

IS BOARD DIRECTORSHIP FOR YOU?

What You Need to Know Before Joining a Board



A PIF COMPANY

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Center for Governance

Report

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INTRODUCTION

An effective board of directors provides proactive direction and oversight on various aspects ranging from the company's strategy, risk management, sustainability, talent management, leadership succession, and organizational culture. Board dynamics can be enhanced by gender, age, and experience diversity. Saudi listed companies are working towards more diverse boards by continually replacing or adding board members; in 2021, for instance, 43 percent of board seats went to first- time board members in the Saudi Tadawul Market (CMA, 2021).

Indisputably, board directorship is an honor and a gate to professional development. However, it is not for everyone. Directors should be aware that becoming an effective director requires commitment, a certain mindset, and self-awareness. Directors must have time to devote to board work, manage their behavior, and be aware of their legal and fiduciary duties. Directors should assess the value they bring to the board, considering whether they offer industrial knowledge and experience, functional expertise, or a combination of both. Before accepting this role, directors should assess their readiness for board membership and do their due diligence to understand the regulated, complex, and litigious landscape of a board directorship.

DIRECTOR'S COMMITMENTS

Board directorship is a commitment that requires significant time and effort, especially with the increasing scope of board responsibilities. According to the 2019 National Association of Corporate Directors (NACD) Public Company Governance Survey, the average public company director's time commitment is approximately 245 hours per year. Becoming a director involves research, reading, analyzing, and working with various teams.

Joining a new board is not just about attending meetings, although good attendance does have an impact on board efficiency. Before each meeting, companies prepare materials for directors. These materials can consist of several hundred pages of technical information that need intensive reading, analysis, and questioning. These materials vary and typically include financial reports, the execution of company strategy, and other significant business matters. First-time directors need to devote more time than veteran directors to get up to speed on the company's situation. Also, board members may need more time for extraordinary meetings, especially at times of crises or major events such as the phase of CEO replacement and when going through mergers and acquisitions. Joining a board's committee increases an individual director's workload and accountability as they will be designated extra technical tasks and responsibilities, which require more time, effort, and expertise. Thus, the investment of time and energy required for board service should be measured carefully against the director candidate's current executive roles and board memberships.

In contrast to their day-to-day executive responsibilities, the prospective board members ought to refrain from engaging in micromanagement. By realizing that the function of the board is to provide direction rather than to manage, board members will be able to focus more on governance and strategic considerations, which will aid in the decision-making process and the pursuit of opportunities. Understanding the authority matrix facilitates the delegation of authority to management in an efficient manner. Therefore, prospective directors should control their desire to delve deeply into operational matters, as this not only consumes the valuable time of the board but also erodes trust and confidence in the management. Another facet of director commitment is the necessity for ongoing learning and growth.

Continuing education is essential for directors to stay up-to-date with contemporary concerns and issues, including cybersecurity, ESG, and disruptive technology. Directors must engage in ongoing self-reflection and actively respond to new insights in order to prevent making unwise judgments.

According to the NACD Public Company Governance Survey 2020, almost half of directors (49%) feel that their board does not dedicate sufficient time to director education. According to the report, directors typically allocate an average of 33 hours per year to education-related activities.

Thus, whether you have a full-time position or not, do you, as a prospective board member, have the time to devote to board work commitments? Are you willing to constantly learn? And can you refrain from micromanagement? If not, then board directorship is not for you.

DIRECTOR'S EGO

Directors with large egos can overestimate their knowledge, overvalue their expertise, and fail to recognize their own biases. Ego can also result in confirmation bias, where board members tend to overvalue evidence that confirms their own beliefs while undervaluing evidence that challenges them. Ego-driven directors may also struggle to participate in board meetings because they are afraid of being wrong or having their ideas rejected. They are more concerned with preserving their reputation and self-image than with participating successfully in board discussions.

Exemplary boards are characterized by their robust and efficient social systems. Board members should be able to question one another's assumptions and views. Respect and trust do not mean there will be no disagreement, but rather the ability to tolerate diverse perspectives. For instance, a board director who was elected, among other traits, because of his or her risk aversion should never stop questioning the board's risk appetite and should never feel as though their ideas are not valued.

In 2019, the World Economic Forum published the article "5 Ways to Remove Ego from the Boardroom," which highlights five approaches leaders can take to successfully lead their organizations into the future and move from "ego" to "eco". Leaders must cultivate loyalty through accountability and transparency, shape the narrative and context, release collective intelligence, allow structures to evolve with member input, and embrace diversity to solve complex problems. Thus, as a prospective board member, are you ready to park your ego in the context of the board dynamic? If not, then board directorship is not for you.

DIRECTOR'S EXPOSURES

In today's highly competitive business environment, board members must respond to a hypersensitive environment consisting of activist shareholders, concerned employees, and demanding community members. At the same time, they must ensure compliance with a long list of laws and regulations. During and after your board service, confidentiality and conflict of interest responsibilities apply. Typically, directors are bound by written confidentiality policies that prohibit the disclosure or use of confidential information obtained in the course of their board service. Directors may face legal risks with regard to confidentiality, conflicts of interest, and allegations of breach of fiduciary duties hence, candidates should be aware of the company's director and officer insurance policy and director indemnification agreements. Another concern for directors is that they will lose some of their privacy. Public companies publish comprehensive biographical information on their directors for company public filings. This information includes the director's age, qualifications, work experience, other board member- ships, and compensation. In addition, in the age of social media, board members must get used to being under constant scrutiny. Before accepting a board position, you must understand the industry characteristics, align with the organization's mission, and review the organization's financial health and by-laws. New board members should speak to existing board members and top executives to become familiar with the board structure and dynamics. A new director must also get a sense of the organization's strategic trajectory, internal control structures and be alert to any related red flags or significant pending or potential litigations and investigations. Thus, as a prospective board member, are you aware of the significant potential litigation risk and ready to be under persistent scrutiny? Are you also able to conduct thorough due diligence to minimize this risk? If not, then board directorship is not for you.

SUMMARY

Joining a board can provide unparalleled professional experience, personal brand, networking, and financial benefits. However, the downsides to directorship can be substantial, such as a significant time commitment, exposure to legal liability, public criticism, and reputation risk. Board directors must be mindful of their behavior and strive to work together as part of a larger team to make decisions in the best interest of the organization.

Director candidates will only find serving on a board to be a very worthwhile use of their time and energy if they learn about the roles and dynamics of boards beforehand, do their research, weigh the risks and benefits, and keep a positive attitude. Finally, board evaluations that contain a performance review of individual directors can assist in evaluating essential dimensions such as behavior, communication, and commitment.





ABOUT THE CENTER FOR GOVERNANCE

The Center for Governance was established by the Public Investment Fund (PIF) in 2020, and is dedicated to enhancing corporate governance capabilities and know-how in Saudi Arabia and beyond. We are a catalyst for governance excellence in the Kingdom, delivering practical solutions that elevate standards, build trust and foster societal progress.

sectors in three core areas:

- We undertake board evaluations for all kinds of entities, and provide advisory services relating to governance, risk and compliance.
- We design and deliver development programs aimed at board members, the C-Suite and governance professionals.
- Through rigorous research and thought leadership, we uncover new insights that raise awareness and understanding of governance, directorship and organizational performance.

For further information on how the Center can support your organization, please contact info@cfg.sa

