Boards of Directors in the GCC: Navigating the Aging Boards Issue

As the economies of the Gulf Cooperation Council (GCC) rapidly expand, boards of directors have an increasingly important role in ensuring that businesses are properly governed and run efficiently and effectively.

However, with aging boards of directors comes a number of challenges—in particular, the need to plan for future succession and how to ensure that board chairs have the right skillset for each type of organization.

In this article, we will explore the issue of aging boards in the GCC, and examine how organizations can best navigate this issue. We will discuss some potential solutions for addressing these challenges, such as encouraging mentorship programs and using technology to streamline board operations.

The Gulf Cooperation Council (GCC) countries comprise some of the world's wealthiest nations, with a population of just under 50 million people. But with a wide variety of challenges, from large youth and expat populations to rising non-communicable diseases and an aging population, boards of directors in the GCC have to contend with their own unique set of issues.

The GCC is facing aging populations in all member states—with Saudi Arabia having the second highest old age dependency ratio among OECD countries. According to projections by the United Nations Population Division, the GCC's total population is expected to become older and lesser by the end of this century. This shift in demographics has far-reaching economic implications, as it will reduce the number of workers available when compared to retirees.

Coupled with this shift in demographics is a looming public health crisis in the form of non-communicable diseases such as obesity, diabetes, cancer and cardiovascular diseases, which reportedly pose a growing threat to public health performance and economic performance in the GCC. In fact, almost half (46%) of the GCC population is under the age of 18—which means that if no action is taken now to reverse these trends then this looming issue could become an even bigger problem for boards of directors in years to come.

Impact of board terms on board composition

The impact of board terms on board composition is a critical factor for the aging boards issue in the GCC. A recent study conducted by MSCI found that companies with terms shorter than three years resulted in 38% of decreased turnover of independent directors, while those with terms longer than five years increased turnover of directors by 22%. This indicates that if board terms were to be managed correctly, it could be a useful tool to tackling the aging boards issue.
The issue should also be addressed from the opposite angle: by providing incentives for younger, more diverse board members to join boards. Several practices around recruitment and incentives should be implemented to create a better environment for new directors.

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These include allowing prospective members to shadow existing boards and introducing target quotas for board diversity among companies.

As the GCC region continues to prosper, the issue of aging boards is becoming increasingly pressing. For many companies, their boards of directors are aging rapidly.

Based on research conducted by the Middle East Institute of Directors (MEIoD) the average age of board members in listed financial GCC companies is 52; the youngest age bracket is 47 in Oman and the oldest age bracket is 62 in Qatar.

The aging of boards in the GCC underscores the need for a more holistic approach beyond just recruitment and term limits. Boards should look to promote a culture of continuous learning and mentorship between newer and longer-serving members. Establishing term limits alone may result in a loss of institutional knowledge if younger members are not adequately onboarded and mentored.

Companies should implement regular training and development programs focused on emerging issues and technologies relevant to their industry. Long-serving board members can act as mentors for newer members, helping them navigate political dynamics and providing access to their networks. Knowledge transfer programs can also be established to facilitate the sharing of lessons learned from past decisions.

Another strategy is to create advisory boards or committees that tap into a wider pool of younger talent. These groups can inform the main board on trends and priorities for the next generation of leaders. The involvement of younger advisors and mentees can inspire longer-serving board members to remain engaged and up to date in their roles.

Fostering a culture of continuous learning, mentorship and intergenerational collaboration will be key to ensuring boards in the GCC remain informed, diverse and effective as demographics shift in the coming decades. A multifaceted approach that considers recruitment, term limits, training and advisory groups will offer companies the best chance of successfully navigating the aging boards issue.

In response to these pressures, many listed companies in the GCC are making efforts to update their board composition and adopt more effective governance frameworks. However, this is no simple task, as it involves not only introducing new board structures but also ensuring alignment with stakeholders' interests. We will look into how boards of directors in the GCC can navigate this complex issue by taking into account both best practices and recent developments in corporate governance.

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The Aging Boards Problem in the GCC

In the GCC region, the aging boards issue is becoming more challenging as the population continues to experience rapid change. According to research, the number of people aged 65 and over is expected to increase significantly in the GCC by the end of this century. This could be a major problem for companies, as it can lead to an aging board of directors with fewer young professionals.

Aging boards of directors can pose several market and economical challenges for companies in the GCC region. First, older board members may have difficulty keeping up with the fast pace of technological change and the needs of younger generations. This could make companies appear outdated and less attractive to investors, customers and potential employees.

Second, aging boards tend to have less diverse perspectives and experiences that reflect the current marketplace. Younger board members often bring insights into emerging trends and customer segments that older members lack. A lack of diversity in age, gender and backgrounds on boards can limit strategic decision making and innovation.

Third, older directors may be less familiar with new governance standards and best practices. As corporate governance frameworks evolve, companies with boards that are slow to update their skills and knowledge can face reputational risks. Investors and regulators are increasingly expecting more transparency and accountability from boards.

To mitigate these challenges, companies in the GCC should consider strategies to refresh board composition and reinvigorate decision making. Increasing term limits, recruiting younger directors and establishing advisory boards are some options that can balance the need for experience and new perspectives on the market. An aging board, though experienced, may not be equipped to tackle tomorrow's opportunities and risks.

Why Board Refreshment Matters for Good Governance

Board refreshment is an important tool to promote good governance. It ensures that companies have access to a wide variety of backgrounds, skills, and professional experiences. It provides a check and balance for decision-making, enhances shareholder confidence, and allows for greater oversight by the board of directors.

Board refreshment is primarily driven by mandatory retirement age, which is typically between 65 and 70 years in the GCC region. This helps ensure that no single individual can overstay his or her welcome on the board. Additionally, while there are no set regulations on board term lengths, most companies strive for a staggered approach that creates a balance between new members who have current knowledge and established members who provide continuity.

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By taking proactive measures to refresh the board of directors with new members regularly, companies are more likely to benefit from increased diversity in thought and ideas. Furthermore, board refreshment creates more effective monitoring by the board as its members are able to bring their unique perspectives to the decision-making process.

Diversity: Adding New Perspectives to the Board

GCC boards face a challenge in the form of an aging board population, and the lack of gender diversity in leadership. Gender diversity on corporate boards has been proven to enhance boards' functionality and governance by providing a variety of perspectives, which eventually leads to improved decision-making processes and better oversight.

In the GCC, progress is being made towards improved gender diversity on corporate boards, thanks to new regulations and initiatives such as quotas for women directors. A key finding in the MSCI research paper was that while most markets have few women directors, markets with legislative quotas had much higher representation.

As of 2019, the average number of female directors amongst financial companies listed in the GCC was 0.25 (with a total of 36 female directors only). Proportionately in terms of the number of directors vis-à vis number of women UAE (Dubai) is the highest proportion of female directors at 5.6% followed by UAE (Abu Dhabi) at 4.46%. In absolute numbers in terms of female directors Kuwait has the most female directors in total (10 female directors on 7 company boards). Followed closely by Oman with 9 female directors on 7 company boards.

The implementation of quotas is just one way to address the aging board problem in the GCC. Companies must also improve corporate governance practices through disclosure of information regarding board composition, risk management and audit committee structure, among other measures. They should strive to create a diverse boardroom environment that values innovation and encourages board members to share their unique perspectives.

By doing so, companies will be better positioned to overcome any challenges present in having an aging board population.

Transparency: Disclosure and Shareholder Engagement

In the GCC region, the aging boards issue is being addressed through increased transparency and improved governance. The adoption of disclosure and shareholder engagement is key to this, as it provides shareholders with vital information on board decisions and performance in a timely manner.

This provides shareholders with insights into board performance that can help them make decisions on how to vote at annual general meetings.

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Such increased disclosure encourages open dialog between stakeholders, enabling them to understand the boards' strategy and better assess its performance against expectations, providing more assurance that their investments are sound and managed responsibly.

Board Evaluations: Reviewing Effectiveness and Identifying Gaps

The boards of directors in the GCC countries should regularly review their effectiveness through board evaluations. This evaluation process helps to identify gaps that need to be addressed for the board to continue to meet its responsibilities.

The best practice approach for board evaluations includes:

- A comprehensive assessment of individual directors
- An assessment of the board's collective performance
- An examination of the board's effectiveness in meeting its fiduciary duties
- An evaluation of the board's corporate governance practices
- An assessment of individual director's contribution and oversight.

Board evaluations should also include an analysis of any potential conflicts of interest among members, an assessment of whether directors are sufficiently independent and objective in their decision-making, and a review of diversity within the group.

Furthermore, boards should adopt policies and procedures for succession planning in order to ensure continuity on their boards. This includes evaluating succession plans at least once a year, as well as considering internal candidates as well as external candidates who have proven themselves capable of making informed and responsible decisions. Succession planning is an important step in addressing the issue of aging boards in the GCC countries.

Succession Planning: Developing a Pipeline of Board-Ready Candidates

To effectively deal with the aging boards issue in the GCC, boards must be proactive and put in place a long-term succession strategy that develops a pipeline of board-ready candidates. This requires having clear criteria for potential boards members, training and mentoring initiatives, and ensuring diversity when selecting members.

The key elements of successful succession planning include:

1. Defining the skills, experiences, and knowledge needed for directors on the board.

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2. Developing a strategy to recruit suitable individuals who have those skills and experiences. This should involve looking both externally and internally to find potential directors.

3. Introducing onboarding programs that enable new directors to understand their role on the board and familiarize themselves with company operations quickly.

4. Establishing an evaluation system that assesses boards on their performance and effectiveness in order to identify areas for improvement or development of new board members.

By putting these key elements into practice, companies can ensure they are prepared for dealing with any aging boards issues that may arise in the future.

Conclusion

The aging boards issue in the GCC is something that needs to be tackled in order to ensure proper governance, sustainability and continued economic growth. A combination of the implementation of robust succession plans and increased emphasis on the nomination of qualified independent board members can help to tackle the issue. It is essential that companies start taking the initiative to modernize their boards and focus on the recruitment of diverse board members who have the right mix of skills and experience to help the company succeed.

About the Author:

Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

Maali holds a few concurrent roles, chief of which is CEO of the influential Middle East Institute of Directors (MEIoD), delivering advanced environment, social and governance (ESG) advisory and training to several prestigious organisations.

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