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Building a Meritocracy at Alghanim Industries

I live by example. I believe in keeping people honest and having meritocracy. If you don't have meritocracy, if you don't have straight talking, then your best talent will not rise to the high ranks. You need to empower and encourage them to take risks.

— Omar Alghanim, CEO, Alghanim Industries

In 2005, Omar Alghanim (HBS MBA 2002) became the CEO of Alghanim Industries (AI), a Kuwaiti company with ownership of 30 different businesses in 40 countries. After many years of living abroad and experience working in London, Omar returned to Kuwait to run the family business. Omar reflected on his experience in the West, and especially the example set by his father, Chairman Kutayba Alghanim, who rejected the traditional Middle East practice that relied on relationships and influence to conduct business and instead instituted meritocratic principles benchmarked against global best practices. Omar was determined to build on the vision set by his father, and foster a meritocracy at Alghanim Industries that would attract and empower diverse employees who were rewarded on merit, and who delivered on the firm's mission of providing excellent service to its customers. By 2017, he had revamped the company's performance and compensation system; introduced strong new internal controls and compliance; recruited a new team of executives from throughout the Middle East, Europe and North America; and moved to new open-design offices.

Yet despite his progress in transforming AI, Omar remained unsatisfied. As he pointed out to the management board, the scarcest resource in the Middle East was talent. AI had struggled to attract talented women and local Kuwaitis, who made up only 8% and 3% of AI's workforce respectively. In addition, Omar observed that several AI departments were mono-cultural. How, Omar wondered, could the company overcome these challenges to attract and empower the best talent and create a culture that recognized and rewarded performance?

Kuwait

Located between Iraq and Saudi Arabia on the Gulf (see **Exhibit 1**), Kuwait had a land area slightly larger than the U.S. state of Connecticut. Founded in the mid-1700s by tribes that migrated from Saudi Arabia, Kuwait became a British protectorate in 1899. Its early wealth was linked to pearl trading, but

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in the 1920s, when artificial pearl cultivation was introduced, its prosperity declined. The country's fortune reversed in the 1930s with the discovery of oil, and it became the largest oil exporter in the Middle East.[1] Declaring its independence from Britain in 1961, Kuwait became the most democratic country on the Peninsula, with a ruling system comprised of a monarchy with a democratically elected 50 seat parliament.[2]

In 2016, Kuwait owned more than 6% of the world's crude oil reserves and was the world's 55th largest economy (GDP=$303.7 billion); it ranked 11th globally with GDP per capita of $71,900. Oil accounted for 92% of its exports and 90% of the government's income. Given the government's dependence on oil revenues, the country was affected by the precipitous drop in the price of crude oil (from almost $109.89 per barrel in June 2014 to $29.67 in January 2016)[3]. In 2016, taking a step toward reducing oil dependency, the government announced modest reductions in subsidies for fuel and public utilities and in government expenditures.[4] Its 2016 five-year economic plan focused on reducing the emphasis on oil and encouraging the development of new private non-oil industries.[5]

Only thirty percent of the country's 4.2 million population were Kuwaiti citizens. Immigrants and foreign workers accounted for approximately 84% of the 2.7-million workforce.[6] Kuwaiti citizenship was restricted to members of the original Kuwaiti families and was not granted to immigrants, even those who were born in Kuwait from families that had lived there for two generations or more. Kuwaiti citizenship carried many benefits. The country's constitution provided that: "Every Kuwaiti shall have the right to work and to choose the nature of his occupation…The State shall make work available to citizens and shall see to the equity of its conditions."[7] As a result, seventy-nine percent of the 432,500 working Kuwaiti nationals were employed in the public sector,[8] the country's most attractive employer. Government employees had short working hours (typically from 7 a.m. to 2 p.m. from Sunday through Thursday, versus 8 a.m. to 5 p.m. for private sector employees[9]), lifetime job security, housing allowance benefits, extended sick leave, healthcare insurance, a company car or a transportation allowance, and attractive salaries.[10,11] In 2016, the average monthly salary of an unmarried Kuwaiti employee in the public (private) sector was $5,000 ($3,620) versus $2,250 ($815) for a non-Kuwaiti. In addition, government-employed Kuwaitis who were married with families received a 30% higher government stipend as part of their benefits package, as well as a monthly stipend of $164 per child. [12,13]

Although Kuwait was wealthy and was known to be a safe country, it was nevertheless affected by political instability and security issues in the Middle East. In 1990, Iraq invaded and annexed Kuwait. A year later, the country was liberated by a United Nations coalition led by the U.S., and peace was restored. The 2003-2011 Iraq war, the 2004-2014 Shia insurgency in Yemen, the Arab Spring in 2011, and the Syrian civil war that broke out in 2011 were just a few of the major problems in the Middle East. The threat of terrorist groups operating in the region scared off Westerners who had limited knowledge of country locations and the risks they faced.

Alghanims

The Alghanim family was one of the original families in Kuwait, having first settled in the 1700s and played a significant role in shipping and trading in the country's development. After the discovery of oil, the Emir appointed Ahmed M. Alghanim, and later his son, Sir Yusuf A. Alghanim, to lead negotiations with the predecessor to British Petroleum. In the 1960s, the Alghanim family business diversified into construction, automobiles, packaged goods, and other support services. Yusuf Alghanim sent his son Kutayba to Gordonstoun in Scotland and then to the University of California at Berkeley for his studies. When Kutayba returned to Kuwait, he opted to create his own company, Al-