Embarking on a Journey

A review of board effectiveness in the Gulf

GCC BOARD DIRECTORS INSTITUTE

2011

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EMBARKING ON A JOURNEY:
A REVIEW OF BOARD EFFECTIVENESS IN THE GULF
2011

GCC BOARD DIRECTORS INSTITUTE

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1. Session during the Senior Director I Workshop in Jeddah, Saudi Arabia – February, 2011

2. H.E. Maryam Al Suwaidi, Deputy CEO, Legal Affairs and Acting Undersecretary, Emirates Securities and Commodities Authority (SCA), at the opening dinner of the Senior Director I Workshop in Dubai, UAE – April, 2010

3. H.E. Mr. Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain and Mr. Mohammed Al Shroogi, BDI Governor and President of Gulf Business, Investcorp at the BDI Alumni Dinner in the Senior Director I Workshop in Manama, Bahrain, hosted by Investcorp – November, 2010

FOREWORD

In recent years, corporations globally have witnessed significant changes and experienced tremendous challenges. As the world turns the page on the most severe financial crisis since the 1930s, the necessity to understand and implement robust corporate governance mechanisms has emerged stronger than ever. Let's not turn that page until we learn the lessons this most recent turbulent period has taught us, and consider how by implementing an effective culture of governance in their companies, boards can mitigate their exposure to such events.

It is unfortunate it took such dramatic events for our region to pay more attention to governance issues and the necessity for regulators, auditors, and boards to remain vigilant and ensure investments are protected. Internationally, as well as regionally, markets have been put to the test. Once again, many companies demonstrated their inability to effectively address the modern corporation's inherent agency problem – the conflict of interest that emerges from the separation of ownership and control, and how those who decide on capital allocation - the managers - are usually not the providers of this capital, and thus in a position to serve their own interests.

The recent wave of corporate scandals also highlighted the value of professional directorship[1]. Equipped with sound governance mechanisms, an independent board, filled with suitable candidates keenly aware of their duty to faithfully represent the interests of their shareholders, is the starting point for all companies anxious to reassure investors that their property rights are safeguarded. In return, these companies are likely to enjoy a lower cost of capital as investors will see their investments as being at a lower risk. Investors who do not feel confident in a company's ability to protect their investments will demand a premium, or look elsewhere for investment opportunities.

In GCC countries, a great proportion of the economic activity is derived from family-owned businesses and state-owned enterprises. More often than not, these companies are not listed and consequently not subject to the additional external market pressures that come with being a public company. Governance issues, disclosure and transparency requirements don't concern them, the thinking goes. Some go as far as questioning the value and relevance of these rules to them and their organizations[2]. The most recent corporate scandals our region has witnessed should serve as a vivid example to those that are not committed to 'good governance' that it could happen to them as well[3] .

The key players are the board directors themselves; they are the cornerstone of good governance. Their decisions impact the wellbeing of the companies on whose boards they sit, but they also determine the economic outlook of those companies' suppliers, customers, employees, employees' families and many other crucial stakeholders. In other words, well-governed companies, regardless of their ownership structure, are the founding blocks of a prosperous society. Competent directors appreciate this and so are not willing to compromise their integrity in discharging their responsibility to act as 'custodians of wealth'.

Amidst a new, global wave of governance reforms, and the growing need for more effective boards, more companies from the GCC are deciding to embark on the journey to review their own governance practices and build better boards. The GCC Board Directors Institute (BDI) is a formidable resource to these men and women who share the vision and passion to raise the level of their boards' effectiveness and build better societies in the process. It is in this context that BDI publishes its second report on board effectiveness in the Gulf. While providing a unique perspective on the region's progress towards improved governance practices, this report will also certainly serve to re-affirm that most of the work remains ahead of us.

I thus urge you to consider the following questions: where does my board stand on the road to effective governance practices? How do we measure its effectiveness? Are we at the beginning of the journey, preparing for it, or are we still without any plans for a corporate governance journey?

Abdullatif Al-Othman
Chairman, GCC Board Directors Institute
Senior VP Finance, Saudi Aramco

1 'Strengthening System Safeguards', interview with Infosys, McKinsey & Company
2 Comments collected during BDI workshops with GCC board directors
3 'Making good governance good business in the Gulf', interview with Mutlaq Al-Morished, CFO of SABIC, Knowledge@Wharton

Group photo at the Senior Director I Workshop in Jeddah, Saudi Arabia – February, 2011

Left to Right: Front row: Khalid Garousha (Allen & Overy), David Peters (Hedrick & Struggles), Mohammed Fayez (Zuheir Fayez Partnership), Dr. Abdullah Al-AbdulGader (BDI), Mishari Al Mishari (Saudi Arabian Investment Bank), Abdulaziz Al Khamis (Saudi Arabian Investment Bank), Gasem Al Shaikh (PCMC), Ahmed Al Sheikh (Jubail United Petrochemicals Co.), Dr. Adil Hashim (Ma'aden). Back row: Alexia Williams (BDI), Mehmet Darendeli (McKinsey & Company), Sharat Seth (PwC), Abdulaziz Al Harbi (Ma'aden Phosphate Company), H.E. Dr. Saleh Al Awaji (Ministry of Electricity and Water), Salah Galadari (ENOC), Dr. Mohamed Moustafa (Savola Group), Hussein Al Awami (NCB Capital), Nabil Diab (PwC), Herman De Bode (McKinsey & Company), Fahad Toonsi (PwC), Nathalie Potvin (BDI)

EXECUTIVE SUMMARY

The financial crisis has highlighted the need for GCC companies to focus more attention on adopting better corporate governance practices. A few years ago, it was only the most enlightened companies who embarked on the journey to implement robust governance mechanisms, but the recent turbulent times have demonstrated that the concepts of 'good governance' and 'effective boards' apply to all.

As they seek to build better boards, companies would benefit by looking beyond compliance and reach for effectiveness. If the crisis has demonstrated anything, it is the need to do much more than engaging in a 'box-ticking' exercise. Moreover, our view is that companies would also well serve their long-term interest by increasing their level of disclosures and becoming more transparent about their board operations in general. In addition, companies rely on multiple stakeholders to operate and bring their goods and/or services to the market place: shareholders and creditors, suppliers, management and employees, customers and, in some instance, the community at large, all play an important part in ensuring a company's success. Initiating a dialogue with these groups, and taking into consideration their views and concerns, also would help the longer term interests of companies.

In 2009 when we published our first report on board effectiveness, boards in the region found themselves in a singular situation, i.e. they faced the pressure to improve the effectiveness of their boards if they were to properly capture growth opportunities. This, as we explained then, was in sharp contrast with companies in developed economies who most of the time adopted "better" practices following financial crises and well-publicized governance failures. The motivations for boards in the GCC region to raise their effectiveness have changed, but directors remain under tremendous pressure and face increased scrutiny for the manner in which they manage the affairs of companies on whose boards they sit.

THE PURPOSE OF THIS REPORT

BDI has in this report provided a snapshot, for board members, investors, advisors and governments, of the improvements made in the last two years since the publication of our first report in 2009.

Starting with an assessment of common practices of board composition, structure and processes, BDI's research team studied the top 200 publicly-listed companies in the GCC through annual reports and other publicly available information. It is apparent that transparency and disclosure levels of companies in the GCC have generally improved in the last two years. Nevertheless, access to what should be public information remains a challenge.

The BDI team also surveyed board members to understand the current state of affairs regarding board effectiveness in the aftermath of the crisis. More than 200 prominent chairmen and board members in the region shed light on informative insights and perspectives, making this report a significantly more substantial one.

KEY FINDINGS

Improving board composition and developing the knowledge and capabilities of directors are still the most significant barriers to improving board effectiveness.
In fact, even more board members recognize the need for improvements on developing knowledge and expertise on the board than they did in 2009. This signifies an increasing awareness of the need to have capable directors present on a board. Boards in the GCC also see that better industry and sector knowledge, along with stronger performance management, would improve directors' capabilities.

There are less overcommitted board members in the GCC, demonstrating that board members have more time to carry out their responsibilities. Lower percentages of board members sit on more than five boards – which may be indicating a growing awareness of the need to dedicate sufficient time to board responsibilities.

On the other hand, GCC boards remain extremely homogenous. This is despite a growing recognition of the value of bringing in international expertise and diversity. In addition to a need for more international perspectives in the board room, women are rarely found sitting on boards in the region – a fact that may be preventing more perspectives and views as well as higher financial performance.

There is generally more recognition of board member responsibility towards shareholders and stakeholders, yet there is still a strong bias towards appointing and majority shareholders. Although directors are increasingly aware of their duty to represent all shareholders, there remains room for improvement in terms of implementation as directors still believe they owe their main duty to the shareholder that appointed them. **On a positive note, the share of independent directors in the region has increased substantially** – in line with global best practices.

Effective practices highlight the need for roles and accountabilities of directors to be clearly defined and split from those of management. However, **more board members today see the relationship and division of roles and responsibilities between board and management as ambiguous.** This is supported by the fact that chairmen today are more involved than two years ago in the day-to-day activities of the company.

Effective boards typically make use of specialized committees to enable the board to focus its time on critical topics. **Boards in the GCC have nearly double the number of committees than they used in 2009.** This signals the potential for GCC boards to become more effective as they better structure themselves. Moreover, **the use of recommended committees** has increased with audit, remuneration and nomination committees being significantly more prevalent than they were two years ago.

On the other hand, **the use of executive committees has increased too.** This committee typically has the primary function of exercising the authority given to it by the board of directors on matters of urgent nature that arise between board meetings. The presence of an executive committee may be a reaction to an unwieldy board and is not recommended as a long-term solution to fulfill board responsibilities.

Although board members spend more time on all board topics, there is a strong consensus that boards need to spend even more time on strategy, risk and talent management. This can be reached by cutting time spent on approvals, a task on which board members are spending even more time on than they did in 2009. BDI research recommends that board members spend time off-site to discuss long-term strategy issues. On risk management, there is an agreed view that the board should establish a clear profile of the major risks facing the company and their impact on cash flows. On talent management, a clear succession plan for top management is considered by the majority of board members as essential.

In terms of board dynamics, **the proportion of board members that strongly agree their colleagues are well prepared for meetings, or fully engaged in discussions, has significantly decreased.** Despite more board members agreeing that they receive more information to prepare for board meetings, more directors feel their colleagues are less prepared and less engaged than they did when we conducted our first survey in 2009.

Formalized board evaluations remain an exception rather than a norm and remain largely absent, although more directors recognize the value and importance of this process in improving board performance. A majority of those who do conduct a formalized evaluation process focus on both the performance of the board as a whole and the performance of individual directors.

CONCLUSIONS AND RECOMMENDATIONS

In summary, we have identified the following priority improvement areas for boards in the region:

1. Ensure each board member adds value
2. Consistently invest in development opportunities for board members
3. Increase board diversity by recruiting more international directors
4. Define roles and responsibilities and properly communicate them
5. Use committees to improve effectiveness but revisit the need for and role of an executive committee
6. Spend more time on ‘core issues’ (risk, strategy and talent management)
7. Re-think approval limits of management to lighten the burden on the board
8. Recognize chairman’s role in improving board dynamics
9. Ensure robust follow-up mechanisms are in place
10. Formalize and implement a performance evaluation process for the board as a whole and, in time, individual directors

1. H.E. Mr. Ahmed Al Tayer, BDI Governor and Chairman of Emirates NBD, giving his keynote speech during Senior Director I Workshop in Dubai, UAE, hosted by Emirates NBD – April, 2008

2. Session during the Senior Director I Workshop in Manama, Bahrain, hosted by Investcorp – February, 2011

3. BDI Alumni Dinner during the Senior Director I Workshop in Ras Tanura, Saudi Arabia, hosted by Saudi Aramco – November, 2009

INTRODUCTION

BDI published its first report on board effectiveness in the GCC in early 2009. At that time, the region had just finished witnessing a period of unprecedented growth: both Foreign Direct Investments (FDIs) and investments made abroad by regional companies were at all-time highs, and so was the value of Initial Public Offerings (IPOs). As we shared then, these were in our view the main drivers of increasing importance of board effectiveness in the region – we still reckon external pressures will continue to play an important part in lifting the level of board effectiveness in the region, but the dynamics that today push companies to embark on the journey to review and improve their corporate governance mechanisms are very much different.

"Corporate governance is essential for a stable, predictable business environment. With this in place, we can all look safely to continuing economic diversification, foreign investment and strong growth."

Talal Al Zain
CEO, Bahrain Mumtalakat Holding Co.
(Source: GCC BDI)

Using BDI's framework for Board effectiveness[1] as our benchmark, we can see that improvements – although only marginal – have started to surface since we published our first report. Indeed, the single most important development in our view is the fact today directors are less overcommitted than they were in 2009 (from 34% in 2009, it is now 22% of directors on GCC boards that are overcommitted)[2]. In other words, they have more time to dedicate to their board duties, and to stay abreast of developments concerning the companies on whose boards they sit. Because board members are the 'agents' of good governance, a board filled with directors that are truly engaged rather than see their board membership as a 'secondary occupation is a necessity.

However, most of the work towards effective boards in the region remains ahead. As companies seek to raise the bar and increase the value added by their own boards, we have identified three lessons that in our view can be learned from the last few years and serve as a roadmap to these companies: effectiveness rather than mere compliance, higher transparency levels and a stakeholders approach to managing a company's affairs.

1. Effectiveness rather than mere compliance

"A company complying with corporate governance regulations does not necessarily mean it has an effective board."

Khalid H. Al Senani
Director, Gas Pricing & Supplies, Ministry of Petroleum & Mineral Resources, Riyadh
(Source: GCC BDI)

The recent financial meltdown has served once again to demonstrate that mere compliance with codes of corporate governance and regulations is not sufficient – wasn't Sarbanes-Oxley and the likes supposed to fix all the problems that emerged from the era of 'irrational exuberance'? True, regulators have a pivotal role in making sure companies are encouraged and well-guided in their quest to instill a culture of sound governance practices. But beyond ensuring they meet regulatory requirements, boards need to dedicate more time and efforts on seeing that they are effective. BDI's framework for board effectiveness suggests that, beyond being comprised of knowledgeable, experienced and 'independent-minded' directors capable of engaging in healthy debates, boards need to have strong processes in place, to make sensible use of board committees and meetings, to ensure they are well equipped and prepared to deliver on their core roles (i.e., contribute to corporate strategy, monitor corporate performance and health, manage key risks factors, understand capital markets expectations, and

1 Please see exhibit 1, 'BDI board effectiveness framework', page 16
2 Please see exhibit 7, 'Today, fewer board members are overcommitted', page 21

ensure proper succession planning and senior management development), and to have a robust performance evaluation process in place.

As highlighted in this report, boards in the GCC still need to address several core issues if they are to become truly effective: from having more of the 'right' people on their boards, to providing directors with continuous development opportunities and improving their board dynamics, to implementing a formal performance evaluation process.

2. Transparency from all

"Transparency and corporate governance can play a vital role in improving the regional investment climate and in helping develop capital markets."

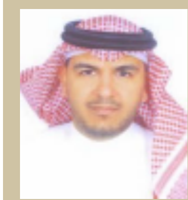
Mohammed Al Shroogi
President , Gulf Business, Investcorp
(Source: GCC BDI)

Major financial crises in emerging markets have all produced one crucial consensus point: strategies and systems mean little to investors if a company lacks disclosure and transparency. Investors are found to be ready to pay as much as 28 % more for shares of companies that communicate their corporate governance practices. This is even after allowing for the effect of characteristics such as financial performance and size of valuations of companies[3]. While many boards are concerned of appearing less than perfect to shareholders and investors, owning up to mistakes or deviations from best corporate governance practice underpins investor support even in the most turbulent of times[4].

The financial meltdown of the last few years is no exception to this. Once again, markets dwindled following the loss of trust from investors and shareholders in the financial systems of companies and corporations in the GCC and globally. To rebuild trust and maintain confidence at all times – from crises to recovery and economic booms and back again – companies need to show a strong commitment to ensuring shareholder value through the disclosure of financial and non-financial information. Transparency is expected from boards of all companies, private or public, regulated or not.

In our research, we found out the majority of listed companies comply with most financial disclosure requirements mandated by law and regulation, yet disclosure of other non-financial information (e.g., method for remunerating board members, other board seats and executive roles played by board members) remains weak. Higher levels of disclosure would help to provide a more comprehensive picture of companies and inspire investor confidence.

3. Responsibility towards stakeholders



"The main objective and main benefit of effective corporate and board governance, in spirit, is to provide company stakeholders with institutional and independent assurance that not only the short-term performance of the company is attractive, but also its health and long-term sustainability are also sound and strong."

Dr. Ghazi Al Rawi
Managing Director, Eastgate Capital Group
(Source: GCC BDI)

Board members often fall into assuming that their priorities should reflect only those of the company's shareholders and/or creditors[5]. But more and more, companies recognize that nurturing and maintaining sound stakeholders relationships are good for business. Firms rely on multiple stakeholders to operate and bring its goods and/or services to the market place: shareholders & creditors, suppliers, management & employees, customers and in some instance, the community at large, all play an important part in ensuring a company's success. Initiating a dialogue with these groups, and taking into consideration their views and concerns, serve the longer term interests of companies.

As highlighted in this report, boards in the region are

3 'A Premium for Good Governance', by Robert Newell and Gregory Wilson, The McKinsey Quarterly, Issue 3, August 2002
4 'Effective Engagement with Shareholders', by Simon Wong, Brunswick Review, Issue 2, Winter 2009
5 Views collected during BDI's Senior Director Workshops

more aware of their responsibility towards all stakeholders as they were two years ago. In 2009, 65% of surveyed directors mentioned owing a duty to the community while 81% recognized the same for their employees; today, this proportion now stands at 81% and 85% respectively.

In 2009 when we published our first report on board effectiveness, we discussed how boards in the region found themselves in a singular situation, i.e., they faced the pressure to improve the effectiveness of their boards if they were to properly capture growth opportunities. This, as we explained then, was in sharp contrast with companies in developed economies who most of the time adopted 'better' corporate governance practices following crises.

Since we wrote this, the region has had its fair share of 'fallen companies'. We hope these will serve to motivate change and improve the manner in which boards in the region operate.

Group photo of Senior Director I Workshop in Dubai, UAE – April, 2010

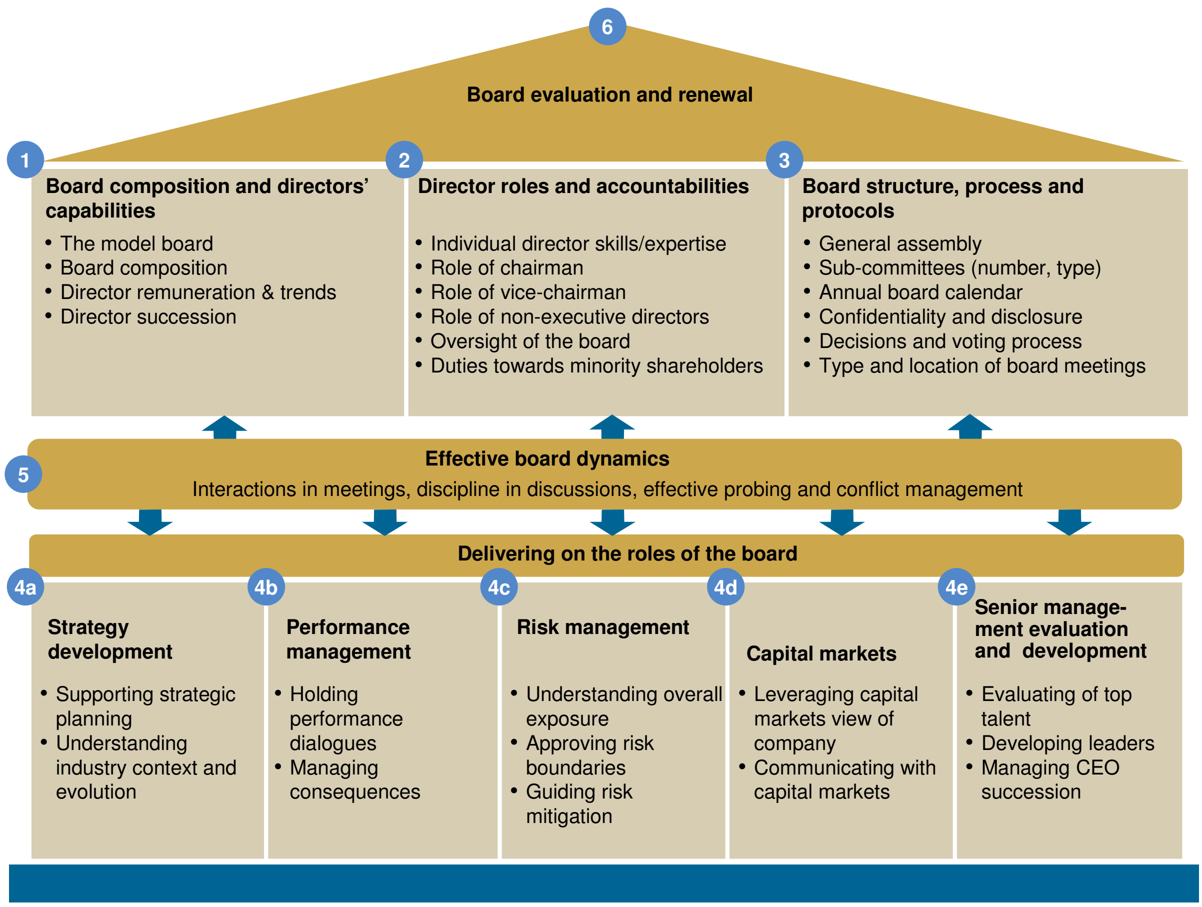
Left to Right: Front row: Othman Al Ghamdi (SABIC), Ali Al Shamrani (SABIC), Mosaed Al Ohali (SABIC), Khalid Al-Hamid (Saudi Aramco), Yusr Al Junaidy (ENOC), Khalid Al Senani (Ma'aden), Abdullah Al Fozan (KPMG), Ahmed Al Gatai (SABIC), Jennifer May (BDI). Second row: Soha Ellaithy (BDI), Mohamed Nagib (DUBAL), Mohammad Al Shammari (AGOC), Ali Bakhsh (SAMBA), Musaed Al Swailem (SABIC), Khalid Al Hajeri (Zain Kuwait), Abdullah Al Hagbani (SABIC), Salah Al Hareky (Saudi Aramco), Gavin Steel (PwC). Back row: Ziad Al Sudairy (Ma'aden), Peter Breen (Heidrick & Struggles), Nathalie Potvin (BDI), Warwick Hunt (PwC), Khalid Garousha (Allen & Overy)

APPROACH

This second report on board effectiveness in the GCC seeks to measure improvements boards have made in the last two years since we launched our first survey in 2009. It also aimed to assess the impact, if any, that the recent financial crisis has had on the implementation of effective board governance practices. Again this year, we have used BDI's framework for board effectiveness to track progress. This framework, illustrated below in Exhibit 1, has been developed through BDI's early work with more than 100 boards in the region. Just as we did in 2009, each of these levers were individually explored through a combination of analysis and opinion surveys and interviews with senior directors in the region.

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

Exhibit 1– The BDI board effectiveness framework



METHODOLOGY

This report is based on three types of research. The first type is external research of board practices in the top 200 publicly-listed companies in the GCC countries: the Kingdom of Saudi Arabia (94 companies), the United Arab Emirates (42 companies), Kuwait (26 companies), Qatar (19 companies), Bahrain (7 companies) and Oman (12 companies)[1]. Annual reports and company websites were used as the primary source of publicly-available information.

The second type of research conducted was a survey involving over 200 board members in the GCC, approximately 10 per cent of whom were chairmen. The sample was based on boards in all GCC countries with 67 per cent of these companies based in Saudi Arabia, 15 per cent in Bahrain, 7 per cent in Oman, 9 per cent in the UAE, and 2 per cent in Kuwait.

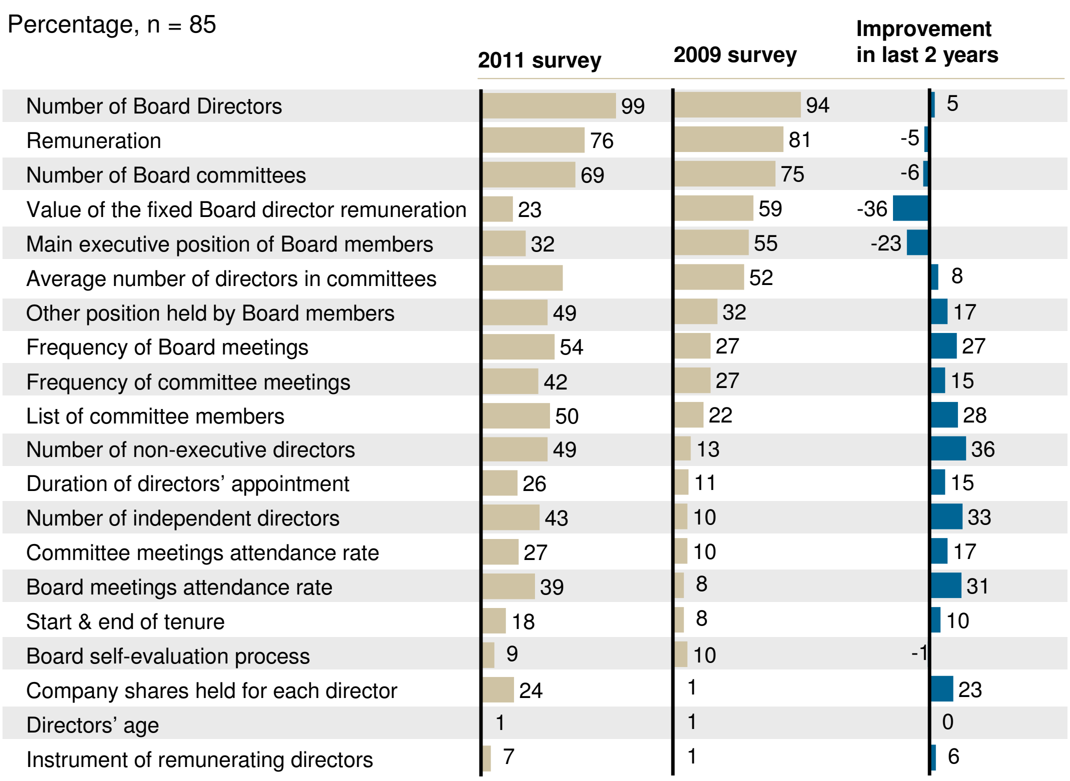
In the third research approach, more than 20 interviews were conducted with prominent GCC board members and chairmen.

TRANSPARENCY AND DISCLOSURE

Compared to 2009, transparency and disclosure of information levels have generally improved in the GCC (Exhibit 2)[2]. However, access to what should be public information remains a challenge.

As shown in Exhibit 3, of the 200 companies in our sample, only 42.5 per cent provided an annual report on their website or provided a copy when requested. Others either declined to disclose the information or ignored our request completely.

Exhibit 2– Overall, disclose has improved across the GCC over the last two years

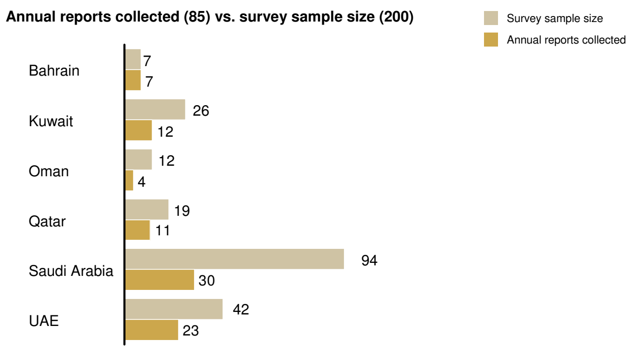


Source: GCC Board Directors Institute – 2011 survey

1 Data from the World Bank (2009 GDP figures for each GCC country) were used to pro rate the number of companies to be assessed per country (ie, based on these figures, Saudi Arabia's GDP amounts to 47% of the GCC's GDP. Saudi Arabia's number of companies in the sample is 94, or 47% of 200.)

2 BDI based its research on transparency and disclosure requirements in Kuwait on Kuwait Stock Exchange's 'committee decision no. (2) for the year 2008 concerning the rules and conditions for listing shareholding companies in the official market' – the only document the team found publicly available in this regard.

Exhibit 3– Distribution of annual reports collected of surveyed companies



Source: GCC Board Directors Institute – 2011 survey

Exhibit 4 shows the levels of disclosure between the 85 companies for which an annual report was available and the levels of disclosure for the 200 companies in our sample size. It also compares these to disclosure levels currently seen in Western Europe.

Disclosure requirements for public companies have increased over the past two years with new regulation coming into effect in, for example, Saudi Arabia, the UAE and Bahrain. Nevertheless, Exhibit 4 illustrates that the percentage of companies disclosing information does not always correlate with disclosure requirements of the various GCC regulatory authorities.

Consequently, much of what we know about boards in the region reflects the opinions of directors, as highlighted in our survey completed by over 200 GCC board directors. Also, through its direct work with hundreds of board members in the region, BDI's research team was able to substantiate the findings of the survey. As mentioned previously, a third and valuable source of information and insight for this report was the interviews and discussions we had with regional board members who attended BDI workshops and were involved in BDI's programs and activities. This was in addition to one-on-one interviews with a sample of board members from the region. Many of these interviews were recorded and are available on our website: www.gccbdi.org.

Exhibit 4– Level of disclosure in GCC companies compared to Europe and requirements of regional regulators

	Percent of companies providing this information			Required to disclose for publicly listed companies in:					
Information disclosed	GCC (85)	GCC (200)	Europe	Kuw	KSA[1]	Oman[1]	UAE[2]	Bahrain[3]	Qatar
Average number of directors on the Board	99	42	100		✓				
Directors' remuneration	73	31	84		✓	✓		✓	
Number of Board committees	68	29	100		✓	✓		✓	
Value of the fixed Board dir. remuneration	22	10	85		✓	✓		✓	
Main executive position of Board members	32	14	92				✓	✓	
Average number of directors in committees	59	25	95		✓			✓	
Other board position held by Board member	47	20	94		✓	✓	✓	✓	✓
Frequency of Board meetings	53	23	95		✓	✓	✓	✓	
Frequency of committee meetings[5]	41	18	85		✓	✓	✓[4]	✓	
List of committee members	49	21	95		✓	✓	✓[4]	✓	✓
Number of non-executive directors	48	21	92		✓	✓	✓	✓	
Duration of directors' appointment	27	12	84		✓		✓	✓	
Number of independent directors	42	18	88		✓	✓	✓	✓	
Committee meetings attendance rate	28	12	n.a.		✓	✓		✓	
Board meetings attendance rate	38	16	80		✓	✓	✓	✓	
Start & end of tenure	19	8	84		✓			✓	
Existence of self-evaluation process	9	4	75		✓				
Company shares held for each director	22	10	75		✓		✓	✓	✓
Instrument of remunerating directors	9	4	72		✓	✓	✓	✓	✓

1 Capital Market Authority
2 Emirates Securities and Commodities Authority
3 Ministry of Industry and Commerce
4 Applies to audit committee only
5 Audit, remuneration and nomination committees only
* As per listing rules and/or codes of governance
Source: GCC Board Directors Institute, 2010 survey; Hedrick & Struggles

1. Session during Senior Director I Workshop in Dubai, UAE – April, 2010

2. Session during Senior Director I Workshop in Jeddah, Saudi Arabia – February, 2011

3. The model board game session at the Senior Director I Workshop in Manama, Bahrain, hosted by Investcorp – November, 2010

1. BOARD COMPOSITION AND DIRECTORS' CAPABILITIES

While board composition and directors' capabilities has seen improvements since 2009, the need for appropriate skills and expertise on the board is still the most important barrier to board effectiveness.

In 2009, board members felt that board composition could be significantly enhanced by working on three distinct fronts:

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

"The right board composition and the right board chairmanship are the essentials for robust board dynamics and its success."

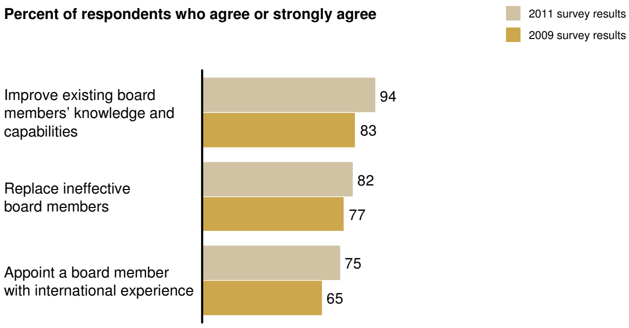
Khalid M. Al Suwaidi
Board Member, Al Suwaidi Holding Co.
(Source: GCC BDI)

As we shall see, the results of this year's survey confirm these remain the main drivers to enhance board effectiveness.

KNOWLEDGE AND EXPERTISE WITHIN THE BOARD

As shown in exhibit 5, more board members recognize the need for improvement on these main drivers than in 2009. Increasing the mix of skills, and appointing board members with international experience have both substantially increased in importance in the minds of those directors we surveyed. We interpret this as a positive development, and as a sign that directors are becoming more aware of the need to only appoint 'suitable candidates' – those who possess the right mix of skills, experience and character – as board members.

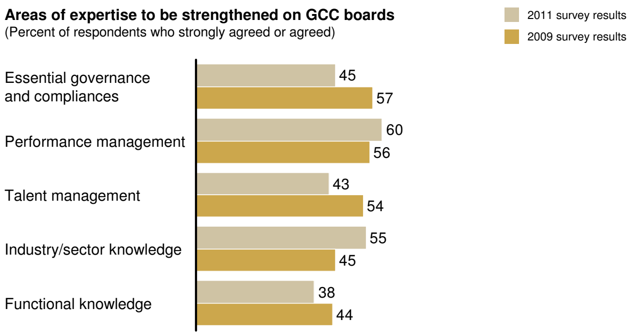
Exhibit 5– Impact of levers on improving board composition in the GCC



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

In comparison to 2009, board members feel they have improved in their expertise and knowledge of essential governance and compliance (the area ranked as requiring most improvement in 2009). This, again, positively demonstrates an increased awareness and recognition of the importance of these topics for professional directorship. On the other hand, the greatest increase from 2009 is in the percentage of board members seeing the need for better industry and sector knowledge on the board, while performance management is still viewed as an area requiring improvement by most board members.

Exhibit 6– Progress made on corporate governance knowledge, but performance management and industry knowledge need most improvement



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

Board members see that performance management can be improved by developing efficient metrics and incentives, together with effective monitoring and evaluation protocols to track board member performance. As the results from our surveyed directors suggest, knowledge of customer drivers, trends and competitive conditions within the industry or sector would enhance industry and sector knowledge on the board.

"The GCC needs a dedicated talent database designed to enhance corporate governance standards across the region. We must embrace talent from around the region and not judge on the narrow criterion of nationality. In doing so, we will be able to improve all our businesses through knowledge-sharing and strengthen our collective corporate governance practices."

Talal Al Zain
CEO, Bahrain Mumtalakat Holding Co.
(Source: GCC BDI)

Enhancing board members' knowledge and capabilities is key to improving board effectiveness. Access to global best practices and benchmarks, networking opportunities with regional and international peers, and participating in workshops are just some of the most effective channels to bring in such areas of expertise to the boardroom.

COMMITMENT AND AVAILABILITY

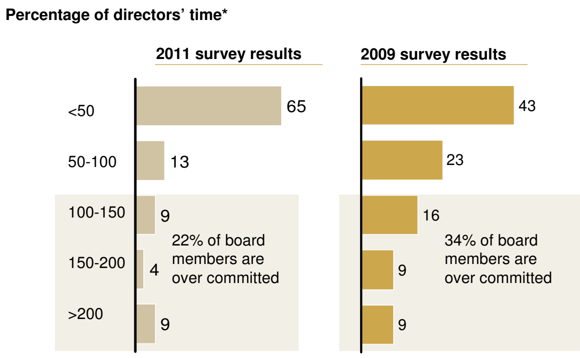
Compared to 2009, there are less over-committed board members demonstrating that board members have more time to carry out their responsibilities to the boards they sit on.

"A lot of (foreign) investors are coming to the stock markets in the Gulf and they expect the same standards of corporate governance, board composition, board behaviour (and so on), as they do back home. Access to this kind of capable and skilled director, who is not already over-committed, is a real challenge."

Mutlaq Al-Morished
Vice President, Corporate Finance, SABIC
(Source: Knowledge Wharton - April, 2010)

Today, 9% of GCC board members surveyed sit on more than five boards, compared to 33% in 2009. In addition to this improvement, other countries (Bahrain, UAE, Qatar and Oman) have joined Saudi Arabia in enacting regulations for publicly listed companies to limit the number of boards a director sits on or to disclose other board positions their board members hold.

Exhibit 7– Today, fewer board members are overcommitted



• Assuming a board membership mandate requires 5% of a member's time, while a chairman's role requires 20% and an executive role at least 80%

*To read the full interview with Mutlaq Al-Morished in 'Making Good Business Good Governance in the Gulf' from Knowledge @ Wharton, log on to www.gccbdi.org/press.

Exhibit 7 shows this reduction of overcommitted board members from 34% in 2009 to 22% this year. This is based on the assumption that a board membership mandate requires 5% of a member's time, while a chairman's role requires 20% and an executive role at least 80%.

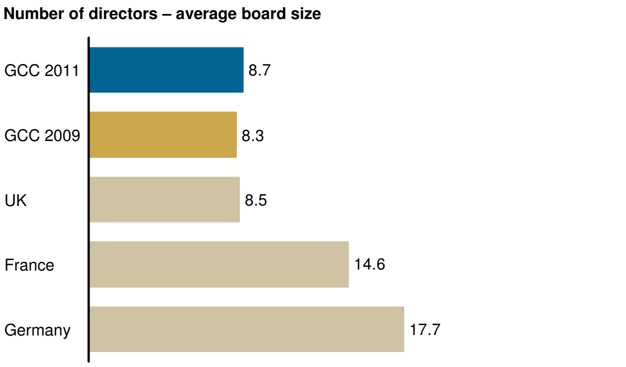
INTERNATIONAL EXPERTISE AND BOARD DIVERSITY

"Exchange of knowledge and expertise between international and local resources is required to accelerate knowledge transfer and improve the region's learning curve."

Mosaed Al Ohali
Chairman, SADAF
(Source: GCC BDI)

Over 40% of board members interviewed said that appointing board members that are from outside the GCC would add significant value to the board. With many companies deriving a growing share of value from expansion into international markets, a greater diversity of perspectives, both local and international, could benefit GCC companies. In spite of the recognition of the value diversity brings to a board, boards in the GCC remain extremely homogenous. It has been established that diversity on the board promotes better corporate governance and is a key factor for economic growth and higher company performance. 'Women on boards' is unmistakably a great contributor to diversity and maybe more so in the region. Despite this fact, the level of women on boards in the GCC is still far below its potential. As highlighted in exhibit 9, the average number of women on GCC boards is less than 1 %.

Exhibit 8– Board sizes have increased only slightly since 2009



Source: GCC Board Directors Institute – 2009 survey, 2011 survey ; Heidrick & Struggles, Boards in Turbulent Times – Corporate governance in Europe 2009 report,

Exhibit 9– Snapshot of board composition in GCC countries

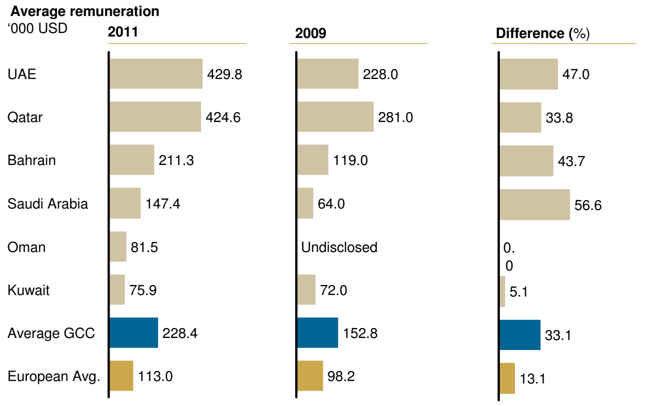
	Average number of Directors	Average number of Non-Executive Directors	Average number of Independent Directors	Average number of Women Directors per Board	Average length of appointment / "term limit"
Bahrain	11.4	9.7	6.2	0	3.0
Kuwait	7.3	Undisclosed	Undisclosed	0.2	Undisclosed
Oman	8.5	6.5	7.8	0	3.0
Qatar	7.9	6.0	5.0	0.2	4.0
Saudi Arabia	9.0	7.6	5.6	0	3.4
UAE	8.7	6.6	4.4	0	3.0
	Ø 9	Ø 7	Ø 6	Ø 0	Ø 3

GCC board sizes are generally the same as in 2009 with the average number of board members being between 8 and 9. This is lower than average board member numbers in Europe but still falls in the recommended best practice figures of the ICGN of having 7 to 14 members. However, while boards need to avoid being too large and unwieldy, boards in the GCC have room to increase in size, and thus fill some of the gaps, for example, in international, functional and industry-specific knowledge.

Board remuneration plays an important role in attracting both international and local talent and expertise into the board room. It could be assumed that remuneration would have decreased in the past two years due to the crisis. However, on the contrary, the need to increase remuneration figures with more board director responsibilities in the aftermath of the financial crisis has been reflected in this year's findings. As shown in exhibit 10, remuneration has increased significantly since 2009, with Saudi Arabia having the largest increase of almost 57%. Similar trends have been found in Europe where directors' remuneration saw a 39% increase over the last two years.

There is still no variable compensation for most boards in the GCC. Only 17% of surveyed companies pay variable compensation to board members and 10% of these base the variable compensation on performance.

Exhibit 10– Board member remuneration has increased significantly



Source: GCC Board Directors Institute – 2009 survey, 2011 survey, Hedrick & Struggles Corporate Governance Reports

For companies paying variable remuneration, there remains a need to provide, in annual reports, a comprehensive explanation of the main characteristics of performance-related compensation, performance criteria and how these payments are adjusted for related risks.

"Compensation should be effectively aligned with prudent risk-taking, including the time horizon over which risks materialize and should also be symmetric with risk outcomes. Remuneration systems need to balance risks and rewards."

H.E. Rasheed Mohammed Al Maraj
Governor, Central Bank of Bahrain
(Source: BDI Alumni Dinner Speech)

* To read the full speech by H.E Rasheed Mohammed Al Maraj at the BDI Alumni Dinner Speech, logon to www.cbb.gov.bh/speeches.

1. At the networking dinner of BDI's Senior Director I Workshop (hosted by Saudi Aramco) in Ras Tanura, Saudi Arabia in November 2009, where Mr. Khalid Al-Falih, President and CEO of Saudi Aramco and David Beatty, founding director of Canadian Coalition for Good Governance participated as keynote speakers

2. H.E. Dr. Saleh Al Awaji, Deputy Minister of Electricity in BDI's Senior Director I Workshop in Jeddah, Saudi Arabia – February, 2011

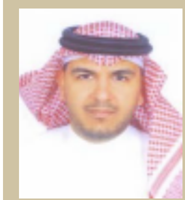
3. Khalid Al Senani, Board Member, Ma'aden at the Senior Director I Workshop in Dubai, UAE – April, 2010

Group photo of attendees of the sixth Senior Director I Workshop, hosted by Saudi Aramco, during the marine tour, in Ras Tanura, Saudi Arabia – November, 2009

2. DIRECTORS' ROLES AND ACCOUNTABILITIES

Board members are more aware of their responsibilities and duties, but their roles remain unclear.

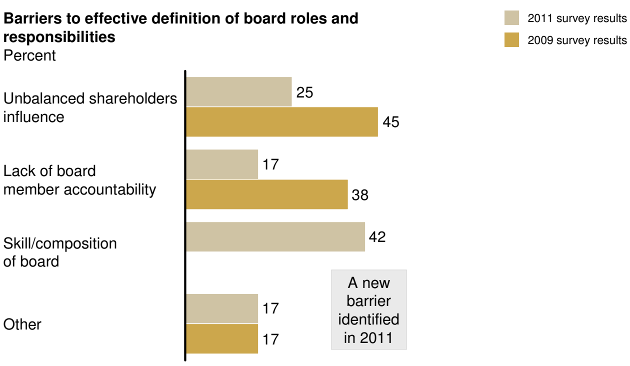
GCC board members surveyed in 2009 believed that either too much or too little involvement of shareholders in the board's decision-making processes was the top barrier to defining roles and accountabilities of the board clearly. Interestingly, board members surveyed in 2011 have identified the inefficient skill and composition of the board as a new top barrier in defining their roles as board directors (see exhibit 11). Unbalanced shareholder influences have been ranked by only 25% of board members as a barrier, compared to 45% of board members in 2009.



"The company's board achieves long term sustainability without having to rely purely on the availability, quality and integrity of certain individual(s), but rather by defining responsibilities and accountabilities in a careful and balanced way."

Dr. Ghazi Al Rawi
Managing Director, Eastgate Capital Group
(Source: GCC BDI)

Exhibit 11– Top barrier to clear definition of board roles and responsibilities is board member capabilities



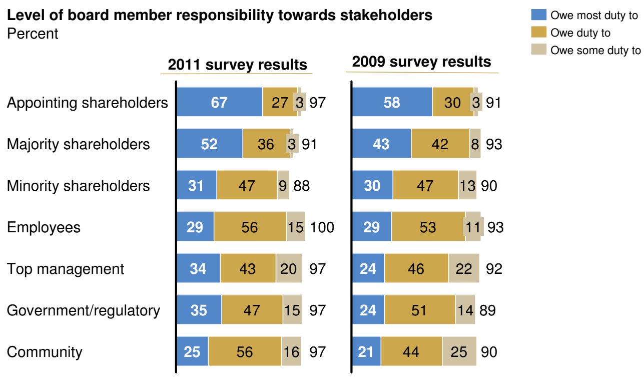
Source: GCC Board Directors Institute – 2009 survey, 2011 survey

BALANCING RESPONSBILITY TOWARDS STAKEHOLDERS

"Decision makers should take into account the returns to stakeholders and remember that society is a major stakeholder in any organization."

Sabah Al Moayyed
Managing Director, Eskan Bank
(Source: GCC BDI)

Exhibit 12– More recognition of board member responsibility towards stakeholders, yet still a strong bias towards appointing and majority shareholders.



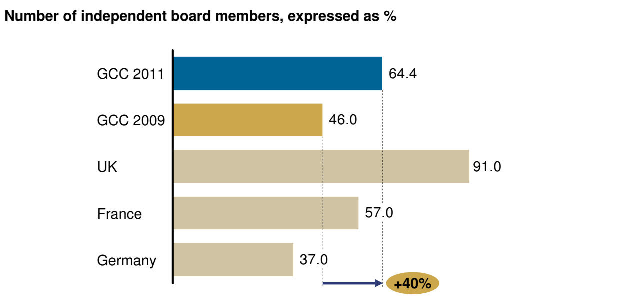
Source: GCC Board Directors Institute – 2009 survey, 2011 survey

As in 2009, board members in the GCC still have a noticeable bias towards appointing and majority shareholders in terms of whom they owe most responsibility to. An effective board would discharge the same level of responsibility to all stakeholders. On the other hand, as opposed to 89-93% in 2009, around 97% of board members now recognize their accountability towards other stakeholders (employees and the community at large), and there are significant increases in the number of board members who believe they owe responsibilities towards top management and regulators. This could indicate GCC boards are adopting a more balanced view in discharging their duties and responsibilities – or that the financial crisis has forced boards to include them as 'bona fide' stakeholders, when in the past they did not.

INDEPENDENT BOARD MEMBERS

A shown in exhibit 13, 64% of board members are independent, bringing GCC boards well in-line with consensus best practice (according to OECD, UK Combined Code, Sarbanes-Oxley and others, more than 50% of the board being independent, especially in larger companies). The need for increasing the number of independent board members was highlighted in our 2009 report. Then, 42% of the surveyed directors agreed the presence of an increased number of independent directors would have a significant impact on board effectiveness. This increase may be a result of newly enacted regulation in the region requiring a minimum number of independent directors to sit on the board. For instance, Saudi Arabia's corporate governance code requires listed companies to have only independent directors on their audit committee, and both Saudi Arabia and Omani codes of corporate governance require that at least one-third of board members be independent directors.

Exhibit 13– Average number of independent board members has substantially increased in last two years



Source: GCC Board Directors Institute – 2009 survey, 2011 survey; Heidrick & Struggles, Boards in Turbulent Times – Corporate Governance Report 2009

In our view, an independent board member is a board member with no family ties with senior employees, directors or advisors, has no material business relationship – either personally or through his/her company in the last three years – has no cross directorships or significant links with other directors, has not been company auditor in the last five years and has been on the board for less than nine years. Regulators in the GCC have begun to add clauses in line with best practices on criteria to qualify as an independent director.

"There is definitely a growing awareness of the need to bring independent directors on board, particularly when companies are going to float on international exchanges where corporate governance rules associated with those exchanges will demand a range of independent directors to be present on the board."

Sir John Parker
Director and Vice Chairman, DP World
Chairman, National Grid
(Source: GCC BDI)

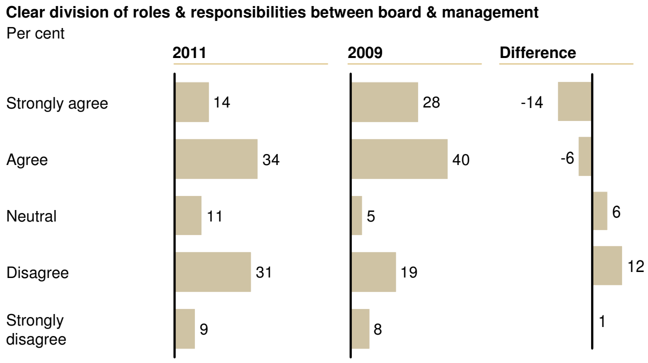
DIVISION OF ROLES BETWEEN BOARD AND MANAGEMENT

There is an increasing ambiguity of the relationship and division of roles between board and management on GCC boards. From 27% in 2009, the percentage of board members who believes roles and responsibilities of their boards versus those of management are not clearly defined, has now increased to 40%, as shown in exhibit 14.

"The demarcation of the role between boards and management is that boards should have their noses in the business and management should have their hands in the business."

Walid Shukri
Board member, Saudi Organisation for Certified Public Accountants
(Source: GCC BDI)

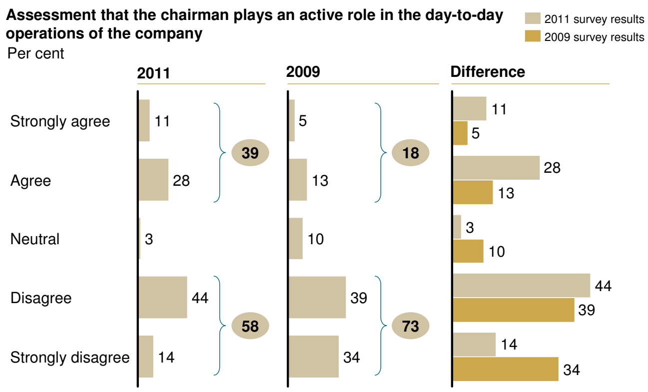
Exhibit 14– Increasing ambiguity in division of board versus management roles



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

Another fact that emphasizes the need to address this issue is the increase of boards whose chairmen are actively involved in the day-to-day operations of the company (from 18% in 2009 to 39% this year, as per exhibit 15 demonstrates). This does not come as a surprise to BDI as this issue often takes center stage during the Senior Director Workshops. Indeed, a great proportion of directors who have participated in these workshops expressed a genuine concern about the lack of clarity – as much from themselves as from their managerial colleagues – on this issue, and the need to know where to draw the line between what is the responsibility of management and what falls under the board's jurisdiction.

Exhibit 15– Chairman perceived as playing active role in managing day-to-day operations



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

1. Team-building golf activity at the Senior Director I Workshop in Dubai, UAE – April, 2010

2. BDI alumni dinner with H.E. Mr. Rasheed Mohammed Al Maraj as the keynote speaker during the Senior Director I Workshop in Manama, Bahrain, hosted by Investcorp – November, 2010

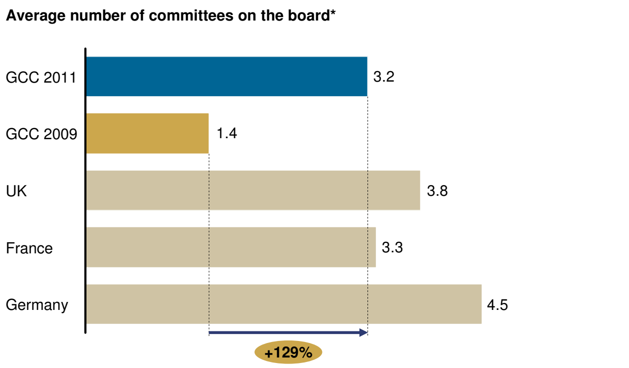
3. H.E. Dr. Muhammad Al Jasser, Chairman, Saudi Arabian Monetary Agency (SAMA) and Mr. Mohamed Al Ohali, Founder and President of Bayder Group at the networking dinner of BDI's fifth Senior Director I Workshop, hosted by SABIC, in Riyadh, Saudi Arabia – June, 2009

3. BOARD STRUCTURE, PROCESSES AND PROTOCOLS

GCC board structures have improved with recommended committees being more prevalent. However, whether the increased usage of executive committees is beneficial to GCC boards remains a matter for discussion.

A shown in exhibit 16, the usage of committees on GCC boards has almost doubled[1]; in 2009, GCC boards had an average of 1.4 committees, a number now standing at 3.2. An encouraging development; effective boards typically make use of specialized committees to enable the board to focus its time on critical topics. Today, 67% of boards have an audit committee (increased from 20% in 2009); 48% of boards have a remuneration committee (compared to 21% in 2009); nomination committees are present on 32% of boards (up from 5% in 2009).

Exhibit 16– GCC boards have nearly double the number of committees since 2009



*Excluded companies which did not disclose committees. Could result in an overestimation of committees
Source: GCC Board Directors Institute – 2009 survey, 2011 survey; Hedrick & Struggles, Boards in Turbulent Times –2009

More regulators in the GCC have generally recognized the advantages of the use of committees on boards. Corporate governance codes in Saudi Arabia, Oman and Bahrain require companies to disclose the number of committees a board of a company has. The use of committees on boards helps the board in operating more efficiently. This has the benefit of reducing the prospect of problems associated with board members' conflict of interest.

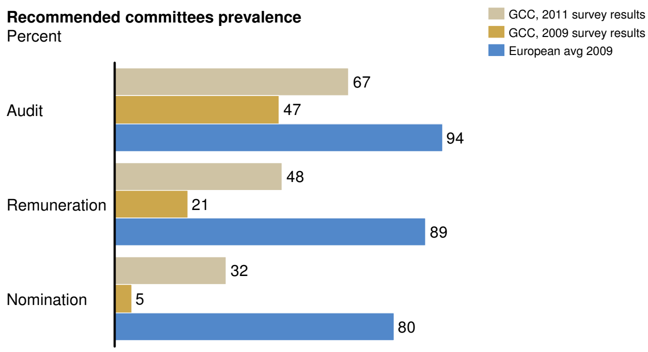
THE RECOMMENDED COMMITTEES

"We have seen an increasing influence from committees in the boardroom. The reason is that with higher standards of governance, the board cannot give the adequate time to drill down into the depth they should in specific issues."

Sir John Parker
Director and Vice Chairman, DP World
Chairman, National Grid
(Source: GCC BDI)

Well established codes of governance (e.g., the UK Combined Code, OECD Principles of Corporate Governance, IIF Code of Corporate Governance) recommend the formation of three major committees for efficient board operation: audit, remuneration and nomination committees (where the last two are often combined into one committee). In line with global best practices, GCC boards have increased the use of these committees over the past two years, as highlighted in exhibit 17.

Exhibit 17– Recommended committees more prevalent on GCC boards



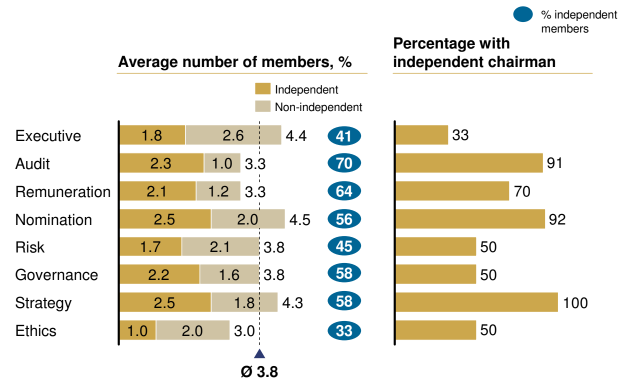
Source: GCC Board Directors Institute – 2009 survey, 2011 survey, Hedrick & Struggles, Boards in Turbulent Times – Corporate Governance Report, 2009

1. In companies that disclosed their committees

The audit committee is usually formed of independent, non-executive directors and is charged with reviewing the audited accounts of the company. This committee recommends to the board the appointment or dismissal of the external auditor and oversees the internal audit function. The remuneration committee is also generally comprised of a majority of independent directors and sets compensation for board members and senior management. The nomination committee is responsible for coordinating the search and appointment of new board members and senior members of management, in coordination with the chairman of the board, as well as providing induction to new directors and continuous training for all board members.

As shown in exhibit 18, a reasonable number of these board members are independent directors, particularly on audit committees. This finding falls in line with several regulatory requirements in the GCC which require a minimum (if not all) of directors sitting on these committees to be independent directors.

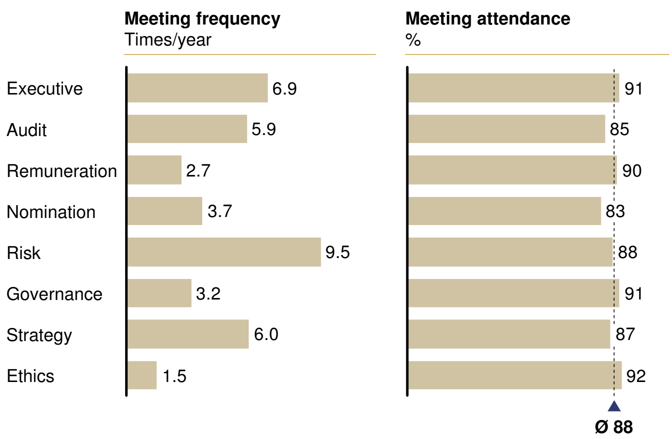
Exhibit 18– Increasing number of independent members on committees, especially the audit committee



Source: GCC Board Directors Institute – 2011 survey

As shown in exhibit 19, the frequency of committee meetings in the region usually depend on the function of the committee; with risk, strategy, executive and audit committee, directors are meeting more frequently than remuneration and nomination committee directors. Attendance rates have also improved since 2009, with an average of 88% of directors attending meetings, up from an average of 82% in 2009.

Exhibit 19– Frequency of committee meetings depend on function of committee



Source: GCC Board Directors Institute – 2011 survey

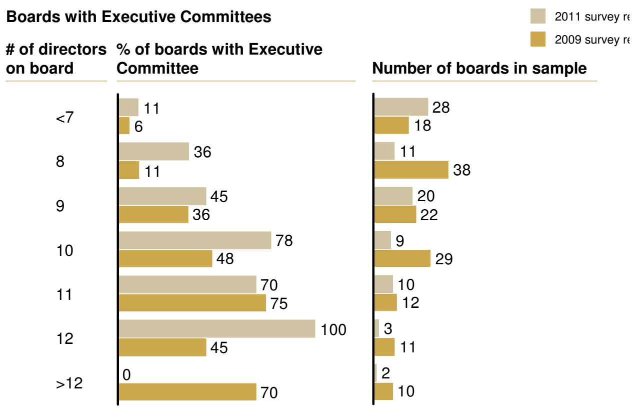
EXECUTIVE COMMITTEES

The executive committee is still a prevalent committee in GCC boards (57% of boards surveyed do have such a committee). An executive committee here has the primary function of exercising the authority given to it by the board of directors on matters of an urgent nature which arise between the scheduled board meetings. This typically would only comprise of members of the board. Some may argue that having an executive committee may be useful since decisions are made quickly instead of waiting for the next board meeting (although all actions should be taken by the board as a whole). The need for an executive committee may be an effective reaction to an unwieldy board, or the reflection that the board is not functioning in a healthy and productive manner. However, we withhold our position that this is not a long-term solution to the challenges at hand.

"Any board member should not assume an executive role for the company he/she oversees as a board member."

Sabah Al Moayyed
Managing Director, Eskan Bank
(Source: GCC BDI)

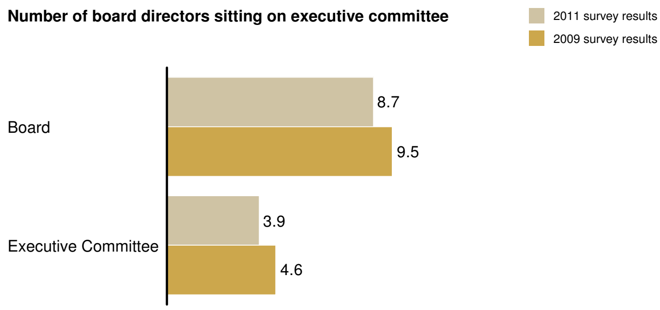
Exhibit 20– Use of executive committees increasing in GCC, especially prevalent on larger boards



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

As illustrated in exhibit 20, the larger the board, the more likely it is to make use of an executive committee. Indeed, 100% of the surveyed companies who had 12 people on their boards had such committee. Exhibit 21 shows that, just as in 2009, about half of the board typically sits on the executive committee today.

Exhibit 21– As in 2009, over half of the board members sit on the executive committe



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

Generally, the role of the executive committee remains controversial and is not recommended or necessary for a highly functioning board. There remains the worry for the executive committee to take so many decisions unilaterally that the full board becomes something of a formality. The high prevalence of executive committees is consistent with the opinion that there are a number of less engaged board members on many boards. Finding the means to engage these board members rather than 'work around them' is definitely an issue that boards in the region need to tackle.

OTHER COMMITTEES

As in Europe, some prevalent committees found in GCC boards are ethics, strategy and governance committees.

"Whatever structure you decide to follow, the key word is effectiveness - from the whole board."

Mohamed Nagib
Executive Vice President of Operations, DUBAL
(Source: GCC BDI)

Dr. Abdullah Al-AbdulGader, Founding Executive Director, BDI, Mr. Talal Al Zain, CEO, Mumtalakat and Mr. Mohammed Al Shroogi, President of Gulf Business, Investcorp at the opening dinner of BDI's eighth Senior Director I Workshop, hosted by Investcorp in Manama, Bahrain – November, 2010

4. DELIVERING ON ROLES OF THE BOARD

Boards are spending more time on core topics than they did in 2009, yet still need to spend much more time on strategy, risk and talent management.

"The Board of Directors decides and gives guidelines for achieving their set strategic goals and for mitigating and managing all their risks."

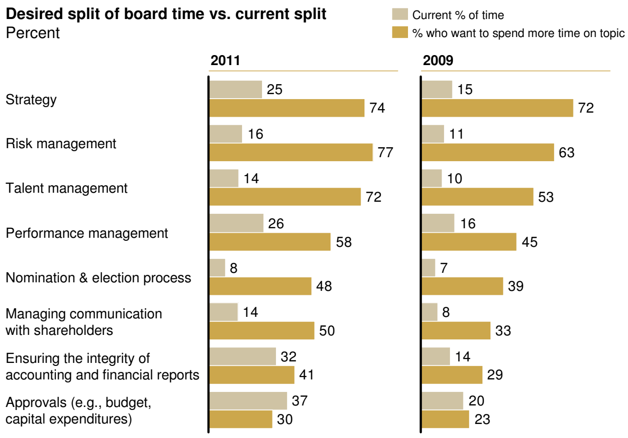
Abdulrahman Al Moraisel
Vice President, Al Osais Holding Company
(Source: GCC BDI)

Board members surveyed are now spending more time than in 2009 on core board topics such as strategy (25 % of their time today compared to 15% in 2009), and ensuring the integrity of accounting and financial reports (32% today compared to 14% in 2009). However, like in 2009, board members still spend considerable amount of time on approvals (37% today compared to 30% in 2009). It is interesting to note that, although the percentage of board members wanting to spend more time on the nomination and election process (nearly half of them today versus 39% in 2009), very little progress has been made since our first report (7% of the surveyed directors' time in 2009 versus 8% today).
As shown in exhibit 22, generally board members would like to spend more time on most board issues, and as our first report had served to highlight in 2009, over 70% of them still would like to spend more time on strategy, risk management and talent management and less time on approvals.

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

- Reviewing and challenging corporate strategy
- Monitoring corporate performance and health
- Managing key risk factors facing the company
- Understanding what capital markers expect of the company
- Reviewing and planning succession of senior management and supporting their development

Exhibit 22– Majority of board members want to spend more time on all board issues



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

CORPORATE STRATEGY

"A critical part of strategy development is stress testing it on realistic business scenarios to make sure that it will work short and long term."

Mosaed Al Ohali
Chairman, SADAF
(Source: GCC BDI)

As in 2009, three quarters of board members surveyed would like to spend more quality time on defining and reviewing their company's corporate strategy. As part of the Senior Director Workshop delivered by BDI, faculty from BDI content partner McKinsey & Company suggests that effective board involvement in strategy would entail the following stages:

- Developing an understanding of industry fundamentals: includes understanding industry value drivers and engaging with senior managers.
- Shaping a strategy plan: discussing strategy in multi-day board meetings (BDI research has found that a dedicated session in a remote location can enhance a board's productivity and effectiveness), challenging strategic options and providing insight, knowledge and direction.
- Monitoring strategic milestones: regularly tracking key performance indicators (KPIs), focusing discussions on variance from targets, and adjusting plans as required and ensuring progress against shareholder expectations.
- Communicating with shareholders: communicating board strategy and roles in annual reports and letters to shareholders, as well as meeting with key shareholders.

RISK MANAGEMENT

"The importance of an independent risk management function is something clearly underlined by the financial crisis. Prior to the crisis, some banks did not give the risk management function the stature and authority that it needs. Rather than being treated as an integral part of the business, risk management and compliance were seen as overhead costs which were a distraction from profit generation."

H.E. Rasheed Mohammed Al Maraj
Governor, Central Bank of Bahrain
(Source: BDI Alumni Dinner Speech)

More board members today (77%) than in 2009 (63%) want to spend more time on risk management. GCC boards need to ensure that they have a clear view of the major risks facing their companies as well as their cash-flow implications. Whilst most companies do have some form of risk management and/or measurement in place, they need to ensure that they have complete transparency over the risks that a corporation could face and the impact those risks can have on its cash flows.

The board's role with regard to risk management would usually involve challenging management to come up with a complete and thorough list prioritizing each risk and laying out a clear mitigation plan for those that are likely to have the greatest impact. BDI faculty recommends that companies take a wider view of their company's risks. These risks may be categorized and prioritized as 'long-tail risks' (rarely occurring), 'business cycle risks' (recurrent ever few years) and 'short term volatility risks' (with a time horizon of months or days). These would also be classified into market risks, credit risks, operational risks, business risks and so on. For effective outcomes, both board and management would work together effectively to oversee these key risks.

TALENT MANAGEMENT AND SUCCESSION PLANNING

Here again, 72% of board members surveyed want to spend more time addressing talent management; a number greater than 2009's which then stood at 53%. Whilst historically most boards focused on the hiring and firing of the CEO and left the appointment of the remainder of management to him/her, boards today find that succession planning for the CEO and for senior officers of the company is a critical topic to engage in. Boards increasingly need to take an active role in ensuring a solid succession and development plan and to understand the overall supply-demand balance of leaders in the company given the strategy and growth plans.

"The core of any organization is recruiting the right people and taking care of their growth and motivation. This is what the board needs to focus on."

Sheikh Khaled Bin Zayed Al Nehayan
Chairman, Bin Zayed Group
(Source: GCC BDI)

We have identified five priorities a company should master to address the talent challenge.

- **Talent management strategy:** Developing core elements of talent management vision, agreeing on a talent management framework (recruitment, induction, development, retention) and ensuring review and recognition of talent promoting performance.
- **Talent definition and planning:** Defining target categories, setting minimum requirements, defining main drivers for talent needs and developing corresponding planning tools.
- **Talent sourcing:** Defining main talent pools (including size and quality) and suitability for the company's talent needs, setting hiring targets for each talent pool and developing hiring programs and initiatives accordingly.
- **In-house talent factory:** Planning and refining recruiting programs as well as analyzing the recruiting funnel to identify necessary recruiting activities.
- **Employer brand positioning:** Defining the attributes of your employer brand and setting a clear Employee Value Preposition (EVP) to attract talent specified in talent definition.

1. Session during Senior Director I Workshop in Ras Tanura, Saudi Arabia, hosted by Saudi Aramco – November, 2009

2. BDI alumni dinner in Riyadh, Saudi Arabia – June, 2009

3. Mr. Abdullatif Al Othman, Vice President of Finance, Saudi Aramco and Eng. Abdallah S. Al Saif, Chairman, Ma'aden at the welcome dinner of BDI's sixth Senior Director I Workshop, hosted by Saudi Aramco, in Ras Tanura, Saudi Arabia – November, 2009

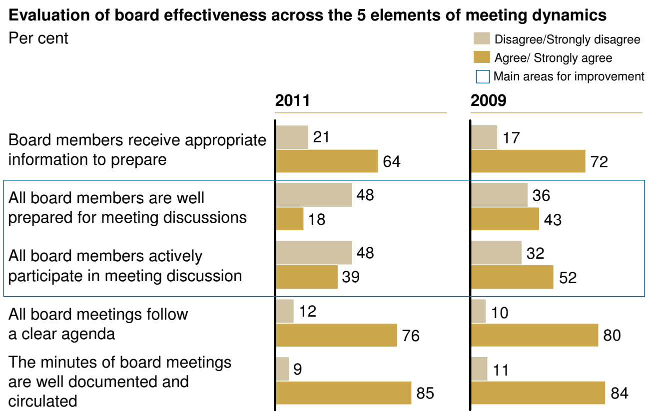
5. EFFECTIVE BOARD DYNAMICS

Preparation and active participation of directors in board meetings need further improvement than in 2009.

Compared to 2009, less board members agree that they receive the appropriate information to prepare ahead for meetings (however, more than half still do agree that they do receive appropriate information). On the other hand, more board directors feel that minutes of board meetings are well documented and circulated on time and a high percent of board members still believe that board meetings follow a clear agenda.

As shown in exhibit 23, board members feel an even greater need for preparation and active engagement in board meetings than they did in 2009. This area was already identified as requiring most improvement two years ago. Our findings could either indicate that board members have fallen back on these fronts or that board members generally have recognized the need for even more effective board meetings.

Exhibit 23– Board effectiveness would be improved by board members preparing better and being more involved in meetings



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

"Board members should be carefully selected and held to a high standard of accountability with regard to their preparation for, and contributions to, board meetings, to ensure board effectiveness."

Eng. Abdallah S. Al Saif
Chairman, Ma'aden
(Source: GCC BDI)

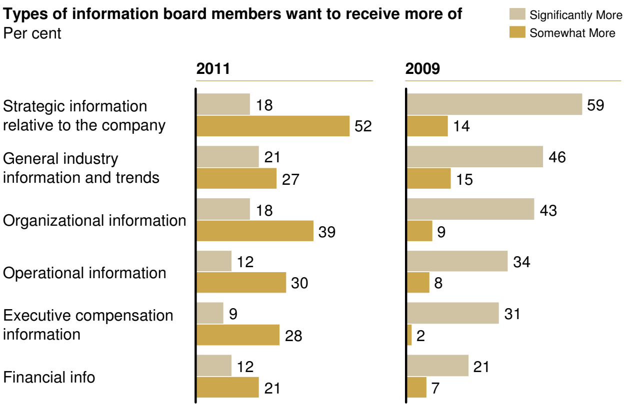
LEVEL OF PREPARATION

Only 18% of board members surveyed, compared to 48% in 2009, agree that board members are sufficiently prepared for board meetings. Although over 60% agreed that they received the appropriate information for board meetings, some board members still see that this information can be leveraged on some levels. Nevertheless, it is worth noting that while board members in 2009 saw that there was a need for more information on all aspects, board members surveyed today see that they receive more information today than two years ago on all functions. However, although on lower scales, board members still see strategic information, general industry information and trends as well as organizational information as the top three topics that they need more information on.

"If we as board members are required to make decisions, we should be prepared with all the relevant information to do so."

Abdullah Al Issa
Chairman, Amias Holding
(Source: GCC BDI)

Exhibit 24– Board members feel they receive more information compared to two years ago



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

These findings underline the fact that board members need to take more initiative in preparing and reading information they receive so as to be able to contribute to a meaningful and candid conversation and, by the same token, ensure board dynamics are improved.

ENGAGEMENT IN DISCUSSION

The proportion of board members surveyed who agree that all members on their boards actively participate in meetings has declined by 13% since 2009 (from 52% it now stands at 39%). This could be linked to the chairman's role becoming increasingly ambiguous (as discussed earlier and shown in exhibit 14). The role of the chairman includes managing board dynamics and, in particular, encouraging and ensuring meaningful participation from all board members. Board members could be intimidated or reluctant to voice their concerns to a Chairman who believes part of his role is to be actively involved in the day-to-day management of the company's affairs. Meetings dynamics could be improved by clarifying the role of the chairman and ensuring strong participation of all board members.

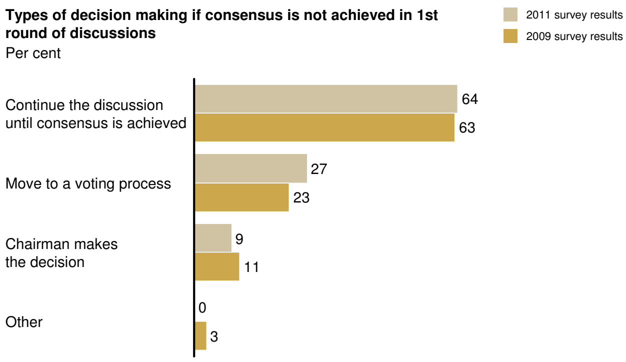
"The chairman should manage the discussion and bring the board back to focus when board members go astray in one way or another."

H.E. Dr. Muhammad S. Al Jasser
Vice Governor, Saudi Arabian Monetary Agency
(Source: GCC BDI)

DECISION MAKING PROCESS

Decision making processes on boards have not changed much over the past two years. As exhibit 25 illustrates, 64% of board members surveyed continue discussions until consensus is achieved; 27% of board members revert to voting as a decision making process. Overall, a great proportion (69%) of board members surveyed believe that their decision making process is an effective one.

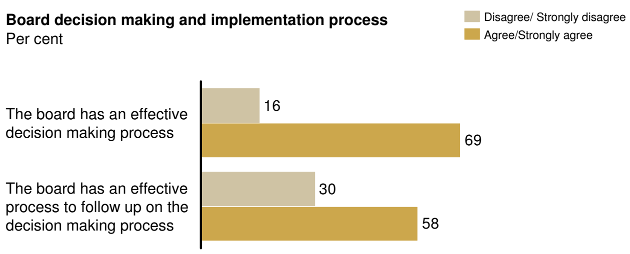
Exhibit 25– There have been no significant changes in decision-making processes



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

BDI research has shown that pushing for consensus rather than voting can bring about more effective results in decision making processes. However, one area where board members in the GCC could improve on is follow-up on decisions made (as highlighted in exhibit 26). An appropriate meeting cycle can improve the effectiveness of meetings and the quality of interactions between directors.

Exhibit 26– Most boards feel they have effective decision making processes although follow up and implementation mechanisms can still be improved



Source: GCC Board Directors Institute – 2011 survey

Mr. Abdulaziz Al Sugair, CEO, Tatweer Holding Co. at BDI's sixth Senior Director I Workshop hosted by Saudi Aramco, in Ras Tanura, Saudi Arabia – November, 2009

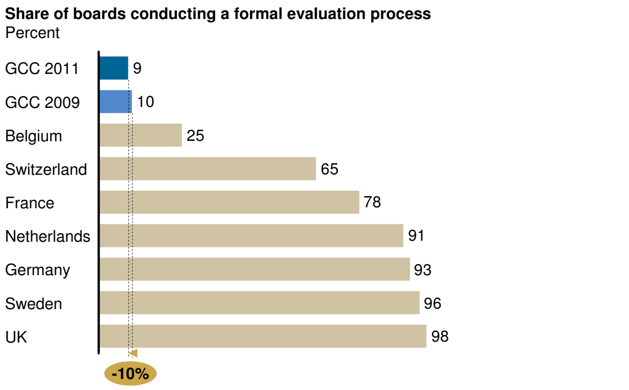
6. BOARD EVALUATION AND RENEWAL

There is an emerging awareness of the value of board evaluations in improving board performance and effectiveness, yet there has been hardly any improvement in terms of implementation.

As in 2009, there is still a strong determination to engage in the board evaluation process, yet there is little by way of implementation. In fact, boards in the GCC have not improved as of the 2009 findings in terms of implementing a formal evaluation process. Board evaluation and renewal remains an area that requires significant improvement on GCC boards.

A shown in exhibit 27, this year only 9% of board members surveyed reported having a formal evaluation process conducted on their board, down from 10% in 2009. This compares poorly to a range of results in European countries spanning from 25% to 98%.

Exhibit 27– Board evaluations in the GCC remain an exception rather than the norm



Source: GCC Board Directors Institute – 2009 survey, 2011 survey; Hedrick & Struggles, Boards in Turbulent Times – Corporate Governance report, 2009

"I have hardly come across boards in the GCC that measure their own performance. However, I strongly believe there needs to be a way to somehow institutionalise board performance."

Abdulla M. Al Zamil
Director and COO, Zamil Industrial Investment Company
(Source: GCC BDI)

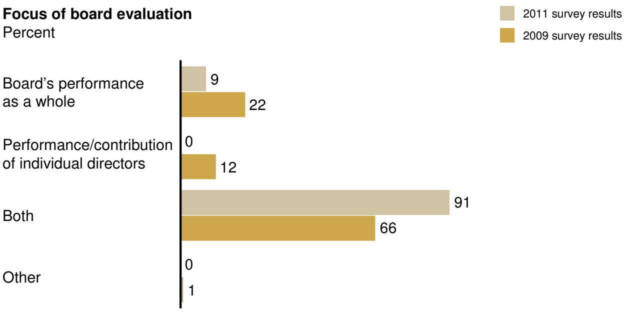
EVALUATION PROCESS

Areas typically evaluated include fundamental board duties such as attendance rates, signing-off on the annual external audit, industry knowledge and performance during special circumstances such as mergers and acquisitions, joint ventures and divestments. Research by BDI content partner Heidrick & Struggles has shown that completing a board effectiveness review helps overcome many of the challenges in the performance and dynamics of the board that are being faced.

The delivery of the feedback and ability of the board to receive and take recommendations into consideration are critical success factors in board evaluations. This involves optimum delivery of the feedback, together with having a clear upfront agreement on the order and method of delivery. BDI faculty recommends that evaluations involve one-to-one sessions first, followed by team discussions. Giving opportunity for debate and discussion would also facilitate the board evaluation process in being more beneficial.
Board evaluations bring about a detailed understanding of the board room. This would ideally include a review of structure and composition of the board, an assessment of strategy engagement and understanding, the quality of operating processes, the board and management relationship, the quality of interaction and the personal contribution of directors on the board.

Recommended best practice is to include both a collective board evaluation and an individual director evaluation in the evaluation process. This sheds light upon both the performance of the board as a whole (and performance of committees) and the performance of individual directors. As shown in exhibit 28, the percentage of board members surveyed agreeing that the board evaluation should include both the overall performance of the board and that of individual directors, has increased significantly (to 91%) over the past two years. This is a positive improvement.

Exhibit 28- Yet for boards conducting evaluations, there is more focus is on both evaluating the board and individual directors



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

"G.B. Shaw once said "(t)he only man I know who behaves sensibly is my tailor; he takes my measurements anew each time he sees me. The rest go on with their old measurements and expect me to fit them." In analogy, the boards in the fast changing corporate world can learn a lot, be more effective and responsive by continuously evaluating and custom tailoring themselves to the business."

Dr. Abdullah Al-AbdulGader
Chairman, GCC Board Directors Institute
(Source: GCC BDI)

BOARD IMPROVEMENT AND RENEWAL

To make the most out of their evaluation process, boards need to build on this evaluation to improve. BDI recommends that the chairman spends considerable time driving a board improvement plan, facilitated by the board secretary and shared with the full board where possible. The board's performance is best reviewed in a broader context rather than against its compliance. This covers satisfaction of shareholders and stakeholders, the perception of the company's business externally and the strength of corporate governance culture among board members.

A good board evaluation will produce specific and actionable recommendations to increase performance of individuals and the board as a whole. Key components of a board evaluation would ideally include a structured summary of recommendations and key themes, an analysis of the board's technical and behavioral competencies, governance and structure and effectiveness. It also would account for internal benchmarking of board members as well as external benchmarking of the company against an agreed set of comparative companies within the company's sector and industry as well as recognized world-leading companies.

"In our time and region, board evaluation is a touchy topic. You have a lot of family members on boards where merits or performance are difficult to evaluate. Yet, we need to accept and introduce this important tool."

Abdullah Al Issa
Chairman, Amias Holding
(Source: GCC BDI)

Mr. Salah Hareky, Manager, Treasury Services Department, Saudi Aramco and Mr. Musaed Al Swailem, Treasury Manager, SABIC, at the seventh Senior Director I Workshop in Dubai, UAE – April, 2010

1. Mr. Khalid Al Hajeri, CEO of Zain Kuwait, Mr. Khalid Al Senani, board member of Ma'aden and Mr. Mohammad Al Shammary, President and CEO, Aramco Gulf Cooperation Ltd at Senior Director I Workshop in Dubai, UAE – April, 2010

2. Mr. Abdullah Al-Hagbani, Vice President, Sabic ME and Africa at the seventh Senior Director Workshop conducted in Dubai, UAE – April, 2010

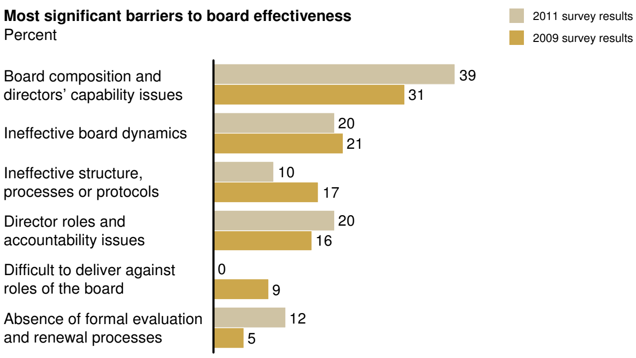
3. Dr. Abdullah Al-AbdulGader, Founding Executive Director, and Mr. Muhammed Al Muhanna, Executive President Advisor at Saudi Food and Drug Authority at the eighth Senior Director I Workshop hosted by Investcorp, in Manama, Bahrain – November, 2010

CONCLUSIONS AND RECOMMENDATIONS

The 2011 BDI survey results again served to surface the main governance gaps currently found in GCC boards. As in 2009, most board directors in the GCC agree that ‘board composition and directors’ capabilities’ is the main barrier to reaching board effectiveness. Ineffective board dynamics and director roles and accountability issues are also mentioned again as priorities requiring particular attention.

On the other hand, compared to 2009, a lower number of board directors find that board structures, processes or protocols are ineffective enough to act as a hurdle to high board performance. More boards in the GCC find that the absence of board evaluations is a barrier to more effective boards. However, it is still identified as one of the levers of lower importance.

Exhibit 29– GCC directors still agree board composition and directors’ capability issues are main barriers to target for improvement



Source: GCC Board Directors Institute – 2009 survey, 2011 survey

While it is generally clear that the GCC has yet much room for improvement, the findings of this year’s report do signify a strong move in the journey towards establishing effective and efficient boards. It is clear that board members in the GCC are beginning to take notice of the lessons the crisis has highlighted. The improvements on the six levers of board effectiveness as well as an increase in information disclosed over the last two years may also showcase that boards in the region are determined to begin putting these lessons learnt into practice.

What follows is a summary of next steps boards should consider taking - to continue moving in the right direction towards board effectiveness.

“The boards in the GCC are still in the process of getting fully equipped to undertake their role in the current environment. We might not be there yet, but much progress has already been made.”

Talal Al Zain
CEO, Bahrain Mumtalakat Holding Co.
(Source: GCC BDI)

1. Ensure board members add value

Having the right board members is a significant factor that would address board composition being the main barrier to board effectiveness. Bringing in professional directors with the right mix of skill and knowledge to the board determines the board’s efficiency in the long term. Boards in the GCC should also continue primarily selecting independent directors with the right expertise and should substantially support improving knowledge and skills of current board directors so that decisions are made effectively and the business is understood well.

2. Consistently invest in development opportunities for board members

With increasing demands and expectations after the crisis, boards should be equipped with the required development plan to answer these expectations (in terms of knowledge and capabilities). Boards in the GCC have a tremendous will to raise their effectiveness. Receiving the formal training and accessing best practices and opportunities is the next step to reaching this goal.

3. Increase board diversity by recruiting more international directors

Many directors agree that diversity on the board would add value and enhance performance. However, this is far from the current picture of boards in the GCC. Diversity can take many forms, but ensuring diversity of perspectives, education, skills and experience, for example, would certainly enrich the dialogue and debates boards need to engage in in discharging their duties.

4. Define roles and responsibilities and properly communicate them

A major barrier highlighted by directors – today more than two years ago – is the ambiguity of roles between board and management. These need to be specified and communicated to both. This issue extends to shareholders; whose ambiguity of roles has affected unbalanced discharge of duties towards shareholders (where duties owed are often biased towards majority and appointing shareholders).

5. Use committees to increase effectiveness but re-visit the need for and the role of an executive committee

While boards in the region have positively increased their use of committees, they are depending more and more on executive committees – a practice often used to overcome the challenges inherent in an unwieldy board. This is not a recommended practice and boards are advised to find alternatives through ensuring the engagement and commitment of board members or delegating more authority to management when appropriate. Moreover, there are lower numbers of overcommitted board members in the GCC today and this should be a helping factor for stronger commitment to the responsibilities of the boards they sit on.

6. Spend more time on 'core issues' (risk, strategy and talent management)

Board members should fulfill their will to spend more time on strategy, risk and talent management by spending less time on 'lower value-added tasks' such as approvals. BDI research shows that dedicating sessions in remote locations for crucial strategy, risk and talent management topics can enhance the board's productivity and engagement in this regard.

''Implementing corporate governance can increase corporate value of companies, but more importantly facilitates the economic and financial integration of the GCC with the rest of the world."

Mohammed Al Shroogi
President, Gulf Business, Investcorp
(Source: GCC BDI)

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

More than in 2009, valuable time and resources are being wasted on approvals (however major or minor they are). Boards should consider allocating approvals of lower importance to management and focusing their time on more critical issues.

8. Recognise the chairman's role in improving board dynamics

However willing the board is to engage in productive board meetings, there ought to be challenges in establishing effective board dynamics without the chairman playing his/her role in monitoring the discussion. When the focus is shifted to relevant topics and opinions are voiced clearly, effective decisions can be made. At the same time, no effective decisions can be made if the board members do not prepare for discussions (or can't because they do not receive the "right" information).

9. Ensure robust follow-up mechanisms are in place

A board can hardly claim to be truly efficient until it ensures that decisions made during board meetings are properly followed up on.

10. Formalise and implement a performance evaluation process for the board as a whole and, in time, individual directors

Boards would not know whether they are indeed effective without a formal evaluation process. Furthermore, the evaluation should be conducted by a third and independent party with the full support of the Chairman (or lead director).

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COMPANY INDEX

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- Abdullah Al Othaim Markets Company
- Advanced Petrochemical Company
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- Amlak Finance
- Arabtec Holding
- Aramex
- Arkan Building Materials Company
- Bank of Sharjah
- Commercial Bank of Dubai
- Damas International
- Dana Gas
- DP World
- Drake and Scull International
- Dubai Financial Market
- Dubai Investments
- Dubai Islamic Bank
- Emaar Prpoerties
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- Emirates Telecommunications Corporation
- First Gulf Bank
- Gulf Cement Company - UAE
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GCC BOARD DIRECTORS INSTITUTE

GCC Board Directors Institute (BDI) is a not-for-profit organization dedicated to making a positive impact on the economies and societies of the Gulf region by promoting professional directorship and raising the level of board effectiveness.

BDI was set up through close collaboration between leading regional corporations: Emirates NBD, Investcorp, SABIC, Saudi Aramco and Zain; professional advisory firms: Allen & Overy, Heidrick & Struggles, McKinsey & Company and Pricewaterhouse Coopers; and has the support of several regulators: the Capital Market Authorities of both Saudi Arabia and Oman, the Central Bank of Bahrain, the Securities and Commodities Authority of the United Arab Emirates and the Qatar Financial Center Regulatory Authority.

BDI objectives are to:

- Build greater regional awareness of the importance of corporate and board governance by creating a forum for discussion and providing a collective voice for its members
- Create a regional network of board members by providing venues and facilitating networking between regional board members, professional advisors, senior executives and regulatory experts
- Develop the capabilities of senior GCC board members who will then act as role models to other directors
- Disseminate high-quality board governance knowledge by developing proprietary regional board governance content and sharing best practices.

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