

Governance / Board of Directors

**Means to Discharge Responsibilities, Make it
Transparent, and Prove It If Challenged**
Commercial / Governmental / Philanthropic

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Presentation Topics

- ❖ **Governance : Overall View**
- ❖ **Business Collapses Emphasizes the Need for Corporate Governance**
- ❖ **Pillars of Good Governance :**
 - **Board of Directors**
 - **Good Governance Principles**
 - **Effective Implementation and Monitoring**
 - **Continuous Development and Up-dating.**

Governance : Overall View

- **Titles**
- **Definition**
- **Governance Topics**
- **Governance Principles/ Company Law 1985 KSA (Examples)**
- **Effect of Corporation Collapse on Corporate Governance**
- **Causes of Business Collapses**

Titles Used for Corporate Governance

- ❖ **Systems that Govern Corporations**
- ❖ **Corporate Governance**
- ❖ **Managerial Monitoring and Oversight**
- ❖ **Institutional Governorship**
- ❖ **Institutional Monitoring**
- ❖ **Practicing of Authority in Corporations**
- ❖ **Corporate Governance**
- ❖ **Top Management System**
- ❖ **Board of Directors Performance Oversight**

Governance Definition

Governance: A structure and business processes through which the followings are determined :

The objectives of the corporation, means of their realization, implementation follow-up tools, evaluation, correction, rewards and accountability . The outcome of their existence and efficient implementation is a safe and healthy environment for the corporation and society.

Governance Topics

- ❖ Development and approval of strategic directions and major objectives, and monitoring their implementation and continuous evaluation.
- ❖ Internal control systems, monitoring their implementation, continuous evaluation and correction.
- ❖ The Board mission , major objectives , tasks and the required means to discharge its duties.
- ❖ The requirements of the decisions to be justified, transparent and on time.
- ❖ Determination of the priorities of addressing subjects by the Board and submittal by the management.
- ❖ Provide confidential channels to report illegal acts and procedures that protect the whistle-blower and the subject person (Justice for all).
- ❖ Rules of work ethics and monitoring their observance.
- ❖ Positive and effective accountability for results and conduct.
- ❖ Guarantee required means for the executive management to exercise its duties and discharge its responsibilities.

Governance Principles /Company Law 1985 KSA (Examples)

- ❖ Removal of Board of Directors Members (Article 66)
- ❖ The member removed (Article 66)
- ❖ Direct and indirect interest in the business and contracts (Article 69).
- ❖ Competing with the company / To be permitted from general assembly and renewed every year (Article 70).
- ❖ The company is liable for actions by the Board if exercised within its authority (Article 75).
- ❖ The Board Members are jointly responsible to compensate the company, the shareholders and others regarding the damage (Article 76).
- ❖ All Boards Members share their liability except for the member who express conditions (Article 76).
- ❖ The faults which cause damage to all shareholders (Article 76).
- ❖ Fraud and forgery (Article 77).
- ❖ The damage inflicted on a shareholder or all shareholders(Article 78).
- ❖ Owners of at least 5% of the capital have the right to order the investigation of the company (Article 109).
- ❖ External Auditor (Article 132).

Effect of Corporation Collapses on Corporate Governance (The West)

- ❖ The British South sea Company (Commercial Law) 18th Century
- ❖ American Financial Markets (1929 G)
- ❖ American Saving Company Disaster In the eighties
- ❖ International Bank of Commerce and Credit (BCCI) (1991G.)
- ❖ The British Baring Bank Bankruptcy (1995G.)
- ❖ The Giant American Enron Company (2001G.)
- ❖ The Italian Parmalat Company (2003G.)

Shall We Wait till this happens in our Country?

Causes of Collapses

- ❖ Incompetent , unjust and ineffective implementation of bylaws and regulations
- ❖ Misuse of authority and laxity on accountability, within the corporation.
- ❖ Fraud and forgery in accounting and reporting.
- ❖ Inadequate legal, financial and accounting controls
- ❖ Inefficient leadership.
- ❖ Laxity of controlling and executing authorities in exercising their duties.

**(Corruption, greed, ignorance, negligence , impetuosity ,
fear)**

Pillars of Good Governance

- ❖ Board of Directors
- ❖ Good Governance Principles
- ❖ Good Implementation
- ❖ Continues Development and Up-dating

Board of Directors

Board of Directors : Responsible Legally and Conventionally for All Actions of the Corporation

Boards' Objective

Shareholders equity preservation and growth. Observing local environment requirements (laws, convention...)

Elements Affecting the Efficiency of the Board / Examples

❖ Membership Standards

❖ Evaluation Standards

❖ Compensation

❖ Interaction with related and connected parties

❖ Information.

Membership Standards /Examples

- ❖ Qualifications, skills , knowledge , experience / their balance.
- ❖ The ability to manage and supervise.
- ❖ Knowledge of the Corporation works and its activities.
- ❖ To be familiar with the legal and financial aspects.
- ❖ Independence.
- ❖ Age.
- ❖ Far sightedness/ The strategic perspective.
- ❖ Requested time/ to ascertain commitment by it.

Evaluation Standards

❖ The Board and its Committees.

❖ Members Evaluation Standards.

The Board Evaluation Standards and Its Committees / Examples

- ❖ Efficiency in fulfilling its duties , responsibilities and good usage.
- ❖ The relationship with management , shareholders and related parties.
- ❖ The efficiency of the Board / the Committee in running its meetings.
- ❖ The behavior in the light of adequate knowledge.

Members Evaluation Standards / Examples

- ❖ The efficiency of the Board of Directors performance or the committee.
- ❖ The development of his skills to conduct his membership duties.
- ❖ Preparation and participation efficiency.
- ❖ Commitment to appointed time , attendance of Board meetings and its committees
- ❖ Adoption of good behavior with the members and the administration.
- ❖ Earnestness in obtaining renewed knowledge in the Corporation activity field.
- ❖ The ability of effective communication with the shareholders and the related parties.

The Board of Directors Rewards

- ❖ Adequate with the standards interests.
- ❖ Sufficient to attract the required qualifications and preserve them.
- ❖ Membership compensation shall be varied according to the commitments of each of them.
- ❖ Rewards comparison with the other similar corporations locally and internationally.

(The sufficient and objective bonus for the capable people)

The Communication of the Related People with the Board of Directors

- ❖ **The Determination of External Communication Policies with the Board of Directors**
- ❖ **Confidential Communication Channels to Inform About Illegal Behavior**
- ❖ **Internal Regulations to Achieve Justice for All .**

Information

- **Characteristic of Information and Documents Displayed to the Board.**
- **The Mechanism of Information Succession and the Offers Inside the Board.**
- **Transparent decisions , on time and created by genuine reasons.**
- **When in need , the Board shall be assisted by specialized experiences.**
- **The Board Secretariat (the Board library / member) shall be supported by resources (human , physical, organizational and technical).**

Pillars of Good Governance

- ❖ Board of Directors
- ❖ Good Governance Principles
- ❖ Source of giving birth to.
- ❖ Good Implementation
- ❖ Development and Continuous Up-dating

Good Governance Principles

- ❖ Experiences of foreign and local corporations , agencies and States.
- ❖ Local environment and liability for Implementation
- ❖ Equity and effective implementation of regulations and systems.
- ❖ Separation between responsibilities and authorities is determined , clear and balanced.
- ❖ Support of market efficiency, transparency, virtuousness and encouragement of participation in it.
- ❖ Has a positive effect on the economy performance .
- ❖ Consistent in regard to completeness and specifications with the International Standards.

Governance Source

- ❖ Governmental regulations , systems and authorized parties.
- ❖ The Board of Directors is keen for discharging its duties, making it transparent and prove it if challenged.
- ❖ The desire of the corporation in-charges to develop and improve its management and performance.
- ❖ Pressure from the investors /creditors and financial institutions.
- ❖ To resolve a conflict between the shareholders and the creditors.
- ❖ The desire to increase the exchange of the corporation shares.
- ❖ The desire to increase the credit level of the corporation classification.

Good Implementation Method

- ❖ Documentation and preparation of work cycles / Comparison of the actual with the approved.
- ❖ Linking the work cycles with governance principles.
- ❖ Linking the work of each employee with governance principles
- ❖ Linking the incentives and job progress with his participation in governance implementation.
- ❖ Provision of the requirements of the executive administration and the Board for handling their role practically and systematically .
- ❖ Provision of resources to handle each party's duties in an objective and virtuous manner.
- ❖ To take care of the view , ethics , capabilities and attitudes of those who deal with its implementation.

Continuous Development and Up-dating

❖ Establishment of an organization for Board of Directors Members.

- Development of Board of Directors Capabilities.
- Setting of standards to be committed to them.
- Rehabilitation for an approved member of the Board of Directors.
- Collaboration with other parties for rehabilitation and confidence. (Example: The British Institute www.iod.com).

❖ The establishment of an organization for Governance (Example: Germany , Italy, Korea and Malaysia).

❖ The adoption of studies on Governance from the actual environment.

**Al Salamu Alaikum Wa-Rahmat Allah
Wa-Barakatu**