BDI
GCC Board Directors Institute

HEIDRICK & STRUGGLES

Board Effectiveness Review 2023

At a glance: 10 takeaways

1.

ESG and sustainability are climbing up the board agenda. The frequency with which sustainability or ESG are discussed at board meetings continues to rise. Only 10% of respondents said they never discuss these issues — down from 20% in the previous survey. As ESG and sustainability discussions become more commonplace, more respondents are finding that setting and reviewing ESG targets and reporting against sustainability and ESG are a challenge.

2.

Stakeholder and investor demands are increasing. Reflecting the wider global trend of rising stakeholder expectations and deeper company scrutiny, many respondents expect external demands and stakeholder requirements to shape their company over the next three years.

3.

Lessons from the Covid-19 crisis are continuing to shape boards today. Directors underscore the lasting effects the pandemic has had on companies and the boards that govern them. Only 57% of respondents felt their board had the right processes and skills in place to manage the crisis, while 15% admitted they did not manage it well, but have learnt from the experience and put new procedures in place. Directors expect the long-term impact of the crisis to continue to affect a number of areas of governance, mainly: incorporating a broader set of risks into scenario planning; ensuring the ongoing health and safety of employees; strategic oversight; and oversight of risk management.

4.

Boards are clearer about their strategic oversight role. There is broad consensus on the role of the board versus the role of the management team, with 92% saying the board directs the policy and strategy of the company, while management delivers the operational plans. However, while boards have clarity on their purpose and the role they should play in strategy setting, there remains a discrepancy between theory and practice: responses show that boards still step into the management domain for a variety of reasons and this could be improved through better alignment with the executive team and improved meeting dynamics.

5.

Independent directors are more commonplace. More than two-thirds of respondents agreed there is an increased presence of independent directors on boards. This is generally viewed as a positive move to strengthen board effectiveness. More than half of those surveyed believed the role of a lead independent director should be introduced in all companies in the Gulf, while 30% said this should happen in public companies specifically.

6.

A diverse mix of skills and experience is increasingly valued. Boards are adopting a wide range of strategies to promote board diversity — from seeking out directors with different industry experience and nationalities to appointing more female directors and adopting diversity policies or committees. Two-thirds of respondents believed diversity can also be promoted by improving existing board members' knowledge and capabilities. While women are increasingly welcomed on boards in the region, nearly half of respondents (47%) admitted there are still no female directors on the boards they sit on. Several board members highlighted a goal of bringing more young talent onto boards to increase diversity and different perspectives.

7.

Succession planning continues to be a challenge. Nearly 70% of respondents said they have no formal succession planning in place for any board positions. This is a significant risk given the competition for board talent in the region. A lack of experienced board talent is leading to an "over boarding" problem in some countries, with many directors sitting on multiple boards.

8.

Board governance and dynamics are seen as a key influence on performance. More than three-quarters of respondents cited better awareness of board roles and responsibilities as an area where boards have made progress in the past three years. However, the trend towards more robust policies to address conflicts of interest could be losing momentum, with only 35% saying they are seeing these in place — a drop of 6 percentage points from the previous report.

9.

Regulatory oversight and requirements are catching up to global norms. About half of the directors surveyed believed their country's rules and regulations on corporate governance are mostly keeping pace with global regulatory change — and about 44% say the local regulatory framework strikes the right balance between control and autonomy when it comes to disclosure and governance. One-fifth believed that oversight of board governance needs further strengthening.

10.

External forces are improving board effectiveness. External regulation and stakeholder pressures are continuing to drive the professionalism of boards in the region. More than two-thirds (67%) said changes in company law have positively impacted board effectiveness; 59% attributed the positive changes to the updated listing rules and securities law; 43% cited international regulatory trends; and 42% said investor interest and pressure is changing board performance for the better.

To explore the full Board Effectiveness Review 2023 visit gccbdi.org