



# HAWKAMAH

THE INSTITUTE FOR CORPORATE GOVERNANCE

...an autonomous international association promoting corporate governance in the Middle East North Africa, Central Asia and beyond

## **Family Corporate Governance**

**@ Family Business Forum**

**12-13 March, 2007 Dubai, UAE**

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# AGENDA

- Potential MENA Economic Renaissance?
- Role of Family in Markets
- Challenges of Family Owned Enterprises
- Family Business Succession
- Hawkamah Institute for Corporate Governance & Hawkamah Institute of Directors

# A MENA Growth Resurgence and Economic Renaissance?

- MENA has achieved above average growth rates sustained by
  - Average real GDP growth 6.2% over 2003-2005 vs. 3.7% in 1998-2002
  - Favorable global developments: high growth, low inflation and interest rates, no financial crises
  - Growth has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and ↑ in productivity growth
- Private sector is leading and driving regional economic integration

# MENA Renaissance?

- **Accumulation of assets & international reserves leading to a tripling of international reserves between 2002 and 2006: \$188.7bn (2002) to \$517.7bn (2006)**
- **Inflation higher, but limited pass-through of higher oil prices to consumers**
- **Real Estate boom & asset price appreciation**
- **Credit Market boom**
- **Regional stock market boom**

**Can this be sustained? Need to address governance issues**

# “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:
  - Build and grow Capital markets
  - Need to attract FDI, M&A
  - Finance infrastructure
  - Succeed in market liberalization & privatization

# 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.

# OECD Corporate Governance Principles

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

# 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

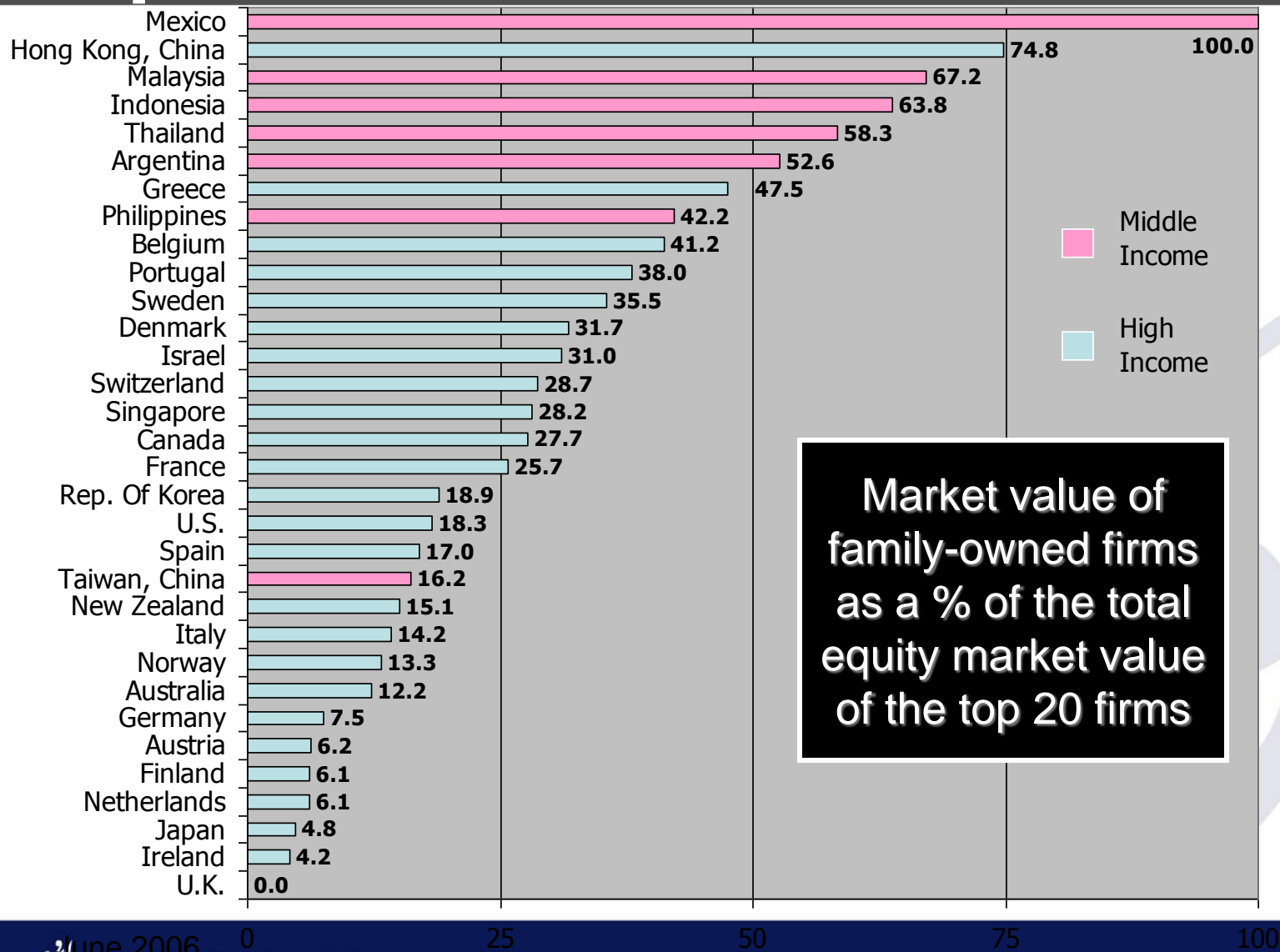
→ dividend payouts

→ availability & cost  
of external finance

→ market  
valuations



# Family Firms Play an Important Role in Markets



# Challenges for Family Business Owners

## Challenge

## Issues

Access Capital

- > Finance growth
- > Balance debt/equity

Diversify wealth

- > Manage risk
- > Provide liquidity

Manage succession

- > Appoint competent directors/managers
- > Adjust shareholdings pursuant to inter-generational hand-over
- > Finance share transfers
- > Balance jobs/compensation for family employees with returns to family shareholders

These challenges and issues exist for all closely controlled firms

# Families & Finance in MENA

- **Families/entrepreneurs should actively promote development of financial markets:**
  - **Meet challenge of increased economic openness and globalization**
  - **Reduce risk through diversification and divestment of family assets**
  - **Exit strategy: solution to successor problem and equity in family inheritance**

# Corporate Governance and Access to Capital

- “Good” corporate governance is essential for:
  - safeguarding company assets
  - maintaining and enhancing investor confidence
  - reducing the potential of fraud
  - “Exit” strategies: financial markets and/or outside investors
- “Poor” corporate governance companies
  - will find it harder to access external capital
  - will face higher financing costs
  - will see their credit ratings downgraded
  - will have weak investor confidence

# Top 10 Questions Facing Family Business Boards (1)

- Why should my family business have a board (advisory or statutory)?
- What are the critical issues that my board must address?
- What techniques can you suggest for developing a more professional board?
- How do I manage communications between the board and the family?
- Should I let my outside directors push for ideas that are not supported by the family?

Source: NACD Family Business Survey, 2004

# Top 10 Questions Facing Family Business Boards (2)

- What role should my board play in transitioning the company to the next generation?
- Should my board be led by a non-executive, non family chairperson?
- Should I be worried about complying with CG legislation?
- Should I have an audit committee composed solely of independent directors?
- How can I get my board to work together, when they represent different interests?

Source: NACD Family Business Survey, 2004

# Dealing with Succession is Key to Longevity of Family Firms

## Succession in Family-Run Firms

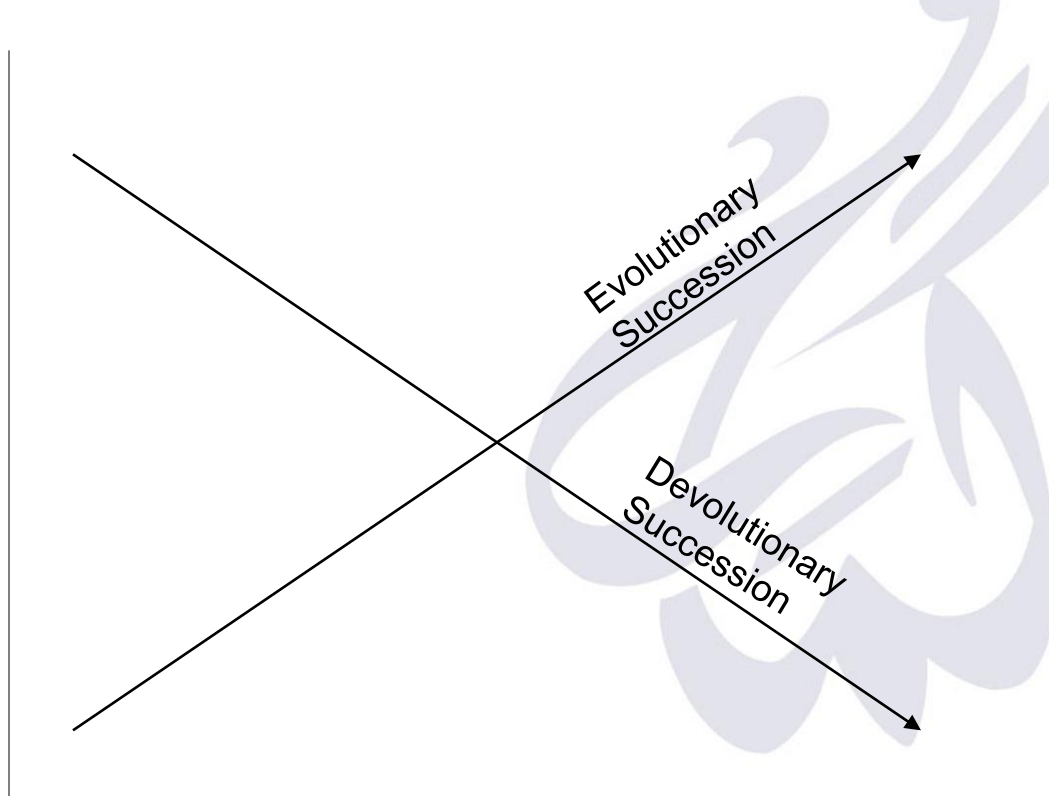


Complex

Cousin Consortium

Sibling Partnership

Controlling Owner



Good corporate governance becomes necessary to run the business and to preserve family harmony

Simple

First Generation

Second Generation

Third Generation

Source: Paul Westhead and Carole Howorth, "A Comparison of Ownership and Management Practices in First and Multi-Generational Family Firms," 24th ISBA National Small Firms Conference, 2001

# HAWKAMAH: MISSION AND VISION

**MISSION:** To assist the countries and companies of the region to develop and implement sound and globally well integrated corporate governance frameworks.

**VISION:** To drive institution building, corporate sector reform, good governance, and sustainable economic development and growth in the region.



# Hawkamah Institute for Corporate Governance

- First Institute of its kind in the region
- An autonomous, international association, hosted by the Dubai International Financial Centre (DIFC), and serving the MENA countries, and Central Asia
- Founding members: OECD, IFC, DIFC, CIPE, UAB,
- Financially self-sustaining organisation with income from memberships, advisory, training, in addition to grants and sponsorship

# ACTIVITIES

## WHAT WE DO:

- Provide technical assistance on regulatory and firm levels to develop the optimal corporate governance environment
- Conduct CG assessments and prepare CG improvement plans
- Conduct consultations with various stakeholders
- Develop and implement training programs: Board Development Programme, Board Secretary Programme
- Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Monitor & Report on the state of corporate governance

# 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**
- 6. Academia**

# **MAJLIS Hawkamah Institute of Directors**

- **Mission is to develop and train effective, knowledgeable and competent directors for MENA region**
- **Build Capacity & strengthen institutions**
- **Membership organisation**
- **Open to private, and public sector companies, family businesses, entrepreneurs of start-up companies, and people responsible for the strategic direction of a business organization**
- **Services offered include:**
  - Training and certification program
  - Executive coaching
  - Workshops, seminars and conferences
  - Financial planning and advisory services

# **Hawkamah**

## ***BUILDING INSTITUTIONS FOR THE REGION***

**[www.hawkamah.org](http://www.hawkamah.org)**

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