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INTERVIEW WITH DR AHMAD AL SHAIKH



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H.E. Ahmad Hassan bin Al Shaikh serves as Managing Director of family-owned Hassan Bin Al Shaikh Group of Industries and has wide board experience in other organisations. This includes board membership of the General Pension and Social Security Authority and chairmanship of the Board of Dubai Cable Co. Recently he has also joined the board of the Hawkamah Institute. In this interview he talks to Peter Montagnon about the role of boards in addressing risk and the particular issues that apply to regional, family-owned businesses with their constant need for renewal.

What are the main systemic risks facing regional companies?

We have to distinguish between three different categories of companies. One is listed companies which are controlled by a large number of

shareholders. The second is private limited companies which mainly have a smaller number of shareholders or are government-owned, and finally we have the family company. The risk varies from one to another. In family companies the risk is mainly inheritance risk in the sense of what will

happen if the founder is no longer there. With private companies, the risk is that they will bring in a manager who doesn't really see the interest of the shareholders. With the public companies the risk is that without the involvement of major shareholders, the chairman or another self-appointed person try to dominate.

So succession planning is one of the largest risks for family companies.

Of course. In the past ten to 15 years family businesses and owners whether they are from the first generation or second generation, have started to feel that the world has changed. They've begun to have succession planning. Families which did this had a much smoother transition.

What about business risks?

This is on two levels. One is about who controls the company and how innovative and far-sighted that person is. The other is about how they see the future of the products and services they are in. Lots of businesses which exist today won't be there in the next 15 to twenty years. It depends on how innovative their thinking is and how they see their products and services.

Are you saying that the biggest risk in a changing world is around innovation?

Innovation comes into many things, it's not just about products. It's about services. If you are not changing the way you think, you won't exist in the next ten to 15 years because others have overtaken you. It's not just the products and services you offer, it's the whole business model. Had you suggested 15 years ago that most of your products would be sold online, then people would have laughed at you. Today that's how most of us shop. In that sense innovation is a risk, but it's also an opportunity. We also need to think about starting new businesses and not just innovation in our existing business. We should think about what businesses we could be in that do not exist today.

That's quite difficult because you might lose a lot of money.

Yes. In 1985 I was with my family with my small children in Florida and it was summer. I remember holding an umbrella because it was too hot and, pushing my daughter's stroller, I told my wife that I had an idea. What if I made an umbrella which fits on my head? She said: "What a crazy idea! Who will buy it?" But I could not hold the umbrella and push the pushchair. Fifteen years later I saw the same idea being implemented and used in Europe. I reminded my wife and she said: "Yes I see. If you had done it you would have been a billionaire by now."

So one important risk is missed opportunity?

It's not a question of change but of having a new line. Today in our businesses we are exploring new ideas. I haven't stopped my existing business, but I am adding new lines. Probably 80 per cent of them will fail but maybe one or two of them will be successful. Coming back to the umbrella issue, had I done it at that time, it would have failed. It was a new idea that no one would have accepted. Timing is also essential.

So you're looking at the opportunities from change, where many people see threats.

I've just mentioned probably 80 per cent of the projects will fail. Out of them 20 per cent may succeed. I always look in negative matter and fortunately I see always opportunities. When the down trend happened in 2008 I called my staff from different companies and told them this is your opportunity to grab business. They asked how, and I said everybody else is afraid. They are not investing. Your opportunity is to be there for service and delivery. Your margin may drop but you will build reputation. The same thing is happening now. Today you can stand out among your competitors.

But people are having to deal with issues like cyber attack. That's a threat, not an opportunity.

If you think it's a threat, you will not be able to move ahead with your business. You have to retreat or take your chances. Are you willing to give up 95 per cent of opportunity against 5 per cent of risk. Threats are there, whether they are cyber or something else. You have to take precautions and you cannot deny the existence of risk. But you shouldn't let it stop you progressing.

The solution to cyber risk is simple. You build your maximum possible firewall. You transfer your data to a second site. Then it's very important to apply IT protocols, like username and password, and not to use memory sticks. The protocols have to be applied. It's about taking the right measures.

What is the contribution you expect from outside directors?

An outsider, whether outside of the family, or of the business or of the country itself, can give you an edge in thinking, a new dimension in thinking, ideas in products or new lines of business. But it depends on the character of that person. You cannot just bring in anybody just for the sake of having an outsider.

Outside board members can draw attention to opportunities. Assessing and managing the risk is primarily a matter for the management who run the company. A board member can bring an idea. If it looks nice, the management will take it up, but it is up to the management to handle the risk.

But this appears to run against conventional governance theory that one important role of outside directors is to challenge the management over the level of risk in the business?

My background is in family business. Family owners are naturally conscious of risk. What they

need is new ideas. That's why bringing in outsiders with a fresh pair of eyes can make a big difference.

And what about the role of committees?

Very important. Boards cannot discuss everything. That's why committees have been introduced. They bring their conclusions to the full board for their discussion. The main committees as far as I am concerned are audit, risk and – I won't call it remuneration – I'll call it HR. I consider HR is human capital I don't talk of human resource. Employees are your assets. They should be seen as valuable just like your other assets.

So this would replace the compensation committees common in countries like the US which you feel are too narrow for the regional context.

Yes. Compensation committees deal only with compensation. I'm talking about a committee which will guide HR policy in the company.

So that means skills development?

Skills development and training. I have established such committees and they have had a positive impact on growth.

And you see audit and risk as separate functions.

Yes I'm trying to fight for having separate committees. I believe the function of risk is different from the function of audit, although a small part of risk comes under audit. But I see risks as a total, much larger topic. The risk which is under the audit committee is a part of the risk but not the total risk.

What would be the agenda for a risk committee?

You have to look to the fundamentals of the business itself to what happens if the business

or the business environment changes. You have to ask what could threaten the existence of the business in the next two years. Most people don't look at these things because they say they don't know what will happen and therefore can't deal with the issues.

But aren't these questions for the whole board?

Yes, but the risk committee's role is to initiate discussion, to study the issues and to come with the result and to present it to the board.

This is different from the traditional view of non-financial risk like environment, health and safety or conduct risks which occupies many boards of international companies.

Just to give you an example of what happens. There was a recent incident in Kuwait where the body of a Filipino maid was found murdered. The president of the Philippines issued an order to Filipinos in Kuwait to come home and gave them air tickets to do so¹. What would happen if tomorrow the embassy of the Philippines or Pakistan wants to repatriate their workers in the UAE? I'm sure they won't, but what if?

Yes that's businesses interruption. You still have to look at conduct risk etc.

That kind of risk is a normal kind of risk that you have to look at. I'm talking about taking an out of the box view of risks. There may be a one in a

million chance of them happening but the chance is still one in a million.

Should the chairman sit on the committees?

Definitely not as chair. I would prefer them not to sit on committees, because they would outrank the committee chair. And if the Chairman of the Board chairs the committee, who will challenge the topics in the board?

You believe the chairman and the chief executive should be separated?

Definitely. You can't give that kind of power to one person.

And if the chairman does abuse his position?

The board has to be chosen out of an equivalent social level of people. You cannot bring the CEO of a small company as a board member into a board of a big company. He might be knowledgeable but a status issue will be there with a well reputed or well-known person.

So it it's a peer group the other directors would challenge the chairman?

Yes, and that's how it should be.

¹ See Killing prompts return of Philippines workers from Kuwait, CNN February 17 2018