



# Corporate Governance in Digital Economies

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**@ ISACA UAE Chapter**  
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# CG Digital Economies Agenda

- Basics: what is Governance?
- Corporate Governance: issues, importance
- Governance Digital Economies & Societies
- E-Government and e-Governance in MENA
- Corporate Governance Digital Economies
- Hawkamah Institute for Corporate Governance
- Proposals for Action

# Governance Definitions

- “The exercise of political authority and the use of institutional resources to manage society's problems and affairs”,
- “The use of institutions, structures of authority and even collaboration to allocate resources and coordinate or control activity in society or the economy”,  
WB



# Governance & Financial Systems

- **Consensus that sound financial systems involves countries adopting and implementing best practice standards in 12 key policy areas.**
- **Both public and private sector incentives are required to stimulate country adoption and compliance with these standards.**
- **Consensus that countries should give priority to adopting the international core standards**

# The 12 Core Standards for Sound Financial Systems

## **Macro Standards**

1. Data Dissemination
2. Monetary Policy
3. Fiscal Policy Transparency

## **Agency**

IMF  
IMF  
IMF

## **Market and Infrastructure**

### ***4. Governance***

5. Accounting
6. Auditing
7. Insolvency
8. Money Laundering

## ***OECD/ World Bank***

IFAC  
IFAD  
World Bank  
FATF



# The 12 Core Standards for Sound Financial Systems

## Financial System

## Agency

9. Core Principles of Bank Supervision

BIS

10. Core Principles of Insurance Supervision

IAIS

11. Core Principles of Securities Supervision

IOSCO

12. Systemically Important Payment System

BIS

# Why The Core Standards?

- Deficiencies in these policy areas were a source of crises, and magnified, complicated and extended economic & financial crises
- Countries complying with core standards can achieve:
  1. Transparency of economic risks
  2. Economy characterized by well governed institutions and companies valued and audited according to agreed upon international conventions protects contracts & property rights
  3. An ethical business environment
  4. A financial system governed and regulated in a safe and sound manner, which serves the nation efficiently and sustains on going growth and economic development.

# What is Corporate Governance?

- Corporate governance refers to the set of rules and incentives by which the management of a company is directed and controlled so as to maximize the profitability and LT value of the firm for shareholders, while taking into account the interests of other stakeholders
- "Corporate Governance is the **system** by which **business** corporations are **directed & controlled**. The Corporate Governance structure specifies the distribution of **rights & responsibilities** among different **participants** in the corporation, such as, the board, managers, shareholders. [...] OECD 1999.
- ***CG applicable to Listed, Family-owned, SMEs and SOEs***





# Corporate Governance Principles (OECD)

- 1. Ensuring the basis for effective Corporate Governance framework**
- 2. The rights of the shareholders and key ownership functions**
- 3. The equitable treatment of shareholders**
- 4. The role of stakeholders in CG**
- 5. Disclosure and transparency**
- 6. The responsibility of the board**



# 1. Minority shareholder protection

## 1. **Protect the rights of minority shareholders:**

1. Right to vote on important matters
2. Right to buyback shares
3. Right to formally present an issue to the board of directors

## 2. **Treat foreign shareholders equally with domestic shareholders:** non-discrimination principle



## 2. Responsibilities of the Board of Directors

- A majority of board members should be independent from management
- Boards should establish subcommittees to monitor & control
- All material information should be publicly disclosed – Transparency
- Develop an investor relations program that fully informs all shareholders of corporate activities

# 3. Accounting and auditing

- Firms should conform to accounting and auditing practices and standards i.e. comply with IAS (IFS)
- Audit committee should have a majority of independent directors, who should be able to read and understand fundamental financial statements
- All communications between the committee and external auditors should be without the company management present



## 4. Transparency of Ownership and Control

- Who controls a company?
- Who has significant ownership?
- Firms should disclose accurate, adequate, and timely information so as to allow investors to make informed decisions about acquisitions, ownership obligations and rights, and the sales of shares



## 5. Regulatory Environment

- Credible and transparent regulatory environment
- Regulatory environment must not be perceived to be under control or influence of any particular interest group
- Regulators should be independent

# Corporate Governance : Performance in Emerging Markets

Better CG  
correlates  
with

- better operating performance
- better market valuation of companies

Firm level CG  
provisions &  
practices  
matters even  
more wherever

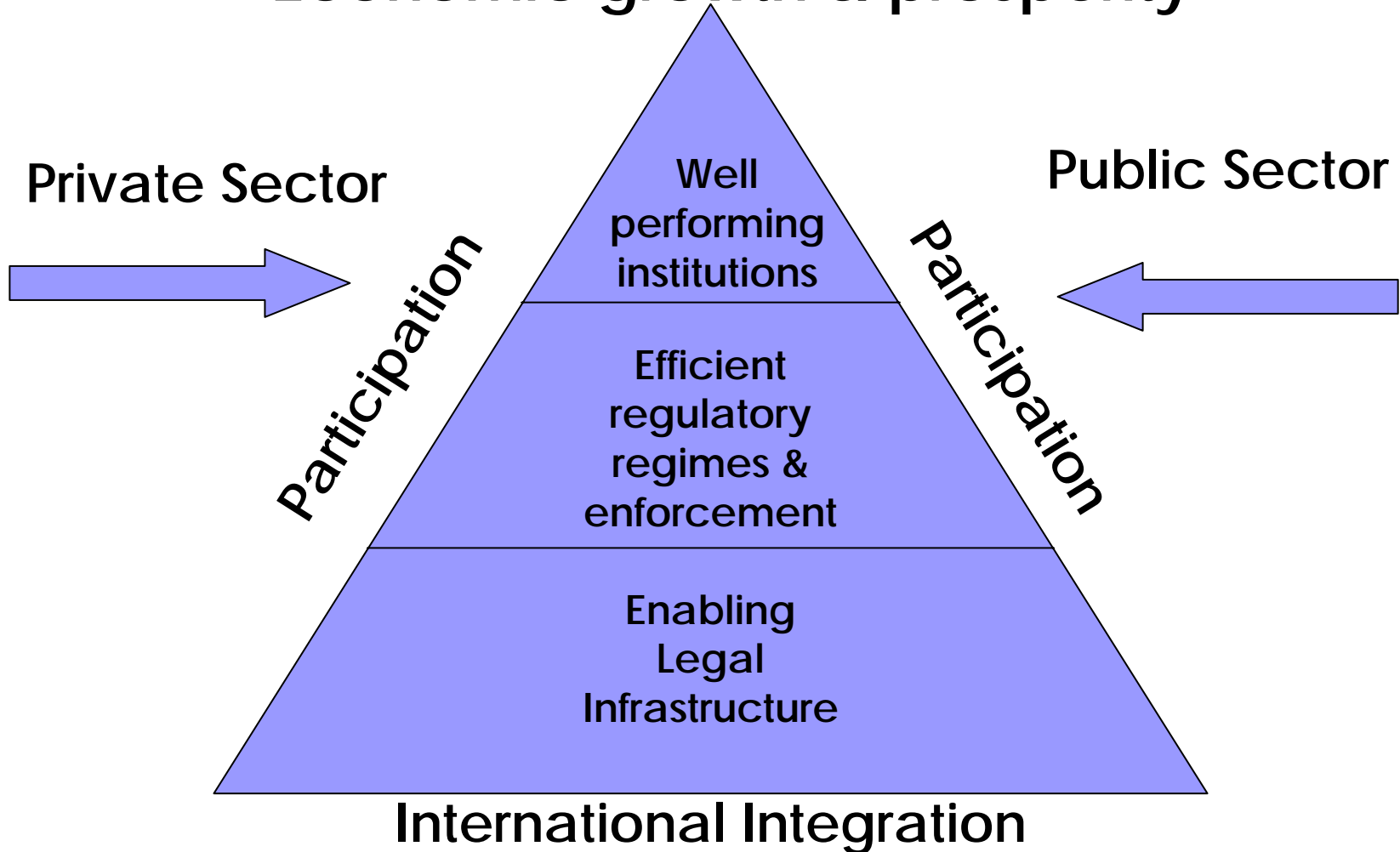
- weak shareholder rights
- weak legal environments & weak public governance

Cross-country  
differences in  
laws &  
enforcement  
affect

- ownership structure
- dividend payouts
- availability & cost of external finance
- market valuations

# ***CG integral element of sustainable economic growth & development***

## **Economic growth & prosperity**





# “Good Corporate Governance”

- Well performing institutions, enabling legal infrastructure, regulatory regimes and enforcement, “good corporate governance” major contributor to:
  - Economic growth & prosperity
  - Public confidence & encourages wide participation in market economies
- “Good corporate governance” required by both the public sector and the private sector in the MENA
- Investment in bridging ‘CG gap’ a priority:
  - Capital markets have grown to more than \$1 trillion in from \$100 billion in 5 years, with surge in IPO's and listings
  - Need to attract FDI
  - Finance infrastructure
  - Succeed in market liberalization & privatization

# CG Digital Economies Agenda

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- *Governance Digital Economies & Societies*
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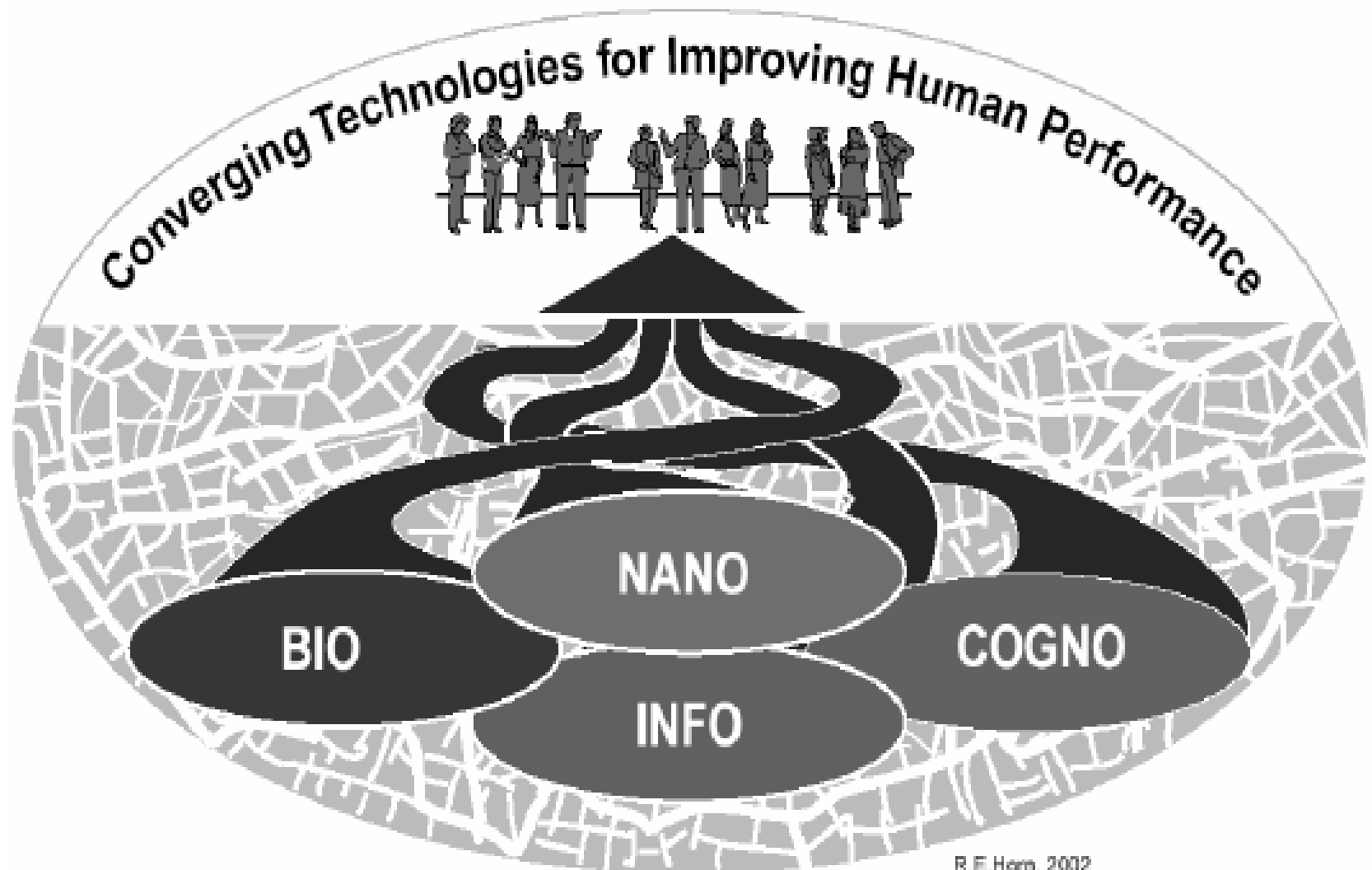
# Issues for Corporate Governance in Digital Economies & Societies

- ICT is a ***general purpose technology***: changes in legal forms, regulatory and organisational changes, culture and education: transition may take decades
- Convergence of Technologies
- Investment in e-Human Capital
- Digital property protection
- Information vs. Privacy?
- E-Security & Trust

# Table A.1. Greatest Engineering Achievements of the Twentieth Century

1. Electrification	11. Highways
2. Automobile	12. Spacecraft
3. Airplane	13. Internet
4. Water Supply	14. Imaging
5. Electronics	15. Household Appliances
6. Radio and TV	16. Health Technologies
7. Agricultural Mechanization	17. Petroleum Technologies
8. Computers	18. Laser and Fiber Optics
9. Telephones	19. Nuclear Technologies
10. Air Conditioning & Refrigeration	20. High-performance Materials

# 'New' Humans



# Technology Convergence

- NanoTechnology, BioTechnology, IT & Cognitive Science  $\Rightarrow$  improve Human performance

If the *Cognitive Scientists* can think it  
the *Nano* people can build it  
the *Bio* people can implement it, and  
the *IT* people can monitor and control it

# Challenges facing successful implementation of e-Government in MENA

- ***e-leadership***

- is the leadership and strategic thinking ready?*

- ***Access, Connectivity and Network Readiness***

- is the technological infrastructure ready?*

- ***e-business climate***

- is the institutional infrastructure ready?*

- ***e-Human capital***

- is the population e-aware and e-ready?*

- ***Trust, information security and privacy***

- is the legal infrastructure ready?*

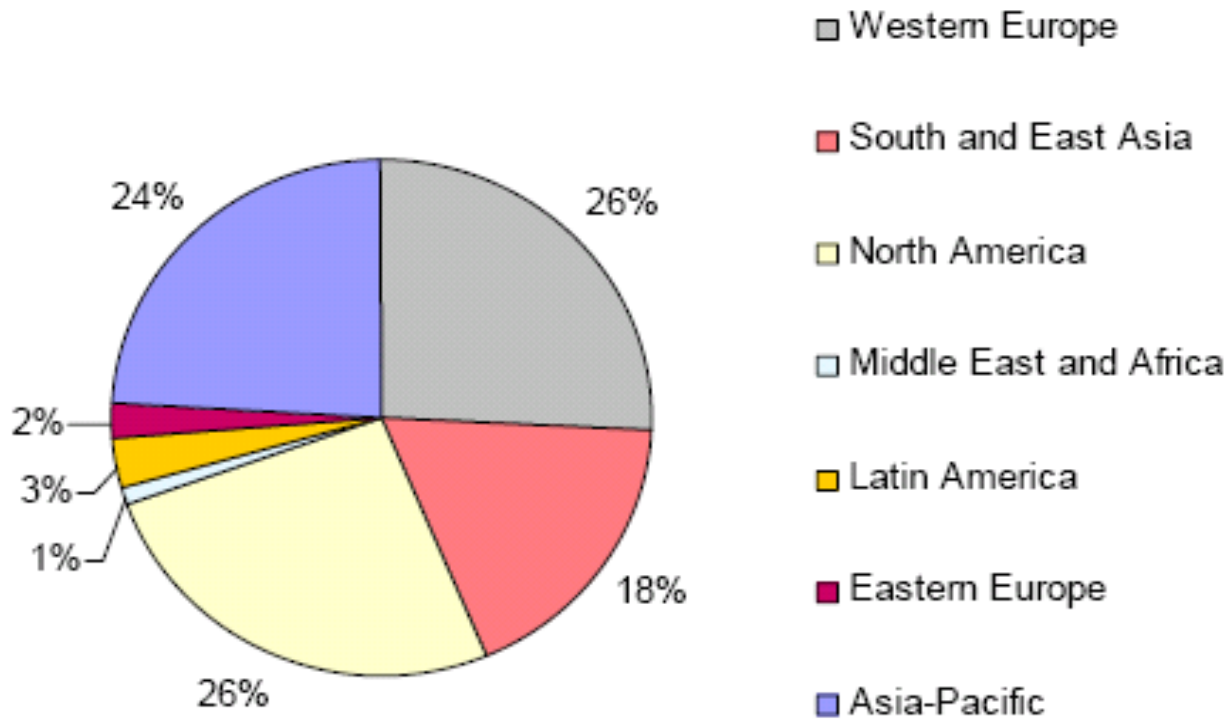


Figure 1 Share of broadband lines by world region (7): 31 Dec 2005

Source: © Point Topic Ltd, 2006.



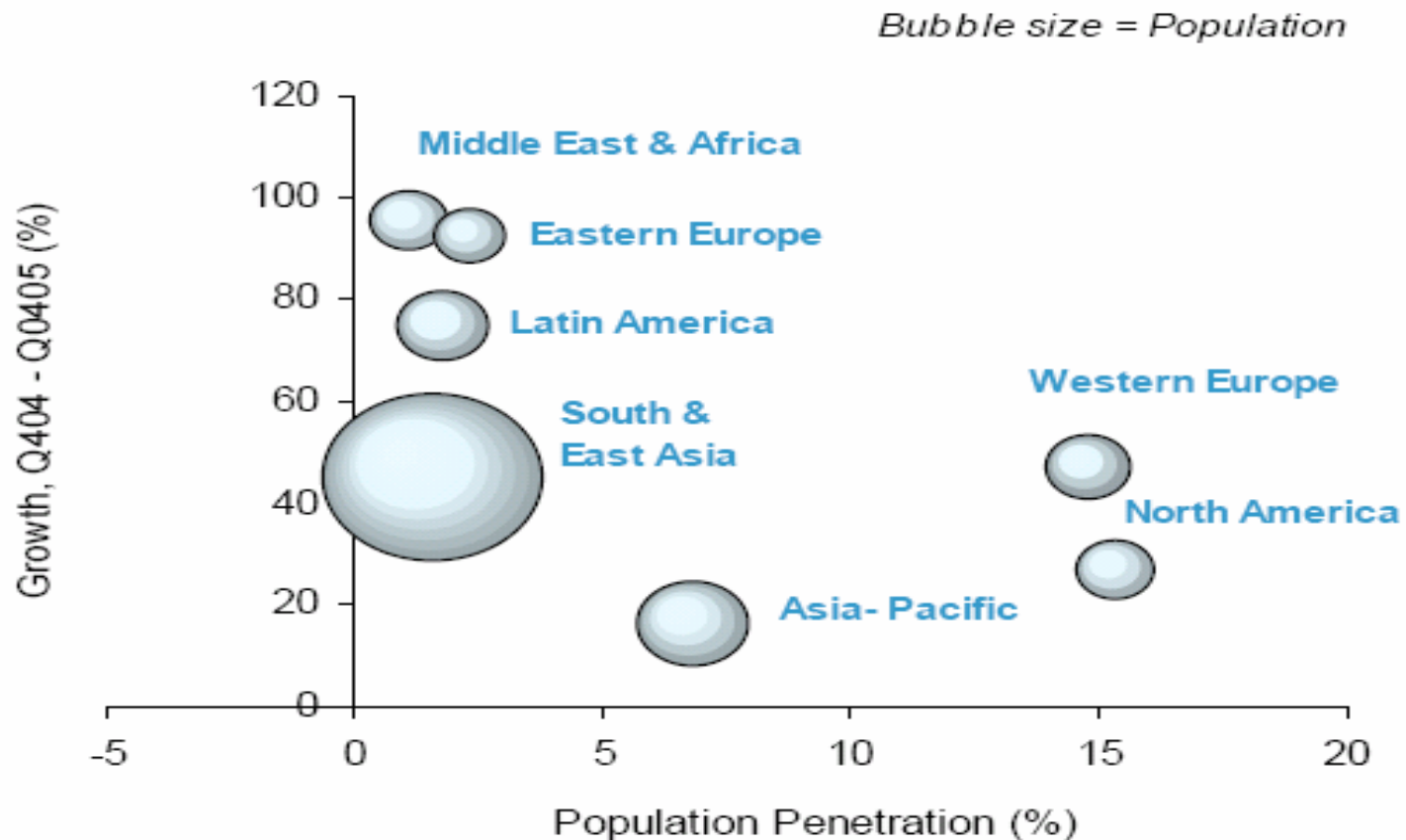


Figure 2 Broadband penetration and growth by world region (7): 31 Dec 2005  
 Source: © Point Topic Ltd, 2006.

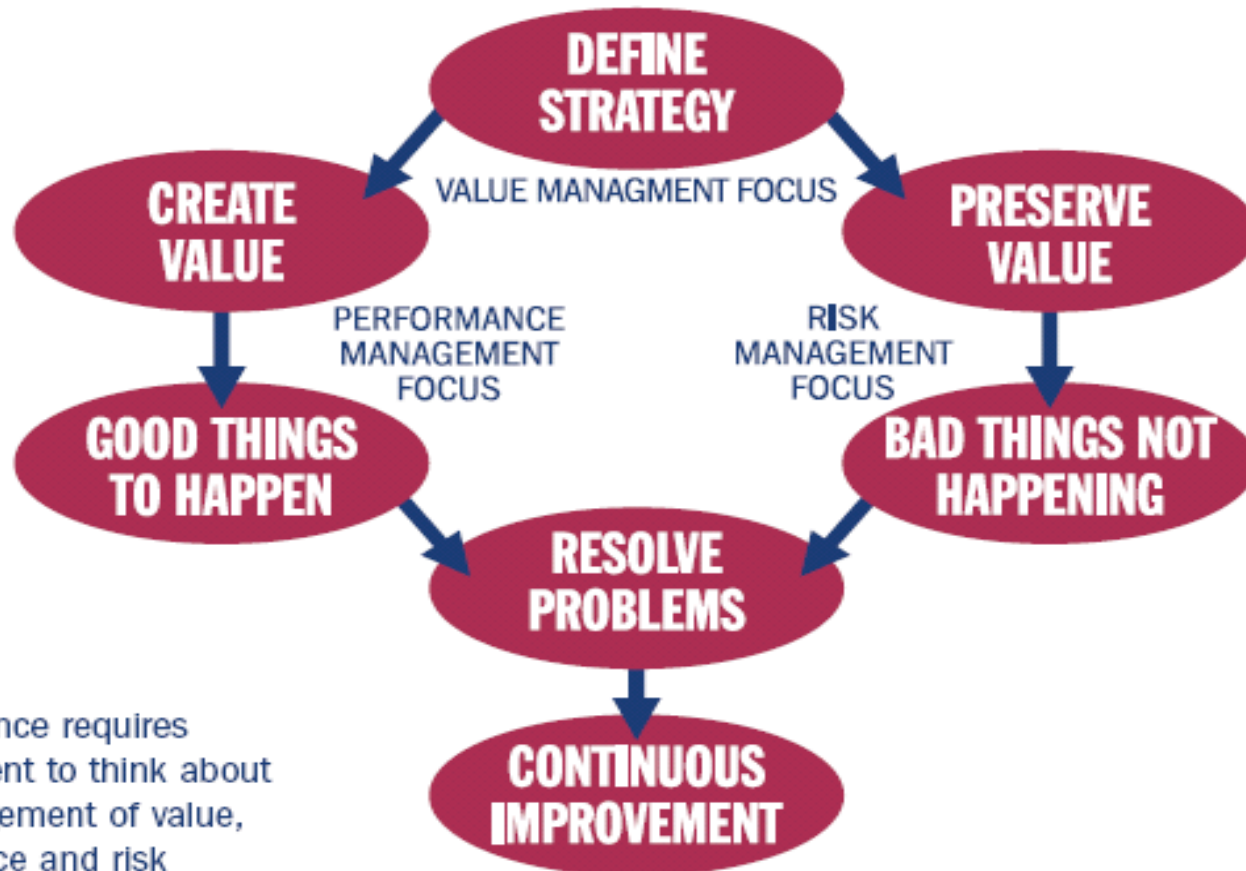
Country	Freedom of information	Privacy/Data Protection	Administrative Procedure	Electronic Signature	e-Government Policy	Ombudsman
Algeria	NA	X <sup>i</sup>	NA			NA
Bahrain	NA		NA	Draft <sup>ii</sup>	X <sup>iii</sup>	NA
Egypt	NA		NA	Draft <sup>iv</sup>	X	NA
Jordan	NA	X <sup>v</sup>	NA	Draft <sup>vi</sup>	X <sup>vii</sup>	X <sup>viii</sup>
Kuwait	NA		NA	Draft <sup>ix</sup>	X <sup>x</sup>	NA
Lebanon	X <sup>xi</sup>	X <sup>xii</sup>	NA	Draft	X <sup>xiii</sup>	X <sup>xiv</sup>
Libya	NA		NA			NA
Morocco	NA	X <sup>xv</sup>	NA	Draft <sup>xvi</sup>	X <sup>xvii</sup>	NA
Oman	NA		NA		X <sup>xviii</sup>	NA
Palestine	NA		NA			NA
Qatar	NA		NA	X <sup>xix</sup>		NA
Saudi Arabia	NA		NA	Draft <sup>xx</sup>	X <sup>xxi</sup>	NA
Sudan	NA		NA			NA
Syria	NA		NA	X <sup>xxii</sup>		NA
Tunis	NA	X <sup>xxiii</sup>	NA	Law <sup>xxiv</sup>	X	NA
UAE	NA	X <sup>xxv</sup>	NA	X <sup>xxvi</sup>	X <sup>xxvii</sup>	NA
Yemen	NA		NA			NA

# IT Corporate Governance

- IT CG:
  - Public dimension: enabling framework for Digital economies & societies. E-Government imperative
  - Private dimension
- “IT governance is the responsibility of the board of directors and executive management. It is an integral part of enterprise governance and consists of the leadership and organisational structures and processes that ensure that the organisation’s IT sustains and extends the organisation’s strategies and objectives.”
- IT governance is concerned about two responsibilities:
  - IT must deliver value and enable the business
  - IT-related risks must be mitigated.

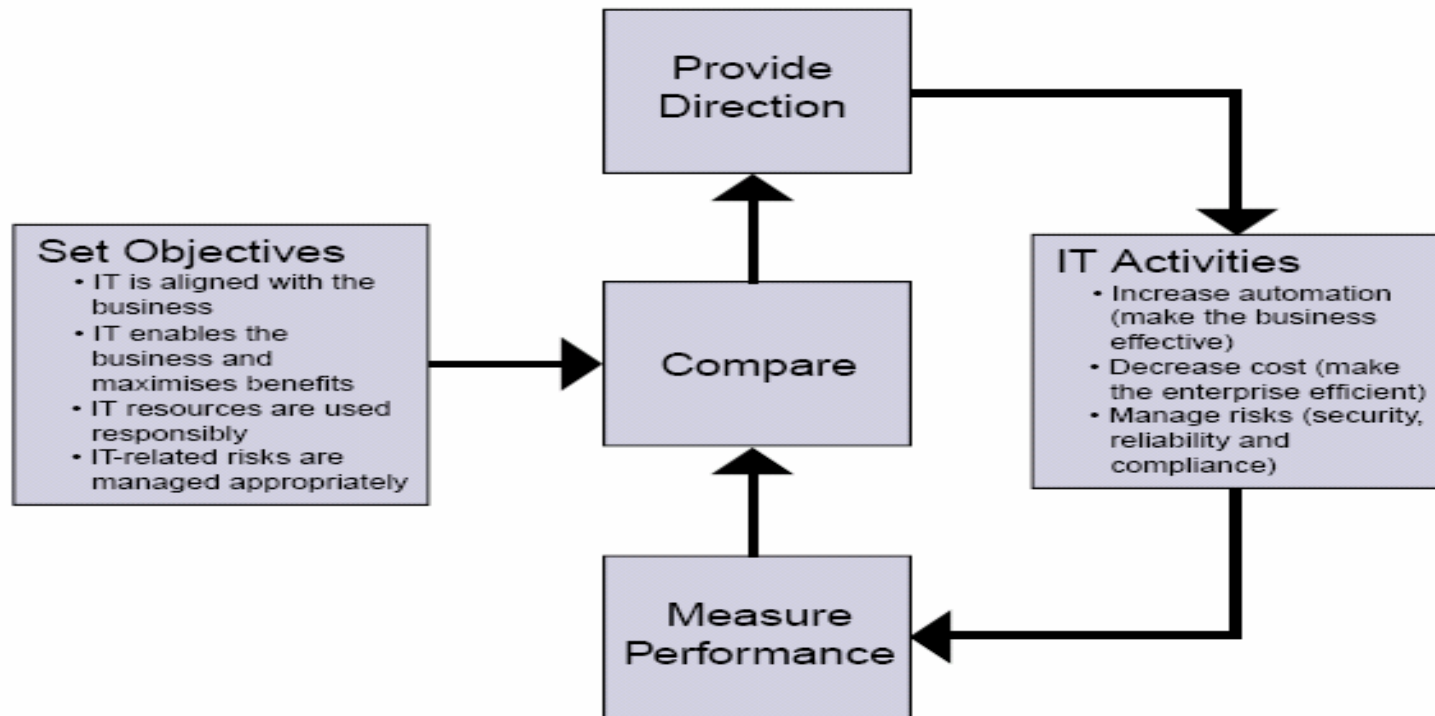
# IT Governance (ISACA)

Figure 6



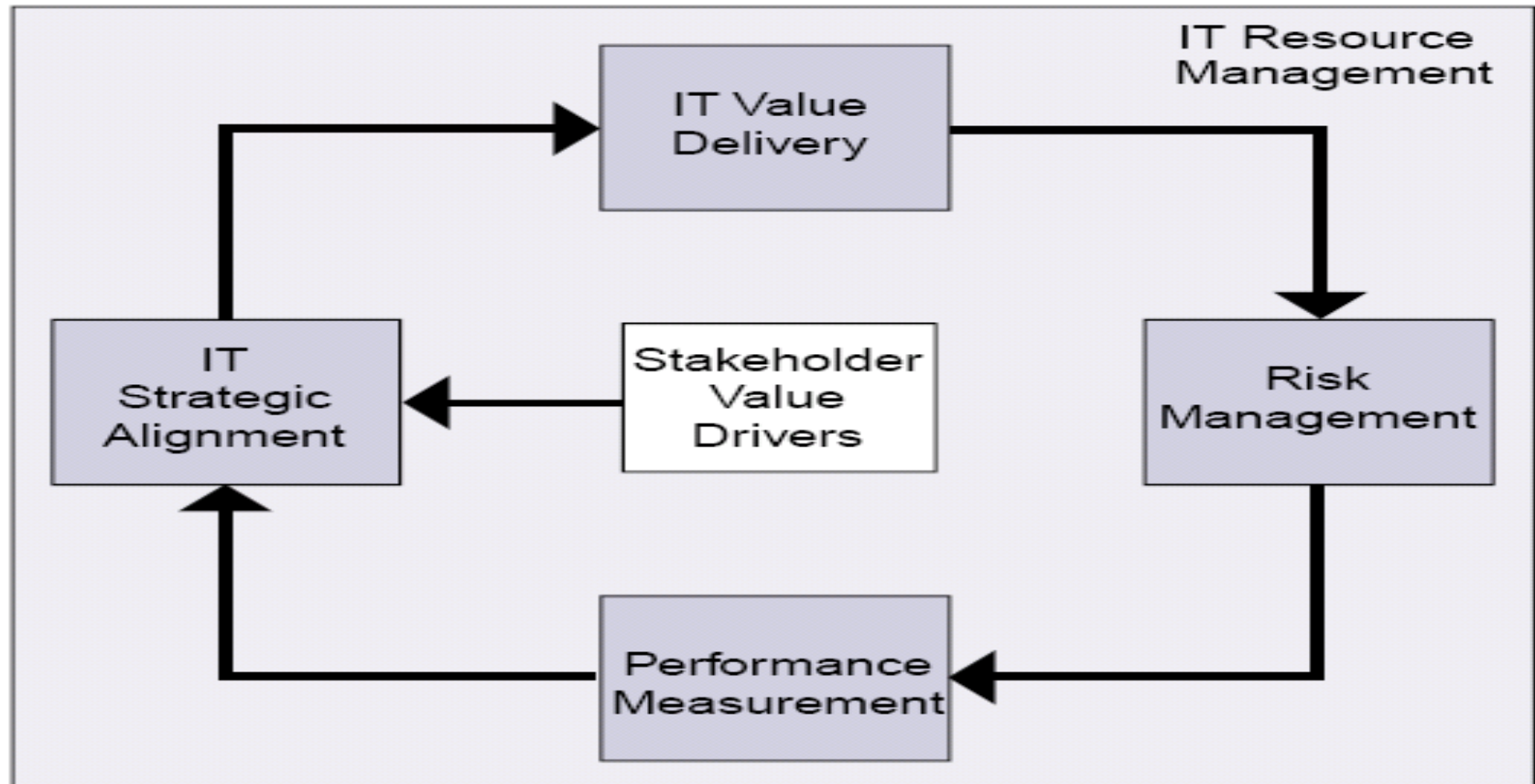
IT Governance requires management to think about the management of value, performance and risk

# IT Governance Framework (Source: ITGI)

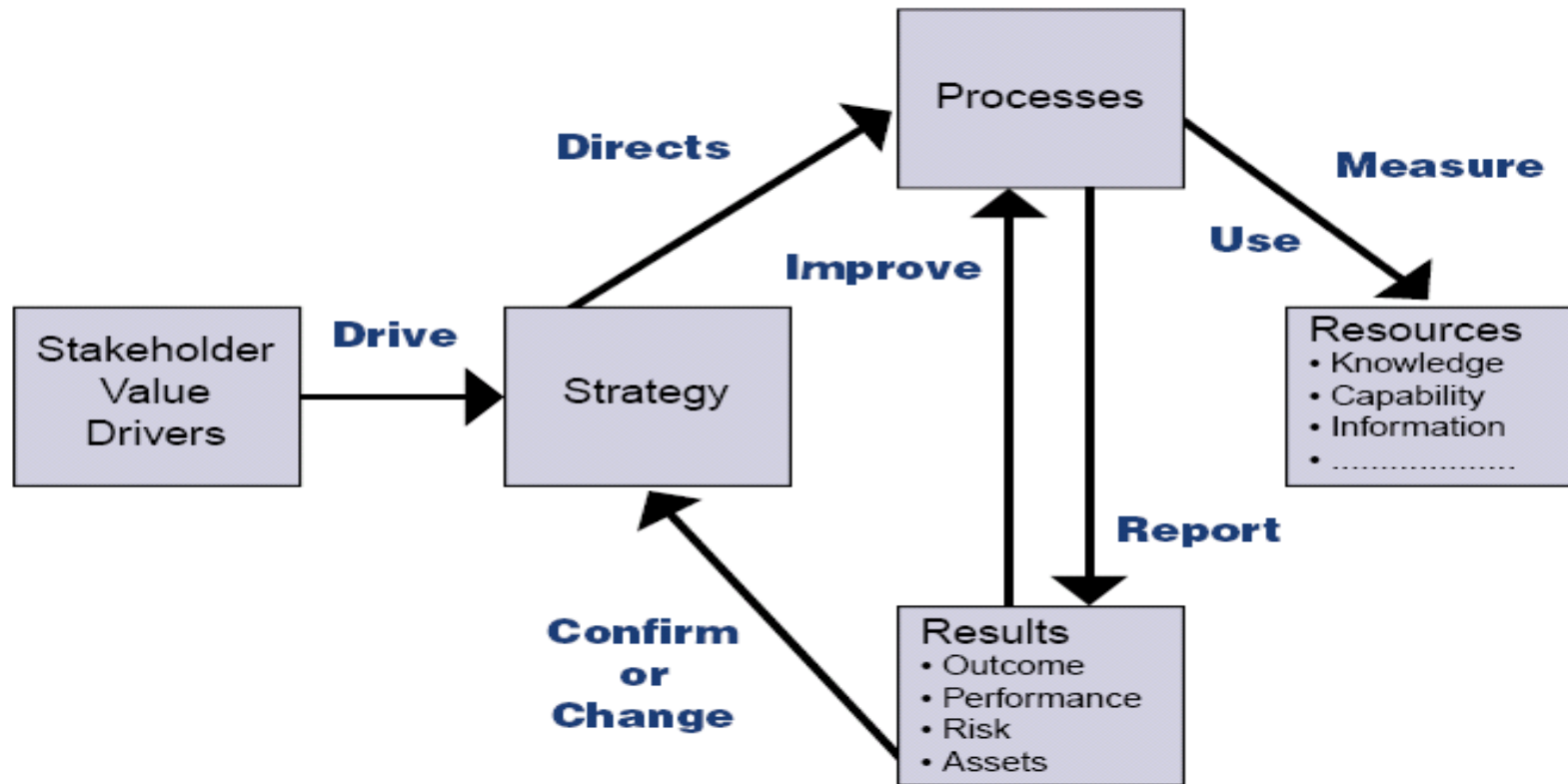


# Main Areas of IT Governance

(Source: ITGI)



# IT Governance Process (Source: ITGI)





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# Hawkamah-ICG Mission

- ‘Bridge the CG gap’
- Assist the countries and companies of the region in developing sound and globally well integrated CG frameworks:
  - Coordinate and sequence the designing, and implementation of CG reforms
  - Monitor the outcomes of CG policies at the public and private sector level.
- *“Hawkamah-ICG will serve as a platform for regional co-operation, based on a concrete agenda for measurable and time-bound action, aiming to raise awareness of national, regional and global initiatives and build a coalition for reform”*, Joint Declaration OECD-UAE, 2005.



# Hawkamah Institute for Corporate Governance

- First Institute of its kind in the region
- An international association, hosted by the DIFC and serving the MENA countries, Central Asia and beyond
- Financially self-sustaining organisation with income from memberships, consultation, training, in addition to grants & sponsorship
- Strengthen institutional and capacity building by setting up a regional Institute of Directors.
- Source of CG technical assistance, monitoring, analysis, research, consultation and reform.
- Foster communication and policy dialogue on CG

# Hawkamah-ICG Strategy & Programs

**Focal Point 1**

**Institution  
& Capacity  
Building**

**Focal Point 2**

**Knowledge  
Exchange  
Platform**

**Focal Point 3**

**Technical  
Assistance  
Analysis &  
Research**

**Focal Point 4**

**Communication  
&  
Policy  
Dialogue**

# Hawkamah-ICG Programs &

<b>Activities</b> <small>FOCAL PROGRAMMES</small>	PROJECTS	IMPLEMENTATION			
		2006	2007	2008	2009
Institution & Capacity Building					
	National Task Force Creation	■			
	Regional Institute of Directors				
	Companies Houses for the MENA region		■		
	Centralized Credit Reporting Agencies				
	Academic Courses			■	■
	Training and e-courses	■	■	■	■
Analysis, Research & Technical Assistance					
	National & Regional Surveys	■			
	Tool Kits		■		
	Governance Econometrics			■	■
	Quarterly & Annual Reports	■	■	■	■
	Working Papers			■	■
	Advisory & Consultation services	■	■	■	■
	Drafting Codes		■	■	■
Communication & Policy Dialogue					
	Website				
	National Roundtables		■	■	■
	Regional Forums		■	■	■
	e-Discussions – e-Forums		■	■	■
Knowledge Exchange Platform					
	Awareness Raising Campaigns	■	■	■	■
	CG Contests		■	■	■
	Establishment of CG Virtual Library		■	■	■

□ Initiated

■ Implemented



# Targeted Sectors

- 1. Listed Companies, Capital Markets & Regulatory Authorities**
- 2. Banks, Financial Institutions, Central Banks & Supervisory Authorities**
- 3. Non-listed companies – Family-Owned Enterprises (FOEs) & Small and Medium Enterprises (SMEs)**
- 4. Public Sector – State-Owned Enterprises (SOEs)**
- 5. Media – Academia: Raising Awareness, Building Capacity & conducting research on CG**

# Strengthening Bank CG in MENA is a policy priority

- Banks' dominant position in financial and payment systems
- Banks dominate both credit & investment process for economy and majority of firms
- Government ownership and concentration of ownership in banking sector
- Strengthen prudential regulation and supervision
- Strengthen Transparency, Disclosure & Reporting
- Face challenge of external competition
- Liberalization & opening up is providing greater latitude to banks



# BIS: Sound CG Principles for Banking Organizations I

**Principle 1** Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank.

**Principle 2** The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation.

**Principle 3** The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation.

**Principle 4** The board should ensure that there is appropriate oversight by senior management consistent with board policy.



# BIS: Sound CG Principles for Banking Organizations II


**Principle 5** The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors, and internal control functions.

**Principle 6** The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.

**Principle 7** The bank should be governed in a transparent manner.

**Principle 8** The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures, that impede transparency (i.e. "know-your-structure").





# BIS Sound CG Principles for Banking Organizations: The Role of Supervisors

1. Supervisors should provide guidance to banks on sound corporate governance and the pro-active practices that should be in place.
2. Supervisors should consider corporate governance as one element of depositor protection.
3. Supervisors should determine whether the bank has adopted and effectively implemented sound corporate governance policies and practices.
4. Supervisors should assess the quality of banks' audit and control functions.
5. Supervisors should evaluate the effects of the bank's group structure.
6. Supervisors should bring to the board of directors' and management's attention problems that they detect through their supervisory efforts.

# Hawkamah ICG Organizational Structure

- ✓ **Structure:**
  - ✓ **Board,**
  - ✓ **Executive,**
  - ✓ **Investment advisory group,**
  - ✓ **Scientific/expert advisory group**
- ✓ **Board Committees**
  - ✓ Executive Committees
  - ✓ Membership Committee
  - ✓ Corporate Governance Review Committee
  - ✓ Funding Committee
  - ✓ Legal Committee
  - ✓ Research & Publications Committee
  - ✓ Activities Committee
  - ✓ Media and Communication Committee

## **Membership Structure**

- ✓ Awards Committee
1. Country & Institutional
  2. Corporate
  3. Individual
  4. Academic/Research

# Hawkamah ICG Strategic Partners

**DIFC is partnering with:**

- **OECD \***
- **WB-IFC \***
- **WB Global Corporate Governance Forum**
- **Union of Arab Banks \***
- **Center for International Private Enterprise\***
- **DSG, IMD, YAL**
- **Capital Market Authorities, Stock Exchanges, Market Professional Associations & SROs**
- **Central Banks, Bank Supervisory Authorities & Bank Associations**
- **International & Regional organizations**
- **Countries participating in the MENA-OECD Investment Program**
- **CG centers, universities**



# Hawkamah & ISACA

- IT CG integral part of CG
- Hawkamah & IT Governance Institute
- ISACA as a Strategic Partners
- Cooperation on IT governance
- Cooperation on IT corporate governance
- Training
- Technical Assistance & Cooperation: banks & financial sector



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*THANK YOU*

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