

# THE STRONGEST BOARDS ARE BECOMING SOFTER



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If you take a sneak preview of the boardrooms in the GCC countries 10 years from now, you will see fewer PowerPoint presentations and more arguments. That is illustrative of the movement from a focus on what is “hard,” meaning everything that can be measured, to a view encompassing more “soft” considerations. This change comes along with the notion that many choices are neither inherently good nor bad. Decisions must, instead, be made based on the immediate circumstances and must be evaluated over time.

## **Soft vs. hard**

There are several reasons why softness is gaining momentum in boardrooms. Corporations that make an effort to catch up on governance, as many pioneering businesses in the region have done or are currently doing, tend to excel more quickly in the hard aspects than in the softer ones. Policies and procedures can be formulated in less time than it takes to ensure the quality of board meetings. A chairperson can make shortcuts by recruiting people with outstanding CVs, but he or she must still

make an effort to get strong personalities to sit down and work effectively together.

Moreover, there is increasing international attention on the soft aspects of the boards, which is self-fulfilling to some extent. Management theory is tying an even tighter knot with the field of psychology. Consequently, it is becoming softer than when it started out, inspired by the principles on which manufacturing plants are organized. Along these lines, the amount of research and publications on what is and what should be going on in boardrooms is growing rapidly. This development has been further stimulated by the trend towards splitting the roles of chairperson and chief executive officer in large U.S. corporations, thus cementing the board as a separate platform for leadership.

There are many examples of the emerging softness in boardrooms.

### **Example 1: Strategy conversations**

Most boards in the GCC countries face a difficult question: How does our business make the transition from decades of steep growth to a future that will be dominated by more moderate growth and intensified competition? Not only has demand been much less buoyant in the wake of the oil price fall over the last two years, but the record years before that also attracted multinational corporations from all over the world and motivated local groups to enter neighboring markets. This new supply paradigm changes the market dynamics forever.

The question of how to make the transition is fundamental and requires that these boards take a more active role in strategy development, one in which it is not acceptable only to have a view on whether to trust the presented recommendations or not. Neither can the board assure itself that its new strategy is being executed optimally solely by regularly reviewing a set of key performance indicators. While a command-and-control approach to business can work reasonably well in emerging markets when they are going up steeply, it is weak at stimulating continuous learning in a rapidly evolving environment. Intensifying competition tends to change the market before any player can fully implement an entire strategy plan. Creativity and timely decisions, which both depend on ongoing learning, are needed to stay ahead of the game.

These changing needs are reflected in the subsidiary boards that the region's most sophisticated groups are establishing. Even a capable board that effectively overviews a large, diversified conglomerate can struggle to add much strategic value to its most important businesses. On the other hand, a subsidiary board makes it possible to recruit board members with relevant experience and to enable the challenging discussions needed to help form bold strategies and follow up on them.

On a group level, another question has become pressing: How do we fulfill the government's expectations of our contribution to the development of society? This challenge arises from the changing

role of governments. Historically, there have been close ties between governments and major corporations, with great benefits to the latter. Several governments, not least that of Saudi Arabia, now want the private sector to play a more active and contributing role in society. For one thing, there is a serious need to create new and meaningful jobs for young nationals in the short to medium term, while environmental sustainability is becoming a major concern over time. Alarming examples of this are that the natural underground water table has significantly fallen in the entire Middle East, which, with its hot summers and large surfaces of sand, is particularly vulnerable to climate change.

A board cannot just come up with an answer once and for all and sign off on a plan for how to back it up. Ideally, the board should guide its decisions based on a well-articulated viewpoint about the future role of the corporation and ensure ongoing dialogue with the government and other important stakeholders.

### **Example 2: Corporate culture**

The regional conditions have been a magnet for dysfunctional corporate cultures. The founder of a business normally has a strong view on how things should be done, and so might the next generation's leaders. The immediate threat to this order is complexity, which expands non-linearly with the size of a business. Growth can surprisingly quickly transform a healthy business into a hybrid of anarchy and bureaucracy, leaving all major decisions to the person at the very

top. Senior executives are overextended by the need for approvals and firefighting. Attention is removed from the future of the business. The people working below, from line managers to frontline staff, experience this in the form of delayed or questionable decisions. As a consequence, their engagement suffers, together with customer satisfaction, which again pushes the relative profitability downwards. All of this was less of a concern when the top line leaped upwards year by year, and the bottom line followed suit in absolute terms. A corporate culture like the one described becomes problematic when the market changes its nature, as it has.

The flipside of the region's massive growth over the last decades is that otherwise successful businesses have unintentionally given birth to counter-productive work environments. Several of the corporations that have taken on efforts to improve their ways of working realize that many people, including some close to the very top, react out of a fear of losing their jobs and privileges. The reluctance to change is deep-rooted.

Accordingly, the board must actively engage in the nurturing of a new and healthier corporate culture and should not just delegate to its management team. The transformation of the corporate culture raises a significant question about what values and leadership behaviors should define the future. This question is relevant anywhere, but even more pressing in the GCC countries, where cultural confusion is common. During the decades of brisk growth, corporations hired professionals

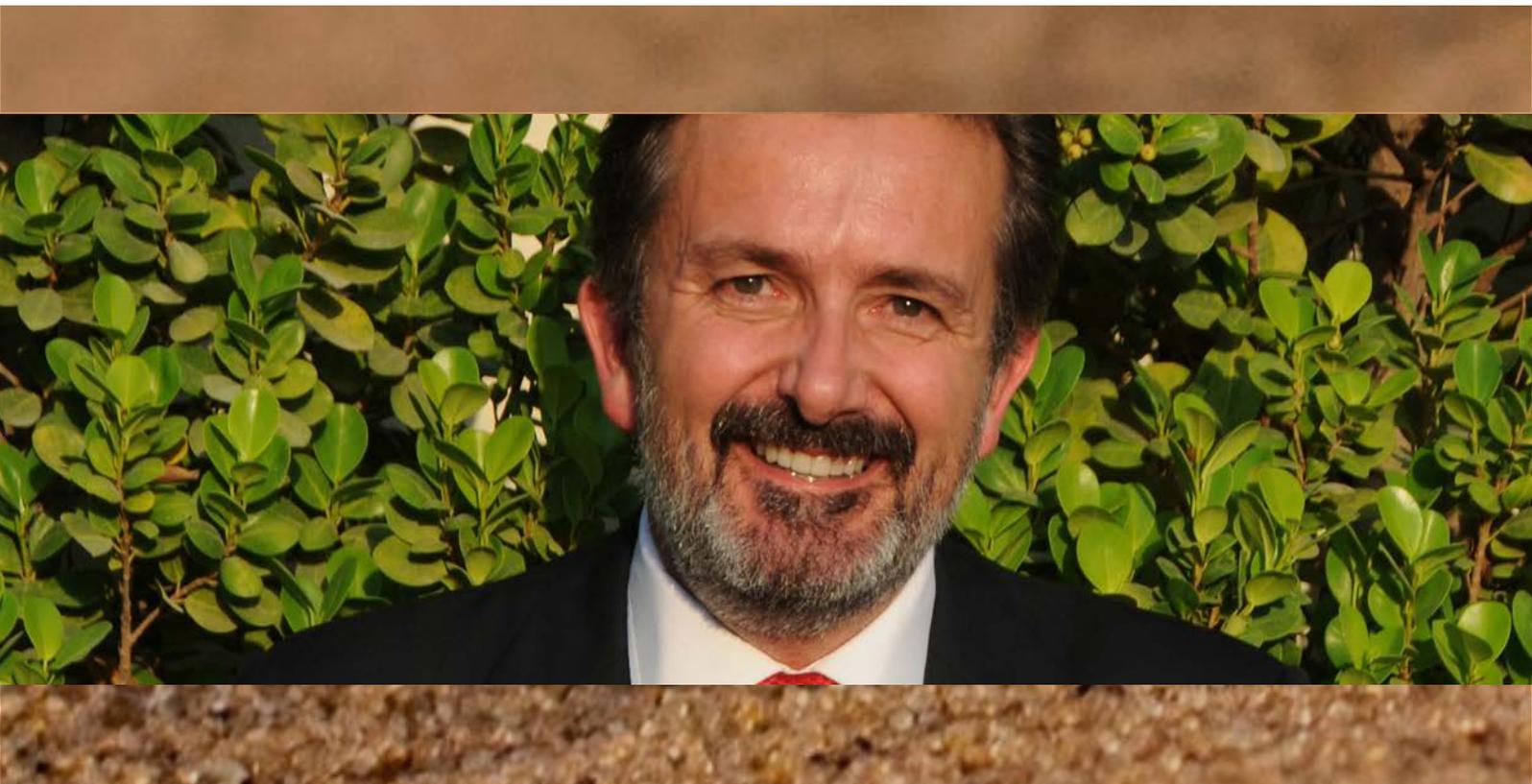
from everywhere and copied best practices from Western Europe and North America. It is not uncommon to have a distinctively Arab—and, in a couple of cases, Indian—spirit among the owners and senior executives, mixed with the application of undisputably western management principles. This resembles a marriage of convenience, in which happiness suffers when the arrangements are rushed. Unavoidably, messages from above can become contradictory. Combined with blue-collar and white-collar staff from all over the world, the situation fuels a disproportionate number of misunderstandings, disappointments, and blame games.

Culture eats strategy for breakfast, as a saying goes, so the board must get up early.

### **Example 3: Family affairs**

Extraordinary privileges foster colorful personalities, so the governance of successful family-owned businesses tends to become more complicated for every new generation that comes along. There is a regional fashion of having family constitutions written, but that alone does not align all the interests and styles in play. Text written in black and white seldom changes how all members of a family feel, think, and behave.

The family-owned groups in the GCC countries that are furthest along in making corporate governance work have made a persistent effort to bring their family councils and other related activities to life. Examples of the latter are regular



gatherings of all adult members of the family and offers of special educational programs to younger members. At the core of this are a couple of questions that can keep discussions going: What should be available to the next generations of our family? What should our impact on the world around us be? How willing are we to think differently and take risks? How do we ensure our ability to do what we aspire to do?

An effective board must pay close attention to the owner family and cultivate a way of working in which certain issues and proposals are forwarded to the family council. The board's responsibility is to steward the long-term interest of the business, guided by the vision, values, and expectations of the owners. That requires attention to the soft details, as the exact borderline between the responsibilities of a board and those of a family council are so nuanced that a family constitution and corporate governance policies cannot draw it once and for all.

#### **Example 4: Professionalism**

For all of these reasons, board work has become less like an exam, where one reads the material received and says something intelligent based on it. Strong boards depend on deep insights and creative perspectives. They are composed of people who bring a range of experiences that benefit the corporation. Furthermore, these people invest relatively more time in each board they sit on compared to what has been standard in the recent past.

Likewise, the strongest boards are paying close attention to how they work, as does any high-performing team in any sphere of life. As a result, the number of boards in the region that undertake a board evaluation is growing. These evaluations are starting to address softer issues, such as how the members are working together, in addition to the traditional questions about compliance with governance standards. And more boards are joining up with their management teams for offsite strategy retreats, where the conversations are flowing more freely. Clearly, an effective board member does not merely bring knowledge but also consciousness and sensitivity to the moment.

#### **Hard and soft**

The distinction between what is “hard” and “soft” in business is odd. Most people have a bias towards either of them without seriously making an effort to strengthen themselves along the other dimension that comes least naturally for them. Meanwhile, greatness among business leaders is shaped by the combination of the two factors.