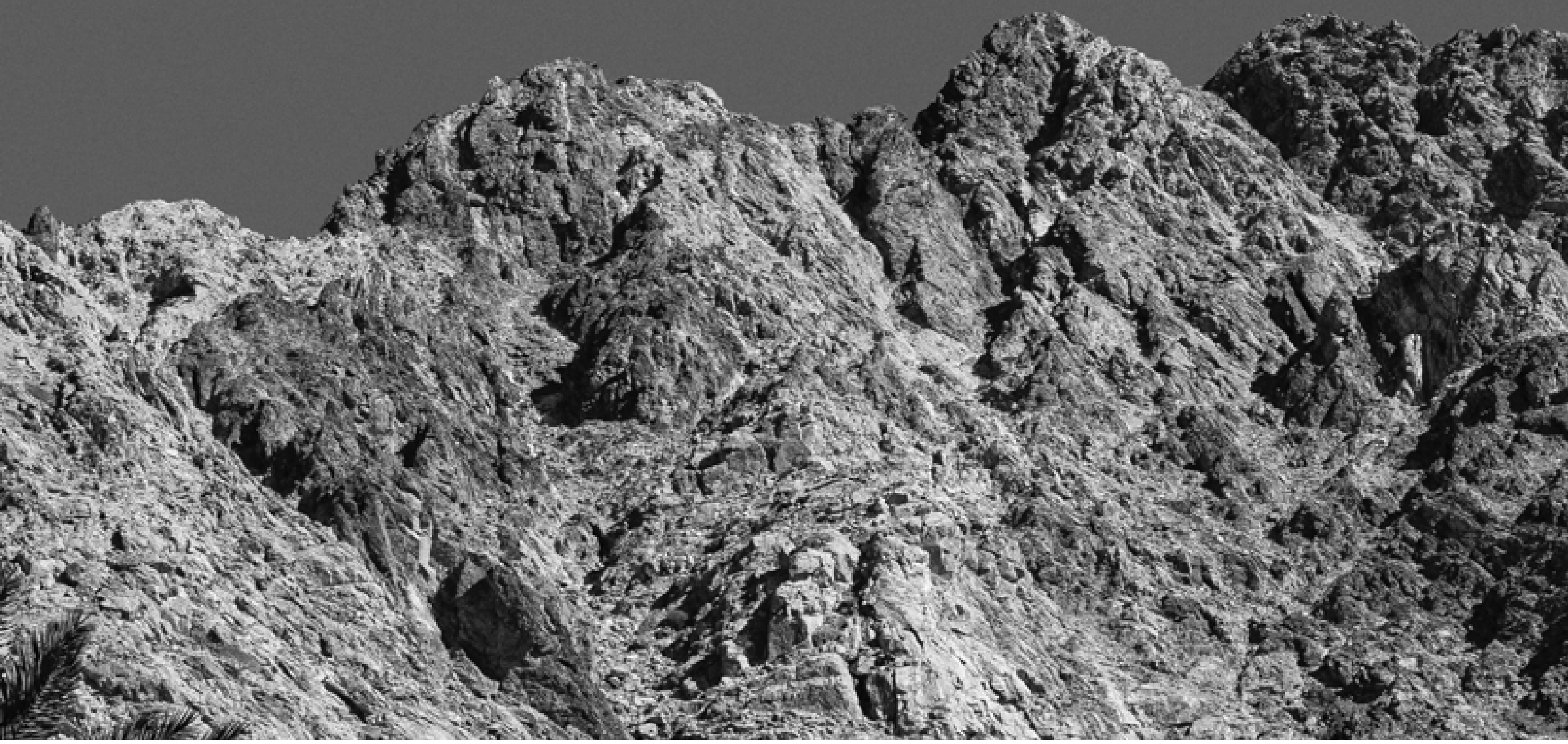
GCC Board Directors Institute

Heidrick & Struggles

# Board effectiveness review 2021

## Determining board effectiveness across the GCC



In collaboration with Heidrick & Struggles

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# About the GCC BDI Board Directors Institute

Launched in 2007, GCC BDI is a not-for-profit organisation that guides board directors of organisations, from family-owned businesses to listed companies, to acquire the know-how and tools to reach and sustain effective governance. GCC BDI is supported by seven leading regional corporations and professional services firms who serve as our strategic partners: First Abu Dhabi Bank, SABIC, Saudi Aramco; Allen & Overy; Heidrick & Struggles; McKinsey & Company; and PwC. We are also supported by a number of Corporate Affiliates – Elm, The Saudi British Bank, National Bank of Bahrain, Sipchem, STC, The Saudi Investment Bank and Tasnee, as well as the regional regulatory authorities, including the Central Bank and Capital Market Authority of Saudi Arabia, the Emirates Security and Commodities Authority of the UAE, the Central Bank and Capital Market Authority of Kuwait, the Central Bank of Bahrain and the Capital Market Authority of Oman.

GCC BDI's mission is to make a positive impact on the economies and societies of the region, by promoting professional directorship and raising the level of board effectiveness. Our main objectives are:

- To enhance GCC board member capabilities and further their understanding of best practice board governance;
- To create a regional network of board members;
- To disseminate high quality corporate governance knowledge; and
- To put corporate governance higher on the region's agenda.

Over the last 14 years, GCC BDI has grown to become the leading organisation in the region for board directors. We have delivered over 250 programmes and forums to top-tier companies in the Gulf and now comprise over 2,200 members, each with extensive knowledge and experience of operating at the most senior levels of business in the GCC. Our member network is probably the most influential group of senior board directors and business leaders in the Gulf. Our members are our greatest ambassadors.

We are highly regarded among the international community and are the only director institute in the GCC to have been admitted as a member of the prestigious Global Network of Director Institutes. This is a network of 24 global institutes, which includes the Institute of Directors (IoD) in the United Kingdom, the Australian Institute of Company Directors (AICD), Hong Kong Institute of Directors (HKIoD); Institute of Corporate Directors (ICD) in Canada; Institute of Directors in New Zealand (IoDNZ); Institute of Directors in Southern Africa (IoDSA), and the National Association of Corporate Directors (NACD) in the United States, among others.

GCC BDI was originally founded by eight leading regional corporations and professional services firms: Emirates NBD, Investcorp, SABIC, Saudi Aramco; Allen & Overy; Heidrick & Struggles; McKinsey & Company; and PwC. Since then, GCC BDI has a successful and proven track record of working with the top companies in the GCC. We work with a large and talented pool of high-calibre international, regional and local experts, providing a mix of best international practice and actual board experience, combined with specialist knowledge and experience of corporate governance and director's issues in the Gulf. We would like to take this opportunity to thank all our founders, strategic partners, and corporate affiliates for their collective collaboration and support in nurturing GCC BDI over the past 14 years and helping us to work towards achieving our mission.

GCC BDI has a unique combination of local experience and understanding, strong corporate governance and regulatory knowledge, practical director expertise, and tried and tested programmes. We look forward to continuing our mission to make a positive impact on the economies and societies of the region.

# Foreword by Mohammed Al Shroogi

Given the challenges of the last two years and the stark changes in socio-economic priorities, information about trends in good governance is crucial in enabling the recovery and growth for all stakeholders in the region. It is therefore my pleasure to present this 7th edition of the GCC Board Directors Institute's Board Effectiveness Review which gives the latest snapshot of the views of regional board directors and business leaders, and their expectations for the future.

When we published our previous report in 2019, we did not expect such sudden changes to take place to the world around us. New concerns and risks have meant that we have had to adapt, and at times improvise, the manner in which we have conducted business. At this point in time, we have weathered the storm, we are adjusting to the "new normal" and the global recovery is underway.

For many decades, the Gulf region's strategic geographical position has served to promote its economic interests by making it a hub for global players to explore and advance their goals. With the international recovery now under way, we see that regional business is picking up and improving to accommodate new opportunities. Companies are increasingly pivoting their strategies and improving their risk management and corporate governance as the experiences of the last two years have demonstrated a need for forward thinking.

The most essential part of moving forward is to listen to the heartbeat of the market and engage with its players. At the GCC Board Directors Institute, we have been doing so for 14 years, and have once again reached out to key players across the Gulf to understand the change that business leaders want to see. As we continue to promote board effectiveness and the development of corporate governance best practices, we note that shifting external factors have necessitated changes which must take place for businesses to remain sustainable.

We frequently circle back to the issue of sustainable business, which given the era of consumer activism and policy changes, has never been more critical. The global pandemic was just one of many risks which will ensure the continual evolution of business practices, so it is essential for business leaders and boards to create resiliency within their companies and communities. Without the buy-in of external stakeholders, it will be challenging for boards to ensure their organisations remain sustainable. Strategy development, succession planning, board diversity, and ESG policy development are key concerns which boards and senior management must focus on if their businesses are to become "future-proof".

It is essential that the insights made available within this report are used as starting points or directives for boards to strengthen their resolve and direction as we collectively work to rebuild our businesses, our societies, and our expectations. The survey results offer insights into what we can do to support boards and the issues they need to focus on, and this report acts as a springboard for boards to take strategic steps forward as they confront new challenges and build their resilience.

I wish to extend my gratitude to Heidrick & Struggles, who are one of our esteemed founders and strategic partners, for their support in preparing this report. I also wish to thank all the business leaders who gifted us their time and support in taking the survey and offering their insights. Our hope is that this report can offer strategic insights into the ways forward and help contribute towards a stronger socio-economic future for the region.

**Mohammed Al Shroogi**
Chairman
GCC Board Directors Institute

# Introduction by Jane Valls

I am pleased to present this 7th edition of the GCC Board Directors Institute Board Effectiveness Review.

The exigencies of the last few years have led to tumultuous changes in the business world, not just in the Gulf region, but around the globe. Even now, as we head towards the light at the end of the tunnel, the COVID-19 pandemic has revealed the necessity for changes to the way we have been doing business. This is not to say that “the old ways” have become obsolete; rather, this is an opportunity for business leaders, board directors, and all stakeholders to engage honestly with each other about the changes they would like to see in their daily practices to ensure a sustainable business future.

In this moment of continual change and evolution, research is important now more than ever, because it reveals insights into contemporary fluctuations in the way business is conducted, and what challenges board directors are facing. In this 7th edition of the GCC BDI Board Effectiveness Report, board directors and senior business leaders have given us their time and insights to paint a vivid picture of how they have been working these last few years, and what paths they visualize as they forge ahead. Challenges, both old and new, continue to test boards across the region as they grapple with competing demands: developing new strategies, courting new opportunities, anticipating risks, engaging diversity in the boardroom, and enabling independence of thought, all with the objective of creating added stakeholder value.

There is also an increasing urgency for organisations to align themselves with global standards of governance, which impacts a company’s standing in the eyes of shareholders, investors, employees, and consumers. With the regional drive to diversify economies and engage in new economic sectors, the pressure is on for board directors to steer their ships favourably which often means being more strategic and forward-thinking whilst being able to manage greater risks and uncertainty. This is demonstrated by the feedback received from the respondents of our survey, who are aware of the challenges that lie ahead and are gearing up to address them head-on.

There is also optimism – board directors are viewing regulatory changes as moving in the right direction, that the opening of regional markets will increase business and that overall regional board effectiveness has increased. There is an understanding that board leadership must be proactive, not reactive, and that the role of the Chair is critical in this respect. Finally, respondents of the survey have demonstrated that many of them are using COVID-19 as an opportunity to create positive, lasting changes in addition to improving their agility, risk management policies, and director competencies. As the adage goes, with every cloud comes a silver lining, and Gulf organisations are looking inward and improving as best as they can.

Building effective boards will be the core goal for regional organisations over the next few years, particularly as organisations regroup themselves and plot the most sustainable paths forward in the current climate. A strong, diverse group of board directors is essential to weathering future storms and ensuring the longevity of companies. A stellar board needs to be able to grapple with challenges such as climate change, regulatory shifts, evolving stakeholder expectations, geo-political concerns, and ensuring sustainability in parallel with profitability.

The GCC Board Directors Institute has been at the helm of developing effective board directors for the last 14 years. We have adapted to the differing needs of regional boards, as well as introducing globally relevant discussions to the region on new socio-economic trends through our international network. As time passes and the needs of regional boards change, we will continue to be at the forefront of director development, corporate governance improvements, robust regulatory guidance and board effectiveness.

Through this report, we have engaged our diverse pool of members to solicit their opinions on where they want to go next – and we will be by their sides. It is therefore our honour to present this report and the immensely valuable insights of our members. We are grateful for their time and support, and we hope to continue offering the latest insights on best practices in corporate governance and board direction to our esteemed stakeholders.

**Jane Valls**
Executive Director
GCC Board Directors Institute


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# Summary and Recommendations

Gulf countries are under increasing pressure to align their companies' governance practices with those generally considered best practices in other leading regions of the world – the key metrics by which companies are assessed for investment and a range of other purposes. According to the results of the 7th GCC Board Directors Institute's Board Effectiveness Report[1], directors in the Gulf share a growing awareness of the need to implement practices that promote greater board transparency, independence, diversity, oversight, and risk management, even if that awareness is still steps ahead of most companies' actual practices.

Change is likely to be accelerated in the next few years, driven by ambitious government privatization agendas, energy transition, and increasing foreign direct investment across the Gulf. These macro-trends are driving new regulations and alignment with global standards, at least for public companies.

For years, companies in Gulf countries were able to rely on domestic support from lucrative oil reserves but now, with oil prices volatile, they find the need to compete for capital from foreign investors alongside many other countries. That means they are more closely scrutinized as investment prospects, including for adherence to many now widely accepted global governance best practices. One focus of needed change is adopting practices that promote greater independence on boards that have been dominated by insiders, often with considerable conflicts that can collide with their ability to effectively and impartially represent all stakeholders.

## This report at a glance: 10 takeaways

Our 2021 Board Effectiveness Report examines a wide range of governance-related issues aligned with global best practices and uses them as benchmarks to assess progress on GCC boards.

Top insights from directors include:

1) **Pressure to change** – GCC boards are under significant pressure to adopt practices aligned with good governance elsewhere, as well as greater overall transparency into governance practices, especially if they are to successfully compete for critical foreign investment.
2) **Progress in critical areas lagging** – GCC boards demonstrate general awareness of the elements of an effective board, however, adoption of governance practices that directors link to effectiveness, such as those that promote diversity and independence, is lagging, with only 28% noting significant progress in the former in the past three years and far fewer, 16%, in the latter.
3) **Concerns about director talent pool and diversity** – Topping the list of chief barriers to greater board effectiveness was board composition and director capabilities (60%); 19% expressed concern about a lack of potentially competent directors.
4) **Increasing need for fresh director perspectives** – Ongoing global economic and industry shifts, along with fallout from the pandemic, have created awareness of the need to reassess the skills and experience required in new directors. The list of backgrounds that will be increasingly important includes strategic thinking (78%); digital experience (57%); risk management (48%); and sustainability (43%).
5) **Board and CEO succession planning require attention** – nearly three-quarters (72%) of respondents say they have no formal succession planning process in place for board positions, and only 16% say they have a succession plan for critical roles, such as chairman and committee chairs. Adherence to global CEO succession best practices is low: only 13% of boards have drafted or reviewed a formal CEO succession plan, and only 7% have discussed a detailed succession timetable.

1 Data discussions include current 2021 data, as well as 2019 and 2017 data where available and where they provide insightful contrasts. As survey questions continue to be added and refined to reflect a changing global environment, prior year comparisons are not always possible.

# **Summary and Recommendations** continued

6) **Overall satisfaction with board meeting practices** – There was overwhelming agreement that board meetings follow a clear agenda with sufficient time allotted to key topics.
7) **Insufficient time on strategy for some** – Given that it is a fundamental responsibility of the board, the fact that 18% of respondents do not believe the board devotes enough time to strategy is a red flag. Respondents indicate that their boards will need to spend more time in the future on key areas, including business model disruption (75%) and technology disruptions (49%), which will have a major impact on strategy.
8) **Further work to institutionalize CEO and board evaluations** – While there is clear progress on acceptance and implementation of board and CEO evaluations – with the caveat that we have little insight into what these processes actually consist of – nearly a fifth (20%) of respondents indicate that they are only now looking into introducing a board evaluation process.
9) **ESG emerging as a key area** – While currently only half (50%) of respondents say ESG is sometimes discussed at board meetings, and 21% say it never is, respondents overwhelmingly agree (89%) that actively working toward sustainability will help their board create long-term value.
10) **Lessons from the pandemic** – As with boards everywhere, the prolonged stress test of COVID-19 revealed both strengths and weaknesses on GCC boards. A clear majority of respondents thought their board had navigated unprecedented challenges successfully (61%), while over a fifth (22%) said their board had not managed well but had learned and implemented valuable lessons to address shortcomings. Those lessons included needed support for digital board engagement (87%) and greater emphasis on environmental and social issues (84%).

As GCC boards move from awareness of global best practices to implementation, we recommend the following practices:

- **Adapt global best practices for maximum effectiveness in the Gulf** – governance practices borrowed from other regions must be tailored, rather than merely transplanted, to firmly take root. With global practices as a guide, GCC boards can determine how growing investor demands for greater transparency and independence can be successfully satisfied on their boards given varying cultures and histories.
- **Prepare to compete for the best director talent** – GCC boards should keep in mind that there is always a scarce supply of the best talent, for boards as everywhere else. Adopting some of the more progressive governance practices discussed in this report will make boards more attractive to prospective directors as well as investors. As boards seek out new members – particularly diverse directors who are in high demand worldwide – they should make the most of these changes.
- **Reassess the agenda** – As the engine of any company, strategy must be a primary focus of the board, and strategy-related discussions should regularly be on the board meeting agenda. To ensure sufficient attention and depth of discussion, and the ability to shift strategic priorities as needed, boards might consider adding regular strategy-focused board retreats for deeper dives. Boards will also benefit from ensuring sufficient time to focus on sustainability, talent, and CEO succession.
- **Build in regular board and CEO evaluations** – As strategy inevitably shifts, what constitutes an effective board or CEO will likely shift accordingly. Align strategy and evaluation processes to ensure the skills and capabilities the company is seeking in board members and CEOs map closely to what will required for success in the future. Reviews should be regular, and succession processes transparent.
- **Remain agile, adding new practices and changing as required** – GCC boards demonstrated a capacity to adapt to the demands of the global pandemic and, by institutionalizing a variety of lessons learned, have emerged stronger. By maintaining that momentum and shifting focus as needed to new, crucial areas of focus – such as ESG – these boards can become serious contenders in the global governance community, making them more successful at effectively serving all stakeholders.


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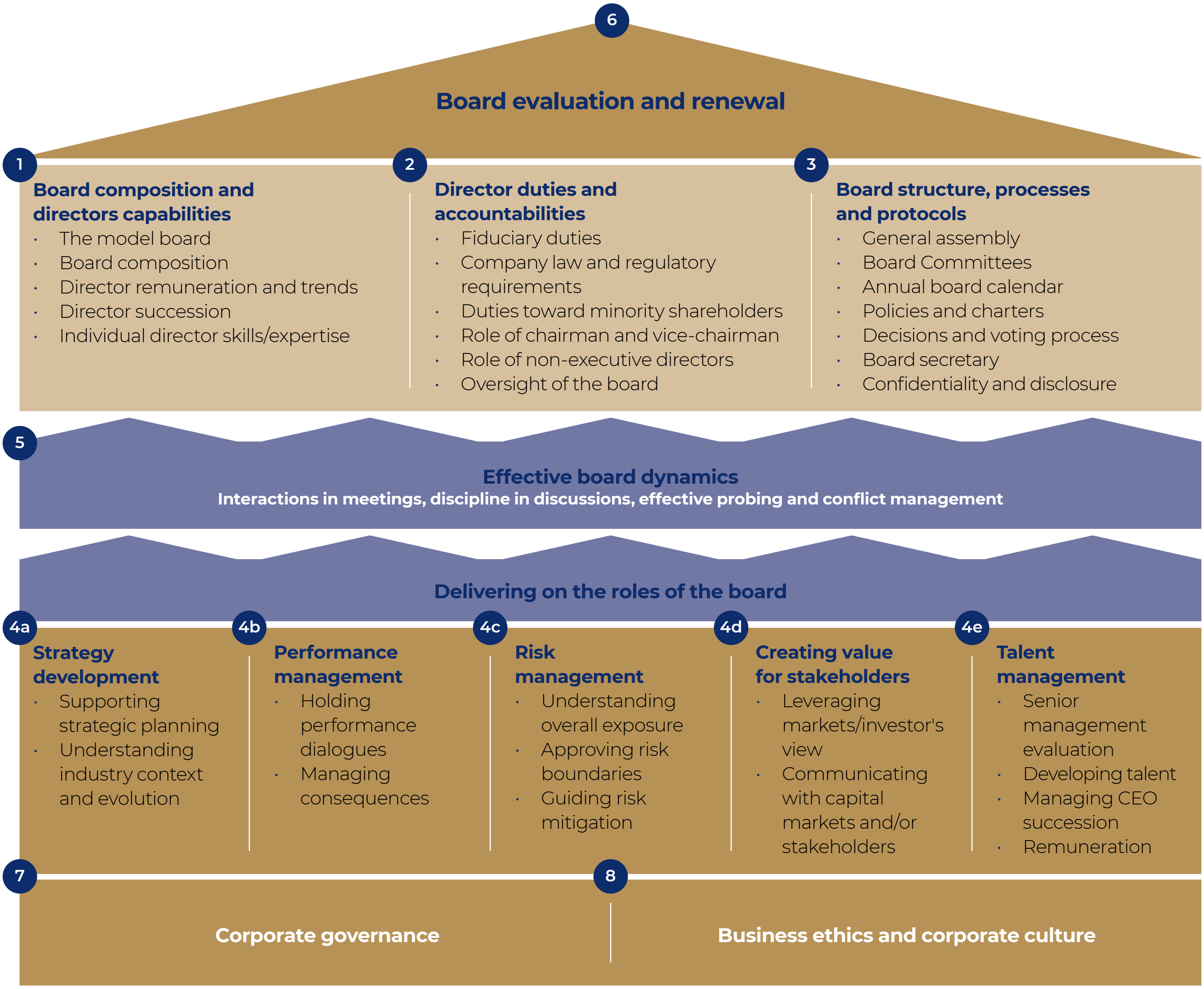
# About the Report

This is the 7th report on board effectiveness in the GCC produced by the GCC Board Directors Institute over the last 14 years. The report is based on a survey designed by GCC BDI and based on the GCC BDI Framework for Board Effectiveness.

This framework has eight key elements, namely:
1) Board composition and director capabilities
2) Director roles and responsibilities
3) Board structure, processes and protocols
4) Delivering on the roles of the board
5) Effective board dynamics
6) Board evaluation and renewal
7) Corporate governance
8) Business ethics and corporate culture

The survey and the report examine all these elements. This GCC BDI proprietary framework enables the evaluation of board effectiveness in the GCC in a structured manner, whilst allowing for flexibility to highlight emerging trends emanating from GCC BDI's work in the region.

Figure 1. GCC BDI Framework for Board Effectiveness



# **About the Report** continued

This year's survey comprised 103 questions, which were disseminated to all GCC BDI members and board directors to seek their views on board effectiveness and challenges. Responses from 113 members were collected, reflecting a diversity of board member and executive views based on their role, company type, industry and country. In addition, open-ended and confidential interviews were conducted with 12 individual senior GCC board members, executives and other experts, to discuss the survey results and to probe into specific issues highlighted as being of concern to board members.

In terms of the demographics of survey respondents, Saudi Arabian respondents made up most of these (40%), followed by Bahraini respondents (7%) and Emirati respondents (4%). The majority of all respondents (34%) had 10 years or more of board experience, while 22% had 1-3 years of experience and 19% had 4-6 years of experience.

Most respondents (61%) sat on boards of entities domiciled in Saudi Arabia, followed by the United Arab Emirates (28%) and Bahrain (14%).[2]

64% of the respondents held board positions in privately-owned companies, and 27% on the boards of family-owned companies (both listed and non-listed). 11% sat on the boards of state-owned entities, and 23% sat on boards of listed companies.[3]

83% of the survey's respondents were men and 17% were women. This is in line with research that demonstrates only 3.5% of listed companies have a woman on the board in the Gulf region, and highlights the necessity of increased gender diversity on regional boards.

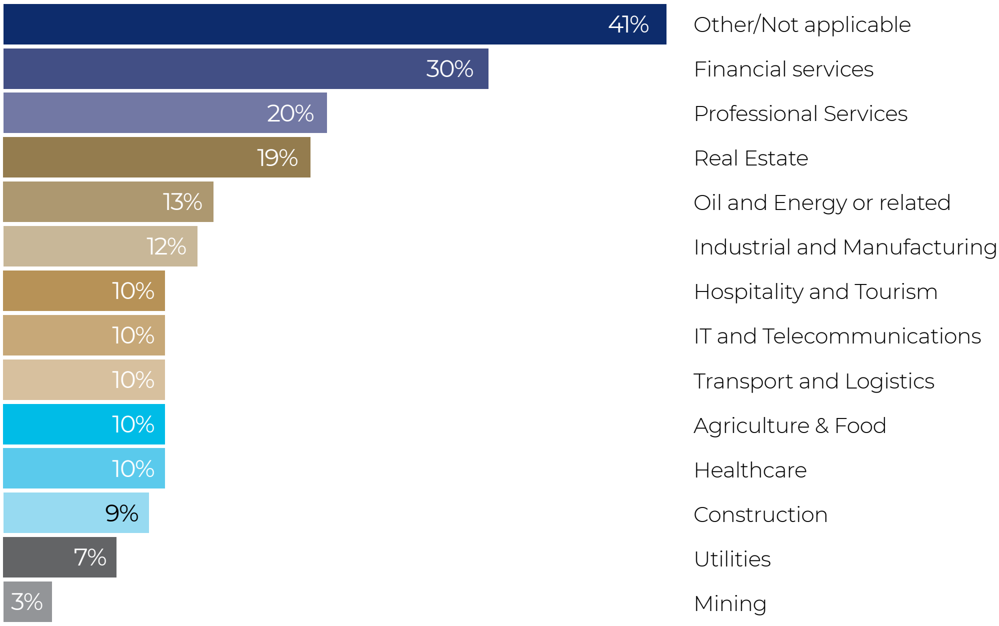
In terms of board positions, 55% of respondents had been board committee members, 51% were non-executive directors, 48% were executive directors, 43% were chairs of the board, and 41% were board secretaries.

The survey saw respondents from a wide range of economic sectors. 30% of the respondents were from the financial sector, 20% from professional services, 19% from real estate, 13% from oil and related services. The graph below demonstrates the sectoral breakdown of the survey's respondents.

2 The National, "All listed UAE companies now need at least one female board director," 15 March 2021, https://www.thenationalnews.com/business/markets/all-listed-uae-companies-now-need-at-least-one-female-board-director-1.1184004
3 Respondents marked the multiple positions they have held on boards.

**The companies where you are a board member operate in the following sectors**

Figure 2




# 2021 GCC Board Effectiveness Review

## Continuing external forces on boards to change

Amid a shift in regulations intended to create greater transparency into Gulf companies' governance practices, as well as to shift requirements toward those now widely embraced elsewhere as best practices, the boards of these companies are starting to feel increasing need to change, as demonstrated in responses to survey questions.

In a global environment, where countries compete for foreign investment, governance and board composition policies viewed as in step with "modern" practices – and perhaps even more important, linked with greater productivity and financial results – represent a real strategic advantage in attracting foreign investors. Many respondents viewed their companies as still playing catch up to some extent with the rest of the world: 40% believed their companies are only partially in line with global regulatory change.

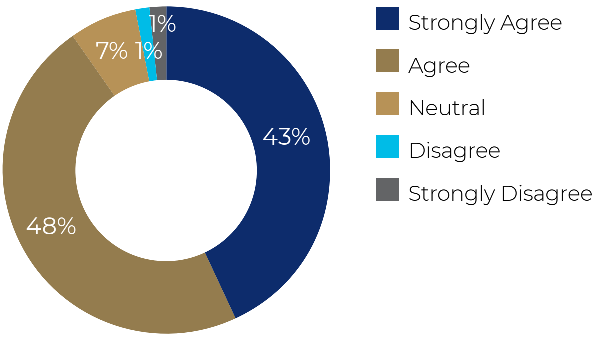
Even so, regulations are certainly getting notice from directors. When assessing current regulatory requirements regarding corporate governance, 15% of respondents believed there were excessive demands on listed (public) companies, more than twice the percentage of our survey two years ago. However, far more directors think regulations are heading in the right direction:

- 27% said the regulatory framework strikes the right balance
- 22 % said it was currently insufficient
- 30% said the problem was not insufficient regulations but weak oversight of their implementation.

Among the specifics: Respondents overwhelmingly agreed (90%) that the ongoing opening of GCC markets and companies to foreign investment necessitates a new approach to dealing with investors, including boards disclosing information to shareholders in accordance with global standards, with which 71% of director respondents agreed.

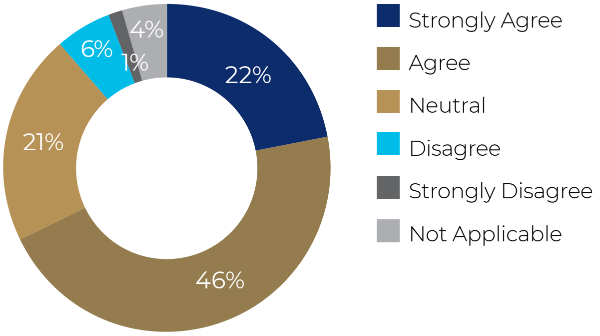
**The ongoing opening of the GCC markets and companies to foreign investment necessitates a new approach to dealing with investors.**

Figure 3



**The board ensures best-in-class disclosure of information to shareholders in accordance with global standards.**

Figure 4




Directors do perceive a gap between corporate governance rules and recommendations versus actual practices. The prevailing view of respondents is that oversight still requires strengthening. Only 17% of directors surveyed believe that corporate governance rules and recommendations in their country are fully in line with regulatory requirements and best practices. In addition, there is growing recognition of the need to not merely follow regulations but also to understand their importance, as 47% of respondents see some regulatory compliance in their country alongside emerging interest in good governance. Moreover, only 1 % of respondents indicate low compliance and interest in following existing requirements.

**To what extent do you believe that the implementation of corporate governance rules and recommendations in your country is reflected in actual corporate governance practices?**

Figure 5

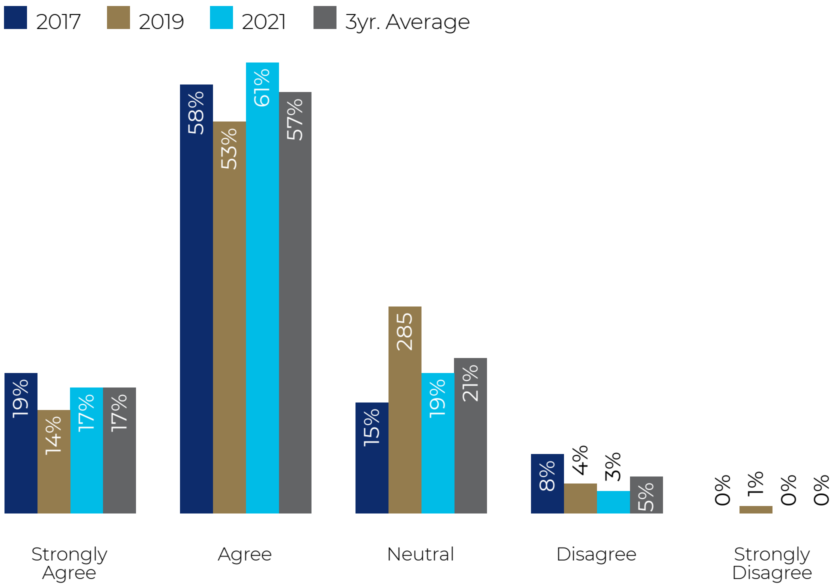
# Coalescing around the board's purpose and role

When adding to or evaluating a board of directors for effectiveness, most modern boards begin with the organisation's purpose: Whom do we serve? How are we doing in that regard? What skills and experience on the board will enhance our ability to serve key stakeholders and attract new investors?

Nearly two-thirds of directors (61%) believe that board effectiveness has improved in the GCC over the past three years. They indicate that Gulf boards are generally giving considerable weight to delivering on the purpose of the organisation. It was the first by far of their three top choices related to what makes boards effective – 60%, up from 42% in 2019 – followed by ensuring the long-term health of the company (57%) and the view that effective boards govern successful companies (34%).

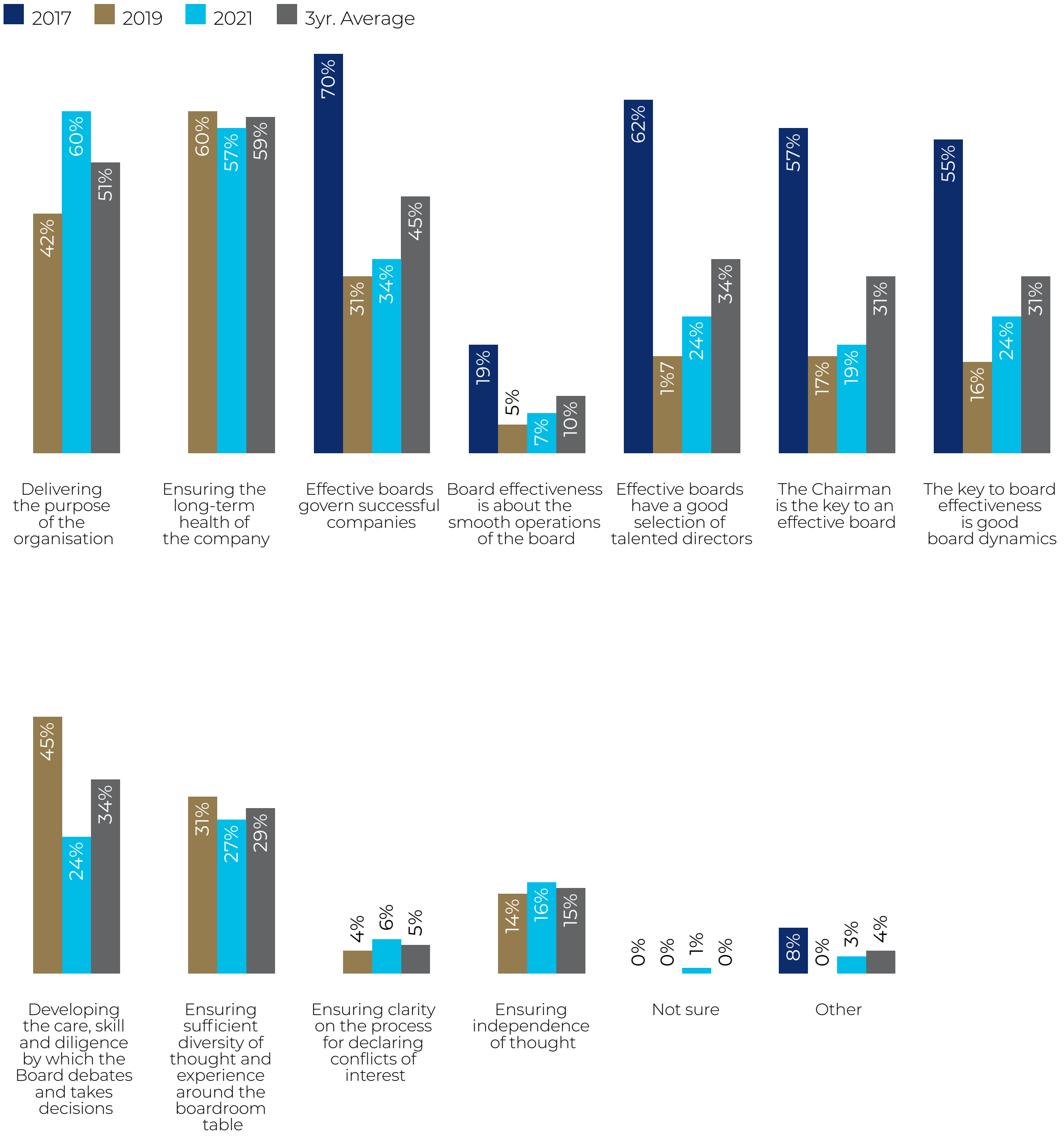
**Do you believe board effectiveness has improved in the GCC over the past 3 years?**

Figure 6




**What does board effectiveness mean to you? Please select the top 3 answers.**

Figure 7



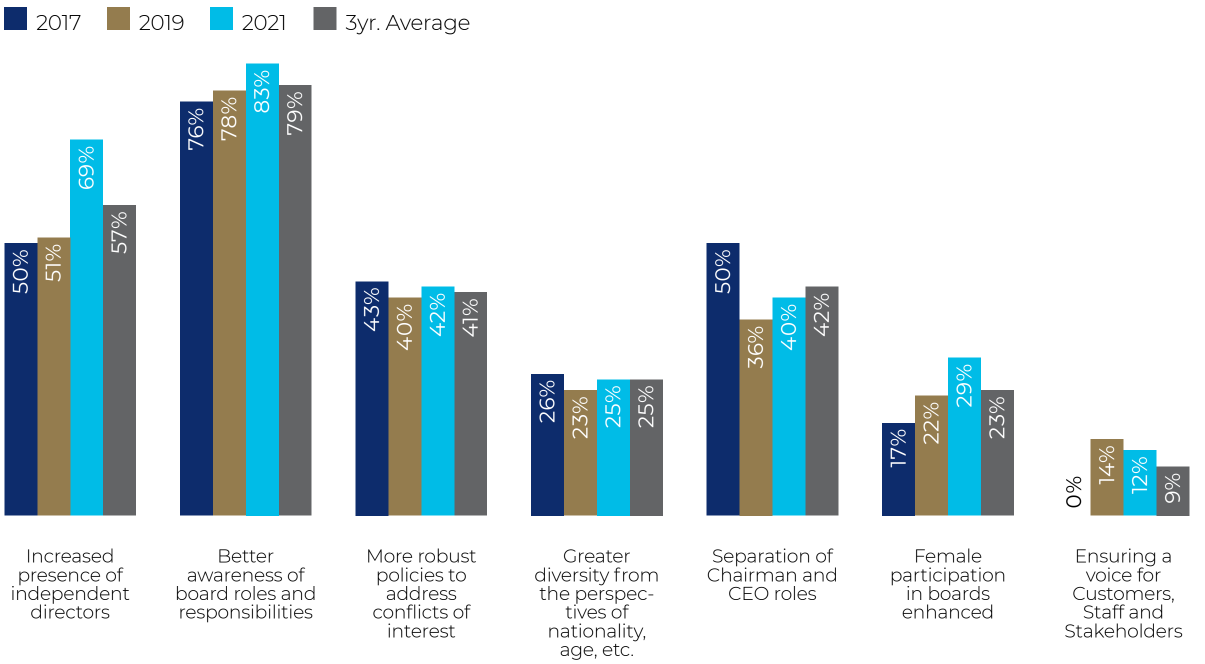
# Coalescing around the board's purpose and role continued

Asked in what areas GCC boards have demonstrated the most progress over the past three years, respondents cite better awareness of board roles and responsibilities (83%, up from 78% in 2019); increased presence of independent directors (69% vs. 51% in 2019); and separation of chairman and CEO roles (40% vs. 36%) as the primary areas.

A significant percentage of respondents also noted greater female participation (29%) and generally greater diversity, including nationality, age, and other measures (25%) as areas in which these boards had demonstrated the most recent progress.

**What does board effectiveness mean to you? Please select the top 3 answers.**

Figure 8




Still, director respondents placed considerably less weight on some related aspects of board effectiveness that get significant emphasis in other regions, such as ensuring sufficient diversity of thought and experience (27%, down from 31% in 2019); recognition that the chairman, as the board leader, is key to effectiveness (19 %); independence of thought (16%); and ensuring clarity on the process of declaring conflicts of interest (6%).

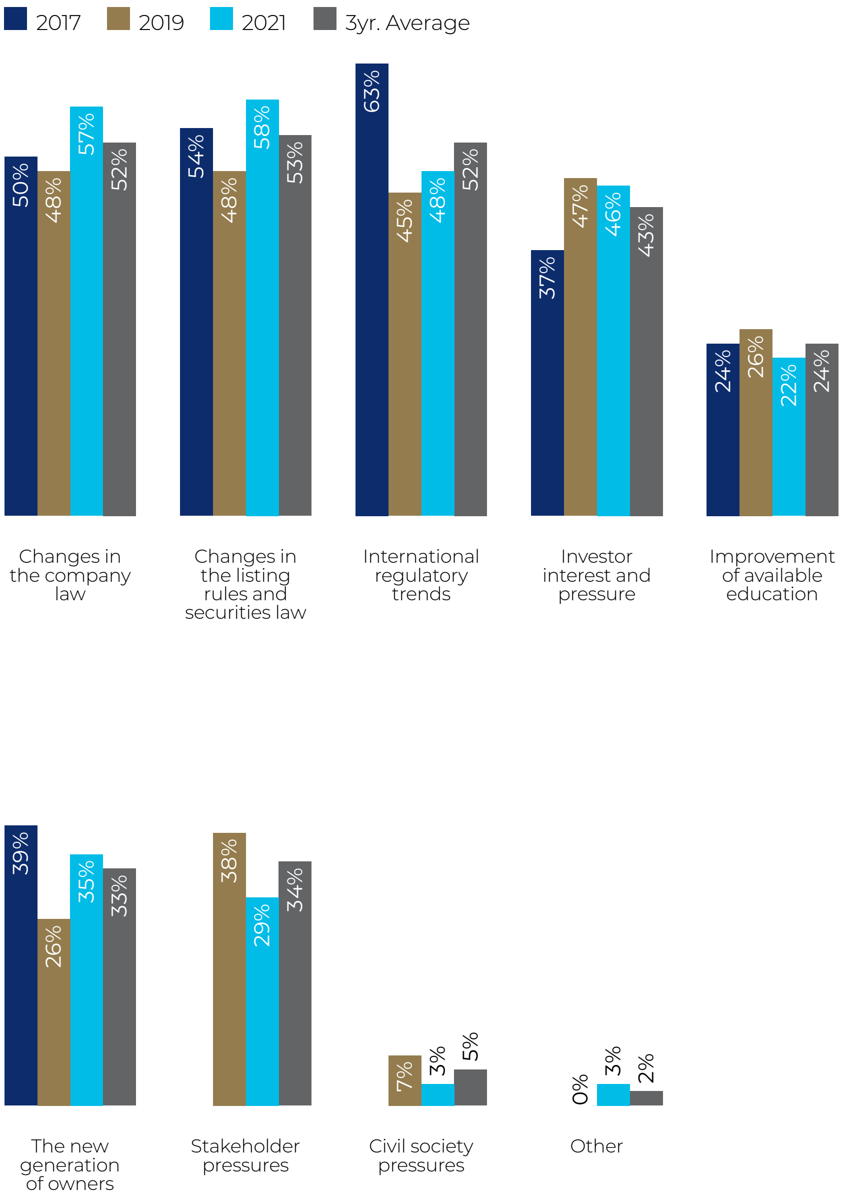
In other words, while board effectiveness appears to be viewed as an important goal, the elements that add up to what is generally considered an effective board – particularly those that help ensure board diversity and independence – are getting less consistent attention. A closer look at these areas tells a somewhat different story, however, as we explore further in a more detailed discussion of diversity, including women on GCC boards.

# Board effectiveness: What's helping and remaining barriers

When asked what factors had had the most positive impact on board effectiveness, respondents highlighted several ongoing trends associated with bringing GCC boards more into the prevailing governance mainstream and likely to make them more competitive, including: changes in listing rules and securities law (58% vs. 48%); changes in company law (57% up from 48% in 2019); international regulatory trends (48% vs. 45%), and investor interest and pressure (46% vs. 47%). A significant number of respondents (34.83% vs. 26%) also recognized the positive impact of a new generation of owners, who may be more attuned to the need for changes on boards linked to greater effectiveness.

**What are the factors that have most positively impacted on board effectiveness in the region? (please select top 3)**

Figure 9

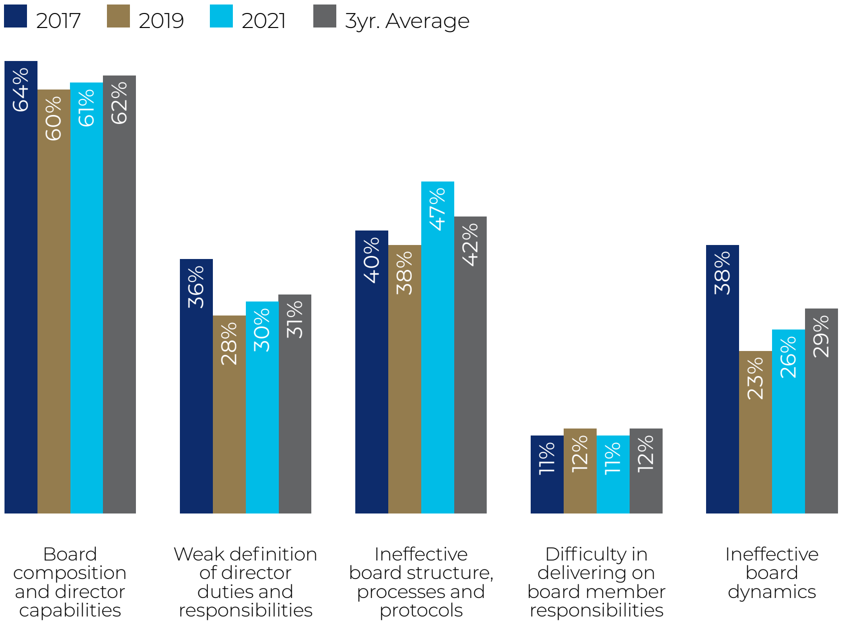


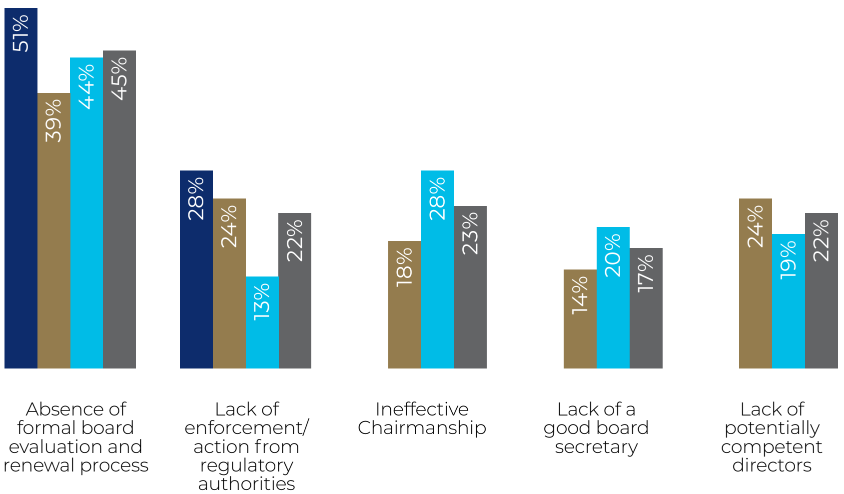
Given general awareness of the need to increase board effectiveness, and also the factors likely to have an impact, what do respondents perceive as the chief barriers? The most common was board composition and director capabilities (61%). In fact, 19% express concern about a lack of potentially competent directors for GCC boards. In addition, nearly half (47%) singled out ineffective board structure, processes, and protocols. And a large percentage (44%) cited the absence of a formal board evaluation and renewal process, which would likely help address the two earlier points.

# Board effectiveness: What's helping and remaining barriers continued

**What are the top barriers to improving board effectiveness in the GCC? (please select top 3)**

Figure 10



## The role of the chair

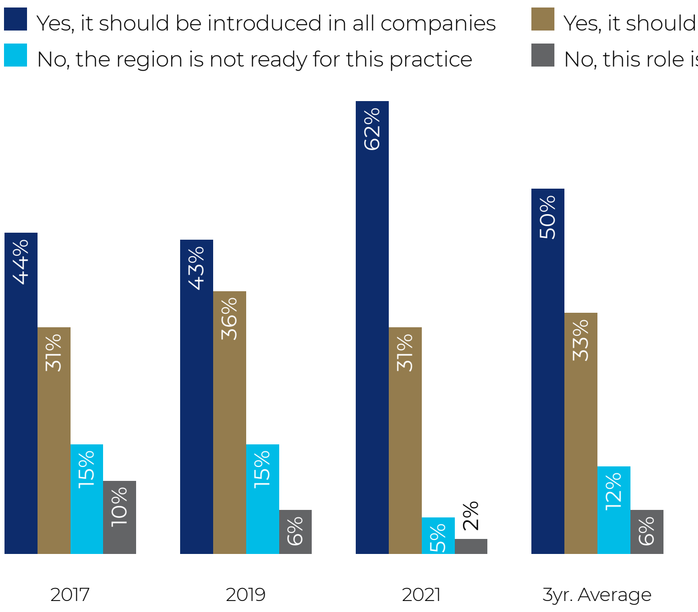
A significant percentage of directors (20%, up from 18% in 2019) also identified ineffective chairmanship as a barrier to board effectiveness. This is particularly noteworthy as highly capable, independent board leadership is routinely considered the linchpin of a high-performing board in many other regions. While not a hard-and-fast rule – and there is a good deal of variation by geographic region – separating the CEO and chair roles is increasingly a common practice to promote board independence. Splitting the roles usually means appointing an outside chair or lead director to represent the independent directors on the board, depending on country and company history.

Resistance to the practice of separating the CEO and chair is steadily dropping on GCC boards: in 2017 10% said splitting roles was not compatible with the dynamics of Gulf boardrooms; in 2019, that number had dropped to 6%; and this year even further to 2%. And just over two-thirds of respondents (68%) indicate that these posts are today held by two different individuals, though there were too few respondents weighing in on the effectiveness of either approach to allow for any sort of consensus.

Only a small percentage of respondents, 5%, say the region is not ready for the practice; this represented a decline from 15% in the two prior surveys. At the same time, acceptance of having a lead director for all companies is rising, from 44% in 2017 to 62% in 2021. A smaller percentage, remaining fairly steady at an average over the three years of 33%, believes this practice should be implemented in public and state-owned companies only.

**Do you believe the role of a lead independent director would enhance board effectiveness in the Gulf?**

Figure 11



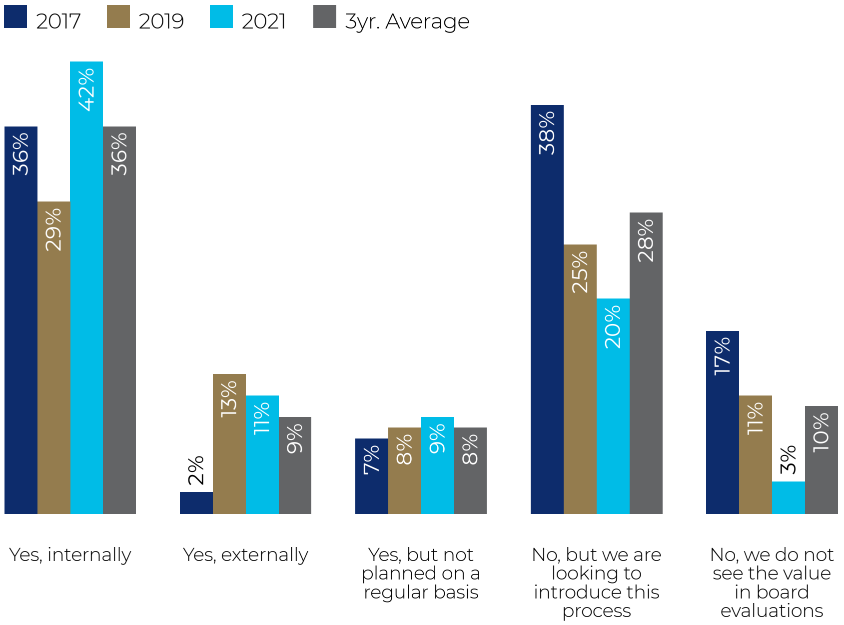
# Board effectiveness: What's helping and remaining barriers continued

## Assessing the board

GCC directors indicate an overall understanding of what makes them effective in many areas, and, globally, regular board evaluations are generally recognized as a key governance best practice. 42% of boards conduct an internal board evaluation (up from 36% in 2017) and 11% handle the process externally. Still, nearly a fifth of the boards (20%) are only now looking into introducing a board evaluation process, and 3.03% do not see the value in one, a significant drop from 17% in 2017. For those that are doing reviews, exactly what the process entails – whether it is more of a check-the-boxes exercise or one designed to illuminate areas for board and individual director improvement – is not clear. Best practice board evaluations gather insight into the effective functioning of the board as a whole, as well as board committees and individual directors. Only 14% of GCC directors said their boards met this standard. Admittedly, it's a bar that many boards globally have yet to attain, as well.

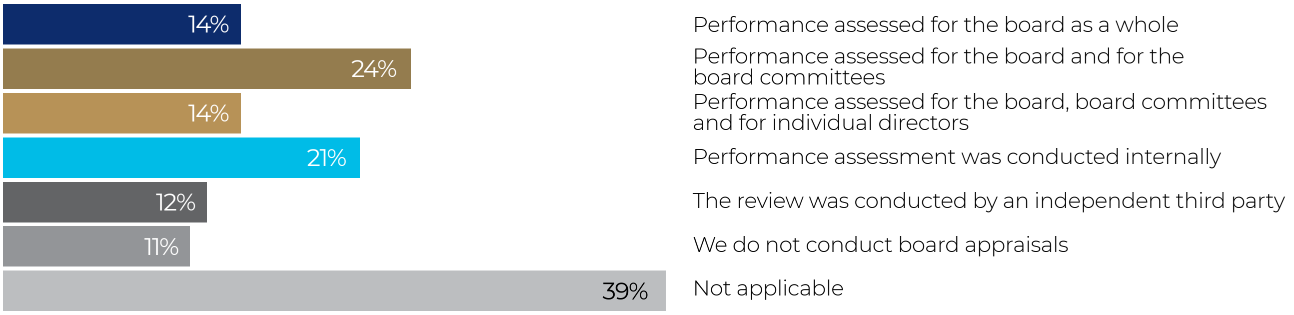
**Do you evaluate the board's performance and effectiveness?**

Figure 12




**How was your last board evaluation conducted? (multiple answers possible)**

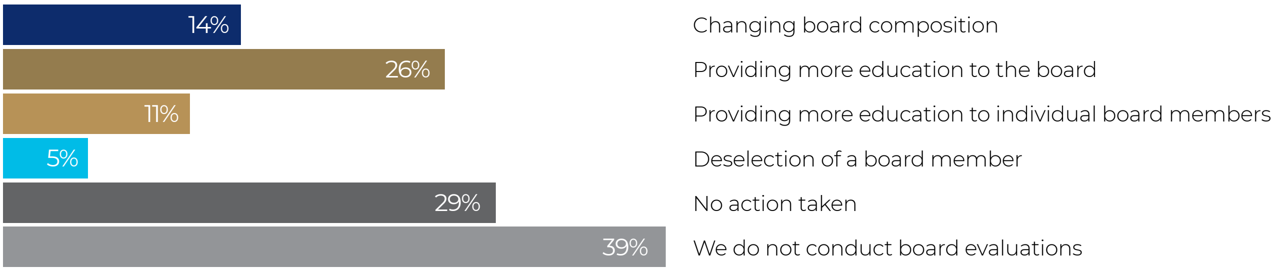
Figure 13




When asked what follow-up actions were taken as a result of board evaluations, 29% of respondents indicated no actions were taken, while 26% used evaluations as a basis for providing more education to the board and 11% to individual board members. Other responses indicated board evaluation results were used to change board composition (14%).

**What follow up actions were taken, if any, were taken as a result of the board evaluation conducted? (multiple answers possible)**

Figure 14




Nearly a tenth, 9%, of respondents indicate that evaluations are not done on a regular basis. That is significant because regular board evaluations can help identify needed skills as well as interventions that improve both individual and overall board performance. This systematic approach to enhancing board effectiveness is particularly important during times, such as the present, characterized by rapid global economic and industry shifts, where board may require new sorts of directors to remain competitive.[4]

When asked why their board had decided to have a board evaluation, 27% of respondents indicated it was the board's decision and 20% recognized it as a global best practice. Others had been spurred by external forces, including regulatory requirements (15%) and shareholder requirements (9%).

4 For more on how board reviews can accelerate competitiveness, see https://www.heidrick.com/en/insights/boards-governance/a_board_review_process_that_accelerates_competitiveness

# Assembling the most effective board team

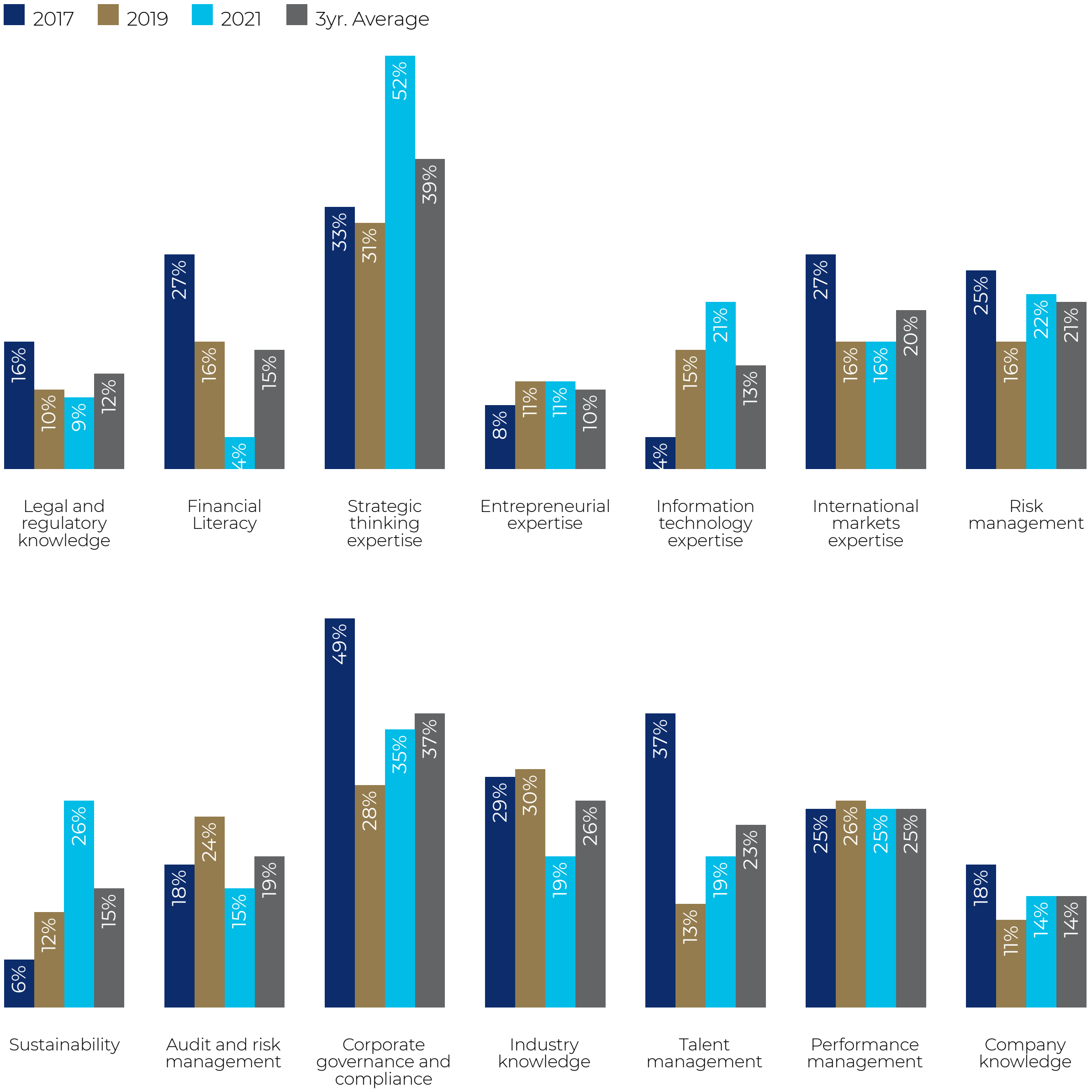
Building a thoughtfully designed, modern board of directors that represents a valuable asset requires a holistic, continuous process closely aligned with company strategy as well as purpose. Respondents' overarching concerns about board composition, generally, and capable leadership, specifically, indicate that many GCC boards have yet to address board succession in such a fashion.

One gap, cited by 44% of respondents, up from 36% in 2017, is the need for better board selection, induction (or onboarding), review, and development processes. This perception is closely related to the perceived need to replace ineffective board members (22% of respondents), who would presumably be identified in a regular board review. Also related is the need to improve existing board members' knowledge and capabilities, particularly in emerging areas of stakeholder interest, such as cyber risk or sustainability; director education would ideally be one aspect of an ongoing development process.

Asked about areas of expertise respondents would most like to see added to their current board, several priorities emerged, most representing a significant increase from two years ago: digital (57%); strategic thinking (52% vs. 31%); corporate governance and compliance (35% vs. 28%); sustainability (26% vs. 12%); performance management (25% vs. 26%); and risk management (22% vs. 16%).

**Looking at the main board on which you sit, where would you like to see more expertise? (please select top 3)**

Figure 15



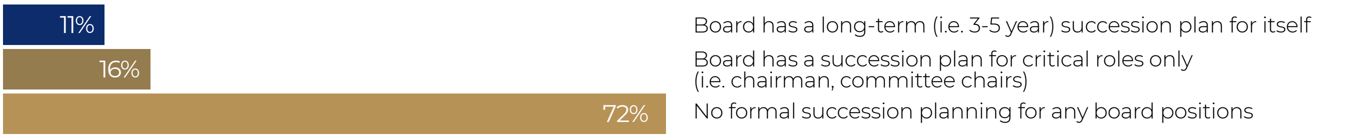
# Assembling the most effective board team continued

## A clear need for board succession planning

In the context of clear priorities for new skills, it's particularly notable that nearly three-quarters (72%) of GCC boards say they have no formal succession planning for any board positions. Only 16 % say they have a succession plan for critical roles, such as chair of the board and committee chairs.

**Does your board have a succession plan in place?**

Figure 16




Generally, boards that assess their current capabilities and composition and then determine future needs, as Gulf boards seem to be in position to do, will be in the best position to proactively recruit the right people. Many boards will benefit from cultivating relationships over time with people who have the experience and capabilities the board expects to need, whether they are currently available or not. In addition, boards may benefit from reassessing their size and cadence of refreshment as part of succession planning.

## Adding all kinds of diversity

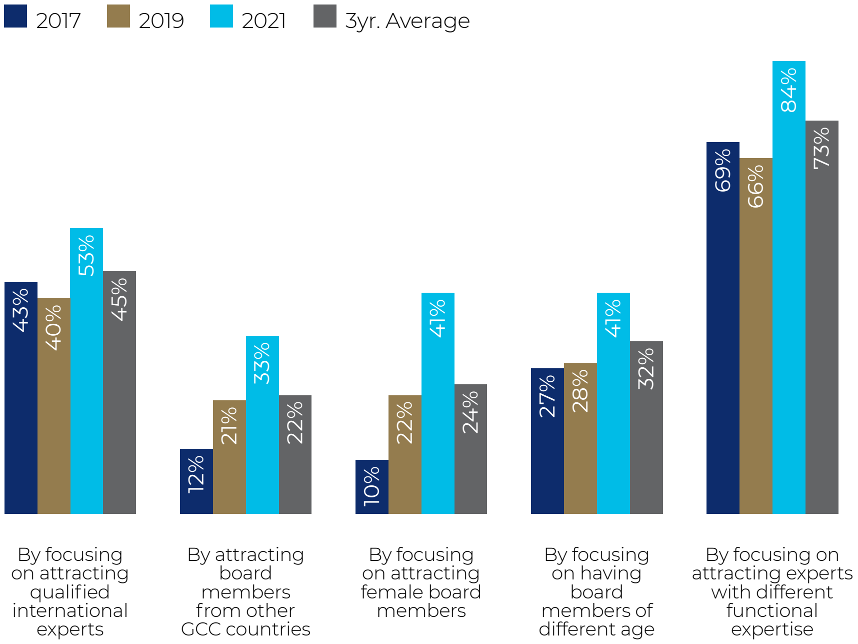
Part of succession planning for Gulf boards, it is clear, will be seeking greater diversity of directors. Globally, increased diversity – including but beyond gender or race or ethnicity alone – is now recognized as a recommended governance practice that enhances board discussions and problem-solving by adding different perspectives. In many countries it is a central stakeholder demand, and is also increasingly correlated with greater company profitability. Heidrick & Struggles reports track the share of new seats going to directors with a wide range of experiences in 24 countries around the world, and show increases in many types of diversity. For example, 40% of new US directors in 2020 had digital or social media experience; 60% of those in the US and 41% of those in Europe had international experience.

By many measures, Gulf directors say their boards appear to recognize the importance of attracting this diversity. The chief focus has been on attracting directors with different functional expertise (84% currently compared with 66% in 2017); followed by attracting qualified international experts (53% vs. 40%); directors of different ages (41% vs. 28%); female directors (41% vs. 22%); and directors from other GCC countries (33 % vs. 21%). That said, only 4% of directors believe appointing female board members would have a major impact on improving the composition of their board, the same percentage that expressed a need for international board members.

5 For more on setting the most effective context for board refreshment, see https://www.heidrick.com/en/insights/boards-governance/building_the_foundation_for_better_board_refreshment
6 For example, https://www.bloomberg.com/news/articles/2020-07-27/u-k-firms-with-more-women-on-exec-boards-outperform-on-profits
7 Cite Board Monitor US 2021, Board Monitor Europe 2021

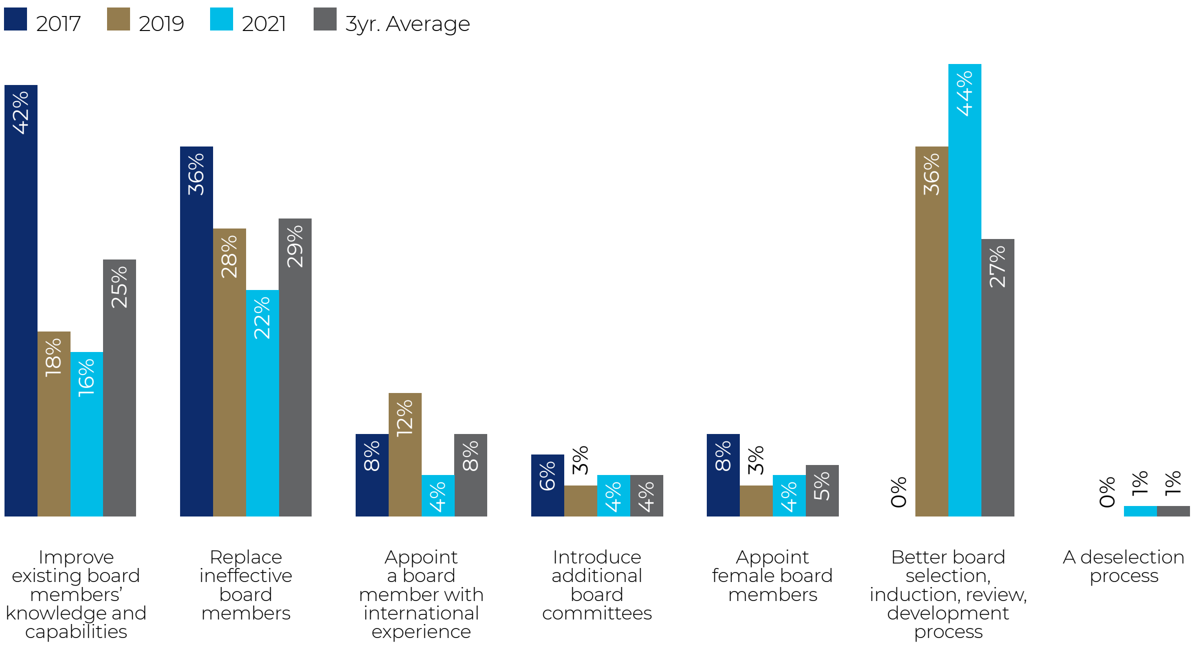
**How is board diversity promoted in your company? (please select the top 3)**

## Figure 17




**Which of the following would have the most impact on improving the composition of your board?**

## Figure 18



# Assembling the most effective board team continued

## A deep dive into gender diversity on boards

Given the worldwide focus on achieving gender parity on boards, many countries have stepped up efforts to recruit female directors. Not only do women often represent a significant proportion of many companies' customer and investor base, the number of women on a board is often a key metric considered by investors. On GCC boards surveyed, 43% still had no women directors, while 28.40% had one.

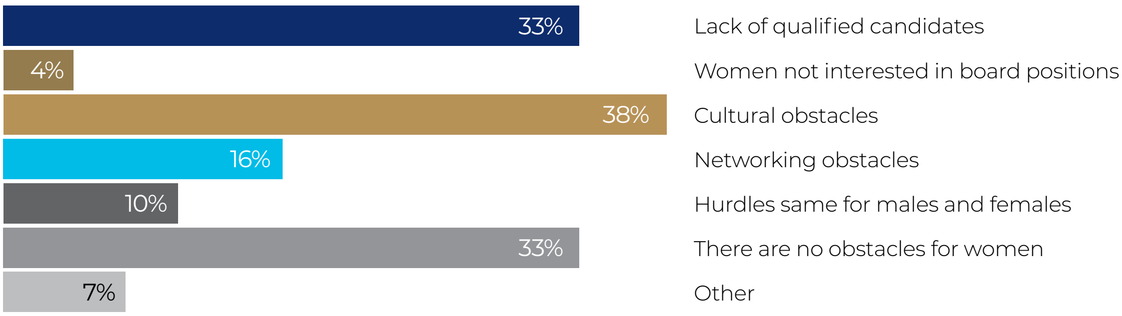
Progress toward such diversity has been slow for boards in many regions. Board Monitor US 2021, for example, saw a small dip in the share of seats filled by women, 41%, down from 44% the year before. In Europe, countries that have mandated gender diversity on boards by law, unlike the United States, have often led the way on gender diversity; the figure of new seats filled by women there hit 48%.

Indeed, it's useful to view this data in a larger cultural context. While women comprise 50-70% of all university graduates across the GCC, and they constitute about two-thirds of public sector workers, only some 10-30% are in leadership positions. Even so, there are organisations across the Gulf taking actions to improve board gender diversity among listed companies. For example, in the UAE, the Securities and Commodities Authority (SCA) recently recommended that all listed companies should have at least one female board member. However, Heidrick & Struggles' inaugural Board Monitor United Arab Emirates, for example, shows that women still only comprised 12% of newly onboarded members in 2020.[8]

Asked in this survey about obstacles in recruiting women, 38% of respondents mentioned culture, and given the history and tradition of many of these companies that is understandable. However, if they are to effectively compete on a global basis, companies will have to clear this hurdle. Somewhat surprisingly, 33% of respondents indicated there are no obstacles for women, while an equal percentage pointed to a lack of qualified candidates. As we have seen in other regions, if boards restrict director recruiting criteria to traditional candidates who constitute current corporate leadership, and often possess prior public board experience, they will most likely come up short. Companies that are serious about increasing female representation on their board can find many qualified candidates, with meaningful P&L experience, a level or two below top management. In addition, Gulf companies will likely benefit from seeking female directors from other regions.[9]

**Which of the following obstacles do you see in appointing women to boards (multiple answers possible).**

Figure 19

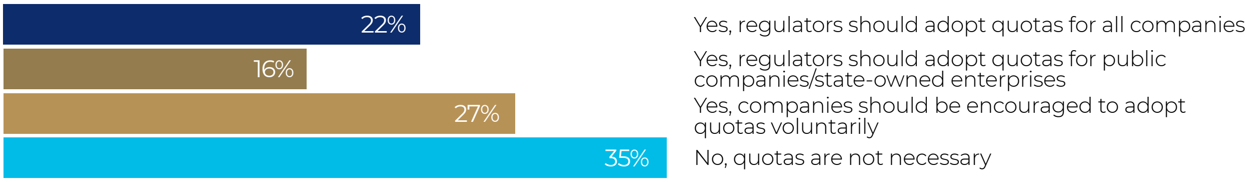



8 Footnote Board Monitor UAE 2021.
9 For more, see Board Composition and Diversity: a push for greater gender diversity

Directors on the whole do not think quotas on GCC boards are required to spur progress toward gender diversity. The largest percentage of respondents, 35%, say no, while 27 % believe companies should be encouraged to adopt voluntary quotas, and 22% say regulators should adopt quotas for all companies.

**Do you believe that quotas are necessary to improve women participation on boards in the GCC?**

Figure 20





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# Processes and culture that promote effectiveness

While recruiting directors with relevant skills and experience, aligned with a company's strategy and purpose, is essential to effectiveness, structure and processes that enable the board to work as a cohesive team are equally necessary. Well-designed board agendas, meetings, and group decision-making processes are crucial to a high-performing board.

Best-practice boards recognize that something as seemingly simple as the board meeting agenda actually requires a good deal of thought and planning if the board is to make the best use of its limited time, and be able to focus on the highest-priority items. Though many boards around the world use a traditional agenda that doesn't change often, they often benefit from a review that puts crucial items, or those that require significant discussion, first, and leave less urgent "housekeeping" matters for written reports, or for the end of a meeting.

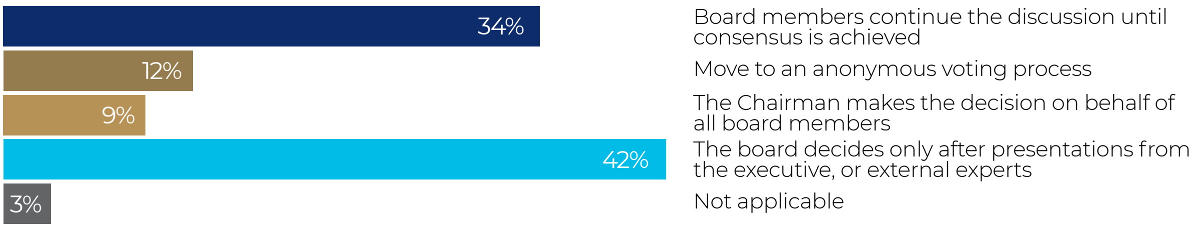
In response to a general question about the agenda, Gulf directors overwhelmingly agreed, by 90%, that board meetings follow a clear agenda and structure in ensuring sufficient time is allotted to key topics. There were similarly robust, positive responses to related questions about board meeting minutes, board member participation in discussions, and preparedness for board meetings.

## Making decisions

Regarding decision making in the boardroom, 34% of respondents say their board continues discussion until consensus is achieved, and 42% say the board makes a decision only after relevant presentations. Almost a tenth (9%), however, indicate that the chairman makes decisions on behalf of all board members. While this is a relatively small percentage of responses, to be sure, on the most effective global boards the chair's role is more one of facilitator than decision-maker-in-chief.

**Which of the following best describes how decisions are usually made in board meetings? If it varies from board to board, choose your main board and select one.**

Figure 21




From our experience, in board meetings, a capable chair will ensure the participation of all – drawing out those who may have divergent opinions or may be reluctant to participate. Of particular concern, and those who need most to be managed by the board leader, are directors who take up too much time, not allowing others to participate. While consensus is a worthy goal considering the weighty matters boards must decide on, speed is not. The more inclusive the board culture, the greater the variety of input, the greater the assurance the board has considered all angles, then the better the final decision.

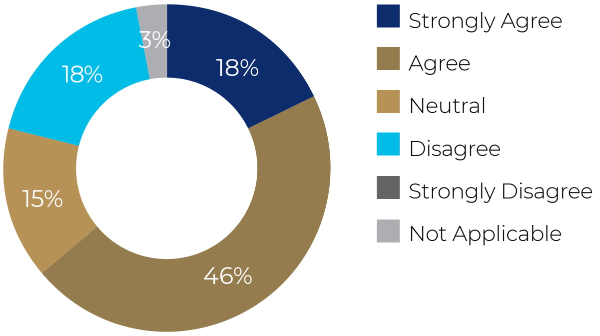
# Processes and culture that promote effectiveness continued

## Overseeing strategy

The board has perhaps no greater responsibility than determining and regularly refining company strategy, which aligns purpose with skills and experience required to execute, on the one hand, with the shifts and opportunities in the external environment, on the other. While the vast majority of respondents agreed that they spend sufficient time discussing strategy related to the business model (64%), a significant percentage (18%) do not believe the board devotes enough time in discussions on this critical area.

**Board members spend sufficient time discussing strategy issues related to the business model.**

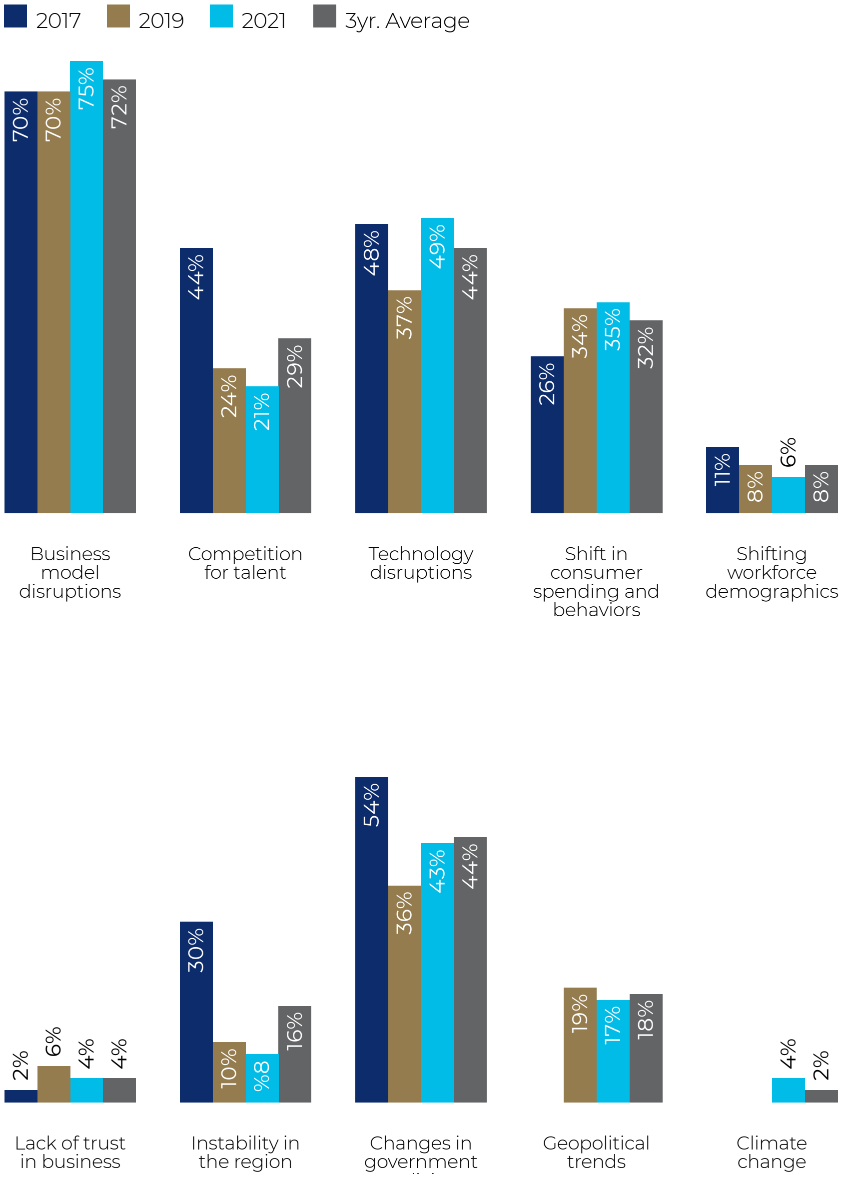
Figure 22




Given the volatile environment of the past several years, as well as major pandemic-related shifts, it's logical that respondents point to business model disruptions (75%) and technology disruptions (49%) as factors that will require the most board attention when overseeing strategy. To ensure an adaptive, successful strategy amid major change, respondents further believe the board must maintain focus on changes in government policy (43%) as well as shifts in consumer spending and behaviors (36%). The best talent is always in short supply – particularly in areas of new strategic emphasis, such as technology – and boards recognize that they must also remain aware of the competition for talent (21%).

**Which of the following factors require most board attention when overseeing strategy? (please select top 3)**

Figure 23

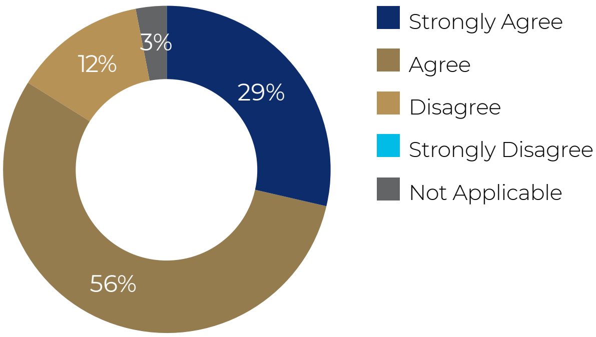


# Processes and culture that promote effectiveness continued

Effective risk management is integral to any company's strategy, particularly as new risks emerge. A central strategy-related role of the board is setting parameters for the company's risk. When it comes to evaluating and monitoring risk, respondents express a high degree of confidence in their boards, with 85% agreeing that the board is effectively involved in setting the risk appetite. On a related issue, directors were slightly less sanguine that their board had the necessary processes in place to deal with risks arising from international regional volatility: 13% said their boards had introduced new monitoring techniques, while 40% said their methods were adequate already. But more than a third (38%) indicated a need to upgrade board protocols.

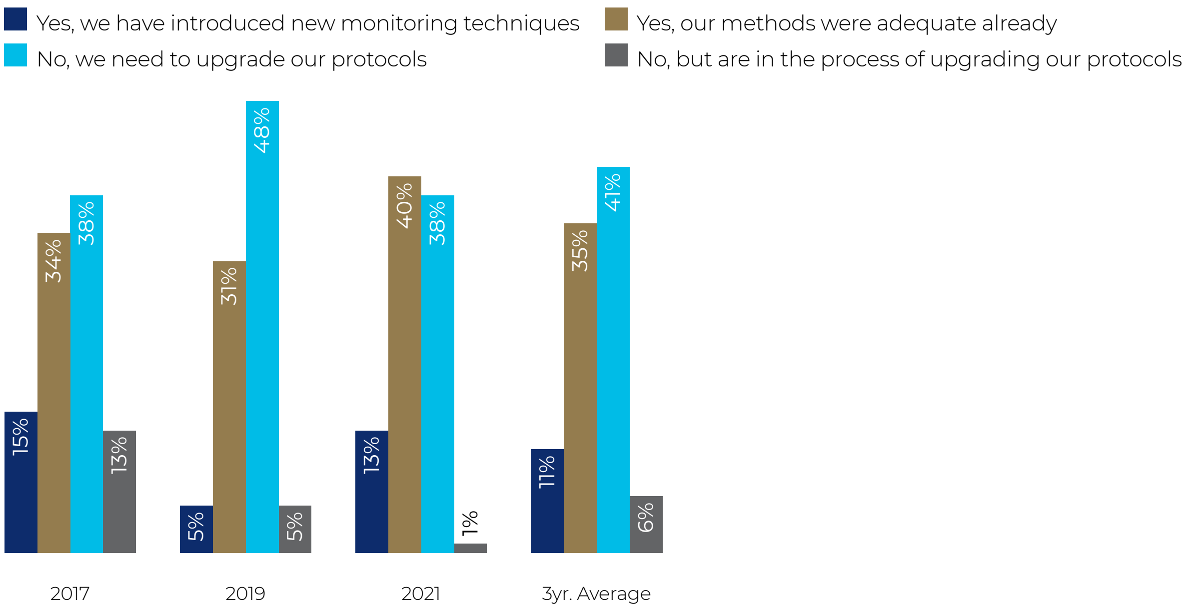
**The board is effectively involved in setting the risk appetite of the company.**

Figure 24




**Do you believe your board has the necessary processes in place to deal with the risks arising from the international and regional volatility?**

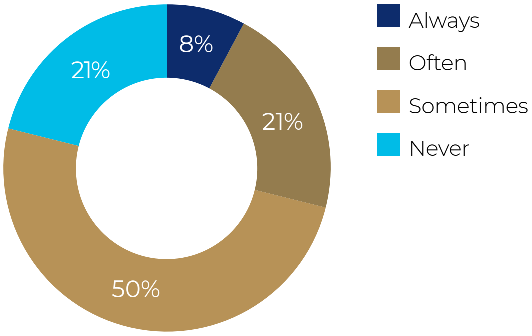
Figure 25



An additional aspect of strategic oversight is for boards to pay greater attention to issues related to the environment and society, as well as governance, all of which are of increasing significance and span the enterprise. Half of respondents to this year's survey (50%) say ESG is sometimes discussed at board meetings, while 21% said it never is. However, change appears to be in the offing. Respondents overwhelmingly agree (89%) that actively working toward sustainability will help their board create long-term value.

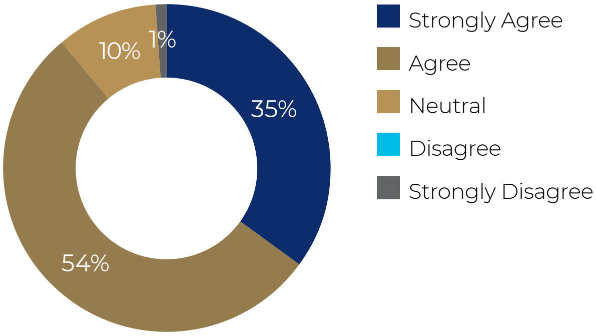
**How often is sustainability or ESG discussed at board meetings?**

Figure 26




**Do you agree that actively working toward sustainability will help your board create long-term value?**

Figure 27



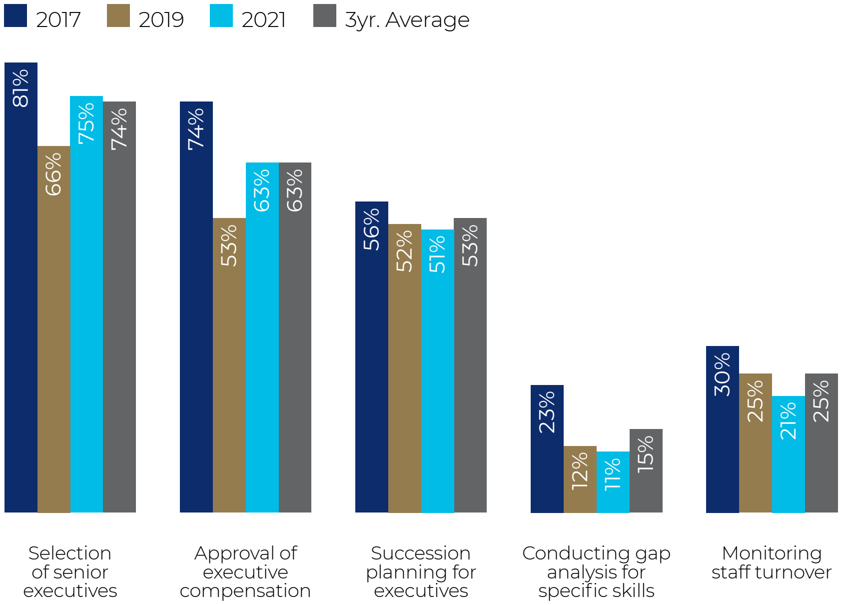
# Processes and culture that promote effectiveness continued

## Overseeing talent

Viewed in a longer-term context, responses indicate that board involvement in key talent management-related issues has been generally declining in the past few years. Respondents noted, for example, that input into the selection of senior executives was 81% in 2017 compared with 75% in 2021. Similar declines included that in involvement in the approval of executive compensation, 74% four years ago vs. 63% now; and succession planning for executives, 59% vs. 51%. With the urgent need to not only recruit but retain key talent amid current challenges, a drop in monitoring staff turnover is of particular concern, with only 21%, down from 30% in 2017, noting their board's active involvement in this area.

**The board is actively involved in the following areas of talent management in the organisation (multiple answers possible).**

Figure 28



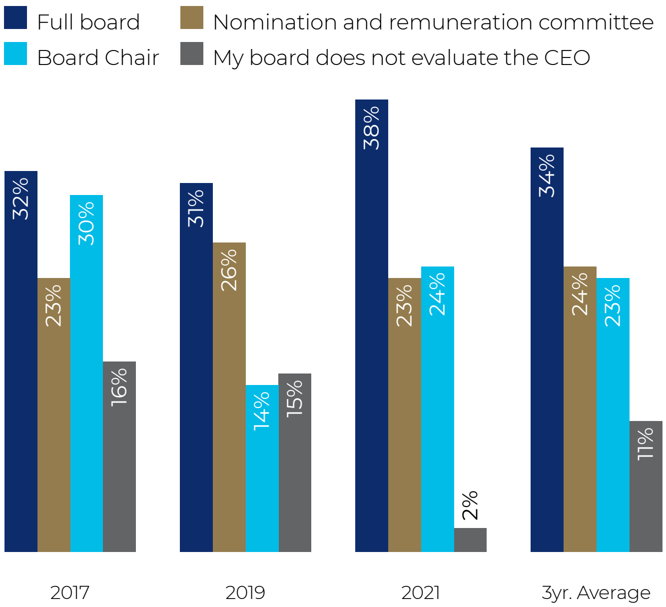

## CEO evaluation and succession planning

Effective CEO performance is so crucial to overall functioning of the enterprise that high-performing boards generally ensure the entire board is kept informed of developments, at the very least, if not more actively involved in the process.

The full board has primary responsibility for CEO evaluations on 38% of boards surveyed. On 23% of these boards, the nomination or remuneration committee leads the process, while on 24% that is the role of the board chair. And there is notable progress implementing CEO evaluations as a best practice, as they are on the most effective boards globally. In 2017, 16% of boards indicated they did not evaluate the CEO compared to only 2% now.

**Which group or individual has the primary responsibility for the CEO evaluation?**

Figure 29



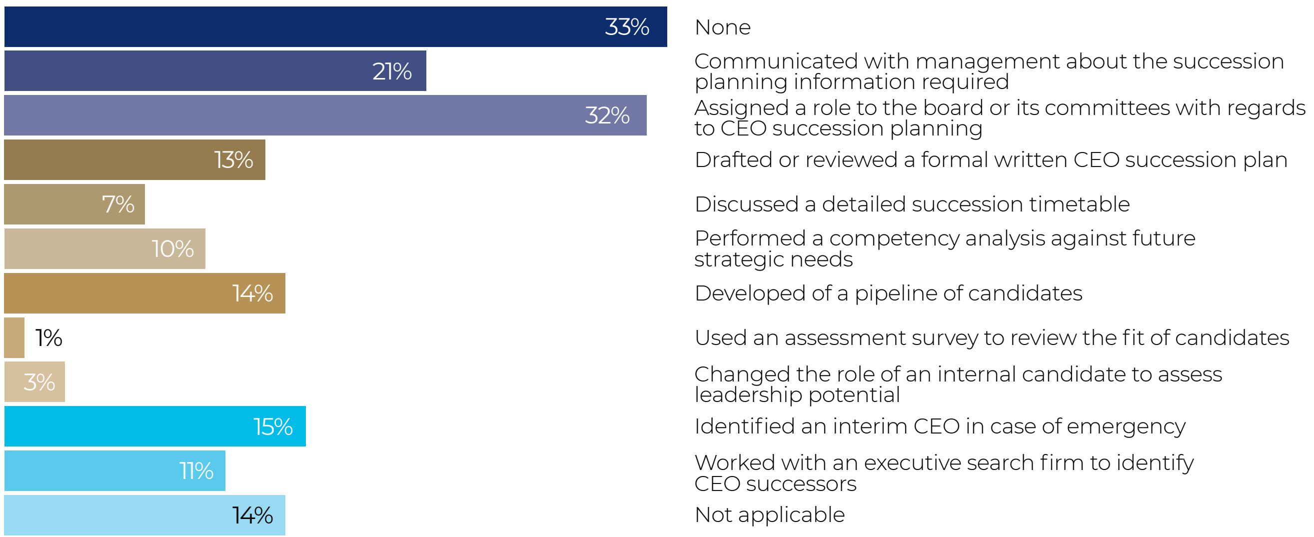

# Processes and culture that promote effectiveness continued

Closely related to CEO evaluation is succession planning. Given attention paid in recent years to the importance of CEO succession planning – including the many examples of companies left in limbo when a CEO has become ill, died, or left at short notice – this process is notably far from being institutionalized on GCC boards and remains substantially unchanged since 2017. Beyond assigning a role to the board or its committees with regard to CEO succession planning (32%), little in the way of specifics has been dealt with. Only 13% have drafted or reviewed a formal written CEO succession plan, and even fewer (7%, down from 16% in 2019) have discussed a detailed succession timetable.

But perhaps of most concern is the lack of attentiveness to building one or more profiles of future CEOs, understanding what leadership capabilities and skillsets the next CEO may need in the context of emerging strategic opportunities and challenges. A mere 10% of respondents say their board has performed a competency analysis against future strategic needs, only 14% have developed of a pipeline of candidates, and 15% have identified an interim CEO in case of emergency. Best practice companies closely follow CEO succession guidelines, including having an emergency and interim CEO succession plan, not only so they can remain current with needed CEO skills, but also so they are prepared regardless of the reasons for a CEO departure. As we have all learned over the past two years, emergencies happen, and companies must plan for them based on the most likely scenarios.

**Which of the following practices related to CEO succession has your board performed over the past 12 months? (multiple answers possible)**

Figure 30



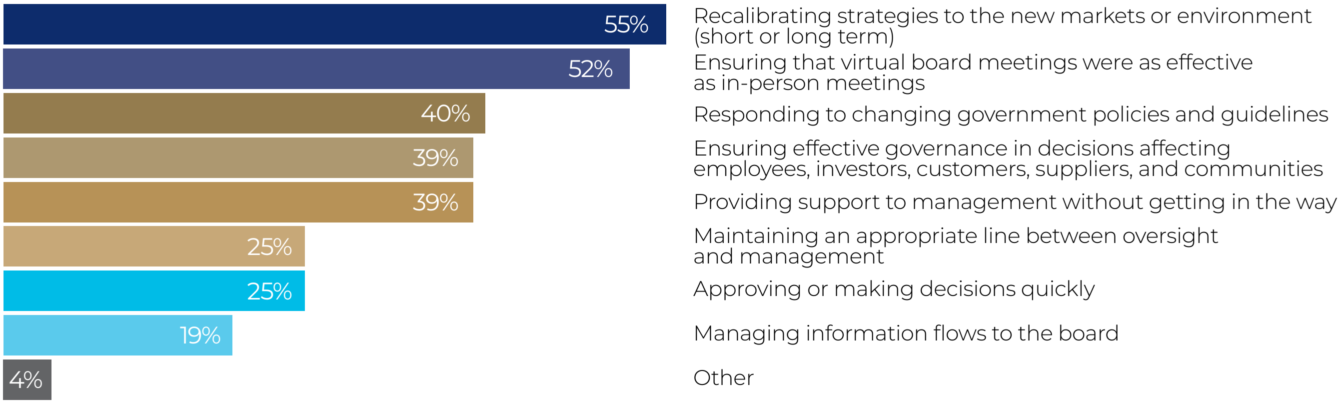
# The pandemic effect

There is not a company or board that isn't still feeling the impact of the 2020 global pandemic. Among Gulf-based companies, we found that, in many ways, the pandemic has been a catalyst for needed change.

GCC companies and their boards, like those everywhere, were forced to adapt to rapidly shifting conditions to remain afloat, recalibrating strategies to adapt to new market and environmental conditions was a top challenge, according to 55% of respondents. Agility was required to adapt to the need for effective virtual board meetings (52%); sensitivity to the needs of a range of stakeholders, including employees and investors, was also top-of-mind (39% of respondents), as was the need to provide support to management while observing management/governance boundaries (39%).

**What were your board's top challenges in responding thus far to the COVID-19 crisis? (please select the top 3)**

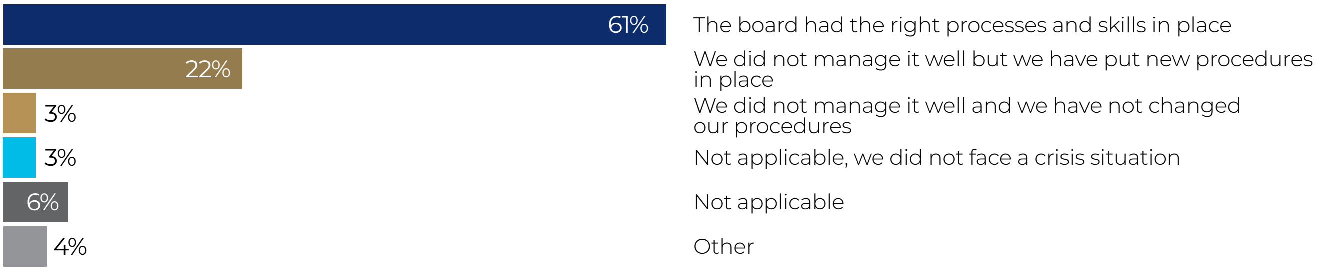
Figure 31




A clear majority of respondents thought their board had navigated successfully through the COVID-19 crisis with the right processes and skills in place (61%), while over a fifth (22%) said their board had not managed the crisis well but, lessons learned, had put new procedures in place to address shortcomings.

**How has your board managed the COVID-19 crisis?**

Figure 32

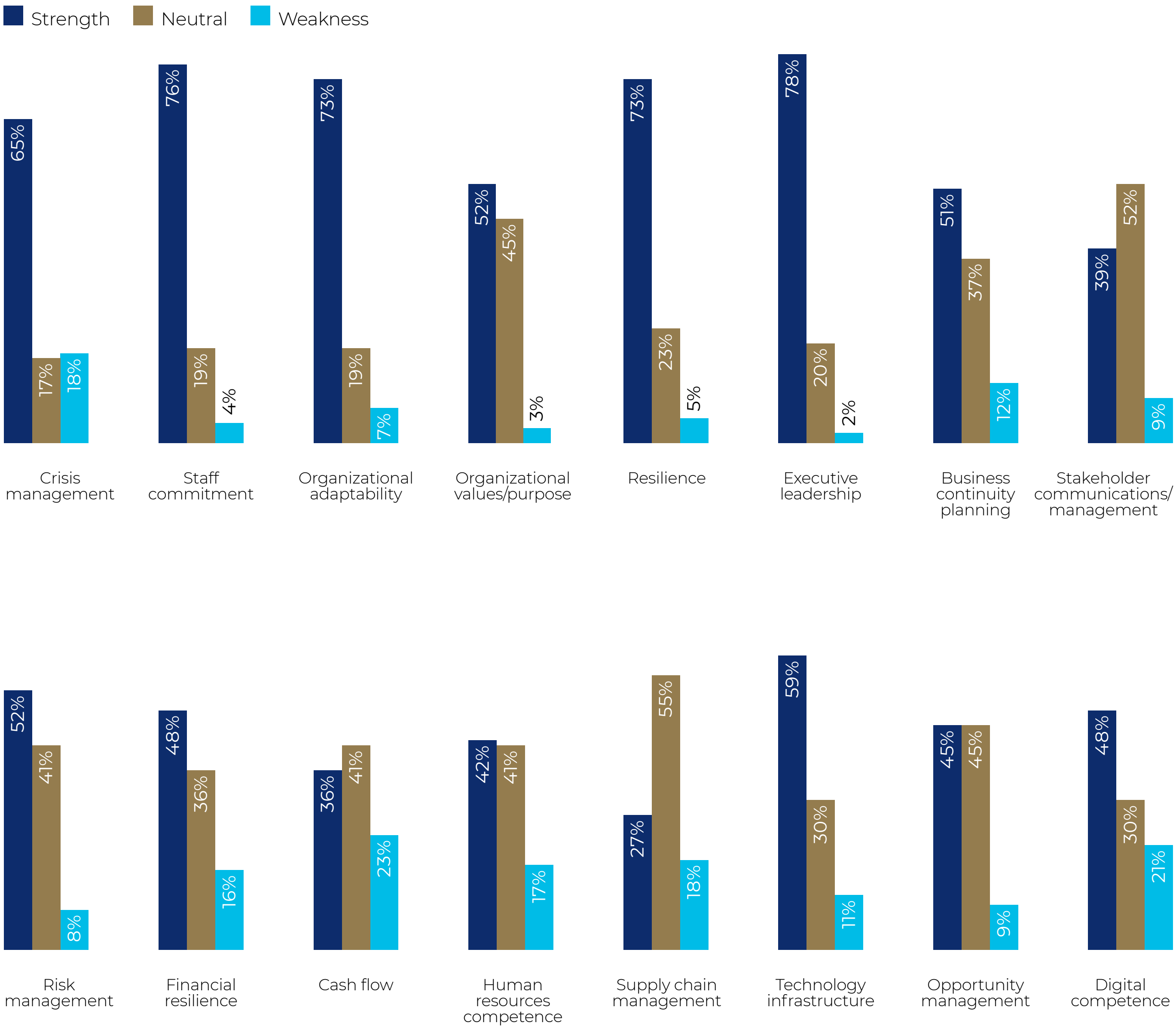



Many respondents said the crisis had revealed particular organisational strengths across their companies, chief among them executive leadership (selected by 78%); staff commitment (76%); and organisational adaptability (73%). Conversely, the primary weaknesses brought into stark relief included cash flow (23%); digital competence (21%); and crisis management (18%).

# **The pandemic effect** continued

**Has COVID-19 highlighted any organisational strengths or weaknesses? Please select which of the following were either a strength or a weakness.**

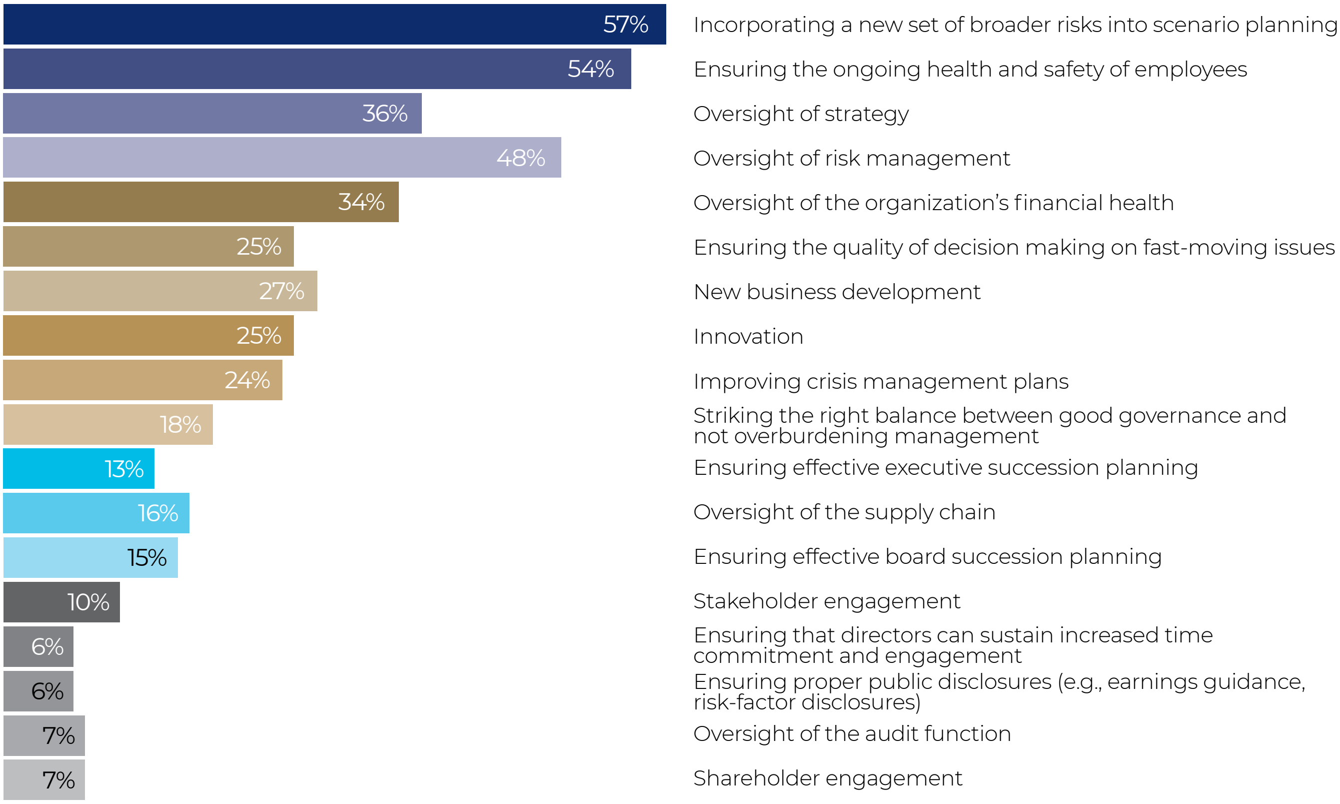
Figure 33




Although it may not be possible to predict the next crisis, directors surveyed note broader risk scenario planning (57%), ensuring the ongoing health and safety of employees (54%), and oversight of risk management (48%) as key aspects of effective governance long term as a result of the pandemic. Somewhat contradictorily, much smaller percentages anticipated a long-term impact on improving crisis management plans (24%) or stakeholder engagement (10%).

**What areas of governance will have the most significant long term impact due to the crisis? (multiple answers possible)**

Figure 34



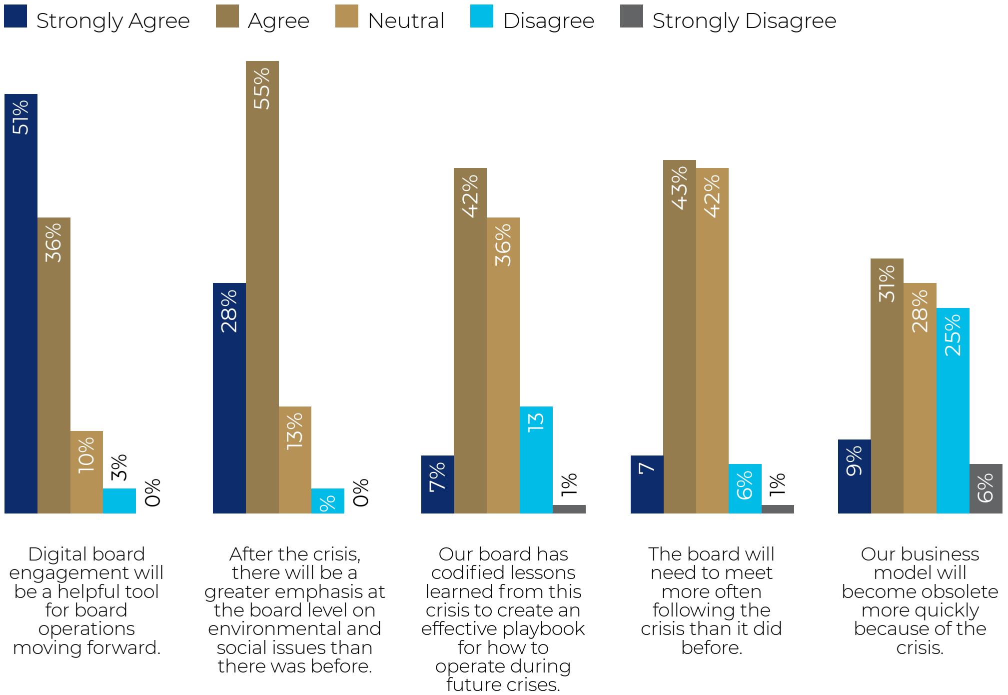

Directors also show greater awareness of the importance of digital board engagement (87%); a need for greater emphasis at the board level on environmental and social issues (84%); and recognition that the company's business model would become obsolete more quickly (40%).

All that said, directors expressed optimism regarding yet unknown challenges, indicating their board had codified lessons learned from the pandemic to create an effective playbook for how to operate during future crises (49%).

# **The pandemic effect** continued

**To what extent do you agree or disagree with the following statements?**

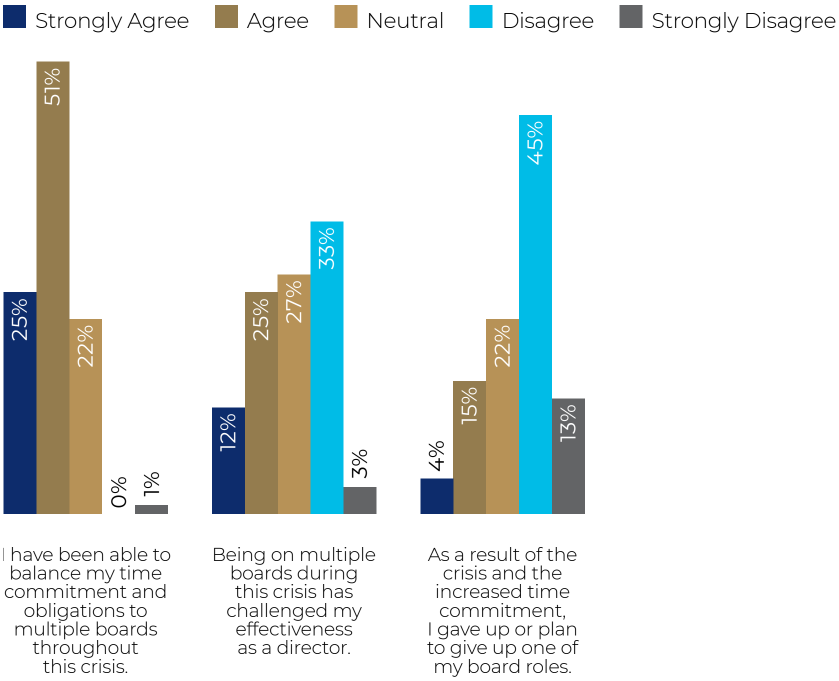
Figure 35




Finally, when asked about the impact on them personally, as directors, most respondents gave themselves high marks but admitted to being challenged. Just over half, 51%, agreed, 25% strongly, that they had been able to balance time commitment and obligations to multiple boards throughout the crisis. Notably, that time commitment had increased markedly for many directors: 43% estimated it had increased by half, while 22% said it had doubled. And some perceived a negative impact on their ability to contribute on their boards: 25% agreed, 12% strongly, that being on multiple boards during this time had challenged their effectiveness as a director.

**How much do you agree or disagree with the following statements?**

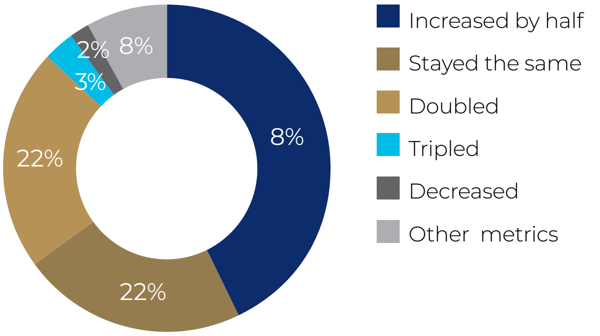
Figure 36




# **The pandemic effect** continued

**What best describes how your time commitment as a director has changed during the COVID-19 crisis?**

Figure 37



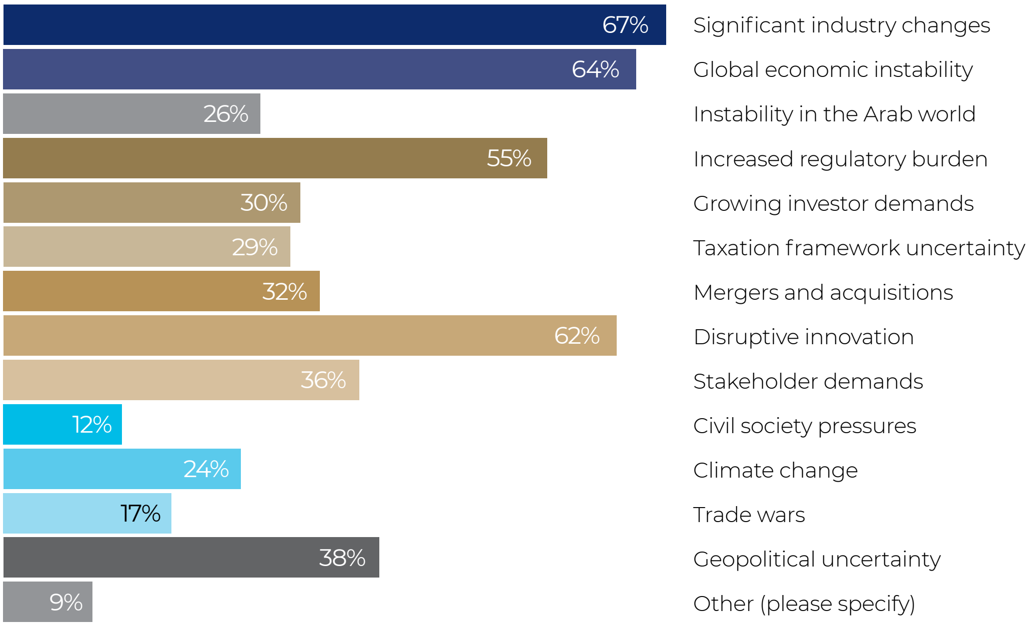

Many fewer, however, only 19%, indicated they had given up or planned to give up board roles as a result of the increased time commitment.

# Looking ahead: from aspirational goals to implemented best practices

As directors eye the near-term future – the next three years – they anticipate that industry changes will have the most significant impact on their company (67%), specifically disruptive innovation (62%) that would shift the status quo. Given the recent past, and current economic conditions, they are also concerned about the impact of global economic instability (64%). A majority (55%) anticipate dealing with the burden of increased regulations.

**Which of the following trends do you foresee as having the most significant impact on your company in the next 3 years? (please select top 5 issues)**

Figure 38

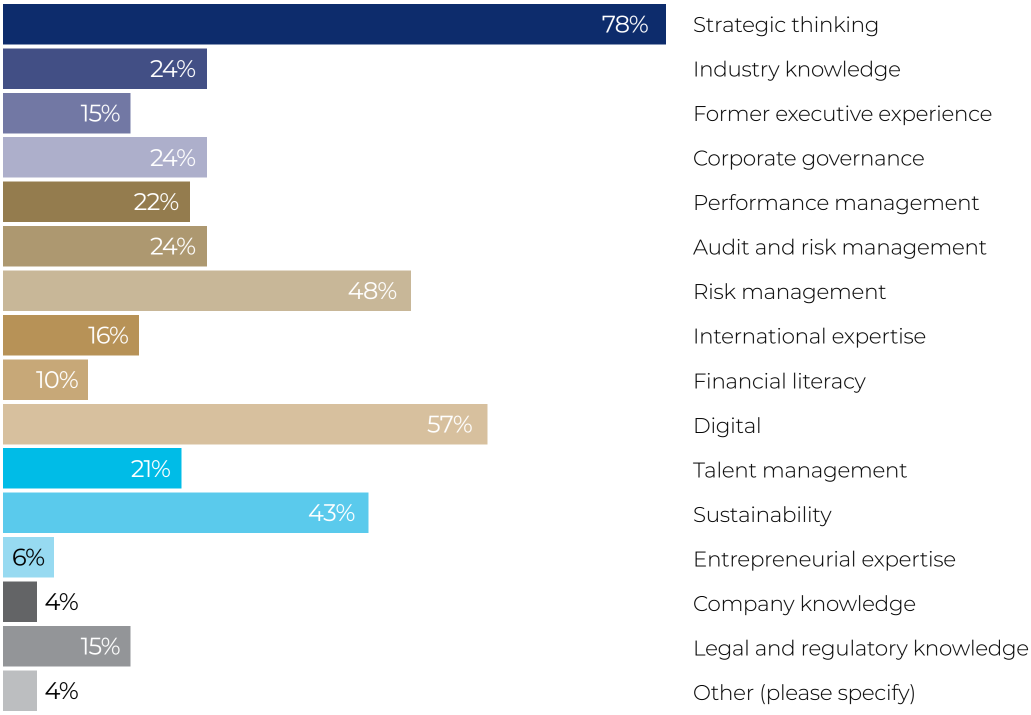



Ongoing change and new board challenges will necessitate adding directors with new skills, experience, and capabilities. Particularly given the fallout from the global pandemic and the need to explore new directions and ways of doing business, it makes sense that director respondents put strategic thinking at the top of the list of skills and experience that will be increasingly important in a board member, along with digital and sustainability expertise – all of which easily outweigh corporate governance experience and former executive experience, traditionally highly sought after in board members.

# Looking ahead: from aspirational goals to implemented best practices
continued

**What skills and experiences as a board director will be of increasing importance in aftermath of the COVID-19 crisis? (multiple answers possible)**

Figure 39




# Conclusion

Change may appear slow, but this survey shows that Gulf boards are moving in the direction of adopting regulations, board practices, and mindsets that promote greater transparency, diversity, and effectiveness. It may take some time to fully embrace these practices, leave certain traditions behind, and implement more adaptive new practices on boards. To do so, Gulf boards and directors will need to build on the strengths they drew on during 2020, and continue the trajectory of seeking fresh perspectives and agile operating models.

By becoming members of the global corporate governance community – and recognizing the growing irrelevance of geographic barriers to high-performing companies – Gulf companies should be able to compete on more equal footing with those in other regions for investment, talent, and market share. That will include being more attractive to prospective board members with needed new skills and experience, and the ability to effectively serve the interests of a wide range of stakeholders, including investors, employees, and local communities.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