



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE



Board Best Practices in the Middle East

Whitepaper produced by
Hawkamah in association with



Diligent





About Hawkamah

The Hawkamah Institute for Corporate Governance Ltd (www.hawkamah.org), which is owned by the Dubai International Financial Centre, was set up in 2006 to help bridge the corporate governance gap in the region.

The founding of the Institute resulted from the recognition of a growing need for a regional organisation working on the ground, for regional institution-building, in order for corporate governance to achieve the buy-in of stakeholders. Since its inception, Hawkamah has been at the forefront of the corporate governance debate in the Middle East and North Africa (MENA) region.

Hawkamah's vision is to be recognised as the advisor of choice and the reference point for good governance for all enterprises in the public and private arenas throughout the MENA region. Our mission is to shape the corporate governance landscape by being staunch advocates, premier promoters and effective practitioners of good corporate governance for the public and private sectors.

Hawkamah's work comprises four key areas:

Policy Level: Hawkamah works with the region's regulators to develop corporate governance codes, guidelines and frameworks.

Public Awareness and Research: Hawkamah raises awareness of various aspects of corporate governance through conferences, workshops, studies and publications.

Training: Hawkamah provides training programs for boards, individual board members, company secretaries and other corporate governance practitioners.

Advising on Implementation: Hawkamah works on the individual company level, assisting companies to improve their corporate governance practices.

About Diligent Corporation

As the leading provider of modern governance solution for boards, C-suite executives and company secretaries, Diligent is proud to partner up with Hawkamah with the launch of “Board Best Practices in the Middle East” research paper. As Hawkamah’s long term partner in the region, we recognise the pivotal role played by Hawkamah and their member countries globally and are pleased to partner with them in this initiative.

Diligent is the pioneer in modern governance. We empower leaders to turn governance into a competitive advantage through unparalleled insight and highly secure, integrated SaaS applications, helping organisations thrive and endure in today’s complex, global landscape. Our trusted, cloud-based applications streamline the day-to-day work of board management and committees, support collaboration and secure information sharing throughout the organisation, manage subsidiary and entity data, and deliver the insights and information leaders need to mitigate governance deficits and seize new opportunities.

Diligent’s modern governance solutions bring together historically disparate tools into one secure product suite. Board materials, voting and resolutions, evaluations, collaboration tools, document sharing, committee intelligence, candidate search, entity management—all these tools and features work together to enable seamless management and reporting.

Diligent is relied on by more than 16,000 organisations and 650,000 leaders in in over 90 countries. With award-winning customer service across the globe, Diligent serves more than 70% of the FTSE 100, 50% of the Fortune 1000 and 65% of the ASX.

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Executive summary

The primary purpose of the Hawkamah-Diligent report is to identify current governance and board practices in the Middle East and North Africa (MENA) region. It also seeks to highlight the next areas for governance reform.

The majority of the survey respondents reported an overall improvement in governance practices in the MENA region over the latest three-year period. Given that 50% of the respondents were listed companies, this is partly due to the standards and requirements set by the regional regulators. All the surveyed markets have issued corporate governance codes for listed companies, and many of these codes have already been revised and improved in the last few years. But similar governance improvements were also reported in the nonregulated entities.

Most of the respondents stated that good governance practices have resulted in improved strategic decision making and long-term sustainability. This is a welcome finding, as too often governance is seen as a mere compliance exercise.

However, many respondents reported challenges in proper implementation of good corporate governance. This was attributed to lack of know-how and expertise on governance matters. Most of the respondents stated that boards need to be more aware of the importance of governance and to drive governance reform from the top.

In terms of board composition, MENA companies would benefit from more independent directors as well as more diversity, including gender diversity.

One key finding of the survey is related to board information. The quality of board decision making is highly dependent on the quality of the information received by the board. According to the survey, only half of the board packs contain explanations on each agenda item. A third of respondents report not having updates on key performance indicators (KPIs) and 25 per cent do not have financial statements included in the board packs for the reporting period. This is an area that leaves much room for improvement, but it is also one that can be fixed relatively easily.

Introduction

Good corporate governance creates a framework for sound business practices, sustained growth and better risk management. Good governance practices are often associated with improved operational efficiency, lower costs of capital and, in the case of listed companies, higher share valuations. On the country level, these often result in economic efficiency, sustainable growth and financial stability.

The purpose of the Hawkamah-Diligent report is to identify and examine the current governance and board practices and developments in the Middle East and North Africa (MENA) region. Its primary purpose is to understand the state of play in board and governance practices in the region. The report also seeks to highlight the next areas for governance reform.

Key Findings

- **Improvements in governance practices**

The majority of the survey respondents reported an overall improvement in governance practices in the MENA region over the last three-year period. Given that 50% of the respondents were listed companies, this is partly due to the standards and requirements set by the regional regulators. All the surveyed markets have issued corporate governance codes for listed companies, and many of these codes have already been revised and improved in the last few years. But similar governance improvements were also reported in the nonregulated entities.

- **Board diversity remains an issue**

Board diversity is increasingly recognised globally as an important ingredient in board effectiveness. However, the level of diversity, particularly gender diversity, remains low, with the percentage of female directors ranging from 0.6% to 9.25% across the MENA countries.

- **The quality of board information leaves much room for improvement**

The content of board packs is an area of concern. The quality of board decision making is highly dependent on the quality of the information received by the board. According to the survey, only half of the board packs contain explanations on each agenda item. A third of respondents report not having updates on KPIs and 25 per cent do not have financial statements included in the board packs for the reporting period.

The timeliness of board information is also an issue. Board packs should be sent out to the board members at least one week in advance, allowing them to familiarise themselves with the key issues prior to the board meetings. However, 21.8% of the surveyed companies send their board packs either on the day of – or a day prior to – the meeting.





Methodology

The report is based on a two-pronged approach: research and a survey.

It presents findings from research conducted on all listed companies in Bahrain, Egypt, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates (both the Abu Dhabi Stock Exchange and the Dubai Financial Market).

Approximately 860 companies were analysed based on their board structures as well as their board and committee practices. This data was collected from their 2018 annual reports posted on their respective market's websites.

The primary data collection was supplemented by a survey which was conducted in the second quarter of 2019. The survey contained 50 questions exploring some qualitative areas that might help explain some of the hard data from our research. As some questions were multiple choice, the percentage may not total 100% in some cases.

Survey participant demographics

	Percentage of total Respondents
UAE	70.4%
Egypt	7.4%
Lebanon	7.4%
Saudi Arabia	11.1%
Yemen	3.7%

Table 1: Country of respondents

The survey respondents were primarily board members and company secretaries. Roughly one-half of the respondents were from listed companies (48.1%), while the other half was from non-listed entities (51.9%). Thirty per cent of the respondents were from family-owned enterprises.

Industry of the survey respondents

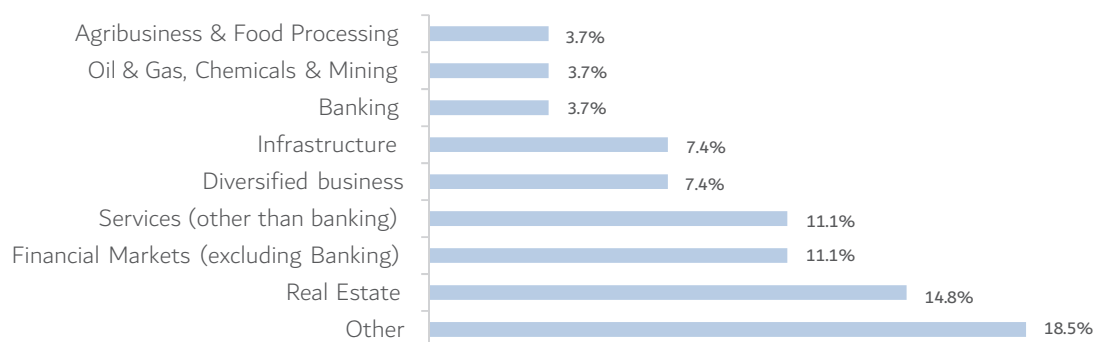


Figure 1: Industry of the survey respondents

**“Other” consisted of government, higher education and investment firms.

Corporate Governance Developments in the MENA Region

Hawkamah’s previous research indicated that corporate governance in the MENA region has evolved significantly in the past two decades.¹ Corporate governance codes have been issued by regulators across the region for listed companies, and many of these codes have already been revised and improved. Some countries have issued such codes for state-owned companies, and numerous frameworks and guidelines are in place for family-owned businesses, banks, Islamic financial institutions and even small and medium-sized enterprises (SMEs).

	Corporate Governance Codes	Last amendments
UAE	The Chairman of Authority’s Board of Directors’ Resolution No/ (7 R.M.) of 2016 Concerning the Standards of Institutional Discipline and Governance of Public Shareholding Companies	2016
Saudi	Corporate Governance Regulation issued by the Board of the Capital Market Authority	2018
Kuwait	Resolution No/(25) of 2013 of the CMA Board of Commissioners concerning issuing Corporate Governance Regulations for Companies regulated by Capital Markets Authority	2013
Oman	Code of Corporate Governance for Public Listed Companies issued by the Capital Market Authority Sultanate of Oman	2016
Bahrain	Corporate Governance Code	2019
Qatar	Governance Code for Companies & Legal Entities listed on the main market	2017
Lebanon	Corporate Governance Code	2017
Egypt	The Egyptian Corporate Governance Code issued by the Egyptian Institute of Directors	2016

Table 2: Corporate Governance Codes

The Hawkamah-Diligent study shows that this trend of governance improvement has continued over the latest three-year period. According to our research, more than half (55.6%) of regional companies stated that their governance practices had improved significantly, while a third indicate that their corporate governance journeys had shown at least some improvement during the last three years.

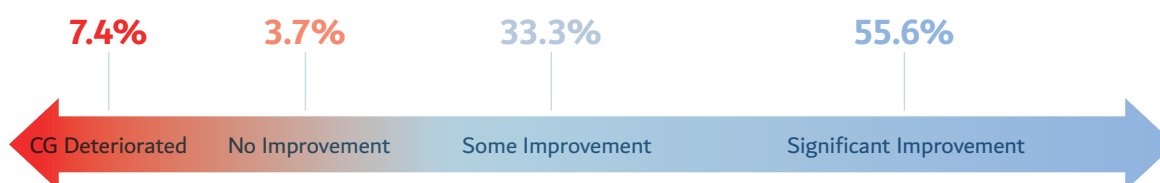


Figure 2: Development of CG practices

¹ The S&P/Hawkamah ESG Pan Arab Index 2007-2017.

These developments are important, as good corporate governance creates a framework for sound business practices, sustained growth and risk management. Good governance practices are often associated with improved operational efficiency, lower costs of capital and, in the case of listed companies, higher share valuations. On the country level, these practices often result in economic efficiency, sustainable growth and financial stability.

However, over 10% of respondents reported no improvement. Almost 4 per cent of the respondents stated no improvement at all, while, shockingly, 7.4% of respondents perceived their governance practices to have even deteriorated during this time period.

I. Benefits of implementing good governance

The survey explored the perceived benefits of implementing good corporate governance practices. Most of the respondents felt that good governance resulted in improved strategic decision making and long-term sustainability. This is a welcome finding, as too often governance is seen as a mere compliance exercise.

The compliance factor was rated a joint No. 3 in this year's survey. Governance and compliance are interlinked, but they are markedly different. While compliance is the process through which companies demonstrate that they have conformed to specific requirements in laws and regulations, governance is essentially about decision making. Governance is about providing clear direction for the company, adding value through strategy formulation, and monitoring and controlling the implementation of best practices.



Figure 3: Benefits of implementing governance

Action item: It is important that companies view, position and understand corporate governance as a mechanism to improve strategic decision making, rather than as a compliance exercise.

II. What is hindering the improvement of Corporate Governance?

When asked what the main factors are preventing governance improvements within companies, the respondents identified the lack of know-how and information as well as the lack of qualified governance specialists as the main barriers.

Furthermore, despite numerous studies demonstrating the business case for corporate governance, as well as some well-publicised governance scandals, companies still rate corporate governance as rather low priority in comparison to other tasks of the organisation.



Figure 4: CG implementation barriers

These findings suggest that more training on the actual implementation of good corporate governance is required. The issue in many companies is that governance improvements effectively stop at the framework development level. The real challenge of governance is how to ensure that the governance manuals are translated into practice.

Regulators are seriously considering whether to strongly recommend or mandate corporate governance training for all individuals who serve on boards and in the governance function in listed companies. To prevent regulatory action in this area, companies should encourage their directors and senior managers to undertake training on corporate governance and other related topics. It is noteworthy that the Dubai Financial Market (DFM) has mandated training on corporate governance for all boards and company secretaries of listed companies within their market.

Action item: More training is needed for individuals such as board members, committee members, and board secretaries tasked with overseeing corporate governance implementation.

III. Action items for improved Corporate Governance

Having identified the main barriers for governance implementation, the survey explored potential solutions to these.

The majority felt that training board members on governance issues was fundamental. Setting out a plan for governance reform, approved by the board, was also identified as an important element.

It is important to note that a good percentage of companies see nominating independent directors to the board, as well as seeking consultancy on specific governance issues, as potential solutions.

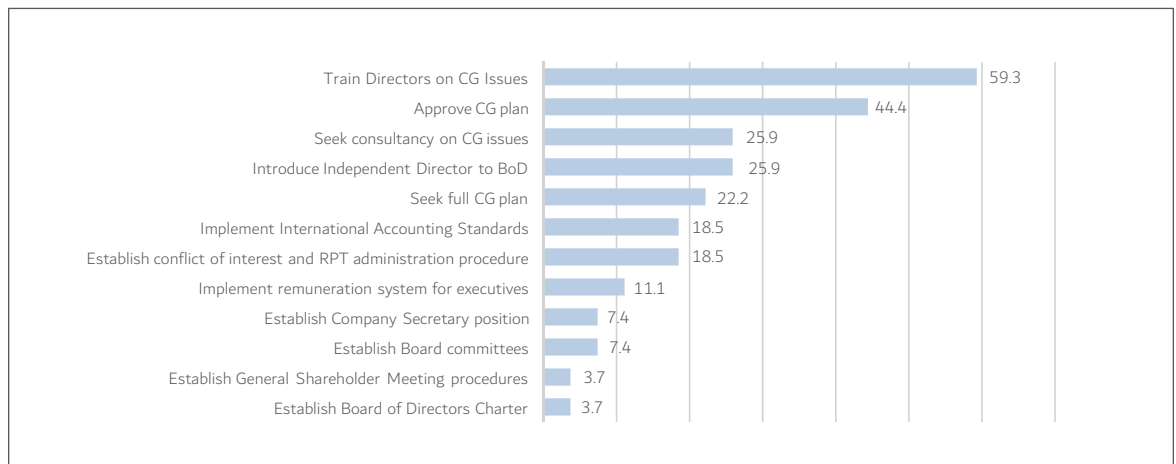


Figure 5: CG reforms

IV. Drivers of Corporate Governance

1. Who in your company is formally responsible for driving corporate governance policies?



Figure 6: Corporate Governance responsibility

The survey then explored who within companies was formally responsible for driving governance policies. Approximately half of the respondents had assigned this duty to the board, which is in line with international best practice.

However, it is concerning that 30 per cent of the respondents had allocated this responsibility to the compliance officer and a quarter to the CEO.

This is problematic because senior executives may not feel comfortable making difficult recommendations that may relate to issues such as board composition, director competence, or even issues such as defining the role of the board.

The effect of assigning governance duties to management is that the focus of these corporate governance improvements is typically on the performance of the senior management or on the introduction of more stringent authority matrices and procedures for the management to follow, and not on important issues such as conflicts of interests, scrutiny arrangements or preservation of independence.

In other words, the corporate governance improvements that many companies are making often relate to all levels of the organisation except at the Board level, which is the most important one. There is a German proverb that says, “When sweeping stairs, one should start at the top.” For corporate governance to truly take root in the region, it is the Boards that needs to internalise corporate governance.

Action item: Companies should assign the duty of driving good governance to the boards.

2. Governing bodies within an organisation

International best practice calls for boards to be the custodian of governance practices in their companies. The board is responsible for strategic guidance and oversight of management, and functions as a trustee for shareholders. These are important responsibilities, and the means by which the board organises itself are an important factor in determining how well it fulfils its responsibilities. A professional, independent and vigilant board is essential for good corporate governance. Ultimately, the board can neither substitute for talented professional managers, nor can it change the economic environment in which a company operates. It can, however, influence the company’s performance and sustainability through its guidance to, and oversight of, management.

3. The role of the board

Although exact board authorities will vary country by country based on legal frameworks, virtually all international and national codes of corporate governance agree that the overarching role of the board is to strategically guide and oversee management, as well as to ensure that a robust corporate governance framework is in place.

a. Role of the board in reviewing and approving company strategy

A majority of respondents (58%) stated that the board was responsible for setting company strategy. The process of setting strategy is also assumed by the CEO (39%).

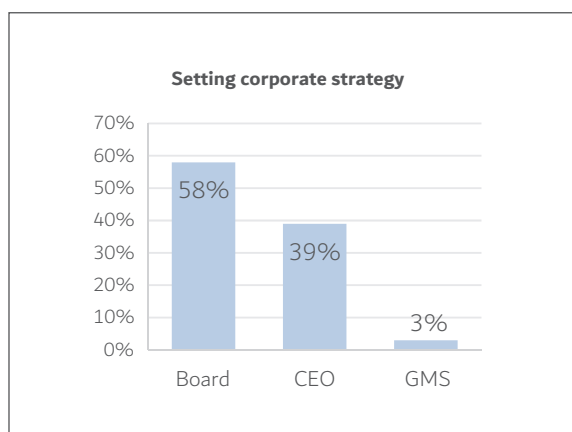


Figure 7: Role of board in setting strategy

Managers, with their industry knowledge and resources, are, however, best placed to develop and then implement strategies, while directors, with their experience and objectivity, in turn, are best positioned to review, challenge and ultimately approve these strategies, in particular objectives, assumptions and corresponding KPIs. The development of strategy is a complex, difficult and time-consuming exercise that is rightly the primary responsibility of the executive, although some boards have done well to formulate high-level strategies to effectively guide management in strategic decision making. Directors and managers would be well served to openly discuss and agree on their respective roles with respect to the strategic decision-making process.

Action item: The board's role is ultimately to set the strategy. However, directors and managers would be well served to openly discuss and agree on their respective roles with respect to the strategic decision-making process.

b. Role of the board in overseeing management

The second key role of the board is to oversee management. The way to do so is to request management to report back to the board on its implementation of strategy and a defined set of KPIs. In addition, selecting and, when necessary, replacing the CEO constitutes an important first step in defining the relationship between the board and the CEO.

Our survey shows that a vast majority of boards in MENA do select and dismiss the CEO. Eighteen per cent of respondents cited that the general assembly had elected and dismissed the CEO, which arguably runs counter to good corporate governance, as it may well undermine the authority of the board.

As for the other key executives and managers, results show that their selection is entitled, *ceteris paribus*, a responsibility either of the board or the CEO. Best practice calls for the CEO to select their management team; however, the board must establish appropriate parameters *ex ante* – for example, on qualification requirements and remuneration levels – and *ex post* – for example, in approving final candidates.

Setting a succession policy and overseeing succession planning by management is an important function of the board, as it allows a company to develop and change leadership in a systemic, progressive and nondisruptive manner. Simply nominating a deputy does not constitute best practice in succession planning, as it fails to capture the systematic development of talent within the company.

Succession plans should be in place for all key executives, in particular the CEO and the CFO, but also for directors and the board chairman.

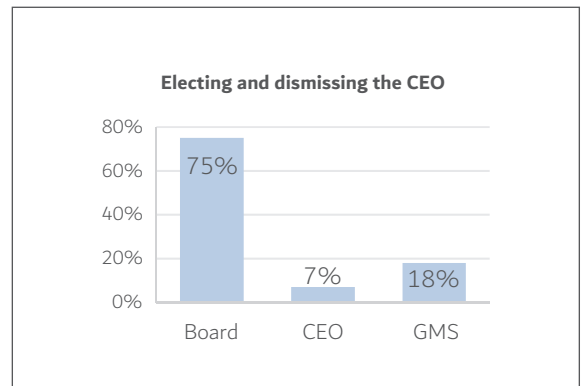


Figure 8: Elect and dismiss the CEO

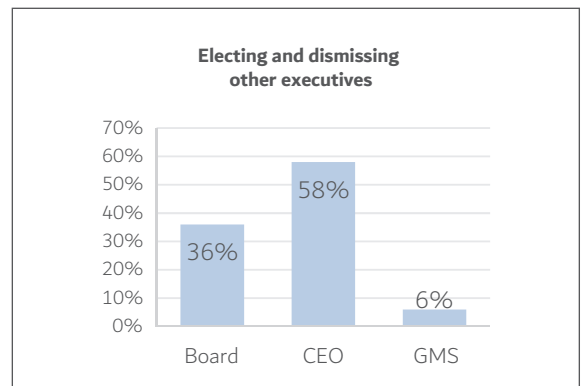


Figure 9: Elect and dismiss other executives

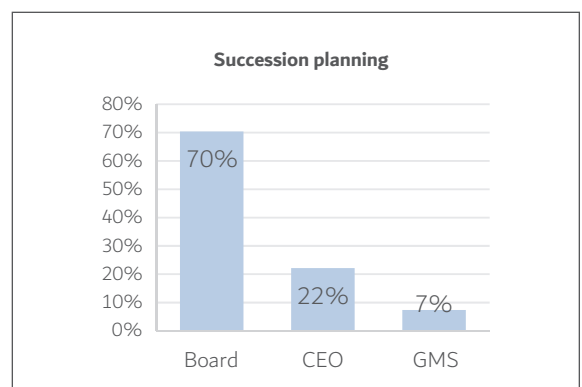


Figure 10: Succession planning

Results shown in Figure 10 offer a positive picture, in that 70% of boards feel responsible for approving the succession plans of key executives. However, these results should not be misinterpreted to mean that succession plans beyond naming a deputy are in place in most companies in the region.

Action item: Boards should set a succession planning policy which goes beyond nominating a deputy.

4. Board composition

In order to effectively fulfil the board’s role, directors should be qualified, have a clear understanding of their duty to the company and all shareholders, and be able to exercise sound, objective and independent judgment. This can be achieved by different means and approaches to the board’s size and composition.

Country	Board size	Non-executive directors	Independent directors	Chair/CEO separation
UAE	3-11	Majority	33%	Yes
Saudi	3-11	Majority	33% or minimum 2 members	Yes
Kuwait	Not less than 5	Majority	1 member and no more than 50%	Yes
Oman	5-12	All	33% or minimum 2 members	Yes
Bahrain	5-15	Majority	33% or minimum 3 members	Yes
Qatar	5-11	Majority	33%	Yes
Lebanon	Not less than 4	Majority	33% or minimum 2 members	Yes
Egypt	Adequate number	Majority	At least 2	Yes

Table 3: Regulatory requirements for listed companies, Source: Hawkamah Research

Regulatory requirements, shareholder expectations and business model threats, as well as risk profiles, are putting pressure on many companies to examine their board composition.

There are different requirements for boards in listed companies in the GCC, as shown in Table 2.

a. Board size

Companies should choose a board size that will enable them to hold productive meetings with constructive discussions and to be able to do their job effectively. Having either too few or too many directors can be a problem for effective decision making.

Interestingly, board sizes have decreased over time.

Various reports examine the relationship between board effectiveness and board size. Most of them conclude that board size is linked to board effectiveness. For example, the Eversheds Board Report, which is based on a study of 250 of the largest companies in Europe, the US and Asia Pacific, argues that smaller boards, more female directors and a higher proportion of independent directors are the “key boardroom components for company success.”

Larger boards enhance the firm's ability to form greater external linkages and increase the pool of expertise. However, these large boards are typically difficult to manage, and can make consensus-building time-consuming and difficult.

Smaller boards, on the contrary, allow for more efficient communication and coordination. They also tend to be faster in decision making. However, smaller boards may not allow the company to benefit from an appropriate mix of skills and breadth of experience.

The challenge in selecting the appropriate board size is striking an appropriate balance of directors within the framework mandated by law.

aa. Board sizes globally

The number of board seats varies globally, and international best practice does not stipulate a fixed number of board seats.

The global average of board seats in listed companies is 10.4.



Figure 11: Average global board seats, Source: Spencer Stuart Report, Hawkamah Research

bb. Board size in the MENA region

The UAE Companies law for example, stipulates that companies determine the characteristics of their boards.² The law has set guidelines in regard to the number of board members, which must be an odd number in the range of a minimum of three and a maximum of 11.³ Similarly, Saudi regulations set a maximum of 11 board members.

Our research on MENA-listed companies shows that the average number of board seats per company is 8.4.

The companies listed in Lebanon, Bahrain, Kuwait, Qatar and Saudi have the largest boards, with an average of nine board seats per company.

DFM- and Muscat-listed companies have the smallest boards in the region, with seven board seats, on average, per company.

cc. Average board seats by market



Figure 12: Average board seats by market, Source: Hawkamah Research

² Art. 143 (1) Federal Law No. 2 of 2015.

³ Art. 143 (1) Federal Law No. 2 of 2015.

b. Balanced board

Companies can benefit from having an appropriate mix of executive, non-executive and independent directors on their boards. In defining the right mix for the board, it is important to understand the roles executives, non-executives and independent directors play.

The board's composition is indeed extremely important. A board with a balance of differing backgrounds, skills and experience will have deeper and richer discussions and bring appropriate expertise to many of the challenges it faces. Being able to see with a variety of backgrounds makes it easier for a board to see all opportunities and risks facing the organisation and reduces the risks associated with "group-think." Thus, every board should strive for the right mix of backgrounds and skills needed for a balanced board composition.

Action item: Boards should consider a balanced board composition to enable deeper and richer discussions in the boardroom. This can be achieved by conducting a regular board effectiveness assessment.

c. Independent directors

Although the presence of independent directors has become a condition sine qua non for good corporate governance, our research found that the representation of independent directors varies widely.

The majority of the survey respondents indicated having mostly two to five independent directors on their boards, while some companies did not even have a single independent director on their board.

Looking at the level of overall independence in boards in the region, Saudi Arabia has the highest levels, with 66% of independent directors on board seats of listed companies, whereas Egypt is the laggard with only 2%.

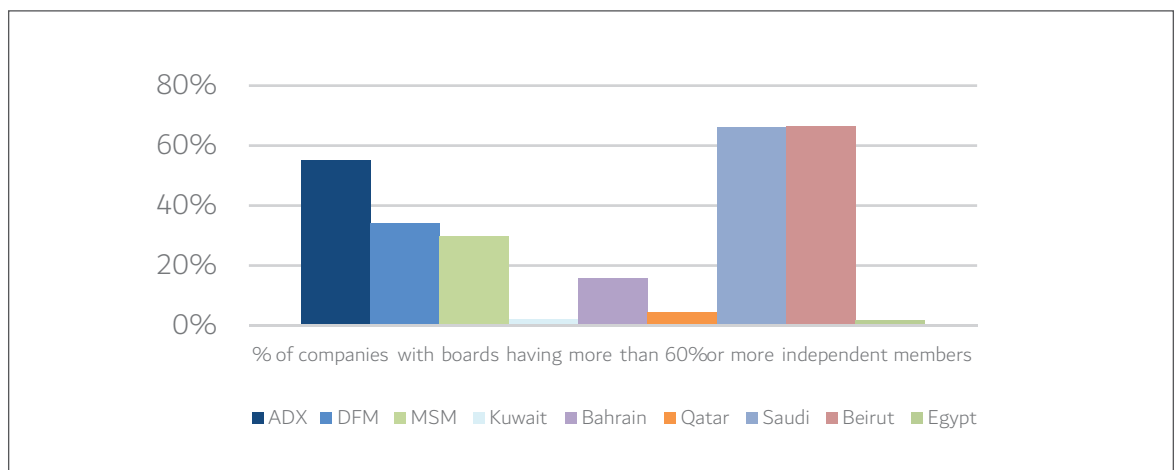


Figure 13: Individual director per market, Source: Hawkamah Research

Action item: MENA region companies should consider appointing more independent directors to their boards.

aa. Independent directors – average independent directors globally

Independent directors are important on boards, as they bring knowledge and expertise in areas where the knowledge of other board members or management may be lacking. They primarily bring expertise in the fields of internal controls, finance, etc. The independent director will also bring important industry knowledge and experience due to their own different backgrounds.

Global best practice recommends reviewing the independence of non-executive directors annually.

An independent director is a director who is not a recent employee and has no material business relationship with the company beyond his or her directorship. He or she shall not have a recent or current remuneration from the company, not be a significant shareowner, have no cross-directorships or significant links with other directors through involvement in other companies or bodies. An independent director should be independent in character and judgment, and there should be no relationships or circumstances which could affect, or might appear to affect, the director's independent judgment.

Their role is important, as it serves to ensure that the board includes individuals who can effectively exercise best judgment for the exclusive benefit of the company and all shareholders, whose judgment is not clouded by personal interest or loyalties and either real or perceived conflicts of interest. Independent directors are best able to assess situations openly, and bring an objective and unbiased view to discussions, without the fear of possible retribution.

Global best practice determines the minimum percentage of board members to be independent at 50%. The MENA average is 46%, while the European average of independent directors as a proportion of the board is 62% and the US average, 85%.

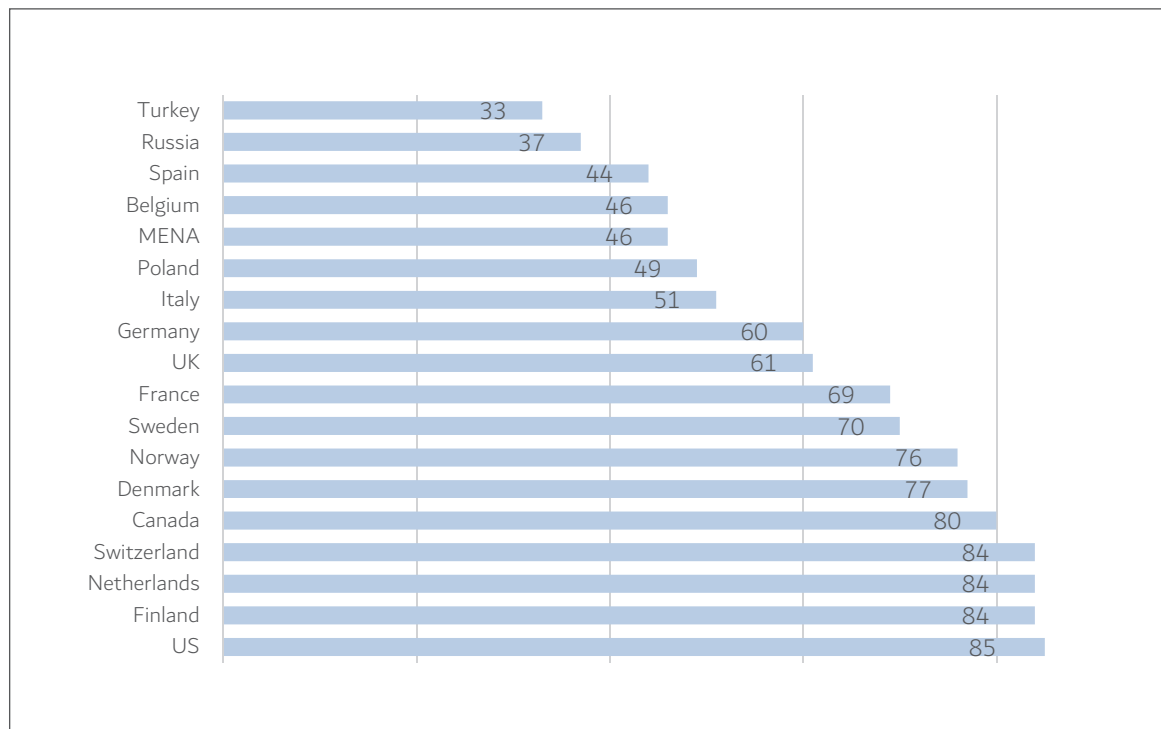


Figure 14: Board independence globally Source: Spencer Stuart Report/Hawkamah Research

bb. Independent director regional

The SCA in the UAE and the CMA in Saudi Arabia set the independence ratio at one-third of the board. However, in reality, the percentage is much higher, and 55% of ADX-listed companies have more than 60% independent directors compared to 34% in DFM-listed companies.

The lowest level of independent directors sitting in boards was found in Qatar (4.35%), Kuwait (2.28%) and Egypt (2%).

d. Right mix of skills

Independence is not a panacea. Other skills such as expertise, and characteristics such as integrity and loyalty, are just as important to complete the board – qualities that help the board collectively act as a valuable advisor to the executive.

Some basic skills, such as finance and accounting, as well as audit, are universally useful to boards. Boards should ensure that they have directors with relevant industry experience, which is useful in identifying industry trends and developments, and in guiding management in setting strategy. Boards may also find it useful to have directors who are legal experts; experienced in mergers and acquisitions or re-organisations; or perhaps knowledgeable in taking companies public. At times, it could be beneficial to include the representatives of key stakeholders on the board. Experience of operating in a foreign country can also be of great benefit, for example in case of opening offices or launching products abroad.

Characteristics and qualities such as leadership, honesty, loyalty and integrity are, of course, not to be underestimated and are of fundamental importance when the board makes important decisions. For example, the ability of a non-executive or independent director to constructively challenge the traditional means of doing business or the company's strategy developed by the CEO, who is often simultaneously the majority owner, may at first seem like a nuisance, but likely prove invaluable over the long run.

At a minimum, all directors should have the necessary time to properly fulfil their board duties, which can be substantial.

An overwhelming majority of responding companies require professional experience (41%) and age limitations (22.2%), which is very much in line with good corporate governance. However, respondents chose integrity as a third important requirement and “being a shareholder” as the least relevant requirement for being a director (7.4%). This is very welcoming, as it typically leads to the creation of insider or shareholder boards that may not always act in the interests of the company and those of its shareholders.

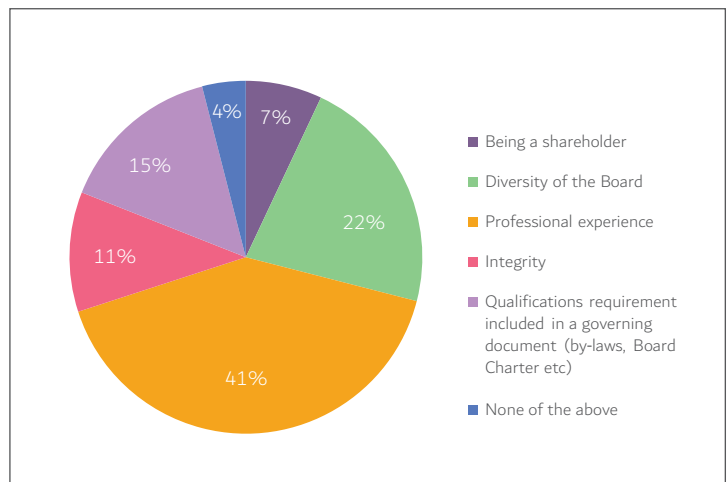


Figure 15: Director Requirements

5. Balancing boardroom: the value-added of women on the board

There is an increasing number of studies showing a correlation between gender diversity on boards and companies' performance.

For listed companies in the UAE, the regulators mandate that at least 20% of board nominations should be female.

Our research results show the average number of women on these stock markets is 16.33 per examined stock market, which is equal to 3.8% women on boards in each market.

The percentage of gender diversity within these markets varies widely from 0.6% to 9.25%.⁴

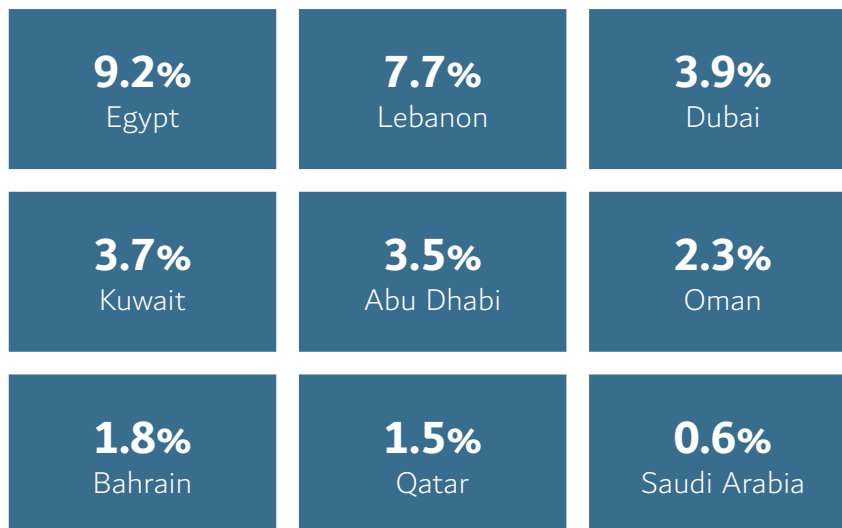


Figure 16: Percentage of women on boards across the regional markets, Source: Hawkamah Research

⁴ The data for Beirut was examined on four out of 10 companies only, as the remaining six have no disclosure on this information.

Some of the international corporate governance codes have set quotas or targets for gender diversity on boards.

Within the mandated quotas for women directors, the percentage varies between one-third of directors⁵ to 40%⁶. Other countries set targets for the same purpose.

The UAE aims to become one of the world's top 25 countries achieving gender equality by 2021. A 2016 Hawkamah study⁷ showed that only 1.9 per cent of board seats in ADX- and DFM-listed companies were held by women. The 2019 figures are higher at 3.5% and 3.9%, respectively. While this is a positive trend, the rate of improvement is still too slow to reach the target set by the above-mentioned vision.

Female board members are but a small minority on most MENA boards, if they exist at all. Shockingly, the number of women on boards in the examined countries is still lagging the global averages, with women occupying only 3.8% of board seats.

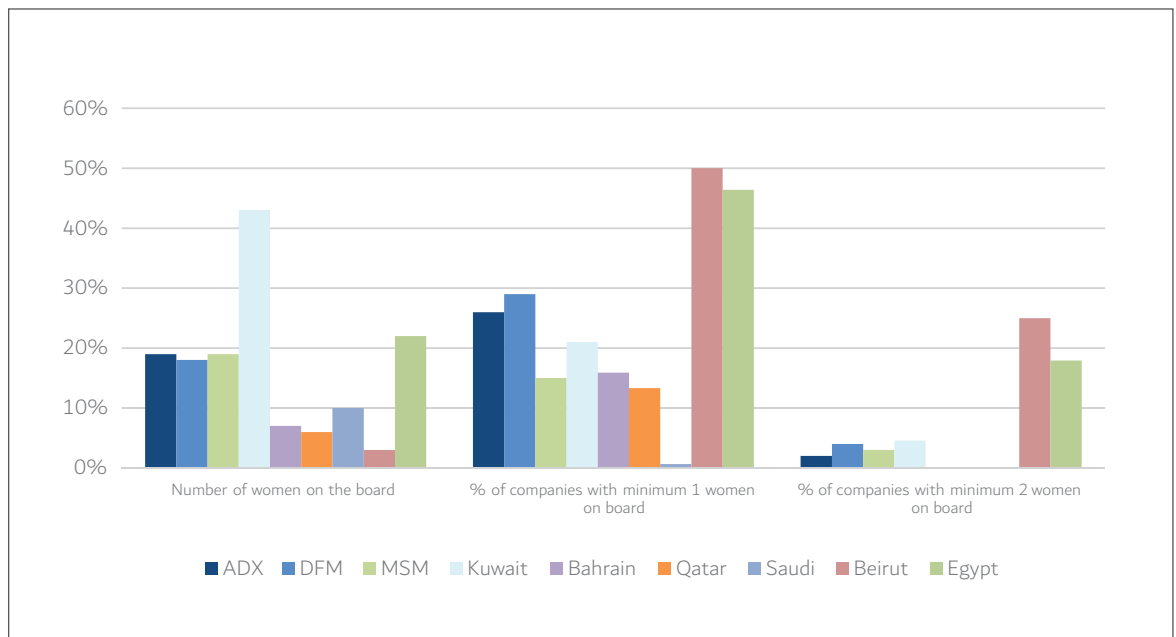


Figure 17: Female members on boards, Source: Hawkamah Research

Action item: MENA companies should consider appointing more female directors to their boards.

⁵ This 33% is set in the Corporate Governance Codes of Belgium, Greece, Italy, Portugal and the UK.

⁶ The Corporate Governance Codes of Denmark, France, Iceland, Norway and Sweden define a quota of 40% women representation on boards.

⁷ Hawkamah, Culture, Organizational Policies, Self-Imposed Barriers, and Diversity in the UAE, 2016.

6. Board structure – separation of chairman and CEO role

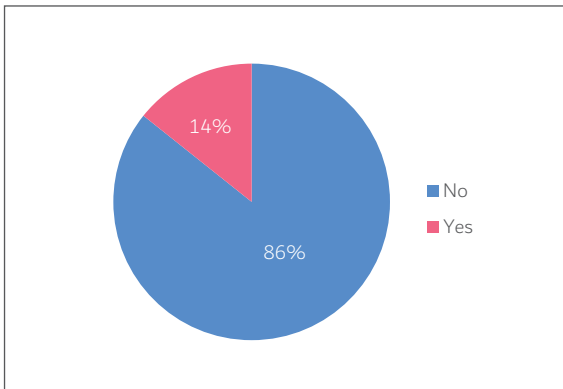


Figure 18: Combined CEO and Chairman Position

As Figure 18 shows, only 14% of companies in the MENA region combine the role of the CEO and that of the chairman.

Companies operating in some countries, in particular the US and France, have traditionally allowed combining the positions of board chairman and CEO, citing improved leadership and efficiency as the main rationale for doing so. Combining these two roles is, however, not considered to be a good practice. Indeed, most leading corporate governance codes call for a separation of the role of chairman and CEO, sometimes even forbidding it, citing the need for effective board oversight over management, which is next to impossible due to the inherent conflict when combining the two positions. A non-executive

chairman is also likely to be more inquisitive in guiding the board in fulfilling its main functions, in particular strategic oversight, and is ideally placed to counter the (potential) short-term focus of the CEO with an outside and long-term perspective. The main argument for separating these two functions is that the roles of the chairman and the CEO are fundamentally different, requiring different skills and characteristics: While the CEO runs the business, the chairman runs the board.

In line with this international best practice, companies should consider a separation of CEO and chairman's roles, where jurisdictions allow for combining them. The chairman of the board shall not hold the position of CEO or Managing Director at the same time. The majority of our survey respondents (85.2%) have a separation of CEO and chairman of the board in place.

7. Board policies

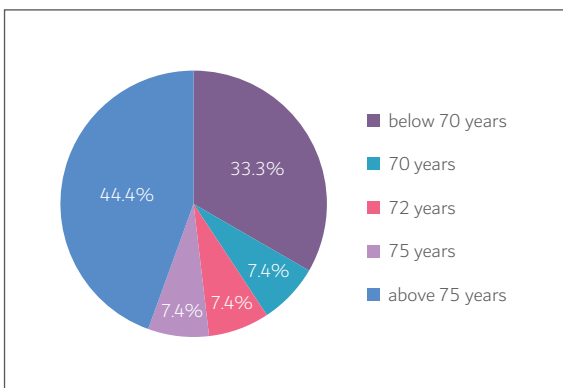


Figure 19: Board policies

The majority of companies (55.6%) reported having no set board refreshment policies in place.

According to the survey, the main reason for a change of the board size in companies is the resignation or retirement of an existing director. The survey then explored the average ages of board members in the region. The majority of the survey respondents marked their director's age as between 50 and 59 years, while 15% marked it as between 60 and 69 years. Only 15% of the respondents have term policies and only 4% have age-limit policies in place.

8. The Board process

a. Board meetings

As discussed earlier in the report, the role of the board is to provide leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed.⁸ To effectively exercise their duties and responsibilities, governance codes often require boards of listed companies to meet at least quarterly. However, in practice, boards often meet more frequently, with the international averages ranging between six and 12 meetings, while in the MENA region, boards schedule an average of 6.7 meetings.

Yet, there is no magic number when it comes to board meetings. Companies should have at least one meeting each quarter, but ideally boards should develop their annual work plans on which to base the exact number of needed meetings.

SCA	Minimum 4 meetings
MENA average	6.7 meetings
European average	8.7 meetings

Figure 20: Number of board meetings

b. Board packs

Board decisions are ultimately based on information available to board members. Thus, board packs and their quality play a fundamental role in board effectiveness and efficiency. Board packs should be constructed in such a way that they inform, answer questions and seek approval from the board. They should include executive summaries, options, risks, regulation, costs, recommendations and resolutions.

This is an area where there is much room for improvement in the region. Our survey found that the majority of board packs (92.6%) contain meeting agendas. However, only 51.9% included explanations on each agenda item, a third reported not having updates on KPIs and a quarter reported not having financial statements included in the board packs for the reporting period.

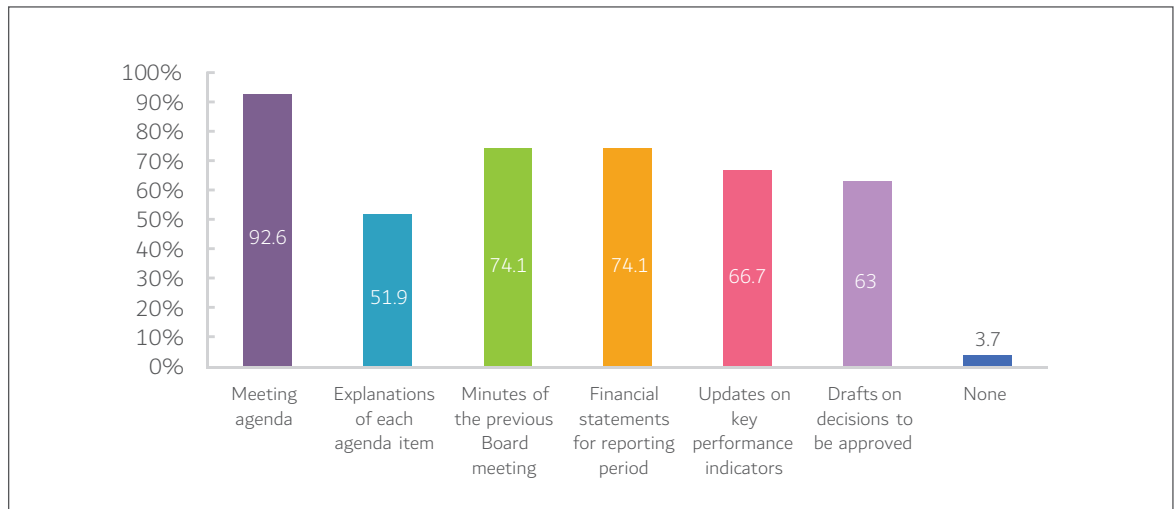


Figure 21: Content of board packs

⁸ FRC (2011), Guidance of Board Effectiveness.

The survey also highlighted another area of concern with respect to board information. It is crucial for boards to receive the board packs in a timely manner allowing sufficient time for the members to read the material prior to the meetings.

However, according to our survey, 21.8% of companies send their board packs either on the day of the meeting or one day prior to it .

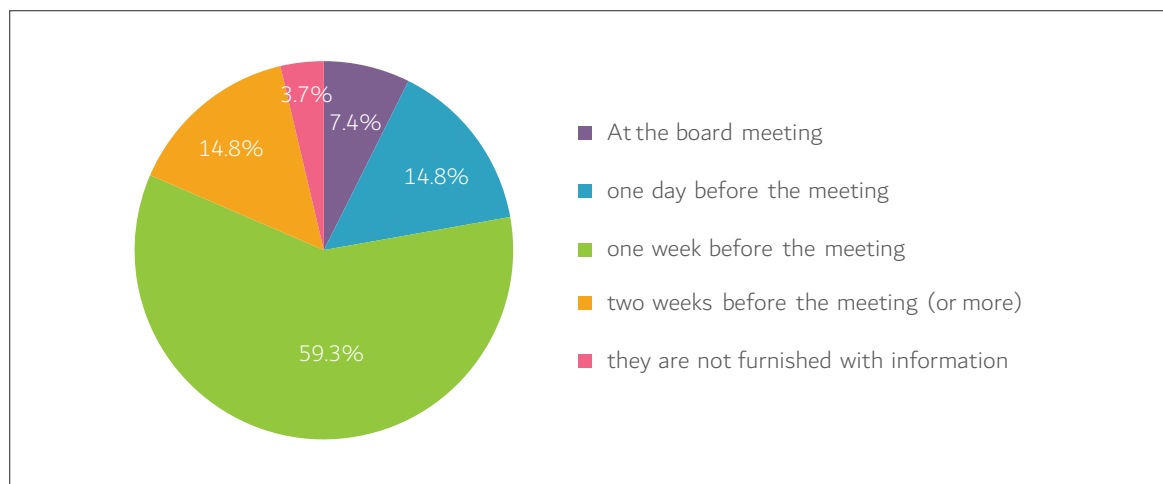


Figure 22: Circulation of board packs

Action item: Board secretaries provide boards with board packs that adequately equip boards with the information they require to ultimately perform their oversight function. It is crucial that the boards be provided with better and timelier board packs which should get to the board at least one week prior the meeting.

9. Board organisation

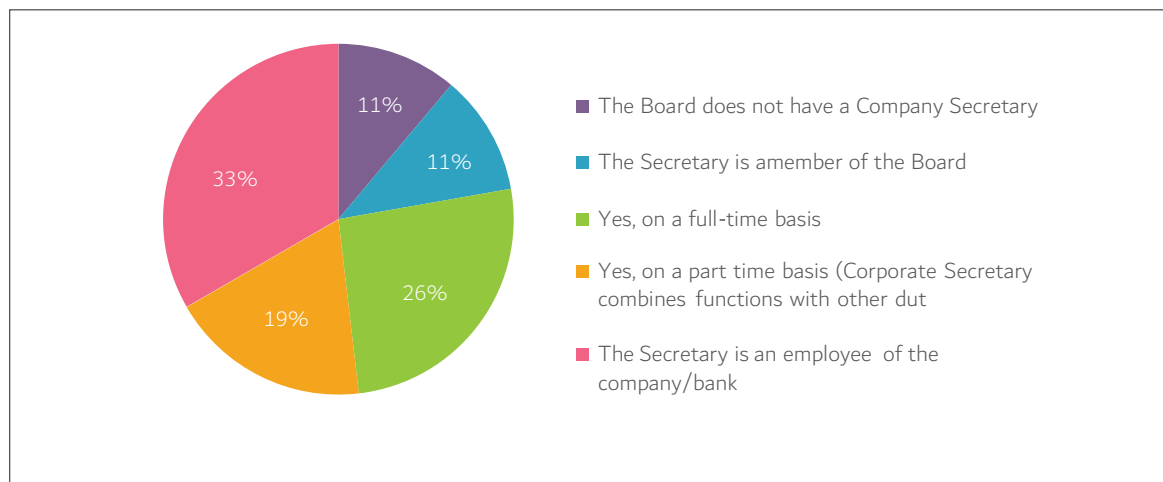


Figure 23: Status of Company Secretaries within organisations in the MENA region

Many companies have a secretary to the board; few have professional company secretaries. A company secretary can play a significant role in professionalizing the work of the board and in improving corporate governance practices. Indeed, professional company secretaries usually have legal backgrounds, understand corporate and securities law, have sufficient business knowledge to understand the company's business, and have strong interpersonal skills that allow them to help the chairman steer the board.

The company secretary is accountable to and supervised by the board to shield him or her from undue influence from management.

The majority of respondents stated that the company secretary is an employee (33%) or a part-time employee (18.5%), which, while appropriate for smaller companies, may not be appropriate for larger publicly listed companies due to the lack of time they can allocate to board and governance matters. The company secretary should not also be a board member.

10. Measuring Performance

Board evaluations can play an important role in improving the effectiveness and efficiency of the board's work. Moreover, they demonstrate that the board itself is not above evaluation and set the appropriate "tone at the top." And in the same manner that executives benefit from an annual evaluation against performance objectives, boards, too, can benefit from an evaluation process. Indeed, evaluations highlight the weaknesses and strengths of the board, and action can be taken to improve the board's effectiveness. Many regulators in the MENA region have now mandated board evaluations for listed companies. This includes Oman, Bahrain and Kuwait. Other regulators, such as in Saudi Arabia, are encouraging listed companies to do them.

A pragmatic board assessment allows the board to reflect on its contribution to the organisation's effectiveness and consider how it may strengthen the way in which it operates and, thereby, governs.

This has a direct effect on the way it makes decisions, enhancing the overall organisational performance.

Within the board evaluation, there are various approaches. The board can be evaluated as a whole, by board committees or by individual board members.

The evaluation can be done through a questionnaire or through interviews. This can be done by the chairman, the company secretary or an independent third party.

bal best practice recommends having an external facilitated board assessment at least once every three years.

Our survey found that out of the non-mandated companies, only a minority, or 26%, conduct an external facilitated board evaluation every two years. Of these, 71.4% of companies choose to do a full board evaluation, while the remainder choose either an individual director or a committee evaluation.

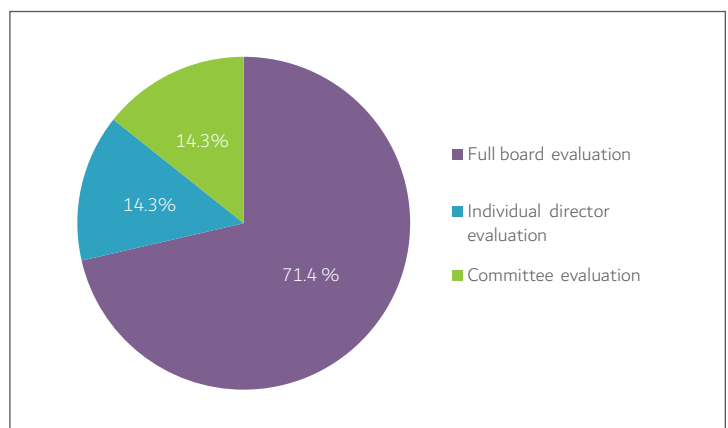


Figure 24: Board evaluation

Conclusion

The report discovered that corporate governance in the MENA region has evolved throughout the last few years. However, the developments are more on the level of the corporate governance frameworks, rather than the implementation of good corporate governance practices.

One of the main issues implementing good corporate governance practices still seems to be a lack of know-how and qualified specialists. To tackle this issue, companies should follow a two-pronged approach. Companies should consider sending more individuals, tasked with the oversight on corporate governance implementations, to specific corporate governance trainings. The board of directors is usually formally responsible for driving governance policies. Hence, it is fundamental to also train the board directors on corporate governance issues along with other key persons.

The average number of board seats per company is 8.4% in the MENA region. Companies in the MENA region seem to understand the benefits of a diverse board.

- The majority of companies have 2-5 independent directors on their board. However some companies still fail to understand the importance of independent directors and the benefits they bring to the boardroom by having not a single independent director on their board.
- The percentage of women in board positions varies between 0.6 to 9.25% within the MENA region. These percentages are still lacking behind massively in a global view. The UAE for example aims to become one of the world's top 25 countries achieving gender equality by 2021. Though the percentage of women in board seats on ADX and DFM listed companies almost doubled in the last 3 years, from an average of 2% to 3.5% ADX and 3.9% in DFM listed companies, it's still a long way to reach gender equality.

The majority of survey respondents reported an average age of their director between 50 and 59, while 15% market it as between 60 and 69 years. Interestingly 55.6% of these companies do not have a set board refreshment policy in place. Every company should set a board refreshment policy. Having a set board refreshment policy tackles mostly two major considerations, the director independence and the director performance.

Board packs remain an area for improvement in the region. The survey respondents reported only 51.9% include explanations on each agenda item. A third reports not having updates on KPIs and a quarter reported not having financial statements for the reporting period included in board packs. Board packs are fundamental for boards to take their decision yet 21.8% send their board packs either on the same day of the board meeting or a day prior.

As organisations commit to the new principles and implement good corporate governance in the MENA region, this is also an excellent opportunity to examine the tools and technologies that they have in place to support the processes of governance. It is crucial for boards to be equipped with the right tools to efficiently and effectively fulfil their mandate.





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