

When You Sweep the Stairs, You Always Start from the Top⁹

Real and demonstrable commitment by a company's senior officers and directors is critical to achieving lasting corporate governance reform. Two cases from the corporate governance program in the Middle East and North Africa highlight the importance of securing such commitment. These cases bring out two areas where lack of understanding can lead to resistance to change: 1) not understanding the meaning of corporate governance; and 2) not understanding how corporate governance can improve the bottom line. Overcoming these challenges is a formidable but necessary task in building the business case for companies to implement corporate governance reforms. This SmartLesson addresses how to obtain such commitment when implementing any company-level effort to effect change to a company's governance framework, policies, and practices. The lessons also may be applicable to other staff who engage with private sector clients.

BACKGROUND: HOW DO YOU OVERCOME RESISTANCE TO CHANGE?

Most project teams implementing corporate governance reforms at the company level may be confronted with initial skepticism, lack of knowledge, and resistance to change. For example, most company directors and officers may not truly understand the meaning of corporate governance. A recent IFC survey on corporate governance practices across the Middle East and North Africa region showed that 59.2 percent of respondents could not define corporate governance properly. Most confused “corporate governance” with “corporate social responsibility.”

Regarding the ability of good corporate governance to add value to the bottom line, only 49.3 percent of respondents in the same survey thought corporate governance was important or very important to their organization. And of those that did, most cited compliance as the main driver for reforms.

To illustrate resistance issues, imagine yourself as a project officer who has to make the business case for corporate governance during a meeting with the company founder and chairman. The issue at hand

is board composition: how do you change from a board composed exclusively of family members (in particular, sons and daughters who may not be qualified) to one with independent directors? To overcome any skepticism and build a sound and compelling business case, you need a proper explanation of how corporate governance pays off and how independent directors can help ensure that a business sustains the livelihood of future generations.

LESSONS LEARNED: A COMMITMENT-BASED THREE-STEP APPROACH

Experience shows that the best means to effect real change at the boardroom level is a three-step approach built around commitment.

STEP 1: SOW THE SEEDS.

1) For senior decision makers, organize events that are interactive and fun.

Roundtables and seminars during which participants can interact and pose questions, even if in a limited manner, are preferable to one-dimensional (and often boring) conferences—although conferences with interactive elements may be suitable for introducing

the topic of corporate governance. Interactive elements may include discussions about case studies, as well as breakout groups, role playing, and mock board meetings.

Participation by high-level decision makers (board chairmen, directors and senior managers) increases the likelihood of implementation at the corporate level. How do you ensure such participation? Partnering with a local institution with strong contacts in the business community is probably your best bet to ensure that the audience is made up of senior directors and managers.¹⁰ The IFC brand name usually does the rest. Take a look: In Case 1, the chairman of EgyTrans attended not one but several IFC training events; in Case 2, none of the client company's directors attended similar courses offered by IFC in the United Arab Emirates.

2) Give them something they can touch and feel.

Integrating local case studies and success stories into these events will help demonstrate that corporate governance works in practice. EgyTrans is already being used as a model case study, and the Dubai client as its antithesis.

When local case studies are unavailable, perhaps during a project's start-up phase, the project team



Award ceremony for the best annual report during a corporate governance conference in Egypt.

CASE 1: EGYTRANS

Hussam Leheta, chairman of the Egyptian Transport and Commercial Services Corporation, a logistics and transportation provider, sought IFC help to improve performance through better corporate governance. This idea came to him while attending a training course on corporate governance—the Board Development Series¹¹—organized by IFC's Egypt Corporate Governance Project.

Under the chairman's leadership, EgyTrans made bold corporate governance improvements, including professionalizing the board and audit committee, recruiting a professional corporate secretary, and drafting a policy on related party transactions. The company also published its corporate governance improvement plan on its Web site, underscoring its commitment to transparency and accountability.

The process was expensive in the short term (it cost 5 percent of the company's annual profit to make the upgrades). However, after the overhaul the share price soared 29 percent, and several equity firms expressed interest in investing.

CASE 2: A DUBAI-BASED COMPANY

An IFC team conducted a corporate governance assessment for a Dubai-based company, a potential investment client. The company's chief executive officer was eager to pursue corporate governance improvements for his institution. However, the IFC team failed to obtain the board's commitment.

One year after the submission of the final corporate governance assessment report—and the ouster of the CEO by the board—the company has yet to implement any of the report's recommendations.

can fall back on success stories from other regions or corporate governance programs, such as the Banca Commerciale Romana story.¹² For example, the program team recently organized a large-scale conference on corporate governance for banks in Riyadh—the first such conference in Saudi Arabia—for more than 258 bankers and other stakeholders. The team not only integrated interactive elements like panel discussions into the event, but also invited the CEO of BCR to present his views on how to implement corporate governance, and the positive impact it had on his bank.

3) Be smart: use these events as business development opportunities.

Many will argue that training is not a core competency of IFC, but it is an effective means of reaching out and explaining the benefits of corporate governance to a broad audience. In addition, training events are opportunities for developing business—both advisory and investment services—and promoting IFC’s brand among a country’s private sector, which may not always be familiar with the topic at hand (or with IFC, for that matter).

4) Use these events to identify future champions.

Awareness-raising events also let staff identify key players, such as Leheta of EgyTrans, who are likely to emerge as future corporate governance champions, who may well request more in-depth advisory services, and who can serve as future case studies.

For example, while implementing the Russia Corporate Governance Project in 2003, the local team leader in Samara noticed that both the CEO and the chairman of a company called KubyshevAzot traveled almost two hours each way to participate in the awareness-raising events organized by their office. A relationship was quickly forged between the company and IFC, and the project team agreed to conduct a full corporate governance assessment for the firm. One year later, following an onsite visit by



Breakout session during a corporate governance workshop in Egypt.

an IFC executive vice president, the company became an investment client.

5) Don't be afraid to charge!

One frequent argument is that fees would lessen the outreach due to lower attendance levels, but the corporate governance project team in Egypt found just the opposite: In April 2006, they organized a free conference and had 69 participants. Next, they organized three more events and charged from \$45 to \$60 per person, and to everyone’s surprise they attracted an average of 73 participants over the three events. To date, the ECGP has generated \$132,192 in revenues and \$58,243 in net profits from its training activities alone.

Charging fees not only helps cover IFC project expenses, it also adds drive for IFC staff, who may work that extra 10 percent to meet higher expectations, and also increases the likelihood that participants will act on the takeaways from the conference.

Finally, although some may argue that conferences and seminars are “public goods” and should not be subject to participation fees, offering free conferences may undermine the market for conferences and training events, contrary to IFC’s mandate to support, and not displace, the private sector.

STEP 2: DRILL DOWN.

Focus on providing in-depth and targeted advice to support individual banks and companies, or groups of individuals (for example, directors or company secretaries) in implementing good corporate governance. Examples of such targeted assistance may include corporate governance assessments and reviews, company-specific workshops, and consultations.¹³ The following lessons learned in implementing Step 2 further show the need to obtain buy-in and commitment:

1) Map, but don't forget to gauge commitment.

A project should strategically define, select, and approach its future clients to ensure that it chooses the right companies for maximum development impact and demonstration effect, in particular when engaging in single-company projects, such as corporate governance assessments or reviews. A mapping exercise will help project staff strategically approach and select future client companies that are best placed to serve as case studies.

In the team's experience, three types of companies are ideally suited to become best practice case studies: private, family-owned companies seeking a public listing; companies in financial difficulty, or coming out of a scandal, that now seek to turn their operations around and rebuild stakeholder trust; and state-owned enterprises seeking to privatize. All will likely have the motivation and commitment for real change, instead of treating corporate governance as a window-dressing project.

This mapping exercise should involve close collaboration with the investment side of IFC to ensure that a future investment is a possibility, and also to help demonstrate IFC's value-added proposition. EgyTrans was a company in the process of a turnaround; the Dubai company was a start-up, preoccupied with thousands of other management issues.

CASE 3: THE PAKISTAN CORPORATE GOVERNANCE PROJECT

The project initially organized a series of broad awareness-raising events, such as a November 2006 conference on corporate governance for listed companies in Karachi, which attracted over 150 participants. The event raised awareness among mid-level managers, but it is unlikely that it achieved major impacts at the company level.

As follow-up, the project organized a series of interactive workshops within the framework of the Board Development Series, targeting a select group of 38 CEOs, CFOs and board members. The participants soon understood that corporate governance does indeed pay. Even before the course finished, they managed to formally change 48 policies and procedures within their companies.

2) Choose quality over quantity.

Given the amount of work required to implement the recommendations contained in a corporate governance assessment or review, it is advisable to focus on a few highly committed companies—which makes the selection process acutely important. This focus will ensure that the selected companies reap the full benefits of corporate governance—as contrasted with working with a large number of companies, thus diluting the potential impact. This selectivity will further help ensure that the business case is properly built.

3) Get CEO and chairman buy-in.

Prior to initiating a corporate governance assessment (or other single company-focused project), both the chairman and the CEO should formally voice their awareness of and commitment to the project. It is a mistake to have company-specific work solely



Engaged participants at corporate governance event in Egypt.

supported by the CEO and other senior managers—which was the case with the Dubai client—without the board’s active approval and support of the project (and vice versa). In fact, during the corporate governance assessment of the Dubai client, two of the board members did not take the time to meet with the project team; and the one director who did meet with them showed outright hostility toward corporate governance.

Without support from both the board and management, it is unlikely that recommendations for improving corporate governance practices will be implemented. In cases where neither the chairman nor the CEO constitutes or represents the majority shareholders, commitment from the majority shareholders should be sought as well. This understanding should be formally captured in an

agreement signed by the chairman and the CEO, or through an exchange of letters.

4) Conduct targeted workshops—the Board Development Series—for senior participants.

The ECGP team has found that targeted workshops for groups of individuals (chairmen, directors, CEOs, company secretaries, internal auditors, and so on) are highly effective in promoting change, particularly when conducted with the same group of participants over an extended period. Indeed, following the axiom, “less is more,” we found that inviting fewer, but more senior, people can have greater impact than inviting a greater number of junior mid-level managers. That the chairman of EgyTrans attended every single part of the Board Development Series speaks volumes. (For another example, see Case 3.)

5) Ask: Does the end justify the means?

Company-specific advisory services are not an end in themselves. Of course, any intervention, even for a single company, will have some positive effect, but it is likely to be only a drop of water on a hot stone.

To ensure that the potential impact is not limited to a single client—and that donor funds are used efficiently and effectively—it is imperative that one single success story serve as an example to others. Writing simple, brief case studies and disseminating them during awareness-raising events is effective, especially for companies in the same sector that may see corporate governance improvements in one of their competitors as a potential threat to their market position and seek to implement corporate governance reforms of their own. Not surprisingly, the ECGP team is now writing up the EgyTrans case study.

STEP 3: BUILD LONG-TERM RELATIONSHIPS WITH CLIENTS.

Delivery of a corporate governance assessment may not be sufficient on its own to ensure the achievement of expected project outcomes and impact. The team has worked with a number of clients—for example,

a regional gas company—that did not have the internal know-how or resources to implement the recommendations.

1) Explain, but also hold hands.

All corporate governance assessments or reviews should thus be designed to include time for working with the client to implement the recommendations made in the report—for instance, by providing consultations and workshops. This follow-up has the added value of building long-term relationships with key clients, and ensuring that these companies become future best practice case studies.

ABOUT THE AUTHOR

Sebastian Molineus, Corporate Governance Program Manager for IFC Advisory Services in the Middle East and North Africa, worked for IFC in Russia as project manager for the Russia CGP from 2002 to 2005.

APPROVING MANAGER

Michael Higgins, Senior Operations Manager, Financial Markets, IFC Advisory Services in MENA

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