

The 3rd. International Corporate Governance Conference in Saudi Arabia

“Effective Corporate Governance and the
Independence of the Board Audit Committee”

December 22, 2021, Alfaisal University, Riyadh



جامعة الفيصل
Alfaisal University

CGC مركز حوكمة الشركات

Corporate Governance Center

OUTLINE

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ABOUT THE CENTER

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CORPORATE GOVERNANCE INDEX

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CGI FINDINGS OF FY 2020

1

The CORPORATE GOVERNANCE CENTER

Saudi Vision 2030

Vision & Mission

Functions

CORPORATE GOVERNANCE > SAUDI VISION 2030



The goals of Vision 2030 are very ambitious, yet they are achievable. However, they require the participation of international investors, and hence the Agency problem that Corporate Governance tries to address becomes magnified due to the extra distance between the Principals and the Agents. As such, the elevation of our Corporate Governance standards to International best practices becomes critical in attracting and retaining international investors.

The regulators to their credit, led by the Capital Market Authority and the Saudi Central Bank, have updated their Corporate Governance regulations in 2017 in a major way, and continue to monitor the progress that's been made very closely and address areas that need extra attention.

The Corporate Governance Index captures this progress, its pace, and trends, and highlights areas that could benefit from educational workshops, nudging, or require regulatory intervention.

It is apparent that Vision 2030 has generated a momentum of optimism and drive where everyone wants to see it come to fruition. This has contributed to the upward trend over that past 4 years across all categories in the Corporate Governance Index, which is a positive sign for investors, both domestic and international.

CORPORATE GOVERNANCE > Vision & Mission

CGC  مركز حوكمة الشركات
Corporate Governance Center
Alfaisal University - College of Business

The CGC is a non-profit independent institution that aims to provide reliable and independent **Corporate Governance policies** and **promoting for best CG practices** through quality **Research, Training, and Assessment.**

It was established with partial funding from SAGIA and strong endorsements from the CMA, SAMA and the Ministry of Commerce and Investment.

Vision

We aspire for the Corporate Governance Research Center to be the leading center in the Gulf Cooperation Council (GCC) region for impactful research on CG and for promoting best CG policies and practices.

Mission

To provide reliable and independent Corporate Governance (CG) policies and promoting for best corporate governance practices through quality research, training programs and developing Corporate Governance Index serving the GCC region and supporting its economies.

Core values

The values of the center emanate from its mission and are based on guaranteeing the reliability and integrity of its work, and the independence of its personnel and processes. These are:

Independence

Integrity

Transparency

Partnership

CORPORATE GOVERNANCE CENTER > FUNCTIONS

CGC  مركز حوكمة الشركات
Corporate Governance Center
Alfaisal University - College of Business

Research

Training

Assessment

CGI

CORPORATE GOVERNANCE CENTER > FUNCTIONS

Research

- Develop a comprehensive research program
- Organize conferences and host speakers
- Establish partnerships to promote and advance Corporate Governance

Training

- Round table discussions, workshops, lectures, publications
- Governance courses for board members, Executive Management, Regulators, CG specialists
- COB graduate and undergraduate courses for students and interns

Assessment

- Issue the CGI report on an annual basis
- Track, monitor and assess CG practices in SA and GCC markets
- Expand to include large family firms and government agencies
- Individual Corporate Governance Assessment Reports for companies
- Board of Directors Assessment Report

The CORPORATE GOVERNANCE INDEX (CGI)

Description

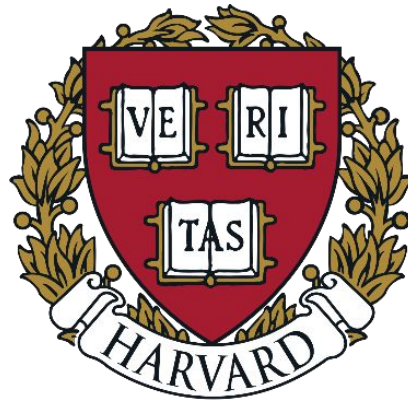
Importance

Methodology

CORPORATE GOVERNANCE INDEX (CGI) > DESCRIPTION

One of the key strategic initiatives the center's objectives is the CGI serving the kingdom to promote good Corporate Governance Among corporations.

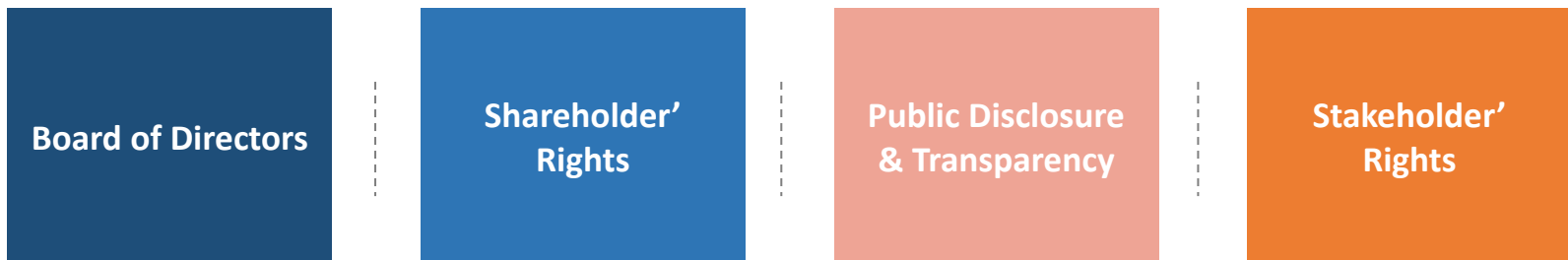
CGI is a scientific performance measure (index) developed by a team from CGC at the College of Business at Alfaisal University in collaboration with consultants from Harvard University and Kobirate International Credit Rating and CG Service Inc. with partial funding from SAGIA and strong endorsements from the CMA, SAMA and the Ministry of Commerce and Investment.



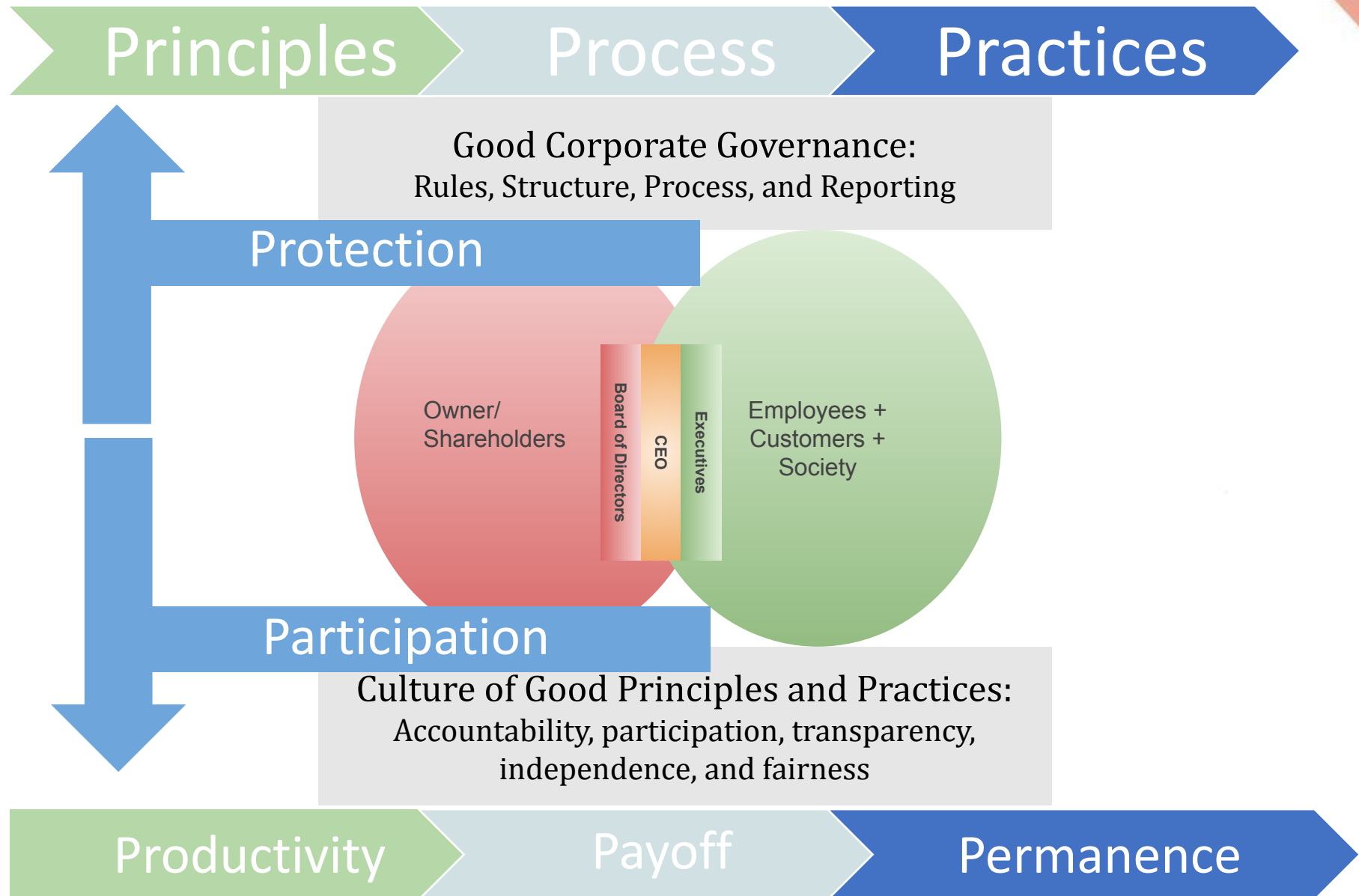
CORPORATE GOVERNANCE INDEX (CGI) > OBJECTIVE

The CGI is based solely on good Corporate Governance principles set by the CMA, the Saudi Central Bank, and the OECD. It uses all publicly available information for publicly listed companies on the Saudi Stock Exchange, Tadawul.

The index captures the governance of corporations in terms of their **STRUCTURE**, **POLICIES**, **PROCESS** and **PRACTICES**, in regards to the following categories:



Comprehensive Approach in Defining Corporate Governance



CORPORATE GOVERNANCE INDEX (CGI) > IMPORTANCE

- The CGI is a way to assess companies in terms of their compliance to good governance principles for:
 - Better decision making
 - Risk management
 - Sustainable performance
 - Timely response to crises
- Focusing Investor's eyes on **Risk, Opportunity** (an **EARLY WARNING SYSTEM**) for portfolio construction and stewardship
- Testing compliance with rules, codes, and/or expectations
- Attracting capital to a market
- Lowering the cost of capital for companies
- Raising trust among stakeholders

CORPORATE GOVERNANCE INDEX (CGI) > IMPORTANCE

CGI supports the mission of the CMA, the Saudi Central Bank, the Ministry of Commerce, and the Ministry of Investment by providing the following:

- **Provide** a data-based, objective, and independent evaluation of Saudi companies in terms of their adherence to CG principles set by the CMA, the Saudi Central Bank and the OECD
- **Promote** good corporate governance practices by studying and sharing best practices
- **Track the status** of corporate governance on an annual basis for investors and policy makers
- **Provide guidance**/consultancy to companies to improve corporate governance

CORPORATE GOVERNANCE INDEX (CGI) > Development

Round 1 (FY2015)

- Developed CG assessment tool with 117 variables
- Assessed top 92 companies listed in Tadawul
- Awarded five companies with the highest CG score
- Applied old CMA principles augmented by OECD principles

Round 2 (FY2016)

- Developed two new sub-indices: one for banking and one for the insurance sector
- Assessed 171 companies listed in Tadawul
- Tested an automated CG assessment and reporting system
- Awarded the top-5 performing companies
- Applied old CMA principles augmented by OECD and SAMA principles

Round 3 (FY2017)

- Developed new CG assessment variables based on new CMA principles
- Evaluated all companies listed on Tadawul based on 300-400 expected CG traits (variables).
- Developed a proprietary automated CG assessment and reporting system that enables the Center to invest in collecting CG data in doing comparisons, trend analysis, customized reports, statistics and research support in corporate governance in general.
- Awarded the top eight performing companies

Round 4 (FY2018)

- Refined the variables in the models used for the third round after conducting statistical analysis for the previous year data to determine optimum number of measures for good governance.
- Organized the first international academic CG conference bringing CG scholars, researchers, and practitioners to discuss corporate governance.
- Awarded eleven companies within the non-financial sectors and six companies within the financial sectors based on their cumulative CGI score.

Round 5 (FY2019)

- A hybrid international conference, CG index ranking released for the fiscal year and CG Excellence Awards were presented to top ten non-finance companies and top five finance companies.

CORPORATE GOVERNANCE INDEX (CGI) > WORLD CLASS STANDARDS

A major 2013 World Bank report (titled: **Raising the Bar on Corporate Governance**) recommends the following steps for good CGI:

- 1) Use a wide initial consultation
- 2) Define the objective of the index
- 3) Select the index approach
- 4) Customize the governance criteria for the country
- 5) Build a transparent and credible evaluation process
- 6) Achieve maximum possible disclosure
- 7) Effectively monitor the index criteria
- 8) Develop the index

We have followed the recommendations above in developing a CGI for Saudi companies. We have worked with national stakeholders and international consultants to develop a sound CGI based on **CMA principles** and relevant **international standards**.

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Process of Developing CG Variables

1.Explored world-wide CGI practices

2.Collaborated with world-wide renowned Consultants

3.Engaged with local partners (SAGIA, CMA, SAMA, MOC)

4.Determined CG principles for the index based on CMA and OECD CG principles

5.Established four CGI categories with over 150 attributes through consultation

6.Developed CGI questions based on selected CG principles through consultation

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Quality Assurance Process

1. Internal QA Process



2. External QA Process

Review Items	Consultants	Feedback Requested
CGI Variables and Categories CGI Rating Methodology CGI Company Selection Criteria CGI Pilot Evaluation	Dr. Stephen Davis & the Kobirate Consultant Team	The Ministry of Investment (SAGIA), the CMA, and the Saudi Central Bank (SAMA)

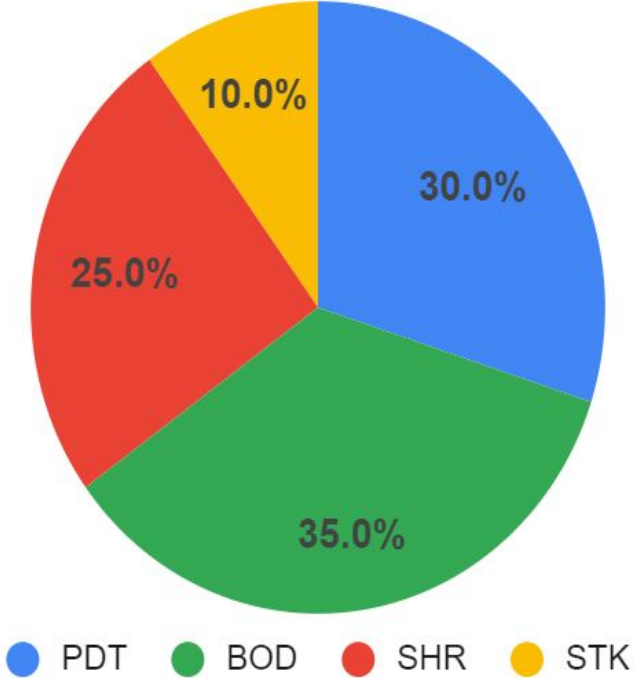
CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Rating Methodology and Weight

- Each category is evaluated over 100 points. The final CG score is the weighted average of the four categories over 100 points.
- The CG score reveals the compliance of companies to good CG principles.
- **The four categories and their weights are:**
 - Board of Directors and Executive Management (35%)
 - Shareholders' Rights (25%)
 - Public Disclosure and Transparency (30%)
 - Stakeholders Rights (10%)
- The cumulative CG score ranges from 0 to 100.

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Chart 2. Weight of Four CG Categories



CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Rating Scale

Score	Letter Grade	Description
90 - 100	A	Excellent
80 - 89	B	Very good
70 - 79	C	Good
60 - 69	D	Fair
Below 60	F	Very weak

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

The base model for all companies includes 225 variables while the banking and insurance sectors exceed 250 variables as shown below:



CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

CG SOURCES AND ASSESSMENT CRITERIA

The CGI is based solely on the latest CG principles of:

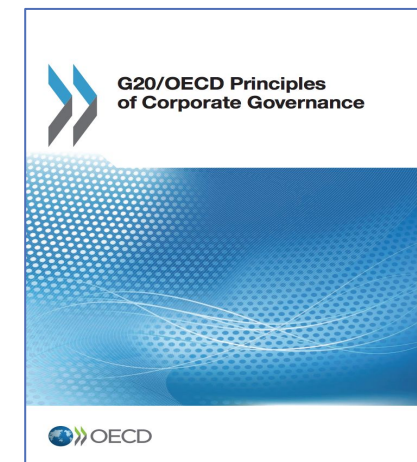
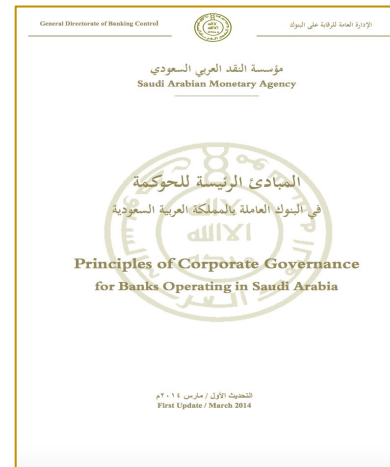
□ The Saudi Capital Market Authority (CMA)

□ The Saudi Central Bank (SAMA)

Banks

Insurance

□ The Organization for Economic Co-operation and Development (OECD)



CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

ALFAISAL CG DASHBOARD

جامعة الفيصل
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CGI Assessment - Main Module 2021

1 PDT > 2 BOD > 3 SHR > 4 STH

Company Name *

Sector *

Website Link

First Assessment

Documents to be requested

Quality Assurance Assessment:

Assessment for the year of *

2020

1 PDT > 2 BOD > 3 SHR > 4 STH

***** [BOD] *****

1. Composition of the Board

[#72] 1.1 The majority of the Board members shall be of Non-Executive Directors. "BOD"

0.5

0

Reference

2. Appointment of the Board members Board

[#73] 2.1 A Board member shall not be a member of the Boards of Directors of more than five listed joint stock companies at the same time. "BOD"

0.5

0

Reference

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

ASSESSMENT PROCESS

1

Main Module

Board of Directors

Shareholders' Rights

Public Disclosure &
Transparency

Stakeholders' Rights

2

Banks Module

Board of Directors

Shareholders' Rights

Public Disclosure &
Transparency

Stakeholders' Rights

3

Insurance Module

Board of Directors

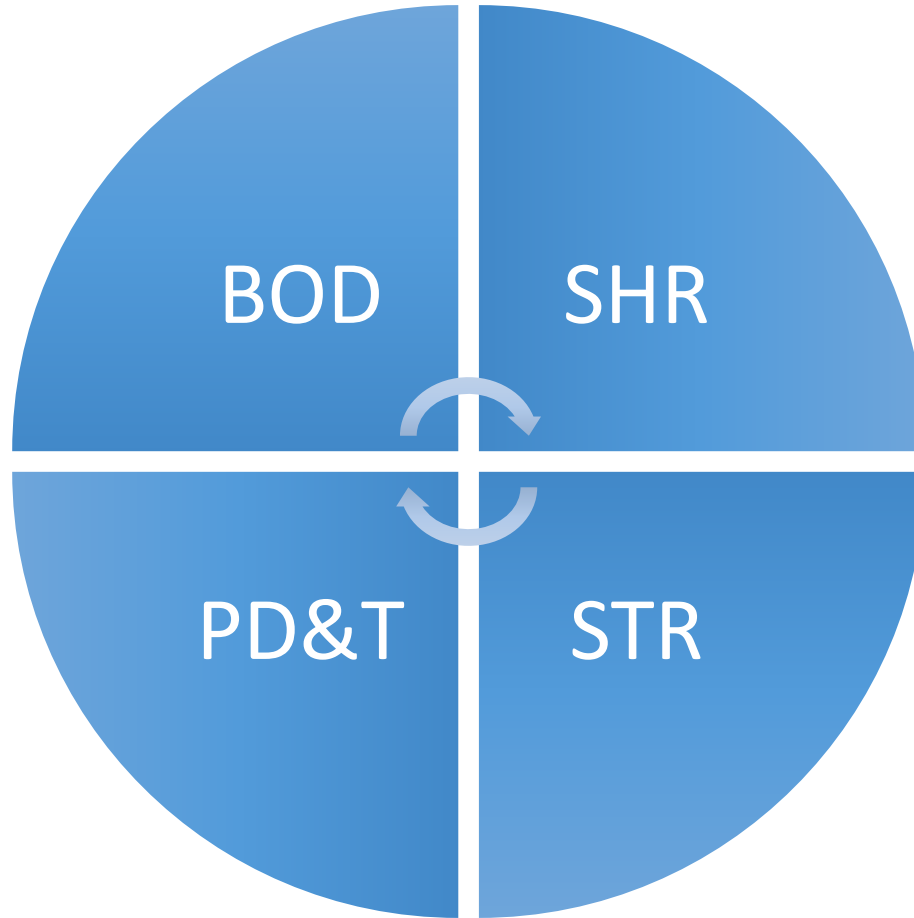
Shareholders' Rights

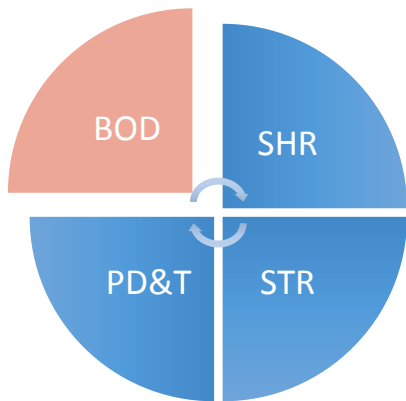
Public Disclosure &
Transparency

Stakeholders' Rights

CORPORATE GOVERNANCE INDEX (CGI) > METHODOLOGY

Categories





BOARD OF DIRECTORS



8.Oversight over the Executive Management

The Board shall form the Executive Management of the Company, regulate its operating procedures, monitor and oversee it and ensure that it performs the duties assigned to it, and to achieve this.

[#94] 8.1 The board has reviewed and evaluated the performance of the Executive Management. "CGC"

"TBR"

0.5

0

Reference

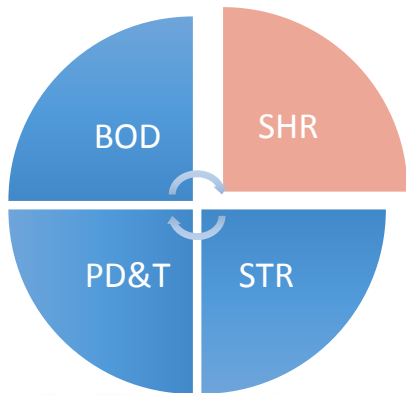
[#95] 8.2 The board has developed succession plans for the management of the Company. "CGC"

"TBR"

0.5

0

Reference



SHAREHOLDERS' RIGHTS

[#195] 9.2 Shareholders shall be granted access to the minutes of the General Assembly meeting; and the Company shall provide the Authority with a copy of such minutes within (10) days of the date of any such meeting "MM"

- 0.5
- 0

Reference

[#196] 9.3 The company has announced the results of a General Assembly meeting immediately following its conclusion. "GAM" (2019 only)

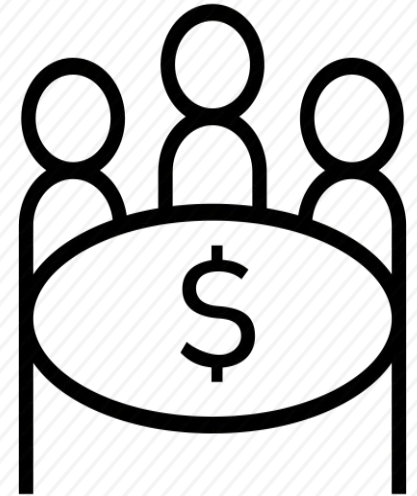
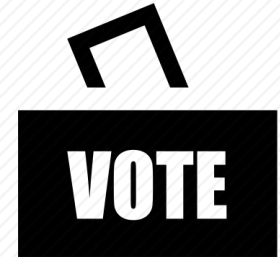
- 0.5
- 0

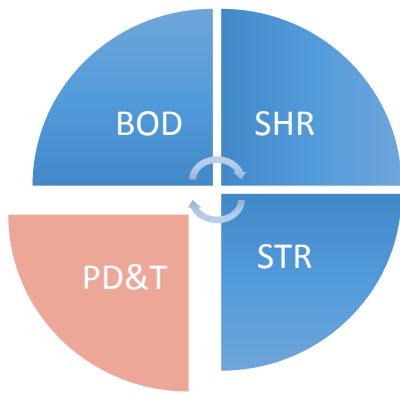
Reference

[#197] 9.4 Is the right of any shareholder to nominate himself/herself or others for the membership of the Board eliminated through a provision? "فتح باب الترشيح"

- 0.5
- 0

Reference





PUBLIC DISCLOSURE AND TRANSPARENCY

1. Policies and Procedure of Disclosure

[#1] 1.1 (a) The Board set forth in writing the policies, procedures and supervisory rules related to disclosure. pursuant to the disclosure requirements provided for in the Companies Law and the Capital Market Law, as the case may be, and their implementing regulations. "CGC"

"TBR"

0.25

0

Reference

[#2] 1.1 (b) The written policies of public discloses include proper disclosure methods. Enable the shareholders and other Stakeholders to access: "CGC"

* the financial and non-financial information

* pertaining to the Company's performance

* information in respect of ownership of shares

* to obtain a comprehensive view of the Company's position.

"TBR"

0.25

0

Reference

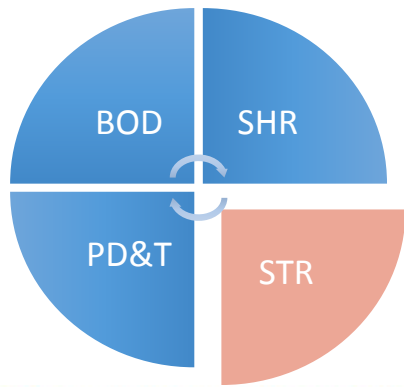
[#3] 1.2 The written policies of public discloses is publicly available. It can be reached by shareholders and other stakeholders through corporate website or any other channel. "CGC"

1

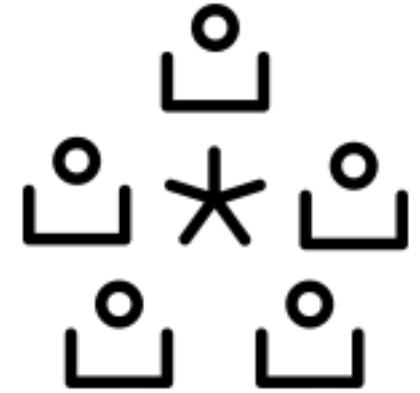
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Reference





STAKEHOLDERS' RIGHTS



5. Social Responsibility and Social Initiatives:

The Board shall develop CSR policy and establish programmes and determine the necessary methods for proposing social initiatives by the Company.

The company shall take the following:

[#220] 5.1 A policy for Company's Social Responsibility (CSR) were prepared.

"BOD" or "CGC" or "Website" "TBR"

- 1
- 0

Reference

[#221] 5.2 (a) The CSR policy has a statement that guarantees a balance between Company's objectives and those of the community for purposes of developing the social and economic conditions of the community.

"BOD" or "CGC" or "Website" "TBR"

- 0.5
- 0

Reference

[#222] 5.2 (b) The CSR policy has been approved by the Ordinary General Assembly. "GAM" (2019 & previous)

- 0.5
- 0

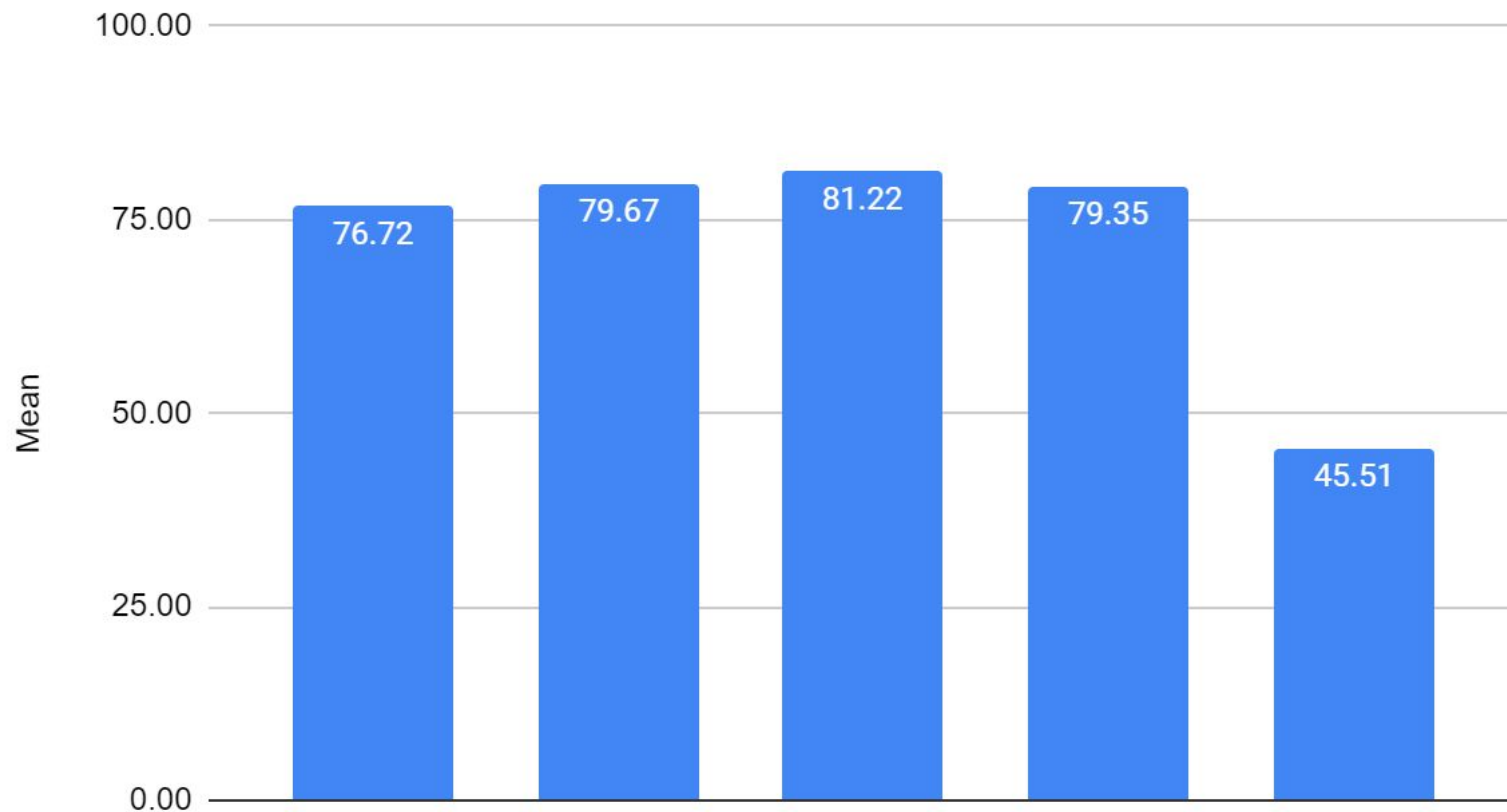
Reference

FINDINGS
of the Corporate Governance
SCORING For the FISCAL YEAR 2020

CORPORATE GOVERNANCE INDEX (CGI)

Average CGI score for 2020

Average Corporate Governance Index Score for FY 2020

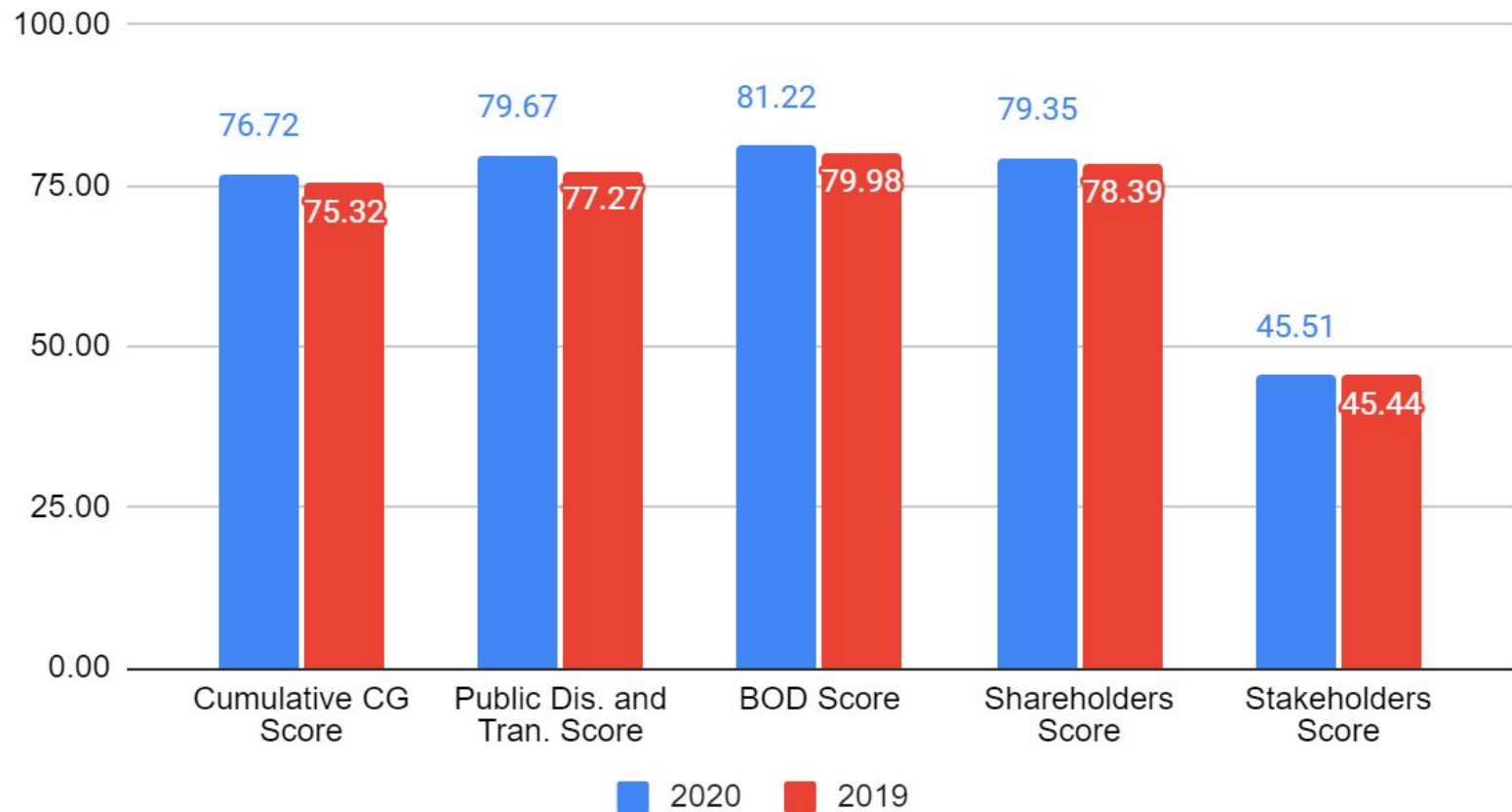


Findings

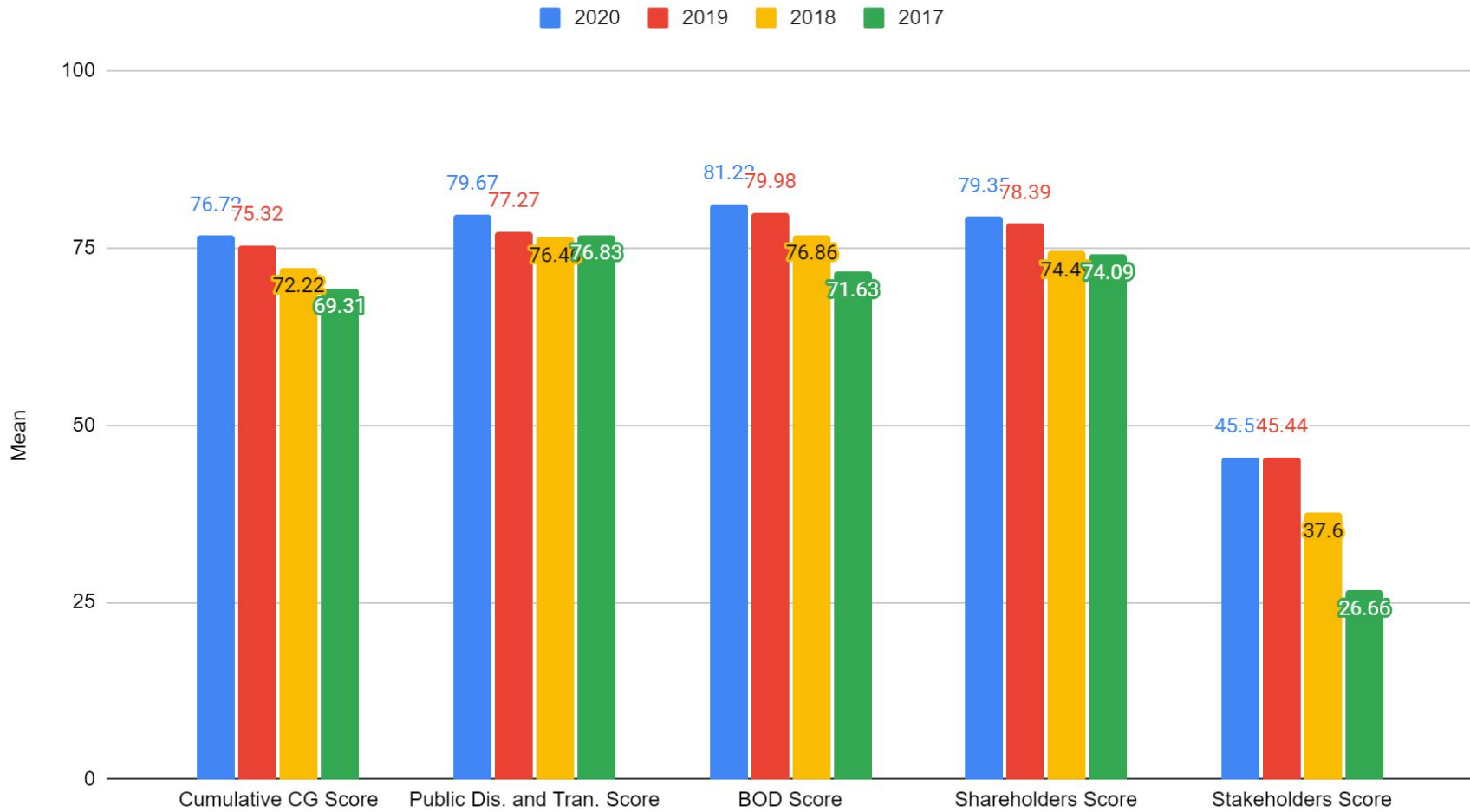
Summary Statistics

Summary Statistics of FY 2020 CG Index					
	Cumulative CG Score	Public Dis. and Tran. Score	BOD Score	Shareholders Score	Stakeholders Score
N	170	170	170	170	170
All listed companies	76.72	79.67	81.22	79.35	45.51
Median	78.64	80.29	83.40	78.98	44.44
Std. Deviation	7.32	7.69	8.95	3.87	23.62
Minimum	57.32	55.36	52.02	67.62	3.67
Maximum	90.78	96.33	95.97	90.61	90.11

Comparison Mean CG Score for FY 2020, and FY 2019



Comparative Mean CG Score over the years



Key Observations

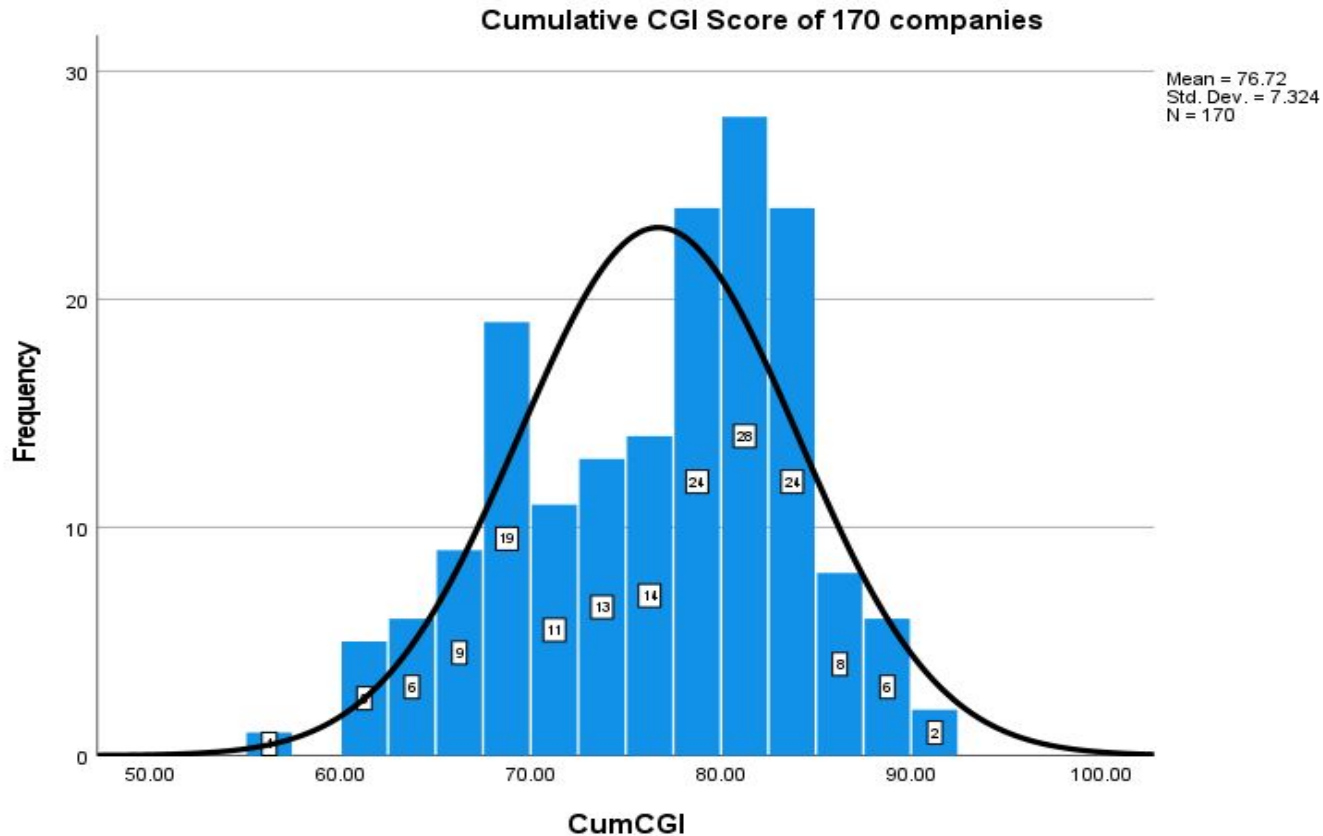
CGI 2020

- The CGI for Fiscal 2020 has improved by 1.4% over the prior year to 76.72%
- There was an improvement in each of the 4 categories for which the CGI is based upon over the prior year
- The improvement was most pronounced in the Public Disclosure and Transparency category, which improved by 2.4% over the prior year
- Nonetheless, the Stakeholder's Rights category is still at a subpar level at 45.51%. So, more needs to be done here.

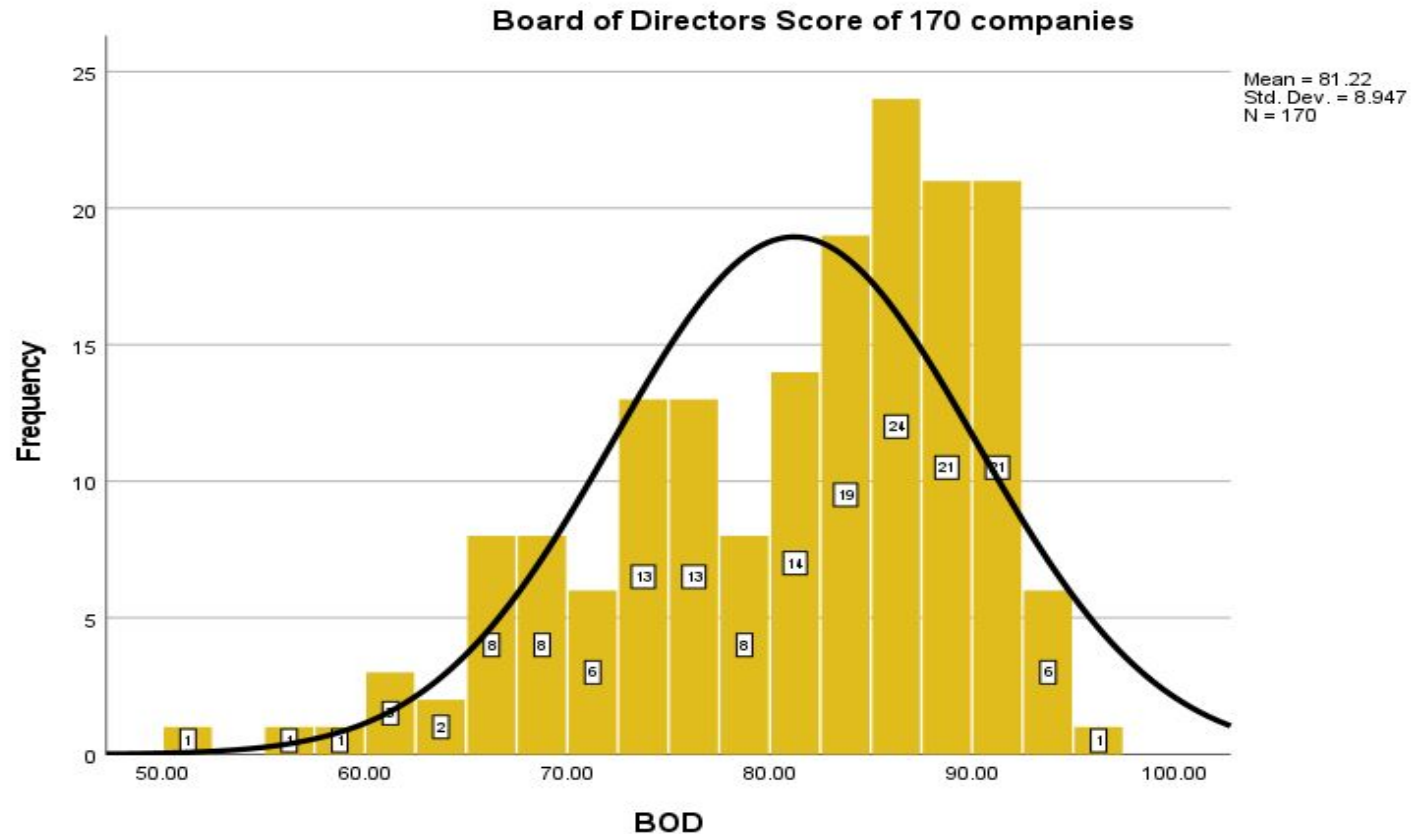
Examples of Best CG Practices (CSR)

- Setting aside amounts from the Company's net profits to set up social organizations for the benefit of the Company's employees or to assist any such existing establishments.
- The company has identified a chief governance officer, together with contact information for the Investor Relations manager in its annual report and/or website.
- The CSR POLICY has been approved by the Ordinary General Assembly.
- A list of all CSR activities has been provided on an annual basis.
 - The company has divided its CSR into three aspects (environmental, employment, and social activities), then they provided pictures and facts for each activity.
- The CSR AMOUNT has been approved by the Ordinary General Assembly.
 - The company continued disclosing the amount and activities of their CSR in the general assembly meeting and **put it** for the shareholder's vote.
- A policy for the Company's Social Responsibility (CSR) was prepared and the CSR policy has a statement that guarantees a balance between the Company's objectives and those of the community for purposes of developing the social and economic conditions of the community.

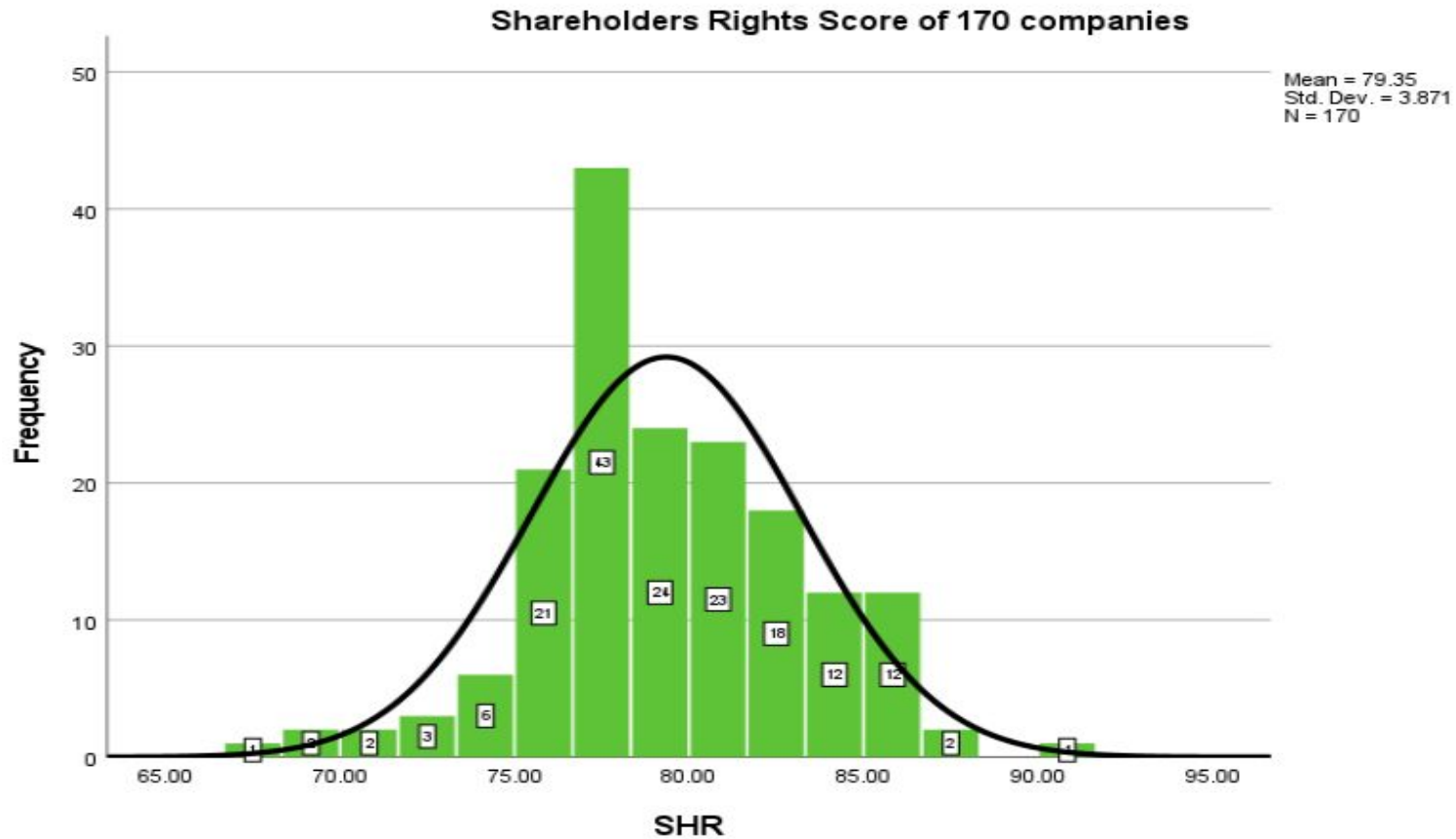
Cumulative CGI Score for 170 Companies



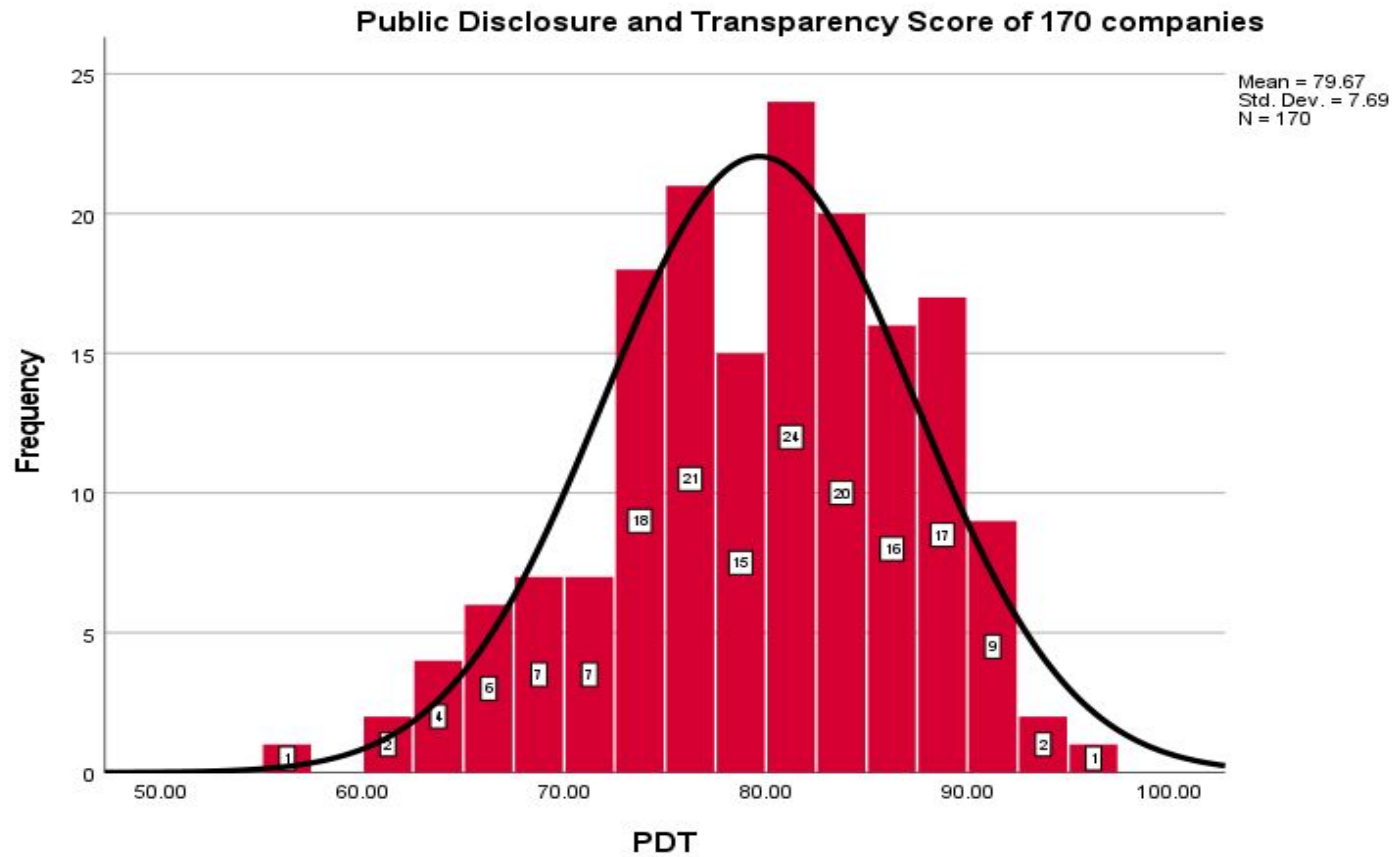
Board of Directors Score for 170 Companies



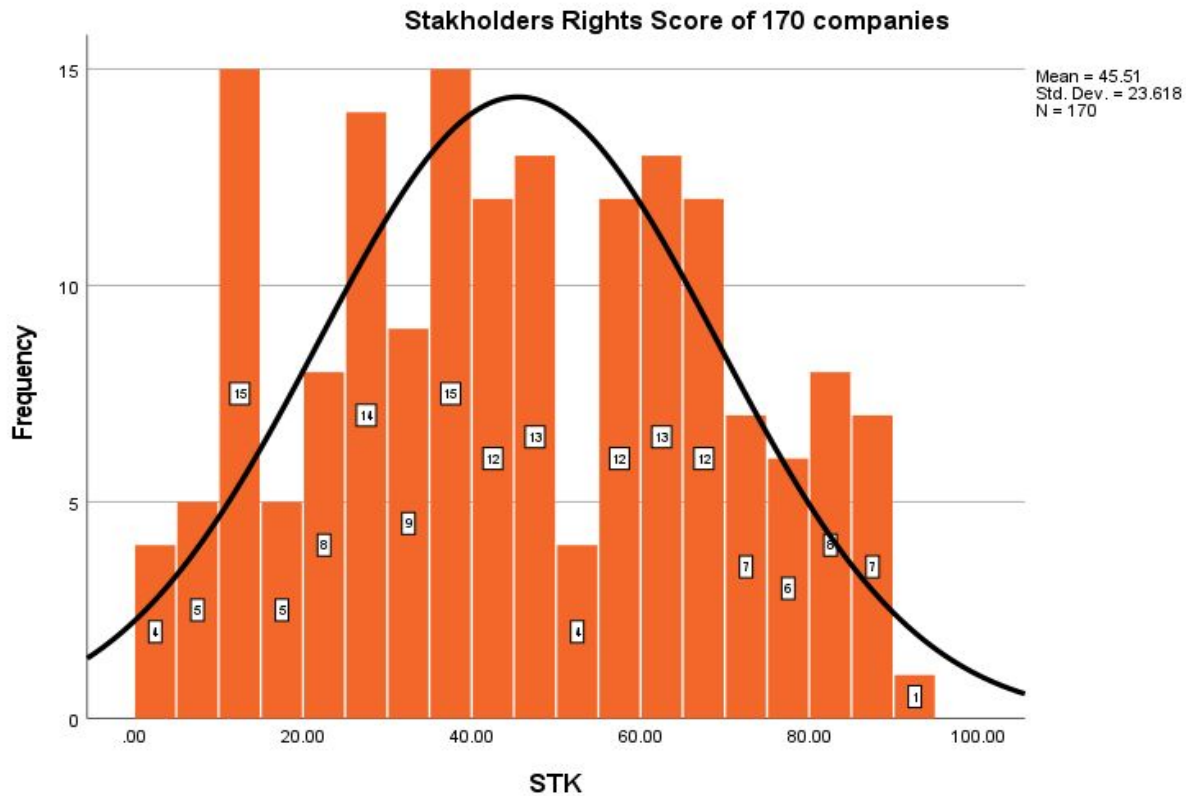
Shareholder Rights Score for 170 Companies



Public Disc. & Trans. Score for 170 Companies



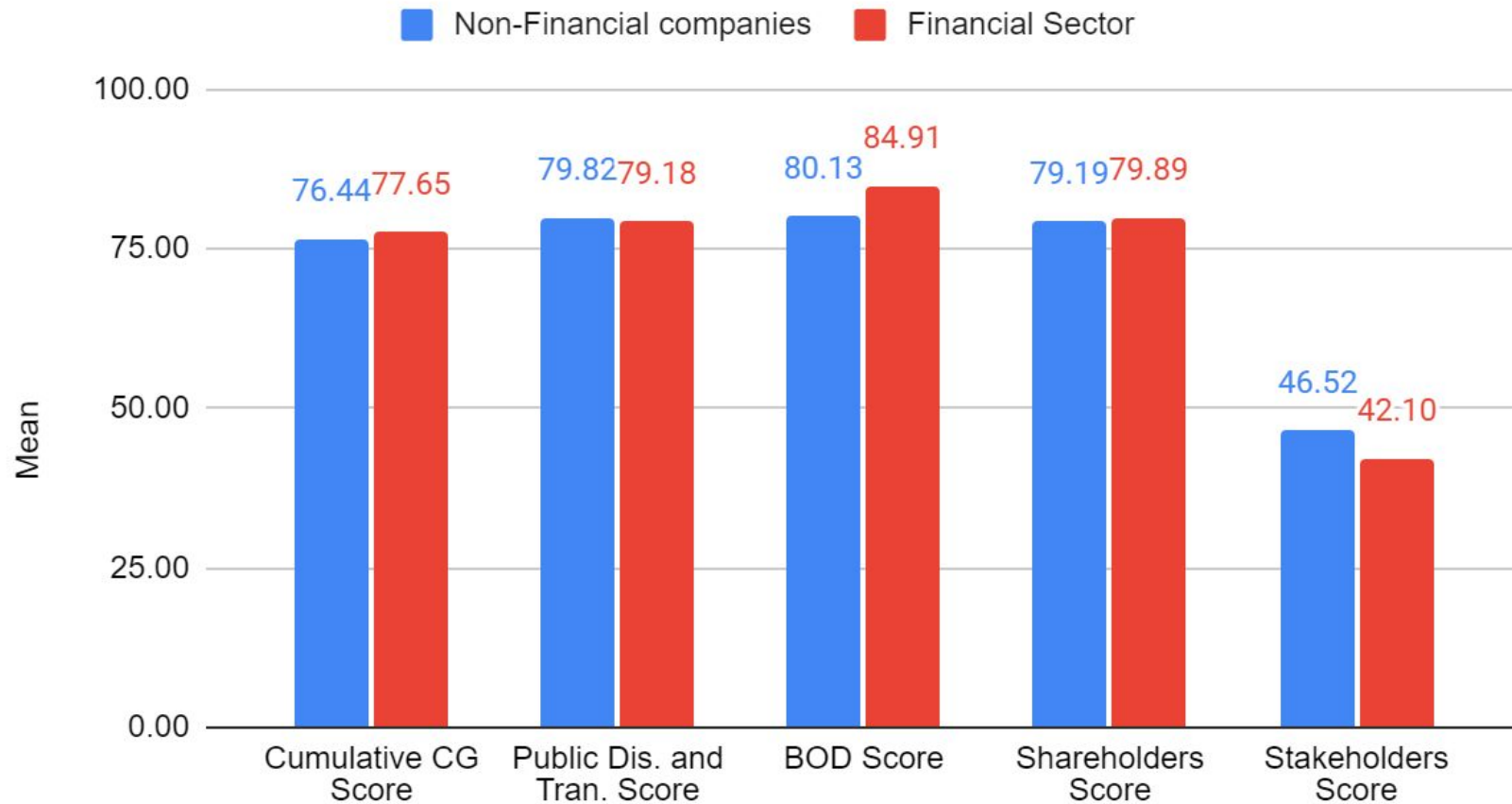
Stakeholders Rights Score for 170 Companies



Financial vs. Non-Financial Sectors

Corporate Governance Index Scores

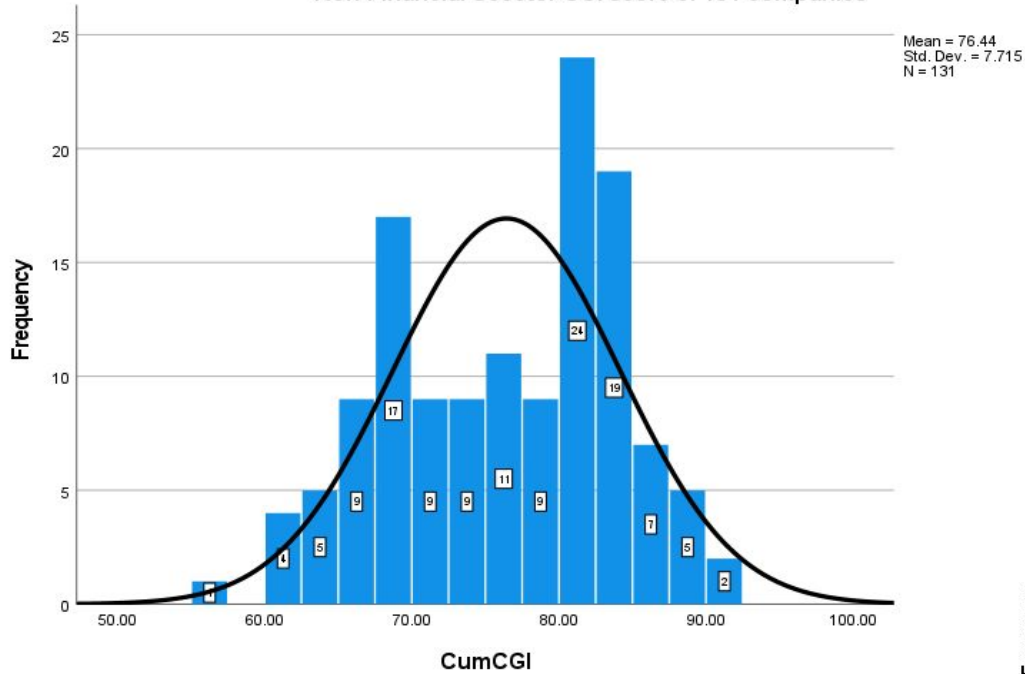
Financial vs. Non-Financial Sector for FY2020



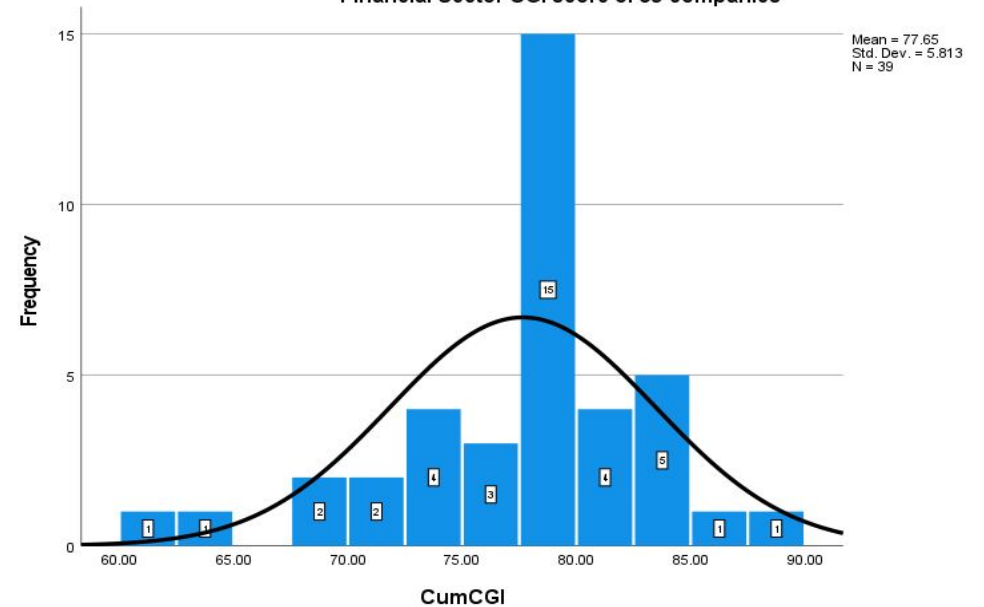
Distribution of CGI Scores

Financial vs. Non-Financial Sectors

Non-Financial Sector CGI score of 131 companies



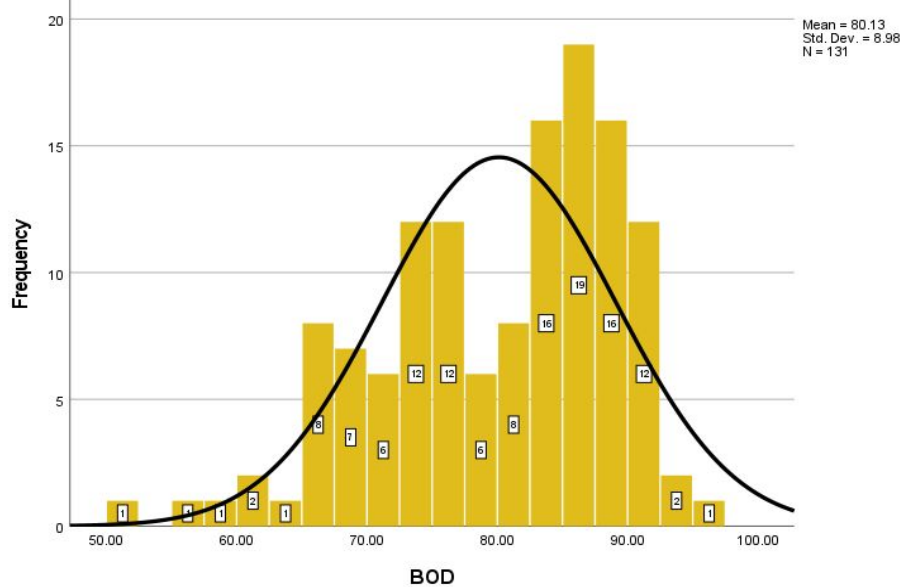
Financial Sector CGI score of 39 companies



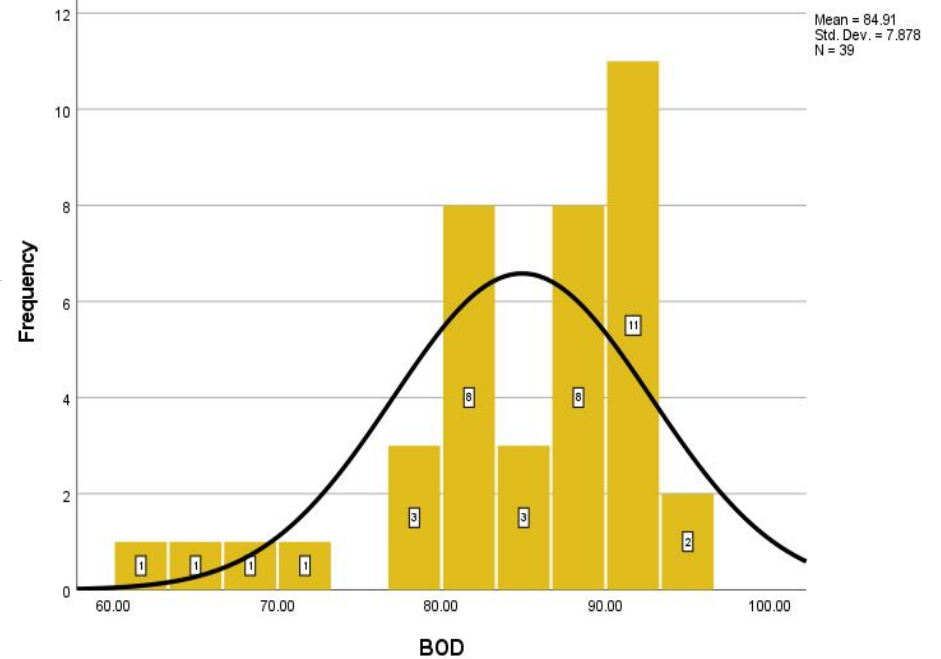
Distribution of Board of Directors' Score

Financial vs. Non-Financial Sectors

Non-Financial Sector Board of Directors Score of 131 companies



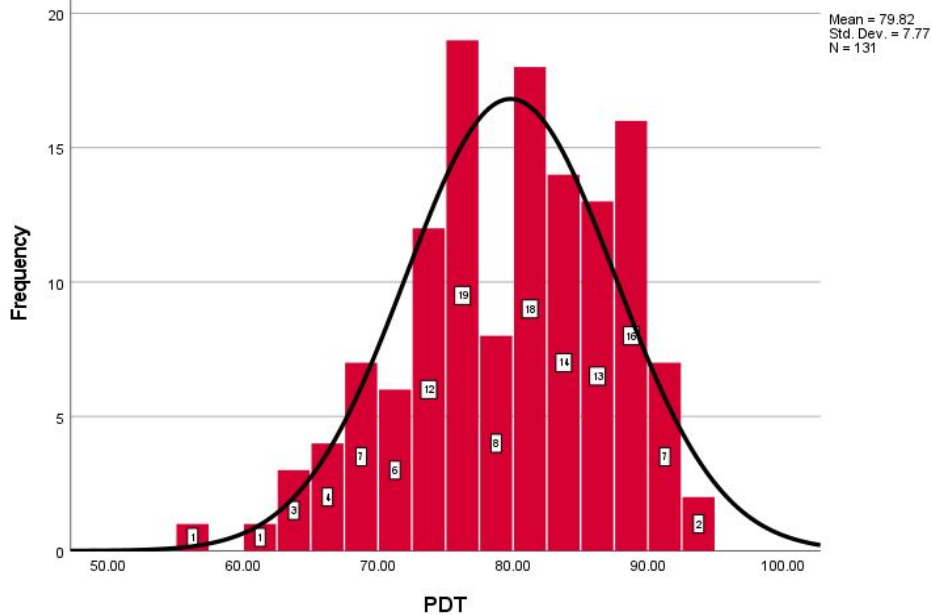
Financial Sector Board of Directors score of 39 companies



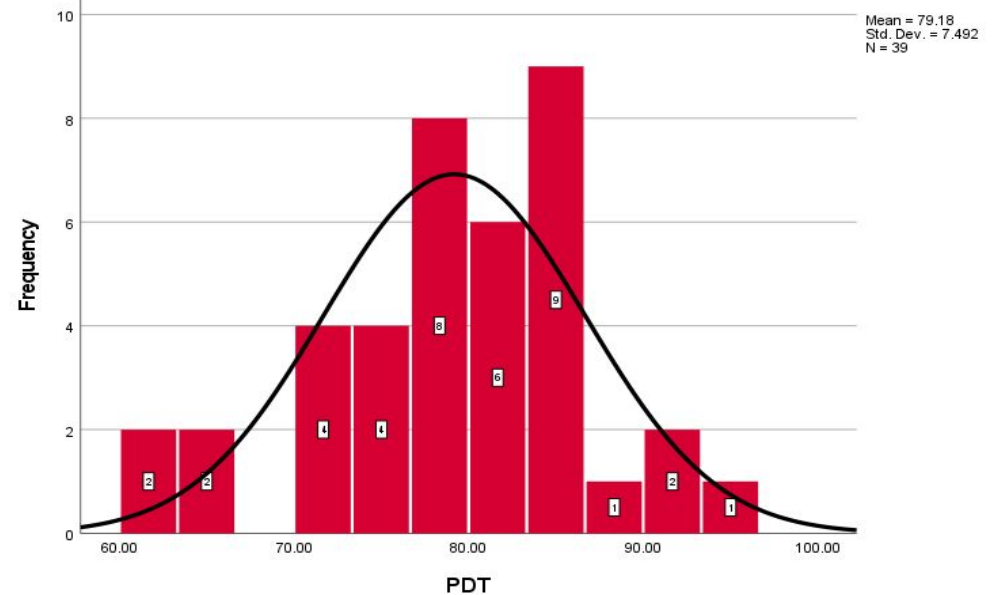
Distribution of Public Disclosure & Transparency Score

Financial vs. Non-Financial Sectors

Non-Financial Sector Public Disclosure and Transparency Score for 131 companies



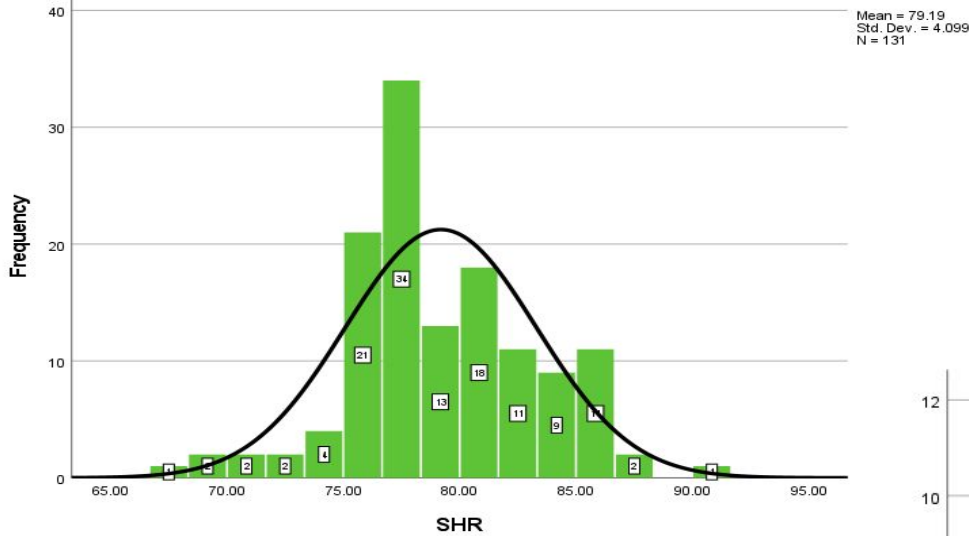
Financial Sector Public Disclosure and Transparency score of 39 companies



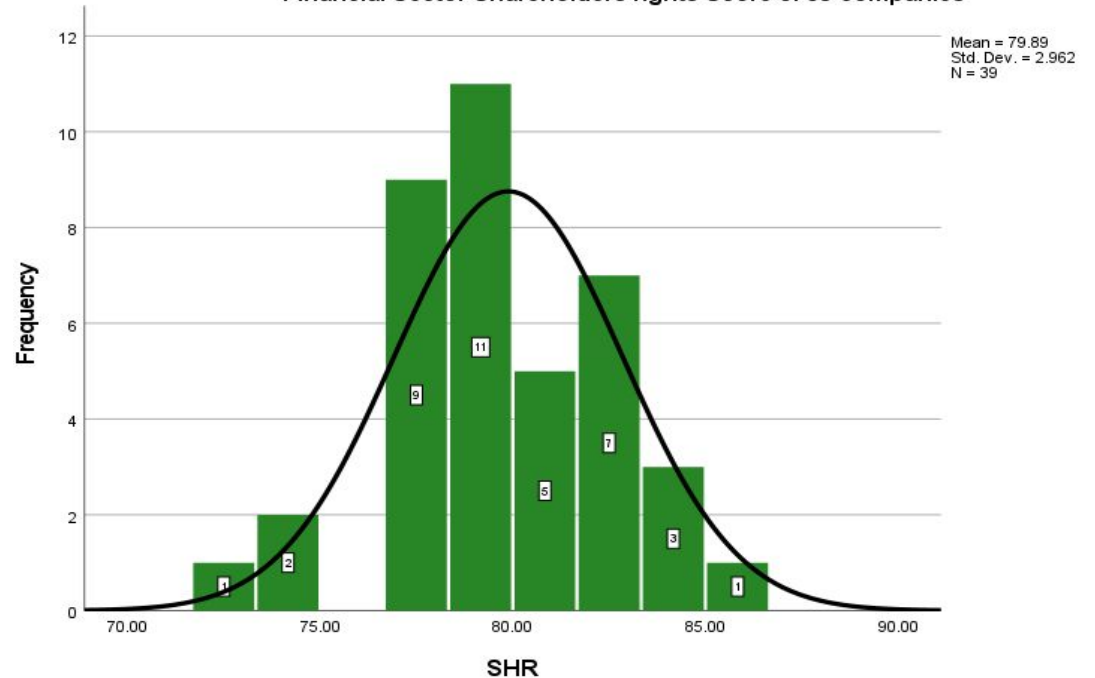
Distribution of Shareholder Rights' Score

Financial vs. Non-Financial Sectors

Non-Financial Sector of Shareholder's right score of 131 companies



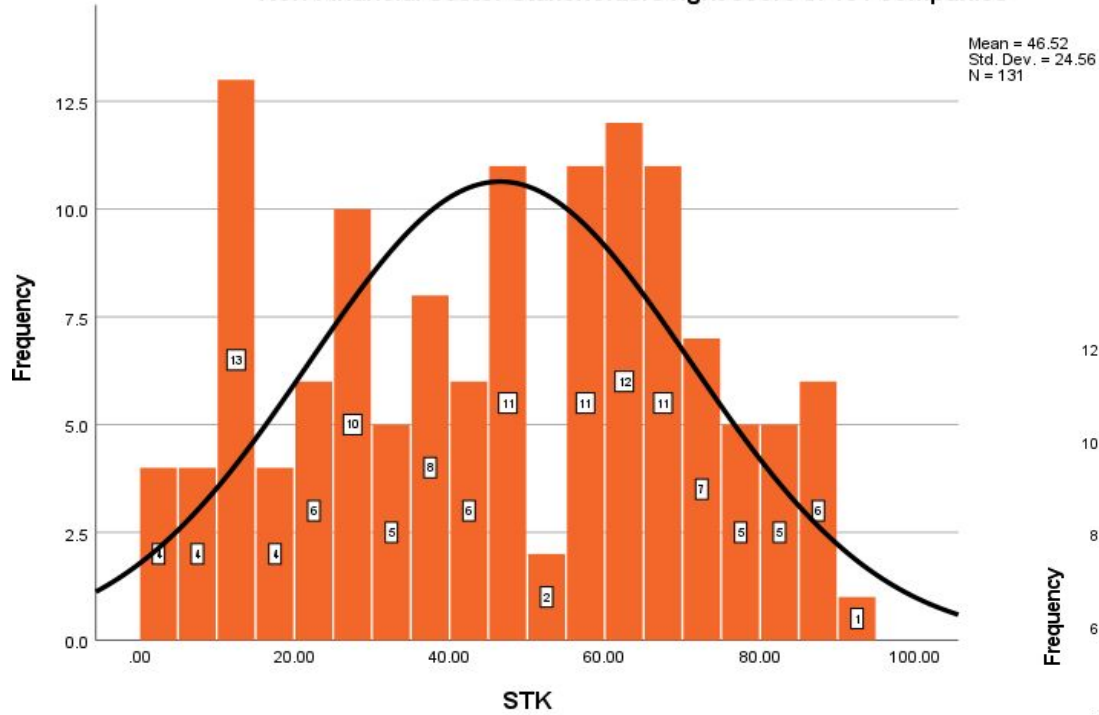
Financial Sector Shareholders rights Score of 39 companies



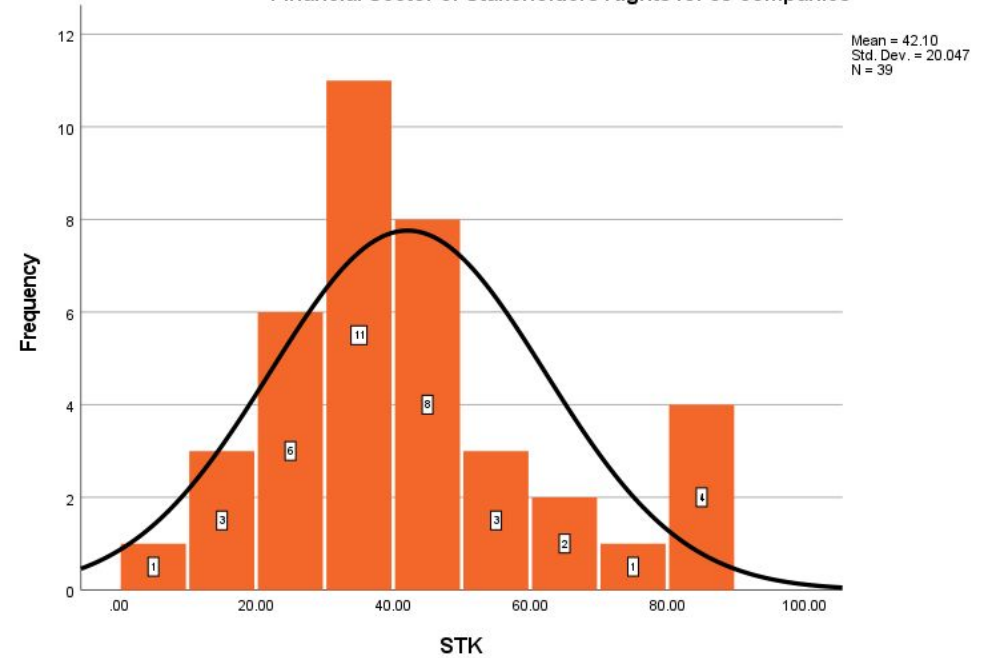
Distribution of Stakeholder Rights' Score

Financial vs. Non-Financial Sectors

Non-Financial Sector Stakeholders right score of 131 companies



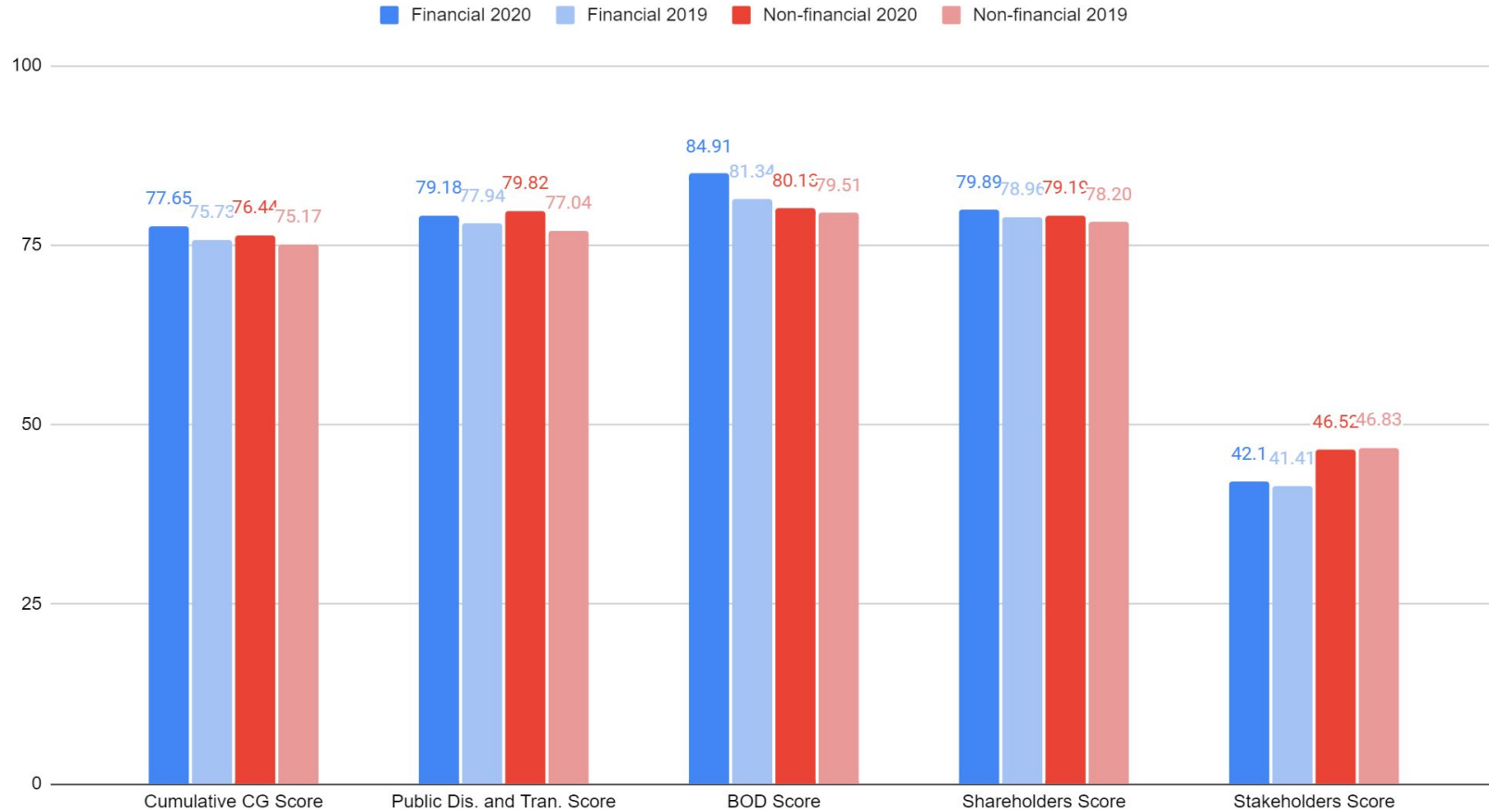
Financial Sector of Stakeholders Rights for 39 companies



CGI Scores over the years

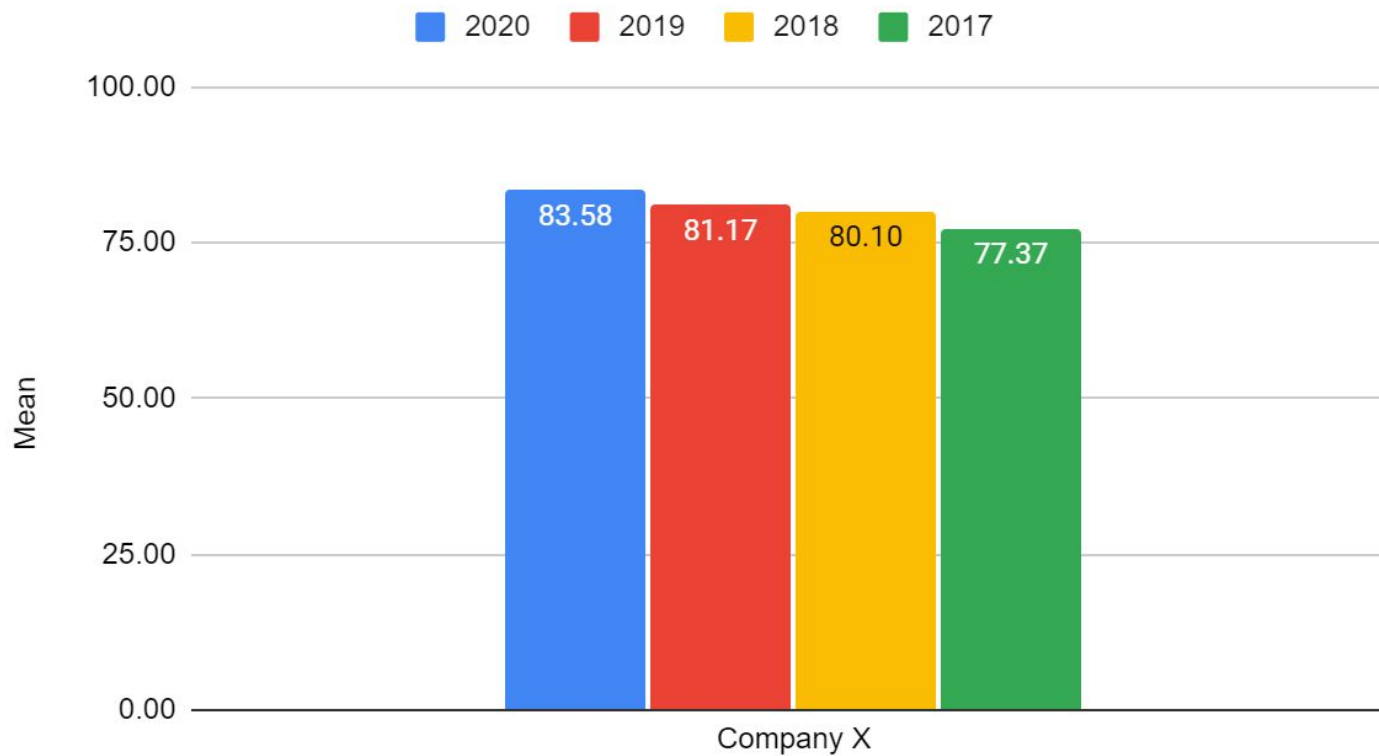
Financial vs. Non-Financial Sectors

Comparative Mean CG Score for FY2020, FY2019 Financial vs. Non-financial



Impact of the Promotion of Good Governance practices as measured by the CGI

Improvement of company X over the years based on CGI



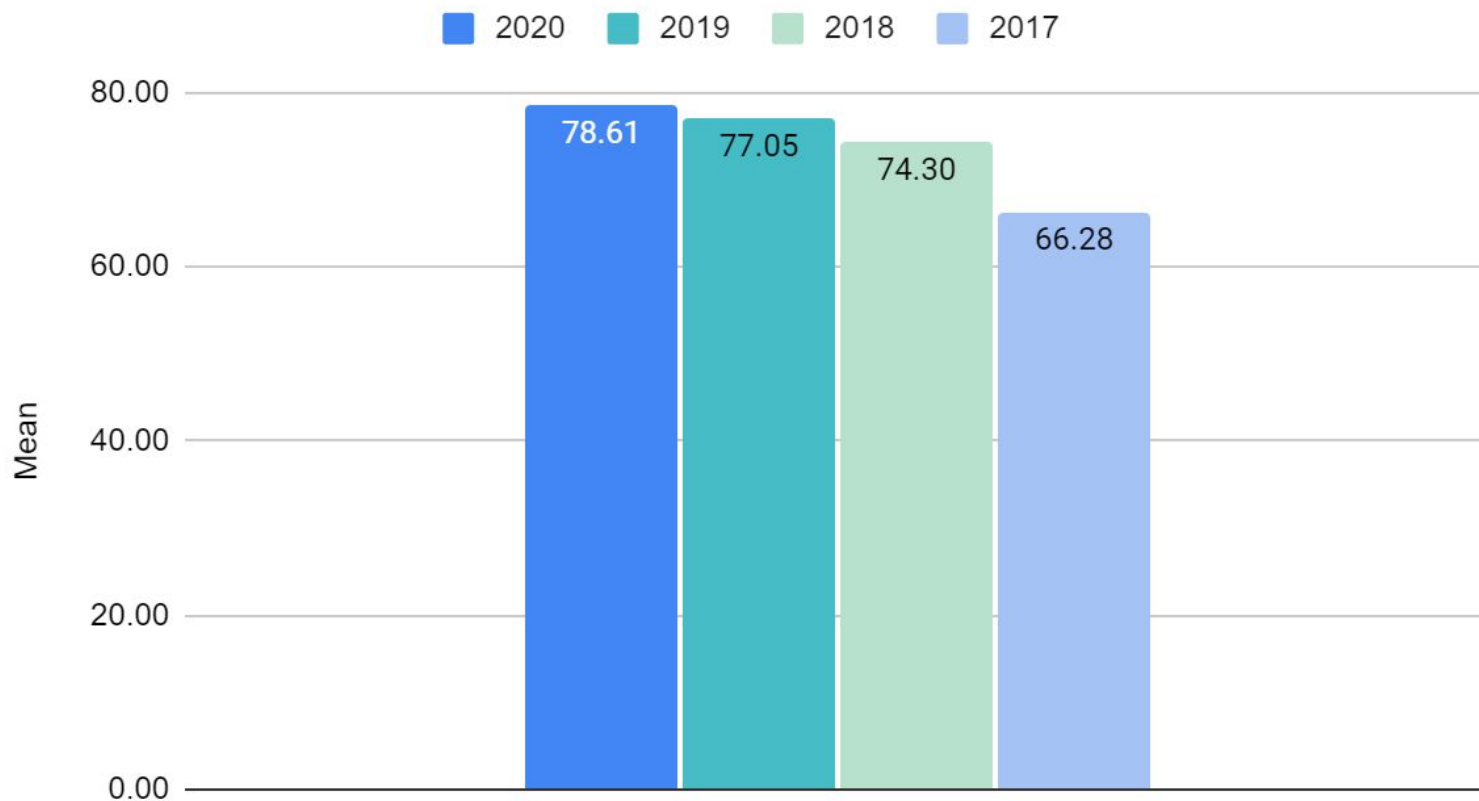
Impact of the Promotion of Good Governance practices as measured by the CGI

Improvement of Company X vs. Sector based on CGI



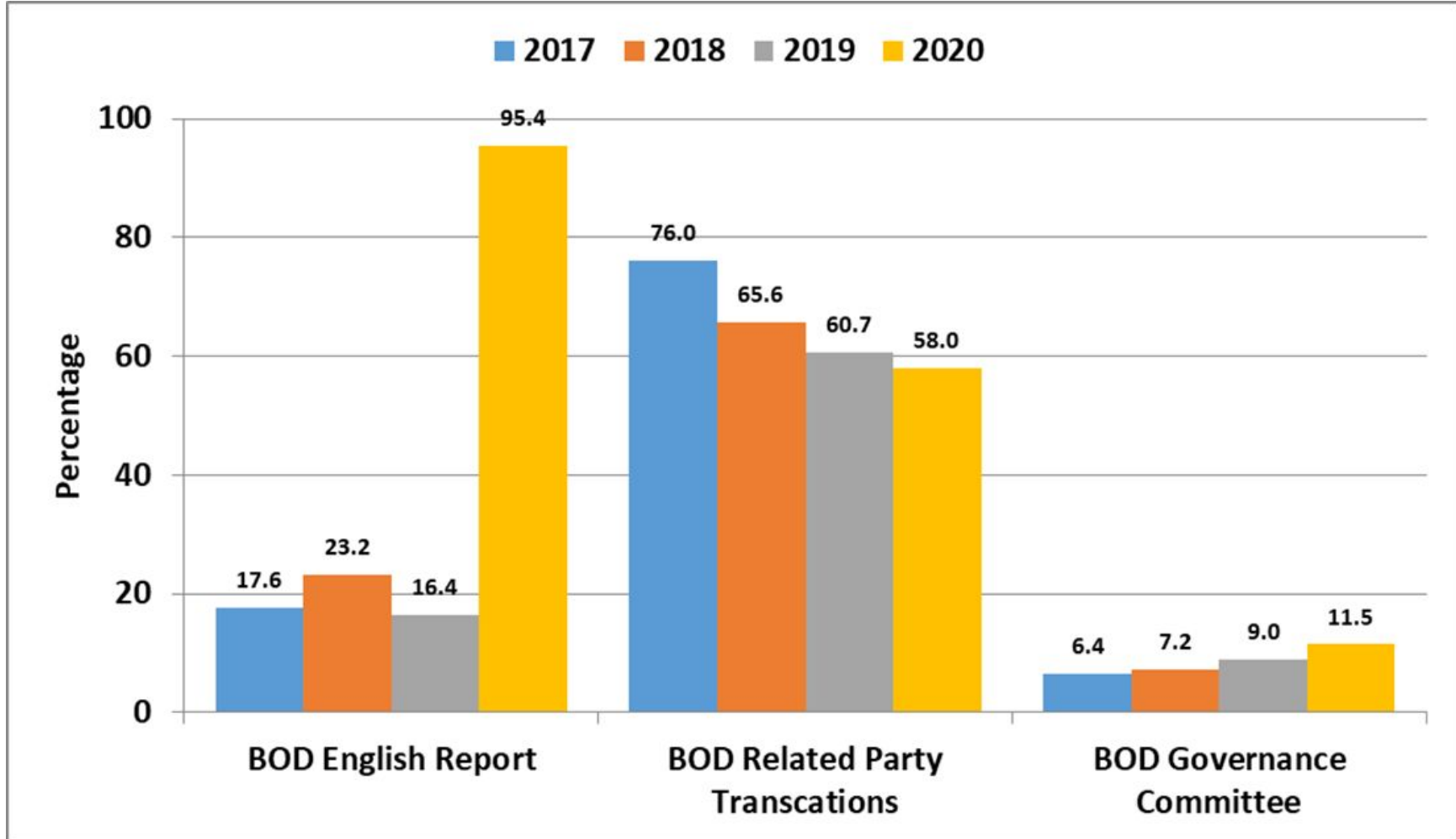
Impact of the Promotion of Good Governance practices as measured by the CGI

Health Care & Pharmaceutical Sector over the years



Analysis by CG practice

Public Disclosure & Transparency – Percent Compliant by Year for Non-Financial Sector



CORPORATE GOVERNANCE INDEX (CGI) VISION

- **Tracking**

- Annual scoring and ranking of listed companies
- Interactive CG dashboard to disseminate the information

- **Analyzing**

- Researching various CG related issues including the importance of CG in various performance measures
- Annual academic conferences
- Comparing CG performance in different industries (sectors), regions, and also years.
- Benchmarking with other CGIs in developed and developing countries.
- Providing policy recommendations on CG principles and practices.

- **Promoting**

- Good governance awareness
- CG Excellence Award

- **Training**

- Formal education
- Workshop/Certificate program

- **Expanding**

- GCC
- Family business

CORPORATE GOVERNANCE CENTER CONTACT INFORMATION



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Thank You