INTERVIEW WITH

H.E. DR. MOHAMMED SHARAF

HE Dr Mohammed Sharaf is the former Group CEO of DP World and Assistant Foreign Minister of Economic and Trade Affairs at the United Arab Emirates Ministry of Foreign Affairs and International Cooperation.

Dr Mohammed spoke with **Alec Aaltonen** *about his experiences in navigating crisis as a CEO and board member in various types of organizations ranging from listed companies to family-owned businesses.*

Q: As the world is grappling with the effects of the Covid 19 pandemic, this issue of the Journal focuses on how companies and their boards can navigate crisis in general, not just the pandemic – could you share some of your experiences with crisis?

Let me start with the financial crisis of 2008, when I was on the corporate side. Unlike today's pandemic, which has an impact across the board, the financial crisis was sector-focused, particularly on the financial and real estate sectors, and the problem for the economies was one of liquidity.

I believe DP World was the first Dubai company to go global, and we had plans for the short term, the medium term and the long term. We had secured financing for 10 years and 30 years, whereas many other companies in Dubai at the time were looking to secure one-year financing. And when the crisis hit, we were still standing tall, unlike most other companies.

This is not to say that we were not negatively impacted. The financial crisis led to an economic downturn which obviously affected us greatly. I think the major difference was that we had taken a long-term view, which recognized that trade is cyclical in nature. We had not predicted or specifically planned for a global financial crisis, but we had predicted that there would be downturns and had planned accordingly.

Q: What was the role of the board during the financial crisis? Did the board become more hands on? Were there more board meetings, for example?

I think the board's involvement was the same as before the crisis, but it's role in focusing on the long-term became even more important. We wanted to avoid knee jerk reactions such as laying off people and cutting costs. Instead our focus was on creating efficiencies, and we achieved some USD 30 million through this, rather than through massive lay offs. We had to let some people go, but this was a fairly limited number and we tried our very best to hold on the long-term staff whom we had trained and invested in.

The board's role was also to keep the company disciplined. Due to the downturn, there were many attractive valuations and the role of the board was to keep the company focused on the long-term rather than be side-tracked by these opportunities which were not directly linked with the long-term vision. We also knew that this was the time to invest and we did acquire some assets which were aligned with our strategy. Some of them we had been looking at prior to the crisis but had turned down due to the then high valuations. For example, one asset was valued at USD 1.4 billion USD prior to the crisis which we had felt was too much, but in the downturn, we were able to acquire it for USD 400 million.

Q: So preparation for a crisis actually helped the business to grow?

Yes, businesses do not grow on a linear curve. We knew there would be some crises along the way. We knew all businesses have rainy days. And there was significant upside for companies that had prepared for rainy days.

Q: How important were the independent directors in this?

They had a massive impact. Four out of our eight directors were independent. These independent directors were all experienced board members in listed companies, particularly in international listed companies, and their perspectives and insights had a significant effect on the company. They were asking the right questions. Of course, sometimes members of management in companies feel that their boards' questions can be annoying, but in the process of providing answers to the board, the management has to go through a reflection process themselves. This is the value of having experienced independent members on your boards and I saw the benefit they bring to the company.

Q: What role did the shareholders play during this crisis?

As a listed company, we did regular roadshows with investors. My team and I would sit down with all our big shareholders. These were one on one meetings lasting for hours and they were largely testing us and the company on if we actually knew what we were doing. What I quickly learned from these meetings was that I needed to have 100 percent conviction on the matters I presented to them. We were really scrutinized and challenged, and I remember them being specifically skeptical because they perceived Dubai as only presenting good news. So whenever we showed them the numbers and the progress we had made, we would remind them that these were the points they had challenged us on. Transparency and dialogue, in addition to bottom line results, are vital for gaining shareholder confidence.

But I think this is only possible when you have transparency between the board and management. Quite often you see companies where the management are hiding the negative news from the board. To tackle this, having the right management team helps, but you also need a board that asks the right questions and requests for relevant information, and this is another area where having experienced independent board members can play a positive role.

Q: Let us turn to the current crisis, the 2020 pandemic, you are now involved in different set ups?

Yes, I'm no longer at DP World. I currently sit on the boards of a UAE-based listed company and a large family business and I serve as an advisor to other family-owned groups.

Q: In terms of the listed company, could you describe your experiences on the responses to the pandemic?

This is an insurance company, which was doing quite well in the early days of the pandemic. For example, there were no traffic accidents because nobody was out on roads due to the lockdown. People generally also avoided going to the hospitals. But this crisis was a new situation for everyone in the company and I can't say our planning for a crisis had been very robust. But this was also a company in which the management was new.

In terms of the board, there was some initial confusion, as was the case in many other companies, on having board meetings, whether we should postpone the meetings until meetings were allowed, but we quickly moved to virtual board meetings.

I would say that the board played an important part in scenario planning during this crisis, particularly as there were a lot of uncertainties in how things would evolve. We were stress testing management plans, guiding them to prepare for what-if situations and provide us with impact analysis of such situations. For example, we asked them to prepare for a scenario where the authorities would not cover the testing or the treatment of Covid patients.

Q: How about in the family-owned companies?

I'm not quite sure how to put it. As you know, family-businesses here are conglomerates consisting of numerous businesses operating across a number of sectors. Perhaps the only way to describe the situation is to say that the majority of these subsidiaries or companies were not prepared. I'm not talking about being prepared for a pandemic, but being prepared for a crisis in general.

Q: Why was this case?

Good question. I think there is a perception that the family, as the owner, will act as the reserve. And yes, in most cases the families will have the resources to bail out the companies, but the issue is the lack of planning for a rainy day. You see the management of many of these companies spending every penny they have without thinking about rainy days, which are inevitable. And now you have a lot of businesses blaming Covid, without blaming themselves for not preparing for challenging times.

I think we also have a problem with incentive systems, not just for family groups here but also for all types of companies globally. At the moment, incentive systems are mostly focused on the individual, which encourages individualistic thinking.

The role of the family or the board should be to guide the businesses, ensuring that the management have systems and policies in place for managing crises. Not pandemics specifically, but all types of crises, including cyberattacks.

Q: Do you think having independent directors on the boards of family businesses would make a difference? That they would be better prepared for rainy days?

Generally speaking, family businesses tend to have their own culture. They run their businesses in a manner they always have done - like families.

And many of them did not foresee the new world order and they have been hit by this. And we also have pre-pandemic examples of such family groups here which were mismanaged and not prepared for downturns and went through considerable challenges.

The value of having independent directors is that they can bring their knowledge of the outside world to the family business, that they can bring the best practices to the business. And this is not only applicable to family businesses but to listed companies as well. The insiders are often too busy on the day to day matters to focus on the developments in the outside world, and this is the value of independent directors, as they bring a different set of eyes.

Q: What are the lessons learned from these crises for companies and their boards?

When you are involved in any business, whether listed or not, you are not responsible for yourself, but you are morally responsible for the people and communities who work for you and you need to take this responsibility seriously. And if you take this responsibility seriously, your behavior will change automatically. Wrong decisions happen in the business world all the time, but if you take this responsibility seriously, you will ensure that every decision you make is properly assessed and scrutinized.

So, for example, in a company where I serve as an independent director, it is evident that the family and the board know that they have a responsibility for the employees and their families – we are responsible for 10,000 people. In other words, no decision is taken lightly.

Unfortunately, boards and CEOs in many businesses often only think of themselves. This is partly explained by the remuneration practices I touched upon earlier. If a CEO is given share options at 1 dollar, his task is to take the share price to 2 dollars. They are incentivized to think of themselves. And I think this is wrong, their pay package should be linked to what have they delivered for the company. And the delivery of the bottom line is a result of the organization working together, not just the CEO. If you want to set up the right culture, remuneration is a powerful tool and you need to have compensations structures in place to reward people across the organization for their part in the attainment of the company's strategy.

So when you talk about governance, it is not only about doing a, b c. But it is about the culture of the organization, about the behaviors of the board, CEO, the senior management team and employees, with all of them working towards the long-term sustainability of the company. When these are in place, companies are well placed to be prepared for crises and to manage them.