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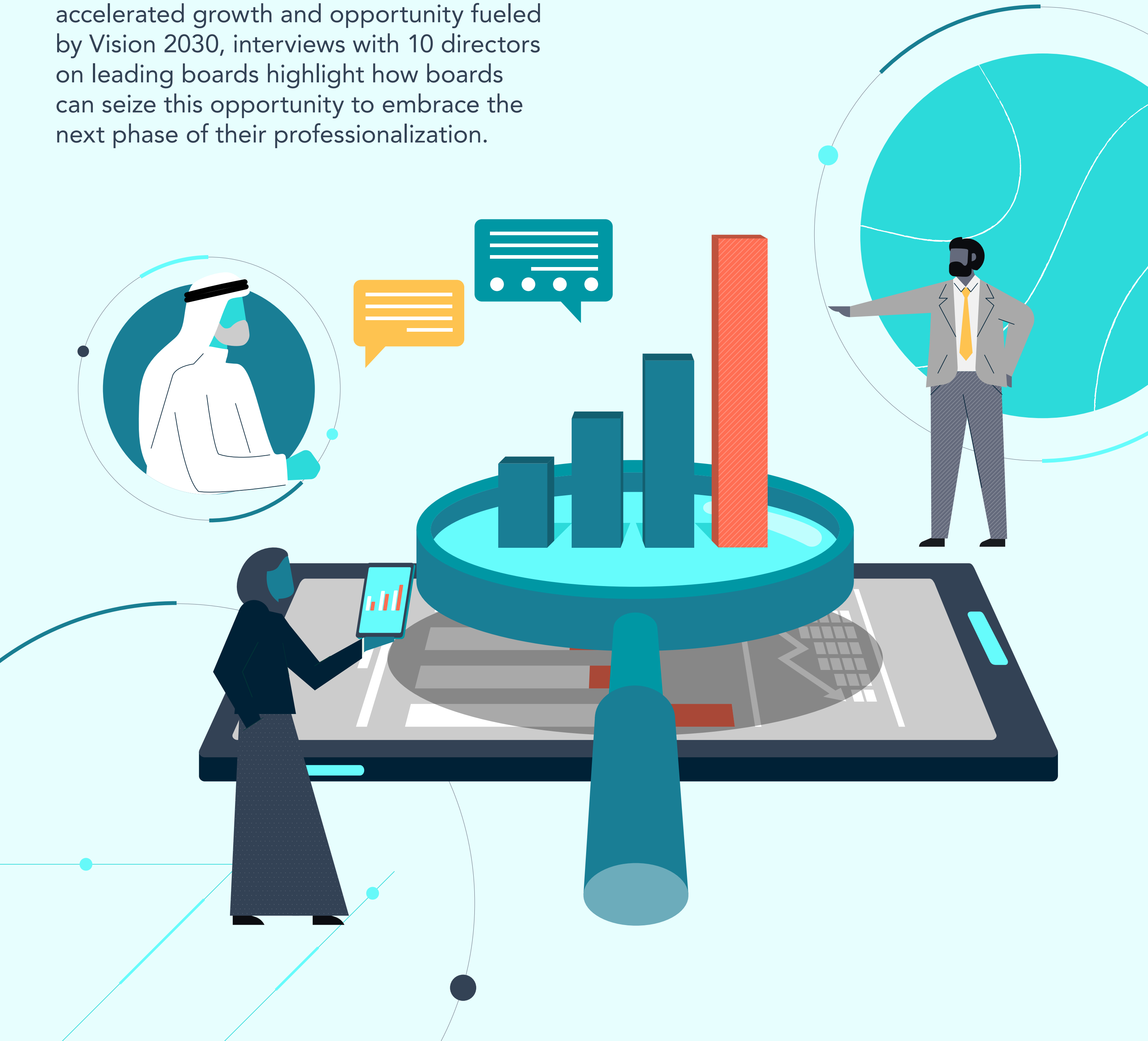
Boards in Saudi Arabia: Upping their game for growth

As Saudi Arabia gears up for a period of accelerated growth and opportunity fueled by Vision 2030, interviews with 10 directors on leading boards highlight how boards can seize this opportunity to embrace the next phase of their professionalization.



Saudi Arabia is enjoying a moment in the spotlight, with investment flowing in and the country opening its doors to new economic opportunities. But, as Saudi companies look to harness the inspiration and license to innovate that have come with Vision 2030, leaders are asking if their organizations have what it takes to grow. Beyond traditional considerations, attracting global investment, talent, and customers will also require companies to meet newer global stakeholder expectations related to trust, diversity, and community needs. Many Saudi companies now recognize the increasingly important role that corporate boards will play in achieving growth and delivering stakeholder value—and see that a leap forward needs to happen to improve the effectiveness of many Saudi boards.

To understand the challenges facing Saudi boards and how leading boards are finding solutions, we spoke to several high-profile board members and chairpersons of nomination and remuneration committees (NRCs) at leading organizations across the Kingdom. These conversations all invariably led to the same place: to deliver effectively, boards must become more strategic, more forward-looking, and more aligned to their current needs.

A moment to self-reflect: The challenges facing Saudi boards

Boards are going through a period of rapid professionalization that mirrors the broader changes in the Saudi economy. As one board member put it: "Boards need to rethink their role. [In the past,] the board was more like a network of friends and acquaintances—but there's a big shift now with opening up and modernization."

First, pressure is growing on boards globally—not just in the Kingdom—to be more strategically dialed in, to help companies better anticipate threats and disruptions, and to capitalize on opportunities. Despite this trend, the Saudi board members we spoke to said board discussions for them are still more likely to focus on operational topics, with members spending the bulk of their time reviewing performance and digging into budget deviations rather than discussing strategy and looking ahead. We also heard that board evaluation is nowhere near where it needs to be to improve performance. One board member told us that external evaluation is not part of the Saudi board culture just yet; it remains a relatively new concept and many board members are not comfortable being put under the microscope.

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Regulation is helping to change this, and most boards, especially from listed companies, now conduct at least a self-evaluation as prescribed by the Capital Market Authority (CMA). External evaluation can drive performance[1] but is much less common—though we have noticed a clear uptick in requests from Saudi companies in recent years.

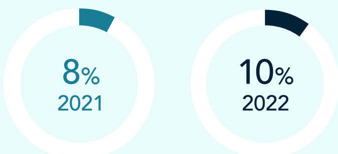
Next, where board composition is concerned, Saudi boards still have some way to go to achieve diversity. While progress has been made toward better gender representation in recent years, the diversity of skill sets remains an area of concern (see sidebar, "Diversity in Saudi Arabian boards"). The historically prevalent network-driven approach to recruiting board members means boards do not always have the relevant skills or industry experience needed to be true strategic partners. One board member told us that competencies should be clearly linked to company strategy but aren't at present: "Digital transformation needs board members who understand it," they said.

1 For more on how external evaluation can drive performance, see Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, heidrick.com.

Diversity in Saudi Arabian boards: Snapshot

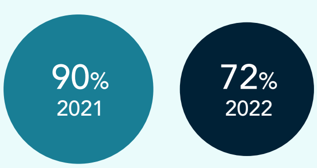
Where board composition is concerned, Saudi boards have much progress to make on diversity.[1]

In 2022, of the 50 directors appointed to Saudi boards, only **10% of seats went to women**; that number rose from 8% in 2021.



Saudi boards showed a strong preference for Saudi nationals in 2021—nearly 90% of appointments—but that share dropped to 84% in 2022, perhaps suggesting an expanding talent market.

There was also a drop, more significant, in appointments of **directors who are currently active executives**—90% in 2021 to 72% in 2022.



In terms of experience, they showed a more modest preference for experienced board members—57% in 2021 and 54% in 2022, but only 10% of seats went to **directors with international experience** in 2022, a drop from 12% in 2021.

12%
2021

10%
2022

1 *Board Monitor Saudi Arabia 2022*, Heidrick & Struggles, heidrick.com; and *Board Monitor Saudi Arabia 2023*, Hedrick & Struggles, forthcoming on heidrick.com.

Considering skills and roles within the organization more broadly, there is a strong sense that boards can and must do more when it comes to executive succession planning. Saudi boards tend to focus on CEO succession at the expense of other critical roles, and, even then, the focus is reactive and triggered by circumstance, such as a retirement or an underperforming CEO.

In many other economies, boards have evolved to develop a wider understanding of roles of strategic importance in an organization—not limited to the C-suite—and aim to ensure the company proactively identifies and develops at least two successors for each of these positions. In some cases, this can be part of a comprehensive approach to CEO succession planning,[2] and in other cases an indication of an increased board focus on talent as a strategic resource. There is opportunity for Saudi boards to become far more proactive in their succession planning, we heard.

Executive compensation is another issue that sparked some impassioned responses from board members. As the Saudi economy grows and opens up, so, too, does the potential hiring pool for talent. This is welcome news given the scarcity of experienced executive talent in the Kingdom, but companies will need to do more to attract talent than just up their salaries—the predominant strategy at present.

Boards can help by playing a more active role in the design of executive compensation, ensuring it reflects the specific context of the organization and drives the relevant behaviors for long-term success. One board member suggested that aligning long-term performance through the use of equity stock options can give management more "skin in the game," but this mechanism is rarely explored by Saudi NRCs.

Finally, in terms of getting board members up to speed and delivering quickly, we found great variation in the quality of onboarding. While some leading Saudi companies do have structured onboarding processes, complete with well-indexed document libraries, clear charters and KPIs, and strategy documents, this is not the experience for most new board members. Given the relatively small stock of high-quality board members in the Kingdom, and the fact that some members can sit on up to 15 different boards and committees, there may well be an "over-boarding" problem, with far less emphasis on formal onboarding.

But, as organizations increasingly turn to the international talent pool to find board members with relevant experience—and to bring in global perspectives and more diverse skill sets that can fuel innovation—more focus will need to be put on onboarding. Many Saudi companies simply do not want first-time directors on their boards, which runs counter to a trend we see in many Western economies,[3] and this preference may see more organizations looking beyond their borders for experienced directors.

2 Sharon Sands and Sachi Vora, "CEO succession focus: How focusing on executive team dynamics and development can improve success," Heidrick & Struggles, forthcoming on heidrick.com.

3 "Board Monitor 2023: Around the globe," Heidrick & Struggles, heidrick.com.

Upping their game for growth: How Saudi boards can lean into the 2030 opportunity

Vision 2030 calls for a vibrant society, a thriving economy, and an ambitious nation. Saudi boards now have an opportunity to raise their ambitions for their own performance and, in doing so, can help power the Kingdom's economic growth.

Drawing on our recent conversations and extensive experience with boards in the Kingdom and globally, we see a number of steps Saudi boards can consider to up their game and become more strategic, more forward-looking, and more aligned to current needs.

From operational to strategic

Develop a clear purpose and delegation of authority: Better board performance starts with clarity around board purpose and responsibilities. Board secretaries in the Kingdom have a big role to play in developing and aligning the board and management around their purpose, but are currently largely underutilized. This is partly because they lack specific training in these areas. Here, the CMA or Saudi Chamber of Commerce could partner with institutions such as the GCC Board Directors Institute to offer targeted training to board secretaries.

One example of a company aligned around purpose is Majid Al Futtaim, a regional conglomerate with businesses in property, retail, entertainment, and lifestyle and a purpose to "incubate happiness by creating great moments for everyone, every day." It has a holding company board as well individual boards for each business. The company has attracted world-renowned senior sector experts for each board, and their experience helps each executive team align the strategy with the purpose and values of the group in specific, meaningful ways.

To elevate their effectiveness, Saudi boards will need to look at their own performance and open themselves up to scrutiny far more than has been the case until now. Best practice typically suggests that an in-depth board review should be conducted at least every three years.

Evaluate and continually develop: To elevate their effectiveness, Saudi boards will need to look at their own performance and open themselves up to scrutiny far more than has been the case until now. Best practice typically suggests that an in-depth board review should be conducted at least every three years. In year one, these are conducted by an independent agency, followed by an NRC-led self-review in years two and three. To make sure initiatives are executed and the exercise does not remain a "tick the box" exercise to satisfy regulations, the chairperson should own the initiatives that come out from these reviews. In consultation with the chairperson, the NRC can also develop clear action plans—such as adding or removing committees, setting term limits or limits on the number of boards any given director can serve on, changing the board skills matrix, or working to reshape board discussion dynamics to leverage strengths and address the development areas of the overall board and individual board members.[5]

Ensure new directors hit the ground running: Onboarding is an area of weakness that can be fixed with relative ease. A more professional onboarding process, led by the board secretary and chairperson, could help new board members gain the context to deliver value quickly—and give international directors a solid grounding in cultural sensitivities—both of which are issues flagged by the directors we talked with. As a minimum, new board members should have an onboarding process that includes meeting executives, site visits, understanding the strategy, and having conversations with external stakeholders including senior advisors, consultants, and auditors. New board members, especially Western expats, should also be given clear guidelines on how to challenge colleagues and how to handle conflict in a manner suited to Saudi culture.

5 For more on how board reviews are used to boost effectiveness in other regions, see Alice Breeden and David Hui, "A board review that accelerates competitiveness," Heidrick & Struggles, heidrick.com.

From retrospective to forward looking

Keep discussions future focused: A clearer purpose can also help to shift board discussions from operational to strategic. Boards can guide CEOs to set agendas that ensure 60% to 70% of discussions are focused on how the company will meet its strategic goals and fulfill its purpose, rather than on past performance. Chairpersons can help shift the board discussion and dynamic from diagnostics to future-focused strategy development.

Saudi boards can proactively stress test the succession planning for all critical roles and insist on having at least two successors lined up where talent is particularly scarce, such as in digital functions.

Plan for future executive needs: Executive succession planning came up again and again in our conversations as an area where Saudi directors see their boards falling short of global counterparts. Given the intense scramble for talent in the Kingdom, boards can add significant value. An immediate opportunity is to widen the scope of the board's discussion of succession planning beyond the CEO to include the broader leadership team and other critical organizational roles. Saudi boards can also proactively stress test the succession planning for all critical roles and insist on having at least two successors lined up where talent is particularly scarce, such as in digital functions.

From general expertise to alignment on current needs

Get the right people on board: Bringing together the right mix of experience and perspectives and regularly reviewing that mix is one of the most important indicators of board success, in our experience. For listed companies, the CMA has already kickstarted a number of improvement initiatives and regulations taking effect this year, including provisions related to board members' duty of care and duty of loyalty as part of implementing the New Companies Law for Listed Joint stock companies. That law also makes four board meetings per year mandatory; sets term limits of four years (open for re-election if needed); removes maximum caps on director remuneration; and explicitly addresses non-compete clauses for directors.

Governance and risk committees have been rare in the Kingdom to date, and as these become more commonplace, NRCs will need to find people with the appropriate governance and risk experience to lead them.

NRCs can also help to promote greater diversity of perspectives over time by developing success profiles for directors—outlining critical skill sets, leadership capabilities, and functional, industry, and geographical experience requirements, as well as the expectations of each role, particularly as those roles evolve. For example, governance and risk committees have been rare in the Kingdom to date, and as these become more commonplace, NRCs will need to find people with the appropriate governance and risk experience to lead them. NRCs can also help to address the issue of over-boarding by making sure all board members have enough time to invest in their board and committee roles.

Develop local capacity: The Kingdom may need to get creative to address the lack of experienced board talent. Here, regulatory bodies across Gulf states could come together to develop potential board directors—even rotating them across different countries so that they learn from diversity of experiences. Customized training via academic institutions, perhaps supported by government subsidies, could also help to develop and harness talent for the benefit of the whole region, while larger sovereign wealth funds could place members of this group into their portfolio companies, providing them with a platform to learn and become better directors.

Such an approach would require coordination across a number of stakeholders, but Vision 2030 provides the right impetus and platform to develop innovative solutions. Independent bodies including the Mohammed bin Salman bin Abdulaziz Foundation (MISK), which is partnering other institutions in driving Vision 2030 for the Kingdom, could, for example, lead in creating such a platform.

The next seven years will be critical for the Saudi economy and society. As organizations embark on this journey of growth and transformation, they will need effective governance to ensure value and build trust. The call for boards to step into this journey marks the next natural step in the lifecycle of organizations, and can position Saudi companies to compete not just in the region but on the international stage, too.

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