Board Directors Institute

PROMOTING PROFESSIONAL DIRECTORSHIP

A review of board effectiveness in the Gulf 2015

DIFC
Gate Precinct 4, Level 4
PO Box 33538 | Dubai, UAE
+971 4 389 9135

www.gccbdi.org
getinvolved@gccbdi.org

Follow us on:

YouTube LinkedIn

The GCC Board Directors Institute wishes to thank SHELL for their financial support towards this report.

CONTENTS

FOREWORD

Promoting Professional Directorship

Board performance is under the spotlight as never before. Gone are the days of the "rubber-stamp" or "country-club" board. Organizations that fail to equip themselves with professional boards will at some point or another face pressure from shareholders and various stakeholders to raise the bar.

What makes a professional board? It starts with people, for a team is only as good and effective as its members. Sound leadership from the chair is a must. Board members that bring complementary skills, knowledge, experience and diversity of thought is essential. Also, board members will be just as concerned by the roles they must fulfilled as by the quality and integrity of their interpersonal relationships. Professional boards will not shy away from engaging in candid and tough-minded discussions. And perhaps more importantly, professional boards understand that building a strong board is an on-going activity which requires time and effort.

A good mechanism to help boards raise their game is performance reviews. Conducted regularly – best practice suggest a thorough review every two or three years complemented by a "lighter" assessment each year in between – performance reviews will surface areas for improvements and guide boards in their journey to achieving higher effectiveness. GCC companies are significantly lagging behind their European and American counterparts in adopting this practice although the idea to assess boards is certainly more palatable today than it was 7 years ago when we launched the BDI. Over one-third of this year's survey respondents confirmed the existence of a performance review process on their board.

Competent board members are far and few between. But Board members in the Gulf are aware of the necessity to enhance their skills and knowledge if they are to build better boards, as evidenced by this year's survey results. Otherwise, expanding the traditional talent pool from which board members are recruited to include more women on boards is a sound decision. Gender diversity at the top helps improve team dynamics and enhances board meetings' effectiveness, as suggested by this year's survey results.

This is BDI's 4th report on board effectiveness in the region. Intended as a valuable resource for companies and directors to improve their governance practices, it also serves as a stark reminder of the work that still needs to be done if GCC boards are to reach their full potential.

Mutlaq Al-Morished
Chief Financial Officer, SABIC
Chairman, GCC Board Directors Institute

EXECUTIVE SUMMARY




As this year marks the fourth iteration of the GCC Board Directors Institute (BDI) Board Effectiveness Survey in the region, we hope the results highlighted here will serve to push and motivate change among regional boards and the manner in which they operate.

The purpose of this report

This report is intended to provide insight for board members, investors, advisers and governments into the changes and improvements made in corporate governance practices in the GCC in the two years since the last BDI report was published. These reports form part of an on-going process to track corporate governance and board effectiveness in the GCC with the aim to continuously enhance the standards of regional boards, for building better boards is not a one-off activity.

Key findings

Many of the key challenges and areas for improvements highlighted in our previous three surveys remain: Inadequate skills and knowledge among directors, limited adoption of self-evaluation processes among boards and ineffective board dynamics come top of the list. When further probed on this last hurdle, this year's survey respondents pointed towards the lack of adequate preparation and participation from all board members. When asked where they would like to see more expertise on their boards, a great majority of respondents (69 per cent) cited corporate governance and compliance – the very same topic was cited in our first survey back in 2009.

Adopting global best practices and participation in workshops are seen as the best ways to improve the effectiveness of boards and directors. There is also considerable and increasing support for appointing independent board members from outside the GCC to bring more formality to the table, enhance discussions and share experiences.

The average size of boards continues to be smaller than in Europe, but it is generally felt to be adequate. A positive new trend is the decrease in cross-board representation. Yet there is a strong feeling that board members are not rotating at a quick enough rate to allow new talent to join, bringing with them new ways of looking at things. Women also continue to be under-represented at the board level, comprising on average less than 1 per cent of board seats, a figure unchanged since we first looked at this indicator in 2011. More promising is the fact that a majority of respondents (56 per cent) see the value that gender diversity brings to a boardroom and to the overall quality of discussion a board has.

A worrying new trend is the sharp decrease in the proportion of respondents that agree that their colleagues actively participate in discussions at board meetings. These results clearly indicate that there is still further room for improvement when it comes to engagement at meetings. In particular, better use should be made of information provided ahead of board meetings for preparation. These results may also indicate that board members are becoming more critical of the levels of contribution – in line with an increased awareness amongst board members of basic governance principles.

A significant proportion of board members remain unclear or somewhat unclear (19 per cent and 42 per cent of respondents, respectively) about the distinction between the roles of the board and those of management. While it is true that this distinction is akin to a line in the sand which will shift according to both external and internal factors, guidelines do exist as to who should do what: The board's role is to govern the organisation while management should be concerned with running the business.

A major area of weakness in corporate governance in the region continues to be self-evaluation. Although more boards this year revealed that they had conducted self-evaluations than in previous years, 62 per cent of respondents are still not effective. Clearly, boards lack the required data from which they can assess their areas of strength and those requiring improvements. This is a clear area where major gains can be made in improving board effectiveness.

Conclusions and recommendations

In summary, we see six priority improvement areas for boards in the region:

1. Make training for new and incumbent board members mandatory;

2. Replace ineffective board members and rotate board members more frequently;

3. Appoint more international and independent board members;

4. Strengthen the board secretary role;

5. Dedicate more time in the board agenda to talent management and risk management;

6. Conduct evaluation of a board's performance annually.

APPROACH

This fourth report on board effectiveness in the GCC seeks to measure improvements made in the last two years since our last report was published. In keeping with previous years, BDI's framework for board effectiveness has been used to track progress. This framework was developed through BDI's early work with more than 100 boards in the region and is presented in exhibit 1. As in the previous three surveys, each of these parameters was explored through a combination of analysis, opinion survey and interviews with senior directors in the region. The following elements were considered:

1. Board composition and directors' capabilities: Knowledge and expertise; commitment and availability; board diversity;

2. Directors' duties and responsibilities: Balancing responsibility towards stakeholders; division of roles between board and management;

3. Board structure, processes and protocols: Recommended committees; size and frequency of meetings;

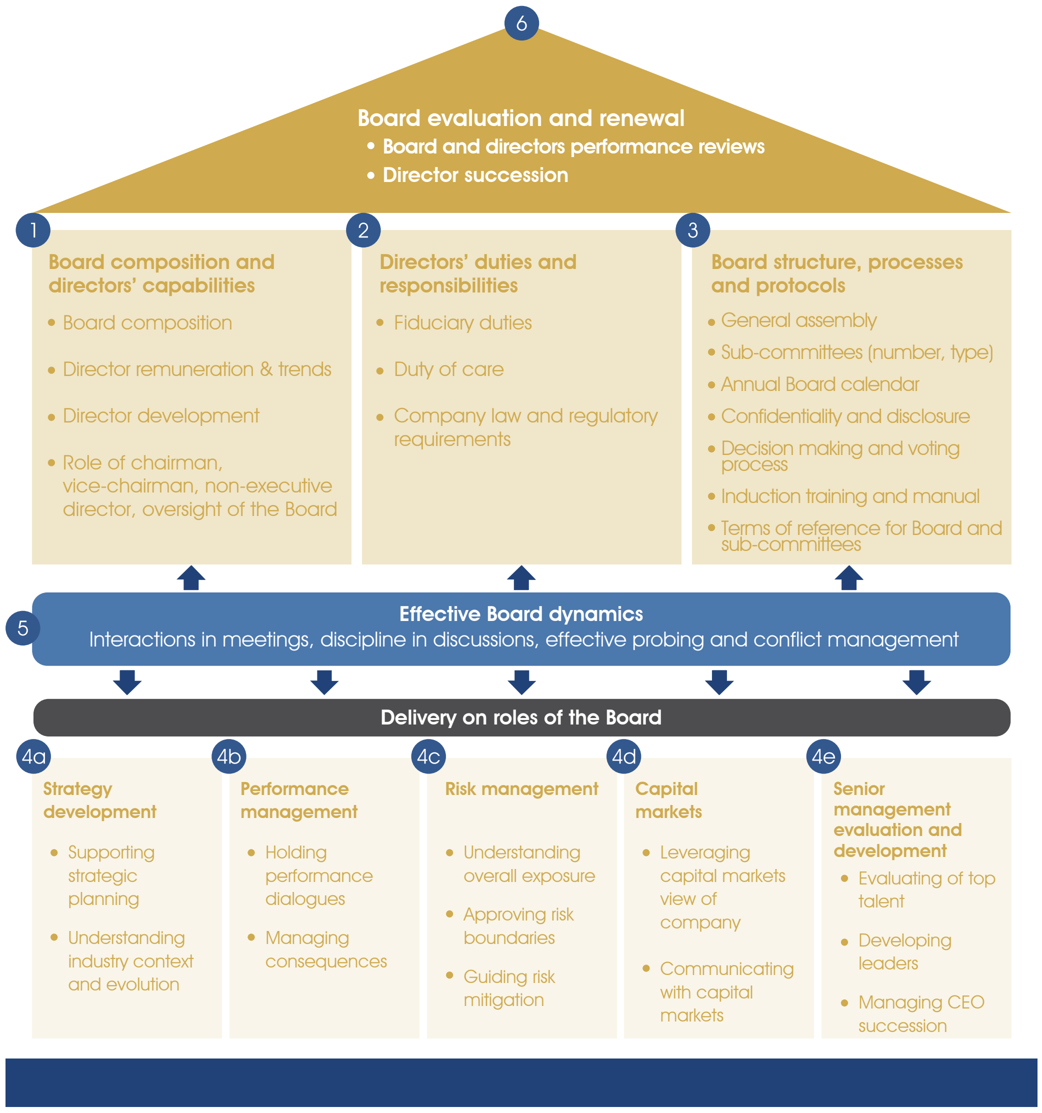
4. Delivering on the roles of the board: Strategy development; risk management; performance and talent management; capital markets;

5. Effective board dynamics: Interactions in meetings, discipline in discussions, effectiveness in probing and conflict management.

6. Board evaluation and renewal: Self-evaluation and renewal of board members.

Exhibit 1: BDI framework for Board effectiveness

The survey was conducted based on BDI's proprietary framework for Board effectiveness



Methodology

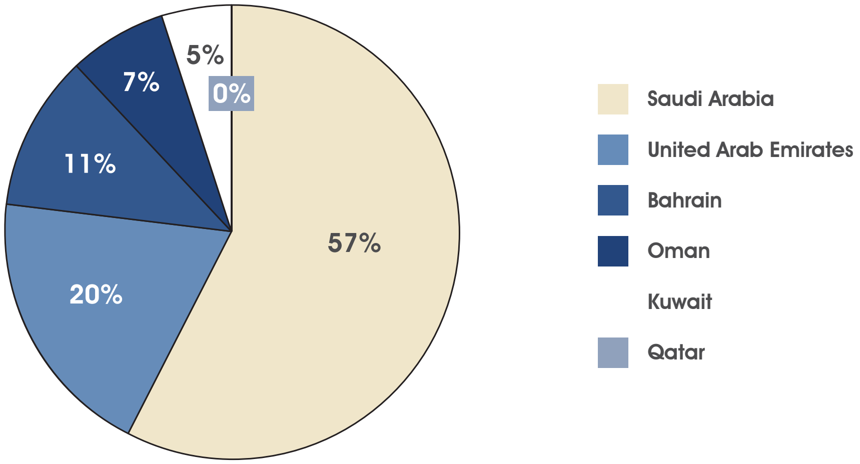
This report is based on the Institute's close work with more than 200 GCC board members in the last two years since our last report was published. In addition, a survey assessing the level of Board effectiveness across six dimensions was used to track the evolution of specific Board practices as well as perceptions of board efficiency.

Where possible, comparisons have been made internationally using the European Corporate Governance Report 2014, "Towards Dynamic Governance", compiled by Heidrick & Struggles as a principal resource.

Board effectiveness can be appreciated by any company stakeholder as a critical element for managing operations and growth. The GCC region's ambitions to develop itself and its standards of business are evident in the successes of each country's growth over recent years coupled with the individual successes of companies and organisations. However, the topics of governance and board effectiveness still do not resonate with senior executives and directors as much as they should.

Indeed, several studies support the theory that strong governance practices have a positive impact on an organisation. One of them, published by the Association of British Insurers in 2008 (Selvaggi and Upton), indicated that there is a significant causal relationship between good corporate governance and superior company performance. The study also suggested that it was good corporate governance that led to better performance, not the other way around.

Exhibit 2: Respondent composition

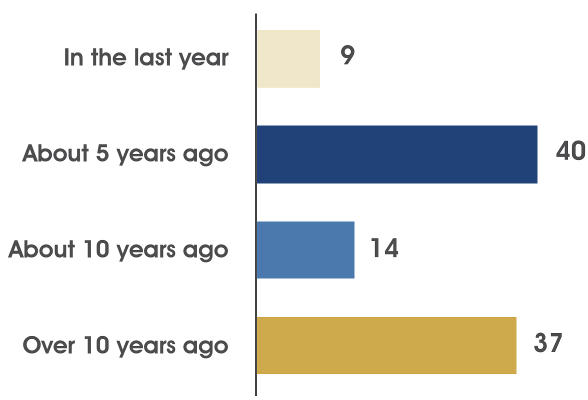


As shown in exhibit 2, the split of respondents illustrates that the most support for the survey originated from Saudi Arabia with 57 per cent of respondents based out of the Kingdom, followed by 20 per cent from UAE-based directors and executives. Bahrain, Oman and Kuwait followed with 11, 7, and 5 per cent respondent contributions to the total survey pool, respectively. This year, contrary to previous years, there were no respondents from Qatar although several Qatari companies and board directors were included in our sample.

INTRODUCTION

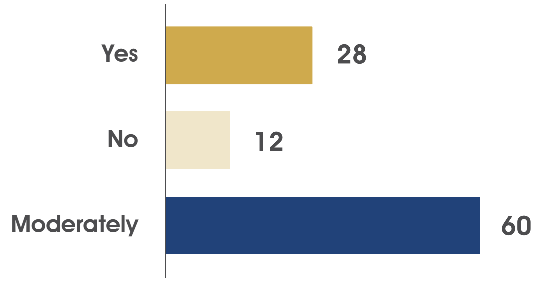
The seniority level of GCC board members surveyed is fairly high. As exhibit 3 indicates, 40 per cent of the interviewed directors were first appointed as board members about five years ago, 13 per cent about 10 years ago and 37 per cent have been filling a board role for more than 10 years. Less than one in ten respondents has been appointed as board member in the last year.

Exhibit 3: When were you first appointed as a Board member? (% of respondents)



Again, this year, a great majority of the directors surveyed (60 per cent) felt moderately about the effectiveness of their boards. Only 29 per cent thought their boards were effective and 11 per cent thought they were not.

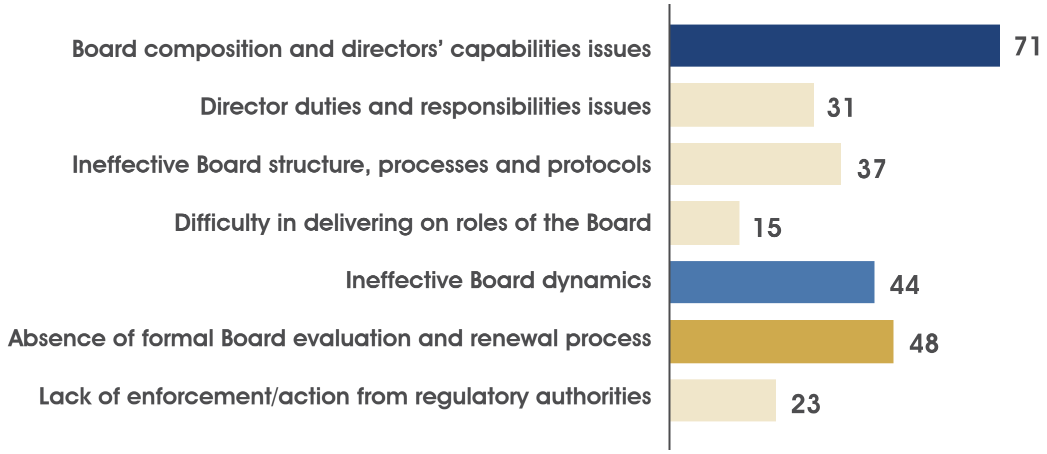
Exhibit 4: Do you believe Boards in the GCC are effective?
(% of respondents)



Board effectiveness across the GCC is still being impeded by the inadequate skills and knowledge of directors and a suboptimal board composition. The top three barriers to improving board effectiveness identified by this year's survey respondents were the boards' composition and directors' capabilities issues, absence of formal board evaluation and renewal processes, and, finally, ineffective board dynamics.

These results were closely followed by ineffective board structure and processes, a lack of proper knowledge about directors' duties and responsibilities, and lack of action and/or enforcement from regulatory authorities. Delivering on the roles of the board was seen only by a small proportion of respondents (15 per cent) as a hurdle to board effectiveness.

Exhibit 5: What are the top 3 barriers to improving board effectiveness in the GCC?
(%, respondents can select more than one barrier)







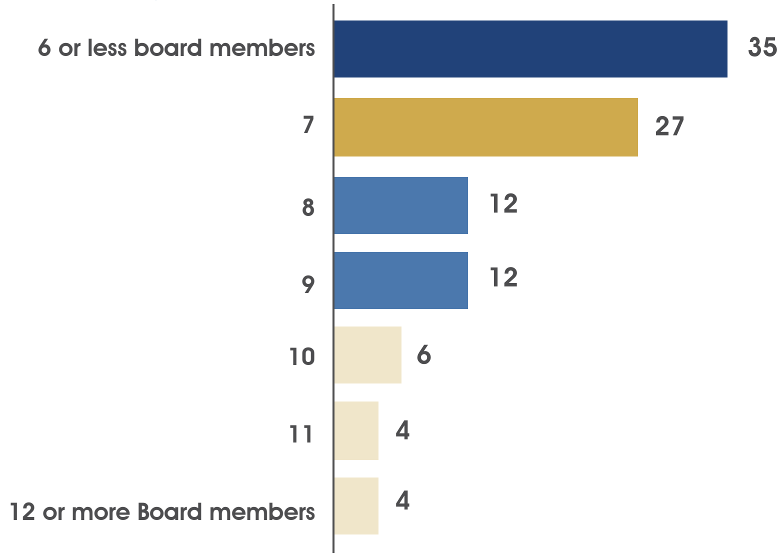


BOARD EFFECTIVENESS LEVERS

1. BOARD COMPOSITION AND DIRECTORS' CAPABILITIES

GCC boards tend to have a small number of members; 35 per cent of the respondents declared that they sat on boards of six or less, while 27 per cent of the boards were made up of seven members. About a quarter of the respondents sit on boards with eight or nine members, while the rest (14 per cent) sit on boards comprising at least10 board members.

Exhibit 6: How many Board members are there on the main Board you sit? (% of respondents)



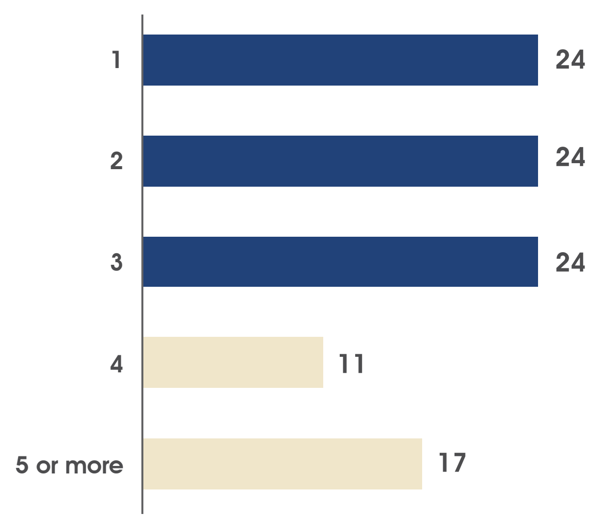
This is well below the European average of 12 directors per board, according to the European Corporate Governance Report 2014 compiled by Heidrick & Struggles. However, smaller boards are still seen as adequate in size by this year's survey respondents.

Commitment and availability

Ensuring that board members have time to carry out their responsibilities will also help improve board effectiveness. Cross-board representation has diminished in the region, with 24 per cent of respondents sitting on one board, and about half sitting on two or three boards. The percentage of respondents acknowledging sitting on five or more distinct boards this year reached only 17 per cent. This is a positive improvement from 2009 when one-third of the GCC board members surveyed held five or more board positions.

However, when considering the fact that board roles are additional to executive roles – the great majority of board members also hold c-level or equivalent positions – most board members in the Gulf are overcommitted. The 2014 European Corporate Governance report indicates that the annual average hours of board service for listed companies now reaches 215 (compared to 155 in 2003), a trend unlikely to reverse given the increasing demands placed on boards and directors.

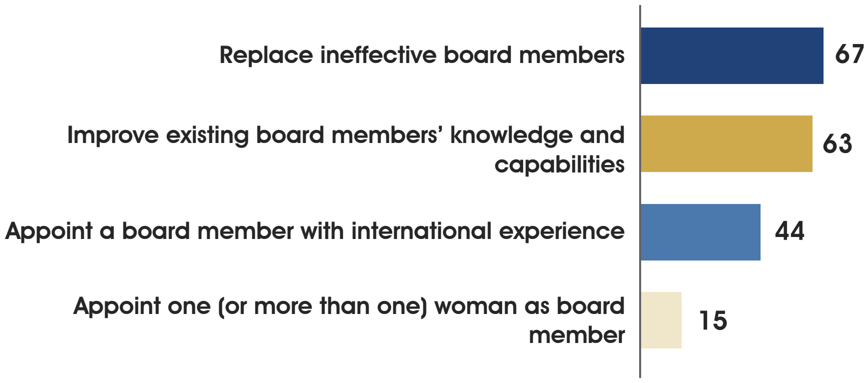
Exhibit 7: How many Boards do you sit on?
(% of respondents)



Despite remarks mentioned in each of the three previous BDI surveys (2009, 2011 and 2013), director's capabilities and board composition remain the main barriers to effective corporate governance.

This year, too, the general opinion regarding the levers that have the most impact on improving board composition remain the same with 63 per cent in favour of replacing ineffective board members, and 67 per cent in favour of improving existing board members' knowledge and capabilities.The idea of replacing ineffective board members has certainly became more acceptable since our first survey was published in 2009. But based on our experience and work with hundreds of board members, very few boards – if any – have attempted to implement this practice.

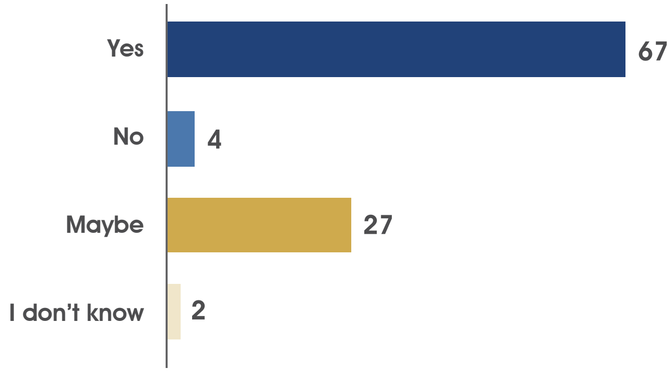
Exhibit 8: Which of the following levers have the most impact on improving board composition? (%, respondents can select more than one lever)



International expertise and board diversity

There continues to be considerable support for appointing members from outside the GCC with 67 per cent believing that non-nationals add value to the board, compared to 40 per cent in 2011. Generally, international board members are perceived as bringing more formality to board meetings and interactions, which is seen as enhancing the quality of debate and board meeting preparation.

Exhibit 9: Do you believe an international member would add value to your Board? (% of respondents)



Diversity, and more specifically gender diversity, remains an issue in the region with less than 1 per cent of GCC board seats filled by women. While more than 50 percent of this year's survey respondents indicated they had never sat on a board where at least one woman was a member, support for gender diversity amongst respondents was fairly high.

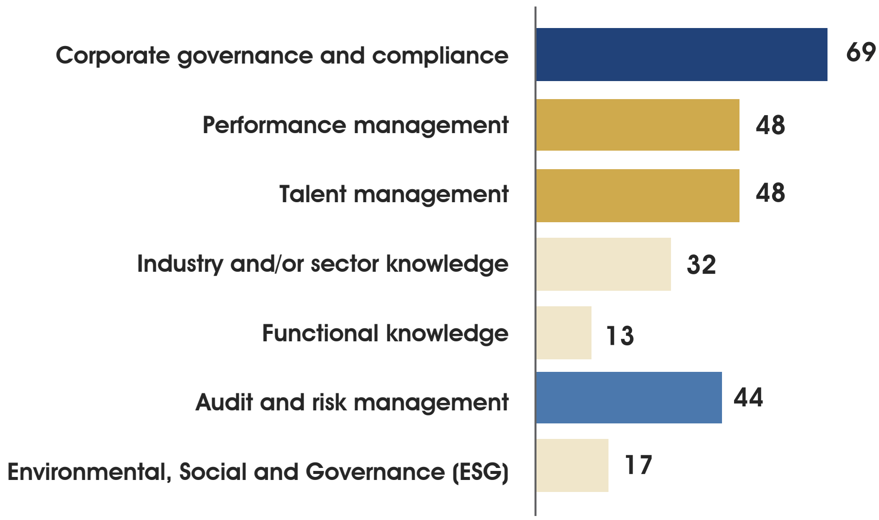
Given the increased emphasis laid on gender diversity in boards in the last two years, we decided to enlarge the focus of our research on this particular topic for this year's report. Insights from this year's survey respondents are presented in the section "Female representation on GCC boards" on page 27.

Knowledge and expertise

When asked about the areas of expertise the respondents would like to see more of in the main board they sit on, respondents of the 2013 survey selected Performance Management (73 per cent), Talent Management (67 per cent) and Industry Knowledge (66 per cent) as the main areas requiring to be strengthened.

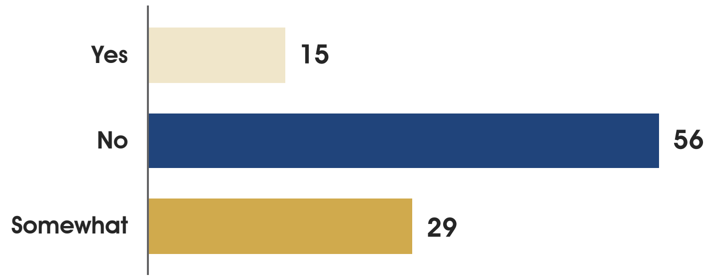
This year, Corporate Governance and Compliance (69 per cent) was cited as the most important area, followed by Performance Management and Talent Management (48 per cent). Additional areas for boards' improvement included: Audit and Risk Management, Industry/Sector knowledge, ESG and Functional knowledge with 44 per cent, 32 per cent, 17 per cent and 13 per cent, respectively.

Exhibit 10: Looking at the main board on which you sit, where would you like to see more expertise on?
(%, respondents can select more than one topic)



The topic of remuneration generated much discussion again this year with the great majority of our respondents generally dissatisfied with the current levels of remuneration seen in GCC boards. Only 15 per cent of those surveyed believe remuneration packages were sufficiently attractive for talented board members. When compared to the responsibilities and contributions expected of board members, "inadequate" remuneration was cited by many board members as an important barrier to attracting talented individuals.

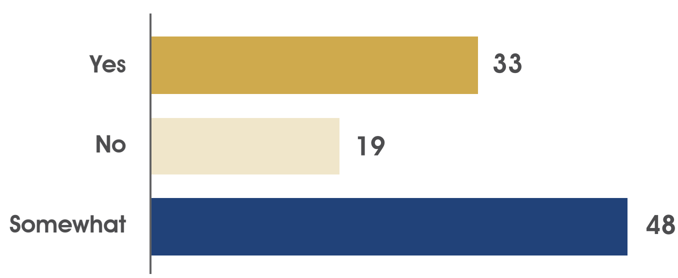
Exhibit 11: Do you believe remuneration packages in the region are sufficiently attractive to talented Board members?
(%, respondents)



2. DIRECTORS' DUTIES AND RESPONSIBILITIES

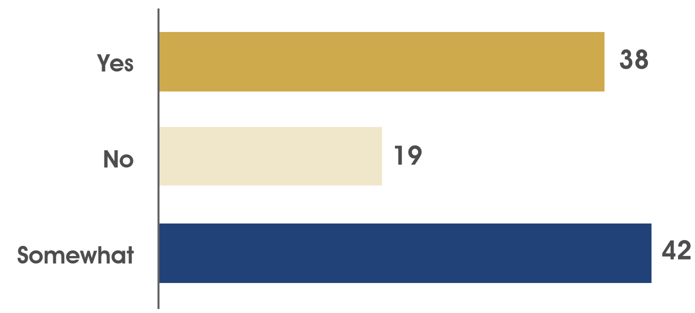
In regards to the GCC boards' understanding of directors' duties and responsibilities, only one-third of respondents thought that the board members had a clear understanding of their own specific duties and responsibilities regarding the board; just under half of the respondents (48 per cent) indicated that board members were somewhat knowledgeable about this topic, and 19 per cent thought that they were not. These results contrast with those of the 2013 survey where 57 per cent of the respondents felt that board members were aware of their roles. In our view and experience, more board members are more aware of what is expected of them if they are positively contributing to a board – an increased awareness which translates into a more critical appraisal of their own and their colleagues' performances.

Exhibit 12: Board members have a clear understanding of their own specific duties (e.g., fiduciary duty and duty of care) and responsibilities regarding the Board (% of respondents)



The current level of understanding of the boards' duties and responsibilities in the GCC might be due to how the roles of the Board versus those of management are understood and defined; 38 per cent of respondents affirmed that the roles were clearly understood and defined versus the roles of management while 19 per cent thought otherwise. The remaining 42 per cent thought that the roles were understood and defined but only to a certain extent.

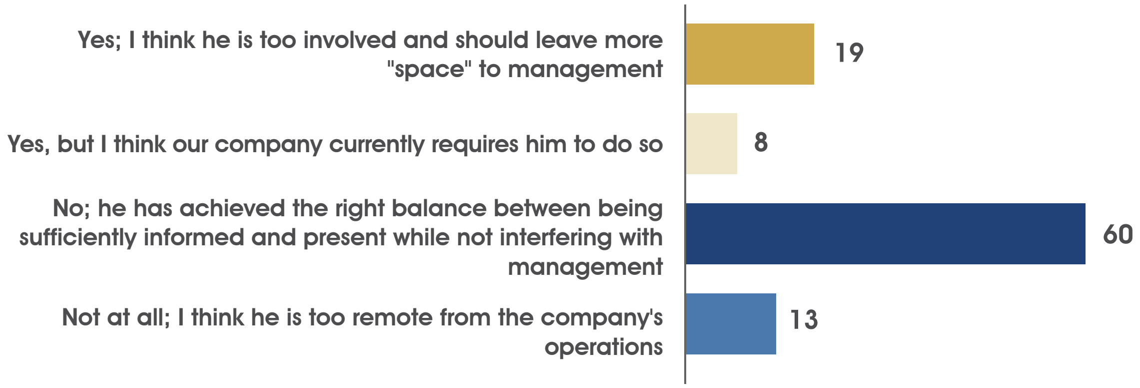
Exhibit 13: Are the roles of the Board versus those of management clearly understood and defined? (% of respondents)



Separation of the chairman and CEO roles remains prominent in the region as prescribed by several regulatory authorities; 84 per cent of the respondents indicated that the role of Chairman and CEO were held by two persons in the main board they sit on.

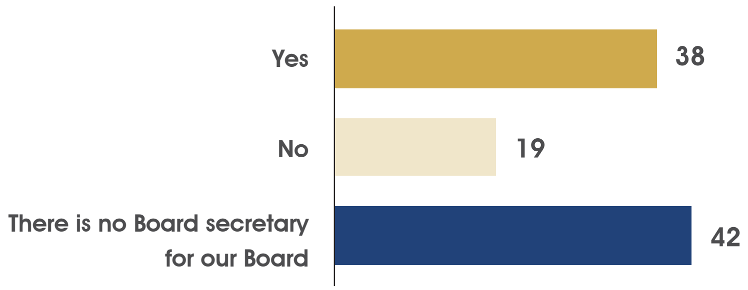
The Chairman's involvement in day-to-day operations of companies has fluctuated since we started to track the evolution of board practices in the Gulf. This year, 60 per cent of respondents have indicated that their chairman had achieved the right balance between being sufficiently informed and present while not interfering with management. However, 19 per cent of respondents believed their chairman was too involved and should leave more "space" to management. The results for this last question were 39 per cent and 35 per cent of all surveyed board members in 2011 and 2013, respectively. In our view, the higher percentages seen in 2011 and 2013 must be interpreted in the light of the economic context of the time, when companies were still struggling to emerge from the Great Recession and chairmen were oftentimes expected – if not required – to be more involved in company operations.

Exhibit 14: Is the Chairman involved in day-to-day decisions or operational matters? (%, respondents)



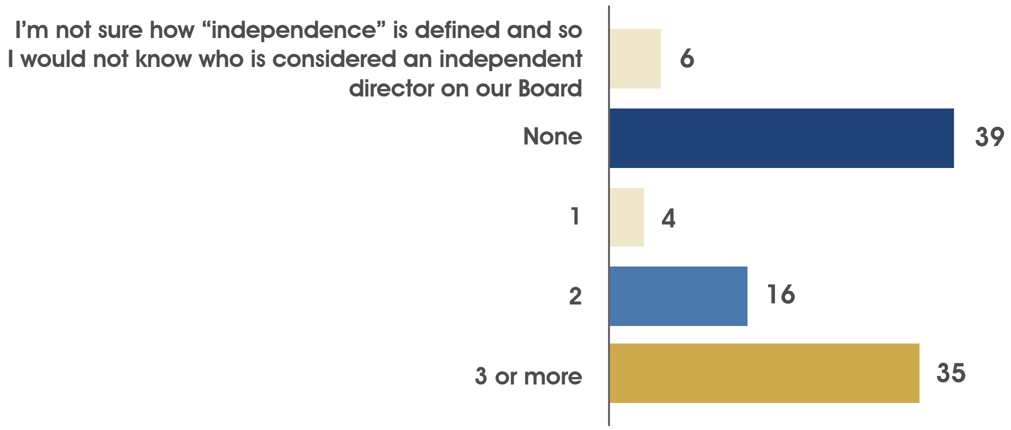
Board secretaries play a critical role in ensuring a board's effectiveness. Just over one-third of respondents (38 per cent) rated their board secretary as "highly knowledgeable on topics related to governance and board matters, and serve as a sounding board to the chairman". More alarming, however, is the 42 per cent of respondents indicating an absence of a corporate secretary in the main board they sit on.

Exhibit 15: The Board secretary is highly knowledgeable on topics related to governance and board matters, and serve as a sounding Board to our chairman (% of respondents)



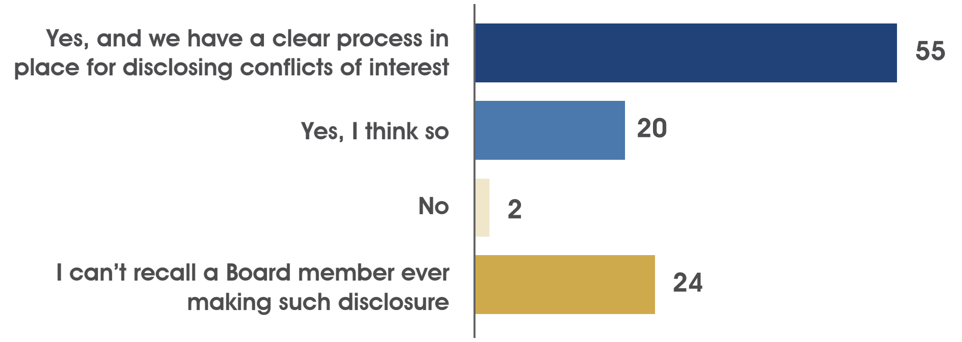
The majority of GCC boards have at least one independent member and 35 per cent of the respondents have three or more independent board members, 16 per cent have two, while 4 per cent have only one independent board member, in contrast with 39 per cent of GCC boards having no independent members. Actually, GCC boards strongly believe independent directors would enhance the effectiveness of the board; 65 per cent of GCC boards are in favour of this measure and judge it beneficial for their organisations. In contrast, only 4 per cent are actually opposed to the idea.

Exhibit 16: How many independent Board members do sit on your Board? (% of respondents)



Disclosure of conflict of interest is common within our respondents, with 75 per cent of those surveyed indicating that board members actively disclose conflicts of interest when they occur in board discussions, and 55 per cent have a clear process in place for disclosing these types of conflicts. The remaining respondents either deny the premise or cannot recall a board member ever making such a disclosure.

Exhibit 17: Board members actively disclose conflicts of interest when they occur in Board discussions (% of respondents)



Definition of types of directors

1. Independent Director: A member of a board of directors who does not have a material or pecuniary relationship with the company or any related persons, except sitting fees.

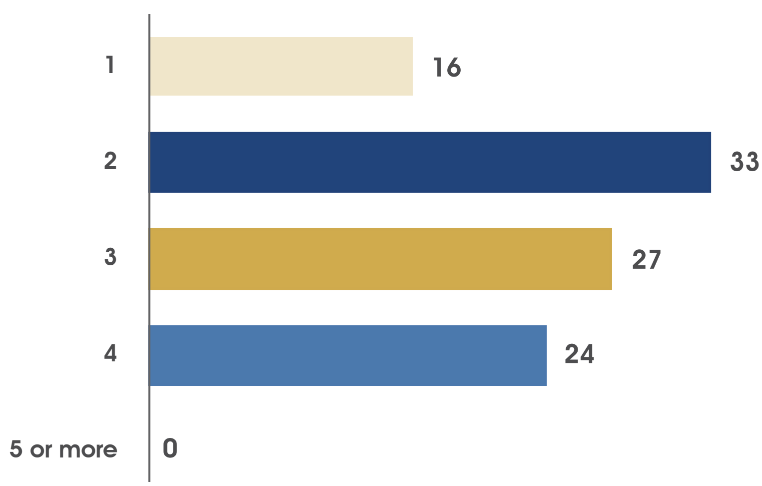
2. Non-Executive Director: A member of a board of directors who is not independent and does not have a full-time management position at the company, or who does not receive a monthly or yearly salary.

3. Executive Director: A member of a board of directors who, in addition to serving on the board, is part of the company's senior management team.

3. BOARD STRUCTURE, PROCESSES AND PROTOCOLS

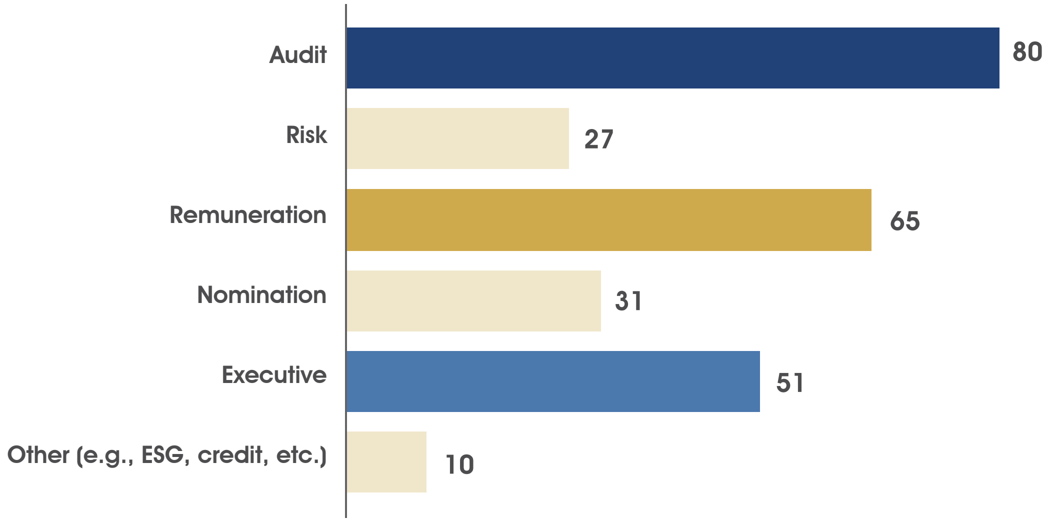
GCC boards still lag behind Europe as far as using committees to support their work is concerned. The average number of committees in GCC boards is 2.6 compared to 3.4 (up from 3 in 2009) in Europe and 4.4 (up from 3.9 in 2009) in the UK alone, as reported in Heidrick & Struggles European Corporate Governance Report 2014. One- third of respondents indicated having two committees on their boards, 27 per cent reported three committees, while 24 per cent reported four committees. None of our respondents currently sit on boards with five or more committees.

Exhibit 18: How many committees is there on your Board? (% of respondents)



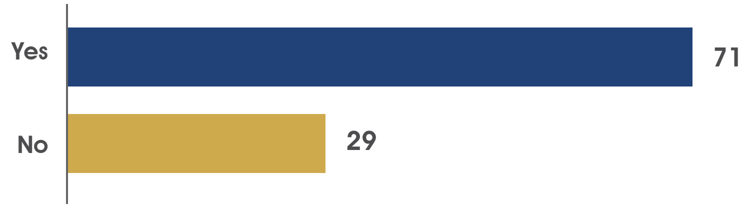
As in the previous surveys, the two most prevalent committees are audit and remuneration. The vast majority (80 per cent) said their boards had an audit committee, while 65 per cent said they had a remuneration committee.

Exhibit 19: Which of the following committees?
(% of respondents, more than one option can be selected)



The prevalence of the executive committee remains strong in the Gulf with 51 per cent of respondents having it on their boards. More alarming, though, is the percentage of respondents (71 per cent) indicating that the executive committee possesses a high level of authority and that it acts on behalf of the board on major decisions.

Exhibit 20: Do you believe the executive committee has a high level of authority and acts on behalf of the Board on major decisions?
(% of respondents)



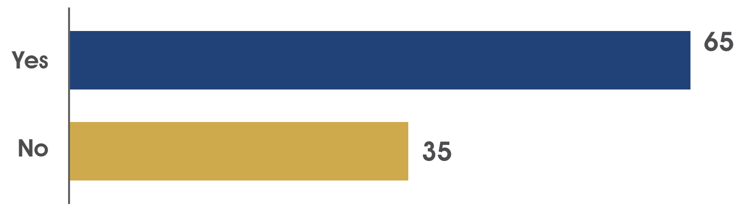
The majority (76 per cent) of those surveyed felt board members and all committees have clear roles and responsibilities as defined in their respective charters, and every board member is familiar with the content. Similarly, nearly all (88 per cent) respondents felt that all committees are acting on behalf of the board rather than acting independently instead of the board.

A large proportion (80 per cent) of respondents said that they have no formal development programme in place for new board members. In our view, implementing a formal induction training programme is an easy, "no regret" move that would help enhance a board's performance.

Exhibit 21: The Board has a formal development program in place for new Board members (% of respondents)

A great proportion (80 per cent) of those interviewed felt that board meeting materials are clear, concise, presented in a timely manner and appropriate for board members to discharge their duties effectively. In fact, almost all (94 per cent) the respondents thought that the frequency of board meetings was adequate, while 65 per cent confirmed their meetings were scheduled at least one year in advance and that they knew which topics would be addressed at these meetings.

Exhibit 22: Board meetings are scheduled at least 1 year in advance and Board members do know which topics will be addressed at these meetings (e.g., management performance review in December, compliance issues every quarter, etc.)
(% of respondents)



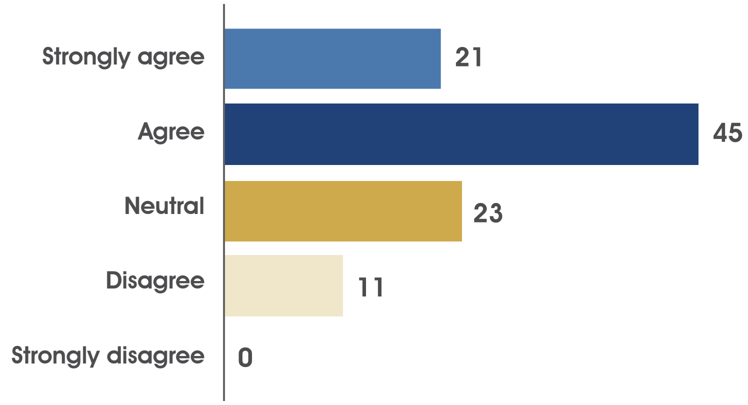
4. DELIVERY ON ROLES OF THE BOARD

Beyond a board's fiduciary obligations, we see five core roles through which the board can add value to a company:

- 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 review its performance.

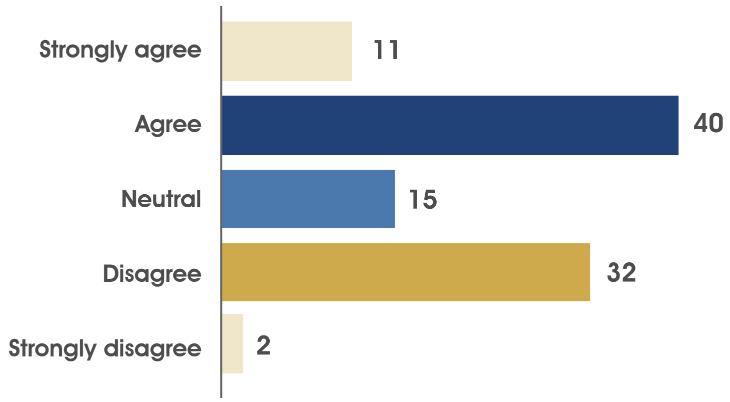
According to this year's survey results, board members are perceived to spend enough time in performance management (66 per cent), accounting and financial reporting (55 per cent), and strategy-related questions (43 per cent).

Exhibit 23: The Board spends sufficient time discussing performance management topics (% of respondents)



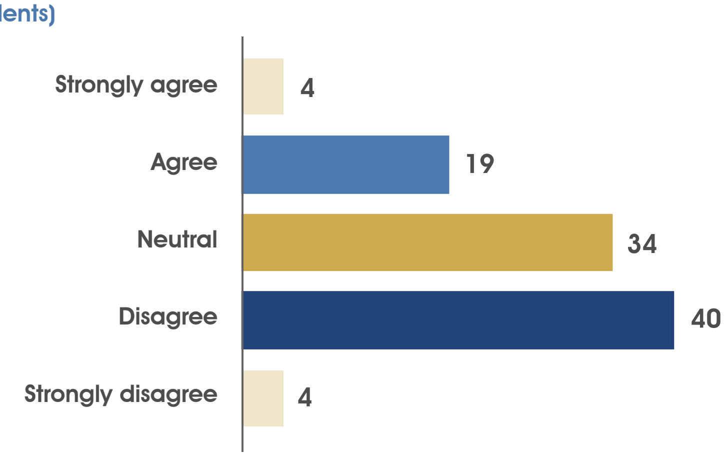
The time dedicated to these areas has improved compared to the 2013 survey results, but significant contribution from all board members is still seen as lacking, as indicated by 34 per cent of respondents (the total percentage of respondents who answered "disagree" and "strongly disagree" when asked if all board members significantly contributed to strategy development and discussions).

Exhibit 24: All our Board members make a significant contribution to strategy development and strategy-related discussions
(% of respondents)



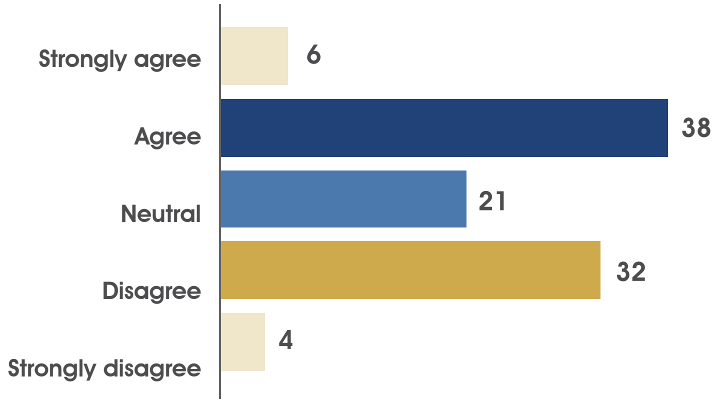
Opinions are less decisive concerning the time dedicated to discuss talent management issues and succession plans for all critical positions. This year, 44 per cent of respondents claimed that boards do not work enough on documenting the processes that could help prepare the people taking over crucial positions. This situation was also highlighted in the previous surveys where it was revealed that just 5 per cent of boards spent more than 50 per cent or more of their time in talent management.

Exhibit 25: The Board has a documented process of succession plans for all critical positions
(% of respondents)



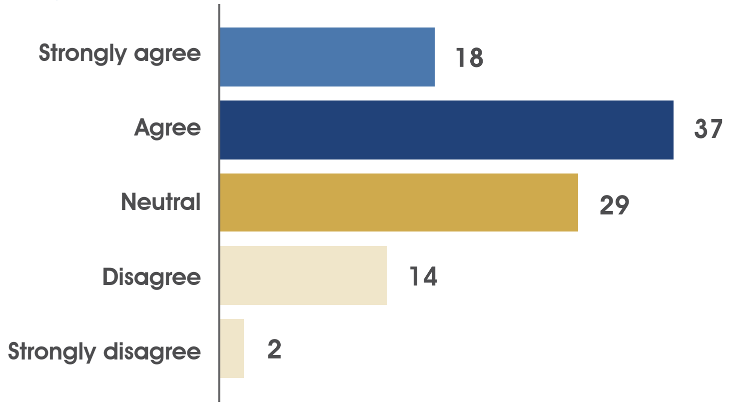
Low effectiveness was reported in the management of risk in the 2013 survey when half the respondents indicated their boards did not monitor key risks regularly. It seems little progress has been made on this front since then with more than one-third (36 per cent) of respondents disagreeing or strongly disagreeing when asked if all their colleagues had a clear understanding of the top five risks facing their company.

Exhibit 26: All Board members are aware of and has clear visibility on the top 5 risks facing the company (% of respondents)



We notice slight progress in the perception of capital market expectations' management. In the 2013 survey, 32 per cent of respondents thought that the time devoted to discussing capital markets issues was not enough. This year, just 22 per cent share this opinion. That said, we must stress that almost half (49 per cent) of the interviewees were neutral on this. Also, only a small majority of respondents (55 per cent) agreed that their boards spent enough time discussing the integrity of financial accounting and reporting systems.

Exhibit 27: The Board spends sufficient time to ensure integrity of companies accounting and financial reporting systems (% of respondents)



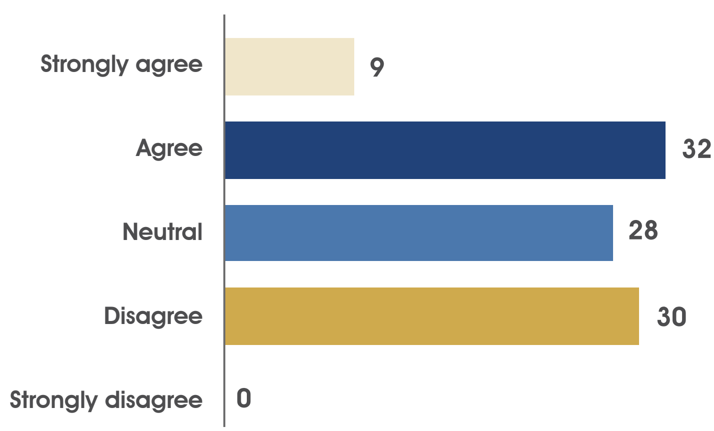
5. EFFECTIVE BOARD DYNAMICS

The level of preparation and participation in meetings has slightly decreased compared to responses from the 2013 survey.

Preparation and participation

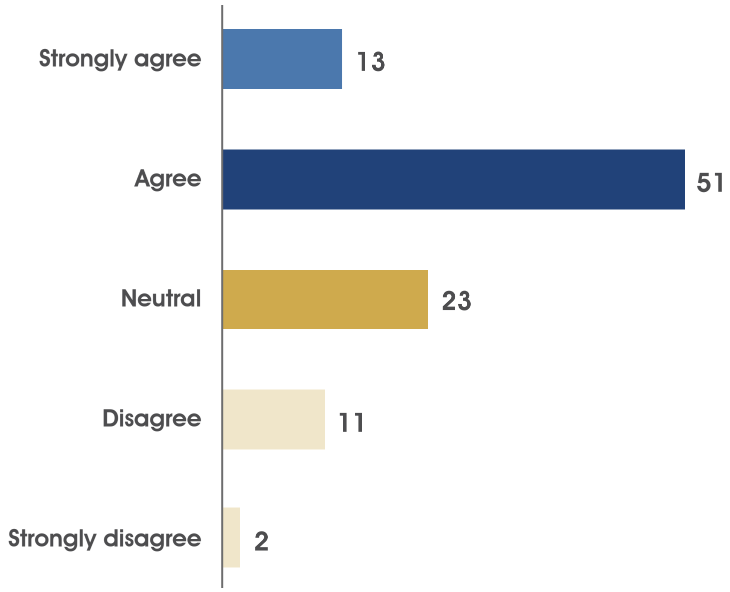
This year, just 41 per cent of respondents agreed or strongly agreed that all members make meaningful contributions during board meetings (compared to 50 per cent in the 2013 survey) while 30 per cent (compared to 32.5 per cent in 2013) felt that this was not the situation prevailing on their boards.

Exhibit 28: All Board members prepare well for Board meetings, are engaged in Board meetings and make meaningful contributions (% of respondents)



One hypothesis for this is that more participation is expected of fellow board members, a premise which can be further substantiated by the 64 per cent of respondents that asserted that their boards encouraged and valued discussion about different options and were comfortable with debate (as illustrated in exhibit 29).

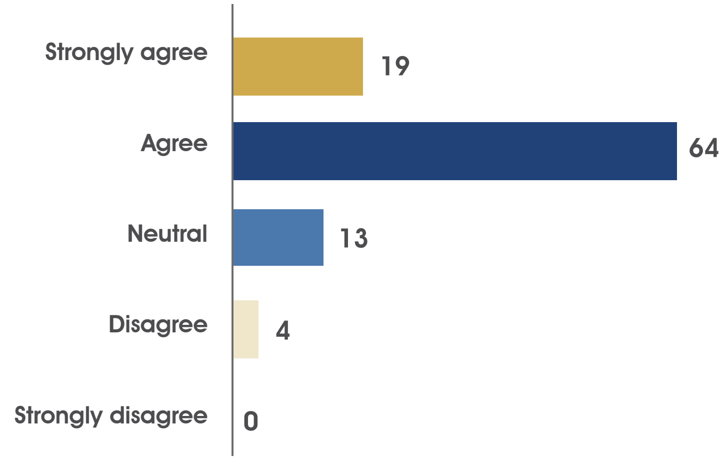
Exhibit 29: The Board encourages and values discussion of different options and viewpoints, and Board members are comfortable challenging each other to ensure the Board arrives at the best outcome (% of respondents)



Decision-making processes

Boards are able to reach closure on difficult topics according to 73 per cent of respondents. This is mostly the result of a "consensus" approach to making decisions as adopted by 57 per cent of respondents. It clearly demonstrates that the process of decision making is considered transparent, fair and efficient and not just dictated by the Chairman (an opinion expressed by 83 per cent of respondents). These points of view were also highlighted by the 2013 interviewees with more than 75 per cent of those surveyed asserting that decision-making at board meetings was effective.

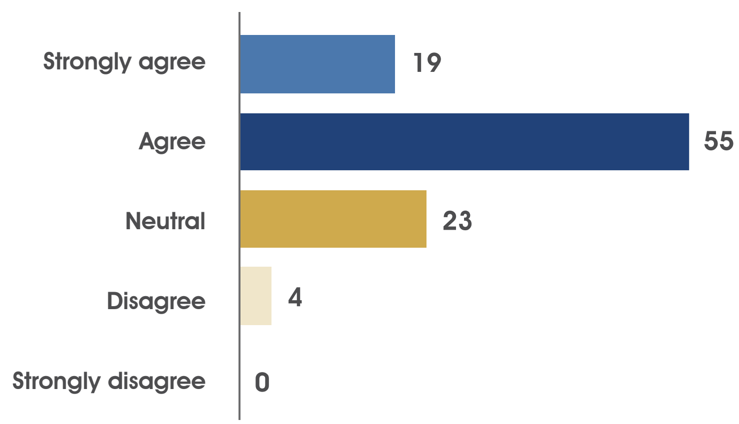
Exhibit 30: The chairman facilitates Board decision making rather than making decisions on behalf of the Board
(% of respondents)



Interaction with senior management

Interactions between boards and senior management teams have been rated as fairly positive by the survey respondents. Indeed, 74 per cent either agreed or strongly agreed that meetings involving both teams provided a forum for honest and open discussions. In the same vein, 73 per cent of respondents said that a culture of trust and respect prevailed between the two groups.

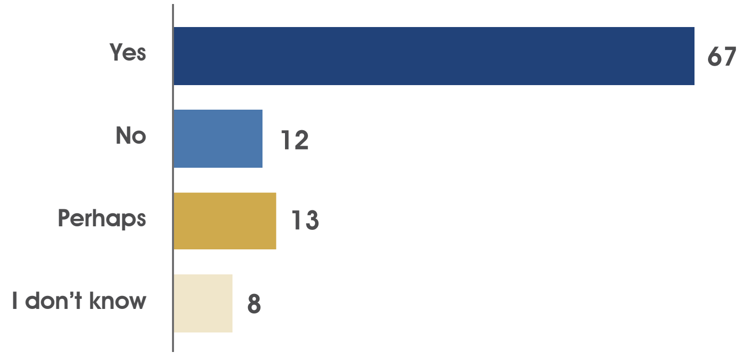
Exhibit 31: Meetings between the Board and senior management team provide a forum for open and honest discussion
(% of respondents)



6. BOARD EVALUATION AND RENEWAL

Board performance reviews are more prevalent in the region than they were when we launched our first report on GCC board practices in 2009. Further, board performance reviews are also more often recognised as an excellent starting point from which to transform a board and embed best practices in a company's processes. Reviewing the performance of a board was viewed favourably and is considered to have a positive impact on a board's effectiveness by 67 per cent of this year's respondents.

Exhibit 32: Do you think Board performance reviews have a strong and positive impact on Board effectiveness?
(% of respondents)



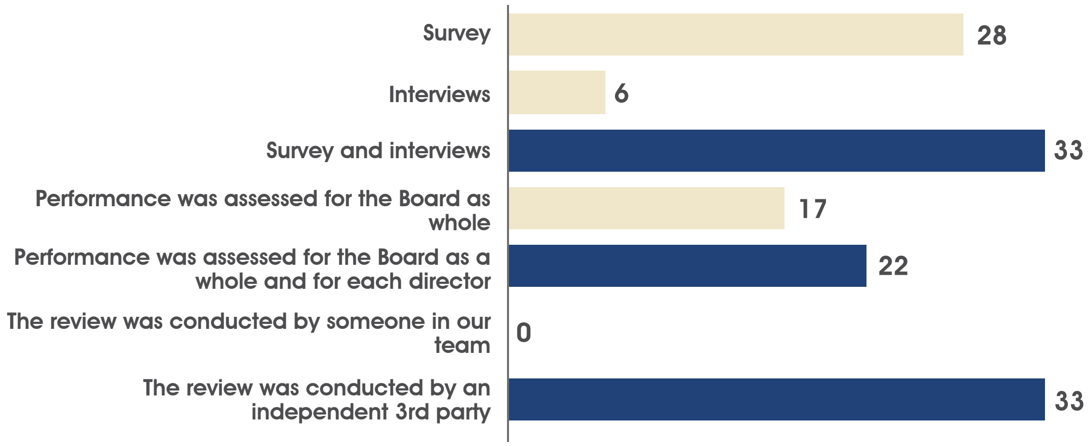
According to this year's survey results, 38 per cent of respondents have confirmed that a process to review board performance is in place in their main board. This is a significant increase from 2013 when only 16 per cent of respondents confirmed the existence of such a process.

Exhibit 33: On the main Board you currently serve, is there a Board performance review in place? (% of respondents)

However, these encouraging developments still fall short of global best practices adopted by companies around the world. In Europe, 70 percent of boards review their performance on an annual basis and disclose the results of this evaluation in their annual report, as described in the European Corporate Governance Report 2014 published by Heidrick & Struggles. In the United States, the New York Stock Exchange (NYSE) requires all listed entities to conduct an annual board performance review, a requirement which has been in place for several years already.

Again this year, respondents indicated that surveys combined with interviews were the preferred methodology (33 per cent), and most of the times were conducted by an independent third party (33 per cent).

Exhibit 34: Which method(s) does your Board use? (% of respondents)



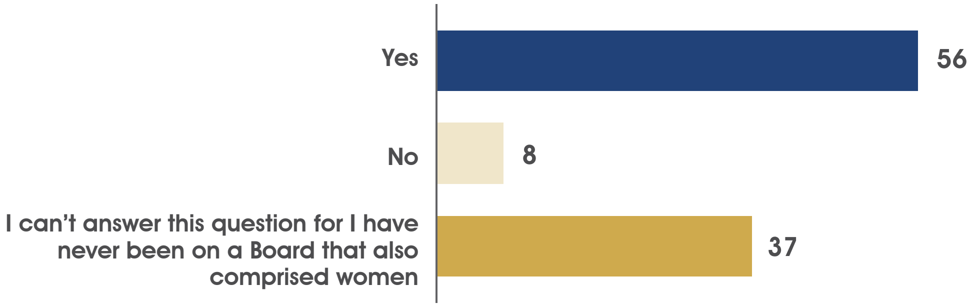
7. FEMALE REPRESENTATION ON GCC BOARDS

We first raised the issue of the low representation of women on GCC boards back in 2009, in our 1st survey on Board practices in the Gulf. Little progress has been made since then; women are still greatly under-represented with less than 1 per cent of board seats filled by them – a figure which has not moved since 2009.

However, the idea of women on boards has gained in popularity since our last report and concrete actions have been taken by sovereign leaders to increase female representation in top leadership positions. In December 2012, the UAE Cabinet issued a decree requiring all state-owned entities to have at least one woman on their boards. In 2013, Saudi Arabia's King Abdullah appointed 30 women to the Shura Council, the royal advisory committee in the Kingdom, and made it mandatory to have at least 20 per cent female representation in the Council.

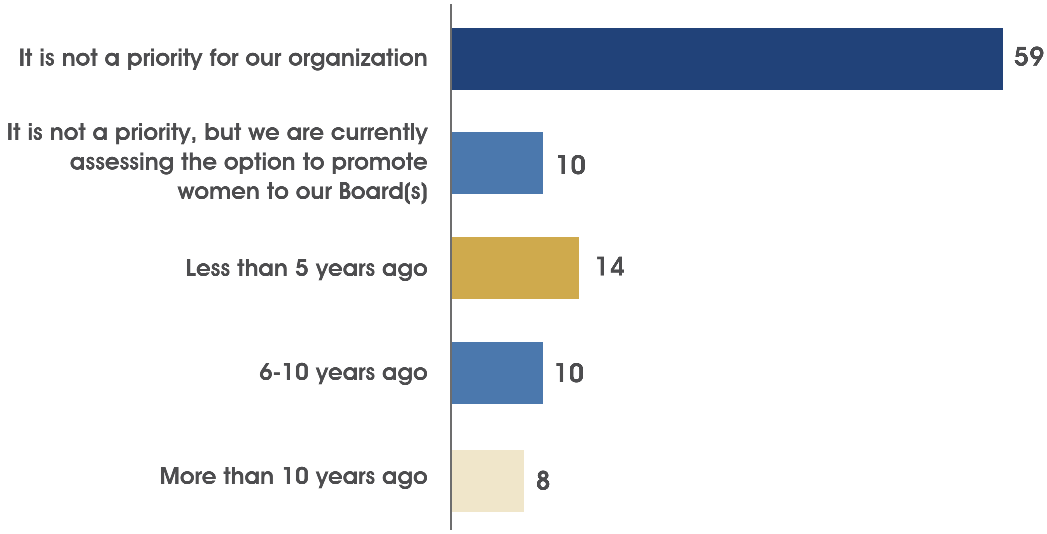
When asked if they believed that gender diversity positively enhances interactions in meetings, discipline in discussions, effective probing and conflict management, 56 per cent of respondents said yes (compared to a meagre 8 per cent of our respondents who did not agree with this premise).

Exhibit 35: Gender diversity positively influences board dynamics by increasing interactions in meetings, discipline in discussions, effective probing and conflict management". Based on your experience, do you agree with this statement?
(% of respondents)



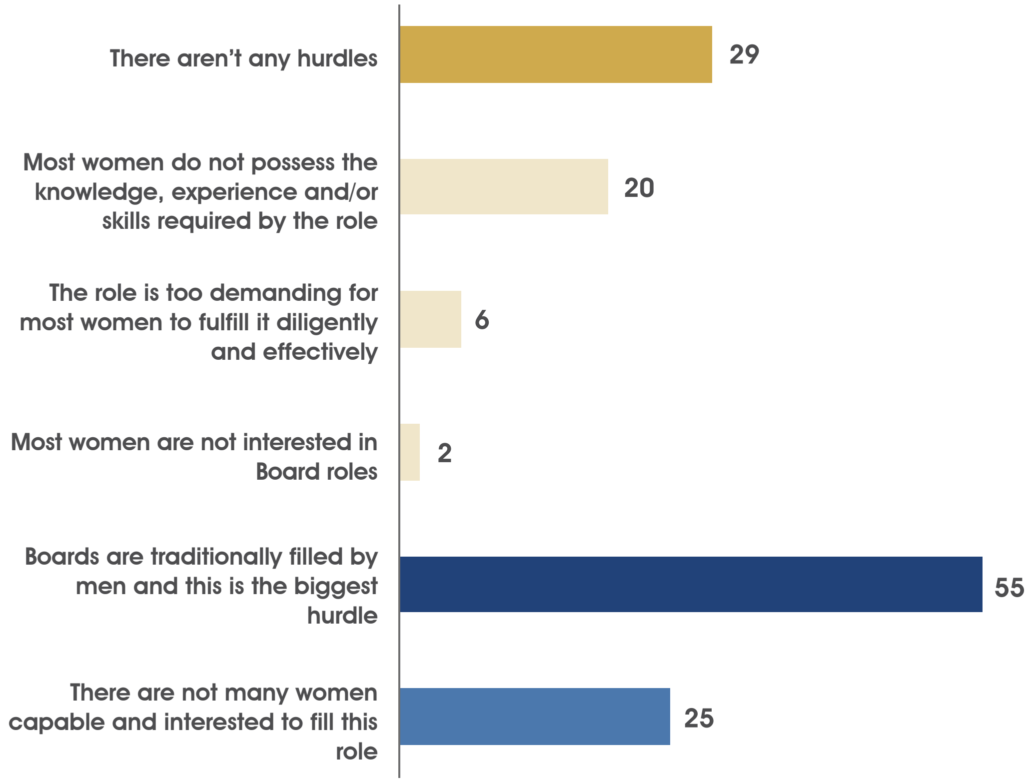
These encouraging results are tamed by the evident lack of concrete actions taken by GCC companies to ensure women are enabled to progress and reach the very top positions in their organisations. When asked if appointing women to senior positions and board roles was a priority in their organisations, a majority (59 per cent) of board members surveyed confirmed that it was not.

Exhibit 36: When did appointing women to board roles become a priority for your organization?
(% of respondents)



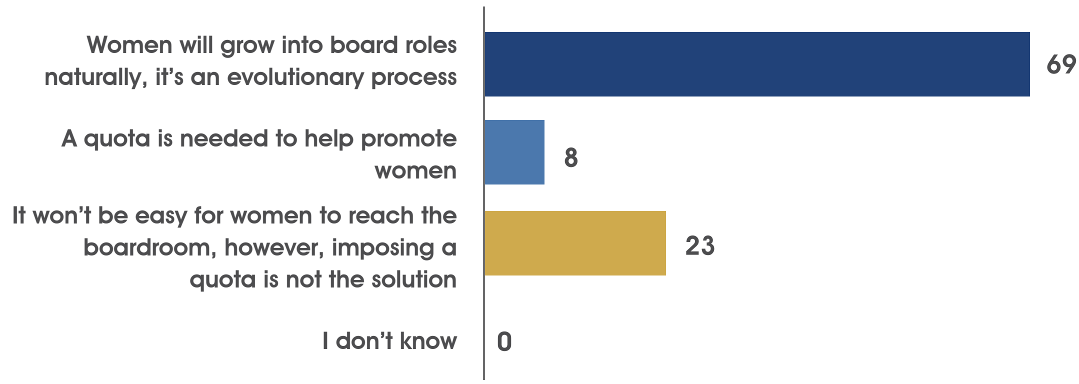
We also probed further into the perception about the ease with which women could reach the boardroom. Almost one third of respondents (29 per cent) do not think there are any hurdles for women to overcome in order to be appointed to a board. To qualify these respondents as "optimistic" would be to miss the insight revealed by these results. A recent report from McKinsey & Company , one of BDI's content partners, identified four core challenges to seeing more women in executive roles and boards: The double-burden syndrome (which refers to the responsibility of being a caretaker and a leader in the professional world); biases towards women in leadership (biases exhibited by both men and women towards women in leadership roles); lack of appropriate infrastructure and supporting policies (e.g., transportation, women-only rooms, etc.); and limited networking environments and women's leadership development programmes (e.g., women do not participate in activities such as Al Majlis or Diwaniya).

Exhibit 37: Which of the following do you see as hurdles in appointing women to Boards? (%, respondents can select more than one hurdle)



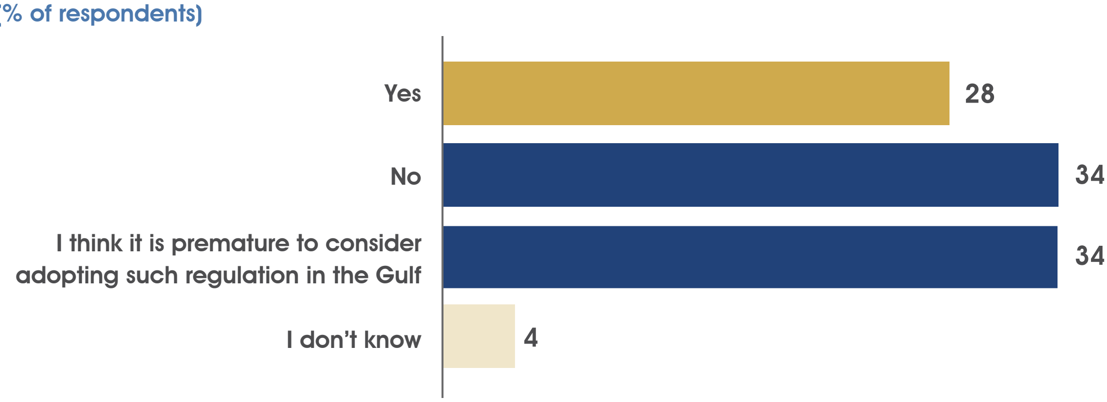
Similarly, 69 per cent of respondents think that women will grow into board roles naturally and see gender diversity on boards as an evolutionary process.

Exhibit 38: In your opinion, will women naturally find their way to GCC Boards or imposing a quota is essential to help promote women in Boards?
(% of respondents)



A great proportion of respondents (34 per cent) believe that imposing a quota to increase gender representation on GCC boards is premature, while another 34 per cent do not see this as a beneficial measure. However, almost a third (28 per cent of respondents) would support gender quotas if required by regulatory authorities.

Exhibit 39: Since 2006, several countries around the world have implemented a gender quota to increase the number of women on Boards of public companies. Do you believe that regulators in the Gulf should also implement a similar quota?
(% of respondents)



Last but not least, when asked to compare the qualifications of women sitting on boards with those of men, 6 per cent of respondents stated that men sitting on boards are qualified, compared to 18 per cent for women. However, the general perception is that men are better prepared and qualified for board roles than their female counterparts. The fact that more men have been sitting on boards, and for a longer period of time than women, most likely serves to support this perception.

Exhibit 40: Do you believe men that sit on boards are qualified for the role? (%, respondents can select more than one hurdle)

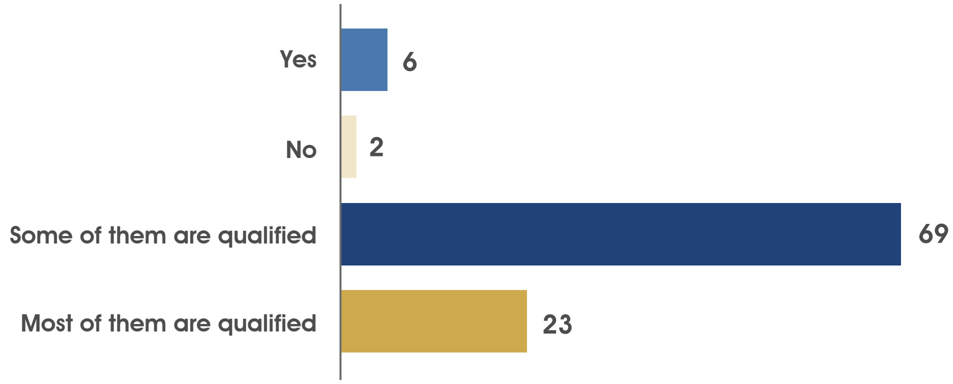
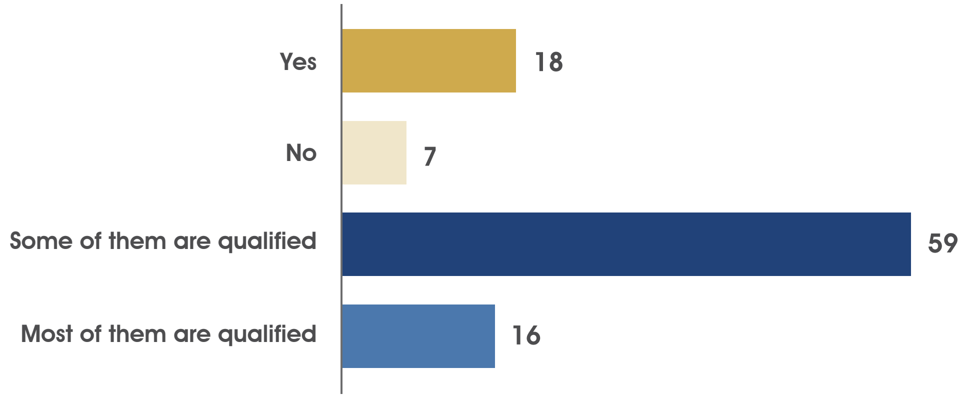


Exhibit 41: Do you believe women that sit on boards are qualified for the role? (%, respondents can select more than one hurdle)



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



Board members in the Gulf are becoming more aware of the necessity to enhance their skills and capabilities and to build better boards. This is evidenced by the fact that less than one-third of this year's survey respondents indicated that they believed boards in the Gulf were effective.

As in the previous three BDI surveys, issues relating to board composition and directors' capabilities were seen as the principal barriers to board effectiveness in the region, along with the absence of formal evaluation and renewal processes. Ineffective board dynamics and director roles and accountability issues were once again cited as being significant impediments to the performance of boards.

The perceived areas of ineffectiveness mostly relate to the under-performance of individual board members and, while there is strong awareness of the need to develop the knowledge and expertise of board members in the region, it is felt that such efforts would benefit from a more formal structure. Indeed, too many board members believe that while development programmes are a good thing and a necessary first step in improving a board's effectiveness, such programmes do not apply to them.

Although the number of firms conducting self-evaluations continues to be low compared to global best practices, there has been an important improvement in this area. Building a strong board requires continuous attention, and is more akin to a journey than a one-off activity. One of the best mechanisms to achieve better board performance is a review, conducted annually and accompanied by a clear action plan that highlights areas for improvement.

The following six recommendations will help boards address these shortcomings:

1. Make training for new and incumbent board members mandatory: With the inadequate skills of board members repeatedly seen as one of the main barriers to board effectiveness, a continual programme of training for directors is essential. Boards themselves should take the lead in ensuring that all their members possess a solid understanding of board and governance principles.

2. Replace ineffective board members and rotate board members more frequently: As greater demands are made of boards and more responsibilities given to them, they are becoming less and less able to carry the ineffective board members along with them. If training fails to improve their performance, ineffective board members should, where possible, be replaced. In practice, this can be difficult in the GCC. More shareholder engagement and greater emphasis on the detrimental impact the lack of engagement among board members can have on a company's performance should in time prove to be effective levers.

3. Appoint more international and independent board members: Boards stand to gain much from having international and independent directors. International members can bring more formality to the table, enhance discussions by offering fresh perspectives and share global best practices. Likewise, independent board members are more dispassionate and better able to see the wider context of a situation as they do not have a vested interest in the company.

4. Strengthen board secretary role: The board secretary is at the heart of the delivery of good corporate governance practices. Over recent years, responsibility for developing and implementing processes to promote and sustain good corporate governance has fallen largely within the remit of the company secretary . They are the ones that ensure that members of the board receive accurate, timely and clear information and there is a smooth information flow between board, committee members and senior management; it is they who also ensure that induction and development programmes are available to all directors; and, last but not least, they act as advisors to the chairman/board on key issues related to governance and compliance.

5. Dedicate more board time to talent management and risk management: A firm's ability to remain competitive depends on its ability to attract and retain top talent. Yet, in the present day, changing companies regularly is seen as important for gaining broader experience, personal development and career progression, so boards need to be prepared. Procedures for retaining senior management need to be reviewed periodically to ensure that there is continued professional development and that remuneration remains attractive. Conversely, a board must have a firm understanding of the key risks facing the company. Here, the role of the audit committee, staffed with board members who bring substantial experience in risk management, is pivotal to a company's adequate approach to risk taking and management.

6. Conduct evaluation of board's performance annually: An evaluation is essential to improving the effectiveness of a board. The evaluation results will highlight areas of strength to be further developed as well as areas of weakness to be remedied. A formal evaluation procedure should assess the performance of the board as a whole, as well as individual contributions.

ABOUT THE GCC
BOARD DIRECTORS INSTITUTE (BDI)

BDI is the pre-eminent organisation in the GCC for boards and directors. It was launched in 2007 by a combination of four leading regional corporations: Investcorp, SABIC, Saudi Aramco and Emirates NBD; four leading advisory firms: Allen & Overy, Heidrick & Struggles, McKinsey & Company and PricewaterhouseCoopers; and with the support of regional regulatory authorities: the Emirates Security and Commodities Authority of the UAE, the Capital Market Authorities of both Saudi Arabia and Oman, the Central Bank of Bahrain and the Qatar Financial Centre Regulatory Authority.

The Institute's mission 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. Its main objectives are:

- To enhance GCC board member capabilities and further their understanding of best practice board governance;
- To create a regional network of board members;
- To disseminate high quality corporate governance knowledge;
- And to put corporate governance higher on the region's agenda.

BDI counts among its members over 500 individuals who, through their membership to the Institute, have gained access to an exclusive network of like-minded board directors and business leaders.

For more information on BDI, please visit the Institute's website at: www.gccbdi.org or contact the Institute directly at getinvolved@gccbdi.org.

PARTNER & SPONSOR LOGOS

FOUNDING PARTNERS

Emirates NBD

INVESTCORP

ALLEN & OVERY

McKinsey&Company

SPONSORS

STC
الاتصالات السعودية

MA'ADEN معادن
شركة التعدين العربية السعودية
Saudi Arabian Mining Company

TASNEE التصنيع

REGULATORY AUTHORITIES

مصرف البحرين المركزي
Central Bank of Bahrain

الهيئة العامة لسوق المال
Capital Market Authority
Sultanate of Oman

QATAR FINANCIAL CENTRE
REGULATORY AUTHORITY

شعارات الشركاء