GCC Board Directors Institute

Board effectiveness review 2019

Determining board effectiveness across the GCC

Prepared by Professor Bob Garrett
for GCC Board Directors Institute

December 2019

This report has been prepared for GCC Board Director Institute by Professor Bob Garratt.

Professor Garratt is an International Corporate Governance & Board Development expert. He has over 30 years of international experience working with family businesses, boards of listed companies, large corporates, state-owned enterprises, professional practices, not-for-profits, and central and local governments, in Europe, US, China & South East Asia, Africa, South Africa and Australia, New Zealand and the Middle East. He is currently a Visiting Professor at Cass Business School, London and Professor Extraordinaire at Stellenbosch University Business School, South Africa. He is an author of several books on boards and good governance, including “The Fish Rots from the Head” and “Stop The Rot; Reframing Governance for Directors and Politicians”.

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Contents

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GCC BDI Partners

Allen & Overy · Heidrick & Struggles · McKinsey&Company · pwc

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BDI
Building Better Board
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About the GCC BDI Board Directors Institute

GCC Board Directors Institute (GCC BDI) is the pre-eminent organisation in the Gulf for boards and directors. It is a registered not-for profit company and was launched in 2007 by a combination of four leading corporations: Saudi Aramco, SABIC, Investcorp and Emirates NBD; four leading advisory firms: Allen & Overy, Heidrick & Struggles, McKinsey & Company and PwC; and with the support of regional regulatory authorities: including the Capital Market Authority and Saudi Arabian Monetary Authority of the Kingdom of Saudi Arabia, the Emirates Security and Commodities Authority of the UAE, the Central Bank and Capital Markets Authority of Kuwait, the Central Bank of Bahrain and the Capital Market Authority of Oman.

GCC BDI'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. Our 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.

Over the last 12 years, GCC BDI has grown to become the leading organisation in the region for board directors. We have delivered over 160 programmes and forums to top-tier companies in the Gulf and now comprise over 1,400 members, each with extensive knowledge and experience of operating at the most senior levels of business in the GCC. Our member network is probably the most influential group of senior board directors and business leaders in the Gulf. Our members are our greatest ambassadors.

We are highly regarded among the international community and are the only director institute in the GCC to have been admitted as a member of the prestigious Global Network of Director Institutes. This is a network of 21 global institutes, which includes the Institute of Directors (IoD) in the United Kingdom, the Australian Institute of Company Directors (AICD), Hong Kong Institute of Directors (HKIoD); Institute of Corporate Directors (ICD) in Canada; Institute of Directors in New Zealand (IoDNZ); Institute of Directors in Southern Africa (IoDSA), and the National Association of Corporate Directors (NACD) in the United States, among others.

GCC BDI has a 12-year successful and proven track record of working with the top companies in the GCC. We work with a large and talented pool of top international, regional and local experts, providing a mix of best international practice and actual board experience, combined with specialist knowledge and experience of corporate governance and director's issues in the Gulf.

We would like to take this opportunity to thank them all for their collaboration and support over the past 12 years. We would also like to take this opportunity to thank our Founders, who continue to support and nurture GCC BDI, as well as our Corporate Affiliates, who enable us to achieve our mission and objectives to support GCC companies.

GCC BDI has a unique combination of local experience and understanding, strong corporate governance and regulatory knowledge, practical director expertise, and tried and tested programmes. We look forward to continuing our mission to make a positive impact on the economies and societies of the region.

Foreword by Mohammed Al Shroogi

It gives me great pleasure to present this report – the 6th GCC Board Directors Institute (GCC BDI) board effectiveness review.

Research into board effectiveness in the GCC region is important not only to inform and gauge the level of understanding and implementation, but also to create more awareness and contribute to building knowledge on the subject. As board directors, it helps us to identify barriers and find solutions, it facilitates learning and the sharing of valuable information.

This 6th report builds upon the previous important research work done by GCC BDI and shows us how board effectiveness is advancing in the region. Today, board effectiveness and good governance are top priorities for boards as they realise how critical these issues are to the sustainability and investment attractiveness of their companies. There has been a huge amount of regulatory change in the GCC in the last 3 year and this report clearly shows that organisations are still in the process of absorbing and adapting to these changes.

There are many challenges for boards in the region and at the same time the roles and responsibilities of the board director are getting tougher and more complex. Board composition, diversity, induction, professional development, board evaluation and good board processes, along with a professional board secretary, are necessary governance tools and mechanisms that all GCC boards need to adopt. Working in the interests of all stakeholders, managing conflicts of interest and focusing on forward thinking and future fit strategy, as well as managing risk, performance and talent will protect and enhance the value of the region's leading companies. The competitiveness of the GCC economies is conditional on the long-term sustainability of our companies, which in turn rests on solid succession planning, separation of family from corporate governance and the introduction of ethics and good corporate governance practices.

GCC BDI continues to promote board effectiveness and corporate governance in the region, as well as highlighting new global trends. We have been doing this continuously now for 12 years and I believe we can see the fruit of our work as this survey shows the progress that has been made. However, there is no doubt that there is more to do to raise the level of board effectiveness in the GCC and I believe this report and the recommendations can help to guide GCC boards in the right direction.

I thank Professor Garratt for his help and support in writing the review.

Mohammed Al Shroogi
Chairman
GCC Board Directors Institute


Corporate Governance in Family Businesses Forum
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"أحدث التوجهات وأفضل الممارسات"
تحت رعاية معالي الدكتور
ماجد بن عبدالله القصبي

Introduction by Jane Valls

This is GCC BDI's 6th report on board effectiveness in the GCC.

The report highlights the progress that has been made since our last survey in 2017 and clearly shows that GCC board directors understand that their role and responsibilities have evolved. The report shows that many are still struggling with the implementation of new regulations and codes of corporate governance and need more time to embed new practices in the board room. The report also shows differing levels of board and corporate governance maturity across the GCC, with banks and listed companies being the early adopters, driven by greater regulation. While family businesses generally lag behind, we see more efforts by leading family and private businesses to engage with good governance and to find the right balance for their business. And we see more and more state owned organisations doing the same. This is a time of transformation in the region and there is no doubt that board effectiveness and good governance are the foundations for successful transformation.

Boards in the region face numerous challenges – globalisation, artificial intelligence, digitalization and digital disruption, the growing focus on environmental issues and climate change, the pace of regulatory change, changing macro-economic dynamics with potential trade wars, as well as geo-political uncertainty. So the board's focus clearly needs to be on strategy and forward thinking, managing risks and attracting and retaining talent. It is therefore more important than ever that boards have the right people around the board room table – the right mix of skills, knowledge and expertise, diversity and independence of thought, guiding and challenging management to adapt to the new normal. The board of directors' key purpose is to ensure the company's prosperity and leading boards recognise that they bear the full responsibility for this. The board is a strategic asset and the best boards make a material contribution to their companies. Shareholders, and all stakeholders, are better protected from poor company performance when the board is made up of effective directors.

The report also highlights the changing perceptions of corporate governance in the GCC, the need for directors to spend more time on their board duties, the lack of women on boards in the region and the need for quotas to address this issue, the growing importance of the role of the Board Secretary, and new and emerging trends such as integrated reporting, and ESG (Environment, Social and Governance) reporting and auditing, which GCC boards will need to deal with in future.

Board effectiveness and corporate governance have come a long way in the GCC, but recent corporate failures continue to remind us that there is still a lot more to be done. The report indicates that the regulators need to increase their oversight and actively encourage boards to embed good governance as part of the corporate culture. Otherwise the risk is a low level of adoption of the fundamental principles as companies do the bare minimum, which will not achieve the desired results.

At GCC BDI, we continue to support boards, directors and board secretaries in the region with professional development, induction, board evaluations, our research and sharing information, as well as assisting them with board work and board projects. Our new certification programmes for board directors and board secretaries are proving very popular and are a good sign that the GCC is developing a professional pool of board directors and board secretaries for the future.

I hope this latest board effectiveness review in the GCC is useful and interesting, providing board directors and governance professionals with the latest insights into GCC boards.

Jane Valls
Executive Director
GCC Board Directors Institute


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Summary and Recommendations

Introduction

This review of the 2019 GCC BDI Board Effectiveness Survey is by Professor Bob Garratt, international authority on corporate governance and board review and development. He is the first External Examiner of the GCC BDI's Certified Director programme. His views are personal and do not necessarily always reflect the views of GCC BDI.

General Overview of the Survey Context and Results

It is the best of times for the development of effective boards of directors in the GCC region.

This is because there is growing enthusiasm and energy to develop effective boards across the six countries, and across all types of GCC organisations, from publicly listed, private and family-owned businesses, to state-owned enterprises, executive agencies and not-for-profits. Within these organisations, there is a small but growing recognition of the legal roles, duties and liabilities of directors, as well as some evidence of businesses facing up to building board effectiveness to counter growing international competition well beyond the GCC's borders. It is a time of great hope and opportunity for the development of board effectiveness in the GCC.

Yet many GCC boards still face challenges, as the fundamentals of board effectiveness are still yet to be fully embedded and acted upon in the GCC. The development gap needed to train and develop competent directors, chairmen, and board or company secretaries is also huge.

Combined with the pressures of opening up the GCC markets to international competition, as well as the growing global redefinition of the roles of boards to move beyond consideration of shareholders to include also stakeholders, the development challenges for boards are substantial.

Yet they must be faced as the GCC region opens up to the world.

The Survey Results

As a general comment on the 2019 survey results, I was delighted with the openness and honesty with which the respondents replied. This demonstrated the urgency seen as needed to resolve the issues, and the energy with which to achieve this.

The results are very wide ranging and diverse so I have chosen to use a tested framework in which to set them. I have used my *Four Levels of Board Maturity model*. This describes the basic categories as:

Level Zero – ***The Accidental Board***. This describes those boards who often do not realise that becoming a registered director in their country locks them into legally prescribed roles, duties and personal liabilities. The majority of directors that I have met around the world fall into this category and the GCC is not untypical.

Level One – ***The Grumpily Compliant Board***. This describes those boards who recognise that new legislation and regulations are forcing them to comply to the evolving demands of corporate governance, but who resent these and tend to see them as an unnecessary cost and waste of time.

Level Two – ***The Learning Board***. This describes those few boards who have gone beyond mere compliance and are consciously changing their thinking and behaviours to focus on ensuring the long-term health of their business. They accept that directing is a 24/7 role. They have set out on a conscious learning process.

Level Three – ***The Integrated Board***. This describes those boards who, having adopted a continuous learning and development process for the board and each director, focus on the integrated development of the whole business. This is driven by an awareness that the obsolete notions of e.g. shareholder supremacy are giving way to the evolving world of stakeholders, triple bottom line reporting and audit – financial, social and environmental. They are seeking to be ahead of the curve rather than behind it.

The Maturity of GCC Boards in the GCC BDI Survey Sample

My first strong impression from the survey is that while there are many GCC boards still at Level Zero, many are moving to Level One. Directors are struggling to understand the basic roles, duties and liabilities of a director as spelled out in the new laws and regulations. So considerably more basic training needs to be undertaken across the six countries on the purpose of a company, the duties of a director, and their primary loyalties. This needs to be backed by the careful use of examples of unlawful behaviours and decisions.

Summary and Recommendations continued

My second strong impression is that the majority of the companies responding to the survey are recognising that they must respond quickly to these new demands for corporate governance compliance. There is surprisingly little 'pushback' against them – much less so than in many other parts of the world. There is an acceptance that GCC companies must reach a minimum level of competence in order to compete internationally and most effectively. This means a dramatic reshaping of the board's use of time towards strategic thinking, risk analysis and more integrated decision-making. It means stopping boards 'managing from the boardroom table'. My thoughts are reinforced both by the wide responses to the question on future trends, and the enthusiasm expressed for the new GCC BDI Certified Director programme.

However, there are clearly some boards which are leading the way and are aspiring towards Level Two maturity and ultimately Level Three status. These boards are already coping with international competition and so understand the rise of Environmental, Social and Governance (ESG) issues arising in other parts of the world. They acknowledge such global initiatives as the UN's Global Compact, and its Principles for Responsible Investing driving the rise of the focus on 'Stakeholders'.

The 2019 GCC BDI survey is to be congratulated as a part of a continuous effort to raise the professionalism of boards in the GCC.

RECOMMENDATIONS FOR DEVELOPING MORE EFFECTIVE BOARDS IN THE GCC REGION

The Framework for the Recommendations

The enthusiasm for improving board effectiveness in the GCC region is a pleasure to see. There is fast rising demand for basic training, education, competence development and strategic thinking, coupled with the acceptance of regular review processes which are very encouraging.

However, from my experience on other continents it is relatively easy for legislators and regulators to pass laws, but it is much more difficult to implement them when the majority of the population does not know how to respond. Legislators and regulators need to ensure they are taking responsibility for the frameworks and audits needed to move this population to a point of sufficiency. This has proved difficult in many countries globally so the promulgation of legislation needs to be carefully balanced to the speed of learning with that which each country can cope. Lawmakers can feel that their job is done once legislation is passed. In fact, it has only just begun. There is often an assumption that forcing compliance equals competence and so effective directorship is delivered. This is not proven.

I argue that boards and directors must be crystal clear on what competence really means. It is the right mix of knowledge, skills and attitudes that leads to directoral professionalism around the boardroom table. Compliance is then necessary but not sufficient. Sufficiency comes from two basic building blocks:

1) Understanding clearly that the purpose of a business is 'to promote the success of the company'.

A director of a company must act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to:

- *a) the likely consequences of any decision in the long term*
- *b) the interests of the company's employees*
- *c) the need to foster the company's business relationships with suppliers, customers and others*
- *d) the impact of the company's operations on the community and its environment and*
- *e) the desirability of the company maintaining a reputation for high standards of business conduct*

Source: The UKs Companies Act 2006. Section 172.

This reinforces the centuries old concept of a company having a separate legal personality which each director must acknowledge in their board work.

My second building block is 'The Seven Duties of a Director' to build director and board competence:

- *1) to act within the Board's Constitution*
- *2) to promote the success of the company*
- *3) to exercise independent judgement*
- *4) to exercise reasonable care, skill and diligence*
- *5) to avoid conflicts of interest*
- *6) not to accept benefits from any third parties*
- *7) to declare interests in proposed transactions.*

Source: UK Companies Act 2006. Section 171.

Combining these two building blocks with the old established basic values of corporate governance – accountability, probity, and transparency – form the foundations for effective boards.

It is worth noting that the three stages of GCC BDI's Director Development Programme, leading to Chartered Director status, build firmly on these duties and values. This is why I have used them in making my recommendations below.

RECOMMENDATIONS FOR ACTION BASED ON THE GCC BDI 2019 BOARD EFFECTIVENESS SURVEY

The Changing Perceptions of Corporate Governance in the GCC Region

1) Encourage the new corporate governance laws and regulations to be fully embedded in corporate culture;
2) Focus GCC efforts to improve board effectiveness by getting the majority of companies to accept that compliance is the minimum acceptable behaviour for any board; and
3) Focus GCC efforts on board improvement by having boards accept that they should move beyond compliance to developing competence, building on the purpose of the board, and the seven duties of directors.

Barriers to Improving Effective Corporate Governance in the GCC

1) Encourage and, if necessary, have all GCC nations fund, programmes to bring all companies up to minimum compliance standards. This will involve assessing their understanding of the roles, duties and liabilities of directors; the GCC BDI Director Development Programme is a good example.
2) Raise levels of director competency across the GCC; and
3) Ensure maximum publicity of the consequences of non-compliance.

The Composition of the Board

1) Encourage boards in all sectors – public, private, family-owned, state-owned, executive agency, and not-for-profit organisations – to understand, train and develop the full role of directors under the law;
2) Encourage the development and review of professionally competent chairmen;
3) Encourage the development and review of professionally competent board (or company) secretaries;
4) Encourage average board sizes in the range of 5 to 10 directors;
5) Encourage sufficient diversity in board composition to move away from the current over-reliance on family members and friends to ensure independence of thought; and
6) Encourage the single and legally designated title of Director only for board directors and establish it firmly across the GCC.

Women on Boards

1) Encourage the fast-growing number of women on GCC boards to aspire to professional status; and
2) Encourage diversity of board thought, ensure that selection, induction, development and review processes on all GCC boards are based on competence, not gender.

The Expertise Needed to Improve GCC Boards

1) Develop frameworks for assessing horizon-scanning, strategic thinking and prudent control mechanisms for boards; and
2) Specific board development needs must always remain the responsibility of that board so that they decide best how to deliver their purpose within the law.

Understanding the Duties and Responsibilities of Boards and Directors

1) Encourage the professional development of board directors – certificate level should be seen as a minimum.

Board Selection and Recruitment Processes

This is currently a key area for improvement in terms of board effectiveness in the GCC.

1) Accept the need to update current director selection and recruitment processes to bring them into line with global good practice;
2) Accept that the total process is wider and flows from selection through induction, development, and review to deselection; and
3) Each board needs to codify its criteria for each of these five stages and be prepared to publicise it to their owners.

The Board Secretary

It is acknowledged increasingly internationally that the role of the board secretary is key to ensuring that the board operates effectively and efficiently within its legal constitution. It is acknowledged also that the board secretary is a key supporting role for the chairman.

Summary and Recommendations continued

1) The role of the board secretary in the GCC needs to be reviewed and elevated;
2) The rapid training and professional development of sufficient qualified board secretaries is needed to ensure good board discipline;
3) The legal role of the supremacy of the chairman of the board should be reinforced; and
4) Consider the role of "The Chairman's Office" to include the chairman, board secretary and administrative support, separate from the CEO's office.

Board Committees

1) The rapid growth of board committees within the GCC needs a thoughtful review process;
2) This is especially so as internationally the present "financial supremacy of the shareholder" mindset is giving way to the wider concept of stakeholders and triple bottom line reporting and audit;
3) The Audit Committee is essential but consideration must be given to how it will cope with integrated reporting.

Futures Scanning and Strategy

This is a currently another under-developed area for GCC boards.

1) Significantly more board time needs to be spent on tracking and understanding future trends related to the company;
2) Less time needs to be spent on the operational and financial aspects of the business so that the board focuses more on forward looking matters and strategy; and
3) Boards need to start developing the Triple Bottom Line concept.

Significant Disruptive Changes Foreseen

This is of major concern to all respondents. So many were identified that a new approach will be needed for any board to cope with them both in the internal and external markets.

1) Boards need to readjust their time budgets to focus on the many and complex disruptions with which they are now faced. This need is reflected throughout the survey; and
2) To deliver their purpose, boards need to become competent at strategic thinking and coping with uncertainty to ensure the long-term health of their business.

Risk Appetite

Currently, most board work on risk appetite is focused on analysis and decision-making, concentrated mainly on quantifiable financial aspects. But future challenges are more likely to come from the non-quantifiable aspects of an increasingly turbulent world.

1) Concentrate on developing strategic thinking and tracking near and distant trends on a regular basis;
2) Budget more board time to achieve this; and
3) The board should set the risk appetite and ensure management is aligned and review this regularly.

The Board and Capital Markets

Only a small number of GCC boards are yet involved in the capital markets, but those that are have accepted that such regulatory disciplines are a necessary limit to their work. As the international pressures bear on the larger GCC companies, it gives them the opportunity to increase their funds through IPOs. This can seem very attractive in the short-term, but the necessary due diligence needed beforehand can seem surprisingly intrusive; and there is always the question of what to do with the funding afterwards and managing greater stakeholder expectations.

1) Listed companies should ensure they have an effective Investor Relations department;
2) Companies should consider carefully the pros and cons of IPOs; and
3) Companies need to ensure that their strategic thinking and their business models are designed to think well beyond any IPO.

Integrated Reporting

Currently the concept of integrated reporting, including sustainability, triple bottom lines, and ESG (Environmental, Social and Governance) reporting are hardly mentioned in the survey responses. Yet none of these will go away as the GCC opens up to international markets.

1) Boards need to plan now for integrated reporting.

Talent Management

This is still a developing area for many GCC boards.

1) Talent management should be on the board agenda.

Senior Executive Pay
This is an area that would benefit from more research.

1) Develop key performance indicators for senior executives; and
2) Publicise these for the owners and the public, and now for the stakeholders.

Conflicts of Interest
Conflicts of interest are seen by many in the survey to be a major barrier to the development of board effectiveness in the GCC. A mixture of monopoly or close family ownership has combined with cultural norms of deference to age and power to disable the necessary independence of thought asked of directors in other parts of the world. Often decisions taken by one powerful person are seen as arbitrary. However, international corporate governance norms will confront this as the region opens to international trade.

1) Develop and publish a Conflicts of Interests Policy;
2) Keep and update a Register of Board Interests; and
3) Ensure that this register is updated at the start of each board meeting.

Frequency and Duration of Board Meetings
Given the balance needed between the growing need for boards to ensure supervision of management and ensuring the future health of the company, the current practice of most boards to meet every three months looks unsustainable. Now directors are on duty 24/7, more time will be needed to develop professional boards and directors.

1) Review the time commitment and the levels of competence in the current Director Services Contract and renew this annually; and
2) Where executives are also legal board members consider having a separate Director Services Contract for them in addition to their Contract of Employment. Each will specify the time to be spent on each aspect of their work.

Board Decision Making
Currently GCC companies seem split between those used to the absolute power of the owner/chairman and a culture of consensus-seeking over time. Neither sit easily with current corporate governance concepts of independence of thought and majority decision making, with voting seen as a necessary backstop.

1) Discourage anonymous voting on the board; and
2) Discourage the power of the chairman to have the casting vote.

Handling Crises
This is another aspect of GCC board work where there needs to be more focus.

1) Crisis management and business continuity need to be items on the board agenda.

Relations with Stakeholders
This is a slowly developing area for GCC boards. Only 26% have a formal approach to this. Even then there is some confusion between 'shareholders' and 'stakeholders'.

1) Establish a Stakeholder Relationship Strategy and Policy at the board level; and
2) Boards need to budget time to identify and build these relationships.

Board Evaluation
This was seen as high priority in the 2019 survey, with many looking for suitable tested frameworks that they could use.

1) Publish a policy on the content and frequency of board evaluations;
2) Publish a policy on the recommended use and frequency of internal and external consultants for board evaluation; and
3) Consider dropping the term Board Evaluation which many consider rather intimidating and instead use the phrase 'Board Review and Development'.

Closing Comments
There is an undoubted enthusiasm reflected in the survey to face up to the many current and likely future, barriers to developing effective boards in the GCC.

Now is the time to harness this energy to bring the GCC countries into the international marketplace.

Professor Bob Garratt

About the Report

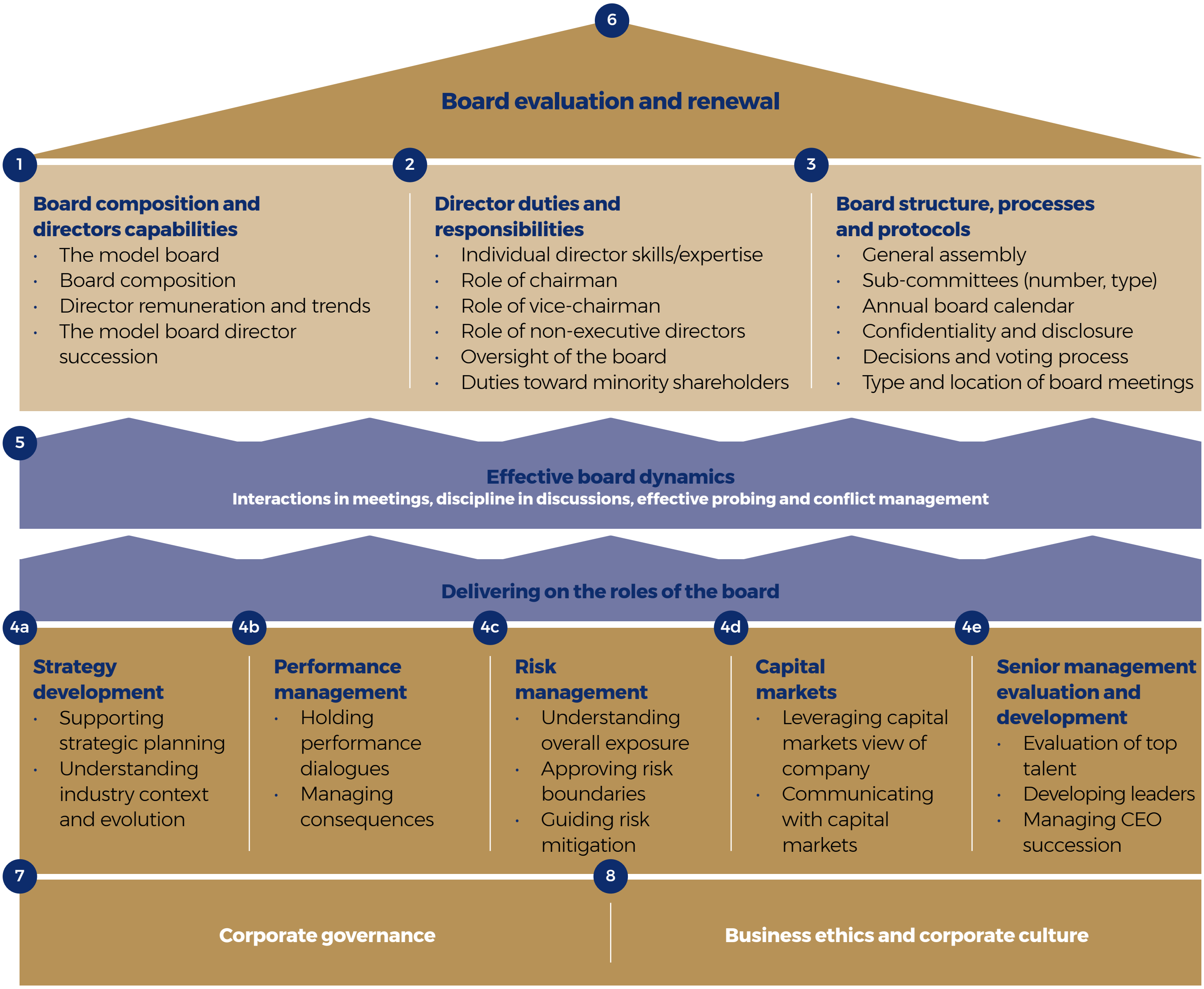
This is the sixth report on board effectiveness in the GCC produced by the GCC Board Directors Institute over the last 12 years.

The report is based on a survey designed by GCC BDI and based on the GCC BDI Framework for Board Effectiveness. This framework has eight key elements, namely:

1) Board composition and director capabilities
2) Director duties and responsibilities
3) Board structure, processes and protocols
4) Delivering on the roles of the board
5) Board dynamics
6) Board evaluation and renewal
7) Corporate governance
8) Business ethics and corporate culture

The survey and the report examine all these elements. This GCC BDI proprietary framework enables the evaluation of board effectiveness in the GCC in a structured manner, whilst allowing for flexibility to highlight emerging trends emanating from GCC BDI's work in the region.

Figure 1. GCC BDI Framework for Board Effectiveness



About the Report continued

This year's survey comprised 75 multiple answer questions, which were disseminated to all GCC BDI members and board directors to seek their views on board effectiveness and challenges. Responses from 105 members were collected, reflecting a diversity of board member and executive views based on their role, company type, industry and country. In addition, open-ended and confidential interviews were conducted with 13 individual senior GCC board members, executives and other experts, to discuss the survey results and to probe into specific issues highlighted as being of concern to board members.

The largest number of survey responses (60%) came from GCC nationals, with a strong response from KSA members (30%), followed by UAE nationals (10%) and Bahrain nationals (10%), with other GCC jurisdictions less represented in the pool of responses. The majority of respondents (53%) serve on boards of Saudi Arabian companies, followed by Emirati (31%) and Bahraini companies (20%), whereas other GCC jurisdictions had less than 10% of respondents each. While there was diversity in respondents' profiles, they nevertheless reflected a certain homogeneity in the GCC director pool. For instance, 84% of respondents were male. The low rate of response from female board members reflects the current situation in the region where recent research estimates that female participation on GCC boards continues to remain low at approximately 2%.

50% of respondents indicated they are board members of privately held companies, 22% of state-owned companies and 28% of listed companies. 6% of respondents sit on the boards of a listed family business and 35% a non-listed family business. This generally reflects the ownership structure of companies in the region which is dominated by family and government ownership. On the other hand, respondents represented a diversity of sectors, with financial services (35%), industrial and manufacturing companies (26%), and professional services (21%) being the most represented.

37% of respondents chair at least one board; 40% act as non-executive directors on a board and 34% act as executive directors; while 31 % of respondents are an independent director on at least one board and 15% are non-board committee members. 15% of respondents are board secretaries.

43% of respondents hold 3-5 board mandates; 6% hold 6-9 mandates and 3% hold more than 10 mandates.

45% of directors reported having 10 or more years of experience, with another 20% having between 6-9 years of experience which indicates the seniority of GCC directors.

Responses were rounded up to the nearest whole or half decimal point.

Figure 2. Respondents represent the following sectors of activity (multiple answers possible):

Sector	%
Agriculture & Food	12
Construction	12
Financial Services	35
Healthcare	14
Hospitality and Tourism	12
Industrial and Manufacturing	26
IT and Telecommunications	16
Mining	6
Oil and Energy or related	15
Professional Services	21
Real Estate	19
Transport and Logistics	12
Utilities	5
Other	37

2019 GCC Board Effectiveness Review

The Context

This review clearly indicates the wide range of board effectiveness across the region. At a time of global disruption, it shows examples of boards seeking international best practice, with many companies starting to reach for compliance with the new and numerous regulations and laws that are being developed – especially in the Kingdom of Saudi Arabia (KSA), Bahrain and Oman. Yet there are also many comments on the majority of GCC companies having yet to start seriously down these roads. There is also some evidence of difficulty in adapting to the proposed speed and breadth of compliance expected by the active regional regulators.

Whilst the general feeling is that companies recognise the importance of accepting and developing the concept of board effectiveness across the region, there is an underlying concern that the speed and detail of the legislation and regulation is proving too fast for many companies to implement effectively.

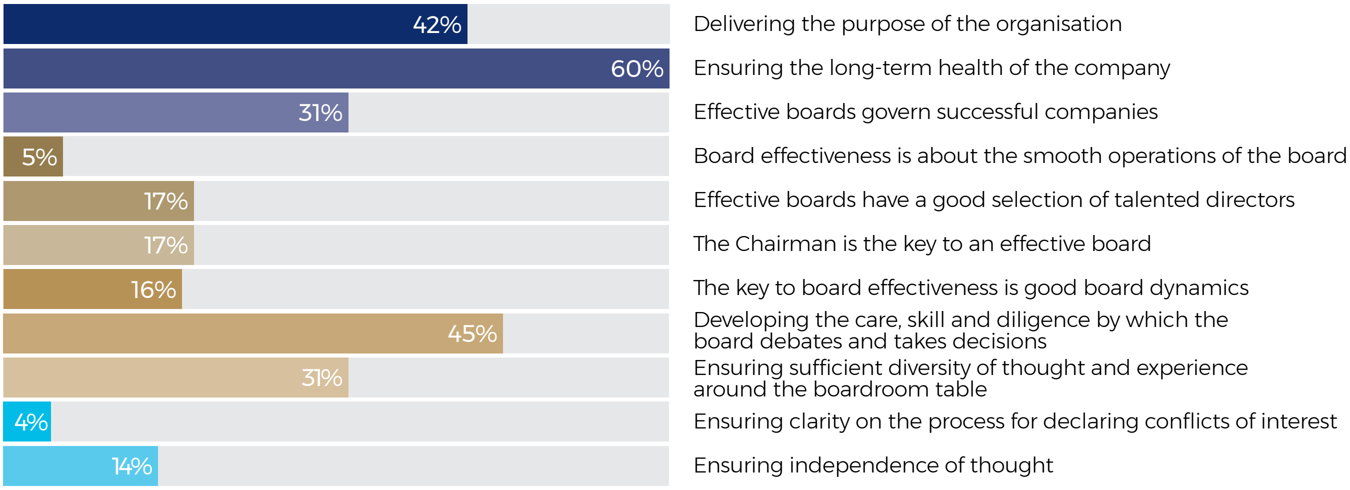
There is broad acceptance that the wider disruptions of such new concepts as globalisation, artificial intelligence, digitalisation and integrated reporting will have a profound effect on future board effectiveness and, consequently, the development of directors. Environmental issues did not appear to be high on the board's agenda in the region just yet, despite a burgeoning global trend in this area.


BDI

The Changing Perceptions of Corporate Governance in the GCC Region

What does board effectiveness mean to you? (select top 3)

Figure 3



There is demonstrated majority acceptance across the survey of boards now having to focus on 'ensuring the long-term health of the Company'; and on 'delivering the purpose of the organisation', reinforcing the concept of 'effective boards governing successful companies'. This is a noticeable and positive dynamic for GCC boards.

In the interviews which took place as part of this survey, there are a wide range of positive responses typical of which are:

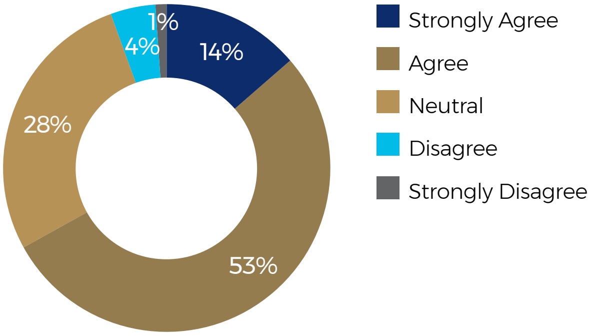
- *"We now have a lot more on the board agenda";*
- *"We pay more attention to new regulation and legislation";*
- *"I sit on two boards. The public one is trying to come into line. The non-public one is less responsive."*
- *"We are seeing boards showing more openness, transparency and willingness to listen to different views".*
- *"GCC is pushing in this direction particularly on their financial reporting".*

But there is still some way to go:

- *"I do not think that it is developing well here. I work for a big family firm where each shareholder has his one mindset and they disagree with each other – corporate governance does not come into it."*

Do you believe board effectiveness has improved in the GCC over the past three years?

Figure 4



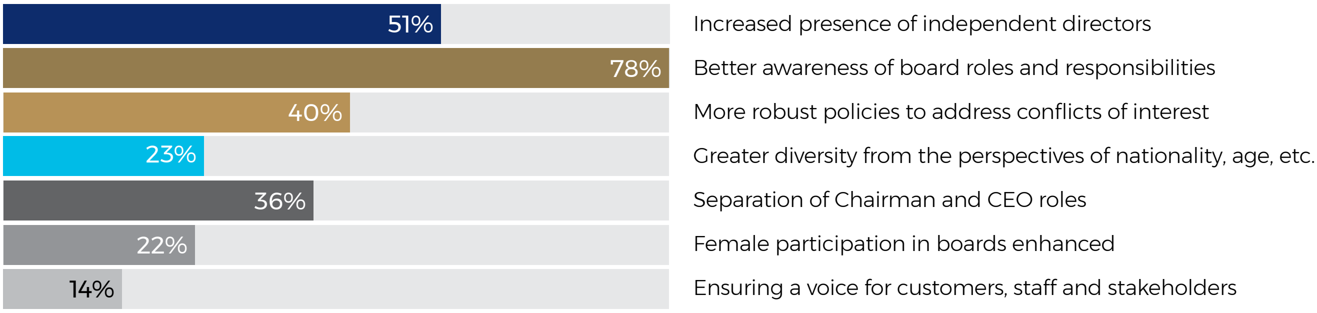
There is general agreement that board effectiveness has improved in the GCC:

- *"People are now reflecting on the need to improve, especially with the CMA pushing. There is the start of better professional development through GCC BDI, the business schools, etc. I notice the movement in KSA, Bahrain and Oman, less so in Kuwait".*

The Changing Perceptions of Corporate Governance in the GCC Region
continued

In what areas has progress been most noticeable in terms of the functioning of GCC boards in the past three years? (select top 3)

Figure 5



There is wide agreement that better awareness of board roles and responsibilities is beginning to pervade the GCC region. Much of this is attributed to a mix of the increasing use of independent directors, improved board policies addressing conflicts of interest, including the growing separation of CEO and Chairman roles. However, the definition of 'Independent Director' still needs more clarification in both law and practice.

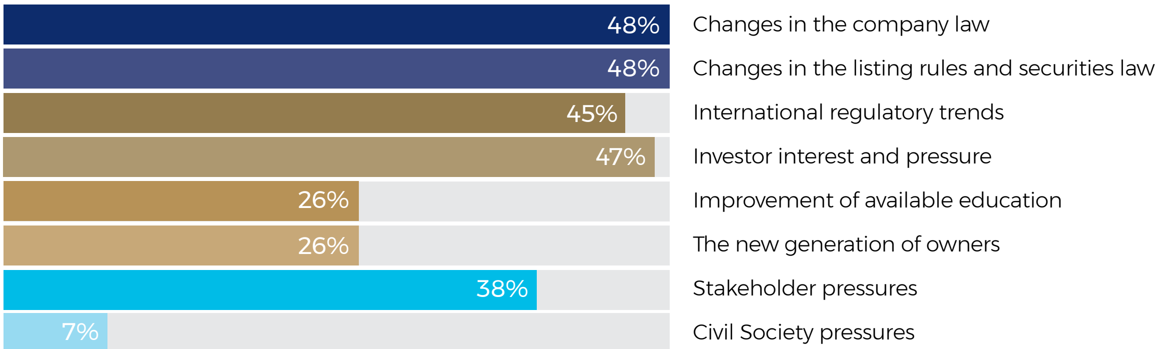
- *"I totally agree that progress is being made, slowly, in such areas as ensuring the roles of directors and the need to assess the competence of each director. But there is a serious lack of supply – we need now to work on the second and third generations so that we can catch up internationally".*
- *"At least we now have our own Codes – but implementing them is an entirely different matter. And getting entirely independent directors is almost impossible given the cultural and political set-ups – most are still a mix of extended families and friends".*

But there are also deep doubts:

- *"There is a growing awareness in both public and government companies. But in family companies there is a need for greater awareness."*

What are the factors that have most positively impacted on board effectiveness in the region? (select top 3)

Figure 6

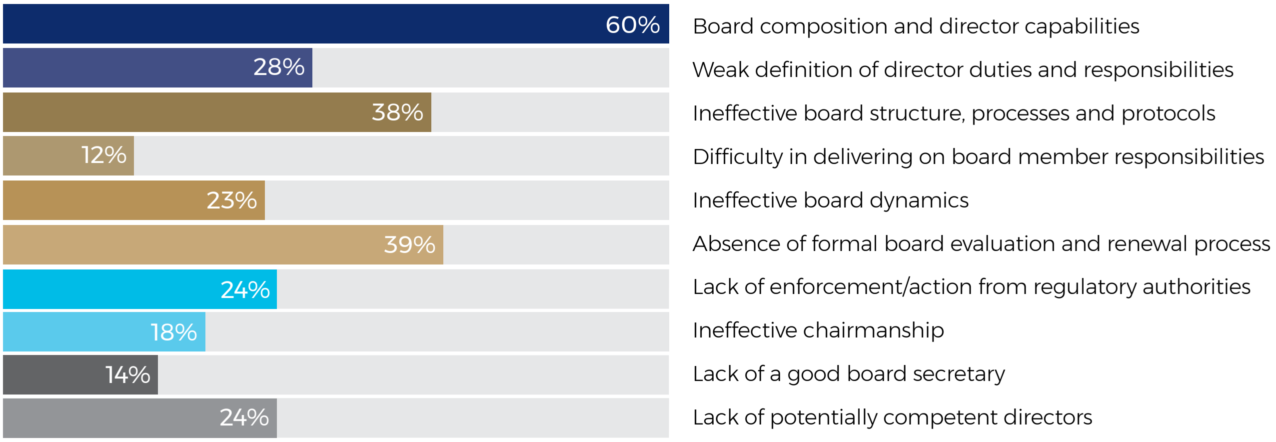


The responses are more evenly spread here. Predominantly it is the changes in company law and regulation; the listing and securities rules and law; and regulatory trends that are forcing the pace of change. This is increased by growing investor interests and the gradual rise of stakeholder pressures.

- *"Many of the bank boards I am on are being affected positively. We are getting better at debating such issues, much better than we used to be. We are seeing good examples".*
- *We are seeing some positive impacts but it is too early to say – even in KSA".*
- *"There are definitely improving relationships between boards and shareholders in publicly owned companies. But there are still conflicts of interest especially at senior management levels".*

What are the top barriers to improving board effectiveness in the GCC? (select top 3)

Figure 7



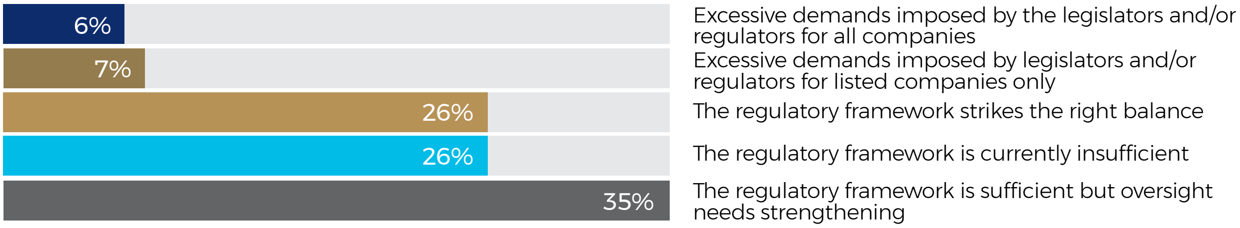
The majority of survey respondents see the current board composition and director capabilities as the major barriers to improving board effectiveness. This is reinforced by the current absence in many cases of formal board evaluation and renewal processes; by ineffective board structures, processes and protocols; and limited enforcement in some instances from the regulating authorities.

- *"The biggest barrier is that many directors lack capabilities. Most have been good executives in public companies but not as directors. Few are able to be truly independent. Only one of our board members is neither a family member or a friend. He is truly appreciated".*
- *"We need to build more on individual capability than family membership".*
- *"There are three main barriers. First, regulators are sending mixed messages especially over their expected speed of implementation. Second, the Chairman's role is not properly understood. Three, there is a serious lack of professional company secretaries".*
- *"Families and the culture of only appointing old friends. Powerful founders are particularly bad at this. This does not help diversity around boardroom tables".*
- *"Family inclusiveness. They still don't have to face the market economy yet. Not enough of our institutions are getting engaged about this".*
- *"Too many directors sit on too many boards. They cannot give the time needed. They only see each other at board meetings and have no time to socialise and develop diversity of thinking".*

The Changing Perceptions of Corporate Governance in the GCC Region
continued

How do you rate the regulatory requirements as far as corporate governance is concerned?

Figure 8

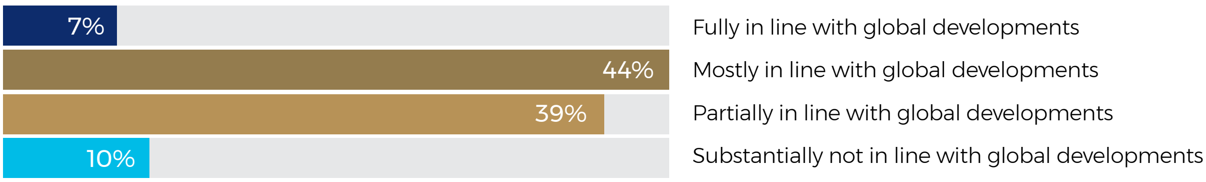


The survey results here are weighted positively towards the view that the regulatory framework is now sufficient, but that its oversight needs tightening. 26% feel that the right balance is about right and 26% feel that it is insufficient.

- *"It is OK so far. There has been little pushback".*
- *"I find the legislators very supportive so far"*
- *"They are ever more demanding. Compliance is now the prevailing flavour. But is this wise? However, regulation does bring more personal and corporate discipline".*
- *"Family companies need to take regulation more seriously."*
- *"The KSA 2030 Vision will allow the entry of foreign competition. Family businesses will need to change their attitude to corporate governance".*

To what extent do you believe that rules and regulations on corporate governance in your country have kept pace with global regulatory change?

Figure 9

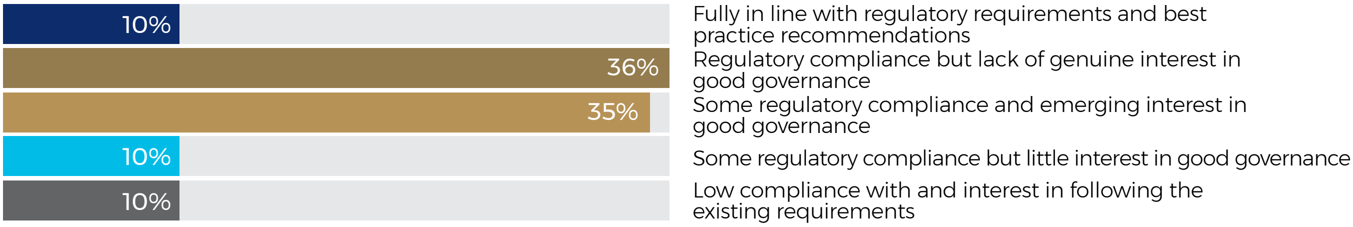


There is a general opinion that the GCC countries are now trying hard to move towards global good practice. However, there is still a long way to go and there is always inevitable opposition from vested interests – both in terms of ownership and culture.

- *"They've partially kept pace in line with global developments."*
- *"We are seeing a growth in the number of directors. We are beginning to look at different sectors for experts and from different countries, especially for the Independents".*

To what extent do you believe that the implementation of corporate governance rules and regulations in your country is reflected in actual corporate governance practices?

Figure 10

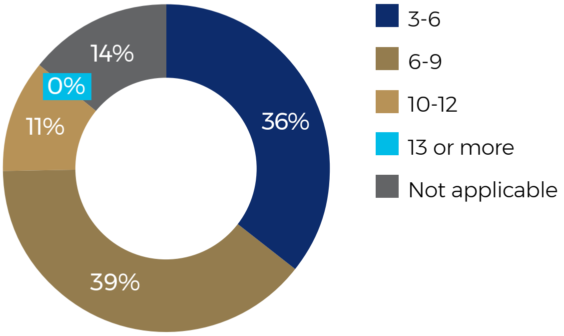


The answers were evenly split between 'regulatory compliance but a lack of genuine interest in good practice' and 'some regulatory compliance and emerging interest in good governance'.

Composition of Boards and Diversity

How many board members sit on the main board on which you sit?

Figure 11

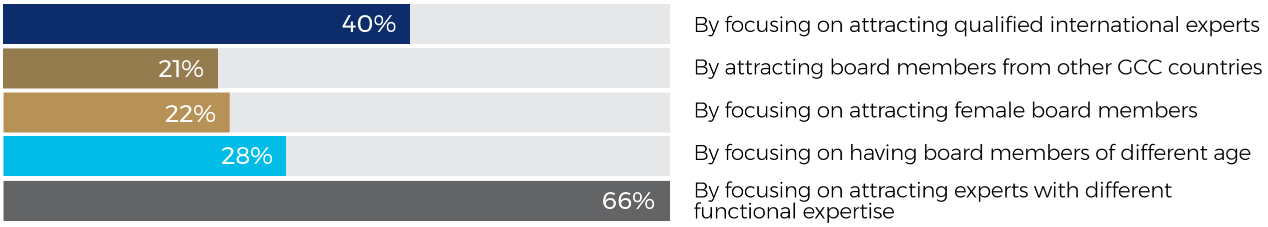


The survey shows that 36% of GCC boards have 3-6 board members and 39% have 6-9 board members. Boards are generally smaller in the GCC compared to Europe or USA where they average around 10 board members.

- *"We stick to small boards and committees and then call on expert advisors".*
- *"6-9 on the main board otherwise you lose out. You need diversity of expertise, but above 9 it is difficult to manage".*
- *"On our JVs we have 8. We spend time getting the balance between Tech, Ops and Finance".*
- *"We have 11 as Directors – 5 non-executive directors and 6 independents. The 5 non-executive directors represent the shareholders".*

How is board diversity promoted in your company? (select top 3)

Figure 12



The majority of respondents indicated that they solve the issue of board diversity by focussing on attracting experts with different functional expertise.

Such a mix of approaches demonstrates the need for greater diversity on GCC boards.

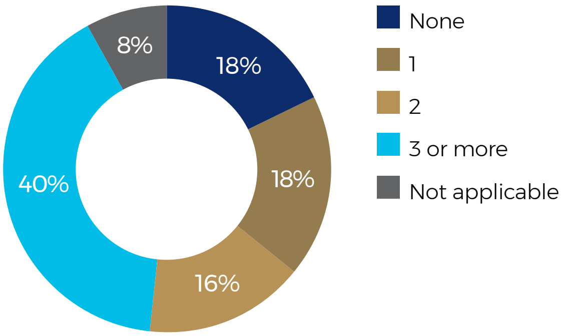
- *"We are having to think about diversity in two ways. First, relating to skill sets and gender. Second, according to our changing local versus international mix. We need to maximise both, not just grab whoever is available. There is also a growing issue of dealing with communities and other 'stakeholders' here. We don't like quotas, especially seeing the European experience. We do believe in using our own people wherever possible. But in the end, this may need to be forced".*
- *"Most of our boards and committees are quite diverse. As family businesses many are female dominated. But female experts never seem to get chosen as shareholders. And existing directors are rarely dismissed. Board secretaries are often bad at post-rationalising the choice of new directors."*

Composition of Boards and Diversity continued

- *"We still lack females on our boards, and in the C-suite, and even in our backrooms. We need a serious initiative to start and then highlight the process".*
- *"Female diversity? This is our failure. We need also to think about diversity by age. There are real diversity issues in handing over from second generations to third generations".*

How many independent directors sit on the board?

Figure 13



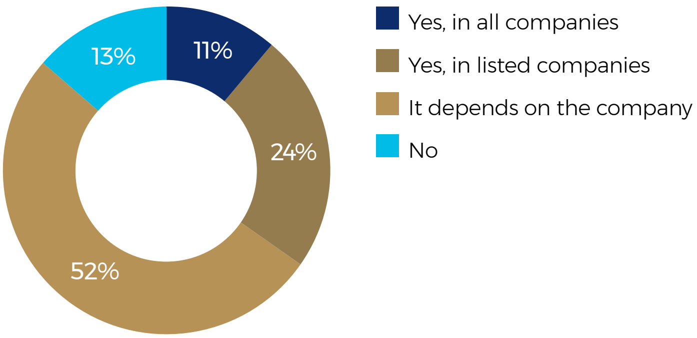
Over 40% of respondents have three independent directors on their board, while 18% have none.

There is an encouraging sign of and a noticeable and positive acceptance of the need for such a board role.

- *"Independent directors are beginning to appear as chairmen and on nomination committees. They do add value. In KSA, independent directors are seen as having much higher status than other board directors."*
- *"We are good here but not all companies are doing this. Most talk of seeking 33% independent directors but do not do it".*
- *"We are considering changing our independent directors every three years on a rotational basis".*

Do you believe the regulatory definition of an independent director results in true independence of those appointed as independent directors?

Figure 14

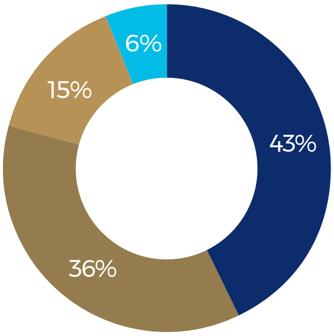


52% of respondents believe it depends upon the company; whereas around 30% believe the concept does work especially in listed companies. So there is clearly more work to be done in this area in encouraging and ensuring the real independence of those designated as such.

- *"I find the idea of independent directors very useful. It helps if there are two groups on the board because they can create a middle way with the owners and the executives. They can be a balancing force on the board".*

Do you believe the role of a lead independent director would enhance board effectiveness in the Gulf?

Figure 15



- Yes, it should be introduced in all companies
- Yes, it should be introduced in public companies/state-owned enterprises
- No, the region is not ready for this practice
- No, this role is not compatible with dynamics of Gulf boardrooms

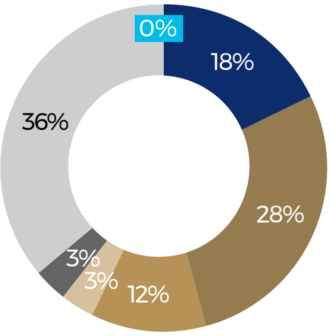
Some 79% believe that the role should be introduced in both private and public companies and state-owned enterprises. However, there is a concern that developments should not go too far, too fast.

In the GCC there exists some confusion over the roles of non-executive directors (not a specific lawful role in many countries), independent directors and now lead independent directors. Whilst a positive idea for the future, it might be better advised for companies to fully embed and articulate the respective roles of chairmen, directors and executives before moving towards adding lead independent directors into the board mix or the risk is in undermining the chairman's role.

- *"In part. They help you open up issues in dispute. They have a real impact. It is highly relevant even if seen more as an Advisory role. Currently boards have tended to have a bland flavour".*

Which of the following would have the most impact on improving the composition of your board?

Figure 16



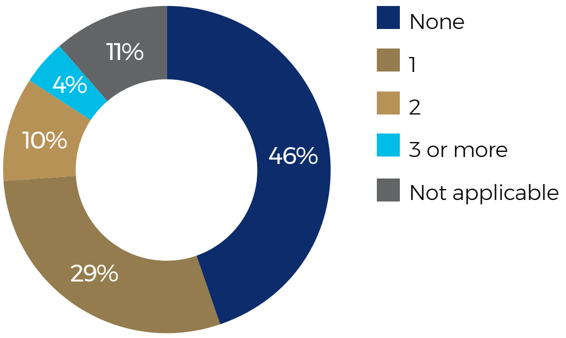
- Improve existing board members' knowledge and capabilities
- Replace ineffective board members
- Appoint a board member with international experience
- Introduce additional board committees
- Appoint female board members
- Better board selection, induction, review, development process
- A deselection process

In line with the other responses, the scores show 36% in favour of better board selection, induction, review and development processes; 18% in favour of improving board members' knowledge and capabilities; and 28% in favour of reducing the number of ineffective board members.

Composition of Boards and Diversity continued

How many female board members sit on the board you sit on?

Figure 17



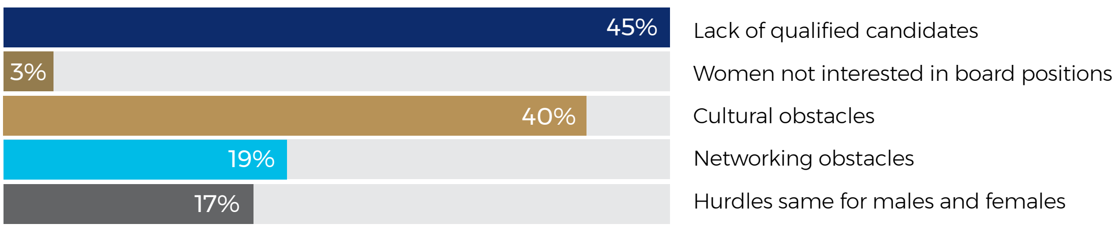
46% of respondents have no women on their boards; 29% have one woman and 10% have two women.

While the number of women on boards in the GCC remains low at around 2%, there is a growing awareness of the need for greater gender diversity on GCC boards. The UAE is the only GCC country to date to have a voluntary quota of 20% of women on boards. And we are seeing more women board members in large family companies and state-owned enterprises as a growing trend.

- *"I feel that the wider issue is to get more women qualified".*
- *"Women are more perceptive and have different points of view, unlike men. They are useful by asking questions the men would not".*
- *"Honestly, there are plenty of qualified ladies – just give them a chance! Otherwise we will stay in a Catch 22 situation. I have had the experience of a 30% women board in Europe. I notice that the UK has achieved 30% without a quota. They add diversity of thought and allow minority ideas to be heard."*
- *"In Oman, women are well educated and respected. In Bahrain and UAE, half the workforce is female. My deputy is female and will take over from me. Our Chief Risk Officer is a lady as are our two shareholder representatives. But in other GCC countries it is still all about connections".*

Which of the following obstacles do you see in appointing women to boards? (multiple answers possible)

Figure 18

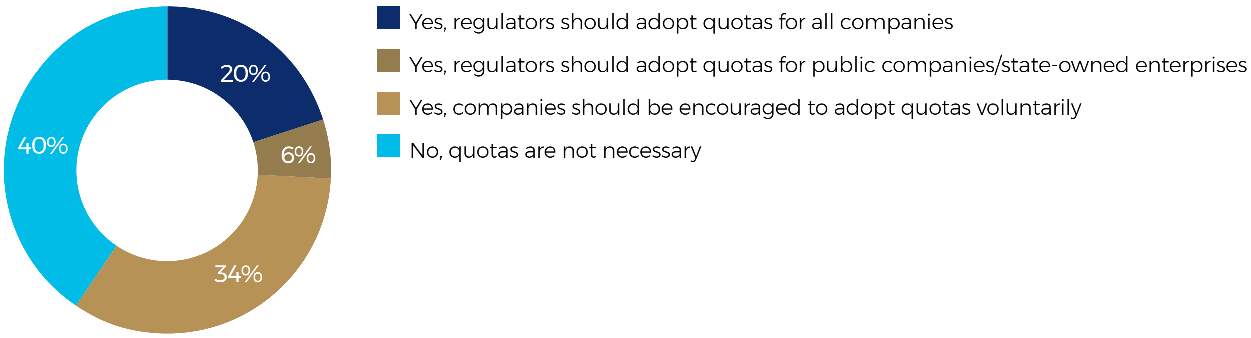


The major obstacles in appointing women on boards are clearly 'lack of qualified candidates' and 'cultural issues' followed by 'networking obstacles'. There appears to be progress in Oman and Bahrain and considerable governmental effort in KSA to improve the situation. There is a growing awareness in the GCC of the issues and examples of good practice to give hope that the 'cultural obstacles' shall be reduced.

- *"A number of GCC countries now have a Minister for Women. We need a lot more experimentation here".*
- *"We need to get a lot more women qualified".*

Q27: Do you believe that quotas are necessary to improve women's participation on boards in the GCC?

Figure 19



40% believe quotas are not necessary; but some 54% believe they are necessary and that regulators should adopt quotas for all companies.

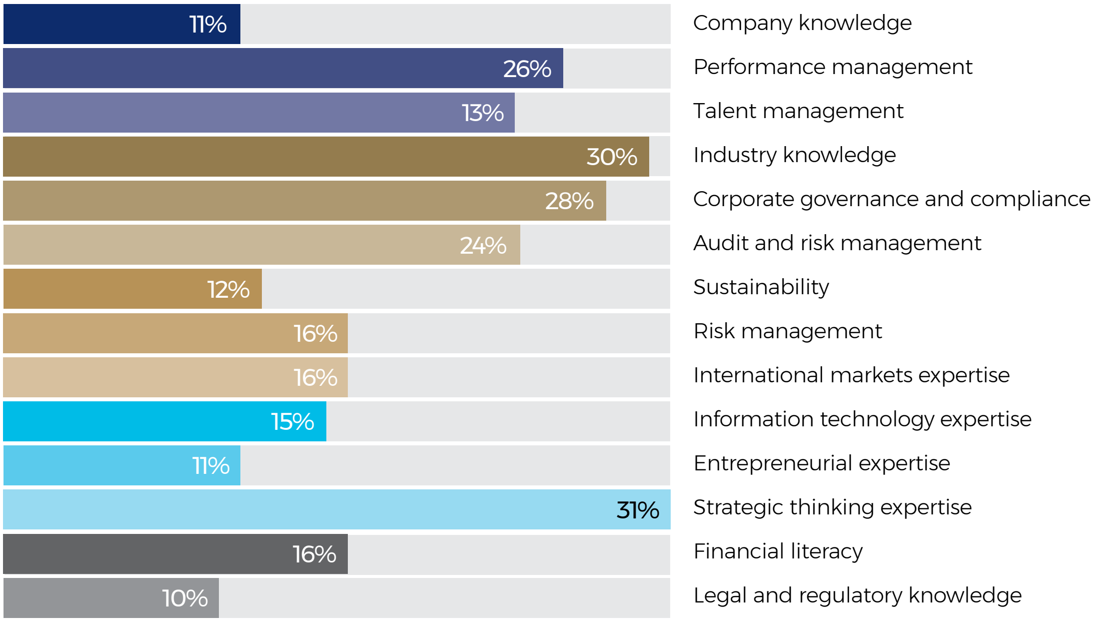
There is growing awareness of the global issues on this subject. Most North European countries have adopted mandatory quotas. The UK has achieved 30% women directors on listed companies with voluntary quotas and is now looking at a similar proportion of CEOs.

- *"Do we need quotas? No! Experience is much better".*
- *"Do we need quotas? I don't know. Where I know of this, they have made a big difference".*
- *"I recognise the short-term objections to quotas. But adjustment is needed".*

Expertise Needed to Improve GCC Boards

Looking at the main board on which you sit, where would you like to see more expertise? (select top 3)

Figure 20

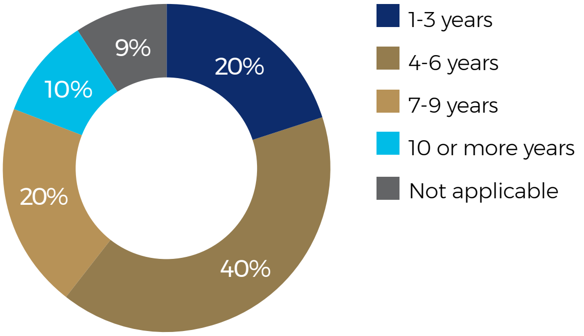


The varied spread of answers here clearly shows the need for GCC boards to both widen and deepen their range of expertise. It is a sign that the previous board and management introversion is now accepted as obsolete. Of the three main areas of expertise seen as immediately necessary, strategic thinking leads the field; industry knowledge next; followed by risk management, financial literacy and international markets expertise.

- *"We need more expertise in the areas of strategy and growth. And we need to reinforce the areas of finance, accounting and risk. Generally, we need more technical expertise as it is not found in many current CEOs".*
- *"Audit and risk expertise are much needed, as are corporate governance and compliance".*
- *"Better international knowledge and financial literacy. We need to develop diversity of thought around the boardroom table to counter the dominance of some industry folk. And we need more artists, professors and intellectuals."*
- *"We need to keep a good balance. We do not want to have all finance, audit or corporate governance."*
- *"Governance, compliance and risk management. Our board talks about these but does not really know what they mean."*
- *"Strategy and risk are not yet being taken seriously. We also need to look much more at people management".*

The average tenure of a board member on the main board is:

Figure 21



40% of respondents report that their average tenure is four to six years; 20% one to two years; and 20% seven to nine years. 10% report average tenure of 10 or more years.

As there are no agreed national or GCC criteria for the selection of directors, so there is no agreement on the assessment of their performance. Therefore, current tenure tends to be a random choice based more on connections, family and comfort rather than any notion of competence. Regulators are beginning to challenge this.

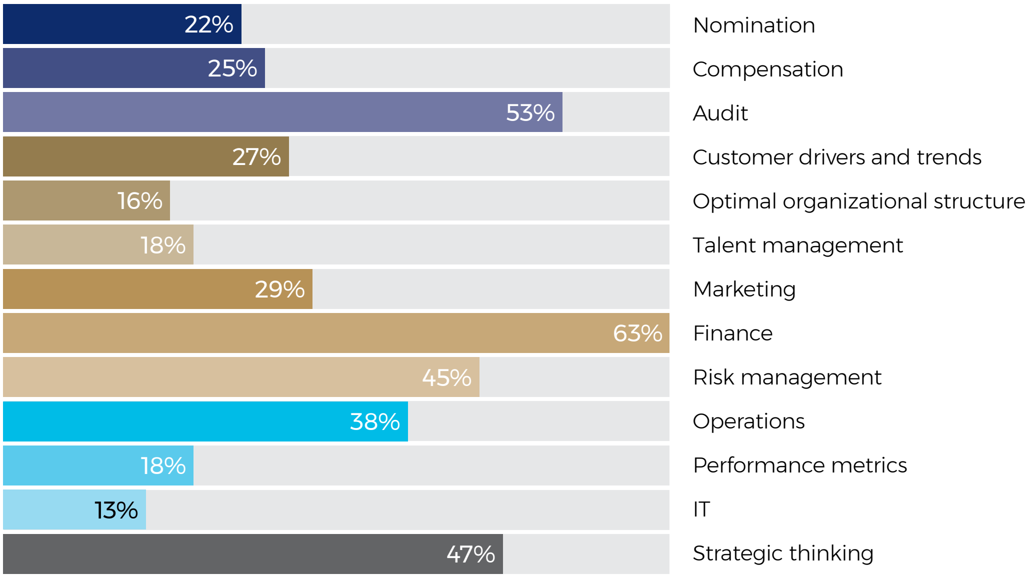
- *We go on for too long – 25 years! I prefer three-by-three year terms. Luckily our independent directors are forcing this issue".*
- *"We depend on experience. However, the chairman is on for five years with a review period at three years".*
- *"We are typically one to three years. We have a maximum of four years but a minority stay for nine years. We need more rotation as we always have conflicts of interest here".*
- *"The corporate governance code says that you should not be on a board too long or you become dependent. Most of our directors are on for five years. Only two are on for ten years"*

Expertise Needed to Improve GCC Boards continued

- *"Three years is a good cycle. It's unwise to go on for more than two terms otherwise you lose your independence".*
- *"Three years, in line with the rules. But you need six months to get inducted. And it is good to have some turnover. We need more thoughtful and careful renewal – and evaluation".*

Does one or more of the board members have substantial experience in the following areas? (multiple answers possible)

Figure 22

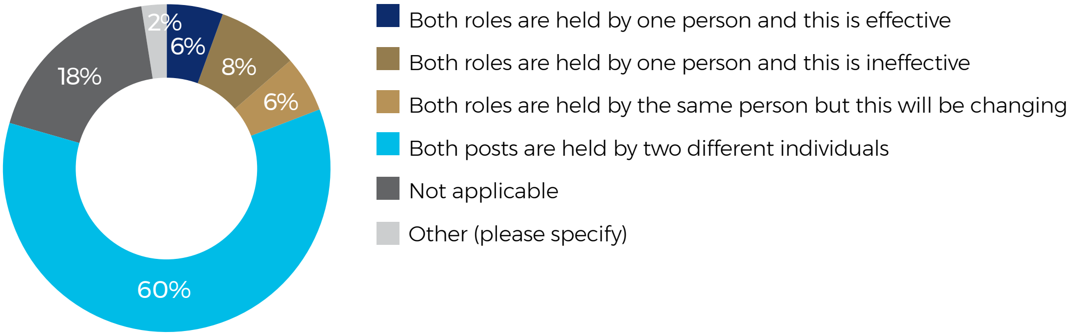


The statistics here are interesting. The respondents show substantial experience in finance; followed by strategic thinking; audit; customer drivers and trends; compensation; and nomination.

- *"Here professionalisation is the key. It used to be focused on growth but now it's changed to strategic thinking and management experience as keys to drive us to the future business model. Now we must also think about digitalisation. We need to think more about two aspects – the front-line customer journey plus internal professionalisation. We need to learn quickly as possible trade quotas come in".*

Is the role of the CEO and Chairman held by the same person and, if so, please evaluate the effectiveness of the arrangement.

Figure 23



60% of respondents say these roles are now separate on the boards they sit on; 8% say that both roles are held by the same person and that this is ineffective; and 6% say that both roles are held by the same person and that this is effective.

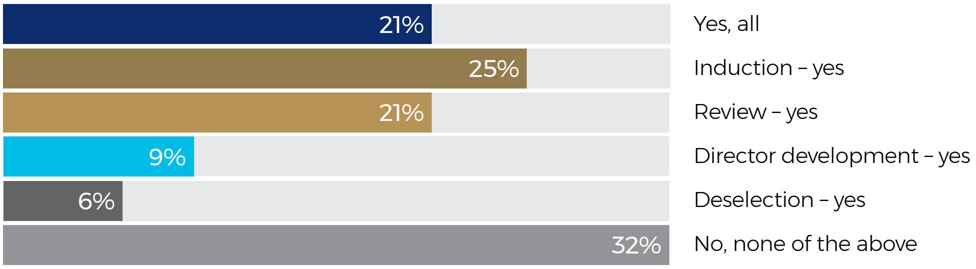
The trend to splitting these roles continues apace. However, for both ownership and cultural reasons it is not always easy, especially in family companies, as day-to-day behaviours can thwart regulatory wishes.

- *"This is difficult if founder members are still in play. If the second generation takes over it can become a more professional job. But the third generation seems to be becoming more difficult about this! Sometimes the CEO is not even on the board."*
- *"In KSA this is not allowed. But I see this as a co-operative role".*
- *"This has not changed in my company".*
- *"In Oman this is not allowed by law. This is good practice. You can't be both as they are so different".*
- *"It depends on the legislation. In Bahrain separation is agreed. But you always need to be clear about conflicts of interest here".*
- *"I do not support it being the same person. Otherwise the board then becomes an extension of management. The CEO must be a board member".*

Expertise Needed to Improve GCC Boards continued

Does your board have a selection, induction, review, development and deselection process in place?

Figure 24



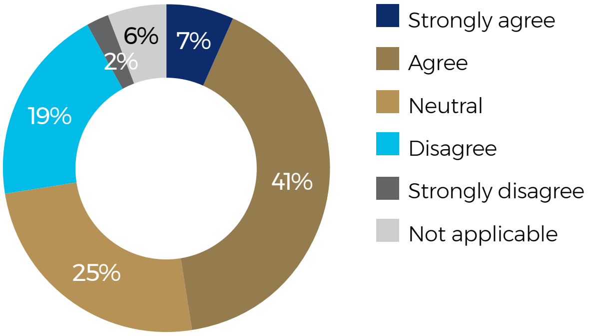
The responses are disappointing here. Indeed 32% reported having none of these processes in place; 21% report that they have all processes in place; 25% have an induction process; and 21% have a review process. 9% have a director development process and 6% a deselection process. This is an area that needs much more attention by GCC boards.

- *"We need to think more about a total board development process – from selection to deselection. This has to be right".*
- *"I agree, GCC BDI must play a major role here".*
- *"Selection and induction depend much on the panel of shareholders. In our case, they comprise 86% and comprise 15 shareholders. Our induction process is good. They are given a board pack then, as chairman, I sit with them, brief them and update them."*
- *"We must try and develop this as a process of learning."*

Understanding Duties and Responsibilities

Board members have a solid understanding of their duties and responsibilities.

Figure 25



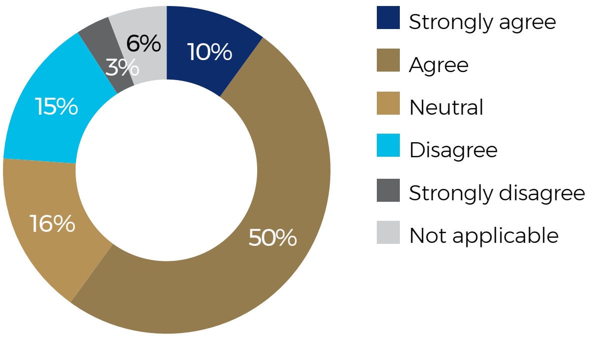
Only 7% strongly agree with this statement; 41% agree; 25% are neutral; and 19% disagree.

This response shows clearly that the basic understanding of the legal duties and responsibilities of board members still has a long way to go before it is established as a fundamental attitude and behaviour of GCC directors. There is still much work to do here, but it is building on a positive base.

- *"This takes time for people to understand. We do have final power over their re-election if they do not".*
- *"Most people take the job seriously. The culture used to be about status but this is now changing".*
- *"It is developing and understanding of the role is being raised. People now tend to 'get it'. Now they talk the talk, but do they don't always walk the walk."*
- *"It's a mix currently, but regulations and codes are changing for the better. I feel that proper induction really pays off here".*

The duties of care and loyalty are well understood by the board as a whole and its individual members.

Figure 26



50% of respondents agree; 10% strongly agree; and 15% disagree.

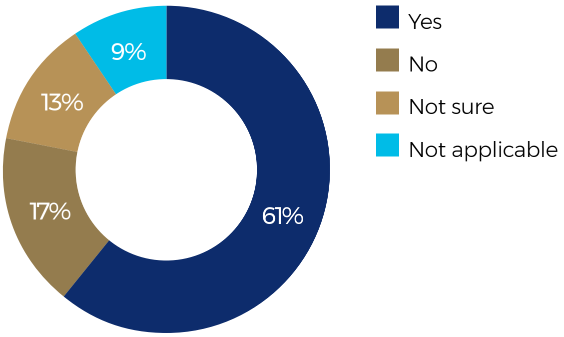
While the majority agree with the question, it is not clear whether the respondents believe that this duty of loyalty and care is owed to the company as a legal person or to the shareholders of the company. In the GCC, the laws and regulations clearly state that the directors must place the company's interest first, not the shareholders or anyone else.

Even in the U.S., this is changing and in August 2019 the U.S.'s Business Roundtable, previously a champion of shareholder supremacy, has dropped this position and is moving towards the notion of both the primacy of the directors of the company and of their responsibility to a wider range of 'stakeholders'.

- *"These are understood but not always complied with. The main loyalty is to the family and split between children and ownership".*
- *"Some today recognise that they share responsibility to all shareholders and stakeholders, especially minority interests. But issues of public care are not always handled well".*
- *"This is not understood by most boards here. GCC BDI must do more on these basics. The Chartered Directors' programme is great at progressing this".*
- *"The duty of care starts with the stakeholders! This is little understood especially the duty to employees".*

Does your board have a charter or equivalent?

Figure 27



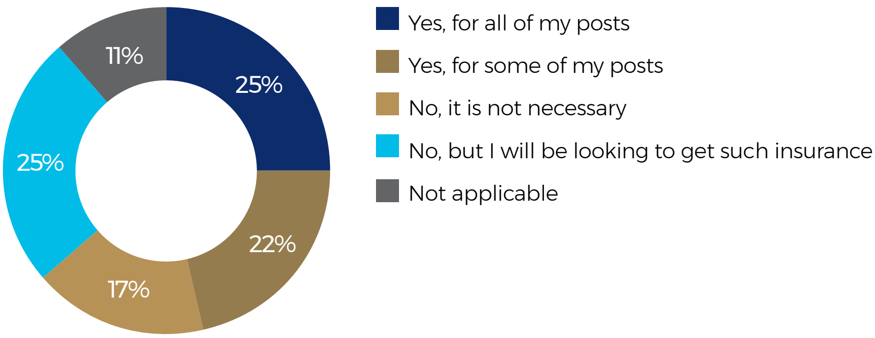
61% of those surveyed reported their board has a board charter; 17% do not; 13% are unsure.

While most boards in the region have a board charter, most do not review them regularly and do not seem to understand the benefits.

- *"We have no board charter but we are developing one. So far environmental and societal impacts are not considered important".*

Do you have director insurance?

Figure 28



Understanding Duties and Responsibilities continued

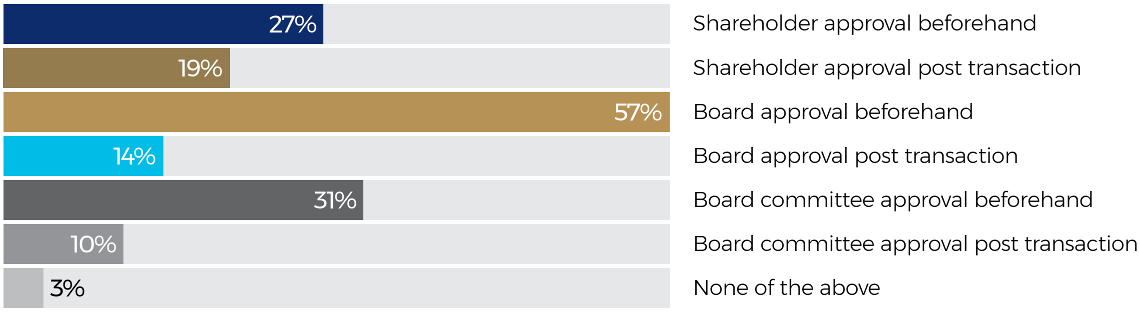
25% of respondents have director insurance for all their positions; 22% for some of their posts; 25% said 'no' but I am looking into it; and 17% said 'no, it is not necessary'.

This is still a new topic for GCC boards and many directors are still not aware of directors and officers' liability insurance. This is an area which needs deeper exploration as the GCC opens up to more international pressures on corporate governance.

- *It sounds normal but most do not do this".*
- *"Now we cover all our directors on D&O insurance".*

What is the process of approving significant related party transactions? (multiple answers possible)

Figure 29

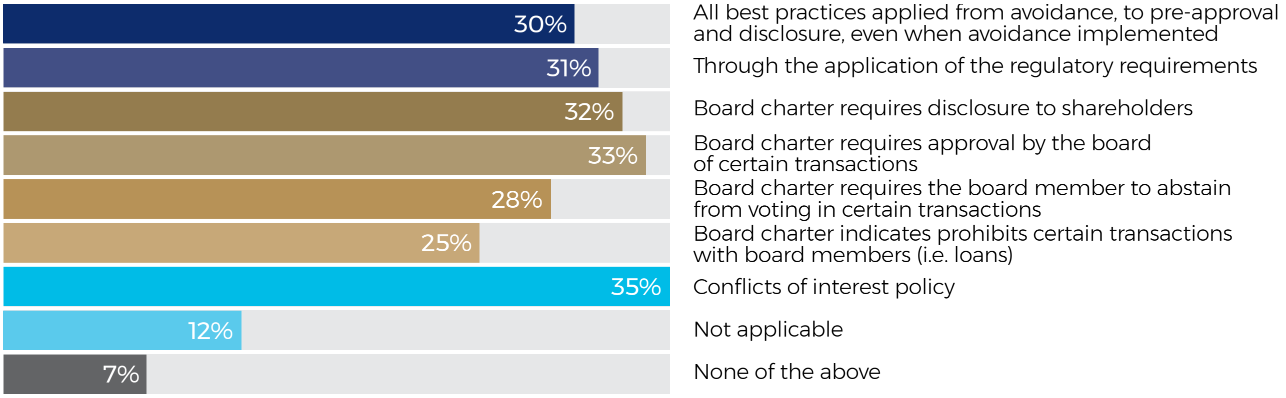


This is an area where new regulations are beginning to have a positive effect. The issue seems more clearly defined with different jurisdictions and different regulators requiring different approval processes. Implementation will have a positive effect on GCC corporate governance.

- *"Definitely improving. We must now comply under Bahraini company law".*
- *"Still a little bit misunderstood and biased, especially when dealing with family issues. This is a serious issue where we should not be complacent".*

How are conflicts of interest in the board managed? (multiple answers possible)

Figure 30



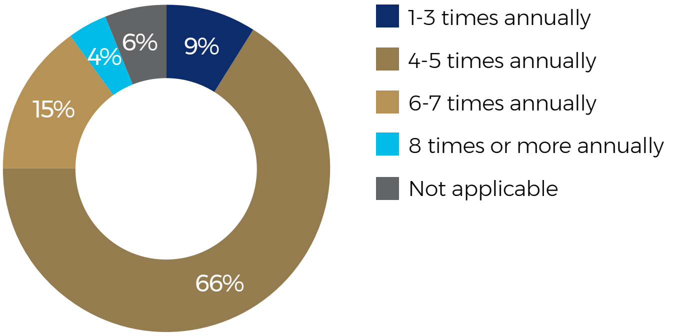
This shows a growing determination to tackle a deep problem. However, it is complex in the GCC where aspects of majority ownership and cultural practices are still being aligned with modern, global corporate governance practices. It is an area where the regulators are getting tougher.

- *"This topic is definitely around! "*
- *"Definitely an issue. There are now more strict rules for the external auditors here. One needs to adopt a policy of total independence".*
- *"This is being extended so needs to be watched carefully. We need it much more than in the West."*
- *"Our regulations and procedures are now in place; including the need to keep an updated register. It should be checked before each board meeting to update it. We also do it on all our committees now".*

Frequency and Duration of Board Meetings

What is the frequency of board meetings (excluding committee meetings) in your experience?

Figure 31

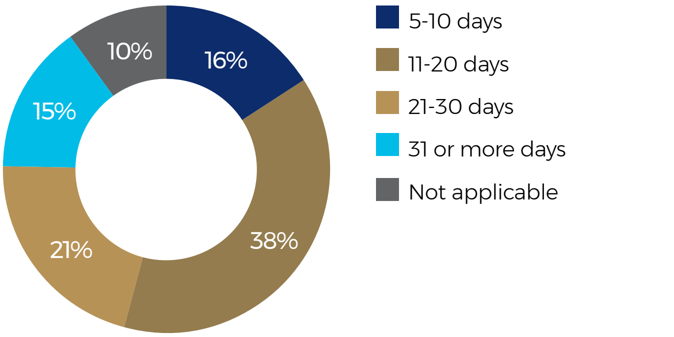


66% of respondents reported that their boards meet four to five times annually; 15% meet six to seven times annually; 9% meet one to three times annually; 4% meet more than eight times a year.

These figures are moving towards international norms. However, as the GCC continues to enhance its corporate governance procedures and as the external market pressures are increasing, notably along with director duties and responsibilities, it is likely that boards shall need to meet more in the range six to eight times annually in future.

How much time do you estimate that you spend annually on exercising your board duties? This includes attending board and committee meetings, formal/informal conversations with management/other board members, reviewing reports, and travel to meetings.

Figure 32



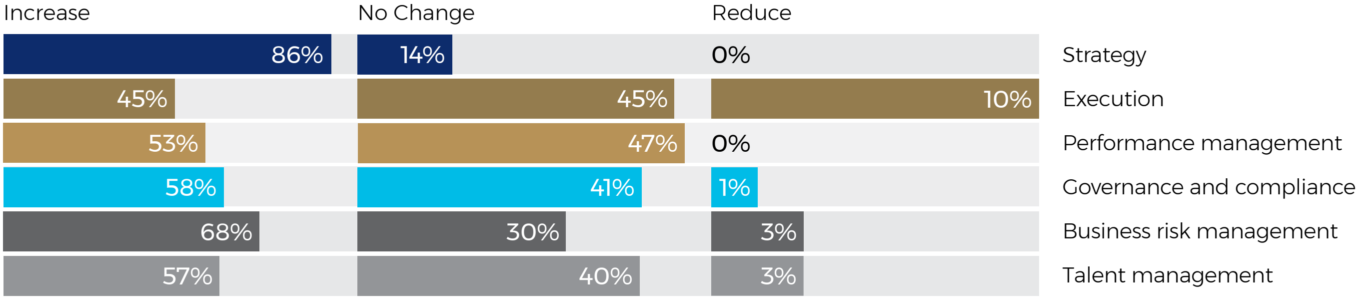
38% of respondents say they spend 11 to 20 days annually on exercising their board duties; 21% report 21 to 30 days; 15% more than 31 days; and 16% say 5 to 10 days.

This suggests a growing investment in the time individual directors make in their boards and is likely to increase as corporate governance and regulations increase in the region. The 10 or 12 days a year many board members spend on the job isn't going to be enough given the importance of their responsibilities. Several well-performing international boards prescribe a commitment of up to 25 days of engagement for non-executive board members, with board members spending time in the field and seeking to play a constructive, forward looking role with real knowledge of their companies' operations, markets, and competitors.

Frequency and Duration of Board Meetings continued

In the next two to three years, what do you think should be the optimal time on each allocation for each activity for your main board?

Figure 33

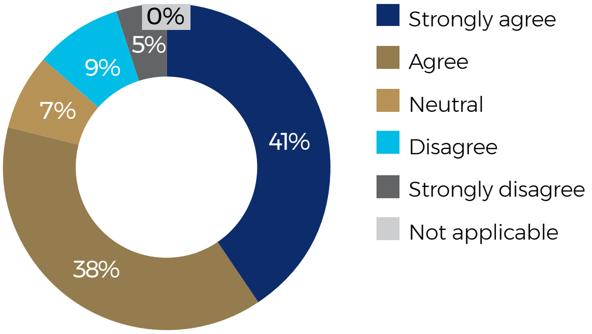


Combined with the comments from the previous question, this suggests a serious amount of time being invested in the changing content of GCC board meetings. This would be a noticeable behavioural and attitudinal switch and one that is being reinforced by the regulators. It is worth noting that little reduction is anticipated in existing board content.

- *"Strategy is important but execution is critical. I would go for big performance indicators being agreed here".*
- *"Increasingly it will depend most on the regulators. Strategy should always be at the top of the agenda. It all depends on the priorities agreed and that the board agenda respects and reflects this".*
- *"I agree as the board's role is getting bigger and bigger. The external/physical environmental issues are impacting more and more. Even though we meet six to eight times a year this is not proving enough".*
- *"We now stress governance, then strategy, which I think reflects the maturity of our board. We also see a lot more effort on digitalisation. The board should not necessarily be experts but they must have a basic understanding and be confident to ask what you call 'intelligently naïve questions' ".*

Board meetings follow a clear agenda and structure which helps the board in ensuring sufficient time is allocated to key topics to be covered in the meeting.

Figure 34



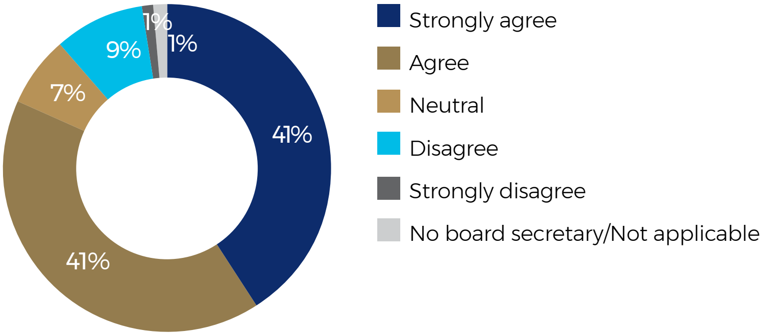
79% of those surveyed agree or strongly agree that the board meetings follow a clear agenda and structure; 9% disagree; and 7% are neutral.

This suggests that, as the regulatory demands increase, boards are becoming more disciplined in their agenda and structures but still have some way to go. Managing board agendas and board meetings requires discipline and structured processes, but can have a huge impact on board effectiveness as limited time is focused on the key issues.

The Board Secretary

The board secretary should be highly knowledgeable on topics related to governance and board matters and is a non-executive staff member.

Figure 35



The combined 'Strongly agree' and 'Agree' scores are a noteworthy 82%. Only 9% disagree with this statement.

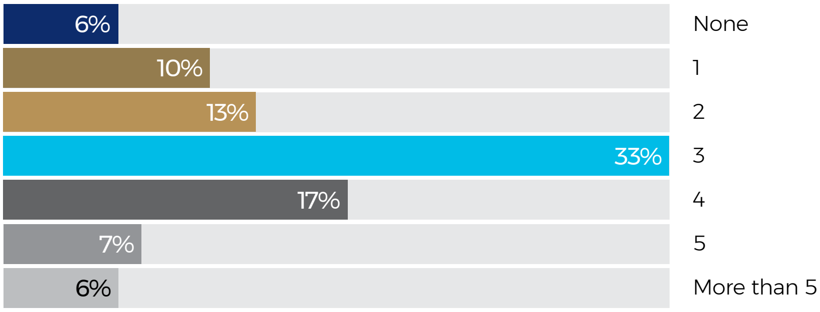
This suggests a trend towards the board secretary, or company secretary, now being seen as a key part of the development of effective corporate governance. It is a role in which professional qualification is seen as increasingly necessary, despite the shortage of such professions in GCC countries. They are often seen as a member of the executive team reporting to the CEO. The international trend is for them to be accepted as a key component of the board reporting directly to the chairman. They need to act as 'the conscience of the board'.

- *"This is a very important role. They need full oversight of the company, but not all of them get it. Their role is to explain the company's policies to the chairman and the board".*
- *"Currently we use our legal people but they are not always the best for this important role."*
- *"Ours is a properly qualified person called the board secretary. A lot of our people are interested in taking this into a proper 'Officer of the Board' structure. This will start moving from a compliance role towards becoming a key member of the chairman's office. We need to create a new culture of Board Secretary competence here. A modern board secretary role is so much more than just administration and now has to deal with the board and shareholders. we need more professionalisation here".*
- *"They do help resolve conflicts of interest. They should do due diligence for board selection. He is our black box".*
- *"We do not yet have a very effective company secretary for all our companies. but we are starting to move to get our company secretary certified. They will not be just clerks".*
- *"I take pride in my reputation here. I care, know the law and am loyal to this organisation, But I must ensure that the directors are not dependent on me. I must be 'the conscience of the board'. I report to the chairman of the board, not the CEO. I have a separate budget from the CEO's".*

Board Committees

How many committees does your main board have?

Figure 36



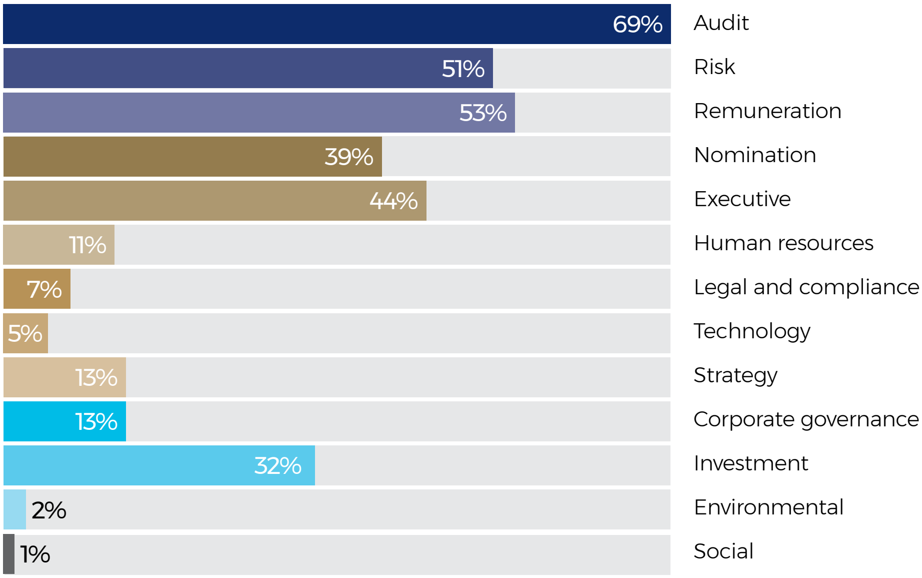
33% of respondents said their boards have three committees; 17% four committees; 13% two committees; and 10% one committee. 8% have five committees.

The issue of board committees is being debated strongly in the corporate governance world internationally. There seems to be broad agreement, backed by law, that there must, as a minimum, be an Audit Committee. The question is whether any other board committees are needed, or whether short-life working groups of directors are better suited to make recommendations in such areas as remuneration, nomination, investment and risk here in the GCC, there is still much work to do for board members to understand the role of the board committees and how they interact with the board and each other.

- *"Keep the number of committees small. Small numbers are manageable".*
- *"I think that we can do a lot without all these board committees. It's overkill. You have to be careful here or an Executive Committee can become a superboard. And risk is usually financially orientated so do we need a separate committee? Committees take up a lot of board and management time unnecessarily".*
- *"We find the committees do not have a good reputation in the Middle East. In our company we do not have any. I wish you good luck in developing this idea!"*
- *"What is the effectiveness measure for board committees? To avoid confusion, you first need a board charter. Then you need to select the right people. Audit is essential. But risk should simply recommend to the board drawing on its expertise. And you need to agree the right number of committee meetings to reduce the traffic to the board, especially if they are to approve deals".*

Which of the following board committees does your board have? (multiple answers possible)

Figure 37



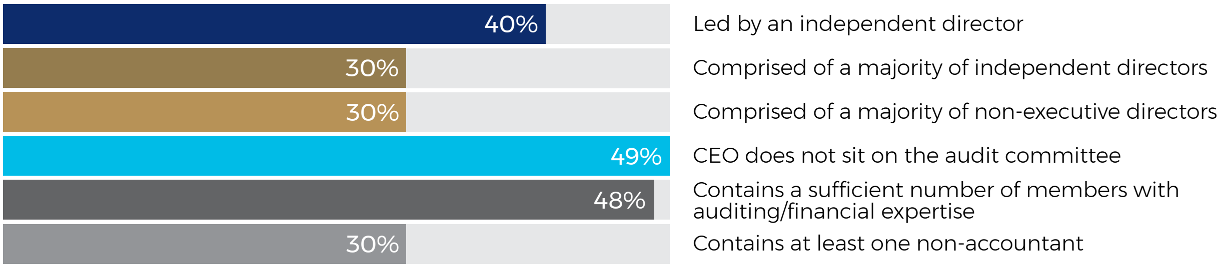
The predominant committees in the GCC are Audit, Remuneration, Risk, Executive, Nominations and Investments. Audit, and Nomination and Remuneration, are usually required by GCC regulation. What is noticeable is the low priority given to 'Social' and 'Environment'. In a world where 'Environment, Social and Governance' (ESG) is becoming a key area for board thought in relation to the future health of the company, this is an area that will require more attention for GCC boards.

- *"This is OK. We have a Standing Committee, then Executive, Audit, Nominations, Strategy and Investment committees. I am seeing some companies split Audit into additional Risk and Compliance. It's early days yet".*
- *"Every company will do only the minimum here. So far environmental and social inputs are not considered important".*
- *"We have met to try a sustainability report. This is not yet a regulatory requirement. We are aware that such pressure will keep growing and will become an important part of our international boards. But we are massively behind on this – as are others in the GCC".*

Board Committees continued

Please indicate the composition of the Audit Committee (multiple answers possible)

Figure 38

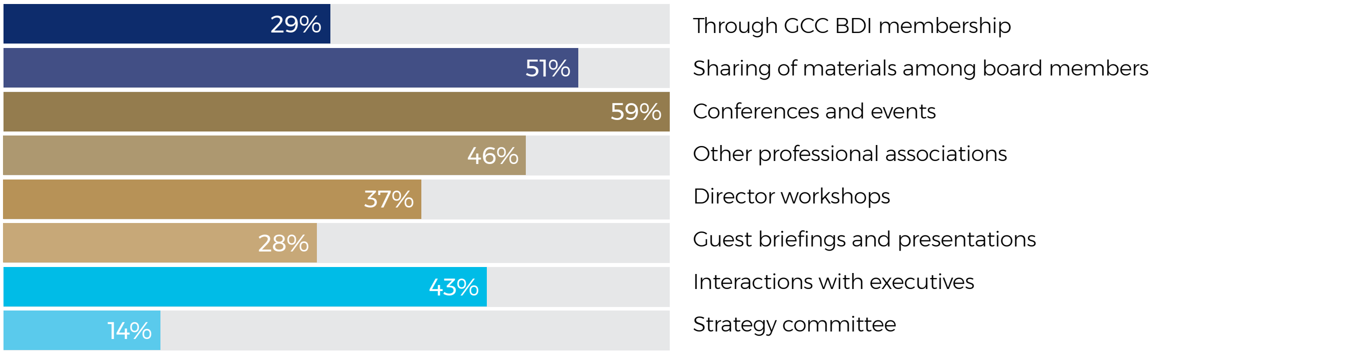


The results show that the composition of the Audit Committee is evolving positively with greater expertise and independence driven largely by new legislation. There is agreement and understanding that the CEO should not be on the Audit Committee.

Forward Thinking and Strategy

What mechanisms do you use to keep abreast of company and industry developments? (multiple answers possible)

Figure 39



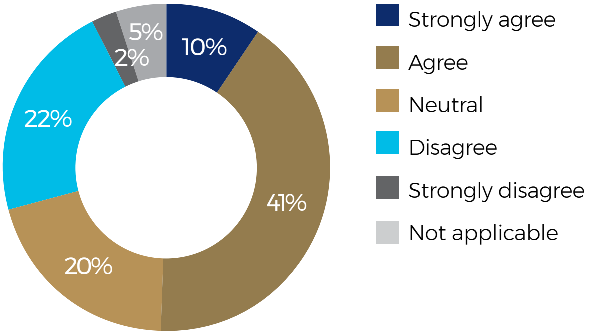
Horizon scanning is a new concept for many GCC directors and is an area for more boards to focus as the role of the board in developing strategy increases.

- *"We run an informal 'buddy system' but should have been doing more here".*
- *"I've seen this at Citibank. It's a good thing to do."*
- *"I'm not comfortable with this. We would have to rethink resources a lot – to what end?"*
- *"Boards should influence this more to track industry changes."*
- *"There are many different ways to do this. Working with our JVs really helps me a lot here".*

Forward Thinking and Strategy continued

Board members spend sufficient time discussing strategy issues related to the business model.

Figure 40



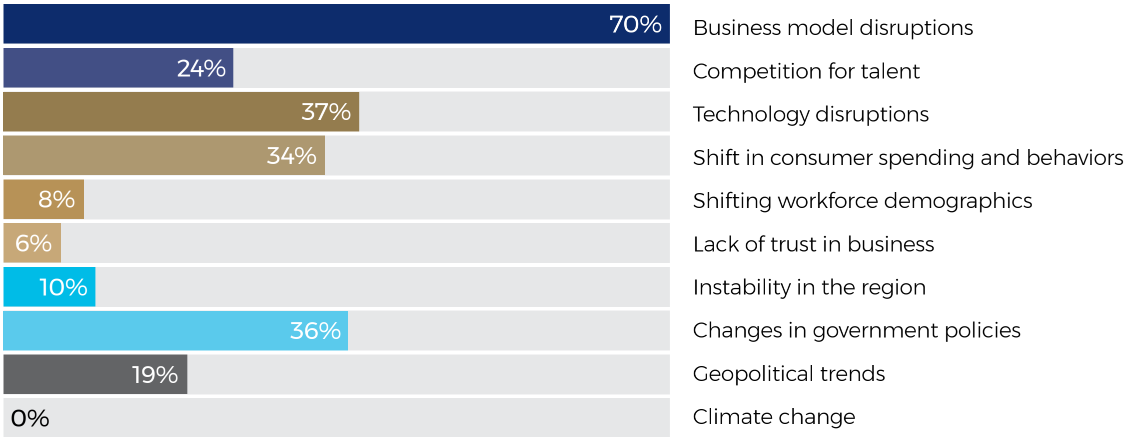
51% of those surveyed either agree or strongly agree that board members spend sufficient time discussing strategy issues; 22% disagree; and 20% are neutral.

This is a positive step and shows that GCC boards are spending more time on strategy. This needs now to be embedded as a discipline to ensure boards do this on a regular and rigorous basis.

- *"A lot of time is spent on 'strategy'"*
- *"Our market changes are rarely discussed despite the rapid changes."*
- *"We are just not speaking sufficiently on strategy to cope with the growing risks. The board rarely discusses this".*
- *"We have a running calendar and distribute notes after each board meeting. We meet a minimum of once a year on strategy and then meet unplanned as necessary, especially on the development of fintech."*
- *"We need discipline here to fight the existing complacency".*
- *"Yes, we do need time to develop our strategic thinking. We need to understand better the complexity of world developments".*
- *"This is my concern. Our board meetings are fairly short – two to three hours – so these issues are never discussed. We need to be more open to more horizons and then budget time to debate these".*

Which of the following factors requires most board attention when overseeing strategy? (select top 3)

Figure 41

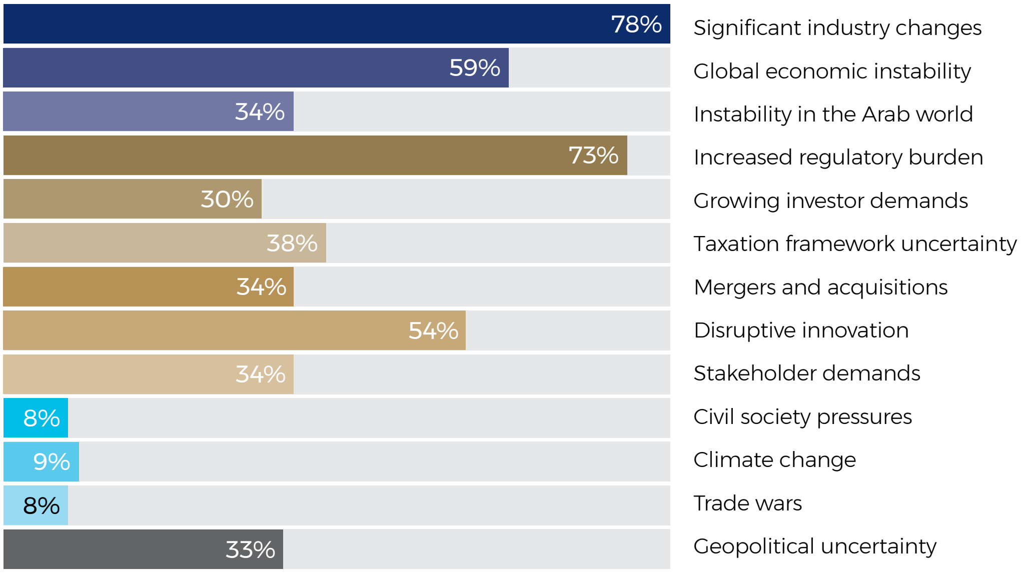


This is a good snapshot of the many and complex changes in the issues facing the future of GCC businesses and the consequent need for more time and rigour to be spent by boards on strategic thinking before taking executive actions.

Forward Thinking and Strategy continued

Which of the following trends do you foresee as being the most significant impact on your company in the next three years? (select top 5)

Figure 42

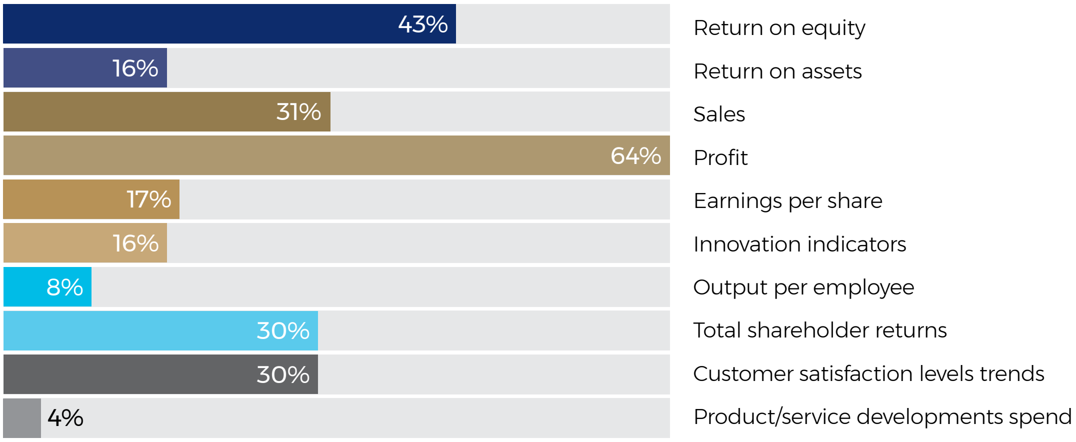


The range is so wide and the likely consequences so deep that it is clear that GCC boards must change their attitudes and behaviours away from the current more introverted focus towards ensuring that they increase their rate of learning about change in the external world so that it equals or excels the rate of external change. This is simple to state but requires major attitudinal, behavioural and time budgeting changes.

- *"There are lots of disruptive trends. Climate change is now big, as are disasters."*
- *"There are plenty of disruptive trends but few true crises – yet. But generally, there is a feeling of a downward trend. Countries in the region show signs of a strong trend to cut government expenditure as they seek efficiency. We are seeing fast changes in technology, for example in banking. Yet these are seen not so much in the rest of the private sector. We will have a bumpy ride over the next 25 years".*
- *"KSA is undergoing a transformation. A concerted effort by government to introduce new economic activity, thereby reducing government inputs and encouraging new big innovation and employment. They are having a stronger look at new business models and costs, asking 'What are you doing for the local economy?' And 'How good is your contract execution?' They are looking for actual champions – not just start-ups. In this context we must develop new boards and their strategic thinking. Hopefully, this will attract new investors. Second, global competition is becoming intense, especially via digitalisation. Our ageing model will have to give way to more sophisticated dealing with, for example, US, China, Russia and the UK. We have to look at, for example, energy efficiency programmes, etc. But most of our businesses are service companies, not manufacturing or science".*
- *"We are behind the curve on innovation despite the government efforts. Still tending not to consult or co-operate but to rely on new government instructions via law. The family companies are still behind here and need to better understand the concept of a 'licence to operate".*
- *"All around us are technological disruption examples – driverless cars, energy cells, cleaner water and food, new ideas on real estate funding, etc".*

What are the key indicators the board monitors in terms of overseeing the company's performance?

Figure 43



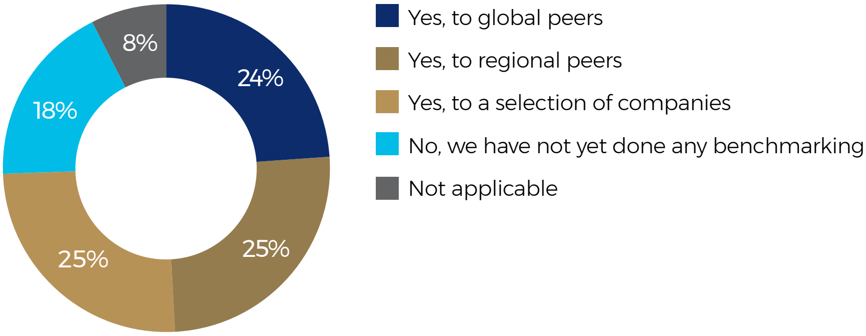
It is noticeable how simple and financially orientated these indicators are. They do show a growing level of board maturity, as indicators such as customer satisfaction levels appear, but they are still a long way away from the current leading-edge integrated reporting and ESG indicators now in use elsewhere. GCC boards will need to focus more on these indicators and performance monitoring frameworks in the future.

- *"These depend on the business and its stage of development. I tend to look at profitability – at the margin not the median. I look for growth relationships and rolling averages, especially share price. I also look at our public perception. We need more behavioural models here."*
- *"Our key indicators are missing. Currently we use norm factors. But companies need also to see abnormalities, eg employee turnover levels and customer satisfaction. This is not very common yet. We also need to look at health and safety scores, and CEO turnover".*
- *"KPIs? I'm not really sure what they are".*
- *"Ours are carefully constructed. The board's strategic role is designing these. But we must not use them to interfere in day-to-day business."*

Forward Thinking and Strategy continued

Does the board seek to benchmark the performance of the company?

Figure 44



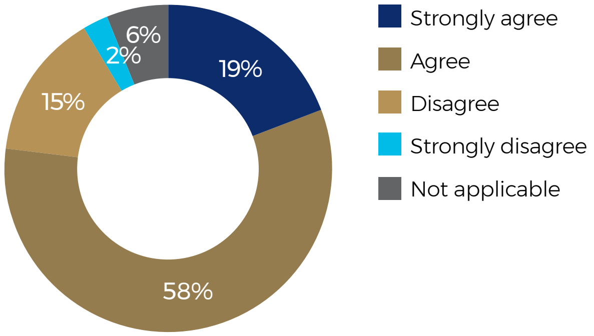
25% responded that their board did seek to benchmark company performance against regional peers; 25% benchmark against a selection of companies; 24% benchmark against global peers; and 18% have not yet done any benchmarking.

Benchmarking and other forms of monitoring performance are still at an early stage in the GCC, with a few noticeable exceptions.

Risk Appetite

The board is effectively involved in setting the risk appetite of the company

Figure 45

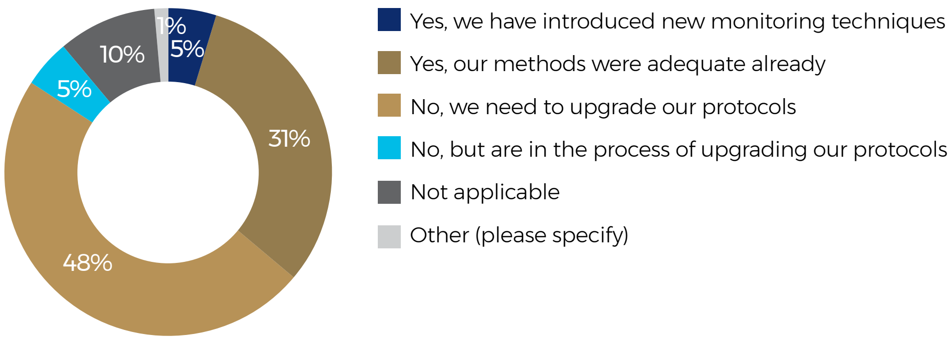


The combined 19% who strongly agree and the 58% who agree show that this is now accepted as a key board role, despite the 15% who don't agree.

- *"This needs much better assessment especially in our primary markets. Done well, it will create good profits".*
- *"This is not discussed."*
- *"Our company does a good job here. We are very much a development company".*

Do you believe your board has the necessary processes in place to deal with the risks arising from the international and regional volatility?

Figure 46

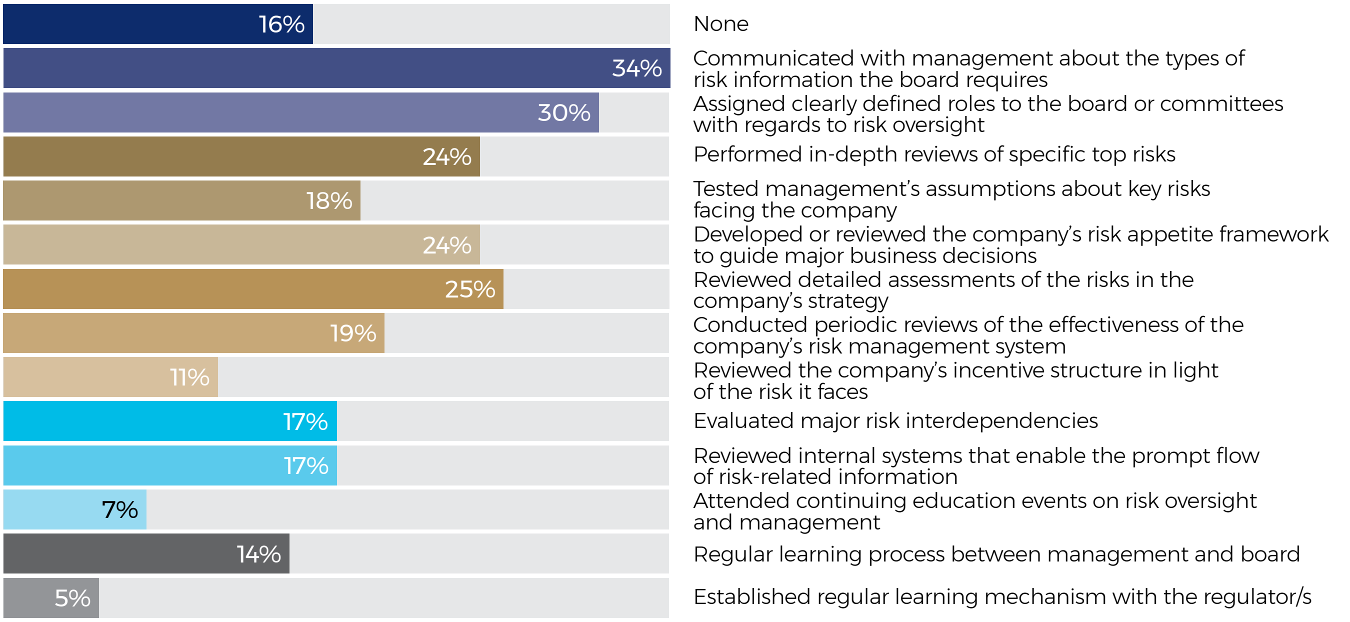


48% of respondents say that their risk protocols and processes need to be upgraded; 31% believe their methods are adequate.

Risk Appetite continued

Which of the following risk oversight practices has your board performed in the past year? (multiple answers possible)

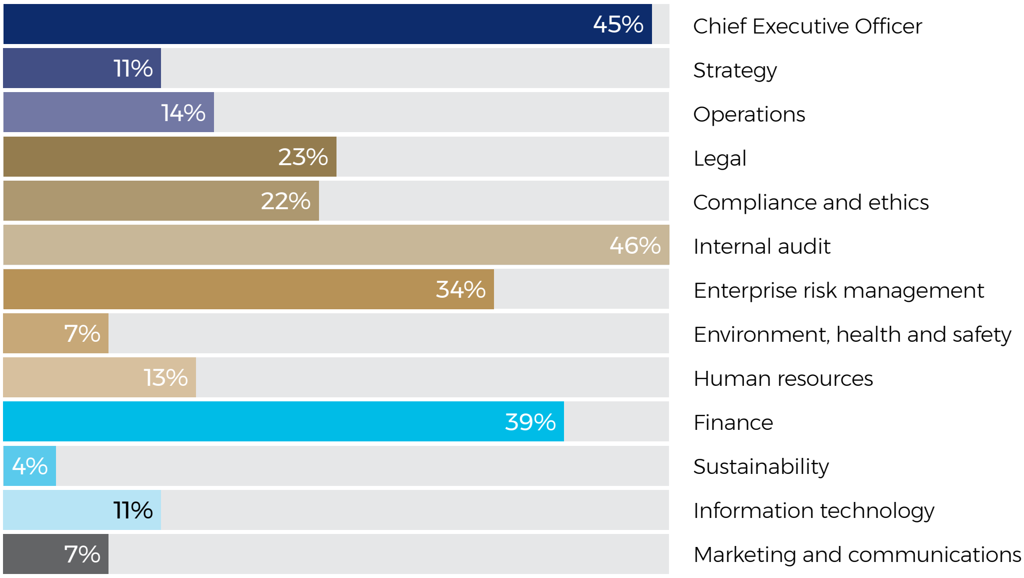
Figure 47



- *"Can we develop a system to see how much risk executives will take to get a dollar return? We have no such answers yet."*
- *"We rely on both our Risk Committee and our operating companies, such as the Health and Safety Reports. We need to work to develop a proper risk matrix with regular updates".*
- *"Oman is developing this especially in relation to fraud risks. We are very keen to develop such oversight across our financial services. The Chief Risk Officer is playing a more important role here".*
- *"ISO 3100 is not applied here, therefore I am unaware of risk terminology. Currently we only look at risk if there is a crisis. Except for finance, we have no clear risk reporting. We need proper risk registers and regular reporting to the board."*

Which of the following departments/internal functions present risk information to the board? (multiple answers possible)

Figure 48

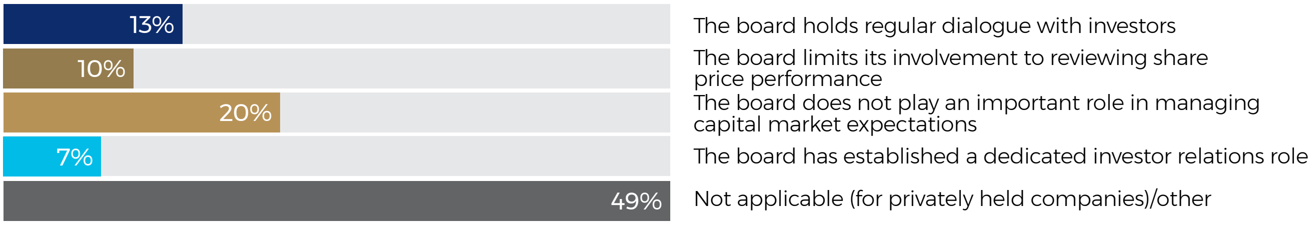


The variety of responses shows the lack of maturity here in overseeing risk in the region and it reflects the current relationships between the CEO and the board. Risk oversight, the role of the independent Chief Risk Officer reporting to the board, along with the future demands for ESG reporting, is a key area of focus for GCC boards.

The Board and Capital Markets

The board is effectively involved in managing capital market expectations.

Figure 49

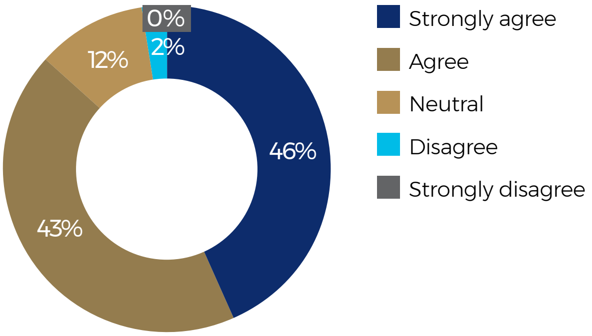


These low figures demonstrate the current stage of development of GCC Investor Relations. However, as many private businesses begin to consider IPOs, this will be an area of significant development for the GCC region in general.

- *"In general, GCC boards are becoming more secure here. KSA is getting smart and becoming professional investors in their own right. More people are beginning to understand the incredible benefits of an IPO. But few know what to do afterwards".*
- *"CMA is currently only looking at the financial aspects – but not at the people/community aspects".*
- *"More banks are now sensitive to their share price movements. Many still take quite a long-term view. Post an IPO, the need for funding is usually much less."*

The ongoing opening of GCC markets and companies to foreign investment necessitates a new approach to dealing with investors.

Figure 50

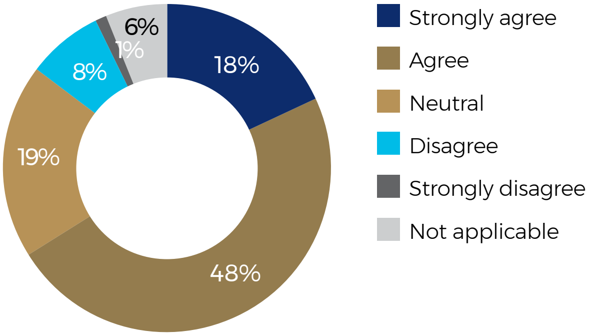


The combination of 46% strongly agreeing and 43% agreeing, with only 12% neutral and only 2% disagreeing, shows the unanimity of response. Developing a new approach to dealing with investors is clearly seen as a necessity.

The Board and Capital Markets continued

The board ensures best-in-class disclosure of information to shareholders in accordance with global standards.

Figure 51



18% strongly agree and 48% agree, with 19% neutral and 8% disagreeing.

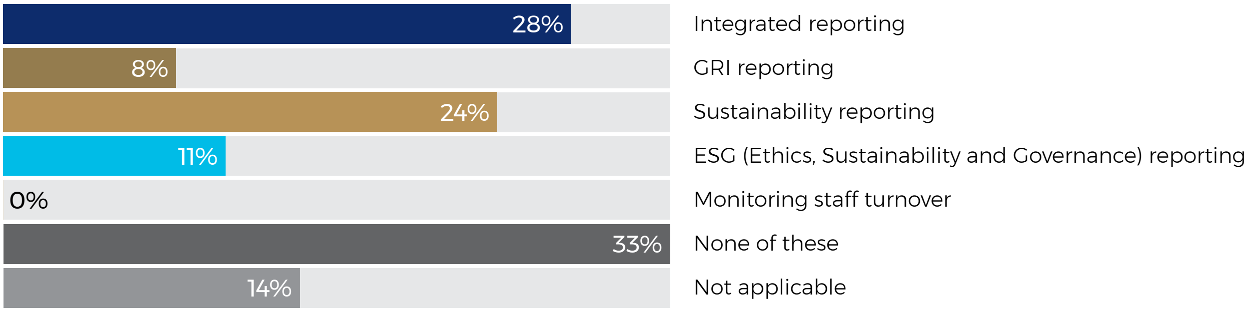
Again, this shows acceptance of the need for the board to ensure best-in-class disclosure of information to shareholders in accordance with global standards and for the board to own the necessary competences. As GCC standards of corporate governance evolve and mature, corporate reporting needs to improve.

- *"We are beginning to see a few signs of shareholder activism. They study our published accounts and policy statements. 'Transparency' is being demanded and it will increase in future".*
- *"Disclosure to shareholders? We have to do it as they are very active."*

Integrated Reporting

The board has adopted the following:

Figure 52



It is significant that at present the highest response is 'None of these'; integrated reporting scores next highest; and then sustainability reporting and ESG.

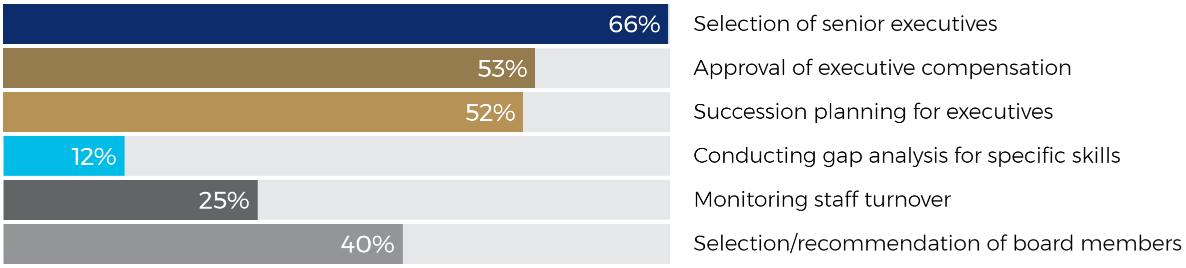
Again, these are early signs of significant changes happening to boards in the GCC. It is mainly being driven by regulatory and legislative changes but these changes are important and will have a significant effect on GCC boards and corporate reporting standards in future.

- *"This hardly exists in this region. I only know a few start-ups pushing this, especially on sustainability".*
- *"There's very gradual acceptance. A few are trying a sustainability report in additional to their financial report".*
- *"Integrated reporting has not gone through a maturity curve yet – but it will. A few know about CSR, especially if they are charities. But none are into Environmental, Social and Governance reporting. Most CFOs know that this is happening but few have information on it".*
- *"There's lots of talk but little implementation. We shall need consistency between our reporting systems to go for the triple bottom line, backed up with hard-edged measures".*

Talent Management

The board is involved in the following areas of talent management in the organisation. (multiple answers possible)

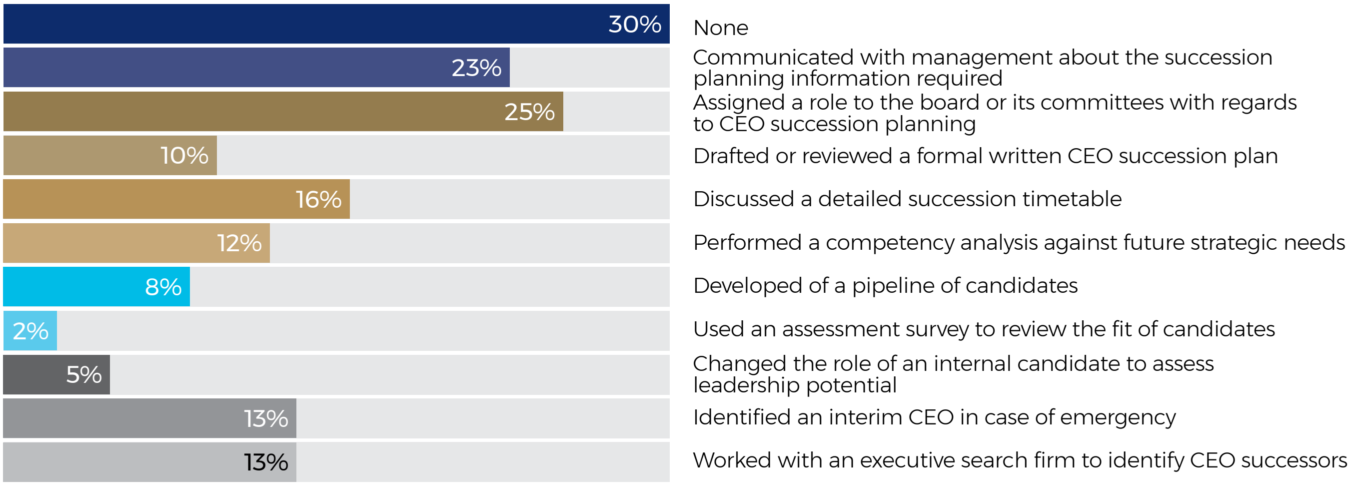
Figure 53



This is a developing area, especially in those large family companies where succession was simply assumed and remuneration a closely-guarded secret. Areas such as staff turnover, health and safety, and staff welfare are rising slowly in boards' awareness. Talent management and succession planning is key at all levels of the organisation and today it is an important item on the board agenda.

Which of the following practices related to CEO succession has your board performed over the past 12 months? (multiple answers possible)

Figure 54



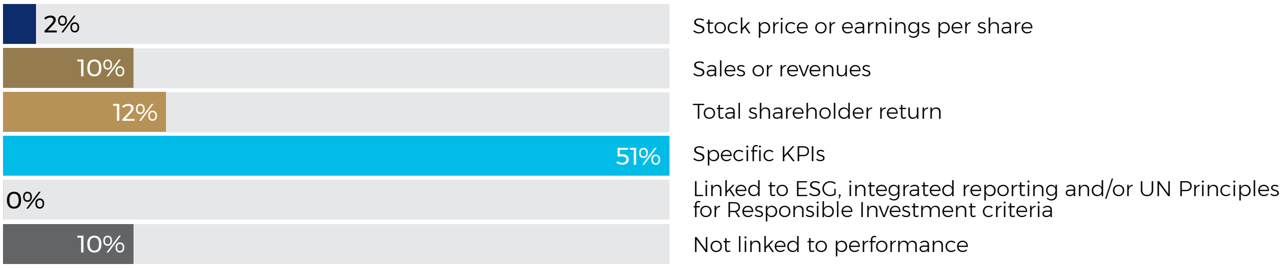
The survey shows that many respondents indicate that their boards are not focused on CEO succession planning which demonstrates the low priority currently given to this area.

- *"This is a very understated area. Most companies have no succession plans, especially the family companies. Most private companies just go to the market. There's more planned succession in the private sector".*

Talent Management continued

Is senior executive pay linked to performance and, if so, how is performance defined?

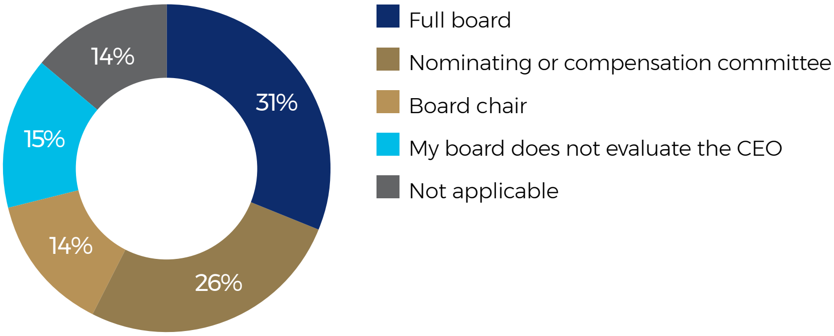
Figure 55



Oversight of senior executive performance is a key role of the board – performance needs to be linked to strategic objectives with short, medium and long term KPIs. It is the board's role to evaluate CEO performance and they can only do this effectively if they have set the objectives and criteria on which measurement will be based.

Which group or individual has the primary responsibility for the CEO's evaluation?

Figure 56



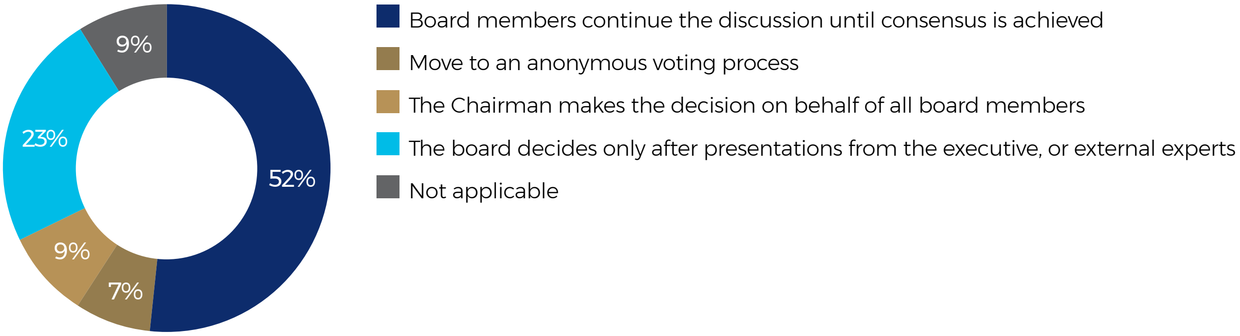
31% of respondents reported that the full board has the primary responsibility for the CEO's evaluation; for 26% it is the responsibility of the Nominations or Remuneration Committee; 14% reported that the board chair takes the responsibility; and 15% reported that the board does not evaluate the CEO.

- *"The Nomination Committee does the legwork and the board takes the final decision. Pay decisions rest with the board".*

Board Decision Making

Which of the following best describes how decisions are usually made in board meetings?

Figure 57



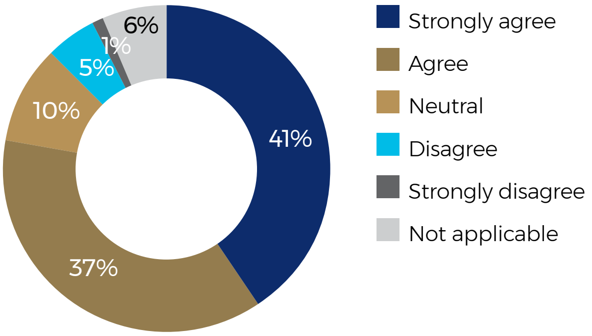
52% of respondents report that board members continue the discussion until consensus is achieved; 23% report that the board only decides after presentations from executives or external reports; 9% that the chairman makes the decision on behalf of board members; 7% move to an anonymous voting process.

This suggests the continuation of the cultural norms of seeking consensus and avoiding confrontation, but it also best practice to reach consensus. The notion of anonymous voting should really be discouraged, as should the power of the chairman to take the final decision although in many regulations the chairman has the casting vote.

- *"We never vote. Disagreements are discussed before a board meeting".*
- *"It depends on the company and the quality of chairmanship. There is no doubt here that executives do influence the board".*

Meetings between the board and senior management provide a forum for open and honest discussion.

Figure 58



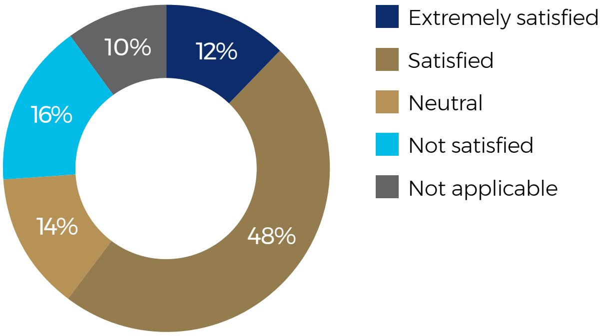
41% of those surveyed strongly agree that meetings between the board and senior management provide a forum for open and honest discussion; 37% agree; and 5% disagree.

This seems to be an accepted and generally successful practice in GCC boards.

Board Decision Making continued

How satisfied are you with the quality and timeliness of the information provided to the board by management?

Figure 59



12% of respondents are extremely satisfied with the quality and timeliness of the information provided to the board by management; 48% are satisfied; 16% not satisfied; and 14% neutral.

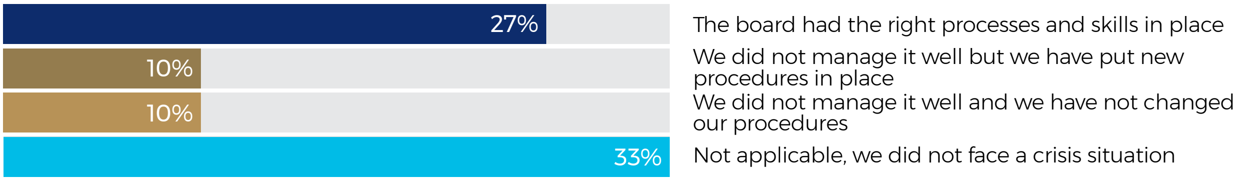
Boards in the GCC in general seem to be getting the right information on time. However, as boards mature in the region, the quality of board packs and board presentations will also need to mature, especially as the demands on the board's time increases.

- *"Matters are made worse by our board papers – 1,000 pages to be dealt with in two to three hours".*

Handling Crises

If your board has had to handle a crisis situation in the past three years, how did it handle it?

Figure 60



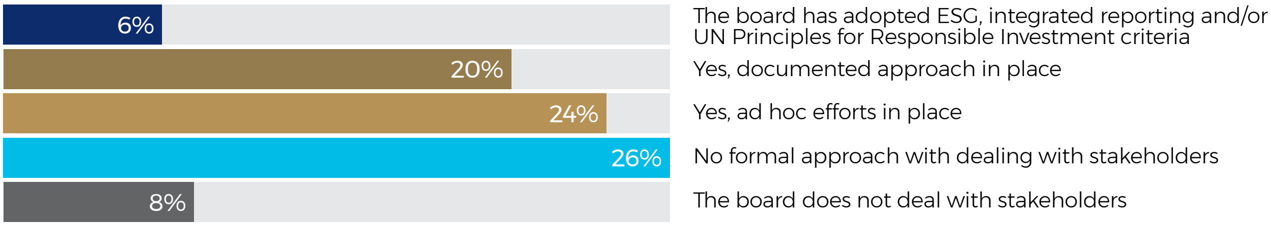
With cyber security high on the board agenda today, and only a small fraction of respondents saying their board has the right skills and processes in place to handle a crisis, this is an area that boards do not spend enough time on.

- *"Usually we are not concerned too much – it depends. We are still seeing the consequences of the 2008 financial crisis. But I do notice that Alternative Dispute Resolution is beginning to appear in the GCC".*

Stakeholders

Which of these answers best describes your board's approach to dealing with stakeholders?

Figure 61



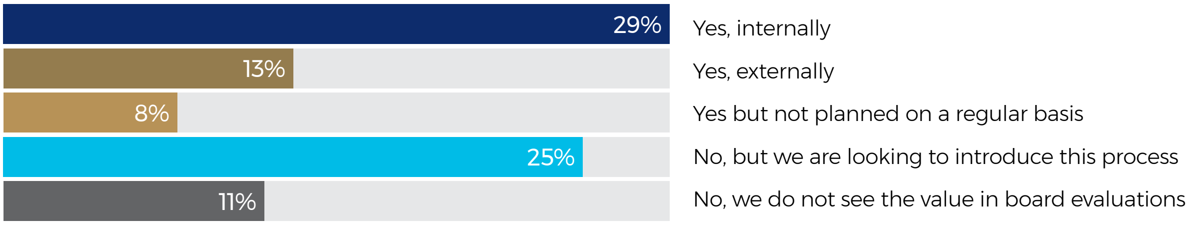
These scores provide an important benchmark from which to track the opening up of GCC boards to international trade and trends more highly integrated than before. Going forward, this will require a much clearer definition of 'stakeholder' and for boards to adopt a defined stakeholder engagement strategy and policy.

- *"For us, 'stakeholder' still equals shareholders but now, with the regulators, the political/ communities will be added. Individual country development needs here are becoming clearer. And we are seeing movement, especially in environmental stewardship".*
- *"We still have confusion as to who stakeholders are and what they mean. Some companies are experimenting with oversight committees here".*
- *"We must not confuse stakeholders with shareholders. At our AGM, we have a lot of focus on shareholders but not s o much on, for example, customers and suppliers. We need to rethink this."*
- *"Corporate governance should set the rules here. We are confused by shareholder/stakeholder definitions".*
- *"It is not only about shareholders. It is about all those people who need to act in the interests of the company, ie everyone with an interest including the employees".*

Board Evaluation

Do you evaluate the board's performance and effectiveness?

Figure 62

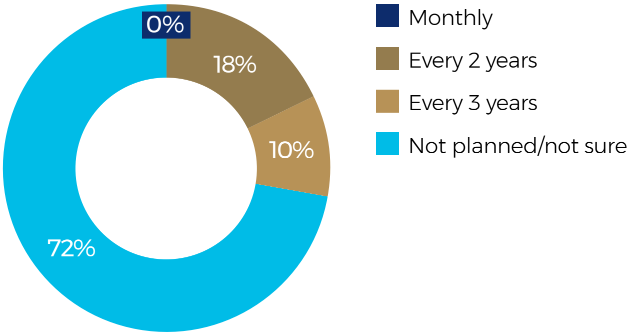


Driven by best practice and the regulators, board evaluation is still in its developmental stage in the GCC. More and more companies are adopting this practice – the survey shows a notable proportion of those surveyed conduct some form of board evaluation which is an encouraging number compared to 10 years ago.

- *"It's in its infancy, mainly because it runs against the culture of evaluating seniors. It might just work by evaluating the collective, ie the whole board and with the chairman leading the process.*
- *"The survey refers to a 'review and develop' process more than an 'evaluation' process. This is a more positive, less critical, approach".*
- *We are seeking to install a board effectiveness measure and looking at which tools will be most effective. We hope to do this by 2020. We hope that it will cause less disruption and be easier if well-tried outsiders are used initially to give a credible start".*
- *"Board evaluation is a low priority for the public sector. Oman is much better at it. We did try to do something a year ago but it was dropped when so much corporate governance regulation was introduced. Now the CMA seems to want to see it back".*
- *"It is happening but very slowly. It needs an evaluation of each board member. And when it has happened, directors definitely perform better".*
- *"This must be led by the chairman or a GCC BDI-style third party".*
- *"This is so important. You can't have boards just sitting there as happens so often in family or government companies. It is absolutely critical that this is done regularly. GCC BDI can help here at the levels of boards, chairmen and individual directors".*
- *"In Oman, this is now mandatory. Independent directors are reviewed over the past two years. But the problem is that the regulator has not been specific on the criteria used. We need this revisited".*
- *"We don't have a policy yet. We want a quantitative side but we are also looking for a qualitative side".*

If you answered 'Yes, externally', what is the frequency?

Figure 63

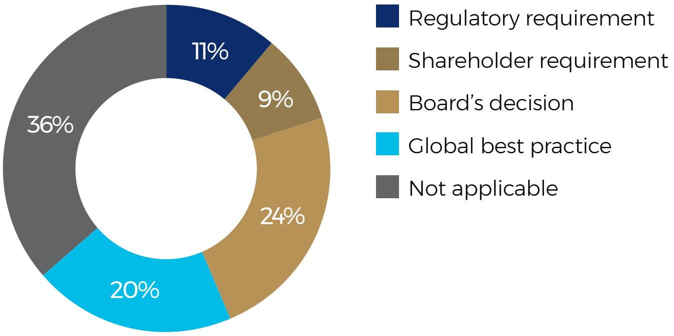


Significantly, 72% of respondents who conduct an external board evaluation said they had not planned the frequency or were not sure; 18% said they would do this exercise every two years; and 10% said every three years.

The results show that most boards in the region do external board evaluations on an ad hoc basis and do not have a formal board evaluation policy and process. The current international guide is to conduct an external board evaluation every three years. The external evaluation should be rigorous and deal with quantitative and qualitative measures leading to a development process. It may be better for GCC organisations to adopt a 3-year board evaluation process, aligned to the term of office of the board, with an internal evaluation in Year 1, an external evaluation in Year 2 and an internal evaluation in Year 3.

Why has your board decided to have a board evaluation?

Figure 64



24% of respondents said it was the board's decision; 20% said it was global best practice; 11% said it was a regulatory requirement; and 9% said it was a shareholder requirement.

Again, this demonstrates evolving board practices in the GCC and this is certainly positive progress and an area for more board focus.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