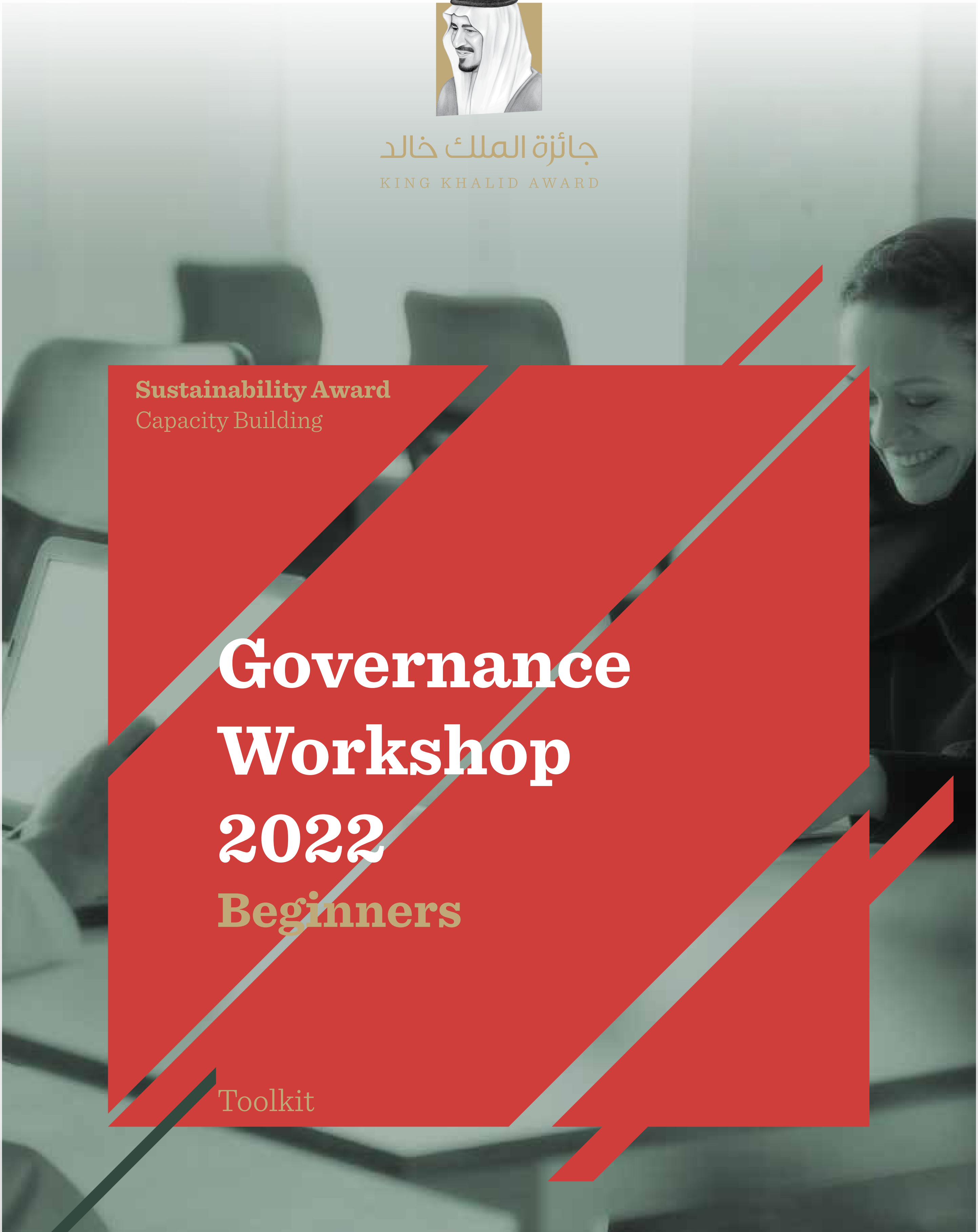
جائزة الملك خالد

KING KHALID AWARD



Sustainability Award

Capacity Building

Governance Workshop 2022

Beginners

Toolkit

Contents

Letter to Participants

The King Khalid Foundation (KKF) is pleased to publish, in partnership with AccountAbility, this practical and insightful Sustainability Award Capacity Building Toolkit on Environmental, Social, and Governance (ESG) for companies in the Kingdom of Saudi Arabia.

The King Khalid Foundation continues to advance the sustainability agenda by collaborating to deliver impactful sustainability programs and support the growth of responsible business practices. The Foundation has partnered with the Kingdom's corporate sector through the King Khalid Sustainability Award, formally the Responsible Competitiveness Award, for the past thirteen years. This Capacity Building Toolkit builds upon years of experience, feedback, questions, and needs that KSA companies have shared with KKF during the past thirteen years and during each annual King Khalid Award process. The Toolkit supports the Capacity Building Program by providing practical sustainability solutions and guidance for Training participants.

The Toolkit introduces the concepts of ESG and Sustainability in a broad sense, highlights their importance, relevance, and how they impact organizations, both, globally and in the Kingdom. It sets a foundation for a deeper discussion on selected ESG themes that are material to companies in Saudi Arabia.

Governance Training

The Governance Workshop is intended to provide an introduction to these concepts and methodologies, and highlight the relevance to your company. The workshop includes lectures, discussions, and practical learning activities.

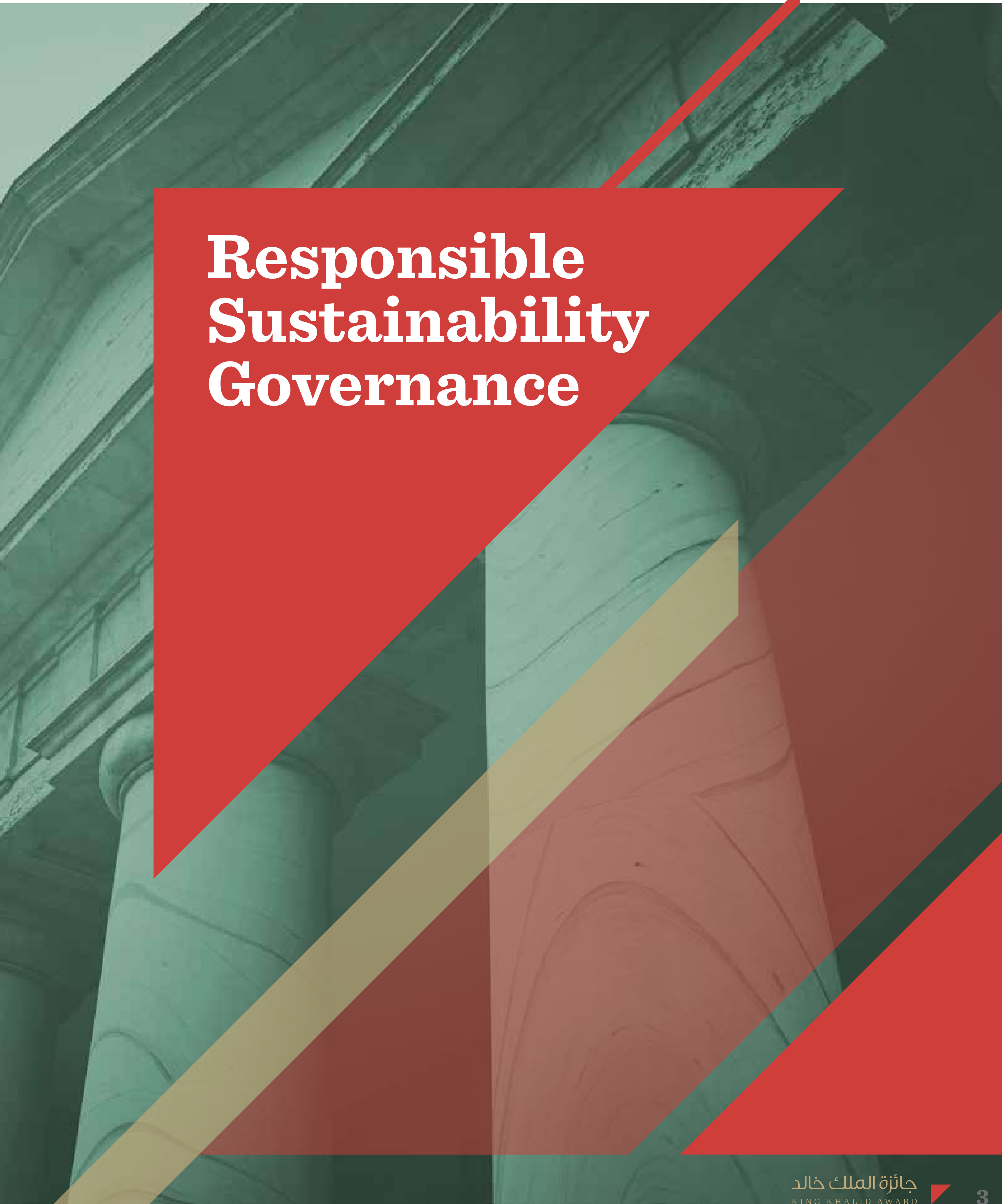
The content of the Capacity Building training and this Toolkit is tailored to the needs identified based on 13 years of Award participant feedback and needs.

This Toolkit contains explanatory content, relevant case studies, and discussion questions to complement the Workshop materials. We hope it will be a useful reference tool for the implementation of Workshop learnings in the future.

The Toolkit contains the following governance focus area chapters:

- **Responsible Governance**
- **Materiality Assessment**
- **ESG Reporting**
- **Risk, Quality and Process Management**

Upon completion of the Training, you will have the basic tools necessary to implement responsible governance in your organization and support your company's ESG and sustainability journey.



Responsible Sustainability Governance

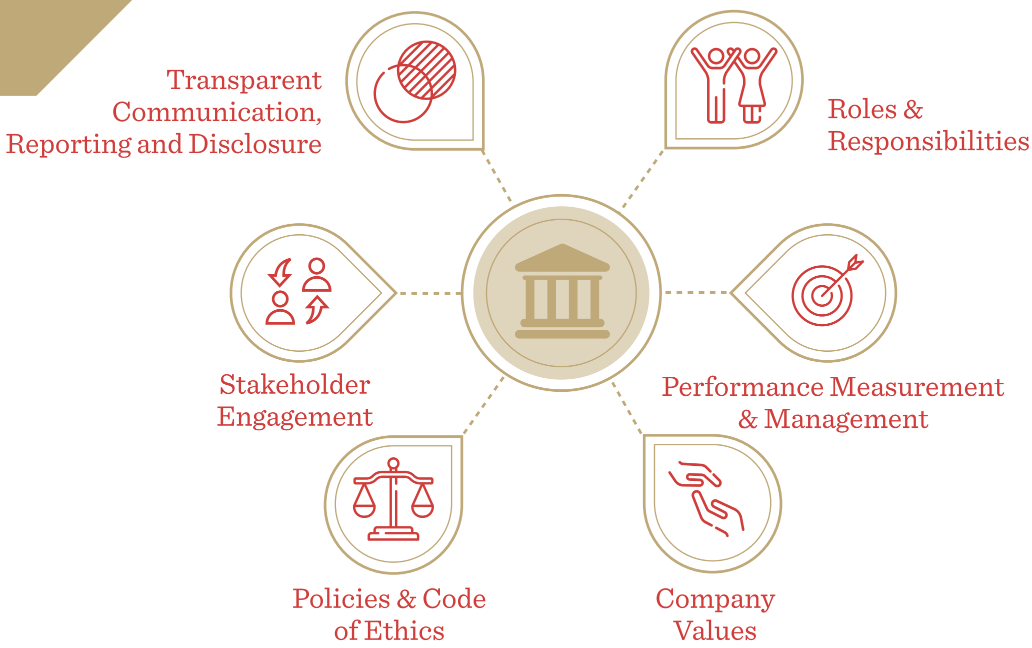
Responsible Governance

Governance refers to the structure, protocols, and systems that an organization uses to manage its processes and procedures.

Responsible Governance ensures accountability, fairness, and transparency across the organization with all stakeholders.

Elements of Responsible Governance include:

- Organizational structure
- Roles and responsibilities of employees
- Policies, protocols, and codes of conduct
- Company values, mission, vision, goals, and targets
- Anti-corruption processes and controls
- Grievance mechanisms
- Commitment to established internal and external standards, frameworks, and initiatives
- Stakeholder engagement management
- Focus on material topics
- Performance and impact measurement and management
- Transparent communication, disclosure, and reporting
- Risk, quality, and operations management
- Responsible supply chain management



* non-exhaustive list at the bottom right corner of the graph

Benefits

By having Responsible Governance policies and practices in place, companies can gain benefits, such as:

- Better strategic planning
- Improved top-level decision-making
- Risk avoidance and mitigation
- Increased success rate for financial performance and enhanced sustainability
- Reduced cost of capital
- Encouraged positive behavior
- Assured internal controls
- Greater ability to attract and retain talent
- Attracting talented senior management

Discussion Prompt: Which areas of Responsible Governance you are most familiar with? What are some of the governance-related practices you think your company does well? Which areas you think could be improved?

Implementation Steps

The steps required to implement Responsible Governance include:

1. Create a clear company vision, mission, and values and develop mechanisms to track progress on goals
2. Introduce policies and processes for:
   - Ethics
   - Employee conduct
   - Anti-corruption and anti-bribery
   - Legal compliance
3. Assign clear roles and responsibilities to employees for:
   - Quality assurance
   - Stakeholder communications
   - Sustainability performance and impact management
4. Practice transparency by disclosing key information on material issues to your company's stakeholders through globally accepted reporting frameworks
5. Establish stakeholder participation in the decision-making processes
6. Commit to internal and external audits using globally accepted assurance standards assurance

Discussion Activity

This activity will deepen your understanding on Responsible Governance. With your group:

- Select one ESG Report that will be used for this activity.
- Find the "Governance" section in the report.
- Familiarize yourself with the section and its themes and topics.
- Answer the following questions:
  - What are the themes and topics reported in the Governance section?
  - Has your company similar Governance policies and programs in place?
  - What do you think are some of the areas of potential improvement for your own company's governance practices? Where have gaps and deficiencies impacted the company in the past?

Materiality Assessment

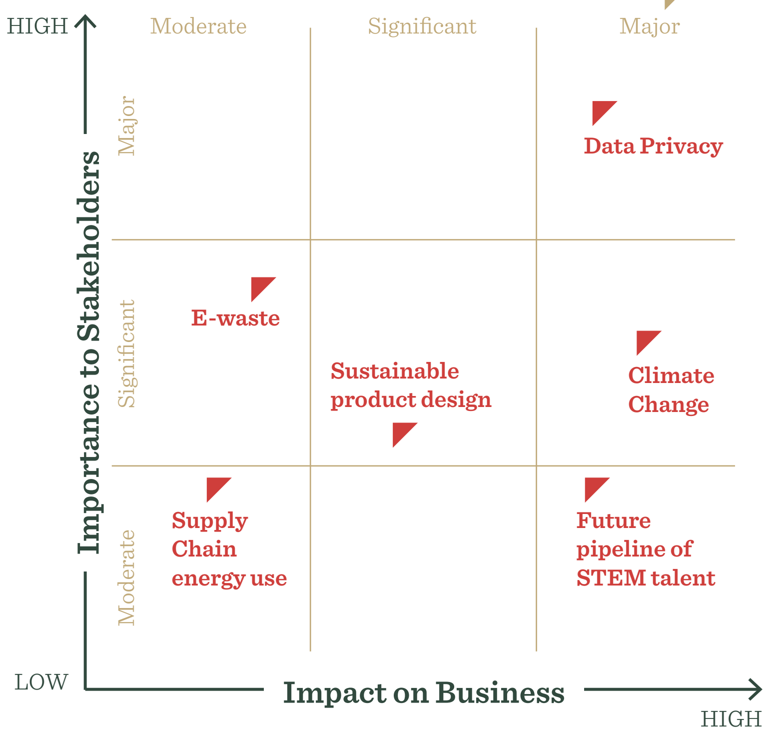
What is a Materiality Assessment?

Materiality Assessment is the process by which organizations identify and prioritize the ESG matters (both risks and opportunities) that are most important to their stakeholders and the business.

A material topic is something that can meaningfully influence and impact the assessments, decisions, actions, and performance of an organization and/or its stakeholders in the short, medium, and/or long term.

An illustrative Materiality Assessment result of a company in the IT sector is presented below, with the most material ESG topics:

MATERIALITY MATRIX



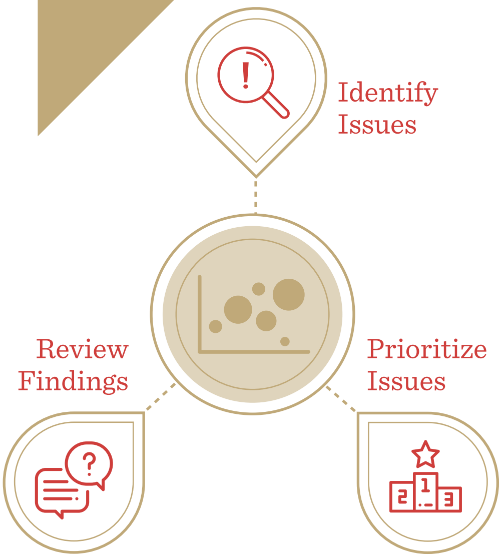
Discussion Prompt:
What makes an issue "material" to an organization? In what different ways can issues be material, and how does that affect their importance to an organization?

Insight: Leading practice mandates that material issues are not identified solely by the organization but needs to involve the participation of key external stakeholders. Materiality Assessment can be designed to inform both Sustainability Reporting and Strategy development.
The stakeholders involved and questions asked in a Materiality Assessment vary to meet the needs of the following two objectives:

- a backward-looking assessment to determine what to disclose in a Report
- a forward-looking assessment to inform the focus areas of a Sustainability Strategy

Elements of a successful materiality assessment include:

- Identification of Issues
- Prioritization of Issues
- Review of Materiality Assessment & Findings



Insight: Material issues differ by industry, and often differ for companies within the same industry. Factors like location, geographies served, size of the company, company structure can determine what issues are material to a specific company. In the telecom industry, large-scale digitization, customer/public perception, and government regulation would likely be important material issues. In the industrial manufacturing industry, material issues may focus more on emissions regulations, supply chain continuity, and employee health and wellbeing.

Benefits

A comprehensive materiality assessment provides significant benefits:

- Opportunity to identify new products and services
- Understanding of how a company is creating or reducing shared value
- More embedded sustainability management in general business processes
- More efficient resource allocation
- Better focus on relevant topics
- Identifying gaps in current risk management practices
- Identification of long-term risks that have potential to impact operations
- Clear content areas for an organization's Sustainability Report

Steps to Implementation

When considering conducting a Materiality Assessment, the following key steps should be a part of the process:

1. Identify issues important to your company and its external stakeholders
2. Assess each issue according to several critical factors, including importance to stakeholders, impact to business, and relevance to key standards and frameworks
3. Assign a weight for input from each type of stakeholder
4. Map each issue within a matrix using importance to stakeholders as the y-axis and impact to business as the x-axis
5. Validate the results of the Materiality Assessment with senior leadership and embed material issues into strategy
6. Disclose results to external stakeholders as part of Stakeholder Engagement efforts
7. Repeat the Materiality Assessment at least every 2-1 years to ensure that the information is up-to-date and that it considers any internal and external changes

Tip: Materiality Assessments help to encourage companies to consider material issues that may affect the business now as well as in the future. Issues that may not be considered top priority right now may become more important over a longer time horizon. By proactively considering the effects of ESG issues on the business, materiality assessments can be a helpful tool for resource planning and future business strategy.

Materiality Assessment in Action

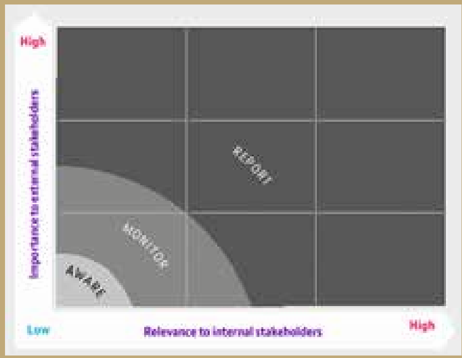
BT regularly undertakes a Materiality Assessment and gathers qualitative and quantitative data for this assessment **throughout the year.**

The company has developed a **robust Materiality Mapping** and **Assessment process,** which includes **input** from **internal** and **external stakeholders,** such as social media, senior BT colleagues, several surveys, reports and studies.

The process helps to identify critical economic, environmental, social, and governance trends and issues that may have a material impact on the company's business performance or fundamentally influence its stakeholders.

Material topics are **ranked** according to **impact to business** and **significance to stakeholders.**

The results are used to inform the Strategy and reporting for the year ahead.



Discussion Prompt: What factors would you include (market size, geographies, regulatory environment, future growth plans, etc.) when thinking about material issues for your organization? How would the materiality of these issues change with time?

How to Activity

This activity will deepen your understanding on a Materiality Assessment and its outcomes. With your group:

1. Select one Sustainability Report that will be used for this activity.
2. Find the "Materiality Assessment/Map" section in the Report.
3. Familiarize yourself with the most material topics (upper right corner), and the topics that are the least material (lower left corner).
4. Then, go through the Sustainability Report and see how the material topics are communicated in the Report. Discuss the following questions:
   - Are the "least material topics" also included in the main themes of the Report?
   - Can you find an alignment with the "most material topics" and the "Sustainability Strategy" (and the sustainability priorities of the company)?

ESG Reporting

ESG Reporting

Reporting is a formal disclosure mechanism, often involving the use of written statements and reports, to share key company information to stakeholders. Reporting can be either financial or non-financial.

Financial reporting typically takes the form of annual reports and other disclosures based on regulatory requirements.

Non-financial reporting can take different forms, based on the industry and regulatory environment in which a company operates. An important type of non-financial reporting is ESG (or Sustainability) reporting.

ESG Reporting refers to the disclosure of data covering the company's operations in three areas: environmental, social, and governance. It presents a snapshot of the business's impact (negative and positive) in these areas.

Effective reporting conveys information about an organization's performance, practices, and initiatives in areas that are of material concern to the organization's stakeholders. ESG Reports—the most common form of non-financial company disclosure—are often published annually with the goal of highlighting material ESG issues and the actions, success stories, targets, and goals for advancing organizational growth and sustainability.

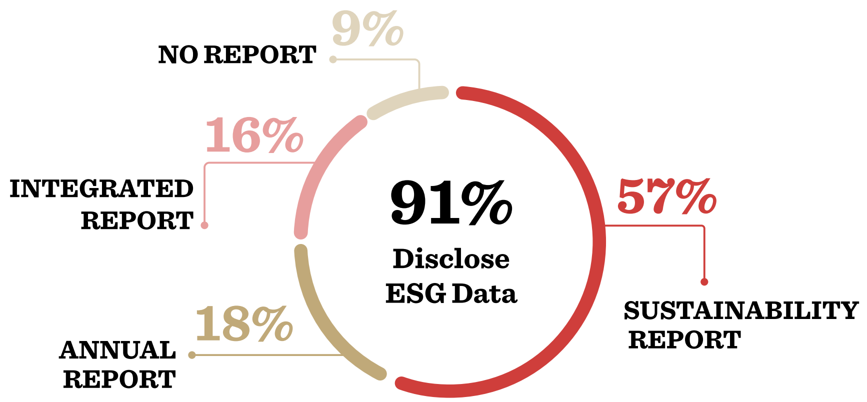
ESG reporting requires both intention and action. Effective disclosure includes and requires:

- Embedding a culture of transparency within the organization
- Tracking and measuring key performance indicators (KPIs)
- Releasing relevant information externally that provides stakeholders with a comprehensive and meaningful picture of the performance of a company relative to its peers
- Communicating both positive and negative information, and communicating financial, non-financial, historic, and future-projected information

Insight: Non-financial disclosures bring immense value to an organization, helping to increase brand value and reputation, revenue growth, and company investment.

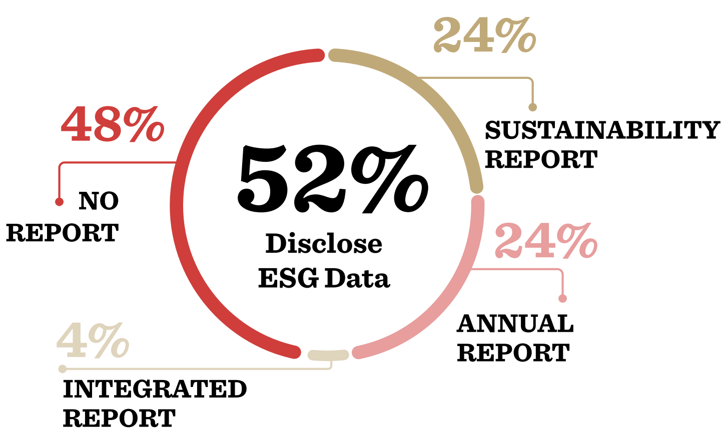
The demand for transparency on sustainable and socially responsible practices is on the rise. While ESG Reporting is still voluntarily for most countries, there are increasing global regulations regarding corporate ESG data reporting. Currently, more than ninety percent of the largest companies in the world report their ESG data.

1,269 of 1,400 of the largest global companies by market capitalization, measured over 22 jurisdictions, reported ESG data

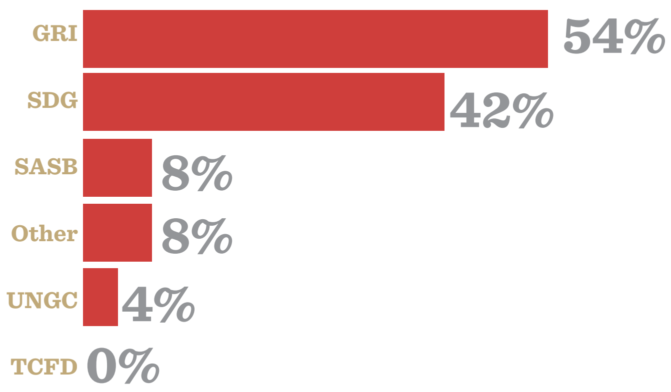


ESG Reporting is on rise in Saudi Arabia. More than half of the 50 largest companies in KSA disclose their ESG data already. Most of the companies disclosing ESG data in KSA have adhered to the Global Reporting Framework (GRI), which is the leading international ESG reporting framework. GRI and the other key reporting frameworks are presented below.

ESG DISCLOSURE METHODS FOR THE 50 LARGEST COMPANIES IN THE KINGDOM OF SAUDI ARABIA



52% (26) of the companies reviewed for the KSA provided ESG Disclosures using the following ESG Reporting Framework/Standards*:



* Source: AICPA, The State of Play in Sustainability Assurance

Spotlight: Reporting Frameworks and Standards

Disclosure of comprehensive ESG information to stakeholders should usually occur annually and be guided by widely accepted frameworks and/or standards, communicating financial, non-financial, historic, and future-projected data.

Sustainability Standards and Frameworks are internationally accepted and recognized tools that facilitate strategy development and standardized non-financial Sustainability reporting on environmental, social, and governance topics.

ESG reports often follow widely accepted frameworks or protocols such as the Global Reporting Initiative (GRI) and the Sustainability Account Standards Board (SASB), and may use other recognized initiatives, such as the UN Sustainable Development Goals (SDGs). Advanced ESG Reporting Frameworks include the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD), among others.

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) Standards are the most globally recognized framework for Sustainability Reporting. GRI provides standardized management and performance disclosure guidelines for all environmental, social, and economic topics that might be material to an organization. GRI offers a global common language for organizations to report their impacts, enabling informed dialogue and decision making around those impacts.

To find out more about the GRI, please visit:
www.globalreporting.org/

Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board (SASB) has emerged as one of the leading frameworks used by publicly listed companies. SASB connects businesses and investors on the financial impacts of sustainability by guiding the disclosure of financially material sustainability information. SASB Standards are industry-specific and available for 77 industries. The Standards identify the subset of ESG issues most relevant to financial performance in each industry. They are designed to guide investors' decisions and be cost-effective for companies.

To find out more about the SASB, please visit:
www.sasb.org/

United Nations Sustainable Development Goals (SDGs)

Launched by the United Nations (UN), the Sustainable Development Goals (SDGs) cover a broad range of sustainable development issues, from poverty and inequality to climate change. The framework includes 17 goals with 169 targets. SDGs are a primary intergovernmental roadmap for the Post2015-Development Agenda and a blueprint to identify sustainable development issues aligned to a company's core business model. The framework helps design sustainability strategies with the maximum potential impact. The KSA has begun voluntary annual reporting against the SDGs (which overlaps with objectives of the Vision 2030), which serve as the international guide for sustainable development.

To find out more about the UN SDGs, please visit:
sdgs.un.org/goals

Saudi ESG Related Frameworks and Standards

Vision 2030

Vision 2030 comprises a set of initiatives developed by the Saudi government to pursue a bright future for the Kingdom. It is built around three themes – A Vibrant Society; A Thriving Economy; An Ambitious Nation, with the following priorities:

- Global Competitiveness
- Long-Term Economic Sustainability
- Citizen Wellbeing
- Strong National Identity
- Drive International Trade

The Vision provides all sectors with a framework for reaching the Kingdom's economic and sustainability goals.

To find out more about the Saudi Vision 2030, please visit:
www.vision2030.gov.sa/

The National Standards for Sustainability

The KSA National Standards for Sustainability Reporting guide Saudi corporations in issuing sustainability reports, to advance national reporting against the SDGs. The criteria for disclosure under the National Standards have been selected to support the monitoring of progress against the Vision 2030 and enhance the role of the SDGs at the local level.

To find out more about the Saudi National Standards for Sustainability Reporting, please visit:
saudisustainability.org/

Benefits

By reporting their ESG performance, companies can gain benefits, such as:

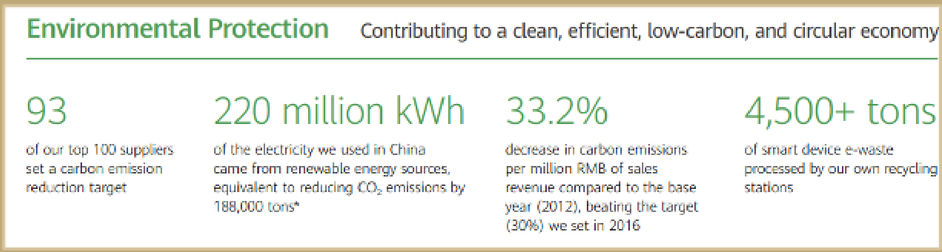
- Increased accountability to internal and external stakeholders
- Enabled comparison
- Improved risk management
- Increased access to capital due to increased transparency with investors and lenders
- Enhanced relationship with regulatory bodies and trust with stakeholders
- Enhanced reputation
- Showcased measures for long-term profitability
- Increased consumer and employee loyalty
- Reduced compliance costs

Reporting Readiness

Discussion Prompt: Not every company is ready to start reporting their ESG performance. What do you think are the prerequisites for preparing the first ESG Report? What kind of data a company should have collected? What are the other things needed before producing a Report? Has your company already started reporting its ESG data and performance?

Huawei's Report

Huawei has a structured Sustainability Report that concentrates on the key focus areas. The company is transparent about the metrics and targets, and communicates progress against ESG goals. The Report is in accordance with GRI Standards and the content of the Report is aligned with SDGs. The disclosure is verified by an independent assurance provider.


Environmental Protection Contributing to a clean, efficient, low-carbon, and circular economy

93
of our top 100 suppliers set a carbon emission reduction target

220 million kWh
of the electricity we used in China came from renewable energy sources, equivalent to reducing CO_2 emissions by 188,000 tons*

33.2%
decrease in carbon emissions per million RMB of sales revenue compared to the base year (2012), beating the target (30%) we set in 2016

4,500+ tons
of smart device e-waste processed by our own recycling stations

Steps to Implementation

A robust reporting and disclosure process requires several key steps be taken prior to the final publishing of a Report:

1. Engage internal stakeholders to determine reporting objectives
2. Determine report's main audience and tailor accordingly
3. Collect and assess material commitments and strategies to determine disclosure focus areas
4. Collect and evaluate data and disclosure information from relevant departments
5. Determine report structure, theme, content, and design
6. Verify data and draft report content
7. Design print-ready and interactive web-based report
8. Release print-ready report and launch report website
9. Determine reporting cycle cadence for future years

Discussion Activity

This activity will deepen your understanding on Responsible Governance. With your group:

- Select one ESG Report that will be used for this activity.
- Familiarize yourself with the Report, its focus areas, metrics, targets, frameworks, and standards used.
- Discuss the following questions:
  - What do you think about the Sustainability Report? What are its strengths?
  - Can you find performance data, KPIs, and targets?
  - Which frameworks and standards can you identify in the Report?

Risk, Quality and Process Management

Management Systems related to ESG

There are several management system standards and requirements globally. Many standards are becoming a requirement for doing business. Various existing management systems and standards are already used in the context of ESG, and there are many new systems and standards waiting to become industry requirements for social responsibility or sustainability.

Sometimes, these systems are seen as burden in the way of doing business because they can be challenging to implement. However, once they are established and have become part of an organization›s routine, they are relatively easy to manage and can provide several benefits.

The key systems used internationally across industries are Quality Management System (QMS) and Environmental Management System (EMS).

Spotlight: Quality Management System

Quality Management is the act of overseeing all activities and tasks that must be accomplished to maintain a desired level of quality in the development of products or services.

A **Quality Management System (QMS)** is a formalized system that documents processes, procedures, and responsibilities for achieving quality policies and objectives.

A QMS helps coordinate an organization's activities to meet regulatory and customer requirements and improve its effectiveness and efficiency of operations on a continuous basis.

A QMS requires important elements, such as:

- Documented quality policy and objectives.
- A quality manual that is a document describing an organization›s QMS. The manual can be used both internally and externally.
- Documented procedures, guidelines, and checklists. These allow observed quality and continuous improvement.
- Other documents required by the organization for effective planning, operation, monitoring, and control.

ISO 9001 is the internationally recognized Quality Management System (QMS) that can benefit organizations of any size. It is designed to be an impactful business improvement tool. The ISO 9001 Quality Management Certification can help an organization to continually improve, streamline operations, and reduce costs.

Benefits

By implementing a Quality Management System, companies can gain noticeable benefits, such as:

- Defined, improved, and controlled processes
- Communicating a readiness to produce consistent results
- Prevention of errors
- Improved product and service quality
- Process improvements
- Improved documentation availability
- Improved compliance
- Lowered costs
- A culture of quality
- Reduced waste
- Facilitating and identifying training opportunities
- Enhanced relationship with regulatory bodies and trust with stakeholders

Steps to Implementation

When considering creating an effective Quality Management System, the following key steps should be a part of the process:

1. Create process maps to visualize and define all main processes and responsible persons
2. Create a Quality Policy that communicates your organization's duty about the quality
3. Define performance-based quality measures to determine compliance with the quality objectives. Establish goals and measures to achievement of the goals
4. Define how defects are measured, recorded, and corrected
5. Create essential policies, procedures, and forms and formats for each defined process
6. Define a quality procedure that includes internal audit, management review, corrective and preventive action process and communication processes
7. Use the QMS and produce the best quality products/services while same time collecting non-conformance and recording issues. Take corrective and preventive action. Perform internal audits
8. Analyze data, track quality objectives and performance. Determine improvement chances

Discussion Prompt: Why do you think the topic of "quality" and a Quality Management System are linked to ESG sustainability?

Spotlight: Environmental Management System

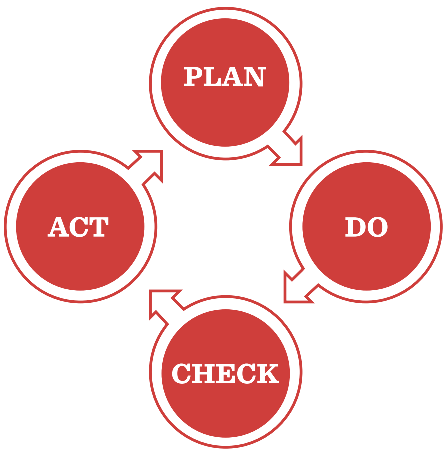
An Environmental Management System (EMS) is a set of processes and practices that enable an organization to reduce its environmental impacts and increase its operating efficiency.

An EMS encompasses policies, processes, operational controls, and management plans. A successful EMS ensures compliance with environmental laws and regulations while minimizing environmental impacts at all levels of the organization.

An EMS requires important elements, such as:

- Environmental Policy
- Environmental requirements and voluntary initiatives
- Objectives/targets
- Structure, responsibility, and resources
- Operational control
- Corrective and preventive action
- Emergency procedures
- Training, awareness, and competence
- Organizational decision-making and planning
- Document control

An EMS follows a Plan-Do-Check-Act system, a management method used in business for the control and continuous improvement of processes and products. This system allows companies implement change, solve problems, and continuously improve processes.



ISO 14001 is an internationally recognized Environmental Management System (EMS) standard. It helps organizations minimize how their operations negatively affect the environment, comply with applicable laws, regulations, and other environmentally oriented requirements, and continually improve the above-mentioned topics. The ISO 14001 certification shows that a company is environmentally responsible, helping a company demonstrate how committed it is to reduce its environmental impacts and to meet stakeholder expectations of sustainability.

Insight: Companies that have implemented EMS and are certified by ISO 14001 Standard are recognized by a logo that guarantees the accuracy of environmental information. Certified companies are audited annually by an accredited independent entity that verifies the proper monitoring system and compliance with environmental commitments.

Benefits

By implementing an Environmental Management System, companies can gain noticeable benefits, such as:

- Reduced environmental impact
- Reduced waste
- Pollution prevention
- Reduced operating costs
- Access to new customers and business partners
- Competitive advantage against companies that do not adopt the system
- Better asset value
- Improved public perceptions of the business
- Higher conformance with legislative and regulatory requirements

Steps to Implementation

When considering implementing an Environmental Management System, the following key steps should be a part of the process:

1. Decide why you are pursuing the development of an EMS. Write down the goals
2. Explain top management the benefits of EMS and gain their commitment to support EMS development and implementation
3. Build a cross-functional implementation team to ensure that all procedures are practical and effective, and can build commitment to, and "ownership" of, the EMS
4. Hold a kick-off meeting to discuss the organizatio's objectives in implementing an EMS, the initial steps that need to be taken and the roles of team members
5. Use a self-assessment tool or a gap analysis tool to analyze your current compliance, and to compare these against the criteria for your EMS (such as ISO 14001)
6. Based on the results of the preliminary review, prepare a project plan and budget, and get them reviewed and approved by top management
7. Involve employees in the EMS development and implementation process to enhance the ownership of the system
8. Regularly monitor progress against the goals and project plan and communicate the progress within the organization

Discussion Activity

This activity will deepen your understanding on the benefits of a Quality Management Systems (QMS) and an Environmental Management Systems (EMS). With your group:

- Discuss whether any of the group members are familiar with the systems, answering the following questions:
- What are your experiences from using a QMS and/or EMS?
- What kind of benefits have your companies realized as a result of implementing the system(s)?
- What kind of challenges have you encountered?

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