IMPLEMENTATION OF CORPORATE GOVERNANCE

ANCHORING IT IN THE CULTURE


PHOTOGRAPHY BY ANISA KHADAR

Dr. Adnan, throughout your career, you have approached corporate governance from numerous perspectives – as a researcher, university professor, advisor to companies and boards, CEO and as a board member. How has your view on corporate governance evolved?

The journey for me started when I was in university as a researcher and as a professor, and my initial focus on value creation and corporate governance related to the issue of how countries, particularly the GCC countries, manage their wealth. During these years, I think I read every book on leadership and corporate governance, and this was the time, of course, when corporate governance itself was evolving, particularly in response to scandals such as Enron.

But my own interests in governance were changing as well. When I became the CEO and a board member of various boards and investment committees, I started viewing corporate governance increasingly as a tool to add value and improve performance. And my thinking in this regard was impacted by the great people I was surrounded by, with whom I discussed and debated various governance issues and these definitely broadened my perspective on governance.

When making investment decisions, one of the first things we looked at was corporate governance in these entities. We went through a similar process with our partner companies as well. But we also looked at corporate governance internally, how it related to our own company. When I became the CEO of SEDCO, I had to transform it into a holding company, and I had to establish seven separate boards for the subsidiaries as part of this process. This process required us to look at corporate governance from a very practical and hands-on perspective.

You just mentioned that you read almost every book published on corporate governance. How relevant were they (given that most of them come from Anglo-Saxon environment) for the GCC region?

In my view, more than 90 percent are relevant. Yes, they are predominately focused on the Anglo-Saxon environment, and there are, of course, some structural elements which are different from the Middle East. However, corporate governance for me is essentially a mindset, and as a mindset it is entirely consistent with culture and traditions of the Arab world. There are, for example, many traditional proverbs and sayings, and the Holy Quran contains many such statements, which relate very closely with this mindset. One of my favorite quotes, roughly translating, states that in order to have a good debate, you need to have the mindset that "I think I'm right, but I could be wrong" and that "I think you wrong, but you could be right". In other words, keeping an open mind is a crucial prerequisite for a fruitful debate and dialogue. And when you accept this premise, it is likely that through this fruitful dialogue and debate, you will arrive at better decisions. And this is very much how boards should operate.

In family owned businesses, the owning family's values and culture often translates into the corporate culture of an organization. How active was the role of the Bin Mahfouz family, i.e., the owning family, in actual implementation of SEDCO corporate governance?

I have worked with the Bin Mahfouz family for more than 22 years. They really are a remarkable family. They are - what you might these days call - responsible investors. In their roles as owners, as board members and as trustees of their business and future generation, they were effective and far sighted.

Responsibility is in their DNA, and this manifests itself in their sense of duty of loyalty, duty of care as well as in candor. There is a high degree openness and dialogue – people are free to discuss things, and the chairman is very accessible. I would say that they have a culture of listening, and listening is a key skill in corporate governance. And this has helped the transformation of SEDCO by building a platform for an effective governance framework.

Together we looked at what makes family businesses more sustainable, and what are potential risks for the long term. They view good corporate governance as a great tool for sustainability encompassing both risk management and better performance. They have been pushing the separation of ownership from management by themselves, by hiring the best people (directors and executives), and I believe they are very disciplined about this principle. I would say that these are deeply rooted in their values.

Let us move to the boards and subsidiary governance. As you mentioned, Hawkamah worked with SEDCO and we were impressed by the openness of the boards and their competence. How did this come about – what, in your view, were the crucial pillars in the process? And why did you set up boards in the first place?

The setting up of the boards was quite natural for SEDCO given the values of the owners and their long-term view as I have just described, recognizing the benefits of openness and discussion in decision making. We believe that good boards drive performance and instill a culture of accountability and controls.

Firstly, we focused heavily on getting the best people for the boards. Secondly, with the Chairman's support, who is a remarkable and wise person, we managed to focus the board on the right priorities, and this was reflected in their agendas – i.e., strategy, risk management, performance reporting, succession planning and sustainability. We encouraged open debate and high degree of stakeholders' engagement.

We also focused on empowering the boards by providing them with clear mandates. As part of this process, we felt it was important to appoint independent chairmen. We hired Hawkamah to ensure that each board member was fully aware of their role and responsibilities. And as a result, the companies are much more focused because of these measures than they were when all the subsidiaries were reporting to the CEO of the parent company. The proof of this can be seen in the results and performance of the companies. In some cases, the profits have quadrupled.

It seems to me that your corporate governance efforts were very much focused on instilling the right culture.

Absolutely. When I assess a company, I look at three things. The first one is leadership. The second is strategy. But the third one - culture, is the most important. There is a saying that "culture eats strategy for breakfast". If you don't get the culture right, no matter how good your strategy is, the company will not perform. Culture is about doing the right thing. Doing the right thing has to come naturally rather than having to open up a manual and read about various policies and procedures. And this culture has to come from the top, from the board level, but ultimately from the owners. And at SEDCO it was very much the family values and culture that were translated into the business culture.

You are a board member of number of different types of companies – but you are also from the academic world – how would you compare the University culture with the boardroom dynamics of businesses?

It offers an interesting comparison. On one hand, many universities are governed very much like a corporation. They are essentially focused on the delivery of services, regardless whether the university is for profit or not for profit, and ensuring the quality of those services. But a university culture is typically very collegial and more heavily governed. Decision making in universities is slow. It takes a long time to debate major decisions, which are typically made through councils such as the Department Council, the Faculty or College Council, and then the University Council. But whereas companies come and go, universities tend to last much longer. They may not have the same entrepreneurial spirit as businesses, but there seems to a higher degree of sustainability in universities because of their governance frameworks.