantly less" are not shown
Source: GCC Board Directors Institute – 2008 survey



"The circulation of proper preparation materials is an area where standards have clearly improved in the region, and this certainly facilitates the involvement of all members in discussions and actively fosters a deliberative and collegial debate."

Nemir A. Kirdar
Executive Chairman and CEO, Investcorp

ENGAGEMENT IN DISCUSSION

Even though the drivers behind some of the key issues of board engagement need further elaboration (which is outside the scope of this report), there are two consistent viewpoints from board members which are worth highlighting. The first relates to the selection and capabilities of board members as mentioned in the first section of this report. The second is more controversial and relates to the role of the chairman. It is typically believed that the role of the chairman includes managing board dynamics and, in particular, ensuring strong participation of all board members.

Although many chairmen in the region are regarded as exemplary practitioners in this regard, there were a number of instances cited where the presence of a very senior chairman could significantly curtail the willingness of board members to speak freely, given social hierarchies.

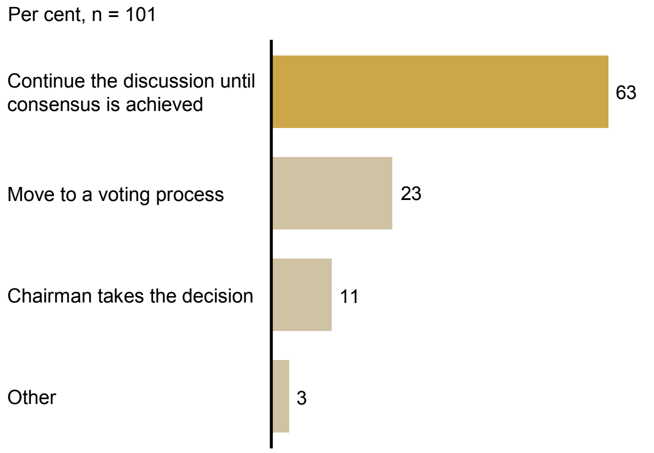
"The role of the chairman is to facilitate the meeting and engage directors with the right knowledge and expertise, depending on the topic discussed. He should encourage directors to actively participate in the debate and freely voice their opinion."

Taha Abdullah Al Kuwaiz
Chairman, Bank Al Jazira

DECISION-MAKING PROCESS

Nearly 70 per cent of the board members surveyed believe that their boards have an effective decision-making process, e.g., working to achieve consensus among board members is described by 63 per cent of them as the way their boards make decisions, while 23 per cent said that voting is always used to close decisions if consensus is not easily achieved. Among boards that strive to build consensus, 70 per cent largely agreed that the decision-making process is effective, while among boards that revert to voting and other ways of decision making only 56 per cent believe their process is effective.

Exhibit 25 – Types of decision-making processes if consensus is not achieved in first round of discussions



Source: GCC Board Directors Institute – 2008 survey

Ultimately, the board is a team and can take advantage of much of the research available on the drivers of team effectiveness. Taking the time to openly discuss the board's performance as a team, working on building better personal connections and shared understanding between board members and, more broadly, finding a style and rhythm of interactions that suits the individuals involved can all contribute to better dynamics in the board room. The board has a vital role and substantial fiduciary duty to perform — but that need not detract from it functioning as a well performing team where members are genuinely stimulated and excited by their roles and interactions with each other.

6. BOARD EVALUATION AND RENEWAL

Globally, there is strong agreement that boards need to actively assess their effectiveness through a robust evaluation process. Based on the results of this process, the chairman (or lead independent director) of the company is responsible for planning and implementing steps to improve the board's overall effectiveness along many of the dimensions described in this report.

EVALUATION PROCESS

In the GCC, we see a strong determination to engage in this evaluation process, though we have seen little by way of implementation. Based on the survey, approximately 10-15 per cent of boards conduct a formal evaluation process. This compares to a range of results in European countries, spanning from 16-100 per cent.

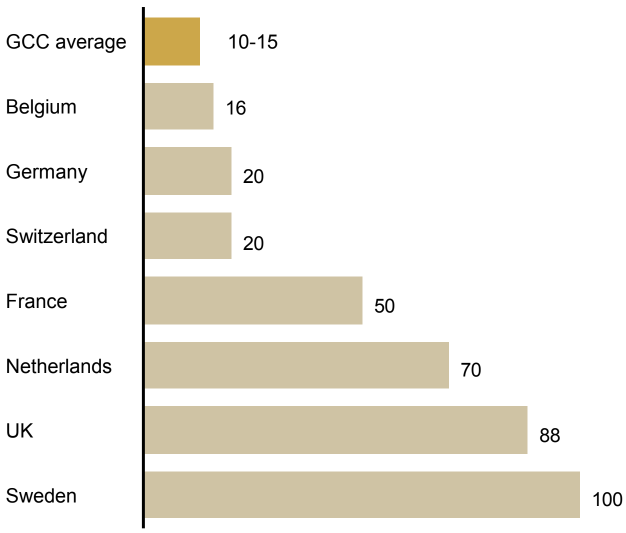
"It is good practice to undertake an annual evaluation of the effectiveness of the board as a whole, the committees and the contribution of each director. Building a strong culture of feedback is essential for continuous improvement of performance."

Dr. Abdullah Bin Hasan Al-Abdul-Gader
Commissioner, Saudi Capital Market Authority

There are different ways of performing board evaluations and the content of the evaluation should reflect the current priorities of the company and the board. Areas typically evaluated include fundamental board duties, such as attendance rates, signing off on the annual external audit, industry knowledge, and performance during special circumstances, such as mergers and acquisitions, joint ventures and divestments. Evaluations should be conducted at both the individual and board levels to obtain a complete picture of the board's performance and that of each director.

Exhibit 26 – Share of boards with a formal evaluation process in the GCC and Europe

Per cent, for GCC n = 106



Source: Heidrick & Struggles, Raising the Bar – Corporate governance in Europe 2007 report, GCC Board Directors Institute – 2008 survey

In terms of mechanics, the evaluation process can be delivered by self-assessments, external assessments or a combination of the two. Self-assessments, which involve the board reviewing itself against certain criteria, are easier to implement and less threatening than assessments by outsiders, thus making directors more likely to accept the evaluation process. However, some disadvantages include subjective responses, the potential unwillingness of some board members to honestly review the work of their tenured peers, and the prospect of outsiders discounting the final assessment as less than impartial.

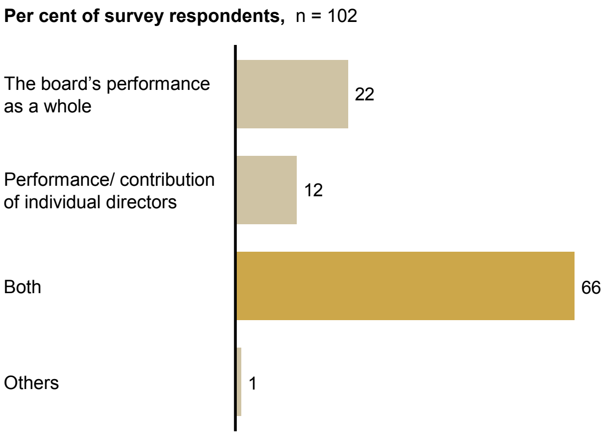
Formal assessments involve a board review by an independent third party. One benefit of a formal assessment is the likelihood that it will be viewed as impartial. The disadvantages are that the process is more complicated, more time is needed, and directors are more likely to feel threatened than under a self-assessment.

Ultimately, the selection of the evaluation format depends on the openness and level of trust between board members. Many boards have had success with using both – a more regular self-assessment with a more in-depth external assessment on a 2-3 year cycle.

Despite the low penetration of evaluation processes in the GCC, the vast majority of board members believe that using these processes is a critical part of improving board effectiveness. All board members who have a board evaluation process on their boards confirmed in the survey how useful the process was for improving board performance.

The majority of board members (66 per cent) agreed that the board evaluation should include both the overall performance of the board and that of individual directors.

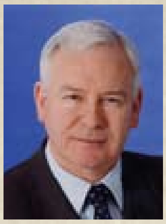
Exhibit 27 – Evaluation process focus areas



Source: GCC Board Directors Institute – 2008 survey

BOARD IMPROVEMENT AND RENEWAL

Board evaluations are not tremendously useful unless they are followed up with a drive to improve things. We see the best globally recognized chairmen spending a large share of their time charting and driving a systematic approach to improve the board's effectiveness, often supported by the board secretary whose role increasingly focuses on the board's effectiveness rather than simply its compliance.



"During the evaluation process, the most important thing is the opportunity to grant board members the privacy of being able to say what they really think."

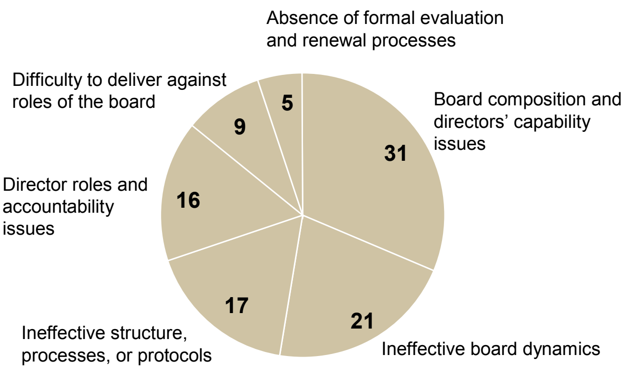
Sir John Parker
Director and Vice Chairman, DP World
Chairman, National Grid

CONCLUSIONS AND RECOMMENDATIONS: THE WAY FORWARD FOR BOARDS IN THE GCC

When prompted to list the most significant barriers to board effectiveness in the region, board members focused on board composition and capabilities and dynamics, including insufficient preparation material, lack of preparation and lack of engagement in discussion. Board structures such as the underuse of committees were also cited as a significant barrier as well as roles and accountabilities (e.g., influence of majority shareholders in decision-making). Difficulty to deliver on core roles of the board (e.g., priority topics such as risk and strategy) and lack of renewal and evaluation were also mentioned by survey respondents, but less frequently.

Exhibit 28 – The most significant barriers to board effectiveness

Per cent of barriers mentioned, n = 181



Source: GCC Board Directors Institute – 2008 survey

While it is clear that boards in the GCC have substantial room to improve in a number of areas, it is also clear that there is tremendous will in the region to raise the level of board effectiveness – to go beyond copying best practices of more developed economies and to create new frontiers of best practice. There is agreement on the overall need, and on the areas that need the most attention. What follows is a summary of the most important actions that boards in the region should consider.

1. Focus the attention of board members.

The selection of board members is a critically important decision and the majority of board members agree on two criteria for any such appointment. First, the board member must be adding value to the skill mix of the board; and second, the board member should have enough capacity to serve proficiently, i.e., not be holding too many board positions.

2. Invest substantially in development of board members.

Such improvements can include the establishment of a board member development plan that includes introduction to the company, formal training, access to best practices and opportunities to meet and learn from local, regional and global peers.

3. Attract international board members.

Many directors believe the assignment of board members possessing strong international experience with best practices in board roles could improve board performance. It is believed this experience would allow the experienced board members to incorporate their knowledge and help other board members learn from them.

4. Clarify from day one the roles of everyone – in particular, the board vs. shareholders vs. management.

A significant number of GCC board members believe that the roles of the board and shareholders are not well-defined. In fact, when probed, the majority of board members mentioned excessive interference or, in some cases, insufficient support of shareholders in the board's decision-making process as the real barriers to defining effective roles and responsibilities for boards.

5. Implement strong "core" committees (audit, nomination and remuneration).

Boards in the region could leverage core committees (i.e., audit, remuneration and nomination) more to ensure better management in those areas where conflicts of interest might arise. Of particular importance is ensuring the responsibilities of these committees are clear, well-defined, and disclosed to the public (especially in the case of public companies).

6. Revisit the need for and role of the executive committee.

Boards need to look into alternatives for the current common structure of having an executive committee with a high level of authority. Such alternatives include: delegating more authority to management, establishing specialized committees to improve board efficiency, and ensuring board members have the right level of availability and expertise to effectively challenge any management decision.

7. Spend more time on strategy, talent and risk management.

GCC boards could consider ways of bridging the gap between the actual time spent on issues such as strategy, risk, and talent management and the desired time devoted to these issues. Spending focused time "off-site" on topics such as strategy, can improve a board's ability to engage on the most important issues.

8. Re-think approval limits of management to lighten the burden on the board.

Valuable time and resources are wasted when minor approvals are sent to the board, as they could be better handled by management. It is important for boards to discern and clarify what the approval limits are for the board and management. Often, through being concerned with excessive detail, the board may miss more profound issues of internal control.

"We should go beyond learning about global best practices. We should create them."

H.E. Ahmed Al Tayer
Chairman, Emirates NBD

9. Ensure all board members are actively engaged in meetings through the role of the chairman.

The dynamics within the board are very important if it is to successfully achieve its objectives.

Ensuring boards receive more relevant preparation material on strategic issues can help to shift the focus of discussions to those topics that demand involvement. Moreover, it is imperative for board members to engage in discussions and voice their opinions clearly, with an obligation to dissent as part of a mentality to protect the interests of all stakeholders.

10. Put in place an evaluation process for the board as a whole and, in time, for individual members.

Board evaluation is an essential process to ensure continued improvement of the board. The majority of board members demand it and see it as a necessity if they are to improve.

Beyond these directions it is of crucial importance to increase the transparency in reporting towards all stakeholders, which can act as a strong catalyst to improvement.

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