

Hawkamah

The Institute for Corporate Governance

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

***Shaping Family Business:
Corporate Governance
IPI***

**4 November, 2007
DIFC, Dubai**

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Executive Director
Hawkamah Institute for Corporate Governance**

AGENDA

- MENA Economic Renaissance
- Role of Family in Markets
- Challenges of Family Owned Enterprises
- Family Business Succession
- Where Does the Region Stand on CG?
 - IIF/Hawkamah Survey of GCC Countries
 - IFC/Hawkamah CEO Survey
- 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 6.7% over 2003-2006 vs. 3.7% in 1998-2002
 - New Global Economic Geography
 - Growth has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and ↑ in productivity growth
 - Transmission, Migration, Remittances
 - 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

But key to sustaining growth is addressing corporate governance challenges

“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

Corporate Governance Codes & Guidelines

- CG Codes and Principles have been developed for major sectors of modern economies
 - Listed Companies (OECD, WB, ICGN)
 - Banks and financial institutions (BIS)
 - Insurance Companies (IAIS)
 - Investment managers (IOSCO, Hermes)
 - Family enterprises (Cadbury, King)
 - State Enterprises (OECD)
- Need to adapt to national legal and institutional conditions

CG: Performance in Emerging Markets

Better CG
correlates
with

- better operating performance
- better market valuation of companies

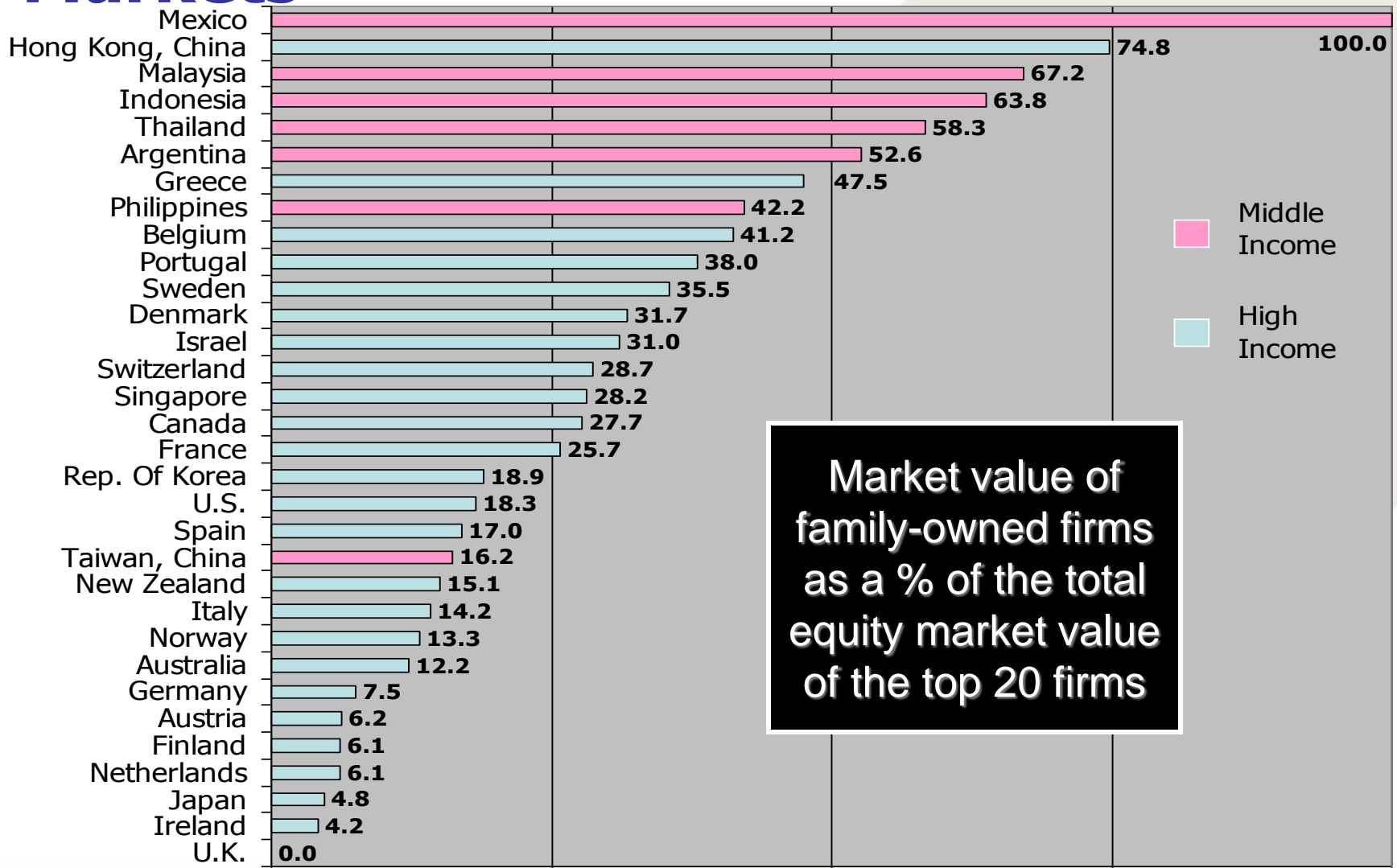
Firm level CG
provisions &
practices matters
even more
wherever

- 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



Market value of family-owned firms as a % of the total equity market value of the top 20 firms

Families & Finance in MENA

- Families represent more than 85% of MENA businesses
- Major source of job creation in coming decade
- 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
- Need to 'Institutionalise' the Family business

Corporate Governance and Access to Capital

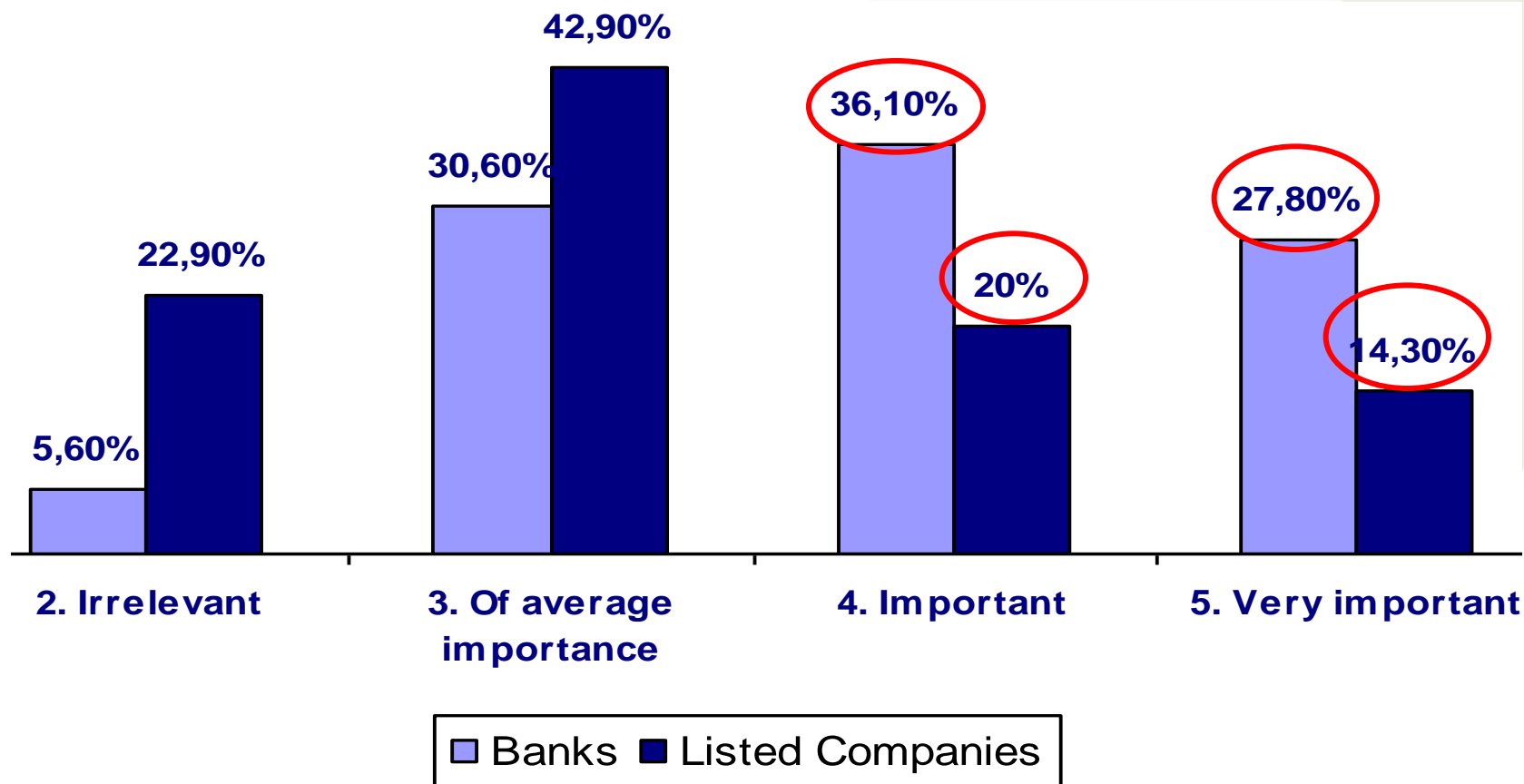
- **“Good” corporate governance is essential for:**
 - safeguarding company assets
 - maintaining and enhancing investor confidence
 - reducing the potential of fraud
 - “Exit” strategies: financial markets and/or outside investors
- **“Poor” corporate governance companies**
 - will find it harder to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

Evidence:

IFC –Hawkamah CEO CG Survey

- Scope: **Listed companies and banks**
- 11 IFC member countries with stock exchanges:
 - Maghreb: **Morocco and Tunisia**
 - Mashrek: **Egypt, Jordan, Lebanon and West Bank**
 - GCC: **Bahrain, Kuwait, Oman, Saudi Arabia and the UAE**

49.3% of Respondents Cited Corporate Governance as Important or Very Important



➔ 63.9% of banks

➔ 34.3% of listed companies

Nota Bene: 59.2% of Respondents Were Unable to Define Corporate Governance

The company's internal structure that will allow it to comply with domestic laws and regulations.



It is the same thing as Corporate Social Responsibility



A commitment to contribute to sustainable economic development by working with employees, the local community and society at large to improve their lives



A set of tools to help management run the day-to-day activities of the company/bank



A system by which companies are directed and controlled

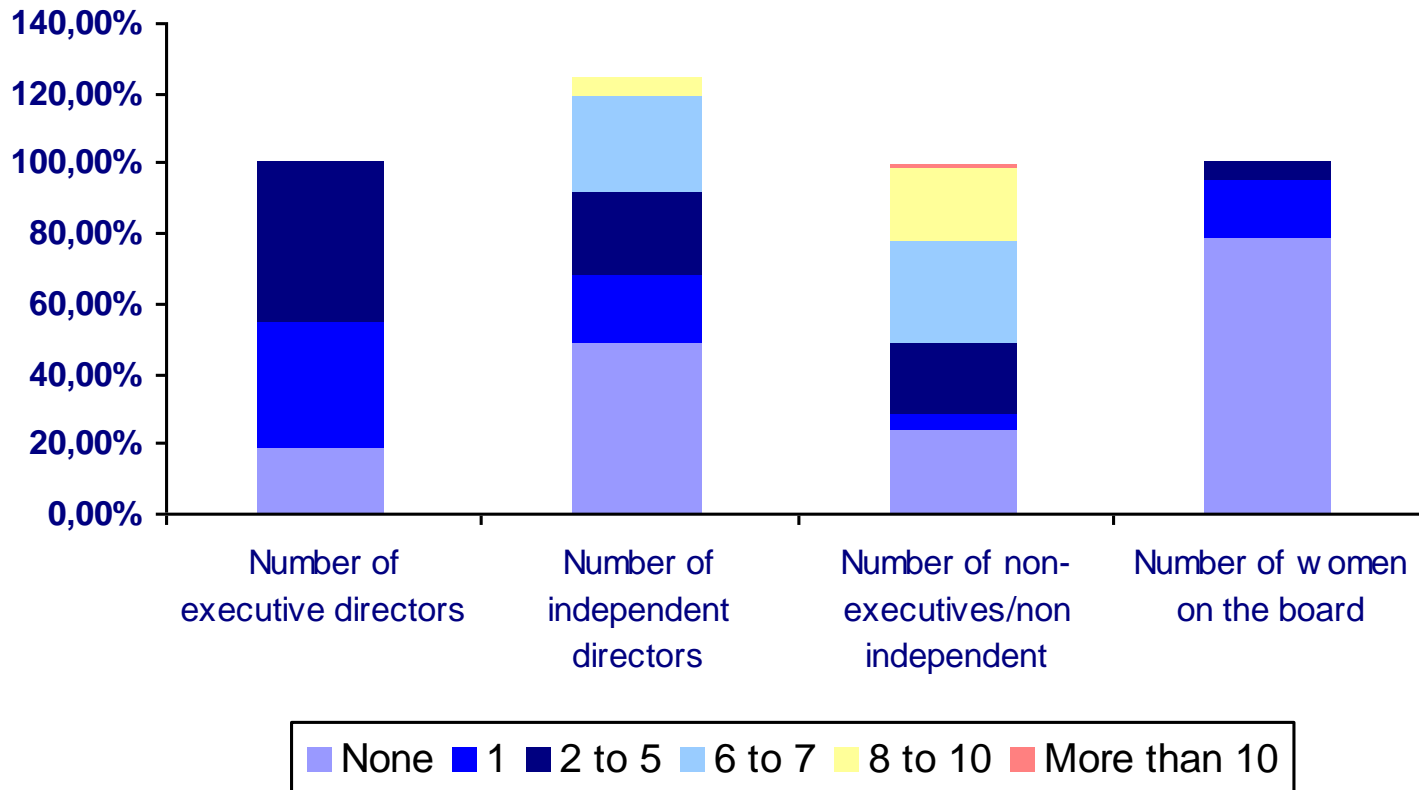


And They Are Looking for Specialists...

Top three barriers to CG cited by respondents:

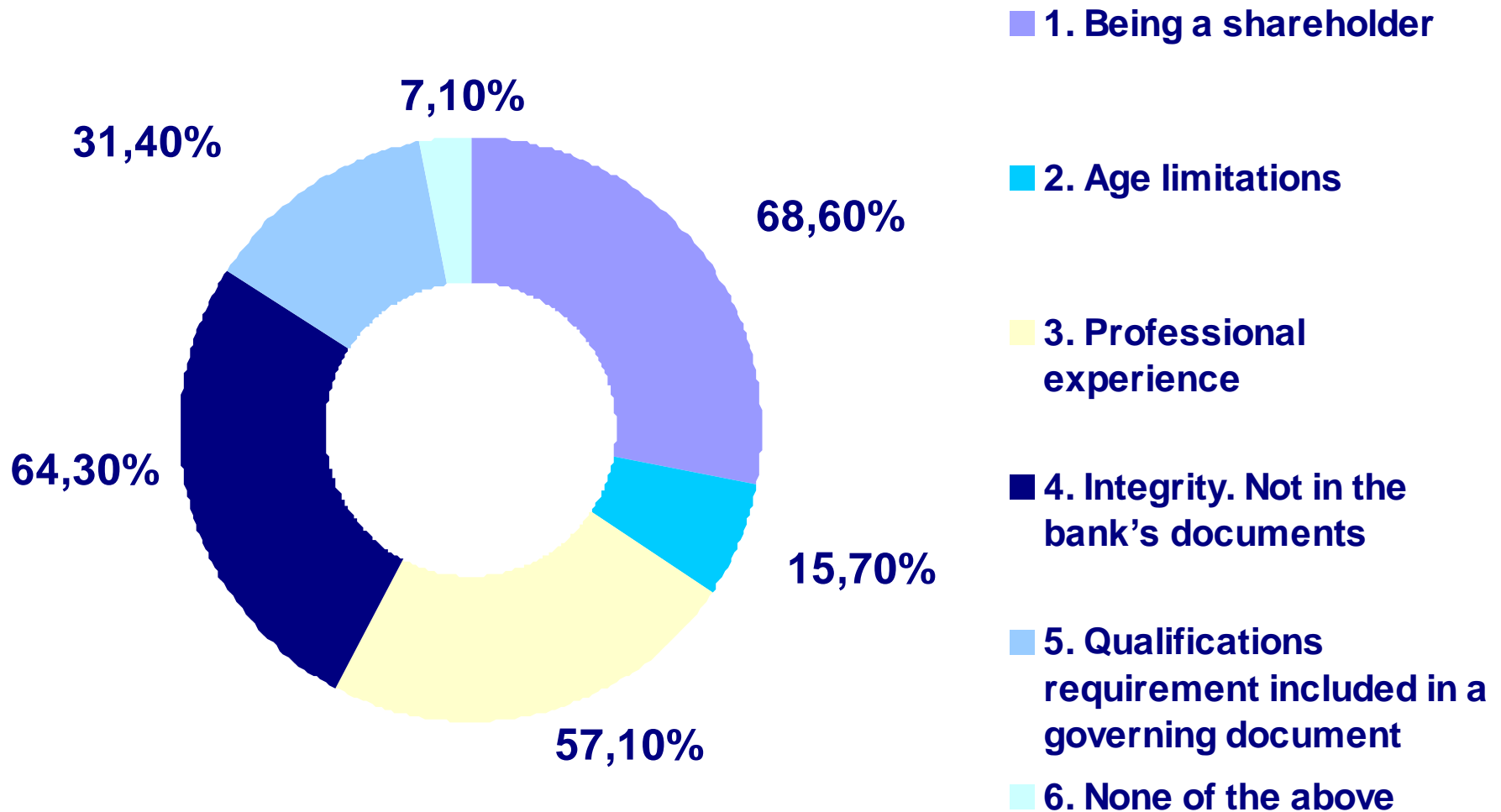
- **53.6% cited** a lack of qualified specialists **to help with implementation**
- **37.7% cited** a lack of information or know-how
- **24.6% cited** lower priority **of corporate governance in relation to other tasks**

Region needs to Build Strong Boards



- Strength: Majority of boards consist of non-executives
- Weakness: Executive and independent elements
 - 68% have one or no independent directors
 - 54.7% have one or no executive directors

With Criteria Based on Experience



Hawkamah-IIF GCC CG Survey

- Hawkamah Institute for Corporate Governance partnered with the Institute for International Finance to assess the corporate governance environment of the GCC countries, from an investors perspective.
- GCC Task Force met with close to 100 regulators, Central Bank officials, accountants, auditors, investment firms in all 6 GCC countries.
- Analysis of the corporate governance environment focused on:
 - > Minority shareholder rights
 - > Structure and responsibilities of board of directors
 - > Accounting and auditing
 - > Transparency of ownership and control
 - > Regulatory environment

Hawkamah, the Institute for Corporate Governance

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

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

International Partners

- **Organisation for Economic Co-operation and Development (OECD)**
- **WB-International Finance Corporation**
- **WB Global Corporate Governance Forum**
- **Center for International Private Enterprise**
- **Institute of International Finance (IIF)**
- **Financial Services Volunteer Corps (FSVC)**
- **INSOL (Insolvency Professionals)**
- **Information Systems Audit and Control Association (ISACA)**
- **Amsterdam Institute of Finance**
- **Institute of Internal Audit**

Other Institutions

- Countries participating in the MENA-OECD Investment Program
- Dubai School of Government
- Young Arab Leaders
- American University of Sharjah
- Corporate Governance centers, universities

Regional Partners

- **Dubai International Financial Centre**
- **UAE Ministry of Economy**
- **Yemen Ministry of Finance**
- **Emirates Securities and Commodities Authority**
- **Oman Capital Market Authority**
- **Union of Arab Banks**
- **Abu Dhabi Chamber of Commerce and Industry**
- **Dubai Chamber of Commerce and Industry**
- **Jordanian Corporate Governance Association**
- **Central Bank of Jordan**
- **Jordan Insurance Commission**
- **Egyptian Institute of Directors/ MOI**
- **Egyptian Banking Institute/Central Bank of Egypt**
- **Economic Research Forum**
- **Oman Economists Association**
- **Corporate Governance Association of Turkey**
- **Lebanese Corporate Governance Task Force**

Accomplishments To Date

- Hawkamah has set up the following CG Task Forces at the Regional Level with its International Partners:
 - Banks
 - State Owned Enterprises
 - Insurance
 - Insolvency and Creditor Rights
- Undertook benchmark survey of CG in the GCC countries with the IIF

Accomplishments To Date

- Hawkamah has set up or help set up National CG Task Forces for Lebanon, Egypt, Morocco, Jordan, Bahrain and is in the process of setting one up for the UAE
- CG & Media: Hawkamah in partnership with Zawya- Dow Jones recently conducted a 2 day '**Corporate Governance Revealed Economic Journalism Program**' for journalists in Dubai and Amman. This program focuses on educating journalists on concepts like corporate governance, transparency, and accountability to further enhance the quality of economic/financial reporting in the Arab world.

Accomplishments To Date

- Conducted jointly with the IFC a CEO survey of over 400 firms from all over the Middle East and North Africa on the regional private sector's CG practices and perspectives
- Partnered with a capital market regulator in the Gulf to develop a corporate governance law and established a model for capital market corporate governance codes.
- Participated in the development of the 1st CG code for State Owned Enterprises in Egypt, the first such code of its kind in the Arab world.
- Working with family business firms and listed companies to develop codes of corporate governance based on international best practices.

Family Business Forum Initiative

- Aim is to identify challenges faced by the region's family businesses through research, workshops and seminars, and support the development of a regionally-relevant framework to institutionalize families
- Activities will include:
 - Commissioning regionally relevant research
 - Facilitating dialogue among regional families to share and learn from experiences of other markets
 - Housing a library on family business issues

Hawkamah Institute of Directors

- Mission is to develop and train effective, knowledgeable and competent directors for MENA region
- Build capacity and strengthen institutions
- Membership organization
- 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 programs
 - Executive coaching
 - Workshops, seminars and conferences
 - Financial planning and advisory services



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➤ Hawkamah, the Institute for Corporate Governance

Hawkamah, the Institute for Corporate Governance, constitutes a groundbreaking development for institution building, corporate sector reform, good governance, financial market development, investment and growth in the region.

Hawkamah was created for the region, by the region, and of the region to advance corporate governance reform.

What is Corporate Governance?

Events

- ▶ **22-23 October**
Director Development Workshop
An Introduction to Board and Corporate Governance
Dubai, UAE
- ▶ **24-25 October**
Director Development Workshop
Practical Tools for Strategic Guidance and Managerial Oversight
Dubai, UAE
- ▶ **06 November**
OECD-MENA Working Group 5 Bank Corporate Governance Task Force Meeting
Doha, Qatar
- ▶ **07 November**

➤ Media Centre

26 September 2007

Get Updates on Hawkamah's Activities: Hawkamah's Newsletter

[read more...](#)

06 September 2007

Corporate Governance Revealed: Hawkamah & Zawya Dow Jones Announces Corporate Governance Training Day for UAE Business Journalists

[read more...](#)

08 August 2007

PricewaterhouseCoopers signs sponsorship agreement with Hawkamah to promote Corporate Governance in the MENA region

[read more...](#)

03 July 2007

Hawkamah and UAB

Hawkamah ICG

***'CG is about Separating the Family's
Business from the Business of the
Family'***

www.hawkamah.org

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